



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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California's bulk wine and grape markets continue to be active but feel a little less active than in January and February as buyers assess their casegood sales and wait to gain a better idea of the 2021 crop potential.

Nielsen numbers for March suggest wine's off-premise dollar sales are continuing robustly, perhaps not in growth versus the surges we saw this time last year when COVID-19 first hit and Stay in Place orders were rolling out, but still in double-digit growth versus the equivalent period of 2019. For instance, in the week ending March 27th, wine's dollar sales were down 7.4% versus the equivalent week of 2020 but up a significant 21.1% versus that week in 2019. All segments at \$15 and above are in growth, as consumers take advantage of what they see as attractive discounts on quality wines – often on-premise wines that have been diverted into grocery stores. Segments below \$15, however, are in decline.

Continuing the same story as previous months, March brought lower than average precipitation levels to California and the 30 to 90-day forecast suggests this winter's rainfall shortfall will not be recouped. Sierra Nevada snowpack levels were at 59% of normal at the start of April and water levels in some lakes and reservoirs in the Coast are very low for the time of year, particularly in the North Coast where Lake Sonoma and Lake Mendocino are only at 63% and 45% of their respective capacities. Growers are understandably nervous about what impact this will have on water supplies later in the season but the more immediate concern, with moisture levels so low, is frost, the risk of which still has another 2-3 weeks left to run. Growers must carefully consider if and how much they protect against frost versus conserving their water for later. In Lodi and other areas, drip irrigation has been deployed intermittently since January to top-up baseline moisture.

In terms of vineyard development, the Coastal situation will be more discernible next month. Bud-break has been underway in the Central Valley for a month or so and cluster counts will be clearer by May. By and large, Valley growers have forward-contracted their grapes confidently – encouraged by robust demand – and some have pruned for a big crop; the vine development that Valley growers have seen on Chardonnay, a little ahead of the other varieties, has not dispelled this confidence. It ought to be reiterated, however, that it is still very early days and the frost risk remains with us for a little longer.

In summary, the year feels like being at a hinge point. Will we get to May without any serious frost events? And beyond that, will the mass vaccine rollout in the US see an irreversible return to some normality as the year wears on, or are there further twists and turns in the road to come? And how will consumer wine drinking patterns react? For the very latest insights don't hesitate to get in touch with us and, in the meantime, read on for more on the bulk wine and grape markets. Stay safe.

Robert Selby

The Bulk Wine Market

California's bulk market has slowed a little in the past month, a reflection of the fact a large amount of wine was secured in the preceding months and many buyers now have what they need for the time being. With their immediate needs covered, buyers have moved from being reactive (as they needed to be in response to the unforeseen events of COVID-19 and the wildfires) to more measured, gathering intel – on retail sales and the early growing season conditions – in an attempt to better understand what they need to do next.

Firm prices on value-end wines in the Central Valley, off the back of strong demand, are ensuring buyers there must carefully consider their needs before making a move. This mirrors how buyers have needed to proceed on the Coast, where prices increased significantly in 2020. The lack of old vintage supply in the Valley has made sellers there confident that they can hold their prices even if the 2021 crop is a very large one (there is currently no indication that it will be), making a price softening on any remaining 2020 Valley wines before the next vintage unlikely.

That said, Valley suppliers must be sensitive to the fact there is a ceiling on their prices: the lowest Coastal price points. Similarly, there is a release valve for the value end of the market in the shape of international markets currently possessing large inventories. Indeed Australia,

South Africa and Spain have started popping up the fringes of conversation, as would Chile and Argentina too if their prices had not risen in recent months.

Supply of older vintage wines on the Coast is almost as limited as it is in the Valley but – as we have been reporting – it remains questionable how deep demand is for Coastal wines outside the Napa Valley Cabernet and Russian River Pinot Noir appellations. Coastal suppliers are encouraged to consider all offers thoroughly to ensure they do not find themselves still holding their wines into next vintage; if the 2021 crop is a large one, it is certainly conceivable that Coastal prices may need to soften.

As well as the reversion to more moderated buyer behaviour, another factor that may have slowed the bulk wine market a little in recent weeks is the presence of some new sellers seeking to offload volumes of competitively-priced bulk wine.

Buyers seeking the lowdown on the very latest opportunities should get in touch with us directly. Likewise, if you still have wine to sell with vintage 2021 on the horizon, give us a call and we will help find you a buyer. **Contact either Jed at +1 415 630 2548 / jed@ciatti.com or Mark at +1 415 630 2458 / mark@ciatti.com to get your wine listed with us.**

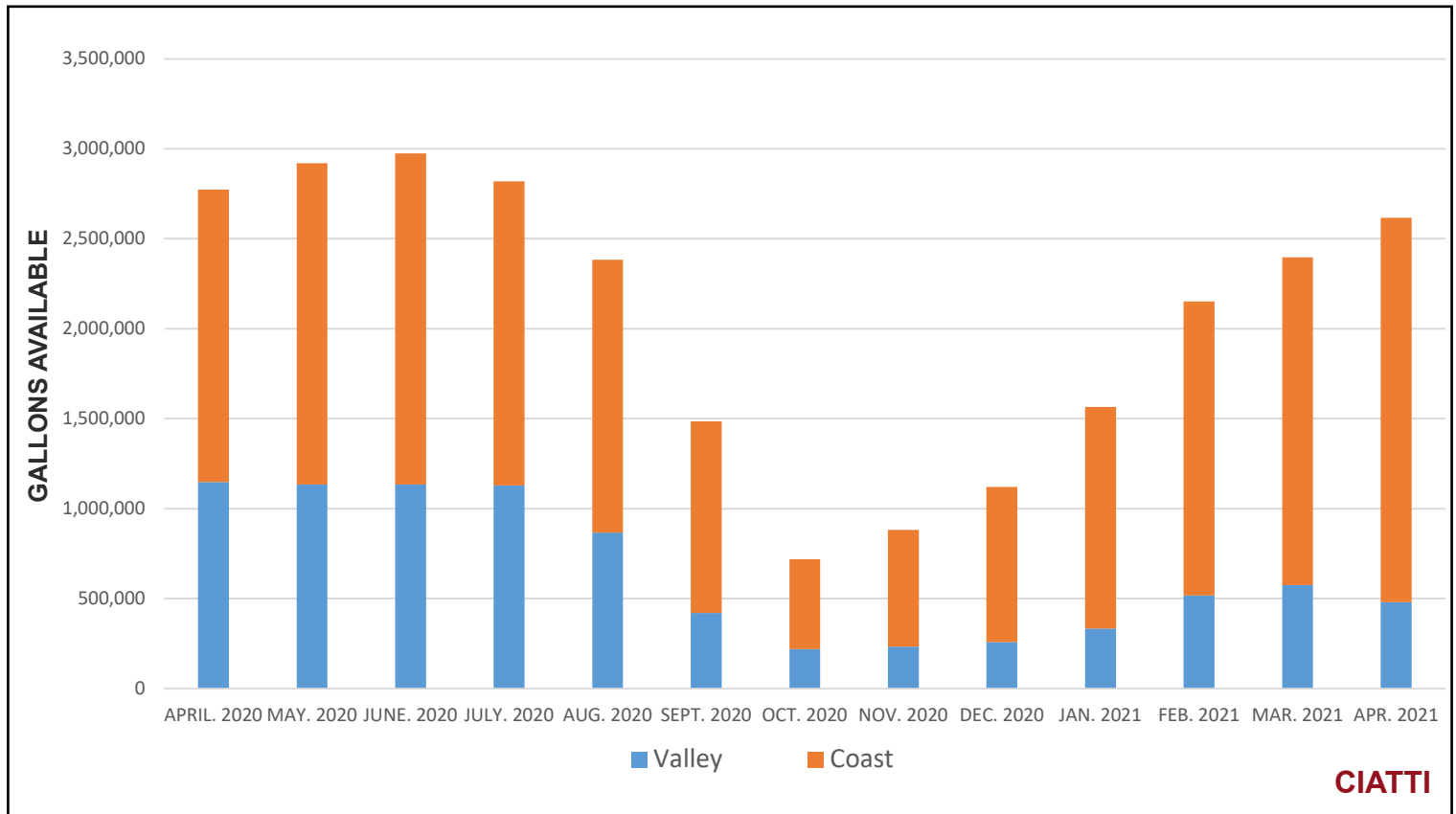
The Grape Market

The Coastal grape market is proceeding steadily and remains more active than it was in the sluggish few years leading up to 2020. We saw some buyers come to the market early to cover their needs on specific varietals and volumes – primarily Napa Valley Cabernet, Russian River Pinot Noir, and Coastal Sauvignon Blanc in general. Now the next potential wave of buyers is carefully scoping things out, one eye trained on the 2021 crop potential. It has become harder to find the bigger volumes of Napa Valley Cabernet and Russian River Pinot Noir at the best prices (from the buyer's point of view), but there remains supply of these and others.

There are some unsold 2021 grapes in the Central Valley – on Merlot, Cabernet and Chardonnay, for example – but largely due to growers still deliberating

over competing bids instead of lack of demand. Pinot Noir availability is perhaps a little more significant than on the other main varietals, with most deals on it for sparkling and rosé programs rather than red. Generic whites, floral whites, Muscat, Chenin Blanc, and Colombard are in great demand for use as program extenders and are very scarce. Activity on red blenders such as Malbec, Petit Verdot and Petite Sirah is slower. In general, grape prices in the Valley are currently at a level both growers and buyers can be happy with – the increased tonnage prices have given the grower greater margin while still allowing the winery to remain at the same price point for bulk. **If you have grapes to sell, contact Molly at +1 415 630 2416 or molly@ciatti.com to get them listed.**

Pinot Noir



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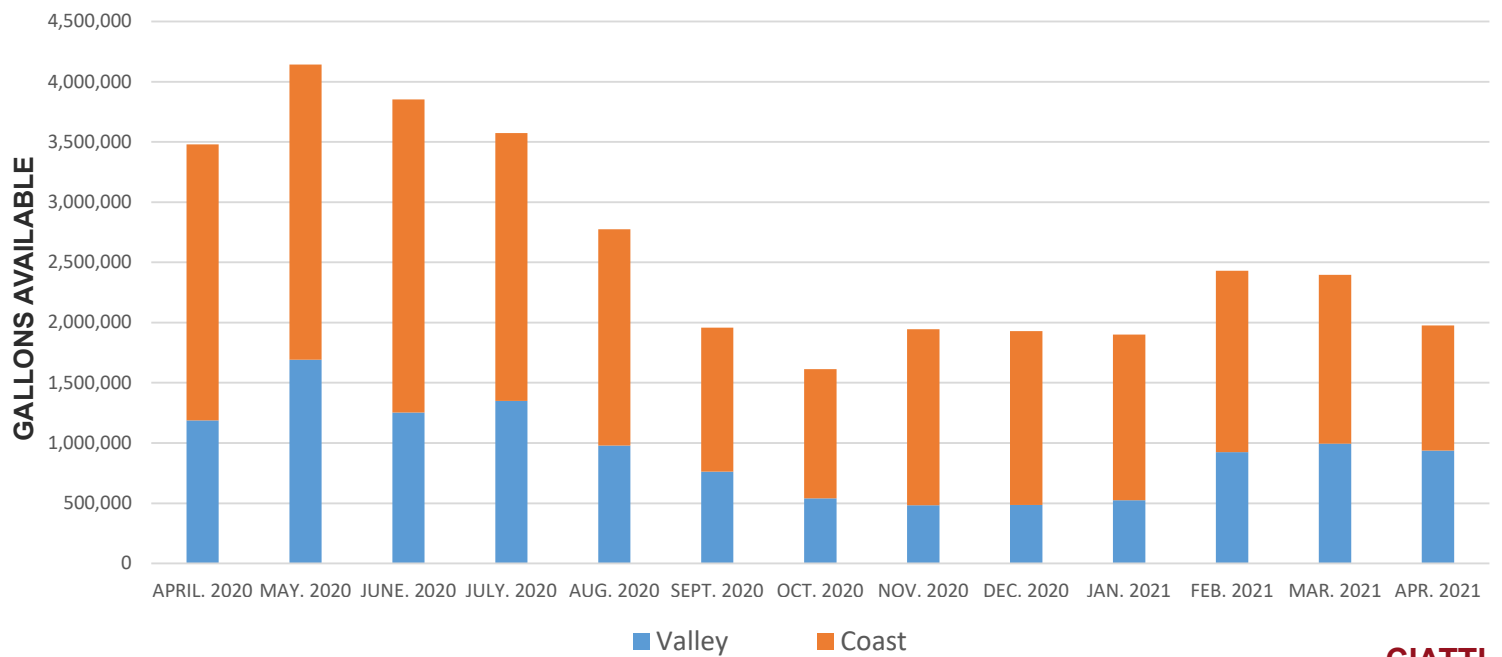
Pinot Noir came in at 266,815 tons in 2020, down 20% on 2019's crop. The average tonnage price was significantly down, by nearly 36% from \$1,880 to \$1,208. With its thinner skins making it more easily susceptible to outside flavor compounds than some other varietals, the consensus seems to be that Pinot Noir is the varietal most likely to have been adversely affected by last year's smoke exposure. Consequently, there has been scrutiny around bulk 2020 Pinot Noir, Coastal especially, although we ourselves have not seen many issues and the quality in general has been good. Russian River and California appellation Pinot Noirs have held their price and received interest.

Those preferring to hold off from switching to the 2020 Pinot Noir or wish to avoid it altogether – usually for perception reasons rather than a conviction that it is genuinely less than optimal – struggle to find 2019 wines as supply is now

minimal in both the Coast and Valley. On the flip-side, negotiants attracted to 2020 Coastal Pinot Noir because they expected lower pricing due to the smoke exposure concerns are finding many sellers standing by their quality and remaining bullish for now.

Activity on 2021 Pinot Noir grapes, meanwhile, has been more muted on the Coast compared to Cabernet and Chardonnay, and perhaps the slowest of all the major varietals in the Valley where recent Pinot Noir focus has mainly been on sparkling and rosé programs. Demand for Coastal Pinot Noir grapes, including from Russian River, is price sensitive, with potential buyers offering below what many suppliers expect. This is perhaps counterintuitive considering the scrutiny 2020 Pinot Noir has come under, a scrutiny which led to an expectation that at least some buyers would be eager to move on to 2021.

Chardonnay



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The 2020 Chardonnay crop came in light at 538,552 tons, the second consecutive year the varietal was down in volume. Its average tonnage price fell by approximately 12%, from \$939 in 2019 to \$828, with the notable pricing drops coming in the Coastal regions while there was relative stability in the premium Napa and Sonoma regions and in the Interior.

Chardonnay was only the third-most in demand varietal on the bulk market – behind Cabernet and Pinot Noir – when the wildfires struck last August and September, perhaps because of a belief that it

would not be affected much by smoke exposure. Despite its lighter crop, Chardonnay was seen lagging a little behind in terms of both bulk and grape demand and, in the Coast, there remains availability on 2020 wines and 2021 grapes, the latter at least partly attributable to a disconnect on pricing – outside the premium Napa and Sonoma regions – between sellers and buyers. The varietal has, however, performed well in the Central Valley: 2019 and 2020 Chardonnay supply there is now very tight and demand for 2021 grapes has been strong.



Craft Beer Update

JOHN FEARLESS
PROVIDER OF CRAFT HOPS AND PROVISIONS



As many winemakers in California are currently only too aware, after wildfires blazed across the state following August's freak lightning storms, the biggest commercial damage caused by fire can be smoke drifting into vineyards prior to – or during – harvest. Wines made from smoke-affected grapes can be characterized by unpleasant smoky, ashy or burnt aromas with an excessively drying back palate and retronasal ash character. Unsurprisingly, consumers have been shown to respond negatively to such wines.

The three main factors that determine if smoke-exposed grapes become smoke-tainted are: the growth stage of the grapevine, the variety of the grapes and the length of their smoke exposure. Grapes close to picking readiness, grapes being of the typically most susceptible varieties (Cabernet and Pinot Noir of the reds, Pinot Grigio, Chardonnay and Sauvignon Blanc of the whites), and prolonged smoke exposure, increase the taint risk. All three factors currently apply in California: the smoke has settled in vineyards mid-harvest, the most sensitive varieties are the state's leading cultivars by acreage, and smoke has been lying in some areas for many days.

The compounds in smoke known as free volatile phenols (such as Guaiacol and 4-methylguaiacol) are absorbed directly by the grapes and can bind to grape sugars as glycosides. These glycosides break apart during fermentation (or over time in the barrel or bottle), releasing the volatile phenols into the must/wine so that a smoky flavor becomes perceptible. They can also be released in the mouth during drinking, contributing to the perception of smoke taint.

What solution can our partners at Stoak Technologies offer winemakers visited by smoke? Well, Structan – their all-natural, organic-certified, liquid oak extract – can not only be used as a finishing tannin and wine stabilizer but also as a smoke-taint masking option.

Results from chemical analysis and sensory evaluation against a control,

carried out by PhD research in the Viticulture & Oenology Department at the University of Stellenbosch, have shown that Structan reduces the perceived intensity of smoke-taint flavor and aroma in smoke-affected wines.

While other winemaking interventions – such as reverse osmosis – may reduce the concentration of smoke-derived volatile phenols in wine, it has not yet been shown that it is possible to completely remove them and, anyway, such interventions also strip the wine of its best characteristics (and any positive impact does not last). Structan, however, successfully masks the volatile phenols through increasing the wine's overall complexity, thus preserving the wine's best flavor, aroma and color attributes, for up to five years.

In fact, one of the Western Cape's premier wineries, which sells its wines into the European market, used Structan to make a highly successful red wine. That was after a wildfire similar to those seen in California, when thick smoke lingered in the vineyards for three weeks.

In summary, Structan is your smoke taint solution. And its stable liquid form makes measuring and adding really simple, with no premixing or dissolving necessary. Just dose during the fermentation process and/or in the blending tank, to get stabilized, complex wines free from unpleasant flavors and aromas. Give us a call.

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