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GLOBAL WINE & GRAPE BROKERS

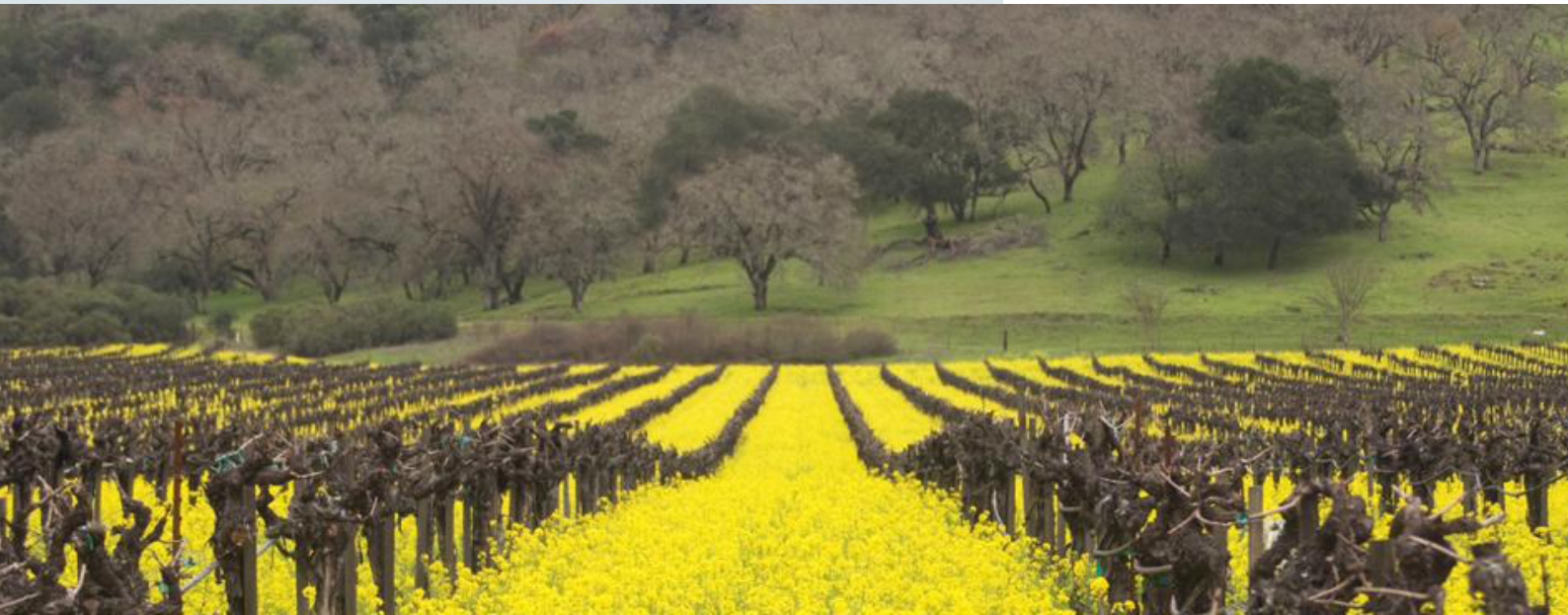


California Report

August 2020
Volume 3, Issue No. 8

**Ciatti Global Wine
& Grape Brokers**

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California's 2020 crush is underway amid the unique conditions created by COVID-19, with bio-secure protocols being followed in the vineyards and in the wineries. The vineyards appear in excellent condition this year across the state: so far there has been very little disease pressure and few if any climate extremes. The crop size at this early stage looks lighter than average: for a detailed harvest update see below.

The state's overall bulk wine inventory continues to be steadily utilized (see our updated bulk wine inventory graph), given the growth of sales in the off-premise. Off-premise sales are still running at or around +20% per week in terms of year-on-year dollar sales. Nielsen estimates wine's off-premise dollar sales were up +26.6% between the start of March – when COVID-19 first hit the US – and July 25th. All the while, the on-premise/tasting room sector remains greatly inhibited by the virus.

A recent Gomberg Fredrikson webinar analysing key trends in the current US wine market projected that the overall revenue of US wineries will be down 6% in 2020. While revenues from sales in the three-tier off-premise (+16.2%) and DTC shipped (+14%) would rise slightly, sales revenue from the three-tier on-premise (-49.2%) and DTC carry-out (-53.8%) would slump by half. Gomberg expects a shift back in 2021 to some degree, with off-premise sales growth slowing and on-premise sales rebounding – but the on-premise is forecast to return perhaps only to 75% of its pre-COVID-19 strength, with fewer locations open, slimmed-down menus and less consumer demand due to unemployment levels/economic damage.

For now, the continuing strength of off-premise sales versus negligible on-premise sales is leading to the bulk wine market's bifurcation – whereby bulk wine is selling at California pricing but not at Coastal pricing. This is now starting to feed through to the grape market where activity on Coastal grapes at Coastal prices is very limited: nearly all the action is at California pricing regardless of whether the grapes are from the Interior or the Coast. With the trend, even before COVID-19, for the termination or non-renewal of grape contracts, it is going to be another tough year for Coastal growers who possess uncontracted fruit, facing low prices on the spot market. Should they consider crushing the unsold grapes into bulk wine? Read on for our view.

The focus for growers now will be the harvest. The latest forecast from Dr Gregory V. Jones of Oregon's Linfield University suggests August in the western US will end up and warmer and drier than average. The three-month forecast suggests average precipitation levels from August through to October, likely shaking out as a dry first 90 days and seasonal thereafter. Wineries have warned that their adherence to COVID-19 protocols means they will be operating at a slower pace this year, so everyone needs to be extra patient and communicative as the crush proceeds through this unique time. We wish you a bountiful – and most importantly safe – harvest season!

Robert Selby

If you haven't already, please sign up for our webinar

Ciatti Market Update Webinar

Wednesday, August 12, 2020

11:00AM - 12:00PM PST

REGISTER

Opportunities for Buyers	
Bulk Wine	Grapes
18/19 Chardonnay Coastal	Pinot Noir, Chardonnay RRV
18 Cabernet Sauvignon Coastal	Cabernet Sauvignon, Chardonnay, Pinot Noir Coastal
19 Zinfandel All Areas	Cabernet Sauvignon Napa
	Zinfandel All Areas

Opportunities for Sellers	
Bulk Wine	Grapes
18/19 Cabernet Sauvignon Napa	Chardonnay, Cabernet Sauvignon Florals Valley
19 Chardonnay RRV	Syrah, Zinfandel Napa
19 Pinot Noir RRV	Organic

Harvest Update

As mentioned in the introduction, vineyard conditions across California have so far been excellent this season, with very little disease pressure. In addition, ripening is widely perceived to be proceeding evenly, with – so far – few if any climate extremes to bring a spike in grape ripeness. State-wide the crop appears to be below average in size but we need a little more time to pass before we can determine the eventual outcome more confidently.

In the **North Coast**, harvest is at least one to two weeks ahead of normal: it commenced on sparkling bases in the first week of August, with the picking of still whites to get underway from mid-month. Cabernet may start to get picked from the first week of September. The North Coast’s crop is looking lighter on most things except Cabernet. Some growers in specific vineyards have reported being light by up to 20%. Overall, quality looks very good with very even ripening and coloring.

Things are playing out similarly in the **Central Coast**, with harvesting perhaps 7-10 days ahead of normal. We’re looking at a very natural ripening season with – helpfully – things coming in steadily and sequentially, though of course there is still a lot of picking to go.

Crush got underway in the **Central Valley** in the third week of July. The early picks – such as the sparkling bases – have returned to their traditional lightness after a 2018 and 2019 in which they were yielding as heavily as the later varieties; this could suggest an overall 2020 Valley crop that will finish smaller than in those two previous years. In general, the Central Valley’s crush seems to be proceeding a week ahead of normal.

It will be interesting to see, when the harvest moves on to the reds, if the state’s younger Cabernet vineyards – many of which were planted 4-5 years ago in high-producing layouts – offset the smaller year overall.

COVID-19 protocols

The harvest will proceed more slowly than normal given COVID-19 and the protocols designed to keep everyone safe. We are hearing wineries are going to take in fruit at a slower rate so as to ensure it is done safely.

For any queries regarding crush protocols and how to ensure you are crushing safely, we recommend you consult with the Californian Association of Winegrape Growers or the Wine Institute. They and the California Sustainable Winegrowing Alliance

held a comprehensive 90-minute webinar on harvest protocols, viewable [here](#). In addition, they have co-developed a ‘COVID-19 Harvest Protocols Workbook’, available to download at the same link.

Again, everyone is in the same boat, having to adjust to allow for the unique circumstances we all find ourselves in, so be prepared to be extra patient and flexible this year.

The Bulk Wine Market

The bulk market continues to be active with buyers who have a specific purpose: larger wineries with well-positioned off-premise brands requiring more supply to meet retailer demand, and others taking the opportunity to do clean-up deals that – again – are being led by specific retailer needs, not speculation. The continued demand for wine in the US off-premise is

thus contributing to a reduction in the state’s bulk wine inventory.

Activity is nearly all proceeding at California pricing – either California wines, or Coastal wines at/near California prices. The premium Coastal wineries continue to be affected by COVID-19’s impact on on-

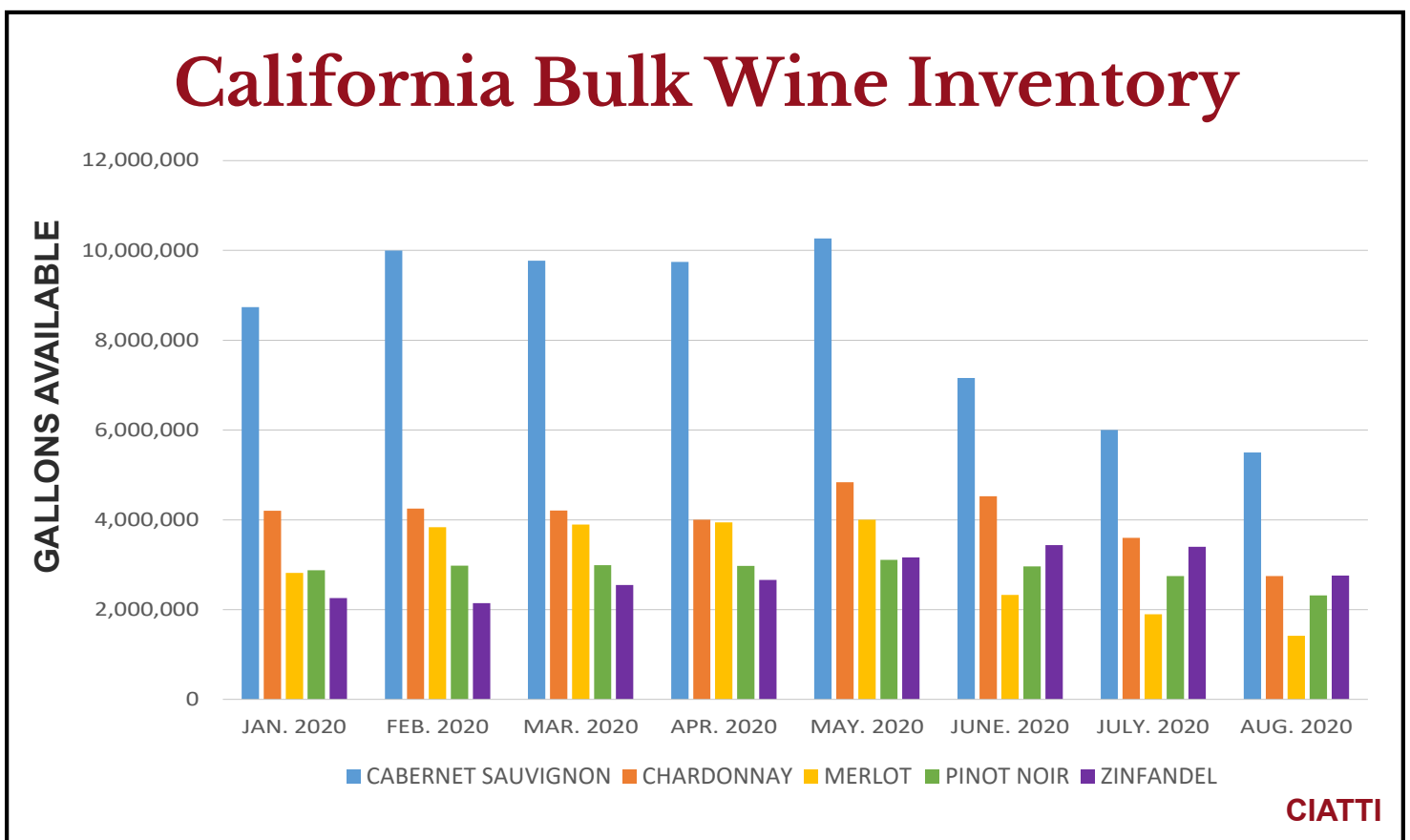
See next page for more.

premise and tasting room sales – we have seen many such wineries adjust their sales forecasts downward and put wine back onto the market. This continued bifurcation of the bulk market – California appellation and California-priced bulk wine selling, Coastal bulk wine at Coastal pricing not selling – is starting to feed through to the grape market (see below).

Steady demand for good-quality Cabernet bulk wine at California pricing, to supply the thirsty off-premise, raises the question of availability in the longer-term, considering that much of the California-appellation Cabernet is controlled by larger wineries whose brands are performing well in the off-premise. Buyers requiring good quality California-priced Cabernet will need – and

increasingly are needing – to look to the Coast for supply, but requesting pricing that may not be sustainable for Coastal producers. This prospect is positive for neither the seller nor buyer in the long-term, as – needless to say – unsustainable pricing eventually leads to unsustainable vineyards and subsequently less supply choice.

Bulk Chardonnay at California pricing is perhaps not seeing as much activity as one might have assumed, considering the activity in other areas of the market and also given suggestions of a smaller 2020 crop. The varietal feels balanced in the Valley, with not a great deal of 2019 Chardonnay remaining. Across the state overall, however, activity on it is muted and we have seen few moves to source it in the Coast.



The Grape Market

Grape activity has continued to be fairly strong in the **Central Valley**, certain varietals are getting harder to find, and – with a lighter 2020 crop indicated – there is likely to be far fewer grapes left on the vine in this region versus last year. Activity has been strong on Sauvignon Blanc, Chardonnay and Cabernet, with Pinot Gris and florals such as Muscat now also receiving attention. Petite Sirah and Zinfandel are receiving the least demand, while Pinot Noir activity in Lodi/ the Delta has been surprisingly slow – we reported last month that this may be because buyers believe they can

find Pinot Noir opportunities in the Coast at California pricing.

Indications of a lighter than average 2020 crop has generated some grape activity on the **Coast** in recent weeks, though not in significant tonnages. With Sauvignon Blanc looking a little light in the North Coast, there has been some spot activity on the varietal in Sonoma. There has also been some increased interest in Chardonnay grapes there. This activity mainly

See next page for more.

consists of local Coastal buyers picking up some extra grapes to make up for their revised tonnage estimates.

On the Coast, the amount of grapes contracted has declined significantly over the past two years. We are now hearing of wineries announcing they will not be renewing any grape contracts for the next few years as they seek to take things as they come in light of the COVID-19 uncertainty and the virus's impact on the on-premise/tasting room trade. Consequently, there is likely to be more spot grape activity this year – in September and October – and some buyers who normally source California grapes may come into the Coast seeking California prices there.

We have already seen this happening to an extent, with buyers from outside the area coming in to the Coast and looking for value. We have also seen speculative buyers buying Coastal fruit at discounted prices in order to see if they can make some money on the bulk market. On the spot market, grape prices will be a lot lower than they have been in the past few years, but suppliers are recommended to think very carefully before rejecting an offer.

Please get in touch if you are seeking to source Coastal grape supply as we can help you find it. We have not seen an opportunity for buyers like this in a while,

with Coastal grapes that had previously been locked up in long-term contracts now available and at value-oriented pricing. Give us a call or email Molly at molly@ciatti.com.

Given the market conditions, growers are asking if they should make bulk wine if they cannot find a buyer for their grapes. Many Coastal growers need income to return back to the vineyard after a tough couple of years. Growers are welcome to contact us for individual advice. In general, we recommend proceeding with caution when considering whether or not to take on this additional risk: weigh things out carefully and strategically, and ground your expectations. The current motto should probably be: hope for the best, plan for the worst.

Could there be some pent-up need for bulk wine in spring 2021, if COVID-19 comes under better control and the on-premise, in turn, gets back closer to normal? We know that buyers are delaying buying inventory until they need it – so could there be some opportunities for bulk wine later? These are million-dollar questions to which no one has the answers right now. But get in touch with us and we will do our very best to help you out, drawing on our decades of experience.

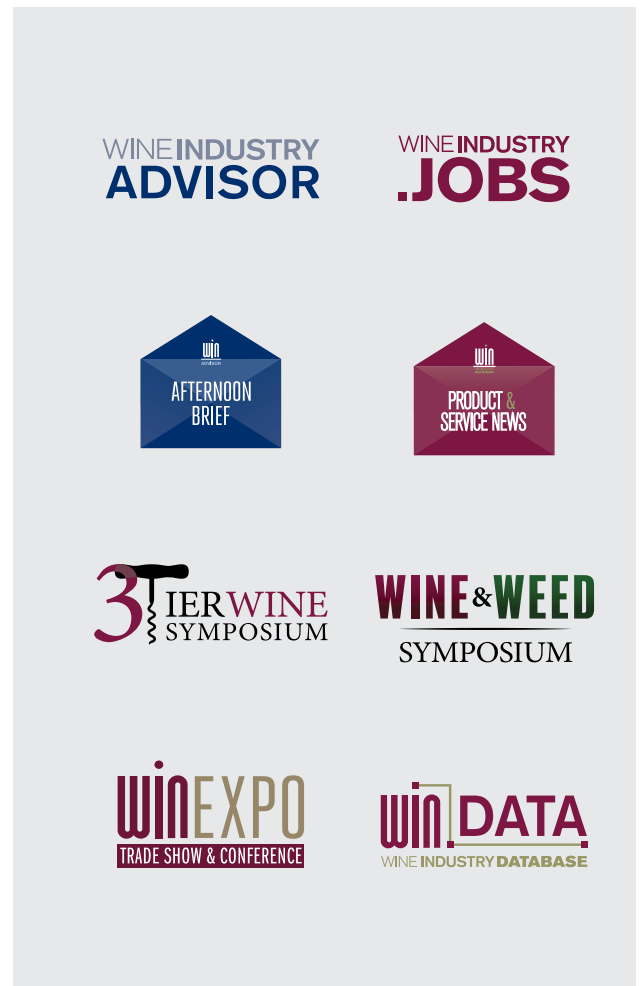


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