



**CIATTI**  
GLOBAL WINE & GRAPE BROKERS



# *California Report*

**December 2019**  
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**Ciatti Global Wine  
& Grape Brokers**

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## December 2019

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As 2019 draws to a close, the bulk wine market in California has grown more active as some buyers peruse the marketplace and request samples. As such, suppliers are recommended to updated us on their bulk wine inventories and send us their samples of 2019 wines so that we at Ciatti can offer them to prospective buyers. The grape market continues to be sluggish, but – similarly – growers should list their fruit with us as soon as possible to maximise the chances of a sale.

Beyond the uptick in bulk wine activity, December is exhibiting its typical pattern: wineries are determining how their October-November-December wine sales are faring and what their needs will be based on the resulting sales projections, while bulk sellers are finishing their wines, consolidating tanks and getting approvals for their bulk contracts covering the 2019 vintage.

Growers, meanwhile, are making plans for the 2020 growing season, determining – in light of the current market conditions – what they will be farming and how they will be farming it. As we stated last month, we have seen supply adjustments starting to be carried out on the Coast and in the northern Interior. Some older, unproductive and/or diseased vines are being pulled out, with some plots potentially being left fallow for a season or more while the wine market works through its significant inventory. The predicament the industry finds itself in is not solely due to an oversupply, but also due to flat demand: casegood growth continues to be sluggish, with wine – in the first six months of 2019 at least – losing share in the beverage alcohol market.

The protracted nature of the Federal Trade Commission’s decision on the proposed sale to E&J Gallo of some of Constellation’s brands has added further hesitancy to the grape and bulk wine markets in California at all levels. Constellation announced on December 12 that “the agreement announced in April 2019 will be revised to address FTC areas of competitive concern primarily related to the Sparkling Wine, Brandy, Dessert Wine, and Concentrate categories”. It added that the transaction is expected to close by the end of fiscal 2020.

As the market dynamic currently stands, it pays even more to be in dialogue with your broker, so please reach out to us with your lists of available fruit and your bulk wine samples, and we will continue to do our best on your behalf to navigate the market. Meanwhile, everyone at Ciatti wishes you and yours a very Happy Holiday and a prosperous New Year!

*Robert Selby*

Opportunities for Buyers
Bulk Wine
18 Chardonnay Mendo/Sonoma
18 Cabernet Sauvignon Sonoma
18 Cabernet Sauvignon Napa Valley
17/18 Cabernet Sauvignon Paso

Opportunities for Sellers
Bulk Wine
Non Vintage Red and Whites at \$.50 to 1.50 per gallon
19 Chardonnay, Sauvignon Blanc, Pinot Gris (Send in Samples)
Oregon Pinot Noir

# The Grape Market

The grape market continues to be sluggish but, as many wineries have given notice on supply contracts in recent months/years, we believe that at some stage they will need to move back onto the market to secure supply. Grape growers and suppliers must develop relationships with their current and prospective buyers to help ensure they are the seller of choice when buyers do return to the market.

We also believe that many grape buyers will be coming onto the market seeking not one-year but longer-term deals – perhaps of three years – in order to lock-in what they perceive as attractive pricing. This is where we expect the market “reset” to take place: the negotiated price on these three-

year deals may be higher than they would be on one-year deals, but we do not expect prices to return to the level they were at in the years before the present dynamic.

For grape buyers, then, now is an opportune time to reset their core supply, as they have the ability to choose from a wide range of growers and secure the quality grapes they need for the long-term, and at a good price.

Many growers, meanwhile, are now working on rightsizing and realigning their vineyards in order to achieve greater efficiencies. This includes replanting older vines, or leaving a plot fallow for a year or two until it is clear what direction the market will take.

## North Coast

We have recently had some grape buyers reach out to us enquiring about North Coast grapes and ask for lists of availability; some of these buyers have not been active for a couple of years but are now intending to buy at some stage. Generally, we foresee that – as grape buyers work through the inventory provided by contracts that have now ended – they will need to return to the market.

As mentioned above, some may seek to secure longer-term contracts. As such, we recommend that grape suppliers provide us with a list of what fruit they possess.

The widespread coverage of October’s fires in Sonoma County has got North Coast wineries worried about a potential dip in foot traffic, DTC sales being an important part of many businesses.

## Central Coast

It has been a slow year for the grape market in the Central Coast, and it is likely thousands of tons of 2019 grapes either went towards distilling material or did not get picked. There has been some pulling up of vines – older plantings in the Paso Robles area, for example – and signs that some businesses are moving out of grape growing into alternative crops, or out of farming altogether.

Grape buyers will need to move into the market again at some stage in order to resupply, but at the moment it is unclear if the pricing that attracts their interest will be at a level sustainable enough for those growers who in the past sold at the high price points and currently face rising land, water and labor costs.

## Central Valley

As is typical for this time of year, grape activity has been slow in the Central Valley. That said, there has been some prospecting of the market by potential buyers; they have a lot of choice due to the slow grape market, especially

considering the southern Interior’s 2019 harvest is estimated to have come in larger than in 2018, at approximately 1.9-2.0 million tons (roughly in line with 2017), while the northern Interior was down only slightly from 2018.

*Please see next page for more.*



The Interior's Sauvignon Blanc market remains fairly strong, by virtue of it being one of the least available varietals, and Chardonnay has seen activity from big buyers. The Cabernet market, meanwhile, continues to be a challenge for growers. Just as in the Coast, when buyers do come onto the market they may seek longer-term deals in order to lock-in attractive prices.

## Key Takeaways

We recommend that grape suppliers in all areas of the state get in touch and talk to us – as soon as they can – about what fruit they have for sale, in order to maximise their coverage and the chances of their grapes getting sold. Our *California Report* is a snapshot of a moment in time: for the most in-depth and up-to-the-minute market information, get in touch with us directly.

# The Bulk Wine Market

Bulk market activity – or at least interest – has picked up in the past month across the state, with some of the 2019 white wines becoming available and getting sold. There has also been activity on some 2018 inventory, though this tends to be slow-moving deals at low prices.

In general, on the 2018 inventory, it seems that Napa and Sonoma suppliers can still receive interest when offering pricing that is higher than anywhere else in the state, while the rest of the market must operate at or near California appellation price levels. There is, naturally, resistance to this from some suppliers, which explains the common standoff situation – buyers demanding a price lower than many suppliers

are willing to sell at. Because the market allows it at this point, some buyers who normally source Californian appellation wines are instead acquiring Coastal supply (outside Napa and Sonoma) at or near California pricing, something which can be hard on the Central Valley.

## Key Takeaways

We at Ciatti are working on updating our bulk wine inventory lists. Wineries should update us on what older vintage wines they still have for sale and, as they get through crush, provide us with information about – and samples of – their 2019 wines. They should contact us about their 2019 wines even if the wines themselves are not yet ready, so that we can list what is coming. Contacting us improves a supplier's coverage and maximises their chances of making a sale.

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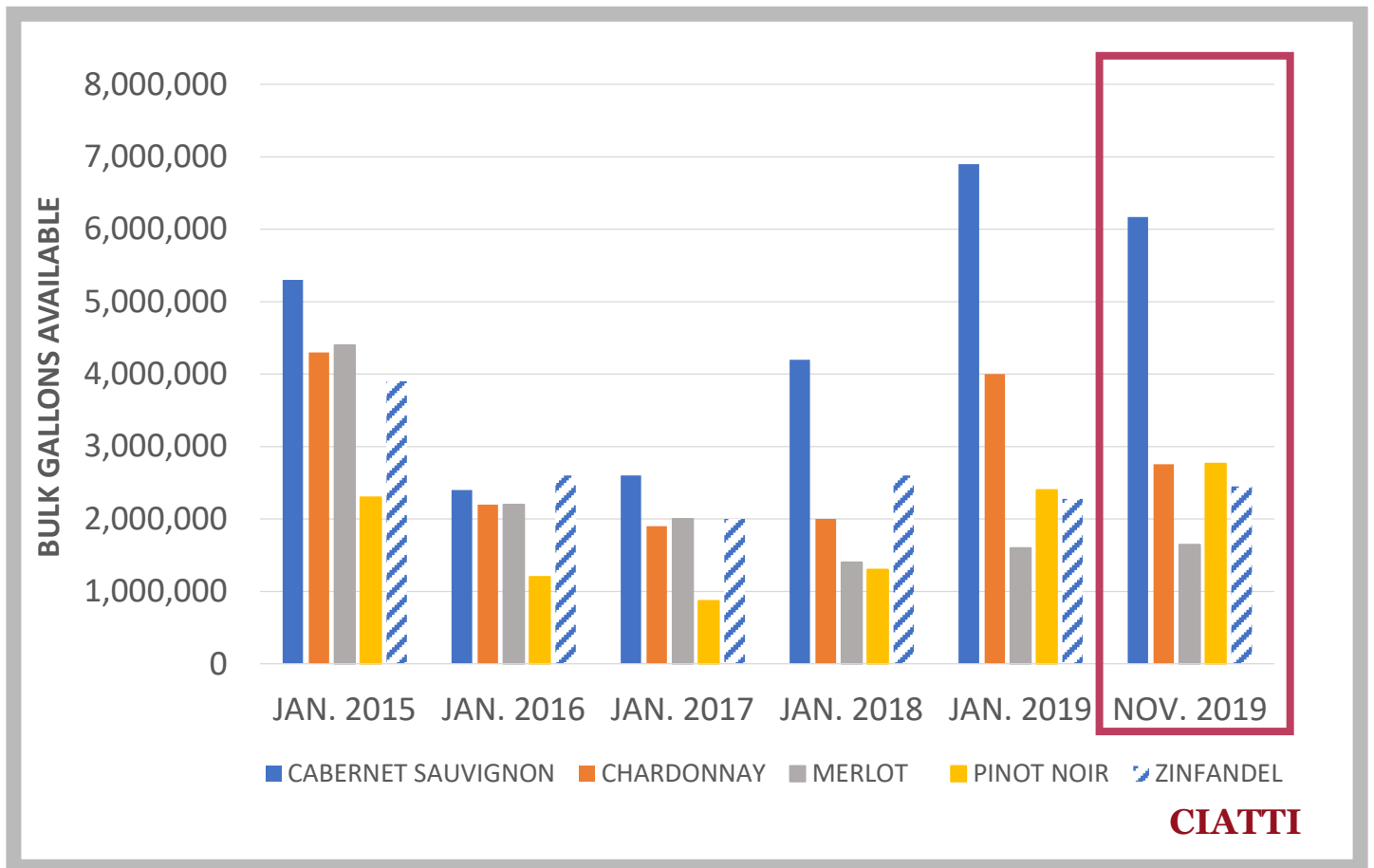
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# Bulk Wine Inventory



Further to the above section, the graph included here clearly illustrates the high level of bulk wine inventory California has available. This latest snapshot is taken from November, when nearly all inventory counted would have been 2018 vintage and older. We still have significant amounts of this inventory in the system: over six million gallons of Cabernet as of November, and nearly three million gallons each of Chardonnay and Pinot Noir. Over the next two months we will add 2019 vintage wines to this inventory, so that the figures will increase more as we move into the new year.

We will have to work through that volume before we start to see some improvement in the supply-demand balance.

It will be interesting to see how the 2019 bulk market plays out as we work through the 2018 inventory. A lot more information is still needed to gain a clear picture. How the 2020 crop looks could have a stabilizing or downward effect on the market, as well as the performance of wine on retail shelves.

## Consumer Demand for Wine

Gomberg-Fredrikson data for the six months ending June 2019 shows total Californian wine shipments down 2%, with domestic shipments flat (-0.2 million cases) and exports down 28% (-2.3 million cases). Data for the period also shows wine losing 1.9% share of the total beverage alcohol market in the US. Wine faces an ever-widening spectrum of competition – especially

for the attention of millennial consumers – from spirits (its share of the beverage alcohol market grew 2.4% in the same period), cocktails, craft beer, hard seltzers, cannabis, even alcoholic kombucha.

Pressure on casegood sales and margins is, in turn, putting pressure on wines to be cost competitive.

*Please see next page for more.*

Wine is more expensive per serving than beer or spirits and the premiumisation trend in wine has slowed since 2017. Nielsen data for wine sales in off-premise channels for the 52 weeks ending November 2nd shows the average bottle price rising in all price categories at or below \$10.99, but falling in all price categories at \$11+. The consistency of this is striking and potentially suggests discounting in a bid to get sales moving.

Gomberg-Fredrikson data for the first half of 2019 shows all categories above \$9.00 in positive sales territory. The strongest sales growth was experienced by the 'Premium Box' category – priced at \$4-7 per 3-liter box – which suggests the continuing appeal of alternative packaging. The Premium Box category, at 7.4%, now possesses a similar-sized volume share of the total wine market as the 'Premium Plus' (\$12-15/bottle) category at 7.6%

## Events

Ciatti brokers will be attending or speaking and will have a booth at these upcoming events:

- **January 16:** Sonoma County Winegrowers Dollars & Sense seminar and trade show Luther Burbank Center for the Arts, Santa Rosa
- **February 4-6:** Unified Wine & Grape Symposium, Sacramento Cal Expo





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