



CIATTI  
GLOBAL WINE & GRAPE BROKERS



# *California Report*

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*Volume 1, Issue No. 1*

**Ciatti Global Wine  
& Grape Brokers**

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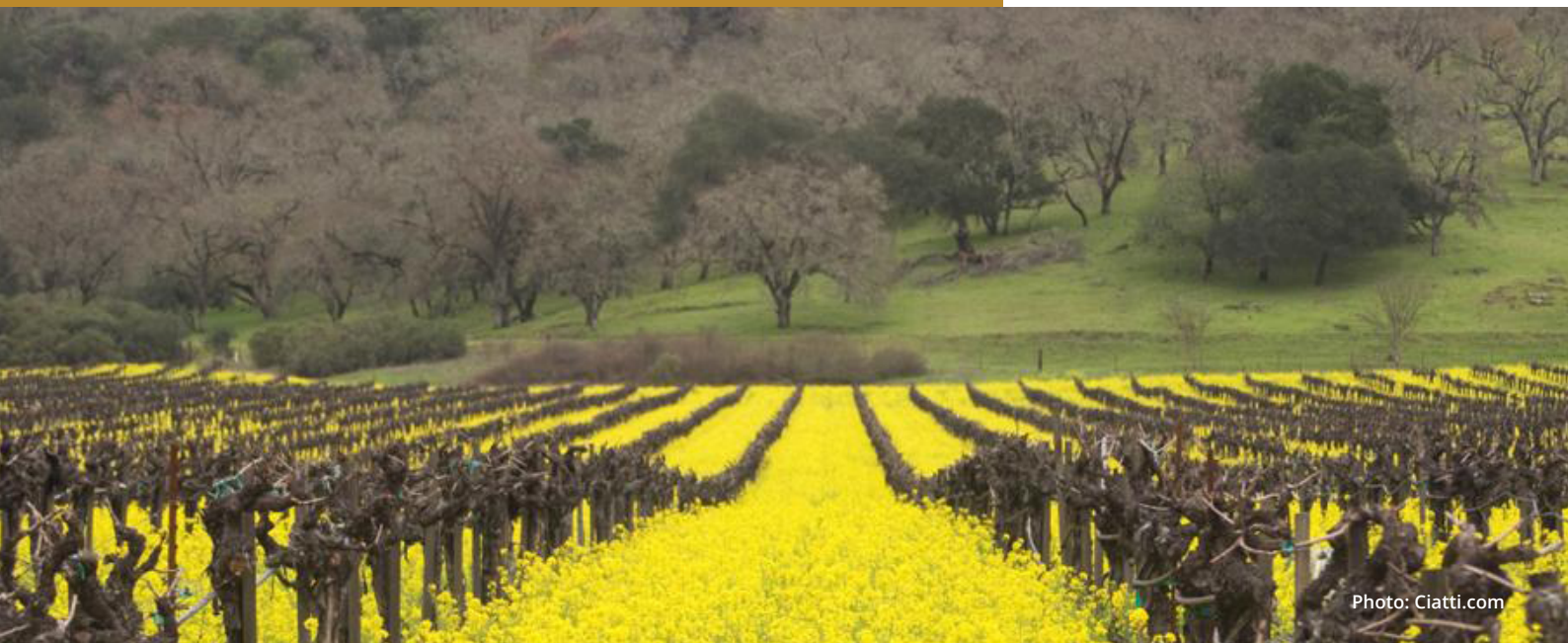


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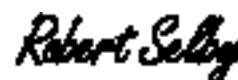
The Preliminary California Grape Crush Report, released February 9th showed the 2017 crop was essentially flat to 2016 at 4,007,136 tons. While some varieties were up or down, and some appellations had variations by varietal, a relatively stable harvest was good news given a seemingly slower pace of case good sales over the past year.

Chardonnay continued to account for the largest percentage of the total crush volume – but only just. Chardonnay represented 14.5% of the total 2017 grape crush figure (a figure including table grape and raisin-type varieties); Cabernet Sauvignon reached 14.2%. Chardonnay volumes came in at 613,990 tons, down 9.2% from 675,966 tons in 2016, while Cabernet volumes came in at a record 599,833 tons, beating – by 5.9% – the historic high set in 2016 of 566,486 tons. For a breakdown of the preliminary harvest result, see Ciatti's press release [here](#).

California has been experiencing a drier than average winter and the Sierra Nevada snowpack was measured at just 27% of normal as of February 1. Water levels in the reservoirs are below average. It seems a high pressure ridge is sitting above California, pushing all the storms to the north, into Oregon and Washington State, which are experiencing normal winters. There is still the possibility of a wetter February and March, but February commenced dry.

The latest Unified Wine & Grape Symposium in Sacramento, January 23-25, was relatively upbeat: the year just gone was definitely a tougher one for sales (except on the import side, where bulk was up 26% and case goods up 4%), but things seem to have rallied somewhat in the final quarter, with 'OND' sales perhaps a little better than expected. As well as a slightly more bullish feeling in the room than one might have thought, something resonating at the show was the continued strengthening of the 3-liter package, and while only 5% of total volumes is growing at double-digits.

Since the Unified Show, the market is still sluggish. Ciatti is receiving a lot of inquiries and samples from sellers and there is plenty of inventory out there, more than this time last year – all indicative of a sales slowdown. Prices for grapes and wines, however, continue to be at historic highs: margins for program owners are thus getting squeezed to various extents depending on from where the supply is sourced (a squeeze that is being compounded by distributor consolidation). The result, as has been reported by Ciatti in recent Global Market Reports, is movement away from a specific appellation to a 'California' one as buyers look further afield for supply that is equivalent in quality but more amenable priced. This movement from a distinct appellation to a California one could create opportunities on the Coastal markets if prices were to come down on some of the abandoned supply areas. This is evident in the varieties analysis below.





# Chardonnay

Overall, Chardonnay is the most in-demand item on both wine and grapes. There is interest in all segments of 2018 Chardonnay, from the premium Coastal ranges down into the Central Valley, with some decent movements on the bulk wine market. The previous three seasons have seen lighter than average harvests and a balancing of internal inventories here in California. With the current acreage in production, it seems that more acreage is needed in many regions to offset aging acres and current demand. Mother Nature could prove differently if all regions had a “bumper crop” like 2013, 2012, 2009 or 2005, but the future is unknown.

Let's look at how the Chardonnay crop fared region by region to accentuate what we mean:

## California Total

Down 9.2%

## North Coast

(Districts 1-5): Down 19.7% Approximately 4.4M gallon or 1.8M cases!

## Central Coast

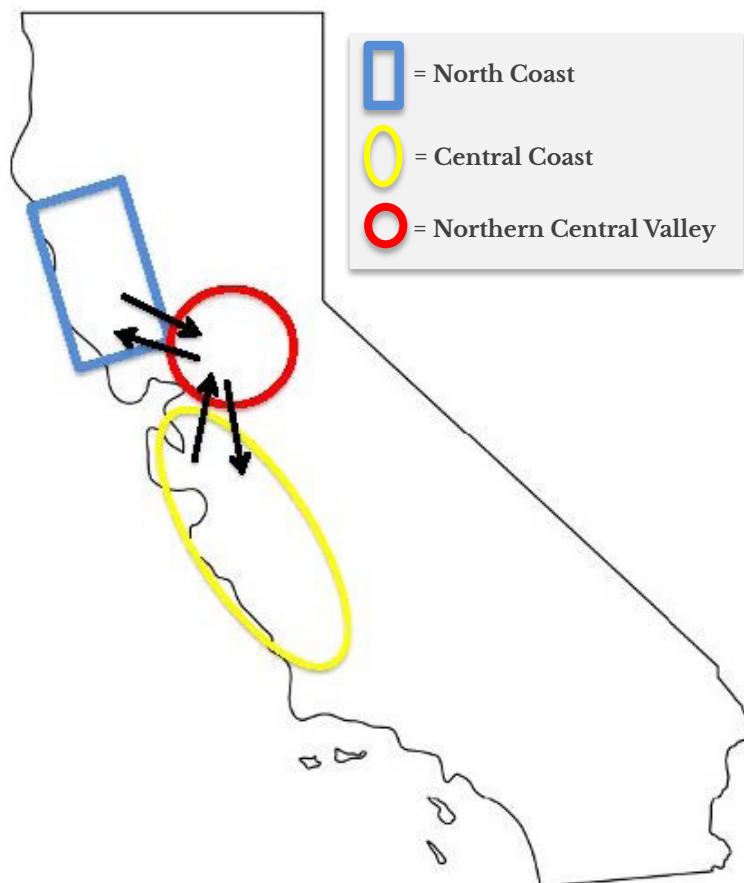
(Districts 6-8): Up 3.7% but well below what is needed after 2 low vintages

## Northern Central Valley

(Districts 9-11,17): Down 15.1% and the lightest crop in 5 vintages!

## Southern Central Valley

(Districts 12-14): Down 5.1% in an area that produces nearly 30% of all Chardonnay, and is used for large format and export programs.



On Chardonnay, some Coastal brands have moved into the northern interior to source, in order to ameliorate cost; meanwhile, some northern interior brands on the 'California' appellation are going into the Coast to increase quality. These two markets are thus supporting each other.



# Cabernet Sauvignon

It was a second successive record-breaking year for Cabernet volumes: 599,833 tons were harvested in 2017, up nearly 5.9% on the historic high of 566,486 tons in 2016. The Cabernet market is currently the opposite of Chardonnay's: after the previous two vintages, inventory is good-sized and the market is normal-paced as buyers wait and see on price. Overall, Cabernet will continue to come on-line over the next few years. Hopefully market demand will meet the next 100,000 tons of product soon to be available.

Let's see what the Cabernet Sauvignon crop looked like by region:

## California Total

Up 5.9%.

## North Coast

(Districts 1-5): Up 4.2% While Lake and Mendocino counties drove this increase this represents maturity of new vines planted over the last five years, and replanting of existing acreage.

## Central Coast

(Districts 6-8): Up 13.9% Most of these grapes fuel blends with other appellation labels. Renewed inventories give buyers opportunities for blending or as an appellation of its own, such as Paso Robles.

## Northern Central Valley

(Districts 9-11,17): UP 0.3% While flat buyers see opportunity here for quality and value for coastal appellations.

## Southern Central Valley

(Districts 12-14): Up 7.9% Destined for value or export programs, increase tonnages offer some relieve to the past higher priced markets.

# Zinfandel, White Zinfandel & Rosé

The Zinfandel crush came in at 364,000 tons (-12.6%). The breakdown of production for red versus blush is unknown but we at Ciatti estimated at the split at 35/65??

Red Zinfandel will benefit from the lower 2017 production given weak sales for stand alone Zinfandel labels. Sonoma Co was down (-16.5%) to 12000 tons and the lowest yield in recent years. Lodi district, the largest red producing region, was down (-15.5%) to 124,000 tons. This lower volume which fuels many RZ and red blend programs, should allow wineries to balance inventories in tank from past vintages.

White Zinfandel - With over 180,000 tons produced in the south central valley, and nearly all going to blush programs, near double digit decreases is certainly welcome. These wines are destined for low end domestic and export WZ programs. Both of which have been declining for many years.

Rose – Much of the demanded for “Rose” is coming from French appellation imports (+43%) or French “style” dry wines. In California most demand for rose is coming from the production of Rhone varieties or Pinot Noir. This is evident in the central valley where Grenache pricing increased (+18%) to a historic price of \$683 per ton. On the coast this has helped firm interest in Rhone varieties like Syrah for production into dry rose labels. Pinot Noir is harder to justify, as demand and pricing for red is significantly higher. Additional, Pinot Noir also has pressure from the Sparkling wine producers.

# Deep Dive : Sauvignon Blanc

Sauvignon Blanc's 2017 tonnage was in-line with 2016's, at 106,486 tons versus 107,734 tons. Its average price was USD1,101/ton, up 4.6% from USD1,052/ton. The varietal is currently the most in-demand item on both wine and grapes. The market is overheated: prices for the varietal are high (it arguably costs as much in the Central Valley as it does on the Coast) and availability is tight. In Ciatti's experience the Sauvignon Blanc market has only ever found balance in a narrow window: demand for it is specific, and any excess tonnages beyond that demand have traditionally been difficult to shift.

- Has the great success of New Zealand Sauvignon Blanc in the US punched a hole for California Sauvignon Blanc to come in behind?
- Is cannibalisation going on between Sauvignon Blanc, Pinot Grigio and rosé as they fight to be the lighter alternative to Chardonnay?

Because these remain unanswered questions, and because California Sauvignon Blanc brands from the big players have not found big traction, many remain a little cautious about treating Sauvignon Blanc as a mainstream varietal at the moment. It does feel like more Californian Sauvignon Blancs have come onto the market in the past three years, albeit mainly at the premium end (Sauvignon Blanc is unique in California in having more acreage in the Coast than in the Central Valley), perhaps taking some of the momentum Pinot Grigio had 6-7 years ago.

One issue is that New Zealand Sauvignon Blanc and other imported Sauvignon Blancs are seen as being the top end of the market, and at the moment their prices are falling, a lack of Sauvignon Blanc in the Central Valley means there is no low floor to grape costs for Californian brands. A high floor and a low ceiling means little room to maneuver for California's Sauvignon Blanc brands.

## Hot Opps Box

Give Ciatti a call if you are a buyer of **2016 or 2017 Paso Robles Cabernet** as great quality inventory exists. Despite tight inventories, we have opportunities for the buyer on **2017 Chardonnay in all premium segments**, and opportunities for **North Coast Sauvignon Blanc too**. In addition, we can help sellers from across California with their **Zinfandel, Rosé, and Merlot**.

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