



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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Despite our warning this past few months that the 2019 harvest could see significant volumes of grapes left unpicked, we were still surprised by the preliminary crush figure published February 10th by the California Department of Food and Agriculture: 3,890,253 tons, down 9.1% on 2018's record 4.28 million tons and the second smallest crop since 2011. While not good for growers, leaving some fruit unpicked may provide some respite for an industry under pressure from oversupply and weak casegood demand.

Red wine grape volumes were down 12.8% versus 2018 while white grapes were down only 4.3%, indicating that varieties such as Cabernet Sauvignon (-15.5% to 574,286 tons), Pinot Noir (-16.1% to 263,311 tons) and Zinfandel (-11% to 345,214) may have made up a large percentage of what got left unpicked. The 106,022-ton drop in Cabernet was the most surprising (volumes in Napa were down 12.2%) and thwarted predictions by some that the varietal would overtake Chardonnay as California's most-produced in 2019. Chardonnay, too, was down, by 10.4% to 638,029 tons.

By region, the North Coast's volumes fell by 15%, the Central Coast's by 16%, and the Interior's by 6%. The state-wide average tonnage price came in at \$812/ton, down 7.8% from \$881/ton in 2018. **For a more complete breakdown of the preliminary harvest result, see Ciatti's press release [here](#).**

We have noted an uptick in activity on the bulk wine market in the past six weeks and – with the picture moving forward now a little clearer thanks to the preliminary harvest report – we encourage bulk wine buyers to get in touch and register their needs with us. Now is an opportune moment as there are numerous opportunities to secure better quality wines at attractive pricing. Similar applies to grape buyers: there is the opportunity to reset core supply. Read on for a more detailed dive into the marketplace.

Robert Selby

Opportunities for Buyers		Opportunities for Sellers	
Bulk Wine	Grapes	Bulk Wine	Grapes
18/19 Chardonnay Coastal	Pinot Noir RRV	19 Chardonnay, Sauvignon Blanc, Pinot Gris (Send Samples)	Sauvignon Blanc North Coast
18 Cabernet Sauvignon Coastal	Cabernet Sauvignon - All Areas	18 Cabernet Sauvignon Napa	Cabernet Sauvignon Napa
17/18 Cabernet Sauvignon Paso	Chardonnay - All Areas	Pinot Noir Oregon and Willamette Valley	Organic
	Pinot Noir Coastal	19 Pinot Noir RRV	
	Zinfandel - All Areas		

The Bulk Wine Market

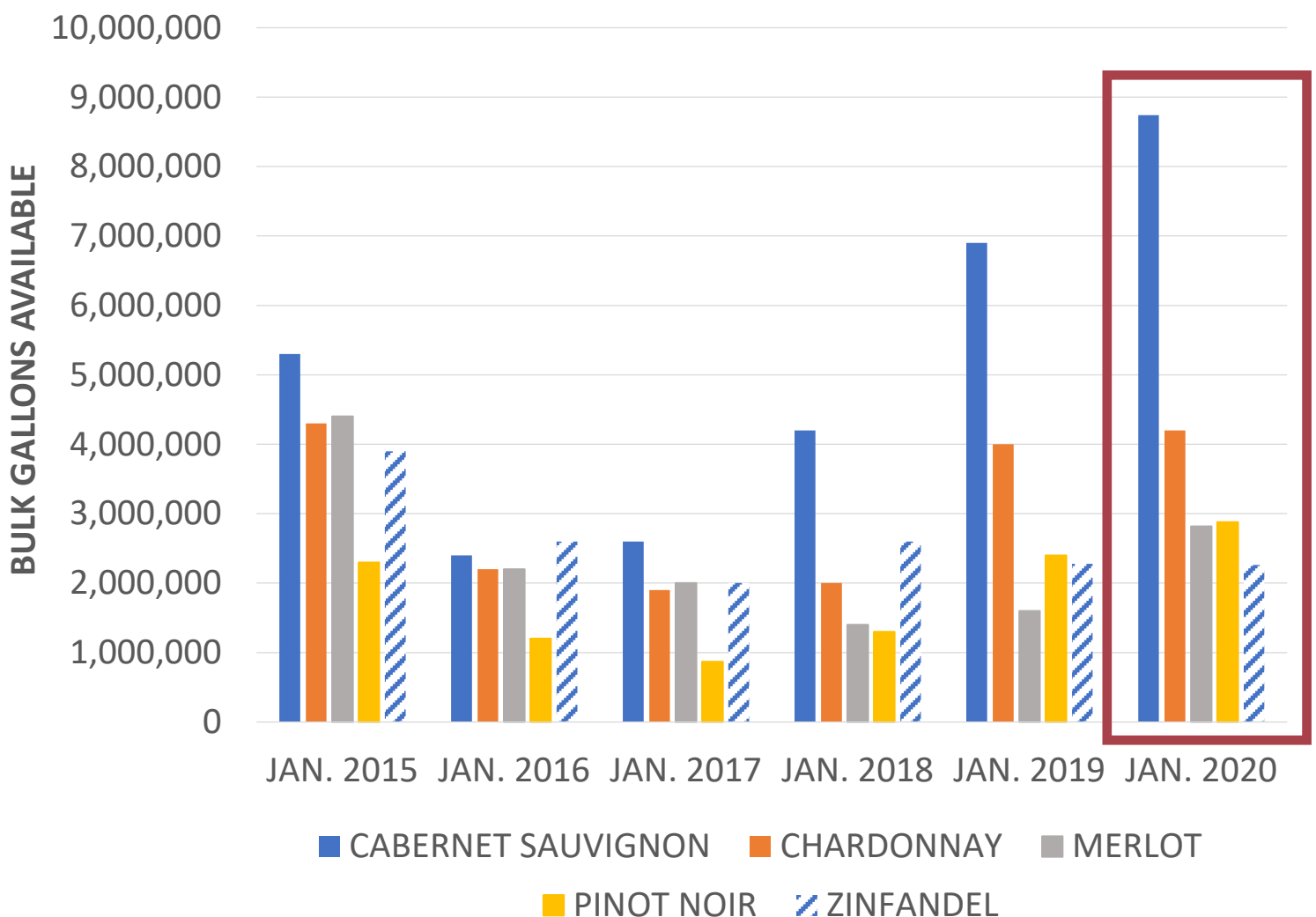
As we move into the second month of 2020 the bulk wine market has started to change from where it ended 2019: we have detected pockets of increased activity – or at least interest – over the past six weeks, with buyers coming onto the market seeking volumes (albeit usually small) of final 2018 whites, some 2019 whites such as Sauvignon Blanc, and 2018 reds.

Some of this activity is normal for the January through March period – with the harvest done and blending taking place – but the activity levels we have seen go beyond seasonality. Most is occurring in the premium segments of the market: on Napa Valley Cabernet, for example, or Sonoma County/Russian River Valley Chardonnay or Pinot Noir. (In fact, we could use more Napa Valley Cabernet in our inventory: if you have some to sell, get in touch.) This activity will help

stabilize the markets for these wines to an extent: prices may have hit bottom, but may not rise despite the increased interest.

Our latest analysis shows that bulk wine inventory has continued to build. We estimate Cabernet inventory was approaching nine million gallons in January, with Chardonnay's inventory exceeding four million gallons and Pinot Noir's approaching three million. The main challenge continues to be working through the 2018 volumes – where the biggest chunks of inventory continue to sit – while wineries remain reticent to cover anything more than their short-term needs. Many sellers are keen to move their inventory, with pricing a secondary concern. As such, now is an opportune time for buyers to get in touch and let us know their bulk wine needs.

California Bulk Wine Inventory



Chardonnay & Cabernet Sauvignon

The preliminary 2019 grape crush report showed Chardonnay volumes came in at 638,029 tons, down 10.4% from 711,668 tons in 2018. This was due to a 15% fall in the North Coast and a 20% fall in the Central Coast; volumes in the Interior were unchanged to slightly up. Cabernet volumes, meanwhile, came in at 574,286 tons, down 15.5% from 680,308 tons in 2018, likely primarily due to fruit going unpicked.

We will discuss how these lower tonnages may affect the bulk wine market next month, but in the meantime we continue to see the bulk Chardonnay market exhibiting the same bifurcation as the wider marketplace: high-end appellations on the Coast (Napa Valley, and to some extent Russian River Valley) command buyer interest and relatively strong pricing, while all other Chardonnays – from the Coast or Lodi – must sell at, or near to, California pricing. There does seem to be less 2019 Chardonnay inventory available in certain areas, perhaps due to suppliers being cautious and not making as much 2019 bulk wine.

The Interior's 2018 Chardonnay inventory was receiving interest in the second half of 2019; only a very small amount now remains. Activity on its 2019 Chardonnay has been limited. Net new Chardonnay acres in the Interior have been limited – and a lot of 20-25-year-old Chardonnay vines are on the verge of being replaced – due to the focus in recent years on planting Cabernet. In short, it feels like, state-wide, Chardonnay is unlikely to face the same long-term picture faced by Cabernet and Pinot Noir, which – due to a spate of new plantings in recent years – can expect to see more supply coming on line.

Cabernet inventory is plentiful – approaching nine million gallons as of January. That said, we have seen some buyers coming onto the market acquiring larger amounts at low prices, while interest in Napa Valley Cabernet has increased in recent weeks: get in touch with us if you have some to sell. Pricing on Napa

Cabernet is stable, while most other Coastal Cabernets can be found at or near California pricing. Unlike Chardonnay, there are significant new acres of Cabernet still to come into production.

A lot of the activity we have seen on bulk wine is tied to retailers requiring wine for their private label brands, with wineries and other suppliers vying to capture those deals. There may be an uptick in demand at the start of the new year as assessments are made of October-November-December's sales at the retail end and future sales projections are calculated. There may also be buyers who have decided to avoid buying grapes and will go straight to buying wine on the bulk market. Only Napa and Sonoma wines can command prices that are higher than elsewhere across the state: the rest of the market must operate at or near California price levels.

Effective October 18, the US is levying additional import duties on a range of products from European countries in retaliation for EU subsidies to aircraft maker Airbus. Increased levies apply to Spanish, German, French and UK wines “not over 14% alcohol, in containers not over 2 liters”. Furthermore, a notice issued on December 12 by the Office of the US Trade Representative (USTR) confirmed that further tariff impositions are under consideration, including – in regard to wine – the widening of their scope to include wines from all EU countries, in any packaging format. It is unknown at what rate these further tariffs would be set, should they be implemented, but the USTR in its notice stated that it could be “up to 100%”. France is being especially targeted because of its plans to apply a 3% national tax on the revenue of digital services earned in France by US tech giants such as Google, Amazon and Facebook. There may be a chance this could help California capitalize on rosé opportunities, now that French bottled imports are more expensive, but in general we doubt these tariff hikes will move the Californian market much one way or the other.

The Grape Market

It is not known if the activity seen in recent weeks on the bulk wine market will translate into grape activity, but we hope to see increased interest from grape buyers now that the preliminary grape report is out, including those seeking long-term contracts. Just as on bulk wines, now is an opportune time for buyers of grapes to reset their core supply, with longer-term contracts – of two to three years – at attractive pricing. We have seen activity on Napa Valley grapes.

Buyers will inevitably have to come into the grape market at some stage, albeit at prices much lower than they were a few years ago – especially on the Coast. This is the consequence of even greater grape

availability across California now than a year ago – despite the 9.1% decline in the 2019 harvest tonnage versus 2018 – as many more wineries have since given notice on their grape contracts.

Indeed, most grape activity continues to be around wineries not renewing – or trying to extricate themselves from – grape contracts to give themselves supply and price flexibility. As buyers adjust their supply they should be coming into internal balance, so are less likely to need to sell grapes in the market (something which, last year, exacerbated the grape market's sluggishness). They may not buy, but at least they will not be competing with growers and normal grape suppliers.

Acreage

The start of February saw Ciatti attend the 2020 instalment of the Unified Wine & Grape Symposium in Sacramento. Much talk there was around acreage: Jeff Bitter, president of Allied Grape Growers, stated in his keynote speech that some 30,000 acres of winegrapes need to be removed in order to reach a long-term sustainable supply-demand balance (that's in addition to the planted acreage ripped out annually due to attrition). The 30,000-acre figure represents approximately 5% of California's 590,000 total planted grape vine acreage.

Meanwhile, Silicon Valley Bank's 'State of the US Wine Industry 2020' report stated: "Supply in California is acutely long. We will see early replants, removals and the fallowing of vines in every region, particularly in Monterey and Paso Robles."

Since fall 2019 we have seen some removals occurring in the Coastal areas, especially of old, diseased, or inefficient vines. Removals are occurring in Napa Valley and Sonoma County, though many vines in those areas are being replanted; this means fewer net acres are removed, but there will be a – potentially helpful – delay of 3-4 years before those vineyards bear fruit. In the Interior and areas of the Central Coast there is the potential to go into alternative crops – such as nuts or citrus – but this is less of an option in the North Coast and the area around Paso Robles. The latter area is particularly vulnerable due to restrictions on water usage that make it even harder for any crop other than grapes to be viable.

Casegood Sales

It does not appear as if any growth in casegood sales is going to arrive and relieve the Californian wine industry of its inventory burden, so we will see the industry adjusting supply to get things closer to balance – the decision taken last harvest by many growers to leave uncontracted grapes unpicked, for

example, and now the removing of vines. Wine's problems at the retail end have been highlighted by three recent reports.

In January International Wine & Spirits Research announced that, in 2019, while total beverage alcohol

consumption increased in the US by 0.3%, total wine sales declined by 0.9% – the first drop since 1994. A growth in consumption of sparkling wine by 4% could not offset a 1.5% decline in the larger still wine category. In short, wine volumes – and standard domestic beer volumes too – continue to stagnate while volumes of distilled spirits (+2.3%), RTD products (surging by 49.7% due to the “tremendous popularity” of hard seltzers which now represent 43% of this category), craft beer (+4.1%), imported beer (+3.1%) and low/no alcohol beer (+6.6%) all grew.

Silicon Valley Bank’s 2020 report stated: “Wine imports and substitutes are a real and growing threat for mindshare among emerging wine consumers.” Younger consumers are skewing towards consuming less alcohol because of health messaging, and if they do partake, they can choose from an ever-expanding range of alternative alcoholic beverages that perhaps better speak to the health trend or offer a better cost-per-drink ratio than wine does.

For instance, a new ‘US Landscapes 2020’ report by Wine Intelligence puts the rapid growth in the hard seltzer category down to “its ability to tap into

a number of key trends at once. The drinks are relatively low in alcohol (4-7% abv), low in calories (typically less than 100 calories) and packaged in light, sustainable, and eye-catchingly packaged cans.”

Nielsen data provided by Silicon Valley Bank shows that, although the category barely existed four years ago (the biggest brand, White Claw, was started in 2016), sales of hard seltzers reached nearly \$1.4 billion in the 52 weeks to November 2019, with the number of brands exceeding 200.

Wine intelligence’s survey of 2,000 nationally representative regular wine drinkers found that 39% have reduced their wine consumption in the past 12 months. “While the majority of this group indicate they are simply cutting back on alcohol, a third of those saying they are drinking less wine are doing so because they are switching to other alcoholic beverage categories,” Wine Intelligence said. Of that third, over half – 55% - were switching at least some of their purchasing to hard seltzers instead of wine. Some 73% of wine drinkers who have at least partly switched to drinking hard seltzers are under the age of 45.




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