



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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The California Department of Food and Agriculture's preliminary 2020 crush figure, published February 10th, was in line with our pre-harvest estimate at 3,404,298 tons. This volume represents a 13% decline from 2019's 3.91 million tons and is the lightest crop since 2011's 3.34 million tons. The causes were Mother Nature's lighter yields and – mainly in the Coast – smoke exposure issues that led to an unknown amount of the crop not getting picked.

Of the biggest varieties by tonnage, Chardonnay (-16.1% to 538,552 tons), Cabernet (-14.1% to 498,975 tons), Zinfandel (-14.7% to 297,726 tons) and Pinot Noir (-20.8% to 211,194 tons) all saw declines on 2019 to similar extents, with a smaller drop of -11.6% for Pinot Gris (to 218,326 tons) allowing it to overtake Pinot Noir as the fourth-biggest variety. The state-wide average tonnage price came in at \$680/ton, down 18% from \$831/ton in 2019 – something likely most attributable to the lack of a Coastal spot grape market in early 2020 and then discounted prices on a secondary Coastal grape market that emerged after the wildfires struck. The decline in the state's average tonnage pricing on Cabernet (-30.4%) and Pinot Noir (-35.8%) were particularly significant. **For a more complete breakdown of the preliminary harvest result, and more comment, see Ciatti's press release [here](#).**

The lighter crop and concerns around smoke exposure created – in late summer and early fall – the second of last year's two inflection points on the bulk market, following the spring surge in off-premise wine sales. Prices have since stabilized but, on the Coast on most varieties, at levels not seen for two years or so. The bulk market remains active and the month just passed was one of the busiest Januarys for many years, particularly in the Central Valley (where many suppliers are now out of their 2020 wines) but also in the Coast. It is getting harder to source premium older vintage wines but there remains availability, especially as wine continues to be diverted from on-trade channels into bulk instead, now that bulk inventory is an asset that can provide useful cashflow even for high-end producers. The active bulk market is leading to some discussions around long-term wine contracts and also – especially in the Valley – grape contracts, though of course forward visibility remains limited and most activity is tentative at this stage, not just because of the ongoing pandemic but in the knowledge an average-plus 2021 harvest could change things.

Sierra Nevada snowpack levels are relatively good but winter rainfall levels across California have so far been significantly below normal. Portions of the state continue to experience long-term drought and the long-range forecast through until the end of April is for drier than average conditions. There is particular concern among growers in the southern Valley about this dryness and the effect it will have on federal water allocations should February through April not bring some replenishment of water reserves.

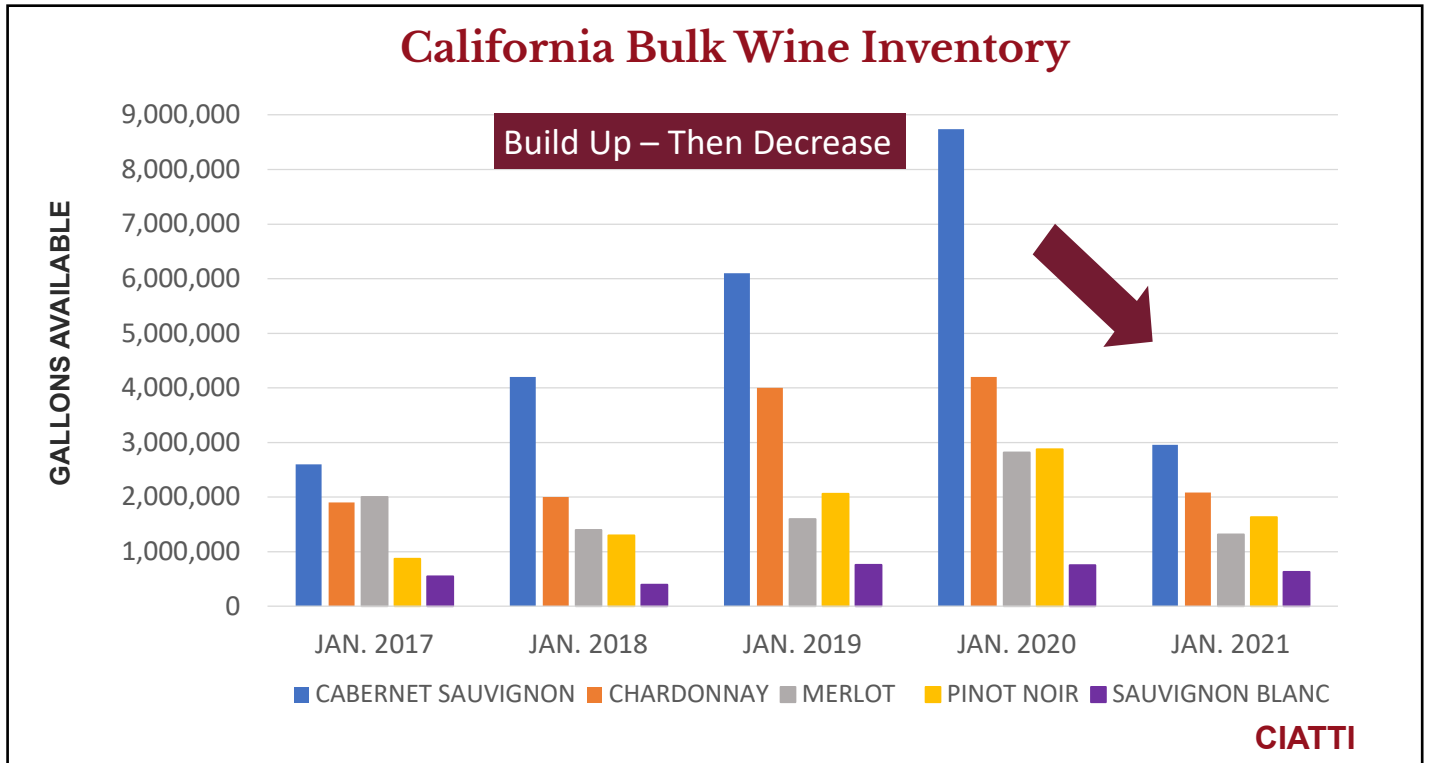
There is no denying that 2020 was a challenging year for all and those same challenges are still with us in early 2021. Whether you are a buyer or seller of grapes or bulk wine, don't hesitate to get in touch with us so we can help you turn today's challenges into tomorrow's opportunities.

Robert Selby

The Bulk Wine Market

We have just had the busiest January on the Californian bulk wine market for many years, with all segments of the market active, driven by perceived supply instability – due to the lighter than average 2020 crop – combining with the continued robustness of off-

premise wine sales. All our data points to the smallest January inventory since at least 2017 and well down on where it was 12 months ago. The market is balanced and potentially moving to a tighter position until we see more bulk supply become available.



The latest Nielsen data for off-premise and DTC wine sales in the US – December’s – shows dollar sales growth in single digits, down from a high of more than 34% in April but still decent considering the high holiday-period baseline. Nielsen detected all price tiers north of \$11/bottle continuing to grow in double digits, suggesting consumers are seeking better quality wines in lieu of being able to dine out. From our perspective on the supply side, we have seen high-end suppliers pivot from on-premise to off-premise, nudging up the average price per bottle on the retail shelf.

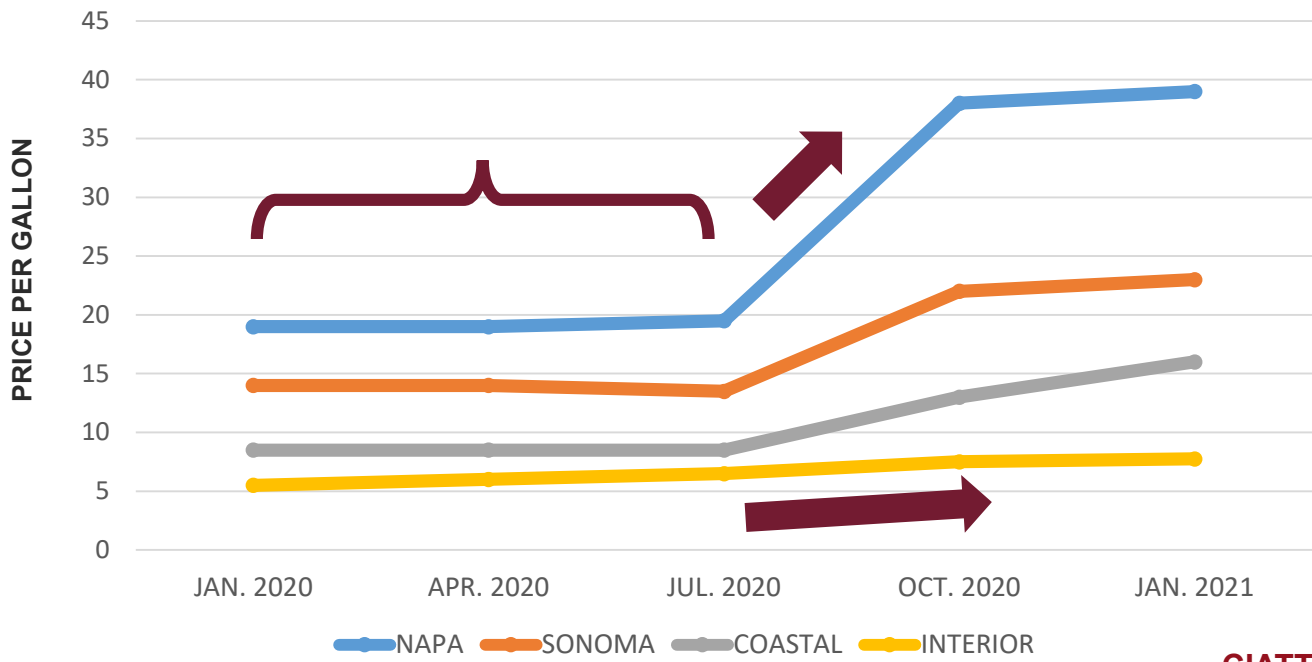
There appears to be limited 2018 and 2019 bulk inventory now available, particularly from the higher-end appellations. That said, while it is indeed getting harder to find premium older vintage wines, there are – as mentioned above – suppliers of high-end on-premise wines taking advantage of strong bulk prices and putting their wine onto the bulk market instead. There is a growing recognition among suppliers that bulk inventory has shifted from being a liability to an asset that can provide welcome cashflow. Pockets of availability thus pop up and, in turn, receive interest:

Sellers and potential buyers of this material should get in touch.

As well as a supply tightness on older vintage wines, we are hearing many suppliers say they are now out of 2020 wines, especially in the Central Valley. In the Valley at least, this is partly due to the good retail demand but mainly because of the lighter crop – producers simply do not have the volumes they normally would have available.

In general, Coastal and Interior pricing were in some relative proximity until the lighter crop/smoke concerns of late summer and early fall, when Coastal pricing – on in-demand varietals such as Cabernet – re-inflated and left Interior pricing behind. Coastal pricing stabilized again by the end of the year but at a much higher level than where it had started. However, with nearly all retail sales growth currently being driven by the off-premise – likely to be the case for another few months yet – it remains to be seen if buyer demand will be maintained in the Coast outside of Napa and Sonoma, at least at present pricing, particularly if the 2021 crop looks like being average-sized or larger.

Cabernet Sauvignon Bulk Pricing



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Please Note: this is generalized pricing to be used as an indicative trend guide only

With the bulk market tighter than it has been in a while, we are already seeing activity on 2021 wine contracts. There is some interest in three-year deals but most buyers and sellers are having a difficult time trying to understand where pricing should be in the long-term: Has the market recovered to a stable level, or is the current market situation all related to the lighter 2020 crop and things will readjust again after the 2021 crop fills supply needs? At the moment there seems to be some renewed confidence in wine as an asset, with signs

of an uptick in interest in vineyards and wineries as assets and a feeling that now may be the time to invest as we – fingers crossed – start to emerge from the pandemic.

With the market as active as it is, please send us your samples so we can help you find 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

We are currently seeing a much busier market for 2021 grapes than we did on the 2020 grapes: Most of the activity is occurring in the Central Valley but activity levels in the Coastal regions have shown improvement, with some interest, some discussion, and some contracts signed. This activity is not as deep as it is in the Valley and is more confined to specific buyers targeting specific areas/varieties – for example, Napa Valley Cabernet, Russian River Pinot Noir, Coastal Sauvignon Blanc in general – but the activity is encouraging nonetheless. Some wineries will be cautious given the pandemic and the big unknowns regarding future sales. Consequently, pricing offered is – on the whole – below where growers would like it to be, but up on last year at least.

The Central Valley's grape market has been very active, with offers across all varieties and one-year and multi-year contracts being agreed. Again, prices are below where growers would like but above where they were in 2020. Growers must decide if they should enter into deals or see if prices increase as the season develops. Most buying activity is coming from the large wineries that are benefitting from supplying or owning strong off-premise brands with national distribution.

There seems to be good activity levels on Sauvignon Blanc grapes both in the Coast and in the Interior. The varietal was perhaps close to supply-demand balance even during the oversupply years prior to 2020, likely as much of it was tied-up in long-term contracts.

The varietal is a growth area on the casegood sales front, competing well with imports of New Zealand Sauvignon Blanc. Nielsen's report on December off-premise sales in the US highlighted Sauvignon Blanc and rosé as the two most popular varieties.

Planting contracts on various varietals are being offered in the Central Valley but – as input costs have risen – not yet at prices tempting enough for many growers. Contracts are being offered for Merlot, Chenin Blanc, Sauvignon Blanc, Chardonnay and floral varieties such as Muscat and Colombard.

E&J Gallo's acquisition of more than 30 wine brands from Constellation Brands was approved by the US Federal Trade Commission in December and finally completed on 5th January. The completion of the deal offers welcome additional stability to the market.

If you have grapes to sell, contact Molly at +1 415 630 2416 or molly@ciatti.com to get them listed.

Events

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

- **February 18:** Mendocino Winegrowers Economic Summit Series
- **March 3:** WineExpo Vineyard Virtual Conference



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