



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

July 2021

Volume 4, Issue No. 7

**Ciatti Global Wine
& Grape Brokers**

201 Alameda del Prado, Suite 101
Novato, CA 94949
Phone (415) 458-5150



July 2021

Volume 4, Issue No. 7

- 3 The Bulk Wine Market
- 5 The Grape Market
- 5 Casegood sales - reality returning?
- 6 Crush capacity & storage - more thoughts
- 7 Structan – a smoke taint solution
- 8 Contacts

Reading online?
Use the links above
to jump through this
document.

No part of this publication may be reproduced or transmitted in any form by any means without the written permission of Ciatti Company.

California's growing areas were spared the extreme temperatures experienced in other parts of North America's West Coast at the end of June, but another heatwave is expected imminently, with temperatures relatively high throughout the state. Drought emergencies and resulting water restrictions are proliferating and are a concern among growers, but in the early days of July – with veraison still a few days/weeks away – any serious deleterious effects on the vines from lack of water are yet to be visible.

How the vines appear is inconsistent, varying from plot to plot and area to area due to a number of factors mentioned in previous months: An early frost last November, erratic early spring weather and perhaps the lack of good overwintering water supplies since 2019 has led to some stuntedness, though much of this may only be cosmetic and the vines will still perform well. Some shatter was in evidence and although cluster counts have been relatively normal there is concern about berry-sizing.

In terms of timing, the growing season is proceeding normally to slightly earlier than normal across the state. After a heat spike in early June, Central Valley temperatures have been average. Grapes in Lodi and the northern Valley are a few days off veraison. Water restrictions are in place in some areas and some growers in the Delta have received notification of suspension of post-1914 riparian water rights. Timing in the Coast looks a little early and grapes appear smaller than average in size, but there is great variation between vineyards/areas. There is a feeling that water restrictions and perhaps some heat spikes could limit the ability of the grapes to size up. That said, there remains confidence that the state's total tonnage will be up from last year's short crop at closer to the average of 4 million tons, though we are having a hard time figuring out a more precise estimate.

We have noticed a withdrawal of some bulk wine and 2021 grapes off the market in recent months and particularly in the past two weeks, potentially as wineries are deciding to bottle the wines themselves amid signs the crop could come in lighter than that 4-million-ton average for the second year in a row. On the flip-side, there were potential buyers of wines and grapes – prospecting the market amid the lower harvest expectations – who have since retracted their demand. This is perhaps evidence of cooling off-premise demand as the US emerges from the pandemic. The bulk market is relatively quiet versus earlier in the year; part of this can be attributable to normal seasonality but also some uncertainty about the sales picture moving forward. The grape market is also quieter for the same reasons and also because availability in the Central Valley is negligible and steadily being drawn down in the Coast.

How things go in terms of consumer demand in the next six months as the US moves out of the pandemic will determine the market in the longer-term – until trends have had the time to emerge and settle, perhaps by the end of Q1 2022, the only certainty is more uncertainty. Read on for our latest assessment of the bulk wine and grape markets, don't hesitate to call if you need more information, and stay safe.

Robert Selby

The Bulk Wine Market

As is normal for this time of year, the bulk market is relatively quiet as many buyers have covered their needs and the focus is now on how summer sales and the new harvest perform. In the Valley, however, the quietness is further explained this year by the minimal levels of remaining availability. This lack of supply is also seen on the Valley's 2021 grapes, which makes it potentially surprising we have not seen more contracting of 2021 Valley wines. Such hesitancy perhaps reflects uncertainty around future wine sales and some scepticism about the health of the sales picture as pandemic pantry-stocking fades (see our later section on casegood sales).

The enclosed inventory graphs for Chardonnay, Cabernet Sauvignon and Pinot Noir clearly illustrate the current dichotomy on the bulk market: there is significantly more supply on the Coast (where demand has been, in general, steady) than in the Central Valley (where demand has been much stronger). This is particularly acute on Cabernet: by our measure, the overwhelming majority of the remaining inventory of this varietal is now situated in the Coast.

Bulk wine continues to be available in the Coast in greater quantities as pricing is often higher than what current prospective buyers – négociants – are seeking. On Cabernet in general, we are seeing demand for Napa Valley Cabernet and Cabernet at California prices but limited interest in the Coastal offering in-between. Most regular buyers of premium bulk wines are not active on the market, understandably cautious as the on-premise reopening is in its infancy. In addition, perceptions around smoke have limited the appeal of 2020 wines among some premium buyers; indeed, because of these perceptions we are seeing some wineries adjusting inventory and lowering prices on some 2020 Cabernet and Pinot Noir to help them appeal to buyers of California appellation. This applies to limited quantities, however, and Coastal pricing in general remains prohibitive for buyers who normally source in the Valley. Some suppliers of Coastal Cabernet are sold out of 2021 wines on future contracts while simultaneously possessing supply of 2020 Cabernet – an indictment of the hesitation on the latter.

In regards to Coastal bulk supply in general, we can say that although it is understandable that Coastal suppliers have a certain price in mind – considering the short and/or smoke-affected 2020 harvest and the likelihood of the 2021 vintage coming in average-sized at best – they must bear in mind that it has been California-appellated off-premise demand driving consumer sales in the past 16 months, so bulk buyers are highly price-sensitive. In addition, there are some signs that buyers are adjusting their sales projections downward as the off-premise bubble starts to deflate. With storage fees not inconsiderable, suppliers are recommended to consider all reasonable offers carefully.

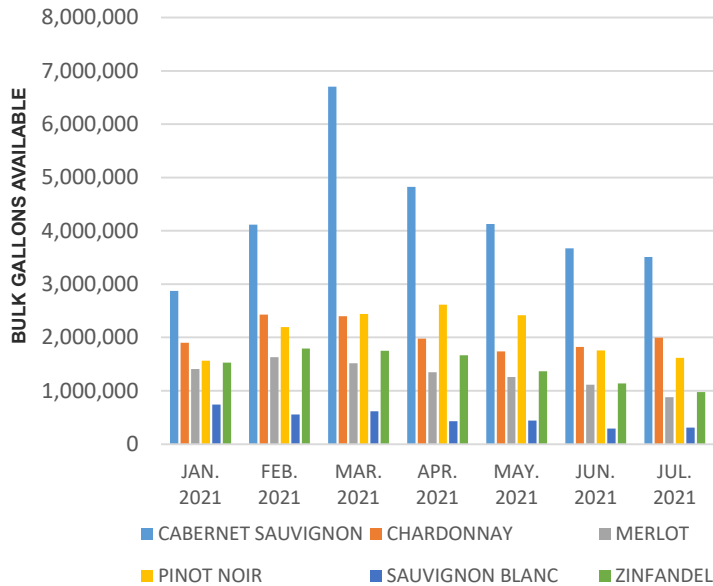
As mentioned in the introduction, some bulk wine is now being withdrawn from sale so that it can be bottled internally, in light of the likelihood of a shorter 2021 crop. Restaurant and tasting-room re-openings may also account for some of this re-absorption.

Muscat and floral wines remain in tight supply across the state, leading to some interest in international supply. There has also been some interest in varietals from overseas from buyers struggling to locate what they need in Lodi and the north Valley. This movement is limited but the trend for imports over the past ten years is clear: a robust increase in cheap bulk imports to replace more expensive or pulled-out south Valley varietals in 5-liter and 3-liter boxes (particularly Sauvignon Blanc and Pinot Noir) and a strong increase in imports of bottled wines that ultimately compete with Coastal wines.

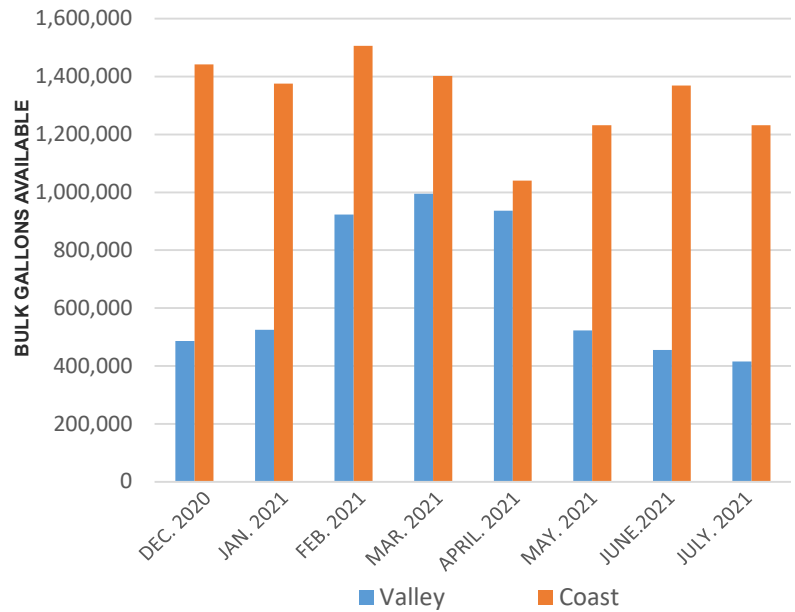
Imports from Europe will now be assisted by the removal – for a period of at least five years – of retaliatory tariffs levied on all French and some Spanish and German wines since 2019 as part of the US response to the longstanding US-EU aircraft subsidies dispute. The California Wine Institute has called on the US and EU governments to work towards a “zero for zero” tariff-free wine trade environment that would benefit the wine industries on both sides of the Atlantic.

Bulk Wine Inventory Graphs

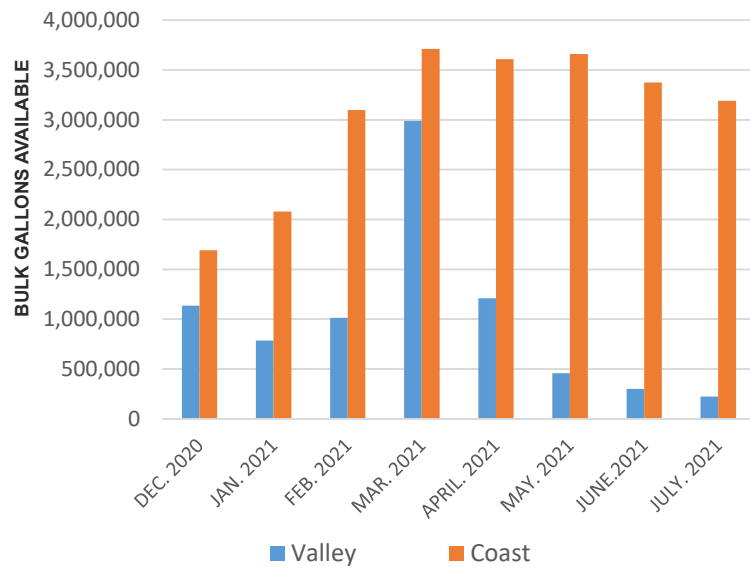
California



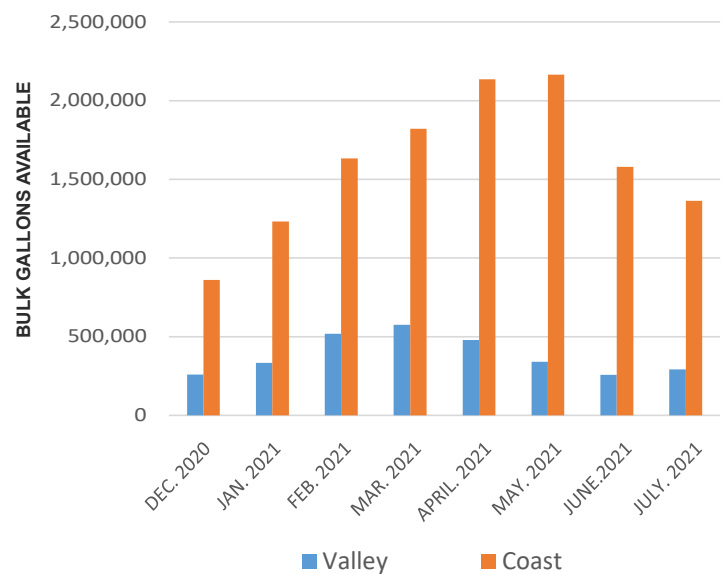
Chardonnay



Cabernet Sauvignon



Pinot Noir



The Grape Market

The Central Valley is essentially sold out of 2021 grapes while availability in the Coast is steadily reducing: Some pockets of Coastal Cabernet, Zinfandel and Central Coast Pinot Noir are available. The easing of the off-premise boom and the fact the on-premise is only now getting back on its feet has perhaps injected further caution into the Coastal grape market, though the potential for a below-average crop has perhaps counteracted that to a limited extent: Some grapes have been removed from the market to be used internally.

We have seen some potential buyers really trying to drive home a specific price on Coastal grapes but they will need to bear in mind that, should they not find what they need, there may not be a Coastal spot market this year to fall back on (other than the odd lot here or there). Buyers who normally source Valley grapes eyeing the Coast to see if prices may fall there at the last second may well be disappointed.

Casegood sales – reality returning?

Recurring throughout this month's report and its recent predecessors are the subtle signals that, behind the off-premise sales boom (now starting to fade as we move out of the pandemic), the underlying weakness in wine sales persists and will – in time – return to the fore. For example, with the 2021 crop expected to come in lighter than average – after the shortest crop in a decade last year – why has there not been stronger activity on the remaining Coastal wines 2020 and older, the remaining unsold 2021 grapes, and more discussions on 2021 Valley wines? This hesitancy is likely to corroborate the picture on wine sales the analysts are giving us – unfortunately not a rosy one.

The off-premise trend for a sales decline versus 2020 but continued growth versus 2019 is ongoing. For example, recent NielsenIQ data shows US wine dollar sales down 11% over the Memorial Day Holiday period (the two weeks ended June 5th) versus the equivalent period of 2020, though still 14% up versus 2019. Although this drop versus 2020 is not surprising, it is greater than the falls experienced by spirits and beer.

International Wine & Spirits Research has reported that, despite the boom in the off-premise, total wine sales in the US were up only 0.7% in volume and 1.5% in value in 2020, well behind spirits growth (+4.6% in volume; +7.7% in value). This reverses the volume flattening/decline seen in the 2-3 years prior to 2020 (after 25 years of growth), but sales of still wine are forecast to soften again now pantry-stocking fades and spirits/RTDs (including hard seltzers and canned cocktails) take market share. With the on-trade shuttered, the

pandemic was a boon for pre-mixed RTDs and their sharp rise in popularity is expected to continue for the foreseeable. Domestic wine must additionally contend with the continuing trend for increased imports of bottled wine from countries like Italy, Chile and New Zealand.

With the US economy booming following a substantial fiscal stimulus from the government, record levels of personal savings and the release of pent-up demand as the country emerges from a year of COVID-19 restrictions, Rob McMillan of Silicon Valley Bank makes a sobering statement: “Negative [wine sales] growth in this economy is going to be a difficult fact to face if indeed we don't claw our way back into positive growth during Q3 [2021].”

Our assessment is that the key is how the country emerges from the pandemic in the next six months: If the emergence is irreversible, then by the end of Q1 2022 some stable trends may have emerged and the industry will have greater confidence to lay down more commitments for the future, building brands, realizing opportunities – and beginning the fightback for the hearts and minds of consumers that is now some years overdue. In the more immediate term, as the off-premise boom fades and the on-premise remains cautious, then another vintage comes in, will we see a general softening in bulk prices – at least in the Coast outside Napa Valley? This will depend to an extent on the size of the 2021 crop – a smaller one on the Coast may be no bad thing if bulk demand there is not robust. Uncertainty about off-premise/on-premise

See next page for more.

performance and the harvest picture is what is making it so hard to predict – or plan for – the future right now.

In the meantime, there has been good interest levels in vineyard land, potentially as an investment in a time of inflation but also for genuine viticultural reasons (grape prices per ton are strong in the Valley, for example).

There has also been some consolidation: On 24 June it

was announced that Delicato Family Wines had entered into an agreement to buy Francis Ford Coppola Winery. The transaction – expected to be completed in July, subject to regulatory approvals – encompasses the Francis Ford Coppola wine portfolio and two facilities in Sonoma County (Francis Ford Coppola Winery and Virginia Dare Winery in Geyserville, including the Archimedes Vineyard).

Crush Capacity & Storage – more thoughts

Last month we reported finding less crush capacity and storage space than might be expected after a short 2020 crop and with an average-at-best 2021 crop projected. However, things have changed somewhat in recent weeks, likely as the idea of the crop solidifies and crushing and storage needs have pulled back. We are not hearing any requests for storage in the Central

Valley and nor are we hearing that storage is available, likely because wineries are simply moving forward with their existing contracts and there are no dramas. We are also seeing more crush capacity become available; again, a potential sign the coming crop could be coming in lighter. We'll keep you posted if things change yet again on this issue!



Structan

A Smoke Taint Solution



As many winemakers in California are currently only too aware, after wildfires blazed across the state following August's freak lightning storms, the biggest commercial damage caused by fire can be smoke drifting into vineyards prior to – or during – harvest. Wines made from smoke-affected grapes can be characterized by unpleasant smoky, ashy or burnt aromas with an excessively drying back palate and retronasal ash character. Unsurprisingly, consumers have been shown to respond negatively to such wines.

The three main factors that determine if smoke-exposed grapes become smoke-tainted are: the growth stage of the grapevine, the variety of the grapes and the length of their smoke exposure. Grapes close to picking readiness, grapes being of the typically most susceptible varieties (Cabernet and Pinot Noir of the reds, Pinot Grigio, Chardonnay and Sauvignon Blanc of the whites), and prolonged smoke exposure, increase the taint risk. All three factors currently apply in California: the smoke has settled in vineyards mid-harvest, the most sensitive varieties are the state's leading cultivars by acreage, and smoke has been lying in some areas for many days.

The compounds in smoke known as free volatile phenols (such as Guaiacol and 4-methylguaiacol) are absorbed directly by the grapes and can bind to grape sugars as glycosides. These glycosides break apart during fermentation (or over time in the barrel or bottle), releasing the volatile phenols into the must/wine so that a smoky flavor becomes perceptible. They can also be released in the mouth during drinking, contributing to the perception of smoke taint.

What solution can our partners at Stoak Technologies offer winemakers visited by smoke? Well, Structan – their all-natural, organic-certified, liquid oak extract – can not only be used as a finishing tannin and wine stabilizer but also as a smoke-taint masking option.

Results from chemical analysis and sensory evaluation against a control,

carried out by PhD research in the Viticulture & Oenology Department at the University of Stellenbosch, have shown that Structan reduces the perceived intensity of smoke-taint flavor and aroma in smoke-affected wines.

While other winemaking interventions – such as reverse osmosis – may reduce the concentration of smoke-derived volatile phenols in wine, it has not yet been shown that it is possible to completely remove them and, anyway, such interventions also strip the wine of its best characteristics (and any positive impact does not last). Structan, however, successfully masks the volatile phenols through increasing the wine's overall complexity, thus preserving the wine's best flavor, aroma and color attributes, for up to five years.

In fact, one of the Western Cape's premier wineries, which sells its wines into the European market, used Structan to make a highly successful red wine. That was after a wildfire similar to those seen in California, when thick smoke lingered in the vineyards for three weeks.

In summary, Structan is your smoke taint solution. And its stable liquid form makes measuring and adding really simple, with no premixing or dissolving necessary. Just dose during the fermentation process and/or in the blending tank, to get stabilized, complex wines free from unpleasant flavors and aromas. Give us a call.

Fearless Contacts

**CEO
Rob Bolch**

T. +1 800/288 5056
E. Rob@johnfearless.com

**Purveyor of Quality Used Oak Barrels
Thomas Gilbert**

E. Thomas@johnfearless.com

**Manager, Brewing Technical
Support and Key Accounts
Matt Johnson**

E. Matt@johnfearless.com

www.johnfearless.com

**Sales Manager, Customer
& Operations Support
Geoff Eiter**

T. +1 800/288 5056
E. Geoff@johnfearless.com

Andrew Planting

T. +707/699-5117
E. Andrew.planting@stoaktechnologies.com

www.stoaktechnologies.com

Contact Us : 201 Alameda Del Prado #101
Novato, CA 94949
Phone (415) 458-5150

Chris Welch

T. +415 298-8316
E. chris@ciatti.com

John White

T. +415 250-0685
E. johnw@ciatti.com

Todd Azevedo

T. +415 265-6943
E. todd@ciatti.com

Glenn Proctor

T. +707 337-0609
E. glenn@ciatti.com

Steve Dorfman

T. +707 321-3843
E. steve@ciatti.com

Dennis Schrapp

T. +905 688-1340
E. dennis@ciatticanada.com

Greg Livengood

T. +415 497-5032
E. greg@ciatti.com

Johnny Leonardo

T. +415 717-4438
E. johnny@ciatti.com

Michael Fung

T. +415 630-2541
E. michael@ciatti.com

Jed Lucey

T. +415 630-2431
E. jed@ciatti.com

Mark Ishimaru

T. +415 630-2548
E. mark@ciatti.com

Molly Richardson

T. +415 630-2416
E. molly@ciatti.com

John Fearless CO. Craft Hops & Provisions

CEO - Rob Bolch
Sales - Geoff Eiter
T. +1 800 288 5056
E. rob@johnfearless.com
E. geoff@johnfearless.com
www.johnfearless.com

To sign up to receive the monthly Global Market Report & California Report, please email info@ciatti.com

DISCLAIMER

Whilst we have tried to ensure the accuracy and completeness of the contents of the California Report, Ciatti cannot offer any undertaking, warranty or guarantee, either expressly or implicitly, including liability towards third parties, regarding how correct, complete or up to date the contents of the California Report is. We reserve the right to supplement or to change or delete any information contained or views expressed in the California Report.

Where we have provided links to third party websites for further information, you should be aware that we are not responsible for the accuracy, availability or functionality of these sites, and thus cannot be held liable, directly or indirectly, for any loss however caused by your use of these linked sites.

Ciatti accepts no liability for any loss or damage howsoever arising out of the use of, or reliance on, the content of the California Report.