



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

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Conditions in California's growing areas were largely normal through June into early July – perhaps slightly on the erratic side, with degree-day accumulation highly variable between areas and some humidity and/or shatter in evidence. It goes without saying that water supplies are a concern across the state.

Phonologically, overall, the timing of vine development appears to be similar to last year, though areas of the Central Coast – namely Monterey – are potentially lagging behind what was already an unusually late year in 2021 (picking in some areas lasted into November). Degree-day accumulation has been variable, with the King City area of Monterey well behind last year while accumulation in Paso Robles has been ahead.

Lodi has largely experienced normal conditions interspersed by the odd bout of humidity or cloudiness. Timing there is similar to last year, though degree-day accumulation is behind in western Lodi. Up in northern Lodi and the North Coast, some shatter has been in evidence but most vineyards are looking healthy. Illustrating the patchy degree-day performance, accumulation has been well behind last year in areas of Lake and Mendocino, but in line in the Santa Rosa area of Sonoma.

Estimating the 2022 crop size with confidence at this stage, in the context of slightly erratic conditions after the localized frosts of mid-April, is still too much of a leap. The picture should be clearer by the end of July, when the first grapes are picked in the southern Valley. Crop uncertainty is a likely contributing factor in a recent slowdown in bulk wine and grape activity. Hesitancy is in evidence on both the buying and selling sides as the industry assesses crop potential, sales numbers, and the overall economy (annual inflation is running at 8.6%).

In talking to wineries, we are gaining a picture of a difficult retail sales environment this year, as COVID-19's pantry-stocking spike is replaced by a reining-in of consumer spending as inflation rises. NielsenIQ off-premise data for January 1st through May 21st shows a wine sales decline of 9.5% in volume and 5.7% in value versus the equivalent period of 2021. The smaller decline in value versus volume is a consequence of the outperformance of premium wines versus the rest of the market and the question mark is how well, or long, this will persist if consumers start making hard choices in the retail aisles. Retailers are trying to insulate their customers from inflation by requiring suppliers to hold price, so an increasing number of premium wine brands are becoming sourced from the Interior. Consequently, the premium sales category's relative robustness does not necessarily benefit Coastal suppliers.

Until the crop is clearer, so too consumer and economic patterns, the market will remain in flux, with buyers and sellers simultaneously able to think the upper hand resides with them. The Ciatti team stands ready to draw on its decades of experience to help you navigate the marketplace: Read on for more on the bulk wine and grape markets, and don't hesitate to get in touch.

Robert Selby

The Grape Market

Buying activity on the grape market is currently slow: Availability of 2022 grapes is now limited anyway, especially in Napa, but there are few buyers pushing for additional fruit. Activity appears to be strongest on Chardonnay grapes and the whites in general, which are now hard to find, and weakest on Pinot Noir, with Coastal Pinot Noir grapes still available. Cabernet grapes remain unsold in particular pockets of the state.

In Napa, grape supply is pretty tight across all varieties. Sonoma County Chardonnay supply is tight, with limited volumes arising intermittently. There has been activity on Russian River Pinot Noir grapes, but – more widely – Pinot Noir grapes are available in Sonoma. Sonoma also continues to be able to offer some limited supplies of Cabernet and Zinfandel, at high pricing. There has been some renewed activity on Lake and Mendocino Cabernet grapes, reducing the remaining availability.

In the Central Coast, meanwhile, demand for 2022 Sauvignon Blanc grapes leads the way but the variety is proving difficult to find. Monterey Pinot Noir grapes, on

the other hand, remain available. Paso Robles Cabernet grapes, supplies of which have until now been tight, are becoming available again – potentially a sign of confidence regarding the crop size. Across the Central Coast as a whole, grape supply on the market persists, potentially for the same reason, and deals are for small volumes.

In the Valley, grape demand is led by Chardonnay, Sauvignon Blanc and Zinfandel. Buyers are not pushing, however, as many are already covered; others entered into multi-year deals last year and are simply proceeding with those. On the whole, suppliers seem not too concerned at this stage about any buyer hesitancy, perhaps suspecting a short 2022 crop or confident of crushing any unsold grapes into bulk wine themselves. Old-vine Zinfandel availability is tight but Cabernet grapes remain unsold and activity on these is slow.

We are seeing an increase in the number of suppliers asking for “roadside” sale, i.e., removing their exposure to increased trucking costs.

The Bulk Market

California’s bulk wine market is currently quiet and small deals are dominating in all areas of the state. Unexpected inventory has been placed back on the market – potentially a sign that retail sales have underperformed their projected trajectories and some wine is no longer required, or perhaps a sign of sourcing being repositioned to ensure suppliers can hold price while retaining margin on retail shelves. With the super-competitive retail sector demanding stable prices from suppliers in an inflationary environment, we have seen – and are likely to continue to see – appellated Coastal brands switch to California sourcing.

There has been good buyer demand for the coming 2022 Chardonnay, but 2021 Chardonnay continues to remain available. It could be that buyers deem 2021 Chardonnay prices too high, or they covered their needs from that vintage during the pantry-stocking spike and – now that the spike has fallen away – are still

working through what they acquired. The latter point – that there is still inventory to work through, or at least that any inventory deficit is not big enough to require filling immediately when future sales are so uncertain – is a likely explanation for much of the buyer hesitancy more generally. Buyers could be persuaded to come onto the market for extra supply if prices softened; at the moment, they are in a position where they have the ability to hold off until such time as that softening occurs.

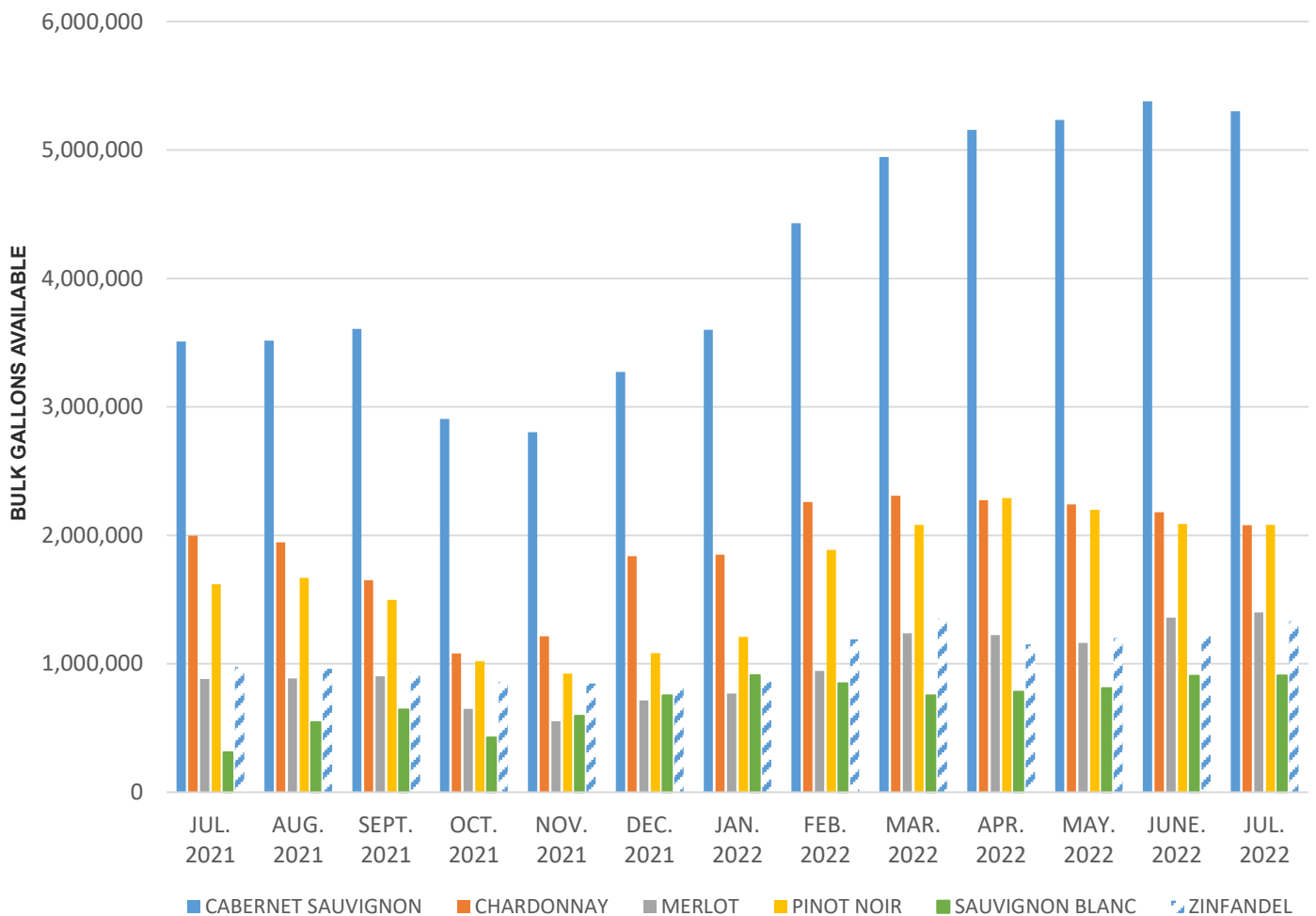
Central Valley activity levels mirror the quietness on the Coast. In Lodi, the demand that does exist is mainly for white varietals and Zinfandel, but there is no great sense of urgency – from buyers or sellers. Pinot Grigio interest is high, mainly because of a lack of inventory. The Chardonnay situation is in flux, with wineries assessing the new crop potential and calculating if it means they need to keep their bulk 2021 Chardonnay – either to use themselves or to speculate on prices rising

– or if they should place it on the bulk market. Valley Cabernet supply remains significant but – at the time of writing – pricing has not softened and, unusually, there have been few if any discounted offers ahead of the coming crop.

In the Central Coast, Monterey’s Pinot Noir and Chardonnay markets have been slow. Those buyers requiring specific Central Coast appellations have largely covered their needs already, with the remaining buyers unconstrained by appellation – a disconnect in price expectations between buyer and seller has thus slowed activity, with buyers seeking pricing more in line with the Valley’s.

North Coast Cabernet from the 2020 vintage remains available and there is also supply from the 2021 vintage. Deals are proceeding steadily on small volumes. Pricing in Napa is high and the pool of potential buyers at such high prices is limited. Sonoma County Chardonnay availability has been tight but this could potentially be evolving, with some unexpected inventory potentially appearing on the market. North Coast Pinot Noir supply is tight.

California Bulk Wine Inventory (July 2021 - July 2022)



Cabernet Sauvignon

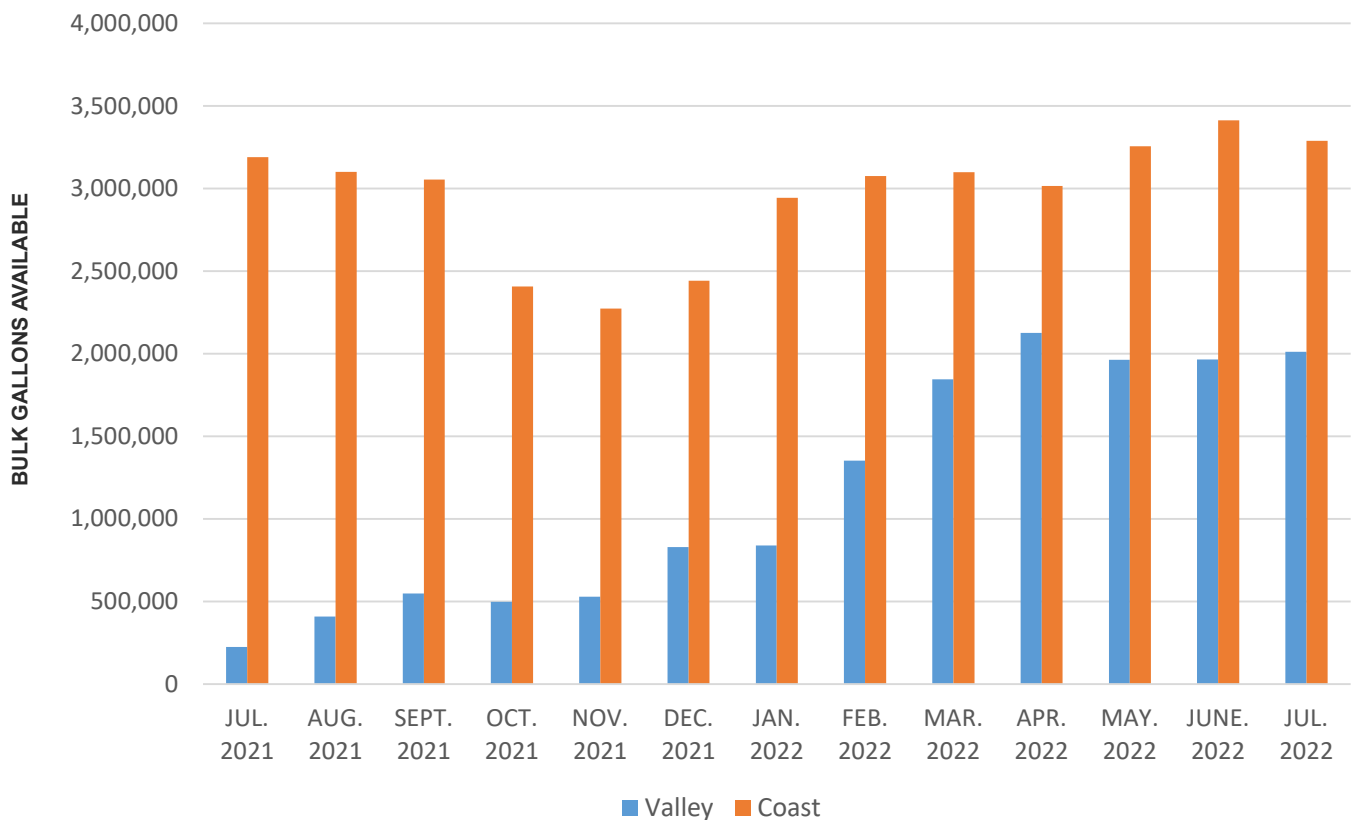
Supply of Cabernet grapes and bulk wine in the high-end appellations – Napa, Sonoma, Paso Robles – has tightened and prices have risen, potentially due to a concertina of factors: the 2020 vintage being affected by smoke exposure perceptions, a lighter 2021 crop, the success of higher-margin programs, and the revival of tasting room business post-COVID. As mentioned above, however, some further Cabernet grapes are coming onto the market in Paso Robles – perhaps a sign that growers there are confident of at least an average-sized crop – while availability in Monterey continues. Bulk 2020 Cabernet from the North Coast remains available and constitutes a real opportunity for buyers from a price-quality ratio perspective.

There continues to be 2021 bulk Cabernet and 2022 Cabernet grapes available in the Valley, where the market has been slow on these items since earlier in the year; most activity has entailed small deals.

Indeed, large Cabernet buyers are not in evidence outside the premium appellations, and it is unclear as to why: perhaps buyers consciously chanced over-buying during the pantry-stocking boom, so as not to risk losing shelf space, and/or retail sales are pulling back and undershooting projections. In addition, in Lodi, Cabernet is the only major varietal to have been planted in the past 10 year and this, combined with the widespread conversion to high-efficiency vineyards, means supply is now plentiful and buyers feel no need to rush.

As consumer sales show, premium wines continue to outperform the rest of the market. Consequently, Cabernet from the high-end appellations is in demand, supply is tight and prices there are high, while Cabernet from outside those areas is selling slowly despite sometimes being considerably lower in price.

Cabernet Sauvignon Valley & Coastal (July 2021 - July 2022)



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