



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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Spring and the first days of summer in California's growing areas were cooler and wetter than average due to the jet stream's position further south than normal, a phenomenon ascribed to the El Niño effect. The middle of May brought significant rainfall to many parts of the state, especially the North Coast. As vine development is running an estimated 2-3 weeks behind in the Coast and northern Interior, the level of rain damage on bloom may in fact have been limited; the picture is as yet unclear.

In the northern Interior, wind has been persistent and shatter is evident even among less prone varieties such as Chardonnay. The southern Interior's vines were at a more advanced stage – fruit set – when the rain came, so the concern there is about disease pressure on the grapes. That said, bunch counts have looked high, so it is difficult to assess what scale of reduction shatter and potential disease pressure will have on the final harvest volume.

The temperatures for mid-June onward across the growing areas are forecasted to be average to above-average, so there is the potential for things to catch up. (Degree day accumulations are in fact ahead of where they were at this point last year, but the delay in vine growth meant that heat at the start of April was too early to be of benefit.) Also, given the high rainfall, soil moisture is ample so there will be a battle to keep canopy density under control when the warmer weather finally kicks in.

In short, the 2019 crop is running late, the picture on bloom is unclear, and there are many potential issues for growers to contend with. In the context of a very slow winegrape market, a delayed crop suffering some ill-effects from inclement conditions might potentially exacerbate buyer reluctance.

There are currently a whole host of opportunities for buyers seeking good quality Californian wines – Coastal or Interior – priced significantly lower than they have been in the past five years. Suppliers are open to negotiation. To get some idea of specific buying and selling opportunities on grapes and bulk wine, please see the grid below. For the most up-to-the-minute information, give us a call.

Robert Selby

Opportunities for Buyers	
Bulk Wine	Grapes
18 Chardonnay RRV	CS Napa Valley/Alex Valley/North and Central Coast
17 CS Sonoma County	PN RRV/Sonoma Coast
18 Zinfandel Lodi	CH Central Coast
17 CS Napa Valley	ZN Lodi/North Coast
17 CS Mendo/ Lake	
17 CS Paso Robles/CC	

Opportunities for Sellers	
Bulk Wine	Grapes
Non Vintage Red and Whites at \$.50 to 1.50 per gallon	Italian Varieties Sonoma County
	Merlot Napa County

The Bulk Wine & Grape Markets

Activity on California's bulk wine market remains minimal, significant inventory is available, and prices are at the lowest they have been in five years – and falling. As the 2019 harvest moves closer, we see more and more suppliers willing to move down on price in a bid to shift their wines and free-up some tank space. However, the fall in the market price can often outpace sellers' price reductions; it seems there are, anyway, few buyers out there for these price reductions to tempt.

The reality is that there will likely be a significant volume of wine that will not move before harvest. One argument to be made is that, with the harvest only two months' off, more bulk wine should be being sold into alternative industries to free-up important tank space and generate cashflow.

Pricing on Coastal and Central Valley wines is approaching parity, with the Coastal price sometimes lower. This had led some Coastal suppliers to market their wines to California buyers in order to drive more activity, but those Coastal sellers with higher costs can be left wondering how to compete.

As observed in the past 3-4 months, bulk wine market activity is being led by smaller négociants unencumbered by inventory of their own, seeking to meet private label programs for supermarkets and others. There has been some activity around small, higher-end grape deals, but most activity on grapes is the renegotiation of existing contracts or some re-signs from last year at prices more commensurate with the current market.

Domestic Uncompetitiveness

Last month we at Ciatti estimated that the Cabernet inventory we knew about had exceeded 8 million gallons by May, Chardonnay inventory was past 5 million gallons, Zinfandel was over 3.5 million gallons, and Pinot Noir was heading towards 3 million gallons. This build-up is due to a slowdown in wine sales growth at home and a fall in exports.

On the domestic front, Jon Moramarco, editor of the Gomberg-Fredrikson Report, recently told *WineBusiness.com* that US consumer spending on alcoholic beverages reached \$250 billion in 2018, up from \$140 billion in 2003, illustrating the premiumization trend. But wine is now priced at \$2.15 per five-ounce glass versus \$1.28 for a bottle of beer or \$0.93 per shot of spirit, putting it at competitive disadvantage when consumers rein-in their spending, something they have been gradually doing since 2017.

This, combined with the fluctuating but generally upward trend in wine imports observed in the past few years, highlights the price uncompetitiveness of Californian wine in its own market. Domestic bulk wine is being left in tank while wine is imported from abroad.

The recent tariff hikes imposed by China on US wine imports – as part of the ongoing 'trade war' between the two countries – has unsurprisingly impacted negatively on US wine sales to that market (they look to be down 50%). That said, total US wine exports to China – worth

\$80 million – are minuscule in relation to the total market for Californian wine alone, worth \$34 billion. As Ciatti is a global business with the ability to service suppliers from all countries and bring opportunities from around the world to local producers, China – and Asia in general – remains an important and growing market for us as a company. Check out this month's *Global Report* for more information about our new satellite office in Shanghai.



Team Ciatti China

Hot Opps Box

Bulk wine pricing is at its lowest in five years and trending downward, with some price parity between Coastal and Central Valley wines – with Coastal wines cheaper in some instances. Now is a great time for buyers to step into the market and secure the wine they need, either on spot or contract. There is the ability to buy or even contract out bulk wine for longer periods at more realistic pricing. More wines are being listed and coming onto the market each day and we have large amounts of very good quality bulk wines available. There continue to be particular opportunities on 2016, 2017 and 2018 Cabernet and other reds – including Pinot Noir – from premium markets in the North and Central Coasts.

It is also an opportune time to secure **2019 grapes** and beyond on multi-year, amenably-priced contracts. If you're thinking about buying grapes, or if you have grapes available for sale this year, **Molly at +1 415 630 2416 or molly@ciatti.com** to get listed.

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