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GLOBAL WINE & GRAPE BROKERS

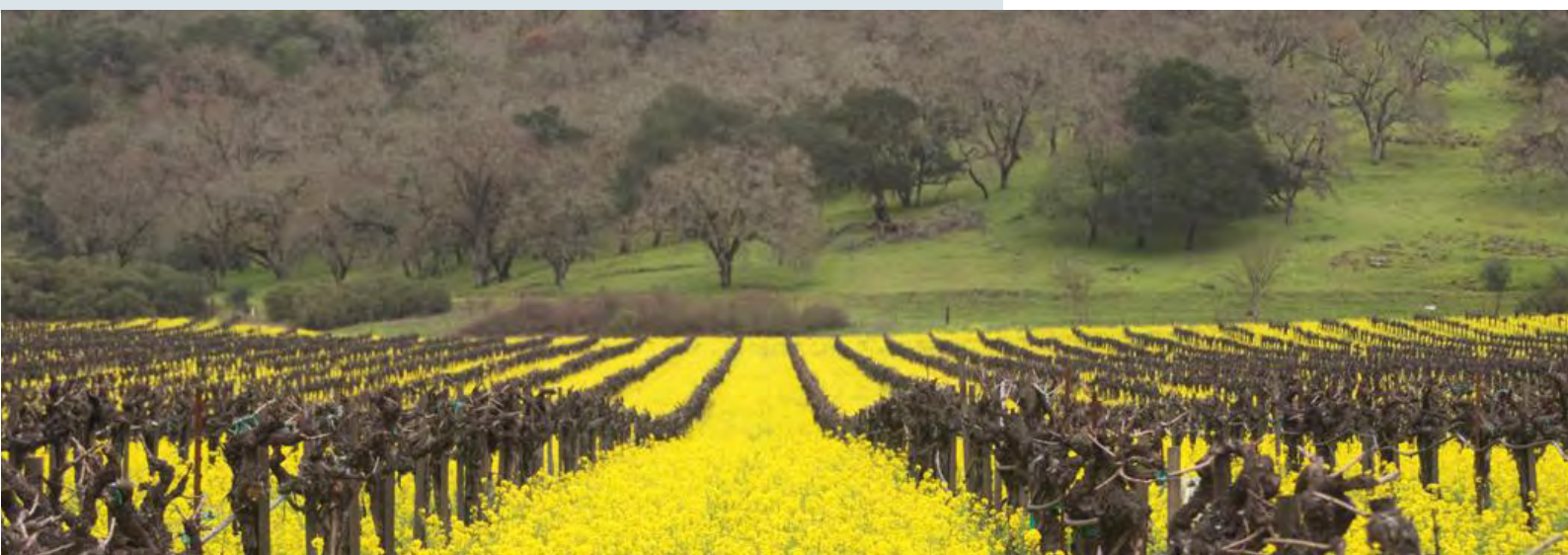


California Report

March 2022
Volume 5, Issue No. 3

**Ciatti Global Wine
& Grape Brokers**

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As the first quarter of 2022 draws to a close, California's bulk wine and grape markets are active, in some areas and on some varieties more active at this point than they have been for a few years. Last month's 2021 grape crush report confirmed, at 3.61 million tons, a second-successive short crop, while the ongoing dry winter in California is raising the prospect of a third. Set against this, wine sales at US retail continue to fall back as pandemic pantry-stocking recedes into the past and inflationary pressure is going to be felt by all businesses and individuals this year.

The crush report revealed a state-wide average tonnage price of \$884/ton in 2021, well up from 2020's \$680/ton. But from an historical perspective the 2020 price was anomalous, as smoke exposure concerns led to downward adjustments. The 2021 price of \$884/ton could be said to mark a return to normal pricing, in line with 2019's \$827/ton and 2018's \$856/ton, and was a product of three factors: Reduced wine supply from the 2020 vintage and smoke exposure perceptions around it; a spike in retail demand lasting for at least 15 months from March 2020 onwards; the expectation of another shorter crop in 2021 (which ultimately proved correct).

Crucially, only one of these three factors was down to consumer demand, and even that was a temporary spike triggered by a pandemic, a – hopefully – once-a-century phenomenon. We are now seeing 2021 bulk wines being put back onto the Central Valley's market, indicative of sales projections being revised downward post-spike, as wineries – seeking to cover rising input costs – increase shelf prices amid the wider inflationary environment. The portents for consumer confidence this year are not good: the US 12-month inflation rate reached 7.5% in January, the highest since 1982, and the prospect of it falling back quickly has been diminished by the outbreak of the Ukraine-Russia conflict. Furthermore, the crush report showed that 2021 marked the fifth year in a row in which grape volumes from the southern San Joaquin Valley declined – the lack of water is partly responsible but vines have been also removed. The Californian wine industry has a profitability problem in some growing areas and a sales problem both in the short term (a tough 2022 ahead, economically) and long term (the average US wine drinker is growing older). We continue to feel that if the last three crops had been more average-sized the bulk wine and grape markets would not be in the – relatively – balanced position they are today. Even with that relative balance, we are seeing a few Lodi growers replacing their vines with almonds.

Meanwhile, the crush report showed the Central Coast and Lodi having good-sized grape crops, the latter gaining over 100,000 tons versus 2020, partially attributable not to new plantings but conversions to high-efficiency quad or double canopy vineyards. Such efficiencies are likely to be one of the ways wine grape-growing in California can be made more sustainable for the longer term.

The next three quarters at least are going to be challenging but, as always, opportunities will develop. Ciatti can draw on its decades of experience to help you find and harness them – don't hesitate to get in touch. Read on for more information on the bulk wine and grape markets, and stay safe

Robert Selby

Vineyard Update

California continues to experience drought conditions, with rainfall minimal since December. Sierra Nevada snowpack levels were at 66% of the average as of March 1st. The state is forecast to receive average to below-average precipitation over the spring months. Water regulatory pressure is consequently being stepped up and some Central Valley water allocations could be zero. As well as potentially hurting vineyard development, especially later in the season, the dryness brings with it a greater threat of frost damage to young shoots. Watering to minimise the impact of any frost will, of course, take a toll on the already limited water supplies.

Early budbreak in some areas combined with recent intermittent frosty conditions – some overnight temperatures in the low 20s (°F) in the North Coast, three or four cold nights in the Interior – have played into these frost concerns, but so far frost remains a potential threat rather than a manifest one. Wineries that typically might have extra grapes for sale – especially if prices are good – are not currently offering any fruit, indicative of a wait-and-see on the vineyard situation over the next month or two.

The Grape Market

The grape market continued to be active through February into March, with concerns regarding the 2022 crop potential perhaps helping persuade buyers to come off the fence and jump into the market, especially those who source in high-demand areas such as Napa and Sonoma. In these two areas especially, many grapes are hard to find and buyers – sensing that if they do not buy now they may not get what they need later – are prepared to meet grower pricing expectations. The relative shortness of Napa and Sonoma 2022 grape supply is leading to inquiries regarding 2022 bulk wine contracts.

Outside these high-demand areas, for example in Lake, Mendocino and parts of the Central Coast, activity has been occurring at a slower, albeit steady rate. There are more inquiries coming in from buyers of Central Coast fruit than this stage last year, but impeding deals is the disconnect that still exists between grower and buyer price expectations – and in some cases the disconnect is getting bigger. Buyers in these areas are more likely than in Napa or Sonoma still to be waiting on more news of the crop potential as winter turns to spring before committing. Ultimately, some buyers who feel able may switch to the California appellation if there are significant price differences.

Coastal grape pricing is up versus last year and growers are largely bullish, fortified by inflationary pressure and, again, suspicions that 2022 could deliver a third-successive short crop.

Not a lot of 2022 grapes remain available for sale in the Central Valley following strong early demand, particularly for southern Valley Chardonnay, white blenders such as Colombard and Chenin Blanc, and Muscat. Lodi's Chardonnay and Zinfandel have been receiving good demand, in Zinfandel's case a reflection of its growing scarcity as ageing vines get pulled out and not replaced. Pull-outs also explain the white blender and Muscat pressure in the southern Valley: the encroachment of almond-growing on these acres is ultimately increasing the need for bulk wine imports, South Africa being the leading offshore source for generic whites and florals over the past year or so.

Relatedly, California's white grape juice concentrate supply – standard, organic or floral – is short, growing shorter, and contracting for 2022 GJC is proving difficult. The shortness of entry-level generic and floral white wines in California and the high prices for them are likely to incentivize wine production over GJC output from the 2022 vintage, squeezing GJC supply further.

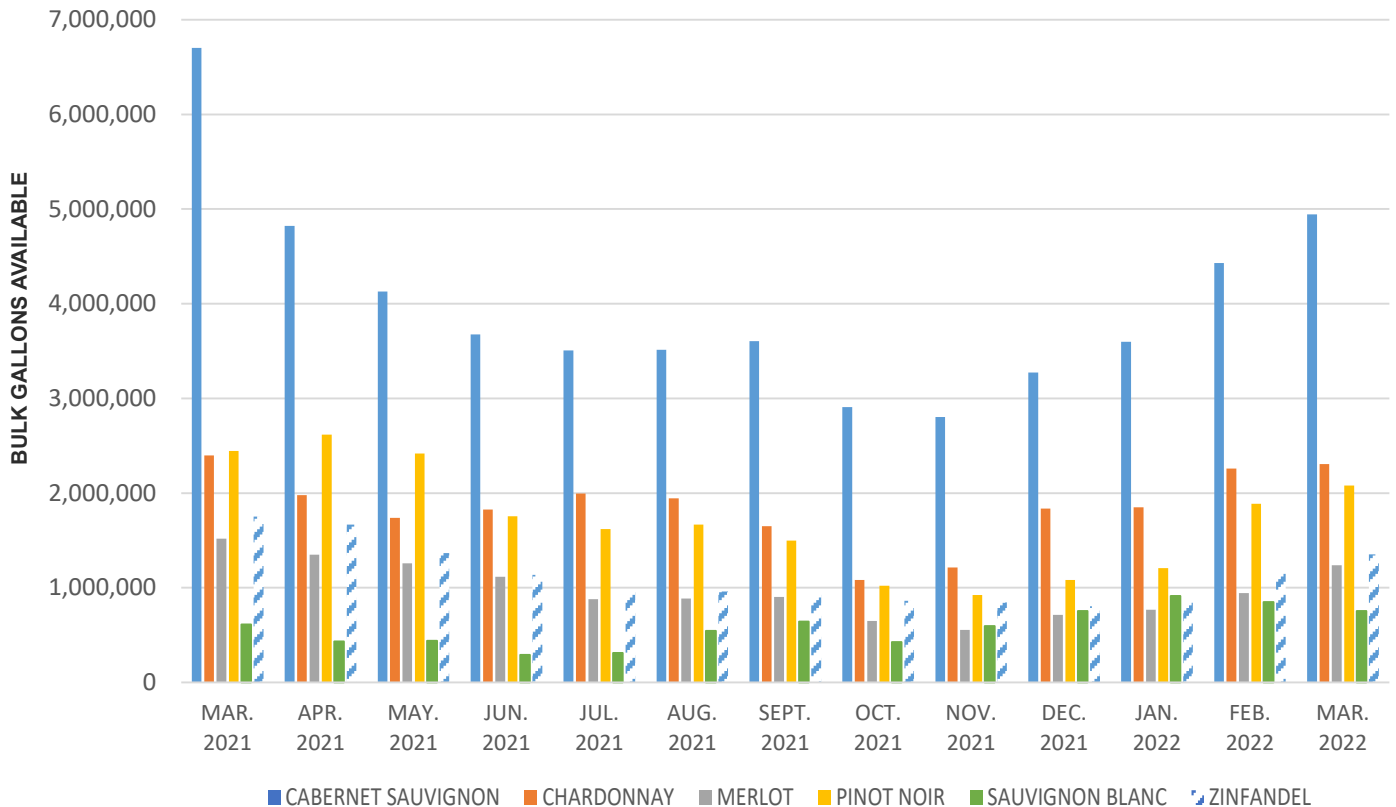
Any Valley grapes that are still left unsold is likely due to the grower being in dialogue with multiple prospective buyers, or speculating that prices will rise, or – especially in Lodi – holding out for any buyers that normally source in the Coast seeking to buy Valley grapes at a premium. There is back and forth on pricing in the Valley, as there is in the Coast. Buyers

are reluctant to move up on price as COVID-19 pantry-stocking recedes into the past and retail sales pull back, a sales decline that may become accentuated by inflationary pressure on consumers as the year wears on. Growers, meanwhile, cite robust grape demand,

higher input costs, and intimations of another short crop in 2022, as justifications for their prices.

Please update us on the grapes you will have for sale for 2022 by contacting Molly at +1 415 630 2416 or molly@ciatti.com.

California Bulk Wine Inventory Inventory (March. 2021 - March. 2022)



The Bulk Market

active, though mainly consisting of small purchases – perhaps a truckload or two. Prospective buyers have tried to put downward pressure on prices as retail sales return to pre-pandemic levels. The Valley’s Chardonnay, as well as its Zinfandel and generic whites which have reduced in acreage over the years, have all experienced good demand.

As ever, the bulk wine market mirrors the grape market and vice versa: Over the past four weeks we have seen increased activity on 2020 and 2021 bulk wines, especially in Napa and Sonoma. The whites seem very hard to find – especially Sauvignon Blanc – and activity levels on the reds have been good.

Pricing on the 2021 wines in Napa and Sonoma has strengthened, while most of the 2020 inventory has now been sold, in some cases also at strong pricing. We wonder if buyers struggling to ascertain long-term sales projections in the post-pandemic inflationary environment are attracted to the shorter bottling window of 2020 reds, which enables those wines to more easily meet near-term sales projections than their 2021 counterparts. Buyers are understandably deeply wary of ending up oversupplied with wine bought at a high price.

The Lake and Mendocino bulk markets are slower than Napa and Sonoma's, but still active. Volumes remain of Lake and Mendocino 2020 Cabernet and Mendocino 2020 Chardonnay. The Central Coast's bulk market is, in turn, quieter than the North Coast's: Paso Robles Cabernet is hard to find, Chardonnay activity levels are good, but Pinot Noir demand seems muted.

The Central Valley's bulk market has been the slowest of all in recent months, and in the past 2-3 weeks significant volumes of every main varietal have been put back on the market. Consequently, bulk pricing is sometimes negotiable and good buying opportunities have opened up. As a result, the number of deals has picked up a little in recent weeks – especially on Cabernet and Zinfandel – though they tend to be for smaller volumes than last year. Pinot Grigio is receiving good interest; Chardonnay activity is quieter.

Just as some Lodi and northern Valley grape suppliers may be holding out for Coastal buyers to come in and pay a premium, it may be the case that bulk wine

suppliers in these areas may be holding out for Coastal buyers to pay a premium for bulk. This may or may not play out, and in fact we have seen some buyers choose to source more expensive supply from the North Coast instead, in order to move up in price on the retail shelf and attempt to garner more margin that way, staying clear of the sales contraction in the sub-\$12/bottle categories. This route may only be possible for those buyers with market power behind them, but it is yet another sign that retail sales numbers are especially in retreat at the value end, a part of the market where increasingly only the major brands with nationwide distribution can operate on the slim margins involved.

If you have wine to sell, please get your samples into us as we have buyers requiring wines. This especially applies to 2021 wines. Contact either Mark at +1 415 630 2548 / mark@ciatti.com or Michael at +1 415 630 2541 / michael@ciatti.com to get your wine listed with us.



Structan

A Smoke Taint Solution



Our climate has been changing for centuries. That pace of change is now increasing dramatically and impacting the wine industry. Vines are now being replanted across the south of England and indeed even further north. This has not happened since Roman times.

Persistent drought in traditional European growing areas has led to further grower challenges. Continually reduced rainfall in Bordeaux is leading to concerns around restrictions on growers irrigating their vines. It has been estimated that nearly one trillion dollars of residential real estate in California has become uninsurable due to now annual fires. It is not only property that has been affected but also wine grape growers and winemakers.

Winemakers from Australia to California to South Africa have been affected by wildfires that have become endemic rather than occasional. The impact on harvests and 'smoke taint' on many wines has become considerable and ever more difficult to insure against.

The antioxidant and structural properties of oak extracts are now being harnessed to help reduce the effects of smoke taint. There are many partial solutions to smoke taint in the market. However, none of them on their own effectively treat or recover the wine to an acceptable level.

Over the last three years the Stoak Technologies team has been working with vineyards and oenologists on three continents to formulate an integrated smoke taint management strategy. Used in conjunction with other removal strategies and processes, the natural Structan Red Wine and White Wine products can dramatically reduce the carry-through of undesirable aromas and flavours in a finished wine.

The Stoak Technologies team has produced an updated White Paper on this approach. It includes findings from extensive research into Structan's viability carried out by the Department of Viticulture and Oenology at the University of Stellenbosch. The paper is available by emailing Andrew Planting on andrew.planting@stoaktechnologies.com.



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