



**CIATTI**  
GLOBAL WINE & GRAPE BROKERS



# *California Report*

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**Ciatti Global Wine  
& Grape Brokers**

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The weather in California's growing areas has in general been good and the frost risk has now passed. Things may be running a little later than normal, at least in parts of the North Coast, due to some rain and cooler temperatures at the beginning of the spring season. Cluster counts appear okay and there seems to be the potential for a crop at least average in size, but it's too early yet to make confident predictions as to the outcome.

Market activity in California remains subdued with a few exceptions across the premium areas of the state. Small deals are being made at the ask price: with asking prices high, inventory large, and retail sales disappointing, buyers are not going to buy big. Moving forward, the market may not be able to bear the expensive cost base built into the wines. As mentioned in last month's report, sellers need to ensure their price expectations are where the market is now, not where it was when they purchased the grapes: think twice about rejecting bona fide offers that in the current market seem fair. That said, because of significant inventory and slow retail sales, suppliers may not necessarily drive interest in their wines simply by reducing prices.

Coastal sellers need to be amenable on price or they risk losing ground to the 'California' appellation in the Lodi/north Valley for good. On the North Coast, in Napa Valley, there has been buyer interest in Chardonnay and Cabernet, and there have been some deals made on Cabernet, in general at prices not as high as the sellers hoped for. This can be said about the premium areas in general: there is some buyer interest only at lower prices than is being offered. Activity in the North Coast outside Napa has been marginal, except perhaps in the Russian River area of Sonoma.

The Central Coast is seeing Sauvignon Blanc grape activity, with minor activity on other varietes. Some product – including Cabernet – has been sold to Napa and Sonoma wineries expanding their sourcing into the Central Coast to lower their cost of goods. Over in Lodi, meanwhile, there has been interest in Cabernet, Chardonnay and Sauvignon Blanc grapes, but deals are not necessarily being consummated, or if they are, they are extensions of existing contracts.

California's bulk wine inventory is significant, at close to 24 million gallons as of April 2018. This stock could potentially clog-up wineries for crushing, with the harvest roving into view. In the past this wine could have been funnelled into generic programs but, with these programs less thirsty, the food, alcohol or brandy sectors could be a better bet.

*Robert Selby*

# Acreage

The CDFA's acreage report for 2017 was published in April and shows wine grape acreage in the state at an estimated 599,000 acres, down 0.5% from 602,000 in

2016 (itself down from 608,000 in 2015). Of the total, an estimated 39,000 acres were non-bearing – the majority of that red. Cabernet's non-bearing acres (6,642 acres) represented approximately 50% of the state's non-bearing red wine grape acreage (13,323 acres), with Pinot Noir's non-bearing acres representing the next biggest (at 2,337 acres). Total Cabernet

acreage was estimated at 91,834 acres, double that of the next most planted red, Pinot Noir, and up from 71,648 acres in 2009. (See below for more on Cabernet.) On the whites, Chardonnay had the largest non-bearing acreage at 2,408 acres, ahead of Pinot Gris with 2,284 acres. Sauvignon Blanc's non-bearing acreage was 852 acres.

## Cabernet Sauvignon

Cabernet inventory has built up to varying extents across the state – in the Coastal appellations, the premium areas of the 'California' appellation, and in the Central Valley – as supply is growing faster than the rate of demand. Cabernet has had two successive record harvests and, as mentioned above, leads the way in terms of non-bearing acreage waiting to come on-line: 6,642 acres out of a total non-bearing acreage in California of 39,000 acres.

even though more capacity has been added, caused by building California bulk inventory, and with inventory taking longer to move sellers may start feeling cash flow pressure. Cabernet from the 2015 vintage and before, and potentially even 2016, could struggle to find a home and it possible that some wineries may choose to use it internally, in their own blends, to limit their losses, in turn impacting on demand for 2018 Cabernet.

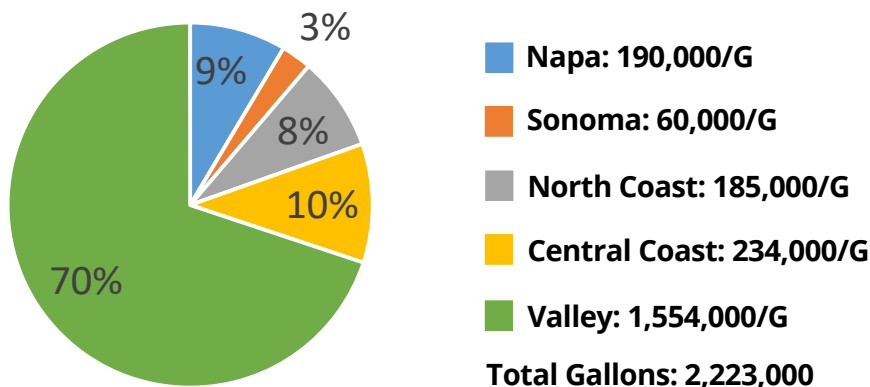
However, bulk wine operations without their own brands, and growers who've speculated, may have to take a lower than expected price to move their inventory.

Barring a nightmare growing period, there's too many new Cabernet acres coming on-line not to have another big Cabernet harvest in 2018. The category is still growing, but the rate of demand has fallen behind supply.

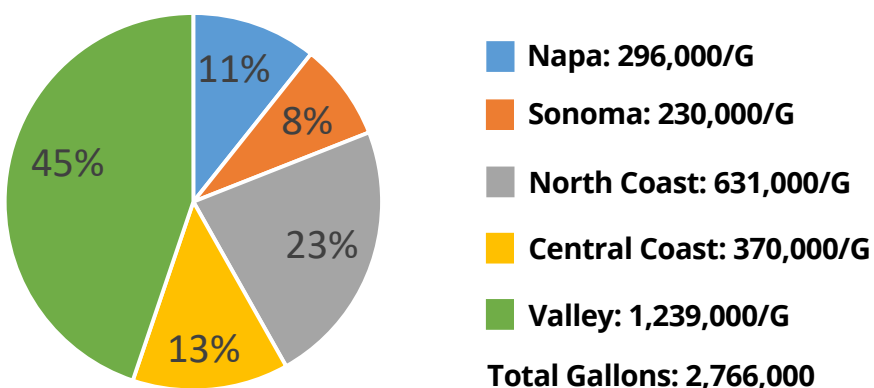
The North Coast's (Napa, Sonoma, Mendocino, Lake County) share of the state's total Cabernet Bulk Inventory currently available increased from 20% for the 2016 vintage to 42% for the 2017 vintage (see charts to the right). There's a lot of Napa Cabernet out there: 500,000 gallons of 2016 and 2017 product alone (against a California state total of 5.1 million gallons). Sales are coming only in small increments as buyers potentially wait for a price softening. That said, price is not the only factor in buyer disinterest and price reductions may not necessarily attract them back.

The Cabernet market has thus slowed back to a normal timing, historically speaking, when sales were not made until the next vintage was approaching. Storage feels tight

### 2016 Cabernet Sauvignon Bulk Wine Inventory



### 2017 Cabernet Sauvignon Bulk Wine Inventory





# Pinot Noir

The Pinot Noir market is stable and healthy across the state, even given a substantial crop in 2017, up 3.3% on the previous year to 262,590 tons. Bulk and grape demand on Pinot Noir in the North and Central coasts continues to be strong, especially in premium areas such as Russian River Valley. There is also activity in the Lodi/Delta area, on the better quality 'California' product. The varietal's bearing acreage was at an estimated 42,967 acres in 2017, with 2,337 waiting to come on-line – likely mostly contracted, not speculative. Pinot Noir feels balanced with acres generally in line with demand.

Pinot Noir	\$/Gal
	2017v
Sonoma	\$26 - \$32
Napa	\$22 - \$27
North Coast	\$13 - \$16
Central Coast	\$16 - \$21
Central Valley	\$7.50 - \$9

# Zinfandel

Zinfandel that retails at \$8-16/bottle, from the Coast and Lodi, continues to struggle. Some of the big buyers have backed-off grape purchases. Zinfandel has not grown much over the past eight years or so as a red varietal and it is not automatically finding its way into red blends which is now a fairly mature category. Also, there's hesitation about using it in rosé blends as there's a fear of being categorized or compared with White Zinfandel. As such, although inventory is not huge and the 2017 harvest was down 12.6% on the prior year's, the market is not tight. Finally, some of the older, lower-yielding but higher-quality Zinfandel vines have been removed, replaced with more efficient new vines and more times than not a different varietal. The 2017 total acreage was 43,210 acres, down from 44,446 a year earlier.

## Hot Opps Box

There are opportunities to be had on Coastal reds in premium appellations, a lot of it Cabernet from Napa, Sonoma and other Coastal appellations. There is also some Zinfandel in these areas. There is an opportunity for buyers to come into these areas and buy wines to build and grow new programs, though the congested distribution environment, with distribution and retail consolidation, is a dampener. Sellers should think twice about rejecting bona fide offers that in the current market seem fair, particularly on older wines.

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