



CIATTI
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**Ciatti Global Wine
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The California Department of Food & Agriculture's delayed 2018 Grape Crush Report was finally published on April 10th and showed a winegrape harvest of 4.282 million tons. This was not quite as big as expected but still a record, exceeding 2013's 4.245 million tons. Its size will only exacerbate the slowness of the state's winegrape and bulk wine markets. For a deeper dive, turn to page 2.

Vine development for the 2019 growing season is running approximately 10 days behind throughout the state. Cooler than average spring temperatures delayed bud-break, while bloom is just getting underway and may be prolonged due to the coolness, raising concerns for fruit set. The picture on this will be clearer by our June report. The coastal areas have been experiencing temperatures in the high 60°Fs with late-breaking morning fog; temperatures in the Central Valley have been closer to normal, though it has been a little windy. All that said, at the time of writing we see the potential out there for a very healthy 2019 crop.

Continuing what we have seen in the past 2-3 months, bulk wine market activity is being spearheaded by smaller négociants – unencumbered by inventory of their own – seeking to meet private label programs for supermarkets and others. (The larger, established wineries have inventory and are sellers rather than buyers.) Most activity is on 2017 reds, with a little activity on 2018 whites and – in the Central Valley – 2018 reds too. The small négociants are being attracted by increasingly realistic pricing as the realisation grows among bulk wine suppliers that inventory is significant and tank space is at a premium as next vintage comes into view. It is our opinion that the ongoing low level of bulk activity raises serious doubts that every winery that thinks it will be able to sell its wine by July in order to free-up tank space will be able to do so.

Similarly, the ongoing quietness of the grape market – currently even quieter than the bulk wine market – raises the prospect that not all growers with 2019 grapes still uncontracted will be able to find homes for those grapes. The hesitancy shown by grape buyers has likely been compounded by the delay in the publishing of the 2018 crush report and the current uncertainty regarding the 2019 harvest. Most activity occurring on the grape market is the renegotiation of existing contracts or some re-signs from last year: we have surveyed grape buyers in a few selected areas and found more than 70% responding that they are seeking to adjust or cancel supply contracts, with nearly 50% looking to renegotiate price.

Ciatti's Glenn Proctor presented an in-depth update on California's grape and bulk wine markets – titled 'Change is here: a new market reality?' – at the 24th Annual Vineyard Economics Symposium in Napa on May 8th. To read Glenn's presentation online, [click here](#).

See next page for more.

The latest Gomberg-Fredrikson Report shows shipments this January of California still wines to the US market were up 3.0 million cases on January 2018, an increase of 14%. California's bulk wine exports were flat and have generally been outperforming bottled (which were down 10% in January) as bottling is

increasingly occurring in the country of sale, especially the UK. We of course need to see how the data develops over a longer period of time to draw any definitive conclusions on whether there is a genuine, sustained increase in export sales.

Robert Selby

2018 Harvest

California's 2018 winegrape crop came in at a record 4.282 million tons, some 6.6% up on 2017's 4.015 million tons and marginally up on the previous record of 4.246 million tons set in 2013. It ought to be remembered that 2013's large crop size was at the time welcome as it followed a short 2011 vintage, but 2018's record occurs as inventory is building and the bulk wine and grape markets are sluggish due to slowing case good sales.

The final 2018 crop figure was shy of the 4.4 million tons we forecasted earlier this year, primarily because the southern Interior's harvest came in smaller than expected, mainly due to some intense heat spells. The northern Interior, meanwhile, came in as expected. This pattern was reflected in the Central Coast, where the harvest in the southern part of the region was not huge, but the northern areas saw big yields.

Glenn Proctor summarises it: "We came in definitely less than the 4.4 million tons we thought possible, but the challenge is where some of the big tonnages are coming from. Napa and Sonoma, for example, were both up around 30% on 2017 in terms of total tons, so we've got volume in certain areas and that's putting pressure on the market."

Across the state, the average price per ton of winegrapes was up 7% from \$824 in 2017 to \$882 in 2018, mainly due to price escalators built into grape contracts. However, some varieties in some Coastal areas registered a price downtick after a number of years of increases, perhaps indicative of additional uncontracted fruit – due to the large harvest – finding its way onto the spot market where prices are lower than they are on contract. It is likely the disparity between the state's average tonnage price and the spot market's tonnage price will increase moving forward.

By Varietal

The big harvest coming especially in the North Coast, the northern Central Coast and Lodi was reflected in the respective yields of the varieties: **Pinot Noir** was up 19% on 2017 to a state record 313,824 tons, while **Cabernet** was up 13% to a state record 680,308 tons. Sonoma, Mendocino, Monterey, Lodi, Clarksburg and San Luis Obispo/Santa Barbara all produced record Pinot Noir crops. It was a record for Cabernet yields, meanwhile, in Sonoma, Napa, Mendocino, Lake County and Santa Luis Obispo/Santa Barbara.

These two varieties account for a lot of the new acres that have gone into the ground on the Coast in the past few years, encouraged by big demand for high-end Cabernet and Pinot Noir. As by now well chronicled, this demand has slowed, leaving plenty of bulk Cabernet and Pinot Noir available to buy – see our inventory update below. With buyers increasingly giving notice

on grape contracts in order to achieve better supply/price flexibility, the spot market for Cabernet grapes in particular will see some downward price pressure moving forward.

The state's average price for Cabernet rose again, by 9.6% from \$1,572/ton in 2017 to \$1,724/ton in 2018, reflective of the price escalators in grape contracts. The state's average Pinot Noir price actually fell slightly, by 3% to \$1,879/ton, potentially reflective of additional uncontracted fruit in some areas that went for a lower price on the spot market.

As there is another wave of Cabernet and Pinot Noir acres coming on-line – mainly in the Coast – it can be expected that their yields will rise again in 2019, with Cabernet's yields potentially surpassing those of **Chardonnay** statewide.

See next page for more.

The Chardonnay market felt more balanced than the Cabernet market going into the 2018 crop, with the varietal's 2017 yield not massive and demand good. The 2018 yield was up 16% on 2017 to 711,668 tons – and Chardonnay inventory is building (see below) – but there is more confidence that it will work its way steadily through the supply chain than there is on Cabernet, for example. Chardonnay pricing crept up, by 2.3% to \$1,001/ton. Total Chardonnay acres have in fact fallen.

Compared to Cabernet's and Pinot Noir's rapid production growth, **Merlot** yield was essentially flat at 258,942, while its price was also approximately in line with 2017 at \$815/ton. Merlot's market is balanced, with demand declining and acreage adjusting to reflect that fact: the varietal's growing area is down 7-8,000 acres since 2009.

By Area

The harvest in the **North Coast** was large across Sonoma (District 3: +33.3% to 275,977 tons), Napa (District 4: +29.5% to 184,573 tons) and Mendocino (District 1: +15.7% to 81,888 tons), but slightly down in Lake County (District 2: -3% to 46,426 tons).

Chardonnay led the volume rise across the North Coast, bouncing back strongly from an indifferent 2017 with yields up 44% in Sonoma and Napa, 15% in Mendocino and 18% in Lake. Cabernet was up everywhere too, including by 31% and 34% in Sonoma and Napa respectively. Pinot Noir's performance was more mixed, with volumes up 28% in Napa and 12.5% in Mendocino, but down 33% in Sonoma and 8% in Lake County.

The average Napa Cabernet price was \$7,853/ton, up 5.3% from \$7,455/ton in 2017, while the Sonoma Cabernet price increased only 0.8%, from \$3,027/ton to \$3,050/ton. The Cabernet price was up 1.9% in Mendocino (to \$2,255/ton) but down 5.3% in Lake County (to \$2,228/ton). The average price per ton of Pinot Noir fell in Sonoma (-2.4% to \$3,795), Napa (-4.3% to \$2,658) and Mendocino (-8.1% to \$2,908) to varying extents. Some of these areas have long been seeing pretty steady price rises year-after-year, so the more mixed picture this time suggests a less healthy supply-demand dynamic.

The **Central Coast**, meanwhile, had a relatively average-sized crop, producing 578,453 tons – well short of the region's record of 593,000 tons. Total yield in Monterey (District 7) was up 5.9% on 2017, led by Chardonnay (+10% to 112,316 tons) and Pinot Noir (+23% to 72,461 tons). Pricing on both these varietals in Monterey was down by 2.9%

and 4.8% respectively after several years of increases. Pricing on Merlot, meanwhile, was down nearly 20%, from \$1,070/ton to \$867/ton.

Total tonnage in San Luis Obispo/Santa Barbara (District 8) was up 5% to 245,512 tons. Paso Robles Cabernet Sauvignon increased 13% to 90,500 tons. Pricing showed two different pictures: while district average was \$1,489 per ton, digging deeper shows 8,000 tons that were purchased at or under \$400/ton. These grapes were surplus to the traditional buyers and demonstrate excesses mainly due to Mother Nature, along with vast new acreage now on line.

The **Interior's** crush was up 4% on 2017 at 3,085,508 tons, with double-digit increases in yield in Lodi (District 11: +14% to 850,687 tons) and Clarksburg (District 17: +18.5% to 187,625 tons) offsetting falls in the southern Valley areas of Bakersfield (District 14: -3%, dragged down by a 20% fall in Chardonnay yield) and Madera/Fresno (District 13: -1%, where Chardonnay yield was up 7%). Total yield in Modesto (District 12) was in line, with Chardonnay tonnage up 16%.

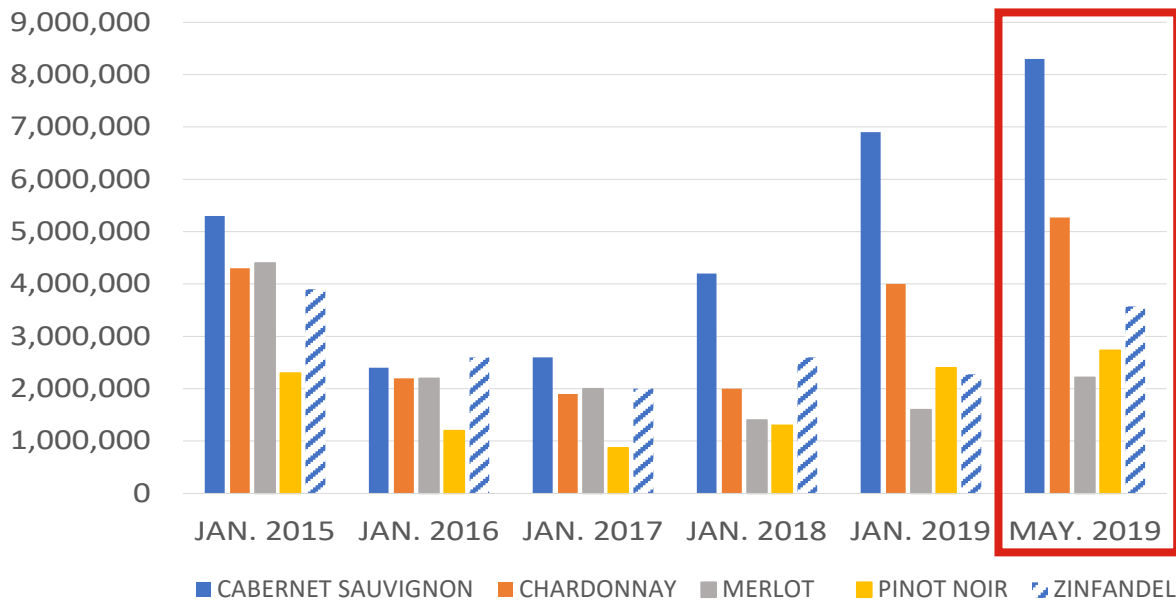
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Ciatti California Bulk Wine Inventory



Our latest estimate of the state’s Cabernet inventory has now exceeded 8 million gallons, with Chardonnay inventory pushing past 5 million gallons. As you can see, this time we are not comparing like-for-like in terms of month of the year, and these are snapshots of a moment in time: inventory figures change regularly, so they should be used with caution. But the graph is indicative of the amount of inventory that is out there – and could be just the tip of the iceberg. With this in mind, bulk wine suppliers needing to make tank space ahead of the 2019 harvest are advised to consider first offers carefully and bear in mind that – moving forward – storage space can be more valuable to their business than the wine that’s in it. As relayed on page one, it will be very difficult for every winery to sell its bulk wine before the 2019 harvest.

Hot Opps Box

Bulk wine pricing in some areas on some varietals is trending downward and this is likely to continue in the months leading up to 2019 vintage as suppliers seek to make tank space: now is a good 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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