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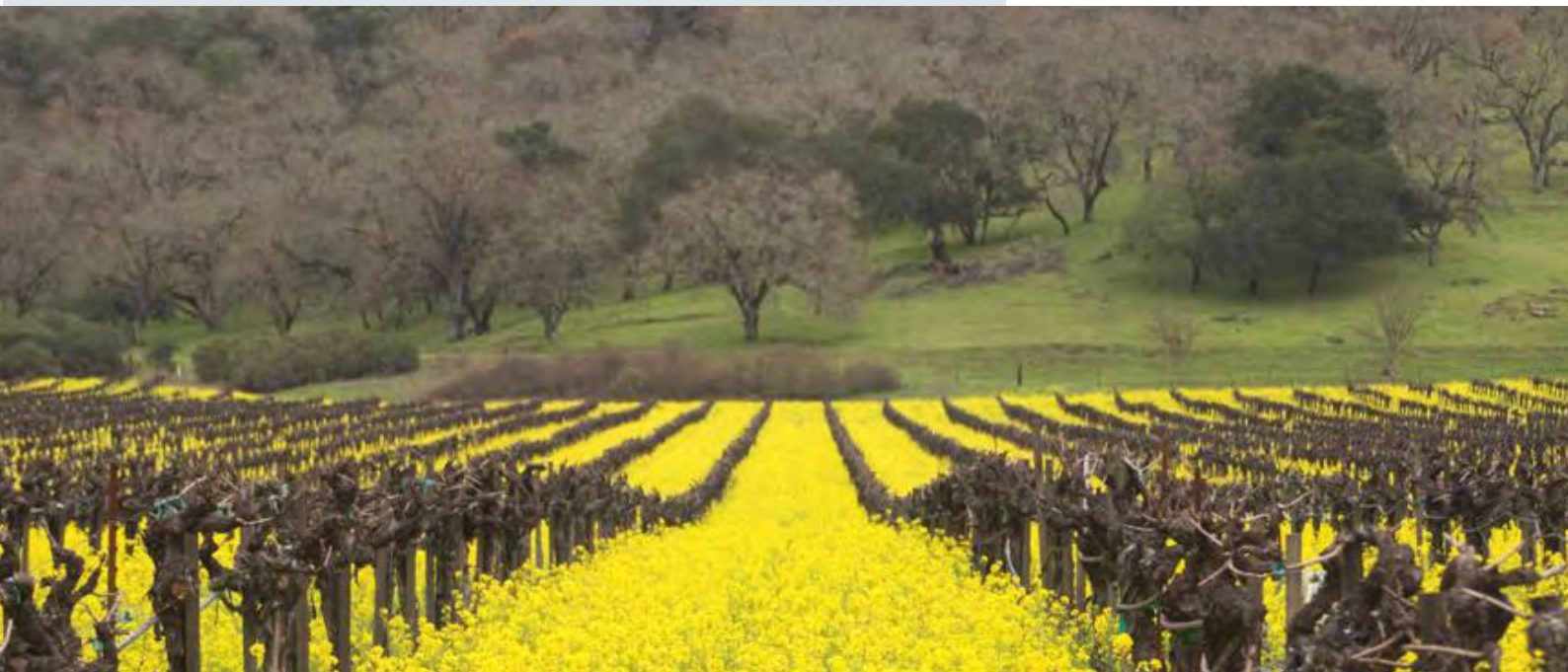
California Report

November 2019

Volume 2, Issue No. 11

**Ciatti Global Wine
& Grape Brokers**

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Our thoughts are with all those affected by the recent fires in Sonoma County. Dry, warm conditions coupled with some extreme wind events caused the Kincade Fire that grew quickly on 28th October to cover over 80,000 acres. The agricultural damage was mainly restricted to Sonoma County's Alexander Valley region. First responders did a tremendous job in limiting damage, many buildings were saved and – most importantly – no lives were lost.

It is believed that approximately 95% of wine grapes in all of Sonoma County were picked by the time of the fires, though we have heard reports of some wineries rejecting some of the remaining fruit and citing smoke exposure issues for doing so. In fact, the bigger problems were the evacuation orders and the sporadic and/or prolonged power outages – for up to 5-7 days in some cases – in parts of Sonoma County and other areas of the Coast, which caused issues for wineries amid crushing and fermenting. Many were prepared with generators and back-up crushing facilities, however, so that – on the whole it seems – the power outage issues were generally overcome.

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California's 2019 harvest is drawing to a close and, thanks to dry and warm fall days, picking and then crushing at wineries has run smoothly, notwithstanding the power outages caused by the fires in Sonoma County. October did bring a couple of early frost episodes to the Coast, but considering much of the harvest was already in, they did not cause major headaches.

The state's total winegrape yield this year should end up close to the average. The perception is that a production uptick in the Central Valley this year versus last will help offset a decline in the Coast this time. All in all, it feels different from last year, when many areas of the state were producing historically high yields. The quality of the 2019 crop has been good in all areas.

The final harvest size will also depend on how much uncontracted fruit was left on the vine given the slow grape and bulk wine markets and the lack of any late-season grape buyers. It could be the most fruit left on the vine since the early 2000s, at least in the Coast. We did see some grape buying activity in certain premium areas where the winery needed additional fruit, but this was off the open market, between them and their existing growers. Given that many wineries gave notice on grower contracts to balance their inventory from the 2018 harvest, we believe they will have to come back into the market for grapes at some point in order to maintain flat supply needs if nothing else.

The bulk market continues to be slow, and we have entered a traditionally quiet period anyway as the harvest winds down, winemaking moves into full swing and approval tastings of contracted wines are carried out. We do expect to see some renewed activity as wineries and buyers in general gain an idea of their crush volumes, calculate their future sales projections and return to the market

See next page for more.

to cover their needs. There are some strategic buyers on the market investigating if they can source Coastal wines for their California programs at Interior pricing. A lot of the activity we are seeing is tied to retailers requiring wine for their private label brands; wineries and other suppliers are vying to capture those deals.

We do know of buyers who decided not to buy grapes so that they could then buy wine on the bulk market, so we expect to see some activity on the new 2019 bulk wines as we move forward – though it may take some time for buyers to work through their existing 2018 inventory.

Robert Selby

| Opportunities for Buyers |
|-----------------------------------|
| Bulk Wine |
| 18 Chardonnay Mendo/Sonoma |
| 18 Cabernet Sauvignon Sonoma |
| 18 Cabernet Sauvignon Napa Valley |
| 17/18 Cabernet Sauvignon Paso |

| Opportunities for Sellers |
|---|
| Bulk Wine |
| Non Vintage Red and Whites at \$.50 to 1.50 per gallon |
| 19 Chardonnay, Sauvignon Blanc, Pinot Gris (Send in Samples) |
| Oregon Pinot Noir |

***Please make sure we have fresh samples of all wines you have for sale**

North Coast

October brought two significant frost episodes to the North Coast: to Mendocino at the start of the month, then to other areas such as Sonoma and Napa 2-3 weeks later. Some canopies lost leaves or crisped-up. The frost episode in Mendocino was arguably more damaging because it occurred earlier, but in both cases most of the grapes had already been picked so the problem was not significant.

The North Coast harvest came into wineries smoothly, notwithstanding the power outages and ordered evacuations triggered by the fires in Sonoma County.

The impact of the outages – some lasting as long as 5-7 days – was at least partially mitigated by winery preparedness, many having invested in generators and/or arranged back-up crushing facilities. As wineries were not making late-season grape deals, they had enough crush capacity to steadily work through what they had contracted.

The 2019 harvest in the North Coast should be close to average – certainly down in size from 2018’s bumper crop, especially considering a certain amount of fruit will be left out on the vine.

Central Coast

The Central Coast’s harvest came in smoothly and there were few if any problems with congestion or capacity at wineries, notwithstanding the power outages caused by the fires up in Sonoma County.

The region’s 2019 production will be down in size on the prior year’s bumper crop but it will still be good-sized. Some fruit will get left on the vine, especially Chardonnay, Pinot Noir and – most especially in the

Paso Robles area – Cabernet. As across the whole state, quality looks good.

Weather conditions in the Central Coast were very good through harvest, though, as in the North Coast, the region did receive pockets of early frost which dried or crisped-up leaves on some vines and led to ‘rose taint’ on some later season red grapes. For some wineries this was an issue and led to some rejected fruit.

Lodi/Delta/Valley

Initial signs are that the northern Interior's crop looks to have come in similar-sized to last year, with productive young vines offsetting lower yields from the older vines. The southern Interior's yields are likely to be up on last year; mildew outbreaks earlier in the season were worked around and were not significant enough to lead to shortages.

Harvesting proceeded smoothly and a two-week lull between picking of the whites and the early reds ensured crush capacity was not unduly tested. Harvest timing nearly caught up with the schedule seen in recent years until the picking of the later season reds, which stretched out a little so that harvest ended where

it began – about 7-10 days behind a 'normal' timetable. Early autumn temperatures were milder than average in the Interior and there were no frost issues in October.

The Interior's spot market for 2019 grapes has been very quiet, especially on the reds; the white grape market feels a little healthier – it is hard to know whether this is because demand is genuinely better for the whites than the reds right now, or whether there simply remains more long-term contracts on whites left still to be worked through. In the Interior we expect to see the most significant amount of grapes left on the vine in ten years, mainly reds such as Cabernet, Merlot and – to a lesser extent – Zinfandel.

Ongoing Supply Adjustments

Unsurprisingly, growers are adjusting their activities, strategies and investments in response to the ongoing slow market environment. Growers in some areas of the state have told us they are considering pulling out some vineyards if they do not have grape contracts by January 2020 – in the Central Valley this could mean switching to another crop, in the Coast it most likely means

leaving the ground fallow. This removing, mothballing or replacing of vines would potentially go some way to helping re-balance the supply-demand dynamic in the longer term. Growers are identifying now as an opportune time to pull out or replace less efficient older vines so they are in a better position to harness any uptick in the market when it comes.

Oregon Update

Oregon's 2019 harvest has come to an end and looks to be slightly down in size on last year's crop, which surpassed 100,000 tons for the first time. Quality looks good.

This year's growing and harvest conditions were challenging: clusters were smaller and fewer in number than normal – potentially due to less rainfall in Oregon over the last few years – and picking, once underway, was impacted by some heavy thunderstorms that took some by surprise and led to fruit being rejected. With Pinot Noir accounting for over half of Oregon's

production, processing space at various facilities became tight.

Supply of Oregon wine is going to be tighter this buying campaign than last, and with demand for it continuing to grow (+12% in 2018, with direct-to-consumer shipments at +19%), we expect the bulk market for Pinot Noir and Pinot Gris to be active early. Thus, buyers requiring Oregon wines should give us a call sooner rather than later. Similarly, if you are looking to move some volumes, please get in touch as we expect to have active buyers early.

New Important Tariffs

Effective 18 October, the US is levying additional import duties on a range of products from European countries in retaliation for EU subsidies to aircraft maker Airbus. Increased levies apply to Spanish, German, French and UK wines “not over 14% alcohol, in containers not over 2 liters”. There may be a chance this could help California capitalize on rosé opportunities, now that French bottled imports are more expensive, but in general we doubt these tariff hikes will move the Californian market one way or the other. We are seeing French wineries inquire about bottling bulk wine in the US, considering only bottled wines are affected by the tariff increase.



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