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GLOBAL WINE & GRAPE BROKERS



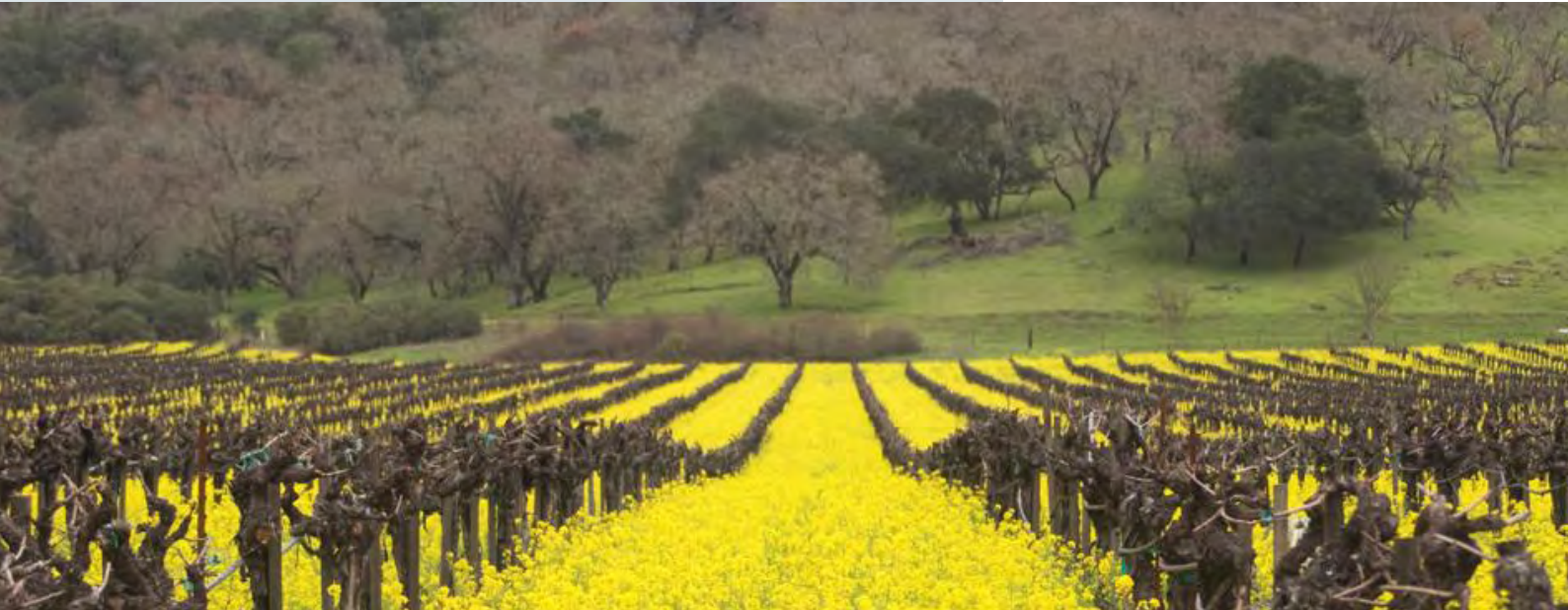
# *California Report*

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**Ciatti Global Wine  
& Grape Brokers**

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California's harvest is now over and for many its completion comes as something of a relief, feeling as it does like the closing of a chapter on what has been a bruising 2020. The focus now is on winemaking and some sellers are reporting very good quality wines from the new vintage. We are estimating a harvest in the range of 3.16 to 3.53 million tons which would be the smallest since 2011's 3.34 million tons, predominantly due to lighter than average yields.

Another, secondary, factor on total tonnage is smoke exposure. Reiterating what we said last month, we cannot afford a repeat of 2020 in how the industry deals with this problem. The industry requires: baseline numbers to work from (what are the smoke exposure measurements in a non-fire year for each varietal?), industry-recognized and standardized measurement techniques and interpretation of results, and access to all the data so informed decisions can be made. Perhaps the precedent already set by Brix or MOG oversight, for example, offers a way forward, and might include wineries informing growers of the acceptable smoke exposure threshold before the season starts. All parties are understandably trying to protect themselves but there needs to be a dialogue in order to reach something fair and equitable for all.

Following the increased activity that we saw through summer in response to the uptick in off-premise sales and then smoke exposure concerns from August onward, the bulk market has been quieter in recent weeks. With the frenzy having reduced bulk inventory and there having been a lighter crop this year, plus the continued strength of wine sales in off-premise channels, the bulk market appears more balanced than it has been for a while: We would characterize it as shifting from an oversupply to a more 'normal' position.

However, a feature of this return to a more normal position is the lopsided nature of it: The big brands with large distribution in the off-premise channels are controlling the buying activity while the rest – especially those supplying the on-premise – are far more cautious. Overall wine sales volumes in the US are projected to be flat to slightly up in calendar year 2020. Value will likely be down (according to research firm *bw166*, it was down 7% in the 12 months to the end of September) as the off-premise accounts for roughly only a quarter of the total value of the US wine market. COVID-19 injects uncertainty into the market in numerous ways – will the off-premise sales uptick be sustained, when will some normality return and the on-premise be able to get up and running again? – draining the confidence buyers have in their sales projections. This uncertainty, plus the smaller margins that can be made via grocery stores versus other sales channels, leads us to believe there is a ceiling on how high bulk wine prices can go.

It continues to be dry in California and a La Niña ocean-atmosphere phenomenon is forecast in the Pacific: this would mean higher than average temperatures, and near average to drier than average conditions, through January. Read on for the latest on the state's bulk wine and grape markets, get in touch if you have bulk wine or grapes to sell, and stay safe

*Robert Selby*

# The Bulk Wine Market

With harvest having just ended, winemaking is underway and there is some early activity on Sauvignon Blanc and other whites in the Central Valley and North Coast. As outlined in the introduction, the bulk market has been quieter in the past four weeks versus previously. In fact, the activity levels that we are seeing now are what – before 2018 and 2019’s quietness – we would traditionally see at this time of year (though perhaps slightly busier due to the lighter crop). What is not traditional, of course, is how we got here: a global pandemic and smoke exposure concerns.

Those two factors combined to create unprecedented activity levels on bulk wine in late summer and send prices rising steeply. However, with the frenzy having died back since, it is questionable if the price increases are sustainable and, indeed, we are seeing some prices plateau. We expect there to be a price ceiling moving forward as the predominant demand remains the off-premise: California appellation wines are closer to their 2017 price levels than Coastal wines are to theirs. While Coastal prices are up and the price separation between the Coast and California is back after a two-year absence, Coastal suppliers must bear in mind the dominance of the off-premise channels in the current sales picture. Indeed, some high-end suppliers have pivoted away from on-premise/tasting rooms to DTC channels and, in some cases, to grocery stores, accepting a significant margin reduction. Their entry into retail has lifted the average pricing in the off-premise a little.

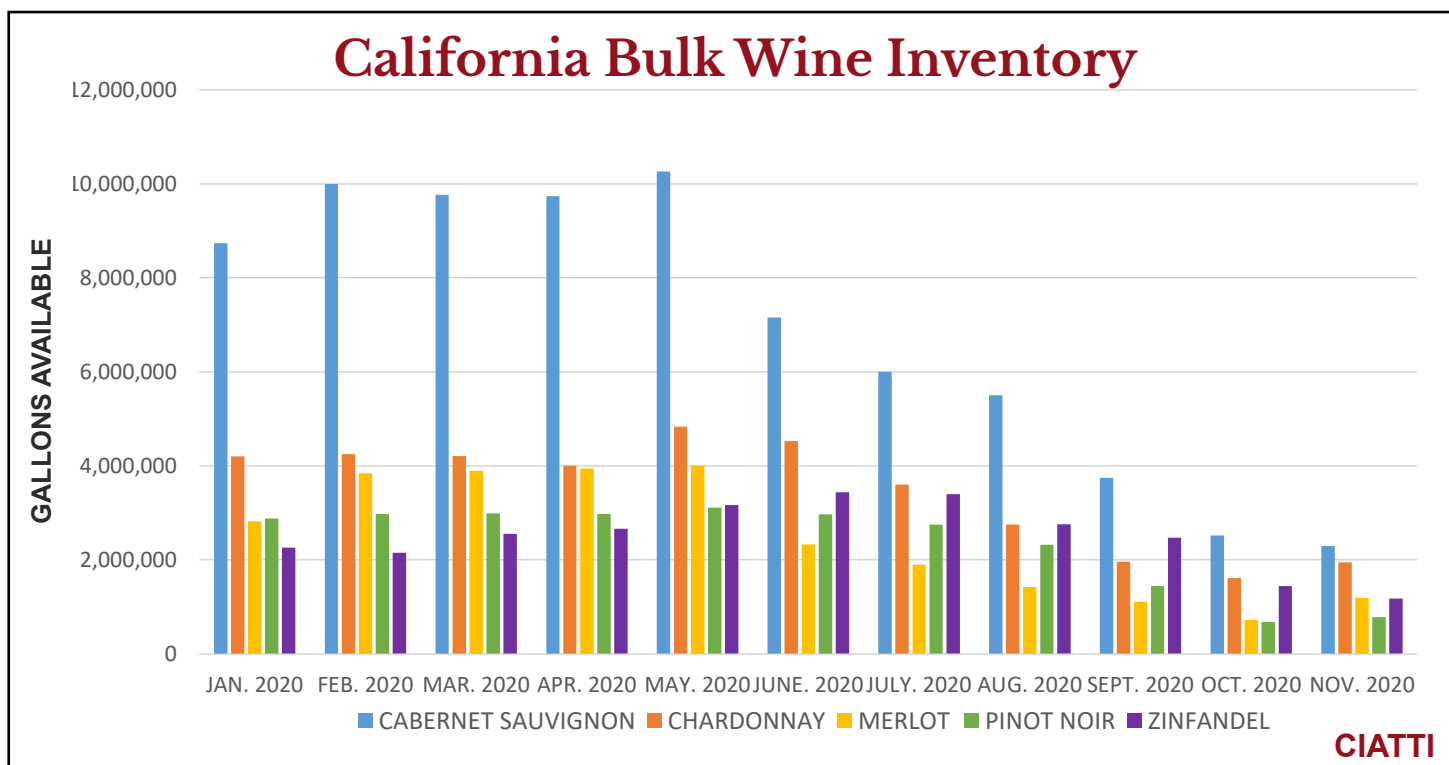
Off-premise strength cannot be taken for granted. COVID-19 has made projecting OND sales – and beyond – a worrisome business: Will the off-premise sales uptick

be sustained? How will consumer buying patterns react to a virus-affected holiday season? Will the economic consequences of COVID-19 start making themselves felt on consumer confidence in 2021? The great uncertainty about future needs will likely reinforce a conservative approach, with innovation and secondary brands placed on the backburner and a focus on survival through these unprecedented times.

Our inventory graph illustrates how bulk wine supply was reduced over the summer. By October it had become a challenge to provide negociants – who had previously been enjoying the opportunities of a market in oversupply – with some specific wines at the required price-quality ratio and/or appellation. Now that we are in a tighter cycle, they will have a harder time finding the wines they require, though this could easily change back should overall buying activity on the 2020 wines be hesitant. Our inventory graph will likely show some upticks as 2020 wines become available.

We are starting to receive samples from sellers with 2020 whites to sell and, as mentioned above, there has been some early demand for 2020 Sauvignon Blanc and other whites in the Central Valley and the North Coast. The lack of an industry-wide standardized approach means buyers are using different protocols to judge if wines have any smoke exposure issues. We have not had any problems to date: much of the Central Valley whites were picked before smoke exposure became a potential issue. We have not seen reds really hit the market yet.

**Please let us know what 2020 bulk wines you have available, and we will help you find a buyer.**



# The Grape Market

We are already seeing some discussions take place in the Central Valley regarding 2021 grape supply. This relative rapidity contrasts with the slow activity that was seen on 2019 and 2020 grapes but is to be expected after a lighter crop. The majority of deals done on 2020 grapes were for one year versus three years, so buyers are now having to come back to the same growers to discuss 2021 and beyond. Many growers took pricing on 2020 grapes that was essentially break-even to get them through the year and – despite the lighter 2020 crop and the lower bulk inventory – there is likely to be a continued disconnect between the prices they and the buyers would prefer.

We have not yet seen a great deal of grape activity on the Coast but, given the lighter 2020 crop and the relatively light bulk market now versus last year, there is the potential for some earlier activity there also. Both the North Coast and Central Coast have seen some activity on 2021 Pinot Noir grapes, and the North Coast has also seen a little interest on Chardonnay. Central Valley buyers may move into the Coast if they need more volumes than the Valley

can provide, likely seeking prices below what Coastal suppliers would prefer. The real test of health in terms of the Coastal grape market is if and when local Coastal wineries come in to buy 2021 grapes instead of selling them. Some local Coastal buyers are currently trying to buy 2020 wines, which may be a sign that grapes will be next.

With bulk inventory at a lower level and some – limited – grape activity already, it is perhaps easy for grape growers to believe their fortunes have turned a corner after a couple of very tough years. But as outlined above, there are myriad uncertainties moving forward and we encourage growers to consider carefully all offers that provide them with margin and the ability to survive through what are unprecedented – and therefore unpredictable – times until normality resumes. In short, be willing to be creative with deals to get through the short-term in order to be able to prosper in the long term. **Please update us on the grapes you will have for sale for 2021 by contacting Molly at +1 415 630 2416 or [molly@ciatti.com](mailto:molly@ciatti.com).**

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