



CIATTI
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**Ciatti Global Wine
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- 3 The Grape Market
- 3 The Bulk Wine Market
- 4 Stagnant Casegood Sales
- 4 Fresh Competition
- 5 Hot Opps Box
- 6 Contacts

Reading online?
Use the links above
to jump through this
document.

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Higher than normal temperatures in late September (up to 104°F) helped quicken grape ripening in many growing areas of California, causing some pressure getting fruit in. That said, there did not appear to be too much ensuing congestion at wineries and by the end of the month unseasonably cooler temperatures (around 70°F) had slowed things down again. The harvest, still running a few days behind a normal schedule, is moving from the whites and early reds on to the late reds in the coming days. The state's overall crop – at this stage – appears to be near average in size.

The harvest in the **North Coast** is approximately 40-45% complete, with the whites and early reds making up the great majority of what has come in so far. Volumes are coming in average to average-plus and quality has been outstanding – 2019 could be a very good vintage indeed. Any initial mildew outbreaks have been well-controlled. Late September's dry and very hot conditions saw utility companies carry out strategic power cuts as a wildfire prevention measure in some areas of the North Coast and Sierra foothills, raising concerns that winery operations might be disrupted. This concern dissipated, however, when the cooler temperatures arrived towards the end of the month.

The **Central Coast's** harvest is at a similar stage as the North Coast's, perhaps a little behind it, with a lot of Chardonnay still being picked and the red-centric areas like Paso Robles waiting to get underway. The whites and the Pinot Noirs have been picking at – or slightly above – their estimates. Quality, as in the North Coast, looks very good. Crush capacity has so far been okay, but may be stretched in October if the ripeness and brix levels of all the heavy reds reach optimal levels at the same time.

Harvest in the **southern Central Valley** is around 55-65% complete, and slightly behind that in the more red-centric **Lodi and northern Central Valley**. There has been no compaction of the harvest in the Valley yet: the majority of the whites are already crushed and fermented and the wineries are now ready for the bulk of the reds. That said, there is a worry – as in the Central Coast – of compaction at the harvest's back-end if the remaining Zinfandel and then the Cabernet, Merlot and other late reds all come in at once. Storage capacity will be tested. Crop volumes look average to average-plus, with Zinfandel potentially looking a little lighter than first thought. Some uncontracted Zinfandel – perhaps not as assiduously looked-after as the contracted fruit – has suffered, compounded by a big mid-September rain episode in Lodi.

Overall, the 2019 harvest looks on track to be at least average in size, especially considering the likelihood that the volume of Cabernet – a varietal still to be picked – should benefit from a high proportion of younger vines. This will feed into crush and storage capacity concerns as the harvesting of the late reds nears.

Robert Selby

Opportunities for Buyers	
Bulk Wine	Grapes
17 & 18 CS All Appellations	CS Napa Valley/Alex Valley/North and Central Coast
18 Pinot Noir Coastal	PN RRV/Sonoma Coast
18 Chardonnay Coastal	CH Sonoma
	ZN Lodi/North Coast/Sonoma

Opportunities for Sellers	
Bulk Wine	Grapes
Non Vintage Red and Whites at \$.50 to 1.50 per gallon	Unique Varietals

The Grape Market

Illustrating the lack of need for wine grapes, we are not seeing many, if any, buyers come onto the market to acquire grapes from growers even at ‘clean-up’ prices that usually only cover harvest costs – at least not yet. Buyers are in no rush, knowing grapes will be available if and when they need them.

Buyers may not be buying grapes now because they may be waiting for deals to take place on their bulk wines, and expecting these to take place after the 1st January. They see holding off on grapes as preserving their cashflow.

Growers must carefully evaluate the pros and cons of custom crushing any uncontracted grapes, especially if they have never done it before, considering that storage costs money

and – in all likelihood – stored bulk wine is not going to increase in price.

Already growers are looking ahead to 2020 and questioning if it will prove any smoother for them than what has been a rough 2019. The proportion of uncontracted grapes will rise again next year, as more buyers do not renew contracts. And it will likely take more than a single year for the market dynamic – significant wine oversupply coupled with stagnant casegood demand – to radically change. The next potential decision for growers may be whether to mothball vines for a year or more, or remove them. The current outlook could generate an uptick in vine removals.

The Bulk Wine Market

We have seen bulk wine sellers come onto the market requesting quick removals so they can make space for 2019 wines. A few quick deals are indeed getting done, but often at very low pricing. Some opportunistic négociants are still active, but – considering the intense price competition on the retail shelf – they are highly sensitive to price. There is a ‘paralysis of analysis’ as these buyers figure out when to buy, and at what price.

The bulk market thus remains slow. As on grapes, buyers believe inventory will be

available on the market whenever they should need it, and that they are not going to end up paying more by waiting. They are happy to hang back and wait for value deals to come along.

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Stagnant Casegood Sales

The wine retail market in the US continues to be challenging, bringing no respite for grape growers and bulk wine sellers. Since at least 2017 we have seen a flattening in retail sales growth: wine consumption growth in the US is currently only keeping pace with the increase in the legal drinking age population, not outpacing it.

Latest Gomberg Fredrikson data shows that total California wine shipments fell 2% in January-June 2019 versus the first six months of 2018, from 135.6 million 9-liter cases to 132.8 million cases. Sales volumes of table wines in US food stores were down 0.9% against a 2.2% increase in value, reflecting the fact that all wine categories (except one) priced below \$9.00/bottle saw volumes fall, while all categories

priced above saw volumes grow. (The exception in the sub-\$9.00/bottle arena was the 3-liter premium box category, priced at \$4.00-7.00/box and growing at a very strong 11%.)

Gomberg Fredrikson cited the ongoing Constellation-E&J Gallo Winery situation as a contributing factor to the slow market. Constellation's \$1.7 billion sale of 30 lower-priced wine brands to Gallo is the subject of an ongoing review by the Federal Trade Commission (FTC), something which has caused hesitation at the distribution end of the marketplace and in decision-making across the wine industry in general. The industry is eager for the deal to be signed-off by the FTC as quickly as possible so that Gallo can get to work growing the brands they have purchased.

Fresh Competition

Wine is proving vulnerable to increased competition – particularly for the attention of younger consumers – in the alcoholic beverage category, whether it be from craft beers, spirits, ciders or less traditional quarters such as sake or so-called 'hard seltzers'.

The latest Gomberg Fredrikson data shows how wine's share of the beverage alcohol market has increased from 14.2% ten years ago to 17.6% now, but is now facing stiff competition from domestic and imported spirits (which now make up nearly 35% of the alcohol beverage market) such as whisky, flavored whisky products, tequila, and the 'Cordial & Liquor' category.

Hard seltzers are cited as fresh competition, too – though both Gomberg Fredrickson and researchers Rabobank suggest beer, and more

specifically "quaffable" light lager, is the most vulnerable to this new fermented malt beverage competitor. Rabobank shows that, in the first eight months of 2019, hard seltzers contributed half of the beer segment's growth.

Hard seltzers are a natural extension of the hugely successful sparkling water and flavoured water categories (the overarching bottled water category is the largest beverage category in the US), bringing bottled water's popular low calorie, low sugar, low carb offer into the alcoholic drinks sector. The big hard seltzer brands are targeting, and managing to appeal to, young people of both genders.

Hot Opps Box

Bulk wine pricing is at its lowest in five years and trending downward, with some price parity between Coastal and Central Valley wines – with Coastal wines cheaper in some instances. Now is a great 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. We have large amounts of very good quality bulk wines available. There continue to be particular opportunities on 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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