



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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September brought an intense heatwave to much of California, with a 'heat dome' – a high-pressure system that creates and then encases heat below it – locking in a week of temperatures at 105-115°F. Growers had to make a call as to whether to bring picking forward to avoid the risk of bunch-weight loss, raisining and desiccation, but at potentially sub-optimal ripeness levels, or brave it out. The heat helped speed along and condense the harvest, potentially causing logjams at wineries as they struggle to cope with a lot of grapes coming in all at once – another consideration for growers when deciding whether or not to pick.

The intense daytime heat led to greater emphasis on hand-picking at night – when temperatures were sometimes still in excess of 75°F – and meant extra care had to be taken with the storing and transportation of grapes: chilling capacity has been important. Generators were also at the ready in case of blackouts/brownouts, as the day-long heat created extra energy demand through evening when solar energy supplies are more limited. An inevitable consequence of the heat and dryness has been wildfires: There has been some talk around smoke, but we have not heard of any issues as yet. Fortunately, winds have been low, keeping fires mostly containable.

The North Coast is picking perhaps 2-3 weeks ahead of a normal timetable; many growers are saying they will be finished by the end of September. Most Chardonnay is in the barn, so too Napa Valley Cabernet; Sauvignon Blanc in some instances came in better than last year, but lighter than expected. The Central Coast is also 2-3 weeks ahead, with everything coming in on the lighter side, especially Pinot Noir, including in Monterey. Some have estimated Monterey's total yield shortfall at 20-30%, Santa Barbara 25-35%. Suggestive of a lighter Pinot Noir crop in the Central Coast, the variety in some areas is getting picked ahead of Chardonnay for still wine; in turn, Chardonnay is expected to be shorter. Picking of the Central Coast's later-season reds – including Paso Robles Cabernet – is underway, so the area's overall crop size will be clearer soon. This season in Paso has seen the highest number of growing degree days – through September 1st – of any year since at least 2014, further speeding up the crop there.

We estimate the timetable in Lodi and the Central Valley to be one of the earliest of the past 10-20 years, but the trend in the past 5-6 years has been for earlier harvests anyway, so in some cases picking is in line with last year. Sauvignon Blanc picking was in some instances brought forward to avoid the heatwave; Pinot Grigio output seems a little light; Pinot Noir has for the most part been harvested; picking of the late-season reds is underway. Tonnages appear average, with just as many blocks coming in with an overage as a shortfall.

Taking all this into account, we have revised our crop estimate downward from 3.7-3.9 million tons last month to 3.5-3.7 million tons now, a range that includes where last year's crop finished – 3.61 million tons. The further this harvest progresses, the more a crop at 3.5 million tons or below looks possible, but it remains too early to call. Unlike last year, the Central Coast crop appears to be picking lighter than average, while continuing vineyard pull-outs in the southern Valley raises a question mark over total tonnage potential there versus past years.

Towards the end of September's second week, we started receiving inquiries into 2021-vintage Coastal wines, indicating that the Coast's short crop is getting shorter. In addition, some suppliers who had Coastal fruit available – such as Pinot Noir and Cabernet – have become less flexible on price and are willing to make wine themselves, suggesting a short 2022 Coastal wine supply and robust pricing for what is produced.

The Ciatti team stands ready to help you navigate this market – get in touch with your grape and bulk wine needs as soon as possible so we can start matching up buyers and sellers and disseminating samples. In the meantime, read on for further insight into the bulk wine and grape markets.

Robert Selby

The Grape Market

The grape market through July and August was quiet, reflecting slow bulk demand and the limited quantities of fruit left unsold, and attention in any case was turning to the harvest. Pockets of grape availability that arose on the Coastal market received only limited buyer interest, limited especially on the reds such as Cabernet and Pinot Noir, bulk inventory of which is significant.

However, increasingly through September, as evidence of a lighter crop has become more apparent, we have seen late activity on Coastal grapes still available. Coastal growers – even of red grapes – have become less flexible on price, perceiving that there may be money to be made on the bulk market should the crop come in short. Lending further attraction to this option is the wide availability of crush and storage capacity: Pinch points in grape processing reflect only the condensing of the harvest into a briefer timeframe, not an overall capacity deficit. In fact, producers with capacity are keen to let us know they have space, in case anyone requires extra crush capacity.

The North Coast came into September with some Cabernet grape availability; Zinfandel grapes were effectively sold out, so too Sauvignon Blanc.

Chardonnay supply – especially in Napa and Sonoma – was highly limited, while Pinot Noir grape supply had tightened up on expectations of a lighter crop. In general, unsold North Coast grape supply was not huge even before September's market uptick.

In the Central Coast, meanwhile, the grape market began the month slowly, with high prices for the remaining unsold grapes already suggesting growers there were willing to crush the fruit themselves. Monterey Chardonnay grapes remained available. However, as it has become clearer that the Central Coast's Pinot Noir crop is coming in lighter this season – potentially significantly lighter – inquiries for extra Pinot Noir grapes have risen.

There was little grape supply left unsold in Lodi and the Central Valley coming into September, with suppliers of the remaining pockets assessing which offers to accept. Chardonnay grapes in particular sustained the robust pricing seen in 2021, with any lots of availability that arose receiving multiple interest. Any overages that have come in have been readily acquired, as the in-demand whites are what has primarily come in so far – Chardonnay, for example, and dry whites.

The Bulk Market

The bulk market came into September quiet, with activity proceeding intermittently, dominated by opportunistic négociant buying. One eye was being kept on the crop and the other on retail sales amid annual inflation running at 8.5%: Buyers are understandably highly sensitive to the risk of overpaying for something they are not sure they will actually need.

However, as it became clearer through the first two weeks of September that the 2022 crop would be coming in lighter – the state's third-successive light crop – inquires starting to come in regarding 2021-vintage Coastal wines, the availability of which is mainly situated outside the premium areas of Napa and Sonoma. In addition, the number of early requests for samples of the new, 2022 white wines picked up, particularly on those varietals in those appellations most in demand, such as Sonoma Chardonnay. It is likely that white varietals from these premium North Coast areas will be in short supply this vintage, so buyers are jostling for position.

The bulk market in Lodi and the Central Valley started the month quiet, with activity greatest on 2021 Chardonnay and, to a lesser extent, dry white. In the Interior, bulk Chardonnay has felt in supply-demand balance and has been able, like the grapes, to command probably the best price of any of the major varietals. Interest in 2021 Cabernet and other reds has been much quieter, while suppliers still with availability have not been in a rush to sell either, potentially because they know of other interested buyers. There has been some churn as pockets get removed from the market for internal use and other pockets open up.

The Central Coast was experiencing minimal activity, though availability was limited anyway. Availability was greatest on 2021 Pinot Noir – particularly Santa Barbara Pinot Noir – due to last year's large crop in this area, and buyer interest was muted, with some having switched their sourcing to the Interior. The small pockets of remaining 2021 Paso Robles Cabernet were priced too high to coax much buyer interest.

A concern is that, should the Coastal 2022 crop’s lightness lead to increased bulk prices in the Coast, they may be too high – outside the Napa and Sonoma – for a bulk market that is seeing a sales slowdown at the retail end and margins slimming as retailers demand price stability amid inflationary pressure. In short, Coastal price rises would encourage California switching.

Statistics show a decline in wine’s dollar sales in the off-premise and in the direct-to-consumer (DTC) segments in recent months, as well as a pull-back in on-premise sales as consumer belt-tightening slows the post-COVID bounce-back in drinking and dining out. While entry-level categories (under \$11/bottle) at retail have been contracting concertedly since the pantry-stocking boom in 2020, the mid-range – namely the \$11.99–15/ bottle segment – is now starting to decline as well, while growth in the high-end categories (\$15+) persists but is slowing markedly.

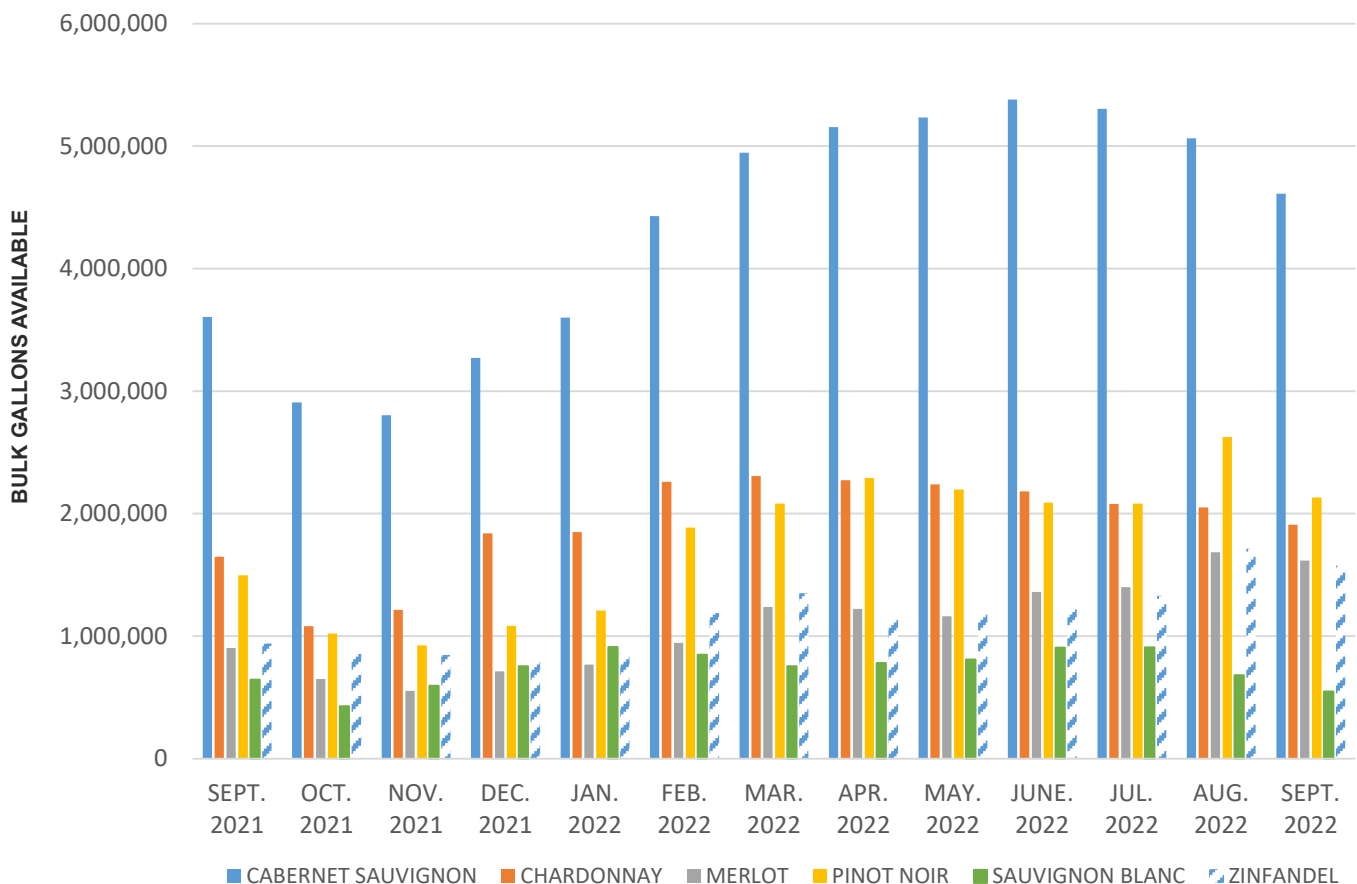
It ought to be reiterated, then, that any uptick in grape and bulk market activity that we might see in the coming weeks and months is due to the crop’s lightness – and it being the third lighter crop in as many years – and not because of stella sales numbers. This light

crop will help to temporarily keep in supply-demand balance an industry that, structurally, would otherwise err towards oversupply.

The grape juice concentrate market must contend with another year of tight supply, especially on whites. Pricing is likely to be up again, but most suppliers are understandably not quoting for another month or so while they watch the rest of the crop come in. International supply might normally be considered an alternative, but shipping costs and delays are currently prohibitive.

The same applies to bulk wine imports, considering the high cost of sea freight and the lack of sales growth in boxed wines – entry-level wine sales have been performing poorest of all since the 2020 retail spike. The export front is bedeviled by the same shipping issues, but also the dollar’s strength. In addition, there have been price increases on the wines themselves, which buyers around the world have had difficulty digesting, particularly California’s calling-card export, White Zinfandel, which is not readily available elsewhere.

California Bulk Wine Inventory (September 2021 - September 2022)



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