



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

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The 2022 crush came to an end in October following a challenging growing season that saw drought, hailstorms, frost, unseasonably cool, humid or cloudy conditions, heatwaves and rainfall – often in quick succession. In general, it appears the three to four days of rain received in mid-September helped size-up some of the later-season red grapes in some areas, Cabernet being a particular beneficiary. But behind our headline crop estimate – a tentative one of 3.5-3.6 million tons – lurks a high level of output variance between even neighbouring vineyards.

Consequently, generalizing is difficult and this crop assessment – our last before the CDFA's preliminary grape crush report in February – is anecdotal. It appears that in the Interior, and in Lake and Mendocino counties, tonnages may have come in closer to the average than in Napa, Sonoma and the Central Coast which were harder hit by frost, potentially preventing the state-wide tonnage figure from slipping below 3.6 million.

It appears Cabernet and even Sauvignon Blanc and Chardonnay performed close to average in Lake and Mendocino, albeit still spottily in areas. Napa's whites and early reds likely came in lighter; the appellation's later-season reds, including Cabernet, seem to have picked closer to the average. Sonoma's Chardonnay output is believed to have been at least average-sized in Alexander Valley but below average in Russian River; its Cabernet output appeared closer to average, but Pinot Noir – especially in Russian River – and Zinfandel both seemed light.

Down in the Central Coast, tonnage performance tended to reduce from north to south, with Livermore in the north producing some overages – mainly on the later-season reds – and Santa Barbara, farthest south, picking lightest. Again, in general, the earlier-season grapes – such as Chardonnay and Pinot Noir – came in lighter than the later-season reds, which may have benefitted from September's rain. Harvest in Paso Robles appears to have come in lighter on most varieties, the situation failing to improve after the rain.

Due to the changeable conditions, performance varied greatly in the northern Interior between vineyards and by variety: there is a possibility Sauvignon Blanc output was lighter than average while Cabernet output was in fact heavier; the Chardonnay yield picture remains unclear. The southern Valley's Muscat and generic white tonnages defied the drought; Chardonnay and Cabernet performance remains more unclear. Growers able to start irrigating early, from last winter onward, were better able to maintain groundwater reserves for the duration of the season and reaped the benefits.

The erratic conditions sometimes led to difficulties in obtaining the requisite sugar and acidity levels in the grapes, as well as in identifying the most optimal time to pick. But, as every year, California has produced excellent wines: Suppliers should get in touch with us so we can pair them with potential buyers. In the meantime, as another eventful year draws to a close, read on for a detailed assessment of California's grape and bulk wine markets through October, November and early December. All of us at Ciatti would like to wish you and yours a very Happy Holidays and a prosperous New Year!

Robert Selby

The Bulk Market

Since October, inquiries into Coastal wines have been more numerous than normal, certainly more numerous than at the same stage of 2021. Deals are not always consummated – supplier and buyer price expectations in the Coast are often still far apart – but the patchy harvest performance of Coastal Chardonnay and Pinot Noir this year may at least be stimulating extra inquiries, and has ensured some remaining 2021 supply has been acquired.

Since the end of crush, bulk activity in the North Coast has been dominated by inquiries into Napa Valley Cabernet, Sonoma/Russian River Chardonnay, and Coastal Sauvignon Blanc in general. Supply of these items is limited and, in the case of Sonoma Chardonnay, some traditional suppliers have become buyers. Requests for samples of Sonoma/Russian River Pinot Noir also grew through November, perhaps slightly earlier than normal, though the volumes requested are limited in size.

Down in the Central Coast, Paso Robles Cabernet has been receiving a level of interest that is higher than normal for this time of year. This is perhaps surprising given the relative slowness of 2022 Paso Cabernet grape sales, but our most recent gauge of Paso's Cabernet harvest is that it was lighter than average. While Paso Cabernet may be benefiting from perceptions of lower supply and/or buyers seeking alternative Coastal sourcing given the high pricing in the North Coast, analysts have also detected increased consumer traction for the Paso Robles appellation, in the mid-market price categories at retail. This could be due to retailers educating consumers about the Paso appellation as it is cheaper for them to source than North Coast alternatives.

Outside the in-demand wines listed above, supplier and buyer price expectations in the Coast are often far apart. This normally could be attributed to the time of year, with the new buying campaign just underway, but the disconnect has been in evidence for some months now: Uncertainty over future case-good sales is making buyers ultra-price sensitive, while three consecutive short crops and inflationary input costs are disincentivising sellers from softening prices, which are – in general – stable at the elevated level they reached in 2021. At some stage there may have to be compromise, a willingness to concede some margin in order to maintain shelf space or generate cash flow. Suppliers in the Coast must be aware that they can lose

out to California supply if their pricing is deemed too high. There are buyers keen to consider new avenues, but the divergence in price expectations often prevents inquiries translating into action.

In the Interior, meanwhile, bulk activity since October has been normal for the time of year, with buying of the remaining 2021 whites being carried out and good (perhaps, in some instances, better than normal) early interest levels in 2022 Chardonnay and Sauvignon Blanc. Pinot Grigio interest also grew through November – including tentative inquiries into off-shore supplies due to perceptions of low domestic availability. Interest in the new 2022 whites was led by higher-end California brands that normally supplement with Coastal quality but which have been finding those wines priced too high and/or unavailable. The interior's Chardonnay, Sauvignon Blanc and Pinot Grigio bulk wine pricing is roughly in line with where it was in December last year.

The Interior's Muscat availability, meanwhile, has risen due to good yield levels this year meeting limited buyer demand – tight 2021 supply saw some Muscat buyers switch to sourcing abroad. On the flip-side, we have been receiving a lot of inquiries into the availability of sparkling base wines, presumably for canned wine programs but perhaps also a reflection of the popularity in the US of Prosecco and other imported sparkling wines. This feeds into our perception of a highly competitive, mature wine category eager to mimic success in order to eke out any growth it can. To that end, points of difference are of rising importance too: Probably for that reason, we have received increased levels of inquiries into items like organic wines – hard to find at the lower end of the market.

The opportunistic buyers who are sometimes present early in the buying campaign are less in evidence this year, perhaps another indication of case-good sales trends. However, there have been few if any opportunistic sellers either, when one might expect sellers of red wines especially – still holding large volumes of 2021 carryover – to try to attract buyer interest. The bulk market for 2022 reds is – as is typical for this time of year – slow as many wines are not yet ready to sample, but the lack of interest in 2021 carryover is something of a concern. With scepticism regarding case-good sales pervading the market, and a particular slowness on reds, we may see some buyers

See next page for more on The Bulk Market.

not only step back from buying reds but become sellers themselves.

Looking at the case-good picture, it seems that wine sales continue to grow in total value – thanks to the resilience of the premium end of the market – but are contracting slightly in terms of volume. Consumer engagement with wine is currently low as myriad rival alcoholic drinks products now compete with it on retail shelves, and the age of the average wine drink is growing older. Programs seeking to preserve margin are understandably reluctant to move up in retail price due to the ultra-competitiveness of the wine category, and many that attempt it receive pushback from consumers during what remains an inflationary environment, especially on groceries. Adjusting sourcing is seen as a safer bet, which brings the Interior – and Lodi in particular – into play.

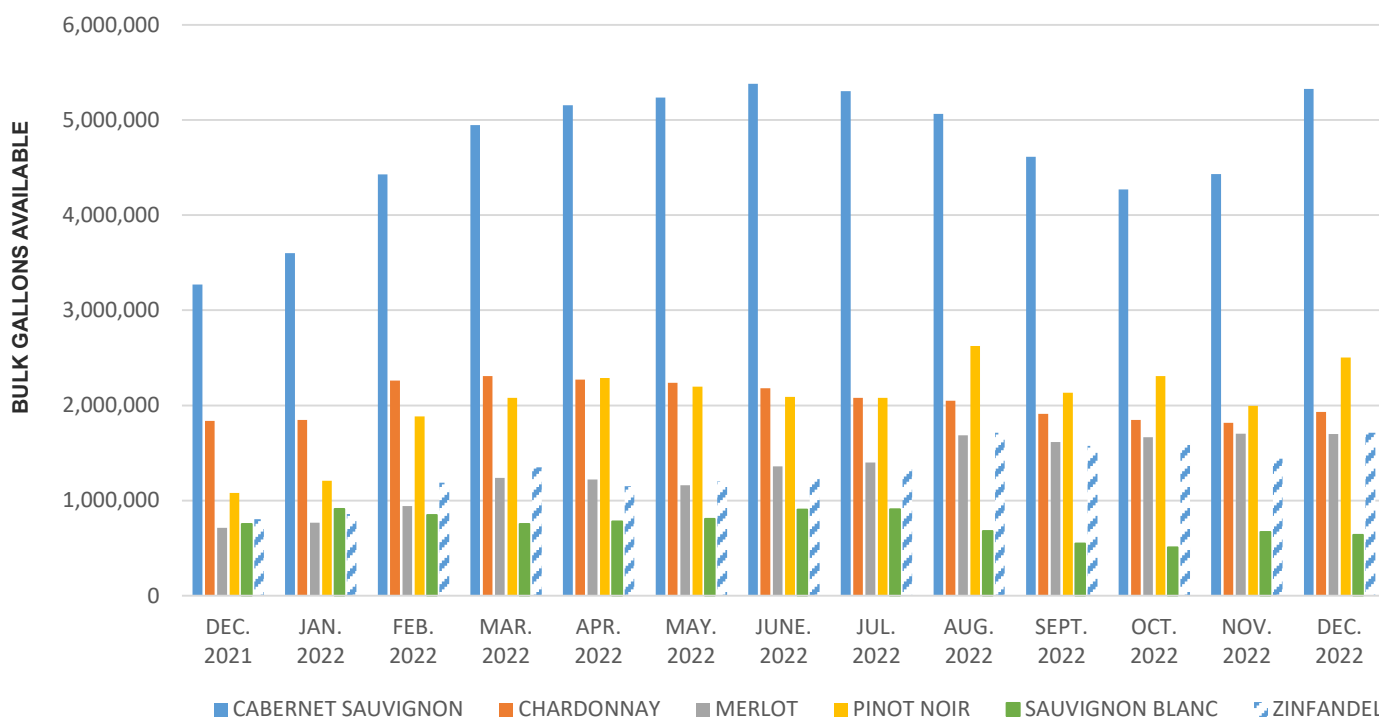
Rob McMillan, Silicon Valley Bank analyst, is quoted in *Wine Industry Network* as forecasting a “somewhat muted” holiday sales period for wine. Business intelligence company Morning Consult’s *Consumers’ 2022 Holiday Plans* report, dated October, found that while 10% of US consumers planned to drink more alcohol this holiday season, some 42% planned to drink less, as annual inflation – falling, but still at 7.7% as of October – continues to be a big concern. Some 82% of Morning Consult’s respondents said they would be looking for more deals and discounts at retail in general; 72% intended to seek less expensive alternatives.

This concurs with Rabobank forecasting a softening of demand for super-premium wines in the final quarter of this year and a further, modest decline in 2023. At the same time, we believe the huge proliferation of alternative alcoholic drinks – hard seltzers, canned RTD spirit drinks, tequila drinks etc – is squeezing sales of wine at the value end of the market. Some of these competitors even appear on the wine shelf itself. This suggests that, if the economic situation leads more consumers to buy cheaper, value-end wine will have plenty of rival products to compete with for their attention. Meanwhile, the continuing strength of the dollar from a historical perspective is an inhibitor of export growth. Both of these facts are damaging for the southern Interior. Such negative signals – at both the top end and value end of the market – help explain the hesitant buyer activity.

At the same time, the ultra-competitiveness of Australia’s red wine export pricing is likely to lead to an increase in imports of Australian wine into the US – potentially at the expense of Chile – while inward Pinot Grigio shipments are likely to increase due to the more limited domestic supply. These will supplement a growing imported wine segment in the US, led by Italy with Prosecco.

We are updating our samples and inventory list: Please contact either Mark at +1 415 630 2548 / mark@ciatti.com or Michael at +1 415 630 2541 / michael@ciatti.com to get your wine listed with us.

California Bulk Wine Inventory (December 2021 - December 2022)



The Grape Market

There has been decent early buyer interest in starting conversations with growers regarding 2023 Coastal grapes, especially on those varieties that came in a little lighter in 2022, such as Chardonnay, Pinot Noir or Sauvignon Blanc. The conversations are focused on potential availability, the odd planting contract, as suppliers – especially with so much economic uncertainty in the world – are understandably not yet ready to quote pricing at this stage. The same situation is true in the Interior, where the leading items of conversation are currently Chardonnay and Petite Sirah.

Looking back at the 2022 grapes, little if any Coastal fruit became available on the spot market during or at the end of harvest due to the crop's lightness: Any overages that might have occurred were likely either accepted by the pre-existing buyer or taken in-house for custom crushing. The latter option was made easier by the abundance of storage space this year, following three consecutive short crops.

Some overages occurred in the Interior, including on Lodi Cabernet. This was potentially less a result of crop size and more indicative of case-good sales projections, with many wineries this year holding growers to tonnage limits set out in contracts. Some uncontracted reds took a little time to find a home in October –

indicative of the large pre-existing inventory of bulk red – but eventually did so. Pockets of Zinfandel grapes held out, but that may have been because suppliers were waiting on a better price. There have been some indications red blend programs – which have driven Zinfandel grape demand in recent years – may be experiencing slowing sales, but regardless, the grapes were purchased eventually. The Interior's 2022 grape campaign is now over, with all supply finding a home one way or another.

The reduction of color in some of red grape juice coming from California's 2022 vintage is set to further constrain the supply of California red GJC, after three years of shorter crops, and increase its price. The successive years of lighter crops have likewise reduced supply and increased the price of Californian white GJC. In addition, impacting both red and white GJC are the input cost rises on drums, pallets, trucking and labor. High white GJC pricing might bring imports into consideration for those needing GJC for non-wine items, but international shipping costs and lead times make this a potential headache.

Please update us on the grapes you will have for sale in 2023 by contacting Molly at +1 415 630 2416 or molly@ciatti.com.



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