



California Report

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**Ciatti Global Wine
& Grape Brokers**

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Mid-February's publication of the California Department of Food and Agriculture's preliminary 2022 grape crush report – showing 3.349 million tons crushed, the lowest figure since 2011 – has failed to stimulate extra activity on California's grape wine and bulk markets. Such hesitant activity after a fourth-successive sub-4-million-ton crop starkly illustrates the underlying demand weakness, which – to some extent – applies even in those areas that traditionally command the highest premium.

The disconnect between supplier and buyer price expectations – on grapes and bulk wine – is continuing and by now well-documented: This month's report again outlines the impasse in deal-making that this is producing. If there is any vineyard news that has impacted the market in the past four weeks, it has come not from the pages of the crush report but from the weather bulletins, which have shown a very wet few weeks across California.

State-wide snowpack was at 190% of normal as of March 3rd and even some low-lying areas have received some rare snowfall; every Coastal reservoir is at full capacity and the soil profile in many places is full; the area of California in some level of drought has reduced from 100% to 83% and this decline is forecast to continue into spring, with further precipitation expected through March. In addition, temperatures are projected to be below-average through the month, potentially reducing the risk of premature budbreak during the frost risk period.

While all this is welcome for a state that has long been beleaguered by drought, there is a sense you can have too much of a good thing: Growers will soon be impatient to get into the vineyards to start work, and the present conditions could lead to delayed budbreak, pushing the growing timetable back as the soil takes time to warm up.

If the below-average crops of recent years have been at least partly attributable to drought conditions, then it follows that the current precipitation relief will cause some buyers to wonder how big the 2023 crop will be. There is an awfully long way to go between now and picking, and Mother Nature can – and usually will – intervene at any time, but the present conditions add another hesitation factor to buying behaviour already inhibited by robust prices, lower consumer sales, squeezed margins and little forward visibility on consumer confidence and input costs.

We are trying through our monthly report to help elucidate the market as it stands, a task currently proving more challenging than ever. However, Ciatti can draw on decades of experience to help buyers and sellers navigate the twists and turns of what 2023 and beyond will bring: Don't hesitate to get in touch with us direct. In the meantime, read on for our latest analysis of the bulk wine and grape markets.

Robert Selby

The Bulk Market

In a market little changed since last month, we see bulk wine buyers preferring to err on the side of caution in terms of volume and price: The attitude is very much that it is currently better to be short of supply than long, and this outlook enables buyers to be choosy on price – even on those wines and those appellations seen as most desirable.

Furthermore, some bulk buyers – including some wineries in areas with reputations for strong demand – have switched to selling, putting in some instances significant inventory, and a generous spectrum of samples, onto the market. As in other industries, such as tech and automobiles, we are seeing some degree of business rationalization taking place, as companies seek to improve efficiency in a time of squeezed margins and slower retail sales.

The fight for margin is occurring on the bulk market directly: With the ultra-competitive retail industry pushing back against increased supplier prices, and price-conscious consumers seemingly resistant to increased shelf prices for wine anyway, bulk buyers are having to shop around for pricing more amenable to them if their program allows it. This commonly involves switching from a Coastal appellation to California and for many buyers – in the present economic environment – price triumphs over appellation.

Suppliers, seeking to cover their own elevated input costs and having experienced four successive years of lower crops, are naturally reluctant to soften pricing, but they must be cognizant of the sales picture. Most pundits are agreed that the premiumization trend has fallen back or is at least slowing, and that 2023 will be a tough year for wine sales in general. For example, Wine and Spirits Wholesalers of America's SipSource, which tracks wine and spirits distributor depletion data that covers sales to hundreds of thousands of on- and off-premise accounts, has said wine depletions averaged a decline of 3.9% per year between 2019 and 2022 and has predicted "achieving an overall volume loss of -3.9% in 2023 would be seen by many as a successful year".

Until a pricing sweet spot is found which makes deals work for both bulk supplier and buyer – and, in turn, the final consumer – deal-making will continue to be limited.

The bulk activity picture by region is largely unchanged since last month. In the North Coast, Napa Valley reds and whites have received demand, with Napa Cabernet the hottest item in the region currently – though, even on this item, there is a ceiling on price. There has been some activity on Russian River Pinot Noir, while activity on Russian River/Sonoma County Chardonnay is patchier, with buyer interest potentially inhibited by current pricing levels.

Paso Robles Cabernet has dominated interest in the Central Coast and supply of the 2022 vintage is limited. However, a significant level of 2021 Pinot Noir still remains available on the bulk market. The disparity in 2021-2022 interest potentially suggests that retail sales have lagged and are expected to continue lagging, so the newest wines are the buying priority in order to ensure programs do not get caught too far behind on the shelf in terms of vintage year. The activity picture is similar on Paso Robles Cabernet, with interest in 2022 wines outstripping interest in the remaining 2021 Cabernets, potentially for the same reasons.

The white varieties started the buying campaign relatively quickly in the Interior, but activity has since slowed as supplies have been drawn down, the early buyers have secured what they need, or robust pricing has tempered interest. Interior pricing remains stable across the board, with no sense that suppliers are currently interested in softening prices to help stimulate some demand. In the past month or so, we have seen the emergence – for the first time in a long time – of potential buyers seeking some low-priced wines, including Cabernet but mostly white wines such as Chardonnay. They have so far struggled to find wines at the pricing they require, but they could be useful outlets if a supplier has inventory they're seeking to move on.

Assessing the state as a whole, Chardonnay – bulk wine and grapes – feels in better supply-demand balance than it has done for a while, thanks to the aforementioned Interior and North Coast demand and the shorter 2022 crop. Meanwhile, our bulk wine inventory chart showed Cabernet inventory up significantly in February this year versus February 2022. The earlier sampling readiness of some reds this year might skew the comparison somewhat, and 2022 Cabernet tonnages (-6.5% versus 2021) held up relatively

See next page for more on The Bulk Market.

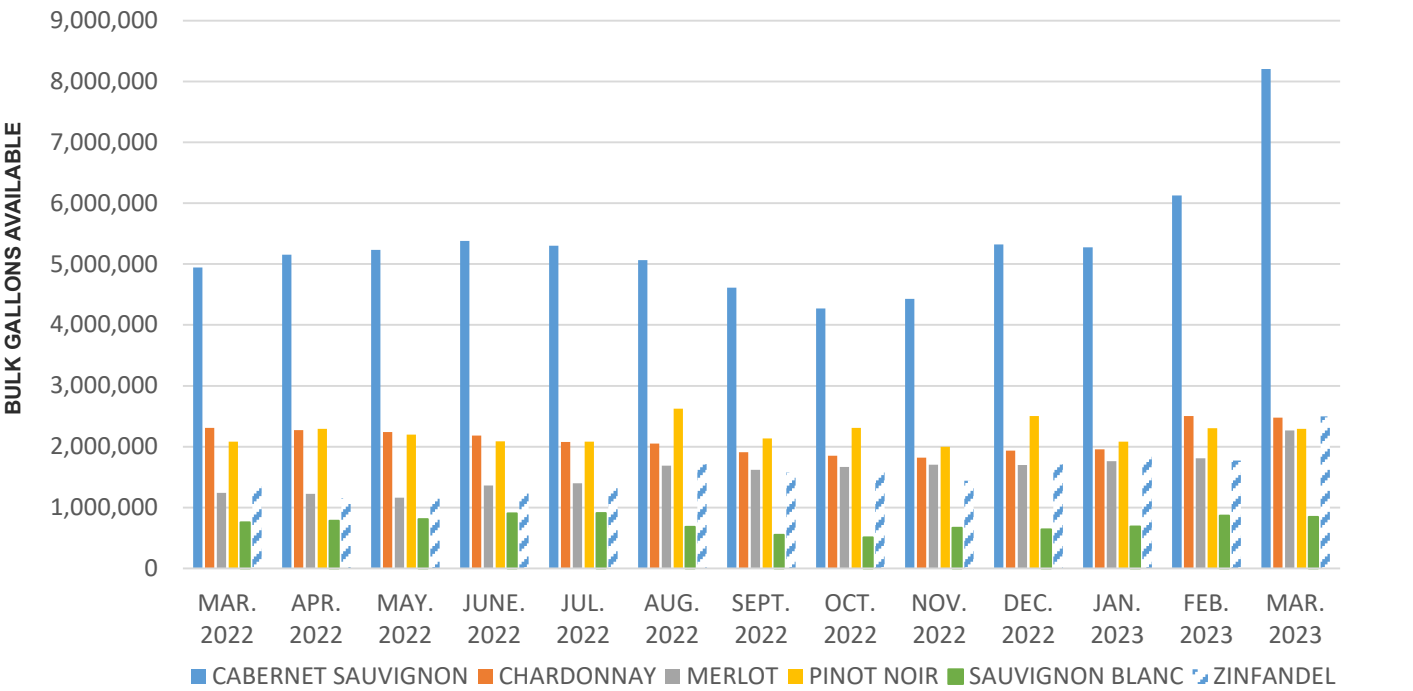
well versus other varietals such as Chardonnay (-15.9%), but it shows the continuing availability of 2021 Interior Cabernet and potentially some limited 2020 Coastal Cabernet as well.

Looking overseas, a highly challenging growing season in Argentina – severe springs frosts, persistent hail, and intense summer heatwaves – have significantly reduced the country’s 2023 harvest size and doubled its bulk

Malbec prices. Should neighbouring Chile’s prices rise in turn, California could become a competitive port of call for international buyers seeking Malbec, and US importers of Argentinian Malbec have already switched some of their sourcing to California

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California Bulk Wine Inventory (March 2022 - March 2023)



The Grape Market

The grape market in the North Coast has seen some good early interest levels on 2023 Napa Valley Cabernet and Sonoma County Chardonnay grapes and, to a slightly lesser extent, Russian River Pinot Noir. Sauvignon Blanc interest has also been high, although this has since quietened a little. The interest level in Chardonnay – the hottest grape right now in Sonoma – is perhaps another sign of a tighter supply-demand balance on this variety across the state, on both grapes and wine, following the short 2022 crop. Napa Valley Cabernet grapes continue to command a premium, but the high pricing can sometimes limit volumes purchased and see buyers inserting specific

quality requirements, while some pricing upticks have discouraged some potential buyers altogether.

Beyond these items, demand is limited. Therefore, some growers are seeking to leverage in-demand varietals – Sonoma Chardonnay, for example, or Lake County Sauvignon Blanc – to sell less in-demand grapes as part of package deals. Most buyers currently demur from such deals due to cost and/or simply the lack of need for those extra tonnages at this time.

Grape activity in the Central Coast reflects the bulk market, with demand mainly for Paso Robles Cabernet grapes; there is also some Sauvignon Blanc interest.

See next page for more on The Grape Market.

Buyers from elsewhere in the state currently account for the majority of inquiries, while most local buyers are inhibited by price. There may be some price concessions available on specific products depending on volume requirements. The price expectation disconnect between supplier and buyer is making it difficult to get deals over the line.

Grape demand in the Interior has been quiet, not unusual for the time of year but in stark contrast to this time last year – when the market was relatively active early on – and quieter than might ordinarily

be expected considering the shortness of the 2022 crop. Grapes have become available as multi or single-year deals lapse, as per usual, and some suppliers are proactively seeking to enter into multi-year deals. At the moment there is a feeling that some large grape buyers do not feel in any kind of rush and are attempting to gain a feel for seller price expectations.

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

Events

Ciatti brokers will be attending and will have a booth at these upcoming events:

- **July 25 - 26:** International Bulk Wine and Spirits Show
- **November 30:** WinExpo Tradeshow & Conference



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