



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

July 2023
Volume 6, Issue No. 7

**Ciatti Global Wine
& Grape Brokers**

201 Alameda del Prado, Suite 101
Novato, CA 94949
Phone (415) 458-5150



July 2023

Volume 6, Issue No. 7

- 3 The Bulk Market
- 4 The Grape Market
- 6 Contacts

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

No part of this publication may be reproduced or transmitted in any form by any means without the written permission of Ciatti Company.

Following an unseasonably cool spring and start to summer, California received some overdue 100°F+ heat in late June into early July, though unusually mild spells continue to interrupt these hotter periods, particularly in the Coast during the mornings. More normal, consistently hot weather is in the forecast for the rest of summer, but for now the growing season is still running 3-4 weeks behind in many areas of the state, particularly in the Coast. There is talk in the Interior that the season has caught up a little in some areas, to something like 1-2 weeks behind, but the popular barometer of a 'normal' timetable – veraison on Lodi Zinfandel by July 4th – was missed, and indeed veraison was not apparent anywhere in the first week of July.

Consequently, it remains too early to provide a confident guesstimate of crop size. Berry sizing is underway and cluster numbers in general appear good, although shatter occurred on some varieties in some areas of both the Coast and Interior; mildew has also been an issue in places. In general, however, vineyards appear in good shape. Some growers have been thinning out the later-season varieties, potentially in an attempt to ensure they adhere to winery schedules and quality standards in a year in which grape demand is very slow.

The grape and bulk wine markets continue to be sluggish with transactions few in number and often taking a prolonged time to close. Case-good sales numbers continue to look weak, with growing evidence that the \$15+/bottle categories are slowing now as well. Wineries are focusing on inventory adjustments and some have indicated they might even need to skip a vintage in order to return to supply/demand balance. As across the wider economy, we continue to hear of rightsizing – with non-profitable brands discontinued, employees laid off and steps being carried out to improve margin.

In this context, growers and bulk suppliers have become less bullish on price as the new vintage nears. Therefore, there are some excellent multi-year wine and grape opportunities to be harnessed from a price-quality perspective, some that come along only rarely and some that dovetail with the need to innovate and communicate with younger consumers. Retail/distributor consolidation has limited the enterprising negociants who might in the past have been seen on the market right now, harnessing such opportunities, but those able to – in the words of Warren Buffet – “get greedy when others are fearful” currently have a lot of choice. Rabobank's latest Wine Quarterly referred back to the often-quoted 2010 Harvard Business Review article 'Roaring Out of a Recession', which stated that those companies that increased marketing spend, capital expenditure and R&D in an economic dip were more likely to have better sales and profits post-dip than their competitors. In short, the cut-through of new lines – or re-energized pre-existing lines – is greater at a time when competitors have lowered their voices.

In these challenging times, the Ciatti team can combine its many decades of experience together with the most up-to-the-minute intel to find opportunities for buyers and sellers alike: Don't hesitate to get in touch. In the meantime, read on for our latest analysis.

Robert Selby

The Bulk Market

The bulk market in the Coast remains sluggish, with activity occurring on Napa Valley Cabernet – at a slower pace than a few months ago – and some interest in Coastal Merlot and Chardonnay from specific appellations. Pricing is starting to soften as suppliers try to create storage space and reduce storage costs ahead of the coming vintage, and we believe this might help stimulate some movement on wines from specific, marketable appellations. Currently, any deals that do occur take time as buyers carefully weigh-up quality, volume and price, knowing time is on their side. Generally, deals are for smaller volumes. With margins squeezed, potential buyers are sometimes shopping around to locate pricing that better suits, and so we are seeing some drift of interest from expensive to less expensive areas, as we did in in 2019 when the supply-demand imbalance was last this acute.

The Interior's bulk market is as muted as in the Coast: As most of the major wineries are currently trying to sell wine on the market rather than buy it, the potential for buying activity is greatly reduced, even with pricing lowered. The deals that do occur are mostly for smaller volumes to fulfil immediate need to a deadline, at lowered – albeit still sensible – pricing. There are no discernible buying trends in terms of variety, and the Interior can supply volumes of most wines: Reds are more plentiful, but white inventories remain. Sauvignon Blanc supply is probably the most limited. Across the state except in Napa, Cabernet continues to be the hardest variety to move and inventory remains significant.

We have been receiving some inquiries into Coastal and Interior organic wines. Some of these inquiries are a continuation of what has been occurring for the past five years or so, but the category may have been given some fresh impetus by the increasing need for brand value, extra margin, as well as a point of difference to unlock access to the retail shelf after years of

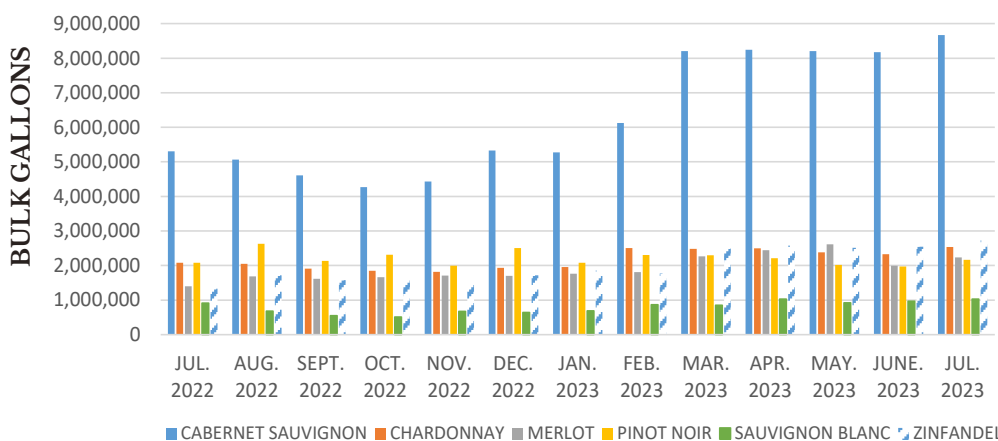
distributor/retail consolidation. Inquiries are mainly in regard to price, availability, and the sustainability of supply. Likewise, there is interest in organic grapes, but these are hard to come by, especially in the Coast. The organic bulk wine and grape markets are in a good supply-demand balance, with output finite, so planning ahead is essential for those seeking to move into this category.

The mood music we are hearing on case-good sales continues to be negative, although it should not be forgotten that some brands are continuing to perform robustly and a few are even seeing strong growth. The Rabobank Wine Quarterly made plain the flat or contracting sales on wines at \$14.99/bottle and under, and the marked slowdown in the growth of the \$15+/bottle categories, the latter likely due to – as set out by another report, the 2023 Drizly Consumer Report – inflationary pressures on consumers and the cost-of-living crisis. In this climate, and given the many unknowns that exist – economy and sales-wise – as we move through the next 6-12 months, bulk buyers would rather be short on inventory than long.

Indicative of this, we continue to have a full sample room. But we can't sell your wine unless we have samples of it, so send them in and we will do our best to match your wine with a buyer.

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 (July 2022 - July 2023)



The Grape Market

It will come as no surprise to anyone who has been reading our reports throughout this year that the grape market has been quiet. In addition to there being questionable need for grapes considering declining case-good sales, the slow bulk market and large wine inventories, the lag in the growing season this year has further delayed decisions on 2023 grapes being made. We believe it remains too early to determine the coming crop size, but we continue to hear from buyers who believe it will be a sizeable crop, causing them to hesitate further.

In the Coast, there has been some activity on Napa Cabernet, Sonoma Cabernet, and North Coast Sauvignon Blanc, but the majority of these deals are for small lots and take a prolonged period of time to close. There have also been some inquiries into Coastal Chardonnay, but most of these have consisted of buyers carefully weighing up their options rather than making moves. As mentioned above, there has been some tentative interest in organic grapes, but on these and conventional grapes there is an undercurrent of feeling among potential buyers that they can wait, believing prices will soften before harvest gets underway.

Grape buyers may, then, come in for some late-season deals, or they may not. This uncertainty forces growers still with unsold grapes, both in the Coast and Interior, to consider all the alternative options. Should they crush their unsold fruit into bulk wine? As we said last month, this should be contemplated very strategically:

“Having a sound, vetted strategy in place before custom crushing is important: It should be treated by growers as a serious strategic diversification of the business and given careful forethought accordingly.” We are here to help growers navigate such deliberations.

As on the Coast, the Interior’s grape market remains slow, with few if any opportunistic buyers present and many of the largest wineries focusing on adjusting inventories through offloading – rather than buying – bulk wine and grapes. The obvious next step for wineries will be to commit to less grapes, at least on the spot market, and to strictly apply the quality standards and delivery schedules set out in their grape contracts, hence why many growers are thinning out later-season varieties. Wineries work hard to nurture relationships they have built, but growers know they need to be focused on delivering quality fruit this year.

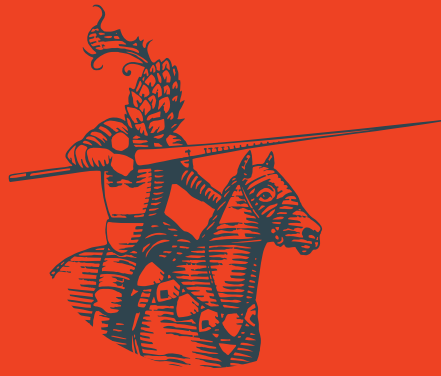
The conversations we are having with growers now are reminiscent of 2019, when the market was similarly slow. Then COVID-19 intervened in 2020, bringing a retail sales spike that saved the industry from having to ask itself some tough fundamental questions. Short of another global event or a dramatically reduced harvest, it is hard to see how answering these questions can be avoided any longer..

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 - *Ciatti’s Todd Azevedo will be speaking on ‘Global Bulk Wine Trends & Opportunities’ at 9am on the 25th*
- **November 30:** WinExpo Tradeshow & Conference



JOHN FEARLESS®

WINE BARREL PROGRAM



WE BUY & SELL USED BARRELS

Located in the heart of wine country, we have an extensive barrel program in which we buy and sell used barrels of all types.

Please contact Thomas Gilbert for any and all barrel related matters:
Thomas@johnfearless.com

WWW.JOHNFEARLESS.COM

FOLLOW US ON



Contact Us : 201 Alameda Del Prado #101
Novato, CA 94949
Phone (415) 458-5150

Chris Welch

T. +415 298-8316
E. chris@ciatti.com

John White

T. +415 250-0685
E. johnw@ciatti.com

Todd Azevedo

T. +415 265-6943
E. todd@ciatti.com

Glenn Proctor

T. +707 337-0609
E. glenn@ciatti.com

Steve Dorfman

T. +707 321-3843
E. steve@ciatti.com

Dennis Schrapp

T. +905 688-1340
E. dennis@ciatticanada.com

Greg Livengood

T. +415 497-5032
E. greg@ciatti.com

Johnny Leonardo

T. +415 717-4438
E. johnny@ciatti.com

Michael Fung

T. +415 630-2541
E. michael@ciatti.com

Jed Lucey

T. +415 630-2431
E. jed@ciatti.com

Mark Ishimaru

T. +415 630-2548
E. mark@ciatti.com

Molly Richardson

T. +415 630-2416
E. molly@ciatti.com

John Fearless CO. Craft Hops & Provisions

CEO - Rob Bolch
Sales - Thomas Gilbert
T. +1 800 288 5056
E. rob@johnfearless.com
E. thomas@johnfearless.com
www.johnfearless.com

To sign up to receive the monthly Global Market Report & California Report, please email info@ciatti.com

DISCLAIMER

Whilst we have tried to ensure the accuracy and completeness of the contents of the California Report, Ciatti cannot offer any undertaking, warranty or guarantee, either expressly or implicitly, including liability towards third parties, regarding how correct, complete or up to date the contents of the California Report is. We reserve the right to supplement or to change or delete any information contained or views expressed in the California Report.

Where we have provided links to third party websites for further information, you should be aware that we are not responsible for the accuracy, availability or functionality of these sites, and thus cannot be held liable, directly or indirectly, for any loss however caused by your use of these linked sites.

Ciatti accepts no liability for any loss or damage howsoever arising out of the use of, or reliance on, the content of the California Report.