



California Report

September 2023
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**Ciatti Global Wine
& Grape Brokers**

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With the growing season continuing to run approximately two to four weeks behind a normal timetable, the 2023 harvest is fully underway in the southern Central Valley but just getting started or not yet ready to commence in most other areas of the state. According to viticultural climatologist Gregory V. Jones, much of California has received 110-200% of its normal precipitation since the turn of the year: The effect of the cooler and wetter growing season was compounded in mid-August by the arrival of Hurricane Hilary, which brought a few days of torrential rain and humidity to many areas.

The mildew problem that has been in evidence all through the season has therefore continued, while botrytis and sour rot have become evident in the southern Valley as grapes have started getting picked. We have heard of significant rejections of fruit, with sour rot the likeliest cause; Zinfandel is the varietal mentioned most in this context, though that may simply be because it is one of the first varieties to pick. So it follows that Colombard, Chenin Blanc and the florals have also been mentioned.

Limited spots of botrytis have also been visible in the Coast. With Brix levels still short and picking yet to start, it is still too early to determine if this will be an issue. The perception in the Coast is that treatments have kept mildew and botrytis under control, although there have been some rejections of fruit related to the former. The greater disease pressure this year has occurred in the context of a low-demand, high-inventory bulk market that has led wineries to strictly enforce the quality standards set out in grape contracts. It is no surprise, then, that rejections are taking place.

Now September has arrived, it is too late for the growing season to catch up to a normal timetable, regardless of weather. A compacted harvest is therefore in store, with trucking and crush facilities likely in very high demand from late September through the beginning of November as grapes all ripen together in a very narrow timeframe.

Indicative of its lateness, it remains too early to guesstimate the crop's size, even at the time of writing in the first half of September. Further confusing the volume picture is the likelihood of field rejections of contracted fruit due to quality issues and – as in 2019 during a similarly quiet market – uncontracted fruit going unpicked. It appears the Coastal crop may have continued to size over the past month, leading some to believe the total crop currently hanging on the vine is normal-sized, although by the time it crosses the scales it may have become lighter.

On both bulk wine and grapes, buyers are holding back to gauge their needs. They are trying to discern if they will need to source, what they will need, and when, and – importantly – the most cost-effective way of proceeding. In a period of slow sales and higher interest rates, bulk wine buyers prefer incremental purchases close to bottling dates, providing quicker cash returns. Buyers and sellers alike are having to be nimble to ensure they make the transactions they need – the Ciatti team can draw on its decades of experience to help facilitate these. In the meantime, read on for our latest analysis.

Robert Selby

The Grape Market

The current slowness of bulk and therefore grape demand is illustrated by the limited number of grape buyers – as yet – coming onto the spot market to replace grapes they have rejected. Quality issues have failed to stimulate much late-season demand for extra fruit or bring about a spot market. Much of the activity that has occurred has consisted of inquiries from buyers gauging whether or not to buy uncontracted riper fruit as insurance against their later-ripening vineyards.

In general, the lateness of picking has served to delay decisions on whether or not topping-up/replacing volumes via the spot market is required. With the main body of the crush likely to be compressed into a very narrow timeframe, some of these decisions may not get made in time, and any available crush capacity will need to be prioritised for the grapes they already have anyway. This potentially leaves growers with uncontracted grapes a choice: Leave fruit unpicked, or custom crush. As we have been saying for some months now, 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.

What grape buying activity has occurred over the past month or so? Whites have been of interest in the Coast, with some deals on Chardonnay, and some truckloads of riper fruit for aforementioned insurance purposes. There have been early, tentative inquiries into late-season deals on Coastal grapes if discount prices can be offered.

Some limited Cabernet grape volumes were acquired in the Interior for very specific programs requiring more supply, but this is certainly not indicative of the broader Cabernet grape market in the Interior. There have been some late-season deals in the Interior on white blenders. The region's Pinot Grigio grapes continue to receive attention, but supply is limited. Interior overages on white varieties in general – including Sauvignon Blanc and Pinot Grigio – could potentially command some interest.

Only limited demand has been driven by the need for replacement volumes. In many cases, wineries can afford to come in short on the grape side this year, either because they possess more than enough bulk inventory already or because they are confident of locating the wines they need after crush.

It ought to be emphasized that wineries are simply adhering to the quality standards set out in grape contracts amid a seemingly challenging year for grape growing. In addition to the impact of this year's tough vineyard conditions, it can be argued that the 2020/21 pandemic-induced spike in bulk demand paused the rationalization of older or more problematic vineyards that may otherwise have been pulled out after the slow year of 2019, increasing the percentage of available fruit this year.

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.

The Bulk Market

Some limited activity has recently occurred on the bulk market, an encouraging sign in what is traditionally a slow time of year. This activity has mainly taken place on Napa Valley Cabernet, Sonoma County Chardonnay, California Cabernet, and some small batches of Sonoma County Pinot Noir. Sellers have continued to become increasingly cognisant of the slow wine sales picture and are open-minded to fair offers.

Some clean-up activity has occurred on Interior Cabernet at the lowest pricing seen so far this year, approximately in line with where it stood in 2019 before the COVID-19 demand spike. Even at such pricing, buyers are choosy on quality and can afford to be, with a range of options to select from, indicative of the Cabernet – and wider red wine – inventory size in the Interior and across the state. Likewise, some recent,

scattered premium activity on Napa Cabernet and Sonoma Chardonnay has occurred at reduced prices, with suppliers willing to accept those prices in order to move inventory. The Napa Valley Cabernet market has begun to reflect the wider market, with premium-quality wines still commanding buyer attention and the highest pricing, while more standard high-quality wines languish or move for slightly softened prices.

We continue to receive buyer inquiries into Central Valley Pinot Grigio: In fact, the varietal has probably commanded the most attention all year, attention that has moved onto the 2023 wines and grapes. Pinot Grigio is traditionally a low-margin varietal and buyers and sellers, vying for the margin, are often apart in terms of price expectations.

Current bulk pricing is generally difficult to quote due to the limited number of transactions. Consequently, it is hard to discern if some prices have reached their bottom. This cannot be ruled out if buyers have this year acquired fewer grapes as part of inventory adjustments (or simply because they do meet quality standards), the 2023 crop comes in shorter in general, and wine's October-November-December retail sales numbers are decent. Current prices constitute an opportunity, offering great value, and now may be the time to take advantage. For now, however, many buyers are confident inventory will be available on the bulk market after crush, regardless of crop size, and feel little pressure to move.

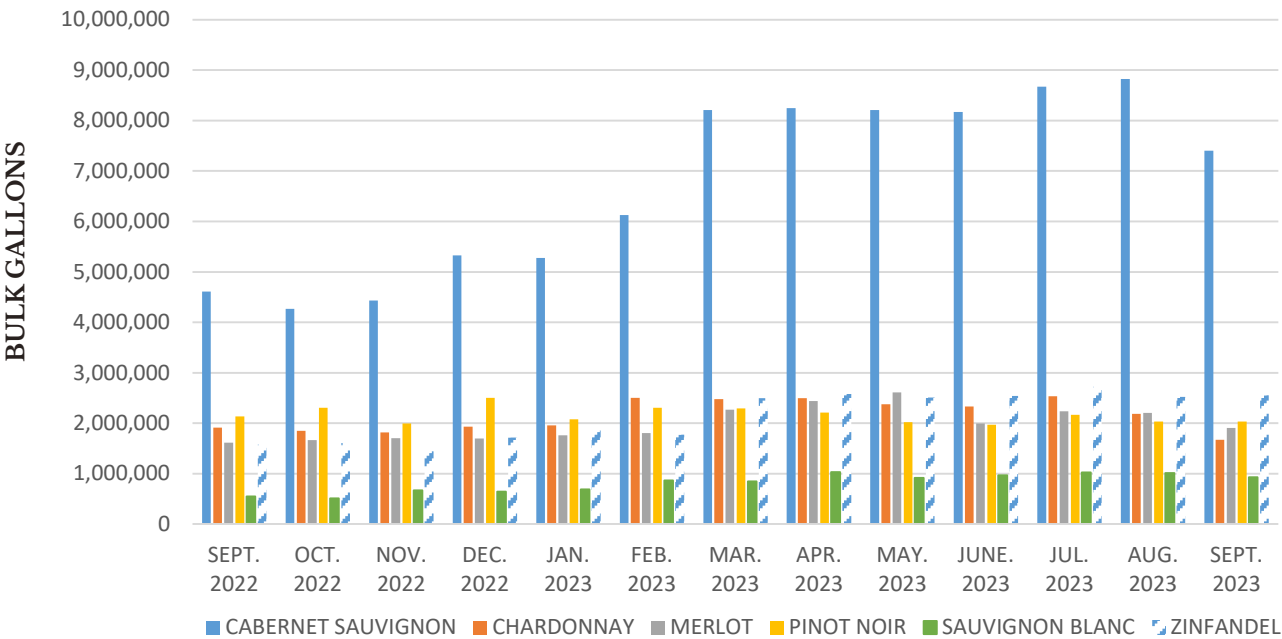
Latest SipSource data shows wine distributor depletions in the US down 6% in the 12 months to June 2023 and 7% down in the first half of the year; it attributes this to tough comparables versus 2021/22 (the tail-end of COVID's pantry-stocking spike) and the impact of inflation on consumer spending. Data moving forward

is expected to be less negative, if nothing else because comparables will become gentler. Additionally, annual inflation has halved in the past 12 months, although in July it experienced its first uptick in a year, from 3% to 3.2%, and interest rates currently stand at 5.5%, up from 3% a year ago. The wine industry will be watching the important OND holiday season sales closely.

Meanwhile, Impact Databank reports the mid-market – the \$20-25/bottle category for example – performing well in retail relative to the lower-end and in some cases the higher end. Buyers for brands well-placed in this more positively-performing part of the market are being careful not to over-extend their inventory and are adhering to the dictum set out above: incremental purchases for quick bottling and sale.

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.

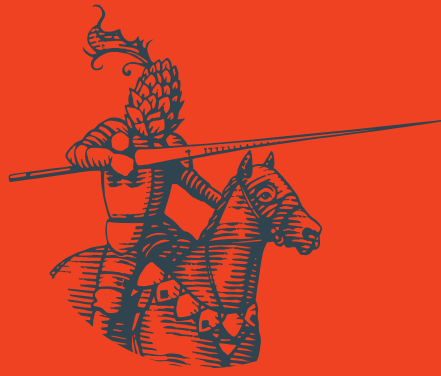
California Bulk Wine Inventory (September 2022 - September 2023)



Events

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

- **November 30:** WinExpo Tradeshow & Conference



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