



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

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Mid-September brought three to four days of rainfall to California, mainly to the North Coast's growing areas and in the lower Central Coast areas around Santa Barbara. Up to three inches of rain fell in some parts. Isolated Central Valley areas also received precipitation. Since then, the weather has been excellent – warm and clear – for finishing up harvest in an orderly manner.

The rain fell just a few days after an intense heatwave that brought a week of 105-115° temperatures. Such volatility of conditions was simply the latest in a growing season that has experienced the full spectrum – excluding wildfires/smoke – that Mother Nature can throw up, sometimes back-to-back: Isolated frost and hail, record heat, rain and humidity, cloudiness, more record heat, more rain, all the while drought being an underlying concern. Early September's heatwave potentially imbalanced grape chemistry in some areas and rapidly put on sugar; days later, rainfall may have reversed those sugar increases. Such a growing season may present challenges for winemakers, but we have not heard of any large rejections of fruit and do not foresee any wine quality issues.

Meanwhile, picking continues, with the mid-September rain potentially stretching out the harvest finish. The final stages of the picking timetable in Lake and Mendocino have slowed back towards a more normal year; Sonoma is still ahead, picking Cabernet 1-2 weeks early. The feeling is the North Coast crop is lighter than the average on most varieties, certainly Chardonnay, Sauvignon Blanc, and Zinfandel. Most North Coast areas are likely to see lighter crops, except Mendocino where output appears a little closer to average in those parts of the county that escaped the early-season frost. The Central Coast is approximately 85-90% through harvest; many growers state they have two weeks or so left of picking, which would mean harvest concluding close to a normal time. Chardonnay and Pinot Noir – including in Monterey – have come in light; Cabernet is amid picking now. Overages have not been in evidence in the Coast.

Yields in Lodi and the Central Valley seem a little better relative to the Coast, perhaps closer to the average. A tendency to feel the crop is short is potentially attributable to the balanced grape market in the Interior. Overages have occurred and have been acquired, sometimes at full price. Pockets of southern Valley Muscat keep popping up, suggesting an above-average crop for the variety this year. The picking timeline has been a little ahead of a normal year, and – in some instance – may have been further ahead were it not for some logistics and winery logjams as grapes became ready all at once.

We maintain our rough estimate of a 2022 crop of 3.5-3.7 million tons, the closer-to-average crops in Mendocino and the Interior likely averting an overall figure below 3.5 million tons. Last year's crop was 3.61 million tons and 2020's was 3.4 million, so 2022 would be the third-successive crop in which output is well below the 4-million-ton mark that we take as the average.

Read on to find out how perceptions around the new crop are affecting the grape and bulk wine markets. Given the earliness of the crop, we are already receiving requests for samples: Get in touch with your grape and bulk wine supplies and needs as soon as possible – the Ciatti team stands ready to help match buyers with sellers and disseminate samples.

Robert Selby

The Grape Market

Since a slight uptick in Coastal grape activity in September, the spot market has returned to being quieter than might be expected given the third-successive short crop. This may be indicative of a range of factors: The crop's lightness reducing supply, so there are not many spare grapes to find; existing buyers may have quietly taken any overages that have arisen; prepared to custom crush, many suppliers are bullish on price; if suppliers do have excess, they may not be prepared to sell at a reduced price.

In the Interior, meanwhile, there has been the odd deal on overages that pop up (mainly Cabernet so far), but the grape market in general has been quiet since about a month prior to harvest, when some grape contract negotiations were broken off early. This might be indicative of a retail sales slowdown, especially as this buying slowdown came despite it becoming clear the Interior's new crop was coming in average-sized at best. This suspicion is supported by the appearance onto the bulk market of grape buyers as wine sellers.

The Bulk Market

The uptick in bulk wine activity that we registered in September, due to signs of a shorter crop, has continued to an extent: Activity levels so far in October have been average for the time of year, when the industry is still busy with crush, and perhaps better than in recent years (with the exception of the smoke-affected 2020 crop). It could be said that the bulk market's steady pace is emblematic of a market currently in a relatively balanced supply-demand dynamic.

Much of the bulk activity has been occurring on the remaining 2021 wines and some pricing on these has firmed-up. There have been some inquiries into 2021 Coastal Pinot Noir and Cabernet; supply of 2021 Napa Cabernet is extremely limited. In the Central Coast, 2021 Paso Robles Cabernet and Monterey Pinot Noir have received interest, but not many deals have been done; supply of both remains sufficient. Demand for Santa Barbara Pinot Noir remains quiet.

Activity on 2022 wines has been more muted, certainly more than one would ordinarily expect to see on a new vintage in a third-successive short year – perhaps indicative of case-good sales performance. When inquiries do come in for 2022 wines, they are mainly regarding Coastal whites, namely Sauvignon Blanc and Chardonnay.

Ultimately a disconnect in price expectations persists in the Coast, with the short crop encouraging some sellers to reset prices to a higher level. While some buyers will meet those expectations as they must augment specific sub-appellated programs, others may be seeing slower case-good sales and do not wish to risk being oversupplied. The price expectations disconnect is dragging back Coastal activity levels, and there is availability on particular varieties – Cabernet, Pinot Noir – in the Interior at lower pricing.

In the Interior, there have been good activity levels on 2021 Pinot Grigio, Chardonnay and dry white, and interest in the new 2022 white wines too. As mentioned above, the Interior's 2021 Cabernet availability is plentiful and being acquired in small batches, best qualities first. The high availability levels are disincentivizing buyer proactivity, while disappointing retail sales – especially in the \$10/bottle and below categories – are turning some buyers into sellers. Potential buyers have been inquiring into the Lodi Cabernet market in the past few weeks.

Firm pricing resulting from a short crop has led to some interest in importing Chardonnay and Pinot Grigio from Australia, encouraged by the dollar's strength against the Australian dollar (AUD\$1 is currently worth approximately USD\$0.62-0.65,

See next page for more on The Bulk Market.

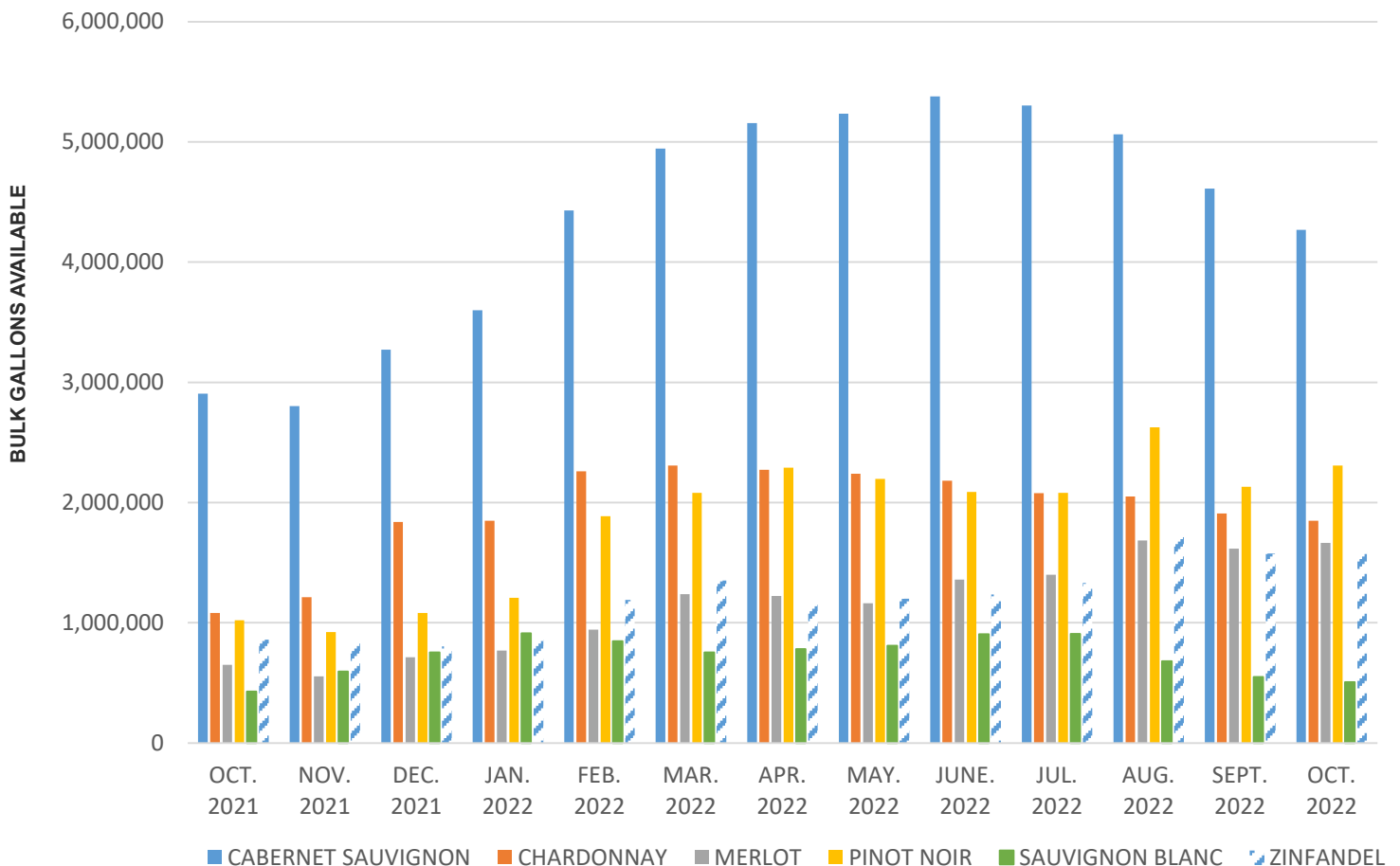
down from USD\$0.75 a year ago). South America could become a more attractive source again as the Pacific shipping routes improve, though ongoing contract negotiations between longshoremen and their employers at West Coast ports have the potential to disrupt this process. On the flip-side, the dollar's strength places further pressure on California's stuttering bulk wine export performance, brought about by firm pricing and a lack of conducive trade deals – both the proposed Transatlantic Trade & Investment Partnership (with the EU) and the Trans-Pacific Partnership (with 11 other Pacific Rim economies) having been abandoned in recent years. Declining export performance is bad news for sales of a range of southern Valley wines, particularly white Zinfandel and dry white.

The supply of grape juice concentrate and related products resulting from the 2022 crop remains unclear,

with some suppliers short and others possessing sufficient volume. In general, it feels like there is enough standard white GJC in California to supply demand, although price points may be such that importing comes into consideration for some buyers.

Wine sales at US retail continue to fall back versus the 2020 and 2021 pandemic spikes, while there is growing evidence inflation is dampening the post-pandemic on-premise rebound. In a recent survey of US adults by market intelligence company Morning Consult, 84% of respondents said that – as a result of inflation – they were eating out less at restaurants, 73% said they were going out to bars less, and 63% responded they were buying less alcohol in general. Inflation is forecast to see its third consecutive fall in September, to 8.1%, down from 8.3% in August, 8.5% in July and 9.1% in June, but consumer pessimism stoked by economic uncertainty is likely to persist for some while yet.

California Bulk Wine Inventory (October 2021 - October 2022)



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