



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

August 2021
Volume 4, Issue No. 8

**Ciatti Global Wine
& Grape Brokers**

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Severe drought across California and high temperatures – especially in the Central Valley – have sped up grape ripening across the state so that the 2021 harvest has, in general, commenced a week or so early and is proceeding quickly. Picking in the Coast is just getting underway on sparkling grapes while the Central Valley is well into the white varieties. The early volumes are coming in slightly lighter than grower estimates – in the Valley by around 10-15% – but quality looks good.

The main concern is a compressed picking period, as the high temperatures have, in some areas, readied Brix levels on multiple varieties all at once. The harvest commenced with crush capacity and storage space to spare, so this compression should not necessarily be a significant problem at wineries. Perhaps a bigger headache is a trucking shortage: Due to lack of drivers and high demand levels for transportation as the US economy reopens, it may take longer for grapes to get to where they need to be.

The State Water Resources Control Board has issued emergency curtailment orders on agricultural access to the rivers of the Sacramento-San Joaquin Delta watershed – essentially the entire Central Valley – and much of the Russian River. The board said water levels have reduced to “alarming lows” and what remains must be conserved for drinking supplies. The water usage restrictions are likely to continue to spread and they, and the drought itself, will probably have a cumulative impact on the final crop size. Not enough grapes have yet crossed the scales to make a fully confident estimate, but going by eye test we do not expect the crop to reach 4 million tons, though nor do we expect it to come in as low as last year’s 3.4 million tons – unless any future wildfires have an impact. Our suspicion of a crop of around 3.6-3.7 million tons was corroborated by a USDA/California Department of Food & Agriculture estimate, issued 12th August, of 3.6 million tons.

The large Dixie Fire in the northeast of the state has not affected the crop either in the Coast or Valley. Some smoke haze was visible in the air above some areas, but not for long enough to have an impact; a genuine onshore flow has been pushing most of the smoke away to the east. Concerns regarding wildfires and attendant smoke will of course remain until at least fall.

Overall market activity remains steady. Buyers are exhibiting some caution – both on wines and grapes – while they wait for the crop picture to become clearer. Sensitive to the risk of finding themselves with excess inventory, they are also keeping a close eye on the COVID-19 picture: The US is seeing a steady rise in infections – back to daily new case levels last seen in February – driven by the Delta variant, and mask mandates are returning in some circumstances.

Read on for our latest assessment of the bulk wine and grape markets, don’t hesitate to call so that we can help you navigate the twists and turns of the market, and stay safe.

Robert Selby

The Bulk Market

The bulk market is steady: 2020 and older vintage California supply is highly limited while the Coastal wines that buyers are seeking – Sauvignon Blanc and Russian River Chardonnay, for example – are low in availability as well. The remaining supplies of 2020 Coastal wines – mainly Cabernet and Pinot Noir – do receive buyer interest but are often priced too high for deals to be closed. With uncertainty around harvest size and consumer demand, some buyers remain happy to wait for the Coastal market to come to them. In recent months they have been able to take advantage of some significant amounts of attractively-priced 2020 Coastal bulk wine being placed back on the market.

Of Coastal wines it seems only Napa Valley Cabernet can consistently command interest and premium pricing. Perceptions of smoke exposure on 2020 Coastal wines persist to a limited degree and might help partially explain the slower Coastal market. That said, as mentioned above, if the price is right interest does emerge, particularly from negociants. Our bulk wine inventory graphs vividly illustrate the dichotomy in Coastal versus California inventory levels.

Some bulk wine suppliers have become negotiable on price in order to free-up storage space for the new harvest or avoid storage costs, but we are also seeing – with the uncertainty around the 2021 crop size – other suppliers content to hold onto their wines in the hope they can command a higher price post-harvest. We have also seen a continuation of what we noted last

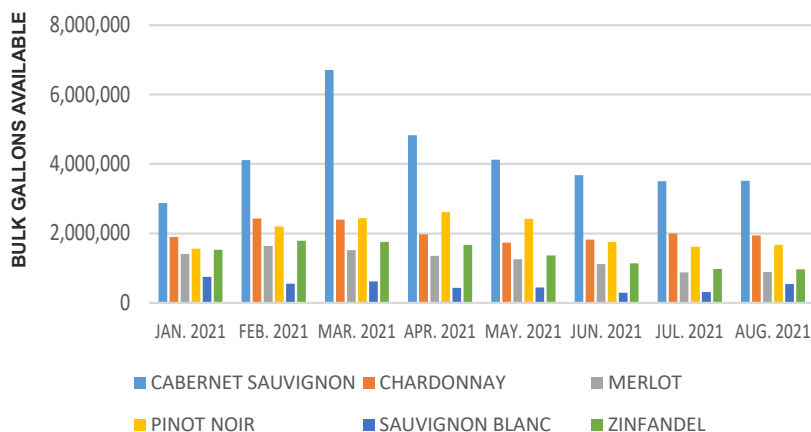
month: Wines are being pulled from the market by wineries as they may in fact need it for themselves.

According to NielsenIQ statistics, total wine sales value in the US off-premise fell more than 10% in the March 6th to July 10th period versus the equivalent period of 2020, but remained 17% up versus 2019. (This value increase versus 2019 is smaller than those experienced by the spirits and beer categories.) NielsenIQ said sales value has held up a little better than sales volumes because sales of sparkling and higher-priced wines are outpacing the overall wine market, with Napa Valley and Oregon enjoying the smallest decrease in sales versus last year and the largest increase versus 2019.

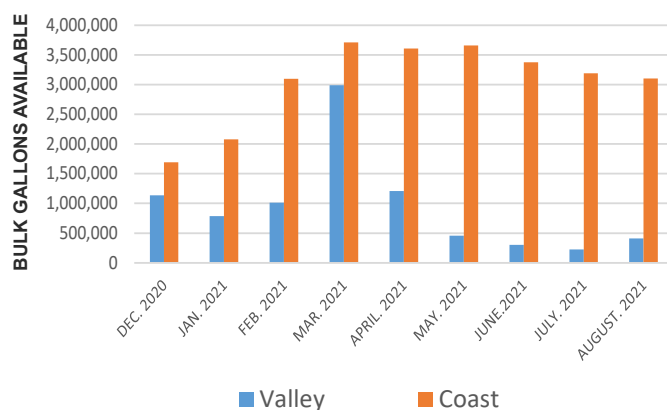
The 2021 edition of Shanken’s Impact Databank Review & Forecast, meanwhile, estimates a total wines sales volume in the US down 0.5% in 2021 “after 27 consecutive annual gains”. Again, it cited premiumization as a good news story, with “premium-plus table wines” (those retailing at \$10 per 750ml bottle and higher) outperforming the overall market. However, we believe this is simply helping to differentiate mid-level domestic wines from entry-level imports and diversify the California appellation offering in general. This to some extent comes at the expense of non-Napa Valley Coastal appellations, which are – particularly with on-premise demand constrained by the pandemic – finding their bulk prices too high for the off-premise retailer and their area prestige of limited interest to the grocery store shopper.

Bulk Wine Inventory Graphs

California

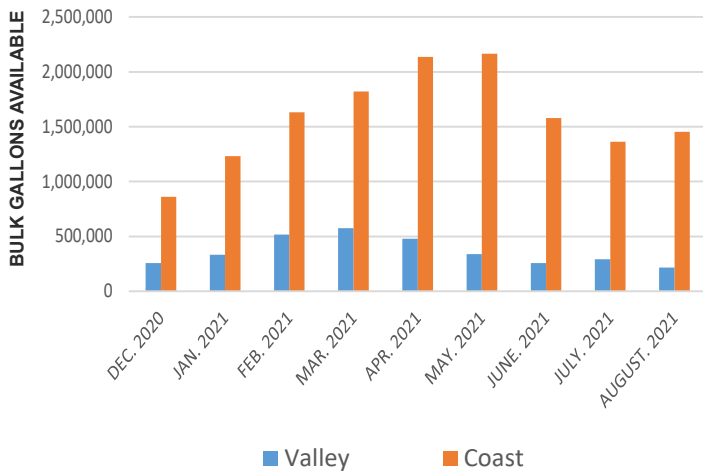


Cabernet Sauvignon

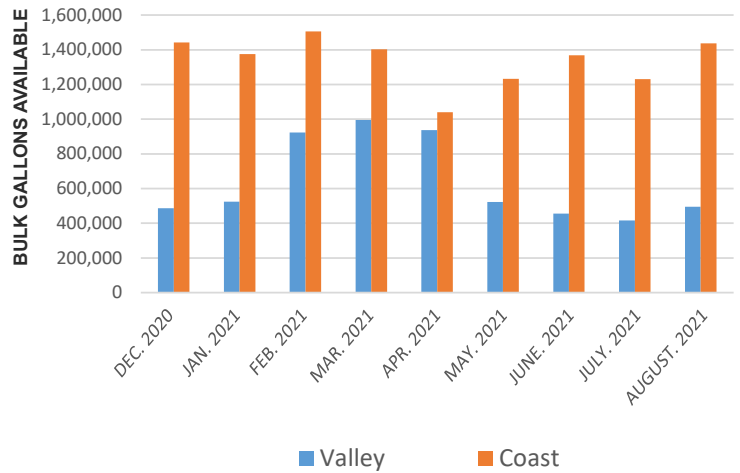


See next page for more.

Pinot Noir



Chardonnay



The Grape Market

The Central Valley's 2021 grapes are fully pre-harvest contracted but some availability remains in the Coast, mainly on Cabernet, Zinfandel and some Pinot Noir. These varieties are receiving inquiries – sometimes from buyers who would normally source in the Valley – but there is often a large gap between the prices the grower and the buyer seek. With the off-premise continuing to drive demand, some of the availability on these Coastal grapes may be explained by some brands shifting their sourcing into California as the pricing makes more sense. Over time, and exacerbated by the pandemic, demand for non-Napa Valley grapes in the Coast is eroding and that erosion will potentially need to be offset by an increase in the efficiency of Coastal vineyards.

Coastal Chardonnay and Pinot Gris are seeing continuing activity. We are receiving a lot of inquiries for Sauvignon Blanc grapes but they appear to be sold out across the state, leading to early requests for samples of 2021 Sauvignon Blanc wines. This is a continuation of the tightening Sauvignon Blanc market we saw developing last year. What is interesting is Sauvignon Blanc was the only major variety to see a production uptick in 2020 versus the previous year, so it appears demand has continued to grow.

The current grape market picture – in which supply is relatively limited – suggests to us that there will not be much of a spot market for 2021 grapes. Rather than sell grapes at a spot market price, many suppliers will likely crush their fruit themselves in order to harness bulk wine demand later on, especially as the harvest is looking lighter, crush capacity and storage is available, and – with a lighter yield – returns per acre will be affected just as growers are looking at higher logistics/labor costs this year.

As on the bulk wine, any current buyer hesitancy on remaining unsold grapes is likely due to the hazy picture on the harvest and future consumer demand. There is an understandable hesitancy about taking on financial risks at this stage.

With Central Valley grape supply very tight, grape juice concentrate prices are set to rise, both on red and on white. GJC suppliers will be focusing on honoring their existing contracts, with limited availability for new ones, as sourcing enough grapes – or enough grapes at the right price – has been a challenge this year.

Good Luck with harvest this year! And let us know if we can help you with any supply needs you may have.

Structan

A Smoke Taint Solution



As many winemakers in California are currently only too aware, after wildfires blazed across the state following August's freak lightning storms, the biggest commercial damage caused by fire can be smoke drifting into vineyards prior to – or during – harvest. Wines made from smoke-affected grapes can be characterized by unpleasant smoky, ashy or burnt aromas with an excessively drying back palate and retronasal ash character. Unsurprisingly, consumers have been shown to respond negatively to such wines.

The three main factors that determine if smoke-exposed grapes become smoke-tainted are: the growth stage of the grapevine, the variety of the grapes and the length of their smoke exposure. Grapes close to picking readiness, grapes being of the typically most susceptible varieties (Cabernet and Pinot Noir of the reds, Pinot Grigio, Chardonnay and Sauvignon Blanc of the whites), and prolonged smoke exposure, increase the taint risk. All three factors currently apply in California: the smoke has settled in vineyards mid-harvest, the most sensitive varieties are the state's leading cultivars by acreage, and smoke has been lying in some areas for many days.

The compounds in smoke known as free volatile phenols (such as Guaiacol and 4-methylguaiacol) are absorbed directly by the grapes and can bind to grape sugars as glycosides. These glycosides break apart during fermentation (or over time in the barrel or bottle), releasing the volatile phenols into the must/wine so that a smoky flavor becomes perceptible. They can also be released in the mouth during drinking, contributing to the perception of smoke taint.

What solution can our partners at Stoak Technologies offer winemakers visited by smoke? Well, Structan – their all-natural, organic-certified, liquid oak extract – cannot only be used as a finishing tannin and wine stabilizer but also as a smoke-taint masking option. Results from chemical analysis and

sensory evaluation against a control, carried out by PhD research in the Viticulture & Oenology Department at the University of Stellenbosch, have shown that Structan reduces the perceived intensity of smoke-taint flavor and aroma in smoke-affected wines.

While other winemaking interventions – such as reverse osmosis – may reduce the concentration of smoke-derived volatile phenols in wine, it has not yet been shown that it is possible to completely remove them and, anyway, such interventions also strip the wine of its best characteristics (and any positive impact does not last). Structan, however, successfully masks the volatile phenols through increasing the wine's overall complexity, thus preserving the wine's best flavor, aroma and color attributes, for up to five years.

In fact, one of the Western Cape's premier wineries, which sells its wines into the European market, used Structan to make a highly successful red wine. That was after a wildfire similar to those seen in California, when thick smoke lingered in the vineyards for three weeks.

In summary, Structan is your smoke taint solution. And its stable liquid form makes measuring and adding really simple, with no premixing or dissolving necessary. Just dose during the fermentation process and/or in the blending tank, to get stabilized, complex wines free from unpleasant flavors and aromas. Give us a call.

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