



CIATTI
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California Report

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**Ciatti Global Wine
& Grape Brokers**

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September brought consistently warm temperatures to California but no weather extremes. Most areas are moving into the final stages of harvest earlier than normal, to varying extents, though parts of the Central Coast are noticeably behind – Monterey, for example, is not estimated to finish picking until sometime in the first half of November. Growing areas have been unaffected by wildfire smoke, especially as those parts currently at higher risk of poor air quality have already finished harvesting.

For a breakdown of the latest harvest news by area, see the next page. As well as being late, the crops in Monterey and Santa Barbara are – in stark contrast to those in the rest of the state – looking larger than average, and there has been some sizing up in evidence on the late-season varieties in Lodi. Consequently, we feel more confident that the state’s August forecast of 3.6 million tons still holds true. There have been issues around this year’s harvest that will not affect the final crop size and which are not exclusive to the wine industry, having been brought about by the post-pandemic economic recovery in the US: Attracting labor has been challenging and the cost of it has risen, while many wineries and growers have been affected by the nationwide trucking shortage. Crush and storage capacity, on the other hand, has not been a widespread problem.

There have been some late-season deals for Central Coast fruit but, in general, 2021 grapes are now fully contracted in the Coast, just as they have been for some time in the Central Valley. Buyer hesitancy on the Coastal bulk wine market persists, far more than would normally be seen in a second-successive lighter crop year. On the remaining 2020 wines this uncertainty can at least be partially attributable to smoke exposure perceptions, but the relative softness of 2021 demand points to a lack of confidence regarding future sales of Coastal wines. The California appellation is driving sales in the pandemic/post-pandemic off-premise environment, which hints at the pricing level many buyers are expecting for wines from anywhere in the state of California outside the most exclusive appellations such as Napa Valley.

California’s drought is not set to be greatly alleviated any time soon, with forecasts of a La Niña effect emerging during October/November that has “fairly high odds” – according to viticultural climatologist Gregory V. Jones – of causing a drier than average winter throughout the state. After a dry year and some challenging environmental conditions, we do see vines in certain areas looking tired and requiring the reset a winter with healthy precipitation levels brings. Vine condition can transform quickly if rain does come, but it is something to keep an eye on over the next few months as we begin to take next year’s potential yields into account when making decisions. On that note, whether you’re a buyer or a seller we are here to help you navigate the twists and turns of the market now and for the long term: Don’t hesitate to get in touch if you need our assistance, and stay safe.

Robert Selby

Harvest Update – by area

North Coast

In general, the North Coast's harvest has been proceeding 7-10 days ahead of normal and the traditional picking sequence has been disrupted, with reds getting picked before whites in some instances. Harvest size varies between varieties and areas – with some pockets of Sonoma County seeing better results – but in general it looks like being approximately

15-35% down from the multiyear average. Degree-day accumulation has been close to last year and there were some unseasonably warm days in late September into October, but October is ushering in some early morning drizzle and cooler weather. All reports are consistent in citing Sauvignon Blanc as having seemingly suffered the largest shortfall

Central Coast

The Central Coast has been progressing later than the rest of the state all through the growing season, and now picking is underway the delay has become stark: Monterey was estimated to be only in the first 20% of its harvest as of October 5th, with an estimated finish of the first or maybe second week of November. Santa Barbara is also markedly behind a normal timetable. The Chardonnay potential looks large and, indeed, Central Coast Chardonnay could be the last grapes to be picked this year in California. One theory is the

Central Coast is more used to drought conditions than the North Coast, another that the area was spared some of the early frost/freeze events or diurnal fluctuations in temperature experienced elsewhere in the state. The reasons for the contrast may be unclear but the result is not: the Central Coast is performing better in terms of crop size, percentage-wise, than the other areas. As in the North Coast, temperatures by the second week of October are due to turn cooler and carry a frost risk; the prospect of this has sped up picking

Central Valley

Lodi and the northern Central Valley's crop has sized up a little more in recent weeks as the late-season varieties like Cabernet and Petite Sirah have come in better than the majority of the whites and Zinfandel. That said, some Cabernet still on the vine is struggling to attain the ideal Brix levels and there has been some dehydration visible, suggesting final juice yield might be disappointing in some instances. Overall, the crop

will be lighter than average but some varieties could reach their normal numbers. In the southern Valley, meanwhile, the shortfall seems greater and more consistent across all varieties – one estimate is 10-15% below the multi-year average. Harvest in the southern Valley is drawing to a close, with high-yield Muscat still coming in.

The Bulk Market

As mentioned last month, the bulk wine and grape markets are not as active as might be expected amid a second successive lighter crush. This highlights buyer hesitancy in the marketplace – fueled by a lack of a clear sales picture but also some pessimistic sales projections doing the rounds in some quarters. Some wineries at the premium end of the market in particular are experiencing flat sales and – even with a lighter crop – may have wine they would try to sell in bulk if the market is strong enough.

Wine sales volumes in the US continue to be up versus the last comparable year, 2019, though diminishingly so. In general, volumes are being reported as moving back to where they were pre-pandemic, or remaining just a little higher. DTC sales and a reported \$12-20/ bottle “sweet spot” are apparently outperforming the overall market, and hard seltzers are reportedly seeing

contracting sales volumes after gangbuster growth in recent years, but there have been so many fluctuations over the past six, 12 and 18 months in trend lines that it is very difficult to make any projections with a great deal of confidence.

There has been some bulk wine activity on 2021 Coastal Sauvignon Blanc – no doubt in response to signals of a below-average Sauvignon Blanc crop this year, at least in the North Coast. Similarly, there has been some activity on 2021 Coastal Merlot. Interest in bulk remains focused on 2021 wines: The 2020 vintage is still suffering from smoke exposure perceptions.

It ought to be noted that we estimate the state's total bulk wine inventory as currently being considerably smaller in size than it was before the wildfires struck in August 2020. Additionally, some sellers have pulled

See next page for more.

wines off the market as – given the lighter 2021 crop – they may need it for themselves. That said, Coastal wines account for most of the inventory and it could build if such wines continue to experience difficult sales at the consumer end – either because of reduced wine lists in the on-premise or the dominance of California-priced wines in the off-premise. Additional bulk availability could pop up from those Coastal grape suppliers who have decided to crush their fruit themselves in the hope that the bulk price is better than the grape price.

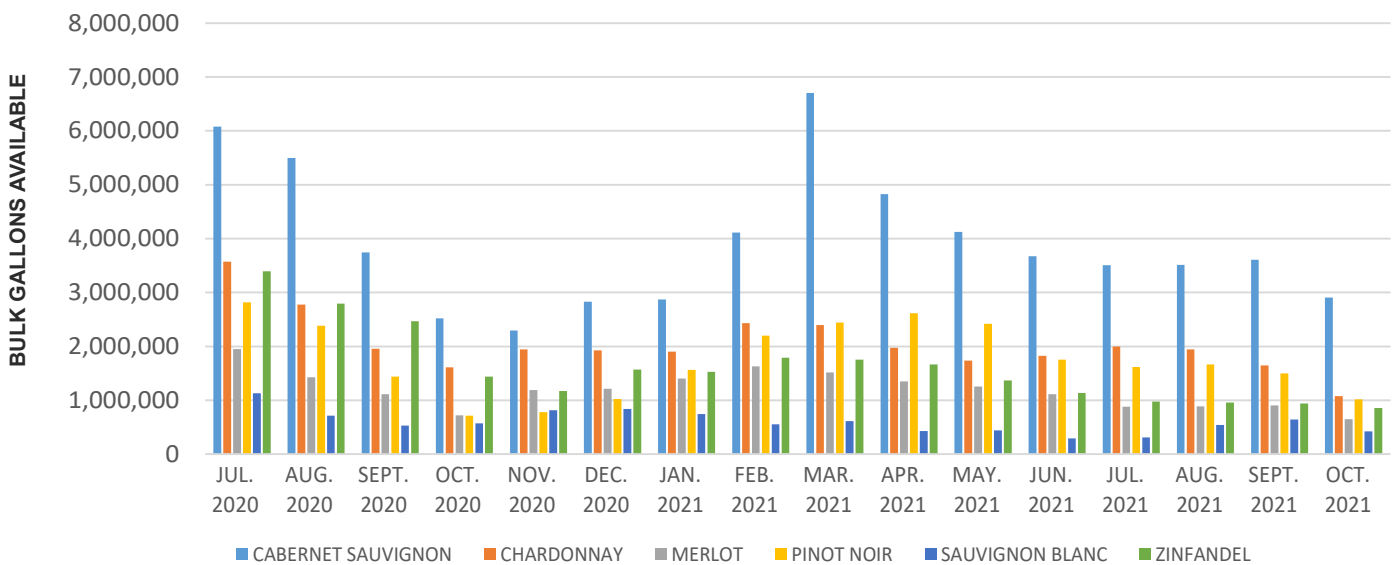
The lack of momentum on the Coastal bulk market – outside Napa Valley Cabernet – is highlighted by the

fact that specific varietals from specific Coastal areas are priced at their lower end in an attempt to attract a buyer, even though, simultaneously, harvest tonnages on those varietals in the same area are coming in light. Meanwhile, Central Valley inventory is very low – perhaps it was at an all-time low going into harvest – and prices are firm.

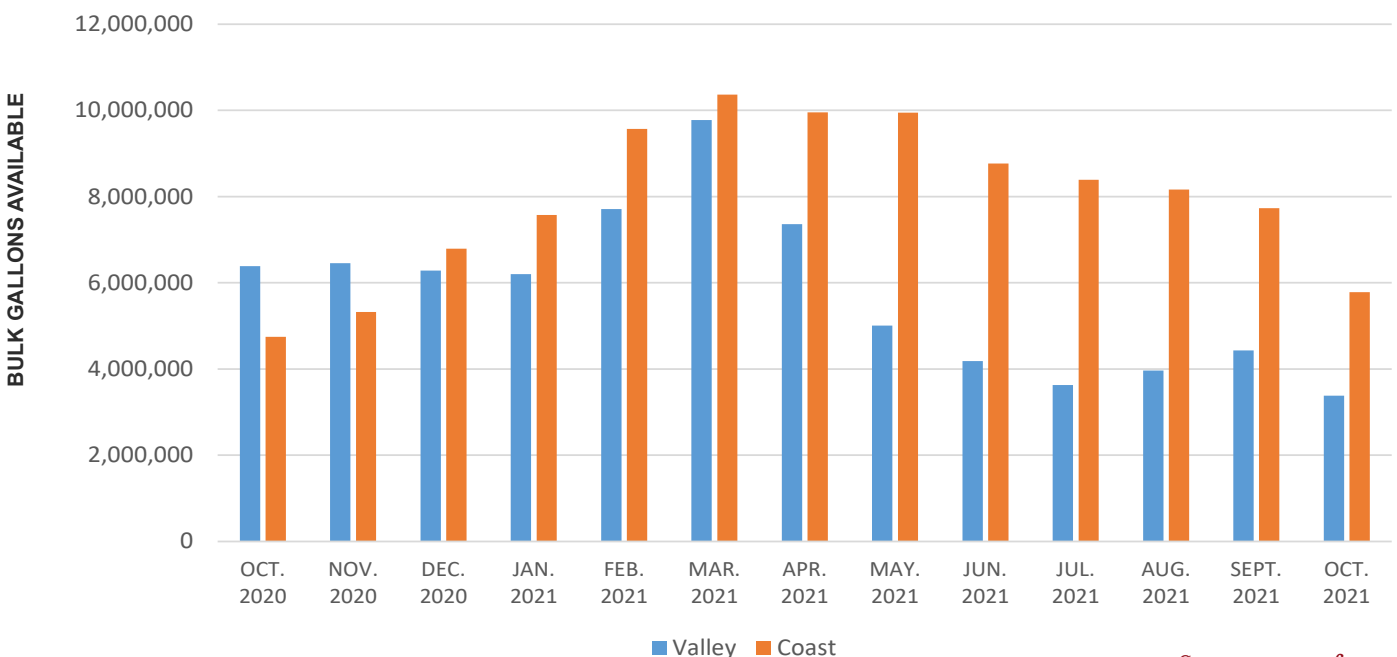
In short, the bulk market picture is mixed and we need to get through this crush and then assess what the availability is and where – but one conclusion that is likely to be drawn is that Coastal inventory that does not end up in Coastal brands will see pricing move towards where the demand is focused: California wines.

Bulk Wine Inventory Graphs

California Bulk Wine Inventory Inventory (July 2020 - October 2021)



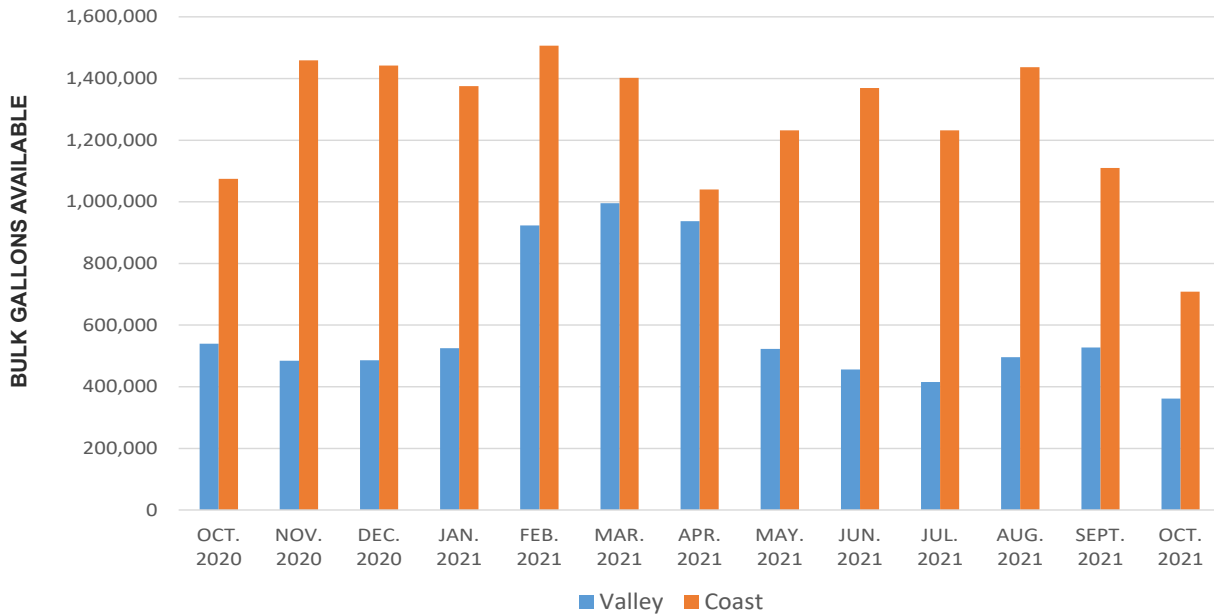
Valley & Coastal



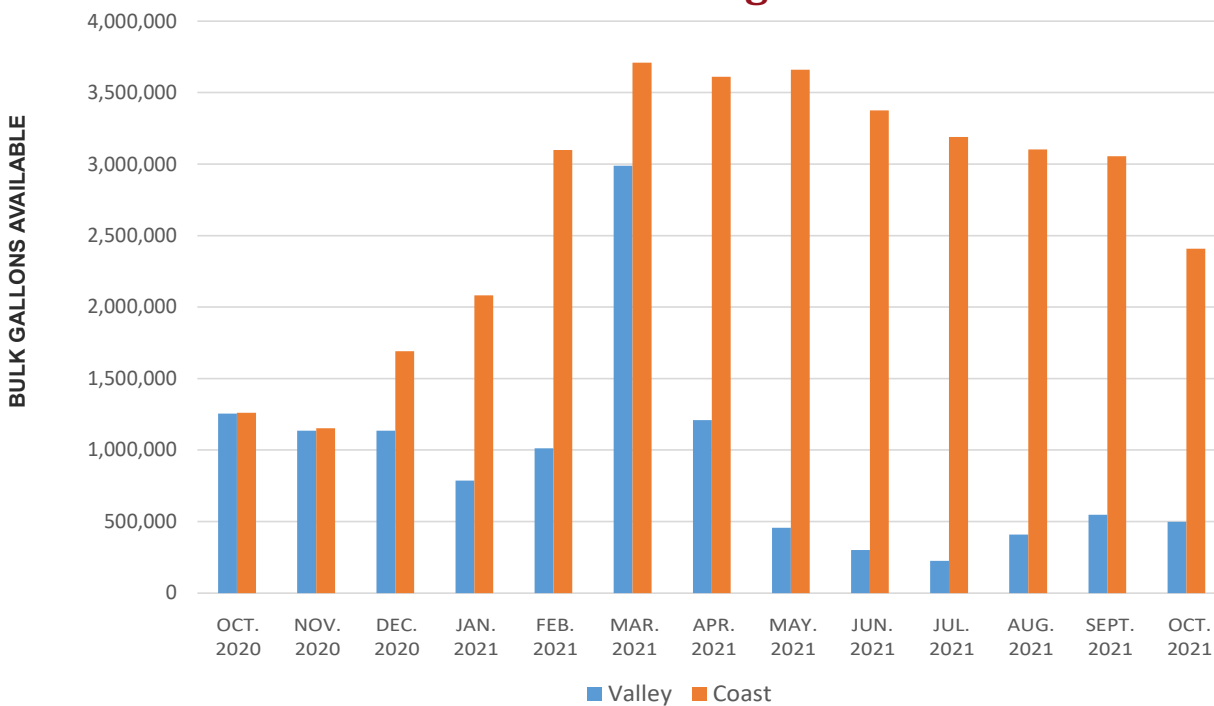
See next page for more.

Bulk Wine Inventory Graphs Continued

Chardonnay



Cabernet Sauvignon



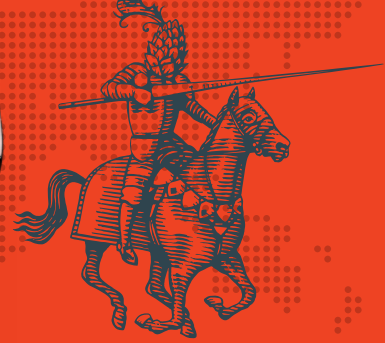
The Grape Market

There has been some late-season deals for Central Coast fruit, namely Monterey and Santa Barbara Pinot Noir, but in general grapes are now fully contracted in the Coast and the same has been true in the Central Valley for some time. Interest in those 2022 Central Valley grapes not already locked into multi-year contracts is likely to commence early, by the end of the year, but – just as happened on the 2021 grapes – many growers are likely to hold off on making deals until after February’s official Grape Crush Report is published.

Grape juice concentrate suppliers are still figuring out what their 2021 supply and pricing will be. There will be supply of standard white GJC but Muscat GJC and floral GJC availability is expected to be very tight – existing clients will be prioritized in terms of receiving allocations of what does arise. The situation on Rubired grapes for red GJC is too early to call. All GJC pricing will feel upward pressure, given the tight grape supply in the Central Valley, with white GJC reaching prices we have not seen before.

Structan

A Smoke Taint Solution



As winemakers around the world are now only too aware, after a year of wildfires in a number of wine-producing countries, 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 characterised 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.

There are three main factors that increase the risk of smoke-exposed grapes becoming smoke-tainted: being close to picking readiness, 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. 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 – can not only be used as a finishing tannin and wine stabilizer but also as a smoke-taint masking option. 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 colour attributes, for up to five years.

Structan has been used successfully over a number of years by several wineries around the world who have had to contend with smoke-affected wines (and one of the Western Cape's premier wineries, which sells into the European market, used Structan to make a red wine that went on to become an award winner). The fires of the past year have also led to an uptick in interest in Structan and, from this, new trials are ongoing. Consequently, Structan now comes with a full trial protocol, refined over the years by the experience of multiple wineries. The protocol differs depending on whether the wine in question is red or white and it outlines, for example, the size and timing of dosing. Structan's 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 flavours and aromas.

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. Further scientific validation is ongoing at Stellenbosch and adding to the growing body of evidence, from the lab and out in the field, that Structan has a very significant positive impact on smoke-affected wines; the latest report will be ready at the end of the year. In the meantime, give us a call to discuss Structan further and start your own trial.

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