



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

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The California Department of Food and Agriculture's preliminary 2021 crush figure, published February 10th, was in line with our pre-harvest projection at 3,613,009 tons. This represents a 6.1% increase from 2020's small 3.4 million tons but is still below what would be considered a normal crop. The uptick versus the prior year was mainly due to larger crops than many expected in Lodi – which contributed over 100,000 more tons than the year before – and the Central Coast. The North Coast was a mixed picture (Napa and Sonoma were up, Lake and Mendocino down) while the southern Central Valley continued its downward tonnage trend over the past five years, likely due to lack of water.

The leading varietals by tonnage, Chardonnay (+14.5% to 616,536 tons) and Cabernet (+18.3% to 590,249), both saw gains versus 2020. Pinot Noir experienced the biggest uptick (+29.6% to 273,728 tons), with Monterey delivering its largest Pinot Noir crop ever. Of the major varietals, only Zinfandel (-2.1%) and Pinot Gris (-2%) saw falls. The state-wide average tonnage price was \$884/ton, up 30.1%. This reflects the anomaly caused by the smoke impact of 2020 and the depressing effect it had – especially in the Coastal regions – on prices, which were renegotiated at significant discounts post-wildfires. For a more complete breakdown of the preliminary harvest result, and more comment, see Ciatti's press release [here](#).

California's bulk market has been active in the past two months, mainly in Napa, Sonoma and some varietal-specific appellations on the Coast, and in small increments in the Central Valley. The big development is that some wineries have put batches of bulk wine back onto the Valley's market, while some sellers have added more gallons to their availability lists. This is likely indicative of a slowdown in retail sales as consumer patterns return to their pre-pandemic normal in general and slower OND sales in particular. Where activity is occurring on the Coast's 2022 grapes reflects where the bulk activity is: Napa, Sonoma, varietal-specific appellations, and on Coastal Sauvignon Blanc in general. Activity in the Valley on uncontracted grapes has continued robustly, especially on any varietal, generic and floral whites that become available.

Inhibiting deals on both the bulk wine and grape markets is the stalemate between two sets of price expectations: suppliers see two-successive lighter crops and rising input costs as reasons to stay firm or move up on price, while buyers wrestling with their own input cost increases and slowing wine sales at retail are pushing back against such prices.

Following a very wet December, the driest January on record in many parts of California has pushed Sierra Nevada snowpack levels back below average and the forecast for February is for further dryness. In addition, we have heard reports from the vineyards of sub-par spur and cane robustness making selection difficult when pruning, attributable to conditions last year. These factors place a question mark over the 2022 crop, but, with budbreak still a few weeks away, it's far too early to be drawing firm conclusions.

Get in touch regarding your bulk wine samples and the 2022 grapes you will have for sale. Likewise, keep us updated on your bulk wine or grape needs. As ever, we stand ready to draw on our decades of experience to help you navigate the market. In the meantime, read on for deeper dives into the bulk wine and grape markets, and stay safe.

Robert Selby

The Grape Market

The early activity we saw on 2022 Coastal grapes in December has continued through January into February. This has mainly occurred where bulk wine supply is shortest – Napa Valley, some parts of Sonoma County, and some varietal-specific appellations – and on Sauvignon Blanc in general. Outside of those areas and items, grape buying is proceeding more cautiously. Many growers have been waiting for the publication of the Preliminary Grape Crush Report, the new growing season to get underway, and the development of the grape market, before setting prices.

Impeding deals is the aforementioned stalemate between two sets of price expectations: the lighter 2021 crop and rising input costs have generally led growers to seek higher prices in 2022, while buyers are wrestling with their own cost increases and are noticing softening wine sales at retail. Some of the grape deals that have occurred in the North Coast seem to be at prices marginally up on 2021, perhaps at an appropriate increase to cover rising input costs. The Central Coast's grape market has been slow as growers are seeking a price uptick that has cooled buyer interest.

Buyer interest on the Central Valley's grape market, meanwhile, has been fairly strong, especially on the whites: Varietals Chardonnay and Sauvignon Blanc, florals such as Muscat, and generics. Because supplies of these are tight, many are already contracted. Less tight varieties are also receiving interest, but many growers have felt – as described above – that it has been too early to commit to deals. Deals that do get made are often renewals of one-year or multi-year contracts.

Pricing can be characterised as roughly in line with where it was this time last year.

In the Central Coast, Lodi and the Central Valley, there has been a good level of inquiries for Merlot and Zinfandel grapes, suggestive of a squeeze in supply of these varieties in recent years as older vines have been pulled out and not replaced. The price of planting contracts being offered on these and other varieties is largely failing to keep up with rising input costs, all the while – in Lodi and the Valley – almonds are an economically attractive alternative.

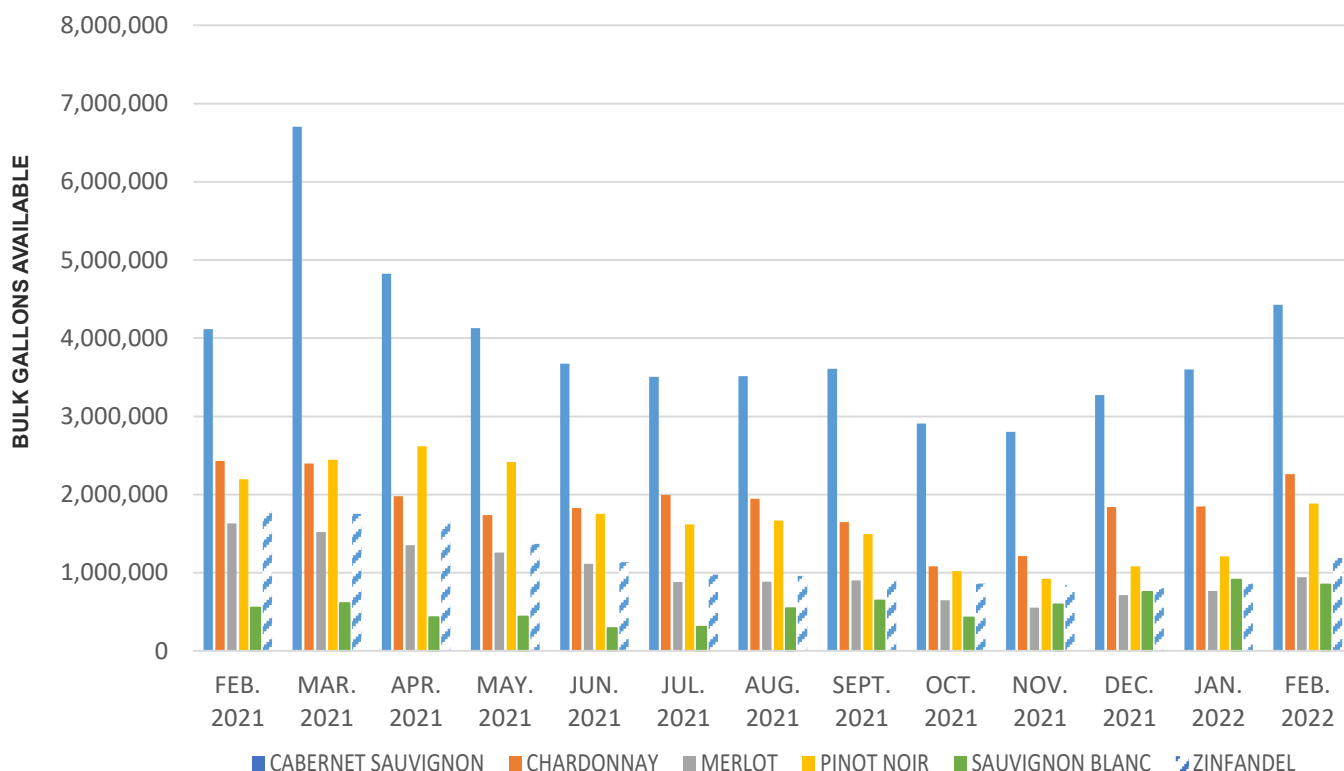
Last year, as the grape-buying campaign proceeded, supply grew tight and prices increased. This was due to expectations of a lighter crop combined with retail sales that were still elevated above their pre-pandemic levels. It remains to be seen if the same conditions come into play this year, or if a slowdown in wine sales at retail – as US consumer spending habits return to normal – combines with expectations of a normal-sized crop to slow the grape market, perhaps even lead wineries to put some of their own grapes on the market. The ongoing flux in the market picture suggests that, for growers, there is sense in sticking by good buyers and signing deals that bridge the gap in time between now and, hopefully, the better visibility and consistent market patterns of the future.

Please update us on the grapes you will have for sale for 2022 by contacting Molly at +1 415 630 2416 or molly@ciatti.com.



California Bulk Wine Inventory Inventory

(Feb. 2021 - Feb. 2022)



The Bulk Market

As the grape market outline above suggests, the bulk market was active for Napa and Sonoma wines in December and January, especially on Sauvignon Blanc, Chardonnay and Pinot Noir. There has also been some early activity in Napa and Sonoma on 2021 reds such as Cabernet and Zinfandel. Inventory in these regions feels fairly tight and finding Napa Cabernet – and Sauvignon Blanc from anywhere – is a challenge. Pricing on the 2021 wines feels stronger than where 2020 prices finished. There are a number of 2020 wines – especially North Coast Cabernet and Monterey Pinot Noir, but also some Coastal Chardonnay – still available, often at prices significantly below their 2021 successors, but many buyers remain reluctant to move on these due to smoke exposure perceptions. This reluctance may itself be indicative of slower retail sales; buyers can afford to be choosy about what bulk wines to buy, when, and at what price, especially as supply pops back up on the Valley’s market (see below).

Outside of Napa and Sonoma, and some varietal-specific appellations such as Russian River Pinot Noir, deals in the Coast are being hindered by the ongoing disparity in price expectations between buyer and seller. This disparity can be significant, with sellers sometimes misreading the market – believing they are in possession of wines that are scarcer than they are – and buyers cognisant of slowing retail sales and cautious activity on 2022 grapes outside of Napa and Sonoma. Some suppliers anxious to get their wines moving may be open to negotiation, but many others are happy to wait and see what the coming months bring.

Buying activity in the Central Valley has been fairly active, though mainly consisting of small purchases – perhaps a truckload or two. Prospective buyers have tried to put downward pressure on prices as retail sales return to pre-pandemic levels. The Valley’s Chardonnay, as well as its Zinfandel and generic whites which have reduced in acreage over the years, have all experienced good demand.

See next page for more.

In the past two months some wineries have put large batches of wine back onto the Valley's bulk market – and some bulk wine sellers have added more gallons to their availability lists. We believe this is not due to a larger 2021 crop than expected but a sign of softening retail sales versus 2020 and early 2021 in general and perhaps disappointing OND 2021 sales in particular. Within this cooling sales picture, all price categories at \$11/bottle and under are seeing contracting sales, leaving some brand owners potentially having overshot their sales projections. As what level pandemic sales were going to fall to was – and is – unknowable, some buyers bought wines just in case they were needed. Sales value as well as volume may also be an issue: Higher grape and bulk wine prices going into off-premise wines leads to upticks in wholesale or shelf pricing that specific programs cannot support.

Varieties put back on Lodi and the Valley's bulk market include Cabernet, Chardonnay and Sauvignon Blanc. Some buyers that could not locate or afford Sauvignon Blanc in the Coast have come into the Valley to source, implying that, in turn, Coastal Sauvignon Blanc prices might come under downward pressure. Much Coastal bulk wine supply outside of Napa and Sonoma has been going into California programs selling strongly at US retail in 2020 and the first half of 2021; now that those sales are pulling back, a Coastal bulk pricing expectation reset may be required.

About normal for this time of year, we are receiving some interest in bulk wine contracts on the coming vintage. This is mainly occurring on Central Valley wines (generally for volumes lower than on the 2021 vintage) and Napa Valley Cabernet (3-4-year contracts) as buyers seek reliable supply to take them into 2023 and beyond.

Overall, the bulk market remains more balanced now – after two years of lighter crops and the pandemic-inspired retail sales boom – than it was in 2019. But

with retail sales now returning to their pre-pandemic levels, we see that the increase in demand was temporary, which means that, if the 2022 crop comes in normal-sized, we may be back close to where we were in 2019.

Pertinent as we emerge from the pandemic and people mix freely again, Silicon Valley Bank's recent 'State of the Wine Industry 2022' report carried an interesting Harris poll which asked 1,900 US adults: "If you were invited to a party and asked to bring an alcoholic beverage to share, what would that beverage be?" While nearly 50% of respondents aged 65 and over said wine (instead of beer, spirits and other alternatives such as hard seltzers and RTDs), this fell to approximately 30% among those aged 35-64 and to just 15% among those aged 21-34 – "clearly indicative that wine sales are overly dependent on older age groups".

The wine industry needs to find a more sustainable driver of consumer sales growth than a – hopefully – once-in-a-century pandemic. Until then, we believe that if a bulk wine seller is being offered a deal that is profitable, they should strongly consider it.

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's current grape juice concentrate supply is short and getting shorter, with particular GJC types – organic, and florals such as Muscat – proving particularly difficult to find. Pre-contracting for 2022 supplies of these is also difficult as supply is again expected to be tight. Standard GJC should be more plentiful. GJC pricing is currently up approximately \$1.00-1.50/gallon across the board from where it was a year ago, a reflection of higher grape prices but also the GJC industry's reliance on dry goods such as drums, pallets and totes, all of which have risen in price in the past year.

Structan

A Smoke Taint Solution



Our climate has been changing for centuries. That pace of change is now increasing dramatically and impacting the wine industry. Vines are now being replanted across the south of England and indeed even further north. This has not happened since Roman times.

Persistent drought in traditional European growing areas has led to further grower challenges. Continually reduced rainfall in Bordeaux is leading to concerns around restrictions on growers irrigating their vines. It has been estimated that nearly one trillion dollars of residential real estate in California has become uninsurable due to now annual fires. It is not only property that has been affected but also wine grape growers and winemakers.

Winemakers from Australia to California to South Africa have been affected by wildfires that have become endemic rather than occasional. The impact on harvests and 'smoke taint' on many wines has become considerable and ever more difficult to insure against.

The antioxidant and structural properties of oak extracts are now being harnessed to help reduce the effects of smoke taint. There are many partial solutions to smoke taint in the market. However, none of them on their own effectively treat or recover the wine to an acceptable level.

Over the last three years the Stoak Technologies team has been working with vineyards and oenologists on three continents to formulate an integrated smoke taint management strategy. Used in conjunction with other removal strategies and processes, the natural Structan Red Wine and White Wine products can dramatically reduce the carry-through of undesirable aromas and flavours in a finished wine.

The Stoak Technologies team has produced an updated White Paper on this approach. It includes findings from extensive research into Structan's viability carried out by the Department of Viticulture and Oenology at the University of Stellenbosch. The paper is available by emailing Andrew Planting on andrew.planting@stoaktechnologies.com.



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