



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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As we move into the second quarter of the year, California's bulk wine and grape markets are proceeding steadily, with some particular areas – namely Napa and Sonoma – commanding high interest while other areas are quieter. Overall, while retail sales from the first quarter of 2022 are assessed, inflationary input costs are adjusted to and spring's clusters are counted and dissected, some degree of caution pervades buying behavior.

Rabobank's latest Wine Quarterly report cites a "perfect storm" of five challenges facing the wine industry in the US and globally: Rising shipping/trucking costs, rising gas prices, rising labor costs, five years of geopolitical uncertainty (tariff wars, COVID-19, the Russia-Ukraine conflict) and "relatively tight" inventories after two-successive short crops in 2020 and 2021. Rabobank references a "regionalization of supply chains" in response to rising trucking and gas prices, with companies moving production closer to the end-consumer.

What we are seeing at Ciatti might be termed "supply chain parochialism". While some buyers are expanding sourcing options in a bid to maintain margin, others are ruling-out wines or grapes located at a distance across California – even if the pricing is more attractive – because of trucking costs and/or speeds. Freight, once some way down the list of concerns during transactions as it could be taken for granted, is now in some cases the first discussion point.

The annual inflation rate in the US hit 8.5% in March, a 40-year high. Suppliers of wine to retail are seeking to take up shelf price to cover the increased cost of doing business and how consumers – dealing with their own inflationary pressure – respond will become clearer through the year.

SipSource analysts Dale Stratton and Danny Brager have presented some interesting slides which showed that December 2021-February 2022 table wine sales volumes were down versus December 2020-February 2021 by 9.7% in the under \$8/bottle category and by 10.9% in the \$8.00-10.99/bottle category. Sales volumes at \$11.00-14.99/bottle were down by much less (-2.5%) while \$15+/bottle volumes were up 6.8%. This shows the pantry-stocking spike inspired by 2020's Shelter in Place orders is receding further into the past on the lower-priced categories, while the higher-priced wines saw good growth in 2021 – a post-Shelter in Place boost in consumer confidence – and are continuing to outperform the rest of the market. The question is: Amid the economic headwinds this year, will sales volumes on higher-priced wines fall back, and, if so, will it necessarily benefit the lower price categories?

All the unknowns are serving to make the grape and bulk wine markets – outside the most in-demand appellations – what we characterize as "choppy": Buyers and sellers are struggling to gauge the markets they are operating in, leading to a lack of cohesive trends in terms of buying and selling behavior. Ciatti can draw on its decades of experience to help you navigate this dizzying time – don't hesitate to get in touch. Read on for more on the bulk wine and grape markets, and stay safe.

Robert Selby

Vineyard Update

Private reservoirs appear to have done a good job of capturing runoff from the limited November/December rainfall, so that those growers who possess them will start the growing season with water. However, with Sierra Nevada snowpack at just 38% of the average as of April 1st, the dry winter and spring raises a question mark over the rest of the growing season, particularly for those relying on watercourses like the Russian River, with access curtailments already being discussed. The dryness is forecast to continue for at least the next three months, essentially ruling out useful precipitation for this growing season.

The mood music among grape buyers and sellers is that the vineyards will have been impacted by dryness and could be on course for a third-successive below-average crop size. Most areas of the state are now seeing bud-break – the early varieties in the Valley are already well advanced – and cluster counts and sizes will be assessed over coming weeks, so the situation should be somewhat clearer in May. Frost has – so far – kept off and water is now very much the dominant concern.

The Grape Market

Continuing on from last month, the grape market is active in the North Coast and particularly so in Napa and Sonoma. It is becoming difficult to locate Cabernet in Napa and Chardonnay in either of these two areas. Sauvignon Blanc supply is tight there and across the North Coast in general. More grapes could pop up on the market if crop size expectations get revised upward, or if wineries record disappointing wine sales numbers and pull back some of their demand.

Outside Napa and Sonoma, in the rest of the North Coast and down into the Central Coast, the grape market is choppy, as buyers encountering bullish pricing are assessing their wine sales and/or the early crop expectations before committing. Many growers have upped their prices because of two-successive shorter crops and rising fuel, fertilizer and energy costs, so prospective buyers are casting the net a little wider in a bid to locate pricing more to their liking, whether that is in an alternative Coastal location or – if they are able to – in the Central Valley. Those suppliers unable to take up price on the retail shelf must reshuffle their grape options instead. Some grape buyers are seeking to secure new multi-year deals with trusted grape suppliers. In some instances, supplier acceptance of these is contingent on pricing in the final year of the old contract being raised to reflect the current market, if it does not already do so.

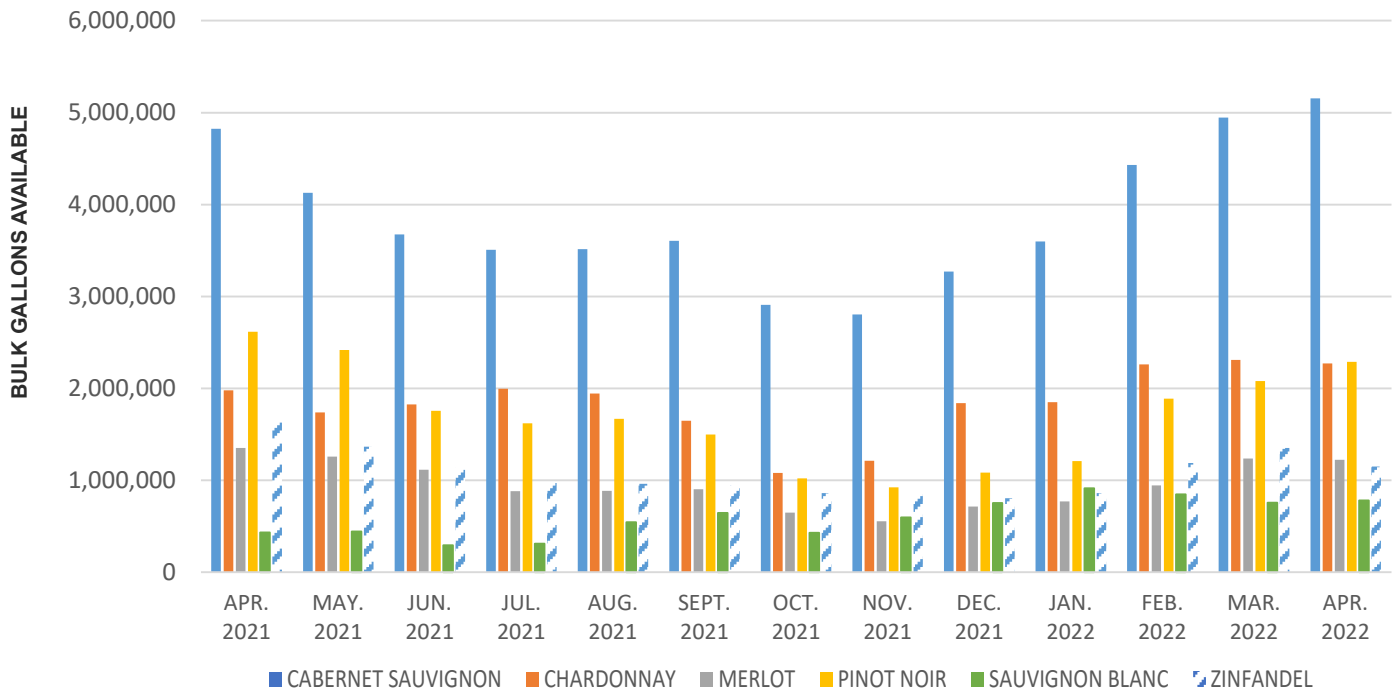
As mentioned above, some Central Coast grape activity has been driven by pricing for grapes in the North Coast, and buyers seeking an appellation program are perceiving value in the Central Coast. There has been activity on Paso Robles Cabernet and Monterey Chardonnay. Pinot Noir grape sales are slower and the variety is sometimes being wrapped into package deals to help it move.

Not many Central Valley grapes remain on sale and any that pop up are acquired relatively quickly. Some of the large buyers have not been as aggressive on the market as they were in the previous two years, but there still seems to be good activity levels in general. The most in-demand varieties currently are Chardonnay (as is normally the case as it commands a large volume of wine sales), Zinfandel (pull-outs and ageing vines have reduced supply over the years), and white blends like Colombard or Chenin Blanc (again, because of pull-outs).

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

(April 2021 - April 2022)



The Bulk Market

The bulk market continues to be active – especially in the North Coast – but perhaps slightly less active than it was a month ago. Many of the lots that were of interest have sold and buyers are assessing Q1 sales performance, while other lots still available may be perceived by buyers as being too high in price. Our perception is that retail sales numbers are patchy, and we have heard of some wineries switching from buying to selling on the bulk market. This mixed picture – some robust bulk-buying activity occurring alongside hesitancy elsewhere – is why we characterize the current bulk market, like the grape market, as “choppy”.

The 2021 white varietal wines continue to be the hardest to locate in the Coast – Sauvignon Blanc inventory seems to be largely non-existent – while 2021 Cabernet and Pinot Noir are already in tight supply in Napa and Sonoma. Napa Chardonnay, Sauvignon Blanc and Cabernet prices are in some cases at or near record highs, such is the strength of demand. In Sonoma, Russian River Chardonnay and Sauvignon Blanc supplies are limited, while Pinot Noir volumes remain more plentiful. Alexander Valley Cabernet has received good demand, potentially partly stimulated by high Napa Cabernet prices.

Outside of Napa and Sonoma, 2021 red inventory is moving slower (arguably, it being only April, this is normal), and some 2020 red inventory lingers on. It may be the case that the remaining 2020 reds are sold at pricing lower than supplier expectations, though

some sellers will stay firm for now while they wait for the 2022 crop potential to become clearer. The Central Coast is receiving pockets of activity and Paso Robles Cabernet inventory appears to be limited, but there seems to be a ceiling on how high buyers are willing to go on price.

As we mentioned last month, some Central Valley wineries are putting inventory back onto the market, likely because of slowing sales at retail, and this has served to slow the Valley’s bulk market overall. Another drag on activity has been what buyers perceive as relatively high prices – Valley suppliers must be cognizant of competitive Coastal pricing on particular lots. At the same time, Valley supply may also become the target of buyers shifting away from the Coast in order to maintain their margins. Both things happening simultaneously again illustrates the “choppy” nature of the market we’ve been citing.

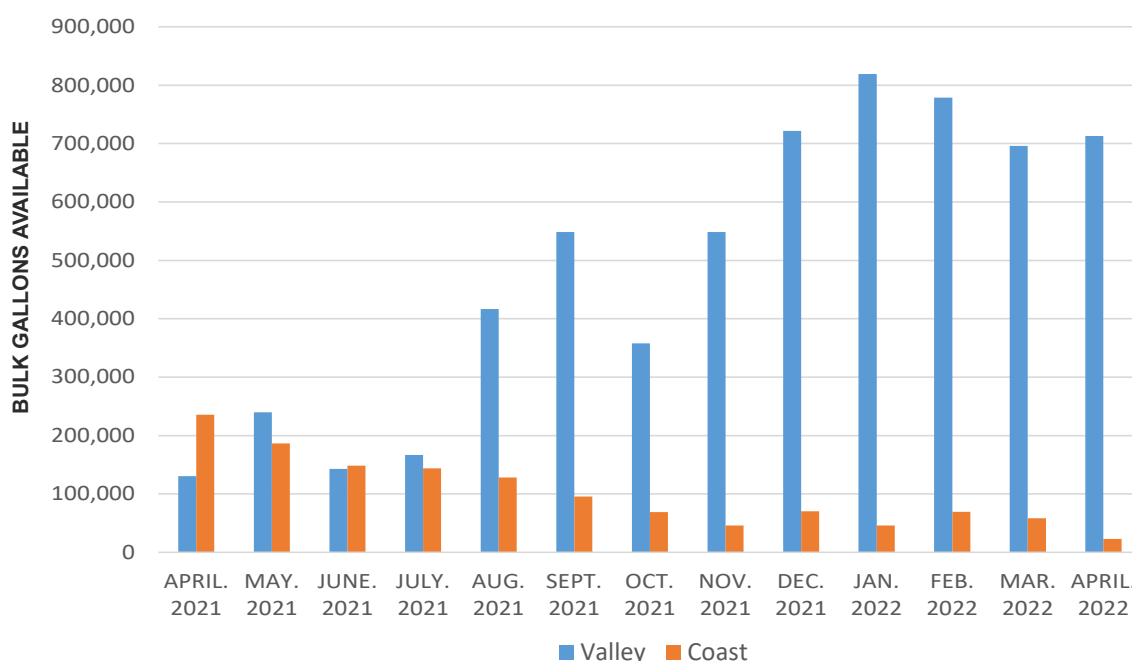
Some of the current activity in the Valley is from negociants and private label buyers seeking small lots of particular varieties, sometimes willing to pay slightly more than the market value for the convenience of securing the wine when they need it on a just-in-time basis. Such deals are not indicative of the wider strength – or otherwise – of demand, and can potentially inadvertently serve to boost seller price expectations more widely.

The seeming robustness of the \$11.00/bottle+ categories (see introduction) has led to some confidence among wineries that they can take up shelf prices this year, perhaps more than once, but the lurking impact of inflation must be factored in. Unless consumers are willing to buy more wine at higher prices, the Californian wine industry may have to contract somewhat to maintain margin and pricing that works for everyone. The idea of consumers “buying less but better” dovetails with moves towards value-added and differentiating claims in an attempt to improve

wine’s appeal among younger demographics, shoring-up market share against spirits and other alternatives. Organic, sustainable, low calorie, low alcohol, vegan, fairtrade – such claims could become more important as wine brands compete over less overall demand.

If you have wine to sell, please get your samples into us as we have buyers requiring wines. This especially applies to 2021 wines. 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.

Sauvignon Blanc Bulk Wine Inventory (April 2021 - April 2022)



Sauvignon Blanc

New plantings across the state – contracted or speculative – appear to be few and far between, even in those areas of the North Coast where grape and bulk demand is consistently strong. How many contracts are being activated privately between wineries and longstanding suppliers is, of course, unclear to the wider industry.

We do see some Chardonnay planting taking place in the Central Valley, as Chardonnay continues to be in good demand generally and, in Lodi, some Chardonnay vineyards are now 20-25 years old. New Sauvignon Blanc acres, meanwhile, have gone into the Valley and – in response to strong demand – are now going into the North Coast.

The growth of Sauvignon Blanc demand is partly thanks to New Zealand Sauvignon Blanc successfully introducing US consumers to the varietal. Coastal

Sauvignon Blanc is best-placed to come in behind the New Zealand taste profile, but high Coastal pricing potentially makes the Valley’s Sauvignon Blanc an attractive alternative, and we have seen new plantings in the Valley help to equalize out the Coastal/Valley acreage split on this variety somewhat.

Another factor in the Valley’s favor is margin: Sauvignon Blanc is not usually sold at the highest price point on the white varietal shelf – that accolade usually goes to Chardonnay. In addition, the varietal’s growing popularity may bring with it a wider appreciation of different taste styles. Some markets in Europe, such as the UK, have seen that New Zealand Sauvignon Blanc provides a gateway to other Sauvignon Blancs that do not necessarily possess the same distinctive highly-aromatic profile – “clean and crisp” South African Sauvignon Blancs, for example, or “French-style” Sauvignon Blancs from France and Chile.

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