



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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April brought some welcome rainfall to California's Coastal growing areas: Up to five inches fell in some locations but, in most, rainfall was sufficient enough to get things looking nice and green but not enough to meaningfully replenish water reserves. Indeed, we are hearing that water usage curtailments in some Coastal areas will start in May, and allocations for the federal Central Valley water management project could be at 0%.

Given the ongoing drought conditions, tentative early expectations are for a 2022 crop shorter than average, though we have been seeing – and receiving reports of – healthy-looking vineyards with good cluster counts and sizes. The picture will be a lot clearer in June once veraison is underway. The Central Coast and Central Valley are slightly behind last year in terms of degree day accumulation, a reflection of the forecasted cooler-than-normal spring.

The early morning hours of April 12th brought a frost episode that had a patchy, localized impact on vineyards across the state, but was more concerted in areas of the Delta, including in parts of northern Lodi, Clarksburg, and Dunnigan Hills. Vineyards situated in the Sierra foothills were also concertedly affected. The impact will have been felt most on the white varieties which were the most advanced; areas such as Clarksburg produce a lot of white grapes and Pinot Noir. While the frost incident is unlikely to significantly reduce this year's total state crush size, some vineyards in the Northern Interior have been severely impacted and, in turn, the individual wine programs that heavily rely on grapes specifically from this region. Some buyers have consequently acted quickly to replace lost tonnages by sourcing additional grapes or 2022 bulk wines, while others may still be exploring options. Parts of Oregon were visited by the same frost episode, leading to some inquiries from there into the possibility of replacement grapes or wines from California.

As you will read in this month's report, beyond this activity uptick driven by the frost, the grape and bulk wine markets are proceeding steadily: Outside of specific appellations and varieties, the markets are in a settled state, pervaded by buyer wariness while the upcoming crop potential and consumer sales are assessed. The crop potential should become clearer during berry-sizing in June, but sales trends might remain foggy for longer, as post-pandemic demand mingles with a dawning economic realism as annual inflation passes 8.5%. We are in for a period of what Beverage Alcohol industry analyst Danny Brager has called "messier" data, due to all the COVID-related channel shifting, and the comparisons versus prior years since COVID. NielsenIQ scan data shows wine's US off-premise dollar sales were up 4% in the first three months of 2022 versus the first three months of the last 'normal' year, 2019, but this was down from 14% growth in Q1 2021. The first quarter of 2022 saw Sauvignon Blanc (+13% versus 2019) and sparkling (+22% versus 2019) especially help to offset some flat sales (Chardonnay, Pinot Grigio) or declines (namely Merlot, -15%) versus 2019.

Uncertain crop, rising costs, messy sales data. The market is currently challenging to navigate, but the Ciatti team stands ready to draw on its decades of experience to help you do so – don't hesitate to get in touch. In the meantime, read on for more on the bulk wine and grape markets, and stay safe.

Robert Selby

The Grape Market

As mentioned in the introduction, there was an uptick in grape activity in some areas in mid-April as buyers reacted to the frost episode, namely on the white varieties (Chardonnay, Pinot Grigio, Sauvignon Blanc, Chenin Blanc) and Pinot Noir in the Lodi/Delta region. This activity has since calmed somewhat and, in general, the market overall is steady.

It ought to be reiterated that while the impact of the frost episode on the overall state-wide crop is likely to be limited, the impact for the Northern Interior – and the wine programs that heavily rely on grapes from the region – is more significant. Amador County, for example, is applying for disaster relief as they claim a loss of more than 30%.

Grape supply is tight in Napa, Sonoma and parts of the Central Valley. In other areas of the state there is still availability, in some cases because potential buyers are still awaiting a clearer understanding of crop size and/or sales performance, and in other cases because a gap persists between buyer and seller price expectations.

Prices have increased on some varieties in the Valley over the past month or two, attributable to specific factors on specific varieties: Pull-outs of Zinfandel in Lodi over the years have brought supply-demand on that varietal into closer balance, for example, while older vines require handpicking, the cost of which – like everything else – has increased.

Over in the Central Coast, two successive shorter crops in 2020 and 2021 have seemingly tightened the supply-demand balance on Paso Robles Cabernet. If there is

a grape market driver right now it is probably this – relative – supply scarcity, not any sales increases at the consumer end. Berry sizing will be measurable by the end of June and we'll start to have a far clearer picture of the 2022 crop then.

The rising cost of logistics, off the back of increased post-pandemic demand and rising gasoline prices, continues to be a big topic of conversation and sometime requires adjustments to deals in order to protect margin. One part of the industry in which price rises are not necessarily a given is processing and storage capacity: There is currently more availability at this point in the year than normal in the North Coast and Central Coast, potentially because of the two successive shorter crops of 2020 and 2021, and some providers are offering last year's pricing to encourage interest. If you are seeking processing or storage capacity, give us a call as we can make a strategic match between the buyer and provider at attractive pricing.

Demand for both red and white grape juice concentrate has been high, many suppliers are now sold out of one or both and finding the right color is problematic. Suppliers intend to prioritise existing customers when the next vintage's GJC becomes available, making a spot market difficult, though pockets of domestic availability may open up if international supply is seen by some buyers as offering better margin.

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.

The Bulk Market

Some recent 2022 bulk wine deals have been driven by April's frost episode. In addition, some wineries that in recent months had put bulk wine on the market paused their sales while they assessed the damage. Buyer activity in the Interior, the north of which was most frost-affected, is mainly continuing to proceed steadily on small volumes.

The bulk market continues to mirror the grape market in terms of where we are seeing buyer inquiries: Napa Valley Cabernet, Chardonnay and Sauvignon Blanc; Russian River Pinot Noir and Chardonnay; Sonoma

Cabernet and Chardonnay. These in-demand wines can be hard to locate and high in price, while wines from elsewhere can feel as if they are languishing even at competitive prices. Good volumes of Coastal Cabernet outside Napa and Sonoma persist, for example. This is also true of Central Coast Pinot Noir outside Russian River, indicative of the price competitiveness of California appellation Pinot Noir. Lodi Cabernet is another market on the slow side. Monterey Pinot Noir and Lodi Cabernet both saw crop upticks in 2021, just as demand has pulled back.

Outside of the in-demand appellations, the bulk market across the state feels steady while buyers try to understand the new crop potential and assess their sales now that some cost increases are filtering through to the retail shelf. Although trading up is still a discernible trend according to NielsenIQ scan data for wine's off-premise dollar sales in Q1 2022, with growth in all categories at or over \$11/bottle versus the first three months of 2019 (while the sub-\$11 category declined), this growth is lower than in 2021, suggesting the "drinking better" trend may be beginning to slow.

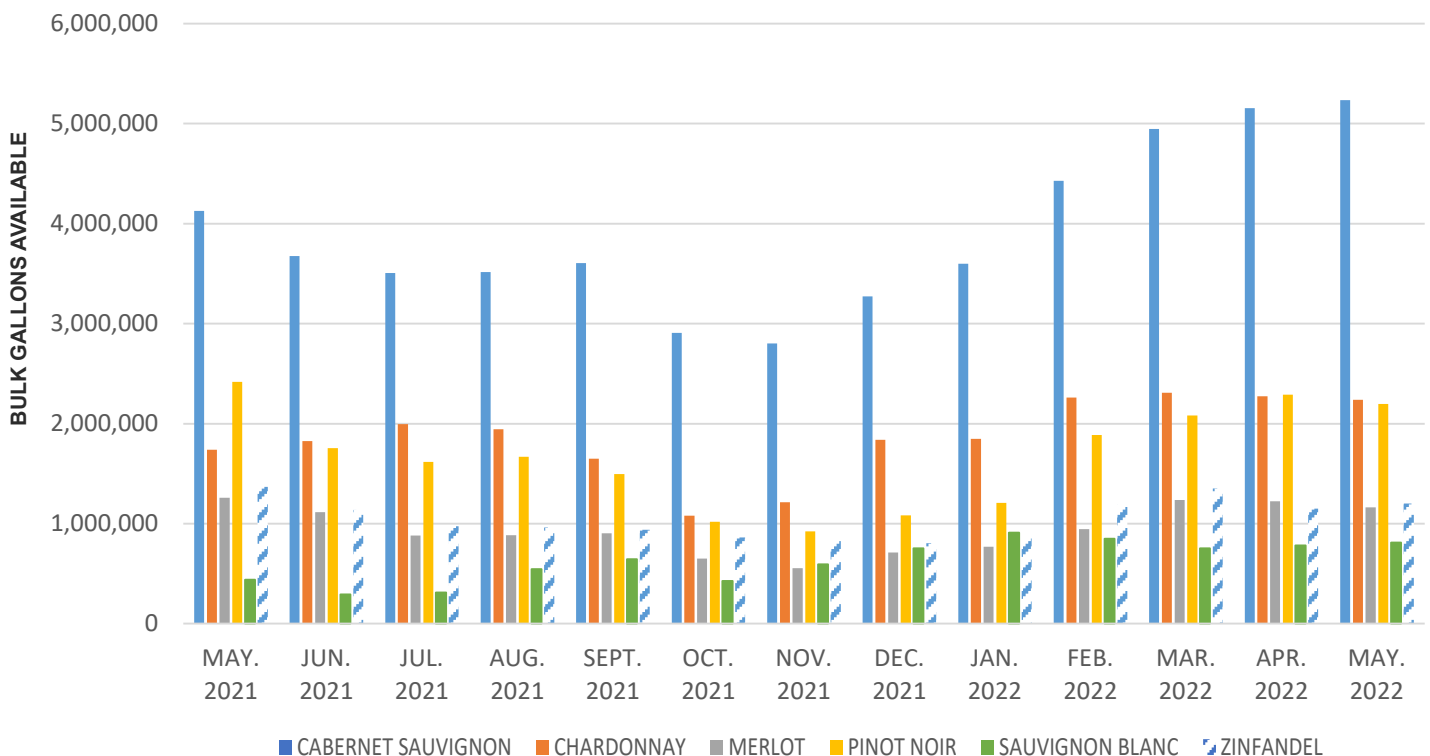
However, this conclusion – and this is part of the underlying "messier" or unclear data – could be erroneous, as dollar sales growth in Q1 2022 performed more similarly to Q1 2021 growth the higher up the retail price scale, so the opposite might be true: Total off-premise wine sales are normalizing and, within that, premium wines now possess a higher market share than in 2019. Will rising inflation and the consumer response to it disproportionately harm those premium wine sales? Statistics for March 2022 versus 12 months before

show price inflation was relatively low on wines priced up to \$20/bottle, but price inflation on the higher-end categories was greater, so they do look more vulnerable. But at the same time, higher-priced wines may be benefitting, at least for a little while longer, from increased on-premise and DTC-tasting room sales as people re-establish travel and experiential-related leisure now that the worst of the pandemic has passed.

As on the grape market, the rising cost of logistics is a potential hindrance to deals and is potentially encouraging more localised buying behaviour. The rising cost of dry goods – especially glass – is proving a headache. As already mentioned, however, processing and storage capacity remains available at pricing potentially in line with last year. If you need it, give us a call and we will help match you up with a provider.

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 Bulk Wine Inventory (May 2021 - May 2022)



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