



CIATTI
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**Ciatti Global Wine
& Grape Brokers**

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- 3 North Coast
- 3 Central Coast
- 3 Lodi/Delta/Valley
- 4 Innovation Opportunities
- 5 Hot Opps Box
- 6 Contacts

Reading online?
Use the links above
to jump through this
document.

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This year's winegrape harvest is likely to be the biggest in California's history, at 4.3+ million tons. Winery capacity has become stretched. In some cases, doors were closed on more fruit from growers, some of whom are – because of ideal growing conditions in recent weeks – still picking or waiting on Brix levels. Since potentially harmful rain at the beginning of October, fall weather has been ideal, with warm days and not too cool nights allowing fruit to ripen.

Despite a challenging year, most vines remained very healthy throughout the season, producing excellent quality grapes in – as it turns out – bountiful quantities. Chardonnay, Pinot Noir and Cabernet in particular seem to have come in heavy, through new plantings, helpful conditions or a mixture of both. The cooler than normal weather in August definitely allowed the crop to size up much more than envisioned; this is the biggest winegrape crop we have had since the 4.24 million tons in 2013. With the grape, bulk wine and case good markets all slow – and, more importantly, with winery capacity straining under the burden of the big crop – some overage has been left out on the vine or picked at discount prices. These discounted prices could allow wineries to profit from greater margin this year; some have seized the opportunity, but others simply lack the extra room or already have too much inventory.

Despite the above, the high proportion of fruit that is contracted – going into this harvest, the highest ever – will mean the weighted average prices for grapes per ton will not drop significantly, and in some cases they will go up. This will be especially true on the Coast, in particular in those areas with the highest percentages of long-term contracts. However, as we look at next year, the spot market will be swelled by lower-priced, uncontracted fruit and will lead the longer-term pricing trend: i.e., downward. We are hearing of wineries starting to give notice on contracts. There is growing realization among growers, as there has been among bulk wine sellers, that the ball is now in the buyers' court and they need to be amenable on price.

The downward pressure on prices should create opportunities for buyers. We are seeing some opportunities for grape buyers – as they look at extending some grape contracts – to secure their supply needs at lower pricing in future. We are also seeing some negotiant buyers become active again looking for supply with which to create new wine products and at different price points – this is positive news for innovation in the marketplace and, in turn, the health of the wine retail category in the US. None of this is ideal for suppliers but getting case good sales moving again is the best way of working through some of the excess we have in the market. See below for a breakdown of how each region is faring, plus more on the key opportunities and the necessity for innovation.

Robert Selby

North Coast

Grape volumes sized-up significantly from August onward in the North Coast and the region should be looking at all-time high yields. With the season extending out, fruit has come in late: the region's wineries will be crushing into late November. Wineries have struggled to find capacity for all the fruit they have contracted. As

mentioned last month, Chardonnay, Cabernet and Pinot Noir look to have come in very healthy in volumes, with Sauvignon Blanc and Zinfandel closer to projections. There was some limited early interest in Napa Cabernet from small, high-end buyers but the North Coast's grape and wine markets continue to be sluggish.

Central Coast

As in the North Coast, the Central Coast is potentially looking at all-time high yields. The cooler than normal temperatures through the growing season slowed maturity; grapes sized-up from August onward and vine health and fruit quality was excellent throughout, with no significant mildew or rot. Overage occurred on most if not all varieties and crush capacity has become stretched.

The slow grape and bulk wine market is a real concern in the Central Coast, especially exposed as the region is to the vagaries of the market, having struggled to build its own appellation equity (see July's California Report for more detail). There is a lower proportion of vineyards on long-term contracts in this region than in the North Coast, so its average grape price may fall more markedly than in the North.

As mentioned last month, the Central Coast's Cabernet grape inventory seems to be significant, and southern Monterey down to Paso Robles in particular will suffer if there is minimal interest from North Coast or Lodi/northern interior buyers. Financial constraints may limit the ability of many in this area to take the opportunity, during this slow market period, to pull out old vines and replant ahead of better future market conditions.

Cabernet, though, is a state-wide concern. Responding to erstwhile strong demand, it has been overplanted – though there is an argument that says a lot of the new acres are replacing others coming out. It has been planted not just on contract but speculatively, sometimes in less than optimal locations.

Lodi/Delta/Valley

Due to vine removals in recent years and the trend towards premium Coastal areas, the Valley's 2018 harvest volume will not be breaking any records. As in the Coast, the northern Valley especially experienced cooler than average temperatures during the growing season, slowing brix and sugar levels so that the harvest period was delayed a little and grew elongated. Harvesting in the Valley was completed by the end of October; quality was solid.

The northern interior's Chardonnay and Sauvignon Blanc grapes were in demand early, and they all were harvested. The Zinfandel market has been quiet, even with more removals recently. The northern interior's spot market has been slow.

There is better demand for varietal whites in the southern Valley; the market for varietal reds there has been slower, and white Zinfandel continues to be a challenge. There has been good demand for southern Valley generics due to an average at best yield in the region this year combined with removals of generics across the state. Wineries took any excess generic fruit, so it didn't really hit the open market. In addition, strong tonnage prices for table grapes and raisins also meant a lot of loose white fruit didn't make it into the wineries. With Californian wine exports down, fruit from these areas going to different uses is probably not a bad thing.

Innovation Opportunities

| 2018 TABLE WINE IN FOOD STORE TRENDS | | | |
|--------------------------------------|---------------|---------------|---------------|
| RETAIL PRICE / 750ML EQV. | VOLUME CHANGE | VOLUME SHARE | VALUE SHARE |
| UNDER \$4 - 5L | - 4.4% | 10.1% | 3.1% |
| UNDER \$4 - OTHER | - 6.9% | 10.9% | 4.9% |
| \$4 - \$7 - 1.5L | - 2.9% | 15.3% | 10.3% |
| \$4 - \$7 - 3L | + 13.1% | 6.7% | 4.1% |
| \$4 - \$7 - OTHER | - 7.4% | 14.6% | 10.8% |
| \$7 - \$9 | - 4.8% | 10.6% | 11.6% |
| \$9 - \$12 | + 1.9% | 18.4% | 25.2% |
| \$12 - \$15 | + 7.6% | 6.9% | 12.3% |
| \$15 - \$20 | + 8.5% | 4.2% | 9.5% |
| OVER \$20 | + 8.5% | 2.3% | 8.2% |
| ALL TABLE WINES | - 0.2% | 100.0% | 100.0% |

Source: Gomberg-Frederickson Report - June 2018: Published September 4, 2018

According to Gomberg-Frederickson data, Californian wine's domestic shipments were down 1% - or 1.6 million cases - in the first six months of 2018. Sales data shows that the two biggest categories in food stores - under \$4 (-5.5%) and \$4-7 (-5%) - declined in volume. However, although the 'premiumization' categories (i.e., \$9+) all showed growth to various extents, each still makes up a relatively small proportion of the overall marketplace. Sales in the \$9-12 category - now the biggest category by market share as brands seek to congregate there (something which has brought the Central Coast and Lodi increasingly into play as suppliers) - were up only 1.9%; sales in the \$12-15 category were up 7.6% but this price point still only accounts for 6.9% of the total market.

The biggest volume growth - 13.1% - was in fact seen in the 3-liter box category (priced at \$4-7), although the larger 1.5-liter box category at the same price point saw its volumes edge down 2.9%. This perhaps indicates that consumer demand is there for innovative wine products that offer an attractive price-quality ratio. It would be nice if California's wine industry could sell its way out of its large inventory through price repositioning and innovation. Supply now potentially being available at a lower price should assist some buyers in being more creative with new wine brands, products, packaging and price positions in the marketplace. Innovation is a necessity to claw back market share from growing competition such as craft beer, spirits and potentially - on the West Coast - cannabis. Certainly, we have heard of some big players considering leaving parts of the wine segment because of a concern that it has grown stale.

Hot Opps Box

Samples of 2018 Sauvignon Blanc and Pinot Grigio are coming into us now so if you have an interest give us a call. We are seeing Cabernet available from most premium markets in the North Coast. Cabernet from 2016 and 2017 is also available. There are also opportunities on Pinot Noir from the North Coast and Central Coast, including Russian River, at attractive pricing. Zinfandel continues to be available from most areas of the state. With the market sluggish and the 2018 crop big, now is potentially a good time for buyers to look at securing their future supply of grapes.



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