



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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May brought highly inconsistent weather conditions to California but, in general, the cooler and wetter than normal spring continued. Many areas of the state have experienced their coolest spring for years: Consequently, the growing season is running perhaps two to four weeks behind the average. June is unlikely to quicken things up if the forecasts are to be believed, with an equal chance of above or below average temperatures in the northern half of California and a likelier chance of below average temperatures in the southern half. However, a warmer than average June-July-August is still predicted to be the most likely outcome for the Californian summer as a whole.

All areas are now in varying states of bloom and some parts of the Interior, such as western Lodi, have begun to see fruit set on the early varieties. Tentative first assessments suggest cluster counts are normal and – assisted by spring’s precipitation levels – vine growth and conditions look positive. As such, there could be the potential for an average-sized crop or larger, depending on berry sizing: It remains too early to draw any firm conclusions, especially given the delayed season.

What now constitutes an “average” state-wide crop size is open to question: 4.2 or 4.0 million tons have been viewed as averages in the past, but after four consecutive harvests below 4.0 million tons (the three most recent coming in well below that figure) the bar may need to be lowered. With the bulk wine and grape markets so slow even after 2022’s short 3.34 million tons, a crop coming in at a downwardly-revised average of, say, 3.8-3.9 million is still likely to compound the pre-existing market sluggishness.

With sales slow across all channels, and input costs and inventories high, buyers currently see little incentive to enter the bulk wine or grape markets. If they do, they are price and/or volume sensitive, generally seeking prices below where they were at the beginning of the year and, if in doubt, erring on the side of short supply. The slow market pace is indicative of large wineries currently not buying either bulk wine or grapes. We are continuing to see more buyers become sellers in all areas of the state, as the industry’s long-term structural problems – stagnant consumer demand and oversupply – move into sharper focus now the COVID-19 consumption spike has long disappeared and economic uncertainty persists.

In response to these problems, which have led to cashflow reductions and payment delays, wineries are right-sizing their overall businesses and, at the sales level, focusing resources on brands that make margin while dropping those they see as distractions to profitability. Consequently, we continue to see California’s wine and grape markets shrinking overall, potentially leading to lower need for wine and grapes over time.

The current environment is undoubtedly tough, but the Ciatti team can draw on its many decades of experience to help buyers and sellers navigate the many challenges: Don’t hesitate to get in touch. In the meantime, read on for our latest analysis.

Robert Selby

The Bulk Market

We have detected a decline in bullishness among bulk wine sellers as the lack of buyer interest continues. With the need to move inventory building as the 2023 harvest roves into view, sellers have grown increasingly sensitive to the realities of the marketplace and more amenable to reducing pricing to levels that might – potentially – generate activity. However, this softening in price expectations is in fact unlikely to stimulate much extra buying activity as the fundamental cause of hesitation – disappointing case-good sales resulting in a heightened wariness of holding excess supply – remains unchanged. The delayed growing season is just one more reason for buyers to pause a little longer.

Normally, as prices lower, we might see negociants or private label buyers come onto the market seeking to harness price-quality opportunities, but we are yet to see these types of buyer. It might be that prices have not yet reduced to a level that would stimulate their interest, or the private label switch might be occurring internally, with wineries creating their own labels with which to move inventory and strengthen relationships with pre-existing retail clients.

Similarly, wineries are re-evaluating their brands in order to figure out what might help stimulate sales. One option is to discount pricing, which may boost sales in the short term but also reduce margin or remove it altogether. Another option is to raise pricing and invest in marketing – which may have greater cut-through now, when rival brands are reducing their marketing spend – to grow the brand for the long term, but this requires taking losses now, and only so many wineries are in a position to be able to do that. The question all wineries will be asking themselves is: How do you get rid of a supply backlog while maintaining brand integrity and profitability?

One symptom of this battle for margin is the continuing movement of bulk wine and grape sourcing from expensive to less expensive areas – something we saw occurring in 2018 and 2019 before COVID-19 temporarily rejuvenated the market. Over time, this could erode activity levels in the higher-demand areas.

Variety-wise, Chardonnay has probably led new bulk activity in the Coast over the past month, though buyers are still few, often choosy, and price-conscious. Napa Valley Cabernet continues to command attention, but

perhaps less so now than before, and it feels like pricing is softening. Russian River Chardonnay and Pinot Noir demand is also cooling. There has been some buyer interest in North Coast Merlot and not a huge number of samples to provide, given the supply reduction in recent years as acres have moved over to Cabernet.

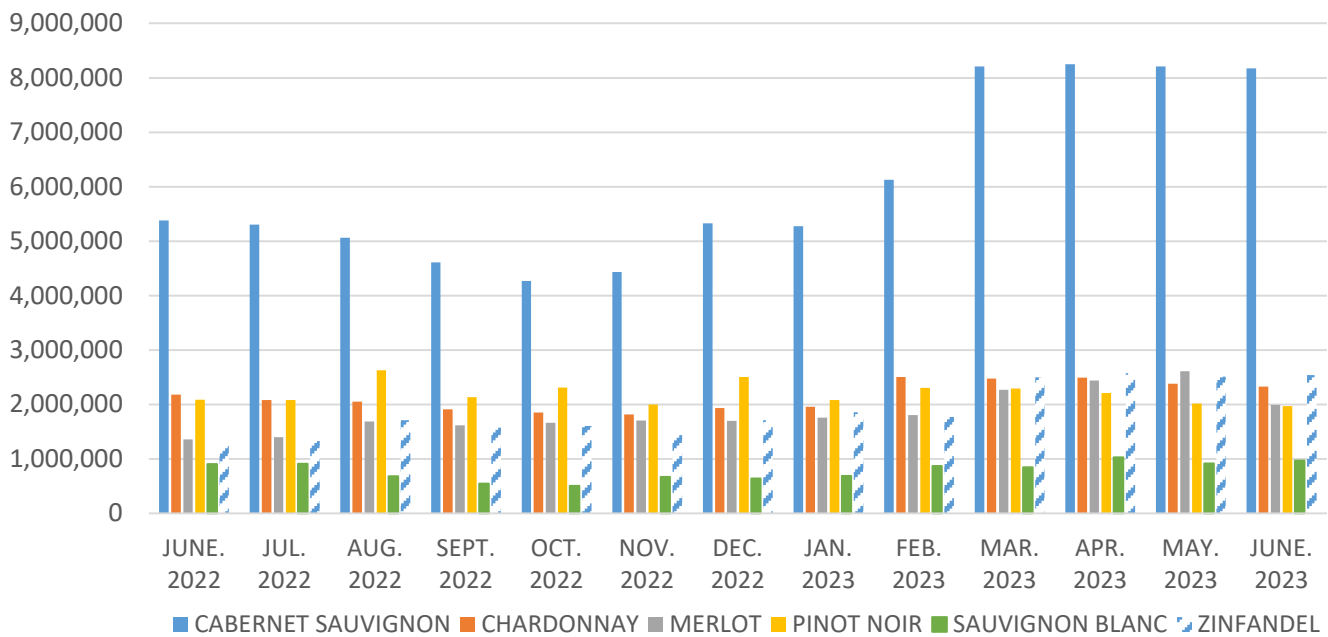
In the Central Coast, outside the limited Chardonnay interest, bulk deals have been few and far between, mainly on small volumes for quick loading. Incremental activity has occurred on some of the Bordeaux reds such as Cabernet; there has been no real demand for Pinot Noir. All the while, more bulk wine is getting released onto the market. Across the state, the slow activity on reds – namely Cabernet, Pinot Noir and Zinfandel – is causing concern. Cabernet is proving especially problematic: Our calculation of its inventory has remained over the 8-million-gallon mark since March. In some areas on some red varieties, it feels like the remaining 2021 wines are especially struggling to generate any interest at all.

The number of transactions in the Interior has picked up a little since mid-May, although the volumes involved are mainly small. This activity is highly strategic – buyers coming in for definite volumes at softened prices before rapidly exiting the market again – while there is no sign of the traditional, opportunistic buyer seeking to get creative with excess supply. Many buyers of bulk wine are currently sellers, seeking to offload unwanted inventory, so buying activity is likely to remain minimal for the foreseeable.

Considering this dynamic, it is more important than ever that sellers of bulk wine get their samples to us so we can help pair up their wines with any potential buyers who may come calling. Suppliers have certainly been paying heed of this advice, judging by how full our sample room currently is – another sign that it is a buyer's market. As outlined above, many currently active buyers are highly strategic, knowing exactly what they need and in what volume, and seeking to secure it swiftly: If the sample is not ready, they will not wait for it.

Please 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 (June 2022 - June 2023)



The Grape Market

The current grape market reflects the long bulk wine supply position: 2023 grape supply continues to be released onto the market as wineries – large and small, sitting on bulk wine inventories – reduce their grape needs as part of inventory adjustments. This involves putting their own grapes up for sale or releasing their grape suppliers from commitments. Being released from commitments can be of little benefit to growers when there are so few, if any, alternative buyers present in the market. Growers in general, like bulk wine sellers, have become increasingly open-minded on price over the past 2-3 months.

Most grape buyers are waiting for the picture on crop size to become clearer before determining if they need to re-enter the market and at what price. Many currently feel the crop could be sizeable, further dampening the urge to move. Inquiries are being made as buyers assess their options but few become transactions: some deals have been made on North Coast Cabernet and Sauvignon Blanc, as well as Napa Valley Cabernet. As on the bulk market, there is some interest in Coastal Chardonnay but no major moves are being made.

In the Interior, the spot market is very quiet, reminiscent of 2019 when a volume of uncontracted

fruit was ultimately left on the vine due to the slowness of the bulk market and, in turn, grape demand.

COVID-19 then intervened in 2020 to boost retail sales and re-energize the bulk wine and grape markets for a time (wildfires later that year also bolstered demand), but the long position has since returned. It could be argued the temporary sales spike caused by COVID kept some excess acres in the ground that otherwise might have come out and – now that normality has resumed – vineyard pull-outs are something that must now be confronted once again.

In the short term, wineries producing their own grapes can adjust their 2023 crop through fruit thinning and canopy management. This has the twin benefit of helping to raise the crop's quality potential in a late year while also assisting with mitigating excess supply issues – but there is a cost to doing this. Such fruit thinning may be necessary to balance the crop and get it ripe this year, but for growers independent of wineries whose grapes remain uncontracted, adding additional cost to potentially unsold fruit has its own risks. For independent growers whose fruit is contracted, it will be important to maintain quality this year in order to meet the quality standards agreed with the buyer winery, as the long supply situation may make wineries adhere more strictly than normal to agreed standards.

As the season progresses and some grapes still struggle to find a home, growers are starting to ask us if they should custom crush. This is always a very hard question to address and every grower's situation is unique. Fortunately, there appears to be adequate crush space, which allows for time in making this decision – and time is what the decision needs, given the additional costs and risks involved in making bulk wine. Having a sound, vetted strategy in place before custom crushing is important: It should be treated by growers

as a serious strategic diversification of the business and given careful forethought accordingly. Do you have a thorough understanding of the bulk market and the relationships required? Are you prepared for a number of different outcomes? We stand ready to help guide growers through this deliberation.

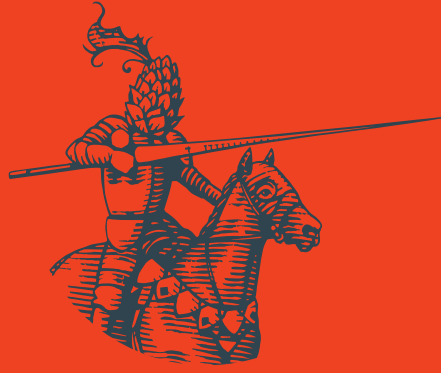
Please update us on the grapes you will have for sale for 2023 by contacting Molly at +1 415 630 2416 or molly@ciatti.com.

Events

Ciatti brokers will be attending and will have a booth at these upcoming events:

- **June 28:** Sonoma County Winegrowers 2023 Grower BBQ Tradeshow
- **July 25 - 26:** International Bulk Wine and Spirits Show
- **November 30:** WinExpo Tradeshow & Conference





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