



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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The jet stream moved further south in February, bringing steady rainfall to Coastal California and also some precipitation to Lodi and the Interior. Significant snow fell at higher elevations: State-wide snowpack levels rose from 50% of normal as of January 31st to 104% by March 4th. This spring has started similar to last year's, although not as wet or as late to the same extent. Also in common with last year, some growers have struggled to get into their vineyards to prune.

Budbreak is now underway. Temperatures have not dropped low enough for frost to become an issue – in any case, moisture levels have been a defence. The frost risk window will remain open until around the start of May, and some growers may be holding off from pruning until then; others will be assessing whether or not they should prune at all if their vines remain uncontacted. Viticultural climatologist Gregory V. Jones forecasts a continuation of the southerly jet stream through March, making above-average precipitation likely, while other meteorologists are confident California will be free of widespread drought in 2024 and 2025.

As expected, mid-February's publication of the California Department of Food & Agriculture's preliminary 2023 grape crush report failed to stimulate any discernible change on the grape and bulk wine markets. It showed 3.668 million tons of grapes crushed, revised upward slightly to 3.685 million tons in the final report released March 8th, in line with our estimate. We suspect the crop was larger than what crossed the scales – a lot of fruit was left hanging or dumped on the ground – yet the volume that eventually came in was probably still in excess of market need. That said, the bulk market has been more active in recent weeks versus January, with inquiries into – and some transactions on – a range of wines from a range of areas. Requests continue to be mainly for small volumes.

Some further observations on the crush report: The 8.5% increase in the average tonnage price versus the prior year likely reflects the fact a spot market for 2023 grapes never really developed, so that longstanding contracts – many with annual upticks built into them – skewed the figure. Should current market dynamics persist, more grapes will come out of contract with every year that passes, eventually leading to a downward trend in the average tonnage price. We believe the Central Valley experienced its fifth-consecutive smaller crop, and declining output in the southern Interior is likely to continue as slim margins incentivize pull-outs. Relatively recent plantings of high-efficiency Cabernet and Sauvignon Blanc in Lodi should maintain northern Interior crop sizes for a little while yet. Zinfandel output was significantly down in 2023 – by 26.2% – owing to a high level of rejections and potentially also some pull-outs: That there was no reaction on Zinfandel's bulk market highlights the lack of demand pressure on that varietal.

Read on for a detailed assessment of the bulk wine and grape markets and – for the most up-to-the-minute information – get in touch with Ciatti directly. The broker team stands ready to draw on its decades of experience to help navigate buyers and sellers alike through the present challenges, and beyond.

Robert Selby

The Bulk Market

California's bulk wine inventory was larger in February than it was in February 2023, particularly on Cabernet and Chardonnay, and will continue to grow as the 2023-vintage supplements it. We suspect that if market activity was greater, still more bulk supply would emerge on the market. The situation on Cabernet is the most acute: Inventory registered with us was nearing 9.0 million gallons in February and buyer interest is highly limited. Zinfandel is not far behind Cabernet in terms of interest levels relative to availability levels.

Bulk wine suppliers are now fully cognizant of the slow sales dynamic and some have softened their price expectations, although it remains difficult to characterize market pricing as transactions have been few. Prices generally remain too high for negotiant buyers – fulfilling retailer and private label programs – to make many moves, but it is a positive that negociants are present on the market in the first place, suggesting deals can be done if both buyer and seller can meet on price.

In recent weeks there has been an uptick in spotty, small-volume activity on bulk wines at opportunistic pricing. In the Coast, there has been some small-volume interest in 2022 North Coast and Russian River Pinot Noir, 2022 Alexander Valley Cabernet, and 2022 Paso Robles Cabernet. There have also been some small pockets of 2022 Merlot interest. Some of the wines involved have been organic and have commanded a slight premium because of it, as buyers seek points of difference for their programs. Similarly, buyers supplying canned wine or RTD programs have also been in evidence, looking for limited volumes, and there have been some inquiries into low-alcohol wines.

In the Interior, bulk market activity has been off and on since the turn of the year. Much of the more concerted interest is on whites: Limited volumes of 2023 Chardonnay, Sauvignon Blanc or Pinot Grigio have been getting acquired here or there, the pool of buyers shallow. There has been some limited demand for 2022 or 2023 Lodi Cabernet, and highly intermittent, small-volume activity on Zinfandel

and Petite Sirah. Interior suppliers are having to be aware of price competition emanating from some Coastal areas and also from Washington state, where oversupply has led to some discount prices that may prove attractive to certain programs that can use wine from outside California.

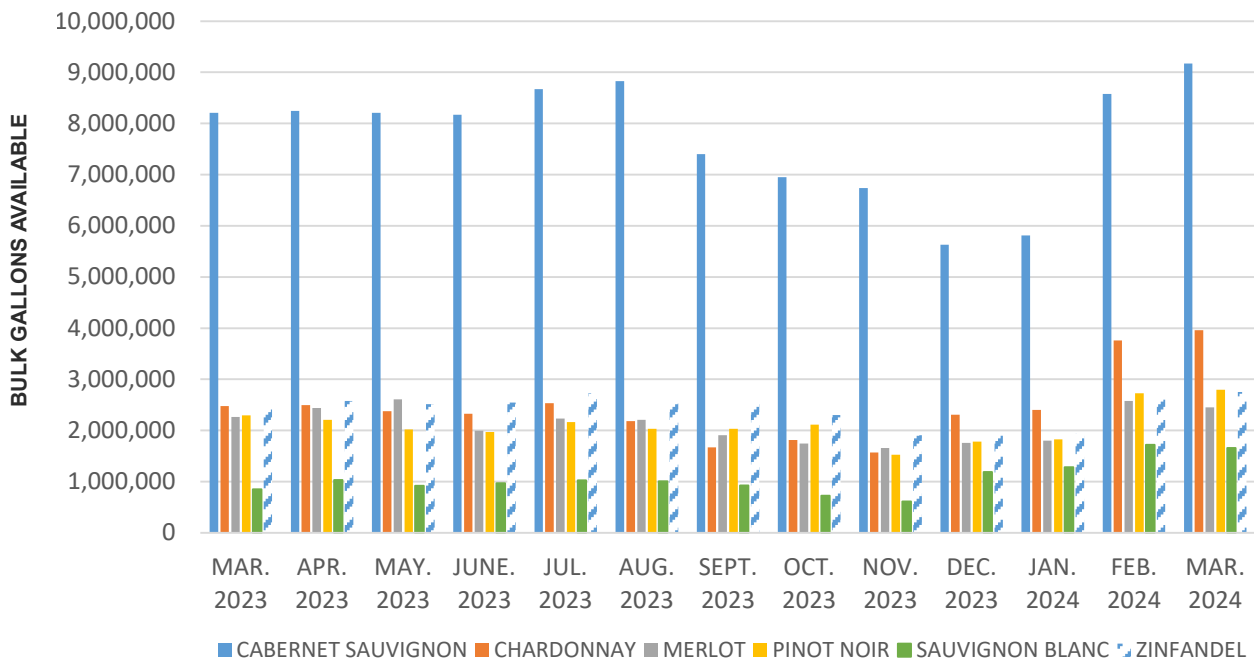
None of the aforementioned activity, in the Coast or in the Interior, will put much of a dent in the state's bulk wine inventory. Nor, as they currently stand, will sales at the retail end. In recent weeks industry analysts SipSource have published some gloomy distributor depletion data showing that full-year 2023 (-7.5%), January 2023-January 2024 (-8%) and November 2023-January 2024 (-9%) depletions of wine were all down significantly. SipSource added, however, that it expected depletions to stabilize in the coming months, partly thanks to more favourable comparisons. It is hoped this expectation proves accurate: Greater stability of sales through 2024 would aid forward visibility and reduce buyer hesitation on both bulk wine and grapes. Brighter spots for the wine industry currently include pre-mixed wine cocktails and on-premise wine cocktails, according to SipSource.

Wine's struggles are not unique: Beer and spirits are suffering similar sales trends, suggesting the problem is alcohol industry-wide. Alcohol is currently in the firing line of a great deal of health messaging, driven by the World Health Organization and its – some might say, overzealous – pronouncement in January 2023 that “No level of alcohol consumption is safe when it comes to human health”.

Thank you to all those who have heeded our call for samples. **To reiterate what we said last month, bulk wine suppliers should get their samples in to us as it remains the best way for their wines to find a buyer. They can contact either Mark at +1 415 630 2548 / mark@ciatti.com or Michael at +1 415 630 2541 / michael@ciatti.com to get their wines listed. Similarly, buyers requiring wine should get in touch so we can send samples their way.**

See next page for more.

California Bulk Wine Inventory (March 2023 - March 2024)



The Grape Market

The market for 2024 grapes remains quiet, as would be expected given the bulk market's slowness and the fact budbreak is only just getting underway in the vineyards. Many growers will be hesitant to commit on price until the crop picture becomes clearer. Likewise, buyers will be taking their time to see what wine's sales numbers look like in the first quarter of the year and beyond. The high level of bulk availability is another incentive for buyers to put their grape activity on the backburner, as skipping grape and winemaking costs and going straight to acquiring the exact volume of wine required may make more financial sense for them, especially in the current high-cost environment.

The majority of grape activity that has already occurred has revolved around reliable, longstanding grower-winery relationships getting renewed. White varieties dominate the conversation. In the Coast, there have been re-signs and some purchases of Chardonnay. There have been inquiries into Sauvignon Blanc and Chardonnay grapes from Napa and Sonoma – mainly scouting by prospective

buyers trying to gauge what is available so they can make an informed choice when they eventually do move onto the market. Buyers are taking the opportunity afforded by the market's slowness to reassess their sourcing options, with the possibility of some lower pricing enabling a switch of sourcing to more premium areas.

Grape interest in the Interior has also been dominated by whites, with inquiries into Chardonnay and Pinot Grigio availability. In general, however, the Interior's grape market is quiet. Vine removals are underway, although they are not widespread, mainly taking place on those out-of-contract vines bearing less-desired varieties and/or well past their peak bearing years. It is a challenging picture for any grower contemplating removals: Alternative crops currently do not necessarily offer greater profitability, while a challenging market for vineyard sales makes leaving the industry altogether a potentially less financially attractive option than before. In the meantime, some growers in certain

See next page for more.

areas are left pondering how much of their time and money they should invest in vines yet to be contracted.

We appreciate it is difficult for growers to accurately gauge, this early, what 2024 grapes they will have available for sale, but they should keep us up to date – even if only with rough guesstimates

as placeholders – by contacting Molly at +1 415 630 2416 or molly@ciatti.com. Having grapes listed with us as early as possible assists us in finding a buyer when activity does arise. Potential buyers of grapes trying to get a feel for what is available are also welcome to reach out to us.

Events

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

- **July 23 - 24:** International Bulk Wine and Spirits Show



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