California Report

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

Perfectly normal temperatures and precipitation levels for the time of year have allowed the growing cycle across California to adhere to a traditional timetable, if not move slightly ahead. Intermittent 90-100°F heat spells, post-bloom, have also helped ensure no lag; to varying extents, all areas are well ahead of last year's delayed timing, for example by as much as three weeks in some areas of the Central Coast.

Vineyards appear lush, with plenty of canopy growth, given conducive soil moisture levels following the relatively wet winter. Berry sizing is underway and some lighter cluster numbers appear to be offset by larger cluster sizes. Looking ahead, viticultural climatologist Gregory V. Jones is forecasting few dramas: A slightly warmer than average June-August and an equal chance of slightly above or below average precipitation levels. There is still some way to go, but the crop potential currently looks healthy.

The final tonnage figure is likely to fall short of the crop potential as a percentage of grapes will go unpicked. There are more vineyards out of contract now than there were 12 months ago. Transactions on 2024 grapes have remained sluggish, although inquiries have risen in recent weeks. The activity that does occur is mainly confined to supply adjustments/extensions within pre-existing relationships. The grape market's slowness has led to increased discussion about whether growers should crush their uncontracted fruit into bulk wine themselves; we address this issue later in the report.

The bulk market, meanwhile, felt more active in May versus the previous two months. Again, much of this activity was simply discussion, but there has been an uptick in spot market transactions – mainly incremental volumes for just-in-time needs. This uptick is potentially indicative of the respective price expectations of opportunistic buyers and motivated sellers moving into better alignment as another crop nears. Now is a good moment to harness some eye-catching bulk wine opportunities offering an excellent price-quality ratio: Prospective buyers are urged to get in touch with us to discover the newest opportunities. As BMO bank's inaugural *Wine Market Report* recently said: "An abundance of affordable bulk wine and uncontracted vineyards offers opportunities for new brands and product innovation."

Could this recent, limited increase in bulk wine and grape inquiries be symptomatic of the retailer/distributor destocking process nearing an end and the market bottoming-out? When and how that happens is yet to be seen, but we are seeing some companies changing their behavior.

This month our friends from Saxco return with their second bulletin on the market dynamics in the world of packaging, where there has been some big news. As we seek to extend and improve the *California Report*, we are open to suggestions from our readers: What subjects would you like the report to address? Don't hesitate to let us know via your Ciatti broker or info@ciatti.com. In the meantime, read on for our latest assessments of the bulk wine and grape markets.

Robert Selby

The Bulk Market

Suppliers have become increasingly cognizant of the bulk market's slowness and the costly prospect of storing inventory through the second half of the year and perhaps even – given the market's slowness – indefinitely. Consequently, offer pricing has become better aligned with buyer price expectations and there are some highly-attractive bulk wine opportunities currently on the market that are not to be missed: Buyers are urged to get in touch with us directly for the latest information.

May on the bulk market was slightly more active than March and April, both in terms of buyer inquiries and transactions – mainly for small volumes on a just-in-time basis – on the spot market. Some of the demand uptick could be due to distributor inventories starting to balance out and we are hopeful that a more active market will be in evidence over the next two months as we move towards crush. But suppliers must remain mindful that the market is only 'active' relative to its prior sluggishness, and that they will have little room to negotiate price; buyers, aware that they have a wide range of inventory to choose from and seeking to purchase on a just-in–time basis to reduce storage costs, prefer to avoid back-and-forth negotiation.

Across the state, there was activity on 2022 red wines for bottling and for blending, as buyers seek to finish off their 2022 programs or opportunistically fulfil private or control labels with wines that offer them some margin. As the 2023 reds – in plentiful quantities – become ready for bottling themselves, prices on the 2022 reds have softened and merged with 2023 vintage pricing, better matching buyer expectations. Some activity has occurred on Chardonnay, but usually for smaller volumes.

Outside of specific items – such as Napa Valley Cabernet and Sonoma/Russian River Pinot Noir – buyers are seeking Coastal wines at California appellation pricing. Pricing on specific cache items like Napa Valley Cabernet has also softened, to a lesser extent; an uptick in activity on 2022 Napa Cabernet has likely occurred for this reason. There have been inquiries into Coastal Pinot Noir, but – again – on wines outside Sonoma and Russian River prospective buyers are often seeking California pricing. Central Coast pricing, including on Paso Robles Cabernet and Monterey Pinot Noir and Chardonnay, is below traditional levels and closer to California pricing. This is having a cascading effect on Interior prices which are being pushed towards generic wine prices because – unlike in 2019 when a similar cascade occurred – demand for California wines is currently no firmer than for Coastal wines.

In the Interior, bulk wine interest has predominantly been price-sensitive, with demand at the $1-4/gallon price point. Therefore, the focus has been on generic wines – or varietals sold at generic wine prices. Sample requests have come in for darker red blenders such as Petite Sirah and Petit Verdot. (For readers' information, The New York Times ran an article at the start of June headlined "Is Black Wine the New Orange?", suggesting that "inky" wines made from such grapes as Alicante Bouschet are "finding new fans".) Similarly, there have been sample requests for – and some transactions on – generic white, some from buyers who would normally source internationally but now surveying what California has to offer given higher prices and reduced supply elsewhere. (With generic white supplies relatively tight in Europe and South Africa, prices in Chile have risen.) Varietal interest, limited, has been led by Sauvignon Blanc and Pinot Grigio.

Some buyers have entered into bulk wine contracts to secure supply of the 2024 vintage. Most of these deals have occurred within pre-existing relationships. On the flip side, with increasing frequency we are seeing buyers struggle to meet their prior commitments, whether that be taking the volumes contracted and/or paying for them in a timely manner. Suppliers of goods and services to the wine industry are also seeing the same issue: Some in the wine industry are simply unable to pay, at least on time, and some are looking to exit deals they have previously entered into. This issue is likely to continue if the period of destocking continues at retailers, wine sales in the US remain negative, interest rates stay elevated and lenders – seeing the wine industry as a risky investment and uncertain about the wider economy – defer from offering credit or extensions of credit.

BMO's inaugural Wine Market Report, published in May, gave a more optimistic opinion of the wine industry's near-term future. It cautioned against confusing the retailer destocking of 2022 onward – which came in response to the pandemic-triggered dramatic inventory accumulation of 2020-21 – with "possible changes in consumer perception". BMO suggested that "actual consumer spending on beverage alcohol has, in fact, remained steady and grown

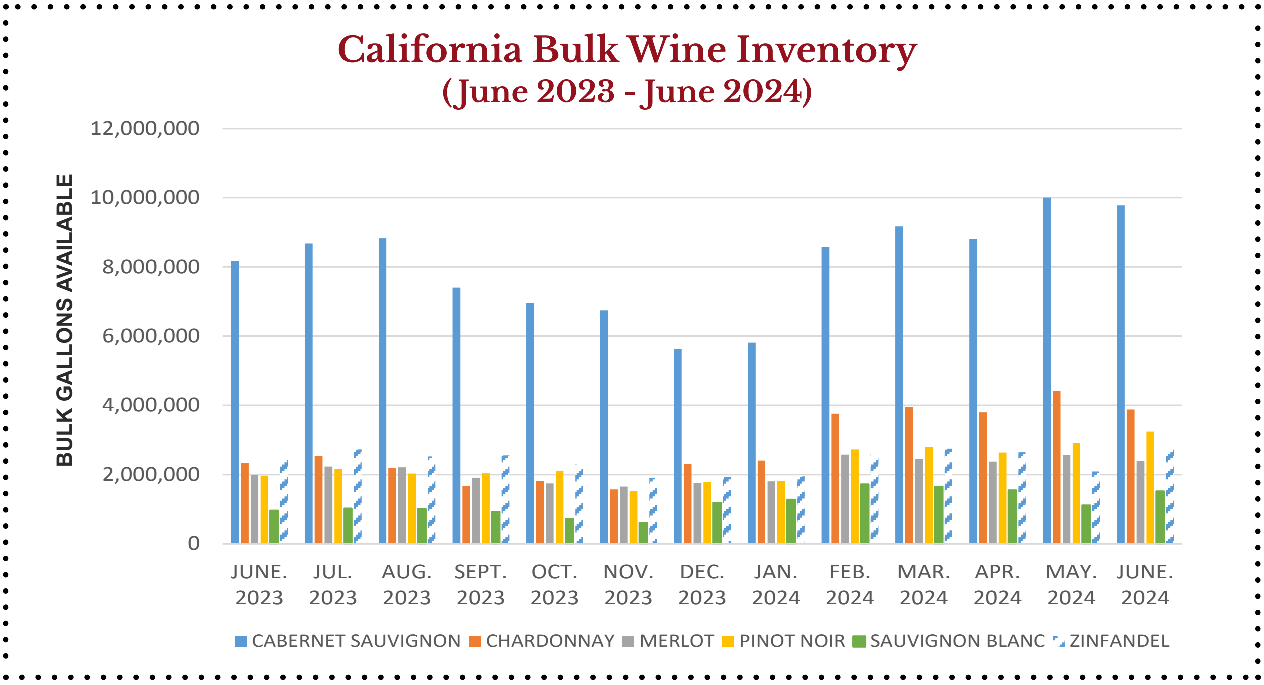
See next page for more.

slightly", with wine's dollar sales holding up relatively well versus volume. BMO indicated that once the destocking phase was complete, total wine volumes "should" move from 377 million cases in 2023 back past the 400+ million cases mark – the level at which the wine market was stable pre-pandemic – "by next year". This would "go a long way toward alleviating the current oversupply between winegrape production and wine demand".

This return to sales stability should at least provide greater confidence in sales projections and, in turn, lead to more confident purchasing on the bulk wine and grape markets. However, we suspect more purchasing is unlikely to lead to pricing higher than it currently is until such time as grape and wine inventories contract.

In the meantime, BMO said its survey of US wineries, conducted by WineBusiness Analytics, found that 71% expect revenue to increase in 2024 versus 2023 and that, among the largest wineries, 26% predict growth of more than 10%. For the long-term, BMO cautioned against pessimism in regard to generational trends. It said that the "Gen X, Millennial, and Gen Z cohorts now claim 61% of all wine drinkers" and the greatest increase in rates of abstention since 2019 had in fact come among consumers aged 60 and older. This dovetails with other recent reports showing economic pessimism is greatest among this age group.

Sending their samples in to us remains the best way for bulk wine suppliers to find a buyer. Suppliers 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. Buyers requiring wine should get in touch so we can send samples their way.



The Grape Market

The grape market continues to be slow in general, although, as with the bulk market, activity has ticked up slightly in recent weeks. This may be a result of buyers getting a better sense of their own crop yield estimates and needs. Demand is sporadic and often confined to pre-existing relationships, although a few prospective buyers have been scouting more widely to find out what is available. We do expect to see some spot activity occur as harvest nears, at opportunistic pricing for the buyer. White grapes are likely to have the best chance of being purchased between now and harvest, although – some – late spot deals on reds should also occur.

North Coast Sauvignon Blanc has led grape interest in the Coast in recent weeks. Uncontracted Coastal Cabernet and Pinot Noir grape supplies remain plentiful. In the Interior, some pre-existing winery-grower relationships have been renewed but, outside that, grape activity has mainly been limited to discussion only. Interior activity predominantly remains white grape-focused, led by Pinot Grigio and Chardonnay, followed by white blenders and Chenin Blanc. Sauvignon Blanc appears to be mostly contracted. Responsible wineries seeking to preserve their relationships with growers are working with

See next page for more.

them on grafting vineyards over to desired varieties, or agreeing to stop-gap solutions such as producing rosé.

A significant number of vineyards will enter harvest uncontracted. Many growers will consequently be weighing-up whether to custom crush their grapes. We have long recommended that this option be entered into only as a serious diversification strategy, and not something done out of desperation. It must be borne in mind that, currently at least, the spot market for bulk wines is not much more active than the grape market, and pricing has trended softer: consequently, long-term storage costs, with potentially a low return at the end, must be factored into the decision.

Vine removals are ongoing throughout the state – especially of older and/or inefficient vines, misfit grape varieties and marginal properties – and this is likely to continue well into next year. Rationalization is likely coming to every county of California as the industry attempts to better align production with demand for the long-term. This process is underway in many other major wine-producing countries: For example, aggregate vineyard removals across 2023 and 2024 in Chile are expected to represent approximately 20% of total area, while the French government is subsidising vine removals in response to slow sales and accumulated inventories, especially of red wine. Properties and brands are for sale in California but, with uncertainty currently surrounding the industry's profitability levels, transactions have been few.

Growers should keep us up to date – even if only with rough guesstimates as placeholders – with the 2024 grapes they may have for sale 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.

Saxco

Saxco Update

Welcome to Saxco's June update on market dynamics in packaging.

Market Dynamics

The market is still stable, but a major event has occurred that could potentially have major implications for the glass market.

On December 29, 2023, a petition was filed alleging that imports from Chile, China, and Mexico are unfairly traded and injure the US glass bottle industry. The petition has led to investigations by the US Department of Commerce and the US International Trade Commission.

Commerce is assessing whether imports from China receive unfair government subsidies and whether imports from all three countries are being sold in the US below fair value (i.e., whether the imports are being "dumped"). The ITC will determine whether these imports injure or threaten the domestic glass industry.

On May 29, 2024, Commerce announced its affirmative preliminary determinations of subsidies and critical circumstances in the Glass Wine Bottles from China countervailing duty (CVD) investigation. The preliminary subsidy finding means that, going forward, importers of in-scope glass bottles from China will need to pay cash deposits ranging from 21.14% to 202.70% for as long as the preliminary CVD measure is in place and are liable for any permanent CVD duties that subsequently may be found to apply to such imports. The preliminary finding of "critical circumstances" means that importers who imported in-scope glass bottles from China after March 5, 2024, which is the 90-day period preceding the publication of the determination are similarly responsible for the payment of cash deposits to secure CVD duties on imports during this additional retroactive reach-back period.

See next page for more.

Moreover, Commerce is expected to announce preliminary antidumping (AD) determinations on imports from Chile, China, and Mexico on or about July 29, 2024. If affirmative, these rulings will impose additional cash deposit requirements, and they may also apply retroactively.

Following the preliminary rulings, Commerce will issue final CVD and AD determinations, potentially altering the cash deposit rates. If the ITC makes affirmative final injury determinations, duties will be imposed for at least five years. The investigations will be terminated if the ITC makes negative final injury determinations.

This could possibly have major tax implications for companies that have purchased glass from China, Mexico, and Chile. Moreover, if affirmative, this may significantly impact domestic bottle pricing and availability.

Packaging Trends

Global Wine Bottle Market: Market Dynamics

	May	June	July
Supply	↑	↔	
Fuel Costs	↔	↔	
Transportation	↔	↔	
Port Availability	↓	↔	
Fumace Capacity	↔	↔	
Lead Times	↔	↔	

Key Insights

Ocean freight has increased: The cost of shipping from Asia to the US West Coast is now $6,000+ per container, up from around $2,000 per container previously, and the cost of shipping from Europe to the US East Coast is now $5,000 per container, up from around $4,000 per container previously. The drivers for this increase are an unexpected increase in freight demand and the Red Sea diversions.

Ultimately, the countervailing (CV) and antidumping (AD) initiatives could significantly impact bottle pricing and availability in upcoming months and have financial implications for wine and spirits companies.

Please find the link to our Substack homepage here:
https://ciatticompany.substack.com/

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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