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GLOBAL WINE & GRAPE BROKERS

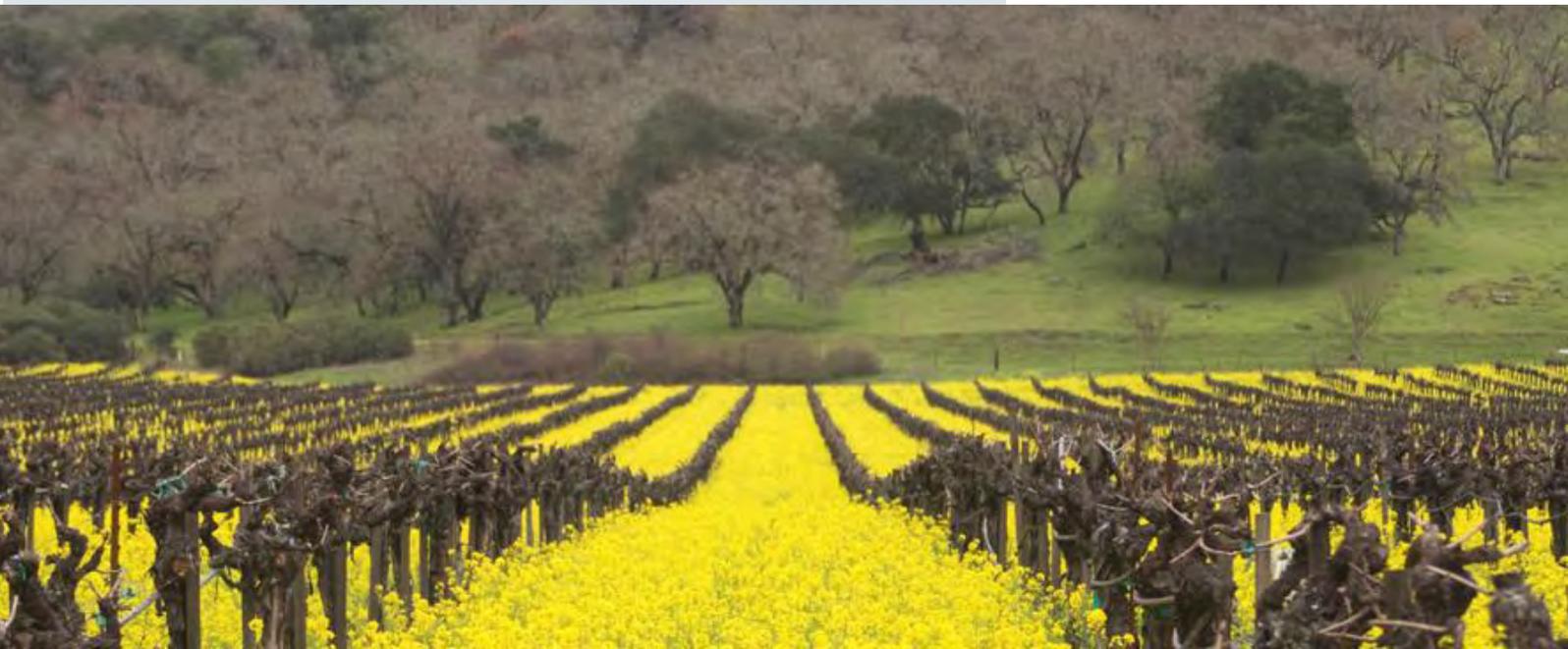


California Report

February 2019
Volume 2, Issue No. 2

**Ciatti Global Wine
& Grape Brokers**

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Ciatti is seeing the slowest market since 2010 for Californian winegrapes and bulk wines, off the back of a pull-back in demand and increasing inventories since 2017 (compounded by a record crop in 2018). We have recently seen downward adjustments on most, if not all, prices – albeit from record highs – as sellers start to realize the new market reality.

Realizing that in some cases the first offer is now the best offer, bulk sellers are keeping more of an open mind when receiving offers than maybe they have done in recent years. This realization has helped generate renewed buying activity on 2017 wines – reds in particular and Cabernet especially – from opportunistic négociants seeking short-term deals to supply a potential buyer, whether that be a retailer, a private label, a short-term label, or someone else.

These buyers have an eye for opportunity, such as the potential of sourcing some Coastal wines at California appellation pricing – they have had some success at this with those sellers seeking to move small volumes in order to make inventory adjustments or boost storage space. (Because of the large inventory, there have been early conversations about capacity ahead of the 2019 harvest, especially on Cabernet.) To reiterate, these are small volumes: most Coastal wines have high fixed costs built into them that preclude them from being priced competitively versus California appellation wine.

The big branded wineries are showing less interest in buying than the négociants as their brands are already supplied; in fact, in some instances these wineries are now seeking to become sellers themselves, offering wines to the retailers with whom they deal in their normal line of work. Many wineries are also giving notice on grape contracts, believing that, moving forward, the spot market has the potential to provide what they need and at a lower price. Grape growers themselves are being told: now is a good time to pull out the old, underproducing vineyards.

Higher than normal temperatures at one stage during this winter caused some concern regarding premature budbreak, but temperatures have since dropped-off again and that concern has gone away. Winter has so far brought more than adequate rainfall, replenishing water reserves.

Lastly, another reminder that we recently changed address: we are now at 201 Alameda del Prado, Suite 101 Novato, CA 94949.

Robert Selby

Where's My Crop Data?

The traditional February release of the USDA's official preliminary harvest figure, and the breakdown of that figure, has been delayed by the 35-day government shutdown in December through January. It is now not expected until April. This two-month delay is contributing another unknown into a market

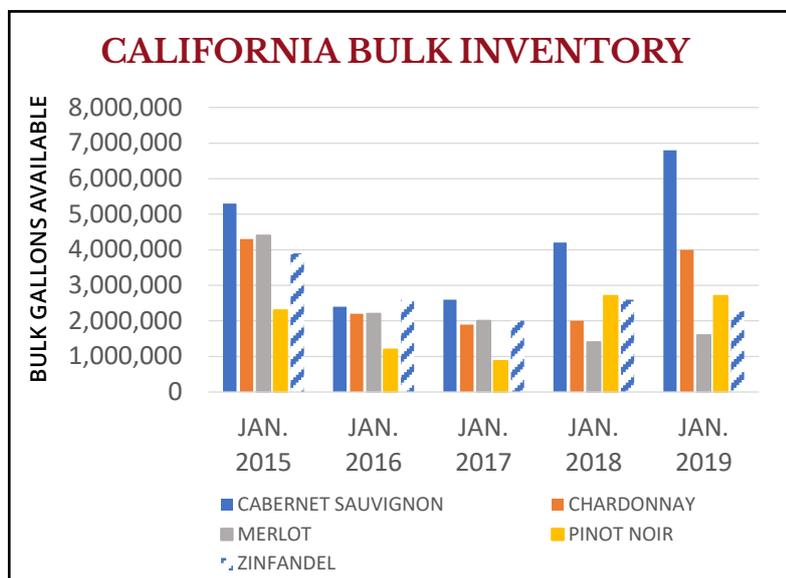
undergoing a change, compounding the cautiousness. All the more reason to keep reading the *California Report* as we continue do our best to provide key insights. Our estimate of the 2018 crop is 4.4 million tons, a state record. Read on for an analysis of the inventory.

Inventory

We recently collated Ciatti bulk inventory data to present at January's Unified Wine & Grape Symposium in Sacramento, in a presentation delivered by Ciatti's Glenn Proctor entitled 'Change is here – a new market paradigm'. Please note that these are snapshots of a moment in time: inventory figures change regularly, so they should be used with caution.

We think there is wine still yet to come onto the market, so we expect these bigger inventory levels to continue or even rise further. We estimate that, as of January 2019, the state's Cabernet inventory was at 6.8 million gallons, of which 4 million litres is in the Coast. The enclosed graph clearly shows Cabernet inventory way out in front, and the extent of its inventory growth since 2016. In addition, we estimate that, as of January, California held 4 million gallons of Chardonnay inventory, 2.7 million gallons

of Pinot Noir, 2.2 million gallons of Zinfandel, and 1.6 million gallons of Merlot. Zinfandel and Merlot inventory levels are in fact down on where they were in 2016. See the following section for more information on the Merlot market.



Sauvignon Blanc & Merlot

The **Sauvignon Blanc** market currently feels the most 'normal' of all the key varietals, insofar as prices are down on the varietal from the historic highs they were at in the Coast a year ago and there's been a fall in buying activity – but not by as much as on other varietals. There is usually activity on Sauvignon Blanc early in the year and we have indeed seen that, on North Coast (Napa and Sonoma) and California wines in particular.

According to Nielsen data, in 2018 Sauvignon Blanc was the only one of the key red and white varietals (excluding rosé) that saw sales growth in the under \$8/ bottle and \$8-11/bottle categories in all outlets, and was one of the strongest growers in the \$20+/bottle category. However, California's share of Sauvignon Blanc sales in the US off-premise category has declined

in the past three years to just over 40%, one of only two categories in which it has lost share (the other being sparkling wine). At the same time, New Zealand's share of the imported wine category in the US has more than doubled thanks to the success of its own Sauvignon Blanc.

Meanwhile, due to vine removals and few new plantings in the past 15 years, as well as some excess going into red blends, **Merlot** inventory is significantly lower than Cabernet and Chardonnay inventory, and slightly lower than Pinot Noir's. The supply-demand dynamic on Merlot is thus closer to balance than it is on the other varietals, with prices softening a little. The market has been relatively quiet, with some activity in Sonoma and Napa and also some in California.

Retail Market Update

Nielsen data shows that the wine market in the US is still growing, but its annual growth rate is slowing. Nielsen's BW166 data tallied wine sales in the US at close to 410 million 9-liter cases in 2018, up 1.2% on 2017. This growth rate was down from approximately 1.5% in 2017 and 2.5%+ in 2016 and 2015. Showing that wine will have to work hard to attract and keep younger consumers in the face of changing lifestyle choices, 23-34-year-old occasional wine drinkers told Nielsen they are drinking less wine than before, while two-thirds of 23-34-year-old regular wine drinkers say they are making efforts to reduce their consumption of alcohol. The competition from beer and spirits seems to be less troublesome: wine continues to take market share from beer and represented 17.5% of the alcohol market in 2018, up from 13.6% back in 2003.

Diving down into wine, we still see that the largest price categories by volume – all positioned at \$11 and under – are seeing negative sales growth except for premium bag-in-box, while the price points above \$11 are in growth.

Retail Price/ 750ml Eqv.	Price Segment	Volume Change	Volume Share	Value Share
Under \$4	Value	-3.5%	23.7%	9.0%
\$4 - \$7	Premium Box	10.8%	8.0%	5.4%
\$4 - \$8	Popular	-5.6%	30.5%	22.8%
\$8 - \$11	Premium	-0.4%	18.7%	24.1%
\$11 - \$15	Super Premium	7.1%	10.9%	18.7%
\$15 - \$20	Ultra Premium	9.2%	3.9%	9.1%
\$20 - \$24	Luxury	6.8%	1.4%	4.1%
\$25 +	Super Luxury	4.1%	0.9%	5.0%
TTL Table Wine	All	-0.5%		

Source: Nielson - Latest 52 Weeks - Ending 12/1/2018

Hot Opps Box

Now is a good time for buyers seeking to secure 2019 grapes as there are opportunities out there (most of the dialogue on grapes is one-year deals). If you're thinking about buying grapes, or if you have grapes available for sale this year, contact Molly on +1 415 630 2416 or molly@ciatti.com to get listed. With some bulk wine pricing having fallen back to where it was five years ago, now is a good time for wine buyers to step onto the market and secure what they need, either via spot or contract. There are opportunities on 2016, 2017 and 2018 Cabernet and other reds – including Pinot Noir – from premium markets in the North and Central Coasts.



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