



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

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The world continues to change rapidly in the battle against COVID-19. It seems we are now moving into the next phase, in which there will be a gradual easing of Stay in Place (SIP) or shutdown restrictions while balancing the health and well-being of all. Here in California we do not know what impact this will have on the state's bulk wine and grape markets moving forward, but in this month's report we attempt to provide an incisive update on what effects COVID-19 has already had on our marketplace.

It is a strange situation in which what would normally be a good news story – a surge in off-premise wine sales (which continued throughout April) – is of course greatly tempered by a dramatic sales slump in the on-premise channel, which has been greatly affected by SIP restrictions. Jon Moramarco, editor of the Gomberg-Fredrikson Report, in a Wine Institute release, estimated that the sales drops on an annualized basis in 2020 in the on-premise (-\$2.54 billion), Direct to Consumer (-\$323 million) and tasting room (-\$3 billion) channels would more than offset a \$1.33 billion boost in off-premise sales. The smaller wineries, with less reach in the nationwide off-premise channel, will potentially suffer the most.

We're still in the opening rounds of a rapidly unfolding situation but over the past month we have indeed seen a few more wineries, previously relatively balanced, have bulk wine available to sell. It is likely some of this new availability is premium brands with an on-premise focus that now do not have a home, or at least their owners are adjusting their sales projections downward given the circumstances.

The ramp-up in activity on the bulk market that we noted last month, provoked by the off-premise sales surge, continued into mid-April before stabilizing a little. **We are still putting the call out for samples: If you have wine for sale, get in touch and we will determine how to collect your samples or get them delivered.**

Activity on the grape market remains limited and mainly focused on the Central Valley, with some larger buyers talking to specific growers. Grape buyers are tentative as the visibility looking ahead is highly limited: a close eye is being kept on the sales trends in the off-premise and how long before the on-premise is up and running again. There is the possibility that –should a trend towards the value-end wines in the off-premise continue while the on-premise staggers along long-term – the grape market could bifurcate with increased demand for value grapes and less demand for high-priced grapes. **Got grapes to sell? Get them listed with us by contacting Molly at +1 415 630 2416 or molly@ciatti.com.**

Read on for more on the bulk wine and grape markets and an update on vineyard conditions. We are here to help you navigate the twists and turns of the market, drawing on decades of expertise, so don't hesitate to get in touch. In the meantime, stay safe.

Robert Selby

Opportunities for Buyers	
Bulk Wine	Grapes
18/19 Chardonnay Coastal	Pinot Noir RRV
18 Cabernet Sauvignon Coastal	Cabernet Sauvignon - All Areas
17/18 Cabernet Sauvignon Paso	Pinot Noir Coastal
	Zinfandel - All Areas

Opportunities for Sellers	
Bulk Wine	Grapes
18 Cabernet Sauvignon Napa	Syrah, Zinfandel Napa
19 Pinot Noir RRV	Cabernet Sauvignon Napa
19 Chardonnay RRV	Organic

The Bulk Wine Market

Activity on the bulk market increased significantly in late March through to mid-April in response to the sales surge in the off-premise channel. Nielsen estimated that, in the eight weeks between the start of March and April 25, dollar sales of wine in the US off-premise were up around 30% year on year. The weeks to April 4 (+31%), April 11 (+36%), April 18 (+29%) and April 25 (+29%) all saw big year-on-year gains.

Given this, some bigger wineries – with big established brands and extensive distribution in the off-premise – have come off the bulk market’s side-lines to seek extra supply. Meanwhile, some wineries that were sellers have now taken some of the bulk wine they had for sale off the market to use for themselves.

Since mid-April bulk market activity has stabilized somewhat. Buying activity continues to be mainly ‘hand to mouth’, with only a few well-positioned big brands looking at laying in long-term needs. Smaller brands are mainly scoping the market and trying to get a sense of the opportunities; most buyers are still trying to understand what their needs will be.

In demand is bulk wine – the typical varietals such as Chardonnay, Cabernet and Pinot Noir – that can hit the retail shelf at a price point at which the consumer wishes to buy. California appellation wine is, naturally, particularly in demand. Prices on the bulk market have stabilized but are still generally below the seller’s expectations. In addition, there is demand for wines that can fulfil retailers’ private label brands – sometimes these are premium appellation wines but with a significant price ceiling. Multiple re-samples are sometimes requested as buyers weigh-up how best to meet the retailer’s requirements.

On the flip-side, as mentioned in the introduction, we are seeing some wineries that would otherwise be pretty balanced seeking to sell wines because they have readjusted downward their on-premise sales projections. Other wineries are seeking to delay payment terms or renegotiate grape contracts downward, as they anticipate on-premise/DTC/tasting room disruption lasting for the longer-term. Some are trying to redirect their on-premise wine into the off-premise, be that grocery stores or online wine retailers/wine clubs. With companies trying to capture parts of the business they are not used to dealing with, the marketplace can feel a little disjointed at the moment.

It’s safe to say that, with the on-premise currently shuttered, the grocery multiples and online wine retailers are in an extremely powerful position to dictate what wines the consumer gets to see. It’s inevitable that, in the retail settings, California’s immensely diverse wine offering gets consolidated down to a handful of options per category, making things very difficult for smaller brands that cannot scale-up or have no room to discount. For now, with millions of Americans being encouraged to limit their shopping excursions and stay home, convenience is the buzzword – retailers are meeting this by keeping selections simple on the retail shelf and/or delivering right to the consumer’s door.

We mentioned last month that if global supply chains – including of bulk wine being imported into the US – are disrupted by COVID-19, it could provide an opportunity for domestic suppliers to fill the breach. Since then we have seen increased demand in Central Valley bulk wines from Canadian buyers who have had

See next page for more.

difficulty importing bulk wine from South America. In addition, the tariffs placed on French wine imports by the US government last October have certainly reduced the volume of French wine imports into the US, and this has likely benefitted domestic suppliers as well as Italian imports.

If you've got wine to sell, the best thing you can do is ensure we have samples. In particular, if you've got

samples of 2019 wines that have only just become ready, let us know. We can then determine how best to collect the samples or get them delivered.

Finally, there continues to be activity on GNS (grape neutral spirit) and grape alcohol as start-up hand sanitizer companies seek supply, though this demand has stabilized a little since last month. GNS/grape alcohol remains hard to find and pricing is still strong.

The Grape Market

The bulk wine market may have stabilized since mid-April in part because buyers are comparing the cost of buying bulk wine versus buying grapes and crushing. There is an expectation that grape activity, when it finally comes concertedly, will be Central Valley-driven and at pricing that reflects the channel the wine will be moving through – which at this point is predominantly the off-premise.

There has been some limited, site-specific activity on the grape market in the Valley at low prices, and also some scoping out by potential buyers. There has been some very specific, small activity on the Coast. Chardonnay, Cabernet and Pinot Noir are the varieties in most demand.

Ultimately, the level of activity on the grape market depends on the level of depletion on the bulk market: the wine needs to sell through before we get concerted grape demand.

Will we see a bifurcation of grape demand when the demand finally comes, with the focus on value grapes to the cost of premium areas? It depends on whether the off-premise wine sales continue to grow so strongly and when the on-premise eventually re-opens (and, when it does, how long it takes to return to pre-COVID-19 levels of business).

Vineyard Updates

We have discussed how wineries had been giving notice on grape contracts over the past few years. That has left many growers with more uncontracted fruit in their portfolio than they have seen since 2008-2010. Growers are carefully weighing how much they should invest in farming these uncontracted vineyards. They want fruit to be ready when the buying activity begins so that buyers choose their vineyards, but the longer the activity takes to happen the harder the decisions becomes, especially given the extra level of uncertainty on the market caused by COVID-19. Will the increase in off-premise demand be sustained enough to translate through to grape demand and, if so, when? Certainly, we have seen some growers, who can afford to and who feel it is in their best long-term interests, pulling out less efficient uncontracted vineyards.

Weather conditions in the vineyards across California have been very good with little of note to report. There has been no early disease pressure and frost is not going to be significant in affecting this year's crop size, which at the moment looks average. Coastal growers are starting to carry out shoot thinning and some of their early canopy management practices.

Sierra Nevada snowpack levels started May at only 37% of the average and Central Valley growers have their drip-systems going. Bloom is just starting to get underway in the Valley's Chardonnay vineyards.

Across all vineyards, COVID-19 measures are being followed as closely as possible, with the deployment of masks, smaller crews, and social distancing.

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