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GLOBAL WINE & GRAPE BROKERS



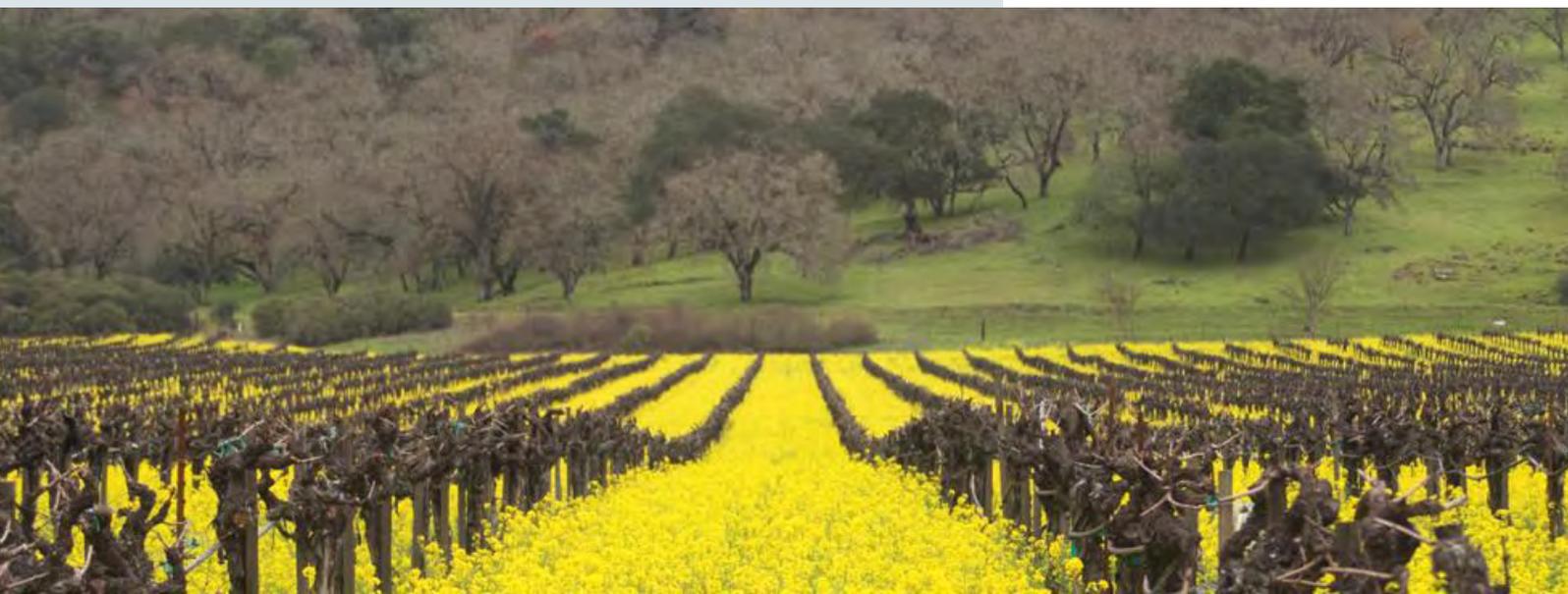
California Report

June 2020

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**Ciatti Global Wine
& Grape Brokers**

201 Alameda del Prado, Suite 101
Novato, CA 94949
Phone (415) 458-5150



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Each area of California and the wider United States is now easing its lockdown at a pace determined by the COVID-19 pressures they have in their respective communities. For example, some have permitted the re-opening of restaurants – as long as social distancing guidelines are followed – while others are keeping them shuttered for now. The general trend is towards easing restrictions on the on-premise trade as far as is possible, which should offer hope to those in the wine business who supply it.

Over the past four weeks we have seen the marketplace continue to bifurcate between those who supply brands and private label brands performing well in the off-premise, and those companies who are more on-premise focused. We are likely to see this gap in performance widen further until such time as the on-premise is back up and running again. Many of those focused on the on-premise are feeling the pinch and we are seeing contract prices and payment terms getting renegotiated.

Those buyers with successful nationwide brands in the off-trade, or those who supply private label, are benefiting from a continued boom in wine sales at retailers. Dollar sales versus last year were up 27.2% in the week to May 23rd, 30.8% in the week to May 16th, and 35.8% in the week to May 9th, according to Nielsen. For the 12-week timeframe since COVID-19 started affecting business, aggregate dollar sales of wine in the off-premise were up 30.8%, while volume sales were up 27.1% - i.e., exceeding the 22% growth Nielsen estimated was needed to offset the slump in on-trade demand.

As of May 23rd, online alcohol sales had experienced ten consecutive weeks of triple-digit growth. It does seem that the greater maturity of the e-commerce wine retail sector versus a decade ago (during the last global crisis, the financial crisis of 2007-09) has perhaps helped more mid-range to high-end wines (such as the \$15-20/bottle category) find a home than otherwise might have done. That said, online/DTC sales remain only a small fraction of the wine retail market so this cushioning is limited.

The bulk market remains active thanks to the increased retailer demand and also as some suppliers seek to make tank space ahead of the 2020 harvest, now just 2-3 months away. **We are continuing to put the call out for samples. In particular, we would like to hear from Napa Valley Cabernet suppliers as we are receiving inquiries from potential buyers seeking a range of qualities and volumes.** If you have wine for sale, get in touch.

Similarly, if you have grapes to sell, you get them listed with us by contacting Molly at +1 415 630 2416 or molly@ciatti.com. Finally, with the 2020 harvest rapidly approaching, **do let us know the storage and processing capacity you possess or require, so we can refine our picture of what's out there and better help you.** Read on for the latest bulk market and grape market intel, and in the meantime: stay safe.

Robert Selby

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

Opportunities for Sellers	
Bulk Wine	Grapes
19 Chardonnay, Sauvignon Blanc	Chardonnay, Cabernet Sauvignon Valley
18/19 Cabernet Sauvignon Napa	Syrah, Zinfandel Napa
Pinot Noir Oregon & Willamette Valley	Cabernet Sauvignon Napa
19 Pinot Noir RRV	Organic

The Bulk Wine Market

As in April, the bulk market through May was active with what we are calling ‘hand to mouth’ business: the needs of the big retail brands and private label brands are being met, mainly only on a short-term basis as there is little visibility on whether or not this off-trade boom will be sustained.

The value end of the bulk wine market (such as that supplying 3-liter bag-in-box) and the mid-priced segment (such as that going into \$7-10/bottle wines) have potentially firmed-up slightly due to the aforementioned retailer demand. The accompanying inventory graph shows how inventory levels are gradually coming down. There were already signs at the start of the year that bulk market activity was picking up and the COVID-19 crisis has bolstered some pre-existing momentum.

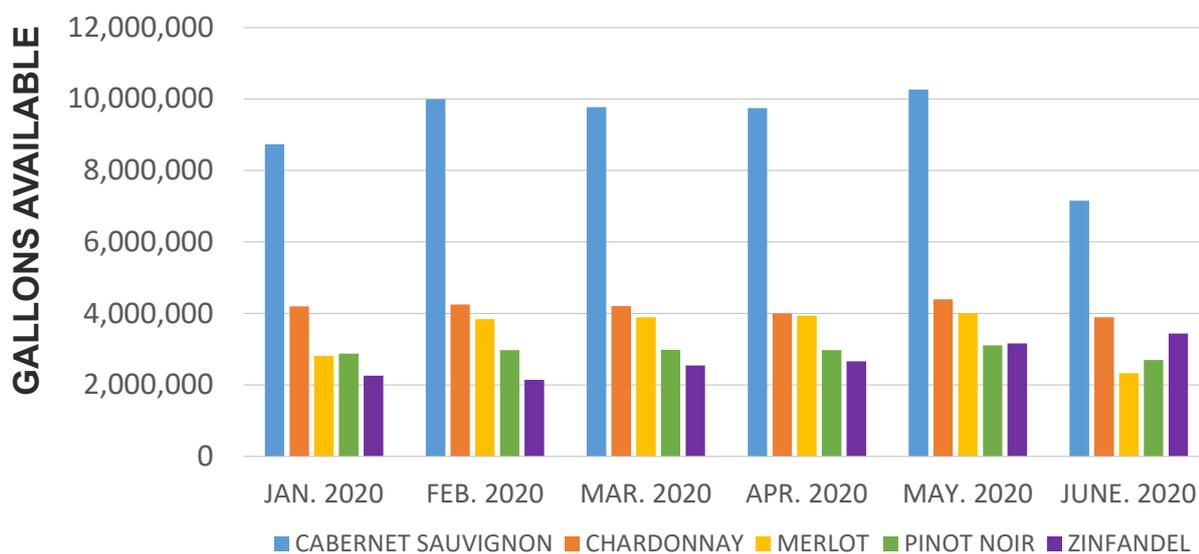
What the inventory graph does not show, of course, is the price at which the wine is selling, i.e. often significantly below what the supplier would like, including Coastal wines moving at California prices.

Suppliers of premium appellation Coastal wines – other than Napa Valley Cabernet – are often struggling to find a home for it. As mentioned in the introduction, there is good demand for Napa Valley Cabernet but often at prices below suppliers’ expectations and/or costs.

With harvest only 2-3 months away, this is traditionally the time of year when opportunistic buyers can realize some very attractive deals on some high-quality wines and this year is certainly no different. Suppliers with inventory should be willing to get creative to secure deals that create tank space and provide cashflow.

Longer term, the tough economic outlook – with US unemployment having risen substantially in recent months – places a question mark over the health of the premiumization trend moving forward, and there is an argument that we are already seeing some reversal of premiumization occurring. In the meantime, suppliers are encouraged to strongly consider all offers that come their way.

California Bulk Wine Inventory



The Grape Market

The grape market ultimately reflects the bulk market's bifurcation. There is very limited demand for grapes from premium Coastal appellations except from some opportunistic buyers seeking to boost quality at discounted prices. Grape growers are increasingly aware that, in the current reality, they must take seriously all offers. The regular buyers of Coastal grapes, meanwhile, are waiting to see how the COVID-19 situation develops in general and, in particular, how the on-trade fares in the coming weeks and months.

There is some – selective – demand for grapes in the Central Valley. Even in this instance, however, it is questionable if the activity is a feed-through from the increased retail demand for wine or – more likely – large wineries simply carrying out long-scheduled supply replenishing. It needs to be remembered that we

started 2020 with less grapes contracted than in 2019, and possibly the lowest percentage of grapes contracted in ten years, so buyers who have given notice on many if not all of their contracts now have the freedom to move onto the market if and when they need, securing grapes – in the present market – at prices lower than in previous years.

If we start to see whatever the new normal will be, and people begin to have some semblance of faith in what the future holds, grape buyers who have been holding back may come back onto the market. Prices would likely remain tough from a supplier's perspective, but the market may open up as things move forward. But as things stand right now, for the grower considering whether or not to continue investing in their uncontracted vineyard, the answer isn't any clearer.

Vineyard Updates

The very early signs are that the 2020 crop size is looking average but things will be much clearer in another month or so when we have seen some sizing. There's been no disease pressure to speak of so far across the state, and vineyard conditions look good to excellent in both the Coast and Central Valley. Things may be a little ahead of normal in the Valley but, although temperatures have been up and down, there

have been no detrimental weather events of note. Ditto in the Coast.

Gregory V. Jones at Oregon's Linfield College forecasts warmer than average conditions in June through August in the western US, with lower than average precipitation in the Pacific North West and northern California, and near average precipitation elsewhere in California.



Contact Us : 201 Alameda Del Prado #101
Novato, CA 94949
Phone (415) 458-5150

Chris Welch

T. +415 298-8316
E. chris@ciatti.com

John White

T. +415 250-0685
E. johnw@ciatti.com

Todd Azevedo

T. +415 265-6943
E. todd@ciatti.com

Glenn Proctor

T. +707 337-0609
E. glenn@ciatti.com

Steve Dorfman

T. +707 321-3843
E. steve@ciatti.com

Dennis Schrapp

T. +905 688-1340
E. dennis@ciatticanada.com

Greg Livengood

T. +415 497-5032
E. greg@ciatti.com

Johnny Leonardo

T. +415 717-4438
E. johnny@ciatti.com

Molly Richardson

T. +415 630-2416
E. molly@ciatti.com

Jed Lucey

T. +415 630-2431
E. jed@ciatti.com

Mark Ishimaru

T. +415 630-2548
E. mark@ciatti.com

John Fearless CO. Craft Hops & Provisions

CEO - Rob Bolch
Sales - Geoff Eiter
Purveyor of Quality Used Oak Barrels -
Raymond Willmers
T. + 1 800 288 5056
E. rob@johnfearless.com
E. geoff@johnfearless.com
E. raymond@johnfearless.com
www.johnfearless.com

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