



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

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Our thoughts continue to be with all those affected by the ongoing wildfires in California and the West Coast in general. Some of the fires first sparked in August are still burning and others – such as the Glass Fire in Napa/Sonoma, which started September 27th – have since ignited. Some four million acres have so far burned in California this fire season, more than double the previous state record for the most land burned in a single year.

The weather towards the end of the winegrape picking season has actually been good, but some growing areas have had to cope with low air quality due to smoke from the fires. In addition, the presence of layers of smoke has reportedly reduced sunlight radiation levels in some growing areas some of the time, potentially stalling grape readiness in certain instances.

Harvest is drawing to a close earlier than in the past few years, and would have finished even earlier were it not for complicating factors related to smoke. On the **Coast**, there remains some Cabernet and late-season reds to be picked, but the harvest should be wrapped-up in the second and third week of October. Some grapes that are ready to be picked remain on the vine while growers await lab results for smoke exposure. On the flip-side, some growers responded to the onset of wildfires by picking everything immediately, leading to congestion at some wineries.

Harvesting in the **Central Valley**, meanwhile, is virtually finished, with the late-season reds almost all in. Picking in Lodi is expected to be complete around October 15th. In some locations on some varietals, rises in Brix levels were stalled by the five consecutive days of 110°F+ temperatures around Labor Day weekend and/or the subsequent presence of smoke in the air reducing sunlight; with the prospect of any further Brix rises now minimal, these grapes are getting picked.

Fruit yields continue to be lighter than expected, with estimates of between 10% and 30% down on an average year depending on region and variety. It is important to note that, going into August, the state's total yield was already expected to be lighter and then white varietals were coming in lighter to varying extents in Lodi and the Central Valley before smoke became an issue. The 10-30% lighter forecast does not take into account the fruit that will not be picked because of rejections caused by positive tests for smoke exposure. The uncertain yield picture is particularly acute in the Coastal areas which have been most impacted by smoke exposure, and on varietals that are red and/or reputedly more susceptible to smoke effects, such as Pinot Noir and Cabernet.

With COVID-19 and then the wildfires, it has been a bruising year for many, but California will still produce some very fine 2020 wines. Read on for the latest on the state's bulk wine and grape markets, don't hesitate to get in touch with your inquiries, and stay safe.

Robert Selby

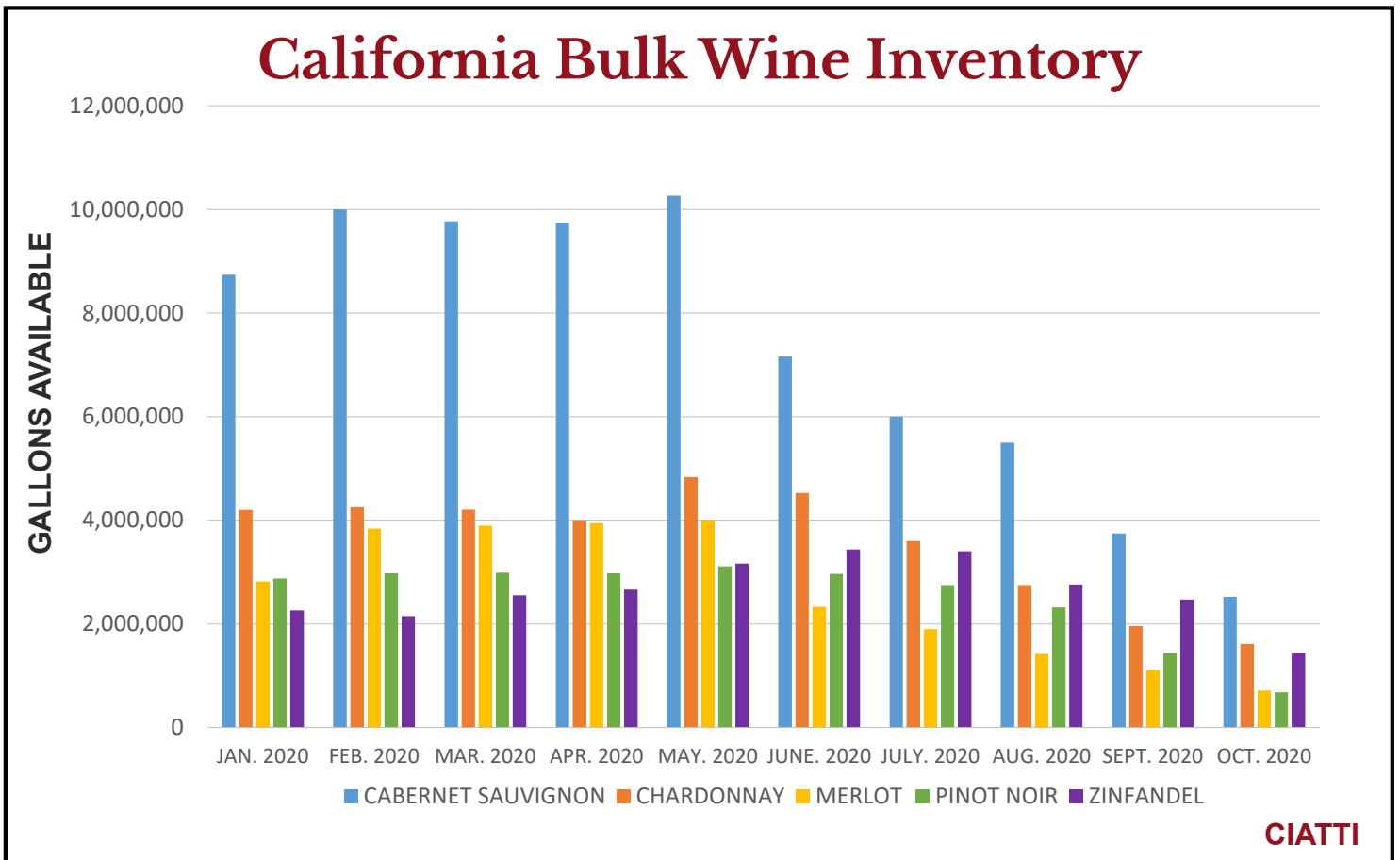
The Bulk Wine Market

Over the past two months we have seen dramatic activity levels on the bulk market at a time of year that, historically, is relatively slow. As mentioned last month, buyers have been coming into the market to buy 2018 and 2019 vintage wines with which to replace 2020 supply they believe they will lose due to smoke and/or there being a lighter crop. As illustrated by the accompanying graphs, bulk inventory has been declining and the market is shifting from one of oversupply (especially in the Coast) to a more balanced supply-demand picture – a transformation from the market situation just six months ago.

Not all wineries are actively buying and activity has been dominated by those with big brands distributed nationwide in the off-premise channel where wine sales have continued strongly (up 19.7% in the 17 weeks to 12 September versus the same period of 2019, according to Nielsen). The smaller négociants and private label buyers – the most active players on the bulk market until the off-premise boom brought the bigger buyers back in – have recently had greater difficulty locating wines at the availability and prices that they would like. Buyers with brands intended for the on-trade are of course far less active on the market and may see a lighter crop as an opportunity to balance out inventory.

Prices have increased both on Coastal and California wines and the price division between them has returned after an absence of two years or so. That said, as most buying activity is being conducted by off-premise brands with retail customers in mind, there is probably a ceiling on Coastal price rises. Suppliers must remember that buyers are attempting to balance out their inventories relative to on-trade sales being substantially down. Indeed, some suppliers who have upped their bulk prices have seen their wines remain unsold – indicative either of 1) the aforementioned price ceiling, 2) that activity is slowing down as most buyers have now covered their needs, or 3) there is a buyer wariness about 2020 vintage quality due to smoke.

Some suppliers may be happy to sit on inventory, however, if they believe prices will trend upward. But forecasting ahead is a risky business right now, with so many unknowns – yields and total tons from the 2020 harvest, the amount of fruit rejected, not to mention the ongoing pandemic and its potential impact on the economy and consumer confidence. We do not know if current pricing is sustainable or where it is headed: In short, there is no guarantee that the pricing we are seeing now on 2019 wines will transfer across to the 2020 vintage.



Smoke

Fruit that tests positive for smoke exposure continues to get rejected by wineries. Long waits for results from overwhelmed labs continue (with delays of many weeks or even months in some cases), making it very difficult for growers and wineries to make informed decisions. We have seen some wineries reject fruit without results coming back first, or holding off from picking until they do have results. Many growers putting fruit onto the market are now accompanying it with smoke paperwork – clean or low-number results – as they are hopeful it legitimizes their grapes and increases the chances of making a sale.

A big problem is – and this is something we have discussed in this report in past years – there is much we as an industry do not know regarding smoke and its impact on the final wine. There is no agreed industry standard as to how the numbers in smoke test results are interpreted, with some results in a gray area where it is not known if the final wine will be tainted by smoke or not. The wine industry – growers, wineries, crop insurance companies, researchers, testing labs and others – need to sit down together after this harvest and hash out a way of working with smoke moving forward that is agreed and accepted by all. We do not want to do this again.

The Grape Market

The smoke issue is currently making it very difficult to sell 2020 Coastal grapes, even if the grapes have been tested and found to be free of smoke effects. Prices being offered by the few potential buyers out there are often not where suppliers are willing to sell. In order to make a sale, those Coastal growers with fruit still uncontracted may have to take on the additional risk of crushing it themselves and then proving that the wine is free of smoke effects.

Will wariness about 2020 grape supply in the Coast spark inquiries into 2021 fruit? There has been some tentative preliminary talk but buyers are hesitant at this stage considering COVID-19 and its impact on case-good and on-premise sales. When buying on 2021

Coastal grapes does get underway, it is likely to reflect the substantial outperformance of the off-premise versus the on-premise and case goods.

Smoke has been less of an issue on the Central Valley grape market, where activity was good earlier in the year and very little fruit was rejected due to smoke. There have been some tentative preliminary inquiries made into 2021 fruit, perhaps a reflection of the 2020 crop coming in lighter and bulk inventory being far shorter now than earlier this year. The timing of this interest is more akin to a ‘normal’ year – i.e. one in which supply and demand is in greater balance than it was in the previous two years.

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