



CIATTI

GLOBAL WINE & GRAPE BROKERS

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CALIFORNIA MARKET REPORT: An Inside Look at California's 2014 Grape Crush

Market Snapshot

The 2014 harvest proved to be another healthy one. Although it was down 7% from last year, the effects of the three past harvests, has led to a steady increase in bulk inventory. When we look at where bulk inventories sit today, we see that we have significant supply, potentially at the highest level we have experienced in the history of Ciatti. There are few varieties that we are concerned about because their inventory is concentrated in some of the older vintages (see slides on page 2).

North Coast

Overall the 2014 harvest will go down as one of the most bountiful in the history of Napa and Sonoma Counties. The last three years have produced historically large crops and that has gone a long way in replenishing some of the inventory in the market that had been depleted by the shorter 2010 and 2011 harvests. We continue to see average grape prices rise for most of the varieties in these areas with especially large jumps, 5-7 %, for Cabernet in Sonoma and Napa. The demand continues to be strong in Napa and Sonoma because case sales of wines over \$15 per bottle has been strong for the last two years. There are some areas that are weaker than others though – with concerns centered on Chardonnay and Merlot. We believe the market is relatively balanced and that continued increased demand should work through the available inventory.

Overall grape pricing has gone up in the North Coast again, with the average price for all four counties going up a minimum of 3.2% in Sonoma and as much as 8.4% in Napa.

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North Coast Cabernet Sauvignon continues to set the pace for the bulk wine market with very little 2013 Cabernet Sauvignon available for sale. Remaining inventory from Napa Valley has been trading between \$30 and \$35. Early sales of 2014 bulk Cabernet show that demand continues to be strong.

Given the back to back large Sonoma County Chardonnay harvests, we may see some softening of price. However sales have all been \$10 per gallon or better.

Pinot Noir still continues to impress in its pace of bulk wine sales after another large harvest that followed the record setting 2013 harvest. Sonoma County Pinot continues to trade between \$16 and \$25 per gallon.

➔ CURRENT TRENDS: A GLIMPSE OF CA BULK INVENTORY



Central Coast

One surprise in the 2014 grape harvest in the Central Coast is Monterey's grape tonnages were up once again. Monterey produced 316,283 tons, almost matching its output in 2005 (316,586 tons). Monterey was the only major appellation to have an increase in this year's crush report. Average prices on the Central Coast were up slightly according to this crush report. Cabernet Sauvignon was highlighted by the third straight year of price increases of 7%. Producers have found homes for all the newly planted Central Coast Cab Sauvignon. Chardonnay in Monterey was up over 120,000 tons for the second year in a row and is the new normal for the Central Coast. Paso Robles Zinfandel had a large drop off from the previous two vintages. The 2014 Paso Zinfandel was 7,995 tons, over three-thousand tons missing from the year before.

Prior to the 2014 harvest, there is still too much unsold Central Coast bulk wine. Chardonnay, Pinot Noir, and especially Merlot were all in long positions. The exception being Cabernet Sauvignon from Paso Robles which continues to be in balance.

The long position of these varietals may only get exacerbated with another large Chardonnay crop (up 6.2% in Monterey from the large 2013 vintage) and Pinot Noir crop (up 10.5% in Monterey) in 2014.

The size and velocity of bulk transactions will need to pick up quickly in order to keep the price of these bulk wines above \$10 per gallon.

Along with Cabernet Sauvignon remaining in balance, Central Coast Pinot Grigio continues to be in tight demand. We don't see that changing in the immediate future.

“...THE SIZE AND VELOCITY OF BULK TRANSACTIONS WILL NEED TO PICK UP QUICKLY IN ORDER TO KEEP THE PRICE OF [CHARDONNAY, PINOT NOIR AND MERLOT] ABOVE \$10 PER GALLON.”

Lodi / Central Valley



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After two consecutive years of record setting grape harvests, California finally had a decline in production in 2014. The Interior/Valley region showed a 9% decrease in production from 2013, crushing 255,000 less tons totaling just under 2,700,000 tons. Lodi (District 11) saw the largest decrease in 2014 producing 16% less than it did last year with Zinfandel down 30% and Merlot down 19%. Chardonnay showed a decrease of 18% while Cabernet was down slightly off 4%. District 13 was down a little over 4% overall with Zinfandel and Merlot both decreasing roughly 17%. Overall Valley Cabernet was only slightly down 2% and Chardonnay was 7% lighter than 2013. Newly producing vineyards helped Muscat varieties show an increase of 10%. The majority of grapes in the valley were still under contract but what grapes were un-contracted struggled to find a home due to lack of demand and limited tank space. As more growers come to an end of some multi-year contracts, more grapes will become available in 2015.

With back-to-back record harvests, 2012 & 2013 left wineries with two large vintages of bulk inventory that have still yet to move through the system. Although still a sizable harvest, 2014 crushed 255,000 less tons in the valley resulting in 43,000,000 less gallons of wine than in 2013. The 2012 vintage still has a fair amount of bulk wine that needs to find an end user, but with very few buyers that is still a challenge. Significant

2013 Valley/Interior supply includes Cabernet, Merlot and Zinfandel which is slowly disappearing via smaller quantities. Older vintage bulk wine has given wineries' a lower price option resulting in less imported bulk being used for domestic brands. The lighter 2014 harvest should help balance out the overall bulk inventories, particularly with Valley Zinfandel and Merlot. Pinot Grigio continues to be the tightest bulk wine from the Interior with good demand and 2014 wine already moving. Petite Sirah continues to have very good demand both as a varietal and blender but supply is limited. White Zinfandel is in shorter supply due to 2014's light yield. This is limiting sales to the export markets.

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