CIATTI
GLOBAL WINE & GRAPE BROKERS

CALIFORNIA GRAPE CRUSH REPORT – February 2013
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Market Snapshot

The 2012 crop of 4 million tons will go down as being the largest crop of wine grapes harvested in California history. It was a bountiful crop especially in the coastal areas which drove the exceedingly large tonnage. The valley performed relatively well, but it did not prove to be the driver of California tons seen over the previous two years. We expect that we will continue to have solid market activity on the grape front in both premium and valley segments of the market. Grape prices should resemble last year's levels throughout California. Activity in general is robust at this point, but it's more focused on discussion rather than signing contracts. We are also continuing to see wineries enter into planting contracts for needed varieties in their future. We expect to see a solid and balanced market as we head into 2013 with plenty of bulk wine from the 2012 vintage for sale.

CRUSH REPORT OVERVIEW

What surprised us was not that this was the biggest grape crop in California history, but rather that there was a 20% increase in average grape price. How wineries are going to digest these big volumes at higher prices remains to be seen.

There could also be some pullback in the valley market if bulk imports continue to increase at last year's rate which was the equivalent of forty million cases.

Crush Report Highlights:

-The state 2012 Pinot Noir crop size reached its highest yet of 247,000 tons up 45% overall from 2011. Monterey and Sonoma county Pinot Noir crops were up over 85% vs. last year. We experienced yields per ton on Pinot Noir in many areas that were not thought possible.

-The 2012 Napa Valley Cabernet Sauvignon crop was both the biggest in history and saw a historic high in pricing.

-The Sonoma County Chardonnay crop was up 54%.

-Zinfandel saw the largest price increase of core varieties, up 25%.

CALIFORNIA WINE & GRAPES BY REGION – FEBRUARY 2013

NORTH COAST

Grapes

In 2012 we saw significantly above average crops in both Napa and Sonoma centered on Pinot Noir (up 85% in Sonoma), Chardonnay (up over 50% in both Napa and Sonoma), and Merlot (up over 45% in both Napa and Sonoma). We expect that this crop size will balance the market for grapes as we continue on in 2013. Other parts of the North Coast we're not as heavy such as Mendocino and Lake County which is somewhat the opposite of the 2011 harvest. Grape prices should remain stable because we have seen a good level of early interest. Also, there were many long term grape contracts entered into last year, so the amount grapes available for purchase vs last year will be reduced. As always, concerns around crop size, frost, rain, and other issues that could affect the 2013 crop will continue to be topics of observation as we move towards summertime.

Wine

The large 2012 vintage North Coast grape harvest has brought a "return to normalcy" in North Coast bulk wine pricing after the run up in pricing in calendar years 2011 and 2012.

Because of that run up in the previous two years, we don't see a large carry over inventory of previous vintage bulk wines which will help maintain a floor for North Coast bulk wine prices.

The one exception to that lack of carry over inventory is 2011 Napa Valley Cabernet Sauvignon of which we see a large volume on the bulk market. Coupled with the biggest Napa Cab crop in history (just surpassing 2005 at 70,935 tons) that is of very good quality, these 2011 Napa Cab bulk wines could prove challenging to move at the previously expected prices.

Going forward in 2013, we expect to see bulk wine pricing more in line with where average 2012 grape prices were - with the one potential exception being 2012 Sonoma County Pinot Noir, as it was such a large crop (up 85% over 2011 tonnage). We have already seen that bulk wine price fall below the equivalent of average 2012 grape pricing. Cabernet Sauvignon bulk wine that is competitively priced will still be in high demand in 2013, as evidenced by the scarcity of 2011 product from Sonoma, Mendocino, or Lake County.

CENTRAL COAST

Grapes

With the 2012 harvest, the Central Coast region strikes a balanced position in wine grape supply. The abundant 2012 crop follows a drastically short 2011 harvest which was down more than 25% when compared to 2009 and 2010. The 2012 harvest has relieved some short term problems for California wineries that had needs for Paso Robles Cabernet Sauvignon, or Monterey Pinot Noir and Chardonnay. The intense buying activity that started a full year prior to the 2012 harvest gives the impression that this trend will continue in 2013. The biggest take away from the Grape Crush Report was the increase in grape pricing.

Cabernet and Merlot prices were up 15% overall, and Chardonnay prices were up 7% on the Central Coast. This price increase was typical of what we saw throughout the rest of the state.

Wine

The wine quality from 2012 harvest is excellent, after favorable harvest weather allowed for fully mature fruit. Bulk wine inventories for the Central Coast are back to normal levels after 'empty winery cellars' were once again filled to capacity. Buying activity is strong for the major varieties of Chardonnay, Cabernet and Pinot Noir. Bulk pricing seems to be returning to normal levels after last year's highs. Within the last six months, Central Coast bulk pricing has fallen by approximately $2/gallon and seems stable. The total Central Coast districts crushed an additional 158,000 tons which would equate to 27 million more gallons of wine when compared to last year.

LODI / CENTRAL VALLEY

Grapes

As the state's total winegrape crush increased an impressive 20% from 2011, the Interior (districts 9, 11, 12, 13, 14, 17) saw less of an increase jumping up 13%. The Southern Interior had single digit gains of only 4%. The Northern Interior was up 32% but this was after a 2011 harvest which was down significantly. Lodi had tremendous growth in Zinfandel (up 53%), Chardonnay (up 39%), and Cabernet (up 36%). As a result of a two year buying frenzy which brought a wave of multi-year contract signings, the valley currently has the largest quantity of grapes under contract in more than a decade. Availability is slim and a bit unknown as renegotiations on expiring contracts have been taking place. Pricing is solid but appears slightly disconnected between buyers and sellers leaving both sides evaluating their needs.

Wine

With the increase in production, wineries have recovered from the bulk shortages of 2011 and now have inventory available. The Valley crushed 84,000 more tons of Chardonnay, 80,000 more tons of Zinfandel, and 53,000 more tons of Cabernet then in 2011, an increase equivalent to 77,000,000 gallons of wine. As a result, overall pricing has softened, decreasing on average of 20%. Carry-over of older vintages is virtually non-existent with wineries focusing on current vintage. Quality appears very good although there is some variation due to transitioning of Zinfandel vineyards. With increased production, wineries may now be able to relieve some the pressure of imported bulk wine and may also seek export opportunities which has been limited over the last two years due to lack supply.

	2010 Valley Total	2011 Valley Total	2012 Valley Total	Change from 2011	% Change	Valley % of Total
CHARD	357,991	347,660	431,310	83,650	19%	**59%**
CAB SAU	228,733	207,906	260,253	52,347	20%	**53%**
MER	195,445	188,387	211,069	22,682	11%	**63%**
ZIN	350,526	303,378	383,924	80,546	21%	**85%**
PN	49,764	83,269	90,300	7,031	8%	**37%**
MOSCATO	94,249	109,295	139,746	30,451	22%	**97%**
PG	127,132	158,417	171,609	13,192	8%	**88%**