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## The Turrentine Outlook

I am having nightmares of statistics gone berserk. By land, legions of dark blue columns of bearing acres are locked in hand-to-hand combat with bright orange columns of tons crushed. By sea, waves of Chardonnay bulk wine are crashing into waves of Pinot Grigio demand. In the air, the future of Pinot Noir is swirling around, as dark as the name, Noir.

It's all due, of course, to many hours of labor on our new publication, *The Turrentine Outlook: Strategies & Forecasts for a Competitive Advantage*. The Outlook grew out of the meetings we have with clients, helping them make critically important - and expensive - supply plans in the face of constantly changing supply / demand dynamics. To assist these clients, we began mining industry data, and especially our own proprietary data, and discovered that we can produce numbers and graphs that provide clients with unique insights into the trends shaping the wine business. Our bulk wine supply graphs, for example, are the best proxy available for total inventories of bulk and bottled wines held by producers. While many pundits rely on pricing information in the State's annual Crush Report, those numbers can be highly misleading because they combine the grape prices determined in long-term contracts many years ago with actual spot market prices. But in our proprietary data, we can pull out actual spot market prices that reflect the actual marketplace the year the sale was made.

We have had a gratifying response to the recent release of the Turrentine Outlook. Our goal is to do a first class job of research. We hired a physicist, for example, to design the program that allows us to use the information from the Crush Report to cross check and correct the information from the Grape Acreage Report, as well as to analyze trends in yields per acre for new plantings and grafted acres. The Outlook will be published three times a year (and a fourth time when harvest conditions warrant a special update). Our goal is to make it better each issue and each year. As Bartles & Jaymes used to say, "We appreciate your support."

## Harvest Roundup

The purpose of the Turrentine Outlook is to provide the best information available about long-term trends to those clients who are making big bets on supplying their brands, or selling wine or grapes for multiple years or planting vineyards. The purpose of our dynamic team of brokers, on the



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other hand, is to apply the best knowledge available to your unique situation to make your buying and selling efficient and effective in a changing market. Turrentine Brokerage now has nine brokers,

constituting the most experienced team in the business. Observations on the 2007 harvest from six of our brokers follow.

**Brian Clements, Senior Partner, Grapes - North Coast Observations:**

An early start last spring and a mild, near-perfect summer resulted in an early start to the 2007 crush. A heat spike in September pushed sugars up and hurried wineries into harvest. Then the weather turned cool and the harvest slowed down. After most of the white varieties were already in the barn, rain hit the North Coast in late September and early October. This caused some problems for thin skinned varieties and motivated growers to get the remaining fruit picked as soon as possible. Wineries, of course, have been concerned about hang time and flavor development but, in many cases, leaves started turning yellow and photosynthesis appeared pretty well done for the year. Wet fields have slowed harvest. Although many black grapes are being picked at lower sugars than in the past few years, many winemakers report good flavors and are optimistic about overall quality.

**Sauvignon Blanc:** The crop level is about 10 to 30% below winery expectation in most areas although it was up in Lake County. Demand came on strong early in the season in Napa Valley and Russian River Valley. Moderate demand developed later in the season in other areas of Sonoma County, Mendocino County and Lake County. Quality looks good.

**Chardonnay:** The crop is 10 to 20% below winery expectation, fueling strong demand in Napa and Sonoma. The market was weak all year in Mendocino County, Lake County, and Suisun Valley but there was some buying activity just before harvest.

**Pinot Noir:** There are some broken hearts here, with volume a painful 20 to 40% below winery expectation and demand still going crazy. Good quality expected.

**Merlot:** Demand continues weak throughout the North Coast. Volumes appear down about 5 to 10%.

**Cabernet Sauvignon:**

**Napa Valley:** The crop is about 5 to 15% below winery expectation. Demand has been moderate but steady throughout the year. Quality is promising.

**Sonoma:** There is a lot of variation in crop level from site to site and even from block to block. Overall, levels are probably 5 to 10% below June estimates. Demand has been reasonably strong for hillside fruit from leading appellations and moderate to weak in most other locations. Quality is promising.

**Mendocino County/Lake County/Suisun Valley:** Crop levels vary but are probably 5 to 10% below June estimates. Demand has been soft. Quality is promising.

**Syrah:** Mostly down about 5% from winery expectation. Demand is still generally weak.

**Matt Turrentine, Grape Broker - Paso Robles & Santa Barbara**

End of harvest estimates for Paso Robles and Santa Barbara indicate that the crop is down from average anywhere between 15-35%, depending on variety and specific vineyard. Even before it became apparent how light the crop would be, we were already seeing increased demand for many varieties. Concerns about the light crop spurred additional wineries into action. Chardonnay and Pinot Noir in Santa Barbara, Edna Valley, and the cooler parts of San Luis Obispo County was mostly contracted early this year. We sold significant tonnages of Paso Robles Cabernet throughout the season, and the light crop brought a number of new buyers on the scene shortly before harvest. In addition to Pinot Noir, other strong varieties include: Viognier, Roussane, Grenache, Zinfandel, cool-climate Syrah, Pinot Grigio and White Riesling.

Most winemakers feel that the quality this year will be very high, especially for red varieties which were granted natural hang time when the weather cooled off dramatically through most of September. It is exciting to watch the market turn - almost day-by-day! Whether you have grapes to sell for 2008 or expect to purchase grapes, call me now to start planning for next year.

## **Erica Moyer, Grape Broker - Monterey County, Clarksburg, Lodi, Northern & Southern Interior**

My Dad is a grower and therefore an optimist. As a grower, Dad has a great deal of respect for Mother Nature and an awareness of what things are beyond his control. His characteristic quote is: "There is always next year." This has been a difficult harvest in both the Central Coast and the Interior regions. As my father's daughter, I recognize the power of Mother Nature, remember my Dad's words, and look forward to 2008.

The 2007 crop set was erratic, with shatter and uneven set in the Central Coast and Interior. Fortunately, Mother Nature smiled in July and August with temperate weather which allowed the grapes to size up. Growers and winemakers were anticipating exceptional quality. Then Mother Nature turned up the heat in early September. With the lack of rainfall, there was no reserve for the grapes to tap into to carry through and beyond the heat. This heat especially affected the reds in the Interior. Sporadic showers late September and into October also created lots of headaches for wineries and growers, stopping harvest several times because of wet fields and slow Brix development.

Although the cluster count in late spring indicated the possibility of another exceptionally large Chardonnay harvest, the Interior Chardonnay crop came closer to average or a little above average. Buyer interest picked up somewhat from the past few years. In contrast, the Central Coast Chardonnay crop was well below estimated level, and this shortfall generated significantly increased demand. Sauvignon Blanc, in both the Central Coast and Interior regions, produced an average-sized crop. Zinfandel in the Interior came in above average, but the demand was a bit softer than the previous year. The two really hot varieties, Pinot Grigio and Pinot Noir both were on the lighter side and continued to fall short of pent up demand. Cabernet Sauvignon and Merlot saw increased demand in the Interior, but still at prices mostly below farming costs. Yields for Cabernet and Merlot were average to below average. The quality overall for 2007 is expected to be good. As my Dad would say, "There is always next year."

## **Steve Fredricks, Managing Partner, Bulk Wine**

The bulk market has hummed along throughout the harvest this year even though bulk wine is the last thing winemakers want to deal with during grape season. Buyers have been making deals for Napa and Sonoma Cabernet Sauvignon and some Paso Cabernet Sauvignon. We have closed deals on 2006 Chardonnay from all Coastal regions and some 2006 Interior Chardonnay as well. Asking prices have firmed up on Chardonnay and, more tentatively, on Cabernet Sauvignon and even Merlot. The volume of Chardonnay actively for sale has dropped from 4,500,000 gallons last year at this time to less than 1,000,000 gallons today. The once bloated Central Coast inventory has shrunk the most dramatically.

The Merlot market is still tough but at least there are some real buyers in a market that, just a few months ago, had no active buyers at all. Just prior to harvest, we had some good action in Sonoma County Merlot and in the last few weeks we have seen increased buying activity for Napa Valley Merlot.

The Cabernet Sauvignon bulk excess maxed out at about 17,000,000 gallons after the 2005 harvest. Last year at this time we had 13,000,000 gallons for sale. Today we have about 10,000,000 gallons. There is still a carry over of Cabernet Sauvignon from 2005, but the useful life of this wine is nearing an end. The quality selection of 2006 is generally not as good as was once available from the 2005 vintage, but the quality of the 2007 Cabernet Sauvignon is very promising. Many of the active buyers are very quality sensitive and the best of the 2006 wines are selling much earlier than the 2005 wines sold last year.

The global over-supply of wine is also changing. The harvest in Europe is down 15 to 20% for whites, especially Pinot Grigio from Italy. Prices are the equivalent of about \$8.00 per gallon f.o.b. California. The Chardonnay harvest is also down, which is putting increased pressure on prices for the quality lots.

In Australia the water restrictions will be severe for growers in the irrigated regions which most likely means another short harvest for 2008. The huge Australian excesses are drying up and prices for many items have increased while selection has decreased. This results in a softening of pricing pressure in the U.K. and other competitive export markets.

As this market develops, let us know your anticipated needs and items for sale. The earlier you call us the more options you will have and the more likely you are to meet your goals.

### **Michael Robichaud, Partner/Broker, Bulk Wine**

“It takes two to Tango...” and for the last seven years the buyers have been calling the tune. Many new brands have arisen from this time of excess and casegood sales are growing at a healthy rate. Supporting those brands and continuing that growth is good for the California wine business. But continuing that growth is going to get harder. In case you hadn’t noticed, supply for many items is beginning to tighten up. The most basic principle of economics indicates that prices for these items will go up. But if prices go up too far and too fast, they could kill the proverbial goose that laid the golden egg of increasing sales.

This is a lively market, like a fast running river, full of opportunity, obstacles and quick changes. A good broker is going to be necessary to shoot the white water successfully. Give us a call.

### **Stephens Moody, Broker, Bulk Wine**

After nearly ten years as a winemaker, focused intensely each year on moving thousands of tons of grapes through the winery in order to make the best possible wine, it was fascinating to experience harvest for the first time as a broker. Although I missed wearing my rubber boots, I saw the big picture like never before and I enjoyed explaining the fast-breaking changes to our clients and helping them respond. From the first estimates of crop size last spring through the last load of grapes crushed this fall, the 2007 harvest kept changing. Cluster counts in the spring signaled the threat of another bumper crop, which could prolong the over-supply already extended by the huge 2005 harvest. As the 2007 crop developed, growing conditions in many parts of the state were perfect. Crop estimates were revised steadily downward over time. As harvest approached, everyone expected it to be quick and early all around the state. The first lots picked were early and they suggested that the crop was actually lighter than even the revised estimates for many varieties and locations on the Coast. Winery clients began to call, eager to lock down supply and the market changed before my eyes. The weather also shifted, grapes stalled out, it got cold, Brix levels lowered and winemakers worried about flavor development. The fruit hung on the vine and then came the rains. Quick and easy turned into late and stressful. But warm weather returned after the rain and most growers were able to get the fruit off in good shape.

The 2007 vintage wines I have tasted so far are excellent. The coastal whites are fruity and crisp and express varietal flavors. The coastal reds possess deep ruby colors and ripe fruit characteristics with minimal veggie overtones. As a winemaker, at this point in harvest I’d be about ready to hang up my rubber boots and enjoy a slower pace. As broker, the pace was unexpectedly active during all of harvest and is already picking up additional steam. It is going to be a busy year and I am looking forward to it. If you have product for sale, or if you have needs, now is the time to give us a call.

## Market Opportunities

**AVAILABLE:** Australian Riesling 2006, in bulk, in bond, stored in California.  
**AVAILABLE:** German Pinot Noir, non-vintage, in bulk, samples available.  
**AVAILABLE:** Sauvignon Blanc 2007, Napa Valley.  
**AVAILABLE:** Gewurztraminer 2007, North Coast and Central Coast.  
**AVAILABLE:** Hungarian Pinot Grigio 2007, in bulk, samples available.  
**AVAILABLE:** Cabernet Sauvignon 2006, Paso Robles - a wide selection.  
**AVAILABLE:** Tank storage, long-term storage as well as adjunct treatments and processing.

**NEEDED:** Chardonnay 2007, Monterey County, Sonoma County, Napa Valley and San Luis Obispo County.  
**NEEDED:** Pinot Noir 2007, California and all coastal appellations.  
**NEEDED:** Cabernet Sauvignon 2006, Sonoma County and Alexander Valley.  
**NEEDED:** Sauvignon Blanc 2007, Sonoma County and especially Russian River.  
**NEEDED:** Zinfandel 2007, Sonoma County and especially Dry Creek.



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