



TURRENTINE

GRAPES & WINE

Turrentine Brokerage | 415.209.9463 | May 8, 2014 | Vol 26, No. 3 | Copyright 2014

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The Business We've Chosen

Demand for high-end consumer products, like a smart phone or a premium vodka, can change quickly and unpredictably. Marketing expenditures for these kinds of products are high but at least production can usually be dialed up or down in accordance with demand. At the opposite extreme are some capital-intensive agricultural commodities, like apples or nuts. Demand may be relatively steady at least compared to high-end consumer products but production is expensive, complicated and hard to predict. It takes a long-time for the trees to mature and, even when mature, annual production can vary widely.

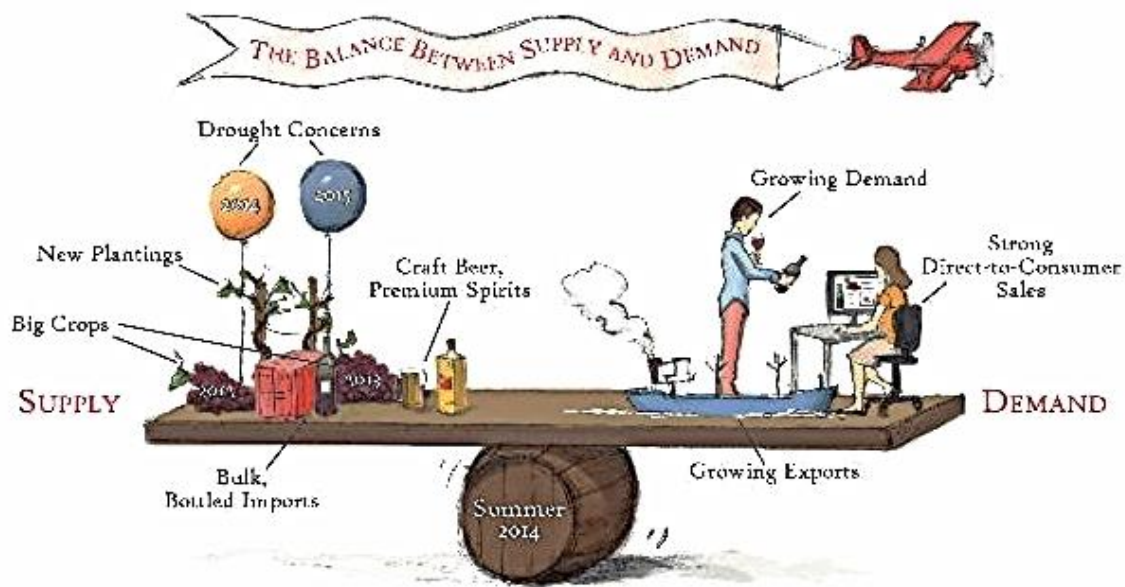
Now imagine that you could graft the business of a high-end, capital-intensive consumer product onto capital-intensive agricultural roots and get yourself into a strange business which requires lots of money for production and lots of money for marketing and in which you depend on a slow-to-change and unpredictable Mother Nature to cater to the constantly changing whims of fickle consumers. We all know what business that describes! The good news is that you don't have to nail the supply and demand balance perfectly to thrive; you just have to consistently understand it a little better than most of your competitors. The goal is to step out of the crowd of growers and brand owners who are often deceived by greed and panic and then are painfully surprised by the changes in the supply and demand cycle.

To step out of the crowd, a brand owner must avoid two things:

1. Being caught without an adequate supply of quality product at an affordable cost when the market becomes short.
2. Being stuck with an excessive supply of less than optimal quality at a high price when the market is long.

A grower must essentially do the same thing - avoid being stuck with uncommitted supply in long markets and avoid being completely committed at bottom-of-the-market prices when supply becomes short.

The illustration below gives an idea of the complexity of the always changing supply and demand balance in the wine business. There are a lot of different factors. Some are easy to measure (i.e., last year's tonnage) and others no so much (possible drought effects on the 2015 crop). Let's review these various factors:



On the Supply Side:

- Large crops in 2012 and 2013 have created substantial inventories of wines in bulk.
- New plantings, especially in the Northern and Southern Interior (mostly Muscat varieties, Cabernet Sauvignon and Petite Sirah) and also in the Central Coast (mostly Cabernet Sauvignon, Pinot Noir and Chardonnay) are coming into bearing.
- Concerns about the impact of drought on the size of the crop both in 2014 and 2015 counteracts, at least to some extent, the ample supplies of wine in bulk.
- Craft beer and premium spirits are both enjoying strong growth and are potential substitutes for premium wines, functioning as an alternate supply to wine and possibly reducing demand growth for wine.

On the Demand Side:

- Consumer demand is growing, especially at price-points over \$9.00 per bottle.
- Direct-to-consumer, mostly online, wine sales, which favor wines over about \$12.00 per bottle, are booming.
- Exports of California wines are growing.
- Some brands are switching back to California wines from imports because of the greater quantities available and more attractive pricing, as well as the less complicated logistics.

This overall picture conveys the complexity of supply and demand but it is very general. The supply / demand equation is in fact quite different for Merlot and Zinfandel, for example, compared to Cabernet Sauvignon and Pinot Grigio. Supply and demand also reflects a post-recession shift of consumer demand to higher priced wines, especially wines that retail between \$9.00 to \$20.00 per bottle.

Growers and wineries will want to stay in close contact with Turrentine's team of brokers to keep up with market changes and to devise winning strategies for their own situation. Growers and wineries with a significant investment in the wine business may also want to consider a subscription to ***The Turrentine Outlook: Forecasts and Strategies for a Competitive Advantage***. See **Publications** section below for more information.

-Bill Turrentine

Market Updates

Grape Market

So far in 2014, fewer tons are actively for sale versus last year at this time, since over the last few years, many multi-year agreements were signed. Buyers have been active in most regions of the state for the grapes on the market, with the North Coast being the most active for nearly all varieties, especially Cabernet Sauvignon, with the next most active market being Sonoma County Pinot Noir. Quality standards have also increased as one of the factors in determining whether or not to secure a deal. In the North Coast, prices have either increased or held firm from last year. In other regions of the state, prices have held where there has been early activity. For varieties in regions where there has been little grape buying activity this year with ample supply of bulk wine actively for sale, grapes prices have softened.



Cluster counts appear similar to last year - mostly two clusters per shoot, which means the potential for a crop equal to last year for almost all varieties is possible. Bloom in most cases is about two weeks early, and buyers, for the most part, have taken their usual purchasing pause while they assess what happens with berry set. Assessing berry set will provide insight to crop potential but, as we all know, we are dealing with the statewide concern of below normal rainfall and snowpack for the third year in a row. The effects of drought will be varied by site and regions, but there are some regional dynamics to report.

In the North Coast, timely rains in February and March have aided vines and helped to fill some ponds and reservoirs. Since the frost season was light, that water is now available for summer irrigation. Those relying on the Redwood Valley water district or those relying on Russian River water may have more challenges with a hot summer.

In Paso Robles and in the southern interior, the effects of the drought will vary by specific site and region depending on water availability and water quality. Some damage to younger vineyards from cold temperatures this winter has been reported in Paso Robles.

In Santa Barbara County and other parts of San Luis Obispo County, the drought effects might not be as severe as the Paso Robles area, and there is nothing out of the ordinary so far this season to report.

In Monterey County and the Northern Interior, growers feel confident the current water supplies will be sufficient if the summer is mild. So far this year, the vines are growing well and there is nothing out of the ordinary to report.

In summary, the effects of drought on the crop size will be varied by site and region depending on access to water, quality of water, etc. If the summer weather is normal, which means warmer temperatures than last year, or even warmer than normal, it may negatively affect berry size and cluster weights. For more specific information on the current and dynamic balance of supply and demand, call your Turrentine grape broker.

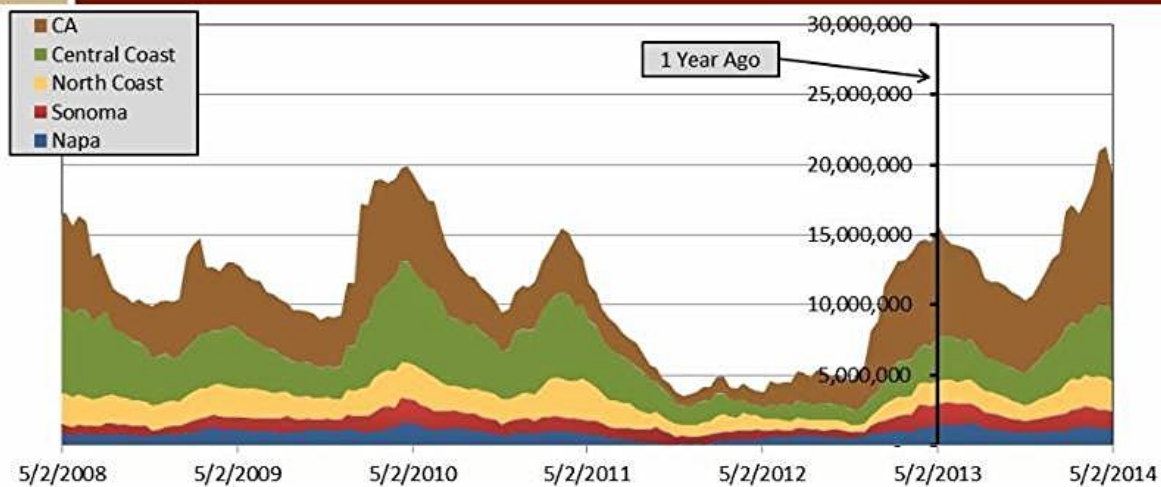
Bulk Market

Overall, more gallons are actively for sale than last year at this time and demand, for the most part, is softer with wineries full of 2012 and 2013 vintage wines. The actual volume as a percentage of the total harvest is not as high as we have seen in the past. Two thirds of current bulk gallons available are from the 2013 vintage and most gallons are winery-owned; very little is grower custom-crushed. Similar to the grape market, the bulk market has been driven by Cabernet Sauvignon buyers, especially North Coast Cabernet Sauvignon.



Bulk by Region

6-Year Bulk Gallons Available



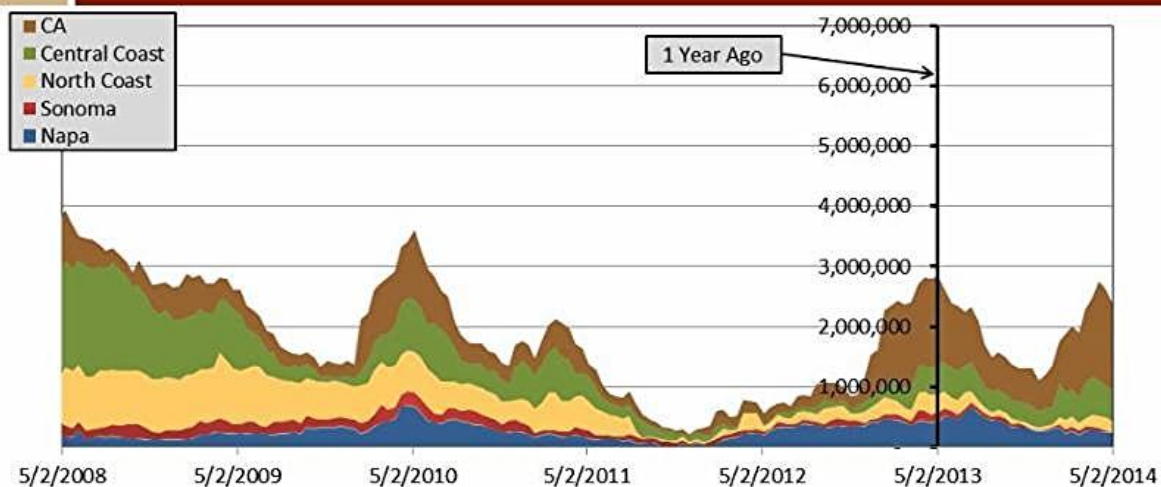
Bulk Cabernet Sauvignon

Cabernet Sauvignon is driving the market and bulk gallons actively for sale have decreased versus last year. Demand for all North Coast Cabernet Sauvignon bulk wine has increased or stayed steady and is especially strong at the high-end. With supply from Napa Valley decreasing and prices remaining high, some buyers have looked to Sonoma County as an alternative. There have also been some new brands releasing Sonoma County appellation wines in the last few years that have increased overall demand. Very few Sonoma County gallons are actively for sale with prices increasing since the beginning of the year. The next hottest regions for Cabernet Sauvignon are Lake County and Mendocino County. We have moved almost all of the available 2012 and have moved a lot of the 2013 already this year. Demand, in order of importance, is from wineries sourcing it to use as a blender to both moderate price and increase volume of Napa Valley and Sonoma County wines, and new wineries launching North Coast appellation wines.



Cabernet Sauvignon

6-Year Bulk Gallons Available



In the Central Coast regions, bulk gallons actively for sale have remained relatively flat while demand and prices have decreased from last year. The volume of California appellation Cabernet Sauvignon is relatively the same, but the good yields per acre and new acres coming into production means wineries have supply of 2012 and 2013 wine. This increase in supply in the interior has also moderated some demand by bulk buyers for Central Coast appellation Cabernet Sauvignon lots. With increased supplies of other red wines for

blending, wineries also have more options for blending to increase supply or increase quality at lower prices, which is also moderating some demand. As harvest approaches, demand is likely to continue to outpace supply for Cabernet Sauvignon. Contact your Turrentine bulk broker for more details on the specific market dynamics for the Cabernet Sauvignon bulk wine you need for your brand.

Turrentine 2013 Crop Contest: The Results are in!

Alex Sokol Blosser
Sokol Blosser Winery
Napa Chardonnay



In order to keep his street credibility up there in Oregon...An Oregon Pinot Noir producer estimating correctly the Napa Chardonnay crop in 2013? What is the world coming to?

**Congratulations
to all our
Winners!!**

Adam Lee
Siduri Wines
Lodi Chardonnay



Niels Udsen
Castoro Cellars
**State Total Chardonnay &
Central Coast Zinfandel**



Lise Asimont
Francis Coppola Winery
**Lodi Cabernet Sauvignon &
Central Coast Merlot**



Jeff Lopes
Lopes Vineyard
Central Coast Chardonnay



Gerry Turgeon
Trout Gulch Vineyards
Sonoma Cabernet Sauvignon



Cameron Hughes
Cameron Hughes Wine
**Central Coast Cabernet
Sauvignon**

Craig Rous
Bear Creek Winery
Napa Valley Merlot

Bill Ricioli
Ricioli Brothers
Napa Cabernet Sauvignon



**David Lucas
Lucas Winery
State Total Cabernet Sauvignon**

**Gery Swallow
Hanna Winery
Central Coast
Cabernet Sauvignon**



**Kurt Jonson
J.H. Jonson & Sons Inc.
Sonoma Chardonnay**

**Chris Smith
Bogle Vineyards
Sonoma Merlot**

**Michael P. Boer
Stipp Ranch
Lodi Merlot**

**Warren Bogle
Bogle Vineyards
State Total Merlot**

**Courtney Pashilk
Ross Road Custom Crush
Sonoma Zinfandel**

**Oded Shakked
Longboard Vineyards
Lodi Zinfandel**

**David Thompson
Napa Wine Project
Napa Zinfandel &
State Total Zinfandel**

Turrentine On The Road



Vineyard Economics Seminar Wednesday, May 14th Napa Valley Marriott



Understanding the balance of supply to demand of specific varietals and appellations are vital to successful short and long-term planning. **Steve Fredricks** and **Mike Needham** of Turrentine Brokerage will be presenting a selection of Turrentine's proprietary market research. There will be an overview of the domestic and international wine markets to update the balance of supply for grapes and bulk wine. Turrentine will also provide an update of how wineries in California are navigating the uncertainty of vintage 2014 with statewide drought concerns.



2014 ASEV National Conference June 23-27, 2014 Austin, Texas



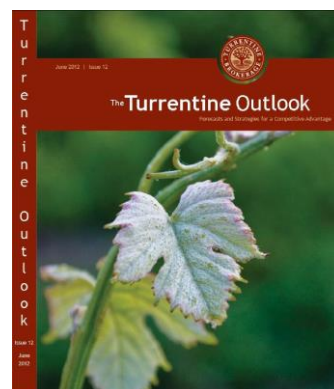
Steve Robertson, bulk wine broker will be at the 65th ASEV National Conference & 39th ASEV Eastern Section Annual Meeting. For the first time, the National Conference will be hosted in Austin, Texas, and integrated with the ASEV Eastern Section's annual meeting. Make sure to stop by our table if you are attending.

Publications

Coming Soon!

The 2014 issue of The Turrentine Outlook - Forecasts & Strategies for a Competitive Advantage, is getting ready to go to print. Priced at \$1,350 per year, The Turrentine Outlook includes a book-length detailed analysis of the major varietals and regions of the state, with proprietary charts and strategic recommendations, plus periodic updates throughout the year. The book length publication is due in early June.

Contact Jennifer@turrentinebrokerage.com for subscription information. (Subscription applications are subject to approval by Turrentine Brokerage.) You can also go to our website for more information.



Wine Industry Benchmark Survey

The 2013 Wine Industry Financial Benchmarking Report, provided by Moss Adams LLP, the Farm Credit Alliance, and Turrentine Brokerage is available for purchase at www.turrentinebrokerage.com.

Market Opportunities



Bulk Wine Available

- 2012 California Cabernet Sauvignon: 430,000 gallons - 30 lots
- 2012 California Zinfandel: 869,000 gallons - 35 lots
- 2012 California Merlot: 490,000 gallons - 22 lots
- 2012/2013 Central Coast Merlot: multiple lots
- 2012 Central Coast Pinot Noir: 209,000 gallons - 26 lots
- 2013 Central Coast Pinot Noir: 577,000 gallons - 56 lots
- 2013 Central Coast Chardonnay: 624,000 gallons - 46 lots
- 2013 Sauvignon Blanc all regions: various sizes
- 2013 California Cabernet Sauvignon: 1,050,000 gallons - 37 lots



Bulk Wine Needed

- 2012 Napa & Sonoma Cabernet Sauvignon: 1/2 load size plus
- 2013 Sonoma Coast Chardonnay: load size
- 2013 Sonoma Cabernet Sauvignon: 1/2 load size plus
- 2012/2013 California/North Coast Petite Sirah: 1/2 load size plus



Grapes Available

- Santa Barbara Co. Grenache: truckload quantities
- Santa Barbara Santa Barbara Co. Tempranillo: truckload quantities
- Santa Maria Valley Pinot Noir: 50 tons
- Santa Maria Valley Chardonnay: 75 tons
- Paso Robles Cabernet Sauvignon: truckload quantities
- Paso Robles Petite Sirah: truckload quantities
- San Antonio Pinot Grigio: truckload quantities
- Santa Lucia Highlands Pinot Noir: multiple lots
- Sonoma Carneros Chardonnay: truckload quantities
- Sonoma Carneros Pinot Noir: truckload quantities
- Russian River Pinot Noir: truckload quantities



Grapes Needed

- Lodi, Head Trained
Zinfandel: multiple
truckloads

- Northern Interior
Merlot: multiple
truckloads

Bulk Broker Contacts	Grape Broker Contacts
Steve Fredricks: (415) 847-0603 President-Grapes and bulk wine throughout California and International	Brian Clements: (707) 495-8151 Vice President-Grapes throughout CA, Napa, Sonoma, Mendocino & Lake Counties
Michael Robichaud: (415) 686-0858 Bulk wine throughout California	Erica Moyer: (209) 988-7334 Grapes throughout the Central Coast and Interior
Steve Robertson: (415) 827-0110 Bulk wine throughout California	Audra Cooper: (805) 400-9930 Grapes throughout the Central Coast
Marc Cuneo: (707) 217-1369 Bulk wine throughout the North Coast	Mike Needham: (707) 849-4337 Grapes throughout the North Coast
William Goebel: (415) 798-5515 Bulk Wine throughout the Central Coast	