



# TURRENTINE

GRAPES & WINE

## Market Update Newsletter

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### *Working The Grill*

*By Vice President Brian Clements*

I like barbecue season, and I am pretty good at the grill. I also worked for a leading company in the wine business for ten years, and it's always barbecue season there. I don't mean this as a criticism - it's a great company. But if you are going to rise in those ranks, you had better be able to give quick, intelligent and insightful answers to a battery of questions on a moment's notice.

Having been trained at a big company and enjoying another eleven years of experience at Turrentine Brokerage dealing with all kinds of clients in all kinds of markets, I kind of like to be grilled.

That's exactly what one new client did recently. He is a heavy-hitter in the financial markets and he has purchased a beautiful vineyard site and has hired a top-notch vineyard management team. He is interested in having Turrentine Brokerage advise him on what to plant based on projected demand and to help market his grapes.

Over an excellent lunch at Mayo Family Winery in Kenwood, I outlined the cycles and complexities of the grape market and told him, of course, what a good job we could do finding the best homes for his grapes over the long-term. I warned him that the romance of the wine business leads many people to make bad economic decisions. When he has friends over for Sunday dinner, he can survey his vineyard and take pride in their beauty. But on Monday morning, he had better put away the rose-colored glasses or those pretty vines will eat him alive. He was quiet for a minute, then he looked at me and said, "Brian, tell me about the last time you failed."

What? Me, fail? Are you kidding? There was one time I thought I was wrong back in high school, but it turned out I was right after all. He smiled faintly and kept waiting for his answer. The server refilled my wine glass and I took a big gulp. And here is what I told him.

Several years ago, when the economy was strong and the grape market was hot, I was invited to lunch with a gentleman who had just purchased some ground to plant. Also at tending the lunch was an ultra high-end vineyard consultant. The consultant thought this site could grow grapes in 99th percentile.

Of course, development costs for such a vineyard are high - and yields are low. But he was confident that, over the long run, the grapes would command a price high enough to justify the investment. This consultant really is a viticultural wizard. He was so convinced and so persuasive that I almost drank the Kool-Aid - and I was uncharacteristically quiet.

Finally, the owner asked me what I thought. What I really thought was:

1. At the height of the wine business cycle, it was a good time to seek a long-term contract.
2. No winery would commit to the prices needed to justify the investment they were contemplating until the fruit had proven over a number of years to be irreplaceable for a growing luxury brand.



3. The chances of hitting a grand slam - developing a perfect vineyard and matching it with a perfect brand - is not high.
4. This particular site was promising but was not in the immediate neighborhood of other proven ultra-high-end vineyards. Winemakers would be interested but cautious.
5. It was certain that extraordinary costs would be required. It was not at all certain that extraordinary grape prices would be obtained. The potential rewards, in summary, were not commensurate with the risks.

I knew all of this, but I did a weak job of presenting it. The fact is, I was momentarily dazzled by the romance of the wine business and the vision of this vineyard, bearing golden grapes which would make nectar for the gods.

Some vineyards grow those kinds of grapes and some independent growers sell those kinds of grapes to exalted brands and make money doing it - and some people win the lottery too. But it is not a good business plan.

I resolved to never again let the romance of wine - and the exhilaration of a hot market - dampen the vigor of the advice I give clients.

The client smiled when I finished the recounting and told me it was an excellent answer. As I said, I like to work the grill. Fillet Mignon anyone, perfectly done?

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## *The Running of the Bulls* by Bill Turrentine

Wall Street may be weak but the market is strong on Vineyard Lane. Buyer activity was already moving along at a pace not observed in recent years for most varieties in most areas. Then, Mother Nature pulled out from her bag of tricks some frost and bloom-time rain. Wineries and growers reduced their crop projections and scrambled to make up the difference.

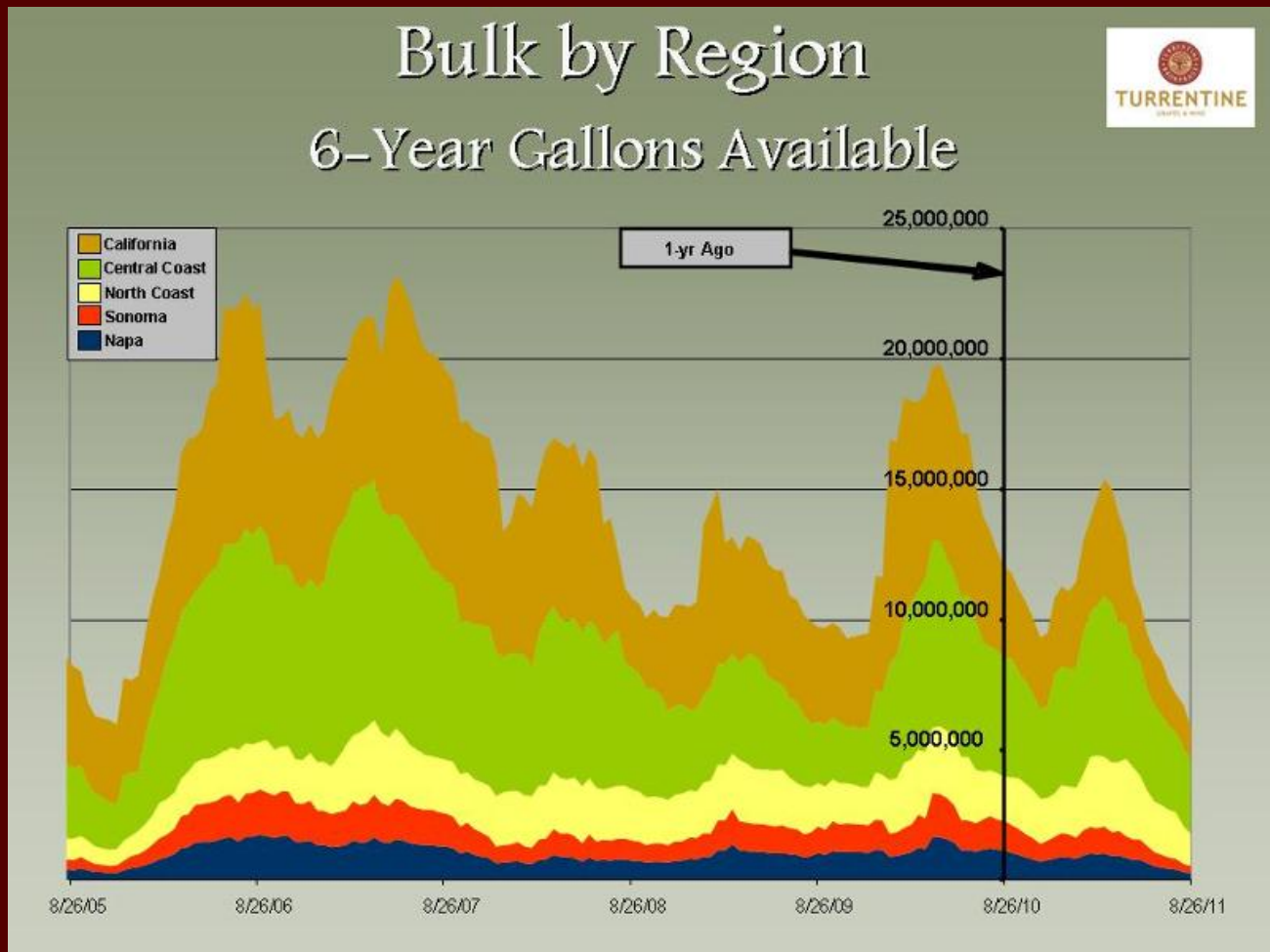
In April, a frost hit the Central Coast, parts of Lodi and the Delta region, and reduced crop size. Cabernet Sauvignon in Paso Robles was the hardest hit, which was already in strong demand. In May and June, wind gust and rain fell during bloom over much of the Northern Interior and North Coast, interfering with berry set for many varieties. Estimating crop size is always an inexact science but these kinds of problems are especially hard to evaluate because the effects are widely various. One block can be devastated by frost and an adjacent block hardly touched. Rain can wreak havoc with one clone in full bloom while another clone of the same variety growing nearby is not yet in bloom and is unharmed. Also, depending on subsequent weather patterns, vines can partially compensate for frost damage or poor set by, among other things, growing bigger berries.



No one really knows how much crop has been lost but just about everyone agrees that Mother Nature has been doing more to subtract tons than to add them on. Mildew was prevalent in the Interior due to a cool spring and large canopies, making coverage challenging. Mildew has been more challenging this year in Monterey County. The harvest is some two to three weeks later than last year. Early harvest Chardonnay for sparkling wine in the Northern Interior has come in below the crop estimates that had already been revised downward. North Coast sparkling wine producers have also reported actual yields below projection. Pinot Grigio seems to be the only variety coming in on or above estimates. The consensus of the field reports from our grape brokers, gathered from the thousands of conversations and many hundreds of grape sales, all point to yields which will be below 2010 and below normal. The actual yields below late season estimates, is tied to light bunch weights. Some particular areas of concern for low yields include Sonoma County Sauvignon Blanc, Monterey County Chardonnay and Pinot Noir, Napa Valley and Alexander Valley Cabernet Sauvignon, and Lodi Chardonnay, Cabernet Sauvignon and Zinfandel.

Every day we are gathering more data about actual yields, so stay in touch if you want the most recent information. We are also still doing grape deals seven days a week, (commission and a half for Sunday deals), although the pickings for some varieties have gotten pretty thin. Mother Nature and growing demand have turned the buyer's market of the last several years into an incipient seller's market. Wall Street may be populated with bears but we've found some bulls loose in the vineyard.

Harvest usually brings a blessed lull in the market for wines in bulk, as winemakers are preoccupied with stomping grapes and there is a need to conserve tank space and cash to accommodate incoming fruit. Not so this year. Too many brands have played the just-in-time inventory game - and Mother Nature has now heightened concerns about future supply. As the accompanying graph shows, total inventories of wine listed for sale in bulk have continued to decline. As a result, prices have firmed and selection has diminished.



Cabernet Sauvignon continues to be king of the tank farm, with strong demand for all regions. Sellers aggressively ratcheted up asking prices of Napa Cab from 2010 a few months ago - and sales pretty much stopped. Now we are putting deals together in the range of \$25-\$30 per gallon, below the aggressive asking prices but up from a few months ago. Sonoma County Cabernet Sauvignon lots have also continued to increase in price with recent sales in the high teens for 2009 and 2010 and even above \$20 per gallon for a few exceptional lots. Paso Robles, Mendocino County, and Lake County lots have continued to move and prices have been increasing with recent sales from the low teens to the mid teens per gallon. Supplies of California and Lodi appellation Cabernet Sauvignon are short and demand strong. In talking to our international partners, prices are firm in Australia for value priced 2011 Cabernet Sauvignon. In Chile the supply is very limited, but the market has been sluggish because of high asking prices. In Europe inventories are down and, just like in California, they are waiting on the 2011 crush.

For Chardonnay we continue to see the bulk market slowly gain strength, with more buyers and lower

volume actively for sale. Contrary to the usual trend this time of year, prices have actually increased over the last few weeks for both 2010 and the few remaining gallons of 2009 wine. Some buyers are hedging their bets against a 2011 crop that will be down from projections. Napa Valley Chardonnay recently sold in the \$12 to \$15 range and Sonoma County lots recently sold between \$9 and \$12 per gallon. 2010 Central Coast lots recently sold in the \$6 to \$8 range. California and Lodi lots are continuing to move with recent sales in the \$5 to \$7.50 range. Exact price per deal depends on quality and lot size.

The Pinot Noir market continues to motor along. Buyers have been active for most of the year, looking to increase the blend size of hot brands in the \$15 per bottle range. Supply has lagged behind demand all year. We could move Central Coast Pinot Noir in the \$13 to \$18 per gallon range, if available, and have recently sold Russian River / Sonoma Coast lots in the \$17 to \$25 range.

There is also a strong thirst on the bulk market for all red wines, including Zinfandel, Petite Sirah, Petite Verdot, and even Syrah and Merlot. Supply is limited and prices have been increasing.

We know that many factors influence decisions to buy or sell grapes and wines in bulk. Bulk sales and purchases especially are an afterthought for many brands - but they can be an afterthought which has a major impact on the bottom line and which affects the success of brands. It is important to remember, when contemplating these decisions, that those who call us earlier get opportunities that will not be available to those who call us later.

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## *Market Opportunities*

### *Bulk Wine Available*



- 2009-2010 Chardonnay, Central Coast, Mendocino, load quantities, bargain prices
- 2009-2010 Merlot, Lodi, load quantities
- 2010 Syrah, Central Coast, load quantities
- 2008 Zinfandel, Central Coast, California, load quantities
- 2010 Sauvignon Blanc, North Coast
- 2010 Roussanne, Central Coast, load quantities
- 2010 Grenache, Central Coast, various lot sizes
- 2010 Grenache Blanc, Central Coast, load quantities

## *Bulk Wine Needed*

- 2009- 2010 Cabernet Sauvignon, Napa Valley
- 2009-2010 Merlot, Napa Valley
- 2010 Pinot Noir, Central Coast, Sonoma County, all lot sizes
- 2009-2010 Zinfandel, Sonoma County, California, Lodi, all lot sizes
- 2009-2010 Petite Sirah, Lodi, load quantities
- 2009-2010 Cabernet Sauvignon, Lodi
- 2009-2010 Syrah, Lodi, load quantities

## *Grapes Available*

- 2011 Pinot Noir, Sonoma Coast, Sonoma Carneros, small lots
- 2011 Petite Sirah, Napa Valley, 1 load
- 2011 Chardonnay, Dry Creek, 1-2 loads
- 2011 Zinfandel, Dry Creek, small lots
- 2011 Chardonnay, Mendocino County, truckload quantities
- 2011 Merlot, Napa, Sonoma



## *Grapes Needed*

- 2011 Central Coast Cabernet Sauvignon, Merlot, Chardonnay, Zinfandel, any quantities

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