

TURRENTINE BROKERAGE

Market Update

November 1, 2017 | Telephone: 415.209.9463

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Our Perspective on the Fires

The North Coast fires have been devastating and our sympathies go out to all those who have lost homes and businesses and been affected by this tragedy. The effects to the communities will be far greater than to the wine business. The wine industry is a tight community and we all either know or have one degree of separation from someone who lost a home or was displaced. This past week it seemed that most of our North Coast clients were getting back to some sense of normalcy after being focused on the safety of themselves and their people. As has been widely reported, the North Coast regions have seen an out pouring of support. It is our hope that this support will continue the community spirit for as long as it takes to recover.

It is important to remember that a large percentage of North Coast grapes were already harvested, especially Chardonnay, Pinot Noir and Sauvignon Blanc, and the majority of grapes grown in California are outside the North Coast region. The challenges will vary for growers and wineries depending on how close they were to the fire. Yes, some Cabernet Sauvignon and other late ripening reds were still to be harvested in the areas of Mendocino County, Sonoma County and Napa Valley closest to the fires, but a good deal was already harvested or not near the smoke for a long period of time. The true loss of tons will not be known for some time. The wine business is full of very strong supportive people and will, as always, adapt to the situation and thrive.

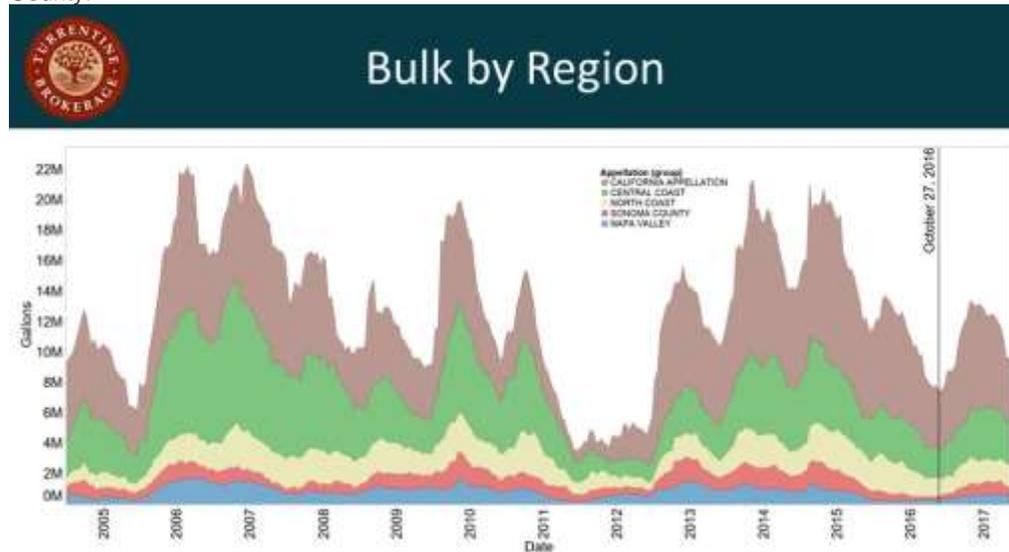
California + International Market Update

General Market

The 2017 California harvest is in the home stretch as it is in all other Northern Hemisphere regions. There is enough information from progress in California and from the results of the 2017 Southern Hemisphere harvests to update some of the current important market conditions in California and globally.

This California grape and bulk market update is a combination of insights from the team of bulk wine and grape brokers at Turrentine Brokerage. The international update, collaborated with our broker partners; CIVS, San Nicolas, and Austwine, provides a quick summary of the competitive market place for global wines of the quality and style in demand by US consumers that can compete for consumers' dollars with California, Oregon, and Washington wines.

When talking to our Turrentine brokers, clients and partners around the world, 'balance' is the word used most often to describe the market. The overall harvest in California is between what was expected or less than expected depending on where the variety was in its ripening cycle during the extreme heat wave over Labor Day weekend and the unknown effects of the late season fires in Napa Valley, Mendocino County and Sonoma County.



In Australia, the inventories of bulk wine actively for sale are down from recent years due to a combination of a reduction in acres, a moderate 2017 crop, and increased sales to Asia. Chile and Argentina had back to back short crops and bulk inventories are down. Meanwhile, Europe had one of the smallest crops across the entire region as a result of early season frost, hail, and/or a hot dry season. The big picture takeaway is that the inventory of wine globally is such that there does not seem to be one varietal in any region that is in excess to the point where it is a liability other than Zinfandel from the interior regions of California. As described below, there are areas where opportunities do exist for quality wine at competitive prices.

An important point regarding competition in the market for consumer sales is that even though supply is down, the United States is still the most desirable wine market in the world, and the percentage of wine produced globally in a style to meet US consumers demands has increased. Global producers will be extremely reluctant to short shipments to the United States and sacrifice shelf space. Asking prices for imported bulk wines are higher than they were a few months ago and likely to stay that way, resulting in what is likely to be greater demand for California wines.

The following are more specific updates for the key varietals. The markets are very complex and dynamic, so please contact us for more details on market conditions any specific variety, region, or price.

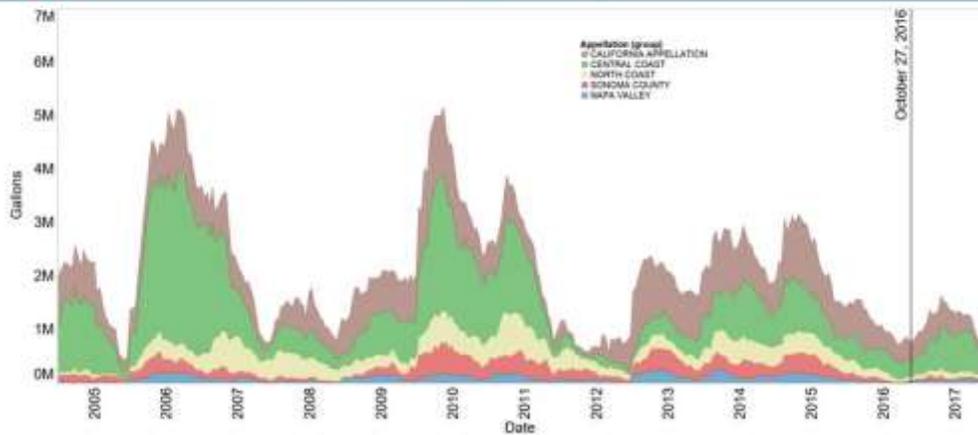
Chardonnay

From our data and client feedback of what was harvested and delivered to wineries, the 2017 harvest for Chardonnay in the interior of California and the Central Coast was less than expected, and may be down from earlier expectations in the North Coast. The late June and Labor Day weekend heat waves did have some effect on yields. Some growers in the North Coast reported yields of 15% to 20% below expectation. Overall, the total volume could end up being very similar to 2016. On the demand side, buyers were active early in the year for grapes from almost every region of the state for the limited tons actively for sale. Only warmer climate Central Coast Chardonnay was available late in the season. At the end of the season, a few buyers came into the market for a portion of the remaining tons and paid similar to Lodi/Delta prices.

Bulk inventory actively for sale trended down throughout the year. We had more buyers in the market than the last few years, but opportunistic buyers for large volumes are still scarce. Prices paid for wines from all appellations stayed strong through most of the year, except for warmer climate Central Coast lots. We have had some interest at the end of the season in those lots at close to interior prices—very similar to the grape market. We have buyers active for 2016 wines and are already getting inquiries from buyers looking for 2017 Chardonnay. The 2017 listings are also coming in. We predict active demand for bulk 2017 Chardonnay from all regions in California and value-end buyers may even look toward the global market this year. Buyers should be prepared to see fewer options than in the past few years.



Chardonnay Bulk Gallons Actively for Sale



The main global competitor to California for Chardonnay is Australia, where inventory is balanced to short with bulk prices increasing to the A\$0.90 to A\$1.00 range as they head into spring. The inventory in France was balanced after the 2016 harvest, but will be shorter after the 2017 harvest due to the well-publicized smaller crop and, as a result, prices in France have been increasing. It is important to note, however, that even before any price increase, Chardonnay from France was not competitive in price with California or Australia. In summary, the global supply of Chardonnay is more in balance than last year or any time in recent memory.

Chardonnay is a variety to watch, so make sure you understand your short and long-term options. There is very little planting above replacement acres in California and very little planting of Chardonnay for the value market anywhere in the world. Based upon our data, a large number of Chardonnay tons are under contract for 2018 which will further restrict the available supply in 2018. Call us early to discuss your 2017 bulk needs with wine for sale or a long-term plan for sourcing.

Cabernet Sauvignon

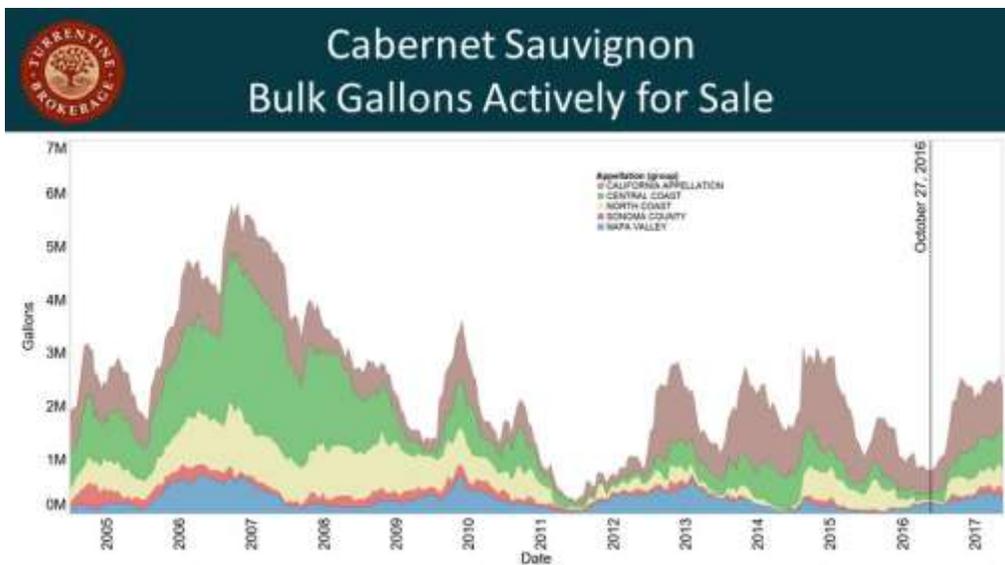
Cabernet Sauvignon in the North Coast region was the main variety still on the vine when the devastating fires broke out in parts of Sonoma County, Napa Valley and Mendocino County. Fortunately, as mentioned earlier, most of the Cabernet Sauvignon had been harvested already and the exact losses will not be known for some time. The wine business is used to variable crop sizes, so in a broader sense, the market may not see much change, but that does not negate the terrible losses and future challenges that individual growers and wineries have undergone in recent weeks. Demand for grapes in all North Coast regions was strong and buyers were out early contracting most of the available supply. Prices remained strong throughout the season.

Yields in the northern and southern interior have been down 20% from early season projections, but there

were new acres coming into bearing again this year to help mitigate the lighter than projected tons per acre. The vineyards in Paso Robles benefited from the winter rains. While It is too early to tell with certainty about the total yield in Paso Robles, the consensus is that younger vines had a crop slightly above early season projections and older blocks had a crop at or below expectation depending on health of the vineyards.

Cabernet is the variety that has been most widely planted the last few years, and there was even limited speculative planting. Two areas where the market is showing the effects of this increased supply from new acres is the interior and the Central Coast. In the interior, we experienced a few wineries releasing Cabernet Sauvignon for sale from their own vineyards or contracted with growers despite the lower yields per acre. We also did not see an interest in finding more tons to make up for the lower yields per acre. In the Central Coast there were a number of tons actively for sale all year due in part to the increased bearing acres in Paso Robles bringing more supply to the market and increased quality standards. Buyers were active for the higher quality and newer blocks and less interested in the older blocks as observed by the prices offered and paid. There are still some opportunities for 2017 grapes from Paso Robles. A region to continue to watch is Washington where new acres are coming into production and they have experienced good yields per acre for the second year in a row. The wines from Washington are tough competition for limited shelf space at the retail level and not as an alternative market for grape buyers.

On the bulk market, we currently have good supplies of 2016 bulk actively for sale from every region including Napa Valley, excluding Sonoma County. We did see some buyers holding out for lower prices for Napa wines and quality standards have been increasing. Prior to the fires, we expected the market to pick up as harvest wound down and tanks opened up for negociants, we are now seeing signs of that happening. In Mendocino, Lake County, and Paso Robles, there are some nice 2016 wines from various suppliers to launch new brands or grow existing brands. We have wines from Washington for sale also. The market is tighter for Lodi Cabernet Sauvignon, but we do have other good Central Valley options.



On the global side, the bulk supply is more in balance in Chile due to the smaller 2017 crop. Asking prices

have increased and are in the range of \$1.00 to \$1.10 per liter ex cellars, the equivalent of \$5.00 per gallon landed with quality that can compete with wines from California's interior regions. Australia's bulk inventory is lower due to increased sales to China and the influence of weaker currency improving its price competitiveness in Europe. France's inventory was such that bulk prices for Languedoc wines were decreasing prior to the frost, hail events, and/or heat reducing the 2017 crop; however, prices have now increased and are higher than equivalent quality California or Chilean wine. Global buyers assess Spain as a region for future potential due to climate and cost structure. Some acres are going in, but the increased total supply is not enough to really affect the market. The percentage of wine made globally in a style to compete in the US has also increased, effectively raising the supply to compete with California or Washington. Consumer demand also seems active for wines from most regions around the world.

In summary, acres of Cabernet Sauvignon have been, and are continuing to be, planted in California and Washington leading to some increased opportunities for buyers. Give us a call to discuss the increasing options and opportunities domestically and globally for your Cabernet Sauvignon needs.

Pinot Noir

Projections are that the Pinot Noir crop will be at expectation for most regions which was above long-term yields per acre in the North Coast and below long-term yields per acre in the Central Coast and interior. Yields decreased at the end the season due to the heat over Labor Day, particularly in Sonoma and Monterey Counties. Nearly all California grapes for the 2017 crop were sold early, and demand was consistent all season on the higher-end for Sonoma County, Clarksburg, and Monterey grapes for \$10.00 to \$20.00 per bottle programs.

Supply of California appellation Pinot Noir actively for sale in bulk has been balanced to short throughout the season and demand for the best quality lots paralleled that for grapes being led by the brands sourcing for a \$10.00 to \$20.00 per bottle labels. We did see some leveling off of bulk prices for Russian River and Sonoma Coast lots throughout the season. Recent sales for 2016 wines have been in the \$24.00 to \$28.00 per gallon range for Russian River and Sonoma Coast, and in the range of \$13.00 to \$15.00 per gallon for Central Coast.

The 2017 Oregon crop was good again this year and may rival that of 2015 in terms of yields per acre and new bearing acres. Tons were available in Willamette Valley and southern Oregon at the end of the season and wineries were full. We already have listings for 2017 wines.

The global market for bulk Pinot Noir is not the largest or most active, and volumes that can compete in the US are limited. Chile can meet the style and quality demand for US based buyers under \$7.00 per bottle, but California wines are still the consumer preference and two consecutive short crops have limited their exports at higher asking prices. There are another few weeks of frost season in Chile, so sellers are holding off on

even committing to price for 2018 until a better prediction of crop size can be made.

The supply from Burgundy and the South of France will be limited from the 2017 crop. Asking prices will likely be high, but perhaps the low yield Burgundy harvest will be an opportunity for some high-end wines from California and Oregon to further establish themselves in global markets. The wine style from the South of France is not similar to the style preferred by US consumers to effectively compete and bulk prices have generally been higher making it less competitive financially.

We are starting to receive listings of 2017 wines along with buyers listing their needs. We expect a continued active market for bulk Pinot Noir from nearly every region with steady prices. The earlier you contact us with your needs the more options we can bring you to find the volume and quality you need.

Merlot

Demand for Merlot remains soft even with fewer acres in the ground. Yields were stronger with limited demand in the interior and Central Coast. The demand for Merlot grapes was stronger in Napa Valley and Sonoma County than in recent years as buyers have been sourcing a lower priced extender and to offer a lower priced wine to Cabernet Sauvignon. The demand for grapes from the interior, Mendocino, Lake County, Monterey County and Paso Robles was still soft. Some Central Coast Merlot sold at the end of the season near interior prices.

The bulk market supplies have been modest most of the year and demand for most Merlot other than Napa Valley or Sonoma County has been soft.

Supply around the world for Merlot is more in balance as well. The back to back short crops in Chile have reduced inventories leading to higher bulk prices for Merlot than for Cabernet Sauvignon. Supplies from the South of France will be down. Although global demand for Merlot is soft, supply may have decreased to a degree that we could see increased demand for bulk wine.

With help from the reduction of acres, overall supply is a little more balanced. Merlot vineyards are being repurposed for Cabernet Sauvignon in many cases, depending on location. Similar to the global market, supply may be dropping below the level of need.

Additional Reds

California is one of the only regions globally to be planting significant acres for the supply of red wines that

have superior color and intensity, like Petite Sirah and Petit Verdot. Most of the plantings in the interior were planted with a winery contract. Whereas in the Central Coast, some of the plantings were speculative. The 2017 crop on the interior of California was good from a combination of good yields per acre and new acres. The crop in the Central Coast was about what was expected. Demand for the grapes this season was softer due to this increase in new acres and resulting supply.

On the bulk market, we have had good supplies all year long and soft demand leading to lower prices than in previous years. Even though there has been supply on the market be cautious to assume what you want will be available when you want it. Make sure we know your needs to keep you informed of any changes.

Zinfandel has been a casualty of the increased supply of dark red blender grapes and wines. Both the bulk market and grape market have been slower, and there were a number of tons of Zinfandel available in Lodi all season that were unharvested. The market will most likely continue to be challenging for the bulk wine actively for sale for some time. There are tough decisions being made in Lodi and other parts of the interior regarding pulling out vineyards and replanting to other varieties, which will impact the future supply. If you need Zinfandel there are good options in bulk and for future grapes. Please call us early to start the process to buy or sell.

In a broad sense, global supplies of red wines are more in balance after years of oversupply. Some specific reasons for the smaller inventories are that Argentina has had two short crops in a row for Malbec and prices have climbed for the limited 2017 actively for sale now. The Australian Shiraz market is also more in balance due to the increased sales to China and more normal sized crops. In France, Spain, and Italy, the 2017 harvest is just finishing and it will be smallest crop in decades. On the plus side for wine supply, improved vineyard work and improve winemaking techniques mean a greater percentage is being made in a style to satisfy American consumers.

There are great opportunities for good quality wine from the 2016 vintage and the 2017 vintage to extend blends or add to your lineup as a proprietary red blend, call us to review the options.

Sauvignon Blanc

The 2017 seems at expectation for most regions in California. We are already seeing more 2017 Lake County bulk wines listed for sale than last year at this time. The crop did not satisfy demand in Napa Valley as we have some early interest from more buyers than last year at this time. The same can be said for the supply of interior grapes, since all grapes were sold early and we had buyers who need more.

On the bulk market, the supply of 2016 Sauvignon Blanc from California's interior regions was short and early demand was strong. In the coastal areas, we had more supply available due to better yields

in 2016. We are seeing steady demand for 2017 Sauvignon Blanc similar to last year at this time and the early feedback from bulk sellers for California appellation Sauvignon Blanc is that they will have less for sale.

The global market for Sauvignon Blanc is a mixed bag. France's crop will be down and inventories will be tight. Chile's crop in 2017 was down as well. Chilean Sauvignon Blanc bulk wine actively for sale is down as a result and asking prices have increased. Chile is the most value competitive region globally being able to supply moderately priced Sauvignon Blanc in either a style to compete with California or New Zealand. 2017 wine is scarce in Chile and suppliers are reluctant to contract for 2018 until they get past frost season. The New Zealand supplies of 2016 wine were in excess prior to the 2017 crop, but the 2017 crop was down some 9% vs 2016 and the bulk market improved. The demand for 2017 wine is steady and asking prices are fairly firm in the range of NZ\$3.50 to NZ\$3.60 per liter ex-cellar.

As we look forward post-harvest, we expect to see an active early market for all Sauvignon Blanc wines. Bulk prices are likely to stay on the strong side. As always with Sauvignon Blanc, contact us as early as possible to list your wines for sale and to get on the list to receive them if you need to buy.

The Cycle Continues

Just because you know price does not mean you know the market. It is important to understand the long and short-term supply, the demand against that supply, and consumer trends. In summary, in conjunction with our personalized broker services, it is important to review the information outlined in the Turrentine Wine Business Wheel to assess what might be coming ahead. The wine business is used to dealing with variable crops. Wineries find ways to manage inventory over multiple vintages and flexible blending.

The Turrentine wine and grape brokers are experts and best in the business in understanding the market and helping you buy or sell the grapes or bulk wine in the best manner for you. Give us a call early to start your work for additional 2016 or 2017 wines and to buy or sell 2018 grapes.

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ENTER THE 2017 CROP CONTEST TODAY!

The Turrentine Brokerage 2017 Crop Contest is now open! Make your best prediction for a chance to win a bottle of sparkling wine and a first place plaque. We have also added a Grand Prize Category for a chance to win a YETI Tundra Ice Cooler. For more details and to enter your best guess in the 2017 Crop Contest, [CLICK HERE](#).



2017 Crop Contest

Click to enter your best guess!

Grand Prize

YETI Tundra Ice Cooler

Enter your crop estimates in our annual contest

Chardonnay | Cabernet Sauvignon | Merlot | Zinfandel

Turrentine On The Road

TREE & VINE EXPO Stanislaus County Fairgrounds November 7th



Turrentine Broker & Partner Erica Moyer will be presenting The State of the Wine Grape Industry at this year's event. Don't miss it!

The *Tree & Vine Expo* is held every year at the Stanislaus Fairgrounds, in Turlock, California, the heart of North Valley wine grape & tree nut country and is a place where Growers and PCAs gather to learn about the status of the industry, earn PCA credits, and visit with exhibitors. It is produced in cooperation with the North Valley wine and nut industries. There are nearly 6,000 grape & tree nut growers and PCAs in this area. This event along with other Malcolm Media Ag Expos has generated nearly \$150,000 in scholarship endowments for the viticulture programs at Cal Poly-San Luis Obispo, Fresno State, Santa Rosa Junior College and UC Davis.

The 6th ANNUAL NORTH COAST WINE INDUSTRY EXPO Sonoma County Fairgrounds November 30th

With just 4 weeks left until the 2017 North Coast Wine Industry Expo, we are busy finalizing our preparations for the show. We hope that you will come visit us at **booth #128** on November 30th at the Sonoma County Fairgrounds. Please use the promo code **TUR128** to gain free trade show access. To learn more about this show and to register visit wineindustryexpo.com/registration

Steve Fredricks, William Goebel, Marc Cuneo and Gabe Bonifacio will be there to meet with you and discuss the current market changes.





AVAILABLE

+2015/2016 Paso Robles Cabernet Sauvignon: 24 lots

+2015/2016 Napa Valley Cabernet Sauvignon: 34 lots

+2015/2016 Central Coast Pinot Noir: 33 lots

+2015/2016 Central Coast Chardonnay: 43 lots

+2016 CA/Lodi Zinfandel: 41 lots

+2014/2015/2016 Sonoma County Zinfandel: 30 lots

+2014/2015/2016 Central Coast Merlot: 43 lots

+2016 Napa Valley Zinfandel

+2016 Napa Valley Chardonnay

+2016 CA Pinot Noir

+2016 WA Cabernet Sauvignon

+2016 WA Riesling

+2016 OR Pinot Noir

NEEDED

-2016/2017 Sonoma County Chardonnay & Pinot Noir

-2016/2017 California Chardonnay

-2017 All California Sauvignon Blanc



Financial Benchmarking Survey: Executive Summary

Turrentine Brokerage regularly partners with industry leaders to survey regional and nationwide trends in the wine industry. The goal? To bring you valuable, insightful data and analysis so you're able to benchmark your company against industry leaders and make informed business decisions. Below is the Executive Summary

[Wine_Survey_Executive_Summary.pdf](#)

If you have any questions please contact Steve
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