



Excess or Shortage? It Depends.

By Steve Fredricks

Growers and wineries over the last several months have been navigating some of the most challenging decisions they may ever face. Our clients are trying to make sense of the murky consumer sales landscape brought about by the Covid-19 pandemic to project cased goods sales vs. current inventories. Further complicating this supply and demand picture are extended heat and smoke exposures that have reduced overall crop size in many regions of the West Coast. While some wineries and regions still find their supply positions in the phase of excess, these unique dynamics of 2020 may have propelled other wineries and regions through excess faster and toward balance.

At Turrentine, we observe industry supply changes early and can help clarify many supply and demand questions to help you navigate inventory decisions, especially in these uncertain and volatile markets. Many of you may work with us already and understand the breadth of our expertise and services. Others may have not worked with us for years (or ever) and are finding yourselves in a new situation of needing to buy or sell bulk wine and grapes. The market has changed in the last three months and how you adapt to the current market depends on your unique situation. Calling us to check in on the market is free. We welcome your inquiries and interest.

Bulk Wine Report

By the Turrentine Bulk Wine Brokers

The year 2020 has been active in the bulk market, but these last few months were historically busy.

In the first week after the August fires started in the North Coast and Central Coast, a few wineries reacted with purchases due to concern of smoke exposure, lighter crop. As a result, the average bulk price increased for 2019 Napa Valley Cabernet Sauvignon, Russian River Valley Pinot Noir, Sonoma Coast Pinot Noir, and Paso Robles red varieties including Cabernet Sauvignon. Some sellers pulled wine off the market for their own brands, while others listed additional volumes on the bulk market to capitalize on higher prices. There were more moderate increases in demand and sales prices for Pinot Noir and Cabernet Sauvignon in other regions. This initial demand came in three phases.

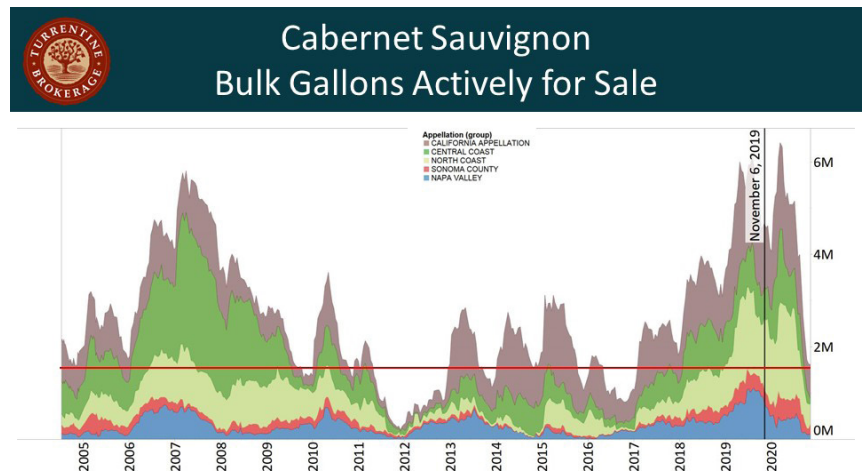
1. The first group of buyers was led by a few larger wineries with established brands that have been doing well in retail since before COVID and even better during COVID.
2. The second group of buyers comprised more moderate-sized wineries and négociants who reacted in the days after that initial surge in demand. This group paid higher prices for smaller quantities.
3. The third group—representing the majority of buyers—was already in the market but did not pay higher asking prices and decided to wait for a better opportunity on price.

The quick reaction back in August and early September was an intensification of existing demand and price trends as we worked through the excess phase of the cycle; it was not a wholesale change in market direction. To provide further perspective, the value-end of the market had been active all year and, as a result of declining inventory, prices firmed up on remaining available wines. The higher end of the market prices had been firming up throughout the year as well, but looking forward the challenge of consumer sales for on-premise wines may keep a ceiling on price increases, despite the short crop. This, of course, also depends on how much longer restrictions from Covid-19 linger.

Overall, the initial surge in demand has slowed a bit, but bulk markets remain more active than usual at this time of the year. The focus of buyers, in order of preference, is currently on Cabernet Sauvignon, Pinot Noir, 2020 Sauvignon Blanc, Rosé, Pinot Noir, florals, and Chardonnay, but this is likely to change early in 2021. Following is a market update on key varieties and regions as they are now.

Cabernet Sauvignon

Cabernet Sauvignon has been the most in-demand varietal for some time, and the smoke exposure escalated demand for some buyers. The average price of wine sold in Q3 of 2020 was up significantly from this time last year for most regions. In Napa Valley, limited supply and increasing demand has stabilized pricing in the \$35-\$45/gallon range following an increase throughout 2020. Sellers are continuing to raise asking prices, but buyers are reluctant to match them and are only paying the higher asking price for smaller lots.



In Paso Robles, supply is very limited for 2019 wines and demand is growing. At this point, it is difficult to find the supply needed for buyers who are mostly interested in multiple-truckload deals, but 2020 wines should be coming to market soon. Prices have leveled out in the \$12-\$15/gallon range for 2019 wines, and the market is active.

The supply for California Appellation and Lodi Cabernet Sauvignon is moderate but waning. With limited supply, buyers have begun looking at the 2020 vintage. Buyers at this point are volume-driven and are looking for multiple truckloads. Prices are holding steady between \$6-\$8/gallon.

Asking prices increased in the North Coast, but this hasn't corresponded to many deals being done at those higher asking prices. Recent deals have been between \$12-\$16/gallon and the buyers that have been paying these amounts have been from Napa and Sonoma. The broader market is exiting this region in favor of the prices from Lodi and the rest of the California Appellation.

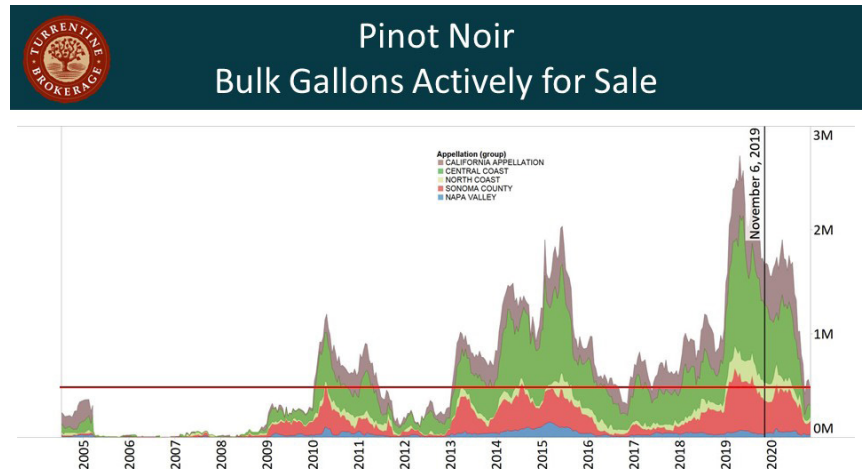
Demand and supply for Sonoma County Cabernet Sauvignon is limited, but prices have increased to \$18-\$25 per gallon. There are currently 170,000 gallons available.

Pinot Noir

The Pinot Noir landscape has shifted significantly over the last three months. The number of Pinot Noir gallons actively for sale has dropped significantly, especially from the Central Coast and Sonoma County. The California Appellation supply is down as well, but additional gallons can be found if needed. Meanwhile, some sellers have added 2018 and 2019 Monterey and Sonoma County wines to the market in response to the information about higher prices. Deals have been in the high-teens to low-\$20s/gallon for Central Coast Pinot Noir, and mid-\$20s pricing for Sonoma County and Russian River Valley Pinot Noir. Higher prices likely will bring more sellers to the market.

Buyers have been looking for 2019 and 2020 lots, and a few are even looking at 2018 wines. Negotiants are beginning to feel pressure from rising prices. With prices climbing in the coastal regions and potential smoke concerns, we may see a continued shift to the interior to supply larger California Appellation labels.

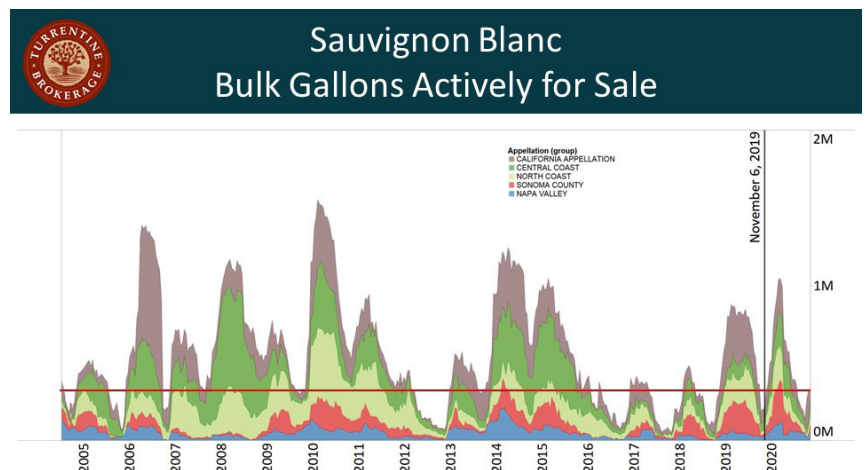
Oregon Pinot Noir producers have felt the same impacts as the California coast has felt in 2020. Lower prices were the major driver of volume sold, followed by smoke concerns and a light 2020 harvest. There is, however, still solid demand from some labels in Oregon for value prices in the Willamette Valley, but it is difficult to find.



Sauvignon Blanc

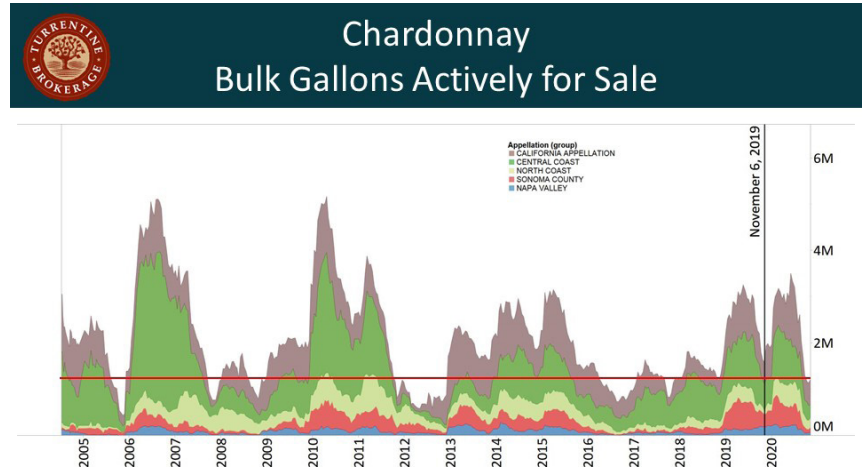
Sauvignon Blanc has been active early for 2020 vintage wines, with sellers listing wine and buyers jumping at the new vintage. We already have more than 400,000 gallons available of 2020 vintage Sauvignon Blanc on the market—a healthy amount at this point of the year.

Demand has been centered around Sonoma, North Coast, and Napa Valley. California Appellation Sauvignon Blanc has shown signs of strength as well, with larger-volume buyers ready to purchase between \$5.75 and \$6.00 per gallon. Meanwhile, Sonoma and Napa lots are selling in the high-teens price per gallon.



Chardonnay

As of press time, more than 1 million gallons of Chardonnay were listed on the market, with fairly flat demand. Buyers are slowly starting to ask about 2020 vintage wines at this time, but that likely will intensify as we move into Q1 of 2021—especially with a lighter 2020 crop. When buyers do come back to the market, it likely will be for Sonoma Coast and Russian River Valley, followed by Monterey County and California Appellation. We are likely to see upward pressure on bulk prices as we move in to next year.



Currently, the bulk market is active, but not as manic as the surge that followed the early August fires. For every deal that gets done at the higher prices, there are five deals that go unfulfilled because buyers cannot afford the higher asking prices. It is important to note that it is still very early in the bulk trading year to extrapolate recent trends into long-term predictions, but we will continue to monitor the markets to see if they remain as strong as they have been for the last three months.

Grape Market Report

Interior & Monterey County

by Erica Moyer

The 2020 harvest has concluded in the Interior, and yields were lighter than 2019, with a few exceptions from younger vineyards and Muscat varieties. Crews harvested most grapes, including those that ultimately were released due to concerns of smoke exposure. Some grapes that were released were purchased by other wineries. Growers custom-crushed a small amount of tonnage from those grapes that were released due to concerns of smoke exposure. In Monterey County, harvest concluded in early November with some varieties, particularly Pinot Noir, that were not harvested (again, due to concerns about smoke exposure).

Because of the lighter harvest of 2020, wineries already have begun planning for 2021. Forward contracting began before harvest on certain varieties such as Pinot Grigio and Chardonnay. Resign activity has already begun, a sign of a changed market. Another indication of a changed market in the Interior is grafting and planting contracts, an action we have not seen since coming out of the recession.

Central Coast

by Audra Cooper

Harvest 2020 is wrapping up on the Central Coast and the last grapes are in the barn this week. There were some near misses in late October and early November with cold weather, but luckily only minimal damages have been reported. After everything the growers, wineries, and grapes have been through this year, frost was the last thing

anyone needed before the end of harvest.

Winegrowers like to say “a light crop only gets lighter,” and this saying certainly rang true this year. What started out as a relatively average crop became a lighter crop as we approached harvest. One of the reasons for this was heat; the region endured multiple heat waves in the early part of the summer and was met with more hot temperatures during harvest. This shrank the crop even further. Most growers and wineries had decreased their estimates going into harvest, only to find actuals were even lighter than anticipated. Early picks trended between 5-15% below average. As the days grew shorter, so did the crop. Many of the red varieties that had been averaging 5-8 tons per acre in previous years ended up being 3-4 tons per acre this year.

Sellers, in general, are feeling more optimistic about the future grape market than they have in years. Buyers acknowledge the crop was light in 2020 and many brands are experiencing increased sales, but these conditions do not necessarily translate into future demand for 2021 grapes, as there are too many variables such as on-premise sales recovery, holiday sales, and the economy. We do anticipate some early activity on resigns for “must have grapes” such as floral white varieties. We also expect the floor of the market to continue to have upward pressure, and the ceiling of the market to have downward pressure. All told, the intensity and degree of market changes for 2021 will be dependent on what occurs over the next few months, and on how much bulk wine and grape supply is put on the market.

North Coast

by Mike Needham

The North Coast crop size in 2020 was smaller than it was in 2019. In some cases, crop yields were 35-50% below where growers picked out a year ago. Among the most heavily impacted varieties were Pinot Noir and Chardonnay. Most of the North Coast was finished with harvest by mid-October—the earliest wrap up date for growers in recent memory.

The late-season Napa Valley Cabernet Sauvignon market was active with some buyers paying \$1k- \$2k/ton on the spot. Many buyers assumed there was some level of smoke taint associated with the grapes but appeared willing to deal with it at that price. Now, however, buyers and sellers alike are ready to put the 2020 vintage to bed in hopes that they won't have to deal with the plethora of issues they dealt with this year. Some buyers and sellers are even starting to talk about resigns for 2021 grapes.

Conclusion

Between Covid-19, wildfires, and a warmer-than-usual growing season, 2020 has been unpredictable to say the very least. All year we have worked with clients who proactively decided to rightsize inventory early in this excess cycle. These efforts paid valuable dividends; wineries generally found themselves in good position to secure wine and grapes.

As the 2020 harvest winds down, we expect the muddled industry supply trends to become more clear. Where varieties, regions, and companies were generally in an excess position before harvest, 2020 has changed the supply and demand balance. Either way--shortage or excess--it depends on your unique situation. Call your broker early to help develop your sourcing strategy for 2021.

Turrentine on the Road

SJVWA Wine & Grape Industry Forum



Don't Miss

Brian Clements

present at the Wine & Grape Industry Forum
by SJVWA

November 17th, 2020



CalCPA

CalCPA 2020 Wine Industry Virtual Conference



Watch Steve Fredricks present

**Impacts of 2020
California Fires**

December 7th, 2020

WIN Conference



December 16th

**Thriving Post-Covid,
What to Expect in 2021**

Presented by Bryan Foster & Brian Clements

2020 Crop Contest



Don't wait to enter your best guess in the category '2020 Statewide Total Wine Grapes' for a chance to win the Grand Prize! The Grand Prize Winner will receive a bottle of sparkling wine, plaque, and a YETI Tundra Ice Cooler!

Market Opportunities

Turrentine Brokerage is always working to find opportunities for companies in oversupply or need to buy. We believe firmly in a personalized approach tailored to each client's specific needs and unique position. Give us a call.

Bulk Market Opportunities Needed

2019 Sonoma and Napa Bordeaux Blenders
2019 and 2020 Russian River Valley/Sonoma Coast Pinot Noir
2020 Sonoma Chardonnay
2019 Paso Robles Reds
2019 Napa Valley Cabernet Sauvignon
2020 Coastal Sauvignon Blanc

Grape Market Opportunities Available

Monterey County Cabernet Sauvignon
Monterey County Chardonnay
Monterey County Pinot Noir

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