Celebrating forty years!

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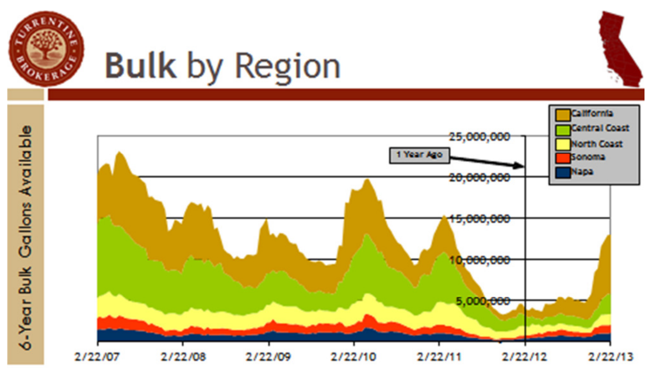
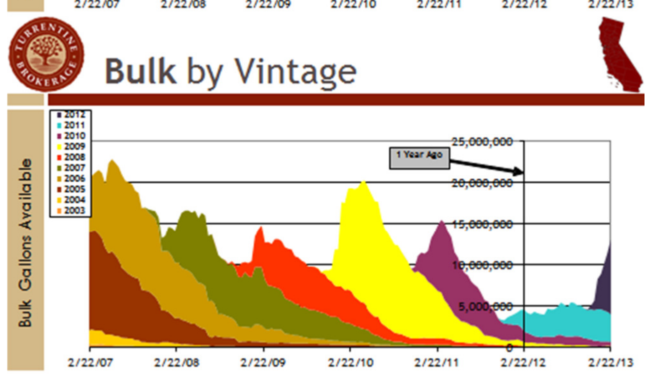
MARKET UPDATE

February 27, 2013 | Vol. 25, No. 2 | Copyright 2013 Turrentine Brokerage | Bill Turrentine, Editor

The following is a summary of key insights from the 2012 California Grape Crush Report, sent last week to subscribers of the Turrentine Outlook:





Any way you look at it, 14,000,000 gallons is a lot of wine. That big number is the quantity of wine Turrentine Brokerage currently has listed for sale in bulk; a dramatic increase of 2012 vintage wines since the last Market Update newsletter. But what does 14,000,000 gallons mean for the short-term and long-term dynamics of the wine business? First, we need some perspective. After the huge 2005 harvest, we had over 22,000,000 gallons listed for sale – and total retail sales of California wines were significantly lower than they are now. After the 2006 harvest, we reached a new all-time record of approximately 23,000,000 gallons of wine for sale. Supply was painfully ahead of demand; prices plunged, and sales activity was weak. We sold sound wine for distilling and for vinegar. We touched the 20,000,000 gallon mark again after the 2009 harvest – prices were still low but the bulk wine market was much more active than after 2005 and 2006. After the 2010 harvest, gallons listed for sale topped out at 15,000,000 gallons and the markets began to tighten up. Finally, after the light 2011 harvest, listings did not quite reach 5,000,000 gallons. Buyers were very active and bulk wine and spot market grape prices jumped.

We now have less wine than after the 2005 and 2006 harvests (a time of dramatic excess) and about three times the bulk wine we had at this time last year (a time of shortage). What does 14,000,000 gallons mean now? We think it is a sizeable speed bump that will slow the transition to shortage—but is still a speed bump on the road to shortage. A lot depends, of course, on the size of the 2013 harvest. We predict it will be somewhat smaller than 2012. There are new acres coming into production but there are also many acres that are past their prime production years. The nearly perfect grape growing weather in most of the state is unlikely to be repeated a second year in a row. And consumer demand is growing at a pretty good clip. We already have buyers eager to purchase 2012 wines in bulk. The big challenge we face in moving that 14,000,000 gallons is not volume, it is price. If consumer sales exceed expectations, new buyers will appear on the bulk market and some sellers will disappear as they redirect inventory to their own brands. The smartest buyers will recognize the slowdown caused by the 2012 harvest speed bump as an unexpected second opportunity to nail down long-term supply.

2012 Vintage Breakdown

After a few short harvests, the 2012 crop rebounded and exceeded most grower and winery expectations, weighing in at 4.013 million tons in the state of California. That's an increase of 671,000 tons or 20% over last year and 13% over the five year average. The increase in total tons was led by the Coastal regions with the North Coast jumping 183,000 tons. The Central Coast was up 160,000 tons and the Northern Interior, driven primarily by Lodi, increased by 246,000 tons. Combined, these three areas account for 88% of the increase compared to 2011. The Central and Southern Interior and the Paso Robles regions were affected by a summer heat wave during verasion, keeping the crop at more modest levels, as seen in the following table.

	Tons Crushed 2012	Tons Crushed 2011	Net Gain/Loss	Equivalent Gallons	Percent Change (% Δ)	%Δ from 5 Year Avg.
North Coast	577,000	393,000	183,000	31,160,000	47%	36%
Central Coast	547,000	387,000	160,000	27,220,000	41%	24%
Northern Interior	1,000,000	754,000	246,000	41,767,000	33%	25%
Southern Interior	1,884,000	1,804,000	81,000	13,705,570	4%	10%

Except for this localized heat wave, the rest of the state enjoyed near-perfect conditions for set, cluster sizing (a big factor this year), and late season ripening, which allowed the full potential of the crop to be actualized. Not only was the quantity up, but the quality looks well above average throughout the state.

	Tons Crushed 2012	Tons Crushed 2011	Net Gain/Loss	Equivalent Gallons	Percent Change (% Δ)	%Δ from 5 Year Avg.
Chardonnay	735,000	558,000	177,000	30,019,000	32%	13%
Cabernet Sauvignon	496,000	384,000	112,000	19,050,000	29%	18%
Merlot	334,000	286,000	48,000	773,000	17%	13%
Pinot Noir	247,000	170,000	77,000	13,144,000	45%	49%
Pinot Grigio	195,000	173,000	22,000	3,722,000	13%	30%
Zinfandel*	450,000	345,000	105,000	17,762,000	30%	11%
Muscat Varieties	144,000	112,000	32,000	5,412,000	28%	38%

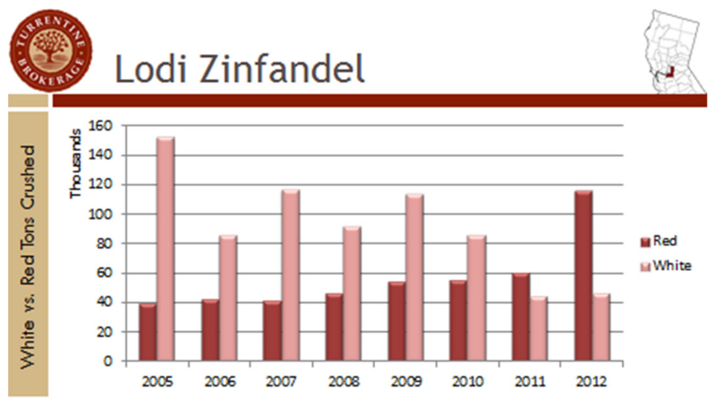
***includes total tons crushed of Zinfandel, both red and white**

Our mid-season market updates predicted good yields on the varietals which accounted for the majority of the 671,000 ton gain. The increase in Chardonnay, Cabernet Sauvignon, Pinot Noir, Merlot, Muscat varieties and Zinfandel tons accounted for 549,000, or 82% of the total increase over last year.

The increase in Cabernet Sauvignon is especially good news for many brands that have been struggling to find enough wine to fill demand. Some brands that had been forced to source offshore may have the opportunity to return to a California appellation. Bulk market offerings for 2012 Northern Interior Cabernet Sauvignon have already increased from last year at this time. Demand still exceeds supply for 2011 and 2012 Paso Robles Cabernet Sauvignon in bulk.

The increases in Pinot Noir tonnage are due to both increasing acres and great yields per acre. The Pinot Noir crush in key areas, Sonoma County and Monterey County specifically, were very disappointing in 2010 and 2011, so the increase of 77,000 tons, primarily from the key Coastal regions, makes up for some of the previous shortfall and provides brands some fuel that will allow them to accelerate growth.

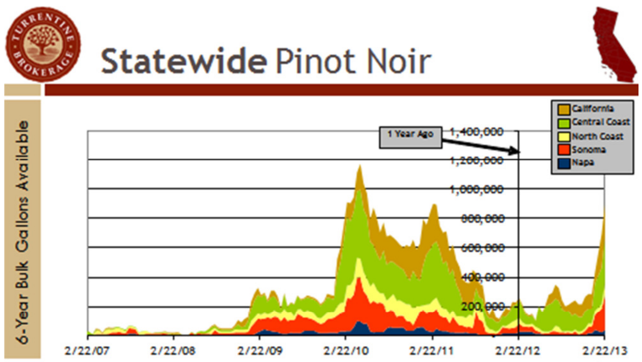
The increase in Zinfandel tonnage is due to rebounding yields per acre from the very low 2011 harvest, which managed to overcome the effects of the on-going transition from generally higher-yielding White Zinfandel production to lower-yielding Red Zinfandel (as shown in the following graph). This transition has increased the overall supply of red wines in 2012 and will help supply the increasing demand for red blends.

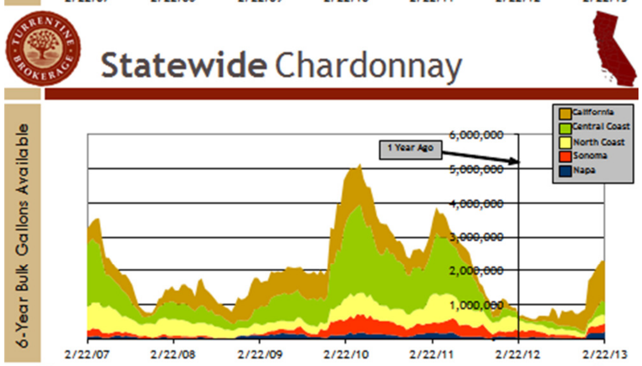


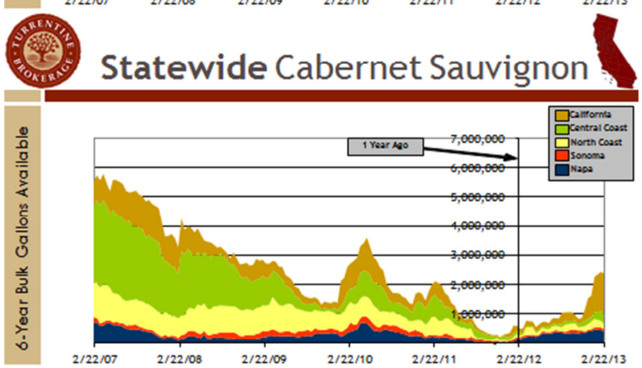
Key Markets and Trends

The Size of Three Main North Coast Varieties

The North Coast produced 47% more grapes in 2012 than in the very light 2011 harvest. Perhaps more significantly, the North Coast was up 36% over its five year average. The market advice provided in the December 2012 Outlook, which highlighted this potential outcome, has proven accurate. Substantially more North Coast bulk wine – mostly 2012 vintage – has been listed for sale.







Sonoma County Pinot Noir soared 85% over last year. The bulk market offerings of 2011 Pinot Noir were few and the prices high. The $15.00 to $20.00 per bottle Pinot Noir brands, the price point of the fastest growth, were priced out of the market. This year, we have some 2012 gallons already offered for sale and demand remains strong.

Due to the large Sonoma County Chardonnay crush, up 55% from the previous year, increased gallons of Sonoma County Chardonnay have been offered for sale in bulk. This tends to slow the bulk wine market and exert downward pressure on price. A good sign of health after the large 2012 harvest is that our grape brokers are active early talking about the 2013 grape market with clients.

Production rose 40% and the price per ton also rose significantly in 2012 for Napa Valley Cabernet Sauvignon, ringing the bell at almost 71,000 tons and an average price of $5,067 per ton (Turrentine Spot Market Price was $4,370). Grapes uncommitted for 2013 are scarce.

The Northern Interior

This must be a good year to sell pickup trucks in Lodi, which fell just 2,500 tons short of its record grape harvest set in 2009.

Lodi hit a home run with Cabernet Sauvignon, producing 26% of the state total, far more than any other region. Lodi Cabernet Sauvignon production jumped an impressive 36% over last years' light harvest, yet was still below the massive 2005 Cabernet Sauvignon crop. Due to the hot market and high grape prices, growers worked hard with the chainsaw to stay ahead of Eutypa by removing affected arms and laying down canes. Most wineries took in all excess tons growers offered to them at the contracted price, a sign of how short most wineries were. Currently, available grapes for 2013 are hard to come by with many tons tied up in multi-year contracts.

Lodi produced its third largest crop of Zinfandel, despite the previously mentioned shift from White Zinfandel to lower yielding Red Zinfandel. This shift is reflected in the increasing average price of Lodi Zinfandel, rising from $444 per ton in 2010 to $626 in 2011 to $811 in 2012. We have already seen increased volumes of Zinfandel offered to the bulk market and recent sales of the 2012 wines, or even a few 2011 gallons that are still available, have been at lower prices than last year. The increase in

Zinfandel is welcome news to brands trying to keep up with the growth of their hot new red blends. Demand for Zinfandel grapes is strong and active, and there are currently few offerings available in the market.

The speed bump of this 2012 harvest is a great opportunity to secure inventory and relationships with pricing more sustainable to both buyer and seller for long-term success. For more details on specific varieties and regions, please contact our brokers to maximize your opportunities in the market today.

Market Opportunities

Bulk Wine Needed	Bulk Wine Available
2011-2012 Lake & Mendocino County Cabernet Sauvignon-load size min.	2011 Napa Valley Cabernet Sauvignon-multiple lots
2011-2012 Paso Robles Cabernet Sauvignon-load size min.	2011-2012 California Chardonnay-1.2M gallons
2012 North Coast Sauvignon Blanc-load size min.	2012 Sonoma County Pinot Noir- 226K gallons
2012 California Pinot Noir-load size min.	2012 Sonoma County Chardonnay-225K gallons
	2012 California Dry White/Florals-multiple truck loads
	2011-2012 California/Lodi Zinfandel-650K gallons
	2011-2012 California/Lodi Cabernet Sauvignon-1.3M gallons
	2012 Napa/Sonoma Sauvignon Blanc-204K gallons

Grapes Available
Potter Valley Chardonnay-80 tons
Sonoma Coast Pinot Noir-75 tons
Russian River Valley Pinot Noir-truckload quantities
Napa Valley Sauvignon Blanc-truckload quantities
Pope Valley Cabernet Sauvignon-50 tons
Sonoma Carneros Pinot Noir-multiple truckloads
Sonoma Carneros/Sonoma Coast Chardonnay-60 tons
Sierra Foothills Sauvignon Blanc-70 tons
Dunnigan Hills Chardonnay-multiple truckloads
Northern District 12- Cabernet Sauvignon, Petite Sirah, Malbec-load quantities
Paso Robles Cabernet Sauvignon, Merlot, Petite Sirah, and Chardonnay-limited truckload quantities
Santa Barbara Chardonnay and Pinot Noir-truckload quantities