



MARKET UPDATE

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SECOND HELPINGS NOW AVAILABLE

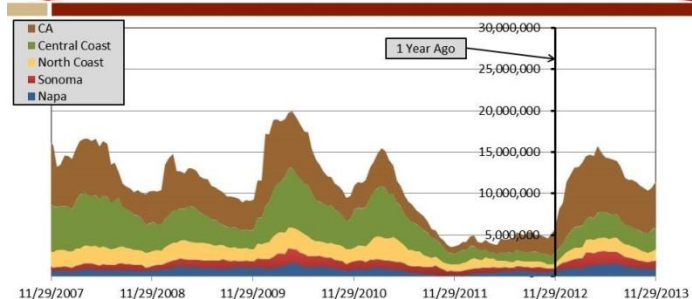
Picture this: All the food is ready at once and you are racing to get things out of the oven and off the stove before they burn, but there is no place to put it all. The food keeps coming and coming and everyone gets stuffed. Most of the dishes get pretty well consumed but there are a few items that are hardly touched. Only a few people have room for desert and no one has an immediate interest in the left-overs. You suspect, however, that their time will come.

This may sound like a typical Christmas Eve party, but really, it is a lot like the 2013 grape harvest. Overall, it was a great year for growing grapes, without frost in the spring, only a little excess heat in the summer, and no ill-timed rain to speak of throughout the entire season. Statewide, yields per acre may not be as large as last year, but the overall crop could be equally large due to new acres coming into production, especially in the interior regions.



More specifically, southern interior yields were not as big as last year, except for the later season varieties, like Rubired and Ruby Cabernet. Early varieties like Chardonnay were impacted by the heat

Bulk by Region
6-Year Bulk Gallons Available



early in the summer. Northern interior yields will not likely be as large across the board; however, there were variable yields that resulted in some excess tons of Chardonnay and Merlot. Recent plantings of Cabernet Sauvignon, Petite Sirah, and Pinot Noir produced well, increasing the total 2013 tonnage. Once again, most Central Coast yields appear to have been average to above average. Paso Robles and Santa Barbara Counties had some tons available above contract levels with normal to slightly above normal yields per acre, but Monterey Pinot Noir and Chardonnay had strong yields.

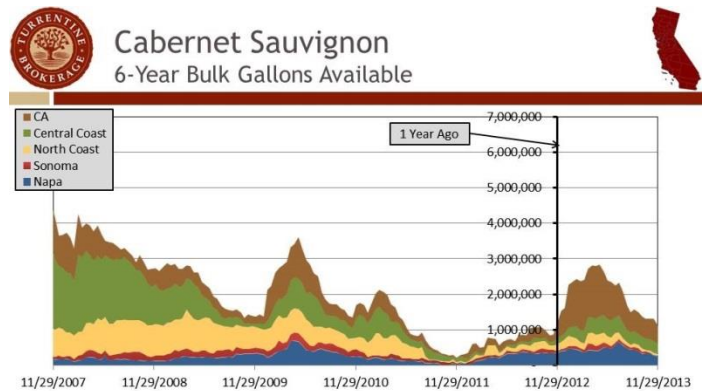
There were plenty of grapes in the North Coast regions, although yields per acre may not be quite as large as last year in general. Certainly there were improved yields in 2013 on Cabernet Sauvignon in Lake and Mendocino Counties, which were welcomed by wineries.

In 2012, as it became clear that the crop was above expectations, most wineries gladly accepted additional tons of many varieties and continued to pay prices at or near contract. As the size of crop became evident in 2013, however, most wineries enforced maximum volume clauses in their contracts and either rejected additional tonnage or negotiated a lower price. This was due to the fact that many brands were short of supply going into the 2012 harvest but had ample stocks, and limited available processing capacity, going into 2013.

The magnitude of 2013 grape price dropping between early and late season sales gives a rough indication of the supply and demand situation for each varietal and region. It also indicates the character of the bulk market, with much greater supply available. Buyers are now able to focus more on quality and still negotiate on price for many items. On the positive side, this second big harvest in a row gives brands plenty of high quality inventory with which to pursue aggressive consumer sales growth. At the same time, lower end-of-the-season grape prices will also give some brands a lower cost of goods sold and may allow for greater marketing expenditures.

Varietal Details

Just as many new acres of **Cabernet Sauvignon** begin to bear fruit in the interior, sales growth shifted from mostly below \$10.00 to mostly above \$10.00 per bottle. This will undoubtedly put pressure on Interior region fruit, but some vineyard operations in Lodi have succeeded in establishing themselves as a competitive source of supply for many brands of Cabernet Sauvignon in the \$10.00 - \$12.00 price range, contending directly with traditional sources such as Paso Robles, Lake, and Mendocino Counties. Due to economic and environmental constraints and to the existence of profitable alternative crops, fewer speculative vineyard acres have been planted in this cycle than in past cycles. This may help moderate the balance of supply and demand in the future.



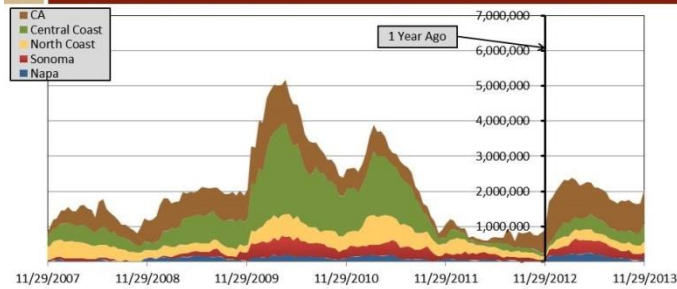
There is currently about the same supply of Cabernet Sauvignon actively for sale in bulk as there was last year at this time. Grape and bulk prices dropped throughout the harvest and post-harvest season in the interior, Central Coast and Napa Valley. Supply has been tight, however, in the North Coast and Sonoma County and prices there have remained firm.

Global substitutability for Cabernet Sauvignon from the interior regions of California is strong and international pricing is currently below last year's levels in many areas—especially in Chile, a key global competitor for value-priced Cabernet Sauvignon.

Bulk gallons of 2013 vintage **Chardonnay** are beginning to be listed for sale and sellers are motivated to sell what 2012 vintage wine they still have. There will be ample supplies of Chardonnay to choose from following another large harvest and buyers will not only be shopping for price, but for increased quality.



Chardonnay 6-Year Bulk Gallons Available



Crop size overall appears to be on par with last year, which set a record statewide. In 2013, however, wineries were full and grape prices fell during harvest.

A few buyers are already looking for Chardonnay, but most potential buyers are waiting to evaluate last quarter sales. Due to the supply available from 2012 and 2013, prices will most likely be softer than last year,

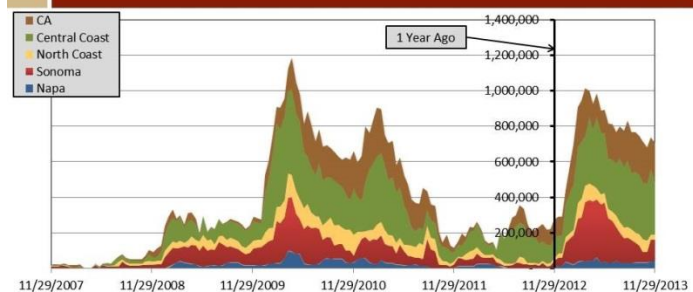
especially for the remaining 2012 wines. Chardonnay case sales are still growing and acres are only moderately growing—a healthier situation than during the excesses of early 2000's.

Australia presently has significant inventory of Chardonnay bulk wine offered for sale at low prices. There is currently a very favorable exchange rate with the U.S. dollar, resulting in possible strong import pressure for Chardonnay from Australia on the value-end.

The 2013 **Pinot Noir** crop will likely be another statewide record, an impressive encore to last year. This is a function of both high yields on top of an increase in bearing acres. Wineries were bursting at the seams and tried to flip tanks as quickly as possible in order to take in as much fruit as possible, but capacity constraints caused grape prices to drop late in the season despite continued interest. Once tanks opened up at the end of the Pinot Noir harvest, buyers still wanted more, but the grapes were pretty much all picked. We predict an increase in bulk gallons actively for sale from 2013, which may cause some downward pressure on price. This will be balanced with active, but price sensitive, demand.



Pinot Noir 6-Year Bulk Gallons Available



Pinot Noir continues to rack up impressive growth rates. According to Nielsen scan data, retail sales of domestic Pinot Noir between \$9.00 and \$19.99 had strong double digit growth in U.S. food stores over the last 52 weeks.

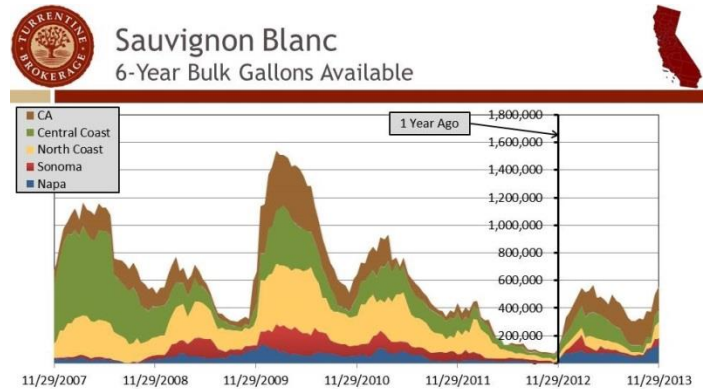
Merlot and **Zinfandel** have fallen on tough times in the last several months. This is a function of several variables. 1) The larger 2012 crop for all red varieties has meant less demand for Merlot and Zinfandel for use in red blends and as a blender for Cabernet Sauvignon. 2) Some winemakers have shifted to Petite Sirah as the preferred backbone for proprietary red blends. 3) The 2013 crop was unfortunately large, and many vineyards in the interior struggled to reach their minimum contracted Brix levels for red Zinfandel. Looking forward, the bulk market is likely to remain tough with large volumes of 2013 vintage Zinfandel and Merlot wine offered for sale.

The **Pinot Grigio** crop in the interior appears to be in accord with early season expectations, and demand for the grapes was still in excess of supply. 2013 wines should continue to make their way to

the market, and higher quality lots will be purchased early in the season. Bulk demand is still price-sensitive since nearly 70% of all Pinot Grigio casegood sales are under \$7.00 per bottle. Overall, domestic Pinot Grigio sales volume has grown over 12% on a large base in the last year in U.S. food stores.

The crop of **Sauvignon Blanc** was above average in most areas. We have already seen significant quantities of 2013 Sauvignon Blanc from almost every region offered for sale. History suggests that bulk market demand in such years will be low. Sellers might be wise to consider all offers.

For a more detailed evaluation of the 2013 harvest and the current grape and bulk wine markets, check out our subscription publication, *The Turrentine Outlook: Forecasts and Strategies for a Competitive Advantage*. If you are ready for a second helping from the harvest of 2013, or if you have grapes or bulk wine for sale, please call (415) 209-WINE to talk to one of our knowledgeable brokers.



Happy Holidays!



DOLLARS AND \$ENSE

Brian Clements and Marc Cuneo will be speaking at the famous Sonoma County Dollars and \$ense Seminar on January 15th at the Wells Fargo Center in Santa Rosa, California. They plan to awe the audience with vital North Coast market and proprietary information. So if you're in the area be sure and catch their show! <http://sonomawinegrape.ticketleap.com/14das-registration/>



UNIFIED SYMPOSIUM – JANUARY 2014

Steve Fredricks will be moderating a panel bringing together industry experts from Australia/New Zealand, South America, and Europe to provide their insights and perspectives into the supply & demand dynamics around the globe. Included in the panel are Stephen Strachan of Gaetjens Langley of Australia and Stephen Rannekleiv of Rabobank. Antonio Puntì of San Nicolas Wine Services and Steve Fredricks' aim is to look beyond the numbers into what is actually going on. What opportunities does

the wine industry in these regions see in the United States? How do they view California wines and competing with them? Where is planting happening? Are growers and wineries in these regions profitable? Our aim is to make this a dynamic and interactive session. If you have any questions you would like answered please e-mail them to Daniel@turrentinebrokerage.com . It will help us to prepare an exciting session. See you Wednesday January 29, 2014 at 1 pm. <http://unifiedsymposium.org/>



WINE INDUSTRY BENCHMARK SURVEY

The results are in! We're pleased to provide you with the results of our 2013 Wine Industry Financial Benchmarking Report. Moss Adams LLP, the Farm Credit Alliance, and Turrentine Brokerage are committed to continuing to serve as thought leaders in the wine industry, and we view the report as an opportunity to provide wineries, grape growers, and negociants with comparative and insightful information. This survey builds on the results published by Moss Adams in 2009 that analyzed a range of topics including general industry trends, sales and production data, viticulture data along with operating and financial metrics by region.

The goal of the survey? To bring you valuable, insightful data and analysis that will help you benchmark your operating and financial results against industry leaders. We believe the information gathered in the 2013 Wine Industry Financial Benchmarking Survey is an important tool as you measure your results and consider future business strategies. Click here to learn more about the report or purchase your copy: www.mossadams.com/winesurvey.



Market Opportunities

Bulk Wine Needed	Bulk Wine Available
2013 Central Coast Pinot Grigio- Load Size	2012 CA Chardonnay - 700k gallons, 25 lots
2012 Napa & Sonoma Cabernet Sauvignon- 1,000 gallons +	2012 CA/Lodi Zinfandel - 854k gallons, 40 lots
2012 Lake & Mendocino Cabernet Sauvignon- Load Size	2012 CA/Lodi Merlot - 773k gallons, 28 lots
2013 North Coast Sauvignon Blanc- Load Size	2012 Central Coast Pinot Noir - 175k gallons, 17 lots
	2013 Napa Sauvignon Blanc - 109k gallons, 14 lots
	2012 CA Cabernet Sauvignon - 542 gallons, 26 lots

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

