

TURRENTINE



Market Update
January 23, 2019 | Telephone: 415.209.9463

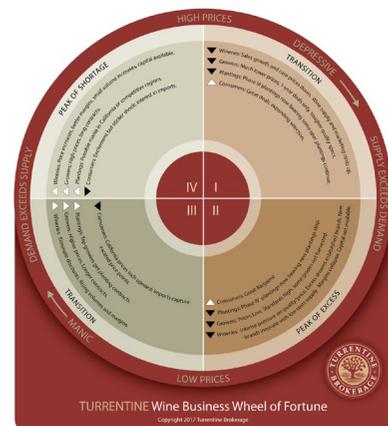
Reality Sets In

A new year is underway and a growing percentage of the wine industry is begrudgingly accepting the realization of a market transitioning to excess. The larger than projected yields per acre in 2018, especially in the coastal regions of California, exacerbated the market change, but this transition has loomed for some time following the recent planting wave. While we don't yet know the crush figures by district and variety for California, it is safe to say that most wineries were able to secure 'enough' supply in 2018. At this point, however, it behooves us to look forward to what 2019 may bring rather than continue to look back.

2018 Projection vs. 5-Year Average Yield per Acre [November projections]			
	Cabernet Sauvignon	Chardonnay	Pinot Noir
Napa	10%	10%	10%
Sonoma	10%	10%	10%
North Coast	10%	10%	10%
Central Coast	30%	8%	7%
Northern Interior	3%	4%	15%
Southern Interior	4%	1%	9%

The Wheel 2019

In order to understand where the bulk wine and grape markets currently are and where they might be headed, one must have significant experience and an intimacy with sales and purchasing decisions of wineries as well as the knowledge of acres planted, both under contract and speculatively. Predicting market trends is incredibly difficult; however, from our vantage point of 45 years of industry experience, we constantly observe the obstacles that wineries and growers face, and the various tactics employed by thousands of our clients to combat these hurdles through many cycles of the Turrentine Wine Business Wheel.



Through this experience, we understand the greater challenge that clients face when selling in a market where price is decreasing. We also understand the creative opportunities offered our clients from attractive prices in developing new programs and entering new markets.

Not every cycle is the same, and the severity of excess and the speed at which markets change is directly correlated to the amount of investment, especially where speculative planting has happened. Fortunately, the majority of acres planted in recent years was under contract which may limit the overall volatility of the markets moving forward.

The following are from Phase I and II of the Turrentine Wine Business Wheel of Fortune. The markets for most varieties and regions are currently in transition to excess and moving towards a peak of excess. To read more on the Wheel, [click here](#).

As of now, the 2018 Preliminary California Grape Crush Report is still scheduled for release on February 8th, but due to the government shutdown, this date is very much in the air.

As usual, there is speculation about total crop size. Not to diminish the value of this figure, but our position is that the size of the crop by variety and region are more important. For example, a large French Colombard crop in the interior is not a substitute for a smaller Sonoma County Cabernet Sauvignon crop. The information we have accumulated from deals negotiated and our conversations line up with the tons crushed numbers above. The production for Chardonnay, Pinot Noir, and Cabernet Sauvignon were larger in the coastal regions as well as the northern interior, which could result in a record crush for 2018. However, we do not expect any information in the report, be it tons crushed or district average price data, to alter current market supply and demand or price trends for any variety.

Phase I: Transitional Market

- WINERIES: Sales growth and case prices down. Wine supply and marketing costs up.
- GROWERS: Lower prices, shorter-term to single-year deals only, tougher quality specs.
- PLANTINGS: Phase III plantings now bearing and some spec plantings continue.
- CONSUMERS: Great deals, expanding selection.

Phase II: Peak of Excess

- WINERIES: Intense pressure on quality/price. Excess can impact established brands. New brands innovate with low cost supply. Margins tighten significantly.
- GROWERS: Prices low, standards high, some grapes not harvested.
- PLANTINGS: Phase IV plantings now bearing and new plantings stop.
- CONSUMERS: Great bargains.

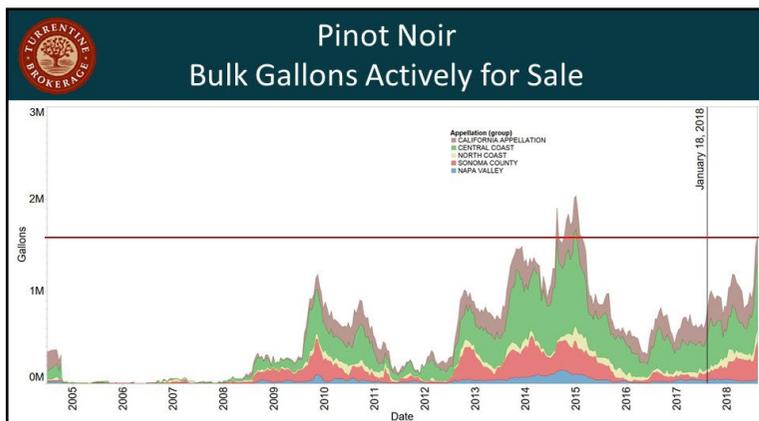
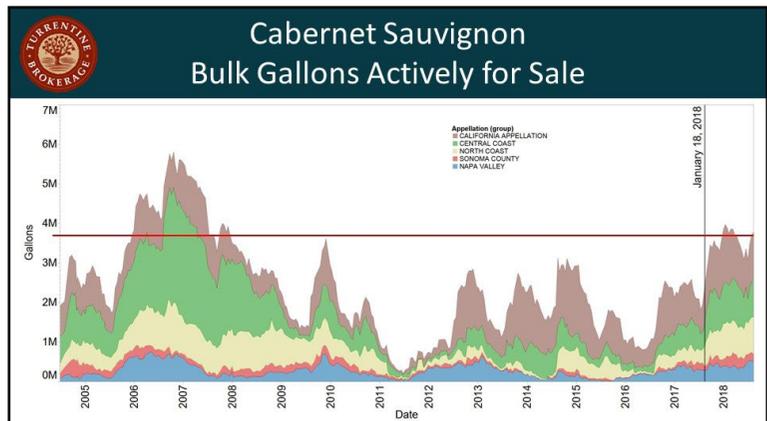
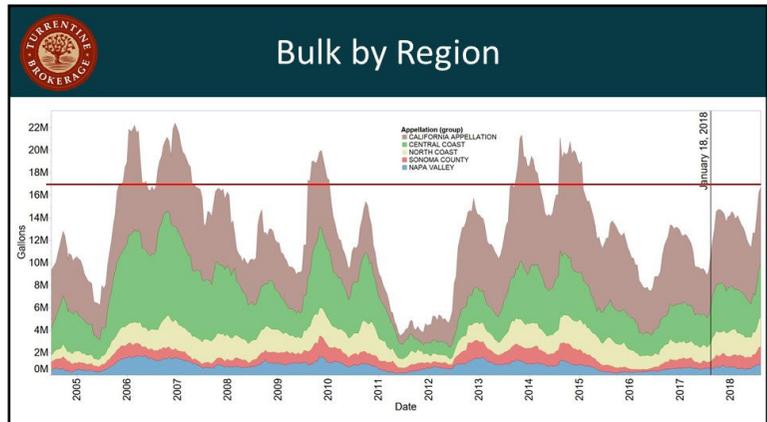
Current Market

The three main drivers to the market right now are the increased total wine supply that needs to make its way to the consumer, the slowing growth rates of consumer sales, and the greater economic health. In order to move through the coming period of excess quickly, the most likely scenario would include a couple of smaller than anticipated harvests and older acreage of oversupplied varieties like Zinfandel and Paso Robles Cabernet Sauvignon removed or redeveloped.

One might assume from a buyer's perspective that grape and bulk prices will also need to decrease to a point where wineries can market and sell wine to make inventory move. All the while, the economy will need to remain strong.

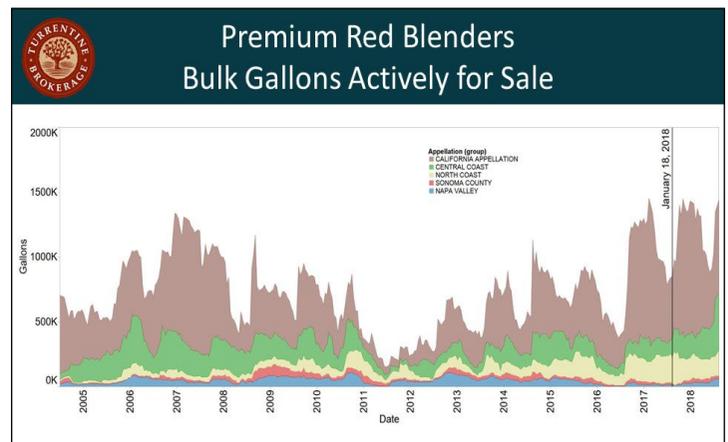
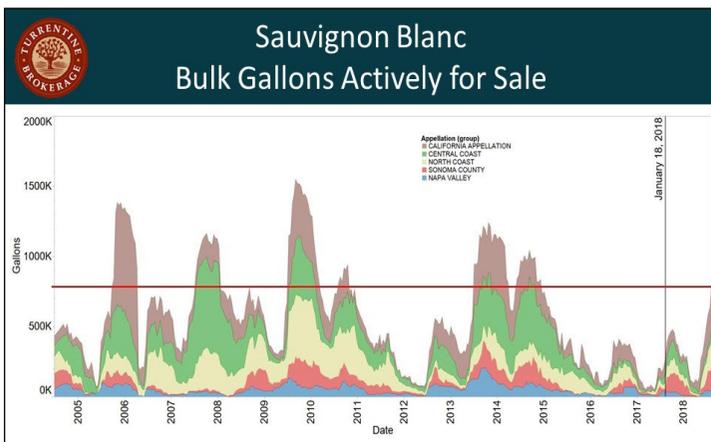
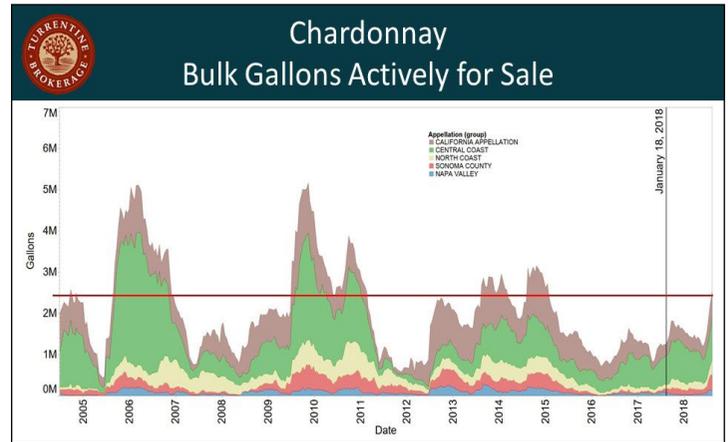
Total supply of bulk wine actively for sale continues to increase, and historically this rise in gallons continues through the first quarter of each year. Not only do traditional sellers have more wine, but there are an increased number of grower lots available and some clients that have traditionally been buyers are now looking to sell due to the increased supply from new acres, above average yields per acre in 2018, and slowing sales growth.

Opportunities for buyers have increased since [last month's newsletter](#), and the prices quoted still apply. While a market with excess supply is not necessarily a good trend, there is a silver lining; there are more active buyers than other historically similar markets. Sellers are accurately calling this a slower market because their wine is on the market longer, but we moved a similar quantity of wine in Q4 as we had the previous several years. For the last year or more, the indicators of greater bulk supply and lower prices have inspired creativity of clients and now they are ready to make deals.



Lower price points have increased the interest, demand and activity of Pinot Noir from late last year. There are great opportunities for Russian River, Sonoma Coast, Monterey County, Santa Barbara, and Clarksburg Pinot Noir lots.

Chardonnay supply is up resulting from above average yields per acre. Growth in supply of other varieties like Cabernet Sauvignon, Pinot Noir and red blenders are boosted by large quantities of planted acres, but this is not the case for Chardonnay.



Sauvignon Blanc from Napa Valley, Sonoma County, Lake County, and the Central Valley is available. This is a great opportunity for buyers that are looking to add to their existing blend or to add a new line to their offerings. Premium/Dard Red blender supply is also up.

What happens as the year progresses? What should you do? First and foremost, whether buying or selling bulk wine or grapes, is to be in contact with us as early as possible in order to hear the specific market dynamics that affect you. Every client has a different situation and may have different options open to them. As a seller, the second thing to do is really think hard about every offer you get since there are not many influences that would indicate prices rising throughout the year. The market will most likely be more challenging for bulk wine sellers as the year progresses. The third thing to do is to keep in contact with us to update us on any changes you have and we can update you on any market changes.

In conclusion, there are many great creative opportunities for buyers to get wine into the hands of more consumers and take back market share from beer and spirits. As a seller, this market can be an opportunity to find different buyers and cultivate long-term business relationships.

As the Farmers Insurance commercials say, "We know a thing or two because we've seen a thing or two." We have 45 years of experience in the market and have seen a lot. These market changes can be tough. You can best position yourself for the next cycle change by the decisions you make during the current cycle. Use our collective experiences to find ways to work through today's challenges and insulate yourself from some of the harshest effects of the next market change.

Here's to a successful 2019!

Turrentine on the Road

2019 UNIFIED WINE & GRAPE SYMPOSIUM - JAN 29-31
Sacramento

Don't miss Brian Foster as Moderator at the session:

ALTERNATIVE ROUTE TO THE RETAIL MARKET

And don't forget to stop by **Booth #1311!**

[Click here for more information.](#)



BULK WINE market opportunities

AVAILABLE

- +2018 Lake County Sauvignon Blanc: 11 lots, 93,000 gallons
- +2018 Sonoma County Sauvignon Blanc: 19 lots, 158,000 gallons
- +2018 Pinot Grigio, various appellations: 23 lots, 329,000 gallons
- +2018 Sonoma County Chardonnay: 26 lots, 270,000 gallons
- +2017 California Cabernet Sauvignon: 37 lots, 769,000 gallons
- +Paso Robles Cabernet Sauvignon: various lot sizes, volumes & vintages
- +Napa Valley Cabernet Sauvignon: 93 lots, 552,000 gallons
- +2018 Sonoma County Pinot Noir: 15 lots, 248,000 gallons
- +Central Coast Pinot Noir: 60 lots, various sizes, appellations & vintages
- +Central Coast Chardonnay: 58 lots, various sizes, appellations & vintages
- +Dark Red Blenders: many options from all areas
- +Whiskey & Brandy

GRAPE market opportunities

AVAILABLE

- +Santa Barbara County Cabernet Sauvignon: truckload quantities, earlier ripening site
- +Santa Maria Valley Chardonnay: small or larger lots available
- +Paso Robles Grenache, Red or Rose: small and truckload lots
- +Paso Robles Cabernet Sauvignon, including Willow Creek District, Templeton Gap, Creston, El Pomar and other sub-AVA's: various quantities
- +Delta/Clarksburg County: Chardonnay, Chenin Blanc, Pinot Grigio, Pinot Noir: truckload quantities
- +Contra Costa County (hillside): Verdejo, Albarino, Graciano: Up to 10 tons each and Mourvedre: 25 tons
- +Santa Lucia Highlands: Chardonnay, Pinot Noir, White Riesling: truckload quantities
- +Napa Valley Cabernet Sauvignon: truckload quantities
- +Sonoma County Chardonnay, Merlot, Cabernet Sauvignon, Pinot Noir, Zinfandel: truckload quantities
- +Lake/Mendocino Counties Chardonnay, Merlot, Cabernet Sauvignon, Zinfandel: truckload quantities

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