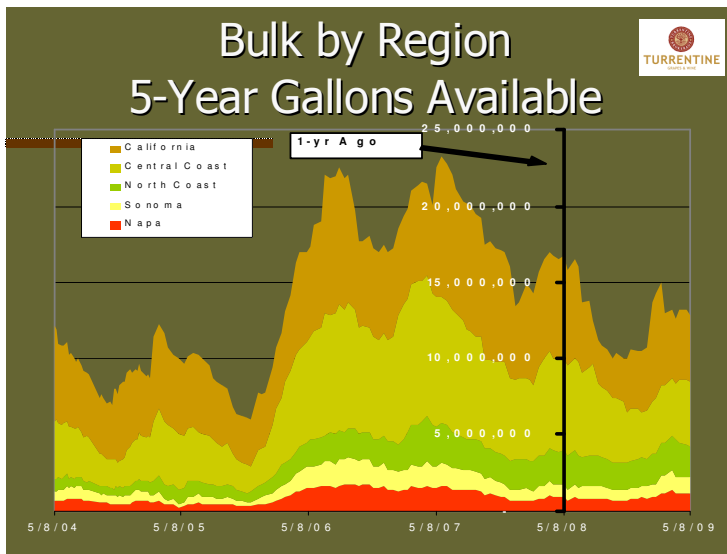




Beware the Bent Branch

Have you ever had a bent branch snap back in your face? Well, it could happen again as we stumble through the dark forest of recession. Much of the recent change in the wine business is driven by consumers, who have increased consumption modestly but have traded down in price. Some of the change in the wine business, however, comes from within the trade itself. In the forced march of recession, no one wants to carry inventory, not the restaurateur nor the retailer, not the distributor, not the winery and not the grower. Investors do not like inventory. And lenders hate it. This recession-induced allergy to inventory creates a situation that is like a bent branch. With a little increase in confidence, demand could snap back quickly. When economic recovery finally spurs consumer demand, everyone who hated inventory is suddenly going to be scrambling for inventory. Apparent excesses could disappear overnight.



In the meantime, restaurateurs and retailers continue to trim their stocks, distributors order on a 'just in time' basis, wineries delay grape and bulk wine purchases as long as possible and growers, well growers wait and brood and call their favorite broker (that's us) on a regular basis. Even wineries with big needs can wait on grape purchases as long as everyone else is waiting as well. Besides, crop size is looking pretty strong across the state so far.

The bulk wine market, however, is on a different timetable and it is sending a different message. The bulk market is active because many wineries - especially those with brands perceived as bargains - are racking up casegood sales growth. They are currently buying whatever additional volume they need for the fourth quarter 2009 and the first quarter of 2010 in order to get glass and labels and other supplies and finalize the blend and put it in the bottle before crush. No one is buying who is not highly confident that they will need the additional volume.



That means we have buyers on tight budgets and a lot of sellers with high costs.

Total casegood sales are up from last year. As the chart above shows, total bulk wine inventories are slightly down. The problem - as always - is that inventories are down for wines in those price points

that are selling well but are high for wines in those price points that are not selling well. That means we have buyers on tight budgets and a lot of sellers with high costs. The bulk market is active - but it ain't necessarily a happy place.

Grapes & Wines in Bulk

There are more gallons of **Chardonnay** on the market than last year, but current sales and new listings are currently balancing each other. The total volume available is about 2,000,000 gallons, which is not out of proportion to the volume of the Chardonnay casegood market. But buyers figure that time is on their side as harvest approaches and sellers need to generate both cash and tank space. Recent sales of Napa and Sonoma County appellation Chardonnay have been in the mid to lower teens (compared to the high teens last year and right after harvest). Prices for Monterey and Santa Barbara are also lower. We have sold some Interior Chardonnay recently at less than \$5.50 per gallon.

Cabernet Sauvignon is in a stronger situation overall. The supply continues to decrease every month as more and more of the 2007 wines are sold - and even the remaining 2006 wines are getting another look. The Paso Robles appellation, hit by a painfully light harvest, has seen steady pricing for 2008 Cabernet Sauvignon in bulk, mostly in the \$8.00 range. Recessionary effects are evident in Napa and Sonoma. While there are multiple buyers, most of them are at price-points that would require many buyers to take a loss. The supply of 2007 and 2008 Cabernet Sauvignon from the Interior, on the other hand, is low and recent sales have been +/- \$6 per gallon.

Bulk supply of **Pinot Noir** has appeared almost as quickly as it disappeared a few years ago. Approximately 300,000 gallons are now for sale, with over 250,000 gallons of that from the Coastal appellations. Every day it seems the phone rings with a new listing. There are great opportunities for wines from all of the prestige appellations. Right after harvest, prices were above \$25.00 per gallon for Russian River Valley appellation wines; recent sales have hovered around \$20.00 per gallon. Buyers that can afford that price are still few and far between. There are buyers who could soak up just about everything on the market at the right price, but that price is probably in the mid-teens.

The demand for **Merlot** in bulk continues to limp along with a recent slight increase in interest from buyers looking to supply brands that retail at less than \$6.00/bottle. There is even interest in 2006 and 2007 Coastal Merlots. The total supply of bulk Merlot available is down about 1,000,000 gallons from last year and down about 3,500,000 gallons from two years ago. The planted acres of Merlot, of course, have also dropped dramatically.

Crunch time is coming and the bunches will be getting fat. Now is the time to get your bulk wine deals wrapped. Grape strategy too, if not done, needs to be, because this year everyone will be buying at the same time. Call your favorite broker at Turrentine Brokerage to make it happen.

Market Opportunities

Available: 10 acres Russian River Chardonnay Planting; open for contract

Available: Pinot Noir grapes, Russian River Valley, Sonoma Carneros and Sonoma Coast - various clones from multiple locations and blocks

Available: Pinot Noir grapes from Arroyo Grande, Santa Barbara County, Santa Lucia Highlands and Monterey County appellations

Available: Chardonnay grapes, all areas of Sonoma County, multiple blocks and vineyards

Available: 2007 Zinfandel bulk wine - all appellations

Available: Chardonnay grapes from Napa Carneros

Available: Cabernet Sauvignon grapes from most parts of the Napa Valley appellation
Available: Multiple lots of Pinot Noir bulk wine, all Coastal appellations
Available: 2008 Italian Sangiovese bulk wine made from organic grapes, with option for 2009 also
Available: 2008 Red Wine from Spain, D.O. Jumilla - 1,500,000 liters at €0.43 per liter ex cellars
Available: Custom processing to fit your needs from 5 ton to 1000 ton quantities from facilities in various parts of California. Call for more details.

Needed: Pinot Noir and Pinot Grigio, Lodi/Delta grapes
Needed: Cabernet Sauvignon, Lodi grapes
Needed: 2008 Cabernet Sauvignon - Paso Robles, Central Coast, California
Needed: 2008 SLO county or Central Coast Rhone Reds (Mourvedre, Grenache, Cinsault)
Needed: 2008 Napa Valley Merlot and Cabernet Sauvignon
Needed: 2008 Gewurztraminer, White Riesling, florals - California
Needed: 2007 Cabernet Sauvignon - California (multiple buyers)
Needed: 2008 Pinot Grigio - California, Central Coast
Needed: 2006 and 2007 Merlot, California (low-priced)