CELLAR & CO

Wine Market Review February 2019

Exchange volatility takes the wind out of market sails

Exchange rates are notoriously difficult to predict on account of the breadth of pulls and pushes, not least the often-opaque actions of central and national banks. The unexpected climb of Sterling against both the Euro and the Dollar from mid-December to the end of January cast a shadow on the market, which was already on the back-foot owing to softening in demand from Asia. The Pound surged from a low of 1.10 Euros on 12th December to touch 1.16 Euros on 29th January, a 5.5% appreciation which lifted wine prices in export currencies proportionately. Whilst not an historic ramp, this was enough to deter buyers of top Bordeaux in a market that is particularly price-sensitive.

The principal Livex Indices for top Bordeaux, the Livex 50 and the Livex 100, both ended 2018 marginally down on the year and perhaps inevitably January brought little relief. The broader Livex 1000 rose by almost 10% in 2018 on account of its Burgundy component, but even this was afflicted by the January chill, falling slightly back in the first month of 2019.

Euro/Pound rate, October 2018 – February 2019

Commentators sought to account for the damp conditions, citing the distracting effect of the 2017 Burgundy campaign, however without the allocations from Rousseau, Leroy and DRC, which all release on a later timetable, crossover effects must be limited. The coming physical availability of 2016 Bordeaux is perhaps a more likely candidate, especially as it coincides with glowing in-bottle scores from leading critics. Even so it is hard not to notice the downbeat sentiment surrounding Bordeaux trade at this time, reinforced by a steady flow of discounted offers from merchants at home and abroad.

Index 31/01/2019 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 50	350.61	0.12%	0.12%	-1.13%	20.63%
Liv-ex Fine Wine 100	311.98	-0.02%	-0.02%	-0.16%	22.43%
Liv-ex Bordeaux 500	318.22	0.07%	0.07%	0.32%	26.95%
Liv-ex Fine Wine 1000	362.22	-0.31%	-0.31%	9.44%	43.56%
Liv-ex Fine Wine Investables	343.10	0.02%	0.02%	0.45%	24.91%

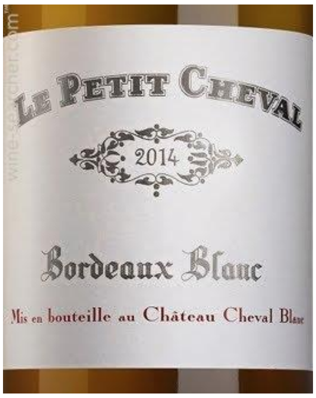
The importance of currency, and the 'B' word

It is widely acknowledged that the depreciation of Sterling following the 2016 referendum gave a strong boost to market prices. For this reason there is considerable (verbal) speculation over the impact on the exchange rate of the outcome of the Brexit negotiations now coming to their final phase. A hard Brexit would, it is frequently stated, lead to a slump in Sterling whereas a negotiated softer Brexit would have the reverse effect, at least in the short term. (There are other options currently in some peoples' minds, including no Brexit, which if came to pass would have a more uncertain impact). With the immediate future still unsure traders cannot easily adopt defensive measures. As at the time of the referendum itself, hedging is likely to be a 50/50 bet.

In the last few months many in the financial community have felt that an awkward Brexit has been largely priced into Sterling such that the likely risk is upside rather than down. An upward bounce in the Pound would once again tend to depress wine prices. Fine wine is a truly global market player now, very much in the firing line of exchange rate movements. A question to ponder is whether the lift in Sterling since early December has changed the outlook.

On the subject of Brexit (the last use of the B-word in this Review) most in our sector believe that our activity will be much less affected by a 'no-deal' outcome than the general economy. Fine wine spends much of its life 'in bond', and as such is relatively immune from tax changes. Shippers are familiar with international customs procedures which are today applied to non-EU imports, and with customs tariffs, which until now have been small enough not to impact significantly on prices. Frictional drag over stock movement is certainly a risk but fine wine cannot be compared with products relying on 'just-in-time' logistics. Furthermore, the Liv-ex 'stock exchange for wine' has created a business entity in Belgium to be able to future-proof its mainland EU traders.

The role of scarcity, #1



The dramatic rise in prices for top Burgundy witnessed over the last five years is in part accounted for by the evident scarcity of those wines. By no means the smallest estate, **Domaine de la Romanée-Conti** produced the equivalent of 6837 12bt cases from its grand cru vineyards in 2015, with only 400 coming from the crown jewel itself, La Romanée-Conti. Pomerol's pinnacle, **Pétrus**, produces 2500 cases. In comparison, a Bordeaux First Growth delivers in the order of 40,000 cases in a typical year, of which around 30% will be the Grand Vin.

But scarcity is not the only driver, the wine has to have a special cachet too, something that the celebrated initials 'DRC' famously deliver, as does its neighbour Domaine Leroy. Both estates' wines are the stuff of dreams, today not of millionaires but of billionaires.

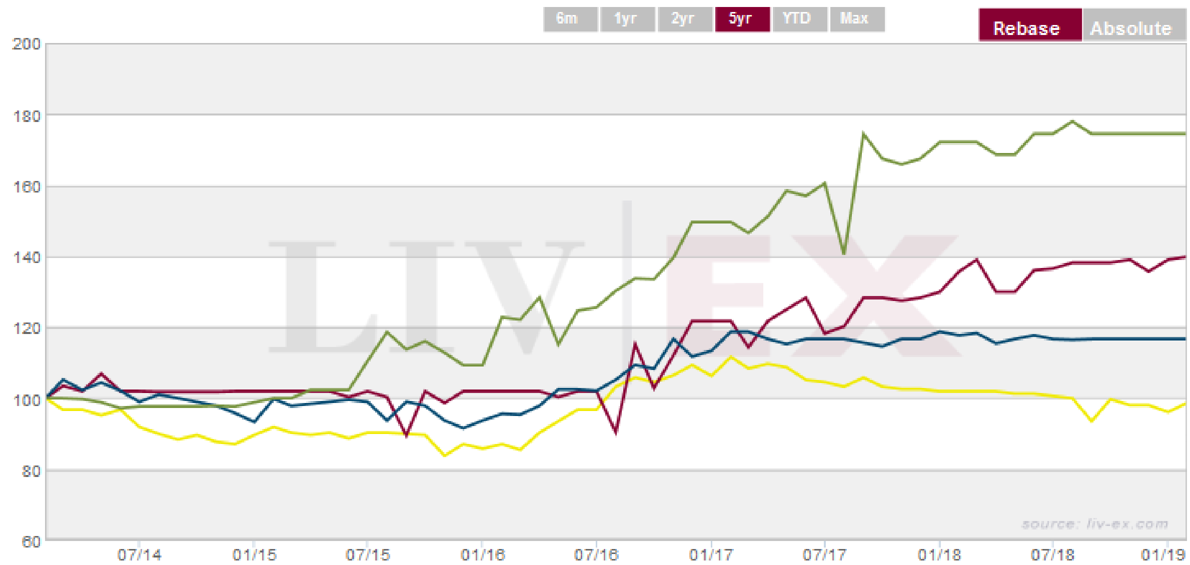
Napa Valley's so-called 'cult' Cabernet, **Screaming Eagle**, has the virtue of scarcity in addition to its intangible attraction, the annual production being in the order of 6-700 cases, a little below that of just one of DRC's vineyard holdings, Richebourg. No surprise perhaps that the market price for Screaming Eagle, at around £2500 a bottle, is roughly equal to that of DRC's Richebourg. What may come as a surprise is the market price of the *white* wine from the Californian winery, its Sauvignon Blanc. With only 600 bottles made annually the scarcity factor is clearly behind the price, typically north of £4500 a bottle. The owners of Screaming Eagle can't be censured for this: the cellar door price for the fortunate few on the allocation list is around $250!

Many producers around the world must be envious of the 'cult' of Screaming Eagle. First Growth Saint-Emilion Chateau Cheval-Blanc has cachet without doubt. And it too now produces a white wine in limited quantity. Currently there are 400 cases of '**Le Petit Cheval-Blanc de Cheval-Blanc'** produced each year. A surprise then, and possibly an opportunity, that the market price is just £100 a bottle.

Defying gravity – the risers of the last 12 months

An index describes only its component wines, and then it defines just the average of movements, amongst which there are winners and losers. If the rise in the Livex indices post-referendum were largely exchange rate-driven, the implication is that underlying demand was itself, on average, flat. This is borne out if the indices are rebased in other currencies: in US Dollars, price deflation was the trend.

But again, we are in the world of averages, and not all wines are victims of an average, flat market. All four of the 2009s shown below floated upwards on the exchange rate tide between 2016 and 2017. Subsequently their performance diverged. **Mouton-Rothschild**, reflecting the index, has been flat for 24 months, and **Pontet-Canet** has fallen by almost a tenth. **Léoville-Barton** and **Clerc-Milon** lifted by 15% and 17% over the same period. The inference is clear, that despite the flat average demand for such wines globally, the momentum experienced by these two is driven by underlying demand pull.



Series	Current value	6m	12m	2y	5y
Leoville Barton, 2009	850	5%	1%	15%	40%
Mouton Rothschild, 2009	5,600	0%	-1%	-1%	17%
Pontet Canet, 2009	1,500	6%	-5%	-9%	-1%
Clerc Milon, 2009	750	1%	1%	17%	74%

Scarcity #2: the whisky market

Many wine merchants have recently been obliged, by the rise and rise of the market for whisky, to become at least part-time spirits merchants. Whisky demands many of the same commercial skills: in-depth knowledge of production and producer; a special lexicon for taste and appreciation; awareness of authenticity issues; and above all a sense of scarcity. Whisky is not a product of vintages, rather of age. Age confirms rarity rather than maturity, which itself arises purely from the 'élevage' process, in this case cask ageing. And aged whiskies cannot be manufactured on demand.

Unlike a fine wine, which is available in its finished form around three years after budburst, an aged whisky might not see the light of day for 20 years, sometimes longer. But access to a stock of aged spirit offers a special advantage to the whisky producer: the opportunity to create, via the blending process, small runs of unique whiskies, again and again. Hence the seemingly endless release of 'cask expressions' of 21, 25 and occasionally 50 year old whiskies.

Rarity plus charisma, and sometimes simply rarity alone, can send the price of a single bottle into the stratosphere. The record was set in 2018 when a **1926 Macallan**, one of only a handful in known existence from 'cask 263', itself with a one-off livery provided by a respected Scottish artist, sold for over a million Pounds at auction. The value was driven by scarcity alone – no-one has suggested that the contents are sublime. However no bottle of wine has traded at anywhere near this level.

Awareness of Japanese whisky took off after Suntory's **Yamazaki Sherry Cask 2013** was judged 'World's Best Whisky' in Jim Murray's *2015 Whisky Bible*. Since then, Japanese whiskies have been added to traders' wants lists. Demand has ramped up in the last twelve months following confirmation from Japan of a growing shortage of the source material for aged 'expressions'. A meteoric rise in consumption in Japan of the Highball cocktail, whose principal ingredient is **Kabukin** whisky, led to diversion of supply that would otherwise have been destined for aged whiskies of the future. Perceiving a latent drought of these, brand owners have shrunk present availability in a number of markets – or withdrawn brands altogether - to better manage supply over time. Future rarity has become present scarcity. Rising demand plus diminishing supply has led to seemingly inexorable price inflation.

Buying opportunities

In the last review we flagged up the potential of **2016 Bordeaux** with the in-bottle ratings imminent from leading critics. The scores have indeed confirmed that the highest quality (100 points) has been attained by a number of chateaux. The market has been slow to react, perhaps for reasons alluded to earlier, and there is a clear view that the vintage, and the top-rated wines in particular, are below their true mark.

Bordeaux 2016 in-bottle scores					
Wine	Score (JS)	Score (AG)	Score (LPB)	Score (NM)	Market Price (12x75)
Mouton Rothschild	100	100	100	100	£5,050
Haut-Brion	100	100	100	99	£4,414
Cos d'Estournel	100	95+	100	100	£1,681
Petrus	100	99	100	98+	£34,000
Léoville Las Cases	100	98	100	98	£2,022
Lafite Rothschild	100	99	99	98	£6,066
Pavie	100	98+	99	98	£3,049
Le Pin	100	99	98+	97	£36,970

Elsewhere in Bordeaux, eight years on from the vintage, wines from the potent and tannic **2010 Bordeaux** are only now beginning to show their spurs in the market. Some are notoriously undervalued despite their glowing reviews. Three right bank wines come into this category, **Vieux Chateau Certan**, **Angélus** and **Eglise-Clinet**. All three are well below the price curve given their ratings. The challenge is to understand why (still not widely understood in Asia perhaps?) and to sense when to take advantage.

Selling opportunities

The buoyant market for **Burgundy** has created scarcity for a number wines in a number of vintages, especially where original cases are concerned. (Full cases are somewhat scarce from the outset as the rest of Europe tends to trade in loose bottles as the norm). If you are the lucky holder of OCCs or OWCs from any of the top ten domaines, you might look at current prices – on Wine-Searcher.com for example – to see where you stand. To offer one example, as at today's date there is no listing *worldwide* for Armand Rousseau's Chambertin Grand Cru in an original case from the 2014 vintage.

On account of its 100 point score from Vinous' Italian expert Monica Larner, **Sassicaia 2016** is attracting substantial interest in the market right now. Most merchants are offering allocations to customers only if they take a parcel including the estate's second and third wines. Owners of Sassicaia could consider 'flipping' the top wine at a decent premium and drinking the lesser wines possibly for free!

The Quarterly Wine Market Review is compiled by Cellar&Co's wine investment team. Please contact us for further information on any of the subjects covered. We are buyers of well-cellared stock.

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