CELLAR & CO

Wine Market Review May 2020

Key indices holding up while revenues slump

Already reeling from US tariffs and uncertainly in the key Asian markets since the fourth quarter of 2019, globally fine wine markets were significantly impaired by the impact of the COVID pandemic from as early as February this year. Traded volumes fell significantly as the impact of lockdowns became understood, both in terms of demand but also supply as logistic activity was restricted by safety measures. And in every geography the closure of restaurants brought 'on-trade' business instantly down to zero.

This is not to say that the global wine market has dried up – there is talk of a post-lockdown recovery in China, with one major UK merchant claiming that orders had returned to January levels. And in many countries the retail market has enjoyed something of a windfall as consumers switch to drinking at home. This effect of COVID has led to a dramatic change in the pattern of trading on the Liv-ex exchange too: record numbers of transactions but of lower value wines than previously. The average bottle value fell by 35% as a consequence. What is nevertheless striking is the resilience of the key indices: the near 1% rise in the daily index of Bordeaux First Growth prices during April being the most newsworthy. The stability of fine wine prices is discussed further below.

Unsurprisingly currency volatility has been a marked feature of 2020 to date. Three months ago, the Euro sat at 1.20 to the Pound (a 12 month low for Sterling), before clawing back over 6% to today's 1.12, passing a (very brief) 12 month peak of strength at 1.07 at the end of March.

Index 30/04/2020 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 50	323.93	0.82%	-3.32%	-6.68%	19.95%
Liv-ex Fine Wine 100	298.46	-0.30%	-1.36%	-3.26%	23.33%
Liv-ex Bordeaux 500	300.41	0.09%	-2.65%	-4.55%	25.91%
Liv-ex Fine Wine 1000	337.41	-0.40%	-3.08%	-4.45%	37.45%
Liv-ex Fine Wine Investables	324.12	0.24%	-2.63%	-4.46%	24.47%

Fine wine values stable – but why?

The circa 3% slide in fine wine indices since the start of the year follows the direction of the movement in Sterling over the same period. There is a less than linear relationship that suggests a latent softening in values. The picture is of course striking in the context of the much more significant falls in financial indices, the FTSE 100 for example having lost a quarter of its value since January 1st.

This resilience is somewhat counter-intuitive, and commentators are grappling for explanations. Fine wine values and company share prices march to different beats of course, the latter reflecting potential future profitability, the former dictated more by today's supply and demand. In the short and indeed medium term, collectors of fine wine – the end consumer – tend to be unresponsive to wider market movements unless facing liquidity issues brought about by those wider movements. There may be a rush to buy a much-lauded new vintage but there is rarely a stampede to sell. And in the current climate of huge economic uncertainty owners of wine cellars arguably have bigger issues to face than pondering the value of their collections.

Looking at market mechanics, the combination of small margins and not-inconsequential trading costs accounts for relatively low price elasticity in any circumstances. Merchants have few options where selling results in a loss. Provided credit is available prices will be 'sticky' even in the face of falling demand. There is evidence of liquidity-raising amongst merchants however, evidence provided by the steady drip-feed of discounted offers. A recent phenomenon has been the availability of wines from the acknowledged great 2016 Bordeaux vintage at prices markedly *below* their en-primeur price of three years ago. Unless these are fresh chateau releases (unlikely as they have a vested interest in supporting their opening prices) some dealers must be taking the pain in order to put cash into their coffers. The business support provided by various governments in Europe at least may be disguising the true state of merchants' finances. If so, we may see distress sales emerging, paradoxically, on a greater scale as the crisis abates.

Anecdotal evidence from within the trade is of merchants unwilling to buy for stock, uncertain both of future demand and of future prices. Burgundy is in the process of a price correction, not yet completed; and sentiment towards Bordeaux remains somewhat bearish. Despite the small uptick in Liv-ex's Fine Wine 50 in April (probably accounted for renewed interest in the top 2016s), the wines are difficult to sell. The reality of large inventories in merchants' cellars in Bordeaux and elsewhere is casting a shadow, one that may grow longer as the issue of Bordeaux 2019 is bottomed out (see below).

Bordeaux 2019 – still no clarity over the en primeur campaign

It goes without saying that with millions of Euros at stake Bordeaux needs to sell its 2019 crop in an orderly fashion, well ahead of the 2020 vintage now budding on the vine. In late April the ringmasters of the en primeur circus, the Union des Grands Crus, announced that they hoped to resurrect the 2019 campaign via a series of localised tastings for press and trade in early summer. The confirmation date, 11th May, has come and gone without further news. If the tastings cannot be held before the summer holiday season, prospects for any form of success in the campaign will be diminishing. Buyers will have timetabled other activities, and other purchases, for the autumn (Rhone and Burgundy 2019 for example), and the potential economic damage caused by the COVID lockdown may well reduce available spend of both trade and private buyer.

With time running out in a meaningful sense Bordeaux finds itself in a most invidious situation, and no doubt producers are very alert to the issues. One possible solution that has been mooted is a series of press-only tastings, to bring out the critics' scores and commentary, these being essential to the campaign; and then a release at prices significantly down on recent vintages (some have suggested turning the clock back to 2015 – ie to the 2014 vintage) in order to guarantee sell-through. Buyers might well step up to the plate in these circumstances. Bordeaux has alienated some elements of the trade with its pricing stance of late but the prospect of real value, and the wish to support producers in a corner, would likely rule the day.

COVID adaptation may lead to permanent change

Merchants whose business has been dedicated to supplying the restaurant and bar markets have seen a 100% loss of trade since the lockdown. Most have furloughed as many staff as possible with the hope of picking up at some level once the crisis abates. All will be very worried about future prospects as current expectations are for a slow and attenuated return to capacity in the hospitality sector. Many have considered 'pivoting' towards the still-buoyant retail sector as a means of bringing in revenue to meet fixed costs and to sell down otherwise unproductive inventory. A small number have achieved this, erecting at short notice an ecommerce facility via their existing websites. This is no simple challenge for a number of reasons. Developing an entirely new customer base, and switching to a retail mindset, presents real challenges. Some of these may find that in bringing new flavours (in a general sense) to the market, they are creating a business stream that they may wish to develop further.

Liv-ex is a trade-only platform, however it too has seen a significant COVID effect. It has invested heavily in web technology to allow its trading members to offer any wine available on the exchange seamlessly via a retailer website, thereby bringing to the member's customers potentially a massively wider range with no inventory risk. Liv-ex saw the number of transactions rise by 16% in April, 30% of the total being such automated trades. (This phenomenon appears to explain the significant gain in Liv-ex market share of Italian wines in particular, as buyers exploited the wide range of the excellent 2015 Brunellos and 2016 Barolos now coming onto the market.) In this way Liv-ex is operating as a behind-the-scenes Amazon, aggregating a wide range of suppliers' offerings for their members to present to their own customer base. This aggregation concept is well tried in many segments of the internet, where some sites act as portals for a host of small stockholders. The unique element here being Liv-ex's role in policing the market, assuring the quality and availability of the advertised stock.

One governmental response to the virus that has led to huge concern was South Africa's decision to prohibit exports of South African wines as part of a wider policy to ban all alcohol consumption in the country. This appeared to threaten catastrophic effects on its producers, and also significant pain on the world's distributors of South African wines. Their disappearance from the market during what amounts to a retail boom could have had long-term consequences. South Africa's wines are still at the stage of building their reputation and as such there are many near substitutes in export markets. Exports have now been allowed to resume, however it remains to be seen if market share can be recovered easily.

Buying opportunities

While Bordeaux has failed to deliver for many buyers in recent years vintage 2019 may be the campaign that breaks the trend. If top wines are offered well below prevailing prices for physical vintages then this could be the 'fill your boots' moment. The quality appears to be, by and large, high in most communes, though we may have to rely on scores of others for a judgement. There are likely to be fewer bargains in the mid and lower ranks as these wines simply have less headroom for price reductions.

Elsewhere Piedmont 2016 appears a racing certainty, with a number of commentators and growers describing it as one of the all-time great years. Prices are currently reasonable for drinking wines, however balloons are starting to appear around the most celebrated names.

And in the current market situation there are bound to be distress sales across a range of wines that present buying opportunities, usually of ‘in-between’ years well-suited to consumption in the near term. Look too to vintage Champagne, where the market has been dented, 2004 appears under valued and 2002 is still on an upward flightpath.

Selling opportunities

Aside from the most celebrated names, Grand Cru burgundy looks somewhat top-heavy and therefore a candidate for disposal; however prices are likely to firm once confidence returns so it may be beneficial to wait until the autumn. Mature champagne (pre 2000) prices have been flat for some time and unless held for personal consumption these should be considered for selling.

A bold pricing move from Bordeaux to kickstart the market for the 2019 vintage would in all likelihood ripple backwards through the market for earlier vintages. Prices for 2017 and 2015 are already softening and prudence suggests that overweight positions should be adjusted to reduce risk. Any such price moves are likely to be medium term however: Bordeaux has a habit of finding forward momentum over time.

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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