

Wine Market Review August 2020

Mixed signals from a market in recovery mode

National economies are recovering a degree of normality around the world however there is little change in the fine wine market, where trade has yet to approach pre-lockdown levels. If revenue is off, liquidity appears sound, with no evidence to date of rising indebtedness or of significant corporate failure.

Dollar weakness has had limited direct impact owing to the continuing presence of tariffs on most wines imported to the US (Italy is unaffected – see discussion below) however indirectly it has influenced the downward track of both the HK Dollar and Chinese RNB, softening what demand there is emanating from those countries today.

Given this background the market has shown a welcome degree of stability, if not pace or direction. Prices are, with notable exceptions, drifting, and outside of the exchanges discounts and offers are prevalent. Bordeaux managed to execute a successful-in-the-circumstances 2019 en primeur campaign though there is continuing concern over unsold stocks and their effect on the future wine economy.

Index 31/07/2020 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 50	328.25	-0.71%	-2.03%	-5.88%	22.27%
Liv-ex Fine Wine 100	300.01	1.50%	-0.84%	-3.24%	24.26%
Liv-ex Bordeaux 500	306.96	-0.45%	-0.52%	-3.41%	28.87%
Liv-ex Fine Wine 1000	346.07	0.53%	-0.59%	-3.25%	40.78%
Liv-ex Fine Wine Investables	331.53	0.53%	-0.40%	-3.08%	26.45%

What's driving the market?

Anecdotal evidence from a variety of sources suggests that, as the fine wine world comes slowly out of COVID, outside of Bordeaux 2019 activity levels remain on the low side. Trading was impacted from autumn 2019 by events in Asia (Hong Kong in particular), US tariffs and Brexit concerns, all before the emergence of COVID 19. While on-line merchants in the UK generally saw Christmas come early during the lockdown, the fine wine market was *calme*, as the French would put it. Dealers were disinclined to buy for stock, and clients – from wherever in the world – appeared disinclined to add to collections while their own businesses were in special measures. The market ticked over through the quarter however, with little evidence of mass furloughing of sales staff. Deals and discounts were (and still are) the order of the day, with vendors prepared to trade on thinner margins to generate some flow through their books.

Given this background the resilience of fine wine values throughout this period (noted in previous Reviews) remains something of a conundrum. All major indices are in gently negative territory in 2020, but performance has not been entirely uniform. Bordeaux First Growths, perhaps the cornerstone of most fine wine collections, are down 2% since January (Liv-ex 50), whereas the Liv-ex 100 fell very little, despite including many of the same wines.

Some clarity comes from the breakdown of the Liv-ex 1000 index below. The index fell 0.59% in aggregate since the start of the year however three components, Champagne, Rhone and Italy, accounting for a quarter of the index, are comfortably in positive territory. Italy heads the pack, up 2.37%.

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Bordeaux Legends 40	373.88	0.43%	-0.06%	-4.31%	30.65%
Burgundy 150	532.68	1.31%	-2.22%	-5.85%	81.67%
Champagne 50	407.06	1.19%	3.35%	4.47%	51.76%
Rhone 100	193.32	0.40%	1.71%	-2.62%	21.56%
Italy 100	303.57	0.71%	2.37%	4.29%	40.56%
Rest of the World 60	285.91	1.32%	-1.32%	-0.82%	33.30%

Above: Liv-ex 1000 and its component sub-indices

Movements are far from heady – fortunately perhaps in the context of the huge swings seen in the financial markets – however a picture is emerging of falling Bordeaux values and rising ‘alternatives’. Burgundy is notably down in 2020 (and the biggest loser over 12 months) though staging something of a comeback in July.

The Liv-ex 100 is widely seen as the barometer of the market, and its 1.5% rise in July is welcomed. It too is an aggregate of different sectors, comprising 50% red Bordeaux (though not exactly the same 50 wines that make up the Liv-ex 50) and the rest from Burgundy (15%), Italy (14%), Champagne (9%), Rhone, California, Spain and a lone white Bordeaux. These weightings are adjusted periodically to reflect the composition of share of trade by value on the Liv-ex exchange. The current vintages of included wines are listed below. Self-evidently the index would have risen further if it wasn't weighed down by under-performing First growths.

Liv-ex Fine Wine 100 Index			Liv-ex Fine Wine 100 Index			Liv-ex Fine Wine 100 Index		
Region	Wine	Vintage	Region	Wine	Vintage	Region	Wine	Vintage
Australia	Penfolds Grange	2009	Bordeaux (Red)	Mouton Rothschild	2000	Champagne	Taillinger, Comtes Champagne	2006
Bordeaux (Red)	Angelus	2010	Bordeaux (Red)	Mouton Rothschild	2005	Champagne	Taillinger, Comtes Champagne	2007
Bordeaux (Red)	Cheval Blanc	2000	Bordeaux (Red)	Mouton Rothschild	2006	Italy	Bartolo Mascarello, Barolo	2014
Bordeaux (Red)	Cheval Blanc	2005	Bordeaux (Red)	Mouton Rothschild	2009	Italy	Brovia, Barolo Villerio	2013
Bordeaux (Red)	Cheval Blanc	2006	Bordeaux (Red)	Mouton Rothschild	2010	Italy	Gaja, Sperss	2013
Bordeaux (Red)	Cheval Blanc	2009	Bordeaux (Red)	Mouton Rothschild	2015	Italy	Giacomo Conterno, Barolo Riserva Monfortino	2010
Bordeaux (Red)	Cos d'Estoumel	2009	Bordeaux (Red)	Palmer	2009	Italy	Masseto	2014
Bordeaux (Red)	Cos d'Estoumel	2016	Bordeaux (Red)	Pavie	2005	Italy	Masseto	2015
Bordeaux (Red)	Ducru Beaucallou	2009	Bordeaux (Red)	Pavie	2010	Italy	Omellaia	2013
Bordeaux (Red)	Haut Bailly	2009	Bordeaux (Red)	Petrus	2009	Italy	Omellaia	2015
Bordeaux (Red)	Haut Brion	2000	Bordeaux (Red)	Petrus	2010	Italy	Sassicaia	2014
Bordeaux (Red)	Haut Brion	2005	Bordeaux (Red)	Pichon Baron	2010	Italy	Sassicaia	2015
Bordeaux (Red)	Haut Brion	2009	Bordeaux (Red)	Pontet Canet	2009	Italy	Sassicaia	2016
Bordeaux (Red)	Haut Brion	2010	Bordeaux (Red)	Pontet Canet	2010	Italy	Sotola	2015
Bordeaux (Red)	Haut Brion	2015	Bordeaux (Red)	Smith Haut Lafitte	2009	Italy	Tignanello	2015
Bordeaux (Red)	Lafite Rothschild	2005	Bordeaux (White)	Yquem	2001	Italy	Tignanello	2016
Bordeaux (Red)	Lafite Rothschild	2006	Burgundy (Red)	Armand Rousseau, Chambertin	2015	Rhone	Beaucastel, Chateaufeuf Du Pape	2015
Bordeaux (Red)	Lafite Rothschild	2009	Burgundy (Red)	Armand Rousseau, Chambertin Clos De Beze	2016	Rhone	Beaucastel, Chateaufeuf Du Pape Hommage J Perrin	2012
Bordeaux (Red)	Lafite Rothschild	2010	Burgundy (Red)	Comte Vogue, Musigny Vv	2014	Rhone	Clos Papes, Chateaufeuf Du Pape	2016
Bordeaux (Red)	Lafite Rothschild	2015	Burgundy (Red)	Domaine Clos Tart, Clos Tart	2016	Rhone	Domaine Jean Louis Chave, Hermitage	2015
Bordeaux (Red)	Lafite Rothschild	2016	Burgundy (Red)	Domaine Leroy, Clos Vougeot	2015	Rhone	Guigal, Cote Rotie (av price, production combined)	2015
Bordeaux (Red)	Latour	2000	Burgundy (Red)	Domaine Leroy, Vosne Romanee Beaumonts	2015	Rhone	Paul Jaboulet Aine, Hermitage Chapelle	2015
Bordeaux (Red)	Latour	2005	Burgundy (Red)	Domaine Ponsot, Clos Roche Vv	2016	Spain	Vega Sicilia, Unico	2009
Bordeaux (Red)	Latour	2009	Burgundy (Red)	DRC, Richebourg	2014	United States	Dominus	2015
Bordeaux (Red)	Latour	2010	Burgundy (Red)	DRC, Romanee Conti	2015	United States	Opus One	2015
Bordeaux (Red)	Leoville Las Cases	2005	Burgundy (Red)	DRC, Tache	2015	United States	Screaming Eagle, Cabernet Sauvignon	2015
Bordeaux (Red)	Leoville Poyferre	2010	Burgundy (Red)	Francois Lamarche, Grande Rue	2015			
Bordeaux (Red)	Lynch Bages	2009	Burgundy (White)	Coche Dury, Meursault	2016			
Bordeaux (Red)	Margaux	2000	Burgundy (White)	Domaine Leflaive, Chevalier Montrachet	2016			
Bordeaux (Red)	Margaux	2005	Burgundy (White)	Domaine Leflaive, Puligny Montrachet Clavillon	2015			
Bordeaux (Red)	Margaux	2009	Burgundy (White)	Raveneau, Chablis Montee Tonnerre	2016			
Bordeaux (Red)	Margaux	2010	Champagne	Krug, Vintage Brut	2004			
Bordeaux (Red)	Margaux	2015	Champagne	Louis Roederer, Cristal	2008			
Bordeaux (Red)	Mission Haut Brion	2005	Champagne	Louis Roederer, Cristal	2009			
Bordeaux (Red)	Mission Haut Brion	2009	Champagne	Moet & Chandon, Dom Perignon	2006			
Bordeaux (Red)	Montrose	2010	Champagne	Moet & Chandon, Dom Perignon	2008			
			Champagne	Moet & Chandon, Dom Perignon	2009			
			Champagne	Pol Roger, Sir Winston Churchill	2008			

Above: current composition of wines within the Liv-ex 100.

Bordeaux 2019 – UGC pulls off a coup – at a price

At the time of the last Review (May 2020) there was considerable doubt over the prospect of a meaningful en primeur campaign for the 2019 vintage. During June however, the Union des Grands Crus, representing some 120 top chateaux, developed a plan to organise the distribution of thousands of sample bottles to critics and key merchants around the globe. This was the trigger for a rapid release of wines from the end of the month, essential to ensure completion before the holiday season. As most in the trade expected, the campaign was supercharged by significant price cuts, reminiscent of the strategy over the 2008 vintage, launched during the last global (financial) crisis.

The formula of high praise from leading critics and merchants together with ‘no-brainer’ offer prices brought a flood of buyers to the table, both long-standing and new, and it encouraged a raft of traders that had not previously sold en primeur to join the party. Within its objectives the campaign was a resounding success, and for *arriviste* merchants it gave a much-needed boost to revenue. Leading en primeur players indicated that sales of 2019s exceeded those of the previous year, itself touted as a potentially great vintage. And it appears that sales could have been greater still were it not for the lower than usual volumes released onto the market by the most in-demand producers.

Vintage 2019 witnessed the re-emergence of the tranche system – a limited initial offer at a below-expectation price with a second release toward the end of the campaign at a non-discounted level. First Growths used this more as a price benchmarking tool than as a serious attempt to satisfy demand.

The level of retention of stock – 20-50% down on 2018 – is perhaps an understandable corollary to the level of price reductions. Arguably both sides of the market, buyers as well as sellers, are broadly satisfied with the outcome, however a consequence is that yet more stock is remaining in Bordeaux, unsold. Once again Bordeaux has not exploited the historically-proven potential of the en primeur system to distribute its very large production more effectively down the supply pipeline. And as this stock emerges in years to come in the form of ‘ex chateau’ releases, there is a real concern that price levels will bend downwards to accommodate it. As noted earlier the market for young Bordeaux is hardly robust today, and it is difficult to avoid the conclusion that producers are taking a bet on better times ahead.

Another consequence of the strategy followed by the leading players this year is that it has put significant pressure on those below in the pecking order, the ‘mid-caps’ as it were. It is relatively easy for a Lafite or a Pontet-Canet to release a proportion of its crop at a 25% reduction in price. With similar costs of production (it is often asserted that it costs just €20 to make a bottle of classed growth quality claret, irrespective of chateau) less prestigious names cannot easily afford such munificence. And at the base of the chateau pyramid, for a Cru Bourgeois for example, there is zero room to manoeuvre price-wise. 2019 will not have been a satisfying campaign for the majority of Bordeaux producers not represented by the UGC.

What is driving demand for Italian fine wines?

It is not just in the (UK) High Street where Italian wines are surging (second only to Australian wines and up 7% year on year over the last 12 weeks, according to Nielson), or the UK dining-out market where Italian wines now generate more revenue than any other country, including France. In terms of its fine wines, Liv-ex has reported that the Italian sector has grown to occupy over 14% of trade on the exchange in 2020, posting a compound annual growth in trading revenue of almost 30%. As noted earlier, the Italy 100 index is solidly in positive territory in 2020, over 12 months, and up 40% over five years.

In a number of respects Tuscany and Piemonte's successes share the same drivers as Burgundy over recent years – growing international awareness of leading producers, critical acclaim for top vintages (and there have been a good number since 2000), and crucially scarcity of the top wines. The quality structure based on individual vineyards and a clear classification system based on the *riserva* concept also have parallels in Burgundy. Global taste changes are also a pull factor as the consumer data shows. And curiously, current US tariffs do not apply to Italian wines, a bonus for producers right now.

What may come as a surprise is the depth of the market, as instanced by the number of wines that find it easy to match even Bordeaux top growths in price terms in top-scoring years. Below is a (non-comprehensive) list of producers and wines where values have risen to new heights in the last five years. Values are per bottle, trade price in bond.

Above £500

Giacomo Conterno, Barolo Monfortino Riserva
Bruno Giacosa, Barbaresco Asili Riserva (red label)
Roagna Barbaresco, Crichèt Pajé
Masseto, Toscana

Above £250

Bartolo Mascarello Barolo
Giuseppe Mascarello Barolo Monprivato Ca d'Morissio
Vietti Villero Barolo Riserva
Gaja Barbaresco San Lorenzo/Sori Tildin/Costa Russi
Giuseppe Rinaldi Barolo Tre Tine/Brunate
Bruno Giacosa Barolo Vigne Rocche Riserva (red label)
Burlotto Mascarello Barolo
Capellano Barolo Pie Franco
Soldera Casse Basse Toscana
Biondi Santi Brunello di Montalcino Riserva

Buying opportunities

Examples of the very high quality **2012 champagne** vintage are beginning to appear on the market. From a collector point of view these are a must however the investment potential is complex. When a sought-after wine, such as Philipponat's Clos des Goisses, is released, secondary market demand quickly bids the price up – to a level that rules out appreciation in the near term. 2008 Dom Pérignon did just this and the price curve is still flat. The less lauded 2009 vintage has already started to lift, a point to bear in mind. If you have access to a primary allocation then more power to you, use it. Especially if you can order magnums (or larger) with only the glass premium on top. These are always rare and, unlike prime Bordeaux where magnums now trade at a discount to bottles, a significant uplift is available from day one.

Giacomo Conterno only bottles the celebrated **Monfortino Riserva** when vintage conditions are favourable. It is late picked and the vintage chart may not recognise in the conditions at the very end of the season. 2014 was considered something of a lightweight in northern Italy however Conterno has released a Monfortino and at least one expert, Antonio Galloni of Vinous has awarded 100 points. Worth a buy, but don't pay over the official release price. This is another wine that is rapidly bid up and it may pay to come into the market once all of the clamour has abated. Magnums, currently pro-rata to bottles, look attractive. Must be OWC though.

If you somehow failed to notice the opening offers of Bordeaux 2019 in June and July you are likely to have missed out on the low-hanging fruit, especially at the top end. But there are still opening offer/near opening offer bargains to be had, of Lynch-Bages (£795 per dozen) or Brane-Cantenac (£495) for example. Mouton-Rothschild at anything below £4000 (it was released at £3600) would be a nap and the well-scored Angelus is keen still at its opening price of £2800.

Selling opportunities

We are bearish towards most young and part mature Bordeaux (2016 is an exception) and de-risking by selling a proportion of a holding is to be considered. Interestingly the 2006 vintage is flailing in the water whereas the lesser scored 2007 is quietly moving up. The unloved 2013 is, equally perversely, making a little ground. 2010 is still on the naughty step in terms of appreciation but our recommendation is now to hold in order to mitigate some of the pain you may have suffered.

At risk of repetition, now is the time to consider disposing of full cases of top level mature burgundy. They will sit on the shelf if full market price is demanded, but there are plenty of takers at a little below that. Don't be too proud to bank a profit!

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-cellaried stock.

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Cellar&Co Limited | Unit 3a Park Lane Business Centre, Park Lane, Langham, Essex CO4 5WR, United Kingdom

Tel +44 (0) 203 146 1280 | sales@cellarandco.com | www.cellarandco.com