Wine Market Review November 2020

The new normal may have arrived

The fine wine market is today truly international such that local circumstances do not have a large impact. Thus, while much of the UK has experienced a second lockdown, much of the world, including the important Asian market, is close to normal - within applicable COVID guidelines of course. Levels of trade remain below pre-pandemic levels but have recovered somewhat and we may be witnessing a new equilibrium: the new normal.

Livex indices have returned to positive territory over the quarter – all were Year-to-Date negative as recently as the beginning of August – and indeed the daily index, the Fine Wine 50 (ten vintages of First growth Bordeaux) is showing welcome momentum. For once this is more than a currency-induced phenomenon as Sterling has been on the rise since its slump in September; prices have risen despite this headwind. There is evidence of a pick up in Asia, and some merchants in the UK and elsewhere are once again calling for stock.

As a measure of recovery, a snapshot is provided by the Government's UK TradeInfo service. This shows that direct (mostly fine) wine exports from the UK to Hong Kong, the gateway to China, were £10.8m in September, not far from the £11.8m recorded in September 2019. In contrast, as a consequence of the tariffs imposed on the EU by the Trump government, exports of wine out of the UK to the US (again, mostly fine wine) fell by 60% in this timeframe to £3.5m. The important spirits segment fell 42% to £87m for the same reason.

Price stability in the fine wine market during the pandemic has led to renewed assertions over the investment potential of fine wines. The evidence today points to a store of value, perhaps akin to gold, though capital gains are still somewhat difficult to identify.

Liv-ex key indices 31st October 2020

Index 31/10/2020 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 50	344.17	1.41%	2.72%	0.32%	29.51%
Liv-ex Fine Wine 100	313.99	1.16%	3.78%	1.82%	30.68%
Liv-ex Bordeaux 500	318.72	0.75%	3.29%	1.70%	33.71%
Liv-ex Fine Wine 1000	352.47	0.29%	1.25%	-1.16%	43.01%
Liv-ex Fine Wine Investables	345.43	1.26%	3.77%	1.87%	32.19%

What does the 'new normal' look like?

If we are witnessing the new normal, its characteristics are distinctly different from pre-pandemic trading. With the diversity of trading options now available there is no source of all-market data apart from that provided by Liv-ex. This 'stock exchange for wine' is UK based however its membership is widely distributed, comprising Europe, the USA and Asia. Liv-ex is enjoying its highest level of monthly trade since 2011, the October figure being 31% up on 12 months ago. Bordeaux now represents less than 40% of trade by value, with growing representation of what were previously seen as 'alternatives'. USA wines, principally Californian, accounted for almost 11% of trade, with Italy at 15% and Burgundy at almost 20%.

Liv-ex 1000: sub indices

Index 31/10/2020 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 1000	352.47	0.29%	1.25%	-1.16%	43.01%
Liv-ex Bordeaux 500	318.72	0.75%	3.29%	1.70%	33.71%
Bordeaux Legends 40	386.1	0.82%	3.20%	0.31%	37.10%
Burgundy 150	532.16	-0.41%	-2.31%	-6.69%	75.19%
Champagne 50	417.11	-0.84%	5.91%	3.73%	54.39%
Rhone 100	196.34	0.52%	3.30%	1.97%	27.76%
Italy 100	308.98	-0.47%	4.20%	3.81%	42.87%
Rest of the World 60	285.22	0.93%	-1.56%	-3.19%	32.29%

Share of trade does not always reflect upward market momentum however and evidence points to stock disposal as much as stock accumulation. The breakdown of the Liv-ex 1000 index (see above), with a wider set of wine components, paints a somewhat different picture to the key indices. This reveals that Bordeaux generally is less dynamic than the First growth index would suggest and that prices for Champagne, Burgundy and Italy are down month on month, Burgundy remaining negative year to date. The aggregate picture is of modest change.

Whither Bordeaux?

Bordeaux produces more quality wine than any other region, indeed more than many wine producing countries. So it is no surprise that it produces more fine wines than any other region too. The wines have enviable longevity and global repute. It seems self-evident that high quality Bordeaux should be at the heart of any wine investment portfolio.

The last decade has not been kind to investors in Bordeaux however. The 2009 and 2010 vintages reached historic price heights and the subsequent correction has taken almost ten years to play out. Many stocks are still below the water line established by the en primeur campaigns. Chateaux have contributed to the relatively dull performance, withholding ever more stock at initial launch in order to manage prices to their advantage. True value takes many years to be established and for a genuine supply/demand relationship to drive the market.

Liv-ex recently published analysis of the buyer value of each of the last fourteen vintages – the relationship of current prices for four First Growths (Latour self-exclude its wines having left the en primeur system) to its measure of 'fair value' for each. (See chart overleaf). Fair value is calculated using regression analysis of market price vs key critics scores. For every chateau there is one vintage that comes out as the benchmark for fair value and all other vintages are distributed on, above or below the line, as seen in the chart. Thus, for all but one First Growth, the 2005 vintage is trading at a premium to 'fair value', probably on account of growing scarcity. Lafite is closest to fair value in most vintages on account of the tendency for its vintages to trade within a small price band. For these four chateaux, vintage 2018 is currently trading well above fair value and a correction is signposted. Conversely and to no surprise, 2019 is a vintage to watch – all four wines are currently below or well below fair value as dictated by provisional scores.

Two further trends are visible in the chart, which can be observed in the market today. The growing scarcity that applies after a decade, driving prices up; and the better than average value to be found in off-vintages – 2013, 2014 and 2017 in particular. Finally 2016 comes out as a buy vintage, especially Margaux. Other things being equal of course.

Post-Brexit Preparedness - what preparedness?

UK wine traders are on the receiving end of a barrage of emails from HMRC and other official agencies providing warnings, guidance and advice regarding imports and exports to the EU after 31st December. At the time of writing, no agreement over trade terms has been reached with the EU and much of the messaging is presaged on a no-deal situation.

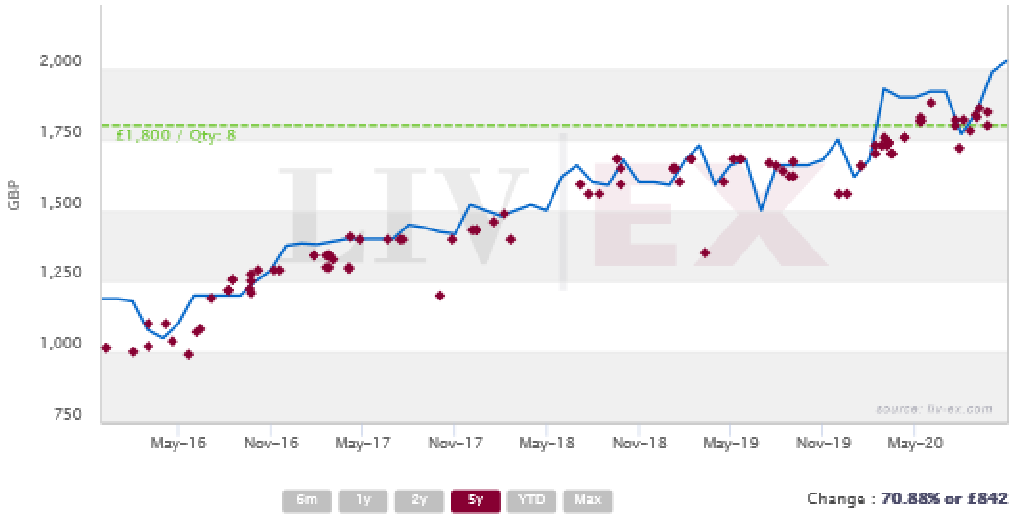
The issue of reversion to the use of manual VI-1 forms to accompany every consignment (the current efficient Electronic Accompanying Document used throughout the EU being no longer valid for obvious reasons) has been flagged up, including in previous Market reports. Ditto the issue of importer labelling, a requirement for all wines imported post Brexit into the UK from the EU, and for British products sold into the EU. Implementation of both of these 'trade drags' will take place, but in both cases a period of grace, on this side of the channel at least, has been agreed. VI-1 forms have been deferred for six months, possibly to allow for further consideration, and importer labelling has been batted away until September 2022.

An interim process for facilitating wine exports after the official Exit date of 31st December 2019, known as Transitional Simplified Procedures, requiring merchant registration, was introduced in 2019, but withdrawn in January of this year. It may be re-introduced.

And we now know that British mainland merchants wishing to sell into Northern Ireland will, in future be obliged to complete VI-1 forms, effectively treating that nation as part of the EU. The list goes on.

Shipping agents are sanguine that, after a period of bedding in, things will work out, at least in the immediate weeks following 1st January. But the long term impact of these frictions is still unquantifiable. At this stage we have no advice to offer to our suppliers in the EU as future requirements will be dependent on the outcome of the Government's trade negotiations. We have no knowledge, for example, of any transitional concessions that may be applied across the Channel.

Buying opportunities



Leading Italian wines have begun to feature more frequently under the heading of Buying Opportunities as they become better known on the global stage. The crown jewels include Giacomo Conterno's **Monfortino Barolo Riserva**, produced in selected vintages only, as well as other specialised Piemontese wines. Tuscan wines are now joining the elite, wines such as **Sassicaia, Masseto** and **Solaia** demonstrating longevity alongside desirability. The clamour for new vintages, especially those privileged with top scores from Antonio Galloni or James Suckling, can serve to conceal the merits of earlier, sometimes lesser vintages. The chart above, for **2009 Sassicaia**, 'only' a 96pt wine, shows the sort of momentum that gives a warm glow to investors.

Referring back to the Fair Value chart previously discussed, the inexplicably low price of **2016 Margaux** and especially of **2012 Haut Brion** relative to trend should give food for thought. The latter is currently selling for £3400, and the price graph is finally beginning to tick up.

Selling opportunities

2018 Lafite's commemorative bottling does not appear to have moved the market as much as some pundits anticipated. Prices have risen but not into the stratosphere. More like a hot air balloon than a rocket, one might say. The wine is only now being distributed however and there is the possibility of upgrading when final scores are announced in spring of next year. Owners might consider taking profits at that point if it received a 100pt accolade: it would certainly result in the wine attaining greater altitude.

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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