Wine Market Review February 2021

Currency edges values up while demand is hard to pin down

For many merchants much of the last quarter was dominated by the release of the 2019 burgundies – an undersized harvest but with positive critical acclaim. Despite some notable price increases demand for allocations was strong, however aside from the clamour for the new wines the market scene was hard to read. Liv-ex indices ticked up into the new year, but dealers in the UK and Europe have reported sluggish sales, only leavened by an Asian-led lift in January. The modest rise in key indices can be more easily explained by the fall in Sterling – down 3% against major currencies between mid November and mid December – than by market momentum. As the clouds of Brexit uncertainty lifted, Sterling subsequently rose against both the Euro and the Dollar, a climb that continued through January and into February, currently 5% above the December low.

Both Bordeaux 2019 and Burgundy 2019 campaigns were likely beneficiaries of personal liquidity built up during the lockdowns of 2020. By the same token so too is the strong demand for all things Italian. After four good/great vintages in a row (2015-2018) confidence is strong and availability currently good. While Liv-ex's Italian index fell in January, trade on the exchange was at an all-time high, both in value and in the spread of wines bought and sold.

Aside from new vintage interest, Burgundy more generally has enjoyed a recovery from its lacklustre performance in 2020. Blue-chip stocks are in demand and availability is once again tight.

Capital markets are experiencing a high level of liquidity, leading to what many commentators regard as a potential bubble in asset prices. With bond rates still on the floor appetite for risk is rising in the hunt for half-decent returns. Logic suggests that investors may turn their attention to alternative asset classes, including fine wine. History does not always support this view however: wine investment has often been seen as a luxury activity, something to entertain once all other boxes have been filled. Sentiment towards wine remains globally positive but this has yet to translate into market movement.

Liv-ex key indices 31st January 2021

Index 31/01/2021 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 50	347.08	0.03%	0.03%	3.90%	28.94%
Liv-ex Fine Wine 100	320.88	0.59%	0.59%	6.29%	33.22%
Liv-ex Bordeaux 500	322.2	0.45%	0.45%	4.91%	33.44%
Liv-ex Fine Wine 1000	362.9	1.81%	1.81%	4.86%	46.45%
Liv-ex Fine Wine Investables	351.74	0.52%	0.52%	6.31%	33.44%

Welcome to the world of tasting via Zoom

The pandemic and consequent lockdowns has had a profound effect on the way wine is bought and sold, and indeed tasted. Merchants specialising in supplying the on-trade (licensed premises) have been obliged to pivot towards the consumer market, principally by firing up their on-line propositions. They are in a fierce digital marketplace, fighting for share against established B2C players that have had much longer to hone their websites, e-commerce and marketing operations. Wine 'clubs' in one guise or another have been launched by retailers looking for an effective way of securing regular purchasing by the case, often reinforced via social media actions. And Zoom tastings, presented by a wine producer, wine expert or retailer, enabled with small format sample bottles delivered by courier, are proliferating. Corporate events involving wine tasting are similarly delivered on-line.

Further back up the supply chain new web-based trading platforms are emerging, connecting producers and larger dealers with professional buyers and intermediaries. Liv-ex, a well-established global player in this field, has taken this model one stage further by enabling member merchants to integrate the millions of Pounds of stock listed on the exchange, across hundreds of product lines, into their own on-line offerings. This new channel, a sophisticated electronic variant of broking, has seen substantial growth in the last 12 months.

On-line exchanges are an inevitable development in the world of the internet and are likely to be of growing significance in the short and medium term owing to COVID related travel restrictions. As things stand it is very difficult to know when trade buyers (as well as wine merchants and wine critics) are going to be able to practice their craft on the ground in wine producing regions.

And if COVID has impacted on commercial practices, Climate Change is re-enforcing many of these developments. Intercontinental travel to visit producers and to taste new wines, is currently off the agenda for obvious reasons. But, post COVID, the carbon footprint of the wine professional is likely to come under increasing scrutiny just as it is many other sectors. Virtual tastings, a technology honed during the pandemic, may well become the staple diet of the working wine expert.

Liv-ex 1000: sub indices

Index 31/01/2021 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 1000	362.9	1.81%	1.81%	4.86%	46.45%
Liv-ex Bordeaux 500	322.2	0.45%	0.45%	4.91%	33.44%
Bordeaux Legends 40	388.05	0.53%	0.53%	3.64%	36.41%
Burgundy 150	550.15	1.88%	1.88%	2.25%	85.45%
Champagne 50	429.04	1.07%	1.07%	8.76%	59.03%
Rhone 100	202.01	1.25%	1.25%	7.37%	29.02%
Italy 100	320.88	-0.51%	-0.51%	7.39%	47.80%
Rest of the World 60	285.74	0.19%	0.19%	-0.41%	29.48%

Prospects for Bordeaux' new baby

In coming years Bordeaux' vintage 2019 may be seen as the confounder, a distorter of markets. The previous vintage, 2018, was a large and bonny baby, abundant and well-received by critics. 2018 delivered opulent, head-turning wines, where paradoxically freshness seemed to have been delivered alongside richness. At the time of its release Bordeaux '18 appeared to be priced correctly, though only in the context of the chateaux' policy of restricted release volumes. 2019 was also a good-sized vintage, and at least equally well received by critics. Style apart, the difference was in its pricing. The dislocation and distraction of COVID prompted producers to offer a first tranche at a substantial discount to the preceding vintage. Whilst volumes made available at the advantageous prices were equally restricted, sales by value exceeded those of the previous year.

We know comparatively little at this stage of the size of the 2020 Bordeaux crop and of its quality – though one classed growth has described the wines in cask as 'small berried and concentrated' yet 'easy to enjoy in youth like 2009'. Enthusiastic praise, yet given the COVID-related labour challenges experienced during the growing and harvesting seasons, variability from one estate to another may be a risk. With the 2020 vintage, chateau proprietors are facing a similar quandary to last year's over allocations and pricing. The Union des Grands Crus has pushed back the week of trade tastings by a month to the end of April and has accepted that samples must be sent out to key tasters once again. This decision at least confirms that the wines will be offered for sale in late Spring.

In normal circumstances a small, high quality crop, should it eventuate, would suggest ex-chateau pricing back to 2018 levels, ie 25-30% above 2019. Now in bottle, definitive scores for the 2018s are however crystallising marginally down against initial evaluations. It must be likely therefore, that producers will pitch prices between 2019 and 2018, but retain a larger proportion of the (likely smaller) crop. Value-wise a difficult equation for buyers, but quality-wise less so. 2009 is an excellent role model.

Grappling with Great Britain, the United Kingdom, The European Union and the Rest of the World: welcome to the post-Brexit world

The collective sigh of relief that was emitted when the trade deal with the EU was finally agreed, just before Christmas, has been replaced with a mood of disgruntlement as the new reality is understood. The die was cast of course when the decision was made, several years before, for the UK to resign the Single Market and the Customs Union. The trade agreement could only tinker at the edges. But tinker it most certainly has, and the fallout is now becoming tangible.

The good news, or according to one’s perspective the least bad, is that fine wine dealers are experiencing relatively low levels of disruption at present. Our freight forwarders are successfully navigating the new arrangements and wine is arriving from the EU within reasonable timeframes. Administrative complexity has gone up and contingent costs have been passed down the chain, but life goes on. Furthermore the imposition of customs duties on imports from the EU, which are such a relatively small dimension of the value of fine wine, will hardly be noticed. Shipping wine back to the EU is already a greater challenge, and likely to become harder still over time as ‘Third Country’ rules are increasingly applied by EU customs authorities. Freight from Great Britain (excluding Northern Ireland) will be treated just as freight from, say, New Zealand, whether of original EU origin or not. All of this is an inevitable consequence of leaving the Single Market.

Northern Ireland is in a weird limbo, with a near impenetrable border with the rest of the UK, for wine at least, but with a ‘no-change’ border with the Republic; and so it enjoys seamless (direct) movement of wine to and from the EU.

Actually we are in a honeymoon period, with more durable (read restrictive) arrangements being applied in stages over the coming two years. Certificates of origin, sanitary documentation and shipper labelling are all coming our way. The burden of administration will favour larger, homogeneous shipments. Mixed containers may be found to be unworkable, never mind mixed pallets. Most of these obstacles will be applied only to consignments exceeding 100 litres (eleven cases) however, so micro shipping of high value wines may remain viable.

Buying opportunities

Investors in the financial markets disappointed with high asset prices and meagre returns may well look to wine as a low risk option. Because of its liquidity and renown, Bordeaux has long been the pre-eminent choice, the expectation being that all blue-chip wines would appreciate over time. This view has been somewhat undermined in the last decade with the poor performance of wines bought en primeur, a consequence some would say of the market tactics of the major producers. Increasingly it appears that such wines can require up to ten years to find their true level in the market - often treading water or even depreciating until that point - before beginning their long term ascent. Less fabled vintages such as **the quartet 2011-2014** have reached that inflexion point inside ten years and are likely to move steadily if gently upwards as corks are pulled. Ditto 2008.

Bordeaux 2016, arguably the finest vintage of the decade on the basis of across the board quality, crop size and pricing, is, true to contemporary form, running flat. It is a supremely safe long-term buy, but actual appreciation is likely to be some way off.

Selling opportunities

While a number of elite estates are once again leading the Burgundy market forward, a handful that reached stratospheric levels have seemingly found their limits, for the time being at least. Owners of cases from **Comtes Liger-Belair**, **Emmanuel Rouget** and **Jean-Claude Ramonet** should consider whether this is the moment to move surplus stocks on.

Demand for the Villages and Premier Cru whites of **Domaine d'Auvenay** (the property of co-owner of Domaine de la Romanée-Conti) has never been greater, nor prices higher. If you are lucky enough to have a spare original case, you will find a queue of willing buyers for it.

One mature Bordeaux vintage that goes against the grain of gradual price growth is **2006**. Recent analysis by this company has shown that year on year values are falling, and this is a candidate for disposal. By contrast the softer (and less well scored) 2007 vintage is on target, showing a modest rise in 12 months. An example of the real-world wine economy perhaps, where drinkers are favouring mellow evolution over structure and bluff.

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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