Wine Market Review June 2021

Market resilient but growth patchy

As seen from the UK, the wine market is showing a number of distinct streams. On-line shopping for home consumption is still booming, though unsurprisingly off its peak of last year. With restaurants beginning to open up after the lockdown, re-stocking and on-premise sales are driving forwards. The fine wine sector remains somewhat polarised, with demand focused on a narrow range of high value labels and well-scored vintages. The middle ground continues to be a hard sell. Discounted offers persist. Taken in the round, these elements point to a market slowly returning to normality.

Liv-ex indices are showing steady upward movement since the start of the year, evidence in support of a growing confidence. Merchants are achieving turnover targets via a small number of high and very high value sales to deep-pocketed collectors, suggesting a wealth effect ultimately linked to the quantitative easing exercises of central banks. There was a feeding frenzy in April when the 2021 releases from Burgundy's Domaine d'Auvenay were put onto the market, with prices for the doubling almost overnight.

Bordeaux too is witnessing a revival after a lean 12 months, with demand for First Growths stiffening. The highly scored 2016 vintage is beginning to close the gap with its peers. That said, the 2020 vintage campaign currently appears not to have set the market alight. Despite claims of a third great vintage in a row quality is hard to read with disparate scores, and releases, whilst orderly, are running at a slower pace than expected.

Shipping both into and from the EU is increasingly challenging, some hauliers refusing to carry wine loads on account of changing documentation requirements on both sides of the Channel.

Liv-ex key indices 31st May 2021

Index 31/05/2021 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 50	360.43	0.41%	3.88%	9.35%	26.46%
Liv-ex Fine Wine 100	335.25	0.72%	5.10%	13.16%	31.83%
Liv-ex Bordeaux 500	331.01	0.41%	3.20%	8.56%	31.71%
Liv-ex Fine Wine 1000	372.78	0.76%	4.58%	8.97%	45.74%
Liv-ex Fine Wine Investables	363.24	0.38%	3.80%	10.59%	30.99%

Indices in positive territory all round so why are some wines sticking?

Not only are Liv-ex's key investment indices showing growth over twelve months, averaging 10%, but so to are the regional indicators. With an appreciation of Sterling against the Euro of 3.6% over the same period, tending to work against rising values, the fine wine market must be seen, as a minimum, as healthy. Yet this is not the tide that lifts all boats. A recent client review of a selection of mid/upper Bordeaux wines, grouped in vintages between 2003 and 2008 reveals that none of these vintage segments exceeded 10% growth *over 24 months*, and three cohorts, 2004, 2006 and 2007, showed negligible overall change.

Just as with Liv-ex's indices, there was significant variation between wines within a cohort – 2005 Pétrus up 22% whereas Léoville Las Cases made only 3.5% ground and Lafite less than 1%. The number of wines in each vintage group, between 10 and 20, was not sufficient to justify a hard and fast conclusion. Nevertheless the picture for mid-mature vintages appears less promising on the face of it than for the wines that characterise most of the Liv-ex indices.

For most of its indices Liv-ex measures younger wines – only the last ten physically available vintages of First Growths feature in the important Liv-ex 50 series for example – and with reason. There is good availability in the market and such wines trade frequently as a result, giving credence to the data.

Why might mid mature vintages be lagging? A reasonable hypothesis is that consumption that is the ultimate driver of the market – corks actually pulled –– favours younger vintages more than it used to. It has been a fact of life for some years that restaurants around the world serve ever younger vintages owing to their immediate availability. It may also be the case that the sort of consumer that is driving today's fine wine market, typically younger and likely Asian, is happy to drink younger vintages. Mature vintages may be becoming the exclusive province of the specialist collector, someone who is very selective over label and vintage. Mid-mature vintages, especially if second tier reputationally, fall between the stools.

Liv-ex 1000: sub indices

Index 31/05/2021 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 1000	372.78	0.76%	4.58%	8.97%	45.74%
Liv-ex Bordeaux 500	331.01	0.41%	3.20%	8.56%	31.71%
Bordeaux Legends 40	401.42	0.94%	3.99%	9.36%	36.44%
Burgundy 150	575.77	0.40%	6.62%	9.93%	88.91%
Champagne 50	445.48	2.12%	4.94%	13.23%	60.12%
Rhone 100	208.3	0.04%	4.41%	9.05%	30.76%
Italy 100	328.85	-0.10%	1.96%	9.23%	49.63%
Rest of the World 60	303.67	3.06%	6.47%	6.65%	35.25%

Are you buying Bordeaux 2020?

The 2019 primeur campaign was an unexpected success, largely due to market stress pricing. Merchants may have called for similar prices for 2020 - but more in hope than expectation, especially given the smaller vintage size. Cheval Blanc's early May launch of its 2020 at 3.5% above the release price of its 2019 took the market by surprise on two counts. First, the release date, much sooner than expected given that critics scores were not fully circulated, and then the price itself, apparently acknowledging the on-going pandemic effect. No surprise the wine sold out. Some of Cheval Blanc's peers appear to have been bounced into releasing as a consequence, Pavie at +3%, Angelus at +13%. This latter move has not met with universal acclaim and there is now the firm expectation that the measure of value is the differential, positive or negative, with the release price of 2019, rather than, say, of 2018.

Thus far the campaign has not been a runaway success, suggesting that Cheval Blanc was right to price cautiously despite the positive reception of the wine. Producers talk of 2020 as the third in a consecutive triumvirate of great vintages, however the critics do not wholeheartedly agree. There are heights of quality – Right Bank merlot for example – but as the picture comes into focus it is clear that 2020 is a more heterogeneous vintage than its predecessor. There is a wider than usual spread of scores for individual wines, especially in the middle and lower ground. Additionally, with its "extreme" growing season – significant drought followed by significant heat, the character of the vintage itself is hard to typify, and therefore hard for buyers to understand.

At the level of the top wines, en primeur is an exercise in marketing more than an effort to clear the cellar and it remains to be seen where the remainder pitch their prices. Despite its heterogeneity however, 2020 is clearly a fine vintage for a lot of producers, in the same bracket as those fine vintages that preceded it. If prices stabilise at or around the 2019 level we may be seeing a reset - the establishment of a new, lower, benchmark for the value of Bordeaux. Alternatively there may be push-back against this prospect. Lafite's release at 20% above 2019 is just that.

A note on the drivers of wine investment

The resilience of the fine wine market through the pandemic, as exemplified by the reported stability of prices during 2020 and the measured uplift so far in 2021 has encouraged renewed commentary in the press, often quoting merchants, on the merit of wine as an alternative investment.

Proponents of wine-as-an-investment lean heavily on the notion that fine wine – one that has ageing potential – becomes both more desirable and more scarce as it ages. It's not about picking winners, it's about diversification. The value of a sufficiently diverse portfolio cannot but rise, according to this proposition.

The former property, increasing desirability, is subjective; and while it will be true for some consumers it may not be for others (see earlier discussion of the demand for mid mature vintages). The latter property, that of the scarcity that comes with age, is also far from a truism, on account of cross-substitutability. A fine Bordeaux from say, 1989, is to a greater or lesser extend substitutable with another fine 1989. The scarcity of the first wine is, to that extent, conditional on the scarcity of its peers.

Cross-substitutability also exists across time. In terms of economic forces, many other vintages can be said to be substitutes for vintage 1989, their supply impacting on the scarcity value of 1989. And it goes further. For many drinkers a Supertuscan red wine is a viable substitute for a Bordeaux. The price/availability of Supertuscan wines influences the demand for Bordeaux wines, and vice versa.

The economist would state it thus: demand for any single mature wine is somewhat elastic, influenced not only by price and availability, but also by availability and price of substitutes. And there are a lot of potential substitutes, so many that the original axiom holds little water. The same economist would argue that it is the global pool of fine wine (of all ages) that needs to be measured, and that measurement set against the global field of fine wine buyers. If the pool grows, or the field shrinks, fine wine values must go down, and vica versa. Happily for the sector, it seems the global field is once again expanding.

Buying opportunities

It is difficult to make an investor case for buying **Bordeaux 2020** at this stage, except where a prestige wine is released close to the 2019 level. **Cheval Blanc** is the exemplar, thus far. The last decade has shown that the best time to acquire such stocks is after 5 years, once the values are better understood. At risk of repetition, **Bordeaux 2016 is** a strong buy recommendation. Currently widely available, strong in all communes and at prices that have yet to take off since being released in 2017 en primeur. Top wines are nowhere near their inflexion points but the hawks are already circling.

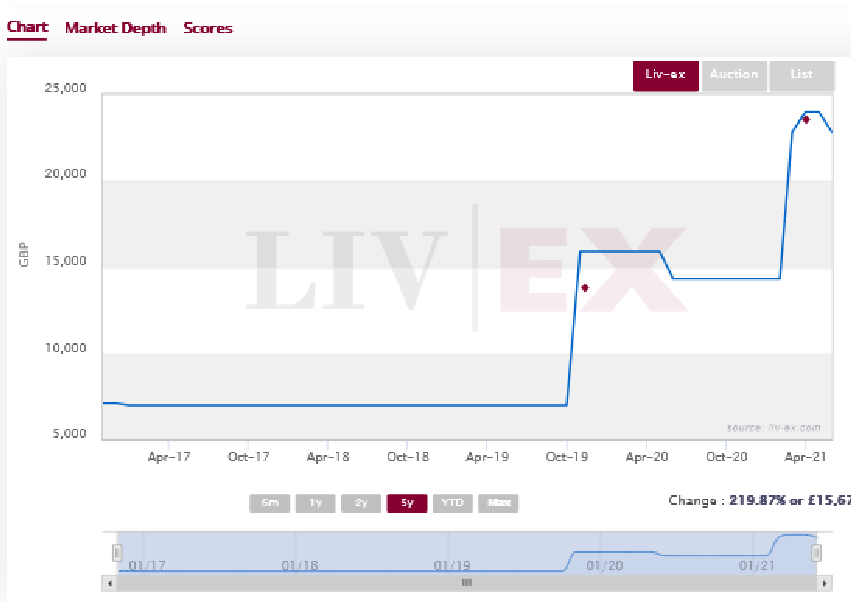
Dom Pérignon P3 is cited overleaf as a strong sale recommendation on account of its elusiveness. The corollary is that future releases are likely to follow the same trajectory for the same reasons and allocations should not be turned down.

Liv-ex's Champagne 50 index continues to make good ground**.** Luxury Champagne cuvées across the board remain a strong prospect, with continued strong demand for the younger vintages of **Dom Pérignon, Roederer Cristal, Krug, Bollinger RD, Taittinger Comtes de Champagne** and the like, and clear appreciation potential. **Salon's** drive is slowing yet remains a viable prospect for long term acquisition.

Younger vintages of **Guigal "Lalas" (Landonne, La Turque, La Mouline)** are often overlooked. However, the best vintages of the modern era, such 2010 (c.£300 per bottle), offer significant value against the strongest vintages of the 90s (£600+/btl) and 80s (often exceeding £1000 per bottle).

Selling opportunities

Do you have a case of **Dom Pérignon P3**, the re-branded ultra late-disgorged (after 30 or so years) bottling? It is also ultra-rare and there is almost no market stock of the few vintages released thus far. The chart below, for 1990, speaks for itself. The wine is now trading at the equivalent of £24,000 a dozen.



Domaine d'Auvenay appears to be reaching its sky-high ceiling, with regular buyers finally starting to turn down still-rising offers. Sell before the market loses interest, and hopefully reap some very healthy rewards

Original cases of **Chateau Rayas** continue on an upward trajectory; initially steady, fast-paced in 2021. As one example the 2009 vintage is up c.60% since June 2020. But how far can it go?

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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