



WINE SELECTION SIMPLIFIED



Market Report August - October 2009

Market Report:

FTSE 7.9%
DJIA 5.3%
GBPEUR (-)4.3%

Isn't it all just a little bit 2007? The continued flight to risk assets has driven capital markets through the last quarter even with the perennially tricky month of October to contend with. Equity prices in both the UK and Europe have hit yearly highs and with the exception of the UK, most of the major western economies have exited recession and returned to growth, the US GDP number of 3.5% being of particular note.

With bank bonus pools (at least for the independents,) approaching multi year highs also, one could be forgiven for thinking we hadn't just experienced the most protracted period of capital destruction since the great depression; however, as always, the devil is in the detail. The continued decline in the value of the dollar and the perpetuation of an extremely crowded dollar carry trade has led to some uncomfortable stats. Asset price correlations are back to similar levels as late 2008, an indicator of potential of major market events that is similarly implied by highs on the VIX index. Even the previously bullish Goldman Sachs have treated the recent US GDP numbers with uncommon caution stating that virtually all of the growth reported for the third quarter could be attributed to stimulus programs, most of which are non-recurring. With bank failures in the US at 26yr highs and a continued reduction in corporate lending (and the broad M3 money supply in general) it seems difficult to see where companies can generate real growth over the next 2 quarters.

Wine:

Trading in the wine market remains strong and increasingly diversified. Sales of Lafite (inc Carruades) have declined by almost 20% as a portion of sales by value over a period that has seen overall trade increase by a similar number. Mouton remains in second place and while sales have only grown modestly over the quarter, demand from new markets is increasing, particularly from new collectors looking to acquire historic vintages and collections.

More interestingly, we note a real uptick in both Chateau Margaux and Petrus; the former focused on mature classic vintages (82,83,86,90,) the latter a full spectrum including 2 separate vertical collections for private clients in the Chinese mainland. After a period in the doldrums it is very encouraging to see strong sales for Chateau Margaux and particularly the very consumption driven pattern we are witnessing at the moment. The growth in sales for Petrus perhaps indicate a general increase in demand for super premium items, something which perhaps is not surprising considering the bonuses touched on in the introduction....

Of the top sellers by value for the month, the top 2 positions (LAFI00, 06) underline 2 distinct trends, and ones that are becoming familiar - Buy the best, then buy the best value. With a wide basket of Lafite vintages soaring an average of 19.75% over the quarter, it is clear that the 2006 returning just 11% is now the relative value Lafite trade de jour. That much of the inventory that was readily available earlier in the year has now been worked through makes a strong case to re-align. With this in mind we are taking some profit on Lafite 1998 and 2002 and looking to add Lafite 2006. We are also covering our bases by adding a little Mouton 2006, still the top rated contemporary vintage and one with good trade flows into Asia.

Looking at the macro picture, the good times being enjoyed by those in the financial sector could point to prosperous times ahead for the wine market. Traditionally much of the UK broker business has been directed at the City of London and after the miseries of late 2008 it seemed that the hole left by its departure may not be filled for a while. With a very promising 2009 vintage around the corner it seems that some of these City earnings, however transitory, are destined to flow back into wine and indeed provide some welcome competition for the now ubiquitous Asia bid....

All in, we expect continued but potentially more moderate growth over the next quarter into the new year. We expect better returns in Lafite for vintages such as 03/06 than for 02/04/00 and we believe there is potential for a more significant rally in cheap non-Lafite 1st growths and top mature vintages, with Mouton expected to return the strongest numbers.

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