Fine Wine Investment Report: Q1 2016

BI Investment Group, June 2016

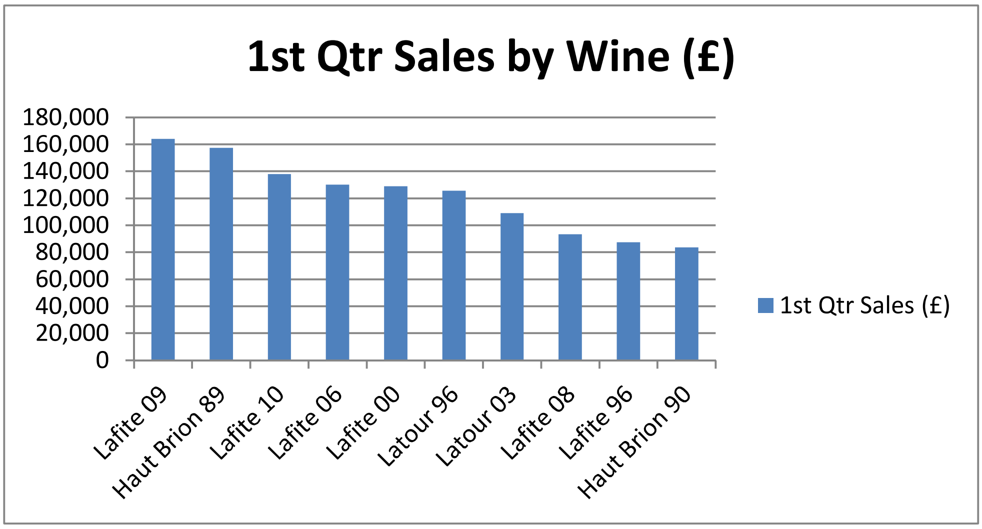
- **LiveTrade Index up 5.4% for Q1**
- **Bordeaux sales steady at 55% of total turnover by value**
- **First Growths rise from 33% to 39% of total turnover by value**
- **Lafite jumps to 25% of total turnover by value**
- **'Sub-prime' vintages such as 2007, 2011 and 2012 strongly in demand in Asia**
- **But supply squeeze, 'Brexit' and EP all still to play out over Q2/3**

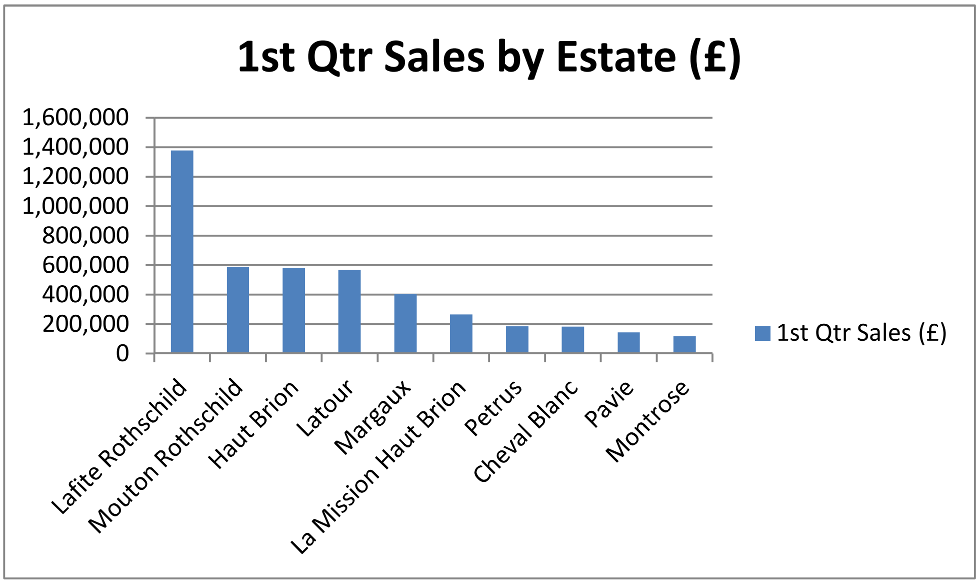
Q1 2016 in summary

Building on a steady and recuperative 2015, 2016 opened with a bang as strong demand and restrictive supply pushed the BI LiveTrade Index up 5.4% for the quarter. Not since the (short-lived) recovery of early 2013 have we seen such robust price appreciation. However, given the experience of recent years and the fact that Q1 is typically the strongest period of the year, as CNY and post-Christmas re-stocking drive activity, caution is certainly still merited. That said, if the all-important confidence that currently suffuses the trade is to be believed, the current positivity has very much more the feel of a sustained bull-run than the dead cat bounce of 2013.

The Bordeaux Market in more detail

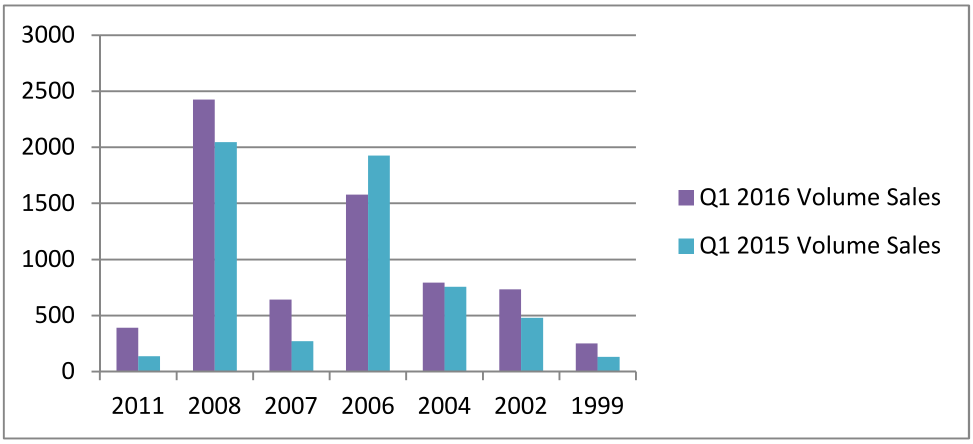
Interestingly whilst Bordeaux prices had much to celebrate its share of total turnover, at 55%, was actually down nearly 9% on the year previously. Yet, within the Bordeaux sales it was the First Growths that had the most impetus moving up as they did from 33 to 39% by value. A jump once again led by Chateau Lafite which bucked the declining Bordeaux trend by almost doubling Q1 2015 sales and taking its share of total Bordeaux trade to a whopping 25%. Haut Brion also enjoyed a meaningful jump whilst Latour, Margaux and Mouton fell back sharply with like-for-like sales falling by 12-15%. Away from the First Growth Pavie, Montrose and Leoville Poyferre all enjoyed a strong Q1, helped in no small part by the resurgent interest in the 2009 vintage.





Indeed whilst on the theme of vintages, it is interesting to note the shift in buying between Q1 2015 and Q1 2016. In 2015 vintages younger than 2008 represented just 15% of total LT turnover whilst for the same period in 2016 that number had leapt to 28%. A non-negligible component of this change can be attributed to the atypically high volume of trade in the 2005 vintage back in Q1 2015 but the proportion of young vintage sales in Q1 2016 remains significantly above the average of 2015.

On the back of this demand we saw some quite dramatic price jumps with the like of Lafite 11/12, Mouton 2003/07, Pavie 08 Montrose 07 etc posting quarterly returns of over 15%. But this was in reality a very broad based levitation with over 60% showing 5+% and near 20% chalking up 10+% gains. At the other end of the spectrum Latour 05, Cos 05, Cheval 98 and Durcu 09 all failed to move or slipped slightly. Looking on a 'brand' basis, Mouton was the clear best in class with a bounce of nearly 10%. Lafite and Haut Brion were not too far behind materially ahead of Margaux and Latour. Away from the 1sts Lynch, Montrose and Mission all had grounds for celebration whilst Cheval, Ducru and Petrus all lagged well behind. Also worth of note is the preponderance of 'off-vintages' in the winners' paddock as 2012, 2011 and 2007 were strongly in demand. To see these once unloved vintages at the top of the class speaks to confidence of the market in general and the on-trade focussed Asian market in particular.



<u>But before we start popping the corks...</u>

Supply squeeze

One of the key features of the recovery can be seen as both a boon and a weakness. A boon in that the limited supply – which has created one of the most challenging purchase environments of the last decade – will certainly help to lift prices, but it will do so at the expense of turnover. There is good reason to believe that the sharp re-bound in prices over the past few months has been as much about a short-term supply squeeze (a result of stock holders responding to rising prices by withdrawing offers) as it is increased demand. To illustrate this: Q1 turnover on LT fell over 15% despite the more positive trading environment. On balance we don't see this as a major risk however as the large pools of investment stock, which we were able to readily dip into, have been very largely dispersed over the past 5-6 years.

FX and Brexit

An often under-appreciated factor, exchange rate behaviour is extremely important to wine prices, as illustrated in the correlation between movements in USD:GBP and wine indices. The recent weakness of GBP vs EUR/USD has certainly been a fillip to wine prices as purchasing power of non-GBP markets has been enhanced. With a Remain vote we could expect GBP to strengthen and prices to drift a little. In contrast a Leave vote would see GBP likely fall markedly (increasing wine value in FX terms) but, if the economic community are to be believed, it would be accompanied by a serious negative macro shock that would do no favours to either local or regional confidence.

En Primeur

The annual jamboree has been a 'momentum factor' in recent years (successful when the market is hot and dire when the market is slow). Whilst we remain optimistic that the combination of a top-flight vintage, strength of pent-up demand and sensible pricing from producers will be enough to ensure a strong campaign, the experience of recent years suggests we should not be taking this for granted.