

Fine Wine Investment Report: H1 2018

BI Investment Group

- Overall BI sales up 6.1%
- Bordeaux drops below 50% of total trade
- However, First Growth sales up 10% led by Haut Brion surge
- EP both declines overall and narrows in breadth of Chateaux interest
- Stellar showings for Spirits, US and Champagne

H1 2018 in summary: Strength in diversity

The second quarter rounded out an excellent start to the year with the twin themes of robust demand and increasing diversification again in evidence. If you wish to venture no further than this brief summary then the following will be instructive:

Top 20 Selling Wines - H1 2017 and 2018				
Year	No. EP wines	No. Lafite vintages	No. non-First Growth wines	Price increase on prev. year excl EP
2017	8	4	6	32%
2018	3	3	9	18%

Looking at activity on a regional basis, the star turn was claimed by the premium spirits trade as BI like-for-like sales almost tripled for the period, with the house favourites of Macallan and Glenfarclas dominating the flow. Whilst the geographical location of the buyers was impressively broad there was a predictable dominance by Asian buyers at the most prestigious end of the spectrum. Moving from a comparatively small base this super-high-focus segment of the fine beverages market has been 'hot' for several years but on this evidence it shows no signs of tracking towards any equilibrium. In cask, flagon, or bottle, strong demand and a fragmented secondary market make this a sector on which to keep a close eye.

On more familiar vinous territory there were also stellar showings from the US and Champagne. The former was clearly the most improved wine region with feverish activity at just about every level. However special mention must go to Dominus, Harlan, Opus One, Screaming Eagle and Sine Qua Non, all of which sold well – and especially so in contemporary vintages. Indeed, one would be hard pressed to identify a more 'in-demand' label than SQN, which seems to have found a cult-like following across geographic and price borders. In the more mainstream terrain of Champagne, Roederer, Philipponnat, and Bollinger waxed as Taittinger waned somewhat. With an average selling price of a little over £100 per bottle, Champagne is well below the BI average IB price of £170 (excluding EP) but with volumes that dwarf all but Bordeaux.

Another of the major success stories of recent years, Burgundy also echoed the themes of depth and diversification with a strong bounce in turnover coupled with a stretch in the range of top producers. Rousseau, Meo Camuzet and Dujac saw particular focus, while the stretched supply side of DRC and Jayer continued to support price appreciation for those names. There is no sign whatsoever of demand falling, even where prices have re-positioned to significantly higher levels, with alternatives simply lacking .

Focus on Bordeaux

Turning to the giant of Bordeaux there are again some interesting, if less dramatically expressed, themes at play. Excluding EP, trade notched up some 6% but fell below 50% as a proportion of total sales for the first time on record chez BI. By way of context, a little under a decade ago, in the height of 2010/2011, this number topped out at 80%. One can speculate as to whether the pendulum has swung too far but the present distribution and growth – much more consumption driven in Asia than it was previously – certainly feels far more balanced, organic, and ultimately sustainable. First Growth sales were up 10%, driven by a phenomenal run for Haut Brion which, for the first time in years/ever, matched Lafite at the head of the most exclusive table of all. Haut Brion was strong across the board but the exceptional demand for the 1989/90 pair and the up-graded 2015 (which has garnered perfect scores from just about all critics) took the Pessac estate into uncharted territory. Mouton also enjoyed strong growth with consistent demand through 2003, 2005 and for younger vintages. Lafite, Margaux and Latour meanwhile all fell back on last year's showing as trade, especially in the 'adolescent' vintages, was comparatively muted. Latour's performance continues to lag that of the other First Growths, continuing an emerging theme since their withdrawal from En Primeur; it will be interesting to see how this plays out over the next 12-24 months if relative value vs. the other four Firsts becomes increasingly stretched.

For leading Bordeaux outside of the First Growths there was a 5% fall in turnover as activity in Pavie, Cheval and Pichon Lalande declined noticeably. The slack was picked up somewhat by Cos Estournel (particularly strong EP performance), Poyferre and La Mission but the overall picture for the 'second tier' is somewhat muted, all the more so when EP is brought into consideration. A final observation on Bordeaux trade tells us that 2018 has been a period in which 'Prime' vintages have once again dominated sales: of the top 25 vintages to trade, Prime vintages represented 65% in H1 2018 against 55% for H1 2017. This shift is influenced in part by the Haut Brion story but also by a – temporary at least – lack of sustained price movement in "off-Prime" vintages even where relative value seems attractive.

LiveTrade Performance

The LiveTrade Index, dominated as it is by red Bordeaux, recorded an increase of just under 2% for the half year, making the year to end-July total close to 4%. The star performers were the aforementioned Haut Brion 89/90 and Margaux 1990, the prices of which popped by close to a third. Honourable mention too to multiple vintages of Carruades/Petit Mouton which jumped up on a combination of lumpy demand and improbably short supply. At the wrong end of the league table the Guigal La Las 2012 all faltered as did (surprisingly) Krug 2004, Solaia/Ornellaia and several 2009/2010 Super Seconds. Indeed 2009 and 2010 were the two weakest performing vintages of the period as some underwhelming reviews led to a dose of selling and a marked dip in demand. From a vintage perspective the fun was had in the more mature (less liquid) vintages of 1989, 1990, 1996 and 2000 all of which showed what happens when consistent demand meets increasingly short supply.

En Primeur

The market-wide headlines around the En Primeur campaign made for relatively sober reading. At BI, like-for-like sales fell by ~55% on 2016 and ~20% on 2015; as another datapoint, volumes sold fell by almost two-thirds from the 2016 campaign. Furthermore, far from the broad-based buying that characterised the EP campaigns a decade ago it has become a very focussed matter with some 85% of BI's sales made from the top 20 Chateaux and close to 45% from the First Growths.

One can reasonably observe that the very top-tier have far more scope for downward price 'adjustments' but it is at least as true that these players are simply demonstrating more commercial flexibility and acumen in adapting to a market condition that seems exceedingly unlikely to retrace any time soon. The bottom line is that in the less sought after vintages the only substitute for critics' scores is price; those chateaux which gave a firm nod to price vs. critics' scores considerations saw strong momentum in the campaign, while those less willing to display more than a glimpse of flexibility saw a predictable response from the marketplace. Some of the buyer sentiment around the right wines certainly carried over the health and momentum from the 2016 campaign and certainly at BI we recognised marked positives as well as challenges in the 2017 round.
