

- **Brexit and Sterling leads to a surge in LiveTrade activity**
- **LiveTrade Index up 11.5% YTD**
- **Bordeaux sales leap to 75% of total turnover by value**
- **65% of LiveTrade wines show prices up 10% YTD**
- **Lafite continues to lead but the overall market is not far behind**
- **Supply squeeze and no indication of any let up in Asian demand**

Q2 2016 in summary

Almost regardless of what happens in the back half of the year, 2016 is destined to be looked upon with considerable satisfaction as the key features of a robust En Primeur campaign and rising market prices are now just about locked in.

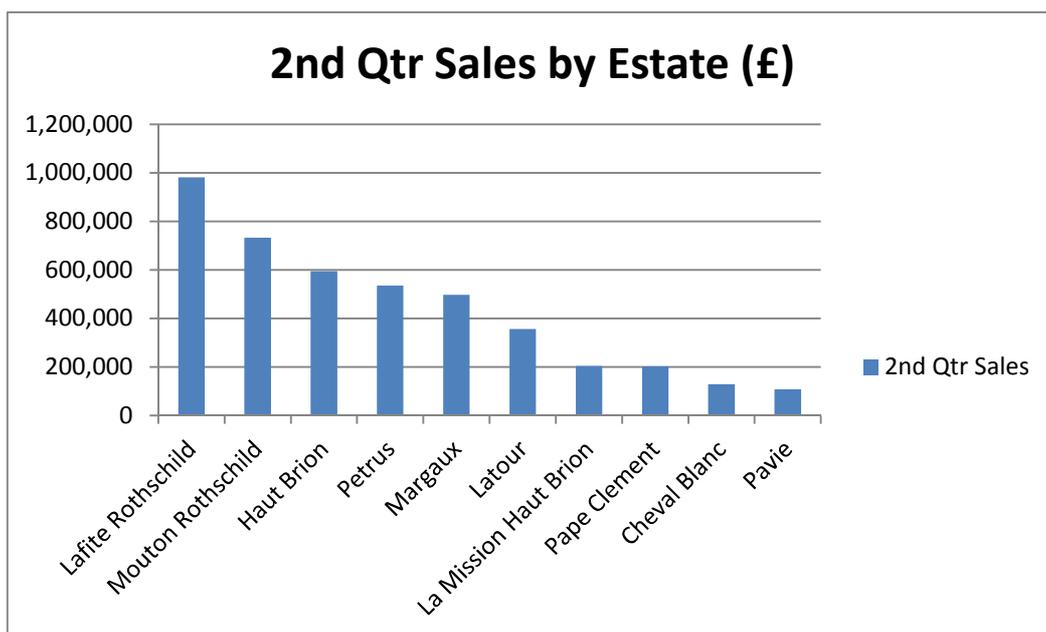
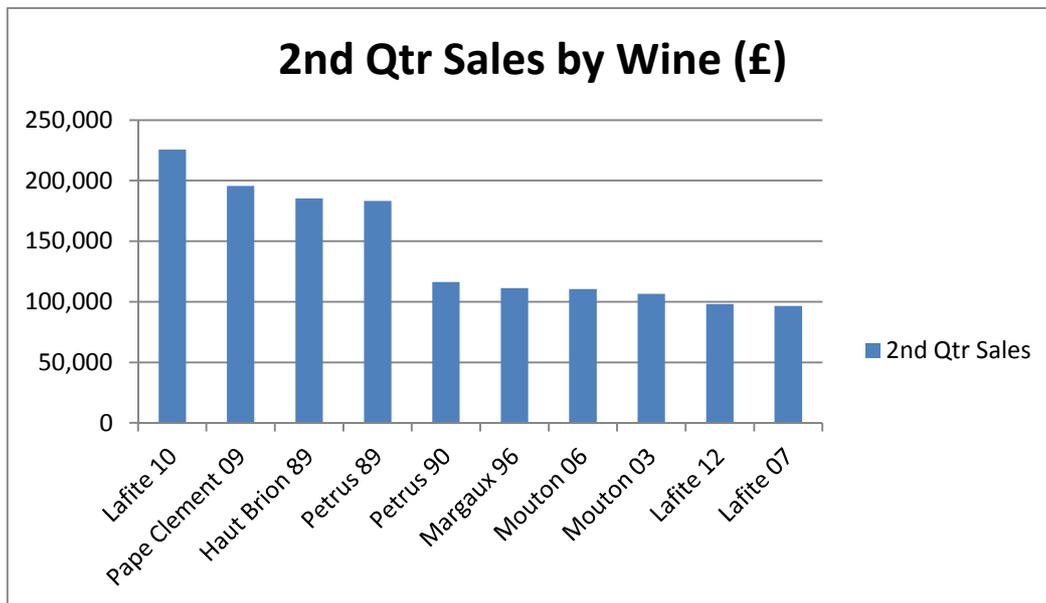
April 1st through June 23rd proceeded in much the same manner as Q1 as solid demand and constrained supply helped to move prices higher. Then along came Brexit (or at the very least, the unexpected triumph of the Leave vote) and the violent pummelling of sterling that followed in its wake (off 13% against USD and 11% against EUR within a few days) with market sentiment suggesting more to come. For non-GBP markets this amounted to an unanticipated 'summer sale' and the orders flooded forth in what were some of the busiest days' trading we've seen in a decade. For a product that is today in substantial part sourced in Europe (and the UK) and sold to Asia these FX moves make the prospect of further demand and higher prices seem more inevitable than in a very long while.

The Bordeaux Market in more detail

With EP falling in the period it is unsurprising that Q2 turnover was dominated by Bordeaux. With a little under 75% of total trade it was at times reminiscent of the mono-culture days of the past as export demand focussed in on the big names. Whilst always difficult to measure accurately the demand was highly export driven, in contrast to the investment led explosion of 2009-11, as shipping to Asia, the US and tellingly back to Bordeaux intensified. Despite a predictably challenging supply environment, trade on the LiveTrade screen leapt by over 20% on the year previous and in doing so moved H1 2016 sales ahead of H1 2015. Given the robust activity it will not come as a surprise to hear that prices again moved north. The broad based LiveTrade Index (consisting of over 250 of the most actively traded wines) sallied forth to 129, giving an 11.5% increase for 2016 or some 17% off the lows of late 2014.

As noted last quarter, whilst there are certainly over and under-performers the market trend is strong (nearly 65% of LT wines are up by over 10% this year). Looking first at the over-performers we see the likes of Pavie and Palmer 2006 up 25% as supply all but dried up. With cross-vintage increases of 14-15%, Lafite, Mouton and Haut Brion headed the brand performers with Lynch Bages and Montrose topping the second tier. Looking across the vintages the trend is rather less apparent with strong performances in 2012, '07, '99 and '89. That said, the preponderance of top performers clearly came from contemporary vintages. Whilst clearly not a period of 'losers' in an absolute sense, the weaker performances came from Petrus, Cheval and

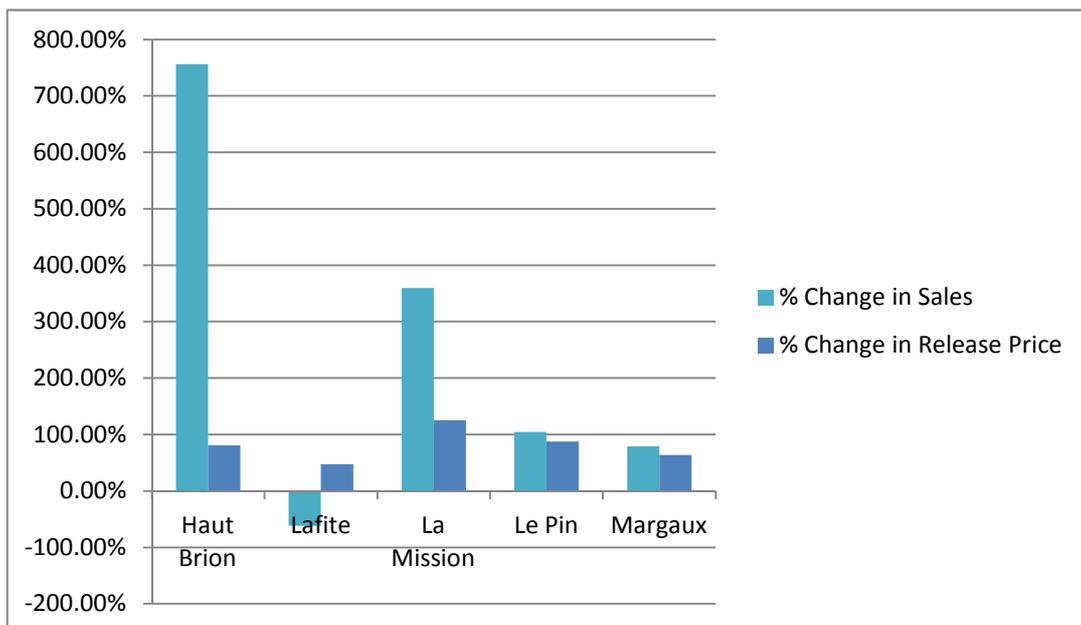
Cos d'Estournel with average increases closer to just 5%. The presence of the two giants of the Right-Bank is a little surprising given how much demand there has been through the early days of July. It seems likely that much of this discrepancy will be smoothed out by the autumn.



As noted in the previous Quarterly Report, Sterling weakness is a key factor in explaining increases in wine prices and in Q2 we saw this axiom affirmed in the most dramatic of fashions. It now seems like destiny that prices will continue to increase as buyers in Greater China and the US enjoy enhanced purchasing power, UK stocks dwindle and Europe is finally approached for restocking. How far this process runs will depend on a wide set of broader economic and political factors as well as wine market outlooks but it looks clear that, after the summer pause, an historically active autumn awaits us.

En Primeur

Since 2010 EP has been a consistent disappointment with some combination of underwhelming wines, unfavourable FX and/or high release prices serving to quash interest and send attention elsewhere. 2015 in contrast provided a large set of genuinely exceptional wines in limited quantities the best of which will take their place alongside the biggest names of 2005/'09/'10. Whilst lacking some of the consistency of the very finest years (the Northern Medoc being notably hit and miss) there was ample material for the chateaux, negociants and merchants to approach the campaign with a real sense of excitement. Couple this with the generally positive sentiment it was always likely that prices would take a steep step up on the previous release. Indeed with the likes of Mouton, Carruades, Pape Clement etc 2014 all showing double-digit returns since release, it quickly became clear that price increases of 15-20% would be at the lower end of the spectrum. And so it proved; with but a few exceptions, prices were generally 50-60% higher than 2014 for the big names (top 5 selling wines by value are shown below). The clear statement from the Chateaux is that the benchmark for great vintages is 2009 not 2008 and that if the wines happen not to sell on release then so be it as they will be held until such time that market conditions are more favourable. In short, a clear '*ca m'est égal*' to those that saw 2015 as an opportunity to re-engage with the traditional EP buyer through generous pricing.



Given this pricing context one might assume another flat campaign to add to the league of ignominy - but not a bit of it. With sales doubling those of 2014 and an enviable spread of wines sold, this was an undoubted success story. Whilst still a far cry from the unedifying bun-fight that was 2009/2010 it was definitely enough to fuel a sense of a market on the up. The key components of the campaign were broadly:

First Growths – Whereas Lafite dominated trade in 2014, the '15s were headed by Margaux and Haut Brion. Judged by many as the stand out clarets of the year their prices were some 60% higher than for the 2014s but were judged fair value against the 2009/10s and, above all, simply coveted by collectors of the very best wines. Similar could be said for VCC, Lafleur, Le Pin and Clinet where small volumes resulted in strict allocations and much disappointment.

Unexpected Stars – The positive side of inconsistency is that of the over-performers and in 2015 there were a good number of them. With the appellations of Margaux, Pessac and St Emilion performing so well there was excellent demand for the likes of Giscours, Pape Clement, Figeac and above all Canon. One needs to go back to 2009 and 2005 for campaigns in which the 'second tier' received such enthusiastic backing.

Value Plays – With Montrose, Cos and (the admittedly brilliant) Palmer all seemingly setting out to snub their noses at the notion of value, it was greatly welcome to see a good number of wines protect the value imperative of EP. Honourable mention to Cantemerle, Malescot St Exupery, Domaine de Chevalier etc all of who pitched their prices at a level that leaves something on the table for all participants and were well rewarded as a consequence.