Fine Wine Investment Report: Q2 2017

BI Investment Group, July 2017

- **Q2 volumes significant, limited price movement**
- **BI total turnover up over 40% YOY**
- **LiveTrade Index flat, but June busiest month on LT screen since Spring 2011**
- **Bordeaux En Primeur sees significant growth - +86% in value vs. 2015**
- **Welcome period of market consolidation gives cause for optimism**

Q2 2017 in summary

Q2 2017 was in essence a continuation of Q1 with something approaching a Goldilocks balance of active buyers and sellers resulting in high volumes but little price movement. The important difference between the periods lay of course in the unfolding of En Primeur (EP) 2016 which is a story in its own right. Stripping out EP, there was an extremely healthy 40+% increase in turnover with action across all segments of the market. Indeed, June was the busiest month on the LiveTrade screen since spring 2011 as both routine trade and relative value hunting stepped up in earnest. The LiveTrade Index, now standing at 141, was basically unchanged meaning that the year-to-date figure remains at just over 1% up. In other words we are now well into the predicted and welcome period of consolidation.

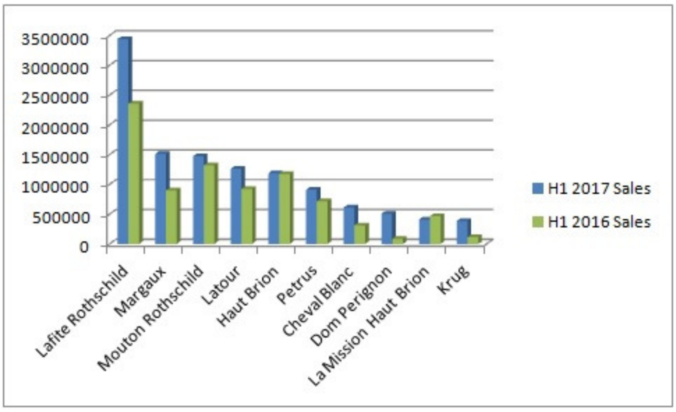
Bang in line with Q2 2016 Bordeaux dominated the trading landscape with EP pushing its share to three-quarters with Champagne and Burgundy performing very well in their own right but dwarfed in comparison. Again there was continuity in terms of buyers' location with UK buyers muscling their way to a little over half of total sales. Indeed, it is fair to characterise EP as still a UK/European preoccupation with over three-quarters of EP sales made to UK based consumers. A welcome if slightly surprising occurrence given the extant FX, political and EU uncertainties that abound but surely an indication of the confidence in the continued utility of owning on release and perhaps part-divesting when physical.

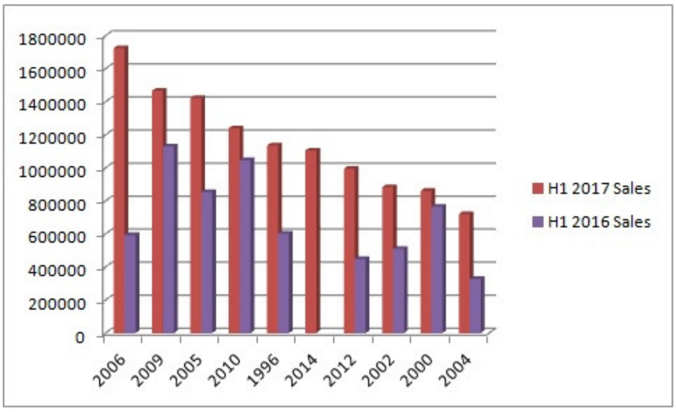
Bordeaux En Primeur 2016

With outstanding and consistent critical acclaim, generous production and an up-beat market context there was every reason for EP 2016 to be a roaring success. Standing pretty much in line with the great vintages of 2009 and 2010, many buyers shrugged off some steep increase in release prices to acquire with confidence across the appellations and price points. Like for like sales leapt 86% on 2015 (with volumes some way behind at a still impressive 34%). Whilst buying was reasonably broad based it was the stars of the vintage that attracted the lion's share of the action. Indeed with nearly 50% of sales following the First Growths (Mission included) it becomes crystal clear that this was a campaign of Winners and Losers. Quality and desirability are part of the explanation but so too was price. Whilst the 1st Growths were rewarded for offering at what were demonstrably fair prices in their own context, once again, many of the 'aspiring' Chateaux simply missed (or ignored) the market's appetite and priced themselves at levels that made it easy to ignore. Frustrating for consumer and merchant alike it can only mean mountains/lakes of their wines remain unsold somewhere in the Bordeaux pipeline.

The 'Real' Market

Away from EP activity was, as mentioned above, exceptionally robust with LiveTrade activity leaping by over a half year on year. Brand distribution remained fairly static with Lafite leading the pack at some 20% of turnover. Whilst average price movements were near zero there were nevertheless some notable performances over the period. Top individual performers included Ducru 2014, Beychevelle 2012/2014 and Cristal 2007 and at the other end of the spectrum, negative returns for the like of Yquem 2007 and Winston Churchill 2004. At the brand level Carruades topped the pile followed by Pavie and Petrus, whilst Guigal, Latour and Margaux all slipped back a little. Similarly there was little discernible pattern in the vintages with, if anything, a little softening amongst the mature years (1990-2000) and 2010, and some strength in the younger off-prime years (2011-2014).





Outlook

Looking in to the balmy summer months ahead the sustained high levels of trade, steady prices and preponderance of export demand all give reason for optimism. Indeed, more than that recent history suggests that a strong EP campaign will support and emphasise the prevailing market sentiment of the time - much as it did in 2009 and 2010 and in reverse for 2011-2014. Moreover, if we are to believe any of the chatter concerning the plight of the 2017 harvest (heavily hail and frost affected) then a further future supply constraint is to be incorporated. On the flip side EP has resulted in a splurge of UK-based expenditure which will inevitably lead to something of a hangover in coming months, which should itself make for some interesting trade opportunities.