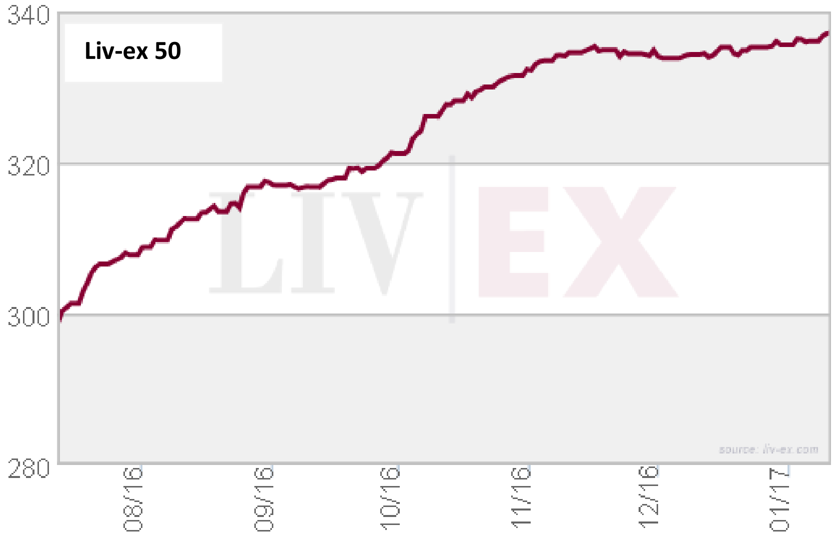
CELLAR & CO

Wine Market Review January 2017

Market momentum slowing at year end, up 4.3% in the quarter



It had to happen. After an unprecedented 22-26% rise over 2016 (varies by index), markets calmed over the New Year as traders took stock. The Brexit bounce, largely currency driven, may or may not have run its course but there is clear evidence of prices adjusting to the new reality in the key geographies. A 4.3% rise in the quarter is far from disappointing of course, especially against a Pound that lifted a few notches in November before falling back again. Underlying market confidence appears to be firming after four years of caution. The pace in 2016 was set by the First growths (which make up the Liv-ex 50); however here there is evidence of 'decompression', and aggregate prices of this group are only slightly up on five years ago. Those that fall hardest have the potential to come back fastest too.

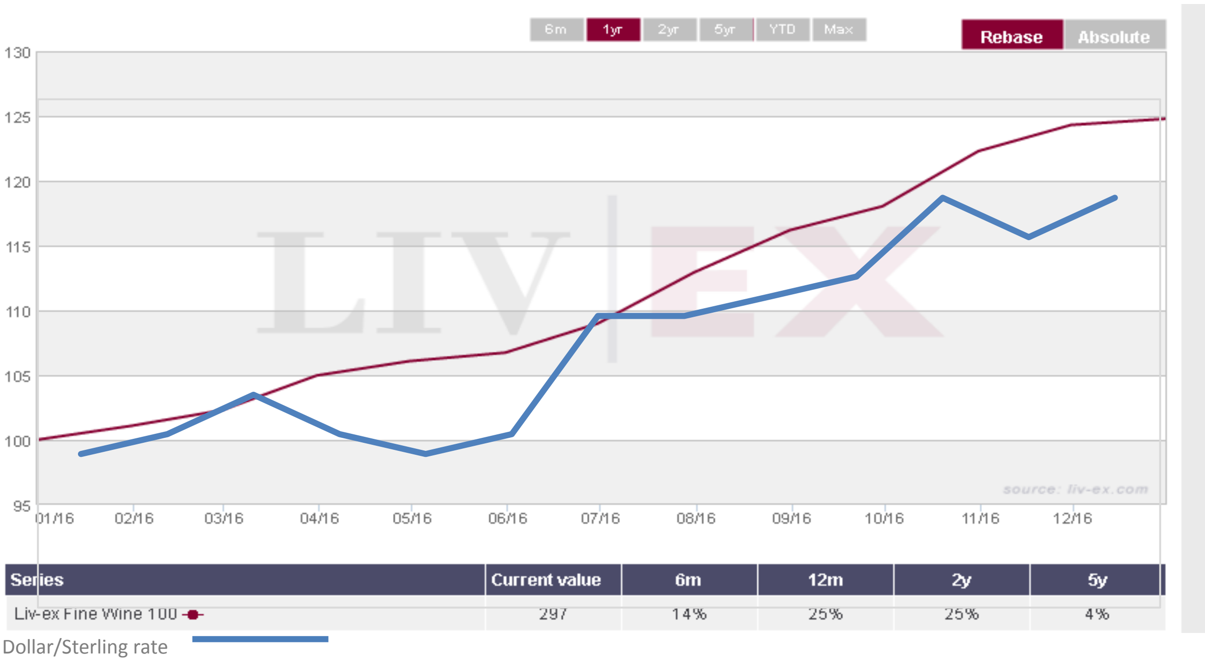
Index 31/12/2016 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 50	335.61	0.22%	0.00%	26.70%	0.35%
Liv-ex Fine Wine 100	297.33	0.38%	0.00%	24.79%	3.84%
Liv-ex Bordeaux 500	293.15	1.03%	0.00%	23.09%	11.87%
Liv-ex Fine Wine 1000	299.80	1.08%	0.00%	22.26%	18.32%
Liv-ex Fine Wine Investables	323.35	0.17%	0.00%	24.35%	7.66%

If the First growths from Bordeaux led in 2016, other regions have fared less well. The Rhone, Italy and Rest of the World underperformed Bordeaux by a long way, failing even to take full advantage of the weakness of Sterling. High grade Burgundy stormed ahead however, virtually matching Bordeaux' top wines in 2016 and handsomely beating all-comers over five years. The figures below show the constituent elements of the Liv-Ex 1000, the broadest index from the Liv-Ex Wine Exchange.

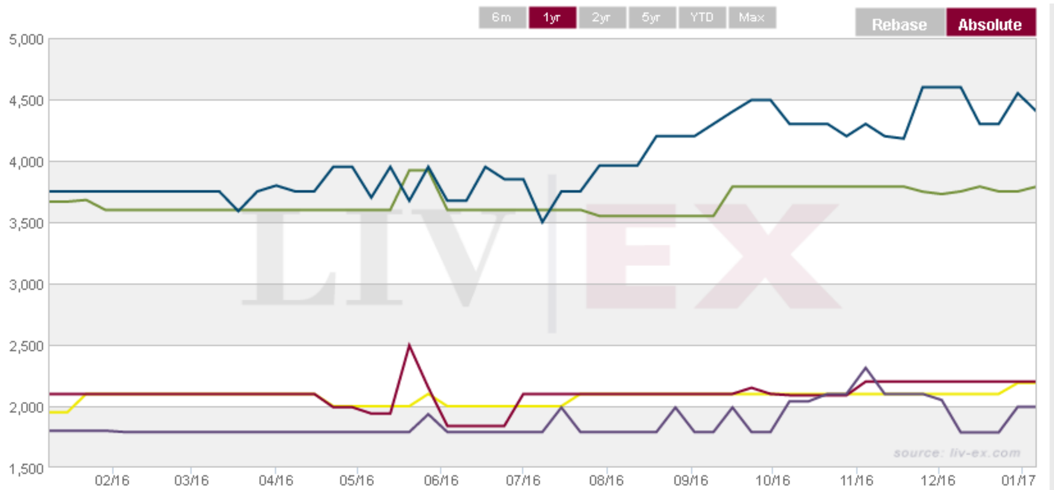
Index 31/12/2016 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 1000	299.80	1.08%	0.00%	22.26%	18.32%
Liv-ex Bordeaux 500	293.15	1.03%	0.00%	23.09%	11.87%
Bordeaux Legends 50	350.16	0.59%	0.00%	24.89%	14.92%
Burgundy 150	**371.40**	**2.61%**	**0.00%**	**25.95%**	**41.87%**
Champagne 50	323.12	-0.90%	0.00%	19.64%	30.10%
Rhone 100	173.92	1.89%	0.00%	12.03%	3.08%
Italy 100	244.11	-0.22%	0.00%	13.77%	23.09%
Rest of the World 50	259.13	-0.32%	0.00%	16.57%	44.32%

Winners and cruisers

Performance in 2016 was substantially currency driven, however this was not a rising tide that floated all boats. Outside of Bordeaux and Burgundy, the rest of Europe failed to capitalise on the currency advantage. These disparate performances serve to underscore the heterogeneity of the global market. The price advantage was principally with Dollar buyers, though Euro bidders fared well too for much of the year. One can infer, then, that demand for Rhone or Italian wines in, say, Hong Kong, is not as elastic as for Bordeaux or Burgundy. One might also reasonably conclude that, in the current climate, these sectors generally do not present the same investment potential as other regions. There are exceptions, as always.



Within Bordeaux there have been marked differences in price movements, again pointing to the strength of demand for different sectors and different wines. Sauternes showed little responsiveness to currency. Its flag-bearer Yquem hardly moved throughout 2016. Of five high quality vintages of the last 15 years only one, 2001, showed any real lift. Many of Bordeaux top reds saw growth of well over 20% in the year, some rather more.



Series	Current value	6m	12m	2y	5y
Yquem, 2005	1,995	11%	11%	-0%	-40%
Yquem, 2001	4,400	26%	17%	19%	-5%
Yquem, 2009	3,790	5%	3%	-0%	-29%
Yquem, 2011	2,200	10%	12%	-8%	–
Yquem, 2007	2,200	5%	5%	5%	-34%

Bordeaux reds at classed growth level generally enjoyed the 2016 journey with, as always, some more equal than others. The top performing Bordeaux - and the Index's overall star - was Pape-Clément 2009, boosted by a re-rating to 100pts by Robert Parker in April. Paradoxically, two of the next best performers came from the Rhone valley, a region seeing only modest lift in 2016, highlighting its variability for investors. DRC wines also saw major gains, benefitting from high demand seeking out scarce stocks.

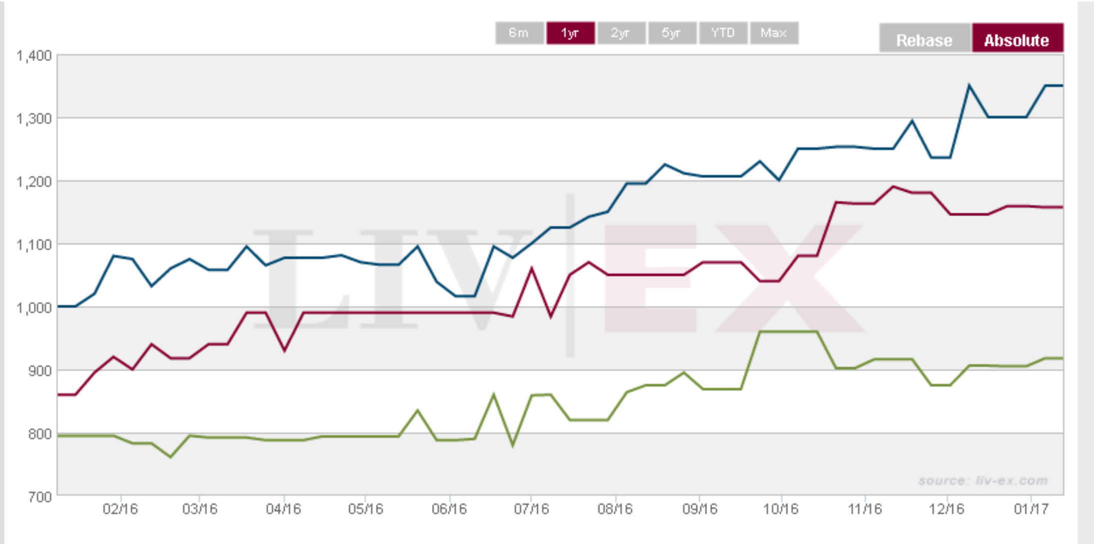
Wine	Index	Dec-15	Dec-16	Change
Pape Clement 2009	Bordeaux 500	£715	£1,355	89.5%
Guigal, Cote Rotie Ampuis 2010	Rhone 100	£604	£1,091	80.6%
DRC, Echezeaux 2010	Burgundy 150	£6,150	£10,678	73.6%
Paul Jaboulet Aine, Hermitage Chapelle 2005	Rhone 100	£627	£1,073	71.0%
DRC, Grands Echezeaux 2011	Burgundy 150	£6,450	£10,869	68.5%

What then for 2017?

The good news for wine investors is that the market is truly international and not directly correlated to the UK economy, so that whatever is in store for Britain, the impact on values will be small. This proposition was borne out in 2008-10, the height of the financial crisis, when the key indices powered upwards on the strength of flourishing Asian demand. The impact of the UK's negotiations with Europe will of course impact on currency and, as the previous commentary makes clear, this will feed directly into the market. Should Mrs

May's team pull a gold-plated rabbit out of the hat, the Pound would certainly soar and this might well cause prices to fall in reaction. 2016's Brexit gains would go into reverse, as it were. Were the Pound to fall further, and many pundits predicted wrongly that it would, by the end of 2016, this would tend to lift prices further. And if Sterling has indeed 'found its level' today, then we may be witnessing a price plateau in the short term at least, suggesting profit taking is in order.

The enduring appeal of Lynch-Bages…



Series	Current value	6m	12m	2y	5y
Lynch Bages, 2010	1,157	10%	35%	30%	3%
Lynch Bages, 2009	1,350	20%	35%	36%	13%
Lynch Bages, 2008	918	12%	15%	24%	17%

The 5th growth Lynch-Bages has been an enduring success for over 30 years. Since its stunning 'modern era' vintages of 1982 and 1985 the wine has enjoyed wide appeal, for many the definition of classic/modern Pauillac. The wine released at a steady £250 a case until 2000 when it was able to command £395 en primeur. The 2005 vintage launched at £500, the 2009 a heady £850. The over-optimistic 2010 opening price of £1250 was a step too far. The market will out, eventually, however and strong performances for both 2009 and 2010 over the last 12 months - both up 35% - have demonstrated that Lynch-Bages' lustre has not tarnished. Upper 90s scores have helped, but these alone do not explain its success. The wine has achieved the global recognition needed to ensure stable and high prices, even for second tier vintages. The box (right) shows that this is a wine to follow even in the weaker years such as 2007 and 2008.

Last 10 Vintages

Vin	Mkt	Liv-ex
2015	873	-
2014	750	699
2013	717	648
2012	740	700
2011	748	772
2010	1,157	1,110
2009	1,350	1,230
2008	918	923
2007	985	780
2006	900	940

Lynch-Bages is a large vineyard and the estate does have a reputation for holding more stock back at the outset than many, a policy that tends to support the price. But that cannot explain its longer term popularity. Brand value personified!

… and the continuing celebrity of Pontet-Canet (but not all vintages just yet)

By way of contrast another celebrity Pauillac, 4th growth Pontet-Canet, paints a slightly different picture. Back-to-back 100pt scores from Robert Parker guaranteed success for the 2009 and 2010 vintages. The values for this pair have risen almost remorselessly to the extent that there is now talk of 'break-out', whereby price momentum becomes self-sustaining. This performance is not a product of scarcity however: Pontet-Canet produces very little second wine so available volumes are substantial. The contrast with near neighbour Lynch Bages is that the second tier vintages do not track the popular 2009 and 2010. In fact no 'B' vintage in the last decade fetches even 50% of the market price of the 100pt wines.

Its large first label production will play a part, but another factor is awareness: it was not until the success of 2009 that the market really took notice of Pontet-Canet. Compared to the First growths, or even a wine like Lynch-Bages, it has further work to do before it achieves global recognition.

Last 10 Vintages

Vin	Mkt	Liv-ex
2015	792	750
2014	650	-
2013	600	586
2012	570	540
2011	535	530
2010	1,650	1,640
2009	1,700	1,729
2008	680	615
2007	592	560
2006	660	645

2015 Burgundy and scarcity

It will not have escaped your notice that Burgundy has enjoyed a splendid vintage in 2015 – "the best in 50 years", according to one Volnay grower. That makes it the Vintage of the Century… so far. While it's true we have heard high praise for vintages before, reports of the recent trade tastings are universally positive, for the reds at least. The challenge for burgundy lovers, let alone for investors, is to secure stocks of the wine. Burgundy producers tend to raise prices incrementally each year, rain or shine as it were, with the result that the 2015s will be under-priced on release and demand will outstrip supply. Those interested will rarely go wrong with a 'buy anything that moves' strategy, from respected producers at least. Merchants will rein in ambitious orders in any event.

The supply situation has not been kind to the market: hail damage in 2012, 2013 and 2014 had a major effect on production across the region, a full year's harvest lost in aggregate. 2015 has been touched too, as vines damaged the previous year were still in special measures. The full impact of 2016's spring frosts is now becoming evident, with dramatic losses in affected areas. This situation does not favour a non-aligned merchant such as Cellar&Co, and we shall have to fight for our share along with the rest. We will certainly be looking for value at the grand cru level in the recent vintages, cautiously received on first release and so still available at fair prices.

Buying opportunities

With many Bordeaux having recovered fully from the crash of 2011, so now back to and in some cases above their last peaks, this may not be the moment to load up the cellar with classed growths. Nevertheless, it is worth repeating the advice given in the October 2016 Investment Review to look carefully at recent second tier vintages 2011-2013. With few exceptions these wines have largely trod water or actually dipped since release and it is worth considering included a judicious proportion of the very top wines within a portfolio. The same goes for the very respectable 2014 vintage wines, which are now feeding into merchant stocks. These latter were bought en primeur with a much stronger Pound and there is the possibility of arbitrage as prices play catch-up.

As indicated above, recent vintages of Burgundy are likely to present interesting opportunities. 2015s will undoubtedly vanish from the market, to emerge fully formed and at much higher prices in years to come, so 2012-2014 will be the only game in town for those looking to acquire semi-mature wines – for restaurant lists for example.

Selling opportunities

With gains of 20% and more enjoyed in 2016 and the prospect of either uncertainty or at best on-trend growth in 2017, there is a case for taking profits now. Certainly this is the right time to review a portfolio for balance and to weed out non-performers. Proceeds can be applied to wines with potential. Any stock that did not match market performance in 2016 is to be considered a candidate. An under performer in the last twelve months is likely to under-perform in the next twelve.

Image from a 14 bottle assortment case of ‘DRC’ 2010 red burgundy sold recently by us for £28,500

The Quarterly Wine Market Review is compiled by Cellar&Co’s wine investment team. Please contact us for further information on any of the subjects covered.

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