

Fine Wine Market Analysis

Going Big on Burgundy...



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Headlines abound, but light on the detail...

Currently it seems that each new month brings another report of record auction prices in the ultra-premium Burgundy market. Yet there remains a relatively low level of true understanding by many market watchers as to:

- the drivers of price increases
- whether there are genuine outperformers (vs. the alternative of a rising tide lifts all boats)
- how the potential market movements from here should be evaluated.



We have extensively analysed actual sales data (rather than less meaningful unfulfilled exchange bids/offers) for three of the highest profile super-premium producers – DRC, Rousseau, Roumier – in order to provide in-depth insights into these areas. We have focused on DRC's La Tache, Rousseau's Chambertin and Roumier's Bonnes Mares, cross checking our conclusions against other top wines from these producers.

Supportive fundamentals or a bubble waiting to burst?

During 2018 the already-underway rise in Burgundy prices has increased in pace, prompting some observers to question the sustainability of current price levels.

This is of course one of the critical questions and the reality is that another 12 months or so will be interesting in understanding whether current gains can be consolidated and indeed increased further. However, as one of the few truly global merchants, we would point to the consumption-led nature of a significant portion of the demand - particularly in Asia - but also the fact that there are increasing signs of the US (re-)joining the buying flow over recent months.

It is always difficult to understand fully the potential impact of currency on prices of wines from particular regions given the generally esoteric nature of inventory positioning; but we tend to believe that physical Burgundy inventory for resale is quite well distributed geographically, mitigating the potential impact of this factor.

Have there been winners and losers?

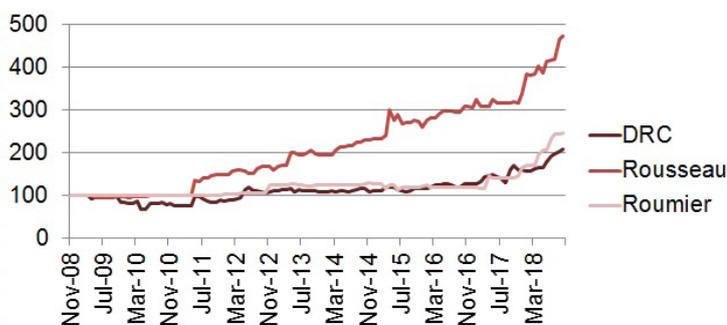
There have undoubtedly been certain producers for whom either increasing quality or a specific uptick in demand (or most likely a combination of the two) have resulted in a progression into the super-premium category – Cathiard providing a fine example.

Equally some producers of high reputation and top vineyard holdings have not seen the rises which one might expect, particularly in Grand Cru prices – de Vogue and Lamarche among others. Interestingly, such (non-)movements seemingly bear little relation to plot sizes and therefore market supply (de Vogue having large chunks of Musigny and Bonnes Mares, but Lamarche having much more fragmented holdings) but reflect the particular market focus on certain names vs. others.

What have been the key dynamics at the very top?

Looking at three of the most established “big names”, it is interesting to see that despite stealing the headlines, DRC has actually lagged the performance of Rousseau and Roumier quite significantly, with Rousseau in particular posting continual outsized gains. Relative production may offer a bit more insight on this point, with DRC having larger holdings than people often think (La Tache is 6ha for example) and the ascent in Roumier prices which seemed to lag for some time but then moved quickly, probably driven by the particularly small sizes of the key Bonnes Mares and Amoureuuses holdings.

Figure 1: Indexed GBP Performance of Selected Vintages



It is also logical that absolute price plays a part in the equation. At particularly high bottle or case prices, the price quantum can potentially be a drag on value due to a smaller buyer pool – Romanee Conti has underperformed La Tache in recent years, with a significant narrowing of the relative price differential.

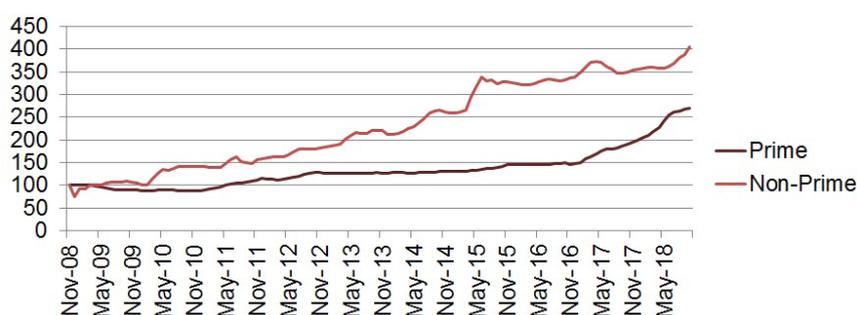
Long term vs. short term trends can be very different

Some trends tend to be consistent over the time period examined; for example, we see a high teens to 20% premium for OWC vs loose bottles (up towards as much as 25-30% in the case of more mature vintages).

Other trends, however, have altered significantly as the market has particularly gathered pace. Prime/benchmark vintages tended to underperform lesser/non-benchmark vintages in the early years of this decade, with the emergence of Asian consumption-driven demand being more label than vintage focused; but this trend has reversed itself, with “breakthrough” type pricing being seen in the top vintages and signs of greater differentiation between lesser vintages. There is no doubt, however, that this change is far less pronounced in DRC than in Rousseau and Roumier.

Indeed, vintage reputation remains far more significant than critical scores. 2014s have tended to outperform 2011s/2012s/2013s where scores are similar; and the hype around 2015 has led to some eye-catching prices compared to the 2010s and to a lesser extent 2009. At the same time, there is little evidence that prices of specific vintages are uncomfortably stretched at this point.

Figure 2: Indexed GBP Performance of “Prime” vs. “Non-Prime” Vintages



The big question...

...is of course where prices will go from here. 2018 will clearly be remembered for a step-change in premium Burgundy prices and the rate of increase is unlikely to persist (indeed certain China-specific factors may cool things off over the coming months). But those without real-time – and global – market visibility continue to underestimate the strength of the underlying demand and its potential to grow. We therefore remain positive on the outlook for this market segment, but re-emphasise that there are a number of factors to consider when looking for outperformers vs. underperformers.

Note: Past performance is not necessarily an indicator of future returns. The value of an investment in fine wine can increase or decrease, with capital at risk

Data Sources: BI Internal Analysis. Not for Reproduction. Selected “Prime” vintages are 99, 05, 09, 10, 15; Selected “Off-Prime” vintages are 01, 06, 11, 14