

LIV | EX

THE FINE WINE MARKET

BORDEAUX 2015

A price guide for Liv-ex members

Navigating the 2015 campaign

This *Price guide for Liv-ex members* is intended to assist decision making during the 2015 En Primeur campaign. This year, we have expanded our focus to include 70 Bordeaux chateaux, 50 of which are in the Liv-ex Bordeaux 500 Index. For each chateau, you will find data on the last 10 vintages to help you put the pricing of the 2015 vintage into context. We have used the Liv-ex Market Price (see Methodology pp.19-20) to illustrate the price level at which each vintage is currently available in the secondary market. The Mid-Price (see Methodology pp.19-20) has been used to assess the price performance for each vintage from release to the present day. We have also provided peer group averages to establish a comparative framework through which to evaluate each wine. Wine Advocate scores have been used as an indicator for vintage quality, and to offer a consistent rating system that correlates well with price performance. All current prices are dated as at 31st January 2016. For the most up to date prices, there is no substitute to checking data in real-time at Liv-ex.com. Our methodology is laid out in the pages that follow. We hope that you find the document useful and wish you every success in the upcoming campaign.

A tentative recovery is underway

After four consecutive years of price declines, the fine wine market has levelled off and is showing tentative signs of a recovery. Although there is a perception that Bordeaux is expensive, the more accessibly priced wines remain popular and there are some signs that Bordeaux may be becoming undervalued relative to other regions. The First Growths' second wines have done particularly well in the last year, but most of the Bordeaux sub-indices are showing some improvement. The exceptions are the First Growths and Sauternes. Overall the Liv-ex Bordeaux 500 Index is up 8.8% in Euro terms since the low in June 2014. Bordeaux has, however, continued to lose market share in value terms to Burgundy, Champagne, Italy and the New World. These regions have all achieved record (or near-record) highs over the last year according to their respective Liv-ex indices. In a year, which has seen considerable uncertainty in financial and commodity markets, wine prices have proved remarkably resilient. Nevertheless, market conditions remain challenging. This shows up in the financial accounts of leading European merchants, where sales and margins have fallen sharply since the heady days of 2011.

En Primeur market remains challenging

Sentiment around En Primeur is particularly challenging. This was warranted, but may now be overdone. After years of negative returns and vanishing margins, consumers, collectors and the international trade have become sceptical of the advantages of buying Bordeaux futures. This is reflected in a sharp fall in En Primeur sales, rising stocks of young claret (in both the supply chain and at the chateaux) and deteriorating negociant balance sheets. While there is evidence that the chateaux have been slow to reduce prices to levels that fit with the market reality of the post-China boom period, there are some signs in the data that this cycle may be turning. Opening prices have fallen 60% on average since the release of the 2010 vintage and contrary to conventional wisdom at the time, the 2012 vintage has been a success. It has generated positive returns for all participants between release and delivery in June last year. This may well be repeated with the 2014s when they become physical.

2015 represents a great opportunity

There are reasonable expectations that the 2015 vintage will be an improvement on recent years in terms of quality and yield. It is too early to make a definitive call on the new vintage, but the current consensus is that it sits somewhere between the good vintages such as the 2006, 2008, 2012 and 2014 and the exceptional ones like the 2005, 2009 and 2010. Our analysis shows that there is a significant price gap between these two groups of wines. This should provide plenty of room to price the campaign in such a way as to make it attractive to all participants. It is true that some headwinds remain – not least the volatility of currency markets ahead of the UK's EU referendum in June – but 2015 does appear to represent an opportunity for the Bordelais to rebuild damaged sentiment around En Primeur.

The Liv-ex Team

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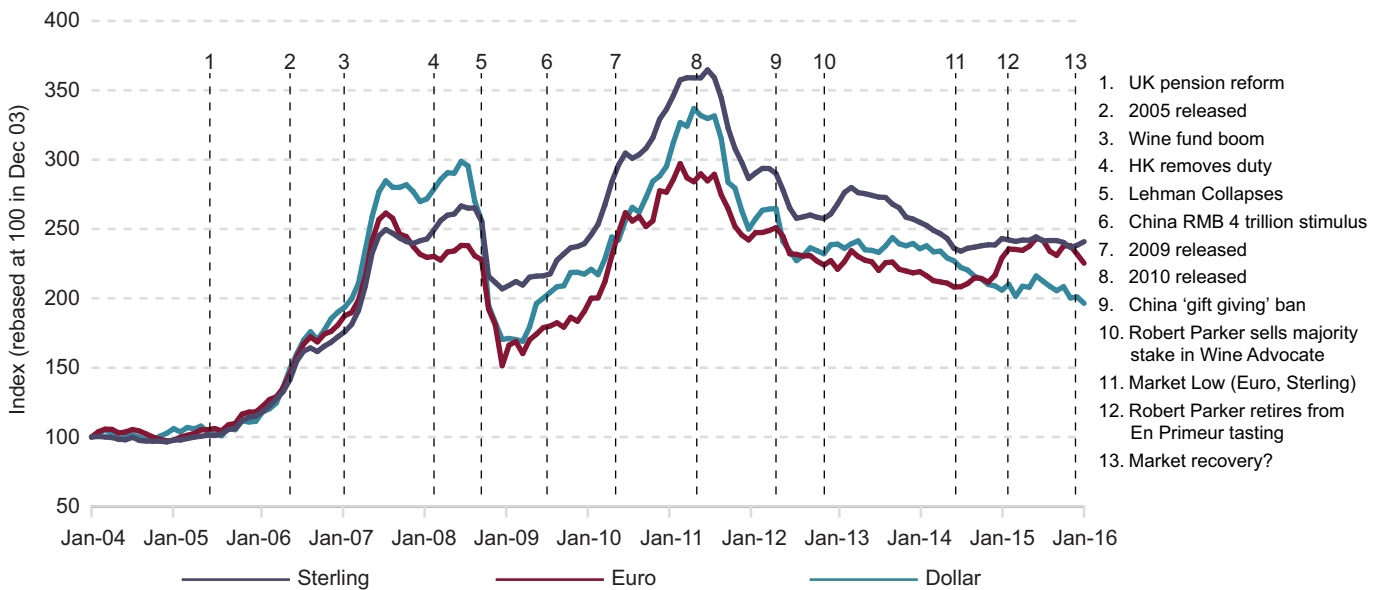
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The fine wine market

In Euro terms, the benchmark Liv-ex Fine Wine 100 Index is up by 8.2% since the market low in June 2014. On balance conditions have remained tough for market participants, but the rise in the index has halted the downward cycle of the previous four calendar years. The market dropped 27% between June 2011 and June 2014 following the peak of the China-led boom. It now looks to be making tentative steps towards a recovery.

Liv-ex Fine Wine 100 Index (in Sterling, Euros and Dollars)

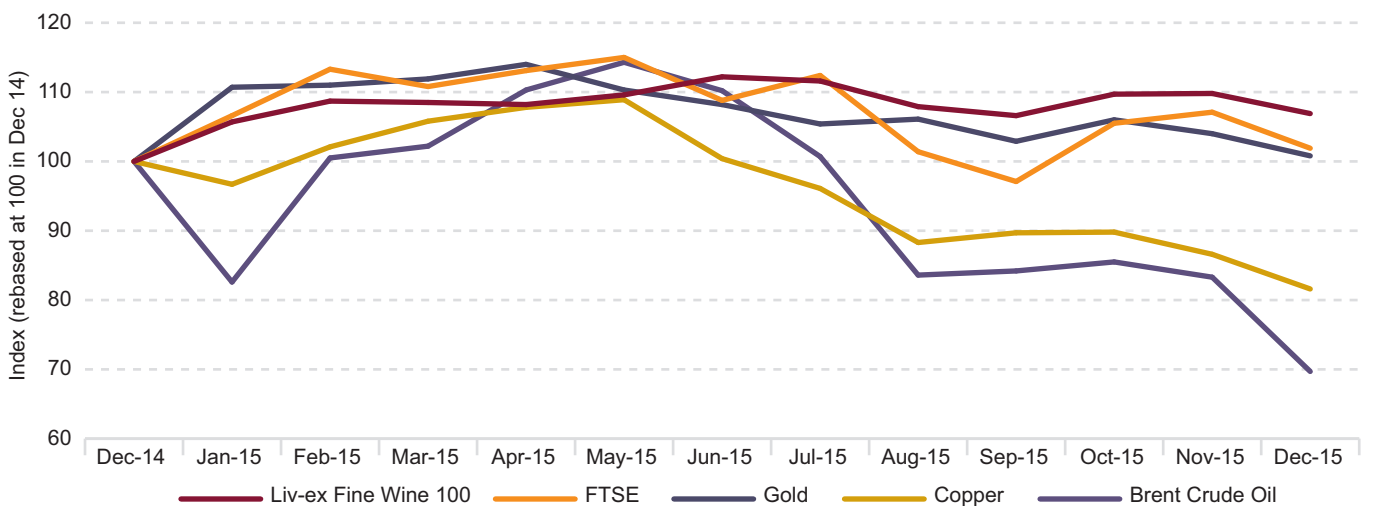


Source: Liv-ex

Fine wine outperforms other markets in 2015

Most markets came under considerable pressure in the second half of 2015 on the back of renewed macro-economic uncertainty. The fine wine market — as measured by the Liv-ex 100 — fared better than many other financial assets and physical commodities.

Liv-ex 100 vs other indices (in Euros)



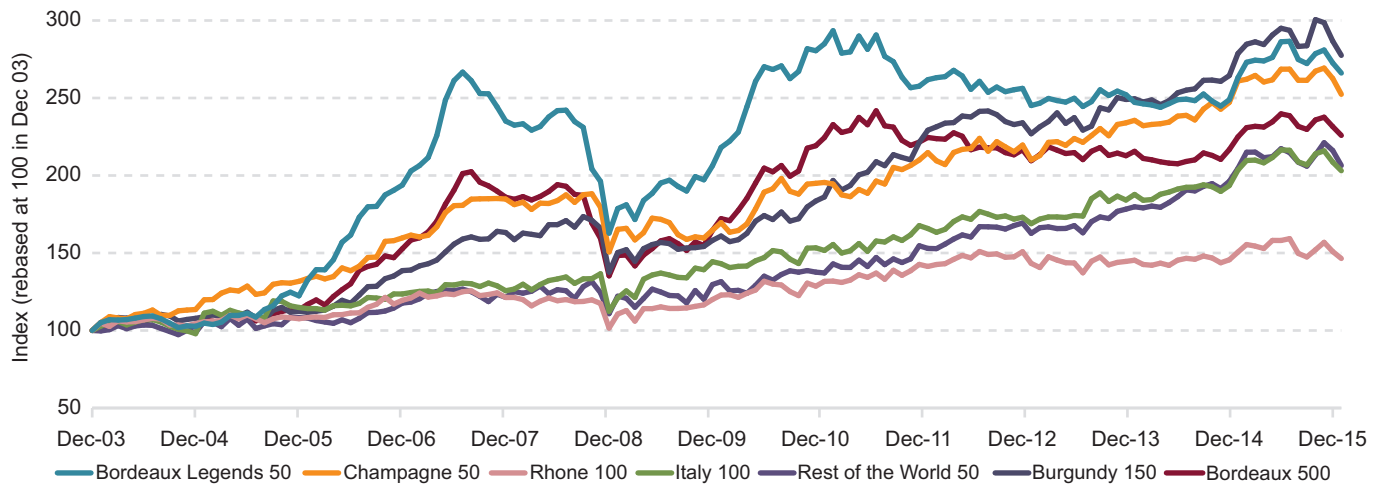
Source: Liv-ex

Looking at Brent Crude Oil, the Liv-ex 100 was relatively robust with Brent hitting an 11-year low in December 2015, and down around 30% over the year. Likewise, copper performed poorly against fine wine, hitting a six-year low in 2015. It closed down around 18.4% in Euro terms by the year-end. Gold was broadly flat on the year in Euro terms. It was only up around 0.8% as investors looked towards the Fed for the much anticipated US interest rate hike, which finally materialised in December.

The Liv-ex 100 also outperformed key equity indices, with the FTSE 100 broadly flat on the year with a marginal increase of 1.9% in Euro terms. In contrast, the Liv-ex 100 was up by 6.9% in Euro terms. Buying looks to have continued into January and February 2016, with a good level of trade seen in the fine wine market.

Wine regions beyond Bordeaux hit record highs in 2015

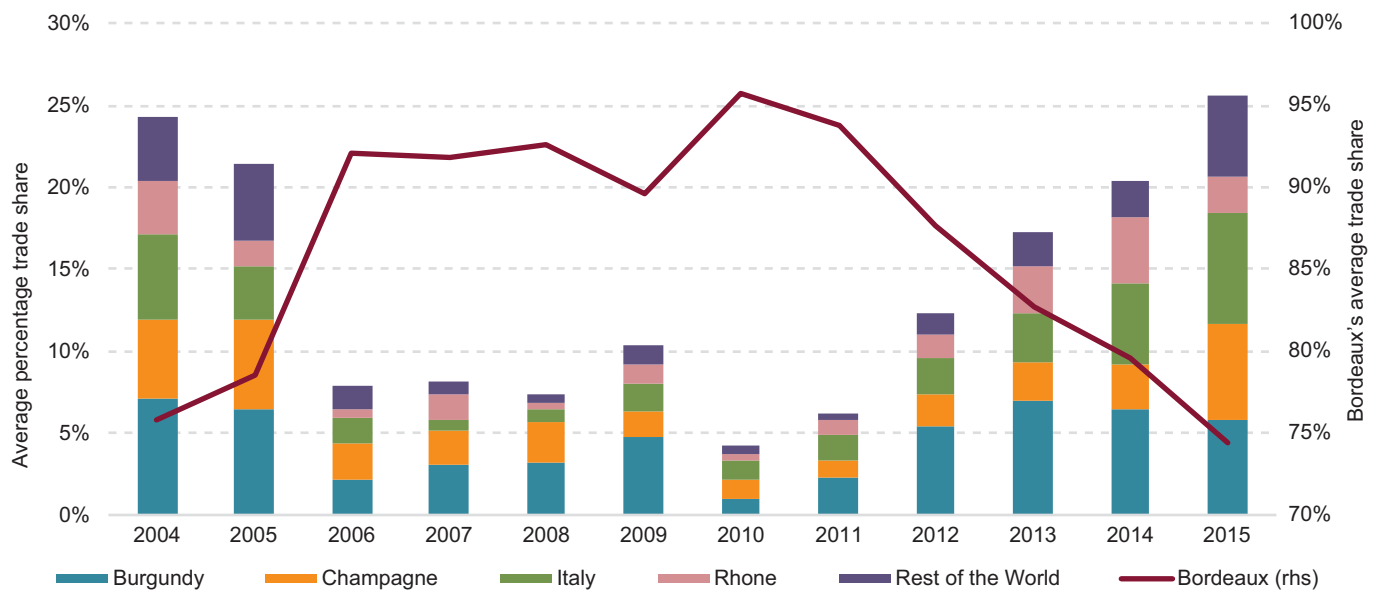
Liv-ex Fine Wine 1000 Index: sub-indices (in Euros)



Source: Liv-ex

Bordeaux did not perform as well as other wine producing regions in 2015. The Liv-ex Burgundy 150, Italy 100, 'Rest of the World 50' and Champagne 50 indices all hit record highs in Euro terms last year. To an extent, these regions have been less affected by the fall-out from the China 'boom and bust'. Each region's own supply and demand dynamics have also played a role in supporting prices. Market share by value increased year-on-year for Italy, Champagne and the 'Rest of the World' with these regions all seeing growing activity in 2015.

Market share by region



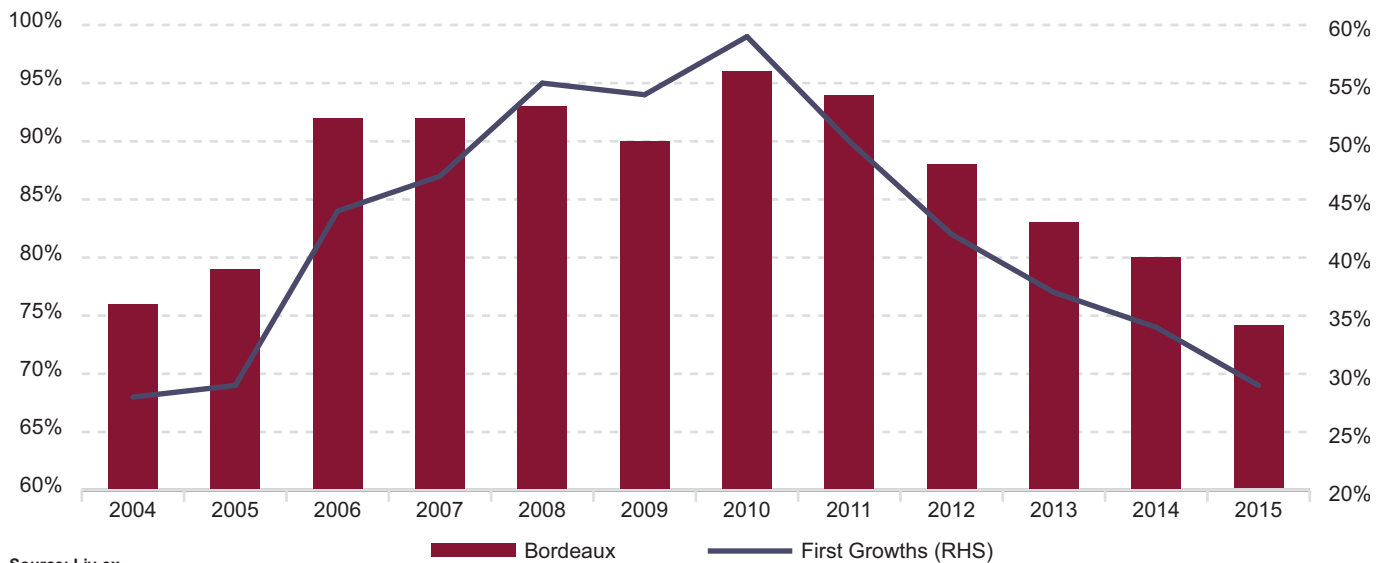
Source: Liv-ex

With 6.7% of the market, Italy overtook Burgundy (5.9%) as the region with the highest share of trade by value after Bordeaux. Champagne more than doubled its market share from 2.8% in 2014 to 5.8% in 2015. The US has maintained a high share of the 'Rest of the World' category, and with an overall share of 2.2% is now close to usurping the Rhone's share of total trade. Overall, market share for the 'Rest of the World' was up from 2.3% in 2014 to 5% in 2015.

Bordeaux's market share back to pre-China boom levels

For Bordeaux, market share by value returned to levels last seen before the China-led boom in 2004. In 2015, Bordeaux represented around 74% of all Liv-ex trade, down from 80% in 2014, and significantly lower than the 96% of trade that it achieved in 2010.

Bordeaux as a percentage of Liv-ex trade



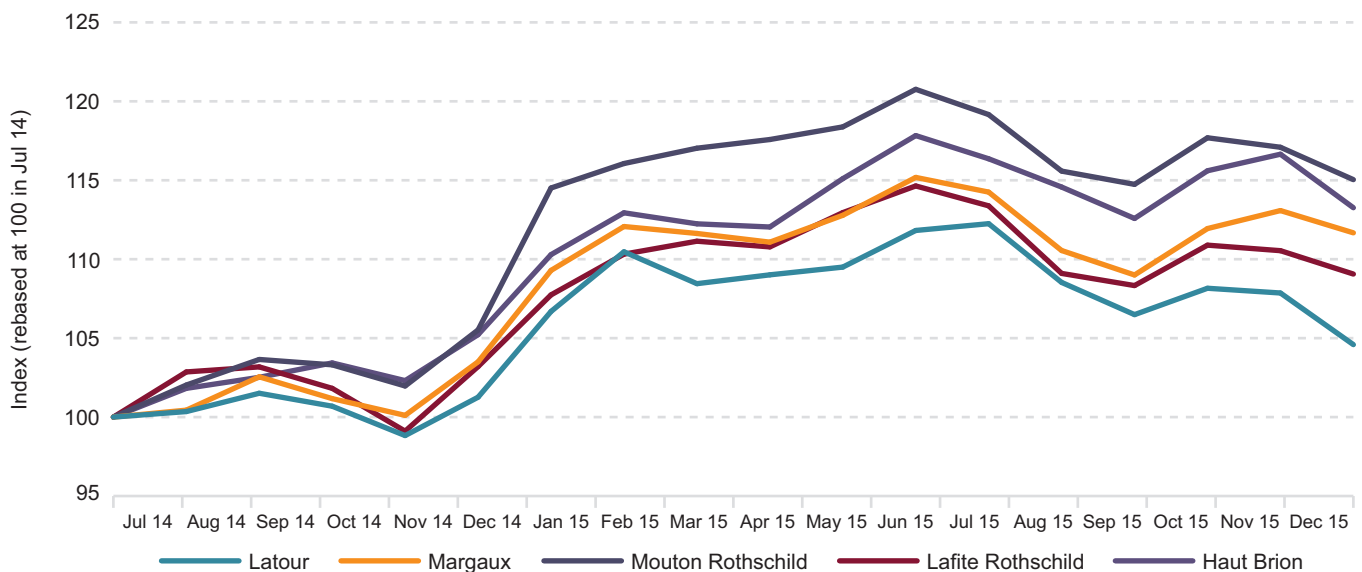
Source: Liv-ex

Trade in Bordeaux First Growths as a share of total Liv-ex trade also continued its downward trend in 2015. The First Growths represented around 29% of overall market share last year. This was similar to levels last seen in 2004 and 2005. Although this is significantly lower than their 59% share in 2010, First Growth market share does appear to be stabilising at this level.

Cheaper Bordeaux First Growths thrive

Although First Growth market share remained under pressure in 2015, there were signs of improvement amongst the more attractively priced Premier Crus. Mouton Rothschild and Haut Brion took the top spots in the Liv-ex Power 100. This followed two years when the First Growths conceded first place to other wines. In addition, Margaux also saw positive year-on-year price movement and finished the year in the top six of the Power 100. Since the market low in June 2014, Mouton Rothschild, Haut Brion and Margaux have all outperformed Latour and Lafite Rothschild as buyers have perceived that they offer better relative value.

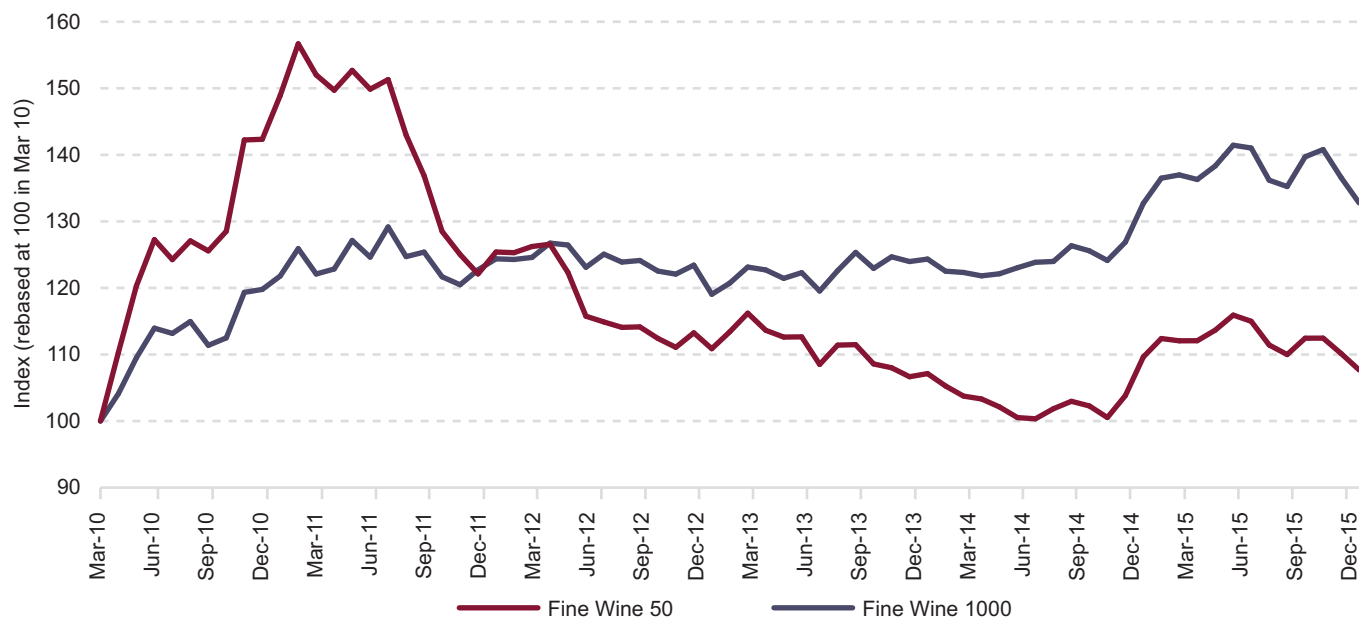
First Growth performance by chateau since market low (in Euros)



Source: Liv-ex

Overall, however, the First Growths underperformed most of their Bordeaux peers in 2015. The Liv-ex Fine Wine 50 index was up only 7.1% in Euro terms from the market low in June 2014 and is down 1.8% over the past 12 months. The First Growths have also underperformed in relation to other global wine producing regions, as represented by the Liv-ex Fine Wine 1000 index.

Liv-ex Fine Wine 50 vs Liv-ex Fine Wine 1000 (in Euros)

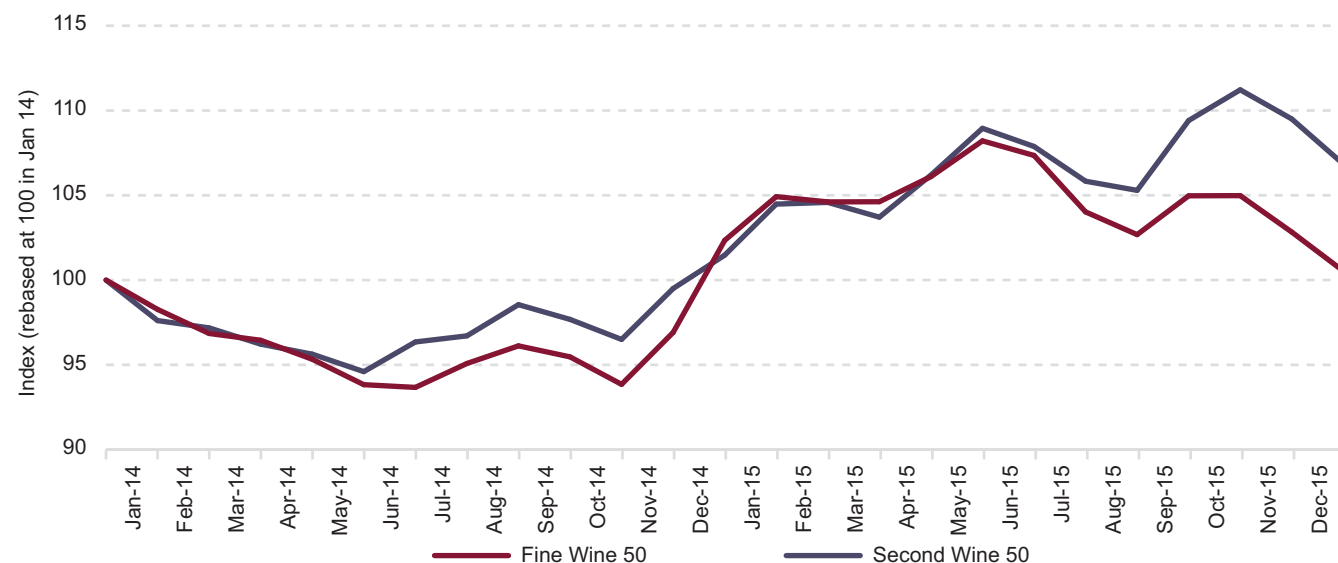


Source: Liv-ex

Value in focus

The focus on relative value has been the dominant theme in recent years. This trend has had a positive impact on the second wines of the First Growths as buyers have traded down to more affordable expressions of the top brands. The Second Wine 50 has increased by 12.9% since the market low in June 2014.

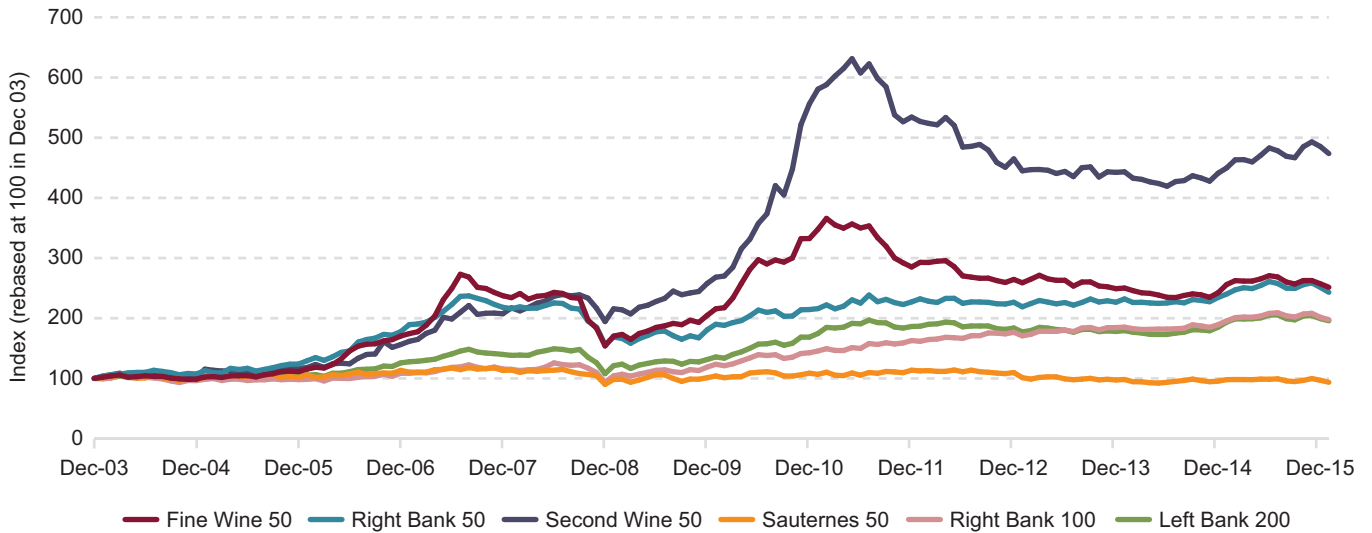
Liv-ex Fine Wine 50 vs Second Wine 50 (in Euros)



Source: Liv-ex

The second wines Petit Mouton, Pavillion Rouge and Carruades Lafite were amongst the top ten price performers of the Bordeaux 500 in 2015 – ranked one, three and six respectively. The Left Bank 200 index – representing some of the more accessibly priced Bordeaux chateaux – also performed well. It is up 13.1% since the market low in June 2014, more than any other Bordeaux sub-index. The performance of the Left Bank 200 was boosted by a number of big upgrades from Robert Parker in 2015. These included Haut Bailly 2009 and La Mission Haut Brion 2005, which were both upgraded to 100 points. The smaller chateaux included in the index have also responded better to an oversupplied market, pricing En Primeur at an attractive level relative to physical vintages already in circulation.

Liv-ex Bordeaux 500 Index: sub-indices (in Euros)



Source: Liv-ex

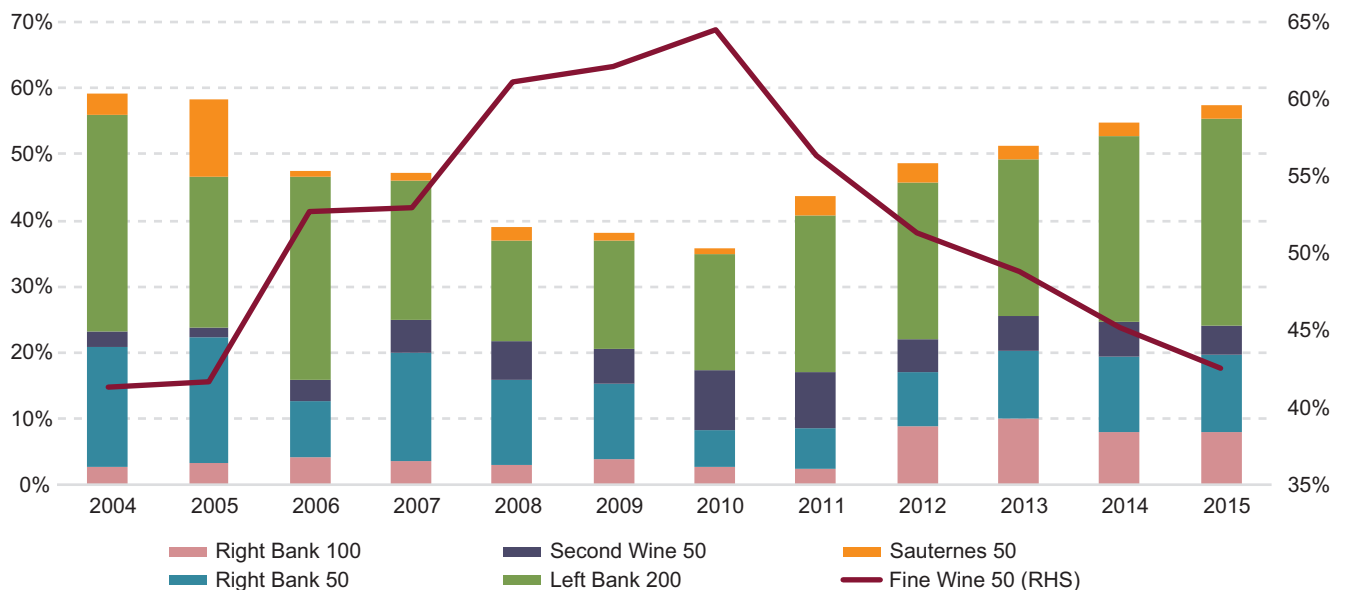
Over the medium to long-term, the Right Bank 100 index has also performed well. This is in part due to the 2012 St Emilion re-classification, which saw Angélus and Pavie promoted to Premier Grand Cru Classe A. The index is up 25.1% since mid-July 2011 and by 35.8% over five years. Sauternes, meanwhile, has continued to experience tough market conditions with many wines trading at lower prices in recent years.

Performance of Liv-ex Bordeaux Indices in Euros						
% change to end Jan 2016	since Jun 2014#	1 year	since Jul 2011##	3 years	5 years	10 years
Bordeaux 500 Index	8.8	0.4	-6.6	7.8	0.6	93.3
Fine Wine 50 Index	7.1	-1.8	-28.8	-2.9	-27.7	117.9
Left Bank 200	13.1	1.1	-0.6	10.4	12.0	85.6
Right Bank 50 Index	7.9	1.2	1.9	11.0	12.6	88.0
Right Bank 100 Index	8.6	1.0	25.1	15.8	35.8	100.7
Second Wine 50 Index	12.9	5.3	-23.9	6.4	-18.4	301.1
Sauternes 50 Index	0.1	-4.4	-14.8	-7.6	-12.3	-11.6

Market low, ## Market peak

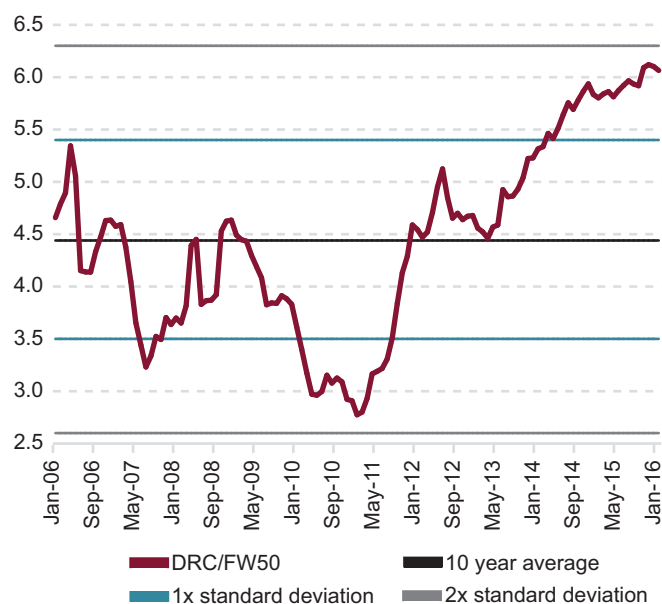
These trends are reflected in trade share by value across the Bordeaux sub-indices with the Left Bank 200 Index seeing better growth than many of its Bordeaux peers. The Left Bank 200's market share grew from 18% of the Bordeaux 500 in 2010 to 31% in 2015.

Share of Liv-ex trade within the Bordeaux 500 sub-indices



Source: Liv-ex

Price ratio — DRC:First Growths



Source: Liv-ex

First Growths now offer value?

Although the First Growths have underperformed when compared to their Bordeaux peers, they are perhaps now starting to offer better value when compared to wines from elsewhere.

When looking at a ratio of the DRC index and the Fine Wine 50 index, for example, there is evidence to support the view that DRC prices look overstretched compared to their Bordeaux equivalents at current levels.

As shown in the adjacent graph, the DRC:First Growth ratio hit a high of 6.1:1 in November 2015. At 1.83 standard deviations from the mean of 4.4:1 for the ten-year period, an adjustment in this relationship may be overdue.

The performance of the Bordeaux market has therefore been mixed in recent years. Across many of the sub-indices there have been definite signs of improvement, where buyers have perceived value in more accessibly priced vintages, often amongst lower classified growths. Much of Bordeaux's weakness has been concentrated in the First Growths but there are signs that prices are bottoming out. Indeed, the First Growths are starting to look like relatively good value when compared to some of the other top regional wines. This provides some scope for optimism as we approach the En Primeur campaign.

The En Primeur Market

It is widely anticipated that the 2015 vintage will be an improvement in both quality and quantity terms on recent years. Early feedback suggests that qualitatively it will fall somewhere between the good vintages of 2006, 2008, 2012 and 2014 and the excellent vintages of 2005, 2009 and 2010. En Primeur has, however, been loss making to the final customer in recent years and margins for the international trade have been few and far between. This has resulted in a sharp slump in sales outside of Bordeaux. One of the central questions surrounding this year's En Primeur campaign, therefore, is how the market will react to a vintage that is likely to be better in terms of quality and yield than previous years, at a time when six of the last ten vintages have produced negative returns.

Some light at the end of the tunnel

Bordeaux 500 En Primeur returns and margin formation

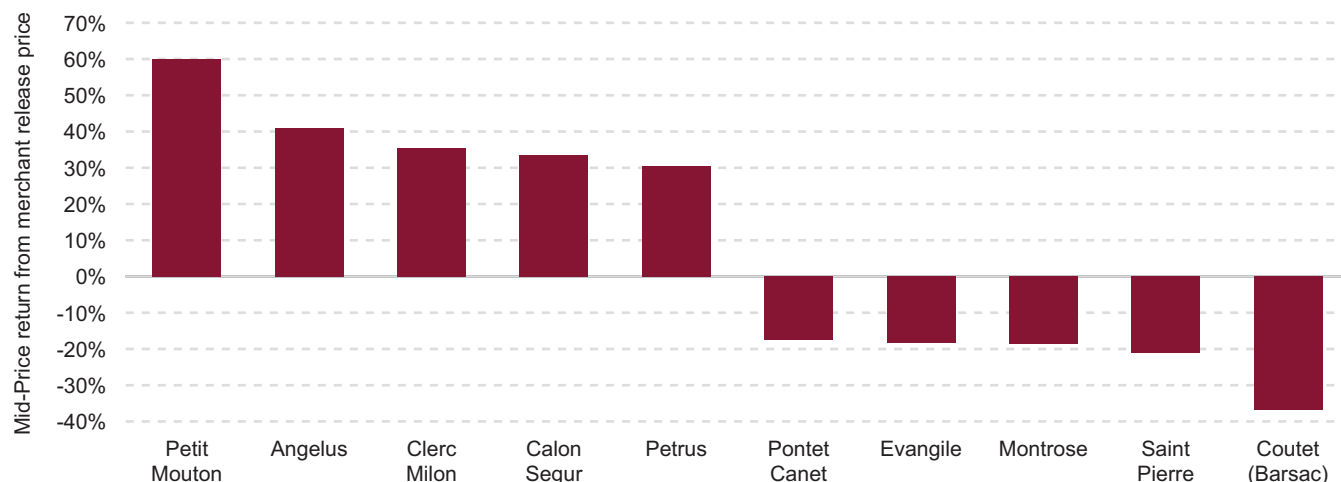
Vintage	Ex chateau	Ex negociant	Merchant Release	Supply Chain	Mid Price at Delivery [#]			Current Mid Price ^{##}	
	€/btl	€/btl	€/btl	Margin	€/btl	Return*	Index Return	€/btl	Return*
2005	116	143	179	35%	299	67%	49%	230	28%
2006	104	130	153	32%	115	-25%	-17%	133	-13%
2007	85	105	112	24%	105	-6%	5%	120	8%
2008	60	76	93	35%	176	89%	47%	129	39%
2009	180	225	293	39%	257	-12%	6%	246	-16%
2010	201	250	290	30%	233	-19%	-8%	227	-22%
2011	111	138	152	27%	119	-22%	-4%	118	-22%
2012	85	107	111	23%	125	13%	12%	121	9%
2013	80	101	109	27%	-	-	-	105	-4%
2014	86	108	118	27%	-	-	-	110	-7%
Average	111	138	161	31%	179	10%	11%	154	-0.1%

Liv-ex Mid Price 2 years after release, ## Liv-ex Mid Price as of 31st January 2016, *Return is measured against merchant release

The En Primeur story is not all negative. There is a positive story emerging around the 2012 vintage for example. Since physical release, the 2012 vintage has seen good levels of buying across a number of wines, initially benefitting from a weakening Euro. It has, on average, broken the recent trend and produced a positive return for the final consumer. As the data suggests, this is largely down to the fact that the 2012s had been better priced than previous vintages. The average ex-chateaux release price for 2012 was down 58% from the peak in 2010. It was also below the ex-chateaux average price of €111 per bottle for the ten-year period.

Release prices in 2012 were back to levels last seen in 2007, when buying En Primeur also produced a positive return for the consumer. Subsequent ex-chateaux release prices have on average remained close to the 2012 level. While there are still question marks around the quality of the 2013 vintage, this trend may bode well for the price of the 2014s when they become physical. It may also suggest that after five weak years, there are tentative signs that prices are returning to levels where they are attractive to the final consumer.

Best and worst performing Bordeaux 2012s (%)



Source: Liv-ex

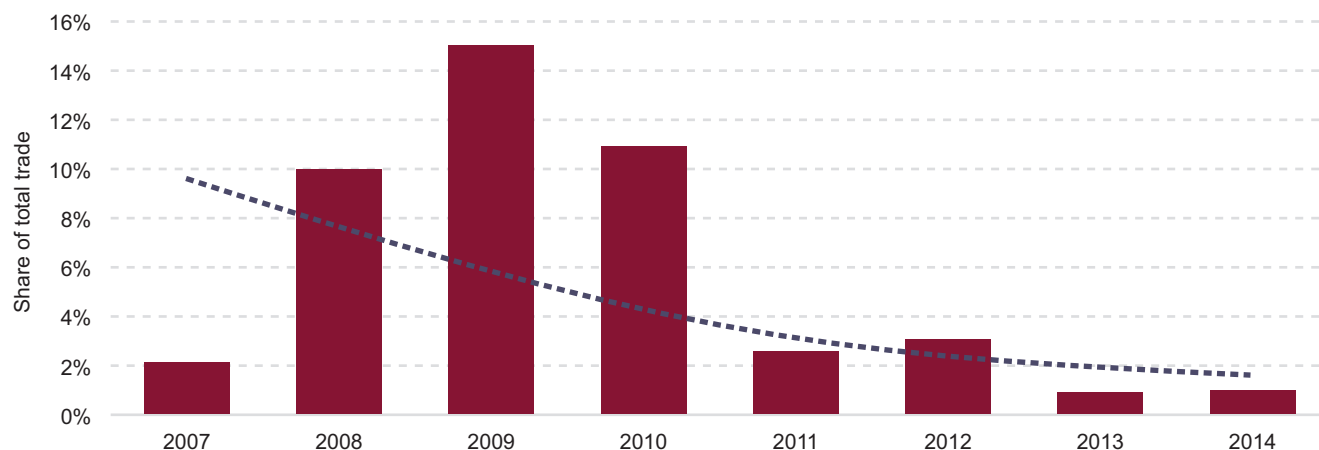
The five top performing wines from the 2012 vintage are all up between 30-60% from their merchant release price. Some wines, such as Clerc Milon, benefited from an upgrade from a low barrel score. The 2012 vintage was upgraded from a barrel range of 87-89 to an in bottle score of 92 points by the Wine Advocate.

Meanwhile, Angélus released a limited edition gold-imprinted black bottle for the 2012 vintage to celebrate its upgrade in the 2012 St Emilion classification. Angélus has reported that it has sold all of the 2012 wines that it released En Primeur. The performance of Petit Mouton supports the growth in popularity seen on the Liv-ex Exchange for the First Growths' second wines. Petit Mouton has also consistently performed well at En Primeur in the last 10 years. Other strong performers, Calon Ségur and Clerc Milon have also consistently been good buys at En Primeur.

In contrast, Coutet was the worst performing wine of 2012. This was a challenging year for Sauternes. Three of the sweet wines included in this guide – Yquem, Rieussec and Suduiraut – chose not to produce a wine in 2012 due to difficult growing conditions. Saint-Pierre and Montrose have produced negative returns for the consumer at En Primeur in the last four vintages.

Trade in En Primeur is still at very low levels

En Primeur sales on Liv-ex as percentage of total sales (by campaign*)



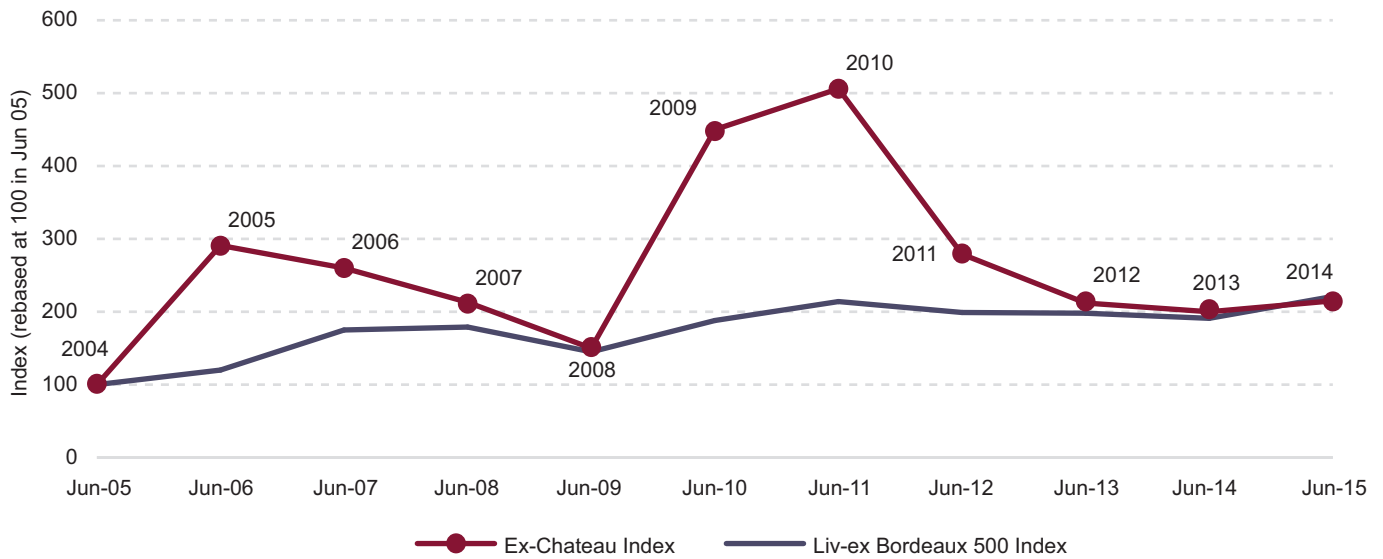
Source: Liv-ex

*En Primeur sales measured from start of campaign to end of March the following year

Interest in En Primeur has, however, remained low since its high point in 2009 and has fallen considerably since the China-led boom. Share of En Primeur trade on Liv-ex peaked at 15% for the 2009 vintage and has only seen a noticeable increase for the more accessibly priced 2012 vintage. En Primeur trade for the 2014 vintage stood at 1% of total trade, similar to the level seen for 2013. Liv-ex members report similar falls in activity.

En Primeur prices coming back into line?

Ex-chateaux price index relative to the Liv-ex Bordeaux 500

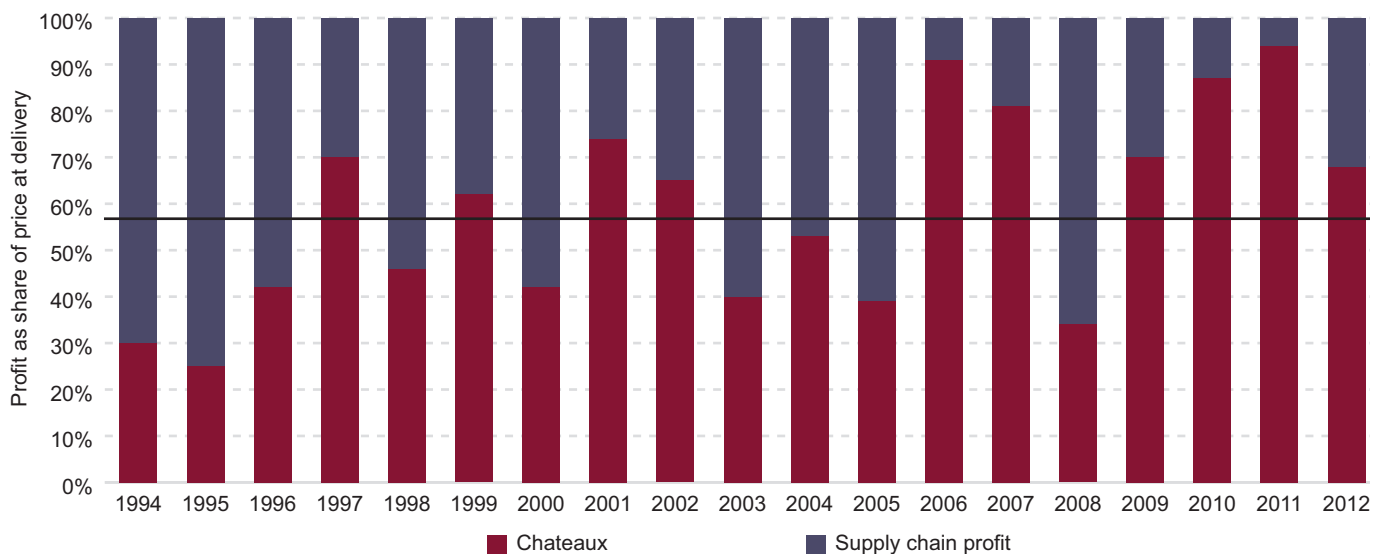


Source: Liv-ex

Ex-chateaux prices became disconnected from the secondary market after the release of the 2008 vintage. Release prices increased by 237% between 2008 and 2010, but have subsequently fallen 60% on average. This has brought ex-chateaux release prices back into line with the secondary market. A more balanced market could provide a better price environment for the release of the 2015 vintage.

Supply chain margins remain well below the historic norm

The ex-Chateau price as a share (%) of the market price at delivery



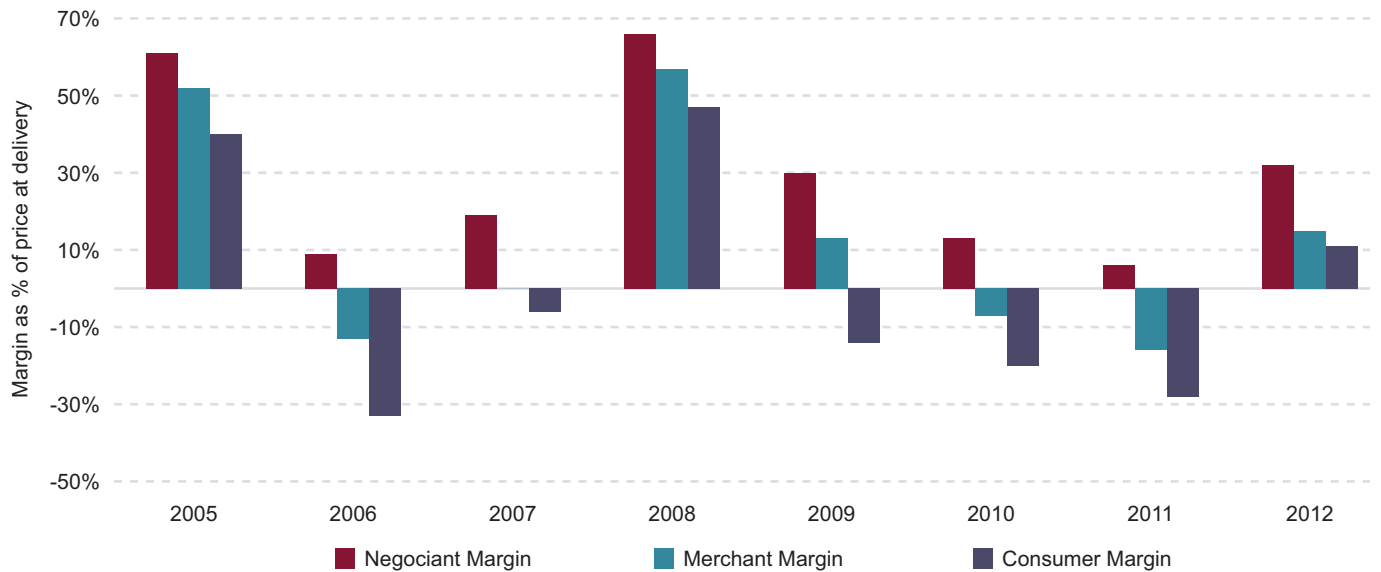
Source: Liv-ex

The chart above measures the ex-chateau price for a basket of leading Bordeaux wines as a percentage of the market price at delivery. This is a useful barometer to gauge the division of profits between the Chateaux and the supply chain (which includes the negociant, the international trade and the consumer). As the chart indicates, the chateaux's share of profits have remained well above the 20-year average in six of the last seven vintages. The campaigns of 2006, 2010 and 2011 saw the chateaux's share of profits at 85% or more of the total. From 2006 to 2012, the chateaux's average share of profits was 75% compared to 54% for the seven vintages between 1999 and 2005. This has resulted in very low margins for the international trade and negative returns for the final consumer in recent years.

As the chart overleaf shows, negociant margins have fared better. They have remained positive for the last eight vintages, maintaining a 30% average (when comparing the ex-chateau price to secondary market prices at delivery). Meanwhile, the international trade has seen minimal to negative margins in four of the last eight vintages and consumers have lost money in five of the last eight. Only in 2005, 2008 and 2012 did all three market sectors achieve positive returns. In the medium to long-term, this will need to be addressed if the chateaux wish to ensure efficient distribution of their wines at En Primeur.

Negotiant, merchant and consumer margins measured at delivery (%)

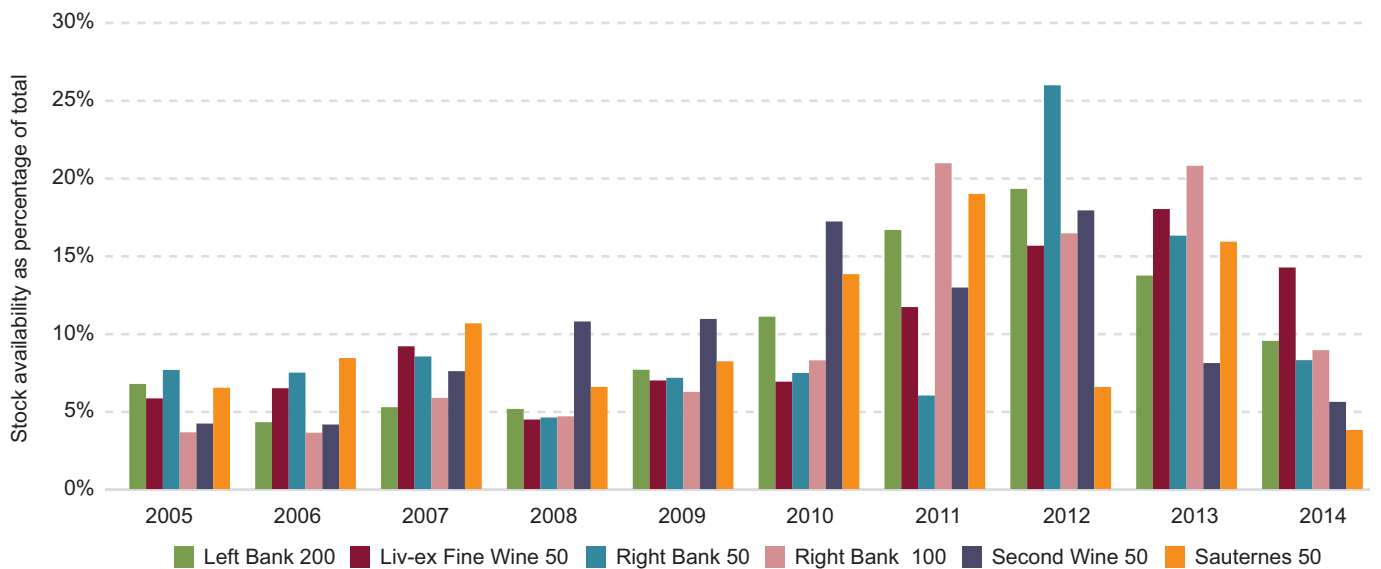
Negotiant, merchant and consumer margins as % of price at delivery



Source: Liv-ex

Supply of young wines remains an obstacle

Stock availability by vintage as a percentage of total for each sub-index (as of January 2016)

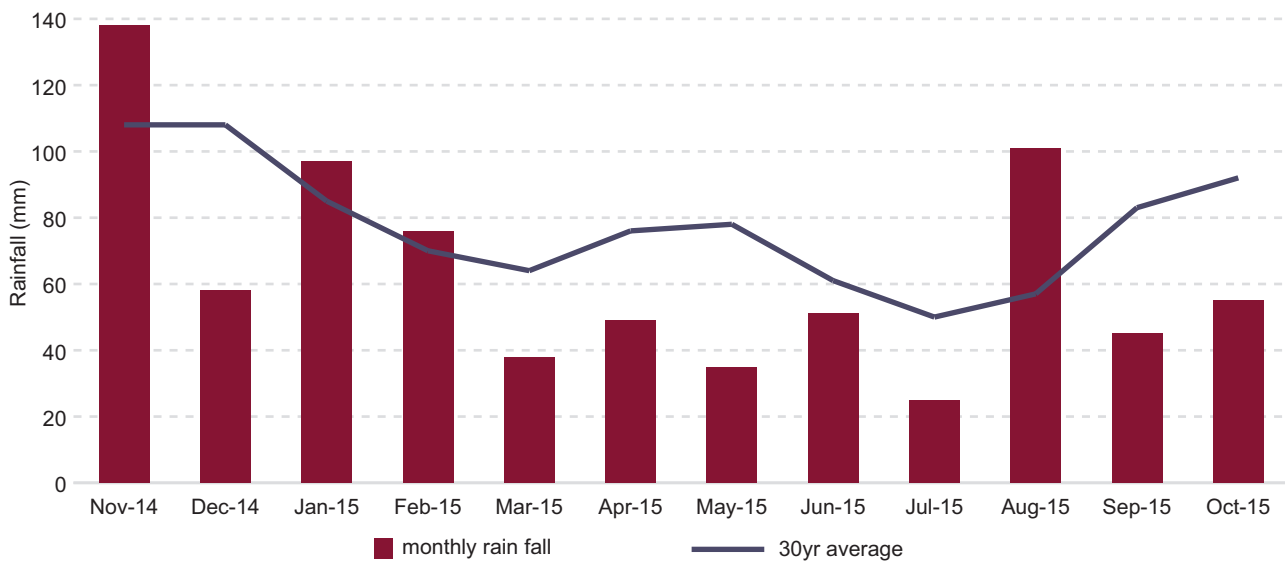


Source: Liv-ex

The failure of recent En Primeur campaigns has resulted in a build-up of unsold stocks in the supply chain, particularly in Bordeaux itself. This is reflected not just in our analysis of merchant stock lists above, but also in the balance sheets of leading Bordeaux negociants (see page 16). The chateaux have also reacted to lower demand by reducing the quantity of wine released at En Primeur. Montrose, Angélu and Mouton Rothschild are recent examples of this trend, while Latour has withdrawn from the En Primeur market all together. This may partly explain why there appear to be smaller quantities of the 2013 and 2014 advertised on merchant lists. This relative oversupply as compared to older vintages is likely to continue to hold back prices for the 2010, 2011, 2012 and 2013 vintages until stocks in both the supply chain and at the chateaux have been cleared.

Weather conditions suggest a good to great vintage in 2015

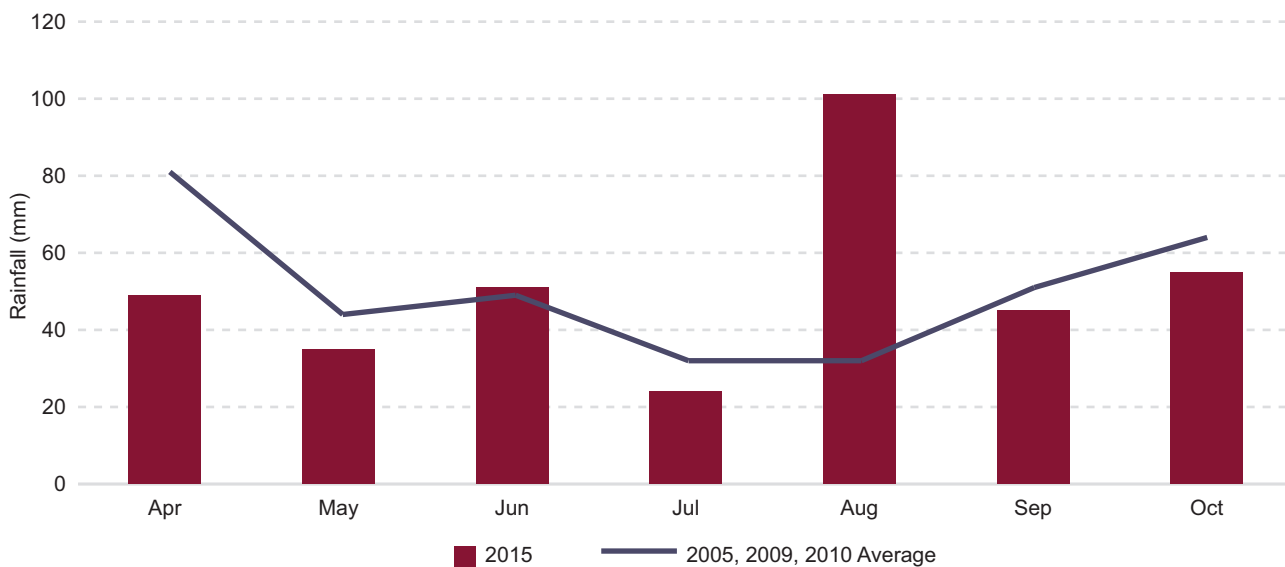
Bordeaux rainfall (mm) November 2014-October 2015 vs 30 yr average



Source: @GavinQuinney

This research was prepared before the UGC tastings, but expectations for the 2015 vintage are high. Bordeaux wine producer and writer, Gavin Quinney, has stated that the 'Bordeaux Rule of Five' remains intact. Figures show that in April, May, June and July combined, Bordeaux had around half the 30-year average rainfall. This trend was reversed in August, when rainfall was well above the long running average. The 2015 vintage also experienced significantly warmer weather than previous years. May and August saw temperatures in line with the monthly average, but April, June and July were a degree hotter.

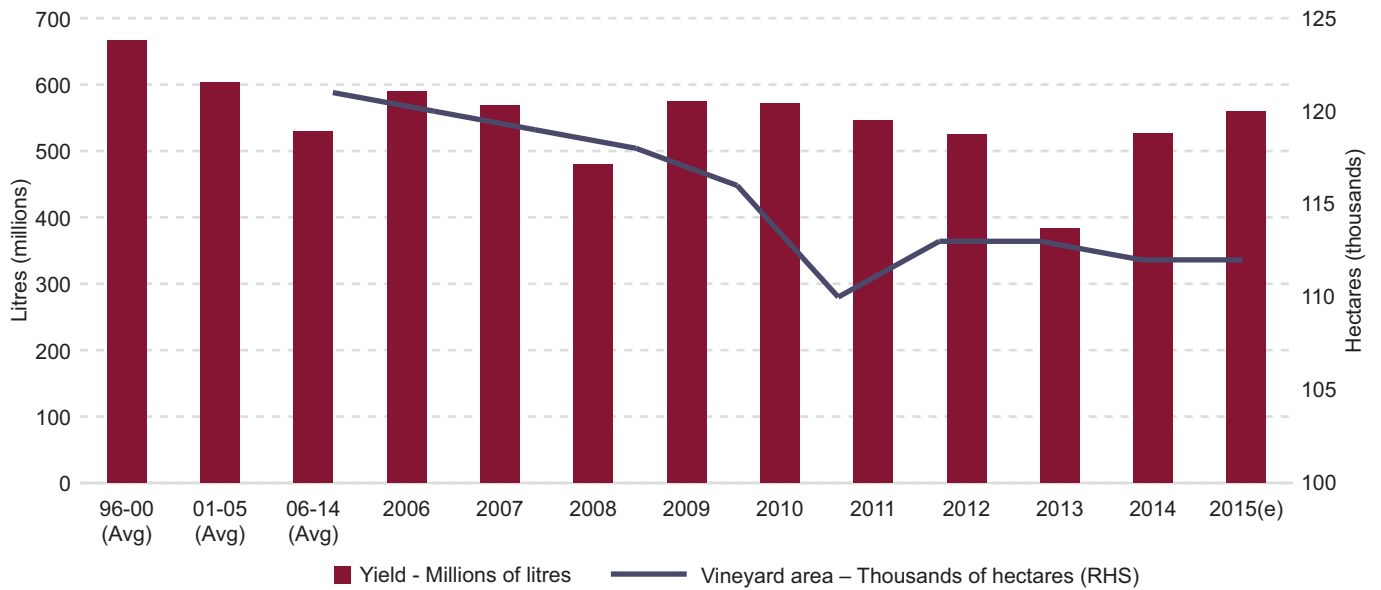
Bordeaux rainfall (mm) Apr-Oct 2015 vs 2005, 2009, 2010 average



Source: @GavinQuinney

Comparing the average rainfall in 2015 to the 'better' vintages of 2005, 2009 and 2010 confirms that rainfall was lower in April, May and July. Rainfall in June, however, puts the 2015 vintage in line with the excellent vintages of the last decade. On the other hand, August was well above the 2005, 2009 and 2010 vintage average. Quinney notes that the wines of 2015 might not be quite as good as those of 2000, 2005, 2009 and 2010 but are 'destined to be approachable sooner.' He also states that the rainfall seen in August and mid-September varied considerably from one sub-region to another, and even from one commune to another. This could result in some inconsistency between wines, making the tastings in April particularly interesting.

Bordeaux yields 2006-2015

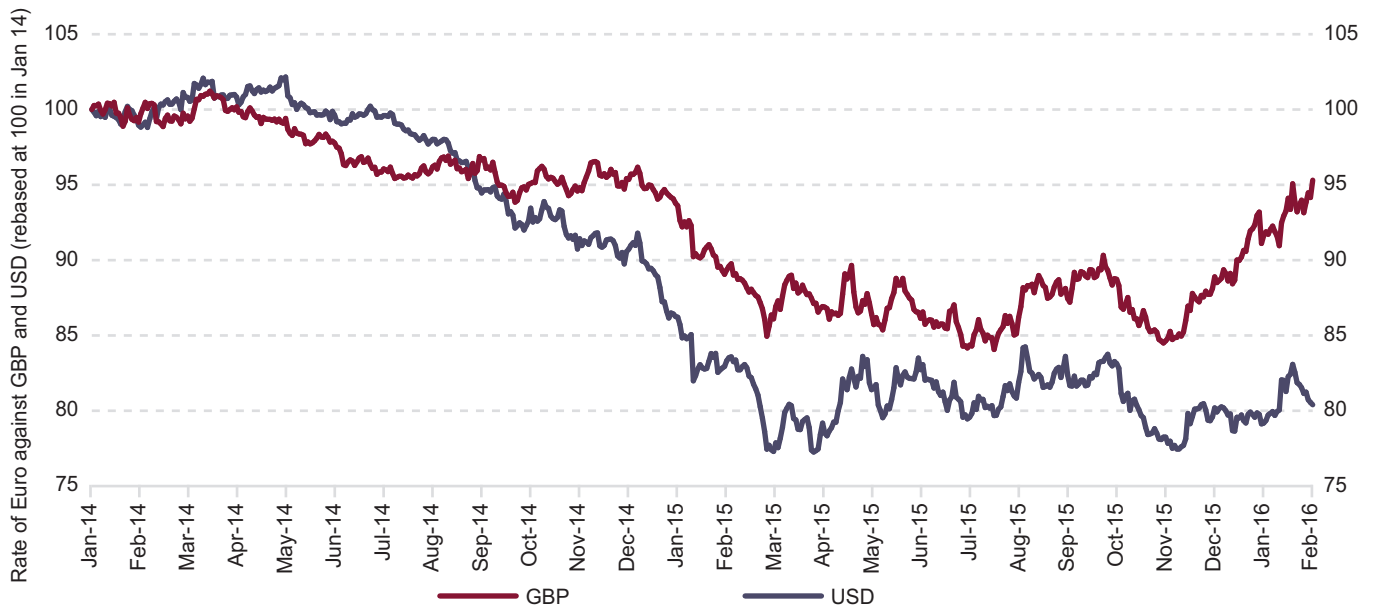


Source: @GavinQuinney

Yields for 2015 across Bordeaux are better than those in 2014 with an estimated 560 million litres – above the average for the 2006-2014 period. Yields are also closer to those seen in 2009 and 2010. Quinney notes that some of the younger vines on drier soils suffered in the drought and heat of July. Overall he states that there was a good balance. The berries were small and the skins were thick, which is a good sign for concentration and overall quality. He estimates that there will be around 750 million bottles produced across Bordeaux, up from 700 million bottles in 2014.

Does a rising Euro create some uncertainty for UK buyers?

Euro against GBP and USD



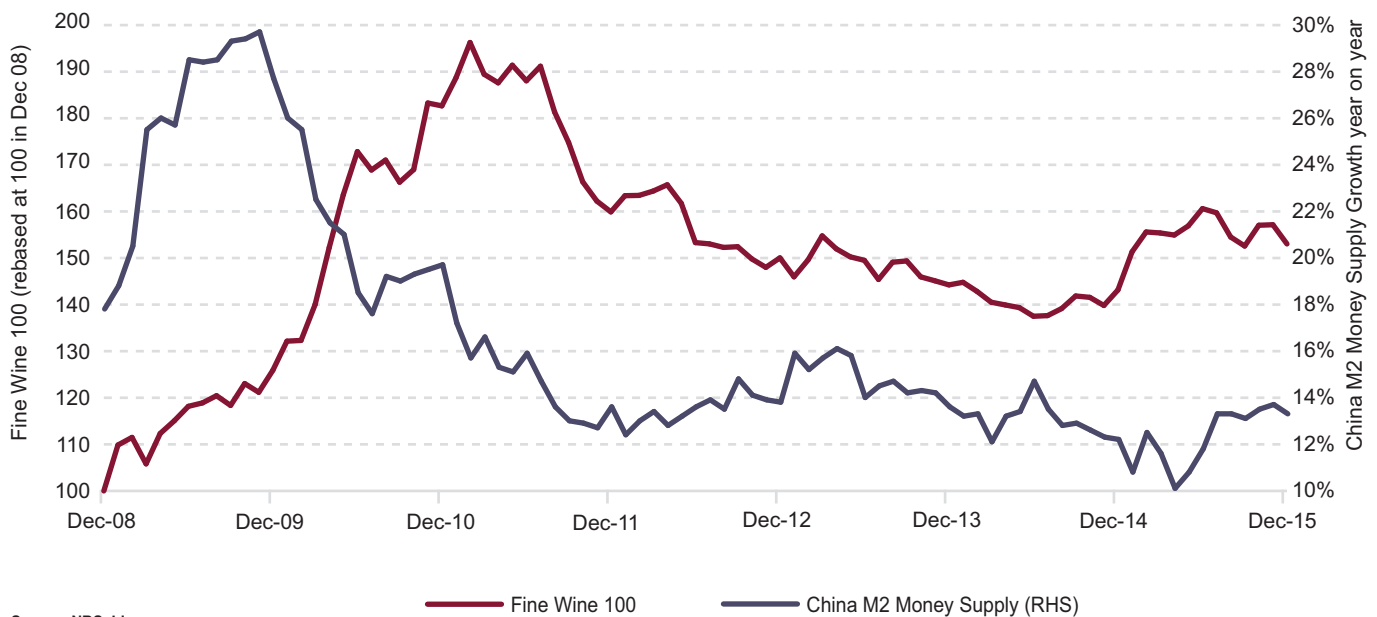
Source: Liv-ex

A stronger Euro against Sterling will make En Primeur prices for UK merchants less attractive. The Euro has risen around 13% against Sterling since the end of November 2015 and currency volatility surrounding a potential 'Brexit' is causing uncertainty and nervousness amongst market participants. UK merchants also fear a Sterling rebound after the June referendum which will make fresh stocks out of Bordeaux cheaper than those purchased in April, May and June.

Meanwhile, the Dollar has fared better than Sterling with the Euro only up marginally by 2% since April 2015. This may leave US and Hong Kong buyers better positioned than the UK trade ahead of this year's campaign.

Demand from China is likely to remain muted

China M2 Money Supply Growth y-o-y (%) v Liv-ex 100



Source: NBS, Liv-ex

China's appetite for purchasing En Primeur peaked in 2011, and buyers have since been suspicious of purchasing wine as futures. The boom in Chinese demand was in part driven by China's RMB 4 trillion economic stimulus package in 2009. As can be seen from the graph, there is strong correlation between the Liv-ex 100 index and China's macro-economic environment. This was particularly marked after the country implemented stimulus measures in the wake of the financial crisis.

China's slowing economy and the implementation of its 'anti-graft' campaign in 2012 has seen a large number of Chinese buyers exit the En Primeur market. The fine wine market in China now tends to be made up of smaller private buyers who are more selective in their purchases. Anecdotal evidence also suggests that China still has significant stocks of classified growths that are likely to remain an obstacle to fresh demand for the foreseeable future.

Hong Kong fine wine imports from the UK against Liv-ex Fine Wine 50

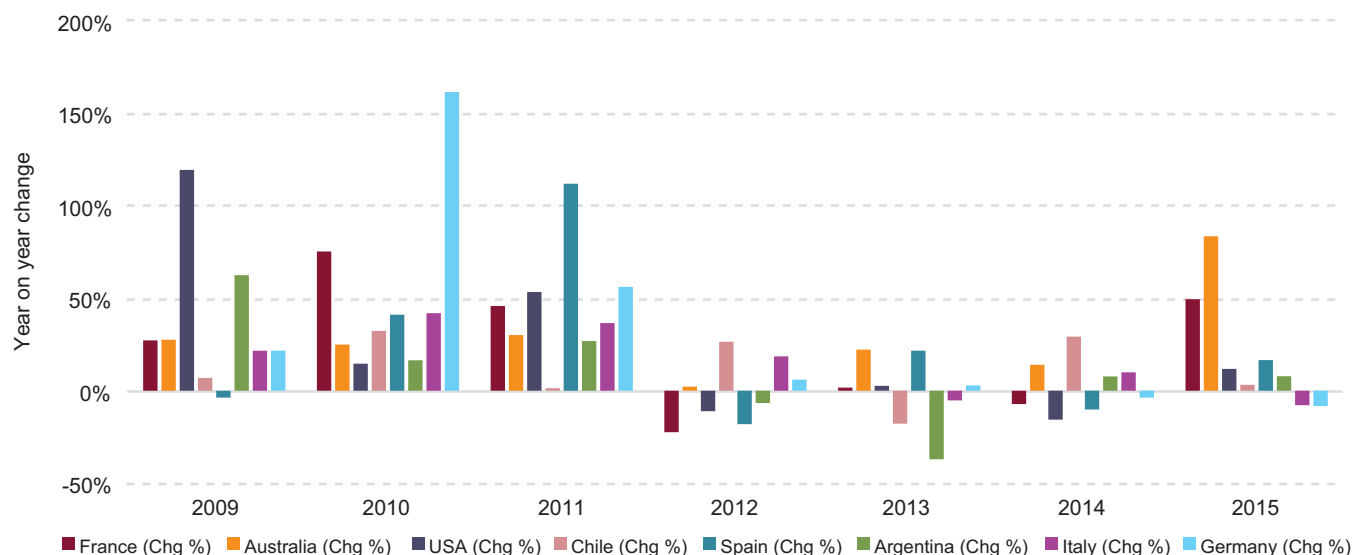


Source: HKTDC, Liv-ex

Demand for fine wine in Asia as measured by Hong Kong imports from the UK was broadly flat with a 0.2% rise year-on-year. However, this small increase continued to break the downward trend seen in 2012 and 2013 when UK imports were down by 26.8% and 8.5% respectively. Wine imports from the UK are a good proxy for fine wine demand, because generic wine exports from the UK are negligible.

The Dollar may also provide some support for fine wine imports to Hong Kong, but conditions in the global market remain tough with demand from China remaining well below levels seen in the boom years. Overall, Hong Kong trade numbers show that imports are down around 28% since 2011.

Hong Kong wine imports by country year-on-year change (%)



Source: HKTDC

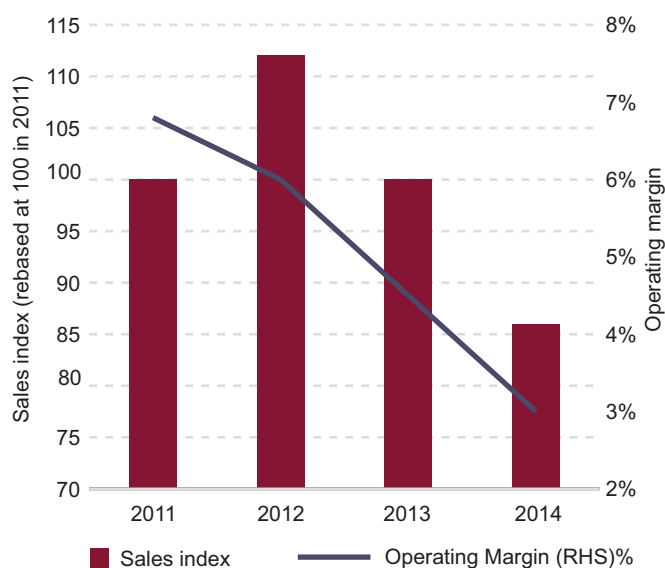
According to the HKTDC, China and Macau were Hong Kong's major wine exporting destinations in 2015 making up 91.9% of total wine exports. There was a surge in imports to Hong Kong from Australia in 2015 with an 89.4% year-on-year increase. This followed the signing of a free trade agreement (ChAFTA) between Australia and China in May 2015, which will remove tariffs on Australian wine imports over time.

Imports from France have also increased significantly year-on-year with the majority of these imports likely to be made up of lower value wines. This trend indicates that French wine still holds an appeal for Chinese consumers looking for value. Imports from France in 2015 also increased at their highest rate since 2010. Overall, the increase in wine imports from these regions represents cheaper generic wine entering China and is representative of the general growth in wine consumption amongst the expanding urban middle-class. This is likely to bode well for Bordeaux wines at all levels over the medium to long-term.

The European picture

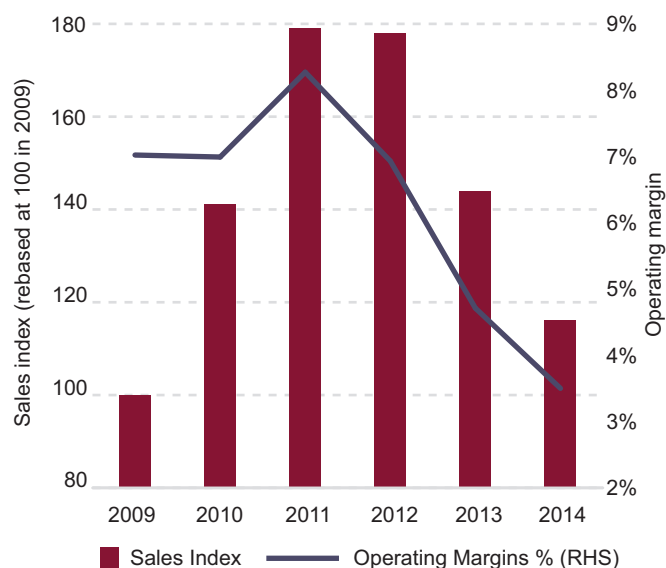
The UK and France remain by far and away the biggest markets for Bordeaux at En Primeur. These markets are likely to remain price sensitive in 2015. As the charts show below, both the UK and Bordeaux trade (as represented by published numbers for the leading players in both regions) have seen a sharp downturn in sales and margins in the last few years.

Bordeaux negociant: sales and profit margins



Source: Liv-ex, Creditsafe.com

UK trade: sales and profit margins

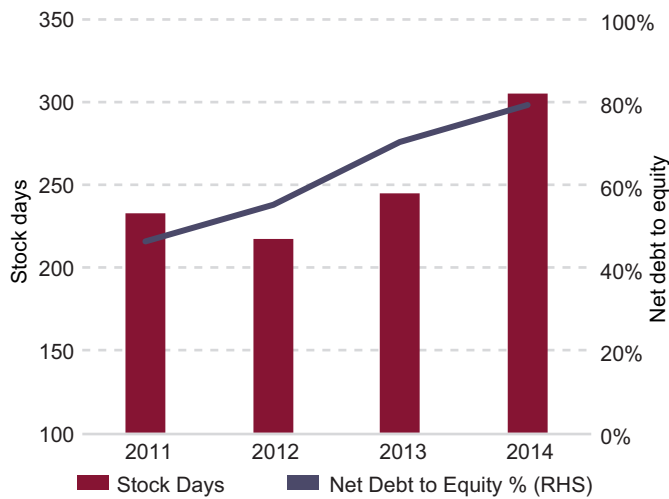


Source: Liv-ex, Creditsafe.com

Merchants in both regions saw a further drop in sales and margins in 2014. Fine wine sales fell 13% in Bordeaux and 19% in the UK, while operating margins were down from 4.5% to 3% and 4.7% to 3.5% respectively. As the charts show, this deterioration in profitability for the Bordeaux trade has been matched by a sharp build up in stocks and debt. Negotiants have been reluctant to give up their allocations as international demand for En Primeur has waned. Stocks increased from 246 days in 2013 to 305 days of sales in 2014, while debt to equity increased from 70.2% to 79.6% on average.

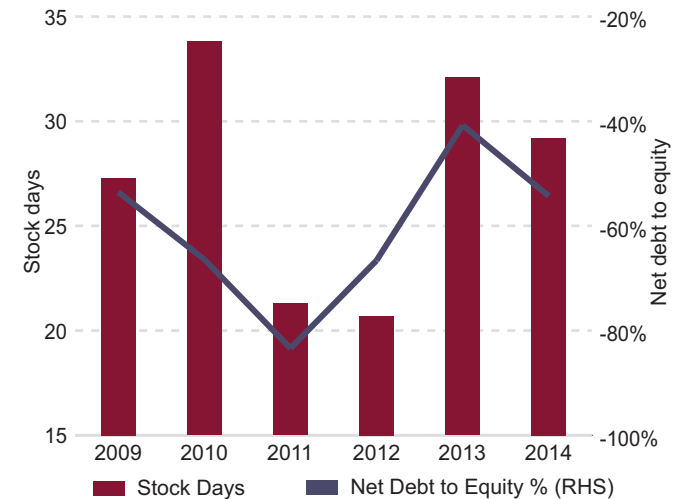
The UK trade by contrast tends to operate with much lower stock levels and have chosen to let allocations go rather than take on stock in wines that they cannot sell. As a result, stock days are much lower than in Bordeaux and have fallen from 32 days in 2013 to 29 days in 2014. By and large, UK balance sheets are also awash with cash. In 2014 cash accounted for more than half of net assets, suggesting that the UK trade could finance a successful campaign if the vintage was priced at an attractive level for the UK market.

Bordeaux negociant: balance sheet ratios



Source: Liv-ex, Creditsafe.com

UK trade: balance sheet ratios



Source: Liv-ex, Creditsafe.com

What price Bordeaux 2015?

The chart below compares the current average Market Price against the average Wine Advocate score for the wines in the Liv-ex Bordeaux 500 Index. It is notable how aligned score and price are and how much difference a score of 95 or more makes to the average price. The great vintages of this century – 2005, 2009 and 2010 – score nearly 97 points on average and trade at €248, while the other vintages score 92 points and trade at just €126 on average. It is too early to make a definitive call on the quality of the 2015 vintage. The early consensus is that it sits somewhere between a good vintage such as 2006, 2008, 2012 and 2014 and a great vintage like 2005, 2009 and 2010. If this proves to be the case, then there will be plenty of room to price the campaign in such a way as it proves attractive to all participants. This would be the best possible outcome for the market.

Average Market Price vs Average Wine Advocate Score for wines in the Bordeaux 500 Index



Source: Liv-ex, Wine Advocate

■ €/btl ◆ WA Score

Conclusion

Bordeaux prices have been under pressure in recent years. On a number of occasions buying En Primeur has failed to deliver returns to buyers that have taken on the risk of purchasing the wines as futures. This has been the result of ex-chateaux release prices being pitched too high compared to wines already available in the secondary market.

Generally, the chateaux have been slow to adjust to a weaker secondary market since the end of the China-led boom. This has created a negative perception of the En Primeur system, with buyers unwilling to participate unless prices are attractive. Growing popularity of other wine producing regions has also created competition for the Bordeaux market. These factors have seen oversupply of younger vintages develop in the supply chain, and there is currently limited capacity for the market to absorb additional stocks.

It is not all negative for Bordeaux though. There have also been good levels of purchasing in the secondary market where buyers perceive value. The First Growths' second wines have performed particularly well, as have some of the reasonably priced wines that make up the Left Bank 200 and Right Bank 100 indices. Indeed, it is unfair to say that all wines have been badly priced at En Primeur, but a small number of wines have been particularly bad.

There are also some positive indicators for the 2015 campaign. The latest vintage is likely to be the best in quality and quantity terms since 2010. Recent ex-chateaux prices have come back into line with secondary market prices. The 2012 vintage has also done well since it became physically available and is producing a positive return for En Primeur buyers at current levels. The 2014 vintage looks well-placed to follow suit when it becomes physical next year.

Challenges remain. Foremost amongst these is the negative sentiment surrounding En Primeur. Low or non-existent margins for the international trade and negative returns for the consumer have alienated many traditional buyers. This will not be assisted by the currency as it was last year, particularly against Sterling. The prospect of a good vintage will likely draw large numbers to Bordeaux for the UGC tastings, but wines will need to be priced attractively against comparable wines already in the market for visitor numbers to result in meaningful demand. Nevertheless, there is a large gap in price between the good and the great vintages currently in the market. This is territory that 2015 looks likely to occupy and provides plenty of room for a successful campaign. Let's hope that Bordeaux grabs this opportunity with both hands.