LIV EX
THE FINE WINE MARKET

Bordeaux 2016 – hit and miss

JUNE 2016

Introduction

In April, Liv-ex proposed a new way of thinking about En Primeur. In our report, we argued that the current system, where release prices are set behind closed doors, has led to mispricing. This in turn has contributed to declining sales and lack of confidence with the En Primeur system.

Instead releases should be priced against older vintages already available in the secondary market, taking quality into account, rather than the current focus with year-on-year price changes. This would bring increased transparency and therefore confidence to the futures market. It is a change that could represent ‘a new dawn for En Primeur’ if adopted.

Feedback from Liv-ex members suggests that En Primeur 2016 has been reasonably successful. However, in the context of the largest harvest in a decade, exceptional vintage quality and a rising market, there is also a feeling that 2016 is not quite the triumph that it could have been. Many producers are still failing to price in line with the secondary market.

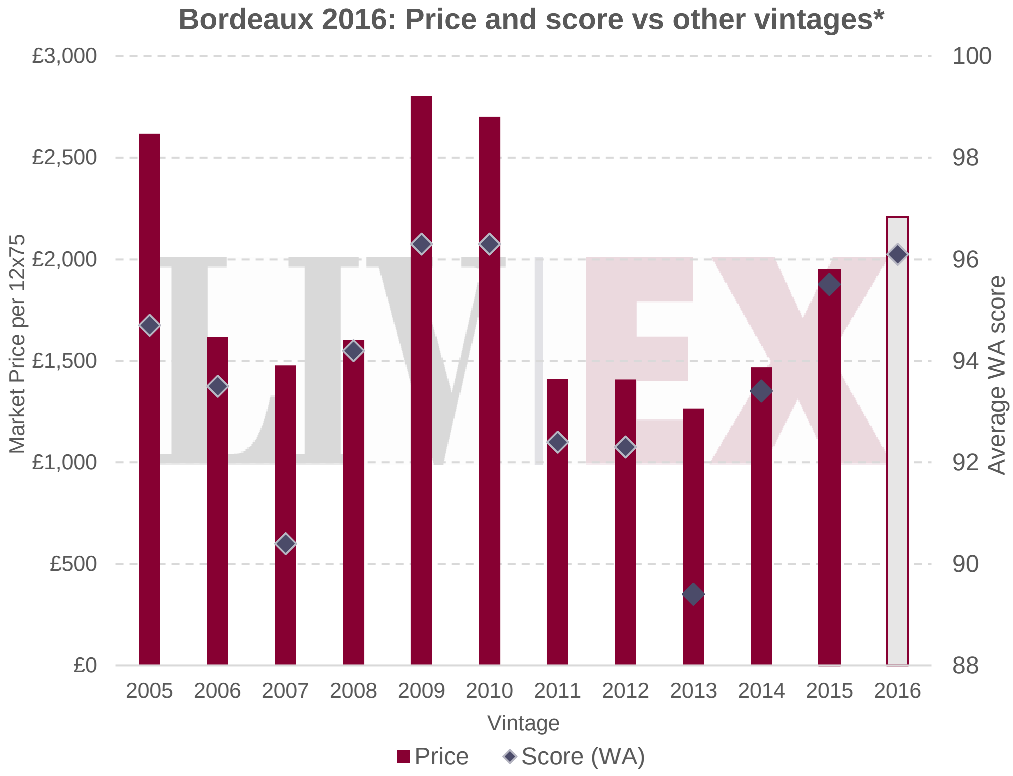
In this short report, we conclude the En Primeur season for this year by looking at the wines that appear to be most overvalued or undervalued according to Liv-ex’s fair value methodology.[1] We discuss examples of each in a case study with recent feedback from Liv-ex members. Finally, we show an example of a wine that is priced consistently with prices in the secondary market and the benefits that this brings to both producer and consumer.

2016 is a vintage of exceptional quality

There is little doubt among critics and the trade that Bordeaux 2016 is an exceptional vintage. In April Neal Martin published his in-barrel scores for 2016, giving the component wines from the Bordeaux 500 an average score of 96.1. This is higher than 2015’s score of 94.5, and just behind the great years of 2009 and 2010 which both scored 96.3 points at En Primeur from Robert Parker.

The chart below compares the release prices of the 2016s against average market prices of the previous 11 vintages. The 2016 vintage, with an average price of £2,210 per 12x75, is now the fourth most expensive vintage in the chart and carries the third highest average score.

[1] Fair value uses regression analysis to map the relationship between prices and critic scores. It can be used to estimate the ‘fair value’ of a particular wine for any given score. See http://www.insights.liv-ex.com/liv-ex-fair-value-methodology for further details.



*Scores at En Primeur

Prices were higher than expected

Given the higher quality of the 2016 vintage and the backdrop of a rising market, price increases were anticipated. From June 2016 to June 2017, the Bordeaux 500 index gained 7% in Euro terms. Liv-ex members anticipated increases in line with this: in a survey conducted before the campaign, merchants predicted an average increase of 7% across a basket of given wines. The reality was an increase of 16% for the basket.

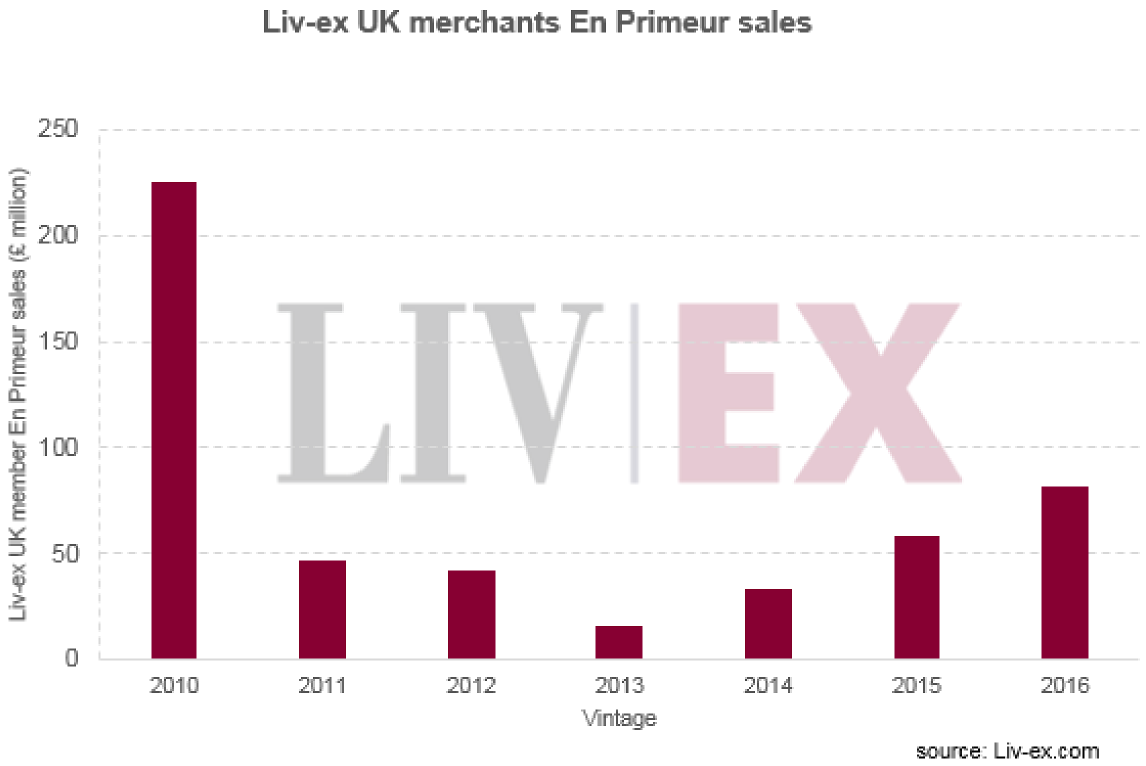
For UK buyers, the increases were even greater. The devaluation of the pound following the EU Referendum meant that merchants were offering this year's wines for 31% more on average than last year in sterling terms.

En Primeur 2016 appears to have been quite successful

Feedback from Liv-ex members suggests that 2016 En Primeur sales have been at their highest by value since the 2010 vintage. Total sales for a group of UK-based Liv-ex members stands at around £82 million, 40% higher than 2015, albeit inflated by a 15% devaluation of the pound as well as higher ex-negociant prices.

However, behind seemingly positive headline numbers lie many problematic releases. Most merchants are reporting that only around 30 wines sold well, a number that is greatly outweighed by the number of releases that struggled.

This appears to be due to a combination of overpriced wines not finding buyers and underpriced wines not being released in sufficient quantities. Despite this vintage being the largest harvest in the past decade, UK merchant sales volumes have only increased by 9% on 2015. In Asia despite sales increasing by 15-20% in value, cases sold remains flat on 2015. It is a similar picture in the USA.



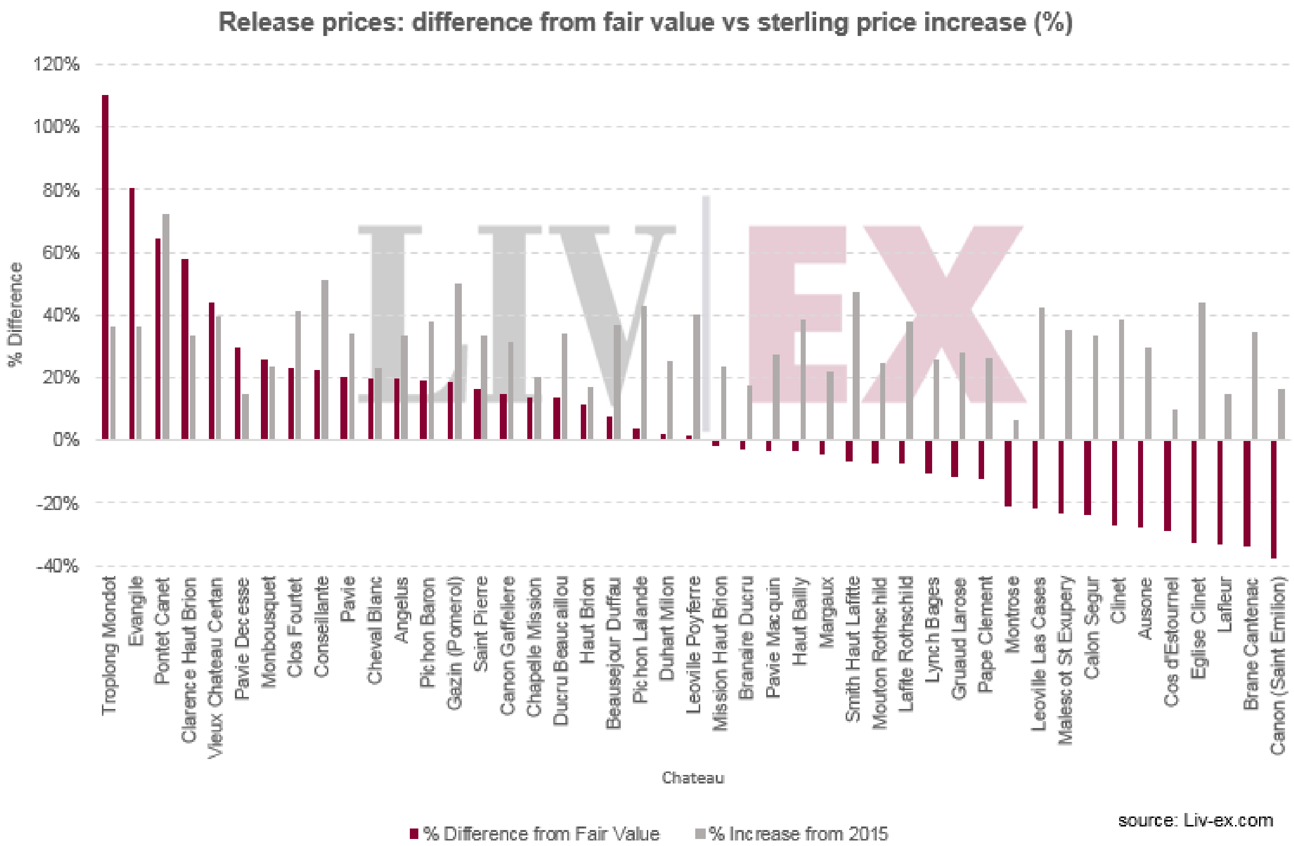
Which wines were overpriced or underpriced?

The chart below shows the percentage difference between ‘fair value’ and London release price by producer for 2016 En Primeur (shown in red). For reference, we also show the percentage price increase versus 2015, although this is irrelevant in determining whether a wine is overvalued or undervalued because it does not take quality into account.

As the chart shows, many wines enjoyed significant price increases over 2015 yet were still undervalued according to fair value. Similarly, many wines experienced lower price rises year-on-year but were overvalued according to fair value.

Price increases vs 2015 were consistently in a 20-40% range (10-30% in Euros). However, this masks a significantly wider spread of prices vs fair value in a range of 110% above to almost 40% below.

Every single wine was more expensive in sterling terms this year versus 2015, while the number of wines released above fair value was nearly identical to the number released below. On aggregate, En Primeur 2016 was priced 6% above fair value.



Interestingly, Troplong Mondot, the most overpriced wine at 110% above fair value, and Canon, the most underpriced at 37.5% below, were released within hours of each other on 1st June. Both chateaux decided to increase their prices by roughly the same amount, yet neither release was consistent with prices in the secondary market.

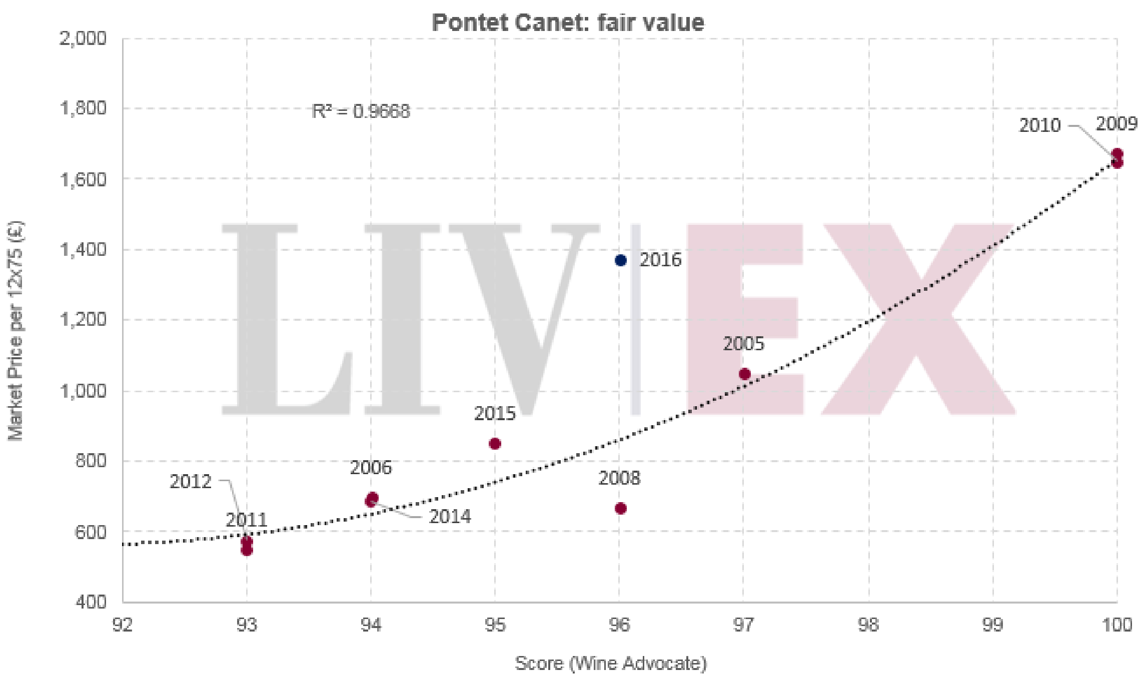
Case studies

Below, we consider three releases: one that is overpriced (Pontet Canet), one that is underpriced (Canon) and one that is fairly priced (Mouton Rothschild), according to fair value.

Pontet Canet

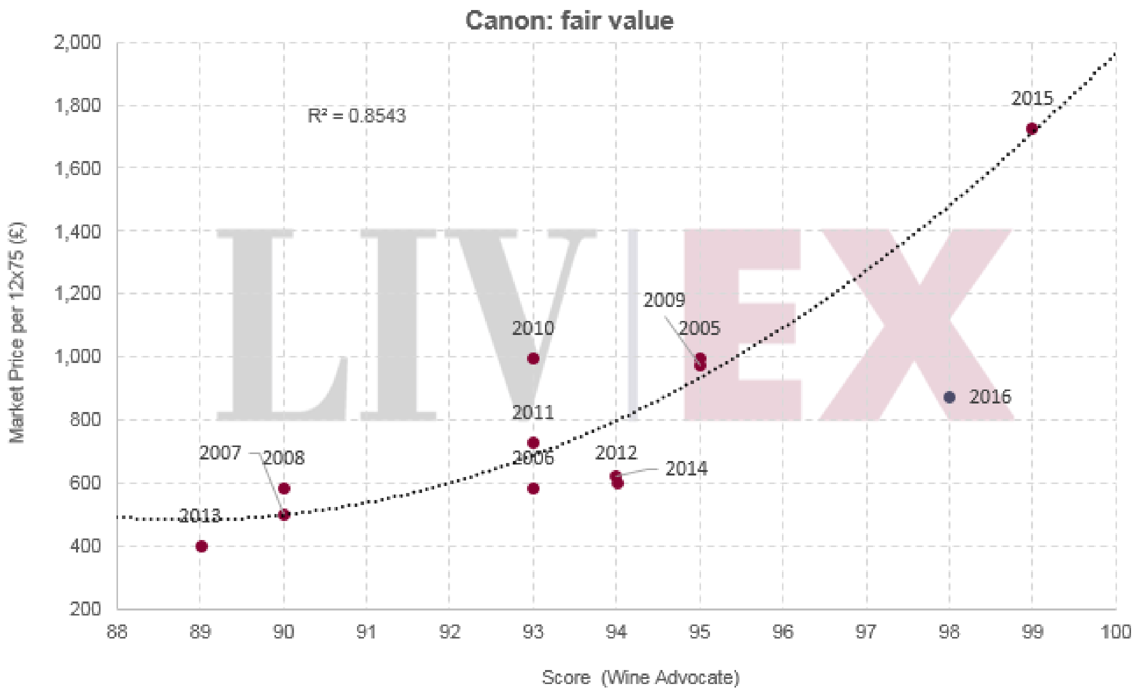
Pontet Canet released its 2016 at a price that was 72% higher than the previous year in GBP terms. According to fair value, the price increase was not justified. Prices in the secondary market suggest that a 96 point (Wine Advocate) Pontet Canet should be priced at around £835 per 12x75. According to this analysis, Pontet Canet 2016 is therefore overvalued by 64.4%.

From the chateau's perspective the elevated price may seem like a success. However, feedback from Liv-ex members suggests that merchants have found this wine much more difficult to sell than in previous years. Consumers have instead found value elsewhere or in back vintages. One merchant noted that it has been "very difficult to encourage clients" to buy the wine. Consequently, elevated stock levels might exert pressure on future prices.



Canon

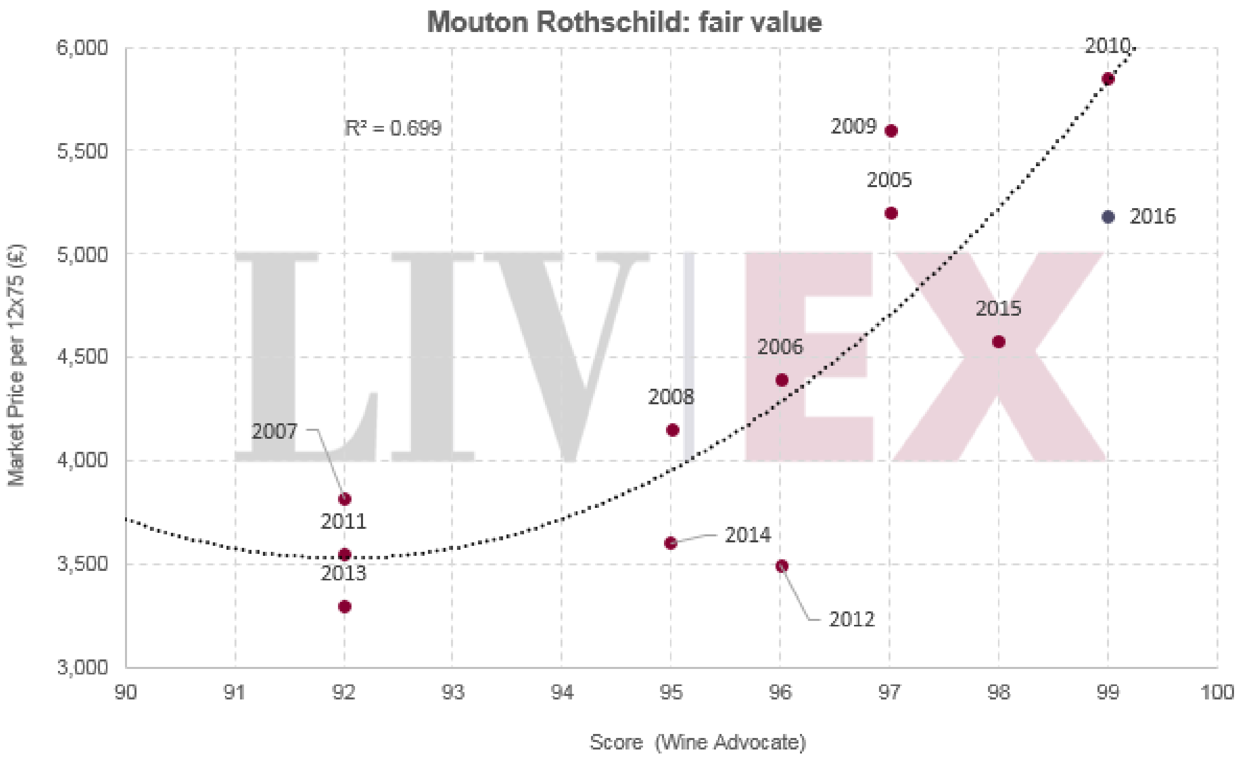
In contrast, releasing a wine at too big a discount to fair value is likely to benefit the consumer and the trade at the expense of lost profits to the producer. As the chart below shows, Canon's 2016 release was 17.3% more expensive in sterling than the 2015, yet was still 37.5% below fair value at the time. Consequently, Canon sold out immediately and is already being offered at a price that is 25% higher than its opening price.



Mouton Rothschild

Mouton Rothschild 2016 is an example of a release where both buyers and sellers appear satisfied and the wine sells through the value chain. This year Mouton Rothschild raised its prices 9.4% year-on-year although the price was still 7% below fair value.

At such a price level the chateau can be satisfied that it did not forego profits unnecessarily. Feedback from merchants, who called it "the most sought after First Growth this year", was also positive: they were able to sell the wine in volume. Consumers also received a reasonable discount to fair value to compensate them for the additional risk of buying En Primeur.



Conclusions

This year's campaign appears to have been reasonably successful. However, feedback from Liv-ex members suggests that it has not lived up to its considerable potential. Too many prices were inconsistent with those in the secondary market.

In some cases, chateaux have seemed reticent to release sufficient quantities of their wines, withholding more stock than in previous years. This may be a trend driven by an environment of ultra-low interest rates. We shall be exploring this in more detail in another report.

En Primeur continues to be hindered by an opaque system of price discovery that leads to a broad spectrum of mispricing. Price information in the secondary market can be harnessed to produce logical, fair prices that could help to restore confidence in En Primeur. As our case studies show, En-Primeur can work well when *both* producers and consumers benefit. This is more likely when a wine is priced close to, or at a small discount to, its fair value.

Bordeaux 2016 was not the triumph that it could have been because too many chateaux failed to price in this way. It is unsurprising, therefore, that 2016 is increasingly being referred to as *a campaign for the few, not the many*.