

Extended Report
January 2019

LIV | EX
THE FINE WINE MARKET

Burgundy – in the spotlight



Executive summary

In October last year, two bottles of DRC Romanee Conti 1945 broke records, becoming the most expensive wines ever sold at auction. While the “unicorn” vintage and the acclaimed vineyard played a crucial role in the high prices achieved for these bottles, the acknowledgement of Burgundy’s broader investment potential has been widespread. Headlines have focused on DRC but the region’s success has not been limited to this iconic brand. Burgundy dominated the Power 100 – our annual list of the world’s most powerful fine wine brands. As the star of the show, 29 of its labels were featured, and it accounted for 14 out of the top 20 price performers. Leroy was in the top spot, while Dujac – favoured by the American DJ Khaled – was the biggest price riser.

Continuous highs

Burgundy has been on a relentless rise. The Burgundy 150 index, which tracks the price movements of the most active Burgundy wines in the secondary market (principally Grand Crus), has climbed a staggering 168.8% since 2010. At the same time, a growing worldwide interest in the region has moved its market share from 1% to 14.5% by value. The secondary market for Burgundy remains unshaken by events that have affected global financial markets and continues to broaden. In 2018, 1,585 unique wines traded from 847 brands. The total value traded also continued to rise, while Burgundy’s exposure – the total value of bids and offers – a measure of its liquidity, surpassed £9.4million. So the question is – for how long can these trends be sustained?

The rising prices and En Primeur

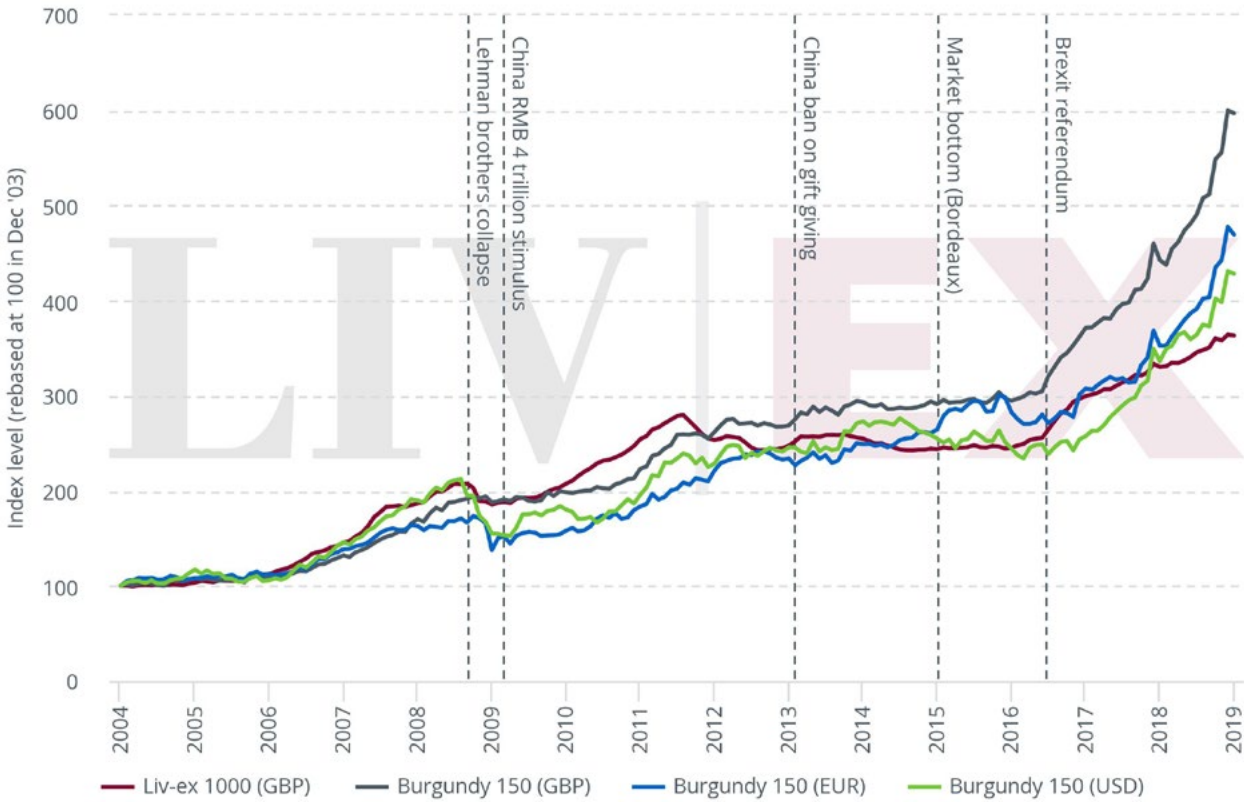
The diversity the region offers, combined with its long winemaking tradition and the rarity of its wines are only some of the reasons for its formidable performance. A series of small harvests has been a major factor in pushing Burgundy prices higher. Price rises were further strengthened as growing demand met this reduced supply. This year’s En Primeur campaign might influence, if not change, the landscape: Burgundy, famous for its scarcity and exclusivity, has produced a high-quality and high-quantity vintage across both red and white wines. The current market release could generate a mixed response. It might benefit well-known brands that typically command high prices, as Burgundy has seen a trend of collectors following winemakers rather than vintages. At the same time, the impact on less famous labels and village level wines might be less positive as the enlarged production could sit on the market for longer. Still, as high supply goes, Burgundy’s volumes seem modest in comparison to Bordeaux and other regions.

What happens next?

In 2018, the Burgundy 150 Index hit an all-time high as price rises gathered pace. But there are signs that this record-breaking rise could be facing some headwinds. With fewer buyers at these stratospheric prices, Burgundy prices are beginning to show increased volatility – often a sign of a turn. This month’s Burgundy campaign for the 2017 vintage, which is set to be the largest since 2009, will be a test of the region’s new price levels.

Development of the Burgundy Market

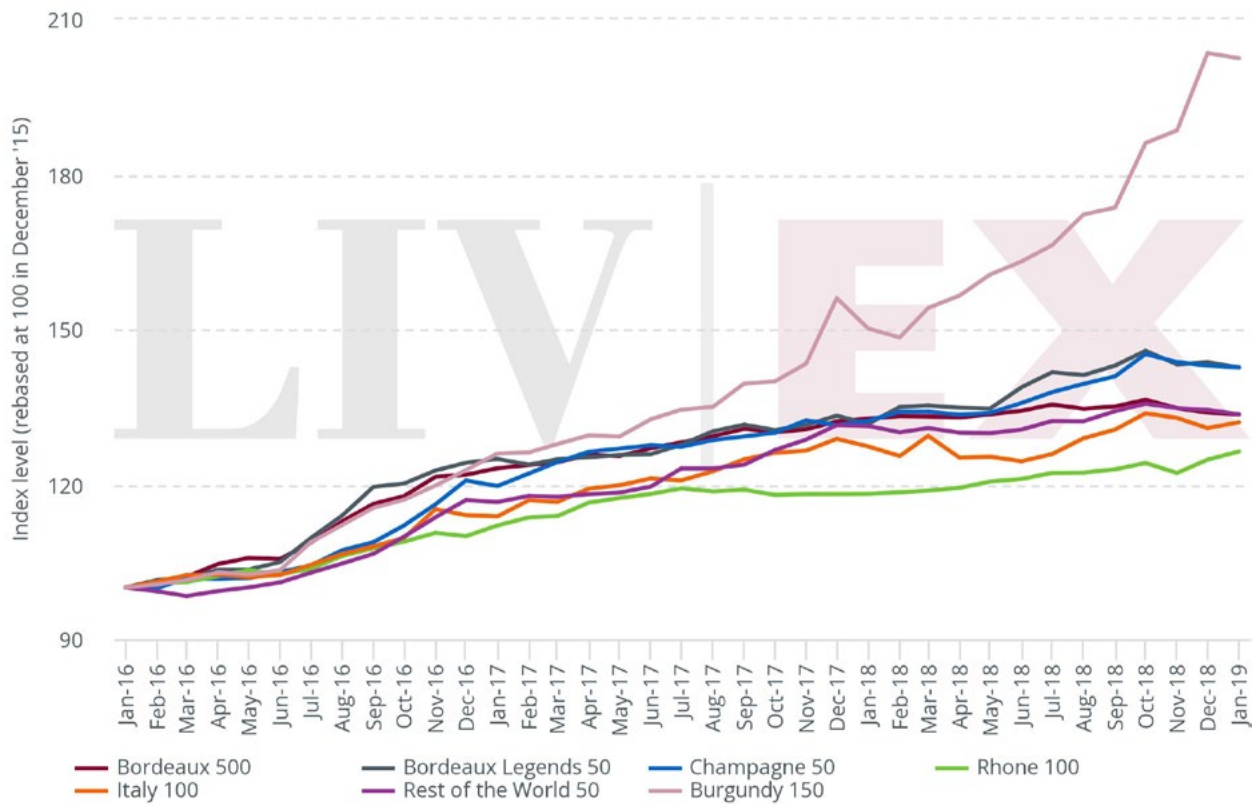
Chart 1: Burgundy 150 (in sterling, euros and dollars) vs. Liv-ex 1000



The Burgundy 150 has shown a compound annual growth rate of 12.7% since its inception in December 2003. In the past decade and a half, the index has experienced none of the volatility that affected the Bordeaux market, which was shaken by global events such as the financial crisis in 2008, the Chinese government’s monetary stimulus package in 2009 and the Chinese antigraft campaign from 2011. Over the past year, the index, denominated in Sterling, has risen in all currencies, vastly outperforming the broadest measure of the market – the Liv-ex 1000.

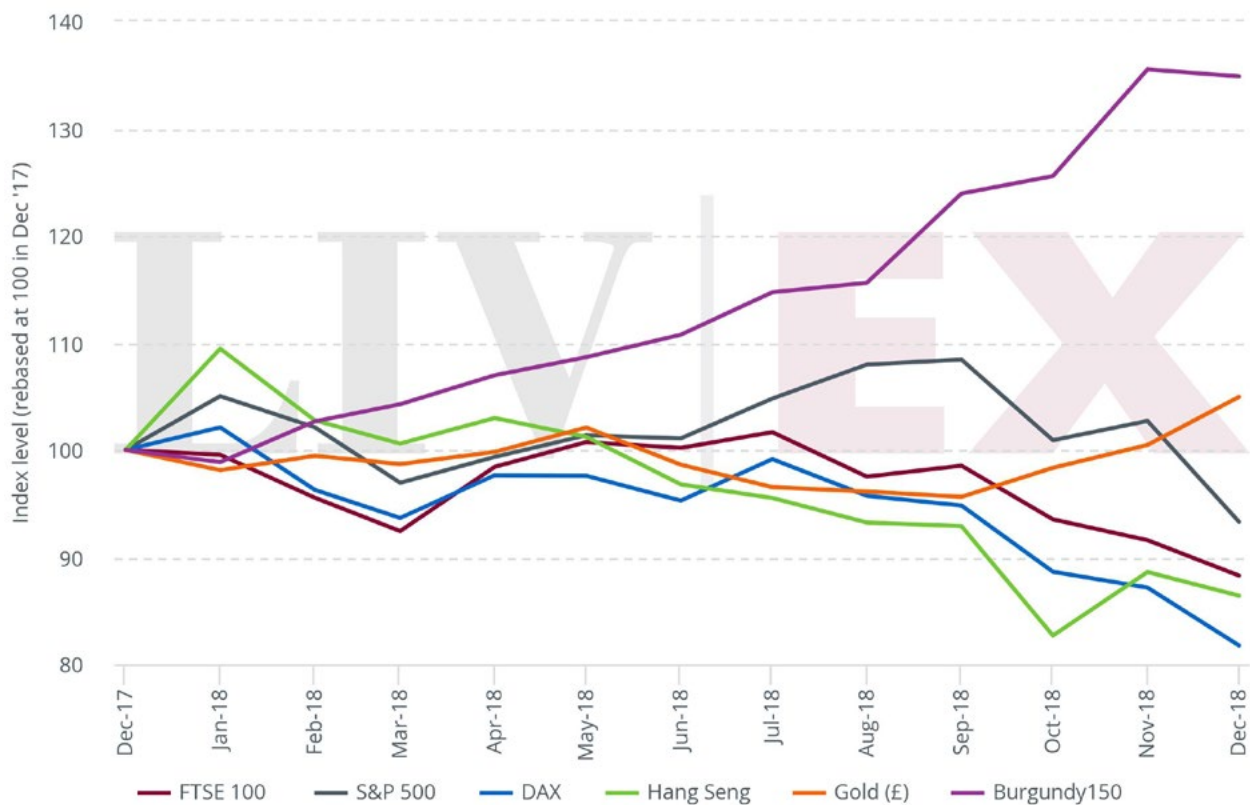
Burgundy breaks records

Chart 2: Burgundy 150 vs Liv-ex 1000 sub-indices (three years)



Not only has Burgundy outperformed the Liv-ex 1000, but it has also continued to widen the gap between itself and other regions. It has risen by 34.9% in the past year, while the other Liv-ex 1000 constituents have remained rather flat. As we have previously noted, Burgundy has seen sustained demand and has been less susceptible to currency volatility than all other regions.

Chart 3: Burgundy outperforms global equities in 2018



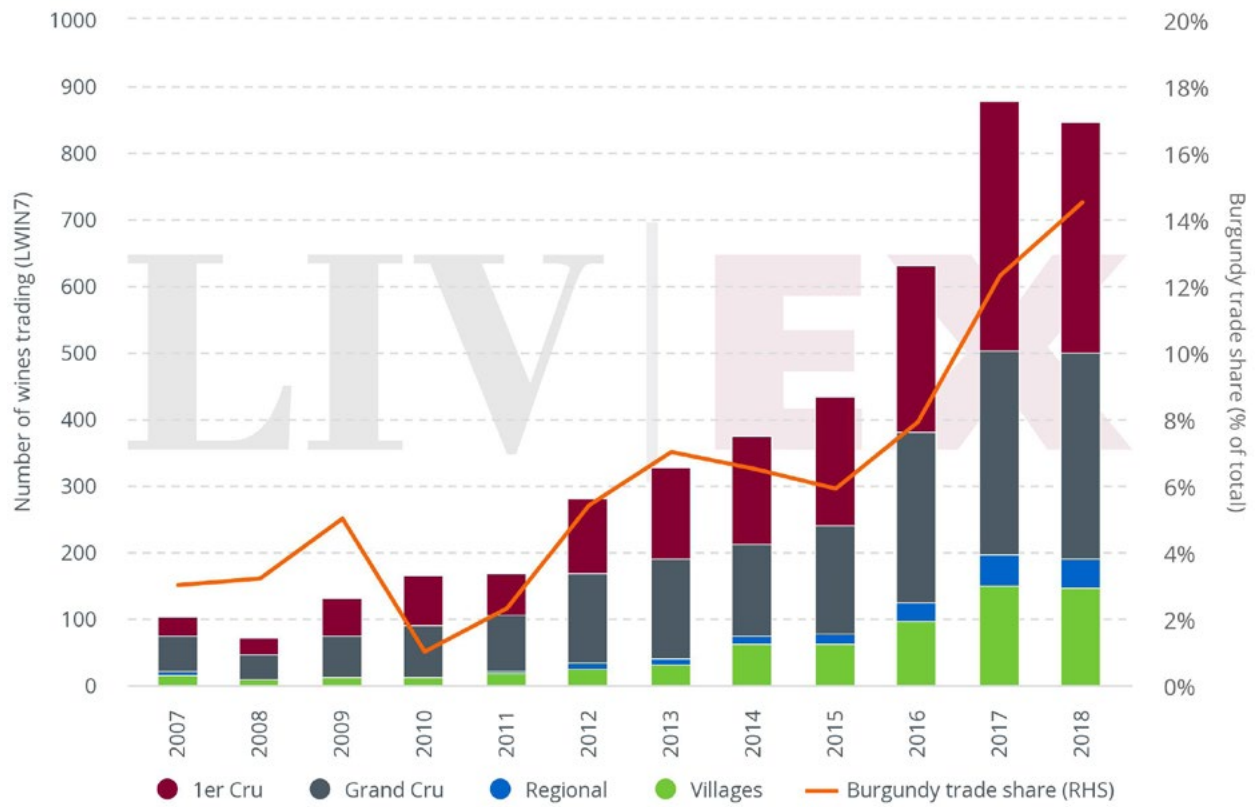
To put the performance of Burgundy into global perspective, chart 3 compares how the index has fared against mainstream financial assets. The Burgundy 150 has outperformed European, Asian and US equities, with a gain of over 35%, compared to a gain of only 5% for Gold.

Burgundy – has it peaked?

The breadth and depth of Burgundy wines trading has been stable this year. In 2018, 1,585 distinct wines and vintages traded on the secondary market, compared to 1,572 the previous year. The number of wines only, however, was slightly lower – 847 compared to 878 in 2017. The rise in different wines trading on the secondary market was largely a 2016 and 2017 phenomenon. As usual, the most active wines have been the Grand and Premier Crus – the two highest classifications – which command the highest prices. However, as the market has broadened, lower value wines from village appellations have also traded in good volumes.

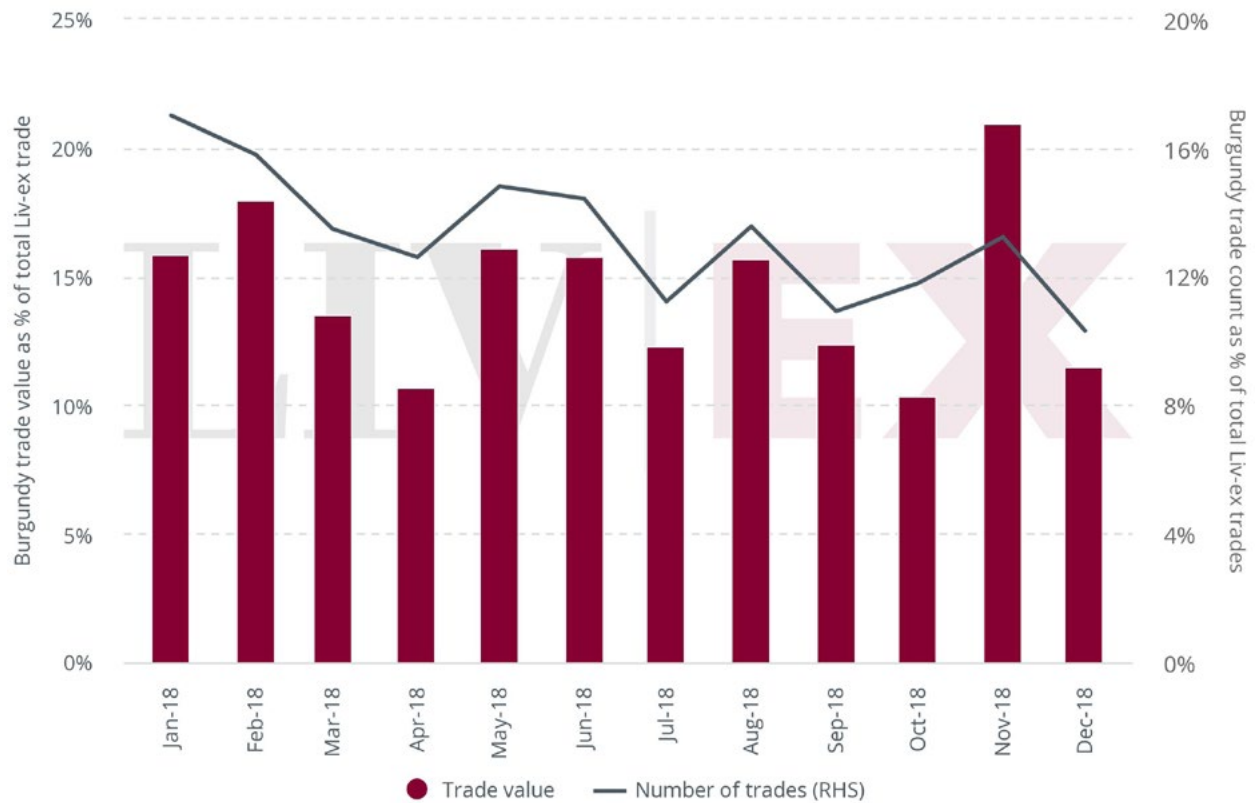
We previously noticed a correlation between market share and market broadening – as regional share increased, the breadth and depth of wines trading also evolved. But if the broadening has halted, as the figures suggest, could this be an indicator that the region’s trade share has reached its peak? This could be a key metric to watch over the year ahead.

Chart 4: Burgundy trade share and number of wines trading (LWIN7)



Indeed, while trade by value has increased on last year, the number of trades has decreased, indicating that the average trade value has risen. Fewer trades at ever higher prices points to a narrowing of liquidity. Possibly a speculation bubble.

Chart 5: Burgundy's trade share and number of trades in 2018

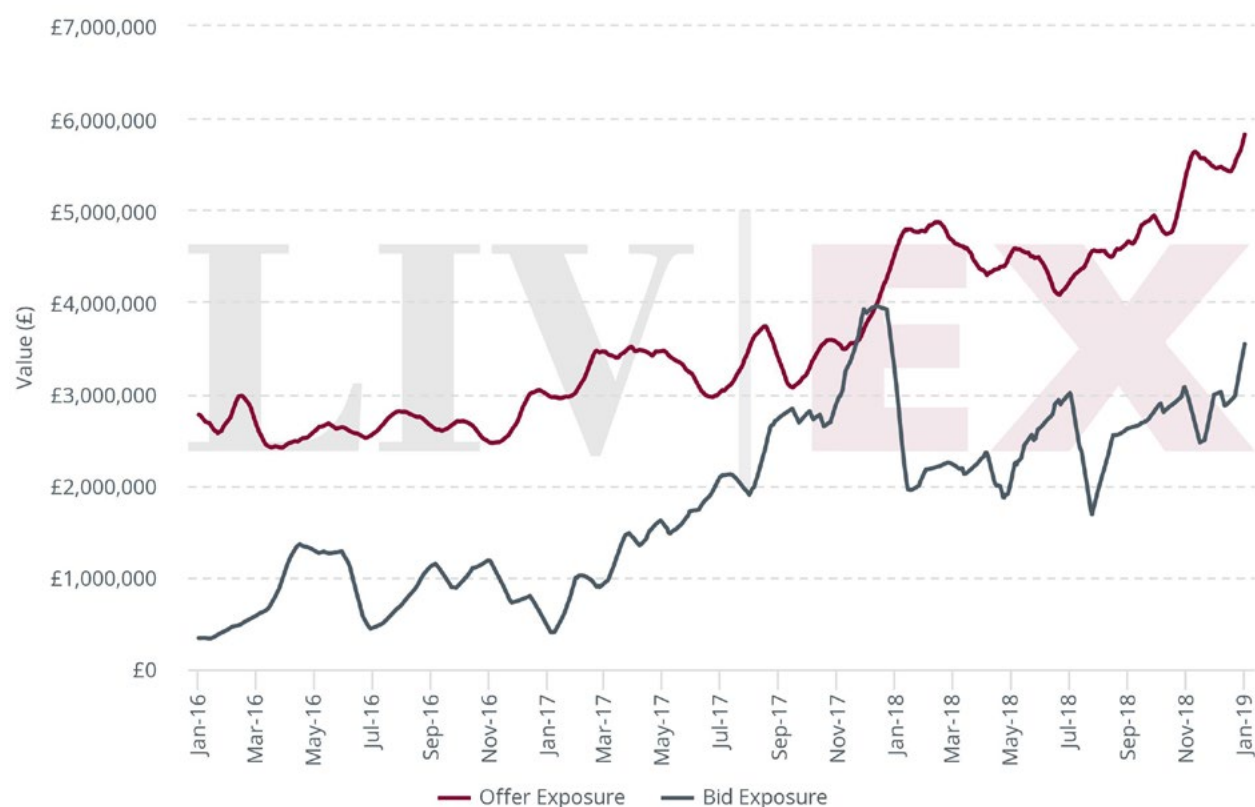


Exposure – signs of a turn?

Burgundy's exposure – the total value of bids and offers in the market – has risen by 20.1% since the beginning of 2018. It currently stands at just over £9.4million. Typically, this growth is an encouraging sign because heightened interest from buyers and sellers contributes to greater liquidity, and greater price transparency, reflecting increased market confidence. However, examining the shape of the market more closely tells us that the picture is a little less rosy.

As the chart below demonstrates, firm bids – intentions to buy – rose aggressively through 2017, driving prices upwards. Since then, the value of bids has dipped a little, while the offer side of the market – intentions to sell – has continued to expand. This suggests that collectors are becoming ready-sellers rather than “holders and drinkers”.

Chart 6: Daily Burgundy exposure



There are two possible explanations for this. On one hand, low production volumes pose a limit on market liquidity as there are fewer available cases to trade. If demand remains stable and supply is restricted, prices rise. With sustained demand, those in possession of the few precious bottles can dictate the market direction, with holders turning into speculators.

On the other hand, the divergence between bids and offers might suggest that some buyers have started to look for value elsewhere. Indeed, while Burgundy's trade share has risen from 12.7% to 14.5% since the end of 2017, other regions have also made a similar, if not greater, progress – all at the expense of Bordeaux. Champagne is up from 6% to 8.6%; Italy from 6% to 8%. The Rhone has also improved, rising from 1.8% to 3.5%. These regions have consistently offered a lower cost entry into the market compared to Burgundy, which tops the price rankings.

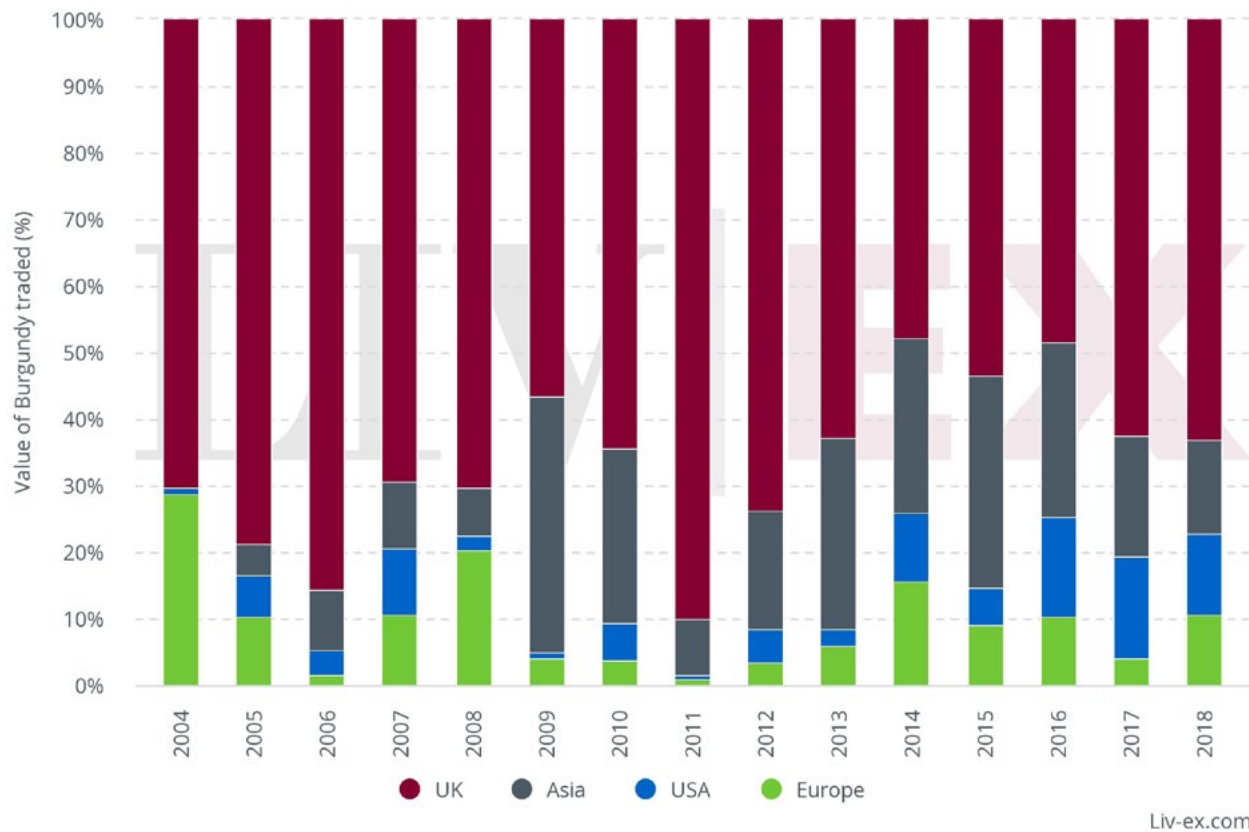
The question of demand

The received wisdom says that Burgundy demand is driven by Asia. However, this is a simplification of a more complex story.

Prior to 2009, Asian buyers showed relatively little interest in the region. Following the peak of the Bordeaux market in 2011, Asia turned its attention to Burgundy. Demand grew rapidly for a few years, only to pause in 2014 as the declining Bordeaux market began to turn. Since then, Asian buying of Burgundy seems to have slowed.

While US and European demand has been stable, the UK has been the major purchasing region. This suggests possible speculation as UK merchants (many who retail in Hong Kong and Singapore) might be using their market knowledge to sell to the Asian market.¹

Chart 7: Burgundy's share between major purchasing regions (% of total)



It has been suggested that growers will use the healthy 2017 release to replenish their cellars and explore developing markets, rather than increase allocations to the UK. The plentiful Burgundy vintage may well be used as an opportunity for producers to build their sales in Asia. There are already signs of this: Acker's Hong Kong auction, for instance, offers some Burgundy back vintages directly from the producers. Whether this strategy will work is yet to be seen. The UK trade – traditionally Burgundy's strongest En Primeur market – has a long history in the efficient distribution of fine wines. Building their network has taken time and money. Will the growers be any better?

1. May not reflect final destination of the wine.

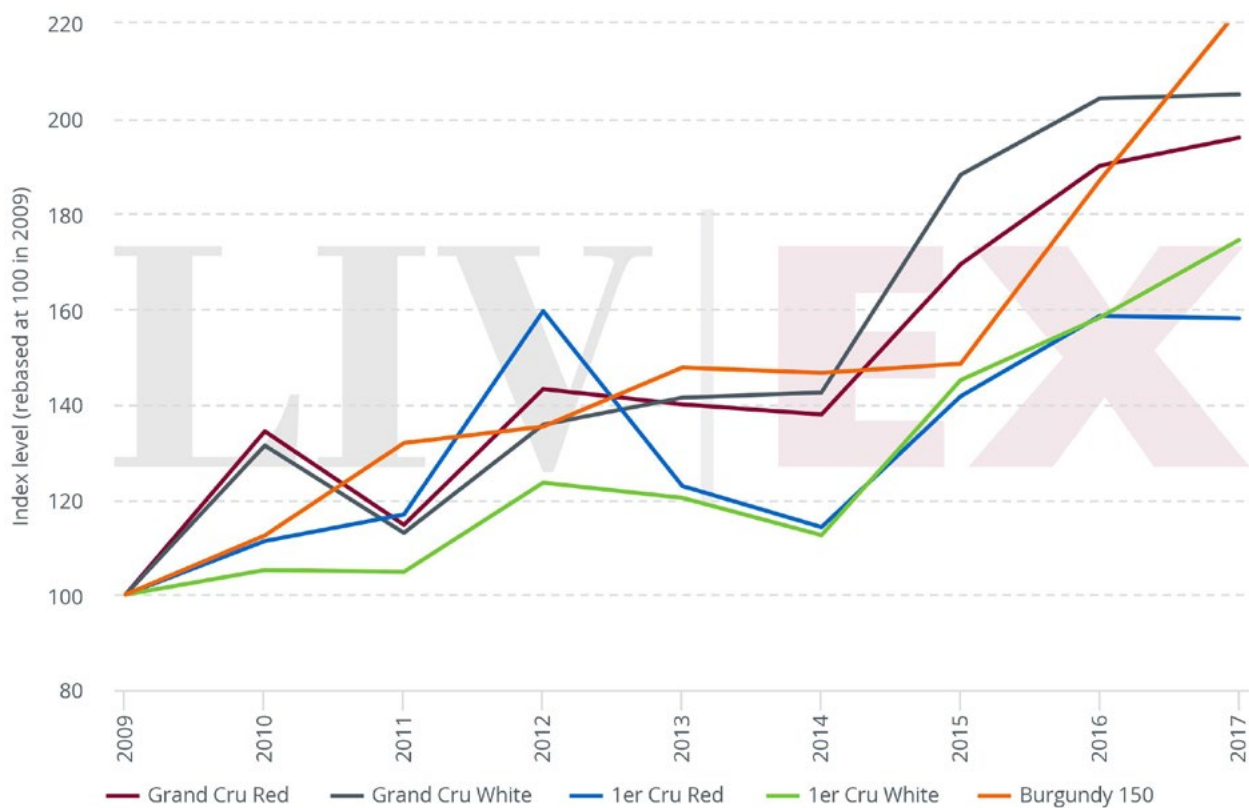
Inside Burgundy's performance

Release prices

Historically, Burgundy release prices have more closely linked to production levels than any measure of quality. When production has been low, prices have risen. This is partly driven by financial necessity on the part of the growers.

The 2017 vintage has, unlike other recent years, been plentiful. This has left growers in a position where the need to increase prices is less critical.

Chart 8: Burgundy release prices vs Burgundy 150 Index

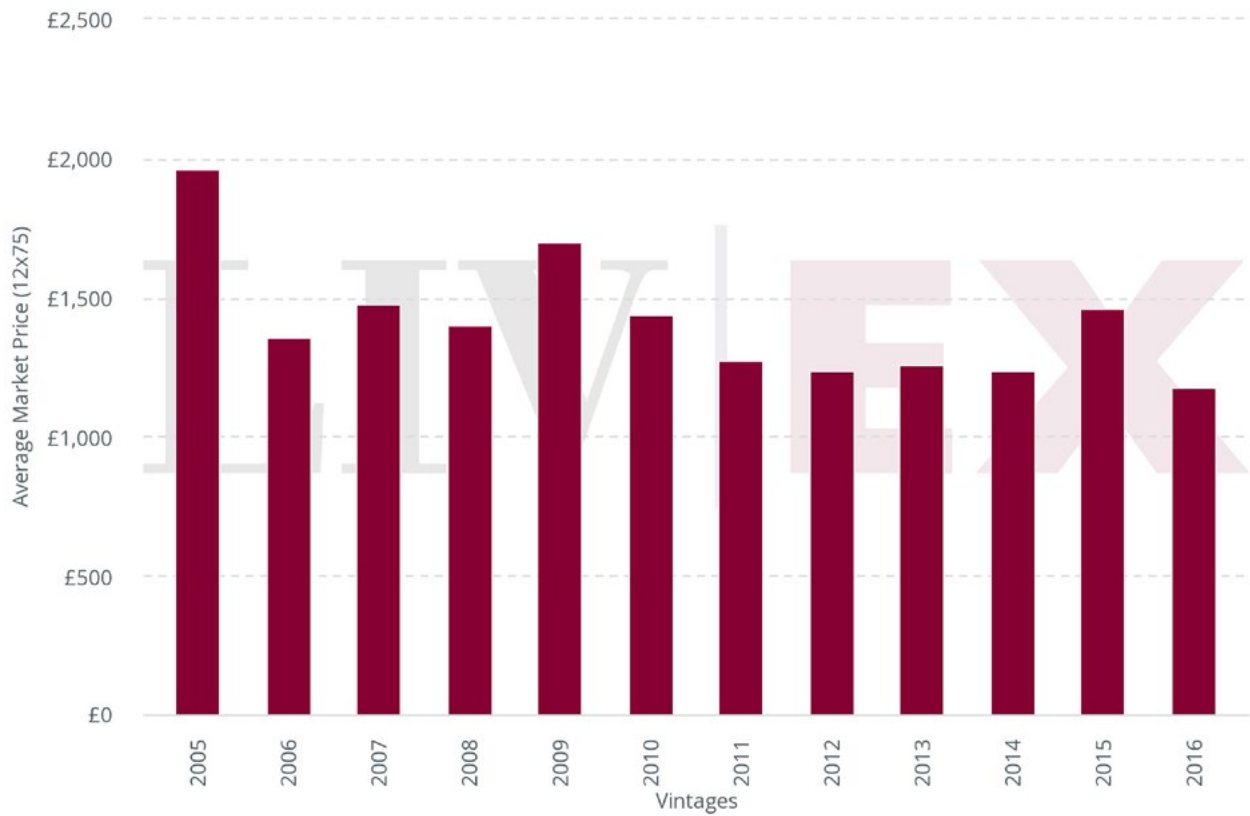


As the chart above shows, the release prices for Burgundy's top wines – Grand Cru reds and whites – have been rising in line with the secondary market. This year, however, prices have consolidated; whites have increased by less than 1% and reds by 3%.

The Premier Cru reds and whites come slightly cheaper. The whites have gained 10% and prices for reds have been stable. It seems that many Burgundy producers have opted to keep prices relatively flat but hold some stock to themselves. They might choose to sell it at a later point; what's more, at a justifiably higher price.

Once the En Primeur campaign ends, merchants and collectors in possession of the most in-demand wines can become price setters almost overnight. The tiny quantities of some vintages combined with tight allocation and distribution have caused supply to diminish very quickly after release in the past.

Chart 9: Average Market Price of Burgundy vintages



The chart above compares the average current Market Prices of Burgundy vintages. It includes wines from all appellations and classifications. While the natural timeline (prices rise as stock diminishes) is always at play, Burgundy has seen little price variation between vintages. The better vintages – 2005, 2009, 2010 and 2015 – have risen only slightly above the rest.

Rather, buyers following a brand have spread their interest across all available vintages, whose prices have additionally benefitted from the region's momentum.

Powerful Burgundy brands

Table 1: Burgundy in the 2018 Power 100

Brand	Total ranking		Avg. trade price		Price performance	
	2018	2017	Price	Rank	Change	Rank
Leroy	1	0	£1,806	61	58.17%	1
DRC	3	4	£30,472	1	33.47%	12
Armand Rousseau	7	8	£6,420	11	42.66%	6
Coche Dury	9	54	£5,384	14	23.61%	28
Georges Roumier	11	29	£9,066	6	55.62%	2
Domaine Leflaive	13	7	£2,025	52	14.91%	66
Francois Lamarche	23	63	£3,512	28	21.03%	35
Comte Vogue	24	32	£4,455	19	16.17%	55
Dujac	35	177	£2,654	39	51.11%	4
Ducru Beaucaillou	36	25	£1,281	91	5.49%	186
Alain Hudelot Noellat	42	70	£1,093	120	25.04%	23
Jacques Frederic Mugnier	44	80	£2,270	46	29.12%	18
Emmanuel Rouget	47	124	£8,841	7	30.74%	15
Etienne Sauzet	50	47	£1,084	121	11.92%	88
Louis Jadot	51	130	£1,083	122	17.89%	47
Pierre Yves Colin Morey	52	0	£939	129	33.53%	11
Mommessin	57	101	£3,039	34	13.43%	76
Sylvain Cathiard	60	61	£4,781	17	20.91%	37
Domaine Ponsot	63	6	£3,237	32	1.18%	222
Marquis d'Angerville	64	133	£1,096	118	21.38%	33
Joseph Drouhin	67	16	£577	189	6.14%	177
Comte Liger Belair	69	158	£12,954	5	46.82%	5
Bouchard Pere et Fils	72	103	£1,096	23	3.60%	122
Fontaine Gagnard	75	93	£660	173	11.30%	96
Comtes Lafon	82	120	£1,963	55	15.28%	61
Mugneret Gibourg	85	0	£1,930	58	23.13%	30
Meo Camuzet	86	37	£1,461	81	7.37%	158
Roche Bellene	88	0	£891	137	20.18%	40
Vougeraie	93	91	£1,617	70	16.92%	51
Pol Roger	99	137	£1,127	113	8.74%	131

Leroy took the top spot in the Power 100 – our annual list of the most important brands in the fine wine market – for the first time. It featured in the top ten rankings for four out of the five main qualifying categories, including price performance (which it topped), total trade value (nearly £1m), and number of wines traded. The elevation of Leroy is a prime example of the forces shaping Burgundy, where small quantities stretched ever more thinly have boosted prices.

Scarcity is not the only prerequisite for rising prices; cult followings can also move the fine wine market. While this has long been the case for Champagne, be it Krug or Cristal, Burgundy saw a similar phenomenon recently in Dujac. The label was the biggest riser in this year's Power 100 – up

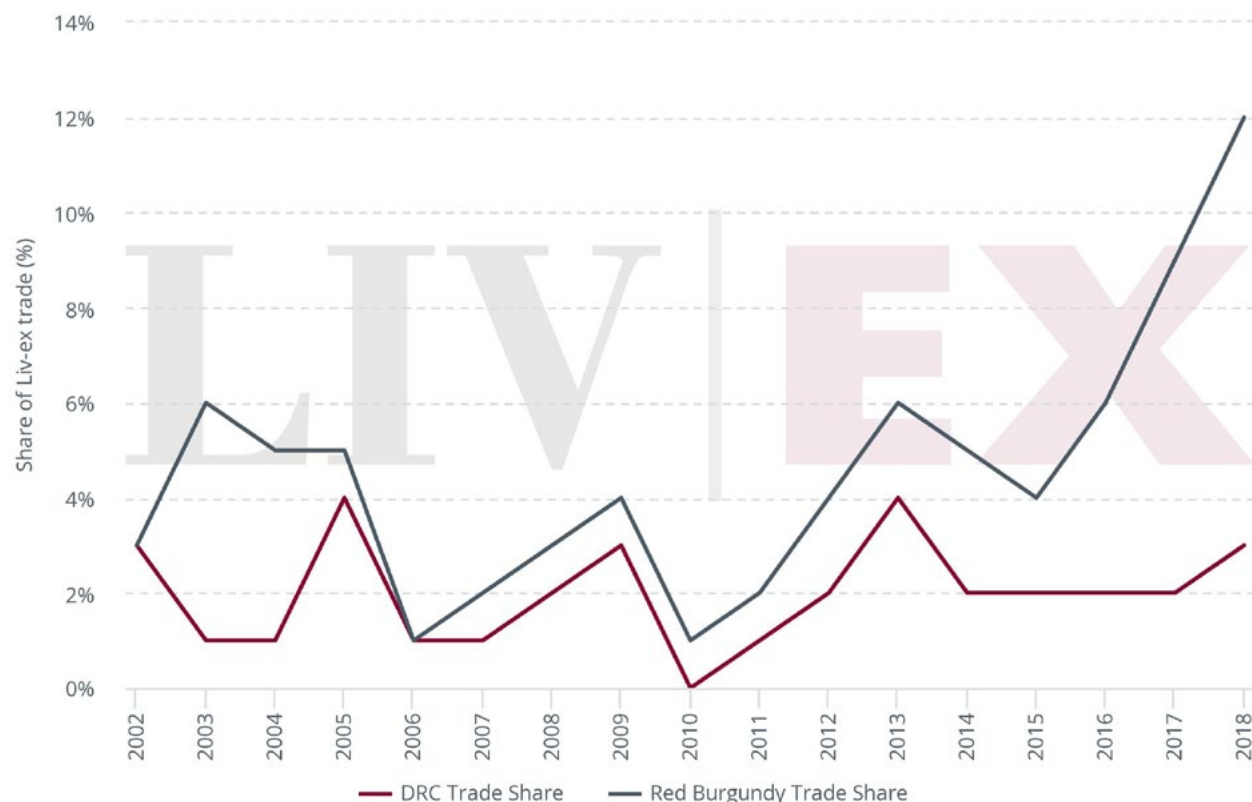
an impressive 142 places. The story behind its success could be partially attributed to DJ Khaled, who posted on his Instagram in January that he was “excited” about this wine that Jay-Z had recommended. Two days later Vogue Magazine published an article about it, while in March, Dujac was name-dropped in DJ Khaled’s song, Top Off: ‘Dujac by the mag that’s how we do wine, \$91,000 for a wine bill, keep it real with you.’ Since then, demand for the wine has sky-rocketed. Dujac Market Prices are up 51% on average, making it the fourth best price performer in the 2018 rankings. With other Burgundian brands taking up market share and pushing Burgundy prices up, the next section of this report questions whether Domaine de la Romanée Conti remains in authority.

DRC

Burgundy saw record levels of trade this year – its market share by value hit a record high of 14.5%. Historically, DRC has accounted for the majority of Burgundy trade, and the region’s share was pushed up or down by activity for the iconic brand, as chart 11 shows. DRC has previously accounted for as high as 96% of Burgundy trade (in 2002).

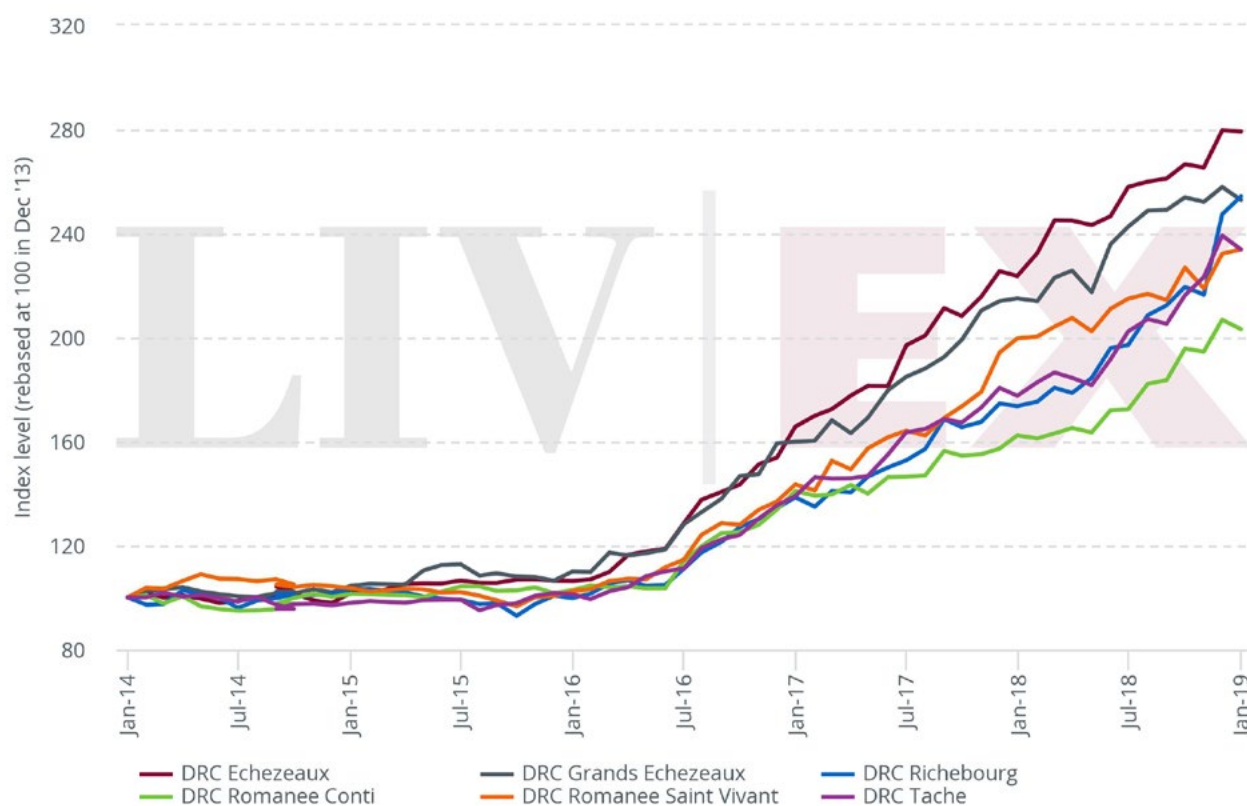
More recently, however, Burgundy’s trade share has risen without a significant boost from DRC. DRC’s share of Burgundy has been drifting lower, currently at 30%, as the market has broadened. Indeed, its biggest decline in the past ten years was in 2017, when we saw a record number of brands trading on the secondary market. DRC might have stolen the headlines, but it has not been the driving force behind the region’s market share. Leroy, Ponsot and Armand Rousseau have been some of the main Burgundy drivers.

Chart 10: DRC vs Burgundy (red) trade share



This has not deterred DRC's prices from rising yet further. The DRC Index closed 2018 up 28.6%. Over five years, it has yielded a very impressive increase of 120%, more than the Burgundy 150 (+104%).

Chart 11: DRC sub-indices five-year performance



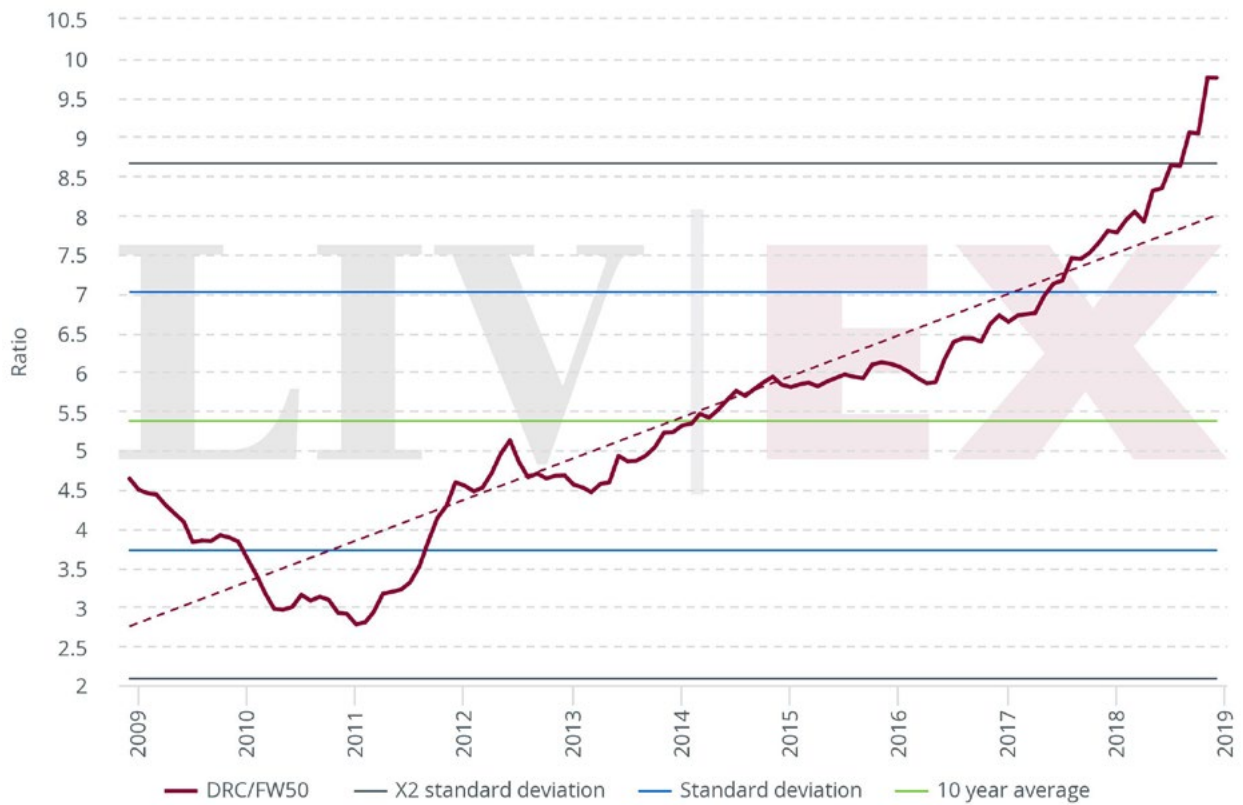
Of the DRC labels, Echezeaux remains the best performer, showing a 246% increase since the end of 2013. It is possible that this jump can be attributed to the fact that Echezeaux has historically offered one of the lowest entry points into the DRC brand. Despite the considerable attention that Romanee Conti attracted in 2018, the label has been the worst DRC performer in the past year. This, in turn, suggests that even within the most luxurious of brands, collectors are looking for value.

A question of value

Value is always relative. Still, dividing the average price of the six wines in the DRC index by the Liv-ex Fine Wine 50, the index which tracks the First Growths, gives a rough indication for price differential between the highest echelons of Bordeaux and Burgundy. Assuming that over the long term, prices revert to the historical mean (as represented by the ten-year average), DRC prices are looking more overstretched than ever. There are two scenarios for the future of this ratio, if it is to return towards the mean: either the price of the First Growths will need to go up, or DRC prices will need to drop.

As the chart below shows, the current ratio (DRC/FW50) has smashed through the X2 standard deviation band. With a rise of 46% over the past two years, it reached a record high of 9.76 in November 2018, i.e. on average one could buy almost 10 bottles of First Growths for one bottle of DRC.

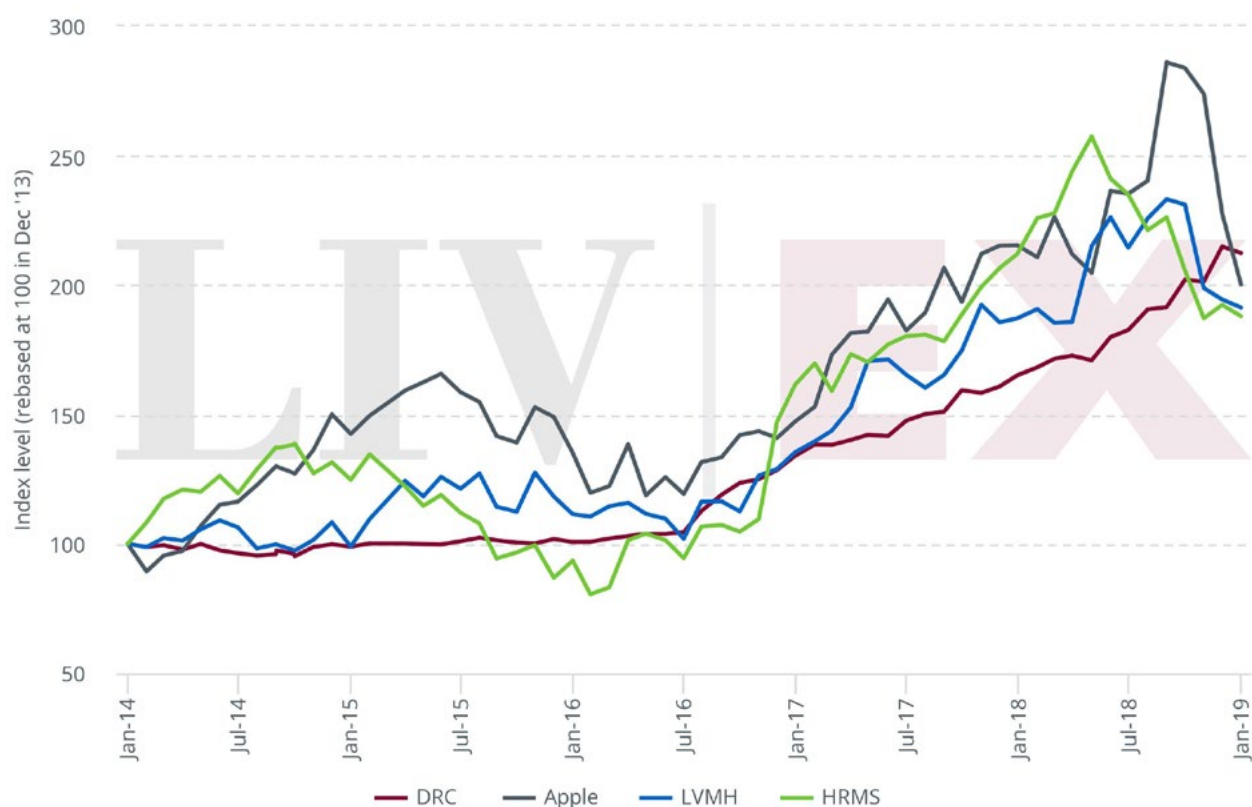
Chart 12: DRC vs First Growth ratio



Stubbornness to revert to the mean can be attributed to the value placed on scarcity driving the market. Liv-ex estimates that the total annual production across the Romanée Conti vineyards is between 7,000-8,000 cases per year, compared to an average production of around 70,000 cases across the grand vins of the First Growths. As supply for DRC is about ten times lower than that for the First Growths, prices for the Burgundian brand are now on average ten times higher. Is that the limit?

Some would argue that higher prices invert the demand curve, as the wine becomes a status symbol. If that is indeed case, perhaps a better point of comparison would be that between DRC and luxury groups.

Chart 13: DRC vs luxury groups



The chart above compares the DRC index to three famous luxury goods groups, renowned for being heavily reliant on China for growth: Louis Vuitton Moët Hennessy, Hermès and Apple. DRC has outperformed all of them, following the tumbling of Apple, which has impacted Hermès and LVMH. In the past year, the DRC Index has risen by 26.3%; Apple has dipped by 5% and Hermès by 17%.

There is an important distinction between DRC and these luxury groups. Wine is a tangible asset; Apple, LVMH and Hermès stocks are financial. When stocks are underperforming, the security of holding something physical becomes increasingly appealing.

Still, LVMH's share price is often used as a proxy to reflect the appetite for luxuries in the Chinese market.² It has shown a strong correlation to DRC over the years. Potential Chinese slowdown brings additional uncertainty to the future of Burgundy, especially at a time when its prices are at a record-high.

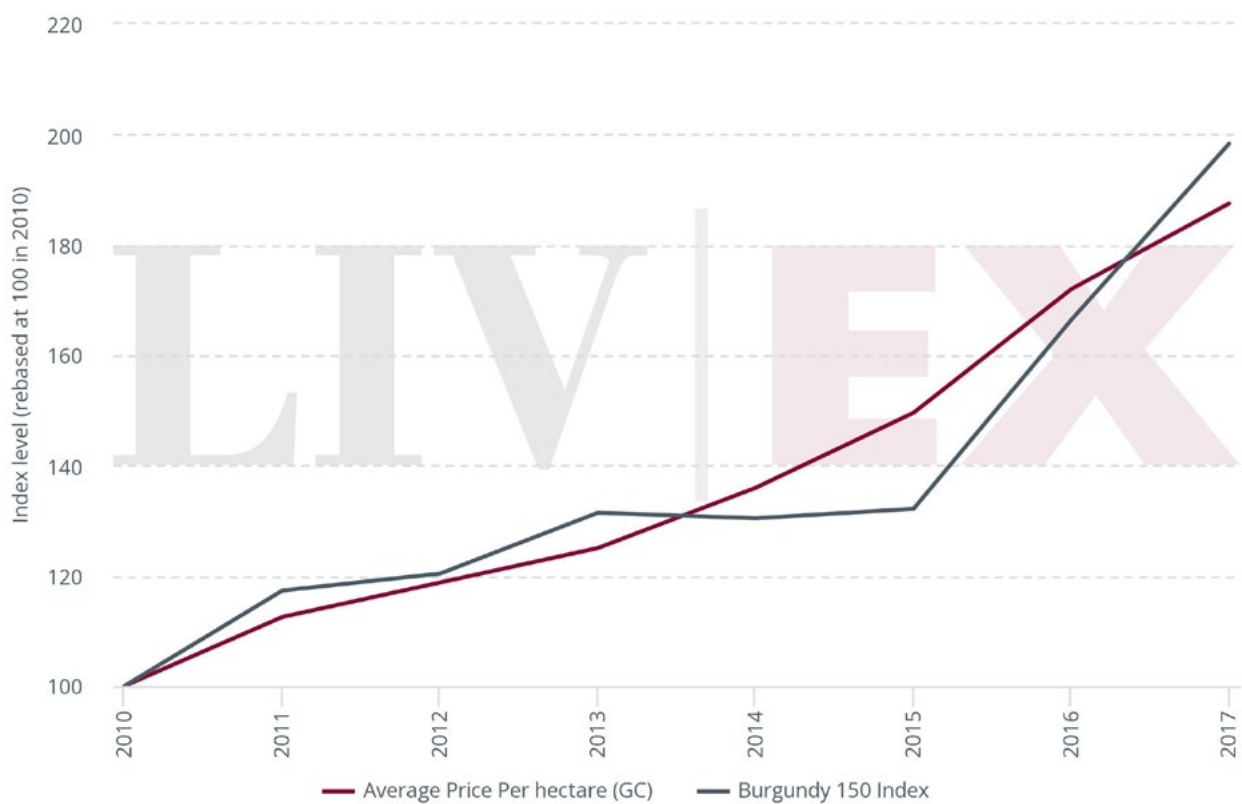
2. Reuters, "Chinese slowdown fears hit LVMH shares and luxury rivals", <<https://www.reuters.com/article/us-lvmh-results/luxury-stocks-slide-as-lvuitton-strength-fails-to-quell-china-worries-idUSKCN1MK0Q7>>, accessed 14/01/2019.

Rising bottle prices continue pushing up the price of land

Wine may not be the only category that would suffer from a potential bubble burst. As suggested in last year's report, prices for wines are correlated to land prices in Burgundy.

One incentive for investors to buy vineyards in Burgundy has been the rising price of wines in the market. As the value of the wine increases, the value of the land which produces these wines also rises. Comparing an index of the average price per hectare of grand cru vineyard against the Burgundy 150 index reveals that rising bottle prices have outpaced the growth in land prices (until 2017). If the fundamentals for wine's rising prices are starting to look less certain, the rise in land prices might also be curtailed in the year ahead.³

Chart 14: Average price/hectare Grand Cru vs Burgundy 150 Index



3. Data accessed from SAFER. "Le Prix des Terres", < http://www.le-prix-des-terres.fr/evolution-des-prix/prix-des-vignes/prix-des-vignes-appellations?departement=21&type_vignes=1&appellation=5&safer_recherche=Lancer+la+recherche>, accessed 08/01/2019.

Conclusion

Burgundy has lived up to the highest of expectations in the past year. It has risen significantly, both in terms of market share and price performance. Wines from the region seem to be as desired as ever, but there are reasons to be cautious. As this report suggests not all metrics point to endless blue sky.

There are three important things to note. First, market confidence in the region may start to wane if prices continue to rise. Higher prices bring supply to the market as collectors seek to sell and cash in. While demand and scarcity continue to drive Burgundy prices, expect to see more volatility if they continue to spiral upwards.

Second, 2019 will be a test of Asian demand as growers seek to build direct relationships with the region.

The Burgundy 150 Index has offered positive returns for the past decade. It has outperformed global equities, while its DRC sub-index has outpaced some of the most prominent luxury groups, which have suffered from a Chinese slowdown. Is this sustainable?

Third, could the 2017 vintage influence the market's direction? Its decent sized crop and considerable quality, particularly among the whites, has given critics, merchants and collectors plenty to talk about. If prices have risen off the back of limited supply, a large vintage could depress this. Yet even at the best of times, production levels in Burgundy are small compared to other regions, and this vintage may be exactly what is needed to feed the market.

With all of this, Burgundy remains in the spotlight. It continues to rise relentlessly, and we all continue to ask the question: for how long?

Press: Further information

For further information or comment, please contact **Nicola Graham** (nicola@liv-ex.com) on **+44 (0)20 7062 8777**.

About Liv-ex

Liv-ex is the fine wine market. Merchants from around the world use its trading, data and settlement services to grow their fine wine businesses.

Liv-ex was founded in 2000 by former stockbrokers James Miles and Justin Gibbs. The growth of the internet provided them with an opportunity to bring together a fragmented marketplace and make fine wine trading more transparent, efficient and safe. Today, 425 merchant members from 38 different countries trade on Liv-ex.

Liv-ex's fine wine indices are quoted by Bloomberg and Reuters. The Liv-ex Fine Wine 100 – composed of wines from eight different regions – is recognised as the industry benchmark. The broader Liv-ex 1000 index tracks 1,000 wines from across the globe and its performance can be broken down by region.

Liv-ex is the largest, most comprehensive source of historical and real-time fine wine price data. It provides access to the 60,000 price changes that occur in the market every day, including live bids and offers, transaction prices, merchant list prices and auction hammer prices.

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