2018

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THE FINE WINE MARKET

Champagne – A market without bubbles

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Executive summary

Champagne is a unique product among its fine wine peers. Its distribution network is unparalleled, the environments that it exists in are diverse – restaurants, nightclubs, royal weddings – and brand recognition is stronger than in any other part of the market. Mentions of Dom Perignon will likely spark far more excitement than the top names of Burgundy and Bordeaux among non-wine experts. Champagne therefore touches drinkers not typically engaged with fine wine, and on a global scale.

A market without bubbles

For the past decade, Champagne has occupied its own niche in the fine wine market, undisturbed by some of the major events that unsettled Bordeaux, and not afforded the level of recent attention that has seen prices of Burgundy spike. The Champagne 50 Index has steadily risen almost every year, with no sharp upward or downward movements. It has only dipped in one year out of the past ten.

The development of a secondary market

The drink has long been an on-trade favourite, but recent years have also seen Champagne establish itself as a key player in the secondary market for fine wine. Previously purchased predominantly for consumption, it is now bought, stored, and resold for a profit later on as common practice. With this, its secondary market trade share has risen from 1% to 8% by value in recent years, and the number of unique Champagnes trading has multiplied.

Vintages dominate

Non-vintage Champagne accounts for the majority of the region's production, but the vintage category dominates the secondary market. The fungibility and, hence, seemingly endless supply of non-vintage Champagne makes it an unwise investment choice, as supply will never diminish in the same way as for vintage wines. It is for this reason that vintage Champagne accounts for 95% of the region's secondary market activity.

Price performance has varied

All of the Champagne 50 sub-indices have increased over the last ten years. Salon, which has declared the fewest vintages, has considerably outperformed the broader index, with a gain of 163%. Philipponnat, Krug and Dom Pérignon have tracked, yet slightly underperformed the Champagne 50, gaining 63%, 60% and 61% respectively. The Cristal index has risen by 40% in the last decade, with movement predominantly occurring in the past two years.

Age matters

Age stands out as the most important price determinant when it comes to Champagne vintages. Prices tend to plateau for the first few years after release, then gradually appreciate. Unlike Bordeaux, critic scores do not appear to impact the price significantly, except in examples of extreme quality. Bottle formats and the colour of the wine (white/rosé) also contribute to its price performance over time.

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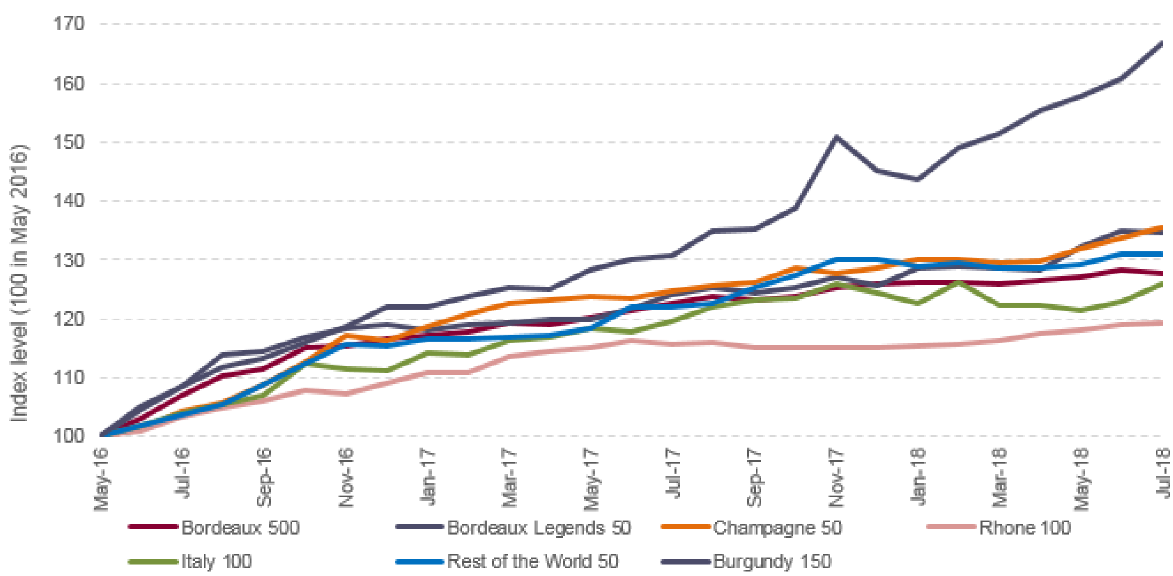
Development of the Champagne Market

Steady returns, low volatility

Chart 1: Liv-ex Champagne 50 Index vs Liv-ex 100 Index

Compared to the broader market, price movements for Champagne have been steady over the past decade, without any sharp upward or downward movements. Events that affected the broader market have had little impact on Champagne. The only year that its index dipped (-0.7%) was in 2015, when the whole market was flat. Since then, it has continued to rise. Since the creation of the index in 2004, it has shown a compound annual growth of 9.52%.

Chart 2: Champagne 50 Index vs Liv-ex 1000 sub-indices since 2016



Like other Liv-ex indices, Champagne received a boost from sterling's devaluation following the Brexit referendum. Euro and dollar buyers took advantage of the weaker pound, stimulating the market and pushing the indices, calculated in Sterling, higher. Since the beginning of June 2016, the Champagne 50 has gained 35.3%, making it the second-best performer in the broader Liv-ex 1000 Index. Only Burgundy, which has taken a course of its own, has done better.

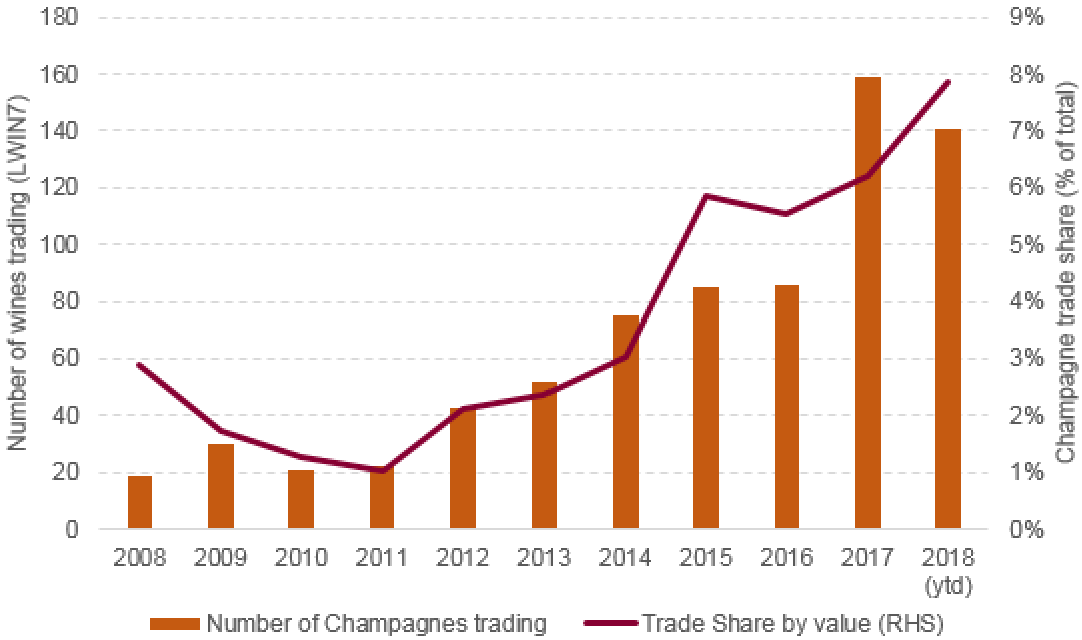
Table 1: Global "First Growths": average market prices

First Growths: avg. market prices (Aug 2018)		
Region	Wines	Average
Sauternes	25	£894
Burgundy (White)	20	£1,414
Champagne	30	£1,485
Italy	20	£2,347
Rhone	25	£2,401
Australia	10	£4,532
Bordeaux (LB)	25	£4,946
Spain	10	£5,321
United States	20	£9,723
Bordeaux (RB)	25	£12,201
Burgundy (Red)	50	£15,039

The table above shows the average price for the top wines – the "First Growths" – of the major fine wine producing regions. At £1,485 per 12x75, Champagne is lower than most other categories. It therefore offers a relatively low-cost entry point into the investment market.

A growing and broadening market

Chart 3: Champagne trade share and number of wines trading (LWIN7)



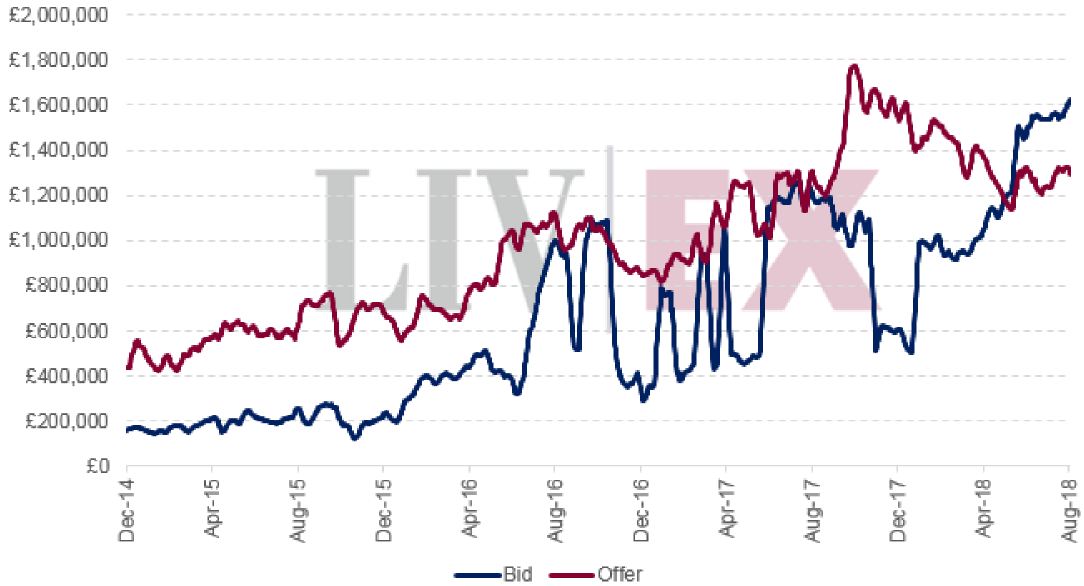
Not only is the Champagne market steady, but it is also growing. Between 2008 and 2014, the region's overall trade share hovered between 1-3% by value, as the chart above shows. So far in 2018, it has contributed 8% of market activity, up from 6.2% last year. The number of unique labels trading has also been on the rise. Back in 2008, fewer than 20 different Champagne labels traded on the market. So far this year, the figure stands at 140. The market has thus grown in both depth and breadth.

Growing exposure

Market participants have also shown increased commitment to the Champagne market, as demonstrated by rising exposure for the region on the Exchange. Exposure is the total value of bids and offers – firm commitments to buy or sell – on the market. The current value of live bids is ten times higher than at the start of 2015.

The bid exposure does show some seasonal variation. Typically, Champagne's activity is at its peak at the end of summer and before the festive period, as merchants prepare for Christmas. Yet, the upward annual trend is clear.

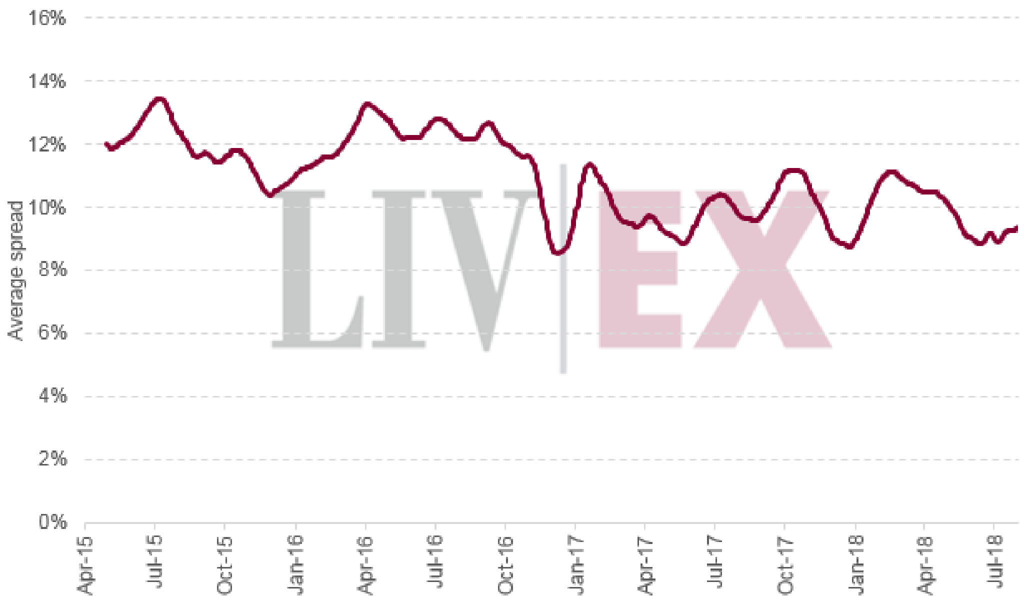
Chart 4: Daily Champagne Exposure



As exposure has grown, spreads have dropped. A spread is the difference between a bid and an offer on the market. In other words, it is the difference between the seller's price and what the buyer is willing to pay at any moment in time. The smaller the gap – or the narrower the spread – the easier it is to determine an accurate price, and the easier to trade at an agreeable price, reducing the cost of trading. It follows that as the average spread drops, price discovery becomes more efficient and confidence in the market is increased.

As chart 5 shows, this is exactly the pattern seen in the Champagne market over the past three years. In 2015, spreads stood at 12-14%. By the end of August 2018, they had fallen to 9.1%. This is the second lowest for all major fine wine regions, lagging only behind Bordeaux. The fundamentals of the Champagne market have therefore been strengthening.

Chart 5: Average spread (Champagne 50)



All of these factors point towards a growing interest, and increased confidence, in Champagne as an investment asset. Champagne offers a relatively low-cost entry into the fine wine market, steady returns and low volatility. More wines are being traded, exposure is rising, and price discovery is becoming ever more efficient. It now represents a serious contender to other fine wine producing regions.

Inside the secondary market for Champagne

While the secondary market for Champagne has continuously grown, there are some apparent trends between different brands and categories that should be considered.

When thinking about Champagne, it is important to distinguish between its categories, styles and brands. One key differentiator is between vintage and non-vintage cuvées. Champagne is either sold as a blend of vintages, and, hence, described as non-vintage, or as a wine made only from grapes from the same vintage and, therefore, described as Vintage. Each Champagne house will also have a “prestige cuvée”, regarded as the highest quality Champagne they produce. Typically, the grapes for these cuvées will come from a single plot. These are classified as vintage Champagnes throughout this report.

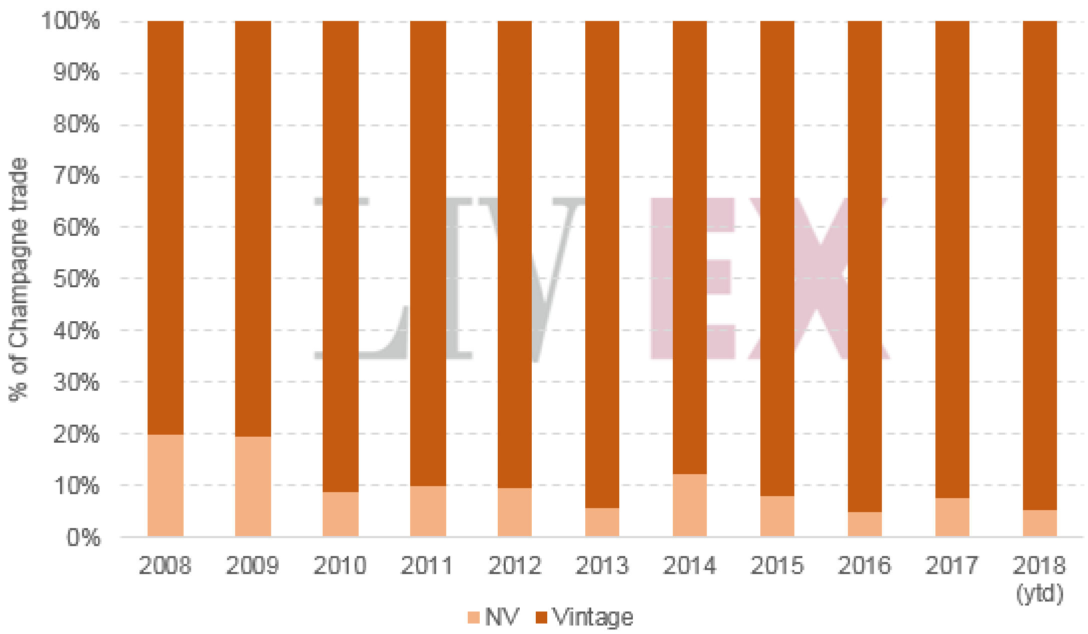
Vintage Champagne dominates the secondary market

Non-vintage Champagnes might account for the majority of the region’s production volume, and dominate most parts of the on-trade, but vintage wines dominate the secondary market. These are the wines that are bought and sold more than once with the hope of incurring profits.

Around 95% of secondary market Champagne trade by value is for vintage and prestige cuvées. Although the market has broadened regarding the number of brands that trade, very few from the non-vintage category are active.

When non-vintage wines do trade, it is typically either in very high volumes of Grand Marque cuvées or smaller trades of more difficult to source, smaller production Grower Champagnes. Some examples of the most active Grower Champagnes that trade on Liv-ex include Egly-Ouriet, Cedric Bouchard, Vilmart & Cie and Diebolt Vallois.

Chart 6: Value share by category



The concept of fungibility

Despite the high price and quality of many non-vintage Champagnes, they remain largely outside the investment portfolio. The chart above illustrates a downward trend for NV trading, which coincides with the development of the investment market for Champagne.

Non-vintage cuvées are made from a blend of vintages to achieve consistent taste, identity and price point, and are released continuously. For this reason, the market tends to treat these cuvées as interchangeable. In theory, this fungibility creates a limitless supply of non-vintage Champagne, although in practice the wine in the bottle does differ slightly from year to year. This notion has made it ill-advised to purchase non-vintages for speculative purposes.

More recently, there has been a trend towards differentiating non-vintage Champagne, led by Krug. They have printed ID codes on back labels since 2011, and have started to mark the number of their yearly Grand Cuvée, beginning with the 163rd edition in early 2017. Efforts such as these by the Champagne houses could in theory stimulate the development of a more substantial secondary market for non-vintage Champagnes.

The most active Champagnes by brand

Below are the constituents of the Champagne 50 Index, which are the most active Champagnes in the market. The table shows the current composition of the index.

Table 2: Constituents of the Champagne 50

Wine	Vintage
Bollinger, Grande Annee	2002, 2004, 2005, 2007
Krug, Vintage Brut	1996, 1998, 2000, 2003, 2004
Louis Roederer, Cristal	2000, 2002, 2004, 2005, 2006, 2007, 2009
Louis Roederer, Cristal Rose	2006, 2007, 2009
Moet & Chandon, Dom Perignon	2002, 2003, 2004, 2005, 2006, 2009
Moet & Chandon, Dom Perignon Rose	2002, 2003, 2004, 2005
Philipponnat, Clos Goisset Brut	2003, 2004, 2005, 2007, 2008
Pol Roger, Sir Winston Churchill	2002, 2004, 2006
Ruinart, Dom Ruinart	2002, 2004, 2006
Salon, Mesnil	2002, 2004, 2006
Taittinger, Comtes Champagne	2002, 2004. 2005, 2006
Taittinger, Comtes Champagne Rose	2005, 2006

Table 3: One year price performance

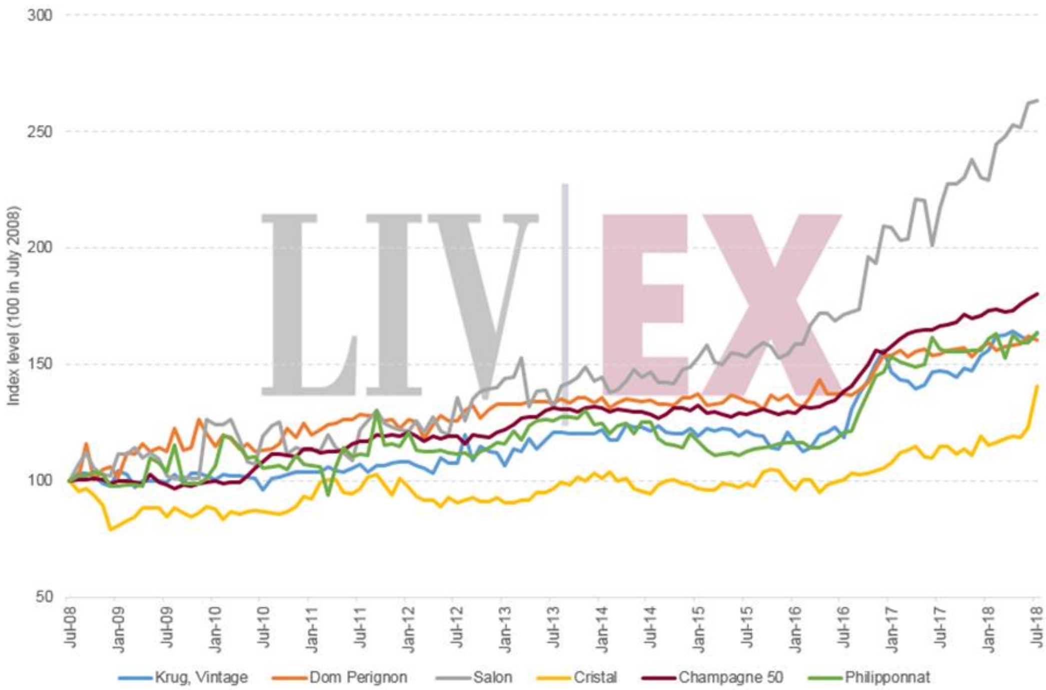
Wine	Vintage	Aug. 17	Aug. 18	Change (%)
Louis Roederer, Cristal Rose	2006	£3,032	£4,050	34%
Salon, Mesnil	2004	£3,380	£4,300	27%
Taittinger, Comtes Champagne Rose	2005	£996	£1,250	26%
Louis Roederer, Cristal	2002	£2,064	£2,588	25%
Moet & Chandon, Dom Perignon	2004	£936	£1,150	23%
Moet & Chandon, Dom Perignon Rose	2002	£2,600	£2,500	-4%
Philipponnat, Clos Goisset Brut	2003	£1,044	£995	-5%
Ruinart, Dom Ruinart	2002	£1,176	£1,120	-5%
Ruinart, Dom Ruinart	2004	£950	£880	-7%
Philipponnat, Clos Goisset Brut	2004	£1,350	£1,250	-7%

As table 3 demonstrates, the best performers from the Champagne 50 have come from a variety of vintages and brands. Only Cristal is represented twice. Its 2006 rosé is the top performer over one year, up 34%.

There is a more apparent trend among the worst performers. Philipponnat Clos Goisses and Dom Ruinart contribute two wines each. Their two worst, both from the 2004 vintage, have lost 7%. Past performance is not always a useful indicator for the future, however. In other regions such as Burgundy, brands that have initially moved slowly in an upward market have gone on to rise. This tends to happen once they begin to look relatively inexpensive among their peers.

The Champagne 50 sub-indices gain momentum

Chart 7: Champagne 50 sub-indices ten-year performance



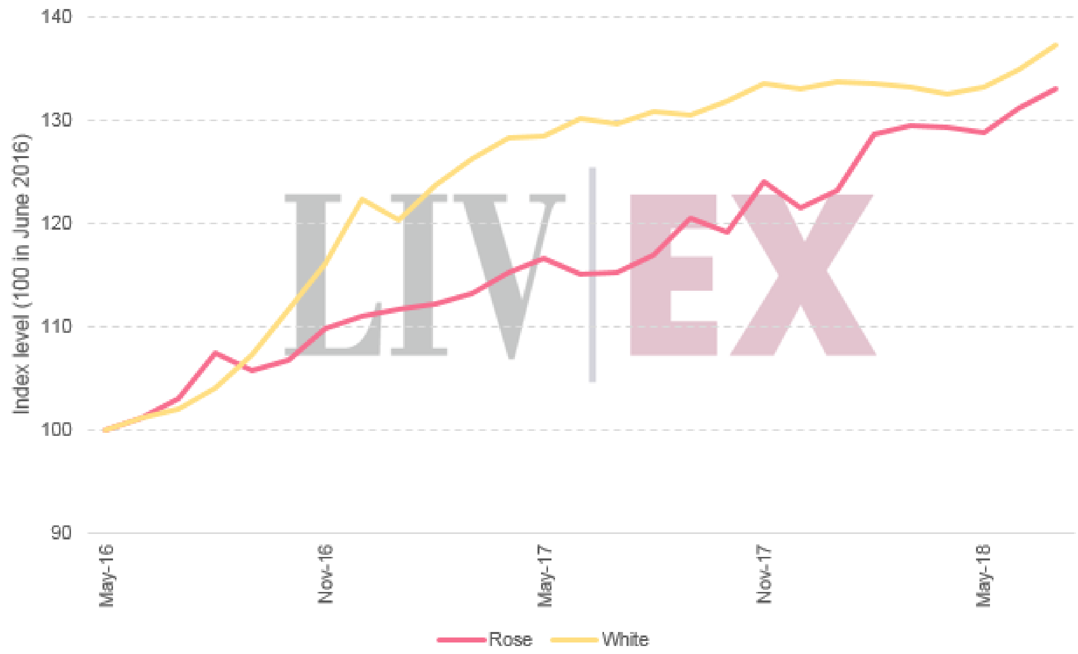
The chart above compares indices constructed from some of the brands within the Champagne 50 over the last ten years. Each individual index contains the five most recently physical vintages at any point in time.

As shown, Salon has considerably outperformed the Champagne 50 with a gain of 163%. This rise might be partially explained by the carefully calculated vintage releases that Salon is renowned for, combined with limited production. At the same time, Philipponnat, Krug and Dom Pérignon have broadly tracked the Champagne 50, gaining 63%, 60% and 61% against the index's 78% rise.

Meanwhile, the Cristal index has lagged behind, yielding a 40% increase in the last decade, nearly all of which has occurred in the past two years. Up until mid-2016, its index ran flat. Increased vintage declarations and a fall-out with previously loyal rap icons who elevated the brand in the early noughties might go part of the way to explaining this.[1] More recently, vintage declarations such as the 2008 have created a buzz among the trade and more traditional Champagne collectors, giving the brand a boost.

Types of bubbles

Chart 8: Rosé and White Champagne



Rosé has slightly underperformed white Champagne over the past two years, as Chart 8 shows. In this period, whites have risen 37% compared to 33% for rosé.

Typically, rosé is produced in smaller quantities and commands higher prices than white Champagne. For example, it costs £1,682 per 12x75 to buy white Cristal, while its rosé costs almost double at £2,980. Rosé, therefore, has a higher entry cost, lower liquidity and higher risk - without the reward.

[1] Richard Woodard, “Rapper Jaz-Z boycotts ‘racist’ Cristal”, *Decanter.* <https://www.decanter.com/wine-news/rapper-jay-z-boycotts-racist-cristal-94054/>

What determines the price?

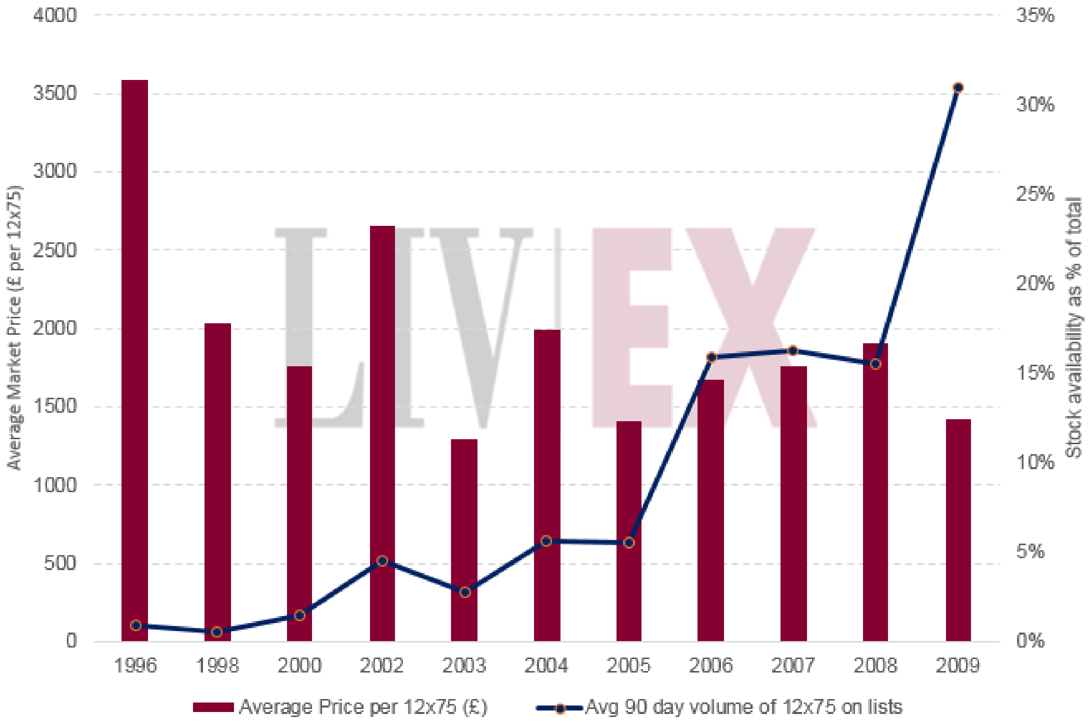
Supply

Champagne's brand power, extensive global distribution and vast production means that it is less sensitive to regional or annual supply/demand changes than other regions, such as Burgundy, which can be relatively volatile.

Still, changing production volumes can have some effect in the short to medium term. For instance, Salon, which outperformed the Champagne 50 with a gain of 163% over the last ten years, has declared fewer vintages than other houses (five compared to six or seven from others). It is likely that its price has risen more steeply as supply has diminished faster.

The traditional view of the Champagne market, borne out of the performance of the Champagne 50, is that it rises slowly and steadily over time. At vintage level, prices tend to plateau on release as the stock sits on the market, before gradually appreciating as supply diminishes. Usually, this happens within five years of release: Champagnes are ready to drink, distributed and consumed worldwide. As supply diminishes, vintage prices are pushed up.

Chart 9: Average price vs average list volume



The older, the better

Champagne prices tend to rise as the wine gets older, is consumed, and its liquidity drops. The charts below measure and illustrate this correlation for Cristal and Dom Pérignon. There, R is a measure of confidence, which indicates how closely one variable explains another – in this case, price and age. Dom Pérignon has an R square value of 0.92%, demonstrating the strong correlation between its age and rising price.

Chart 10: Louis Roederer, Cristal: Price vs. Age

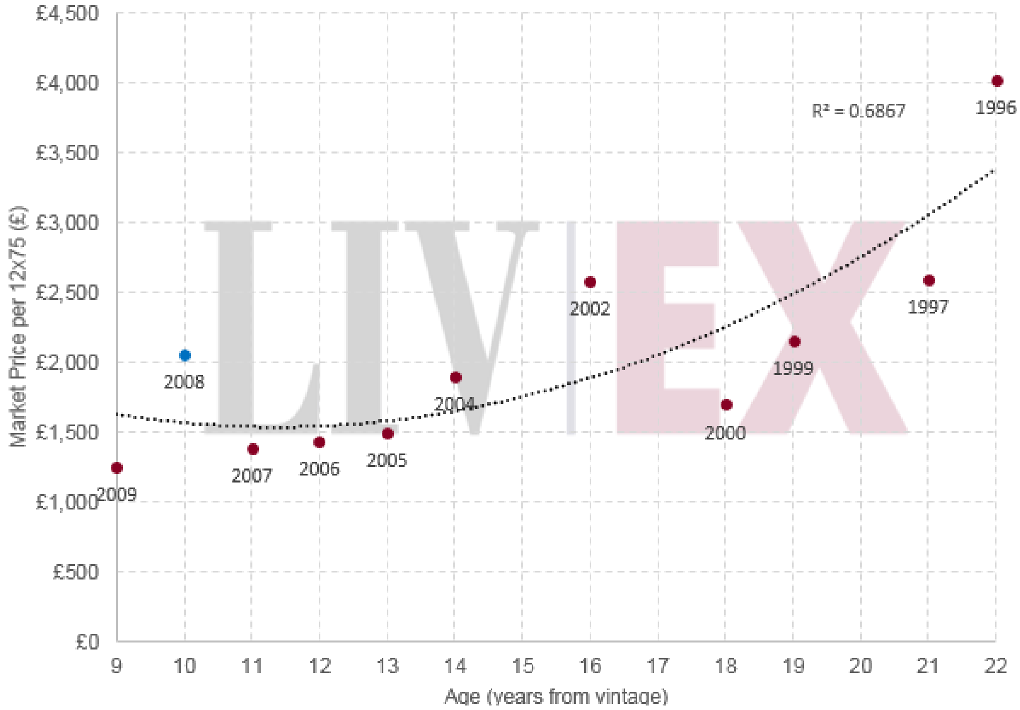
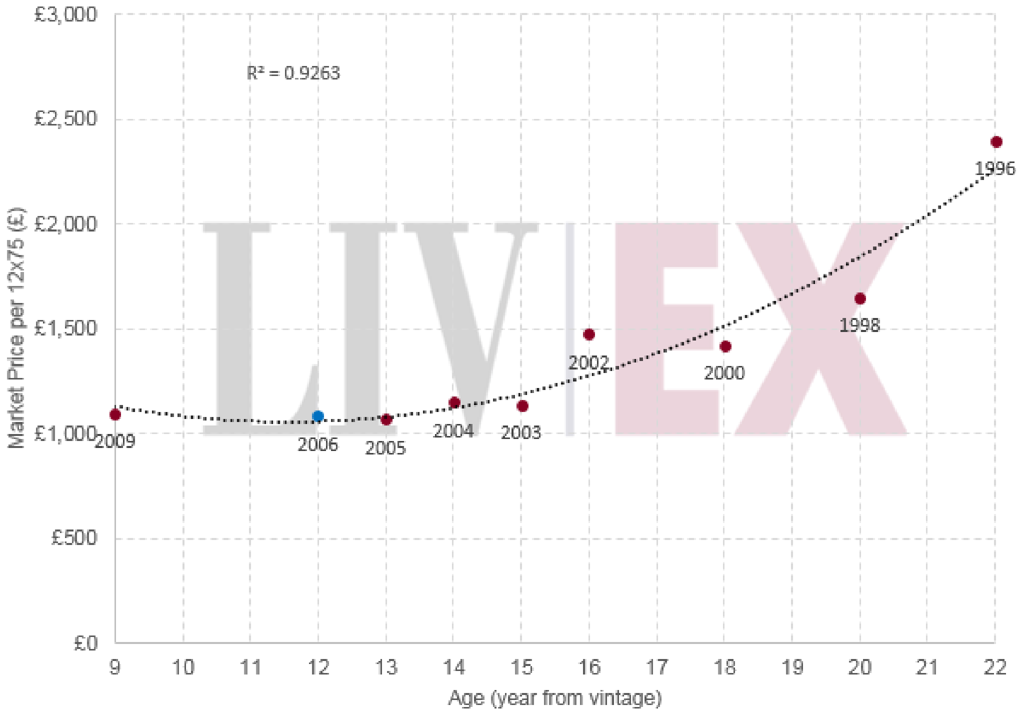


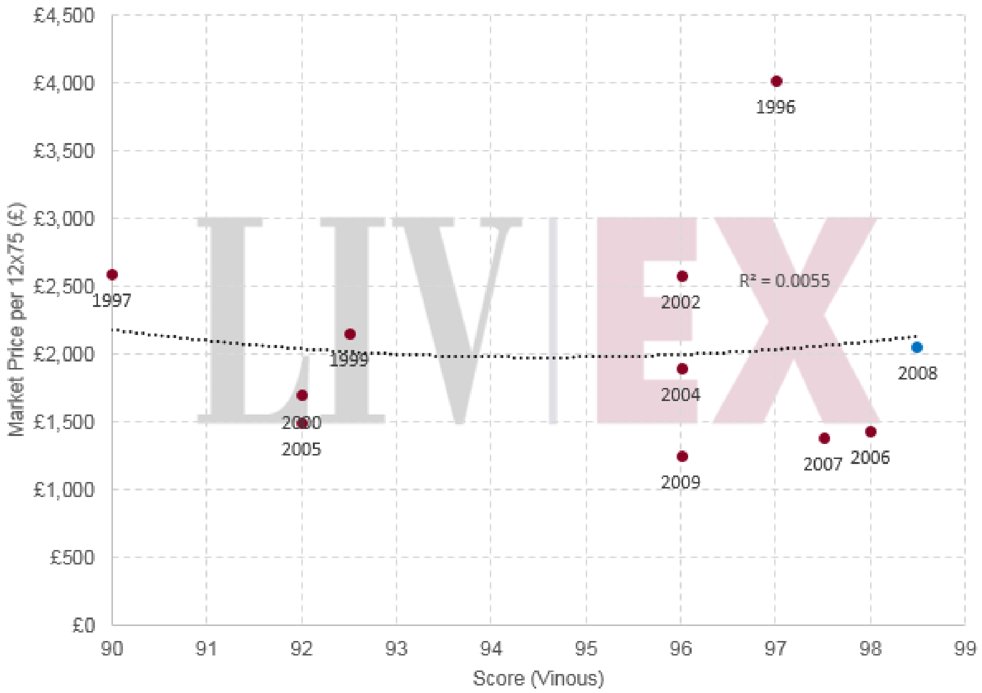
Chart 11: Dom Pérignon: Price vs. Age



Critics

Critics bear a limited influence on the price of Champagne. Unlike Bordeaux, where the correlation between price and score is high, the two variables are not closely linked in Champagne. Cristal, for example, has an R squared value of only 0.005%, demonstrating that there is no correlation between its price and its rating.

Chart 12: Louis Roederer, Cristal: Fair Value?



This is not to say that there is no influence from critics whatsoever. In instances where a consensus suggests extremely high quality, a wine's reputation can move its price. For example, Cristal 2008 recently moved from £1,450 to £2,050 per 12x75 in a month. This was almost certainly aided by high scores from the likes of Antonio Galloni and Lisa Perotti-Brown MW.

Similarly, Krug 2002, which was highly praised by critics and described as "the greatest Champagne release of recent years" (*Decanter*), increased in value by over 30% a month after its release. Its late entrance into the market – after the 2003 and 2004 – also helped to build anticipation.

Size

There is no hard and fast rule about how Champagnes in different bottle sizes perform in the secondary market. At release, larger formats often command a 10-20% premium on standard bottles, for the equivalent volume of wine. Currently, magnums from the Champagne 50 trade at an average of 50% above their 75cl siblings, rising to just over 100% for jeroboams.

However, market conditions and consumer taste can lead to a dramatic shift in the relative value of big bottles. For instance, the premium for jeroboams has drifted significantly in the last ten years. In 2007, jeroboams of Cristal 1999 traded at a premium of 330%, falling to 148% in 2017. It is possible to reach two conclusions from this: first, ostentatious displays of wealth have moved on since the financial crisis; second, and most importantly, purchasing bigger bottles for investment purposes carries more of downside risk.

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Conclusion

Champagne is famous for celebration, luxury and excitement. It is perhaps ironic that as an investment, it has been characterised by calm, steady reliability; “a market without bubbles”. Over the past decade, the Champagne 50 has risen in every year but one, unlike the Liv-ex 100 which has seen some significant ups and downs.

Price performance of its constituents has varied. Some, such as Salon (+163%), have majorly outperformed others, such as Cristal (+40%). There are several reasons for these movements, but it does appear that houses with lower production levels and fewer declarations perform better. At vintage level, age is the most important determinant, with prices rising as the wines are drunk and become harder to find.

Champagne has transformed from a fringe to a key element of the fine wine market, now accounting for around 8% of trade by value. The fundamentals are strong: exposure has been growing, and price discovery is increasingly efficient. Collectively, this has boosted confidence in Champagne as an investment asset. Time will tell whether these trends will continue; what history taught us is that it is a market mostly insusceptible to unsettling events.

Champagne has occupied the wine lists of the world’s top restaurants for centuries, but recent years have given it more reasons to raise a glass. With the fundamentals now in place, Champagne has proved itself worthy of a place in any collector’s balanced fine wine portfolio.