JF TOBIAS

November 2018


# Fine Wine Market Decode: November

## Market Sentiment: Purchasing

- Offers to buy totaling £3,608,633 in the past 2 months; 43% up on the previous 2 months

- 32% increase in people looking to sell fine wine, against this time last year

- Amidst Brexit uncertainty, clients are looking to reduce over-exposure to wine in investment portfolios

In November, we are seeing the fine wine market continue to be shaped by macro factors and events. Until there is a resolution to 'Brexit' the market will continue to be skittish.

The uncertainty around Brexit means merchants continuing to consolidate stock into the UK, to avoid a potential customs blockage come March.

Besides this, merchants are reducing owned-stock positions to mitigate the risk of a strong sterling, the devaluation of wine prices being the likely result.

JF Tobias' view on the long-term prospects for Sterling is that, once the uncertainty of 'Brexit' is no longer priced in, the currency will start to appreciate, which tends to place a downward pressure on wine prices.

Although long term market fundamentals are positive, those who are considering selling in the short term (6-18 months) should consider whether the downside risk is worth the relatively modest upside potential.

In real terms, clients are looking to sell rather than to purchase. Offers to sell have increased dramatically in recent weeks, and this is a trend JF Tobias expects to see continue, as Brexit remains uncertain.

Sentiment is centered on the fear that recent gains (since 2016) may be eroded by a strong Sterling, and clients are looking to reduce any over-exposure to wine in their investment portfolios.

# Market Sentiment: Sales

- China – USA trade war continues to affect fine wine market sentiment
- Super Seconds, and Right Bank Bordeaux struggles
- Hong Kong market activity drops 14% on last month

The Chinese retail market drives Hong Kong purchasing, the largest market in the world for fine wine, and as with last month, the retail market remains slow, as the China-US trade war continues.

A planned meeting between Xi and Trump, during the G20 summit at the end of November, may signal a thaw in relations, and a possible deal.

This would only be good news for the Hong Kong wine market, and any movement towards a deal is likely to see an increase in global wine market activity in response.

Worryingly, however, both the stock and property markets in China have also slowed. For the first time in two years, the property market shrank, by 0.01%.

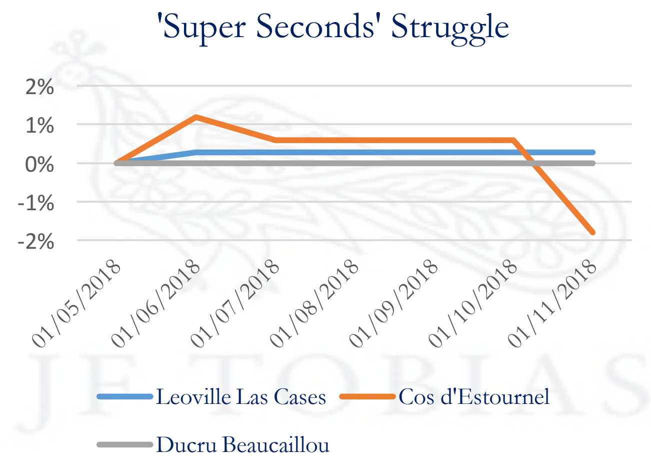
With fine wine a luxury product, when these markets are down, the appetite for fine wine also falls. The knock on effect can be drastic.

In real terms, we have seen the market not just slow, but begin to fall in some areas of the market. As a result, UK brokers and international clients are buying less stock than a few months ago.

Weaker vintages have been particularly vulnerable in a slowed market. This is especially true of Bordeaux.

More recent vintages have also struggled, from 2010 onwards. Not yet ready to drink, they remain less saleable than older vintages.

The 'Super seconds', such as Cos d'Estournel, Ducru Beaucaillou, and Leoville Las Cases, have also all struggled.




The Second Growths, still with premium price tags, have been caught between the cheaper alternatives lower down the classifications, and the big brands of the First Growths, which represent a safer bet in a slow price-sensitive market.

Although Pomerol continues to perform strongly, with the cult wines of small production sites such as Le Pin still trading easily, St Emilion has shown signs of weakness, especially those wines outside of the top classification of Premiers Grands Crus Classés A: Angelus, Ausone, Cheval Blanc, and Pavie.

Overall, there is a reluctance in brokers to buy stock for stock, as this is now a risky model. Instead, they are finding sales, before taking stock on. Increasingly, clients are steering away from risk. Between Brexit, and the trade war, the market remains cautious.

# Feature: Hong Kong Trade

After two weeks in HK meeting private and trade clients, Bertie Stemp, Sales Director at JF Tobias, gives us the big things to take away from his trip.

"Having spoken to over 50 clients, both trade and private, outlook on the global fine wine market was mixed.

Trade remained concerned by a slowdown, driven by the trade war with the US, and the stock and housing markets beginning to shrink.

The result of measures taken by the Chinese government to counteract tariffs raised by the Trump administration, the strong CNY has meant poor demand from China for luxury imported goods, meaning that wine purchasing is more selective, and based around value-picks rather than usual trading; they argued prices were beginning to fall across the board.

With the HKD strengthening against the Euro, it is also increasingly likely that Hong Kong merchants are sourcing stock from France, Germany and Switzerland, where their money goes further.

If the trade were pessimistic about the global outlook of the market, and concerned by the slowdown, there is cause for positivity in speaking with private clients.

Whilst demand is poorer than historically, appetite for more diverse fine wine is increasing. New World wines are in demand, especially from Chile and the USA; think Almaviva, the Chilean project of Patrick Leon (winemaker at Opus One and Mouton), Opus One and Screaming Eagle.

Increased demand for a wider array of wines than typical Bordeaux and Burgundy, means clients are looking for ways to diversify their supply; often, not as price-sensitive as the trade.

The UK remains in a perfect position to supply; whether more traditional Bordeaux and Burgundy, or wines of the New World, that still make their way through the UK. How we navigate Brexit, both in the short-term, and long-term, as well as the affects this will have on GBP and how competitive we look compared to other markets, are the big question marks."

-Bertie Stemp, Sales Director

# Currency Corner: FX Decoded

In the global fine wine market, relative currency strengths play a big part in performance.

Red swatches show those currencies that have gained in value against the base currency; blue those that have fallen lower in value.