



Fine Wine Market Decode: September

Market Sentiment: Enquiries to Sell

- Market Performs with Stable Values and Volumes
- Market Displays Beneficial Lack of Correlation
- This Month Offers Insight into Recovery Speed

Following on from an unseasonably busy August, September trade plateaued. Thereby suggesting last month's price "bounce" was primarily driven by a need amongst UK merchants to put numbers on the board, as opposed to depressed wine prices offering exciting relative value. As such, this month saw prices across all regions and price points stabilize, with only the ultra-top tier continuing to claw back small gains. The total volumes traded remained steady although an exaggerated bias toward Bordeaux persevered.

Last month's trading serves to further consolidate our previous observation, that this is not a COVID driven price event, but the end of

a considerable longer-term correction. With the market now somewhat more settled, we should now consider these prices to be the new baseline from where a new market uptrend could build.

Another observation drawn from the past month is in relation to the wine markets known lack of correlation to central financial markets. While the world's markets continued to convulse with volatility and volume, wine has remained steady, but this should be no surprise.

Wine is not impacted in the same rapid way by the ever-changing global matrix of socioeconomic factors. The wine market is ultimately driven by end user consumption and demand for a luxury good. This being a slightly more definite, yet albeit immeasurable force, means price moves are all the more stable. This is why when all other markets crashed in the spring, wine owners lost single figure percentage points not double digits.

But, this stability of price action that breeds protection also works in reverse. Price recovery and gains will also come about steadily. So, like with the new pricing norms mentioned last month, we offer a reminder to reframe our outlook on the recovery. To separate our wine holdings from the rest of our financial portfolios and recognize that a recovery will be years in the making, not a Trump headline away.



Market Sentiment: Sales

- Consideration of Potential Impact of Upcoming Events
- Why FX May Elongate Stagnation
- Price Predictions for Mid Tier Stock

If we attempt to look forward and make some predictions for the coming months there are a few stand out points to cover.

First, with COVID still not under control and with both the US elections and the conclusion of Brexit soon to be added into the event risk equation. Any pricing upside is almost certainly going to be capped in the short to midterm.

While the specific outcomes of both Brexit and the elections are unlikely to directly alter the complexion of the wine market itself. The impact will be felt through FX due to the Eastern markets sensitivity to exchange rates. These spread sensitive buyers watch the rates very closely and any negativity can have very real-world translations into their demand, both in value and volume.

As a result, we can assume Eastern buyers will not want to be over extended in the run up to key political moments. Furthermore, some may well actively reduce their exposure in a hope of a flash Sterling crash and flush of bargains similar to the post referendum event in 2016. While the news required to cause this would have to be drastic, 2020 so far has been an abnormal year to say the least, so only a fool rules out the long odds bet at this point.

The second key point to consider for the coming months expands on consumption as a driver and offers an explanation for the current and future stagnation of the mid-tier.

As earlier mentioned, the market at its core is driven by consumption, without it there is no incentive to trade the wines and consequently no demand shrinking supply and pushing prices higher. It is why the ultra-top end has been relatively unaffected through this COVID period thanks to an insulated consumer base. Conversely it is exactly why the mid-tier has, and we believe will continue to stagnate.

The fallout from this year's black swan event is likely to be felt more acutely by those in the middle class. Clients who have some available capital and who choose to own and occasionally consume the mid tier, this sector consisting of the £250 – £1500 cases. Their consumption is an additional bonus luxury to their lives and therefore one that in times of belt tightening is one of the first to stop. While pride and hope will almost certainly halt a mass exit, the stagnation of consumption will halt the shrinking of supply. With this comes the logical dip in the rate of new acquisitions.

As these wines are typically not investment grade, the speed at which this tier of the market recovers will be driven by consumption, not speculation. It will therefore be tied closely to the economic recovery and unfortunately the rhetoric suggests that to be a long and slow road. Expect a continuation of this price range.

Currency Corner: GBP Index BXY:

