

Market Analysis 2016

Executive Summary

Auction sales picked up considerably in the second half of the year, carrying the results into positive territory, ending the year at \$299 million, +2.22% over last year. While Burgundy continues to sell well, prices for top wines are beginning to plateau, while Bordeaux is making a resurgence. In the primary market for fine wine, the campaign for the 2015 Bordeaux vintage showed (as it nearly always does) prices that were higher than the trade would like but lower than the producers would have liked.

2016 Wine Auction Market Review

The auction market for fine and rare wine finished second half of 2016 in vigorous fashion, with US\$ 154.8 million in sales, +7% over the same period last year and +6.8% above the first six months of the year. This made up considerable ground, as value had dropped by -2.98% in the first half of the year, despite some high profile sales during the spring season. Interestingly, the increase in the total sales came despite a drop of 6.7% in the number of lots coming to auction, showing a healthy increase in the average lot value and pointing to greater quality of property coming to sale.

Specific highlights of 2016 included the following:

- Sotheby's Bill Koch sale in their New York saleroom in May provided both quantity and quality, with \$21.9m realized and lustrous items such as the ten bottles of 1945 Mouton Rothschild that made an impressive \$343,000.
- Zachy's large Hong Kong multi-vendor sale made \$9 million to become the second-largest auction of the spring season, while their sale "The Vault" earned \$12 million across sales in Hong Kong, New York and online in the fall.
- The heirs to the remains of the Aubrey McClendon cellar consigned at HDH made in excess of \$8 million, and their December multi-vendor sale closed out the year at more than \$9.5 million.
- Producers choosing to consign directly into the auction market included California Cabernet producer Schrader, the SuperTuscan Ornellaia, champagne houses Henriot, and Bollinger and Burgundy négociant Bouchard. Even Cognac producer Louis XIII got into the act, selling three bottles for extraordinarily-packaged l'Odyssee d'un Roi for generous prices. The most expensive sold for \$190,000 in Hong Kong.
- Venerably merchants and négociants presented the market with rare wines of impeccable provenance, as Christie's brought the cellar of the Avery family (of Avery's of Bristol) to market in London and Zachy's featured an interesting Bordeaux shipper Nathaniel Johnston to New York.

While the Hospices de Beaune sale each fall is an auction, it is actually a hybrid: proceeds to fund the charitable causes of the Hospices, but it is still a commercial auction and is used as a bellwether by shippers use to help determine prices for the coming year. The sale, which features barrels of the current vintage fresh from the fermentation tanks, was down by 25% from last year in spite of the fact that there were 21 barrels more of wine than in 2015. Most observers feel that this is largely due to quality, as the harvest of 2015 was truly exceptional, while that of 2016 was merely good.

American Demand Stays Strong

One of the more marked trends of the year was the continued move to dominance of the U.S. market at the expense of Hong Kong and London, confirming the H1 results. Sales in Hong Kong slipped from 32.4% to 28.4% of the global total and those in London went from 11.1% to 10.9% as U.S. sales grew from \$165.3 million to \$170.5 million or 56.5% of global turnover to 57%. It is important to keep in mind, however, that while live sales in Hong Kong continue to slip, that clients from Asia still account for a large proportion of sales in other geographies, and these clients and their likes and dislikes are very much at the center of the wine world in this market.

Category Dynamics

Burgundy's Continued Strength

Burgundy continues to surprise. While it certainly seemed at the close of June that the category might be beginning to slow, it seems that most of the leading and coincident indicators have strengthened since this time. 1990 Romanée-Conti picked up value at \$17,418/btl, and while still down from the peak of 2014, it is up 5.6% v. last year, 10% over five years and 75.4% since 2006. 1990 Rousseau Chambertin and 2010 Liger Belair La Romanée both recouped a bit of their price to \$2,456 and \$2,676 respectively, and even white burgundy made some gains. Most notable here was the 2005 Coche-Dury Corton Charlemagne which went to \$4,530 (+33.9% v. LY), while '05 DRC Montrachet also gained, to \$4,111.

Certainly, however, there were exceptions to this trend. The 1993 Leroy Musigny gave up a bit of its edge, although it is still trading at \$5,265, a respectable +19.9%, while the '99 La Tâche continues to appreciate (+13.8% to \$4,437). The overall takeaway at this point must be that this category still has legs and that Asian demand does appear to be driving Burgundy wine still higher.

Bordeaux's strength Overstated?

Leading indicators appeared to suggest earlier this year that Bordeaux had turned a corner. Although the numbers are still encouraging, the gains have not continued at the same pace. '82 Lafite slipped slightly to +11% over last year. 1989 Haut-Brion presents much the same picture, +16% over last year as compared to +19.9% in June. Elsewhere '86 Mouton and 2000 Pétrus are also showing increases over last year, but not of the same magnitude that were present at the end of the first half.

The take-away here is that Bordeaux wines have taken a serious correction and still remain a solid buy recommendation. While prices are now ticking up, potential sellers must take care in order to safeguard their gains.

Other sectors

We pointed out in June that some wines and some categories might indicate a waning influence of the wine critic Robert Parker. If anything, this trend has intensified in the last half of the year. The Parker-annointed 1990 Cheval Blanc is -7.4% from last year and -25.6% from the peak of the market in 2011. 1999 La Mouline continues to soften (-4.1% v. 2015) and 1990 Rayas has slipped from positive territory to negative in the past six months: it was +2.8% at the end of June, but today is -4.3%. Category champion 1961 La Chapelle while still far from its peak has conversely picked up a bit of ground, and is trading now at an average \$10,065 per bottle. Other categories remain fairly lackluster: many Italian classics continue to lose ground, such as '07 Masseto (-11.3%) and those that are picking up, such as 1990 Monfortino are still underperforming. New World classics are mixed at years end, with '01 Grange still flat and appreciation for the 1994 Dominus slowing. Even the top-performing 1997 Screaming Eagle is only up 3.7% on last year.

The Retail Market for Fine Wine in the U.S.

Since 2014, the United States has been the largest retail market for wine in the world, selling a total of 384 million 9 liter cases in 2015. To view the entire market as one is a grave error, however. In the wake of Prohibition, states (and in some areas of the U.S., counties) were given authority over the laws that control alcohol distribution. Because of this fragmentation, each state is a separate market.

Reporting research from the Silicon Valley Bank, Decanter magazine has said that sale of fine wine (>\$20/btl) will increase in 2016 while sales of lower priced categories were slated to drop. Within this price bracket, Bordeaux is beginning to rebound. Once a dominant category, the wines of Bordeaux had dropped from favor for a number of years following the dissolution of Seagram's Châteaux and Estates in the wake of the Seagram's sale of assets by the Bronfman family. According to Market Watch magazine,

however, sales this year are slated to increase again this year on last year's modest gains to bring the level to +108% compared to 2010.

In the en-primeur market, prices for the 2015 vintage were 14% higher on average than for the relatively unloved 2014 vintage, yet sales during the en-primeur period on the Liv-Ex exchange were only 25% of the robust levels attained in 2009, as producers reduced the amount of wine released into the market and consumers and trade hesitated in the face of a lackluster vintage.