



SIX OF ONE

Ella Lister gives an overview of the bullish first six months of fine-wine trading in 2010, paying special attention to the second quarter, and offers a first-hand account of the frenzied trading at the height of the 2009 Bordeaux en primeur campaign

The first half of 2010 has witnessed a wholehearted recovery for wine prices on the back of unquenchable global demand. The Liv-ex 100 index has never been higher, crossing the 300 mark in June and up 27.3 percent so far this year. The index has risen 40.9 percent over the past year, and moreover, at the end of June it was 14.3 percent higher than its pre-crash high exactly two years previously, cementing the rebound of the fine-wine market.

In June, the Wine Investment Fund was up 3 percent, just ahead of Liv-ex's Fine Wine 100 index at 2.8 percent.

Liv-ex also launched a new Fine Wine 50 index, tracking the past ten physical vintages of the five first growths and allowing a daily, rather than monthly, evaluation of the wine market's performance. Since its daily debut at the end of February, it has performed strongly against the stock exchanges of the world's wine capitals (Fig.1, *opposite*), up 25.7 percent over the period. Both merchants and auction houses have benefited from strong prices and demand, many achieving record turnovers for the first half of the year. As an added bonus, the trade has experienced the



Acker Merrall & Condit's Great Wall Dinner near Beijing, the most spectacular of the 16 events organized by the auction house prior to its "Imperial Cellar" sale

busiest and most lucrative en primeur campaign ever, which is likely to have a knock-on effect on auction prices—especially for back vintages of good performers and, in time, when 2009s begin to hit the salerooms.

Unsurprisingly, trade on Liv-ex in June was dominated by Bordeaux, which accounted for 98.5 percent of exchange turnover (compared to 96.7 percent in May and 88.6 percent in 2009), at the expense of Burgundy, at only 0.1 percent (down 93 percent on May). A hefty 39 percent of the Bordeaux traded was 2009, despite most wines being released only toward the end of the month, implying that merchants were immediately speculating and trading among themselves rather than simply sharing out their allocations between their clients, acting almost as a fund might. As a result, trading volume on the exchange is healthier than ever this year, with turnover in June hitting a new high for the third consecutive month, up 56 percent on May.

Gavel-anting

The *Wine Spectator* US Auction Index actually fell by 3 percent in the second quarter, though it remained up year to date following its six-point rise in the first. Nonetheless,

continued demand has led to very impressive performances by the top US players so far this year. Hart Davis Hart, from its four Chicago auctions to June, made sales worth \$16 million, up 28 percent on the first half of 2009. Despite

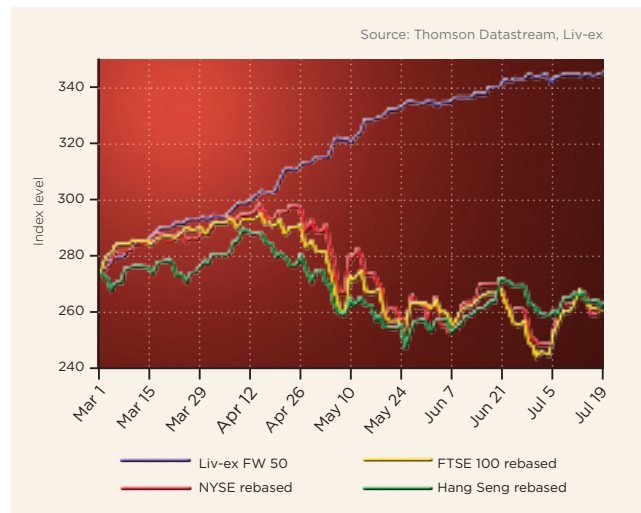


Figure 1: Liv-ex Fine Wine 50 Index vs Wine Capital Stock Indices, Mar-Jul 2010

(liquid assets)



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having clients from around the world, Hart Davis Hart is the only sizable auction house to have resisted a physical move to the Far East, suggesting that its impressive average sell-through rate of 99.97 percent is largely down to local demand. Only four lots were passed of almost 5,000 offered to the end of June (Figs.2 and 3, *opposite*).

Zachys had the next highest percentage of lots sold, averaging 98.6 percent over the same period, achieving a turnover of more than \$25 million, up 5 percent on 2009. Though undoubtedly aided by its strengthening footprint in Hong Kong, where it derived 25 percent of these revenues, Zachys held only one of its six first-half auctions in the territory and actually achieved its best sell-through rates in New York, where it held four sales. This encouraging local demand allowed Zachys to close the first half with 98 percent of lots sold at a two-day sale in New York in late June. The top ten lots consisted solely of Lafite, Pétrus, Mouton, and DRC, but encouragingly Zachys also noticed a

healthy interest outside Bordeaux and Burgundy. Among rising Champagne prices, eight lots of Krug's 1995 Clos d'Ambonnay sold for \$7,865 apiece (\$2,622 for each of the three bottles per lot, 50 percent more than its best list price on Liv-ex). Also popular were white Bordeaux lots—many beating high estimates by more than a third—and Rhône, with several lots of Châteauneuf-du-Pape from Château Rayas well over 50 percent above the high end of the range.

Orient express

Combined US auction sales totaled \$83.4 million in the first half of 2010—a very healthy figure, and 25 percent higher than Asia's total, perhaps partly thanks to the local focus of HDH and, so far this year, Zachys. However, other US auction houses are continuing last year's theme of focusing their efforts on the orient, and Hong Kong is again ahead of New York in the race of the auction capitals, with a huge \$66 million to the Big Apple's not-quite-big-enough

BORDEAUX INDEX OFFER #1: CHEVAL BLANC 1998

Most perplexing over the past year has been the continued underperformance of Cheval Blanc, notably the stellar 1998 vintage. Widely acknowledged by the major critics as one of the great wines for this chateau, since January 2008 it has returned -9.5% versus market at 22.81%. Most tellingly, it is still a whopping 17.7% below the peak seen in August 2008.

1998 Cheval fared particularly badly throughout the financial crisis. A simultaneous drop in demand from traditional markets (USA/Europe) and an exceptionally high level of selling from several investment funds (which appeared to be holding outsize positions) combined to wipe out a full 28.5% from its value. Throughout 2009, inventory levels remained high as some of these excesses were worked through, and only a trickle of interest emanated from emerging markets.

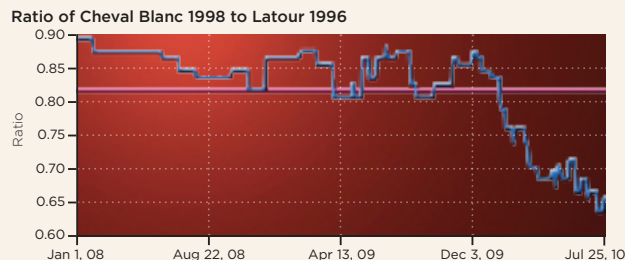
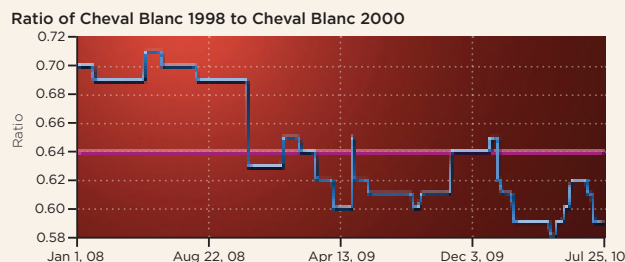
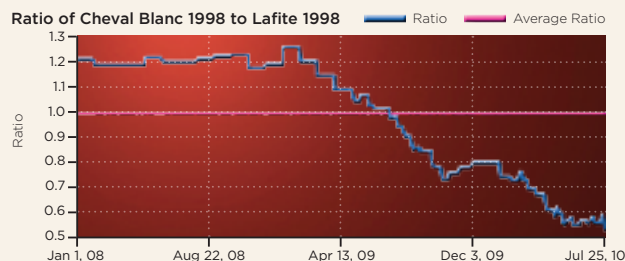
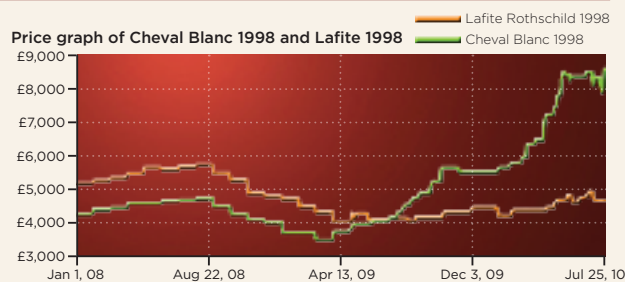
Two quarters into 2010, the picture is beginning to change. Cheval 1998 demand has notably accelerated—particularly since the release of the 2009 vintage—and is now broadly in line with a basket of comparable non-Lafite first growths. Most significantly, demand is beginning to pick up in Hong Kong and China for 1998 and for Cheval Blanc in general, with numbers already higher this year than for the whole of 2009.

Looking specifically at the 1998, in relative value terms it is under trend versus both the 2000 and 1990. Most interesting, however, is the glaring discrepancy against both Lafite 1998 and Latour 1996, two wines with which it has traditionally shared a very stable price relationship. Since 2009, as Asian demand has exerted its pull on Latour 1996 and Lafite 1998, Cheval 1998 has declined between 25 and 50% respectively in relative terms. Given reduced inventory and dramatically increased sales year to date, Bordeaux Index anticipates that the same supply constraints that have driven up the price of these other wines will soon provoke at least a partial reversion toward the long-term relationship.

With this in mind, Bordeaux Index believes there has never been a better time to buy into this superb vintage (98+ Parker points) and is delighted to make the following, restricted offer:

10 cases of Cheval Blanc 1998 at £4,750 each.

Contact Bordeaux Index using the details found in Directory, toward the back of this magazine.



**REVENUES BY AUCTION HOUSE
IN FIRST HALF OF 2010**

| Auction house | Sales (US\$) |
|----------------------------|----------------------|
| Acker Merrall & Condit | \$45,471,643 |
| Christie's | \$40,822,079 |
| Sotheby's | \$34,229,442 |
| Zachys | \$25,441,307 |
| Hart Davis Hart | \$16,049,542 |
| Bonhams | \$4,661,275 |
| Spectrum | \$3,020,866 |
| Steinfels | \$2,092,033 |
| Besch | \$1,893,663 |
| Artcurial | \$1,025,497 |
| J Straker, Chadwick & Sons | \$991,269 |
| Winefield's | \$844,984 |
| Skinner | \$734,115 |
| Total | \$177,277,715 |

Figure 2

**SELL-THROUGH RATES BY AUCTION HOUSE
IN FIRST HALF OF 2010**

| Auction house | % lots sold |
|----------------------------|--------------|
| Hart Davis Hart | 99.9% |
| Zachys | 98.6% |
| Sotheby's | 98.0% |
| Acker Merrall & Condit | 97.2% |
| Steinfels | 95.1% |
| J Straker, Chadwick & Sons | 95.1% |
| Christie's | 93.1% |
| Spectrum | 92.9% |
| Besch | 90.8% |
| Skinner | 89.9% |
| Bonhams | 79.6% |
| Artcurial | 76.4% |
| Winefield's | 72.4% |
| Average | 90.7% |

Figure 3

\$62.2 million. A contributing factor to Hong Kong's tally, and the most extraordinary event on the auction circuit this year—perhaps ever—was Acker Merrall & Condit's "Imperial Cellar" sale, Asia's largest yet (and the second biggest globally). Acker offered 19,000 bottles from the cellar of US entrepreneur Eric Greenberg, averaging more than \$1,000 each and realizing total sales of HK\$152 million (\$19.5 million). Wines from Greenberg's collection worth more than US\$400,000 were served at 16 presale events laid on over a two-week period for loyal Asian clients, a form of courting that has been perfected by Acker since its early arrival on the Hong Kong scene.

Potential buyers were treated to a slew of lunches and dinners including, in Hong Kong, The Burghound Dinner (with Allen Meadows), two Bordeaux 2000 retrospectives, and a series of "Zodiac lunches" with such titles as Dragon and Monkey, and, on the mainland, two dinners at the Great Wall of China. The pinnacle was the Great Wall Dinner, hosted at Juyongguan, which once represented the northwestern gate of Beijing. Special guests were spared China's eponymous wine and instead served Margaux, courtesy of the chateau, whose owner Corinne Mentzelopoulos gave a speech at the dinner. The Guy Savoy menu boasted foie gras, lobster, black truffles, veal, beef

and bone marrow and was topped off with a pudding of "poire Margaux" accompanied by 1953 Château Margaux from magnum. In the words of Gil Lempert-Schwarz, Acker's energetic Asia consultant and mastermind marketeer, "It was the dinner to end all dinners. Period!"

This sale alone accounted for 43 percent of Acker's turnover to June, helping the auction house to its half-year total of over \$48 million, already eclipsing its full-year revenues in 2009 by 10 percent, with five more auctions to come in the second part of 2010. Acker's performance is testament to the power of the Hong Kong auction scene and the commercial wisdom of those who have courted Asian enophiles on their home turf. A huge 73 percent of Acker's revenues this year have been derived from only three sales held in Hong Kong, compared to four in the United States. Hong Kong's average sell-through rate remains marginally higher than that of the USA, at 95 percent to 92 percent. Interestingly, Singapore had the lowest average sell-through rate of any country, with 70 percent of lots selling at its only auction this year, held by Winefield's on May 16, suggesting that tapping into Asian demand should not be taken for granted, nor traditional Western markets neglected. After Acker, Sotheby's is the next most reliant on Hong Kong sales, deriving 60 percent of its first-half revenues from sales in

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BORDEAUX INDEX OFFER #2: HAUT-BRION 2004

With the vertigo-inducing highs achieved by the top 2009s, we at Bordeaux Index are more convinced than ever that the most rewarding and stable investments in the wine market over the next several years will be those that exploit trends built on real, rather than anecdotal, trade patterns. With this in mind, we would suggest that Haut-Brion 2004 be given full consideration.

Now the primeur campaign is over, it is becoming clear that the attention of the investor has returned to the first growths and their immediate peers. This group continues to dominate demand from the increasingly important Asian markets, as well as the investment players who chase the tail of the former. While brand Lafite continues to dominate, there is more evidence every month that its hegemony is beginning to diminish (see chart, *top right*). As this inevitable process unfolds, essentially promoted by a broadening of the Chinese palate and inaccessibly high Lafite prices (nothing under £6,000), we will likely see Haut-Brion, as the cheapest and smallest of the first growths, as a primary beneficiary.

The Haut-Brion trend is already well established, its turnover in the year to date almost matching that of the larger châteaux Mouton Rothschild and Margaux. Indeed, if we exclude en primeur 2009 and a couple of vintages of Lafite, the Haut-Brion '04 is our top-selling first growth of 2010, nearly 60 percent of sales going to Asia clients, with retail distributors dominating.

Looking more closely at Haut-Brion, we see further grounds for backing the 2004. At the premium end, the 2009 has sold through to around £8,000, and the 2000/2005 have settled at recent highs of £6,500, illustrating the breadth of support for the château across multiple price levels. Within the off-prime set, the past several months have seen the 2004 become a little cheaper relative to the 99/01/02 vintages (see chart, *bottom right*).

Haut-Brion 2004 has outperformed the market. With returns up 25 percent year to date and 60 percent year on year, it already has an impressive track record, but given the high volume of underlying trade, the price looks to be well underpinned. Coming,

as it does, from an ever-popular vintage and at a price that has encouraged consumption rather than speculation, it is likely that supply constraints will help the price further north. And with 95 points from Parker in *Hedonists Gazette* last year (up from 92), there is a possibility of a formal upgrade in coming years.

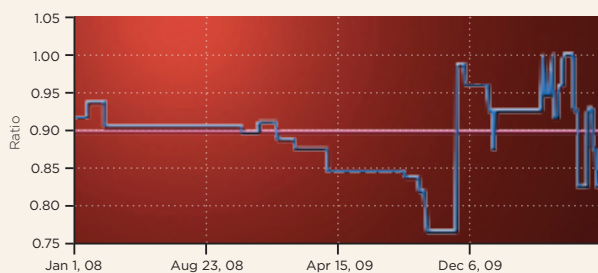
15 cases of Haut-Brion 2004 at £2,375 each.

Contact Bordeaux Index using the details found in Directory, toward the back of this magazine.

Ratio of Haut-Brion 2004 to Lafite 2004



Ratio of Haut-Brion 2004 to Haut-Brion 1999



the city, while Bonhams' and Christie's on-site auctions accounted for much less, at 15 and 13 percent of their respective turnovers. The mix has worked for Christie's, with the second-highest first-half turnover at \$40.8 million, though there can be no skirting the success that Hong Kong has brought to Acker and Sotheby's, in first and third positions respectively (Fig. 2, *previous page*).

Newcomer Spectrum Wine, launched last July, has addressed the dilemma of old market versus new by embracing both simultaneously, holding physical auctions in California and hosting live simulcasts in Hong Kong. President Jason Boland said of this approach that it "demonstrates the potential to tap into emerging markets while continuing to service longtime collectors Stateside." The company's third sale, on June 25 (the 26th in Hong Kong), "saw 25 percent of all winning bids and 56 percent of the total number of bids come from the Internet," showing that a physical presence, while not essential, is helpful when it comes to converting bids into sales.

By comparison to the newer markets to its east and west, Europe has ticked along quietly but satisfactorily, with average sell-through rates of 94 percent in London and 90 percent on the continent. In Zürich, Marc Fischer reported Steinfels' "best auction ever," held on June 12. "Everybody

—dealers, privates, restaurants—is buying as if there is no more wine available in the near future." He put this down to a renewed optimism within the trade and a slightly stronger pound to help English buyers. Representing only 14 percent of the global auction market to June, Europe's influence may be waning, but what it lacks in the saleroom it makes up for in mercantile trade. In keeping with tradition, London has been at the heart of this year's Bordeaux en primeur campaign, with its established merchants often the preferred source even for foreign buyers, perhaps due to the incremental risk associated with buying wine as a future.

Rough diamond

One such merchant, Bordeaux Index, founded in 1997, was another wine company with first-half sales of 2010 surpassing its 2009 full-year revenues, this time helped by a strong en primeur campaign. Its annual revenue is currently around the £75 million (\$112 million) mark. The fast-growing company moved to its modern City HQ in 2008, far from the age-old Mayfair institutions such as Berry Bros & Rudd, whose cellars served as a hideout for the exiled Napoleon III in the 1830s. At the cutting edge of today's wine trade, Bordeaux Index fosters few relics of the wine trade as we knew it. The merchant's bellicose approach has itself

something of the Napoleonic about it. But while the emperor famously labeled England a nation of *boutiquiers*, this particular shop's founder and managing director Gary Boom is not English but South African, and Bordeaux Index bears little relation to traditional wine shops.

Boom cut his teeth in interest-rate swaps and foreign-exchange options as a director of derivatives broker Intercapital (now ICAP). Applying his financial acumen to his wine venture, Bordeaux Index uses sophisticated computer programs previously unheard of in the wine trade, as well as employing two full-time investment specialists to analyze potentially lucrative opportunities. As neighboring jewelers continue to trade the tangible in the form of precious stones in London's diamond quarter, wine is sold electronically at No.10 Hatton Garden.

By 9:30am on June 25, the mood on this trading floor is one of urgency and controlled chaos. At the tail end of the latest Bordeaux en primeur campaign, Cheval Blanc has just been released at £7,900 (\$11,780), and Boom declares, "I might as well take a chance on this. I want to get 50 cases." And it is a chance, with prices eclipsing all estimates and rendering his clients' pre-orders obsolete. Only one of numerous expressions of interest for Cheval Blanc stands, at an aggressive £10,000 (\$14,900), prompting a cheeky aside from Boom: "Well, he owns it, then!" The château has halved the allocation, and the sales team is putting in calls, scrambling to secure enough cases; but Boom keeps changing his mind, seconds later announcing to nobody in particular, "Let's get up to 40 cases." The second-highest pre-order is yet to be confirmed at £7,900, because the client is unavailable. "He's the second-richest man in Asia; I don't blame him if he wants to have a sleep in the afternoon," sympathizes Boom, who has enough to be getting on with while he waits for the decision. He is simultaneously buying up back vintages in anticipation of the boost they will be given by the 2009 pricing. Ten cases of 1998 Cheval Blanc are bought on Bordeaux Index's online platform LiveTrade and later realize a profit.

At the far end of the open-plan office, a cork pops. It is 9:55am. "Who's opened a bottle of wine?" booms Gary rhetorically, jesting. "It's a bit early!" Despite the questions being fired at him from all sides by his sales team and the

constantly ringing phones, Boom intersperses his snap decisions with friendly banter and expletives. The atmosphere is one of a City trading floor: part daring, part risk management, mostly macho, and all quickfire. "I woke up at five o'clock this morning thinking about Latour. I went to bed at 1am thinking about Mouton." It has been a busy fortnight for Boom, who adds, "I need the weekend." His energy, though, seems buoyed by adrenaline as he turns his thoughts to L'Eglise Clinet, also just released. "Okay, let's get this party started! Shall we do it in six-packs? It always sounds nicer in six-packs. Let's do it at £1,750 [\$2,610] per six." Nobody questions Boom's salesmanship.

The long and short of it

Meanwhile, the second tranche of Mouton Rothschild is coming in thick and fast, and Bordeaux Index already has 50 cases in stock. "It's always Mouton," protests Boom. "There's always loads of the stuff kicking around." He tells his team to run it past him before buying any more, and yet minutes later—perhaps somewhat predictably—he can be heard on the phone acquiescing, "I'll take that, only because it's you." He's five more cases of Mouton up, but the *négociant* doesn't have any Cheval Blanc. Ten minutes later, more Mouton is offered at a lower price again, and it is irresistible. Having acquired it, he announces to the room, "No more Mouton," and half to himself, "Shit, we're going long on this." He doesn't seem worried, though, which is unsurprising for someone whose resourceful team—on 1 percent commission—has already sold £888,000 (\$1.3 million) worth of en primeur wine by 11 o'clock that morning.

From across the room, Boom is updated on a particular client's purchases so far, amounting to £83,000 (\$123,710), and decides to reward him with a special-offer parcel containing Lafite, Latour, and Mouton. "He should be over the moon; it's just a thank-you." And he is, snapping up the hard-to-come-by first growths. One case of Mouton down. And it turns out there was no need to worry about overstocking on Cheval after all. The Asian client has woken up and wants 40 cases, which Bordeaux Index doesn't actually have, so they agree on 20. As the phone hits the receiver, Boom rallies the troops: "We need another 30 cases of Cheval. Let's keep going!" As he is dialing a telephone



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A CONSIGNOR'S VIEW: ROMEO SIA

What sparked you to open your shop Wine Story?

I read *A Billionaire's Vinegar*, and it gave me a totally different perspective on wine. Before it was just a beverage—red or white—and I didn't care much about it, but I'm a history buff, and I realized that wine, especially Bordeaux, has a lot of history behind it. My daughter was studying in Canterbury in the UK, so I had a reason to hang around in London for a few extra days; I discovered Berry Bros & Rudd and fine-dining restaurants. I read about wines and could find them in London but not in Manila. I decided I could do a better job given my background with Healthy Options [an organic chain in the Philippines]; I'm good at marketing, I know how to build a brand and excite customers, and wanted to make wine appreciation something special.

How advanced is the wine scene in Manila?

Compared to Hong Kong, we're quite behind, but there is a small core, maybe 2 percent of the population, which controls 80 percent of the wealth. These people appreciate wine because they travel. People don't sell first and second growths in shops, though. They make them available to a small circle of friends. I couldn't find Gruaud-Larose or Ducru-Beaucaillou anywhere in Manila, and I later found out that if I knew someone in the wine mafia—I call them that—I could get my hands on these wines. I think they've been in business 20 years, but they never made the wines accessible. I want to democratize wine appreciation, to create a new generation of wine lovers. I want to make wine accessible, available, if not necessarily affordable.

Could the Philippines become a major fine-wine market?

I don't want to limit myself to very, very high-end wine, but there is a market for that. Manila is still a virgin territory, and the uninitiated tend to like New World wine, which is often nice and easy to drink. But my customers are beginning to see a difference between New World and Old World wines and starting to ask for more complexity. We have four Enomatic machines in the shop, and we usually guide people from New World to French wines. There is a lot of potential for good-value wine, say £20–30 [\$30–45] per bottle. People love food here; we eat six or seven times a day, and even though white wine is more suitable for our cuisine, everybody loves red wine, and that is fine. Because people share food, rather than ordering a dish each, you would end up with six bottles on the table if you matched food and wine the Western way.

Did you buy any 2009 Bordeaux en primeur?

Yes, about £100,000 [\$150,000] worth. I didn't get any first growths apart from Haut-Brion, but I got all the second wines of the first growths and some super-second. It was mostly for the shop, but it's hard to differentiate at the moment. I have two Sub-Zero fridges at home, but I have a cellar at Wine Story. I have started to tell people who come into the shop, "Having a home theater is so '90s. If you want to show people you've made it, you need a walk-in cellar in your home!" We have 7,000 islands and a population of nearly 100 million, and we're the only store with large formats—we have the largest collection of Impériales. People can't fit these in their wine fridges, so they need to drink them!

Who did you buy from, and how was the experience?

I bought about 80 percent from Farr Vintners and the rest from Berry Bros, Fine and Rare, and La Vintage in Bordeaux, owned by the son-in-law of Hubert de Boüard of Angéus, whom I met at Vinexpo Hong Kong. The buying experience was the same. I'm very happy with Farr; they're very efficient. It's easier for me to buy from one or two sources

since I don't have huge volume, so I consolidate it all into one container and ship it to the Philippines. 2008 was my first en primeur vintage, but this was my first en primeur tasting—they were surprisingly good, most of them ready to drink. I'm just shocked by the prices—just crazy! It'll be very interesting to see what happens to the prices in two years' time. I think the hype was so great that some people—like me—felt if they didn't get at least a case they might be left behind.

Did the merchants give you any useful advice?

I did my own research, but they do give me advice. Usually they were the ones who said, "This is overpriced; you might want to wait." But there are some wines on allocation that if you don't order, they're gone. I learned in Bordeaux that the châteaux released very small amounts. They're holding back the '09s because they think they will get more money in two years.

Did you manage to get everything you wanted?

I was quite lucky, because I bought extensively in 2008—all the first growths, Le Pin, Ausone, Cheval Blanc—so Farr let me buy the same wines again. It was my decision not to buy the first growths. In '09 more than 90 percent of the wines made are really good, so why spend over \$7,500 [£5,000]? I haven't started doing en primeur for Wine Story yet, but when I told customers I was visiting Bordeaux, they asked me for an ex-Manila price list. I still have to work out the prices. People here are not so into en primeur yet, but the media really talked up 2009. People like to buy tangible wine—they want to have it in their hands and drink it almost the same night, which is good! It will change, definitely.

Do you have advice for overseas buyers en primeur?

You must have a very good relationship with a wine merchant, who should be trustworthy, with a proven track record, like Berry Bros or Farr—London merchants. Even in Hong Kong, I would not be very comfortable buying en primeur unless it's London-related. It's risky—another reason why Asians don't buy en primeur.

How concerned are you about provenance?

It concerns me a lot. I want to show and teach people in the Philippines how important it is. It's not like buying a pair of shoes or a handbag. People don't realize how important provenance and condition are until they open a bottle and discover it's vinegar. The cellar in Wine Story is 15°C [59°F], and the store is 18°C [64°F]—customers complain it's too cold, but Manila is very hot and sticky, so wines can go through huge fluctuations of temperature. It's only recently that this problem has been highlighted, and I hope that there will be more articles on the subject.

Have you had any problems with fakes?

Touch wood, no. I don't really buy very old wine, so I wouldn't think there'd be any fakes. You have to hope the auction houses have done their due diligence. I haven't had any problems yet.

How important is Hong Kong for wine and education?

Hong Kong is very close—only 90 minutes away—and it tends to have the best wines at auction. But the people I've met at auctions in Asia speculate or they just drink it; I haven't met people who read lots of books and learn about wine. My education source is London, which is still the wine capital of the world. I invited the Brit who runs the Asia Wine Service & Education Centre to the Philippines to run a course here. All Wine Story employees, including myself, will have a WSET diploma by the end of it.

number, one team member responds, "I'm just trying to work out where the hell we're going to get it from," and immediately he's chattering away in fluent French to a potential source. Boom turns to another colleague, asking him to short (sell) some Lafite on the LiveTrade system.

There is nothing archaic or restrained about this boutique, whose sophisticated shopkeepers use bond yield curves to assess trends for different wines and identify those that are "undervalued." Boom explains to me that trades are constantly going through on LiveTrade, with en primeur prices affecting back vintages and creating new demand. On the day I visit, for example, there is "massive trading on '06 Mouton," which Bordeaux Index bought at £4,500 (\$6,710) and is selling at £5,500 (\$8,200). All this does not take place without the requisite risk control. On LiveTrade someone offers to sell a case of Lafite 2003 at £11,000 (\$16,400), and his identity is investigated before a decision is made on the purchase—in part to ascertain whether the wine is sitting in a bonded warehouse, which for Boom is "like a guarantee." The newest member of the sales team has recently moved from a well-known wine merchant that he refers to as "like a sleeping dog in comparison," with "no buzz, no action, no communication." Bordeaux Index, on the other hand, is "so proactive and rapid fire. Relationships with the négociants are so much stronger," he told me, whereas his previous employer "had one guy who didn't even speak French."

Farr East

Alongside French and Italian employees, Bordeaux Index employs a native Japanese speaker in London, as well as running an office in Hong Kong, and was expecting that between a quarter and a third of their en primeur sales would be to the Far East. In fact, the Hong Kong office represented only 10 percent of the total, with 30 percent going to trade and investment funds and an overwhelming 60 percent to the UK private market. Nonetheless, Bordeaux Index sold £22 million (\$34.2 million) of 2009 Bordeaux during the campaign, on the back of tenacious sales tactics. On May 5, Jancis Robinson MW commented on her website, "Prize for the primeur hawker shouting the loudest goes to Bordeaux Index. Their PR machine seems to have

overtaken that of Berry Bros this year." The emails came even faster as wines were released. One was titled "Branaire-Ducru... How cheap is this going to look in a few hours?" while another read as follows: "Angélus is a huge brand, favored by James Bond, no less, and is always one of our biggest sellers." Other very British merchants were less enthusiastic. Berry Bros and Goedhuis, for example, frequently warned that wines were too expensive and represented a bad investment. Of Angélus (which Bond presumably drank neither shaken nor stirred), Johnny Goedhuis announced, "We find it shockingly expensive at this price point."

Bordeaux Index attributed "the surprising lack of Asian investment" to Asian buyers' preference for higher-classed growths only, making it difficult for them to secure allocations. This didn't stop one merchant, Farr Vintners, selling 40 percent by value to the Far East (with the UK market accounting for the other 60 percent). Tellingly, by volume, Asia represented only 15 percent of Farr's en primeur sales, substantiating the region's reputation for thinking—and spending—big on its wine purchases. Farr acknowledged in a press release that Asian customers "have mainly bought only first growths and super-second." Did across-the-board buyers miss out on the top wines as a result? It is nothing new for lesser growths to be parceled with their more desirable neighbors in order to expedite their take-up. While you might have thought that a willingness to shell out the asking prices for the first growths this year should alone have been sufficient, many hopefuls were disappointed. Moreover, in some instances it seemed no amount of third or fifth growths purchased was sufficient to guarantee a single case of Lafite or Margaux.

Either way, as the first merchant to set up in the Asian wine capital, Farr has undoubtedly benefited from the relationships built by Jo Purcell, Hong Kong director, with total en primeur sales topping £53 million (\$79 million). The average price for the 30,000 cases sold by Farr was £1,760 (\$2,620)—double that in 2005, when revenues were under half the amount for 29,600 cases. Asia's involvement probably played a part in this surging average case price, which chairman Stephen Browett puts down to "higher demand for the more expensive wines, weaker demand for



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(liquid assets)

SELECTED AUCTIONS OF SECOND QUARTER 2010

| Auction title | Auction house | City | Date | Lots |
|-------------------------------------------------------------------------|----------------------------|-----------------------------|-------------|-------|
| The Classic Cellar from a Great American Collector V | Sotheby's | Hong Kong | April 3 | 769 |
| Vins Prestigieux et Alcools | Besch | Cannes | April 3-4 | 992 |
| The Spring Sale | Winefield's | Amsterdam | April 5 | 454 |
| Fine Wines & Spirits | Artcurial | Paris | April 6-7 | 961 |
| Fine Wine & Vintage Port | Christie's | Amsterdam | April 7 | 834 |
| Burgundy Bliss | Acker Merrall & Condit | New York | April 14 | 1,099 |
| The Spring Auction | Zachys | New York | April 16-17 | 1,954 |
| Fine & Rare Wines | Sotheby's | London | April 21 | 503 |
| Fine & Affordable Wine | J Straker, Chadwick & Sons | Abergavenny | April 24 | 835 |
| Finest & Rarest Wines | Christie's | New York | May 7-8 | 595 |
| An Auction of Finest & Rarest Wines | Hart Davis Hart | Chicago | May 8 | 1,107 |
| Fine & Rare Wines | Christie's | Geneva | May 11 | 448 |
| Fine & Rare Wines | Bonhams | London | May 13 | 688 |
| Fine Wines | Skinner | Boston | May 13 | 517 |
| Asian Contemporary Modern Art & Fine Wines | Winefield's | Singapore | May 16 | 207 |
| Fine & Rare Wines & Vintage Port | Sotheby's | London | May 19 | 431 |
| Sale 103 | Acker Merrall & Condit | New York | May 19-20 | 929 |
| Seven Stellar Cellars | Sotheby's | Hong Kong | May 21-22 | 919 |
| The Late Spring Auction | Zachys | New York | May 21-22 | 1,070 |
| Fine & Rare Wines | Bonhams | Hong Kong | May 27 | 274 |
| Finest & Rarest Wines | Christie's | Hong Kong | May 29 | 359 |
| HK IX | Acker Merrall & Condit | Hong Kong | May 29 | 1,820 |
| Fine Wines & Spirits | Artcurial | Paris | June 4 | 657 |
| Finest & Rarest Wines | Sotheby's | New York | June 5 | 1,391 |
| Finest & Rarest Wines featuring a Superb Collection of Rare Burgundy | Christie's | London | June 10 | 787 |
| Fine & Rare Wine | Christie's | New York | June 12 | 933 |
| Fine & Rare Wines | Bonhams | San Francisco & Los Angeles | June 12 | 1,213 |
| Weinauktion 356 | Steinfels | Zurich | June 12 | 1,555 |
| Finest & Rarest Wines | Christie's | Amsterdam | June 15 | 579 |
| The Summer Sale | Winefield's | Amsterdam | June 20 | 421 |
| Whisky | Bonhams | New York | June 22 | 550 |
| Acker Al Fresco | Acker Merrall & Condit | New York | June 23 | 1,205 |
| The June Auction | Zachys | New York | June 23-24 | 1,517 |
| The Summer Auction | Spectrum | Costa Mesa & Hong Kong | June 25-26 | 595 |
| An Auction of Finest & Rarest Wines | Hart Davis Hart | Chicago | June 26 | 1,177 |

Sale prices converted into US dollars using a Q2 2010 average exchange rate of US\$1 = £0.67 = €0.79 = CHF1.11 = HK\$7.78 = SGD1.39

the cheaper wines, higher release prices, and a weaker pound." Browett added, "There has been virtually no interest from the USA." Jeff Zacharia, president of Zachys, told me that the US-based merchant had had "a very strong campaign," adding that he "had expected less interest [because of the prices and the economy], but when it came down to it, there was a lot of activity." Zachys did not match the 2000 en primeur revenues but "surpassed 2005," Zacharia said, with the caveat that "you needed to sell fewer bottles, so it's all relative."

On premiums

The universally perceived excellence of 2009 Bordeaux and subsequent hype meant high prices were inevitable from the outset. Few, if any, predicted quite how high. Liv-ex's annual release-price competition saw most respondents underestimating the price of a basket of wines (chosen at random by Liv-ex) by more than a third, and even the winner was 13 percent off target. Using the 22 wines comprising its release-price index, Liv-ex calculated that 2009s were, on

average, 48.5 percent more expensive than 2005 and 213.7 percent more than 2008 (Fig.4, *opposite*). And yet the wines flew off their notional shelves. "This is by far the most manic en primeur yet," Gary Boom of Bordeaux Index assured me. "The intensity is ten times more than before. I've never seen such a complete scramble to buy stock. These wines are selling out within minutes rather than hours."

It wasn't only Robert Parker who scored the vintage highly (giving more potential 100-pointers than ever before); praise for the wines was widespread, despite a general consensus that the quality was not as consistent as 2005. So, do the wines really merit such premiums over arguably comparable vintages such as 2000 and 2005? It's highly unlikely they are 48.5 percent better than the 2005s, and while one or two châteaux might have improved this much, the price hikes were across the board, with a few exceptions, including Pavié, released just below its 2005 price, and Pavié Decesse lower than '05 by 12 percentage points. On the secondary market, however, 2009s are trading at a 35 percent premium to the 2005s (looking at the

| Sales (US\$) | Sold by lot | Sold by value | Top lot (12 bottles unless stated) | Price (US\$) | Buyer |
|--------------|-------------|---------------|----------------------------------------------------|--------------|----------------|
| \$6,386,758 | 100% | 100% | Pétrus '00 | \$49,773 | Asia private |
| \$1,289,955 | 89% | 87% | Lafite '86 | \$13,433 | Asia private |
| \$175,383 | 80% | 80% | Lafite '02 | \$4,838 | Europe private |
| \$267,146 | 76% | N/d* | Margaux '24 (one Impériale) | \$9,931 | N/d |
| \$387,882 | 87% | 92% | Latour '71 | \$3,221 | Europe private |
| \$2,831,303 | 97% | N/d | Lafite '82 | \$46,360 | N/d |
| \$4,507,885 | 100% | 100% | Lafite '82 (three double magnums) | \$38,720 | N/d |
| \$1,212,219 | 99% | 99% | DRC Romaneé-Conti '88 | \$78,845 | Asia private |
| \$495,634 | 95% | N/d | Latour '70 | \$4,620 | UK private |
| \$22,391,440 | 88% | 94% | DRC Romaneé-Conti '90 | \$156,000 | N/d |
| \$3,777,502 | 100% | 100% | Lafite '82 | \$45,410 | Asia trade |
| \$1,900,195 | 98% | 99% | Hermitage La Chapelle '61 (six bottles) | \$98,584 | Asia private |
| \$840,124 | 90% | 96% | Mouton '59 | \$37,708 | UK trade |
| \$734,115 | 90% | 95% | Lafite '82 | \$37,665 | N/d |
| \$453,928 | 70% | 81% | Lafite '82 | \$33,044 | Asia trade |
| \$929,029 | 95% | 99% | Lafite '00 | \$27,424 | Europe private |
| \$3,082,574 | 96% | N/d | DRC Romaneé-Conti '96 (three magnums) | \$43,920 | N/d |
| \$7,210,495 | 100% | 100% | Dom Pérignon Rosé Oenothèque superlot | \$171,093 | Asia private |
| \$3,036,858 | 99% | 97% | Lafite '82 | \$58,080 | N/d |
| \$679,670 | 69% | 70% | Lafite '82 | \$48,950 | Asia private |
| \$5,179,431 | 94% | 93% | D'Yquem superlot (128 bottles) | \$0 | Europe private |
| \$19,538,832 | 97% | N/d | Jayer Vosne-Romanée Cros Parantoux s/lot (96 btls) | \$250,920 | N/d |
| \$397,096 | 88% | N/d | Pétrus '90 (six bottles) | \$21,391 | N/d |
| \$3,383,100 | 95% | 98% | Lafite '82 | \$48,400 | Asia private |
| \$2,884,774 | 95% | 97% | DRC Romaneé-Conti '71 | \$106,269 | Asia private |
| \$2,144,520 | 91% | 91% | Pétrus '00 | \$42,000 | Europe trade |
| \$797,740 | 74% | 76% | Montrachet '94 | \$14,280 | US private |
| \$1,314,657 | 96% | N/d | Lafite '86 | \$19,852 | Europe private |
| \$1,055,922 | 99% | 99% | Lafite '82 | \$51,249 | Europe private |
| \$215,674 | 67% | 78% | DRC '99 assortment | \$21,646 | US private |
| \$203,627 | 71% | 77% | 50 Year Old Macallan Anniversary Malt | \$9,520 | N/d |
| \$3,303,614 | 94% | N/d | Pétrus '89 | \$41,480 | N/d |
| \$4,518,201 | 98% | 97% | Pétrus '82 | \$45,980 | N/d |
| \$3,020,866 | 93% | 93% | DRC Romanée-Conti '78 | \$143,400 | Asia private |
| \$4,295,511 | 100% | 100% | Lafite '82 | \$50,190 | Europe trade |

* N/d = not disclosed

same 22 wines tracked in the Liv-ex release-price index). This seems extraordinary, though I suppose they might verily be this much better. Regardless, 2009s have not escalated in the same way as the 2005s yet, so at this point it appears the free market is working to an extent, self-leveling in line with consumer appetite. This means the key differential lies with the châteaux.



Figure 4: Liv-ex release-price index, 22 top châteaux (first tranche only)

Value creation

Wise to the returns being made in the secondary market, producers decided they wanted a bigger piece, adopting two decisive tactics. First, they have tried to set initial prices closer to ultimate potential, making historic levels of return on en primeur investments seem unlikely for the acquirer of 2009s. To match the 2005 vintage's average price increase of 39.1 percent (see *WFW* 28, p.202, for more detail) from such a high starting point would result in an unfathomable price differential between 2009s and other great, older vintages. It is not impossible, however, with some wines having traded up significantly already, such as Duhart-Milon, Pontet-Canet, and (surprise, surprise) Lafite Rothschild (Fig.5, *overleaf*).

In the previous issue, I advocated buying en primeur as an investment in good years, proffering that "the '09 vintage promises great reward and little risk," despite more risk in less highly esteemed vintages. I pointed out that châteaux are keeping back more and more stock to benefit from price gains once out in the market, but like most, I underestimated

(liquid assets)

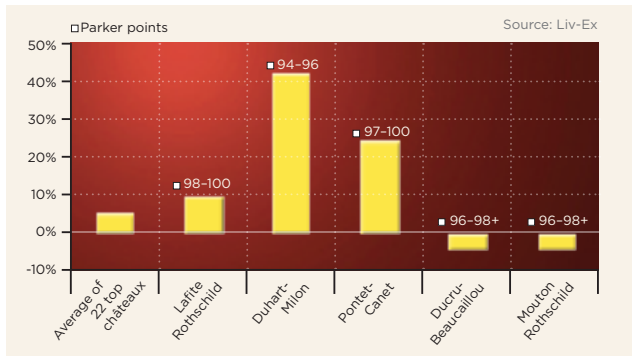


Figure 5: Performance on London release price as at July 20

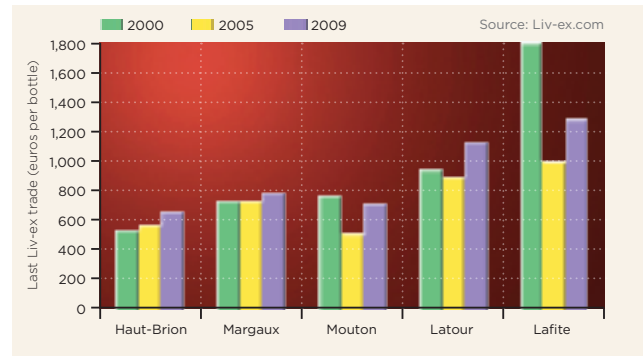


Figure 6: First-growth current trading prices

the extent of the hike they would themselves apply to the wines at release. Bearing this in mind, 2009 wines are likely to prove a less surefire investment than hoped—though most first growths and super-second, at least, are so far standing up to ambitious release prices. Some mid-priced wines have decreased in value since release, and only time will tell how well the vintage will retain its wow factor. It might well depend on the next few summers in Bordeaux.

All the 2009 first growths were trading above their 2005 counterparts by the end of June (Fig. 6, *above right*). The 2000 vintage, nine years closer to its prime, is pricier than its 2009 counterpart only for the two Rothschild-owned first growths. In fact, Liv-ex found that by the end of June, the 22 wines in its release-price index were, on average, already trading higher than any “available vintage, bar 1982, despite its being two years away from delivery” (Fig. 7, *opposite*). With 2009 Bordeaux already so highly priced, many have been turning to (relatively) more affordable back vintages: 2006 and 2004 wines represented 14.5 and 8.6 percent respectively of Bordeaux trade on Liv-ex in June. Moreover, many investors anticipated the knock-on effect of the 2009 pricing on former vintages and, by buying these, helped increase prices further, in an even greater upward spiral. The only vintage that doesn’t seem to have profited is 2007, which has the lowest average prices of the past nine years. Despite rises elsewhere, six of these vintages—at half or less than half the price of the ’09s—still seem to represent sound value by comparison, especially when one recalls the conventional wisdom that a good château makes a good wine even in less-than-perfect vintages. In an email to customers offering back vintages of Lafite and Latour in mid-July, Berry Bros & Rudd noted that, in the light of 2009 prices, “some of the top wines from 2005, 2003, and 2008 are looking like increasingly attractive buys.”

Slicing the pie

In order to benefit from any post-release upswings, the châteaux have hedged their bets. Alongside precipitous release prices, their second maneuver has been to keep back higher quantities of stock than ever. Tranche sizes have been shrinking for the past decade or so, as châteaux have become less and less reliant on the en primeur system, and this year many merchants observed that they were again noticeably smaller than last and struggled to get their hands

on the quantities they thought they could rely on, with consumers suffering as a result. Many châteaux, particularly the higher-classed growths, which can charge more for their wines, no longer need to ease their cash flows by selling their wine years before it is ready to drink. If such producers do not need to worry about having this capital tied up, then they are participating in en primeur campaigns almost out of tradition and expectation. With the historic rationale behind the system at risk of becoming obsolete, en primeur seems increasingly to be used as a tool for creating hype, anticipation, and desire around certain wines or vintages.

The less a château releases, the more its wine becomes a status symbol—as with the scarcity factor at play in the notoriously long waiting lists for handmade Birkin bag. (A Birkin can even be sent for a “spa treatment,” just as a wine can be reconditioned *au château*.) If Hermès can do it, why should we begrudge the châteaux their right to sell their product for the market price, rather than let investment funds enjoy the “top of the milk,” if they are no longer bound economically to an arcane arrangement? Either way, begrudge them we will, when some of our favorite wines have become the stuff of legend and are no longer within our grasp. Of Château d’Yquem, Browett said, “Sadly the proprietor, LVMH, has been deaf to all sensible advice and has continued the trend of overpricing this great wine, thus alienating a large percentage of customers who were planning to buy it.” Those who could not or would not buy the big names on release will have to wait for these wines to trickle out into the secondary market, where prices should in theory be even higher, though many remain flat so far.

One sure source of ’09s in years to come will be auctions. It is increasingly common for high-quality producers to release wine directly through auction houses, several years after the vintage’s original release. They can be anonymous, as consignors so often are, though the potential premium associated with the guaranteed provenance means the châteaux and auction houses alike are incentivized to publicize the illustrious source. Sotheby’s Hong Kong sale on May 21 featured 330 lots direct from the cellars of Cheval Blanc, Yquem, and Dom Pérignon. In attendance was Pierre Lurton, general manager of Cheval Blanc and CEO of Yquem, no doubt adding to the air of exclusivity and authenticity that

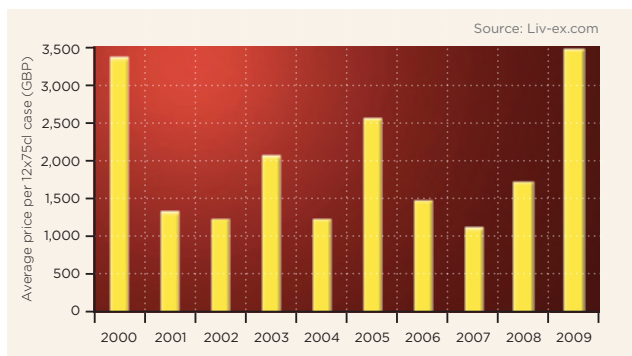


Figure 7: Average current price by vintage (22 top châteaux)

attracted hundreds of bidders, who acquired every single lot on offer. Lurton, unsurprisingly, was “truly delighted” with the world-record-breaking results of the auction, saying, “The wines will now reach an ever wider audience in Asia, and they all show extraordinary freshness and beauty due to their direct-from-the-château provenance.”

At Acker’s “Imperial Cellar” sale in May, several lots were offered direct from Château Margaux, five of which sold for almost \$400,000 to the benefit of the Great Wall Society of China for the preservation of the wall (presumably boosting the château’s reputation in the country). Auctions, as distinct from en primeur, have the advantages that the wine is ready to drink (or nearer being ready), less storage is required, and the asset is tangible, in bottle—not to mention that auction could, for some 2009 wines, prove a less expensive source than en primeur. Moreover, when auctions boast wine direct from the producer’s cellar, this cuts out the middlemen and insures the safest provenance next to en primeur. In my next column, I will address some of the issues surrounding provenance for wines not purchased en primeur or ex-château. ■

BUYERS’ PREMIUMS

| | |
|------------------------------|---------------|
| Acker Merrall & Condit | 21.0% |
| Artcurial | 20.3% |
| Besch | 16.7% |
| Bonhams | 15.0% |
| Bonhams & Butterfields | 19.0% |
| Chicago Wine Company | 0% |
| Christie’s Europe | 15.0% |
| Christie’s US | 20.0% |
| Christie’s Hong Kong | 20.0% |
| Edward Roberts International | 19.0% |
| Hart Davis Hart | 19.5% |
| Langton’s | 15.0% |
| Skinner | 21.5%* |
| Sotheby’s London | 15.0% |
| Sotheby’s New York | 21.0% |
| Sotheby’s Hong Kong | 21.0% |
| Steinfels | 10.0% |
| J Straker, Chadwick & Sons | £7.05 per lot |
| Winefield’s | 20.0% |
| Zachys US | 20.0% |
| Zachys Hong Kong | 21.0% |

* 10% > \$80,000

WORTH A LOOK

Zachys’ auction at Smith & Wollensky in New York on September 23–24 will feature a range of regions and formats, inter alia, from Bordeaux, an Impériale of 1982 Lafite, 15- and 18-liter bottles of Cheval Blanc 2000, double magnums of Margaux 2000, an Impériale of Lafleur 2005, and a case of Pétrus ’82. Burgundies will include a Jéroboam of DRC La Tâche 1989, a case each of 1959 and 1990 La Tâche and of 1990 Richebourg, as well as 1989 Ramonet Montrachet. Also look out for magnums of Dom Pérignon Rosé 1996 and Heitz Martha’s Vineyard 1974 Cabernet Sauvignon.

Spectrum’s next auction is to be held simultaneously at two Peninsula hotels, one in Beverly Hills, CA, on September 24, and simulcast to the Peninsula in Kowloon, HK (September 25). Lots will include one OWC of 1982 Lafite, four of 1986 Lafite, and one of 1959 Mouton, as well as a large collection of Harlan and Screaming Eagle.

On October 29, Sotheby’s Hong Kong dedicates an evening auction at the Mandarin Oriental to wines procured directly from Lafite. Nearly 2,000 bottles, spanning 1869 to 2008, that have never left the château until now, will be offered for sale.

UPCOMING AUCTIONS

| Auction house | City | Date |
|----------------------------|-----------------------------|----------------|
| Sotheby’s | Chatsworth, Derbyshire, UK | October 5–7 |
| J Straker, Chadwick & Sons | Abergavenny | October 16 |
| Acker Merrall & Condit | New York | October 16 |
| Sotheby’s | London | October 20 |
| Bonhams | London | October 21 |
| Christies | London | October 21 |
| Zachys | Los Angeles | October 22–23 |
| Artcurial | Paris | October 27–28 |
| Hart Davis Hart | Chicago | October 30 |
| Christies | Amsterdam | October 31 |
| Christies | London | November 4 |
| Zachys | New York | November 5–6 |
| Acker Merrall & Condit | Hong Kong | November 5–6 |
| Christies | New York | November 12–13 |
| Christies | Geneva | November 16 |
| Sotheby’s | London | November 17 |
| Bonhams | New York | November 18 |
| Acker Merrall & Condit | New York | November 18 |
| Zachys | Hong Kong | November 20 |
| Christies | Beaune | November 21 |
| Christies | Hong Kong | November 27 |
| Steinfels | Zurich | November 27 |
| Bonhams | London | December 2 |
| Christies | Amsterdam | December 2 |
| Zachys | New York | December 3–4 |
| Spectrum | California / Hong Kong | December 3–4 |
| J Straker, Chadwick & Sons | Abergavenny | December 4 |
| Christies | London | December 9 |
| Acker Merrall & Condit | Hong Kong | December 10–11 |
| Christies | New York | December 11 |
| Hart Davis Hart | Chicago | December 11 |
| Bonhams | San Francisco / Los Angeles | December 11 |
| Winefields | Amsterdam | December 12 |
| Artcurial | Paris | December 15 |
| Acker Merrall & Condit | New York | December 18 |

NB: All future auction dates were correct at time of going to print but are subject to change; please check auction-house website.