

# LIV | EX

THE FINE WINE MARKET

## Burgundy – The market's favourite tipple

FEBRUARY 2018

## Executive summary

A growing worldwide interest in Burgundy's wines has seen the region's market share increase from 1% to 12.3% by value since 2010. At the same time the Burgundy 150, which measures the most active Burgundy wines in the secondary market, has climbed a staggering 108%. In this short report we consider the development of the market, the state of prices for Burgundy's top wines as well as some of the main drivers of these prices.

### **The market is broader and deeper than ever before**

The majority of trade in the market is taken up by high value reds from the Cote de Nuits and high value whites from the Cote de Beaune. In this respect little has changed since 2010. However, the market now has a very broad base, one which is growing each year. In 2017, 1572 unique wines (LWIN11s) traded from Burgundy, a 539% increase on the number that traded in 2010. As the market has broadened it has also deepened, total exposure – the total value of bids and offers - has grown from £3million to £9million in three years, with rapid growth occurring in 2017. Nevertheless, price discovery remains relatively inefficient compared to the market's largest region by traded value, Bordeaux.

### **Prices are rising**

Both En Primeur prices and market prices have been rising for the last two years. Burgundy release prices are rising in line with the market, as well as out of the necessity caused by smaller harvests. Market prices are up but movements are far from even across the spectrum of wines that trade. Instead price movements and market activity have been focused on a small coterie of vigneron, rather than a preference for specific appellations and climats.

### **The supply and demand equation**

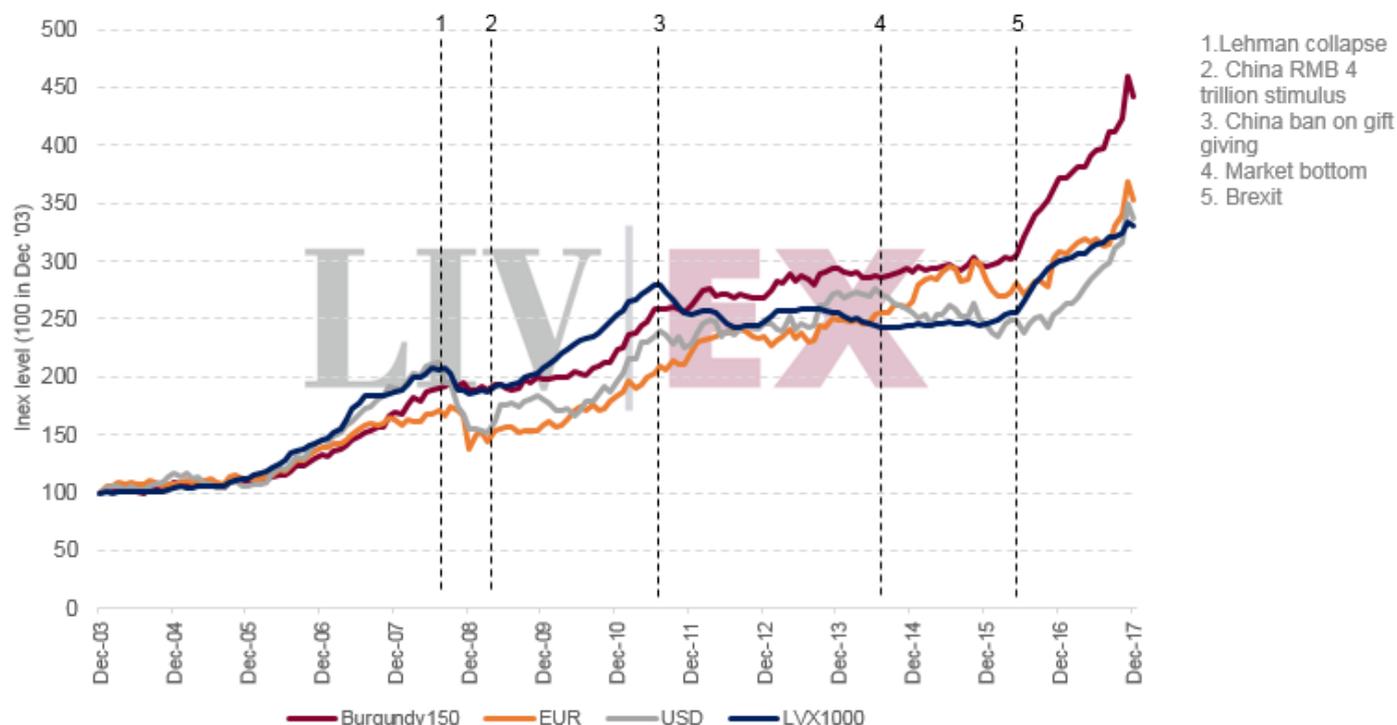
A succession of smaller harvests has resulted in fewer cases coming to market, while at the same time global wealth is increasing. Burgundy's most highly regarded and expensive wines are produced in very limited quantities; scarcity is an inherent and important component of their value. In general, there is a trend that less scarce wines have not performed as well. Pressure on price is amplified by low stock levels of older vintages in the market, meaning that any wine which experiences a sharp increase in demand can see its price rise very rapidly in the short term.

### **What happens next?**

There are some mixed signals at the start of 2018. Early signs suggest that the Burgundy 2016 En Primeur campaign has been well received. On the other hand, the Burgundy 150 has fallen in the past two months. Our indicator of relative value between the highest echelons of Bordeaux and Burgundy, the DRC to First Growth ratio, has suggested that DRC prices have been overstretched for quite some time, yet they have continued rising regardless. As the year progresses, and the market focus returns back to Bordeaux in Q2 and Q3, a more complete picture will emerge over whether or not Burgundy can maintain the same momentum that it had in 2017.

## Development of the Burgundy Market

Chart 1: Burgundy 150 (in sterling, euros and dollars) vs. Liv-ex 1000



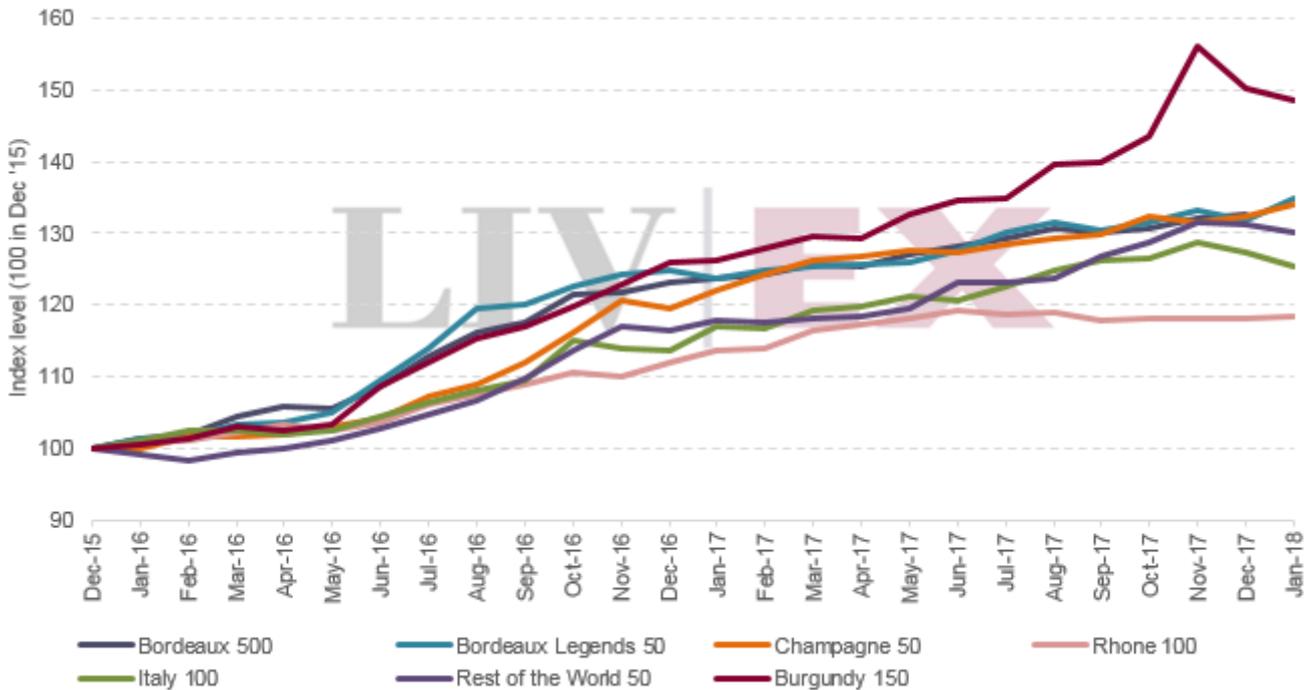
The Burgundy 150 has shown a compound annual growth rate of 11.2% since inception. Various events that were pivotal in turning the Bordeaux market, such as the collapse of Lehman Brothers in 2008, the Chinese government's monetary stimulus package in 2009 and the Chinese anti-graft campaign from 2011, had much more limited impact on the Burgundy 150's movements. The only year the index failed to rise was 2013 when a broad bear market slowed price growth.

### Brexit and beyond

Over the last two years the Burgundy 150 has outperformed all other Liv-ex indices. Like all of the Liv-ex indices, it received a significant boost from sterling's devaluation after the Brexit referendum. However, whereas the market growth rate of all other regions slowed in 2017, the Burgundy 150 marched on, rising 19.3%. This suggests sustained demand rather than a more temporary phenomenon boosted by weak sterling.

Other market barometers, such as the second highest ever average sale price per barrel (€17,262) at November 2017's Hospices de Beaune auction, corroborate evidence from Liv-ex's index. Burgundy has never seen such high levels of demand.

**Chart 2: Burgundy 150 vs Liv-ex 1000 sub-indices (two years)**



## A broadening market

The pivotal year for Burgundy’s development in the secondary market was 2011. With Bordeaux prices reaching a peak, focus turned to the region. As Burgundy’s market share increased, the breadth and depth of Burgundy trading through the secondary market has evolved considerably. The number of distinct wines (LWIN7) trading has increased at every level of the classification pyramid, as chart 3 shows.

In 2017, the number of regional wines that traded was roughly equal to the number of Grand Crus that traded ten years earlier in 2007. This is a good illustration of the sheer breadth of Burgundy wines that are now sought by the international trade. It reflects the fact that it is not only rare, high value wines that are traded, but also lower value wines in higher volumes such as those from village appellations.

## Reds dominate

Although trade share has oscillated slightly since 2007 (chart 4), reds have been more active than white wines in terms of both value and volume traded every year. For the last three years reds have accounted for 75% of Burgundy’s trade by value. Even with the market broadening, trade is still mainly based around high value reds from the Cote de Nuits.

A noticeable recent trend is that volume of white burgundy trading has fallen without a corresponding fall in value, suggesting more high value white wines are trading than before.

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

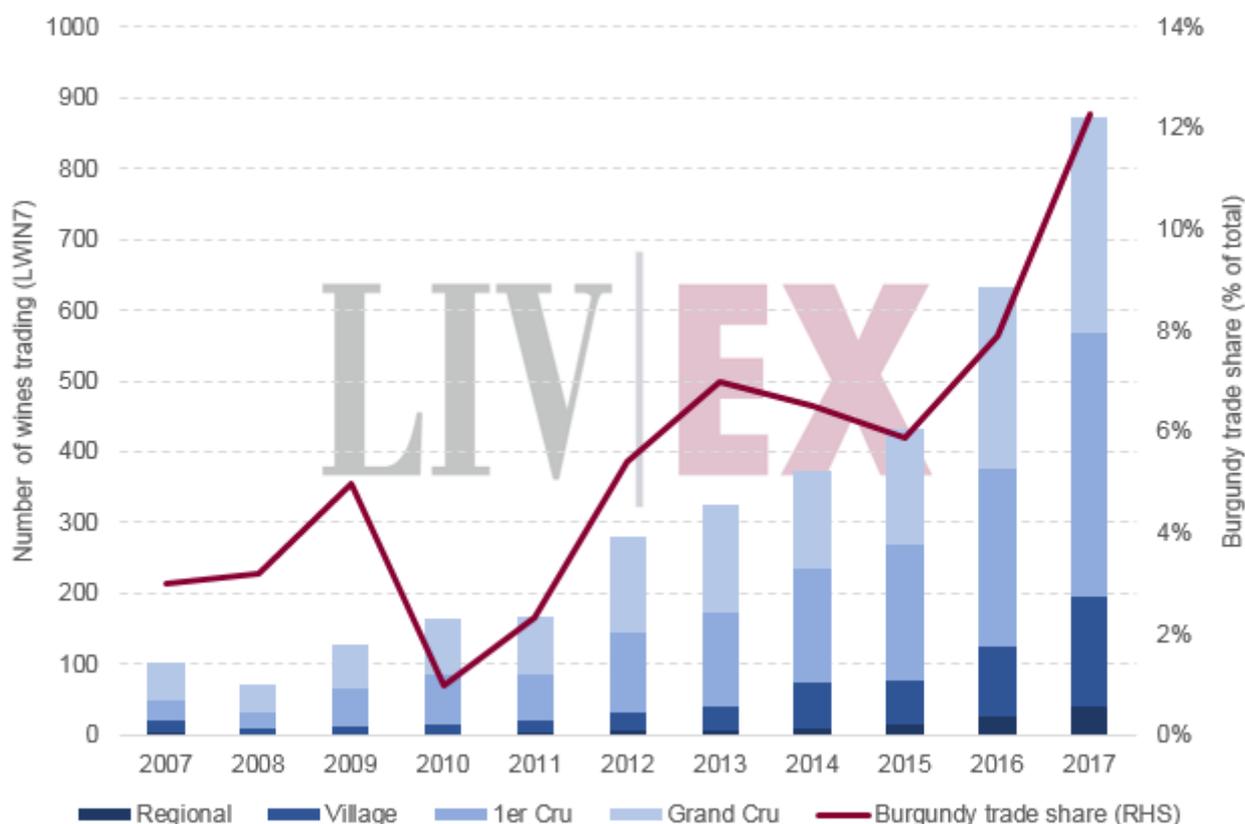
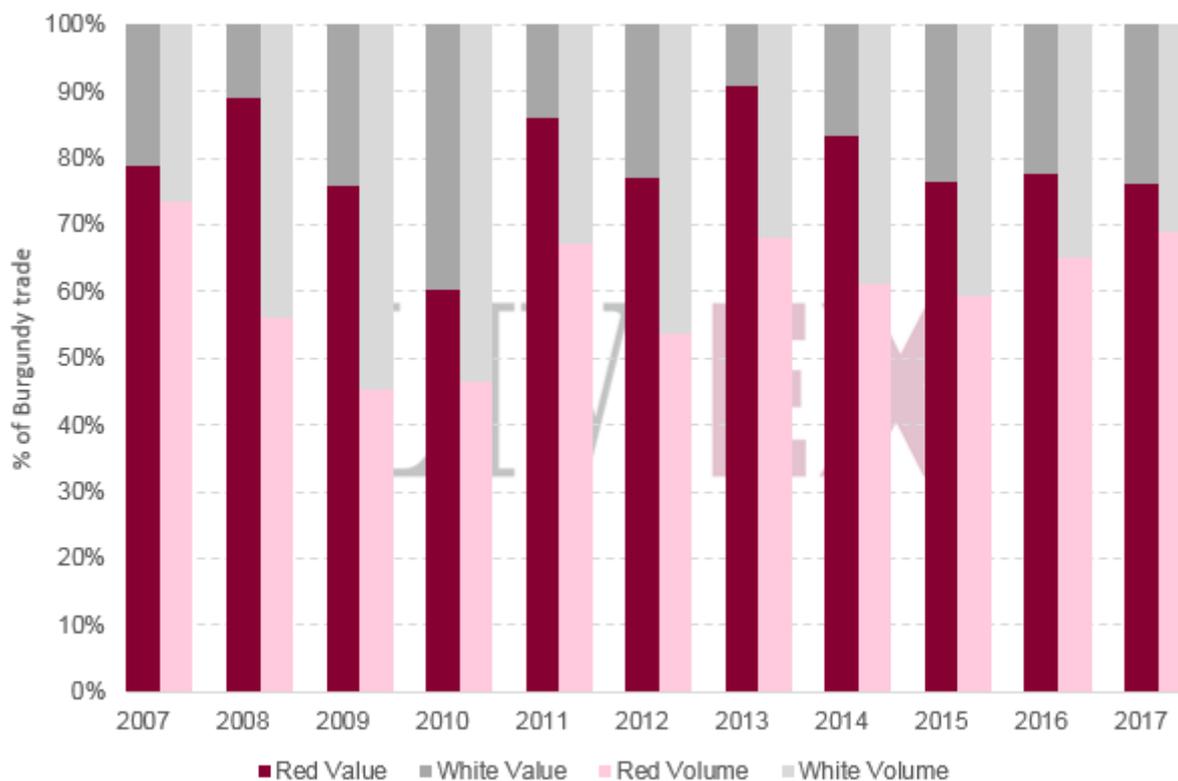


Chart 4: Red and white wines, value and volume share

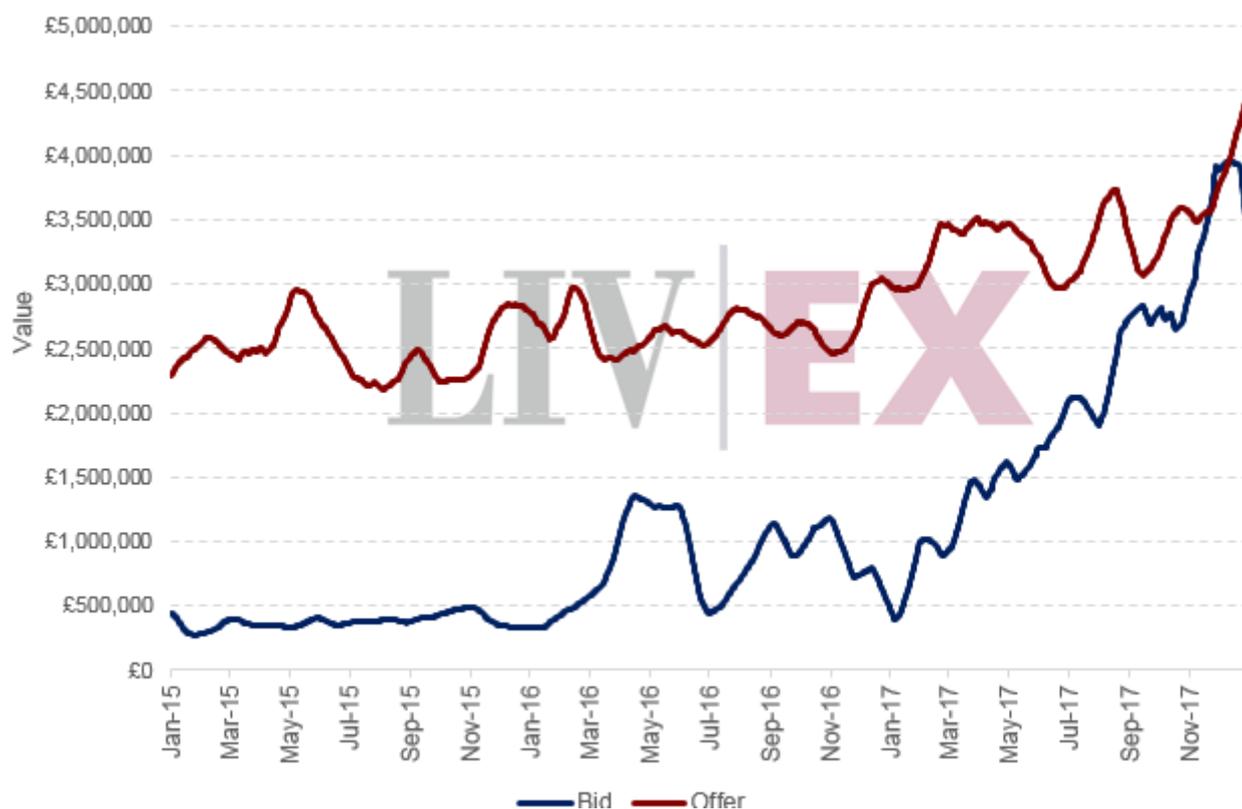


## Exposure grows with market confidence

The growing value of Burgundy exposure – the total value of bids and offers in the market – is another encouraging sign. Although the data below only goes back three years, there have been significant changes in that time period. In 2015 the value of live bids never breached the £0.5 million pound mark. Merchants were much happier to offer stock live than they were to bid, a sign of lower market liquidity and a reflection of the lower levels of confidence both in the Burgundy market and wider wine market at that point in time.

This increased demand for Burgundy, combined with the reduced volume of wine coming to the market from a succession of smaller harvests, helped to drive prices from the start of 2016. The increases were even more dramatic from the start of 2017. As confidence in Burgundy grew, a greater number of merchants committed bids to the market. Latterly this increasing bid value has acted as a signal, raising the levels of offer exposure on Liv-ex.

**Chart 5: Daily Burgundy Exposure**



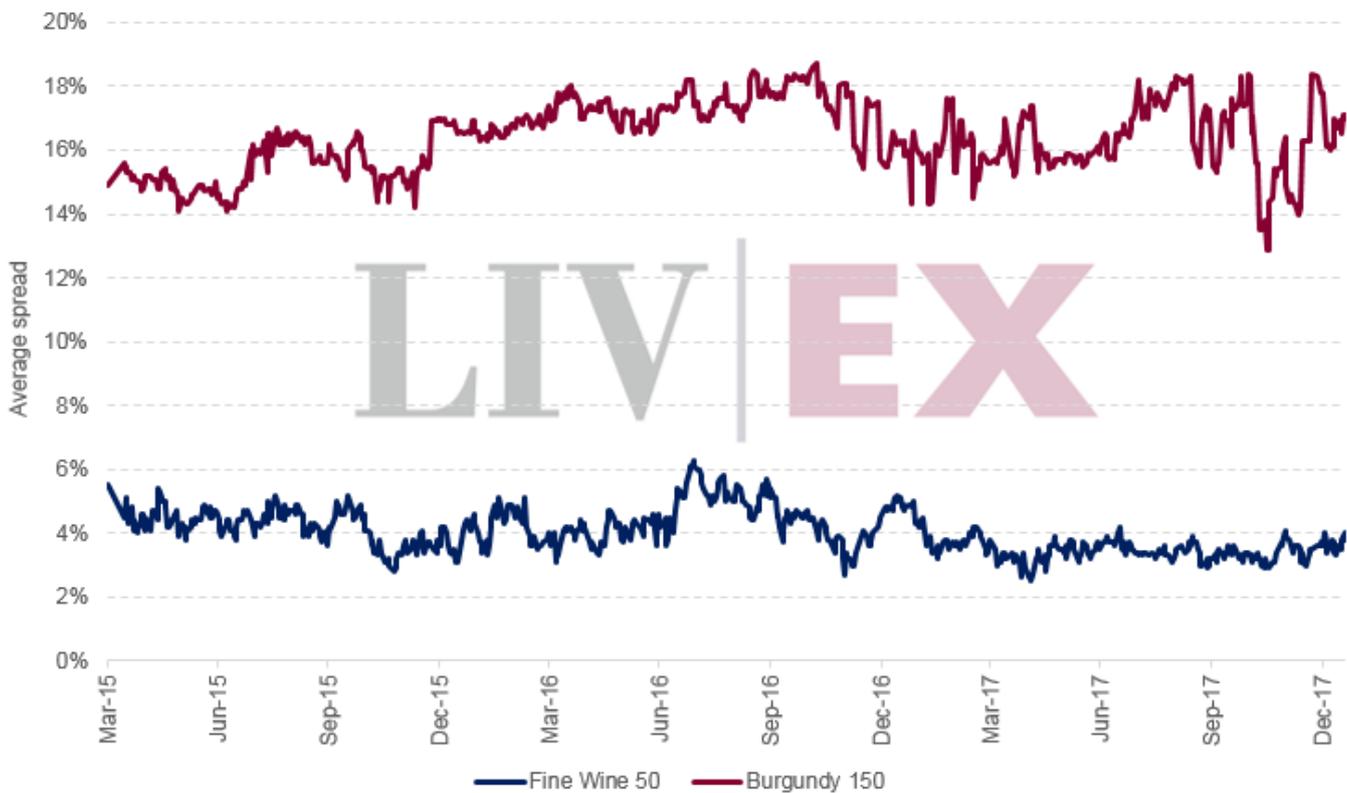
## Can spreads tighten?

The spread – the difference between the bid and offer price of an asset – is one of the most significant costs of trading. The more liquid an asset the lower its spread should be. The average spread of the Burgundy 150 – the difference between the bid and offer price averaged across the whole index – has not shown the downward trend that might be expected with more frequent trading and a larger number of market participants creating more market liquidity.

At present the spread of the Burgundy 150 is around 15%, much higher than that of the Fine Wine 50 (Bordeaux First Growths), which is roughly 3.5%. Such a divergence in spreads is indicative of how far market liquidity and speed of price discovery lag behind Bordeaux. This is to be expected: most top Burgundy is produced in lower volumes than top Bordeaux. Naturally this imposes a limit on market liquidity, as there are fewer available cases to trade.

However if this market were to continue to develop in a similar manner to the Bordeaux market then spreads might be expected to fall in the future. For instance, when First Growths accounted for nearly 50% of trade on the market during 2011, the average spread of the Fine Wine 50 stood at 7%. Today they account for a comparable level of trade by absolute value yet their average spread has fallen to 3.5%, aided by the transition to six-packs creating more tradeable units. During periods of heavy Burgundy trading in November 2017 the spread fell to 13%. This is still high, but an encouraging sign of progress.

**Chart 6: Average spread Burgundy 150 vs Fine Wine 50**



The secondary market for Burgundy’s wines has been building with an increasingly broad base since 2011. Despite this, trade is largely weighted to high value reds from the Cote de Nuits and to a lesser extent high value whites from the Cote de Beaune. Exposure is increasing; the sign of growing market confidence. Still, price discovery remains less efficient than the more liquid Bordeaux market. This will always be the case given the limit placed on liquidity by low production volumes.

What, then, has been happening to prices?

## Price movements

### Release Prices

Burgundy En Primeur release prices are not correlated to vintage quality. Instead they follow market forces on the supply side, rising out of economic necessity as quantity diminishes, as well as on the demand side, with prices increasing in line with the secondary market.

Growers establishing the price of a vintage at release consider both the size and quality of the vintage being priced, as well as the size and quality of the following vintage. For instance, 2016's harvest was the lowest since 1985, yet price rises have been contained by a successful growing season in 2017. As many Burgundian vigneronns lack the scaled operations of winemakers in other regions, negociants excluded, even at some of the most prestigious domains price rises are framed in terms of economic necessity rather than maximising returns from quality.

**Chart 7: Burgundy release prices vs vintage quality**

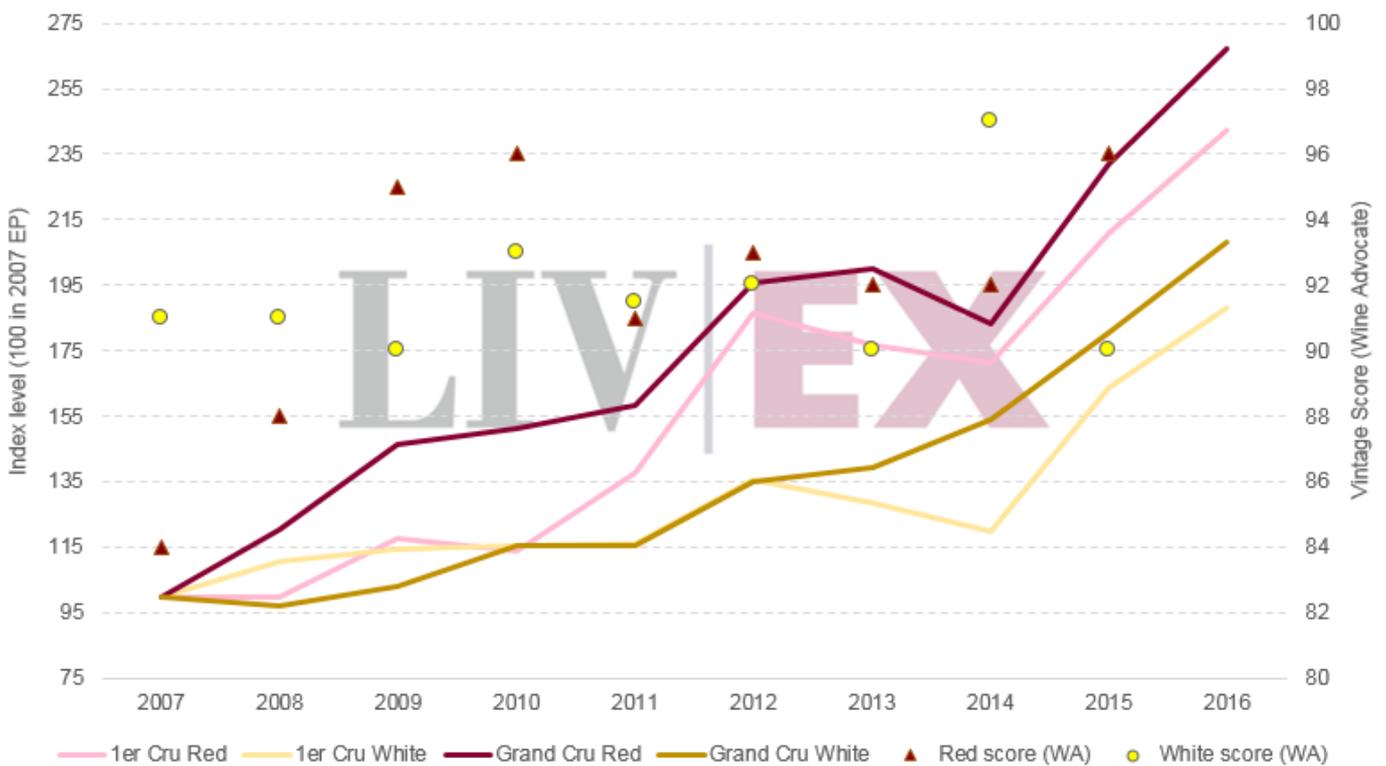


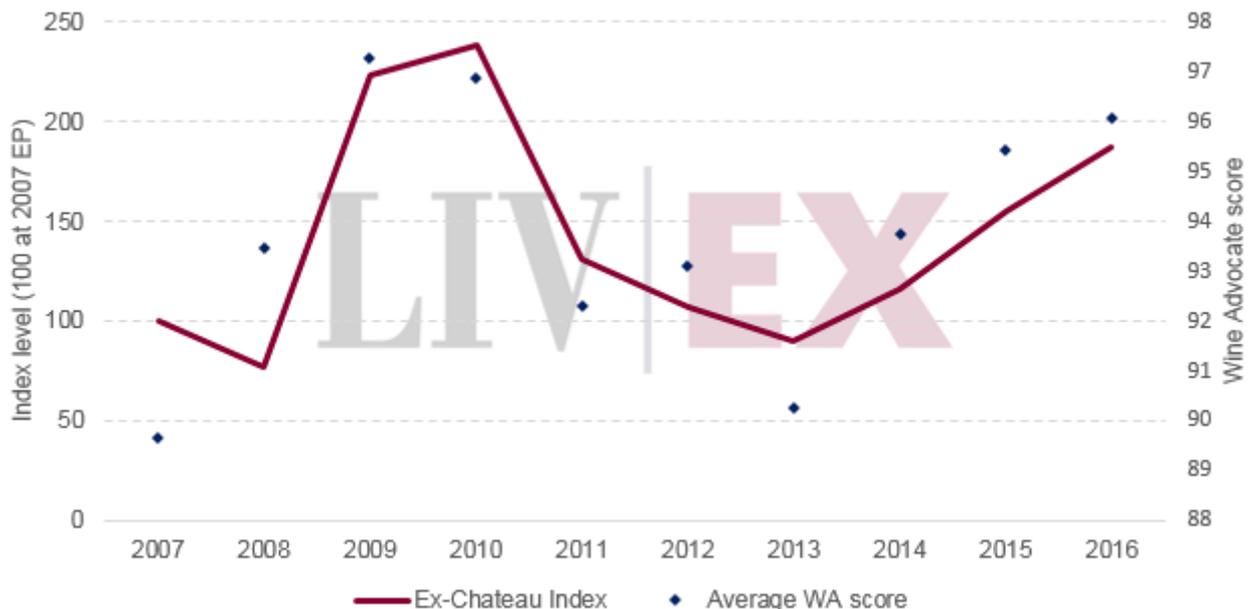
Chart 7 displays an index of Burgundy En Primeur prices with levels rebased to 100 for the 2007 campaign.<sup>1</sup> There appears to be little price variation based solely on the vintage quality. If this was the case, one would expect to see prices rise and fall with each year that quality, measured in the chart by the Wine Advocate overall vintage score, changed.

Instead price changes are steady over time, tracking slightly above market price rises. The release price index of white Grand Crus has increased 107% at the same time that the white Burgundy index has lifted 87%. For reds the release prices of Grand Crus have increased 166% while the Red Burgundy index is up 109%.<sup>2</sup>

Supply side pressure is another important factor. This can be seen in the amount of wine made available to the market shown in chart 12. Prices came down between the 2013 and 2014 vintages (except for White Grand Crus due to their high quality) on account of the higher production than in the preceding years. Similarly, the last two campaigns prices have been pressed up by a smaller volume of wine coming to market.

Contrast this approach to price setting for Bordeaux En Primeur campaigns. Here a key consideration for the price of vintages among the top producers is its quality. As the chart below shows, there is a much more marked difference between opening prices of 'on' and 'off' vintages than one finds in Burgundy. Release prices for 'off' vintages such as 2007 and 2013 were at least half the price of 'on' vintages such as 2009 and 2010.

**Chart 8 : Bordeaux 500 ex-Chateau index vs. Wine Advocate score**



<sup>1</sup> To ensure consistency the same wines have been used each year from Domaine Leflaive, Marc Colin, Serafin Pere et Fils, Sauzet, Fourrier, Drouhin Laroze, Jean Grivot, Ghislaine Barthod, Domaine des Lambrays, Clos Tart and Bonneau du Martray. This deviates slightly from the components Burgundy 150 but extra data points were required to build a more representative set of release prices, which are not available for some of the rarer wines in the Burgundy 150.

<sup>2</sup> The Red Burgundy index does not include DRC.

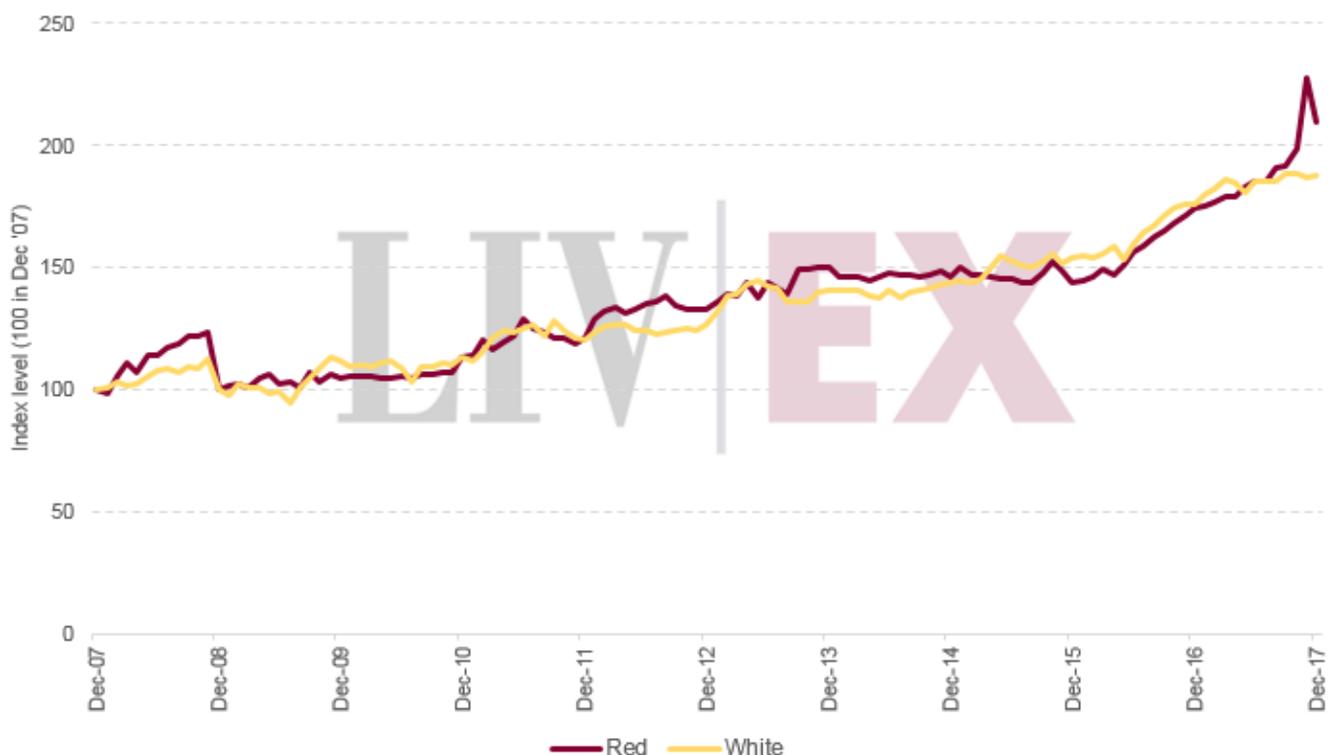
## Reds outperform whites

Removing DRC's wines and splitting the Burgundy 150 into its red and white components shows that the price growth of red wines and white wines has been almost identical until the start of this year.

The spike in 2017 has been led by a sharp rise in demand for specific wines in the index such as Armand Rousseau, alongside a more general preference for fine red wines in the influential Asian market. The red index rose and fell sharply between October and December last year. This demonstrates how prices can rise and fall with short sharp demand and a relative lack of liquidity. Prices for white burgundy face the additional constraint applied by worries over premature oxidation in older vintages, limiting the amount collectors are willing to pay.

Nevertheless, even though the total return of the white burgundy index lags behind the red, it has shown a positive annual return since inception. In this sense it has performed in a similar way to the Champagne 50. On the other hand, the prices of top red burgundies have shown greater susceptibility to price volatility, falling in both 2013 and 2014.

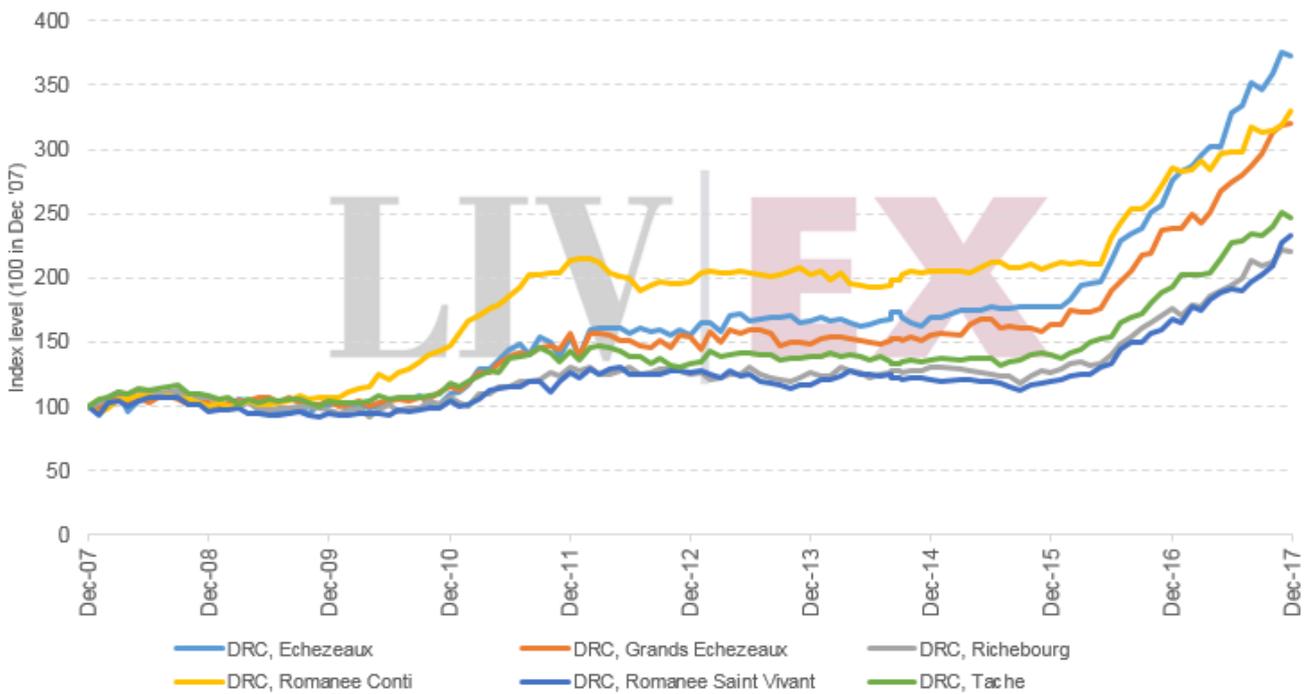
**Chart 9: Red and white Burgundy ten-year performance**



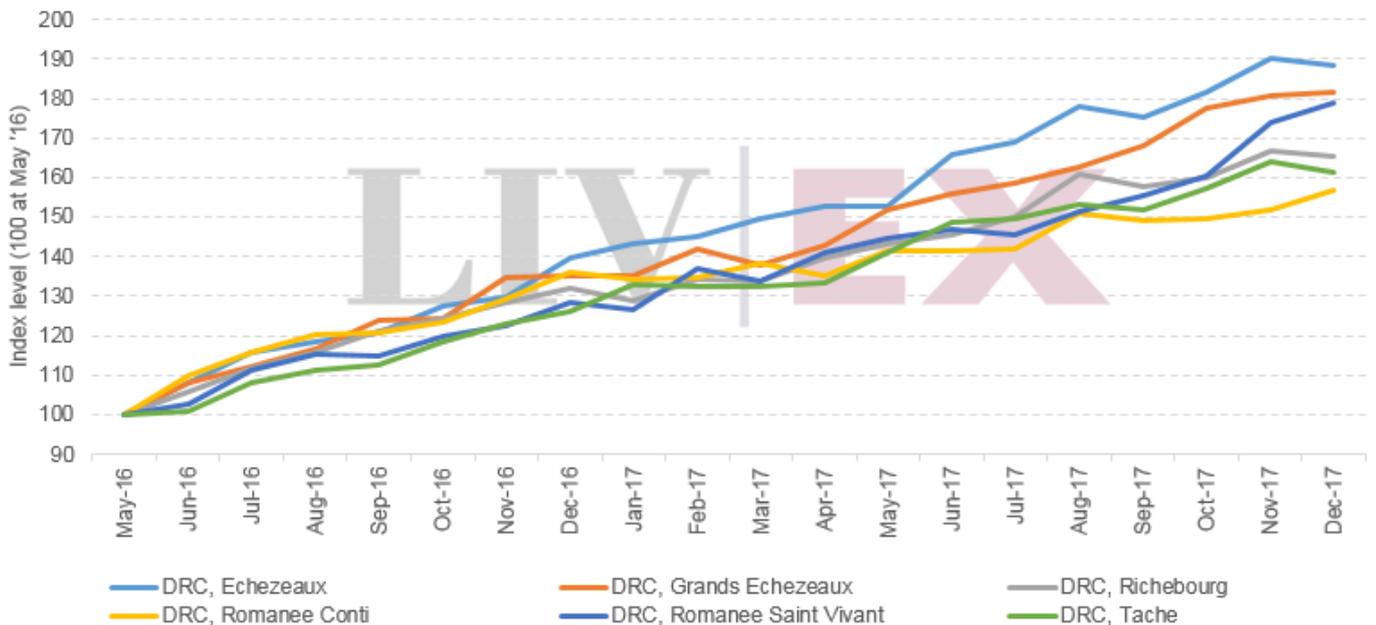
## DRC performance

Domaine de la Romanée Conti, the most important Burgundy brand in the market, has performed incredibly over a ten-year period. Echezeaux has been the best performer, showing over a 250% increase since the end of 2007. Given the overall power of the DRC brand, it is possible that this jump can be attributed to the fact Echezeaux has historically offered one of the cheapest entry points into the DRC brand. Since Brexit, Echezeaux has been the strongest DRC performer; Romanee Conti has been the worst.

**Chart 10: DRC sub-indices ten-year performance**



**Chart 11: DRC sub-indices post-Brexit performance**

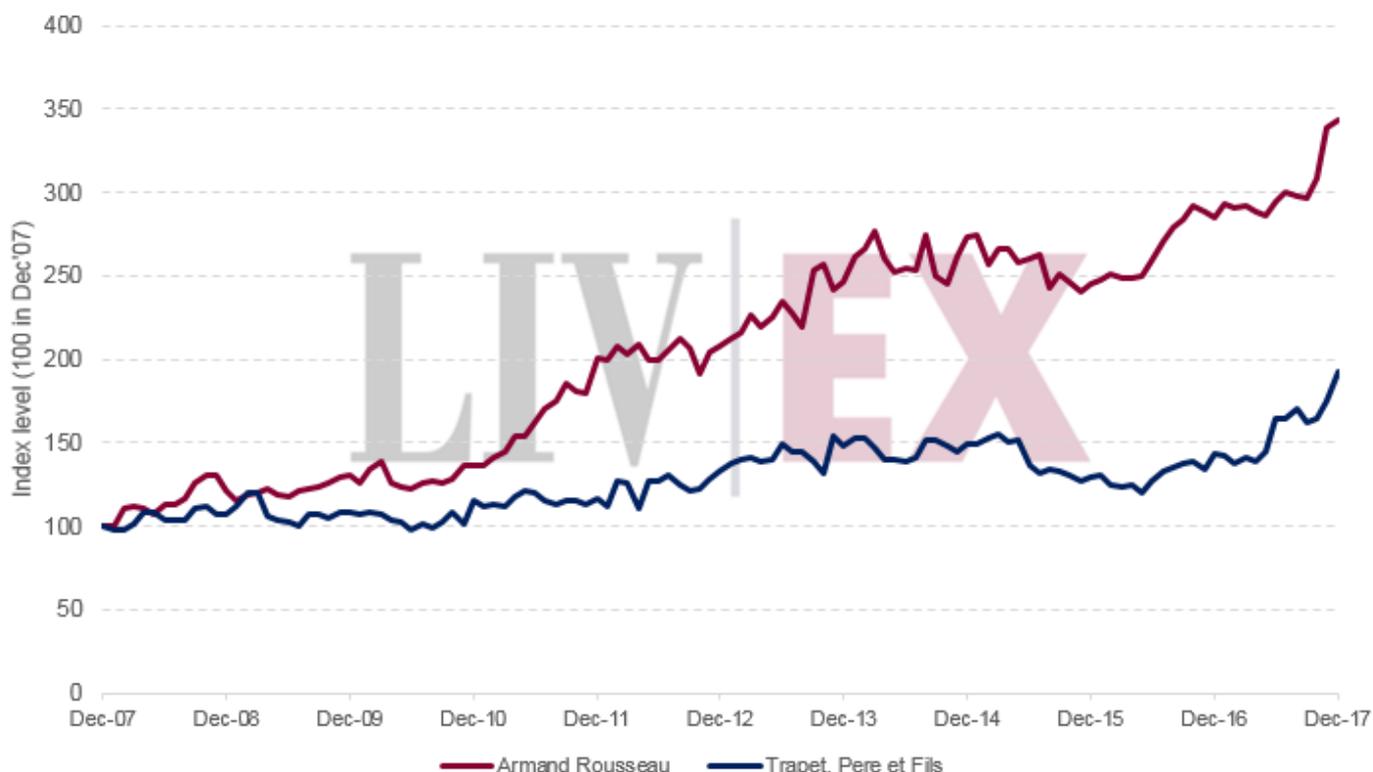


## Demand for winemakers, not climats

Even though the Burgundy 150 is a good barometer for the direction of prices, many wines have not seen comparably dramatic price increases. There is a strong belief in the market that good vigneronns are able to make good wine every year and subsequently price rises tend to follow these winemakers.

A good example of this phenomenon can be seen in Chambertin. The market prices indices of the two biggest landholders in Chambertin, Armand Rousseau and Trapet Pere et Fils have evolved at very different rates. Quality of both wines is high, Rousseau averages 95.3 over the last ten vintages compared to 93.9 for Trapet. Yet, whereas the Rousseu's Chambertin index has increased in price by nearly 250% since 2007, and over 500% since 2003, Trapet's performance has been less remarkable, increasing 100% in the same period.

**Chart 12: Armand Rousseau, Chambertin vs. Trapet Père et Fils, Chambertin**



## Price moves in the Power 100

To push this point further, the table below highlights the Burgundy brands within the Liv-ex 2017 Power 100 and the average market price changes for their wines over one year. Although all have performed well, and risen in price, some have risen much more than others. As our example of Armand Rousseau and Trapet showed, price rises in the market follow the winemakers rather than a particular wine making area or climat. As Burgundy is such a large and varied area, individual performances can differ from the broad picture even though the overall trend is up.

**Table 1: Power 100 2017**

Brand	Total ranking		Avg. Trade Price		Price Performance	
	2017	2016	Price	Rank	Change	Rank
DRC	4	6	£ 21,579.82	1	31.12%	6
Ponsot	6	130	£ 3,767.75	19	18.26%	47
Domaine Leflaive	7	27	£ 2,102.76	46	20.57%	26
Armand Rousseau	8	19	£ 5,672.36	8	16.99%	59
Joseph Drouhin	16	53	£ 2,191.17	43	17.56%	50
Prieure Roch	23	#N/A	£ 2,163.27	45	19.15%	37
Jacques Prieur	25	163	£ 2,211.89	42	23.39%	16
Georges Roumier	29	115	£ 3,877.56	16	34.19%	2
Comte Vogue	32	37	£ 3,802.58	18	15.85%	66
Meo Camuzet	37	92	£ 1,154.20	92	19.72%	33
Joseph Faiveley	45	77	£ 1,562.76	67	12.43%	118
Etienne Sauzet	47	135	£ 2,364.29	38	20.35%	28
Coche Dury	54	80	£ 4,934.86	11	26.42%	11
Sylvain Cathiard	61	81	£ 3,647.21	21	19.49%	36
Francois Lamarche	63	#N/A	£ 2,015.90	50	19.69%	34
Alain Hudelot Noellat	70	120	£ 833.60	127	19.89%	29
Guy Roulot	74	#N/A	£ 1,237.74	90	25.09%	13
Jacques Frederic Mugnier	80	82	£ 2,574.61	33	18.82%	40
Vougeraie	91	99	£ 1,659.40	58	17.28%	54
Fontaine Gagnard	93	122	£ 861.15	126	10.67%	137
Domaine Leroy	94	50	£ 12,704.29	5	4.60%	188
Henri Gouges	99	160	£ 274.05	206	15.31%	75
Henri Boillot	100	89	£ 641.51	151	6.28%	182

## What drives price?

### Supply is restricted

Scarcity is an important component of the price equation. The table below details the maximum production levels of various Burgundy producers, based on rough approximations of recorded vineyard sizes and the maximum yields allowed in each AOC. As this shows, Burgundy production is small at the best of times. A select few Bordeaux winemakers are featured to put this into perspective.

Given that many of Burgundy's top crus are produced in such tiny quantities, tightly allocated at En Primeur and distributed around the world, supply quickly diminishes after release. Once the En Primeur campaign ends, merchants or collectors in possession of the most in-demand wines become price makers almost overnight.

**Table 2: Burgundy production examples**

Producer	Wine	Max bottles	Average price/bottle
Leflaive	Le Montrachet	400	£6,000
DRC	Romanee Conti	5,000	£10,500
Rousseau	Chambertin	8,800	£900
Clos Tart	Clos Tart	29,000	£250
Lambrays	Lambrays	30,000	£150

**Table 3: Bordeaux production examples**

Producer	Wine	Max bottles	Average price/bottle
Le Pin	Le Pin	7,200	£2,500
Petrus	Petrus	60,000	£2,000
Lafite	Lafite	240,000	£450

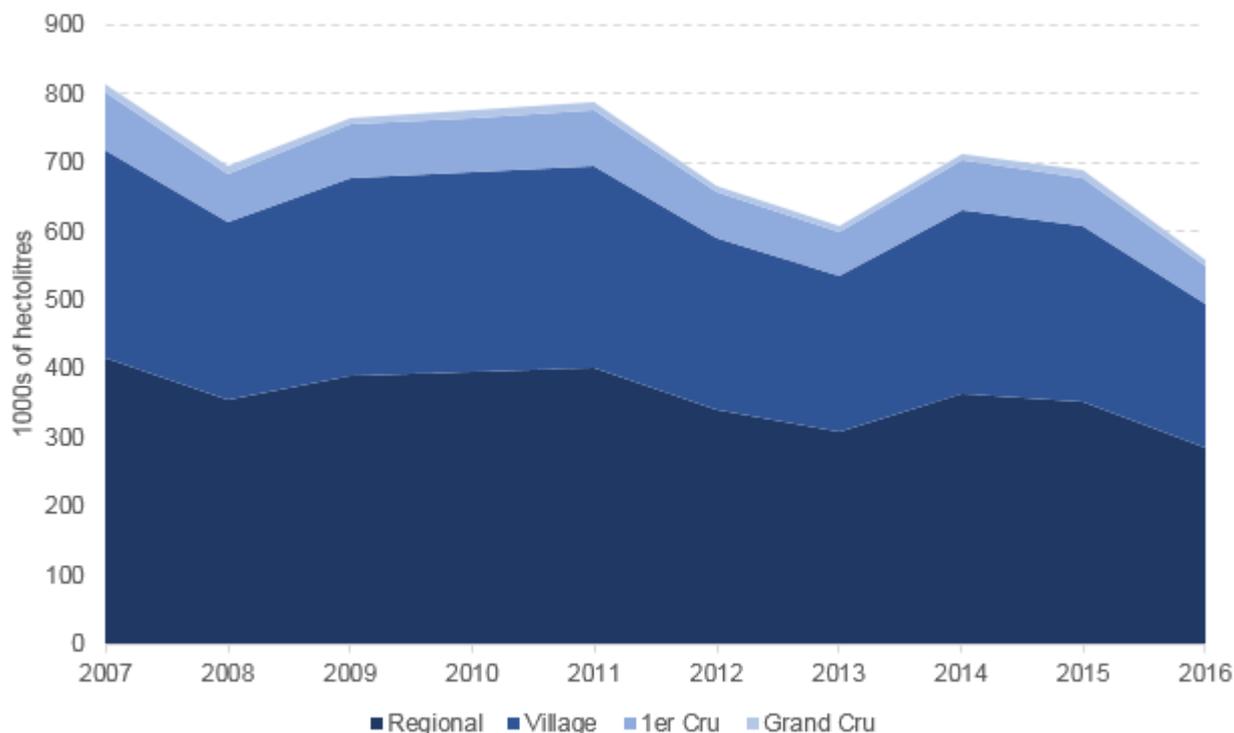
### Coming to market

Combine small production with a succession of disappointing harvests and it is easy to see how price pressure mounts. At the top of the Burgundian hierarchy the area under vine cannot increase, while recent harvests have been some of the lowest on record, reducing the volume of wine produced. On a macro level a rough approximation of the volume of wine coming to market can be seen in the chart below, using figures supplied by the BIVB.

Transaction volumes between producers and distributors for every campaign since 2011 have been below the long term average of 727,000 hectolitres. As a consequence of smaller harvests transaction volumes during the 2016-17 campaign were the lowest since records began in 1997, dipping to 557,000 hectolitres. Assuming that Grand Crus comprise 1.3% of this figure then only 7,241 hectolitres, or just over 950,000 bottles, came to market in the last campaign.<sup>3</sup>

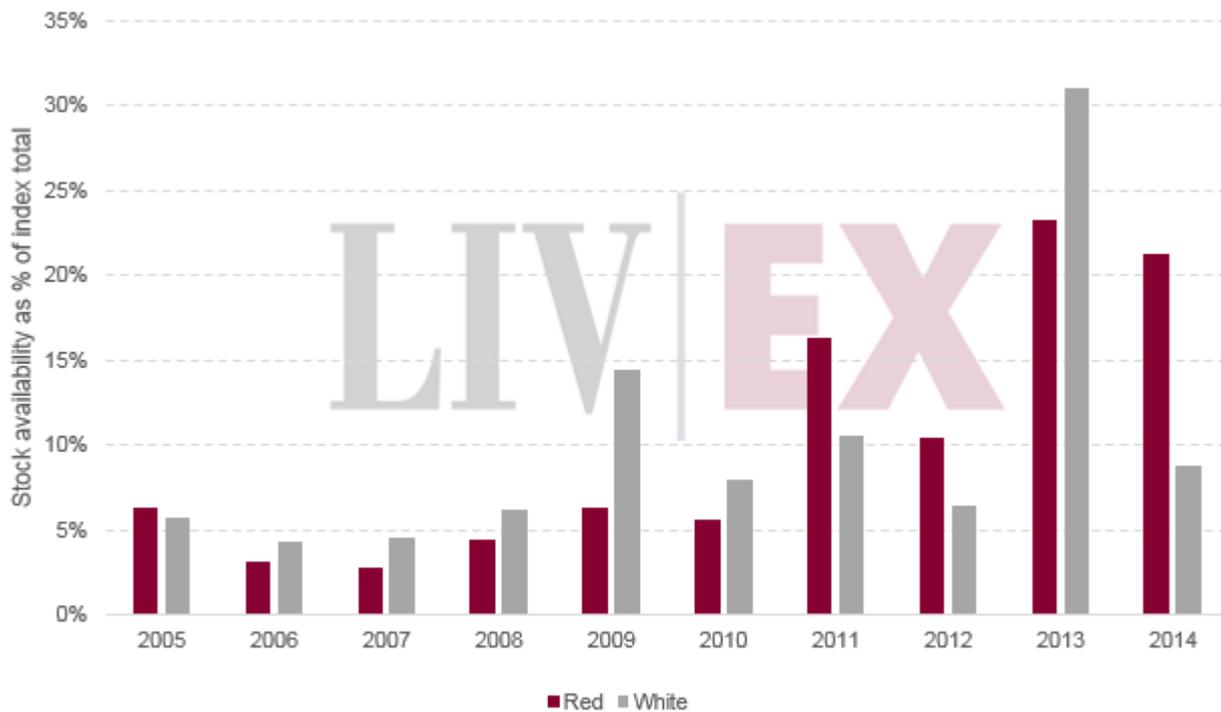
<sup>3</sup> Using the BIVBs own figures we have assumed transaction volumes to be constant each year across the hierarchy. As data was not available at a per vintage level we have used the average volume between 2007-2011 for each rung. 1 hectolitre = 133 bottles

Chart 13: Transactions volumes



## In the market

Chart 14: Stock levels in the Burgundy 150 by vintage



An additional pressure on price is the sparse stock levels of older vintages in the market. Of the wines in the Burgundy 150 nearly half of the available supply comes from the two most recently physical vintages; stocks from vintages preceding 2010 are very low. For whites there are lower levels of 2014s on lists as the vintage's high quality resulted in strong En Primeur sales. Lower quality vintages (2013 red, 2013 and 2009 whites) remain in the market in relatively good volume.

### Scarcity matters

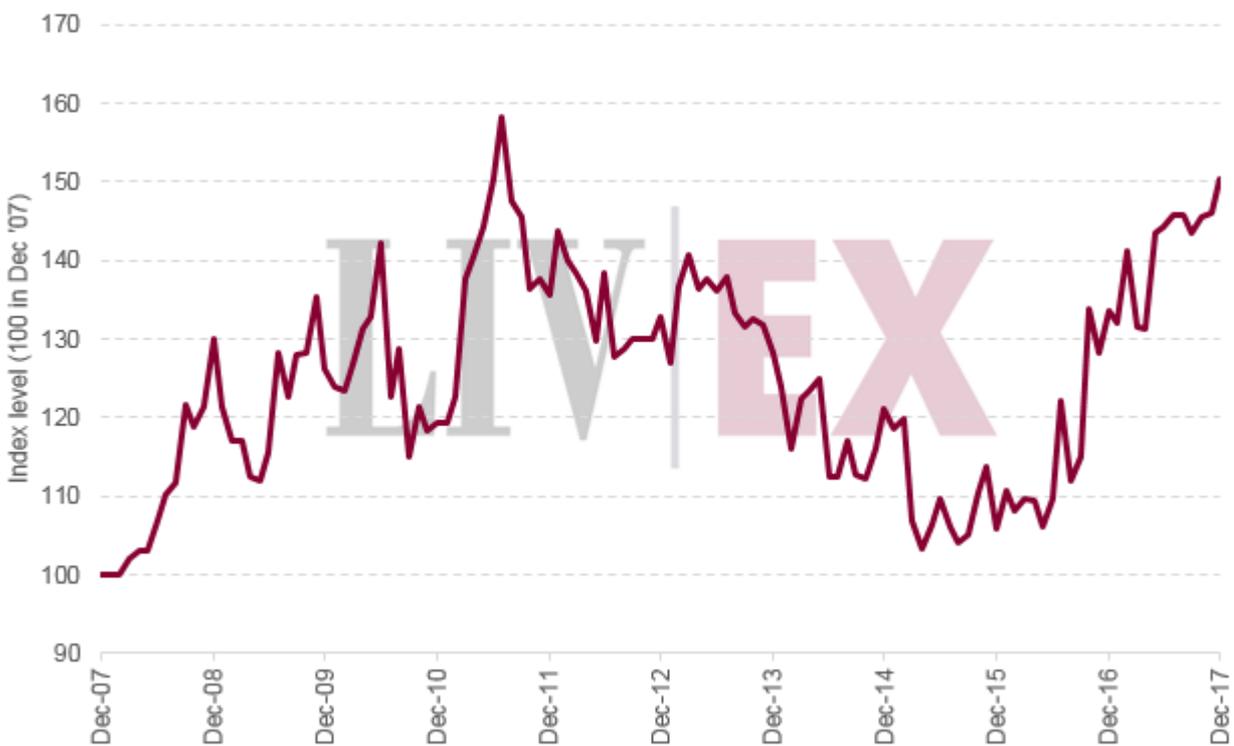
Table 2 showed the production numbers of a select few Burgundy crus. Once a brand gains a following, the absence of supply can cause the price to rise dramatically in a short period of time. We noted this phenomenon for many wines produced by Armand Rousseau in 2017 and have seen it many times in the past for wines made by DRC.

Without the relative scarcity of their peers, even brands that continually produce high quality wines can perform below the market.

The chart below shows a market price index of Clos de Tart, a monopole grand cru with one of the largest production volumes in Burgundy. Without the same brand power and relative scarcity, Clos de Tart has underperformed the market over the last ten years by over 50%.

This underperformance adds some context to Francois Pinault's acquisition of the Domaine in October. It will be interesting to see if the approach employed at Chateau Latour, where wines are released into the market with bottle age at an elevated price, will be employed here.

**Chart 15: Clos Tart index**



## Who is buying?

A perception exists in the market that a growing interest from Asia is partly responsible for secondary market price rises. While this is difficult to substantiate empirically, Liv-ex data shows increased buying from the region.

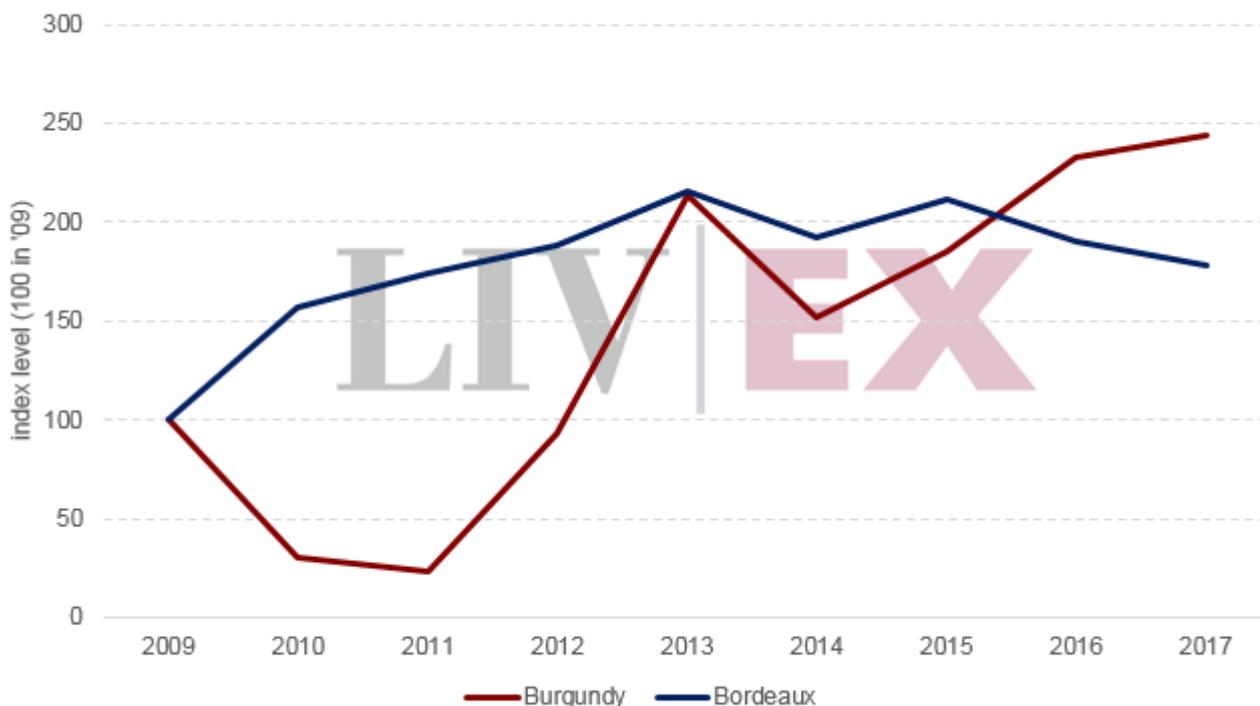
Around 20% of Liv-ex's current membership is based in Asia, yet they typically account for 20-30% of Burgundy trade by value on the platform. In 2017 this number fell slightly as UK merchant buying increased at a quicker rate. However, UK merchant buying is not necessarily always an accurate representation of a wine's final destination. Many UK domiciled merchants buy on Liv-ex before re-distributing to other parts of the world.

**Chart 16: Burgundy purchases by region (% of total)**



Even if their share may have fallen in 2017, our index of Asia based merchant sales shows that the value of Burgundy purchased by Liv-ex members has increased by 140% since 2009 in absolute terms. In the same period their Bordeaux trade is up 77%, but has been falling since 2013. Anecdotal evidence from merchants in the region confirms that many consumers are showing a preference for Burgundian wines because of both their approachability at a young age as well as their rarity.

Chart 17: Liv-ex members based in Asia purchases (100 in 2009)

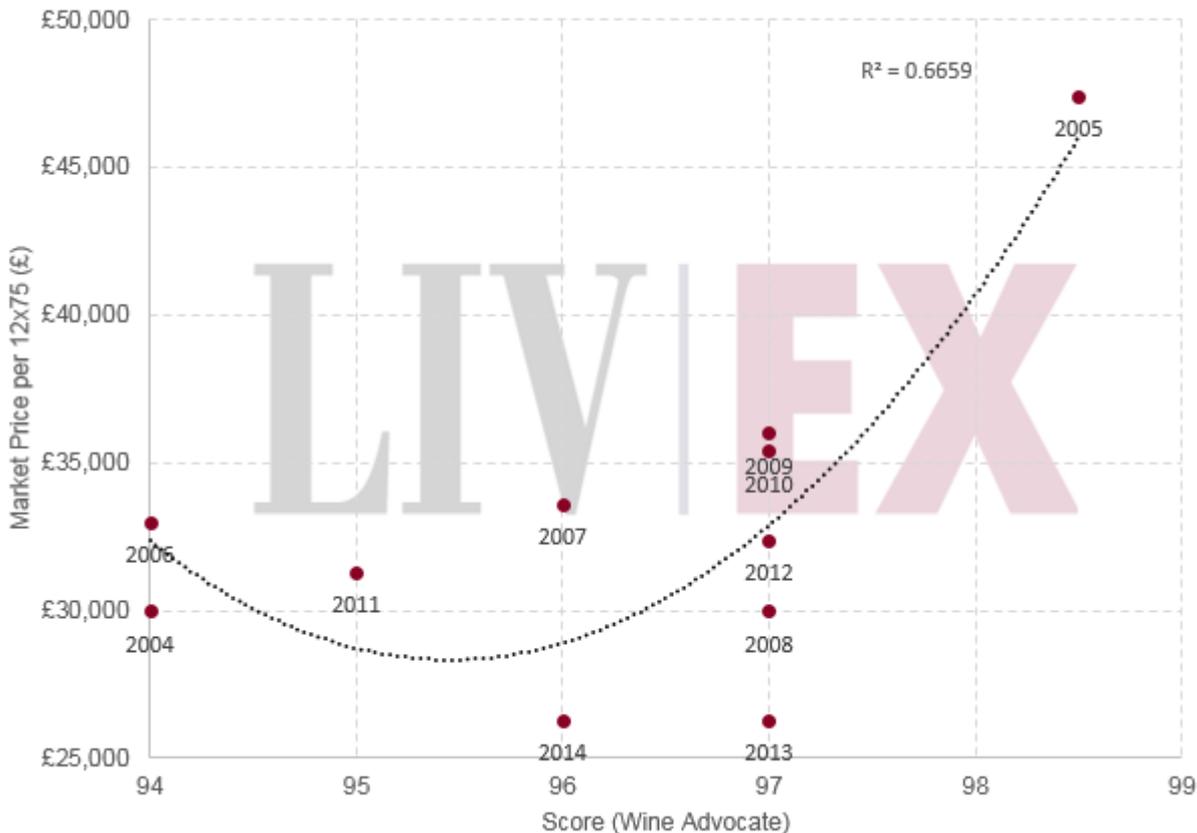


### What role do critics play?

Earlier in the report, we compared release prices to overall vintage quality (chart 7). This confirmed that a causal relationship between vintage quality and price did not appear to exist, demonstrating that critic scores are not important for the price setting process in Burgundy. This comes down to timing: scores are often published after prices and allocations between growers and merchants have been discussed. Once the wines are in bottle there are fewer opportunities for market prices to move alongside score changes as the wines are not always tasted with the same regularity and order as in Bordeaux.

Running our regression analysis on the wines of the Burgundy 150 demonstrates that there does not appear to be a relationship between price and critic score for wine in the secondary market, using Wine Advocate. Only two of the index's component wines, Romanée Conti (57%) and La Tache (66.5%), have an R-squared, a measure of confidence indicating how closely one variable explains another, of over 50%. Considering this group comprises the most active wines in the market, it's unlikely a stronger relationship would exist between wines that trade less frequently.

Chart 18: DRC, La Tache: Fair Value?



Although hard to quantify, critics are important to price discovery in a less direct manner. Established vigneron still benefit from critical praise as it continues to draw collectors to the wines and helps to sustain a level of excitement around a producer’s wines. Based on the conclusions of our regression analysis, it’s fair to assume that such an effect translates to the price of the brand as a whole, rather than for each individual wine.

Where critics are much more important is for ‘discovery’ and guiding the consumer to the emerging talents. Many of the Burgundian producers entering the Liv-ex Power 100 in 2017 and/or trading on Liv-ex for the first time were the beneficiaries of recent and growing critical support for their wines.

A recent example of the influence critics can wield came in the wake of Neal Martin’s Burgundy 2016 En Primeur report. After labelling Coquard Loison Fleurot as ‘your new favourite domaine’, the producer was one of the most traded names in the market in January.

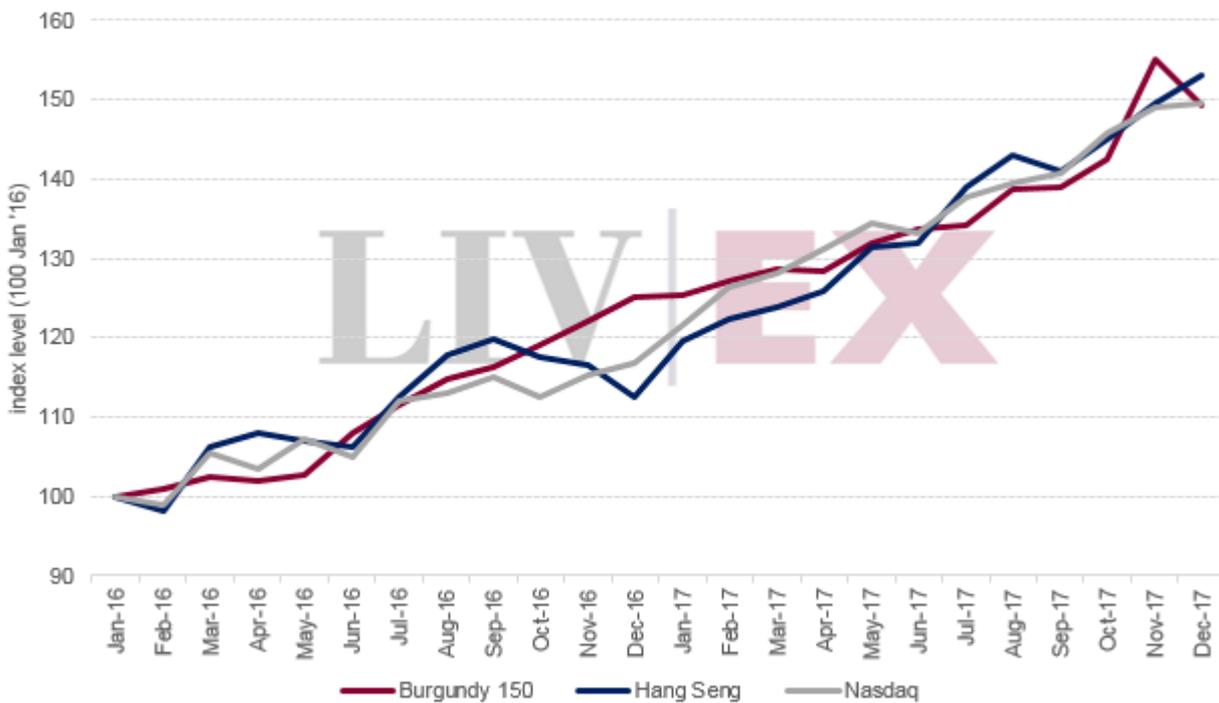
### Global wealth creation

In the context of growing global wealth and constrained Burgundy supply, more money is chasing fewer bottles. This in turn puts pressure on prices. At Burgundy’s loftiest price points for rare older vintages there are a limited number of potential buyers in the world, but this number has been steadily growing. The broadest possible measure of extreme wealth, the number of known billionaires, has doubled since 2007. In China alone this figure has grown from none in 2007 to 319 in 2017.

Rising equity markets are another sign of increased global wealth. Although by no means a rigorous explanation, it's possible that a casual relationship could exist between rising equity markets and Burgundy. Periods of correlation between wine indices and equity indices have been noted previously. For instance, academics have demonstrated the links between the price of Lafite Rothschild and the Shanghai stock index during the Bordeaux 2009-2011 bubble.

Rebased over the last two years, there appears to be some correlation between the Hang Seng, the Nasdaq and the Burgundy 150 which have risen by 53%, 49% and 50% respectively. At the same time the value of Burgundy bought on Liv-ex by American and Hong Kong merchants has increased.

**Chart 19: Burgundy 150 vs Equities (100 in Dec 15)**



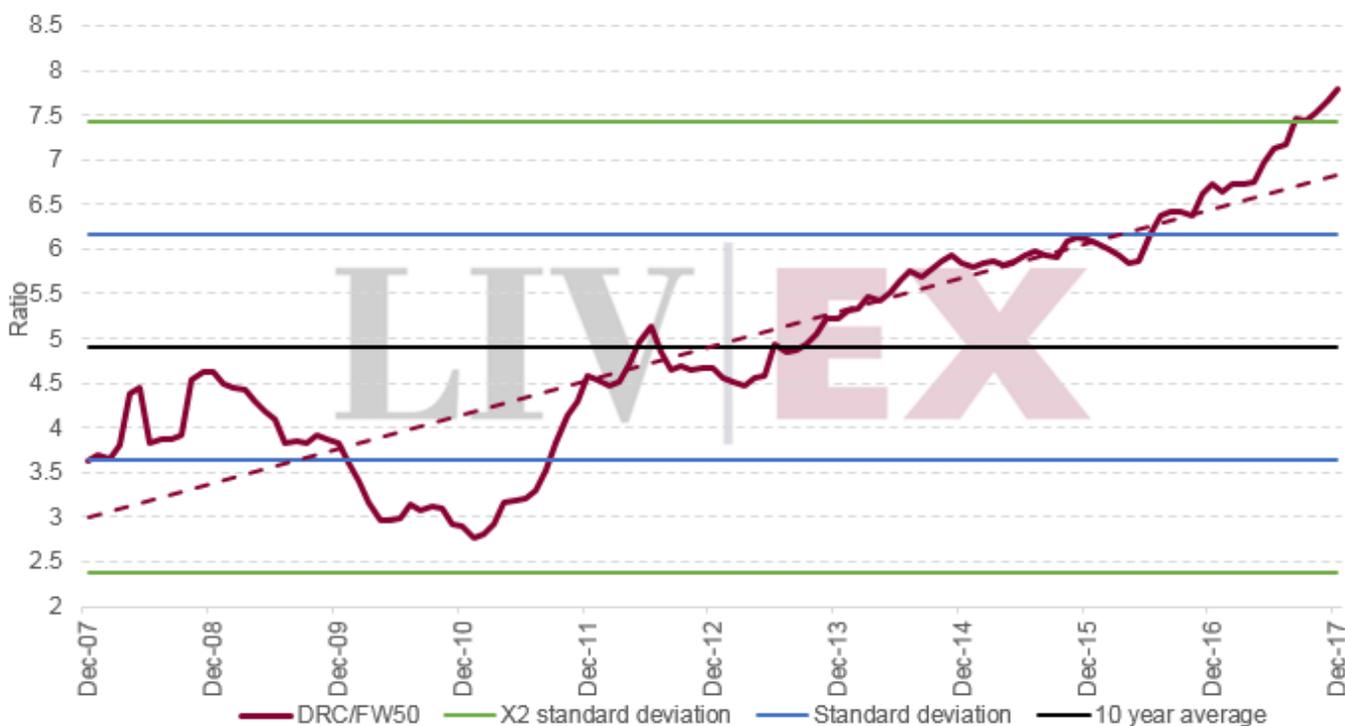
Quite simply, prices are being pushed up because demand has been increasing while supply remains tight. Strong demand in traditional and emerging markets combined with a reduced volume of wine both coming to market and remaining in the market puts pressure on price. Critics indirectly impact prices, but this effect is hard to discern for each vintage of a wine and is instead more important at the brand level. There are inconsistencies in price rises from brand to brand due to relative scarcity, critical acclaim and the strength of the brand's following.

## Are prices overstretched?

### Value: DRC vs First Growths

A rough indication of price differential between the highest echelons of Bordeaux and Burgundy can be measured by dividing the average price level of the six wines in the DRC index by the Liv-ex Fine Wine 50. Assuming that over the long term, prices revert to the historical mean, DRC prices have looked overstretched for some time. Yet in spite of this the ratio has continued rising for past 21 months, reaching a high of 7.91 in December 2017.

Chart 20: DRC vs First Growth ratio



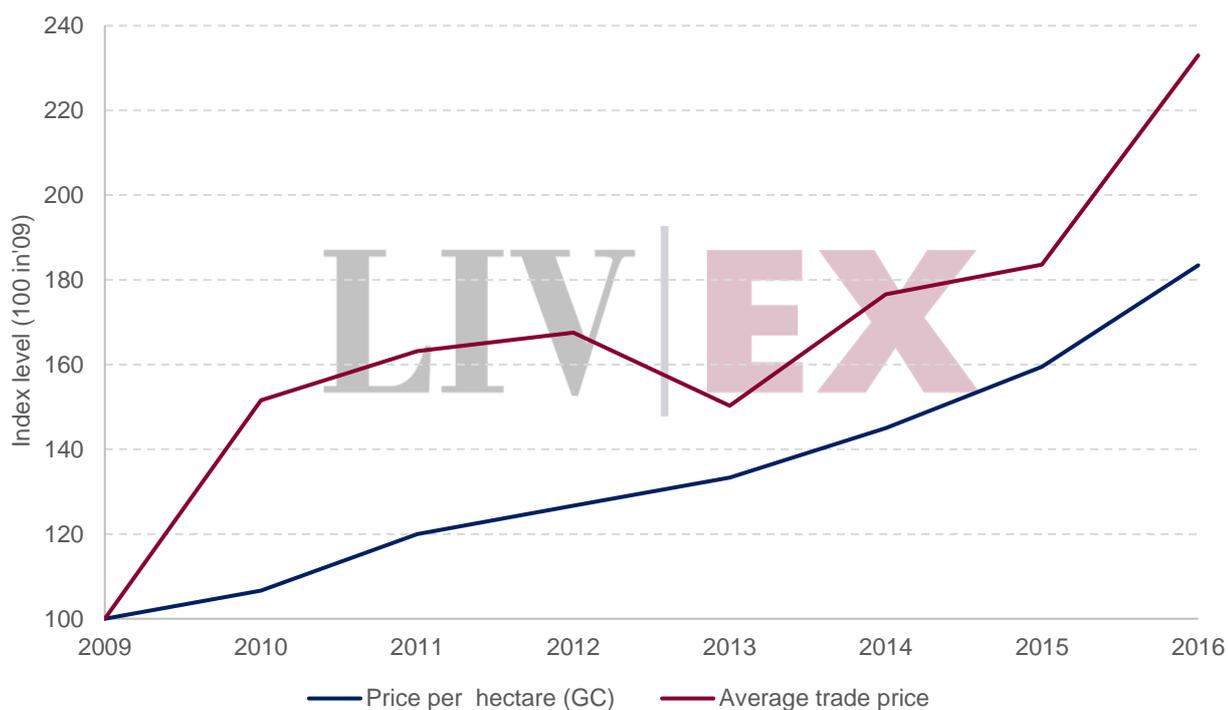
Stubbornness to revert to the mean can be attributed to the value placed on scarcity driving the market at the moment. Liv-ex estimates that the total annual production across the Romanée Conti vineyards of between 7,000-8,000 cases a year, compared to an average production of around 70,000 cases across the grand vins of the First Growths. Subsequently as demand continues to always outpace supply, relative prices are pushed higher. In extreme cases, as with the monopole of Romanée Conti, higher prices invert the demand curve, as the wine becomes a status symbol, in turn helping to sustain the price level.

The caveat to the value of scarcity is that its sustainability is reliant on wine being drunk. At elevated price levels this becomes less and less likely. For Bordeaux, unsustainable price levels were established and tested during the 2009-2011 bubble. Defining exactly what these price levels are in Burgundy is currently unknown.

## Rising bottles prices are pushing up the price of land

One incentive for investors to buy vineyards in Burgundy is the rising price of wines in the market. As the value of the wine increases, the value of the land which produces these wines rises also. Comparing an index of the average price per hectare of grand cru vineyard against the average trade price of Grand Crus on Liv-ex reveals that rising bottle prices are outpacing the growth in land prices.<sup>4</sup> If anything, this suggests that land prices have even further to rise.

**Chart 21: Average price of Grand Cru on Liv-ex vs. Average price/hectare Grand Cru**



<sup>4</sup> Data accessed from SAFER. 'Le Prix des Terres', < [http://www.le-prix-des-terres.fr/levolution-des-prix/prix-des-vignes/prix-des-vignes-appellations?departement=21&type\\_vignes=1&appellation=5&safer\\_recherche=Lancer+la+recherche](http://www.le-prix-des-terres.fr/levolution-des-prix/prix-des-vignes/prix-des-vignes-appellations?departement=21&type_vignes=1&appellation=5&safer_recherche=Lancer+la+recherche)>, accessed 14/01/2018

## Conclusion

Burgundy's secondary market has been building over the past decade. In this period, it has become increasingly diverse and broad, though the top reds continue to dominate. The next stage of development will see market liquidity increasing, as the market deepens with more participants. However the relative scarcity of many of Burgundy's top wines means that the market will always lag behind Bordeaux in terms of liquidity and speed of price discovery.

Burgundy prices are not correlated to vintage quality. Instead, they loosely follow broader market movements and are guided by the economic needs of growers. Price rises for some Burgundy wines in the market have been staggering. Recently, reds have outperformed whites with labels such as DRC and Rousseau leading the way. Although other brands have performed well, price moves are far from consistent across the region; they follow the winemaker, not the wine.

So what drives price in Burgundy? There are a number of factors at play here. At a high level, a simple supply/demand equation helps to explain what is going on. As this report demonstrates, supply is tight at the best of times both in terms of production and availability in the market. At the same time, more money – particularly from Asia – is competing for this reduced number of bottles.

But this alone does not tell the full story, particularly where inconsistent price movements are concerned. It seems that where supply is particularly limited, as with the wines of DRC, even a small increase in demand can send prices into the stratosphere. This brings us back to an earlier thought: owners of rare bottles can quickly become price setters, and price discovery as demonstrated by wide market spreads, remains relatively inefficient. Critic influence is important, but at a brand or producer level rather than for individual wines.

In recent years we have questioned whether Burgundy prices can keep on rising, yet they continue to climb. In this context outside investors have purchased famous domaines such as Clos de Tart, Domaine des Lambrays and Bonneau du Martray with prices per hectare in the tens of millions of euros, presumably based on the assumption they can make their money back through higher bottle prices in the coming years.

This assumption is sound as long as the fundamentals for price rises - tight supply, increased demand and falling yields - remain in place. Not all of these are certain indefinitely.

An important facet of the market that prevents indefinite price rises is that it is always seeking value. As we suggested earlier this is why Echezeaux was the best performing DRC brand: it was initially the cheapest entry point. A similar phenomenon has been observed in the Power 100: over the years, Burgundy brands have flowed in and out of the rankings as buyers have sought better value in the region.

As we suggested by the example of our DRC: First Growths ratio, an important component of wine's value is scarcity. The quicker the paper value of a wine rises - especially when the wine is still in its infancy - the less likely it is to be consumed, resulting in greater availability of the wine in the market. Consequently, price rises will slow down and eventually reverse as the number of sellers overtakes the number of buyers. This could happen at any point, but historically market turns like this have been triggered by macroeconomic events which are notoriously difficult to predict.