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Fine Wine Market Decode: May

Market Sentiment: Enquiries to Sell

In the midst of the Covid-19 crisis, two further themes developed this week. The first, an En Primeur campaign finally off to a stuttering start after several months of delays. Second, China's seeming move to restrict Hong Kong's autonomy.

Whilst EP release prices, and appetite for these, will reinforce outlook for the year, the developing crisis in Hong Kong, the gateway to the largest market for wine globally, has potentially severe ramifications both short and long-term.

Despite US and Chinese economies reeling from Covid-19, the latter has made best use of civic restrictions as parliament voted to approve a national security law that will be imposed upon Hong Kong. Backlash has been sparked both domestically and internationally; neither good news for the fine wine market.

Domestically, the move has sparked riots, reminiscent of those late last year which severely disrupted businesses operating as well as localised supply chains.

International consternation, meanwhile, was US led. If sabre-rattling has remained prevalent in their messaging in response to the 'Chinese virus', this week the US said it no longer considered Hong Kong to be autonomous from mainland China, and that Beijing had violated the rights granted to Hong Kong citizens under the 1997 handover agreement.

This announcement has major ramifications, because it could spell the end of Hong Kong's special trading status with the US – one that has underpinned the city's role as a global financial powerhouse. This marks a new escalation in tensions.

While Hong Kong's economy is equivalent to 3% of that of China's, its westernised legal and financial systems means it plays an outsize role in attracting capital to China. More than 60% of all foreign investment in China was channelled through Hong Kong as of 2019; the percentage of fine wine is far higher.

Any sudden disruption to this set-up could unleash unpredictable ripple effects across China's financial system, and indeed, the dynamics of the global fine wine market at large.

Market Sentiment: Enquiries to Buy

I am sure you will forgive us for saying this extremely quietly, but it would appear we have reached the bottom. Prices across the wine market have sat in equilibrium for two weeks now, something that has not happened in over 9 months. So we will bravely offer that the corrective bear leg of this market cycle appears to have found support, and therefore a finish.

To explore this statement further we can briefly look at what price is and how a market comes to find "support".

In an efficient market, which we acknowledge wine can sometimes not be, price is perfect. It is the total embodiment of every socioeconomic variable and input that can have an affect on a commodities worth.

For wine, that includes everything from the seismic Hong Kong riots last year, down to the minor sale of a single bottle. The price therefore displays within it the entire sentiment of the market and its opinion of the value of each case. The relative volatility or stability of price through an allotted time can therefore be a very accurate indicator of market health.

The second part of the statement was about finding support. Supportive points within a market are found when price reaches a position that is seen by market participants to fairly reflect the assets underlying value. The

strength of these supportive points can be measured by the time spent by price at these intervals. Therefore the wine market having sat at this particular interval for over two weeks now is an ever-strengthening indicator of stability, with every day adding to this further.

Aided by a weak Sterling we have seen a tentative shift in sentiment and a steady increase in trading volumes across the wine trade and its various global markets. However, as we discussed last week, this is not the start of a violent V recovery and because of this, we find ourselves at a particularly fragile stage.

While the wine market is not quite as skittish and headline-driven as other more volatile financial markets, should one market, most likely the East with China-US trade tensions increasing, show even the smallest signs of slowing, the rest will follow suit and a continuation of a price decline will occur. Therefore this accumulative phase, where prices are consolidated and strength is built, is one to watch very carefully.

The developing toxicity in the situation in Hong Kong is certainly not to be ignored, nor the posturing from the US in response. However, as we mentioned earlier, the price at present includes these fears, they are priced in. That is why we are carefully considering the next phase of the market cycle.

The accumulation phase of a market follows a correction or decline. It is when "the smart money" recognises the bottom and starts to purchase stock. They are aware of the exhaustive point where price reflects value at the market bottom. They begin cashing in on bargains created by the panic selling from the previous correction.

During this period price tends to stabilise and move sideways with participation relatively muted. However, as the news disseminates the rest of the market slowly begin to return to the table keen to join in. Then as confidence grows this is when we will see "market makers" or in wine terms, merchants start to test higher prices, testing demand.

So what does that mean for you and your collection?

If you have decided to hold onto your collection and weather the storm then keep on going! Unless you are in real need of the capital held within those cases, there is little to no point cashing them in now. You have ridden the wave all the way to the bottom, now you just need to hold on. If we are right and there are no more hidden surprises within the global economy then the tide is turning.

If you are looking at the market and speculating on whether to enter, that time is potentially approaching. Certainly you should be in touch with your broker and discussing your investment goals and the composition of your portfolio. What are your goals, timelines and risk profiles going to look like? Contact us now to discuss yours.

Currency Corner: FX Decoded:

With a weak pound the outlook on the near term looks good. However as central banks start to tentatively advise the worst is over, risk on assets will start to rise. Expect the sterling to rise with sentiment and perhaps dampen any advantage overseas buyers are enjoying.