JF TOBIAS

December 2018

Fine Wine Market Decode: December

Market Sentiment: Enquiries to Sell

- Enquiries to sell: £2,019,362, a 22% increase on this time last year
- Falling Market: Brexit drives market volatility
- Amidst Brexit uncertainty, clients are looking to reduce over-exposure to wine in investment portfolios

In December, we are continuing to see the market shaped by macro factors and events. Increasingly this is news surrounding Brexit.

The threat of a hard Brexit, under which the UK would leave the EU without a deal, combined with increasing political uncertainty surrounding the UK's leadership, is a toxic mix for sterling.

Amidst this extreme volatility, the market is responding increasingly anxiously. Until the market knows what will happen, it will remain cautious.

In real terms, we are experiencing a downturn. This is a coming to terms with the likelihood that the price increases of the past 2 years (since the Brexit Vote) are simply not sustainable, coupled with the likelihood of an eventually strengthening sterling.

This downturn is compounded by merchants mitigating risk and reducing stock-owned positions ahead of Brexit, as well as a still slow Hong Kong market offered only momentary respite from the US-China trade war.

From clients, we have received more enquiries to sell in the past month than ever before. At JF Tobias, we expect this to continue, as investors look to rebalance portfolios before storage fee renewals on January the 1st, as well as limit exposure to holding stock in a falling market, with increased urgency.

Market Sentiment: Sales

- Difficult and falling market amidst market volatility
- Hong Kong market activity increases marginally by 4%, Singapore by 6%, USA by 3%
- USA trade war truce drives marginal increase in activity across US and Asia

Despite talks between Xi and Trump declared a success, with a 90-day trade war truce in place, the Hong Kong market remains cautious.

If the meeting was positive, it also highlighted the two sides' disparate perceptions of the situation. Positive yes, but room for concern, certainly.

The trade war is expected to bite further into China's economy in the first half of 2019 as they feel the full effect of US tariffs. Forecasts suggest growth could drop below 6%; a historic low for the country.

Evidence of the downturn is visible in Hong Kong's housing market; values have plunged more than 20% from recent highs.

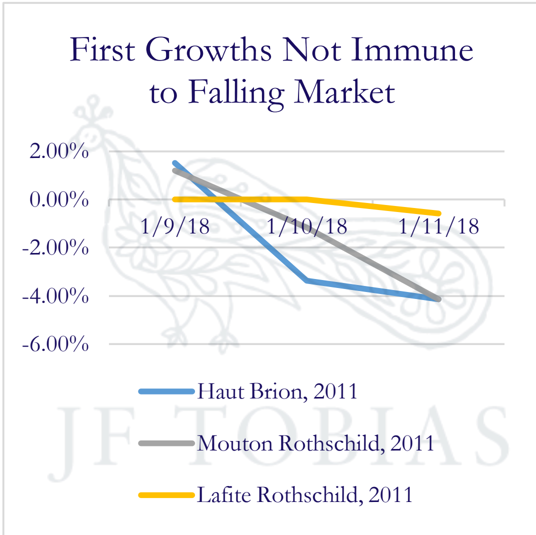
This is driving a falling and volatile market across Asia, led by Hong Kong, compounded by UK market uncertainty ahead of Brexit.

Older stock is stuck at warehouses across Asia (purchased at too high a price), with many companies reluctant to sell at a loss. The result has meant sales are slow, resulting in poor cash inflow, in turn driving a reluctance to purchase.

To counter this, merchants are reducing prices, with merchants only buying at reduced rates to protect themselves.

The flurry of increased activity across Asia and the US is at these reduced prices, rather than signally a strengthening sentiment. In the UK, trade is equally slow, remaining very linked to the HK market.

First Growths Not Immune



First growths have not been immune to the falling market; prices have taken a dip in recent weeks. Despite this, low value off vintage First Growth continue to trade well.

Whilst 'Super Seconds' continue to struggle, the New World has also shown weakness. The more expensive niche wines, particularly from the US and AUS (such as Astralis and Opus One) have had their high prices tested by weak demand.

Feature: Brexit

Two years on from the Brexit vote, the future of the UK looks more uncertain than ever. Gus Rodgers, Director at JF Tobias, talks us through what this means for the fine wine market.

"Relative strengths between currencies are nearly always overlooked in terms of fine wine market performance. Sterling, at the moment, is plagued by politics. It remains near a 20-month low amid a no confidence motion in May's leadership, a day after her decision to delay a vote in parliament on her Brexit deal for fear of a loss angered many in her party.

After two years of Brexit negotiations, the UK finds itself in still uncertain territory. Whilst a weakened sterling against the Hong Kong dollar is normally good news for wine prices, the sharp drops and appreciations are occurring with such volatility that the fine wine market has taken a step back. This is perhaps telling in itself.

Whilst a weak sterling would normally spark renewed interest in UK held stock, as prices effectively become cheaper, we have not seen a spike in demand. Instead, there is a real sense in which, with the Hong Kong market weak from the trade war with the US, and with us heavily linked to Hong Kong performance, that merchants and private clients alike are willing to mitigate risk and over-exposure wherever possible, and wait until some certainty returns.

The consequences of this are a cautious market, with prices stagnating, and falling. However, the question mark should be over the performance of sterling post-Brexit, against the USD and HKD.

In the short term, there is no question that there is a much larger possibility of sterling falling further, rather than strengthening. Given the global outlook, it does not look as if this will spark any increase in wine prices. People are wary of a volatile sterling plagued by politics, and instead, prices are falling on the back of a slow Hong Kong market.

At JF Tobias, we believe that long-term prospects for the fine wine market remain positive. However, in the short term we are likely to see further decreases, as a result of a falling market being driven by Brexit uncertainty, and, even in certainty of exit-terms and decision, an appreciating sterling in the medium term. "

-Burhaan Quinn, Systems and Data Analyst

Currency Corner: FX Decoded

In the global fine wine market, relative currency strengths play a big part in performance.

Red swatches show those currencies that have gained in value against the base currency; blue those that have fallen lower in value.