

Extended Report
Q1 2020

LIV | EX
THE FINE WINE MARKET

Burgundy: after the peak



Introduction

After Bordeaux peaked at the end of the China-led bull market in 2011, buyers started to seek out other corners of the fine wine world. Burgundy attracted the greatest attention. There was nothing particularly new going on in Burgundy – old hands were still quietly going about their business – but there was a step change in the market. Some would argue that this shift was due to changing taste, from bold tannic reds to the more elegant expressions that Pinot Noir offered, but the more likely explanation was the simple allure of small specialised vineyards producing rare, hard-to-source, wines. The top wines were soon to become trophy assets.

Burgundy boomed. Demand outstripped already tight supply driven in the most part by the rarity of the wines. Prices reached record highs in 2018. [DRC Romanee Conti](#) 1945 became the most expensive wine ever sold at auction. Others saw their prices soar on the back of less predictable energy. Dujac, already a much admired domaine, was the highest riser (up 142 places) in the [2018 Power 100](#) due in no small part to DJ Khaled's [enthusiastic endorsement](#). In the [2019 Liv-ex Classification](#), Burgundy accounted for 59% of the top tier wines (the most expensive category).

In [this report a year ago](#) we wrote, "Burgundy continues to rise relentlessly, and we all continue to ask the question: for how long?". The situation did seem unsustainable.

The past year has highlighted the vulnerability of Burgundy's high prices. The Burgundy 150 was the worst performing index, falling 8.8%. Buyers appetites dimmed as prices rose. At the same time, the allure of high prices (and thus high returns) brought more wines to the market. This shift was reflected in merchant activity and the bid-offer ratio began to decline. However, the low liquidity of many rare Burgundy wines added a further complication as buyers struggled to price the new supply. Spreads began to widen and, perhaps inevitably, prices began to drift. The recent implementation of [US tariffs](#) has done little to help matters.

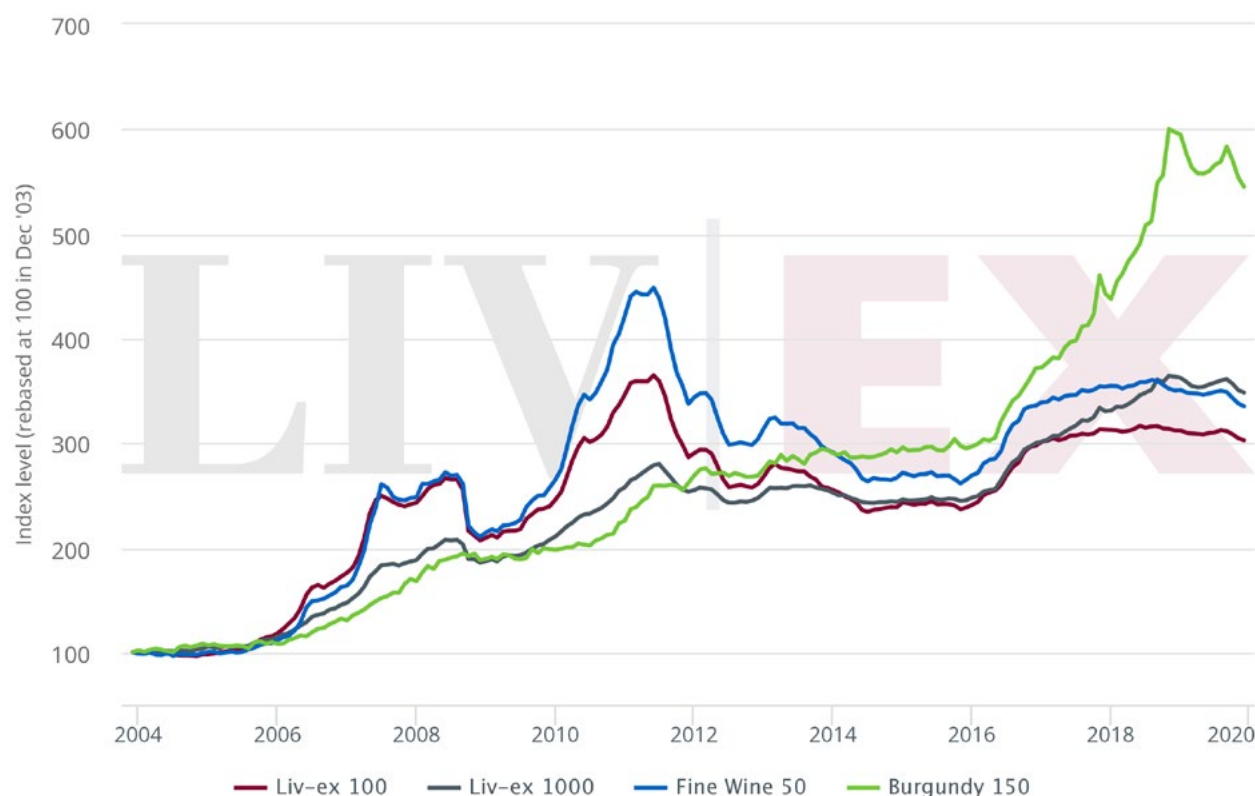
But so far this trend has been evident only at the very top end of the market. In 2019, committed Burgundy buyers started to consider the more affordable second and third wave Burgundy labels – a pattern which has been reflected in the number of new domaines (many with younger winemakers at their helm) entering this year's [Power 100 rankings](#). The recent [Hospices de Beaune auction](#) of barrels of the 2019 vintage (a vintage of reportedly high quality and very strict allocations) produced one of the highest sales totals in the auction's history with the average barrel price rising by almost 30% over last year to €21,823.

As we write, the Burgundy 2018 campaign is in full swing. A plentiful but heterogeneous vintage is being released onto a market that presents a far more complex picture than at any time in the past decade. The long hot summer of 2018 proved challenging for many growers. High sugar levels and consequently higher alcohol have led some to suggest that the wines lack definition and clarity. But there are also reports of domaines making some of their finest wines ever. There is a question too over whether this is a red or white vintage. Many merchants are advising their clients to look beyond the labels and choose the producer carefully. Some are promoting appellations overlooked in the past, while others are standing firmly behind traditional producers with proven track records. Confused?

We enter 2020 with many questions being asked of Burgundy, and indeed the market more broadly. What follows are the market facts already written. What lies ahead is less clear.

Burgundy market overview

Chart 1: Burgundy 150 vs Liv-ex 50, Liv-ex 100 and Liv-ex 1000 since inception



Burgundy has been the top performer since the launch of the Liv-ex regional indices in 2003. Over the past sixteen years, the Burgundy 150 index has risen 445%, compared to 235% for the Liv-ex 50, which tracks the First Growths, 248% for the broadest measure, the Liv-ex 1000, and 202% for the industry benchmark, the Liv-ex 100.

Much of Burgundy's impressive price performance, however, has been recent. In our first full report on the region in [February 2018](#), we observed that Burgundy had never seen such high levels of interest. Prices were not only rising rapidly as a consequence of a weaker Sterling post the Brexit vote (although this did help things along), but the rising allure of the region was being met with a string of small harvests, exacerbating the problem of already limited supply. Between June 2016 and December 2018, the Burgundy 150 rose 86.2%, recording only two monthly declines.

So, what changed last year? Burgundy wines certainly continued to be rare and sought-after, but from being the star of 2018, the Burgundy 150 became the worst performing index in 2019 (-8.8%), beaten by the Italy 100, Champagne 50 and even the Rhone 100 (the perennial underperformer). The comparatively low entry point into the market that regions such as Italy and Champagne offer, combined with building brand strength, heritage and a series of excellent vintages, attracted the attention of collectors looking for relative value in a market that was broadly adrift.

Indeed, the wine market faced persistent [economic and political headwinds](#) last year, explored in our report "The Fine Wine Market in 2019". This made fine wine buyers increasingly tentative. The value of Burgundy bids fell in the last quarter of the year, whilst desire to sell – reflected in the value of live offers – increased, putting additional pressure on prices.

Chart 2: Liv-ex 1000 sub-indices: three years

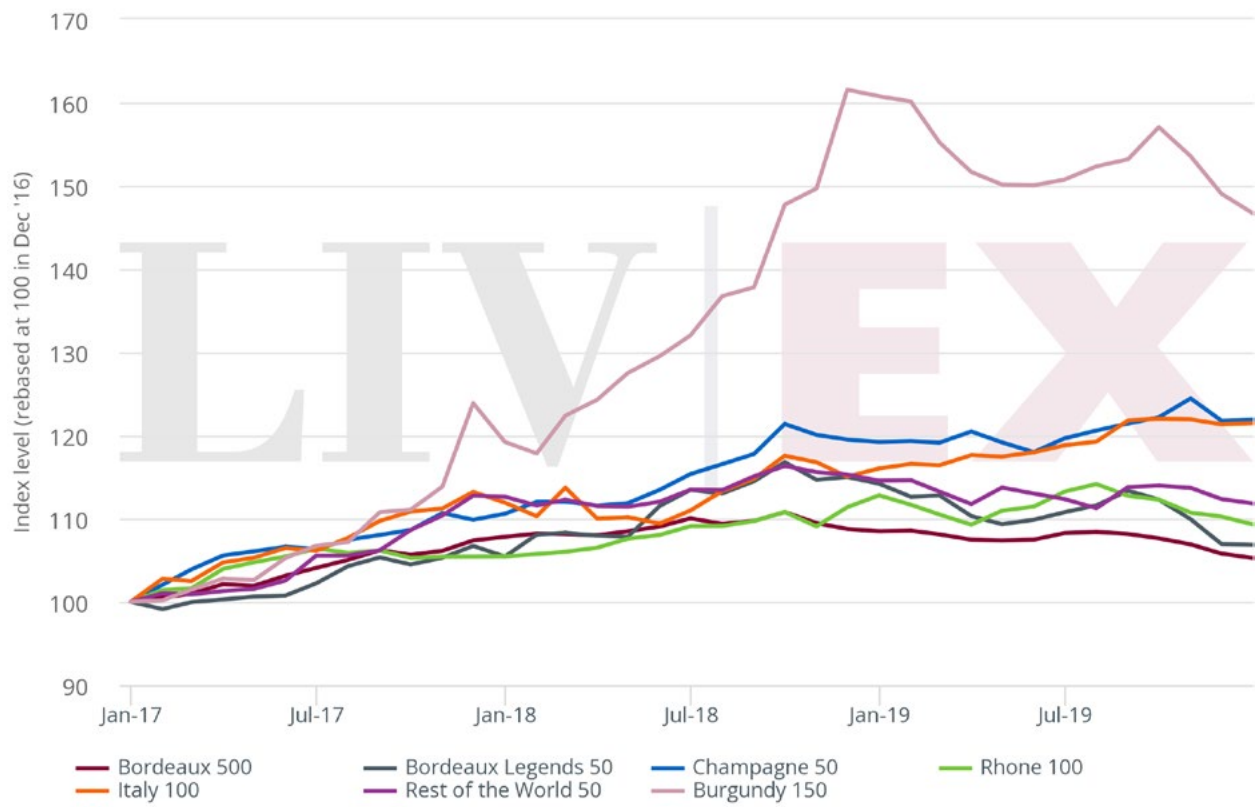


Chart 3: Liv-ex 1000 sub-indices: one year

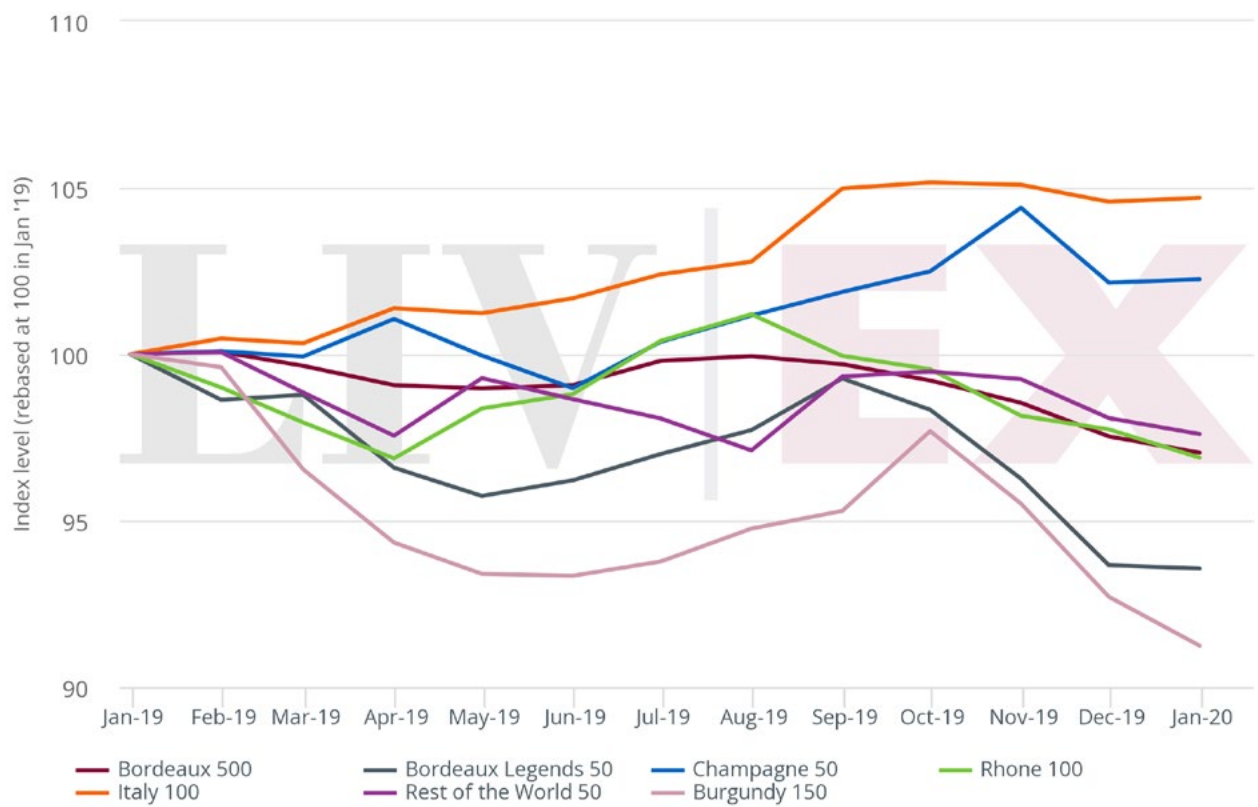
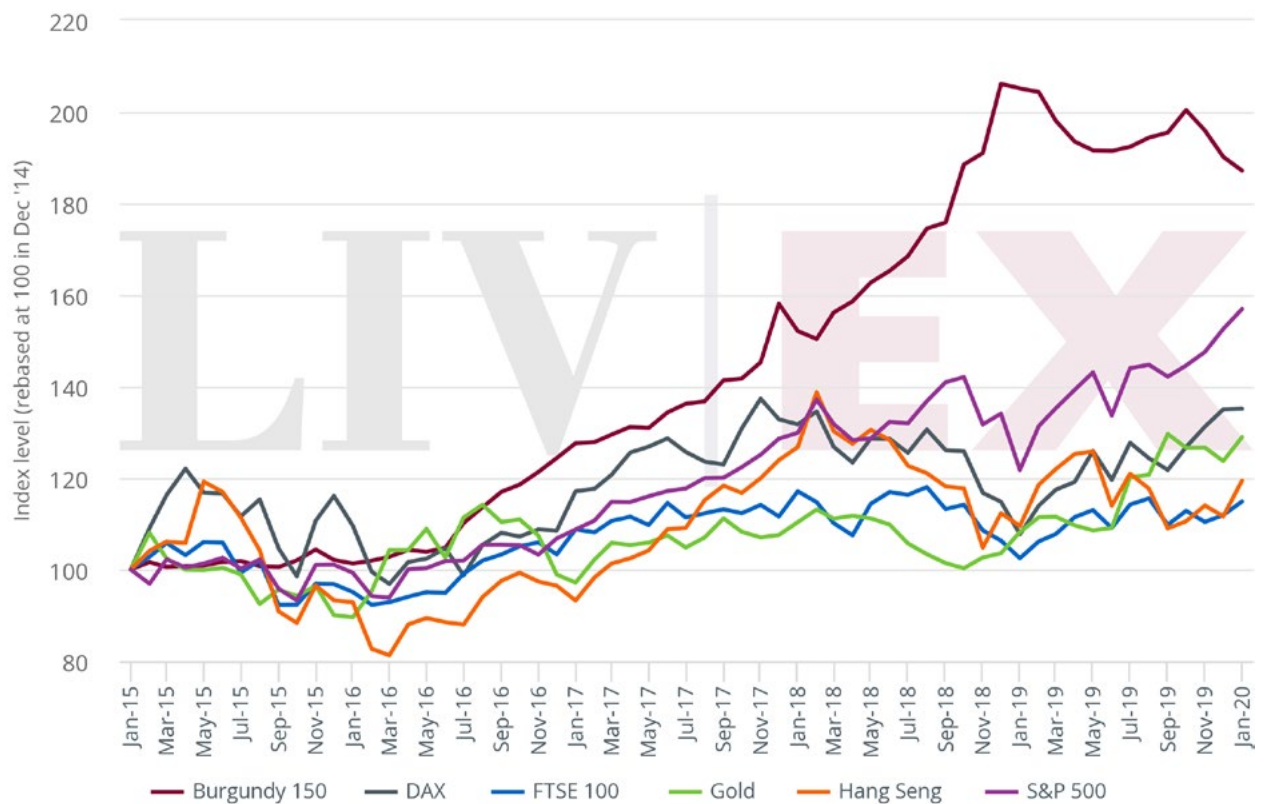


Chart 4: Daily value of Burgundy bids and offers on Liv-ex



As global interest rate cuts upped investors' appetite for risk, the Burgundy 150 - indeed fine wine as a whole, generally viewed as a safe and tangible asset - began to underperform mainstream assets - in particular, global equities. Given Burgundy's medium-term performance (see Chart 5), it is hardly surprising that a period of underperformance ensued; until its peak in December 2018, top Burgundy had left most assets choking in its dust.

Chart 5: Burgundy 150 vs global equities and Gold



An expanding Burgundy market

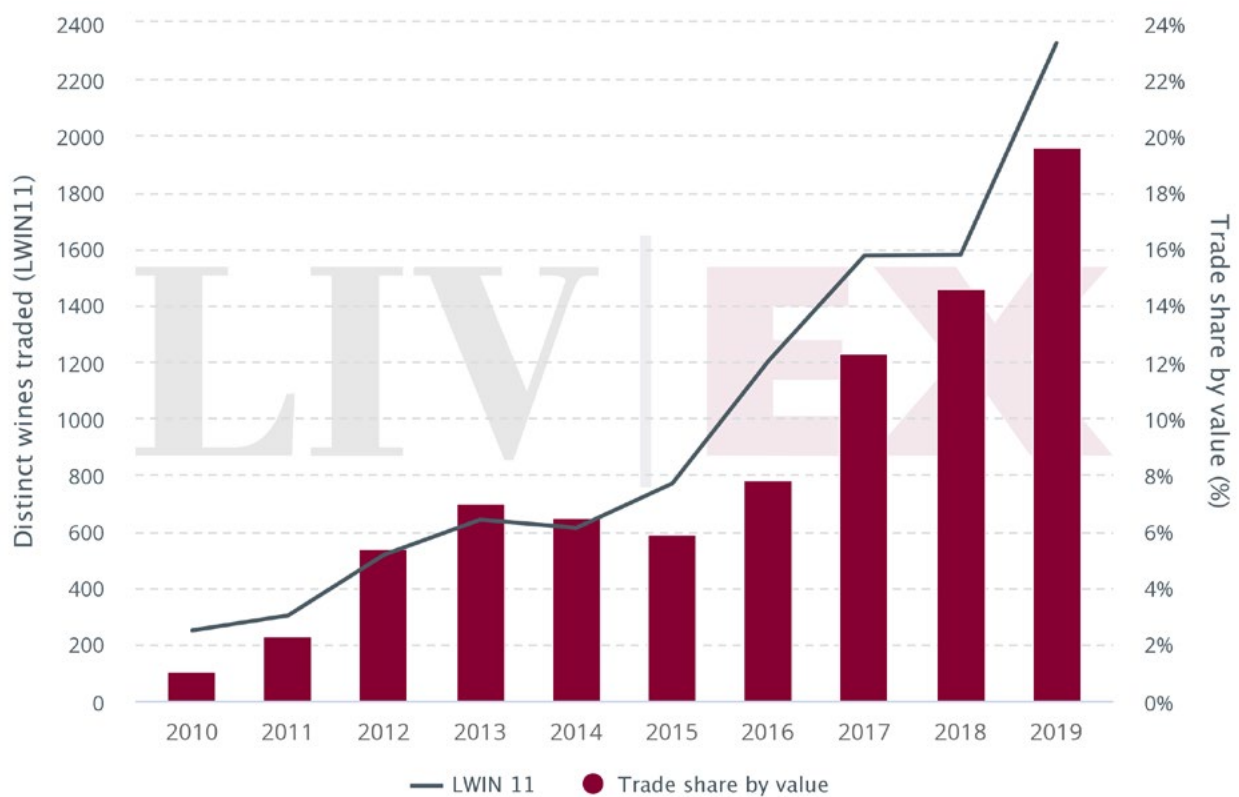
While interest in the very top wines of the region (as reflected in the Burgundy 150) seems to have softened over the past year, a window has opened for other, smaller domaines, to shine. As suggested in the [2019 Power 100](#), produced in collaboration with [The Drinks Business](#): "It's not that buyers don't want Burgundy, but the upper tier has reached a peak, and the price performance reflects that, as does the inclusion of more names from domaines where prices have not quite run ahead of themselves... yet."

Indeed, the number of active markets from Burgundy (wines with either a bid or an offer on them) rose 35% in 2019, reaching 21,160.

As more wine came to the market to test the price surge of 2018 and buyers began to look to second and third tier growers for value, broadening the pool of wines trading on the secondary market, Burgundy's market share rose to 20% - a new record. The number of wines traded rose 48%, while new labels entering the market contributed to a 20% increase of brands changing hands.

Since 2010 - the glory days of Bordeaux which then accounted for 95% of the secondary market - the number of Burgundy wines traded has increased by 900%. The region's story now includes Coquard Loison Fleurot, Drouhin Laroze, Fontaine Gagnard and Prieure Roch as much as DRC, Leflaive, Coche Dury and Roumier.

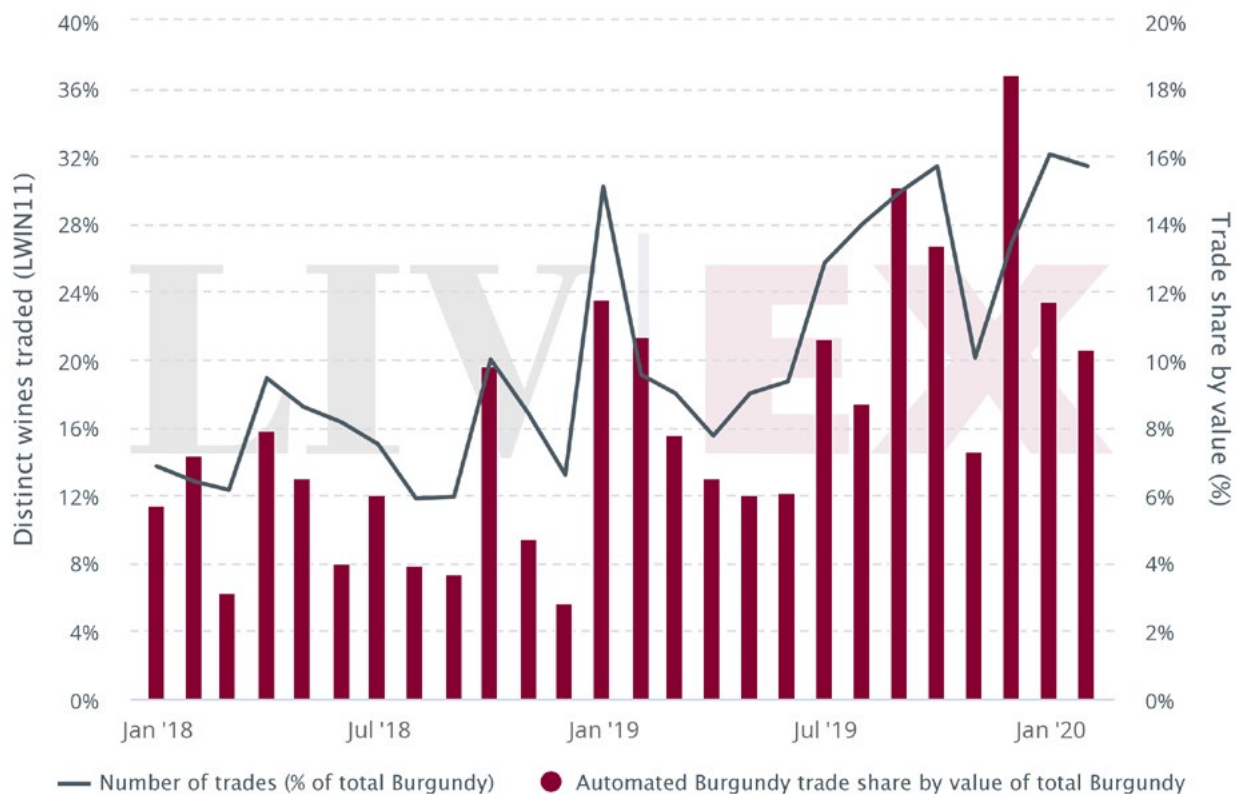
Chart 6: Burgundy trade share by value and number of wines traded



LWIN is the universal wine identifier. Find out more [here](#).

A contributing factor to the sustained broadening of the secondary market is the rise of [automation](#) (electronic trading), seen in Chart 7 below. [Through automation](#), stock on Liv-ex is offered directly to the end-consumer through members' integrated e-commerce platforms. More wines (including lower-value ones) have thus found demand and more trades (particularly smaller ones) have taken place. Automated Burgundy trade has risen in line with Burgundy's growing market share, while automated Burgundy transactions which represented around 12% of all trades from the region at the end of 2017 now account for over 30%.

Chart 7: Automated Burgundy trades (by number and by value) over two years



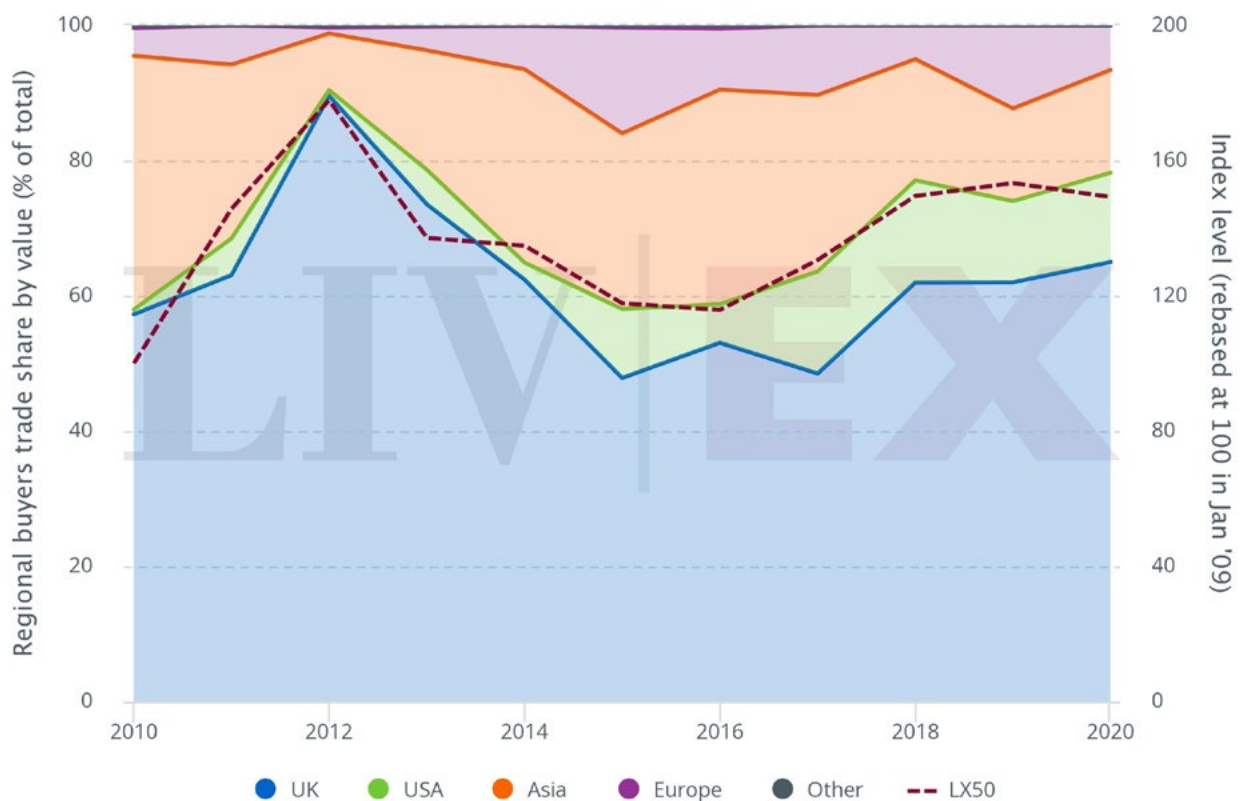
Buying Burgundy after the peak: regional patterns

With an unparalleled international distribution network, the UK continues to be the dominant secondary market Burgundy buyer. Perhaps rather counterintuitively, direct buying from Asia (as a percentage of the total) began to decline in 2016, just as the Burgundy market was gathering serious momentum. After nearly four years of declines, the Bordeaux market began to turn in 2015. A long-term favourite of Asian buyers, Bordeaux once again found the Asian bid, while Burgundy's relative appeal seemed to wane. The Burgundy baton was passed to US buyers.

This said, Neal Martin predicts growing interest from China in [his report "2018 Burgundy: Confounded Expectations"](#). "I foresee burgeoning demand from mainland China as a potentially huge market of 'label hunters' matures into those wishing to expand their knowledge and seek new horizons. That would have a major impact not just at the top of the hierarchy, but down the pyramid", he wrote.

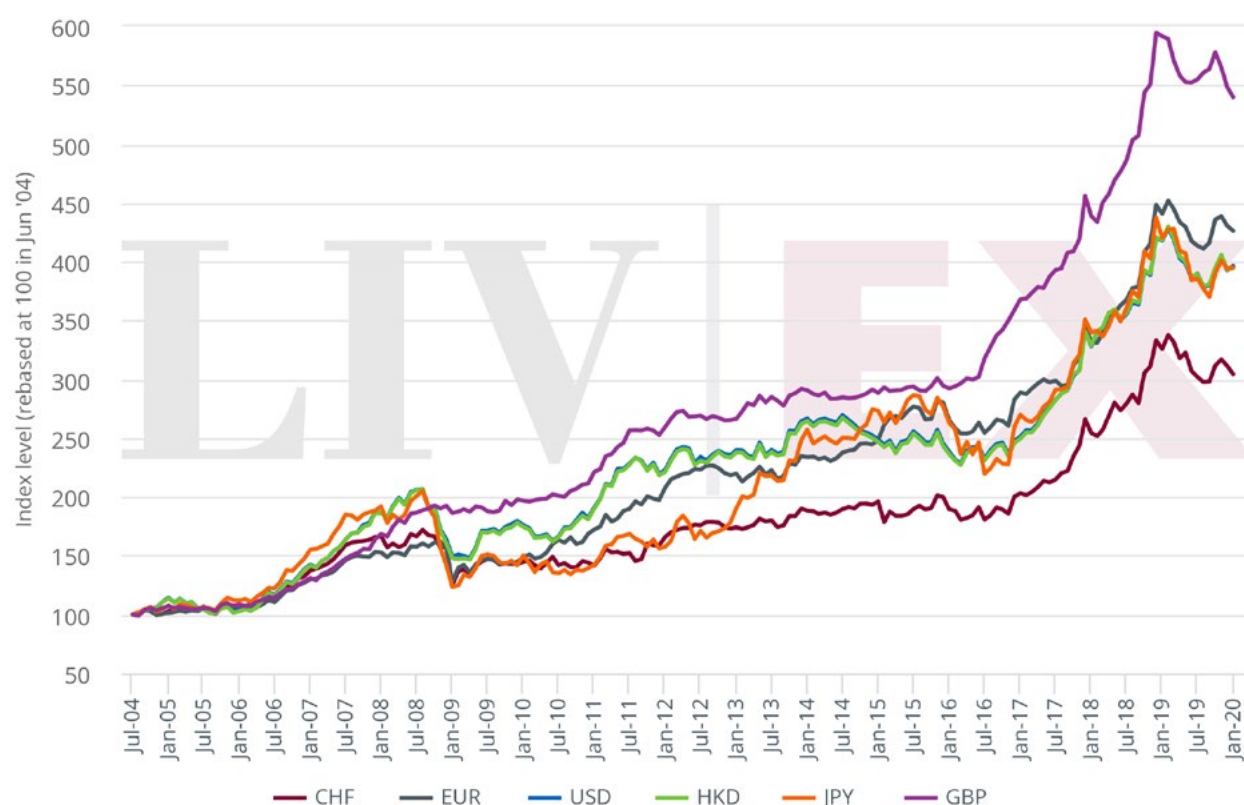
Meanwhile, auctions, particularly favoured by US buyers, continued to stimulate collectors' interest. [Decanter](#) reported in August last year: "Burgundy has continued to defy those who would bet against it [...] As in the past few years, demand for Burgundy was strong in the first half of 2019," said Ben Nelson, president of US auction house Hart Davis Hart (HDH)."

Chart 8: Burgundy share between major purchasing regions: ten years



More recently, UK collectors have become the suppliers to the rest of the world, due in no small part to Sterling weakness from mid-2016 to end-2018. Viewed in alternative currencies, Burgundy's price performance has not been as eye-watering as in Sterling. Between 2016 and 2018, the Burgundy 150 rose only 50% in Swiss Francs and 68% in US dollars.

Chart 9: Burgundy 150 in different currencies

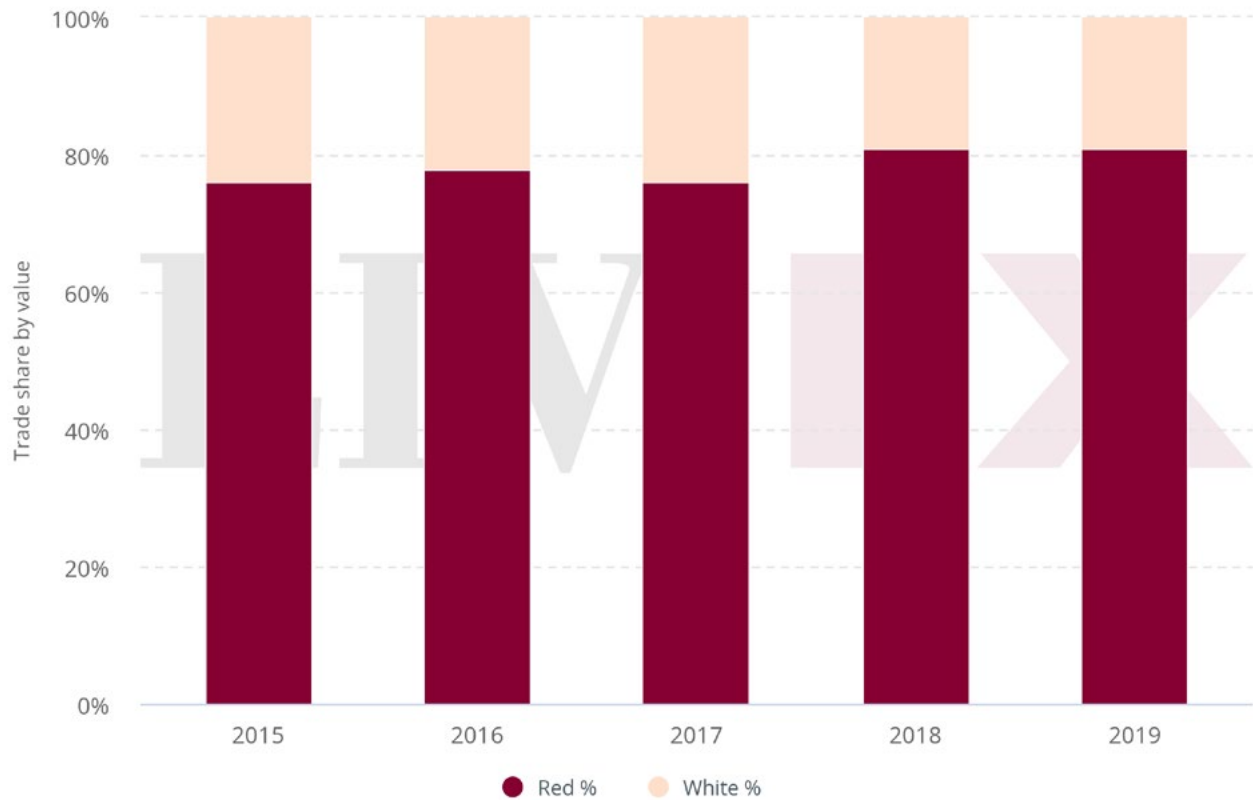


Market share between Pinot Noir and Chardonnay has changed little over the years. Pinot Noir has continued to dominate trade by value, taking 81% versus Chardonnay's 19% in 2019. A major reason for this is the value of the wines. On average, the top Burgundian reds (wines in the Burgundy 150 index) command 437% premium to the whites (see Table 1). Another is the buyers' intention. White Burgundy is generally bought for early consumption. The whites' already tight supply thus diminishes even more quickly than the reds; smaller volumes end up in the secondary market, impacting trade share.

Table 1: Regional First Growths – at what cost?

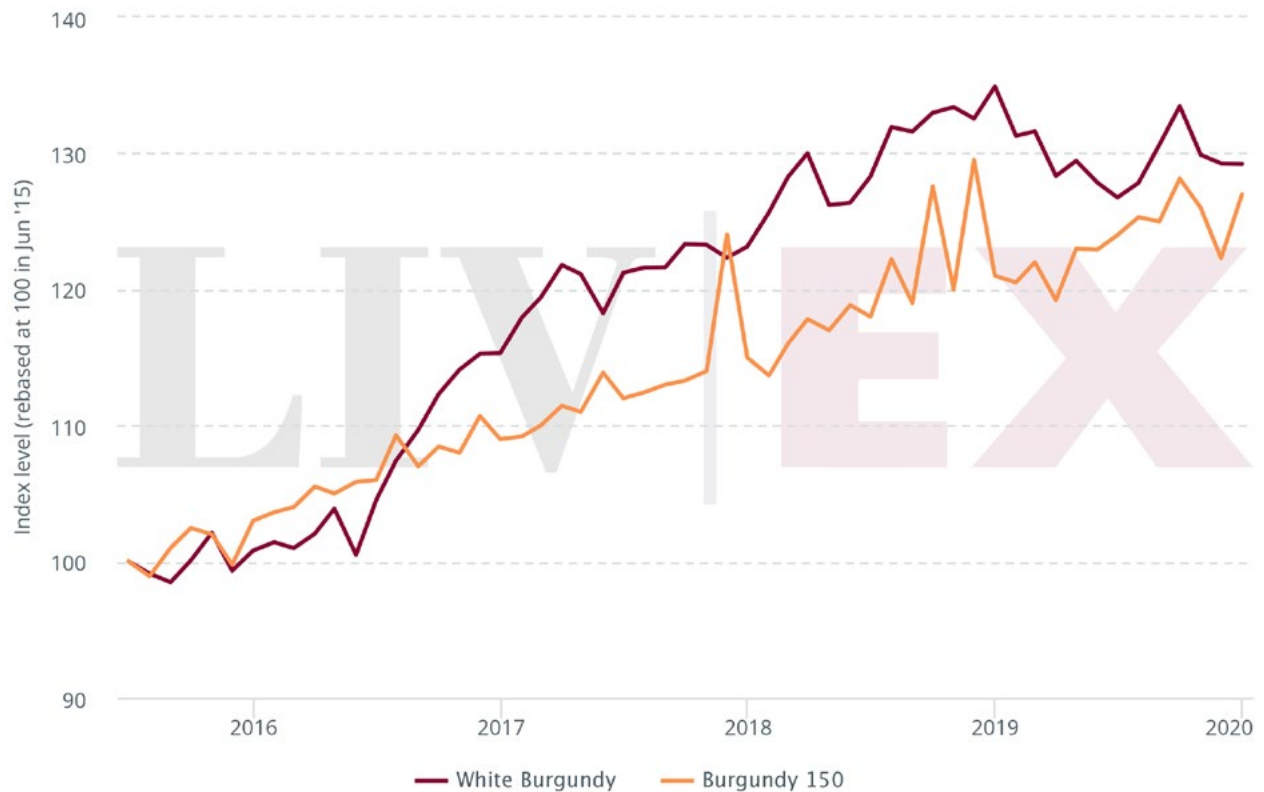
Region	Wines	Price 2017	Price 2019	Change
Sauternes	25	£932	£833	-11%
Southern Rhone	20	£971	£964	-1%
Italy (South)	30	£1,868	£1,924	3%
Northern Rhone	40	£1,930	£2,127	10%
Champagne	35	£2,006	£2,451	22%
Burgundy (White)	20	£2,392	£2,987	25%
Italy (North)	20	£3,283	£4,003	22%
Australia	10	£4,214	£4,666	11%
Bordeaux (Left Bank)	25	£4,745	£4,851	2%
Spain	10	£5,256	£5,224	-1%
California	25	£7,592	£9,463	25%
Bordeaux (Right Bank)	30	£10,247	£10,983	7%
Burgundy (Red)	50	£11,241	£16,039	43%

Chart 10: Burgundy's trade share - red vs white



However, the earlier consumption of white Burgundy has had a positive impact on its price performance. The white Burgundy index has risen 29%, outperforming the Burgundy 150 (+27%) over the past five years¹.

Chart 11: White Burgundy index vs Burgundy 150: five years



1. The index comprises of vintages 2007-2016 of the following wines: Bonneau Martray, Corton Charlemagne; Coche Dury, Meursault; Domaine William Fevre, Chablis Clos; Domaine Leflaive, Batard Montrachet.

The 2018 En Primeur campaign might unexpectedly garner greater attention for the region's whites. Some merchants have predicted a golden era for white Burgundy, claiming that the whites have been "the biggest surprise", ones to "stock up on". The versatile nature of Chardonnay, [one of the most widely planted white grape varieties in the world](#), for it adapts well to both cool and warm climates, has allowed it to overcome many of the challenges of the growing season, also faced by the finicky Pinot Noir. If we are indeed to face a prolonged period of rising temperatures, it will be Chardonnay that copes best with the challenge.

Unravelling the Burgundy story

As with all fine wine regions, the price of Burgundy is determined by demand and supply, currency, seasons (although significantly less so in Burgundy than other regions), grape variety, critical acclaim and increasingly, technology (which brings accessibility). But perhaps unlike other wine markets, Burgundy abounds with stories within a story. As we look deeper into the region and the Power 100 rankings, unexpected shifts and patterns start to emerge.

Table 2: Top 10 Burgundy price performers in the 2019 Power 100

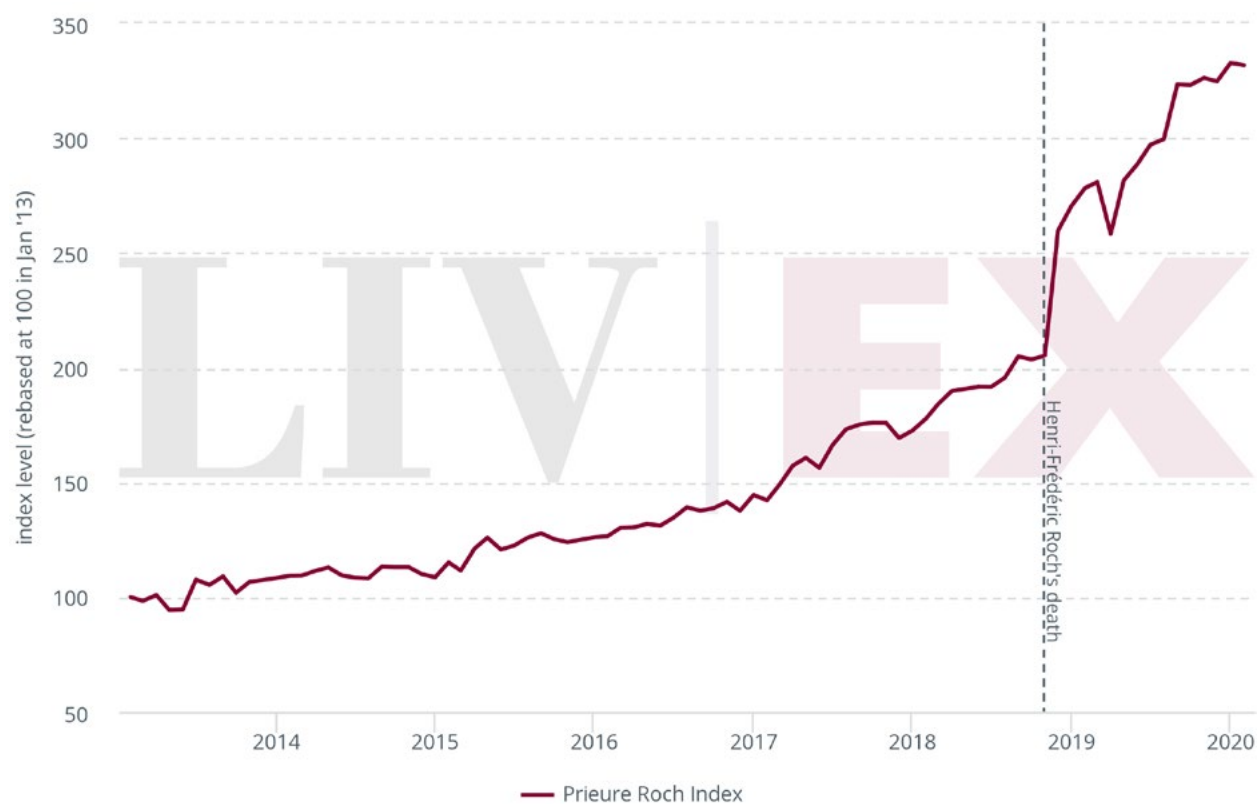
	Wine	Price change
1	Prieure Roch	51%
2	Bizot	51%
3	Comte Liger Belair	28%
4	Roulot	27%
5	Harmand Geoffroy	23%
6	Georges Mugneret Gibourg	22%
7	Frederic Magnien	22%
8	Rene Engel	22%
9	Armand Rousseau	21%
10	Pierre Damoy	20%

The label that topped the Burgundy price performance rankings in 2019 had not qualified in previous years. It saw a staggering 51% price increase, taking second place in the overall price performance rankings (after the Italian Cappellano (+65%)). So, what was the reason behind its out-of-the-blue success?

The fine art world has coined the term the "[death-effect](#)": a clustered rise in an artist's value, immediately preceding, at, or immediately after the date of death. The death of an artist brings to an end the delightful promise of a new creation. So too in the world of wine. Production per vintage is always finite, but there is nothing more finite than the end of a grower's life's work. Following the [untimely death](#) of Henri-Frédéric Roch, the co-director of Domaine de la Romanée-Conti and owner of Domaine Prieuré-Roch, in late November 2018, demand for his wines skyrocketed and prices soared. We had already observed this phenomenon with the wines of Rene Engel, another of Burgundy's top performing brands, following the death of [Phillipe Engel](#) (Rene's grandson) in 2005. The domaine is now in the hands of Château Latour's owner François Pinault and has been renamed Domaine de Eugénie. Phillippe Engel's last vintage of Grand Echezeaux (the 2004) today trades in excess of £10,000 per 12x75 – the average price for Domaine Eugénie Grand Echezeaux since 2006 is £3,000.

While there is a complex set of factors affecting a wine's value, the Prieure Roche index in Chart 12 illustrates the exaggerated impact events like this can have on wines of already limited production.

Chart 12: The development of the Prieure Roche index



Contrasting patterns emerge among Burgundy's power brands. Roulot (+27%), Ramonet (+16%) and Raveneau (+13%), for instance, are white wine domaines with younger winemakers at their helm. Arnoux Lachaux (+11%) is another well-performing brand, producing Pinot Noir, run by [Charles Lachaux](#) (aged 30) who represents the family's sixth generation.²

². Annual price change as per the 2019 Power 100.



Domaine Roulot's proprietor and head winemaker, [Jean-Marc Roulot](#) is also a part time actor, starring in the 2017 film, *Back to Burgundy* (*Ce qui nous lie*, dir. Cedric Klapisch). His supporting role as a vineyard manager, helping to run a family domaine after the death of its patriarch, might have given attention not only to his film career but also his wines. As [Pat Thomson](#) puts it, "after seeing so many films get winemaking wrong, one vintner decided to lend a helping hand". A rise from 123 to 40 in the Power 100 rankings suggests Jean-Marc Roulot got a lot right.

The question of liquidity

While price performance is important from a collector and investor's point of view, liquidity is crucial. Small production wines can see their values rise rapidly when demand is intense, but when it falls away, what then? Bordeaux "suffers" from excess supply but remains the only region serious investors will commit large sums to. The ability to sell is as important as the ability to buy. One of the challenges the Burgundy market faced in 2019 was finding the bid. In the upswing of 2016 to 2018, the value of bids far outweighed that of offers. 2019 saw a reverse. The problem is then compounded as the residue demand struggles to put a value on a thin market. Spreads naturally widen. Where the First Growths of Bordeaux see spreads in the 5-8% range, top Burgundies are closer to 15%, less well-known ones upwards of 20%. Liquidity suffers.

The volume and value rankings of the 2019 Power 100 reveal where the liquidity in Burgundy lies. New players might have topped the price performance category, but it is the recognised producers with decent levels of production that have dominated the liquidity rankings (Table 3).

Maison and Domaine Leroy, which we have counted as one brand [since 2018](#), took the first spot. Domaine Ponsot – the largest landholder in Clos de la Roche and one of the most iconoclastic estates in Burgundy – came second. Large production levels of Joseph Drouhin have granted the label third place.

DRC, often referred to as “the Domaine” and a major component of the Burgundy 150 index, made up the Burgundy top five.

Table 3: Top 10 Burgundy labels by value and volume

	Wine	Overall Value and Volume Rank
1	Leroy	12
2	Domaine Ponsot	39
3	Joseph Drouhin	41
4	Domaine Leflaive	47
5	DRC	56
6	Comte Vogue	73
7	Faiveley	77
8	Mommessin	78
9	Meo Camuzet	101
10	Lambrays	105

The DRC proxy

Domaine de la Romanée Conti has historically acted as a benchmark for Burgundy’s performance. In 2002, DRC accounted for 96% of the region’s trade in the secondary market. Today this number stands closer to 25%. DRC took 5% of the total market share by value last year.

Prices for all its red wines declined in 2019, pushing the Burgundy 150 down. The DRC index closed the year down 8.4%. The biggest faller was Richebourg (-15.4%), followed by La Tache (-12.4%) and Echezeaux (-10.5%).

But over five years, the DRC index has shown an increase of 102% and Echezeaux has led the way with gains of 171%. As we pointed out in our report last year, even within the most luxurious of brands, collectors look for value (Echezeaux has historically offered one of the lowest entry points into the DRC brand).

A proxy for the relative demand of top Burgundy and Bordeaux is given by the DRC/First Growth ratio - dividing the average price of the six wines in the DRC index by the Liv-ex Fine Wine 50, representing the five First Growths. The ratio peaked in January 2019 at 9.83: one could buy almost ten bottles of a First Growth for one bottle of DRC. One year on, the ratio stands at 9.27, a 6% dip. Whether this points to a medium-term change in demand and price fundamentals is difficult to say. We have seen these wobbles before, but rarely for more than a year or so. One to watch.

Chart 13: DRC sub-indices: five years

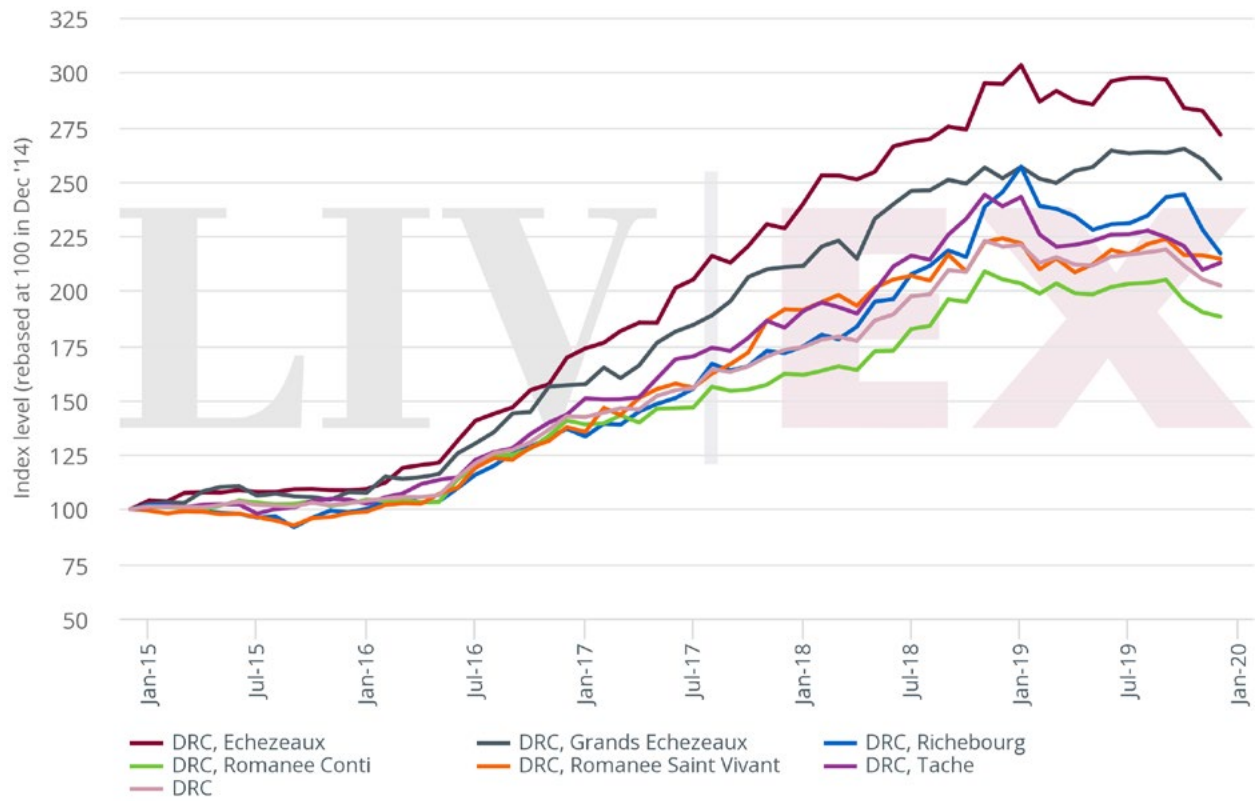
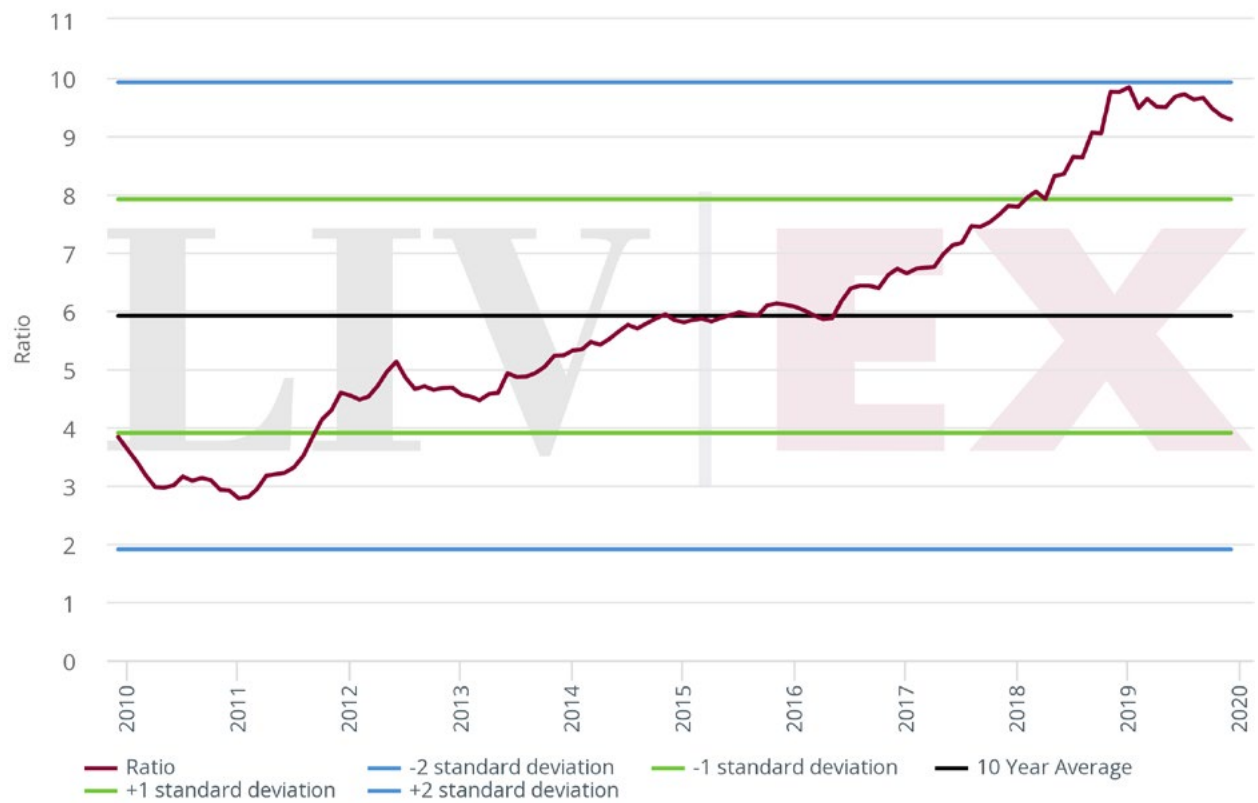


Chart 14: DRC vs First Growth Ratio



As discussed, the leap in Burgundy prices is not confined to the very top of the pyramid, but it is becoming increasingly evident all the way down to the bottom. The rise and rise of *Grand* and *Premier Cru* prices have exercised a pulling force on all wines from the region, making even the most affordable Burgundies less so. The entry-level wines (*villages*) of the region's better known domaines reflect this price inflation; *village* wines from Hudelot Noellat to Grivot, Cathiard, Taupenot-Merme, Leflaive, Sauzet and so on, have seen a near doubling of their release prices over the past decade. For the most sought-after growers, these *village* wines are, in extremis, even being allocated.

But there is increasing concern that price inflation is posing challenges at the *village* level. Classified wines of recognised quality from other regions (Bordeaux Third Growths for example) are available at, or even at a discount to many Burgundy *villages*. Anecdotal evidence suggests merchants are finding it increasingly difficult to sell the lower-level wines. And as the New World continues to up its game, merchants are looking to America, Australia, New Zealand and South Africa to source excellent but affordable Pinot and Chardonnay for their clients.

The Burgundy love affair, however, is far from over. Neal Martin argued in his 2018 vintage report that "the region fits the prerequisites of what consumers seek beyond intrinsic quality: the notion of place, terroir and, crucially, the human aspect of wine". Will storytelling prove more important than the wines and their prices? Considerations beyond the quality of the wines, from popular culture to death and generational change, are already shaping the Burgundy market.

Conclusion

The fine wine market has entered 2020 with [many headwinds](#) still at play, and many questions still unanswered. What we do know is that Burgundy benefits from its proven ability to tell stories: the notion of terroir (arguably originating from the region) and its wines produced by monks and trumpeted by the dukes of Bourgogne across Europe have enticed drinkers for centuries. Stories such as these and the new ones being written today are just as likely to be appreciated by the next generation of wine buyers.

Younger, more environmentally conscious buyers might also be looking to domaines focussing on sustainability, while old hands may look elsewhere as a changing climate increasingly impacts the style of wines produced. This is especially pertinent as Burgundy's shortened growing seasons clearly show evidence of changes afoot. Neal Martin questioned whether the 2018 and 2019 vintages would not eventually "be looked back upon as the first where global warming shaped the wines".

While prices for Burgundy's top wines fell in 2019, they have only come down a small way from a vertiginous peak. The region's trade share has been growing at a faster pace than ever before – an encouraging sign – as the pool of wines on offer has continued to expand. But liquidity remains a problem and one that is not in the gift of the growers to overcome.

The question of whether Burgundy will give way to other regions in the near future is unclear. There is certainly a lot of competition emerging from other Pinot and Chardonnay growing regions. And closer to home, relative value screams out from Champagne, the Rhone, Bordeaux and Piedmont. But for now, Burgundy retains its place as the fine wine collector's ultimate wine destination.

Press: Further information

For further information or comment, please contact Nicola Graham (nicola@liv-ex.com) on +44 (0)20 7062 8777.

About Liv-ex

Liv-ex is the global marketplace for the wine trade. We have over 475 members from start-ups to established merchants, and supply them with the services they need to price, source and sell wine.

Liv-ex exists to make the fine wine market more transparent, efficient and safe.

We publish the actual prices at which wines are transacted. Our platform contains over £60m of firm buying and selling opportunities in over 11,000 wines. All are available to trade in real-time. We conceived the Standard-In-Bond (SIB) contract to assure stock condition, delivery and faster payments and provide cost-effective logistics and storage solutions. Our APIs can automate much of this to further improve our merchant members' gross profits.

If you're a registered wine business and interested in Liv-ex membership, please [get in touch](#)³.

Background

Liv-ex, the London International Vintners Exchange, was founded in 2000 by two stockbrokers, James Miles and Justin Gibbs. It started with a group of 10 founding members in London, and a vision to make fine wine trading more transparent, efficient and safe. The founders believed that by creating an online exchange they could grow the size of the market for the benefit of Liv-ex's merchant members and everyone with an interest in fine wine. For more information, [click here](#)⁴.

3. nicola@liv-ex.com

4. <https://www.liv-ex.com/us/>