



**CRU
WINE**

Fine Wine Market Report

**Q3 2024
INVESTMENT
UPDATE**

2024 | OCTOBER

CRU WINE LIMITED

What has affected the global markets in Q3?

MONETARY POLICY SHIFTS

Recent monetary policy shifts in the US, UK, and Eurozone reflect efforts to balance cooling inflation with economic stability:

United States:

- The Federal Reserve reduced interest rates by 0.5% in September, marking its first cut since March 2020. This adjustment comes as inflation continues to decline, reaching 2.5% in August.
- The US economy appears to be on a path toward a "soft landing," where growth slows without entering a recession. Layoffs remain low, unemployment is stable, and robust retail sales data support economic resilience.

United Kingdom:

- The Bank of England lowered its interest rate from 5.25% to 5% in August, the first reduction in four years, to ease borrowing conditions.
- Inflation rose slightly to 2.2% in August, above the Bank's 2% target. Economic growth has been stagnant, but the labour market shows signs of improvement, with lower unemployment and stronger retail sales driven by summer spending.

Eurozone:

- The European Central Bank (ECB) reduced its deposit rate by 0.25% to 3.5% in September, following a decrease in inflation to 2.2% in August.
- The Eurozone's economy maintained a growth rate of 0.3% in the second quarter, though Germany's industrial sector faces challenges. Labor market conditions remain favourable, with a slight decrease in unemployment to 6.4%.

Central banks are adjusting interest rates downward as inflation eases, aiming to support economic stability while avoiding recession. The labour markets in these regions remain stable, providing a positive outlook for a balanced economic adjustment.





The Fine Wine Markets

In Q3, the fine wine market faced continued headwinds, with key benchmark indices trending lower. The Liv-Ex 100 and Liv-Ex 1000 declined by 3.8% and 2.7%, respectively, reflecting broader market pressures. Nonetheless, the Champagne 50 index emerged as a bright spot, posting a modest gain of 0.4%, building on the focus outlined in the Cru Q2 Investment Update.

Regional Price Performance			
Index	Q3	1 Year	5 Year
Liv-ex 100	-3.76%	-10.96%	7.63%
Liv-ex 1000	-2.7%	-12.15%	4.66%
Bordeaux 500	-4.37%	-12.34%	-3.75%
Bordeaux Legends 40	-1.79%	-10.97%	-2.36%
Burgundy 150	-2.32%	-15.26%	13.62%
Champagne 50	0.42%	-12.25%	37.76%
Rhone 100	-0.83%	-8.74%	-7.34%
Italy 100	-1.92%	-6.25%	21.51%
Rest of the World 60	-4.31%	-10.73%	-1.76%

A significant trend that was highlighted in our Q2 market report and carried into Q3 is the widening divergence between younger and older Bordeaux. The Bordeaux 500 index, which tracks younger vintages, declined by 4.4%, while the Bordeaux Legends 40, representing older vintages, saw a more moderate dip of 1.8%. This disparity underscores a disconnect between primary market pricing and the realities of the secondary market, where new release prices have yet to align with current market conditions.

Following the typical summer lull in the northern hemisphere, market activity rebounded in September. Trade volumes rose 12.9% from August, and the number of active buyers reached a seven-month high, suggesting that the recent price adjustments may be drawing increased interest. This uptick in participation hints at potential value opportunities in a recalibrating market.

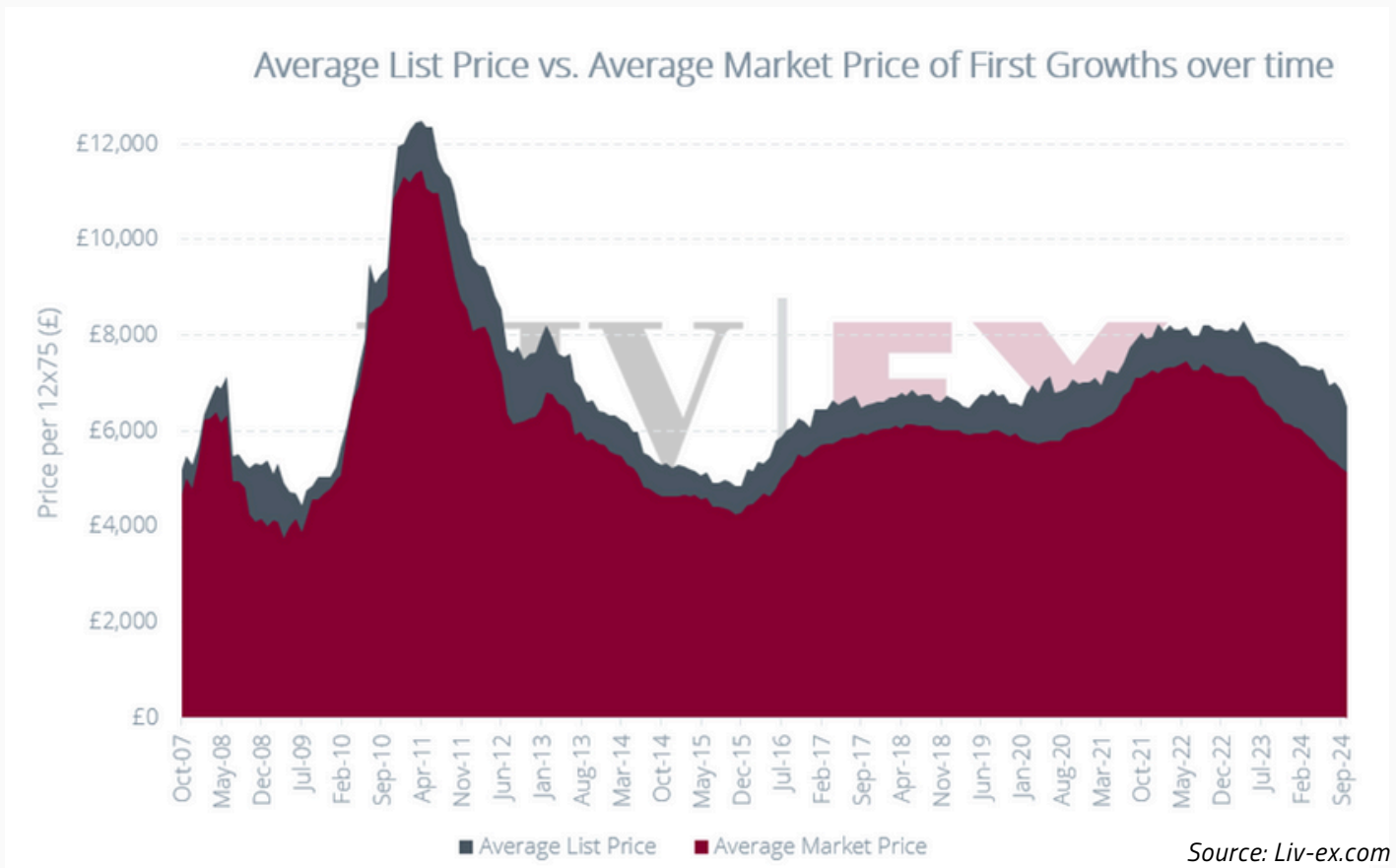
Justin Gibbs, CEO of Liv-Ex, highlighted the importance of this price adjustment phase: *"It would appear that merchants returned from their summer holidays and decided to adjust prices to the new market reality. Producers are behind the curve in this respect. But I see this ongoing adjustment as necessary and positive. The quicker the better IMO so we can clear stocks and build the foundations for recovery."*

His perspective underscores the importance of realigning prices to foster long-term market stability.

Despite increased trading activity, the broader market remains under pressure, with accelerated declines across all major Liv-Ex indices in September. High release pricing from Bordeaux remains a point of friction, staying well above current market levels. This ongoing disconnect between market participants signals that further adjustments may be necessary before a sustainable recovery takes hold.

Nonetheless, the recent market dynamics suggest a potential turning point as buyers adapt to evolving price conditions and begin to reengage.

Q3 Trading Overview



The graph above depicts the Average List and Market Prices for First Growth wines (excluding Château Latour) from 2005 onwards, capturing price movements influenced by scarcity. A key trend is the recent stability of List Prices, which has led to a wider gap between List and Market Prices during downturns—more pronounced than in past cycles.

Before 2018, List Prices were more responsive to market shifts. However, post-2020, factors such as economic stimulus and increased at-home wine consumption during the pandemic allowed List Prices to remain elevated even as the market corrected. As market conditions soften, this has shifted, putting pressure on merchants to adjust pricing strategies.

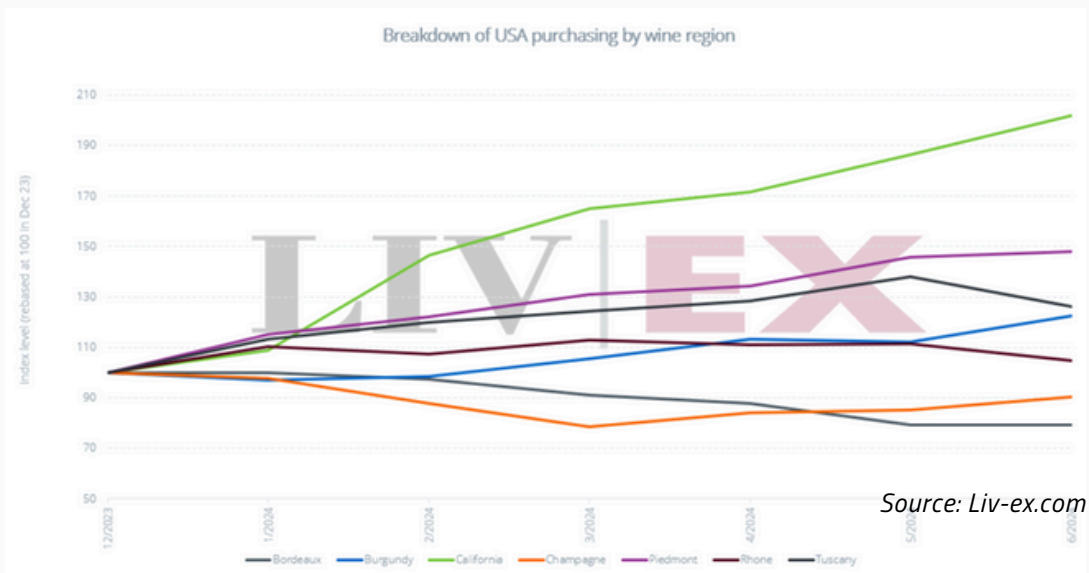
Historical precedents, like those from 2009 and 2011, show that List Prices often fall more sharply than Market Prices under competitive pressures. This trend is reflected in September's data, with List Prices declining by 5.1% versus a 1.5% drop in Market Prices—the largest narrowing of the gap since April 2021. This indicates that sellers are increasingly aligning their prices with buyer bids to remain competitive.

While the accelerated decline of the Liv-ex indices suggests ongoing market challenges, it also indicates a necessary adjustment. The narrowing gap between List and Market Prices has attracted more buyers, with the final week of September recording the highest number of unique buyers since February. This shows that demand persists at the right price, offering hope for a potential market recovery as adjustments take hold.



US Markets

A robust September U.S. Non-Farm Payroll report, with over 250,000 jobs added and a drop in the headline unemployment rate to 4.1%, highlights the resilience of the U.S. economy and diminishes concerns of a hard-landing recession. The dollar has strengthened against a range of currencies, including the British pound, making fine wine relatively more affordable in dollar terms.



In the first half of 2024, US buyers have increasingly turned to the secondary market for Californian wines, with the value of purchases more than doubling compared to the latter half of 2023. Although purchase volumes rose by 75%, the greater increase in value suggests a shift toward higher-end wines. This trend has solidified the role of US buyers as significant participants in this market; their share of total purchases has grown from just 5% in 2023 to 16.5% year-to-date.

Several factors likely contribute to this shift. The tight allocation of top Californian wines may make the secondary market appealing for its greater liquidity. Additionally, US buyers have benefited from lower international pricing, and a strong dollar has enabled them to purchase wines more affordably abroad. These conditions have combined to enhance US buyers' influence in the market for premium Californian wines.

As the U.S. economy strengthens and the dollar appreciates, demand for secondary market Californian wines is likely to rise. To capitalize on these favourable conditions, we recommend focusing on wines from Napa's top producers, such as Screaming Eagle, Dominus, and Opus One. These wines are currently trading at over a 30% discount from their previous peak, presenting attractive opportunities for savvy mid- to long-term investors seeking to leverage macro conditions at an attractive entry point.



Market Outlook - What we expect:

Fine wine, a luxury asset, can be influenced by macroeconomic factors such as interest rates and currency values. With both the FED (Federal Reserve System) and BOE (Bank of England) expected to make at least one further interest rate cut in 2024 as inflationary pressures ease and economic growth stabilises, this will provide a catalyst to the fine wine market as shown in our fine wine and interest rate report.

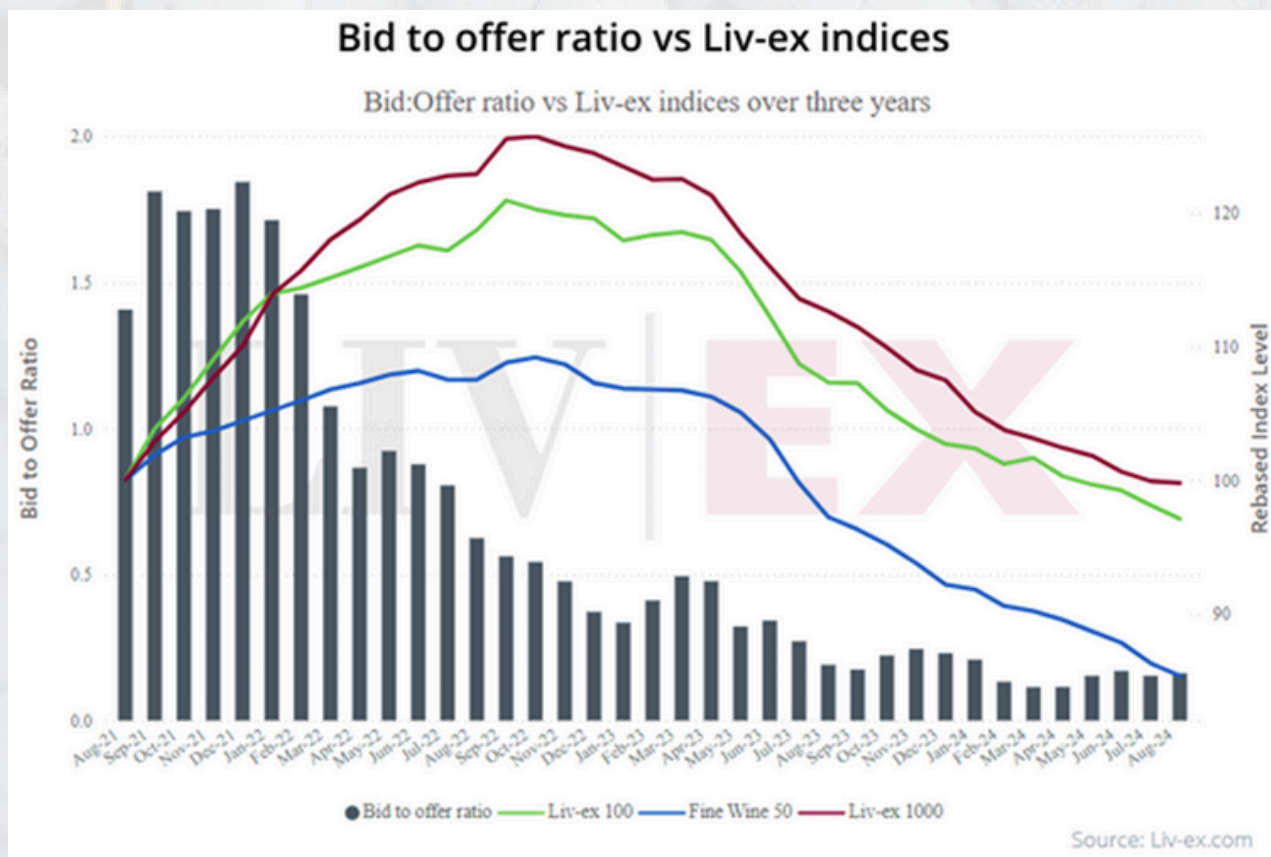
The Liv-Ex bid: offer ratio which compares the total number of bids to the total number of offers on the Liv-ex exchange, is one measure of market sentiment. When market participants believe prices will rise, they are incentivised to place bids. Given that market participants collectively determine price movements, widespread changes in confidence generally predate trends.

As we highlighted in Q2 the ratio remains relatively low historically however is gaining momentum from the March 24 lows. As highlighted in this report, the recent reduction in selling price has increased the number of bids on the market and could be the catalyst for market recovery.

The current buyers' market as highlighted by the low bid offer ratio provides a compelling entry point for investors who now have access to the top producers at heavily discounted pricing. We advise periodically buying the dip ahead of the next bull run.



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Who we are:

Established in 2013, Cru Wine was created with a vision to cultivate and enrich the fine wine buying, collecting and drinking experience through a straight-forward platform. Now comprising of a team of sommeliers, engineers, financial advisors and more, over the past 10 years, we've built a platform where we wish to pass on our vast knowledge to our clients, ensuring we use the best technology to make your fine wine and spirits collecting experience as seamless and transparent as possible.

We pride ourselves on building long-term relationships with our clients, formed through exceptional service, trust and our performance.



"Making collecting transparent, effortless and available to all."



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