



Analysis of the Latin American wine market

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## **The Newest Designer Labels... In a Glass**



2010 saw real evidence that a new phenomenon had arrived in the wine market: the rise of the new 'Style Label'. This phenomena had long threatened to expose itself but until last year stayed comfortably under most of the industry's radar. The resilience of the wine market shone through against the backdrop of a slow global economy. Last year's high demand for the 'Style Labels' - which include the most famous wines from France's Bordeaux region - meant that the top 100 most traded wines rose a whopping 40% in value according to the Liv-ex wine exchange in London - the sort of performance attributed to fast moving metals or perhaps oil in a shortage warning.

If most wines that the world produces never change in value and most fine wines deliver growth of 3% to 5% per year, how and why can a hundred special labels deliver a 40% ROI?

This statistic means that at the top end, fine wine prices are changing value at an astronomic rate, and the market offers an incredible investment opportunity for those with the know-how. The good news for the investor is that the sheer growth in volume of fine wine drinkers puts aside any notion that this is a fad and therefore a fragile investment opportunity. The scale of the appetite is led by those celebrating success in China, and it is passionately shared by new entrepreneurs across many other Asian economies (Asia's demand for wine grew 392% between 2005 and 2009 according to the trade event Vinexpo). The need to be entertaining and celebrating with bottle

names such as Lafite and Latour is just as important in other growth economies, specifically Russia, and many parts of Latin America.

We have just witnessed the proof of the growing demand from these markets. Earlier this year, Sotheby's New York, a 'very intimate' Fine Wine auction, achieved US\$2,294,040. Two of the top ten wine labels, both from Bordeaux's Graves Appellation, confirmed that the demand for the prestigious labels will be as strong this year as last - a case of Haut-Brion 1982 made \$15,730 (from an estimate of \$7,000-\$10,000) and \$15,730 was also tabled for a case of La Mission Haut-Brion 1989. Jamie Ritchie, Senior VP at Sotheby's said: "There was fierce competition throughout the sale, particularly from Asian, Brazilian, Mexican and US bidders." No surprise there.

Charlie Martin, Managing Director of First Growth Bordeaux (FGB), tries to simplify the price push. "We have new ultra brand conscious, ultra rich people fighting for the same wine brands, and certain Chateaux have become their 'must have's' in the same way that certain fashion labels offer a status and kudos. The price on these wines are rocketing because supply is fixed. Imagine if Gucci only made 5000 luggage sets a year. What price would they be sold at?"

Historically, there were three equally important factors that someone buying one of the world's most expensive wines would consider before making their purchasing decision: the vintage, the Chateau and the price. The latter, however, has become far less important because of two points: one - the fast money being earned in developing markets is on such a scale that many of the worlds new millionaires (850,000 in the case of China) are marching quickly to becoming billionaires, and two - they are buying more for the image that wine affords than for the pure enjoyment of its attributes. It is the embellished social and corporate image that a fine bottle of Chateau Margaux can offer which means that the price, at whatever level it may be, is worth paying for this consumer.

The idea that some of the wines could have been predicted to achieve such performance last year is interesting. There are some labels that have the traditional status of being the best, the five First Growth Chateaux, plus Petrus, La Mission Haut-Brion, Le Pin, Cheval Blanc to name the old school. Looking at China, there are new popular labels that have recently been backed by investors and are on the price rise because they symbolically appeal to the local market. [Chateau Angelus](#) is known as 'kin chung,' after the golden bell on the wine's label, an association that boosts its sales according to co-owner Jean-Bernard Grenie. Chateau Calon Segur sports a heart on its label and is often given as a token of affection; whereas, [Chateau Beychevelle](#) is referred to as 'Longchuan' or 'Dragon Boat' because its label features a boat with a griffon. The demand for these wines is booming. Moreover, the winemakers are happy to tweak their packaging to reinforce a wine's relevance to the Chinese market. Though 2008 was not a stellar vintage, Chateau Lafite Rothschild, in a brilliant marketing move, actually placed the Chinese character for the number "8", which is a

very auspicious number in China, front and centre on their bottle. The result was a doubling in value and the selling out of all of the bottles of Lafite from a vintage that promised to be difficult to sell. (The Chinese are fiercely attached to symbolism and superstition, and regard the number 8 as an auspicious number because it sounds like the word "wealth" in Chinese. The Chinese government chose the most auspicious date of all to schedule the opening ceremony of the 2008 Olympic Games in Beijing - August 8, 2008 (8-8-08) at 8:08 p.m. This was also an extremely popular date for weddings).

What then is the next opportunity? Lafite is probably the most popular brand (such is its prestige that even buying the second wine made at the Chateau - "Carruades" – is a wise investment), and the question is which Chateau could emulate its success. No one in the wine trade knows, but it is believed that visuals could continue to be the driving force. FGB's Martin suggests, "Of course China needs to be watched but Brazil or India may hold the keys, if we could predict their future wine of preference we should be buying it today!" He seems to have a point. India is currently fifth in consumption in the Asian region but is by far the fastest growing country - consumption increased 327% between 2004 and 2008 and is expected to increase a further 97% by 2013, faster than China.

Wherever there is a new trend, there is normally an investment opportunity as long as it doesn't carry the hallmarks of a fad, and global figures for wine consumption erase any such thought. The wine investor should definitely see the current market as a time to buy but should spend a moment to research the up-and-coming labels and vintages to invest in. In the first week of April, the wine industry will descend to Bordeaux to examine the quality of the 2010 vintage. If reports are positive, then it will be one to buy. Perhaps more crucially, the week may reveal the hot new labels: those Chateaux that have the Chinese and Latin American buying teams swarming around their barrels are likely to find their order books full within the month.

**Here is FGB's own 'Lucky 8' of Style Label tips to watch, all well under \$3000 per case and rising:**

Duhart Milon  
Lynch Bages  
Clerc Milon  
Pavillon Rouge  
Pontet Canet  
Beychevelle  
Petit Mouton  
Pauillac de Latour