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Marchés du vin et cultures de consommation

The Chinese demand for fine wines

La demande Chinoise pour les vins fins

15 December 2021.

Eric Le Fur

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PREO

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Definition of a fine wine
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Definition of a fine wine

- In academic literature, there is no precise definition of a fine wine.
- Investable fine wines are restricted to the 25 best Bordeaux wines and a minority of wines from other regions (Australia, Burgundy, California, Italy, Portugal, Spain) (Milner, 2011).
- These wines can be sold in well-known auction houses.
- They have achieved a kind of 'blue chip' status.
- About 90% of Liv-ex turnover is from Bordeaux wines and more than half of it is concentrated on the five first growths.

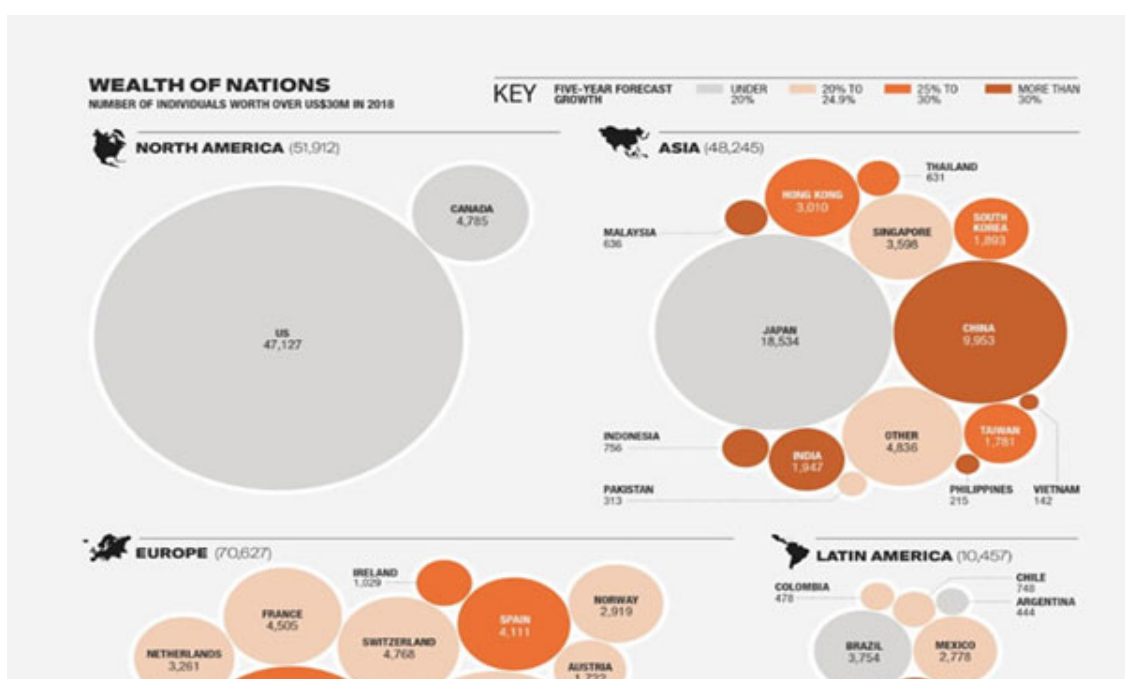
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- Fine wine is an investment with a potential return, as opposed to a non-fine wine that they name a “normal wine”¹.
- See the literature review of the dynamics of the fine wine returns².

Importance of Asian and Chinese wealth

- According to Knight Frank's 2018 Annual Report on Global Wealth, wealth creation has been dominated by emerging economies, particularly Asia.
- The highest population net worth growth rates in 2017 were recorded by China (14%), India (9%) and Singapore (8%).
- In absolute terms, China experienced the second largest increase in the number of wealthy households, with an increase of nearly 46,000 households in one year, i.e. 373,000 wealthy households, almost as many as Germany (375,000).
- There are 207,350 households in China with more than US\$5 million in 2017, a 96% increase between 2012 and 2017, compared to 56% in India, 43% in Hong Kong, 41% in Korea and 5% in Singapore.
- In Asia, there are 686,820 households with more than US\$5 million in 2017, an increase of 39% between 2012 and 2017.

Figure 1.



China's Wine Market Consumer Preferences

- Several factors explain the increased interest in fine wines and the increase in their consumption in China.
- Increased economic and political openness has led the population to adopt Western lifestyle traits.
- At the same time, Chinese government policies have changed consumer behavior by promoting a healthier consumption of red wine than traditional rice wine.
- Finally, better education and higher incomes have led to the emergence of a new well-off and educated class that likes good wine⁵.

Figure 4.

Main Reason for Drinking Wine, by City

(% of respondents)	Overall	Beijing	Shanghai	Guangzhou	Chengdu	Wuhan	Shenyang	Nanjing	Harbin	Suzhou	Yantai
Health needs	77	80	78	79	78	76	76	82	73	72	69
Change in preference, likes taste of wine	53	58	50	54	51	42	58	49	58	54	60
Socialise	51	44	48	51	50	58	46	58	50	55	48
Embodiment of quality life	48	47	54	50	49	44	47	42	48	50	51
Beauty	45	44	45	39	45	49	49	43	42	46	46
Trendy, more and more people drink wine	26	26	24	27	27	30	24	25	28	25	27

Brief literature review?

- Only one paper on this topic.
- Masset, Weisskopf, Faye, Le Fur (Emerging Markets Review, 2016⁶).

- Between 2008 and 2014, fine wines are on average sold at 19% more expensive at auctions in Hong Kong than in other major markets around the world.
- This premium is not uniform and is more pronounced for wines with perfect Parker scores and the most famous châteaux.
- However, the premium decreased throughout the estimation period indicating the increase in Chinese knowledge of fine wines.
- In addition, fine wine is an interesting alternative asset for wealthy Chinese as well as a popular consumer good (See Outreville and Le Fur (2020⁷) for a literature review of the hedonic price functions and wine price determinants).

Database

- Auction sales in Hong Kong over the period April 2013–September 2017
- Acker Merall & Condit, Bonhams, Christie's, Sotheby's, Zachy's Wine
- 5 First Growths: Haut-Brion, Lafite Rothschild, Latour, Margaux, Mouton Rothschild
- Bottle standard
- 6,832 sales and 84,808 bottles representing more than 50 million US dollars.
- 84% are sold in original wooden case that guarantee the authenticity of the bottles.
- We are looking to determine how the demand for Bordeaux fine wines in Hong Kong has evolved since the 2012 financial crisis.
- We only use vintages since 1945. Only standard bottles are retained representing sales, bottles and a total of more than US dollars.
- The most expensive bottle is a 1945 Mouton Rothschild sold at Sotheby's in January 2015 for \$47,775.

Observations and average

- The average price over the entire study period was \$734.
- The first graph compares the average annual prices of all sales and those of the first 5 First Growths.
- The second graph shows the number of sales made each year (2013 and 2017 being partial).
- The other graphs present prices by chateau as well as by vintage.

Figure 5.

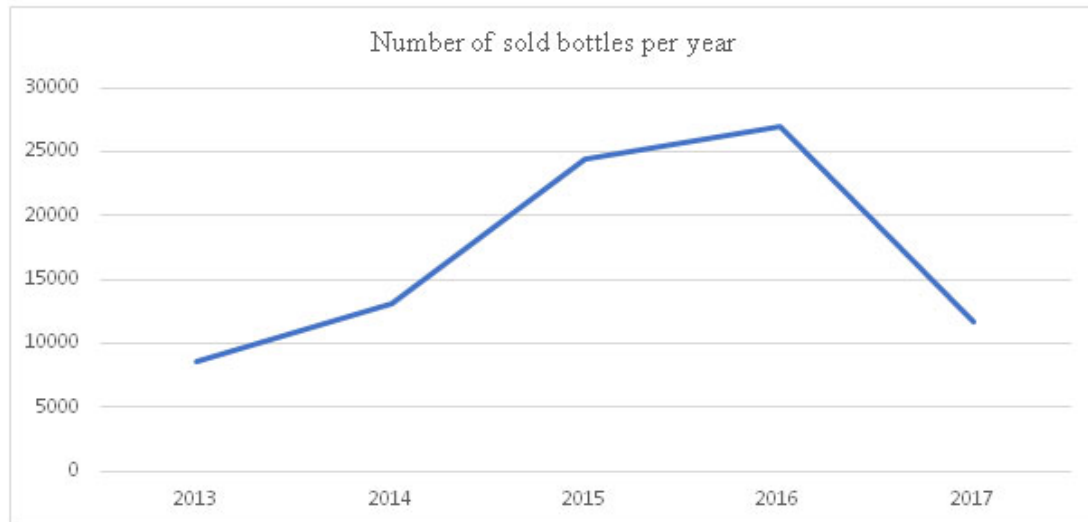


Figure 6.

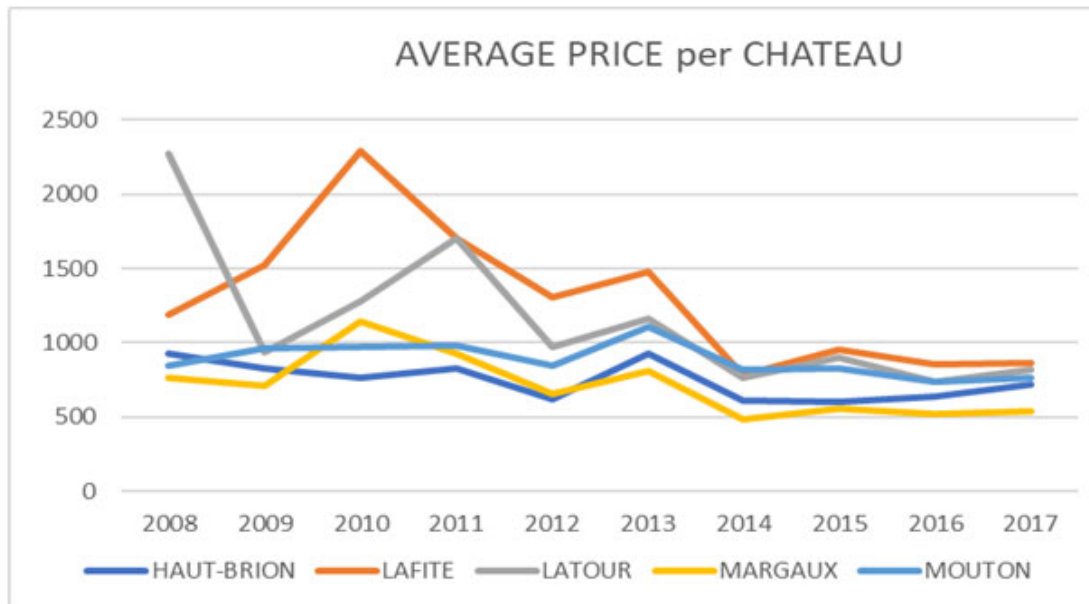


Figure 7.

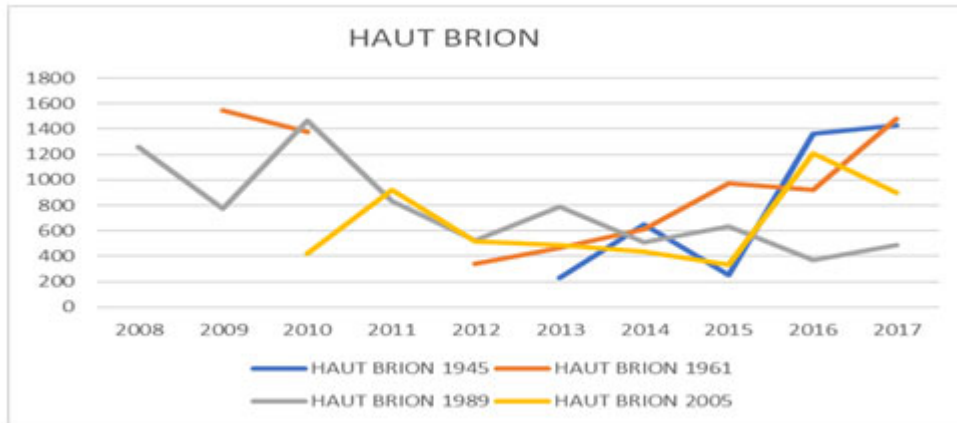


Figure 8.

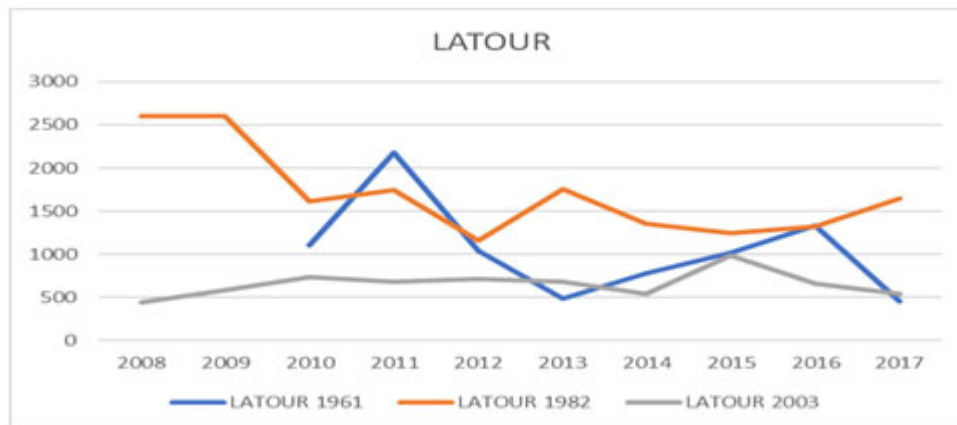


Figure 9.

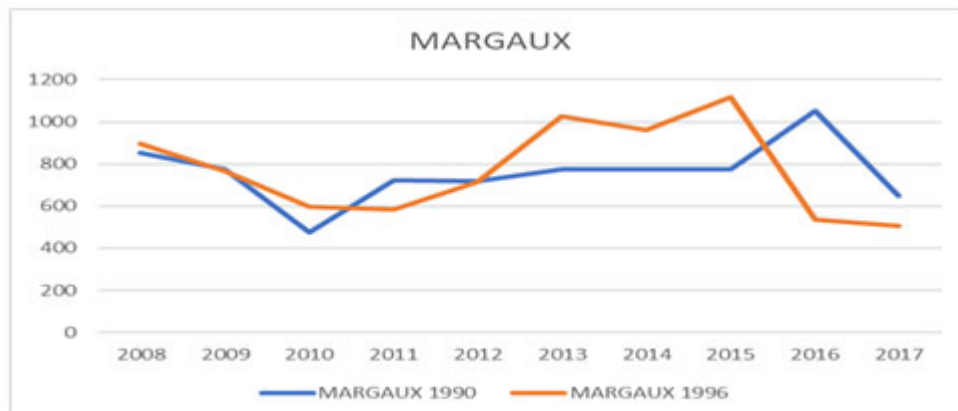


Figure 10.

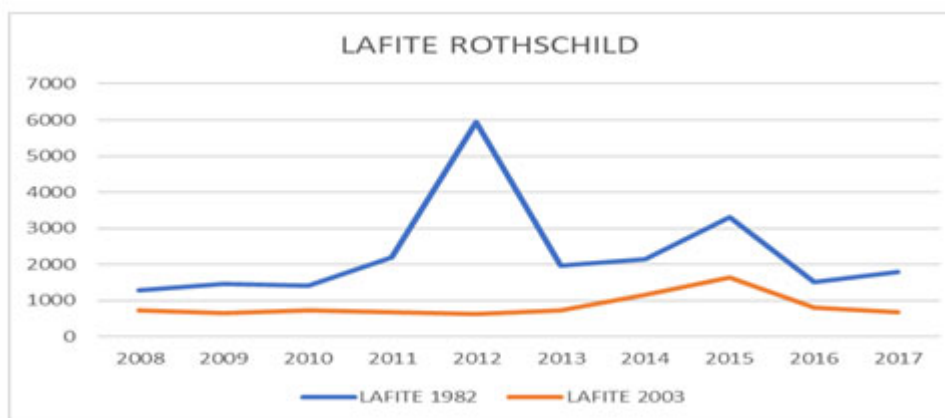
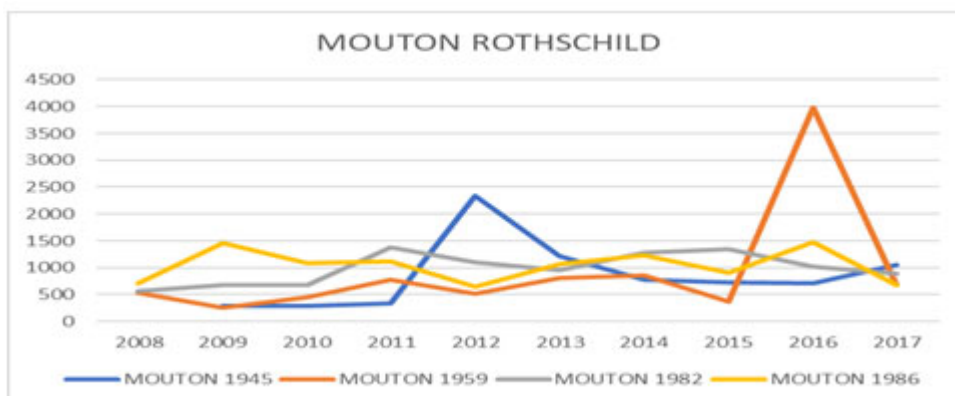


Figure 11.



Conclusions

- Sales and average prices of Bordeaux fine wines have declined in recent years, certainly to the benefit of other regions (Burgundy, Rhône, Italy, California, etc.) and/or other assets.
- However, with the exception of a few vintages, the prices of the wines with the highest ratings are generally stable over time.
- We can conclude that there is also a better knowledge of the fine wine market by Chinese investors

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- 1 L. Baldi, M. Peri & D. Vandone, “Investing in the wine market: a country-level threshold cointegration approach”, *Quantitative Finance*, 13(4), 2012, p. 493-503 ; S. Introvigne, E. Bacchiocchi and D. Vandone, “A cointegration analysis of wine stock indexes”, *Risk Governance and Control: Financial Markets & Institutions*. 7(4-2), 2017, p. 178-188.
 - 2 E. Le Fur and J.F. Outreville, “Fine Wine Returns: A Review of the Literature”, *Journal of Asset Management*, 20(3),2019, p. 196-214.
 - 3 Barclays, *Profit or Pleasure? Exploring the Motivations Behind Treasure Trends*, Wealth Insights, London, Barclays, 2012.
 - 4 J. Milner, “The Fine Wine Investment Market - an inside View. Liv-ex”, 2011, Available at: <http://www.blog.liv-ex.com/2011/11/the-fine-wine-investment-market-an-inside-view.html>. (accessed 12 december 2014).
 - 5 B. Sun. *National Wine Market People’s Republic of China*. U.S. Department of Agriculture, Foreign Agricultural Service Gain Report Number CH9808, 2009.
 - 6 P. Masset, J.P. Weisskopf, B. Faye & E. Le Fur, “Red obsession: the ascent of fine wine in China”, *Emerging Markets Review*, 29, 2016, p. 200-225.
 - 7 J.F. Outreville & E. Le Fur, “Hedonic Price Functions and Wine Price Determinants: A Review of Empirical Research”, *Journal of Agricultural & Food Industrial Organization*, 2020

English

In this presentation, we analyze the Chinese demand for fine wines. First of all, we present what the academic literature says about the definition of fine wine. Then, we show the importance of Asian and especially Chinese richness. These wealthy households are willing to invest in luxury assets and particularly in fine wines. In this context, we also present consumer preferences in the Chinese wine market. Although Chinese demand for fine wines is growing, there is almost no academic literature on this subject. Next, we present our database of the five first growths of Bordeaux over the 2013-2017 period. The first exploratory statistical analyses indicate that the volumes traded are important and that the average prices of the different wines seem to evolve in a similar way. The Chinese auction market for fine Bordeaux wines seems to have been dynamic over the period studied.

Français

Dans cette présentation, nous analysons la demande chinoise en matière de vins fins. Tout d'abord, nous présentons ce que dit la littérature académique sur la définition du vin fin. Ensuite, nous montrons l'importance de la richesse dans les mondes asiatiques et surtout chinois. Ces ménages aisés sont prêts à investir dans des biens de luxe et notamment dans les vins fins. Dans ce contexte, nous présentons également les préférences des consommateurs sur le marché chinois du vin. Bien que la demande chinoise de vins fins soit en augmentation, il n'existe pratiquement aucune littérature académique sur ce sujet. Ensuite, nous présentons notre base de données sur les cinq premiers crus de Bordeaux sur la période 2013-2017. Les premières analyses statistiques exploratoires indiquent que les volumes échangés sont importants et que les prix moyens des différents vins semblent évoluer de manière similaire. Le marché chinois des enchères de grands vins de Bordeaux semble avoir été dynamique sur la période étudiée.

Mots-clés

demande chinoise, vin fin, gestion de patrimoine

Keywords

chinese demand, fine wine, wealth management

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