

Bordeaux 2020: which economic dosage for the vaccine vintage?

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In Bordeaux, each year follows an immutable rhythm, or almost. The two high points are the harvest of the latest vintage at the end of the summer, followed by its release the following spring during the "en primeur campaign". This campaign is itself well-oiled: tastings occur in March/April; the experts' scores are given towards the end of April – they "reveal" the overall quality of the vintage and its wines; then the châteaux announce the sale of their vintages. In Bordeaux, there is a hierarchy to respect. In principle, the small châteaux are the first to be put up for sale. The more highly rated châteaux progressively join them. These "first movers" benefit from better visibility – the big names are not yet on the market to overshadow them. Still, above all, they contribute to dissipating the uncertainties on the state of demand. They help the following producers to determine the price at which to sell their wines. The campaign reaches its climax when the most sought-after châteaux are put on the market. Once the campaign is over, it takes about 18 months for the wines to finish maturing, be bottled, and delivered to clients.

These explanations show a finely organised system, but one that is nevertheless subject to significant sources of uncertainty, which stem from the fact that the en primeur sale is on an unfinished product. Only wines in the process of maturing are tasted and rated by a limited number of experts. The final quality can only be estimated – possibly with a bias reflecting the experts' preferences in question. A few years ago, this was referred to as "Parkerisation", referring to wines vinified in a style aligned with the preferences of Robert Parker (who was the "guru of Bordeaux" before his retirement in 2014) who rewarded them with high scores. Economic and market conditions are also likely to change between the en primeur sale and physical delivery. In practical terms, this means that the question of the fair price at which a wine should be sold on the en primeur market is fundamental (as it determines the success, or lack of it, of a wine) but a difficult one to answer.

This article aims precisely to analyse the current state of the market, estimate reasonable release prices for various wines using the Masset & Weisskopf (2021) model, and identify a few wines that deserve special attention.

The 2020 vintage follows an extraordinary decade for Bordeaux

Before diving into the 2020 vintage, it's worth examining what has happened in recent years. Eleven years ago, in the wake of the financial crisis, the 2009 vintage was released, followed by the 2010 vintage. These are remarkable vintages, but 2009 sold much better because its successor suffered from excessive price rises.

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Bordeaux then entered a correction period (with prices falling by up to 30% or even 50% on specific references) which concluded five years later. Various factors (economic, political, but also internal to the wine market with rebalancing between wine regions) explain this correction. Still, the rebound from 2016 owes much to the impetus offered by a new great vintage, 2015. This was followed by an even bigger 2016. Prices rose substantially but without excess. Bordeaux did not repeat the mistakes of the 2010 vintage, phew! Then, 2017 was marked by frost. Lower quantities encouraged châteaux to maintain prices close to 2016 despite the lower quality. In Bordeaux, demand and, therefore, prices depend mainly on quality and not so much on quantity. The 2017 primeur campaign was thus unsurprisingly characterised by poor sales. The 2018 vintage, sold as exceptional, saw, sometimes significant, increases even though prices were already starting from a level that was very, if not too high. While the quality could and should have generated solid demand, this was not the case – the fault of châteaux that were too greedy. This little historical review illustrates the volatility of prices, demand and success of the marketing of Bordeaux wines.

Last year, the pandemic and the lockdowns almost led to the cancellation of the en primeur campaign for the 2019 vintage. But in the end, the improvement of the sanitary and economic situation at the beginning of the summer of 2020 made it possible to organise a delayed and somewhat shortened campaign. Thanks to the once again exceptional quality and much more reasonable prices, it was a success. In the end, the pandemic forced the châteaux to make an effort on prices while giving them an excellent excuse to do so. Here lies the paradox: prices had to be lowered to ensure a successful campaign while being careful not to send too strong a signal to the market at the risk of making the many wines of 2017 and 2018 still available unsellable. The strategy chosen was to put limited quantities on the market at attractive prices. This has been a success.

Back to normal?

The 2020 vintage is benefiting from more favourable external conditions than its predecessor, but it is difficult to speak of normality as uncertainty remains high. This year, the tastings took place remotely with samples sent by the châteaux to experts worldwide. Video conferences between tasters and producers accompanied this to discuss the vintage. This environment certainly has its advantages from an analytical perspective, but it is not usual and requires adaptation from the experts. Moreover, restaurants are just getting back to business, and economic uncertainty is still high – in 2020, it was about the recession. This year it is about the strength of the recovery.

In summary, we know that the economic situation has improved over the past 12 months, prices for fine wines have remained strong, and the quality of the 2020 vintage looks excellent, albeit relatively heterogeneous. Climate change is playing a role. As Jean-Marc Quarin notes, "the climatic temperance praised in Bordeaux for its positive effects on the slow ripening of the grapes and the development of their aromatic and tannic complexity, is increasingly being undermined here". The great terroirs are doing very well. For the others, the result is more variable. Therefore, there will be some excellent wines that will be the object of all the market's attention at the time of their release. On the other hand, we don't know how the market will react to this unique succession of three excellent vintages in a row. This is unprecedented and naturally leads to the question of the market's capacity to absorb such a considerable volume of grands crus so quickly. And then, there is the question of the inter-regional balance within the wine market. Between 2011 and 2016, Bordeaux experienced a price contraction while Burgundy prices soared. Since 2018, Burgundy prices have been stable or decreasing, while Italian wine prices (Piedmont and Tuscany) have been rising strongly. We are clearly in a rebalancing phase, and it is legitimate to ask ourselves if this could be favourable to Bordeaux. In other words, is the "Bordeaux bashing" phenomenon over?

How to determine the fair price?

In a recent article, we propose a model to estimate the fair price of wines at the time of their release. The approach is based on the basic principle that prices on the primary and secondary markets cannot diverge durably. In the case of wine, the primary market is called "en primeur" and corresponds to the moment when châteaux first put their latest vintage on sale. The secondary market refers to transactions that take place later and do not necessarily involve the châteaux. An example of this would be a négociant selling a few cases of a wine from a previous vintage to a merchant. To follow the evolution of prices on the secondary market, we use the *Liv-ex 100* index, which is considered as the reference for the fine wine universe. Our model also includes variables measuring the economic situation and the quality of the vintage to determine the general level at which a vintage's prices will be at the time of their release on the "en primeur" market. To predict the price of individual wines their respective quality and volatility (some wines have relatively stable prices while others fluctuate strongly with the vintage) must be taken into account.

We calibrate our model based on 69 wines from the 2004 to 2018 vintages and use it to estimate the release prices of the 2019 vintage. The model delivers statistically robust results explaining 84% of the observed variation in release prices. They are also economically relevant as the wines that appear too cheap based on the model are also the ones that sold best, and vice versa. Here we extend our analysis to the new 2020 vintage. We also use a slightly more parsimonious version (fewer explanatory variables) of the model to facilitate its presentation. This does not significantly influence the quality of the results since the model used here retains an explanatory power of almost 80%. Table 1 presents the qualitative results of the analysis and comments on them. The variables are grouped into two categories, the first ([1a] to [1d]) capture the general effect on vintage prices, while the second ([2a] to [2e]) predict the prices of individual wines.

Table 1: Presentation of the key results of the model estimation

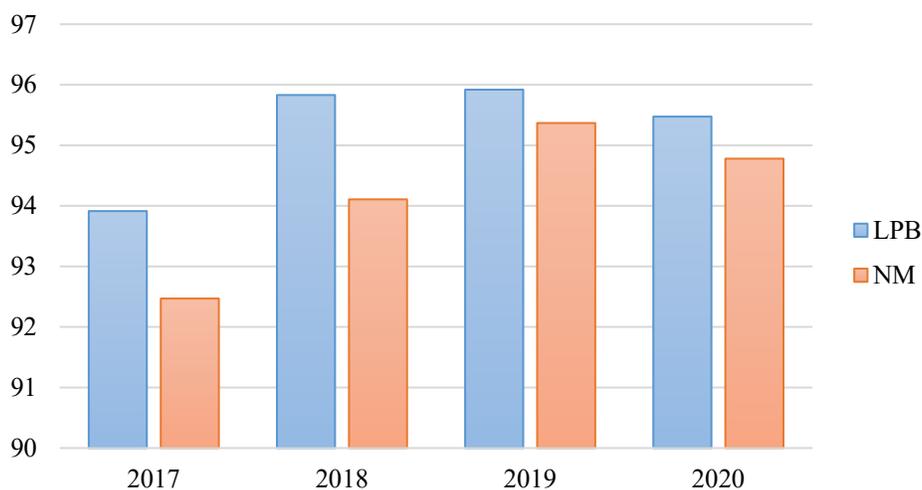
Variable	Effect and comment
[1a] Liv-ex yield since the previous vintage	Positive effect: a 10% increase in Liv-ex leads to an increase of almost 5% in the primeur prices.
[1b] Quality difference between current and previous vintage	Positive: a better vintage than the previous one leads to an increase of 3% (slight quality difference) to 17% (huge difference) in the en primeur prices.
[1c] Current vintage = Excellent?	Positive: if the current vintage is excellent, the primeur prices rise by about 20%.
[1d] Previous vintage = Excellent?	Negative: if the previous vintage was excellent, the en primeur prices of the current vintage fall by about 20%.
[2a] Difference in quality of a particular wine compared to the previous vintage	Positive: a score 1 point higher than that of the same wine in the previous vintage leads to a price increase of about 4%.
[2b] Interaction between [2a] and the quality ranking of the same wine in the previous vintage	Negative: wines that were less well-rated in the previous vintage benefit more from a better score than those already well rated.
[2c] Score of a particular wine that is potentially perfect in the current vintage	Positive: a potentially perfect wine (score of 100/100) in the current vintage sees its price increase by about 5%.
[2d] Score of a particular wine that was potentially perfect in the previous vintage	Positive: a potentially perfect wine in the previous vintage still sees its price increase by about 5% in the current vintage.
[2e] Interaction between [1a], [1b] and the price level of a particular wine in the previous vintage	Positive: wines that were most expensive in the previous vintage are also most sensitive to a change in the general conditions of the current vintage (quality and/or market dynamics relative to the previous vintage).

Table 1 shows that it is not possible to analyse a particular wine or even a vintage as a whole without putting it into a more general context. The quality of the vintage, but also of its predecessor, plays an important role. The evolution of prices on the secondary market from one year to the next also directly impacts release prices. At the individual level, an increased score compared to the previous vintage can support higher prices, especially for wines that were previously not among the best. Finally, some wines – typically the more expensive ones – tend to be more sensitive to these various variables. In financial terms, we would say that these are "high beta" wines in the sense that they react more strongly to both upward and downward movements than less expensive wines.

Model predictions for the 2020 vintage

Before looking at the model's price predictions, let's start by looking at the scores for the 2020 vintages. Bordeaux has many active experts, but the ones with the highest overall visibility are undoubtedly Lisa Perrotti-Brown (LPB, The Wine Advocate – she is taking on Robert Parker's role until his retirement) and Neal Martin (NM, Vinous). Figure 1 shows the average scores of the 69 wines considered in the sample over the 2017, 2018, 2019 and 2020 vintages. There is little debate that 2017 ranks behind the other three vintages for both LPB and NM. For both experts, the best vintage is 2019. Secondly, LPB ranks 2018 better than 2020, while NM has the opposite opinion. This reflects the stylistic differences of these three vintages, with 2018 being the warmest and 2020 the coolest. NM has a strong preference for Bordeaux wines in a classic style, and with not too much alcohol, so it is not surprising that he places 2018 behind 2020. All in all, we can conclude that among the most renowned wines of Bordeaux, we are dealing with a trilogy of great vintages, with 2019 emerging as slightly better. Let's also consider the "outsider" châteaux. 2018 appears to be more homogeneous than the other two vintages, which have favoured the best terroirs and the châteaux with the greatest financial and technical resources.

Figure 1: Average score by expert



The model suggests that a stabilisation of prices relative to the previous vintage (2019) would be reasonable in terms of prices. However, the model uses the previous vintage as a reference and therefore implicitly assumes that it was offered at appropriate prices. To examine the impact of this implicit assumption, we

have repeated the exercise using 2018 as the benchmark. As this vintage was offered at much higher prices than 2019, the results are significantly different: in this case, the model suggests that prices should increase by 17% compared to 2019 (which corresponds to a 6% decrease compared to 2018). Given that 2019 sold very well even though 2018 is considered a relative commercial failure, it seems that 2019 is a better reference point. In summary, the model suggests that the price increase relative to 2019 should be between 0% (when 2019 is used as a benchmark - this vintage seems to have been realistically priced itself) and 17% (when 2018 is used as a benchmark - but this vintage was most likely too expensive). Overall, and given the particular circumstances surrounding the release of the 2019 vintage, a stabilisation or even a slight increase (in the order of 5% to 10%) in prices over 2020 compared to 2019 would be logical.

Table 2: Price analysis of wines already released (as of 7 June 2021)

Château	Expected price	Effective price	Difference (in %)
Angélus (S-Em., 1A)	287.3	295.0	3%
Beychevelle (S-Ju., 4GCC)	61.1	67.4	10%
Branaire (Ducru) (S-Ju., 4GCC)	32.3	36.4	13%
Canon-La-Gaffelière (S-Em., 1B)	54.1	63.0	16%
Domaine de Chevalier (P-L, CC)	46.3	54.6	18%
Gazin (Pom., NC)	57.7	65.0	13%
Kirwan (Marg., 3GCC)	30.4	34.8	14%
la Mondotte (S-Em., 1B)	112.1	154.0	37%
Lagrange (S-Ju., 3GCC)	34.4	41.2	20%
Lascombes (Marg., 2GCC)	52.5	57.4	9%
Léoville-Barton (S-Ju., 2GCC)	58.9	70.6	20%
Malartic-Lagravière (P-L, CC)	30.7	33.6	9%
Pavie (S-Em., 1A)	286.6	280.0	-2%

Table 2 shows the fair release price – according to the model – and the difference with the actual price for wines released before 7 June 2021. The prices are expressed in Euros and exclusive of tax. All but one wine were released at prices higher than the model predicts. However, the differences are often reasonable. There are nevertheless some wines that seem very expensive, notably La Mondotte or Léoville-Barton and Lagrange. That said, in the case of the former, it is a wine whose price had fallen very sharply last year, so we can detect a desire to make up for it with a marked increase in the 2020 vintage. Knowing that it is still possible to buy 2019 at a lower price than 2020, one can wonder if the market will accept this price hike. This question seems all the more legitimate as some wines that had drastically lowered their release price last year have not increased much this year. This is the case for Malartic-Lagravière, which, after a drop of more than 20% last year, is content with an 8% increase this year. The model suggests that this increase is already excessive, but as discussed above, a deviation of 5% or even 10% from the model's predictions can be justified given the particular circumstances surrounding the last vintage – which serves as a reference in the analysis.

At this stage, most of the price increases for the 2019 vintage remain moderate. This is consistent with the model. The model suggests that the most significant increases relative to the 2019 vintage should not exceed 10%, and only for a few wines such as some rare Pomerols (in particular Vieux Château Certan), some first

growths (Château Haut-Brion) and the great successes of the vintage (Smith Haut-Lafitte). Of the wines already released, some have increased their prices beyond this threshold, with early signs suggesting that these increases are excessive and have reduced demand for these wines. With the influx of great vintages in Bordeaux and elsewhere in Europe, it would be wise for the chateaux yet to be released not to be overly greedy and maintain attractive prices to ensure a successful campaign. This would be the best way to bring back the interest of the market towards Bordeaux.

Some thoughts on which wines to follow first

In recent years, buying en primeur has become less attractive. The market has become more financialised with the arrival of investors, and châteaux have sought to keep as large a share of the profits as possible. As a result, opportunities have become more challenging to identify. But they still exist. In general, the key lies in the ability to identify wines that are on a favourable trend (rising quality and reputation), are still reasonably priced and seem to have done remarkably well in their vintage. In the 2015 vintage, Château Canon was the perfect example of this approach. It came out at less than 70 Euros and is now trading at over 200 Euros. This year, the reviews and scores suggest that Chateau Canon could again be one of the most exciting wines of the vintage. Here are five more wines worth buying if they remain reasonably priced (and therefore close to the 2019 vintage):

- Trotanoy: consistently excellent and rare – which ensures a favourable supply/demand ratio for its owners.
- Mission Haut-Brion: often interesting in great vintages because initially less expensive than its neighbour Château Haut-Brion.
- Figeac: it is approaching the top and could soon be promoted to 1er Cru classé A.
- Smith Haut Lafitte: it could repeat the "coup" of 2009 when Robert Parker awarded it 100 points.
- La Gaffelière: it remains a bit in the shadows but progresses with each vintage – the time will come when Antonio Galloni (who runs *Vinous*, one of the most influential publications in the wine world) who likes this wine a lot will give it 100 points.

Reference

Masset, P., & Weisskopf, J.-P. (2021). At what price should Bordeaux wines be released? *Economics Inquiry*, forthcoming.