Wine valuation and the global economy - Abstract

The motivation of the subject is coming from the observation that there is a close correlation of key economic indicators and wine price valuation. The paper therefore discusses the main economic support factors of the wine industry in the past years and possible outcomes for the future. Wine and particularly fine wine has become a widely recognized asset class among others like equities, bonds, properties, commodities, art, etc. In addition to this development, natural demand for wine has increased significantly due to the emergence of new and large economies like China, India, Brazil and Russia, while supply and inventory levels are relatively declining. This indicates that prices for wine and especially for the fine wine market are increasingly dependent on the development of the global economy, which could be considered as the core parameter for currently driving demand. Hence wine valuation is assumed to correlate with global economic growth patterns and economic indicators. This dependency should be analyzed in this thesis. Furthermore an approach should be outlined to allow for a broad based indexation of the global wine market and to finally define if a wine price could be considered as fair, over- or undervalued.

After reviewing the main determinants that may define the price of a wine, actual and recent wine price developments are being discussed. For the quantitative analysis mostly the Liv-ex Fine Wine 100 is being utilized, given its track-record as valuation benchmark and the data-availability. It is demonstrated that the economic development until around 2008 has been dominated by G7 economies, whose economic development seems to have had a major explanatory character, when reviewing the co-movements of GDP and wine-prices. After 2008 until today it has been the major emerging economies and particularly China, which as the most important marginal buyer in the wine-sector, have influenced largely the wine market. In addition to this, it is shown that also monetary aspects and foreign exchange developments have to be considered, while on the micro level the most important determinant is the perceived

quality, which can be derived from average ratings from wine-critics. A theoretical framework of indices and wine valuation techniques shows that a wine can be considered as over- undervalued or is having a fair value. This can be done via a price/rating ratio (PR ratio), following the logic of price/earnings ratios in the equity market.

Challenges for proper wine valuation are manifold and are being discussed throughout the paper in greater detail. The macro challenge is to conclude on the most likely outcome for the global economy, including monetary, fiscal and political aspects and also conclude on the economic development of those economies, which constitute the most important buyers of wine. On the macro level a forecast seems relatively easier than on the micro level, when additionally to the global economic influence mainly quality, but also other parameters have to be considered. The biggest challenge is however to get appropriate data, which allows a proper valuation and forecasting. If data is available, it has been demonstrated that relatively transparent valuation techniques allow for benchmarking the value of wines and also forecast future developments, but it is clear that this is a relative complex task given that many data points and parameters have to be accommodated.

Based on the brief analysis in this paper it is being demonstrated that there is a close connection to the development in the global economy and the valuation, hence prices of wines across all quality levels. Appropriate forecasting techniques like economic lead indicators could offer a better understanding of the future price development. Furthermore a price/rating ratio would allow for a better comparison among the values of various wines. Given that the global economy is slowly expanding, it seems that the current values are well supported while no major increase should be expected for the foreseeable future.