

A story of wine

Whether real estate or tourism, whether luxury or novel-cuisine, Europe is the main beneficiary of the increasing number of wealthy people around the world. A light article for the Christmas season.

Take wine for instance; not because it is necessarily the best investment asset or the most suitable vehicle for savers, but because it provides the paradigm of what's going on in the upper range goods market: on the back of changing lifestyles and rising supply from New World, low and middle class wines are in a prolonged crisis. However, the case is totally different for exclusive bottles: here demand is significantly rising in response to population's enrichment and jumping purchases in Asia. By contrast, supply is limited.



The environment is much more constructive for prices when it comes to the upper-grade area of the wine market. First of all, supply is limited; the production has not increased in decades. In France, accounting for 90% of this sector, volumes have been in a downtrend since 2000. On the contrary, "demand benefits from higher incomes, changing lifestyles and ongoing consumer interest in the potential benefit attributed to moderate consumption of quality wine," says Mr. Prette. He also emphasizes that "the strongest growth in demand for upper class wine comes from emerging countries such as Russia, India, China and Korea." A new business elite has become able to pay exorbitant prices for dear goods. "This enlarging number of wealthy people," continues

Vin de table disappoints

Writes **Hervé Prette**, a Credit Suisse analyst: "Viticultrists in Australia, the United States and South America have significantly improved the quality and quantity of their wines and are able to produce middle range wines at much lower costs compared to European producers. Over the past 10 years, Australia has increased its exports fivefold to 500 million litres, Chile jumped fourfold to 350 million, South Africa reached 200 million." The rapid raise in production has gone hand in hand with the collapse in consumption. Globally, it fell from 46 million to 33 million hectolitres from 1960 to 2005.



Great Wines for great profits

Mr. Prette, "in conjunction with the adoption of western living styles opens up new markets for luxury goods. In the next five years, wine consumption in Asia is forecast to increase by 46%, representing 4% of world consumption. China is seen as the jewel in Asia's crown with growth in consumption rising 20% in the four years to 2004 and set to rise 48% in the next three years, according to

Runaway appreciation on selected Bordeaux wines (in GBP)

	Vintage	Release Price	Market Price	Annual Return
Lafitte	1982	300	7950	14%
Palmer	1983	130	1650	10%
Clinet	1989	165	2640	16%
Montrose	1990	155	2520	18%
Petrus	1998	3800	12320	16%
Margaux	2000	1440	3600	16%

Source: Credit Suisse July 2006

Paris:

Housing is still good

"So, how's business?" we ask. "Very good", he answers. The gentleman is Mr. **Richard Bluoit**, a real estate agent located in Rue Saint-Louis-en-l'île, in the very heart of Paris. He says that 80% of his clients are foreigners. "Probably 50% from the US, many from Northern Europe and Italy." "I have seen no decline in my business", he adds.



Your editor looking for a flat

We walk along Rue Saint-Louis-en-l'île and then turn on the left in Rue des Deux Ponts, where Mr. **David Amanou** has got his agency. We repeat our question: "How's business?" Mr. Amanou says he has two agencies.

One on the Ile Saint Louis (the island in the heart of Paris *ed. note*) and the latter in 7th arrondissement, also a luxury area.

"Yes, most clients are foreigners. And most of them are looking for a flat where they can live for 2-3 months per year. ...



L'Ile Saint Louis

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.... Others want to invest their money and rent the apartment. Here, on the Ile Saint Louis, the average price per metre squared is about €10,000, up, say, 30% compared to 2002. I see no contraction. Prices and transactions are now stable; all in all it is a good market.”

One of these lucky people who live for a few months per year in Paris is Mr. **Paul Horne**. Mr. Horne joined Smith Barney in 1975 in Paris as chief international economist. He retired in July 2001, and now divides his time between Virginia and Paris. He says: “I think there’s a bubble in some American cities, but not here in Paris. Of Course, prices are expensive, but they must be expensive. Supply is limited while an enlarging number of wealthy people want to live here.”

In the early days of the internet, a lot of outstanding experts predicted an urban revolution. They said there was no reason to live in our chaotic cities since the internet allowed many professionals to work from wherever they liked. Their reasoning was right, but it looks like many of us, especially affluent people, want to live in beautiful places such as Paris.

Once again, Europe has a competitive hedge here.



Performers at Pont Saint-Louis: The small bridge that connects Ile Saint Louis with Ile de la Cité is a popular spot for street performers, be it jazz bands, jugglers or mimes.

Vinexpo.”

As a consequence of the favourable combination of an increasing demand and a stable supply, upper range wines have been performing fabulously. Since 2001, when the first publicly traded index on wine was developed, the LIV-EX 100 Fine Wine index (linked to a basket of first-class brands) has significantly outperformed equity and bonds asset classes, as represented by MSCI World and JPM Global Bonds indices.

Luxury

What’s happening in the wine market is the mirror image of what’s happening in the luxury section of several goods and services where Europe has a competitive hedge.

For example, the apparel industry has been suffering from a general price decline caused by the opening up of Asia.

Many small businesses were literally wiped out.

But the story is different when it comes to the upscale fashion producers and retailers. Here players are gaining ground and the outlook is particularly encouraging. Deflation is replaced by inflation and losses by profits.

According to Forbes Magazine, “the cost of living well index” - a basket of expensive items - is running much faster than



the overall consumer price index. The former is up 7% in the last year, the latter is up 4%. “Being rich has never been so expensive”, loves saying **Louis-Vincent Gave** of GaveKal Research. Again, part of the boom is in response to population’s enrichment and jumping demand in

China loves luxury	9 months to September
Wines & Spirits	+24%
Fashion & Leather Goods	+20%
Perfumes & Cosmetics	+24%
Watches & Jewelry	+18%
Selective Retailing	+8%
Total	+17%

LVMH: Year to Date Organic Sales Growth

Source: LVMH and Merrill Lynch

Asia. Again, Europe is the main beneficiary of the current state of affairs.

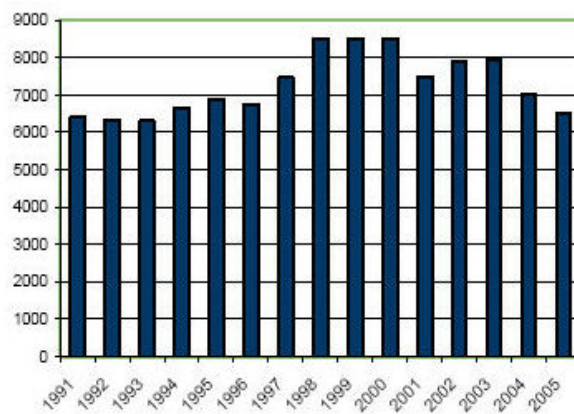
In the 9 months to September, “Fashion & Leather Goods” have soared by 20% in non-Japan Asia. “Perfumes & Cosmetics” by 24% and “Watches and Jewelry” by 18%.

Nicolas Hayek, executive chairman of the Swiss watchmaker, Swatch Group, has found the most appropriate words to describe the investment thesis: “Chinese dream to have luxury goods. The original Swatch is a success in China. We sell 1 million units per year there, and the pace is fastening. Concerning the wealthiest consumers, they want the prettiest watches. I think the Chinese economic development is a real chance for us. You must see that way: 10% of Chinese having the same standard

of living as Europeans, that represents 150 million further consumers of our watches, jewels, wines, and Airbus planes...If we continue to innovate, there will be no European decline.” We agree.

Vincenzo Sciarretta

Production of high quality wines in France ('000 hectoliters)



Source: Eurostat