

Is fine wine hedge against turmoil on Chinese market?

For recent few years, alternative investment assets such as gold, diamonds, fine wines, art are gaining more and more popularity among investors whose are trying to protect their portfolios against adverse market conditions. Fine wines and gold obtained specific meaning in the literature and become defined as hedge or safe haven assets which are uncorrelated or negatively correlated with traditional financial assets (Baur and Lucey, 2010). Although, Cardebat and Jiao (2018) suggested significant cointegration between emerging markets and fine wine markets. They results showed that the slowdown of economic growth in emerging countries, especially Asia, could be risk to the fine wine market, mainly because China appeared to be one of the main drivers of fine wine markets.

We study the dynamics of relationship between the global and Chinese stock markets, fine wine market and CNY/USD exchange rate by using VAR-DCC-GARCH framework and daily closing prices of LIVX50, S&P500 and Shanghai Composite indices from 2010 to 2018. Three versions of univariate GARCH models namely standard, exponential and GJR have been used in order to build best fitted multivariate dynamic conditional correlation model. Results of this study reveal the long-term time-varying linkages in volatility between the global and Chinese markets and CNY/USD exchange rate. We found evidence that fine wine could act as hedge against slowdown of the Chinese economy growth and depreciation of the Chinese currency. In addition, two investment portfolios have been created. The first contains traditional financial assets, while the second includes fine wine.