Lausanne 2024 Abstract Submission

**Title**
Rare Whisky and Barley Markets: A Time-Varying Causality Analysis

**I want to submit an abstract for:**
Conference Presentation

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**Keywords**

rare whisky; barley; alternative investments; financial markets; time-varying Granger causality.

**Research Question**

Our study aims to examine the effect of barley price fluctuations on second-hand market whisky prices.

**Methods**

To examine potential causal links between barley and rare whisky prices, we apply a time-varying Granger causality method, following Shi et al. (2018, 2020).

**Results**

As the analysis is in an exploratory phase, the results will be presented at the conference.

**Abstract**

Recent years have seen an increase in specific investment tools for whisky: auctions, investment funds, specialized platforms, and price indexes. The literature on whisky investment has emerged in recent years, with contributions from Moroz and Pecchioli (2019, 2021a, 2021b) and Lennon and Shohfi (2021), who explored the price determinants of Scotch whisky and bourbon, respectively. Lennon and Shohfi (2021) studied additionally whisky
investment issues, followed by Tegtmeier (2022). More specifically, Lennon and Shohfi (2021) examine the dynamic issue of whiskey investment returns and find that adding bourbon to a mixed portfolio comprising stocks and bonds could improve its risk-return ratio. Tegtmeier (2022) confirms this finding on Scotch whisky market, using monthly whiskey index data on the period 2013-2020, and concludes that rare whisky can be considered a separate asset class which can significantly improve the performance of an international multi-asset portfolio. These seminal works agree on the advantages of whisky as investment asset, regardless of the type of whiskey considered. A further argument in favor of studying whisky as an investment asset, is the relative stability of its intrinsic characteristics through time (Moroz and Pecchioli, 2019). Whisky is a time-independent asset. Firstly, since whisky intrinsic characteristics remain the same over time, there is a priori no information asymmetry between buyers and sellers regarding the quality of the asset. Secondly, given that vintage does not affect the quality of a whisky, a sophisticated investor with a good knowledge of the whisky industry should be able to better anticipate potential profit opportunities. However, investors may consider additional factors in their investment decisions, including the price of raw materials. With a forward-thinking approach, an investor might factor in intrinsic variables (like the cost of barley in whisky production) that could potentially drive up the price of the final product. This consideration becomes especially relevant during unique periods (Just and Echaust, 2022), such as the invasion of Ukraine by Russia (Aliu, Kučera, and Hašková, 2023), which saw a rise and increased volatility in the prices of agricultural commodities. Notably, Ukraine ranks among the world’s leading barley producers. (https://oei.world/en/profile/bilateral-product/barley/reporter/ukr).

It is conceivable that the price of whisky indices, particularly for premium whisky, could rise due to increased production costs. Analyzing the relationship between the prices and volatility of barley and investment-grade whisky offers insights into investment practices during periods characterized by uncertainty. Our study aims to examine the effect of barley price fluctuations on second-hand market whisky prices.

More precisely, we investigate the connection/disconnection between second-hand market whisky and commodity markets from January 2010 to December 2023. To do so, we use the Icon 100 index (source: Rare Whisky 101), barley prices (source: Factset) and, as a proxy for the equity market (control variable), the MSCI World index (Source: Factset), on a weekly basis. To explore the potential causal relationships among these markets, we apply several causality tests (linear and non-linear) and implement recent a time-varying Granger causality approach, in line with (Shi, Hurn, and Phillips, 2020; Shi, Phillips, and Hurn, 2018). This approach allows us to determine the origination and termination dates for any episode of Granger causality.

References
Tegtmeier, L. (2022). Does Rare Whisky Add Value in Multi-Asset Portfolios? The Journal of Alternative Investments,

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Rare Whisky and Barley Markets:
A Time-Varying Causality Analysis

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References


