

# Reading the Tea Leaves

STOCK VOLATILITY IN SHANGHAI AND BROAD-BASED AUCTION DECLINES HAVE PROVOKED ANXIETY ABOUT A CHINESE WITHDRAWAL FROM ART MARKETS, BUT THE WORRIES MAY BE EXAGGERATED

IN JULY, A flurry of news stories on China's markets seemed to signal trouble.

Early in the month, the market research firm ArtTactic of London published findings that the value of Chinese contemporary art sold at the country's four big houses (China Guardian, Christie's, Poly International, and Sotheby's) had fallen 44 percent in the first half of 2015, with those houses' spring sales across all categories down 2.5 percent compared with the same period in 2014. On July 22, Berlin-based online media and sales company Artnet released a report that looked at a broader sample—more than 140,000 lots sold worldwide during the same six-month period—and concluded that Chinese markets had shrunk 30 percent by value. As July drew to a close, the wild swings that have plagued Chinese stocks for much of the year crescendoed in a one-day decline of 8.5 percent in the Hang Seng Index,

**EB: In the near term, can we expect to see a direct connection between Chinese stock market losses and pullback among Chinese art buyers?**

RK: It's hard to know. The wealthiest individuals will be largely unaffected by a stock market crash. To put it simply, if there is a correction, the rich get relatively richer and the growing Chinese middle class has few choices for investment. They cannot easily buy gold or real estate in Miami. To a large degree, they can invest only in equities or art. If the stock markets see a lot of volatility, there could be even more investment in Chinese contemporary art as people attempt to diversify their holdings among the limited options.

**How concerning are the analyses that show a Chinese art market contraction?**

First of all, we have a big problem with data coming



Roman Kräussl

Still, analysts disagree about the size of the decline and of China's art market overall. Some claim the country accounts for 40 percent or more of global auction sales; my own calculations put it at about 26 percent at the end of 2014.

**One provocative storyline has it that, just as the Japanese stock crash of 1990 devastated Impressionist prices for decades, China's economic problems could bring down the global art market.**

The market today is much more liquid and the collector base is broader. In Asia alone, Hong Kong and Singapore are booming. A better comparison would be the 2008 financial crisis: It took only 12 months to recover from the art market contraction that followed then. Looking locally, Chinese contemporary art, which is still dominant among the vast majority of smaller auctions in the mainland, may be in the midst of a correction, of perhaps 20 percent. But that should not be seen as earth-shattering. In fact, some portion of the decline

in mainland art sales is the result of the government's recent anticorruption campaign. If the correction is based on getting rid of much of the corruption, then even the 44 percent figure from ArtTactic will have much less meaning. In the end, the numbers may be lower, but we will be able to trust them more.

**Looking at the broader market, does your research indicate a bubble?**

We can look for signs of overheating only within narrower segments and categories. Based on my early analysis of auction data from the first half of 2015, the top names in the modern and postwar markets—Bacon and Picasso and Warhol—look safe, as do top contemporary artists like Peter Doig and Christopher Wool. But when I look at postwar and contemporary artists in the middle—those ranked between 100 and 500 in terms of market value—I see signs of mania, and the indications are worse when I split out artists born after 1970. In truth, however, a bubble can be identified only after it bursts. ▣

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precipitating worldwide declines in commodity prices.

To understand the caveats that place this news in the context of a global art economy, *Art+Auction* editor in chief Eric Bryant spoke with contributing editor Roman Kräussl, associate professor at the Luxembourg School of Finance, whose research focuses on alternative investments.

from China. Because of corruption and other factors, not everything that is reported as a sale *is* a sale; so we read vastly differing figures as analysts try to compensate. Based on various sources, I believe it is true that the mainland market is down across the board—in the number of auctions, the number of lots, and even the average price.