Newsweek

BUSINESS

Billion-dollar painting sales are more about finance than art

By Rory Ross 5/21/15 at 1:13 PM

A man pauses to look at Pablo Picasso's "Les femmes d'Alger (Version 'O')" (Women of Algiers), estimated at $140 million, at a media preview for Christie's May 11 impressionist, modern and contemporary art sale in the Manhattan borough of New York May 1, 2015. With prices for top-tier works of art at an all-time high, records for paintings and sculpture appear certain to fall at upcoming spring auctions in New York by Christie's and Sotheby's. Picture taken May 1. Darren Ornitz/REUTERS

Animal spirits hit the art world last week when Christie's and Sotheby's raised nearly $2bn from sales, including new records for Picasso and Giacometti. One marvelled at the brilliant interplay of light and dark, the subtlety of structure, and the thrill of innovation. I'm not talking about the artworks themselves, of course, but the financial engineering behind the sales. Christie's realised more than $1.2bn in just two evenings. Exclaimed one dealer, getting all technical: "Blimey!"

These sales highlight competing and contradictory factors in the art world. Firstly, the action was more theatre than free-market. Several owners had proffered artworks only after irrevocable third-party bids were attached. In other words, sales were guaranteed. In tough times, owners want to hug their masterpieces, hence such sweeteners. These are the art market's answer to quantitative easing (QE): buy stuff; keep the market humming.

Secondly, the sums may seem huge, but huge compared to what? "Modern and Impressionist markets today are less frightening than in the 1990s," says Edmondo di Robilant, an art dealer. "Then, only Americans, Europeans and Japanese were buying. Today, the provenance of buyers is more widespread: Malaysia, China, India, the Philippines and Middle Easterners with gleaming art museums to fill. That represents a new slew of clients unheard of 10 years ago." If anything, signs of oversupply were evident. Several lots in the Christie's 'Looking Forward to the Past' sale had previously gone under the hammer within the last 10 years, indicating owners looking for a quick turn.

Thirdly, the rise in the softy powerful 0.1 %-ers, keen to fling open their collections to the public, is continuing. Notable examples are Dakis Joannou in Greece, and Carlos Slim and Pérez Simón in Mexico. At the same time, the sale room duopoly looks more tentacular than ever. No art-world virgin is safe, whether in Baku or Belo Horizonte, from Sotheby's and Christie's' glossy brochures. The independents can't compete; a greater proportion of business goes through them than via private dealers.

Finally, these sales coincided with a spike in the yields of German bonds. The symbolism was hard to ignore. Were we witnessing the last hurrah of the 'bond bubble' whereby QE has suppressed bond yields thereby lowering borrowing costs and making investment assets look cheap? Or were we seeing straws in the wind of inflation just around the corner thanks to rising oil prices and Chinese economic stimuli, in response to which the smart money is piling into 'real' assets like art?