Bonas
Diamond Brokers & Consultants

MARKET REPORT

April 2019

BONAS & CO LTD
DIAMOND BROKERS & CONSULTANTS
Thavies Inn House,
3-4 Holborn Circus
London EC1N 2PL

T + 44 207 353 6167
F + 44 207 583 7259
bonas@bonasandco.com
www.bonasgroup.com

General Comment

The most positive aspect of the first quarter of this year has been how steady consumer demand has been globally. Indeed, some are already forecasting a small overall increase over 2018.

The mid-stream, though, has lost confidence. Rough manufacturing for the most part is considered loss-making or at best breakeven, despite a slight tightening of rough supply. Bankruptcies of what are believed to be well-regarded companies are happening relatively frequently. And polished prices are at best static, despite shortages being registered in certain areas. It is hoped that the current polished destocking that appears to be happening in many of the major trading centres will leave companies in a far healthier state. But time is of essence.

Global rough sales for the remainder of 2019 are expected to tighten yet further. It is quite probable that premiums, especially in some areas, will rise. The availability of certain ranges of polished are also likely to be further reduced. However, if no polished price growth is registered, manufacturers are likely to see their losses widen. The big question is how long will it take for the situation to stabilise? At the moment, no one can predict when that will be.

Rough

ANTWERP

The provisional 2019 ITOs, which were announced just prior to Sight week, did not really come as a surprise to most. De Beers had already signalled for a few weeks that the new ITOs would be down substantially due to two reasons: firstly the 2019 would only count seven sights instead of ten, in order to allow for the Ito year to be aligned with the 2020 calendar year and secondly due to lower rough availability from Venetia. Sightholders took this relatively well (much better than anticipated by many) as profitability has been lacking for a very long time now.

Alrosa goods are currently still trading at around cost, except for a few Anabar parcels and LT2 9/7 which are trading at a small profit. All Nurba goods have been selling at list price with terms. Many have been complaining about the lack of profitability for a while now. Prices in general were similar to last month, with the exception of a few wanted boxes where prices went up slightly.

Sight week was lacklustre. As good as no price changes were reported. Most people bought their boxes, however some refusals took place mostly in smalls and preparers band. Some boxes supposedly traded at a slightly better premium than last month, but barring a few boxes, most were still trading at cost or loss. We believe most boxes did get recycled as some Sightholders tried to up their ITOs or tried to remain in certain articles. The third sight cycle ended at $570m, which was slightly smaller than expected.

Petra sold at similar prices compared to their January sale. Some lots supposedly still got withdrawn though, including a blue stone.

Rio Tinto did make some price changes this month, mostly in browns. These goods are now starting to move again, and with the price changes, people did have some appetite for them.

Angolan goods are still very hard to find on the Antwerp market. Some of the Lebanese companies who were active in Angola now have very little business and are looking for other business opportunities.

ODC results were not out yet at time of writing, but many expected prices to be slightly firmer than last month.

Antwerp tenders are well attended, although less so than in the same period last year. Clients cite the main advantage being that they can buy very specific items, usually in smaller sized parcels.

To conclude, the market is still in a precarious situation. Many find rough prices to be unsustainably high especially in light of the sluggish polished market. Sales in India seem to be particularly slow which is not helping the situation at all. Some hope that with De beers selling less in 2019, polished stocks will slowly come under control. However most also realise that De Beers is not the only large producer anymore and that Alrosa and some other mines could benefit from the situation.

MUMBAI / SURAT / OTHER INDIAN MANUFACTURING CENTRES

The financial year 2019 has been a tough one for the diamond industry, and especially for Indian manufacturers, with the gap between rough and polished widening even further.

Businesses that once functioned as well-oiled machines, now find themselves being buffeted around like ships in stormy waters.

Retail demand continues to dip and players like Signet have had to announce closure of an additional 150 doors. Sales to China have slowed, while Indian retail has decelerated in the run-up to the general elections. In this soft demand scenario comes correction in prices.

There are new challenges for the mid-stream. Manufacturers of Commercial, High and Fine bands, who once had direct access to relevant rough, now find they will have less direct supply, and possibly need to change their business models.

Manufacturers of goods in the -3gr down area have slowed down due to lack of demand, with rough considered too expensive and cheaper polished being available on the market.

As polished inventories continue to grow in unwanted areas, manufacturers are slowing manufacturing and have been taking extended holidays and/or reducing work hours. However, one does not hear about high unemployment of polishers in Surat and other centres. The market believes that many businesses are moving towards lab-grown diamonds. *"They need to work, they have an existing set-up for polishing and there is profitability*", is what is being constantly stated.

The outlook for FY20 remains bleak. Many feel that despite less rough on the market, polished prices may not hold as there is sheer lack of demand from retailers.

TEL AVIV

There has not been any particular change on the rough market over the last month. There is a sense of a lack of availability on the market and this is believed to be behind rough prices remaining high at the tenders. Rough from the large miners remains unattractively priced for most. Manufacturing margins on a wide range of articles are unprofitable.

The size of the secondary market seems to be shrinking globally. Additionally, those that are looking to sell rough have to discount a number of the remaining players due to on-going concerns of their financial viability.

BOTSWANA

The last sight of the current ITO period saw most boxes being bought, with the exception of a few refusals. A number of Sightholders also exercised their buy-back options.

The revised allocation for the next 'interim' ITO will see a selection of boxes being largely available, and in some cases only available, to the Sightholders with factories in the producer countries. The is due to the limited availability from De Beers' production as well as the increased interest from Sightholders in opening beneficiation factories, which inevitably requires the reallocation of more commercially viable goods, notably in the Commercial High, Fine and Coloured bands, which will reduce in availability to International Sightholders.

It is understood there are a handful of new factories who will set up and commence operations as Accredited Buyers, all with the intention of gaining Sightholder status and receiving an ITO.

These developments will add a further dynamic in the build up to the forthcoming negotiations between De Beers and the Government of Botswana for the renewal of the Sales Agreement.

DUBAI

Rough diamond tenders with goods from Angola and South Africa in particular, continue to be held in Dubai at regular intervals with healthy participation from companies looking to procure rough.

SOUTH AFRICA & NAMIBIA

Sight 3 in South Africa was pretty somber as it followed the ITO announcements for the remaining 6 sightholders. Venetia now goes underground, with the dramatically reduced supply in South Africa as a consequence. To make up for what would have been an even bigger shortfall, De Beers will be supplementing South African supply with aggregated goods from their international sales in order to meet their contractual rough supply commitments to government.

The Minerals Council of South Africa has taken the latest ratified Mining Charter into judicial review. This is occasioned by one of the clauses in the Mining Charter not taking into consideration previously achieved black economic empowerment (BEE) targets. The majority of the mining companies feel, and correctly so, that to start all over with new BEE partners when entering into new mining agreements, and having to disregard previously achieved targets, is a misnomer; which they feel needs to be recified.

For the holders of dealers and beneficiation licences the Mining Charter tried to address specific areas for these licence holders that were ignored by the previous charters. The 5 specific areas being 1) 30% BEE share-holding; 2) representation of BEE partners at board and management level of the company; 3) enterprise development; 4) contribution of 1% of net-profit-after tax to a CSI of client's choice; and finally 5) purchase 70% of goods and 80% of services from other BEE-compliant companies.

These objectives pose the following challenges:

i) Beneficiators, mainly sightholders, have raised and addressed with their main rough supplier their limited ability to fulfill the 70% procurement requirement.

ii) For small one-man operations they cannot be compliant with the Mining charter, as having to part with 1% of their net-profit is a big ask. It also means effectively having to give away 30% of their business, most likely to people outside the industry whom they must train from scratch.

In Namibia, NamDia has announced its list of 16 successful clients, located in Namibia and the other major diamond centres of Belgium, Dubai, India, and Israel. The contract will be for a 2 year period and clients who fail to purchase at least twice in one year will be disqualified going into the 2nd year.

Polished

ANTWERP TRADING

Buyers are ordering to replace goods, not to build up stock. Polished orders have softened, except for selective pockets of goods. Polished of 1 to 2ct, selective sizes of pointers and -11 clean are selling. Large and clean goods in high colours continue to be tough areas. There is demand for lower colours in medium-to-large sizes. Overall price trends continue to be down or flat. Downstream buyers are quite confused about prices, disconnected rough-polished, news on diamond companies' bankruptcies, etc. They don't know how to connect the dots, and this is impacting confidence.

The entire first quarter was not what it should have been, and we now are entering seasonally slower months in the main markets US and Europe. Some only expect a real pick-up in business from September onwards. The effect of reduced rough manufacturing in India and smaller rough sales volumes have not trickled down to the polished markets. Profitability is non-existent, and this is pushing manufacturers more than ever into a corner.

TEL AVIV TRADING

Retailers have cut back on orders from Israeli companies citing that they do not wish to stock one stone more than they need. They have no confidence in the sustainability of polished pricing. Rap's decrease in a number of items has really not helped. The mid-stream also continues to decrease its stocks as it also no longer wants to take the stock-losses.

News of the bankruptcy of a well-known diamantaire in Tel Aviv has shocked the market. As has been the case in other centres, the player was highly regarded and not thought of as being in financial difficulty. It has added to the unease of the market as questions are raised over the financial health of others.

A number of players already see the rest of the year as a major challenge as there are no signs on the horizon of anything changing.

NEW YORK TRADING

Rapaport's price decrease in the middle of March in 30pts-99pts and 3cts up did nothing to help confidence in the mid-stream. Retailers were very quick to jump on the news and request that the decreases were immediately reflected in vendors' prices.

Whilst the US economy appears fairly strong, fears of a US recession are increasing. The US government bond curve, which is widely seen as a reliable indicator of an impending recession, inverted for the first time since 2007. The US Manufacturing Purchasing Manager's index also slowed to a 21-month low. The concern is that the US economy is slowing faster than had been thought to be the case.

De Beers held its Forevermark Forum at the end of March at which it launched its new bridal campaign. Both buyers and sellers that attended the show considered it a success.

MUMBAI TRADING

Confidence in the diamond business is at an all time low. Most manufacturers are experiencing lower sales compared to the previous year. Traders are staying away as there is an expectation that prices will further correct.

HONG KONG TRADING

A very slow trading market in Hong Kong, especially in 30pts below. As prices of 4pct polished dropped, the 30pts became relatively expensive. Stocks in 30pts are high, and therefore we are seeing continued price pressure on those goods as well. 50pts are in better demand and prices are more stable. There is also good demand for 1-2ct polished in commercial colours and qualities, whilst in the 3-5ct range goods are moving in top colours and Si qualities.

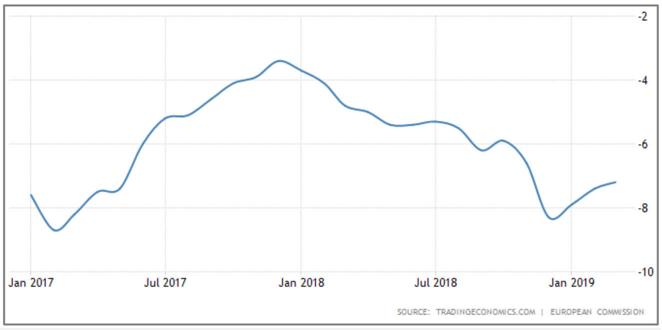
In addition to its lab take-in centre in Central Hong Kong, GIA has opened a new facility in Kowloon. GIA mentioned increased demand from Asia for laboratory services since they first opened their Hong Kong office in 2010.

Sotheby's Hong Kong surprisingly failed to sell three blue diamonds at its auction on April 2. The largest and most important one, was a 3.32 carat rectangular fancy-vivid blue, that had a pre-sale estimate of $5.9-7.6m.

Retail Markets

EUROPE

"The **consumer confidence indicator in the Euro Area** was confirmed at **-7.2** in March 2019, slightly above the previous month's -7.4, due to households' more positive assessments of their financial situation and their expectations about the general economic situation, which were partly offset by a slight decrease in their intentions to make major purchases. Consumers' expectations of their future financial situation remained broadly stable", according to Trading Economics.



The low-end jewellery market continues to suffer in Europe; orders are very small due to a lack of sell-through at retail. The mid-to-high end is described as 'active' and 'ok', in particularly in Italy and Germany. Spain seems to have bottomed out. France continues to be subdued.

The recent (much smaller) BaselWorld show generated mixed reactions; some were happy with the fair and feel the worst years are over now. They believe that Basel will continue to be attractive, albeit at a much smaller scale, as long as the critical watch brands (except Swatch Group) participate. Many jewellery players felt it was a dull event with a lack of buzz and already decided not to participate next year. One has to wait for the GemGenève Fair in May to draw final conclusions on both events.

LVMH Group reported organic revenue growth of 4% for its Watches & Jewellery Group in the first quarter of 2019, driven by the performance of its jewelry. Revenue amounted to €1,046m, +9% reported and +4% organic compared to the same quarter last year. Bvlgari made strong progress in its own stores, driven by its iconic lines. The innovative products presented by LVMH's watch brands Hublot, Bulgari, TAG Heuer and Zenith labels at the recent Basel show were very well received, according to the company.

Group sales recorded revenue of €12.5bn for Q1 2019, an increase of 16%. Organic growth was 11% compared to the same period of 2018. All geographic regions experienced good growth. Despite the geo-political challenges, the company described the first quarter of the year as "a buoyant environment for luxury products".

HONG KONG/CHINA

Whilst the outlook for the retail sector remains cautious, data for the first two months of the year, showed a 4.4% increase in jewellery sales in China and 4.7% in Hong Kong, compared to the same period last year. The Lunar New Year was earlier this year and that reflected positively on retail sales in general. Also, the number of visitor arrivals into Hong Kong was significantly higher.

Hong Kong based jewellery retailer Chow Sang Sang reported positive sales during the Lunar New Year period, in contrast with the slow quarter just before that. On the entire year 2018, CSS reported a 13% increase in sales. In China, the gold market continued to show strong performance, and also e-commerce did well and represents 15% of total sales in the region. Same-store-sales in Hong Kong and Macao were down 18%, due to a very soft last quarter of the year.

On the US-China trade front, progress was made in February which prompted the US to indefinitely postpone tariff increases that were originally set for March 1. We have seen a pick-up in domestic confidence with the SCI gaining nearly 14% in one month, helped by increased foreign investment inflows.

USA

The **Conference Board Consumer Confidence Index®** declined in March, after increasing in February. The Index now stands at **124.1**, down from 131.4 in February. "Confidence has been somewhat volatile over the past few months, as consumers have had to weather volatility in the financial markets, a partial government shutdown and a very weak February jobs report. Despite these dynamics, consumers remain confident that the economy will continue expanding in the near term. However, the overall trend in confidence has been softening since last summer, pointing to a moderation in economic growth", according to The Conference Board.

U.S. Indicators	
Consumer Confidence	- 7.3 pts
Employment Trends Index	- 0.58 %
Leading Economic Index	+ 0.2 %
Measure of CEO Confidence	+ 1.0 pts

Same-store sales at **Signet Group** decreased 2% for the 4th quarter of its financial year. Kay and Jared saw same-store sales fall 1.6% and 8.4% respectively for period. James Allen also saw a drop-in sales – by 1.4%. Zales and Peoples saw sales increase 2% and 2.1% respectively. In the UK same-store sales for the period were down 7.3%.

Same-store sales for the full year were down marginally by 0.1%. Kay and Jared saw sales decrease for the year by 1.4% and 4.6% respectively. Sales at Zales rose 4.8%, and James Allen jumped 14.6%.

Tiffany announced that its sales rose 7% to $4.4bn during 2018, which was a new record. Total comparable store sales increased 4%. Sales were up 13% and 5% in the Asia-Pacific region and the Americas respectively, with Japan seeing an 8% rise. Europe saw a smaller increase of 3%. Comparable store sales for the full year were up 5% in the Americas and Asia-Pacific, 7% stronger in Japan, but down 2% in Europe.

However, both Q4 net and comparable store sales were 1% weaker globally. Comparable store sales for the full year were flat in the Americas, down 3% and 5% in Asia Pacific and Europe respectively and up 3% in Japan.

INDIA

Retail has been very slow these past few weeks due to elections in India. Large-format retailers in India continue to outperform smaller / independent players.

Tanishq is reviewing its sourcing policy, and looking to get new, smaller players for -11 goods to ensure there natural diamond pipeline is not contaminated, even erroneously, by their suppliers buying on the market.