



MARKET REPORT

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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



Market Report

General Comment

After a quieter than normal first quarter, it was naively hoped that there would be an improvement in the second quarter. This, though, has not been the case. Retail sales have been steady in the US but in the Far East the picture is more mixed; some retailers are reporting reasonable sales, whilst others have seen a slowdown. Indian retailers have seen a slight improvement lately. It is hoped that the election result will lead to a further recovery.

Polished pull-through from the retailers has not really been felt by the mid-stream. This part of the diamond pipeline has been buffeted by significant de-stocking primarily by wholesalers and jewellery manufacturers, which has led to polished price reductions in a number of areas.

Rough manufacturers, as a result, have been stuck in the middle of the crunch; much of the rough from the major producers is now loss-making. Manufacturing capacity has already been significantly reduced, particularly in India during the first quarter, and further cuts are being looked at in the smaller manufacturing centres, including beneficiation countries.

Once the period of de-stocking is over, it is quite possible that certain polished prices will strengthen as the current losses being borne cannot be sustained for long. The big question is, when will this be?

Rough



ANTWERP

The mood in Antwerp reached a new low in May. Most diamantaires have lost their appetite to buy rough, as no one can foresee where the market will go over the summer. The only apparent reasons to buy rough at current prices are to keep factories operational and/or to show business transactions to maintain current bank lines. While many have been considering curtailing business over the last few months, it is believed a select few have actually started winding down their operations.

Sight week was quieter than usual for this time of the year. Some were hoping that De Beers would make some corrections at the beginning of this short ITO period to give sightholders much-needed oxygen. This however did not materialise, as De Beers chose to keep prices steady. The rationale behind this is that a reduction in rough prices would only result in worsening the downward spiral and lead to further stock devaluations. Whilst there is some agreement with the strategy of maintaining prices, many think that the volumes being sold need to be significantly lower. Premiums this sight were cost at best, with most boxes trading at a loss. This was clearly felt by some of the market brokers who quoted that box trading was dismal. Quite a few boxes were reportedly refused at sight and only a fraction of these boxes were recycled. De Beers fourth sight cycle closed at \$415m, lower than the same sight cycle in previous years.

Alrosa also did not make any substantial price corrections. Clients still had to buy 70% of their contractual agreements, but many have been struggling to achieve it. Some say that Alrosa however is easier to trade on the market due to the smaller box sizes. De Beers and Alrosa are considered the most expensive rough sources on the market.

Petra sold fewer lots this month, but supposedly fetched slightly lower prices than at their last auction. Some items remained unsold.

The latest Grib sale was considered quite stable by the participants.

Dominion only sold a very small amount of goods. All +4cts goods were sold through tender.

RTZ recently cleared its stock of small browns at corrected prices. White goods are still considered expensive.

The lack of Angolan goods on the Antwerp market is still being felt. In the past, many would turn to Angolan goods when other sources did not give sustainable returns.

ODC only sold parcels and did not offer any single stones. At the time of writing, the results had not been announced.

Antwerp tenders have seen lower footfall.



MUMBAI / SURAT / OTHER INDIAN MANUFACTURING CENTRES

The Indian market has slowed across all sectors due to the summer holidays. Usually this quieter period follows a relatively busy first quarter, but that has not been the case this year.

Smaller manufacturers, without a distribution network have been hit hard. They have been unable to sell the resulting polished so have approached big business houses (already flushed with inventory) to sell, just so they can get liquidity. An impact of this can directly be seen on rough such as the dealer boxes like Common Cliv Rejns 2-10cts which was sold at -18 cash.



Manufacturing in Surat has reduced since September 2018, yet polished inventories have continued to swell across various bands leading to prices spiralling down.

Lab-grown diamonds are becoming a concern as more and more players are testing it in search of profit.

To add to the woes of the Indian diamantaire, Mumbai customs have pulled out an old regulation with elaborate description requirements. Many buying mixed rough or ROM will find it hard to comply to this. As a result of this slow down, many workers have left to go to work on the farms in anticipation of the monsoon.



TEL AVIV

There is very little rough trading taking place in Tel Aviv as boxes from miners are considered loss-making. Manufacturers see no margins in the goods at all. Indian buyers were present in the market up until the beginning of May. However, even they are now staying away.

Many are now openly saying they intend to buy only what they can make money on. Unless people see a viable business for the longer term, they will be forced to forego their positions at the large mining houses.



BOTSWANA

Sight 4, the first of the new 7 sight ITO period for 2019, was received with subdued enthusiasm given the current state of the market; polished demand is weak with a consequential ripple effect being felt by the manufacturers, who all have operations which need sustaining.

There were a number of boxes refused and a significant number of buyback options exercised.

A few Accredited Buyers have been added to the list in Botswana, with a few more expected over the course of the ITO.



DUBAI

Dubai continues to hold rough diamond tenders, at regular intervals, featuring goods from Angola and South Africa in particular. Healthy participation from companies has been reported.

In addition, the first rough lab-grown tender of CVD diamonds was hosted by DMCC, which is in line with DMCC's strategy to attract, facilitate and drive new trade flows through Dubai.



SOUTH AFRICA & NAMIBIA

Sight 4 in South Africa is believed not have seen the same level of refusals as in the International and Botswana sights.

The re-election of President Cyril Ramaphosa is believed to be positive for South Africa and is expected to bring back confidence to the minerals sector in the country. Following the result, the Fraser Institute's critical Policy Perception Index, which measures overall policy attractiveness, ranked South Africa in 56th position out of 83 jurisdictions, compared to 81st out of 91 jurisdictions a year ago.

Other positive developments have been recorded by the Minerals Council (the previous Chamber of Mines). In its first report since the name change, it cited significant progress has been made in addressing the issue of illegal mining. The Minerals Council is hoping that through the Junior and Emerging Mining Desk it has established it would assist small emerging miners to get properly licensed and provide information sharing sessions with its main members. It also seeks to stimulate investment in this sector through tax incentives, JSE venture capital initiatives as well as setting up a junior miner's fund that can help grow small scale miners into legitimate and transparent businesses.

The Diamond Leadership Forum, which is run by the leaders of De Beers, Petra Diamonds and the SA Diamond Producers Organisation is hoped to be used to address common issues relating to the diamond industry in particular, such as Mining Charter compliance requirements, electricity and land reform challenges as well as seeking ways to bring labour stability and certainly to this industry.

The biggest issue is around ownership and transfer of ownership. The BBBEE Commission has recently announced that most broad-test based schemes put together by mining companies fail the 'ownership test' – i.e. employee trusts, employee ownership schemes and other community related ownership programs do not meet the long-term requirements as government originally set out. While they have benefited black people in relation to say bursaries and education grants, they have earned no credit under the ownership test.

The recently announced construction of a new custom-built diamond recovery vessel which will increase Namibia diamond production by an additional 35% (by 2022) is welcome news and shows long-term belief in the viability of the business in the country.

Namdia's new list of appointed customers were invited this month to their first viewing in Windhoek since their enrolment.



ANTWERP TRADING

The polished market in Antwerp has been described as 'very bad'. While polished volumes were still relatively stable in the first quarter of the year, business has dropped significantly (double digit) since then. Traders complain about a lack of orders almost across the board; demand from all markets seems to have collectively slumped. Due to falling polished prices and ample availability, polished buyers are uncomfortable to hold inventory. Hence, it's all about hitting price points and just-in-time sourcing for very specific goods. The effect of reduced rough manufacturing in India and smaller rough sales volumes have not trickled down to the polished markets yet.

The overall situation is not helped by the fact that many are concerned about the growing distribution and share-of-voice of lab-grown diamonds. Confidence continues to be very low. Liquidity remains tight, as several (Indian) credit lines declined after the March 31 fiscal year-end.

There is some hope that the business will improve a bit from June onwards after clarity has been gained following the implementation of the US-China import tariffs.



TEL AVIV TRADING

The trading market in Tel Aviv is quiet. People are nervous about where the industry is heading over the next couple of months. Israeli companies continue to reduce their stocks. Many are only willing to buy what they are absolutely certain they need.

Whilst a significant number of Israelis will be travelling to Las Vegas, expectations are not high. With the market slow, there is concern that there could be a number of exhibitors willing to sell at unrealistic prices.



NEW YORK TRADING

With US retail performing relatively well, the New York market has not reached the same level of pessimism as other diamond centres. Expectations for the Las Vegas show are moderate, but Rapaport's price decrease has not helped people's mood.

The exacerbation of the trade war with China continues to weigh heavily on future growth expectations in the USA. But this does not seem to have dented consumer confidence; the University of Michigan's preliminary print on its consumer sentiment index rose to 102.4 from 97.2 in April, reaching its highest level in 15 years. However, US bond yields have dropped close to their lowest level of the year, which signals some concerns about the economy in the longer term.

The hope is that US retailers come to Vegas and place decent orders for the season; the concern is that the lack of confidence in polished prices coupled with the attendance of those desperate to sell will mean that the show doesn't meet its potential.



MUMBAI TRADING

Confidence is at an all-time low and trading is slow. Retail sales are subdued in most major markets, and there are fewer players in the mid-stream as traders are leaving due to lack of profitability. The impact is that most large business houses are seeing a decrease in sales of ~15-25% YoY for Q1. There is a lot of market talk about large companies being in trouble and discounting goods in order to get liquidity. Lab-grown diamonds are becoming an increasing concern.



HONG KONG TRADING

A very quiet polished trading market in Hong Kong with only 50 pointers and 1 carat sizes showing some movement. In the last month, all major regional retailers have reduced their polished purchases in an effort to bring down their inventories. Trading with China has become increasingly challenging as well, as the devaluation of the CNY, down about 10% since Q4 2018, is being used as a weapon in the US-China trade war.

The June Hong Kong Jewellery & Gem Fair, which is scheduled for June 20 to 23 at the Hong Kong Convention & Exhibition Centre (HKCEC), and which will bring together over 1,800 exhibitors from 38 countries and regions, will be an important barometer for polished sales going forward in the region.



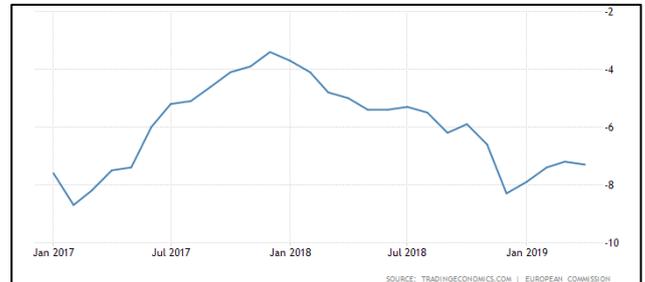
Retail Markets



EUROPE

The consumer confidence indicator for the Euro Area rose by 0.8 points to -6.5 in May 2019, the highest reading since last October and above market expectations of -7.7, a preliminary estimate showed. (source: Trading Economics)

Despite the issues faced by the diamond midstream, downstream consumer demand remained pretty stable during the first quarter of the year. Orders however have slowed down since then and price pressure continues to mount. There is no appetite to hold stock and some only expect restocking to happen from September onwards. The presence of lab-grown diamonds is also visibly growing in Europe. Swiss and luxury brands continue to order but volumes have dropped, in particularly in medium and larger sizes.



Richemont posted its weakest profit margin (13.9% for FY 2018) in more than a decade due to unprofitable on-line investments. Group sales increased by 27% at actual and constant exchange rates to € 13 989m. The Jewellery Maisons performed strongly (sales of €7 083m, +10%) and The Specialist Watchmakers have shown good progress (sales of €2 980, +10%), with double digit growth in sales in their directly operated stores, according to the company.



HONG KONG/CHINA

The National Bureau of Statistics recorded a drop in jewellery sales in March, but a year-on-year increase for the January-March period. The months of January and February, in particular, showed solid jewellery retail sales, up 4.4% on last year. Retail sales during the May 1 and Mother's Day holidays showed a mixed picture, with consumers more keen on gold jewellery than on gem-set jewellery.

Over the past few months, signs of an improving momentum in the Chinese economy were visible, however, the macro data for April show a less rosy picture. Growth of industrial production and retail sales weakened materially and came in clearly expectations. The re-escalation of US-China tensions, with higher import tariffs imposed by the US, and which were retaliated by China, has pushed growth forecasts down, albeit still at or above the 6% mark.

Luk Fook announced that its same-store sales dropped 6% during the fourth quarter of its financial year as a result of average sales price points falling. Same store-store sales of gem-set jewellery were 4% lower in Hong Kong and Macau during the period, whilst in China gem-set jewellery saw a 3% increase.

A McKinsey report, published in April, on the Chinese luxury market, states that Chinese consumers are set to contribute almost two-thirds of global growth in luxury spending. The Chinese luxury market today, worth about USD\$110bn, is set to double by 2025. The largest group of luxury consumers was born in the 80's and 90's; for them luxury is something they have only recently discovered. The younger generation is more experimental with trying new brands. Whilst social media and key influencers are everywhere, the off-line, in-person experiences at brand stores are the most impactful source of information to influence purchases. The compound annual growth rate 2018-2025 for on-line sales is estimated at 12%, double that of off-line sales; yet, the off-line market is by far the biggest with a market share at around 90%.



USA

The **Conference Board Consumer Confidence Index**® improved in April, after decreasing in March. The Index now stands at **129.2**, up from 124.2 in March. "Consumer Confidence partially rebounded in April, following March's decline, but still remains below levels seen last Fall. The Present Situation Index, which had decreased sharply last month, improved in April, as did consumers' short-term outlook. Overall, consumers expect the economy to continue growing at a solid pace into the summer months. These strong confidence levels should continue to support consumer spending in the near-term," according to The Conference Board.

JC Penney and **Macy's** both noted that their jewellery divisions performed strongly during the first quarter, despite total sales at both retailers falling 6% to 0.6% respectively for the period.

U.S. Indicators

-  Consumer Confidence + 5.0 pts
-  Employment Trends Index + 0.05 %
-  Leading Economic Index + 0.2 %
-  Measure of CEO Confidence + 1.0 pts



INDIA

Akshay Tritya performed better than market expectations, and retailers felt this was the first time in the season where purchases were made.

Following the victory for the BJP government, equity markets have strengthened. The consumer market, including demand for diamond jewellery, is expected to see an uptick.

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