Bonas
Diamond Brokers & Consultants

MARKET REPORT

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BONAS & CO LTD

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General Comment

The mood in mid-stream has continued to deteriorate over the last couple of weeks despite a significant tightening of rough supply and a recent adjustment in rough prices.

Two trade shows – in Las Vegas and Hong Kong – could have changed the atmosphere had they been positive. Ultimately, the former was only moderate and the latter saw significantly fewer buyers as a result of the demonstrations on the Island. The continued impasse in the US/China trade war is impacting sales on the mainland. Growing tensions in the Middle East risk damaging consumer demand further.

The one chink of light is that shortages have recently been reported on the Indian market in select polished areas: well-made 4grs VS/SI qualities in H/I colours. The hope is that retailers will be forced into buying other areas.

Some on the market are now talking of a gradual recovery taking hold come September. However, this will require disciplined behaviour by everyone. Manufacturers will desperately need to make a margin once the uptick returns.

Rough

ANTWERP

Many companies in Antwerp found June more difficult than May; they don't see an immediate solution to the current midstream issues, other than to just sit it out.

De Beers made some price and assortment corrections at Sight, acknowledging the problems Sightholders are facing. Some boxes saw price reductions. Some bands saw no changes. The odd box was even thought to have gone up slightly.

These changes triggered a round of box trading, as the margins were still considered too little for manufacturers. Premiums, however, came down after Monday of Sight week, leaving little room for the ones who had not traded their boxes by then. Despite the changes, some refusals still took place. Boxes such as Z 3grs+7, which was widely thought to have been slightly corrected, was still trading at List -3% cash. The same applied to boxes such as 2/3 Black MB 4-8grs and Select MB 2-4cts. Some recycling is thought to have taken place as well as the fulfilment of some additional requests for goods that clients were due to buy in the future. The fifth sight cycle concluded at $390m.

Alrosa kept things steady in June, with the exception that clients only had to buy 60% of their contractual agreements, instead of 70%. It is thought that Alrosa did not manage to sell many additional goods throughout the week, which indicates the downbeat mood of their clients. Reportedly most 4grs and up are currently loss-making articles, where a substantial correction is needed. Traders in general have been struggling to cover their costs.

There were some assortment changes at Petra, which makes it difficult to accurately compare prices, although most believe they were more or less in line with their last sale. All goods got sold.

The Grib sale was considered quite stable by its participants.

All Dominion goods are still being sold through tender. They are considered decent value on the market.

Rio Tinto saw some price reductions. Some larger goods were withdrawn from the sale.

Very few Angolan goods reached Antwerp in June. Some traders have been active in Angola and are thought to have bought some rough, but the goods were sold to various market players at a loss.

ODC did quite well this month. Some goods did not get sold, but most of the goods that were, achieved slightly higher prices. People saw some improved assortments compared to last month. ODC is currently considered to be quite expensive.

Antwerp tenders have seen some further small corrections.

Press reports of a few large companies in financial trouble are not helping the mood in the market. Most people are already looking forward to the holidays and hope that there will be a pick up from end of August onwards.

MUMBAI / SURAT / OTHER INDIAN MANUFACTURING CENTRES

The continued tepid demand for rough diamonds after the June sight clearly shows that despite a price adjustment, the mid-stream still sees a lack of profitability. As a result, many organisations will down-size or leave the industry altogether.

It is very difficult to move boxes, even at a loss. Most 4-8grs boxes for example, are available on the market today, with offers significantly below list, but there are just no takers.

The overwhelming negative sentiment in the industry is creating a lot of concern for all stakeholders. Production in Surat is down around 30%

TEL AVIV

Very little has changed over the last month. There is still barely any rough trading occurring in Tel Aviv. Despite a tightening of supply and a price correction in a number of areas, De Beers goods were trading around List at the beginning of sight week, but weakened after a couple of days. Alrosa goods did not fare much better. Manufacturers still see no margins in the goods.

Indian buyers remain elusive.

For every week the current situation continues, the greater the talk of businesses looking to exit the industry becomes.

BOTSWANA

Sight 5 for the Botswana based sightholders was received with subdued caution. Whilst most boxes were purchased, manufacturers do not believe that the prices reflect the current market sentiment and still lack a margin.

Despite this, a number of international Sightholders continue to explore manufacturing opportunities in Botswana, given that certain goods are primarily only available in Botswana.

The President of Botswana and the First Lady were both key note speakers at events hosted by De Beers during the JCK show in Las Vegas.

DUBAI

The summer is usually a slower period for business activity. However, Dubai continues to hold rough diamond tenders, with healthy supplies of goods coming from Angola and South Africa in particular.

SOUTH AFRICA & NAMIBIA

As in other sales jurisdictions, some boxes were refused at De Beers' sight in South Africa.

Tender houses in the country have also reported poor sales with even some of the special stones not selling; regular goods have seen a softening in price.

The government of Namibia tasked the University of Namibia to look at how minerals mined in the country can be better beneficiated locally; minerals contribute about 50% of its export income. Diamonds (and Uranium) make up 14% of the country's GDP. Some high-quality rough diamonds come from Namibia, and it is for this reason that DebMarine Namibia in conjunction with the local banking sector saw it important to invest $397m to build a new diamond mining vessel – the AMV3 – which will be completed in 2021. This will provide an additional 500 000 carats annually from 2022, contributing some $138m a year in taxes and royalties to the government of Namibia.

Polished

ANTWERP TRADING

Polished market activity continues to weaken and will slip further over the summer months. Traders complain they cannot move the goods as there is simply no demand. They explain the situation as a combination of 1) lack of downstream demand and consumer appetite -2) oversupply in the midstream - 3) strong growth in the lab-grown diamond offering and 4) a general global economic slowdown. A lot of companies' YTD polished sales are down by anywhere between 15% and 30%. No one really knows where the market is heading so people are very concerned; there is a general feeling of pessimism across the business. The RAP correction announced today (Friday) has not helped.

There is selective movement in some pointers, 1ct and fancy shapes in VS-SI quality. VVS remains largely unsellable. Unlike the past where traders were able to sell full parcels, buyers today are extremely picky and only source the exact sizes they need and what have concrete orders for. The polished market is discordant as well; as discounts fluctuate erratically, it is impossible to define the market price today. The steepest discounts have become the benchmark, irrespective of whether this is backed by any real business.

TEL AVIV TRADING

The trading market has, if anything, slowed yet further in June as the holiday months approach. Las Vegas and Hong Kong failed to lift the mood.

Little is likely to change now until the end of August. Businesses are looking to keep their polished stocks as lean as possible to protect themselves from any potential shocks over the next couple of months – the biggest one being the possible escalation in tensions between Iran and the US.

NEW YORK TRADING

The US market has slowed for what is traditionally a quieter period of the year. Whilst some buying activity was seen at the Las Vegas show, particularly in J colours in loose 1-1.5cts, and also branded jewellery, there is an air of unease as to what the rest of the year will bring.

The reasons for the concern are multiple. Firstly, the trade war with China sees no sign of ending, with neither side giving ground. Tensions in the Middle East are also escalating. Polished prices have been slipping in a range of areas, eroding confidence in the product. Finally, lab-grown diamonds were seen in abundance at the show, and a lot of the talk was around how US retail is embracing the category, especially in 1ct plus.

That said, US retail continues to be relatively buoyant. The National Retail Federation stated that US retail sales in May grew 3.2% year on year, and were 0.5% up on April. Despite, this the US economy appears to be losing steam, leading to expectations of the Fed cutting interest rates in the near future.

MUMBAI TRADING

Given the thin margins and prices that continue to correct, a lot of traders have exited the industry. Others are treading with caution as it is unclear where the market is heading for the remainder of the year.

Demand for polished, both at B2B and B2C has dropped significantly and there is no expectation of any change, unless Chinese confidence returns. Sales to the USA have also slowed, but the industry is hoping that there will be a slight pick-up, after the summer holidays there.

HONG KONG TRADING

The June Hong Kong Jewellery & Gem Fair has disappointed. Spread across four days, and in one location (HKCEC), the Fair has failed to be the positive barometer for regional polished diamond trade and retail. The number of exhibitors was lower than usual, and on many occasions, the corridors in the diamond hall were empty; there was more traffic in the pearl, gemstone and finished jewellery pavilions though. Friday got disrupted as well, as many visitors found it difficult to reach the CEC due to on-going protests and manifestations in the exhibition area, close to Parliament.

The success of a trade fair is dependent on the B2B trading activity on the floor, as well as demand from jewellery manufacturers and retailers. The B2B community showed no appetite to buy goods whatsoever, and demand from retail was low across the board.

Sales in smalls and 30 pointers has been difficult for some time; the negative price pressure in those goods, has now spread to many more categories. On average, polished prices have come down by 8-10% since the beginning of the year. 50 pointers and 1ct sizes KLM are doing reasonably well. 3cts and up are very slow, and in 5-10cts and larger, stones need to be absolutely perfect in order to attract buyers.

There is a lot of disappointment in the diamond business and confidence levels are low. Very often disappointing trade shows trigger further price cuts later, as everyone just realizes the quantity of goods that are available in an empty market.

Retail Markets

EUROPE

The Consumer Confidence Indicator for the Euro Area was confirmed at -7.2 in June 2019, down from -6.5 in May, reflecting households' more negative views on all its components, namely their past and future financial situation, their expectations about the general economic situation and their intentions to make major purchases.

(source: Trading Economics)

The European jewellery retail market is described as soft but better than the polished market; those who operate in a niche business or sell a differentiated product do relatively ok, others suffer. European retail is picking up more clean goods (VVS, DEF) due to the interesting price points. The gold price reached a six-year high last week, hitting $1,410 and reconfirming gold's position as a safe-haven in uncertain global times.

Orders from the Swiss brands are down, and prices continue to be under pressure. Swiss watch exports rose steadily in May (+11.4%) to more than CHF 2bn. Except for Hong Kong (-7%), the vast majority of markets reported an increase. Swiss insiders believe this year's export growth will be around +2%, more modest than last year's 6.3%.

HONG KONG/CHINA

Retail in Hong Kong and China has been slow since the third week of April. The rhetoric around the US-China trade war has made people nervous and much more cautious. The CNY currency seems to have somewhat stabilized, but if the talks between President Trump and President Xi Jinping, scheduled for Saturday 29 June do not yield something positive, all this will become more volatile again.

Retailers continue to buy very selectively, and step-up their efforts to further bring down inventory levels, ideally below 9 months. In some cases, store openings in Tier 4-5 cities have proven not to be successful, and inventory is now being shifted. Interestingly, the P&L's of many retailers show decent figures; this is often on the back of increased gold prices. The large Hong Kong based retailers seem to be doing better than the smaller mainland retail businesses, many of whom are struggling.

USA

The **Conference Board Consumer Confidence Index®** declined in June, following an increase in May. The Index now stands at 121.5, down from 131.3 in May. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 170.7 to 162.6. "The decrease in the Present Situation Index was driven by a less favorable assessment of business and labor market conditions. Consumers' expectations regarding the short-term outlook also retreated. The escalation in trade and tariff tensions earlier this month appears to have shaken consumers' confidence. Although the Index remains at a high level, continued uncertainty could result in further volatility in the Index and, at some point, could even begin to diminish consumers' confidence in the expansion", according to The Conference Board.

Signet Jewelers reported that its total sales for the first quarter of 2020 fell 3.3%, whilst same-store sales were down 1.3%.

Same store sales at Kay Jewelers, Zales and Jared all fell by 1.4%, 1.4% and 2.0% respectively. E-commerce sales increased by 5.3%.

Total sales at **Tiffany & Co.** decreased 3% for the first quarter of the fiscal year. Comparable store sales dropped by 5%.

In the Americas, Japan and Europe, net sales were down 4% in each region, whilst in Asia Pacific they were only 1% weaker.

Comparable-store sales were 4% down in the Americas, 5% softer in Asia Pacific, and has 4% in Japan. Europe saw a 7% fall.

INDIA

Sales of diamond jewellery have been slow post Akshay Tritya, on the back of high gold prices. Also overall retail is slow in India.

Adding to this, the monsoon is playing truant. The country eagerly awaits the heavy rain showers, which are yet to arrive in most parts of the country.