



MARKET REPORT

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Market Report

General Comment

There was some hope that the mid-stream would have seen some green shoots at the end of the Western hemisphere's summer holiday. However, that doesn't appear to be the case.

The large miners have taken the decision to reduce supply substantially. But the lack of profitability in the goods being sold is now hindering manufacturers from stepping up production. Instead, many companies are talking about a longer than normal shutdown in the run up to Diwali.

Polished demand remains tepid, despite relatively steady retail sales. Any possible fillip that the Hong Kong show was hoped to have provided is unlikely to materialise. Shortages in certain areas continue to be highlighted, and these are likely to be exacerbated by the lack of fresh production, but as of now there are no signs of firming polished prices. Rapaport's price decrease in clean, white stones in larger sizes does nothing to help confidence.

People have stopped trying to second guess when the market will turn, and are instead concentrating on ensuring their businesses are as healthy as they can be when things stabilise.

Rough



ANTWERP

The Antwerp diamond market has slowly restarted after the summer recess, but the sentiment has not improved.

De Beers offered additional flexibility in August by allowing clients to do buybacks of 20% instead of 10% in all goods, and also permitting refusals of 50% in a select number of boxes, predominantly in 3grs down and cheaper ranges. De Beers did not adjust rough prices as they believe that eventually the market will have digested the polished overhang and demand will pick up again. Most clients came to sight hoping that the additional measures would help them to buy their boxes. However, in few cases, clients still could not justify the purchase so some boxes got refused. Client confidence was further undermined by the fact that a number of boxes had been sold on the market at large discounts. At the end of sight week, some boxes got recycled, mostly by sight holders trying to take positions and/or by trying to defend current ITOs. Almost all boxes were sold at a loss, some significant, this sight. The 7th sight cycle closed at \$280m, which was higher than many expected.

Alrosa, as in previous months, also offered some flexibility by offering clients the possibility to only buy 55% of their contractual amount. Some reported that assortments were slightly weaker, which made it even tougher to buy. Most goods are currently being traded at small losses. 4grs and up are under substantial pressure.

More Angolan goods have come onto the Antwerp market this month. Some say that goods are gradually becoming more attractive, especially considering that there is not much rough around. Catoca is coming onto the market on a regular basis.

Rio Tinto is believed to have made some price adjustments in Diavik goods in order to remain aligned with the market, allowing them to be in value. For Argyle, no price changes were made. Clients were supposedly offered a discount if they bought their full allocation.

Dominion has been good value this month. Clients who have bought from them seem to be quite happy. But many have stated that volumes are on the lower side and that they will only decrease further in the future.

ODC was quite stable in August compared to July. No single stones were sold, which was considered positive by a few players.

Antwerp tenders have only just started but results so far have been in line with market expectations.

Business remains extremely tough and most do not expect an improvement in the short-term, particularly without a decent Hong Kong show.



MUMBAI / SURAT / OTHER INDIAN MANUFACTURING CENTRES

The traditional manufacturing ramp up that normally happens at this time of year has not taken place. Manufacturing continues to be substantially lower than would be expected. Small bankruptcies have also started.

With lower volumes of rough diamonds being supplied by miners to the market, larger manufacturers with distribution strength are now looking for the raw material, but will only buy if the price is right.

The additional flexibility offered this sight was welcome, however, buyback prices were considered disappointing. This was especially the case in 3gr, which made boxes hard to defend. There had been some hope of improved assortments, but that did not happen.

De Beers' boxes were again trading at below list on the secondary market.

As business continues to be subdued in the run up to the peak season, many companies will close for an extended time rather than just a day or two to save on costs.



TEL AVIV

The Israel market has returned from its summer vacation, however nothing much has changed. Companies are becoming increasingly disillusioned in the industry. There is still no profit to be made on goods from the large miners, be it from trading or manufacturing, despite the additional flexibility being given. Offers on boxes were generally no better than List, and many were significantly below.

Manufacturers will continue to keep factories operating in as lean a manner as possible until profitability returns.



BOTSWANA

Sight 7 for Botswana based manufacturers was received with the same caution as the previous sight; refusals and buy-back options continued to be exercised throughout.

De Beers offered additional flexibility this sight by doubling the buy-back allowance in recognition of the highly challenging market conditions.

A number of the new factories have taken this opportunity to purchase certain refused boxes in the run up to the new ITO period in order to take a position and to benefit from the demonstrated demand model.

Factories continue to look at options to mitigate their losses. Some have begun staff retrenchments as profitability continues to elude them.



DUBAI

The summer and Eid holidays, which are coming to an end shortly, have contributed to a slowdown in business activity.

September will see the DMCC hosting the Presidents of the WFDB and IDMA which will be followed by the 4th Dubai Diamond Conference.



SOUTH AFRICA & NAMIBIA

The South African diamond sector, like others, remains in a slump, with demand for sight rough being very limited. Large stones have also become undesirable as the resulting polished has slowed significantly. Sightholders are only buying what they need, and not for any other reason.

Demand for large stones from South African tenders has also dissipated; it is believed that a lot of these goods were ultimately withdrawn.

The annual Jewellux – SA jewellery show – will be held from 5th – 7th October. This year Mauritius will, for the first time, be represented by 11 companies who will exhibit gemstone jewellery. This is one of the attempts by the Jewellery Council of South Africa to keep the sector relevant and active.



ANTWERP TRADING MARKET

Polished sales are not good. While post summer is traditionally a busy time with buyers starting to prepare for the season, traders complain there is little demand. A number of factors are affecting people's mindset: the unsustainable imbalance between rough and polished prices, and the resulting lack of profit; the macroeconomic uncertainty due to Hong Kong protests, China-US trade tensions and depreciating currencies; and the growth of the lab-grown sector. There is little optimism. Buyers are watching to see what happens next; another Rapaport price adjustment (between 2 and 7%) in clean goods from 0.90 – 3.99ct does nothing to help.

Only a very limited number of articles are moving in low volumes. There is some activity in the lower end from 10/ct up to 1ct, thanks to the US market which is described as the only bright spot at the moment.

TEL AVIV TRADING MARKET

Now the summer break is over, it is clear that nothing has particularly changed. Polished orders remain slow. The hope was that the Hong Kong show was going to provide some impetus, but the protests have largely put paid to that as people have either cancelled or will make a final decision nearer the time.

Those Israelis that conduct business in the Far East do expect a bit of a pick up as the feeling is Chinese retailers currently have low levels of stock.

NEW YORK TRADING MARKET

Sales remain quiet in the US market. Demand from retailers is slow; a pick-up should start to be seen around this time but has yet to materialise. The mid-stream is nervous about what is going happen over the next couple of months.

US consumer spending remained strong in July, up 0.9% on July and up 5.6% year on year. However, the escalation of the trade war between the US and China may have a negative impact on spending as the year progresses, as additional tariffs are introduced. The diamond industry has now also been caught up in it with an additional 10% tariff being imposed on diamonds, gemstone and metal jewellery coming from China from 1st September.

Unemployment rates remain steady in the US at 3.7%, with 164,000 jobs added in July. This has helped consumers remain optimistic about the strength of the economy, despite concerning macro-economic indicators.

MUMBAI TRADING MARKET

Mumbai's polished market has, for perhaps the first time in its history, started taking extended breaks due to slow polished demand. Offices that worked non-stop are closing for every holiday, significant or not, as owners prefer to stay away given the lack of work. With with pressure on polished prices, many manufacturers are finding that they cannot replace polished at the same prices, so prefer to hold on to goods.

Polished imports into USA have dramatically reduced, with data from the US Commerce Department reflecting a reduction in 1H 2019, that is below imports of 2009. Sightholders with existing programmes are reporting some movement, but other sales are very slow. Demand had marginally improved last sight, but now seems to have plateaued and prices are again under pressure.

Now all eyes are on the Hong Kong show, but the fear is buyers will tend to stay away given the travel warnings being issued, and additional security on the borders of Hong Kong.

HONG KONG TRADING MARKET

The mood in Hong Kong is entirely dominated by the pro-democracy protests. After more than 11 weeks of clashes, and a highly unpredictable outcome, business in Hong Kong has suffered. Informa Markets, the organiser of the upcoming Hong Kong trade fair starting September 16, are determined and push ahead, this in spite of appeals for cancellation from a number of trade bodies. Exhibitors' cancellations will not be refunded, so unless major insurance problems present themselves, exhibitors continue their preparations amid uncertainty about buyer attendance.



Retail Markets

EUROPE

The **consumer confidence indicator** in the Euro Area was confirmed at -7.1 in August 2019, below -6.6 in the previous month, amid a deterioration in households' expectations about the general economic situation, while their assessments of both their past and future financial situation improved somewhat, and their intentions to make major purchases remained unchanged. (source: Trading Economics)



Activity in Europe is quiet for the time of year. There is hope that the Vicenza show in mid-September will give some direction and provide some fresh orders.

Demand from Swiss watch brands continues to be down. This is unlikely to change as the second half of the year is traditionally slower than the first. Swiss watch exports bounced back in July 2019; total exports were CHF 1.9bn, +4.3% compared to the same month in 2018. The increase in value was due to growth (+11.5%) from watches made from precious metals. Volumes continued to fall for the 12th consecutive month though.

The situation in Hong Kong has and will continue to affect sales of luxury brands. Hong Kong accounts for 14% of Swiss watch exports; exports to this market fell 6% in the first 7 months, but they have been compensated by an increase in sales to mainland China, which are up 14% over the same period.

USA

The **Conference Board Consumer Confidence Index**® declined marginally in August. The Index now stands at 135.1, down from 135.8 in July. "Consumers' assessment of current conditions improved further, and the Present Situation Index is now at its highest level in nearly 19 years. Expectations cooled moderately, but overall remain strong. While other parts of the economy may show some weakening, consumers have remained confident and willing to spend. However, if the recent escalation in trade and tariff tensions persists, it could potentially dampen consumers' optimism regarding the short-term economic outlook," according to The Conference Board.

| U.S. Indicators | |
|-----------------|--------------------------------------|
| ▼ | Consumer Confidence - 0.7 pts |
| ▲ | Employment Trends Index + 1.53 % |
| ▲ | Leading Economic Index + 0.5 % |
| ■ | Measure of CEO Confidence 0.0 pts |

H1 and Q2 global net sales at **Tiffany** were 3% down compared to the same time last year, with comparable-store sales 4% lower for both periods.

Comparable-store sales in the Americas were 5% lower for H1, and 4% softer for Q2, whilst in Asia-Pacific they were down 4% and 3% for the respective periods. European comparable-stores sales were weaker still, with H1 down 7% and Q2 falling 6%.

Macy's announced that its total revenue for second quarter of its financial year was 0.5% down to \$5.55bn. However, it noted that fine jewellery was one of the company's 3 best-selling categories.

J.C. Penney also stated that its fine jewellery business performed well, with diamond amongst the categories seeing strength. Comparative-store sales for the division were up. J.C. Penney's total sales were down overall, by 9% to \$2.51bn for its second quarter.



HONG KONG

One of the impacts of the Hong Kong protests is that we are seeing a weakening property market. Office vacancy rates in the central business district hit a three-year high, home sales fell more than a third, and retail space was hardest hit as mainland Chinese shoppers kept away. Prada intends to vacate its flagship store for which it pays \$1.2m per month, and the landlord is prepared to slash the rental price by 44%, when the property becomes available. Swire Properties posted a 41% net-profit drop in the first half from its exposure to Hong Kong.

The Hong Kong Retail Management Association reported a steep 17% decline of jewellery retail sales in June, compared to the same month last year; total retail contracted 6.7%. Meanwhile, government data in mainland China suggests that jewellery sales for January – July were up 2.9%, mainly attributed to increased sales of gold and silver jewellery.

Hong Kong based jewellery retailer Chow Sang Sang reported increased revenues by 1% from jewellery retail in the first half ending in June. Compared to the previous quarter, sales in mainland China grew 4%, whilst sales in Hong Kong dropped 2%.

Retailers are very price point sensitive, and they are being confronted with a 6% currency decline in China in the last six months and an appreciation of 16% in gold over the same period.

The China – US trade war properly accelerated over the summer, resulting in price inflation in basic consumer goods as well as other products. The Trump administration is now delaying planned tariffs in order to save Christmas for toy, clothing, footwear, and electronic retailers—although some in the jewellery business are wondering why it also didn't get a last-minute reprieve.

INDIA

IJS was very positive, and the market believed that Indian retail would hold. However, given the current world economic situation, high gold prices and pressured bank lines, many retailers are preferring to defer their purchases, and buy closer to when they will need product.

Adverse market conditions in India has resulted in reduced spending; the rising cost of debt is putting a further squeeze on businesses. Car sales are down 31%, TV down 20% and even FMCG is losing speed.

India's largest multi-door retailer has fallen back on their growth forecast due to lower consumption.

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