Bonas
Diamond Brokers & Consultants

MARKET REPORT

September – October 2019

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General Comment

There has been a slight uptick in Indian manufacturing before the Diwali shutdown, which for most is expected to be longer than normal. Manufacturers in beneficiating countries continue to look at ways to mitigate losses, either by retrenchments or periods of closure. Despite the lack of money to be made in manufacturing, polished is still being sold in India to cash buyers at prices that are well below the cost of replenishment. However, there have been some recent signs of a floor being reached in polished prices.

The Hong Kong show was quiet, as expected, due to the protests. Retail sales in Hong Kong are believed to have taken a battering in recent months due to the unrest. The picture in China is also mixed. Sales in the US are relatively steady but have lacked the impetus to really turn the market around.

The industry is still waiting for the significantly reduced volumes of rough that have been sold to spark a pick-up. From the point of view of profitability, people need it to happen soon.

Rough

ANTWERP

The Antwerp diamond market is still very quiet, particularly as the Jewish holidays are currently taking place and Diwali is just around the corner. Rough sales are sluggish as there is little to no money to be made in manufacturing.

De Beers has shown a very consistent approach over the last few months by not changing rough prices, and instead continuing to keep reduced rough volumes from the market. It also provided increased flexibility in September by allowing 30% buybacks in +2cts boxes, up from 20% in August. The combination of the various measures was designed to allow clients to buy rough in a more focused manner. Many sightholders did take up the flexibility offered. The feedback from clients on the prices received was mixed: for some it was enough to allow them to take the box, and for others it was not sufficient. Market premiums did stabilise this month, but very few boxes were selling for a profit. The eighth sales cycle closed at $295m, which was lower than most had predicted.

Alrosa did not change its strategy from previous months. Clients were still allowed to pick up 55% of their contractual obligation across the multiple Alrosa sources. Anabar was in good demand, especially in cheaper goods. The market did pay healthy premiums for goods below $50/ct, although other goods remained very tough to trade. Like last month, premiums were around List 120 days in most areas.

Catoca remains the flavour of the month. Many seemed to have enjoyed decent margins and are looking to buy more.

Rio Tinto did reduce prices further on some items in it’s Diavik sale, whereas Argyle was in line with last month.

Prices in the Grib tender were supposedly down a few percent.

Dominion goods were in line with last month, with most clients being happy with prices and assortments.

ODC did not sell this month.

Many hope that rough prices will eventually adjust. With three more months to go in 2019, the last quarter will be more about how to further limit the damage for the year.

MUMBAI / SURAT / OTHER INDIAN MANUFACTURING CENTRES

The September sight was the last one before manufacturers close for the Diwali holidays. Unlike previous years, demand for rough has been soft across the board. Much of what was purchased is thought to be for maintaining factories rather than fulfilling demand. Diamantaires are afraid to hold too much inventory, given the volatility in the diamond market and global currencies.

As a result there was little in the way of rough trading on the market. Any offers were generally well below list.

Some polishers are turning to lab-grown diamonds to stay in business, rather than shutting down. The improved profitability keeps them going, but the lower product price point means the workforce is getting paid far less.

Manufacturing in smaller centres has shrunk massively, and is mostly limited to factories that are connected with larger names.

Independent manufacturers speak of taking a longer Diwali break, and will possibly return from the Diwali break in December.

TEL AVIV

There was no improvement in market conditions in September. Rough from all of the main miners remains largely unprofitable, whether for trading or manufacturing. Prices at the small tenders have fluctuated from very high to affordable over the course of the month depending on whether Indians were buying.

The 30% buyback that De Beers offered in +2cts was largely taken advantage of. Some found the buyback prices offered to be attractive, but this was not the case universally.

Demand for rough will remain weak for the next few weeks as the market is on holiday for much of that time.

BOTSWANA

Sight 8 for the Botswana based Sightholders witnessed additional flexibility being offered (on account of the continued challenging market conditions) by way of increasing the buyback allowance in +2cts boxes.

The mood at sight remained subdued with buy-back options and refusals being exercised throughout. A selection of the new Sightholders continue to take 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.

The Diamond Office recently released official factory export figures which reduced the overall manufacturing rough utilisation rate drastically compared to last year.

The general election will take place on 23rd October and it is expected to be a close result between the ruling Botswana Democratic Party (BDP) and the opposition alliance parties, the Umbrella for Democratic Change (UDC).

DUBAI

DMCC hosted the Presidents of the WFDB and IDMA as well as the 4th Dubai Diamond Conference (DDC). This year's DDC theme was "*Disruption in Diamonds: Harnessing innovation and technology for a positive change".*

The new tender facility in Almas Tower for diamonds and coloured stones was also launched.

SOUTH AFRICA & NAMIBIA

Sight 8 in South Africa took place in between September Heritage Day holidays, rendering it shorter than normal. Despite the limited viewing window clients still exercised their buy-back option on the goods.

Polished

ANTWERP TRADING MARKET

September has been described as a bad month for polished. Traders summarize it as follows: demand is down and retailers have enough inventory. Buyers lack the confidence to stock goods.

Companies' top and bottom-line are under immense pressure. There is demand for 2ct down at a price, however this price level is too low for manufacturers to cover their costs or replace goods. While there are still high inventory levels of unsellable by-product on the market, pockets of demand have been widening and slight shortages are starting to appear in specific areas.

While polished prices and discounts have followed an erratic pattern in the past few months where traders were lacking any price benchmark, it seems that a common price level has been reached now, which people hope is the bottom. Program buyers continue to pay the price but select strictly what they want. Traders who want to make a generic or B2B sale remain under significant price pressure, which often means having to make a concession.

Many believe that the pick-up in business has to happen at some point, however the effect of reduced manufacturing and destocking has not really trickled down to the polished yet.

TEL AVIV TRADING MARKET

A number of Israeli companies attended the Hong Kong show despite the unrest. The show was underwhelming, as expected, despite it being acknowledged that the buyers who did turn up were serious about making purchases. Some said that there was activity in larger polished, but it could be mainly dealers activity and not the end consumer.

The hope is that once the Israeli market returns from the holidays, there will be more activity with sales to the US for the season, and also into China.

NEW YORK TRADING MARKET

The New York market is currently fairly quiet due to the Jewish holidays. It is around now that we should be seeing demand pick up for the season, but there is not much evidence of that yet. The reality is that any increase in activity is likely to be driven by goods being placed on memo, rather than asset sales. The mid-stream remains nervous about how the season is going to play out.

Data from the US points to the fact that the economy is slowing; experts suggest that there is now a 25% chance of a recession in 2020. The Institute for Supply Management index of US manufacturing activity fell more than expected in August, to its lowest level since June 2009. Consumer confidence has also dropped off as a result of a concerns over the trade war and the softer job's market.

De Beers' increase in marketing spend in the US for the season is seen as essential to driving consumer demand.

MUMBAI TRADING MARKET

The polished market is changing quickly but remains highly fragmented. The overhang seems to be clearing in pockets on the back of fewer goods coming to the market and an uptick in retail demand. Shortages also appear to be widening. Desirable certificate goods continue to be difficult to find in several areas, especially in excellent makes and better colours. This shortage of certified goods can be attributed to manufacturers preferring to mix better end polished in parcels rather than spending on certificates that have not been moving for some time.

It is clear that the window for selling polished this year is not only very small, it is also in limited ranges. More sales are taking place directly between manufacturers and retailers as a result of lower inventories. Traders try to buy at lower prices but without much success at the moment. There is talk of a few retailers pushing for a greater volume of memo this year.

HONG KONG TRADING MARKET

No one left for Hong Kong in September expecting a good trade show, and in the weeks prior several trade bodies lobbied with Informa Markets, the organiser, to cancel it altogether.

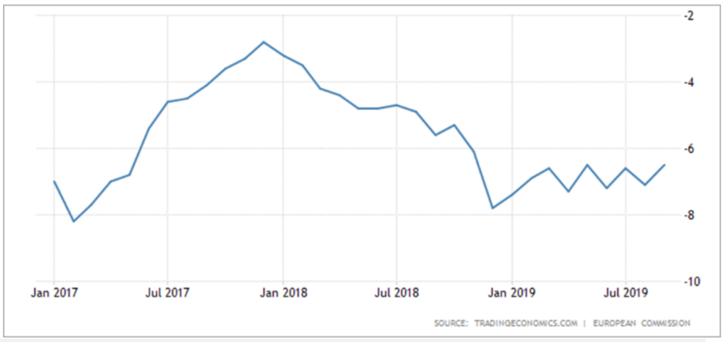
However, attendance was much higher than anticipated, with only the Chinese and SE Asian communities not there in numbers. Overall business levels were low, and making a sale in generic product was only possible provided one was prepared to make a price concession. 3cts up, in particular, were under a lot of pressure although some people sold exceptional stones and fancy colours. Prices in the 1-2ct range were holding, but pointers on the other hand suffered yet again, and have now lost around 25% in value since January. There is no demand for 4-5-6 per carat.

Retail Markets

EUROPE

The Consumer Confidence Indicator in the Euro Area was confirmed at -6.5 in September 2019, above the previous month's reading of -7.1, reflecting households' more positive expectations about the general economic situation and, to a lesser extent, their own financial situation, while their assessment of their past financial situation and intentions to make major purchases remained broadly stable.

(source: Trading Economics).



Swiss watch exports amounted to CHF 1.5bn in August, up 1.5% compared to August 2018. The industry continues to witness a slightly upward trend, with year-to-date growth up 1.9%.

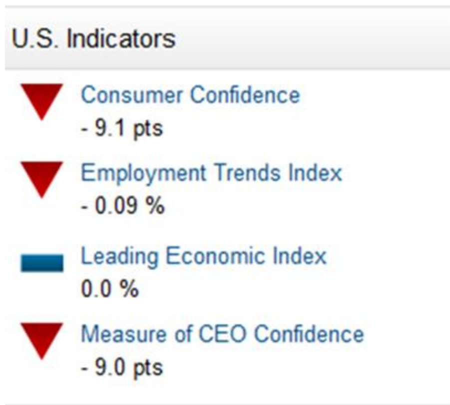
Suppliers face reduced polished orders from Switzerland and the price pressure has not eased. It seems that some brands have opted to first clear out old jewellery/watch stock and recycle the polished or have shifted to cheaper, low end single cuts. Others might have overbought in certain mm sizes.

Due to its product mix and exposure to Asia, Richemont is likely to suffer more than other luxury brands from the current disruption in Hong Kong, depreciation of the Chinese yuan, and macro issues engulfing the region. Hong Kong and China are vital markets for Richemont, contributing 38% of group sales.

Last week, Richemont announced it had acquired 100% of Buccellati, the renowned Italian high jewellery house, in a private transaction with Chinese investment company, Gangtai Group Corp., for an undisclosed price. Buccellati currently sells through an international network of 28 high-end boutiques and distribution agreements.

USA

The **Conference Board Consumer Confidence Index®**," decreased in September, following a slight decline in August. The Index now stands at 125.1, down from 134.2 in August. "Consumer confidence declined in September, following a moderate decrease in August. Consumers were less positive in their assessment of current conditions and their expectations regarding the short-term outlook also weakened. The escalation in trade and tariff tensions in late August appears to have rattled consumers. However, this pattern of uncertainty and volatility has persisted for much of the year and it appears confidence is plateauing. While confidence could continue hovering around current levels for months to come, at some point this continued uncertainty will begin to diminish consumers' confidence in the expansion," according to The Conference Board.



Signet Jewelers announced that its total sales of the second quarter of its 2020 fiscal year were down 3.9%, with same store sales 1.5% lower than the same period last year.

In the US, **Zales** reported a 2% increase in same-store sales for the period, whilst **Kay** and **Jared** saw same-store sales slide by 2.7% and 3.5% respectively. In Canada, People's also saw sales slip by 0.9%. Same-store sales in the UK dropped 7% for the period.

E-commerce sales, including those by **James Allan**, were up 4.4% during Q2.

HONG KONG/CHINA

After 70 years of economic progress, the second largest economy in the world now faces numerous challenges. China's economic boom was fuelled by a large and young labour force, rapid urbanisation, large-scale infrastructure projects, market liberalisation and global trade. All of these factors have either diminished or disappeared, and domestic spending has become an important driver for growth. GDP dipped to a 27-year low of 6.2% in the second quarter, and the trade war with the US continues to put downward pressure on the economy. Rising household debt levels have also had a significant impact on consumption.

Rising gold prices and a depreciating Renminbi have made jewellery more expensive. Retailers are very price conscious and this has resulted in lower diamond content. Jewellery that is considered fast-moving in China is generally below $200.

Another effect from higher gold prices is that more jewellery recycling is taking place. Franchisees not able to sell product are sending it back to the parent company, not at full value, but at e.g. 70%.

We believe diamond jewellery retail sales took a hit in mainland China in the last quarter and is probably down by 15-20% in that period. All of the above has resulted in a much more cautious polished buying behaviour from the large retailers, with some having stopped completely.

These same retailers are being hit even harder in Hong Kong, where they have witnessed the weakest-ever y/y retail sales on slumping tourist arrivals.

Hong Kong August retail sales growth dropped to -23.0% y/y (nominal terms) from July's -11.5% y/y, substantially below expectations for -14.0% y/y. This is the worst single-month y/y sales growth since records began in 1982.

Almost all categories exhibited slower year-on-year growth. Sales of jewellery, watches and luxury items – a particularly tourism-sensitive category -- showed the largest slowdown, at -47.5% y/y vs. July's -24.3% y/y.

INDIA

Macro economic conditions, and high gold prices are creating a lot of pressure on diamond retail in India. Gold has become an attractive asset class for Indians.

Wholesalers of diamonds are complaining of very slow uptake at retail.