



MARKET REPORT

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Market Report

General Comment

There are indications that some stability is returning to the midstream with demand for polished picking up prior to Diwali and continuing post.

The large miners' decisions to reduce supply to the market has been successful in moderating the amount of fresh goods being manufactured. Shortages are now appearing in nicely made SI's in a range of sizes. There are even some indications of prices firming slightly in these areas. This has set the conditions for a rough price realignment by De Beers and Alrosa. But only a decent season with sustained polished price increases will see manufacturers return to profitability in the coming months.

Rough



ANTWERP

The Antwerp rough market has seen a slight rebound after the Diwali break. The low influx of rough over the last several months has resulted in improved inventory levels both in polished but mostly in rough. People have remained very cautious over the last few weeks as polished prices appear to have stabilised, but most know that it does not take much to shake up the market again.

De Beers took two decisions this month. Firstly, they allowed Sightholders to defer 30% of Sight 9 and Sight 10 into the new 2020 ITO period. They also gave Sightholders the benefit of the doubt by considering the deferrals as purchased for the demonstrated demand calculation. This is believed to be the first time they have allowed clients to defer goods between two ITO periods. Secondly, De Beers realigned prices in Sight 9 by between 3-5%, with larger corrections in the cheaper goods (Coloured & Brown Clivage, Preparers and Rejections). Market premiums improved to stabilise around List +1.5-2%. Very little was refused at sight, and those refusals seem to have been recycled at the end of the week. The ninth sales cycle closed at \$390m, which is still somewhat below expectation.

Alrosa also made price corrections across the board, thought to have been 6% on average. The reduction was larger in cheaper goods. Alrosa is understood to have sold most of its goods, and also encouraged its clients to take up larger volumes.

\$80m of Catoca goods were sold last week and there is a worry that more Angolan goods will hit the market soon.

Rio Tinto will only sell goods later in the month.

Grib closes next week, but most reported that the assortments were very similar to previous months.

Dominion's contract sales this week are understood to be half of the usual amount as many goods were cut to go into their tender, which is closing next week.

ODC only had parcels for sale and no single stones. The tender has not closed yet, but many were of the belief that the De Beers price correction could affect prices achieved.

Attendance at Antwerp the tenders has increased over the last week, with many clients trying to book last minute to view the goods.

To conclude, November has seen more demand for rough in combination with some much needed price changes. Many hope the market will slowly start picking up. This will depend on polished prices and on the main consumer market doing well come the end of the year.



MUMBAI / SURAT / OTHER INDIAN MANUFACTURING CENTRES

Diamond polishing factories in Surat and other centres have been on Diwali holiday for the last two weeks. Larger factories have reopened, and smaller ones should start operations again next week. Owners are not pressuring staff to return for the opening, and most will take their time to pick up production.

Almost all manufacturers have already downsized to a great extent and taken a hit on polished prices to create liquidity for themselves. Given that other industries in India are also floundering, including real estate, manufacturers have returned to doing what they know best – manufacturing diamonds. Most are being very selective in what they buy, and even branded rough is being thoroughly analysed for profitability.

Smaller manufacturers are a big reason for the secondary rough market to have improved slightly. They have seen that polished sales have picked up marginally in the last few months, prices are now holding, and are trying to get back into the new cycle. Fewer carats of rough coming onto the market have also helped.



TEL AVIV

The rough market in Israel remains quiet as the Indians are yet to return from the Diwali holiday. As a result there is no excitement at all in the market. Volumes of rough available are also low due to sharply reduced sales by the large miners.

Boxes from sight are being traded largely between list and cost, although one or two articles attracted higher premiums with terms.

Manufacturers still see little in the way of profitability from goods. Until there is a sustained period of stability or even growth, demand for rough will remain soft.



BOTSWANA

Sight 9 for the Botswana based Sightholders was mixed. Despite a number of overdue price corrections at the Sight, market conditions remain challenging, as does the manufacturing environment. A number of buyback options were exercised, and there was the odd refusal.

De Beers, with the Government of Botswana, hosted their annual Diamond Conference. The conference's theme revolved around the 4C's of Success for the Diamond Ecosystem; being collaboration, consumer, cluster development and community.

General Elections were held on October 23rd. The ruling Botswana Democratic Party (BDP) won the elections, defeating the opposing parties in what was thought to be one of the closest contested elections in the country's recent history. Much of the political campaigning focused on relieving the high rate of youth unemployment, diversifying the economy away from mining as well as increasing economic citizen empowerment.

As a result of the General Election, the President has appointed Mr Lefoko Moagi as the new Minister of Mineral Resources, Green Technology and Energy Security and has retained only three ministers from his previous Cabinet.



DUBAI

Dubai continues to hold regular rough diamond tenders, with healthy supplies of goods coming in from Angola, DRC and South Africa in particular.

It is reported one of the main lending banks to the industry is in the process of reducing its financial exposure to a number of its clients as well as closing the majority of its gold and diamond accounts.



SOUTH AFRICA & NAMIBIA

Sight 9 in South Africa and Namibia is effectively the last sight of the year, since businesses close early in December for the holidays. The flexibility brought in this sight and the price realignment were well received by clients. The box compositions and mixtures were otherwise as expected.

Lately, beneficiation discussions have again taken centre stage in the various investment forums, one of which South Africa held to raise foreign direct investment. In South Africa there is talk about developing an industrial strategy in which Mining and Beneficiation is one of the focus areas. On the African continent there is a desire to process mined goods locally and export only finished goods. This is seen now as the only way to develop local manufacturing, boost economic growth and tackle the growing unemployment rate, especially among the youth.



ANTWERP TRADING MARKET

Polished sales continue to be difficult and businesses are down compared to the same period last year. While companies should be busy fulfilling (last minute) orders for the season and Chinese New Year, demand remains subdued. Polished prices have stabilised. Sweet spots are 1-2ct, VS2-SI, some uncertified pointers and fancies. Selectively, there are a few shortages in polished, however this is in very specific, narrow areas of goods. Large, high value items (5ct+ high colours) continue to be described as 'problematic'.

It remains unclear whether the recent rough price reductions by the 2 main miners will add new pressure on polished. Many think it won't as there is simply no room to further reduce prices and rough and polished have been misaligned for a long time. There is however a concern that, with the increased amount of rough being sold this month, the polished market has not been given a chance to benefit from the lower production of the past several months.

TEL AVIV TRADING MARKET

The mood in Israel remains poor. There are orders from the US for the season, but many of these goods are being placed on memo rather than as an asset sale. There has also been a bit of a pick-up from the Far East for smaller sizes.

Companies in Israel continue to work down their stock. Few have any appetite to keep more than is really necessary. As a result, most people who have come to Tel Aviv to buy are looking for bargains.

NEW YORK TRADING MARKET

While we are in the traditional mid-stream selling season, activity is certainly not what it used to be. Retailers are believed to be stocked up with goods on memo and are calling to fill holes – but again on memo. They have no desire to buy any goods as they have no confidence in polished prices. That said, it does now appear that polished has stabilized; shortages in some area are starting to be felt and price increases are slowly appearing there. One or two Indian suppliers to US companies have also warned that prices will start to increase from mid-November.

The season is hoped to be decent. Lab grown diamonds, though, are going to be competing for share of wallet, particularly in the majors and chain stores. Competition between jewellery manufacturers using lab grown is increasing and there is evidence of companies undercutting each other to gain market share within retailer showcases.

Economic news from the US remains reasonable. Jobs growth in October beat forecasts as another 128,000 positions were added, although economic growth is now described as tepid at 1.6%. Recent interest rate cuts are expected to underpin performance in the immediate future.

MUMBAI TRADING MARKET

The polished market is just opening after the Diwali break. Sales have not really picked up, and the overall mood is dull. Prices are holding due to less material on the market. But there is a lot of nervousness.

HONG KONG TRADING MARKET

Polished imports to Hong Kong declined 24% in the third quarter based on data from the Diamond Federation of Hong Kong. The decline for the first three quarters of the year starting in January is 12%.

The polished trading market in Hong Kong is slow mainly due to several of the region's leading retailers applying the brake on polished purchases, and only buying very specific items in a narrow band of goods. There is decent demand for 1ct sizes at around \$2,000-2,200 in KLM colours or H-I SI goods. In pointers, mainly GIA certs of 50pts GH - VS/SI goods show some movement.

On 25 November, auction house Phillips will sell rare pink diamonds from Rio Tinto's Argyle mine, said to close in 2020. The auction will take place in JW Marriott in Hong Kong.



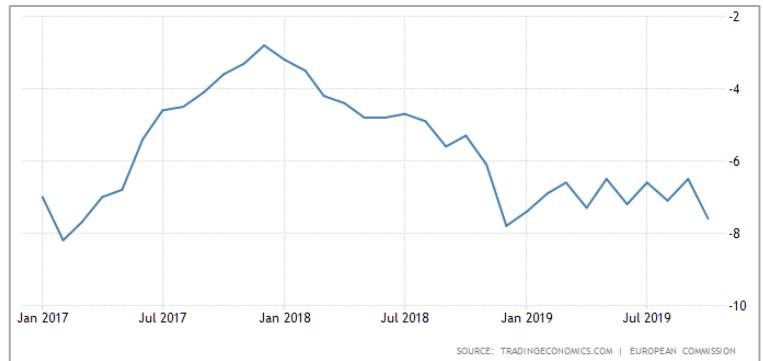
Retail Markets



EUROPE

The **consumer confidence indicator in the Euro Area** was confirmed at **-7.6** in October 2019, 1.1 points below the previous month's reading of -6.5, due to a strong deterioration in households' expectations about the general economic situation and their future financial situation. In addition, their assessments of their past financial situation and their intentions to make major purchases edged down.

(source: European Commission)



Sales to luxury brands have been pretty slow as this is traditionally not the time of the year in which they place new orders. Jewellery sales to retailers have also been slow; they have not been stocking many new items and, where possible, prefer consignment business.

Richemont announced its sales increased by 9% at actual exchange rates to € 7,397m and by 6% at constant exchange rates. They reported growth in all regions, distribution channels and business areas at actual exchange rates, led by the Jewellery Maisons and Online Distributors. Sales at Jewellery Maisons (Cartier and Van Cleef & Arpels) were up 8% (€3,736m), driven by a high-single digit increase in jewellery and low-double digit increase in watches. The Specialist Watchmakers' sales were 1% higher than in the previous year (€1,567m).



USA

The **Conference Board Consumer Confidence Index®** decreased marginally in October, following a decline in September. The Index now stands at 125.9, down from 126.3 in September. "Consumer confidence was relatively flat in October, following a decrease in September. Consumers' assessment of current conditions improved somewhat in October. However, expectations weakened slightly as consumers expressed some concerns about business conditions and job prospects. Despite this, confidence levels remain high and there are no indications that consumers will curtail their holiday spending," according to The Conference Board.

U.S. Indicators

-  **Consumer Confidence**
- 0.4 pts
-  **Employment Trends Index**
- 0.68 %
-  **Leading Economic Index**
- 0.1 %
-  **Measure of CEO Confidence**
- 9.0 pts

Tiffany & Co. rejected LVMH's \$14.5bn bid to acquire the company. LVMH is understood to be interested in Tiffany & Co. to increase its presence in the branded jewellery sector and increase its reach to US consumers. LVMH is expected to increase its original offer.



HONG KONG/CHINA

The Census and Statistics Department in Hong Kong has for the months of August and September respectively recorded a 47% and 41% drop in sales of jewellery, watches, clocks and other valuables. The diamond sector therefore seems particularly hard hit, as overall retail sales slipped 'only' 18%. The decline since January is 17% compared to the same period last year.

Much of this drop is due to a 34% decline in inbound tourism, particularly from mainland China, as a result of the pro-democracy demonstrations.

Luk Fook reported same-store-sales to be down 37% in its second fiscal quarter; sales for gem-set jewellery were down 26% in Hong Kong and Macau, and 18% in mainland China. This is both a combination of a decline in sales volume, but also a double -drop in average retail price of gem-set jewellery. Luk Fook suggested that this negative trend continued in the month of October.

The region's largest jewellery retailer Chow Tai Fook, reported a 35% slide in sales of gem-set jewellery in Hong Kong and Macau, whilst they were flat in mainland China. Just under two-thirds of CTF's revenue is being generated in mainland China, whilst sales of gem-set jewellery represent about 23% of its revenue. The retailer will publish its interim results by the end of November.

A study from Swiss bank UBS confirmed that luxury products are particularly vulnerable amidst the social unrest, and the recent depreciation of the Chinese Renminbi. Also, 50% of Chinese jewellery was purchased in Hong Kong in 2018.

Unlike rivals LVMH and Hermes, Richemont reported a 10% decline in Group sales in Hong Kong, with Hong Kong now contributing 8% of total sales, down from 11%.

We expect weakness in the market to persist as protests and violence continue to negatively impact consumer sentiment in Hong Kong.

The RMB's 3.8% decline in October was its largest single-month depreciation since 1994, taking it through the psychologically important 7.0 level for the first time since 2008. At the same time, China's economic data softened somewhat, seen in a pullback in Retail Sales and private Fixed Asset Investment, as well as official Manufacturing PMI in contractionary (sub-50.0) territory.

INDIA

Indian consumption is at a 7-year low, and high value items like cars and jewellery continue to be impacted. High gold prices are also creating a lot of pressure on retail of diamonds in India.

Sales for Diwali were softer than usual, with price-point oriented jewellery performing better.

Titan Company announced that its sales increased 2% for the second quarter ending 30th September, and profits increased 4% for the period. It stated that jewellery sales were flat for the quarter and watch sales were up 6%. The company said that in light of the current consumer market, jewellery sales had performed well.

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