Bonas
Diamond Brokers & Consultants

MARKET REPORT

December 2019

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

General Comment

As 2019 draws to a close, the industry is starting to see some stability returning. It would be wrong, though, to suggest that the market has fully recovered.

There is no doubt that polished stocks and bank debts are substantially lower than at the beginning of the year, but there are still plenty of goods available in non-core areas. The threat of lab-grown diamonds has not diminished, but there is now at least some action in tackling it, and marketing spend on natural diamonds is higher this year than it has been for some time.

2020 will need to see continued restraint on rough supply in order for polished stocks to continue a gradual rebalancing and to allow some polished price growth. This is essential to allow manufacturing profitability to return. Many will not endure another year like this one.

Rough

ANTWERP

The Antwerp market seems to have recovered further since November. Demand for rough diamonds has increased, although this is still mostly due to factory filling in India. +2cts witnessed a decent pick-up, but this is believed to have been driven by 1 or 2 very large players in that area.

The last sight of the year at De Beers was relatively uneventful. No price changes were made and assortments were broadly similar too. Previous additional flexibility measures were rescinded, so buybacks were returned to 10%. This option though was exercised by many, as most still believe that De Beers boxes remain expensive. Buyback prices were again found to be beneficial for manufacturers. A few boxes were refused, especially where clients had dropped out of areas following ITO re-planning. It is understood that no goods were recycled at the end of sight week. With a sale of $425m in the tenth sight cycle, De Beers was up compared to November, but still down compared to the same period last year.

Alrosa did not make too many changes this month and still allowed 45% rejection, however they also put large quantities of extra goods on offer, which they hoped customers would buy. Some stated that trading profitability was down substantially compared to November. Whereas last month people were able to make high single digit margins, a few boxes fell to around cost price in December. Boxes such as LT2, which traditionally does well, was very difficult to sell.

Catoca goods are still entering the market steadily and are considered the most profitable source of rough for the moment. Sodiam has also started selling Catoca boxes in a tender.

Grib was considered stable this month, even though some say the quantities had increased. This was partly due to the fact that they sold some Angolan goods.

Dominion remains good value for the moment, however there is speculation as to how the company is performing.

ODC sold well this month, but again there were no single stones. Prices were up according to most.

To conclude, this month has been good for the Antwerp market. If polished demand picks up on the back of reasonable retail sale in the US and China during 2020, then many believe there could finally be light at the end of the tunnel.

MUMBAI / SURAT / OTHER INDIAN MANUFACTURING CENTRES

Indian manufacturers are slowly re-gaining confidence and increasing production, but factories are far from full capacity and the ramping up is measured.

Manufacturers, especially smaller ones, are only buying goods if they see profitability. Rough demand was helped in December due to the long gap between sights and tenders caused by the Christmas period. There was decent interest in the Rejections area, but the 3grs+7 remains very difficult.

Workers are trickling back slowly. However, many polishers are weary as they hear that natural diamonds will continue to see a decline. On the other hand, there is news in Surat that lab-grown diamonds are increasing in importance and some are moving into that space, as they see a better future.

TEL AVIV

Rough demand in Tel Aviv remains somewhat lackluster. There is activity but it is at a low level. Buyers are looking for items specific to their businesses; there isn't a blanket demand for one type of product.

There were some premiums for the gem 2.5-4ct De Beers boxes – such as Select MB 2.5-4cts and Crystals 2.5-4cts. 5-10cts were less sought after, as were the 4-8grs.

Despite these premiums, manufacturers see no way of making a profit from putting the goods into work. 2019 was so poor for them that they need to see a sustainable margin return in 2020.

BOTSWANA

Sight 10 for the Botswana-based Sightholders traditionally sees smaller allocations due to the holidays as the majority of the country's businesses close for 2-4 weeks. Most, if not all, of the diamond factories will close during this period too as workers return to their villages.

2020 will see the Debswana/DTCB/GSS Sales contract negotiations commence in earnest, of which the outcome is currently the subject of much market speculation. Diamond beneficiation and domestic job growth are believed to be two of the key drivers for Government.

DUBAI

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

SOUTH AFRICA & NAMIBIA

Demand for Sight 10 was seasonally quiet as factories close for the Christmas holidays.

South Africa has been facing an increase in load shedding, dampening the prospects of future investments in the country. In an unprecedented move Eskom introduced Stage 6 load shedding, leading the country's mining sector to cut night shifts. Some miners like Petra have closed down their mines completely for safety reasons.

Petra Diamonds' last tender of the year is understood to have been complicated by the authorities pressuring the company to sell only through local licence holders, leaving the company's international buyers bemused.

In Namibia, talks between the government and Namdeb are continuing regarding the tax breaks that Namdeb seeks in order to extend their land operations where up to 40% of diamonds mined and recovered to beyond 2023.

The market seems to be predicting a more positive outlook for the diamond industry in 2020, but how this plays out for Southern Africa is still somewhat undetermined.

In Zimbabwe, the latest announcement stating that any mining asset from Zimbabwe can be seized following the ruling against the Zimbabwe Mining Development is yet just another setback for this struggling southern African nation.

Polished

ANTWERP TRADING

The polished market has been described as ‘marginally better’ and traders hope that this degree of improvement will be sustainable, rather than being a temporary end-of-the-season ordering rush. There is appetite to do some stocking as buyers have been conservative in the past months, and believe that the bottom has been reached. More movement reported in whiter goods in SI+ quality; finally, buyers see value in this area again. Lower colours (I down) are difficult to move, especially in the smaller goods. Despite this uptick in demand, prices cannot be inched up.

Everyone is awaiting, and expecting, a decent season in the US, but China and especially Hong Kong, are still weak.

TEL AVIV TRADING

Activity linked with the US Season has helped improve the sentiment in Israel, despite the majority of goods being placed on memo. There has also been some activity in China, but Hong Kong remains at a standstill.

NEW YORK TRADING

Activity on the New York market is now focused on fulfilling last minute orders from retailers. Overall, though it has been quieter in December than it was in November. Companies are watching and waiting to see what volume of goods put into stores on memo are converted into actual sales.

Retail activity in the US in November was flat when compared to 2019 according to the National Retail Federation. However due to the timing of Cyber Monday, these figures were excluded from these statistics. Black Friday online sales were reportedly up 6% on 2018, creating a new record, whilst Cyber Monday online sales are believed to be up 19.7% from $7.9bn in 2018 to $9.4bn according to Adobe Analytics. However, visits to brick and mortar stores are understood to be down 3% during Thanksgiving and Black Friday. Preliminary data by RetailNext showed net sales at brick and mortar stores fell 1.6% on Black Friday.

MUMBAI TRADING

Trading in India continues to be lacklustre. There is nervousness that if demand does not increase, and manufacturers ramp up production, the additional polished inventory will create new price pressure. As a result, traders are staying away.

Polished pull-through continues in pockets. Overall B2B sales in polished continue to be soft. Commercial qualities in certified goods are seeing some demand and better realisation, but pique goods are struggling, as is fluorescent material.

This year will also be marked as an inflection point at US-retail, with a large number of retailers testing lab-grown diamonds.

HONG KONG TRADING

Even though retail in China has picked-up in the last month, the Hong Kong polished trading market continues to be slow, and current demand is strongly focused on 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, along with the KLM colours. In smalls, prices of 15pts seem to have stabilized and are moving slowly; demand for 10pts is still subdued.

Retail Markets

EUROPE

The **consumer confidence indicator in the Eurozone** was confirmed at **-7.2** in November 2019, slightly above the previous month's final figure of -7.6, reflecting households' more positive expectations about both the general economic situation and their future financial situation, while the assessment of their past financial situation and their intentions to make major purchases remained broadly stable. (source: European Commission)

While branded players have been doing quite well, many generic jewellery businesses complain ordering has been very soft this season. Demand from retailers is very specific and the business is driven by consignment. There are several closures of smaller companies across different markets. One has to wait for the Vicenza fair mid-January to gauge how the season went, but most are not optimistic.

"Swiss watch exports recorded a negative result in November, due to the sharp decline in Hong Kong, while the rest of the world remained broadly stable. Exports were down 3.5% (~CHF 2bn) compared to the same month in 2018. Value increased by 2.0% over the first eleven months of the year", according to FH

USA

The **Conference Board Consumer Confidence Index®** decreased in November, following a slight decline in October. The Index now stands at 125.5, down from 126.1 in October. "Consumer confidence declined for the 4th consecutive month, driven by a softening in consumers' assessment of current business and employment conditions. The decline in the Present Situation Index suggests that economic growth in the final quarter of 2019 will remain weak. However, consumers' short-term expectations improved modestly, and growth in early 2020 is likely to remain at ~2%. Overall, confidence levels are still high and should support solid spending during this holiday season.", according to The Conference Board.

Tiffany & Co. reported that both net and comparable-stores sales for the third quarter of its financial year were flat at $1.01bn.

In the Americas, net and comparable store sales were down 4% for the quarter. In Asia-Pacific net sales were flat, whilst comparable store sales were down 2%; Europe saw net sales fall 3%, but comparable store sales remained flat. Japan saw decent growth; both net and comparable sales were up 19% for the third quarter.

During the first nine months of the fiscal year, total sales fell 2% to $3.07bn. The Americas, Asia-Pacific and Europe all saw sales slide over the period, whilst Japan enjoyed some growth.

Net sales at **Signet** were down 0.3% for its third fiscal quarter. Comparable store sales were up 2.1% for the same period. **Kays** and **Zales** saw their same-store sales increase 3.8% and 2.8% respectively, whilst **Jared** saw sales fall 2.9%. **James Allen** saw sales jump 15.8% for the quarter. E-commerce as a whole increased 11.4% for the quarter.

Both **JC Penney** and **Macys** stated that fine jewellery had performed well during their fiscal quarter results annoucements.

HONG KONG/CHINA

Last week's limited rollback of existing tariffs in the US-China trade war, is certainly a positive development. The production growth accelerated in November and overall retail sales rose 8% year-on-year. Bloomberg's monthly GDP tracker rose to a five-month high of 6.7%. Several analysts believe China's industry is bottoming out, with a possible end to destocking, which should help the economy to stabilise in 2020.

Figures from the National Bureau of China showed retail sales of jewellery, gold and silver down 4.5% in October, the fourth straight month of falling demand. High gold prices and market uncertainty were mentioned as the main causes for this drop. The decline decelerated in November, and on a yoy basis the latest government data shows January-November to be flat.

The Federation of Swiss Watch Industry in turn reported a 30% drop in exports to Hong Kong in October, whilst the rest of the world saw an upturn of 6.5%. Shipments to China were up. The on-going unrest, combined with a more then 40% drop in tourist arrivals in Hong Kong, have pushed retail sales of jewellery down by 43% in October alone.

Hong Kong's position as an attractive retail destination is further waning, as brands run a more harmonised global pricing structure, the price transparency being created by the internet, and lower taxes and duties in China.

At Hong Kong-based retailer TSL, revenue fell 14% in the period April-September, and the jeweller recorded a loss. Sales in Hong Kong and Macau were down 25%, whilst sales in mainland China dropped 7%. TSL blames the continued negative consumption sentiment and the depreciation of the CNY which has brought down spending of mainland visitors.

In the same reporting period, sales at Chow Tai Fook were only down marginally thanks to improved demand in China. CTF recorded an overall 0.6% drop in sales; down 20% in Hong Kong and Macau, but up 12% in China (gem-set up 4%). This is partly because of retail network expansion in China; same-store-sales in China were up 1.8%. The group has a nearly 70% exposure to the mainland China market. During the period, CTF opened 333 new stores in China.

Luk Fook reported a 20% drop in sales; down 25% in Hong Kong and Macau (gem-set down 10%), and 16% in China (gem-set down 12%).

INDIA

High-value items continue to struggle in India, including jewellery. However, with gold prices being at a 17 month high, consumers prefer to buy more diamond-centric jewellery, as it looks more affordable.

Given the market weakness, analysts believe that stock prices of several retailers could be adversely affected.