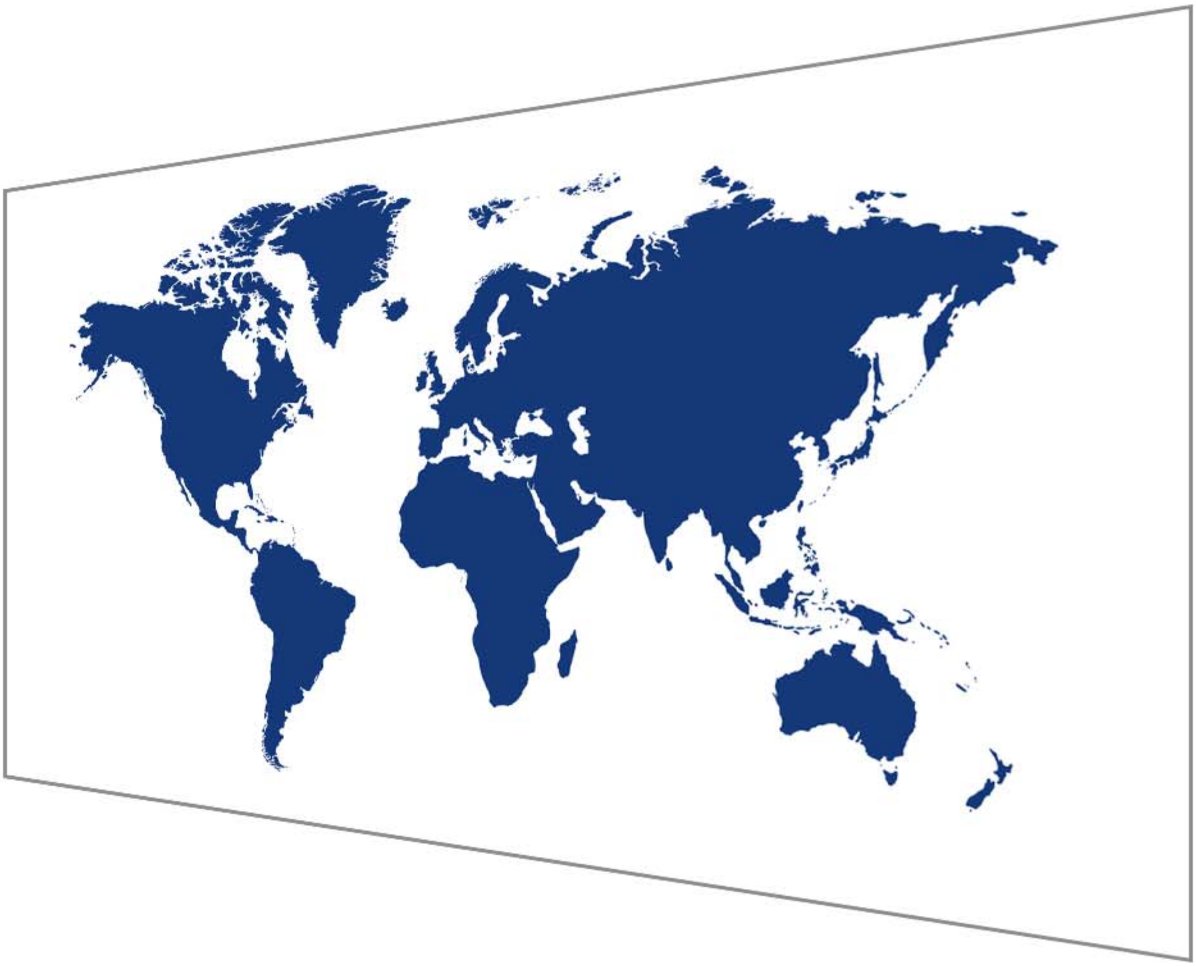
Bonas
Diamond Brokers & Consultants

Market Report

July 2010



Rough

The market was cruising through a largely uneventful sight towards the upcoming holidays, but the news of Gareth Penny's resignation came as a big surprise to everyone and sent the rumour mills into full production. After a stewardship that has navigated through a wide range of business conditions, news of his eventual successor is awaited with quite some interest.

Before sight, there was much concern as to the direction of the rough market, however, following sight most were surprised just how much the rough market rebounded.

Otherwise the polished markets have been somewhat deflated by the rather slower than hoped for post Vegas period, although business is still significantly better than last year. It seems that business has cooled off for the time being as a result of the high polished prices, but expectations are for things to pick up again from September.

ANTWERP
In our previous market report we signaled a cooling of the rough market, with premiums down and credit terms lengthening. This trend has continued and was also reflected in BHP's spot market sale where both +2cts and -2cts sales fetched lower prices, ~6% on average. The total volume reportedly sold was also lower by some $30m, at just below $110m.

In the run-up to the DTC sight, the rough market continued to be somewhat subdued, and the odd DTC box, still for sale from the previous sight, fetched ever lower premiums. A lot of rough from various origins remained un-sold because buyers have become **selective** and above all more **price conscious.**

During sight week, clients were satisfied with the goods. It seems though, there exists an inverse proportionality between size of the goods and profitability, with the +2ct., and especially +5ct. and +10ct. rough, being very expensive. Premiums on +5ct. boxes have halved and price differences with other sources are sometimes up to 20%.

The rough market gained some momentum during sight week with good demand from the secondary market. Few boxes were available though and this has caused a slight increase in prices of Russian goods as well.

Antwerp has gone quiet now with most companies closing down for the summer break. All in all, we see a healthier situation in the rough market, although it has increased pressure on certain polished as well.

Whereas the first half of the year was mainly led by the rough market, it will now, in the second half, be up to the consumer to prove whether all this is sustainable.

MUMBAI
The smaller sight was welcomed by the market. There is enough rough to last until August and with the beginning of holidays in Belgium and Israel, lower polished sales are going to dampen manufacturing activity.

Eventually all this rough needs to be translated into polished. Polished from expensive rough earlier in the year, is now entering the market. This is the first reality check and has resulted in much less aggressive behaviour in the rough market than previously.

The second reality check is that people have been struggling to keep polished sales in line with rough prices since the beginning of the year. To some extent they have been successful due to

global demand and low production due to a shortage of workers. It looks unlikely that manufacturers will be able to raise polished prices again and therefore rough price increases would directly affect bottom lines.
Lastly, and probably the most important reality check, all this is happening in a very unstable global environment. People believe the situation is volatile and are nervous. Diamantaires question how they are going to be able to sell more polished, let alone at higher prices. The nervousness is compounded by speculation about Zimbabwe goods, BHP tenders and the Russian stockpile.

TEL-AVIV

The local rough market was relatively quiet all month – until sight week. Sightholders still prefer DTC goods over outside. Non-sightholders often prefer DTC goods due to consistency of assortments. Sight week brought these manufacturers out of the woodwork and premiums, which were expected to slip, remained similar to June sight.

Although polished demand is not strong, rough purchased now will be ready just in time for the beginning of the season. Premiums ranged from 7 – 15%:

4 - 8 grs: 7-8%
2.5 - 4 cts: 12-15% (Spotted, Fine, Commercial)
5+ cts: 10-12% but no confirmed transactions

Outside goods are still considered expensive. Prices rose so much, so quickly that even after the BHP corrections there are still few bargains to be found.

NEW YORK

Rough, which was a little softer on the market during June, seems to have firmed somewhat since sight week, with the odd box being traded. There has also been a little outside rough from Canada and Russia on the market in New York, although this was seen as expensive.

SOUTHERN AFRICA

The ADPA (African Diamond Producers Association) met in South Africa during the week of 12 July 2010, with no coverage in the media. Botswana is the only African diamond producing nation which is not a member. The meeting, chaired by South Africa, resolved to pursue actively the ADPA mandate of having a strong association of diamond producing nations and as a result having a say in the selling and distribution of diamonds - starting with sending a mission to Zimbabwe with the sole purpose of helping Zimbabwe sell its diamonds legitimately in major diamond markets.

Polished

The polished market in Antwerp has softened now, following the usual pattern for July. However for most people, the slowdown was more than it should be and for some this is a sign the real replenishment season is over now. Those who enjoyed business levels in July close to the pre crisis period (in volume) complain about price gaps of a minimum 4 to 5% in the better end polished.

Sales of cleanish smalls (-8) continued to be strong and traders can hold prices very well (even turn down business if needed). There is on the other hand a significant softening reported in pointers due to an overproduction in this range. Prices have dropped as a result. Price resistance and squeezing buyers are the headache for all the polished sales teams at the moment; the market needs (commercial) polished prices to strengthen but this is unlikely to happen as buyers seem to be fully aware of what is happening in the rough market, hence they refuse to pay the price.

Most agree that September will be the time to take stock of the situation, as a lot of expectations are set on the HK and Shenzhen shows, both perceived as important indicators for the future market.

TEL-AVIV

July has been a relatively quiet month compared with May/June. Compared with 2009 the month has been good and is probably close to the level of 2007/2008. Demand has been across-the-board, just at lower volumes than in previous months. Much of the current demand originates from larger retailers.

The price trend varies:

- Certain popular items continue to be in demand, supply is scarce and prices are holding strong. For example 1.00 – 1.50 ct, SI – I1 clarity, H/I colour.
- Items with mediocre demand or worse are starting to drift downwards. For example +4cts any shape.
- If one wants to sell slow-moving stock one has to make dramatic price reductions as the market is relatively quiet. For example under 1ct fancy shapes.

MUMBAI

Polished inventories are about 15% higher than the start of the year. Indian domestic market is buying briskly and exports have slowed down marginally. Polished traders have to realign their prices frequently, especially in the commercial ranges which had reached 10% above the 2008 peak. Local retailers are buying more, stocking for the upcoming sales season in the domestic market.

Stars are much slower than last month, with price resistance in SI goods which have been discounted by $15-20. RAP discounts on 1ct VVS, triple ex cuts are between 32-35% and 38% in triple VG. In Seepz, those jewellery manufacturers with direct retail clients in the USA are doing well with a few working at full capacity. Most US majors have completed their sampling phase and are ready to place orders. This year most majors prefer to give shorter lead times to their suppliers.

Labour unions continue to have a strong influence, with the employer having no option but to retain and feed workers without any work. Some complain about late payments from the majors.

NEW YORK

At the wholesale level business is quieter than usual. The JA show in New York was considered unsuccessful by many with lots of exhibitors and poor foot traffic. China and India seem still to lead the way in polished and are paying prices that can't be matched in America.

For jewellery manufacturers serving the mass retailers the issue is not so much lack of orders but rather fulfilling them whilst making a sufficient margin with commercial range polished at its current price.

The market is witnessing retailers continuing to trade down quality in order to meet their price points. Independents are less bullish but are making money recycling gold.
Nevertheless, expectations are for business to pick up.

Demand for triple-X makes remains strong with prices remaining firm. Demand for low clarities is also strong.

HONG KONG

The June show in HK yielded mixed results, some people reported good sales whilst (most) others were somewhat disappointed. Everyone agrees there is increased pressure on polished prices, with especially GIA dossier pointers now widely available. As a result prices of these goods are easily 5% softer. Good demand for 0.16 – 0.40 ct, especially G-H colour. Hong Kong trading has gone quiet. The next waypoint will be the Hong Kong fair in September. The September fair last year had a record number of participants, and volume of goods, and again this year people are looking forward to it with high expectations. One must recognize though that this fair is not necessarily a reflection of the performance of the regional retail markets anymore.

Retail

EUROPE

The economic outlook in Europe remains uncertain. The first fall in 14 months of the Leading Economic Index for the Euro area (-0.5%) might indicate that a rebound in economic growth may have peaked in 2ndQ. Some analysts predict that avoiding a double-dip recession for Europe will be difficult. A clear majority however still forecast continued recovery in Europe.

There is a little bit of movement, but the markets are in general sluggish and fragile. Retailers have changed their buying pattern completely now and order less but more frequently. There is no appetite from retailers to buy more and stock merchandise; this is either because their inventories are still reasonably high, their liquidity tight or their confidence lacking. Jewellery suppliers, especially those in commercial ranges, face a lot of pricing problems and even turn down business because of that.

While small volume polished orders are received from the luxury brand houses, YTD sales to these people are definitely below the level they used to be. Swiss brands continue to order well at the moment and suppliers try to push up prices to get more alignment with the rough price level. Swiss watch exports returned to steady growth throughout the first half of 2010; the sector exported watches valued at $6.9bn (up 19.7% in comparison to 2009). The results are comparable to those recorded in 2007. All price ranges recorded double-digit growth between January and June; wristwatches valued at less than 200 francs showed a 17% increase (volume), other segments registered increases of 20% or more (both in value and volume terms).

USA

LVMH saw its revenues increase by 24% in the first six months of the year from €346m to €443m in the watch and jewellery area as confidence returned to the jewellery sector.

Birks & Mayors reported a net loss of $19.5m for full year 2010. Sales dropped 6% over the year to $250.1m.

Birks & Mayors also reported its sales for the first quarter of the 2011 financial year, with sales up 12% year-on-year to $59.9m with comparable store sales up 6%.

HONG KONG AND CHINA

We are still in a traditionally slow period in Hong Kong and China. The next main shopping event in China will be the three days for National Day, starting October the 1st. Until then, markets will likely be slow with hopefully a pick up at B2B level at the end of August and in early September.

The fear of an overheated Chinese economy is still genuine. Although headline growth in China slowed to 10.3%, and loans to property developers dropped by more than 60%, there are now additional fears about China’s commercial banks and questionable loans to local government financing vehicles - which are mostly used to fund regional infrastructure projects. It is estimated that one-fifth of these loans could go bad. Despite China’s decision to adopt a “flexible” exchange rate, the IMF found the Yuan is substantially undervalued and is bound to put pressure on Beijing to let the currency appreciate more than the 0.7% since June 19.

Luxury brands in the meantime maintain their full confidence in China as a huge potential consumer market for luxury products. On July 19, Hermès announced the launch in September of a new brand called Shang Xia. The brand-which means “up and down” in English – would remain completely separate from the main Hermès line. Shang Xia is a Chinese brand, developed in China with a Chinese team, based on Chinese craftsmanship and broadly made in China. Shang Xia will open in Shanghai and initially sell tableware and furniture.

INDIA

The general mood in India continues to be positive, with economic indicators optimistic. Even predictions of a weak monsoon were overturned in July, with rains picking up. Unfortunately this has not trickled down to retail level in India, where branded jewellers are seeing single digit dips in sales. Almost every retailer is trying to pull in customers with promotions in daily publications.
The monsoon is traditionally not a season for buying jewellery, so local retailers do not appear to be overly concerned. Sales are expected to pick up in August with the onset of festivals.

Free subscription

If you wish to receive Bonas Monthly Report for free, please email us at bonas@bonasgroup.com, stating the following details:

- Surname and name of individual(s)
- Company name
- Country of residence
- Email address
- Segment in the diamond pipeline
    - Rough mining
    - Bank and finance
    - Diamantaire (rough trading, manufacturing, polished distribution)
    - Manufacturing technology supplier
    - Jewellery manufacturing
    - Retailer and brand
    - Governmental and non-governmental body
    - Consulting
    - Other (please specify)

If you wish to unsubscribe, please email us at unsubscribe@bonasgroup.com.

About Bonas

Bonas is a 140-year-old diamond broking and consulting firm represented in every trading centre. Bonas is a member of the Responsible Jewellery Council and provides industry-focussed services, which reflect a shared knowledge of the diamond pipeline and its business environment.
For more information about our company and services, please visit us at: www.bonasgroup.com.