

Market Report

December 2009

Rough

Over the last five months demand for rough became increasingly strong, and this resulted in prices for DTC boxes almost reaching the peak prices of the pre-crisis era. **Antwerp** sightholders anticipated a small sight and the rush for rough started as soon as DTC opened the gates on the Monday of sight week. By that time there were reports of Zales performing poorly on “black Friday” and thereafter. Surprisingly, it was hardly an issue on the sales floor and it had no effect on the mood of clients. It makes you think that the gap between retail, i.e. polished, and the industry, i.e. rough, remains an enigma for which we can find as many explanations as we can count sightholders.

While dealers are active and profitable again, manufacturers have serious complaints about reduced margins and often about not being able to break even polishing the most desirable rough. So let us remain cautious, because as an industry we don't seem to learn much from the past! **Israeli** manufacturers who are not sightholders have slowed their rough purchases due to the lack of profitability. In addition to the concern about the current lack of profitability, most expect present goods to come out into a fairly lacklustre polished market after Chinese New Year. Israeli buyers of rough in Antwerp have found relatively little on offer, and prices steep.

This sight, DTC boxes were considered of consistent quality and value and indeed some improvements to the mixtures were noted, for example the Preparers Low 2-10ct and the MB(H) 3grs+7. Price adjustments/increases were noticed but absorbed without too much comment. In fact premiums went up above last month's in most of the Indian goods. As was the trend in previous sights, premiums for second hand boxes started strong but weakened by the end of the week.

The large stone market has also taken a turn for the better. An illustration of that are the tenders, for example the Letseng tender last week, which fetched 20% above estimated total price.

For the first time, we believe, Russian goods fetched a premium and clients with three year contracts saw with considerable relief how the goods moved quickly.

In **India**, a perceived shortage of rough, along with a bid by the industry to retain credit terms with banks has overheated the market. Rough buyers can be placed into two distinct categories: the speculative traders and the manufacturers. While on one hand speculators are pushing up premiums, on the other, frustrated manufacturers purchasing goods for their factories are trying to remain conservative.

Manufacturers, especially in cheaper goods, feel that the rough from major miners is in synch with polished prices, and are therefore looking at alternative supply sources from Dubai and Africa.

Market talk that banks are going to tighten credit lines to the industry from the start of next year is dampening some of the market's enthusiasm. How polished will perform at retail in USA this season is also of concern.

Rough manufacturing in **New York** continues to suffer. Eighteen months ago, there were still a few serious manufacturers concentrating on large stones in New York. This year, the credit crunch has put the final nail in the coffin, other than one or two factories that are committed to their workforce and are just breaking even. Furthermore, there is not much rough coming onto the market there except for a very small amount of Russian and Canadian, and thus rough trading is more or less non-existent.

While January is expected to be a big sight, there is general feeling that rough prices may soften from March onwards, as more goods come on the market, but otherwise it's all eyes on Christmas and then, with more optimism, Chinese New Year.

■ Polished

Antwerp: Polished traders in Antwerp described the last three months of the year as satisfactory. For many companies, business was slow in September, followed by a busier October and an even stronger first half of November. The market is traditionally slow in December.

Both rough sellers and polished manufacturers are defending the goods, hence people managed to increase polished prices by 4 to 5% on average over the period. More specifically, the low end has strengthened by 5-10% while cleanish small goods have firmed by 'only' 2-3% due to a continuing oversupply. The focus of demand is on VS-SI quality goods. Polished buyers bought (without building up much stock though) in anticipation of a decent season; the jury is still out on whether this will materialize.

Strong demand for VVS-VS, DEF and prices has strengthened from RAP -30%-32% to RAP-27%-29%. SI1/SI2 is up 2% in price. Strong movement in I1/I2 and prices are stable. Commercial quality is up on average by 5-10%.

Tel-Aviv: The season is over now and the market has gone quiet. Most would describe their season as "okay": although sales were much better in the second half of year than the first, profitability has eroded. Many are frustrated by the feeling of 'treading water'. Rough purchased in the first half of the year was converted into profitable polished sales while rough purchased in the second half typically came out only moderately above break-even.

The increase in rough/polished prices has trickled down to the retail level where buyers feel they need to be extra selective and purchase only what they absolutely need. Polished prices, after rising consistently over the last few months, have levelled out. The direction of prices is hotly debated and time will tell if prices have already peaked.

There has been strong demand from Hong Kong for round D&E colours from 1-3 cts. Larger polished has weakened with little demand. There has been mediocre demand for princesses and pears, while most other fancy shapes are moving even slower.

Mumbai: In stark contrast to last year, 2009 will close on a positive note for many in the industry. Lower end Indian goods have increased another 7% and better end 3%. What remains constant is the Indian diamantaires' bid to retain bank finance.

Factories in Surat continue to operate at 70% of their optimal levels due to a shortage of polishers. While there was some hope that many would come back when the wedding season ended, this has not happened. Those in Ahmedabad are very short-staffed.

With the holidays upon us, the polished market is marginally lower than the previous month. Many are holding back stock, especially in the dossier areas, in the hope that prices will go up soon. Severe shortages continue in American goods, with buyers now having to pay cash on delivery. Large volumes are not available from any one seller.

Shortage of goods in the following sizes: 1+ct, 0.70-0.90, 0.23-0.29 ct, +11, +6.5. Prices are up in most ranges, fuelled largely by the local market. SI clarity is moving slowly but pique goods are moving well.

New York: Orders are still trickling in for the season, but at a significantly slower rate than is normal. Those pieces are generally the better end, better made pieces. Retailers are reporting mixed results – some are ok and others worse than expected. The two bright spots are that stores entered the season with low inventory and so there is the expectation of reordering in January and that polished prices are currently stable.

The return of Wall Street bonuses is going to be at a much lower level than previously thought, which will probably delay the recovery in demand for large polished stones.

Demand is mainly for 1ct well made rounds as well as pear shapes. Demand for other fancies is mediocre except for marquise which is almost non-existent. Prices for larger polished are stable with upward movement only in response to a firm call.

Hong Kong: The Hong Kong Watch & Jewellery Show in the last week of November is not to be compared with the September show: it is much smaller, only in one location (Wan Chai), and primarily focused on jewellery. Nevertheless, this year a record number of diamond companies participated, 35 in total, which is more than usual for November. Results were nothing to write home about and exhibitors targeted mainly retailers and even private individuals.

In general, business in Hong Kong is not great in spite of the surge in the stock market in the last eight months (Hang Seng index doubled) and improved real estate prices. Retailers, in our business and in any other business, have started discounting merchandise (publicly) a long way ahead of Christmas in order to generate sales. The only consumer segment that seems to be spending in Hong Kong are mainland Chinese. To them, these Hong Kong retailers inspire more confidence than the local Chinese.

At the same time we see record prices at Christie's High Jewellery sales, but this is a paradox typical to Hong Kong.

■ Retail

EUROPE

The level of retail sales so far this season is difficult to gauge however initial indications point towards a flat end-of-the-year. Many retailers complain about slow movement and a lack of footfall so far. Some have not stocked up properly and may struggle. Jewellery manufacturers report there is some last-minute restocking. Germany and France seem to be doing slightly better than the rest of Europe. Surprisingly there is good wholesale jewellery demand reported in Italy. Spain is described as dreadful. Turkey is okay, yet collection of money remains challenging.

Italian brand houses struggle given their exposure to the US and the high cost structure they often face. Those who rely on continental Europe seem to be doing o.k. Revenues of Damiani declined by 16% at constant exchange rates in Q2 2009, driven by a 31% decline in wholesale. Italy posted the best performance with a 1.5% decline in sales in the first half of the year, but this was offset by sharp declines abroad (US and the rest of the world were down 41% and 45% respectively, Japan declined by 27%). Management noticed an improvement in both retail and wholesale channels in October suggesting that de-stocking is progressing.

USA

National Jewellery Network's weekly holiday season survey is hinting at promising trends amongst independent retailers with recent surveys results showing a rise in confidence with 64% of respondents reporting good/very good sales up from 53% the previous week. Sterling silver was a strong performer up from 51% good to 65% good, whilst diamond jewellery (both bridal and non-bridal) also showed increases. Non-bridal diamond jewellery sales were reported as good by 55% of respondents up from 44% the previous week. Individual retailers reported strong web-sales, good footfall and strong Everlon sales.

Zale Corporation's: share value has fallen 42% since the announcement of poor November, when same store sales were down 18.6%.

Birks & Mayors: for the 6 months to the end of September 09, profit fell from \$60.3m to \$43.5m and revenue fell 23.5% to \$102.2m. Same-store sales fell 19%.

Tiffany & Co.: for the Q3 period ending October, net revenue was \$598 million, only 3 percent down year-on-year. America's sales were down 9% to \$303.5m on the previous year with US comparative store sales down 10%. There was a 9% fall in U.S. online and catalogue sales.

Leo Robbins & Sons: filed for chapter 11 bankruptcy protection in the face of a chapter 7 petition filed by 5 creditors. The company's 5 largest unsecured creditors have outstanding accounts worth over \$1.5m.

HONG KONG AND CHINA

A number of important changes/progressions have occurred in China this year:

1. A surge in retail chains across the country.
2. The narrow range of polished that this market traditionally has been buying has finally broadened.
3. Grading standards have become stricter; NGTC first, with local labs now following.

All the above is good for business and next year will tell whether some of these developments will be sustainable. Especially on the expansion of retail networks enough consumer sell-through will be crucial. Unfortunately, Chinese New Year and Valentine's Day are on the same day, and this reduces two buying occasions to only one.

It appears the leading retailers in China will continue with their expansion plans in 2010, usually in a mixed format: own shops + franchise. Expansion brings increased overheads which puts pressure on gross profit. Some are trying to mitigate this by increasing volume despite the risks.

Business has slowed now and most retailers have made their December and Chinese New Year purchases. Specific orders may still come but retailers try, also because of the high gold price, to avoid keeping big inventories.

Pink gold is becoming increasingly fashionable, reducing the importance of white gold.

People don't expect a lot of wholesale business for the months January and February, but overall optimism reigns for the year 2010!

INDIA

With gold prices soaring, many retailers are encouraging clients to opt for diamonds. This trend has picked up across India, and is being further buoyed up by the wedding season purchases.

The high price of gold however is a cause for concern in the country along with sharply rising inflation which would likely deter people from buying jewellery.