



Bonas

Diamond Brokers & Consultants

Market Report

September 2009

Rough

Ahead of the DTC sight, **BHP** sold ~\$120m worth of goods at prices which were again higher. Offers particularly increased in the 4-8 grs and most in 2 cts and up, not so much in the 3 grs down. Secondary trading in BHP goods proved to be more difficult and goods were quickly sold at List and below. Another spot sale is expected shortly at BHP which may have an effect on market prices.

DTC followed the trend of the last few months and increased prices as well; this time, as far as clients are concerned, the increase is not based on polished performance. Apart from a few minor changes, sometimes for the better, sometimes for the worse, sightholders found the goods similar to last month. The 3 grs down sawable area in particular was considered expensive. The presentation on business continuity was felt to have influenced some sightholders' decision on whether to buy or not. Total sales were estimated to be close to \$500m.

Except for certain narrow areas of polished - which don't represent the business as a whole – most people are unable to push up polished prices. Increased stock market indices are not an indication of a fundamentally improved economy and too much bad news is still coming out, growing unemployment being one of them. This month's rough price increases from the major rough producers unfortunately take us one step further away from prevailing polished reality. As a result, prices for DTC boxes on the market quickly dropped to anything from List to cost, with some exceptions at 5-7%. There is demand for rough, but everyone is shopping for the same items and even then, there is much more price resistance than last month. The quantity of rough supply from various sources was big this month, probably close to \$1bn, and that also has its immediate effect on prices.

More **Alrosa** goods have come on the market and a lot more seems to be on the way. Seems cheaper than DTC in small sizes but more expensive in most ranges. The quantity and wide distribution of these goods has fuelled price competition and some items have dropped 5% in price in only a few days. Other sources, such as **Angola**, are now starting to appear in bigger quantities as well, mainly on the Israeli market.

Confidence is slipping for a number of reasons:

1. No correlation between rough and polished
2. A still fragile polished market, with the biggest market in the world stagnant
3. Rough prices that increased too quickly
4. Ever growing quantities of rough on the market, with clear indications from Russia that they want to sell
5. An important buying group - the Indians – are stopping to buy soon because of Diwali.

Lastly, even though people want to be confident, their financial situation is sometimes such that they can't operate normally. Especially for those with fully utilized credit lines, getting funding for new purchases has become difficult.

■ Polished

Polished markets are relatively stable with moderate demand.

Antwerp – While the overall tone of the market remains soft and polished traders continue to face an uphill struggle, some people are markedly more hopeful as polished activity seems to have picked up after the summer holidays. While businesses are still down (some a lot) in comparison to last year, the rate of fall seems to have moderated and the feeling is that we may have turned a corner.

The above hopeful signs should be put in the right perspective as a lot of the trading is reported to be internal and focused on larger sizes (40pts and up). That said, the market unanimously agrees that downstream demand hasn't changed in any major way. Buyers buy strictly what they need. An increasing number of shortages start to surface in certain areas of (larger) polished. More optimistic people expect real problems with the fulfilment of replacement orders after the season as many factories are still not up to speed and inventories are low, others are convinced that the pipeline remains chock full for a while.

Strong demand for 1ct round, high colours, high clarities, excellent make. Round-edge fancies are moving slowly while princesses are doing ok. Middle range of SI/pique goods are moving slowly as well as small sizes.

Tel-Aviv – The local trade is currently slow while export activity is reasonable – in line with the season. There is moderate demand from abroad.

Most companies have resumed granting credit after a long period of requiring cash. However sellers continue to do due diligence, limit their exposure, and are not granting more than a few months.

1ct in demand mainly from India and HK/China while demand from the U.S. is spotty. Improvement in demand for 3-5 cts, but still a far cry from last year.

Mumbai – August's IJS show was considered positive as is the current mood in the market. Indian manufacturers are buying greater quantities of rough to fuel factories, and the pressure is on to have as much polished as possible out of the factories, before they close for the Diwali break in October. Jewellery manufacturers and retailers are having a field day, as they find vast amounts of polished available and can push on prices.

A lot of traders over this year have diverted their attention from the US market to the Far East. With this sudden increase in the number of players there, the Far East market appears to have slowed down. Either they have a lot of choice and are thus taking it easy before making purchasing decisions or the market share is getting divided amongst new players, thus giving the impression to the existing players that the market is slowing down. The Indian domestic market is likely to improve as we enter festival season but again those who have diverted their attention from the US market to India are likely to flood supply, especially in larger sizes.

Prices in 0.04 – 0.99ct are generally stable while a shortage in SI-I1 certified rounds as well as princess has pushed prices upward in this range.

New York – The market in New York remains very soft except in very narrow ranges of goods of which supply is very scarce. One of these is 1-3 cts better colours in top makes, and these goods are commanding high prices. Princesses are moving again while marquises are very difficult to sell.

The economic news is offering some optimism as the financial markets showed excellent advances in August and they are good indicators of future trends in the economy. Credit markets are easing up a bit and banks, though cautious, are loosening their purse strings somewhat. All the signs are pointing to a levelling off of the recession, which, coupled with retailers being in a low stock position, are hopeful signs that there will be buying for both wholesale and retail in the 4th quarter and beyond.

Hong Kong – Business for Hong Kong jewellery manufacturers continues to be difficult. As for polished trading, August has been a particularly difficult month, but people expect things to pick up in mid September. At retail level people report some replenishment of depleted stocks. September 21 is also the time when the Hong Kong Show starts, where this year a record number of participants and volume of goods is expected.

Clearly a lot of companies have turned their focus towards the Asian markets and that is demonstrated by the high number of new offices that have opened in Hong Kong. There are certain pockets of demand but it is limited and nowhere near last year's levels.

Strong demand for 1ct and 0.50 ct, GIA cert. SI clarity has become more acceptable.

■ Forecast

It's wait and see on several fronts:

- What effect will price increases and a sharply increased rough availability (Russian and Angola) have on rough demand and prices?
- Can retail sales in the weeks and months up to Christmas soak up the newly re-filled diamond pipeline?
- What do the stock markets have in store for the often volatile months of September and October?
- How will the Hong Kong show turn out?

We believe the rough market is likely to go downhill until the return from Diwali and January, the question being the gradient. Polished looks less predictable – there have been some encouraging straws in the wind – though not always on price – much depends on how inter-dealer trading translates into solid retail demand.