

**N**ew Year and New Hopes! All of us look at New Year to bring in new opportunities, new challenges and of course solutions to our existing problems. Indian diamond industry has been grappling with too many issues like dwindling demand for diamonds, fluctuating prices, growing threat of synthetic diamonds, etc. While it was surrounded by serious issues, Indian diamond industry ushered in 2016 with a hope of betterment in the domestic as well as global market situation. And, there came an announcement from De Beers' posting rough diamond sales of \$540 million during its first sales cycle of 2016, which was more than double the sales of \$248 million posted in the last sales cycle of 2015. While the market looked gloomy prior to the De Beers sales, this announcement certainly brought a news of silver lining that the industry has been looking for. However, industry analysts have advised to be cautious and not to get carried away with the sales results.

Recently, addressing a Sightholder reception during the first De Beers Sight sales of 2016, Philippe Mellier, Chief Executive, De Beers Group, said that there were some encouraging signs in the diamond industry at the start of 2016. Mellier cautioned, however, that the recovery in the diamond sector remained delicate and that there is likely to be some volatility in 2016.

## De Beers Sales and the Market Subtleties

De Beers' statement about their sales said: "rough diamond sales during the first cycle of the year improved significantly compared with

the final cycle sales of 2015. A positive holiday season in the U.S. from a retail perspective, low levels of rough diamond purchases by the midstream in Q4 of 2015 and a subsequent reduction in manufacturing saw polished diamond stocks pull through the pipeline. This has resulted in firmer polished prices. Rough diamond demand broadened across the entire product range as cutting and polishing factories began to increase their activity."

When we asked few leading diamantaires about their thoughts

on the recent sales, many of them expressed their satisfaction over the sales being as per their expectations. "It was well in line with our expectations," said Rajesh Lakhani, Director, KGPL.

Instead of terming the sales results as signs of revival, Raj Mehta, Director, Rosy Blue NV termed it as more of a sign of polish inventories being sold further down the pipeline and therefore, replacing new inventory for the coming months. He further added "The prices at the first Sight of 2016 from a manufacturing point of view was more or less in line with how polish prices are today. Assortments have been similar, but usually De Beers assortments are pretty much in line with how manufacturers would want."

### Meet The Experts

**Rajesh Lakhani**  
Director, KGPL



**Ghanshyam Dholakia**  
MD, Hari Krishna Exports Pvt. Ltd.

**Hitesh R. Shah**  
Partner, Venus Jewel



**Raj Mehta**  
Director, Rosy Blue, NV

**David Johnson**  
Midstream Communications Manager, De Beers





# INTERVIEW

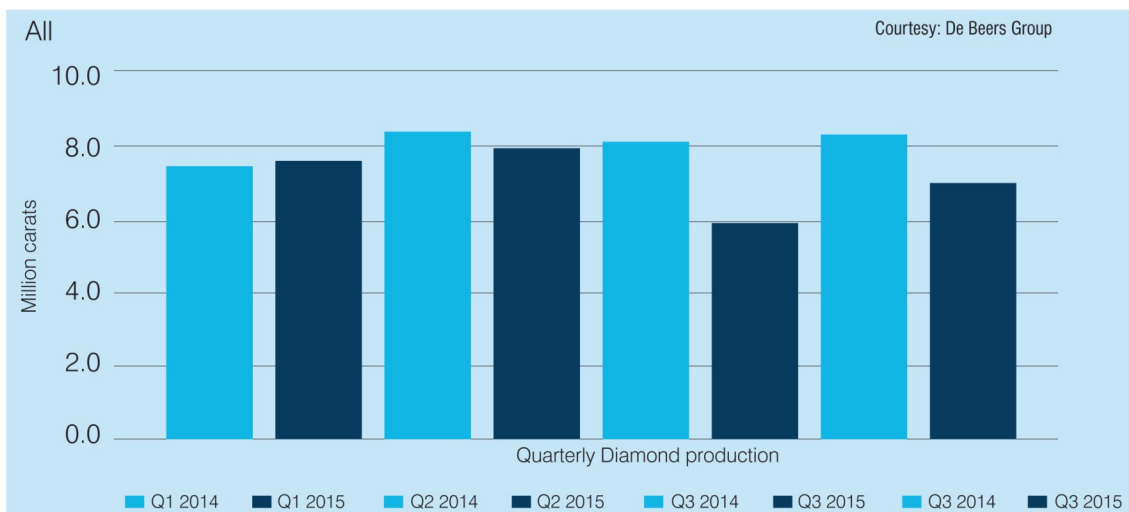


De Beers has been working closely to bring in sustainable improvements in the diamond industry to mitigate the effects of the overall market situation. Hitesh R. Shah – Partner, Venus Jewel, welcomed De Beers’ move of price adjustments. He commented “Overall, it was a welcome experience for us as well as the market. During H2 2015, the industry saw reduction in rough purchase as well as manufacturing due to a slowdown in retail demand and lack of profitability. Most of the manufacturers were sitting on extremely low rough inventory and were in need of goods. With De Beers making price adjustments to better balance the rough to polish profitability gap, the overall market sentiments improved. As a result, articles that were previously in low demand for quite some time began to sell. The January overall rough sales totalling USD 540 million as announced by De Beers was much higher compared to the last few Sights.”

In order to be more flexible to meet Sightholder needs, De Beers, prior to November 2015 Sight sales took few measures like Sightholders could defer their entire November allocations to December, or



bring their December supply forward. They could also reject 20 per cent of their box instead of the usual 10 per cent so-called “buybacks.” In addition, Sightholders could apply for goods that were not in their initial intentions to offer (ITOs), a mechanism referred to as “ITO swaps.” Many Sightholders appreciated the measures taken by the company. “These measures have been initiated to give some flexibility to the manufacturer to plan his operations





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**Regarding our expectations for 2016 as a whole, we are encouraged by the situation we are seeing at the start of the year but we feel that a watchful and responsible approach will need to be maintained by all parts of the diamond pipeline as things start to improve. There is likely to be some volatility in evidence this year and there remain some risks around the macroeconomic environment, for example. However, consumer demand has continued to be fairly robust and there were some encouraging reports after the end of year retail selling season in the U.S., so there are positive signs. Overall we are cautiously optimistic for the industry's prospects this year but it will be important for all parts of the value chain to remain responsible if we are to see sustained success.**

**– David Johnson**, Midstream Communications Manager, De Beers

and they are welcome measures,” said Ghanshyam Dholakia, MD, Hari Krishna Exports Pvt. Ltd.

Hitesh Shah further added “We believe that it is because of the flexibilities offered by De Beers, actual manufacturers benefitted a great deal; as they could defer, buyback and swap goods as per their genuine needs. Not only did these flexibilities ensure the industry weathered through challenging times, but at the same time they also helped crucially in maintaining overall confidence. Indeed

very welcome steps that have definitely helped people adjust in such difficult market situation.”

In November 2015, many of the Sightholders opted for deferral option and many of the Sightholder didn't attend the sales, De Beers' Sight sales was estimated to be smallest ever contract sales at \$70 million as per the news reports. As it was Diwali time, many of the Indian diamantaires were missing. Also, a number of manufacturers preferred not to buy new stock unless they had not finished polishing the existing old stock.

Commenting on the November sales, Ghanshyam Dholakia said “Consumer resistance to any increase in polished prices to enable the diamond manufacturers to absorb rough prices and make their operations profitable is a major reason. The manufacturers trying to cut corners through efficient inventory management is also another reason. The first few months after Diwali being lean months the manufacturers would like to keep the inventories at the lowest possible level as a measure of saving cost.”



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**Going by the current market scenario, we expect that the pipeline would get healthier. The consumer demand is going to be stable, which is positive for the market. As per the HK and China office of Kiran Gems, the consumer market in China and other Far East region during the said time is expected to be normal and slightly positive.**

**– Rajesh Lakhani, Director, KGPL**

## Price Matters

Industry analysts have earlier pointed out that price cut in roughs would have its direct impact on the price of polish diamonds as they would fall further. Thus, it would become difficult to further bridge the gap between the two markets.

When, Diamond World tried to find out the recent measures taken for the January Sight sales, David Johnson, De Beers' Midstream Communications Manager said, "With respect to the elements of flexibility we put in place towards the end of 2015, some of these measures are continuing for the time being but others have now stopped as they were only really appropriate as temporary, short-term measures." However, the company refused to comment on the quantum of cut offered at the sales.

Though the Sightholders earlier welcomed the price cut of roughs (De Beers had announced 8 per cent to 10 per cent cut in August 2015), they don't want it to affect the sentiments of the polished market. Ghanshyam Dholakia supporting the thought said, "From the manufacturer's point of view any reduction in rough prices will help him to

organise himself better. A steep reduction, however, is not in anybody's interest."

Many of the Sightholders wanted De Beers to introduce modest price cut in roughs so that it won't have a major impact on polished prices. Talking about the further efforts taken by De Beers, Hitesh Shah pointed out "In the January Sight, De Beers adjusted prices to ensure rough prices are more aligned to today's polished prices. There were some areas that were adjusted more, and some others less, but the overall aim was to ensure when diamonds are purchased from De Beers and are manufactured, one can be able to sell the polish at





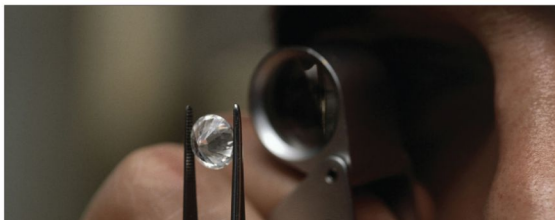
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**We are expecting restoration of the demand from China, improvement in economic activity in India and the U.S. putting more money in the hands of public to spur luxury goods purchases, easing of rough prices that would make us plan our production more comfortably.**

**– Ghanshyam Dholakia, MD, Hari Krishna Exports Pvt. Ltd.**

today's market prices and not make a loss. As such we do not foresee any immediate need for further correction, but ultimately the diamond industry like most industries is market-led, where the supply/demand model will push prices according to the market forces. In our opinion, things should remain stable over the next few months."

Explaining the De Beers Sight sales result to us, Raj Mehta said "There is no surge in demand of polish diamonds; there has been a severe break in manufacturing due to global demand, more so due to Far East and European demand. This resulted in high inventory levels in polish, and therefore money was blocked in polish stocks, which couldn't be released to buy new rough at that time. It took almost a year to bring polish inventories in line with demand, which is what we are seeing now, where manufacturers are now ready to buy more rough."



## Need to be cautious

Though the year 2016 has begun on a positive note, the diamond industry needs to be cautious, warns a Sightholder. However, there is likely to be volatility in 2016, as earlier cautioned by Mr. Mellier. Hitesh Shah had a few words of caution to extend toward the industry as he said "Overall market confidence seems restored and people have begun doing business in a normal manner, which is good. However, as has been noticed several times in the past, whenever the market





**“Overall market confidence seems restored and people have begun doing business in the normal way, which is good. However, as has been noticed several times in the past, whenever the market slows people become too pessimistic, and when it improves they become overly enthusiastic! This needs to be avoided. Instead they need to be careful and be cautiously optimistic. Considering the fragility of the global economy, caution seemingly appears to be the need for the first half of the year. If we can be cautiously optimistic and if we do see a continuation of generic marketing (perhaps through the support of the Diamond Producers Association), we feel this year can end better than 2015.”**

**– Hitesh Shah**, Partner, Venus Jewel

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Even Raj Mehta advises to be little cautious while talking about the current slowing market conditions. He said “I think the industry did take

its actions by slowing down manufacturing, sizing down their businesses, cutting costs. But to turn things around we need global markets to become more stable. The world is very unpredictable at the moment. Therefore, each company needs to look inside their own businesses and see what they can or cannot do.”

## Initiatives of Change

David Johnson said “Regarding our expectations for 2016 as a whole, we are encouraged by the situation we are seeing at the start of the year but we feel that a watchful and responsible approach will need to be maintained by all parts of the diamond pipeline as things start to improve. There is likely to be some volatility in evidence this year and there remain some risks around the macroeconomic environment, for example. However, consumer demand has continued to be fairly robust and there were some encouraging reports after the end of year retail selling season in the U.S., so there are positive signs. Overall we are cautiously optimistic





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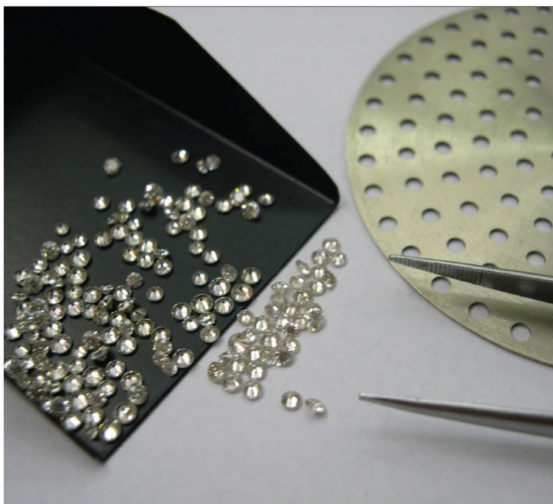
for the industry’s prospects this year but it will be important for all parts of the value chain to remain responsible if we are to see sustained success.”

He further added “We believe the actions taken by the upstream and midstream sectors of the diamond industry in the second half of 2015 have provided the opportunity for the industry to generate improved momentum and experience better trading conditions. However, this should not be taken for granted on the back of some encouraging signs early in the year, so in our view we must all take a careful approach as we see the

environment start to improve.”

Though the De Beers Sight sales had few signs of positivity, industry leaders are advising to be cautious. But at the same time, there are certain measures that can help to turn things around. As put up by Hitesh Shah, each sector of the industry needs to play their part:

1. **Mining** - Mining companies should continue maintaining the right balance between market demand and price, thereby ensuring stability.
2. **Manufacturers and Dealers** - Need to behave responsibly for their own business and the success of the industry. In the past, prices would increase drastically, decrease to a worst depression and the cycle would continue. We are hopeful that this time, the entire value chain will all be more responsible.
3. **Banks and funding** - The Banks need to be vigilant in supporting genuine, efficient and transparent businesses. At the same time they need to be very strict with those who are not able to be transparent.
4. **Generic marketing** - This does not imply spending humongous amounts simply on generic advertising, but a collective effort by the industry leaders to utilize social media, advertising and



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## Global Sightholder Sales

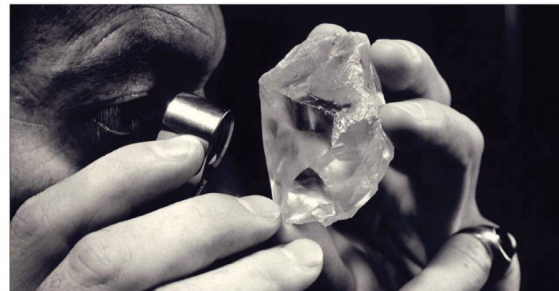
De Beers, world's leading diamond company, sells its rough diamonds through two channels: Global Sightholder Sales (GSS) and Auction Sales. GSS sells around 90 per cent of De Beers' rough diamonds, by value, via term contracts to customers known as Sightholders, at events called Sights. These customers are among the world's leading diamantaires and are active in the major diamond centres. Sights are held 10 times a year in Botswana, Namibia and South Africa, where customers will inspect their rough diamond allocations before deciding whether to purchase them.

As demand for GSS's rough diamonds exceeds availability, only those businesses that demonstrate sufficient demand for De Beers' rough diamonds qualify as Sightholders, with the accompanying opportunity to purchase diamonds on a term contract basis. Diamond businesses that have not demonstrated sufficient demand for De Beers' rough diamonds may qualify as Accredited Buyers.

The current GSS contract began in March 2015 and will end in March 2018.

other novel and creative means to drive demand. Leading mining companies have formed the Diamond Producers Association (DPA), but it is presently at a very initial stage with very limited funding. We believe if the DPA comes together with the leading Diamond associations around the world (like the World Federation of Diamond Bourses, Gem and Jewellery Council, CIBJO and the International Diamond Manufacturers Association) to drive consumer demand, the industry as a whole can create something wonderful that will allow diamonds to reclaim the number one emotional gifting spot in the major diamond markets of the world.

Industry has not lost hope and is working toward bringing things back to normal. Some of the measures taken by the manufacturers as well as miners have yielded good results. Rajesh Lakhani, too, advised to be positive. He said "The measures taken by the miners in the past year are yielding good results. We think that should continue in the



future in order to keep the market healthy and positive."

## The way ahead...

As put up by the many industry experts, need of the hour is to be trading cautiously. The traders need not get too enthusiastic by certain movements in the market or there is no need to get bogged down by the negative sentiments floating around. Too much of enthusiasm or pessimism may hurt. So, be cautiously optimistic! 🍀

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