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MAGAZINE

IOR:
POSITIVE US
JEWELRY SALES
FIGURES

POLISHED
PRICES

MARKET
SNAPSHOT

COPING WITH PRICE
VOLATILITY IN THE DIAMOND
PIPELINE

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APRIL 2016

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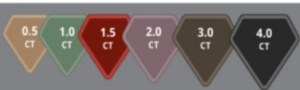

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BY DAVID BRUMMER

EDITOR'S NOTE

A month is apparently a long time in the jewelry and diamond industry. Just a month ago the Indian jewelers strike had not yet started and the full extent of the parlous state of the diamond industry in Zimbabwe was either not fully known or had yet to be consistently reported. That is no longer the case.

Trying to draw parallels between the two is potentially fraught with danger, and actually, it is the differences that stand out more.

Indian jewelers, furious at finance minister Arun Jaitley's imposition of a 1-percent excise duty on all but silver jewelry, shuttered their stores in a three-week long strike, which according to Bloomberg, cost the industry around $150 million per day. The strikers, however, were consistent in their demands, charging that not only had the government failed in its aim to improve the ease of business, but quite the opposite. Jewelry industry associations were concerned that a highly skilled, but largely uneducated workforce would be faced with an intolerable burden, which the government had designed as a revenue-raising initiative.

A 60-day consultation period is now in place, with the government seeming to have climbed down somewhat, following assurances that small and medium enterprises would not face harassment from tax authorities. Just as in 2012, the government shrank back from its attempts to impose excise duty on the jewelry industry, following fierce (but almost entirely peaceful) protest.

Whatever one thinks of coordinated strike action, and there was by no means unanimous overt support from other potentially affected industries, such as diamonds, the tactic worked. In a liberal democracy, albeit a still relatively young one, an industry that employs hundreds of thousands of people brought pressure on elected leaders who are accountable to their constituents.

Comparing the situation in Zimbabwe, however, one is left with a different feeling altogether. In the southern African state, the diamond industry seemingly lurches from one crisis to the next.

The year started off quite brightly, with rumors that there were discussions about the possibility of creating a diamond bourse in Harare. Since then, however, the news regarding the country's embattled diamond mining industry has been worrying, and as usual, it is ultimately Zimbabwe's citizens who suffer the consequences.

Zimbabwe's president, Robert Mugabe, claimed that mining companies have stripped the country of around $15 billion of revenue, returning only a fraction of that to the treasury. Whether this is as a result of unscrupulous companies or governmental mismanagement (and we cannot rule out the possibility of both), the fact remains that Zimbabwe's natural resources have been denuded, and there is precious little to show for it – not for the government and certainly not for the beleaguered population.

Perhaps it's easy to point fingers, but we must rightly question whether the framework of civil society in Zimbabwe will be strong enough to ensure that justice for its people is served. We must hope that the once diamond-laden fields will still be able to return some kind of benefit to the people who need it most.

TALK TO US


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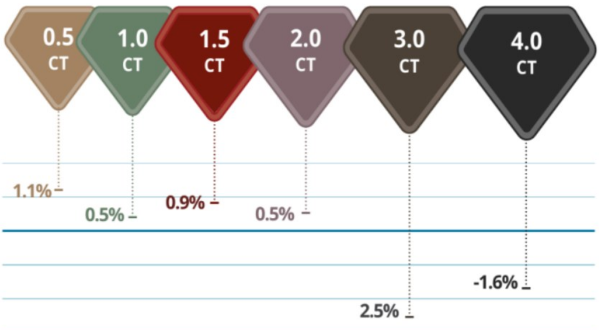
MARKETSNAPSHOT

POLISHED DIAMONDS

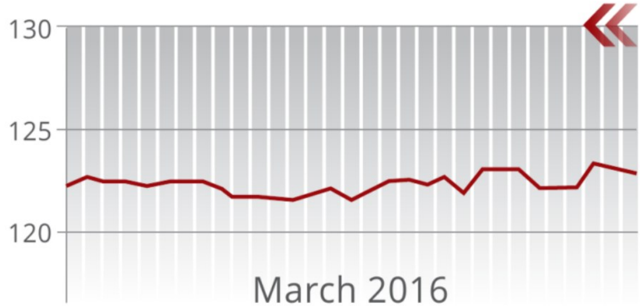
THE CAUTIOUS OPTIMISM THAT HAS BEEN APPARENT SINCE THE START OF THE YEAR WAS REFLECTED SOMEWHAT IN POLISHED DIAMOND PRICES IN MARCH. **PRICES WERE UP 0.1 PERCENT COMPARED TO FEBRUARY.**



ON A MONTH-OVER-MONTH BASIS, **PRICES FOR DIFFERENT SIZED DIAMONDS FLUCTUATED.**

POLISHED DIAMONDS DAILY INDEX

THE INDEX **BEGAN THE MONTH AT 123.8 AND ENDED AT 124.4.**



METAL PRICES IN MARCH US$ PER OUNCE

*Price as of 31.3.16

Palladium: 565 (9%)
Platinum: 977.5 (4.2%)
Silver: 15.44 (4%)
Gold: 1,232 (-0.03%)

Source: Amark.com

US JEWELRY SALES

Sales of fine jewelry and watches rose by a revised 4.6 percent, far above the preliminary 2.1 percent gain reported by the government in February. Total January sales of fine jewelry and fine watches in the US were an estimated $4.8 billion. Specialty jewelers posted a very modest sales gain of 1.2 percent in January to $1.8 billion. Fine jewelry sales (approximately 88 percent of the market) rose by an estimated 6.3 percent in January, while fine watch sales were up by 6.4 percent.

ROUGH

The latest De Beers Sight is thought to be between $600 million to $650 million. Pre-Sight, dealers sold 3-carat goods for between 8 percent to 10 percent profit. Following the Sight, DTC increased the prices by 2 percent to 5 percent. Clients tried to push the premium down, but most of the items on offer sold before the Sight. Cheaper smaller Indian goods showed minimal change in price.

MEMO

BY DAVID BRUMMER

Making a Synthetic, But Natural Choice

If there is one thing that is almost certain to get particular parts of the diamond industry apoplectic with rage, it is the mention of lab-grown diamonds. It seems to be one of those word formulae that make people appear to lose perspective.

The visceral reaction of some segments of the diamond industry to lab-grown diamonds seems disproportionate. The technology to create these diamonds has been around for more than 60 years, and was initially used in an industrial capacity. Man-made diamonds, as distinct from cubic zirconia, came into the retail diamond industry at around the turn of the Millennium, and have increasingly become a feature on its landscape.

So, Stuller Inc.'s recent announcement that it has added lab-grown diamonds to its existing product mix is important. The company has been in existence for more than 45 years, and its decision to offer lab-grown diamonds is a big deal, because it signals that there is synergy, where technological expertise has reached a stage of advancement that has coincided with the willingness of jewelry retailers to sell the product.

And lab-grown diamonds are here to stay, let us make no mistake about that. As retailers' margins and profitability continue to get squeezed, is it not a logical and rational move for a large manufacturer to make this move?

Stuller's decision has not been without controversy, but the company has also been prepared to use moissanite and other lab-grown gems in its jewelry, creating dedicated sections on its website where the types of stone used are clearly labeled.

Perhaps this is the crux of the argument – things should be clearly labeled – like with other gemstones such as rubies and emeralds and also pearls. And the notable point about those materials is that a distinct market for both synthetic and natural products exists – they live side-by-side, and in large part, not only have sales of the natural product not been negatively affected, they have in fact increased. If we can appropriately differentiate between lab-grown diamonds and natural stones, and that always seems to be a sticking point, isn't it possible that the two products can live in harmony?

We should also take note that De Beers, through its subsidiary company Element Six, is the largest manufacturer of lab-grown diamonds in the world. Although the majority of uses for its diamonds are industrial, we cannot overlook the connection between the diamond producer and the lab-grown manufacturer.

It is a good thing that a company like Stuller has made the decision to add lab-grown diamonds to its product mix. In the company's press release, it took great pains to point out that lab-grown and natural stones are not treated in the same way. The lab-grown stones come with a certificate from the Gem Certification and Assurance Lab (GCAL), a unique inscription on the girdle and a uniquely labeled package. They are also handled separately, housed in a different vault and stored and shipped in distinctive box.

What do people mean when they say that they are worried about chemical vapor deposition (CVD) diamonds? They are worried about them as a product, concerned that lab-grown diamonds will become too keen a competitor for natural stones? That the price-conscious consumer will be swayed by a product that looks so similar and is chemically indistinct from natural diamonds – yet at a fraction of the cost? Or do they mean that they are concerned, as has already happened, that unscrupulous elements will try and sell lab-grown diamonds as if they are natural stones?

It may be one or all of these fears, and that is totally legitimate, but hoping that lab-grown diamonds will just disappear or that the industry can somehow put the genie back in the bottle and legislate against them is neither possible nor practical.

And why have traditional businesses, including the diamond bourses, rejected lab-grown diamonds until now, particularly when so many have an infrastructure in place to deal with them?

Diversify or die is an adage that sounds a warning to businesses that staying static for too long can be detrimental to success. The flip side is that diversification can also be risky – especially if a new venture takes a company too far from its core business. Is it genuinely more risky to increase ones product mix to include lab-grown diamonds, especially if you are as careful about maintaining your standards as Stuller?

TALK TO US


L.L.D

IDEX

IDEX MAGAZINE | APRIL 2016
VOL. 30 NO. 312

PUBLISHED BY : ISSN 0334-6838 | 2003 IDEX ONLINE S.A.

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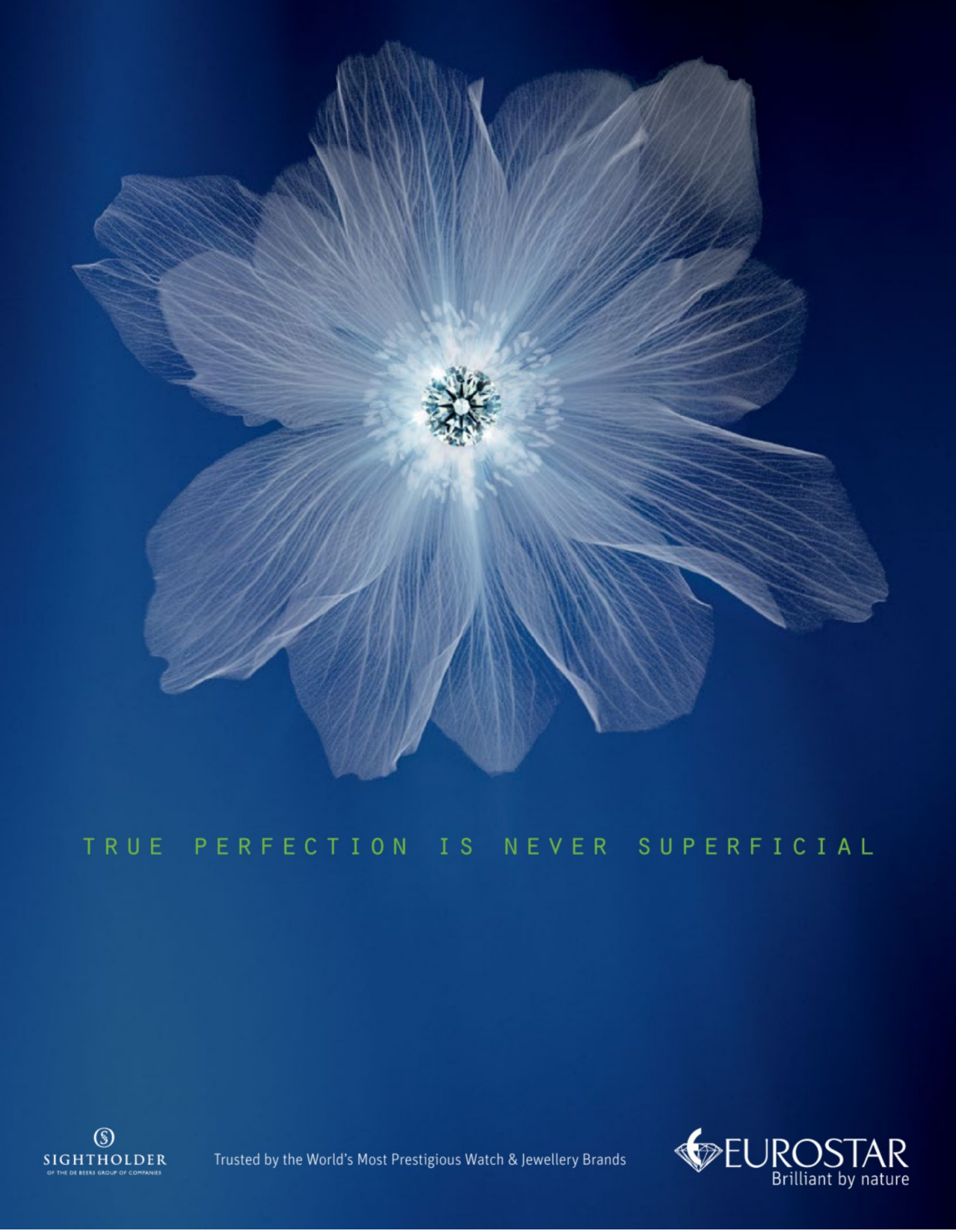
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ROUNDS | APR 2016

PRICEREPORT

Price of round diamonds fluctuated during the month, somewhat checking the long-running pattern of downward price movements. Items in the 0.23-0.29 carat category showed upward movement, with price rises of up to almost 6 percent. Items in the 1.00-1.24 carat range showed hardly any movement.

Goods in the 3.00-3.99 carat category, showed widespread downward movement, but did not exceed an approximately 3-percent decrease.

ROUNDS 0.30-0.39 — 01-APRIL-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	38.0	30.5	27.0	26.0	23.5	22.0	19.0	17.0	14.0	12.0	8.0
E	28.0	26.0	23.5	23.0	22.5	20.5	17.5	16.0	13.5	11.0	7.5
F	25.0	24.5	23.0	22.5	22.0	20.0	16.5	15.5	13.0	10.5	6.5
G	23.5	23.0	22.5	22.0	21.0	19.0	16.0	13.5	11.5	10.0	6.5
H	22.5	22.0	21.0	20.5	19.5	17.5	15.5	13.0	11.0	8.0	6.5
I	20.0	19.5	19.0	18.0	16.5	15.0	13.0	11.5	10.0	8.0	6.0
J	19.0	18.0	16.5	16.0	15.0	14.0	12.5	11.0	9.0	7.0	5.5
K	17.5	17.0	16.0	15.0	13.5	13.0	11.5	10.0	8.0	6.5	5.0
L	15.0	14.5	13.5	13.0	12.0	11.5	10.0	8.5	7.5	6.0	4.5
M	13.5	13.0	12.5	11.5	11.0	10.0	9.0	7.0	6.0	4.5	3.5
N	13.0	12.5	12.0	11.0	10.0	7.5	6.5	6.0	5.0	4.0	3.0

ROUNDS 0.30-0.39 CT

H-I / IF DOWN 2.5%

J / VVS1 UP 3%

ROUNDS 1.00-1.24 — 01-APRIL-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	210	167	143	115	107	82	70	60	49	32	18
E	163	140	116	105	93	79	65	56	46	28	16
F	127	114	108	101	87	76	64	55	43	27	16
G	107	99	92	88	80	73	61	52	40	27	16
H	84	83	80	78	73	66	56	49	37	24	15
I	69	68	65	64	61	58	50	45	36	21	15
J	58	57	56	53	52	49	45	40	31	16	14
K	50	48	46	45	43	40	38	33	28	16	14
L	45	44	43	41	39	35	33	30	26	16	13
M	41	39	37	34	31	28	27	26	24	16	12
N	39	38	36	33	26	24	23	19	16	15	12

ROUNDS 1.00-1.24 CT

F / VVS1 DOWN 3%

J / SI2 UP 2%

ROUNDS 2.00-2.99 — 01-APRIL-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	502	386	310	273	201	159	124	90	73	43	21
E	324	292	267	244	182	150	113	86	62	37	19
F	278	262	229	208	178	138	108	82	60	35	16
G	217	205	185	168	150	129	98	79	58	29	16
H	179	166	152	146	131	114	96	76	56	27	16
I	130	129	120	114	107	97	84	70	53	26	15
J	109	101	93	89	88	84	72	63	50	24	15
K	88	81	80	74	73	67	58	53	46	16	15
L	82	74	70	62	59	53	50	44	33	16	14
M	68	66	63	58	52	48	42	37	28	16	14
N	61	60	59	57	47	43	36	30	26	16	13

ROUNDS 2.00-2.99 CT

D / VVS2 DOWN 3%

G / VVS2+ DOWN 2% - 3%

FANCIES | APR 2016

PRICEREPORT

The picture overall for fancy shapes, showed more downward movement than has recently been the case.

Decreases in price of up to 3 percent or 4 percent, occurred in goods of 1.00-2.99 carats and 4.00-4.99-carats. Price movement in items sized 5 carats saw positive changes.

FANCIES 0.50-0.69 01-APRIL-16

D	69.5	58.0	48.0	42.5	40.0	34.0	29.0	24.5	19.0	15.0	9.0
E	55.0	51.0	43.5	39.0	36.5	31.0	27.0	21.5	18.0	12.0	7.5
F	49.5	45.0	38.0	36.5	34.5	29.5	26.0	20.5	17.0	11.5	6.5
G	42.0	39.0	35.5	34.0	31.0	28.0	24.0	19.5	16.5	11.0	6.5
H	37.5	35.5	33.0	31.5	29.0	26.0	23.0	18.0	15.0	10.5	6.5
I	34.0	31.5	28.0	27.0	26.0	24.0	20.5	16.5	13.5	8.0	6.0
J	24.5	24.0	23.5	23.0	22.5	21.5	19.5	15.0	13.0	7.0	5.5
K	20.5	20.0	19.0	18.0	17.0	16.0	13.5	13.0	10.5	6.0	4.5
L	18.5	16.5	15.5	15.0	13.0	12.5	11.5	8.0	6.0	4.5	4.0
M	18.0	16.0	13.5	12.5	11.0	10.0	8.0	7.5	5.5	4.5	3.5
N	16.0	13.5	12.5	10.5	9.5	7.5	7.0	6.5	5.0	4.5	3.5

FANCIES 0.50-0.69 CT

D / IF UP 3%

M / VS1-2 DOWN 4% - 5%

FANCIES 1.00-1.24 01-APRIL-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	169	143	113	91	81	72	62	47	37	25	15
E	135	119	100	83	79	71	59	44	34	23	14
F	113	100	83	81	75	68	58	43	34	22	12
G	86	84	77	73	70	66	54	42	31	21	11
H	77	68	65	62	61	56	51	37	29	19	10
I	61	59	55	54	53	50	44	34	28	16	10
J	51	49	47	45	43	42	37	31	25	13	10
K	42	40	37	36	34	32	31	27	21	13	9
L	33	32	30	29	27	26	25	22	16	13	9
M	24	22	21	20	19	18	15	14	14	11	8
N	22	20	19	18	17	15	14	11	10	9	8

FANCIES 1.00-1.24 CT

F-K / IF DOWN 2% - 4%

E-G / VVS2 DOWN 2.5% - 3.5%

FANCIES 2.00-2.99 01-APRIL-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	363	290	254	214	178	145	109	77	60	34	19
E	290	239	220	182	160	132	107	72	54	29	15
F	235	207	194	162	152	130	103	69	44	25	12
G	182	168	161	141	137	119	100	66	44	24	11
H	146	127	119	113	110	99	86	60	44	23	11
I	122	107	98	91	87	86	81	57	41	22	11
J	90	84	78	77	76	75	64	52	35	21	10
K	64	63	62	61	60	59	55	42	29	16	10
L	54	53	52	49	48	46	38	31	23	15	10
M	49	48	47	42	41	37	29	25	20	14	10
N	43	41	38	36	30	28	26	22	19	13	9

FANCIES 2.00-2.99 CT

G-I / VVS1 DOWN 1% - 3%

E-F / VS2-SI1 DOWN 2% - 3%

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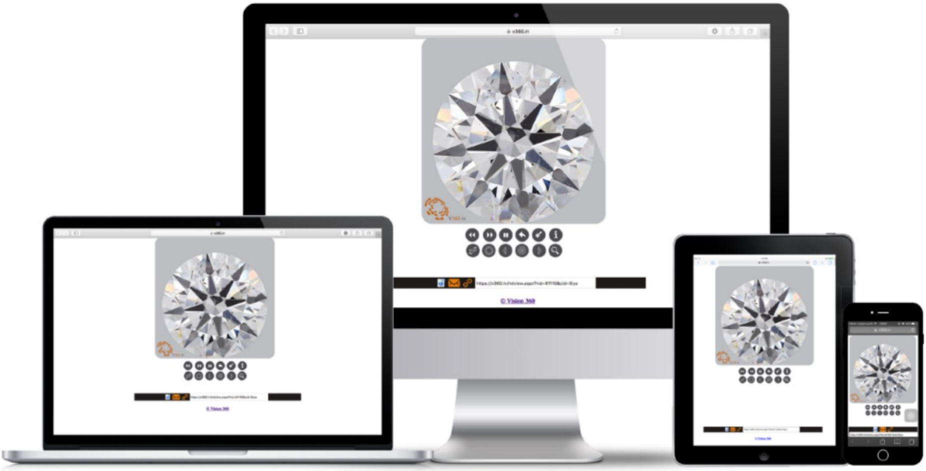

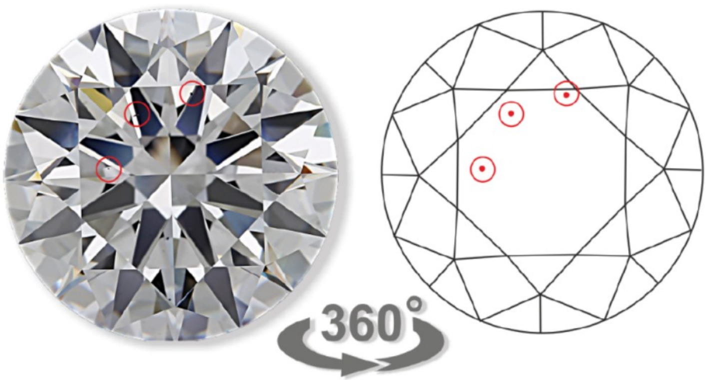
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BY PRANAY NARVEKAR
Originally Published in Solitaire International

COPING WITH PRICE VOLATILITY IN THE DIAMOND PIPELINE

Diamond price volatility is, in many respects, a new phenomenon that is here to stay. It impacts the entire diamond pipeline from producer to traders and retailers. Pranay Narvekar takes a look at the value chain from a downstream perspective: The year 2015 was, without doubt, one of the worst years in the last decade for diamond companies. The impact of producers reducing supply in the last quarter of 2015 is finally being felt in the market, with prices moving up in a few categories. However, we need to realize that the market equilibrium has changed, and companies have to learn to live with that volatility or perish.

FACTORS THAT AFFECTED 2015

With the exception of 2009, last year was probably the worst that the mid-stream has faced. While 2009 was caused by external factors (the global financial crisis), which created a demand shock, this was a more limited factor in 2015. It was other actions by all entities in the diamond pipeline that amplified these rather small fluctuations.

A QUICK ENUMERATION OF THESE FACTORS IS REQUIRED TO UNDERSTAND HOW THEY MIGHT PLAY OUT IN THE REMAINDER OF 2016:

- Retail jewelry demand challenges (in local currency)
- Dollar strength (leading to weakness in dollar demand for jewelry and polished)
- Polished price drop and impact on polished wholesale price (PWP) growth
- Retail and jewelry industry de-stocking
- Wholesale (mid-stream) de-stocking
- Producer actions (or inactions)
- Absence of margins in manufacturing

One aspect to consider is that while the first two points are external and, hence, independent factors, the others are internal, and in many cases a logical consequence of the pressures on the industry. They are also temporary and will stabilize/reverse over time. They amplify the impact of the demand drop.

The other aspect is that diamond jewelry demand growth and diamond polished wholesale price (PWP) demand growth are different and do not necessarily move in tandem. As the diamond industry, our concern is more with the PWP growth. The inherent assumption analysts make, is that diamond content in retail remains the same. This does not hold in instances where there is sharp price movement.

Consider an example. If the diamond content in jewelry is 30 percent for every $100 of jewelry sold, the value of polished sold will be $30. Now consider that the price of diamonds quickly drops by 10 percent. Retail prices are sticky, and retailers, therefore, do not adjust their retail prices. This means that if the retail prices are not adjusted, the PWP demand drops to $27, for the same $100 of jewelry sold. Hence the PWP demand will drop by 10 percent, even though jewelry demand has stayed the same. For the retailer, this would show up as a 3 percent increase in their margins.

In reality, a portion of this drop would be passed on as discounts to consumers. Hence, the net PWP drop experienced by the industry is a little lower. The same effect can be triggered by higher operating costs or greater margins demanded by retailers. The long stocking cycle for retailers also complicates this transmission, and these effects were clearly visible in 2015.

2016: AUTOMATIC IMPROVEMENTS

Expectations for 2016 need to be built upon the understanding of the factors that affected the markets in 2015, and examining their relevance.

These can be broadly grouped into two categories of factors.

The first category is demand-related factors. Indications from the US, China, India and other markets indicate that demand will be steady. Also, if the Diamond Producers Association's (DPA) attempts to improve promotion and marketing bear fruit, there should be demand growth. This alone should put a floor on the market.

The second category of factors is internal stocking-related parameters. All these factors worked to amplify the demand factors in 2015.

In 2016, even if these parameters remain at their new low levels, the lack of negative impetus from these factors would automatically mean that the demand for polished and rough would naturally be higher than in 2015. The industry will see this happening in 2016, as most of the demand and stocking-related parameters would have played out, and new sales require restocking from the retailers.

"With the exception of 2009, last year was probably the worst that the mid-stream has faced."

These projections have an implicit assumption that the industry will work on significantly higher margins. If that assumption does not hold, and the industry decides to go back to working on slim margins, then rough sales could be higher – and the industry will pay more for the rough from its own pocket. In that case, turnover-wise, 2016 would still be a better year. However, it might still not prove to be a profitable one.

The better topline forecast hides another important issue. The industry structure has fundamentally changed from that of low volatility to increasingly showing signs of sustained higher volatility – and it is something that it will need to live with.

HIGHER PRICE VOLATILITY

Most industries strive to ensure a stable pricing regime. The diamond industry was one of the few industries which was able to successfully do so for decades. It is interesting to examine the conditions which encourage stability, and why these conditions might not be achievable for the diamond industry over the next few years.

MONOPOLISTIC OR OLIGOPOLISTIC STRUCTURE

A monopolistic structure or an industry with a cartel, is the easiest way to ensure market stability. While the diamond industry had the former, other industries, like oil producers, had the latter. In both cases, long periods of higher prices could be maintained.

The diamond industry benefited from this structure for over 50 years with De Beers and the CSO (Central Selling Organization). Regulators are unlikely to allow such structures to form again. Untimely actions by large market participants can easily tilt the balance of supply and demand over

the short term, which in turn causes volatility.

What is clear, based on the actions in 2015, is that producers were behind the curve in terms of their responses to the issues. Whether this was by accident or design is not immediately evident.

At the end of 2014, most producers had projected higher production in 2015. However, the stress in the markets was already visible at that point. With differing priorities and commitments, producers continued to produce at higher levels for the first six months of the year. Subsequently, one of the largest producers cut back production, while the other kept up the pace.

It is hoped that the producers have learned from their mistakes. There are indications, however, that a few producers are considering scaling back production, just when the market indicates that there will be an uptake in demand.

STOCKPILE OR SLOW DOWN PRODUCTION?

If we review historical diamond prices, for years you could have drawn a straight line showing a 2 percent to 3 percent annual price growth.The price swings started kicking in from 2008 onwards, after De Beers had exhausted its famous stockpile of diamonds.

There is simply no better way to reduce volatility than by using a stockpile. However, reports from producers, barring one, indicate that with the new financial realities, they probably have a reduced appetite to mine and stockpile rough diamonds. Most prefer to slow down production and stockpile the diamonds in the ground.

Unfortunately, neither system may produce the desired or hoped-for results. Even with the most efficient manufacturer, ramping up production is a two- to four-month exercise. Apart from ramping up the mining activities, other downstream activities, including assortment of the rough and its sale, take time. In the current fast-changing market, a three-month delay in the goods reaching manufacturing can introduce greater volatility. After all, timing is everything.

LEANER SUPPLY CHAINS

The retail and mid-stream diamond industry has also seen a de-stocking over the last year. Inventories across the pipeline were reduced as a response to lower demand expectations, as well as pressures from banks.

Given the banks current high-risk perception of the industry, it is unlikely that there would be increased availability of finance over the next few years. This means that the industry would need to keep its stocks in check.

A leaner pipeline brings with it greater volatility, as perfectly logical and efficiency-driven market participants' decisions amplify volatility. The pipeline gradually loses its ability to manage the small mismatches between supply and demand, and these, in turn, are passed and amplified through the chain and manifest themselves in price volatility.

With the liquidity pressures faced by the industry, along with the potential interest rate hikes, it is unlikely that companies would be allowed to re-stock to the level of a few years ago, which in turn makes the pipeline prone to volatility.

FRACTURED DEMAND

Diamonds are a non-homogeneous product. We simply cannot take 100 one-pointer stones and make them into a 1-carat stone. This means that supply and demand has to be in balance for each category of product. The periods of pricing anomalies are a testament to this.

On the demand side, we see that sales are increasingly being driven by price points. This focus pushes retailers to use similar qualities of diamonds, so that they do not look overpriced. Countries like China have slowly down-traded in both sizes and qualities of diamonds used over the last four years.

"The industry structure has fundamentally changed from that of low volatility to increasingly showing signs of sustained higher volatility – and it is something that it will need to live with."

This results in an increase in pressure on qualities of diamonds which are "in demand." The production from the rough boxes is not so finely tuned. It gives a spread of product, which means that the diamonds for which there is not the same demand end up in stock. Hence, prices could again spike for a few qualities, while leaving the broader market unmoved.

NEWER SOURCES OF VOLATILITY

Lab-grown diamonds are a potential substitute for natural diamonds. The possible mixing of these diamonds with natural diamonds also introduces an element of volatility for the natural diamond supply chain. This is likely to unsettle markets until lab-grown diamonds establish themselves as a different category of product.

A response to this threat would need to be on several fronts, including developing detection equipment, along with increased testing at all transactions. The uncertainty over the scale of the lab-grown diamond supply also increases the potential volatility for the industry.

MANAGING VOLATILITY

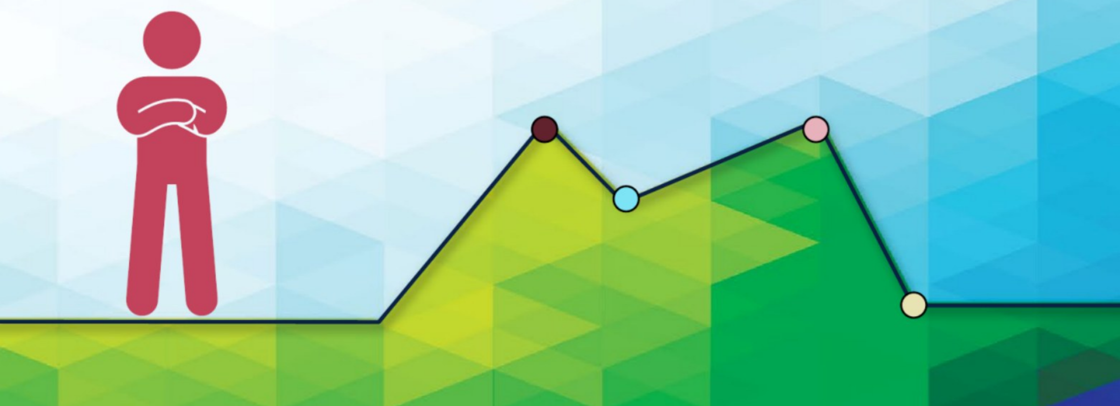
Increased volatility has been a feature of many industries, and it is instructive to look at the ways in which they have managed the higher volatility.

FLEXIBLE MANUFACTURING

One response, which diamond companies also demonstrated, is to have a more flexible factory, especially in the range of products which can be manufactured. Currently, we need different capabilities to handle single larger stones, as compared to the traditional parcel-based polishing factories. Polishers are also trained to work on a narrow product range, and this will need to change as factories will have to respond to varying demand patterns.

The same goes for the sales and marketing teams, who would need to adapt to shifting product profiles. Polishers usually graduate from smaller stones to larger, higher-value stones. During the previous year, many companies actually went back to smaller and cheaper goods, which augers well for flexibility of their factories.

On the capacity side, this means that factories should be built only if the marketing and demand generation mechanism exists. Creating infrastructure without the sales channels will severely



constrain the flexibility of the company.

MANAGING STOCKS

The industry, especially Indian manufacturers, had developed this mindset that stock is good. They were following a "stock and sell" model, or in other words, if you have the stock, you can sell it. That mentality needs to change, as holding stock no longer guarantees margins.

In leaner supply chains, getting held up with the wrong kind of stock could mean a significant loss, while holding on to the right kind of stocks could result in profits. While speculation is anyone's guess, the best strategy would be to focus on necessary and sustainable stock levels for your business, and then ensuring that stocks are maintained within those levels.

This has far-reaching consequences for retailers and jewelers, as well. The retail end had pushed the onus of stocking back to the mid-stream. A leaner mid-stream would mean that purchase prices would again be more volatile.

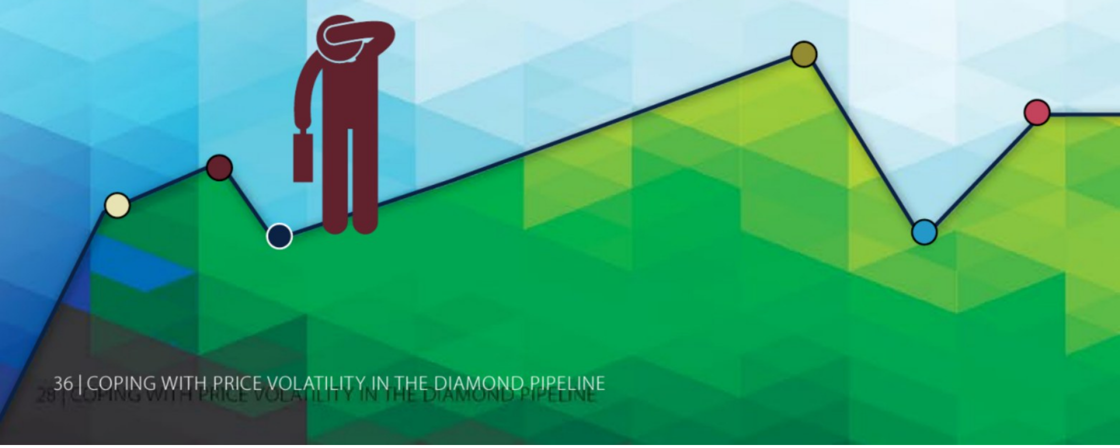
HIGHER MARGIN AND "VOLATILITY PREMIUM"

Rough parcels always produce a spread of polished, depending on how well they have been assorted. This means that greater attention needs to be paid at the time of rough purchase. The margins are only achieved when the entire polished production of the parcel is sold.

Anecdotal evidence suggests that a polishing company which went bankrupt in 2015 was working on margins of Rs100-200 ($1.5-3) per stone, most of which were in those categories requiring certification.

"Given the banks current high-risk perception of the industry, it is unlikely that there would be increased availability of finance over the next few years. This means that the industry would need to keep its stocks in check."

Working on such low margins in high volatility markets is a recipe for disaster. Apart from the regular margins, companies should consider whether there is a "volatility premium" that is available on



the goods. Simply put, if you were to take out insurance against a price drop, you would pay a premium to the insurer.

You, in turn, need to ensure that any rough you buy provides you with that "premium," in addition to the regular returns which you would like to make on your capital.

The only beneficiary from the lowering of the pipeline volatility is the producers. Any lowering of margin expectations and the "volatility premium" manifests itself into higher rough prices. That is the reason why the CSO years were successful for De Beers. They ensured that pipeline volatility was low, enabling higher rough prices in turn. That assumption now needs to be reset.

"Lab-grown diamonds are a potential substitute for natural diamonds."

The year 2016 will likely be a healthier year for the diamond mid-stream industry as turnovers rise again. This is due more to the negative factors of 2015 playing themselves out, rather than anything else.

However, companies need to adjust to a different market reality, where volatility is a way of life, if they want to thrive in the future.

It will call for more strategic planning by companies, where restraints are shown in rough purchases and stocking, along with more flexible factory and sales capabilities.

Ultimately, it boils down to the simple fact that the companies cannot be successful in these volatile markets without having the cushion of additional margins or the "volatility premium." Hopefully, companies will recognize this volatility risk and will not overpay for rough in 2016.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RETAILRENDEZVOUS

ODE TO ROMANCE

Andrew Geoghegan won the British Jewellery Association's 2014 Designer of the Year Award. This new 'wed-fit' **Clair de Lune** ring – available in platinum, white, yellow and rose gold – plays a major part in his growing bridal collection. It features 0.25 carats of diamonds.

VIEW MORE

NO TWO ALIKE

Alexandra Mor combines 21st century inventiveness with an homage to jewelry designs of the past. These signature platinum and 18-karat yellow gold diamond snowflake drop earrings are enhanced with moonstones weighing a total of 45.85 carats. Signed by the artist and made in a limited edition of 10, these earrings feature 2.94 carats of diamonds.

VIEW MORE

HUBBA HUBBA

Jewel Hub has released its latest collection – **My First Solitaire** – which allows buyers to purchase a solitaire diamond at an affordable price. This 18-karat gold ring features 0.49 carats of diamonds. Jewel Hub also has the option of changing a part of the design, from diamond clarity, color options, metals and gemstones.

VIEW MORE

PURE CLASS

Roberto Demeglio opened his first jewelry store in 1984, continuing a long-standing family tradition. His **Pura** collection combines the simplicity of black and white ceramic jewelry pieces featuring narrow bands of gold and diamonds. This black ceramic bracelet features 0.35 carats of white diamonds and white gold.

COMPLETING THE CIRCLE

Vahan's Le Cercle collection consists of pieces made from 14-karat gold and sterling silver, accentuated with diamonds. Some of the circular designs also feature London blue topaz, cubic zirconia or black onyx accents. This pendant features 0.23 carats of diamonds.

VIEW MORE

FANCY THAT

Rahaminov's history dates back more than 70 years, and the family-run business has a reputation for using beautifully cut large and rare diamonds. This fancy yellow oval diamond three stone ring, is set with trapezoid cut diamonds on the side and is set in platinum and 18-karat yellow gold.

VIEW MORE

BY KEN GASSMAN

IDEX Online Research

US Jewelry Sales Post Solid Gain in January

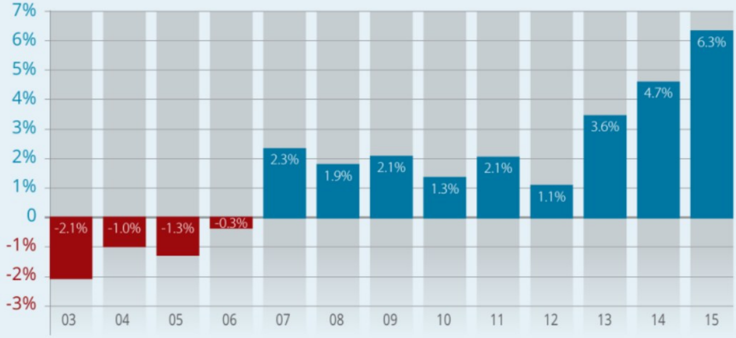
TOTAL SALES OF FINE JEWELRY AND WATCHES IN THE US MARKET ROSE BY A STRONG 6.3 PERCENT YEAR-OVER-YEAR, ACCORDING TO PRELIMINARY DATA FROM THE US DEPARTMENT OF COMMERCE. THAT IMPROVEMENT WAS ABOVE EXPECTATIONS, ESPECIALLY IN LIGHT OF MORE MODEST GAINS THROUGHOUT MOST OF 2015.

FURTHER, THE GOVERNMENT'S JEWELRY SALES DATA FOR DECEMBER AND THE HOLIDAY SELLING SEASON

(NOVEMBER-DECEMBER) WAS REVISED UPWARD, ANOTHER POSITIVE SIGN.

SALES OF FINE JEWELRY AND WATCHES ROSE BY A REVISED 4.6 PERCENT, FAR ABOVE THE PRELIMINARY 2.1 PERCENT GAIN REPORTED BY THE GOVERNMENT IN FEBRUARY. HOLIDAY SALES (NOVEMBER-DECEMBER) ADVANCED BY A ROBUST 4.4 PERCENT, BASED ON REVISED DATA. THIS WAS IN EXCESS OF OUR FORECAST OF A LOW SINGLE-DIGIT GAIN.

TOTAL JANUARY SALES OF FINE JEWELRY AND FINE WATCHES IN THE US WERE AN ESTIMATED **$4.8 BILLION. SPECIALTY JEWELERS** POSTED A VERY MODEST SALES GAIN OF **1.2 PERCENT** IN JANUARY **TO $1.8 BILLION**



US TOTAL JEWELRY & WATCH SALES TRENDS 2015 - 2016

Source: US Dept. of Commerce

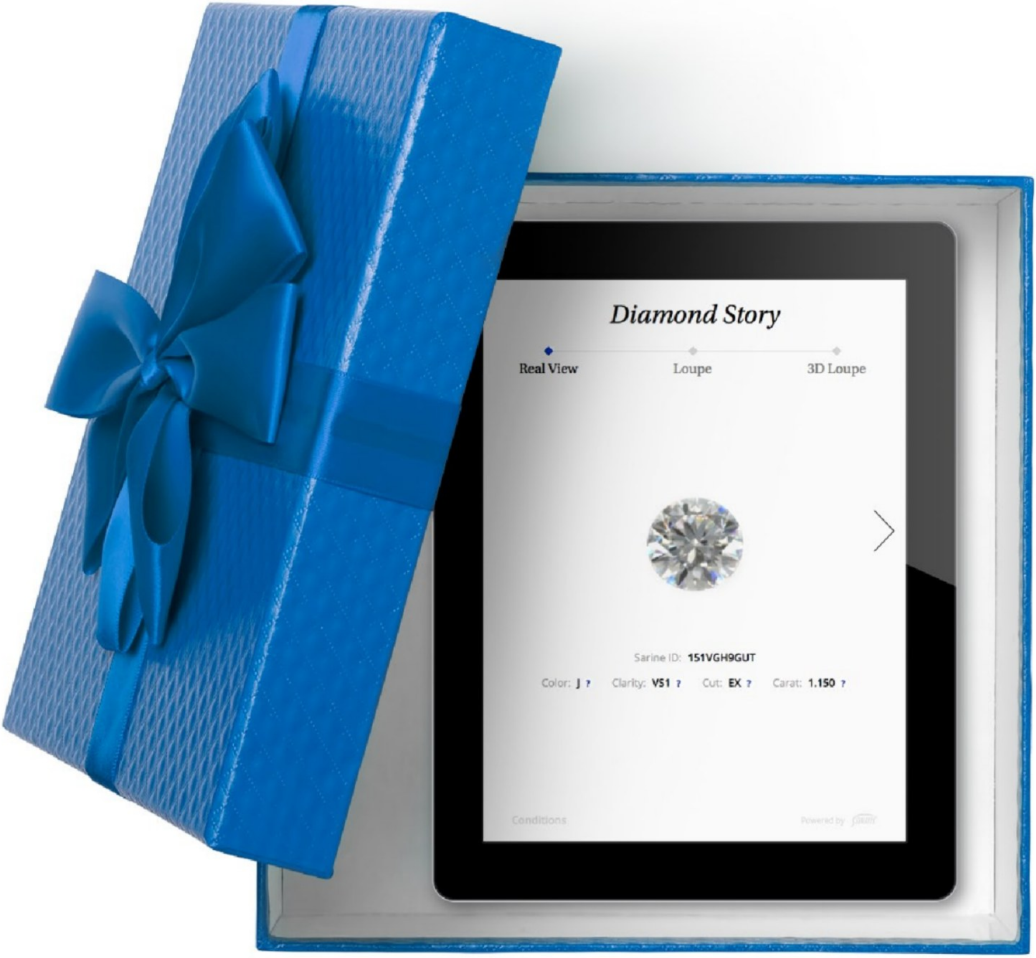
FINE JEWELRY SALES (APPROXIMATELY 88 PERCENT OF THE MARKET) ROSE BY AN ESTIMATED 6.3 PERCENT IN JANUARY, WHILE FINE WATCH SALES (APPROXIMATELY 12 PERCENT OF THE MARKET) WERE UP BY 6.4 PERCENT.

FINE JEWELRY SALES SURGED IN DECEMBER, AS SEASONAL DEMAND IN THAT MONTH ACCOUNTS FOR ALMOST 20 PERCENT OF INDUSTRY'S TOTAL SALES.

WHEN COMPARED TO TOTAL RETAIL SALES GAINS, SALES OF FINE JEWELRY AND WATCHES HAVE BEEN VERY STRONG, WITH JEWELRY SALES CAPTURING MARKET SHARE FROM OTHER RETAIL CATEGORIES.

OUTLOOK – WE ARE OPTIMISTIC

THE US JEWELRY INDUSTRY HAS RECENTLY COMPLETED THE ALL-IMPORTANT NOVEMBER-DECEMBER PERIOD WITH SOLID GAINS ABOVE OUR EXPECTATIONS, BASED ON REVISED DATA. OUR PRELIMINARY SALES FORECAST FOR THE US JEWELRY INDUSTRY FOR 2016 SHOWS A GAIN OF 3 PERCENT TO-4 PERCENT FOR THE FULL YEAR, AN UPWARD REVISION FROM OUR EARLIER FORECAST OF A GAIN OF 2 PERCENT TO 3 PERCENT.



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RETAILNEWS

TURKISH JEWELRY

TURKISH JEWELERS SEEK NEW EXPORT MARKETS AS RUSSIAN DEMAND NOSEDIVES

Turkish jewelry producers are attempting to increase exports by 30 percent to around $3.5 billion, as trade with key market Russia, suffered a 71-percent decrease in 2015, according to a report in *The Hurriyet Daily News*.

"Russia and the Turkic republics have been our key markets, but Russian economic activities have ground to a halt since the Ukraine crisis," said chairman of the Turkish Jewelery Exporters Association (MIB), Ayhan G□ner.

READ MORE »

BLUE NILE'S FIRST FIRST WEBROOM OUTSIDE OF NEW YORK LIKELY TO BE IN WASHINGTON, DC

Seattle-based jewelry e-tailer Blue Nile announced that it will open a third retail location or "webroom," likely to be in Washington DC, according to a report in the *Seattle Sun Times*.

The company opened its first webroom in New York in June. Blue Nile plans to add a second location in White Plains, New York in early summer, and the third webroom, planned for Tyson's Corner Center in DC, is slated to open mid-summer.

READ MORE »

DE BEERS LAUNCHES INTERNATIONAL INSTITUTE OF DIAMOND VALUATION RESELLING SERVICE

The De Beers Group of Companies announced that it has launched the International Institute of Diamond Valuation (IIDV) in the United States, to provide consumers and retailers with a diamond jewelry reselling solution.

The company hopes that IIDV will improve customers' experience by offering more accurate and attractive prices, in addition to increased transparency in the reselling process.

READ MORE

IMAGE: DE BEERS

INDIAN JEWELERS CALL OFF 18-DAY STRIKE ACTION TO PROTEST 1-PERCENT EXCISE DUTY

Jewelers in India called off their 18-day long strike to protest the government's imposition of a 1-percent excise duty, after they were assured that the charges will not lead to harassment by the authorities.

According to a report on Bloomberg.com, Ketan Shroff, spokesman at the Mumbai-based India Bullion and Jewellers Association Ltd, said that the strike, which began on March 2, was called off after the government agreed not to trouble the industry over the excise levy.

READ MORE

INDIAN JEWELERS STRIKE

RJC ADDS COLORED GEMSTONES TO CERTIFICATION SCOPE

The Responsible Jewelry Council (RJC) announced that a review of its scope will now include colored gemstones, in addition to diamonds, gold and platinum.

The move has apparently been the result of several years of consultation with RJC's members, external stakeholders and the colored gemstone sector.

READ MORE

Olivia Culpo, model, television presenter, cellist and owner of arguably the best eyebrows in Hollywood along with Chloe Delevingne, wore an ivory Lauren Sarbu evening gown. She paired it with a Pasquale Bruni diamond and gemstone necklace.

Chinese-born actress **Jane Wu** arrived on the red carpet in a gorgeous sheer black Galia Lahav gown. She accessorized with a Le Vian Exotics® Blackberry ® and Vanilla ® Diamond ring in vanilla gold.

Red-carpet vete
Collins has bee
the event for de
annual Graden
Fair Oscar Viewi
wore a white M
dress, which she
with a Sutra dia
emerald ring.

CELEBRITY CHOICES

ran **Joan**
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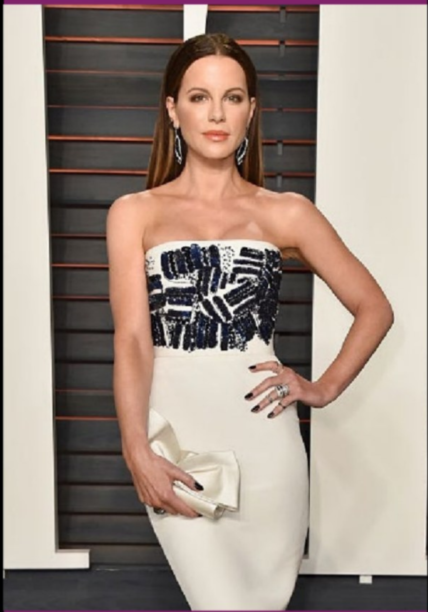
American-model **Jasmine Tookes** wore a midnight blue Randi Rahm dress to the 24th Elton John AIDS Foundation's Oscar viewing party. She coupled the outfit with Bavna earrings and Pasquale Bruni diamond rings.



English-born actress **Kate Beckinsale** looked far more glamorous than her Underworld character, in a Romona Keve	a dress. She teamed up her outfit with Lorriane Schwartz earrings and a Le Vian ® Vanilla Diamond Gladiator ring.

POLISHEDNEWS

STANDARD CHARTERED DEMANDS MORE LOAN PROTECTION FROM DIAMOND CLIENTS

London-based Standard Chartered Plc demanded more loan protection from its clients, particularly in the Indian and Belgian diamond trade, as it seeks to tighten standards, according to a report on Bloomberg.

The bank has lent around $2 billion to the industry, but is asking diamond-processing clients to get payment insurance or provide up to 100-percent collateral, said people with knowledge of the new policy.

READ MORE

KIRAN GEMS WINS 8TH CONSECUTIVE INDIA GEM AND JEWELRY AWARDS

Kiran Gems, the world's largest diamonds manufacturer, won in four categories at the recent 42nd edition of the India Gem and Jewelry Awards.

Kiran won the award as the first rank for a large cut and polished diamond company for the eight year in succession. It also achieved success other categories; Highest Turnover, Exporter of the Year and Kiran Exports HK Ltd won Importer of the Year.

READ MORE


RAMAT GAN

DIAMOND SERVICES EXPANDS LAB-GROWN SCREENING SERVICE TO ISRAEL DIAMOND EXCHANGE

Diamond Services announced that it will expand its lab-grown and color treated diamond screening service to the Israel Diamond Exchange (IDE).

The company's move into the Ramat Gan exchange is the next stage in a rollout of services to diamond centers around the world, and follows from the November inauguration of the company's lab-grown and color treated diamond screening service in Shanghai.

READ MORE

SALLY MORRISON TO LEAVE DIAMOND PRODUCERS ASSOCIATION IN MAY

The Diamond Producers Association (DPA) announced that Sally Morrison, its managing director of marketing, will be leaving the organization in May.

Luxury and consumer marketing industry specialist Michael Pace, who has previously worked for Diageo and Unilever and the World Gold Council, will join the DPA at the end of March, as interim managing director of marketing.

He will remain in place until a full-time replacement for Morrison is found.

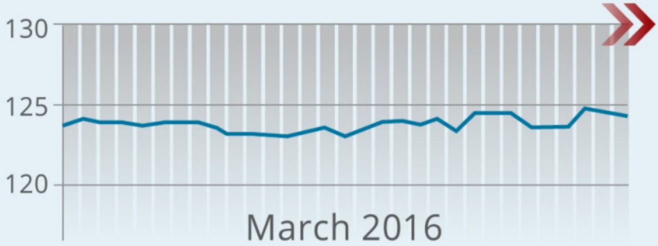
READ MORE

BY DAVID BRUMMER

POLISHED PRICES

March Polished Diamond Prices Remain Static

THE POLISHED DIAMOND PRICE INDEX FOR MARCH WAS LARGELY STATIC, ONLY REGISTERING A VERY SLIGHT INCREASE AND CONTINUING THE TREND SHOWN IN FEBRUARY. **THE INDEX BEGAN THE MONTH AT 123.8 AND ENDED AT 124.4.**



DAILY IDEX POLISHED DIAMOND PRICE INDEX

AVERAGE POLISHED REMAINED STATIC IN MARCH

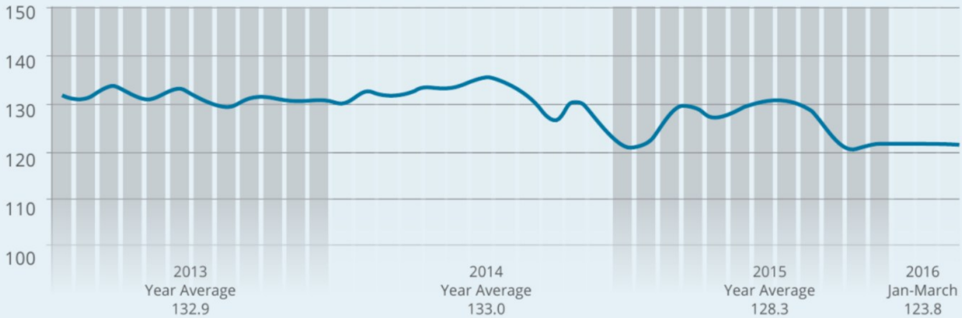
POLISHED DIAMOND PRICES HAVE SHOWN **STABILITY AND ONLY MINIMAL FLUCTUATIONS SINCE NOVEMBER.** THE TREND FOR MARCH CONTINUED THIS PATTERN OF A LACK OF SIGNIFICANT PRICE MOVEMENTS.

ON A YEAR-OVER-YEAR BASIS, **MARCH'S AVERAGE FELL 4.6 PERCENT,** THE MOST SIGNIFICANT SINCE NOVEMBER.

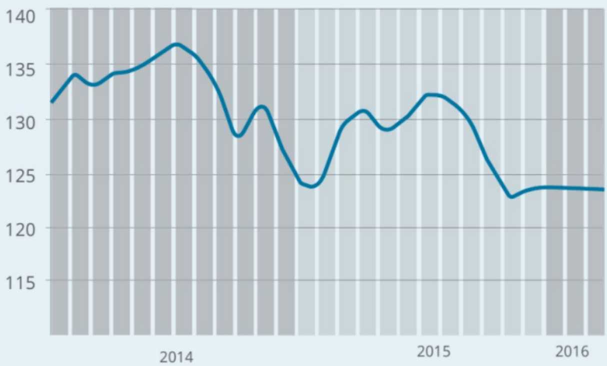
ON A MONTH-TO-MONTH BASIS, **MARCH'S GLOBAL POLISHED DIAMOND PRICES WERE FLAT**, ONLY REGISTERING A 0.1-PERCENT INCREASE OVER FEBRUARY, AND STILL LESS VOLATILE THAN OTHER COMMODITIES.

IDEX ONLINE POLISHED DIAMOND PRICE INDEX

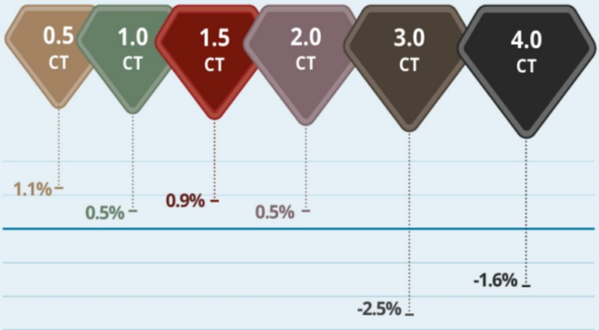
TAKING INTO ACCOUNT THAT POLISHED PRICES SAW MORE VOLATILITY DURING 2015, OVERALL PRICES CURRENTLY SEEM STABLE. MARCH'S SLIGHT INCREASE OVER FEBRUARY'S AVERAGE PRICE CONTINUES THAT TREND, DESPITE THE YEAR-OVER-YEAR FALL.



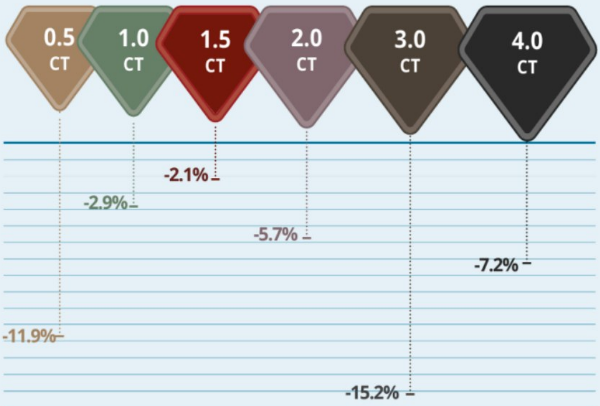
IDEX DIAMOND POLISHED PRICE INDEX



ON A MONTH-OVER-MONTH BASIS, **PRICES FOR DIFFERENT-SIZED DIAMONDS FLUCTUATED.**



PRICES FOR ALL SIZES OF DIAMONDS DECREASED ON A YEAR-OVER-YEAR BASIS, SOME SIGNIFICANTLY



THE POLISHED MARKET IS STILL SHOWING SIGNS OF UNCERTAINTY, DESPITE FOR EXAMPLE, POSITIVE NEWS ABOUT THE US JEWELRY MARKET.

We maintain our assessment that prices for 2-carat stones and smaller have been largely static since the turn of the year, and we should not expect an upturn until at least the second half of this year.

In comparison with other commodities, diamonds have shown remarkable stability, not remotely mirroring the significant fluctuations of precious metals.

BY GUY BORENSTEIN, FGA

GEMEWIZARD

The Whole Is Sometimes Less Than The Sum Of Its Parts

One of the best features of GemePro, Gemewizard's color communications and analysis system, is the Sampler, an automatic color analysis feature for imported images. It is an excellent tool for determining a gem's color, but in special cases, it provides data that, while accurate, could be incorrectly interpreted by an inexperienced user.

This is the case with multi-colored or distinct pleochroic gems, and with gems displaying optical phenomena, such as play of color, asterism or shine. In these cases, we use several special techniques to obtain unambiguous color analysis results.

There is, however, another interesting case that we may at times overlook, and that is the cut and its effect on color.

Sometimes, the analyzed polished gem reflects contrasting colors from its inner facets. This appearance is common for step cuts, such as emerald cuts and baguettes. Although the reflected colors look distinctly different, the Sampler mixes them together to create average results, which are often meaningless and cannot be used.

To overcome this issue, the Sampler also returns the dominant colors it has identified. In essence, these are the separated reflected rays, and are the colors that are key for obtaining a correct analysis.

To illustrate the issue, we took images of pink spinel gems in different cutting styles, which provide the same average colors when analyzed using the Sampler. For each gem, we identified the dominant colors and their location within the gem.

Figure 1 features two noticeably different spinels. Both gems, although easily distinguishable by sight, obtained the same average color (Gemewizard color code 2-4-3). Viewing the dominant colors of each, we can see that for the emerald-cut spinel A, there is practically an even ratio between the lighter shades emanating from the long facets and darker shades from the short and the cornered facets, made up of closely related hues (red and orangey-red). However, in the oval-shaped spinel B, the colors are from three hues (red, orangey-red and orange-red), with an uneven ratio between them.

Similar results were found in Figure 2, where three different polished spinels were analyzed. None of the three look similar to each other, however, each produced the same average color.

The oval-shaped spinel A was identified as comprising three colors, mostly (90 percent) is composed of two closely related, lighter hues and one darker hue with almost no influence. In contrast, the B and C spinels, which were emerald-cut and baguette-shaped, returned two distinctly different colors, one lighter and one darker. The colors were distributed within the gem in a clear pattern of outer and inner facets. By mixing them together, we received the same hue as the one detected in the spinel A.

Figures 1 and 2 demonstrate the issue. For step-cut stones, where the distance (in the color space) between the reflected colors is wide, the Sampler's average color is misleading. Instead, we need to look at both the gem itself and the dominant colors detected by the Sampler.

Judging the color of a gem is not always a simple "click and retrieve" process; the role of the human examiner remains critical.

Even the best tools – and we are confident that GemePro and the Sampler are among the best – are those, which at most, assist in making that final decision. The final call is always yours, and a degree of gemological knowledge and grading experience will make the use of the tool more efficient.

After all it's not case of the worker being as good as his tools, but rather a case of the tools being as good as the worker.

About gemewizard®: Gemewizard® is a pioneer in the development of digital color-based systems, which provide solutions for professionals involved in the fancy color diamond, colored gemstone and jewelry industries, enabling the analysis, description, communication, pricing and trading of color in gems. The suite of products developed by Gemewizard® is based on the company's groundbreaking color communication technology called GemeSquare™, which has been endorsed by GIA, and since 2006, has been incorporated into the GIA® curriculum.

www.gemewizard.com

MINING NEWS

IMAGE: GAHCHO KUÉ MINE

MOUNTAIN PROVINCE AND DE BEERS CANADA GAHCHO KUÉ MINE NEARS COMPLETION

Mountain Province Diamonds announced that the Gahcho Ku is progressing according to plan and that the overall project is more than 87 percent complete.

Mountain Province Diamonds president and CEO Patrick Evans, said that the ice road deliveries to the mine had occurred according to plan, including the delivery of critical large mining equipment.

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LUCAPA'S L259 KIMBERLITE DEFINED AS HIGH PRIORITY DRILLING TARGET

Lucapa Diamond Company reported that recently undertaken geophysical surveys of the L259 kimberlite at its Lulo Diamond Project in Angola have confirmed it as a high priority target.

The systematic electromagnetic and gravity surveys, combined with geological pitting programs, modeled a 78-108 hectare section, successfully defining target areas at L259.

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IMAGE: KENNADY

KENNADY DISCOVERS THIRD KIMBERLITE AT FARADAY NORTH PROJECT FOLLOWING COMPLETION OF ICE-DRILLING PROGRAM

Kennady Diamonds Inc. has announced the discovery of a third kimberlite body at its Faraday kimberlite cluster, following exploration drilling at its Faraday North project.

The discovery was made following the completion of ice-based infill drilling at Faraday 1 kimberlite, after which the core rig was moved to a secondary location, 80 meters to the southwest, after indications of a kimberlite were discovered during the winter of 2015.

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FIRESTONE'S LESOTHO-BASED LIQHOBONG MINE NEARS COMPLETION – ON SCHEDULE AND ON-BUDGET

Firestone Diamonds plc announced that its 75-percent owned Liqhobong Mine in Lesotho is now 68 percent complete and on schedule for initial production in the fourth quarter of 2016.

The company said that it had revised its capital budget to ZAR2.1 billion ($131 million), still within the original $185.4 million original project budget.

The company said that the Liqhobong Mine was connected to the power grid ahead of schedule in October 2015.

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ANGOLA'S LUACHI MINE MAY CONTAIN 350 MILLION CARATS OF DIAMONDS

Angola's Luachi diamond mine, which is set to begin commercial operations in 2018, is thought to contain as many as 350 million carats of diamonds, according to a report on macauhub.

Carlos Sumbula, president of Angola's national diamond company Endiama, said that the mine, which has a predicted lifespan of 29 years and is located in the province of Linda Sul, will occupy an area of approximately 100 hectares and will be excavated to a depth of around 400 meters.

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Ramat-Gan +972-3-612-8995
STUDIO SPECTOR

PROFILE

NAME: ASAF HERSKOVITZ

POSITION: CEO, PRESIDENT

COMPANY NAME:
GN DIAMOND

TYPE OF BUSINESS: WHOLESALE DIAMONDS – GIA,AGS, EGL USA AND DIAMOND JEWELRY

SIZE OF BUSINESS: $100M

YEARS IN BUSINESS: 18

BUSINESS PHILOSOPHY: GN HAS BUILT A BUSINESS BASED UPON PROFESSIONALISM, PASSION AND CARING INDIVIDUALS WHO LISTEN ENTHUSIASTICALLY TO THE NEEDS OF OUR CLIENTS. WE STRIVE TO PROVIDE THE BEST CUSTOMER SERVICE IN THE INDUSTRY.

WHAT SETS YOUR COMPANY APART FROM OTHERS IN THE INDUSTRY?

Our loyalty to our retailers, who are open 7 days a week. We help retailers increase their foot traffic, and we also possess the ability to adapt and change quickly.

WHAT ARE YOUR PLANS FOR YOUR BUSINESS IN THE FUTURE?

To make it grow.

WHAT MAKES YOU MOST PROUD ABOUT YOUR COMPANY?

The quality of people that surround me – both clients and my staff.

WHAT IS THE MOST DIFFICULT BUSINESS DECISION YOU HAVE EVER HAD TO MAKE?

Letting go staff who had been with me for a long time.

WHAT IS THE BIGGEST RISK YOU HAVE EVER TAKEN?

When I bought a $5 million diamond.

WHAT IS THE BEST PIECE OF ADVICE YOU HAVE EVER RECEIVED?

Reinvest aggressively in your business.

WHAT IS YOUR BEST BUSINESS TIP?

Reinvest in your people.

WHO OR WHAT OTHER BUSINESS OR BUSINESS PEOPLE INSPIRE YOU?

My father and Google.

IF YOU HAD ONLY ONE WORD TO DESCRIBE YOURSELF, WHAT WOULD IT BE?

Driven.

WHAT DO YOU MOST ENJOY ABOUT YOUR WORK?

The people I work with, along with a great subject matter.

WHAT DO YOU DO TO RELAX?

Work out and hang out with my wife and children.

WHAT WOULD BE YOUR DREAM JOB?

Exactly what I am doing.

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