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JEWELRY STORES WITH SALES UP
STRONGLY IN DECEMBER

ISRAEL DIAMOND WEEK:
SHOWS HOW INTER-BOURSE EVENTS
ARE PROVING THEIR VALUE

IS THE VITAL CHINESE MARKET
TURNING A CORNER IN JEWELRY
SALES?



THE ECONOMICS OF LAB-GROWN GEM DIAMOND 'MINING'

By Chaim Even-Zohar





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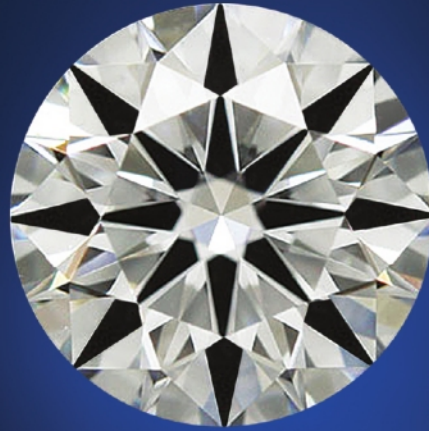
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BY ALBERT ROBINSON

EDITOR'S NOTE

Inter-Bourse Events: Bringing Life to Trading Halls and Creating Business

If there was one clear thing that the sixth edition of the International Diamond Week in Israel held at the Israel Diamond Exchange last month illustrated, it was the importance of inter-bourse events and other fairs staged in diamond exchanges.

There has been a growing trend for holding such events in recent years, as bourse managements have realized the value they can bring their members. In the case of the International Diamond Week in Israel, the sixth edition to be held, there is no cost for the Israeli exhibitors. Hundreds of potential buyers – often first-time visitors – are brought face to face with hundreds of exhibitors. The Israel Diamond Exchange also holds rough diamond tender events and a Blue and White polished diamond fair for its own members.

The exchange's aim is to create as many platforms as possible to help bourse members, said IDE President Yoram Dvash. Bringing in foreign buyers, who have steadily reduced their visits over the past decade or so, gives life to the exchange's trading floor, raises the mood in the bourse and brings about business, whether at the show or at a later stage when relationships develop.

As odd as it may sound, these shows give bourse members the opportunity to meet other members of the same exchange and do business with them even though they may have offices just meters apart. As one diamantaire told me: "I actually met someone at the event on the trading hall who I discovered has an office on the same floor of the bourse who I didn't even know was in the same field and



with whom I could do business. Because we work from our offices and rarely leave them from morning to evening, we often don't know people whose offices are relatively close by."

Meanwhile, in January, the Diamond Dealers Club (DDC) of New York held the sixth edition of the India Diamond Week on the DDC's trading floor in Manhattan. The DDC, together with the Gem & Jewellery Export Promotion Council (GJEPC), hosted more than 60 exhibitors and several hundred buyers. As DDC President Reuven Kaufman said, the show's success is that it gives companies the opportunity to build on previous introductions and relationships, established in previous editions of the show.

And the end of January also saw the eighth edition of Brilliant, the Antwerp Diamond Trade Fair. The show expanded this year by going international, as it invited foreign exhibitors for the first time this year. The Antwerp Diamond Bourse, the Antwerp Diamond Club, the Antwerp Diamond Kring and the Antwerp World Diamond Centre (AWDC) come together to create the event which has become a solid fixture on the industry's calendar. As the organizers say, the fair gives local firms the opportunity to present their goods to jewelry firms and others from across Europe and further afield.

And in late February, the 5th edition of the Antwerpsche Diamantkring (Antwerp rough diamond bourse) Rough Diamond Days event was held. The Rough Diamond Days are open to all members of World Federation of Diamond Bourses (WFDB) affiliated exchanges.

With trading halls having lost some of their power to attract diamantaires in recent years, it's heartening to see their function adapted into different directions. Clearly, there is a cost to the exchanges with some of these events, in subsidizing flights, transfers, hotels and meals, but the investment is clearly worthwhile if it reinstates the historic role of the trading hall in diamond exchanges and helps create much-needed business.

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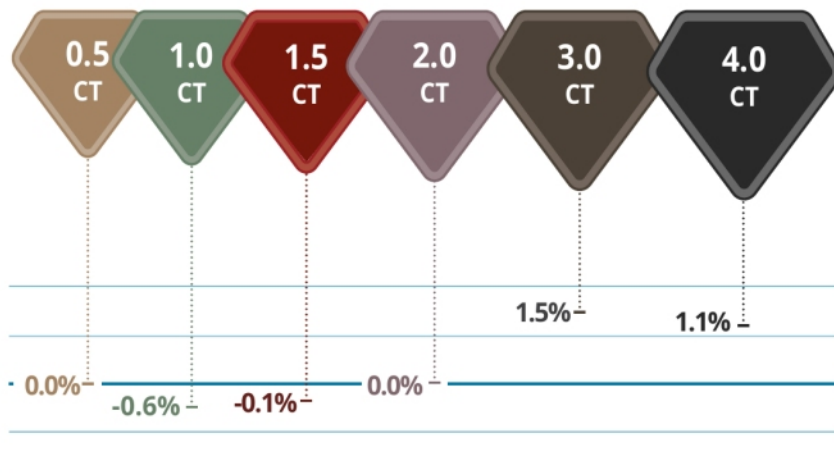
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MARKET SNAPSHOT

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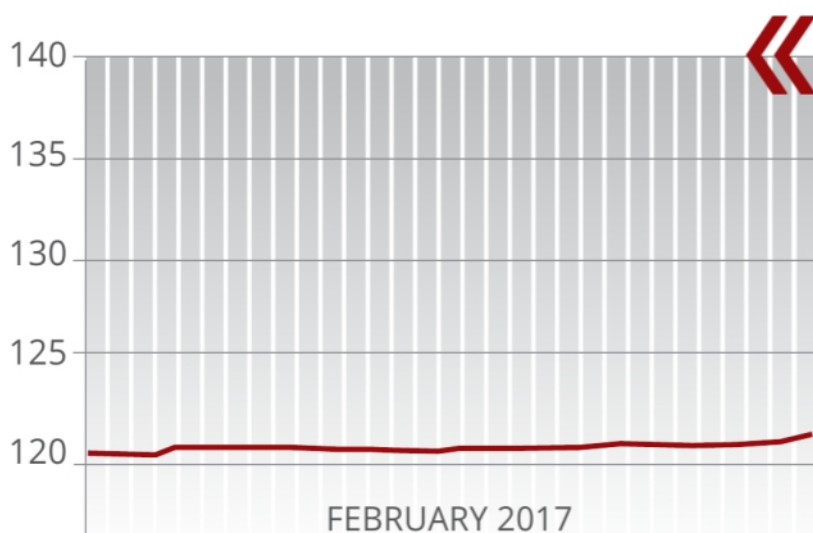
IN FEBRUARY, POLISHED PRICES ROSE SLIGHTLY. ON A MONTH-TO-MONTH BASIS, FEBRUARY'S GLOBAL POLISHED DIAMOND PRICES SAW A **DECLINE OF 0.3 PERCENT** OVER JANUARY.



ON A MONTH-TO-MONTH BASIS – COMPARING PRICES DURING FEBRUARY 2017 TO JANUARY 2017 – THERE WERE TWO DECLINING CATEGORIES, TWO RISERS AND TWO UNCHANGED.

POLISHED DIAMONDS DAILY INDEX

THE INDEX BEGAN THE MONTH **AT 120.2** AND ENDED AT **121.1**.



METAL PRICES IN NOVEMBER US\$ PER OUNCE

*Prices as of 28.02.17
Source: Amark.com



Palladium 771.0 (+1.2%)
Platinum 1,020.0 (+2.2%)
Gold 1,247 (+3.3%)
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ROUGH DIAMONDS

ROUGH PRICES ARE INCREASING DUE TO STRONG DEMAND, THEREBY PUTTING PRESSURE ON PROFIT MARGINS WHICH ARE ALREADY THIN. THE DE BEERS SALES CYCLE HELD IN FEBRUARY GENERATED PROVISIONAL SALES OF \$545 MILLION, DOWN FROM \$729 MILLION IN JANUARY.

US JEWELRY SALES

FINE JEWELRY SALES **ROSE BY AN ESTIMATED 5.3%** IN DECEMBER, WHILE FINE WATCH SALES **INCREASED BY 6.4 PERCENT**. TOTAL U.S. JEWELRY SALES **ROSE BY 5.5%**. TOTAL SALES OF FINE JEWELRY AND FINE WATCHES WERE **\$15.1 BILLION**. SPECIALTY JEWELERS POSTED A SALES INCREASE OF 6.9 PERCENT IN DECEMBER.

MEMO

Could The Vital Chinese Market be Turning a Corner in Jewelry Sales?

One of the biggest concerns for diamantaires over the past couple of years or so has been the decline in sales of diamond jewelry in China. Following the financial crisis of 2008 and the recession that gripped Europe and the United States, the strength of the Chinese market was seen as giving a degree of support to global sales.

But as the Chinese economy has declined, with GDP consistently

decreasing, and an anti-corruption drive has put a sharp brake on luxury gift-giving in a bid to stem corruption, the luxury sector in general, and diamond jewelry sales in particular, have been feeling the pain.

Only stable, and perhaps somewhat slightly growing, sales in the United States have managed to give diamantaires some form of salvation.

It's for these reasons that the financial results published in February by



Chow Tai Fook, China's largest jewelry retailer, that Mainland sales beat those in Hong Kong during the Chinese New Year holiday period are to be welcomed, although few people will be rushing to celebrate just yet.

Hong Kong, of course, won't see the figures as anything to be pleased about, but then again nobody there expects strong results, said one leading Hong Kong-based manufacturer this week. The retail

jewelry sector has been hit hard by the decline in visitors from Mainland China.

Chow Tai Fook reported that its store revenues from Mainland China increased by 4 percent from mid January to the start of February.

The results would appear to confirm comments by Israel Diamond Exchange President Yoram Dvash at a press conference following the 2017 Presidents Meeting in Mumbai



in early February that there is a slight uptick in sales in China and the market seems to be recovering. “We do sense an increase in sales, and that gives us optimism for 2017,” he commented.

It appears that the wider luxury market in China could be on the rebound. Hermes International SCA this week reported that shoppers in Asia are buying more silk scarves and Birkin handbags. “I see an improvement in China and much higher appetite for our industry generally since the second half,” Chief Executive Officer Axel Dumas was reported by Bloomberg as telling reporters. “We see a lot of appetite for a diverse range of our products, from shoes to ready-to-wear, bags and silk.”

Overall, retail and catering industry sales reportedly jumped by more than 11 percent in the Chinese Lunar New Year holiday week which ran from January 27 to February 2, according to the Chinese Ministry of Commerce.

The Chinese economy appears to be firming up, according to recent data showing that manufacturing activity is growing and factory gate prices rising. The country’s central bank raised some interest rates in the first days of February, although it was seen as

little more than an exercise aimed at keeping a shaky economic recovery on course while simultaneously trying to cool down the overheating property market.

The Chinese economy grew by 6.8 percent on the year in the fourth quarter, slightly ahead of expectations of a 6.7-percent rise. Although it was the slowest pace of growth for more than a quarter of a century, it was received well by economists who commented that the solid results gave them heart as GDP progressively came in at lower numbers during 2016.

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ROUNDS | MARCH 2017

PRICEREPORT

There was relatively little movement in prices of round goods in February and mixed trends. There were declines of 1-3% in 1.25-1.49 carat goods in IF-VVS2, F-J colors. There were increases in 2.00-2.99 carat goods in the K-M / IF-SI1 categories, and also in D-G / IF-VS1 in 3.00-3.99 carat diamonds.

ROUNDS 0.90-0.99 01-MAR-17

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	145	115	92	80	74	64	53	48	38	25	16
E	109	102	85	72	67	58	51	45	36	23	16
F	100	92	78	70	64	56	49	42	35	21	15
G	83	75	69	65	59	54	44	38	30	20	15
H	73	69	63	56	55	48	41	37	28	19	14
I	62	58	54	49	48	45	37	32	25	16	12
J	55	47	45	40	39	35	32	29	23	15	11
K	37	34	33	32	31	29	28	26	16	14	10
L	31	30	29	28	27	24	23	21	16	12	10
M	30	28	26	25	23	22	18	17	16	12	10
N	28	24	21	20	19	18	17	16	14	11	9

ROUNDS 0.90-0.99 CARATS

I-J / I1 **UP 4%**

E-F / I2 **DOWN 4%**

ROUNDS 1.25-1.49 01-MAR-17

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	231	177	148	126	115	87	74	64	52	33	18
E	166	146	122	113	98	82	71	62	48	29	16
F	137	124	108	103	88	81	66	58	45	27	16
G	112	104	94	89	81	76	65	55	42	27	16
H	88	84	83	79	74	67	60	52	40	24	15
I	73	70	69	67	66	64	55	47	37	21	15
J	61	58	57	56	55	51	49	43	32	16	14
K	53	52	49	48	45	43	40	35	29	16	14
L	47	46	44	42	40	38	34	32	26	16	14
M	42	40	39	36	34	33	29	27	24	16	14
N	40	39	37	34	27	25	24	23	19	16	13

ROUNDS 1.25-1.49 CARATS

G / SI1 **UP 2%**

L-M / VS1-SI2 **DOWN 4%**

ROUNDS 2.00-2.99 01-MAR-17

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	487	374	310	265	201	159	124	90	73	43	21
E	327	292	259	244	182	150	113	86	62	36	18
F	276	262	222	202	178	138	108	82	58	35	16
G	217	205	191	168	150	129	98	79	56	29	16
H	175	161	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	74	63	50	24	15
K	88	82	80	74	73	67	58	53	46	16	15
L	82	74	70	62	59	53	50	44	33	16	14
M	68	64	63	58	50	48	42	37	28	16	14
N	61	59	58	55	47	42	37	30	26	16	13

ROUNDS 2.00-2.99 CARATS

L / IF-VS2 **UP 2-3%**

G / IF-VVS1 **DOWN 2-3%**





FANCIES | MARCH 2017

PRICEREPORT

As with round items, fancy goods also saw relatively few price movements. There was a range of declines in the 0.50-0.69-carat category, while 0.70-0.79 carat goods in top colors but lowest clarities saw increases.

FANCIES 0.40-0.44												01-MAR-17		
	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3			
D	41.0	37.0	32.5	30.5	29.0	24.0	20.5	16.0	15.5	12.0	7.0			
E	37.5	34.5	32.0	29.0	27.5	23.0	19.5	15.0	14.0	8.0	6.5			
F	36.5	30.5	27.5	27.0	24.5	17.5	16.5	14.0	13.5	8.0	6.0			
G	32.0	27.5	24.0	23.0	22.5	17.0	15.5	12.5	11.0	7.0	5.0			
H	29.0	25.5	20.5	19.5	18.5	15.5	13.5	11.0	9.5	6.5	5.0			
I	25.0	21.0	17.5	17.0	16.5	14.5	12.0	10.0	8.0	6.5	5.0			
J	18.0	15.0	14.0	13.5	13.0	12.0	10.5	8.0	7.0	5.5	4.0			
K	14.5	13.5	13.0	12.5	11.5	11.0	9.5	7.0	6.0	4.5	3.5			
L	13.5	12.5	11.5	10.5	9.5	8.0	7.5	6.0	5.0	4.0	3.0			
M	12.5	11.5	10.5	9.5	8.0	7.5	6.0	4.5	4.0	3.0	2.5			
N	10.5	10.0	9.0	8.0	7.5	6.5	5.5	4.0	4.0	3.0	2.5			

FANCIES 0.40-0.44 CARATS



F / IF UP 4%



H / I1 DOWN 5%

FANCIES 0.70-0.79												01-MAR-17		
	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3			
D	75.0	63.0	56.5	52.5	50.5	48.5	40.0	34.5	27.5	19.5	13.0			
E	61.5	57.0	51.5	49.5	47.5	44.5	38.0	30.5	25.5	18.0	11.5			
F	60.5	56.0	51.0	47.5	47.0	41.0	33.5	28.0	24.0	16.5	10.0			
G	53.5	50.0	49.0	43.0	42.5	40.5	33.0	26.0	20.5	14.0	9.5			
H	49.5	47.5	43.0	40.0	38.5	35.0	29.0	23.0	19.5	12.0	8.0			
I	41.5	39.0	36.0	34.0	32.5	31.0	26.5	21.5	18.0	11.5	7.0			
J	29.0	28.5	28.0	27.0	25.5	25.0	22.0	16.0	13.5	7.5	5.5			
K	23.5	22.5	21.5	21.0	20.0	18.5	16.5	14.5	11.0	6.5	4.5			
L	21.5	17.5	16.0	15.5	13.5	13.0	12.0	11.0	8.0	6.0	4.5			
M	20.0	17.0	15.0	14.0	12.0	11.0	10.0	8.0	7.5	5.5	4.0			
N	18.0	14.0	13.0	11.0	10.0	9.0	8.0	7.0	5.5	4.5	3.5			

FANCIES 0.70-0.79 CARATS



D / I1-I3 UP 2-4%



L / SI2 DOWN 4%

FANCIES 0.90-0.99												01-MAR-17		
	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3			
D	111	90	78	69	64	59	49	46	36	25	13			
E	100	81	74	65	63	57	47	43	34	23	12			
F	78	70	69	63	62	55	46	42	32	22	11			
G	71	65	61	60	58	54	44	41	30	21	11			
H	59	57	55	54	53	48	42	36	29	16	10			
I	55	53	50	46	45	44	38	32	28	15	9			
J	42	37	36	32	31	30	29	27	24	13	8			
K	35	28	27	26	25	24	23	21	16	10	8			
L	30	23	21	20	19	16	15	14	13	9	6			
M	22	20	19	16	14	13	12	11	10	8	6			
N	20	15	14	12	11	10	9	8	8	5	4			

FANCIES 0.90-0.99 CARATS



I / VVS2 UP 2%



H-J / IF DOWN 1-4%





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*Ideas become Technology
A Perfect Fusion of Man and Nature!*

In Love with a New Diamond....

”

SWAROVSKI



THE ECONOMICS OF LAB-GROWN GEM DIAMOND 'MINING'

By Chaim Even-Zohar

The above are just a few of the lines from a recent and breathtaking 3.5-minute promotional clip featuring awe-inspiring photographs of nature interspersed with a stunning model displaying a full jewelry collection of Swarovski's lab-grown diamond brand, Diamo. This is just one example of the promotional wars that both the natural and synthetic diamond producers are waging to conquer the hearts and wallets of the consumers.

The Diamo video, shown during a recent "Man-Made or Synthetic Diamonds Forum" in Dubai, evoked a Pavlov-type instant audience reaction: "Can they call synthetics a 'fusion of man and nature'?" Yes, they can.

Perusing the internet, one really gets startled by the myriad of sophisticated messages. A video by man-made diamond producer MiaDonna & Company particularly got to me. It started with scenes of unhappy and clearly deprived kids in Africa, with some background talk about devastation created by conflict diamonds. But then come the lab-created diamonds, which help the ecology! They save African lands! Suddenly, we see smiling, happy and lovely, loveable and loving African kids, who will immensely benefit from the preservation of nature. "Let your love be part of the solution" – and "Shop Ethically by Collection."

Can they say that synthetic diamonds helps kid in Africa? Yes they can.

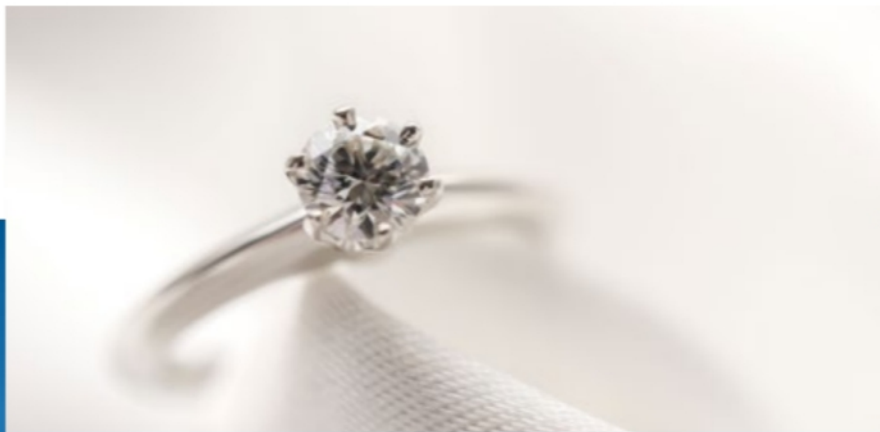
Meanwhile, the (natural) Diamond Producers Association has belatedly launched its "wild and kind" narratives. These appeal to millennials who might never get married but pledge that they will always be honest with each other, a commitment sealed by diamonds. Its new slogan says: "Real is Rare – Real is a Diamond." How effective this is, will be hard to predict.

In today's world, with all the noise in social media, consumers really do not know what to believe. It is more a battle of the consumer perception, than

what the facts really are. Brexit and the U.S. election results are a clear indication that once consumers make up their minds, driven ultimately by the economics they see around them, no amount of messages to the contrary is going to change that.

"In today's world, with all the noise in social media, consumers really do not know what to believe. It is more a battle of consumer perception, than what the facts really are".





"The greater availability of detection equipment has definitely tempered demand for synthetics. At the same time, however, the lower realizable prices increase the temptation to "make a fast buck" by undisclosed synthetics selling."



'IT'S THE ECONOMICS STUPID...'

Let's look at the figures. So far, lab-grown diamonds are the "rare" ones if the reference point is numbers. The market "noise" the synthetic producers are creating is definitely out of any proportion to their present market share. But synthetics are currently "over-produced." Anyone following wholesale market prices will see that in the past year prices have fallen. One Russian producer confirmed that he is "selling at Rap minus 80%." The greater availability of detection equipment has definitely tempered demand for synthetics. At the same time, however, the lower realizable prices increase the temptation to "make a fast buck" by undisclosed synthetics selling.

What should worry us are the production economics. Though the basic synthetic production economics are not changing, their efficiencies are accelerating. Output is up. Even those who, for institutional (and promotional) reasons, tend to downplay the presence of synthetics are revising their figures upward. A case in point is the prestigious Kearney/Bonas study, commissioned by India's Gem & Jewellery Export Promotion Council (GJEPC). In 2014, they [we believe erroneously] "established" that the gem-quality synthetic market was about 350,000 carats (thus, equivalent to 0.3% of natural diamond production, they said.). A year later, they say it has grown to 2.3-4.2 million carats (around 1-3% of the natural output). This is getting closer to our estimates (published in our annual pipeline issue) of 4.5 million carats. But the comparison to natural output (124-127 million carats) is misleading.

COMPARING APPLES TO ELEPHANTS

One of the statistical (and methodological) errors made by studies is that they compare gem-quality diamond output with all qualities of natural diamond output. Natural output consists of

industrials, near gems and gem qualities. Synthetic diamond output for industrials are estimated between 8 and 10 billion (!) carats. There, our concern is mainly on the fringes, on the margins – where there is a widening spillover effect from better quality industrial categories. These can also be used for cutting and polishing in the diamond jewelry markets. Even some industrial synthetics made by De Beers' Element Six have unwittingly entered the gem market.

We calculate the annual natural output of diamonds in the gem and near-gem qualities at around 80 million carats, which is probably overstating it. The authoritative U.S. Geological Survey reports that out of the 125 million carats produced in 2015, only 71 million carats consists of gem or near-gem quality. Thus, if we compare apples to apples, gem-quality synthetics, measured in carats, are the equivalent of 6.3% of gem-quality natural diamonds. And that figure is growing.

Another factor is that the production of gem quality synthetics is mainly in a narrower range of sizes, colors and clarities. The CVD producers focus more on the larger certified goods, while the HPHT producers focus on the smaller sizes. In these targeted areas, the percentage of synthetics could be much larger.

For the time being, the worsening of the destructive onslaught of undisclosed synthetic sales and the concealed mixing of synthetics with natural diamonds remain undoubtedly our industry's single and foremost abyss. However, concurrently, we see the firming of media messages by responsible lab-grown producers giving added impetus to the much desired "product differentiation." Not out of the goodness of their hearts, but rather because of marketing necessity. Generic isn't good enough – neither in natural nor in synthetics.

The battle for the consumer minds is now being waged in earnest. As one study concluded: "Consumer preferences for mined versus synthetic diamonds may change due to price, scarcity and perceptions of environmental and social impact."

We believe that the price issue stands central – and this, above anything else, will impact the producers of natural diamonds.

TWO SEPARATE LAB-GROWN 'MINING' METHODS

With the help of a number of scientists, especially Russia's Dr. Andrey Katrusha, we present the costs, i.e., the investment, needed to "build" a lab-grown diamond mine. Just as with natural mining production, where we differentiate between different types of deposits with different mining costs (kimberlite pipes and alluvials), which require different mining methods and investments, something similar is taking place with lab-grown diamond production.

An investor has two choices: to create a High-Pressure-High-Temperature (HPHT) operation or settle for a Chemical Vapor Deposition (CVD) process. HPHT involves converting graphite (an allotrope of carbon as well) into a diamond. This method was always thought to be better suited for industrial diamond production, though lately this view has changed. For the gem-quality lab-grown diamonds, especially for larger stones, HPHT seems to be the more attractive and cost-effective technology. There are already HPHT operations whose standard output is about 5-carat weights. Additionally, experiments to get a "run of mine" of rough stones between 40 and 60 carats each are well in progress.

However, we need to make a clear distinction here. The HPHT facility being discussed is a top of the line high-end facility. The predominant HPHT facilities for synthetics are for production of low cost industrial synthetics, some of which are being upgraded to produce gem quality synthetics of smaller sizes. We will talk about these facilities later in the article. These two facilities are not comparable.

"CVD producers focus more on the larger certified goods, while the HPHT producers focus on the smaller sizes."





The gem-quality lab-grown producers of larger gems are still CVD-based. This is a process involving gas to solid conversion on a substrate, which has been believed to be most suitable for gemstone manufacturing. Both methods are used in gem-quality synthetic production by various manufacturers – and often a CVD diamond is “perfected” by having its color improved by HPHT. HPHT has the advantage of using fewer ingredients and is usually faster.

CVD is a method of growing a diamond from a hydrocarbon gas mixture, similar to how diamonds are formed in astronomical processes. The enormous advantage of CVD diamond growth for gem-quality diamonds comes from its ability to grow diamonds over larger areas and on various substrates – thus, now, a single “grower” is producing anywhere between 60 to 100 diamonds in one single 140-hour cycle. CVD also allows a more refined control over the chemical impurities and properties of the diamond produced. This is more ideal for “custom-made” synthetics that are according to client specifications. Furthermore, unlike HPHT, the CVD process does not require extreme pressures.

So, how do these two different lab-grown diamond facilities compare economically?

TWO MINES: EACH FOR \$250 MILLION INVESTMENT

Assume you are a diamantaire and want to create your own lab-grown diamond business. What choices do you have? Without getting too detailed, one might suggest CVD reactors of the MPCVD 3”-4” Type or HPHT press units of the Cubic 850-950 series. [MPCVD stands for “microwave plasma chemical vapor deposition.”] A unit of either type costs around \$500,000 each, plus some extras. Thus, a model factory employing 500 units of either CVD or HPHT growers or presses would require an investment in the \$250 million-\$300 million range.

CVD FACILITY: ANNUAL OUTPUT 2 MILLION CARATS WORTH \$2.4 BILLION SPWP

One needs to make some assumptions. The price of the synthetic polished should be at least 30% below their natural counterparts. Thus, we coin the Synthetic Polished Wholesale Price term, "SPWP." Another assumption is that not every production run is successful; thus we consider a 30% wastage component in our calculations. So, what will we get? Per year, we would produce 2 million rough carats (of 5 to 8 carats each), providing a polished carat yield of 610,000 carats. Because of the shape of the rough – little wafers – the polished output will

give a higher yield, but smaller sizes in the 1.0-carat range. Nevertheless, this output would have a SPWP value of \$2.44 billion.

HPHT FACILITY: ANNUAL OUTPUT 1.2 MILLION CARATS WORTH \$2.5 BILLION SPWP

An extensive study of the financials of almost a dozen Chinese CVD factories, which sell synthetic rough almost exclusively for industrial uses, shows a profit margin of well over 30%.

This margin is generally for much smaller stones, and the data refers – and I stress this again – to industrial products as well. The enormous rise



in Chinese gem-quality synthetic production is directly attributed to the state of the Chinese economy: The demand for industrial synthetics has declined, and many HPHT presses are standing idle.

With an output of larger “custom-made” synthetic diamonds, the returns will be much higher. A back-of-the-envelope estimate would suggest a return of one’s investment in just a few months. But does it really matter if it takes a half year, a year or even a few years? After the equipment has been acquired, some 50% of operating costs consist of electricity. The “raw materials,” i.e., the seed (or substrate) on which one grows the synthetic diamonds, can also be made from synthetics. In other words: The raw

materials can be produced indefinitely – and don’t depend on natural diamonds (as was the case in the past). Electricity and gases are the main cost components in synthetic diamond production.

NO, THE SYNTHETICS BUSINESS IS NOT ‘A PIECE OF CAKE’

One finds more and more diamantaires who quietly dream of getting into synthetic production. Realistically, they can purchase the synthetic crystals on the market from a growing number of suppliers – to polish the rough and to market the output. Producing the diamonds with one’s own machines will probably remain a mission impossible for most, if not all, midstream diamond companies.

This article mainly focuses on the investments needed – and the production costs. It’s not sufficient to only acquire the equipment. Operations also require scientists – this is an exceedingly complex business requiring many years of research, experience, etc., and one needs to work continuously to update processes. Synthetics should be viewed as high-tech – to compete in this market, one must acquire the most advanced cutting-edge technology available.

Recently, a diamantaire shared with me some literature he received in Moscow where he went to explore the possibility of getting into synthetic growing and manufacturing, and to check out the market for equipment. Though he is a sophisticated businessman, he literally didn’t understand a word of the literature – and believed that if one just spends some money on a few machines, it will all be a piece of cake. Let us be the first to say: It is not.

THE ‘FOOTPRINT’ OF GEM SYNTHETICS

While the natural diamond industry is occupied with getting better, cheaper and more effective



An extensive study of the financials of almost a dozen Chinese CVD factories, which sell synthetic rough almost exclusively for industrial uses, shows a profit margin of well over 30%.



detection machines, these same scientists developing the equipment are also monitoring and analyzing the gem-quality synthetics on the market. One might say that no two synthetic diamonds are truly alike. However, minute differences in the production process allow the production source to be recognized. Just as one can recognize the mining source with some rough diamond parcels, synthetics have their own distinct footprints. When undisclosed synthetics hit the markets, one may not always know who polished the goods – but the sources can be established with considerable certainty.

SYNTHETIC GEM DIAMONDS ARE STILL 'TRULY RARE' ...

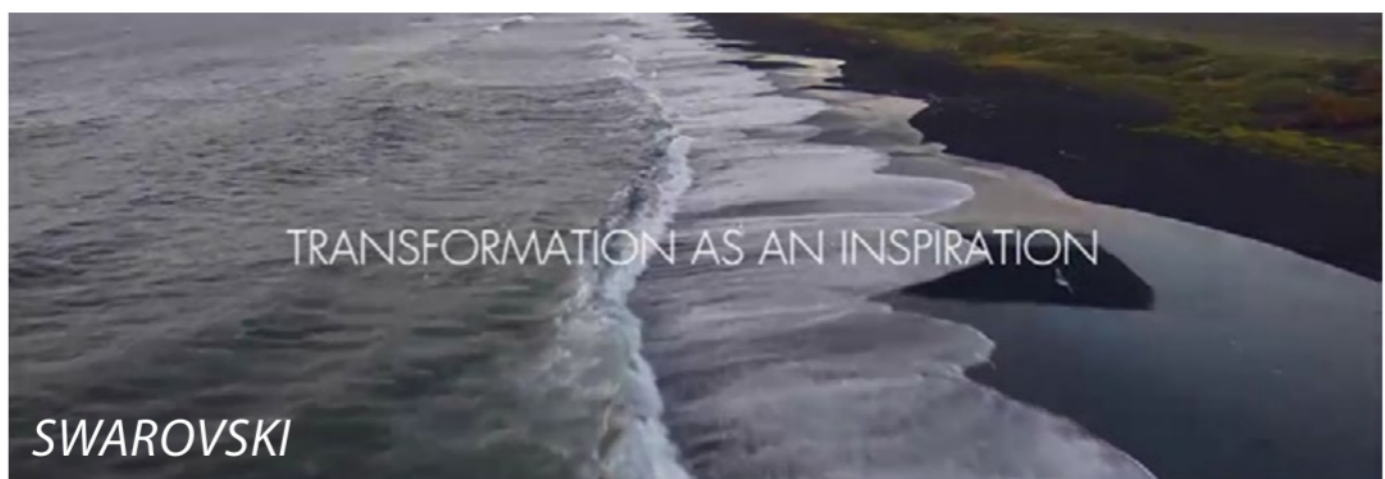
A few decades ago, the production costs of gem-quality synthetics was considered too high to ever be a threat to natural diamonds. However, in recent years, we have seen that the wholesale market price of the product fluctuates – as does production. In China, one synthetic producer has over 10,000 machines – producing diamonds for industrial purposes. But during plunges in commodity demands, when the market needs a few billion less industrial carats, the hundreds, or thousands, of idle presses are used to create gem-quality synthetic diamonds. That's a mindboggling thought: gem-quality synthetics as a "value-added product"

produced to provide some work for idle machines.

The fact that struggling industrial synthetic diamond manufacturers can make more margins on these products also means that these capacities will not go away easily, as a significant upswing in the market for industrial synthetics might still be quite some time away! Once, diamonds came only from the natural producers. Today, diamond demand is increasingly coming from three sources: traditional mining, recycling (back from consumer to industry) of diamonds in the market, and synthetics. McKinsey has estimated that recycled diamonds will become 30% of diamond demand by 2020. This seems to be an exaggeration – but who knows?

The speed at which synthetics are capturing the market – and the heart and wallets of consumers – is also faster than most of us had expected. Our industry is conservative – and we tend to have a penchant for believing what we want to believe and to live in denial. We think women will never go for synthetics. For those who can afford the luxury of living in denial, life will continue to be wonderful – until the economics catch up with them. For the time being, they can rest assured that "synthetic gem diamonds are rare."

Let's see how long it will take the Swarovskis of the world to change that equation and make the natural diamonds rare... It's all a matter of economics.



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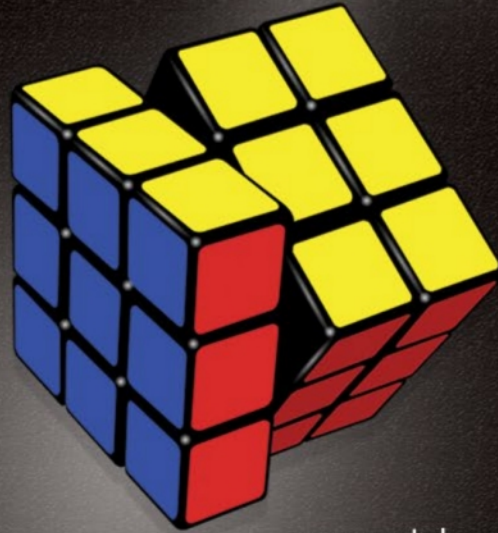


*Baselworld in Switzerland
March 23 - 30, 2017
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HongKong International Diamond, Gem & Pearl Show, 28th Feb - 4th Mar, 2017
AWE - Hall 5, Booth # 5C02 & Hall 5, Booth # 5H28

HongKong International Jewellery Show, 2nd - 6th Mar, 2017
HKCEC - Hall 1, Booth # 1AB19 & Hall 5, Booth # 5EG02 / 04

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RETAIL RENDEZVOUS



DREAM COLLECTION FEATURES SLICES OF GEMSTONES

Jewel Couture LLC has launched its latest 2017 Dream Collection. Designed by **Mia Katrin**, it combines "an organic natural vibe with simplicity, elegance and style". It includes rings, earrings, pendants and bracelets in 18K gold with diamonds and colored gems, including large slices of aquamarines or sapphires surrounded by halos of diamonds.

All the items are custom cut by master gem cutters and fashioned by hand in pure 18K gold, adding an air of luxury with a designer touch.



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DESIGNS BRING OUT YOUR INNER SPARKLE

E. Shaw Jewels produces a wide range of colored gemstone jewelry items that enables wearers to find the right color for a range of outfits.

"We love gemstones, they come out of the Earth dirty, looking like ordinary rocks, but inside is something extraordinary. Every gem has value and beauty, from relatively inexpensive jasper to the Hope Diamond. In a way, it's a metaphor for people as well; no matter what we may look like on the outside there's beauty inside. Each and every person holds a gem within. That's what we want people to be reminded of every time they wear one of our pieces."



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BY KEN GASSMAN

IDEX Online Research



Total U.S. Jewelry Sales Rise by 5.5% in December, Specialty Jewelers Sales Up Strongly

TOTAL SALES OF FINE JEWELRY AND FINE WATCHES IN THE U.S. MARKET ROSE BY AN ESTIMATED **5.5 PERCENT** IN DECEMBER 2016 FROM THE YEAR BEFORE.

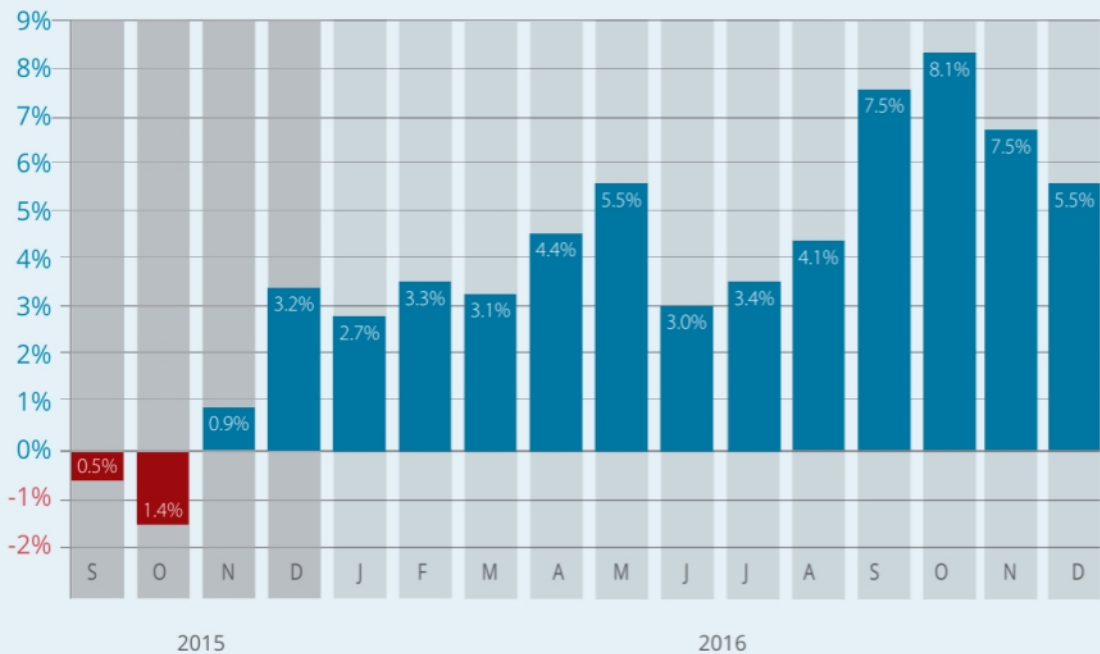
SPECIALTY JEWELERS, WHO GENERATE A MAJORITY OF THEIR BUSINESS FROM JEWELRY SALES, POSTED AN **INCREASE IN SALES OF 6.9%**.

OTHER RETAILERS WHO SELL JEWELRY – MOSTLY MULTI-LINE MERCHANTS SUCH AS WAL-MART, J.C. PENNEY AND OTHERS – POSTED A **4.7% GAIN** IN SALES DURING DECEMBER.

TOTAL U.S. JEWELRY SALES **ROSE BY 5.5%** IN, WHILE TOTAL SALES OF FINE JEWELRY AND FINE WATCHES ON THE YEAR IN DECEMBER WERE **\$15.1 BILLION**.

FINE JEWELRY SALES

FINE JEWELRY SALES (APPROXIMATELY 88 PERCENT OF THE MARKET) **ROSE BY AN ESTIMATED 5.3%** IN DECEMBER, WHILE FINE WATCH SALES (APPROXIMATELY 12 PERCENT OF THE MARKET) **INCREASED BY 6.4 PERCENT.**



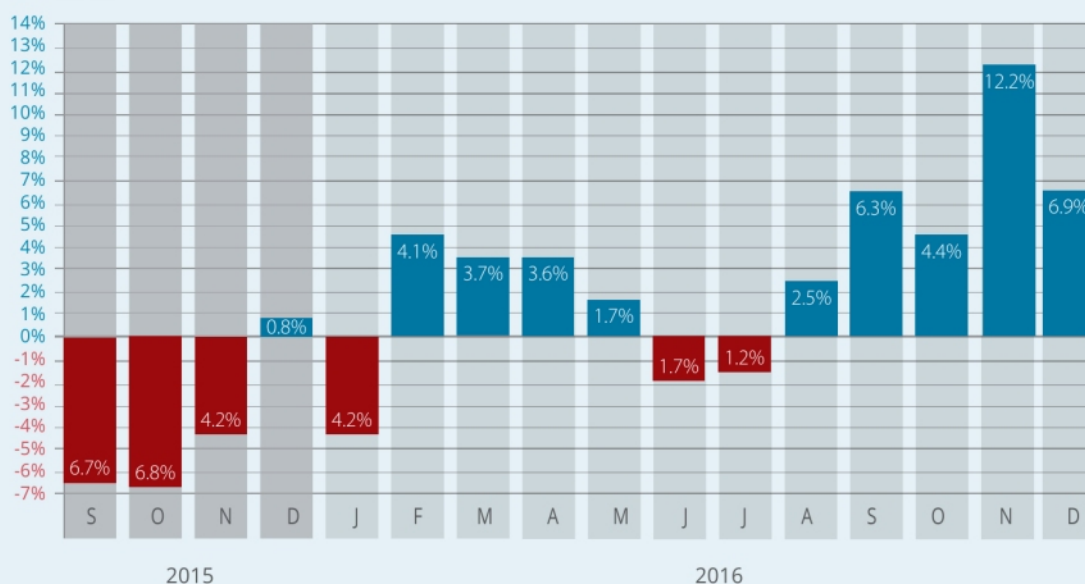
US TOTAL JEWELRY & WATCH SALES TRENDS 2015 - 2016
% Change Y/Y

Source: US Dept. of Commerce



SPECIALTY JEWELERS' SALES RISE IN DECEMBER

SPECIALTY JEWELERS' SALES DURING DECEMBER WERE AN ESTIMATED \$6.2 BILLION, A 6.9% RISE FROM DECEMBER 2015. THIS MONTHLY SALES INCREASE WAS COMFORTABLY HIGHER THAN THE OVERALL JEWELRY INDUSTRY AVERAGE (ALL U.S. RETAILERS WHO SELL JEWELRY) SALES GAIN OF 5.5%.



US SPECIALTY JEWELERS SALES TRENDS 2015-2016 % Change Y/Y

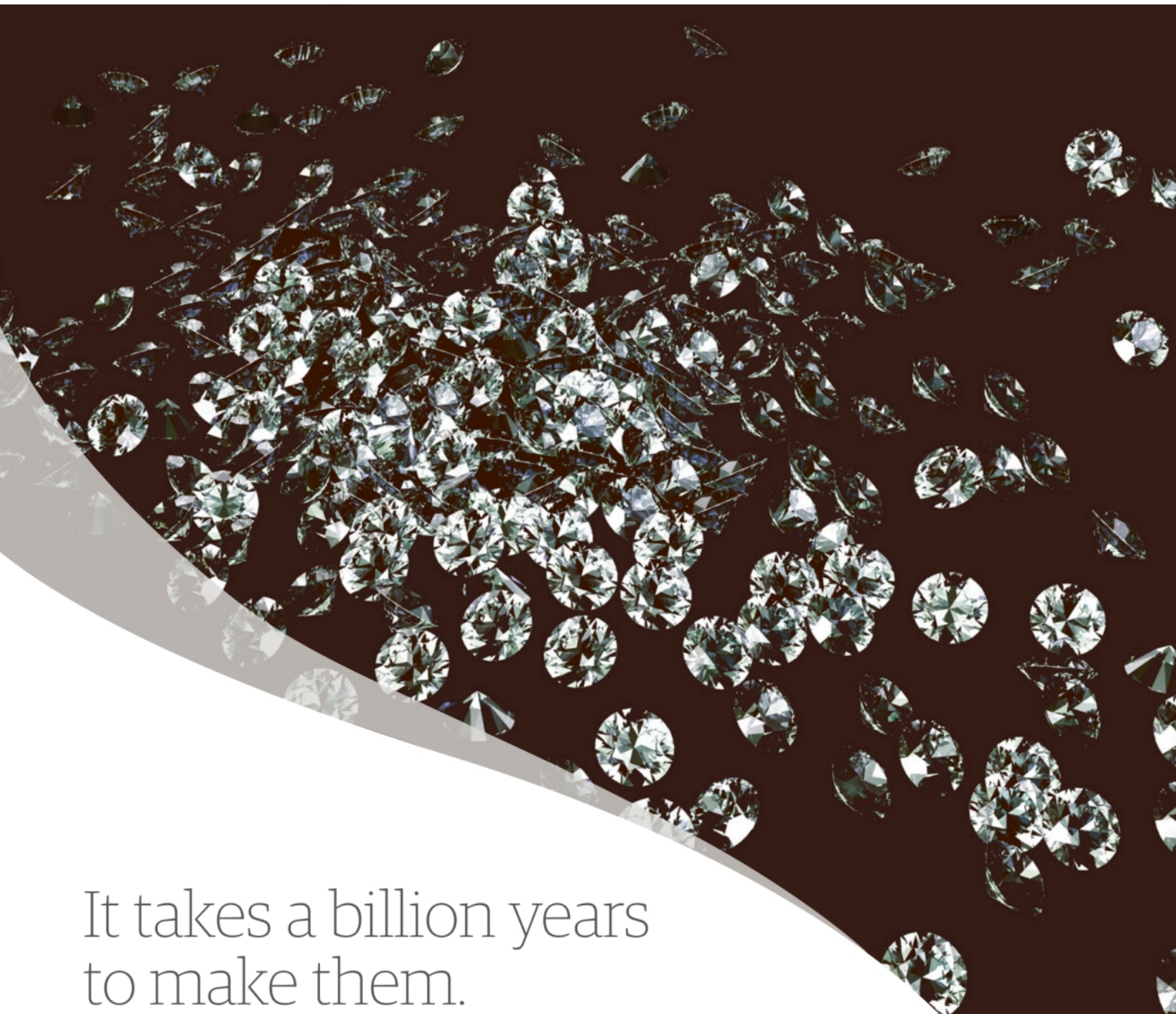
Source: US Dept. of Commerce

JEWELRY'S SHARE OF WALLET WAS UP SHARPLY IN DECEMBER

TOTAL U.S. JEWELRY SALES ROSE BY 5.5 PERCENT IN DECEMBER. THIS IS SIGNIFICANT BECAUSE AVERAGE RETAIL SALES (ALL RETAIL CATEGORIES) POSTED BY ALL U.S. RETAIL MERCHANTS WERE UP 4.5%.

OUTLOOK OPTIMISTIC FOR HOLIDAY SEASON JEWELRY SALES

THE ECONOMIC OUTLOOK FOR THE U.S. MARKET IN 2017 APPEARS POSITIVE, DRIVEN LARGELY BY CONSUMER SPENDING DUE TO EXPANSION. JEWELRY CONSUMPTION TYPICALLY IS VERY STRONG WHEN THE ECONOMY IS ROBUST. OUR PRELIMINARY SALES FORECAST CALLS FOR A 4-5 PERCENT SALES GAIN IN 2017. WITH FEWER JEWELRY STORES, THE TYPICAL SPECIALTY JEWELRY MERCHANT SHOULD EXPERIENCE SALES-PER-STORE GROWTH IN EXCESS OF FIVE PERCENT.



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▶ RETAILNEWS

PANDORA TAKES OVER DISTRIBUTION IN AFRICAN MARKETS

Pandora has signed an agreement with Scandinavian Brand House (SBH) to acquire its store network in South Africa, Mauritius, Namibia, Zambia, Zimbabwe and Reunion on July 3, when SBH's distribution rights to Pandora jewelry in the Sub-Saharan region expire.

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PANDORA JEWELRY

TIFFANY & CO. SAYS FREDERIC CUMENAL TO STEP DOWN AS CEO

Tiffany & Co. says that Frederic Cumenal has stepped down as Chief Executive Officer. The Board of Directors has commenced a search to recruit a successor, in which it will be assisted by a leading executive search firm.



FREDERIC CUMENAL

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LADY GAGA

LADY GAGA APPEARS IN TIFFANY & CO.'S FIRST SUPER BOWL COMMERCIAL

The popular singer speaks about her love for the famous American brand in the advert and also herself as an artist. It was the first time that the jewelry brand had aired a commercial during the annual American football game which commands among the highest advertising rates in the world for a sporting event.

[READ MORE >>](#)

BRITISH RETAIL JEWELER F. HINDS BECOMES WDM AUTHORISED DIAMOND DEALER

F. Hinds, established in 1856 and the leading British, family-owned, retail jewelry chain, joined the World Diamond Mark (WDM) Authorised Diamond Dealer program in January. With 118 stores, F. Hinds is the first British retailer to join the WDM and carry the WDM Authorised Diamond Dealer Seal in all its stores. WDM President Alex Popov officially made the award.



ALEX POPOV WITH ANDREW HINDS

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POLISHED NEWS

DIAMOND DEALERS CLUB ANNOUNCES PLANS TO MOVE TO INTERNATIONAL GEM TOWER

Diamond Dealers Club (DDC) of New York President Reuven Kaufman said the exchange's planned move to the International Gem Tower (IGT) at 50 W. 47th Street is "critical to the future success and stability of the diamond industry on 47th Street in New York."

[READ MORE >>](#)



A VIEW OF THE DDC TRADING HALL

DE BEERS: FOREVERMARK NOW AVAILABLE IN 2,000 GLOBAL RETAIL OUTLETS

De Beers said its Forevermark diamond brand is now available in 2,000 retail doors globally following the opening of the Zen Diamond Anatolium store in the city of Bursa in Turkey.

[READ MORE >>](#)



FOREVERMARK EARRINGS



THE 'BRILLIANT' FAIR

DATES ANNOUNCED FOR 2018 BRILLIANT - ANTWERP DIAMOND TRADE FAIR

The Organizing Committee of BrilliAnt, the Antwerp Diamond Trade Fair, has announced the 9th edition of the show will take place from January 28 to 30, 2018.

[READ MORE >>](#)

IIDGR ESTABLISHES FIRST RETAILER GRADING PARTNERSHIP IN ASIA

De Beers' International Institute of Diamond Grading & Research (IIDGR) has established its first retail partnership in Asia for its generic polished diamond grading services.

[READ MORE >>](#)

THE IIDGR FACILITY IN SURAT, INDIA





THE WFDB MEETS THE PRESS AFTER THE SEMINAR

WFDB SETTING UP FINANCIAL TASKFORCE AS FOLLOW UP TO FINANCE SEMINAR

The WFDB will be creating a financial taskforce to follow up on the Finance Seminar held during the 2017 Presidents Meeting, President Ernie Blom told a press conference at the end of the event on Wednesday at the Bharat Diamond Bourse (BDB).

[READ MORE >>>](#)

FIRMS REPORT SLIGHT INCREASE IN BUSINESS AT IIJS FAIR IN MUMBAI

The Signature India International Jewellery Show ended with companies reporting a slight rise in business activity. The Indian diamond and jewelry business has been hit hard by demonetization, but appears to be recovering from the shock, said one diamond trader.

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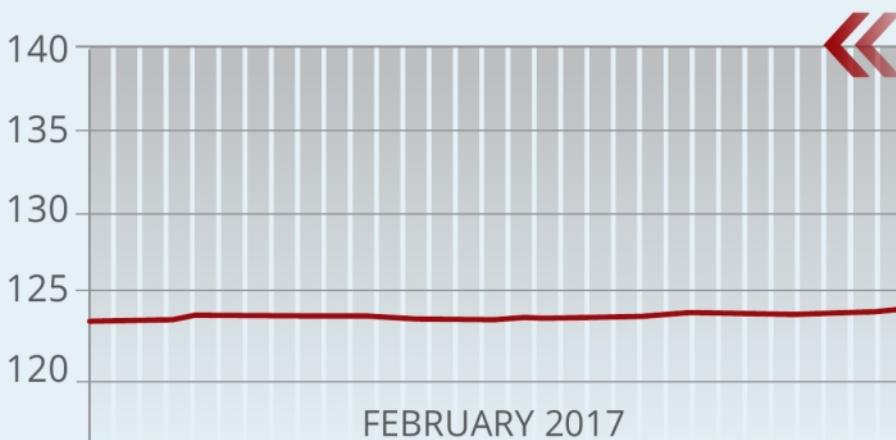
BY ALBERT ROBINSON

POLISHED PRICES



Slight Rise in Polished Diamond Prices In February

IN FEBRUARY, THE IDEX POLISHED DIAMOND PRICE INDEX SAW A SLIGHT RISE. THE INDEX BEGAN THE MONTH AT **120.2** AND ENDED AT **121.1**.



DAILY IDEX POLISHED DIAMOND PRICE INDEX

ON A MONTH-TO-MONTH BASIS, FEBRUARY'S GLOBAL POLISHED DIAMOND PRICES SAW A **DECLINE OF 0.3 PERCENT** OVER JANUARY.

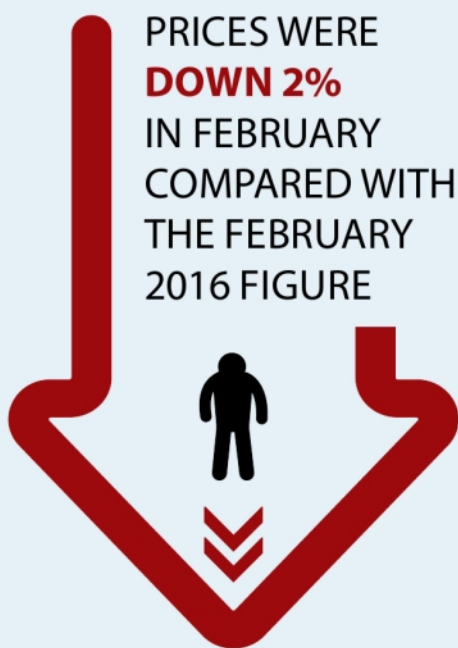
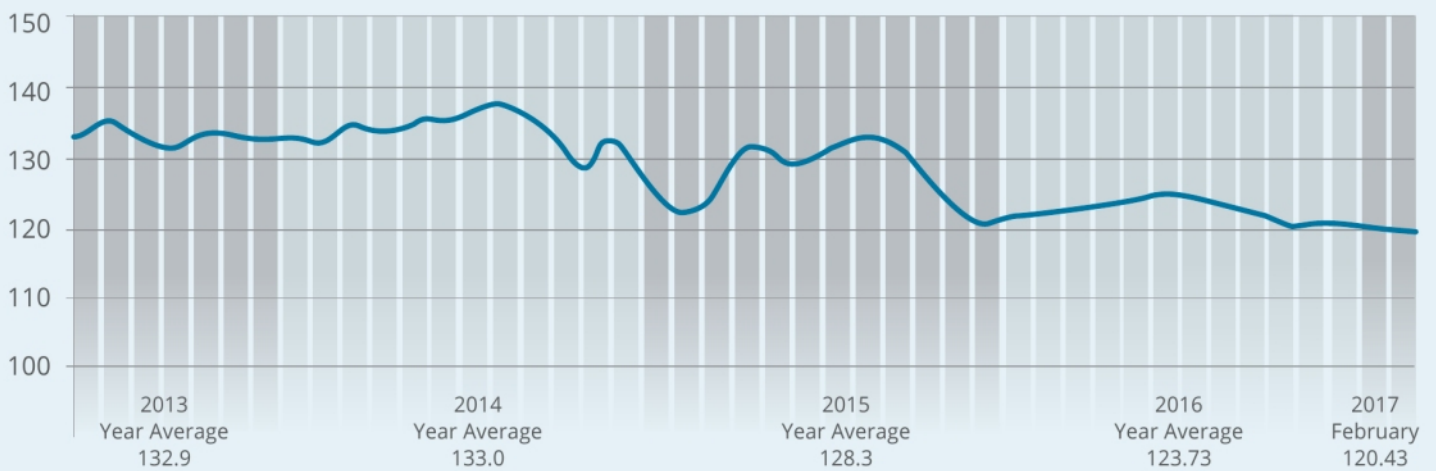
"POLISHED PRICES HAVE BEEN DECLINING SINCE MID-2016 EVEN WHILE THOSE FOR ROUGH GOODS HAVE RISEN"

THE RISE IN FEBRUARY FOLLOWED A SMALL DECLINE IN JANUARY. ON A YEAR-OVER-YEAR BASIS, FEBRUARY'S AVERAGE PRICE SHOWED A **2.0-PERCENT DECREASE**. ON A MONTH-TO-MONTH BASIS, FEBRUARY'S GLOBAL POLISHED DIAMOND PRICES SAW A **DECLINE OF 0.3 PERCENT** OVER JANUARY.

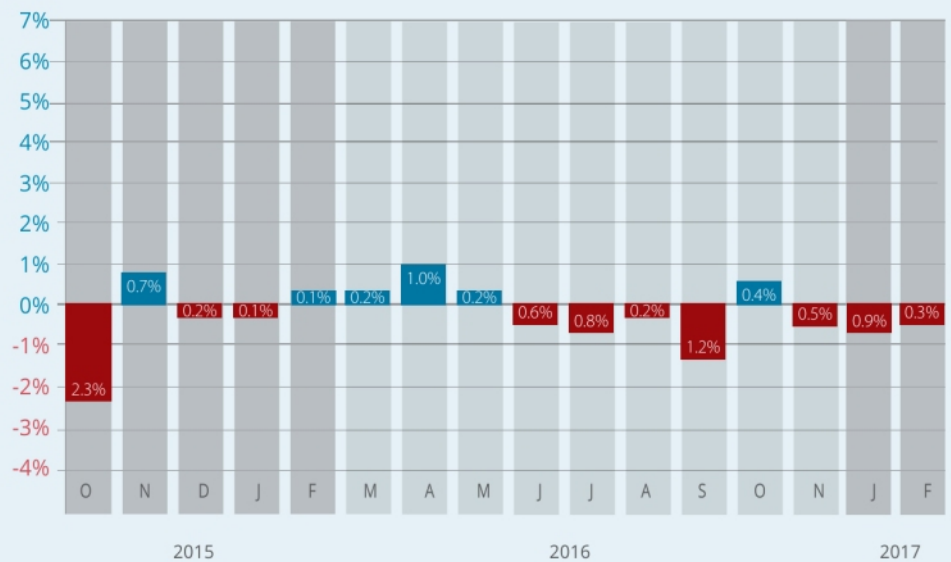
POLISHED PRICES

IDEX ONLINE POLISHED DIAMOND PRICE INDEX

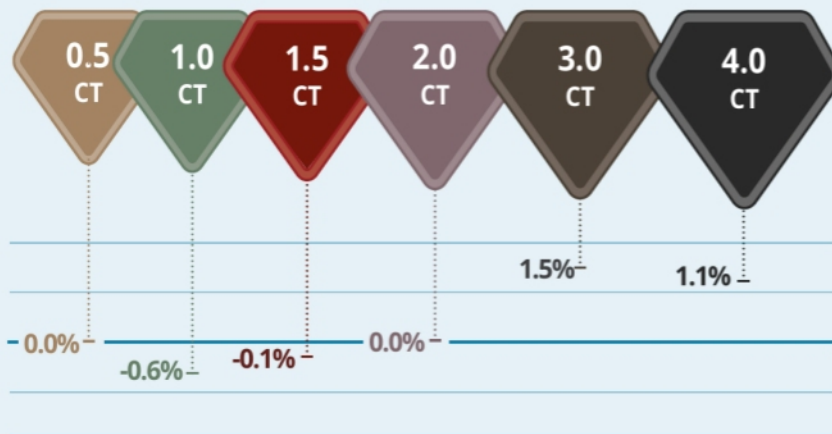
POLISHED DIAMOND PRICES HAVE SHOWN A DECLINING TREND SINCE THE MIDDLE OF LAST YEAR.



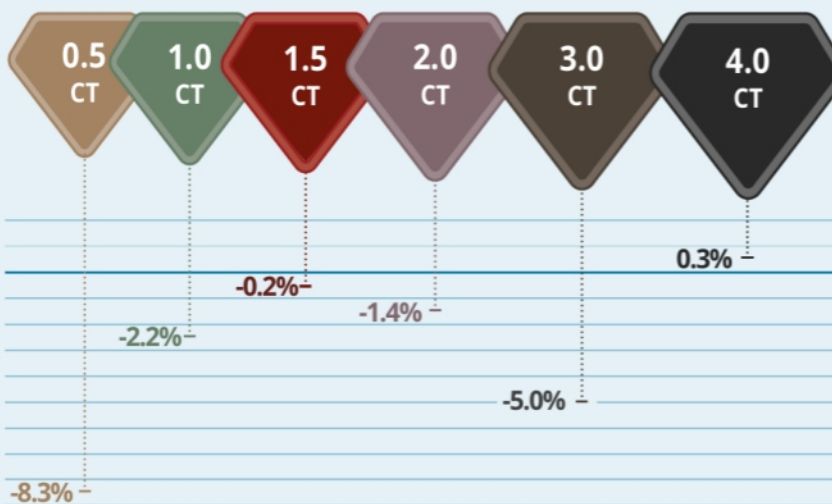
IDEX DIAMOND POLISHED PRICE TRENDS



ON A MONTH-TO-MONTH BASIS – COMPARING PRICES DURING FEBRUARY 2017 TO JANUARY 2017 – THERE WERE TWO DECLINING CATEGORIES, TWO RISERS AND TWO UNCHANGED. DIAMONDS OF 1.0 CARAT AND 1.5 CARATS DECLINED, WHILE 0.5 CARAT AND 2.0 CARATS STOOD STILL, AND 3.0 CARATERS AND 4.0 CARATERS INCREASED.



ON A YEAR-OVER-YEAR BASIS, THERE WAS ONE RISER AND FIVE DECLINERS.



OUTLOOK

Polished prices have continued a downward path seen from mid-2016. Meanwhile, rough prices are increasing due to strong demand, thereby putting pressure on profit margins which are already very thin.

The second De Beers sales cycle of 2017, held in February generated provisional sales of \$545 million, following the first Sight of the year in January which posted sales of \$729 million. Although the February sale was lower, it nonetheless shows continuing robust demand for goods which is a surprise given the decline in polished prices.



GEMEWIZARD

A diamond
reveals its
secret color

BY GUY BORENSTEIN, FGA EGG


Fancy colored diamonds are scorching hot products right now. Yellows, blues, pinks, greens, oranges – you name it – find themselves in the spotlight in auctions around the world, some of them creating headlines when they set a new price record.

Their overall color and color grade are their most important characteristics, usually authenticated by an accompanying gemological certificate from a certified lab. But is there more to their color than meets the eye? Do some of the diamonds possess a hidden secret inside waiting to be unlocked? These are intriguing questions indeed.

These questions take us back a few years, when we were fortunate enough to analyze the images of a colored diamond we received from the Fortuna auction house in New York. The company was kind enough to allow us to examine a magnificent 29.56-ct. pear-shaped VVS-2 Fancy Brown Yellow diamond (see photo). The gem was accompanied with a GIA certificate stating that the color is natural and evenly spread.

For our research, we received photographs of the diamond which represented its actual color under two





different backgrounds, black and white. We used the images to analyze the color mixture, outlining the black reflections from inner facets which we would need to ignore. The newly mapped image was then analyzed using the GemePro Sampler to retrieve the actual average color of the gemstone, and break it up into its main color components.

As seen in **Figure 2**, the mapped image analysis showed a fairly accurate honey-like average color, consistent with the GIA certificate. These results were exactly what we expected to receive.

However, the color components analysis surprised us, for it identified something we didn't think we would see. The two components were shades of yellow - a Fancy Dark Brown Yellow, which was not unanticipated, and a Fancy Orangy Yellow, which really knocked our socks off.

From where did the orange color suddenly emerge? We believe the GemePro system had discovered a hidden tint. But, just to be sure, we double-checked our finding with the Sampler. It showed that there was no flaw in the analysis.

The human eye can only see the overall color. The orangy moderator is

indeed part of the diamond's color mixture, but its softness is drowned by the Dark Brown tint of the other component. Mixing both components eliminates the orangy tint, rendering it invisible to the naked eye.

It could be said that a hidden color is more fascinating to scientists than to consumers, but we beg to differ. A digital analysis allowed this magnificent diamond to reveal its inner identity. Knowing that your diamond possesses a secret color makes an already beautiful stone that much more fascinating.

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.

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MINING NEWS

DE BEERS' 2016 REVENUE UP 30% TO \$6.1B, ROUGH SALES SOAR 37% TO \$5.6B

De Beers reports that its total revenue increased by 30 percent to \$6.1 billion in 2016, driven by higher rough diamond sales which increased by 37 percent to \$5.6 billion. Rough diamond production decreased by 5 percent to 27.3 million carats from 28.7 million carats in 2015, reflecting the decision, taken in 2015, to reduce production in response to prevailing trading conditions.

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ANDREY ZHARKOV

ALROSA CEO ZHARKOV COULD BE STEPPING DOWN SOON

Alrosa CEO Andrey Zharkov could be leaving the mining firm after less than two years as its head. Zharkov has been CEO since spring 2015.

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DE BEERS' VENETIA UNDERGROUND MINE IN SOUTH AFRICA





A 25.5-CARAT BLUE DIAMOND FOUND BY PETRA

PETRA DIAMONDS REPORTS SURGE IN HALF-YEAR REVENUE AND PROFIT

Petra Diamonds Limited announced that revenues and net profit soared in the six months to December 31. Revenue jumped 48 percent to \$228.5 million from \$154.0 million the year before, while net profit after tax was \$35.2 million compared with a \$2.2 million loss.

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A 336-CARAT STONE LUCARA FOUND

LUCARA DIAMOND CORP. POSTS RISE ON YEAR IN 2016 REVENUES

Lucara Diamond Corp. has announced revenues of \$295.5 million or \$824 per carat for 2016 compared with \$223.8 million and \$593 per carat in 2015.

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THE LIBOQUONG MINE

FIRESTONE DIAMONDS SELLS ALL LIQHOBONG MINE GOODS AT FIRST SALE

Firestone Diamonds plc sold all 75,936 carats offered for sale at the first sale of diamonds recovered from its Lihobong mine in Lesotho. The sale was held in Antwerp from February 6 to 10, with proceeds of \$8.14 million and an average price per carat of \$107.

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LUCAPA RECOVERS 227-CT DIAMOND FROM LULO A YEAR AFTER 404-CT RECORD-SETTER

The Lucapa Diamond Company has recovered the second-largest diamond from its Lulo project in Angola which it reported as being a Type II D color gem a year after discovering a 404-carat diamond which is the largest found in the country.



THE 227-CARAT STONE

[READ MORE >>>](#)


MANNY VALDEZ
Name:

Manny Valdez

Position:

Director of Operations

Company Name:

Parcel Pro™ a UPS Capital Company

Type of Business:

Insured shipping services

Size of Business:

72 Employees

Years in Business:

17+

Business Philosophy: Parcel Pro™ combines unique web tools, risk management, and unparalleled customer support to bring our clients efficient and secure shipping solution

PROFILE

WHAT SETS YOUR COMPANY APART FROM OTHERS IN THE INDUSTRY?

Our ability to service all of our client's needs from shipping and handling to delivery and insurance solutions. We also have the logistical support and resources of UPS®, the largest transportation and logistics network in the world, which allows us to expand our capabilities and service customers in ways that only global logistics providers can.

WHAT ARE YOUR PLANS FOR YOUR BUSINESS IN THE FUTURE?

We have our eyes set on a lot of different things for 2017, one of them being the expansion of our services in more places around the world. Like most things, our focus is on providing better customer service and helping our clients operate more efficiently while mitigating risk. We believe we have an opportunity to achieve those goals with the support of UPS Capital®.

WHAT MAKES YOU MOST PROUD ABOUT YOUR COMPANY?

I'm most proud of our ability to work and operate like the small company we once were. Yes, being acquired by UPS Capital made us a larger company, but the way we communicate and service our clients still remains very true to what Parcel Pro became known for in the industry – personal connections and white glove service.

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

Working in operations presents a more difficult business decision each day than the last. I find myself always making tradeoffs – ‘Do we go with this system, or that one? Do we go with two vehicles, or one?’ These are never easy decisions, but you look at the facts, and make the best-educated decision you can. The benefit is that I work with great people who are very good at what they do, which makes decision making much easier, especially in a fast-paced environment where you only have time to evaluate two, maybe three options before making a call and sticking with it.

WHAT IS THE BIGGEST RISK YOU HAVE EVER TAKEN?

Most recently I would say deciding to make a number of changes to our

infrastructure in order to integrate into UPS Capital. Once you get past the growing pains, you realize that a lot of the things you had to change work better internally and for the customer, but when you are initially faced with the challenge of integration, it can seem daunting and very risky.

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

I didn't receive this advice directly, but legendary coach John Wooden once said, “If you're not making mistakes, then you're not doing anything. I'm positive that a doer makes mistakes.” That piece of advice has stayed with me during my career. Right or wrong, operations are built on making decisions and learning from the outcome. Sometimes you win, sometimes you lose, but doing nothing almost guarantees a loss, and that's something no one can stomach.

WHAT IS YOUR BEST BUSINESS TIP?

Have a plan, and don't be afraid to fail. More often than not, people talk themselves out of great opportunities because they are afraid to fail, or they go in half-cocked and realize they are in over their head. Running a business is a fine balance between being a risk taker and having a road map for success. Know where you want to go and put a strategy

in place. Once you take that first step, something unexpected may happen – that’s business! But with a plan in place, you at least have an end goal in mind which almost always helps you stay aligned with your initial strategy.

WHO OR WHAT OTHER BUSINESS OR BUSINESSPEOPLE INSPIRE YOU?

I can’t really say I’m inspired by businesses or the people that run them, I’m more inspired by passionate individuals who became great leaders because of their character and integrity, not necessarily the amount of money they are responsible for or profits they generate.

HOW WOULD YOU DESCRIBE YOURSELF IN ONE WORD?

Energetic – I spend a lot of time running from place to place inside our office in an attempt to make decisions. There are never enough hours in the day, but what I do manage requires a lot of energy, and I take pride in the idea of supporting my people as much as they support me. You’re nothing without a team and it requires energy to motivate them and vice versa.

WHAT DO YOU MOST ENJOY ABOUT YOUR WORK?

The people. Parcel Pro was a family when we started, and we still are. Now

we are a part of a much larger family, the UPS family, and the people you interact with never cease to amaze you.

WHAT DO YOU DO TO RELAX?

I enjoy spending time with my family and watching movies. Family gives me time to enjoy life, and film gives me an opportunity to experience life from a different perspective. I find both relaxing, but of course nothing beats quality family time.

WHAT WOULD BE YOUR DREAM JOB?

I have my dream job. I get to work with amazing people every day who I have seen grow over the years. Sometimes in business you lose the ability to connect with people, so when you do find a job that allows you to do that, it’s like a dream come true.

» www.jewelercart.com

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