

31 Mar, 2020

Coronavirus brings diamond sector to a standstill



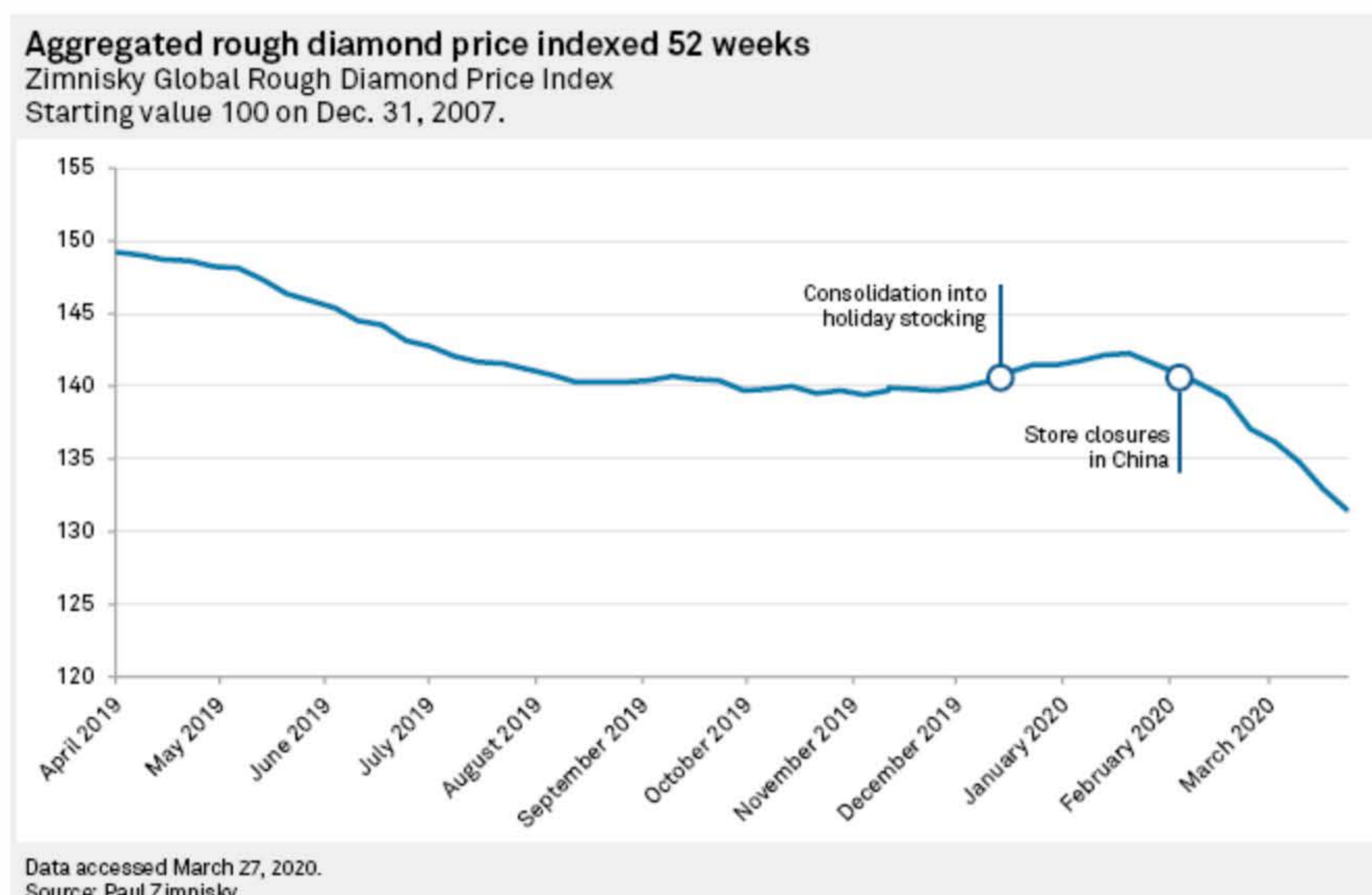
Author **Chantelle Benjamin**
Theme **Metals**

The new coronavirus has been taking a heavy toll on the already subdued diamond sector, with sales seeing an almost immediate impact from the lockdown in China and the rest of the globe following suit with containment measures including the U.S., a top diamond buyer.

The whole supply chain from mining to sales and trading is frozen, diamond industry analyst Paul Zimmisky told S&P Global Market Intelligence. "The impact could well lead the diamond industry into a recession," he said.

Sudden stops in economic activity caused by lockdowns and other quarantine measures have the potential to create longer-term disruptions to global productivity that could continue well after the viral outbreak is brought under control, according to Zimmisky.

Reduced supply as a result of diamond mines being placed on care and maintenance would assist the market, with a possible supply shortage in the fourth quarter of 2020, but it will all come down to demand, Zimmisky said. The diamond industry was the first industry to recover after the financial crisis of 2008 and 2009, as soon as Chinese demand increased, he noted.



Leading diamond producer De Beers SA reported rough diamond sales of US\$355 million for its second sales cycle of 2020, down from sales of US\$551 million in the first cycle of 2020 and sales of US\$496 million in the second cycle of 2019. The Anglo American PLC unit canceled its third rough-diamond sales cycle of 2020 in a March 30 news release, citing public health restrictions in Botswana, South Africa and India, and saying customers could defer allocations to later in the year.

Rival Russian producer PJSC Alrosa saw rough stone sales slump 12.3% month on month to US\$342.3 million in February, ending six consecutive months of sales growth following a nadir of US\$164.6 million in July 2019. The state-controlled company's efforts to reduce the impact of the coronavirus include reducing the volume of diamonds long-term customers are obliged to buy and holding digital tenders for large rough stones. Alrosa's sales are expected to stay under pressure in April and May as the industry remains essentially paralyzed, with delayed demand providing support from June, according to analysts at Moscow-headquartered brokerage BCS Global Markets.

London-listed Petra Diamonds Ltd. recently revised its 2022 cash flow targets due to weakness in the market linked to the coronavirus outbreak, decreasing its target of between US\$150 million and US\$200 million to a range of between US\$100 million and US\$150 million by June 2022.

China accounts for approximately 15% of global diamond jewelry demand, so the lack of retail business alongside restricted trading and manufacturing activity in the country resulted in a notable decrease in global diamond demand, Zimmisky said. The recent lockdown in the U.S., which is responsible for 50% of demand, dealt another blow to the sector, he noted.

READ MORE: Sign up for our weekly coronavirus newsletter [here](#), and read our latest coverage on the crisis [here](#).

The diamond industry had a difficult year in 2019, due in part to a glut in rough and polished diamond supply eroding margins along the supply chain, Bloomberg News reported earlier in March. The sector was also strained by trade wars between the U.S. and China, and protests in Hong Kong hitting retail sales.

The government of Botswana recently issued a travel ban on citizens of 18 countries in a bid to control the spread of the coronavirus, restricting travel by many of the world's top gem dealers to the diamond sales, which are also known as sights.

Canada-based Lucara Diamond Corp. owns the Karowe mine in Botswana and recently flagged the potential negative impact of the country's travel ban, noting that it sells most of its diamonds through a tender process where clients travel to Botswana for a viewing. Lucara said March 27 that it was uncertain if it would be able to complete its May tender as scheduled, and that it was commercializing a digital platform to sell rough stones, according to an annual information form.

U.K.-based Gem Diamonds Ltd. recently placed its Letseng diamond mine in Lesotho on care and maintenance, in line with the country's three-week lockdown. On March 19, the company canceled a March 16-25 tender of large diamonds from the mine due to restrictions in Belgium and elsewhere, and implemented a flexible direct sale process. The company's tender of small diamonds from Letseng realized US\$7.8 million "which is 18% below the like for like prices reached at the last small diamond tender held in November last year before the COVID-19 economic crisis," it said in a March 19 release.