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Diamond market faces rough ride as fears of second coronavirus wave mount

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The long-suffering diamond market faces the prospect of a longer malaise as fears of a second wave of coronavirus infections in winter overshadow tentative signs of recovery seen in sales in August.

As both dealers and consumers eschewed travel amid the ongoing pandemic, the industry's largely face-to-face format left it among the worst affected by global restrictions to curb the virus.

"Worldwide retail jewelry sales have been significantly impacted by shops being closed during lockdowns," Edward Sterck, an analyst at BMO Capital Markets, told S&P Global Market Intelligence.

The sector's two main players, PJSC Alrosa and De Beers SA, saw sales pick up in August after a dismal first half, but demand remains much lower than in recent years. The duopoly's efforts to substitute their traditional sight sales with online auctions has provided little support for revenues that were already losing momentum: Alrosa's sales of rough stones sank as low as US\$13.1 million in April from US\$315.8 million a year before, and De Beers canceled its third sales cycle.



The Mir mine in eastern Siberia. Alrosa will restructure the mine complex, effective Oct. 1, to cut costs and minimize job cuts as the pandemic has pummeled demand for precious stones.

Source: PJSC Alrosa

Market miasma

"It is going to be quite a long, slow, painful journey out of the kind of miasma the market has managed to get itself mired into, just because there is so much inventory around," Sterck said.

"The situation in India, which is where the majority of the world's diamonds are cut, polished and manufactured into jewelry, has been quite acute," he said. While only a handful of mines scaled back or suspended production during the height of the pandemic, Indian diamantaires all but ceased to buy rough stones for about four months.

"[Manufacturer and trader] inventories are now estimated to be at the lowest level in almost a decade and upstream output is on pace to be the lowest since the 1990s," industry analyst Paul Zimnisky told Market Intelligence.

As a result, mining companies have accumulated large stocks of rough stones, which will need to find their way through to the market at some point, according to Sterck.

While the impact of the pandemic has extended a downward trend in diamond prices over several years, it also expedited preexisting supply trends that should be fundamentally supportive of prices, according to Zimnisky. "An oversupplied diamond market in recent years, and the implication that has had on prices, has led to a natural paring of new supply going forward which could be the catalyst for a long-awaited trend shift in diamond prices."

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Green shoots?

This time of year represents the last chance for dealers to buy stones in time for the extended holiday season that begins with Diwali in India and runs through to the Lunar New Year in China, Sterck noted. Retailers are preparing stocks amid steady demand in the U.S. and Far East for stones from 0.3 carats to 2 carats as shortages support prices, according to a Sept. 10 Rapaport market comment.

"Today we see cautious optimism among market participants, as the industry prepares for [the] Christmas season, which traditionally accounts for about 30 percent of annual jewelry sales," Alrosa's press service told Market Intelligence.

"Consumer spending on jewelry is still a little bit uncertain," Sterck said. "The global numbers might be slightly skewed by certain geographies' spending more in their home territories than they would have normally," he said, noting that the promising figures from China are due to buyers turning to the domestic market after being unable to travel overseas, where they usually buy luxury goods.

Sterck expects prices to bounce back to the levels seen before the pandemic, but cautioned that prices were already still quite low compared to the five- or 10-year average. "That's not quite comfortable territory, but it's certainly a lot more comfortable than where we've been in the last six months or so," he said.