What Brexit May Mean to the Jewelry Business

It could affect gold and watch prices, even Signet and Tiffany

Rob Bates | June 24, 2016 | CUTTING REMARKS

The world is still coming to terms with yesterday's Brexit vote, what it means, and where it will lead. But here are five possible effects on our industry frequently cited by analysts and observers.

It could hurt the overall U.S. economy. From the perspective of *JCK* readers, this might be the scariest immediate effect:

"The U.K. vote to exit the European Union could have significant economic repercussions," Janet Yellen, chairwoman of the U.S. Federal Reserve, told Congress this week. A Brexit would "usher in a period of uncertainty" and fuel volatility in world markets. "That would negatively affect financial conditions and theU.S. economy."

More expensive gold. With global uncertainty now on the upswing, gold is viewed as a safe haven again. Its spot price today hit a two-year high of $1,328. One investment manager has already reset her price target to $1,400 an ounce.

"The surging gold price clearly shows the panic sweeping financial markets," Adrian Ash, head of research at BullionVault, told MarketWatch.

More expensive watches (possibly). The Brexit vote has also spiked the price of another traditional safe haven—the Swiss franc—prompting national bank officials to intervene.

Still, like last year's increase in the franc, this could boost the price of certain Swiss watches—or further eat intowatchmaker margins. The Federation of the Swiss Watch Industry officially called the vote "bad news."

It's raining, it's pouring for Signet. Signet is already dealing with considerable challenges, at least with regard to its share price. Now on top of that, it has to deal with concerns given its considerable exposure to the United Kingdom. According to Cowen & Co., its U.K. division contributed 11.3 percent of its revenues and 8.7 percent of its profit last year.

Cowen's report says that a decision to leave the EU "could potentially lead to a prolonged period of uncertainty that would most likely dampen consumer demand in the U.K., creating headwinds to Signet's revenue growth in the country," but notes that Signet's U.K. division has been one of its strongest performers of late.

Signet's stock is down again today—but then so is the rest of the market's.

It may not be good for Tiffany either.

At Tiffany, 40 percent of the brand's European sales come from the United Kingdom, representing roughly $202 million of its $4.1 billion in revenue….

In its latest 10-K filing, Tiffany warned that "a continued weakening of foreign currencies against the U.S.dollar would require the company to raise its retail prices in order to maintain its worldwide relative pricing structure."

Further increases in the U.S. dollar may depress tourist traffic—which would hurt Tiffany's heavily tourist-dependent U.S. sales.

Other thoughts on what this could mean for the luxury market can be seen here, and you can see U.K. trade reaction here.

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