

Diamonds' Best Winning Run in Two Years Is Probably Over Already

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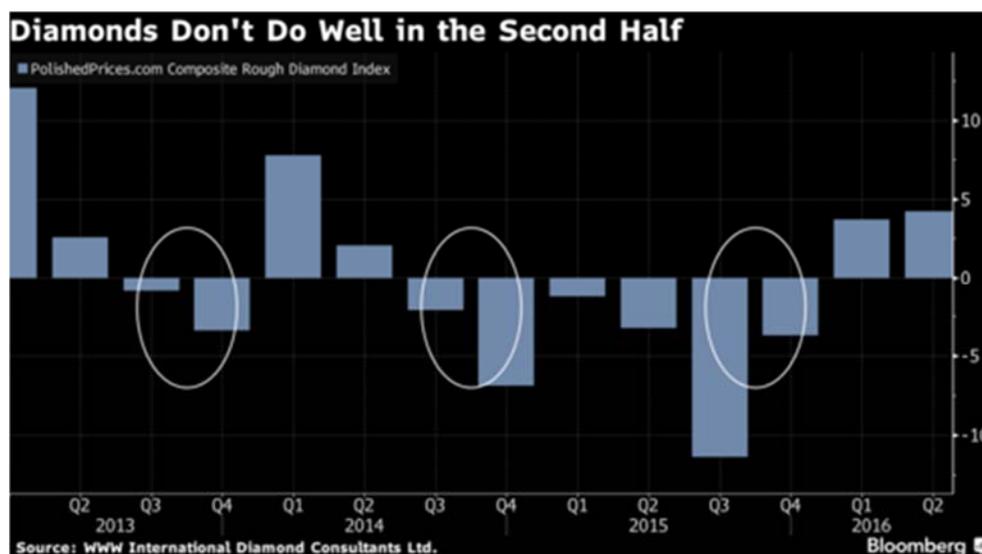
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- Underlying problems mean gems unlikely to break seasonal mold
- Demand soft on curbs in credit, weak China, Russia, MidEast

Diamonds' longest winning streak in two years has probably run its course.

Rough-gem prices are up almost 10 percent this year, rising for four straight months on improved U.S. demand and output cuts by the two main producers.

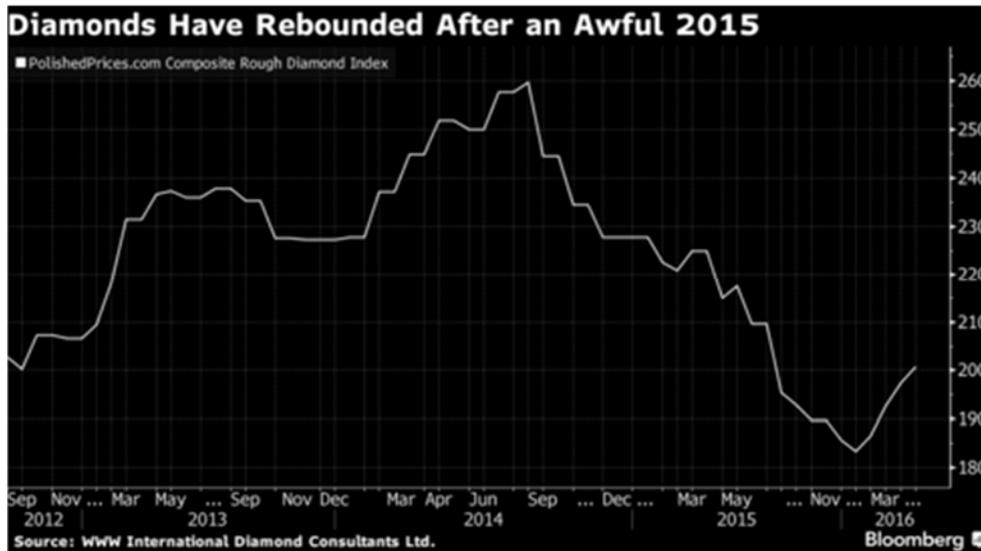
So far, so good. But with demand from China and Russia subdued and credit tight for diamond polishers, it'll be tougher progress in the second half, when prices have fallen in recent years.



It's been six years since prices advanced in the July-to-December period.

The industry is seasonal, with the holiday period from Thanksgiving through the Lunar New Year in Asia the busiest period for jewelry sales. Diminished inventories that follow during the first quarter means cutters and polishers rush to refill stocks of rough stones.

"I can't see a good summer ahead," said Ben Davis, a mining analyst in London at Liberum Capital Ltd. "From here it's hard to be optimistic."



De Beers and Russia’s Alrosa PJSC, the top rough-diamond producers, pushed hard for a recovery by choking off supply after a slowing Chinese economy and industry credit crunch pushed prices down 18 percent last year. But the underlying issues remain.

While U.S. demand, accounting for about 45 percent of the total, rose to a record last year, other major buyers disappointed, with Chinese consumption up just 1 percent. Petra Diamonds Ltd. and Gem Diamonds Ltd. have both cautioned that gains may not last.

Demand is also still being undermined by weak oil prices that hurt Russian and Middle East consumers, while a strong dollar makes diamonds more expensive for those using other currencies. Industry financing remains fragile, with Standard Chartered Plc, one of the biggest lenders in the \$12 billion sector, saying this month it is exiting the business.

“I don’t think we’ll test the lows we saw in January, but we could drift lower,” said Liberum’s Davis. “There’s definitely a risk we’ll drift down in the third quarter.”

<http://www.bloomberg.com/news/articles/2016-06-16/diamonds-best-winning-run-in-two-years-is-probably-over-already>