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Paul Zimnisky attributes diamond market recovery to holiday demand

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Exclusive



The diamond market started the year on a high note before the COVID-19 pandemic wreaked havoc beginning March.

Demand for diamonds had been on a rebound since last August and this has been due to stable consumer demand for diamond jewellery at the retail level in the US and China.

Industry expert, Paul Zimnisky told Rough & Polished's Mathew

Nyaungwa that the positive trend can also be attributed to holiday demand that has been making its way

through the supply chain coupled with many manufacturers being understocked due to the pandemic and related supply-chain challenges.

He said although the pandemic has hurt demand for most of 2020, when it comes to holiday shopping, diamonds, jewellery and other material luxuries, could actually outperform as people will not be giving a lot of experiential gifts as they have in recent years.

NB: Paul has launched a "Paul Zimnisky Diamond Analytics Podcast", which provides a look into the global diamond industry with each episode featuring a special guest.

Below are excerpts of the interview.

What was the state of the rough diamond market in 2020?

Following an obviously very difficult first half of the year, there has been a positive trend of rough diamond demand improvement that was first seen in August that has continued through November. For instance, major miners saw rough sales fall 80 to 90% year-over-year in March through July, however, in August through October, ALROSA, for example, has seen sales notably improve with figures up 20 to 30% in those months compared to the same periods last year. Most recently, in November, De Beers saw sales increase over 10% year-over-year. In my opinion, the positive trend can be attributed to holiday demand that has been making its way through the supply chain combined with many manufacturers being understocked due to the pandemic and related supply-chain challenges.

Some diamond producers are now reporting a steady recovery of the rough market following disruptions caused by the COVID-19

pandemic. Is it too early to celebrate given the second wave of the pandemic in some major economies?

I think those in this industry as well as those following this industry now have much more conservative expectations. In recent years, we have seen what overly optimistic business practices can do to this industry. So, I think right now the industry is positioning itself with much more reasonable expectations. It would be great to see this industry under-promise and over-deliver for stakeholders.

What are your expectations for both the rough and polished markets as we wind down the year given the resurging COVID-19?

Short-term, I think much of this will come down to actual holiday demand, most notably Christmas and Chinese New Year. While the pandemic, of course, has hurt demand for most of 2020, when it comes to holiday shopping, diamonds, jewellery and other material luxuries, could actually outperform as people will not be giving as many "experiential gifts" as they have in recent years. Medium-term, this industry, as well as many other industries, will be sensitive to the availability of a vaccine. Here in the U.S., it looks as if the first vaccines will be available before year-end 2020. At first, there will likely be limited availabilities of the vaccine that will only be available to healthcare workers and those most at risk. But it will be a very important first step and provide a bit of confidence. Hopefully, by this time next year, vaccines will be widely available globally.

What has been the performance of synthetic diamonds this year?

From what I have gathered, there haven't been any major developments as far as changes in man-made diamond demand over the last few months. There were some supply disruptions this year though due to

the pandemic –as we have seen with so many other products. But, if anything, talk of man-made diamonds seem to have faded a bit this year when compared to 2018 and 2019. More recently, De Beers' completed its new Lightbox manufacturing facility in the U.S. in late-October, which will allow them to significantly ramp up production and distribution of their man-made diamonds. They also recently struck a deal with leading online diamond seller, Blue Nile, to distribute Lightbox diamonds as strictly fashion jewellery. In my opinion, that is the biggest news in man-made diamonds this year.

What is the market share of synthetic diamonds compared with natural diamonds?

I believe it to still be under 10% of the global diamond jewellery market. I continue to expect growth in the space though, but most notably as fashion jewellery more so than as fine jewellery.

Which countries are recording growth in demand for synthetic diamonds and what is driving the growth?

Just as a few years ago, the consumer market for the product was almost entirely the U.S. This was likely because the U.S. is the world's largest diamond jewellery market at as much as 50% of the market, so man-made diamond companies began marketing the product in the U.S. at first. Now, the product has a much more global presence. Lightbox's aforementioned deal with the Blue Nile will further the product's reach as the Blue Nile has a very global distribution system – in over 40 countries.

Some analysts have attributed the drop in the purchasing of natural diamonds to the end of De Beers' historical marketing campaign. What is your opinion on that?

I certainly believe category marketing like that has had a significant influence on global diamond jewellery demand, so yes, I agree with that notion wholeheartedly. So, of course, I believe what the Natural Diamond Council is doing right now is very important for the industry. And, in my opinion, they have made significant progress this year with the direction of the campaign. I would like to see a bigger budget for them though – if they had double or triple what they have now, in terms of budget, I would be a lot more enthusiastic about the future of the natural diamond industry.

What is the expected level of demand for diamond jewellery ahead of the holiday season and which type of diamond jewellery is driving the market?

From what I am seeing, customers want uniqueness with their diamond jewellery. This can be in terms of the actual jewellery design or the origin of the diamond or some other personal story tied to the jewellery. They also want customization, they want grassroots and transparency. However, branded jewellery also continues to do well. Tiffany recently noted very strong appetite for their "T1" line, a new gold and diamond collection, and Cartier said its "Juste Un Clou" diamond and gold line is also doing quite well.

**Mathew Nyaungwa, Editor in Chief of the African Bureau,
Rough&Polished**