

Metals Focus

Precious Metals Jewellery Focus 2018



Chapter 1

- Gold fabrication is expected to rise by 1% in 2018, as gains in China and a handful of other countries are largely offset by losses in India and the Middle East.
- Slower growth in India, further losses in China and a small drop in Thailand should result in a 2% rise in 2018 silver demand.
- Platinum and palladium fabrication are both expected to decline in 2018, the former mainly due to continued secular losses in China.

Executive Summary

Introduction

In this, inaugural edition of our Precious Metal Jewellery Focus, Metals Focus addresses trends in global precious metals jewellery markets. The report is the newest member of Metals Focus' family of annual reference reports, which also includes reviews of the gold, silver, PGMs and precious metals investment markets. The principal focus of this review is an in-depth assessment of current trends in jewellery consumption and fabrication, as well as our expectations for the rest of 2018 and next year.

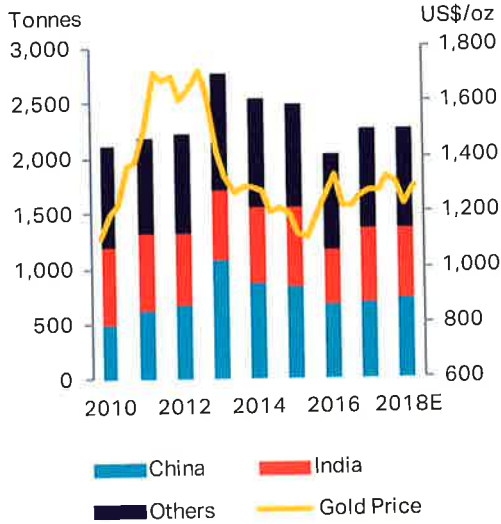
Precious metals jewellery demand in general has been having a lacklustre year so far in 2018. A multitude of factors are to blame, including the impact of the rise in trade protectionism on emerging markets' economies and currencies, various country-specific issues and changing consumer preferences in key markets. Gold jewellery fabrication thus fell modestly during the first half of the year. While we forecast a recovery for the second half, 2018 overall is expected to see only a marginal 1% increase globally. Silver demand is expected to fare somewhat better, rising by 2% during 2018. Finally, jewellery offtake for both platinum and palladium is expected to decline at the margin this year.

Precious Metal Jewellery Demand

	2010	2011	2012	2013	2014	2015	2016	2017	2018E	Year on Year	
										2017	2018E
Fine weight tonnes											
Gold Fabrication	2,113	2,181	2,211	2,764	2,542	2,477	2,016	2,243	2,257	11%	1%
Gold Consumption	2,203	2,213	2,232	2,761	2,523	2,437	2,078	2,200	2,228	6%	1%
Implied stock change	-90	-32	-20	3	18	39	-62	43	30	na	-31%
Silver fabrication	5,312	4,943	4,860	5,719	5,901	6,172	5,755	5,931	6,069	3%	2%
Platinum fabrication	72.5	68.1	73.4	77.0	76.1	75.0	71.1	70.6	68.7	-1%	-3%
Palladium fabrication	22.8	20.5	18.9	15.9	13.6	11.1	10.2	10.0	9.7	-3%	-2%
Base Value US \$bn*											
Gold Fabrication	83.2	110.2	118.6	125.4	103.5	92.4	81.1	90.7	93.6	12%	3%
Gold Consumption	86.7	111.8	119.7	125.3	102.7	90.9	83.6	88.9	92.4	6%	4%
Silver fabrication	3.4	5.6	4.9	4.4	3.6	3.1	3.2	3.3	3.2	3%	-2%
Platinum fabrication	3.8	3.8	3.7	3.7	3.4	2.5	2.3	2.2	2.0	-5%	-8%
Palladium fabrication	0.4	0.5	0.4	0.4	0.4	0.2	0.2	0.3	0.3	38%	12%

Source: Metals Focus. * Fine weight multiplied by period average metal price, with all margins and taxes excluded.

Gold Jewellery Fabrication



Source: Metals Focus, Bloomberg

Gold Jewellery in 2018

Following a very strong 2017, the first half of 2018 saw jewellery consumption suffer a marginal (less than 1% y/y) decline. Fabrication fell more, although still by a modest 4%, reflecting inventory releases in India. Looking ahead, we expect there will be a recovery in the second half of the year, resulting in consumption and fabrication both rising by 1% overall in 2018, to 2,228t and 2,257t respectively.

India was the single biggest driver of the declines seen in jewellery consumption and fabrication. The impact of the still new GST tax on the local economy and in particular liquidity was a key driver of the declines. Fewer auspicious days, the continued clamp-down on unaccounted money and a high profile fraud case also played a part. We believe the tide will turn in the second half of the year, against the backdrop of a decent monsoon, robust GDP growth and the start of the festival and wedding season.

In contrast, **Chinese** jewellery enjoyed healthy gains during the first half of the year, a trend that we expect will continue over the rest of 2018, resulting in a 5% rise in fabrication. Consumption in the Mainland and Hong Kong, meanwhile, is expected to rise by 5% and 10% respectively. Benign economic conditions and jewellery manufacturers successfully adapting to changing consumer preferences have fuelled a recovery in demand, which started in the second half of 2017, following years of declines.

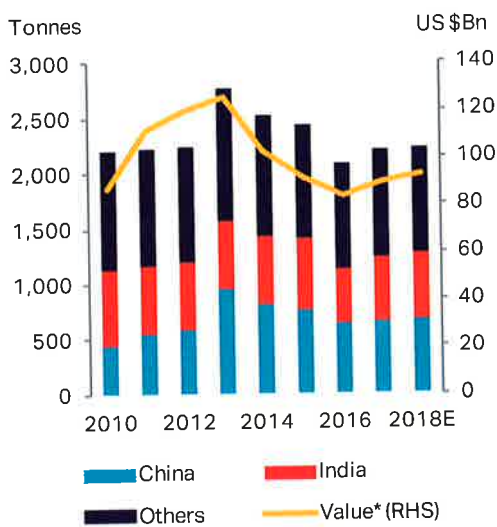
Demand in other **East Asian** countries is also expected to far well overall this year. Excluding Mainland China and Hong Kong, consumption and fabrication in the region are forecast to increase by 4% and 3% respectively in 2018, in spite of the weakness seen for a number of regional currencies. The strongest gains look set to come from Vietnam.

Economic and political developments in some key markets are the main driver behind the weakness that **Middle Eastern** demand is experiencing this year. Of particular note are the slide in the Turkish lira and Iranian rial, and the US withdrawal from the Iran nuclear deal. We forecast that total fabrication in the region will fall by 6% y/y in 2018. A key exception is the notable recovery in Egypt as its currency stabilised.

European gold jewellery fabrication is forecast to rise 4% 2018. Higher Italian exports explain much of the growth, as gains for Europe, Turkey and the Americas have so far outweighed losses to Dubai and China. Offtake is also benefiting from further growth for top end brands, a trend that is assisting Switzerland and Germany. In contrast, jewellery consumption is flat due to a patchy economic backdrop, political uncertainties and consumer preference for brand and design over metal choice.

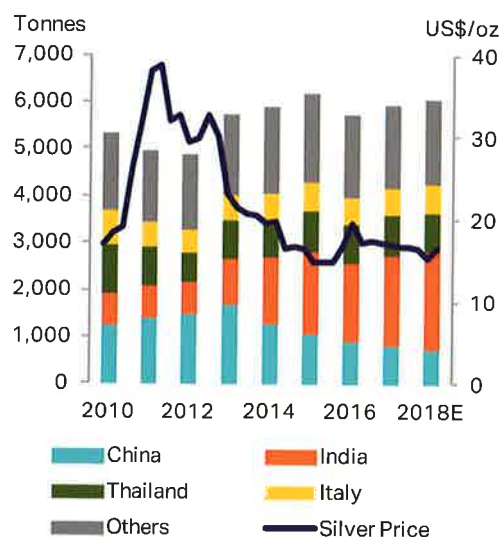
Finally, we believe that jewellery consumption in the **US** is on track for a 5% increase to 130t this year. Commitment by retailers that are attracted to the higher per piece margins offered by gold versus silver, a favourable macroeconomic backdrop and improved consumer confidence are all factors that contribute to this outcome.

Gold Jewellery Consumption



Source: Metals Focus. * base value only.

Silver Jewellery Fabrication



Source: Metals Focus, Bloomberg

Silver Jewellery in 2018

Global jewellery fabrication is forecast to grow by a modest 2% in 2018 to 6,069t, marking a slowdown compared to the previous year.

Offtake in **India**, the world's largest fabricator, is expected to rise by 7%, to reach 2,090t. Driving this growth is primarily a 9% increase in local silver consumption. Consumption growth in the country continues to enjoy strong gains, reflecting rising local incomes, a robust rural economy and relatively low silver prices. The increased acceptance of silver fashion jewellery is also supporting local consumption.

In contrast, consumption in the **US**, the second largest market by weight, is estimated to fall by 3% y/y to 1,235t. This is mainly due to market share losses to gold in the mid-tier, fuelled both by consumer appetites and retailers focusing on the yellow metal and its higher margins. Healthy gains in online sales, as well as some independent retailers pushing innovative designs to younger consumers, are offering a partial offset.

European silver jewellery fabrication is expected to grow by 4% in 2018, mainly due to rising Italian exports. Those countries taking more so far include Thailand, Switzerland, Turkey and much of Latin America. This helped counter heavy losses into Hong Kong and smaller declines for the US and UAE. Europe's consumption is also on track for slight gains this year, with Italy for example forecast up by 2%. A driver here is rising sales of heavily promoted brands in many countries, a trend which means sales value is growing faster than the fine weight.

Chinese fabrication is expected to continue its decline this year, although the fact that the 7% fall we forecast is the smallest since the downtrend began in 2014 points to a bottom perhaps being in sight. Lacklustre interest in plain silver pieces, coupled with declining average weight per piece, as the market shifts towards branded products and fashionable designs, continued to drive this trend.

The weakness of US consumption together with lacklustre growth in Europe and challenges in China are the key factors behind the 2% decline we forecast for **Thai** fabrication this year.

Platinum Jewellery in 2018

Global platinum jewellery fabrication is expected to fall by 3% in 2018. China is once again to blame for this decline. Indeed, we forecast that all other countries and regions will experience gains this year.

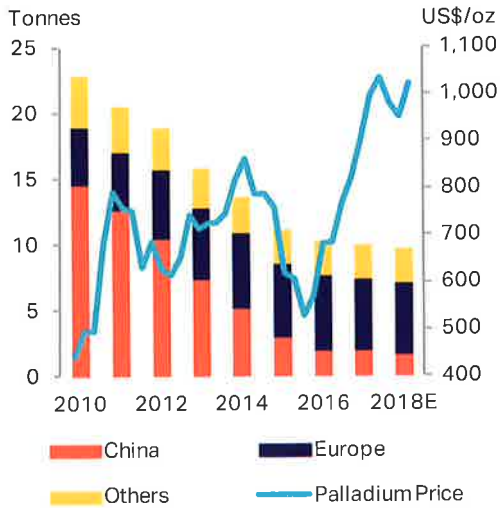
Chinese platinum jewellery fabrication has been declining since 2014 and we expect this trend will persist in 2018, with an 11% drop taking demand to 31.3t. Platinum faces the same headwinds that, until recently, also kept gold jewellery under pressure, namely consumer preferences shifting away from plain, larger and heavier pieces of conventional designs towards smaller designed-focused ones. However, whereas the gold jewellery

Platinum Jewellery Fabrication



Source: Metals Focus, Bloomberg

Palladium Jewellery Fabrication



Source: Metals Focus, Bloomberg

industry has finally managed to adapt to these new norms, the same has not yet happened for the majority of players in the platinum space.

Japanese fabrication is expected to increase at the margin this year, reaching 11.4t. Benign economic conditions and improved consumer sentiment are factors helping demand. Indeed, consumption growth might have been stronger, were it not for the relative weakness of the platinum kihei market, as the disappointing platinum price performance discouraged quasi-investment purchases of these products.

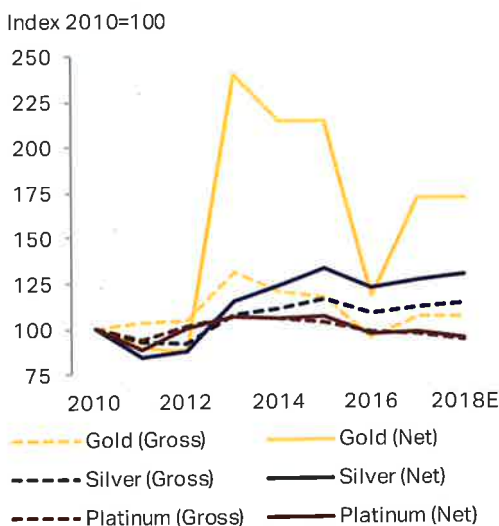
Platinum jewellery demand in **North America** is expected to enjoy another healthy increase this year, rising by 5% to 9.5t. The main driver of this increase is the lower platinum price. This has boosted margins for the trade and in turn enabled retailers to finance promotion. This has boosted demand both within the bridal and non-bridal segments.

Europe's platinum jewellery demand looks set for a 4% rise this year, thanks to robust gains for watches and high end jewellery fabrication. Much is for export or sale to tourists and there is no talk of a rise in general consumption; the relatively small bridal market remains stable and there is little sign of the emergence of fashion jewellery as has occurred in the US.

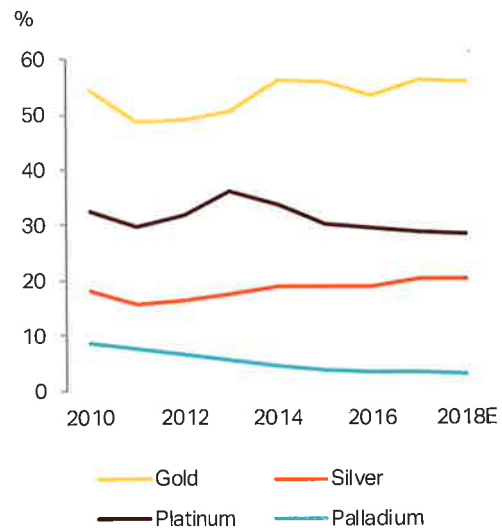
Palladium Jewellery in 2018

The dominant region for palladium jewellery offtake, Europe, is expected to see a rise of 2% in 2018, due to strong sales of white gold pieces by the top end brands (who almost all use palladium rather than nickel). However, we expect this will be offset by further losses in China, where we understand that the last remaining carat palladium manufacturer of substance exited the market. Global demand is thus forecast to fall by 2% to 9.7t.

Jewellery: Gross & Net Demand*



Jewellery's Share of Total Demand



*The net figures show jewellery fabrication less jewellery scrap
Source: Metals Focus.

Source: Metals Focus