

Small Diamonds Seeing Big Gains



RAPAPORT... Just like the virus itself, the diamond industry's recovery from the Covid-19 downturn has come in waves. After a market-wide slump in March 2020, demand for top colors and clarities jumped in the middle of that year as investors capitalized on low prices. The next rebound was in large goods, which were strong for the rest of 2020 and most of 2021. In each case, the rough market reflected the rise in polished trading.

All this time, the smaller and cheaper merchandise struggled. That changed, however, in the fourth quarter of 2021, when the more affordable categories enjoyed a resurgence. As of mid-December, polished prices for VS clarities and below were "15% to 20% higher than where they were three months [earlier]," reports Nilesh Sheth, president of New York-based polished dealer Nice Diamonds.

Parcels of uncertified polished melee — stones under around 0.20 carats — have been especially strong, as have products of lower than I color or SI1 clarity, diamantaires say. The rising prices, along with dwindling supply, have made it difficult to replenish inventory following sales.

The prices consumers pay for jewelry have been going up as well, suppliers note. This has all happened despite fears in recent years that lab-grown diamonds would snatch away the lower-value segment of the market.

De Beers responded to these developments by lifting prices of rough under 0.75 carats — as well as other lower-quality stones — by single-digit percentages at its November sight. Meanwhile, resellers of such contract goods are achieving premiums of up to 25% on the secondary market.

This shift toward smaller and lower-value stones marks “the tail end of the [overall] surge in rough demand,” one market insider said during the sight.

American preferences

Supply shortages are one reason for the current strength of these categories, stemming from a combination of factors in the mining and manufacturing sectors. But perhaps more significant is the demand side: US interest in lower-priced diamonds has mushroomed, industry members say.

Previous price jumps for low-value and other diamonds have traditionally been supply-related, explains Ari Jain, chief financial officer at wholesaler House of Diamonds, which has headquarters in New York and manufacturing facilities in Surat, India. “Now, the demand for diamond jewelry is so strong that I would say the price increases are 70% demand-driven and 30% supply-driven.”

Much of the recent success in these areas comes from the general strength of the US market. After almost two years of lockdowns, government stimulus payouts, and lower spending on travel and entertainment, consumers are releasing their pent-up demand, leading to predictions of record holiday sales in 2021. An engagement and wedding boom is also underway. That fact that fewer carats are coming out of both the mines and the polishing factories has exacerbated the rush on products.

US shoppers are more focused on low clarities, reports Paresh Jain, president of Manhattan-based polished supplier Gem Wave. “China uses medium to high-end goods, and America uses medium to low-end goods, and American demands are much larger than anywhere in the world today. So since the demand is so high and production of the goods is limited, that’s why prices went up so much.” In his 35 years in the business, he adds, he has “never seen the market so strong” in these categories.

Sheth at Nice Diamonds has seen specific demand for fashion jewelry featuring large amounts of melee. Hip-hop-style Cuban chains, for example, have become popular in the lower- and middle-income demographics and typically cost between \$3,000 and \$20,000 at retail, he says, noting that a single chain can contain 20 to 50 carats of diamonds in total.

Higher-quality small goods are also growing in price as a by-product of the appetite for their low-end counterparts, according to an executive who works as a rough buyer for an Antwerp-based supplier. As some miners sell mixed assortments of small rough, customers are paying more for the boxes that contain the low-quality stones, even

though they also include the currently less desirable high-end ones. This means the overall cost of the latter category has gone up, forcing manufacturers to charge their own clients more for the resulting polished, he says on condition of anonymity.

“In small and clean [high-quality] goods, basically since 2011, the price has only gone down, stabilized, and gone down further,” the executive explains. “This is the first time in 10 years that we are trying to [raise the prices we charge jewelers]. I can tell you that the brands are very, very reluctant to [pay more].”

The Argyle effect

On the supply side, the closure of Rio Tinto’s Argyle mine in Australia has sapped more than 10 million carats of annual production from the market. While it was most famous for exceptional pinks, the bulk of the goods from the site were smaller diamonds with low colors and clarities — items the Antwerp-based buyer describes as “difficult stuff, rubbish, hard to polish.”

Alrosa has some of these volume goods at its mines. So does De Beers, including at the Gahcho Kué deposit in Canada, which it owns jointly with Mountain Province. Gahcho Kué saw “unprecedented levels of demand” at recent sales, especially for “brown diamonds, lower qualities and smaller sizes,” according to a December statement from Mountain Province. Management attributed this to the absence of goods from Argyle and other locations.

Still, “whatever goods are coming from the other mines and sources [other than Argyle] are not able to fill that space,” comments Dinesh Lakhani, director of Indian diamond manufacturer Kiran Gems. “So that is one of the reasons for the lower-color and -clarity goods [going up in price].”

Post-lockdown shift

In the early stages of the pandemic, it was the larger stones that enjoyed a surge. With staff limited due to social distancing, manufacturers tended to focus on rough weighing around 1 carat, which yielded 0.30- to 0.50-carat polished. This granted them bigger and faster profits, as volume goods only give a return on investment when there is scale.

“Even if I had 100 workers available, I would only let 50 or 60 people work at that point, or maybe 30 people in some cases,” explains Lakhani. “So if I’m getting production out of those 30 people, 30% of my capacity, then I would naturally want high-value goods to be polished. People didn’t produce...significant quantities of smaller sizes.”

Prices for larger rough climbed during 2020 as a result. But when the 2021 revival of retail demand robbed the midstream of its inventories, especially in small sizes, manufacturers sought to replenish stockpiles by processing these types of stones. Social distancing was becoming less prevalent by then, enabling larger production volumes.

Small rough was also relatively cheap, what with the hefty price jumps in the larger categories.

However, manufacturers had difficulty finding people who could handle these intricate stones, as most of the workers had become accustomed to the larger, higher-value goods that had been on the cutting wheels for several months, Lakhani relates. In addition, some staff members had gone into other types of employment.

“Switching back to small sizes is going to take some time, as the midstream pipeline is completely empty due to unprecedented demand and continuous hikes in rough prices,” he says. “Manufacturing is lower, and at the same time, the retail side is booming as consumers have surplus [funds] at their disposal due to new job avenues and [the US] government stimulus.”

Traders believe the growth in the polished sector will continue into early 2022 as retailers and dealers restock after the holidays. On the rough side, De Beers left prices unchanged in December, but sightholders expect the company — as well as Alrosa — to implement further increases in small and low-quality goods at the upcoming January sales cycle.

With demand swaying between categories as consumer preferences and supply levels fluctuate, the question is which diamonds will take over from smalls as the next hot items. Predicting that is probably as hard as guessing what will happen next in the pandemic.

Image: Melee being graded and organized at the De Beers Group Institute of Diamonds in Maidenhead, UK. (Ben Perry/Armoury Films/De Beers)