



PLATINUM JEWELLERY BUSINESS REVIEW

Q2 2017

Market Environment

China's economy saw steady development in the first half of 2017, including GDP growth of 6.9% in both Q1 and Q2.

Total retail sales of consumer goods saw a YOY rise of 10.4%. The sales of upgraded consumer goods witnessed fast growth; and online retail sales saw YOY growth of 33.4%. Gross domestic product is estimated to rise by 0.9-1.4% over and above the overall economic growth estimated at 7.2% for 2017.

The Indian market is bouncing back quickly after demonetization and the economy is expected to experience a further boost as the government rolls out GST to simplify the tax system.

In Japan, despite concerns of the effects of the global economy, disposable income improved for the 3rd consecutive month in June, confirming that the economy is on a positive footing. Japan's consumer confidence index rose along with the economy.

The US economy remains on track to expand at a moderate 2% pace through the second half of 2017. GDP is projected to have increased at around a 2.8% rate in the second quarter, bouncing back from a lacklustre first quarter. With sustained job and income gains feeding consumer confidence, a drop off in spending isn't likely. Real consumer spending could sustain 2.2% growth from back to school sales and the holiday period.

Platinum Jewellery Retail Business Highlights¹

	2017 E	Q2 2017	Market Dynamics	Platinum Jewellery
CHINA	-4% to -7%	-6.6%	Stronger than expected economic growth fuels overall retail sales growth. Luxury and jewellery brands apply different strategies to tackle changing consumer preferences.	From high-end to mass brands - the changing market conditions result in clear winners and losers in the jewellery category as a whole and within platinum.
INDIA	+24% to +30%	+48%	The market is bouncing back quickly after demonetization; government rolls out GST to simplify tax system	+48% through PGI programmes in total; platinum retail grows at double the rate of gold & diamond.
JAPAN	+1% to +3%	-1.6%	Consumer confidence index rises along with the economy	Q2 demand dips seasonally (-1.6%), 2017 forecast remains positive
US	+5% to +7%	+12%	Consumer confidence and job growth resulted in GDP rebound in Q2	Platinum continues to outperform gold and is on track for a 5th consecutive year of growth

1) The Platinum Jewellery Business Review measures growth in consumer demand for platinum jewellery at retail, i.e. jewellery sold to consumers

CHINA

- Luxury and jewellery brands are facing a 'new normal' and apply different approaches
- Gold jewellery demand down 2% YOY
- Diamond sales up 26% YOY
- Platinum jewellery trading on SGE increased in H1, while Hong Kong net imports fell
- Platinum jewellery retail demand declined in Q2, yet at lower rates

Jewellery

As China's upper-middle-class consumers are emerging with the market, so do their purchasing habits, especially for younger consumers. After a luxury spending frenzy from 2010 to 2014, the category is facing a 'new normal' of single-digit growth. Luxury brands like Louis Vuitton, Gucci and Prada have already begun last year to close underperforming stores after years of growth.

Brands will need to work a lot harder to gain consumer interest and sales. As the market is changing, luxury brands are finding different ways to appeal to consumers.

Some leading jewellery brands saw relatively good performance in Q1. Tiffany reported first quarter total Asia-Pacific sales of \$257 million (+8% YOY) driven by a strong performance in China. During this period, Tiffany launched more carat gold & silver items appealing to millennials, and competing with Pandora.

Pandora China delivered +125% growth, underpinned by strong sales in existing stores and 59 new concept stores. The brand's global promise rings particularly well with Chinese consumers: affordable luxury, contemporary design, and personal story telling.

For brands who up their game, China still offers massive consumer potential: a consumer report from The Boston Consulting Group, with Ali Research, re-confirms China's consumer market potential despite slower GDP growth and foresees the country will add a cumulative \$1.8 trillion in new consumption by 2021 to reach \$6.1 trillion

Gold & Diamonds

Total China gold demand grew 8.4%; gold jewellery (24k+18k) fell by 2%; while bars and coins rose 30% in Q1 2017. Demand for gold jewellery softened slightly, down 2% YOY in Q1 as the seasonal uplift broadly cancelled out the impact of higher gold prices.

Demand was strong at the start of 2017, due to the Lunar New Year falling early. This seasonal demand was boosted by a double spring and leap month, making it an auspicious year for weddings.

After these festivities, demand dropped off. Gold jewellery demand has been negatively affected by the slowing economic environment as well as by changing consumer tastes (World Gold Council Quarterly Update).

Diamond sales showed strong momentum with sales of diamond products in 2016 reaching 45 billion RMB, a growth of 26% YOY, according to China Gem Association.

China consumer market to reach \$6.1 trillion by 2021, driven by:



Emerging upper-middle-class & affluent households

Spending habits of the younger generation



Increasing role of omni-channel e-commerce

Platinum Jewellery

Imports

While total platinum transaction volumes via SGE declined in the first half of 2017, driven by industrial use, platinum jewellery trading at SGE increased slightly in H1 2017.

However Hong Kong net import volume of platinum, an indication of unofficial imports for jewellery use, dropped by 22% YOY in the first 5 months, reaching 6.1 tonnes (197k oz.).

Manufacturing

- Plain platinum fabrication declined by 5% YOY in 2017 H1
- Gem-set platinum fabrication was down by 11% in H1

Under challenging market conditions some manufacturers used price competition to capture market share, forcing others to follow. However this is not sustainable, with manufacturers facing slimmer profit margins.

Some manufacturers are developing collection-based products with differentiated craftsmanship which can be sold to retailers with accompanying sales toolkits, for a premium price.

Retail

Q2 has seen a 6.6% decline, which led to an overall easing of the decline of retail sales to 5.2% YOY in H1 2017. Pressure from K-gold and gem-set products was higher, as the whole trade is pursuing profit margin in this challenging market. Consumer traffic increased in May due to four festivals.

The jewellery market in general performed relatively well, focusing on high-margin products such as diamond jewellery at lower price points. This however, benefited K-gold settings more than platinum.

Nevertheless, despite platinum jewellery sales declining, retailers were relieved by the partial recovery of consumer traffic in H1 2017 and most expect a better H2 for platinum sales, especially those planning to launch new products and promotions. Retailers also expect more bridal sales during the H2 wedding season.

Retailers increasingly split into winners and losers in overall challenging market conditions:

Winning retailers tend to focus on branded collections, a strong focus on key occasions (e.g. bridal), gem-set jewellery and strategic sales staff training and incentives. Retailers from this group are rewarded with platinum jewellery sales growth of up to 30% growth for selected categories.

Losing retailers on the other hand try to extract more margin out of existing plain generic design jewellery, squeeze more product into counter space and do not invest into new designs or branded propositions. Retailers from this group in some instances fail even to benefit from growth sectors like platinum gem-set jewellery.



INDIA

- Government rolls out tax simplification, consumers rush to buy ahead of price rise
- Gold jewellery sales up 18%
- Diamond jewellery sales up 20%
- Platinum jewellery grows at more than double the rate of gold & diamonds

Jewellery

Starting from 1st July 2017, India's complex taxation system will be replaced with a simpler, nationwide Goods & Services Tax (GST). Previously, each of India's 29 states set their own sales tax, which was in addition to central government taxes, resulting in double taxation and increased prices for end consumers. The state taxes created barriers to the movement of goods, services and capital around the country. With GST, these barriers are removed and further economic growth is expected.

Implications

With GST, all other state taxes like Octroi, sales tax, VAT etc., would be nullified. Import duty on the metal continues to remain at 10% for gold and platinum. The government announced a GST of 3% on jewellery (gold, platinum, diamonds and silver). There will be an additional 5% GST on making charges for precious jewellery.

Prior to GST being implemented, the overall tax on jewellery stood at 12.2% (10% customs duty, 1% excise duty and 1.2% VAT). The GST has made jewellery marginally more expensive for retailers.

The GST is expected to make the jewellery industry more transparent by eliminating double taxation and improving supply chain efficiency. The last two weeks of June saw unprecedented consumer footfalls to the stores to buy jewellery to beat the price rise post GST.

Gold & diamonds

Gold jewellery retail sales have seen 18% growth, beaten by diamond jewellery sales with 20% growth. This includes growth in sales driven by key gold buying festival "AkshayTrithya" in April and the summer wedding season in April/May.

In Q2 retailers were focused on implementing new tax guidelines and ensuring their systems are in place for a smooth transition to the GST. They were also looking to liquidate stock, and had reduced sourcing fresh merchandise other than customer orders, in order to reduce their liability under GST.

Jewellery sales slowed down during the first two weeks of July after implementation of GST, but that could be attributed to the unprecedented consumer demand in the last two weeks of June. Retailers are in a wait and see mode to see how retail sales perform.

Platinum Jewellery

The majority of the platinum jewellery market is influenced through PGI programmes which have shown a +48% increase in total.

Platinum retail growth continues to outperform gold & diamonds. Platinum retail sales in Q2 across strategic retailers alone, which comprise 54% of the platinum market, report +37% growth.

A PGI campaign to drive conversion accounted for the larger portion of the growth, with platinum jewellery sales posting 52% growth during the campaign period from 15th May to 18th June across participating retailers. Platinum jewellery sales also saw growth in the last two weeks of June when jewellery stores across the country saw an unprecedented rush before the roll out of the GST.

The current rate of market recovery is expected to drive growth of at least 40% over last year's results.

JAPAN

- Jewellery sales in Q2 show signs of recovery in value, units & selling price
- Loose diamond sales face falling prices amid oversupply
- Low season for platinum sales: -1.6%

Jewellery

Total jewellery sales in Q2 are recovering to YOY levels for all 3 key indexes - sales value, unit sales, and average selling price.

Gold & diamonds

Domestic loose diamond sales are challenged, with falling prices due to oversupply, while the loose diamond import/export market rallied in June.

Yellow gold saw +1.8% growth, largely driven through an uptick in demand for fashion jewellery.

The focus for retailers was on acquiring new, millennial customers aged up to mid-30s. The Japanese millennials' rate of self-purchase as a personal reward is 75%, double the 34% self-gift purchase for the US market.



Rate of self-purchases

Japanese millennials = 75%

US market = 34%

Platinum Jewellery

Q2 saw all metals except yellow gold in a small decline YOY with platinum dipping -1.6% for the quarter. The reason for this is mainly a seasonal one. The industry typically experiences a slow quarter right before bridal season.

PGI's outlook for platinum jewellery in 2017 remains positive at low single-digit growth.

UNITED STATES

- Jewelers' Confidence Index positive for 5/6 months in H1
- Relief following the election drive gold jewellery demand
- Diamond sales fall 11% in May
- Platinum sales up 5%, outperforming gold

Jewellery

Jewellery Store sales show an increase of 3.1% for January-February, over the first two months of the prior year, slightly lower than the 3.6% increase seen from 2015 to 2016.

INSTORE Jewellers' Confidence Index rose to 53 in the first part of June, up from the last reading of 50, and has been in positive territory for five of the six months in the first half of 2017.

Gold & diamonds

Relief following the US election propelled gold jewellery demand to its strongest Q1 since 2010, rising 3%. The World Gold Council refers to a climb in online purchases.

In May, De Beers Group reported an 11% fall in diamond sales during the fourth cycle but said it continues to see steady demand despite the industry entering a typically quieter season.

Platinum Jewellery

US platinum jewellery sales grew by over 5%, and continue to outperform gold. Platinum is on track to deliver a 5th consecutive year of growth.

More than 75% of retailers reported sales as either the same or higher than last year.

Major manufacturing partners of PGI reported platinum ounce consumption grew between 10 – 17% during Q2.

About PGI

Platinum Guild International is a worldwide marketing organization dedicated to creating, expanding and strengthening consumer and trade markets for platinum jewellery.

Through various programs in collaboration with jewellery retailers and manufacturers, PGI creates consumer ounce demand by identifying and fulfilling platinum jewellery opportunities for its partners.

Jewellery development has a strong track record in delivering results. Since 2001, an investment of \$800 million in jewellery demand has created 35.5 million jewellery ounces, at a value of \$7.3billion, delivering an ROI of \$22 per ounce.

PGI is headquartered in Hong Kong and has offices in China, India, Japan and the US.

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