



Pastor-Genève News – December 2008

As the global economies go into a recession, it is important for investors around the world to recognize that hard assets have always been an important segment of their wealth preservation strategies as they have always held their value well during recessions and economic downturns. Although gold prices have come off slightly in USD off of its high in the summer, when you convert gold into its local currency on a global basis, for example in Australian dollars or in Euros, it has actually held its value well as the USD has strengthened over the last couple of months.

Likewise, although the sales volumes have come off of their highs at the major auctions around the world, the prices achieved for rare pinks, yellows, blues and other categories shows that colored diamonds have been holding their value during the recent economic downturn.

Indeed, when one looks at the dealer offerings, they are reporting consistent sales and asking prices have not come off in any significant way from their highs of a couple of months ago, while the major retailers who offer colored diamonds have reported stable sales during the 3rd quarter.

The question now that everyone is considering is that as a large amount of money has been taken out of investment funds around the world, it is ultimately going to be looking for a home and with colored diamonds showing stable results during the last three recessions in the 1970's, 1990's and in after the internet bubble burst, it is worth considering the implications of long term funding coming into the market as supply continues to get more scarce.

A further question is the amount of money being printed around the world, which has always been a sign that high inflationary rates will ultimately hit the global markets at some stage in the near future, especially as the supply situation of various commodities has not changed, just the short-term demand factors.

We would like to wish all of our customers and correspondents a happy and healthy new year and we look forward to 2009 as a very important year in the evolution of the rare colored diamond market. We will be closed for the holidays but we look forward to being in touch again in the New Year.

Diamond News

Diamond Business Fundamentals Remain Sound Despite Financial Meltdown

More than 500 members of the international diamond sector participated in a highly charged forum in Antwerp to discuss the impact of the global financial meltdown. The dominant message was that the current downturn in the market is related predominantly to financial liquidity and not to the fundamentals of the diamond business, which are sound. The major diamond producers announced that they will be reducing rough supply to the market over the short term, and they declared their support for an all-industry body that will be responsible for the generic promotion of diamonds to consumers.



Christie's Stresses Strong Demand for Colored Diamonds

Christie's expressed its confidence in the colored diamond market ahead of its London jewels sale in December. Demand for colored diamonds remains high, Christie's said, citing its recent record sale in Geneva of a 13.39-carat fancy intense blue diamond for \$8.9 million. The auction house is hoping to emulate that feat when it presents the Wittelsbach Diamond, a rare 35.56-carat grayish-blue diamond, VS2 clarity, at "Jewels: The London Sale," with an estimated value of about \$15 million.

De Beers Confident of Value in Diamonds During Christmas

De Beers believes diamonds have a unique place in the current environment even though global financial distress is cutting into consumer wealth and confidence. De Beers' Christmas marketing plans include print, online and television spots meant to show how the diamond is an icon of enduring value. The campaign is expected to reach 97 million consumers in the U.S. at least six times during the season.



Rio Tinto Reports Strong Market for Pink Diamond Tender

Rio Tinto's 24th annual Argyle Pink Diamond Tender showed a strong market for the rare precious stones despite the difficult economic conditions, the company reported. Because prices are expected to escalate as Argyle production comes to a close, Rio put reserve prices on the collection for the first time this year. Rio also introduced a new distribution strategy for its Argyle production, selecting 15 "Authorized Partners" to receive polished pink diamonds directly from the mine, and a number of "Select Ateliers" who will use the Argyle brand but not buy directly from the mine.

Retail Jewelry News

Bulgari 3Q Sales Hold Flat

Bulgari's third-quarter sales were basically flat at \$325.4 million under a November 14th exchange rate of \$1.27 per euro. Sales across the Americas fell 14.7 percent, but rose 4.5 percent in Europe and 0.2 percent across Asia. Bulgari's jewelry sales rose 1 percent to \$135 million in the third quarter.

Richemont 2nd Quarter Sales Grow

Luxury retailer Compagnie Financiere Richemont reported that sales in second-quarter rose 7.2 percent compared with one year ago, to EUR 1.37 billion (\$1.74 billion). Jewelry sales fell 7.3 percent in the second quarter compared with the first, but year-to-year sales rose 6.9 percent to EUR 683 million (\$867.4 million). Richemont only provided half-year profit comparisons; its group profit rose 4.9 percent to EUR 864 million (\$1.1 billion) from one year ago. During the first half, sales declined 1.8 percent in the Americas and fell 6.8 percent in Japan, but sales rose 15 percent in Europe and 19 percent across the Asia/Pacific region.



Fuqi Int'l 3Q Sales +158%, Profit +139%

Third quarter revenues at Fuqi International rose 158 percent to \$93.68 million. Wholesale contributed \$90.5 million in sales for the quarter, which was an increase of 152 percent from one year ago. Net income rose 139 percent to \$6.52 million. Fuqi's growth was due in part to its purchases of Shanghai Tian Mei Jewelry and Beijing Yinzong Tian Mei Jewelry, collectively known as Temix, early in the quarter. Gross profit margin was 11.7 percent in the third quarter, down from 12.4 percent one year ago.

Net margin was 7 percent, down from 7.5 percent one year ago. Operating expenses rose 236 percent to \$2.7 million.

Birks & Mayors 2Q Sales +2%, Narrows Loss by 40%

Sales at Birks & Mayors rose 2.2 percent to \$61.15 million during its second quarter of fiscal 2009. The company narrowed its net loss 40 percent to \$2.1 million. Gross profit was \$27.4 million, or 44.8 percent of net sales -- as compared with 48.3 percent one year ago. For the 26 weeks through September 27, 2008, net sales rose 4.4 percent to \$133.6 million.

Chopard Sales +11% in First Nine Months

Sales of Swiss luxury watch and jewelry manufacturer Chopard in Italy in the first nine months of 2008 climbed 10.5 percent on the year. The company's sales in Italy in the third quarter alone increased 16.4 percent on the year.

Gitanjali 2Q Profits +15%

Gitanjali Gems reported that its net profits grew 15 percent to INR 489.52 million (\$10.19 million) in its fiscal second quarter spurred by strong growth at the company's jewelry unit. Net sales for the period rose 14 percent to INR 12.91 billion (\$268.81 million). Jewelry revenues grew 37 percent to INR 7.22 billion (\$150.85 million) and diamond revenues increased 15 percent to INR 7.23 billion (\$151 million).



Sept. Jewelry Price Index +9%

The year-to-year consumer price index for jewelry in the United States during the month of September rose 9.3 percent to 156.56 points, according to statistics provided by the Bureau of Labor Statistics (BLS). This rate -- based on a reference of average prices in 1986 set at 100 points -- was almost two points higher than in August. For the watch and jewelry categories combined, the year-to-year difference was an increase of 8.2 percent in the United States, at 148.85 points.

Mining News

Pangea DiamondFields Secures \$2M Loan

Pangea DiamondFields entered into a \$2 million short-term loan to be provided by Pangea Exploration (Proprietary) Ltd. Although Pangea's interim results on September 25 listed about \$1.82 million in cash and approximately \$750,000 in unsold diamonds, by October 24, the junior miner had only \$230,000 cash resources with unsold stock of \$800,000. Pangea's directors anticipate that the loan facility will provide sufficient working capital to maintain its current activities for up to three months.

Rockwell Sale Receives Strong Premiums for Three Yellow Diamonds

Rockwell Diamonds Inc. sold three "exceptional" yellow diamonds to buyers in southeast Asia. These stones were recovered from Rockwell's Makoenskloof project and Wouterspan mine, located in the Middle Orange River area of South Africa, and were cut and polished by the Steinmetz Diamond Group.

De Beers Production -4% in 3Q08

De Beers' production fell 4.3 percent to 13.1 million carats, in the quarter ended September 30, 2008. For the first nine months of the year, De Beers' production fell 4.1 percent to 37.3 million carats. The drop in production came as a result of lower recoveries at De Beers' flagship Orapa mine in Botswana and at the Venetia mine in South Africa. The company said that medium- and long-term growth would be driven by the market fundamentals of its core commodities, with constrained supply and growing demand led by the industrialization of China and other developing countries.

Economic News

Chinese Economy November 2008

China's retail sales rose 22 percent, close to the fastest pace in nine years, signaling that domestic demand may help the fourth-biggest economy withstand a looming global recession.

Sales climbed to 1.008 trillion yuan (\$148 billion) in October, the statistics bureau said today, after gaining 23.2 percent in September from a year earlier. The increase matched the median estimate of 16 economists surveyed by Bloomberg News.



China's government pledged \$586 billion of spending on low-cost housing and infrastructure on Nov. 9, seeking to boost confidence as the economy loses steam. Waning export demand and slumping real-estate sales threaten to undermine growth that has already slowed to the weakest pace in more than five years.

“The big package sent a signal for people to keep shopping,” said Arthur Kroeber, head of research at Dragonomics Advisory Services Ltd. in Beijing. “Rising domestic consumption will help to cushion economic growth in the coming months.”

Indian Economy

The International Monetary Fund expects India's economic growth to slow to 6.3 percent in 2009 from an estimated 7.8 percent this year. That's still faster than the South Asian nation's average 4.5 percent expansion since 1947.

China may grow 8.5 percent in 2009, compared with 9.7 percent this year, according to the IMF. The U.S. and the Euro area may shrink by 0.7 percent and 0.5 percent in 2009, the Washington-based lender said.

“Overall, India is still poised to rank as the second- fastest growing major economy after China,” said Rajeev Malik, regional economist at Macquarie Group Ltd. in Singapore. “Consumption expenditure is poised to be resilient, but investment spending will be hit owing to scarce availability and higher cost of funding.”

World Records Achieved for a Pair of Enamel Pocket Watches

Geneva, 16 November, 2008 - Antiquorum, the world's leading watch auctioneer, realized an extraordinary result of SFr. 15,326,100 for its auction held this weekend in Geneva and entitled “Important Collector's Wristwatches, Pocket Watches, Clocks and Horological Tools”. The value of the wristwatches sold represented 136% of the respective low estimate.

The auction room at the Grand Hotel Kempinski was full. The successful auction saw very active telephone bidding, along with 330 registered internet bidders from around the world. Buyers from the United States were extremely competitive, along with bidding from Hong Kong, Switzerland, the United Arab Emirates, the Netherlands, Germany and China.



The star of the sale was Lot 730, “The Royal Presentation Mirror-Image Pair” of gold and painted on enamel and pearl-set, very rare pocket watch made circa 1815, which reached an outstanding amount of SFr. 2,608,000! A worldwide record never achieved for such a pair of pocket watches.

“The extraordinary results today indicate that the passion for rare and important watches continues despite worldwide economic concerns. Antiquorum once again has proven that its unique ability to focus only on watches and clocks continue to make us the definitive market maker and the foremost horological resource for both buyers and sellers,” said Robert Maron, Chairman, Antiquorum.

3Q Gold Demand Hits New Record at \$32B

Dollar demand for gold reached a record \$32 billion in the third quarter of 2008 as investors sought refuge from the global financial meltdown, according to the World Gold Council. Jewelry buyers returned to the marketplace, as the price of the metal fell in August. Tonnage demand rose 18 percent from the third quarter of 2007. Gold supplies fell nearly 10 percent, driven by a significant reduction in central bank sales. Investment demand doubled to \$10.7 billion and was the largest contributor to growth in the quarter. Consumer demand for gold jewelry rose 65 percent to \$18 billion, with the greatest activity coming from India. Consumer demand in India rose 31 percent to \$5 billion. Jewelry demand in the Middle East rose 47 percent to \$2.8 billion. Demand from the U.S. fell 9 percent in value and from the United Kingdom demand fell 5 percent in value.

Colored Diamond Retail Demand

The jewelry industry is seeing an interesting spark of interest to a new trend: Natural Color Diamonds. While the classic white diamond will always remain beautiful and traditional, there is a great movement towards the use of Natural Color Diamonds in fine jewelry.

Consumer perception of color diamonds was once limited to the pink, brown and yellow diamonds. However, over the past few years, the growing trend of Natural Color Diamonds has spread rapidly throughout the industry expanding the way that designers are incorporating natural color diamonds into their jewelry. Some of the amazing rare natural color stones used are blue, green, orange, purple, gray, red and black.



Consumers should be aware of the basic differences in purchasing a traditional white diamond versus a Natural Color Diamond. With the many "how-to" websites and books

that are dedicated to helping individuals purchase a diamond, a new set of rules applies to the 4 C's when making this exciting investment.

Color -- With Natural Color Diamonds, the first thing to look at is the color intensity, which ranges from Fancy Light - Fancy - Fancy Intense to Fancy Vivid. The rarity of a Natural Color Diamond will affect the price of the diamond. The more common colors such as gray, brown and yellow will generally have a lower cost than rarer Natural Color Diamonds. The colors that appear less frequently in nature such as pink, blue, green, purple and orange are more valuable and more expensive. The rarest and most expensive color is red.

Carat -- Within the Natural Color Diamond category, large gems are extremely rare. This makes larger fancy color diamonds that are found exponentially more expensive.

Clarity -- Unlike white diamonds, the clarity factor is less important in a Natural Colored Diamond. This is because inclusions within these diamonds are not as easily seen due to their natural color.



Cut -- Natural Color Diamonds are cut to reveal the most vivid color, unlike colorless diamonds which are cut to reveal maximum sparkle, for example, the "Round Brilliant" cut.

Because Natural Color Diamonds are so rare, they are a great investment for any jewelry investor, collector or anyone looking to buy! These Natural Color Diamonds allow a buyer to express their own personal style by selecting the color that is right for them, or someone special. Robert Lucien May, executive director of the NCDIA says, "A natural Color Diamond is a piece of forever with the excitement of color. It is the perfect gift of love, with a unique and colorful personality."

Inside the Auction Market – Rapaport News

Francois Curiel, Director of Christie's and head of international jewelry division

The auction on October 15 went well in a market that has known better days. All of the signs were that we would have a decent auction. An interesting price was \$485,000 per carat for a 5.60-carat, pear shaped fancy intense purplish pink pear shaped diamond that sold to Alisa Moussaieff. A good example is the rectangle cut 16.05 carat D, potentially flawless 16.05 carat, which sold for \$130,000 per carat. The good news is that in 2006 that stone would have sold for \$90,000 per carat, so we are still up from two years ago.

There was an enormous amount of wealth being redistributed in the world. Collectors from emerging markets appeared at every auction. There is only a certain number of 10 carat D-flawless in the market and a limited quantity of better quality stones. There was more buyers than sellers, the demand was greater than the supply and the prices went up.



In the Dubai auction, a suite of yellow diamond jewelry by Adler brought \$1.8 Million. So, there is definitely activity there. In addition to Amer Radwan, several important actors from the Middle East were also active in the October auction. On one hand, there is less liquidity, but on the other, interest rates are very low, which encourages collectors to buy stones. All over the world, governments are printing currency to protect their economies and reassure their citizens. So inflation is bound to appear again. Is it better to have money in your account or to own a diamond at the right price?

I have yet to meet someone who wishes to buy a diamond who does not want to make sure he/she does not lose money the day it is sold. Rather than investment, I would use the word diversification in a very portable international currency. Lets just say that big or small investors diversify their portfolios and some of them put a percentage of their wealth into diamonds. They are such a good hedge against inflation and easy to carry in ones pocket.

All countries and industries are intertwined so everyone will be affected by the financial situation. Looking to the future, I do think that clients from good old America and the emerging markets will continue to be active in the field.



There will probably not be a glut of diamonds coming into the market. At the moment, many collectors will hold onto their diamonds, probably thinking that they would probably rather own a diamond than cash, as it is now difficult to get a decent return from stocks and bonds.

Right now, 60 % of the sellers at auction are private collectors and as for the buyers, 40 % are from the trade and 60 % are private buyers. 70 % of the jewelry we sell is unsigned but certainly signed pieces can fetch premium prices.

As far as the market in the future, I expect this to pass. I don't know if it will be two or three years, but I passionately believe in the diamond business and the world and I can only see it developing and thriving in the future.

At the Hong Kong Auctions, significant prices have been paid and collectors continue to vie for works of high quality that represent good value. Emerald green is undeniably the color of the Asian markets.

In the Christie's jewels New York auction, five lots sold for over \$2 million dollars, and the sale garnered almost \$30 million in sales against an expected \$28 million. The auction was more than ever a barometer of the stability of the jewelry market and the long dependability of the gems as a storer of value. A large blue and pink stone sold for over \$6 million for the two stones, showing that top quality colored diamonds continue to achieve solid prices.

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