

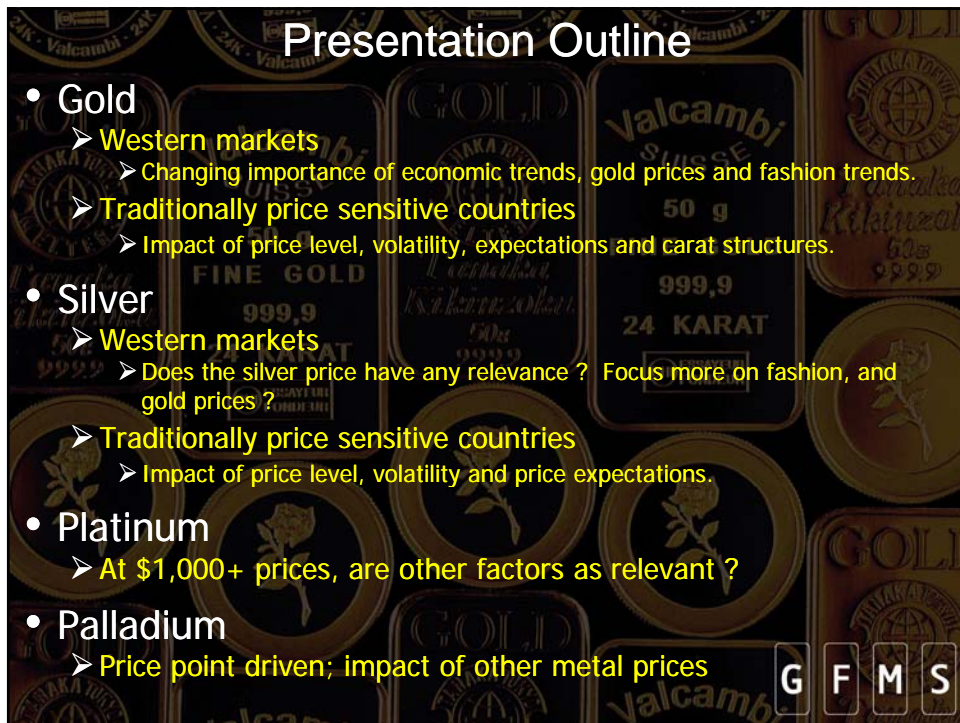
# GFMS

## The Impact of Prices on Jewellery Demand

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London, 17<sup>th</sup> September 2008

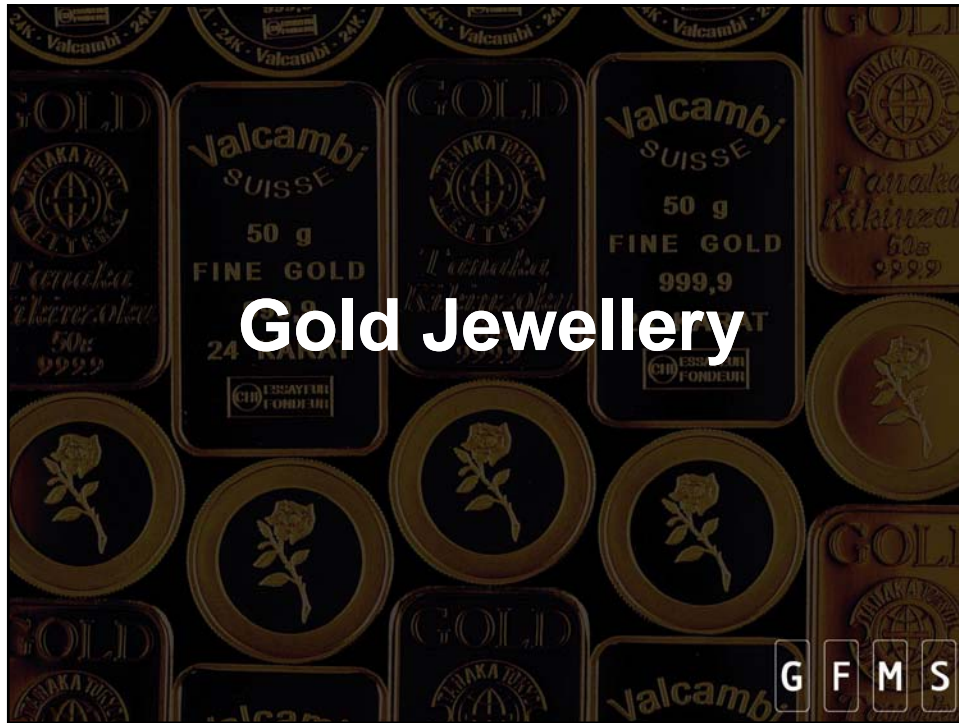
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# Presentation Outline

- Gold
  - Western markets
    - Changing importance of economic trends, gold prices and fashion trends.
  - Traditionally price sensitive countries
    - Impact of price level, volatility, expectations and carat structures.
- Silver
  - Western markets
    - Does the silver price have any relevance? Focus more on fashion, and gold prices?
  - Traditionally price sensitive countries
    - Impact of price level, volatility and price expectations.
- Platinum
  - At \$1,000+ prices, are other factors as relevant?
- Palladium
  - Price point driven; impact of other metal prices

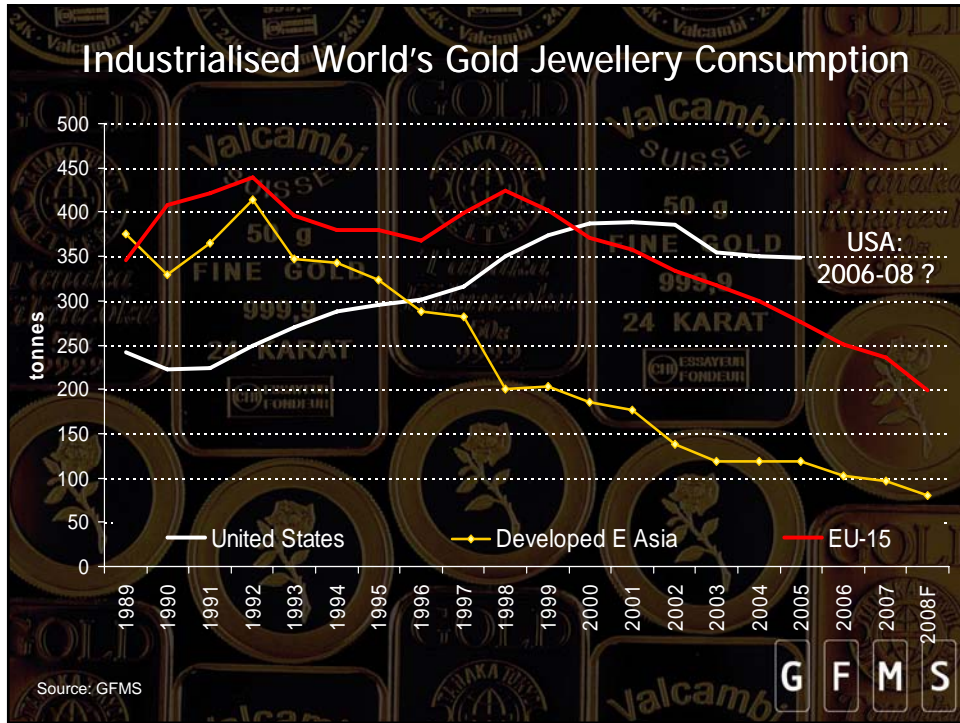
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# Gold Jewellery

- Western markets
  - Past 20 years economic growth has had a mixed impact on jewellery consumption.
  - Although disposable incomes have risen, this has been accompanied by growing competition for disposable income; consumer electronics and overseas holidays
  - Weakness in "Industrialised Asia" and the European Union has occurred in spite of a largely benign trend in gold prices.

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### Western Gold Jewellery Markets

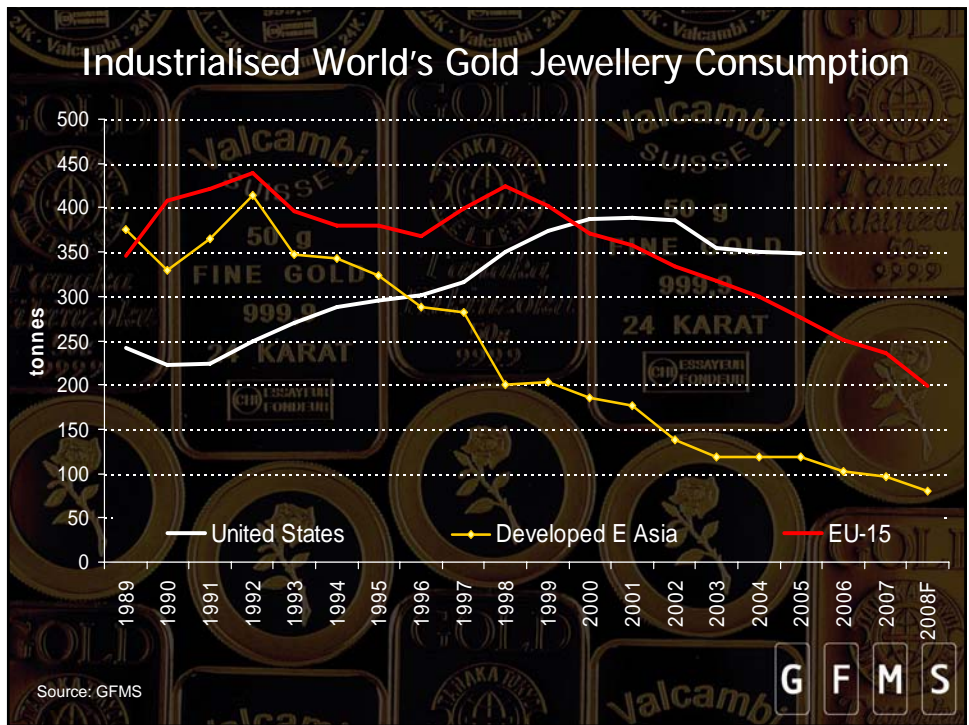
- Price of growing importance:
- US Case study, historical profile:
  - Typical western market: high markup, mainly low carat jewellery.
  - During the 1990s, economic prosperity drove demand.
  - '90s fashion favoured large, bold pieces, such as heavy, yellow, gold chain.

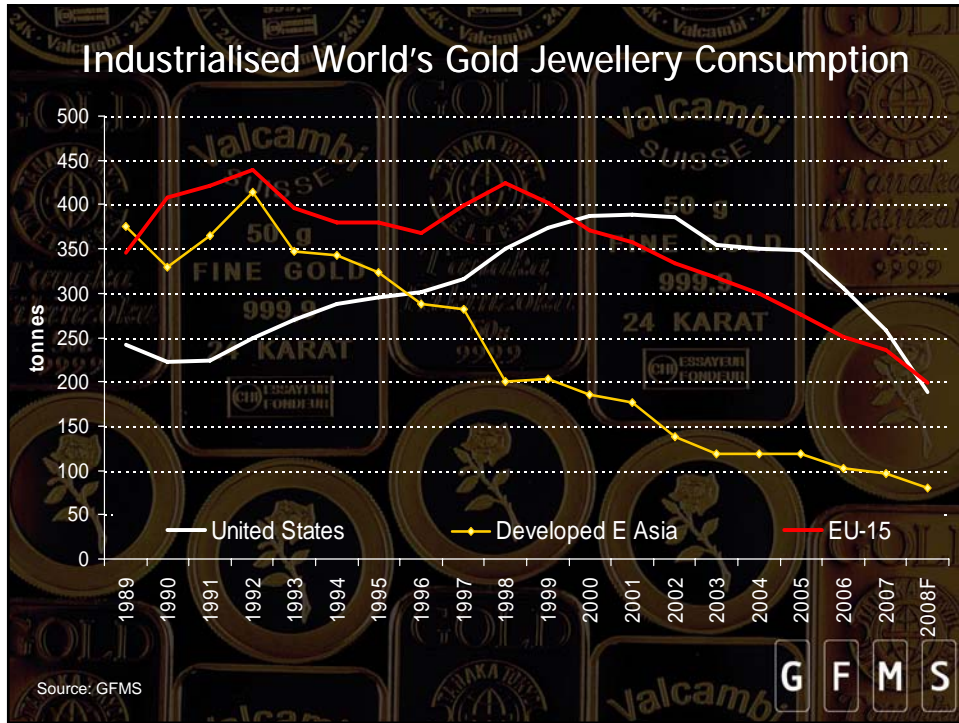
## The United States: Today

### A price sensitive market ?

- Retailer price rises unprecedented
  - A victim of its own success ?
    - Retail sales promotions, focus on discounting.
    - Retail price point all important.
- Shift away from gold a response to sharp upward prices moves
  - Lower gold weights.
  - Increasing popularity of stones.
  - Other precious metals: 2008, the year for silver ?
  - Non-precious metals, mixed materials, gaining a foothold.
- BUT perceived value still important;
  - Limits the impact of higher gold prices on product assortment; little 10-carat growth unlike the early 1980s.

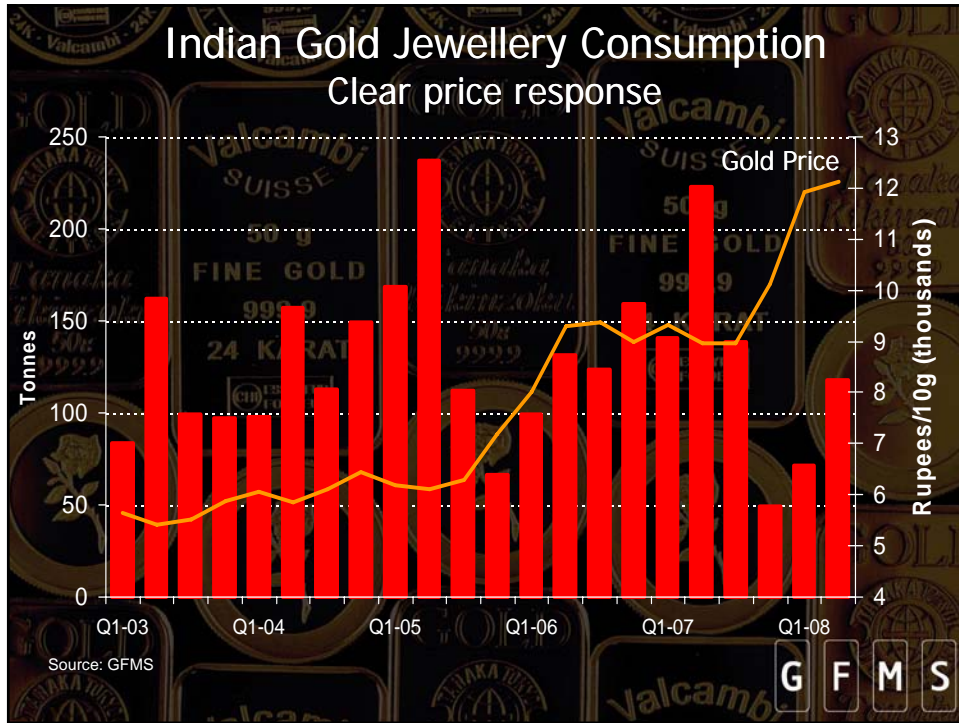
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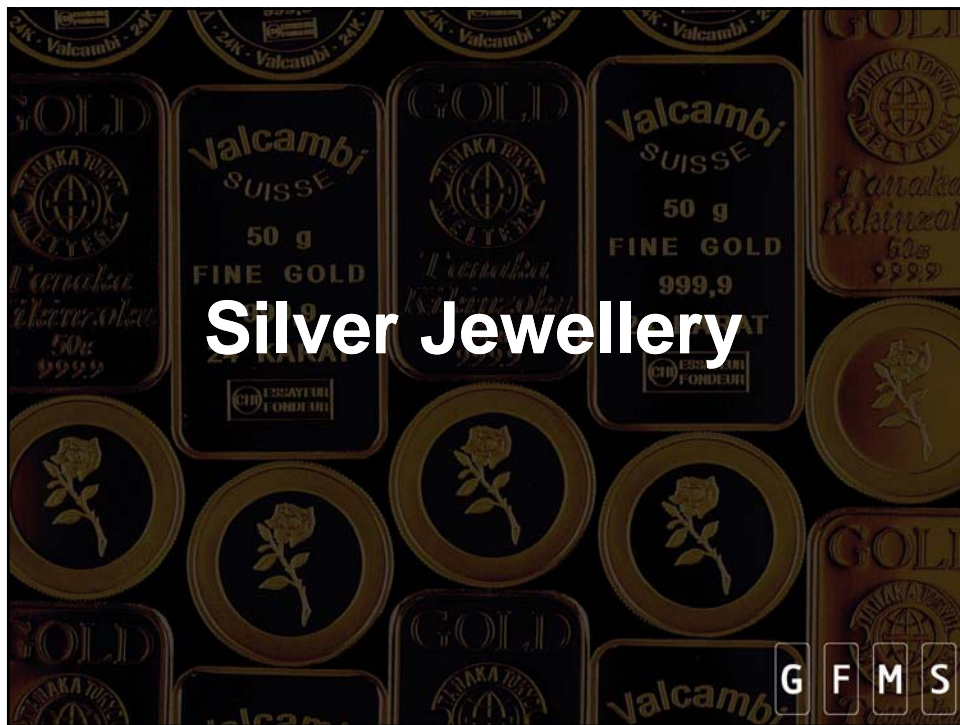
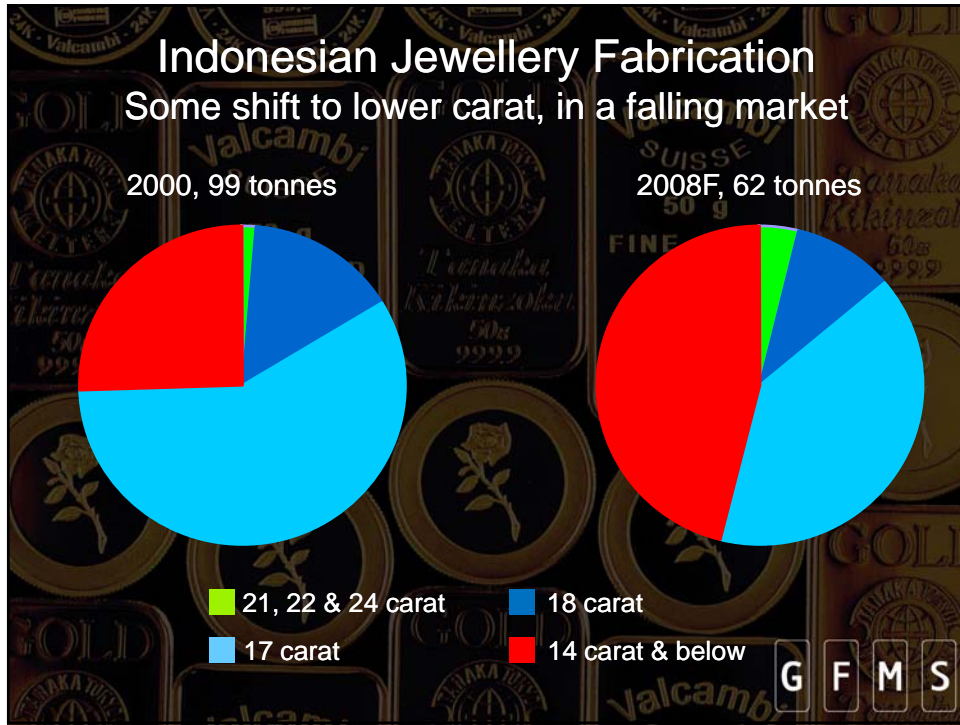


### Traditionally Price Sensitive Markets

- Price level
  - Absolute price level important, investment related buying can produce some buying in a rising market.
  - Rising economic prosperity can help acceptance of higher prices.
- Price Expectations
  - Expectations of price strength can produce a rise in consumer demand in the face of increasing prices.
  - During the first half of 2008, record prices in Egypt accompanied by a double-digit rise in jewellery consumption.
- Price volatility
  - Price volatility introduces uncertainty; buyers stay on the sidelines; can delay market acceptance of higher prices.
  - Price stability can partly offset impact of higher prices.



- ### Traditionally Price Sensitive Gold Jewellery Markets
- Price level
    - Absolute price level and price expectations important, especially when investment related buying concerned.
    - Rising economic prosperity can help acceptance of higher prices.
  - Price volatility
    - Price stability can partly offset impact of higher prices.
    - Price volatility introduces uncertainty; buyers stay on the sidelines; can delay market acceptance of higher prices.
  - Long term effects
    - At the margin, growth in lighter weights, design and stones; reflects trends seen in Western market.
    - Shift to lower caratage ? Success of 18-carat "K-gold" in China; Indonesia shows some sign of this.



## Silver Jewellery

- Western markets
  - Silver price of secondary importance; retail markups on the metal value far higher than for gold.
  - Key demand driver: fashion and brand focus.
  - Gold price a factor, leading to some substitution in favour of silver (or steel), but only important when gold prices are around historic highs.
  - Growth up until 2006 in western jewellery consumption, subsequent weakness unrelated to rise in silver prices.

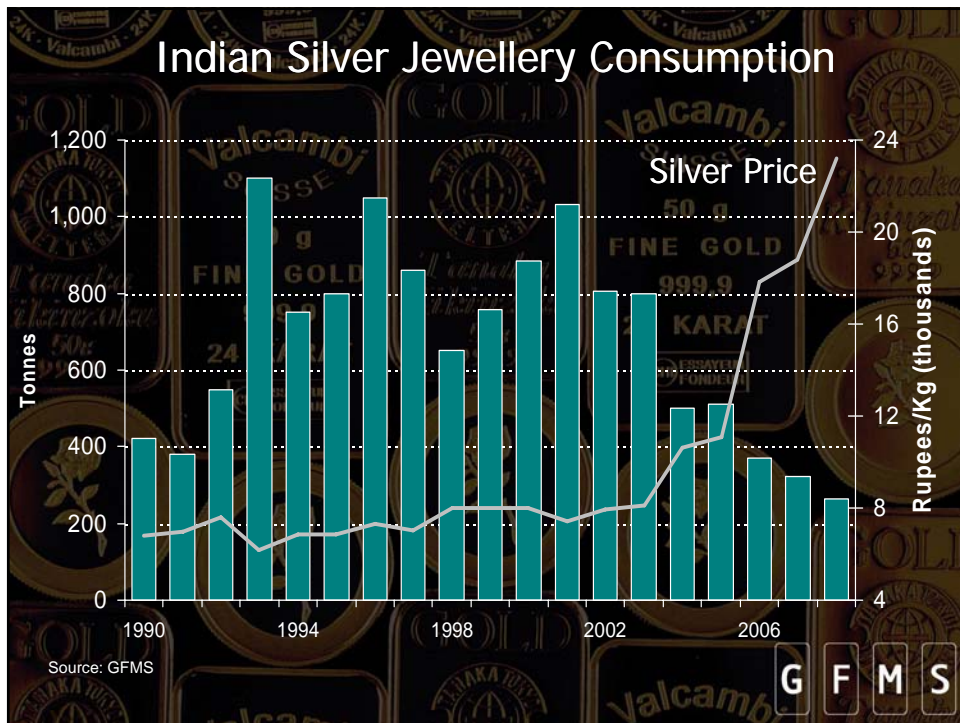
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## Silver Jewellery

- Western markets
  - Silver price of secondary importance; retail markups far higher than for gold.
  - Key demand driver: fashion and brand focus.
  - Gold price a factor, but only at historic highs.
- Traditionally price sensitive markets
  - Comparable with price sensitive country trends in gold, BUT investment-related buying of silver jewellery, outside India, limited.
  - Absolute price level, volatility and price expectations important, similar to gold.

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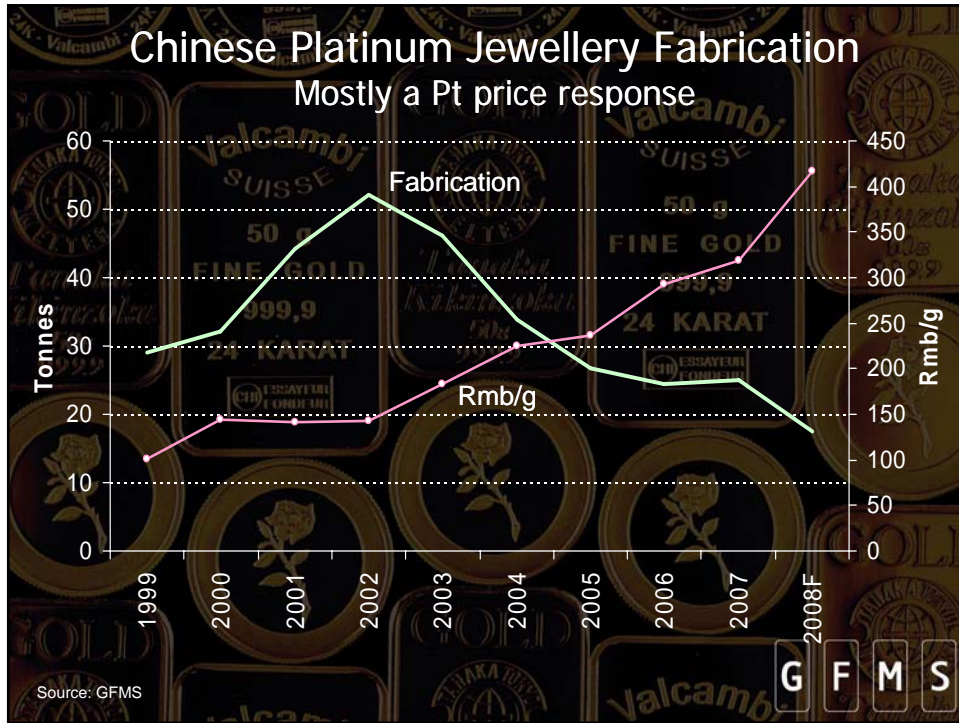
## Platinum Jewellery

- Non-price factor, marketing
  - Of key importance in driving Pt jewellery demand in several key markets, including the United States and China.
- Price impact: United States
  - Consumer resistance first emerged at around \$700, at +\$1,000 mid-tier demand eroded significantly
  - Fashion jewellery, first casualty, wedding market less price sensitive.
  - At higher Pt prices, high-end retail the only segment largely insulated.
  - 18-carat and high-end 14-carat gold benefited from the weakness in Pt demand.



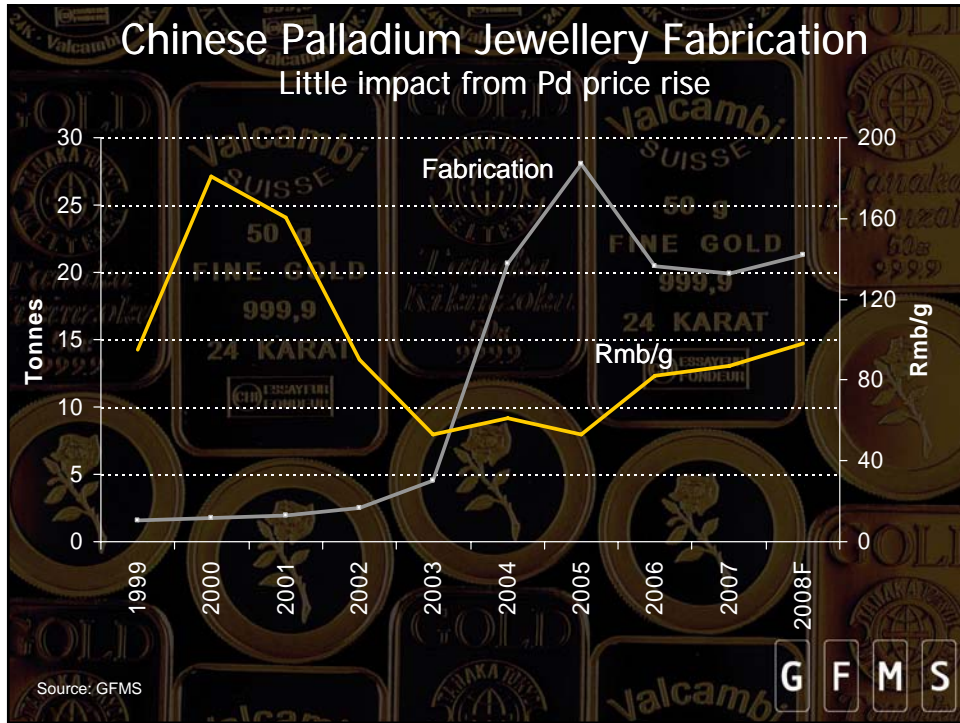
## Platinum Jewellery

- Non-price factor, marketing
  - Can offset some price-related weakness
- Price impact: USA
  - Consumer resistance first emerged at around \$700, at +\$1,000 mid-tier demand eroded significantly
  - Fashion jewellery, first casualty, wedding market far less price sensitive.
  - At higher Pt prices, high-end retail the only segment largely insulated.
- China
  - Resistance to higher prices, as increases in Pt immediately passed on to consumers; opportunity for Pd and white gold.

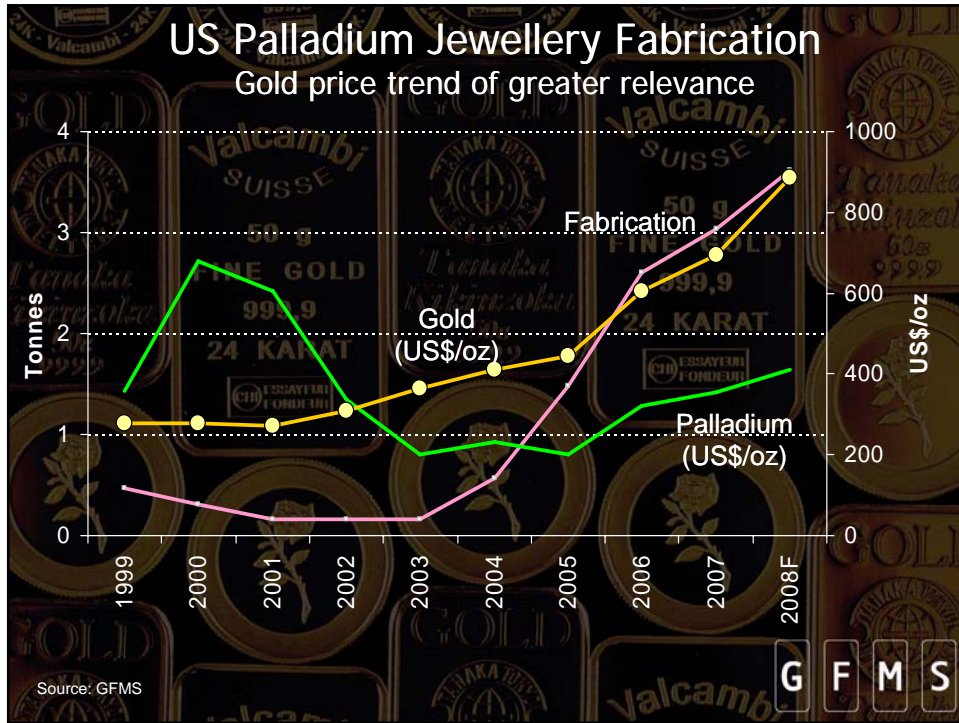


### Palladium Jewellery

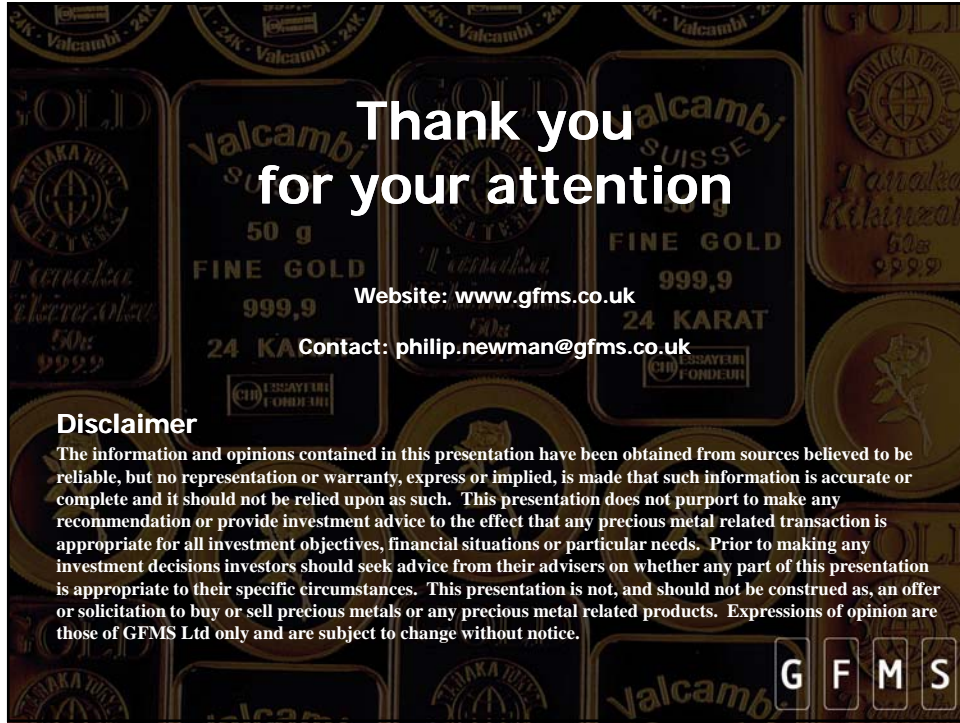
- New entrant of pure palladium jewellery
- Benefited from rising retail price points of both platinum and gold
- China
  - Accounts for the largest share of global Pd jewellery demand
  - At current levels, palladium price less relevant; platinum prices and marketing key to future success



- ### Palladium Jewellery
- Relatively new entrant: pure palladium jewellery.
  - Benefited from rising retail price points of both platinum and gold.
  - China
    - Accounts for the largest share of global Pd jewellery demand.
    - At current levels, palladium price less relevant; platinum prices and marketing key to future success.
  - United States
    - Absolute total of palladium jewellery sold still modest.
    - Gold price developments more important than the trend in PGM prices.



- ## Conclusions
- **Gold**
    - Western markets have responded to higher prices by shifting to less gold containing jewellery products.
    - Traditionally price sensitive countries affected by price level, price expectations and volatility.
  - **Silver**
    - Western markets little affected by silver prices, gold price developments can, in some markets, be of greater importance.
    - Traditionally price sensitive centres displaying similar behaviour to that seen in gold.
  - **Platinum**
    - Significant reaction to higher Pt prices.
  - **Palladium**
    - Opportunities for palladium jewellery arising from high gold & platinum prices.



**Thank you  
for your attention**

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