

WP
WHITE PINE
WHOLESALE LLC

THE RECYCLED DIAMOND & DIAMOND JEWELRY



Market Report | Q2 2022

COMPILED BY WHITE PINE WHOLESALE LLC

FOREWORD

By **Benjamin Burne**, CEO, White Pine Wholesale LLC

Moving forward under dark clouds

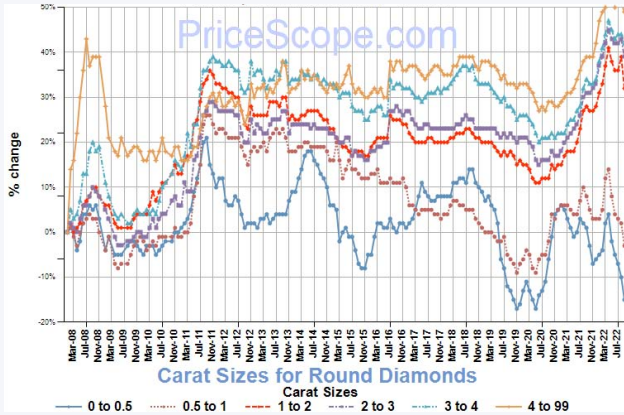
Reading the news is a scary pastime. There is a constant cycle of bad news and extreme claims. If I was looking to sell a blog I would title it "Diamond Industry under threat, as dark clouds approach!". However, I'm not looking to sell a blog and the way that it looks to me, is that we may be through the worst of the diamond price downturn. This view is not guaranteed and a negative viewpoint is usually perceived as being a more intelligent viewpoint, so it is a somewhat risky opinion. However, it is, in my view, that the most likely scenario at this time, (maybe a 52% chance), is that we are through the worst of the current downturn and that diamond prices will pick up from the end of September through to the first quarter of next year.

My reasoning here is that the industry seems remarkably resilient. From the point of view of a natural diamond seller, the attack by lab-grown producers on the natural diamond business actually strengthens the majority of my customers. Independent jewelers who are for the most part selling both lab-grown and natural. This is a very uncertain time for unprofitable, growth companies as raising the new capital that they need to fund their growth will be difficult and expensive. It will also be difficult for any highly leveraged companies. However, the majority of the industry does not fit into either of these two groups and are well positioned to ride out this current slowdown in a relatively healthy way.

I hope that you enjoy our quarterly market report and its insights.

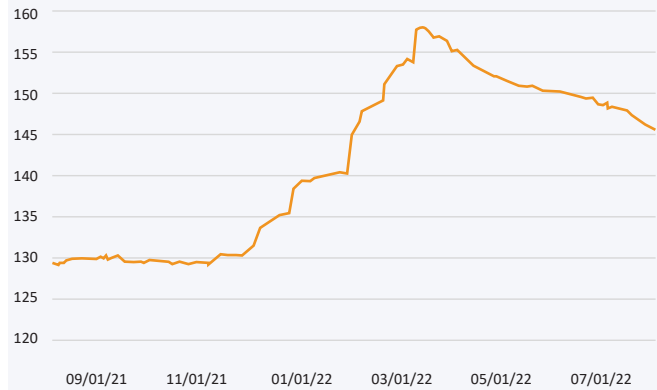
MARKET PRICE MOVEMENTS

% change of the average carat price of D-I colour and VVS2-SI2 on PriceScope.com since 1/1/2008 - 7/1/2022

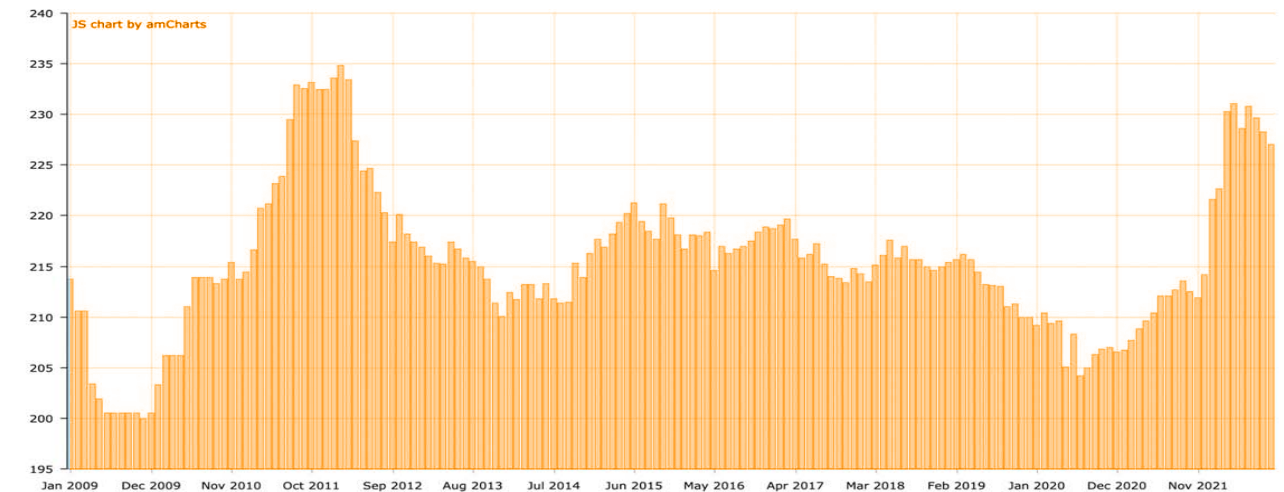


Source: Polished price chart sourced from pricescope

IDEX Online Polished Price Index



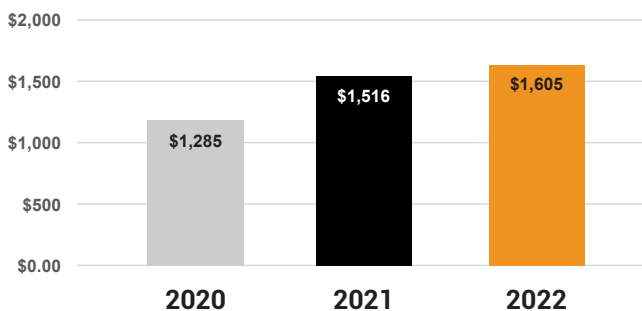
IDEX Polished Diamond Trends



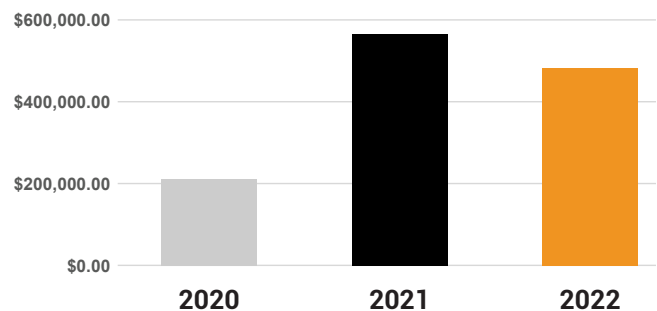
Updated **Thursday, September 1, 2022**, diamond prices moved **LOWER** by an average of 1.3% in August 2022. The average price per carat of all diamonds in our database was \$12,665.44, down from \$12,835.09 a month ago.

HISTORIC COMPARISONS

Q2 Average Diamond Order Value



Q2 Volume Comparison

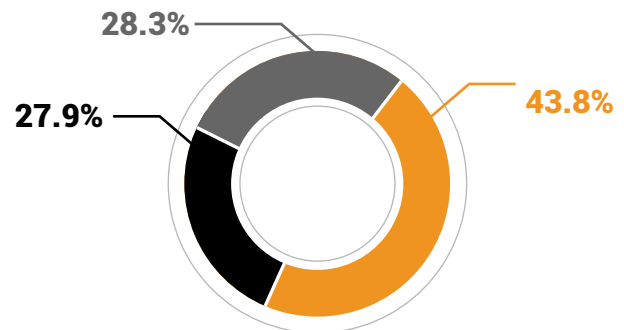


MELEE SALES

 2.5mm is very popular right now

 Shift from VS to SI1 - potentially to combat price increases and maintain price-points

 1.2mm and down is very strong



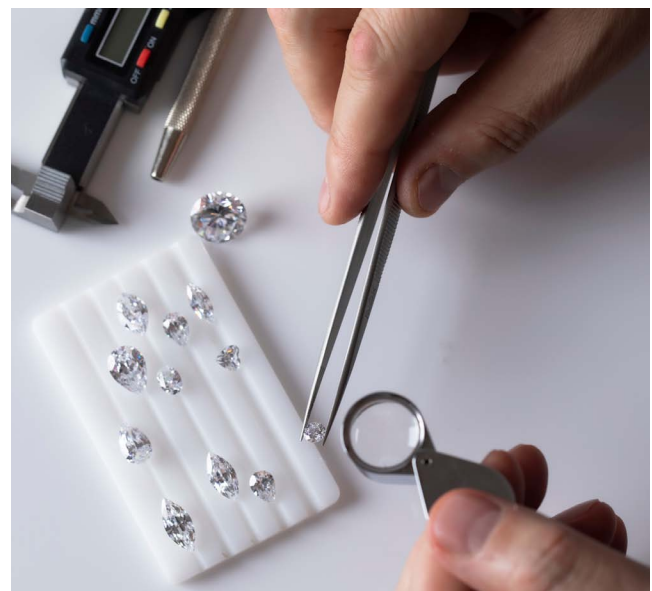
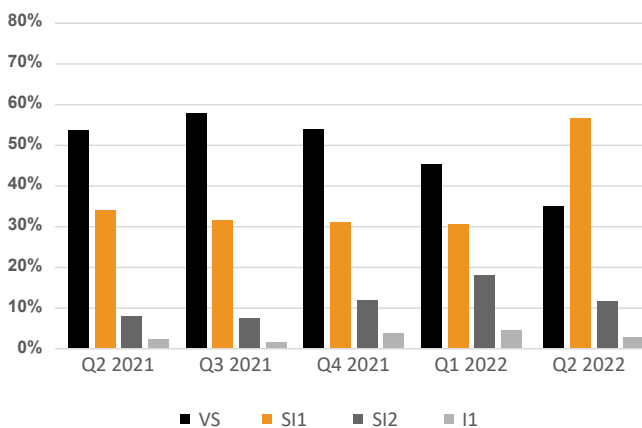
Q2 Melee Size Breakdown

- 1.3mm-2.6mm(+2.5-11)
- 2.7mm-3.5mm (+11 - 15)
- .7mm-1.2mm (-2.5)

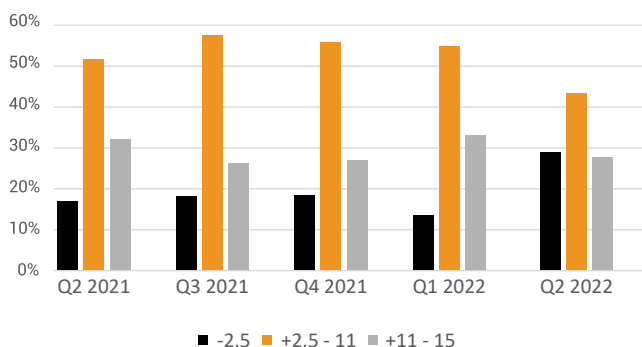


CONCLUSION: Melee sales are strong, even in a slower market - Melee is like fuel for jewelers, it is needed for custom design and is a priority purchase.

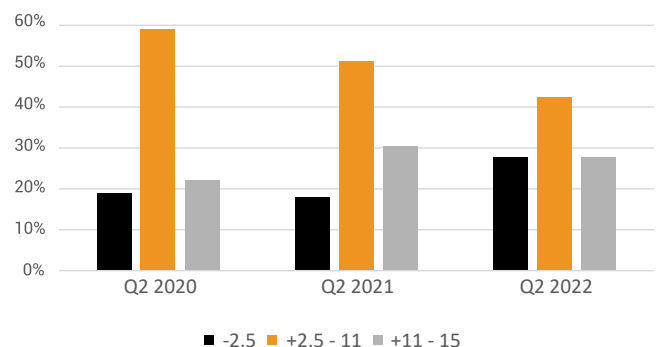
1 Year Melee Quality Mix Comparison



1 Year Melee Sieve Size Breakdown Comparison



Q2 Quarterly Melee Sieve Sizes Comparison




POINTERS SALES

 SI2 and I1 sales are up over last year as jewelers try to maintain price-points

 Quarters and fifths are a bigger category than thirds in uncertified diamonds

 Specific mm sizes are in demand leaving dealers with off sizes

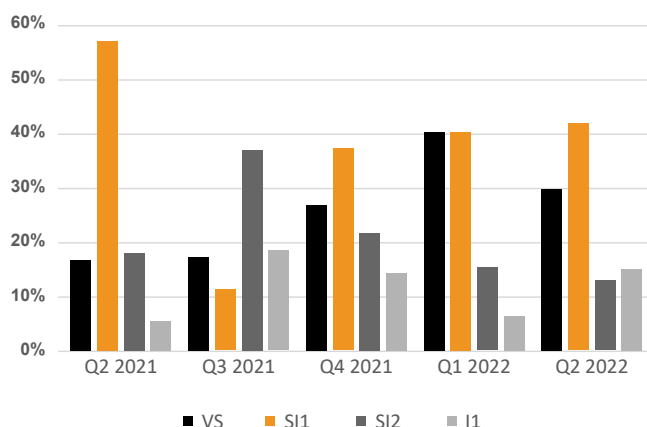
 **CONCLUSION:** Gross pointer sales remain steady despite a shift to lower quality and also some loss of sales to lab grown.



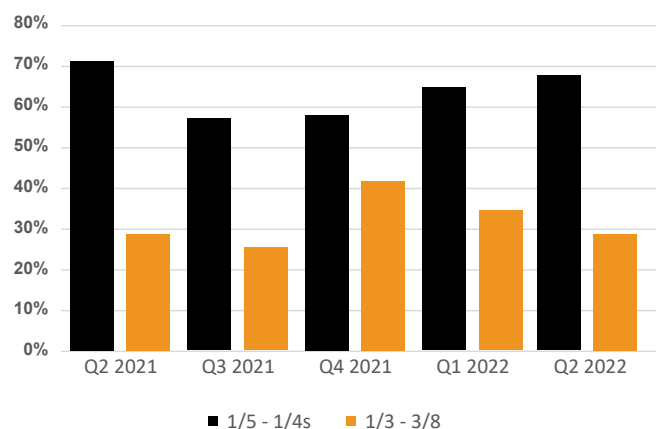
Q2 2022 Pointers Size Breakdown

■ 1/5 - 1/4s ■ 1/3 - 3/8s

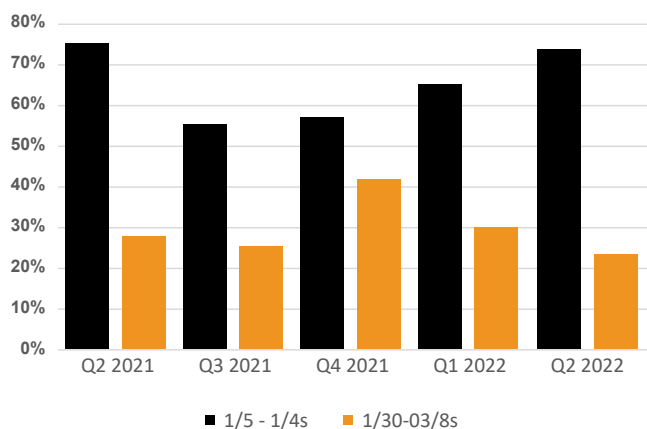
1 Year Pointers Quality Mix Comparison



1 Year Comparison Of Pointers Sales By Size



1 Year Comparison Of Pointers Sales By Size In Dollars



RETAIL INSIGHTS

1 Unconventional Styles Are 'In'

Pear shapes are very much in style, second behind rounds, oval sales are fading while the marquise is making a comeback for engagement ring sales. Having custom rings that are slightly tilted are in style, and stones with points (i.e pears and marquise) are in demand and driving sales.



2 Dangles In Demand

Products that dangle off the ear or that climb up the ear are very popular. For example, climber earrings, or leaf motif earrings that curve up the ear.

3 Bold Is Better

Big unusual vibrant colored gemstones set in rings are in style. Gemstones like tourmaline, garnets, and aquas are all desirable in the ring category, particularly in fancy shapes and larger carat weights.



4 Stackable Sells

Any light weight necklaces that can be worn at multiple levels with each other are very popular. Items like solitaire bezel or prong set pendants, diamonds by the yard, or curved or bar necklaces are all selling well. Any stackable rings are also in style, they don't even have to be a matching set. Asymmetrical stacking bands with rounds, fancy shapes, or gemstones are hugely popular.

SUSTAINABILITY



Recycled Diamonds Vs Lab-Grown Which Are More Sustainable?

The lab-grown diamond category has exploded on the consumer market in the last decade, particularly the past few years, positioning itself as an eco-friendly, sustainable alternative to natural diamonds.

But are lab-grown diamonds a more sustainable diamond option than using recycled natural diamonds?

Lab-grown diamond producers market their products as “less of a threat” to the environment than natural diamond mining. They point to the fact that their processes use less water, emit fewer greenhouse gasses, and do not disrupt the earth to bring a diamond to market, as compared to mining diamonds.

Yet they speak little of the enormous energy needed to grow diamonds. Diamonds are grown in factories using High Pressure High Temperature (HPHT) or Chemical Vapor Deposition (CVD) processes. HPHT produces more diamonds per cycle, CVD allows the grower to better control quality, which is especially important for diamonds used in jewelry.

Both processes require uninterrupted power sources for their production cycles that could take anywhere from 30 minutes to several weeks, John Hassard, owner of Edgcombe Abrasives, told Jewellery Business magazine in February 2019. The company supplies industrial equipment using lab-grown diamonds.

A March 29, 2019 article in JCK online, “Just How Eco-Friendly Are Lab-Created Diamonds,” reports that the “most efficient” diamond growers use 250 kWh per carat, which is equivalent to the amount of electricity the average U.S. household uses in eight days or the electricity to fully charge a Tesla two-and-a-half times. But most producers use 750 kWh per carat.

The article also reports that most lab-grown diamonds come from places where renewable energy is rare. In China, which tends to produce HPHT diamonds, at least half of the energy comes from coal. In India, the proportion of energy from coal is even greater. Few producers are certified sustainable or carbon-neutral.

By recycling diamonds, the jewelry industry allows the flow of second-hand natural diamonds back into meaningful jewelry production, averting the need for new mining. This saves energy, conserves natural resources, and reduces additional pollution expended to extract a diamond from the ground or create one in a lab.

We also see that 25% to 30% of natural diamonds that are recycled need no remanufacturing to repurpose in the market. But for those that are recut, the process requires far less energy than mining or growing diamonds.

With natural diamond mining expected to decline — as several mines supplying 29 million carats annually will be fully depleted by 2030, cites Bain & Co., and global economic and social instabilities challenge supply — recycled diamonds present a sustainable source in more ways than one.

LOOKING AHEAD

By **Benjamin Burne**, CEO, White Pine Wholesale LLC

Industry Trends

The industry and indeed the economy feels like it is walking along a knife edge and could easily plunge into the abyss at any given moment. Many scenarios could be disastrous. Runaway inflation could be untamable without severe monetary action by the Fed causing a deep recession. A war in Ukraine could spread into other countries and areas affecting more and more supply chains that causes a deep recession. Russia could use its commodity power to cut energy supplies to Europe creating a deep recession in the bloc that spreads through the globe. A war with China over Taiwan could curb chip production in Taiwan throwing the world and the US into a huge recession of gigantic proportions.

At the industry level, 2 areas continue to dominate current thinking

- **Lab grown** – Lab grown diamonds are growing (excuse the pun) very rapidly indeed. Everyday we get called by lab grown diamond sellers pitching their stock, the prices seem to keep coming down. We now see unnegotiated prices of 93.5% back of Rap – down another 30% from before. Where will this end? When will consumers realize en mass that they are being sold something that is worth a fraction of natural? Will consumers care? Will there be outrage or will the 60% margins that retailers have enjoyed continue indefinitely.
- **Russia** – Russian diamonds are potentially conflict diamonds. Will the industry accept that? Or will it circumvent the sanctions, totally legally, through India. This is no easy situation though, a large percentage of the world's supply comes from Russia and it can not be replaced by other sources of natural. If the US or India seriously sanctioned Russian diamonds, factories would close, jobs would be lost, people's lives and businesses disrupted. Why should diamond companies in different countries be punished for someone else's decisions? In addition, if we are sanctioning goods made with Russian diamonds, surely we should sanction goods made with Russian energy, i.e. everything coming out of Europe. It seems unlikely to me that the government will sanction diamonds cut and polished in India due to equity concerns. So, then the future of Russian diamonds will be determined by the trade, by its response and by consumers and their demands. We will see how that plays out.

Diamond Prices

Natural diamond prices started to decline in the second quarter and are probably now off 10-15% from their peak in the first quarter of the year. As interest rates are raised, expensive diamonds become less affordable, combine this with a very negative news cycle and a hawkish Fed and it is highly likely that diamond demand will drop and therefore prices will fall. Adding to that is the high inventory levels at wholesalers and producers. putting downward pressure on prices.

However, I believe we are likely to reach a short term floor in natural diamond prices relatively soon. My reasoning being that retail remains relatively strong, with reasonable inventory levels and we are about to reach the seasonal stock-up in the US which should alleviate some of the downward pressure on prices. This floor may be short lived, we'll have to wait and see to know that.

*All forward-looking statements are management's present expectations of **future events** and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.*

