Q2 jewellery demand down 2% to 510.3t; H1 virtually unchanged at 1,031.2t.

- Indian consumers were confronted with a high local gold price and seasonal challenges
- Economic factors, and a new VAT regime in some markets hit Middle Eastern demand
- Chinese consumers responded well to industry focus on innovation and branding

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<th>Tonnes</th>
<th>Q2’17</th>
<th>Q2’18</th>
<th>Y-o-y change</th>
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<tbody>
<tr>
<td>World total</td>
<td>519.4</td>
<td>510.3</td>
<td>-2%</td>
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<tr>
<td>India</td>
<td>161.0</td>
<td>147.9</td>
<td>-8%</td>
</tr>
<tr>
<td>China</td>
<td>137.6</td>
<td>144.9</td>
<td>5%</td>
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Challenging conditions in a few markets were the main reason for the y-o-y global decline in Q2 gold jewellery demand. India and the Middle East were the main drivers of the decline, although weakness in those markets was partly offset by growth in China and the US. Comparing H1 2018 with H1 2017, demand was little changed: 1,031.2t compared with 1035.8t.

It may seem surprising that gold jewellery demand failed to perk up in response to the relatively sharp decline in the US$ gold price over the quarter. But currency weakness in many markets meant that local consumers did not benefit from similar gold price reductions; instead they were faced with steady – or even higher – prices.

**Stronger dollar drove the divergence between US$ gold price and local currency prices**

![Graph showing divergence between US$ gold price and local currency prices]

<table>
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<th>Index level</th>
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<tr>
<td>April 2018</td>
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<tr>
<td>May 2018</td>
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<td>June 2018</td>
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Note: Index 02/04/2018 = 100
Source: ICE Benchmark Administration; Datastream; World Gold Council
Indian gold demand was down from a strong Q2’17, falling 8% to 147.9t due to high local prices and seasonal factors, but was in line with the long-term average. The y-o-y drop in demand was magnified by the jump in demand seen in Q2 last year when consumers rushed to make gold purchases before GST was implemented on 1 July. In a longer-term context, Indian jewellery demand was relatively healthy, just 1% below the five-year quarterly average of 149.1t and 3% higher than average Q2 demand over the preceding ten years (144.1t).

Demand was boosted in April by Akshaya Tritiya and the wedding season, before fizzling out. India’s gold trade reported brisk demand during the festival, despite relatively high local gold prices at that time. And wedding-related purchases supported demand early in the quarter. This positive effect soon wore off however, as the rupee continued to weaken against the US$, keeping the domestic gold price elevated.

Adhik Maas – an inauspicious time for Hindus – was also a contributing factor to the y-o-y decline. Adhik Maas is an additional month in the Hindu calendar, which occurs every 30-36 months in order to align the lunar and solar calendars. It is considered an inauspicious time for events such as weddings, so tends to have a dampening effect on gold jewellery demand. The start of Adhik Maas in mid-May coincided with the local gold price moving quite sharply into discount versus the US$ price.

The imminent monsoon kept demand subdued towards the end of the quarter. Although the inauspicious Adhik Maas period ended on 13 June, it was rapidly followed by the onset of monsoon preparations among rural communities, aided by government attempts to boost farm incomes (such as loan waivers and raising Minimum Support Prices on certain crops). Farming communities were heavily involved in sowing crops ready for the monsoon – often a time during which gold is used as collateral for loans to buy seed rather than to purchase gold jewellery.
China

Jewellery demand extended its recent recovery, gaining 5% to 144.9t in Q2. Y-t-d demand reached a three-year high of 332.9t.

The market followed familiar themes: consumers increasingly prefer innovative, creatively-designed pieces over traditional jewellery. While traditional, plain 24-carat jewellery continues to dominate the market – accounting for around 70% of gold jewellery demand – the shift towards alternative, newer products continued. 18ct, 22ct, 3D hard gold and premium higher-carat products, such as 9999s (99.99% pure gold) jewellery, performed well.

A greater emphasis on service and branding is paying dividends among increasingly discerning consumers. The fledgling trend towards more innovative promotion, marketing and customer service gathered pace in Q2, with positive results. Retailers and manufacturers are investing much-needed resources into more effectively targeting and engaging key younger audiences. Jeweller CHJ Jewellery, for example, partnered exclusively with a popular TV series ‘Women in Beijing’, which follows the lives of young ambitious women living in big cities. Research conducted by Deloitte in 2017 mirrors the results of our own 2016 consumer research programme, finding that millennials are less interested in heritage and tradition than in buying something unique and ‘different’.1, 2 The industry is alert to this trend and as it continues to address the need for more tailored, effective promotion and marketing, jewellery demand should benefit.

Middle East & Turkey

Jewellery demand across Middle Eastern markets continued to struggle against a challenging economic background. Iran, unsurprisingly, posted the region’s biggest Q2 loss. Demand fell 35% to 6.6t – the lowest quarter in our historical data series. Faced with renewed economic sanctions and a collapsing currency, which caused a huge rise in the local price, demand for gold jewellery slumped. Instead demand was channelled into gold investment products (which, unlike gold jewellery, are VAT-exempt), pushing demand for bars and coins to a four-year high.

Elsewhere in the region, y-o-y comparisons in the UAE and Saudi Arabia (down 24% and 10% respectively) suffered due to the impact of VAT, introduced at the beginning of the year. Total H1 demand in Saudi Arabia has halved in the last three years: 18.0t in H1 2018 compared with 36.2t in H1 2015. The continued push for localisation – favouring domestic employees over expat workers – has also undermined demand, given that many of the latter are Indians with ingrained gold-buying habits.

Egypt was again the only market to see improvement, up 10% to 5.1t. This y-o-y gain is however, somewhat misleading as the comparison is against a record low quarter: demand was just 4.7t in Q2 2017. Nonetheless, the domestic environment is encouraging: a US$2bn IMF loan was approved after the Egyptian government implemented a programme of reform and investment, contributing to economic growth. The currency has stabilised but remains relatively weak, which should continue to support the export sector.

The 10% y-o-y fall in jewellery demand in Turkey was a response to the very high and volatile local gold price at a time of political tension. Jewellery demand of 10t was the second-lowest Q2 in our series for Turkey. The value of the Turkish lira plunged as global investors reacted to comments by President Erdogan that called into question the independence of the central bank in setting interest rates. This, in turn, caused the local price of gold to skyrocket during Q2. Budget-conscious consumers – already uneasy over the faltering economic environment and somewhat controversial presidential election – put jewellery buying plans on hold.

1 Deloitte, Bling it on, What makes a millennial spend more?, 2017

www.gold.org/research/china-jewellery-market-new-perspectives
Jewellery

The West

US jewellery demand continued along its recent path of steady growth: demand grew 5% to a ten-year Q2 high of 28.3t. Y-t-d demand was equally buoyant: at 51.9t gold jewellery demand saw the strongest H1 total since 2008. Demand benefited from the positive domestic economic environment: rising wages, lower taxes boosting household incomes, unemployment at historic lows and heightened consumer confidence. Department stores report good jewellery sales (with some reportedly reallocating store space back to gold from silver) and the high-end of the market is performing well.

Europe saw a continuation of recent modest growth. A marginal uptick in Q2 demand (14.5t from 14.4t) was mirrored in the H1 total (27.4t from 27.2t). Demand was supported by the relatively stable euro gold price and a subdued reaction from consumers to geopolitical uncertainties, although in the UK consumers remained hesitant in the face of Brexit uncertainty. Italy was again the weak spot, with demand affected by drawn-out political wrangling after the general election in March. But the top end of the market remains resilient, helping to contain losses.

Other Asia

Growth in Indonesia and Vietnam more than compensated for weakness elsewhere in the region. Demand in Indonesia reached a three-year high: Q2 demand grew 10% to 11.2t. Consumers, buoyed by healthy domestic economic growth, responded well to gold sales promotions. It was a similar picture in Vietnam, where a 14% y-o-y rise in Q2 demand contributed to the strongest H1 since 2008 (9.5t vs 9.9t in 2008). Continued Vietnamese economic growth was reflected in positivity among jewellery consumers. Jewellery wholesalers and retailers expanded their sales networks to capitalise on this upbeat mood.

The mood in South Korea’s jewellery market was relatively muted: demand slipped to a five-year low of 4.9t as consumer sentiment was subdued by increasing signs of a global trade war, despite the easing of political tensions on the Peninsula.

Strongest Q2 for ten years in US jewellery demand

Source: Metals Focus; GFMS, Thomson Reuters; World Gold Council