Preamble
Good morning and welcome, ladies and gentlemen, and congratulations for turning up. You have done a great job in coming here this morning after a hard night out in Wanchai, I am sure, for some of you at least. This morning’s session is devoted to jewellery. Jewellery, in recent years, has been a subject, I think, somewhat neglected in terms of gold-market analysis. Everyone wants to talk about investment, about quantitative easing (QE) and, to some extent, these days, also about central-bank activity, but perhaps they forget that well over half the gold that has ever been mined is in jewellery form. They also forget that jewellery still accounts for the best part of 50% of gold demand. Jewellery is moreover an important source of supply to the gold market: just look at how much scrap is coming back these days. Even in an investment-driven market, jewellery plays a key role in supporting a higher and higher floor for the gold price. When the price is under pressure, jewellery very often keeps it from falling out of bed entirely. Furthermore, when – not if – investor demand inevitably wanes, the state of the jewellery market will become even more critical to those who care about gold.

Overview
Today, we are fortunate to have a very distinguished group of speakers. For instance:

- We have representatives of the two largest retail chains in the world joining us on the platform today. Our experts are going to address some very important topics related to the global jewellery market. We are going to hear about trends in the two largest markets: China and India. These markets are, these days, responsible for close to two-thirds of global jewellery demand.

- We are going to learn about scrap supply. Scrap, at times – at least on a quarterly basis – has rivalled mine production as a source of supply of gold to the market.

- And, finally, we are going to enter into that hot topic of responsible gold and supply-chain due diligence.

Market Review
Before then, however, I would just like to set the scene with a quick review of the current state of play and where we have come from in the jewellery market. If you look at jewellery over the last decade or so, the trend has been lower. Jewellery’s share of demand has fallen from close to 80% to a round 50% of demand this year. Not surprisingly, we have, conversely, seen a massive increase in world investment. It is not surprising therefore, that investment is the hottest topic of all. In tonnage terms, however, jewellery is still on a par with investment at the global level.

It is interesting too to not just look at jewellery demand in tonnage terms but also to look at the indicative value of the gold contained in jewellery. Essentially, over the life of the gold bull market, jewellery demand has managed to climb ever higher in value terms, with the singular exception of recession-affected 2009. I would argue that this has provided important support for the gold price and for a higher and higher floor for the gold price.

That demand has certainly not come from the developed world. If we look at the demand in the US and Europe, we see a collapse in carat-jewellery demand over this period. Fortunately for the market, however, elsewhere – which effectively means China and India – the news has been a lot more positive. These two markets have, to a very significant extent, managed to shake off the impacts of higher local gold prices, and prosperity-driven increases in demand have, instead, been the norm.

I mentioned a moment ago the subject of scrap. The news from the market here is, obviously, a little less positive, unless you are a recycler, that is. Scrap supply has risen to such a point that it approximates now the level of jewellery fabrication. Indeed, what this means for some countries is that we have negative jewellery demand; in other words, jewellery scrap supply in given countries is
now higher than new jewellery demand on an annual basis, and there are several countries that were formerly important sources of demand, such as the major European countries and the US, where that is the ruling situation.

Other Precious Metals

So far, I have just looked at gold-jewellery demand, but we should remember that the other three precious metals also feature, to a greater or lesser extent, and jewellery is an important component of their demand side. In terms of the global jewellery market, on a volume basis, silver is the dominant metal – no surprise there. Close to three quarters of all precious metals used in jewellery is silver. Gold chips in with 26%. Between the two, therefore, 99% of all jewellery demand, in volume terms at least, comes from gold and silver. A very small contribution comes from platinum and palladium. Looking at the raw-material value, it is a rather different picture. Gold accounts for 92% of all jewellery demand in value terms; silver drops back to just 5%, and platinum grows to about 3% – on the basis of our forecast numbers for 2012.

In terms of the course of activity in the silver and platinum-jewellery markets, we see rather different trends. In the case of silver, demand has held up exceptionally well, given the scale of the price increases that the market has had to absorb. At the margin, this perhaps reflects some defection from gold to lower-cost silver. In platinum, demand, until recently, has been on a very significant downward trend. Even recently, we have seen disappointing results from the key Chinese jewellery market for platinum. Nevertheless, it does seem as if we have come off the floor and perhaps will see slightly better prospects for platinum, particularly in China, in the years ahead.

Introductions

That is enough from me. I would now like to hand over to our first speaker today, who will be speaking on the subject of changing trends in the Chinese jewellery market. Mr Kent Wong is a managing Director at Chow Tai Fook Jewellery Group Limited, the quoted and enormous retailer of jewellery in China. Chow Tai Fook has around 1,600 stores in mainland China and continues to expands rapidly on the mainland. Kent joined Chow Tai Fook in 1977 and has been responsible for developing much of the group’s spectacular advance in the mainland market over recent years.