

Silver Jewelry Report

Prepared for The Silver Institute



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Chapter 1

- Global silver jewelry fabrication hit record highs in 2015 and 2018, but has since fallen noticeably.
- In 2020, total offtake is estimated to drop by 46.6Moz (1,450t), to 153.6Moz (4,778t) largely because of the effects of the pandemic.
- The largest jewelry fabricator is India, by some margin, followed by Thailand, China, Italy and then the US in fifth place.

Summary

Introduction

Silver jewelry fabrication is one of the bedrocks of the metal's overall demand, accounting for around one-fifth of the global total. It can also be resilient in the face of high silver prices and so is a more stable contributor to total demand than other areas such as physical investment. Furthermore, there is clear potential for longer-term growth - our proprietary Silver Five Year Forecasting Quarterly shows silver jewelry accounting for around a quarter of total demand by the mid-2020s.

Given this significance, The Silver Institute commissioned Metals Focus to produce an in-depth study of the global silver jewelry market to bring greater understanding to the opportunities and threats that exist in this segment. The report pays particular attention to consumption in the US, Europe, Thailand, China and India. (For those unfamiliar with Metals Focus' terminology, fabrication refers to where the jewelry is made, while consumption refers to where the pieces are bought.)

This report provides a detailed update on 2020 and also Metals Focus' near-term forecasts for the global jewelry market. In terms of the analysis for this year, given the unique circumstances that have affected demand across the world, we first briefly review conditions in 2019. This offers both a view of a more "normal" year and also gives a sense of how silver jewelry demand may look once a meaningful recovery is underway.

Summary

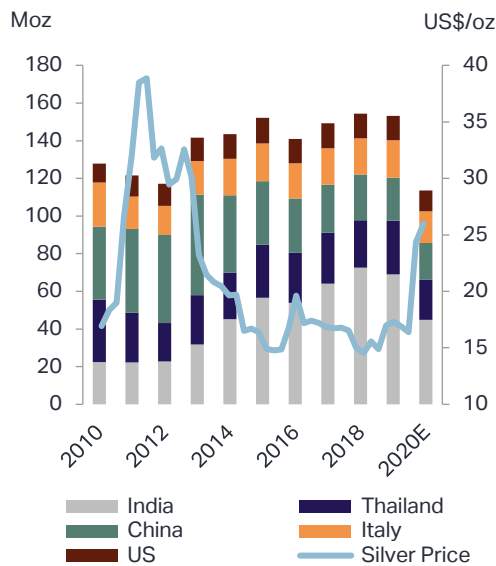
The Scale of the Silver Jewelry Market

Last year, global silver jewelry fabrication reached an impressive 200.2Moz (6,228t), up a full 26% on the low for the decade in 2012. There was a quick recovery in many countries after that trough when the silver price fell, but the robust growth after that was largely driven by India. That country's growth was in turn mainly due to rising disposable incomes plus supportive structural factors (see Chapter 4 for further details). As explained in Chapter 2, this year has proved tough, with demand expected to fall by 23% due to COVID damage. On a more positive note, we are forecasting a healthy recovery next year of 13%.

Silver Jewelry's Key Markets

India is by some margin the largest producer, accounting for 35% of total **fabrication** in 2019 (and so up massively on the 13-14% seen in 2010-12). That was not always the case as, basis our statistics starting in 2010, China was the world's largest fabricator until 2013. The current number two is Thailand, whose strength rests on exports and being home to production for key brands such as Pandora. Exports also explain the position of the fourth

Top-5 Silver Jewelry Fabricators



Source: Metals Focus, Bloomberg

biggest globally, Italy. That just leaves the US to complete the top five, with this group accounting for almost 80% of the global total in the last few years.

In terms of **consumption**, the rankings change notably. India remains number one, but the US moves up to become a clear number two, while China is third. Italy, as a major exporter, and even more so Thailand fall down the rankings. However, collectively Europe pulls back into a comfortable third place, roughly 20% down on the US but 50% bigger than China.

We should note here that our figures for fabrication and consumption are in terms of the fine weight of silver. If we looked at markets in terms of their **value**, a radically different picture emerges due to the totally different markups at the retail level on silver jewelry. In India for example, the markup on traditional jewelry is usually as low as 10-15% and even so-called fashion jewelry might only go as high as 40%. In contrast, Western silver jewelry sells on average at around 10 times the silver's value (i.e. a 1,000% markup). This in turn reflects the higher design element, the frequent incorporation of stones and the premium that branded goods attract. As a result, on a value basis, the US silver jewelry market is easily the world's largest at around 5-6 times the size of India. The latter might even struggle to beat Europe's largest, Germany. The gap between Europe and the US also narrows on a value basis as branded goods have a higher market share in Europe. For instance, Pandora is thought to account for roughly a quarter of French sales, but is only just over 10% of the US total.

Key Countries' Market Structures

As implied by the above noted variance in markups, the structure of the main markets differs widely. In India, the mainstay of demand is traditional jewelry, such as leg chains and toe rings. These low margin, relatively heavy pieces are mainly sold in rural areas and are often bought with an investment motive in mind. Their fineness is also variable, often fluctuating inversely to silver prices. In contrast, urban India is seeing the rise of silver jewelry pieces where adornment is the primary driver, where purity stands at 925 and which are often sold in chain stores. However, the relative scale of this segment remains far behind other countries.

In contrast, Western markets mainly comprise high margin, high design branded pieces, often with stones being incorporated. The majority would be sold through chain stores, although another distinguishing characteristic is that these markets have the highest (and rapidly rising) share of sales going through online channels. In the middle sits China, with the tier 1 cities having silver jewelry markets structurally similar to other industrialized countries, while its 3rd and 4th tier cities and its rural areas see more traditional styles on offer. A key feature in terms of regional variations is that consumers in some regions (mostly in the southwest, such as the provinces of Yunnan and Guizhou) traditionally see silver as a symbol of good fortune.

A Comparison to Gold Jewelry Demand

There are three key overall differences between gold and silver jewelry demand. First, silver's is less volatile - in 2010-19, the year-on-year changes

in demand averaged 5%, whereas those for gold jewelry averaged 9%. This mostly reflects silver losing out to or taking market share from gold and the base metals depending on precious metal prices. Second, gold jewelry is yet more important to the overall gold market; jewelry accounted for just over half of total fundamental demand during 2010-19, as opposed to silver's fifth. Thirdly, the geographic mix of importance differs. Western countries accounted for around 45% of silver jewelry consumption in 2010-19, as opposed to just 11% for gold. By contrast, the Middle East and China are less important relatively for silver; these two accounted for 4% and 11% respectively of the white metal's jewelry fabrication in 2019, whereas the comparable figures for gold were 13% and 32%.

A Review of the Key Drivers Behind Silver Jewelry Demand

1) The Silver Price

As already mentioned, the link between the silver price and jewelry demand is complicated by the shift that some markets can see to / from gold and to / from jewelry in base metals. As such, a rally or decline in the silver price may have a surprisingly modest impact globally on silver jewelry demand. Furthermore, Western markets (and increasingly China) have sufficiently high margins on jewelry that a move in the silver price only has a limited impact. In fact, it has often proved only to become material when high silver prices occur in conjunction with marked economic hardship and/or the price moves are dramatic. One example of that was in the US when, during the financial crisis of 2008/09, silver benefited at the expense of gold, with gold-plated and gold-clad silver items growing in popularity. That said, some countries, most obviously India (especially its rural demand), can prove highly sensitive to moves in the silver price.

One point to make in this regard concerns the nature of the price move - if prices are volatile, demand can often prove quiet until conditions become more settled, something that can occur apparent in India. However, it can feature in the industrialized world, should retailers and wholesalers show caution. The rationale for all in a bear market is invariably why buy now when prices will soon be less expensive? Conversely in a bull market, it is common to hear that buying is held off until an expected price correction has occurred.

2) GDP Growth

Logically, as a country grows richer, its jewelry consumption should rise. This is what we have been seeing very clearly in India, where an added boost to the fine weight bought has been consumers seeking higher purity jewelry. However, the link can prove weak or even reverse if rising incomes occur in tandem with structural change. This is most apparent in China, where younger, wealthier consumers are switching to high design gemset pieces, which will boost the value of sales but can undermine the fine weight.

Two other points are also worth making in regards to a link to the economic situation. Firstly, if recent hardship and financial crises have created a belief that gold in any form is a store of value, sales of gold jewelry in future years

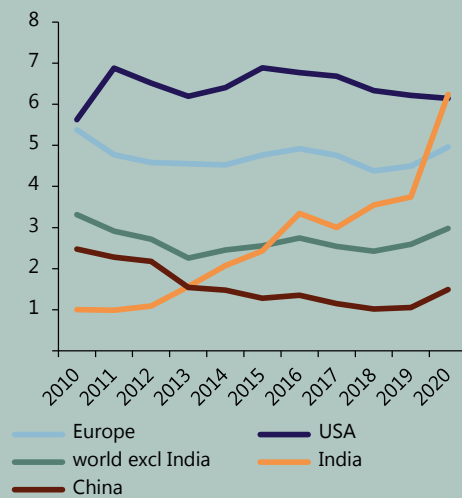
Silver Jewelry's Popularity

The strength of silver jewelry demand compared to jewelry demand for other metals varies hugely between countries. This is mainly due to cultural attitudes, such as consumers viewing silver as fashionable or a close, rather than a distant, relative of gold. (This helps explain why silver jewelry in the US is much stronger versus gold than it is in many other countries.) Similarly, some markets might accept pieces made in base metals if the design and branding are good enough (a common view in Europe), while others would dismiss say a necklace in bronze as worthless.

As shown below, Indian silver jewelry demand versus gold today is much stronger than silver is in China. This is due to both pro-silver facets in India (such as urban areas' preference for silver for daily wear items) and pro-gold features in China (such as the effort that goes into R&D for 24-karat jewelry). In Europe, silver is typically stronger relatively in northern countries, but that is mostly due to the strength of gold in southern Europe rather than silver being particularly weak. We have graphed fabrication below, which does highlight a few apparent anomalies that require explanation, mainly for the major exporters. The fact that Malaysia is geared to gold jewelry exports and Thailand to silver jewelry exports (it is home to Pandora's output) explains their respective divergent gold:silver fabrication ratios (GSFR) of 0.3 and 27.1 for 2019. Similarly, as Switzerland is home to many of the top watch and jewelry brands and as they focus on gold, it too has a very low GSFR. All three would have very different GSRs if shown on a consumption basis.

The importance of cultural factors is highlighted by GSFRs tending to be fairly stable over time. As shown in the chart above, the obvious exception is India, where silver jewelry demand has

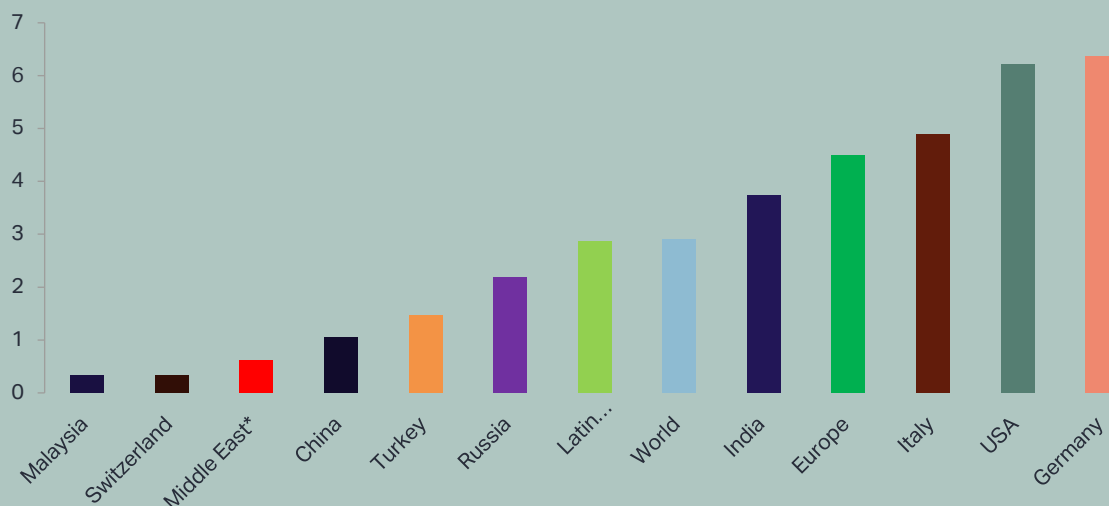
Jewelry Fabrication's Gold:Silver Ratio* Over Time



Source: Metals Focus. * silver jewelry fabrication / gold's.

grown strongly while gold has stagnated. This has been due to a variety of factors, including silver jewelry hitting the sweet spot in terms of price points as incomes rise (especially in rural areas), and the urban youth's view of silver as fashionable. China's GSFR has also fallen slightly over time, due to intense marketing and product development in gold, which has tended to push silver to third and fourth tier cities and rural locations. A final point to make is that major swings in prices can, for a short period, move GSFRs. For example, global gold jewelry demand grew more strongly (+25%) than silver's (+17%) in 2013 even though the gold price fell by "only" 15% versus silver's -24% as the yellow metal became sufficiently affordable for various countries' mass markets.

Jewelry Fabrication's Gold:Silver Ratio*



Source: Metals Focus. * silver jewelry fabrication divided by gold jewelry fabrication.

can benefit. This has been seen of late in the US, where retailers cite this as a driver of lower income groups purchases of plain gold basics, including comparatively heavy chains. Secondly, if income gains skew to the younger generation, silver benefits over gold, while the reverse is true if the gains skew to older consumers.

3) Structural Changes in Jewelry Markets

A common theme post-WW2 in Western jewelry markets has been a shift from plain, unbranded, simple designs to stone-set, branded high design pieces. This has been most important to gold, but it has also benefited silver. This process matters as it diverts expenditure from the fine metal to other materials and to intangibles. However, the vast bulk of this change has already occurred. For instance, stone-set silver, according to Société 5 (which surveys the French jewelry market), accounted for 57% of sales (in unit terms) in both 2015 and 2019. In addition, the process could now be proving positive due to the attraction to consumers of novelty made possible by fancy designs and the push coming through from the brands' advertising.

This shift has also been visible in China, and over a much shorter time frame. The emergence of positives here is also encouraging; consumers have responded to novel collections featured with popular licensed designs, cultural elements and greater use of alternative materials (such as enamel or cubic zirconia). In the case of India, the shift to pieces similar in style to that on offer in industrialized countries has been slower, but it has seen its own structural shifts, namely a move to higher purities and the emergence of 925 jewelry as desirable items for daily wear.

The other major structural change has been the revolution in retailing (especially in Western markets), namely a shift from independents to chain stores and from bricks & mortar to online. The former is thought to have had little impact overall on silver, while the latter is seen as positive as silver jewelry's price points work well in an online space. It is worth noting, however, that corporate-level decisions by retailers in certain countries can have a visible impact. Examples here includes "big box" retailers in the US pulling out of or scaling down their fine jewelry offerings and all bar one of the French hypermarkets essentially pulling out of fine jewelry.

Silver Jewelry's Longer Term Outlook

As set out in Chapter 2, we expect next year to show a partial recovery as high silver prices limit post-COVID gains. A similar result could be seen in 2022 as the benefits of further improvements in the global economy and consumer sentiment are partially offset by still high silver prices and the fact that any wave of pent-up buying will have largely passed. As a result, it may not be until 2023 that global jewelry demand returns to pre-COVID levels as potentially somewhat lower prices finally allow demand in price-sensitive countries (especially India) to flourish. Beyond then, further gains are also forecast, with successive record highs likely. Importantly, these increases could well be larger if sales are measured in value terms as average markups rise ever higher due to structural change within markets.

We are not expecting much regional variation in the outlook for jewelry. However, emerging markets should slightly outpace the industrialized world as the former should enjoy faster GDP growth and should benefit more from our forecast of lower silver prices in the mid-2020s than now. It is also possible that those producing exports in competition with China outperform the latter as it faces a rising cost base and potential tariff increases.

Silver Jewelry's Comparative Advantages & Threats

Any discussion of silver jewelry's advantages and threats is best treated on a regional basis as sales in the industrialized world behave very differently to those in lower income countries.

In the industrialized world, silver jewelry is well suited to several key broad trends that markets here are seeing. These include:

- a) the rise of self-purchase (as opposed to gifting)
- b) a shift to branded goods
- c) a swing from the occasional purchase of high ticket items to the more frequent purchase of lower ticket items
- d) market bifurcation (whereby the top and bottom ends outperform the mid-market)
- e) the swing from bricks & mortar to online selling
- f) structural gains for men's jewelry

However, there are others that have the potential to undermine silver jewelry sales, such as younger consumers choosing experiences over material goods and the far greater promotion of non-jewelry areas, in particular tech goods and services, and travel. Furthermore, the strength of brands may be sufficient for consumers to opt for non-precious jewelry (especially men's). Lastly, silver enjoys little of the quasi-investment appeal that plain gold basics have (especially in the US).

Much of the above could apply to consumers in China's top cities, although the threat from non-precious alternatives is seen as weak, while the potential for brands to push sales is seen as high due to their ability to promote innovative designs. Urban India will also see some of the above trends, although the threat from rival consumer goods and services is expected to be particularly strong. In some ways, the threat with the most potential for emerging markets is structural change as this can undermine the fine weight that is bought while at the same time lifting the value of sales. That said, structural change need not be uniformly negative. If for example, rural Indian consumption were to upgrade to a 925 purity as incomes rise, that would benefit the fine weight of silver jewelry being sold.

Chapter 2

- Silver jewelry fabrication in 2020 is expected to see a 23% fall due primarily to the physical restrictions, damage to sentiment and economic harm caused by the COVID pandemic.
- Demand is forecast to grow in 2021, by 13% as firmer GDP growth offsets the impact of high silver prices (especially in India), potentially leaving 2021 13% down on 2019's pre-COVID level.
- Silver jewelry fabrication net of old jewelry scrap is forecast to fall by a slightly steeper 25% this year.

Global Jewelry Fabrication Outlook 2020-21

2020 Overview

This year has been one of the toughest in silver jewelry's history, with global demand forecast to fall by 23%. The weakness was most acute in April with the months either side still very difficult. For example, US sales of all jewelry and watches fell by 21% y/y in March, 51% in April and 27% in May (basis US Department of Commerce figures). Sales in some markets have recovered to sales at flat year-on-year or even slightly up, but no market looks to be seeing a rebound in the second half strong enough to offset first half losses.

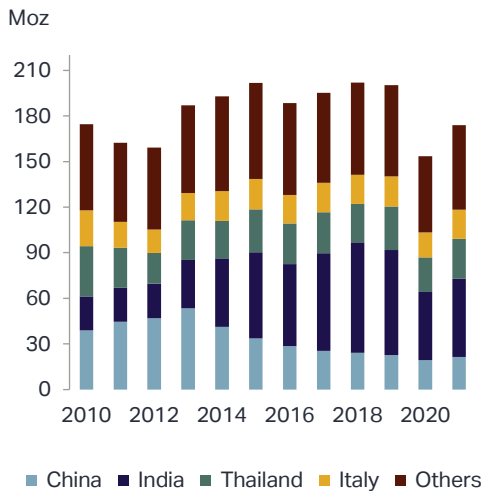
This performance during 2020 has, unsurprisingly, been overwhelmingly driven by the extent to which COVID has impacted global jewelry markets and the ways in which it has done so. In comparison, our forecast 27% rise in the average price this year is of secondary importance. By way of illustration, this year's decline for jewelry of 23% is far larger than the 7% drop for 2011 when the silver price rose a far more dramatic 74%.

Much of the damage from COVID was due to the physical restrictions imposed on consumers due to shelter-at-home orders and the closure of retailers. Some recompense came from a surge in online buying, but this sector was too small in most markets (especially India) to ever offer the chance of full replacement. In comparison, the physical restrictions on the jewelry trade and producers were secondary as most markets saw no reports of consumers being unable to buy because of an absence of product (a phenomenon that greatly affected the sale of bars and coins).

On top of their ability to buy, the consumers' mood is worth mentioning. First, even if they were able to visit shops, many were reluctant to do so on health grounds (a clear reported feature of buying in the major US cities for example). Second, consumers frequently displayed less desire to buy, especially early on, as there were far fewer social events to attend that would previously have acted as a prompt to acquire a new item of jewelry. Even if consumers had wanted to buy, many were unable to do so because of a loss of income or they were reluctant to buy, fearing a future loss of earnings (this looks to have been critical in explaining weakness in India). A rise in household savings rates in many countries was also a factor.

The distinctions between restrictions, sentiment and incomes are important to make as they will impact any recovery. The actual ability to shop for instance helps explain dramatic swings such as sales in France of non-gold jewelry, according to Société 5, being 53% down y/y in May but up 24% in June (in terms of number of units). There is of course every chance that, once the wave of unleashed buying has passed, sales become more ordinary - as clearly hinted by French non-gold jewelry sales in July dipping by 8%. The impact of sentiment can also be seen in the UK hallmarking; this was down by 53% in July and by a still hefty 40% in August, with the gulf versus the rest of Europe often ascribed to consumers' Brexit-driven nerves. Another development worth noting is that the fabrication of silver jewelry

Global Silver Jewelry Fabrication



Source: Metals Focus

so far this year has fared far worse than its consumption. This is the result of most retailers allowing stocks to run down, fearful of what may be around the corner. For example, US jewelry fabrication is expected to slide by over 15% in 2020, whereas the drop for the country's consumption (in weight terms) should be around 10%. This has a further knock on impact on the global bullion market, as countries' imports of the metal to fabricate jewelry will often have suffered even more. For instance, Indian silver bullion imports so far this year (to end-October) are down by around 60%, even though fabrication is forecast to fall by "only" 25%.

For both bullion imports and fabrication, the corollary of low stocks along the supply pipeline is that, looking ahead, the recovery in these two segments should exceed the growth in jewelry consumption. This looks to be the case for the US as some exporters to that country are seeing a major surge in shipments in the last month or so. The majority of this refilling of the pipeline should feature in most countries in the coming months but is highly likely to apply to early 2021 as well.

Not all countries are looking at similar performances in 2020 but the range of outcomes is not that wide. For instance, essentially all countries are expected to see fabrication suffer double-digit losses this year but most of the majors are looking at losses of 15-20%, while the worst performers (India and Thailand) may only see modestly greater declines of 25%. This stands in contrast to gold, where far more divergent results are expected (the good performers are looking at losses of 10-15%, while the weakest are facing losses of 40-50%). One important driver of this divergence is that silver consumption is skewed to Western countries and their governments' stimulus measures, plus silver's affordability, will support imports from fabricators in emerging markets. A second factor is that silver's affordability will support its consumption in those same emerging markets.

2021 Forecast

After this year's expected fall in global silver jewelry fabrication, we are forecasting growth of 13% in 2021, helped by the above-noted contribution from re-stocking. In some ways a comparison against a pre-COVID year is more revealing, with our global figure for 2021 down 13% on 2019.

A key driver of the global figure's modest rise in 2021 is our forecast rally in the silver price (to an annual average in the high \$20s). The significance of this is highlighted by Indian demand. Although this is expected to improve it will still remain well below 2018's record high level. Western fabrication (with its insulation of high margins) could also see a bounce back sufficient to leave offtake only 4% down on 2019. We are also forecasting a strong rally in gold prices and this will generate some substitution to silver, especially in lower income countries. However, the benefits of this should not be exaggerated. Firstly, gold jewelry in emerging markets, where pieces are often bought as much for investment motives could even see stronger gains than silver does (especially where the 2020 base was far lower). Furthermore, the silver jewelry market in most Western countries is viewed

as operating quite separately from gold and so consumers will not switch between the two on price moves of the magnitude we are expecting. Lastly, some markets will also see silver lose out to pieces in base metals (such as bronze or steel).

The second main driver of the modest scale of the 2021 recovery is again COVID-related, namely the heavy and lingering economic damage caused by the pandemic. This helps explain why our 5-year forecast shows most countries only surpassing 2019 levels in 2023. A slight exception here is fast recovering China; its silver demand could be back to 2019 levels by 2022.

It is of note that China achieves this despite structural changes (such as gold's superior product development record) are undermining its silver sector. At the same time, changes in India (such as consumers seeking higher purity silver jewelry) are generally supportive. Structural change in the West (including a swing to branded) also have the potential to be supportive. However, all these are more long term in nature and so will do little to assist offtake in 2021.

Silver's Use in Other Jewelry Alloys

Silver's use in jewelry is not restricted to the 'headline' silver jewelry fabrication number as it can form part of the master alloy (the rest of the alloy other than the gold, platinum or palladium content). No silver is used in 24k gold jewelry and only trivial amounts are used in 22k and 21k; it is in 18k and below where volumes become noticeable. In many markets, the lowest percentage share for silver is in 18k rose gold. However, silver use can be even lower in nickel-containing white gold (where only small amounts of silver are added to improve workability). It is highest in items of 10k and below, where more of the total piece is master alloy than fine gold. For the production of jewelry that is 18k or lower, typical average silver use equals a little over 10% of the fine gold volume. The overall picture is opaque but silver-in-

gold therefore as a share of total silver jewelry fabrication is thought to be a little under 2%. However, as China (and others) continue to move away from the very high karatages, silver use in gold jewelry alloys has the potential to grow notably.

Silver's use in platinum jewelry is minimal as, in the main Pt950 category, much of the rest of the alloy is base metals (typically copper), there is only 50/1,000 of the alloy to fill and platinum jewelry demand is far smaller than gold's. The filler in the Pt600 niche has typically been palladium but newer forms of the alloy can contain silver, although the absolute volume of silver ever required should be extremely modest.

Silver Jewelry's Net Call on the Bullion Market

If you were a mining company, it is silver jewelry's net call on the bullion market that is potentially of great interest. By "net call", we mean jewelry fabrication less the recycling of old jewelry (this excludes process/production scrap). As shown in the chart below, silver jewelry's net demand has risen more strongly than has the headline number. To be precise, from a low in 2011, net demand by 2019 had grown by an impressive 51%, whereas jewelry fabrication on a gross basis had increased by a less heady 23%. This year however, net fabrication is expected to fall by 25% and so by a little more than the gross decline of 23%.

Looking at the chart in more detail, the comparatively flat nature of silver jewelry recycling may be surprising. A key reason for this is that much of silver jewelry's sales are in Western countries, where high markups and low prices per piece mean consumers are much less motivated to sell old silver than they might gold jewelry. In fact, it is quite common for scrap from Western countries to come overwhelmingly from the recycling of slow selling stocks by manufacturers and/or distributors, rather than from consumers. A second is that in India (the world's largest single silver jewelry market in weight terms) consumers rarely sell back old jewelry. This is primarily due to the financial losses likely to be incurred, which in turn stem partly from the low purity of many items.

Looking ahead, we forecast that global jewelry scrap will see a notable gain in 2021 and stay high in 2022 due to expectations of a bull market in those years for silver prices. However, the levels

reached should stay well below those seen in the early 2010s. At the same time, we are confident that gross silver jewelry demand will recover over the next few years, despite high silver prices initially affecting the price-sensitive Indian market. As a result, we expect both gross and net jewelry demand to establish record highs in a few years' time.

Gross & Net Silver Jewelry Demand



Source: Metals Focus

Chapter 3

- US silver jewelry consumption is forecast to fall 10% this year as the recovery from the April lows only partially compensates for heavy March-May losses.
- Jewellery demand in 2021 is expected to rise by 10% as economic life returns to near normal.
- Steady consumption gains are forecast beyond 2021 (especially in value terms), although competition from rival goods mean slower growth for silver than the expected rise in consumer spending.

United States

2020 Overview

Any review of the US silver jewelry market in 2020 is inevitably dominated by the depth of the trough as the COVID pandemic took hold and then the speed of the recovery as lockdowns were eased and the economy came back to life. In this regard, we can point to the data from the US Department of Commerce on sales (by value) of all jewelry and watches. This shows a dramatic slump to losses of -51% y/y in April and a strong recovery to +2% in June (making for an indicative -25% for Q2 as a whole).

Our contacts inform us, however, that recent sales include an element of pent-up demand, as more consumers are at last able to leave their homes, and so called “revenge shopping” (the latter being shopping as remedy to the general gloom of recent months). As a result, it is far from guaranteed that the modest gain seen in June continues. This would be doubly certain if infection rates fail to fall materially, if unemployment were to rise and consumer sentiment to falter as furlough schemes and other forms of government support are unwound. We can neither ignore the US presidential election, which traditionally puts a brake on sales of discretionary goods due to uncertainty surrounding the outcome.

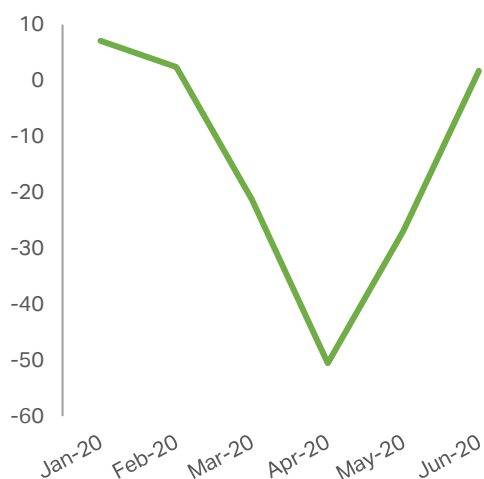
The above refers to the whole jewelry market and so it is important to look at silver in isolation. So far, information from trade contacts suggests that silver has fared slightly worse than gold among retailers with a fair offering of both due to the ongoing popularity of the “yellow look”. Specialty and independents have also tended to see greater sales losses than generalist retailers who include jewelry in their product range. As the former two tend to have a greater skew to silver, this may have also acted as a drag on silver sales. For instance, Pandora saw losses in Q2.20 of 35% y/y. That said, imports of silver jewelry have fared better than gold, with a year-to-date (to end-July) drop of 25% in comparison to gold's -38%.

As a result, we expect US silver jewelry consumption in 2020 to fall by 10%. While steep, that is smaller than the 16% decline we expect for the fabrication of silver jewelry (and a larger fall in silver jewelry imports) as the year has been characterized by heavy destocking and only cautious inventory replacement as retailing comes back to life. The greatest contrast, however, is with expectations at the start of the year; then we were expecting the US silver jewelry market to grow by 2%, largely as the drag of previous years' substitution to gold faded.

2021 Forecast

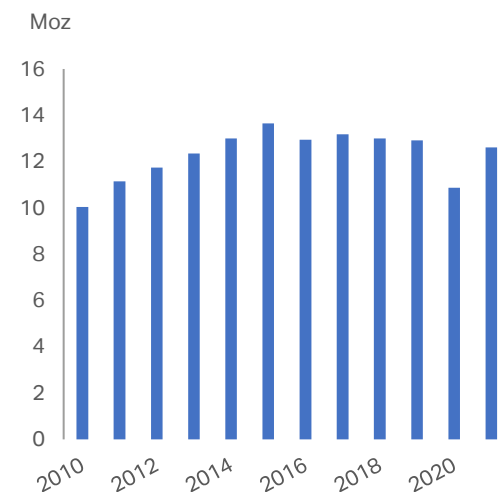
We currently forecast that silver jewelry (both consumption and fabrication) will enjoy a double-digit year-on-year rise in 2021 but the levels attained will fall just shy of those in 2019. That sales improve on this year is chiefly down to an ongoing recovery in consumer spending and shoppers feeling more

Change in US Jewelry & Watch Sales



Source: US Department of Commerce

US Silver Jewelry Fabrication



Source: Metals Focus

comfortable in venturing out to stores. Jewelry could further benefit from consumers' growing willingness to spend on discretionary goods and more social occasions for which a new item of jewelry is desirable.

That silver fails to re-attain pre-COVID volumes we see as down to still high unemployment, a desire to build savings, higher silver prices and a possible drag from substitution. It is possible that record gold prices will force some consumers to switch to similar pieces in silver, as occurred in the early 2010s. However, trade sources typically feel that trends in market segmentation mean the number of consumers open to both metals is smaller than a decade ago. At the same time, losses to costume jewelry could easily be greater than the wins from gold. However, the currently poor showing of some costume jewelry brands leads us to think that the scale of this switching could also prove small. Instead, we may just see those seeking silver jewelry opting for lighter variants of the sort of item envisaged.

Fabrication (and imports) in turn could show stronger rises than consumption as the jewelry supply chain returns to more normal levels of stocks. However, a still cautious approach to inventory levels means this differential may prove small. In addition, we are likely to see a continuation of a trend in recent years whereby retailers, and not just those exclusively online, hold lower levels of stocks and merely pass the consumer's order direct to the jewelry producer, wholesaler and/or importer.

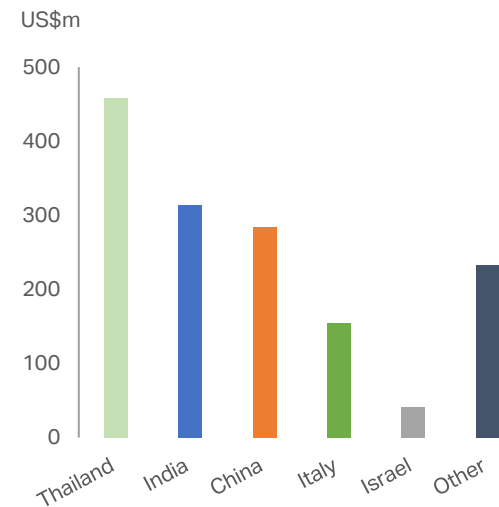
The above trend to lighter (and so higher margin) pieces, on top of the higher silver price itself, is a key reason as to why the value of sales could outperform the fine weight sold. That would also be reinforced by the revival of sales next year at independents and specialty stores, whose average prices tend to be higher than for generalist retailers. Furthermore, the raft of innovative designs being launched by various silver jewelry brands should assist proportionately more in the raising of the value of sales.

The Longer Term Outlook

Our current outlook for the silver jewelry market in the years beyond 2021 is for steady growth to emerge. Sales will certainly be helped by the resumption of steadier economic growth. There are also certain structural factors within jewelry (such as the growing share of consumption going to self-purchase) that should favor silver. However, we need to acknowledge others (such as consumers' belief that gold is a good store of value) that will undermine silver. Outside of jewelry, it would also not surprise if other consumer categories continue to take a greater share of consumer spending.

As a result, it is possible that consumption by the mid-2020s will have just managed to attain record levels. We see little reason for fabrication and import totals to perform differently. However, the mix of origins for imports could change considerably as inflows from China give way to other low cost producers, such as Indonesia. Once more, we would also expect the value of sales to outpace the fine weight, even with the silver price falling back, due to the ongoing shift to more branded and gemset items.

US Silver Jewelry Imports in 2019



Source: IHS Markit

Consumption Drivers

Silver Prices

The price of silver has a comparatively small net impact on US silver jewelry sales. On top of high margins, large moves in silver prices invariably accompany changes in the gold price and so substitution between the two can occur on the basis of affordability. As noted earlier, some industry sources believe this to have weakened over the last decade, mainly because of changes in the gold market. That saw strong growth in recent years as sales of plain gold basics performed well among lower income groups who had been impressed by gold jewelry's ability to act as a store of value – as witnessed by the earlier boom in cash-for-gold. At the same time, there is said to have been clear sales growth for innovative silver designs, with higher margins and more stones, that appeal to millennials. As a result, gold and silver have increasingly come to operate in two separate spaces.

Economic developments

Outside of a rule of thumb that higher incomes should translate into higher jewelry sales, one trend to monitor is income growth by quintile and age bracket. This matters as silver can be expected to outperform other segments of the jewelry market if income gains skew to younger middle income groups. Similarly, if gains skew to lower income, older or non-white groups, plain gold basics should outperform. This would do wonders for the fine weight if less so the value of sales. If, on the other hand, income gains skew to the top few percent, branded, heavily gemset pieces will outperform, boosting the value of sales but barely moving the fine weight. Here, most of the benefits in metal terms would accrue to gold and platinum.

Structural changes to product offerings

Most Western markets have seen a swing over recent decades from plain, simple pieces to higher design gemset items. That is thought to apply less in the US to gold, but this still has relevance for silver. After all, the phenomenal growth that Pandora has enjoyed was based on small, high design, invariably gemset pieces that in turn imply high margins. More recently while Pandora's star has faded somewhat, there are reports of dynamic independents and manufacturers doing good business in high design products that appeal to millennials on the grounds of a good "story" in terms of ethical standards. We would not be surprised if this trend were to continue.

Competitive advantages and threats

There has been a clear rise in market share for self-purchase (typically by women) as opposed to gifting (where purchases are more likely to be made by men). This is said to have altered the market to the more frequent purchase of items with a lower ticket price, and this is felt to have benefited silver more. At the same time, there have been ongoing gains for online's share of jewelry sales and this is again felt to have helped silver more due to lower sticker prices working better on line.

A clear positive that silver enjoys in the US it is that the metal has a higher status than in many other countries and is therefore closer to gold than

to the base metals in desirability. An illustration of this is that a brand as prestigious as Tiffany & Co. has a decent offering in sterling silver - a position that many of the top end European brands would not consider. This is felt to be an engrained feature of the US market and so no change is expected.

A clearer negative for silver is the ongoing heavy promotion of other categories of consumer goods and their resulting market share gain. Tech goods for example can demonstrate innovation in a way that jewelry cannot, while luxury accessories for instance can display a brand more easily than jewelry. There has also been a clear trend among younger consumers away from goods to experiences, harming jewelry. This can only be reinforced in the next year or so as tourism begins to recover as COVID fades.

Leading Designers' New Ranges



Legend: top - E. L. Designs' Rockstar sterling silver cuff; middle - Frederic Duclos' sterling "circle" earrings; bottom - Joryel Vera's sterling cuff.

SPS Surveys Point to Strength & Future Potential

The Silver Institute's Silver Promotion Service (SPS) has been conducting a market measurement survey now for 11 years, focusing on the independent sector in the US. The survey provides valuable insights into the structure of silver sales. For example, pieces in a \$100-\$500 range are the largest category with a 48% share, while sub-\$100 pieces make up much of the rest with a 46% share. Also, 63% of items are bought by 20-40 year olds.

Looking ahead, confidence in the future was apparent in that 54% of respondents increased their inventory, and they did so by 18% on average. Furthermore, over 90% were expecting strong sales growth to continue in the next few years. Such optimism has understandably been undone by COVID and, as noted earlier in this chapter, we expect to see a decline in consumption of around 10% this year on a fine weight basis.

That outcome rests upon a decent rebound by year-end and so it was interesting to see that view corroborated by a separate SPS study. This found that 64% of respondents planned to purchase jewelry that they had been unable to under lockdown and that 78% planned to purchase 1-4 items of jewelry in the next six months.

As ever, silver jewelry will need promotion for the segment to stay buoyant and so it is encouraging to see SPS' launch of a "Virtual Silver Pavilion" and a "Holiday Pavilion". These efforts showcase pieces by leading designers of silver jewelry, as illustrated left. Such measures may only partially compensate for the absence of live trade shows but without doubt they will help lay the foundations for a 2021 recovery.

Source: Silver Promotion Service (savorsilver.com)

Chapter 4

- Indian silver jewelry fabrication enjoyed the most dramatic gains globally, rising by 47Moz (1,390t) between 2010-19.
- This year, demand will fall to a seven-year low, driven by economic weakness, high silver prices and the pandemic. However, 2021 is forecast to see a strong recovery.
- The outlook further ahead looks promising, given the expected rise in disposable incomes, the growth in online sales and the ongoing shift in favor of sterling silver pieces.

India

2020 Overview

In keeping with many other countries, the pandemic has severely impacted India, which saw a two-month long nationwide lockdown (March-May) and regional restrictions thereafter until July. Combined with rising infection rates and the ensuing economic slump, the country witnessed widespread job losses, especially in urban India, which was the worst affected by COVID-19. For instance, according to the Centre of Monitoring Indian Economy (CMIE), an estimated 6.6 million white collar, professional jobs were lost from May to August. Economic uncertainty and the impact on consumer sentiment invariably led to a cutback in consumption, with India's GDP falling 23.9% y/y in Q2.2020, the sharpest fall over the last four decades.

Against this backdrop, silver demand has also suffered noticeably, with bullion imports falling by 60% y/y over the first ten months of this year. Focusing on silver jewelry demand, while we have seen a notable year-on-year decline in H1.20, the losses have been less severe compared to the slump in gold demand. This reflects the former's lower retail price point (which makes it more affordable to a large swathe of the population) and its jewelry consumption profile which is dominated by rural India. In that context, India's rural economy has outperformed urban centers as agricultural activity was termed essential and so continued almost unhindered during the lockdown. Furthermore, while the virus has now slowly spread to many rural communities, infection rates appear to remain far below those seen in large cities.

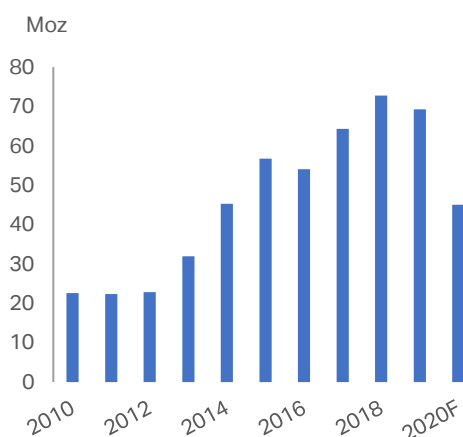
Importantly, agricultural incomes are set to grow because of record sowing of Kharif crops (monsoon crop) on the back of above normal rainfall and an increase in the government's minimum support prices (MSPs). This underpins our expectation of silver demand outperforming gold this year.

Our trade discussions suggest that some pent-up demand emerged during June and July after restrictions were eased. Silver demand has also benefited from the proliferation of sterling silver jewelry and online retailing, especially at a time when gold prices have jumped to record highs. That said, as discretionary spending remains weak and as weddings are postponed/ canceled (due to restrictions on public gatherings), silver jewelry demand is likely to remain subdued in absolute terms. Crucially, given the price sensitivity of rural consumers, silver's rally to a record high in August and subsequent high volatility has also deterred some consumers. As such, we expect silver jewelry demand to fall by 35% this year to a multi-year low.

2021 Forecast

Looking ahead to 2021, we expect to see a healthy double-digit gain although that is set against 2020's low level. The forecast upside for silver jewelry demand next year will likely be constrained by our expectation of yet

Indian Silver Jewelry Fabrication



Source: Metals Focus

Indian Silver Jewelry Designs



Silver Ring
by
Waman Hari Pethe
Jewellers



Silver Pendant
by
Waman Hari Pethe
Jewellers



Studded Silver
Earrings
by
Waman Hari Pethe
Jewellers



Silver Studs
by
Waman Hari Pether
Jewellers



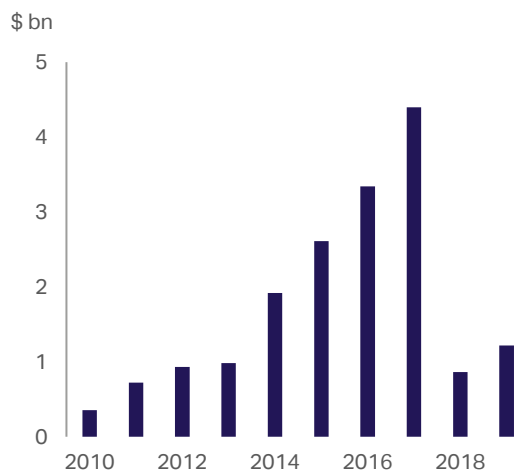
Tradtional Payals
(Anklets)
by
Emerald Jewel
Industry

higher silver prices. Furthermore, the anticipated economic recovery may be pushed further out as the pandemic could take longer to be meaningfully controlled in India. This in turn could, to some extent, weigh on consumer sentiment next year.

The Longer Term Outlook

As mentioned earlier, silver jewelry sales are dominated by price-sensitive rural India and record high rupee prices are likely to weigh on demand in 2021. To offset the impact of this, jewelry fabricators and especially those in the largest segment that focuses on traditional jewelry (such as leg chains and toe rings) will likely choose to reduce purity or promote lighter pieces, thereby reducing silver demand in weight terms. To an extent, the ongoing shift towards sterling silver jewelry and the rise of organized retailing will help offset this decline, but that is unlikely to lift silver demand materially.

Indian Silver Jewelry Exports



Source: IHS Markit

Beyond 2021, as economic recovery achieves a firmer footing, rising consumer confidence will help boost silver jewelry demand in India. In addition to this, increasing awareness of sterling silver should benefit. An early, yet, interesting trend is emerging in urban India where young consumers are choosing to buy gold plated fashion silver jewelry rather than plain gold jewelry which is relatively inexpensive and allows them to replace pieces more frequently. Our discussions with several key jewelers revealed that millennials are more inclined towards the “look and feel” of the jewelry piece rather than its traditional significance, which should benefit the sterling silver and fashion jewelry segments.

Consumption Drivers

Silver Prices

As explained earlier, India is a price-sensitive market and so large, frequent price moves can affect jewelry sales. Evidence suggests consumers also tend to take longer to adjust following a period of high price volatility. For instance, following silver’s rally in 2011 and the subsequent correction, jewelry demand only started to recover from 2013 onwards. Importantly, India’s gold and silver markets are quite separate, which means there has been very little price driven substitution historically. While some substitution may occur over the longer-term if gold prices remain high, it will still represent only a small fraction of the overall market.

Economic developments

Rising disposable incomes and increasing urbanization have had a positive impact on Indian silver demand. As economic growth recovered after the 2013 slowdown, the positive spillover for silver jewelry demand was palpable. While stable and low silver prices also contributed to the rise, silver jewelry fabrication more than doubled between 2013 and 2018. However, as economic growth slowed from 2019 onwards, silver demand also started to ease back. In terms of some of the key jewelry segments, the growth in rural incomes tends to positively impact traditional jewelry demand while rising urbanization benefits fashion and sterling silver jewelry.

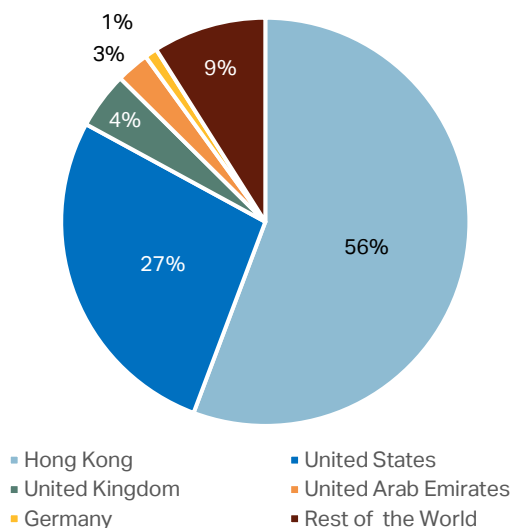
Structural changes to product offerings

The only visible structural change has been the shift towards higher purity sterling silver. This has also led to the ongoing ‘premiumization’ of silver jewelry and, combined with modern everyday wear designs, this is increasingly likely to attract the younger generation.

Competitive advantages and threats

The digital boom in India, helped by growing internet penetration, has benefited online jewelry sales, which is likely to favor silver (more so than gold in our view) given its relatively low price point. That said, there is a clear trend among younger consumers whose disposable incomes are being spent on consumer electronics, such as cell phones and overseas holidays, which can act as a negative for jewelry.

Indian Silver Jewelry Exports: Top Five Destinations



Source: IHS Markit

Chapter 5

- European silver jewelry fabrication is expected to fall by 17% in 2020 due to COVID damage, with most countries seeing similar losses in consumption terms.
- Demand should bounce back next year, although volumes may have to wait until at least 2022 for a return to pre-COVID levels.
- Longer term gains, especially in fine weight terms, may prove limited, unless clear brand-led promotion materializes.

Europe

2020 Overview

Silver jewelry **fabrication** in Europe faced a challenging first half due to COVID. Regional consumption slumped and de-stocking along the retail chain was also the norm. In addition, as offtake is dominated by Italy (accounting for around two-thirds of the total), results were hit by that country's total shutdown from March 9th to May 4th. As restrictions were eased, output began to recover, but this looks to have been a slow process, with some sources feeling that a return to output being flat year-on-year would only have occurred in July for a few and for a clear majority not until September. Part reason for this is the dire straits of exports to global wholesaling hubs as these have yet to receive trade visitors in any number. For example, Italian shipments of silver jewelry to Hong Kong, Dubai and Panama in H1.20 in weight terms were down a respective 43%, 49% and 73% y/y.

As a result, we are forecasting that European fabrication will see a 17% drop for calendar 2020, chiefly due to still weak local consumption, limited re-stocking of a bare supply pipeline and sluggish exports, especially to the wholesaling hubs.

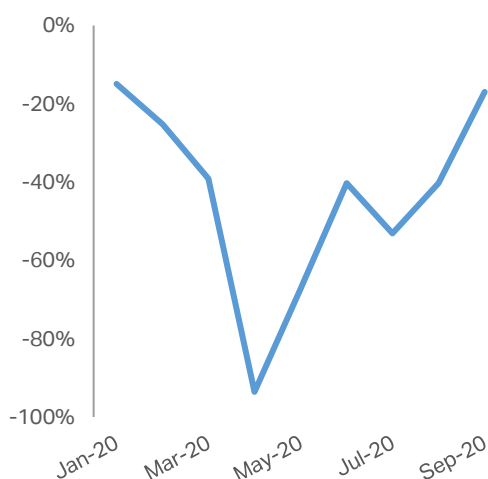
From a **consumption** perspective, there has again been a notable recovery from the April lows, but the speed and nature of the improvement is very mixed. The UK for instance remains very weak, with hallmarking in September down 17% y/y. That is a clear improvement on April's -94%, but the cumulative total to end-September is off 43%. At the other end of the spectrum, data from Société 5 points to silver jewelry sales in June having grown by just over 20% y/y and so marking a very different bounce back from losses in excess of 90% in April. That, however, still leaves France down over 20% in the first half. Of the majors, Germany appears to be the best performing. Sales there by Pandora in Q2 were down by only 6% y/y versus -21% for France. Germany's import story is complicated by it being home to Pandora's pan-European distribution center, but our analysis suggests a drop of 7% y/y in H1 imports for sale into the German domestic market.

Most European countries look to be on track to see double-digit losses for the full year for a variety of reasons. Firstly, the second wave of COVID has hit prospects for economic recovery and secondly several countries are in line to see a winding back of government support schemes. Thirdly, the good news that we have seen over the summer in some markets (for example France) is largely thought to represent pent-up sales, and a slide back to sluggish conditions is seen as more likely than continued exuberance.

2021 Forecast

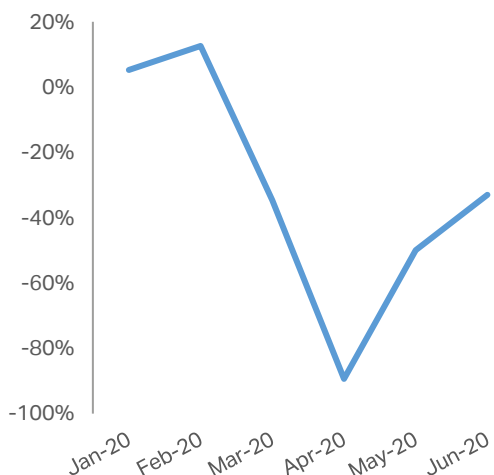
Our forecast for next year's jewelry **fabrication** in Europe is a healthy rebound of 14% as retailers re-build stocks (perhaps still cautiously) and

UK Silver Hallmarking y/y Change



Source: Birmingham Assay Office

Italian Silver Jewelry Exports, y/y



Source: Metals Focus, IHS Markit

as consumption in most markets returns to near normal after this year's shock results. This should apply to markets within Europe and those outside, mainly supplied by Italy. Shipments to the wholesaling hubs may still be sluggish if trade buyers are still not traveling, and some extra-European markets will be hit by the higher forecast silver prices. Both these explain why we do not see an immediate return to pre-COVID levels next year.

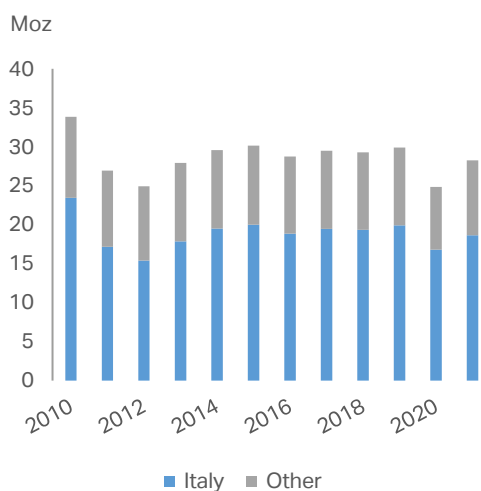
Consumption within Europe next year could be affected by higher silver prices, but this is not thought likely to prove too damaging; on top of still high margins, substitution down from gold (mainly in northern Europe) could provide some comfort and trade contacts feel that the threat below from steel and brass may not prove that strong due to consumers losing interest in both. Instead, healthier economies and fewer COVID restrictions mean robust gains are likely. Some structural forces (such as the rise of self-purchase) should also help, and we may see a lift from Pandora as the challenges it is felt to have faced in the last year or so fade. This company is worth commenting upon in isolation because of its substantial presence – our calculations show for instance that it accounts for around a quarter of the French market and its share in Italy is yet higher, perhaps over a third.

The Longer Term Outlook

Beyond 2021's bounce back, modest consumption gains could emerge, although we expect them to be smaller than in the US due to a belief that Europe's economies will prove more sluggish in the next few years due to such factors as aging populations (especially in eastern Europe) and Brexit turmoil. The value of sales, however, should outpace the fine weight sold due to its growing skew to branded items and the return of long haul tourists. The latter's typical purchase is of higher value items than locals, although far more of this advantage will accrue to gold, platinum and watches.

Slightly stronger gains are forecast for European fabrication, with volumes by as early as 2024 at a 14-year high. Much of this growth will be driven by exports from Italy, with its mechanized chain and findings output remaining competitive and as its overseas markets return to growth.

European Silver Jewelry Fabrication



Source: Metals Focus

Consumption Drivers

Silver Prices

The impact of silver prices on jewelry consumption is limited chiefly due to the very high margins in force, with the positives and negatives of substitution to/from gold and base metals a distinct second. This is less true in the lower income countries of eastern Europe but their contribution to silver is modest – the 12 countries that joined the EU in 2004-07 made up less than 10% of the GDP of the existing 15 countries in 2019, and our data on fabrication suggests a slightly lower share of the regional total.

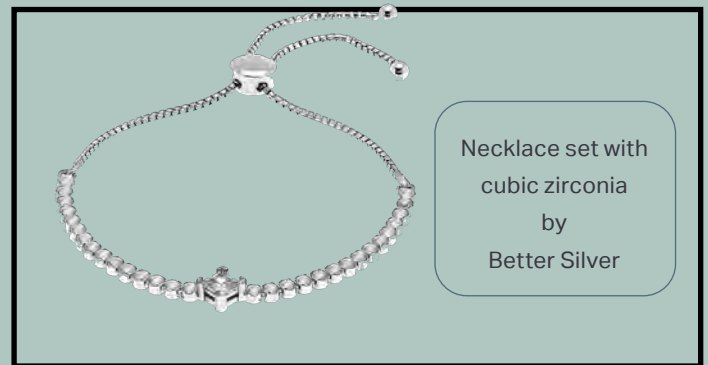
Economic developments

There are two features on the economic front that are of consequence specifically for Europe. First, the trauma that the 2008/09 financial crisis inflicted led to a wave of selling back of old jewelry, mainly gold. However,

European Silver Jewelry Designs



Silver bracelet with
alternated oval links
by
UNOAERRE



Necklace set with
cubic zirconia
by
Better Silver



Bi-color silver
bracelets
by
Pesavento



DNA Spring rings, incl
rose-plated,
by
Pesavento

rather than this creating a belief in gold's store of value, it seems to have been merely an opportunity to relinquish some dated product. As a result, current economic uncertainty has not favored gold compared to other jewelry segments. Second, the value of sales is heavily influenced by the number of long haul tourists (especially from East Asia). However, the impact of this on silver is small and so data on overall jewelry sales needs to be treated with caution in the event of any extra-European economic crisis.

Structural changes to product offerings

There has, over the last few decades, been a sustained shift from unbranded, plain silver items with a simple design to fancier, branded and gemset products. However, much of this shift has already run its course. For example, Société 5 reports that 55% of all silver jewelry was gemset in 2014 and that by 2019 this had inched up to 57%.

Of far greater relevance today is the revolution in retailing. This includes the withdrawal of hypermarkets from the jewelry space, the decline of old fashioned independents, the relative rise of multi-store mall-based retailers and the even greater rise in online selling. (The exact mix varies greatly though between countries.) On balance, this should benefit silver jewelry.

Competitive advantages and threats

One positive for silver is that interest in gold basics among lower income and immigrant groups is far lower than in the US. Germans of Turkish descent, for example, are reported to shop more like ethnic Germans than citizens

of Istanbul. As a result, our forecast of lower gold prices in a few years' time does not pose much of a threat to silver jewelry sales. Related to this is the rapidly disappearing habit in southern Europe of buying 18-karat gold at key life stages, such as baptisms or a first communion. Silver, however, has been hampered in filling any gap due to its relatively lower status compared to other precious metals. This stands in contrast to silver's image in northern Europe, where the metal (as in the US) is seen as much closer to gold than the base metals.

To truly exploit any potential (in the absence of generic silver advertising), there needs to be concerted promotion by brands specializing in the metal. The issue of brands is critical because of their clear importance. For example, Pandora's sales in Italy and the UK combined in 2019 were 7% greater than in the US. For much of the past decade, the brand star was Pandora, but that faded, according to some trade contacts, due to a reliance on a single category (charms) and the harmful move away from concessions within others' stores to stand-alone premises. It is possible that these issues can be remedied, but other retail brands, such as Folli Follie and Thomas Sabo, need to capture the attention of consumers in a more energetic way to really lift sales. Success in this field has often been elusive, as illustrated by the bankruptcy in January 2020 of one of the UK's leading brands, Links of London, and so it is far from certain that a brand-led sales push will emerge.

It also pays to monitor what is in many ways jewelry's closest competitor, watches. The latter has a far higher share of sales in the "greater jewelry" category than in the US. For example, watches accounted for just 5% of Signet's fiscal year 2019 sales in North America, but 35% of their sales in the UK and Ireland. With younger generations getting the time from cell phones, there is clear scope for watch sales to slide, even with partial compensation from smart-watches. It seems reasonable to expect that fashion jewelry, including silver, will pick up some of this diverted expenditure. However, the gains are expected to be small due to younger consumers' growing preference for experiences over goods and the superior promotion of rival categories, such as the latest tech and luxury accessories.

The rise of online sales, as in the US, is thought to be a net positive for silver jewelry due to its better targeted price points. However, this could prove relatively small due to the conservative nature of retailing, especially in southern Europe. There, we are still in the phase of a shift from independent, traditional outlets to shopping malls and multi-store brands, such as Histoire d'Or in France and Stroilli in Italy, and it will be interesting to see whether/how these groups decide to push silver.

Structural growth in self-purchase by working women should also be a net positive for silver and there seems good scope for the niche of men's jewelry. This at present is firmly skewed to base metals and alternative materials, such as leather, but the segment is growing fast and offers some potential for silver, certainly more so than for gold in today's new styles.

Chapter 6

- East Asian silver jewelry fabrication is expected to drop by 17% this year, driven by heavy losses in both Thailand and China.
- The recovery next year in each country will be noteworthy, with the regional total falling only just short of 2019's pre-COVID levels.
- Further ahead, successive gains are forecast for East Asian offtake, benefiting from healthy demand, both locally and overseas.

East Asia

Introduction

East Asia is the world's largest silver jewelry fabricator. This year's estimated total of 50.4Moz (1,568t) accounts for one-third of global offtake and as noteworthy as that appears, it pales against the 46% share achieved by East Asia back in 2010. That reflects two dynamics, first the weakness experienced in East Asian silver jewelry over the past decade. In other words, leaving aside the impact of the pandemic, jewelry demand fell from 80.6Moz (2,507t) in 2010 to 62.8Moz (1,953t) last year. The second issue were the dramatic gains achieved in India, where offtake surged from just 22.5Moz (770t) at the start of the last decade to 69Moz (2,164t) in 2019.

In this chapter, we focus on East Asia's two largest silver jewelry fabricators, Thailand and China, with estimated 21.4Moz (664t) and 19.4Moz (603t) of fabrication respectively in 2020. They also rank second and third globally, behind India (the largest fabricator by some margin), but ahead of Italy in fourth place.

Thailand

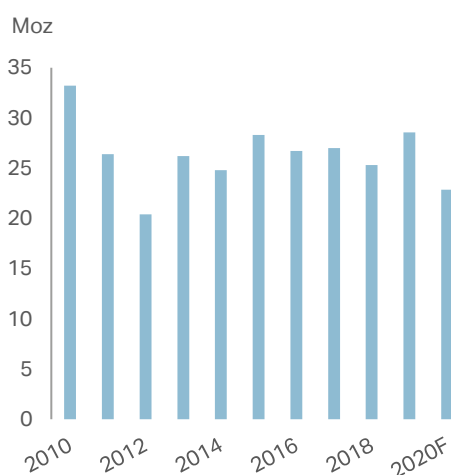
2020 Overview

In keeping with many economies, Thailand has been severely impacted by the pandemic, with its GDP declining by 12.5% y/y in Q2.20, the largest economic contraction in 22 years (since the Asian financial crisis). Importantly, while COVID-19 exacerbated the economic downturn, the Thai economy was already experiencing a slowdown. For instance, the economy shrank by 2.2% in the preceding quarter, putting Thailand into a technical recession.

Turning to the jewelry sector, Thailand is a global manufacturing hub and the world's largest silver jewelry exporter. Each year, the country exports more than \$1.6bn worth of silver jewelry. It is thus not surprising that the pandemic has severely hit the country's silver jewelry industry. Our discussions with the trade revealed that jewelry fabrication in the first half of 2020 fell by 40-50% y/y, largely reflecting the slowdown in export demand. Thailand largely exports jewelry to the US, Europe, and elsewhere across East Asia.

Most orders placed by buyers from Europe and the US in February at the Bangkok Jewelry Show were eventually canceled due to the pandemic. Overall, jewelry exhibitors witnessed at least 50-60% of order cancellations, which created problems for the supply chain, as manufacturers had already prepared finished goods which were on the verge of being shipped. However, recent discussions with contacts revealed that European buyers have now cleared some of the backlog, which should be a positive development going forward. That said, orders originating from the US still remain weak.

Thai Silver Jewelry Fabrication



Source: Metals Focus

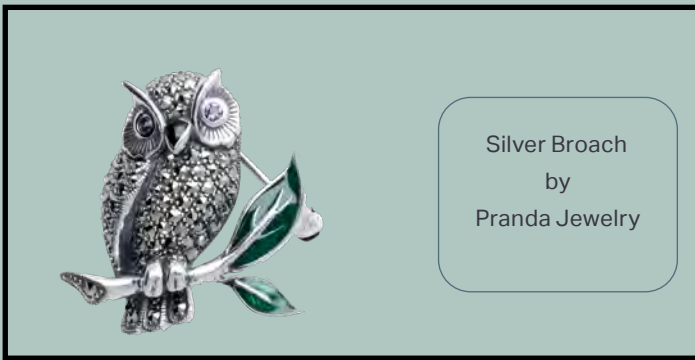
Thai Silver Jewelry Designs



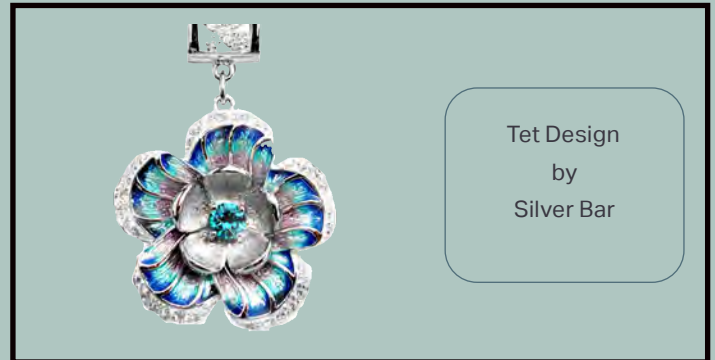
Silver Ring Inspired
by Flowers
by
Silver Bar



Bracelet
by
Silver Bar



Silver Brooch
by
Pranda Jewelry



Tet Design
by
Silver Bar

By contrast, the domestic market has performed quite well. Despite limited footfall, our discussions with retailers revealed strong buying by young consumers. In keeping with many other markets, the country's retail trade has benefited from the growth in online purchases during the pandemic. Perhaps understandably, those retailers and manufacturers who have put in place e-commerce platforms have generally performed well. As a result, compared to exports, domestic consumption is estimated to only fall by 10-15% in 2020.

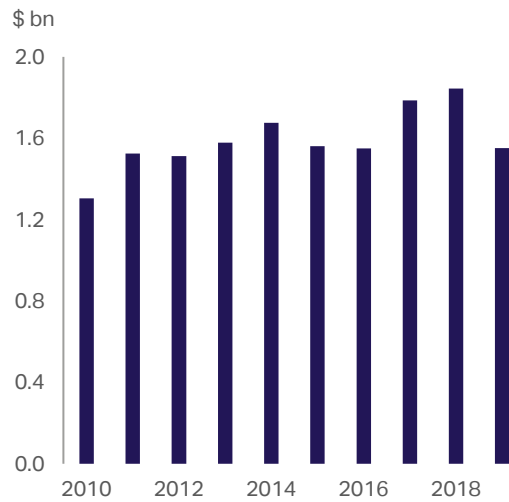
2021 Forecast

Looking at the forecast for next year, we expect to see a solid recovery for Thai silver jewelry fabrication. With more than 80% of the country's silver jewelry fabricated exported, the outlook depends heavily on how Europe and the US perform. Although we remain cautious about the economic outlook, we expect to see healthy levels of restocking in these markets, which should therefore benefit Thai export order books.

The Longer Term Outlook

Compared to some other large jewelry manufacturing centers, such as India and China, Thailand has a relatively small domestic jewelry market. Due to the country's young demographic, household consumption has performed somewhat better than exports, as the former tend to find silver jewelry fashionable and reasonably priced. Furthermore, the sharp increase

Thai Silver Jewelry Exports



Source: IHS Markit

in the gold price has seen consumers shift from gold to silver for daily wear usage. About 80% of silver jewelry sold in Thailand includes daily wear items including earrings, pendants, bracelets and rings.

Beyond 2020, we are calling for broadly steady growth; naturally, a lot depends on how the Thai economy improves. As alluded to earlier, one key risk to the economic recovery in the near-term are the ongoing political protests. Going back to jewelry demand, a further rise in the gold price would benefit substitution towards silver jewelry. Manufacturers and retailers are also focusing on online sales, which should positively help sales going forward.

Consumption Drivers

Silver Prices

Unlike South Asia, the Thai silver market is not particularly price-sensitive. The majority of the silver jewelry bought domestically is for daily wear, with an average weight of 2-8g. The lower price point means that there is little adverse impact on demand of an increase in the silver price. As mentioned earlier, the increase in the gold price has benefited retail purchases of silver.

Economic developments

Strong economic growth and an increase in per capita income have helped lift discretionary spending. That said, demand for silver jewelry has remained broadly steady, ranging between 130-170t, largely due to a shift towards lower weights. That said, an increase in income tends to benefit rural communities' demand. Thus, over the long-term the loss in demand due to a reduction in average weights tends to be mitigated by the increase in rural incomes.

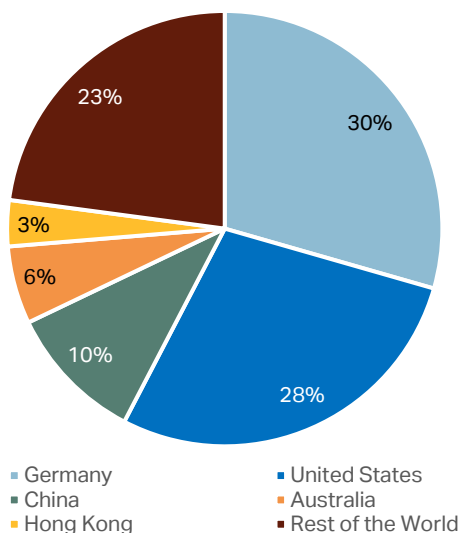
Structural changes to product offerings

Our discussions with contacts point towards two important changes over the last decade or so, the growth of sterling jewelry and a reduction in average weights. Historically, Thailand's silver jewelry landscape was dominated by traditional jewelry (including what is known locally as hill tribe jewelry) that was typically made in the north of the country. However, over the past ten years, consumers have shifted towards modern designs and sterling jewelry. Today, sterling jewelry dominates the landscape with more than an 80% market share. Traditional jewelry is now confined to certain pockets and is worn on just a few occasions. The shift towards modern designs has also led to a reduction in average weights.

Structural changes to product offerings

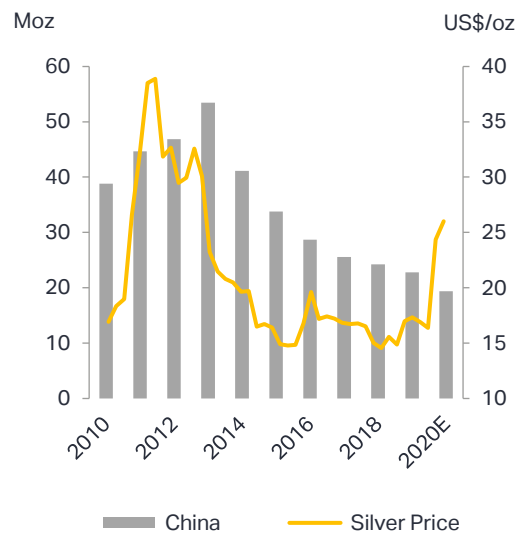
In keeping with many other markets, online jewelry sales have grown appreciably, especially during the pandemic. As more people become accustomed to the ease of ordering through cell phones, we expect to see the share of online sales increasing. That said, young consumers tend to prefer lifestyle products, such as cell phones and electronics, which act as a headwind for jewelry.

Top-5 Thai Jewelry Export Destinations



Source: IHS Markit

Chinese Silver Jewelry Fabrication



Source: Metals Focus

China

2020 Overview

The direct impact of COVID-19 and economic uncertainty have already hit domestic retail jewelry demand, with China's Statistics Bureau announcing that gold and silver jewelry retail sales (by value) in the first nine months fell by 13% y/y. We would expect the drop in sales weight to be larger given the significant price rallies in both gold and silver. After the dramatic slump in the first quarter, a recovery emerged from May onwards as life returned to normal in most regions, and therefore footfall in jewelry stores has also improved. As a result, monthly gold and silver jewelry retail sales have moved from a 30% y/y in March to a healthy 13% increase in September.

However, the year-on-year growth in the September sales figure covers the entire jewelry market, which will include the impact on sales values of price upside. As local gold and silver prices rose by 18% and 24% y/y respectively that month, we are skeptical about any underlying gains in China's jewelry offtake. Looking at silver in isolation, many of our wholesale and manufacturing contacts claimed sales in the third quarter (the traditional peak season for silver jewelry demand) still experienced a combined 20% y/y decline.

The headwinds remained in place, notably deteriorating consumer sentiment, and structural changes, namely the shift away from heavy plain jewelry in favor of lighter premium (higher margin) pieces. Meanwhile, silver jewelry exports from mainland China have also suffered a marked downturn so far this year. August customs figures suggest that year-to-date shipments to the largest two destinations, the US and Hong Kong, fell by 60% and 46% respectively in US dollar terms. Additionally, wholesalers' and manufacturers' more cautious attitude towards stock management, in part due to increased price volatility, has also weighed on silver jewelry fabrication.

In terms of the full year picture, we expect Chinese silver jewelry fabrication to fall by 15%, a much better outcome than the 40% drop we predict for gold jewelry fabrication. The out performance of local silver jewelry offtake can be explained by the different impact both of each metals' price gains and the economic slowdown on the supply chain's working capital liquidity and the affordability of each product for Chinese consumers.

2021 Forecast

Looking ahead, we forecast a double-digit year-on-year gain for silver jewelry fabrication in 2021. The rebound will chiefly be due to expectations of improving consumer sentiment resulting from the government's effective control of COVID-19 and the ongoing economic recovery. However, silver jewelry offtake in 2021 will still be 6% lower than 2019's record high, partly reflecting that some losses suffered are structural and so may not be recouped. Meanwhile, wholesaler and manufacturer destocking is expected to persist based on our bullish silver price forecast in 2021. Moreover, jewelry exports to the US and Hong Kong are likely to remain lackluster.

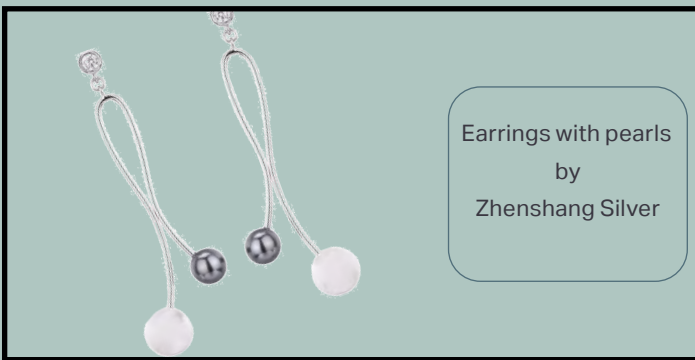
Chinese Silver Jewelry Designs



Bangle
by
Laofengxiang



Silver necklace
plated with gold and
enamel



Earrings with pearls
by
Zhenshang Silver



Bracelet
by
Zhenshang Silver

The Longer Term Outlook

Beyond 2021, we expect Chinese silver jewelry fabrication to enjoy further growth over the next few years, although we believe it will still remain well below 2013's record high of 53.4Moz (1,662t). The upside we forecast partly reflects the diminishing impact of the structural changes caused by changing consumer preferences, namely the shift away from heavy plain items towards lighter premium and design-focused pieces. Furthermore, the gains are based on our assumption of improving Chinese consumer sentiment, further growth in some key export markets and the supply chain's successful development of new designs and collections. Importantly, these higher margin items will enable retail demand to withstand those occasions when the silver price strengthens.

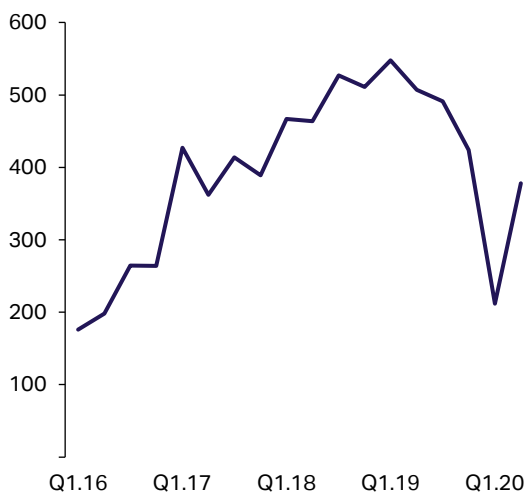
Consumption Drivers

Silver Prices

In our view, the silver price has little impact on silver jewelry consumption in China, mainly because of the very high retail margins. Feedback from our trade contacts suggests there has been little or no adjustment to retail prices of silver jewelry pieces so far this year. Meanwhile, as the silver price rallies, one might expect some consumers to substitute between the two markets, based on affordability. However, we do not expect the Chinese

Pandora's Sales in China

Krone mn



Source: Pandora Annual Report

silver jewelry market to benefit from such a shift. This is primarily due to the structural changes that have emerged in the gold market in recent years. This saw growing availability of light and premium designs with attractive retail prices of around 1,000rmb. In addition, the trend of duplicating successful designs in gold is now firmly established, having started a few years ago as many silver jewelry manufacturers' budgets often cannot extend to large-scale investment in R&D and marketing activities.

Economic developments

The impact on consumer sentiment as a result of the economic slowdown in China has been one of the significant headwinds facing silver jewelry consumption since 2019, which has accelerated in 2020. Although the government has conducted fiscal and monetary stimulus policies, we are skeptical that it will be sufficient to improve consumer spending on discretionary items in the short-term. Moreover, sales generated from shops in tourist locations (especially in south-Western regions) have also struggled as footfall is still relatively constrained in the wake of the pandemic.

Structural changes to product offerings

Changes in Chinese consumer preferences, away from conventional and plain jewelry and towards lighter premium pieces, has affected demand across all precious metals. This reflects the growth of younger, fashion-conscious and dynamic "spending classes" in the country. That said, after four consecutive annual double-digit declines over 2014-17, the impact of this has started to diminish. As such, the drop in the last two years and our pre-virus 2020 forecast for China's silver jewelry offtake was only a single-digit. This partly reflected the supply chain's much improved efforts in product innovation, resulting in increased assortments. The market has also received strong support from collections featuring popular licensed designs, cultural elements, better integration with different materials (e.g. enamel, crystal and zirconia) and the growth in independent designer brands. Although now less pronounced, the impact of structural changes on demand is likely to persist for the foreseeable future.

Competitive advantages and threats

Our feedback from bricks and mortar stores suggests that competition from non-precious metals is limited. This is because silver jewelry benefits from comparative advantages from the metal's traditional characteristic of good luck and fortune in China, its feature as a precious metal, as well as an established image of fashion and strong wearability.

Benefits of branded silver jewelry

On the back of Chinese consumers' increasing brand awareness, we have seen leading retailers typically outperform the rest of the market. This is more evident when looking Pandora sales, which reported ongoing and strong growth since its launch in China earlier this year. Local retailers have also focused more on brand development as well as building brand loyalty. For example, some leading retailers offer free cleaning and exchange services over the product lifetime and invest heavily in developing premium designs and licensing (e.g. famous cartoon or film franchises).

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About Metals Focus

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The quality of Metals Focus' work is underpinned by a combination of top-quality desk-based analysis, coupled with an extensive program of travel to generate 'bottom up' research for our forecasting reports and consultancy services. Our analysts regularly travel to the major markets speaking to contacts throughout the value chain from producers to end-users, to obtain first hand and unique information for our reports.

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