

Gemstone Forecaster

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Gem Market Update 2016

by Robert Genis

Burma

It has been 8 years since the Block Burmese JADE Act passed. It banned Burma ruby and jade importation, but interestingly left Burma sapphire, Burma spinel and other Burma stones alone. It was a "pet project" of Laura Bush set to expire in 2013, but continued by Obama's executive order until the sanctions were finally lifted on October 7, 2016.

Generally speaking, when a sanction is lifted, goods flow and prices go down. This is basic ECON 101. However, we are dealing with Burma and its own economic complexities. Remember the Burmese gem market did not come to a grinding halt when the ban started. Unlike it did, for example, in Cuba with cigars. This is because the rest of the world covets these gemstones just as the US does. As *Gemstone Forecaster* readers know, the Chinese stepped in big time, seemingly buying everything in sight. And don't forget about the collectors from the Middle East, Europe, Japan and Latin America. To the Burmese, the return of the US market is just another in a line of eager buyers. There is no stash of Burma ruby waiting to come here. Expect limited production and high prices to continue. Hold onto these stones with both hands.

Prices

We expected a price decline during 2016 in collectible gems. Wasn't it obvious? The Chinese abandoned the gem markets in a big way. They could no longer be found at the major international gem shows. Many Chinese collector stones reentered the market for liquidation. This was unheard of. It also appeared the stock markets around the world were ready to plummet. Instead, most international stock markets are higher today than last year. As long as stock markets are soaring, don't expect gem prices to crash. Gems used to follow the price of gold. Now they are correlated with the stock markets. Collectors/Investors are making plenty of money in these markets to finance their growing gem collections.

In summary, high end collectible gemstones are stable. Look at the auction prices- lots of action and high prices. Although volume is down, many dealers and collectors have decided to put their high end stones away, opting not to discount these prize gems. They believe they cannot be easily replaced, so why would they sell?

Let's wrap it up. Everything in the gem market is negotiable. Make an offer. You never know. But prices have not dropped.

Victoria's Secret Fantasy Bra



This year, the Fantasy Bra is the “Bright Night” and is worth \$3 million, an increase from last year’s \$2 million Fantasy Bra. It has over 9000 gems, including 450 carats of primarily emeralds and diamonds. The bra is in 18K gold and took over 700 hours to create. It was worn by Jasmine Tookes and specifically created for her breasts by molding her upper body before it was made.

Fall Auction Results

Sotheby's Hong Kong October

The auction season started off bad in Hong Kong. A 20.22 Kashmir and a 47.60 Burma sapphire did not sell. This would tend to indicate the Chinese market is collapsing. However, look at what happened at Christie's a short time later.

Christies Hong Kong November

Christie's sold the oval, 10.05 carat “Ratnaraj” for \$10.2 million, achieving the third-highest per-carat price for a ruby at just over \$1 million per carat. “Ratnaraj” means “king of precious stones” in Sanskrit. It was sold by a New York ruby dealer. The stone looks super red but included in photographs. This sale at first blush might indicate Burma rubies are declining in price



10.05 carat “Ratnaraj” Burma Ruby

because this stone came in as the third most expensive Burma ruby ever sold. Shouldn't it have broken new records? Not necessarily, because the two that sold for more per carat were larger, at 15 and 25 carats. Rather, we believe this proves how strong the Burma ruby market remains.

A super red 5.01 no heat Burma ruby sold for over \$1.87 million or over \$373,000 per carat. These stones continue to fetch very high prices at auction. Obviously, these large stone sales are putting upward pricing pressure on smaller Burma ruby.

A 16.36 Kashmir sapphire sold for \$2.4 million or about \$146,000 per carat. AGL stated no heat or clarity enhancement. The stone also had SSEF and Gubelin reports.

One thing you almost never see are matched sets of Kashmir sapphires. A set sold with two 5.24 matching Kashmir sapphire cushion earrings and a necklace with a 10.31 cushion Kashmir stone. Wow! The set sold for over \$1.5 million, and came with AGL paper stating no heat or clarity enhancement.

An emerald cut 10.26 Colombian emerald sold for slightly over \$1 million, or about \$100,000 per carat. This stone had an AGL stating Colombian, no clarity enhancement.

A 5.11 pear-shaped fancy green diamond sold for \$1.2 million, which seems like a bargain at

about \$240,000 per carat. The GIA report states the diamond has a color grade of fancy green and a clarity grade of VVS1. Although photo reproduction can be tricky, the diamond looks obviously green.

Finally, a marquise 4.29 fancy vivid blue diamond, sold for \$11.8 million or \$2.7 million per carat. The GIA states the clarity is Internally Flawless.

Sotheby's Geneva November

An 8.01 Fancy vivid blue diamond sold for \$17.1 million to an anonymous collector from another collector. Only 1% of all colored diamonds receive this coveted grade. It sold for \$2.1 million per carat and was expected to sell between \$14.7 and \$24.5 million. As *Gemstone Forecaster* readers know, these stones are really light in color compared to Burma and Kashmir sapphires.

London super jeweler Graff bought two pink fancy diamonds. He paid \$20.8 million or \$1.2 million per carat for a 17.07 VVS1 clarity, emerald cut fancy intense pink. Also, he bought a 13.20 internally flawless fancy pink for \$16.2 million or \$1.2 million per carat. Interestingly, both came to the same price per carat

Bonham's NY December

A 7.12 Kashmir sapphire sold for \$931,500 or \$130,000 per carat. It came with AGL stating Kashmir and no heat or clarity enhancement.

Argyle Pink Diamond Tender Results

The 2016 Pink Diamonds Tender collection of 63 rare pink, red and violet diamonds from its Argyle mine has delivered a record result. The premier stone was the 2.83 violet. Although the company did not state the average per carat price, we believe it's over \$1 million per carat. We remember in the 90's when the average of these sales were \$100,000 per carat.

Gem News

Here's Why You Should Be Collecting Diamonds

Robb Report

November 4, 2016

by Jill Newman

How do you discreetly carry \$100 million in your pocket? In the form of diamonds. A handful of top-quality stones can be worth that much or more. Take, for instance, the Oppenheimer, a 14.6-carat fancy vivid-blue diamond about the size of an almond that sold in May at Christie's for \$58 million; or the Blue Moon, a 12.03-carat fancy vivid-blue stone that fetched \$48.5 million in 2015 at a Sotheby's auction. These sales and several other auction record-breakers in the past few years have caught the attention of investors, who have begun adding diamonds to diversified portfolios that already include more traditional holdings such as stocks, bonds, and real estate. And there's an additional bonus—beyond their value—to investing in diamonds: You can wear them. "It is the most discreet indulgence," says Robert O'Connell, the CEO of Asprey US. He says when a person wears a small 2-carat fancy vivid-green diamond ring, nobody is likely to know that it's worth at least a few million dollars. "Diamonds are a superb investment," says Laurence Graff, a billionaire who earned his wealth by trading in diamonds. "Diamonds are heirlooms that are easily transportable and sure to increase in value, as well as serving as an unforgettable way to celebrate great moments." Their portable nature can make diamonds an especially attractive investment, notes Fawaz Gruosi, founder of the Swiss jewelry brand de Grisogono. He points to volatility in global economics and politics. "You can invest in bonds, stocks, art, and real estate," he says, "but if you have a problem, you can't take the house or a painting with you."

This notion may be driving interest in the Sciens Coloured Diamond Fund, which has offices in London and ownership ties to Asprey. Founded in 2007 by Philip Baldwin and Mahyar Makhzani, the fund acquires and sells only top-quality colored diamonds. Since it was established, the fund reports, it has realized annual gains of more than 12 percent. "It's been well documented that since 1959, colored diamonds have increased in price year after year, with gains on average of 10 to 12 percent per annum," says Makhzani, who, with Baldwin, acquires the stones directly from the mines or from dealers and private collectors with whom he and his partner have longstanding relationships. One of their most prized stones is

the Argyle Prima, a 1.2-carat fancy red diamond from the Argyle mine in Western Australia, with a value greater than \$5 million. The small stone commands such high value because, Baldwin says, “there are probably fewer than 100 known red diamonds of 1 carat or more in the world.”

Industry experts predict that prices will continue to rise, especially because the Argyle mine—the world’s only consistent source for pink, violet, and red diamonds—could be depleted by 2020. Since 2000, the value of Argyle diamonds has significantly outperformed several major equity indexes, including the Dow Jones, Hang Seng, and S&P 500, according to financial reports from Rio Tinto, the mining giant that owns the Argyle mine.

Just as scarcity is driving up the value of diamonds, so too is the increased demand for them. More and more people want to acquire rare stones. “At the beginning of the last century, the only people who could buy a sizable diamond would be a king, queen, or a sheikh,” says Graff. “Today in our society, people have become very wealthy and there are not enough gem-quality stones to satisfy demand, and so they are becoming rarer and more desirable all the time.”

When Graff has the opportunity to acquire a newly discovered treasure from a mine company he must act quickly, because these days there are many more buyers for each stone. Despite the increased competition, he acquired and cut five exceptional rough stones this year. Collectively, the diamonds are worth more than \$100 million. They include a 105.07-carat D-flawless pear-shaped stone christened the Graff Vendôme, and the Graff Venus, a 118.78-carat D-flawless heart-shaped diamond that was cut from a 357-carat rough diamond.

Exceptionally large, D-flawless diamonds such as Graff’s have become media sensations, garnering attention in the same way a rare Picasso painting does when it comes to market. Such was the case in September when de Grisogono unveiled the 813-carat Constellation rough diamond—dubbed the world’s most expensive rough diamond—at the Biennale des Antiquaires in Paris. De Grisogono’s Gruosi recently partnered with the diamond trader Nemesis International to bring this stone and other large specimens to market. Nemesis

International paid \$63 million for the Constellation, which was discovered in 2015 in Botswana’s Karowe mine. “When I saw the rough, it was love at first sight,” says Gruosi, who believes that after the cutting process, the stone will be one of the world’s largest D-flawless diamonds. It’s among a handful of especially rare stones that have been given names to ensure that they will be remembered as historic gemological finds.

Jewelers are cultivating diamond collectors in a manner similar to the way that art dealers nurture patrons. De Beers is courting its VIP clients with small gatherings at which it displays a coterie of stones from its Masterpiece collection of rare colored and white diamonds. Clients have the opportunity to learn about these lesser-known stones and compare their color, cut, and quality.

David Shara—the owner of Optimum Diamonds, a New York firm that specializes in selling colored diamonds—says that once clients are educated about collectible diamonds, they typically become collectors. Many of them are wealthy people looking for stable investments, he says, and many are “doomsayers who want the ability to keep their money by their side or even under their pillow.”

As with art collectors or car collectors, for some diamond collectors the chase is the biggest thrill. “You have to pay a ton of money for these stones, but people are always chasing after the best,” says Shara. “And regardless of price, they love the process of building a collection and capturing the prize.”

Burma

The Legendary Gem Mines of Mogok Myanmar (Burma): Is Responsible Sourcing Possible Beyond Sanctions?

National Geographic

by Dr. Laurent E. Cartier

A well written article from a geological perspective of Mogok, Burma. The area must be studied for sustainability and the impact on small, local traders. ED

The Mogok Stone Tract in Upper Burma (Myanmar) has been known to produce exceptional rubies since centuries, with records

of mining activities dating back to at least the 16th century. The Mogok Stone Tract is, however, also an important source of other gemstones such as sapphire, spinel, peridot, spessartine, zircon, topaz and many others. It is also the source of many rare gemstones, such as painite. Apart from emeralds, nearly all gemstone types have been found in the Mogok Stone Tract. This is a rare and unique thing in the world of geology and gemstones. The recent announcement of the lifting of the US ban on Burmese rubies is a great opportunity to further explore and engage with this historically important region for worldwide gemstone production.

It is one of the few regions on the planet with such a high concentration of gemstone mines that have produced such high quality gemstones consistently, from both primary and secondary deposits. Few other places on earth have such a strong tradition and so many people intimately involved with the extraction and trade of gemstones. Some of the most expensive gemstones in the world come from this area of Burma (Myanmar). Unheated rubies from Mogok that lie within the narrow 'pigeon-blood' ruby color range are the most expensive colored gemstones in the world. In May 2015, Sotheby's achieved a new world record price for a ruby at auction by offering the 25.59 carat 'Sunrise Ruby' ring that was purchased for US\$30 million.

Mogok History

Gemstone trading has been documented by Western travelers in this part of Upper Burma since the 16th century. But it is believed that gemstone production and trade began earlier, around 6th century AD (Streeter 1889; Hughes, 1997). In 1597, the Burmese king Nuha-Thura Maha Dhama-Yaza annexed the Mogok and Kyatpyin regions as a way gaining direct access to rubies and other gemstones. Up to the 19th century the mines were under strict control of different Burmese rulers and there was little room for independent mining.

In 1886, the British annexed Upper Burma and effectively took control of the Mogok Stone Tract region too. The mines were leased to a British firm (Burma Ruby Mines Ltd.) from 1889 to

1931, and they attempted to mechanize operations in order to increase gemstone yields and profitability. In the beginning, this was a challenging feat especially because they found that the richest gemstone deposits were in fact located under Mogok, leading to the relocation of the entire village. In 1929, intense rains led to flooding of mines, and the lake that resulted from this event can be seen in the center of Mogok town to this day. Subsequently, locals took to using traditional mining techniques as mechanized mining was seen as too complicated and in many cases unprofitable. Mogok was largely closed off to foreigners in the past decades. Recent political developments in Burma (Myanmar) have led to foreigners being allowed to visit Mogok since 2013 but still requiring a special permission/visa to do so.

Geology of Gemstone Deposits in Mogok

The geology of the Mogok Stone Tract is complex. It consists primarily of high-grade metamorphic schists and gneisses; granite intrusives, including gem-bearing pegmatites; peridot-bearing ultramafic rocks; sapphire-bearing syenite and skarn; and ruby- and spinel-bearing metamorphic marble. With gemstone extraction dating back centuries, many Mogok deposits are increasingly exhausted; especially surface-near alluvial placers that are easier to work. It is clearly becoming both more challenging and capital-intensive to mine for gemstones in Mogok. The trend is going towards more mechanization as people search for remaining gemstones within the primary gemstone-bearing marble and gneiss host rocks. It must be added that local geological experience – including of artisanal miners- is high, given the longstanding tradition of searching and extracting gemstones in the Mogok Stone Tract. Gem-bearing gravels found in the rivers and valleys of the Tract have accumulated as a result of erosion and weathering. The gem-bearing gravel layer is locally called byon, in which all types of gemstones have been found, including ruby, sapphire, spinel, quartz, tourmaline, garnet, zircon, topaz and others.

At present, it is roughly estimated that there are 1000-1200 gemstone mining operations in the Mogok Stone Tract. These range from individual

artisanal miners, to cooperatives, independent miners, semi-mechanized operations to large-scale mining companies working with modern excavators, drill-blasting and exploration techniques. The range of methods used is truly impressive. Traditional mining techniques include twin-lon, lebin, hmyadwin and lud-win. Lud-win, for example, involves recovering gem-bearing byon from karstic limestone caves and fissures which can be sources of rich concentrations of gemstones. Today, quarrying (tunneling) in primary host rock and opencast mining of secondary deposits are the most commonly encountered methods.

As it becomes more difficult to find gemstones there is an increasing shift towards mechanized mining in primary marble and other metamorphic deposits that are complex to work. The exhaustion of easily workable secondary deposits is reducing opportunities for independent seasonal miners. Mogok has a longstanding tradition whereby local miners can re-work the tailings of mines in the hope of finding overlooked gemstones. Under the British these kanase miners were limited to women miners, but today many local miners – both men and women- continue to complement their incomes through sporadic mining as kanase. As mechanized mining becomes more important, opportunities for kanase mining may become reduced in future. This would be unfortunate given that the kanase have been a steady source of rough small gemstones that has supplied and supported vibrant local markets. Many of these stones are then traded further and cut in Mogok, showing that gemstones can provide local economic opportunities stretching far beyond simple mining. Growing mechanized mines are striving for vertical integration and the yielded gemstones may go directly to Yangon or Bangkok for further processing, unfortunately reducing beneficiation opportunities in the form of gemstone trade, processing and manufacturing in Mogok.

Gemstone trading and processing: US ban lifted

The controversial US ban (Tom Lantos Block Burmese JADE Act passed in 2008) on Burmese jade and ruby was lifted in early October 2016, now opening up new opportunities for the

gemstone trade. General consensus in the region has been that the US ban has missed its targets. It must be added that the context and dynamics in terms of local geopolitics, geology, mining and trading is very different in Mogok compared to the jade mining areas around Hpakant in Kachin state. It seems the ban in Mogok has hindered artisanal miners and local miners and reinforced the power of larger players in the industry. Observers who have visited Mogok before and after the ban confirm that the trend has clearly been an increase in mechanization, which has partially also been fueled by demand for these gemstones by the Chinese market and complex geology. Importantly, women are very much present in gemstone trading as the kanase mining tradition began solely for women. Mogok may thus provide some useful lessons on how to improve the role of women in the gemstone industry at large.

Conclusion

As the jewelry industry reflects on how to best regulate and improve conditions within its supply chain, it is worth studying Mogok as a case study for gemstones. This includes efforts to expand EITI (Extractive Industries Transparency Initiative) or RJC (Responsible Jewelry Council) Standards to also cover colored gemstones. Furthermore, the impacts of the Tom Lantos Block Burmese JADE Act on local miners and the local trade merit to be studied in detail. Although most US government sanctions impacting the sector have been lifted in October 2016, their impact will persist for some years to come. Mogok is truly exceptional not only in the diversity of gemstones it produces but also the know-how and traditions in gemstones that have developed there over generations. The post-ban era presents a interesting opportunity to address and engage with sustainability issues in the sector. Mogok has an inimitable sense of place, of being and of pride. What the region needs most is not disengagement or further bans. It needs engagement through the gemstone and jewelry community. After all, this is one of the traditional epicenters of the gemstone world. It needs to be protected and preserved for future generations.

**Hard Asset Storage
Which Of These Would You Rather Have In
Your Safe?
By Sovereign Man
December 8, 2016
by Simon Black**

Written by one of my favorite authors. His world views are slightly different than most analysts. Although we're NOT recommending people invest in cryptocurrencies, his value density comparison is excellent work. ED

Let's say you have two equal size safety deposit boxes. One box you completely fill up with stacks of \$100 bills. The other box you fill up with gold.

Which of the two is "worth" more?

It's easy to calculate. A stack of 100x \$100 bills is 6.14 inches long, 2.61 inches wide, and 0.43 inches tall. That's a volume of 6.89 cubic inches (112.92 cubic centimeters... and we'll use the metric system from here on out because it really does make more sense!).

A stack of 100x \$100 bills is worth \$10,000. So the paper money's 'value density' is about \$88.55 per cubic centimeter.

Gold, on the other hand, is much more value dense. A 1-kilogram bar of gold is 11.55 cm long, 5.25 cm wide, and 0.92 cm tall, for a total volume of 55.79 cubic centimeters. As of this morning, gold is worth \$37,811 per kilogram, meaning the value density of that 1kg bar is \$1,278.75 per cubic centimeter.

So gold is clearly more value dense than paper money, i.e. you can store a LOT more value in the same amount of space with gold than you can with paper money.

What about silver? A 1-kg silver bar measures 11.6 cm x 5.3 cm x 1.75 cm, for a total volume of 107.6 cubic centimeters; this is larger than the bar of gold due to its different chemical properties. One kilogram of silver is currently worth \$550. So the value density of silver is \$5.11 per cubic centimeter— much lower than both gold and \$100 bills.

I looked into a number of other currencies and assets. 500-euro notes, for example, currently have value density of \$373.05 per cubic centimeter based on today's exchange rates.

And the 1,000 Swiss franc note has value density of \$827.14 per cubic centimeter.

Let's look at fine wine: a bottle of 2005 Petrus sells for about \$4,200; with a storage volume of 1,331 cubic centimeters, the wine's value density is just \$3.15.

The "5270G-018 Grand Complications" model of watch manufactured by Patek Philippe sells for about \$145,000. It measures 72 cubic centimeters in total volume, for a total value density of \$2,013 per cubic centimeter.

200 rounds of 7.62mm ammunition in a bulk ammo can measures 4,014 cubic centimeters. At a cost of around \$150, the ammo's value density is about 3.7 cents.

August 1962 edition of the Amazing Fantasy comic book featuring Spiderman on the cover (and signed by Stan Lee) sells for nearly \$38,000.

It's a comic book, so it's small, at just 345 cubic centimeters. So its value density is \$110.14 per cubic centimeter.

Rare Colored diamonds, as you can probably imagine, are extremely expensive. A tiny 0.11 carat "fancy vivid purplish pink" measures just 12.91 cubic millimeters, or .01291 cubic centimeters.

Most of the normal colorless or near-colorless diamonds that are sold in mass market jewelry stores are terrible investments. They're not rare, and they're overpriced.

But high quality colored diamonds can be extremely rare, and that scarcity drives the price much higher.

That's why a tiny 0.11 carat colored diamond is currently listed at \$10,573, making its value density a whopping \$818,977.53 per cubic centimeter.

So let's look at all of these assets in order of least to most value dense:

Value of assets in dollars per cubic centimeters:

Ammunition: \$0.037

Fine wine: \$3.15

1-kg Silver bar: \$5.11

\$100 bills: \$88.55

Rare comic book: \$110.14

500-euro notes: \$373.05

1-kg Gold bar: \$1,278.75

Luxury watch: \$2,013
 1,000 Swiss franc: \$827.14
 Colored diamonds: \$818,977.53

Now, in my view, given the potential costs and challenges of the other assets, gold still remains the top choice.

Luxury watches may be more value dense than gold, but the marketplace is limited and the costs to sell are much higher.

There are gold dealers in just about every major city on the planet, so you'd be able sell a gold bar in no time at all, at very little cost.

Colored diamonds, luxury watches (and even comic books) could take much more time to sell, and you might need to pay steep commissions to close the deal.

Plus, the gold price is quoted worldwide, round-the-clock. There's never any question about how much gold is worth.

The 1,000 Swiss franc note is more value dense than gold. And for now, Switzerland has resisted the calls to ban the note, as Europe has done with its 500-euro note.

But I wouldn't expect that sensibility to last forever. Between the two, gold is likely safer from a regulatory perspective... and more universal.

But fortunately the decision doesn't have to be mutually exclusive. You don't need to choose between one and the other.

So if you're going to fill up your safe, choose a variety of assets. You can start small— silver coins and \$20 bills.

Now, there's one asset here that I didn't list. You might have thought of it already... it's one that blows the rest away in terms of its value density. I'm talking about cryptocurrency.

Bitcoin, for example, takes up precisely zero space. If you really wanted, you could memorize a string of digits and store millions of dollars in your head. Even if you wanted to print out a 250-pixel QR code and keep it in your safe, it would take up a laughable amount of space, roughly 0.21 cubic centimeters— not much bigger than a tiny diamond. Yet that same 250-pixel QR code could hold \$1 worth of bitcoin... \$100... \$1,000... or even millions.

In other words, the value density is enormous. Now, I'm not encouraging you to dump all of your savings in cryptocurrency— there are still plenty of growing pains ahead.

But it's important to understand the many benefits of cryptocurrency... and value density is just one of them.

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