

Gemstone Forecaster

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Does Inflation Mean Gems Will Skyrocket?

by Robert Genis

In studying economic history, it often helps us to recognize cycles or patterns. The last time gemstones really increased dramatically in price was the late 1970's and early 1980's. The colored gem markets took off with real estate, oil, diamonds, rare coins, and precious metals. Consider how similar conditions are today compared to those times. It is probably only a matter of time before gems increase dramatically here in the United States and the rest of the world. Interestingly, high quality gemstones often operate in their own pricing cycles, almost irrelevant to world economic cycles. Treatments, bad publicity, and especially supply and demand issues can have a vital effect on gemstone pricing. This explains why the prices of different stones don't all go up or down together. However, inflation will always play an important role in gemstone pricing.

What caused inflation and hard assets to skyrocket during the 1970's? In the 1960's, rather than increase taxes, the US Government decided we could have "guns and butter." In order to pay for the Vietnam War, the War on Poverty, and the Space Race, the Federal Reserve printed money like drunken sailors. Seems hard to believe today but back then the US was a creditor nation with a huge trade surplus. How did they stop inflation?

Inflation was so bad the country fired Carter and elected Reagan. Paul Volker raised interest rates so high it created a recession that stopped inflation. How likely is the Fed to do that today? Seems highly unlikely because they fear a stock market crash and believe the economy will also tank. All the recent stimulus spending has created inflation and we no longer have the will to use the tools to fight it. Like in the 70's, the Government is saying inflation won't last or is "transitory."

Gemstone Forecaster, Fall, 1996

We haven't really written a lead article about inflation in a long time. The last article was 25 years ago in Volume 14, #3 Fall, 1996.

These prices seem quaint now. Please check out the 1996 prices from the Gemstone Forecaster and think about prices today:

"Although we expect a decrease in the price of gas soon at the pumps, the recent rise in gas is inflationary. Some people are paying close to \$2.00 per gallon in California. This is the highest price for gasoline since the gas crisis of 1979. Crude oil is trading at around \$22 per barrel. In 1979-1980 crude was almost \$36 per barrel. Prices in America are going up. The average new car in America is now \$20,000. The average cost of a new home in America is \$125,000.00."

If we take a look at the same items today, people are now paying over \$4.00 per gallon for premium gas in California. Crude oil is now trading at around \$70 per barrel. The average new car in America is now \$40,000. The average cost of a new home in America is \$446,000.00. Wow.

That was only 25 years ago. Please remember these prices happened in a period where the US Government said inflation was not a problem and never went over 4.1%. See Consumer Price Index (CPI) Chart below.

CPI 1996-2021

1996-3.3%	2009-2.7%
1997-1.7%	2010-1.5%
1998 1.6%	2011-3.0%
1999-2.7%	2012-1.7%
2000-3.4%	2013-1.5%
2001-1.6%	2014-.08%
2002-2.4%	2015-.07%
2003-1.9%	2016-2.1%
2004-3.3%	2017-2.1%
2005-3.4%	2018-1.9%
2006-2.5%	2019-2.3%
2007-4.1%	2020-1.2%
2008-0.1%	2021-5.3%

Annual CPI data (1996-2021)

Source: Bureau of Labor Statistics

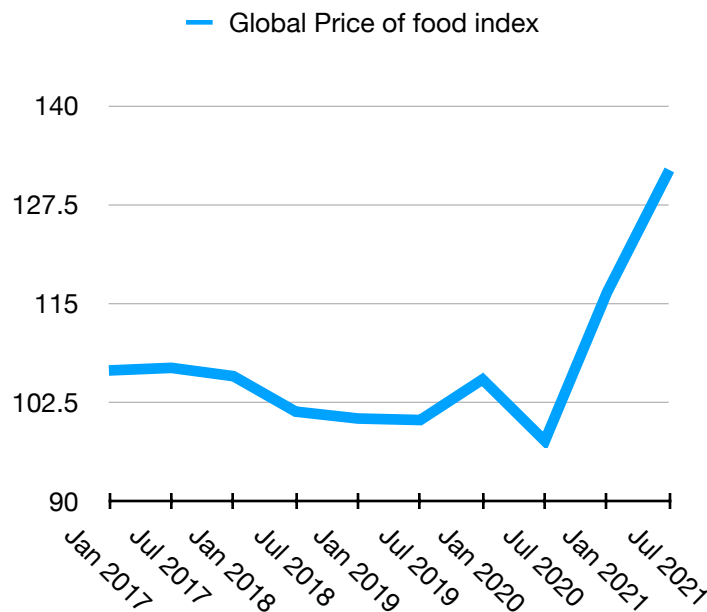
You can see what these small rates of inflation do to prices. Prices of goods have basically doubled over the last 25 years. Another way to look at it is that inflation is a "stealth tax." The value of the money you are making is worth less every year. It's not that the price of goods are increasing, the value of your currency is declining. Secondly, as you make more money, you enter higher and higher tax brackets, where the US Government takes more and more of your devalued currency. A vicious cycle.

What happened in the last 25 years? Did inflation specifically cause gems to increase in value? As you know, most gems doubled or more. Not all gems increased during this period such as white diamonds and tanzanite. However, certain gems went up even more dramatically, such as Brazilian Paraiba and Kashmir sapphire. What can we expect as inflation is now 5.3%?

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Global Food Index

This chart does not bode well for "transitory" inflation. Take a look at the Global Food Index:



Source: International Monetary Fund

Is Inflation really 5.3%?

5.3% inflation is the highest it has been according to the CPI since the Financial Crisis of 2007-08. The government says don't worry inflation is "transitory" We hope so but I don't believe the 5.3% number and neither should you. In August, the Producer Price Index (PPI) went up 8.3% from 2020. Gas and energy items have increased 25% this year. Some measures show house prices are up 19% this year and rents up 9%. Even though wages are increasing, real weekly earnings are decreasing, which means inflation is eroding into the wages of workers. The wealthy can benefit from inflation, the poor not so much.

Many say the CPI vastly underreports the real inflation rate. Many believe the CPI is subjective and easily manipulated, rather than reflecting real world data. Let's face reality; the government has a vested interest in calculating inflation at the lowest rate possible. The lower the rate, the lower the percentage increase they have to pay for entitlements. Also, the lower the interest they have to pay to lend money to finance their monetary policy. The US changed the way it measures the CPI in 1980. Today's inflation only measures the core inflation rate. What this means is food and energy is not

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measured. Sadly, almost all of us buy gas and eat food.

The Federal Reserve has been printing money since 2008. The Government economists believed it was better to "drop money from helicopters" than experience a recession/Depression. It has actually worked for a long time and may still. What was the answer to the Covid Pandemic? Drop more money. This is why the Covid recession has one of the shortest in memory at two months. The Federal Reserve and their global colleagues will keep their collective feet on the gas pedal of monetary stimulus. However, this may also be what gives us the downside to printing money- high inflation and potentially hyperinflation.

Is Inflation Driving Gems?

This might be a good time to try to figure out what will happen to gem prices in the near and long term. Prices of most high end gems remain high and firm, as evidenced by Burmese stones. Most colored diamonds are also strong. You should expect the diamond and gemstone markets to continue to follow this pattern. This trending up market is not strictly inflation driven, but inflation will surely give it a boost. White diamonds were recently increased 10% by DeBeers. Demand has come roaring back after Covid. Inflation may be the true cause. New auction records are being set in the midst of Covid 19. For example, a relatively small 3.21 carat unheated Burmese ruby sold for \$150,514 per carat. (See Next Article Auction News) This means collectors still want to purchase top, rare colored gemstones and diamonds despite the pandemic.

Cache of Gems?

Most financial advisors suggest a percentage of one's portfolio should be in hard assets. This will always make sense, in any economic conditions, but especially in inflationary times. Remember, your diamonds, gemstones and precious metals are also crisis hedges. You will have them no matter what. Can you say that about your financial stocks and bonds? What if they become practically worthless? This is not true with diamonds and precious gems that you can hold in your hand. In times of extreme emergency, you can always feel safe with your small cache of gems.

Inflation Hedges

Gemstones are rising along with escalating oil, precious metal, crypto, diamond, real estate markets and the weakening dollar. We are obviously in an inflationary period. Conventional wisdom tells us commodities are the best inflation hedge. When inflation becomes a worry, smart investors diversify into hard assets. Although gemstones are not as liquid as some investments, they provide the ultimate portable store of wealth. If you are financially secure, placing a small portion of your wealth into gemstones makes sense.

Gems as Insurance

The supply of fine gems have continued to decline and demand is strong due to new consumer wealth. Vast amounts of paper profits have been created by the stock market in recent years. After all, why leave your money in a bank account paying less than 1% interest? Traditional investors and recent millennial meme traders/crypto traders are profit-taking and diversifying into the diamond and colored gemstone markets. As insurance to protect your total portfolio in the event inflation turns into hyperinflation, a small percentage of your assets should be in private and portable gemstones. In 2021, we don't foresee an immediate roaring bull market similar to the 1970s, but it could happen.

Accumulation Theory

Let's look again at the past history of one of the most famous gem collectors. The epitome of the classic gemstone collector is Mr. Hancock. His family sold the famous .95 red diamond at Christie's in 1987. His collecting theory was to buy colored diamonds relentlessly. The business cycle was irrelevant to Mr. Hancock. He bought consistently. This is the key to successfully collecting/investing in the gemstone and many markets. Constant accumulation is probably also an excellent strategy for stock/financial, crypto and real estate markets. So if you have available funds, take a small portion and have some fun collecting top gems. The supply of top collector gems is limited and this market reality helps limit downside movement in collector quality gemstone prices. We can't really say this about the crypto and other markets. Opportunities like today in the gem markets may be as rare as fine colored gems and diamonds.

Auction News

Bonham's

An oval 3.21 unheated Burma ruby sold for \$150,514 per carat or \$483,153 at Bonham's Hong Kong Jewels on June 20, 2021. It was mounted in a signed Van Cleef & Arpels 18K gold ring with 1.40 of small diamonds.

That is a great deal of money for a three carat ruby. Mogok Burma rubies continue to skyrocket in the auction markets.

Regretfully, this stone didn't have an AGL grading report so it's pretty difficult to get a handle on color/tone grade, clarity, brilliancy and cutting/finish of the gemstone.

The gem came with Gubelin, SEEF and GRS reports. All three of these labs call almost every stone 'pigeon blood', so their grading is almost meaningless. It's also very difficult to grade a gemstone via a computer screen. Nevertheless, we would guesstimate the stone is a true 'pigeon blood' or 70% red or 2.5 color at AGL from the Bonham photos. Generally, the auction houses have one grading report that is from the AGL...Oh well.



Source: Bohmam's

Sotheby's

On July 9, Sotheby's sold a 101.38-Carat Flawless Pear Diamond for Cryptocurrency. Cutting edge, they were the first auctioneer to offer a massive diamond for sale that could be purchased with cryptocurrency. It was expected to fetch between \$10 million and \$15 million.

The Key 10138, named after cryptocurrency keys, is one of only 10 diamonds with more than 100 carats to ever come to auction.

Sotheby's payment could be in either ether or bitcoin, facilitated through Coinbase. The auctioneer would accept traditional currency, too.

"This is a truly symbolic moment. The most ancient and emblematic denominator of value can now, for the first time, be purchased using humanity's newest universal currency," said Wenhao Yu, deputy chairman of Sotheby's Jewellery in Asia.

The diamond sold for \$12.2 million, which was in the middle of the \$10-\$15 million estimate. Probably, at the time, the declining crypto markets affected the price of this transaction. It was not known whether the buyer used bitcoin or ether. The collector remained anonymous.

Expect more sales at Sotheby's for crypto. Watch the in the next Hong Kong sale.



Source: Sotheby's

Burma Political News

War On Rocks

Authoritarianism and Resistance in Myanmar Book Review of Delphine Schrank, *The Rebel of Rangoon*, (Nation Books, 2016)

Zachary Abuza

August 20, 2021

We probably obsess a great deal about Burma. One thing we know for sure, don't expect any Burmese goods to come out of the country any time soon. Like Kashmir sapphires, we will probably have to buy top stones from collectors that bought a long time ago, not new material. These collectors are smart and we will probably have to pay top dollar to get the goods out of their portfolios. The coup in February is still in force, despite worldwide pressure and condemnation. We find it a fascinating country for its people, history and of course, its gemstones. After gaining independence from the British, it has been ruled by a socialist dictator and the military with occasional hints of true democracy. This is comprehensive view of the country. If you have a few minutes, it's well worth reading. Never forget many of the Burmese people and miners are good people simply trying to make a living. It's the Military Government that is bad. Due to space constraints, we had to edit some parts out. Enjoy. ED

Since it staged a coup d'etat in February, Myanmar's military has waged war against the country's democracy and its own people. It has killed nearly 1,000 civilians and has bombed civilian populations in border areas. It has arrested nearly 8,000 people, including children and family members of dissidents it cannot find. And it has already put Aung San Suu Kyi and the other aging leaders of the National League for Democracy, which routed the army's party for a second straight election in November 2020, on trial. A poet who wrote that the "revolution dwells in the heart" was arrested and tortured to death. His body returned to his family without his heart. Some in Myanmar are fighting back. Various armed ethnic insurgencies have stepped up their attacks on government forces. Though it has over 350,000 men under arms, the military,

known as the Tatmadaw, is spread thin across multiple fronts. A nationwide civil disobedience movement has confronted the military, bringing the economy, health, and education systems to the brink of collapse. The World Bank is expecting at least an 18 percent contraction of Myanmar's gross domestic product in 2021.

Myanmar is on the verge of becoming a failed state. The Tatmadaw is digging in for the long haul, extracting enough rents from oil, gas, gems, timber, and hydroelectricity sales to China and Thailand to enrich itself. And it gets its cut of the surging trade in illicit narcotics from the Golden Triangle region, now among the largest centers of synthetic drug production in the world. And all of this matters for the United States. While its economy is small, Myanmar is strategically located between India and China. Political unrest is making it a safe haven for drug trafficking, money laundering, and transnational crime. With an underfunded health system on the verge of collapse, Myanmar is now a COVID-19 hotspot. Developments in Myanmar are of immense interest to the geopolitics of Southeast Asia and to policymakers in Beijing and New Delhi.

The Military in Myanmar's History

Myanmar's military began to dominate the country's politics soon after it gained independence from Britain in 1948. Gen. Ne Win staged a coup d'etat in 1962 and implemented the "Burmese Way to Socialism." The government nationalized foreign assets; revalued the currency in 45- and 90-kyat notes because Win thought nine was a lucky number, which wiped out savings; and closed off the country to trade and investment. The country was hermetically sealed, leaving the egregious human rights situation largely unreported. In the late 1980s, Win's own generals sidelined him and allowed a brief liberalization. This culminated in the 1990 election that the newly established National League for Democracy won and that the Tatmadaw annulled.

The military junta, officially the State Law and Order Restoration Council, known by its Orwellian acronym SLORC, ran the country into

the ground in its own way. Christina Fink's brilliant work, *Living Silence: Burma Under Military Rule*, covered just how totalitarian a society Myanmar under the Tatmadaw was.

But under the State Law and Order Restoration Council, there were two distinct changes: The country jettisoned autarky, and the military grew larger. First, in place of the "Burmese Way to Socialism," the government embraced crony capitalism. Under this model, the military dominated the country's natural resources, emerging as the largest economic player as a result.

Second, the council increased the size of the military from 200,000 to over 350,000 personnel. And despite intermittent ceasefires, the State Law and Order Restoration Council was almost always at war with several of the dozens of armed organizations along the country's periphery. The Tatmadaw waged campaigns, known as the "four cuts," a brutal counter-insurgency doctrine that included the targeting of civilians, torture, gang rapes, conscription of civilians as porters, and looting. This was no population-centric strategy; it was a scorched-earth effort to terrorize the population into submission.

At war constantly since 1948, the Tatmadaw cannot claim to have ever defeated an enemy. At best it negotiated ceasefires while setting its sights on the next ethnic group. This perpetual insecurity was exactly what the armed forces wanted. It allowed them to uphold their argument that the country was constantly at threat of breaking apart and that only they could hold it together. This pervasive anxiety allowed them to plunder the natural resources in the restive border regions.

While most international media coverage of Myanmar has always focused on Suu Kyi, the daughter of the country's founder, she was in some ways an accidental democracy leader. She founded the National League for Democracy while home from the United Kingdom to take care of her ailing mother. Western leaders and journalists all too often personalize these relationships, awed by the tenacity and grace of the woman who was still able to lead her party to elections in 1990 despite being under house

arrest. In all she was under house arrest for 17 years, winning the Nobel Peace Prize in 1991. To be sure, she has a steely determination and a conviction that she is fulfilling her father's legacy.

What Happens Next

Rebel of Rangoon says a lot about what we should expect moving forward as the military seeks to entrench itself. Suu Kyi (76) is under arrest and could likely be in custody for the rest of her life. The average age of the majority of the nearly 30 detained senior political leaders is well over 70. The Tatmadaw thinks it can wait out the National League for Democracy's leadership to quite literally die out. And it has reason to think that the strategy could work: The league was always a vehicle for Suu Kyi, not a broad-based party. Indeed, it has done a notoriously bad job at cultivating the next generation of leaders. Schrank is very frank about its failing in this regard. And with COVID-19 raging throughout the country and prison system while the military hoards supplies, the Tatmadaw seems to see the pandemic as an opportunity: Several National League for Democracy leaders have died from the virus while incarcerated.

As with the 2007 Saffron Revolution that Schrank chronicles, the current civil disobedience movement is largely leaderless at the national level. A new generation of leaders is being cultivated at the local level. The league is largely decapitated and/or absent. Indeed, Suu Kyi's defense of the military for genocide so badly tarnished her that the international community is barely taking note of her arrest and show trial.

The new heroes, if they emerge, will be names that the outside world has never heard of. And given the pervasiveness and resources of the security forces, that is exactly what needs to happen. The National League for Democracy's leadership is arrested and simply too stubborn to seek a negotiated offramp. The protests of 2021 have only diminished because of a raging pandemic that has brought the healthcare system to the brink of collapse. And the protestors did so against horrible odds — against a regime that has made no secret its willingness to torture detainees to death, engage in collective punishment, raze villages, and gun down unarmed citizens.

More, the collapse of the economy, including the near shutdown of the financial system, the collapse of imports and exports, the mass strikes and walk-offs, and already 20 percent decline of the values of the kyat will continue to fuel the ongoing unrest. With an 18 percent contraction of gross domestic product so far in 2021, the country's 55 million people are hurtling into poverty.

Many of the leaders of the 88 Generation, the Saffron Revolution, and the founders of the league were activist-journalists. And much of Schrank's work focuses on their information campaign, the use of exile media organizations such as the Voice of Democratic Burma, the Irrawaddy, and Radio Free Asia. Schrank chronicles the Tatmadaw's military intelligence and Special Branch assaults on the press and the contested space of a new import to the country: cell phones. Though Myanmar's cyber capabilities are significant, there is already evidence that the sheer volume of data that the military intercepts on a daily basis is overwhelming. Encrypted platforms have made the civil disobedience movement possible.

What Schrank's book does not address is the complex dynamics of Myanmar's various ethnic armed organizations, apart from the degree to which they trained the urban youth of the 88 and Saffron generations. Here, *Rebel of Rangoon* is less of a guide for a complex landscape today. In the period Schrank covers, the democracy activists are non-violent. That is no longer the case.

An opposition National Unity Government has been established and is operating clandestinely on the ground as the junta fails to provide basic human services. It includes ousted government ministers, but it is more broad-based than the former government. The National Unity Government established the "people's defense forces." With few arms and resources, it has to rely on an alliance of armed ethnic groups, particularly the Karen National Army and the Kachin Independence Army. Schrank rightly notes that the State Law and Order Restoration Council-era military largely kept the armed

groups apart from the non-violent democracy activists. Today, the National Unity Government is trying to coordinate the activities of both, with mixed results. They are clearly no match for the Tatmadaw in terms of manpower, training, and resources.

The National Unity government faces headwinds. The Tatmadaw has a 70-year history of divide and conquer, peeling off one opponent after another with promises of autonomy and control over natural resources. As a result, there has never been a strong alliance or any semblance of coordinated operations among the ethnic militias.

Several groups, including two of the best armed and equipped, the Kachin Independence Army and the Karen National Liberation Army, have pledged allegiance to the National Unity Government and stepped up attacks against the Tatmadaw. Other groups, such as the United Wa State Army, see utility in working with a diplomatically isolated and financially desperate military regime. The Wa control the majority of Myanmar's illegal methamphetamines and heroin operations, both of which are becoming rapidly more productive, according to the U.N.

Office of Drugs and Crime.

Still other organizations, such as the Arakan Army, are in flux. They neither condemned the coup nor ended their December 2020 ceasefire. But they have launched a few attacks to send a message that another front would not be in the Tatmadaw's interests.

But what is new is that the fight is starting to be taken to the cities itself, with or without the approval of the National Unity Government. There has been a string of urban bombings targeting Tatmadaw forces and facilities near its party headquarters. A dozen pro-junta officials have been assassinated. And yet, the degree to which the National Unity Government has any command and control over this remains unknown. Either way, this campaign of urban violence is clearly one that the Tatmadaw did not anticipate.

Another unknown is the degree of unity among the Tatmadaw leadership. Was the decision to stage the coup broad-based among the senior officer corps? Or was it the decision of just the senior generals, the last gasp of the generation who came of age under military rule, and seek the spoils of that system? The Tatmadaw's officer corps has never split before. Its members live in cantonments, have their own school and university system, their own corporations that employ family members and provide sinecure for retired officers, and their own banks and media. The military works to keep its troops physically separated from the civilian population across all spheres of life.

But is this time different? The economic contraction will hurt the mid-tier officers very hard. Even some of the senior officers are not immune from the collapse of the economy, diminished job prospects for their children, and limited opportunities (if international sanctions start to bite) to travel abroad. Their children are as addicted to their smart phones as everyone else and are likely angered by the regular internet shutdowns.

In short, is the military's wealth being shared widely enough to maintain unity in the armed forces? If it's being concentrated in the hands of a few senior leaders, internal struggles could emerge. The Tatmadaw does have a history of putting some greedy and economically incompetent leaders out to pasture. If that's the case, who is today's Thein Sein searching for an off ramp? After the coup in February, the Tatmadaw pledged to restore "democracy" in a year's time. It then postponed that to August 2023. The armed forces appear to be adopting the Thai military playbook to cling to power, including the legal dissolution of the National League for Democracy; the arrest, harassment, exile or cooptation of members; the banning of politicians who have criminal records; the use of opaque national security laws; a shift to proportional representation; military appointed commissions; and capture of the judiciary. Any military-backed government will not placate the population. There are years of underground organizing, party and coalition building ahead, all under very repressive conditions. That will require there to be armies of Rebels of Rangoon.

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