

تصنيع الذهب والمجوهرات في دولة الإمارات  
**Gold and Jewellery Industry in U.A.E.**

Rise in gold price - The U.A.E. gold industry is undergoing turbulent times with volatility in gold prices, a global economic slowdown and changing consumer preferences. However, the dramatic rise in price is of the most significance to the large gold jewellery industry in U.A.E. Since we last analyzed the gold business in this journal in 1998, gold prices have shot up almost 4 times. In 1998, gold prices were at an all time historic bottom (in real terms), which had given an enormous boost to the jewellery business. However, since then from an average price of less than \$300/ounce in 1998, gold price in 2010 has reached around \$1200/ounce. This virtual explosion in price has had a considerable impact on demand for gold, particularly, from the jewellery industry.

Gold Price Behaviour, 2001-2010, (Beginning of the Year Price)

Year	Average Gold Price US \$/ounce
2001	275
2002	285
2003	340
2004	420
2005	425
2006	500
2007	600
2008	825
2009	840
2010	1040

Source: [www.goldprice.com](http://www.goldprice.com)

Downward demand trend – The impact of the rise in price is clearly evident from the import demand figures in the next table. Import quantity has declined enormously, from a high of 915 tons in 2005 to less than 350 tons in each following year since then. These are roughly the import demand levels seen in the early nineties. After 1997, gold demand had shot up dramatically and remained at high levels till the decline in 2006.

Import demand for Gold Bars, Qty. in Tons and Value in AED'000

Year	Imports	
	Qty	Value
2004	805	13,401,507
2005	915	15,056,671
2006	324	20,616,059
2007	338	22,429,441
2008	348	34,169,375

Source – Dubai Trade Statistics

There is a large fluctuation in imports because demand for gold not only for jewellery but also from central banks and their sporadic bulk bullion purchases are not related to consumer demand behaviour. Nevertheless, the decline is quite unmistakable since 2006.

Precious metals in U.A.E. - Gold is the only precious metal of significant demand in U.A.E. Silver jewellery though sold pales in comparison. Silver demand is (by quantity) at best a mere 15% of gold demand. Price of gold being several times the price of silver, silver demand value is insignificant at around 1-2% of value of gold demand.

Jewellery business - The global jewellery industry is valued at approximately \$ 146 billion (AED 536 billion), of which the GCC market represents around 10% with a value of \$ 14.5 billion, according to market sources. Almost 8,000 GCC nationals are reportedly involved in the industry. Dubai's jewellery industry has approximately 1,800 active jewellery trade licences, a thousand of which represents retailers and the remaining wholesalers, distributors and manufacturing companies. There are close to 40 modern jewellery manufacturers in U.A.E. and around 200 artisan type of jewellery workshops.

Backward linkages – To support the jewellery manufacturing business, gold refining facilities are being set up in the country with the support of Dubai Multi Commodities Centre (DMCC). DMCC has supported the establishment of arrival of two high-tech operating refineries whose combined output is expected to boost the country's refining capacity by a significant margin. One silver refinery has also been set up in the UAE. This refinery has been awarded the Dubai Good Delivery (DGD) status, thereby, enabling it to achieve international ranking. This enables jewellery manufacturers and traders not to have to turn to international suppliers for their requirements.

Price, demand and elasticity – From the behaviour of the market in the past few years during times of high price rise, it is evident that demand for gold is relatively inelastic and that consumers continue to buy gold despite the enormous price rise. The average import price of gold (import value divided by import quantity) in U.A.E rose by more than five times between 2004 and 2008, however, import quantity did not fall by the same proportion. The value of imports rose significantly to indicate a firmness of demand.

Decline in jewellery demand – Nevertheless, the enormous rise in cost of raw material which is unavoidably passed on to the consumers has had an adverse impact on the jewellery business. Consumers have felt the pinch and demand has fallen, while the cost of holding inventory and profit margin has declined. The global slowdown has further reduced demand insofar the jewellery business depends almost 50% on tourist buyers, whose numbers slightly declined after the slowdown, but more importantly were spending less because of the recession. Market sources, particularly, report fall in demand from Western tourists, and that the retail business is currently being sustained by buyers from South Asia and Africa.

As the financial crisis of September 2008 unfolded, there was a big fall in demand for gold jewellery early in 2009, with reported decline of as much as 60% in the earlier months. This is not surprising as jewellery is a luxury product and such non-essential products faced the brunt of the crisis. Market resources also report a fall of annual jewellery sales in Dubai by 30 % in 2009 compared to 2008.

Minor recovery – However, in 2010, the first quarter sales figure was up by 13% compared to the same period in 2009. While this is a welcome recovery, indications are that sales are currently well below the levels of 2008.

Changes in jewellery demand structure – Besides issue of decline in jewellery demand, there is another challenge being faced by jewellery manufacturers and traders in U.A.E. Jewellery demand, particularly, at the higher end is gradually shifting away from pure gold jewellery to precious stones jewellery, viz. jewellery where the main ingredient and cost is not the gold or precious metal, but precious stones and gems like diamonds, sapphire, rubies etc.

Gems and pearls – Consequently, the trade in precious stones is on the rise. Dubai's total trade of diamond volumes is reported to have reached 182 million carats in 2009, an increase of 22% over 2008. A total of 80 million carats of polished diamonds were traded through the emirate in 2009 increasing by more than 150 % from 2008 when 32 million carats were traded. The emirate also recorded AED 99.6 million worth of pearl trade in 2009, slightly higher than the AED 95 million posted in 2008. Imports rose by 30%, contributing to trade value increase of 3.8 %.

Outlook – The current outlook for gold price is bullish as the financial crisis of 2008 is another crisis in Europe looms large. Such periods strengthen gold demand and could lead to further rise in gold price. If gold price rises the outlook for gold jewellery is not very good, particularly, given the changes taking place in consumer tastes. However, demand for precious stones and gem embedded jewellery is expected to rise and businesses will have to make this structural change and move to such jewellery. Since gem work jewellery lends itself more to artisan work and individual craftsmanship rather than machine made jewellery, businesses will have to rise to this challenge.