

JEWELLERY RECYCLING

Falling headline figures for net platinum and palladium jewellery demand over recent years have obscured some of the trends in this sector. High platinum prices have had a negative impact on platinum jewellery sales, while palladium has retained its price advantage over other materials and jewellery demand is rising.

However, rising pgm prices have also meant that recycling of unsold retail stock and old pieces from consumers has become ever more important in this industry, reducing net demand for metal.

PLATINUM RECYCLING

The recycling of platinum jewellery is greatest in China and Japan where the total weights of metal bought by consumers in recent decades are highest. However, there are significant differences in how recycling functions in these two countries.

In China, retail margins are lower than they are in most other countries and platinum jewellery often acts not just as a decorative item but also as a store of value. Consumers are therefore aware of the value of the precious metal and a market has built up where retailers will exchange old platinum jewellery for new pieces.

This material typically returns to the manufacturers for remelting and reworking into new jewellery, offsetting demand for new metal. Importantly, since jewellery is only returned in part exchange for a new piece of higher price, it is not possible for more metal to be recycled than is used in manufacturing.

High prices have driven this recycling activity and have also encouraged retailers and manufacturers to minimise their stocks, often by recycling and

re-manufacturing them. As prices fall, the level of recycling in China is therefore likely to fall too.

In Japan, the situation is somewhat different: in the last few years a network of jewellery collectors and pawn shops has become established which will buy old jewellery for cash from consumers. Much of this is in the form of neckchains or rings bought in the 1970s and 1980s.

Some of this scrap material is reused in jewellery production within Japan but a volume of scrap is also exported for refining and much is refined within Japan and then exported or used in other industries.

The rising Yen price for platinum over the last few years has raised the profile of the recycling industry and increased the weight of metal recovered dramatically. It is likely that more metal was recycled in the first half of 2008 than was used in domestic jewellery manufacturing, i.e. net Japanese jewellery demand was temporarily negative.

However, as in China, the steep drop in the platinum price restricted the flow of jewellery scrap in the third quarter of 2008. Assuming that the price remains depressed for the remainder of 2008, net demand for the year should be positive.

Consumer behaviour is quite different in Europe and North America. Although the jewellery trade in these regions has reduced inventories due to high metal prices, very little second-hand jewellery is returned for resale or recycling. As a result, changes in jewellery demand here closely reflect trends in manufacturing volumes.

PALLADIUM RECYCLING

By contrast, most global palladium jewellery demand is for the

manufacture and sale of jewellery items in China. While it is possible for consumers to trade in second-hand palladium jewellery, many shops do not offer this service or only allow exchange for new palladium pieces as the retail price is significantly higher than the raw material price. The market is also much younger than the platinum jewellery market and there are fewer palladium pieces to be returned. The purchase and reprocessing of old palladium jewellery is therefore not an important trend.

However, manufacturers are still receiving some quantities of Pd950, an earlier, lower-purity material, to rework into Pd990 (a 99 per cent palladium alloy). This Pd950 did not sell particularly well to consumers and shops have therefore sought to minimise their inventory costs by returning jewellery made from this alloy and recycling it into Pd990, reducing the amount of metal that manufacturers have had to buy in order to manufacture new product. However, it is likely that most of this Pd950 stock has now been reprocessed.

Material flows from this source have therefore started to decrease and Chinese manufacturers have been forced to purchase more of their palladium requirements as new metal, driving demand higher.

Net platinum jewellery demand will be depressed by over 500,000 oz of recycling during 2008.

