

Executive Summary

The Polished Market

- The RapNet Diamond Index (RAPI) for 1.00-carat polished diamonds fell 1 percent to 95.95 in January.
- Indian polished dealers cautious as the volatile rupee and high inflation have impacted consumer and trader confidence.
- Chinese buyers holding back from large inventory purchases due to economic uncertainties.

The Rough Market

- Rough tender prices stable.
- ALROSA and DTC adjust prices but values remain high.
- Dealer trading still weak.
- Influx of Zimbabwe rough expected to impact the market in 2012, especially for low color and low quality category.

Retail & the Economy

- Retailers cautious due to global economic uncertainties despite steady sales over the U.S. holiday season and the Chinese New Year.
- Stable Far East diamond demand but gold spurs strong jewelry sales during Chinese New Year.
- Post-holiday lull sets in the U.S. but retailers satisfied with fourth quarter sales.
- Financial markets rise.

Conclusion: Many in the diamond trade are expecting a challenging start to 2012 due to lingering global economic uncertainties. Their caution was evident in January as most players along the diamond pipeline continued to carefully monitor their inventories.

With buying somewhat subdued, polished diamond prices were relatively stable, although they declined slightly. Far East wholesale buyers took vacation over the Chinese New Year period and held back on buying after their return, willing to wait before making large commitments. U.S. buyers also displayed little urgency to purchase goods in January.

Indian dealers expressed uncertainty about the market as local consumer confidence weakened. Small-to-medium-sized cutters curbed their rough buying of mainstream goods on the secondary market while the influx of cheap, low quality rough from Zimbabwe offered better margins and value for money.

Cutters' rough inventories are expected to rise in the first quarter as Zimbabwe sells a significant volume of Marange goods and ramps up production, even as polished demand remains subdued. Rough prices were relatively stable in January and premiums on DTC boxes improved, but the extent to which the Zimbabwe goods will impact the wider market remains to be seen.

Diamond traders were mostly concerned with the economic outlook for 2012 and are therefore expected to tread carefully through the first quarter.

The Polished Market

Polished prices were basically stable with a slight downtrend in January as global markets remained soft and traders were cautious. While retailers in the U.S. reported a relatively satisfactory holiday season, and expressed some intention to start buying again, Asian buyers lacked any urgency to build inventory.

Consumer confidence in India weakened due to rising inflation in 2011 and to the volatile rupee exchange against the U.S. dollar. The currency appreciated by 7.6 percent in January after losing 8 percent in value in the fourth quarter of 2011. These factors subsequently impacted diamond trading in the country.

Similarly, a projected slowdown in the pace of China's economic growth kept Far East buyers in a cautious mood. Diamond sales were stable during the Chinese New Year spring festival but not enough to spur strong wholesale activity thereafter. Chinese buyers have slowly shifted to larger sizes with a decline in demand for 0.30-carat stones and an increase in popularity for 0.50-carat to 1.00-carat diamonds. In general, there is an excess of supply of 0.30-carat goods and the market continues to seek equilibrium in this category.

Activity in Israel was mixed as confidence was impacted by a large-scale police raid on an alleged fraudulent money lending scheme in the bourse. Belgian suppliers held their prices firm despite the relatively slow trading in Antwerp during the month.

The RapNet Diamond Index (RAPI™) for 1.00-carat polished diamonds fell 1 percent to 95.95 in January (see Figure 1). RAPI for 0.30-carat stones declined 3.9 percent to 15.48 and RAPI for 0.50-carat diamonds rose 0.3 percent to 34.49. RAPI for 3.00-carat stones fell 0.3 percent to 350.82.

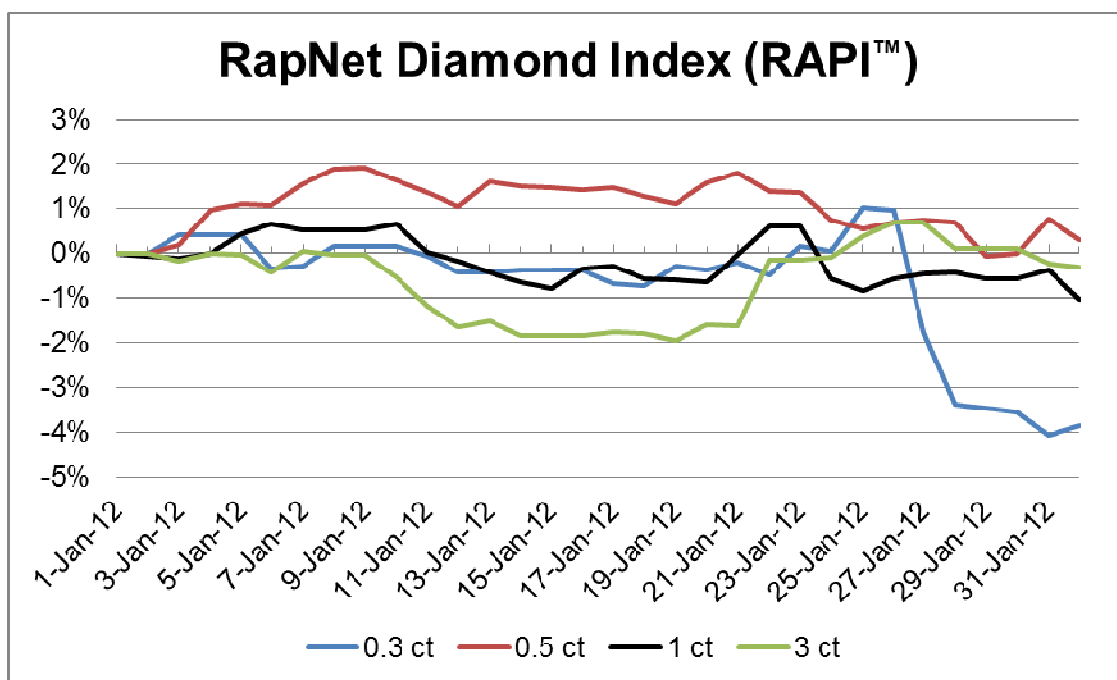


Figure 1

The RAPI is based on the best asking price in hundred \$/ct. for the top 25 quality round diamonds (D-H, IF-VS2, RapSpec-2 and better) offered for sale on RapNet – Rapaport Diamond Trading Network.

Prices are still up significantly from one year ago due to the sharp increases registered in the first half of 2011. The RAPI for 1.00-carat diamonds was up 15.6 percent on January 31, 2012 compared to the same date a year earlier (see Figure 2).

RapNet Diamond Index (RAPI)		
	Jan-12	Y2Y Changes at Jan 31
RAPI (1 carat)	-1.0%	15.6%
0.3 ct	-3.9%	-6.1%
0.5 ct	0.3%	18.4%
3 ct	-0.3%	17.7%

Figure 2

The RAPI is based on the best asking price in hundred \$/ct. for the top 25 quality round diamonds (D-H, IF-VS2, RapSpec-2 and better) offered for sale on RapNet – Rapaport Diamond Trading Network.

The Rough Market

Rough tender prices stabilized in January as mid-tier diamond mining companies reported improving demand for their product. ALROSA reduced prices by approximately 5 percent at its January sight after the Russian company left prices untouched throughout the second half of 2011 when the market softened.

The Diamond Trading Company (DTC) adjusted prices and assortments at its January sight, which closed with an estimated value of \$650 million. While DTC prices appeared to decline slightly, the value of its boxes remained relatively stable given the changes in assortments. Premiums on DTC boxes on the secondary market improved slightly toward the end of the month but are still at around, or slightly above, list price.

Rough trading continued at a slow pace largely due to the cautious Indian market. Indian demand for rough declined through the second half of 2011 as the country imported less volume of diamonds and as prices fell (see Figure 3).

While India's rough imports by value rose 26 percent to \$14.42 billion in 2011, the volume of imports fell 21 percent to 128.2 million carats, according to Rapaport estimates based on monthly data published by the Gem & Jewellery Export Promotion Council (GJEPC). The volume of carats imported during the fourth quarter was the lowest on record since the first quarter of 2009.

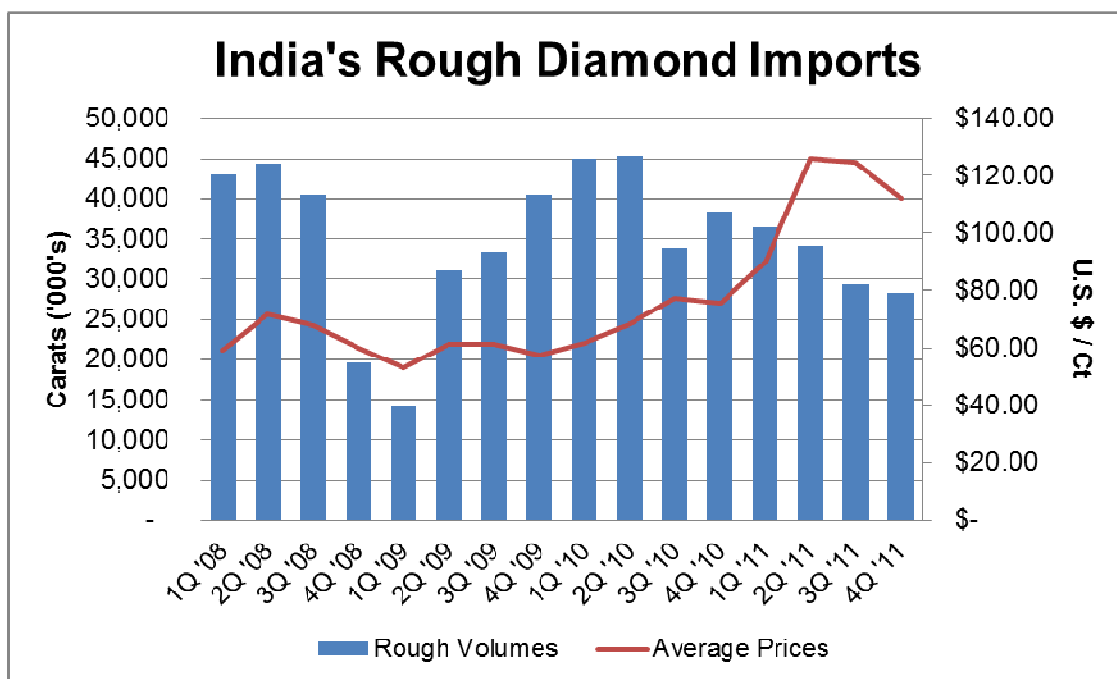


Figure 3

Rapaport estimates based on monthly data published by the Gem & Jewellery Export Promotion Council (GJEPC).

Given the market caution, the major mining companies have avoided raising production levels, particularly as a large volume of rough from Zimbabwe's Marange fields is expected to enter the market in February. Rapaport estimates that global production fell by about 4 percent year on year to approximately 123 million carats in 2011 after De Beers output declined by 5 percent and Rio Tinto and BHP Billiton's diamond production fell by larger margins (see Figure 4).

While most individual companies are keeping their production at a restrained level, four Zimbabwe mines are now in operation and exporting with Kimberley Process (KP) certification. Sources close to the Marange operations estimate that combined production at the Marange concessions is expected to reach about 20 million carats this year, up from about 9 million carats in 2011.

The concessions include that of Mbada Diamonds, where output is at an estimated 400,000 carats per month, while production at Marange Resources is ongoing at about 150,000 carats per month. The concession owned by Anjin has production of 750,000 carats a month that is expected to rise to approximately 1.2 million carats a month after the implementation of two new processing units. The newest concession, Diamond Mining Company (DMC), is operating at an estimated rate of 100,000 carats per month. This additional rough is expected to immediately impact the market, particularly the supply and price of low color, low quality goods.

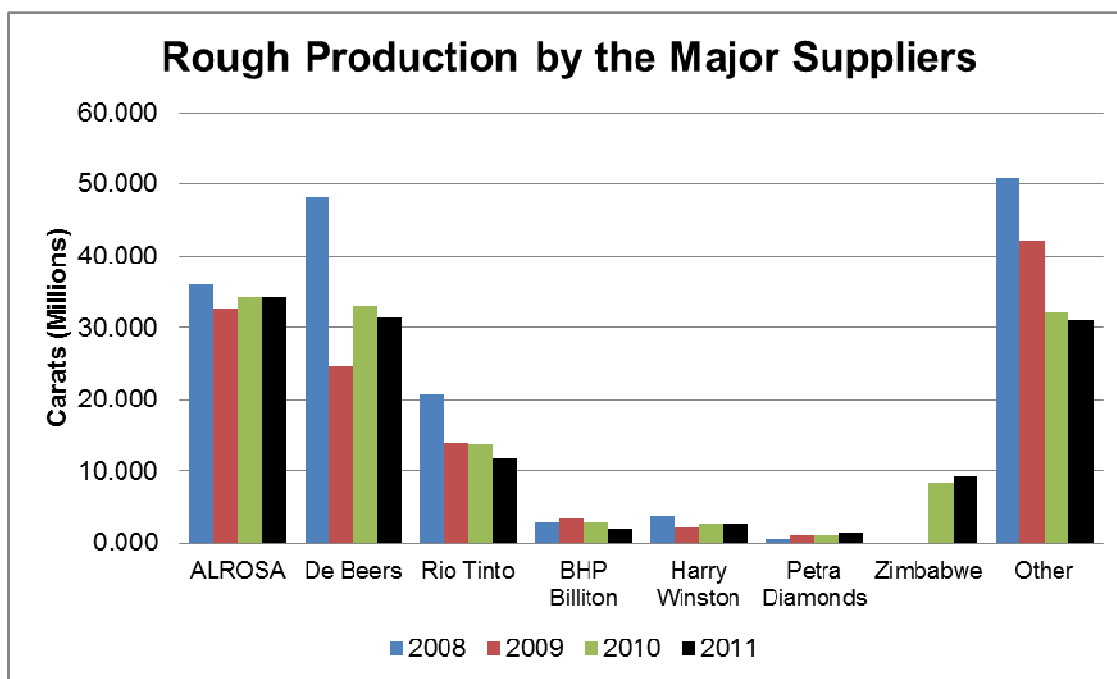


Figure 4

Based on data collected from company reports, Kimberley Process data and Rapaport estimates.

Retail & the Economy

U.S. jewelry retailers were largely satisfied with their holiday season performance even if sales were about in line with the previous year. While there was strong indication that they intend to buy during the year, retailers were content to wait through January, and the first quarter, before replenishing inventory in a meaningful way.

Similarly, Far East retailers avoided making large purchases to fill their diamond inventories as uncertainties remain about the global economic recovery. Jewelry sales were strong during the Chinese New Year spring festival driven by gold demand while diamond demand was stable. Diamond retailers' concerns came as the pace of China's economic growth slowed in the fourth quarter and is forecasted to slow further in 2012.

In addition, the prolonged European debt crisis continues to spur uncertainties and diminish confidence. Some investor confidence was restored as financial markets rose during the month (see Figure 5).

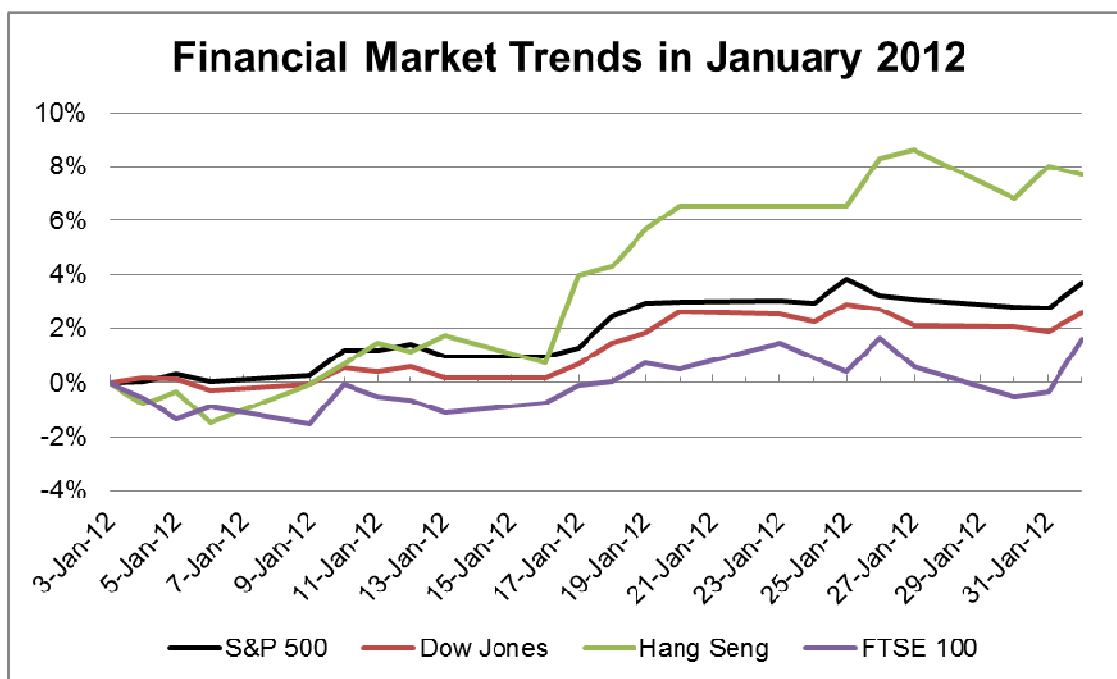


Figure 5

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