

### Executive Summary

#### **Polished Pushes Forward**

- Average prices for certified polished diamonds rose 2.4 percent in April 2011.
- Prices have increased by 14.3 percent during the first four months of the year and rose 19.6 percent year on year at April 30.
- Dealers exerted some caution into the market, seeking some price stability to absorb the increases experienced in March.
- Demand was driven by Far East markets ahead of the May Day retail season, restocking by large U.S. retailers and rising investment demand.

#### **Rough Rides On**

- Demand remained upbeat as price increases continued at a slower pace in April 2011.
- Average price of high-end Letséng goods soared during the month.
- Dealer activity was strong in the trading centers.
- 1Q Production increased approximately 3 percent year on year.

#### **Retail Improvement Continues**

- Large U.S. retailers increased their inventory purchases.
- Outlook is positive for jewelry sales ahead of China's May Day celebration and Mother's Day season.
- Jewelry inflation reached record levels in March.
- High-end retail outlets posted strong first quarter.
- Japan's retail sales fell 15 percent in March due to the earthquake and tsunami that hit the country.

#### **Conclusion**

The diamond market remained in a positive mood during April despite a drop-off in the high level of activity seen in the previous month. Polished and rough dealers, recognizing that demand and prices did not reflect consumer needs, appeared to exert some caution that the market may have overheated in March. In addition, political turmoil in the Middle East and lingering economic uncertainties fueled their concerns.

Quieter trading also resulted from the extended vacations that many took over the Passover and Easter holidays. With no major retail holidays or trade shows to boost activity, April proved to be a calmer period.

Still, the price uptrend continued in both polished and rough, as an overflow from March and also as anticipation rises for May. The trade has garnered strong expectations for jewelry sales over China's May Day celebrations and for Mother's Day, and further hopes that the subsequent JCK Las Vegas show, which begins on June 3, will spur strong global trading and signal a sustained recovery in the U.S.

#### Polished Market

Average prices of certified polished diamonds rose by 2.4 percent in April 2011. The market remained upbeat despite relatively slower trading compared to March. Dealers sought price stability following the sharp increases experienced the previous month and as many took vacations over the Passover and Easter Holidays. As a result, the price speculation seen in March eased.

Demand was driven by strong consumer sentiment in the Far East ahead of the May Day retail season in China, and continued improvement of the retail sector performance in the U.S. Large retailers increased their inventory purchases with particularly strong demand for top quality very small polished (0.005 - 0.03 ct.) stars, due to the strong developing demand for diamonds in watches and branded jewelry. In addition, investment demand for top quality, large diamonds has increased due to concerns over Middle East political upheavals and global economic uncertainties.

The average price of 0.5-carat stones rose 3.5 percent during the month, while average 1-carat diamonds increased 2.4 percent and average 3-carat diamonds remained flat (see Figure 1).

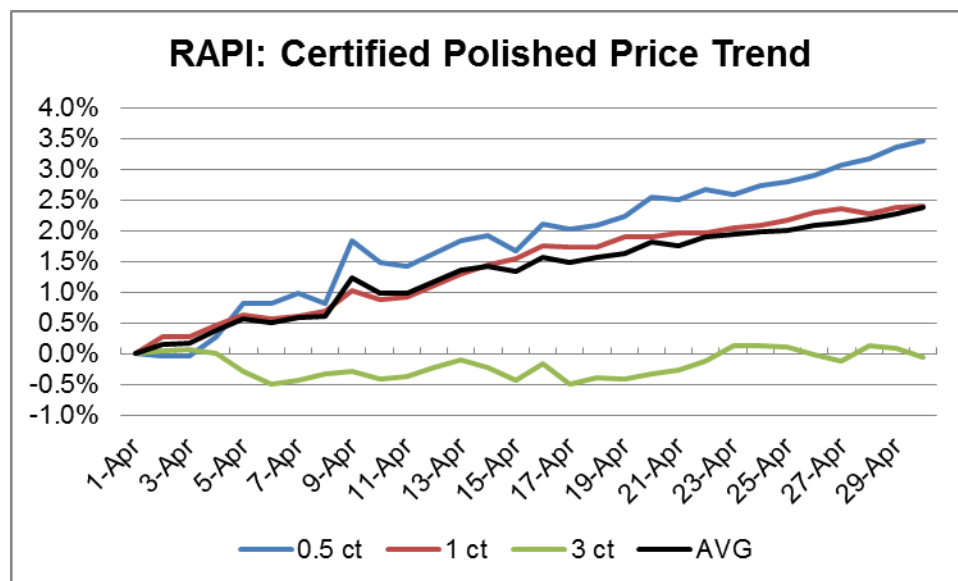


Figure 1

RapNet Asking Price index (RAPI) is the average asking price for D-H, IF-VS2, VG diamonds on RapNet. Rapaport Spec 2, Round, D-H, IF, X, X-VG, GIA-HRD-AGS.

The increases in April extended the strong run experienced in the polished market during the first quarter of 2011, a trend that has in fact been evident since November 2010.

During the first four months of 2011, average prices of polished diamonds rose 14.3 percent (see Figure 2, second column entitled 'January 1 – April 30'). Average prices at the end of April were 19.6 percent higher than the levels seen a year earlier (see Figure 2, third column entitled 'Y2Y Changes at April 30').

<b>RAPI: Certified Polished Diamond Prices</b>			
	<b>April</b>	<b>January 1 - April 30</b>	<b>Y2Y Changes at April 30</b>
<b>Average</b>	2.4%	14.3%	19.6%
<b>0.5 ct</b>	3.5%	15.9%	16.9%
<b>1 ct</b>	2.4%	17.8%	23.2%
<b>3ct</b>	0.0%	11.9%	25.9%

Figure 2

RapNet Asking Price index (RAPI) is the average asking price for D-H, IF-VS2, VG diamonds on RapNet. Rapaport Spec 2, Round, D-H, IF, X, X-VG, GIA-HRD-AGS.

Polished trading volumes continue to strongly outpace 2010 levels, driven more by dealer than consumer demand, particularly in India where demand was fueled by liberal bank financing. Polished exports rose in each of the three major manufacture and trading centers during the first quarter, with India's exports up 88 percent year on year, Belgium's increasing by 30 percent and Israel's rising by 39 percent (see Figure 3). Similarly, India's polished imports jumped 171 percent year on year, while Belgium's grew 26 percent, and Israel's rose 50 percent (see Figure 4).

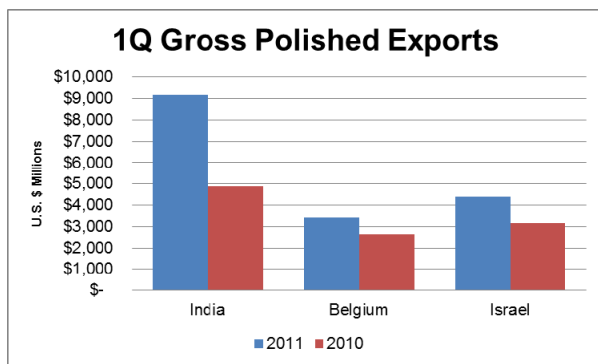


Figure 3

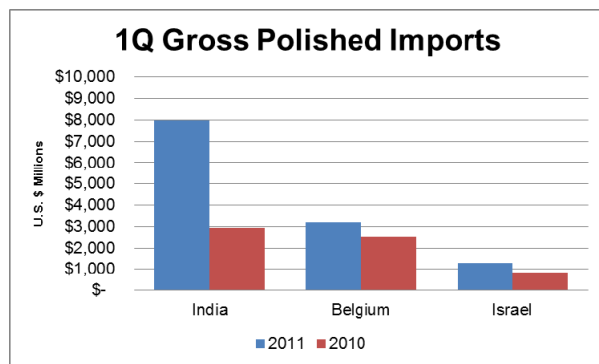


Figure 4

Sources: India - Gem & Jewellery Export Promotion Council (GJEPC); Belgium - Antwerp World Diamond Centre (AWDC); Israel - Diamond Controller's office at the Ministry of Industry, Trade & Labor.

The data is expected to show a continued uptrend in April although at a slower pace when the figures are released by the various countries' agencies.

Demand has been strongest in small star and melee stones in SI to lower pique clarities, as well as 0.50- to 0.69-carat, D-F, VVS-VS goods, and 0.30-to 1.10-carat, G-H, VS-SI stones. There is a continued shift towards SI goods in the Far East, which has traditionally been a strong market for VVS-VS stones.

Japan's polished imports fell 12 percent to \$61 million in March, following the earthquake and tsunami, reversing the uptrend seen previously during the year. During the first quarter, polished imports to Japan rose 5.5 percent to \$183.6 million.

#### Rough Market

Demand for rough remained strong in April, although slightly below levels seen in previous months. Dealers grew cautious about the high prices prevalent in the market which has resulted in liquidity challenges for buyers.

Still, rough prices continued to rise in April as evidenced in tenders held by mid-tier and small mining companies. Gem Diamonds reported that it achieved record prices at its April tender of goods from the Letséng mine - \$4,272 per carat, compared to \$2,383 per carat in the first quarter (see Figure 5).

Of the major producers, De Beers Diamond Trading Company (DTC) did not host a sight in April, while reports from BHP Billiton's April spot tender indicated an average price increase of about 2 percent to 3 percent.

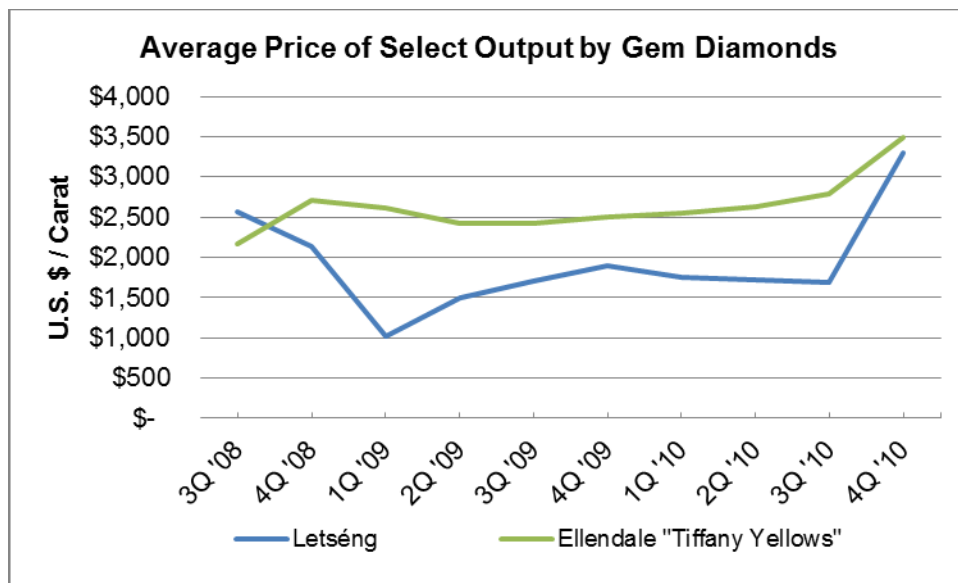


Figure 5

Data sourced from Gem Diamonds.

Rough trading continues to be characterized by strong dealer demand while manufacturing levels lag behind the increase in polished demand. As a result, rough inventories have increased during 2011 as dealers expect further price increases. Rough imports and exports rose in each of three main centers – India, Belgium and Israel (see Figures 6 & 7).

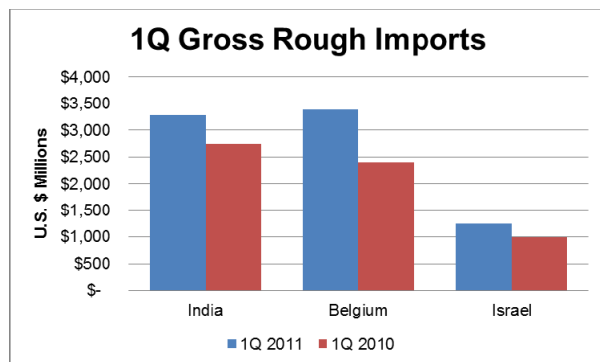


Figure 6

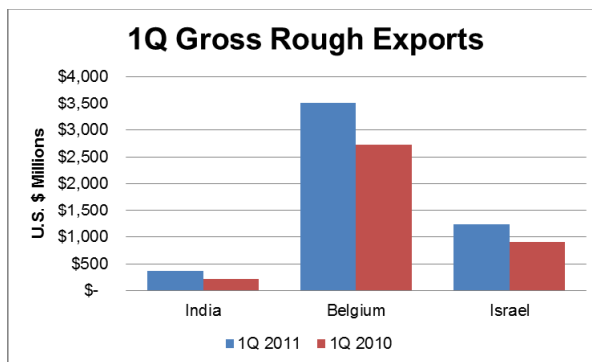


Figure 7

Sources: India - Gem & Jewellery Export Promotion Council (GJEPC); Belgium - Antwerp World Diamond Centre (AWDC); Israel - Diamond Controller's office at the Ministry of Industry, Trade & Labor.

While the long-term outlook for demand outstrips supply, there does not appear to be a shortage of rough in the market currently. Mining companies, particularly De Beers, have maintained a cautious approach to ramping up production after scaling back during the recession. The combined production of the top four mining companies, which report their data – ALROSA, BHP Billiton, De Beers and Rio Tinto – and which represent about 60 percent of global output, increased 3 percent year on year (see Figure 8).

First quarter output by De Beers rose 5 percent year on year to 7.396 million carats, and ALROSA increased its production by 16 percent to 10 million carats. Rio Tinto reported production fell 29 percent to 2.5 million carats and BHP Billiton's output dropped 28 percent to 551,000 carats as both companies transition their respective flagship mines from open-pit to underground operations.

Production is expected to increase at a faster pace in the remainder of 2011.

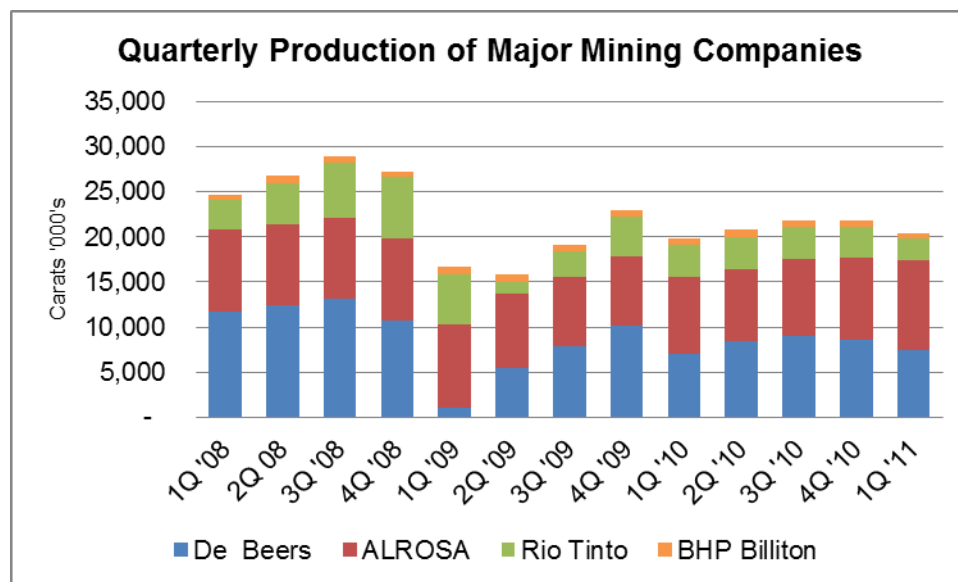


Figure 8

Data sourced from respective companies with De Beers first quarter production reported by Anglo American.

#### Retail Market

The retail environment continued to improve driven by strong demand in the major emerging markets in China and India and a persistent recovery in the U.S.

Reports indicate that large retailers in the U.S. made strong inventory purchases during the month with strong demand for diamonds to be set in watches and branded jewelry. Demand for bridal jewelry, which remains the mainstay of the U.S. market, also increased as retailers prepare for the upcoming summer wedding season. Retail sales values have been spurred by price inflation, which reached a record high in March (see Figure 9).

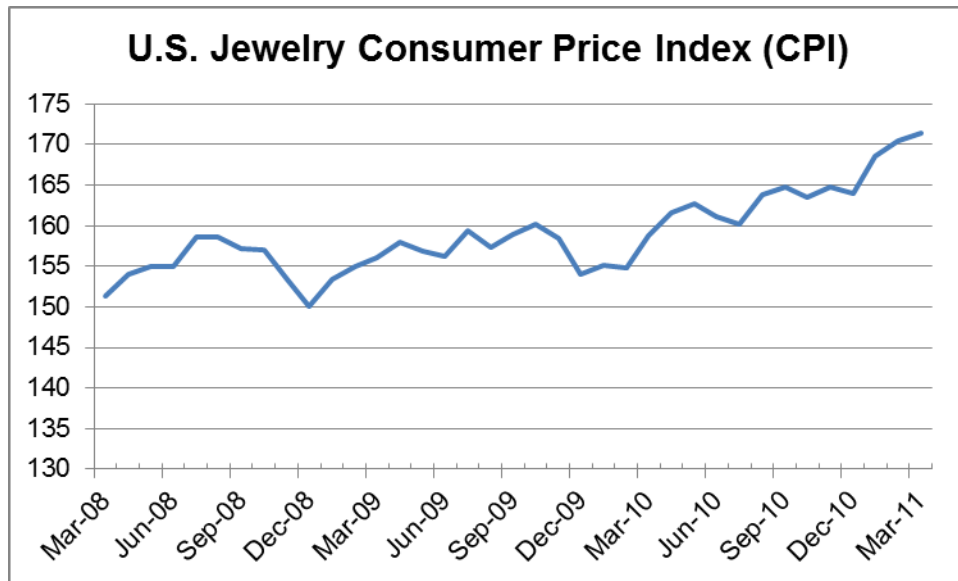


Figure 9

Source: U.S. Labor Department. Base year is 1986=100.

The outlook for May is positive as U.S. jewelry retailers expect a strong Mother's Day on May 8. Similarly, there was a positive outlook for China's May Day retail season.

Large retailers continue to post strong jewelry sales figures, particularly those catering for the high-end consumer. LVMH Moët Hennessy Louis Vuitton reported that jewelry and watch sales increased 28 percent year on year to \$381 million (EUR 261 million) in the first quarter of 2011, while Bulgari Group, which LVMH is in the process of buying, had jewelry and watch sales increase 27 percent to \$240 million (EUR 164.6 million) (see Figure 10).

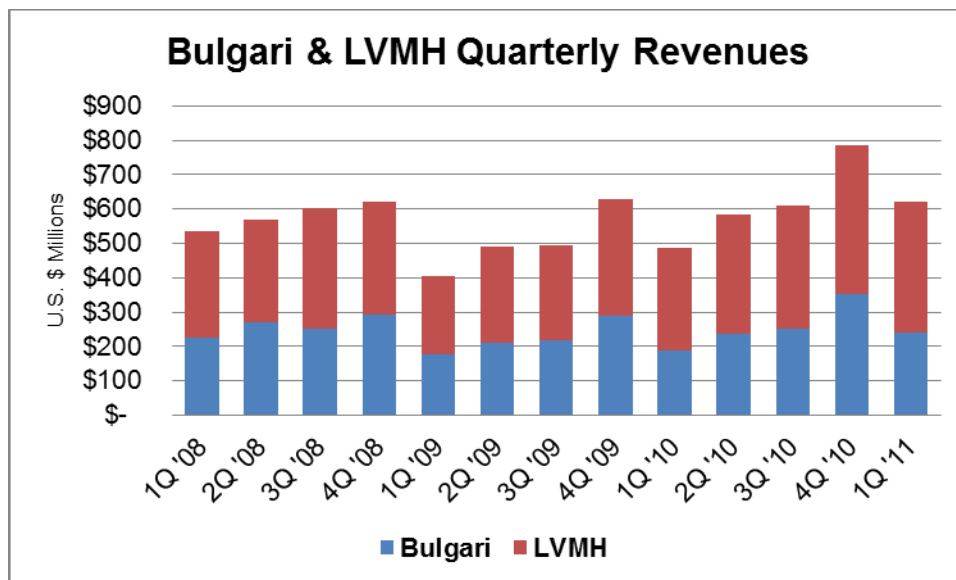


Figure 10

Data sourced from quarterly reports published by of LVMH Moët Hennessy Louis Vuitton and Bulgari Group. Companies reported in euro and converted to US \$ by Rapaport News at the relevant rate.

Similarly, Titan Industries, which owns India's largest jewelry brand, Tanishq, reported that group sales increased 37 percent year on year to \$404 million (INR 18.06 billion) in the fourth fiscal quarter that ended March 31, 2011 (see Figure 11). Jewelry sales grew 39 percent to \$307.6 million (INR 13.73 billion) and watch sales rose 18 percent to \$75.3 million (INR 3.36 billion).

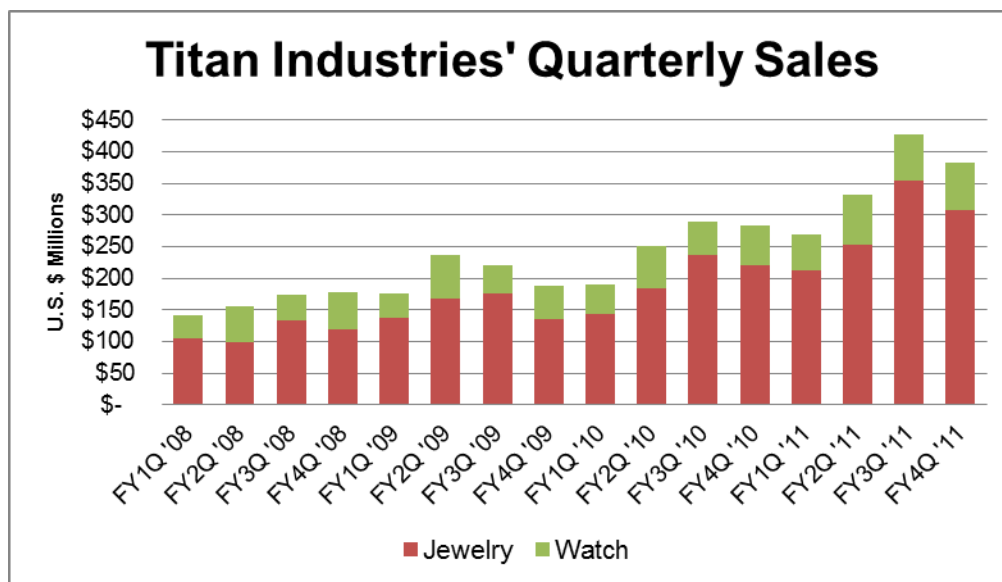


Figure 11

Data published by Titan Industries in Indian Rupee and converted to U.S. dollar at the relevant rate.

### Economic Factors

- U.S. economic growth slowed as gross domestic product (GDP) increased 1.8 percent in the first quarter of 2011.
- China's GDP grew 9.7 percent in first quarter of 2011.
- Gold prices rose 8 percent in April to close the month at \$1,556 / oz (April 29).
- Silver jumped 28 percent to \$48.6 / oz.
- Platinum increased 6 percent to \$1,874.9 / oz.
- Oil price rose 4 percent to \$111.9 / barrel.

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