

Executive Summary**Far East Fuels Polished**

- The RapNet[®] Diamond Index (RNDI)[™] for 1.00-carat stones rose 7.4 percent to 109.17 in June.
- The RNDI increased 34.3 percent in the first half of 2011.
- Seller's market continued in June as U.S. retailers competed for scarce goods with Far East and Indian buyers.
- Signs of caution emerged as buyers started to resist higher prices toward the end of the month but Far East demand continues to fuel optimism.
- Strong demand for dossier goods, 0.30-carat to 1.99-carat, G-I, VS-SI goods as well as for commercial quality small diamonds.

Caution Rules the Rough

- Concern has increased that the rough market may be overheating but demand remains steady.
- High premiums on DTC boxes persist following BHP Billiton price hikes.
- Rapaport estimates that rough prices rose by about 30 percent to 35 percent in 1H 2011.
- DTC sales estimated at \$3 billion and ALROSA sales at \$2.2 billion in 1H 2011.
- Kimberley Process chairman unilaterally approves Zimbabwe's Marange exports as parcel worth \$157 million released from Dubai.

Retail Improvements Continue

- Wholesale and retail jewelry inventories continue to rise.
- U.S. jewelry prices ease a slight 0.4 percent in June.
- Asian jewelry retailers show significant growth in the latest reporting period driven by Chinese and Indian economic growth.

Conclusion

The diamond market concluded another strong month in June ending a significant first half of 2011 in positive mood. Attention was focused on the JCK Las Vegas shows during the month which signaled an optimistic outlook for polished demand. The show was less about U.S. buying power and more about the changing demographics affecting the industry. U.S. buyers were forced to accept higher asking prices if they wanted to secure orders to fill their inventories, or lose their orders to Chinese or Indian competitors.

In the coming months, much hinges on the rough market and whether the trade can absorb further increases which are expected. In addition, U.S. consumers may feel extra pressure after the government ended its financial stimulus program, which may yet impact financial markets, and consumer discretionary spending.

Therefore, despite the optimism that has spilled over from the first half of the year, there are signs that the mood may be influenced by greater caution for the remainder of 2011, certainly if prices prove unsustainable. For now, however, it appears they are sustainable and the outlook for the second half of the year remains strong.

The Polished Market

The RNDI for 1.00-carat diamonds rose 7.4 percent to 109.17 in June (see Figure 1). Polished prices were pushed higher as Far East and Indian demand continued to drive the market forward. In addition, satisfactory sales at the JCK Las Vegas events at the beginning of the month signaled continued improvement in the U.S. retail landscape. The RapNet Composite Index increased 8.4 percent during the month to 179.96.

Competition for scarce goods meant that a seller's market continued through the Las Vegas shows as U.S. retailers started to pay higher prices that their counterparts in the East had already absorbed.

As the month progressed, buyers grew slightly tougher on prices resulting in the Hong Kong June show failing to meet the high expectations prevalent in the run up to the event. While the show grew in numbers compared to previous years, it still remains the less important of the Hong Kong trade events. Overall expectations therefore remain strong for the coming September show as Far East demand continues to set the pace for the market.

The RNDI for 0.50-carat stones rose 13 percent to 39.44 in June and the RNDI for 3.00-carat diamonds grew 8.2 percent to 391.27 (see Figure 1).

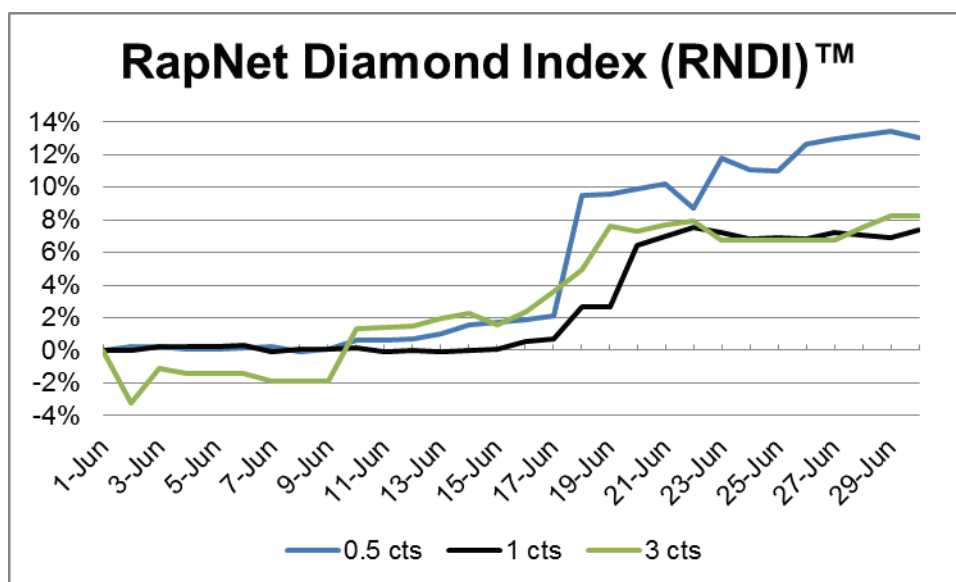


Figure 1

The RapNet Diamond Index (RNDI) is based on the best asking price in hundred \$/ct. for the top 25 quality round diamonds (D-H, IF-VS2, RapSpec-1) offered for sale on the RapNet – Rapaport Diamond Trading Network.

These positive trends in June ensured that the diamond industry concluded a strong first half of 2011. The RNDI for 1.00-carat diamonds rose 34.3 percent in the first six months of the year (see Figure 2, column titled 1H 2011 on page 3), and was up 36.3 percent from one year ago (see Figure 2, column titled Y2Y Changes at June 30).

RapNet Diamond Index (RNDI)™			
	June	1H 2011	Y2Y Changes at June 30
RNDI (1 cts)	7.4%	34.3%	36.3%
0.5 cts	13.0%	37.2%	39.8%
3 cts	8.2%	31.6%	29.2%
RapNet Composite Index	8.4%	32.5%	31.3%

Figure 2

The RapNet Diamond Index (RNDI) is based on the best asking price in hundred \$ / ct. for the top 25 quality round diamonds (D-H, IF-VS2, RapSpec-1) offered for sale on the RapNet – Rapaport Diamond Trading Network. The RapNet Composite Index reflects the average price of the half carat, one carat and three carat RNDI.

Overall demand was focused on dossier goods, 0.30-carat to 1.99-carat, G-I, VS-SI stones while demand for larger goods above 3.00 carats was weaker during the month. There remained strong demand for commercial quality small diamonds with prices as reflected in the Rapaport Melee Index (RMI)™, which rose 45 percent year on year in June, while medium to low quality imperfect goods were up 70 percent. Strong trading continued in the main centers including India, Belgium and Israel, as well as in the consumer centers, particularly in the Far East. Hong Kong posted its strongest three month period to date in the first quarter of 2011, according to the most recent data published in June.

The Diamond Federation of Hong Kong reported that polished imports to Hong Kong rose 35 percent year on year to \$3.96 billion in the first quarter (see Figure 3). Volumes were up 12 percent while the average price of the imports grew 20 percent to \$537 per carat. Among the top polished diamond export countries, Hong Kong's imports from India rose 27 percent, while imports from Israel increased 58 percent, grew 37 percent from Belgium and rose 31 percent from the U.S. Polished exports from Hong Kong increased 49 percent to \$3.23 billion (see Figure 3) with the average price up 32 percent to \$560.62 per carat. Hong Kong's net diamond account, indicating the amount of rough and polished absorbed by the region's main trading hub, was basically flat at \$736.9 million.

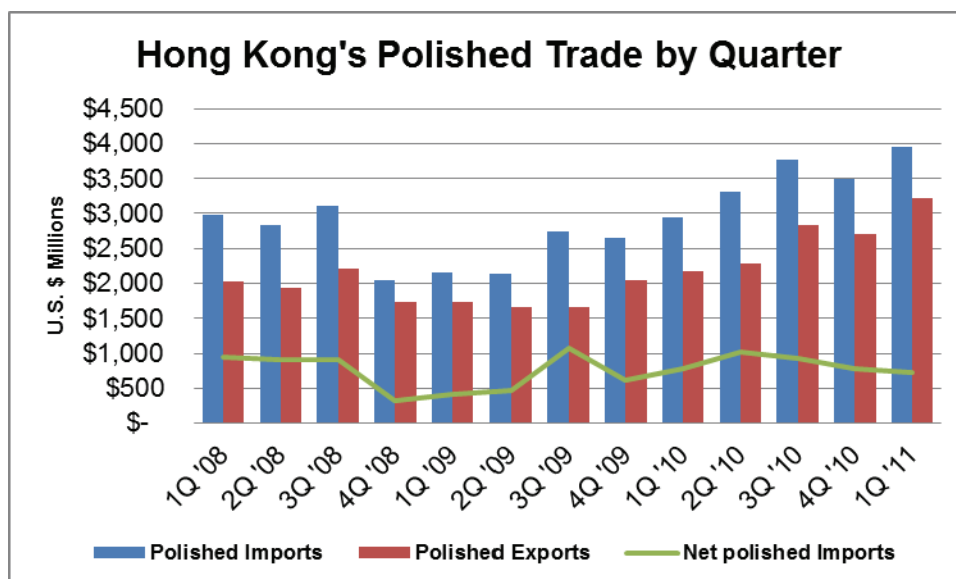


Figure 3

Source: Diamond Federation of Hong Kong, China Ltd.

The Rough Market

Rough prices continued to rise in June as De Beers Diamond Trading Company (DTC) increased prices for better quality rough by about 12 percent at its June sight, while smaller, Indian-type goods remained relatively stable. Prices at BHP Billiton's spot tender increased by about 10 percent to 15 percent. Premiums on DTC boxes remained in the high teens towards the end of the month, particularly for the Indian goods. The high prices caused rough dealers to grow cautious that the market may be overheating as trading slowed slightly toward the end of June.

DTC sales have increased by about 14 percent to \$3 billion in the first half of the year, according to Rapaport estimates. ALROSA's diamond sales grew 14 percent to approximately \$2.2 billion (see Figure 4). The increases at both companies were driven by the strong rough price hikes experienced during the period. Rapaport estimates that average rough prices increased by approximately 30 percent to 35 percent in the first half of 2011.

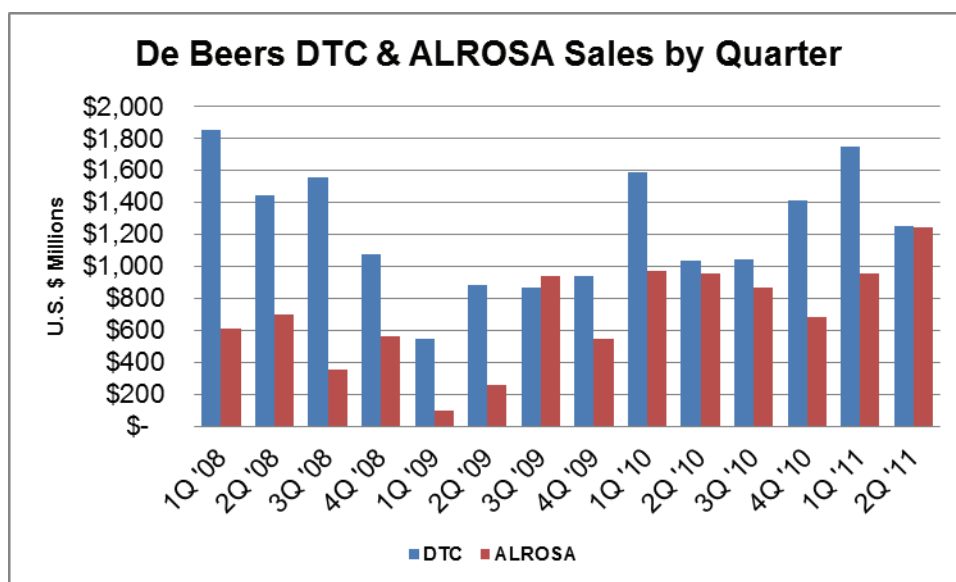


Figure 4

Rapaport estimates for 2011. Data for 2008 – 2010 adjusted to reflect De Beers sales as reported in its financial statements. ALROSA sales estimates according to company reports.

Talk in the rough market also focused on Zimbabwe's controversial Marange mine as Kimberley Process (KP) chairman Matthieu Yamba, from the Democratic Republic of the Congo (DRC), unilaterally approved exports from the mine despite the continued deadlock among members regarding KP certification. However, member states such as South Africa pledged to support their purchase. The KP's Working Group for Monitoring further agreed to allow the release of a shipment of Marange diamonds valued at approximately \$157 million being held in Dubai since last year. It is suspected that the majority of these goods will be sent to India.

The Retail Market

Retail sales continued to trend up in the U.S. year on year as lower volumes were compensated by higher prices in the market. Initial estimates by the International Council of Shopping Centers and Goldman Sachs indicate that general retail sales increased by 2 percent to 3 percent in June. Final numbers were not released at press time.

Jewelry prices remained basically stable in the most recent reporting period with the U.S. Consumer Price Index (CPI) for jewelry softening by 0.4 percent month to month in May. The CPI for jewelry is 10 percent higher than a year earlier. Jewelry store sales in April rose 3 percent year on year in April, according to the U.S. Department of Commerce (see Figure 5).

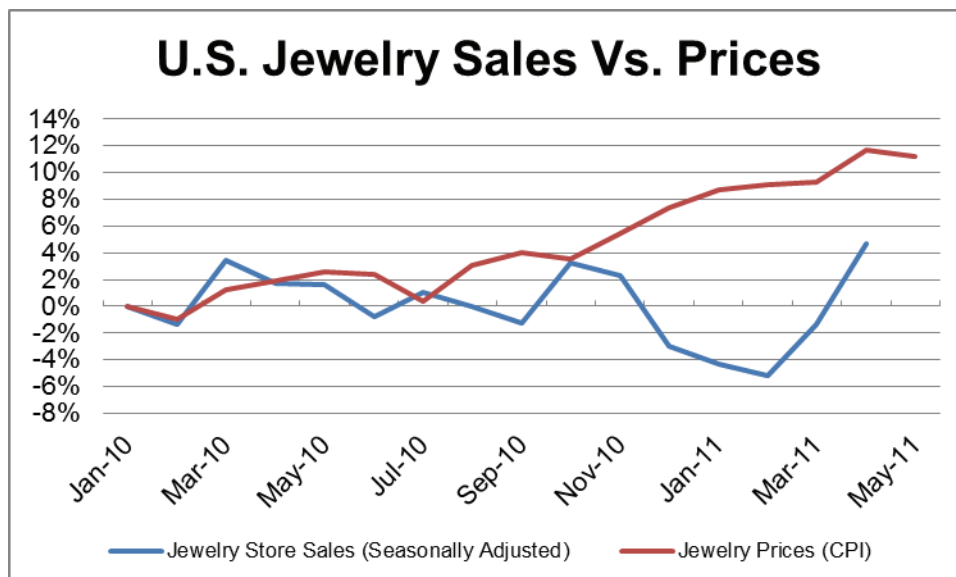


Figure 5

Data sourced from the U.S. Department of Labor and the U.S. Department of Commerce.

U.S. retail growth continues to lag behind the retail markets in emerging markets. Reports published by various Asian-based jewelry companies confirmed the strength of the trade in those markets.

Gitanjali Group, which operates India's largest range of jewelry brands, reported that net sales increased 51 percent year on year to \$539 million (INR 24.27 billion) in the fourth fiscal quarter that ended March 31, 2011 (see Figure 6 on page 6). Sales for the full fiscal year rose 45 percent to \$2.1 billion (INR 94.56 billion).

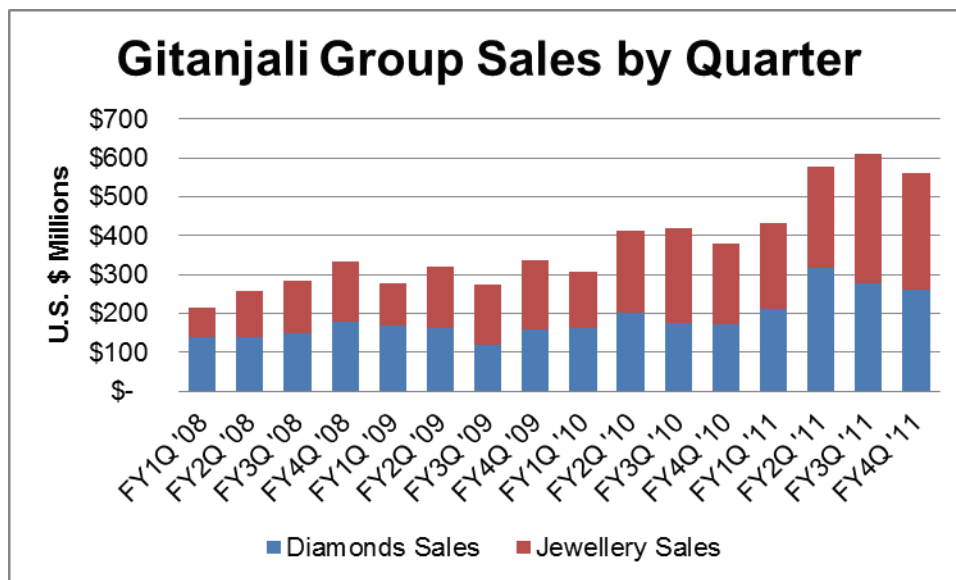


Figure 6

Gitanjali Group reported in Indian rupee and data was converted to U.S. dollars by Rapaport news at a constant rate of INR 45 = US\$1. Fiscal year ended March 31.

Similarly, Luk Fook Holdings reported that group revenues increased 46 percent to \$620 million (HKD 4.83 billion) in the six months that ended on March 31, 2011 (see Figure 7), while full fiscal year revenues grew 50 percent to \$1.04 billion (HKD 8.09 billion). While revenues in Hong Kong represented the majority of the company's total, Luk Fook noted that they were driven by tourists from mainland China, and stressed that it plans to expand in areas that will provide further exposure to this group.

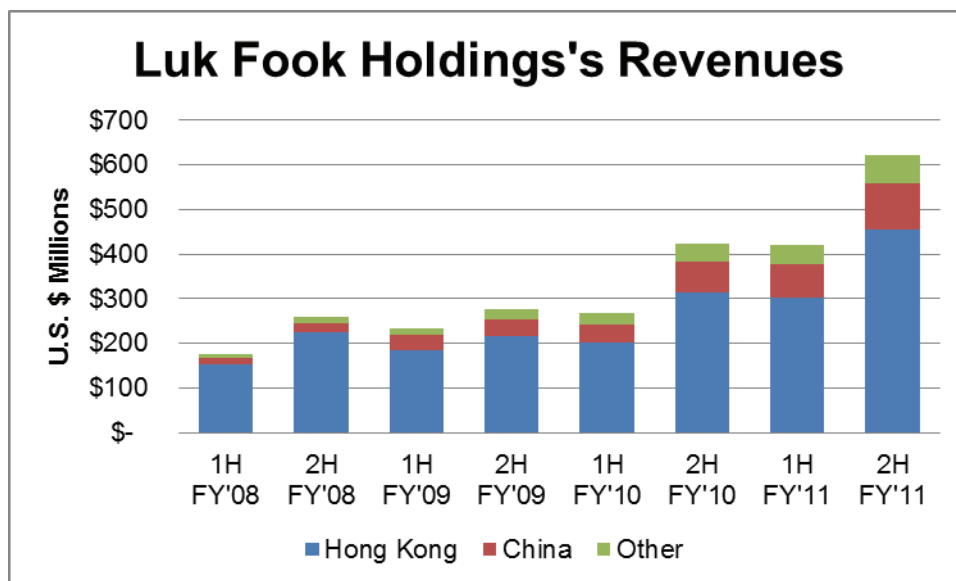


Figure 7

Luk Fook Holdings reported in Hong Kong dollar and the data was converted to U.S. dollars by Rapaport news at a constant rate of HKD 7.78 = U.S.\$1. Fiscal year ended March 31.

Economic Factors

- U.S. Federal Reserve ends its quantitative easing, QE2, financial stimulus program.
- Fed reduces its 2011 economic growth forecast to below 3 percent.
- Ratings agencies warn about European and U.S. debt default.
- Dow Jones Industrial Average falls 1.2 percent in June.
- Hong Kong's Hang Seng Index declines 5.4 percent during the month.
- Gold prices falls 2.4 percent to \$1,539 / oz (at June 30).
- Crude oil drops 5.6 percent to \$94.68 / barrel (at June 30).

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