

Executive Summary

Polished

- The RapNet Diamond Index (RAPI™) for 1.00-carat polished diamonds rose 1.9 percent to 98.26 in November.
- RAPI for 1.00-carat stones dropped 5.8 percent in the period September-to-November but was still up 20.9 percent for the year.
- Polished buyers maintained caution and avoided large purchases ahead of the Christmas season.
- Consumer markets kept their volume of polished imports low as retail inventories were relatively full going into the season after strong buying in the first half of the year.
- Suppliers held prices firm.
- Tight liquidity and the rupee depreciation affected Indian demand and manufacturing levels.

Rough

- Major mining companies maintained their policies to keep supplies low.
- Prices were down significantly from July highs but reports indicate better stability and improved demand in November.
- Volume of rough trade down and very little speculative buying taking place.

Retail

- U.S. Christmas shopping begins with mixed results as budget-wary consumers seek out bargains and promotions.
- Strong growth in online purchases.
- Major jewelers report strong third quarter but Tiffany & Co. warns that economic climate may impact the fourth.
- Concerns rise in India that rupee depreciation may impact economic growth.

Conclusion: *Signs of Stability*

Diamond manufacturers and dealers regained some confidence in November as prices showed signs of stability following the monthly declines that took effect since July. Polished buyers continued to exert caution and avoided large-scale purchases ahead of the holiday but suppliers held firm on prices.

As a result, polished prices rose slightly in November as reflected in the RapNet Diamond Index (RAPI™), reversing the downtrend from the previous four months. Similarly, rough prices stabilized and demand improved slightly during the month. However, rough trading does remain weak.

Confidence improved with the approach of the Christmas shopping season, which started relatively strong on Thanksgiving-Black Friday weekend. U.S. consumers tightened their budgets and were determined to find the right bargain as economic concerns in Europe and the U.S. persisted. Overall retail sales for the full month of November were disappointing.

While it is too early to assess the performance of the jewelry sector, those in the diamond trade are hoping that holiday sales will be sufficient to diminish retail inventories so that jewelers will resume more aggressive buying in the first quarter of 2012. Above all, they are hoping that November marked the start of a prolonged period of stability.

The Polished Market

Polished prices showed signs of stability in November following a period of decline. Diamond dealers and manufacturers gained confidence as they made a final push to sell goods in time for the Christmas holiday season.

However, buyers remained cautious and focused on goods that they needed while avoiding large purchases. It appears that wholesale and retail inventories were relatively full going into the season, due to large-scale buying in the first half of the year. In India, liquidity concerns continued to fuel caution while the depreciation of the rupee against the dollar added to trading uncertainties and manufacturing costs (see Figure 11 on Page 8). Polished suppliers kept their prices firm.

Chinese demand was flat as November is traditionally a relatively quiet month for local wholesalers and retailers. Furthermore, buyers there are delaying their purchases for the Chinese New Year as long as possible in order to become more confident about pricing.

The RapNet Diamond Index (RAPI™) for 1.00-carat polished diamonds rose 1.9 percent to 98.26 in November (see Figure 1). RAPI for 0.30-carat stones increased 1.2 percent to 16.69, and RAPI for 0.50-carat diamonds rose 0.6 percent to 35.02, while RAPI for 3.00-carat stones fell 0.6 percent to 352.77.

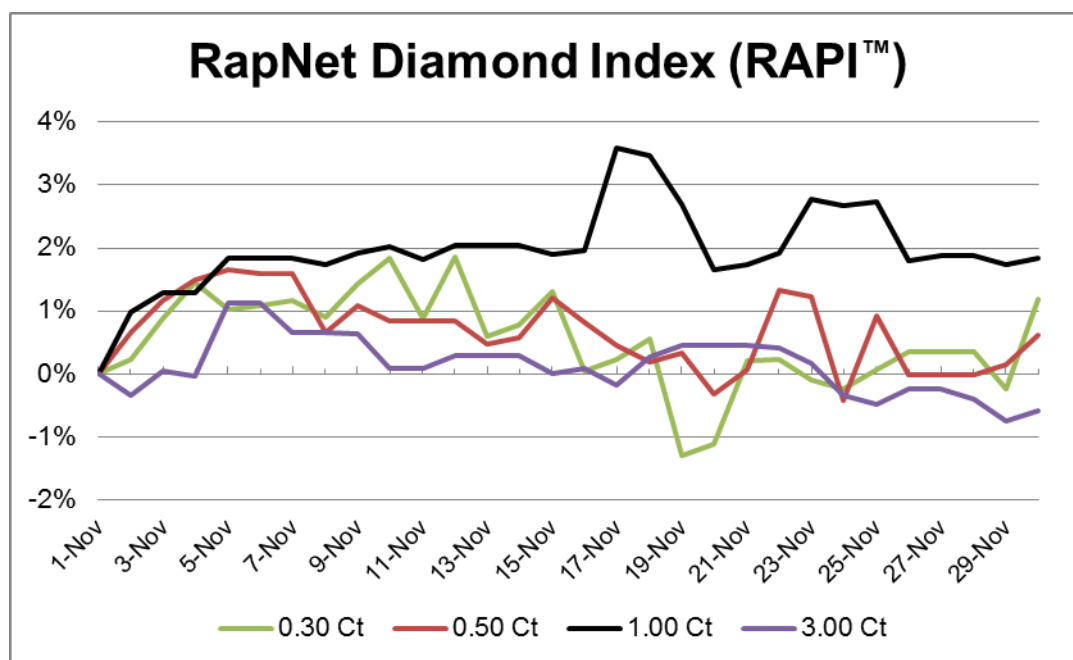


Figure 1

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.

The slight increases registered during the month signaled an end to the downtrend that has been evident since July. The RAPI for 1.00-carat diamonds fell 5.8 percent in the three months that ended November 30, 2011 (see Figure 2, column 2 titled 'Sept – Nov 2011' on Page 3).

For the year to date, prices are still up considerably due to the rally experienced in the first half of the year. The RAPI for 1.00-carat stones increased 20.9 percent through the 11-month period (see Figure 2, column 3 titled 'Jan – Nov 2011'). At November 30, the Index had increased by 21.9 percent since one year earlier (see Figure 2, column 4 titled 'Y2Y Changes at Nov 30').

RapNet Diamond Index (RAPI™)				
	November	Sept - Nov 2011	Jan - Nov 2011	Y2Y Changes at Nov 30
RAPI (1 Cts)	1.9%	-5.8%	20.9%	21.9%
0.3 Cts	1.2%	-7.1%	2.6%	3.6%
0.5 Cts	0.6%	-8.3%	22.4%	23.4%
3 Cts	-0.6%	-5.0%	18.6%	19.1%

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.

Overall, polished trading was quieter than expected for the pre-season period and the volume of goods being transacted is down from previous years.

This trend was reflected in the latest United States import-export data published by the U.S. Commerce Department. Both imports and exports by value increased year on year (see Figure 3) in the third quarter, but by volume they were down significantly from the previous year (see Figure 4). Net polished imports, calculated as the excess of imports over exports to represent the amount of goods that stayed in the country for use, stabilized over the past two quarters (see green trend lines in Figures 3 & 4).

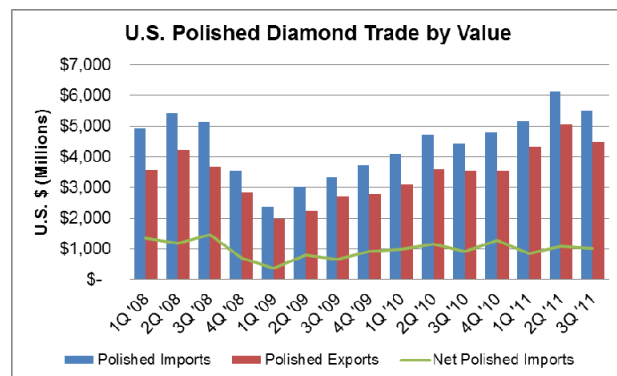


Figure 3

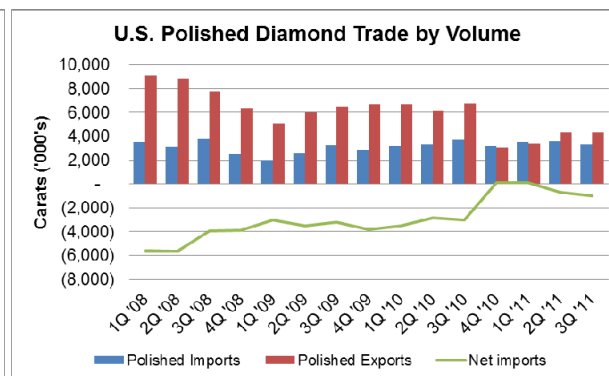


Figure 4

Based on monthly data published by the U.S. Commerce Department.

Similar trends were observed in the Far East as Hong Kong's third quarter polished imports and exports increased by value from the same period in 2010 (see Figure 5), but decreased by volume (see Figure 6).

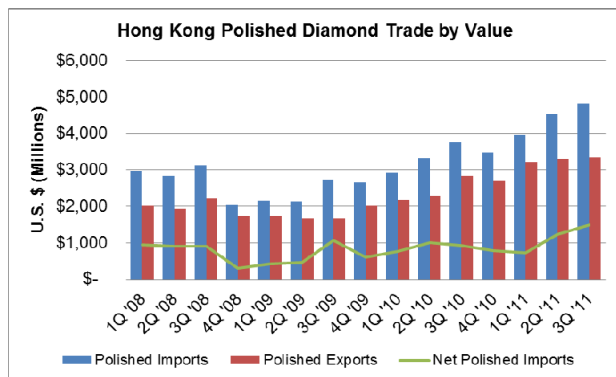


Figure 5

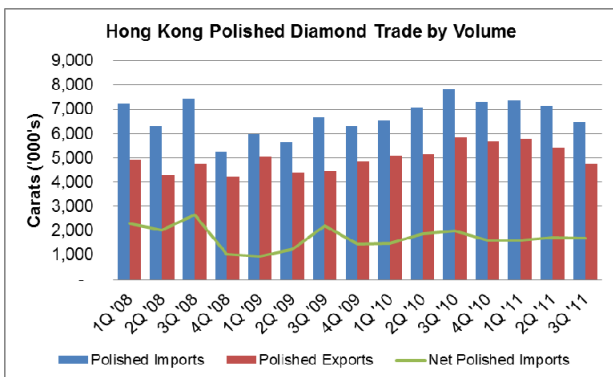


Figure 6

Based on data published by The Diamond Federation of Hong Kong, China Ltd.

The same trend continued into the fourth quarter as observed in the October trade data reported by India's Gem & Jewellery Export Promotion Council (GJEPC) and Belgium's Antwerp World Diamond Centre (AWDC). India's polished exports fell 9 percent to \$1.89 billion in October with the volume of its exports down 23 percent to 3.947 million carats. While Belgium's polished exports increased 5 percent to \$1.1 billion in October, its volume of exports declined by 36 percent to 532,770.41 carats.

There is strong hope in the market that the Christmas and Chinese New Year selling seasons will sufficiently deplete retail inventories to stimulate stronger buying at the start of 2012.

The Rough Market

Rough trading remained quiet for most of November although sentiment among dealers improved as prices displayed better stability than before. De Beers Diamond Trading Company (DTC) kept its allocations small and registered a small sight in November with an estimated value of \$300 million. The company adjusted the prices on some boxes to better align with the market.

An ALROSA spokesperson told *Rapaport News* that the company continues to receive a lot of orders from Indian buyers although it is believed that Indian demand continues to be suppressed due to tight liquidity in that market. Furthermore, India's manufacturing levels are below capacity, partly due to a labor shortage during the ongoing wedding season and as manufacturing costs continue to rise, especially given the recent depreciation of the rupee.

ALROSA reported strong sales growth in the first nine months of the year. Past reports indicate that the company's third quarter sales rose 56 percent year on year, despite a 20 percent decline in production during the same period (see Figure 7). The spokesperson noted that ALROSA continues to sell exclusively through its long-term contracts.

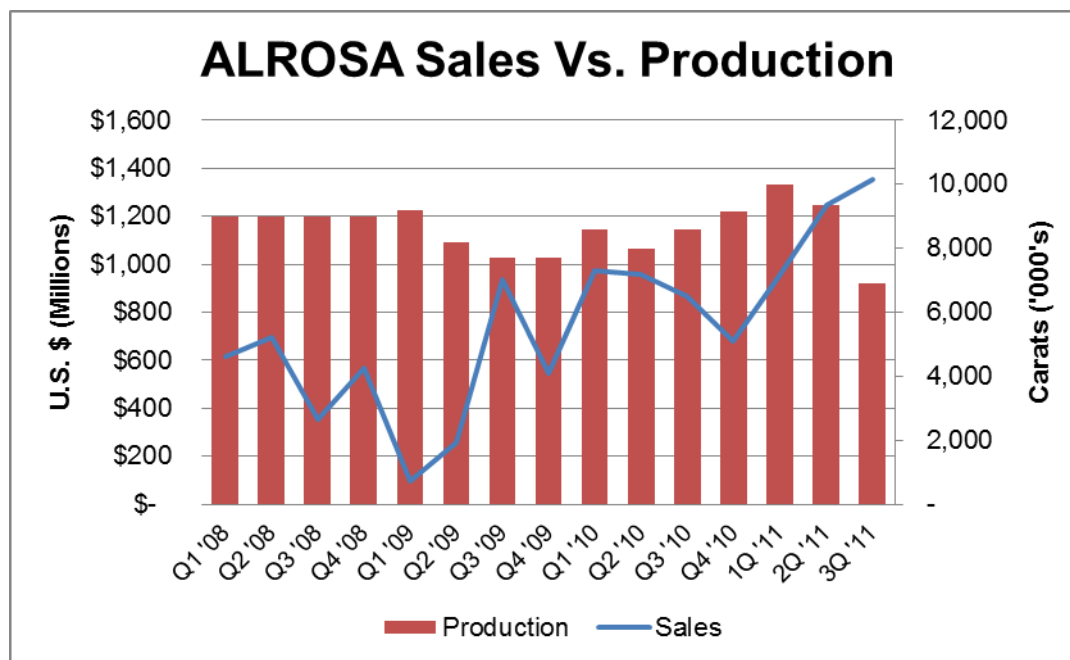


Figure 7

Based on data published by ALROSA.

Firestone Diamonds reported healthy demand at its November tender and managed to sell all its goods on offer, a feat that it failed to achieve at its previous tender in September. The company noted that prices have fallen 30 percent since the July highs but had stabilized in November. Similarly, Gem Diamonds reported that while rough prices have softened since July, especially in the lower quality goods, the company continued to achieve strong prices for its excellent quality stones from the Letšeng and Ellendale mines respectively. The average price of Letšeng goods sold rose 44 percent year on year to \$2,426 per carat in the third quarter but declined 30 percent from the second quarter (see Figure 8 on Page 6). Sales volume was flat from the previous year.

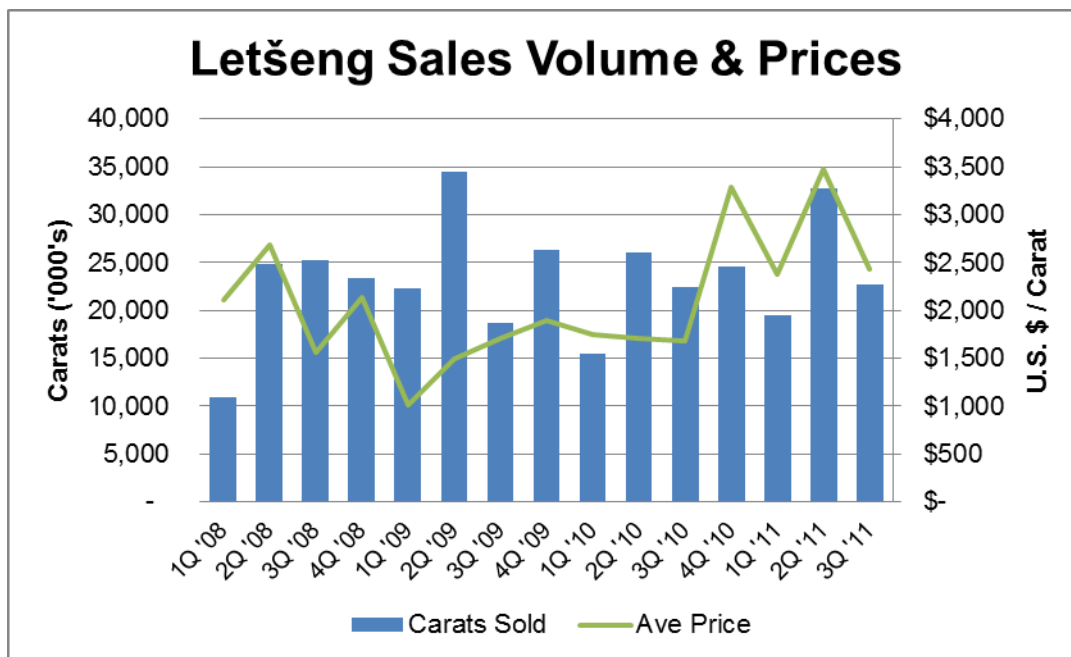


Figure 8

Based on data published by Gem Diamonds.

As with the polished trade, India and Belgium reduced the volume of their respective rough trade in keeping with the lower supply coming from the major mining companies. India's rough imports in October, the most recently reported month, fell 22 percent by value to \$686 million, while the volume of imports declined 58 percent to 5.248 million carats (see Figure 9).

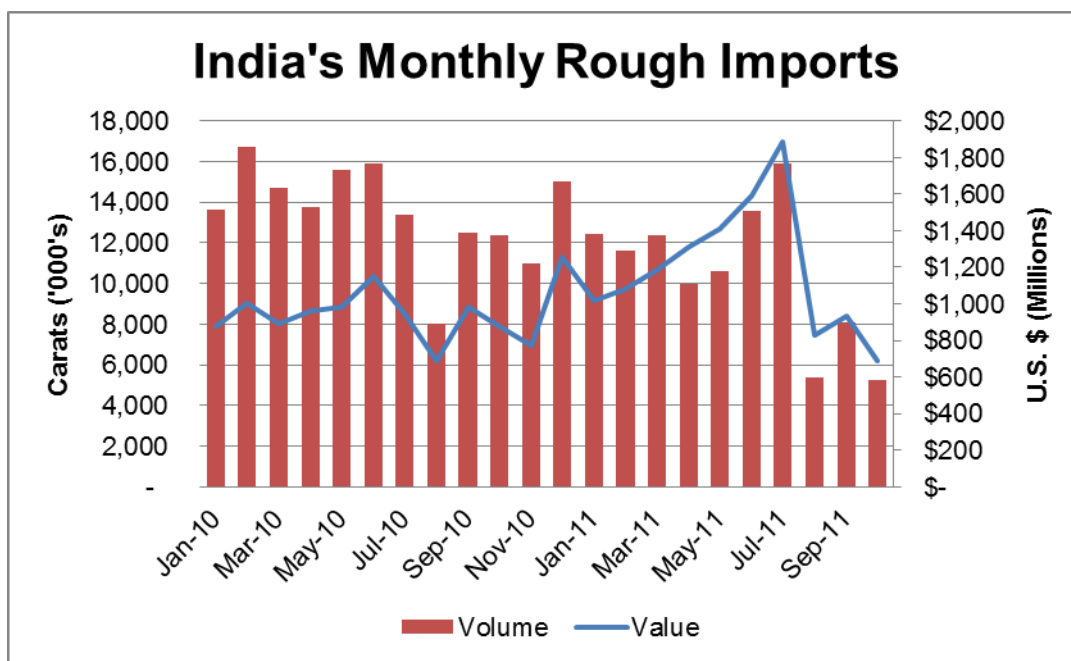


Figure 9

Gem & Jewellery Export Promotion Council (GJEPC).

Retail & the Economy

Major retailers in the U.S. started the Christmas shopping season with mixed results. J.C. Penney and Kohl's each reported that November sales fell while Macy's and Saks reported single digit increases for the month. U.S. chain-store sales rose by 3.2 percent year on year in November, according to the International Council of Shopping Centers (ICSC), which was below the low-end of previous projections.

Early promotions and extended hours helped boost consumer spending over the Thanksgiving-Black Friday weekend. Foot traffic to stores was flat but consumers were very budget conscious. There was a strong shift among consumers to search for bargains online with a notable increase in Thanksgiving-Cyber Monday online activity.

It is still too early to tell how the jewelry sector performed over the period. MasterCard Advisors SpendingPulse, a macroeconomic report tracking national retail and service sales, noted that jewelry sales showed positive year-on-year returns in November but fell below the pace of growth seen in other sectors.

Larger jewelry retailers – Tiffany & Co., Signet Jewelers and Zale Corporation – registered positive growth in the fiscal quarter that ended October 31, 2011 (see Figure 10). However, Tiffany maintained a cautious outlook for the November-January period as it remains mindful of short-term economic challenges and uncertainties in some markets.

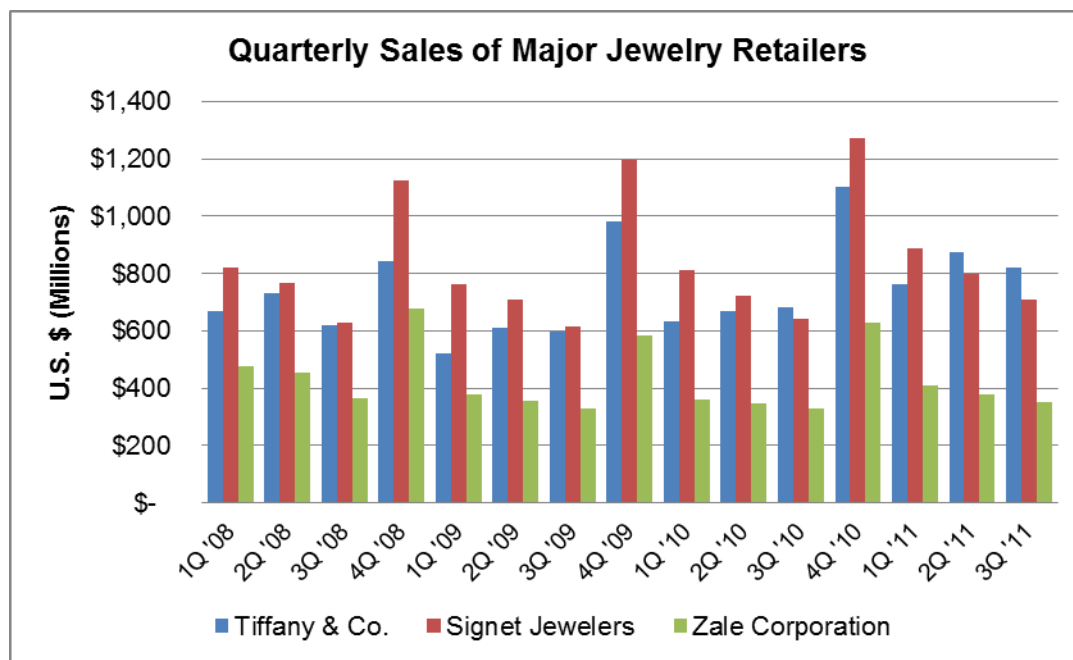


Figure 10

Based on data published by Tiffany & Co., Signet Jewelers, and Zale Corporation.

Concerns remained about the impact that the euro zone debt crisis will have on Europe and the global economy. Analysts in India warned that the European crisis is having a detrimental impact on India's economic growth as the country's trade deficit widens and further pressure is exerted on the rupee. The rupee has depreciated by 14 percent against the U.S. dollar since the beginning of the year with much of the loss incurred since August (see Figure 11).

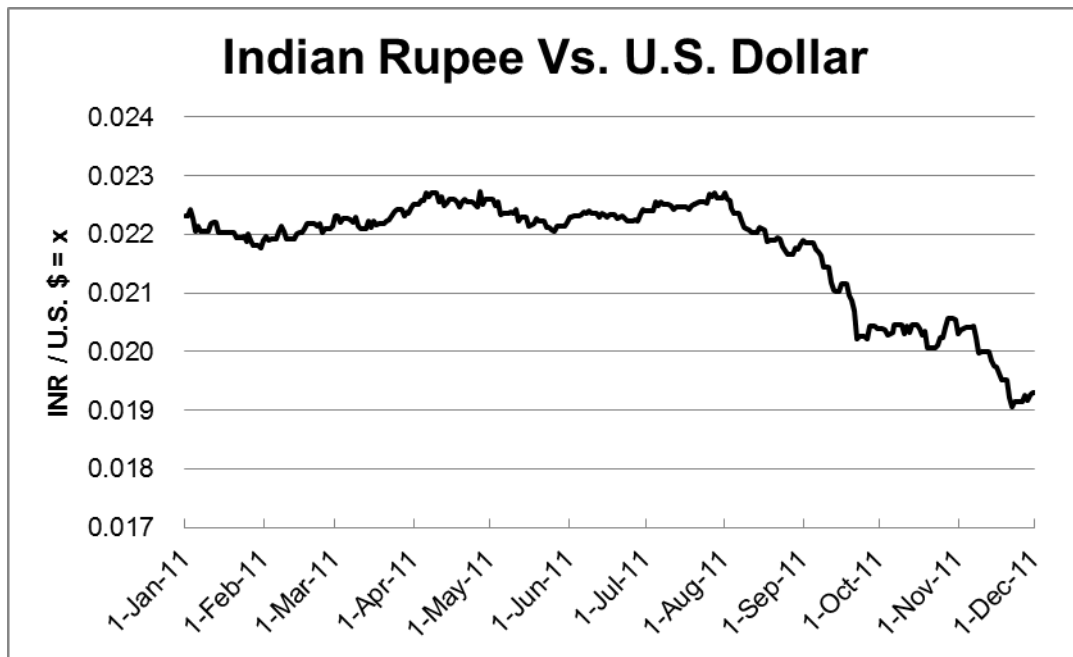


Figure 11

Rapaport Research

Financial markets continued their volatile run in November but investors gained some confidence as the Dow Jones Industrial Average (DJII) gained 3 percent (see Figure 12) to end the month above the 12,000 point mark. Asian markets closed November in negative territory.

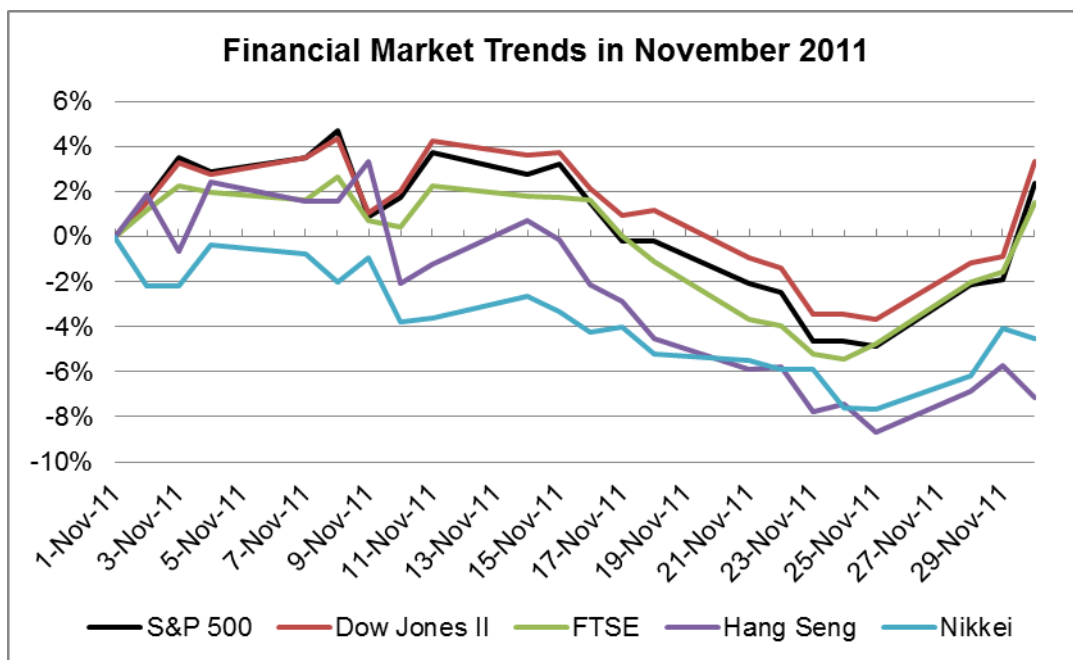


Figure 12

Rapaport Research

For additional information or if you have any comments or questions, please contact:

Avi Krawitz
M. + 972-54-345-0084
Email: avi.krawitz@diamonds.net

Media should contact:
Alissa Goren
M. +972-54-345-1317
Email: alissa.goren@diamonds.net

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