RAPAPORT®
RESEARCH

Waiting & Hoping
October 2011 Research Report

Executive Summary

Polished

- The RapNet Diamond Index (RAPI™) for 1.00-carat polished diamonds fell 3.5 percent to 96.03 in October.
- RAPI for 1.00-carat stones dropped 11.3 percent in the period August-to-October but was still up 18.2 percent for the year.
- Polished trading remained weak and confidence low due to tight liquidity and continued economic concerns.
- Volume of trade fell during the third quarter in the major centers, according to published data.
- Strong opportunities exist for cash buyers but most avoid large inventory purchases.

Rough

- Weak rough dealer trading continues due to liquidity difficulties.
- De Beers and ALROSA reduce supplies as they try to keep prices firm.
- De Beers production rises 3 percent to 9.3 million carats in third quarter.
- India's volume of rough imports fell 13 percent in the third quarter from a year earlier. The value of imports rose by 40 percent due to price increases earlier in the year.

Retail & Economy

- Financial markets recovered in October as European leaders reached an agreement to manage the debt crisis and as U.S. third quarter economic growth of 2.5 percent was better than expected.
- Concerns about the global recovery remain as the future of the European deal was at risk at press time. U.S. consumer confidence sank to its lowest level in 31 months and the pace of China's economic growth slowed to 9.5 percent in the third quarter.
- Demand for high-end jewelry continues as reflected in strong third quarter sales growth at LVMH-Bulgari.
- Jewelry sales during China's Golden Week and India's Diwali festival were boosted by gold demand, while diamond sales were flat.

Conclusion: *Waiting & Hoping*

Polished trading was slow and rough trading weak during October as buyers continued to push for deeper discounts. Confidence in the trade was impacted by tight liquidity, mainly in India, and lingering concerns about the global economic recovery. Many took advantage of the Jewish holiday and Diwali festival periods by taking extended vacations during the month to help wait out the uncertainty.

Polished prices softened during October as reflected in the RapNet Diamond Index (RAPI), continuing the downtrend that has been evident since August. Buyers have been patient and those with cash can find excellent deals on individual items. There is very little large inventory buying taking place. Similarly, rough buyers remain cautious as prices in the dealer market continue to soften. The major producers are holding back supply as they attempt to keep prices firm, while production levels are being maintained.

Most in the trade appear willing to wait out the current market environment with the hope that trading will improve after the Christmas and Chinese New Year (January 23) periods. Much depends on the rough market and cutters' ability to free up more liquidity by then.

The Polished Market

Polished diamond prices fell in October continuing the trend of the previous two months as trading was impacted by tight liquidity and economic uncertainties. Many businesses in Israel and Belgium were closed for extended periods during the Jewish holidays that took place during the month, while Indian wholesalers and manufacturers closed for the Diwali season.

Confidence in the trade is weak with mixed expectations for the fourth-quarter selling season. Many are hoping the market will improve in January when retailers begin to replenish inventories sold during November-December, thus restoring some buoyancy to the industry.

There is very little bulk inventory buying going on as buyers focus on finding the goods they need to fill existing orders. There are excellent opportunities for cash buyers on these transactions.

The RapNet Diamond Index (RAPI) for 1.00-carat polished diamonds fell 3.5 percent to 96.03 in October (see Figure1). RAPI for 0.3-carat stones declined by 6.7 percent to 16.28, while RAPI for 0.5-carat diamonds dropped 6.6 percent to 34.56, and RAPI for 3-carat stones fell 3.6 percent to 354.66.

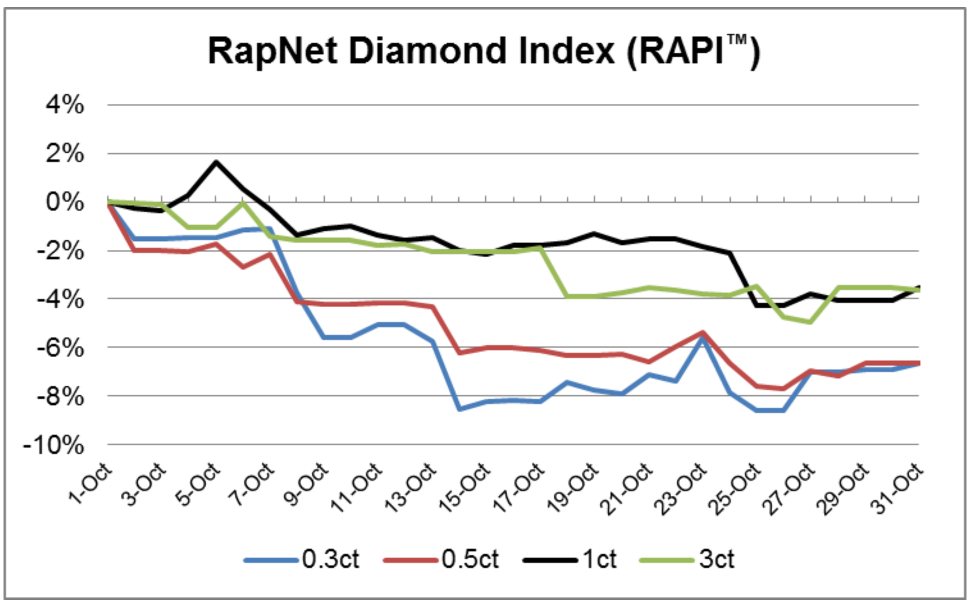

Figure 1

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 have declined by double-digit percentages since the beginning of August when evidence emerged about India's liquidity difficulties and the European and U.S. debt crises intensified. The RAPI for 1.00-carat diamonds fell 11.3 percent during the three months that ended on October 31, 2011 (see Figure 2, column 2 titled 'Aug – Oct 2011').

For the year to date, prices are still up significantly as RAPI for 1.00-carat stones increased 18.2 percent through the 10-month period (see Figure 2, column 3 titled 'Jan – Oct 2011'), and ended October 20.1 percent above the level of one year earlier (see Figure 2, Column 4 titled 'Y2Y Changes at Oct 31').

RapNet Diamond Index (RAPI™)				
	October	Aug - Oct 2011	Jan - Oct 2011	Y2Y Changes at Oct 31
RAPI (1 Cts)	-3.5%	-11.3%	18.20%	20.10%
0.3 cts	-6.7%	-17.0%	0.10%	2.70%
0.5 cts	-6.6%	-11.6%	20.30%	23.70%
3 cts	-3.6%	-9.7%	19.30%	20.40%

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.

Quieter polished trading was reflected in the import-export data published by the respective centers. While the value of trade for the third quarter through India was basically in line with the third quarter of 2010 (see Figure 3), the volume of trade was down by double-digit percentages (see Figure 4). A similar difference was evident in Belgium, where the value of imports and exports rose significantly (see Figure 3) but the respective volumes were basically flat (see Figure 4). The higher values reflected the price increases during the year.

Figure 3

Figure 4

Graphs based on monthly data published by India's Gem & Jewellery Export Promotion Council (GJEPC) and Belgium's Antwerp World Diamond Centre (AWDC). Data reflects gross trade figures before returns.

The Rough Market

Similar trends were evident in the rough diamond market as the major cutting centers are working with lower volume of rough, which is reflected in their respective trade data. This is largely the result of tight liquidity as banks have maintained stable credit lines while rough prices have increased significantly from a year ago. As a result, diamond manufacturers have been forced to work with a lower volume of goods.

India's rough imports rose by value 40 percent year on year to $3.65 billion in the third quarter of 2011, while its volume of rough imports fell 13 percent to 29.3 million carats (see Figure 5), according to provisional data published by the Gem & Jewellery Export Promotion Council (GJEPC).

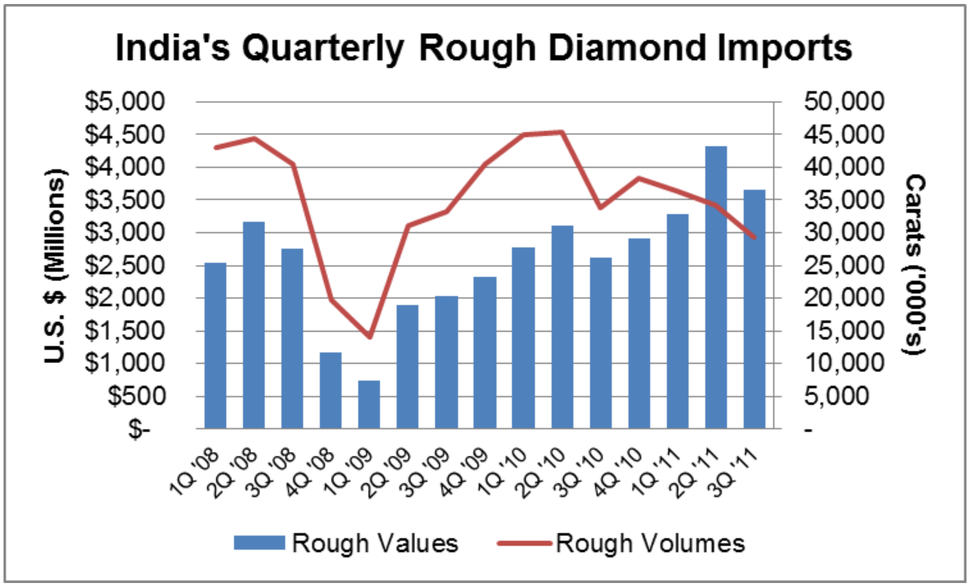

Figure 5

Graphs based on provisional data published by the Gem & Jewellery Export Promotion Council (GJEPC).

The average price of India's rough imports was 61 percent higher than a year earlier at $125 per carat in the third quarter (see Figure 6). Prices were down a slight 1 percent from the preceding second quarter, reflecting India's buying from the primary sources of De Beers and ALROSA, which have both kept their prices stable throughout the quarter.

However, prices in the rough dealer market have dropped by 15 percent to 20 percent since August and Diamond Trading Company (DTC) boxes continue to trade at double-digit discounts. Despite these reductions, trading remains weak due to liquidity difficulties and low trading confidence.

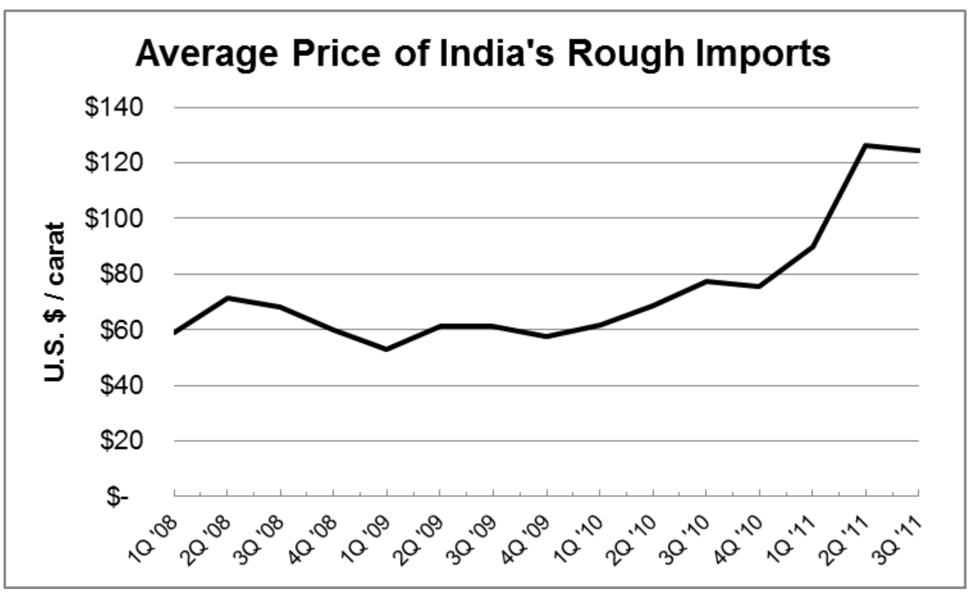

Figure 6

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

The major producers, De Beers and ALROSA, are expected to reduce their rough supplies in the fourth quarter as they attempt to maintain their respective policies of price stability.

Global production remains on track to show slight growth this year compared to 2010 levels. De Beers third quarter production rose 3 percent year on year to 9.305 million carats, which was the company's highest output since the fourth quarter of 2009 (see Figure 7). Production through the first nine months of the year increased 2 percent to 24.839 million carats.

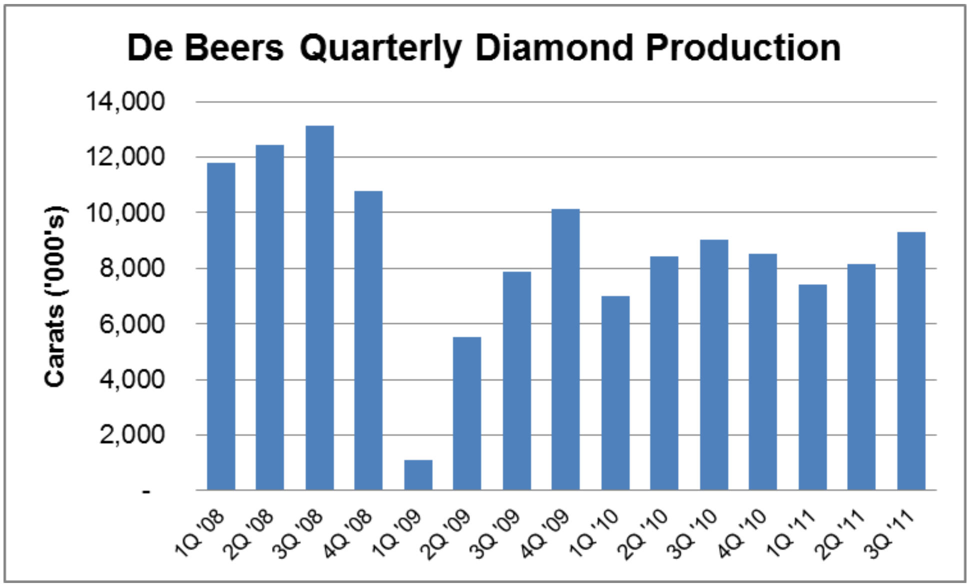

Figure 7

Based on data published by Anglo American, 45 percent stake owner in De Beers.

Retail & the Economy

Financial markets made strong gains during October largely in reaction to the agreement reached by European leaders to solve the Euro-zone debt crisis and better than expected U.S. gross domestic product (GDP) data.

Under the European deal, private banks and insurers agreed to voluntarily accept a 50 percent loss on their Greek government bonds, while Euro-zone leaders agreed to raise its bailout fund - the European Financial Stability Facility - above its initial cap of $600 billion.

The U.S. Commerce Department reported that the U.S. economy grew at a 2.5 percent annual pace in the third quarter led by a 2.6 percent rise in consumer spending and a 16.3 percent increase in business investment.

High-end jewelers continued to post strong growth in the third quarter indicating strength in that sector. LVMH Moët Hennessy Louis Vuitton reported jewelry and watch sales of $851 million (EUR 636 million). The sales, which included Bulgari numbers for the first time since the merger of the two companies, indicated a 53 percent growth rate when compared to combined LVMH and Bulgari data from a year earlier (see Figure 8).

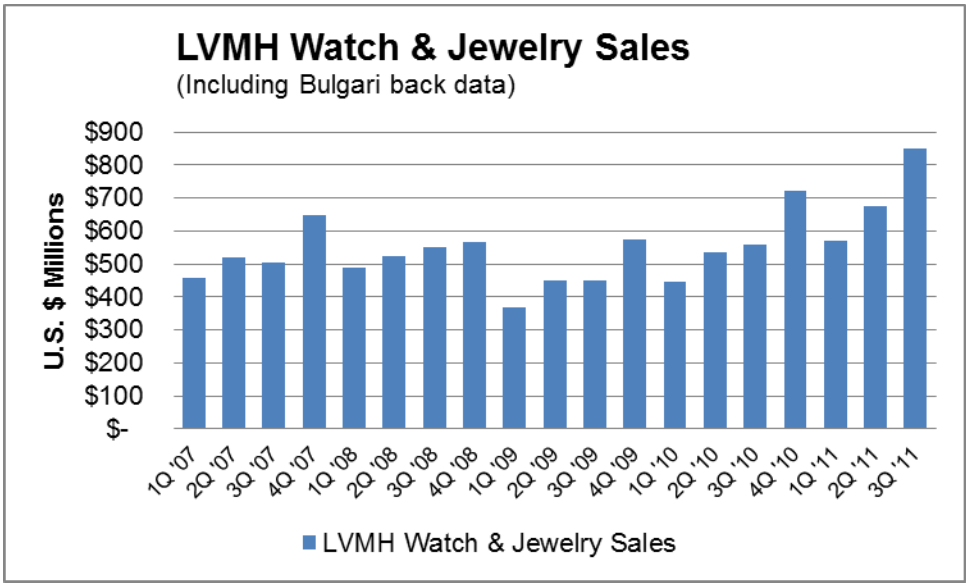

Figure 8

Based on data published by LVMH Moët Hennessy Louis Vuitton and Bulgari.

Jewelry sales grew during China's Golden week, which took place on October 1, spurred by demand for gold, while sales of diamond jewelry were basically stable. Similarly, India's retail sector posted gains during the Diwali season, which began on October 26, also buoyed by demand for the yellow metal. Initial report from jewelers indicated that the value of sales continued to uptrend during Diwali while the volume of goods sold declined.

Still, concerns remain both about the viability of the European bailout, and the state of the global economy. While the debt deal provided much hope in Europe, far-reaching austerity measures are still required and the threat of the continent falling into recession continues to loom over the economy. Furthermore, the agreement reached fell into jeopardy at press time after Greek President George Papandreou said he plans to hold a referendum on the rescue pact.

In the U.S., consumer confidence dropped to its lowest level since March 2009, according to the Conference Board's Consumer Confidence Index®, which fell 10 points to 39.8 in October.

China's economy grew 9.1 percent in the third quarter, which was its slowest pace since 2009, raising caution that a global recession may lead to a steep fall in demand for Chinese exports. The slowdown has come as Chinese policy makers seek to slow expansion enough to cool existing inflationary pressures.

During October, the S&P 500 index rose 11 percent. Similar gains were seen in other world markets (see Figure 9).

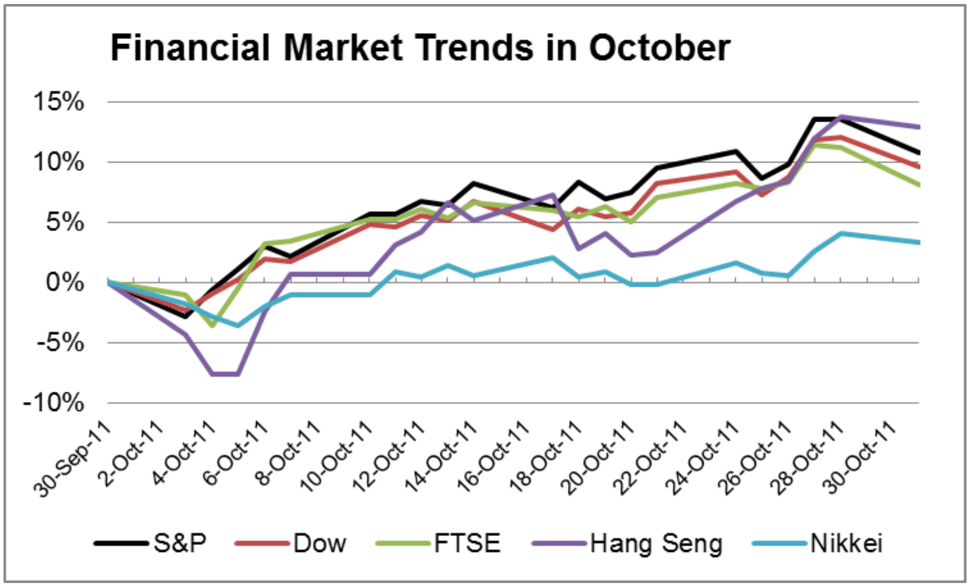

Figure 9

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About the Rapaport Group: The Rapaport Group is an international network of companies providing added value services that support the development of free, fair and competitive global diamond markets. Established in 1978, the *Rapaport Diamond Report* is the primary source of diamond prices and market information. Group activities include publishing, research and marketing services, internet information and diamond trading networks, global rough and polished diamond tenders, diamond certification, quality- control, compliance, shipping, and financial services. Major activities of the group include the development of markets for Fair Trade Diamonds and Jewelry as well as the creation of diamond futures markets.