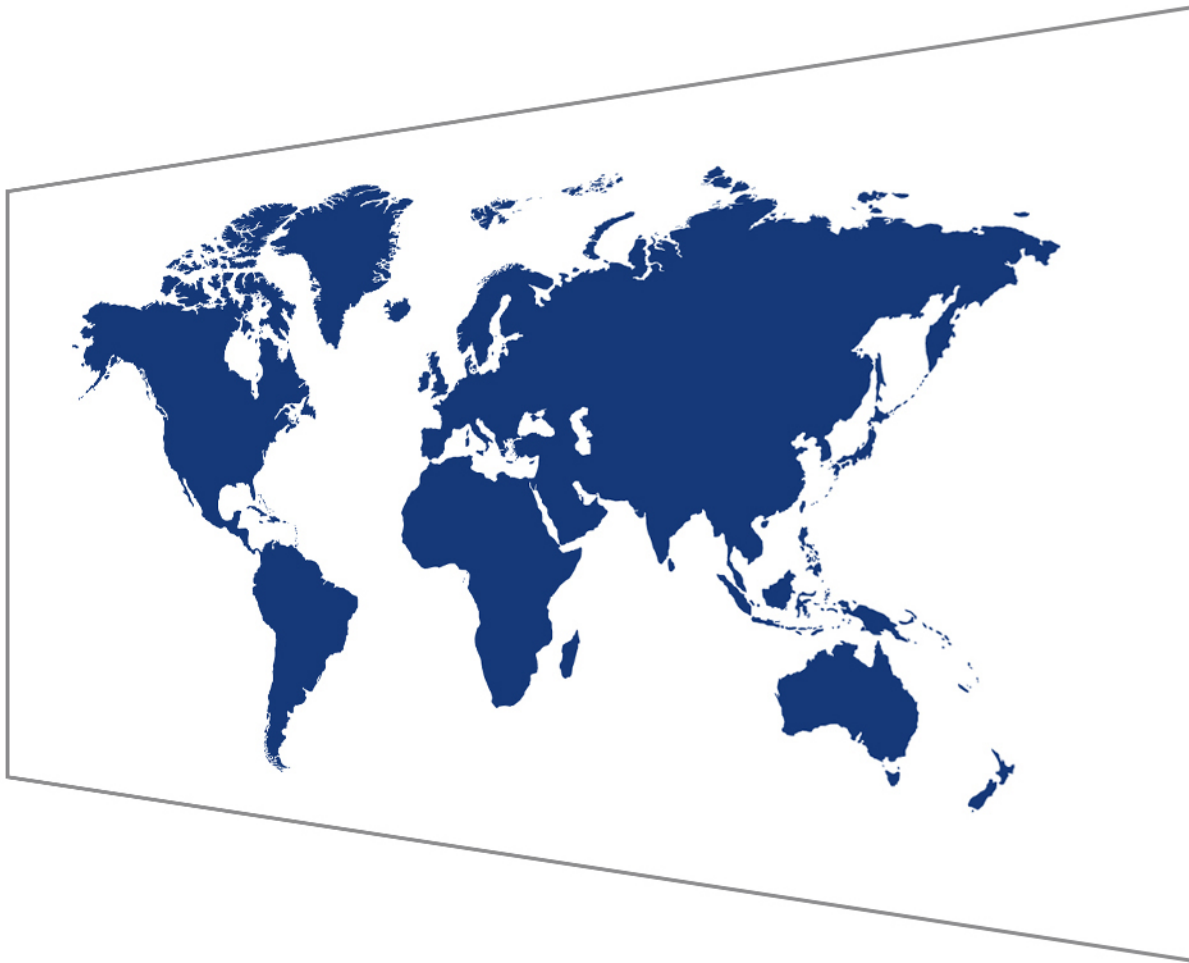


Market Report

June 2011





Rough

GENERAL COMMENT

The market continues to roll on strongly, with negligible seasonal slowing in May, and buoyed by a Vegas show that was very good for everybody and exceeded expectations for many. A large DTC sight and a significant rise in better goods had little dampening effect, and the predicted bubble-burst hasn't happened. Sightholders are currently balancing very active business with immersion in the CPQ application process

ANTWERP

The market in Antwerp anticipated a price increase at the June sight in larger sizes and, as a result of this speculation, there was a lack of confidence in pre-sight selling. We still saw a lack of confidence on the Monday and Tuesday of sight week, but then the market returned in full swing to the bullish situation of the previous weeks with double digit premiums on DTC rough on top of the new DTC prices. The increase of 7 to 8% in 30 pointers and up by Rapaport also helped of course, fuelling the strong demand in larger sized DTC rough with quotes of over 10% in, e.g., Commercial, Fine and Select MB boxes.

The question of sustainability of these monthly growing prices is answered by the comment of many polished dealers that there is a shortage of polished in all better areas. This was underlined by strong demand from the American retailers at the Vegas show and manufacturers were not willing to commit themselves for long on polished price levels. It appears that we have now entered a period where the balance of power is shifting more to the seller, not the buyer; and the link between rough and polished pricing is more realistic.

After this price increase in 10 grainers and up in DTC rough plus a further price increase announced in larger sizes of 15% by BHP this week, the market now wonders how far it will go; some say we will soon touch \$1 billion sights which only makes it more evident that there is a lack of availability in rough on one hand and strong demand for polished on the other. There is apparently an element of speculation going on led by outsiders such as funds who are taking more interest in the diamond business.

It must be said, too, that the dealers have to hold on to certain areas such as the rejection area where it has become more difficult for the Indian industry to produce good results, partly because of severe price increases this year and increased manufacturing costs. The answer here is to see what happens from September onwards when polished orders will come in for the season. Overall DTC rough is considered better balanced now and demand appears set to remain strong for the time being.

MUMBAI

The monsoon has descended upon the Indian sub-continent on time, and so far rains are very satisfactory. Diamond manufacturing hasn't seen the seasonal slow down. Instead it has been ramped up in the last few weeks and several big units are functioning at over 60% capacity. Retaining workers is of prime importance at the moment, as many will be tempted to return to their villages to tend to their farms. Several far sighted manufacturers have already declared a 15-24% bonus depending on the type of worker and department. If salaries are not increased, many feel the exodus from diamond polishing will start once again.

The mood in Mumbai and Surat has been further buoyed up by a positive response from Las Vegas and an average increase of 5% in polished diamond prices across the board. Jewellery sales however are struggling under the high prices of both diamonds and gold.

In comparison to the increased prices by various mining houses, polished continues to lag.

Demand for rough, though, continues to be healthy. There was brisk pre-sight trading, with boxes like Spotted 2.5-4cts commanding double-digit premiums. Sight week saw this mood continue. The most popular boxes, reflecting a general perception that pique goods may be in short supply, were the Preparers area (particularly Commons), as well as Spotted 2.5-4cts and 4-8grs. The Sawable -7+5 continues to be strong.

Other Indian Manufacturing Centres

Manufacturing in Ahmedabad continues to be slower paced due to a lack of workers. Larger units however continue to have strong output. Bhavnagar manufacturing continues to stay healthy. Polki and Valendi (rough faceting) is in high demand and -9+7 sieves of Russian and BHP and are being manufactured.

TEL-AVIV

Good sales of polished, in addition to a better than expected Vegas show. Despite DTC rough price increases at the last sight, little is said about a bubble, but people are disorientated by the continuing sharp rises.

Rapaport's price list increase last Friday was called for, and takes a bit of pressure off manufacturers.

The recent sight was relatively big (though less so in carats) and did not cause a drop in premiums. Box trading did not appear to increase and second hand DTC rough prices are still preferable to outside prices in Tel Aviv.

An exception is the Crystals area. The relatively low demand for princesses resulted in prices not increasing here as in the rounds and other polished. Premiums here are lower.

It seems that there is nothing to halt the upward move as demand for polished is increasing mainly from the East, but the US is also improving, and manufacturers understand that they will stay in the game only if they continue to buy and manufacture.

The banks are willing to gradually increase lending to manufacturers, and to those who have increased turnover.

NEW YORK

The upward spiral of prices, both in rough and polished, continues; it seems the sky is the limit. The pessimists are just waiting for the ever expanding balloon to burst, and the optimists are saying this is the new reality, diamonds are increasingly rare and, with emerging markets buying, and the soft global economy, diamonds, along with precious metals, are a safe haven, diamonds will continue their upwards trajectory. Still the ability to turn profits is difficult. There are increasing shortages in many areas of polished.

The Las Vegas show was very strong. The DTC price increase was expected and after a few days premiums were increasing to the levels they were before the raise, causing speculation that another raise

is not too far behind. Rapaport's price increase was expected, but not enough in keeping pace with increases in rough. Many dealers are holding onto goods waiting for the next increase, especially in his fancy list.

SOUTHERN AFRICA

Lack of clear policy direction keeps crippling performance in all mining sectors, and clearly in diamond manufacturing. Today we are told BEE is the way to go, tomorrow it is the Mining Charter, another day we are told BEE laws for the mining sector are going to be revised as they have only led to fronting and not the creation of real entrepreneurs and knowledgeable business people in the sector. For the same reason applicants in South Africa for sightholder status are left very unhappy when required to comply and produce a Broad-based BEE scorecard verified by an accredited agency.

Botswana

All are still awaiting with anticipation the official announcement of the agreement between the government and De Beers on the next sales agreement, despite leaked information. Botswana seems to have no plans of following the same BEE direction as in South Africa. Instead, the government is asking those already operating in the country, and the new applicants, to come up with models that will see citizens involved, transferring real skills to them while at the same time allowing businesses to remain sustainable.



Polished

ANTWERP

Most of the Antwerp traders came back from Vegas with renewed confidence, although some remain cautious until orders have been finally confirmed. Buyers at the show realised they can't place orders at fixed prices anymore, hence new prices are accepted for 'in demand' categories of goods.

Polished is moving well and overall stocks (in carats) are reported to be low. Production levels seem to be picking up at a rather slow pace. There is an overall feel that current requirements are based on genuine downstream demand. However, orders remain specific at the same time, indicating that many buyers have been purchasing strongly during the first few months of the year.

Despite the positive momentum in the market, many economic indicators inspire caution for the second half of the year.

Swiss watch exports for the month of May rose +32%.

All price categories posted a high double-digit growth rate in May with watches wholesaling up to CHF 200 posting the strongest performance, up 37% in volume and 40% in value. The "weakest" performance came from the middle range CHF 200-500, up 20% in value.

TEL-AVIV

The Vegas show exceeded expectations in all areas. Demand after the show is still good. There are many who see this as a sign of awakening in the US market, at least until the end of the year.

Demand in Hong Kong/China continues to be good and everyone is hoping that the show there will be at least as good as the one in Vegas.

The fancy market has improved, with the exception that princesses are relatively weak, and manufacturers currently prefer to polish rounds from crystals rather than princesses.

MUMBAI

The mood for polished traders is upbeat with the revision of Rapaport this month. Demand continues to remain strong in better end goods and expectations are that prices will further firm up in the next two months by 5%.

There is good demand from the Far East and Europe, with polished in the -11 performing well, specifically in the better areas. Some manufacturers are complaining that stock is building up in pique qualities.

HONG KONG

The trade has been focused on preparing for the Hong Kong show starting on the 23rd June. Traders report a last minute pick-up in activity after a few rather slow weeks. People take into account that business will slow down again after the show, and therefore want to use this window to sell a maximum of goods. Especially after the Rap price increase last week, people are more willing to sell goods.

Can the up-trend in demand and prices continue into the second half of the year? At the moment traders seem rather optimistic as demand keeps coming from the Chinese and Indian retail markets.

There are reported shortages of goods, particularly for +1.00-carat, D-F, SI stones, and in pointers VVS goods, not dossiers, but parcels. There is strong demand as well for triple excellent goods in those sizes.



Retail

EUROPE

Demand from all the major Swiss brand houses has been described as very strong. Their requirements are primarily driven by the red-hot demand for diamond watches from Asia. Their two main concerns are securing polished availability and finding qualified staff to keep up with the production growth (e.g. Swatch Group is currently looking to hire 800 to 1000 people in Switzerland after creating 1500 new jobs last year, Richemont needs 1500 people to keep up with the demand and Patek Philippe is trying to hire 50 new people after taking on 160 last year).

Switzerland remains optimistic that demand for high-end products will remain strong for the rest of 2011 and there are no signs of any negative evolutions for next year (according to the Federation of Swiss Watch Industry).

HONG KONG AND CHINA

The retail trade has cooled slightly in June. From 16-19 June there was the Jewellery Shanghai show, which most people see as a good networking opportunity. This show is immediately followed by Treasure Guangzhou which has 60 jewellery companies exhibiting.

The retail season will only pick-up again in September – October, with the trade starting to buy in August. So far retailers seem to be absorbing new prices and are happy with sales so far this year.

Overall, there is good demand for 0.30-carat to 1.10-carat, D-H, VS-SI, GIA-certified stones and the range of purchases continues to broaden. The shortage in EX goods remains.

This year, Hong Kong overtook Sydney as the world's second-most expensive city to lease shopping space after rents surged 46% in the first quarter from the previous three months, according to a [Bloomberg report](#). This is taking its toll on Hong Kong jewellery retailers, and this week King Fook Holdings Ltd issued a profit warning to shareholders, citing rising rental costs. In an [announcement](#) to the Hong Kong Stock Exchange, the company said profit for the year ended March 31 2011 "will be substantially lower than that for the previous year mainly as a result of the significant increase in rent."

INDIA

The Indian retail market has been slow due to the holiday season last month. With inflation reaching scorching levels and interest rates rising for the tenth time since March 2010, purchases of luxury goods have taken a setback.

Bullion has been volatile throughout the month, but has maintained its climb up. Whereas diamond prices haven't seen a downfall in the last eight months. Looking at the current rising rate, consumers are rethinking their budget spend on diamond jewellery. Consumers have been absorbing the price increase in diamonds, but the last month has seen resistance, with gold jewellery performing better than diamond jewellery, despite gold prices going up.

On the export front, there are positives as the Las Vegas show was good for Indian jewellery manufacturers, but price has become the most important aspect with fixed pricing requirement of western retailers. Few are of the opinion that if the trend of price rise prevails then the manufactures will get sandwiched between the raw material suppliers and the retailers.

Overall the retail front has not been promising and local jewellery manufacturers and retailers are looking forward to the IJS show (Aug '11) to bring back some momentum in the business.



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