

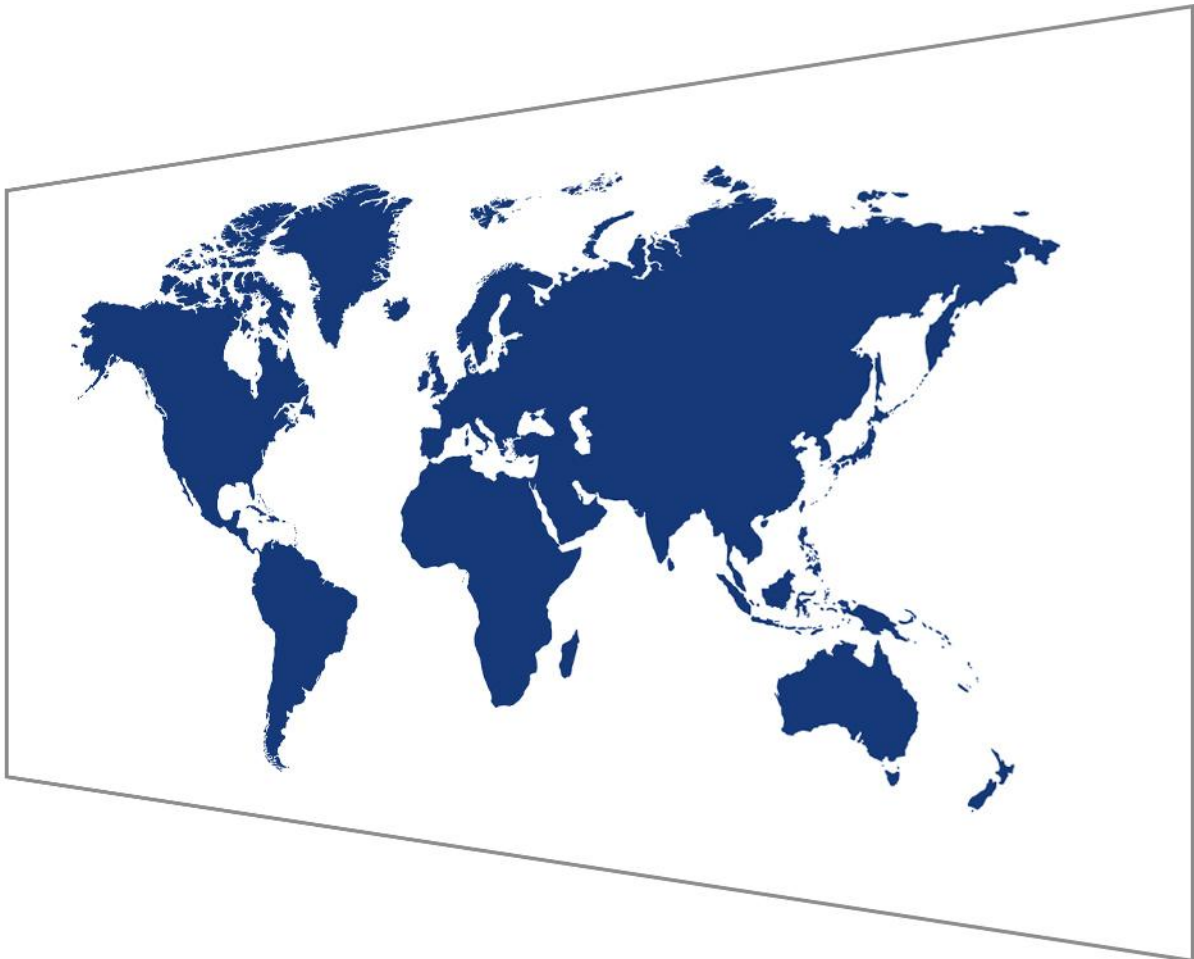


Bonas

Diamond Brokers & Consultants

Market Report

November 2010





Rough

The DTC price increase gave a jolt to the rough market. Things are perking up somewhat now in rough, and there is always some stimulus from a raise before the Christmas retail season, but it does represent a further squeeze on the manufacturer.

Current polished activity, even in China, is quite muted. Their evolution will depend directly on pull-through over Christmas, as it seems that the pipeline is pretty full. Another significant unknown is the development of the current situation in the Euro – although the countries affected are hardly big diamond consumers, the knock on effect on major economies is unlikely to be beneficial.

ANTWERP

The fact of an increase was much less surprising than the degree of it. Although it may appear logical comparing rough to rough, the rough to polished calculation is very tough, in some sizes. This is not new, and was already the case for a range of boxes, especially in +2ct. The situation is all very odd: buying rough has become a mission in itself; the fact that the goods then need to be polished and that the polished then needs to be sold, seem to be minor details. There is no doubt that this price hike has caused premiums to dip, though there are signs of a rally now that Diwali is over. Our feeling is that more boxes were offered for sale but didn't necessarily get sold. We have reached a point where some manufacturers prefer to pass on the 'hot potato' and take whatever premium is left. Buying polished is also now easier.

At Diamdel, prices seem to be strong. There still seems to be the (mistaken) widespread belief that Diamdel is the automatic fast track to becoming a DTC Sightholder.

Clearing prices at BHP were said to be on average 1.7% higher this month and the total volume sold is estimated at around \$120m., which is 5% less than the previous month. Their goods are being traded on the secondary market at list price, 60 days.

All of the above has meant that Russian goods have gained in popularity. In Moscow prices haven't changed much and dealers can make healthy margins on the trading of their goods.

More and more manufacturers are shying away from larger sizes and again focusing on small goods which cost less and give them more pieces to fill up the factory.

Interestingly the rough buyers from China (Hunan), who used to flock to Antwerp in big numbers, do not appear to be coming at the moment. Apparently, some have lost money on earlier purchases, and are not sufficiently financially strong to keep on going.

MUMBAI

News of increased prices at DTC spread very quickly though the Indian market, which was only partially active due to Diwali festivities. Despite fewer businesses being active, a strong demand for rough was reported during sight week. Very few trades were reported to have actually taken place as both buyers and sellers wanted to wait for more people to come back.

This strategy paid off for sellers as premiums picked up marginally in the second week, and buyers were willing to pay slightly more after seeing assortments. MB H, 3gr+7, which was being quoted at 5% in the first week, went up to 8% in week two, while ABC Rejns went from 7% to 9%. Buyers connected to manufacturing units in Bhavnagar and Navsari are sticking to Alosa, especially in the MB/Cliv, 11+9 and 9+5 areas as they feel DTC is very expensive. The rupee being at a 2-month low is not helping them.



SURAT

There is not much to report here as factories are closed in all polishing centres in India till 22nd November due to Diwali. Given that there was a good monsoon, nervousness continues about how many workers will return to the factories.

TEL-AVIV

Although the actual rough price increase at the DTC sight did not come as too much of a surprise, Israelis were taken aback by the scale of it. However they hope that it will set a floor for polished sales in Q1.

The obvious dangers to sightholders of such a steep price increase are:

- A significant decrease in profitability
- A reduction in the banks confidence to lend
- Diamantaires finding it difficult to service their bank debts

On the rough market this past week there were more sellers than buyers, mainly because of Diwali. The premiums went down to 3-5% in the better goods and 7-8% in smalls and pique where there is still demand. Manufacturers are waiting to see which direction the market will go, and the results from the season.

NEW YORK

The New York market was surprised by the price rise, with New York sightholders feeling that, overall, it wasn't warranted in the large sizes. There is concern that it will upset the stability that people feel has not been around all that long.

Those who had purchased rough boxes over the last couple of months, stood back this month to wait and see the reaction to the rise after manufacturing. As a result there was no box trading in NY.

There was a little bit of Canadian rough around but as in recent months it was deemed expensive.

SOUTHERN AFRICA

Clients in South Africa, Botswana and Namibia reported that indeed the price increases were to some extent reflected in the colour improvements, though there were concerns raised regarding purities in some boxes.

Clients in South Africa are wondering whether the lack of explain at the Kimberley sights for a while now is due to De Beers' selling off its assets in South Africa.



Polished

ANTWERP

The season is ending and we have seen a healthy presence of polished buyers in Antwerp. There is good demand but traders at the same time express concern about price resistance. The rough price increase has caused some kind of urgency with customers; they suddenly realise that it is better to buy at current (old) prices rather than to wait for the future when goods would be even more expensive. In a nutshell, you can sell most things if you don't push on prices.

There is overall good movement in -10 points in VVS-piqué quality range and prices have been increased by an average of 3-4% in clean and 2% in pique.

Market traders notice a growing liquidity problem in the market due to growing stock levels within many businesses. The volatility of the € does not instil much confidence at the moment, so those people exposed to the € refuse to stock up.

TEL-AVIV

There are last minute/hole-plugging orders which are specific, mainly from the USA. There is also demand from India for the local market as well as mediocre demand from Hong Kong/China. At the moment Israelis are waiting to see how the retail season plays out and the demand which will follow. As usual at this time of year, the big players are more active than the market in general.

Polished prices have not significantly changed since last month. Manufacturers, painfully aware of rising rough prices, try to push polished higher.

+5 cts is moving slowly. There is ample availability in D Flawless, and very little demand. There is a moderate demand for VS, SI, but little available.

Fancies continue to move very slowly. Any demand is mainly from traders looking for deep discounts.

MUMBAI

The run-up to Diwali was a very profitable one for the Indian market, with the Sensex touching an all-time high of 21,000 points in early November. Backed by a strong rupee, profit-taking in gold and a sturdy property market, the story for Indian businesses remains a positive one on the whole.

For the diamond industry, exports of cut and polished diamonds registered a 37% YoY increase for September (GJEPC), while gold consumption also grew by 36% for the same period. Negative stories in the media relating to round-tripping of goods to play with bank finances, followed by articles of bank defaults within the industry cast some shadows on an otherwise vibrant mood for diamantaires.



NEW YORK

Overall, demand on the New York market feels weaker than one would anticipate at this time of the year. There is a feeling that sourcing for the season has largely by-passed New York and has occurred in other centres.

Expectations are that the economy will continue to improve very gradually. However, reports in the media suggest consumers remain firmly in saving mode. As a result discounting for the season has already started. The DTC's prediction of growth this season being in the low single digits is widely believed to be accurate. Fashion will most certainly be the weak segment again this year, and bridal will provide the strength.

Well-made 2cts and 3cts are in good demand with limited supply. In these makes, even SI quality up and I colour + are sought after. Prices very firm in this area. In the 1 ct range, triple-ex is very strong and good makes are strong. In these areas prices are firm.

HONG KONG

Business in Hong Kong is 'normal'. Retail sales are still thriving on spending from mainland consumers. At wholesale level, business is being done but is not particularly strong ahead of Chinese New Year. The slowdown now is possibly the result of an extremely active Q3.

There is much more price resistance than before and traders don't see any scope to push prices up for at least two months.

0.70 – 0.99 cts is slow across the board. Prices are stable. 90pts are particularly slow.

5pc sell well, but not 4 pc. Prices are stable.



Retail


EUROPE

Jewellery manufacturers in Europe have done well so far in October and November. Most of the factories are still very busy fulfilling last orders ahead of the season. So far, the ordering season has been much better compared to the recession months with curtailed orders last year. However, it is still to be seen whether the demand materializes at B2C level in December.

The jewellery manufacturing business today seems to be increasingly concentrated in fewer, stronger hands. At retail level, brands and jewellers with a clear vision, concept and strong advertising power are clearly doing better than those who don't. Suppliers are all after the same (financially) strong customers, increasing the competition in the market place.

Retailers are stocking up goods with the focus on regular goods and jewellery up to \$1000. There is overall price resistance, especially at the lower end of the market. As the majority of orders are based on fixed price agreements, manufacturers are unable to pass along the higher costs of their polished and gold purchases and as a result have to give in on their profit margin. Silver is doing well everywhere; the good thing about this is that it often creates a halo effect on the other product categories as well.

Richemont reported its results for the 1H 2010 (ended 30 September 2010). The good performance achieved by Richemont in the 1H of this year has been driven by a marked improvement in all business areas and across all locations. Sales increased by 37% to € 3259 m (by 27% at constant exchange rates and by 22% if you exclude the impact of net-a-porter.com). Operating profit increased by 95% to € 760m.



The Jewellery Maisons' sales increased by 32% overall to € 1619m, with stronger growth in the Maisons' own boutique networks. Sales of high end jewellery were good and the more accessible jewellery ranges also performed well. Sales of watches were very strong (principally to third party retailers; +38% or €901m), benefiting from the Maison's position in premium watchmaking. Cartier's leading position in growth and established markets provided a base for double-digit sales growth, albeit against weak comparatives. Van Cleef & Arpels also saw double-digit sales growth during the period.

USA

Saks: 3Q sales +4.3% to \$658.8m. Same store sales +5.7%. Fashion jewellery was amongst the categories that were strong performers during the quarter, along with shoes, women's clothing and men's sportswear.

JC Penney: 3Q sales +0.2% to \$4.19bn. Same store sales +1.9%. Internet sales +3%.

Blue Nile: Q3 sales +0.8% to \$67.5m. International sales increased 5.7% to \$9.3m; US sales remained flat at \$52.8m. Interestingly, non-engagement jewellery is said to have performed slightly more strongly than diamond engagement jewellery. The company's outlook for Q4 is broadly in line with industry predictions for the diamond industry as a whole.

HONG KONG AND CHINA

Mainland property markets are no longer buzzing. In October, Beijing rents fell for the first time in 18 months. Still the likelihood of softening mainland markets increases the appeal of buying in Hong Kong; the Hang Seng Property Index has gained 17% since the beginning of the year.

China is considering a package of price controls and other measures to contain inflation which rose to 4.4 per cent in October. This has become the principal risk to the economy as it could encourage speculative investments by Chinese depositors who are currently receiving negative real returns on savings in the banking system.

Diamond Jewellery Retail business report good growth this year, but:

1. A lot is attributed to store expansion
2. A substantial increase is noted in mainly gold sales
3. Gold seems to have taken again a more prominent position in a store's offering.

INDIA

A positive outlook continues in retail as well, with sales of gold jewellery surpassing figures of September 2009 by 67% for the same period. October is said to have been a record month despite high gold prices, with sales increasing in November, due to Diwali.

The outlook is that retail will continue to trend upwards for the remainder of this quarter. To cash in on this upward wave, many local diamond-jewellery manufacturers are looking at domestic retail, and we hear several new jewellery stores will be opening in the new year.



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