

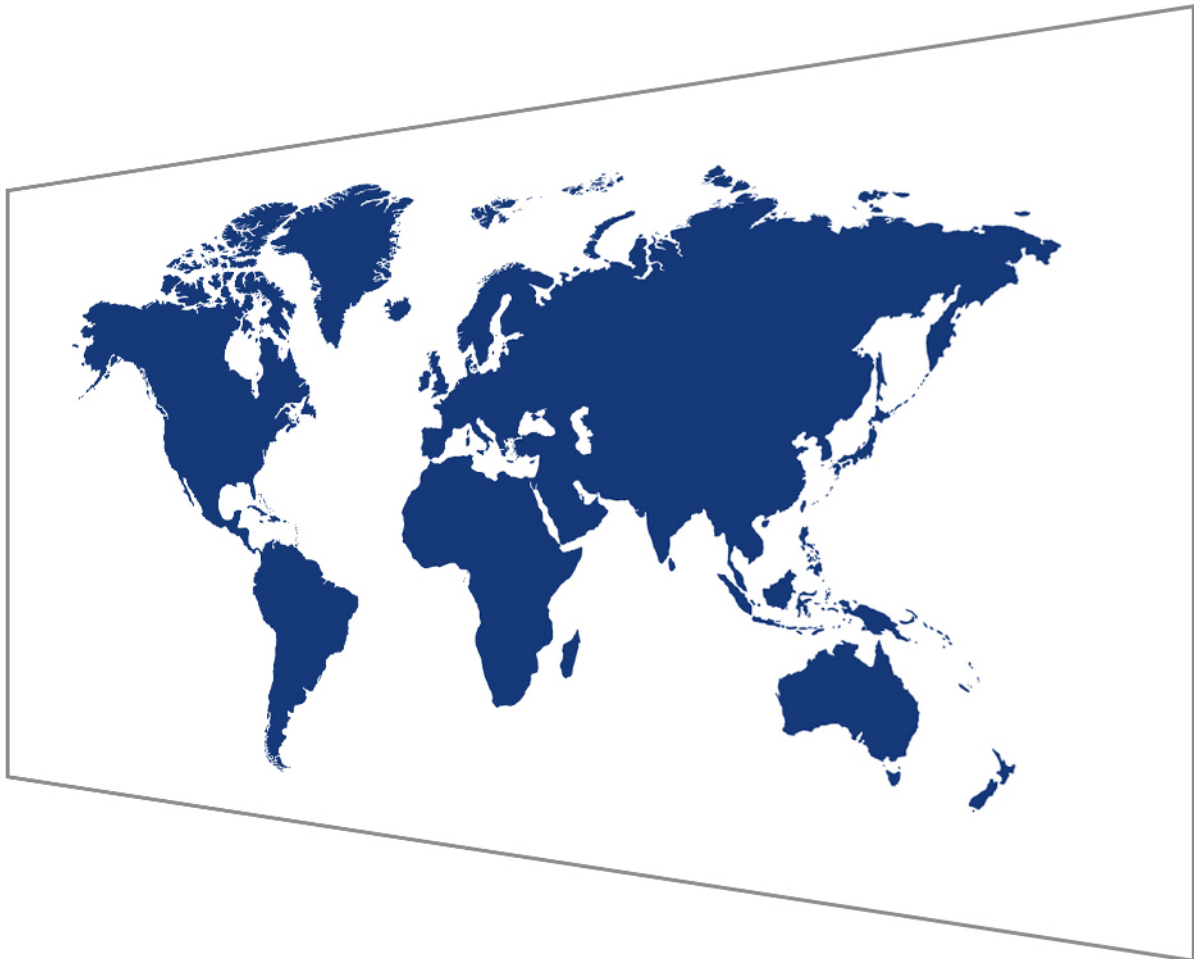


Bonas

Diamond Brokers & Consultants

Market Report

November 2011





Rough

GENERAL COMMENT

The atmosphere at last week's sight was markedly improved. DTC's adept handling of the pricing issue helped to further firm up the rough market. The combination of a small sight and changes to the makeup of boxes was felt to be a significant step towards rebalancing rough prices with polished. The relative scarcity of outside goods is helping to re-enforce this.

Friday's announcement of Anglo's buy out of the Oppenheimer family has, not surprisingly, released a storm of speculation and theories on the market. People are sad that this long era has come to an end. Clearly, with the move to Botswana also in the offing, a lot of changes are expected and in some quarters people feel concerned. Foremost among these is a more corporate approach to the business. It is also discussed that the balance of De Beers' ownership – previously 45/40/15 – has changed very sharply, potentially to 80/20 or 75/25, and that this could have further implications for the Botswana move. Many hope that the predicted addition of Anglo's full muscle to exploration and mining will lead to a stronger De Beers with increased market share.

ANTWERP

The rough market showed signs of a recovery after Diwali and ahead of the DTC November Sight. This, combined with the offer of updated assortments in London, set the pace for a relatively smooth sight week, something that was not expected a few weeks ago.

The secondary market responded as well by reducing the size of the box discounts. This was true for most of sight week until towards the end of the week when the market weakened again by a couple of percent. 2.5+ ct boxes, in particular, were being offered at heavy discounts.

BHP reportedly sold about the same value as last month (\$80m+), but 13% more in carats, partly because all parcels were sold this time. In -2.5cts sale prices were up, but, with assortments said to be improved, the net increase was probably around 5%. In the secondary market, these goods sell at List or at a marginal profit. Whether sustainable or not, the positive result on the latest spot sale has brought some confidence to the market; it was a trigger for people to start buying again.

Most consider 1st-hand Russian goods to be expensive and reportedly trade at substantial double-digit losses. There is talk that prices in Moscow will be corrected.

Angolan -4cts were offered for sale again for the first time since July. In total just under \$60m was reportedly sold in various equal cuts.

Under current market conditions outside goods are often considered more interesting than labeled goods. There isn't much available though and one needs expertise in order to do it successfully.

INDIA

The Indian market, just returning from the Diwali holiday, has witnessed a marked improvement in sentiment. Prices of rough are firming again, and demand for polished has increased marginally although prices are still under pressure.

The recent strengthening of rough is more a result of inter-trade activities rather than factory-driven demand or polished sales. BHP price increases are being attributed to traders. However, this increase has injected momentum into boxes from other miners as well.



Many small Indian manufacturers welcomed the news some Zimbabwe rough was approved by the Kimberly process as the secondary market had become expensive for some.

Very few factories have re-opened last week, with the majority opening around 15 November. A good monsoon this year is raising concerns that diamond artisans may not return to work.

Manufacturers, especially in smaller goods are opening their rough sorting units a few days before their factories so rough can be kept readied for immediate manufacturing. In larger sizes, factories still have some rough inventory.

The markets outside of Mumbai and Surat open on 15 November as well. Many are anticipating a manpower shortage, with some manufacturers opting to move their bases from Bhavnagar and Saurashtra to smaller towns like Mandvi and Lathi.

Tel Aviv

Sightholders were pleased with the changes to the boxes. Rough was already firming before the sight, and continues to do so. The absence of significant quantities of outside has helped.

That said it's hard to give 'market prices' for boxes, as they are determined on a case by case basis, depending on how much pressure the seller happens to be under. In general, though, 4-8grs are a bit under List price, while 2.5-4cts are mostly closer to List -10%, with the exception of one or two specialised/scarce boxes.

Indians are back on the rough market in force, but are noticeably more circumspect in their purchases so far. Sightholders hope that the December sight will see further improvements in the boxes which, combined with a moderate sight, should clear out the pipeline further with a view to a solid base for the New Year.

Southern Africa

In South Africa, the selling of the De Beers shares to Anglo American by the Oppenheimers has surprisingly not been commented on that much by the local media. However, some Batswana have speculated that the selling was as a result of the DTC's move to Botswana. Other news from South Africa that is getting attention: the suspension of Julius Malema from the ANC and the ANC Youth League; the downgrading of South Africa debt outlook from stable to negative by Moody's; and the announcement that the KP committee has since granted Zimbabwe the right to trade its diamonds on the open market.



Polished

ANTWERP

Offices in general report slightly more activity compared to last month, however a slowdown is expected in the second half of the month as we approach the end of the buying season. Some buyers haven't bought for a very long time and finally realised they should start ordering. The strengthening of rough prices (DTC premiums and BHP) has had a stabilizing effect on the polished market. It is however too early to say whether this has reversed the downward price trend for good. Demand continues to remain specific and comes mainly from cautious overseas buyers as European traders are affected by the € fluctuation. Sellers remain careful who to sell to and more importantly, on which terms. The big question is: who is liquid and who is not.

Demand is mainly focused on pointers (20pts up – especially 50,70,90 pts) and smalls (-6.5); everything in the middle is described as slow. There is good activity reported in VS-SI quality because of a significant price differential with VVS quality. Good movement for caraters as well.



TEL-AVIV

Polished sales in the second half of 2011 have ranged between 25-35% lower than the first half. Over the last few weeks the market has slowed down further as Asian buyers often sit on the fence waiting for Rapaport to lower prices. In the first half of the year, when prices were climbing every month, Asians rushed to buy before prices rose further. The dynamic is now reversed, as prices for rounds tend to decline slowly but steadily every month. Demand from the USA is slowing down as the season comes to a close. Demand from Europe continues to be weak with the exception of Italy.

Calls for large stones are few and far in between as the global stock markets gyrate wildly. Almost no interest in stones \$500K and up. Prices for certified 1-2 ct rounds continue to gradually decline as well as a decline in interest for pointers. Fancies are doing relatively well, particularly straight-edge fancies: princess and cushion in lower clarities.

MUMBAI

The Mumbai market is slowly gathering momentum with most offices only opening at the beginning of this week, after the Diwali break. Overseas buyers, especially from Israel, are in Mumbai. The Chinese are staying away. The pace of business compared to the pre-Diwali sluggishness is up a tad, however, prices are still under pressure and demand is primarily for SI down.

Some last minute purchases were made by local retailers in the two days leading to Diwali holidays to replenish stocks. Local buying has slowed again, though, due to a weak Rupee.

Demand for caraters is firmer than last month in SI down however price resistance continues. Products from \$1800 – 2000 are moving best. +11 polished is moving in the pique area but slow in VS+.

NEW YORK

Sales of pointers in VS-I2 quality, especially in SI-I2, is where most of the business is being done and as a result prices in this area are firm.

Retailers in the US are placing small orders but there is definitely not the activity that one would expect at this time of the year. Healthy buying earlier in the year has meant that retailers are stuck with highly priced inventories and are currently looking to offset these with significantly cheaper goods. Some are experiencing a significant difference in sales geographically, for example, the north-east being stronger than the mid-west. In the stronger regions, there is more diversity in price-points being sold.

Overall, expectations are for a reasonable season. The market is hoping also that stability in the stock exchange will return before too long, and coupled with a decent bonus season, will mean that demand for larger stones and higher priced jewellery pieces recovers.

No change in demand for +5cts polished over last month – it remains weak. +2cts is also slow due to its current price relative to one year ago. SI caraters are moving, while VVS is very slow. Relatively good demand for well-made straight and round-edge fancies.

HONG KONG

The Hong Kong trading market, which went quiet after the September show, has just had its slowest October for many years. It looks as if the market over-bought in the earlier months of the year in anticipation of further price increases. This year's price inflation now also seems to be hitting retail sales. CFO's are putting pressure on their sales staff to reduce inventories

further. Running a similar size of business this year is easily 35% more expensive than last year and that affects cash flow.

At the moment there is more supply than demand and orders are for very specific items to fill the gaps. Demand for, and prices of, stars and melee are good. Also in + 1ct. sizes, demand exists but at heavy discounts. Price gaps between sellers and buyers are substantial, but sometimes someone can be tempted into selling, often to aid cash flow.

4 grs sell at 15-20% discounts off Rapaport, compared to -5% before. 0.50+ct sell at 35% off Rapaport.

Retail



EUROPE

Against a backdrop of European debt concerns dominating the news headlines and fear of reduced disposable income, many believe that flat diamond jewellery sales this Christmas compared to last year would represent an achievement. Jewellery retailers describe the business today as 'nothing to write home about'.

Stores now enter the crucial 1 ½ month sales period ahead of Christmas and many ordered strictly what they need as they have decided to reduce their (considerably high) old stock first. Retailers prefer to wait and see and order more as soon as they see movement in the coming weeks. At the same time, they understand they need at least some new merchandise to attract store traffic this season and bought small volumes of jewellery from suppliers able to offer something new, well made and not easily found elsewhere (such as solitaires).

Retailers no longer accept diamond price increases and complain heavily about the fluctuation of raw material prices. Payments remain slow across Europe.

INDIA

North: Sales have been excellent at adjusted price-points through low purity (I2-I3) and colour (I-J & browns) diamonds in jewellery.

West: Sales have been very good (mainly Gujarat).

South: Diamond jewellery sales were significantly lower than gold, as consumers prefer top purities and colours which are very expensive.

East: Very sluggish this Diwali season.



About Bonas

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