17 July 2012

Botswana Diamonds publishes today (17 July) its views on the global diamond market.

According to Robert Bouquet, Commercial Director, Botswana Diamonds, “The long-term still looks very bright; but in the short-term, as we enter the second half of 2012, the diamond market is unsure what the next few months will bring; the major producers are trying to hold firm on price, while allowing their customers to defer some of their purchase obligations.

“Traders and manufacturers are seeking alternative goods with profit, however liquidity is very tight and the devaluation of the Indian rupee is hurting the Indian manufacturers.

“The pre-Diwali trade and the Hong Kong trade show in September are now important milestones in how the rest of 2012 unfolds”

DIAMOND MARKET – H1 2012

The diamond market has weakened in the 1st half of 2012; however in relative terms prices still remain at historically high levels. The medium-long term is forecast to be extremely robust for the diamond trade, despite the short-term volatility.

This half the diamond market has endured a difficult period of trading and the volatility predicted in January has been evident throughout the period.

Unlike in 2011, when prices rose by up to 50% between January and August, followed by a sharp drop in September, the prices of rough diamonds have struggled during the first six months of 2012.

Overall rough diamond prices are considered to be in the range of -10-20% year-on-year, depending on which diamond producer one considers. The banks, who finance the trade, are watching carefully the levels of trade debt. The trade in rough diamonds has continued during the six months, but the liquidity has tightened and prices have come under significant pressure. The devaluation of the Indian rupee has also put additional pressure on the Indian manufacturers.
Polished prices have edged both upwards and downwards over the period, resulting in an overall negative performance to date; July polished price indices now stand at 4% below the start of the year and -11% year-on-year (source: PolishedPrices.com).

The diamond market has not been able to repeat 2011’s strong early performance due to a combination of leading factors:

- declining marginal demand coming from the key emerging consumer markets of China and India
- the impact of the weak US economy and the financial crisis in the Euro zone
- the devaluation of the Indian rupee
- the pricing policy of the main producers, DTC and Alrosa, remaining firm despite tightening liquidity and margins for their clients
- the diamond banks monitoring closely client debt levels

Those smaller producers selling into the market have been obliged to either withhold sales or accept lower prices achieved in their tender/auction sales. The anticipated impact of significant volumes of Marange goods from Zimbabwe was not as strongly felt as first feared.

The important H1 trade fairs of Hong Kong and JCK (Las Vegas) highlighted the weakness in the wholesale market as polished buyers attempted to pull polished prices down with limited success.

As H1 drew to a close, the trade was resisting the prices of the major producers, and sales volumes were being pegged back by a struggling market.
DIAMOND MARKET - GOING FORWARD

H2 2012 is anticipated to be more positive for the market; reduced levels of manufacturing due to lower trading levels, coupled with demand in polished for the important Diwali and Indian wedding season is expected to spur demand and a subsequent rise in prices allowing destocking, liquidity and bank credit to return.

Longer-term, the fundamentals of the diamond market remain healthily robust. The price trend is certainly expected to be upwards driven by limited supply going forward, few new mines coming on-stream and continued growing demand from the emerging markets.

The report published by Bain & Co in December 2011 estimated that rough diamond demand would increase by 6.6% per annum until 2020, doubling the size of the industry. Global rough production for 2011 was estimated at 140mcts (value $14bn), and this figure is predicted to remain relatively stable in the coming years, growing to 175mcts by 2020.

Merrill Lynch recently stated its positive view on the long-term fundamentals of the industry, citing diamonds as a “secular, late development commodity” with significant growth potential due to the low per capita consumption at present in the emerging markets and the expected supply-demand deficit in the medium-long term – see chart below.

![Graph showing diamond prices over GDP increase](image)

Source: BofA Merrill Lynch Global Research estimates

DIAMOND JEWELLERY DEMAND – key markets

The US remains the world’s biggest consumer market for diamond jewellery at around 40% of global sales by value.

Japan remains resiliently at around 10% despite last March’s environmental catastrophe.

The emerging markets, led by China and India, continue to grow strongly, despite a slowdown in the levels of growth. These 2 markets combined are anticipated to exceed the US market by 2020.
Further information can be found at:

www.botswanadiamonds.co.uk

Enquiries

Blythe Weigh Communications +44 (0)20 7138 3204
Tim Blythe +44 (0) 7816 924626
Samantha Ryan +44 (0) 7947 762658
Robert Kellner +44 (0) 7800 554377