



# Overview of the Diamond Market

**Neil Buxton**

**WWW International Diamond  
Consultants Ltd.**

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[neil@diamondwww.com](mailto:neil@diamondwww.com)



# Outline

- WWW
- Current production
- Diamond Pipeline
- Future production
- Key Issues in the Market
- Future Prices



## WWW International Diamond Consultants

- Independent consultants to the diamond industry
- Formed January 1996 by Richard Wake Walker and Charles Wyndham
- Neil Buxton joined in 1998
- Over 100 years industry experience



## WWW's – Government Work

- DICAN - Federal Government of Canada (DIAND)
- Democratic Republic of Congo
- The Gokhran of Russia
- Almazjuvilirexport
- UK Foreign Office
- South African Diamond Board
- Royal Canadian Mounted Police
- Geological Survey of Finland



## Clients including ....

Aber Diamonds	Gem Diamonds	Southern Era
AfriCan Mining	Global Witness	Stornoway
Alexkor	Kensington Resources	Tahera
ANZ Bank	Letseng Diamonds	Teck Cominco
Archangel Diamond Corp.	Norton Rose	Tiffany
Ashton	Partnership Africa Canada	Uralkali
BM Diamond Corp.	Mine Gem	Winspear
Brazilian Diamonds	MPH Consulting	
CIBC	Peregrine Diamonds	
Contact Diamonds	RBC	
Consolidated African Mines	Rhonda	
Diamonex	Rio Tinto	
European Diamonds	Shore Gold	
Falconbridge	Sierra Leone Diam Corp.	
Franco Nevada		



# WWW's Services

- Developments in the diamond world
- Supply / demand scenarios
- Price Forecasts
- Diamond valuation services
- Instruction and training in sorting and valuing diamonds
- Marketing consultants for rough and polished diamonds
- Tender diamonds from Letseng and Cempaka

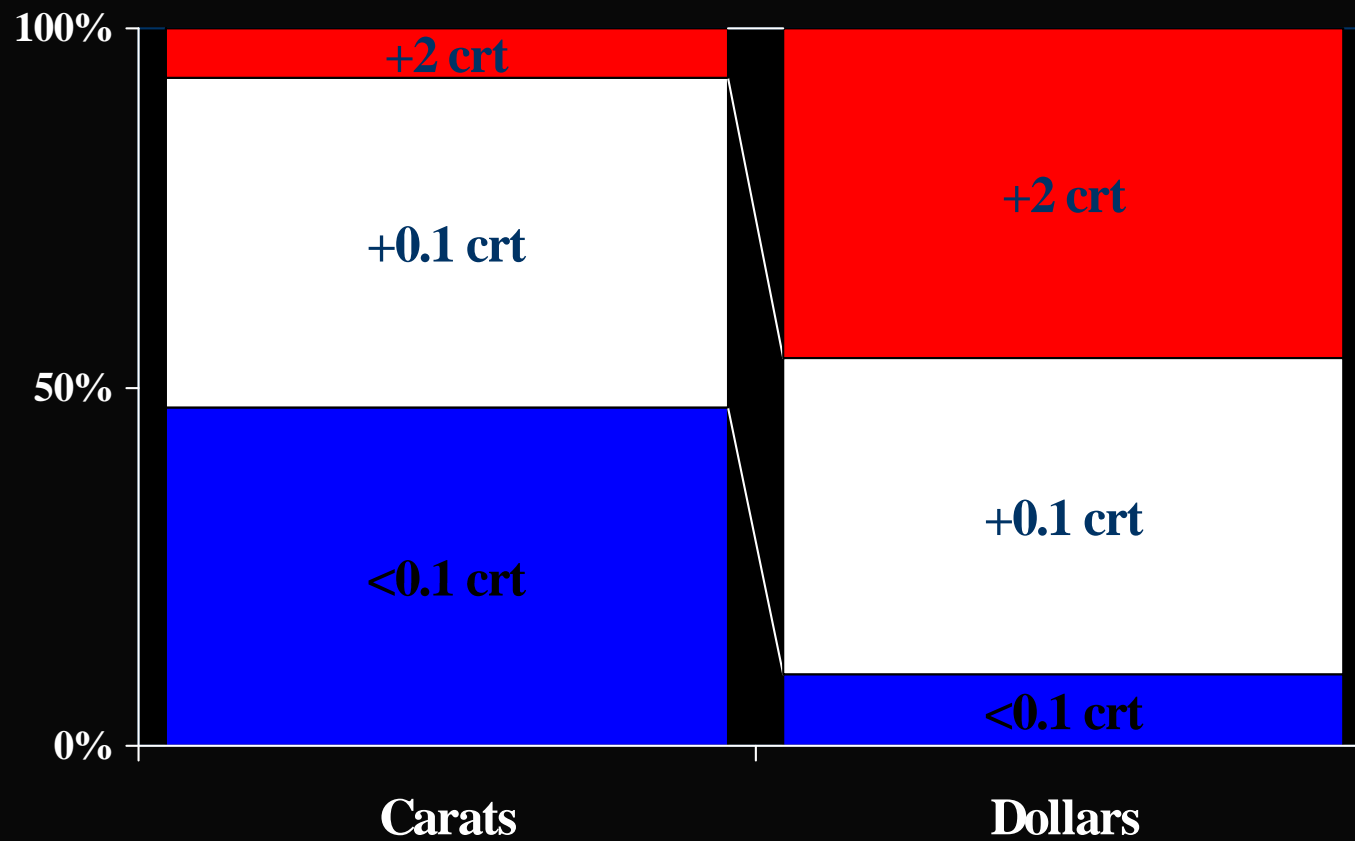


# Valuation and Modelling of Bulk Samples

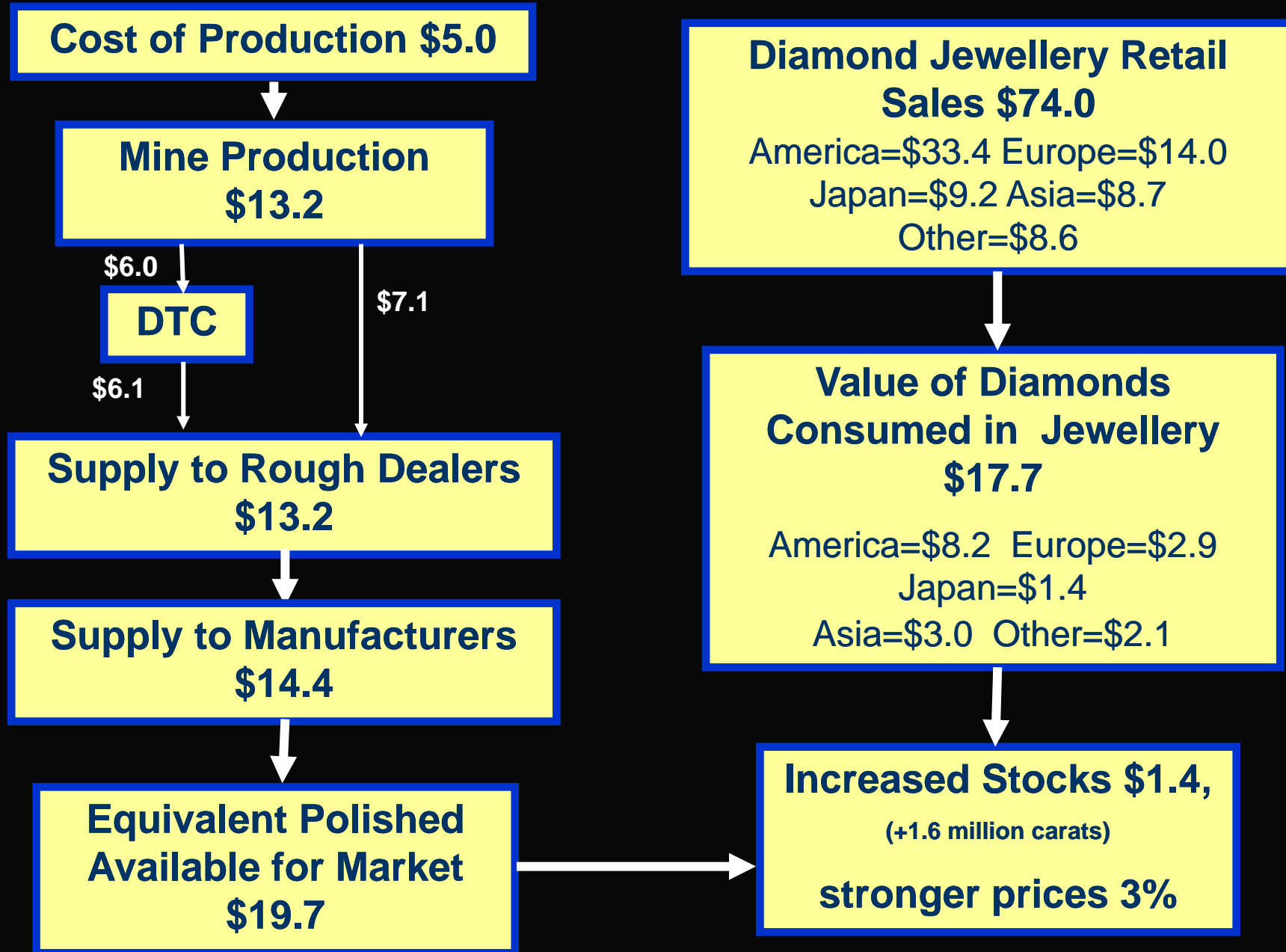
- Ashton
- Brazilian Diamonds
- Contact Diamonds
- Diamonex
- Diavik
- Falconbridge
- Gem Diamonds
- Kensington
- Peregrine
- Shore Gold
- Snap Lake
- Stornoway
- Tahera
- Tiffanys



# A Carat and Value Profile



# Diamond Pipeline 2006 (\$bn)

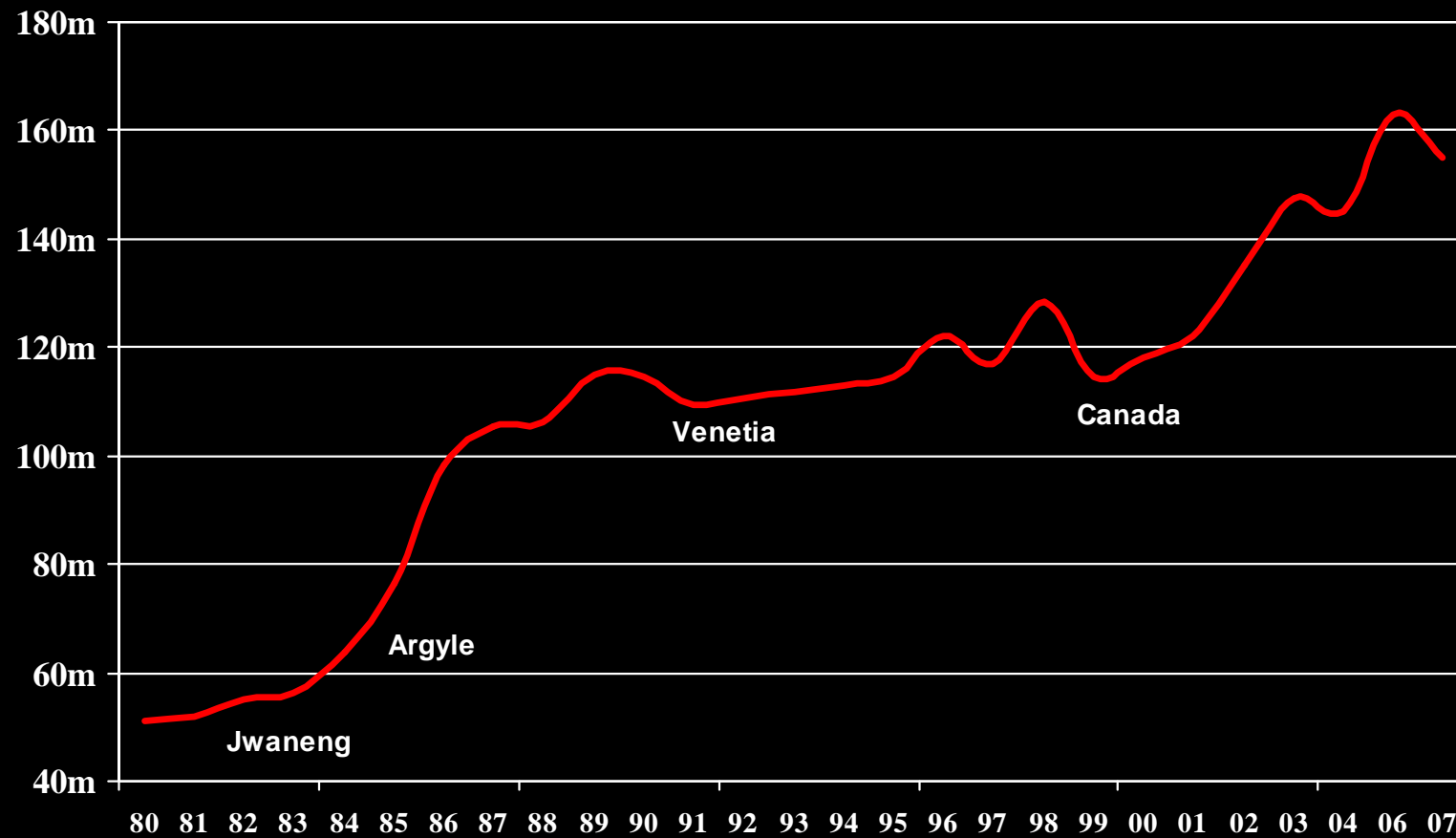




# Rough Production / Producers

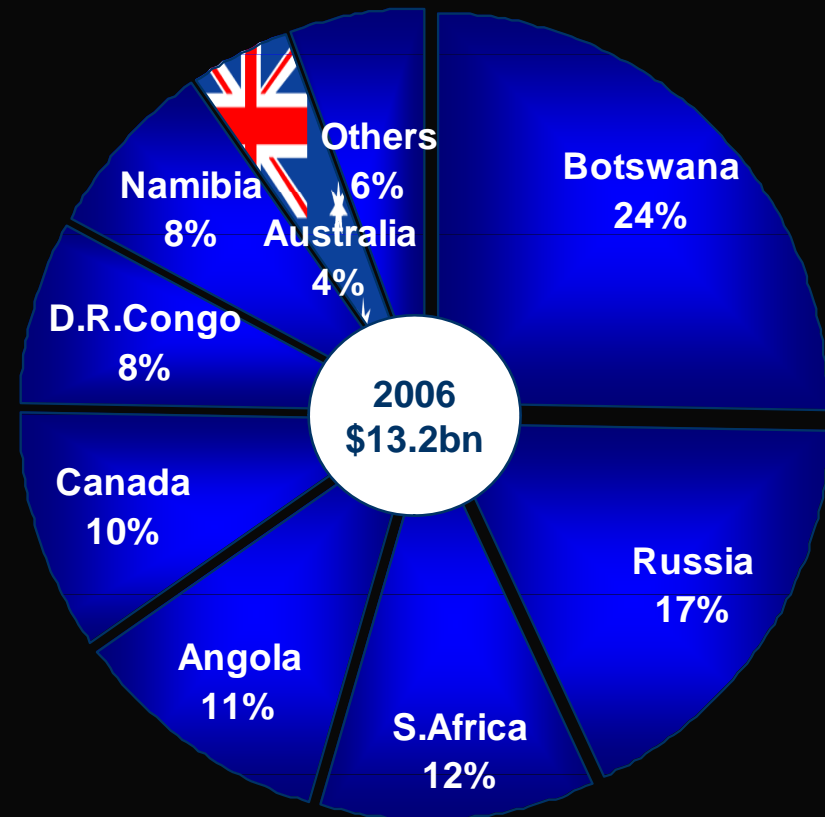
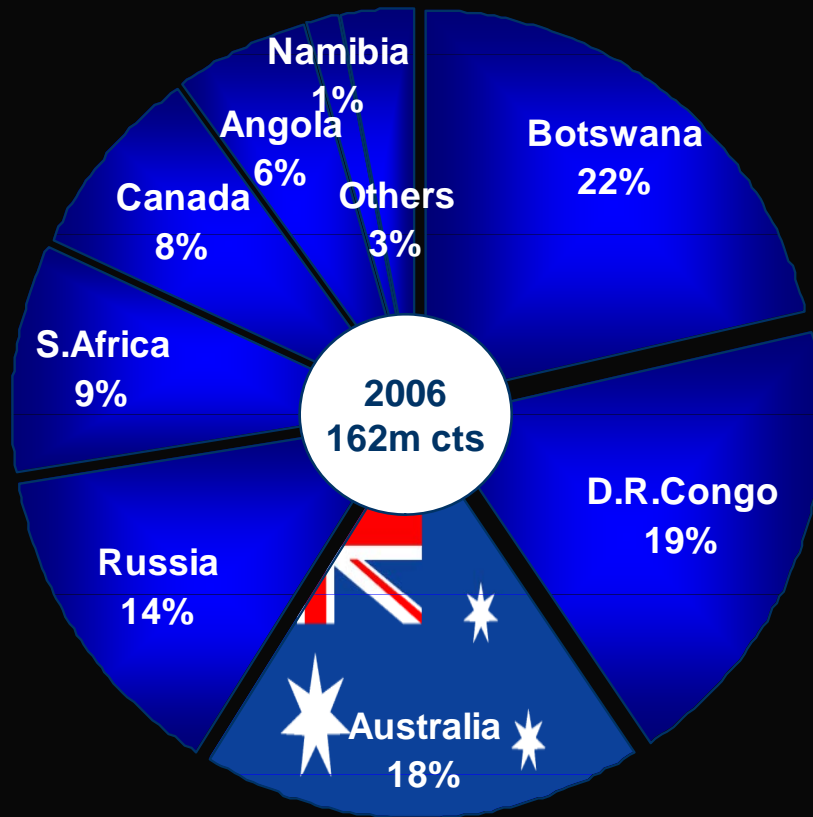


# Diamond Production (carats)



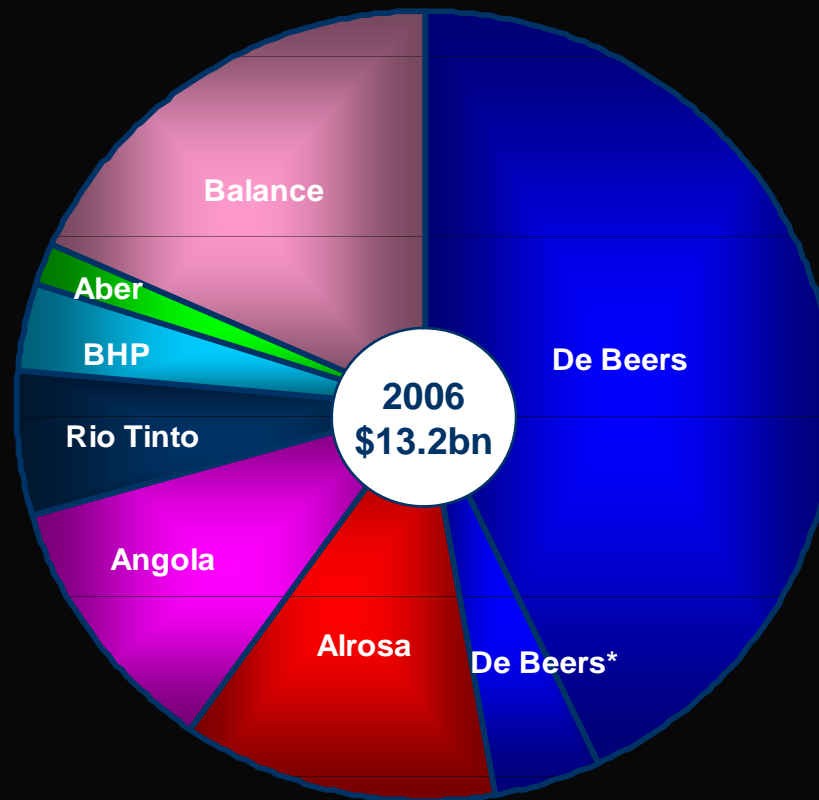


# World Diamond Production 2006





# Share of Goods to Market



\* = Contracted Purchases  
De Beers excludes Diamdel open market purchases

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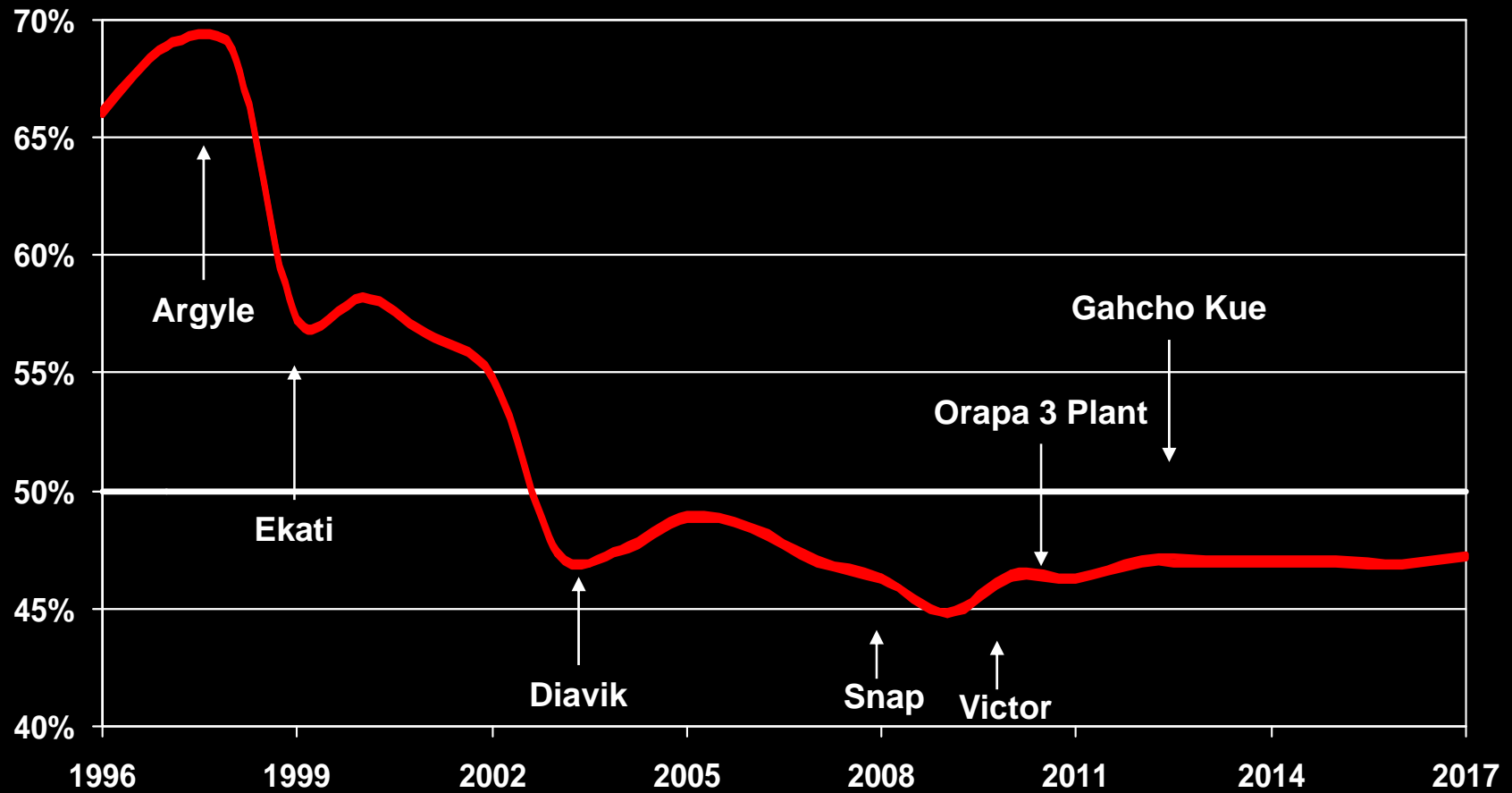
## Loss of the Halo Effect, the New Paradigm

- John Kay, Financial Times, ‘Leaders should say good bye to their Haloes’
- The changing paradigm
  - De Beers diminishing role, destruction of the old comfort zone
  - Producer Power, fragmentation of supply decisions
- New Paradigm
  - Supply / Demand scenario
  - Significant restructuring in the pipeline



# De Beers Market Share

(production + purchases)





# De Beers

- Loss in Market share
- Failure of SoC to grow demand
- Deterioration in selling mix, no Russian intake
- Loss in Margin- Debswana share of profits from 25% to 15%
- 2006 Accounts 50% drop in underlying earning despite first full year of VAS and record production
- Increased regulation of SoC- Jayam v DTC + increased powers to Ombudsman
- Producer Power- proliferation of DTC's – erosion of discretionary power



# De Beers

- Canada
  - Snap Lake
  - Victor – challenges
  - Shore / FALC
  - Mountain Province - delays



# Southern Africa

- Botswana
  - DTC to Gaborone by 2008
  - Polishing Factories
  - New Mines outside Debswana?
- Namibia – prolonged negotiations
- South Africa
  - *The State Diamond Trader*
  - New Diamond Act
- Angola
  - Considerable promise but complicated



# Russia

- EC question
- End of 2008 no more business with De Beers
- De Beers agreed to ruling as trade off to SoC
- Russian goods are important to the DTC mix
- Canadian production cannot replace these goods
- Success of Russian tenders
- Aggressive moves into Africa



# Rio & BHP

- Rio
  - 2006 introduced fixed price contracts for Argyle production to secure expansion
  - significantly lowered prices on Argyle production
  - Have been holding goods back
  - In contrast to De Beers raised prices in 2007 together with Alrosa
- BHP
  - Ekati passed its prime
  - No significant other sources of rough
  - Angolan potential
- Aber
  - Marketing company 'not' a producing company



# Prices

- 2005
  - Speculation pushed rough prices too fast
  - There was a shortage of rough
  - Over capacity of manufacturing after De Beers liquidated stock
  - Massive reduction in Argyle stones
- July '05 announced H2 target was to meet H1 levels
  - 2005 H2 over sold
  - Impact on liquidity as sightholders pay cash
- Gary Ralfe left at end of record year



# Rough Prices

- 2006
  - Correction in rough prices continued throughout the year
  - Speculation had pushed rough prices too fast
  - Over capacity of manufacturing after De Beers liquidated stock
- 2007
  - DTC announces less production for 2007
  - DTC implemented a price reduction in January which has partly stimulated the market again
  - DTC raise prices at the March Sight, strong premiums continue.



# Supply / Demand Scenario



# Associated Companies

- WWW Diamond Forecasts Ltd.
- PolishedPrices.com



# WWW Unique Information

- Segmented supply models
- Econometric models of 64 countries
- PolishedPrices.com Price Index
- Purchase market research



## Demand – WWW Diamond Forecasts

- Econometric models are based on the IMF world economic outlook
- Estimates are based on percentage GDP spent on diamond jewellery

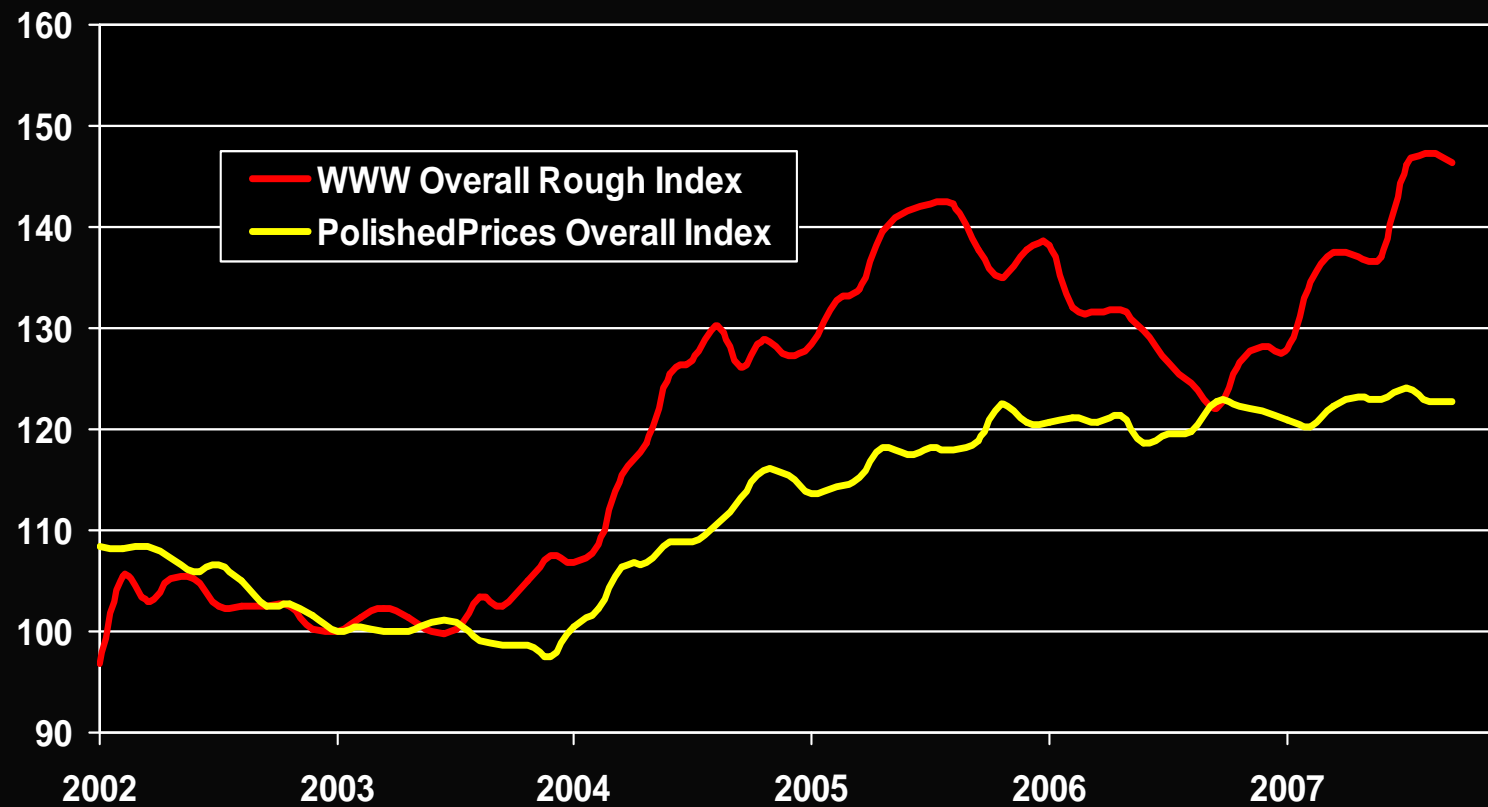


# PolishedPrices.com

- Increased acceptance in the market
- The ONLY REAL polished price list
- Reuters
- Bloomberg
- ABN Bank- sponsors Index
- A platform for others
  - Futures market?



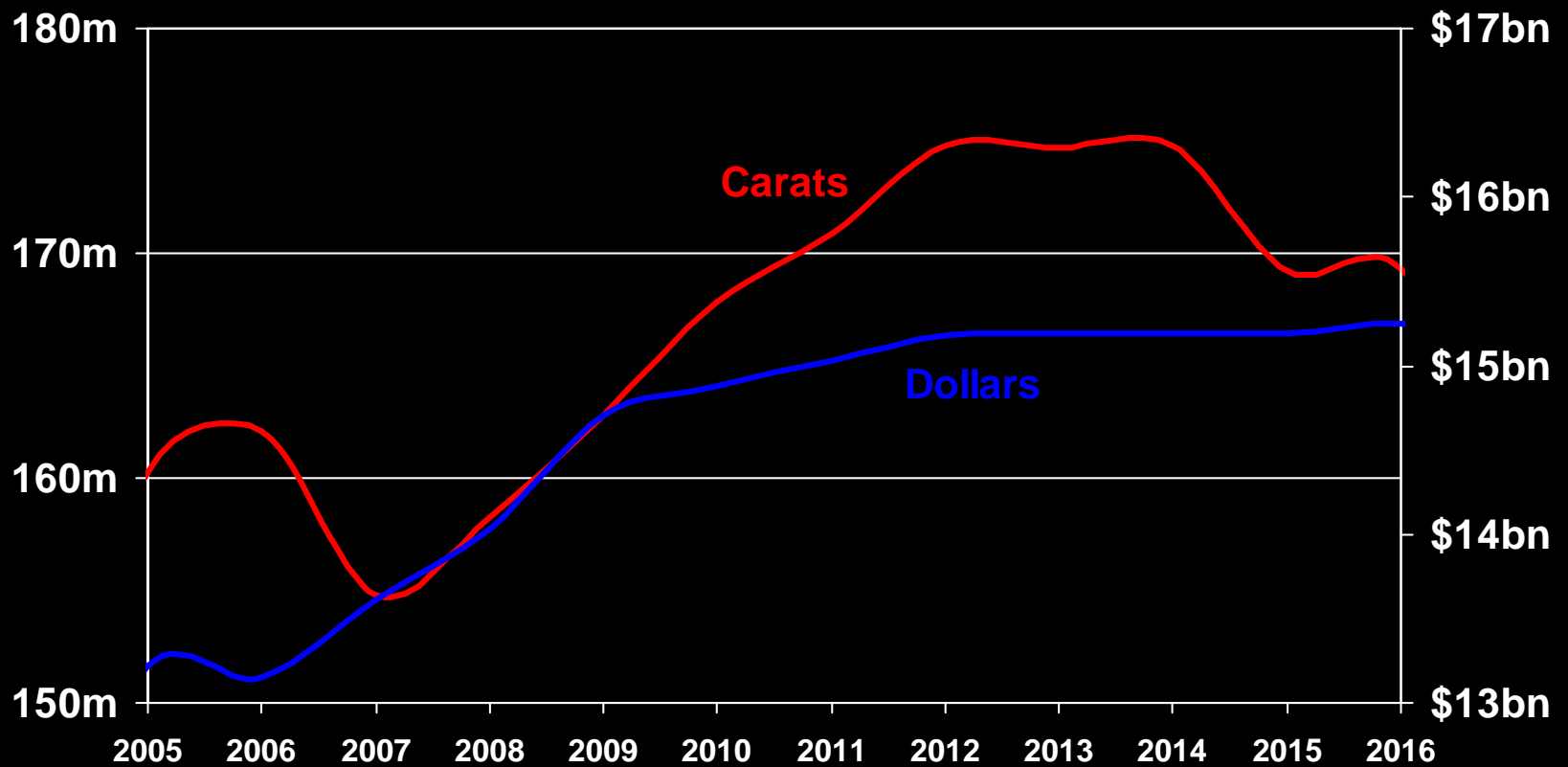
# Price Indices





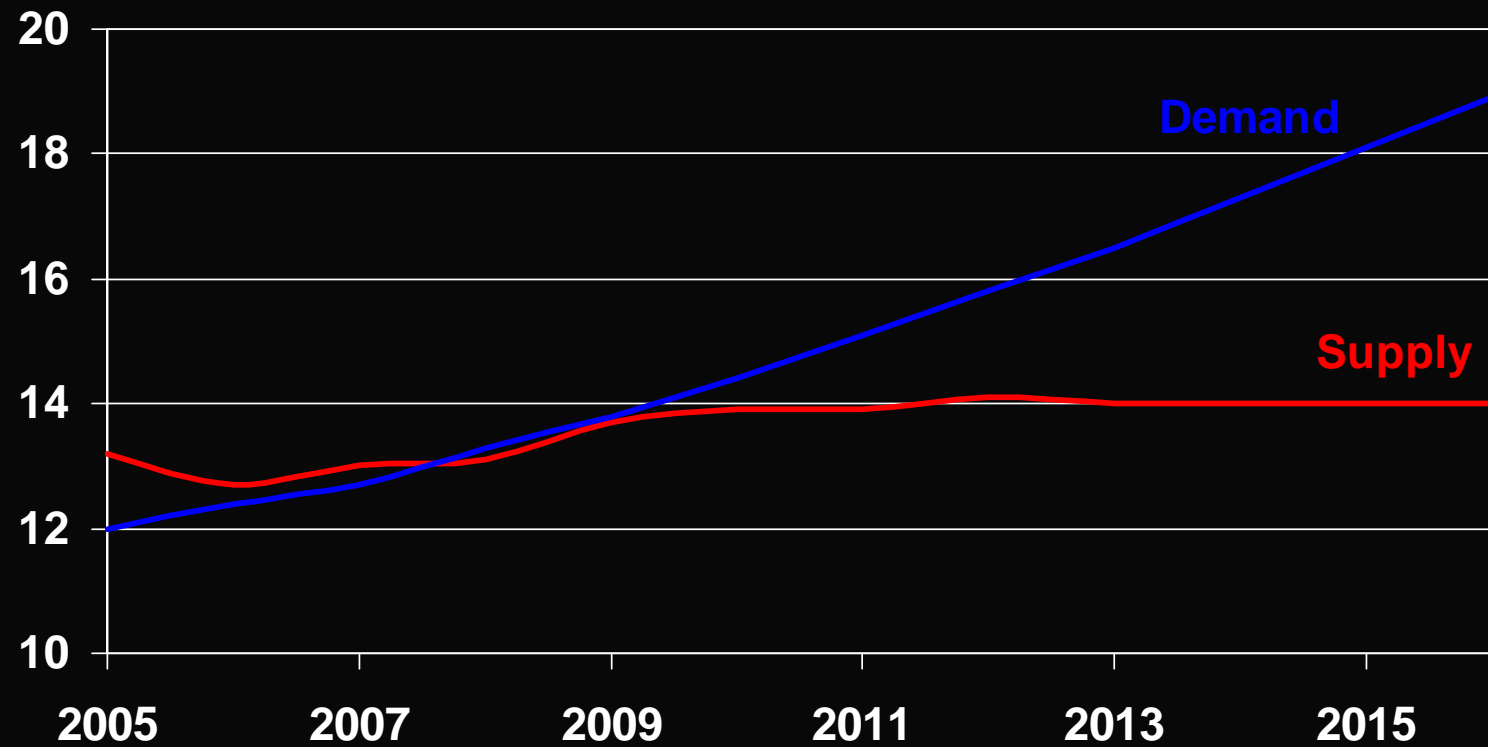
# World Production Forecast

(2007 on in 2007 dollars)



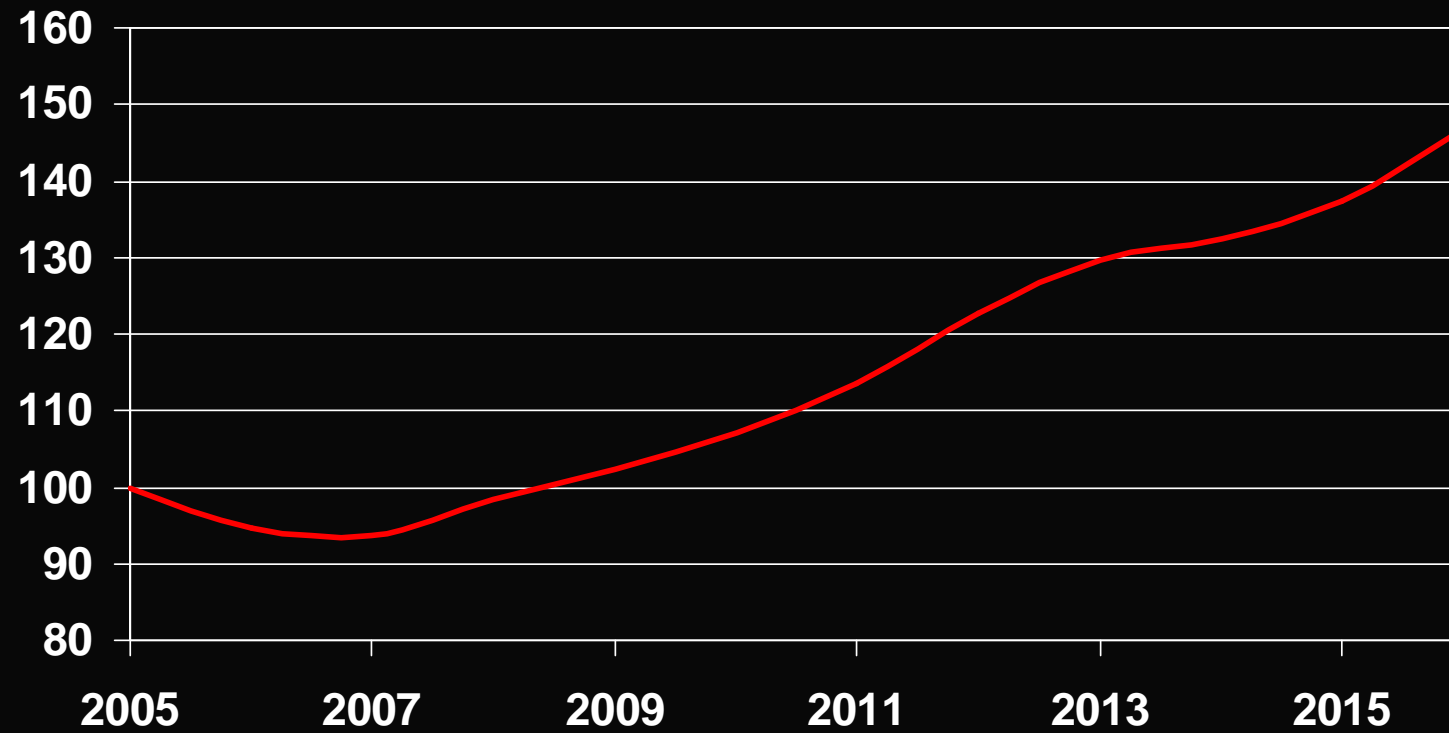


# Supply vs Demand





# Rough Price Forecast



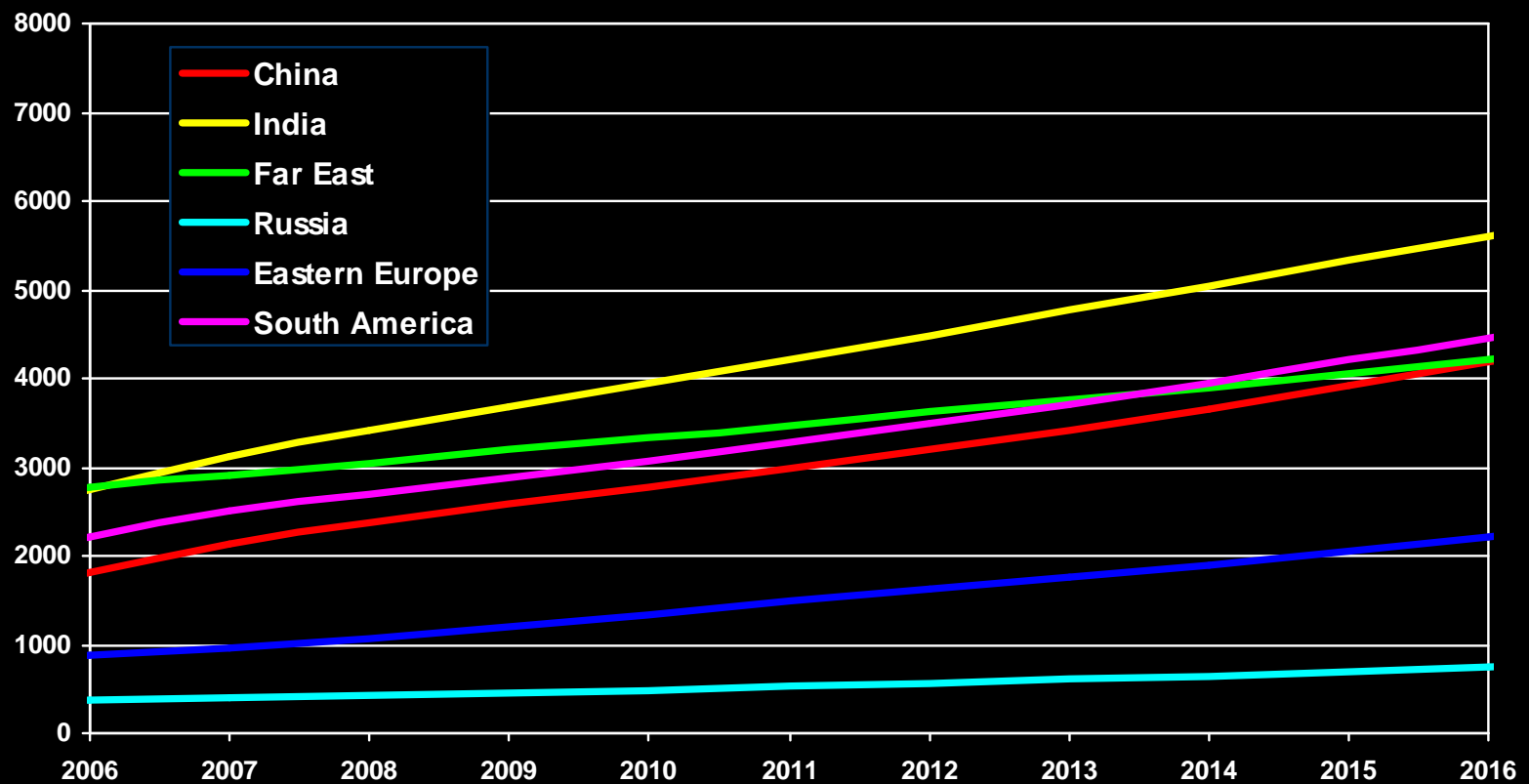


# Emerging Markets

- India has grown at 20-30% over the last few years but will slow as it reaches levels of Japan's spend at the height of its bubble.



# Emerging Markets





# Unconstrained Demand

- “If demand were not constrained by supply demand would reach 50 million polished carats by 2020, up from 26 million today”
  - Richard Platt, WWW Diamond Forecasts td.



# Issues that could affect Price Changes

- Increase in rough production
  - Technology
  - New plants
  - Russia
  - Angola
- Bank Financing – need for financial instruments
- Synthetics
- Conflict diamonds / NGO issues
  - Di Caprio movie
- Industry restructuring



## Summary

- Current liquidity problem
- Increased volatility, prices, industry structure...
- Significant pick up in rough, polished continues to lag
- Supply forecast to be fairly stable
- Long term prices should rise
- New Paradigm of flux and new opportunity



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