

RAPAPORT MONTHLY REPORT

www.diamonds.net

April 2016

First Quarter Sentiment Improves

Executive Summary

Polished diamond prices were stable in March, closing a relatively positive first quarter for the industry. Trading was driven by dealer demand for select goods, while the outlook for consumer demand remains uncertain.

The RapNet Diamond Index for 1-carat, GIA-graded diamonds was flat in March. RAPI for 0.30-carat diamonds fell 0.6 percent and RAPI for 0.50-carat diamonds was unchanged. RAPI for 3-carat diamonds slipped 0.4 percent in the month (see Figure 1).

In the three months to March, RAPI for 1-carat diamonds rose 1.4 percent, extending an uptrend from the fourth quarter. RAPI for 1-carat is, however, down 4.6 percent from a year ago after prices slumped in the first 10 months of 2015 (see Figure 2 on Page 2).

The atmosphere in the diamond pavilion of the March Hong Kong International Jewellery Show was positive even as trading was driven by dealer activity rather than an upswing in Far East demand. The Basel show demonstrated a cautious European luxury market and weaker economic sentiment.

Demand was selective as dealers looked to fill orders, while inventory of desirable RapSpec A2 polished had depleted from 2015. New polished supply is steadily becoming available. Inventory levels increased in the first quarter as manufacturers raised polished production – and rough purchases – since the beginning of the year.

Manufacturers' profitability improved as polished prices have firmed since November. They're also expected to garner better margins from new polished supply since De Beers lowered rough prices in January.

Rough prices in the secondary market and the auction circuit rose in January and February, but softened slightly in March as trading tapered off. ALROSA reported steady demand at stable prices during its monthly sale, while De Beers didn't hold a sight during the month.

The following pages of this report outline the key trends and events that took effect across the diamond and jewelry trade during March and the first quarter. The report reveals that sentiment improved in 2016 with better profitability on select diamond supply, although end consumer demand remains cautious.

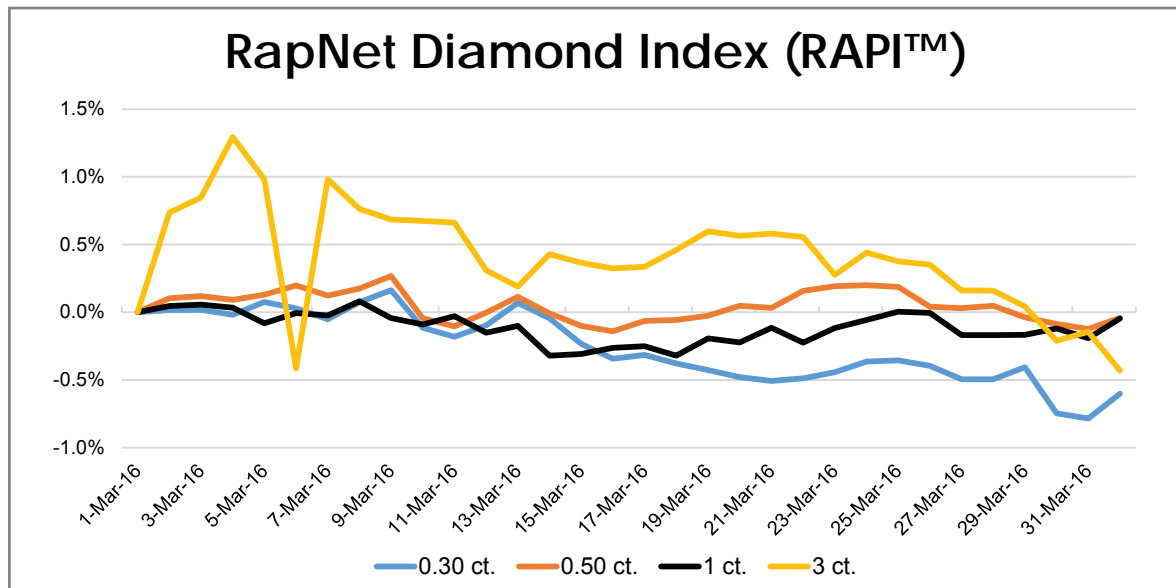


Figure 1

The RapNet Diamond Index (RAPI™) is based on the average asking price in hundred \$/ct. of the 10 percent best priced diamonds, for the top 25 quality round diamonds (D-H, IF-VS2, GIA-graded, RapSpec-A3 and better), which are offered for sale on RapNet - Rapaport Diamond Trading Network.

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The Polished Market

Diamond manufacturers increased polished production at the start of 2016 after having depleted inventory of better-quality RapSpec A2 diamonds in the second half of last year. Dealers still hold large quantities of older, lower-quality stock that is difficult to sell. The number of RapSpec A3 diamonds listed on RapNet – Rapaport’s Diamond Trading Network – increased 30 percent in the first quarter, with half of the new supply being 0.30 carats, which are mainly available in India.

New production of more desirable RapSpec A2 diamonds is limited and is selling better than left over stock from 2015. Manufacturers are enjoying better profitability on those goods since they’re being produced at a lower cost after De Beers reduced rough prices by an estimated 7 to 10 percent in January. Meanwhile, polished prices rose in the past two quarters.

Polished Headlines

- ❖ India’s Feb. polished exports +2% to \$2.3B, polished imports -45% to \$222M.
- ❖ Belgium’s Feb. polished exports -10% to \$1.6B, polished imports -12% to \$1B.
- ❖ U.S. Jan. polished imports -3% to \$1.8B, polished exports -9% to \$1.3B.
- ❖ Hong Kong’s 2015 polished imports -11% to \$17.5B, polished exports -3% to \$13.3B.
- ❖ China’s 2015 polished imports -14% to \$6.7B, exports -21% to \$2.2B.
- ❖ Sarine 4Q revenue -32% to \$12M, profit -62% to \$1.5M.
- ❖ Stuller launches synthetic diamond sales.
- ❖ Gem-A appoints Alan Hart as new CEO.

RapNet Diamond Index (RAPI™)			
	March	1Q 2016	Y2Y Changes at April 1
RAPI 0.3 ct.	-0.6%	6.0%	-4.5%
RAPI 0.5 ct.	0.0%	5.2%	-6.2%
RAPI 1.0 ct.	0.0%	1.4%	-4.6%
RAPI 3.0 ct.	-0.4%	-2.9%	-15.5%

Figure 2

The RapNet Diamond Index (RAPI™) is based on the average asking price in hundred \$/ct. of the 10 percent best priced diamonds, for the top 25 quality round diamonds (D-H, IF-VS2, GIA-graded, RapSpec-A3 and better), which are offered for sale on RapNet - Rapaport Diamond Trading Network.

Hong Kong - Basel

Exhibitors at the Hong Kong show (March 1 to 7) noted prices softened for 2015 inventory, while new supply sold at firmer prices. There is good demand for 0.30-1.99ct., D-H, VS-SI diamonds and shortages of better-quality RapSpec A2 diamonds. Demand is weaker for diamonds above 3 carats.

While the diamond pavilion at the Hong Kong show was relatively busy, activity was subdued in the jewelry section, which signaled that Far-Eastern jewelry appetite remains uncertain. Jewelry manufacturers, wholesalers and retailers in the region have refrained from making large inventory purchases and reduced their in-take over the past year, impacting demand – and sentiment – in the local diamond trade.

Polished trading through Hong Kong and China contracted by double digit percentages in 2015 as jewelry retailers held large inventory of unsold stock (see Figure 3). The major jewelers in the region are shifting to a

more focused strategy after they overbought in 2013 and 2014 to support expansion programs that are being reversed as China’s economic growth slows.

Dealers left the Hong Kong show fairly optimistic about the market. However, there was a cautious atmosphere at the Basel show which took place just two weeks later (March 17 to 24). Visitor traffic was lighter than usual, with fewer higher-end luxury brands looking for goods than in previous years.

Basel signaled good demand for rare fancy color diamonds such as intense pinks and blues and vivid or intense yellow diamonds. Demand for more commercial yellow diamonds was softer. Big-stone demand was sluggish with dealers able to sell at lower prices.

Similarly, with regard to so-called bread-and-butter diamonds, suppliers who are not prepared to sell their old stock at prevailing lower market prices are having a tough time. Prices are being supported by more new supply that is starting to become available, but remained fairly limited in March.

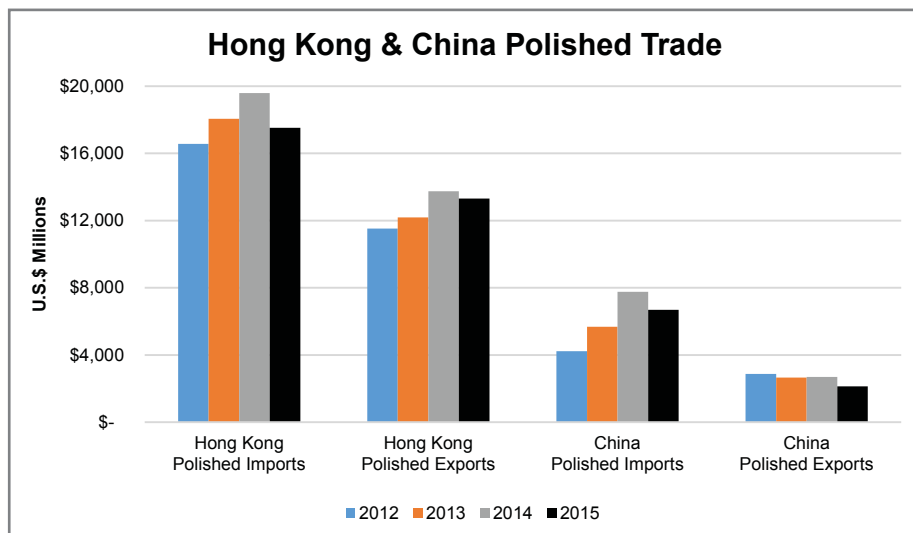


Figure 3

Based on data published by the Diamond Federation of Hong Kong, China Ltd. and the China Customs Information Centre.

The Rough Market

Rough trading slowed slightly in March after a strong first two months. Premiums from ALROSA goods on the secondary market softened to low single-digit percentages, with 60- to 90-day credit. De Beers boxes were selling at higher premiums, but with less availability since the company did not hold a sight in March.

De Beers sold \$545 million worth of rough in January and \$610 million worth in February, bringing its first-quarter total to \$1.2 billion. Manufacturers noted there is better value in De Beers supply after the company reduced prices in January, while prices from other sources remained stable or rose. Auction prices increased since the beginning of the year, but softened in March as demand cooled off. Prices at Grib Diamonds' March spot auction declined by an average 2 percent to 3 percent, according to sources close to the company.

ALROSA kept its rough prices unchanged for the sixth consecutive month in March and noted that demand was roughly in line with that in January and February. The Moscow-

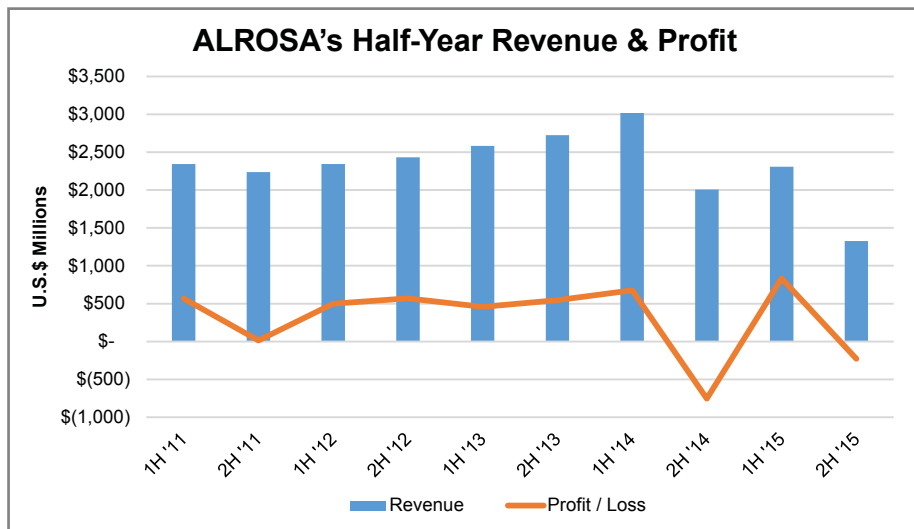


Figure 4

Based on quarterly and annual reports published by ALROSA in Russian ruble and converted to U.S. dollars at the prevailing exchange rate by Rapaport Research.

based company sold \$780 million worth of rough in the first two months and is on track to record year-on-year sales growth in the first quarter, which will be about the same as the corresponding period in 2014, management said.

ALROSA reduced some of its excess inventory during the quarter but the company still holds large quantities of rough in its vaults. Inventory grew by 8 million carats last year as production rose while sales fell. Inventory stood at more than 22 million carats (\$2.5 billion) at the end of December.

ALROSA's 2015 revenue was boosted by a positive translation of the dollar to reporting in ruble after the Russian currency depreciated by 21 percent during the year. The company swung to a profit in 2015 with a stronger first half compensating for declines recorded in the second (see Figure 4).

ALROSA noted there has been a shift in demand from larger and clearer diamonds to medium- and smaller-sized diamonds with lower color value. Grib Diamonds observed at its March auction good demand for 1 to 1.5-carat rough and for melee, and steady demand for 2 to 4-carat rough. Smalls and 5 to 10-carat goods were weak at the sale. Gem Diamonds reported revenue fell in 2015 as the average price of diamonds sold at its Let'seng mine - renowned for its large diamond production - dropped 9 percent to \$2,299 per carat. Profit rose as the miner cut costs (see Figure 5).

While rough demand was strong in the first three months of 2016, activity is expected to slow in the second quarter as production has reached sufficient levels to meet short-term polished demand.

Rough Headlines

- ❖ ALROSA 2015 revenue +8% to \$3.3B, profit of \$471M vs. loss of \$246M in 2014.
- ❖ Gem Diamonds 2015 revenue -8% to \$271M, profit +57% to \$52M.
- ❖ Lucapa sells 404ct., type IIa, D, rough diamond for \$16M (\$39,604/ct.).
- ❖ Petra Diamonds sells 32ct., pink rough diamond for \$15M (\$463,965/ct.).
- ❖ De Beers reserves +28% to 480M cts. in 2015.
- ❖ Botswana's Jan. diamond exports -27% to \$223M.
- ❖ India's Feb. rough imports +37% to \$1.6B, rough exports +49% to \$132M.
- ❖ Belgium's Feb. rough imports +28% to \$1.3B, rough exports +21% to \$1.3B.
- ❖ Sotheby's to auction Lucara's 1,111ct. Lesedi La Rona rough diamond.

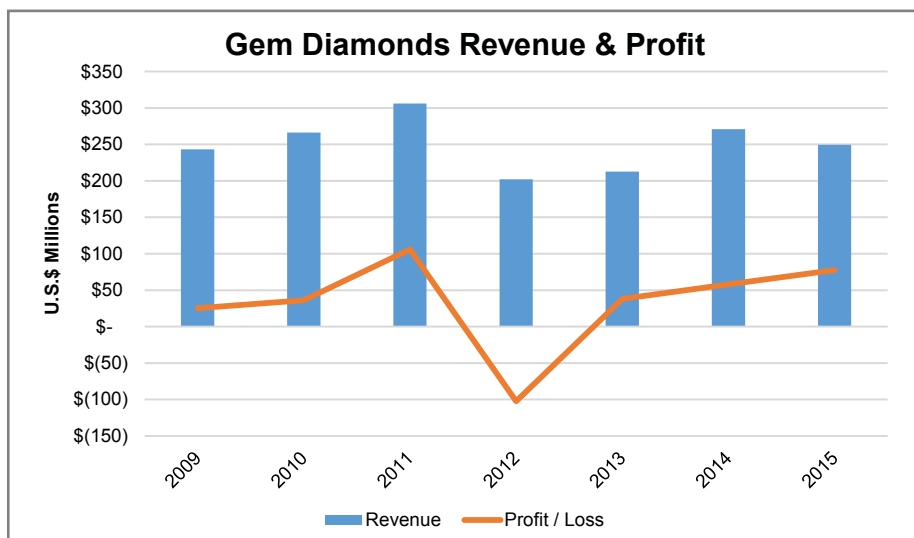


Figure 5

Based on reports published by Gem Diamonds.

The Retail Market

U.S. consumer confidence improved in March as stock markets rebounded. The Conference Board's index of consumer confidence rose to 96.2 during the month from 94.0 in February. The Dow Jones Industrial Average rose 5 percent in March and was up 2 percent for the quarter having recovered from its January slump.

U.S. independent jewelers noted traffic has slowed but more serious customers are coming into the store. Jewelers are adapting to changing consumer trends with more of an online presence and as millennial consumers trend toward customized jewelry.

Signet Jewelers, the largest U.S. jewelry retailer, reported earrings and bracelets sold well during the fourth quarter, while its bridal brands also grew. Management stressed Signet's bridal business – which accounts for over 50 percent of total sales – is a consistent source of growth and insulates the company from volatility that traditional retailers face.

Retail Headlines

- ❖ U.S. Feb. jewelry sales +5% to estimated \$5.5B.
- ❖ Signet Jewelers 2015 revenue +14% to \$6.6B, profit +23% to \$478M.
- ❖ Tiffany & Co. 2015 revenue -3% to \$4.1B, profit -4% to \$464M.
- ❖ Chow Sang Sang 2015 revenue -1% to \$2.5B, profit +4% to \$146M.
- ❖ Shrenuj & Company 3Q revenue -34% to \$183M, loss of \$55K vs. profit of \$3M a year earlier.
- ❖ Indian jewelers strike against 1% excise duty imposed by government.
- ❖ De Beers launches U.S. diamond reselling business.
- ❖ Swiss watch Feb. exports -3% to \$1.7B.
- ❖ Richemont co-CEO Bernard Fornas steps down.

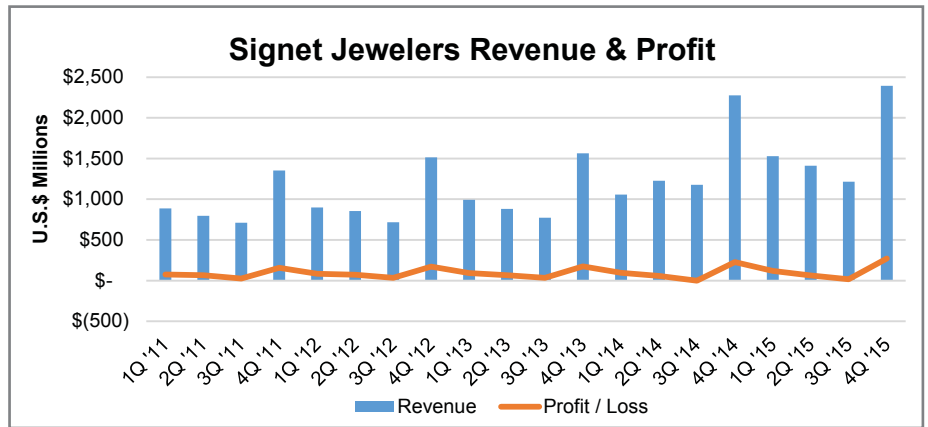


Figure 6

Based on quarterly reports published by Signet Jewelers.

The average transaction price at Sterling Jewelers – which includes the Kay and Jared brands – increased 6 percent in the quarter, while the number of transactions fell 2.3 percent. Higher transaction prices and lower sales volume were also noted at Zale, Piercing Pagoda and at Signet's UK operation. Group revenue rose 5 percent and profit surged 19 percent during the three months (see Figure 6).

Tiffany & Co. reported disappointing fourth quarter sales and profit (see Retail Headline section). The company recorded strong gold jewelry sales, while statement and solitaire jewelry and its fashion jewelry were in line with expectations. Management said its engagement jewelry underperformed during the quarter.

Lower tourist spending due to a stronger dollar contributed to Tiffany's general softness in the U.S. Sales at constant exchange rates rose in Japan and Europe but fell across the Americas region and Asia Pacific. Tiffany said there is growing awareness about its brand among Chinese customers but volatile economies, currencies and soft markets have affected short term spending in all its regional operations.

Chow Sang Sang, a top three Hong Kong-based jeweler, also noted tourist spending dropped as sales in Hong Kong and Macau declined 8 percent to \$1.5 billion (HKD 11.3 billion) and sales in Taiwan fell 12 percent to \$15 million (HKD 116.6 million) in 2015. Sales in China grew 11 percent to \$992 million (HKD 7.7 billion).

Group sales slipped 1 percent but profit grew 4 percent on lower costs and tax expenses (see Figure 7). Chow Sang Sang noted a particularly slow second half of 2015 as Chinese visitor spending weakened due to the slowing Chinese economy, the depreciation of the Renminbi currency and poor stock market sentiment.

Caution extended into 2016 and the Far East jewelers have been careful not to overstock after the Chinese New Year season in February. The Hong Kong show signaled jewelers are only looking for diamond supply that will get them through the next few months, with the hope they will further reduce inventory during the next major retail selling holiday, the May 1 Labor Day Golden Week.

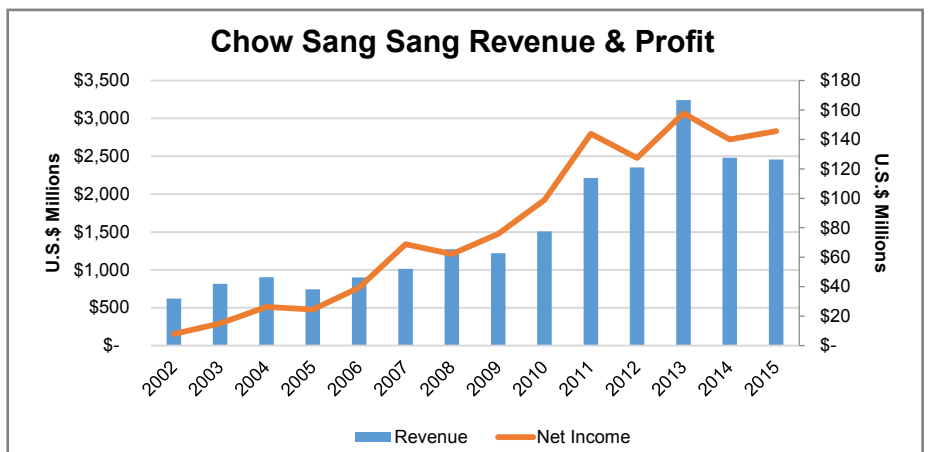


Figure 7

Based on data published by Chow Sang Sang in Hong Kong dollars and converted at the prevailing exchange rate at the time of reporting.

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Rapaport RapNet Diamond Index (RAPI™)

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Additional information is available at www.diamonds.net

The Rapaport Group

The Rapaport Group is an international network of companies providing added value services that support the development of fair, transparent, competitive and efficient diamond and jewelry markets. Established in 1978, the Rapaport Price List is the primary source of diamond price and market information. Group activities include Rapaport Information Services, Rapaport Magazine, and Diamonds.net, providing research, analysis and news; RapNet – the world's largest diamond trading network; Rapaport Laboratory Services provides GIA gemological services in India, Belgium and Israel; and Rapaport Trading and Auction Services specializing in recycled diamonds and jewelry. The Group supports over 20,000 clients in 118 countries and employs 220 people with offices in New York, Las Vegas, Antwerp, Ramat Gan, Mumbai, Surat, Dubai and Hong Kong.

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