

Diamond (Q4, 2014 and Q1, 2015)

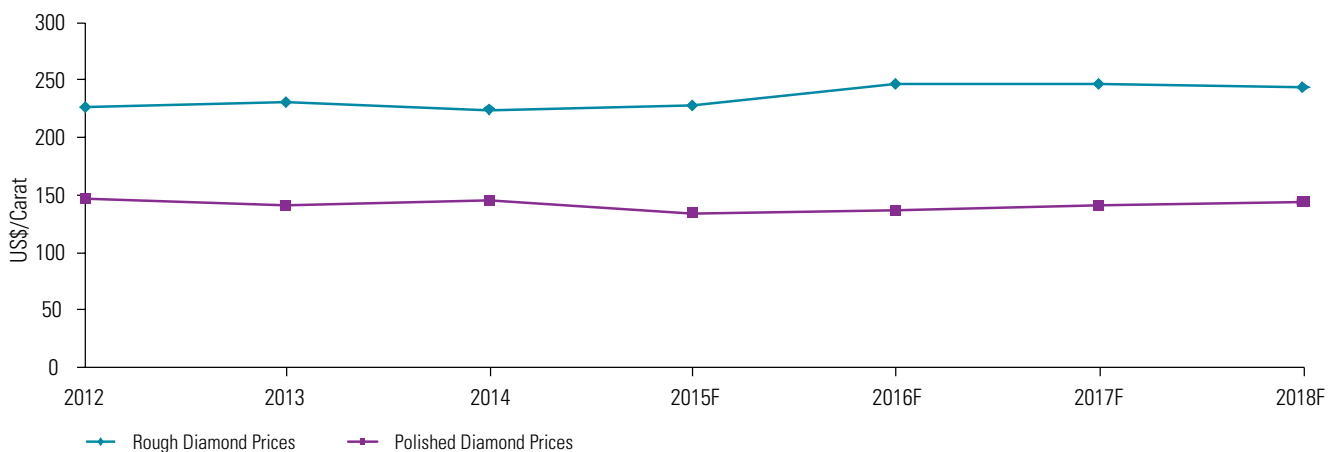
Price outlook¹

Rough diamond prices dropped about 3 percent in 2014, from US\$230/carats in 2013, to reach US\$224/carats in 2014, driven by the tightening of credit by banks to the diamond industry. This led to the release of inventories by traders, cutters and polishers, resulting in higher supply. According to the data from www International Diamond Consultants – a UK-based firm – rough diamond prices dropped by about 7 percent in Q4, 2014, which is considered to be the steepest drop since Q2, 2012. In addition to this, the closure of the Antwerp Diamond Bank in October 2014 – which financed trading companies in the Belgian port city for the past 80 years – resulted in liquidity concerns in the diamond industry. Other factors, such as sluggish Chinese economy, pressures from deflation in Japan and the EU, and several geopolitical conditions resulted in downward pressures on rough diamond prices. In 2015, rough diamond prices are likely to increase about 1 percent, to reach US\$227/carats, on account of stable supply in 2015. This is likely to improve gradually on account of increasing middle class demand from China and India. In Q1, 2015, prices remained unchanged due to the restricted credit

issues and the continued strengthening of the US dollar – which made diamonds costlier for buyers across Japan, the EU and Russia – resulting in lowering its demand, globally.²

Average price of polished diamonds increased 3.6 percent in 2014, from US\$140/carats in 2013 to reach US\$145/carats. However, according to the Rappaport report, diamond trading declined during October 2014, with the Jewish holidays and Diwali festival in India – which relates to the close of trading houses – backed by the weakening global demand for diamonds. In Q4, 2014, the release of 0.30-carat to 0.50-carat diamonds by the Gemological Institute of America (GIA) laboratories added to the supply glut. Further, demand from China declined due to the large inventories of 0.30 carat diamonds, which were aggressively bought in 2013. In 2015, average polished diamond prices are expected to decline by 8 percent as compared with 2014, to reach US\$134/carats in 2015. In Q1, 2015, oversupply due to high inventory levels across the distribution channel, accounted for the reduced prices by suppliers, to generate higher profits and cash.³

Figure 1: Diamond price trends (2012–18F)



Source: Numis – Metals and Mining – Trading water, 9 April 2015; Renaissance Capital, Metals and Mining – Commodity bear provides long term value, 23 March 2015; via Thomson research/Investext, accessed May 2015

¹ Renaissance Capital, Metals and Mining – Commodity bear provides long term value, 23 March 2015, Numis – Metals and Mining – Trading water, 9 April 2015, via Thomson research/Investext, accessed May 2015

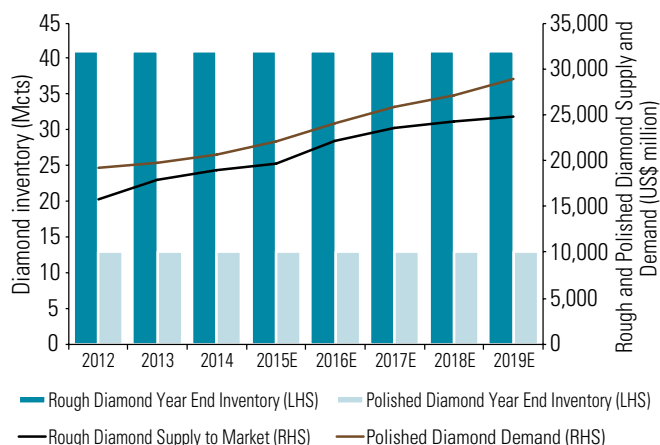
² “Rough Diamond Prices Drop as Bank Withdrawal Produces Jewel Glut”, Bloomberg Business, 8 January 2015, accessed May 2015; “Global Rough Diamond Production Estimated to Hit Over 135M Carats in 2015”, Paul Zimnisky, 6 February 2015, accessed May 2015

³ “Polished Diamond Prices Fall in March”, Business Wire India, 2 April 2015, accessed May 2015; “Global Rough Diamond Production Estimated to Hit Over 135M Carats in 2015”, Paul Zimnisky, 6 February 2015, accessed May 2015

Supply and demand⁴

Supply⁵

Figure 2: Diamond year-end inventory and demand-supply scenario (2012–19E)



Source: BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015

- In 2014, rough diamond supply to the market increased about 6 percent, from about US\$18 billion in 2013, to reach US\$19 billion in 2014, primarily due to the release of inventories by traders, polishers and cutters, on account of reduced bank credits and slow trading, due to the closure of the Antwerp Diamond Bank in October 2014.⁶
- The diamond market is the most consolidated commodity market with two major producers, DeBeers and Alrosa, comprising about 52 percent of the total supply, globally. In 2014, DeBeers' global diamond production increased 5 percent y-o-y, to reach 32.6 million carats, driven by the robust performance by the Debswana mine, which was slightly offset by the lower productions at Snap Lake and Kimberly locations. DeBeers diamond production is expected to reach 32–34 million carats in 2015.⁷

- According to BMO research, rough diamond production is expected to grow 3 percent, to reach US\$19.5 billion in 2015. World's 10 largest diamond mines are estimated to account for 61 percent of the total global production, based on the research by Paul Zimnisky. In 2015, three new diamond mines are expected to start production, while one mine is likely to be shut down.⁸

- Alrosa's mine – Botuobinskaya – is scheduled to start production in Q4, 2015, which will produce about 1.5 million carats per year, with 40 years of mine life.
- DiamondCorp's Lace mine, located in South Africa, is expected to start production in H2 2015, with annual production of 500k carats per year.
- Kimberly Diamonds Ellendale mine in Australia is likely to shut down production in 2015, since the company plans to focus solely on its Lerala mine in Botswana.
- Further, 2015 is likely to witness the first full-year production for four mines – Grib, Karpinskogo-1, Ghaghoo and Lulo.
- Some of the major diamond mine projects in pipeline are: Gahcho Kué and Renard, in Canada, Liqhobong in Lesotho, Bunder in India, and Verkhne-Munskoe in Russia.
- Verkhne-Munskoe – which is considered to be the largest project of Alrosa – is expected to be operational by 2020, with an annual estimated production of 1 million carats.⁹
- During Q1, 2015, continued credit unavailability resulted in a stable rough diamond production over the period. Rio Tinto's diamond production increased about 14 percent, reaching 4.1 million carats in Q1, 2015 as compared with 3.6 million carats in Q1, 2014.¹⁰

⁴ BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015; Diamond Insight - 2014 Diamond Jewelry Demand And Outlook For 2015 – March 2015, accessed May 2015

⁵ "Rough Diamond Prices Drop as Bank Withdrawal Produces Jewel Glut," Bloomberg Business, 8 January 2015, accessed May 2015; BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015; Liberum – Mining – Sector Dashboard, 9 March 2015; via Thomson research/Investext, accessed May 2015

⁶ "Rough Diamond Prices Drop as Bank Withdrawal Produces Jewel Glut," Bloomberg Business, 8 January 2015, accessed May 2015; BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015

⁷ Liberum – Mining – Sector Dashboard, 9 March 2015, via Thomson research/Investext, accessed May 2015; "De Beers Sales +11 percent in 2014," Edahn Golan, 13 February 2015, accessed May 2015

⁸ BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015; "Global Rough Diamond Production Estimated to Hit Over 135M Carats in 2015," Paul Zimnisky, 6 February 2015, accessed May 2015

⁹ BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015; "Global Rough Diamond Production Estimated to Hit Over 135M Carats in 2015," Paul Zimnisky, 6 February 2015, accessed May 2015

¹⁰ "Through Q1, 2015 Diamond Industry More Stable But Pressures Remain," KITCO, 17 April 2015, accessed May 2015; "Rio Tinto Diamonds Production up 14 percent in Q1, 2015," IDEX Online, 21 April 2015, accessed May 2015



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