

Global Rough Diamond Production Estimated At 135.5 Mn Cts In 2015

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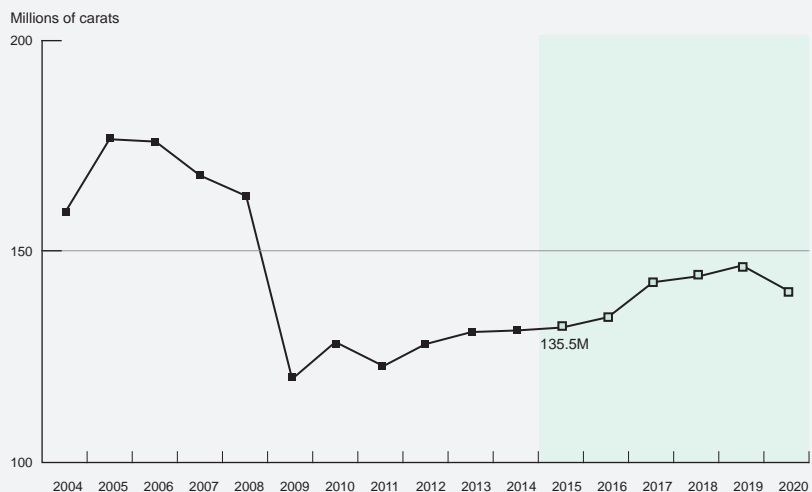
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Based on an analysis of the world's 54 largest diamond mines by diamond industry analyst Paul Zimnisky, global diamond production will reach an estimated 135.5 million carats in 2015, which compares with an estimated 131.1 million carats produced in 2014. In terms of value produced in US dollars, 2015 production is estimated at \$14.0 billion, compared to an estimated \$13.8 billion in 2014.

The world's 10 largest mines by production value are estimated to account for 61% of global production. The 54 mines account for approximately 85% of global production, with the balance coming from informal artisanal miners primarily in Africa.

Global Diamond Production (carats)

2004-2015 Plus 5 Year Forecast



Source: Kimberly Process, company data, Paul Zimnisky analysis, Excludes Lab Created Diamonds.

Please read accompanied disclosure.

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— Global Production in Carats

□ Paul Zimnisky Forecast

Mine openings and closures

In 2015, three new mines are anticipated to commence production and one mine is expected to shutter. Alrosa's Botuobinskaya mine, located in Northeast Russia's Republic of Sakha, is expected to commence production in the fourth quarter of 2015. According to DiamondCorp Plc, the company's Lace mine in South Africa is on schedule to start mining operations in the second half of 2015.

Four diamond mines – Grib, Karpinskogo-1, Ghaghoo, and Lulo – will complete their first full year of production in 2015. Grib is the only large-scale commercial diamond mine in Russia not owned by Alrosa. Grib, which is fully owned by Russian oil major LUKoil, is estimated to produce 1.5 million carats worth \$165 million in 2015.

Lastly, Lucapa Diamond Company's Lulo mine in Angola commenced production in January 2015; it is estimated to produce 55,000 carats this year. The alluvial project recovered some notable stones during bulk sampling last year, including a 131-carat white and fancy coloured pinks and yellows.

The most anticipated diamond development projects include Gahcho Kué and Renard in Canada, Lihobong in Lesotho, Bunder in India, and Verkhne-Munskoe in Russia.

Diamond pricing/macro implications

Based on the analysis of the world's 54 largest mines, the global average price per carat for mined diamonds in 2015 is estimated to be \$103 per carat, which would be a ~2% decrease from estimated 2014 prices. Last year prices were down an estimated 3-5% as the closure of Antwerp Diamond Bank in October led to industry-wide liquidity concerns for rough diamond buyers. In addition, a slower growing Chinese economy, deflationary pressures in Japan and the EU, and multiple geopolitical tensions led to downward pressure on rough prices, which is expected to carry over into H1 2015.



Alrosa

A strong US dollar also played a role in recent diamond price weakness, given that diamonds are typically denominated in dollars. However, this foreign exchange effect can also have a positive impact on miners that account for operating expenses in dollars; for instance, wages paid in local currency are relatively “less expensive” when converted to dollars. A lower oil price should also have a favourable impact on miners as haul trucks, generators, and some grids are powered by diesel.

It's also worth noting that Alrosa has been selling additional diamond inventory on top of regular production sales, which is impacting global supply. In the fourth quarter of 2014, Alrosa sold 1.08 carats for every carat produced. This is most likely in response to current economic weakness the Russian Federation is facing following a collapse of oil prices and sanctions implemented by the West following the Crimean crisis. Alrosa is the world's largest diamond producer by carat volume. The company recently provided



Udachny open-pit mine. It consists of two pipes and is famous for its big diamonds

Alrosa



Rio Tinto

2015 production guidance of 38 million carats, which represents approximately 28% of global production volume.

Synthetic diamonds

Lastly, given the technological advances in synthetic diamond production, it's worth mentioning that an estimated 1 million carats of marketable gem-quality synthetic, or "lab-created", diamonds will be produced this year for use in jewellery. On a global scale this is a relatively insignificant number given that it represents just a small fraction (~1%) of mined gem-quality diamonds, however, within the last two years the market has seen the first 1-carat+ VVS (very very slightly included), colourless synthetics. The economics of synthetically producing this quality of diamond are not yet favourable enough to significantly compete on a price level with the natural equivalent, and the synthetic diamond jewellery industry lacks a developed distribution system, but as technology progresses, less-expensive, larger, higher quality synthetics are inevitable. (See more figures at <http://tinyurl.com/oon7jc9>) ■