



Allan Hochreiter



**Diamonds:
Looking forward to the
Chindia Decades**

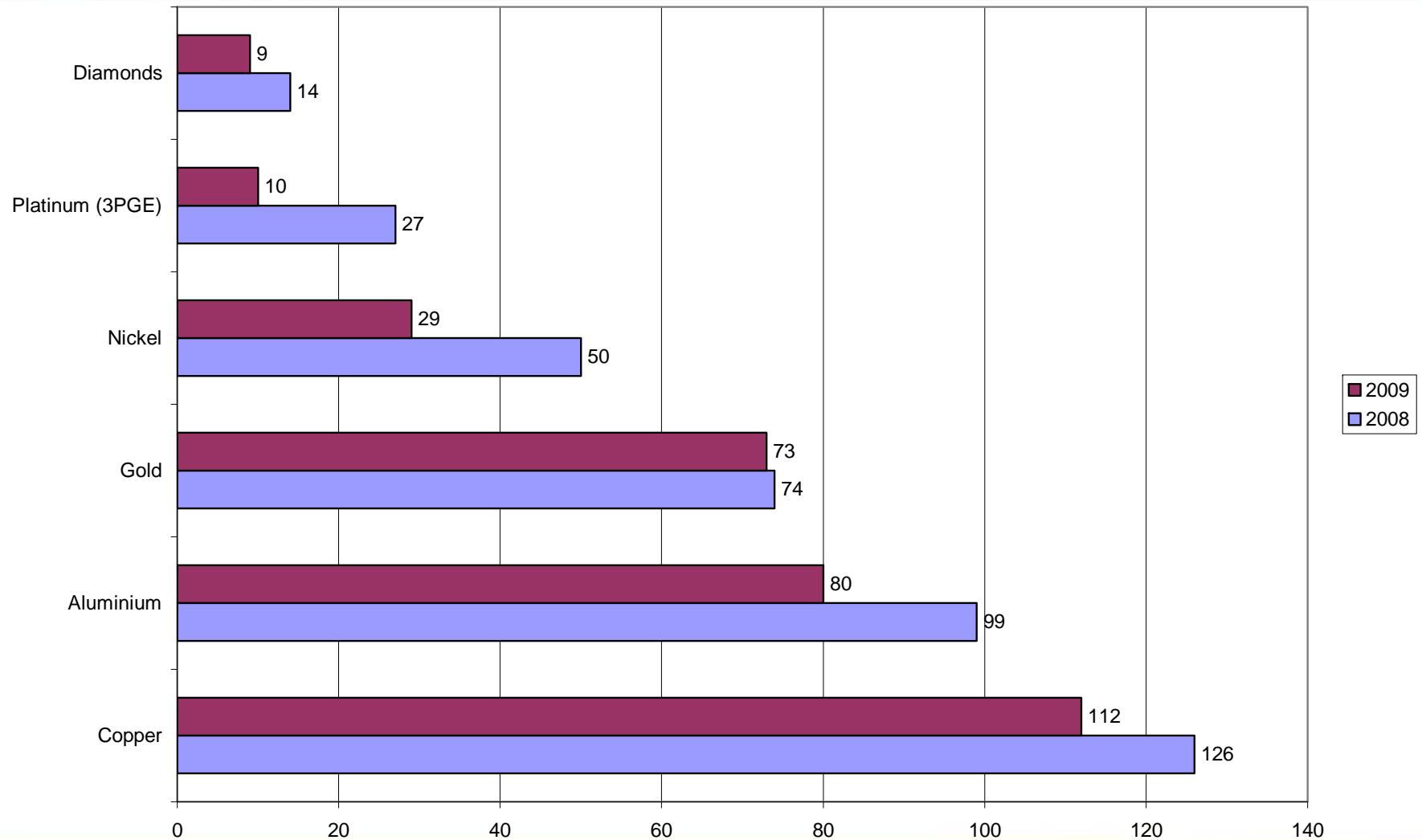


James Allan
Botswana Resources Conference
June 2010

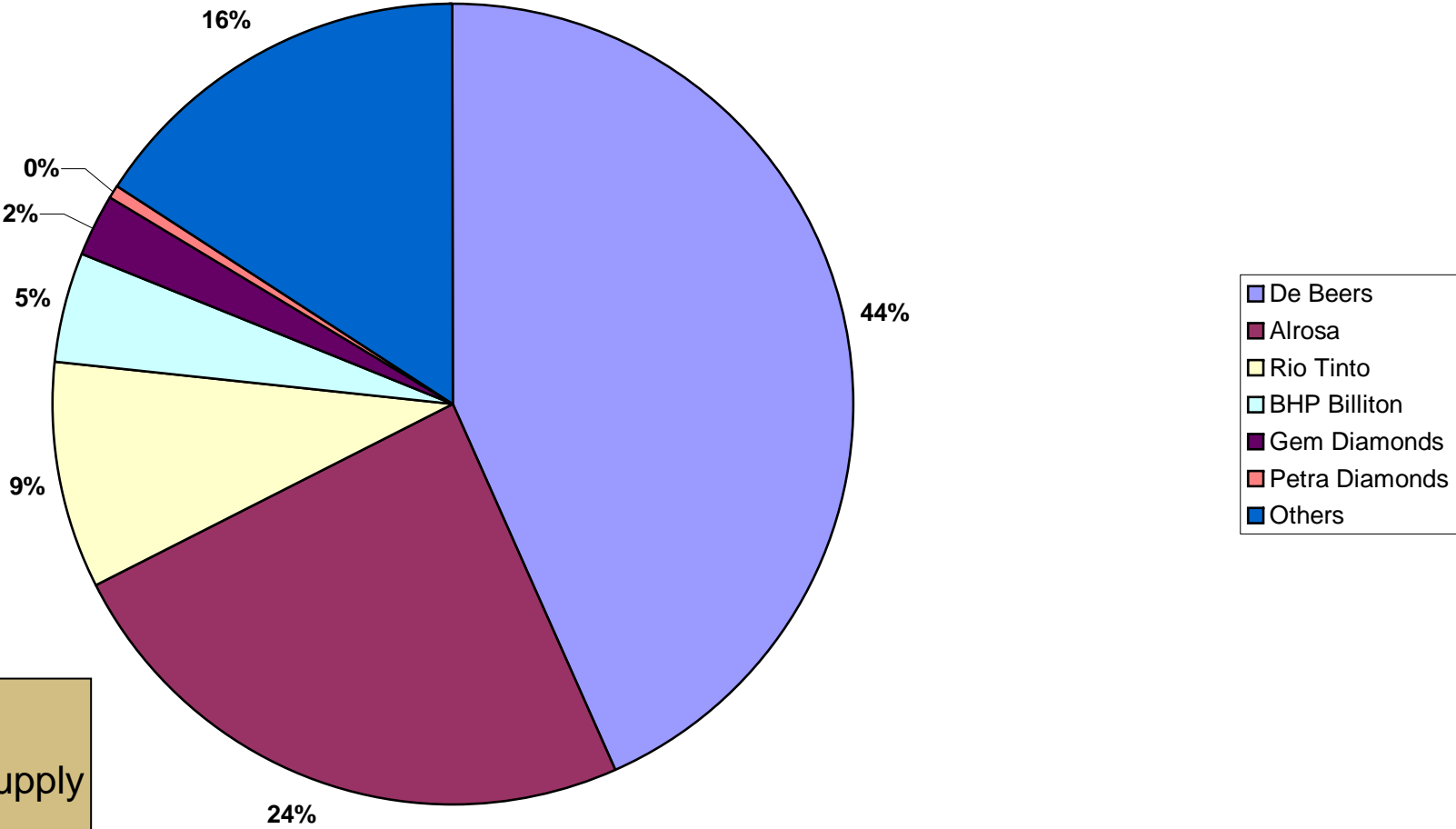
Contents

- **Diamond industry in perspective**
- **Who are the producers**
- **Last two years > what happened?**
- **China and India to drive demand**
- **Supply forecast to 2020**
- **Conclusion**

Diamond production in perspective (\$bn)

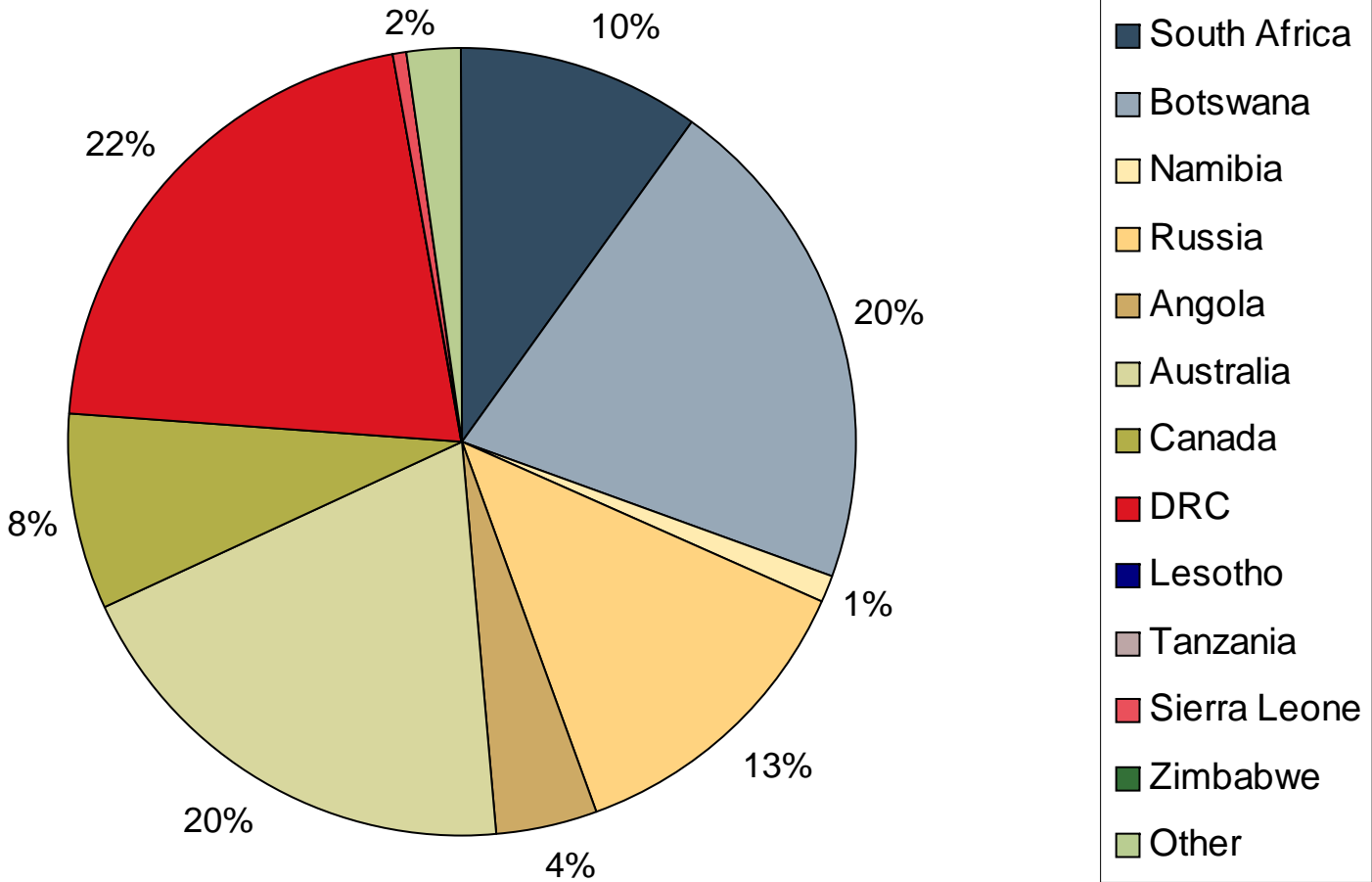


Concentration of production by value (2008)

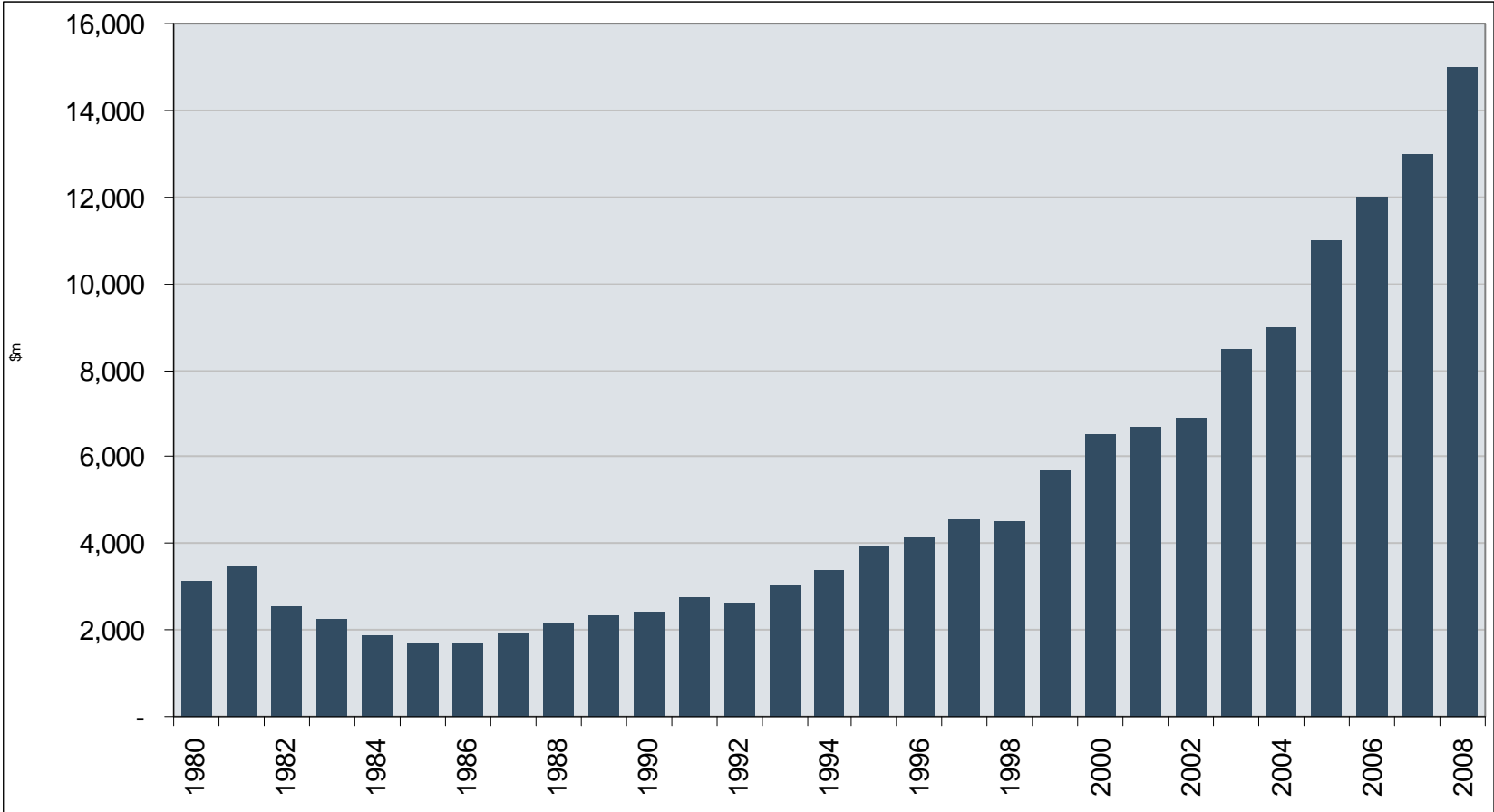


4 producers
Control 82% of supply

Share of global diamond production (140 million carats) 2008



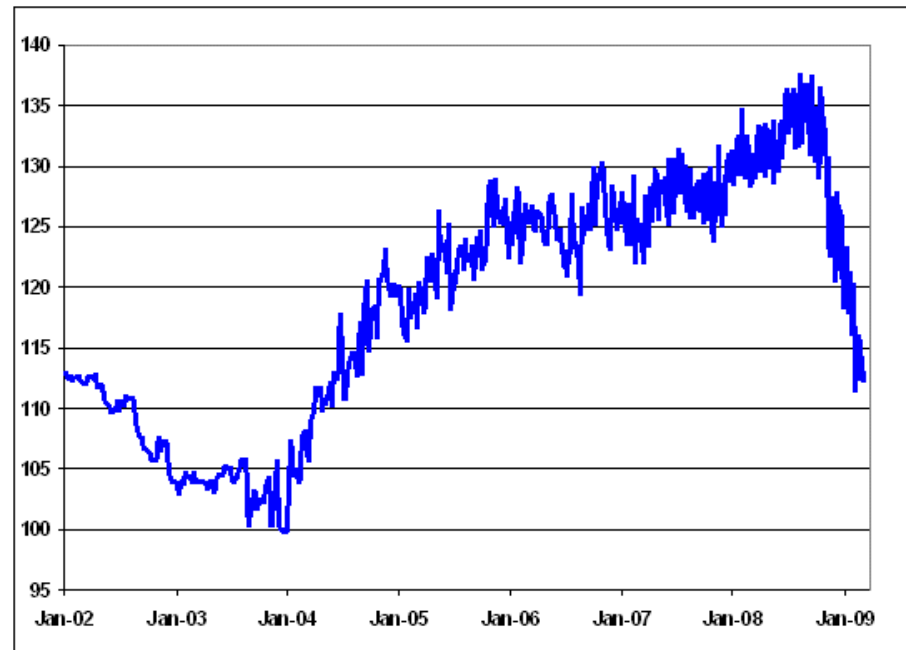
Cutting centre debt levels



The last two years.....market to June 2009

- **Early 2008> Positive market >Diamond shortage leading to rising diamond prices...**
- **September 2008>Collapse of Lehman Brothers**
- **September 2008>Credit tightened in financial market**
- **October 2008>Credit lines withdrawn for diamantaires**
- **October- December 2008>Collapse in diamond prices**

Polished Prices



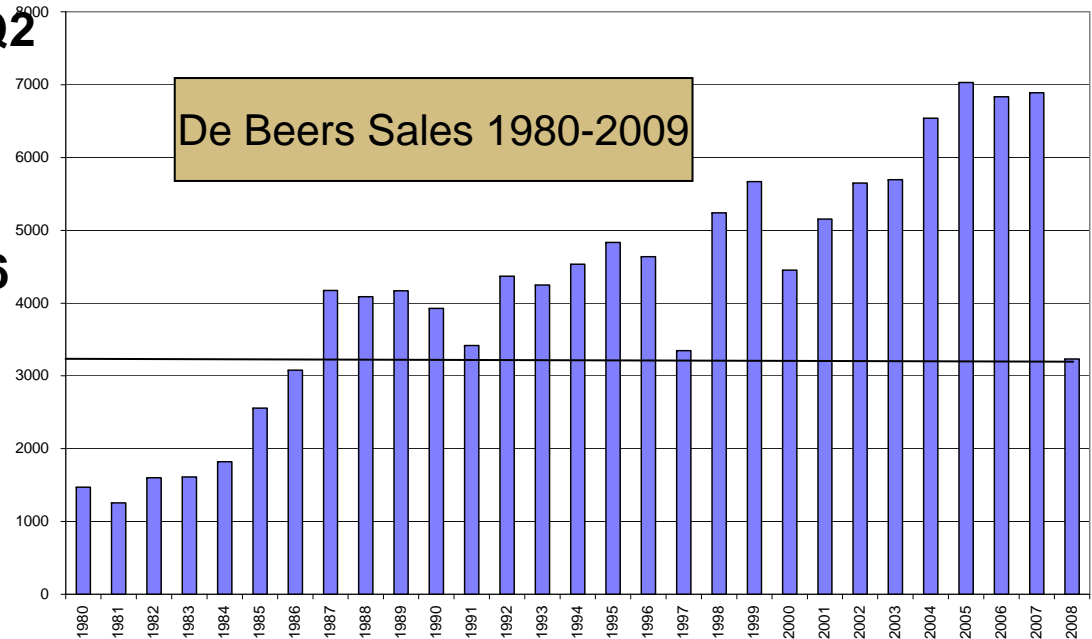
The last two years.....producer response

- “Old De Beers” would have bought up diamonds and stockpiled
- “New De Beers” cut production by 90% in Q1 2009>reduced supply to the market (Economics 101)

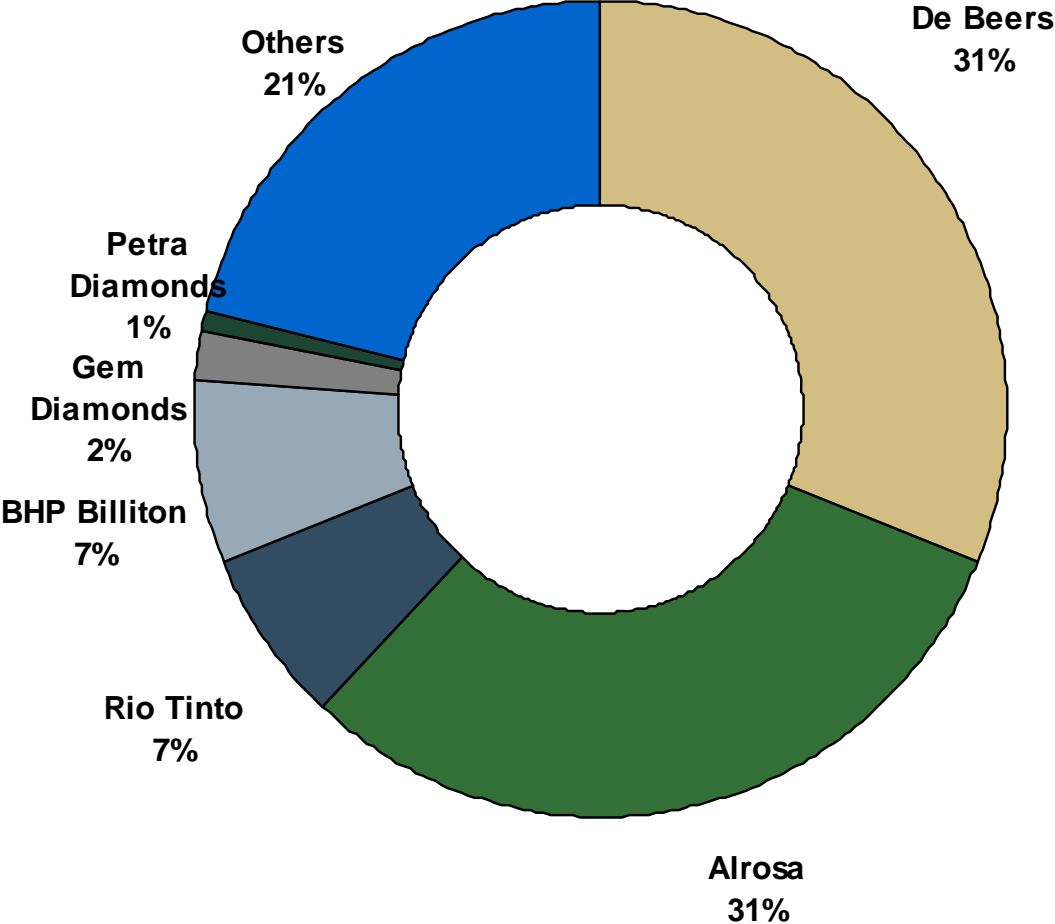
- Increased production from Q2

- Sales 1H 2009 down 68%

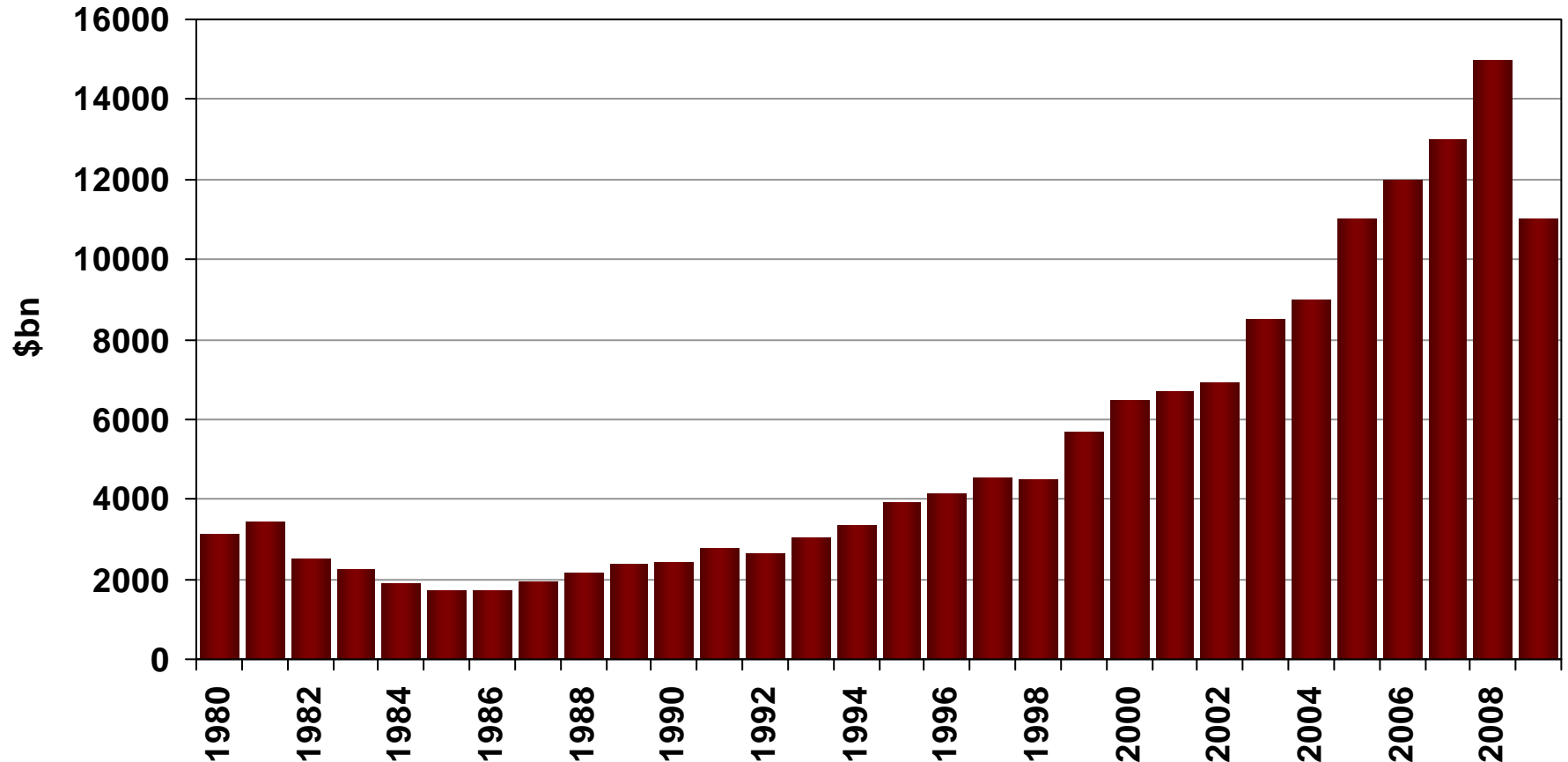
- 2009 sales lowest since 1986



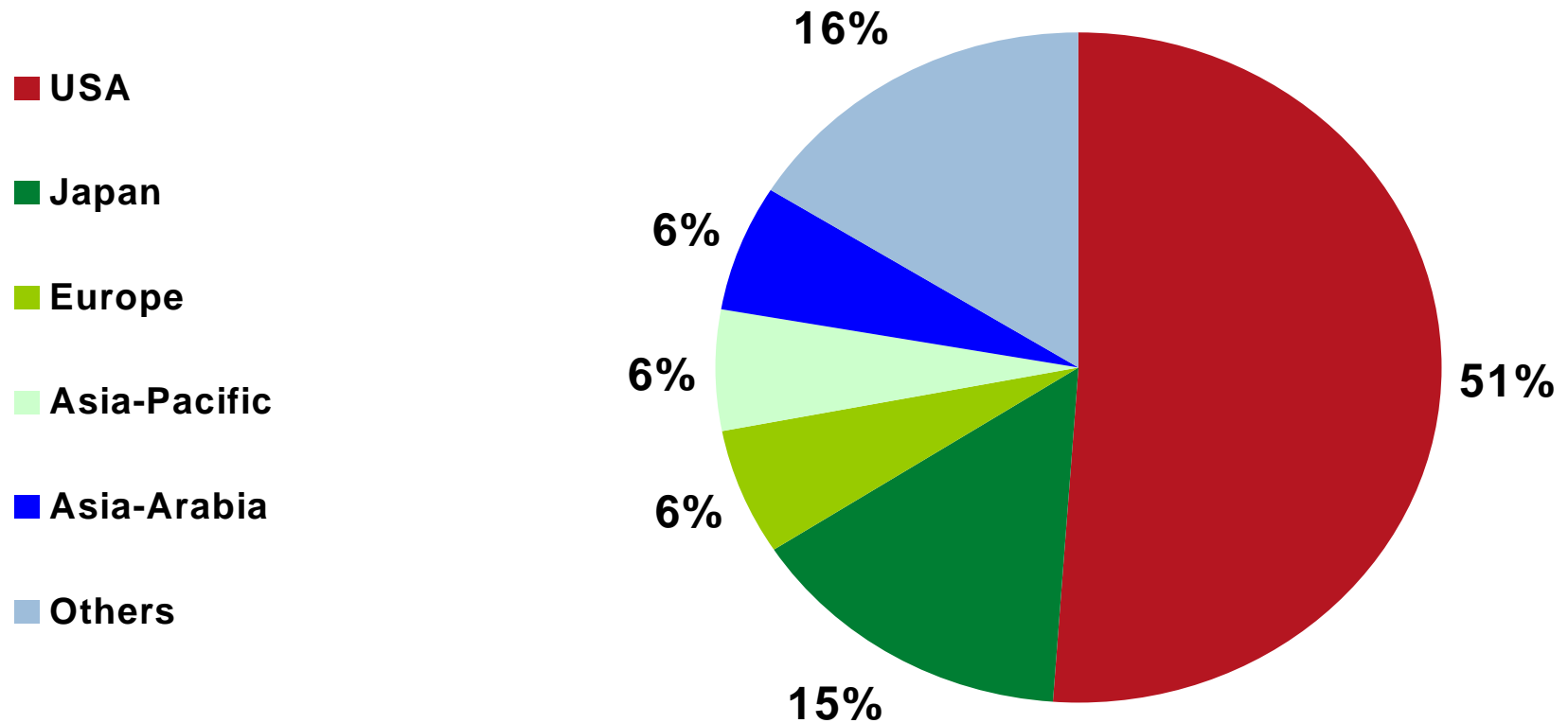
Concentration of production 2009



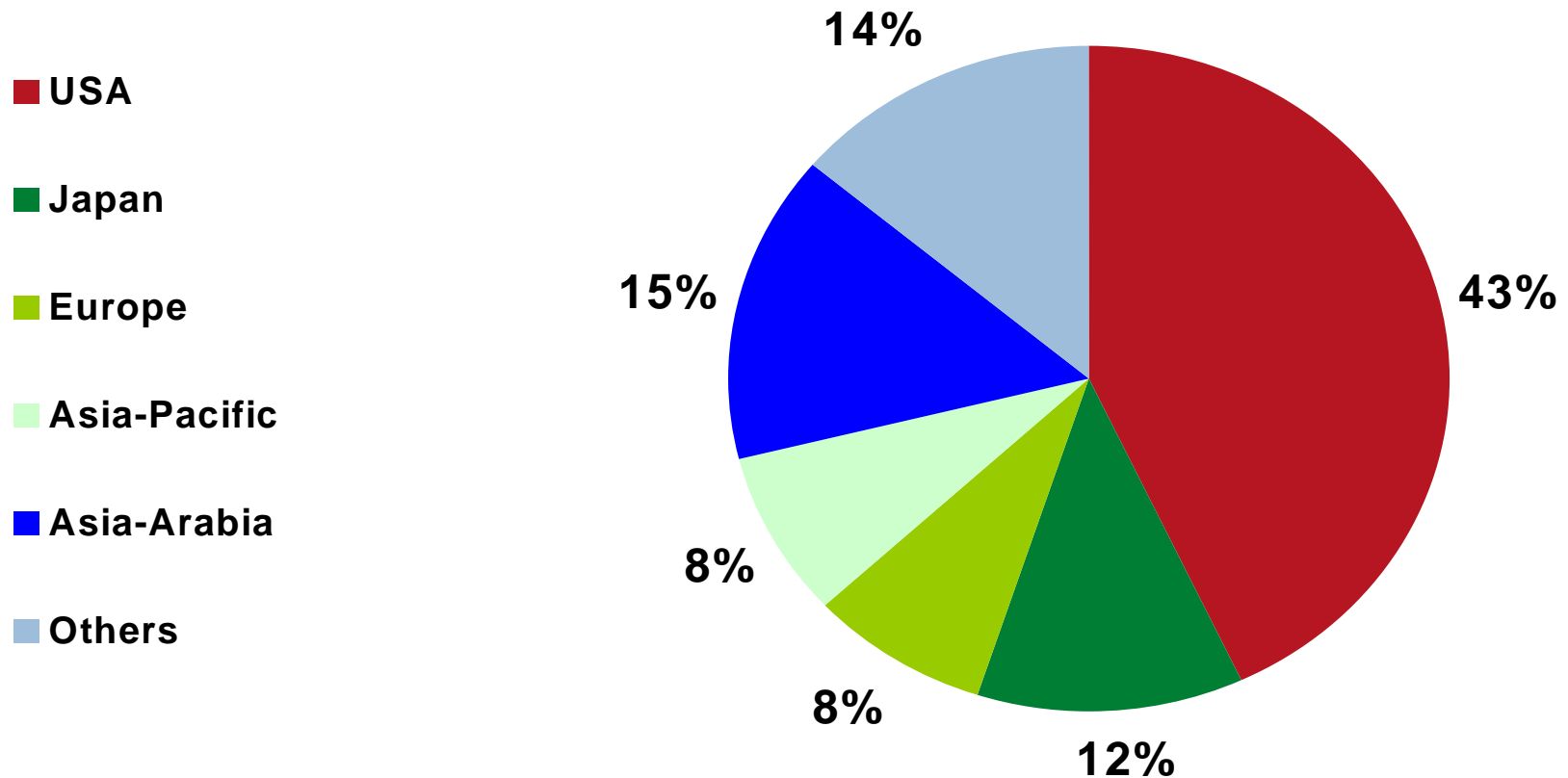
Cutting centre debt levels – stocks and debt down



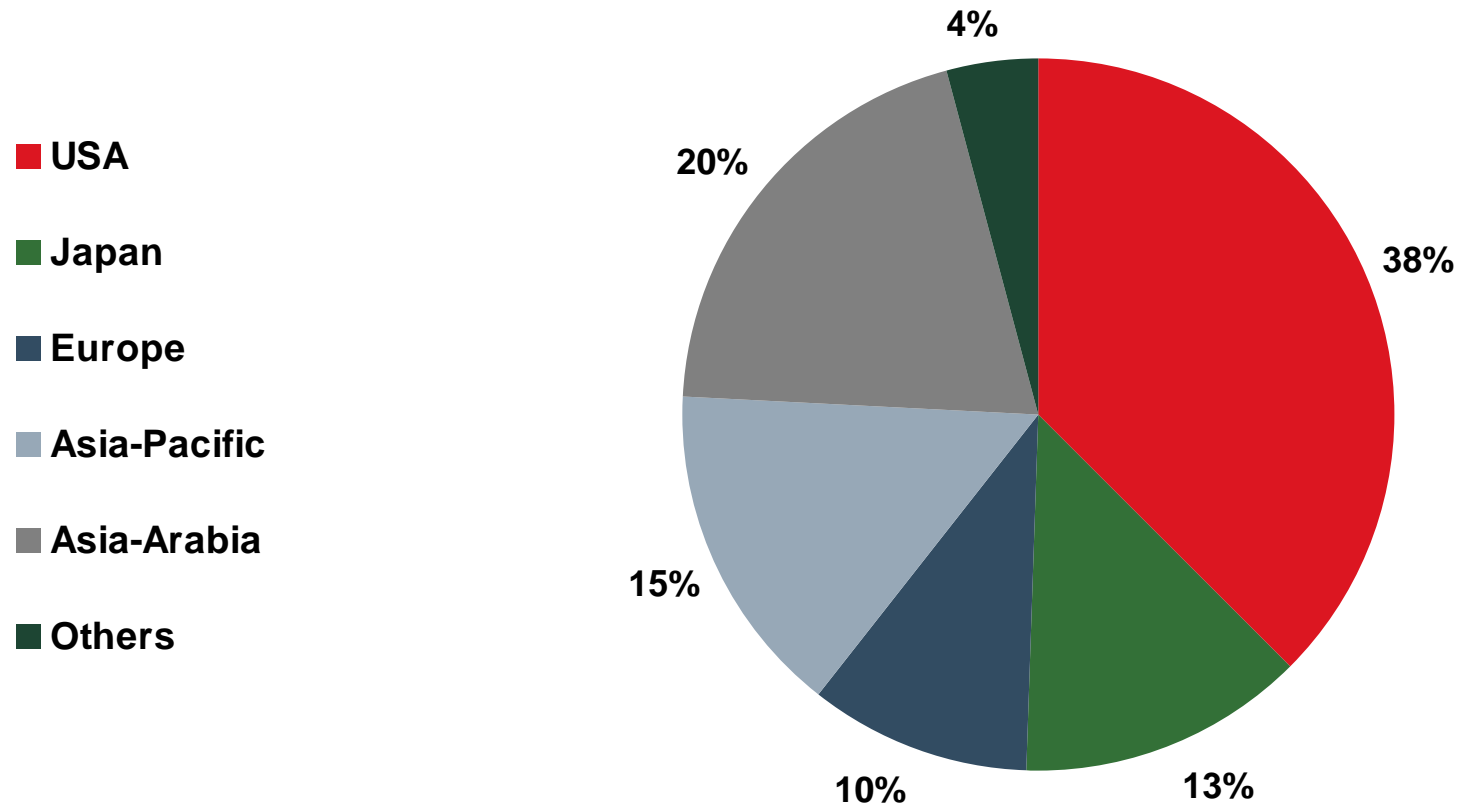
Retail Sales of Diamond Jewellery 2008 (\$65bn) (-10%)



Diamond Content 2008

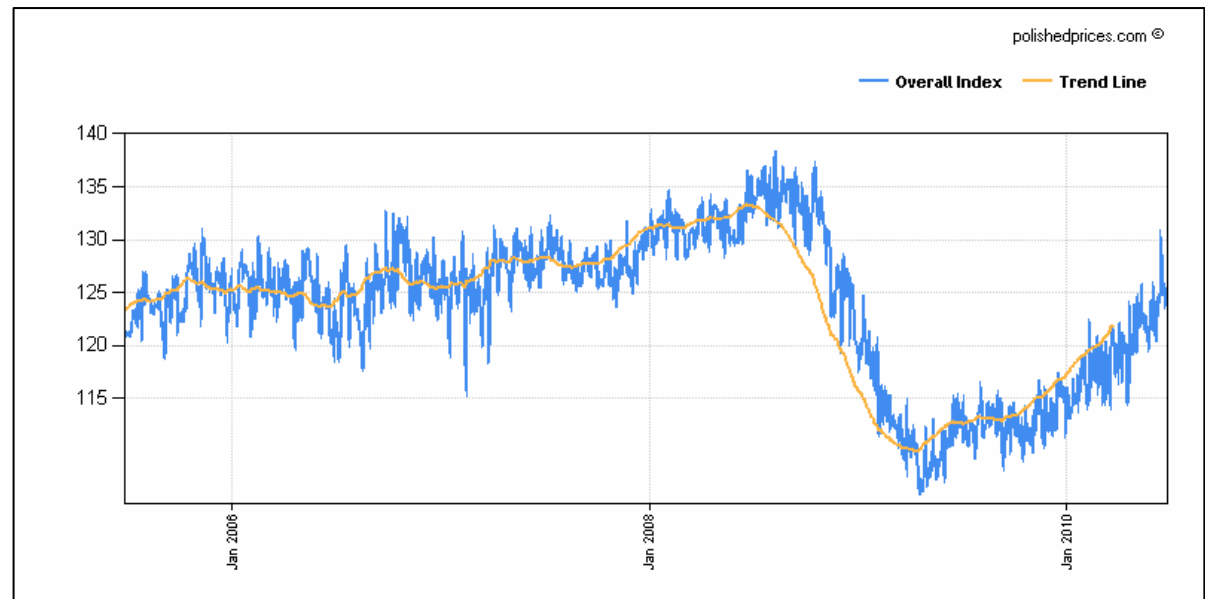


Diamond Content 2009 (-3%)



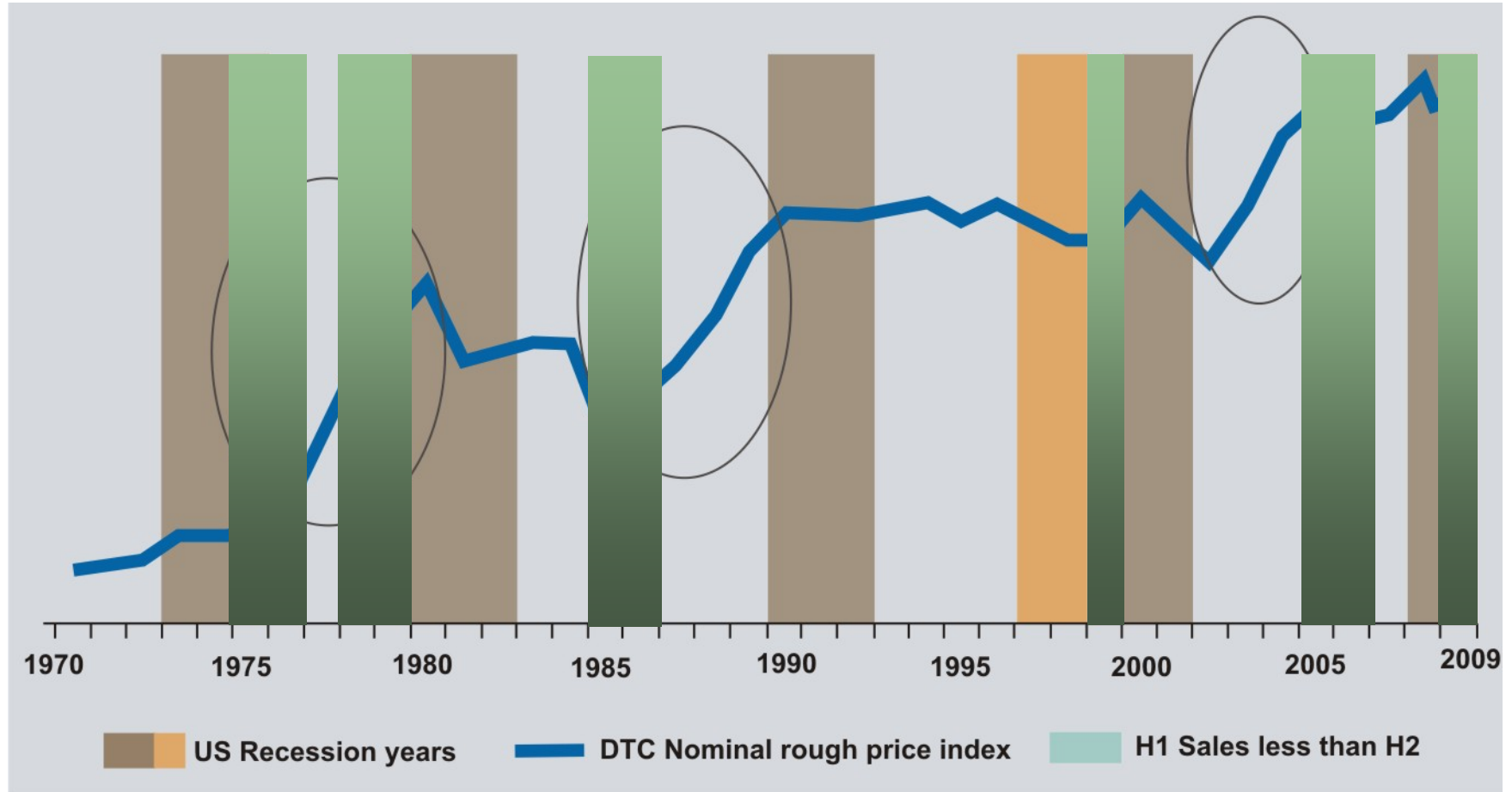
The last two years.....prices recover - June 2010

- Production down 35%
- Demand saved by strong showing in China
- Overall demand down 3%
- De-stocking in pipeline
- Prices recover



Prices recover strongly in post recessionary periods

DTC Rough Price Index vs. US Recessions



Diamond market conclusion

- Cutting centre debt ↓
- De Beers' production/sales ↑ in 2010 (60-70% capacity)
- Supply restricted
- Prices ↑

Diamond market – Longer term view

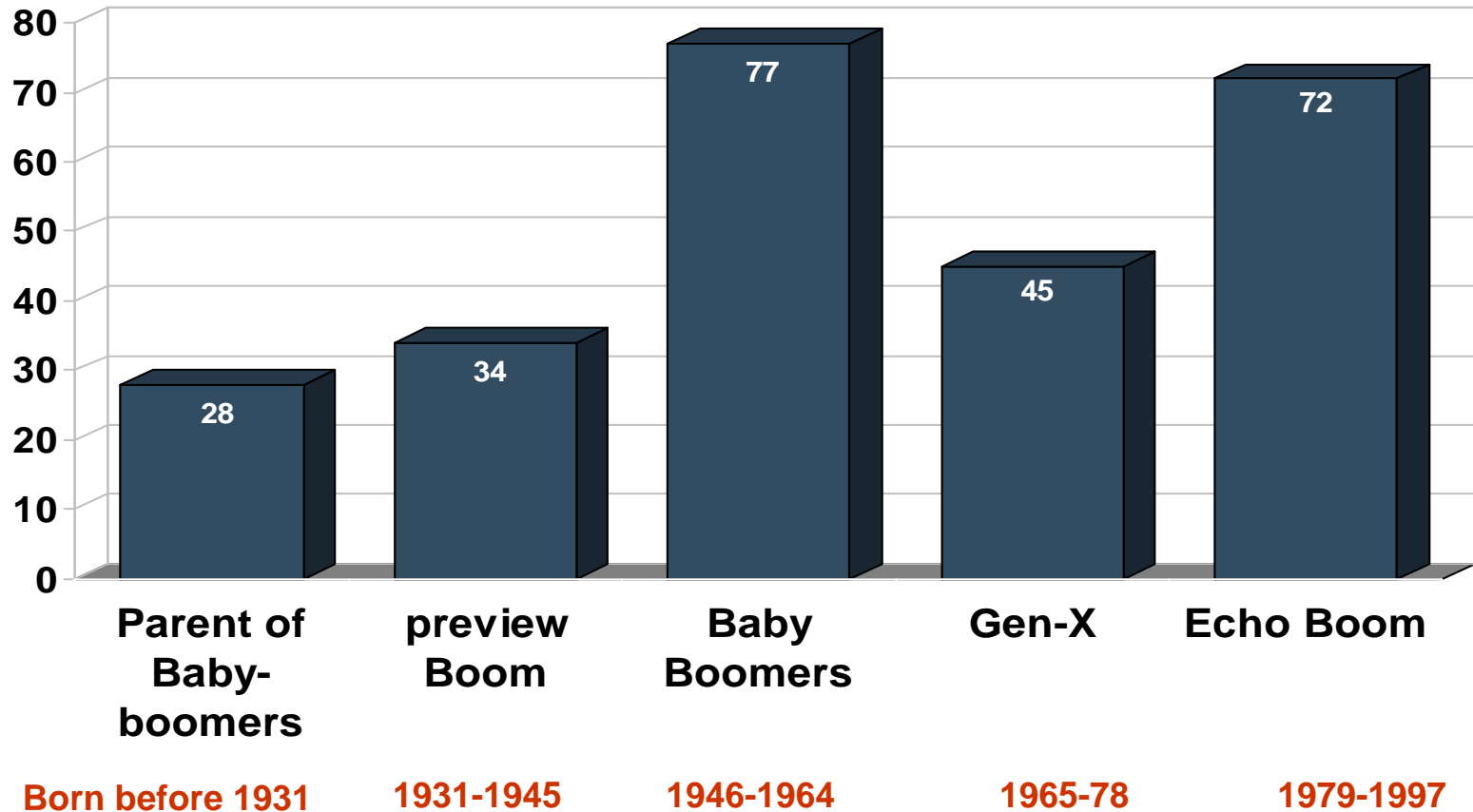
- Review of demographics
 - US
 - China
 - India
- Start with global growth forecasts
- Intensity of consumption
- Combine with population growth forecasts
- Long term view of diamond consumption

Impact of the baby boom generation on diamond demand

- Economists can't understand economics because they don't understand sex....
- Next few slides come from my 1999 presentation “Baby Boom for diamonds”

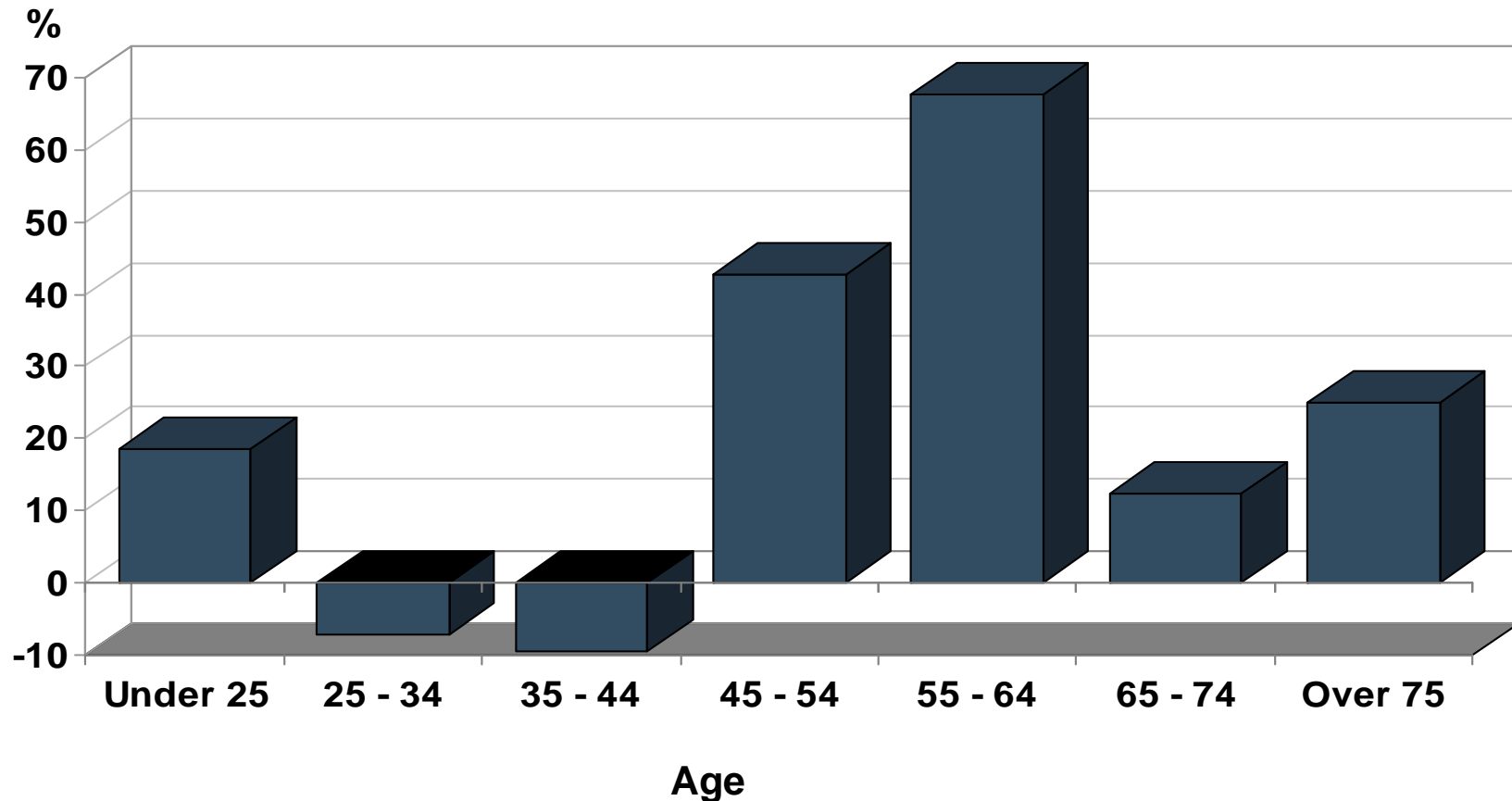
US Births

Million

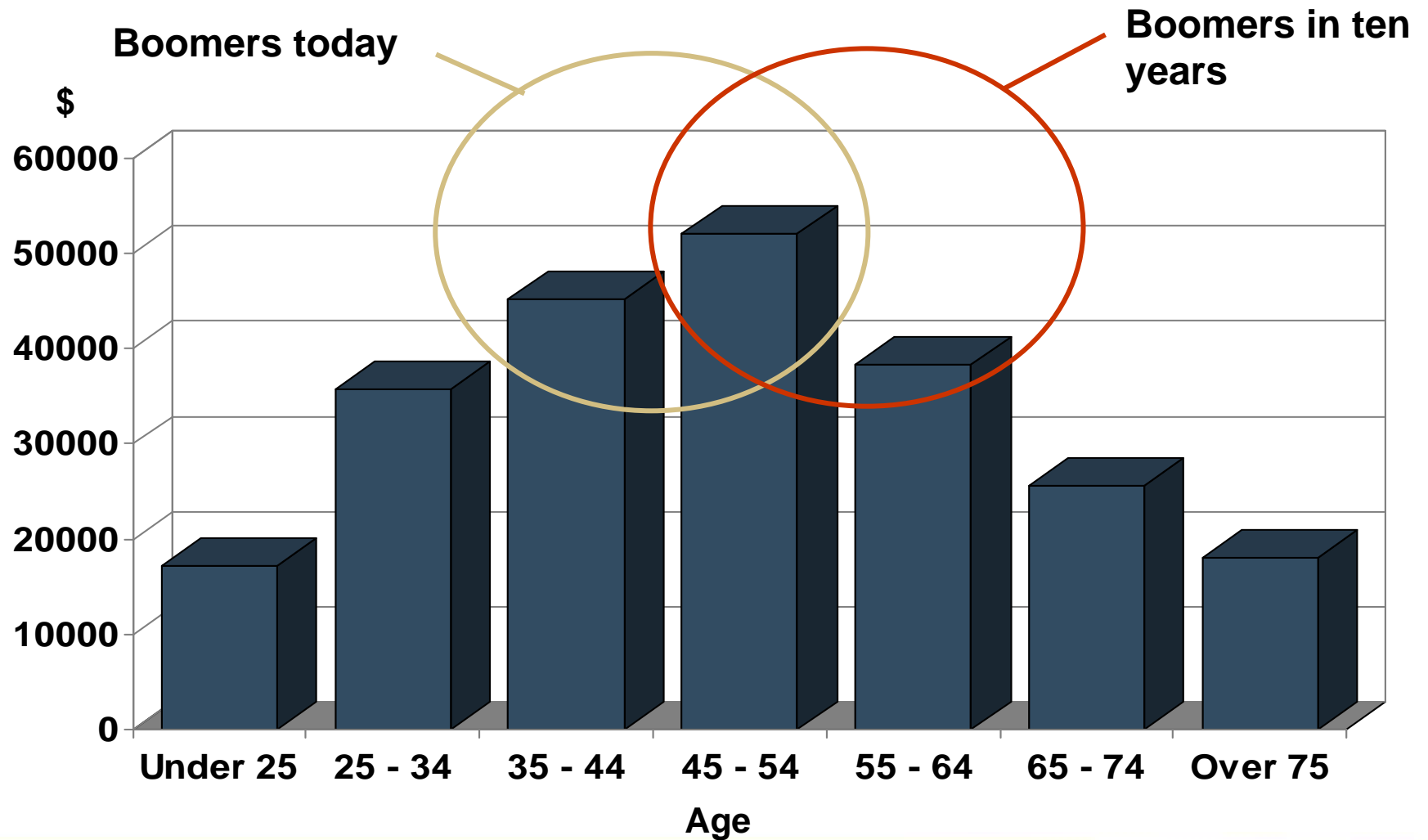


US Consumers - increases/ decreases by age (1995 - 2010)

Projected % change in consumers by age

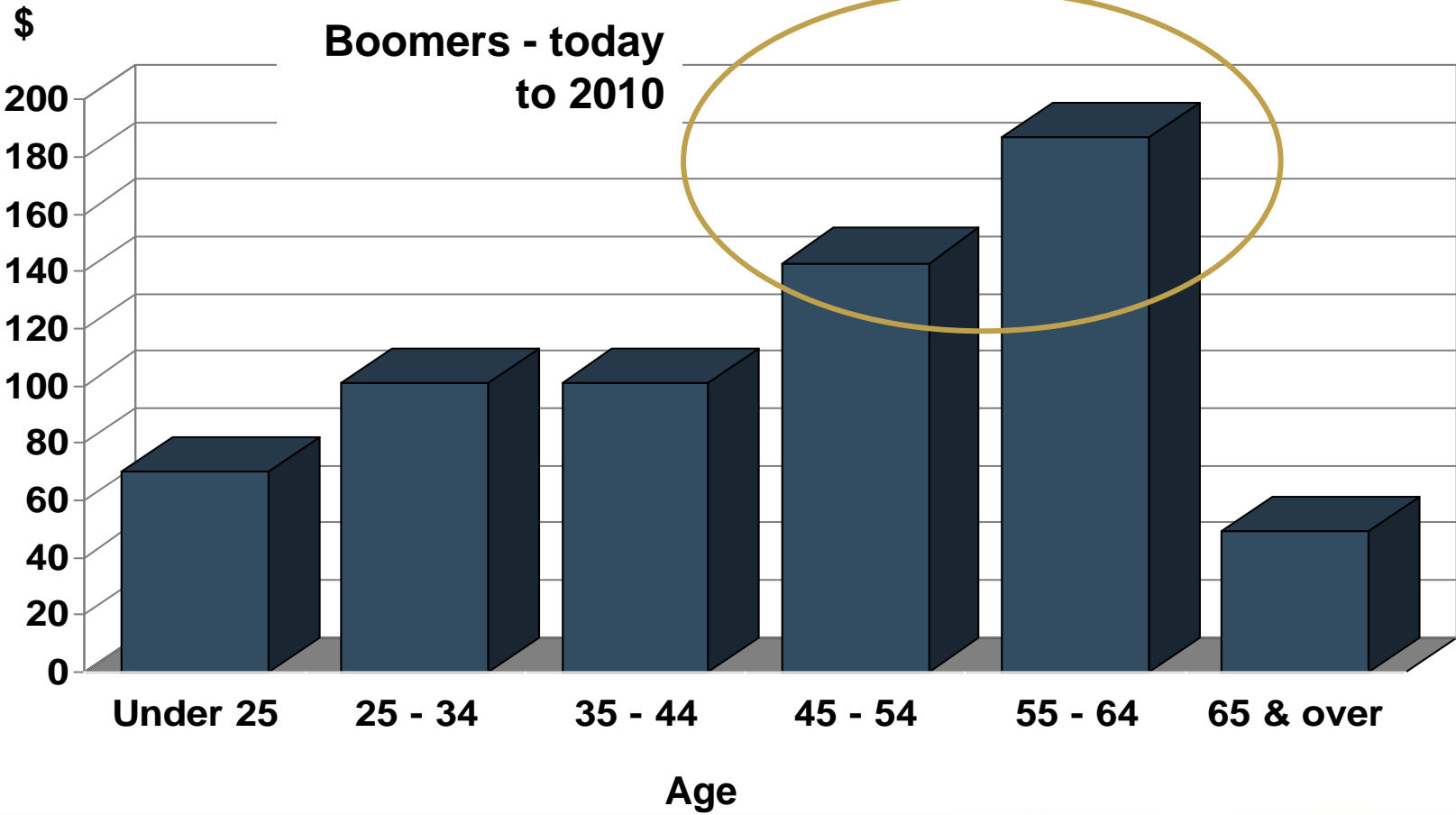


Affluence peaks at midlife



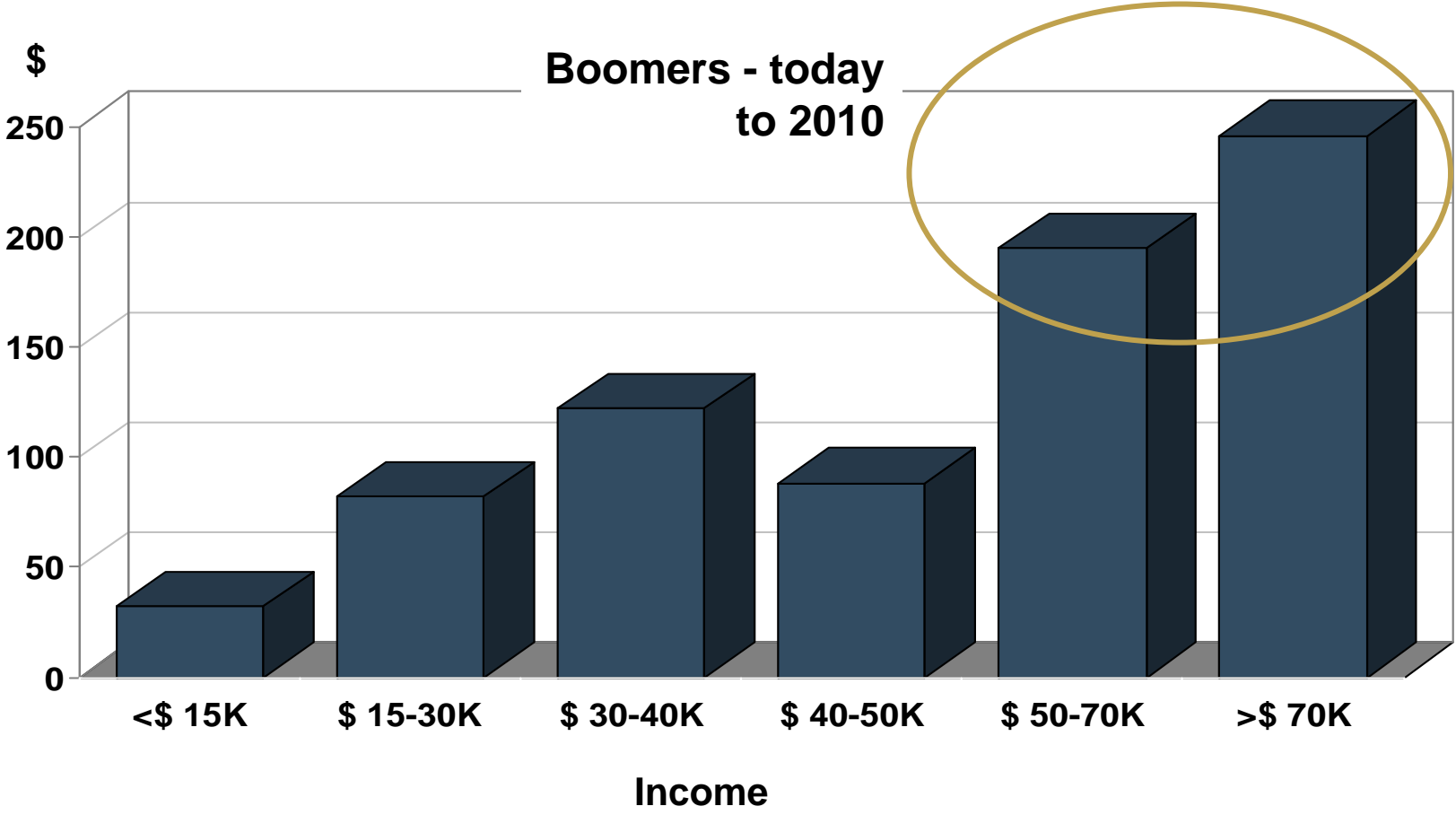
Jewellery Expenditures by age

Per Capita



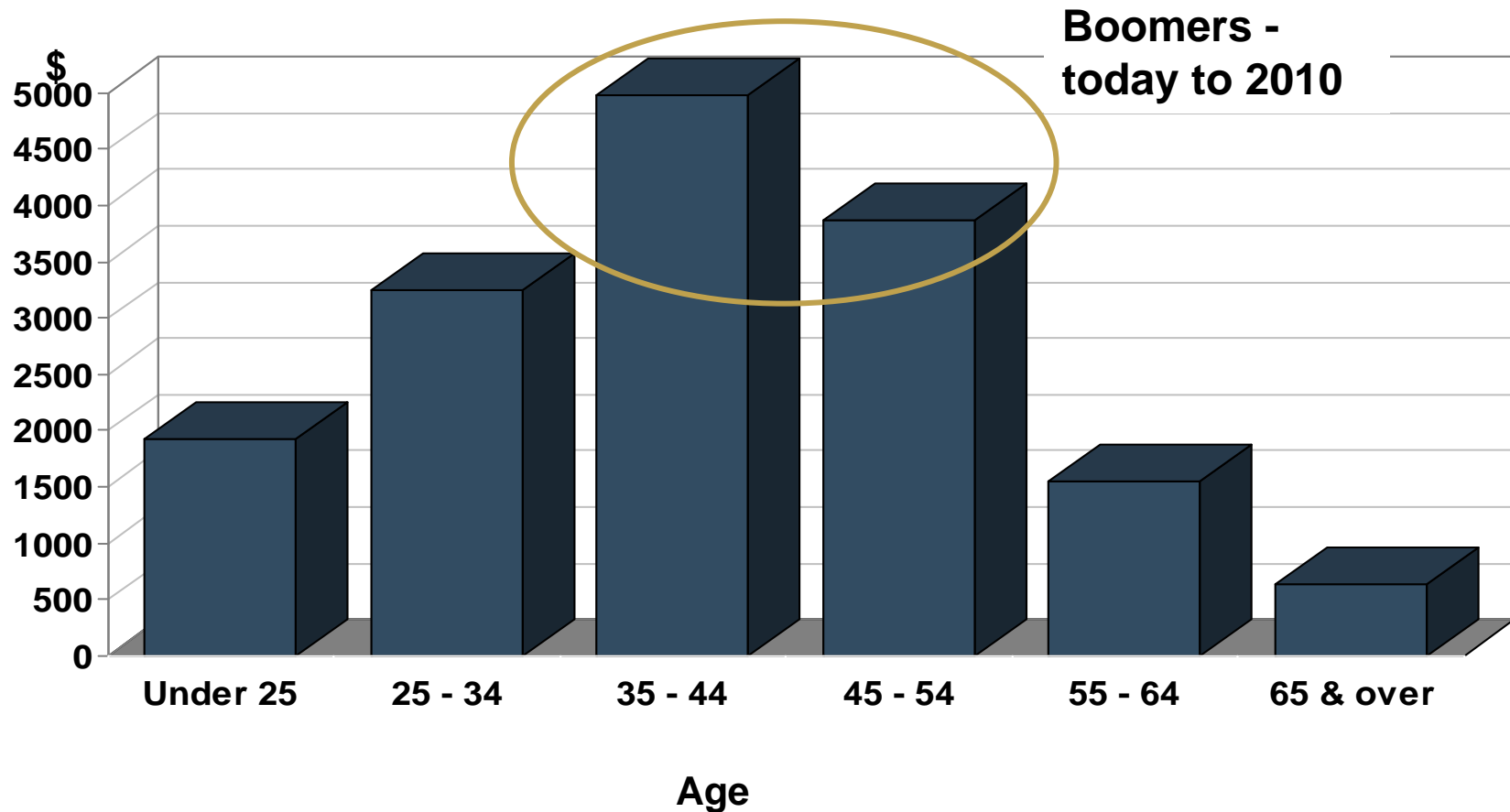
Jewellery expenditures by income level

Per Capita



US Diamond Jewellery Expenditure by age (000's)

Adult womens' market

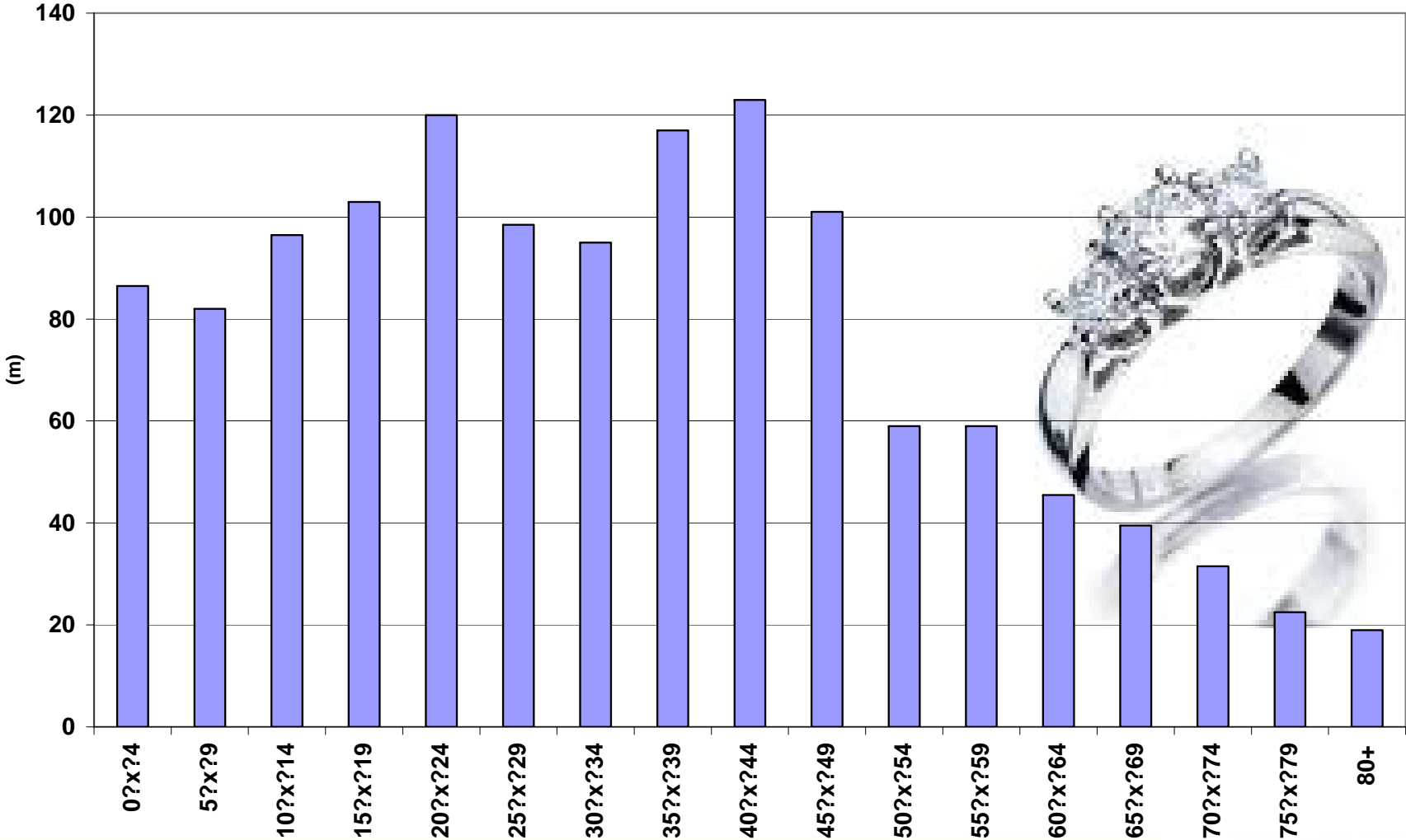


The Jewellery Boom

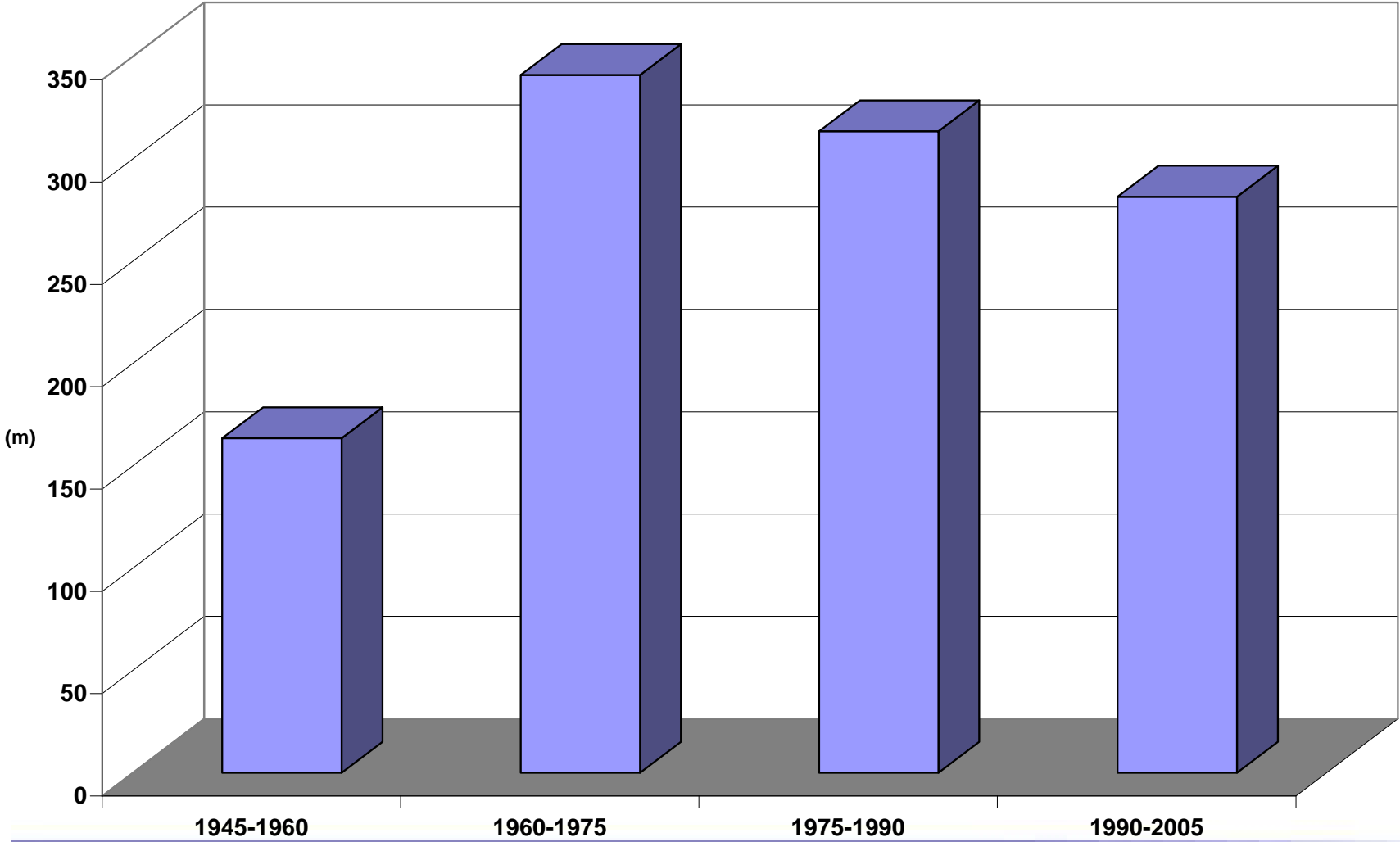
- **Baby Boomers entering high income bracket**
- **Inheriting more**
- **High disposable income**
- **Jewellery spend to rise sharply**



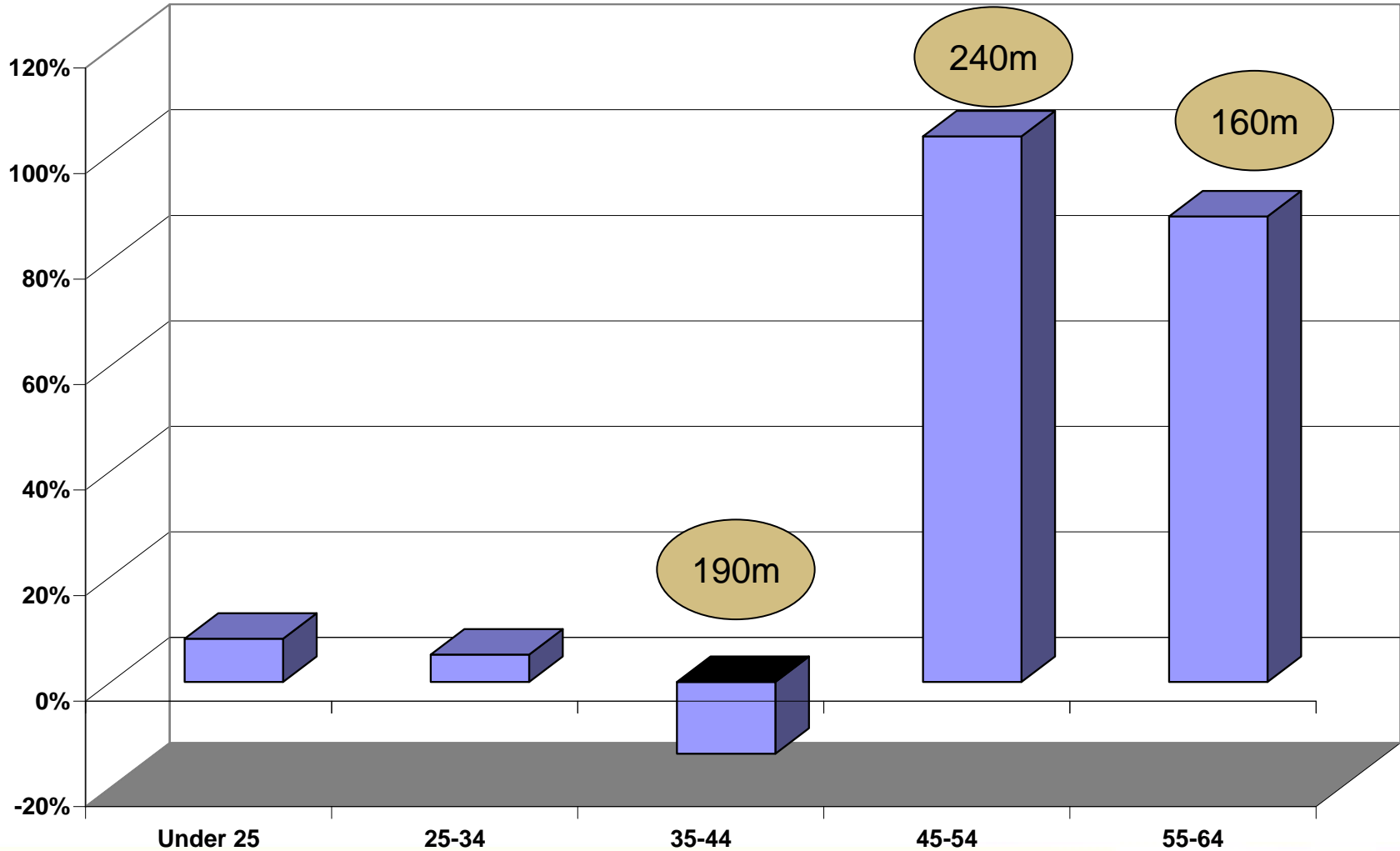
And now China....



Chinese baby boom



Chinese population - % change 2005-2020

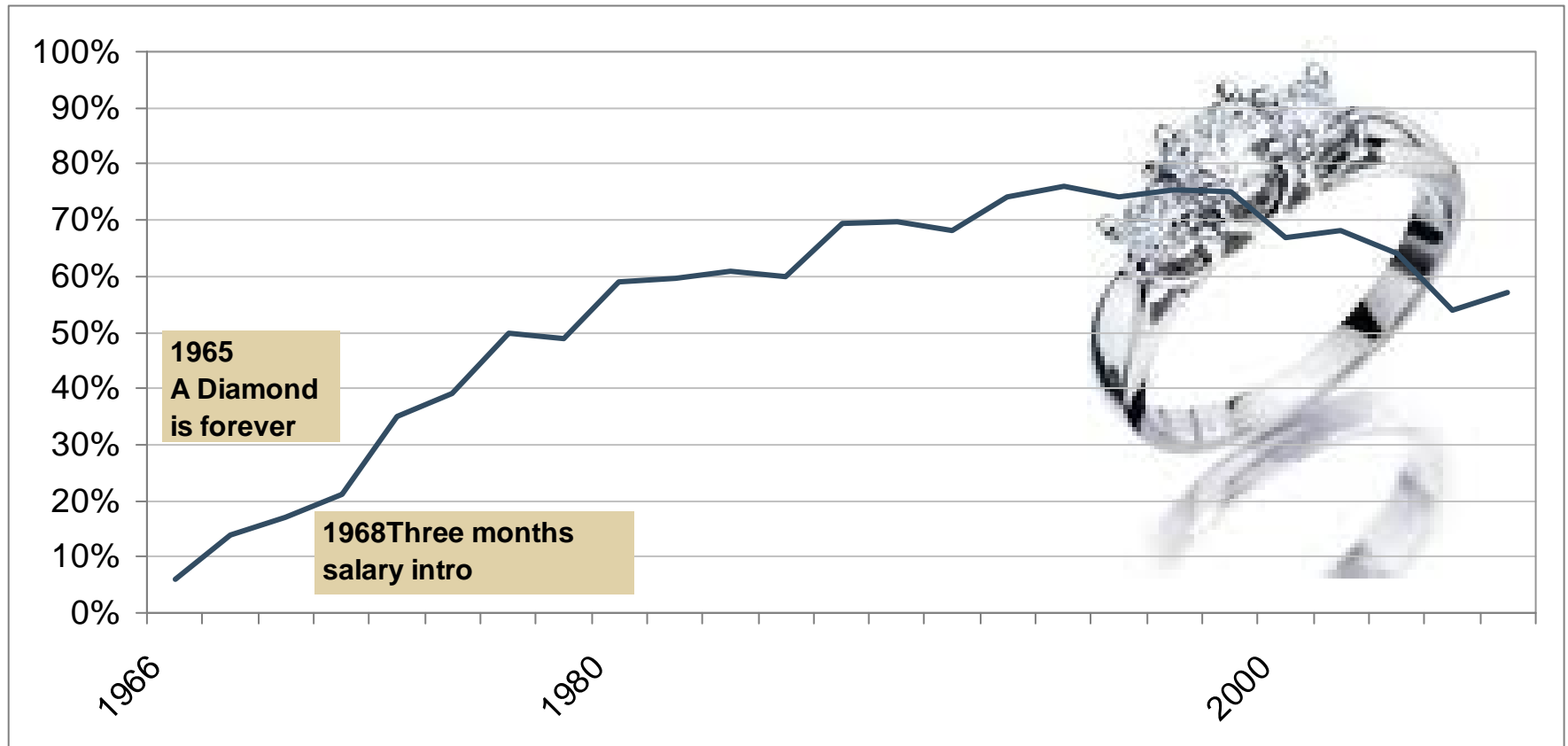


Developing a market for diamonds

- De Beers starts with inculcating the DER
- The philosophy and culture of diamonds
- Takes time to develop and grow market acceptance
- Penetration of the market also requires distribution
- Jewellery stores must be accessible...

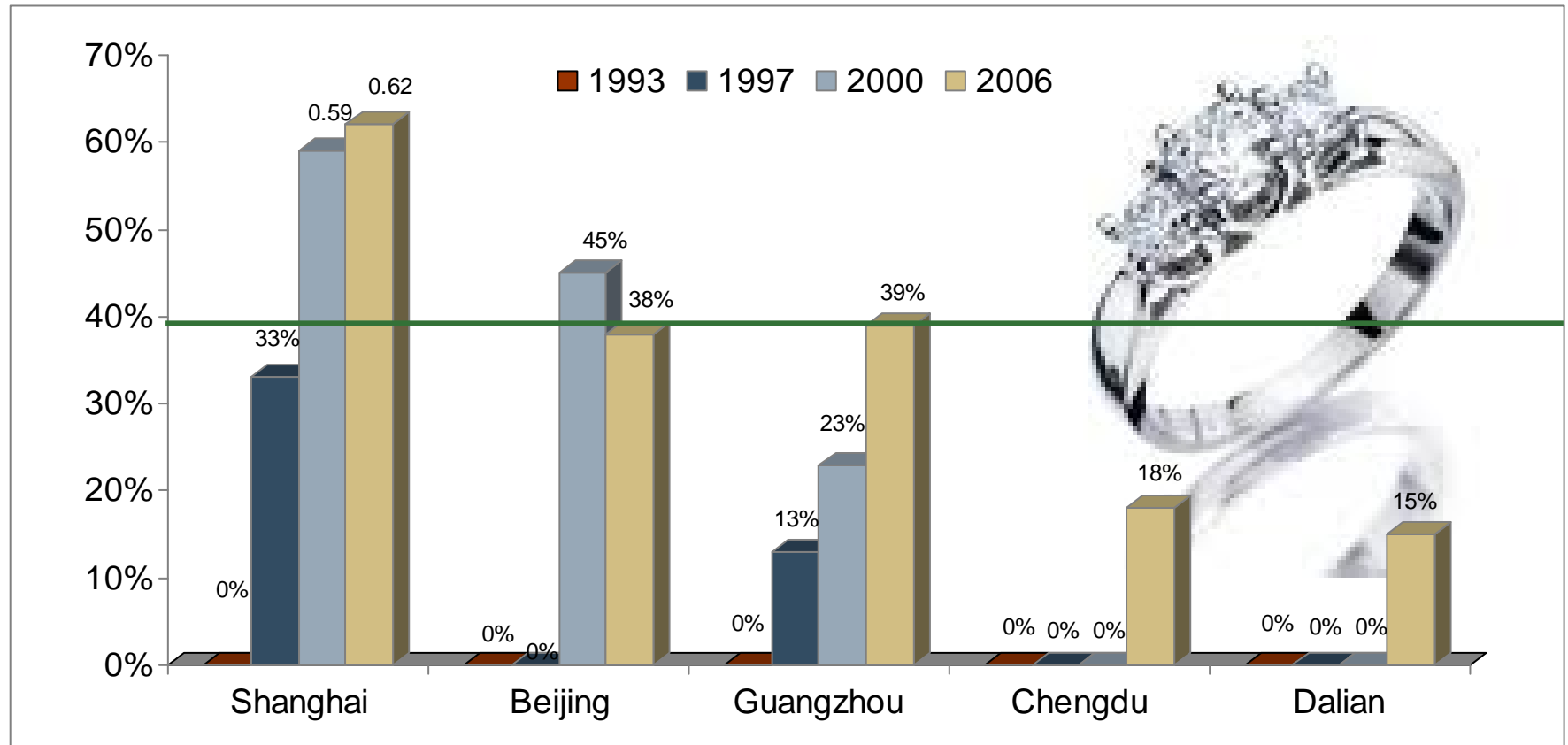
Creating a market for diamonds in Japan...

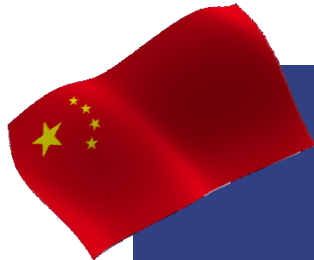
Japan market growth (% new brides who receive diamond only engagement rings)



...and more recently in China

China DER (Diamond Engagement Ring) acquisition rate

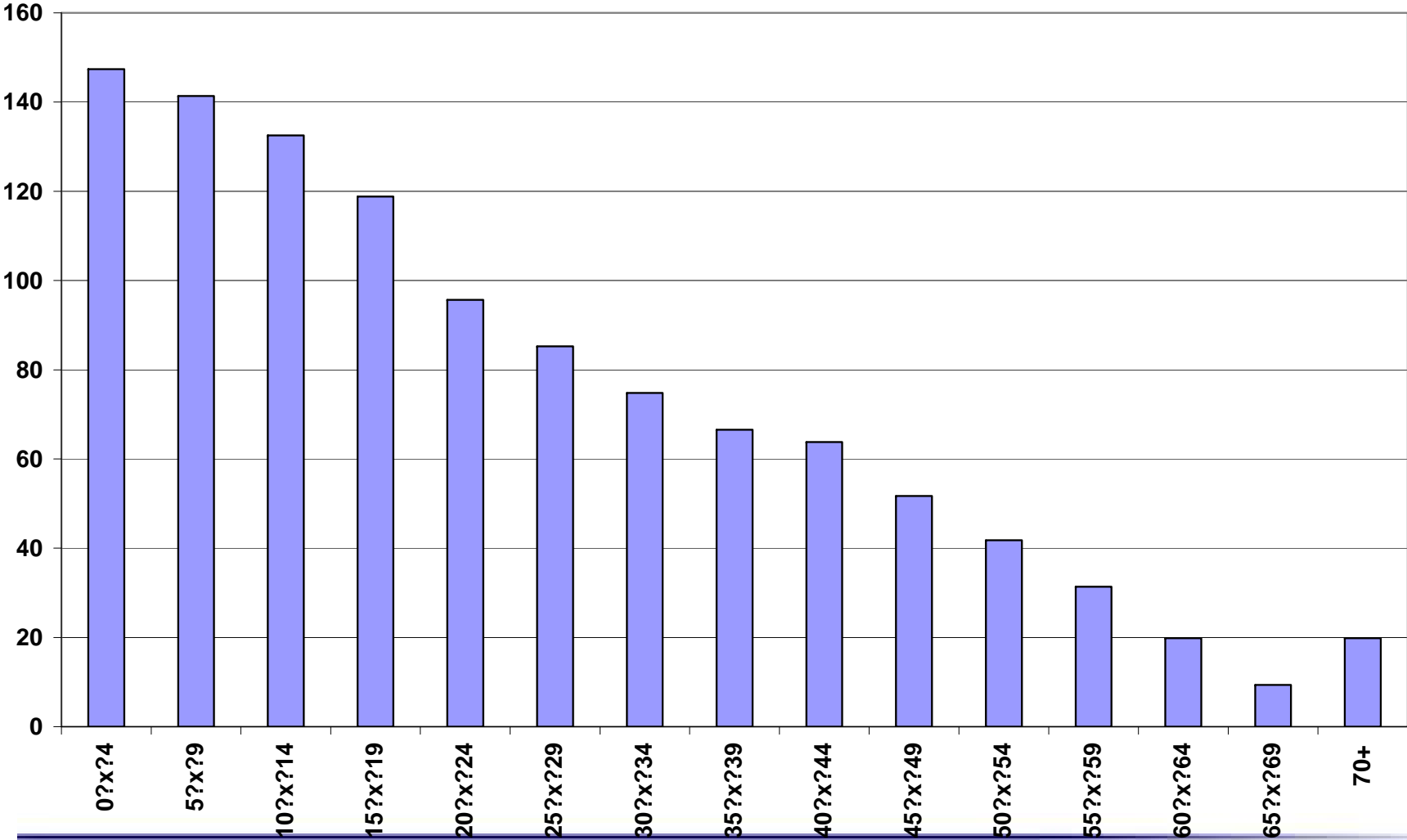




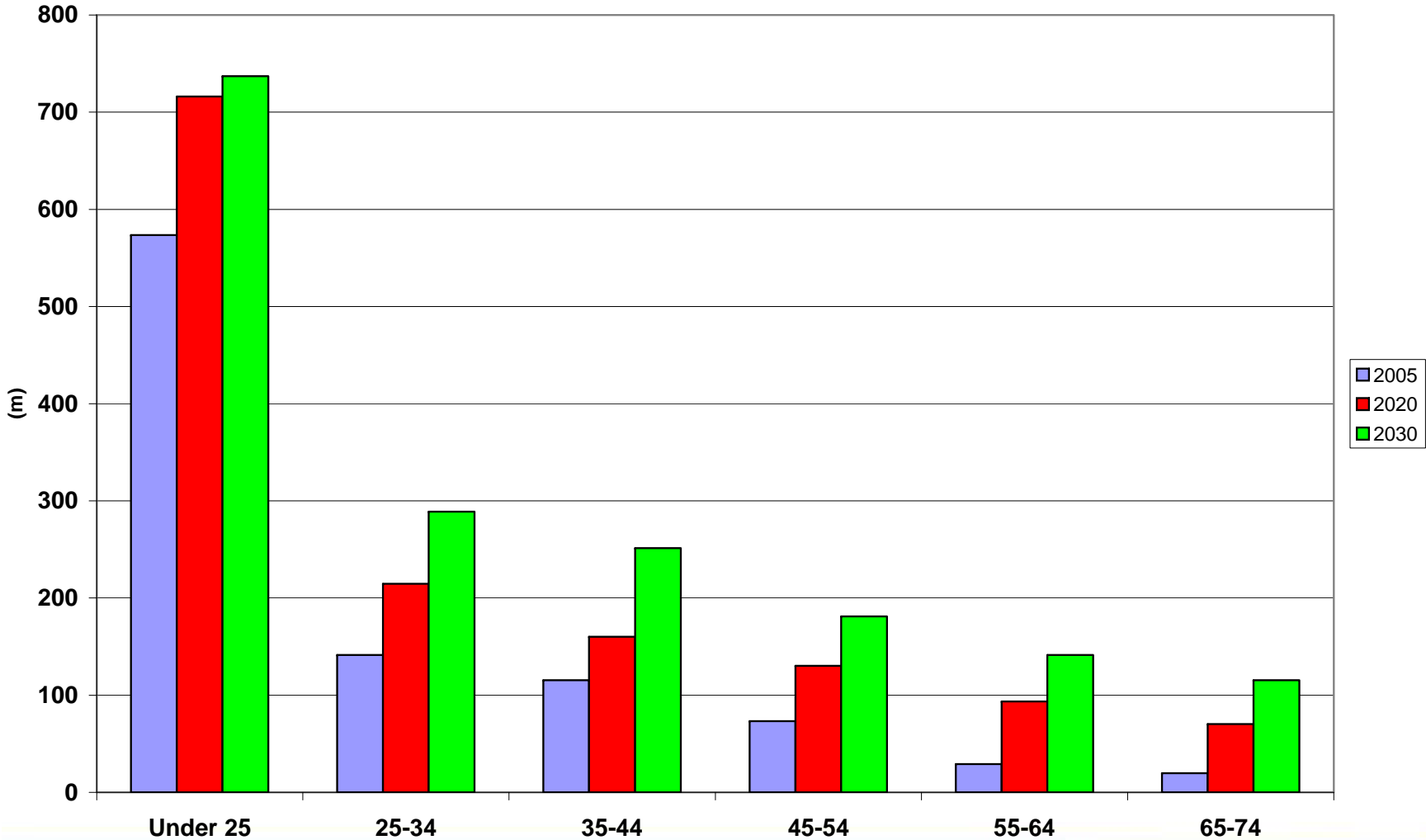
CHINA
DIAMOND WEDDING
RING
(2 Film clips)



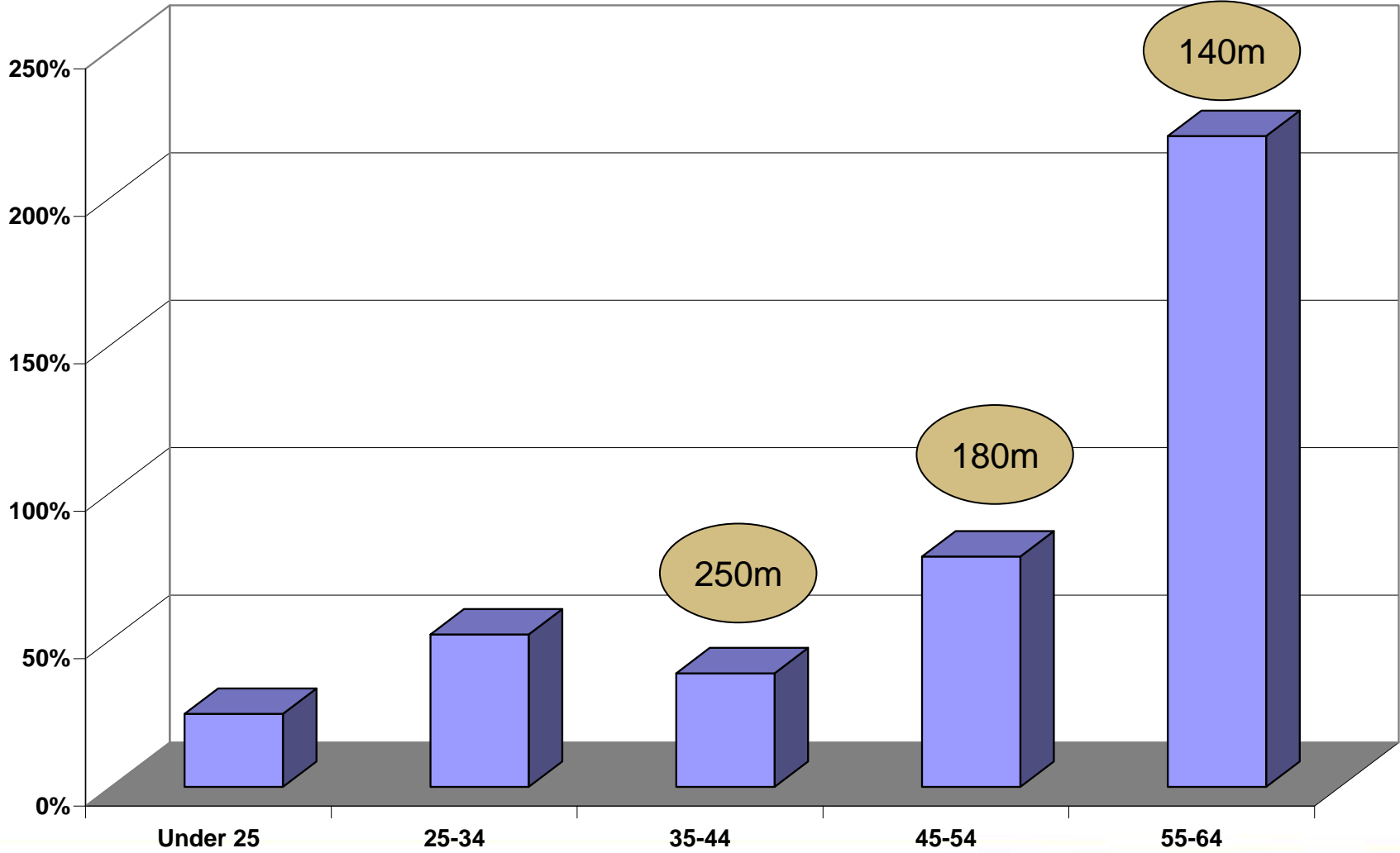
India's demographics – More Boom boom



India's demographics



India's demographics- % change from 2005-2020



Economic growth forecasts

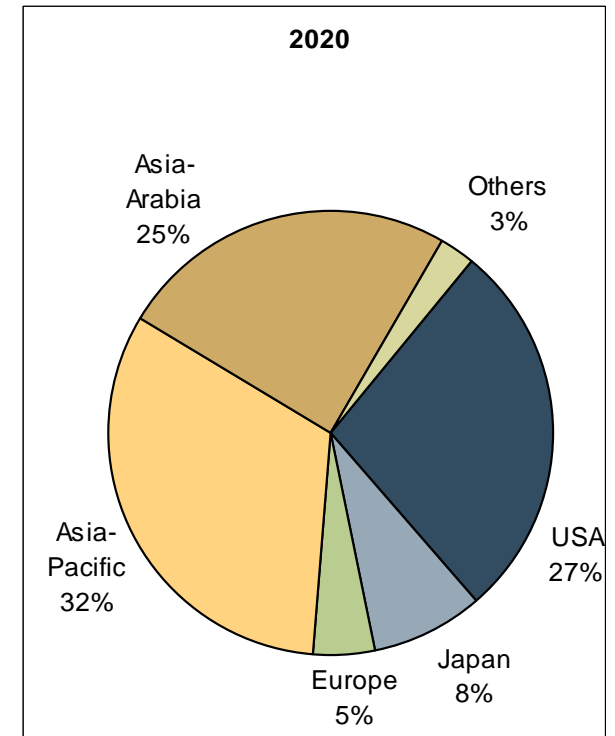
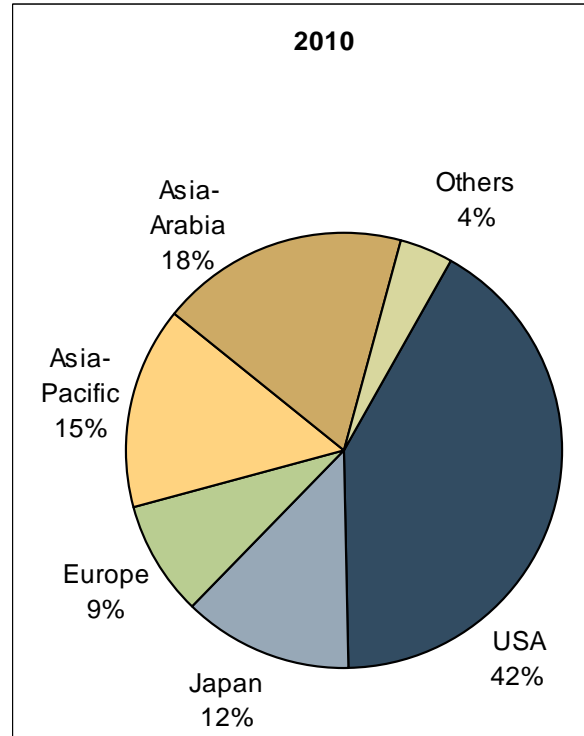
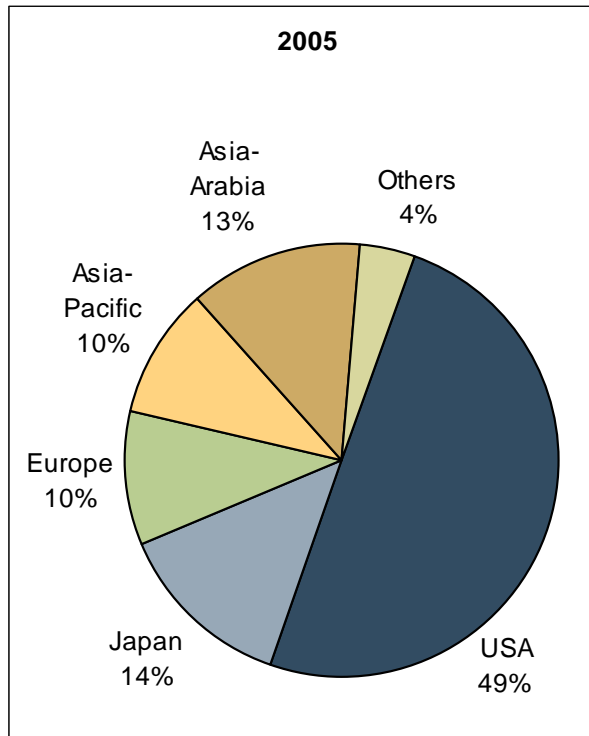
	2009 (\$bn)	2020 (\$bn)	CAGR %
USA	14 341	19 739	3
Japan	4 390	4 007	-0.1
Europe	16 580	20 639	2
Asia-Pacific	9 082	22 327	8.5
Asia-Arabia	4 085	9 465	8.0

Source: World Bank

Regional GDP and intensity of diamond jewellery consumption (2020 forecast)

2020	Population (bn)	GDP (\$bn)	GDP/capita	Diamond Jewellery consumption (\$bn) ("DJ")	DJ/capita (\$)	Intensity of consumption
USA	0.342	19739	57716	40	116	2.0
Japan	0.124	4007	32315	12	94	2.9
Europe	0.497	20639	41527	7	14	0.3
Asia-Pacific	1.71	22327	13057	44	26	2.0
Asia-Arabia	1.433	9465	6605	34	24	3.6

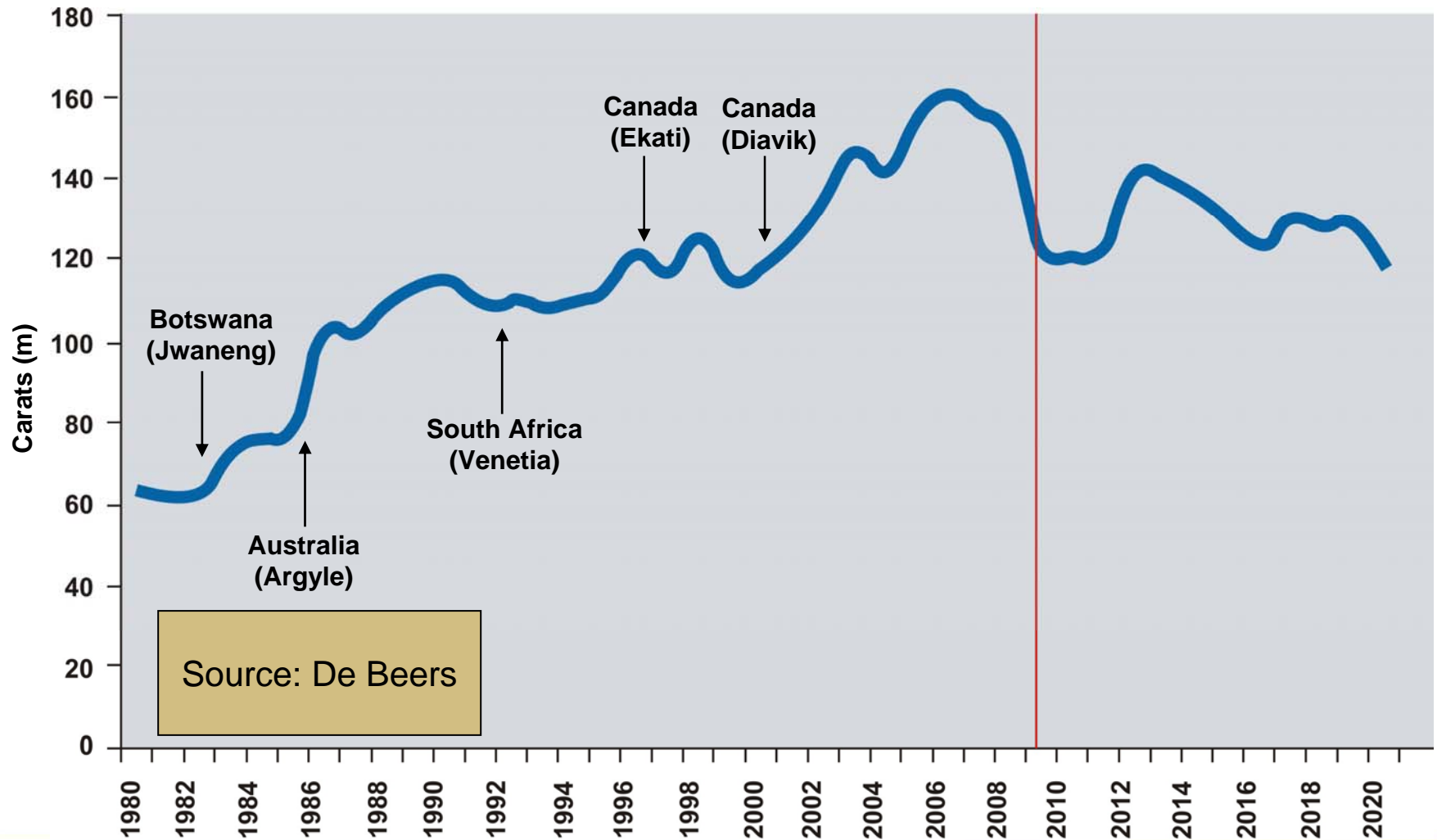
Diamond Jewellery Retail Market (estimate and forecasts)



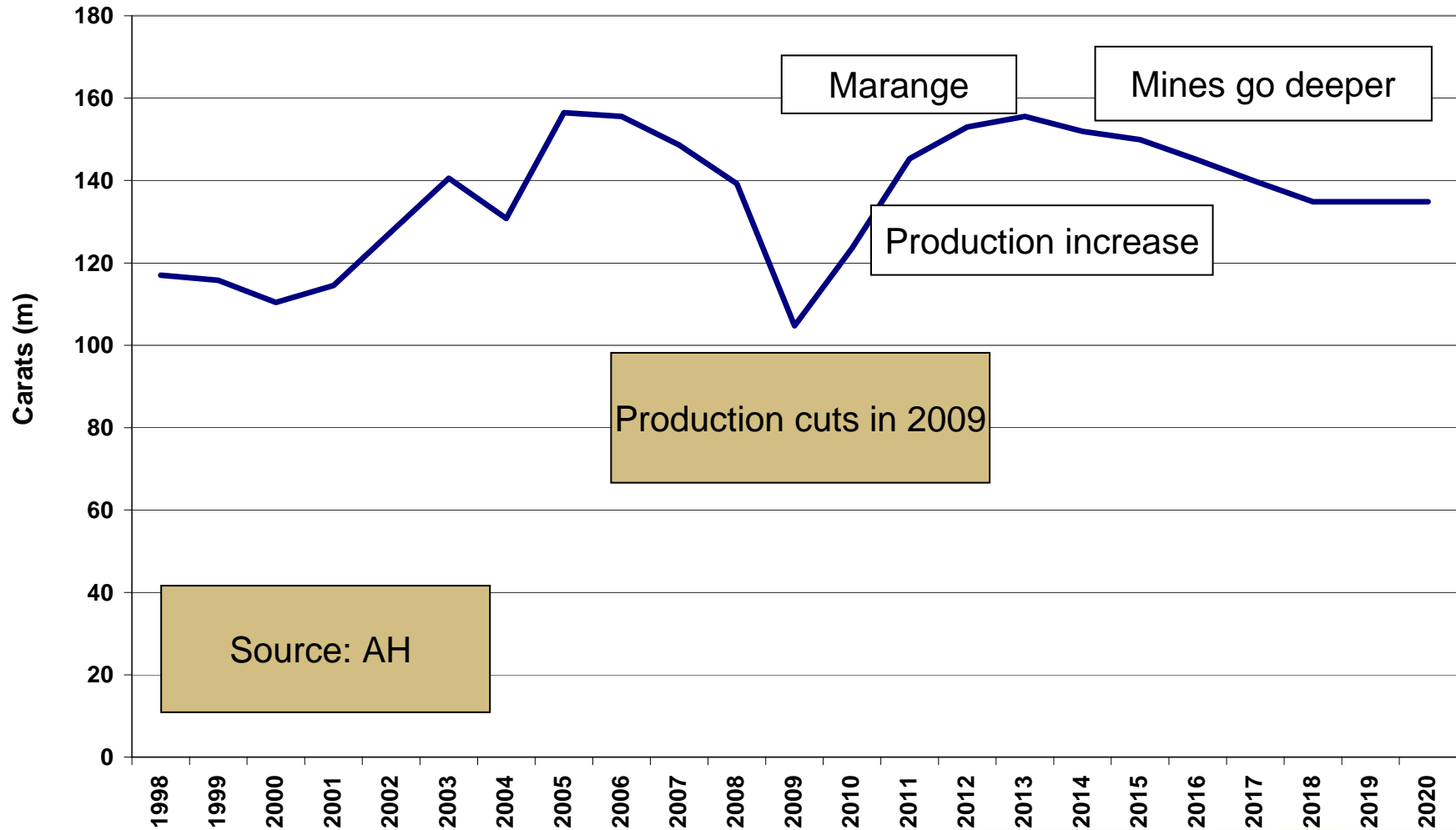
Diamond supply – Longer term view

- Mine by mine production forecast (carats)
- Overlay with constant \$ price
- Resulting deficit feeds into price increases
- Overlay with pipeline stocks
- Results in price index feedback to
- Increased supply
- Iterative process

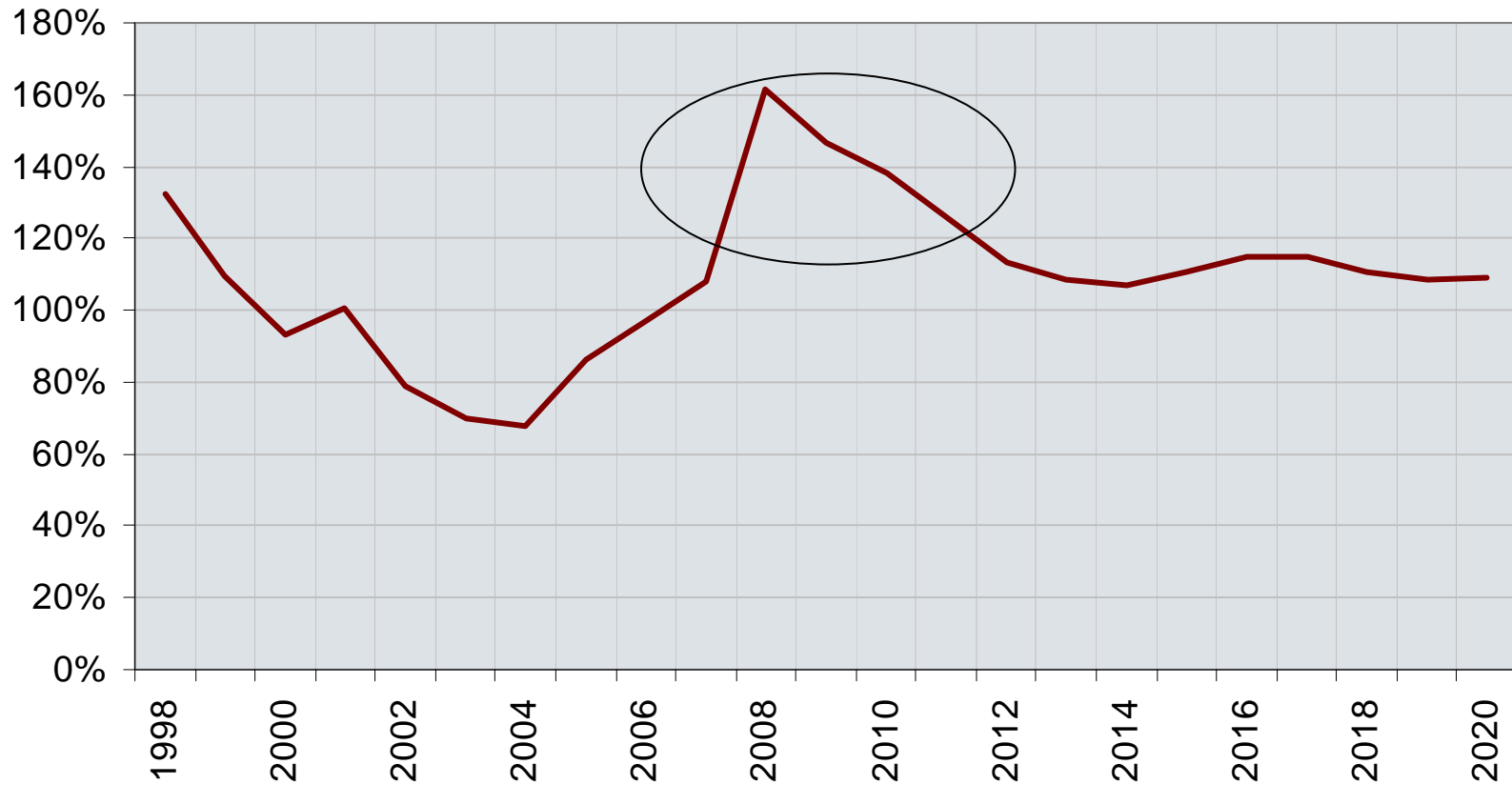
No new material sources supply – World Production



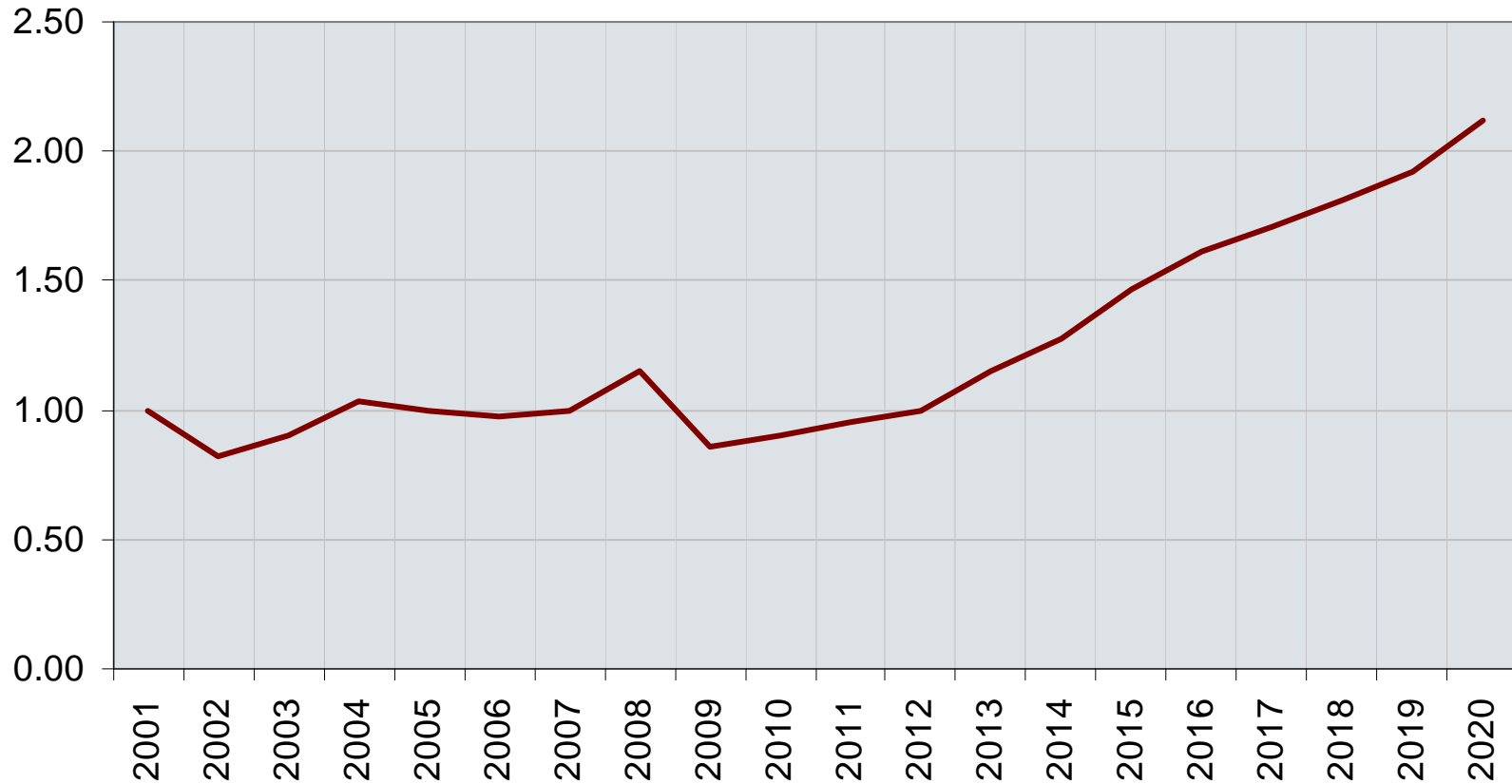
No new material sources supply – World Production



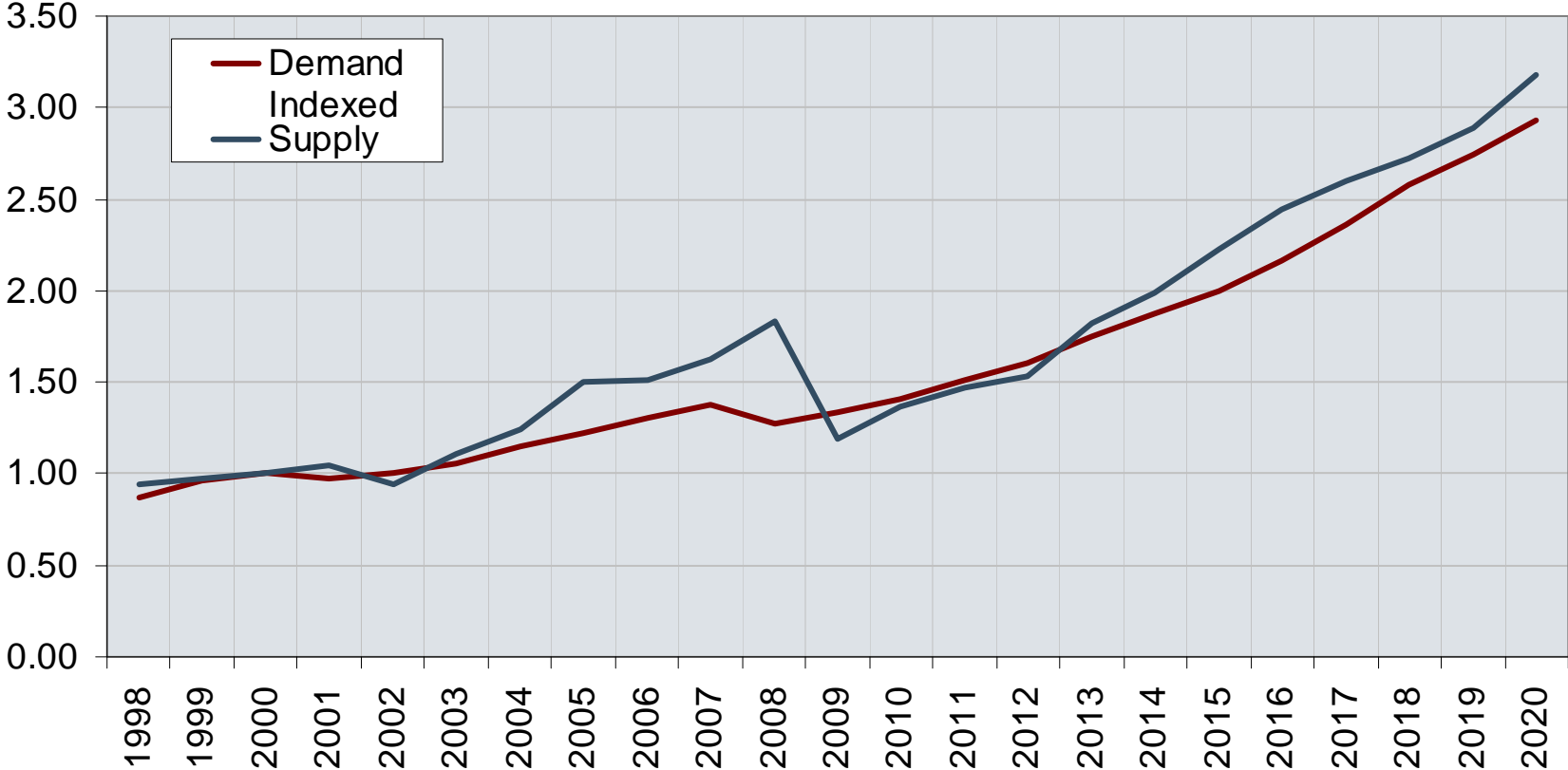
Pipeline Stocks as a % of Global Demand



Diamond Pricing Index



Supply and Demand Indexed (2000)



Summary

- **It's the demographics stupid.....**
- **China and India will drive diamond demand for the next 20 years**
- **But never underestimate the Americans....**
- **Marange is a wild card....a very wild card**
- **Supply to decline over the next decade as mines go deeper and underground**
- **Rising demand and constrained supply....**

Conclusion on diamond prices

- De Beers managing production increases to “match” demand
- De Beers production 66% capacity in 2010 and 80% from 2011 result in ...
- Rising prices
- “Prices will rise” – Stuart Brown (De Beers’ FD)
- Short term seasonal dip
- AH estimates prices will return to 2008 level by end 2010
- Prices should double by 2020
- Average of 7% per annum price increase



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Questions?

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