

The State of the Diamond Industry: Observations from the Underground

The meltdown in financial markets has left no industry unscathed from the retrenchment of artificially inflated values. In the diamond industry, there is a dichotomy of trends taking place. The concept of all diamonds having long term value and appreciation has been severely challenged and mining companies are reevaluating their approach to marketing and distribution. However selective and unusual fancy color diamonds have maintained value with little or no retreat in prices. Availability remains scarce even though demand is muted. We can see from recent auction results that the crème de la crème continue to achieve six and seven figure per carat prices (See “Exceptional Diamonds Hold Their Own At Auction”). What is also important to note is the breaching of the traditional route of mine to consumer. In the particular case of the \$9.5 million blue diamond, the mine took the uncharacteristic direction of cutting the rough and offering the diamond to the highest bidder via auction, circumventing multiple layers of inter-trade dealers.

In the past 12 months, the value of commercial jewelry diamonds has softened due to the supply levels and the falloff in demand. The mining companies are making every effort to shore up supply by reducing operations, temporarily closing mines and slowing the flow through normal channels by stockpiling. For example, in the first six months of 2008, DeBeers rough entity, the Diamond Trading Co., sold its customers \$3.5 billion in rough diamonds compared to less than \$1.0 billion for the comparable period of 2009. In the second half of 2008, DeBeers also reduced sales considerably as the market demand evaporated. It was last reported that DeBeers has reduced rough production by 91%. The Alrosa Mining Co. of Russia has decided to continue with present production levels but will stockpile almost its entire output of \$2.5 billion for 2009. (See “Russia Stockpiles Diamonds, Awaiting The Return of Demand”). This will be financed by the Russian government, which will raise capital from selling gold and platinum. This is an indication of what Russia believes is a better long term investment. Other countries like Botswana, Namibia and Angola are reducing output to help stabilize the market.

Interestingly, all mining companies and sovereign governments have recently made public statements of exploring new approaches to selling diamonds outside the usual pipeline, directly to consumers and investors.

The diamond business is evolving and traditional ways are challenged in this upheaval. In order to remain solvent and generate a profit, diamond miners must develop alternate markets for liquidity. Diamond miners now recognize more than ever that a very small percentage of their output is like fine art, desirable for many reasons. They do not want to flood the market and devalue their limited resources in the ground. Under the present conditions and known resources, there is approximately a 25 year supply available from the earth. It is extremely expensive to find and develop other sources so if the values do not increase substantially there will be no new mines coming on line.

Let's not forget the financial potential of the emerging in markets of China, India and Russia. While these markets have also slowed for now, they remain the sleeping giants of consumerism. This will certainly cause collectible gems to continue to move higher in value.

I continue to believe that selective natural fancy colored diamonds offer a great opportunity for diversification and investment potential for the long term. For further questions or personal advice, please feel free to contact me at alan@auroragems.com.



Alan Bronstein is a private consultant for the past 25 years who advises and sells the most exclusive fancy colored diamonds.

Further Information:

“Exceptional Diamonds Hold Their Own At Auction”

http://www.nationaljewelernetwork.com/njn/search/article_display.jsp?vnu_content_id=1003972515

“Russia Stockpiles Diamonds, Awaiting The Return of Demand”

http://www.nytimes.com/2009/05/12/business/global/12diamonds.html?_r=1&scp=1&sq=Russia%20Stockpiles%20the%20Gems&st=cse

“Butterfly Moments: From Chaos to Cosmos”

http://www.huffingtonpost.com/dr-susan-corso/butterfly-moments-from-ch_b_207324.html