



DIAMOND

INTRODUCTION

- The word diamond derives from the Greek word “adamas,” which means invincible or indestructible. It is modified form of carbon.
- Under the immense heat and pressure far below the earth’s surface, the carbon atoms bond in a unique way that results in diamonds’ beautiful and rare crystalline structure.
- Diamonds have been valued and coveted for thousands of years. There is evidence that diamonds were being collected and traded in India as early as the fourth century BC.
- The countries that are the main sources of diamonds have changed over time. India was the world’s original source of diamonds, beginning in the 1400s when Indian diamonds began to be sold in Venice and other European trade centers. Then in the 1700s India’s diamond supplies declined and Brazil became the world’s major source of diamonds, until the late 1800s when a huge diamond reserve was discovered in South Africa. Today, diamonds are mined in many parts of the world.
- On an average a diamond will lose about 50% of its original weight when it is cut and polished.
- Less than 20% of diamonds mined are considered gem-quality and can be used in jewellery.

USEFUL FACTS ON DIAMOND

- Diamond value chain consists of Diamond mining (production of rough diamond), manufacturing of cut and polished diamond and diamond jewellery. Further Diamond jewellery consists of jewellery manufacturing and retail sales.
- China, India and the US are major diamond jewellery consumers, driving rough-diamond demand.
- Major trading place for rough and cut diamond is Antwerp, Belgium.
- Diamond quality is measured mainly on four parameters that is called 4Cs. (Cut, Carat, Colour & Clarity). Other Factors which also contribute in diamond pricing are Crown Angle, Culet Size, Table Width Percentage, Depth Percentage but 4C’s decides more than 90% pricing of Diamond. Certified diamonds are priced and traded on per stone basis, based on their carat, colour and other quality parameters.
- Cut is the most important factor among the 4Cs as it determines the brilliance and beauty of the diamond. Cut itself can make a diamond look bigger, improve the face up color and mask inclusions. Cut, Polish and Symmetry can be of Ideal , Excellent, Very good, Good , Fair, Poor. Etc. Among of these Ideal / Excellent is treated as the best.
- Rough diamonds are traded on small packet basis (consisting of 20-30 stones) based on visual inspection.
- Diamond prices are generally quoted on per carat basis (1 carat=200mg=100cents).For instance, price of a 0.50 carat diamond is quoted as \$1400 per carat. In such case, in absolute value terms, the price of such stone would be \$1400 * 0.50, or \$700. Secondly, diamond prices *per carat* increases with increase in size or carat of the diamond stone.
- There is a price bucket (range) for diamond pricing. e.g. (0.30-0.39), (0.40- 0.49), (0.50-0.69), (1.00-1.09) etc.
- Consumer demand accounts for 95 % of today’s diamond market; demand for investment diamonds accounts for less than 5 % of the total value of polished diamonds.
- Diamond can be stored perpetuity. It does not deteriorate in quality over any period of time. Hence, it is a good instrument for storing wealth.



GLOBAL SCENARIO OF DIAMOND

- Major Diamond mines are in Botswana, Zimbabwe, Namibia, South Africa, Angola, Russia, Canada and Australia.
- Top six diamond mining companies are De Beers, ALROSA, Rio Tinto, SODIAM, Petra Diamond and Domion Diamond. They account for more than 70 % of global production by volume.
- In 2013, producers extracted 130 million carats of rough diamonds and the production of polished diamonds was about 25 million carats – roughly 20 % of rough-diamond output. Some 55 million to 65 million carats of rough diamond production were classified as industrial grade, and about 40-50 million carats of the remaining volume were lost in the polishing process
- Major cutting and Polishing countries of Diamonds are Belgium, Israel, USA, India and China. First three are considered high cost centres with focus on high end of stones while India and China is considered as the cost efficient centres.
- Important centres of diamond cutting and trading are Surat (India), Antwerp (Belgium), London (UK), New York (USA), Tel Aviv (Israel), Amsterdam (Netherlands).
- More than 50% of the world's production of rough, polished and industrial diamond passes through Antwerp.
- Eight in ten of all rough diamonds in the world are handled in Antwerp and 1 in 2 of all cut diamonds passes through Antwerp.
- USA, Japan, China, Gulf region and India constitute approximately 70% of Diamond Jewellery sales.

INDIAN SCENARIO OF DIAMOND

- Diamond trade and industry in India consists of import of rough diamond, cutting and polishing of rough diamond and export of polished diamond /diamond stud jewellery. Production or mining of rough diamond in India is negligible, compared to total mining in the world. Diamond mining in India is concentrated in the State of Madhya Pradesh and Chhattisgarh.
- India is the world's largest cutting and polishing centre for diamonds. Surat is the major centre for cutting, polishing and processing of rough diamonds. It contributes more than 85% of Diamonds trading in India.
- Diamond import and export continues throughout the year. But, the domestic sales increase during festival and marriage season.
- India ranks first with 16.7 % market share in total export of diamond.
- India exports 95 per cent of total imported rough diamond the world's diamonds, as per statistics from the Gems and Jewellery Export promotion Council (GJEPC).
- India is the world's third largest diamond consumer with 8% market share.

PRESENT FUNDAMENTALS OF DIAMOND

Demand

1. Polished diamond value (in nominal US dollars) is expected to expand at a Compound Annual Growth Rate (CAGR) of **four per** cent between 2016 and 2022. **(Bank of America Merrill Lynch)***
2. Diamond jewellery sales are expected to grow at a four per cent CAGR (in nominal US dollars) between 2016 and 2021. **(Morgan Stanley)***

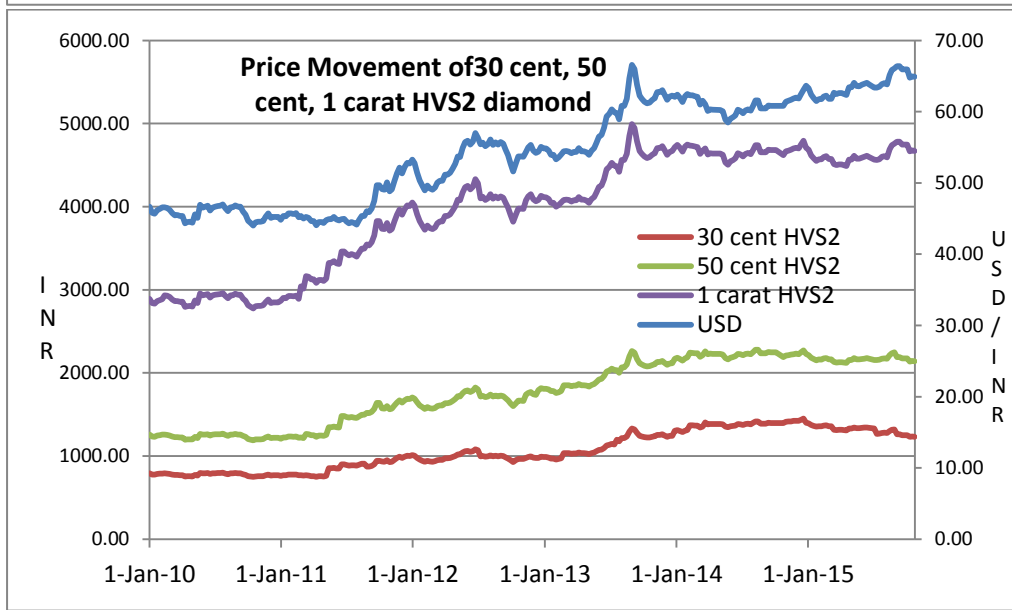
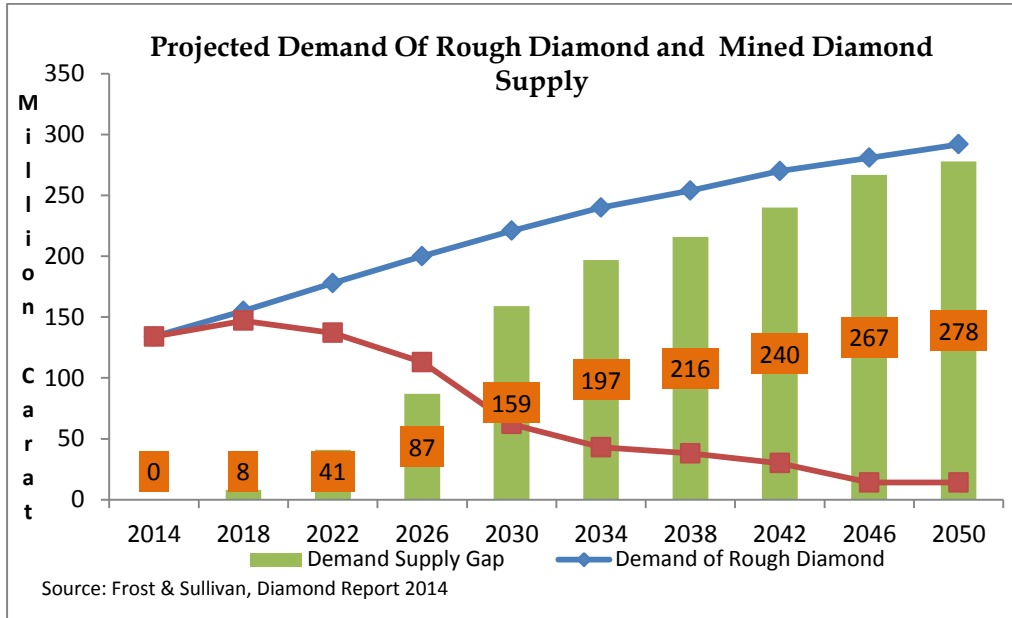
Supply:

1. Global supply of rough diamonds (in carats) is expected to expand at a CAGR of three per cent between 2016 and 2022, peaking in 2021 **(Bank of America Merrill Lynch)***
2. Global supply of rough diamonds (in carats) is expected to expand at a CAGR of one per cent between 2016 and 2021. **(Morgan Stanley)***



3. A larger share of production is expected to come from ever deeper mines, which are complex and costly to operate. (Morgan Stanley)*

*Source De Beers Diamond insight Report 2016.



PRICE DRIVING FACTORS IN DIAMOND:

A. Short Term Factors:

- Pipeline efficiency as indicated by stocks accumulating in the pipeline.
- Market confidence of midstream players
- Liquidity of midstream players
- Short term volatility of Macro economic factors
- The growth of middle-class households in China and India is an important factor supporting diamond jewellery market growth



B. Long Term Factors:

- Consumer preference trends
- Diamond jewellery share in total jewellery consumption – Usage of diamonds on special occasions such as in engagement and wedding jewellery
- Macroeconomic fundamentals –
 - GDP growth for developed markets
 - Dynamics of middle-class households
- Supply fundamentals –
 - Long-term performance of the current mines

ADVANTAGE OF DIAMOND FUTURES AT ICEX

1. Sellers can sell on ICEX and give delivery. ICEX will be the only platform where Buyers will always give his buy price. Both buyer as well as the seller will constantly give buy or sell price.
2. **Advance price signal** for forward months indicating the price scenario and fundamentals of the market. The future price is determined by the actual people participating on the ICEX platform. The participant could be traders, manufacturer or even diamond jeweller.
3. **ICEX Future price will be more authentic & reliable since actual trade shall result into delivery.**
4. **Alternate market place** complementing existing physical market
5. New set of market participants providing **liquidity in the market** place enabling easy entry into and exit from the market
6. **Leverage of capital** as in futures market buy/sell position can be taken even with small margin.
7. Availability of Risk Management tool to carry **out price hedging or ‘price insurance’**
8. Centrally regulated market hence **security from default** in case of adverse price movement
9. Access to bigger national level market where of **large number of sight holders, manufacturers, jewellers and retailers converge**

USEFUL WEBSITES

- ❖ <https://kimberleyprocessstatistics.org>
- ❖ <http://www.gjepc.org>
- ❖ <http://www.diamondshades.com>
- ❖ <http://www.ibef.org>
- ❖ <http://www.bain.com>
- ❖ <http://www.countryranker.com>
- ❖ <http://www.statista.com>
- ❖ <http://www.worldstopexports.com>
- ❖ <http://www.diamonds.net>

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