



# DE BEERS GROUP 2020 DIAMOND VALUE CHAIN DASHBOARD



# DOWNSTREAM

Global consumer demand for diamonds grew modestly in 2019 in US dollar terms. Although growth was strong in the US and Japan, this was dampened by currency exchange rate effects in other main markets. In 2020, COVID-19 caused unprecedented disruption to diamond markets. Recovery is likely to be non-linear and extend well beyond 2020.

## 2019 DIAMOND JEWELLERY AND POLISHED DIAMOND DEMAND (IN US DOLLARS, NOMINAL)

Global demand for diamond jewellery reached US\$79bn in 2019. This was an increase of just under 1 per cent on the previous year, with growth driven by a nearly 4 per cent increase in the US.

**GLOBAL (USDbn)**  
Four of the five main diamond markets (US, China, India and Japan) grew in local currency terms, with Japan and India posting positive growth in US dollars too.

**Polished Diamond**  
Change: +0.5%

26.57 26.69

**Diamond Jewellery**  
Change: +0.7%

78 79

**US (USDbn)**  
With a favourable macro-economic backdrop, demand rose in both the bridal and self-purchase segments. Sales of diamond jewellery grew 4 per cent to reach US\$38bn – nearly half (48 per cent) the global market.

**Polished Diamond**  
Change: +3.9%

12.32 12.80

**Diamond Jewellery**  
Change: +3.9%

36 38

**CHINA (USDbn)**  
Demand by Chinese consumers in local currency increased by 1 per cent, despite a sharp decline in travel to and shopping in Hong Kong. However, foreign currency effects led to a 3 per cent decline in US dollar terms.

**Polished Diamond**  
Change: -2.8%

3.47 3.37

**Diamond Jewellery**  
Change: -2.8%

10 10

**INDIA (USDbn)**  
Sales rose 3 per cent in local currency but only 1 per cent in US dollars with depreciation of the Indian rupee. New analysis<sup>(1)</sup> shows this market was more robust in size and growth before 2019 than previously estimated, as it was powered by the most affluent consumers and the large organised jewellery retailers.

**Polished Diamond**  
Change: +0.8%

2.62 2.64

**Diamond Jewellery**  
Change: +0.8%

5 5

**JAPAN (USDbn)**  
Consumers gravitated towards larger diamonds and designer jewellery brands, pushing up average sales prices and leading to a 2 per cent sales increase in local currency terms. With yen appreciation, this reached 3 per cent in US dollars.

**Polished Diamond**  
Change: +3.0%

1.16 1.19

**Diamond Jewellery**  
Change: +3.0%

5 6

**GULF (USDbn)**  
Demand from consumers in the Gulf declined 5 per cent as macro-economic conditions remained challenging. However, this was an improvement over the previous year, when VAT was introduced in the UAE.

**Polished Diamond**  
Change: -4.7%

1.53 1.46

**Diamond Jewellery**  
Change: -4.7%

3 3

**REST OF WORLD (USDbn)**  
Demand for diamond jewellery elsewhere declined by 4 per cent in US dollars, depressed by unfavourable exchange rates. The main Western European markets grew modestly in local currency.

**Polished Diamond**  
Change: 2018: -4.6%

5.47 5.22

**Diamond Jewellery**  
Change: -3.5%

18 17

### CONSUMER TRENDS IN A CHANGING WORLD

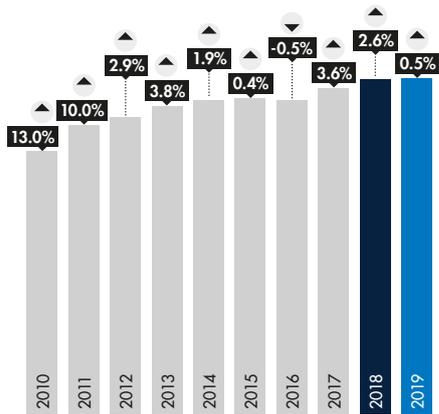
Among the many dramatic effects precipitated by the COVID-19 pandemic, De Beers Group has identified changes in consumer behaviour and the acceleration of some existing trends in the diamond jewellery market:

- an increased desire for diamond jewellery as representing a meaningful gift that holds its value
- a preference for higher quality products and the reassurance of brands
- growing use of online channels for browsing and purchase

We observe these trends internationally and it appears they are likely to endure.

■ 2018  
■ 2019

### GLOBAL POLISHED DIAMOND VALUE GROWTH (% y/y)

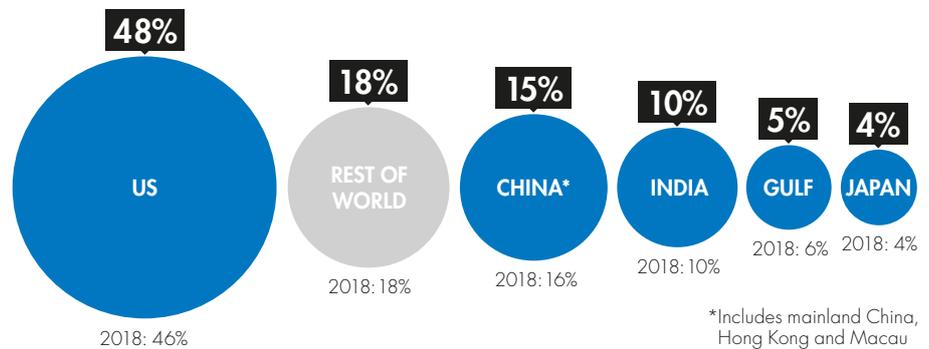


## GLOBAL POLISHED DIAMOND SHARE BY GEOGRAPHY

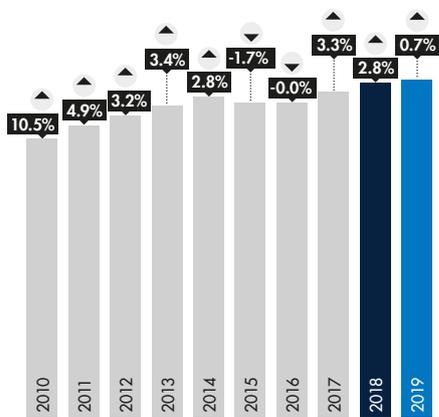
Growth in demand for polished diamonds was greatest in the US in 2019, resulting in a rise of two percentage points in its global market share. Greater China and the Gulf lost ground in US dollars. However, the US

growth rate was lower than in 2018. China and India also saw slower growth. By contrast, slight improvements in growth were evident in Japan and the Gulf, but the latter market still shrank.

De Beers Group has revised historic diamond demand trends in India as a result of new studies conducted in 2019.



### GLOBAL DIAMOND JEWELLERY VALUE GROWTH (% y/y)



## THE IMPACT OF COVID-19 ON DIAMOND DEMAND OUTLOOK

2019 finished on a positive trajectory for diamond jewellery demand in the main consumer markets. In the US, demand grew more strongly over the holiday season than at any other point during the year; the main diamond jewellery retailers in mainland China reported growth in fourth quarter gem-set jewellery sales; in India leading retailers' diamond jewellery sales were up in strong double digits. This upward trajectory was disrupted when COVID-19 struck, first in China in the first quarter of 2020 and then in the US and the rest of the world in the second quarter. Jewellery shops closed for an average of four weeks in China and six weeks in the US and other main markets, resulting in significant sales declines for an industry traditionally dependent on the in-store experience.

De Beers Group research indicates that in the first quarter of 2020 sales of diamond jewellery to Chinese consumers declined by nearly half (45 per cent) year-on-year. A tentative recovery and release of pent-up demand took place the following quarter, benefitting established brands and online sales in particular.

Overall, sales of diamond jewellery to Chinese consumers were still about one-third lower in the first half, but on a clear recovery path. In the third quarter, the major international and

regional diamond jewellery retailers reported positive growth year-on-year in mainland China.

In the US, the second quarter saw sales dip by approximately 40 per cent. Overall diamond jewellery sales in the first half of 2020 were estimated to have fallen by just under 20 per cent year-on-year. Starting in June and continuing into quarter three, there was evidence of rising sales among independent jewellers and jewellery chains as well as online.

In India, demand declined in the first half of 2020 by more than 30 per cent, as sales during the April-May lockdown dropped by nearly half.

The demand recovery is not expected to be linear, particularly as localised lockdowns take place. Retailer expectations for the second half of the year are mixed, with more optimism in the US but muted sentiments in India and the Far East.

The severe impact of COVID-19 on the global economy and the second wave of lockdowns in quarter four put further strain on consumer sentiment and spending power. The consequences of these events will determine the short to medium-term outlook. However, a weakening US dollar could offset some of the softness in demand in local currencies.

Notes:

- 1 The global figure is affected by the change in market estimate for India – see note 2
- 2 De Beers Group commissioned large-scale consumer research in India in 2019, revealing that the demand for diamond jewellery there was higher than previously estimated. This has been corroborated by independent sources. The revision reflects several trends since 2013: the strong growth in the Super Elites (UHNWI) who form a significant proportion of the market for diamonds in India, the organic growth of the middle classes and the expansion of the market into lower tier cities. This new estimate for India affects the global figure and some geographical splits.
- 3 Retail Sentiment Studies in US, China, India and Japan, July 2020

# MIDSTREAM

2019 was challenging due to excess stocks of polished diamonds, continued tightening of liquidity and lower demand from retailers.

The year started with negative sentiment in the midstream. US/China trade issues and a US government shutdown led to reductions in consumer spending and therefore in demand from US and Chinese retailers. Many diamantaires had excess inventories of polished diamonds, particularly in lower carat weights. De Beers Group estimates that, even though consumer demand for diamonds grew marginally in US dollar terms, demand for polished diamonds from jewellery retailers at polished wholesale prices fell 2.6 per cent in US dollar terms in 2019 due to retailer destocking.

This translated into lower demand for rough diamonds. Net rough diamond imports into India, the world's major diamond cutting and polishing location, declined by 17 per cent in carats in the first half of 2019 as factories reduced manufacturing capacity.

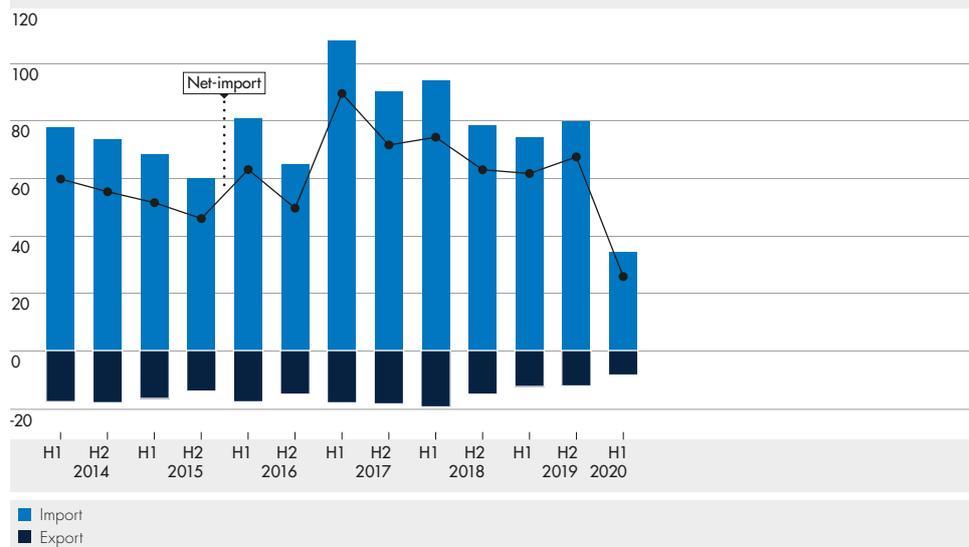
In the second half of 2019, lower rough diamond purchases, decreased manufacturing capacity and higher demand for polished diamonds meant polished stocks started returning to more balanced levels. Rough diamond net imports into India increased by 7 per cent in carats in this period. Despite this, total rough diamond net imports declined by 5.9 per cent in carats across the year.

Liquidity from lending banks declined, due to both reduced demand and tighter lending norms. However, leading midstream businesses were able to de-risk their funding by accelerating their cash cycles, accessing term finance from the capital markets and increasing the equity component of their funding. This reduced their dependency on banks for short-term working capital finance and also created a cushion of undrawn credit facilities.

By the beginning of 2020, following improved demand from US and Chinese retailers, midstream sentiment was starting to improve. Then the COVID-19 pandemic hit.

## INDIA ROUGH DIAMOND TRADE

(Mcts)<sup>1</sup>



1): Source: Gem and Jewellery Export Promotion Council (GJEPC) Carats for rough imports and exports in February 2020 have been estimated using the average price of rough carats imported and exported in January 2020 and March 2020.



IMAGE  
DIAMOND BEING CUT AND  
POLISHED AT KGK, BOTSWANA

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## COVID-19 IMPACT ON THE MIDSTREAM IN THE FIRST HALF OF 2020

As the COVID-19 outbreak spread, related business closures and restrictions brought the industry to a halt. Most of the midstream was under some form of lockdown by the end of the first quarter, creating unprecedented supply chain disruption. Temporary closures took place in factories in India and southern Africa, and diamond trading halls in Tel Aviv, Antwerp and Dubai.

Temporary retail store closures had a major impact on sales of polished diamonds. Limited sales in the second quarter, mainly to Hong Kong with the ultimate destination being China, were not enough to offset falls in the US.

No significant bankruptcies arose as banks responded flexibly, maintaining credit lines, extending borrowers' repayment terms and assessing covenant compliance on a case-by-case basis. Credit lines remained largely open for when business resumes at more normal levels.

With Indian factories closed in April and May, rough diamond demand fell substantially. Major producers were flexible about pre-agreed allocations. Rough diamond net imports decreased by 58 per cent in carats in the first half of 2020.

When factories reopened in June, new social distancing requirements and lower demand meant that overall capacity fell to less than a third of its pre-COVID-19 levels. The midstream shifted its limited capacity towards the most sellable polished diamonds – certified, better quality product.

The risk of reclosures remained high as infections rose and at the end of June factories in Surat closed again for two weeks, due to a spike in new local COVID-19 cases.

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## ➔ LOOKING AHEAD

Rough diamond demand and volume of cutting and polishing are expected to remain significantly below normal trading conditions in 2020. COVID-19 will accelerate the transformation that was already underway in retail: increased omni-channel, personalisation, greater e-commerce sales and better inventory management. This shift could lead to a more efficient and healthy diamond pipeline longer term.

Successful midstream players are expected to:

- work more closely with their customers to understand their future polished diamond requirements
- use data and analytics to improve their ability to match customer demand
- innovate in their systems and processes and adapt to emerging technologies
- have impeccable business practices, recognising consumer and brand demand for authenticity and ethical credentials
- build financial strength despite decreased bank liquidity and faster sales cycles

# UPSTREAM

Global rough diamond production decreased by an estimated 6 per cent year-on-year in volume in 2019. Rough diamond sales to cutting centres decreased by approximately 18 per cent year-on-year in US dollar terms.

## GLOBAL PRODUCTION

In 2019, volumes decreased by an estimated 6 per cent from 154 million carats (Mct) to 144 Mct<sup>i</sup>, owing to lower production from De Beers Group (-5 Mct) and a downward revision of production estimates for Dominion Diamond's Ekati mine (-4 Mct). Russia remained the largest producing country in volume terms for 2019, contributing an estimated 30 per cent of global volumes. Botswana was the second largest producing country, responsible for approximately 16 per cent of volumes. In value terms, De Beers Group was once more the largest producer in 2019, with ALROSA as the second largest.

### PRODUCTION BY COUNTRY

2018 (Mcts)



2019 (Mcts)



- |              |             |                 |               |
|--------------|-------------|-----------------|---------------|
| 1. Russia    | 2. Botswana | 3. Canada       | 4. DRC        |
| 5. Australia | 6. Angola   | 7. South Africa | 8. All others |

### PRODUCTION BY COMPANY

2018 (Mcts)



2019 (Mcts)

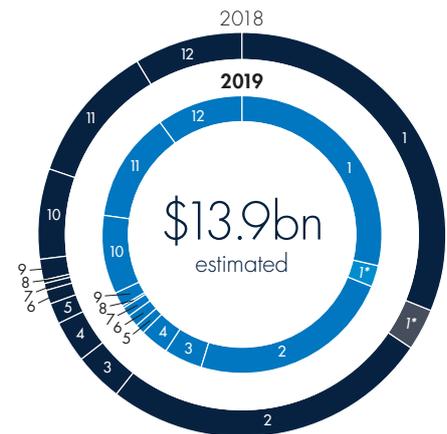


- |                   |                    |                |                     |
|-------------------|--------------------|----------------|---------------------|
| 1. De Beers Group | 2. ALROSA          | 3. Rio Tinto   | 4. Dominion Diamond |
| 5. Catoca         | 6. Informal sector | 7. Juniors/ROW |                     |

At the time of publishing, De Beers Group estimates for rough diamond production volumes for 2019 (144 Mct) were 5 per cent higher than the estimates in the Kimberley Process (KP) report for 2019 (137 Mct<sup>i</sup>). The variance is likely due to differences in timings of data sourcing. De Beers Group production estimates were continually updated – as and when producers and national statistics agencies published their production updates. The reporting methodology may also have led to some divergence of the two production estimates. For instance, since production data for DRC in the second half of 2019 was not available for the KP report, an estimated production figure for DRC for the full year 2019 was produced by grossing up output from the first half. While necessary to create a reference point for the analysis, this intervention could introduce inaccuracies for total production for the year. See note (i) on confidence levels of De Beers Group estimates of artisanal and informal rough diamond production.

## ROUGH DIAMOND SALES TO CUTTING CENTRES

Rough diamond sales to cutting centres decreased by an estimated 18 per cent in 2019, primarily as a result of lower sales from De Beers Group and ALROSA. De Beers Group's share<sup>iii</sup> of global rough diamond sales in US dollar terms fell to an estimated 31 per cent (2018: 35 per cent), while ALROSA's estimated share dropped to 24 per cent (2018: 26 per cent). SODIAM, another large producer of rough diamonds, contributed an estimated 9 per cent (2018: 7 per cent) towards global rough diamond sales to cutting centres in 2019.



- |  |                                   |                        |                  |
|--|-----------------------------------|------------------------|------------------|
| 1. De Beers Group                      | 2. ALROSA                         | 3. Rio Tinto           | 4. Petra Diamond |
| 1*. of which DTCB to ODC <sup>ii</sup> | 5. Gem Diamond                    | 6. Lucara              | 7. Stornaway     |
|  | 8. Firestone Diamonds             | 9. Mountain Province   | 10. SODIAM       |
|  | 11. Informal sector <sup>iv</sup> | 12. Other <sup>v</sup> |                  |

## COVID-19 IMPACT ON UPSTREAM

COVID-19's impact on diamond mining began towards the end of the first quarter of 2020, bringing several temporary closures of diamond operations across the globe. Mandatory safeguarding measures enforced by national governments, compounded by a desire to conserve liquidity, put several mines under care and maintenance in the first half of 2020.

### MAIN MINES UNDER CARE AND MAINTENANCE (AS OF AUGUST 2020)

MINE	PRODUCER	ESTIMATED ANNUAL PRODUCTION
Aikhal Underground <sup>v</sup>	ALROSA	2.6 Mct <sup>x</sup>
Zarya Open Pit <sup>v</sup>	ALROSA	0.4 Mct <sup>xi</sup>
Ekati <sup>vi</sup>	Dominion Diamond Mines	2.5 Mct <sup>xii</sup>
Liqhobong <sup>vii</sup>	Firestone Diamonds	0.8 Mct <sup>xiii</sup>
Williamson <sup>viii</sup>	Petra Diamonds	0.4 Mct <sup>xiv</sup>
Renard <sup>ix</sup>	Stornoway Diamonds	2.0 Mct <sup>xv</sup>

In April 2020, De Beers Group publicly revised its production guidance for the year from 32-34 Mct down to 25-27 Mct. In May 2020, ALROSA publicly downgraded its production guidance for 2020 from 34 Mct to 28-31 Mct<sup>xvi</sup>. Other diamond producers (e.g. Mountain Province Diamonds<sup>xvii</sup>) have also reduced their production outlook for this year, whilst some (e.g. Petra Diamonds<sup>xviii</sup>) have withheld this information due to uncertainty over the future impacts of COVID-19 on mining operations.

Among companies with published data, sales to cutting centres fell by nearly half (49 per cent) in the first half of 2020 compared with the first half in the previous year. De Beers Group and ALROSA separately cancelled sales events due to travel restrictions and offered their clients greater flexibility to defer purchases. In July this year, ALROSA also began to provide a zero buy-out obligation for its long-term clients.

Reduced consumer demand for diamond jewellery due to store closures and the economic impact of the pandemic have resulted in a lower level pull-through of polished diamonds from the midstream and thus lower rough diamond sales. Demand for rough diamonds has also been reduced as a result of lockdown measures (particularly in India) restricting the midstream's capacity to process rough into polished diamonds. For ALROSA and De Beers Group, this has also caused a build-up of some excess stocks, which is expected to decrease as the market recovers.

## → LOOKING AHEAD

The time it will take for global production to return to pre-COVID-19 levels of operating capacity will depend heavily on the pace of economic recovery, the impact of potential lockdowns in the future and the growth of consumer demand. The longer-term outlook for global production levels may fall if more mines are permanently closed this year as a result of the challenging market conditions due to the pandemic.

At the time of writing, Argyle, a large mine in Australia producing predominantly small diamonds, remains the only officially planned mine closure in 2020. The mine produced 13 Mct<sup>xix</sup> of rough diamonds in 2019, which accounted for 9 per cent of De Beers Group's estimate of global rough diamond production volumes for that year.

### MAJOR NEW EXPECTED PROJECTS AND CLOSURES TO 2025

NOTABLE NEW DIAMOND PROJECTS		
– Mayskaya ALROSA, 2025	– Luaxe ALROSA/Endiama, Unspecified	– Chidliak De Beers Group, Unspecified
MINES APPROACHING END OF LIFE		
– Argyle Rio Tinto, 2020 (anticipated to continue production until the end 2020)	– Komsomolskaya ALROSA, 2021 (no production reported to date in 2020)	– Diavik Rio Tinto/Dominion Diamond Mines, 2025

#### Notes:

i. Figures for informal production remain at a lower level of confidence than other production figures due to data availability but could be updated if new information becomes available. ii. [Kimberley Process 2019 Global Summary](#). iii. Okavango Diamond Company sales, by value, are included in the De Beers Group share of sales estimate as sales from Diamond Trading Company Botswana (source: De Beers Group Performance Reporting). iv. Sales values are based on De Beers Group estimates where company reports are unavailable. v. [ALROSA temporarily suspends mining at Aikhal and Zarya pipes](#) (May 2020). vi. [Dominion Diamond Mines announces decision to suspend operations at Ekati Diamond Mine in response to coronavirus pandemic](#) (Mar 2020). vii. [Firestone Diamonds – QUARTERLY UPDATE – Q4 FY2020](#) (Jul 2020). viii. [Petra Diamonds – FY 2020 Trading Update](#) (Jul 2020). ix. [Stornoway Extends Care and Maintenance Period at Renard Diamond Mine](#) (Apr 2020). x. [Q4&12M 2019 ALROSA Trading update](#) (Jan 2020). xi. Calculated based on published mine data [The open pit mine on Zarya Pipe deposit reached depth of 100 meters](#) (Jul 2018). xii. Estimated based on reported diamond production in Canada [Natural Resources Canada – Annual Statistics of Mineral Production](#) xiii. [Firestone Diamonds – Final results for the year ended 30 June 2019](#) (Dec 2019). xiv. [Petra Diamonds Limited Annual Report and Accounts](#) (Oct 2019). xv. Estimated based on 2019 production guidance [Stornoway Announces Fourth Quarter and 2018 Production and Sales Results, and 2019 Guidance](#) (Jan 2019). xvi. [The Strategy Committee of ALROSA Supervisory Board recommends downward revision of 2020 production guidance](#) (May 2020). xvii. [Mountain Province Diamonds Announces Second Quarter and Half Year 2020 Results](#) (Aug 2020). xviii. [Petra Diamonds – Q3 FY 2020 Trading Update and Liquidity Update](#) (May 2020). xix. [Rio Tinto Annual Report 2019](#) (Feb 2020).



