

**A SPECIAL REPORT
ON DIAMOND**

1st March, 2018

DIAMOND

“Rising scope of an attractive alternative investments”



smc
Moneywise. Be wise.

Diamonds have been valued and desired for thousands of years. Diamonds are precious, beautiful, magical and romantic tokens of love. It has an important sentimental value attached to them. Diamonds are unique product of Mother Nature, refined by artisans to create artifacts of desire. They are truly beautiful. Overall it give you us a feeling of beauty, luxury, belonging, passion and love. No other financial investment can offer you that much. However, Diamonds are also an investor’s best friend as well. It is mostly considered as a secure investment. Diamonds are recognised valuable anywhere in the world this makes them a store of value. Similar to gold, diamonds are a form of insurance or hedge against inflation, market crashes and currency crashes or any type of economic crisis.

Amazing Facts about Diamonds

- Diamonds are billions of years old—in some cases more than three billion years old.
- Diamonds form about 100 miles below ground and have been carried to the earth’s surface by deep volcanic eruptions.
- Diamonds are made of a single element—they’re nearly 100% carbon.
- The word diamond derives from the Greek word “adamas,” which means invincible or indestructible.
- Diamonds are the very hardest natural substance. The only thing that can scratch a diamond is another diamond.
- There is evidence that diamonds were being collected and traded in India as early as the fourth century BC.
- Ancient Hindus used diamonds in the eyes of devotional statues, and believed that a diamond could protect its wearer from danger.
- During the Middle Ages diamonds were thought to have healing properties able to cure ailments ranging from fatigue to mental illness.
- 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.
- The largest diamond ever discovered was called the Cullinan diamond, and weighed in at an amazing 3106 carats, or 1.33 pounds.
- The first known use of a diamond engagement ring took place in 1477.
- Lab created diamonds display the same chemical structure and physical properties as diamonds mined from the earth.
- To produce a single one-carat diamond, 250 tons of earth will be mined
- There are white dwarf stars in space that have a diamond core.

Different shapes of diamond



Princess



Cushion



Heart



Pear



Marquise



Radiant



Asscher



Emerald

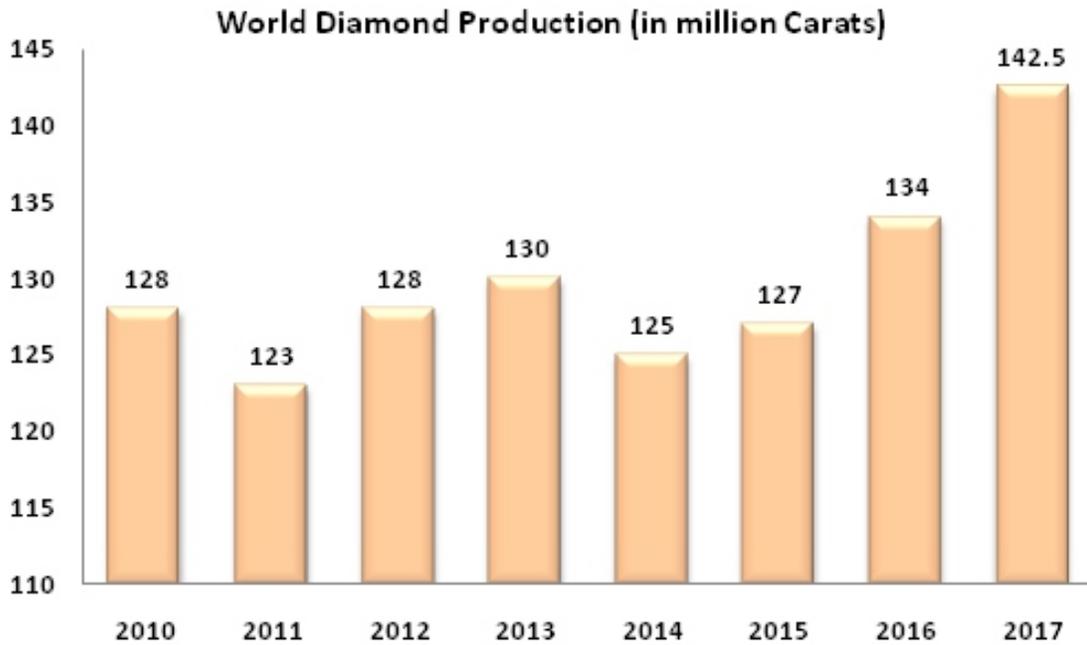


Oval

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Global Demand-Supply of Diamond

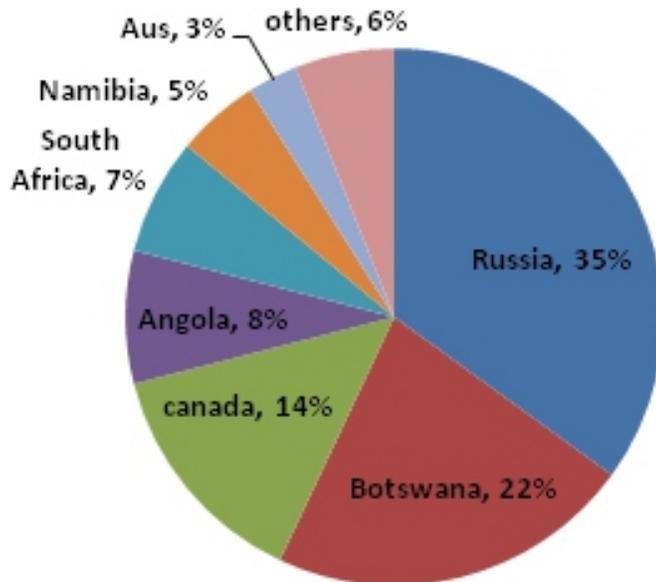
- Major Diamond mines are in Botswana, Zimbabwe, Namibia, South Africa, Angola, Russia, Canada and Australia. Top six diamond mining companies are De Beers, ALROSA, Rio Tinto, SODIAM, Petra Diamond and Dominion Diamond. They account for more than 70% of global production by volume.
- World-wide natural diamond production is estimated to rise to approximately 142.5 million carats in 2017 as compare to 134 million carats in 2016.
- Major cutting and Polishing countries of Diamonds are Belgium, Israel, USA, India and China. Important centres of diamond cutting and trading are Surat (India), Antwerp (Belgium), London (UK), New York (USA), Tel Aviv (Israel), Amsterdam (Netherlands). 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.



Top 6 mining companies of the world account for more than 70% of global production by volume.

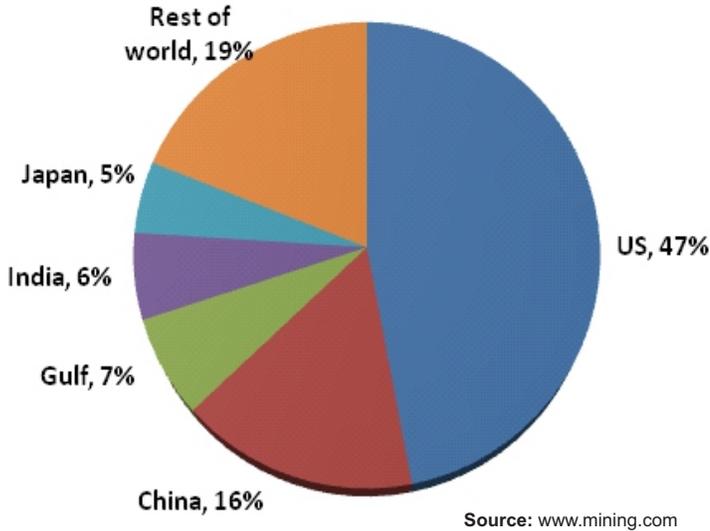
Source: Kimberley Process Certification Scheme

Global diamond mined producer (value wise)



Source: Kimberley Process Certification Scheme

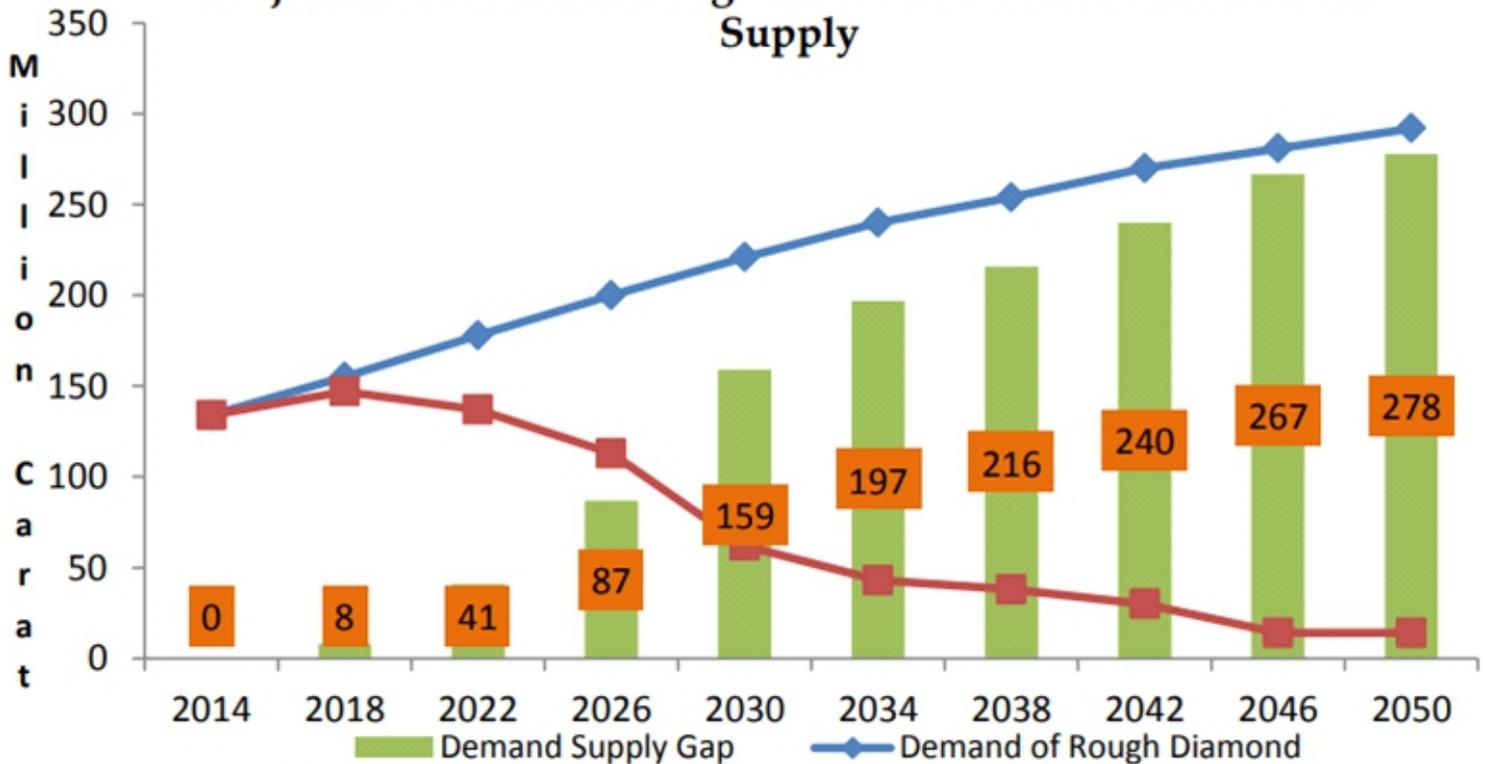
Global demand of diamond in 2016



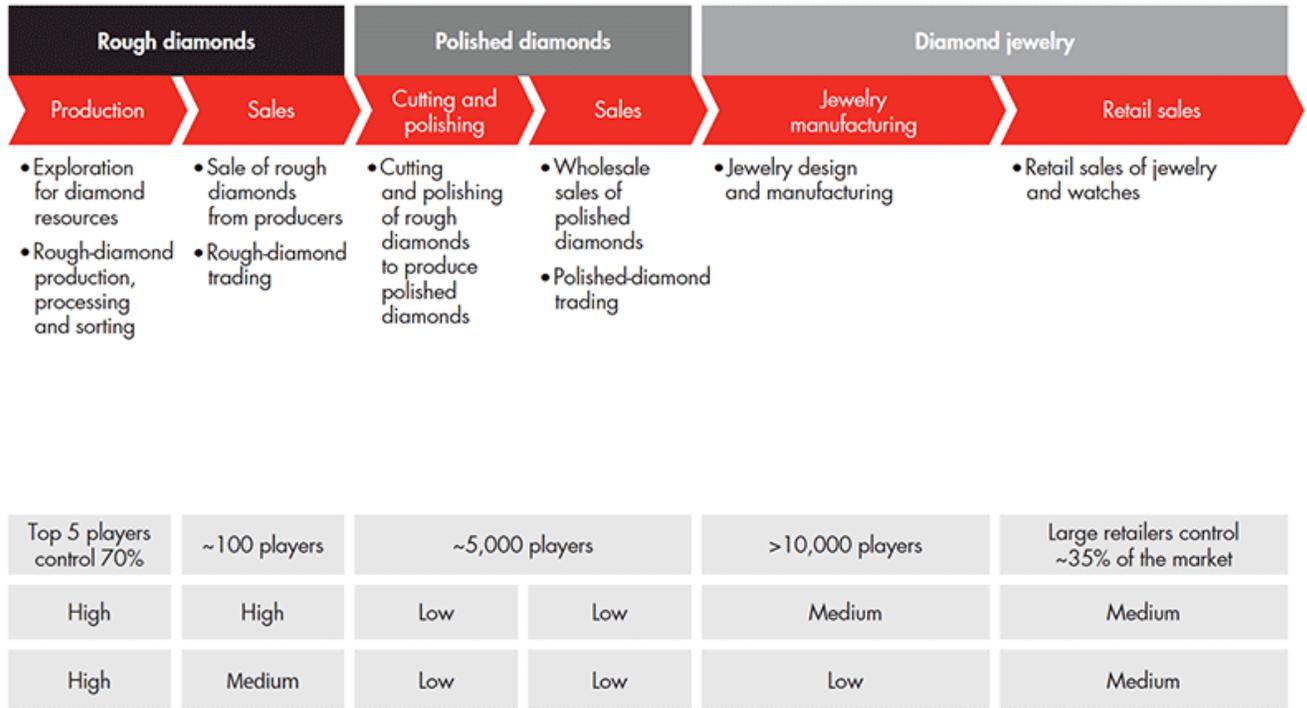
- More than 50% of the world's production of rough, polished and industrial diamond passes through Antwerp.
- USA, Japan, China, Gulf region and India constitute approximately 70% of Diamond Jewellery sales.
- Approximately 20% of extracted diamonds are used in jewelry and 80% for industrial uses (such as laser, piercing parts and surgical equipment).
- There is strong demand for industrial uses, so it is a market that is not fully developed and can be exploited.
- 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).
- Diamond jewellery sales are expected to grow at a four per cent CAGR (in nominal US dollars) between 2016 and 2021. (Morgan Stanley)
- 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)

- Global supply of rough diamonds (in carats) is expected to expand at a CAGR of one per cent between 2016 and 2021. (Morgan Stanley)
- A larger share of production is expected to come from ever deeper mines, which are complex and costly to operate. (Morgan Stanley)
- The total rough diamond sales values of De Beers in 2016 was at 5,587 US\$ millions. And in 2017 total sales values at 5,306 slipped by 5.02 percent.

Projected Demand Of Rough Diamond and Mined Diamond Supply



Entry barriers and bargaining power vary across the segments of the diamond value chain



Source: Bain analysis

Differences in cost efficiency accounted for regional market-share changes in the cutting and polishing segment

Region	Explanation
 India	<ul style="list-style-type: none"> • Continuous cost optimization attracts volumes, particularly from Africa • Further advancement of technologies and skills led to share gain in larger stones • Relatively more developed diamond financing infrastructure is in place
 China and Southeast Asia	<ul style="list-style-type: none"> • China as No. 2 country by cost efficiency but with relatively higher cost structure proved sensitive to margin pressures in 2015 • Relatively weak growth in local diamond jewelry demand hampered the benefits of proximity of cutting and polishing sector
 Africa	<ul style="list-style-type: none"> • Market decline mainly due to relatively low productivity and high cost structure • Decrease in volumes available for beneficiation due to reduced production in the region
 Other	<ul style="list-style-type: none"> • Traditionally strong in large-stone manufacturing, but slowly relinquishing positions to India even in more expensive categories due to aging workforce and high costs • Lack of affordable financing available to cutting and polishing sector in selected countries (Israel, USA, Russia) • Efforts are under way in Russia to make local cutting and polishing industry more competitive

Sources: Expert interviews; Bain analysis

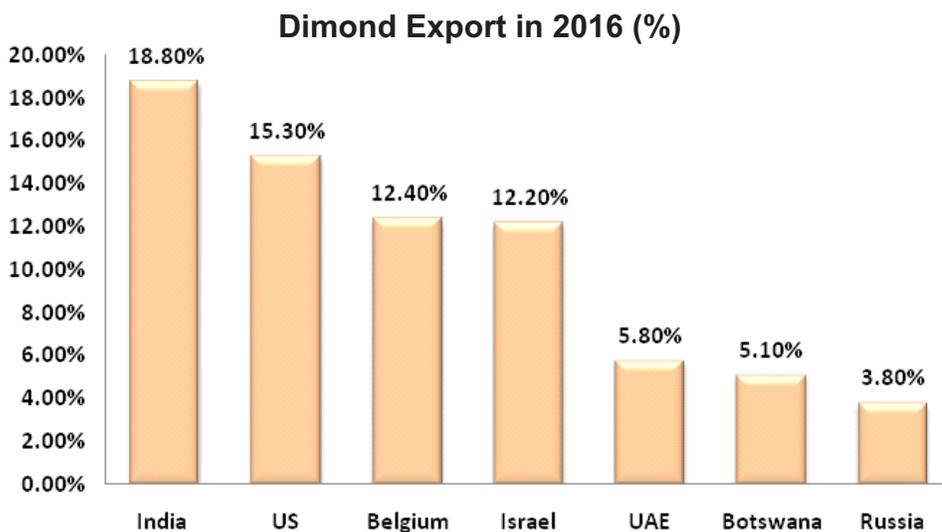
Long and short-term factors are driving the rough and polished diamond supply-demand balance, as well as prices

Long-term factors	Short-term factors
<p>Driven by three key factors</p> <ul style="list-style-type: none"> • Consumer preference trends <ul style="list-style-type: none"> – Diamond jewelry share in total jewelry consumption – Usage of diamonds in engagement and wedding jewelry • Macroeconomic fundamentals <ul style="list-style-type: none"> – PDI and GDP growth for developed markets – Dynamics of middle-class households • Supply fundamentals <ul style="list-style-type: none"> – Long-term performance of the current mines (incl. depletion) – Introduction of new mines – Exploration of new deposits 	<p>Driven by multiple factors</p> <ul style="list-style-type: none"> • Short-term volatility of macroeconomic factors (e.g., regional or global crises) • Pipeline efficiency as indicated by inventories accumulating in the pipeline • Market confidence of midstream players • Liquidity of midstream players

Source: Bain analysis

Indian Scenario of Diamond

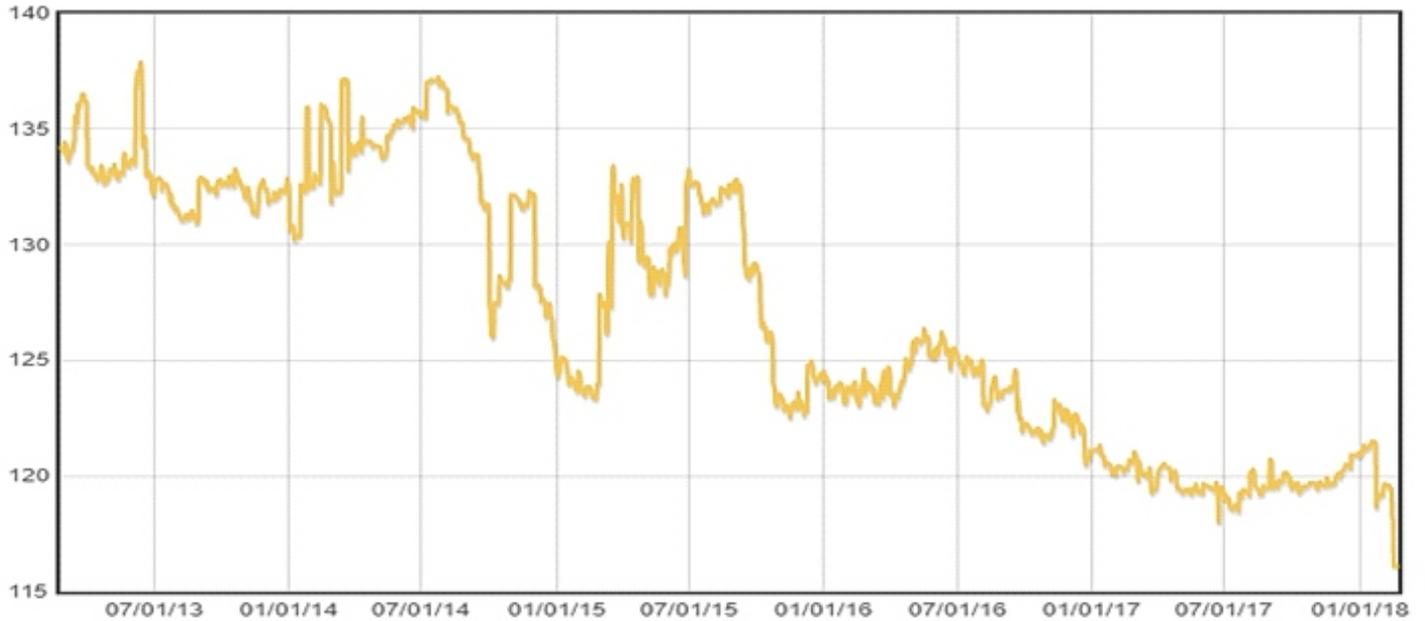
- Production or mining of rough diamond in India is negligible. But India is the world's largest cutting and polishing centre for diamonds where 14 out of every 15 rough diamonds in the world are polished.
- Surat is the major centre for cutting, polishing and processing of rough diamonds. It contributes more than 85% of diamonds trading in India.



Source: Kimberley Process Certification Scheme

- India is the world's third largest diamond consumer with 6% market share. India ranks first with 18 % 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 imports rough diamond worth \$19 billion and exports polished valued \$24 billion annually. India caters to over 90 per cent of the world's polishing market for rough diamonds.
- Overall Diamond Index is based on actual transactions from 20 different market players and reflects price movements in the global diamond market. The index is updated daily. The IDEX diamond index has recovered from its five-year low and almost touched a 52-week high. The IDEX diamond index is currently trading above 115.83 levels.

Diamond Index (IDEX)



Source: idexonline.com

Price driving factors

The diamond has various grades and pricing depends upon the grade. The quality of Diamond is judged by following parameters:

- 4C- Carat (Weight of the stone), Colour, Clarity, Cut
- Polish
- Symmetry
- Shape

These are technical parameters driving the price. Except some fundamental factors also drive the prices:-

- Stocks accumulating in the pipeline.
- Diamond jewellery market growth in China and India.
- Consumer preference trends
- The growth of middle-class households in China and India-Dynamics of middle-class households
- Diamond jewellery share in total jewellery consumption—Usage of diamonds on special occasions such as in engagement and wedding jewellery
- GDP growth for developed markets
- Availability of the current mines

Factors to watch

- In 2018 Alrosa, the largest diamond mining co., will rebuild or close its Mir mine.
- This year GahchoKue mine, Renard and Liqobong mine may start new supply.
- End-diamond-consumer demand appears to be stable led by a recovering China and a US market supported by a strong stock market and employment.
- The discovery of new advanced large-stone recovery technology in 2018.

Trading of Diamond on ICEX

Indian Commodity Exchange Limited is a screen based on-line derivatives exchange for commodities and has established a reliable, time tested, and a transparent trading platform. Adding a new leaf to the history of India's commodity markets, Indian Commodity Exchange Limited (ICEX) commenced operations with the launch of Diamond Futures on August 28, 2017 - the world's first derivatives contracts in diamonds.

ICEX is only exchange which providing the platform for diamond trading. The Indian Commodity Exchange Limited (ICEX) commenced diamond futures trading on an online platform last August. The contracts on this platform are all physically settled. While hedgers, traders and arbitrageurs are participating on the platform daily, there are also retail buyers who use this exchange to buy diamonds.

With a first-of-its-kind diamond futures contracts in the world, the ICEX allows delivery in 1 cent (1 cent = 2 mg = 100th particle of a carat) size with ex-Surat as its delivery centre. The exchange has kept the trading and delivery size low to attract participation by all types of business units in the value chain including rough importers, brokers, sightholders, traders, processors, suppliers, stockists and retailers like jewellery manufacturers.

Provision of SIP

ICEX provides an investor a systematic investment plan (SIP) for retail buyers to acquire this precious stone. To invest in the diamond SIP scheme, you have to open an account with a broker on the ICEX, complete the KYC process and deposit some money. For example: At current prices, a 30-cent diamond costs around Rs 27,000, or close to Rs 900 for each cent of its weight. By paying Rs 900 every month through the SIP, you can acquire a physical diamond at the end of two and half years.

An additional benefit of SIP is that the diamond you will receive will be DeBeers certified. So the buyers are assured of the quality that is promised by the exchange. Stones can be resold on the exchange platform. Each stone that is certified by the lab has a unique number that is engraved on the stone. If you are unable to pay for subsequent monthly SIPs after the initial investment, then like shares, your holding of diamonds already bought in previous months will continue to remain in your demat account. You can resume buying when you choose. You will also be allowed to sell the diamonds already in your account on the ICEX at any time in the duration of the SIP, at the prevailing market price.

Benefits of trading on ICEX

- Smooth and convenient entry to buy diamonds and exit to sell diamond.
- Staggered buying with delivery in electronic platform.
- Trade and take delivery with as low as Rs3500 per unit approx.
- Auspicious Diamond of high quality without black spot.

Growing participants

Hedgers account for 25 to 30 per cent of the market volume. Of the remaining 70 to 75 per cent, there are retail buyers who are doing systematic investment every month to buy diamonds, besides speculators and arbitrageurs. More than 2,000 retail investors are participating in these plans. Since there is no other diamond futures exchange in the world with such small contract sizes, all investors would find an opportunity in this contract to lock in their risks from price volatility and price falling diamond by taking positions on the exchange.

How ICEX Diamond is Different

- ICEX Diamonds are certified by IIDGR – 100% subsidiary of De Beers, which is a global authority on Diamonds, and which brings with them more than 125 years of experience in Diamonds.
- ICEX Diamond certificates ensure that one is buying NATURAL AND NOT LAB GROWN Diamonds.
- ICEX Diamond Certificate is the only certificate in the world that categorically mentions that the diamond does not contain BLACK INCLUSIONS. No certificate in the world mentions about Black inclusions.
- The price an investor gets here is wholesale price, which is almost 25 to 30 per cent lower than the retail rate. The beauty is that an investor can get getting diamonds at a fraction of the cost you will get in a retail outlet.
- GST is same for purchase on the exchange or at a retail outlet. The brokerage and other cost are miniscule at 2 to 3 basis points of the value of the contract.
- The transparency offered by the exchange is another positive in the extremely opaque diamond market where prices of diamonds can vary

according to size and quality, befuddling the common investor.

- ICEX Diamond Certificate clearly mentions that ICEX Diamond does not contain Brown, Green or Milky (BGM) dis-coloration in the diamond. No other certificate in the world mentions about these.

Delivery system

- The exchange has permission to enable trading in delivery-based diamond futures contract. This means that those having outstanding position on the contract expiry day have to take or give delivery. The contract begins on the 6th of the contract launch month and expires on the 5th of the contract expiry month (which is the next month). Delivery has to be given in the last five days of the contract, which would be from the 1st to the 5th of the expiry month.
- All open positions on Expiry of contract will result into Compulsory delivery.
- Only graded and Electronic diamond units are deliverable on Exchange platform.
- Failure to give delivery by Seller will result in a penalty of 3% of the Futures Closing Price on the Delivery day(s) or DDR (Spot Rate on the last Day of the Delivery).
- Additionally diff. between spot and delivery rate is also charged to Seller.
- Buyer not taking delivery will pay a penalty of 3% and Auction process will be conducted. Consequently buyer will also pay additional penalty due to auction price difference.
- All buyers who are allocated delivery, will get electronic units of diamond in their a/c which can be converted to physical diamond on their request subject to minimum holding in their electronic a/c.
- All deliveries into the exchange are in electronic format. If an investor takes position in March contract and wants to take delivery for 1 cent, then between 1st and 5th of the expiry month, he will get the credit for 1 e-unit of 1 cent. However, he cannot immediately convert this 1 cent into physical diamonds as the contract size is 1 carat or 0.50 carat, while the delivery is of 1 cent only.
- Therefore, in order to convert the e-units into physical diamond, he has to first accumulate 50 cents to get delivery of 0.50 carat diamond or 100 cents to take delivery of 1 carat diamond. This can be done over a few months, depending on the amount the investor can save every month. Say, you want to buy one carat diamond for ₹3,00,000, you can buy 10 cents every month for ₹30,000 for 10 months to accumulate the e-units to purchase the diamond. The accumulation is flexible and at the discretion of the buyer.
- Investors have option to take physical delivery, wear it and re-sell on ICEX when s/he wants to exit .

Selling at ICEX

For making the delivery, the seller will have to get the diamond graded from the agency designated by the exchange. The diamond stone as well as the grading report will then be deposited with the vault accredited by the exchange, at Surat. After getting the confirmation about such delivery from the vault, e-units are credited to the depositor's e-account. If the seller wishes to deliver, he will have to give his intention to the exchange on any of the tender days.

The exchange will accept physical diamond of the specified ICEX quality and weight equal to or above 1 carat. One e-unit will be equivalent to 1 cent. If a seller tenders diamonds worth 106 cents, he will get 106 e-units. Buyers will get credit of e-units according to the delivery due to them.

Available varieties

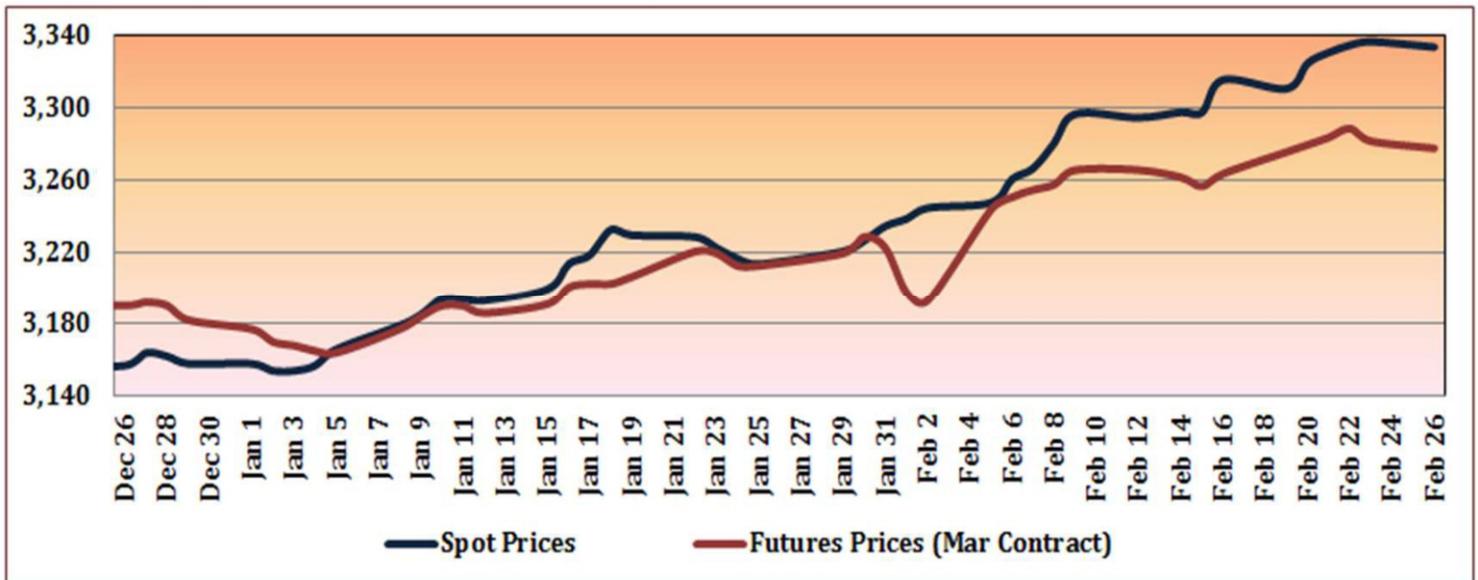
There are two types of contracts currently available — 1 carat contract and 50 cents or 0.50 carat contract. 0.30 cent contract is also likely to be launched soon. To make the trading units smaller, trading takes place in units of 1 cent (1 carat = 100 cents). The price displayed on the screen is for 1 cent, lot size is also 1 cent and trading unit and delivery units are also 1 cent.

The basic infrastructure of The Indian Commodity Exchange Limited (ICEX) is robust and could provide a viable option to those wanting to buy diamonds in the days ahead.

Long term outlook

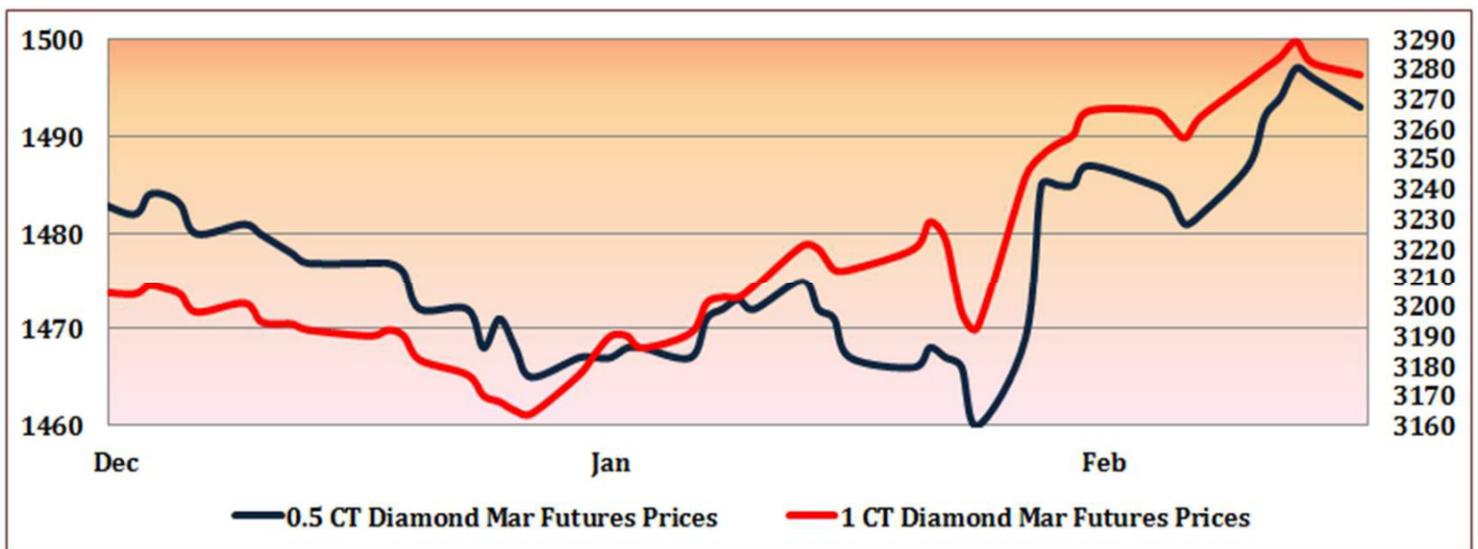
Expected demand for rough diamonds to grow 1% to 4% annually, relying on strong fundamentals in the US, the continued growth of the middle class in China and India, and the strong and growing desire of consumers for diamond jewelry. The rough-diamond supply is expected to remain stable through 2030. The US is the largest diamond jewelry market in the world representing 45% of global demand. China, the world's 2nd largest jewelry market, at 16% of global demand, should be driven by continued government stimulus and an ever-expanding middle-class consumer. India, representing 8% of the market, should show improvement year-over-year as domestic demand for jewelry returns as the demonetization impact is digested, especially in the second half of the year.

Diamond Spot and Futures Prices Daily Charts



Source: TickerPlant

1 Carat Diamond Spot and Futures Prices Daily Charts



Source: TickerPlant

Glimpse of liquidity

DIAMOND FUTURES (Rs/cent)									
Contract	Open	High	Low	Close	%Chg	Volume	%Chg	OI	%Chg
DIAMOND 1CT									
Mar'18	3276.00	3283.00	3274.00	3278.00	-0.12	36142	-9.75	25849	-23.39
Apr'18	3287.00	3291.00	3284.00	3288.00	-0.39	21206	51.58	32914	21.62
May'18	3292.00	3295.00	3291.00	3293.00	-0.12	8865	70.48	9215	88.06
DIAMOND 0.5CT									
Mar'18	1494.00	1494.00	1492.00	1493.00	-0.20	15465	209.30	12721	0.00
Apr'18	1504.00	1504.00	1503.00	1504.00	-0.20	4900	-39.51	21380	0.00

Source: TickerPlant

Upcoming events worldwide

International Show Schedules		
Doha Jewellery & Watches Exhibition	Feb 21 - 26	Doha, Qatar
Hellenic Jewellery Fair	Feb 23 - 26	Athens, Greece
De Beers Sight	Feb 26 - Mar 2	Gaborone, Botswana
Hong Kong International Jewellery Show	Mar 1 - Mar 5	Hong Kong
SJTA Atlanta Jewelry Show	Mar 3 - Mar 5	Atlanta, GA, USA

Source: TickerPlant

Auction Schedules		
De Beer	March 20	Exceptional & Special Polished
Rapaport	February 20 - 28	Quarterly Melee Auction
	February 20 - Mar 3	Melee Auction
	February 28 - Mar 7	Single Stone Auction

Source: TickerPlant

References:

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- idexonline.com
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- TickerPlant
- **Diamond Product Leaflet:**
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- **Details of Vaulting and Logistics Agency:**
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- **Contract Specification:**
https://www.icexindia.com/Product_PDF/Commencement_of_Diamond_Futures_Trading.pdf

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