



# PREMIER DIAMOND GROUP (NORTH AMERICA) LTD.

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## THE COLORED DIAMOND ANALYST

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### ARGYLE PINK DIAMOND PRODUCTION IN DECLINE



Argyle Diamond Mine

Enclosed please find a recent article that appeared in The Western Australia newspaper regarding current production at the Argyle mine. The lower production and corresponding reduced income for owner conglomerate Rio Tinto comes as no surprise considering the age of the mine and Rio Tinto's already stated objective of closing the mine over the next 3 – 4 years. What is new is the speed with which the mine appears to be going into production decline! The Argyle mine in Western Australia, by most counts, produces about 95% of the current supply of Pink diamonds in the world. In the first quarter of 2017, the Company announced that production was down 11% year on year from 2016!

The Company has already announced their intent to close the mine in the next few years and when they do, 95% of the known supply of Pink diamonds will close with the mine.

The effect of a decrease in the supply of pink diamonds is already having a dramatic effect on the price of pink diamonds in the market. Dealers in the Bourse are now commenting on the acceleration of pink prices of all sizes and color saturations. Country of origin does not seem to be an influencing factor. All pink diamond prices are rising exponentially in what wealth and asset insiders are describing as a “flight to quality”!



## UNCERTAIN FUTURE FOR ARGYLE DIAMOND MINE

**Source:** <https://thewest.com>

Last year Rio Tinto's diamond revenue slid 12%, leading them to review their plans to extend the life of the Argyle Diamond mine, considering the global demand for rough had otherwise strengthened, writes The West Australian. In 2012 Rio Tinto committed to spending \$US2.5 billion expanding the Argyle mine below ground with an expected lifespan reaching 2021. Should they decide not to continue with the planned underground extension, the mine's closure could come considerably sooner.

Rio boss Jean-Sebastien Jacques confirmed the mine's future was under review: "It's a challenging market environment. Rough diamond prices are not great, except for the nice pink ones, so it's a pretty challenging situation."

Rio Tinto 2016 full year diamond results – Earnings before interest, tax, depreciation and amortization (EBITDA) fell 18% to \$239 million, while net income plummeted 41% to \$47 million. This decline seems to be at odds with the results published by comparable miners. It is more of a reflection that the mine itself is in declining production!

Rio Tinto owns the Argyle mine in Australia, known for its production of rare fancy pink diamonds as well as a higher volume of more affordable Dark Orange Brown diamonds.



## PINK DIAMOND STARS AT SOTHEBY'S HONG KONG

**Source:** Rapaport, Mary Kavanagh

**Date:** May, 2017



The CTF Pink Star, a 59.60-carat oval mixed-cut internally flawless fancy vivid pink diamond.

Photo courtesy Sotheby's.

The final lot of the Hong Kong Sotheby's spring sale was the highly anticipated Pink Star, which proved well worth the wait. There wasn't a vacant seat and scarcely standing room as people lined the walls at the back to see the 59.60-carat oval mixed-cut internally flawless fancy vivid pink diamond go under the hammer. And it didn't disappoint. Bidding started at \$56.6 million, with the hammer falling to applause at \$71,192,517 million\* - \$1,194,505 per carat – after three potential buyers engaged in an intense five-minute bidding session for possession of this rare gemstone. [A new world record for the most valuable jewel ever sold at auction was set, as well as a new record for the most valuable item ever sold at auction in Asia.](#)

The buyer, Hong Kong-based Chow Tai Fook (CTF), one of the world's largest jewelry retailers by market value, promptly renamed the stone the CTF Pink Star in honor of the late Dr. Cheng Yu-Teng, father of the current chairman and founder of CTF, and the brand's eighty-eighth anniversary – 88 being an auspicious number in Chinese culture.

"We are delighted to have the CTF Pink Star added to our rarest collection of jewelry masterpieces," a company spokesperson said. In 2016, the company purchased a rare 5.03-carat vivid green diamond, the Aurora Green, at auction and in 2010, it acquired the Cullinan

Heritage, a 507-carat rough diamond, which was cut and polished over the course of three years and subsequently transformed into A Heritage in Bloom necklace by jewelry artist Wallace Chan.

The CTF Pink Star is the largest internally flawless fancy vivid pink diamond ever graded by the Gemological Institute of America (GIA) and smashed the previous record for a fancy vivid pink diamond set by the Unique Pink, a 15.38-carat pear-shaped fancy vivid pink diamond sold by Sotheby's Geneva in May 2016 for \$31,561,200, or \$2,052,094 per carat. The previous auction record for any diamond or gemstone was held by the Oppenheimer Blue, a 14.62-carat fancy vivid blue rectangular-cut diamond, which was sold for \$57,541,779 or \$3,935,826 per carat by Christie's Geneva in May 2016.

The Pink Star was a separate lot auctioned immediately after the Magnificent Jewels and Jadeite sale. "We decided it was important to have its own catalog and sale like they do in ceramics all the time. We wanted to make sure it was a star lot all on its own", said Quek Chin Yeow, deputy chairman of Sotheby's Asia and chairman of international jewelry. The strategy clearly worked. Excluding the Pink Star, the April 2017 sale achieved \$45,694,131 in total. The 194 lots were sold 73.2 percent by lot and 78.2 percent by value. This compares to Sotheby's autumn 2016 sale, which brought in a total of \$24,699,199 and its spring 2016 sale, which achieved a total of \$73,333,013.

## The Blue Surprise



3.13-carat fancy intense blue diamond and diamond ring  
Photo courtesy Sotheby's.

Another highlight of the sale was a 3.13-carat fancy intense blue diamond and diamond ring, which set a new world auction record price per carat for a fancy intense blue diamond, at \$4,790,858 or \$1,530,626 per carat, after very competitive bidding. “The blue diamond was unexpected,” said Quek, who highlighted that colored and white diamonds featured strongly in the top ten – with all bought by private Asian collectors, except for the fancy intense blue diamond, which was purchased by the Asian trade.

Among the top lots was an 11.44-carat fancy orangy-pink diamond ring, which was bought for \$2,792,790, or \$244,125 per carat. A fancy intense purple-pink diamond and diamond ring weighing 3.30 carats was bought for \$2,561,130, or \$776,100 per carat. A 3.74-carat fancy vivid purplish pink diamond ring was bought for \$2,329,470, or \$622,853 per carat.

White diamonds also dominated the sale. “The whites did extremely well.

That was beyond our expectations,” Quek said. “We took in quite a few. All

the top lots and even the smaller lots were sold. The white diamond market was very pleased with our results.”

## An Upswing

Bidding was generally competitive throughout the sale, with active in-room participation, buzzing telephone lines and online bidders, too. “The telephones were very strong this time,” Quek said, noting that there was also a couple of high-value bids online. “The mood was very upbeat. We had a very high attendance and everyone thought the mood was good,” he added. Apart from the sale of the Pink Star, all but one of the top lots were bought by private collectors from Asia, continuing the trend of the past few years. “We had some new buyers in the top ten. [Art, jewelry, and colored diamonds are now considered to be asset classes, so people are more comfortable expanding their portfolio to include these things,](#)” Quek said.

The sale was undoubtedly a positive start to the auction season. “I think people are taking it as an indicator to say the market should be better, but auctions are strange creatures,” concluded Quek, noting that results can be volatile.

## COLORED DIAMONDS AT AUCTION

Date	City	HouseID	Lot #	Shape	Size	Color	Clarity	\$/Carat	Price
04/01/2017	New York	Sotheby's	101	Cut-Cornered Square Mixed-Cut	1.64	Vivid Green	SI2	\$739,329	\$1,212,499.56
04/01/2017	New York	Sotheby's	83	Marquise	1.14	Intense Blue	VS2	\$432,018	\$492,500.52
04/01/2017	Hong Kong	Sotheby's	1784	Emerald	3.13	Intense Blue	IF	\$1,530,506	\$4,790,483.78
04/01/2017	New York	Sotheby's	88	Emerald	5.07	Gray-Blue	VVS2	\$3,101,578	\$15,725,000.46
04/01/2017	Hong Kong	Sotheby's	1685	Cut-Cornered Rectangular Modified Brilliant	3.74	Vivid Purplish Pink		\$622,805	\$2,329,290.70
04/01/2017	Hong Kong	Sotheby's	1786	Heart	3.30	Intense Purple-Pink	VVS2	\$776,040	\$2,560,932.00
04/01/2017	Hong Kong	Sotheby's	1801	Oval Mixed-Cut	59.60	Vivid Pink	IF	\$1,194,134	\$71,170,386.40
04/01/2017	New York	Christie's	331	Cut-Cornered Rectangular Modified Brilliant	3.02	Intense Pink	IF	\$638,245	\$1,927,499.90
04/01/2017	New York	Christie's	-230	Round	2.72	Vivid Yellow	IF	\$43,269	\$117,691.68
04/01/2017	New York	Christie's	-230	Round	3.00	Vivid Yellow	VS1	\$43,269	\$129,807.00
04/01/2017	Hong Kong	Sotheby's	1732	Heart	8.00	Vivid Yellow	VVS2	\$98,126	\$785,008.00
04/01/2017	New York	Sotheby's	230	Emerald	6.17	Deep Yellow	VVS1	\$121,637	\$750,500.29
04/01/2017	New York	Christie's	188	Oval	5.16	Brown-Orange	VS2	\$20,591	\$106,249.56
04/01/2017	New York	Christie's	189	Cushion	6.19	Brown-Orange	VS2	\$26,252	\$162,499.88
04/01/2017	New York	Christie's	231	Round	5.59	Dark Orange-Brown	SI1	\$16,771	\$93,749.89

# THE CASE FOR COLORED DIAMOND OWNERSHIP

## U.S. DEBT LEVELS PROVOKE SLEEPLESS NIGHTS

### WITH GROWTH BAKED INTO FORECASTS, A SUDDEN RECESSION WOULD CREATE A NASTY SHOCK

*Source: Financial Times, Gillian Tett*

*Date: May 18, 2017*

What is it about the American economy that keeps hedge fund luminaries awake at night? A couple of weeks ago I put that question to Ken Griffin, head of the Citadel group. His answer was illuminating: “Recession.” This is not because Mr. Griffin is braced for a downturn right now; like most executives, he expects moderate growth this year, partly because he is excited about President Donald Trump’s reflation plans. But Mr. Griffin worries about maths – and history. Over the last century, the average length of an American recovery has been six years. However, the current expansion has lasted eight, so the charts imply that a recession is overdue.

Of course, there are many reasons why these historical charts might be wrong. Mr. Trump’s reflation plans are one. Another is the fact that the post-crisis “recovery” has already upended history by being unusually weak. **But what is also striking is that there are hints in current data of an impending cyclical peak.** Consider the issue of debt. **Almost**

**exactly a decade ago, American consumer debt exploded, sparking the financial crisis when that bubble burst.** After that drama, consumers delivered. But this week, the New York Federal Reserve revealed that consumer debt balances have risen again, touching a \$12.73tn at the end of the first quarter of this year, above the 2008 peak of \$12.68tn. If you look at the issue central to the last crisis – mortgage debt – the picture is very benign: only 3.5 per cent of home loans went into arrears in the first quarter, compared to 10 per cent a decade ago. **But what is alarming is student debt: this has exploded in recent years to unsustainable levels, and “serious delinquency” rates are already 10 per cent, shattering the confidence and spending power of one segment of the population.**



Photo courtesy Bloomberg

**If interest rates rise, or growth slows down, these problems could spiral.**

Corporate leverage presents worries too. This has not grabbed many headlines this decade, partly because it did not play a role in the last crisis. But in recent years companies have been stealthily loading up on debt. The Securities Industry and Financial Markets Association, for example, says that corporate leverage is \$8.52tn, or 57 per cent above the last 2008 peak, with a particularly dramatic increase in risky borrowing in the last year.

Goldman Sachs and Morgan Stanley revealed this week that there is so much fevered demand for leveraged finance that it is a key factor driving their profits. But that news should, in itself, ring alarm bells. A decade ago, banks were making big profits by slicing and dicing mortgage loans. And, as the International Monetary Fund warned in its recent Global Financial Stability Report, this borrowing boom could be fragile if interest rates suddenly rise, or growth slows down.

It is important to stress again that neither the IMF nor Mr. Griffin is actually predicting a slowdown in growth or sharp rise in rates. But the key point is this: **with so much growth already baked into financiers’ forecasts – the sunny assumptions of the corporate executives who keep raising all this debt – a sudden recession would create a nasty shock. Investors ignore this at their peril,** particularly in a week when the world is confronting more uncertainty about Mr. Trump and whether he can actually implement any of his bold plans to stave off any recession.

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