

Watches & Jewellery **Diamonds and gemstones**

Diamond price forecasts add a rosy tint to mine closures

With few comparable replacements in the pipeline, supply could peak in next 10 years



The Argyle Alpha™ 3.14 carat, emerald, Fancy Vivid Purplish Pink © Rio Tinto

Henry Sanderson SEPTEMBER 26, 2018

Miner [Rio Tinto](#) unveiled the largest pink diamond from its Argyle mine in Western Australia this summer. The 3.14 carat “[Argyle Alpha](#)”, found in 2015, is part of a package of 63 brightly coloured red and violet diamonds shown to potential buyers in Hong Kong this month.

The stones are becoming ever more scarce as the mine, which upended the heavily controlled diamond market when it opened in [1983](#), is set to come to the end of its life in 2020.

The closure marks a turning point for the diamond market as there are few comparable replacements in the pipeline. Analysts expect the supply of diamonds to peak within the next 10 years, as demand continues to grow.

“Rio Tinto’s Argyle mine is the world’s only source of these highly coveted pink, red and violet diamonds and we expect considerable interest in this year’s collection,” Jean-Sébastien Jacques, Rio Tinto’s chief executive, said in a [statement](#).

You’re seeing the real significant depletion of the very economic mines

Paul Zimmisky, Diamond Analytics

He added that the constrained supply will “support significant value appreciation for Argyle pink diamonds”. The tender will travel to New York next month, with bids closing on October 10.

Prices for high-quality pink stones have outperformed those of other diamonds over the past decade because of their rarity, according to Paul Zimmisky of Diamond Analytics in New York.

He estimates pink stones account for less than 0.01 per cent of the world’s diamonds by volume — the Argyle mine produces close to 90 per cent of these.



Australia's Argyle mine, owned by Rio Tinto, produces 90 per cent of the world's pink diamonds © Rio Tinto

The wider diamond market is expected to feel a squeeze, too, however. RBC Capital Markets forecast last year that total supply would increase [4 per cent](#) to 145m carats this year “before retreating as older mines begin to reach the end of their lives”.

The looming shortage has already helped boost diamond prices this year after four years of declines. Prices for rough diamonds rose 4.5 per cent in the first half of this year, according to Mr Zimmisky.

“There’s definitely a bullish scenario at the moment,” Mr Zimmisky says. “Supply is going to decline incrementally from this year through to 2021.”

The Argyle mine became a huge source of smaller and cheaper stones when it came into production. It was quickly established as the world's largest diamond mine and played a role in helping to break De Beers' monopoly over the market in the 1990s.

It was an era that marked a high point for exploration, with the giant Diavik mine in Canada's remote Northwest Territories discovered in the 1990s. Currently 60 per cent owned by Rio Tinto, Diavik is set to stop production in [2024](#).

Miners have significantly reduced the amount of money they spend on exploration over the past decade. Consultants at Bain & Co estimate that exploration spending as a percentage of revenue has fallen to 2 per cent from about 8 per cent in 2007-08.

Bain forecasts that diamond demand, however, is set to grow at an average annual rate of 1 to 4 per cent until 2030, while supply is set to grow by up to 1 per cent a year.

Output from some of the largest mines is already in decline. Production at Russian producer [Alrosa](#)'s giant Jubilee mine is set to halve by 2020, according to Mr Zimnisky. He adds many of the mines in South Africa have been excavated since diamonds were discovered in the country at the end of the 19th century. "You're seeing the real significant depletion of the very economic mines," Mr Zimnisky says.

Still, the rate of supply growth will depend on how effective miners are at expanding production at their existing mines, according to Olya Linde, a partner at Bain's Moscow office. "We've seen before that plans get extended and the life of a mine gets extended because of exploration."

Higher prices could incentivise diamond recycling, which in turn could add to supply, she adds. Maintaining consumer demand for diamonds could influence miners' investment decisions.

Over the past two years larger jewellers, from Swarovski to the Warren Buffett-backed retailer Borsheims, have started to stock [lab-grown diamonds](#). The chemically identical stones are made by replicating the temperature and pressure that formed natural diamonds deep in the Earth.

In what is seen as an attempt to head off the challenge, in May [De Beers](#) said it would start selling lab-grown diamonds through its own jewellery line, Lightbox, at a significant discount to both natural and other lab-grown stones.

"They are just trying to separate the two markets and protect the natural diamond market," Bain's Ms Linde says.

Amish Shah, founder of ALTR Created Diamonds, says demand for lab-grown diamonds will grow faster than forecast. He predicts they will account for a double-digit percentage share of the market “in the next few years”, from about 1 per cent currently.

Coloured stones could feature prominently in that growth. At the annual Berkshire Hathaway shareholders weekend in May, the company unveiled a [3.99 carat lab-grown pink diamond](#).

Be alerted on Diamonds and gemstones

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