



January 2009 Newsletter

Pastor-Genève News

We would like to wish you a happy and healthy new year and we look forward to a prosperous 2009. As you can see in the articles below, we continue to see strong activity in the market despite the global economic downturn.

Although sales in the US have slowed down, the global diamond markets continue to report solid sales results. Furthermore, major diamond producing countries around the world continue to report declines in production as major producers scale back and important diamond-producing mines experience declining reserves.

We will be producing an editorial this winter in the Sovereign Society and we plan on attending a number of important seminars in the coming months to continue to educate the general public about the rare colored diamond market.

Diamond News

David & Michael Laing - Laing Boutique In Edinburgh, Scotland

We wanted to do something creative and recognise that not everyone wants to spend \$20,000. Diamonds don't go down in value. There is a security in having diamonds and precious metals, which is good in the world we're living in. Next year, the economy may be tough but people will still fall in love so they won't stop getting engaged. They will still want to go out and spoil themselves sometimes as well.

U.S. Nov. Jewelry Prices +7%

The year-to-year consumer price index (CPI) for jewelry in the United States rose 6.8 percent to 154.68 points during November. For the watch and jewelry categories combined, the index for November was up 6.4 percent from the previous year, to 147.87.



Jewelers Report Sales Increases Across India

The jewelry market in India is holding up well, according to some top jewelers, due in part to the wedding season. For most Indians, gold bullion and jewelry is considered to be a safe investment in times of economic chaos. Even with the price of gold remaining volatile, some of the stalwarts of the jewelry industry are experiencing strong sales. Tanishq estimates sales are up 8 percent to 10 percent and Anmol Jewellers estimates 30 percent increases for gold and diamond jewelry.

Rio Tinto Claims Record Price for Argyle Diamond

Rio Tinto Diamonds said that it has received a record price for a pink diamond mined at its Argyle mine in Western Australia. The company did not disclose who bought the diamond or the price the stone fetched, revealing only that it sold above the reserve price. The stone, named "Aphrodite" after the Greek goddess of love, is a 1.01-carat, round purplish-red diamond.

Industry Celebrate \$200M Panama Diamond Exchange

Project Leaders of the world diamond and jewelry industry joined the heads of the Panama Diamond Exchange (PDE) in Panama City to launch a \$200 million building project, which will serve as both the headquarters of the PDE and as the center of the diamond, gemstone and jewelry trade in Latin America. The projected turnover of diamonds, precious stones and jewelry traded within its confines is estimated at more than \$7 billion per annum. The PDE Tower complex, designed by renowned architect Ignacio Mallol, will include a diamond exchange and an office tower, and will eventually include a shopping mall with high-end retail jewelry stores. Construction is expected to begin mid-year 2009.

Tiffany 3Q Sales only down -1%

Sales across the Asia-Pacific region rose 3 percent to \$206 million in the third quarter and sales across Europe rose 16 percent to \$58.2 million. Gross margin was 56.3 percent in the third quarter compared with 54.4 percent one year ago. The increase was due to favorable changes in product sales mix, the benefit of the company's precious metal hedging program, and a reduction in anticipated management incentive compensation, Tiffany stated.



Strong Diamond Prices Help Christie's Hong Kong Sale

Diamonds performed well at the Christie's Hong Kong jewels sale on Tuesday as prices proved resilient in the face of current economic trends. Christie's garnered \$33.52 million (HKD 259.82 million) at the auction, selling 63 percent of the 289 lots on offer. All of the top 10 lots went to private Asian buyers. The top lot, a pair of circular-cut, D-color flawless diamonds weighing 16.11 carats and 16.08 carats respectively, sold for \$5.65 million (HKD 43.78 million), or approximately \$175,000 per carat.

Einstein's Watch Fetches 2,000 % Over Estimate

A watch owned by famed physicist Albert Einstein sold for \$596,000, 2,000 % over its pre-auction estimate, at Antiquorum Auctioneers October 16, 08 Important Collectors Wristwatches, Pocket Watches & Clocks Sale.

The sale of Einstein's timepiece - made in 1930 and presented to him in 1931 - set a world record for a Longine's wristwatch at auction and capped a round of what Antiquorum called "frenzied bidding." Their first auction took in \$9.9 million for 404 timepieces, and 33 % were sold over the internet.

Russians Buy Jewelry, Hoard Dollars as Ruble Plunges

By Emma O'Brien and William Mauldin

Russians are shifting their cash into foreign currencies and buying things they don't need as the economy stalls and the central bank weakens its defense of the ruble, signaling a larger devaluation may be on the way. The currency has fallen 16 percent against the dollar since August, when Russia's invasion of neighboring Georgia helped spur investors to pull almost \$200 billion out of the country, according to BNP Paribas SA.

The central bank today expanded the ruble's trading band against a basket of dollars and euros, allowing it to drop 0.8 percent, said a spokesman who declined to be identified on bank policy.



With the specter of the 1998 debt default and devaluation in mind, Russians withdrew 355 billion rubles (\$13 billion), or 6 percent of all savings, from their accounts in

October, the most since the central bank started posting the data two years ago. Foreign-currency deposits rose 11 percent.

For the burgeoning middle class, investments of choice range from electronics to gold jewelry. Evroset, Russia's largest mobile-phone chain, is telling people to buy anything they can.

"It's better to feel happy that you own something than to fear losing the money you have earned," Chairman Yevgeny Chichvarkin says in a letter posted at 5,200 Evroset stores. "If you need a car, buy a car! If you need an apartment, buy an apartment! If you need a fur coat, buy a fur coat!"

Jewelry sales are also accelerating, particularly items made of gold and diamonds, said Vladimir Stankevich, advertising director at Adamas, Russia's third-largest jewelry retailer. "More cash appeared on the market and there's an opinion among shoppers that gold and diamonds are a good investment in times of crisis," Stankevich said.



"The Russian experience with saving is not that good and people prefer to consume and enjoy rather than save in pre-crisis situations," Tsepliaeva said. "Buy cash dollars and put them in mattresses or safe deposit boxes but not in accounts because most crises are accompanied by banking crises."

**New York Times Business Saturday, December 13, 08 - Gareth Penny,
Managing Director of De Beers**

What will happen to diamond sales in the US and the world in this economic crisis?

The first point to make is that 80 % of diamond sales are given as gifts, mostly in the 4th quarter. These are difficult times, but in the research we are doing with consumers now, the desire for our product has never been greater. People are looking for fewer, better things. Women are telling us they would rather have one meaningful product that will last.

Have diamonds been one of those commodities whose prices have inflated and then crashed?

The volatility in diamonds is only a fraction of that of other commodities. A lot of commodities screamed up in price, quadrupling in value. Diamonds haven't done that. And the downward pressure that diamonds have experienced is minimal as a consequence.

Our business model of controlling prices through stockpiles has changed dramatically in recent years, we are a demand driven organization. De Beers doesn't control the supply of diamonds, we have around 40 % of market share. We have very small stocks of diamonds, measured in a few months of production, from the time we mine the stone to the time we sell it.



So through what channels do you sell your diamonds?

We have a wholly owned trading company called the diamond trading company, which has a considerable number of customers around the world. We also sell to several hundred smaller companies through a tender process.

Who has the other 60 % of the market?

The Russians have a major share of it, and then there are major companies such as Rio Tinto and BHP, and many smaller ones.

Auction Update - Going Once, Going Twice...

The economy may be in a tailspin, but the überwealthy aren't entirely deterred from their lavish lifestyle. One might assume that the global financial meltdown would put a damper on over-the-top jewels and gems, but the auction world is proving that assumption wrong.

Two recent high-profile auctions renewed confidence in the market, especially for high-end diamonds. In the words of Sotheby's Lisa Hubbard, chairman, international jewelry, North and South America, "Truly special stones and beautiful jewels still manage to withstand the volatility of the market."

At Sotheby's this week, several of the top sales beat presale estimates, including a fancy vivid yellow diamond that sold for \$2.7 million and a pear-shape D color type IIa diamond ring that went for \$1.2 million.



The biggest (and most optimistic for the market's top tier) came from Christie's, where a jewelry auction in London made the record books. The 17th-century 35.56 ct. fancy deep grayish-blue Wittelsbach diamond (once owned by Spain's King Philip IV, who gave it to his daughter as an engagement gift in 1664) sold for \$24.3 million, a world record price for any diamond or jewelry sold at auction. (Laurence Graff is the proud new owner).

Auction Market Update

The Geneva sales of Magnificent Jewels took place during yet another inflection point in the global economic transition that goes under the name of the credit crisis. The sale of gems and jewelry at both Sotheby's and Christie's reflected the climate of that crisis but they also revealed an underlying strength in the jewelry market.

The most expensive lot of the Geneva sales was a 42.28 carat sapphire from a mine in Kashmir. The stone was bought for nearly \$3.5 million, or \$82,500 per carat, a world auction record. Because of the limited production in the Kashmir mines during the latter decades of the 19th century and the early years of the 20th century, Kashmir Sapphires are rare. In the past 18 months, the global market for large gemstones, especially diamonds, has been driven by two forces: a scarce supply of stones and an abundant supply of cash in the world economic system.

Even with the dramatic reduction of liquidity caused by the credit crisis, some buyers are still acquiring large gemstones. But they are doing so less frequently which has reduced the totals for the Geneva jewelry sales.

Sotheby's total for the Geneva sale was \$14.8 million with 225 of the 371 lots sold. Christie's sold \$22.6 million worth of jewels with 171 out of 342 lots sold. Sotheby's higher 61% sell-through rate reflects the strength of its sale in jewelry where collectors pursued rare items despite the economic uncertainty.

A Fancy Pink diamond ring of 8.02 carats (lot 408), pink diamonds being among the rarest of colours for a diamond, was Sotheby's top lot in the sale at just under \$1.3 million. Collectors' pieces of jewelry also drew intense interest. Sotheby's significantly higher sell-through rate of 60% reflects the presence of a number of highly sought after collectors' works in the sale. "Jewelry sought after by collectors seemed to be unaffected by the global economy," Bennett said.



"Presumably that's because serious collectors felt they would lose the opportunity to purchase rare works if they chose to sit out the auction."

The information about bidders released by Sotheby's shows very strong participation by Europeans in the Geneva sale. They were 51% of the bidders, nearly twice the next category. Asian bidders were 12% of the group but they only took home 2% of the sale's total value suggesting that they were outbid on a number of lots. They took home 4% of the lots which also suggests they were purchasing items at a lower price point.

Participants from the Middle East were 7% of the bidders but 10% of the buyers which means they bid aggressively until they won. They bought 16% of the lots in the sale, which suggests they bought multiple lots. And their purchases represented 35% of the sale's value. So they also bought the more expensive lots in the sale.

Market Trends

The average price for Sotheby's Geneva sale of Magnificent Jewels was \$66,000, a figure that is roughly in line with the \$67,500 average price of the May 2006 sale. The average price in November 2008 was achieved with a third fewer lots.

Other participants in the worldwide diamond market remain bullish. Lawrence Graff recently told an Australian newspaper that the limited supply of large gems will protect their value: "Top-quality gems are rare, hard to find and polish. There will always be a demand for these high and top-quality diamonds, both to be worn and in which to invest. In the short term, their prices may fluctuate, but in the long term they retain their quality, unlike other commodities."

Auction Results

City House Lot # Size Colour Grade Price

Geneva Sotheby's 49 3.01 Intense Yellow 47,500
Geneva Sotheby's 155 9.12 Fancy Light Yellow 104,500
Geneva Sotheby's 271 10.06 Fancy Light Yellow 122,500
Geneva Sotheby's 408 8.02 Fancy Pink 1,594,500
Geneva Sotheby's 420 2.81 Fancy Lt. Purplish Pink 146,500

Geneva Christie's 55 8.84 Deep Brown Yellow 75,000
Geneva Christie's 273 63.22 Intense Yellow 1.555 M
Geneva Christie's 276 3.24 Vivid Yellow 135,000
Geneva Christie's 281 17.7 Intense Yellow 447,000

Geneva Sotheby's 49 3.01 Intense Yellow 47,500

Geneva Sotheby's 155 9.12 Light Yellow 104,500
Geneva Sotheby's 271 10.06 Fancy Light Yellow 122,500
Geneva Sotheby's 408 8.02 Fancy Pink 1,594,500
Geneva Sotheby's 420 2.81 Fancy Light purplish Pink 146,500

Hong Kong Christie's 2908 1.23 Deep grayish yellowish Green \$40,522
Hong Kong Christie's 2912 1.67 Light orangey Pink \$35,659
Hong Kong Christie's 2974 16.02 Deep Yellow \$562,770
Hong Kong Christie's 3.07 Dark Gray \$35,659

London Christie's 194 3.64 Intense Yellow 49,250
London Christie's 212 35.56 Deep greyish Blue 16,393,250
London Christie's 147 11.02 Fancy Light Yellow 51,650

New York Sotheby's 40 4.25 Intense Yellow \$74,500
New York Sotheby's 74 5.53 Fancy Yellow \$68,500
New York Sotheby's 419 36.99 Vivid Yellow \$2,658,500
New York Sotheby's 423 10.05 Vivid Yellow \$536,500
New York Sotheby's 431 9.11 Fancy Pink \$962,500

Economic News

Bloomberg Economic Data

U.S. consumer spending rose for the first time in six months after accounting for inflation, the Commerce Department said yesterday in Washington. First-time unemployment benefit claims jumped to 586,000, and durable-goods orders declined less than anticipated, other reports showed.

Inflationary Pressure

All of the new tools amount to printing money in vast new quantities, and the Fed has already started the process. Since September, the Fed's balance sheet has ballooned to more than \$2 trillion from about \$900 billion as the central bank has created new money and loaned it out through all its new programs. As soon as the Fed completes its plans to buy up mortgage-backed debt and consumer debt, the balance sheet will be up to about \$3 trillion.

"At some point, and without knowing the timing, the Fed is going to have to destroy all that money it is creating," said Alan Blinder, a professor of economics at Princeton and a former vice chairman of the Federal Reserve. "Right now, the crisis is created by the huge demand by banks for hoarding cash. The Fed is providing cash, and the banks want to hoard it. When things start returning to normal, the banks will want to start lending it out. If that much money is left in the monetary base, it would be extremely inflationary."

China's Nov. Retail Sales +21%

China's retail sales grew 20.8 percent year-on-year in November to CNY 979.1 billion (\$143 billion), the National Bureau of Statistics reported. This figure, the main gauge for private consumer spending in the world's fourth-largest economy, was down from 22.0 percent growth in October and 23.2 percent in September.

Mining News

Shore Gold Raises \$10M in Private Placement

Shore Gold raised CAD 12.5 million (\$10 million) in a private placement of its shares on the Toronto Stock Exchange (TSX), the diamond exploration company reported late Monday. The company placed 16.67 million flow-through shares at a price of 75 cents in the offering. Shore Gold previously said it would use these funds to cover Canadian exploration expenses through 2009.

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