

As a company, Harmony is exposed to the gold price as well as the R/US\$ exchange rate. The rand strength or weakness is therefore critical to our company, with most of our operations being in South Africa. The silver component relates to our Hidden Valley operation which is producing both gold and silver and, as a precious metal, silver has an intimate relationship with gold.

We have engaged the services of VM Group to provide us with the contents of this newsletter. We hope that this newsletter provides you with both insight and value.



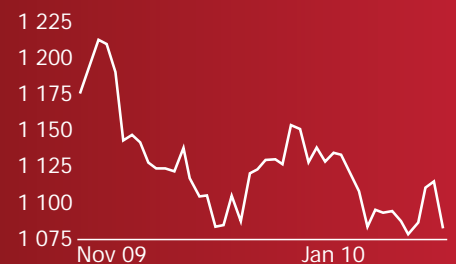
The gold price suffered a severe shakeout in early February 2010, taking it down to around \$1 060/oz by 5 February 2010, about 13% of its early December 2009 peak. The decline epitomised a sense of bearishness about the market which has developed in 2010.

Gold

In a way this is odd because most of gold's fall is merely a statistical artefact created by a stronger US dollar. In the last issue we noted that historically a bullish US currency has hit gold price returns. The immediate cause was the stronger dollar – the US currency has gained 8% from its November 2009 lows, 'explaining' two-thirds of its fall from the December peak. Indeed it might be responsible for more than this indirectly – there is a large dollar-based investment community in gold which naturally looks at dollar returns and will not be happy with what they have seen in 2010.

There are other factors that underlie gold's price weakness. A major factor in gold's strength in November and December 2009 was a readjustment of expectations for the level of central bank sales, and it now seems (as we suggested) that this went too far. It seems increasingly likely that the purchases seen in late November 2009 and early December 2009 of IMF gold by other central banks, mainly India but also Sri Lanka and Mauritius, are unlikely to be repeated and, as such, open-market sales of IMF gold will begin in the next few months. Thus the market, which had been expecting all 403t to be sold on the open market, but adjusted this view to thinking that perhaps none would be, is now moving towards the view that after all 200t will be sold onto the market over the next year or two. This is hardly a flood of gold: it is much lower than average sales seen in most previous years and there is almost no other official sector selling at the moment. Nevertheless, 200t is a higher level of central bank sales than the bullish end of the market had hoped just a few months ago.

Gold price, \$/oz



Gold price, ZAR/kg



Gold cont.

Yet there is no denying that much of the bullishness that was seen in late 2009 has evaporated. Investment interest has been weak for a while now, at least according to futures' exchange data. On Comex, the non-commercial net long (both reportables and non-reportables), the traditional measure of speculative activity, has subsided from 1 004t on 1 December 2009 to 887t by 26 January 2010. Exchange-traded fund (ETF) activity has followed a similar course; January 2010 saw a net outflow from the 17 funds that VM Group track of about 24t, and total holdings, at 1 746t at the end of January 2010, are basically unchanged from September 2009.

For the time being we see gold remaining at the mercy of macro-economic factors and investor interest. The key issue there is when, where and by how much monetary and fiscal policy will begin to be tightened, and to what extent inflation (or possibly deflation) can be avoided. Although currencies will move against each other, and the dollar might strengthen, meaning that dollar gold prices appear weak (or weaker), the general trend will be for all currencies to weaken via inflation. This should keep investment in gold and gold prices firm and even higher over the medium term.

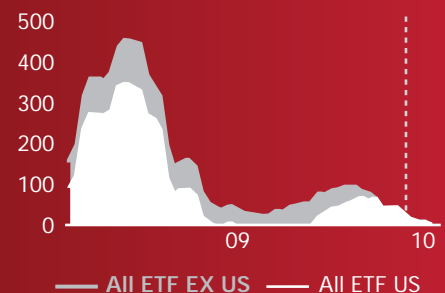


Lease rates, % per annum



Note: LBMA indicative rates not dealer rates.

ETF rolling 12wk change, tonnes



Monthly gold data

Prices	US\$/oz	Euro/oz	Rand/kg	ETFs	Tonnes	Change	Lease rates	1m	3m	6m	12m	Option volatility	(%)
Average	1 114	781	266 636	US (2)	1 200.9	- 21.6	Average	(0.03)	(0.04)	0.08	0.41	1-month	19.00
High	1 153	794	275 010	UK (2)	233.4	- 3.6	High	0.06	0.05	0.16	0.53	3-month	21.60
Low	1 079	759	257 649	Swiss	210.2	3.6	Low	(0.13)	0.14	(0.01)	0.33	6-month	23.90
				S. Africa	53.0	-						12-month	26.35
				German	36.0	0.5						24-month	27.30
				Australia	15.3	0.2							
				Others	8.7	-							



Silver was hit hard in the general commodity sell-off, falling almost \$1/oz over 4 February 2010, trading just above \$15/oz by 5 February 2010.

Silver

This cancelled out a bright start to 2010 in which silver hit \$18.84/oz on 11 January 2010, not far short of its recent high of \$19.18/oz, seen on 2 December 2009. In that respect, silver had been performing better than gold – as can be seen by the silver/gold ratio, which rose from 64 at the end of 2009 to just 60.8 by 18 January 2010, the highest in silver's favour since September 2009. However, silver's subsequent sell-off has been worse, with the price on 5 February 2010 11% down on the year and its lowest since the start of September 2009 (gold remains \$100/oz higher than it was then), pushing the gold/silver ratio back out to 70.

The reason for these movements is not entirely clear. Investment via the ETFs and on Comex began 2010 more sprightly for silver than for gold (or more accurately, less weakly), but is now suffering. Yet this is more of a symptom than a cause. Another explanation might be that base metal prices, reflecting underlying economic activity, began the year well but fear of Chinese policy tightening has seen them come under a lot of pressure, and silver could be taking some cues from this.

The view on silver's industrial outlook is that although it is more of an industrial metal than gold, its profile is somewhat different from many of the base metals in that Chinese demand is less important, or at least, the sort of Chinese demand that has helped the base metals over the past 12 months is less important – unlike base metals, China has not been stockpiling silver. However, recovery in the OECD countries should provide a firm underpinning. As long as the encouraging signs out of the US and other countries continue, silver should therefore avoid any market backlash hitting base metals, as realisation sets in that Chinese consumption of many base metals has not been all that it seems.



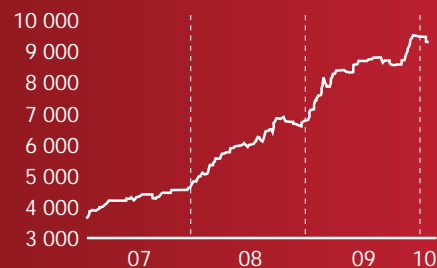
Silver price, \$/oz



Silver price, ZAR/kg



BGI silver ETF holdings, tonnes



Monthly silver data

Prices	US\$/oz	Euro/oz	Rand/kg	ETFs	Tonnes	Change	Lease rates	1m	3m	6m	12m	Option volatility	(%)
Average	1 765.00	1 237.86	13 144.10	US	9 588.0	- 191.1	Average	(0.36)	(0.34)	(0.20)	0.30	1-month	31.75
High	1 884.00	1 310.60	13 894.50	UK	737.0	23.2	High	(0.33)	(0.31)	(0.17)	0.38	3-month	32.50
Low	1 623.00	1 175.16	12 386.59	Swiss	1 876.0	29.4	Low	(0.39)	(0.36)	(0.22)	0.23	6-month	33.75
												12-month	35.25



Rand

The rand has slipped against the dollar thus far in 2010, falling 3% from R7.39 against the US currency at the start of the year to R7.68 by 4 February 2010.

The economy remains a key factor. The rand suffered a marked fall in late January 2010 after it was revealed that the South African Reserve Bank (SARB) policy committee was split in its meeting that month on whether to keep its key repo rate at 7% or to reduce it. Although rates were kept unchanged, the split has been taken by currency markets as suggesting that rates may eventually be cut. This is despite inflation data for December 2009 showing prices rising at 6.4% a year, outside the government's target range of 3% to 6%.

The rand's weakness in January 2010 should be put into context of a stronger dollar. The euro also lost 3% against the US currency, and so the South African currency's move was not extraordinary.

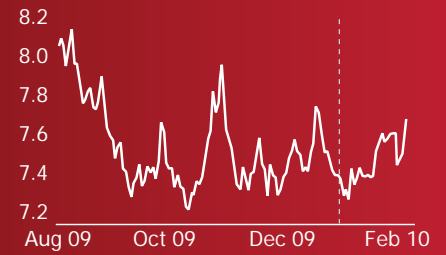
Economic data in early February 2010 was supportive, with a stronger than expected purchasing managers' index for January 2010. A reading above 50 implies the economy is expanding, and February's 53.6 was the highest in 21 months.

Prices and financial data									
Prices	5-Feb	W%	M%	Y%	Equities	5-Feb	W%	M%	Y%
Gold, pm fix	1 083.25	0	-3	20	FTSE 250	9 224	0	-3	54
Silver, fix	16.13	-3	-6	30	DJI	10 002	-1	-5	27
					SSE	2 939	-2	-10	46
					Nikkei 255	10 057	-1	-6	33
WTI oil	73.13	-1	-10	82	Hang Seng	19 665	-2	-12	62
GSCI	486.86	-1	-10	48	S&P 500	3 796	-2	-6	34
DJ-AIG	336.42	-1	-10	38	NASDAQ	2 125	-2	-8	44
Bonds, %	5-Feb	W%	M%	Y%	Ex. rates	5-Feb	W%	M%	Y%
US 10yr	3.71	2	-4	23	\$/GBP	1.57	-2	-2	9
US 3m	0.10	33	37	-69	\$/EUR	1.37	-2	-4	7
Euro 10yr	3.23	1	-6	-5	\$/JPY	88.95	-1	-3	-1
Japan 10yr	1.36	4	2	2	\$/Rand	7.68	1	5	-23
Other					\$/Yuan	6.83	0	0	0
VIX	21.60	-7	25	-41	\$/SDR	0.65	1	1	-3
Markitt 10yr	110.63	-1	5	-25	\$/INR	46.21	0	0	-5

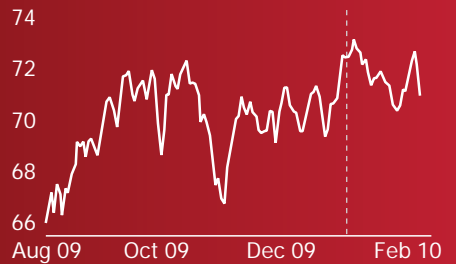
Notes: W% = change in % on week, M% = change in % on month. Prices in US dollars, equity indices in local currency. Bonds refer to yields in %. VIX - volatility index showing expectations of 30d volatility on S&P 500. Markitt 10yr is spread over treasuries.



Dollar/rand



Rand index (2000=100)



Ratios

Gold/silver ratio



Gold/WTI oil ratio



Gold/DJIA ratio



Copper/silver ratio





Harmony investors' diary

2010

10 May	Quarterly results presentation
16 August	Year-end results presentation
1 November	Quarterly results presentation
24 November	Harmony AGM



100 Ashmill Street
London NW1 6RA
Telephone: +44 (0) 207 569 5930
Fax: +44 (0) 207 569 5931
Email: info@virtualmetals.co.uk
Website: www.virtualmetals.co.uk

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