

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.



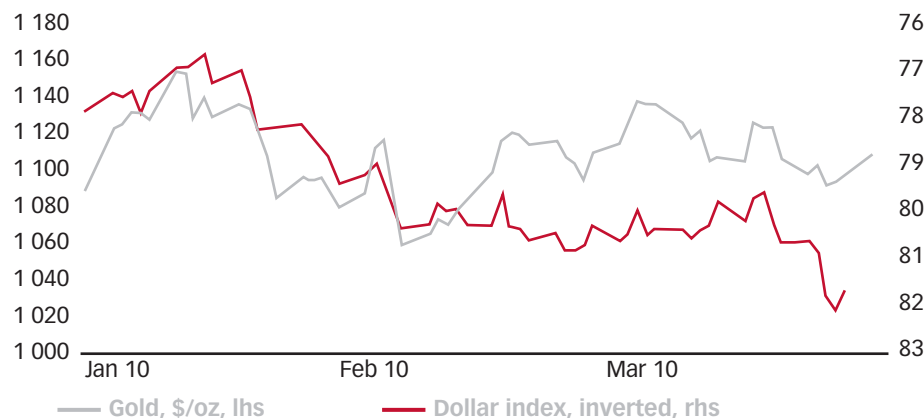
Gold hit an all-time high in euro and sterling in early March 2010, as a rally in the dollar gold price was accentuated by weakness in both those European currencies.

Gold

The gold price high, in euro terms, was seen on 5 March 2010, at 836.527/oz. The sterling gold price reached an all-time high on 3 March 2010 at £754.648/oz. By 29 March 2010 both prices had fallen back slightly.

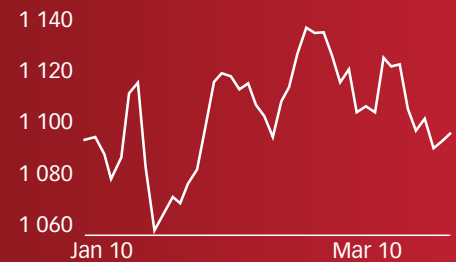
It was a little different for the US dollar gold price. The greenback's fitful recovery continues. In March 2010 (at its strongest) it was not only 2.1% higher against the euro, but also 1.8% higher on its wider index compared with its performance at the beginning of March 2010. Due to the stronger dollar, the dollar gold price drifted lower, from a peak (using the London PM fix) of \$1 136.50/oz on 3 March 2010 to a low of \$1 090.75/oz on 24 March 2010, before rallying as the dollar gave back some of its gains to fix at \$1 107.50/oz on 29 March 2010. Nevertheless, as indicated by the gold and dollar index chart, if gold and the dollar had maintained their performance throughout February and March 2010 and the relationship that existed between them in January 2010 was maintained, gold would now be at around \$1 050/oz, nearly \$60/oz lower than its current price.

Gold and the dollar index

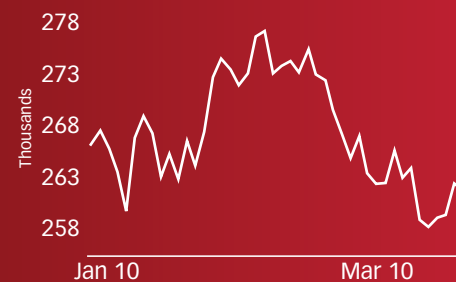


There are some signs that gold might be poised to start gaining in all currencies again. Flows into the exchange-traded funds (ETFs) resumed in March 2010, with an inflow of 16t in the 16 funds that VM Group track. While still a far cry from the inflow seen in March 2009 (133t), this was the first monthly net inflow since November 2009. Furthermore, as the ETF inflows chart shows, these have picked up after a lacklustre start to 2010, suggesting investors might be set for another gold buying splurge.

Gold price, \$/oz



Gold price, ZAR/kg



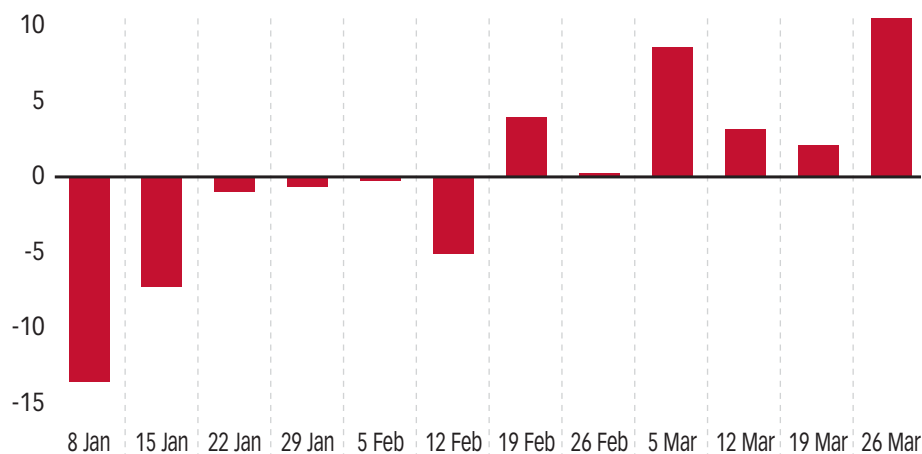
Lease rates, % per annum



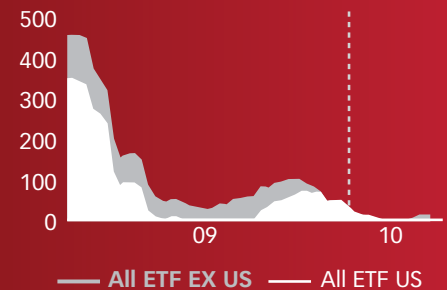
Note: LBMA indicative rates not dealer rates.

Gold *cont.*

ETF inflows by week, tonnes



ETF rolling 12wk change, tonnes



It is said that the mix of ETF investors might be changing, from institutional to retail. It is certainly not difficult to think of reasons why gold might be looking particularly attractive to even more investors worldwide – particularly in the light of the growing realisation of the fiscal and economic turmoil facing many governments and countries. The troubles of the eurozone and the UK have most recently come to the fore. The former has a number of heavily indebted states who, without the freedom to devalue their currency, have locked in an uncompetitive exchange rate. Although the European Union and IMF are likely to agree on a bailout package for the biggest problem, being Greece, there are understandable market fears that this can only paper over the problem rather than cure it. Furthermore, a similar bailout would be almost impossible if a larger eurozone economy, such as Spain, also needed help. The UK has been hard hit by the financial sector collapse, has a huge budget deficit and as yet no political party has a clearly-articulated policy to bring it down. All of these countries will require deflationary economic policy for longer than originally thought; whether this will be in the form of continued high budget deficits or, if those need to be curbed, by some further loosening of monetary policy, remains to be seen. This is gold-positive, and investors naturally are nervous; given Germany's historical experience of the perils of hyperinflation it is perhaps no coincidence that the German Xetra ETF was proportionally the largest gainer of new investment in March 2010.

US investors have been aware of their domestic problems far longer than their eurozone peers, and the signs of recovery in the US economy have been partly behind the dollar's recent strength. But there too, immense economic problems remain, and the passing of legislation to provide national health care services is likely to exacerbate the country's economic difficulties, threatening to impose even more noughts on the federal budget in a political system that has shown little ability to make cuts in government spending or raise taxes. Given the US administration's prioritisation of economic growth at all costs, US interest rates may not rise until there are clear signs of unemployment falling significantly – which is not likely until late this year or next year. Again, this is gold-friendly. Put simply, gold's price performance was at its worst in the late 1990s when the US economy was growing rapidly, while the budget deficit was giving way to a budget surplus and inflation was absent. Until a similar economic scenario is reached, the gold price trend should remain upwards, albeit probably with corrections here and there.



Gold *cont.*

It is normal for such trends to see ups and downs, and there are factors specific to the gold market which also affect the price. A major factor in this respect is jewellery demand, which (in developing countries) has been badly hit by rising prices and (in developed countries) the recession. But here too there are signs that activity is picking up. In India, traditionally the world's largest importer of gold, imports for March 2010 up to 25 March 2010 have been estimated at 28-30t by the Bombay Bullion Association, compared with just 4.8t in March 2009, despite an increase in import duty. The strong rupee has helped to keep the domestic price down. Turkey, normally another large importer of gold, saw imports of 310kg in February 2010, a nugatory amount except by the standards of January 2010 (50k) and February 2009 (0kg), raising hopes that a recovery could be under way. It may be that two things are happening simultaneously: that economic recovery is getting a firmer footing and that jewellery-buyers are becoming adjusted to the belief that gold has stabilised at higher price levels, so are more comfortable buying at today's price.



Monthly gold data

Prices	US\$/oz	Euro/oz	Rand/kg	ETFs	Tonnes	Change	Lease rates	1m	3m	6m	12m	Option volatility	(%)
Average	1 112	819	264 670	US (3)	1 211.0	18.1	Average	0.02	0.03	0.09	0.40	1-month	18.00
High	1 137	835	275 255	UK (2)	230.3	(5.0)	High	0.04	0.05	0.12	0.44	3-month	20.50
Low	1 091	804	258 223	Swiss	214.4	3.1	Low	(0.01)	(0.00)	0.07	0.35	6-month	23.25
				S. Africa	51.6	(1.1)						12-month	26.25
				German	37.0	0.0						24-month	28.25
				Australia	15.3	0.0							
				Others	10.1	0.6							



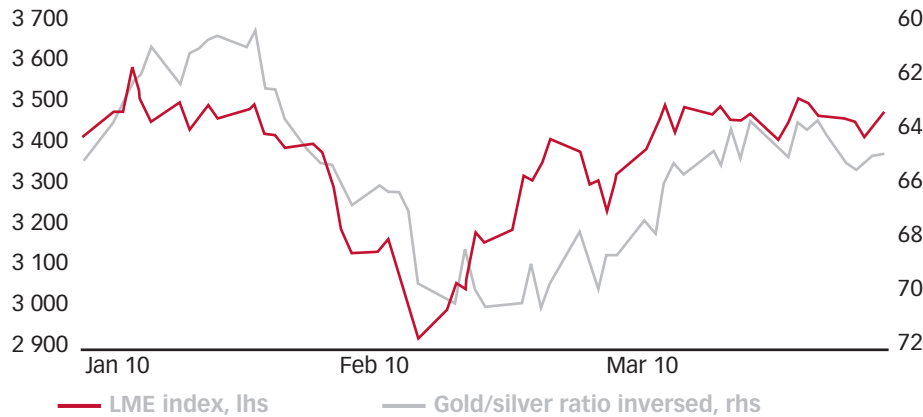


Having suffered a major investor-led sell-off in February 2010, March 2010 saw silver perform relatively stronger. At \$16.50/oz on 1 March 2010, silver peaked at \$17.54/oz on 17 March 2010 before falling back on profit-taking, fixing on 29 March 2010 at \$17.15/oz.

Silver

The fact that the peak on 17 March 2010 did not coincide with a peak in gold is noteworthy; instead it was the day when the London Metal Exchange (LME) index – a basket of industrial metal prices such as copper and aluminium – saw its 2010 high. Silver is an industrial as well as a monetary metal, and while for much of the last few years it has tended to trade more similarly to gold than industrial metals, this has not always been the case. The LME index and gold/silver ratio chart shows that the gold/silver ratio (the gold price divided by the silver price) correlates well with the LME index, that is, when base metal prices are high, the gold/silver ratio is low, indicating that silver is performing better than gold. When base metal prices are low, the opposite is true, and gold outperforms silver.

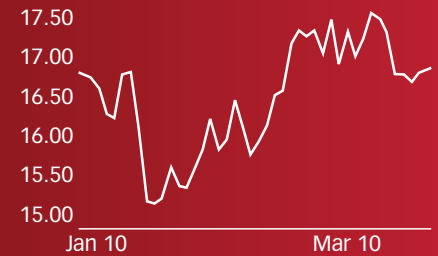
LME index and gold/silver ratio



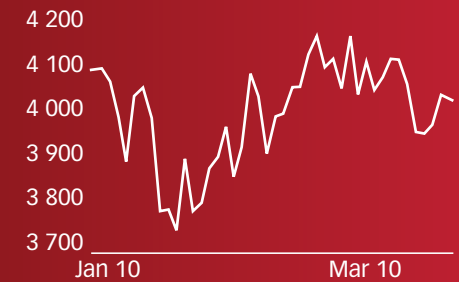
So what does this tell us about future trends? China's economy continues to grow rapidly, with latest forecasts for Q1 2010 being increased to a remarkable 12% on an annualised basis, although it seems likely that this could slow down in Q2. Yet, as we have noted before in this report, silver's demand profile is less focused on China than some of the base metals. Instead, economic recovery in the OECD countries will be crucial for silver. The situation there is mixed, although growth in some of silver's new demand sources should outperform general GDP, particularly in industrial uses such as solar panels and healthcare products.



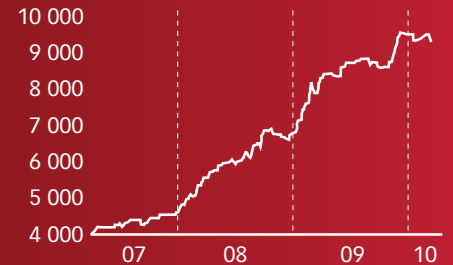
Silver price, \$/oz



Silver price, ZAR/kg



BGI silver ETF holdings, tonnes



Monthly silver data

Prices	US\$/oz	Euro/oz	Rand/oz	ETFs	Tonnes	Change	Lease rates	1m	3m	6m	12m	Option volatility	(%)
Average	17.04	12.56	126	US	9 502.0	(177.1)	Average	(0.32)	(0.30)	(0.17)	0.27	1-month	30.50
High	17.54	12.86	129	UK	818.6	6.0	High	(0.29)	(0.27)	(0.13)	0.32	3-month	32.00
Low	16.50	12.17	123	Swiss	1 990.0	17.7	Low	(0.36)	(0.34)	(0.22)	0.22	6-month	33.00
												12-month	34.25

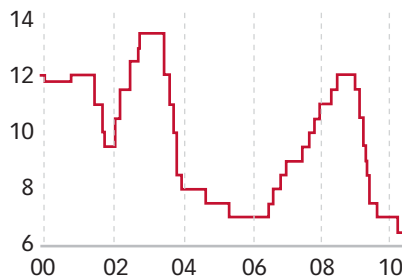


Rand

The rand suffered on 25 March 2010, when the South African Reserve Bank (SARB) surprised the markets with a 0.5% cut in its key repo rate, the first since August 2009, taking the rate down to 6.5%. The rand closed that day at R7.47 against the US dollar, down from the previous day's close of R7.40 and notably lower than the R7.28 seen on 19 March 2010, which had been the strongest showing since 6 January this year. In its statement announcing the rate cut, SARB's Monetary Policy Committee (MPC) explicitly mentioned difficulties the strong rand had been causing, arguing that, while "an appreciated rand exchange rate is a positive factor in the inflation outlook, an excessively strong exchange rate is a cause for concern from the perspective of overall macroeconomic balance. At recent levels, the exchange rate may contribute to constraints in the recovery of export and import-competing sectors of the economy".

Does this mean we can expect any future rand rallies to be met by interest-rate cuts, putting a cap on rand rallies? The MPC justified its decision to cut the rate by taking into account the improvement in inflation numbers, which it said gave it room for further monetary stimulus. If it sticks to that, then any negative outlook for the rand from interest rate cuts should be countered by positive inflation news. But as noted before, international factors, including commodity prices and risk-appetite, will continue to play the major role in the rand's performance.

SARB repo rate, %

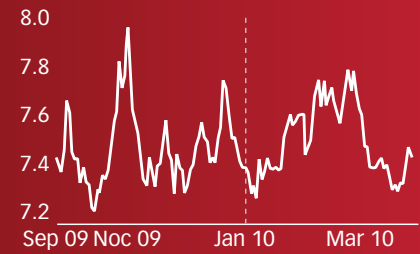


Prices and financial data

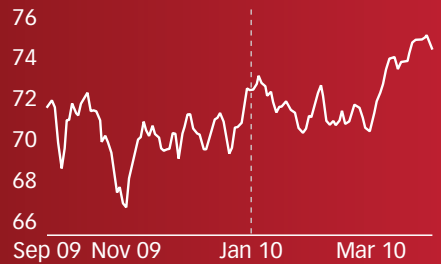
Prices	29-Mar	W%	M%	Y%	Equities	29-Mar	W%	M%	Y%
Gold, pm fix	1 107.50	1	(0)	20	FTSE 250	10 210	2	11	60
Silver, fix	17.15	2	6	30	DJI	10 850	1	5	40
WTI oil	79.29	(1)	2	48	SSE	3 124	2	2	32
GSCI	512.99	(2)	(1)	35	Nikkei 255	10 986	1	9	28
DJ-AIG	344.48	(2)	(3)	32	Hang Seng	21 237	1	4	53
					S&P 500	4 179	1	6	46
					NASDAQ	2 395	1	7	57
Bonds, %	29-Mar	W%	M%	Y%	Ex. rates	29-Mar	W%	M%	Y%
US 10yr	3.88	6	4	40	\$/GBP	1.49	(1)	(3)	3
US 3m	0.14	(12)	20	(5)	\$/EUR	1.34	(1)	(1)	(1)
Euro 10yr	3.13	0	1	1	\$/JPY	92.47	2	3	(6)
Japan 10yr	1.37	(0)	8	5	\$/Rand	7.42	2	(4)	(20)
Other					\$/Yuan	6.83	(0)	(0)	(0)
VIX	18.40	11	(12)	(56)	\$/SDR	0.66	1	1	(0)
Markitt 10yr	103.86	1	(5)	(31)	\$/INR	45.11	(1)	3	(11)

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



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