Gold, Silver and the Rand

September 2009

Each month, our Investor Relations team will be sending out a newsletter to keep you informed of the latest market trends and performance of gold, silver and the South African Rand. As a company, Harmony is exposed to the gold price as well as the R/US$ exchange rate. Therefore the Rand strength or weakness is 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 further insight and value to you.

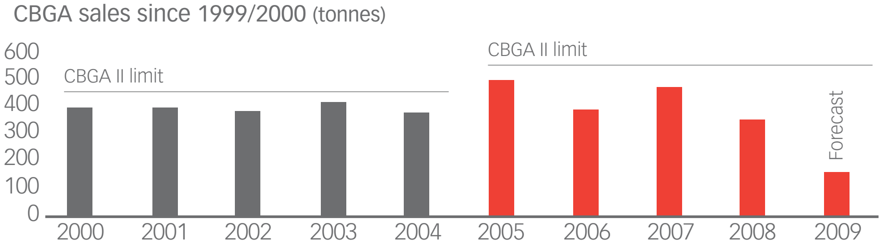
Despite its importance to the gold market, the fact that the renewal of the Central Bank Gold Agreement (CBGA) was slipped out on 6th August 2009, bang in the middle of most Europeans' summer holiday, suggests its central bank signatories accord it a relatively low importance.

Gold

And it is fair to say that the renewal terms, for five years from 27th September 2009, are not particularly interesting, with just two main changes – the annual sales limit has been reduced to 400t/year from 500t/year, and the ceiling on lending, which had become rather meaningless, has been dropped. The IMF is not a signatory, but point three of the Agreement noted that the "signatories recognize the intention of the IMF to sell 403t of gold and noted that such sales can be accommodated within the above ceilings".

The lower sales limit of the renewed CBGA only recognises the reality, which is that there are very few European central bank sellers out there. We estimate CBGA gold sales from 27th September 2008 to end August 2009 will have been just over 144t, far short of the 500t limit, with only one month to go of this CBGA year. In recent months sales have slowed to a trickle; we estimate the CBGA signatories sold just 3.7t in April, 3.4t in May, 7.3t in June (when Germany sold 4.3t for coins) and perhaps 1t in July and August.

CBGA sales since 1999/2000 (tonnes)



At the same time some countries outside the CBGA have been increasing their reserves, mostly obviously Russia, which added over 50t between January and July (including 19t in July alone). This means Q2 2009, and July, saw globally net central bank purchases of perhaps 9t and 18t respectively.

Does this represent a radical shift in central bank thinking on gold? It all depends on what you mean by 'radical'. There are two distinct trends. The first is a lower level of European sales; the second is a greater willingness to make (small) purchases by developing countries.

Gold price, $/oz

Gold price, ZAR/Kg

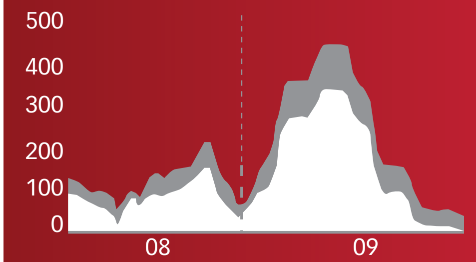
Gold *cont.*

The first trend on a net basis is the most important. It's explained by a number of factors. European central banks have sold a lot of gold in the past 15 years, and are now more comfortable with the amount they have. Some of the central banks with very large holdings – Germany, Italy – are unlikely to sell, for political reasons, even if they wished to. It is true that the renewed Agreement allows for 2,000t of sales, of which the IMF will only take 403t, so there is considerable leeway for sales to pick up again in a few years' time, perhaps after the IMF has been given a free hand in order to maximise its revenue; but we believe the current crisis has raised the long-term level of gold reserves European central banks will wish to hold, and hence reduced potential sales over the medium-term. Outside Europe there have been few purchases, except for Russia, and they have been mainly linked to gold-mining countries such as Kazakhstan and Mexico. There is no major trend towards buying gold, even by countries with large foreign exchange reserves. But nor have many sold in recent years. China remains the key centre, and while we don't expect major purchases, a policy of buying local gold that saw its reserves rise from 600t to 1,054t over the past five years might continue.

Otherwise, the gold market continues to look to the US dollar for most of its direction, with the market wondering both about the strength of the economic recovery and its impact on gold. During August the metal traded in a narrow range of $932.80/oz to $964/oz, with an average of $950/oz. Many will see this as disappointing, given the fireworks in base metals and some other commodities, yet in fact gold's monthly average price was its highest ever except for March 2008, when the price soared through $1,000/oz. This is testament to the weakness of the US dollar, but also underlying market strength.

Lease Rates, % per annum

ETF rolling 12wk change, tonnes



Monthly gold data (August unless stated)

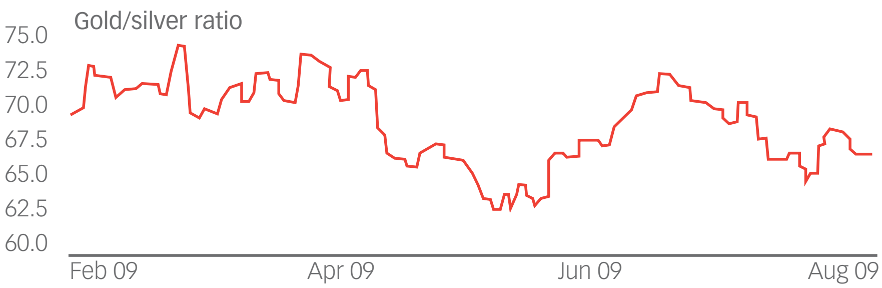
Prices	US$/oz:	Euro/oz	Rand/kg:	ETFs	Tonnes	Change	Lease Rates	1m	3m	6m	12m	Option volatility	(%)
Average	950	666	242,353	US (2)	1,134.1	-10.1	**Average**	-0.11	-0.02	0.32	0.73	**1-month:**	16.55
High	964	674	249,806	UK (2)	217.3	1.3	**High**	-0.05	0.05	0.36	0.81	**3-month:**	20.85
Low	933	660	237,639	Swiss	207.6	2.6	**Low**	-0.20	-0.10	0.25	0.66	**6-month:**	24.40
				S. Africa	43.7	0.8						**12-month:**	26.80
				German	32.2	0.5						**24-month:**	27.05
				Australia	13.8	0.1							
				Others	6.7	0.0							

On 13th August silver fixed in London at $15.07/oz, its highest since mid-June. With the gold price on that day $953.50/oz, the gold/silver ratio was 63.27, its most in silver's favour since that June rally.

Silver

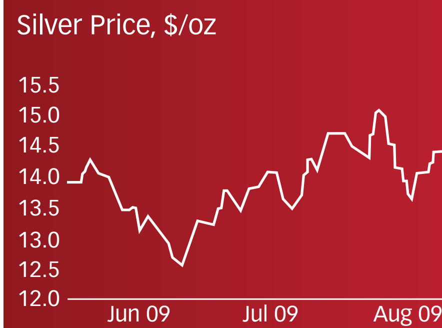
Silver could not maintain the spurt, and by 25th August had fallen back to just over $14/oz, with the gold/silver ratio widening to 67. As the ratio began the year at 79, it's clear that so far this year silver has outperformed gold, and, as the chart shows, the ratio has since the end of April traded in what seems a new, lower, range (albeit a very volatile one).

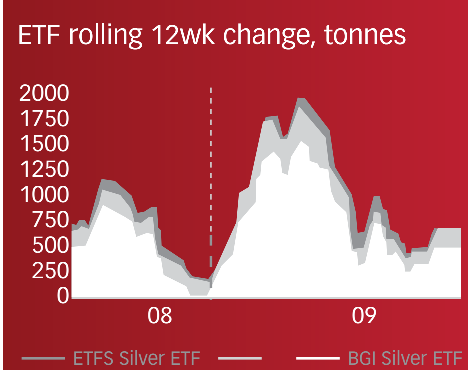
But silver bulls – noting its much larger industrial base than gold – might be forgiven for thinking this is rather disappointing, given that economic recovery fever has been surging through commodity and financial markets. In 1H 2009 silver almost held its own (gaining 29%) compared to the PGMs (32% for platinum and 34% for palladium), and a gain of just 7% for gold. Silver also did well, when matched against base metals, which, using the LME's weighted index, saw a 38% gain in 1H 2009.



The second half of 2009, however, has so far not gone as well. Base metals have managed another 23% gain, and palladium is up 15%. Platinum is higher by 5%, and gold by 1.7%. But silver, just 1.2%, has been the worst of all the commonly traded metals. That it is similar to gold suggests the most obvious explanation for this is that silver is nowadays trading more like gold than the industrial metals and, as such, is suffering from the slow retreat from full-scale panic that characterised many markets at the end of 2008 and into 2009.

Investors have not sold off silver (as they have, to a limited extent, gold) – the ETFs by 21st August held 11,313t, up from 11,052t at the end of July, and while this gain of 261t includes 215t from ETF Securities' new New York-listed ETF, it is a vote of confidence. But it also means more silver than ever is in the hands of investors, and therefore silver's price outlook could be more volatile than ever. However a base metal sell-off doesn't seem one of the major risks.





Monthly silver data

Prices	US$/oz:	Euro/oz	Rand/kg:	ETFs	Tonnes	Change	Lease Rates	1m	3m	6m	12m	Option volatility	(%)
Average	14.35	10.06	3,658	US (2)	8,820.0	206.0	**Average**	-0.25	-0.12	0.28	0.81	**1-month:**	34.25
High	15.07	10.55	3,890	UK	611.0	24.1	**High**	-0.21	-0.08	0.34	0.91	**3-month:**	35.25
Low	13.59	9.54	3,481	Swiss	1,666.0	38.0	**Low**	-0.31	-0.16	0.22	0.71	**6-month:**	36.50
												12-month:	37.75
												24-month:	38.25

Rand

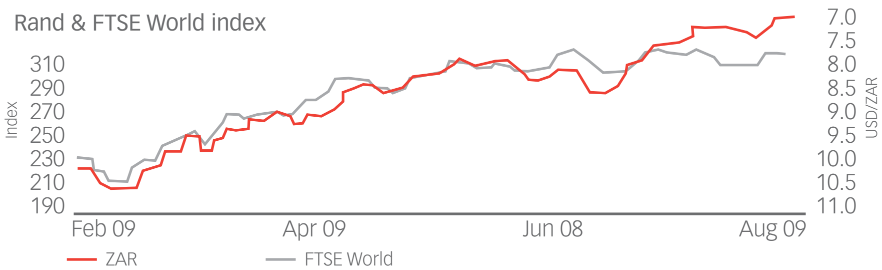
Dollar/rand

Rand index (2000=100)

Against the dollar the rand lost about 1% in August; against the euro very slightly more. At 7.82 rand to the dollar, the currency remains some way below its peak (22nd July) level of 7.67, which was its strongest close since August 2008.

This reflects some underperformance, at least when compared to the FTSE World equity index (a basket of global share prices), which the rand had been tracking closely until late July, with both gaining on falling risk aversion. The main reason for the disconnect appears to have been the threat of strike action at Eskom, which caused the rand to fall sharply in the w/ending 7th August, when the FTSE World kept rising. Even when the strike didn't happen the rand's losses were not recovered.

Rand & FTSE World index



By contrast, the Reserve Bank's surprise rate cut on 14th August, taking the repo rate to 7% from 7.50%, had little impact on the currency.

Prices and financial data

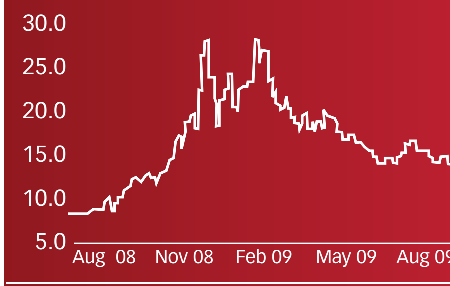
Prices	26-Aug	W%	M%	Y%	Equities	26-Aug	W%	M%	Y%
Gold, PM fix	964.50	0	-1	14	FTSE 250	8,783	5	12	-4
Silver, fix	14.32	5	4	10	DJI	9,544	3	5	-16
					SSE	2,968	7	-14	26
					Nikkei255	10,640	4	5	-17
WTI oil	71.65	-2	2	-39	Hang Seng	20,456	3	1	-3
GSCI	460,90	-2	3	-36	S&P500	3,640	3	5	-17
DJ-AIG	315,20	-1	6	-22	NASDAQ	2,024	3	3	-14
Bonds, %	**26-Aug**	**W%**	**M%**	**Y%**	**Ex. Rates**	**26-Aug**	**W%**	**M%**	**Y%**
US 10yr	3.69	-1	-8	-9	$/GBP	1.64	-2	-2	-12
US 3m	0.20	-6	-18	-91	$/EUR	1.42	0	0	-3
Euro 10yr	3.42	-1	-7	-21	JPY/$	94.54	0	-1	-14
Japan 10yr	1.37	-2	-6	-8	Rand/$	7.81	-2	1	1
Other					Yuan/$	6.83	0	0	0
VIX	25.01	-5	3	22	SDR/$	0.64	0	0	0
Markitt 10yr	109.5	-7	0	-21	INR/$	48.20	1	2	12

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.

Ratios

Gold/silver ratio

Gold/WTI oil ratio



Gold/DJIA ratio

Copper/silver ratio

Harmony Investors' Diary

2009

30 October: Quarterly results presentation
23 November: Harmony AGM

2010

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

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