

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.

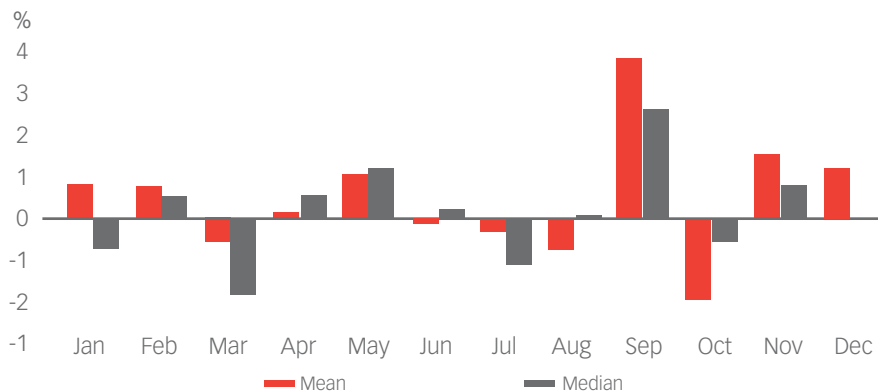


At \$1 018.50/oz, gold enjoyed its highest ever London fix (in dollars) on 17th September. At this point it had gained an impressive 6.6% on the start of the month. Those lofty heights (it has only been higher once in intra-day trading, in March 2008) could not be sustained, but although gold fell below \$1 000/oz again towards the end of September and looked at risk of breaking down, it ended the month rallying again.

## Gold

We ought not be too surprised that September was a good month for the dollar gold price – it often is. The chart below shows the average monthly % change in price since September 1990 for each month, up to August 2009 (so not including this September). For gold, September stands out as clearly the best month, with an average daily gain in price of 3.9%, equivalent to nearly 60% annualised. For comparison, gold's average monthly price gain over this entire period was 0.5%, or 6% annualised. No other month comes close; the next highest is November, which has a 1.5% average gain. True, the average is somewhat distorted because of September 1999, when gold gained 20% on the announcement of the first Central Bank Gold Agreement. But even looking at the median return (which ignores extreme values), September shows better returns, and in only four years out of 19 has gold fallen in price, compared to 108/228 months in our whole sample.

Average % daily price changes per month since 1990



Various theories have been put forward why this is the case, with the favoured being strong physical demand due to the wedding season in India and the holy festival of Ramadan in the Islamic world, plus stocking ahead of Christmas in the West. Recently fund managers and other investors have acted with the view that September is a good month to be in gold. The dollar has tended to weaken in September,

Gold price, \$/oz



Gold price, ZAR/Kg



## Gold cont.

albeit only modestly and by less than in December, while stock markets have historically had some of their rockiest times. Of course a good month means there must be a bad month, and on average it has been October, with a decline of 1.9% over the last 20 years. This however is mostly explained by 2008, when gold declined by 17% on a flight-to-liquidity, as the financial crisis raged. Take this away and March and July have both been worse.

How robust is gold's rally this time? One concern is that there doesn't seem to be an obvious cause for higher gold prices – no bank failures, nor signs of inflation, and so on. Clearly a lot is owed to the return of a weaker US dollar. The dollar had been one of the winners from the financial crisis, as investors flocked to US government bonds as a refuge, pushing the greenback up 24% from its April 2008 low. But now that rebound seems just a temporary aberration, as the US currency is now back within 8% of its low. Gold benefits from a weaker US dollar in two ways. The first is simply mechanical – gold is traded the world over and if the dollar declines by 10% against other currencies, it has to rise when measured in dollars unless the price of gold in those currencies falls by 10%. The second benefit is more fundamental – we think many investors in the US now see gold as a haven from dollar devaluation, and buy gold when the dollar is weakening.

The impact of the weaker dollar means that although the London PM fix on 17th September was the highest ever in dollars, in many currencies the high is still February of this year, when the dollar price was \$989/oz. For example in euros/oz on 25th February 2009 gold fixed at 689/oz compared to 622/oz this September, while in South African Rand it fixed at 318 925/kg on 20th February 2009, almost 1/3rd higher than its peak of 238 724 kg this September.

Given the record long positions held by investors, and the belief noted above that September is a 'good' month for gold because physical demand rises, for gold to make further gains (or indeed hold on to what it has already made) in the short-term will depend on those rather overlooked physical buyers returning to the market. We shall see.

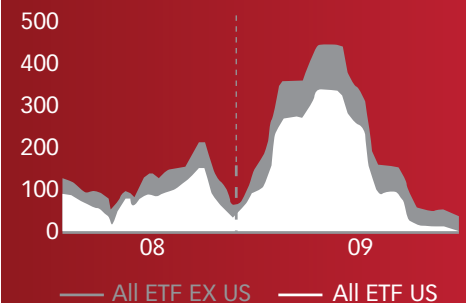


### Lease Rates, % per annum



Note: LBMA indicative rates not dealer rates.

### ETF rolling 12wk change, tonnes



2008/2009 final CBGA sales	Tonnes
France	-91.0
ECB	-35.5
Sweden	-15.0
Netherlands	-9.0
Germany	-4.3
Greece	-0.7
<b>CBGA total</b>	<b>-15.5</b>

Note: VM Group estimates based on ECB, IMF data

### Monthly gold data (September up to the 29th unless stated)

Prices	US\$/oz:	Euro/oz	Rand/kg:	ETFs	Tonnes	Change	Lease Rates	1m	3m	6m	12m	Option volatility	(%)
<b>Average</b>	997	685	239 436	US (3)	1 195.2	59.9	<b>Average</b>	-0.08	-0.08	0.23	0.64	<b>1-month:</b>	19.50
<b>High</b>	1 019	693	242 561	UK (2)	244.3	10.3	<b>High</b>	-0.03	0.01	0.33	0.72	<b>3-month:</b>	23.00
<b>Low</b>	955	672	234 425	Swiss	215.9	6.5	<b>Low</b>	-0.18	-0.16	0.16	0.58	<b>6-month:</b>	25.40
				S. Africa	43.1	–						<b>12-month:</b>	27.50
				German	34.0	1.3						<b>24-month:</b>	27.65
				Australia	14.3	0.5							
				Others	6.7	–							

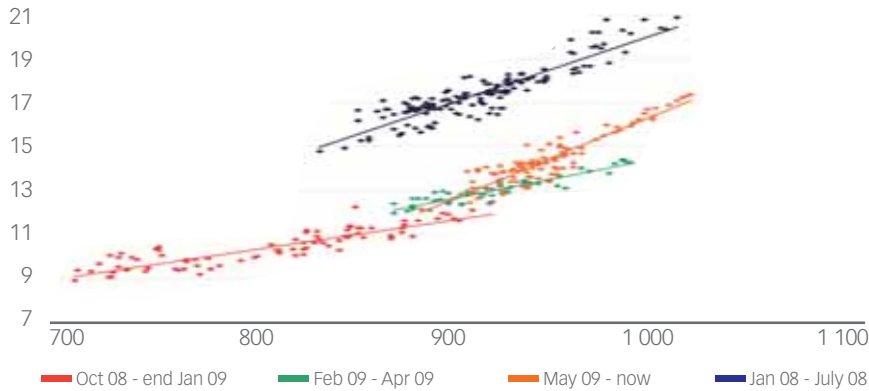


# Silver

Despite gold's strength in September, it was left behind by silver, which managed an astonishing gain of 19.5% from the end of August to 17th September, taking it to \$17.38/oz. It then succumbed to profit-taking (the market-leading BGI ETF suffered its largest one-day fall on 25th September) but still ended the month well above \$16/oz, up 10% and adding to the remarkable recovery silver has enjoyed after plunging to a low of \$8.79/oz in October 2008.

And yet the cause of that plunge is still being felt. When the gold price was over \$1 000/oz in March 2008 – silver was above \$20/oz, nearly 20% higher than its current level. Silver's relationship with gold (shown in the chart, where each dot indicates their daily prices since Jan 2008) tends to be linear until there is a break in the series – most obviously from 1H 2008 (the blue dots) to 2H 2008 (red dots) when the world looked to be on the brink of an economic depression. As that depression was downgraded to a severe recession, and then we saw signs of recovery, silver gained ground to gold, shown in red, then green and now orange.

Silver and gold prices (Gold, \$/oz)



This current relationship suggests it will take a gold price of about \$1 100/oz to see silver back to its 2008 high, unless of course there is another 'break' in the series. For silver the most likely cause of such a break would be another surge in industrial demand (which doesn't really benefit gold). Given some evidence that markets are already pricing in a 'V' shaped recovery, this might be too much to ask. So for silver to get back to \$20/oz and above will require another leap higher for gold; while we think that is likely, it will probably not be until late this year or in Q1 2010.

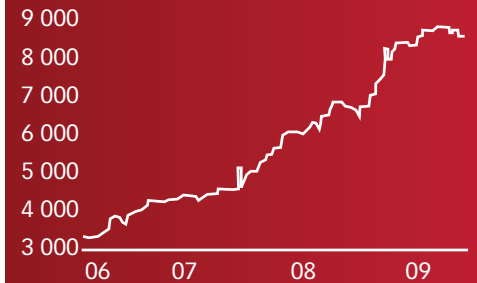
Silver price, \$/oz



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	(%)
<b>Average</b>	16.40	11.26	3 952	US (2)	8 834.1	21.8	<b>Average</b>	-0.27	-0.24	0.12	0.66	<b>1-month:</b>	38.00
<b>High</b>	17.38	11.79	4 105	UK	636.8	23.9	<b>High</b>	-0.20	-0.16	0.19	0.70	<b>3-month:</b>	38.25
<b>Low</b>	14.74	10.37	3 726	Swiss	1 716.4	36.8	<b>Low</b>	-0.34	-0.30	0.05	0.62	<b>6-month:</b>	38.75
												<b>12-month:</b>	39.50
												<b>24-month:</b>	40.00

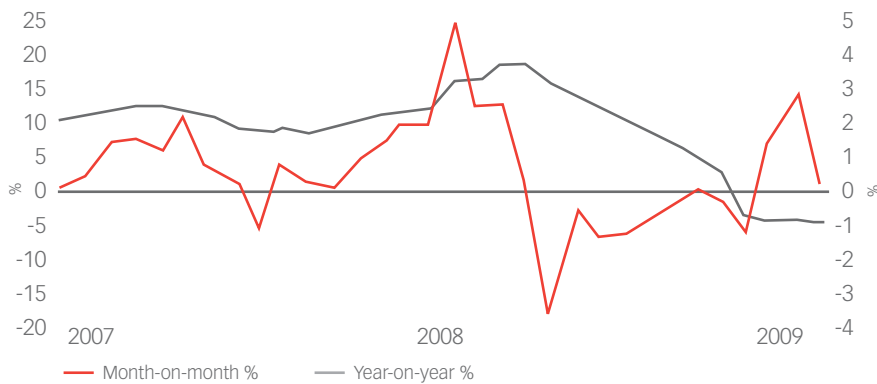


# Rand

The rand continued to gain in September, rising from 7.90 against the dollar on the 1st of the month to 7.27 (its highest since August 2008) by the 16th, a gain of 8.7%. Partly of course the rand is strong because the dollar is very weak. But even against the euro, for instance, it gained 6.2%.

The impact of the stronger currency is being felt positively in weak producer price inflation. In August that fell 4% year-on-year, and while the month-on-month trend had been rising, August saw this sharply reduced. A less positive consequence is the problems it is causing exporters, prompting Reserve Bank governor Tito Mboweni to say on the 17th its gains were 'overdone and unhelpful'. While, however, the South African currency continues to benefit from increased risk appetite globally, there is probably little that he can do. Towards the end of the September it weakened, but only to 7.37 by the 29th.

South Africa producer prices

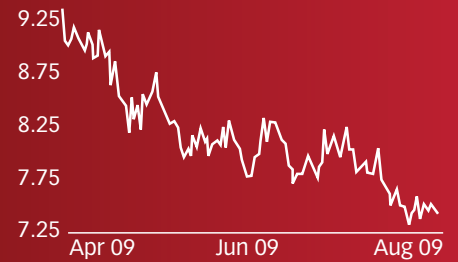


## Prices and financial data

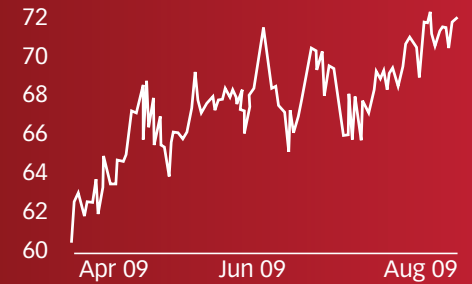
Prices	29-Sep	W%	M%	Y%	Equities	29-Sep	W%	M%	Y%
Gold, PM fix	989.50	-2	4	9	FTSE 250	9 216	0	5	18
Silver, fix	16.07	-7	11	23	DJI	9 742	-1	2	-6
					SSE	2 755	-5	-4	20
					Nikkei 255	10 100	-3	-4	-14
WTI oil	65.49	-7	-10	-31	Hang Seng	21 013	-3	5	18
GSCI	444.48	-4	-5	-27	S&P 500	3 762	-1	3	-2
DJ-AIG	310.03	-3	-3	-12	NASDAQ	2 124	-1	5	7
Bonds, %	29-Sep	W%	M%	Y%	Ex. Rates	29-Sep	W%	M%	Y%
US 10yr	3.29	-4	-5	-8	\$/GBP	1.64	-2	-2	-12
US 3m	0.13	19	-9	-4	\$/EUR	1.42	-1	2	1
Euro 10yr	3.22	-5	-1	-19	\$/JPY	94.54	-1	-4	-13
Japan 10yr	1.27	-6	-3	-15	\$/Rand	7.81	1	-5	-11
Other					\$/Yuan	6.83	0	0	0
VIX	25.19	9	2	-46	\$/SDR	0.64	1	-1	-1
Markitt 10yr	107.5	3	-2	-34	\$/INR	48.20	0	-1	4

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)

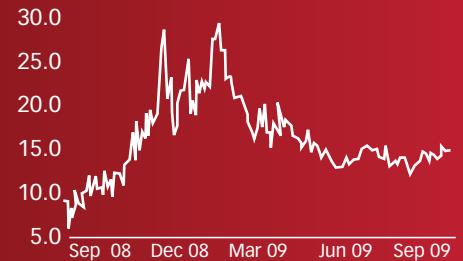


## Ratios

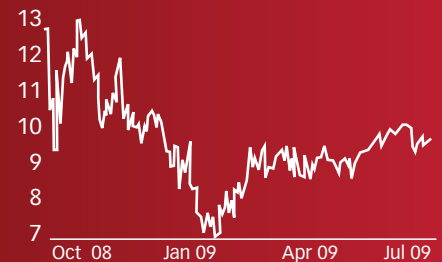
Gold/silver ratio



Gold/WTI oil ratio



Gold/DJIA ratio



Copper/silver ratio





## Harmony Investors' Diary

### 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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