

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.



Gold shot through \$1,100/oz in early November 2009, buoyed by the news that the Reserve Bank of India had purchased 200t of the 403.3t the International Monetary Fund is selling. This was tremendously bullish for two reasons – first on a simple supply/demand equation it means 200t of gold that will no longer need to be sold onto the open market, and second, perhaps more fundamentally, it raises hopes that central banks in general are looking more favourably on gold as an official reserve. This sentiment was boosted further when the following day Sri Lanka said it had also been adding to its reserves.

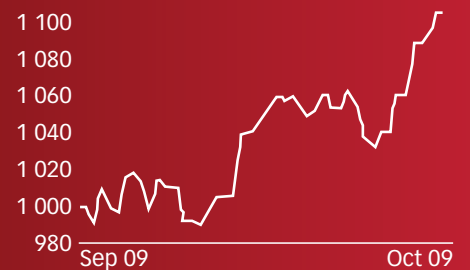
Gold

This was the first major 'micro' gold story that the market had enjoyed for a while – until then the focus had been on 'macro' issues such as the dollar and state of the world economy. These had helped propel gold higher in October 2009, but by 28 October 2009 it had fallen from its previous high of over \$1,060/oz to a low of \$1,031.75/oz. Why did gold's rally falter? To understand that, we need to look at the slightly unusual circumstances which led to gold's price rise. There has been much talk about gold benefiting from failing confidence in government fiscal control and we remain in a period of deep uncertainty as to how/when governments everywhere will tighten their loose monetary policies and rein in their surging deficits. You do not have to be a goldbug to be concerned, for example, that the amount of banknotes in the Eurozone and US has risen from \$1.9 trillion in September 2008 to \$2.9 trillion a year later. Gold, with a relatively fixed supply, is seen as a refuge from the likely inflation that this could cause down the line. But as 'convenient' a story as this is, it doesn't fit in with some other facts. Yields on government bonds, which being fixed would be the first casualties of inflation, have barely budged, suggesting the inflationary demon is being seen as a real possibility rather than just a probable threat, so far.

Instead much of gold's rally can be seen as the result of two related financial market trends – a greater appetite for risk and a belief that the world economy was firmly on the mend – that are reaching their limits. These two factors have seen the dollar fall as investors switch into equities, both at home and in emerging markets and more 'exotic' assets, which as well as gold include other commodities. That these are also usually hedges against inflation helps, but this is not the main reason. Recently this broad-based rally has faltered, with the S&P 500 share index finding 1,100 a hard level to crack, and currency speculators taking note of European politicians' growing calls that 1.50 to the dollar is as high as they want the euro to go. Gold similarly stalled at around the \$1,060/oz level.

The pullback however was short-lived. By 29 October 2009 share prices were rising again on news of better-than-expected US Q3 GDP and gold changed course again, fixing at \$1,040/oz in London on 30 October 2009, and then \$1,061/oz the following day.

Gold price, \$/oz



Gold price, ZAR/Kg

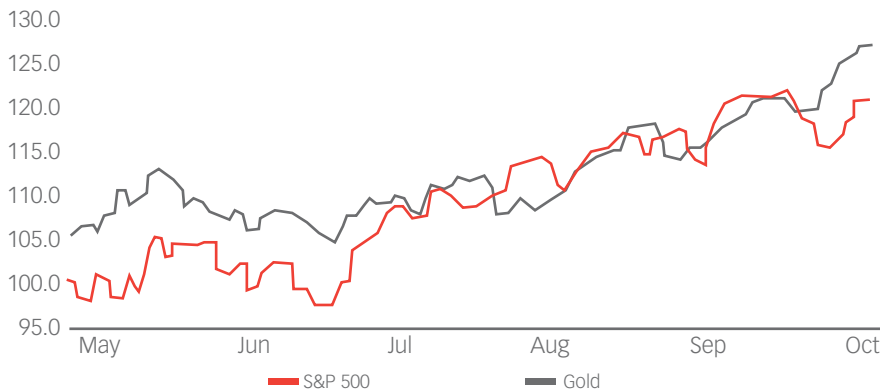


Gold cont.

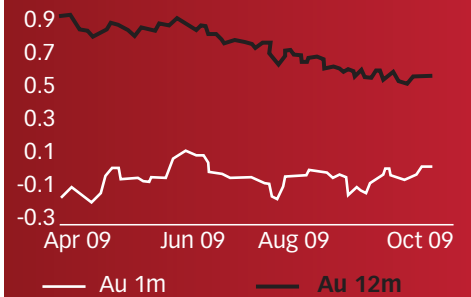
The big question is how this will all play out. If the optimists are right and the world economy enters a new era of growth, then will those who have invested in gold for fear of the abyss start to pull out? Conversely will those who fear inflation step up their purchases? Even more complicated is the situation where the world economy has another downturn, perhaps as the government stimulus wears off. This would see a sharp correction in share prices and other recovery plays, such as oil and base metals. On the evidence here gold would also suffer as the investors seek the safety of bonds or cash. But after an initial decline how much support would it get from investors seeking a safe haven?

Put simply, it is important to realise that different investors have different reasons for being in gold, and sometimes these work in the same direction and sometimes they don't. After a period when everything was flashing 'buy gold', the next few months might be more volatile as investors try to decide whether the world economy is firmly on the mend, and if it is or isn't what it means for the yellow metal. Unless of course the central banks really do want more gold, and then all bets are off.

Gold and the S&P 500 (start 09 = 100)

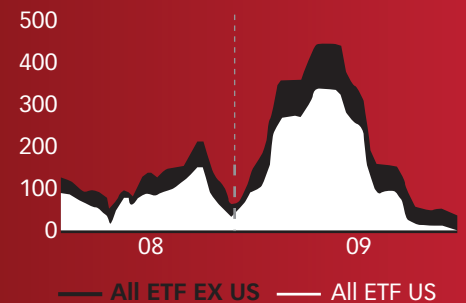


Lease Rates, % per annum



Note: LBMA indicative rates not dealer rates.

ETF rolling 12wk change, tonnes



Monthly gold data (up to 29 October 2009 unless stated)

Prices	US\$/oz	Euro/oz	Rand/kg	ETFs	Tonnes	Change	Lease Rates	1m	3m	6m	12m	Option volatility	(%)
Average	1 043	704	249 944	US (3)	1 187	16.2	Average	(0.04)	(0.06)	0.15	0.59	1-month:	17.80
High	1 062	717	259 636	UK (2)	241	(9.6)	High	0.01	(0.01)	0.21	0.63	3-month:	20.00
Low	1 004	686	240 840	Swiss	215	(1.0)	Low	(0.09)	(0.10)	0.08	0.53	6-month:	23.20
				S. Africa	52.7	2.9						12-month:	26.70
				German	35	1.2						24-month:	27.25
				Australia	14	0.0							
				Others	7	0.0							





Silver enjoyed its highest London fix since July 2008 on 13 October 2009, at \$17.99/oz, but, as with gold, it then succumbed to a stronger dollar and changing sentiment towards the end of October, falling back quite sharply and fixing on 29 October 2009 at \$16.33/oz, much where it had began the month. When gold rallied again on the India central bank news silver followed, but was unable to set a new high.

Silver

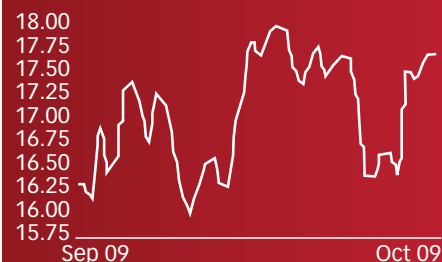
This means silver has under-performed gold. This can be seen by the gold/silver ratio, which widened to 64.89 on 3 November 2009, the least in silver's favour since 1 September 2009, when silver was just \$14.74/oz and gold at \$955/oz.

We might have expected the opposite – that silver would have done better than gold. After all, base metal prices, which sometimes indicate a trend for silver, as silver is an industrial as well as a monetary metal, were weak in September 2009 but quite strong in October 2009. However they stumbled again towards the end of the month and in early November 2009 and with no direct impact from any repositioning of central banks towards gold, silver's rally ran out of steam. After all, silver is almost double the price it was this time last year and, while its collapse late last year was obviously a short-term reaction to the intense global financial crisis, few could have foreseen such a rapid recovery.

The uncertainty is heightened by genuine doubts about the strength of economic recovery in developed countries. Have governments' stimulus packages done enough to prevent a further decline? China and other emerging markets appear to be pulling themselves out of their (very brief) economic dip – but is that enough to ensure that economic growth can be restored globally? These are highly pertinent questions for silver, whose industrial base has been decimated by the decline in traditional non-digital photography, but whose new end-uses (in fields as diverse as medical technology, solar panels and radio frequency identification tags) are still in embryonic form, and very much depend on stable economic outlooks.



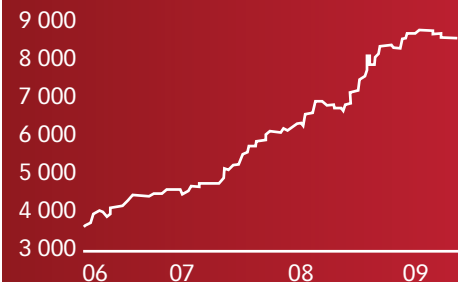
Silver price, \$/oz



Silver price, ZAR/Kg



BGI silver ETF holdings, tonnes



Monthly silver data (up to the 29 September 2009 unless stated)

Prices	US\$/oz	Euro/oz	Rand/kg	ETFs	Tonnes	Change	Lease Rates	1m	3m	6m	12m	Option volatility	(%)
Average	17.31	11.68	4 128	US (3)	8 834	22	Average	(0.32)	(0.28)	0.01	0.62	1-month:	34.00
High	17.99	12.11	4 290	UK	657	25	High	(0.28)	(0.25)	0.04	0.67	3-month:	35.25
Low	16.21	11.08	3 887	Swiss	8 883	49	Low	(0.38)	(0.34)	(0.05)	0.54	6-month:	36.75
												12-month:	38.00
												24-month:	38.50



Rand

The South African government's worry about the soaring rand translated into action in late October 2009. Finance Minister Pravin Gordhan said he was "concerned" about its strength and that, although he wished he "had the capacity to intervene in a more assertive way", the Treasury would "lean against the wind" to "massage the currency". This will take the form of continued intervention to increase the country's forex reserves, and, less expectedly, a loosening of capital controls for both businesses and individuals, announced on 27 October 2009.

The measures he announced took rapid effect, as the rand fell to a near four-week low on 28 October 2009, trading at 7.82 to the dollar, having peaked at 7.21 to the US currency on 15 October 2009. The US currency has been weak recently, so against other currencies the rand has been weaker – its value on 28 October 2009 against the euro, for example, was the lowest it had been since early August 2009.

Of course there is only so much practically the government can do to lower the rand. By 9 November 2009 it was back at 7.40 to the dollar, its highest in two weeks, as firm gold prices and a weaker dollar boosted its appeal once again. However speculators have been warned and we expect it to gently decline towards year-end.

Prices and financial data

Prices	9-Nov	W%	M%	Y%	Equities	9-Nov	W%	M%	Y%
Gold, PM fix	1 106.75	4	5	51	FTSE 250	9 203	3	-2	40
Silver, fix	17.68	7	0	75	DJI	10 227	4	4	14
					SSE	3 176	3	14	82
					Nikkei 255	9 809	0	0	14
WTI oil	77.77	2	11	30	Hang Seng	22 208	3	3	56
GSCI	510.29	1	8	21	S&P 500	3 885	5	3	20
DJ-AIG	342.48	0	5	26	NASDAQ	2 154	5	1	31
Bonds, %	9-Nov	W%	M%	Y%	Ex. Rates	9-Nov	W%	M%	Y%
US 10yr	3.49	2	-5	-8	\$/GBP	1.64	2	4	7
US 3m	0.05	0	-9	-82	\$/EUR	1.42	2	1	18
Euro 10yr	3.33	3	-1	-10	\$/JPY	94.54	0	2	-8
Japan 10yr	1.48	5	-3	-2	\$/Rand	7.81	-7	1	-27
Other					\$/Yuan	6.83	0	0	0
VIX	23.15	-22	2	-59	\$/SDR	0.64	-1	-1	-7
Markitt 10yr	113.86	-5	2	-32	\$/INR	48.20	-1	0	-2

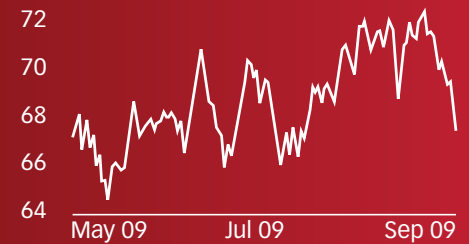
Notes: W% = change in % on week, M% = change in % on month. Prices in US dollars, equity indices in local currency. Bonds refer to yields in %. VIX – volatility index showing expectations of 30d volatility on S&P 500. Markitt 10yr is spread over Treasuries.



Dollar/rand



Rand index (2000=100)



Ratios

Gold/silver ratio



Gold/WTI oil ratio



Gold/DJIA ratio



Copper/silver ratio





Harmony Investors' Diary

2009

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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