Weekly Investment Bulletin

17th December 2012

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Market Roundup:

Most stock market indices have a net positive week.

Starting with Asia, the area enjoyed decent gains, with only India's SENSEX shedding 0.55%. Shanghai was the main benefactor soaring to 6% for the week. Chinese shares rose to lead Asian markets by a wide margin later in the week Friday as strong manufacturing data boosted confidence about an economic recovery in the world's second largest economy. HSBC's calculation of China's PMI rose to 50.9 or a 14 month high.

Japan rose to add a further 2% this week, despite giving up gains on Friday. As it prepares itself for elections, the general consensus is that the main opposition party is expected to emerge victorious. Their support of looser monetary policy and a weaker Yen had helped Japanese markets to rally in recent weeks.

Europe laboured to a finish where all indices finished in the green. Piggy backing off favourable data from China, markets reacted positively as Euro-zone finance ministers approved the heavily-delayed release of financial aid to Greece on Thursday. The agreement comes after Greece this week completed a debt buyback that retired €31.8 billion worth of government debt, a requirement for the aid set by Greece's troika. Furthermore Finance ministers approved the release of a total of €49.1 billion in aid between now and March, with around €34.3 billion set to be disbursed 'imminently'.

Stateside it was more of a mixed bag, as U.S. stocks ended the week flat as investors focussed on the lack of a federal government budget deal and ignored upbeat economic reports in the U.S. and China. Investor reaction was only muted as data from the Labour Department reported the cost of living fell in November. The 0.3% drop slightly exceeded the 0.2% expected decline.

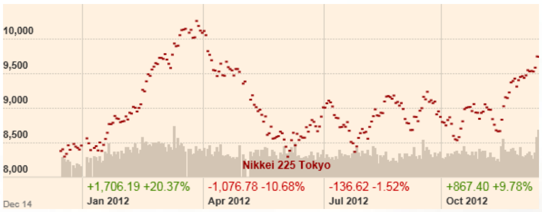
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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What to Look Forward to in 2013:

At this time, we like to look at the themes that are likely to shape market movement next year.

The most apparent factor is the U.S fiscal cliff. As we have said in the pass, we feel that a compromise will be reached however we would not be surprised to see an 11th hour deal sealed.

Therefore provided this is the case, we would not expect to see this take the stock market hostage in January, however expect events of such political importance to take sharp short term swings, in either direction.

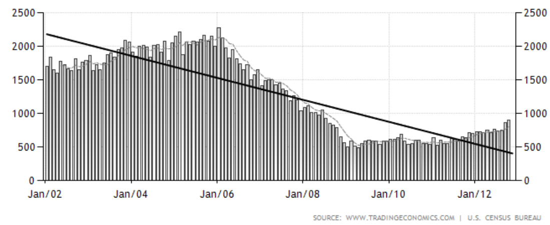
Another area we have focussed on in past bulletins is the recovering U.S housing market. Indeed this is the biggest source of net worth for the U.S citizen and as we stand the U.S consumer is key to global recovery. For a vast majority of Americans, their home is their biggest source of net worth. If they don't have to worry about a continued free fall in housing prices, they will feel better about their savings and their investments and therefore feel more confident to spend.

A stable housing market can remove some of this fear from the forefront of investors' minds. It can also help boost other businesses and retail sectors, including appliances, home improvement retailers and even auto sales.

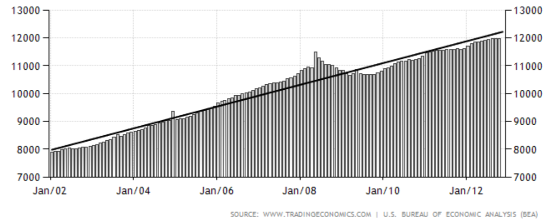
During the economic cycle expect this to be equalled if not superseded by the Chinese consumer – but we're not there just yet.

Over the past year, the housing market finally put in a bottom and is improving. House prices have stabilized in most areas, and even if we experience only marginal growth in housing starts and prices, consumers' outlooks on their own worth and stability will improve.

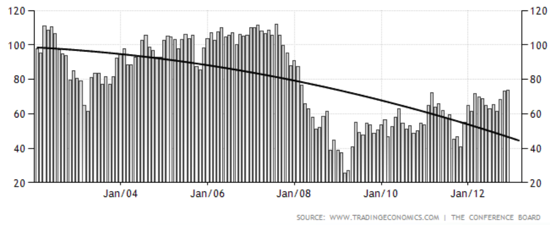
U.S Housing Index:



U.S Disposable Income:



U.S Consumer Confidence:



Source: www.tradingeconomics.com

Cont:

Indeed the effects of a recovering housing market are profound on consumer sentiment numbers throughout the year. Consumer sentiment started to trend lower in 2000 as the dot-com bubble burst. Aside from a couple of tepid recoveries, consumer sentiment has remained in a strong downtrend for the past 12 years. It wasn't until earlier in 2012 that sentiment levels began to rise significantly from 2009 lows.

In October, we finally saw the first break of the sentiment downtrend that has remained intact for more than a decade…

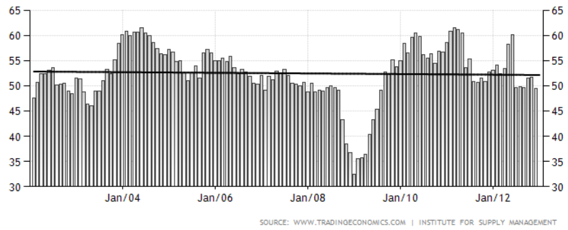
So why is this break important?

Despite the market's rapid rise after the 2008 collapse, trading volume has yet to recover to pre-crisis levels. Investors have become frustrated or disillusioned with the market's see-saw performance and retail investors had enough and left.

These shifting sentiment numbers show us that investors could be closer to embracing risk. If housing data and consumer sentiment numbers are any indication, we're moving closer to a more stable recovery.

Whilst we are not predicting that markets will fly as of Jan 1st and never look back, if investors can ride out the fiscal cliff and collectively decide to become more accepting of risk we could finally see a gradual shift away from risk-averse investments like bonds and money finally returning to equities of growth economies and commodities.

U.S Business Confidence:



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Currencies:

EURUSD

EURUSD broke above 1.3171 resistance, suggesting that the uptrend from 1.2042 has resumed. Further rise could be expected next week, and next target would be at 1.3400 area.

EURGBP

EURGBP's rebound from 0.8035 was stronger than expected. Initial bias is cautiously on the upside for 0.8147 resistance. A break will test on 0.8164 and will indicate resumption of whole rebound from 0.7755.

GBPUSD

GBPUSD continued its upward movement from 1.5827, and the rise extended to as high as 1.6177. Further rise could be expected and next target would be at 1.6300 area.

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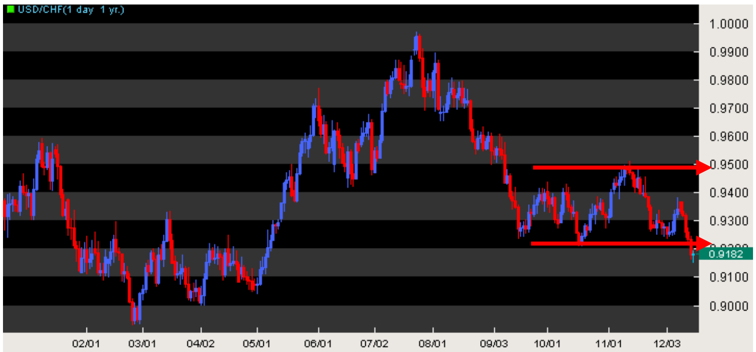
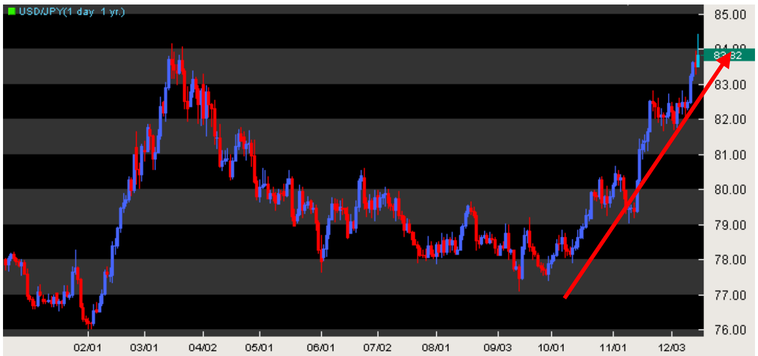
USDCHF



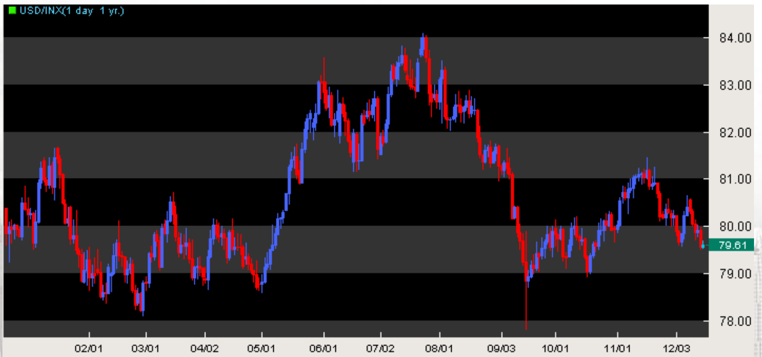
USDCHF broke below 0.9214 support, suggesting that the downtrend from 0.9971 has resumed. Further decline could be expected next week, and next target would be at 0.9000 area. Resistance is at 0.9400, as long as these levels hold, the downtrend from 0.9511 will continue.

USDJPY



USDJPY's upward movement from 77.14 extended to as high as 83.96. Further rise could be expected next week, and next target would be at 85.00 area. Initial support is at 82.40, and the key support is at the trend line on the chart, only a clear break below the trend line support could signal completion of the uptrend.

USD Weighted Index



USD weakened across the board, led by a 0.42% rally in the Euro, which was following by a 0.20% advance in the Australian dollar. We're seeing the Australian dollar extend the advance from earlier this month as market participants continue to raise their appetite for risk.

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Gold:

Gold futures fell the most in a week as mounting concerns on the U.S. economy and deadlock on fiscal cliff negotiations eroded investment demand for the precious metal. The Federal Reserve said yesterday that the economy will expand 2.3% to 3% in 2013, compared with 2.5% to 3% estimated in September.

Crude:

Oil rose in New York on Friday, extending a weekly gain, as a report signalled manufacturing may expand at a faster pace this month in China, the world's second-biggest crude consumer. The latest PMI, slightly ahead of the market expectation, suggests that China is maintaining the economic recovery momentum; improved economic headlines from China will provide firm support to oil prices in 2013.

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Summary:

Another year draws to a close, and stock markets have been volatile once again but have allowed themselves to move higher since the summer. Winding back, the source of market malaise was linked to European structural questions. That appears to have ironed itself out. Not so much in that the debt has been miraculously serviced, but systemic risk can be contained. Sadly that is progress, but Europe can move forward to banking union which, while contentious, is utterly necessary if the single currency as well as economic union can move forward.

The next hurdle undoubtedly is the US fiscal cliff and compromise will need to be reached very soon. Time is running out for senate and congress, and all the good work made this year in the world's largest economy, particularly on the consumer side, will be undone.

This will be our final bulletin of 2012 and we look forward to sharing our views with you in the New Year.