Weekly Investment Bulletin

10th December 2012

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Market Roundup:

Global indices were able to advance yet again for the week.

Starting with Asia, all major indices ended the week in positive territory. Most notably, China's Shanghai composite raced to a 4.14% weekly close due to continued confidence that Beijing's incoming leaders will back the current fiscal and monetary stance.

Furthermore, comments from Li Daokui, China's former economic adviser to the central bank, painted a much more upbeat note on the world's 2nd largest economy. He expects economic growth to rise 'relatively quickly' next year, especially in the first half of the year, possibly surpassing the annual expected 8% growth rate.

European indices endured a topsy-turvy week. Greek banks are prepared to hand over their entire stock of Greek government bonds as part of the country's debt-haircut with an approx value of €15 billion. Greece aims to retire around €63 billion in debt owed to private creditors, a goal demanded by the country's bailout providers in return for fresh aid. The buyback must be completed by Dec. 12, a day ahead of a meeting of euro-zone finance ministers. Separately, the ECB hinted to an interest rate cut should economic recovery remain sluggish.

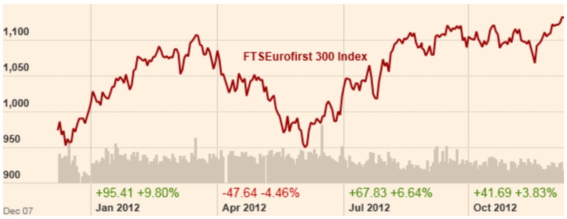
Stateside, The Labour Department said the U.S economy added 146,000 jobs in November, while the unemployment rate fell to 7.7% being the lowest since December 2008. However the consumer sentiment index for December showed a decline, falling to 74.5 from 82.7 as the S&P 500 found the momentum to test 1423 resistance.

Market Data (12 month):

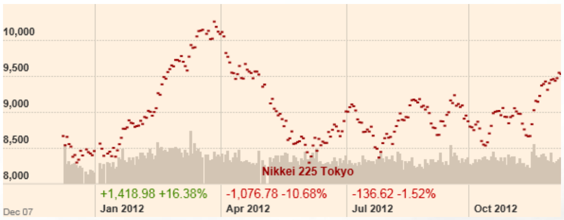
S&P 500:

FTSE100:

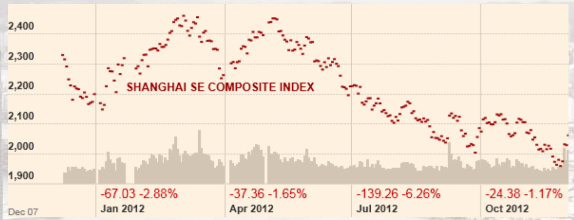
FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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China's Oil Ally - Iraq:

A lot of attention has been paid in recent years to energy-hungry China's billion-dollar bids on oil fields in Canada and the Asian giant's reliance on oil from countries like Iran and Sudan to fuel its growing economy. But its growing interest in another major oil producer has gone largely unnoticed, and if current trends continue, that Middle Eastern country could become the world's next "oil superpower," with China, not the West, acting as both Iraq's main partner and top beneficiary of its rich resources.

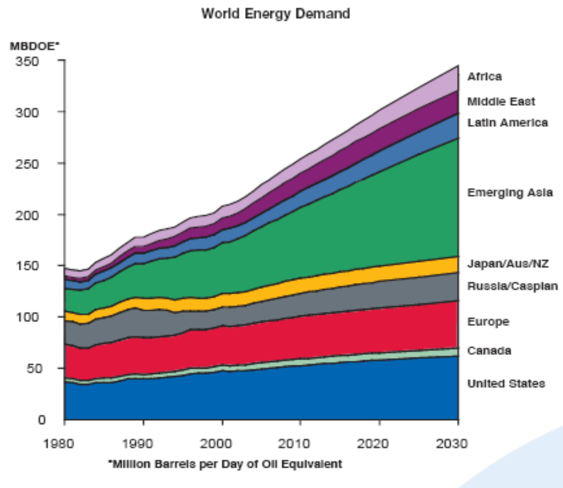
In the past decade or so, China waited patiently on the sidelines while the U.S. and its allies coped with Iraq's new, and often times messy internal dynamics that followed the 2003 overthrow of Saddam Hussein by a U.S.-led coalition.

China re-emerged in 2008; however, to sign post-Saddam Iraq's first major oil deal with a foreign country. While the majority of Iraqi oil deals in the post-Saddam era were awarded to Western firms, the Western shift to a more amenable and independent oil-rich Kurdish region in the north amid disenchantment with southern Iraq is creating a vacuum that China has found hard to resist.

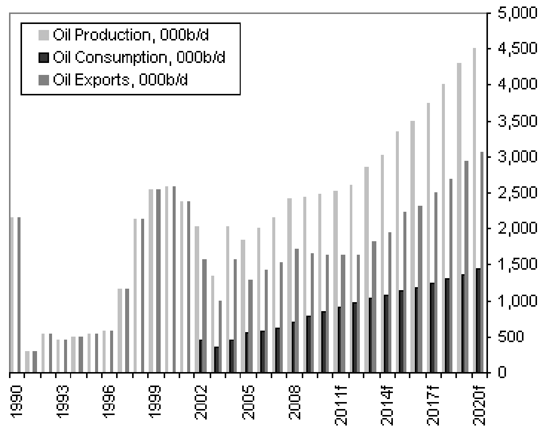
Even more so than Russia, a traditional player in Iraq during the Soviet era, China has the capital that Baghdad is desperately seeking to build its oil and gas infrastructure, while Iraq has crude potentials that are alluring to a China that seeks to diversify its energy sources.

Relations are already on the right lines. To create goodwill with Baghdad, Beijing in 2010 forgave about 80% of Iraq's $8.5 bln debt to China and has signed multibillion-dollar trade deals in various sectors, including industry, government, tourism, and transportation.

Energy Demand by Geographical Area:



Oil Demand and Supply Development:



Source: www.energyandcapital.com

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Cont:

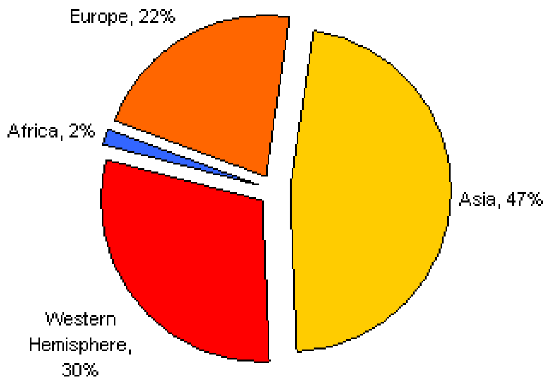
China's prospects in Iraq are certainly enviable. The vast amounts of capital at the disposal of state-owned oil firms like CNPC, will give it a crucial advantage as it attempts to outbid potential competitors for Iraq's oil resources.

The implications of this shift away from the West in favour of China will be far-reaching for both Iraq and the Middle East. About two thirds of Iraq's estimated oil reserves of 143.1 bln barrels and natural gas holdings of 126 tln cubic feet are located in southern Iraq, the same parts of the country that Western companies are pulling out of.

Industry sources maintain that by 2020 Chinese companies could be involved in projects within Iraq that account for at least 2 mln barrels per day (bpd) of the estimated 6 mln bpd Iraq will produce by then (from 3.1 mln bpd at present), and may be aiming for 3.5 mln bpd by 2035. Venezuela, another important source of crude for China, exports about 1.7 mln bpd, of which China accounts for 10%. For its part, Russia produced 9.8 mln bpd of crude in 2011, of which 7 mln bpd were exported with China buying about 375,000 bpd.

From the above figures, it is therefore easy to see why Beijing would increasingly turn to Iraq, possibly the next "energy superpower," as a source of crude to ensure it can continue to feed China's economic expansion well into the future.

Iraq Crude Exports:



Source: EIA, Apex, Global Trade Atlas

Currencies:

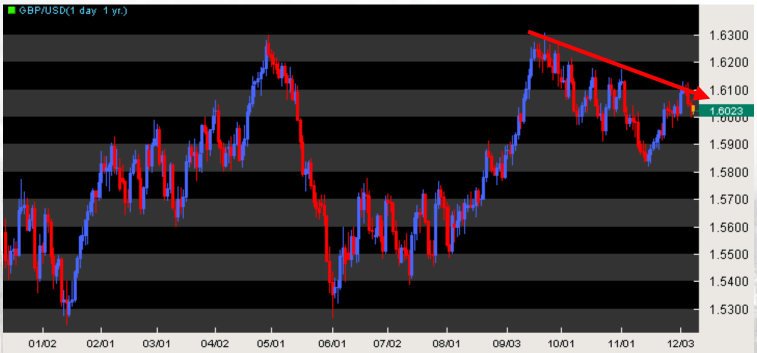
EURUSD

EURUSD failed to break above 1.3171 previous high resistance and pulled back from 1.3125, suggesting that a cycle top had been formed, and lengthier consolidation of the uptrend from 1.2042 is underway. Further decline could be expected next week, and next target would be at 1.2750 area.

EURGBP

EURGBP rebounded further to 0.8147 last week and reversed from there. The development suggests that such rebound is already completed, ahead of 0.8164 resistance. Initial bias is back on the downside this week for 0.7959 and possibly below.

GBPUSD



GBPUSD had formed a cycle top. Further decline would likely be seen this week, and next target would be at 1.5900 area. Resistance is now at 1.6130, only break above this level could trigger another rise towards 1.6309 previous high.

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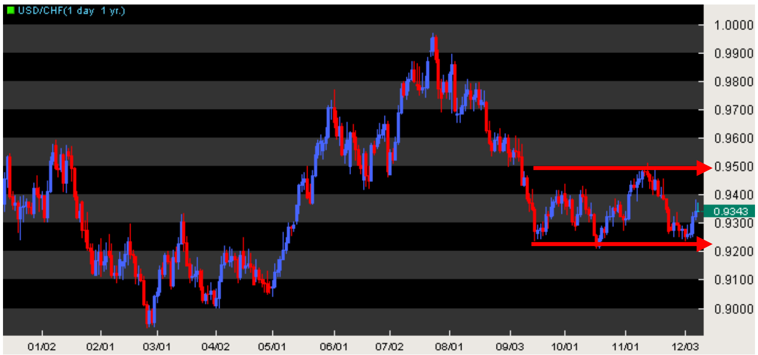
USDCHF

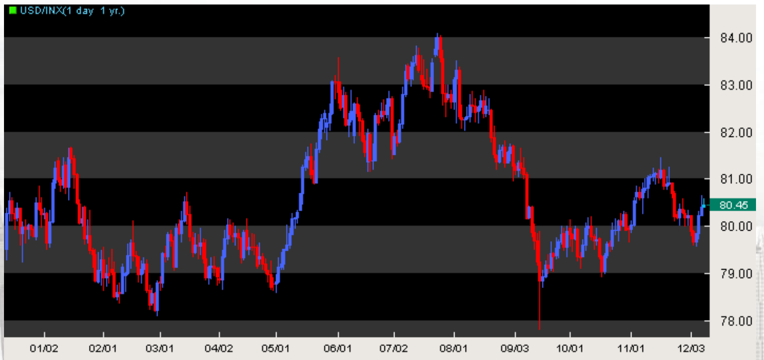


USDCHF failed to break below 0.9214 previous low support, and rebounded from 0.9241, suggesting that a cycle bottom had been formed, and lengthier consolidation of the downtrend from 0.9971 is underway. Further rise is expected this week, and next target would be at 0.9450 area.

USDJPY

USDJPY remains in uptrend from 76.14, the fall from 82.83 is treated as consolidation of the uptrend. Another rise towards 86.00 could be expected after consolidation, and a break above 82.83 will signal resumption of the uptrend. Initial support is at 81.65.

USD Weighted Index



USD advanced against three of the four components, led by a 0.27% decline in the Euro, while the Japanese Yen bucked the trend, with the USDJPY preserving the range bound price action carried over from the previous month. With the December 16 elections quickly approaching, a political shift in the world's third-largest economy may continue to dampen the appeal of the Yen as challenger Shinzo Abe encourages the Bank of Japan to adopt an unlimited asset purchase program.

Gold:

Gold's modest bounce can be attributed, in part, to news that Greece is close to reaching its sovereign debt buyback target of €30bln. Elsewhere, China's industrial output jumped 10% last month, an eight-month high, while industrial exports surged to a 10-month high. In another sign the world's second-largest economy is in recovery mode, Chinese retail sales rose 14.9% last month, beating estimates at 14.6%.

Crude:

Crude oil futures edged lower in choppy trade on Friday to settle the week close to a seven-day low. Concerns about a lack of progress in the U.S. "fiscal cliff" budget negotiations added to jitters about the U.S. economy.

Registered Office: 3rd Floor, Ebene House 33, Cybercity, Ebene, Mauritius. Licence Number: C108007141. Company Number: 086547 C1/GBL

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Summary:

Europe will be taking its share of the headlines as Italian Prime Minister Mario Monti announced his intention not to run for election for when his term expires in April. A perception of unity (even if the reality is far from that) is key to restoring confidence in the European system and this will have a short term knock on market sentiment. Though Italian bond yields have given its fair share of worry, the situation is far calmer now however expect their yields to swing back and forth as speculation on Monti's possible successors persists.

On a wider macro scale, investors should be cheering China data and US jobs data should underpin that we remain on the right lines as things stand. Of course the greatest concern is the fiscal cliff and the lack of progress in the run up to Christmas will add to the tension.