

Market Roundup:

Most Asian markets fell Friday on caution ahead of the US nonfarm payrolls data, while Japanese stocks dropped for a third straight day as exporters came under pressure from the yen's sharp gains the previous day.

Earlier in the week the Nikkei suffered a bigger drop to record losses of more than 20% from the peak it reached on May 23, entering a so-called bear-market territory.

European stock markets also struggled for direction. It was another week of net losses after the European Central Bank kept interest rates on hold and lowered its growth outlook for the euro zone for 2013.

In Mario Draghi's eyes, the Euro zone is now set for a 0.6% GDP contraction, versus a previous forecast of -0.5%. On a brighter note, the 2014 forecast was lifted to 1.1% growth from 1%.

Investors also remained cautious ahead of the much anticipated nonfarm payrolls report from the U.S. to gauge if the labour market is improving. Friday's broad regional declines came amid some fears related to the U.S. jobs data, which was looking for an addition of 173,000 jobs from 165,000 in April.

In the end, the US created a net 175,000 jobs in May, all of them in the private sector, exceeding expectation. The unemployment rate, which is drawn from a separate survey of households, edged up to 7.6% from 7.5% as more people entered the labour force in search of work. The size of the labour force surged by 420,000. The news was able to lift US indices in need of a catalyst.

Market Data (12 month):

S&P 500:



FTSE100:



FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

China's Urban Revolution:

More than half of China's massive population live in cities. With hundreds of millions more coming in the next 15-20 years, the race is on to make sure they have a place to live.

China is in the midst of an urban revolution, with hundreds of millions of migrants moving into cities every year. Since 2011, for the first time in history, more than half of China's 1.3 billion citizens (690 million people) are living in cities. By 2028, that number is expected to grow by a colossal 300-400 million.

That's roughly 4.5% of the world's population, or the entire USA.

With China's leadership now in place after it's once in a decade re-shuffle, New Premier Li Keqiang recently proposed accelerating urbanization in China, and said urbanization is a "huge engine" of China's future economic growth.

Indeed it forms the platform for China's next stage of development, which is developing and harnessing the potential of its massive urban population.

Yet, China's urban dream may be derailed by the lack of affordable housing in cities for the massive influx of urban residents.

For almost five decades, Chinese cities were dominated by welfare-oriented public rental housing provided by either the government or public employers. Severe housing shortages, were common problems in cities.

Over the last two decades, Chinese cities have experienced an unprecedented housing privatization, as the Chinese government has sold public rental housing at subsidized prices, encouraged developers to provide new private housing, and ended public housing provisions.

New Construction in China:



Average Property Price % Change:



Years of Income Required to Purchase 100m2 Apartment:



Cont:

This is where the numbers stand out once again. With the influx of both domestic and international investment, there has been a housing boom in Chinese cities. In the decade leading up to 2010, [according to the Economist Intelligence Unit](#), China constructed roughly twice the total number of houses currently in the UK, or about the same amount of all houses in Japan.

But this is clearly not enough. The lack of supply has inevitably led to skyrocketing housing prices in cities, with the national average housing price increasing by 250% in the decade between 2000 and 2010. In big cities like Beijing and Shanghai, a modest apartment can cost multiple millions of Yuan to purchase, and thousands of Yuan to rent, making housing affordability the top concern of most low and middle income households.

This makes the experience for most migrants quite undesirable and presents a large challenge for the current regime.

So far the government's efforts have been lacking. Despite the poor housing conditions in many Chinese cities, it wasn't until 2006 that the State Council formally recognized the need to improve migrants' housing conditions. Even then, however, the central government placed that responsibility on employers provide their migrant employees with housing.

Faced with increasing discontent and potential social instability, the central government has renewed its commitment to low-income housing in the last few years, injecting billions of Yuan into low-income housing development. For example, the government plans to add 36 million units of new affordable housing during 2011-2015.

The hugely underdeveloped private sector needs to contribute as well. In fact this is perhaps the most potentially crucial areas if 300 million people are to have access to decent housing.

The very limited rental housing by developers is often high-end apartments for the elite. The government needs to provide incentives such as tax breaks, low-interest loans, and cheaper land to encourage developers to provide more affordable rental housing for the urban poor and migrants.

In addition, the government should fully recognize suburban villagers' land rights, and encourage and facilitate them to invest in decent affordable housing.

Only with a large stock of decent, affordable housing in both the public and private sector, millions of migrants can achieve their housing dream in cities, and China's urban dream may be realized. After benefiting from cheap migrant labour for decades, it is time for the government to shoulder at least some housing responsibility for migrants. Otherwise, a huge population without access to decent affordable housing will derail the government's push for further urbanization and cause socio-political instability.

Currencies:

EURUSD



EURUSD broke above 1.3242 resistance, suggesting that the downtrend from 1.3711 had completed at 1.2747 already. Further rise could be expected, and next target would be at 1.3500 area.

EURGBP



EURGBP's pull back from 0.8598 last week extended lower last week and outlook is unchanged. On the upside, above 0.8598 will target 0.8636 resistance. A break of that level will turn the outlook bullish.

GBPUSD



GBPUSD breaks above 1.5605 resistance, suggesting that the uptrend from 1.4831 has resumed. Further rise is expected, and next target would be at the 1.5900 area.

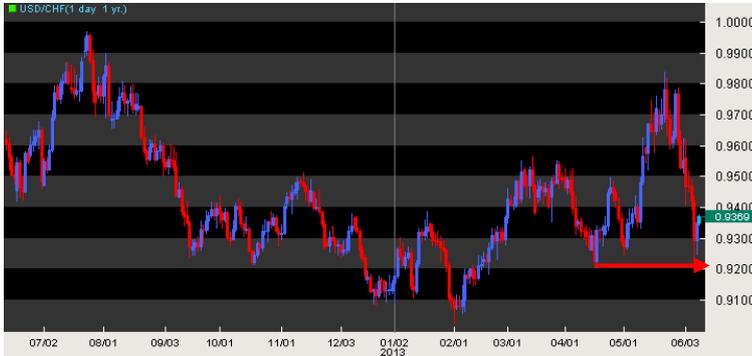
Weekly Investment Bulletin

10th June 2013

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USDCHF



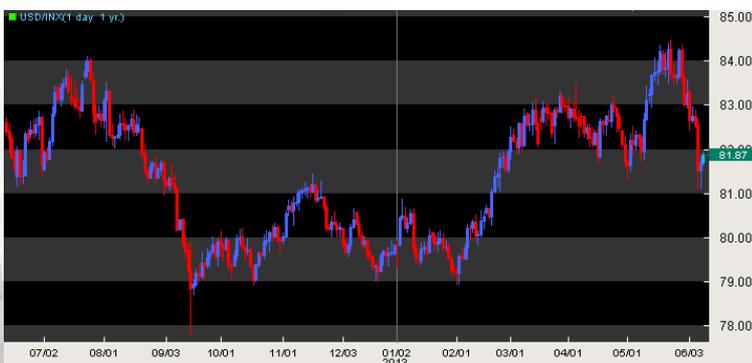
USDCHF is facing 0.9206 support, a breakdown below this level will confirm that the uptrend from 0.9021 had already completed at 0.9838, then next target would be at the 0.9000 area.

USDJPY



USDJPY broke below 97.00 key support, suggesting that the uptrend from 77.14 (Sep 13, 2012 low) had already completed at 103.73. Further decline is likely, and next target would be at 93.00 area.

USD Weighted Index



The USD rallied against the board, as the Japanese Yen shed 0.54% ahead of the Bank of Japan (BoJ) interest rate decision on tap for the following week. As Governor Haruhiko Kuroda monitors the impact of its easing cycle, we should see the BoJ stick to the sidelines. US employment data showed progress, with net job creation exceeding expectation and despite jobless numbers edging up, a deeper analysis showed that discouraged workers were now returning to the work force.

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Gold:



Gold prices fell on Friday after the U.S. government reported that the economy picked up more jobs than expected in May, which strengthened the dollar.

Gold and the dollar tend to trade inversely with one another. The data bolstered the dollar by allaying concerns that the Federal Reserve will keep monetary stimulus programs in place.

Crude:



Jobs data lifted crude prices. Energy markets welcomed the news under the assumption the US economy continues to recover and will demand more fuels and energy going forward.



Summary:

So the jobs numbers beat expectation, but not hugely. In fact the biggest positive is the number of workers declaring themselves available, which in turn has pushed up the unemployment rate. What this means is that any move from the Fed to curb is easing cycle remains just as opaque as before. We do not expect to see any movement before September.

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