Weekly Investment Bulletin

11th March 2013

MITHRIL ASSET MANAGEMENT

Market Roundup:

After slight correctional movement in the last fortnight, markets re-gained profitable territory.

Asia had been under pressure following Chinese government legislation curbing lending to local property developers. However on Friday saw some better news from China, with the country recording a surprise $15.3 billion trade surplus in February where exports were 21.8% higher than a year earlier.

Japan's Nikkei powered to a 5.84% weekly close, buoyed by a weakened Yen. However the rate did come under pressure after Japan's October-December gross domestic product was revised upward to show annualized growth of 0.2%, up from a 0.4% contraction.

Europe enjoyed a week in the green, lifted by news from Asia. The UK's FTSE 100 closed at its highest level since January 2008 and Germanys DAX gained over 3% for the week. This came amongst news that both the Bank of England and the European Central Bank would leave base rates unchanged. Investors also turned their attention on Spain, where the government successfully sold its maximum targeted €5 billion in public debt at lower borrowing costs than at a previous auction which catapulted Madrid's IBEX nearly 6% higher for the week.

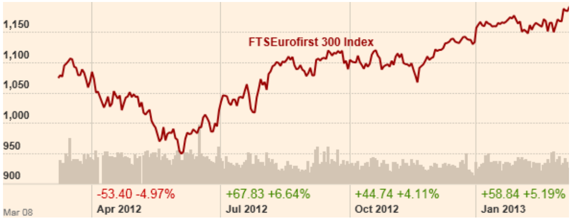
The US had another positive week with the DOW re-gaining multi year highs despite the introduction of Sequestration. Jobs data helped matters as U.S. economy created 236,000 jobs in February and the unemployment rate fell to the lowest level since late 2008. The pace of job creation last month was the fastest since November and spread across many sectors, suggesting the U.S. economy remains on a steady course despite a number of obstacles early in the year.

Market Data (12 month):

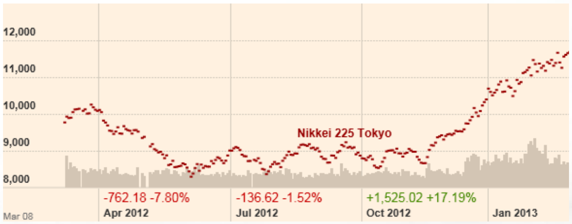
S&P 500:

FTSE100:

FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:

Source: www.ft.com

www.mithrilassetmanagement.com
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Emerging Asia Oil Reserves Still Await Exploitation:

Oil prices climbed in Asian trade Wednesday on uncertainty in the markets following the death of Hugo Chavez, president of major Latin American crude producer Venezuela. Uncertainty on output from Venezuela, a member of OPEC, may have a material impact on oil prices; however the extent is something only time will tell.

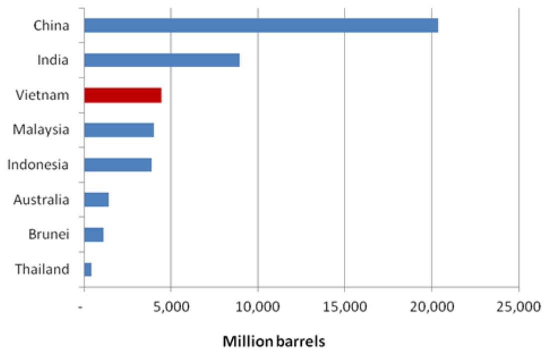
Despite reliance on OPEC to an extent, South East Asian governments have been slow to tap oil reserves of their own. Oil and gas have long held the promise of a black gold effect for Southeast Asian countries. Yet, success in the region has been a mixed bag: Brunei has flourished and Malaysia has seen steady progress, but Burma, Cambodia, the Philippines, Vietnam and East Timor have struggled to exploit their reserves.

Negotiations with oil companies and powerful neighbours are already tough as it is. However, the advent of hydraulic fracturing (known as ‘fracking’) will make this process even more difficult, especially when it comes to developing reserves in the South China Sea, the Gulf of Thailand, the Timor Sea and the Andaman Sea.

The term "fracking" refers to the practice of making fractures in rocks and rock formations by injecting various fluids into cracks to force them to further open. The bigger fissures permit added oil and gas to gush out of the formation and into the wellbore, where it can then be extracted. Highly innovative and revolutionary, it has concerns for its impact on the environment.

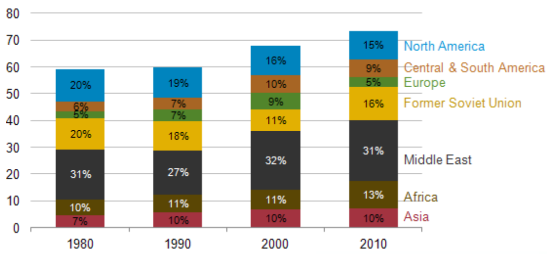
The use of fracking is most suitable for mature energy producers with established markets, developed oil fields and infrastructure already in place. Therefore countries such as the United States, Australia, Canada, and in Europe and Central Asia will benefit most from this innovative method.

Largest APAC Reserves, January 2012:



Source: Oil and Gas Journal

World Crude Oil Production by Region 1980 - 2010



Millions of Barrels Per Day

Source: www.scientificamerican.com

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Cont:

For example, disused oil refineries on the U.S. East Coast are being reopened to accommodate producers whose fields were once thought to be derelict.

Alongside extending the life of existing oil fields, fracking has helped to substantially lower oil prices. According to a report by PricewaterhouseCoopers, fracking could keep oil prices up to 40% lower than the levels they were previously expected to reach by 2035.

This means crude could be valued at less than U.S. $90 per barrel, compared with the current price hovering at $100 a barrel and the peak oil price of U.S. $145 per barrel that producers were earning in 2008 amid so called dwindling supplies.

For the last ten years, Cambodia and Thailand have failed to reach a production sharing agreement over reserves held in overlapping claims. Conservatively, Cambodia has an estimated 400 million barrels within its jurisdiction.

However there remain large obstacles to overcome. Developing an oil and gas industry is immensely technical and legal. Those mentioned, have little expertise in this area. Those who do may be unwilling as oil revenues would diminish.

Furthermore, the huge legal complications make investment from oil companies even less likely.

Fracking has enabled oil companies to reopen old sites and put equipment to work that has lain dormant for years – in their own backyards where the return on investment is much greater. Thanks to this, the U.S. is expected to eventually be self-sufficient and could become the world's largest oil and gas producer by 2020 as we have written in past bulletins.

Currencies:

EURUSD

EURUSD remains in downtrend from 1.3711. Resistance is at 1.3200, as long as this level holds, the downtrend could be expected to continue, and further decline to the 1.2750 area could be expected.

EURGBP

EURGBP recovered last week but stayed inside range of 0.8575/8806. Outlook remains unchanged and below 0.8575 will turn bias to the downside for 0.8446. But we'd expect strong support from there to bring rebound. An eventual upside breakout is expected and break of 0.8806 will indicate resumption of larger rally from 0.7755.

GBPUSD

GBPUSD stays below a downward trend line and remains in downtrend from 1.6339, and the fall extends to as low as 1.4887. Further decline could be expected and next target would be at 1.4500 area.

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USDCHF

USDCHF's upward movement from 0.9021 extends to as high as 0.9552 as resistance at 0.9320 was broken. Further rise could be expected after a minor consolidation, and next target would be at 0.9700 area.

USDJPY

After consolidation, USDJPY continues its upward movement from 77.14, and the rise extends to as far as 96.55. Further rise could be expected and next target would be at 98.50 area. Support levels are at 94.00 and 90.93.

USD Weighted Index

USD weakened against three of the four components, led by a 1.03% rally in the Euro. We expect to see the index touch near term highs as economic data continue to signal an improved outlook for the US.

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Gold:

Gold futures ended Friday's session mildly higher, as investors bought the precious metal after U.S. nonfarm payroll figures indicated the U.S. economy maintained its momentum, but not so much for the Federal Reserve to end its stimulus program. Gold came under pressure as US jobs and unemployment data dampened the appeal for gold.

Crude:

New York-traded crude oil futures rose to a six-day high on Friday, as upbeat U.S. employment data added to the view that the economic recovery was gaining momentum, lifting hopes for higher oil demand. Oil was buoyed by US data as well as China's balance of trade.

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Summary:

From a market perspective then Sequestration had very little impact. However that supposed impact will grind away gradually behind the scenes. The stock market and the oil price are humming along due to positive economic numbers. Should the evolution of those numbers come under pressure, then the same will happen to index levels. Other factors of note are the eventual removal of stimulus from the Federal Reserve (which has to happen someday) and that VIX (the 'fear guage') readings are curiously low.