Weekly Investment Bulletin

12th November 2012

MITHRIL ASSET MANAGEMENT

Market Roundup:

Global markets overall lost ground for the week.

Starting with Asia, stocks endured a tough week. Hong Kong's Hang Seng and Japan's Nikkei gave up over 3% and the Shanghai Composite (right) shed 2.27%.

China and Hong Kong got a temporary boost from economic data released later in the week, which pointed to the mainland economy stabilizing. Further data from China was also positive, as industrial output edged up beyond expectation, while retail sales and fixed-asset investment also came in slightly ahead of forecasts.

The economic news came as China's ruling party is currently in the process of week-long talks to facilitate a leadership change that takes place just once a decade.

Stateside, Obama's tightly contested election battle ended up more on cruise control. The post election honeymoon normally grants an incumbent President at least 3 months, which can transcend to stock markets. For a re-elected President, it's largely business as usual. Under that scenario, business as usual raised fears of the fiscal cliff.

Indeed the fears focus on more than $600 bln in US tax hikes and spending cuts due to enter the system at the turn of the New Year. Given that Congress is little changed, fears of the cliff remain intact.

In Europe, a monthly report from the Bank of France said economic activity in the euro-zone's second biggest economy is expected to decline by 0.1% in the fourth quarter, which officially would place France in recession.

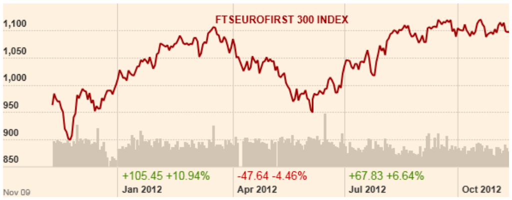
Our dear friend Greece was back in the news to secure its next tranche of bailout money ahead of a meeting of euro-zone finance ministers on Monday. It is widely expected that a decision to pay out the next bailout instalment will be delayed until late November yet Greece will agree to further spending cuts.

Market Data (12 month):

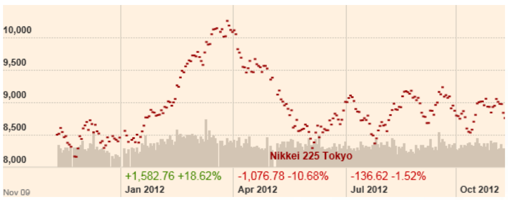
S&P 500:

FTSE100:

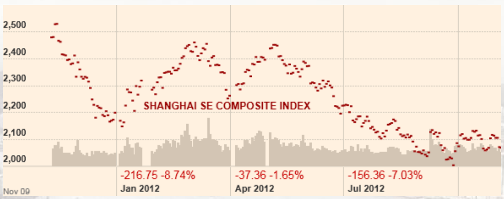
FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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We were watching the wrong leadership change:

Leadership wise America has been decided and as we have been commenting in the past, it was in no doubt the US would reject change. Despite the pre election hype, America's current demographic of voters would always side with the Obama's ideals.

That doesn't mean to portray the challenger in a positive light, but a hardnosed CEO rarely garners an image of a leader in touch with the common worker in an economy clawing itself back from near economic implosion. A talented PR team turned this into a contest but in our eyes, the opposition was never in the running, and the final numbers confirmed that. Now let's see if Congress agrees to raise the debt ceiling for the second time in 2 years.

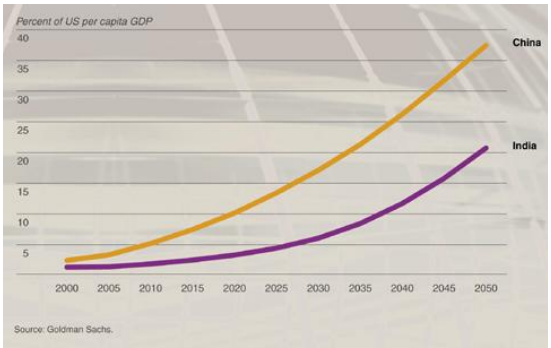
With Congress little changed following elections, investors can look to the US and analyse in the same way as before. But for China, the world's number 2 power, this might not be so straightforward. Arguably, this is the leadership 'change' that should be getting far more attention on CNN.

Indeed by the time Obama's tenure at the helm ends in 2016, the OECD forecast's that China will then overtake the US as the world's largest economy.

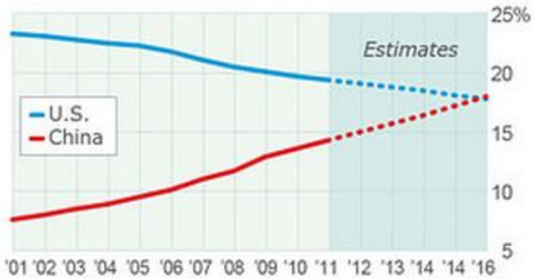
China's Communist Party Congress is expected to elevate Vice President Xi Jin Ping to a 10-year term running the nation of 1.3 billion.

Mr. Xi, a so-called "princeling" who is the son of a former close comrade of Chairman Mao, will sit atop the group of Politburo members as the Party's new general secretary. In March, he will assume China's presidency from current leader Hu Jintao, concluding the once-in a decade power transition.

Chinese and Indian Per Capita GDP vs US:



Share of World GDP, by Purchasing Power Parity:



Source: IMF

Cont:

Following two decades of rapid growth that has pulled hundreds of millions out of poverty and conjured a new middle class, China is an economic behemoth. It is a hulking influence in the developing world, a rising naval and military power and a major player on the global political stage.

More than any other country, China, with its incessant appetite for commodities such as oil, copper and coal, has been the most significant driver of resource-heavy economies such as Canada and Brazil. Indeed we have written about China's important trade ties with Canada in the past and it can swing both ways. Economic data released this week showed that Canada's gross domestic product declined in August. The first economic contraction in six months was driven in large part by a drop in mining output, a direct result of a slowing Chinese economy.

If Mr. Xi can consolidate power among the new members of the Standing Committee he might be able to implement a series of economic reforms that would boost trade, increase China's overseas investment and open up China itself to more investment from overseas.

His policy choices could include reducing the tax burden on Chinese families, forcing the country's banks to be more competitive, and loosening the state's grip on the economy.

As with his recent predecessors, Mr. Xi's top priority will be maintaining the economic growth that has increased living standards in much of China while also serving to quell potential social unrest. As with his recent predecessors, Mr. Xi's top priority will be maintaining the economic growth that has increased living standards in much of China while also serving to quell potential social unrest.

Demand for China's exports, the lifeblood of its investment-driven economy, has stalled just as fears about bad loans from China's state banks have increased. At the same time, China's emerging middle class is increasingly aware of and able to discuss the string of corruption scandals involving some of the country's top officials on social media.

Following former Chongqing Party boss and hardliner Bo Xilai's very public downfall, The New York Times recently published a whistle blowing story showing that the family of premier Wen Jiabao controls some $2.7 bln in hidden wealth. Furthermore in the city of Ningbo, plans for an expansion of a petrochemical plant were reportedly shelved after large-scale protests. Perhaps they could have done with Mitt Romney's PR team.

Indeed Mitt Romney's 'currency manipulator' outburst directed at China would not have sat well in Beijing. In contrast Obama's softer tone will avoid a more public trade war than could have been. Both economies will look to resource heavy states such as Brazil and Canada therefore whilst locals would have been glued to CNBC, more than a passing glance eastwards is advised.

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Currencies:

EURUSD

EURUSD broke below 1.2803 support and reached as low as 1.2690. Deeper decline is still possible this week, and next target would be at 1.2600 area. Resistance is now located at 1.2880, only break above this level could trigger another rise to test 1.3171 previous high resistance.

EURGBP

EURGBP dipped further to as low as 0.7959 last week as choppy decline from 0.8164 extended. Deeper falling is expected as long as 0.8030 minor resistance holds. A break of 0.8030 will indicate short term bottoming and bring a rebound. Focus will then be turned back to 0.8164 resistance.

GBPUSD

GBPUSD's downward movement from 1.6309 extended to as low as 1.5887. Further decline could be expected this week, and next target would be at 1.5700 area.

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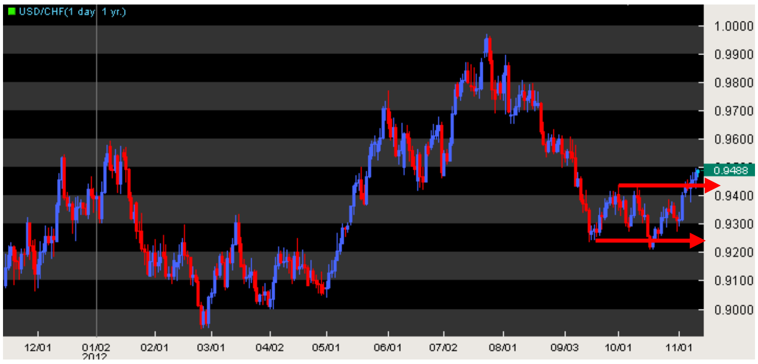
USDCHF



USDCHF broke above 0.9437 resistance and reached as high as 0.9498, suggesting that lengthier consolidation of the downtrend from 0.9971 is underway. Further rise could be expected this week, and next target would be at 0.9600 area.

USDJPY

USDJPY pulled back from 80.67, and the fall extended to as low as 79.07. However, the fall is likely consolidation of the uptrend from 77.14. Support is now at the lower red line and as long as this holds, another rise could be expected after consolidation.

USD Weighted Index

USD weakened against two of the four components, led by a 0.46%rally in the Japanese Yen, which was followed by a 0.23% advance in the Australian dollar. Beyond the European debt crisis, the political and economic shift in China may spur greater uncertainty for the global economy, and the flight to safety may gather pace over the coming days as the world's second-largest economy looks to avoid a hard landing.

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Gold:

Gold futures capped the biggest weekly gain since January as speculation that the U.S. will expand monetary stimulus following President Barack Obama's re-election bolstered demand for Gold as a store of value. Last week, the metal climbed 3.3%, the most since January 27. Gold dropped in the previous four weeks, the longest slump since September 2011.

Crude:

Oil advanced slightly as data showing U.S. consumer confidence climbed to a five-year high, helping ease concern that a political stalemate in Washington will lead to a fiscal crisis. Futures rose 1.2% after the Thomson Reuters/University of Michigan preliminary index of consumer sentiment for November increased to 84.9 from 82.6 the prior month.

Summary:

With the US election completed, the landslide victory will settle markets quickly in respect to election influenced volatility. The next challenge will be to offer markets guidance as to how they intend to tackle the so called 'fiscal cliff'. On present evidence, not much can be concluded and will likely cause pressure on valuations and the oil price.

European volatility is also possible in the near as Greece passes further cuts to its budget. Meanwhile in Asia data over the weekend painted a mixed picture as China's trade surplus widened to $32 bln from $27.7 bln in September yet Japan's economy shrank 3.5% on an annulised basis from June to September with demand for key exports such as cars and computer chips suffering.