Weekly Investment Bulletin

13th August 2012

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Market Roundup:

*****We wish to point out that Mithril Asset Management, Mauritius has no affiliation whatsoever with Mithril Capital Management*****

It was another week of broad market gains. It's now the fifth consecutive week of upside as US markets in particular, headed back to their highest levels for the year.

The end of the week saw matters halt somewhat, after China trade data disappointed. Global stock markets, along with commodities, fell Friday after China reported that exports rose just 1% from the year-ago period, and imports rose 4.7%, against very high expectations for gains of 8% and 7%, respectively. Quite worryingly, data from the previous day pointed to deflation in a country that is increasingly being relied upon to pull the global economy out of its slump.

This is likely to play into the hands of those looking for further easing to add to the rate cuts from last month. Indeed should China cut rates further, it will be the 3rd rate cut in a matter of weeks and, quite pertinently, the first time China has budged at all on its interest rate policy since the lows of the financial crisis in 2009.

As suggested last week, the current mood remains sensitive. Western indices are at high levels and as such will be prone to profit taking at the sniff of bad news.

In truth, Europe has advanced little and much of the positive movement of recent weeks has been based on words or promises from those with the power to influence. What we will require is either measures or data to support that we still remain on the right lines.

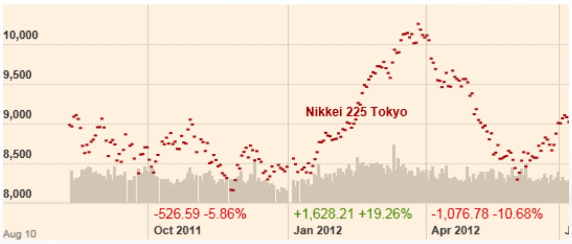
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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Hurricane Season and the Impact on Commodities Pricing:

Hurricane season officially begins on June 1st and ends on November 30th each year. The peak time for hurricanes hitting the United States is normally in August and September. The danger zone runs from the southern states on the east coast to the gulf coast, which stretches from Florida to Texas. The Caribbean and Mexico also find themselves in the paths of hurricanes. This season, has seen an increased forecast of violent storms.

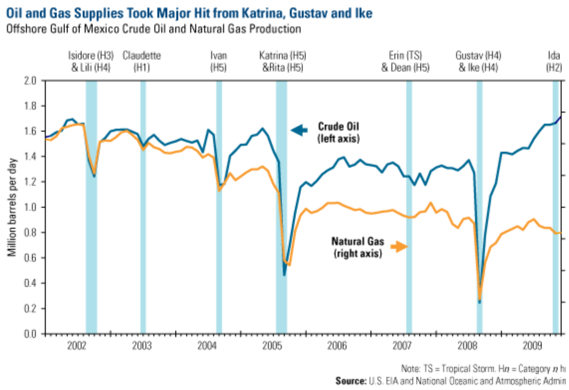
As tropical storms start to develop off the coast of Africa each year and move eastward toward the U.S., commodity traders either take a cautious sigh or they begin to salivate at the potential trading opportunities that lie ahead in commodities.

The threat of a hurricane forming in the Atlantic is sometimes enough to cause a rise in the prices of some commodities. As storms grow and get closer to the U.S., the odds increase for damage to pipelines, refineries, oil platform, crops, shipping ports and storage facilities. As probabilities for damage increase, prices usually increase proportionately.

That all sounds simple, but things can change instantly. Sometimes hurricanes will change direction in the middle of the night or even get downgraded and the impact on commodities becomes negligible. The simple truth is that the odds are strongly stacked against any particular commodity making a sustained move higher due to a hurricane.

You need to have the right storm at the right time and it has to hit the right area. Only then can you pick the right commodity and finally ones timing on the trade has to be near on perfect.

Oil and Gas Supplies during hurricane season:



Orange Juice during hurricane season

Source: www.businessinsider.com

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Cont:

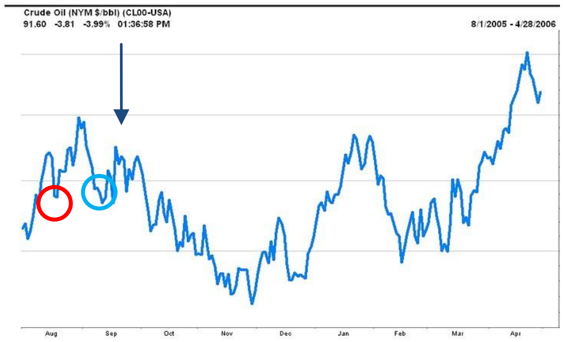
Hurricanes Rita and Katrina in 2005 caused mass destruction and disruption to the natural gas industry. The Gulf Coast accounts for 40% of the U.S. natural gas production. Natural gas flows from the Gulf were basically cut in half after the hurricanes in 2005.

So, you can see why the natural gas futures get a bit jittery whenever a hurricane finds its way into the Gulf of Mexico. Prices tend to rise out of more than just pure speculation. Many of the platforms and pipelines have to be shutdown if a hurricane is in the neighbourhood, or just on the radar, for safety reasons. This, of course, takes supplies off the market and causes prices to jump. Prices can move back to normal with a hurricane miss or prices could skyrocket with a direct hit.

The same issues relate to crude oil, gasoline and heating oil as they do for natural gas. The drilling platforms are located off the Gulf Coast and refineries are predominately in the Houston area. The hurricanes of 2005 also caused severe damage to the oil industry.

Foodstuffs like corn, soybeans and wheat can all be affected by hurricanes, although it is not too common for crops to be damaged. Sometimes hurricanes move up the Mississippi Delta into the Midwest and dump a lot of rain. This can cause flooding of the crops, especially if the soil is already saturated. If the hurricane is late in the season, it can disrupt harvesting of crops.

Crude Price in major hurricanes:



Red Circle: Hurricane Katrina

Blue Circle: Hurricane Rita

Blue Arrow: US releases 60 mln barrels in reserves.

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Currencies:

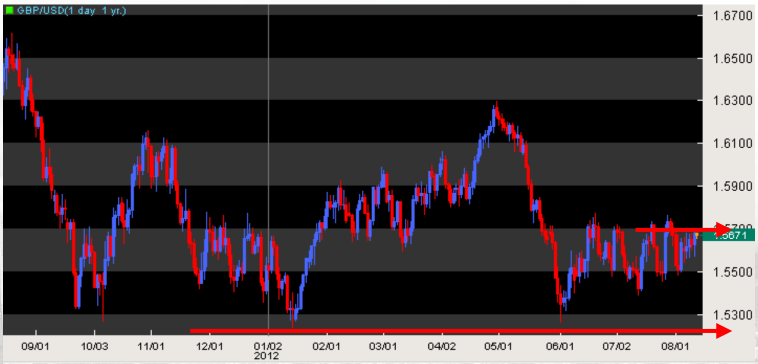
EURUSD

EURUSD remains in consolidation of the downtrend from 1.3486. Key resistance is at 1.2747, as long as this level holds, the downtrend could be expected to resume, and another fall towards 1.1500 is possible.

EURGBP

EURGBP edged higher to 0.7962 last week but failed to sustain above 0.7949 resistance. Initial bias remains on the downside this week for 0.7755 first. A break below will confirm resumption of downtrend for key support level at 0.7693 next.

GBPUSD



GBPUSD remains in range between 1.5393 and 1.5776. Another rise to test 1.5776 resistance would likely be seen, a break above this level will target 1.5900 area. Key support is at 1.5393.

USDCHF

USDCHF is in uptrend from 0.8931, the pullback from 0.9971 is likely consolidation of the uptrend. Key resistance is at 0.9971, a break above this level could signal resumption of the uptrend.

USDJPY

USDJPY stays in downtrend from 84.04. The next target would be at the 77.00 area. Key resistance is at 79.15, only break above this level could signal completion of the downtrend.

USD Weighted Index

Two of the four components strengthened against USD, led by a 0.44% rally in the Japanese Yen, but the low-yielding currency may come under pressure next week as the world's third-largest economy is expected to expand at a slower pace in the second quarter. The 2Q GDP report is expected to show Japan growing 0.6% during the three-months through June after expanding 1.2% in the first-quarter and the slowing recovery may spark speculation for additional monetary support as the Bank of Japan maintains its pledge to pursue monetary easing.

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Gold:

This week has been relatively quiet on both the speech and announcement fronts. Following the previous weeks feeding frenzy surrounding the addresses from Draghi and Bernanke, this was probably just what the markets needed.

The week almost seemed to give investors time to reflect on all that the world's most prominent bankers had told them since the financial crisis began, and they began to realise that somewhat of a mirage had been created, which perhaps the top officials can't talk their way out of. This week did, however, see gold confirm its place above $1600.

Crude:

Crude oil is trying to erase its weekly gains after the Chinese data weighed and forced a decline with potentially weaker demand from world's second largest oil consumer. Also, uncertainty over the euro's outlook and the global economy is playing a role in this decline.

The commodity opened Friday's session at $93.46 and dropped to a low of $92.61 and reached a high of $93.66, where it is currently trading around $92.65 a barrel.

China's trade balance missed estimates in July as exports and imports declined adding signs that the Chinese government would provide aggressive measures to support growth especially after industrial production and retail sales slowed last month.

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Summary:

The sustainability of appreciating stock markets will always depend on the health of the overall global economy. Some good jobs numbers from the US in the past few weeks however has been unable to mask the continued fragility of the European system and China's slowdown.

Markets are hovering in anticipation of further stimulus measures to deliver that adrenaline shot (or the perceived 'bazooka' that QE3 might provide in the US). However the Feds apparent reluctance to adopt the third round of QE is sensible on a backdrop of an economy slowly deleveraging itself. Just look at how a hint of stimulus has affected oil markets, even when 2 of its 3 biggest customers have lowered their demand somewhat (China and the Euro zone). Flooding ones economy with cheap cash will see asset prices appreciate, real or financial, however at a consumer level (the key) increased energy prices will see discretionary spending cut and economic recovery stunt.