Weekly Investment Bulletin

14th January 2013

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Market Roundup:

As this is our first bulletin of the year, we hope you all enjoyed the holiday period and wish you the very best for the coming year.

Indeed as 2012 drew to a close, markets remained tentative as the US tussled to a compromise to avert its 'fiscal cliff' of increased taxes and reduced government spending, which would threaten to take the world's largest economy back into recession.

The time of year aided financial markets as public holidays and reduced market volumes cushioned the expected volatility as the 31st December deadline approached. Indeed by looking at the charts to the right, the resulting relief rally has been profound.

Major US indices have been able to add over 2.5% to valuations with the S&P500 at 2.97% YTD and the DOW 2.66% at time of writing.

The UK's FTSE 100 has jumped over 3.5% since the turn of the year, and the Eurofirst 300 2.3%. Both indices now exceed levels that investors have not experienced since 2008.

Asia stock markets have been a mixed bag, with Shanghai dipping 1.15% YTD after a sizeable increase in Chinese inflation. Chinese consumer prices rose by 2.5% in December, slightly exceeding consensus economist estimates and representing a seven-month high mostly attributed to hikes in food costs.

Japan's Nikkei has continued to surge much in the same light as before, running away with a 3.91% start to the year. Much of last year's upside came from stimulus hopes from a new government and last Thursday they got their wish. A ¥10.3 trillion ($115.7 billion) package was approved in the latest efforts to defeat long-running deflation and prop up the weakening economy.

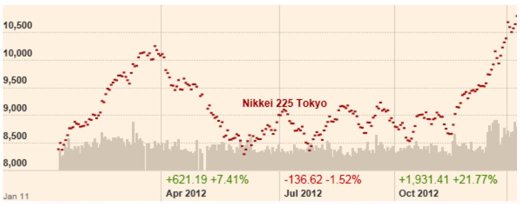
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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What to Look Forward to in 2013 continued:

Our final bulletin of 2012 centred on the US economy and the fiscal cliff. We expected an 11th hour compromise and indeed that's exactly what we got. Markets are breathing a sigh of relief and have mostly come out of the blocks flying.

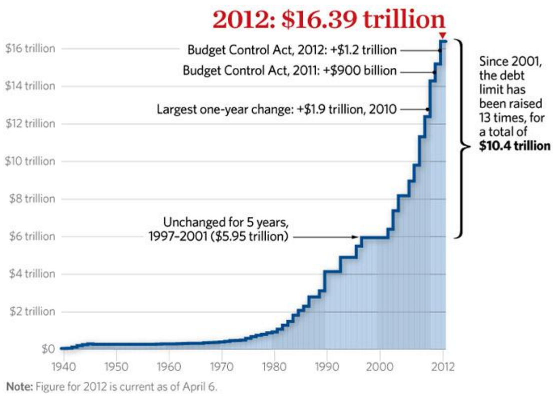
Recession should be avoided however the US remains an enormous taboo subject when it comes to debt. Whilst the world toasted the new year with one eye on Washington's 'cliff dealings, US Secretary of Treasury Tim Geithner gave us all a candid 'Oh by the way..' moment by announcing the US had reached its $16.4 trillion borrowing limit (having only raised its limit in September 2011).

With the limit reached, the US government has resorted to what it calls "extraordinary measures" to keep paying its bills without slapping any more on its credit card. This is the next major obstacle for the global economic recovery. Either increase the ceiling again so soon after the last or cut spending and risk plunging the US back into recession. Credit ratings agencies are sharpening their knives.

For Europe we see the North/South divide becoming more prominent. Central bank policy actions have allowed the European system to be safeguarded and keep the debt markets (particularly in the hardest hit regions) to calm. Nonetheless, South Europe remains economically crippled by austerity and high unemployment.

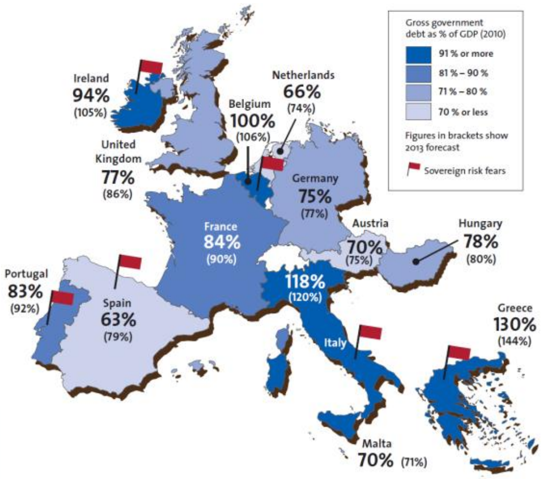
Whilst the North will see positive but growth, we cannot see this being huge given the burden to keep the South above water. We would also expect economies such as France and the Netherlands experience flat to negative GDP, returning to a growth scenario in early 2014.

U.S Debt Ceiling:



Source: http://www.heritage.org

EU Countries with Largest Debt to GDP Ratios:



Source: http://www.outsider-trading.com

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Cont:

As ever the principle catalyst for economic growth centres on China and the Emerging Markets. Since 2010, China's economy has decelerated significantly, from 10/11% year on year to stabilise currently at 7.5%. As we have reported in past bulletins, exports and consumer behaviour have indicated that we have bottomed out and that a gradual pickup in activity is happening. We expect this to continue in 2013.

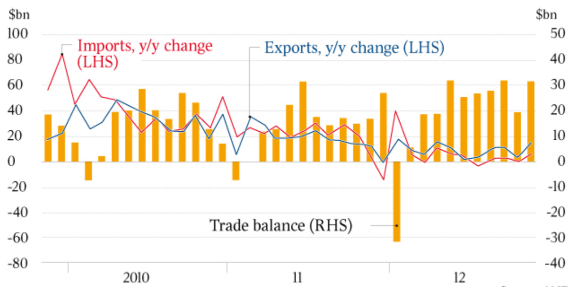
The leadership transition has now been completed and modest stimulus during 2012 helped to cushion the domestic downturn. In 2013 this will be eclipsed by a $155 billion spending program to develop China's internal infrastructure. Furthermore, export growth can be expected to rebound, thanks to continuing (and improving) growth in Asia and the United States (barring a debt disaster). All this should translate into growth above 8% for China in 2013.

Indeed for the Emerging Markets as a whole, we expect these to outperform their 'developed' counterparts. Weak economic growth in the United States, recessions in Europe and Japan, and a soft landing in China all took their toll on growth in other emerging markets last year.

This was compounded by the tight money policies that many of these economies had in place through the fall of 2011. With monetary conditions now easier than a year ago in the region, and with prospects for the world economy looking more positive, the outlook for emerging markets in 2013 is also looking brighter. This is especially true in Asia (and particularly the ASEAN economies), where domestic demand growth has been fairly strong and where there is scope for more stimuli, if needed.

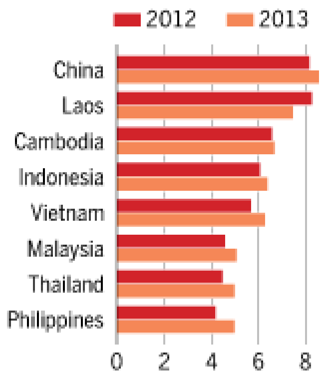
To be continued..

China Trade Developments:



Source: http://www.theaustralian.com.au

East Asian Growth Forecasts:



Source: World Bank

Currencies:

EURUSD

EURUSD has formed a near term cycle bottom at 1.2998, and the rise from 1.2998 is likely resumption of the uptrend from 1.2661. The uptrend could be expected to continue next week, and next target would be at 1.3500-1.3600 area. Support is at the upward trend line.

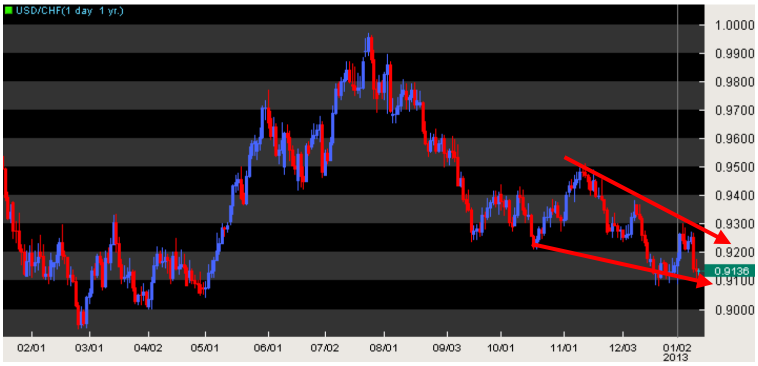
EURGBP

EURGBP jumped sharply to as high as 0.8287 last week. Initial bias remains on the upside this week. The rise from 0.7755 is still in progress and should target 0.8386 next.

GBPUSD

GBPUSD may be forming a cycle bottom at 1.5993. Another rise towards 1.6500 is the next target and a break above 1.6200 will confirm the resumption of the uptrend from 1.5827.

USDCHF



USDCHF has formed a cycle top at 0.9302 on daily chart. Further decline to test 0.9083 support could be seen next week, a breakdown below this level will signal resumption of the downtrend from 0.9511, then next target would be at the 0.8900 area.

USDJPY

USDJPY's upward movement from 77.14 extends to as high as 89.44. Further rise could be expected next week, and next target would be at 91.00 area. Support is now at 88.00 only break below this level will indicate that a cycle top has been formed.

USD Weighted Index

With several Fed officials due to speak this week (including Bernanke), we should see the bullish trend continue to take shape in the week ahead as market participants scale back bets for more quantitative easing. This should see USD gain some ground back against the other index components such as the Euro, which has been in uptrend since August.

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Gold:

Gold has entered a sideways range for the last month. The weekly outlook remains bullish as buyers and volume should increase in earnest. The stock market remains in uptrend and should fuel spurts of risk rallies in precious metals also. Should the market pause and we see a strengthening dollar may cause a pullback, expect to see the price come under pressure and present buying opportunities.

Crude:

Crude stopped short of the 94.96 target last week as we topped at 94.70. If it cannot break 94.96 again at the start of this week, we are looking for a pullback which will first target 93.26 and from there it is possible we continue lower to 92.65/37. With the Fed due to speak, any sign of QE removal will fuel an advance in the dollar and put pressure on the oil price.

Summary:

It has been a strong start by stock markets to the year. The first stage of the US' debt battle had been overcome and the next is certainly simmering away. As and when that surfaces, nobody can be certain, so for the moment, the market can re focus its attentions on earnings. The financials are up this week and good numbers will maintain, if not improve lofty stock market valuations. Success in the financial sector is a gauge for the economy as a whole and juggernauts such as JP Morgan, Bank of America, Citigroup and American Express are all up first.