Weekly Investment Bulletin

14th October 2013

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Market Roundup:

Asia enjoyed a positive week, ending the week higher as apparent progress was being made to solve the current US political impasse.

Japan was one of the notable performers for the region, adding over 2% for the week. The Bank of Japan said that country's corporate goods price index fell to 2.3% last month after an August reading of 2.4%. Analysts expected a September reading of 2.3%. Hong Kong's Hang Seng added 1.27% while the Shanghai Composite advanced 0.88%.

European markets were also tracking higher, also on the back of political matters in the States. On the week however, major indices failed to deliver more any notable gains.

Indeed the US was influencing trade for other reasons, this time from the Federal Reserve supporting the nomination of Janet Yellen as head of the Federal Reserve. Yellen holds a doveish stance to monetary policy, which will woo markets hoping for further accommodative policy.

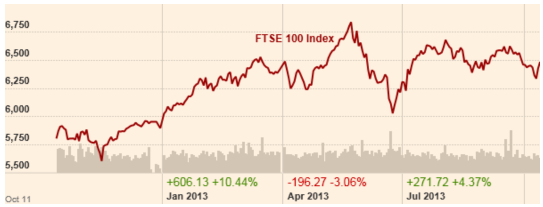
Investors remained cautious as a partial US government shutdown continued into a second week, with few signs of progress towards a resolution ahead to avoid a U.S. sovereign default.

Expectations for an end to the US fiscal deadlock grew after Republicans on Thursday offered to extend the government's borrowing authority for several weeks, temporarily staving off a default, which allowed stocks to undergo a relief rally.

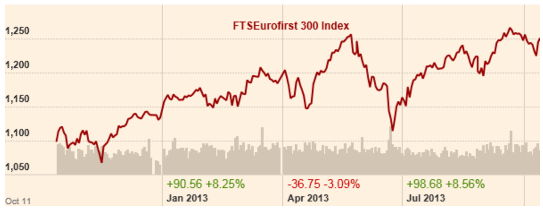
Market Data (12 month):

S&P 500:

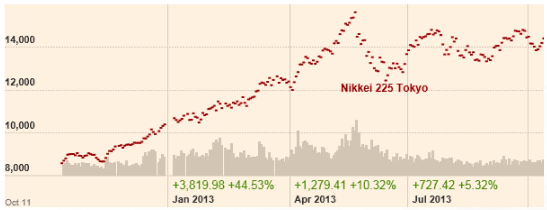
FTSE100:



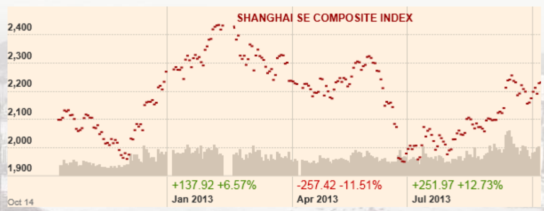
FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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What to expect from Janet Yellen:

The old adage saying of 'When the US sneezes, the world catches a cold' still holds true to an extent. Perhaps not to the extent of generations past, but it is clear that matters in the largest economy in the world, still grips the world's attention.

Whilst most of the media is concerned with a US default which, as we said last week, is highly unlikely, the appointment of Janet Yellen as successor to Ben Bernanke came with some much needed optimism.

So what are we to expect?

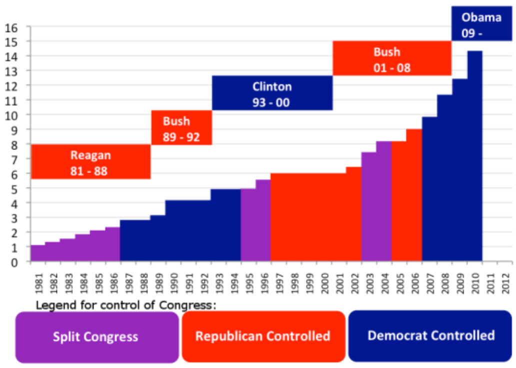
Yellen's primary focus is employment. US employment levels are rising, but no longer at the pace we would like. Hence why markets are anticipating a prolonged period of relaxed monetary policy to boost jobs numbers.

Going back to her days as an academic, her main theory is commonly referred to as "the fair wage-effort hypothesis" and how firms look to pay workers a fair wage above the market rate so that productivity will be at its maximum level.

The main founding principal of this theory is that if you pay workers less, they will be less productive, but if you pay them more, they are generally more productive. Her thesis paved the way for efficient wage theory, and is seen as one of the founding principles for it.

Yellen is also seen as an excellent communicator who can take the most complex economic theories and break them down so that the general population is able to understand. Naturally this is vital in today's age where transparency is key, and the markets as well as the general public are live off real time information.

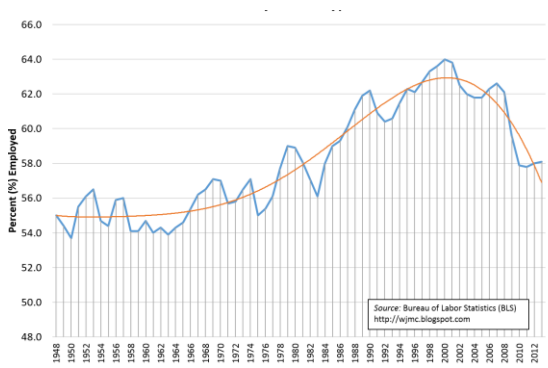
US Public Debt Ceiling Since 1981:



US$ Trillions

Source: Wikipedia

US Employment to Population Ratio:



Source: Bureau of Labor Statistics.

Cont:

With her focus on employment, the world of US economic jargon refers to her more as a Dove then a Hawk. This means her focus is more on unemployment than inflation.

So what can we expect from this dove?

We can certainly expect someone who is far more open and transparent than Bernanke. We can also expect that it is likely she will keep interest rates much lower for longer until she sees employment actively picking up, and the US economy starting to grow.

There are fears she won't give as much attention to inflation. Keeping this under control is one of the core principles of the US dollar. However she has communicated this as one of her prime fears and she will look to control it around the 2% target set by the FED in 2012.

Yellen strongly backs the Bernanke policy of accommodation as well as "forward guidance" that clearly signals a commitment to boost economic activity. However Bernanke has been pouring on monetary stimulus for years.

He has expanded the Fed's balance sheet from $859 billion in mid-2007 to $3.7 trillion. His successor will be left to deal with the consequences.

Certainly, markets are now expecting a weaker USD in the long run because of this, but at the same time, they see US equities getting a boost from her appointment and policies.

Cont:

The Fed's easy money policy of near-zero interest rates can't go on forever. Someday, Yellen will have to "take away the punchbowl". Otherwise, inflation will erode the dollar's value and asset bubbles will form.

Yellen has consistently predicted that despite all the Fed stimulus, inflation wouldn't break out. She has been right so far. Inflation could come about very quickly.

One thing is clear, and that is she will probably follow in Bernanke's footsteps in holding off tapering until she sees real growth in the economy.

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Gold:

Gold futures tumbled to a three-month low on Friday, as hopes that US lawmakers would reach a deal on the US debt ceiling impasse before the October 17 deadline reduced its safe-haven appeal.

Gold futures are likely to find support at USD1,242.35 a troy ounce, the low from July 10 and resistance at USD1,311.80, the high from October 10.

Crude:

New York-traded crude oil futures ended Friday's session at a 15-week low, amid growing concerns a U.S. government shutdown will create a drag on fourth quarter economic growth.

Concerns over the impact the political deadlock in Washington is having on US oil demand increased after the US Energy Information Administration said in its weekly report on Wednesday that U.S. crude oil inventories rose by 6.8 million barrels last week, well above expectations for an increase of 1.5 million barrels.

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Summary:

Again US politics will likely dominate investor sentiment for the coming week. Investors will be focussed on Thursdays supposed deadline.

According to the Treasury: The 17th is the day by which it will run out of "legal and prudent" accounting manoeuvres to keep the country below its borrowing limit, while still paying all the bills in full and on time.

So here's what that means: Even if Congress doesn't raise the debt ceiling in the next week, Treasury in all likelihood could continue to pay bills in full beyond the 17th - but not for very long.

As we said last week, do note that the real deadline is the 1st of November, where treasury bondholders are due to receive their interest payments – that is the crucial date to note.

So expect this one to (once again) go to the wire.