Weekly Investment Bulletin

19th November 2012

MITHRIL ASSET MANAGEMENT

Market Roundup:

It was yet another difficult week in global stock markets.

Major indices were mostly in the red for the week, with the only exception being Japan's Nikkei which gained 4% on hopes of further easing to stimulate its economy. Japan, another major economy to be in the midst of an election, shot up as the Liberal opposition leader Shinzo Abe emerged as the favourite for victory in the forthcoming polls.

Abe has stated that he would support changes that would force the Bank of Japan to purchase the bonds from the government if his party wins elections on Dec. 16.

Abe has also urged the central bank to adopt a 3% inflation target and said he might push for changes to the Bank of Japan's mandate to require a formal inflation target.

European stock markets closed a volatile week 2.7% lower on Friday, as the conflict in the Middle East intensified, and investors also braced themselves for the start of US negotiations over sidestepping the so-called fiscal cliff.

Major US indices finished the week net negative, yet staged a late rally as the opening round of negotiations on averting automatic spending cuts and tax increases set to begin on the 1st Jan 2013 began. The mere hint of a common ground was taken as a positive for investors who fear that that simultaneous spending cuts and tax hikes for an economy growing just 2% could plunge the US into recession and stunt the global recovery.

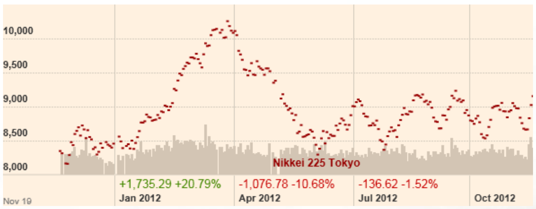
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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The US and Energy Self Sufficiency:

Before 2020, the United States could become the world's largest producer of oil and natural gas. According to the International Energy Agency (IEA), increasing domestic production combined with domestic energy efficiency leaves the possibility that the US will become "all but [energy] self-sufficient." It is also possible that the U.S. could even become a net oil exporter by 2030, shifting a trend that has been pivotal in the energy debate for decades.

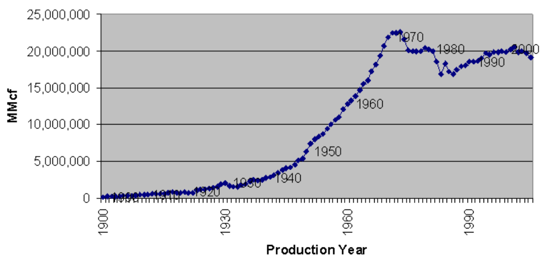
Last year, about 60% of crude oil processed in US oil refineries was imported from overseas. While a significant amount of crude oil and refined petroleum is also exported, in 2011 America still faced a 45% net import level.

But, this 45% level was indeed the lowest seen in the US since the mid 90s. This is mainly due to the shale oil boom, where America has been able to increase its total oil production since 2008; a fact cited several times by President Obama during his re-election campaign.

Coupled with the Administration's successful bid for increased vehicle efficiency standards, its dependence on oil from the Middle East could be drastically lessened. According to the IEA's World Energy Outlook 2012 report, "by around 2020, the United States is projected to become the largest global oil producer," over-taking Saudi Arabia.

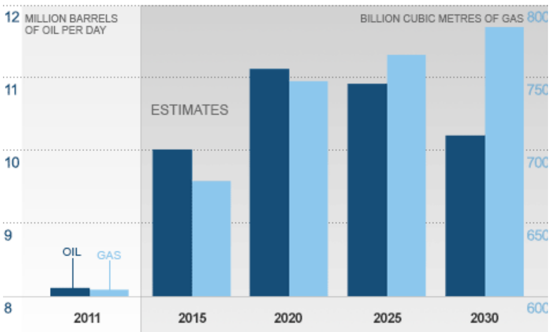
US natural gas production is a similar story, though with an ever shorter timeline. Hydraulic fracturing has caused a surge in domestic natural gas production. As a result, the US again could become the world's largest natural surpassing Russia within just 5 years.

US Natural Gas Production:



Source: Wikipedia

US Oil and Gas Production:



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The obvious consideration is that easier access to oil and gas would result in an increase in global greenhouse gas emission levels, which could undo recent reductions seen in the West. While natural gas is less greenhouse gas-intensive than the coal it would likely replace, the net impact could still be higher global emissions.

This possibility is already becoming a reality in the coal industry. As coal has become increasingly unpopular in the face of cheap natural gas in the United States and environmental concerns, American coal producers haven't stopped mining. But, it is increasingly being shipped overseas where Chinese and Indian markets are happy to prop up demand.

In turn, this global rebound effect could result in an even larger challenge to those working to reduce global greenhouse gas emissions. According to the IEA, this could hinder the world's ability to achieve the "2 degree scenario." As exported fuels could be burned in countries without stringent environmental regulations, a geographic shift in coal consumption could lead to increasing public health concerns.

Regardless of these concerns, one message is clear – this changing of America in global energy trade as projected by the IEA would have significant implications for world energy markets.

Cont:

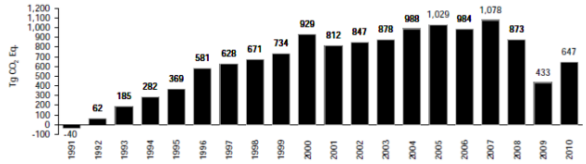


Figure 2-3: Cumulative Change in Annual U.S. Greenhouse Gas Emissions Relative to 1990

Source: energyforumonline.com

Currencies:

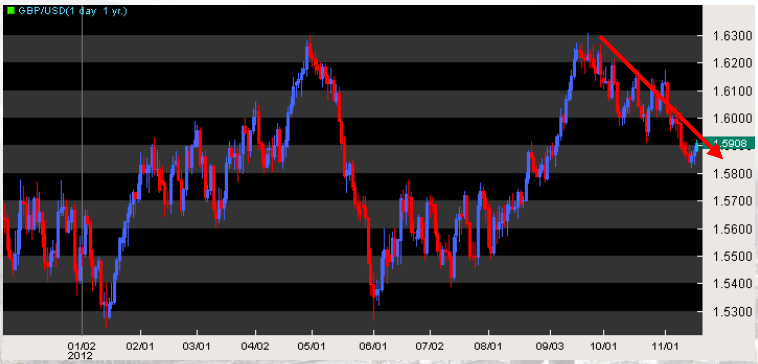
EURUSD

EURUSD's downward movement from 1.3171 extends to as low as 1.2661. Deeper decline is possible this week, and next target would be at 1.2500 area. However the fall is likely a correction of the uptrend from 1.2042 and another rise could be expected after correction.

EURGBP

EURGBP's strong rebound last week suggested that fall from 0.8164 might have completed at 0.7959 after drawing support. Outlook is neutral this week for some sideways trading. On the upside, above 0.8064 will target a test on 0.8164 high. We'd expect resistance from 0.8164 to limit upside and bring another fall to extend the consolidation pattern.

GBPUSD



GBPUSD continues its downward movement from 1.6309, and the fall extends to as low as 1.5827. Further decline is still possible after consolidation, and next target would be at 1.5700 area. Key resistance remains at the downward trend line and only a clear break above the trend line resistance could signal completion of the downtrend.

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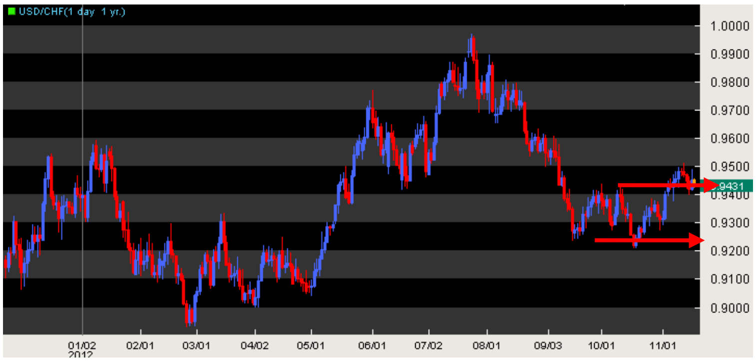
USDCHF



USDCHF's upward movement from 0.9214 extends to as high as 0.9511. Further rise is still possible and next target would be at 0.9650 area. However, the price action from 0.9239 is likely consolidation of the downtrend from 0.9971, another fall could be expected after consolidation. Support is at 0.9380, a breakdown below this level could signal completion of the consolidation.

USDJPY

USDJPY breaks above 80.67 resistance, and continues its upward movement from 77.14, and the rise extends to as high as 81.45. Further rise could be expected after consolidation, and next target would be at 83.00 area. Key support is at the lower line and only a clear break below the channel support could signal completion of the downtrend.

USD Weighted Index

The greenback rallied against three of the four components, led by a 0.45 %decline in the Euro, while the Japanese Yen shed another 0.24% amid the growing threat for a political shift in the world's third-largest economy. As the BoJ struggles to achieve the 1% target for inflation, the central bank is widely expected to carry its easing cycle into the following year, put positive real interest rates in Japan may continue to shore up the Yen amid the low-yielding environment across the global landscape.

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Gold:

Gold edged down on late last week, but the looming US fiscal cliff, euro zone debt problems and rising Middle East tensions continue to enhance its safe haven appeal. In Q3 2012, gold investment demand (total bar and coin demand plus ETFs and similar products) was 429.9 tonnes less or 16% down from Q3 2011. Interestingly, demand for ETFs rose 56%, compared to Q3 2011. Demand for gold-backed products in Q3 grew in the quarter partially due to institutions responding to the additional QE measures in the US and Europe.

Crude:

Crude oil finished higher for the second week in row Friday, a feat not reached since the beginning of September. From being in a narrow range, we expect this range to be tested on the upside, as tensions on the ongoing conflicts in the Middle East escalate.

Summary:

Attention will focus on the Fiscal cliff and how the US system deals with it. The initial signs are constructive, and the deadline for any results will be Christmas. This will cause markets to remain volatile, but a perception of progress will filter positively to valuations.

The price of major commodities will be affected by discussions, as gold will be the traditional hedge vs the USD. A painful 'cliff drop' will cause oil to become more volatile on demand fears, though influences on the supply side currently exist from the ongoing conflict in the Middle East.

With Japan headed for elections in a matter of weeks, with monetary policy high on the agenda, the macro landscape is prone to change and uncertainty.