

Market Roundup:

European stocks were mixed to higher by the end of last week, as the announcement of Spanish budget cuts to tackle the country's sovereign debt crisis, coupled with earlier euro zone inflation data lifted market sentiment.

Preliminary data showed that consumer price inflation in the euro zone rose in September against expectation, to an annualized rate of 2.7%, from 2.6% the previous month, compared to expectations for a decline to 2.4%.

This arrived after the Spanish announced on Thursday a fresh budget for 2013, which centred mostly on spending cuts, in what is seen as an effort to pre-empt the likely conditions of an international bailout.

Ministry budgets were cut by 8.9% for next year and public sector wages have been frozen for a third year as Spain battles to trim one of the euro zone's biggest deficits.

Inevitably, investors remained cautious, as ratings agency Moody's was expected to complete a ratings review on Spain.

Asian stock markets ended the week mixed on Friday, as a string of economic reports deflated market expectations and sparked fresh expectations for additional stimulus measures by key Asian governments.

Stateside, official data showed that the U.S. gross domestic product increased at a seasonally adjusted annual rate of 1.3% during the second quarter, down from a previous estimate of 1.7%. Indeed analysts expected the U.S. economy to grow at a rate of 1.7%.

Market Data (12 month):

S&P 500:



FTSE100:



FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

Playing the US Election:

Unlike four years ago, the outcome of this year's US presidential election is wide open as neither current President Barack Obama of the Democratic party and Republican party candidate Mitt Romney seem to be able to exactly deliver and offer what the public wants and the economy apparently be needing.

Not unsurprisingly in the run up to the elections, regular opinion polls will increasingly gain on importance and easily be the most eagerly watched piece of news gathering, with the interest not only of the electorate but also of traders and investors alike.

We can also safely assume that even the European financial crisis will take a temporary backseat in the midst of the election, which will give some much needed respite. In fact if it wasn't for Europe, the US would have been under far more pressure to balance its books.

These polls or rather their results can lead to an increase in volatility in the short term as investors will to a huge degree base all kinds of decisions on them, not only in regard to selling and buying and which products to trade, but also if they should enter the markets at all or better stay on the sidelines.

Investors will not only be looking out for who will most likely gain the Whitehouse, as crucial Congressional and Senate elections take place too with possibly the worst case scenario for markets being another 'lame duck' president where the current status quo would be maintained and much needed changes and reforms be impossible or at least unlike.

DOW during Election Season:

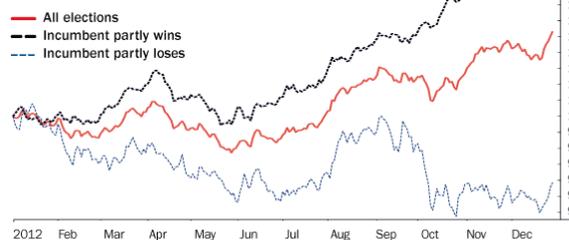
DOW ELECTION CYCLES

The market has followed a typical, though perhaps exaggerated, election year pattern for the first half of the year. The Dow tends to perform in the second half of a presidential election year.

Dow Industrials

Election-year cycle (Incumbent party wins vs. losses)

Plotted lines are average cycle patterns based on daily data from 1900 through 2008 for statistics on election year returns.



Source: Ned Davis Res

ELECTION PROJECTION:

How August onwards is a seasonally strong time in an election year.



SOURCE: BARCLAYS

CNBC

Cont:

Although when it comes to the end result, the effect the election will have on stocks might be overstated as not only are companies increasingly operating on a global scale (making them less and less dependent on one single economy even if in this case it is the world's biggest) but the environment for stocks might be anything else than ideal.

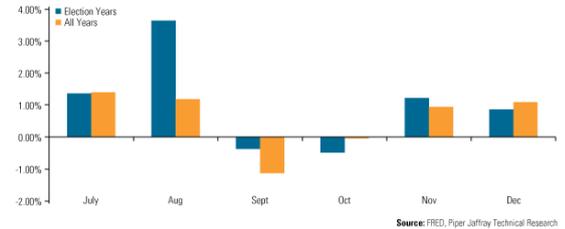
As tough austerity measures have to be implemented by either party due to the budget deficit running at unsustainable high levels, the environment for stocks will be challenging.

These austerity measures will likely be a substantial drag on GDP possibly for years to come with public and private spending under pressure, propelling investors to invest increasingly in so called defensive stocks like utilities and food producers while cutting back on cyclical stocks like car manufacturers, hotels and restaurants.

Regardless of who wins the elections, it is clear that much has to be done to restore confidence around the world's largest economy in the years ahead.

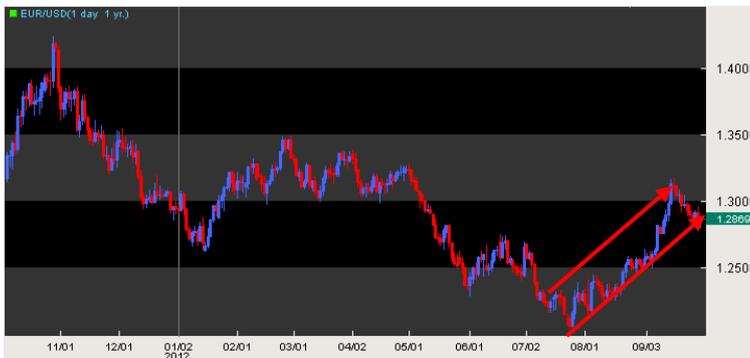
S&P500 during Election Season:

S&P 500 Index Sees Strong August in Election Years



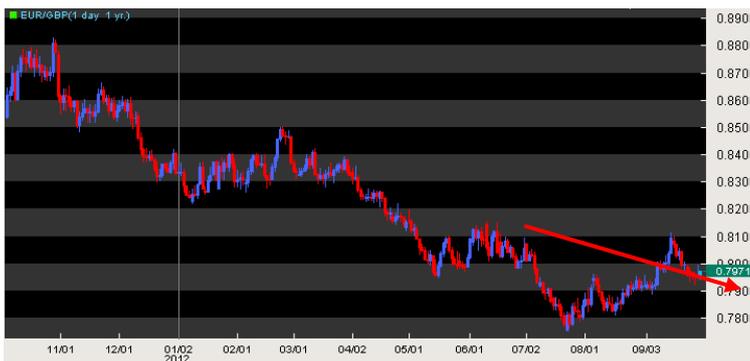
Currencies:

EURUSD

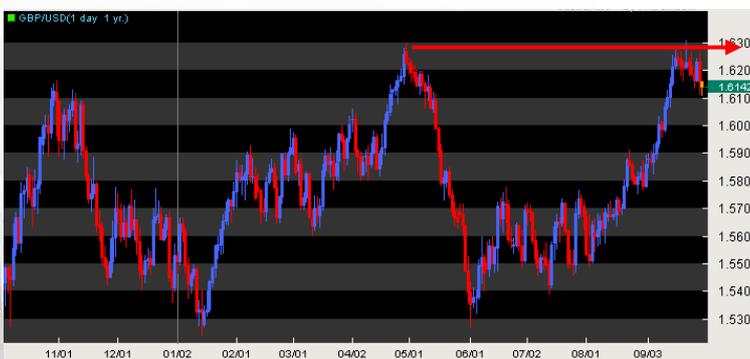


EURUSD formed a cycle top at 1.3171. Range trading between 1.2750 and 1.3171 would likely be seen in a couple of weeks. Support is at 1.2750, and one more rise towards 1.3500 is still possible. On the downside, a breakdown below 1.2750 could bring price back to 1.2500 area.

EURGBP

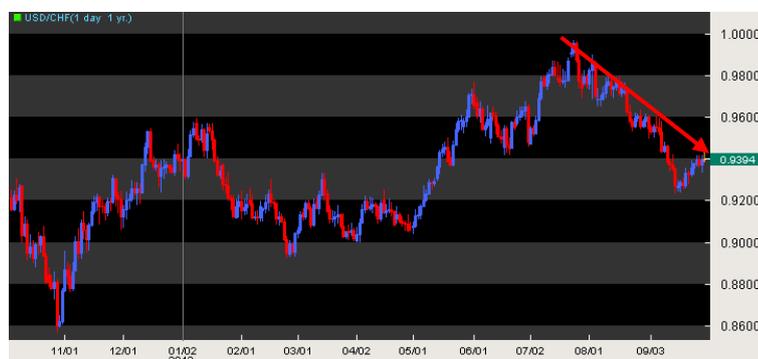


GBPUSD



After touching 1.6301 resistance, GBPUSD pulled back from 1.6309, suggesting that consolidation from 1.5393 is underway. Range trading between 1.6100 and 1.6309 would likely be seen in a couple of weeks. Support is at 1.6100, as long as this level holds, we'd expect uptrend to resume, and another rise towards 1.6500 is possible.

USDCHF



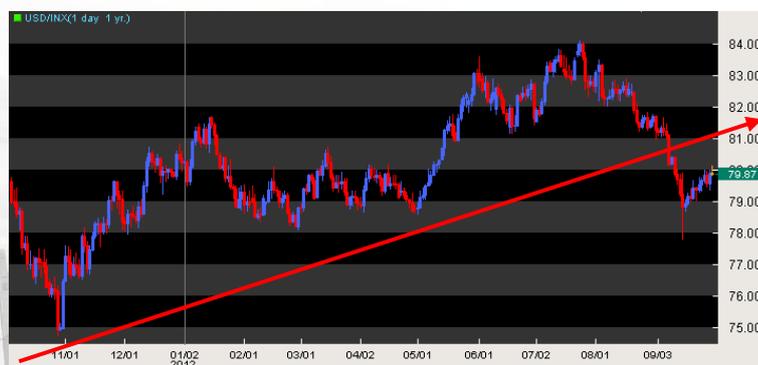
USDCHF remains in downtrend from 0.9971; the rise from 0.9239 is treated as consolidation of the downtrend. Range trading between 0.9239 and 0.9500 would likely be seen over the next several days. Resistance is at 0.9500, as long as this level holds, we'd expect downtrend to resume.

USDJPY



USDJPY stays below a downward trend line, and remains in downtrend from 84.17. Further decline towards 76.00 is still possible after consolidation. On the upside, a clear break above the trend line resistance could bring price back to 82.00-83.00 area.

USD Weighted Index



USD weakened against all four counterparts, led by a 0.67% rally in the Australia dollar, while GBP gained 0.31% as the final 2Q GDP report encouraged an improved outlook for the region. GBPUSD may continue to track higher over the near-term as the relative strength index maintains the upward trend from June. In turn, the pound-dollar may make another run at 1.63 before we finally see a short-term correction.

Weekly Investment Bulletin

1st October 2012

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Gold:



The fundamentals for gold (and silver) appear to be making a positive turn as the US, ECB and Bank of Japan simultaneously signals Worldwide QE3. Gold's ascent has been a combination of a weak dollar, which has been pushed down in recent weeks in anticipation of the central bank actions of the ECB and the Fed. The German's court decision to ratify the European Stability Mechanism of €500 bln also boosted gold prices. The pledge by the Chinese government to raise subway and railway projects spending by RMB 800 bln last week and Premier Wen's confidence in achieving 2012's growth target will benefit both growth and gold markets.

Crude:



The big news in commodities lately is \$10/barrel drop in the oil price in the last several days. The decline was initially blamed on FedEx lowering its outlook for global growth and industrial production. Reports that Saudi Arabia is keeping production high to drive oil prices lower were also cited. The actual reason for the drop in crude oil is likely political; with an upcoming US election, the current administration is pulling as many strings as it can to keep voters happy and remain in office. Gasoline prices above \$4/gallon and crude oil above \$100/barrel isn't likely to endear voters so close to going to the polls.

Summary:

It will likely be a quieter week. Asia wise, various public holidays will keep Chinese, Hong Kong and Korean markets muted for most of the week. Investors have digested the news of Spain's latest budget balancing plan with initial positivity, as spending cuts has a better possible economic outlook than more austerity.

Spain will sell off more debt in the coming weeks and announce stress test results of their banking sector. It's estimated that Spanish Banks would need up to €59.3 bln in capital injections with as many as 7 banks asking for assistance. Bankia, the so-called big failed Spanish bank, would need €24.7 bln, the half of the total. France will also announce further crisis busting measures increase.

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