Weekly Investment Bulletin

21st January 2013

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Market Roundup:

The market rally continued last week, with the vast majority of major indices maintaining their lofty levels.

Asia finished the week with strong gains, buoyed by expectation-beating Chinese economic data and Japan in particular further gaining as the Yen hit fresh lows. It was also reported that the Japanese Central Bank would add a further 110 trillion Yen ($110bln) to its asset buying program.

Indeed Japan's Nikkei powered to a 2.9% weekly close as the Hang Seng added 1.1% and the Shanghai Composite 1.4%. Official Chinese data announced that 4th quarter GDP rose by 7.9% just beating expectation of 7.8%.

In Europe, markets were largely encouraged by news from China, but gave up some of that upside by weak readings from the US consumer, where the University of Michigan-Thomson Reuters gauge tracking US consumer sentiment declined in January, coming in at 71.3 after economists expected a reading of 74.2. Jobless claims however, came in at a 5 year low.

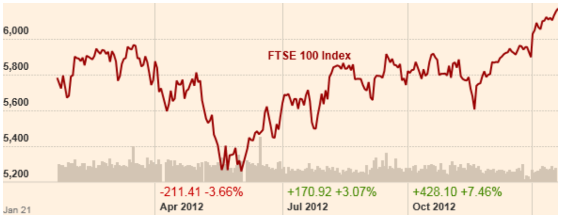
Stateside, it was green numbers across the board. The S&P500 climbed 5.04 points on Friday, or 0.3%, to end at 1,485.98, its highest close since December 2007, leaving it up 1% for the week. The DOW added 1.2% and the Nasdaq laboured to added 0.3% for the week as disappointing numbers from Intel hit the index.

News from Washington provided an adrenaline shot of optimism. House of Representatives will vote next week to authorize a three-month increase in the debt ceiling in order to give Congress time to pass a budget. This solves very little in the long term. Sooner or later Congress and Obama will need to agree on how to reduce the deficit without harming its credit rating.

Market Data (12 month):

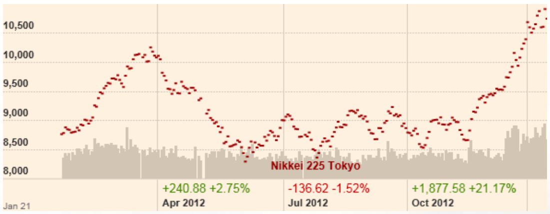
S&P 500:

FTSE100:

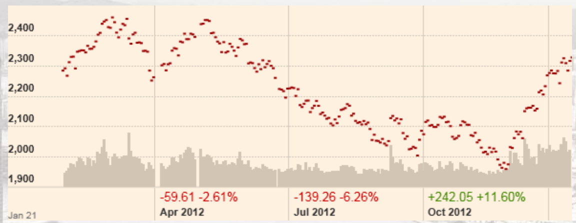


FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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What to look forward to in 2013 continued:

Continuing on from our economic themes to shape the year ahead, this week we focus on currencies and commodities.

For the latter, despite a high volatility during the past year, commodity prices are at very much the same levels they were a year ago. Given that Western economies are likely to return sluggish growth for the year, the chances are good that 2013 will see much of the same.

There are mild downward pressures from soft growth and relatively high inventories in some markets (for example oil). On the other hand, stronger growth in China and the rest of Asia could push prices in the opposite direction.

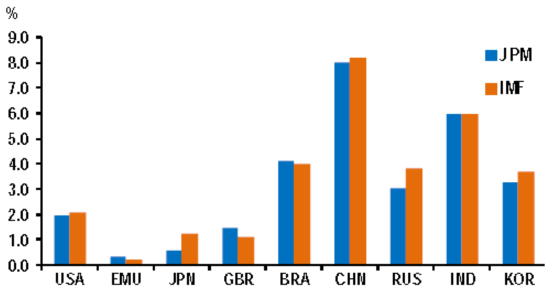
Meanwhile, tensions in the Middle East and North Africa could keep oil prices on their toes, driving prices up if the instability in the region gets worse or pulling them down if matters calm.

This could have a large bearing on how inflation plays out. Low global growth and high unemployment rates in the past couple of years have significantly reduced price pressures, with the rate of inflation down between 2011 and 2012.

With global GDP likely to remain lacklustre in most Western economies in 2013, inflationary pressures should remain controlled despite the effects of massive amounts of liquidity washing around the global economy, and despite the recent rise in food prices.

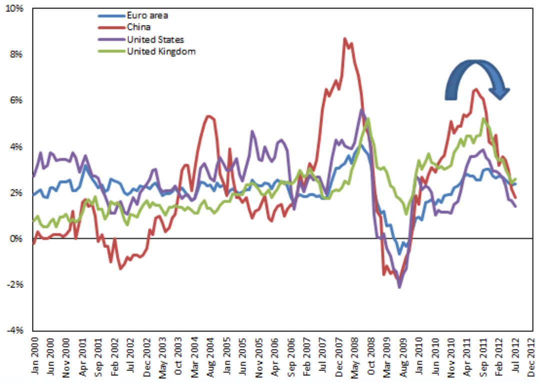
The behaviour of central banks over the past 18 months can best be described as “aggressive easing.” Nevertheless, as growth prospects in many of the world’s key economies start to improve, central banks will begin to take a more neutral stance, putting monetary policy on hold.

2013 GDP Projections – JPM vs IMF:



Source: http://www.soberlook.com

Inflation Rates for Key Economies:



Source: www.pragcap.com

Cont:

While we could see more monetary intervention (interest-rate cuts and/or quantitative easing) by the Federal Reserve, the European Central Bank and/or the Bank of England, other central banks are likely to take a more cautious approach to any further stimulus, while still keeping a lookout for any signs of renewed weakness in the coming year.

Aside from monetary policy, we expect fiscal policy to become tighter. This is mainly true of the US, Eurozone and Japan, all of which face large and growing government debt ratios. Stateside, the mostly likely scenario calls for a gradual further reduction in the deficit, which will help to stabilize the US debt ratio, without hurting growth unduly. In Southern Europe, austerity is damaging growth prospects; but given the severity of the situation, this will not deter further tightening.

Moreover, France will also be pressured to constrict fiscal policy even more. It has one of the biggest deficit-to-GDP ratios of the non-crisis Eurozone countries and its government spending-to-GDP ratio is one the highest in the developed world.

We expect to see a rise in the dollar, especially relative to other developed economy currencies. On the other hand, as the growth outlook in the emerging world improves and capital flows into these economies ramp up once again, the upward pressure on these currencies could intensify, balancing out the dollars upward movement.

Meanwhile, as the world's principal reserve currency, the US dollar is very sensitive to swings in investor sentiment and changes in risk aversion. Consequently, any reoccurring worries about the Eurozone debt crisis will tend to favour the dollar over the euro and other risky currencies.

Over the past year, the risks facing the global economy were skewed to the downside. In the coming year, not only will some of the big-four threats—another US recession, a Eurozone meltdown, a Chinese hard landing, and a war in the Persian Gulf—become less menacing, but there could be some upside surprises as well.

Crucial to this is pent-up demand from consumers and businesses. In the wake of the Global Financial Crisis and subsequent economic stagnation, households and companies have been very cautious about expenditure, preferring to save more and reduce their debts. This is especially profound with Western banks. There is some evidence that this trend may be reversing especially in the United States and parts of Asia.

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Currencies:

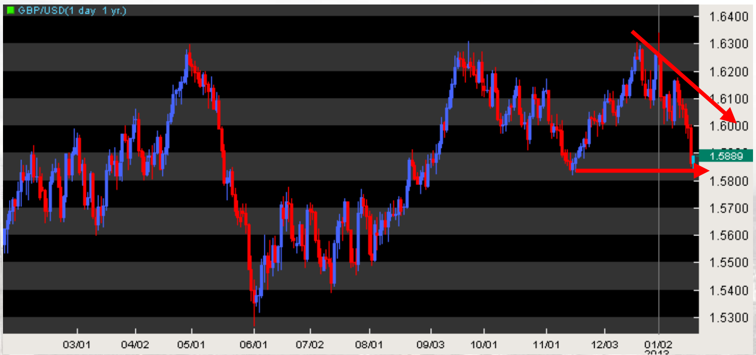
EURUSD

EURUSD stays above the upward trend line, and remains in uptrend from 1.2500. Further rise could be expected after a minor consolidation, and next target would be at 1.3500 area. Support is at the trend line, only a clear break below the trend line could indicate that the uptrend has completed, then the following downward movement could bring price back to 1.2800 zone.

EURGBP

EURGBP soared to as high as 0.8934 last week. Initial bias remains on the upside this week having broken above the upper most red line and current rally should now target the 0.8505 zone next.

GBPUSD

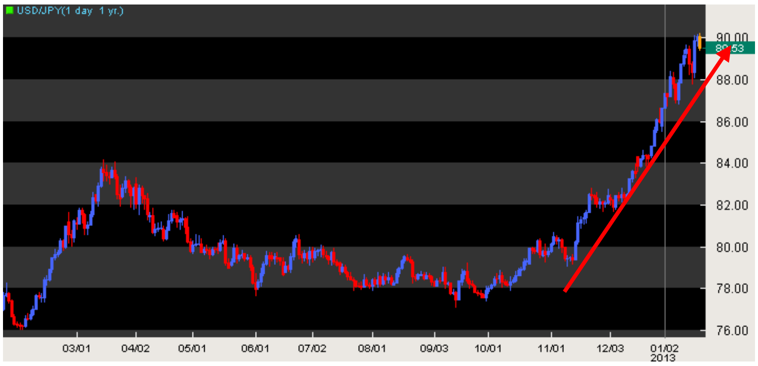


GBPUSD is facing 1.5827 support, a breakdown below this level will indicate that the uptrend from 1.5268 had already completed at 1.6339, then the following downward movement could bring price to 1.5400 area.

USDCHF

USDCHF remains in downtrend from 0.9971. Key resistance is at 0.9511, as long as this level holds, we'd expect downtrend to resume, and another fall towards 0.8500 is still possible.

USDJPY



USDJPY remains in uptrend from 77.14, and the rise extends to as high as 90.18. Further rise could be expected after a minor consolidation, and next target would be at 88.00.

USD Weighted Index

USD rallied across the board, led by a 0.73% decline in GBP. The index looks poised to appreciate further over the near to medium-term as the more robust recovery in the world's largest economy softens the Fed's scope to expand its balance sheet further. Indeed, the shift in the policy outlook should keep the upward trend intact, but the dollar remains poised for a short-term correction as debt negotiations persist.

Gold:

Gold futures ended Friday's session lower, as a broadly stronger US dollar prompted profit taking due to the previous session's rally to a four-week high. Renewed concerns over the economic outlook for the Eurozone and ongoing worries over the US debt ceiling were in focus. A stronger US dollar usually weighs on gold, and traders will remain focused on growing uncertainty over how the country will tackle the upcoming USD16.4 trillion debt ceiling debate. As previously mentioned a short term solution is on the cards, which should offer near term relief to gold trading.

Crude:

Crude oil futures ended Friday's modestly lower, but remained close to the previous session's four-month high amid indications China's economic recovery was gaining momentum. Oil prices rose to $96.48 a barrel on Thursday, the highest level since September 19, after data showed that U.S. jobless claims fell to a five-year low last week, while U.S. housing starts rose to a four-year high in December.

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Summary:

Markets maintain high levels as the world's economic growth catalyst, China posted good results and the US side continues to move in the right direction. Indices look poised to march on in the near term as industry juggernauts Apple and Google look set to post their earnings results.

The US debt ceiling continues to bubble beneath the surface and news of a 3 month temporary rise in the debt limit (whilst a firm plan is drawn up) smacks of kicking the can down the road. This will remain the biggest threat to market levels in the near term and it looks like things can remain rosy for another 3 months at least. Wind forward, and it's likely the same political wrangling will take place a la August 2011 and the same threats (or worse) of credit rating downgrades.