Weekly Investment Bulletin

22nd October 2012

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Market Roundup:

It was a mixed bag of results for global equity indices. In Europe, markets advanced well for the week with most indices delivering a 2% gain for the week. French and Spanish markets nearly pushed above 3%.

The general mood was positive given the steps taken by the ECB to shore up the regions debt financing facilities. The biggest news of the week from Brussels was a widely expected agreement to establish a single supervisor to oversee the banking sector. With little else to surprise or woo markets, the reaction was minimal. Indeed (yet another) failure from Europe to deliver any cast iron answers meant that investors turned their eyes stateside.

US indices gave up some gains from mid week to end the week mildly in positive territory. The Nasdaq was dragged into the red for the week as lower than expected earnings from the likes of Microsoft, McDonalds and General Electric and a rather embarrassing premature release of data from Google prompted profit taking.

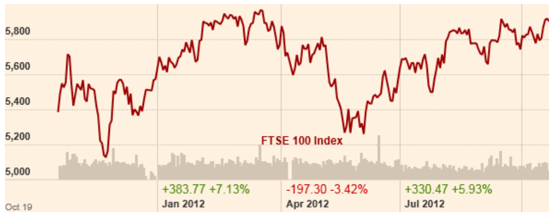
An outflow from equities and risk assets pushed the USD higher and took nearly 2% off the price of gold.

Asia enjoyed a strong week, almost entirely in positive numbers with the Nikkei gaining 5.49%.The Bank of Japan is likely to concede that it won't meet its 1% inflation target when the central bank unveils revised economic forecasts at its Oct. 30 policy board meeting, laying the ground for more aggressive policy action. Asia stocks ran in solid gains for the week, as traders reacted favourably following key Chinese economic data that either met or exceeded economist expectations, underpinning hopes for improvement. Gross domestic product expanded 7.4% in the third quarter from a year earlier, the National Bureau of Statistics said in Beijing Thursday. GDP rose 2.2% from the prior period, a four-quarter high.

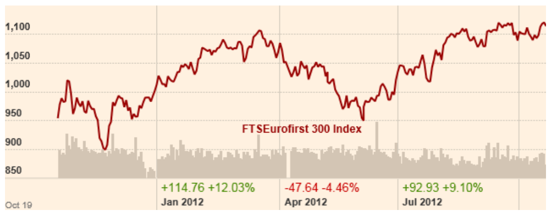
Market Data (12 month):

S&P 500:

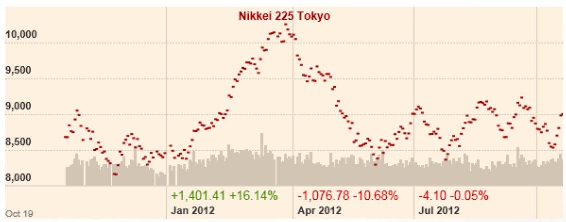
FTSE100:



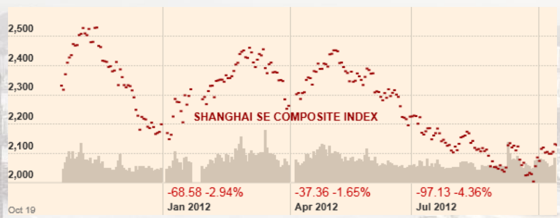
FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

Worst over?

China's industrial production, fixed asset investments and retail numbers all accelerated in September. This in turn has made the calls for further stimulus wane after investors have had to digest seven quarters of consecutive economic slowdown. As stated on the previous page, GDP expansion is up and rose over 2% from the final quarter.

An uptick in growth will give the incumbent communist party more breathing space as they complete a once in a decade transition next month. Having intervened with monetary policy in during the summer (for the first time since the global financial crisis), the government have held fire, even as showed trade, manufacturing and inflation cooled during the last quarter.

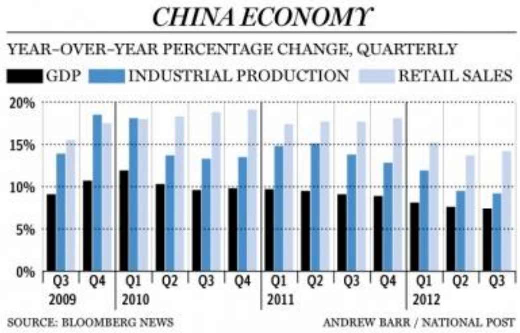
We therefore do not expect any further rate cuts soon, however feel there may be more tweaking of banking and capital requirements bestowed on the banking sector in the way of reserve requirements instead.

The positive mood has certainly fuelled stock prices, with the Hang Seng gaining over 9% for the last 3 months. Over 2 years, the index still lags by 8%.

The economy expanded 7.7% in the first three quarters from a year earlier, the statistics bureau said. Premier Wen set a full-year growth target of 7.5% in March, the lowest goal since 2004.

Industrial production increased 9.2% in September from a year earlier, rebounding from a three-year low of 8.9% expansion in August, and Thursday's statistics bureau report showed.

China GDP Change:



Inflation Rate:

Money Supply:

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Cont:

Retail sales advanced 14.2% in September from a year earlier, the most since March, compared with the 13.2% median estimate. Fixed-asset investment excluding rural households rose 20.5% in the first three quarters, higher than the 20.2% median forecast in a survey.

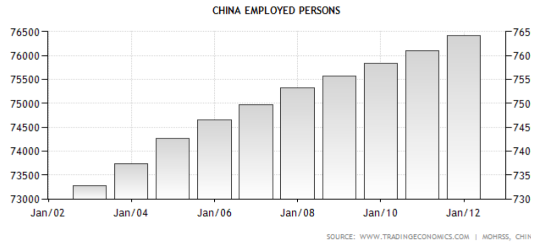
A spokesman for the National Bureau of Statistics was bold enough to say that China's economy was bottoming out. The economy will show a moderate rebound in the fourth quarter and the country's employment situation was stable in the first 9 months of the year.

Indeed mining giants the Rio Tinto Group, said last month it expects economic growth in China to accelerate toward the end of the year as the biggest global metals consumer eases credit restrictions and boosts spending. China generated 31% of Rio's sales last year.

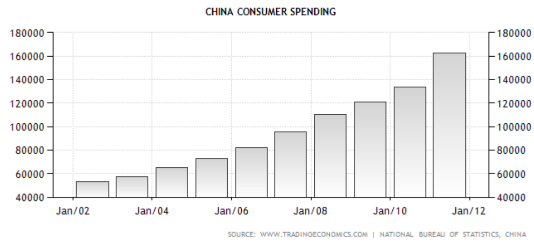
Exports exceeded forecasts in September and money supply grew at the fastest pace in 15 months. Inflation last month was close to the slowest pace in two years and producer prices fell the most since 2009, government data showed on Oct. 15, giving authorities more room to ease policy.

The People's Bank of China has refrained from monetary easing since July after cutting interest rates twice in one month. The central bank lowered the reserve-requirement ratio for lenders three times from November to May to boost lending and support growth. At the same time, authorities have accelerated approvals for investment projects and rolled out tax support for exporters.

Employment Numbers:



Consumer Spending:



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Currencies:

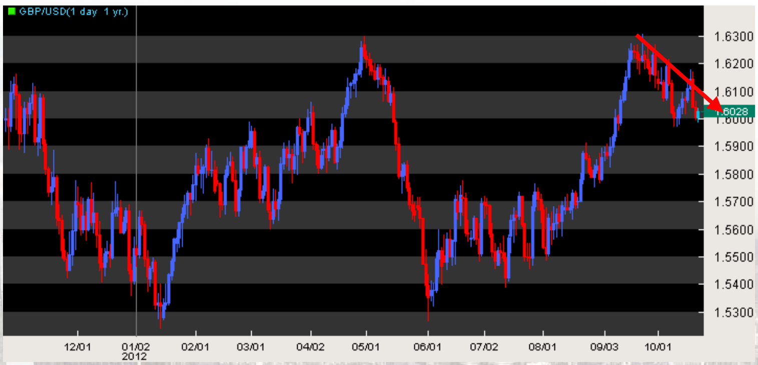
EURUSD

EURUSD moves sideways in a range between 1.2803 and 1.3171. The price action in the range is treated as consolidation of the uptrend from 1.2042. Lengthier consolidation in the range would likely be seen next week. Key resistance is at 1.3171, a break above this level could signal resumption of the uptrend, then a further rise towards 1.3500 is likely.

EURGBP

EURGBP jumped to as high as 0.8146 last week and the break of 0.8114 resistance confirmed resumption of rally from 0.7755. Initial bias remains mildly on the upside this week. On the downside, below 0.8107 minor support will turn bias neutral and bring retreat. But break of 0.8022 minor support is needed to signal short term topping.

GBPUSD



GBPUSD remains in uptrend from 1.5268, the fall from 1.6309 is treated as consolidation of the uptrend. Lengthier consolidation of the uptrend could be expected, and deeper decline to1.5800-1.5900 area would likely be seen next week.

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USDCHF

USDCHF broke below 0.9239 support, and reached as low as 0.9214. Support is at 0.9210, only break below this level could trigger another fall towards 0.9000.

USDJPY

USDJPY broke above the downward trend line, suggesting that the downward movement from 84.17 has completed at 77.14 already. Further rally is expected next week, and next target would be at 80.00 area. Support is now at 78.40, only break below this level could trigger another fall towards 75.75.

USD Weighted Index

USD continued to strengthen across the board on Friday, led by a 0.37% decline in the Australian dollar, but we may see the high-yielding currency track higher next week as economic data is expected to show heightening price pressures. As the headline reading for Australian inflation is projected to increase at a fastest pace in the third-quarter, a large uptick in price growth may sap speculation for additional rate cuts from the Reserve Bank of Australia.

Gold:

Gold futures ended the week at the lowest level in six weeks, as a combination of ongoing fears over the eurozone's debt crisis and mounting concerns over the outlook for the global economy drove investors to the US dollar. Gold futures for December delivery settled at USD 1,722.65 a troy ounce by close of trade on Friday, losing 1.25% on the day.

Crude:

Oil tumbled the most in two weeks as industry stalwarts such as General Electric Co. missed quarterly sales forecasts, raising concern that slowing economic growth will reduce oil demand. Oil also retreated as the euro weakened against the dollar amid speculation the debt crisis is worsening.

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Summary:

With earnings results very much in the spotlight, equity markets will likely feel the pressure this week. This is in conjunction with renewed concerns on Europe as last week's summit failed to give investors more than what they had expected.

US data will also be scrutinised later this week. Markets may stay subdued ahead of the release later in the week of key data out of the US, including new home sales, durable goods orders and third-quarter GDP figures.