Weekly Investment Bulletin

25th March 2013

MITHRIL ASSET MANAGEMENT

Market Roundup:

A mixed week for markets. European markets have been rattled by news of Cyprus. Crippled by exposure to Greek debt, Cyprus needs to raise €5.8bln in order to secure a €10bln emergency loan from the EU and IMF. Failure to do so may risk exit from the Euro. How ironic given that Athens, for now, remains on life support as EU chiefs play hard ball with Cyprus.

All major European indices ended the week in the red, as the FTSE100 shed 2.09% and Germans DAX was similar at 1.89%. Spain's IBEX weakened by 3.79%.

The amount of the loan is as little as Cyprus' contribution to global GDP, however markets took note as it further exposes the ongoing frailties of the single currency.

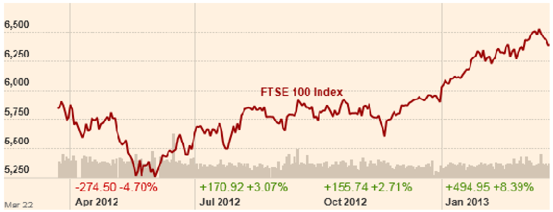
Asia too suffered by on average 2%, with Bombay's SENSEX giving up 3.56%. The only bright light was the China, who added 2.18% for the week, as business conditions for Chinese manufacturers saw further improvement in March after nearly levelling off in the previous month, according to preliminary data released Thursday by HSBC. Flash manufacturing Purchasing Managers' Index (PMI) for March came in at 51.7, improving from a final reading of 50.4 for February.

The US however, bounced back after a difficult week, and maintained the levels with minor losses. Retail earnings from the likes of Nike and Tiffany and Co beat estimates and were enough to lift indices higher as the quarter draws to a close. The U.S. House of Representatives on Thursday approved a bill to fund the federal government through the end of the fiscal year in September, averting the threat of a partial government shutdown next week.

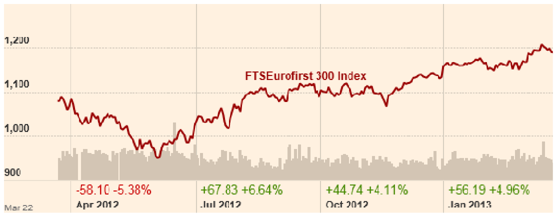
Market Data (12 month):

S&P 500:

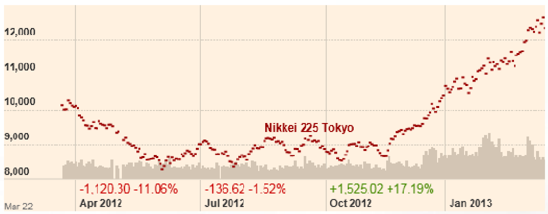
FTSE100:



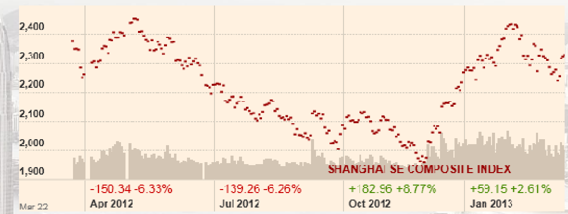
FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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Black Monday for Cyprus not the EU:

Given our comments above, it seems pointless to focus on a country of such a small economy yet who can hold the world's attention.

After so many others have needed to arrange bailout funding from the EU, Cyprus was always at risk, given such high exposure to Greek debt. Yet this time it was different. So desperate were the Cypriots that they were prepared to raid its bank deposits. Those who had between €20,000 and €100,000 would have a 6.75% percent charge imposed, and those above €100,000 would be hit for 9.9%. Cue hoards of people queuing to remove their deposits leading to an imposed closure of the country's banks.

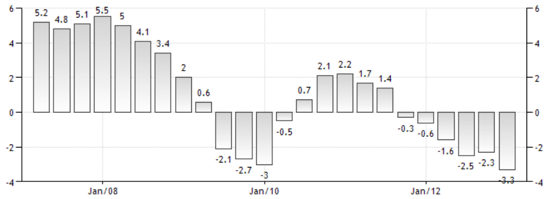
The European Central Bank on Thursday set the clock ticking on a Cyprus bailout deal, announcing that it would have no choice but to suspend an emergency liquidity lifeline for the country's banks on Monday unless a rescue program is in place.

At time of writing, it appears that a deal has been struck, which means that credit lines have been restored and Cyprus can remain on life support for now.

Failure to have reached a compromise would almost have certainly led to severed emergency funding lines would have been needed to recapitalise the country's banking system. No funding from the ECB would lead to an insolvent banking system. The country's banks can alleviate themselves from any further run on cash machines. For now a hyper liquidity shortage and eventual collapse of the finance system has been averted.

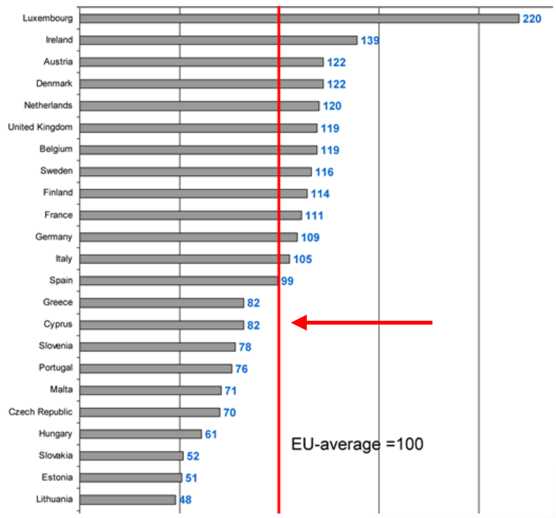
But considering the 'what if' scenario where in light of failure, the government would have still required a payment system and could be then forced to abolish the Euro as its legal tender and introduce the Cypriot Pound Mk 2.

Cypriot GDP Growth:



Source: www.tradingeconomics.com

EU GDP Per Capita:



Source: http://www.english-online.at

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Cont:

This would devalue rapidly as the government debt, denominated in Euros, is re-valued. Whilst disastrous for Cypriots, for the rest of the EU or indeed investors worldwide, the impact will not be as severe.

The €14bln of government debt is very manageable on a global scale. €2.5bln of that debt is owned by Russia. Remember that investors have recovered from €100bln debt haircuts thanks to Greece.

The main fear is of pressure on government bonds of other struggling nations should Cyprus not reach a compromise. Should that be the case, the EU has the EFSF and OMT facilities (debt purchasing) to patch over any cracks should they occur. Whilst near term volatility will likely rise, such instruments will instantly calm investor sentiment.

As the week came to a close, the euro was able to gain ground in the FX markets, as investors showed confidence a) in a compromise being reached and b) that the EU has enough fire power to prevent further crises.

Make no mistake, if this happened 12 months ago, yields of peripheral bonds would have skyrocketed so we should be warned against complacency. This further exposes the fragility of the European system and a currency which has tried to harmonise completely mismatched economies.

There is also the political aspect of this. With the contagion aspect less severe as that of Greece, Spain, and Italy the EU's hardball stance may be more of a warning to others as well as an advert to their international counterparts that their rules are absolute. Whilst we have averted a Cypriot crisis, it remains firmly on life support, and do not rule out a re-occurance.

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Currencies:

EURUSD

EURUSD rebounded over the weekend due to news from Cyprus. Key resistance is now at 1.3100, only break above this level could indicate that a cycle bottom has been formed at 1.2843 on the chart, and the downtrend from 1.3711 has completed.

EURGBP

EURGBP's correction from 0.8806 extended lower last week and reached as low as 0.8484. Deeper decline was expected, but Cypriot news will likely reverse that in the short term. Support at 0.8446 contain downside and bring rebound.

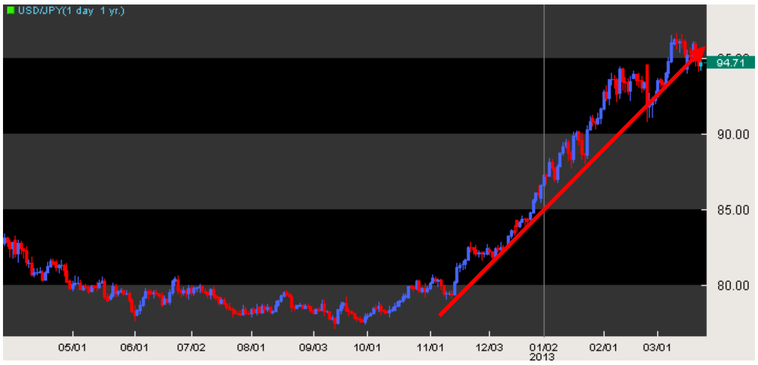
GBPUSD

GBPUSD is facing the resistance of the downward trend line on daily chart, a clear break above the trend line resistance will indicate that the downtrend from 1.6339 had already completed at 1.4831, then the following upward movement could bring price to 1.6500 zone.

USDCHF

USDCHF broke below the upward trend line, suggesting that a cycle top is being formed at 0.9567. Further decline would likely be seen this week, and next target would be at 0.9250 area.

USDJPY



USDJPY may be forming a cycle top at 96.70. A pullback to 92.00 - 93.00 area is likely this week. However, the fall from 96.70 would possibly be consolidation of the uptrend from 77.14, and one more rise towards 100.00 is still possible after consolidation.

USD Weighted Index

Once again, three of the four components gained ground against the USD, led by a 0.67% rally in the Euro, with the single currency threatening breaking the 1.3000 figure as policy makers agreed an 11th hour deal to save Cyprus.

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Gold:

Gold futures swung between modest gains and losses during early European trade on Monday, as the US dollar weakened following news that Cyprus and its international lenders reached a last-minute bailout agreement. Relief over the Cyprus deal prompted investors to lower exposure to safe haven assets, such as gold and the U.S. dollar, and move in to riskier assets like stocks and industrial commodities.

Crude:

Oil has begun the week trading to the upside thanks for positive news from Cyprus. With the ailing nation able to remain on life support, threats to the global recovery are averted for the time being supporting demand for oil.

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Summary:

Two weeks ago, sequestration had little *market* impact and we are convinced that should Cyprus have given in; this would have had little *economic* impact. Its contagion factor was nothing on the par with Greece. However the *market* impact could have been costly but as we stand, that has been averted. With such a small nation avoiding disaster will sooth investor sentiment over the near term and offer some support to current index levels.

The more positive economic news from China's flash PMI should be the driving factor for those looking for direction on the global economy and as this came it at a preliminary reading of 51.7 without the distortion of the Lunar New Year holiday. Should the current flash reading be confirmed or improved, then the worlds global economic growth catalyst can remain on course for 8% GDP growth for 2013.

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