Weekly Investment Bulletin

26th November 2012

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Market Roundup:

Stock markets enjoyed a positive week and in some cases rose to levels not seen since last month.

Investor sentiment was guided by German business data index as the Munich-based Ifo Institute's index rose to 101.4 in November from 100 in October, beating expectation. A good result for Europe's largest economy is good for the region as a whole, especially as its leaders hit a much expected deadlock over its budget negotiations.

Nonetheless, the DAX rose 3.7% for the week and France's CAC 40 added over 4%. Indeed in France the index for the business environment rose to 88 in November from 85 in October. However business sentiment is still at a 3 year low.

In Asia, preliminary PMI data in China was also looking positive signalling a rise to 50.4, and most importantly, the first expansion in over a year. The Hang Seng advanced 3.57% and once again the Nikkei rocketed up by over 6% as exporter shares surged on the weakening Yen.

Both Japanese and US markets had shorter trading weeks due to various public holidays and US consumers flocked to grab a bargain in Black Friday sales. Indeed tech stocks were among the biggest performers with Apple gaining over 7% for the week, Microsoft nearly 4% and Blackberry manufacturer Research in Motion an astonishing 27% as its new L Series Blackberry 10 phone was leaked to the market.

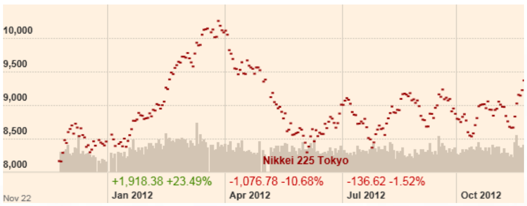
Market Data (12 month):

S&P 500:

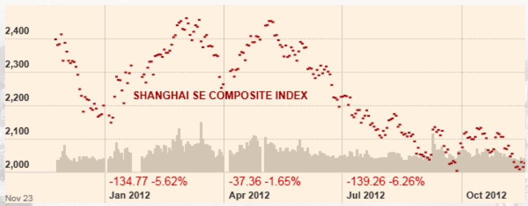
FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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Does the Next Debt Crisis Lie in Japan?

While the world worries about Greece and Spain, Japan also has its share of debt problems.

Predictions of the date may differ, but the general consensus on Japan remains the same. In a matter of just three to 10 years, the world's third-biggest economy may start running out of the savings needed to fund its massive public debt.

According to the International Monetary Fund, Japan's general government debt first broke above 100% of gross domestic product (GDP) in 1997 as the authorities tried to prime pump the economy out of the post-bubble.

Ending the credit binge has proved challenging for governments dealing with a deflationary downturn, rising welfare costs and dwindling tax revenues.

In 2011, general government gross debt totalled nearly 230% of GDP and is projected to reach 245% in 2013, with the government's fiscal deficit currently around 10 percent of GDP.

Net public debt, which subtracts from gross debt government assets such as public pension funds, has also increased tenfold over the past two decades to reach more than 125% of GDP.

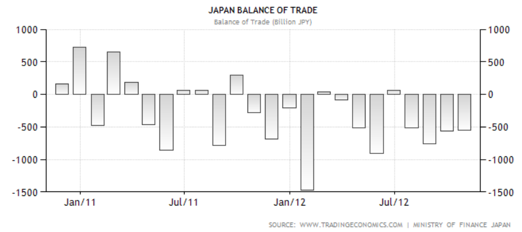
In comparison with Europe's indebted economies, Greece reached crisis point with its debt to GDP ratio of just 150%, while the Spanish government has faced a storm with a debt ratio below 100%.

An aging population, declining birth-rate and a contracting workforce are putting pressure on household savings, adding to concerns that the nation's legendary savers will no longer be able to buy government bonds.

Debt to GDP:

GDP Growth Rate:

Balance of Trade:



Source: Trading Economics

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In addition, the cost of increased energy imports to cover the shutdown of nuclear power plants has eroded the trade balance. Exports to Japan's biggest trading partner, China have been hit by a slowdown that may mark the end of double-digit growth.

IMF warned that "even a moderate rise in yields would leave the fiscal position extremely vulnerable and failure to implement a credible fiscal consolidation plan could lead to sovereign downgrades and trigger similar actions for financial institutions, which could eventually erode confidence in the Japanese government bond market (JGB).

Despite the highest public debt to GDP ratio in the industrialized world, Japan remains the world's biggest creditor with net foreign assets of around US$3.1 trillion, with its 2011 per capita GDP of US$34,294 above Italy, Spain and South Korea and four times the size of China's.

Household assets of an estimated 1,500 trillion yen, surplus funds held by the private sector and the demand from Japanese banks and other financial institutions for low-risk investments have given the government a ready market for its JGBs. In addition, Japan's low ratio of taxes to national income provides scope for increasing the burden. According to OECD data, Japan's 27.6% ratio in 2010 compared with the United Kingdom's 35 percent and was below the average 33.8% of tax revenue as a percentage of GDP.

Thanks to a steady stream of income from foreign assets – an amount that may increase due to the past year's record overseas investments – the current account has remained in surplus even as the trade balance declined.

Cont:

Comparing Japan debt to Greece debt is also flawed. Japan funds its own debt, whereas in Greece 70 to 75% of government bonds were owned by non-Greeks. Crises happen when your creditor goes on strike, and the fact is that Japan's debt is held almost exclusively by the Japanese themselves. Furthermore, Japan is not constrained by the rigours of a single currency.

Current PM Noda has succeeded where others failed in increasing the consumption tax, however, the tax hike is expected to generate only an additional 10 trillion yen a year in revenue, below the expected 10.9 trillion yen annual rise in spending due to higher pension costs. The IMF has warned that the increase in consumption tax goes only halfway toward achieving a desired fiscal adjustment of 10 percent of GDP over the next decade to put the debt ratio on a downward path.

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Currencies:

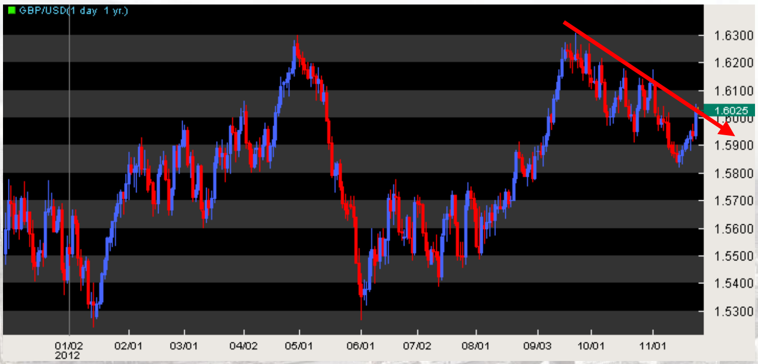
EURUSD

EURUSD bounces strongly from 1.2661, suggesting that a cycle bottom has been formed. Further rise could be expected this week, and next target would be at 1.3100-1.3150 area.

EURGBP

EURGBP's rebound from 0.7959 extended further to as high as 0.8107 last week. Initial bias is on the upside this week for further rise towards 0.8164 resistance. We'd expect some resistance from 0.8164 to limit upside and bring another decline to retest 0.7959. Below 0.8042 minor support will turn bias back to the downside.

GBPUSD



GBPUSD stays below a downward trend line, and remains in downtrend from 1.6309. The bounce from 1.5827 would possibly be consolidation of the downtrend. As long as the trend line resistance holds, the downtrend could be expected to resume, and another fall towards 1.5500 is still possible.

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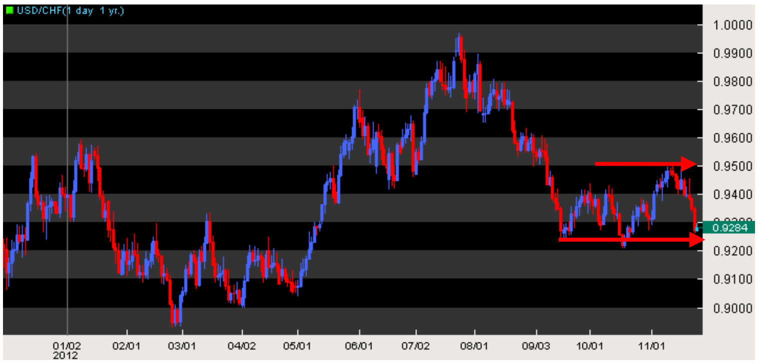
USDCHF

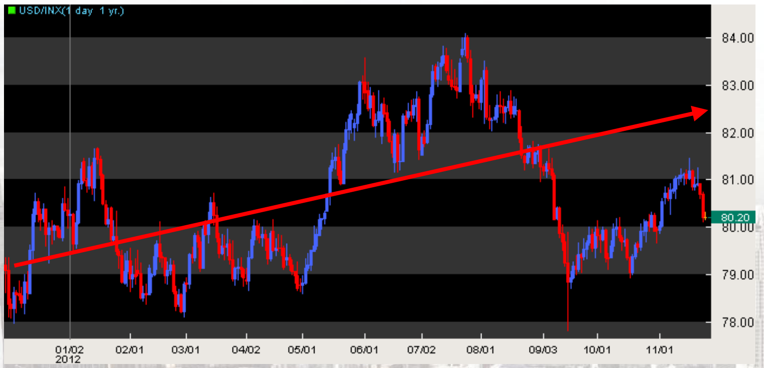


USDCHF had formed a cycle top at 0.9511 indicated by the higher red line. Further decline could be expected next week, and next target would be at 0.9100-0.9150 area. Resistance is at 0.9400, only break above this level could trigger another rise towards 0.9600.

USDJPY

Following BoJ intervention, USDJPY's upward movement from 77.14 extends to as high as 82.83. Further rise would likely be seen this week, and next target would be at 84.00 area.

USD Weighted Index



Two of the four components weakened against the greenback, led by a 0.92% decline in the Japanese Yen, while the Australian dollar shed 0.32% as heightening fears surrounding the world economy dampened risk-taking behavior. As the Reserve Bank of Australia (RBA) shows a greater willingness to lower the benchmark interest rate further, the bearish sentiment surrounding AUD currency should gather pace over the near-term.

Gold:

Gold has been range-bound since early November, trading between $1700 and $1738. Now those levels have been broken to see $1743 resistance breached. We can see a short period of consolidation for gold next week before a continuation of the rise towards $1800. There is resistance at $1785 and then again at the previous 2012 high of $1796.

Crude:

Strong gains were seen across global stock markets this week which further helped to improve investors' attitude towards riskier assets such as commodities. Crude oil pared its weekly gains as worries of a possible supply disruption from the Middle East subsided, while Europe's downbeat mood dampened the outlook for global demand lifted by China's positive manufacturing data.

Summary:

Japanese markets continue to show strength, following a close at a 7 month high at time of writing this morning, thanks to a weakened Yen. Elsewhere, markets are likely to mildly consolidate as European fears weight. A Eurogroup meeting will reconvene on Monday after failing to approve Greece's latest tranche of aid. Given US markets traded lightly due to the Thanksgiving weekend, expect there to be some pressure on valuations as the negotiations persist. Any good news from a retail perspective will help sustain current levels, with Black Friday sales to be the most likely source.