Weekly Investment Bulletin

27th August 2012

MITHRIL ASSET MANAGEMENT

Market Roundup:

*****We wish to point out that Mithril Asset Management, Mauritius has no affiliation whatsoever with Mithril Capital Management*****

Summer has proved to be a strong period for most equity markets. Many have managed to get themselves very excited over the hope of stimulus from the US and China. Both parties have made all the right noises, but with little execution.

World financial markets rose Thursday on hopes that more help for the global economy is on the way, after minutes from the U.S. Federal Reserve showed policy makers favour further stimulus and poor manufacturing data out of China fuelled speculation Beijing will take more action to boost its economy. The overall flash PMI reading was 47.8, down from 49.3 in July. This provided further proof that the Chinese economy was in need of a boost.

This week alone, the Chinese cities of Tianjin and Chongqing each unveiled plans for investments of Rmb1.5tn ($236bn) in large industries such as petrochemicals, automobiles, electronics and advanced equipment over the next few years. However do beware of competing local authorities inflating the size of their investments.

Profits were being taken in the US amid uncertainty over prospects for additional stimulus by the Federal Reserve and lack of a sign that Germany will give Greece more time to implement austerity measures.

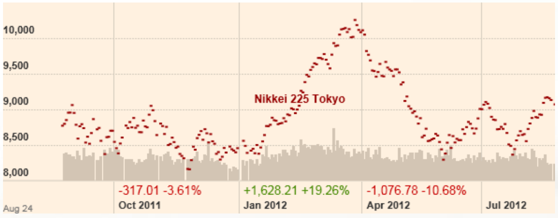
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

India's Power Struggle:

India is a nation of superlatives. So it should seem unsurprising that its massive power failure earlier this month was the largest in history, affecting more than 650 million people or nearly 10% of mankind.

This was compounded by a huge grid failure, which brought most of northern and eastern India grinding to a halt: trains and subways shut down, shops closed for business and hospitals postponed surgeries.

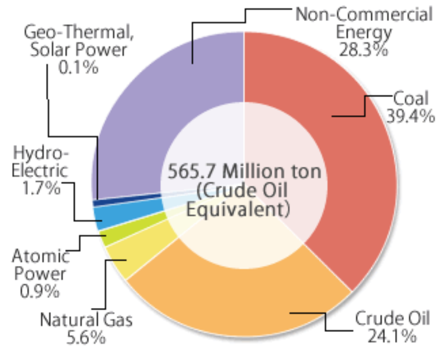
The blackout has ironically cast a bright light on the nation's deep-seated structural problems, particularly severe shortages of public goods like infrastructure, education, and health that continue to leave millions behind.

In dramatic fashion, India's unprecedented blackout exposed the magnitude of its power problems for the world to see. The basic issue is inadequate supply. India is the world's fourth-largest energy consumer, with capacity projected to increase nearly 50% in the next five years.

Yet the country's Central Electricity Authority recently reported that peak power demand still outstrips supply by almost 10%, a shortfall expected to continue into the foreseeable future. Investment in energy infrastructure is crucial for India to match its peers as they continue to develop.

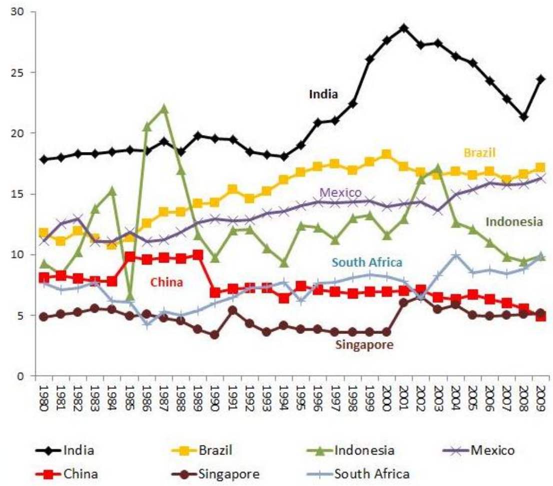
Power theft continues to weigh on efficient energy distribution. An astonishing 38% of power generated is stolen by rich and poor individuals as well as businesses, hindering foreign and domestic investment that could spark the increase in generating capacity the nation desperately needs.

Distribution of Indian Energy Consumption:



Source: Asia Bio Mass Office

Power Inefficiency – International Comparison:



Source: The World Bank

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Cont:

For reformists, India's energy struggle is political fodder. The Confederation of Indian Industry estimates that this week's outages cost businesses several hundred million dollars. Chronic power shortages hurt India's competitiveness, forcing production cuts, causing under employment. The government's respected Planning Commission estimates that they reduce India's growth rate by 1.2%.

Our preference for infrastructure focussed investments has typically centred on Asia Pacific and Latin America. India has to fit in, or be left behind. Indeed India's 5 year '12th Plan' aims to inject up to a further $1tln into infrastructure development. However given that this was based on an average 9% average growth per annum, a current estimated GDP of less than 6% will require less. Pressure on the system will only intensify as an estimated 1200 new cars hit the streets of Delhi each day.

Crucially, however, India's power failure laid bare the degree to which under investment in public goods still limits its potential. India's leaders must commit political capital to expanding investment in vital public goods like infrastructure, education, and health.

The Elite who run the country's public and private institutions are heavily insulated from shortfalls in electricity and other public goods. Their homes, offices, hotels, and hospitals boast large backup power generators some even have their own private corporate 'island' grids so hardly any of them felt the direct effects of Augusts' outage.

Indeed re-investment remains the key to kick starting ones system instead of depriving it, a stance some from the West should consider.

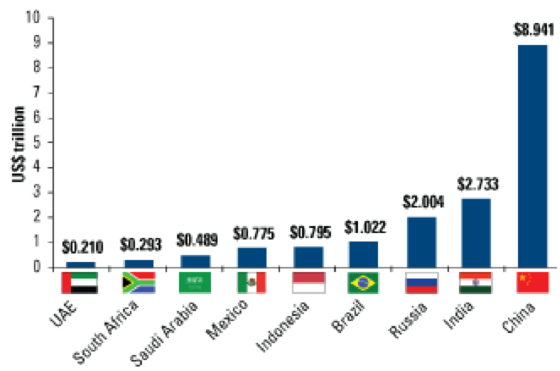
Indian Vehicle Penetration Strong:

PROJECTED LIGHT VEHICLE SALES VOLUME

	2007	2013	COMPOUND ANNUAL GROWTH RATE
India	**1,708,415**	**3,844,102**	**14.47%**
Indonesia	334,205	666,458	12.19
Poland	321,639	569,302	9.98
Thailand	572,172	1,000,728	9.77
China	6,781,803	10,791,309	8.05

Source: CSM Worldwide

Emerging Market Infrastructure Spending: 2008 – 2017:



Source: Morgan Stanley Research

Currencies:

EURUSD

EURUSD's rise from 1.2042 extends to as high as 1.2589. Further rise to test 1.2747 key resistance is still possible this week. However, a break above 1.2747 resistance could indicate a rally to 1.3000.

EURGBP

EURGBP's recovery from 0.7811 continued last week but after all it's still staying below 0.7962 resistance. Below 0.7811 should turn bias back to the downside with 0.7692 being the key support level next. A break of 0.7962 resistance will now be an early sign of reversal and should turn focus back to 0.8152 resistance instead.

GBPUSD

GBPUSD broke above 1.5776 resistance and reached as high as 1.5911, suggesting that the uptrend from 1.5268 has resumed. Further rise is still possible this week, and next target would be at the upper line of the price channel on daily chart.

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USDCHF

USDCHF broke below the lower line of the price channel on daily chart, suggesting that lengthier consolidation of the uptrend from 0.8931 is underway. Deeper decline to test 0.9421 support could be expected this week, as long as this level holds, one more rise towards 1.0500 is still possible.

USDJPY

USDJPY has formed a cycle top at 79.65. Deeper decline to test 77.66 support would likely be seen this week, with a below this level indicating that the downtrend from 84.17 has resumed, then further decline to 76.00 area could be seen.

USD Weighted Index

The US Dollar Index remains 0.15% higher, and the drop in risk-taking behaviour may prop up USD throughout the North American trade as it benefits from safe-haven flows. Indeed, Fed Chairman Ben Bernanke fuelled bets for another round of quantitative easing as the central bank head sees ‘scope for further action,’ and we may see Fed officials show a greater willingness to expand the balance sheet further in an effort to encourage a stronger recovery.

Gold:

After spending 3 months locked in a range, gold finally broke out on Aug. 21. December gold was quoted at $1,667, its highest level since early May. The move came as many investors assume the Fed is about to stimulate the economy. The basis behind this assumption came from the recently released minutes from the U.S. Federal Reserve's latest meeting, which showed that "many members" of the Fed's Open Market Committee felt that additional action would be warranted unless the economic recovery shows "substantial and sustainable strengthening."

Crude:

Oil traded near the highest level in more than three months after US stockpiles declined more than analysts forecast and minutes from the Federal Reserve showed many policy makers backed more monetary easing.

However the advance was muted after Chancellor Angela Merkel comments which created a negative impact, boosting concerns euro-area will drag down oil demand. Chancellor Merkel said she expects Greece to fulfil the terms of its bailout.

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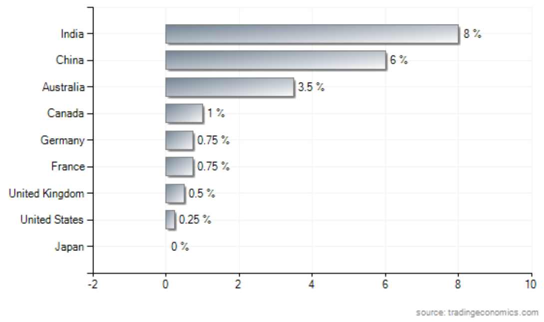
Summary:

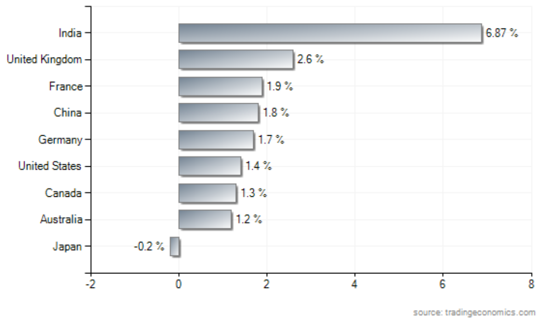
China remains under pressure to act. The market is clearly sending a signal saying that more needs to be done to restore confidence. Early this morning, Premier Wen Jiabao told state radio that the nation needs policies to help exporters thrive. This should create a near term adrenaline shot but until policy action is taken, it'll soon wane. Economic data from Beijing is not helping the mood, with data showing a 5.4% decline in profit from China's major industrial enterprises for July compared to the year-ago period. Refer back to the Shanghai composite chart on page 1 to see how the markets have evolved since then.

Whilst this takes the headlines, the greatest advantage China has is room to act in terms merely on its interest rate policy. Look at the room it has over its Western counter parts. India, the focus of this week, may have top the list but battles inflation of 6.87% - China's lies at 1.8%.

Base Interest Rates:



Current Inflation Rates:



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