

## Market Roundup:

Markets enjoyed a better week.

Starting with Asia, the Bank of Japan held off on any new policy moves Friday, as most economists had expected in the wake of major new easing initiatives at its previous meeting. Matters were also aided in Japan came as the US dollar continued its struggle to breach the 100-yen level, a major psychological milestone

Hong Kong stocks rallied to lead most Asian markets Thursday, as energy producers climbed after an increase in oil prices and a modest fuel price cut in China, while South Korean equities got a lift from better-than-expected economic growth data.

European stock markets posted their longest winning streak of the year on Thursday, after UK economic-growth data beat expectations, avoiding a slip into a triple-dip recession. Data from the UK Office of National Statistics showed the economy expanded by 0.3% in the first quarter, exceeding expectations of 0.1% growth. A negative reading would have pushed the U.K. economy into a recession for the third time in five years.

Other recent data from the euro zone weren't as positive, however speculation increased of a 25-basis-point rate cut at the European Central Bank's policy meeting next week. On Wednesday, data showed business confidence slipped in Germany in April, following downbeat purchasing managers' indexes the prior day.

The US economy grew more slowly than expected in the first quarter, expanding 2.5% versus expectations of a 3.2% rise. A decrease in government spending and a rise in imports hurt growth, according to the Commerce Department. This will put even greater emphasis on the FOMC meeting this week, which is expected to maintain its current easing cycle of buying \$85 billion in mortgage and treasury debt each month.

## Market Data (12 month):

### S&P 500:



### FTSE100:



### FTSE Eurofirst 300:



### Nikkei 225:



### Shanghai Composite:



Source: www.ft.com

## *Mexico to Improve Ties with China:*

As we have been documenting in past bulletins, Mexico has emerged as the next golden economy for the region, overtaking structurally fragile Brazil over the past 18 months.

It comes as no surprise then that Mexican President Enrique Pena Nieto has embarked on a PR drive of Asia to forge greater ties in the region, most notably with China.

Nieto's goal is simple: to engage China and the rest of South East Asia to promote Mexico as an optimal export platform into North America.

The data suggests that given high annual wage growth in China and a quadrupling of transportation costs across the Pacific, China's previous comparative advantages have weakened significantly, and therefore it makes growing sense to locate production facilities in Mexico to then export goods to the United States and Canada.

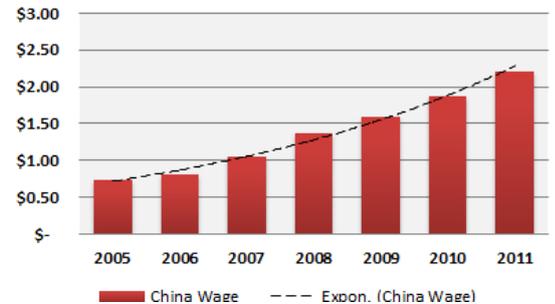
Mexico is also keen to show off its membership in NAFTA, which gives it largely free access to Canadian and U.S. import markets.

The transition to this stage is notable, given a rocky relationship in the past. For reasons of competition, Mexico was the last country to vote for China's entry into the World Trade Organization in 2001.

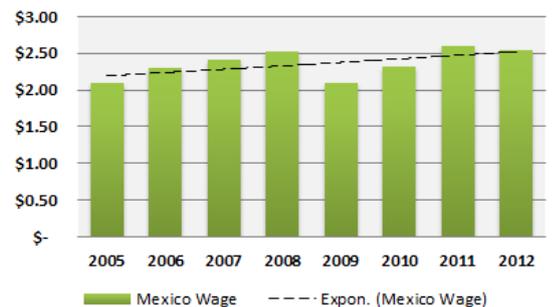
During that time, China enjoyed enormous labour and manufacturing cost advantage and Mexico lost significant market share as a result when exporting to North America.

Yet at the same time, trade between Mexico and China grew from more than \$3 billion to nearly \$50 billion between 2000 and 2010.

## *Average Manufacturing Wage in China:*



## *Average Manufacturing Wage in Mexico:*



Source: [www.iacna.net](http://www.iacna.net)

**Cont:**

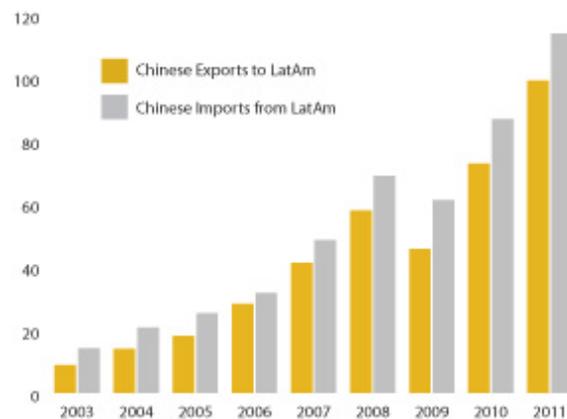
The gradual relative gain of the Chinese Yuan against the US dollar has helped mitigate to some extent the perceived problem of Chinese goods being under-priced.

In 2012, Mexico imported roughly nine times the volume of goods from China that it exported to China. More than two-thirds of those exports to China, were oil and copper.

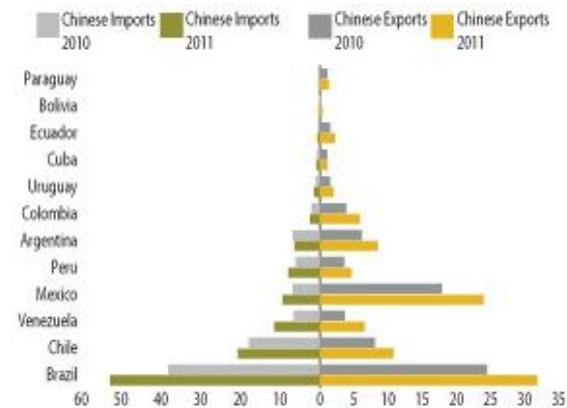
Beyond trade relations, Mexico also wants to deepen its diplomatic, research and development and political links with China and there currently appears to be no clear strategy as yet.

Moving forward, Mexico and China are likely to improve their economic cooperation, and that both could benefit from prioritizing their bilateral relationship. Mexico's key geopolitical position, with its 2,000-mile border with the U.S., its ports on both the Pacific and the Atlantic and its location next to Central America and the Caribbean as a great potential asset to China.

**China Latam Annual Trade (USD bln 2003 – 2011):**



**China Latam Annual Trade (USD bln 2003 – 2011) by Country:**



Source: CEIC, UN



## Currencies:

### EURUSD



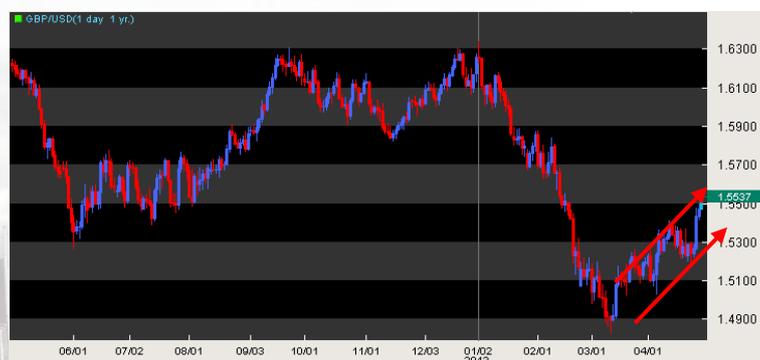
EURUSD is in uptrend from 1.2747. Initial support is at 1.2900, as long as this level holds, the uptrend could be expected to resume, and another rise towards 1.3500 is still possible.

### EURGBP



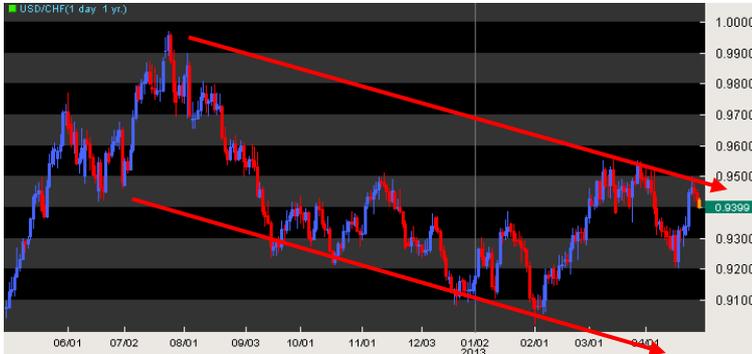
EURGBP dropped sharply last week and the break of 0.8410 indicates that the decline from 0.8806 has resumed. Initial bias remains on the downside and deeper fall could now be seen at 0.8281.

### GBPUSD



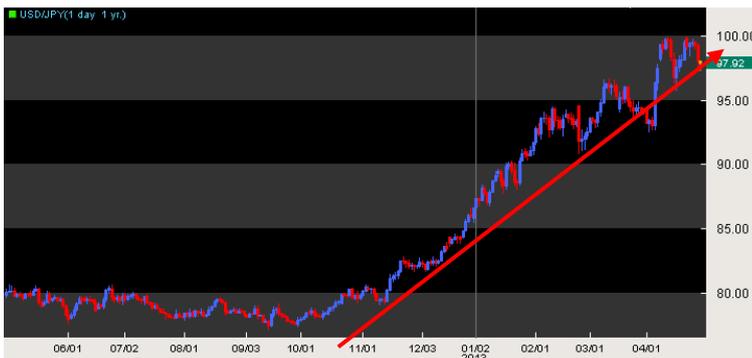
GBPUSD stays within an upward price channel, and remains in uptrend from 1.4831, and the rise extends to as high as 1.5498. Further rise is expected next week, and next target would be at 1.5800 area.

## USDCHF



USDCHF remains in downtrend from 0.9567, the rise from 0.9206 is likely correction of the downtrend. As long as 0.9567 key resistance holds, the downtrend could be expected to resume, and another fall towards 0.9000 is still possible.

## USDJPY



USDJPY remains in uptrend from 77.14 (Sep 13, 2012 low). Support is now at 95.82, as long as this level holds, the uptrend could be expected to resume, and another rise towards 105.00 is still possible.

## USD Weighted Index



Much depends on the FOMC meeting later this week. We anticipate the FOMC to maintain its asset purchase program in an effort to spur a stronger recovery, but we may see a growing discussion to scale back on quantitative easing as the resilience in private sector consumption along with the recovery in the housing market raises the outlook for growth. As a result, the committee may raise its fundamental assessment for the US economy, and the Fed may strike a more neutral tone for monetary policy as the recovery gradually gathers pace.

## Gold:



Gold prices received an additional boost from a weaker U.S. dollar, as dollar-priced commodities become less expensive to investors holding other currencies when the greenback falls.

Gold prices were boosted after data on Friday showed that the U.S. economy grew less-than-forecast in the first quarter, underlining expectations that the Federal Reserve will keep its loose monetary policy in place for the indefinite future.

## Crude:



US data helped force crude lower in Friday's session. The Commerce Department said US GDP grew 2.5% in the first quarter, missing the consensus estimate of 3% growth.

In the week ahead, oil traders will be focusing on Friday's data on US non-farm payrolls, as investors attempt to gauge the strength of the economic recovery.



## *Summary:*

All eyes will rest on the FOMC on the 1<sup>st</sup> and key economic data due on Friday will give investors an updated view on how the economic recovery is progressing and if the fed needs to continue the current easing program.

US economic data released last week painted a disappointing picture. Fridays Non-Farm payrolls could possibly do the same. This will likely force the Fed to keep its easing cycle intact. For Europe, a rate cut is expected as the region struggles to move into a recovery position.

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