Weekly Investment Bulletin

29th October 2012

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Market Roundup:

Markets gave up ground. A string of disappointing earnings results from industry stalwarts painted a glum mood for investors as both Apple and Amazon were unable to lift sentiment.

Asia was down, giving up some, if not all, of the positive ground from last week. The hardest hit of the major indices was the Shanghai Composite, giving up 2.93% for the week. Hong Kong's Hang Seng retracted just 0.03% for the week, having gained the past 10 sessions.

Earnings data of key Asian stocks put further pressure on valuations. China Unicom HK and Bank of China HK were amongst the culprits and despite the latters holding company (Bank of China Ltd) topped earnings estimates, it too was caught up in weak sentiment.

European markets suffered, as Spain reported jobless numbers at a record high of 25%. In France the mood was also glum as S&P cut the ratings of 10 banks, including BNP Paribas, Credit Agricole and Societe Generale.

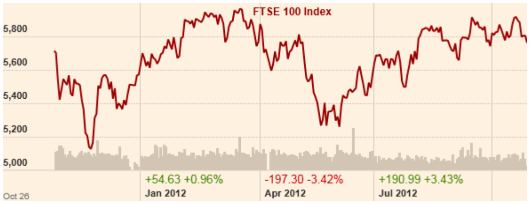
Heading into the end of the week, nervousness on US GDP data weighed on market sentiment, as this will paint an updated picture on the health of the world's largest economy.

As it turned out, the U.S. economy grew 2.0% (1st estimate) in the third quarter, fuelled by higher consumer and government spending and increased home building, according to a preliminary government estimate. Consumer spending, which has the biggest impact on GDP, rose 2.0% in the July-to-September period, compared to 1.5% in the second quarter.

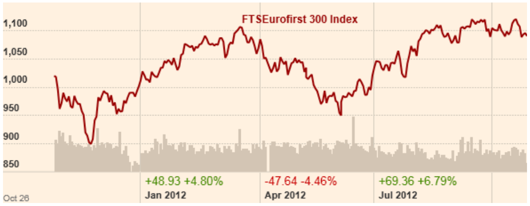
Market Data (12 month):

S&P 500:

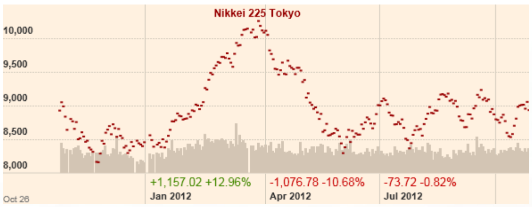
FTSE100:



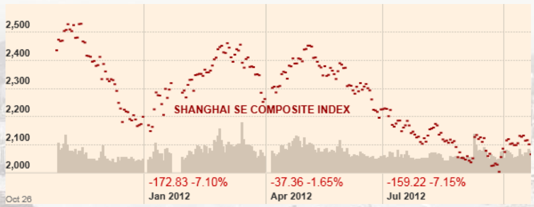
FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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Better but not brilliant:

So the US economy grew at 2% for the 3rd quarter, with the 1st estimates a slither better than expectations yet much improved on the 2nd quarter's number of 1.3%.

This 2% figure will display a clear illustration from the 2nd quarter and should rest any fears that the US was heading back into recession.

However we have to take some caution here as whilst the numbers move in the right direction the US is still lagging below the country's long term growth rate of 2.5%; the current figure is not enough to make up the ground lost in the last recession.

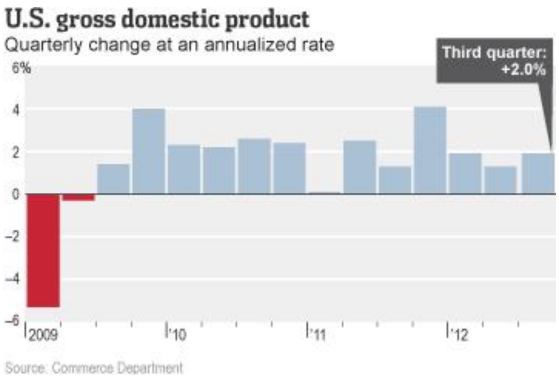
Looking at the top graph to the right, the US clocked in just 2 quarters where annualised GDP growth above 4%. After the much milder 1990-1991 recession, the economy reeled off four straight quarters of better than 4% growth.

Last Thursday's report from the commerce department on durable goods was strong. Factory made items enjoyed a 9.9% rise in September from the previous month which dropped 13.1%.

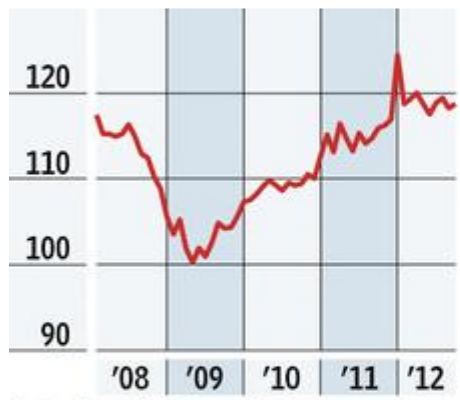
Internal shipping in the US also climbed by a seasonally adjusted 0.4% from the previous month as consumers appear to defy the wider economic climate and continue to spend. However looking at the second chart to the right, we're at a similar level from the start of the year (post Christmas) and therefore points to a lack of momentum.

However businesses are still in a period of wait and see. Business investment decreased over the last 3 months. Orders for nondefense capital goods excluding aircraft (a proxy for business spending on equipment and software) were flat in September, after rising a bleak 0.2% in August and falling 5.6% in July.

US GDP Change:



US Truck Shipments Index:



Note: Sept. '12 is preliminary
Source: American Trucking Associations

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Cont:

Sales of new homes accelerated in September. New single-family homes were sold at an annual rate of 389,000 last month, a 5.7% rise from August and a 27.1% increase from a year ago.

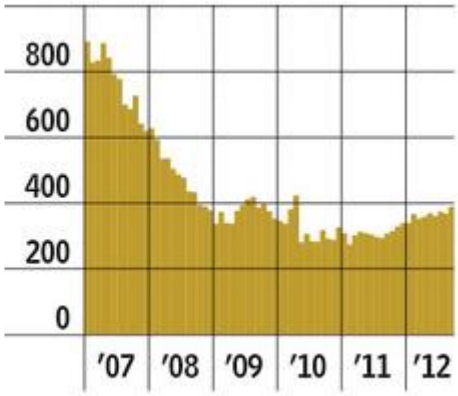
Sales are at their highest level since April 2010 and home prices are rising. But sales are still far below the 800,000-plus pace that was seen in early 2007.

Two weeks ago, we wrote about the seeming reluctance to expand its balance sheet following announcing QE3 last month. It now looks like the Fed has started to move. As of last week, the central bank held nearly $2.82 trillion in assets, up from $2.79 trillion in October's first week. Last month, the Fed began a new round of bond purchases designed to bring down interest rates and stir job growth.

On the whole, we see a mixed picture for the US economy. Overall GDP has come in higher than expectation (though this is the first estimate), where consumer spending remained healthy and residential homebuilding really picked up.

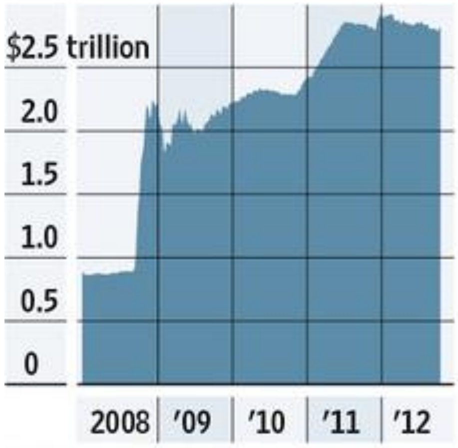
On the business side, things aren't as positive as uncertainty on the wider economy still weighs on spending. It shows that post US election, the prospect of the fiscal cliff will be very much on the agenda going into 2013.

New Home Sales:



Source: Commerce Department

Value of Assets on Federal Reserve Balance Sheet:



Source: Federal Reserve

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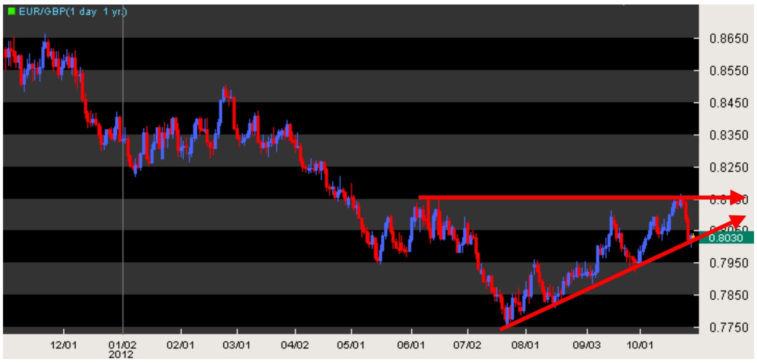
Currencies:

EURUSD

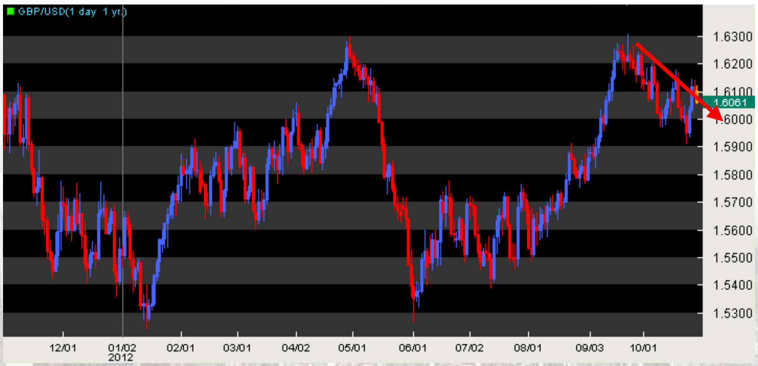
EURUSD has traded in a range between 1.2803 and 1.3171 for several weeks. Support is at 1.2803, the uptrend could be expected to resume after touching this level. Resistance is at 1.3171, a break above this level could trigger another rise towards 1.3500.

EURGBP



EURGBP edged higher to 0.8164 last week but failed to sustain above 0.8152 resistance and dropped sharply. Initial bias is on the downside this week with focus on near term trend line support (at 0.7995). A sustained break here will argue that whole rebound from 0.7755 is finished and will turn the focus back to 0.7922 support.

GBPUSD



GBPUSD's fall from 1.6309 extends to as low as 1.5913. Key resistance is now at 1.6180, as long as this level holds, deeper decline is still possible and the target would be at 1.5800 area. However, a break above 1.6180 will test 1.6309.

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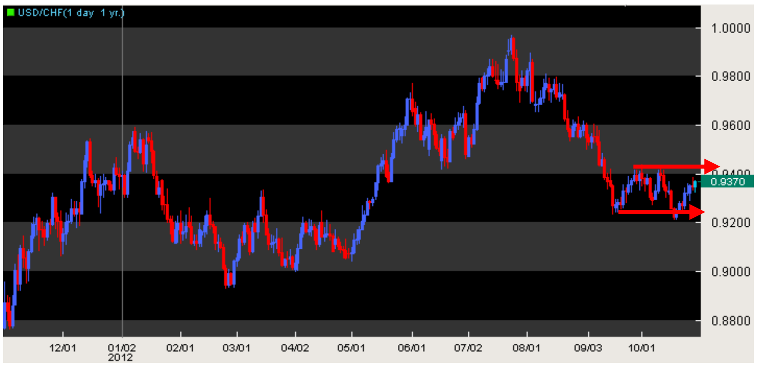
USDCHF



USDCHF remains in downtrend from 0.9971, the price action now being in the range between 0.9214 and 0.9437. As long as 0.9437 resistance holds, the downtrend could be expected to resume, and another fall towards 0.9000 is still possible.

USDJPY

Being contained by 80.61 resistance, USDJPY pulls back from 80.37, suggesting that a cycle top is being formed. Support is at 79.00, as long as this level holds, the fall from 80.37 could be treated as consolidation of the uptrend from 77.14.

USD Weighted Index

Two of the four components weakened against the greenback, led by a 0.16 percent decline in the British Pound, but the recent weakness in the sterling is likely to be short-lived as the Bank of England softens its dovish tone for monetary policy. As the U.K. emerges from the double-dip recession, the fundamental developments on tap for the following week may continue to instil an improved outlook for the region, and GBPUSD may track higher ahead of the next BoE interest rate decision on November 8.

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Gold:

December gold futures closed at $1711.90 per ounce Friday, ending the day and the week in muted tone, reflecting the broader sentiment in other markets. There has been a sustained period of sideways congestion in the $1740 to $1780 per ounce region, which saw the price of gold test the $1800 per ounce level early in the month, before selling off, and breaking below the platform of support in the $1750 per ounce region. Since then selling volumes have been sustained and expect the $1700 per ounce level to be tested this week.

Crude:

Crude came under renewed pressure as anticipation that economic growth in the United States, the number one oil consumer, will not be enough to outweigh increasing supply. Although the market temporarily rebounded over positive unemployment and housing data from the US, the financial crisis in Europe is going keep global economic recovery muted. Though many believe the US and indeed China are on the upswing, it may not be enough to account for decreased demand from debt-burdened Europe. Expect further downward pressure caused by Hurricane Sandy this week.

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Summary:

Major bourses in New York will be closed for at least 1 day as Hurricane Sandy approaches the East Coast. Globally the market will look to further digest the disappointing earnings and in the absence of any leadership from US markets, likely pressure valuations.

The Bank of Japan is also expected to unveil bold plans further to re-invigorate its economy. It is expected that it will increase the size of its asset-purchase program to 90 trillion yen ($1.12 trillion). The program will likely be split between Japanese government bonds and domestic treasury bills, while the program's deadline will likely be extended up until June 2014.