Weekly Investment Bulletin

30th July 2012

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Market Roundup:

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

Here we go again. Greece, insolvency, exit. Last Sunday night's news (as briefly commented in last week's newsletter) set the tone for the week. The IMF stated that it threatened to halt aid payments to Greece, following the stunted progress Athens had made on tackling its cancerous debt problem. Its goal: to cut debt to GDP to 120% by 2020. It's currently estimated at 165% serviced by an economy in recession. Markets worldwide shivered on the news, with Germany's DAX suffering a 3% 1 day fall on Monday, as Moody's slapped Berlin with a negative outlook threatening its AAA rating. The outlook of Holland and Luxembourg was also downgraded.

If IMF aid to Greece ceases, then it becomes insolvent by as soon as September and even relaxed repayment terms will require Athens to come up with as much as €50bln in either spending cuts or debt relief.

Indeed on Thursday, Greek Prime Minister Antonis Samaras announced nearly €12bln in cuts to kick start reforms. The spending cuts will come from pensions, health support and benefits. This is more of a political tool than anything as Greece begs for more time. An ECB payment is due on August 20th and investors will have that date firmly in their diaries.

There was some respite later in the week as European Central Bank President Mario Draghi expressed strong commitment to support the euro, when talking at an investment conference in London. In addition, U.S. jobless claims fell by 35,000 to 353,000. The longer term macro picture still remains as uncertain and constitutes the 'business as usual' scenario for Europe.

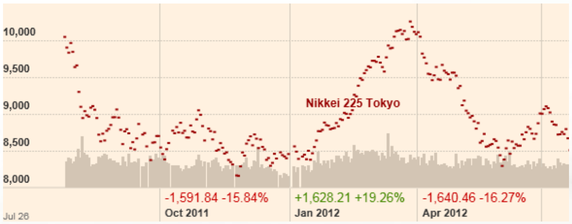
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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Latin America's New Tigers:

When Asia referenced its 'Tiger' economies, it spoke of Hong Kong, Singapore, South Korea and Taiwan. These nations were cited for their rapid industrialisation between the 1960s and 1990s. Now, these nations have reached advanced economy status with Hong Kong and Singapore developing into leading financial centres and South Korea and Taiwan in manufacturing technology.

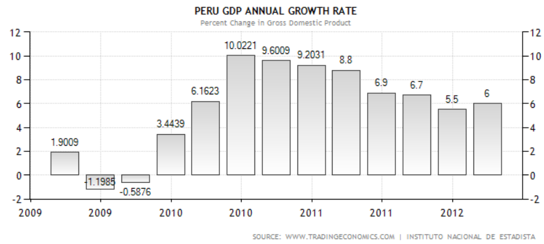
In Latin America, this trend is developing more and more. Before it was Brazil, now the focus is on Colombia and Peru. Open market policies, along with political stability, young populations and competitive advantages in certain industries have helped Peru and Colombia become two of the strongest emerging economies in the region.

As an economy, Peru boasts the world's second-largest copper and silver production, and crucially is also a major producer of gold. Copper will be the main driver of growth in the coming years.

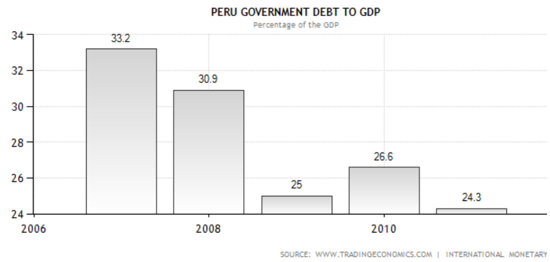
That said, with 60% of exports in the materials sectors, Peru's market is likely to remain cyclical and commodity prices could be very volatile, affecting the progress of the economy.

Economic growth in Peru is supported by a stable political environment and continuity in the regulations that govern the energy sector and investment in general. As economic growth is projected to continue at around 5% per year (ahead of the global economy at 3%), we expect a continued increase in energy demand, particularly considering that Peru has among the lowest level of per capita electricity consumption in the region. Electrical power is needed to support increasing industrial activity. Continued advances in electrification (rural access) to provide energy to the 15% of the population that does not currently have access to electricity will also contribute to the growth in demand.

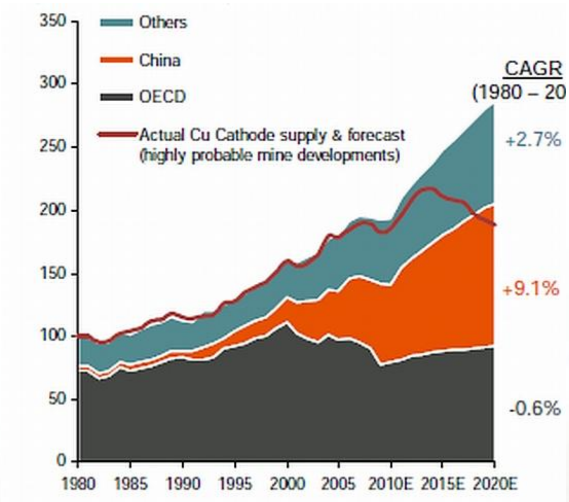
Peruvian Annual Growth Rate:



Peruvian Debt to GDP:



Forecasted Copper Demand to 2020:



Source: http://www.tradingeconomics.com

Cont:

For Columbia, they too possess the hallmarks of an emerging economy with youthful populations, growing middle classes, relatively low debt and dynamic economic expansion.

Indeed Colombia's growth was born from a subprime crisis of its own. In the late 1990s, a mortgage crisis took place when subprime loans soared and default rates surged. As banks involved in subprime mortgage lending went out of business, the government intervened and recapitalised financial institutions (sounds familiar). That in turn has slowed down the development of the financial sector and reduced loan growth during the years that have followed.

Nowadays however, household earnings are growing faster than the regional average. Combine this with export growth, an increase in oil and gas production as well as large investment in infrastructure.

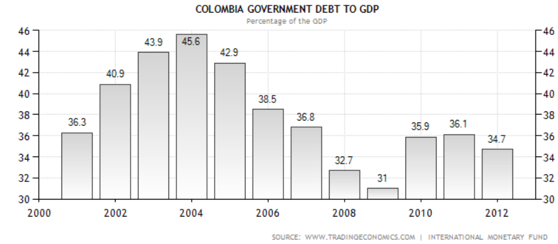
For example, an estimated $8bln is to be pumped into the 'Prosperity' Highway, designed to link Columbia's Columbia's interior state of Antioquia with the ports on the pacific and Caribbean coastlines.

Colombia's major exports are petroleum, coffee, coal, nickel, gold and non-traditional exports (e.g. cut flowers, semiprecious stones, sugar, and tropical fruits). Colombia still exports oil and coffee to the developed world (the United States, Japan, Germany, and Belgium), while most of its exports to countries such as Venezuela, Mexico, and Ecuador are manufactured products.

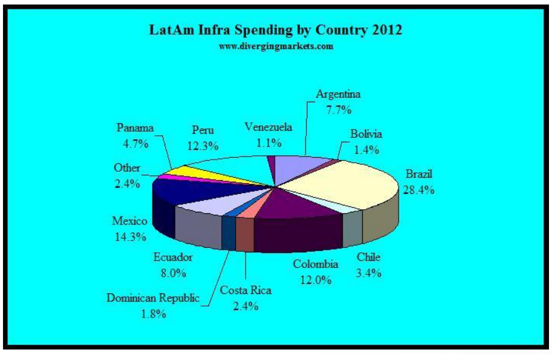
Columbia has just also received an investment grade rating by S&P, Moody's and Fitch and still remains the only Latin American country to never default on external debt.

Columbian Annual Growth Rate:

Columbian Debt to GDP:



Latin American Infrastructure Spending:



Source: http://www.tradingeconomics.com

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Currencies:

EURUSD

EURUSD earned brief respite but still remains below resistance at 1.2350. Downtrend continues from 1.3300 and only a clear break above resistance will signal completion, and target resistance at 1.2500 next.

EURGBP

EURGBP bounced off support and managed to break through resistance at 0.7828. A clean break above is yet to be seen, and now resistance lies at 0.7950.

GBPUSD

Despite a jump, GBPUSD persists in range with no break through 1.5776 resistance. As long as this holds, key support lies at 1.5000. On the upside, a break above 1.5776 will target the 1.6000 zone next.

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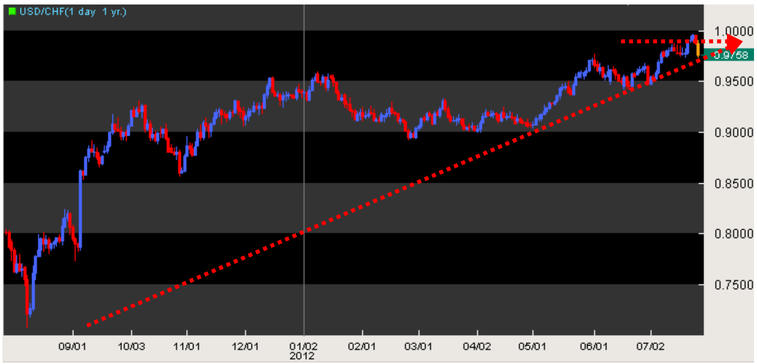
USDCHF



USDCHF pulled back but still lies in narrowing range. Breakout is the next target to 1.0000. Key support is at 0.9740, only break below this level could signal completion of the uptrend.

USDJPY

USDJPY improved last week, after a shaky start however still lies below resistance. Resistance still lies at 79.50, and a break above could see a rise to 82.00.

USD Weighted Index

USD weakened against three of the four components, led by a 1.29% advance in the Sterling, but we should see the GBPUSD maintain its range ahead of the Bank of England interest rate decision set for next week. All eyes are on stimulus and the mere hint has seen USD give back gains and commodities jump. Bernanke's next move is keeping the market on its toes. As the Fed anticipates seeing a more robust recovery over the coming months, we may see them maintain their current policy over the remainder of the year, disappoint markets as the FED ends its current easing cycle.

Gold:

Gold has steadied above $1,600. The appeal for bullion is still boosted by growing belief that central banks will soon adopt more measures to recover the ailing world economy. Prices hit the highest level in almost three weeks as the dollar gave back some of its gains against the euro, given that further monetary easing and lower borrowing costs will inevitably weaken the greenback.

Crude:

Oil increased after financial shares led U.S. equities higher and the euro advanced against the dollar for the first time in over 6 trading days. A stronger euro and weaker dollar bolster oil's appeal as an investment alternative.

Summary:

It's all about Greece again. However Mario Draghi's comments offered some much needed encouragement to the ailing continent. Spain's two-year bond yield fell the most this month and 10-year rates dropped below the crucial 7% threshold of sustainability after Draghi said addressing rising borrowing costs was within the central bank's mandate. German bunds fell as his comments damped demand for the region's safest assets.

This all remains talk for now, and the extent of their actions (whatever they may precisely be) will remain to be seen. What this does bring is a lifeline that should the IMF pull funding from Greece, the ECB can step in (as commented last week). It's an ever increasing scenario as the international community grows tired of ploughing further billions to save an economy which contributes but 2% of euro zone GDP. It's not Greece at stake; it's the European house of cards.