Weekly Investment Bulletin

30th September 2013

MITHRIL ASSET MANAGEMENT

Market Roundup:

Asia ended the week in the red, however has had a quite remarkable month. The Nikkei advanced 9.66% whereas other regional indices such as the Hang Seng, Sensex and Singapore Strait were all up above 5.5%.

In Australia, the S&P/ASX 200 set a new five-year high. With strong economic data in China (Australia's largest trading partner), it's been a strong quarter for the Australian market, one of the Asia's best performers with a 10.5% increase.

Europe was largely flat last week, and stocks where stocks were lower on Friday after rising borrowing costs in Italy at a government-debt auction highlighted jitters about the country's political stability.

The FTSE100 performed in a muted fashion as after Bank of England Governor Mark Carney reportedly said he sees no need for further bond-buying to spur the U.K. economy. That should be reason to cheer, however we do not live in normal times and certainly not in normal markets.

The mood was rather similar in the states, with major local indices giving up at least 1.5% on the week. Do note that this was the first weekly drop in 4 for most.

The US remains locked in political negotiations on its budget. The usual brinksmanship ensues, and the market gets unsettled.

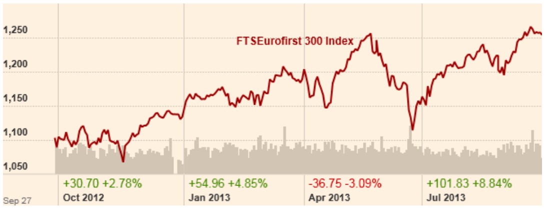
On Friday, the Thomson Reuters/University of Michigan's final September numbers on consumer sentiment fell to 77.5 from 82.1 in August.

Market Data (12 month):

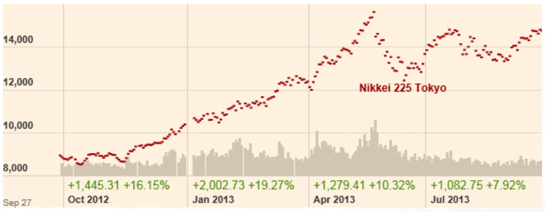
S&P 500:

FTSE100:

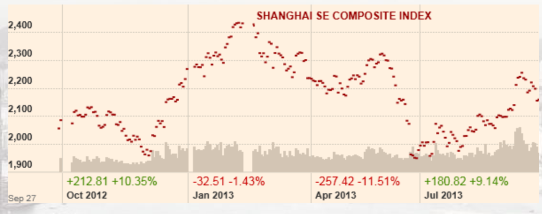
FTSE Eurofirst 300:



Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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The 500 Year Turnaround:

Five hundred years ago Portugal began the quasi-colonization of China. Now with Lisbon staring into the debt abyss, the tables have turned. Portugal was the first European power to establish a permanent settlement in China and was the last to leave when it returned Macau to Beijing in 1999.

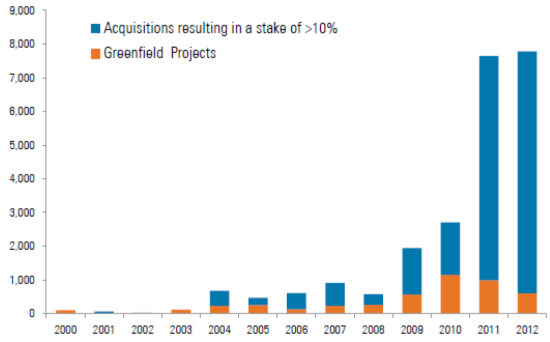
Now, suffering from a severe economic crisis, Portugal is making a strong push to attract foreign investment. China, despite its own economic slowdown, is taking advantage of the opportunities offered by the crisis in Portugal and in other southern European countries like Spain and Greece.

To begin with, a growing number of Chinese investors have also been taking advantage of the drop in Portuguese property prices by buying new luxurious apartments in Lisbon's best districts. The Portuguese government is trying to attract this investment as well by offering Portuguese citizenship to any Chinese willing to invest a minimum of US$800,000 in the country. The "Golden Passport" plan is attracting an increasing amount of Chinese companies and private citizens to buy real estate and set up offices in the country.

Chinese businesses have also expressed interest in acquiring several struggling vineyards and olive farms in southern Portugal too. This makes sense since China is quickly emerging as one of the world's major destinations for European wine exports.

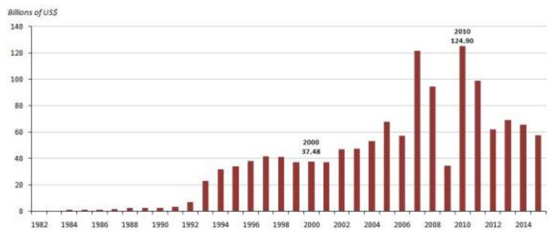
Meanwhile, over the past two years, Chinese state-owned enterprises (SOEs) have been acquiring major shares in strategic sectors of the Portuguese economy, such as the water, electricity, and communications industries.

Chinese FDI in the EU27:



Source: Rodium Group

China Net FDI 1982 - 2015:



Source: IMF

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Cont:

One example of such a purchase occurred in late 2011, when China's Three Gorges Corporation acquired a 22 percent stake in Portugal's national energy company, Energias de Portugal (EDP), for US$3.5 billion (nearly twice EDP's actual market value).

Another example of Chinese business acquisitions in Portugal includes China State Grid's 2012 purchase of 25% of Redes Energeticas Nacionais' (REN) shares for a total of US$524 million. China State Grid paid the Portuguese power company 2.9 euros for each share, which was 40 percent over the value of the stock at the time of the agreement.

These acquisitions not only allow China to establish a strong foothold in Portugal; they also facilitate Beijing's expansion into Portuguese-speaking countries in South America, Africa and Asia, since many Portuguese companies already have a strong presence in these regions.

In the past decade, China's presence has grown rather quickly in the former Portuguese colonies, especially given that China is now Brazil's largest trading partner and Angola became China's largest trading partner in Africa in 2012. China's rapid penetration of the Portuguese market should further its presence in the Portuguese-speaking world. It will also likely improve China's access to Western technology and to European and U.S. markets.

Opinions in Portugal and around the world are divided over the surge of Chinese business acquisitions, and some fear that Portugal is sacrificing important assets with serious consequences for the future. However, some proponents of Chinese investment counter that the Portuguese state still has a majority stake in all companies and that China has clearly made the best offers, so there is little reason to worry.

Cont:

While opinions remain divided over the benefits of China's growing presence in Portugal, Chinese interest in Portugal and southern Europe is likely to continue growing. So far, China has bought US$1.3 billion of the country's national debt and opened a US$1 billion fund to support investment projects between China and eight Portuguese-speaking countries.

For a country in urgent need of cash, Portugal and its neighbours have very few places to turn to as the rest of the continent struggles, so Chinese investment will likely play an important role in their economic future.

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Gold:

Gold futures rose to a one-week high, as increasing concerns over a possible U.S. government shutdown on the budget boosted the safe haven demand.

Congress must pass a short-term budget by midnight on Monday in order to avoid the first government shutdown in 17 years.

Crude:

Oil futures traded sharply lower during Monday's Asian session after a critical economic data point out of China surprised to the downside.

The China HSBC Purchasing Managers' Index came in at 50.2, well below the flash reading of 51.2 and estimates calling for 51.2. Readings above 50 indicate expansion.

Summary:

US politics will likely dominate investor sentiment this week. We’ve been here before and the outcome is usually the same. An 11th hour agreement will be made and we move on until the next time. That next deadlock will be the debt ceiling later in October where the procedure will be the same. Failure to compromise on these issues will send waves through the financial system in a way that a recovering US/global economy is ill equipped to deal with.

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