Weekly Investment Bulletin

4th February 2013

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ASSET MANAGEMENT

Market Roundup:

Markets overall maintained current levels of strength. Asia ended the week almost entirely in the green; the only major index to retract was India's Sensex.

The regions other juggernauts, China and Japan, marched further higher each adding over 5%. China wobbled later in the week as official PMI came in at only 50.6 compared to HSBC's more optimistic reading of 52.3. A level above 50 suggests growth, and both readings confirmed that, soothing investors.

Tokyo's advance came as the US dollar climbed to levels not seen since June 2010 to over ¥92. This came in amongst news that Japan's unemployment rate rose to 4.2% and consumer spending was disappointing in December 2012.

Europe had a choppy week, disappointed by US GDP (which unexpectedly contracted in Q4 2012). However decent consumer spending numbers as well as home building offered support to current market levels.

The euro continued to advance during the week, with the single currency topping the $1.35 level for the first time since December 2011 and hitting its highest level versus the Japanese yen since April 2010.

Stateside the major indices rose once again, with the DOW and S&P500 nestling above key levels at 14,010 and 1,513 respectively. The market marched on after the release of Labour Department figures that showed payrolls had risen 157,000 in January after a revised 196,000 gain in December and a 247,000 influx in November.

Market Data (12 month):

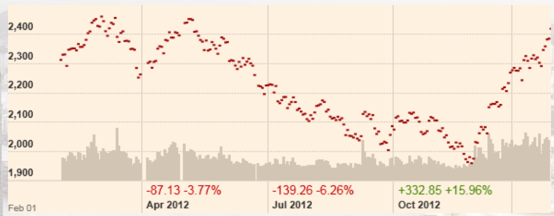
S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:

Shanghai Composite:



Source: www.ft.com

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Decoupled or Tied to the Fate of Those Around It: The Outlook for Emerging Europe.

The global financial crisis had a profound effect on emerging Europe. Having fallen with the rest of the world, they re-emerged sharply only to plummet once more after global growth fears set in as Western balances sheets were not deemed as healthy as once thought.

As questions on economic recovery were asked of Europe, the same naturally were asked its emerging counterpart. Whilst during the European debt crisis of 2011 there have been some highlights, such as Turkey and Poland, the overall consensus is that the region still relies heavily on the progress of the more developed neighbours.

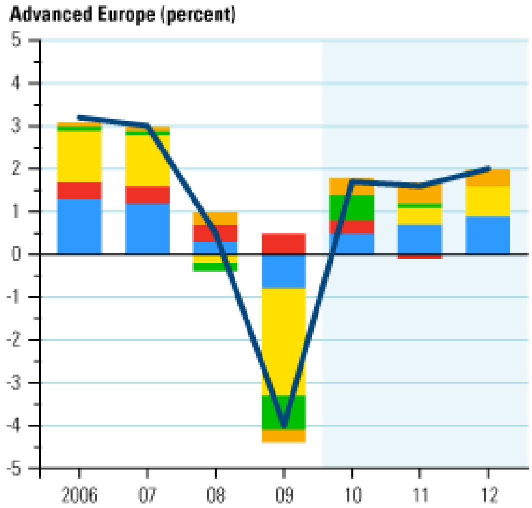
Whilst such a key catalyst in emerging market growth, Russia's economy slowed sharply in the third quarter of 2012, with GDP growth of just 2.9% year on year, down from 4.5% in the first half of 2012. Private consumption growth lost pace and this continued in the fourth quarter as retail sales rose at the slowest rate, 3.8% year on year, since February 2010.

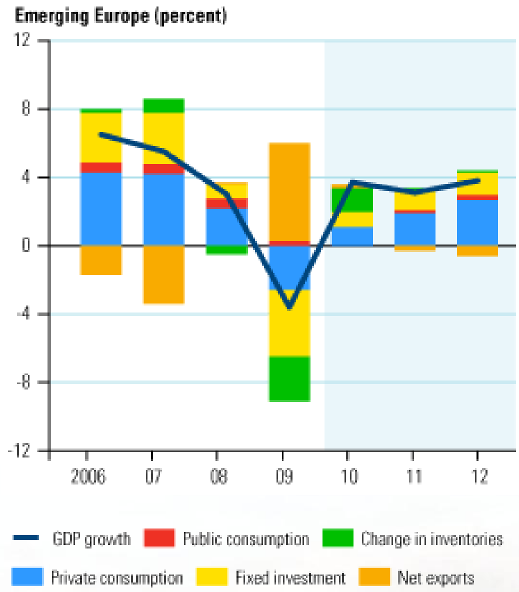
While still not bad, growth in credit to the private sector, and to households in particular, decelerated, with credit expansion moderating from 26% year on year in the second quarter to 21% by September, while inflation eroded real incomes.

Industry gained momentum in the third quarter, with output rising by 2.5%, up from 2.3% in the previous quarter, but agricultural output declined. Taking account of the weaker third quarter, full-year 2012 GDP growth is projected to be about 3.5%, and a similar outturn forecast for 2013, with prospects supported by a more favourable external global environment.

Policy will be less supportive of growth in 2013/2014, as the government is aiming to cut spending as a proportion of GDP over the next three years. Rates have been left at 8.25% to combat inflation which still runs at 6%.

Growth in Advanced Europe vs Emerging Europe:





Source: International Monetary Fund

Cont:

Credit growth in Russia has expanded rapidly in the past couple of years, with retail loans increasing by 36% in 2011 and at an annualised rate of 41% in the first nine months of 2012. Debt penetration remains low, with household debt-to-GDP at 10%, though up from 2% a decade earlier. The problem, however, is that 80% of last year's new consumer loans, excluding mortgages, went towards paying interest on existing debt.

Elsewhere within Central and Eastern Europe (CEE), the outlook is mixed, with only the Polish and Slovakian economies expanding in the third quarter, by 1.4% and 2.1% year on year, respectively, while the Czech and Hungarian economies contracted in the same period, by 1.6% and 1.5% year on year, respectively, as the lingering euro-zone crisis continued to weigh on business and consumer confidence.

For much of the region, the momentum of integration with developed European economies has proved to be a mixed blessing. Throughout the last decade, the wealth gap between the developed west and emerging Europe narrowed as inflows of low-cost capital helped drive growth.

All that changed, however, with the global economic crisis in 2008, which halted the flow of cheap credit and left a number of emerging European economies with serious balance of payments difficulties, with almost all of them, Poland being a notable exception, sliding into a deep and prolonged recession.

Although much of the region subsequently experienced a mild upturn, buoyed by the robust recovery of the German economy, their main export market, the recent renewed weakness evident in a number of economic activity indicators appears set to follow the rest of the continent into 2013.

In response to those concerns, the European Bank for Reconstruction and Development, European Investment Bank and World Bank, in November, jointly agreed a €30bn ($40.2bn) action programme to underpin the region's economies, some 17 of which will be eligible to receive the funds.

The initiative, which builds on a revival earlier in 2012 of the Vienna Initiative of 2009, is designed to underpin economic growth. This is to be achieved by investing in both private-sector and public-sector programmes, among which infrastructure, corporate investment and the financial sector are each designated as priority areas for fund disbursement.

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Currencies:

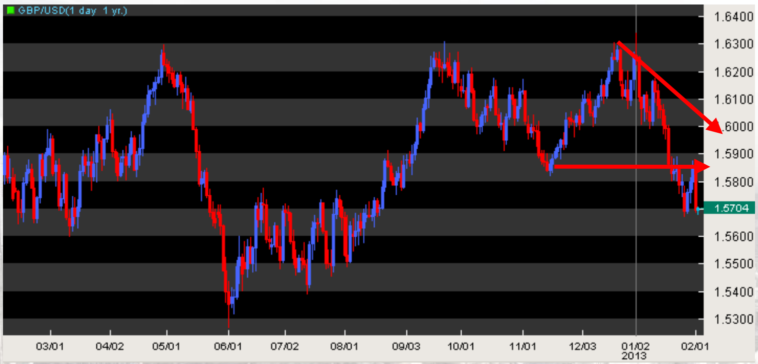
EURUSD

EURUSD continues its upward movement from 1.200, and the rise extends to as high as 1.3711. Further rise could be expected after a minor consolidation, and next target would be at 1.3800-1.3900 area. Support levels are at 1.3480 and 1.3340.

EURGBP

EURGBP surged to as high as 0.8716 last week before settling at 0.8676. Initial bias remains on the upside this week. On the downside, break of 0.8553 support is needed to signal short term topping. Otherwise, outlook will stay bullish even in case of retreat.

GBPUSD



GBPUSD remains in downtrend from 1.6339, and the fall extended to as low as 1.5674. Further decline is still possible, and next target would be at 1.5500 area. Resistance is at 1.5800.

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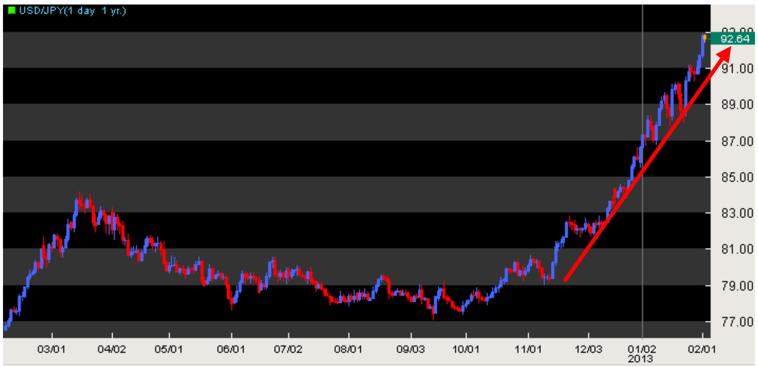
USDCHF

USDCHF broke below 0.9083 previous low support, suggesting that the downtrend from 0.9971 has resumed. Further decline is still possible and next target would be at 0.8800 area. Key resistance is now located at the downward trend line.

USDJPY



USDJPY stayed above the upward trend line, and remains in uptrend from 79.00, and the rise extended to as high as 92.95. Further rise is still possible after a minor consolidation, and next target would be at 94.00-95.00 area.

USD Weighted Index

The bullish sentiment surrounding the USD could gather pace next week as a deeper look at the employment report raises the fundamental outlook for the world's largest economy. The upward trend in the labour market remains encouraging, and the more broad-based recovery in the U.S. should push the Fed away from its easing cycle.

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Gold:

Gold futures ended Friday's session higher, as investors remained focused on the outlook for Federal Reserve monetary policy following the release of key US data. Gold futures shot up to the highest levels of the session following the release of US jobs data which reinforced expectations that the Federal Reserve would maintain its monetary easing program. But prices pared gains after data showed that U.S. manufacturing activity improved to a nine-month high in January while consumer sentiment unexpectedly improved in January.

Crude:

Crude oil futures ended Friday's session close to the highest level since September, boosted by indications the US economy is gaining momentum. In the week ahead, oil traders will be anticipating the outcome of upcoming policy meetings by the European Central Bank and the Bank of England, while US data on service sector activity will also be in focus.

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Summary:

After a powerful start to the year, where stocks have truly come out of the blocks flying, we would not be surprised to see them take a breather. Particularly from a Western viewpoint, the DOW, S&P and FTSE all rest at multi year highs. The US should be back in focus as the latest government budget battle heats up. The debt ceiling remains worryingly high and having postponed the deadline for compromise until quarter end, means the political battle can now recommence in February. From a US point of view, economic data has been greeted positively by the market and will naturally we would want this to continue. However the US debt needs reform and compromise will need to come from somewhere. If this comes at the expense of upward, if lacklustre GDP growth, expect markets to take stock and re-assess.