Weekly Investment Bulletin

4th March 2013

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Market Roundup:

Starting with Asia, most major indices ended in the green, with the only exception being the Singapore Strait and Bombay Sensex.

Indeed economic news from China came in at disappointing levels. A government-sponsored survey of Chinese manufacturing activity released Friday showed growth in the sector's activity slowing. The China Federation of Logistics & Purchasing's version of the manufacturing Purchasing Managers' Index (PMI) fell to 50.1 from the previous month's 50.4, missing expectations for an increase to 50.5.

In Europe the mood was also muted. Coming into the week, the Euro zones latest problem child, Italy went to the polls. As the votes came in it became clear that elections were to end in stalemate and even a hung parliament as the anti establishment party led by (in a cruel irony) a former comedian took more votes than expected. The news has added fresh fears for the single currency as the lack of stability in its 3rd largest economy may be at stake.

The single currency came under pressure as Italy once again came in with a poor PMI reading and January unemployment for the euro zone reached a record 11.9%, with jobless levels in Spain at 26.2%. Youth unemployment in Spain was 55%, and in Italy that level hit 38.7%.

US indices had been under pressure most of the week, yet they erased losses on Friday to turn mostly higher as a measure of U.S. manufacturing activity came in better than expected rising to 54.2% from 53.1% last month. However lucking in the background was the 1st March deadline for a Sequester compromise which concern $85bln in tax spending cuts.

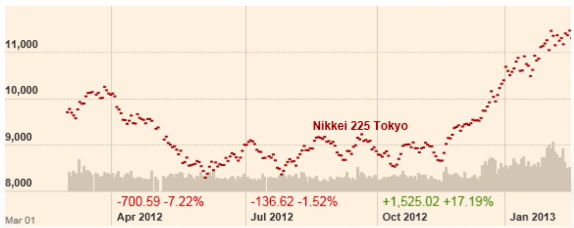
Market Data (12 month):

S&P 500:

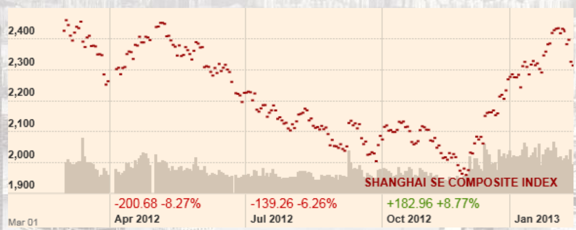
FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:



Source: www.ft.com

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Sequestration, Frustration:

In the ongoing battle to balanced the books of the world's largest economy, the first true steps were taken on Friday as Barak Obama ordered slashed public spending as the White House and Congress were unable to compromise.

So, we have Sequestration. This marks $1.2 trillion in automatic spending cuts due to go into effect over the next 10 years, with roughly $85 billion set for this year.

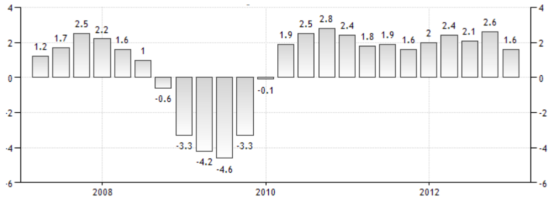
The US has been eager to keep its debt taboo under wraps, allowing Europe to take the brunt of financial market wrath over the past 12 months. However wind back to summer 2011 it was the US who set things moving, writing into law a further debt ceiling hike whilst surrendering its much revered Triple-A credit rating.

Sequestration was put into effect as part of the Budget Control Act of 2011. Both parties had already agreed to about $1 trillion in cuts but couldn't agree on what to do next to get the nation's fiscal house in order. They were also desperate to raise the national borrowing limit to prevent a default, an occurrence that would arguably inflict far more damage than sequestration.

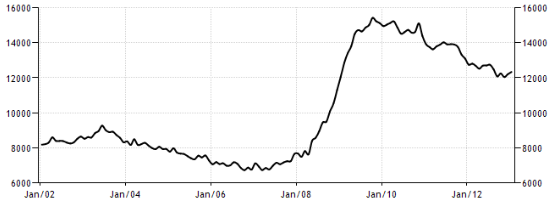
The concept was straightforward: Schedule automatic cuts for the future that were so harmful to everybody that Congress would be compelled to implement better, smarter cuts before they hit. Sequestration was initially scheduled for the start of the year.

It will affect defence the hardest, with up to 800,000 Pentagon employees faced with unpaid leave. The Federal Aviation Administration will slash $600mln in funding and will likely cost thousands in jobs. Benefits for teachers, families and the military also face huge cuts.

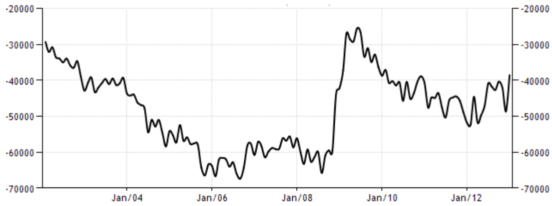
US GDP Growth:



US Unemployment:



US Balance of Trade:



Source: www.tradingeconomics.com

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Cont:

Ironic then that ratings agency S&P500, have actually moved to calm fears. In its infinite wisdom, it had long assumed that the sequester cuts would take place, but it believed they would be temporary and replaced in the second quarter by a long-term package of spending cuts and tax increases.

"If this proves true, we think the sequester would still likely have only a mild downside effect on GDP growth this year," they said.

"If sequestration were to persist for the rest of the year, which we view as unlikely, we would trim our 2013 growth forecast by about half a percentage point."

The Obama administration also estimated the economy, which barely grew in the 2012 fourth quarter, would take a 0.5 percentage point hit in 2013 if the cuts are fully implemented.

S&P projected if the sequester was not modified, it would bring annual growth down to about 2.0%, below its current forecast of 2.7% for this year. Looking at the first charts on the previous page, this would not be seen as a huge reduction.

It estimated the risk of the United States falling back into recession between 10% and 15%, lower than the 15-20 % chance the economy will make a quick turnaround.

One thing to note is that Sequestration does not happen immediately, therefore the full impact of the cuts can be phased in over the remaining months of the year. That makes matters perhaps more manageable yet a little foggier not just for analysts, but for policy makers alike.

The Federal Reserve, which had been hinting at a gradual slow down in QE3, may have to change tact. Indeed Fed Chief Ben Bernanke told lawmakers Tuesday and Wednesday that the automatic cuts would do significant damage to an already slow-growing economy.

There will likely be an impact on overseas economies. Europe, with such strong trade ties with the US, will be affected by any slowdown stateside. Europe is already battling its own debt demons and isn't expected to emerge from recession until late 2013 at the earliest. A drop in growth for the US, will likely prolong recovery here also.

With the likely increase in US unemployment, this will reverberate to consumer spending, the housing market and indeed imports.

Where this does take a blow is not now, but in years to come. Funding for research and innovation will be cast aside, and this will see the US lose pace as Asia, led by China, remains hot on its heels.

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Currencies:

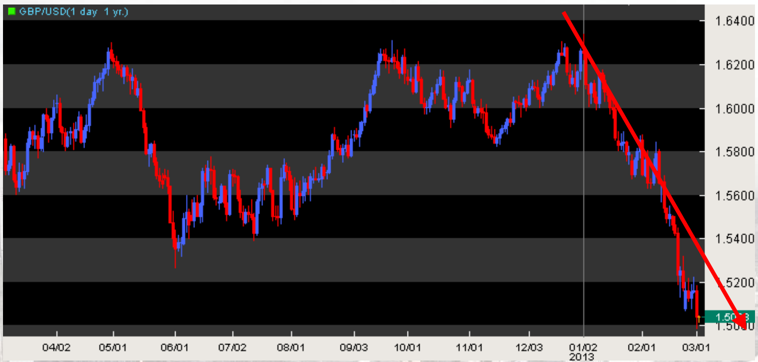
EURUSD

EURUSD's downward movement from 1.3711 extends to as low as 1.2966. Further decline is still possible and next target would be at 1.2800 area. Resistance is at 1.3400, only break above this level will indicate that a cycle bottom has been formed, and the fall from 1.3711 has completed.

EURGBP

EURGBP edged higher to 0.8806 last week but formed a short term top there and retreated. Consolidation from 0.8806 is expected to continue further in near term and below 0.8575 minor support will bring another fall into the longer term range.

GBPUSD



GBPUSD continues its downward movement from 1.6339, and the fall extends to as low as 1.4986. Further decline is still possible after a minor consolidation, and next target would be at 1.4800 area. Key resistance is at 1.519, as long as the trend line resistance holds, the downtrend will continue.

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USDCHF

USDCHF breaks above 0.9388 resistance, and reached as high as 0.9462, suggesting that the downtrend from 0.9971 had already completed at 0.9021. Further rise is still possible and next target would be at 0.9600 area.

USDJPY

USDJPY broke below the trend line, suggesting that lengthier consolidation of the uptrend from 77.14 is underway. Range trading between 90.00 and 94.54 would likely be seen over the next several days. As long as 90.00 support holds, we'd expect uptrend to resume, and another rise towards 100.00 is still possible.

USD Weighted Index

USD rallied across the board, led by a 0.87 % decline in GBP, which was followed by a 0.86% decline in the JPY. We're looking at a near term correction in the index in light of Sequestration news, and await with interest how the Federal Reserve's stance develops.

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Gold:

Gold futures ended Friday's session close to the lowest level since July, as speculation the Federal Reserve might end its bond-buying program sooner-than-expected continued to dampen the appeal of the precious metal. Gold's losses came after data on Friday showed that the U.S. manufacturing sector expanded at its fastest pace since June 2011 last month, while a separate report showed that U.S. consumer confidence rose in February.

Crude:

New York-traded crude oil futures fell to a three-month low on Friday, as disappointing manufacturing data out of China and the euro zone underlined concerns over the global economic outlook. Oil prices came under additional selling pressure as a broadly stronger U.S. dollar and worries over US sequester weighed on the appeal of growth-linked assets.

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Summary:

First of all, Sequestration is not expected to drag the US back into recession. It will however hamper growth of an already sluggishly growing economy. Whilst we have commented that US growth has been ongoing, it still has a way to go.

As previously said, the proposed spending cuts can be phased in over the remainder of the year; therefore impact is unlikely to have an immediate impact. In a market dominated by forecast, expect estimates for the US economy to be lowered. We believe that Sequestration will have an effect of between 0.5% and 0.6% on annual GDP. Where concerns lie is of the ripple effect on delicate Europe who continues to claw its way back to any kind of respectability. The emergence from recession in late 2013 and early 2014 will likely be delayed as a result.