Weekly Investment Bulletin

5th November 2012

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Market Roundup:

Across the globe, global stock indices enjoyed a largely positive week. Buoyed by encouraging US and Chinese economic data, stock valuations were able to slightly advance even as US markets were closed for 2 days following Hurricane Sandy.

In Asia, Japan's Nikkei rose 1.2% above the 9000 level as the Yen weakened on the whole and the lingering expectation of an expansion of the Bank of Japan's asset purchase program.

Hong Kong's Hang Seng was able to advance 1.3% as the HK Monetary Authority also moved to curb local currency strength vs the dollar. Elsewhere, the Shanghai Composite posted a modest gain of 0.6%, with construction firms leading the way.

Official Chinese PMI rose to 50.2 in October from 49.8 the previous month, further indicating that the economy may have bottomed out as indicated in past bulletins.

Indeed investors were waiting for US jobs data and when it arrived, the numbers were impressive. Expectation was set at the 120,000 mark and the numbers did not disappoint as 171,000 jobs were created in October. Hiring was also stronger in September and August than previously estimated.

However October's politically sensitive jobless rate edged up to 7.9% from 7.8% as we head to the polls tomorrow. Bear in mind though, that these numbers were based on a survey of 60,000 US households or an estimated 0.0005% of the total.

The numbers will help sooth investor concerns on the US economy which continues to recover at a steady pace of 2% as we have commented.

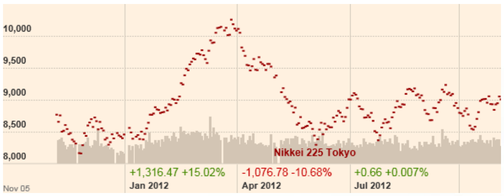
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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The Economic Impact of Hurricane Sandy:

Hurricane Sandy will have a devastating and in some cases irreparable disruption to lives, much of which cannot be qualified. As the East coast of the US emerges from its ferocity, the rebuilding begins that will no doubt have a huge bearing on the economy.

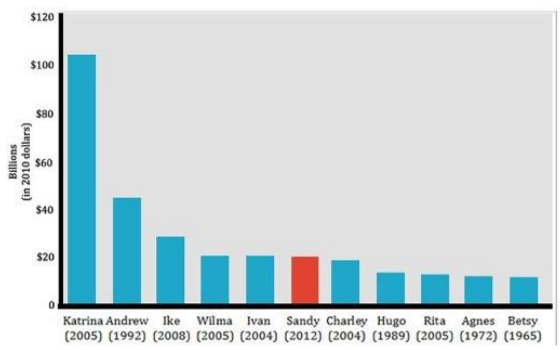
The US is no stranger to hurricanes and we assessed the influence of hurricane season on the commodities sector in the summer. Hurricane Sandy is unique in its timing, coming very late in the season, combing cold weather fronts from the West and North – with the potential for epic destruction.

Memories of Hurricane Irene are still fresh, so preparedness was high. Estimates maintain that direct damage caused by Irene $7bln, but ultimately cost up to $20bln. For Sandy, if one combines the greater damage to buildings and property, as well as 2 days lost in commercial activity, the numbers can easily be estimated up to $50 bln.

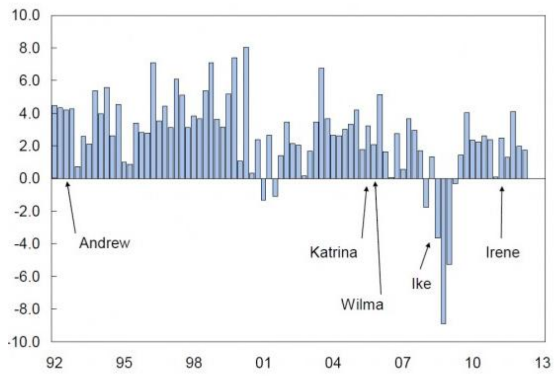
The NYSE was closed on both Monday and Tuesday. That means thousands of traders and brokers were inactive and will cause high amounts in lost revenue. When trading ceases, fees aren't being generated. Given that Sandy was an unexpected event, global investors are unable to position themselves valuation wise on their positions. Expect therefore trading to be erratic in the near term coupled with tomorrows election.

With those decent (if not spectacular) 3rd quarter US GDP numbers last week, it will be difficult to see how the momentum will be maintained for the 4th quarter. Economic data (especially from the major economies) shapes market sentiment, so looking forward to February 2013, disappointing numbers could set the recovery tone back a notch.

Hurricane Damage in the US:



US Real GDP Q/Q%:



Source: aei-ideas.org

Cont:

Despite the devastation, the health of the economy should remain more or less intact. So long as major infrastructure such as transport and power networks remains functional from here on, then the economic fallout will be temporary.

But for the coming 6 months, certain sectors will gain some acute investor attention, for better or worse.

As the region affected rebuilds, the construction sector will benefit from the increased activity and property values as a whole should benefit longer term from modernised, perhaps larger constructions. Consumer staples are likely to see increased spending as demand for protective materials will increase.

The insurers will likely take a hammering, with an estimated $2.7 trillion value in coastal property in New York. Expect payouts to be high and swift.

The airlines will suffer with an estimated 13,000 flights cancelled due to Hurricane Sandy with hotels chains also feeling the effects.

However trading solely on the basis of bad weather can be unwise. Wall Street as proven to be defiant in such circumstances and once its business as usual, the valuation effect caused by storms will quickly be erased.

Estimated Value Of Insured Coastal Properties Vulnerable To Hurricanes By State, 2012:

($ billions)

State	Coastal	Total exposure (2)	Coastal as a percent of total
Florida	$2,800.8	$3,562.7	79%
New York	2,679.5	4,385.7	61
Texas	1,143.5	4,406.7	26
Massachusetts	807.2	1,505.1	54
New Jersey	706.5	2,081.2	34
Connecticut	542.5	843.8	64
Louisiana	275.1	790.4	35
South Carolina	229.6	814.7	28
Virginia	176.7	1,685.9	10
North Carolina	159.6	1,756.2	9
Maine	157.7	273.6	58
Alabama	118.7	903.9	13
Georgia	101.8	1,861.7	5
Delaware	76.9	200.5	38
New Hampshire	61.0	259.9	23
Mississippi	59.0	464.5	13
Rhode Island	55.6	199.5	28
Maryland	17.1	1,262.2	1
Total, above states	**$10,168.8**	**$27,258.3**	**37%**
Total U.S.	**$10,168.8**	**$62,091.1**	**16%**

Source: AIR Worldwide, Insurance Information Institute

Currencies:

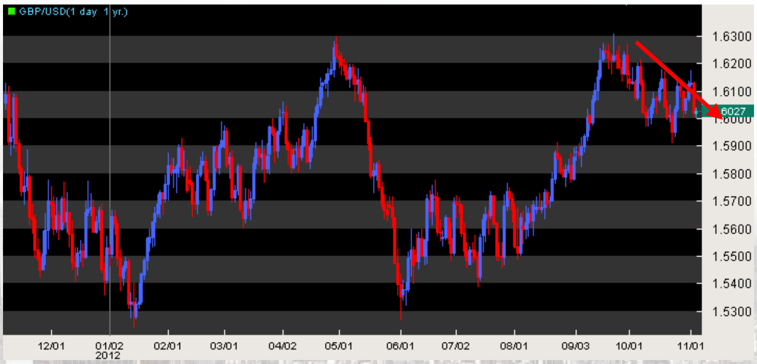
EURUSD

EURUSD is facing 1.2803 support, a breakdown below this level will target a deeper decline to the 1.2600-1.2700 area. Resistance is at 1.3000, only break above this level could trigger another rise towards 1.3500.

EURGBP

After brief recovery, EURGBP's fall from 0.8164 resumed before the week closed by breaking below 0.8001 support. Initial bias is on the downside this week for 0.7922 support next. A break of 0.7922 could pave the way to a new low below 0.7755.

GBPUSD



GBPUSD remains in the downward movement from 1.6309. Further decline is still possible, and the target would be at 1.5800 area. On the upside, a break above 1.6180 resistance could trigger another rise towards 1.6500.

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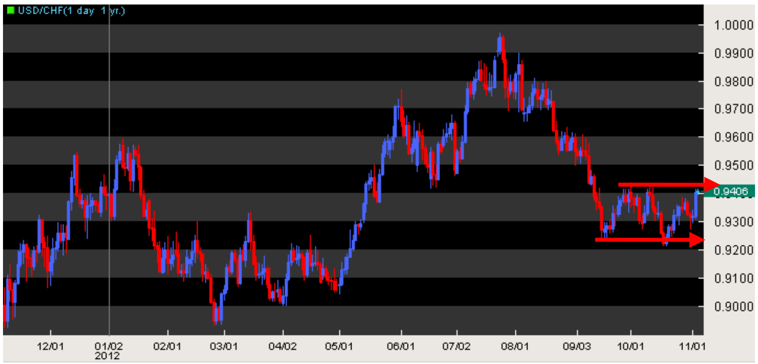
USDCHF



USDCHF is facing 0.9437 resistance, a break above this level will indicate that a further rally to the 0.9500-0.9600 area could be seen. Support is at 0.9300, only break below this level could trigger another fall towards 0.8500.

USDJPY

USDJPY continues its upward movement from 77.14, and the rise extends to as high as 80.67. We lie slightly above resistance at the red line, and as long as this holds, the uptrend could be expected to continue, and next target would be at 82.00 area.

USD Weighted Index

The US dollar hit a two-month high against a basket of major currencies after job reports last week highlighted relatively solid U.S. economic fundamentals. As documented earlier, the dollar stood near a four-month high against the yen and the euro also hit a five-week low, both tackling major chart points, though uncertainty over Tuesday's US elections will likely hinder decisive breaks there for now.

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Gold:

As we commented last week, the $1700 level was tested last week and broke below around $1680. Despite trending downwards since October the longer term trend is bullish. Therefore we approach a cycle bottom and a buying opportunity for some exposure.

Crude:

Oil rose to a one-week high after the Energy Department reported that crude supplies unexpectedly declined and as equities gained on increasing optimism that US economic growth is gathering pace. Futures climbed 1% after crude supplies fell 2.05 mln barrels to 373.1 mln last week. Crude oil for December delivery rose 85 cents to $87.09 a barrel, the highest since Oct. 22. Prices overall are down 12% this year.

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Summary:

The US emerged following the devastation of Hurricane Sandy with the human loss very evident but with the economic damage not set to be apparent for the time being. The US continues to offer nuggets of encouragement that it has been through the worst and China can compound that with its latest official manufacturing PMI data of 50.2. A score above 50 points to growth yet this must be maintained. As we have seen earlier in the year, PMI from May to July steadily declined from 50.4 to 50.1 to then dip to 49.2 in August. Also this is only 'flash' PMI with HSBC China reporting this at 49.5 (though at an 8 month high).

It's clear that the main event this week will be the US election. With both candidates racing to the finish line, we expect a close contest. Expect stocks to be choppy in the coming weeks as the results are digested, and then analysed in terms of what is ahead.