Weekly Investment Bulletin

6th August 2012

MITHRIL ASSET MANAGEMENT

Market Roundup:

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

Despite the apparent doom and gloom of last week, major markets powered to a strong weekly finish.

Ironically, it was a week where much of the usual market pleasers were missing. The US Federal Reserve stayed on the sidelines and refused to implement another round of its quantitative easing measures. The Fed wrapped up a two-day monetary policy meeting and made no changes to interest rates or policy in general, reiterating earlier stances that it will stimulate the economy if recovery further deteriorates.

However, the US central bank said it would stay on the sidelines with no plans (for now) to stimulate the economy via tools such as quantitative easing.

The ECB too offered no concrete steps forward. President Mario Draghi said more measures to support the euro will come soon, but omitted key details. However he intimated that any future bond-buying efforts by the ECB would be focused on the short end of yield curves. The news drove the yields on Spanish 2yr bonds. Spanish 10 year bonds remained stubbornly above 7%.

US stocks surged Friday, after the July jobs report proved far better than estimated. Nonfarm payrolls rose by 163,000 beating estimates. The ISM non-manufacturing index ticked higher to 52.6%, slightly ahead of analysts' expectations of 52% for July and up from a reading of 52.1% in June. However, job growth remains well below what's needed to bring down the unemployment rate, which rose to 8.3% in July and is the highest rate since February. Estimates were set at 8.2%.

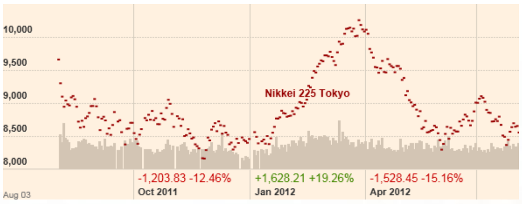
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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China to cut Taxes on Foreign Companies:

When China moves, the world listens. Having been so strict on foreign direct investment, Beijing is moving to encourage more overseas activity as its growth stunts.

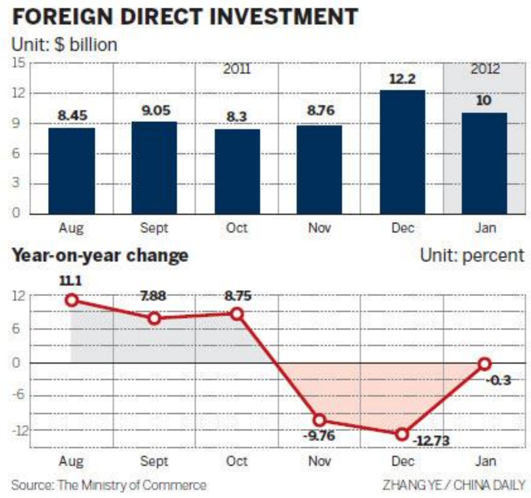
China will slash taxes on the profits that foreign companies take out of the country by up to 50% after rules on withholding taxes were relaxed. The move will also apply to dividends paid by Chinese listed companies to foreign shareholders eligible via the Qualified Foreign Institutional Investor scheme. In both cases, the lower tax rates will apply only to companies and shareholders based in countries, such as the UK, that have double taxation agreements with China.

Such reform could save companies billions of dollars in tax payments and may provide the catalyst to greater influx of foreign commerce into China. With the global economic situation having been so grave, China is in much need of some business friendly measures.

Indeed since Easter this year, China has been looking for routes to increase overseas investment. The China Securities Regulatory Commission announced that international fund managers would be allowed to invest a combined total of $80bn in China's onshore capital markets, up from the previous limit of $30bn. It clearly shows that they were rattled as China's stock market suffered enormously in 2011.

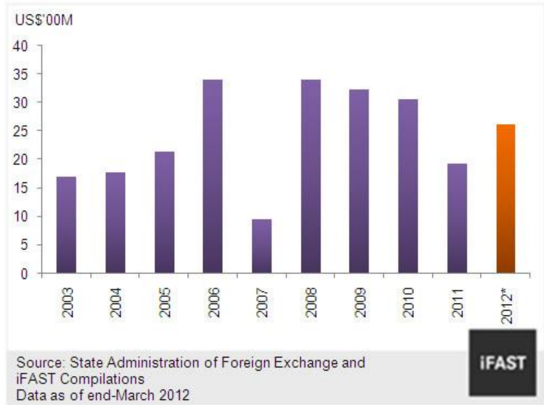
It was also announced that it will allow international fund managers with as little as $500m under management and two years' operating history to apply for investment licences. The previous threshold – $5bn under management and a five-year record – meant only the largest global fund houses could apply.

FDI into China:



Source: http://www.tradingeconomics.com

Qualified Foreign Institutional Investor (QFII) Quotas Approved:



Source: www.fundsupermart.co.in

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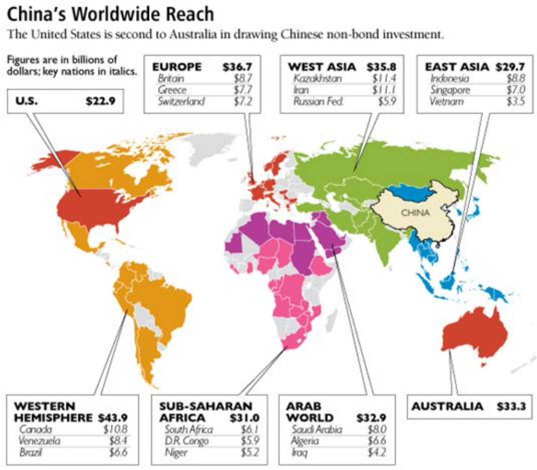
Cont:

Foreign investment into China is set for explosive growth over the next decade. Two investment moves by major Chinese multinational companies drew international attention earlier last week.

China National Offshore Oil Corporation said on Monday that it has entered into an agreement to buy Canada's Nexen Inc. for $15.1 bln.

Sinopec Group, the parent company of China's top oil refiner Sinopec Corp., announced the same day that it would buy a 49-percent stake in Talisman Energy's operations in the North Sea at a price of $1.5 bln.

Since 2000, China has implemented a national strategy that encourages Chinese companies to "go global," or invest overseas. The strategy was reiterated in the country's official 12th Five-year Plan (2011-2015), which was endorsed by China's top legislature in March 2011. The scale of China's overseas direct investment would catch up with its FDI, or become even larger, on the back of the government's stance to step up implementing its go-global strategy according to the Academic Committee of China's National Development and Reform Commission.



Source: http://www.lowlyinterpreter.org

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Currencies:

EURUSD

Despite recent upside, EURUSD remains in downtrend from 1.3486. Further rise is expected this week, and the target would be at the 1.2600 area. Key resistance is at 1.2747, as long as this level holds, we'd expect downtrend to resume, with macro news potentially pushing the rate the 1.1500 area.

EURGBP

EURGBP's corrective recovery from 0.7755 near term bottom continued last week. Such recovery could extend higher in near term, and key resistance is at 0.7949.

GBPUSD

GBPUSD stays in a trading range between 1.5393 and 1.5776 and looks set to continue. Another rise is expected after consolidation, and a break above 1.5776 could signal resumption of the uptrend.

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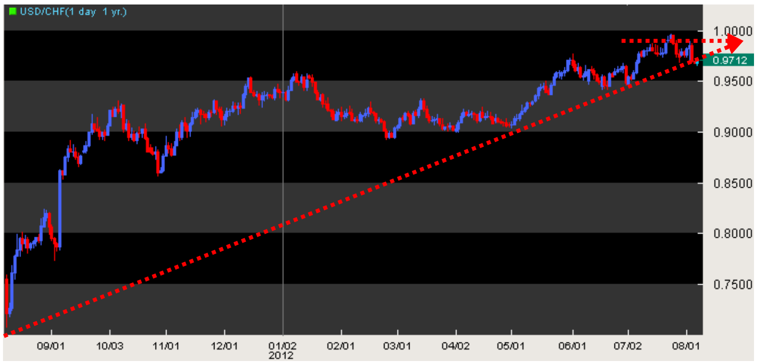
USDCHF

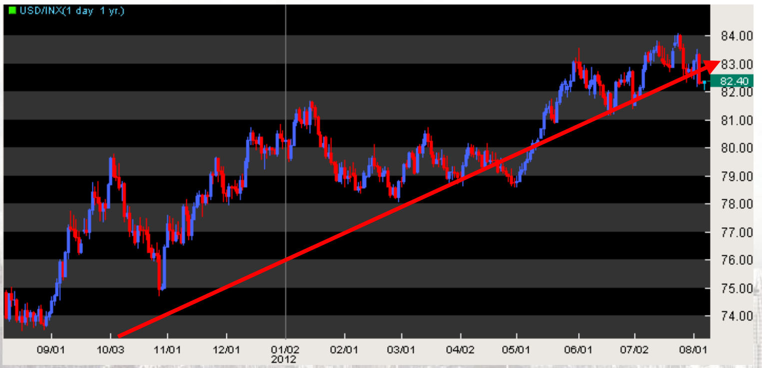


USDCHF remains in uptrend from 0.8931, the fall from 0.9971 is treated as consolidation of the uptrend. Key resistance is at 0.9971, a break above this level could trigger another rise towards 1.0500.

USDJPY

USDJPY is in downtrend from 84.04. Deeper decline to test 77.66 support is expected this week, and a breakdown below this level will then target the 76.00 area.

USD Weighted Index



The greenback fell against three of the four component currencies highlighted by a 1.35% decline against the euro. US employment data was central focus late last week with the July non-farm payroll report beating estimates with at 163K, more than double the jobs created a month earlier. The rally in stocks put downward pressure on USD due to a jump in risk appetite.

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Gold:

Gold futures rose Friday, ending a three-day period of decline (culminating in the biggest weekly drop in 6 weeks) after US employment data showed a rebound in hiring last month and as the dollar traded weaker. The Feds refusal to completely write off further stimulus is keeping the gold price centred at the $1600 mark. Gold prices have been stuck in a $150 trading range between $1,675 and $1,525 an ounce in the past three months, as a lack of firm commitment by the Fed to stimulate has failed to attract new buying.

Crude:

The price of oil posted its biggest gain in more than month, jumping nearly 5 percent, again after the US reported a sharp rise in jobs growth for July. Prices for oil and gasoline tend to rise on signs of strength in the economy, which increases energy demand. After rising sharply the first three weeks of July, the price of oil steadied as investors waited to see if central banks in the US and Europe would announce new stimulus measures. From Europe they received some joy; from a US perspective (the most important) the market will have to wait.

Summary:

It's an interesting time for markets. On one side, the value on offer is being realised in numbers as a jump in risk appetite is aiding equity markets worldwide. Take the volatility (or fear) away and stocks progress strongly. Volatility indexes are currently exhibiting low levels and thus show a market in confident mood. Whilst this holds, investors will likely been seen pushing up valuations of growth equities such as the emerging markets, which currently offer compelling long term value. However we saw late in July just how easily this can quickly reverse on the wider macro picture therefore do not underestimate the impact the mere mention of Greece can have on near term market sentiment.