Weekly Investment Bulletin

8th April 2013 © Mithril Asset Management

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Market Roundup:

Markets generally endured a difficult week. Starting with Asia, all major indices retracted with the exception of Japan.

Stocks in Japan extended a rally on Friday, with the Nikkei 225 index finishing up 3.5% for the week on the back of unprecedented stimulus. The yen had another down day against the dollar and its now 11% weaker year to date.

New BOJ Governor Haruhiko Kuroda on Thursday promised to inject approx. $1.4 trillion into the Japanese economy in less than two years and committed the bank to open-ended asset buying, a dose of shock therapy officials hope will end two decades of stagnation.

Elsewhere in Asia, stocks in Hong Kong fell on fears on US recovery, and news of a new outbreak of avian flu slammed travel and airline shares.

European stock markets dropped sharply in afternoon action on Friday, after U.S. nonfarm-payrolls data came in substantially below expectations. The report showed 88,000 jobs were added to the economy in March, the smallest gain in 10 months and far below estimates calling for a gain of 190,000 jobs.

Some respite came from The Bank of England who kept rates on hold very much as expected and on the data front in the U.K., the Markit/CIPS services purchasing managers' index showed the sector grew at the fastest pace in seven months in March to offer some positives.

The news of US jobs data cast a negative view on the labour market in the world's largest economy and will pose further questions on the sustainability of economic recovery.

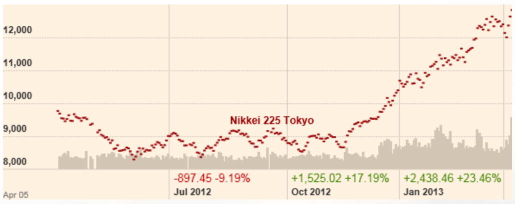
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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Shock and Awe – Tokyo Style:

The Federal Reserve's easy-money policies are becoming infectious. First Europe followed suit, to some extent. Now Japan is attempting its own shock-and-awe monetary policy.

The Bank of Japan recently announced an intensified "quantitative easing" strategy meant to end a 15-year deflationary spiral, lift the Japanese stock market and reinvigorate the stagnant Japanese economy.

While Japan faces different economic problems than the US for example, the BOJ's program, like the Fed's, will involve ramped up purchases of long-term bonds.

The BOJ is trying to end a long deflationary cycle that has depressed spending and the whole Japanese economy. Deflation creates a loss spiral because it creates an incentive to put off purchases as long as possible, since most prices are likely to be lower in the future. Japanese consumers have become so used to deflation that the BOJ may struggle to convince them it's finally over.

More bond purchases by the BOJ ought to have the same effect as the Fed's bond purchases: Interest rates in Japan will fall, which will make stocks and other risky assets more attractive to investors seeking higher returns on their money.

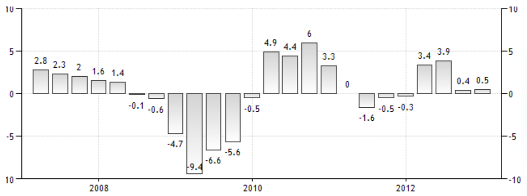
So stock prices ought to rise. The value of the yen will fall relative to the dollar and other currencies, as some investor money leaves Japan seeking higher returns elsewhere. That will make Japanese imports to other countries a bit cheaper.

How will this affect those around it? The impact on the U.S. as the world's largest economy will probably be modest, but still important for investors to take note. The sectors most at risk will be electronics and automotive, with the latter experiencing an improvement in activity as mentioned in past bulletins.

Japan 10 Year Bond Yield:

USDJPY 2009 – 2013:

GDP 2007 – 2013:



Source: www.tradingeconomics.com

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Cont:

As interest rates fall in Japan, this will generate downward pressure on U.S. interest rates as well. Other factors such especially the Fed's own monetary policies will affect rates more. But with central banks throughout the developed world generally pursuing the same policies, it will help keep rates low across the board, perhaps for longer than investors had expected.

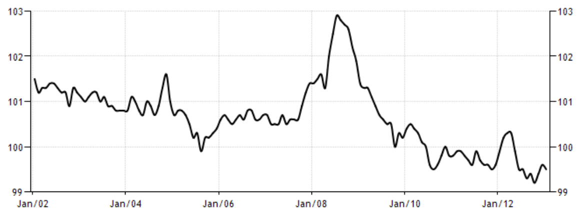
Japan's latest moves aren't universally popular. Forcing the value of the yen down will give important Japanese exporters such as Toyota and Sony a fresh edge in other markets, including the United States and perhaps even China.

Do you remember how the U.S moaned about the competitive devaluation of the Yuan? Well it is likely to be the same as the Yen. Double standards it seems as the Fed has essentially done the same thing by pushing U.S. rates down during the last four years.

The same goes for the euro zone and the UK.

On the whole, a stronger Japanese economy is good for the world economy, since it would boost trade and generate more global economic activity. Now Japan just needs to make it happen.

Japanese Consumer Price Index:



Government Debt to GDP:

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Currencies:

EURUSD

EURUSD may be forming a cycle bottom at 1.2747. Range trading between 1.2747 and 1.3100 is expected over the next couple of weeks. Key resistance is at 1.3100, where a break above 1.3100 resistance could bring price to 1.4500 zone.

EURGBP

EURGBP recovered last week and turned to sideway trading. Some more consolidations are on the cards initially this week. But still, the near term outlook stays mildly bearish as long as 0.8560 minor resistance holds. The correction from 0.8806 could extend lower and will target 0.7755.

GBPUSD

GBPUSD broke above the resistance of the downward trend line. Further rally would likely be seen next week, and next target would be at 1.5600 area. Support is at 1.5000, only break below this level could trigger another fall towards 1.4500.

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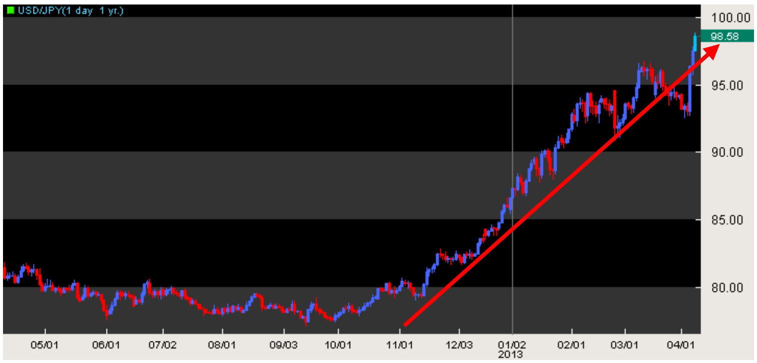
USDCHF

USDCHF broke below 0.9352 support, suggesting that the upward movement from 0.9021 has now completed at 0.9567. Further decline is expected next week, and next target would be at 0.9100 area.

USDJPY



After consolidation, USDJPY continues its upward movement from 77.14, and the rise extends to as high as 97.82 following further easing from the BoJ last week. Further rise could be expected this week, and the next target would be at 100.00 area. Key support is at 92.56, only break below this level could signal completion of the uptrend.

USD Weighted Index

Two of the four components advanced against USD, led by a 0.73% rally in the Euro, while the Japanese Yen shed another 0.66%, with the USDJPY crossing above the 97.00 figure for the first time since August 2009. The index is likely to come under pressure this week following dismal jobs data from the US. Non-Farm Payrolls grew at the slowest pace since June 2012, and the ongoing weakness in the labour market may continue to dampen the appeal of the reserve currency as the participation rate slips to the lowest level since 1979.

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Gold:

Gold futures ended sharply higher on Friday, as investors bought the precious metal after U.S. nonfarm payroll figures indicated the Federal Reserve will continue to support the fragile economic recovery in the U.S. A test of key level at 1,590 is on the cards this week.

Moves in the gold price this year have largely tracked shifting expectations as to whether the U.S. central bank could bring quantitative easing, one of the biggest boosts to gold's bull run, to an end this year.

Crude:

New York-traded crude oil futures ended Friday's session at a two-week low, after a weaker-than-forecast U.S. nonfarm payrolls report for March fuelled fears that the economic recovery is losing momentum, reducing hopes for higher oil demand.

But losses were limited as the dismal jobs report eased recent jitters the Federal Reserve would start to withdraw its super easy monetary policy, weighing on the U.S. dollar.

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Summary:

With poor non-farm payrolls sending a shiver down the spine of market indices, stocks will come under renewed pressure as earning season begins. Their resilience will be tested after reaching multiyear, if not all all-time highs in March.

From a political perspective, it's Portugal's turn to flirt with difficulty. The European Commission warned in a statement on Sunday that failure by Portugal to implement its austerity program would results in the curtailment of future aid. This came after Portugal's high court passed rulings on cuts to public sector wages and pensions, prompting its Prime Minister to warn of the consequences to the nation's economy.