Weekly Investment Bulletin

8th October 2012

MITHRIL ASSET MANAGEMENT

Market Roundup:

Global markets advanced for the week.

U.S. stocks remained in rally mode after the release of minutes from the last Federal Open Market Committee meeting, which had the central bank opting to launch a third round of monetary easing. A warm reminder of what they so badly craved. Ironically, the market is still none the wiser as to when the latest program is due to commence.

China's official non-manufacturing Purchasing Managers' Index in September printed at 53.7, compared to 56.3 in August, its weakest reading since November 2010.

Also Thursday, the European Central Bank held steady on record-low interest rates. At a press conference, ECB chief Mario Draghi said he expected growth in the euro zone to remain weak, with the economy only expected to recover "gradually."

Draghi said the OMT program is ready to launch and serves as an effective "backstop" against turmoil in the region, while reiterating that the ECB sees the euro currency as "irreversible."

Separately, the Bank of England held steady on interest rates and asset purchases on Thursday. The Bank of England left its key lending rate unchanged at a record low 0.5%, where it's stood since March 2009. After moving in July to boost the size of its asset-purchase program by £50 bln ($80.6 bln) to a total of £375 bln, policy makers likely saw little reason to take further action until those purchases run their course next month.

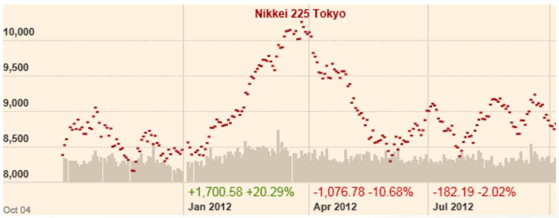
Market Data (12 month):

S&P 500:

FTSE100:

FTSE Eurofirst 300:

Nikkei 225:



Shanghai Composite:

Source: www.ft.com

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Philippines – Strong Outlook but Obstacles Remain:

In the World Economic Forum's new Global Competitiveness Report just released last month, the Philippines continued its recent trend of rising in the rankings, moving up 10 spots from last year's position and 20 from two years ago to 65. The Philippines is one of only two countries to improve their position in the rankings by 20 spots over the past two years and has now surpassed Vietnam, though it still lags behind Indonesia.

The rankings rely on a mix of hard data and surveys from top executives in the country to measure the perceived competitiveness of an economy on a weighted formula of 12 pillars of productivity and growth potential.

The Philippines' rise in the rankings has been fuelled by improvements in the categories classified as basic requirements by the report: institutions, health and primary education, infrastructure, and macroeconomic environment.

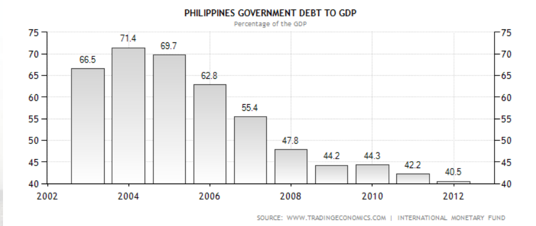
Large gains in public trust in institutions and improvements in the macroeconomic environment have been the two primary factors driving the Philippines rise in the ranks.

The other major factor behind the Philippines' rise in the rankings has been its improved macroeconomic position. The savings rate as a percentage of GDP has been steadily increasing – from 2011 to 2012, the national savings rate increased from 20.1 percent to 24.6 percent. In the past two years, there has also been a reduction in budget deficits to a nearly balanced budget in the past year, and there has been a substantial decline in government debt-to-GDP, which is nearing 40%.

MSCI Philippines:

Philippines- Consumer Spending:

Philippines- Debt to GDP:



Cont:

While these gains are encouraging, they still come from a very low ranking, especially in institutions. Nearly 40 percent of respondents still listed corruption and government inefficiency as the most problematic factors in doing business in the country. In addition, it remains to be seen whether the current administration can sufficiently strengthen government institutions and processes to forestall any return to previous corrupt practices.

Poor infrastructure was the third-most commonly cited problem in doing business, especially in sea and airport infrastructure. While the Philippines' overall rank in infrastructure improved, the raw scores have barely moved, suggesting that the increase in rank was due more to other countries' worsening infrastructure rather than significant improvements in the category.

The challenge for the current administration will be to turn the current gains in governance, institutions, and the macroeconomic environment into real and sustained improvements in the competitiveness and productivity of the country.

As the Philippines experience has shown in the 26 years since the restoration of electoral democracy, improvements in governance are fragile and easily reversed once an administration with less than pure intentions comes to power. Also, the increasing savings rate has yet to be turned into large gains in productive economic investments. In the long-term, the Philippines must vastly improve its primary education system, which is mediocre, or see one of its core strengths, a highly educated workforce, disappear. Dropout rates from primary to secondary in public schools are approaching 40 percent and are a major obstacle to sustainable growth. Early signs show a growing potential and an improving outlook for the Philippines, but one that is yet to be converted into enduring, concrete gains.

Philippines - Business Confidence:

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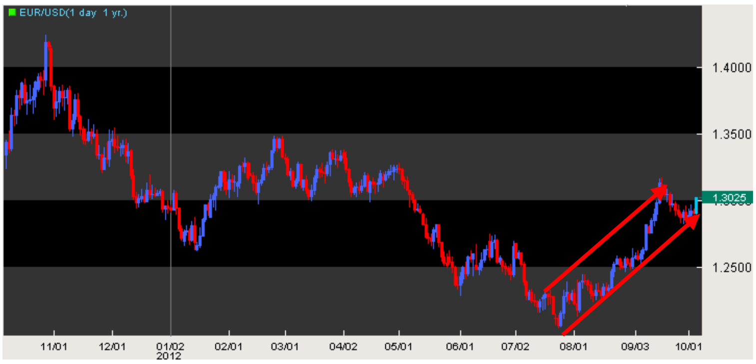
Currencies:

EURUSD



EURUSD bounced from support to remain in range where a cycle top persists at 1.3171. Support is at 1.2750, and one more rise towards 1.3500 is still possible. On the downside, a breakdown below 1.2750 could bring price back to 1.2500 area.

EURGBP

EURGBP's late fall last week indicates that recovery from 0.7755 was completed at 0.8114 already. Having broken 0.8007 the focus is now at 0.8114 resistance.

GBPUSD

GBPUSD regained further ground on the week. Range trading between 1.6100 and 1.6309 would continue to likely be seen in a couple of weeks. Support is at 1.6100, as long as this level holds, we'd expect uptrend to resume, and another rise towards 1.6500 is possible.

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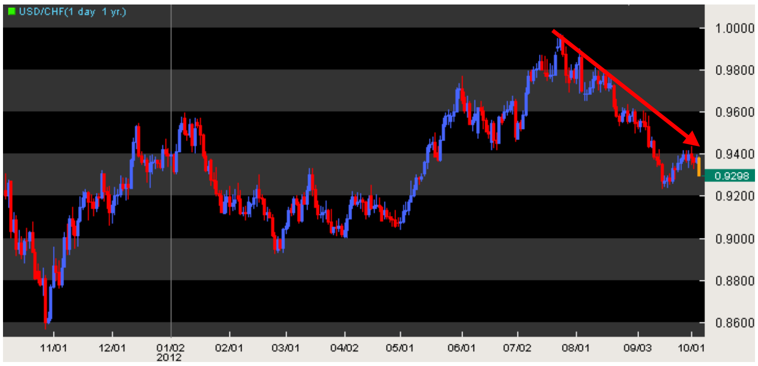
USDCHF



USDCHF remains in downtrend from 0.9971 and touches resistance at 0.9400. Range trading between 0.9239 and 0.9400 would likely be seen over the next several days. Resistance is now at 0.9400, as long as this level holds, we'd expect downtrend to resume.

USDJPY

USDJPY stays below a downward trend line, and remains in downtrend from 84.17. Further decline towards 76.00 is still possible after consolidation. On the upside, a clear break above the trend line resistance could bring price back to 82.00-83.00 area.

USD Weighted Index

USD weakened against all four components, led by the 0.76% rally in the Euro, but the single currency remains poised to face additional headwinds over the near-term as the fundamental outlook for the region turns increasingly bleak. As Greece fails to secure the next bailout payment, Prime Minister Antonis Samaras argued that the European Central Bank should consider rolling over its Greek debt holdings, and went onto say that the European Stability Mechanism should be allowed to finance the region's commercial banks as the region struggles to get its house in order.

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Gold:

Gold prices moved higher Thursday, as general nervousness amid economic data and central bank meetings pushed investors toward the metal. A break of the $1780 level is important, and demand from India should help to prop prices due to symbolic festivals. old shot up nearly 1 percent on Thursday to its highest price in 11 months, with the market's sights set firmly on $1,800 an ounce, as bullion's inflation-hedge appeal was boosted by signs the European Central Bank intends to keep borrowing costs low.

Crude:

Crude Oil prices fell sharply Thursday on disappointing economic data as signs of a slowdown in China and Europe reinforced worries about weakening demand for petroleum. Bold Quantitative Easing actions by global central banks have yet to convince consumers to start spending again. The concerns about China and Europe overshadowed supportive data from U.S. Energy Information Administration's (EIA), which showed an unexpected fall in U.S. Crude Oil stocks last week.

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Summary:

With markets remaining buoyant, the gold price breaking critical levels and oil bouncing on the week, we should still remain mindful of the wider economic picture.

With the stage set for a full Spanish rescue, Euro zone leaders are now back to concentrating on Greece and how to get its €174bln bailout programme back on track. The IMF has taken a highly pessimistic stance on Greece and the speed at which it can implement reform. IMF officials believe they have reason to be suspicious. A privatisation programme that this year was supposed to raise €3.5bn is likely to yield only €300m, and a target of €19bn in debt sales by 2015 looks increasingly hard to achieve. At stake is a €31bln cash injection that was due more than 2 months ago and a much needed extension of the programme until 2016.

Now this normally would have caused havoc in markets, but it seems investors have favoured the (perceived) ability to service debt rather than the debt position itself. The calls for a 'Grexit' and the accompanying market reaction, may return in the coming weeks.