PIRAEUS BANK

Global Economic & Market Monthly Review: Oh, Liquidity!!...

ECONOMIC ANALYSIS & RESEARCH DIVISION

October 2013

Executive Summary

In the US, we estimate a slowdown in growth for the third quarter of 2013 to 2% (annualized), compared to 2.5% for the second quarter. A similar rate is also expected for the first quarter of 2014, when we expect a firmer resolution of the issues of sequestration and the debt limit. After that we expect growth to accelerate. For the whole of 2013, we estimate an average annual rate of growth of 1.6%, showing a significant slowdown compared to the 2.8% growth in 2012, while for 2014 we expect acceleration to 2.6%.

In the Eurozone, we estimate that there was a marginal slowdown during the third quarter of 2013, with a growth rate of 0.2% (quarterly rate), compared to 0.3% for the second quarter. Growth of the order of 0.2% - 0.3% is considered sustainable until the end of 2014. Therefore, for the whole of 2013, we estimate an average annual rate of contraction of real GDP by 0.3%, showing an improvement over the -0.6% in 2012 while, for 2014, growth is expected to recover to 1.1%.

Once again, increased uncertainty, which is countered by excess liquidity, is a positive factor for risky securities. Avoiding two potentially significant risks (tapering & debt limit) might support current positive market momentum, but what should also be taken into account is that the combination of low interest rates and low volatility is ideal for creating excesses, but is also conducive to an environment of, potentially increased, investment risk.

Particularly vulnerable are US equities that are at this point deemed expensive, but which still maintain a positive technical picture. In emerging countries, the overall picture is positive as both fundamental and technicals are positive. Concerns about Chinese liquidity mainly affect commodities, which have a negative overall rating. In the bond markets, low maturity US Treasury bonds are considered very expensive, but remain under the protection of the Fed. On the other hand, further “flattening” of the US curve, from the long end is possible. The EURUSD cross maintains a positive technical picture. However, it not only begins to deviate from previously tight relationships with bond market spreads (Germany vs. the USA, Germany vs. the European periphery) but also remains exposed to a future resurgence of "cohesion risk» in the Eurozone.

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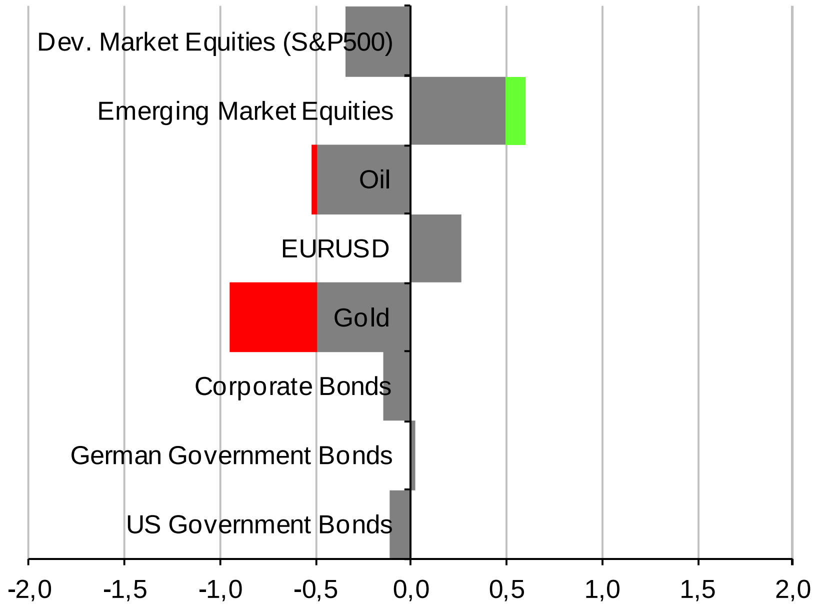
Global Market Risk-Return Scoring

(6-9 month horizon)

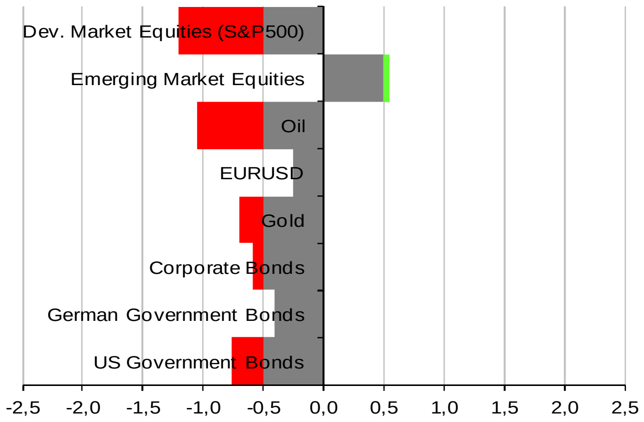


Scoring between -2.5 and 2.5 reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

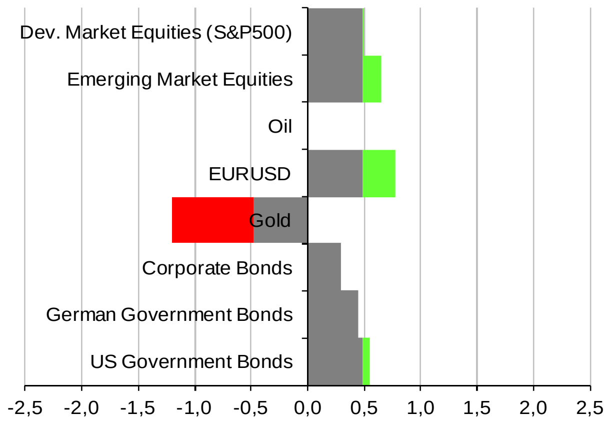
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

For long-term estimates (+9 months), more weight should be given to fundamental and quantitative factors, while for the medium term (3-6 months), more weight should be given to technical factors.

Fundamental & Quantitative Estimates



Technical Analysis



Fundamental & Quantitative Estimates: Deviations from long-term average value measures (e.g. P/E for stocks, nominal growth for bonds, ppp for fx) as quantified by estimated "fair values" using for each the appropriate market & economic fundamentals. Technical Analysis: Standardized display of figures such as MACD, RSI and other technical analysis measures

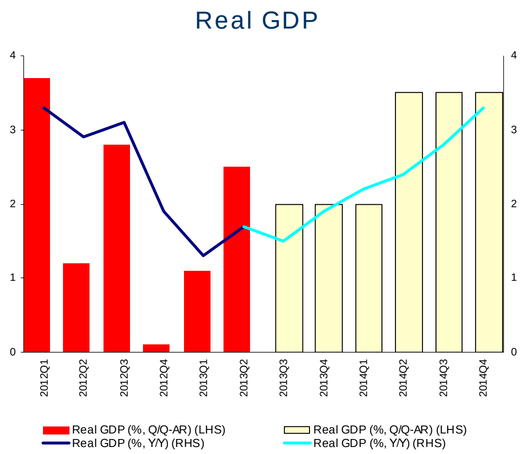
Economic Developments

US Economy: Deceleration and Political Discord

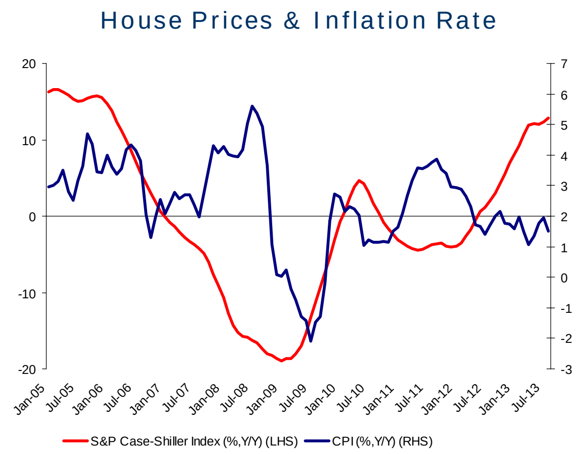
- The US economy posted a small deceleration during the third quarter of 2013 as, according to our estimates, real GDP grew by 2.0% (annualized quarterly rate), slower than the 2.5% rate of the second quarter. The US economy will probably continue to grow at a similar rate until the end of the first quarter of 2014, when the political dispute on budget financing and the debt ceiling is resolved. After the first quarter of 2014, the growth rate will probably accelerate. Hence, the average annual growth rate for 2013 will be 1.6%, while we expect acceleration to 2.6% for 2014. Likewise, the growth rate will accelerate both in consumption (from 1.9% in 2013 to 2.5% in 2014) and investment (from 4% to 7%).

- The maintenance of international oil and commodities prices at their current (or lower) levels will comfortably constrain the inflation rate below the 2.0% threshold during 2013 and 2014. Additionally, the negative output gap (reflected by the relatively high unemployment rate above the 7.0% threshold) will also contribute to the maintenance of the core inflation rate below the 2.0% level. The unemployment rate will continue to decrease slowly, and we expect it to fall below the 7.0% threshold by the end of the first half of 2014.

- Therefore, the Fed will maintain its current very low policy rate level (0.25%) and its QE program. The political dispute on fiscal issues is causing a delay in the beginning of QE tapering. We expect this to start during the second quarter of 2014, when the unemployment rate approaches the 7.0% threshold. The QE program will continue to exist (albeit on a smaller scale) for a prolonged period, as the unemployment rate will continue to hover above the 6.5% threshold and the participation rate will be at disappointingly low levels. The fiscal measures needed for deficit reduction, QE tapering and rising mortgage rates constitute the main downside risks for the US economy. On the other hand, rising house prices, credit recovery, deleveraged households, satisfactory corporate profitability and the low inflation rate make up the upside risks. These factors could plausibly result in a positive surprise in private consumption growth.



Source: Bloomberg, Piraeus Bank Research



Source: Bloomberg, Piraeus Bank Research

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- Monetary tightening is expected to be further delayed, due to the unresolved political dispute over fiscal issues and the appointment of the new Fed president, Yellen (she will assume the position on February 1st, 2014). A decision about a policy rate increase will be taken if the unemployment rate closely approaches the 6.0% threshold and the labour participation rate increases considerably from its current low level. Fiscal deficit reduction efforts have achieved good results, as the fiscal deficit (as a percentage of GDP) is expected to drop to 3.8% in 2013, from 6.8% in 2012 and 8.8% in 2011. Hence, reduced austerity measures will be needed for a further reduction to 2.5% - 2.9% in 2014.

USA: Macroeconomic Projections

	2013/Q1	2013/Q2	2013/Q3	2013/Q4	2014/Q1	2014/Q2	2014/Q3	2014/Q4	2013	2014
				Q/Q-AR-%					Y/Y-%	
Real GDP	1.1	2.5	2	2	2	3.5	3.5	3.5	1.6	2.6
Personal Outlays	2.3	1.8	2	2	2	3	3	3	1.9	2.5
Investment	-1.5	6.5	5.0	5.0	5.0	10.0	10.0	10.0	4	7
Public Expenditure	-4.2	-0.4	-1	-3	-3	-1	-1	-1	-2.5	-2
Exports	-1.3	8	5	5	5	5	5	5	2.5	4.5
Imports	0.6	6.9	3	3	3	5	5	5	1.5	3.5
Inflation Rate	1.7	1.4	1.5	1.5	1.5	1.8	1.8	1.8	1.5	1.7
Unemployment rate	7.7	7.6	7.4	7.3	7.2	7.0	6.9	6.8	7.5	7.0
Fed - Policy Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10Y Treasuty Yield	1.85	2.49	2.61	2.75	2.79	2.83	2.87	2.90	2.75	2.90
EUR/USD	1.28	1.3	1.35	1.36	1.32	1.30	1.30	1.30	1.36	1.30

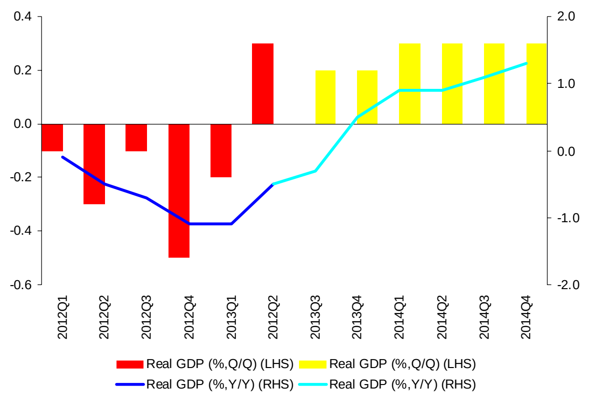
EZ Economy: Nascent Recovery and Required Banking Union

- The EZ economy posted marginal deceleration during the third quarter of 2013, as according to our estimates, real GDP grew by 0.2% (quarterly rate), marginally slower than the 0.3% rate of the second quarter. A 0.2% - 0.3% growth rate is expected to be sustainable for the rest of 2013 and 2014. Hence, the average annual growth rate for 2013 will be -0.3%, while we expect a recovery to 1.1% for 2014. Likewise, growth rates will recover both in consumption (from -0.7% in 2013 to 0.5% in 2014) and investment (from -3.5% to 1.5%).

- The maintenance of international oil and commodities prices at their current (or lower) levels combined with low domestic demand and the sizable negative output gap (reflected by the very high unemployment rate of 12%) will comfortably constrain the inflation rate well below the 2.0% threshold during 2013 and 2014. The unemployment rate is expected to stabilize at the 12.2% level and will fall below 12.0% during the second half of 2014. Therefore, the ECB will definitely maintain its current policy rate level (0.50%) for a prolonged period. Moreover, we do not rule out a further rate cut (0.25%) and a new LTRO action.

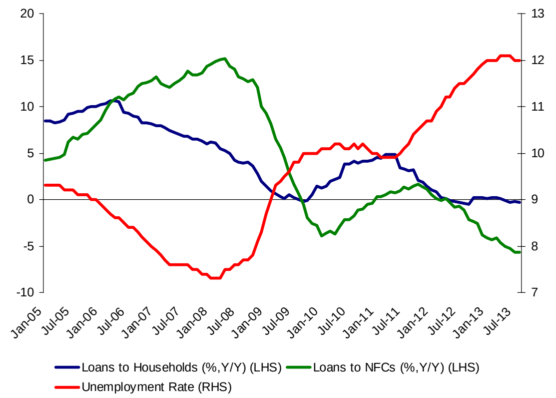
- The improvement in the leading indicators signals the sustainability of recovery during the coming quarters. It is worth mentioning that the PMI Manufacturing and PMI Services have risen to their highest levels since June 2011. The Economic Sentiment Indicator has risen to its highest level since August 2011 and the consumer confidence indicator to its highest level since July 2011. Moreover, the ECB's commitment to a very low policy rate for an extended period safeguards the sustainability of the recovery.

Real GDP



Source: Bloomberg, Datastream, Piraeus Bank Research

Unemployment Rate & Credit Expansion



Source: Bloomberg, Datastream, Piraeus Bank Research

- On the other hand, the disappointing credit growth data (especially for the NFCs) and the ongoing austerity policy (followed by the majority of the member countries) constitute the main downside risks. It is also worth mentioning that the annual rate of change in the outstanding amount of the NFCs' loans has been at its worst level (since the collection and analysis of this data began), sapping the recovery in business investment and consequently the improvement in the labour market.

- The consequences of the crisis have necessitated rapid actions towards forming a complete banking union. The agreement on the Single Supervisory Mechanism, Single Resolution Mechanism and Deposit Guarantee Scheme was an important step for the viability of the banking system. These will be implemented rapidly after the impending European elections (May 2014), as there will be a great opportunity for more decisive and drastic «union-oriented» moves by the newly elected European institutions. Simultaneously, the ECB will conduct its three phase evaluation (Supervisory Risk Assessment, Asset Quality Review and Stress Test) for the big systemic banks, contributing more to the viability of the banking system.

Euro zone: Macroeconomic Projections

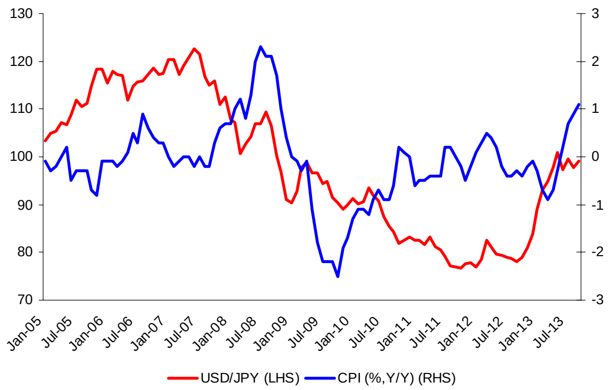
	2013/Q1	2013/Q2	2013/Q3	2013/Q4	2014/Q1	2014/Q2	2014/Q3	2014/Q4	2013	2014
	Q/Q-%								Y/Y-%	
Real GDP	-0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.3	-0.3	1.1
Private Consumption	-0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2	-0.7	0.5
Investment	-2.2	0.2	0.3	0.3	0.5	0.5	0.5	0.5	-3.5	1.5
Public Consumption	0.0	0.4	0.1	0.1	0.2	0.2	0.1	0.1	0.3	0.5
Exports	-0.9	2.1	1	1	1	1.5	1.5	1.5	1.5	4.5
Imports	-1.1	1.6	0.5	0.5	0.5	1	1	1	0.5	3.5
Inflation Rate	1.8	1.4	1.3	1.1	1.1	1.3	1.5	1.7	1.4	1.4
Unemployment Rate	12.0	12.1	12.1	12.2	12.2	12.1	11.9	11.9	12.1	12.0
ECB-Policy Rate	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
10Y Bund Yield	1.29	1.73	1.78	1.97	2.05	2.10	2.15	2.20	1.97	2.20

Asian Economies

- Japan's economy is expected to post an average annual growth rate of 2.0% in 2013 (the same as in 2012), while for 2014 we expect deceleration to 1.5%. The JPY depreciation (driven by the BoJ's monetary policy) is the main upside factor, as it makes Japanese exports more attractive. On the other hand, fiscal deficit reduction, leading to an increase in consumption tax and a public investment reduction, are the main downside risks. We estimate that the inflation rate will approach the 2.0% threshold during the second half of 2014, as the Fed's tapering would be necessary for further JPY depreciation and a higher inflation rate. It is worth mentioning that the inflation rate has increased to the highest level since the end of 2008, while labor market conditions have improved to the best level since the beginning of 2008. However, public debt has risen to 244% in 2013 (as a percentage of nominal GDP), as the fiscal deficit has continuously run above 9.0% since the outbreak of the 2008 crisis. Therefore, the sustainability of public debt is the big systemic risk for Japan's economy and consequently for the global economy. The BoJ should be vigilant about the implementation of its QE program, as it should not cause an increase in the cost of public debt service.

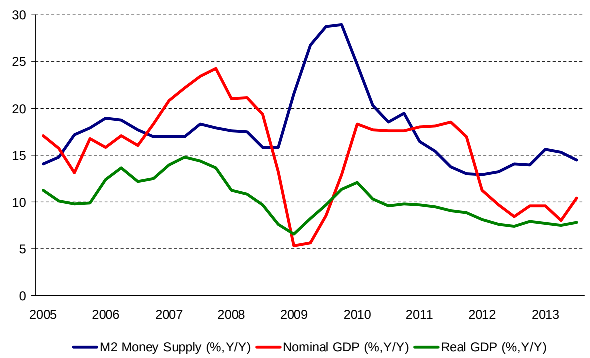
- China's economy is expected to decelerate marginally to 7.6% in 2013 from 7.7% in 2012. Real GDP grew by 7.8% during the third quarter of 2013, which was the highest growth rate in 2013. Likewise, industrial production also posted its highest growth rate. In the coming years, China's economy is expected to grow by 7.1% - 7.5%. Domestic demand is expected to be the main contributor, while net export activity will be a minor factor. Moreover, the difference between the growth rate in nominal GDP and money supply (M2) is expected to shrink, leading to smaller credit growth. The Central Bank of China will probably try to rein in the shadow banking system, by tightening its policy through interbank rates. Moreover, the government should be more vigilant about the peripheries' debt, as this has almost doubled since 2010.

Japan: Inflation Rate & Exchange Rate



Source: Bloomberg, Piraeus Bank Research

China: Money Supply & GDP



Source: Bloomberg, Piraeus Bank Research

International Markets: Too Much euphoria

- Markets had only limited available economic data to digest, due to the US government shutdown. The temporary resolution of the fiscal issues (budget financing and debt ceiling) enhanced the preexisting euphoria, which emanated from the Fed's decision for no tapering and the choice of Yellen as the next Fed president, signaling a more gradual return to monetary normalcy and the maintenance of the current excess liquidity environment for a longer (than previously expected) time. Thus, the excess liquidity outweighs the high uncertainty, supporting risky assets. The fact that the political resolution to the fiscal issues was deferred until the beginning of the next year is another important reason (the high unemployment rate and low inflation rate are the others) for the deferral of tapering decision by the Fed.

- The combination of the potential structural risk and excess liquidity is a major driving force for risky assets, Treasuries and other "safe haven" assets, as the cost of money has lingered at a very low level for a prolonged period. As a result, investors feel complacent. This is reflected in the low implied volatility level of the equity indices. Hence, the VIX Index (of the US equity market) is again approaching the lower limit of the 11% - 22% zone, which has applied since the summer of 2012.

- It is interesting to investigate the relationship between interest rates and equity market volatility. In a normal investment environment, periods of low equity volatility are usually positive for risky assets and negative for the bond markets. Hence, a negative correlation between bond yields and equity market volatility exists (i.e. low VIX is correlated with high equity prices and high bond yields or low bond prices). However, this relationship tends to weaken when the liquidity factor plays the main role.

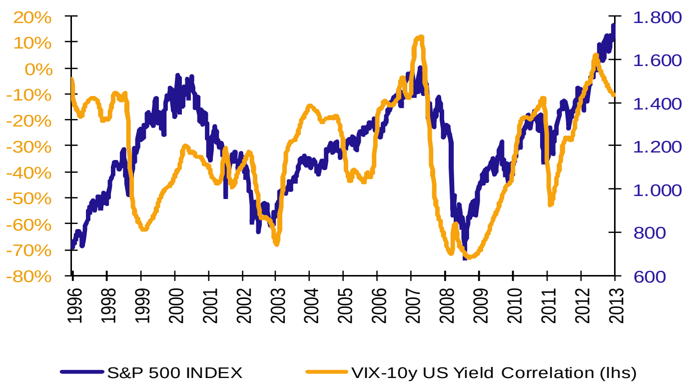
- For example, in December 1996, when Greenspan talked about "irrational exuberance" and the Fed started supporting the markets more actively, the average correlation coefficient (of 150 weeks) between VIX and ten-year Treasury yields was -0.32. The highest levels of this correlation were: -0.1 in May 1998, -0.13 in October 2007 and 0.06% in March 2013 (see the graph on the next page). The first two of these dates coincided with periods of increased future, investment risk. Returning to the more recent experience, the combination of avoiding two potentially significant risks (tapering and debt limit) could support the current momentum in the markets, but what should be taken into account is that while this combination of low interest rates and low volatility is ideal for creating excesses, it could also generate an environment of increased investment risk.

- The maintenance of the existing dynamic trend is feasible, unless other exogenous negative events (for example geopolitical or European) occur and negative (to a great extent) economic data are released. Concerning the geopolitical risk, there is a situation of inactivity, as the chemical weapons disarmament in Syria is still pending. The fall in the international oil price (it is now trading below $100) is a positive development. On the European front, the periphery's spreads (against the German Bund) continue to shrink and the "pre-German election inactivity" is expected to continue until the formation of the new government in Germany is completed (some days before Christmas).

- The probability of a negative surprise from the manufacturing sector data has risen, while the consumption data prospects are still positive. According to our calculations, the current level of several leading indicators is consistent with an annual growth rate of 2.8% on a six-month horizon (the consensus is for 1.6% for 2013 and 2.6% for 2014). On the other hand, the market data correspond to an annual growth rate of 3.6% on a six-month horizon. Therefore, we conclude that although there is enough room for a positive surprise, the markets (especially equity markets) have adopted a very positive scenario and, consequently, they are vulnerable to negative developments. In emerging economies (especially China), surprises from cyclical data lean towards the positive side. However, indications from the banking sector continue to give alarming signals (in China), related to the excess credit growth.

- Hence, we conclude that the combination of the mild but gradually improving cyclical data and the maintenance of the excess liquidity in the US economy and other economies (such as Japan and the UK) can preserve the current positive climate and perhaps lead to excess asset values. Equity prices (especially in the US stock market) have started diverging significantly from the microeconomic and macroeconomic fundamentals and, consequently, have become very sensitive to (even marginally) negative surprises.

S&P500 & US10y yield versus VIX Correlation



Source: Bloomberg, Piraeus Bank Research

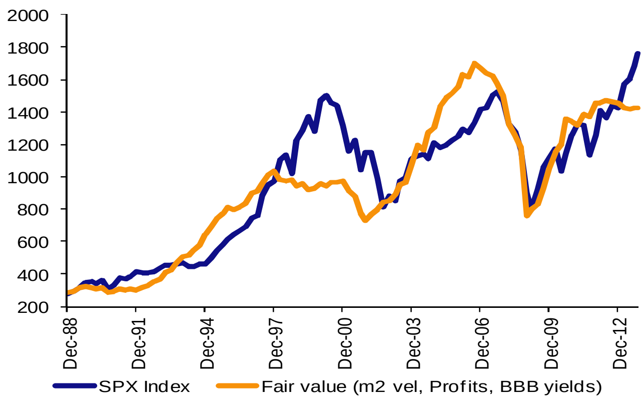
Equity Markets

- US equity markets retain their upward momentum leading the way for the rest of the equity markets. Since the end of the second quarter, there has been a significant rise (MSCI Emerging 10.00%, S&P500 9.7%, Eurostoxx50 16.1%, Nikkei225 5.25%). This momentum has been maintained and last month produced significant profits (MSCI Emerging, 4.8%, S & P500 4.8%, Eurostoxx50 4.5%, Nikkei225 -0.4%).

- Concerning profitability in the US, during the recent period of financial results announcements, 256 of the 500 companies in the S&P500 have announced results. Of these, 76% have surprised significantly positively (4.9% higher than expectations), and 54% have surprised positively in relation to sales. However, due to some important negative surprises, primarily in technology (IBM, Oracle, Adobe), the overall surprise is only 0.14%. According to consensus estimates, profitability is expected to increase by 6% by the end of the year (14% for all of 2013), while for 2014 an increase of 11% is expected (Bloomberg). At this stage, we should note that the profitability of S&P500 companies is growing at an annual rate of 3.7%, while according to GDP accounts for June; corporate earnings are growing by 4.5% annually. We should also note that these rates are lower than the long-term averages and the average growth rate (GDP accounts) since 1982 is 7.6% (7.8% since 1947). S&P500 company profitability is similar.

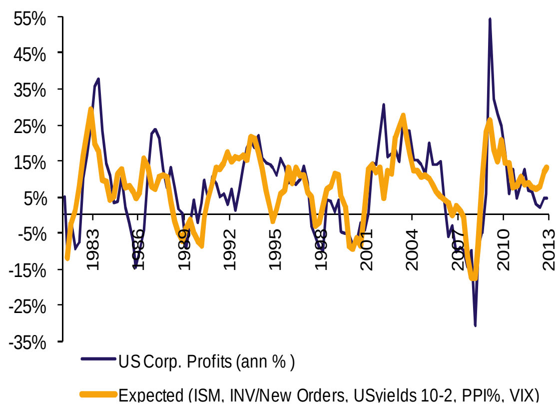
- Recently, factors that have a positive correlation with future profitability have moved favourably (a rise of the ratio of new orders to inventories, a rise in the ISM index, a fall in equity volatility and falling inflation in producer prices) which could result in an acceleration of profitability to 13% (slightly higher than analysts' expectations). Of course, the estimation error is such that the probability of a positive surprise is only marginally significant. On the other hand, the degree of overvaluation of the equity markets is certainly important, not so much in relation to the P/E ratio, which has risen to 17 for the S&P500 (the long-term average is 16), but as the index deviates significantly from the fair price we have constructed, which is characterized by its positive co-variation with corporate profitability and the velocity of money (the first has moved only slightly upwards, while the second has gone down) and negative with the long-term cost of money moving upward. The deviation from this type of measurement exceeds one standard deviation, while the S&P500 is now 2 standard deviations higher than its fair value characterized by its co-movement with other markets (stocks, bonds, raw materials f / x). Therefore, overall the index is characterized as expensive (significantly negative fundamental-quantitative picture). At the same time, however, the technical picture is improving to marginally positive, mainly due to developments on the liquidity front. The overall picture has deteriorated while remaining neutral with a negative predisposition.

S&P500 & Fair Value



Source: Bloomberg, Piraeus Bank Research

US: Annual Corporate Profit Growth



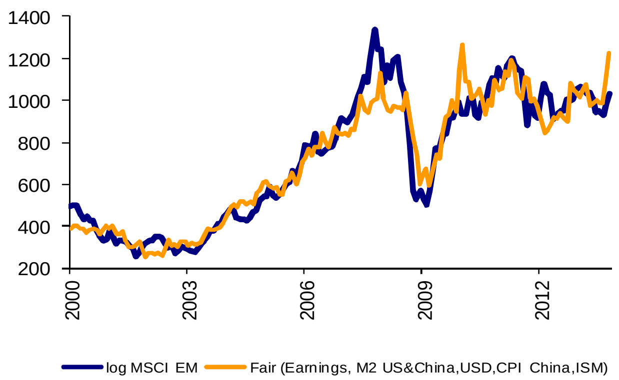
Source: Bloomberg, Piraeus Bank Research

- Emerging country equities have begun to outperform both the US and the Japanese markets, benefiting from the current environment of increased liquidity and low volatility while still remaining relatively cheap. In terms of P/E, the MSCI Emerging stands at 12.3 from 11.0 in late June. So, according to this metric, the market is now only marginally cheap. At the same time, the combination of cyclical improvement in both the US and China, along with the favorable (loose) monetary conditions in the US, but also the reduced rate of monetary expansion in China (M2) more than offset the rise in P/E. Still, on the positive side, there has been a marginal improvement in the manufacturing - inflation trade-off in the BRIC countries, which although still negative is showing an upward trend. On the negative side, concerns about the shadow banking system in China remain, along with the difficulties in pushing for further structural reforms that we have highlighted in most countries.

- Regarding profitability in EM, we observe some improvement in annual growth rates to 3.5% from -7% in early summer. Nevertheless uncertainty remains high. In Brazil we are at the beginning of the results announcement period (Bovespa Index for 16/67 companies) with positive signs for sales but quite negative for profits, in India (Sensex Index for 6/17) we observe positive surprises mainly in sales and in China (Shanghai New Composite for 580/936) there have been significant negative surprises both in profits and sales.

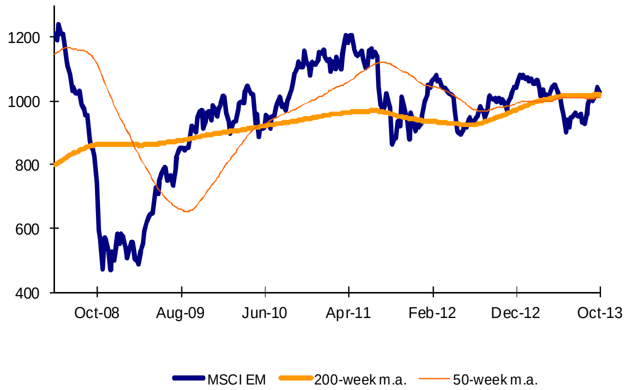
- Overall, we observe improvement in the technical picture of EM equities to positive, with the quantitative-fundamental picture remaining positive. Overall, the picture improves to positive.

EM MSCI Index & Fair Value



Source: Bloomberg, Piraeus Bank Research

MSCI EM Equity Index



Source: Bloomberg, Piraeus Bank Research

Bond Markets

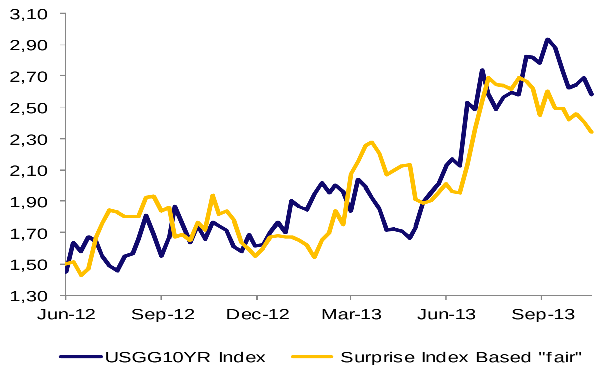
- The combination of mixed economic data and, more importantly, expectations of a significant delay in the withdrawal of the excess rate of monetary injections, along with the avoidance of the fiscal cliff risks (for now) have cancelled the downward trend in bond markets.

- So, last month US 10-year yields came in 9 bp lower, while in Germany they fell by 3 bp. From the end of June, although we observed significant fluctuations due to concerns about a policy change by the Fed (tapering), yields have remained pretty stable. Ten-year US yields are higher by 4bp while the 2-year ones are 5bp lower. In Germany, 10-year yields increased by 2bp while 2-year ones were unchanged. Finally, it is interesting to observe that US 10-year yields are 52bp lower than the high of September 6 (of 3%) while the German 10-year yields are down by 32bp (from the 2.1% of 11/9). Focusing our attention on the relationship of yields to fundamentals, we observe that according to our estimates of the correlation with indicators of economic surprises (Bloomberg & Citigroup) 10-year yields in both the US and Germany are still too high (by 30bp for the US and 20bp in Germany) which argues that the bond markets are still under the influence of concerns about the withdrawal of liquidity by the Fed (tapering).

- In a more detailed analysis of valuations by duration and geography, we observe the following: In the US the economic data from the previous quarter (especially the rise in inflation and the difference of money growth M2- M1) along with the decline in volatility in the equity markets would be consistent with a 50bp rise in the 2-year yields, while these developments combined with the fall in oil prices would support a decline of 8 bps in the 10-year ones. In a sense, the 9bp decline in 10-year yields that we witnessed last month was part of a correction to the fair value after the extreme peak of 3% in September.

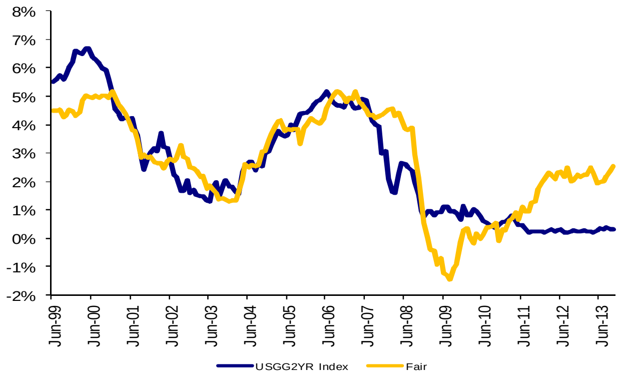
- As a result, two-year yields are now significantly undervalued (two-year bonds are very expensive), while 10-year bonds are relatively cheap (the yield curve is too steep). In conclusion, recent developments and valuations are, currently, running in favour of the bond markets and while there was a major distortion in the prices of short maturities, these are protected by the fact that the Fed is expected (market expectations) to leave interest rates unchanged until the middle of 2015 while, on the other hand, the relatively cheap valuation of long maturity bonds and the postponement of tapering would suggest a range trading environment rather than the continuation of the recent downward pressure on prices. In conclusion, the deterioration of the valuation of short maturities suggests a relative deterioration of the fundamental - quantitative picture overall but, on the other hand, we observe a significant reversal of the technical indicators from negative to positive. The overall picture in the US is improved to neutral with slight negative predisposition.

US 10 year Yield and Economic Surprises



Source: Bloomberg, Piraeus Bank Research

US 2 year Yield and Fair Value



Source: Bloomberg, Piraeus Bank Research

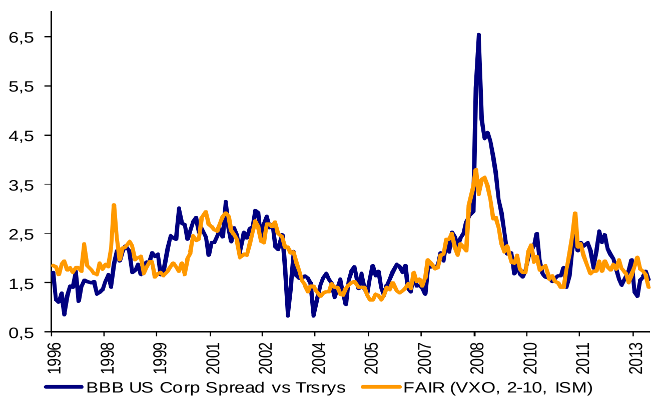
- In Germany, the downward trend in oil prices and the slowing rate of monetary growth M3 put significant pressure on the fair value of 2-year yields which outweighs (marginally) the upward pressures due to the rise of the IFO Index and the fall of equity volatility. As a result, during last quarter two-year bonds remained expensive but to a marginally lesser degree as fundamentals have caused a decline in the theoretical value. On the other hand, mainly because of the rise of the euro, we would expect mild upward pressure on 10-year yields (analogous to the one observed). Unlike in the US, 10-year yields remain relatively expensive (the curve is too flat). As a result, the quantitative - fundamental picture remains relatively unchanged (neutral with a negative predisposition), but here too the technical picture improved from neutral with negative to neutral with marginally positive predisposition.

- Corporate spreads remain low ($174 bp BBB in), below the historical average, but because of the most recent improvement in new orders vs. inveventories in the US and the positive outlook for corporate earnings along with low equity volatility, corporate bonds have become more attractive. Overall, we see improvement in the overall picture which remains neutral with a slight negative predisposition.

- In the European periphery, spreads vs Germany remain on a downward path (-35 bps in Italy, -67 bps, in Spain, -231 bp in Greece and -29 bp in Portugal). We have described in the past that not only has there been a significant decline in spreads against Germany (less than 3% for Italy and Spain) but since the spring of 2013 the negative correlation between German and regional bond markets has been lost. The movements of spreads are very small and the Italian and Spanish bonds trade now as "normal" bonds, ie they have positive correlation with German ones as the risk of "Eurozone Cohesion" does not seem to be valued in the markets. This development has partly to do with the combination of the untested OMT (direct bond purchases by the ECB), the LTRO's that allowed periphery banks to buy domestic bonds and a prolonged German election campaign.

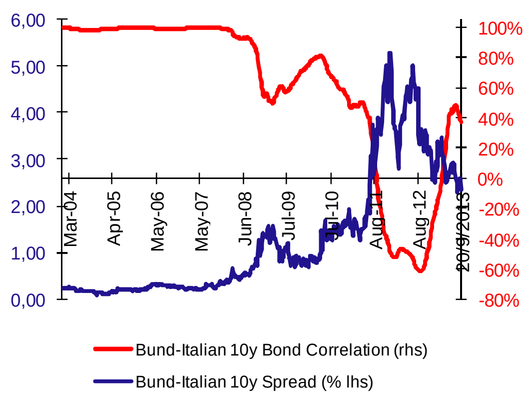
- We judge this disappearance of the European risk-premium as irrational and we believe that markets are ultimately seeking a substantial fiscal and banking integration with pooling of risks. In 2014 we expect the emergence of turbulence related to issues of European integration.

$BBB Spreads & Fair Value



Source: Bloomberg, Piraeus Bank Research

EMU Spreads: Back to Normal...



Source: Bloomberg, Piraeus Bank Research

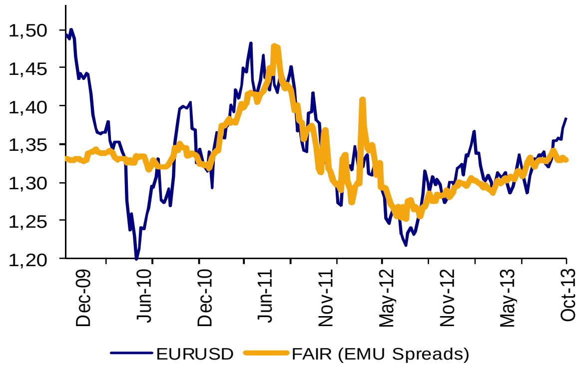
Forex

- In the currency market, the postponement of "tapering" in the US and the extension of fiscal uncertainty until the end of 2013, are particularly negative factors for the US dollar. In this context, the euro gained substantially: 1.9% during the last month and 6% since the end of the second quarter. It is interesting to note that the recent levels of the exchange rate are supported by improvements on the macroeconomic front such as the very high levels of trade surplus in the Eurozone and the continuing improvement in the annual rate of monetary growth M2 between the Eurozone and the US (from -8% on 30/12/2011 to -2.7%). These developments, at this stage, outweigh the US cyclical dynamics supremacy.

- However, current EURUSD levels are incompatible with respect to both the spreads of US Treasuries vs. Germany (which are consistent with a rate of around 1.3250) or even with the very tight spreads of the European periphery against Germany (which also suggest a value around 1.3200).

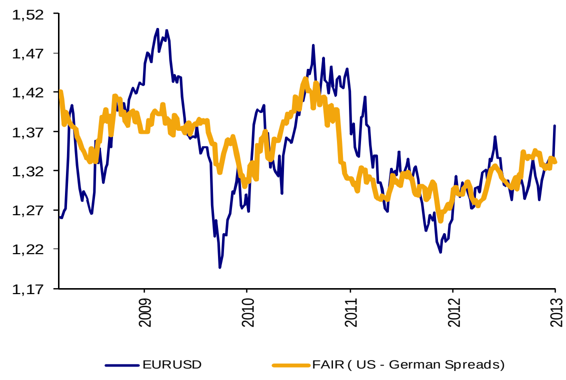
- Following the recent developments in the US (postponement of fiscal agreement and tapering), it is likely that the market has begun to incorporate a risk-premium in the price of the USD. This dynamic, along with the delays in forming a government in Germany (equivalent to an extension of the election "inertia" with respect to highly uncertain institutional proceedings), support a short-term upward trend in the euro which could ultimely reach the 1.40 area. In the long term, however, we expect that the Fed will eventually start monetary tightening (tapering) and political developments will lead to a more decisive resolution of the fiscal matters. Similarly, a restart of intra-EU talks on the issue of potentially deeper integration could cause a rise in spreads and pressures on the euro, with a negative effect on the dynamic of the recovery in the Eurozone. For these reasons, despite the fact that the fundamentals at this stage support the euro, in 2014 we expect, firstly, cyclical acceleration of the US in relation to the Eurozone and also a rise in the European risk-premium in relation to the US Thus, the fundamental picture remains neutral with a slightly negative predisposition. In parallel the technical picture remains positive. The overall picture remains neutral with a positive predisposition. For the next 1-3 months we expect movements within the range 1.33 to 1.40. On a six-month horizon, we expect corrective moves in the 1.2800 to 1.4000 area. Our 12-month target remains 1.30.

EURUSD & Eurozone Spreads



Source: Bloomberg, Piraeus Bank Research

EURUSD, German-US Spreads

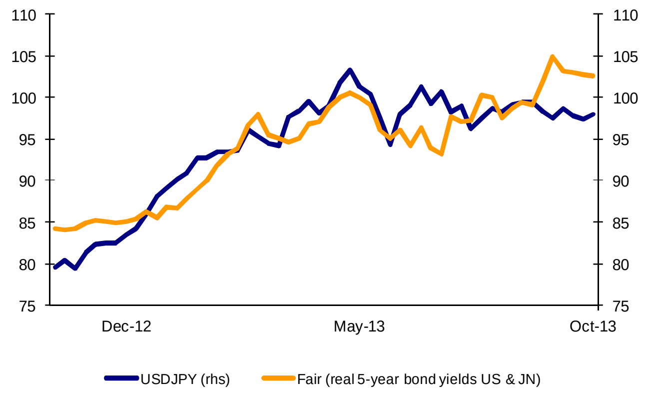


Source: Bloomberg, Piraeus Bank Research

- The Japanese yen also strengthened against the dollar, within the general context of the weakening of the US currency (0.5% in the last month and 1.7% since the end of the second quarter). At this stage, the market is mainly focused on developments in the US and there is an increased sensitivity to movements in US bond yields. Within this framework, the cross is likely to continue its downward trend into the 94.5 area. For lower levels than that, a significant increase in fluctuations in international markets and a corresponding increase in demand for the yen as a safe haven would be required. Still, these levels remain low compared with the recent co-variation of the exchange rate with real returns (5 year) of the two countries where during the last month, they have dropped by 9 bps in the US and have risen by 8 bps in Japan, causing a slight drop in the estimated value of the USDJPY to 103 from 105. We retain our 12-month target of 105.

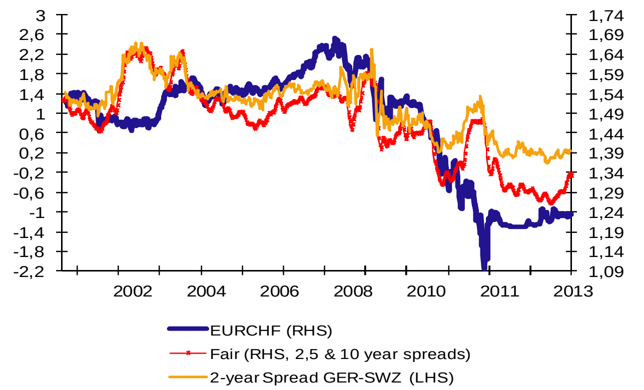
- The EURCHF rate rose last month by 0.89% last month and 0.46% since the end of the 2nd quarter. In Switzerland, beyond the significant positive surprise in retail sales and a mild slowdown in inflation, there have not been significant economic developments. A mild decline in fx reserves testifies to the fall in demand for the franc as a safe haven asset, as the risks on the European front appear, at this stage, reduced. Last quarter, positive surprises in the Eurozone and the general improvement in the investment climate have led to a widening of spreads between Germany and Switzerland (by 9 and 24 bps for 2 and 5-year maturities). Based on these spreads, we construct a "fair price" for the exchange rate, which during this period, remains higher with a value close to 1.34.

USDJPY & US-JP Real 5y Yields



Source: Bloomberg, Piraeus Bank Research

EURCHF & Germany-Switzerland Spreads



Source: Bloomberg, Piraeus Bank Research

Commodities

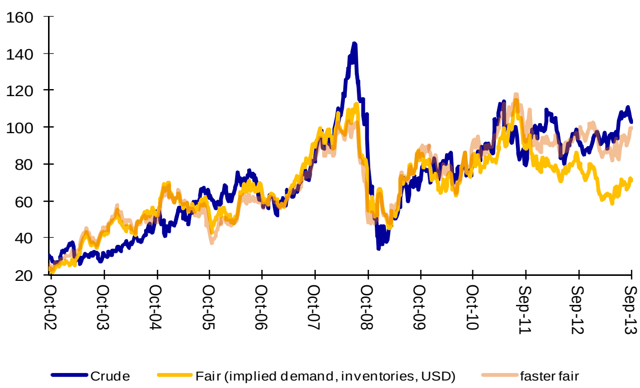
- Unlike in previous periods of excess liquidity commodities continue to under-perform other risky securities and the overall picture remains uncertain. Since the end of the second quarter, the equal weighted CCI index has risen 2.8% with pro-cyclical metals outperforming (7.4% for the LME Index) and the underperformance of agricultural commodities (2%). Oil also showed small gains (2%) while gold is 12% higher than the 1200 level at the end of June which was a three-year low. During the last month commodities did not appear to be able to follow equities higher with the CCI index marginally declining (-0.6%), crude oil falling by 4%, cyclical metals remaining essentially unchanged and gold gaining slightly by 1.7%. So, although we remain in a period of continued improvement in economic data, along with softer Fed policy that is supportive of commodities valuations, their technical picture remains negative. The deterioration in the technicals in the oil market, the very negative picture for precious metals and a correspondingly negative one of cyclical metals such as copper, are some of the reasons for this development. Despite positive economic data, the market is focused, at this stage, on the upward pressures on Chinese interbank rates and the concerns about an excessive reduction of liquidity in the effort to limit credit expansion in this country.

- In the oil market during last quarter, we have witnessed, on the one hand, significant support from the downward pressure on the dollar while, on the other, indications of increases in production alongside pressures on demand put pressure to our estimated price of oil. At this stage the 2% drop in the dollar (since late June) dominates, driving the price of crude marginally higher. We have to note at this stage that the accumulation of excess supply (relative to demand) since the beginning of 2012 along with the rise of a geopolitical premium continue to render oil expensive.

- We continue to witness a decline in the difference between the 12 and 1-month futures price from -$9 last month to -$6 (smaller backwardation) which could indicate a continued decline in the geopolitical risk premium. As a result, the quantitative - fundamental picture improved slightly but remained negative. However, the technical picture deteriorated to neutral. The overall picture is still only marginally negative.

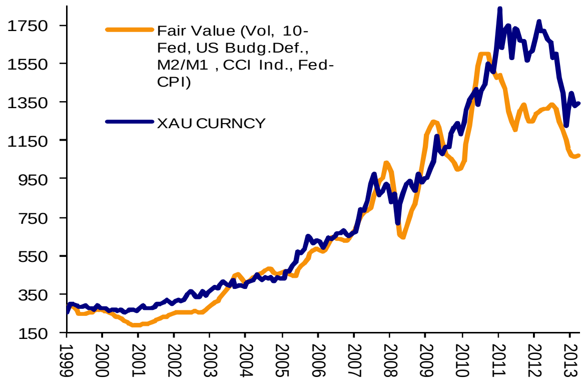
- Fundamentals do not provide support for the recent rise in the price of gold. So as the investment community remains overinvested, upward trends are quickly reversed as the market is focused on the eventual reduction of the monetary stimulus and not on its timing. Technicals and fundamentals remain negative.

Crude & Fair Value



Source: Bloomberg, Piraeus Bank Research

Gold & Fair Value



Source: Bloomberg, Piraeus Bank Research

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