Global Economic & Market Monthly Review: Commodities Under Pressure

ECONOMIC ANALYSIS & RESEARCH DIVISION

Executive Summary

April 2013

We estimate that the US growth rate accelerated during Q1 2013, to 2.5% from 0.4% (quarterly annualized). For the whole of 2013, the annual rate of growth of real GDP is projected to be similar to that of 2012 (2.2%). The risks to our estimates are on the upside mainly due to the positive impact of the (expected) further decline in the price of oil and raw materials.

We estimate that the Eurozone growth rate accelerated during Q1 2013, and according to our estimates, real GDP contracted marginally by 0.1% from -0.6% (quarterly rate). For the whole of 2013, the annual rate of contraction is projected to be similar to 2012 (-0.5%). Due to persistent political uncertainty, risks to our forecasts are on the downside.

The combination of the reorientation of China's economy, the increase of supply and the relatively strong dollar is causing pressure on the price of oil and other raw materials. We estimate that these pressures are of a long-term nature, resulting in the improvement of the growth/inflation outlook globally.

On the European front, *the positive momentum that began in the summer of 2012 is being maintained.* As a result, European values at current levels understate the (admittedly reduced) Eurozone cohesion risks. Trends towards relaxation of austerity policies, although beginning to be discounted, are difficult to assess given the German election campaign.

Besides our clearly negative stance for oil and other commodities in general, the overall picture for global markets remains neutral. We underline the positive technical picture for US stocks and German bonds as well as the negative one for emerging market equities.

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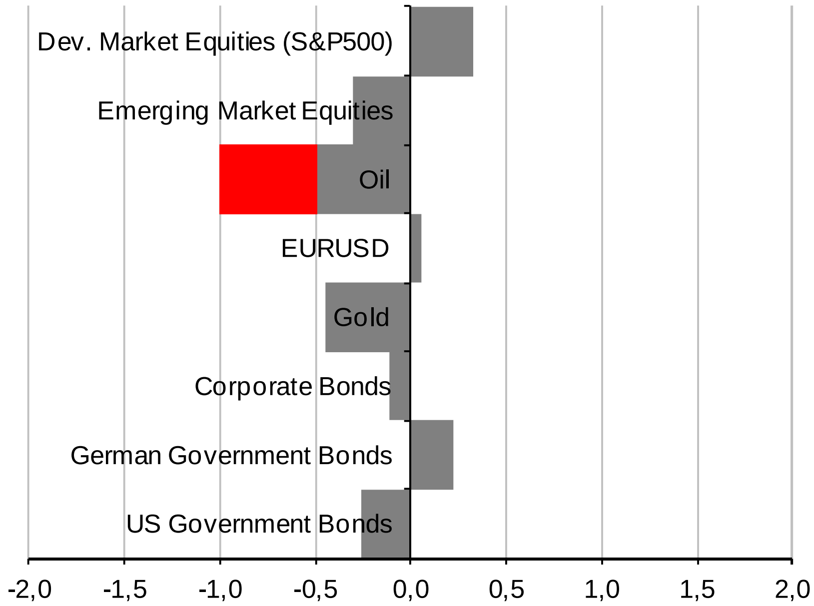
Global Market Risk-Return Scoring

(6-9 month horizon)

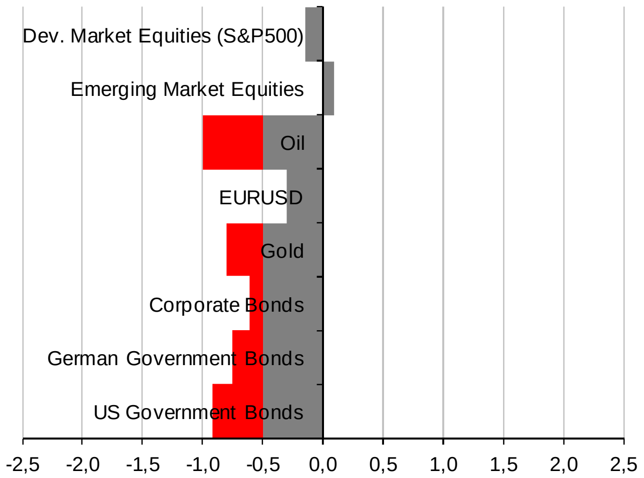


Scoring between -2.5 and 2.5, reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

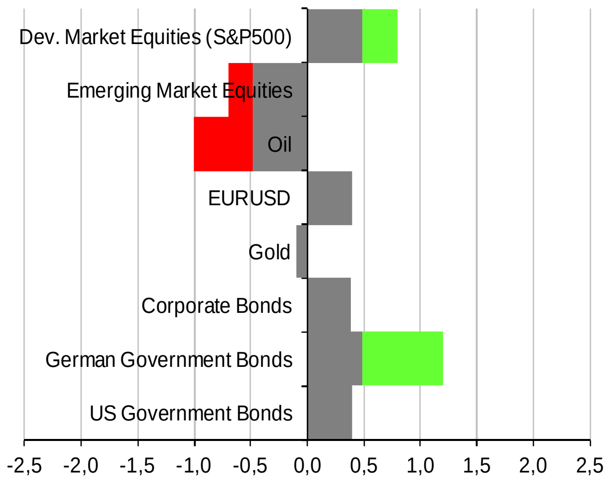
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

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 Picture



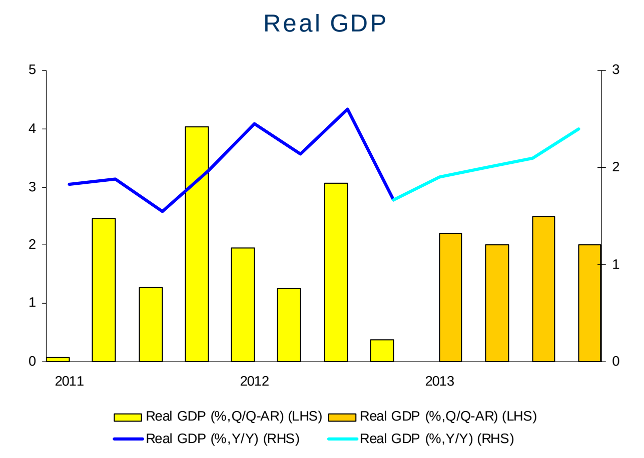
Fundamental & Quantitative Estimates: Deviations from long-term average value measures (e.g. P/E for stocks, nominal growth for bonds, ppp for fx) as quantified by estimated "fair values" using for each the appropriate market & economic fundamentals. Technical Picture: Standardized display of figures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

Economic Developments

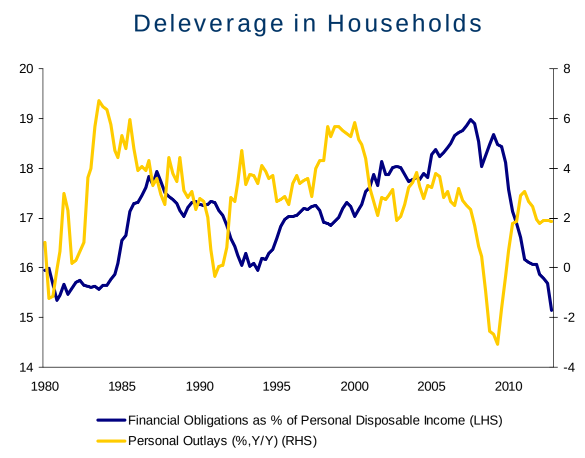
USA: Indications of Temporary Deceleration

- We estimate that the growth rate was much higher during the 1st quarter of 2013, as real GDP is estimated to have grown by 2.5% (Q/Q-AR) after the 0.4% recorded in the 4th quarter of 2012. In more detail, personal outlays accelerated, investment decelerated and public expenditure shrank at a lower rate. For the whole of 2013, the real GDP growth rate is projected to be 2.2%, the same as in 2012. Specifically, the growth rate in personal outlays will be the same; in investment it will be a bit higher, while public expenditure will shrink at a faster rate.

- The increasing credit expansion, low inflation rate, diminishing unemployment rate, increasing house prices, substantially low households' financial obligations ratio, and buoyant corporate profits, will all positively affect the US economy. On the other hand, uncertainty concerning the political dispute over the composition of deficit reduction measures, the continuing Euro area crisis and the BoJ's aggressive monetary policy will probably negatively affect the US economy. The most critical issue is whether the positive trend in private domestic demand will be resilient enough to counterbalance the consequences of the budget reduction measures.



Source: Bloomberg, Piraeus Bank Research



Source: Bloomberg, Piraeus Bank Research

- Falling international energy prices, coupled with moderate real domestic demand will result in an inflation rate of less than 2.0%. Additionally, the negative output gap, reflected by the high unemployment rate will result in a core inflation rate lower than 2.0% - 2.5%. Moreover, the unemployment rate is expected to stay above 7.0%. Therefore, the Fed will maintain its policy rate at its current level (0.25%) and will continue its quantitative easing programme at its current pace. When it appears to be possible that the unemployment rate will fall below 7.0%, the Fed will probably reduce the pace, signalling the beginning of its unwinding process.

- Undoubtedly, the monetary policy exercise will be more exacting in an environment characterized by domestic fiscal tightening, challenging external developments (the Euro area crisis, the BoJ's aggressive monetary policy and domestic consumption oriented China). Monetary policy should carefully support the recovery process of the economy and improvement in the labour market.

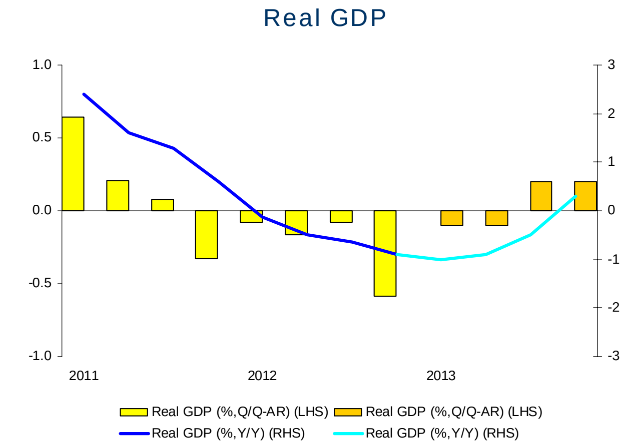
USA: Macroeconomic Projections

	2012/Q1	2012/Q2	2012/Q3	2012/Q4	2013/Q1	2013/Q2	2013/Q3	2013/Q4	2012	2013
				Q/Q-AR(%)					Y/Y(%)	
Real GDP	2.5	1.3	3.1	0.4	2.2	2.0	2.5	2.0	2.2	2.2
Personal Outlays	2.4	1.5	1.6	1.8	2.5	1.5	2.0	2.0	1.9	1.9
Investment	9.9	4.5	0.9	14.0	10	10	15	10	8.5	9.5
Public Expenditure	-3	-0.7	3.9	-7	-1	-2	-3	-3	-1.5	-2.5
Exports	4.4	5.3	1.9	-2.9	3	5	5	3	3.5	3
Imports	3.1	2.8	-0.6	-4.2	5	5	5	3	2.5	3
Business Inventories (Contribution)	-0.4	-0.5	0.7	-1.5	0.5	0.5	0.5	-1		
Inflation Rate	2.8	1.9	1.7	1.9	1.7	1.7	1.9	1.9	2.1	1.8
Unemployment rate	8.3	8.2	8.0	7.8	7.7	7.5	7.3	7.3	8.1	7.5
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	2.2	1.6	1.6	1.75	1.85	1.6	1.9	2.3	1.75	2.3
EUR/USD	1.34	1.27	1.29	1.32	1.28	1.29	1.27	1.23	1.32	1.23

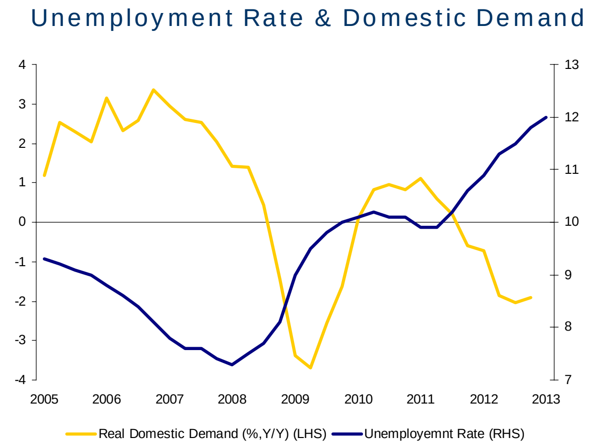
Eurozone: Marginal Improvements-Political Uncertainty

- We estimate that the fall in the growth rate was much smaller during the 1st quarter of 2013, as real GDP is projected to have contracted by 0.1% (Q/Q) after the 0.6% of the 4th quarter of 2012. In more detail, private consumption and investment posted lower rates of decrease, while the net export contribution was positive. For the whole of 2013, the real GDP contraction rate is projected to be 0.5%, the same as in 2012. Specifically, private consumption and investment will fall at a slower rate, while the positive net export contribution will be smaller.

- Falling international energy prices coupled with shrinking real domestic demand, will result in an inflation rate of less than 2.0%. Furthermore, the significant negative output gap, reflected by the intolerably high unemployment rate will result in a core inflation rate lower than 2.0%. Moreover, the unemployment rate is expected to remain above 12.0%, as a consequence of the continuing fiscal tightening. Therefore, the ECB is expected to reduce its policy rate by 25bps to 0.50%. We should note that the probability of this decision being taken by the end of the 2nd quarter of 2013 has risen considerably.



Source: Bloomberg, Datastream, Piraeus Bank Research



Source: Bloomberg, Datastream, Piraeus Bank Research

- The decision on Outright Monetary Transactions made by the ECB, the beginning of the operation of the Stability Mechanism, the successful reduction of Greek debt via the buyback procedure and the agreement on the Single Supervisory Mechanism enhance the long term viability of the Economic and Monetary Union, reflected by the remarkable fall in the yields of Italian and Spanish sovereign bonds.

- On the other hand, the uncertain political environment in Italy, the resolution chosen for Cyprus and the high debt to GDP ratio in several Euro area members undermine the long-term viability of the EMU. Moreover, the soaring NPL ratios in the peripheral banks are leading to the increasing capital needs and subdued credit expansion, sapping the prospects for the real economy.

- Therefore, the operation of the Single Resolution Mechanism and Single Deposit Insurance Fund has become even more important, especially after the resolution chosen for Cyprus. Additionally, the potential for the Stability Mechanism to directly recapitalize the problematic banks would be immediately helpful. Undoubtedly, political will constitutes the most critical factor for these decisions to be taken.

Eurozone: Macroeconomic Projections

	2012/Q1	2012/Q2	2012/Q3	2012/Q4	2013/Q1	2013/Q2	2013/Q3	2013/Q4	2012	2013
				Q/Q(%)					Y/Y(%)	
Real GDP	-0.1	-0.2	-0.1	-0.6	-0.1	-0.1	0.2	0.2	-0.5	-0.5
Private Consumption	-0.2	-0.5	-0.2	-0.5	-0.2	-0.1	0.1	0.2	-1.1	-0.7
Investment	-1.4	-1.6	-0.8	-1.1	-0.5	-0.5	0.0	0.5	-3.9	-2.5
Public Consumption	-0.1	-0.3	-0.1	0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.3
Exports	0.5	1.7	0.9	-0.8	0.5	0.5	0.9	0.5	3	2
Imports	-0.4	0.6	0.1	-0.9	0.3	0.3	0.5	0.3	-1	0.5
Business Inventories (Contribution)	-0.1	0.1	-0.3	-0.1	-0.1	-0.1	0.3	-0.2		
Inflation Rate	2.7	2.5	2.5	2.3	1.8	1.6	1.6	1.8	2.5	1.7
Unemployment Rate	10.9	11.3	11.5	11.8	12.0	12.2	12.3	12.4	11.3	12.2
ECB-Policy Rate	1.00	1.00	0.75	0.75	0.75	0.50/0.75	0.50	0.50	0.75	0.50
10Y Bund Yield	1.79	1.59	1.44	1.32	1.85	1.6	1.9	2.3	1.32	2.3

Japan

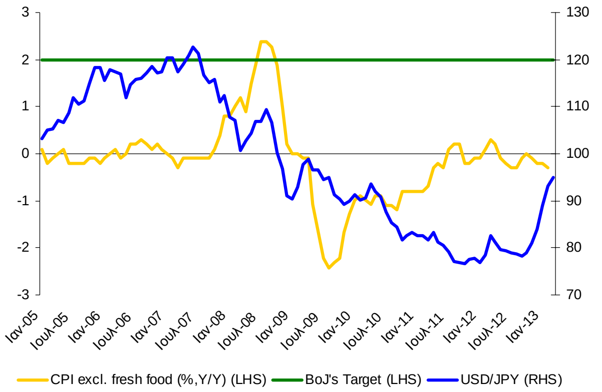
- We estimate that the growth rate will slow to 1.3% during 2013, from 2.0% in 2012. This latter figure was the result of a positive base effect, in comparison with 2011, when the economy was shaken by disasters (earthquake, tsunami, nuclear plant accidents). The positive contribution from real domestic demand is expected to fall, while there will be improvement in the net exports contribution. The new target set by the new BoJ president (and supported by the new government) for an inflation rate of 2.0%, to be reached within the next two years and maintained at this level, via the vast increase in the balance sheet size, will be the main factor determining the development of the economy.

- The most likely result of the BoJ's actions will be JPY depreciation, making exports more competitive and imports more expensive (especially if we take into consideration the great need for energy imports, after the nuclear plants shutdown). We believe that the 2.0% inflation target can be difficultly achieved, albeit with difficulty, due to falling international energy prices and the low growth rate in the wages of the Japanese workers. At the same time, the high deficit level (9% - 10% of nominal GDP) is expected to persist during this year and the next. In combination with the very high level of debt to GDP, it increases the risk of rising sovereign yields, especially if the current account surplus turns out to be unsustainable.

China

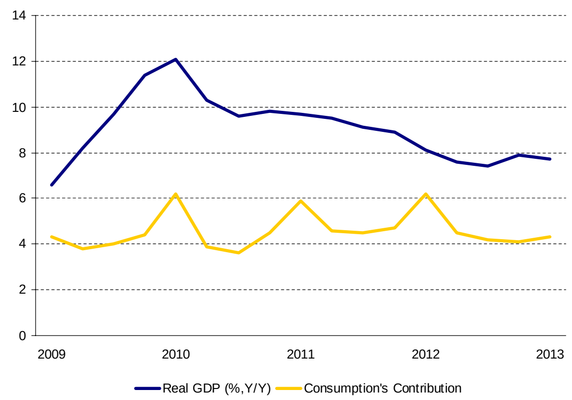
- We estimate that the real GDP growth rate in 2013 will be marginally lower than 8.0% (at 7.9% or 7.8%), after the release of the 1st quarter figure of 7.7%. Additionally, the released industrial production data showed a deceleration in the annual growth rate. The new target for a greater contribution from domestic consumption will be the main factor during the next few years determining the development of China's economy, causing new challenges for the global economy and markets. We estimate that the real GDP growth rate will mostly oscillate between 7.5% and 8.0% during the forthcoming economic transition period.

Japan: Inflation rate & USD/JPY Exchange Rate



Source: Bloomberg, Piraeus Bank Research

China: Contribution of Consumption to GDP



Source: Bloomberg, Piraeus Bank Research

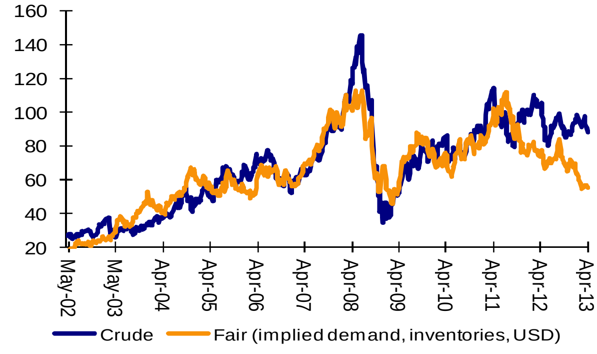
Global Markets

Commodities Under Pressure, a Positive for Developed Markets

- Despite the deterioration in economic conditions globally, the investment climate remains mostly positive. However, the asymmetries that we detected some time ago (positive developed market equities, negative emerging and commodities) remain. In the US (and Japan) mainly, the combination of quantitative easing policies with the positive surprises in US corporate profitability support the strong positive trend in the these countries' equity markets, while the uncertainty over Chinese growth and the apparent excess supply of many commodities, is resulting in a weak emerging market equity and commodity picture. In the Eurozone, activity remains muted and the current positive trend is still, for the time being, being maintained.

- At this point commodity markets are entering, and are expected to remain in, the spotlight. As we mentioned last month, we have noticed a significant divergence in the price of oil in relation to the existing oversupply created by the combination of increased production in the US and weak demand from China, but also by the relatively strong dollar. The market has begun to focus on these factors, resulting in pressures on oil prices that are expected to persist in the longer term and lead to a new lower equilibrium level in its price and also in the price of other raw materials, for similar reasons (China, oversupply and dollar). This decline appears to be structural in nature and possibly related to the effort to redirect the Chinese economy (from exports & investment to consumer-driven). Parallel developments are observed in other primarily cyclical commodities used as raw materials in the production process. This decline is expected to have a positive impact on the world economy (starting from developed countries) and reduce costs with a positive impact on expected growth and a negative impact on inflation. The recent sharp fall in the gold price is probably related to a downward shift in long-term inflation expectations, as the oversupply of many raw materials appears at this stage to offset concerns about the inflationary impact of quantitative easing policies.

Crude Oil & Fair Price



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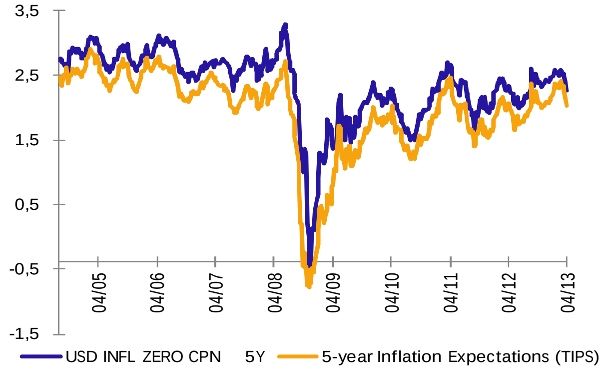
Source: Bloomberg, Piraeus Bank Research

Inflation Expectations



Source: Bloomberg, Piraeus Bank Research

- **Indeed, we have recently observed a downward movement in inflation expectations.** Regarding ten-year US inflation-protected bonds, we have observed a decline in expected inflation from 2.6% in mid-May to 2.3% recently and the trend is likely to remain bearish. For 5-year maturities, the decline is more pronounced (from 2.4% to 2.00%). These pressures are not as strong as on other occasions in the past, but given the developments described, we are likely to enter a period of falling inflation expectations in the medium term. Indeed, in developed countries, we have seen a fall in inflation (in the US the annual rate of producer price inflation is at 1.1% while the consumer rate is 1.5%). Of course, in the longer term, potential inflation risks remain as a result of quantitative easing policies pursued by developed economies.

- **One could reasonably argue that the weakness of commodity markets probably presages a global economic slowdown.** Given the highly volatile global economic backdrop, we cannot ignore this possibility. At this stage, however, taking into account the ongoing shift in the Chinese economy, which is causing an expected economic slowdown, we operate under the asumption that there will be a rationalization of commodity markets, which, because of excess US liquidity and the long-term inflationary concerns it has created, continues to operate at a "premium" compared with other values associated with global growth development (eg stocks in emerging countries and in particular China). It is likely, therefore, that due to rising supplies (eg oil, copper), we are entering a period of declining prices of raw materials, which will have a positive impact on the global economy and (developed economy mainly) equity markets.

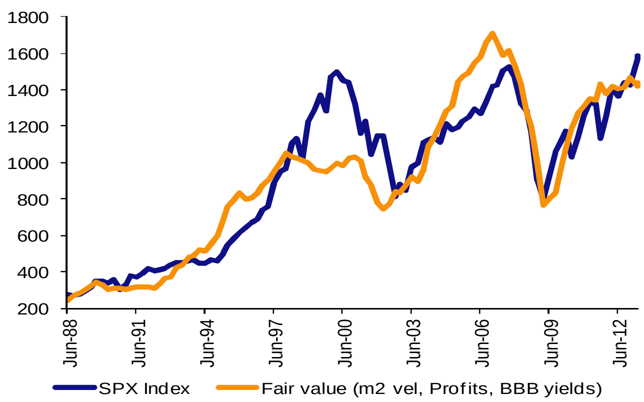
- **As far as growth worries are concerned**, our main scenario does not support a further deterioration in the U.S economic data. In the Eurozone the momentum is negative, but probably discounted by markets, as negative surprises do not seem to move prices accordingly (mainly German bonds and the euro.) The main source of uncertainty remains the European political situation. There inertia prevails, while markets maintain a wait-and-see stance, but at levels that still price in a positive scenario. Thus, the EURUSD rate remains above 1.30 and yields of Italian and Spanish bonds are at very low levels (4% and 4.3% respectively, with the German at 1.23%). At the same time we observe a marginal shift in rhetoric away from the theme of austerity and fiscal tightening, both at the political level (Barozo & Moscovici statements), but also at the scientific one, given the issue of the underestimation of the “fiscal multiplier” by the IMF and the discovery of errors in a research paper by Rheinhard & Rogoff which provided a scientific justification for the ongoing austerity policies. Although most of these policies remain more or less effective (especially given the prospect of the German elections), lately this stream of announcements has effectively increased the likelihood of a less strict budgetary framework in the Eurozone. This change is beginning to affect the markets, where we notice that negative economic data in the periphery lead to falls, rather than rises, in spreads as markets now assume that a deterioration in the economic landscape increases the likelihood of a relaxation of the austerity policies. Even if we take into account such a positive development, we continue to believe that current price levels underestimate the current Eurozone cohesion risks and, as we have mentioned, the upcoming German elections could be the reason for a deceptive calm and a misinterpretation of any new trends that might be trying to emerge…

Equity Markets

- The S&P500 index is starting to show marginal signs of overvaluation. So apart from the fact that the P / E ratio has increased to 15.3 from 14.4 since 12/2012, the 10% increase in the price starts to render the index overvalued (marginally) according to the statistical model we use, where in addition to business profitability, we include the BBB cost of borrowing and the velocity of M2 (Money Supply M2 ratio to nominal GDP). According to this, the rise in corporate profitability of 1.3% made a positive contribution to fair value of 1.2%, the reduction in the cost of borrowing of 0.09% made a positive contribution of 0.68%, while the fall in the velocity of money of 3.4% made a negative contribution of 3.9%. All these factors would argue for a drop in the S&P500 of -2.1%, rendering the index overvalued by 8.6%. A return to a more normal monetary policy, where monetary growth will translate into economic growth, could lead to an increase in money velocity, with positive consequences for equities. Moreover, during the recent period of announcements of corporate results, from the 111 companies that have announced 71% have surprised positively (by 4% compared to expectations), while, according to consensus estimates, profitability is expected to increase by 8.6% by the end of the year (Bloomberg), and for 2014, it is expected to increase by 11%. These estimates will probably prove to be relatively optimistic given our view of the dynamics of US economic growth.

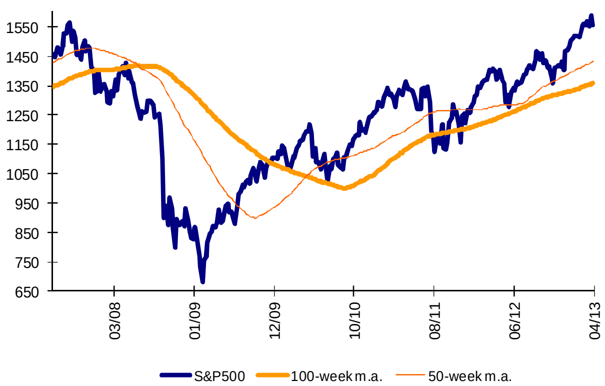
- On the positive side, we believe that following recent disappointments, the weight of probability suggests a positive surprise on macroeconomic announcements in the US. At the same time, recent pressures on the price of raw materials (especially gold) with concomitant declines in inflationary expectations is particularly welcome for equity markets (mainly in developed countries) and, at this stage at least, could mark the beginning of return to an equilibrium that can be described by more "normal" correlations between different markets. For example, the Fed's policies and the excess liquidity that they have created, have been instrumental in creating a positive correlation between the S&P500 and the price of gold, mainly from 2010 onwards, while the correlation was negative during the 1990-2008 period. We believe that a return to negative correlations is a positive development, which is recorded in our quantitative measurements with respect to the future course of the S&P500. All these factors suggest an improving fundamental picture relative to the previous month, though one that still remains neutral with a negative predisposition. At the same time, however, the technical picture remains significantly positive. The overall view, for the S&P500 remains neutral (with a positive predisposition).

S&P500 & Fair Price



Source: Bloomberg, Piraeus Bank Research

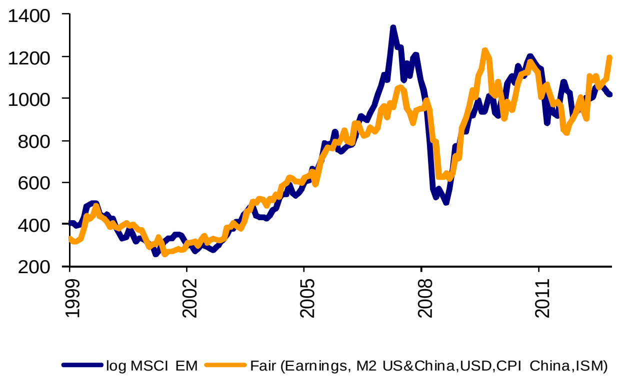
S&P500



Source: Bloomberg, Piraeus Bank Research

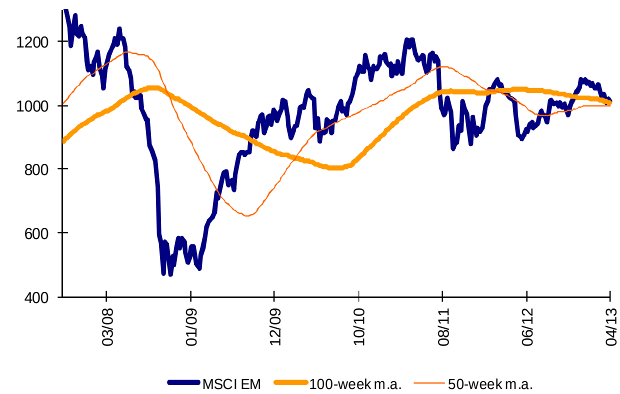
- In emerging countries there has been a relative deterioration as inflationary pressures have outpaced industrial production in India and Brazil. This has driven the overall industrial output-inflation relationship for the BRICs deeper into negative territory. This factor has a positive co-variation with equity markets of emerging countries as a whole. At the same time, uncertainty about the economic re-orientation and growth in China is another negative factor, while pressures on commodities are an additional setback for raw-material exporting countries (Russia, Brazil). On the other hand, the downward profitability trend not only remains (-4.7% yoy), but has deteriorated after a brief summer respite (-5% since the beginning of the year). In the ongoing period of corporate announcements, we have observed a significant negative surprise in Chinese profitability (in 75% compared to the expected 55% of the companies that have reported), while in Brazil and India, although we are at the beginning of the announcement period, the first signs are negative. In terms of valuations, the MSCI EM Index price-earnings ratio has decreased to 11.9, which is relatively cheap. Moreover, as we have mentioned in the past, other factors beyond profitability, like monetary conditions and inflation in China and the US, show the emerging market stocks undervalued by 18%, mainly because of the decline in Chinese inflation over the last two years suggesting future monetary easing. At this stage, while the fundamental picture remains neutral with marginally positive predisposition, the technical one appears purely negative, partly due to the negative trend in commodities. Overall, the picture has deteriorated to neutral with a negative predisposition.

MSCI Emerging Markets & Fair Price



Source: Bloomberg, Piraeus Bank Research

MSCI Emerging Market Index



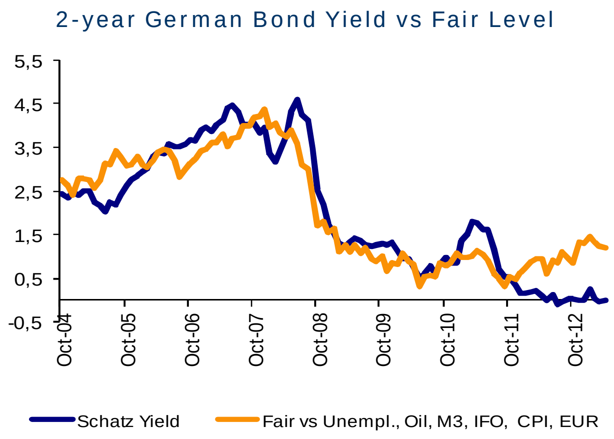
Source: Bloomberg, Piraeus Bank Research

Bond Markets

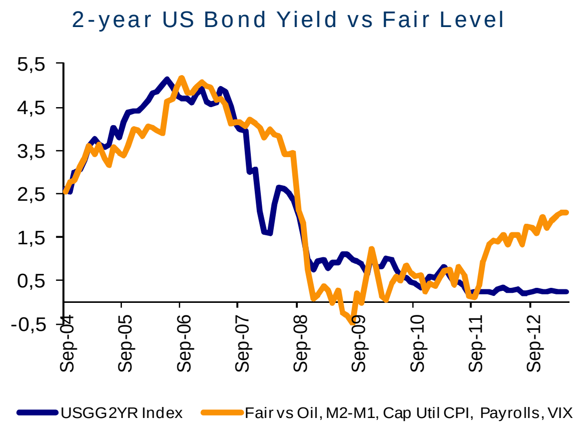
- The negative economic surprises in recent months have put bond markets back on an upward trajectory. So last month the 10-year yields in the US were 14 bps lower while the corresponding German ones were down 5.6 bps. In Germany, the decline in the IFO index, the fall in oil prices (lower inflation) and the slowdown in monetary growth M3 would be consistent with lower yields, while in the US, the fall in oil prices (stronger growth), the rise of capacity utilization and faster growth of M2 over M1 could allow upward pressures to prevail (in our estimates to calculate a fair value) over the downward ones due to the decline in inflation and a slowdown in payrolls. Overall yields remain very low in both the US and Germany. In the US, this is due to direct purchases from the Fed, and in the Germany it is because of the need for safe havens that the Eurozone crisis creates and, more recently, because of the prospect of interest rate cuts by the ECB.

- Thus, for example, given that two-year yields in Germany are near 0%, the fair 10-year yield would be relatively close to the current level (around 1.5% instead of 1.2%). A shift to the two-year fair value of 1.30% would drive 10-year yields to 2.5%. In the US, with two-year yields at current levels (0.22%), 10-year ones at 1.7% trade 30bp below the fair price. Unusual situations in the US have created significant deviation of the 2-year yield from its fair value of 2.1%. Thus a convergence towards that area could pressure 10-year yields up towards 3.4%. These calculations indicate the size of the overvaluation of bond markets and the expected pressures that could arise during a presumed normalization of monetary policy. At this stage, however, the prospect of such normalization seems distant and the technical picture remains strongly positive for German bonds and improved in the USA (from neutral to marginally positive). The overall picture is neutral.

- Corporate spreads remain low ($BBB at 172 bps) lower than the historical average, but at levels that are justified by both corporate profitability and the volatility (which remains though at very low levels). The overall picture for corporate bonds remains neutral in relation to sovereigns (with a marginal negative predisposition due to the low level in relation to the long-term average).



Source: Bloomberg, Piraeus Bank Research



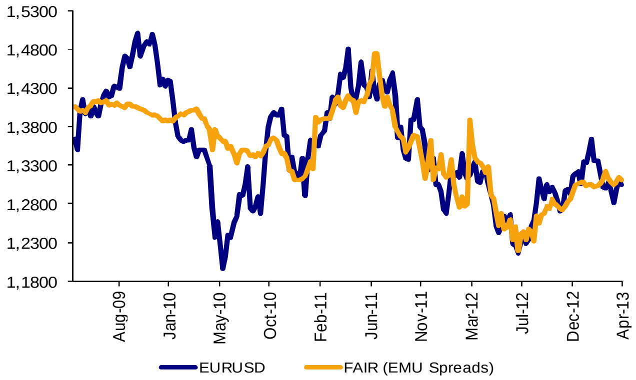
Source: Bloomberg, Piraeus Bank Research

FX

- The EURUSD strengthened last month by about 1.7%. The combination of negative surprises in the US economic data with the further decline in the borrowing costs of Italy and Spain (as indications of an easing of the Eurozone crisis), along with the still high Eurozone trade surplus provided significant impetus to the common European currency. On the negative side, the significant pressure on the price of gold, to the extent that it was associated with declining inflationary expectations for the US economy, could be a precursor of future USD strength. At this stage the cross appears fairly valued in relation to the Eurozone risks (as indicated by the regional spreads) and expensive in relation to the cyclical comparison between the Eurozone and the US as well as with respect to the bond yields differentials between the US and Germany.

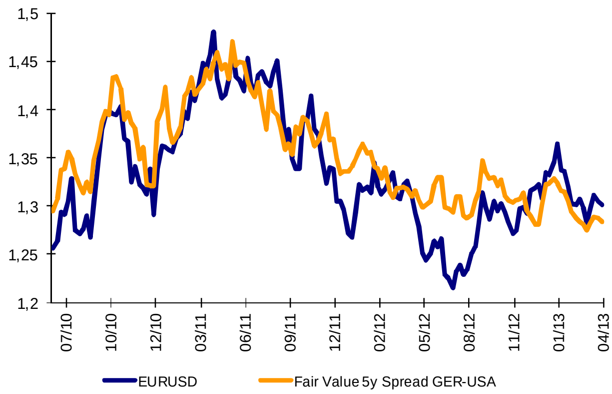
- Although, at this point, on average, the exchange rate is more or less fairly valued (neutral with a negative predisposition in fundamental-quantitative terms), and while the technical picture is neutral with a positive disposition, in the future risks are tilted towards the downside. On the one hand, we expect the current deterioration in the US macroeconomic data will prove transient, causing downward pressure on spreads between Germany and the USA. On the other hand, we believe that the downward pressures on Eurozone periphery borrowing costs after the summer of 2012 exaggerate the progress that has actually been made in terms of European cohesion and going forward, a widening of spreads is more likely than a further compression. At the same time, we anticipate the establishment of a downward trend in the price of gold (reflecting a general increase in confidence in the US dollar) while the currently relatively strong euro combined with a marginal recovery in consumption in the Eurozone could lead to a partial decline of the European trade surplus. Over the next 1-3 months we expect variation within the range from 1.2850 to 1.33. On a six-month horizon we expect a 1.2300 to 1.3400 zone. Our 12-month target remains at 1.26.

EURUSD & EZ Spread-based Fair Value



Source: Bloomberg, Piraeus Bank Research

EURUSD & 5-year GER-US Spread-based Fair Value

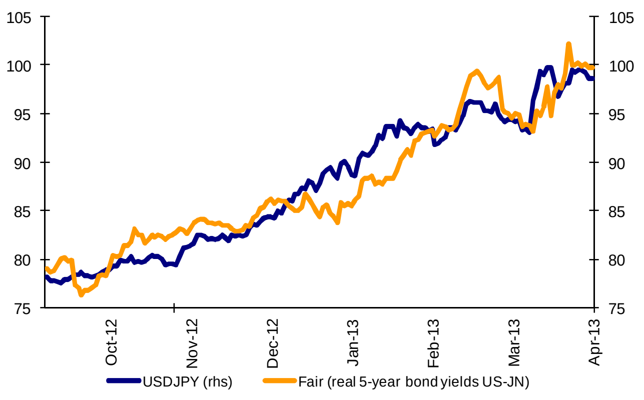


Source: Bloomberg, Piraeus Bank Research

- The USDJPY exchange rate remained under upward pressure last month (+5.5%), mainly because of the statements of the central bank regarding intensifying bond purchases within the newly announced QE programme. As US data appear to disappoint the cross has been unable to charge over the 100 mark. During this period US-Japanese 5-year spreads shrunk (by 30 bps from the high of March), while there was a greater reduction in the US-Japanese expected inflation differential, by 44 bps according to five-year inflation-protected bonds, resulting in a rise of the US-Japan real spread. Overall we observe that the USDJPY cross continues to move according to the impact that macroeconomic data and political developments have on real yields. Given that we expect a decline in US inflation expectations, along with a rise in bond yields, an upward break of 100 to 109 is considered probable. In the long term, concerns about the possibility of achieving the inflation target of 2%, the potential reopening of nuclear power plants, a fall in oil prices (reduction of payments for energy) and potential bursts of volatility that increase demand for safe havens, are expected to exert downward pressure on the exchange rate. We retain our 12-month target of 89.

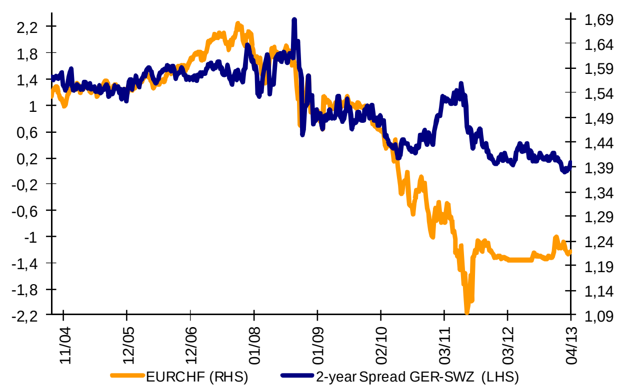
- The EURCHF pair reacted upwards towards 1.23 alongside the recent rise in the EURUSD and the downward pressure on borrowing costs in Eurozone peripheral countries. Swiss economic data maintained some of the recent signs of improvement, such as an acceleration of the annual monetary (M3) expansion by 9.9% and of retail sales to 2.4% per annum. On the other hand, a fall in inflation from 0.1% to -0.3% as well as a slowdown in industrial production to 1.7% per year from 2.5% underline existing risks. The rate remains very low compared to the relevant data both in the Eurozone and in Switzerland as well the respective bond yield differentials. Therefore, the possibility of lifting the minimum exchange rate of 1.20 in EURCHF remains very low. On the other hand foreign exchange reserves grew marginally to 438 billion in March from 429 billion probably because of the Cyprus crisis.

USDJPY & Fair based on 5-year real spread US-JPN



Source: Bloomberg, Piraeus Bank Research

EURCHF-2year German-Swiss Spread



Source: Bloomberg, Piraeus Bank Research

Commodities

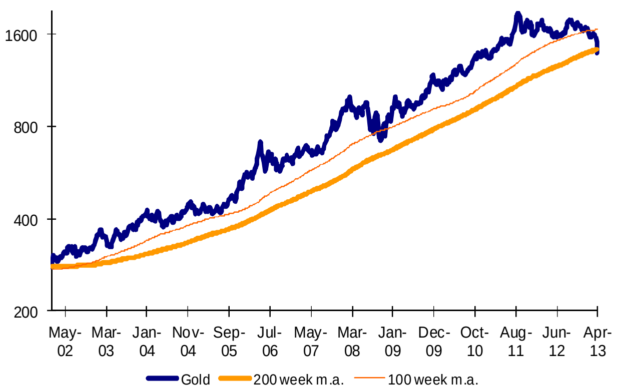
- As mentioned in the general comments about markets, (cyclical) commodities are likely to enter a period of structural weakness given a) the ongoing shift of the Chinese economy to a consumption model that promotes services and not manufacturing, b) increased supply, and c) the passing of the peak effect of excess liquidity generated by various quantitative easing policies. In parallel the technical picture starts to appear negative (CCI Index) as well. Last month the CCI index declined (-3.5%), with the cyclical metals falling (London Metal Exchange Index -6%) and precious metals also came under significant pressure. Despite the fact that they have partially recovered after recent pressures, they remain significantly lower than one month ago (-9.5% gold, -18% silver, platinum -8.5%). Significant pressures were also observed on the price of oil (crude -5%) which is now trading around $91 after correcting close to $86 in mid-April. Milder pressures were exerted on agricultural commodities (-2%), while the trend in natural gas remains upward (3% for the month).

- In the oil market most determining factors appeared negative. So apart from the weak economic data in the US and China, demand appeared negative, the dollar was stronger (in trade-weighted terms), while there was a significant rise in production. These factors pushed our fair price of oil downwards, thus maintaining the long-term appreciation that we have highlighted at very high levels. Thus, even in a relatively better cyclical macroeconomic environment, we believe that the size of the overvaluation is such that the pressures are expected to continue in the long term. In the meantime, we note a significant deterioration of the technical picture. The overall view remains negative. As we first pointed out some time ago, the gold price remains significantly overvalued even if we take into account supporting factors such as the US deficits, monetary expansion and negative real interest rates. Until recently, however, investor sentiment was high along with demand, maintaining a strong upward trend, which, despite the size of the overvaluation we calculated, advocated a generally neutral stance. The recently observed decline, as it was very sharp, has not yet reversed the long-term trend of gold and the technical picture remains neutral with a slight negative predisposition. It is likely in the coming weeks that the upward reaction that has already begun (+9.8 % from the lows of 1323) will be maintained. On the other hand, due to the recent correction, the size of the overvaluation has declined somewhat. Over time we expect that pressures on the price of oil and other raw materials will lead to further increases in real interest rates, resulting in a negative picture for the price of gold.

Crude Oil

Source: Bloomberg, Piraeus Bank Research

Gold



Source: Bloomberg, Piraeus Bank Research

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