10/9/2013

Global Economic & Market Monthly Review: Syria, QE, German Elections

ECONOMIC ANALYSIS & RESEARCH DIVISION

Executive Summary

The manufacturing sector in the U.S. surprised positively and data for new orders, sales and inventory advocate the preservation of these new higher activity levels, which could indicate an acceleration of growth and corporate profitability in the U.S. and the rest of the world.

The Eurozone is likely to have entered a stage of more meaningful improvements in economic data. Thus, in manufacturing the rise in the PMI index over 50 might suggest the end of the recent recessionary forces. Risks are focused, on whether potential political obstacles to the efforts for a deeper European integration, cancel recent improvements in business sentiment.

A lower pace of liquidity injection from the FED, that is a result of growth improvements, should result in a gradual convergence to a higher volatility level resulting in a temporary only increase in market pressures. We could be at the beginning of such an adjustment that could be magnified as geopolitical risks escalate and Eurozone ones resurface. In the longer term, healthy economic growth should result in the maintenance of the upward trend of risky securities with parallel pressures in bonds of mainly lower duration. Risks are concentrated in an overshooting and stabilizing of oil (crude) above $110 which would amount to a stagflationary shock and also in an excessive increase in U.S. long-term interest rates.

The sharp rise in long-term yields, without a corresponding increase in profitability or in the velocity of circulation of money, renders the S&P500 expensive. At the same time, the index remains significantly higher than the level implied by its co- variation with other international markets. The technical picture however remains positive. Emerging market shares have become cheap but their technical picture has deteriorated significantly. The overall picture for equities has deteriorated to neutral with a negative predisposition.

The EURUSD economic fundamentals have improved, but risks of peripheral spreads widening and the general uncertainty surrounding the issue of closer European integration remain. Geopolitical concerns have made the oil price unreasonably high, but the technical picture remains positive. The overall outlook for gold remains negative. In bond markets, longer durations in the U.S. are considered cheap compared to shorter ones, while the overall picture is negative for American and neutral for German bonds.

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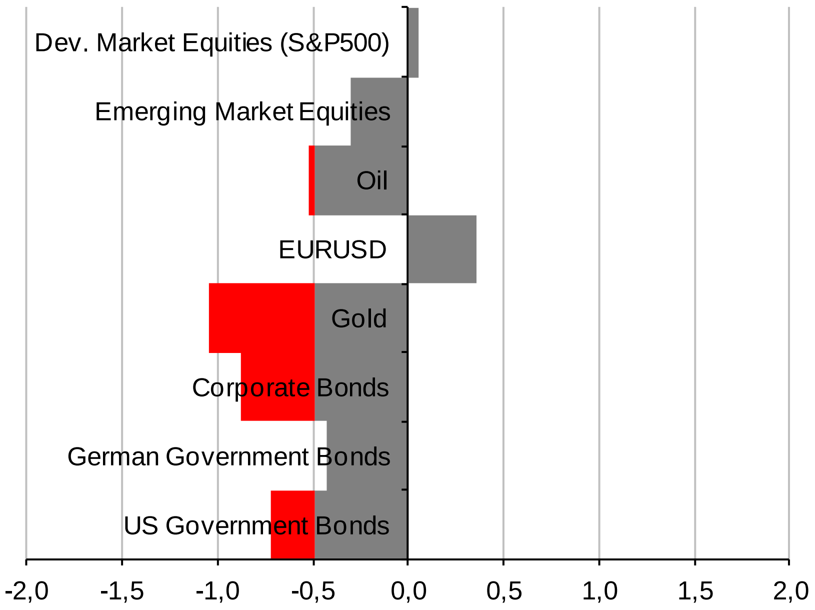
Global Market Risk-Return Scoring

(6-9 month horizon)

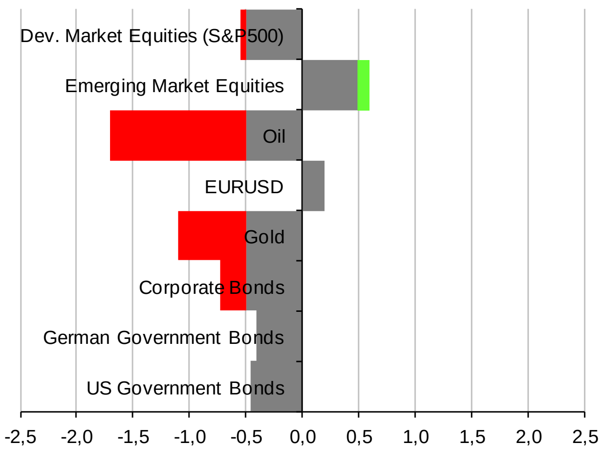


Scoring between -2.5 and 2.5 reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

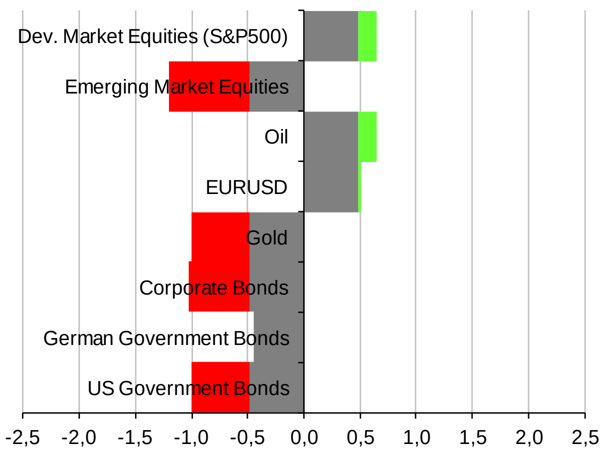
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

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

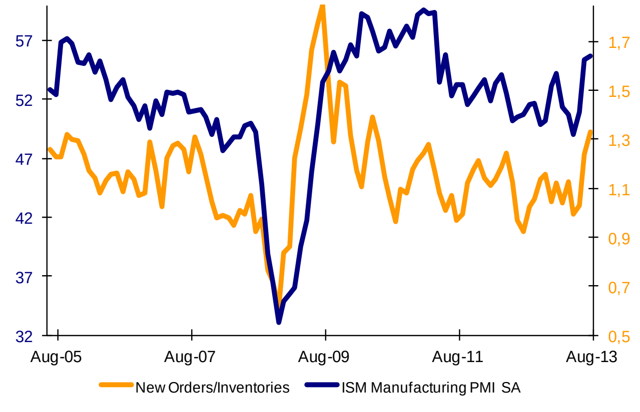
U.S.: Significantly positive news in Manufacturing

- **Although the overall picture of the economic data in the U.S. was positive during last month**, many sectors experienced an inconsistency as different signals showed conflicting information. Indicative is the case of manufacturing where strong positive surprises in ISM, the main index, which rose to 55.7 from 50.9 in June, were accompanied by weakness in regional manufacturing indices and in industrial and manufacturing production as well. Given the significant improvement of the dynamics in the relationship between sales and new orders compared to inventories, there is a higher probability that these new levels of activity could be maintained which is good news for the US and global economies.

- **In the labor market,** news about non-farm payrolls (at 161,000), although positive was worse than expectations (195,000); however a broader look at labor market indicators such as the weekly unemployment claims suggest a gradually improving market. This improvement along with the positive momentum in housing are the main pillars of consumer demand in the U.S. with retail sales growing at an annual rate of 5.4 %. Still on the positives, most inflationary expectations and measurements indicate the absence of significant pressures.

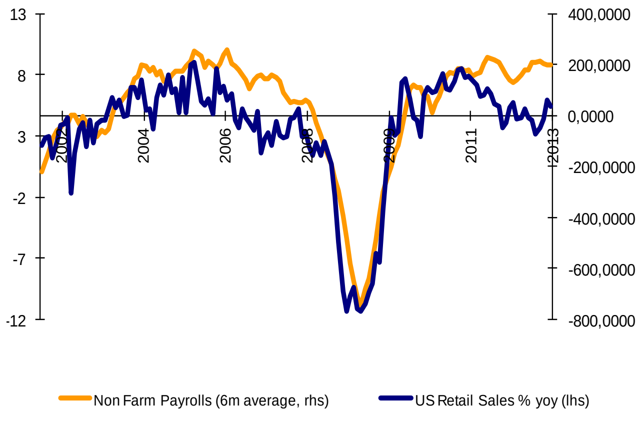
- Risks to this positive picture are centered in possible excessive market reactions to FED plans to reduce the rate of liquidity injection in the economy. So far such reactions have led to excessive yield curve steepening (10-2), resulting in a disproportionate increase in long term the borrowing costs in the U.S. economy. In mid September the FOMC will probably vote to limit the bond buying program by 10 billion dollars. Such a development appears rather discounted by the markets.

ISM & New Orders/Inventories



Source: Bloomberg, Piraeus Bank Research

Non-Farm Payrolls & Retail Sales



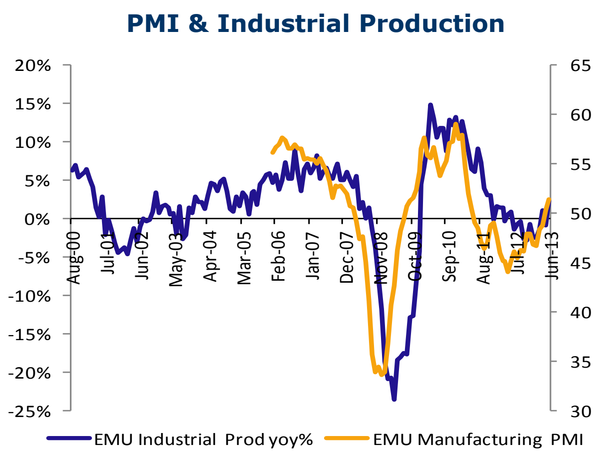
Source: Bloomberg, Piraeus Bank Research

Eurozone: Substantial Positive Surprises

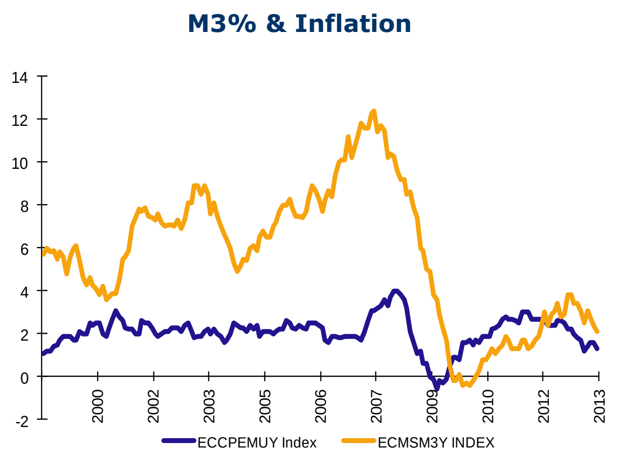
- **The Eurozone has probably entered a stage of more meaningful improvements** in economic data. So for example in manufacturing the PMI index rose to 51.4 from 48.8, while the overall index (manufacturing and services) rose to 51.5 from 48.7. These indications (over 50) suggest a possible termination of the recent recessionary pressures. In industrial production as well we observed stabilization as the annual rate climbed on positive territory at 0.3% while unemployment declined slightly to 12.1%. In the monetary sector, the M3 monetary growth slowed to 2.3 % (from 2.9%), while inflation remained at 1.6%. Data from Germany were particularly strong especially in the services sector (PMI at 52.8), industrial production (2.7 % yoy growth) and as shown in various leading indicators (ZEW, IFO). At the same time both in Germany and the Eurozone, the consumer sector remains weak (retail sales -2.8 %). Inflation appeared stable at 1.6 % for the Eurozone (and 1.9% in Germany). The quarterly growth rate stood at 0.3 % for the second quarter in Eurozone and at 0.7% in Germany.

- **In the EMU periphery countries**, in Spain the manufacturing PMI increased over 50 (at 51.1) while the annual growth of industrial production remains negative at -1.9 % yoy. In Italy the PMI was marginally higher at 51.3 while the annual rate of industrial production also remained in negative territory (-2.1%).

- **The overall picture has improved**, but risks are identified in potential political obstacles to a deeper integration process that could cause a suspension of the observed improvement in the business climate.



Source: Bloomberg, Piraeus Bank Research



Source: Bloomberg, Piraeus Bank Research

Japan

- **Although the GDP growth rate decelerated** for the second quarter of 2013 to an annualized 2.6 % from 2.8% in the first, it remains satisfactory, while a significant increase was observed in the GDP deflator to an annual -0.3% from -1.1%. This latter observation, along with the recent positive reading of 0.4 %, in the annual inflation rate, is an early sign of the effectiveness of Prime Minister Abe policies. Particularly positive was the indication for rising capital expenditures for the second quarter (1.4 % ex-software). However, uncertainty remains elevated as evidence for this quarter is not as positive, given the deterioration of industrial production (-4.6% annually), the widening of the trade deficit and other indications of deterioration in the overall consumer sector.

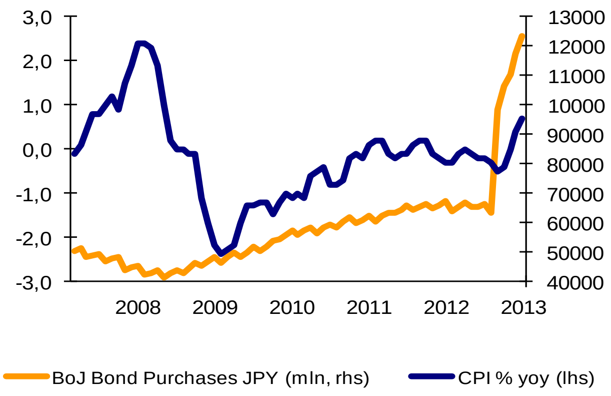
China

- **Although cyclical economic data in China came in positive,** concerns remain with regard to the need to limit the country's huge shadow banking sector. In an extreme (but not impossible) scenario the abrupt reduction of non- official borrowing would lead to a significant reduction in lending in China (to a deleveraging analogous to that of the 2007-2013 experience in the U.S.) with a significant negative impact on the Chinese and the global economy. As we have mentioned in the past, according to analysts at Fitch, the ratio of total credit (on and off balance sheet) has reached 198% of GDP, from 125% in 2009.

- **To the extent that it is not markets that force this deleveraging**, there is the expectation (hope) that within the framework of the centrally controlled Chinese economy, effort will be made for a gradual only reduction of debt while trying to optimize the allocation of liquidity. Global experience has so far shown that in times of significant imbalances, risks in efforts of a centralized management are usually on the downside.

- **On the cyclical data front,** we have observed rising manufacturing PMI indices over 50 and a rise, along with a positive surprise in industrial production. Since the beginning of summer, analysts have downgraded their expectations for growth in China for 2014 from 8% to 7.5%, while an upward pressure on short-term cost of money is maintained. Overall cyclical risks appear to be moving on the upside (while structural remain on the downside).

Japan: BoJ Bond Purchases & CPI Inflation



Source: Bloomberg, Piraeus Bank Research

China: PMI & Growth

Source: Bloomberg, Piraeus Bank Research

Markets: Volatility Remains too Low

- **In the past month there has been a deterioration in the investment climate**, originally due to shocks caused, by the prospect of the reduction of the FED bond purchases ("tapering"), but also, due to concerns regarding developments in Syria and the prospect of an external intervention. These factors weighed on both U.S. and EM stocks (S&P500 -3.1%, MSCI Emerging Market Index - 1,9 %). Pressures were exerted on other equity markets as well (Eurostoxx50 -1,7%, Nikkei225 -2,0%) with the exception of Chinese shares (HSCEI Index 1,7%, CSI 300 +5,5%) mainly due to positive economic surprises in the Chinese economy. Worries about "tapering" along with the positive economic data pushed bond yields higher 21 bps in the US (10 year yields) and 19 bp for the German bunds. Recently however, concerns about Syria have caused bond strengthening and yields were seen lower than the recent highs (1.98 % 2.93 % Germany & USA). In the European periphery, if we exclude the 10 bps widening of the Greek ten-year spreads, spreads narrowed vs. Germany (a 15 bps contraction in Italy and 32bps in Spain). Interestingly, at this stage, commodities and raw materials were not affected adversely in the current environment. Apart from oil and gold that had the "expected" positive reaction (2.5% and 6.8 % respectively), the overall equal weighted CCI Index faired also well (3,0%) along with cyclical metals (LMEX Index +2,4%) and agricultural goods by 1.8 %. It is possible that emerging market equities and to a lesser extent commodities have discounted, at least partly, the effects of the slowing down of the monetary stimulus as they have corrected -13 % and -5 % respectively since the beginning of the year. In addition to this, some early signs of stabilization in China have served to support cyclical commodities along with Chinese equities. In currency markets we have witnessed significant pressures in currencies such as the Indian (-13%) and the Indonesian rupiah (-9.6%), while most emerging country currencies have depreciated 2-3% against the dollar. Overall, in trade-weighted terms the dollar appeared to have strengthened by about 0.90%, while it appreciated 0.60 % against the euro and remained relatively unchanged against the yen.

- **Equity volatility (VIX Index) remains very low** trading in the 12-20% zone which has been effective since the beginning of 2012. At the same time the volatility of the dollar in the foreign exchange market is also quite low, mainly against European currencies (at 8,4% vs the euro) while a relatively high volatility has been observed in the USDJPY rate (13%). Also fixed income volatility is on the rise especially for U.S. Treasuries (MOVE Index at 9%). We note here that the volatility of the USDJPY and Treasuries are close to their averages of the past 5 years, while that of the U.S. and other developed equity markets is significantly lower. Treasuries and the yen were among the first to have incorporated the recent uncertainty of monetary policy changes and it is likely that we will be witnessing a transmission of this uncertainty in other markets as well.

- **The recent pressures on developed country bond markets pose a risk** to the global economy and international markets as yield curves have steepened considerably despite central banks' efforts to calm investors. An excessive rise in long-term yields could be negative for sectors of the economy which are sensitive to interest rates, such as the real estate market. The 10-2 yield differential in the US is at 2.37 % and is higher than the 93.5 % of the observations since 1983. Such a behavior of the yield curve runs against the historic experience where usually after 4 years of growth we observe curve flattening as central banks, become more confident about the economy and begin to signal a rise in interest rates. In the current cycle it should be more or less expected that the first signal of confidence is given in this manner as QE is the most extreme manifestation of monetary laxity. Risks at this stage are centered in an excessive steepening which could be caused either by central banks' communication error or by an exogenous rise in inflation expectations (see below). At this stage there are no upward pressures on inflation expectations but, as we will see in the bond section the yield slope is becoming too high in relation to cyclical economic data and the central bank policy rates.

- **At this stage we remain in a situation of high but gradually declining unemployment** and a falling inflation. This combination is ideal for risky assets as a high unemployment suggests that the FED will maintain a preference for liquidity, while its declining trend demonstrates that we remain in a positive growth environment. Simultaneously, the low and declining inflation gives additional space to the central bank in order to be able to maintain an excess liquidity level beyond the one deemed as optimal given the state of the rest of the economy.

- **The rise in oil prices, however, is complicating the overall picture***.* In a negative scenario where an external intervention in Syria would lead to wider regional unrest, with further excesses in the oil price, then this would lead to considerable complications to the mechanics of withdrawal of excess US liquidity due to the expected deterioration of the growth - inflation relationship, i.e. the FED will be forced to reduce its liquidity due to possible inflationary expectations and / or recessionary pressures (a stagflationary shock). Although this is not our main scenario, we believe that it is likely to be underestimated by the markets at this stage.

- **In summary**, since the expected reduction in liquidity growth is primarily due to the improvement of the macroeconomic data, then a move towards an equilibrium of a lower rate of liquidity provision would imply a gradual only increase in volatility to a slightly higher level, accompanied with temporary only pressures on risky securities (during this adjustment). It is likely that we are at the beginning of such a process where the additional presence of geopolitical risks may increase its intensity and/or duration. Taking a longer term perspective a positive growth environment would ultimately support the upward trend in equity markets while, it would sustain pressures on bond markets with a shift from longer to shorter maturities leading to yield curve flattening.

- **In European developments** given the relative calm in anticipation of the German elections on the 22nd of September , an increase of volatility (beyond that described above) is deemed likely as investors get eventually disappointed given current, de facto (due to the higher euro, lower volatility, lower spreads) expectations for a drastically milder (fiscal) treatment of the European periphery.

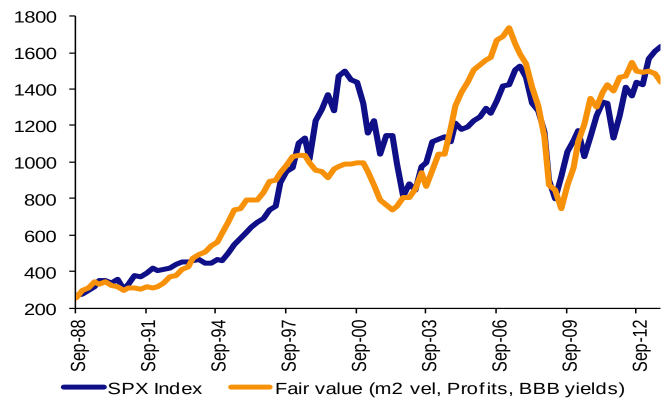
Equities

- **At this stage, the macroeconomic environment continues to be supportive** (in the long run horizon) for the equity markets, given the favorable combination of growth & liquidity. In the medium run, the possibility of an additional positive surprise in economic data has become lower, after the rise of ISM Manufacturing at the 55.7 level. During the recent corporate result announcement period, 489 firms out of the 500 firms of the S&P500 have already announced their results and 72% of them have posted a positive surprise in profits (2.7% above the expectations) and 55% in sales (0.54% above the expectations). The size of this surprise is similar to the average of the last quarters. Moreover, it is encouraging the day after the results were announced, the stock prices reacted positively indicating a surprise for investors as well. According to the consensus forecasts, profitability is expected to increase by 6% until the end of the current year (by 14% for the whole year). For 2014, it is expected to increase by 11%. Those expectations are considered to be rational, while apositive surprise seems to be more possible now, due to the recent improvement in manufacturing, sales and new orders growth path.

- **In valuation terms, the S&P500 P/E ratio is at 15.7**, which close to the long run average level. As we have mentioned though, according to other metrics the index is relatively expensive, as the recent yield increase is not accompanied by a proportionate increase in profits or money velocity. Simultaneously, it is still relatively expensive according to its co-movement with the other markets. Therefore, we observe deterioration in the fundamental view (form neutral to marginally negative with negative bias), while the technical view is still positive but is worse than the previous month. Hence, the total view deteriorates to neutral with marginally positive bias.

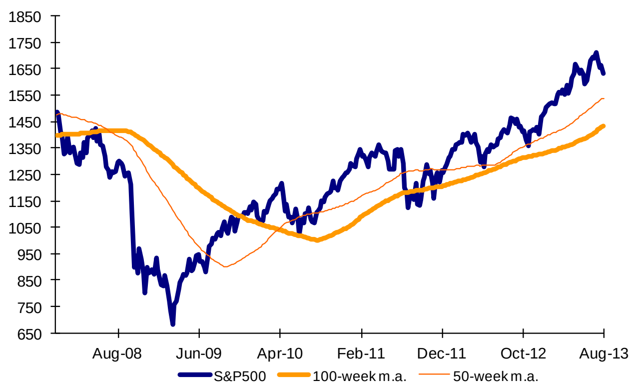
- **Moreover, the coincidence of three main uncertainty sources**, the lower Fed's QE pace, the post Germany elections developments in Eurozone and the rising geopolitical risks, within the current low volatility environment, increases the probability of short – medium run pressures. As long as the technical view remains positive and simultaneously the fundamental view does not turn into worryingly negative, those pressures will be probably proved to be temporary.

S&P500 & Fair Value



Source: Bloomberg, Piraeus Bank Research

S&P500



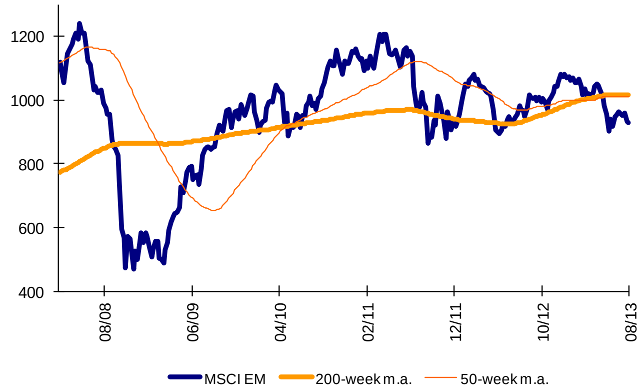
Source: Bloomberg, Piraeus Bank Research

- **In emerging equity markets,** recent pressures seem to be excessive according to the macroeconomic and corporate profitability data. Taking into consideration the additional decline in the P/E ratio (at 10.8), the emerging equity markets seem to be undervalued, according to the long run correlations in the monetary and cyclical parameters of USA and China and the general corporate profit growth path in the emerging economies. Moreover, the recent rise in the US new orders to inventories ratio is a positive signal for the emerging equity markets. Furthermore, the emerging equity markets seem to be relatively cheap according to their co-movement with the other markets (other equity markets, commodity and bond markets).

- **On the other hand, worries still as, apart from China**, the trend of most macroeconomic data in the BRIC's countries is still negative (inflation rate dynamics is stronger than real growth ones). Additionally, the yearly rate of change of corporate profits has improved yet remains negative.

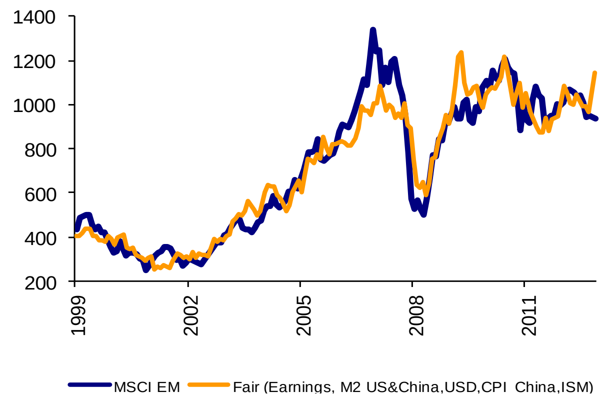
- **We upgrade our fundamental – quantitative view** (it remains positive) for emerging equity markets. However, we observe significant deterioration in the technical view (from neutral to negative with positive bias). The combination of the rising geopolitical risk (in Syria and Egypt) and the worries on the impending US monetary policy developments causes sizable outflows from the emerging economies. Therefore, the total view deteriorates, but remains neutral with a negative bias.

MSCI Emerging Markets Index



Source: Bloomberg, Piraeus Bank Research

MSCI EM Index & Fair Value



Source: Bloomberg, Piraeus Bank Research

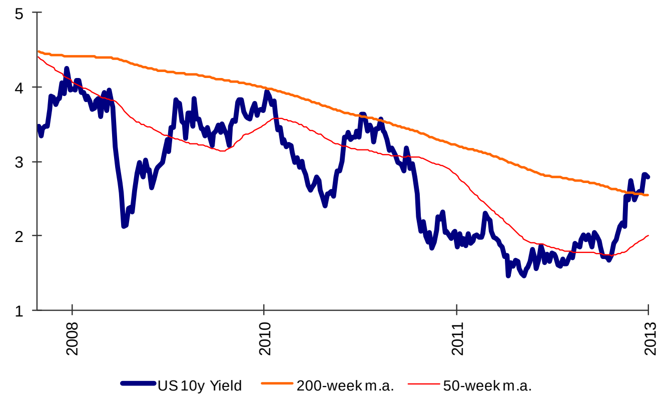
Bond Markets

- **Bond markets have come under sizable pressure since May**, as the ten year US Treasury yield has gone up by 66 bps and the German Bund yield by 35 bps. Simultaneously, two year bond yields have posted a much smaller rise, as the US 2y yield has gone up by 17 bps and the German Schatz yield by 11 bps. The increase in the US Treasuries yield has occurred mainly due to the expected monetary policy. Worries on impending Fed's policy have pushed up long term yields in other economies, such as German and the UK, where the growth path remains uncertain and consequently yield rises are not desired by the Central Banks. As we mentioned before, the difference between the long and short term yields (i.e. the yield curve slope) in the US Treasuries has widened close to its record high level.

- **During the last three months,** the relative acceleration of the M2 money supply against the M1 by 2.1% should have led to a 40 bps rise in the US two year yield (we observed only 11 bps). The combination of this two year yield rise, the oil price increase and the faster M2 money supply acceleration (against the M1) should have led to a 8 bps rise in the ten year yield (we observed 60 bps). Hence, those moves have made two year yields expensive and ten year yields cheap. The US Treasuries valuation has improved and the fundamental – quantitative view is neutral with negative bias (from negative), while the technical view has deteriorated to negative (from neutral). Theoverall view is negative.

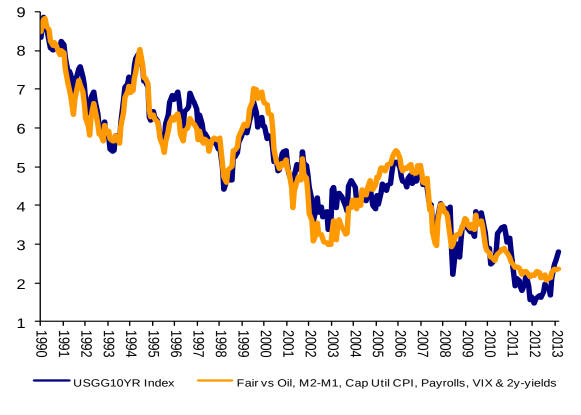
- **A presumed spike in geopolitical risks (Syria) could possibly support (US) bonds**, but probably to a lesser extent (than usually), given the prospect of smaller QE pace by the Fed and the uncertainty that this entails for US bond markets. The failure of USD to rally as tensions in Syria rise could be an indication of this.

US 10 Year Yield



Source: Bloomberg, Piraeus Bank Research

US 10 Year Yield & Fair Value



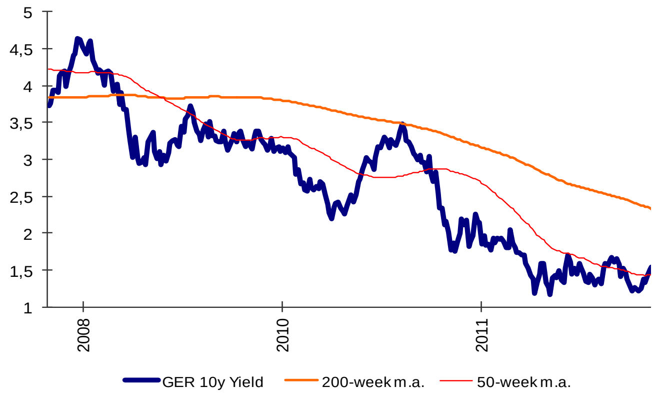
Source: Bloomberg, Piraeus Bank Research

- **In Germany, the economic data have improved, but credit growth remains tepid**. The increase in oil price and the IFO should have pushed two year yields up, while the fall in the M3 money supply (by 0.7%) should push it down to a greater extent. Overall, the final result should be a 20 bps fall. On the other hand, the ten year yield should have increased by 12 bps, due to the increase in the two year yield. Hence, the valuation of the German Bunds has become more attractive, but without the steep yield curve slope, observed in the US Treasuries. The fundamental view has improved to neutral with a negative bias (from negative), while the technical view has deteriorated to neutral with negative bias (from negative). Therefore, the total view is neutral. In conclusion, as long as the inflationary pressures and credit growth remain tepid, the Central Bank has no reason for changing its facilitating rhetoric. This does not conduce to additional pressures on the front end (and consequently the longer end) of the yield curve.

- **In Eurozone periphery**, we observed tightening in the spreads (against the German Bund), as important decisions (for further Eurozone integration) have been postponed until the elections take place in Germany. Although the periphery's leading economic indicators have improved (PMI has moved above the 50 threshold), we believe that the 3% spread (in the ten year yields) does not incorporate sufficiently the Eurozone cohesion risks, especially under the prism of the slow and inadequate banking and fiscal integration process.

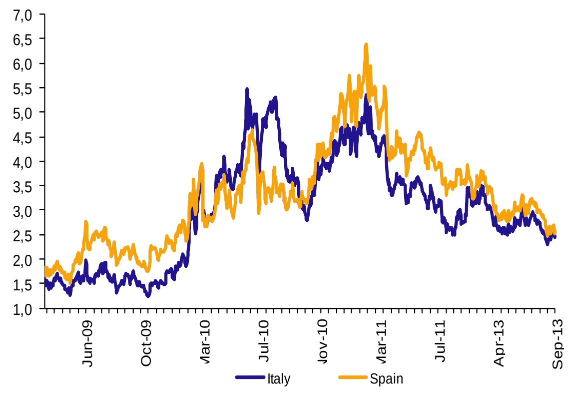
- **In the corporate bond market, the BBB spread (vs Treasuries)** is at 1.7%, which is lower than its long run average level and its fair value according to corporate profits, stock price volatility and the US yield curve slope. An increase in the stock price volatility would probably lead to a widening in the BBB spread (vs Treasuries). Therefore, the view (both fundamental and technical) is neutral with negative bias (vs Treasuries).

German 10 Year Yield



Source: Bloomberg, Piraeus Bank Research

Italian & Spanish 10y Yields



Source: Bloomberg, Piraeus Bank Research

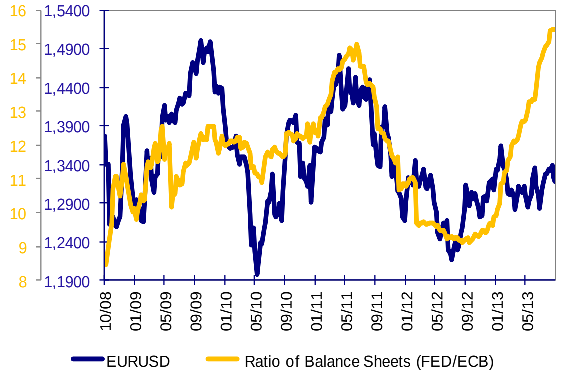
FX

- **The EURUSD exchange rate fell by 0.6% during the last month**. The economic data in Eurozone were similar with the US economic data, leading to the stability in the US – Germany spread at the front part of the yield curve. At the same time, the periphery's spreads have shrunk considerably, while the impending Fed's smaller QE pace diminishes the safe haven character of the US Treasuries. It is worth mentioning that the Fed has increased its balance sheet size by 29.5% during the last year, while the ECB's balance sheet has been reduced by 23.5%. These developments have supported the EURUSD exchange rate. Moreover, the medium – long term US – Germany spread has lost its positive correlation with the EURUSD exchange rate. Hence, the recent shrinkage in the spread has not caused the usual pressures on the exchange rate. The EURUSD exchange rate is also supported by the relative deceleration in the US M2 money supply growth rate against EZ and the increasing trend in the EZ's trade balance.

- **Risks could arise after the elections in Germany**, as a period of inertia in Eurozone deliberations will probably end. The dialogue and decisions for further integration (deposit guarantee and fiscal union) will probably take place. In this context of probable disagreements and deadlocks, we would anticipate widening in the periphery's spreads (vs. German Bund), a rise in volatility and consequently pressures on the EURUSD exchange rate.

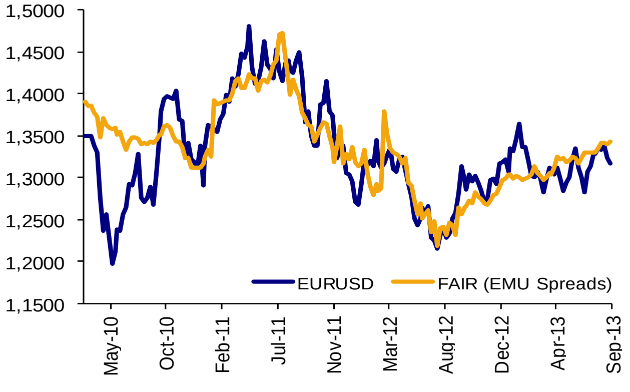
- **At this stage, given that the fundamental factors have improved** and the EURUSD exchange rate has come under pressure, the fundamental view is being upgraded neutral with a positive bias, while the technical view remains marginally positive. Therefore, the total view is neutral with positive bias. Although, the better fundamental factors would support an upward revision in our twelve month target, we maintain the 1.26 target, due to institutional uncertainty in the EZ's cohesion process. For the next 3 months, we expect descending trend at the 1.2750 – 1.3560 range. In the six month horizon we expect the 1.23 – 1.35 range.

EURUSD & FED/ECB Balance Sheets



Source: Bloomberg, Piraeus Bank Research

EURUSD & Intra-Eurozone Spreads

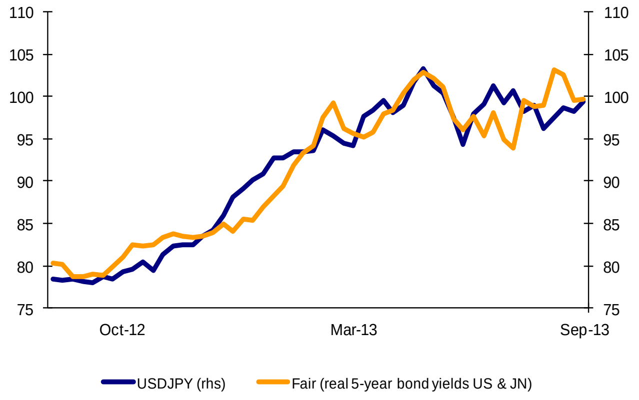


Source: Bloomberg, Piraeus Bank Research

- **The USDJPY exchange rate was almost unchanged during month**. The combination of the positive economic data, the BoJ's announcement that it does not intend to increase its QE size and the higher demand for safe heaven assets (due to the rising geopolitical risks) counterweighed the USD appreciating trend (due to the impending reduction in Fed's QE size). During last month, the real US yields (five year bonds) increased three times more than their JP equivalent. However, as the USDJPY exchange rate has been much more sensitive to the JP real yield changes, the rate remained broadly stable. Another interesting fact is that markets and analysts anticipate that the BoJ will succeed at its 2.0% inflation rate target. At the end of May, five year inflation expectations (i.e. the break even inflation point from the JP inflation - linked bonds) stood at 1.9%, while USDJPY exchange rate was at its recent highest level of 103.7. Additionally, the Bloomberg's Consensus Forecast also posts 2.0% inflation rate for 2014. Hence, the success of the BoJ's program has probably been discounted at the 105 level by markets and analysts. Thus, we believe that the existing risks tilt against an additional rise in the USDJPY exchange rate. In the medium run, we continue to expect volatility within the 95 – 105 range. Our twelve month target is at 95.

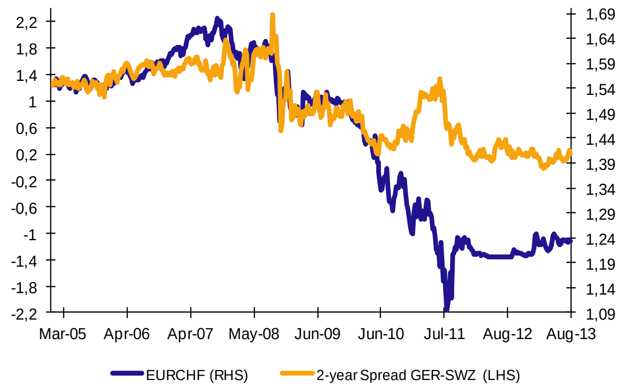
- **The EURCHF exchange rate was almost unchanged** during last month and is now trading at 1.23. In Switzerland, the economic data were mostly positive. The leading PMI indicator increased to 57.4 in July and then posted a corrective decrease to 54.6 in August, while the other leading KOF indicator continued to increase. Moreover, the M3 money supply growth rate accelerated and the inflation rate also accelerated from 0.2% to 0.5%. Furthermore, the retail sales growth rate went up from 1.5% to 2.3%. It is worth mentioning that the UBS Housing Bubble Index has climbed up to its second highest level in its history. Hence, some risks emanating from the technical weakening of the CHF have started to become evident. However, we are very far from the point that the technical weakening of the CHF will be a considerable problem. The EURCHF exchange rate continues to be at a very low level (CHF is appreciated) compared to the interest rate differences between Eurozone and Switzerland and the majority of economic cyclical indicators.

USDJPY & US-JP Real 5y Yields



Source: Bloomberg, Piraeus Bank Research

EURCHF & 2y Spread Germany-Switzerland



Source: Bloomberg, Piraeus Bank Research

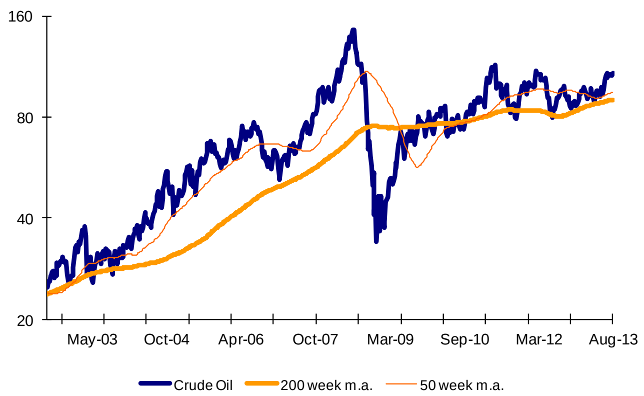
Commodities

- **It has been a long time since commodities over-performed** other markets. Apart from the appreciation in the oil price (Crude: 2.5% and Brent:6%) due to the increasing geopolitical risks, the equally weighted CCI index also strengthened by 3%, cyclical metals by 2% (LME Index) while even the precious metals posted a significant increase (gold:7% and platinum:5%). A smaller positive performance was posted by the agricultural commodities (2%). The better economic data globally and some positive signals from China, coupled with the lack of significant appreciation in the USD justify the positive trend in the commodity prices. As we have mentioned before, the commodity prices (except for oil and gold) have converged to more rational levels (fair to marginally expensive valuation), given the developments in the global economy. On the other hand, the technical view (of the CCI Index) remains negative (except for the possibility of a short to medium term consolidation period).

- **The fundamental data in the oil market were mostly negative**. The fall by 1.5% in demand and the increase by 0.5% in production should have resulted in a correction of 4% in the oil price, instead of the realized increase. Hence, this increase contributes to the already significantly overvalued oil price, providing additional deterioration in the already significantly negative fundamental view. On the other hand, the rising geopolitical risk supports the positive technical view. Overall, the total picture is marginally negative from neutral with a negative bias, as the size of overvaluation surpasses the positive technical view.

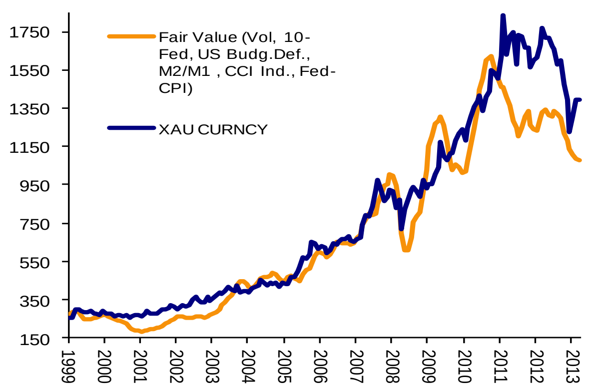
- **The rising geopolitical risk boosts the gold price**, which is higher by 20% than its recent lowest level on July 1st. At this period, fundamental factors, such as the shrinking US fiscal deficit, the acceleration in the M2 money supply growth rate (against M1) and the steeper yield curve should lead to lower levels (even lower than July's $1200). Thus, this additional deterioration makes the fundamental view significantly negative. At the same time, the technical view remains negative, as it is quite possible that we are approaching the end of the recent upward reaction, and possibly entering long term descending trend.

Crude Oil



Source: Bloomberg, Piraeus Bank Research

Gold Price & Fair Value



Source: Bloomberg, Piraeus Bank Research

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