Global Economic & Market Monthly Review: A Positive Start

ECONOMIC ANALYSIS & RESEARCH DIVISION

Executive Summary

- In the US, based on the assumption of a political agreement on the fiscal front, we estimate that real GDP will grow by 1.5% in each quarter of the first half of 2013. Then it will accelerate to 2.5% during the second half of 2013 as the negative impact of the fiscal measures will gradually diminish. Hence, real GDP will grow by 1.9% during 2013, lower than in 2012.

- In the Eurozone, based on the assumption of a gradual transition towards a more complete union and taking into consideration the improvement in the leading indicators, we estimate that real GDP will shrink marginally (by 0.1% - quarterly rate) during the first quarter of 2013 and then will return to mild growth rates (0.2% - 0.3%), resulting in an annual rate of -0.2% during 2013, better than in 2012.

- In Japan, the combination of an expansionary fiscal policy and the higher inflation target set by the BoJ could quite possibly lead real GDP growth rate above the current level of 0.5%. On the other hand, the very high level of debt to GDP (237%) significantly increases the long-term uncertainty. In China, many economic data releases have shown improvement, raising the growth rate outlook above the consensus of 8.0%.

- We note that the risk–return profile of the emerging equity markets has improved, resulting in a positive outlook (marginally better than the outlook of the developed markets). The technical outlook for German Bunds has abruptly deteriorated leading, along with the negative fundamentals, to a negative general outlook (as in the case of US Treasuries). The significant rise in the Euro area trade surplus has improved the fundamental outlook of the EUR/USD, while its technical outlook is enhanced by the flows, which look for an alternative safe–haven currency as the Yen is depreciating very fast. Currently the picture is neutral, but risks are tilted to the downside.

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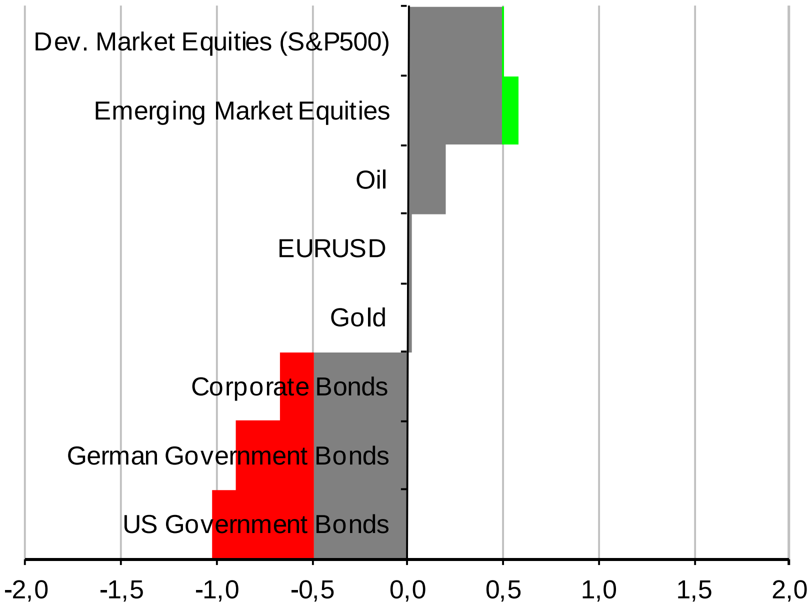
Global Market Risk-Return Scoring

(6-9 month horizon)

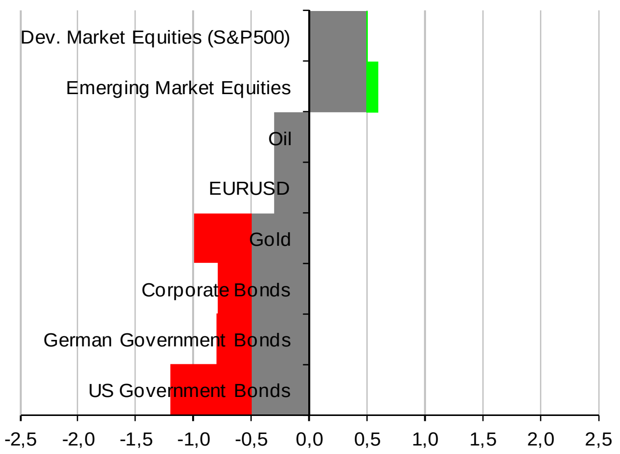


Scoring between -2.5 and 2.5, reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

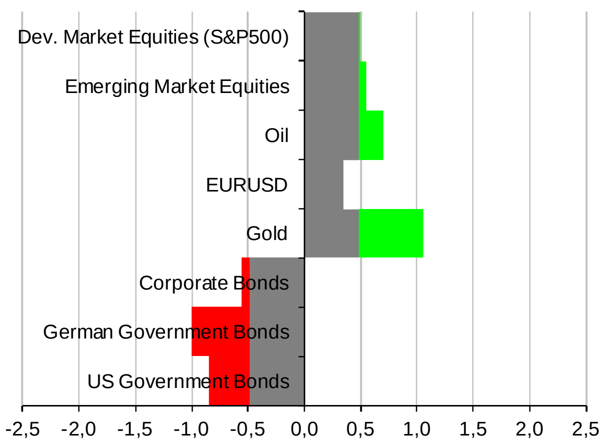
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

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

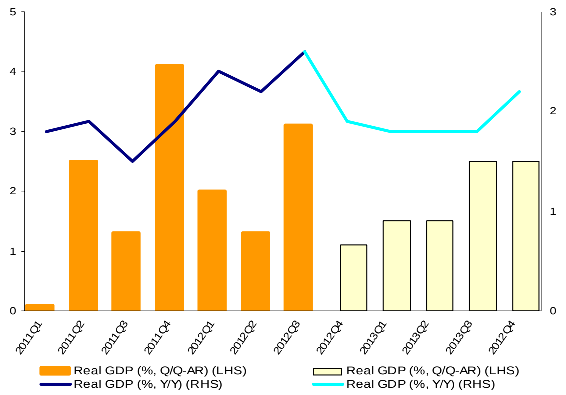
USA: Deceleration due to Fiscal Tightening

- We estimate that real GDP grew by 1.1% during the fourth quarter of 2012, lower than the 3.1% growth in the third quarter, mainly due to the negative contribution from the inventory change and foreign trade activity. Hence, real GDP grew by 2.3% overall during 2012, higher than the 1.8% of 2011.

- The anticipated fiscal tightening measures (which account for 3.8% of GDP) and the possible dispute on the desired policy mix between the two political parties (Democrats would prefer a tax rise for those on high incomes and to maintain benefits for the long-term unemployed and Medicare spending, while Republicans would prefer to maintain low tax rates and to cut Medicare spending) constitute the main risk for the US economy.

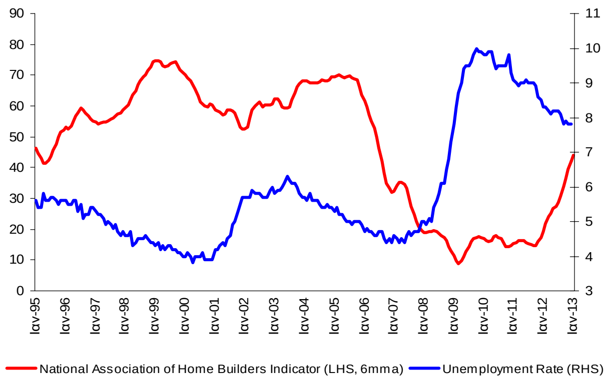
- Thus, the agreement between the two political parties on a mutually desired mixture of fiscal tightening measures is undoubtedly the most important issue. A rise in high-income tax rates, more defence than non-defence spending cuts and a higher debt ceiling will probably prevent the "fiscal cliff" event and perilous debt dynamics.

Real GDP



Source: Bloomberg, Piraeus Bank Research

Unemployment Rate & Housing Market



Source: Bloomberg, Piraeus Bank Research

- Adopting the scenario of a timely agreement on a mutually accepted mixture of fiscal tightening measures, we estimate that real GDP will grow by 1.5% in each quarter of the first half of 2013. Then it will accelerate to 2.5% during the second half of 2013, as the impact (caused by the measures) will gradually diminish. Hence, real GDP will grow by 1.9% during 2013, lower than in 2012. The headline and core inflation rate will be less than 2.0% during 2013, as the capacity utilization rate will remain relatively low and the unemployment rate will remain at a relatively high level.

- Consequently, the Fed will maintain its very low interest rate level (0.25%) and continue its quantitative easing actions. The unemployment rate is estimated to fall slightly to 7.5% - 7.6%. It appears that a faster and more meaningful decline would be very difficult to achieve, as businesses will probably be reluctant to invest in an environment characterized by subdued demand (due to the fiscal tightening). However, an increase in the low fixed investment to GDP ratio (7.3%) could have more auspicious effects on demand. Moreover, corporate profits and profit margins remain at satisfactory levels, as the labour cost growth rate has been lower than the inflation rate, leading to higher productivity.

US: Macroeconomic Projections

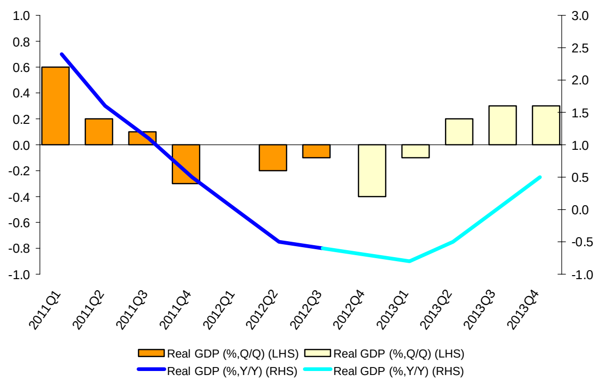
	2012/Q1	2012/Q2	2012/Q3	2012/Q4	2013/Q1	2013/Q2	2013/Q3	2013/Q4	2011	2012	2013
				Q/Q-AR(%)						Y/Y(%)	
Real GDP	2.0	1.3	3.1	1.1	1.5	1.5	2.5	2.5	1.8	2.3	1.9
Personal Outlays	2.4	1.5	1.6	1.5	1.5	1.5	2.0	2.0	2.5	1.9	1.9
Investment	9.9	4.5	0.9	5.0	5.0	7.0	10.0	10.0	6.6	8.0	7.0
Public Expenditure	-3.0	-0.7	3.9	-2.0	-2.0	-2.0	-1.0	-1.0	-3.1	-1.5	-1.1
Exports	4.4	5.3	1.9	-3.0	5.0	5.0	7.0	7.0	6.6	3.3	2.9
Imports	3.1	2.8	-0.6	-1.0	-3.0	-1.0	5.0	5.0	4.8	2.5	-0.5
Business Inventories (Contribution)	-0.4	-0.5	0.7	-1.0	-1.0	-0.5	1.0	1.0			
Inflation Rate	2.8	1.9	1.7	1.9	1.5	1.7	1.7	1.7	3.1	2.1	1.7
Unemployment rate	8.3	8.2	8.0	7.8	7.8	7.7	7.6	7.5	8.9	8.1	7.6
Fed - Policy Rate	0.25	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	2.2	2.5	2.4	2.4	1.87	1.75	2.4
EUR/USD	1.3343	1.2667	1.2860	1.3193	1.35	1.31	1.28	1.26	1.30	1.32	1.26

Euro area: Milder Recession During the Election Year

- We estimate that real GDP contracted by 0.4% during the fourth quarter of 2012, as retail sales and industrial and construction production shrank considerably, while the trade and current account surplus climbed to a record-high level. The net trade contribution partly offset the strong negative contribution associated with domestic demand. Hence, real GDP shrank by 0.5% during 2012, after growth of 1.5% in 2011. On the positive side, leading indicators have started to recover gradually since the last two months of 2012.

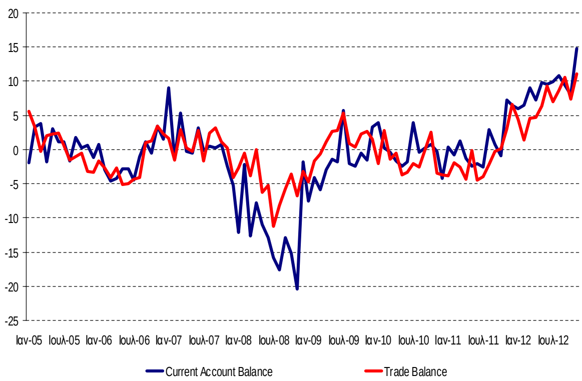
- The effective resolution of the recent crisis has been the biggest issue for the Euro area. Some important steps have already been taken, such as the implementation of the ESM (European Stability Mechanism), the decision to found the SSM (Single Supervision Mechanism) for the banking system and the decision taken by the ECB on OMTs (Outright Monetary Transactions) resulting in a fall in Italian and Spanish government bond yields. Certainly, more steps need to be taken in order to move towards a complete fiscal and banking union along with a Paneuropean Deposit Guarantee Scheme. Elections in Germany and Italy to be held during 2013 will probably delay these steps. Moreover, no substantial political action has been taken (by Spain, Italy) after the summer Draghi's announcements that soothed market tensions.

Real GDP



Source: Bloomberg, Datastream, Piraeus Bank Research

Current Account & Trade Balance



Source: Bloomberg, Datastream, Piraeus Bank Research

- Adopting the scenario of a gradual transition towards a more complete Union and taking into consideration the improvement in the leading indicators, we estimate that real GDP will shrink marginally (by 0.1% - quarterly rate) during the first quarter of 2013, and then it will return to mild growth rates (0.2% - 0.3%), resulting in annual rate of -0.2% during 2013, better than in 2012.

- Fiscal consolidation will continue to negatively affect (probably to a lesser extent) domestic demand and the appreciation in the euro currency will lead to a smaller positive net exports contribution. Low domestic demand and the strong euro will keep inflation below 2.0% and the unemployment rate above 12.0% during 2013. Hence, the ECB is expected to hold its policy rate at 0.75%, with a strong probability of a 25bps reduction.

- We estimate that it will take a long time for the unemployment rate to fall, as it is empirically a lagging indicator of real GDP growth. A persistently high unemployment rate is the biggest problem that prevails in the Euro area economy, resulting in a widely negative output gap and the spread of the recession from the periphery to the core. Furthermore, credit expansion will also take a long time to recover, due to the low capital adequacy and rising NPL ratios in many banks. We should mention that the annual rate of change in the outstanding amount of corporate loans stood at a historically bad level (-2.5%) at the end of 2012.

Euro area: Macroeconomic Projections

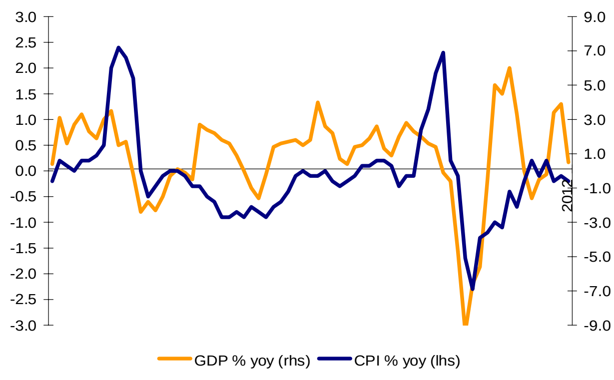
	2012/Q1	2012/Q2	2012/Q3	2012/Q4	2013/Q1	2013/Q2	2013/Q3	2013/Q4	2011	2012	2013
				Q/Q(%)						Y/Y(%)	
Real GDP	0.0	-0.2	-0.1	-0.4	-0.1	0.2	0.3	0.3	1.5	-0.5	-0.2
Private Consumption	-0.3	-0.4	0.0	-0.4	-0.2	0.1	0.2	0.2	0.1	-1.1	-0.5
Investment	-1.2	-1.8	-0.7	-1.0	-1.0	0.5	1.0	1.0	1.5	-3.6	-1.5
Public Consumption	0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.4
Exports	0.5	1.6	0.9	-0.5	-0.5	0.5	1.0	1.0	6.5	3.0	1.5
Imports	-0.3	0.6	0.2	-1.0	-0.5	0.0	0.5	0.5	4.4	-0.5	-0.5
Business Inventories (Contribution)	0.0	0.0	-0.2	-0.2	-0.1	0.0	0.2	0.2			
Inflation Rate	2.7	2.5	2.5	2.3	1.8	1.8	1.9	1.9	2.7	2.5	1.9
Unemployment Rate	10.9	11.3	11.5	11.8	12.1	12.3	12.5	12.5	10.3	11.3	12.3
ECB-Policy Rate	1.00	1.00	0.75	0.75	0.75	0.75	0.50	0.50	1.25	0.75	0.50
10Y Bund Yield	1.79	1.58	1.44	1.32	1.80	1.70	1.50	1.80	1.83	1.32	1.80

Japan & China: Potential but Uncertain Sources of Growth

- Developments in Asia have become more interesting, as it is becoming an alternative growth pillar, due to fiscal consolidation in the US and Euro area. The BoJ adopted, after pressure from the new government, a higher inflation rate target of 2.0%, a number that has not been realized since the early 90's. On the other hand, it announced that its asset purchases ($145B per month) will start in January 2014, signalling possible dissent from the government's desired policy and making markets sceptical. Many MPC members opine that deflationary rates have been due to low domestic demand and, consequently, monetary policy on its own cannot modify that negative situation. Therefore, the fiscal boost, proposed by the new government, will be very helpful only if it is focused on private sector productivity enhancement. The annual CPI rate is now at -0.2% and the annual GDP deflator is -0.8%. Recent developments have led analysts to expect an inflation rate of 1.65% in 2014 (but 0% in 2013) and real GDP growth rates of 0.7% in 2013 and 1.1% in 2014. The negative experience of unproductive public investments, which led to a huge rise in the pubic debt to GDP ratio (from 67% in 1990 to 237% in 2012), feeds the uncertainty about the effectiveness of the current plan. An additional challenge is the fall in the structural trade surplus (from ¥1.27T in 1985 – 2008 period to -¥300B in the last year) that could result in a permanent JPY weakness and consequently higher inflationary pressures.

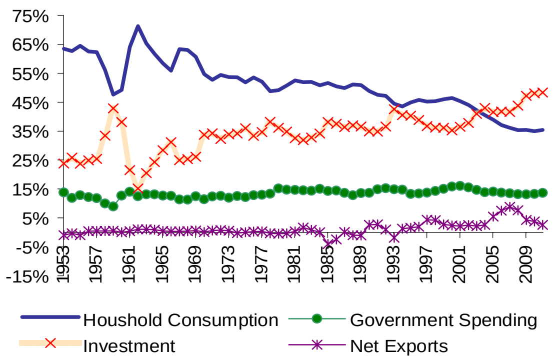
- Economic data releases in China have started to surprise positively and many analysts believe that the end of the deceleration period is very close. Real GDP grew by 7.9% during the last quarter of 2012, higher than the 7.4% of the third quarter. Likewise, positive surprises came out from the data on industrial production and retail sales. Analysts expect a growth rate of 8.1% for 2013 and 8.0% for 2014. We should note that the 8.1% growth rate is very close to the low level of the previous decade, signalling possible positive surprises. The ongoing efforts of the Chinese government to make the transition to a consumption economy are expected to be long lasting with an uncertain degree of success. We should note that the current account surplus has been reduced from 10% to almost 3% of GDP since 2007, but consumption has remained at 35% and the sum of investment and government expenditure has increased from 55% to 62%, keeping the possibility of overheating alive.

Japan GDP & Inflation



Source: Bloomberg, Piraeus Bank Research

China: Ratios as a % of GDP



Source: Bloomberg, Piraeus Bank Research

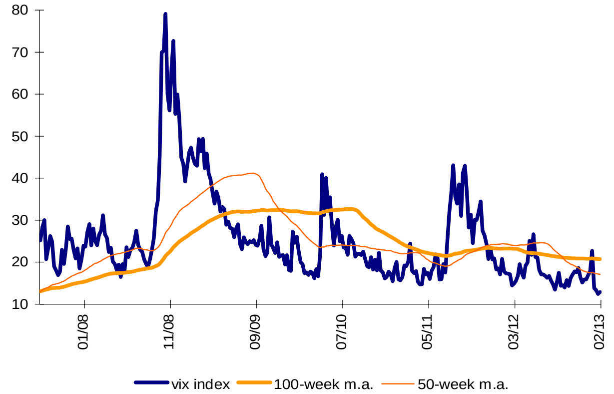
Markets: Positive Start, Vulnerable European Front

- The beginning of 2013 was positive for risky securities with equity volatility falling to a 5.5 year low. Equity markets had positive returns (29/01): S&P500 5.2%, Eurostoxx50 4.0%, DAX 2.9%, Nikkei225 4.5%, MSCI Emerging 0.7%, China (H-shares) 5.6%, while significant gains were seen on the Greek stock market (10.7%). Commodities provided modest returns (index CCI 1.3%) with precious metals except gold (platinum 8.7%) and oil (crude 5.2%) performing well. The Baltic Dry index recorded significant gains (13%). Government bond yields came under upward pressure by 21 bps for US 10-year maturities and 37 bps for the equivalent German ones. On the other hand, European periphery bonds were stronger with 10-year yields falling by 27 bps in Italy, and 120 bps in Greece. On the foreign exchange market, the EURUSD exchange rate gained about 1.9% while the yen came under pressure against the US dollar with the USDJPY cross rising by at 4.2%. The Swiss franc was also weaker vs. the euro with the EURCHF rate rising by 2.8%.

- This positive investment climate was mainly related to a) the agreement on the US fiscal front for a two-month postponement of any fiscal adjustment/agreement, b) positive macroeconomic surprises from China, c) the announcement of expansionary economic policies in Japan and d) the absence of any negative surprises in the Eurozone that left the existing positive trends intact. In particular, the significant upward pressure on German bond yields, was due to the relatively hawkish ECB rhetoric which reduced (but not eradicated) the possibility of further monetary easing. Positive surprises related to US corporate profitability also contributed to this positive start.

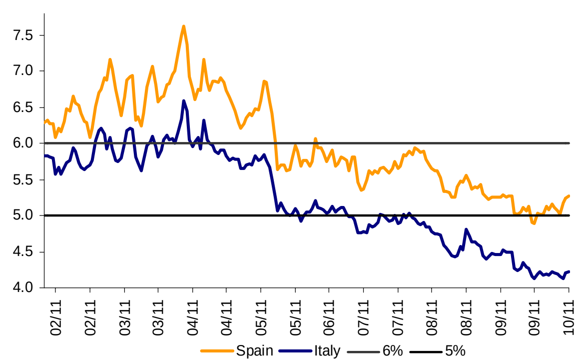
- At this stage, the main risks lie on the European front, where the overall positive momentum still relies on the Draghi summer statements, and while no substantial actions have been observed in either the institutional or financial field (no bond buying; the OMT program has not been implemented). The elections in Italy and Germany, but also the lowering of the borrowing costs in the periphery (Italy 4%, Spain 5% for 10-year maturities) could be a cause of inactivity. This combination of a positive investment climate and inaction increases the likelihood of negative surprises in the medium term. At this stage we have to note though, that we do not expect negative developments on the European front to play the role of a major global shock in the way that has been observed in the past.

S&P500 Implied Volatility



Source: Bloomberg, Piraeus Bank Research

10-year Yields



Source: Bloomberg, Piraeus Bank Research

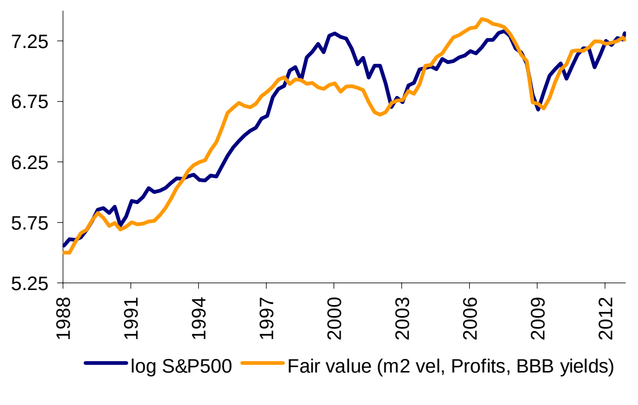
Equity Markets

- For one more quarter, corporate earnings announcements in the US surprised positively. However this was in an environment where expectations have already been shifted significantly downwards. So, although we are witnessing a slowdown in the annual rate of profitability from 8% in 2012 to 4% now, 75% of the companies that have reported have surprised positively (by an average of 5% vs expectations), with a milder surprise in sales (about 66% of the companies have surprised by 0.75%). At the same time, we note that the annual rate of increase in profitability of S&P500 companies by 8% in 2012 was accompanied by a rise in the S&P500 index of 13.4%, and an increase in the price to earnings ratio from 13.7 to 14.8, a little lower than 17.3, which is the average since 1954.

- Apart from this relatively low price/earnings ratio, the S&P500 appears marginally expensive in relation to the statistical model we use, where in addition to corporate profitability, we use the cost of borrowing of BBB-rated companies and the velocity of money (ratio of M2 to nominal GDP). In 2012, the rise of corporate profits (as reported in the GDP accounts) of 4% made a positive contribution to the S&P5000 fair value of 3.5%, a reduction in borrowing costs by 62 bps made a positive contribution of 4.7%, while the decline in money velocity of 3.7% made a negative contribution of 4.4%. All these factors would be consistent with an increase in the S&P500 of just 3.6% in 2012 (instead of 13.4%). To sum up, according to our model, the index is now 4% overvalued (it was undervalued by 10% at the beginning of 2012, the standard deviation of the model is 10% annualized). For 2013 a gradual return to a more normal transmission of monetary policy could lead to an increase in money velocity, while we expect a 7% increase in profitability. A possible negative impact could come from rising borrowing costs. Corporate spreads have a limited downward margin, so a possible rise in Treasury yields would have a significant adverse impact on overall corporate borrowing costs, especially if it is exogenous – (inflationary concerns, reduced demand from Asia) and not accompanied by a rise in money velocity.

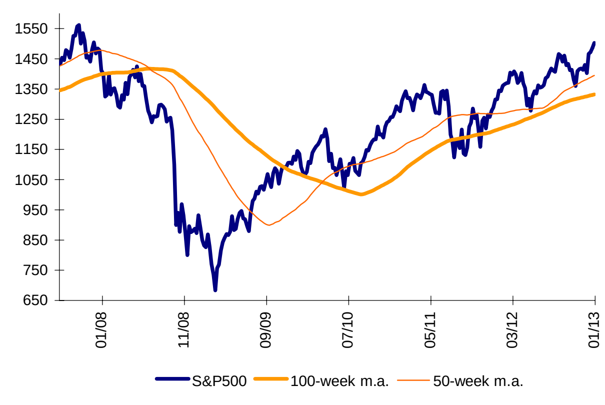
- Taking into account all of the above, along with the decent macroeconomic picture, our fundamental view remains marginally positive. The technical picture also remains positive although worse than last month's, as the market is becoming overbought and volatility has dropped too sharply. The overall picture remains marginally positive.

S&P500 (log) & Fair Price



Source: Bloomberg, Piraeus Bank Research

S&P500

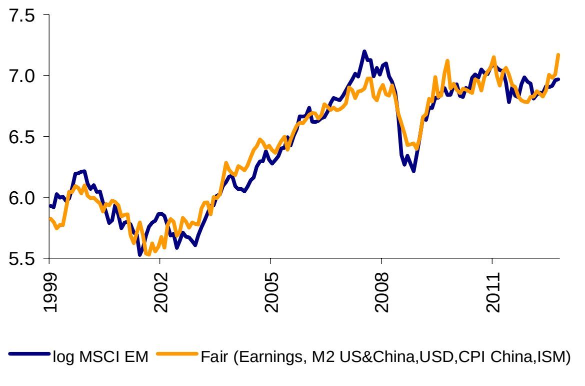


Source: Bloomberg, Piraeus Bank Research

- In emerging economies, earnings growth was zero in 2012, factors that were related to the cooling-down of the Chinese economy (low inflation and monetary growth) would be consistent with an increase in the MSCI Emerging Market Index of 24%, while factors associated with the USA (negative monetary M2-M1 growth, rising inventories in relation to sales) would be consistent with a decrease of 7%. Overall the model we use, where these factors are explanatory variables, was consistent with an 18% rise in the EM MSCI Index versus the observed 15%. According to our model, emerging market equities are undervalued by 7% (the standard deviation of the model is 13% annualized). The index is also undervalued according to the price-earnings ratio metric, which stands at 12.5, lower than 16.1, which is the average since 1995. Although growth in emerging market corporate profitability was marginally negative for the whole of 2012, since July it has made a significant recovery of 10%. Overall we observe an improvement in the fundamentals influencing emerging equities to positive, with the technical picture remaining marginally positive. The overall picture is upgraded to positive.

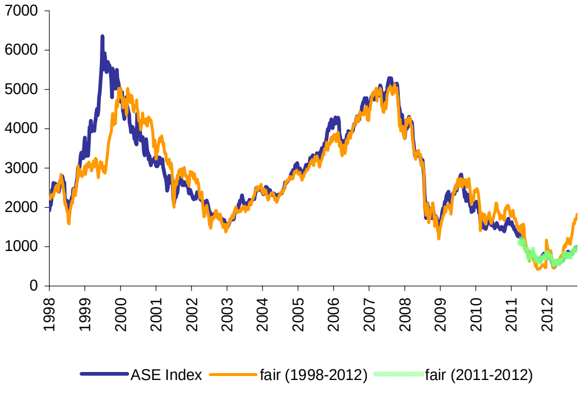
- The Greek stock market started the year on a positive note (+11%), based mainly on the downward dynamics of government bond yields, reflecting the significant reduction in the likelihood of a Greek exit from the Eurozone, and the overall improvement in the investment climate. At current levels of the Athens General Index, the stock market seems to have absorbed most of the benefits of the fall in Greek spreads in line with the stock-bond correlations of the recent crisis period (2011-2012). Using data from 1998 to the present, 10-year Greek borrowing costs of 10%, a EURUSD exchange rate of 1.34 and the Eurostoxx50 index at 2730 would be consistent with a value for the Athens General Index (AGI) of 1800. Of course, these levels will be attainable only when the Greek economy emerges from the current structural shock and starts functioning according to the respective economic cycles. Note that, according to Bloomberg data, the profitability of Greek companies listed in the AGI is negative on average, from the second quarter of 2011 onwards. A recovery in profitability is necessary in order to achieve significantly higher equity prices.

MSCI Emerging Markets & Fair Value



Source: Bloomberg, Piraeus Bank Research

Athens General Index & Fair Value(s)



Source: Bloomberg, Piraeus Bank Research

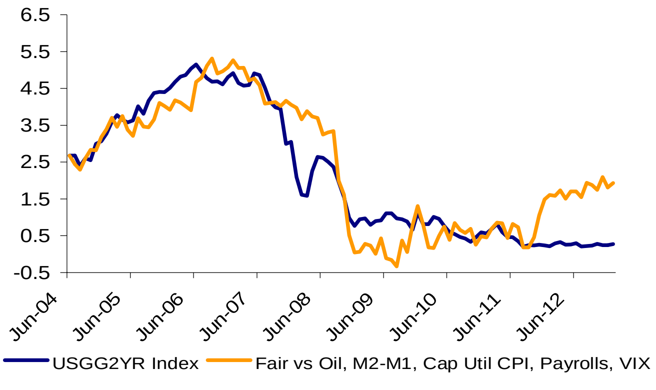
Bond Markets

- Bond markets have come under pressure since the beginning of the year, particularly in the Eurozone, due to the Draghi summer statements, the recent hawkish ECB rhetoric and some positive economic developments. As often mentioned, bond yields are very low even when compared to the recent mild cyclical data and the explanation lies in the central banks' support policies in their efforts to address structural imbalances (deleveraging in the US, Eurozone cohesion crisis).

- In 2012 most of the factors affecting bond yields (unemployment, inflation, IFO index, oil price) did not have a significant effect on our estimates of fair value for German bond yields. Focusing our attention on the movements of the M3 money supply, we note that in 2012 the annual growth rate rose from 1.5% to 3.8%. Although this rate is still relatively low, this change would be consistent with a rise in German two-year yields of 70 bps and of 38 bps for ten-year yields. We note that the long-term (since 1980) average annual change in M3 is 6.8%. At this stage, the German yields remain undervalued by approximately 130 bps for both two and ten-year maturities (standard deviation of estimation error 58 bps).

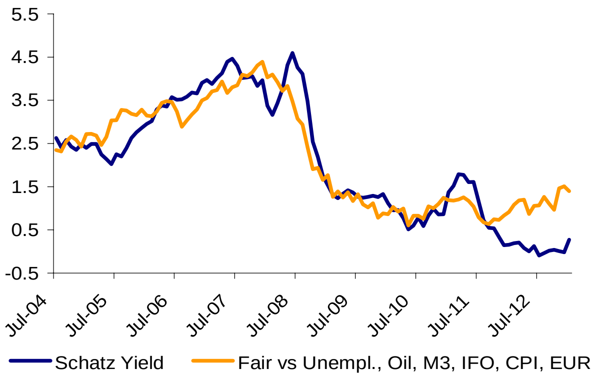
- In the US, Treasuries yields are also very low. In 2012 the main variable causing changes in our estimated fair value was the rise in the difference in monetary growth M2-M1 from -7.5% annually to 5.10% (which translates to an increase of 48bps for 2-year and 30bps for 10-year yields). We note that since 1980 the average difference is 0.9% and faster growth of M2 is usually associated with stronger growth and inflationary pressures, as growth in money supply is converted into credit growth. This mechanism has a positive correlation with bond yields, and a gradual recovery is expected to lead to higher bond yields (and an end to the Fed's policy of quantitative easing). In contrast to this, the decline in core inflation from 2.2% to 1.9%, along with the decline in monthly non-farm payrolls by 68,000 employees would be consistent with a 35 bps drop in the 2-year and 24 bps in the 10-year maturities. To conclude, Treasury yields are still too low according to our estimates, by 168 bps for 2-year and 150 bps for 10-year yields (with a standard deviation of the estimation error at 79 bps). Apart from the negative fundamental picture, described in both markets, the technical picture is also purely negative in both the US and now in Germany as well. The overall picture is clearly negative.

UST 2-year Yield & Fair Value



Source: Bloomberg, Piraeus Bank Research

German Schatz 2-year Yield & Fair Value



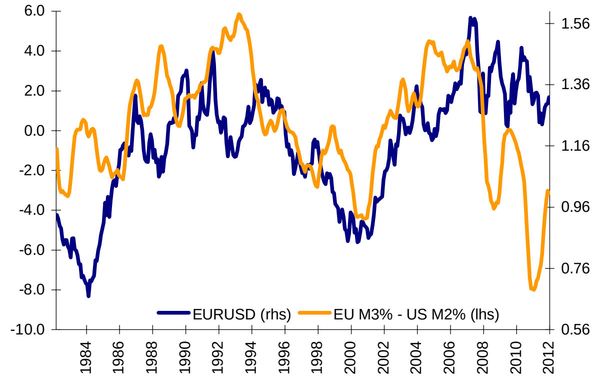
Source: Bloomberg, Piraeus Bank Research

FOREX

- 2013 started on a positive note for the EURUSD cross. The improvement on the Eurozone crisis front, the hawkish ECB rhetoric and some positive economic data, coupled with the fact that the ECB remains the only one of the (key) central banks not implementing QE policies, has caused a significant upward momentum. This dynamic was reinforced by the recent adoption of the 2% inflation target by the Bank of Japan and the intention of banks to repay 137.32 billion euro of the three-year loans (LTRO's) to the ECB. Despite these improvements, and the positive contribution of the fact that the Eurozone trade surplus is at an all time high, the exchange rate remains overvalued in terms of most of the models that we employ. Looking at longer term co variances between the exchange rate and monetary growth differences between the US and Eurozone, the cross remains significantly overvalued (implied fair value of 1.22). In 2012, the monetary expansion factor would be consistent with a 14% decline in the cross (instead of a 2% gain). Using the medium-term exchange rate co-movements with European spreads against Germany we observe that EURUSD exaggerates the periphery bond rally we have witnessed since the end of 2011 also by approximately 2%. Furthermore, EURUSD is exaggerating its fair value related to the 5-year government bond spread of Germany vs the US by 0.9%. The recent upward dynamic could be justified only by the increase in the Eurozone trade surplus, which in combination with the reduction in spreads would indicate a fair value of 1.44. We believe that the recent rise of the euro is mostly due to exogenous factors, associated with quantitative easing strategies of other banks and not a strong demand for European products, or increases in European productivity. Thus it is expected to be reversed in the medium term. This will happen either indirectly due to its negative impact on the European trade surplus, or directly through the adoption of appropriate measures by the ECB (change of rhetoric or, more unlikely, by the adoption of its own quantitative easing policies). Other reasons for a EURUSD correction could be US cyclical outperformance and obstacles and delays in the process of European economic integration.

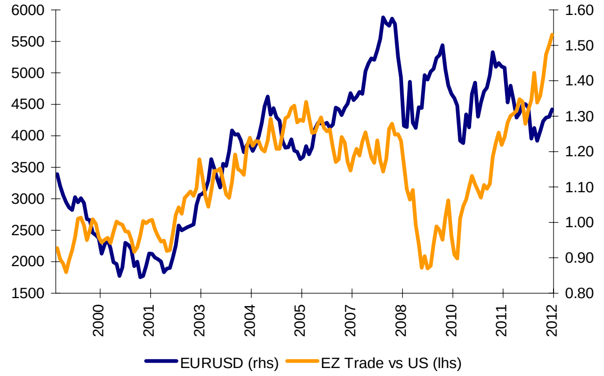
- At this stage both the quantitative-fundamental and technical pictures are neutral (with negative and positive predisposition respectively). In this phase we keep our 12-month target at 1.26. For the next 1-2 months we expect variation in the 1.3300 - 1.3750 range. On a six-month horizon, we expect a wider 1.2600 - 1.3750 range.

EURUSD, M3%-M2% Eurozone-US



Source: Bloomberg, Piraeus Bank Research

EURUSD & Trade Balance vs. US



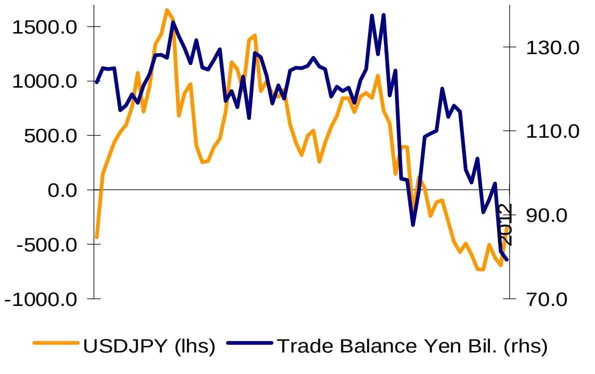
Source: Bloomberg, Piraeus Bank Research

- The Japanese yen remained under considerable pressure against the dollar with the USDJPY cross rising by about 4.5% since the beginning of the year and 18% from the September lows. At this stage, the market is moving very aggressively, discounting the positive effects of the BoJ's expansionary policies that are associated with the new inflation target of 2%. At the same time though, it stressed that the implementation of quantitative easing policies will start from January 2014 adding to the overall uncertainty. The yen also remains under pressure due to the disappearance of the Japanese trade surplus, especially after the closure of nuclear power plants in the aftermath of the earthquake in Fukushima.

- Despite this strong upward momentum in the USDJPY cross, it would be dangerous at this stage to regard the yen as a one way bet for the following reasons: a) the BoJ has failed to achieve the existing inflation target of 1% b) The Abe government has hinted at the possibility of reopening nuclear power plants which will lead to the reduction of energy imports, bolster the trade balance and thus reduce the demand for US dollars and c) in an environment of weak global economic growth, a sharp devaluation of the currency of a country without energy and/or raw material reserves leads to relatively faster rise in production costs. So the end result of such devaluation would be negative for both exports and for the overall economy. As mentioned, the rate is disentangled from recent correlations with US-Japanese bond spreads and by the relative monetary expansion of the Bank of Japan vs. the Fed. Within this context of strong appreciation, analysts have aggressively shifted their expectations upwards for the end of 2013 to 90 from 82 at the end of November. For the reasons above we adopt a more conservative approach and raise the annual goal to 88 from 84.50.

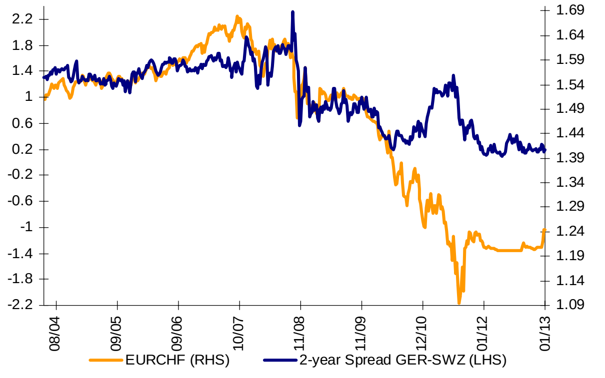
- The euphoria regarding the recent improvement on the Eurozone crisis front has led to a rise in the EURCHF exchange rate of approximately 3.3% since the beginning of the year (to 1.25). As shown in the second chart below, the rate is still very low (the franc is overvalued) with respect to the interest rate policy of the two central banks (2-year spreads). On the other hand, Swiss economic data remain more positive: the PMI manufacturing is at 50 versus 47.5 in the Eurozone, the annual real growth rate is at 1.4% versus -0.6% in the Eurozone and inflation at -0.4% versus 2.2%. Although these factors suggest a strong franc, at current levels the EURCHF rate is too low due to the impact of the Eurozone crisis. Analysts have shifted upwards their expectations for the end of 2013 to 1.24 from 1.22 at the end of November.

USDJPY & Japanese Trade Balance



Source: Bloomberg, Piraeus Bank Research

EURCHF & 2year spread Germany - Switzerland



Source: Bloomberg, Piraeus Bank Research

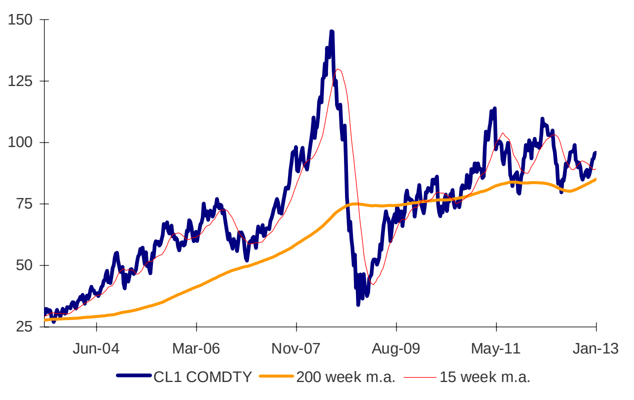
Commodities

- The positive investment climate has benefited commodities only marginally with the continuous commodity index gaining 1.3% since the beginning of the year.

- Oil prices have shifted upwards significantly since the end of 2012, with the price of crude gaining 4.6%. In 2012 oil market fundamentals were mostly negative (significant increase in US production, weak fuel demand and a marginal strengthening of the US dollar) and were consistent with significant pressures of the order of a fall of 27% in crude instead of the marginal decline of 3% observed since the end of 2011. On the other hand, the macroeconomic environment in the US and China, along with the prevailing high liquidity was consistent with milder pressures. Overall, in this environment where the likelihood of positive surprises remains high, the price of oil could maintain its upward momentum as seen from the positive technical picture. But in the longer term, supply growth from North America poses significant risks. The technical picture remains positive while the fundamental one remains neutral (with a negative predisposition). The overall picture remains neutral with a positive predisposition.

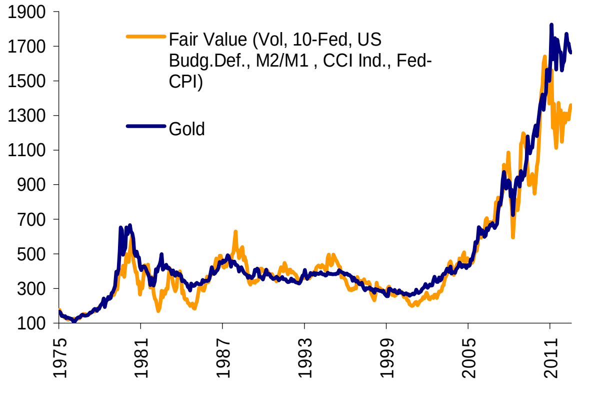
- The gold price has come under pressure (-0.8%) since the beginning of the year, but since the end of 2011 is 6% higher despite the fact that many factors statistically associated with its price would indicate a decrease of 8%. The reduction in the US budget deficit, the underperformance of commodities (CCI Index) compared to the USD trade-weighted index, rising USD real interest rates and the relative acceleration of money supply M2 vs. M1 are estimated to have a cumulative negative effect of around 13% in the price of gold, while the increase in volatility observed in the fx markets, makes a positive contribution of 5%. As the economic data in the US surprised positively and the crisis in the Eurozone has eased, we observe a change of correlations of gold with other markets. For example, the degree of correlation (100 days) with the EURUSD rate has fallen from 67% in November 2012 to 30% recently, as gold fails to gain along with the EURUSD rally. The fundamental picture remains negative. We continue to maintain a neutral point of view because of the still positive technical picture.

Crude Oil



Source: Bloomberg, Piraeus Bank Research

Gold & Fair Price



Source: Bloomberg, Piraeus Bank Research

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