ΤΡΑΠΕΖΑ ΠΕΙΡΑΙΩΣ

July 3rd 2013

Global Economic & Market Monthly Review: Volatility Rising

ECONOMIC ANALYSIS & RESEARCH DIVISION

Executive Summary

In the US trends remain negative in manufacturing as inventories have started to rise vis-à-vis sales and new orders. The evidence from consumption and real estate markets remain positive. In the Eurozone the theme of marginal improvements within an overall negative trend continues, while developments in the institutional framework of the EZ remain gradual and incomplete. In China, the Central Bank, in an effort to shift liquidity from the 'shadow' banking system to the traditional one is causing a spike in short-term funding costs while the economy continues to slow.

In the past month, there has been a deterioration in the investment climate. We regard market reaction to the Fed's announcements as excessive. The improvement in the labour market is marginal, while the inflation trend remains downward. It is likely that markets will only gradually converge to a higher level of volatility as they start to discount a measured reduction in liquidity, without creating a rising volatility trend with duration and intensity which would cause greater overall market pressures.

For equity markets, we estimate a relative improvement in the fundamental picture of emerging vs developed markets, but the technical picture remains negative, mainly because of many unquantifiable factors (social unrest in key emerging economies). In parallel, commodity prices (especially gold) appear now more fairly valued, except for oil which probably incorporates a sizeable geopolitical premium. In bond markets longer maturities now appear fair to cheaply valued relative to shorter maturity ones, which remain very expensive in an absolute sense. The euro, despite maintaining a generally neutral picture, remains exposed (along with other markets) to a probable rekindling of the crisis in the Eurozone and to a (gradual) normalization of US monetary policy.

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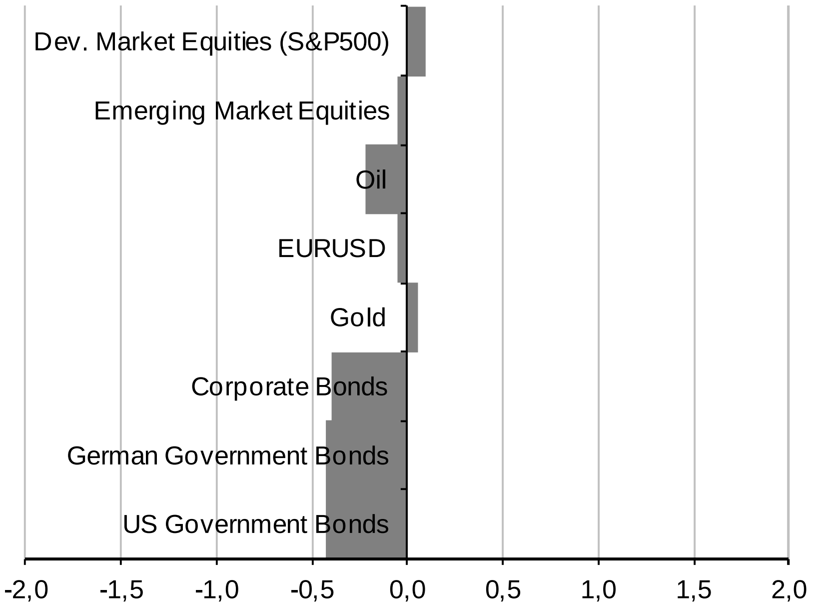
Global Market Risk-Return Scoring

(6-9 month horizon)

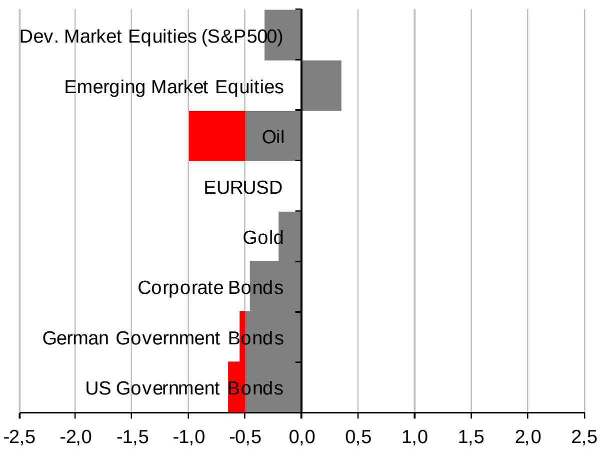


Scoring between -2.5 and 2.5 reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

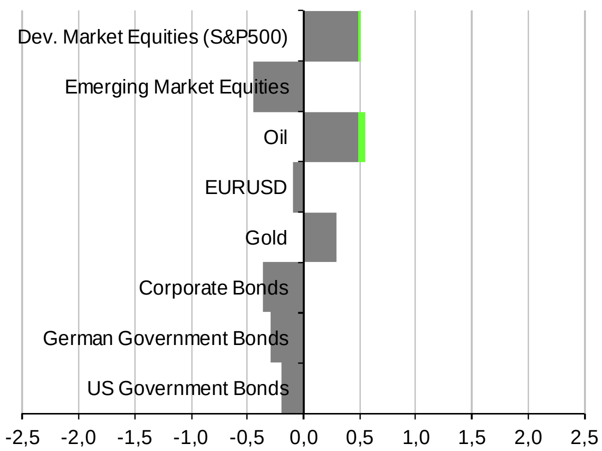
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

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 Picture: Standardized display of figures such as MACD, RSI and other technical analysis measures

Economic Developments

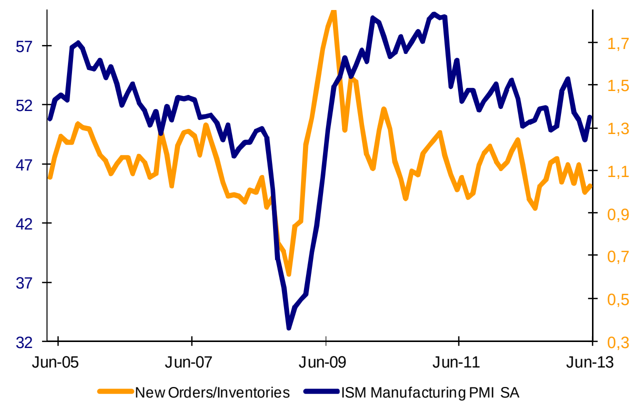
USA: Persistent Weakness in Manufacturing

- Economic data remained mixed for another month. Particularly negative were indications from manufacturing, not only because of the temporary dip in the ISM index below 50 (only to return to 50.9 recently), but also owing to the deterioration of factors that are indicators for the future growth of the sector. The ratio of new orders to stocks in manufacturing fell to 1.03 from 1.12 two months ago and from 1.24 a year ago, and there was a rise in inventories to sales ratios in the wider economy to 1.2980 from 1.2680 a year ago. So gradually, there is a marginal downward trend of factors influencing manufacturing activity, pointing to a period of mediocre results.

- Evidence from the consumption sector and the factors that support it (housing, labour market, interest rates and stock market) remain positive. Retail sales surprised positively for another month, growing at an annual rate of 4.3%, while consumer confidence, despite the recent correction remains sufficiently high. More specifically, the data from the real estate market remain very positive both in terms of prices and sales, but also of the overall confidence in the industry (NAHB Index at a 6-year high). In Parallel the labour market has maintained its recent trend of gradual improvement. On the inflation front, the overall trend is downward, although we observed some upward readings that were mostly expected (with the exception of producer prices).

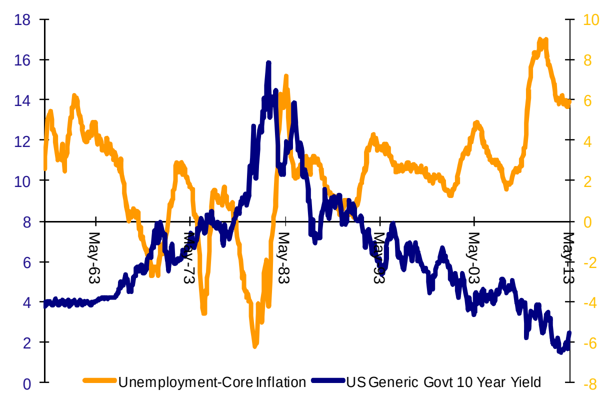
- In response to concerns about a possible tapering off of the rate of bond purchases by the Fed we observe two facts. First, the unemployment rate remains very high both in absolute terms and in relation to the very low inflation rate, which argues for maintaining an ultra-loose monetary policy and low borrowing costs. Second, the announced timing of this reduction in Fed-provided liquidity (mid-2014) should not have been a surprise to the markets as a simple linear extrapolation of the current trend in unemployment would give a rate of 6.8% around that time. A result of the recent announcements, however, is that markets now expect a rise in US interest rates from December 2014 where the probability of an increase over the current 0.25% is estimated at 56.8% from 25% in mid-May (Bloomberg).

ISM & New Orders / Inventories



Source: Bloomberg, Piraeus Bank Research

Unemployment-Inflation & 10y Yields



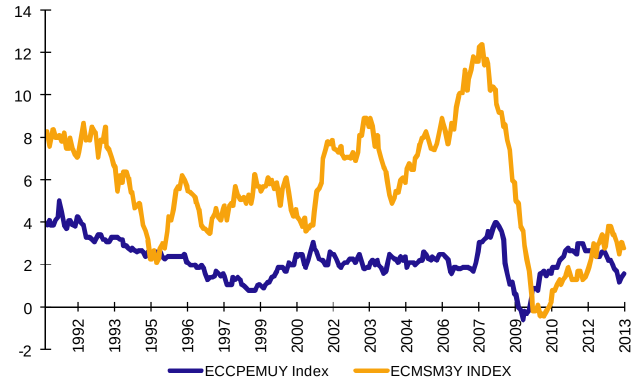
Source: Bloomberg, Piraeus Bank Research

Eurozone: Ongoing marginal improvements

- The Eurozone remains on a path of gradual improvement in economic data, but in a framework where the dominant trend remains negative. So, for example, manufacturing maintained the gradual rise in the PMI indicators, which for the entire Eurozone rose to 48.3 from 47.8. Industrial production trends are also stabilizing as the annual rate showed an improvement from -1.4% to -0.6%. Similarly, retail sales improved on a yearly basis (from -2.2% to -1.1%) while unemployment continued its upward trajectory to 12.2%. In the monetary sector, M3 monetary growth slowed to 2.9% (from 3.2%), while a slight increase was noted in inflation to 1.6% from 1.4%. Interestingly, the German manufacturing PMI slowed-down to 48.7 from 49.7 last month, but German inflation rose to 1.9% from 1.6%.

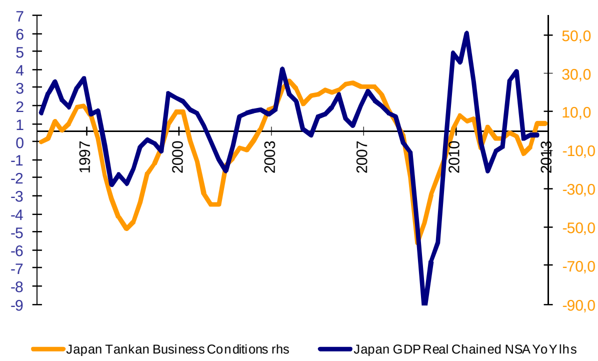
- These improvements coupled with developments in the US have resulted in the displacement of market expectations away from the possibility of a further interest rate cut. So on a 6-month horizon the probability of a rise in interest rates in the Eurozone is calculated (Bloomberg) to be 68% from 47% in mid-May.

Eurozone: M3% & CPI%



Source: Bloomberg, Piraeus Bank Research

Japan: Tankan Index & GDP (yoy %)



Source: Bloomberg, Piraeus Bank Research

Japan

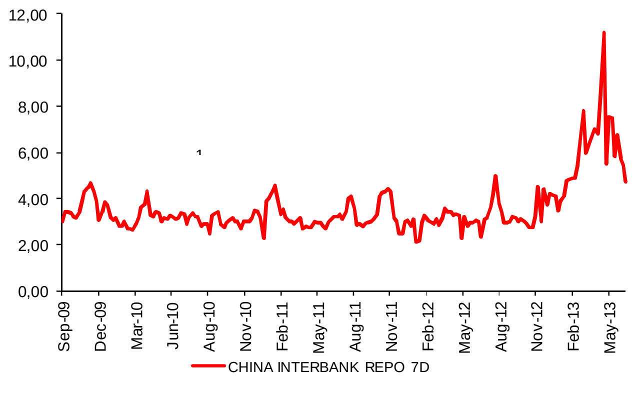
- In Japan, the focus remains on the monetary "experiment" (as it is termed by many) of the central bank while economic data improved: inflation excluding food rose sharply to 0% from -0.4% in the previous month, the quarterly growth rate of capital expenditures improved (to -3.9% from -8.7%), while the growth rate of GDP for the first quarter of 2013 was revised upwards to an annualized 4.1% (from 3.5%). The Tankan survey showed that for the first time since 2011 large manufacturing firms were optimistic about growth. Another positive was the indicator of industrial production (-1% from -3.4% on an annual horizon).

China: Structural frictions

- In Asia, interest appears to be shifting from the actions of the Bank of Japan to those of the Bank of China, which in an effort to shift liquidity away from the 'shadow' banking system towards the traditional one, and in order to cool the property market, did not hesitate to cause a shortage of liquidity that resulted in a sharp rise in short-term funding costs. The 7-day interbank repo rate reached 12% (the highest since 2006) completing an upswing of 4% at the end of May. The cost of borrowing has now declined, but the trend remains upward, while concerns about a banking crisis in China are evident. According to analysts at Fitch, the ratio of total credit (on and off balance sheet) has reached 198% of GDP from 125% in 2009. While prices of new homes rose in 69 of the 70 cities monitored by the government, providing an extra reason for the refusal of the Bank of China to conduct open market operations and not to provide the market with the necessary liquidity. At the same time, money supply M2 is growing at an annual rate of 15.8% higher than the target of 13% (and significantly higher than the nominal GDP growth rate). In the meantime, signs of deteriorating growth are reappearing as manufacturing appears to be growing below potential. On the positive side, inflation decreased to 2.1% from 2.4% for consumer prices and to -2.9% from -2.6% for producer prices.

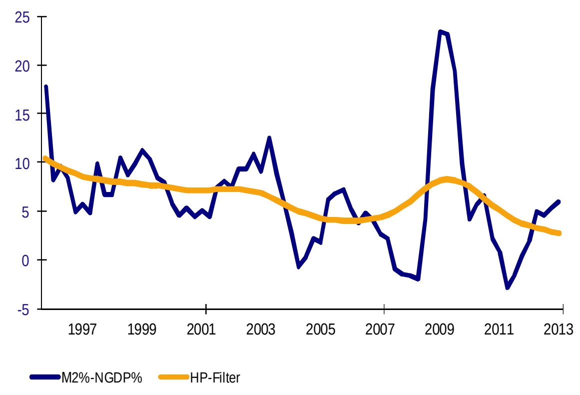
- These developments underline the difficulties facing the leadership of the CCP in attempting to change the structure of an economy with excess investment and high savings to consumption. The character of these actions reveals the intention of the leadership to suffer a short-term cost in order to obtain potential long-term benefits. The new government, acting through the central bank, is ready to cause turbulence in the markets and possible tremors in the credit system in an effort to consolidate and shrink the financial sector. This practice could be characterized as theoretically correct but bears the hallmark of the 'closed system' that characterizes the Chinese leadership, but not the fluid international environment within which it operates. In the 1990s, the CCP chose a difficult path in order to meet the goal of reducing the size of state enterprises, which resulted in admittance to the World Trade Organization (WTO) and the high growth rates of the following decade. Of course at that time China was operating in isolation, but now it is in an environment where one of the main risks is the uncertainty that comes from changes in the monetary policy of central banks. In this context of increasing uncertainty, the likelihood of a further slowdown in the Chinese economy and not achieving the target of 7.5% is also increasing.

China 7 day Repo



Source: Bloomberg, Piraeus Bank Research

China: M2 - Nominal GDP (%yoy) vs Trend



Source: Bloomberg, Piraeus Bank Research

Global Markets: Volatility Rising

- During the past month there has been a deterioration in the investment climate, mainly due to shocks caused, both by the Fed's announcements in relation to the prospect of a slower rate of bond purchases, but also related to the mini liquidity crisis in China. So, in the past month, the S&P500 index corrected by 1.5% and the MSCI World by 4.2%. The pressure was present in most other indices (MSCI Emerging -7%, Eurostoxx 50 -5%, China/Hong-Kong -12%). Along with the negative picture for equity markets, bonds also came under pressure as the American and German ten-year yields rose by 37 and 23bp respectively, but also commodities fell by 5%. Strong pressures were present on the gold price (-10%) and cyclical metals (London Metal Exchange -7%). The US dollar (trade-weighted terms) remained virtually unchanged, after a 3% rally after the statements by Bernanke (19/6).

- The simultaneous pressures on ALL markets (stocks, bonds, commodities) in the absence of significant economic news indicates "monetary policy uncertainty" as the root cause of these pressures. Already, by the end of May, the upward pressure on Japanese bond yields had raised concerns that quantitative easing would destabilize the bond market and much higher interest rates will ultimately have the opposite effect, intensifying existing deflationary pressures due to the significant increase in servicing the fiscal debt and the soaring (imported) production costs. At the same time, Bernanke's testimony to the congressional committee originally created only mild concerns in the markets, but then in his comments of 19/6 which gave a more specific timetable for the reduction (or better no further increase) of liquidity, resulted in the beginning of intense upward pressure on dollar money rates, thus creating pressures across markets. The pressures on the Chinese market are probably due to this rising of dollar funding costs both because the timing coincidence and due to the simultaneous depreciating trend of the yuan against the dollar.

- Starting in the US we observe that the market reaction to the announcements from the Fed is rather excessive, as any improvements in the labour market remain marginal, while the inflation trend remains downward. As discussed in the section on the US economy, the unemployment-inflation mix is such that it would suggest an overly loose monetary policy. Also the rise in yields in parallel with the fall in inflation increases real yields (which are now positive), reduces the overvaluation of bonds and points to a general normalization of the economic climate in the US, a development which ultimately should be positive for the international economy and markets.

- Beyond this, relatively positive, interpretation of events however, recent developments remind us that we are in a world with significant structural imbalances, as major central banks signal changes using non-conventional tools (experimental for many) of monetary policy against a financial background of high and increasing debt to GDP ratios (in the US, Japan and China the ratio is over 100% and continues to rise), while the Eurozone crisis, despite the recent relative calm, remains a potential source of uncertainty. So the upward pressure on bond yields in an environment of falling inflation might not signal a rise in real yields, but a higher fiscal risk-premium, which would have a completely opposite (negative) impact on the international financial system. Although at this stage it is difficult to distinguish between the two causes of rising yields, at this stage plummeting gold prices, and the relative immobility in the US debt CDS's are consistent with the scenario of normalization. Of course this interpretation will be tested in the event of negative news about fiscal adjustment in the US So far, negative news on this front (S&P downgrade, failure to reach agreement on the budget ceiling) has caused a fall in US bond yields and an increase in the price of gold. In the future a possible combination of declining inflation expectations, rising bond yields and a rise in the price of gold would send a signal that we are in a period of rising fiscal risk-premiums.

- Even in this positive scenario there are cyclical concerns as an excessive rise in yields could be very negative for sectors of the economy which are sensitive to interest rates, such as the real estate market. Such a scenario would actually have a negative impact but will require a parallel surge in inflation expectations and a 30-2 year curve steepening. The curve has steepened by 26 bps in the last month, but at 316 bp is below the 5-year highs (400 bps). In parallel inflationary expectations are in decline, falling by 20bp last month both on the 10 and 30 year horizon. Since the beginning of the year the decline has been more significant (50 bps).

- As far as the Eurozone crisis goes, there remains a state of relative calm in anticipation of the German elections in September. Recent developments connected with progress in the banking union process, are mainly related to the issue of the Single Supervisor (ECB) having left aside the most sensitive, but also more fundamental issues of the Single Resolution Authority and especially the common guarantee of deposits. This last point is of particular importance as it will determine the degree of "reciprocity" that will prevail in the future of the Union, and in the end is closely linked to the issue of a deeper fiscal union. The debate on these issues has probably been postponed until after the German elections and could be a cause for rising fluctuations. The European front remains in our view the major source of uncertainty for the next 3-6 months.

- As far as China is concerned, in the economic analysis of the first part we presented the risks that appear in trying to steer the structure of an economy with excess investment and high savings towards consumption. The central bank has recently presented a softer profile and has provided much needed liquidity to the market. However, in the long term, the effects of its intent (according to recent announcements by the Bank of China) to contain credit expansion depending on the rate of economic growth is expected to increase the risk of further negative economic news from the country, with negative implications for global development and markets.

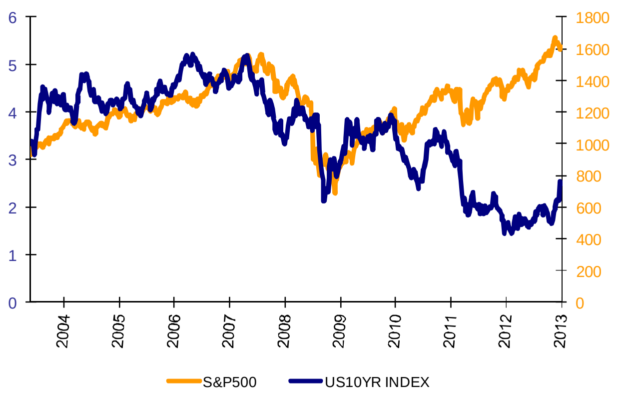
Equity Markets

- Equity markets came under pressure during the previous month, due to worries about the possible slower pace of the Fed's QE. Other reasons were China's credit crunch and negative economic releases and the unrest in several emerging economies, such as Egypt, Turkey and Brazil. In this uncertain environment, we observe that developed markets have performed better than emerging ones, even though the main source of uncertainty (the Fed's possible slower QE pace) comes from the developed markets. Thus, the S&P Index corrected by 1.5% and Japan's equities earned 0.6%, while the emerging markets fell by 6.8%, with China falling by 12% (traded on HK stock market), while Turkey and Brazil dropped by 11%. Since the beginning of the current year, the S&P has posted a return of 13%, Japan of 33%, UK of 6.3%, while the Euroarea has posted a small fall of 0.4%. On the other hand, the emerging markets have posted a sizable drop of 11%. More specifically China corrected by 19%, Brazil by 22% and Russia by 16% while India has posted a small increase of 0.7%.

- The markets have shown a disproportionate reaction to monetary policy worries, not only because of the sizable difference between inflation and the unemployment rate, but because a fall in the unemployment rate is a more likely reason for monetary policy tightening than the rise in inflation, as almost all inflation indicators (such as gold and inflation linked bonds) signal a very low probability of an upside inflation surprise. We do not expect an increasing volatility trend (which could further drive equity prices down), as the markets will eventually discount a very gradual normalization path scenario in liquidity provided by the central banks.

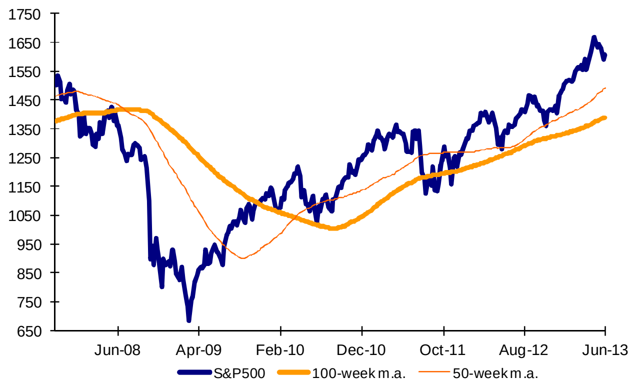
- As far as the fundamental–quantitative indications of the US equities are concerned, the recent downward pressure has led the S&P500 P/E ratio into the region of 16, which is equal to its long-term average. Nevertheless, the increase in the long-term maturity Treasuries (by 90 bps for the thirty-year maturity) and the increase in the corporate bond yield spread (by 30 bps) bear down on the S&P500 valuation. Moreover, the current level of the S&P500 is not justified by its co-variations with the other markets (bonds, commodities and other equity markets). Thus, we observe deterioration in both the fundamental view (to neutral with negative predisposition) and technical view (it still remains marginally positive) for US equities. The overall view still remains neutral with marginally positive predisposition.

S&P500 & US 10 year Yield



Source: Bloomberg, Piraeus Bank Research

S&P500



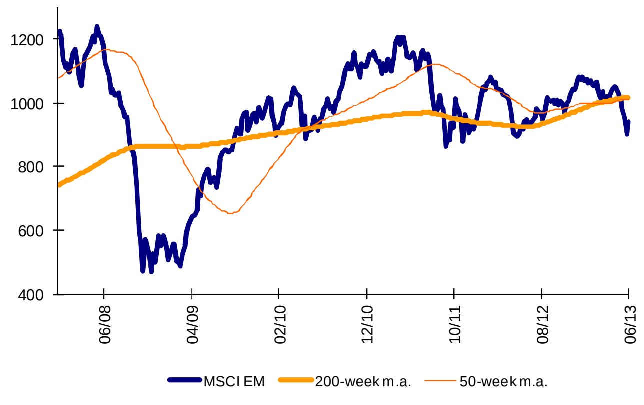
Source: Bloomberg, Piraeus Bank Research

- In the emerging equity markets, the recent downward pressure has started to reflect negative developments (such as the decrease in corporate profits, deceleration in the US manufacturing sector, USD appreciation). Furthermore, the fall in the P/E ratio to 11.4 has led to an improvement in the fundamental view. Additionally, the emerging markets have started to appear cheap if we take into consideration their co-variations with the other markets (bonds, commodities, other equity markets). There are also other positive factors, such as the fall in China's inflation rate and the decrease in the difference (which, however, still has a negative value) between the industrial production yearly growth rate and inflation rate in the BRICs.

- On the other hand, there are other negative factors which cannot be quantified, such as the social unrest in Egypt, Turkey and Brazil. This can be interpreted as part of a process by which a section of the middle class society claims a more active role in the decision-making process. In the long run, more deeply established democratic rules will be a very positive development, while in the medium term, this will probably trigger higher volatility and uncertainty, as the existing power structures will try to defend their privileges.

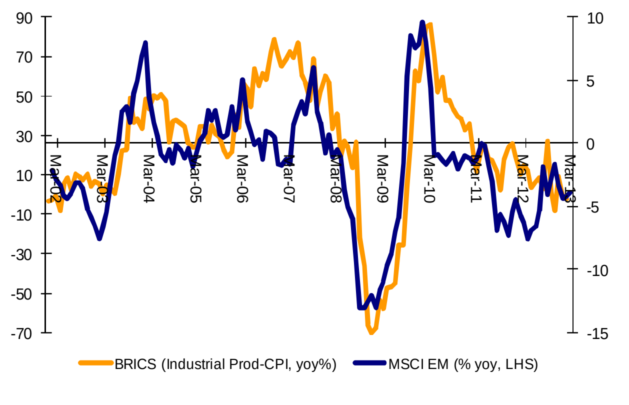
- The other source of uncertainty is China's financial sector and the structural changes that will probably take place there. On the positive side, the technical view of China's financial sector equities is marginally worse than the other sectors and their P/E ratio has fallen to an all-time low level (6.5). On the negative side, markets doubt China's equity accounting data, as many financial equities appear to have a P/BV ratio lower than one. Our fundamental–quantitative view for the emerging markets has improved from neutral to neutral with positive predisposition, while our technical view has also improved from negative to neutral with negative predisposition, as most of the emerging markets seem to be oversold over the medium term. Therefore, our overall view has improved, but it still remains neutral with marginally negative predisposition.

MSCI Emerging Market Index



Source: Bloomberg, Piraeus Bank Research

MSCI EM & BRIC Ind. Production- Inflation (yoy%)



Source: Bloomberg, Piraeus Bank Research

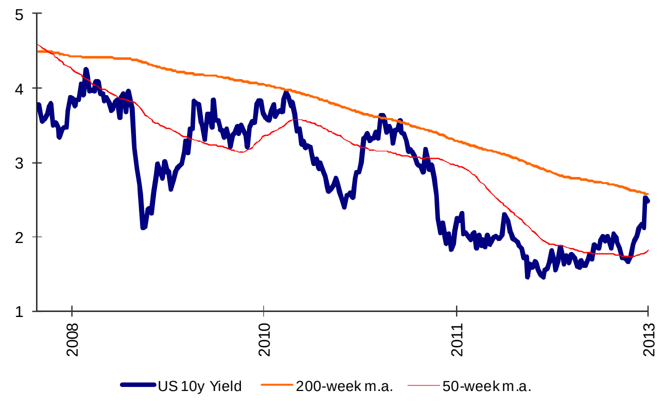
Bond Markets

- Bond markets came under pressure, as ten-year yields increased by 37bps for US Treasuries and by 23bps for German Bunds. At the same time, there were relatively contained moves in the two-year yields, which rose by 5bps and 11 bps, respectively. Since 30/4, the ten-year yield has gone up by 80 bps for US Treasuries and by 52 bps for German Bunds. There has also been an increase in the 10Y – 2Y yield curve slope, by 66 bps for US Treasuries and by 33 bps for German Bunds. Japan's bond market stabilized after increases of 8 bps and 30 bps for the two-year and ten-year yields respectively during the previous two month period.

- The increase in US yields cannot be justified by the US economic releases, not only in absolute terms, but also in relative terms, taking into consideration the comparison with analysts' expectations. We estimate the expected ten-year US yield by using the economic surprise indicators of Citigroup and Bloomberg. We find that its fair value would be consistent with a fall of 8 bps, instead of the actual rise of 80 bps. A similar conclusion can be reached if we take into consideration the economic data. The fall in the yearly growth rate of M2 money supply versus M1, the fall in the capacity utilization rate and the increase in the oil price should result in a fall in US yields,, rather than a rise. The long-term maturity yields seem to be cheaper than the short-term maturity yields, as the yield curve slopes have become very steep. The US bond market is still expensive, but to a lesser extent than last month (denoting a negative fundamental view), while the technical view has become neutral with negative predisposition, compared to the positive predisposition of last month. The overall view has deteriorated and remains neutral with negative predisposition.

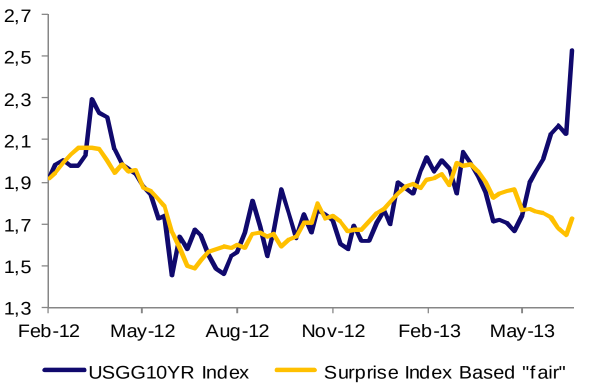
- We should note that at this stage, given the analysis above, a brief correction in US yields seems to be likely, given the recent large increase. Without significantly positive economic releases, an additional increase in US yields would signal panic and could have negative consequences for both markets and the economy. For this reason, Bernanke and other Fed MPC members have emphasized a milder monetary tightening process.

US 10 Year Yield



Source: Bloomberg, Piraeus Bank Research

US 10 year Yield vs. Analyst Surprise Index



Source: Bloomberg, Piraeus Bank Research

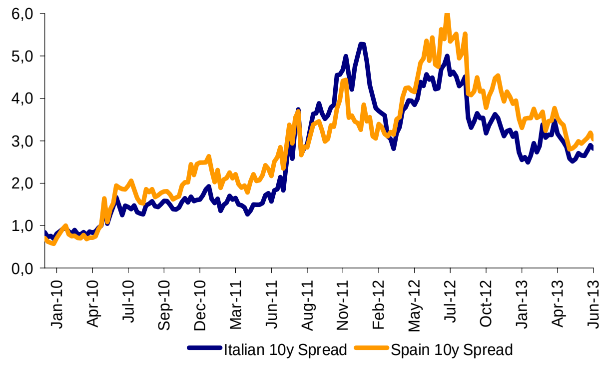
- In Germany, the increase in yields is more justified, as the increase in the inflation rate, the leading IFO Indicator and oil prices outweigh the decrease in the M3 money supply growth rate and the increase in volatility. As in the case of the US yields, the ten-year German yield seems to be marginally cheap, if we take into consideration the two-year yield level. The two-year German yield seems to be more expensive, given the recent positive economic data releases. The fundamental–quantitative view remains negative. The technical view has deteriorated from neutral with positive predisposition to neutral with negative predisposition. The overall view has deteriorated and remains neutral with negative predisposition.

- In the Euro area periphery, the increase in yields was combined with a marginal widening of spreads in Italy and Spain, while in the cases of Greece and Portugal the widening was more substantial. As we have mentioned before, the Italian and Spanish ten-year spreads (versus Germany) of 2.74% and 2.98% respectively do NOT sufficiently reflect the cohesion risks in the Euro area, especially if we take into consideration the very slow pace of the banking and fiscal integration process.

German 10 Year Yield

Source: Bloomberg, Piraeus Bank Research

Italian & Spanish 10y Spreads vs. Germany



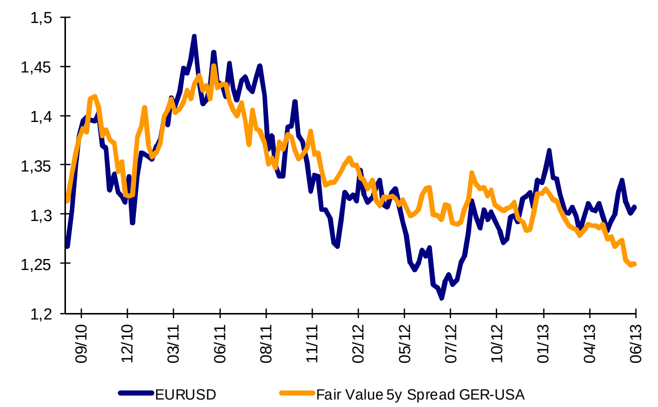
Source: Bloomberg, Piraeus Bank Research

FOREX Markets

- The EURUSD rate was under contained pressure (-0.4%), having fallen by 1.2% since the beginning of the current year. Currently, the EURUSD is experiencing opposite driving structural and cyclical forces which affect the forex markets. We observe a marginal cyclical improvement in the data from the EZ compared to the US and a relative deceleration in the money supply growth rate of the US compared to the EZ (the difference in the money supply growth rate between the EZ and US constitutes a very significant variable for the interpretation of the exchange rate volatility). Those improvements have not provided the euro currency with enough support, due to the recent worries about an earlier return to US monetary policy normalcy. Moreover, the difference between the yield of US Treasuries and German Bunds has increased since Bernanke's speech. Hence, the spread is likely to narrow, unless there are surprising US economic releases. According to the US Treasuries – German Bunds spreads, the EURUSD still remains at a high level. On the other hand, the very slow integration pace and general climate of inactivity due to the impending German elections maintain the periphery's spreads at very low levels, pointing to a relatively undervalued EURUSD. At the same time, the tumble in the gold price reflects higher USD confidence in general. The effect of the combination of higher US real interest rates and the lower gold price is prevailing over the improvement in the cyclical US–Germany economic data. In the longer term, we expect a widening in the US Treasuries – German Bunds spreads and in the Euroarea periphery's spreads, which would negatively affect the EURUSD exchange rate.

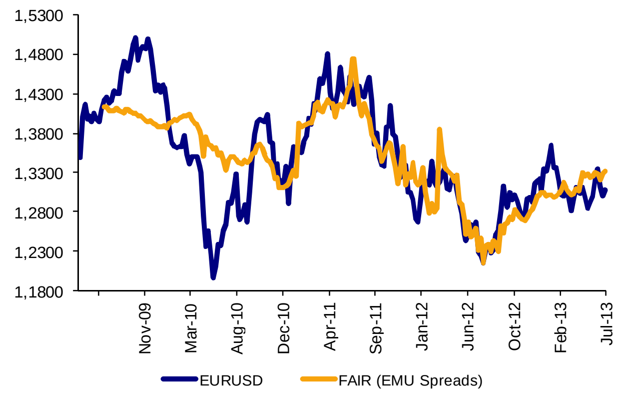
- The above factors result in a deterioration of the fundamental–quantitative view (to neutral, but without positive predisposition). At the same time, we observe an improvement in the technical view (from negative to neutral, but with negative predisposition). The overall view is neutral with negative predisposition. For the next three months, we expect a range of 1.2750 – 1.3260. For the next six months, we expect a range of 1.23 – 1.35. Our 12-month target value remains at 1.26.

EURUSD, GER-US 5 year Spread



Source: Bloomberg, Piraeus Bank Research

EURUSD & Intra-Eurozone Spreads

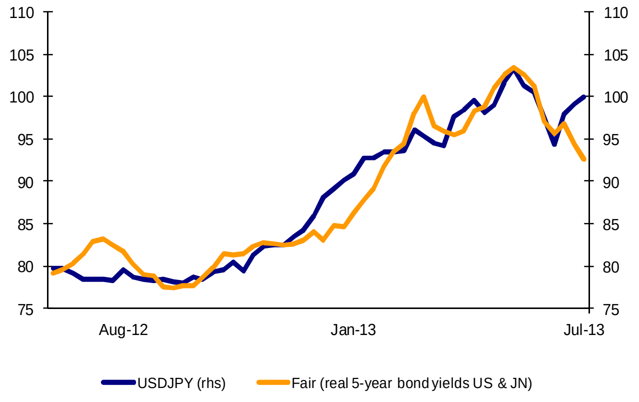


Source: Bloomberg, Piraeus Bank Research

- The USDJPY rate stayed almost unchanged during the previous month, as the worries about an out-of-control increase in JP Bond yields led to JPY purchases as investors worried about a failure of the BoJ's policies. This resulted in a lower USDJPY. Later, Bernanke's comments pushed up the USD, leading to a higher USDJPY. As we have mentioned before, the main driving force for the USDJPY exchange rate is the expectations for the JP inflation rate and consequently the successful outcome of the BoJ's applied policy. The increase in the Core inflation rate from -0.4% to 0.0% in June is a positive sign. Nevertheless, during the previous month we observed a decrease in the expected five-year inflation rate of 50 bps in Japan and 7 bps in the US. At the same time, the five-year nominal yield fell by 4 bps in Japan, while US Treasuries increased by 37 bps. Thus, the real yield in the US fell less (by 3 bps) than in Japan. This probably hindered the increase in the USDJPY exchange rate. We estimate that the USDJPY rate is four times more sensitive to changes in JP real interest rates (with negative sign) than to changes in US real interest rates (with positive sign). In the medium term, we estimate range of 95 – 105. Our twelve-month target is 95.

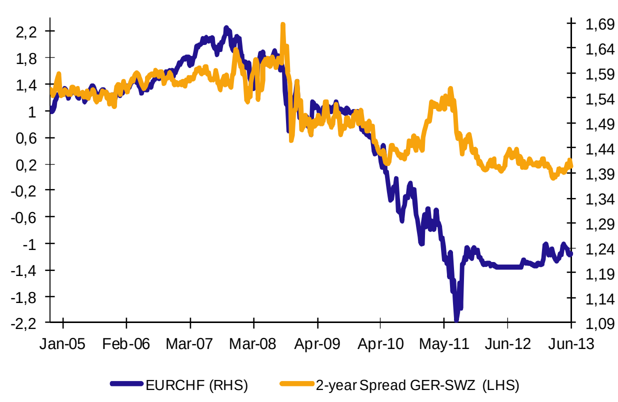
- The EURCHF exchange rate stayed almost unchanged during the previous month, and stands at 1.24. In Switzerland, economic releases were mixed, as the PMI manufacturing increased, while the KOF leading Indicator declined. Moreover, the yearly growth rate of M3 money supply decelerated, while the inflation rate increased from -0.4% to -0.2%. Another positive development was the impressive acceleration in the retail sales annual growth rate from 0.8% to 3.3%. We still believe that the exchange rate remains at a very low level (the CHF is overvalued) in relation to the interest rate difference between Switzerland and the Euroarea and the majority of cyclical economic developments.

USDJPY



Source: Bloomberg, Piraeus Bank Research

EURCHF



Source: Bloomberg, Piraeus Bank Research

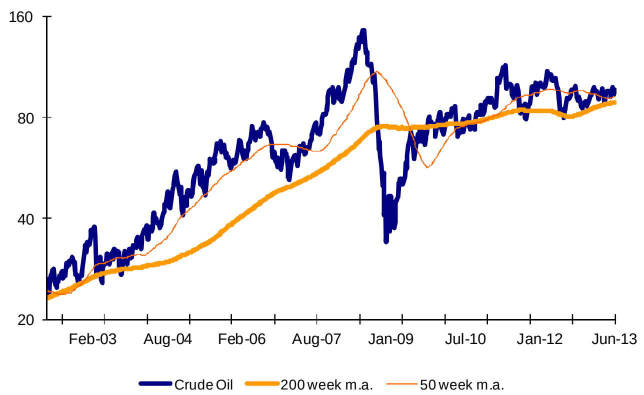
Commodities

- Several factors maintain the downward pressure on the majority of commodities. The deterioration in China's manufacturing data, China's mini credit crunch and the possible reduction in US excess liquidity led the CCI down by 5% (-9.9% since the beginning of the current year). Cyclical metals also maintained a descending trend (-7% for the LME Index), while precious metals followed the same path (-10% for gold, -7% for platinum). Agricultural commodities were under less pressure (-2.5%), while the oil prices went up (Crude +5%, Brent +2%). Although commodities prices have started to converge on levels which are more consistent with the global economic developments, their trend remains negative (in CCI terms).

- In oil markets, the USD appreciation had a effect negative on prices, while developments concerning production, refinement, reserves and demand were positive. We continue to believe that the current prices post significant divergence according to the demand – supply gap and the cyclical economic developments in both developed and emerging markets. A plausible justification may be the higher geopolitical risk premium, stemming from cases such as Syria and (recently) Egypt. The fundamental–quantitative view remains negative, while the technical view has improved from neutral with negative predisposition to neutral with positive predisposition. The overall view has improved from negative to neutral with negative predisposition.

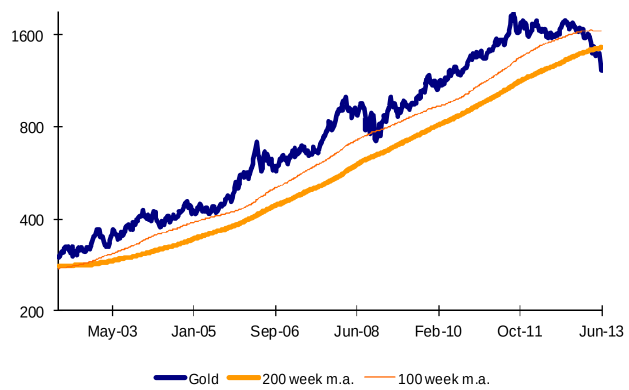
- Heightened worries about the possible slower pace of the Fed's QE, combined with the further fall in inflationary expectations, increased real US yields leading the gold price to decline. The price of gold has fallen by 32% since its 2012 high. This fall has covered a big part of its overvaluation, leading to a sizable improvement in the fundamental–quantitative view from negative to neutral with a small negative predisposition. At the same time, the technical view has also improved from negative to neutral with a small positive predisposition, as it is extremely oversold, which could lead to a relief rally. The overall view has improved to neutral with a marginal positive (from negative) predisposition. In the long run, a further gradual real interest rate increase would lead to a fall in the gold price.

Crude Oil



Source: Bloomberg, Piraeus Bank Research

Gold



Source: Bloomberg, Piraeus Bank Research

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