Global Economic & Market Monthly Review: Towards a Positive 2013

ECONOMIC ANALYSIS & RESEARCH DIVISION

Executive Summary

November 2012

The economic momentum in the U.S. remains moderately positive. Relatively high inventories stand in the way of acceleration in manufacturing, while improvements in employment and real estate support consumer spending. We expect that major risks in connection to the "fiscal cliff" will be avoided.

In the Eurozone, the divergence between expectations inherent in the markets (optimistic) and the readings of most leading indicators (pessimistic) indicate a belief that the current economic slowdown is mainly due to the negative psychology created by the Eurozone crisis. Although there has been significant progress on the European front, markets at this stage may underestimate difficulties in applying many measures as well as the negative dynamics of the applied austerity policies.

The prospect of an expansionary policy in Japan may lead to a temporary boost in the economy and Chinese economic data improved only marginally, while the new leadership of the Communist Party has not yet made any substantial announcements about economic policy.

It is possible that we are entering a period of stable or even declining volatility, with a possible exception of a (temporary) spike related to the cliff in the U.S. At the same time, Eurozone risks could remain subdued during the lead-up to the German elections in September. On the Asian front developments in China are more likely to cause a positive than a negative surprise. Central banks' commitment to continue to provide high liquidity at a time of slow positive growth is very important. The combination of these factors is consistent with a positive environment for risky securities for most of 2013.

American and European stocks display the most positive picture, while emerging equities (along with commodities) have not yet shown signs of stabilizing. The developments in Asia pose a risk to U.S. bonds while German ones could outperform. Recent developments have resulted in an upward momentum in the EURUSD cross and have reduced (but not removed) longer-term downside risks.

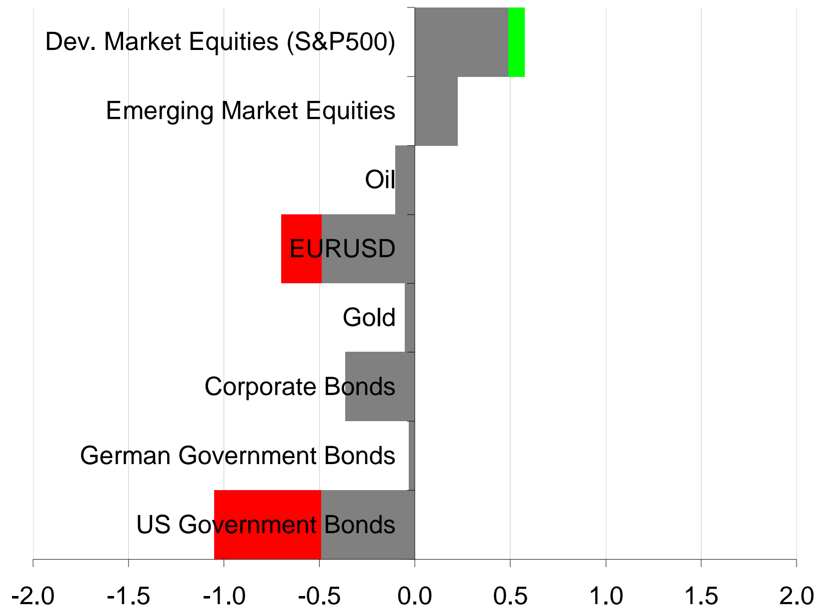
2 Global Market Risk-Return Scoring
3 Economic Developments
6 Global Market Analysis
8 Equities
9 Bonds
11 FX
13 Commodities

Ilias Lekkos •)
Lekkosi@piraeusbank.gr
Vassilis Patikis •)
PatikisV@piraeusbank.gr
Dionysis Polychronopoulos •)
Polychronopoulosd@piraeusbank.gr

Piraeus Bank
Unit Economic and Market Analysis
4 Amerikis str, 105 64, Athens
Bloomberg: <PBGR>
Tel: (+30) 210 328 8187, Fax: (+30) 210 328 860

Global Market Risk-Return Scoring

(6-9 month horizon)

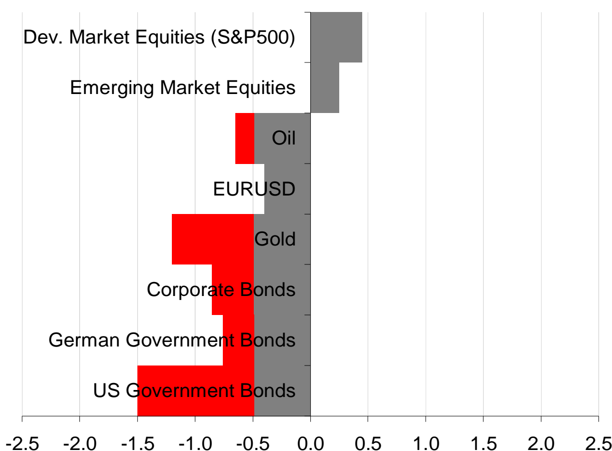


Scoring between -2.5 and 2.5, reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

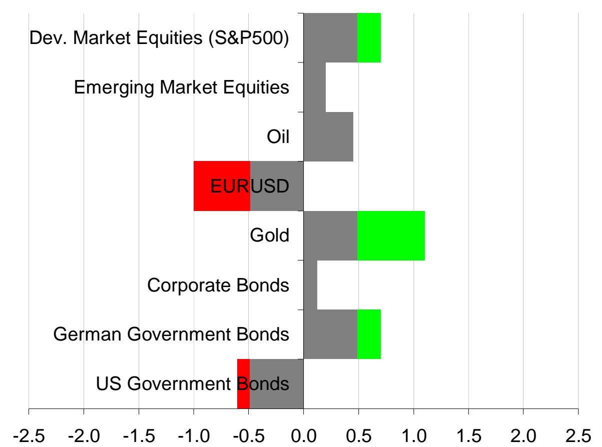
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

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

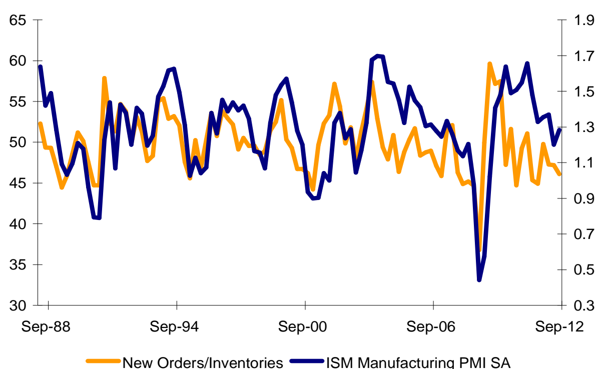
USA: Gradual Improvements

- Although Hurricane Sandy caused some negative surprises, overall US data were positive, but the prevailing trend remains below that of a "normal" recovery. The manufacturing sector is on track for a marginal recovery with the ISM index standing at 51.7 and the new orders index at a more positive 54.7. On the other hand, the ratio of new orders to inventories in manufacturing (and in durables), although improved from 0.88 to 1.08, remains at low levels that are not consistent with ISM readings above 51. Meanwhile, consumption came under pressure due to hurricane Sandy and retail sales surprised negatively. Overall, recent improvements in the labour market and real estate markets, along with the recovery in consumer confidence, provide us with a greater degree of confidence in the possibility of positive surprises in consumption. On the price front, there are no inflationary pressures as the U.S. economy continues to operate below its potential growth rate and inflation expectations have fallen recently as reflected in ten-year real bond yields (TIPS).

- In the near future, apart from the issue of the "fiscal cliff", which we will discuss later, expected changes in the FED's guidance, are quite significant. These are expected to replace the current calendar criteria in designing monetary policy (eg maintaining zero interest rates until 2014) with economic ones (eg until unemployment falls below 7% while inflation is not above 3%). Although this setting has its own problems (criteria definition), it is a very positive development, as it increases the FED's degrees of freedom and reduces the likelihood of an inflationary "error".

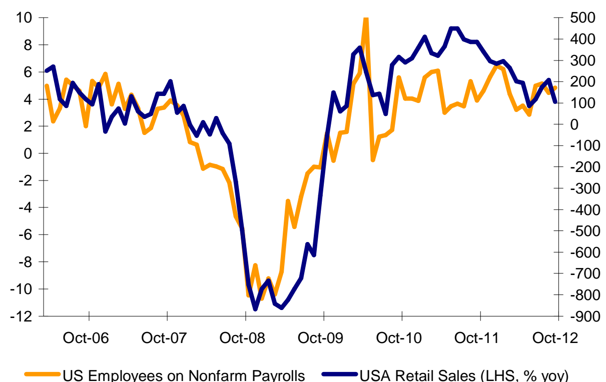
- Using market movements (equities, cyclical commodities slope of bond yields, etc) to "read" the embedded expectations for recovery, we estimate that investors expect an annual rate of 1.85% in 6 months' time (down from 3% two months ago). Using a series of leading indicators (inventories, sales, new orders, new unemployment claims) we estimate a growth rate of 2.4%. It is possible that recent concerns about the fiscal cliff in the U.S. have caused pressure on markets that are not consistent with leading indicator readings.

ISM vs New Orders/Inventories



Source: Bloomberg, Datastream, Piraeus Bank Research

Retail Sales vs Non-Farm Payrolls



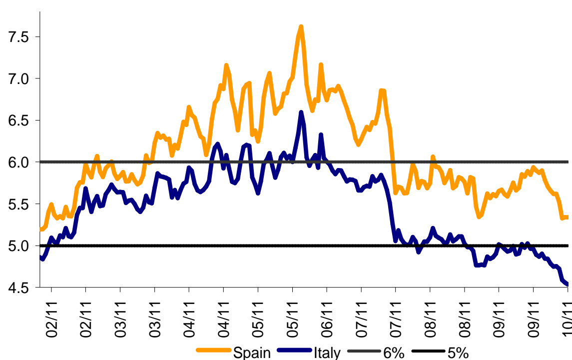
Source: Bloomberg, Datastream, Piraeus Bank Research

Eurozone: Stabilisation Trends but Still in Recession Levels

- **Eurozone economic data are still negative**, suggesting the continuation of recessionary pressures. Industrial production trends were particularly disappointing in September, with monthly decreases of 2.2% in Germany, 2.7% in France, 1.5% in Italy and 2.9% in Spain. In addition, industrial orders fell by 3.3% in Germany, underlying the continued decline in production. In parallel PMI indicators of the manufacturing sector remained consistently below 50 (at 46.2 for the entire Eurozone from 45.4 the previous month). Aside from manufacturing, there are pressures on retail sales and unemployment is still rising. Positive news was associated with the continued rise in the trade surplus and the increase of the German IFO business confidence index. Using a number of leading economic indicators, we estimate that growth in the Eurozone could deteriorate over the next six months to an annual growth rate of around -1% from -1.4% two months ago, after taking into account the reported marginal improvements. This picture contradicts growth expectations as exhibited by markets (German bond yields, regional country spreads, stock exchanges, the euro and raw materials) which point to a very high rate of over 2.5%. The recent rise in the euro alongside the reduction in spreads and rising German yields signal a significant shift in market sentiment that remains to be reflected in the leading indicators and other economic variables. Certainly, market sentiment is easily reversible, but currently we observe both a familiarization of markets with the (chaotic) European way of decision-making, but also a shift in the rhetoric of Germany which now incorporates the idea of deeper economic integration (austerity and solidarity) in return for stronger central control. This is reflected in the recent change in market behaviour (which began with the almost forgotten Draghi pledge on bond buying) and could contribute to the improvement of the general economic climate. From this point onwards, however, implementation risks will be formidable, especially on the issue of solidarity (from creditor countries) and on that of central control (in the debtor countries).

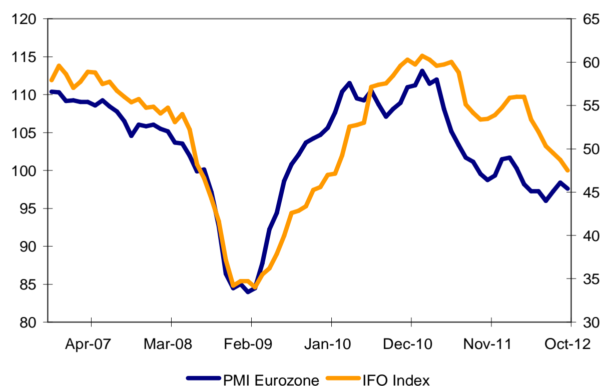
- Despite the economic downturn, the ECB does not appear willing to cut interest rates as it probably feels that the recession is largely due to the deterioration of psychology as a result of the crisis which is dealt with non-traditional ways. So, at this stage it remains relatively optimistic, along with the markets, that the recent improvements will be permanent and that leading indicators exaggerate the negative economic momentum. Up to a point this is a reality but we expect fiscal policy to remain restrictive and uncertainty high. So our main scenario still contains a reduction in interest rates to 0.50% in the first quarter of 2013.

10-Year Yields Spain & Italy



Source: Bloomberg, Datastream, Piraeus Bank Research

PMI Eurozone vs German IFO



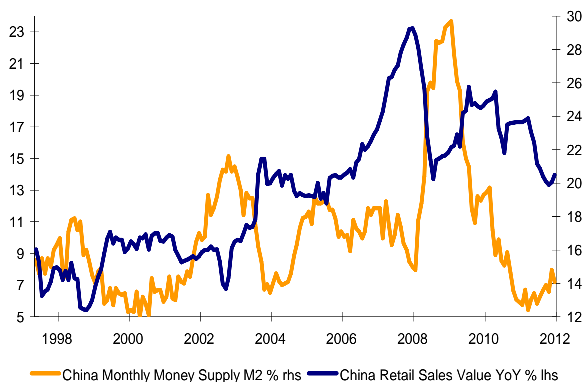
Source: Bloomberg, Datastream, Piraeus Bank Research

Japan & China: Countries of Setting Surpluses

- **Recent data in China showed marginal improvements** mainly in the manufacturing sector which has started to grow again at close to normal rates, with the PMI manufacturing indices marginally exceeding 50. Furthermore, a positive surprise was seen in the trade surplus, but also in indicators such as industrial production and retail sales. A negative surprise occurred in the annual monetary growth (M2), which fell to 14.1% from 14.8%. A key factor that will determine future economic dynamics in China is the new political leadership of the Communist Party (CCP). The change at the top of the CCP was smooth but so far there have been no specific announcements regarding economic policy. Most analysts conclude that the new leadership will focus on the support of labour income and consumption which has fallen to 49% of GDP from 59.6% in 2002. In this effort, the main obstacle is the decline in corporate profits, due to excess capacity in manufacturing, which is slowing down annual wage growth to 12% from 14.4% in 2011. This momentum, if continued, will be an obstacle in the effort to re-orient the Chinese economy from exports to consumption. Such a development is particularly necessary for the world economy as the ongoing deleveraging of the private sector and the necessary future deleveraging of the public one in the developed world, continues to generate a significant shortfall in global demand.

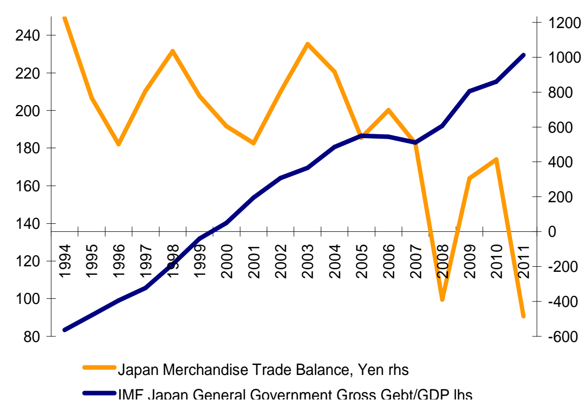
- **This shift in demand from West to East is also linked to developments in Japan,** where the announcement of elections and the probable victory of the liberal party will probably lead to measures that stimulate domestic demand along with a significant weakening of the yen (which has already fallen about 6% against the dollar since mid-September). Supporting this trend is also the "disappearance" of the Japanese trade surplus resulting from a combination of decreasing global demand and decelerating Japanese productivity. At this stage, the combination of a possible higher consumption rate and a trade balance deficit imperils the support of government debt that stands at 205% of GDP (230% in gross terms) as Japanese savings at some point will not be able to absorb an increasing future Japanese bond issuance. This development could initially lead to significantly higher Japanese bond yields, a depreciating yen and a rise in Japanese inflation. These trends (currency devaluation and rising bond yields) could spread to the U.S. (especially if accompanied by a successful transition to lower Chinese trade surpluses) as this will lead to a significant reduction in Asian demand for U.S. bonds, along with rising inflation. All this is likely to contribute to a temporary boost in global demand.

China Retail Sales & M2, %yoy



Source: Bloomberg, Piraeus Bank Research

Japan: Government Debt %ΑΕΠ vs Trade Balance



Source: Bloomberg, Piraeus Bank Research

MARKETS

Factor Overview

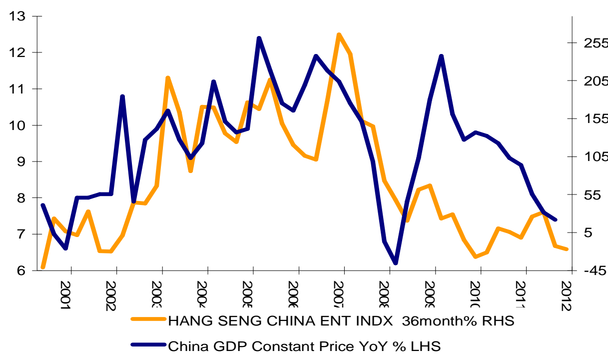
- **After a small increase in volatility and a decrease in the appetite for investment risk, signs of improvement in the investment climate have resurfaced**. As regards the U.S. fiscal cliff, although time is running out and the two sides remain fixed in their positions, the weight of probabilities lean towards a solution, as the alternative could cause a significant recession in the U.S., which would lead to an unemployment rate of 9%, according to the estimates of the Congressional Budget Office. So, given such a large potential shock, the motives for finding a solution are clear, and indeed a solution could be found as elections are behind us and there are no incentives for populist approaches and neither of the two parties would like to be charged with causing a recession. Also, according to many analysts of the political scene in the U.S., although official announcements from the two parties do not indicate a change in position, the tone of the statements indicates an increased likelihood of a positive outcome. At this stage it should also be noted, however, that apart from the recent post-election turmoil, markets are not too worried about the possibility of failure. This especially applies to equity markets, as the S&P500 is 12% higher than at the beginning of the year. In bond markets there may be some more upside potential in yields in the event of a positive outcome, as they are 22 bp lower than at the beginning of the year (for the US 10-year treasury). Of course, part of this movement could be associated with the FED policy of quantitative easing.

- **In the U.S. the problem of the fiscal cliff is relatively straightforward as it has a small number of "players"** (the two parties) who to a great degree share the same goals (positive growth in the U.S.) and to a large extent the means for managing the crisis are within their control. For these reasons, we consider a solution possible. The Eurozone crisis lacks these features. Participants are many (a multitude of European governments, opposition parties, the IMF, investors) with goals that are not always aligned (eg, the IMF non-European shareholders, opposition parties in key countries). Also, the crisis managers lack total control of the outcome (uncertainty of implementation and success of structural measures, moods of people in relation to the prospect and the benefits of stronger European integration), while the German elections in September 2013 further complicate the dynamics. In such a system, the possibility of error remains high, even if the end result is to nobody's benefit. So, while at this stage markets appear optimistic after the German change in rhetoric regarding a Greek exit and stronger European integration, it is difficult to assess the veracity of these statements as the elections per se would be enough to advocate such a change in rhetoric in an effort to avoid accidents. Also a large degree of uncertainty is associated with peoples' attitude towards deeper political integration, where the increase in "solidarity" in exchange for a the loss of sovereignty could prove unacceptable especially in a sluggish growth period. If the Catalans are not willing to remain in a solidarity agreement with other Spaniards, why would the Germans accept joining one now? A positive aspect to be considered in this conjuncture is that a European solution would be more likely with an increase in German wages, which could be made easier in an election year. Overall, with the EURUSD close to 1.30 markets seem to overestimate the Europeans' ability to achieve deeper integration (perhaps a side-effect of the German elections), as they underestimated their will for such an endeavor at 1.20.

- **Developments in Asia, mostly in China are a third point of markets' focus**. Although a series of recent data have surprised positively, the main trend remains mostly negative. This trend, along with the absence of specific announcements of economic policy has led to negative returns for Chinese A-shares stocks (-8.3%) and marginally positive for commodities (1.7% CCI Index) since the beginning of the year. Emerging market shares have produced positive returns overall (8.6%) but lower than their developed counterparts losing the lead which characterized them during the last decade. Given the potential of the Chinese economy, the local equity market seems to anticipate too mild an economic environment and so the weight of probability must be tilted towards a positive surprise. However, at this stage we remain cautious as the technical picture of Chinese A-shares remains a source of concern reducing the likelihood of such a development in the short to medium term. Thus, it is possible that only after the first quarter of 2013 will positive surprises be observed on this front.

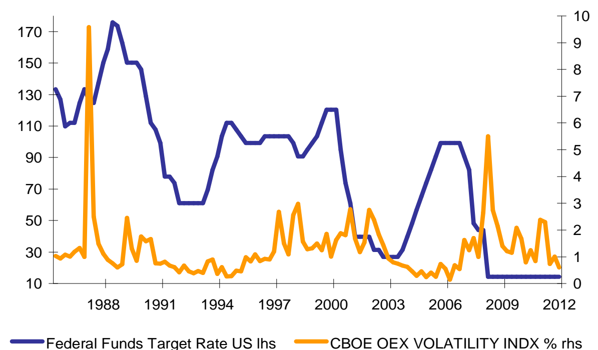
- **In summary, it is likely that we are entering a period of stable or declining volatility** with a possible exception of a (possibly temporary) increase in volatility due to fiscal cliff concerns towards the end of the year. At the same time, in Europe it is likely that we are entering a period of relative calm as we approach the German elections, but as we noted earlier a number of unquantifiable variables could cause volatility. On the Asian front, developments in China are more likely to cause a positive surprise than a negative one. Finally, as mentioned in the section on Japan, developments there could contribute to a boost in international demand that would probably be proved temporary given the high government debt and other factors (productivity, demographics). Central banks' commitment to continue to provide excess liquidity at a time of slow positive growth, significant structural risks and higher volatility is a very positive factor. The combination of these factors is consistent with a positive environment for risky securities for most of 2013.

Chinese H-Shares vs Real Growth



Source: Bloomberg, Piraeus Bank Research

US Equity Implied Vol. vs FED Funds Rate



Source: Bloomberg, Piraeus Bank Research

Equity markets

- **Equity markets came under pressure during November** but finally climbed back into either positive (Eurostoxx50 1.6%, Nikkei225 5,2%, ASE 5.4%) or slightly negative territory (S&P500 -0.4%, MSCI Emerging Mkts -0.02%), as concerns about the election results and the fiscal cliff in the U.S. were offset by positive Eurozone news and the prospect of a more expansive Japanese economic policy.

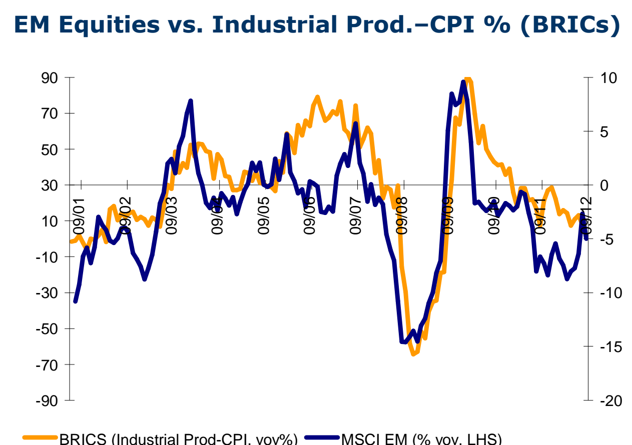
- **Equity markets in the U.S. continue to show a relatively positive picture** that is expected to persist, with the exception of a (possibly) transitory spike in volatility related to the negotiations on the U.S. fiscal front. The combination of moderate economic growth and persistent unemployment is an implicit guarantee of the continuation of the provision of excess liquidity by the FED, which is a key pillar of market support that could serve as a counterweight to a slowdown in profitability. Analysts expect earnings' growth of around 10% in 2013 and risks are on the downside given the anaemic recovery and the observed slowdown in sales. Regarding valuations, the S&P500 remains fair to cheap with the P/E ratio at 14.3. Evidence from valuation, profitability and the weak recovery is consistent with a neutral rating regarding the fundamentals of the U.S. equity market (with an increased positive predisposition compared to the previous month). *On the other hand, after the recent correction, the S&P500 has confirmed its upward trend and the technical picture is upgraded to positive. The overall picture is also upgraded to positive (from neutral for the previous month).*

- **Emerging market equities** have continued to underperform, but the recent divergence from the developed ones appears to be shrinking. The profitability trend continues to be negative, and valuations are only marginally cheap with the P/E ratio of the MSCI Emerging Index at 12. In the four main countries (BRICs) the trend in industrial production continues to lag behind inflation, suggesting limited room for central bank easing. For the next 12 months earnings expectations of 14% remain relatively optimistic, while Chinese economic and political uncertainty remains a major barrier for a sustainable rally. *The technical picture remains neutral along with the fundamental one. The overall view also remains neutral with a marginally positive predisposition.*

S&P500

Source: Bloomberg, Piraeus Bank Research

EM Equities vs. Industrial Prod.–CPI % (BRICs)



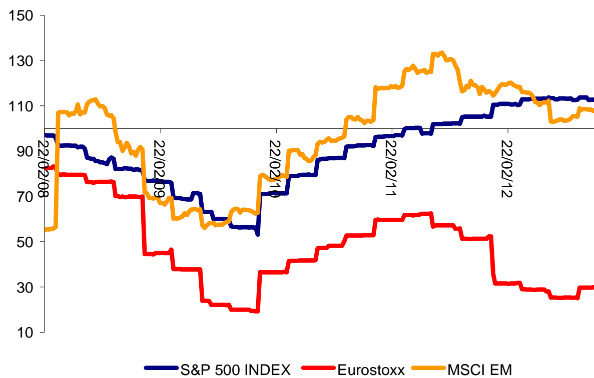
Source: Bloomberg, Piraeus Bank Research

- **The outlook for European equities** has improved, not only because broader Eurozone fears have subsided, but also because of recent significant positive surprises in profitability. During the recent announcement period, results of companies in the Eurostoxx50 index produced a significant positive surprise of 6% and 9% for sales and profitability respectively, leading to a drop in the P/E ratio from 25 to 18, despite the rise in the index by 5% from the November lows. These developments have also brought about a significant improvement in the technical picture to positive. In this context for the next few months there is still room for an over-performance of European equities.

- **The Greek stock market** maintained its upward trajectory in November (+5%) despite the surrounding

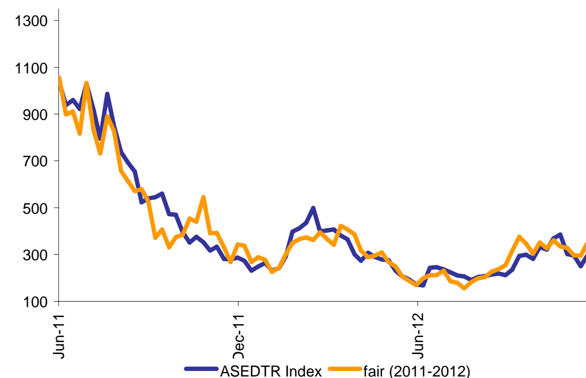
political uncertainty, as the prospect of a debt repurchase / haircut led Greek bond yields lower. As the repurchase of Greek debt will be priced on according to the 23/11 close (10-year yield area of 16.5%), the market is expected to fluctuate in the 800-900 range waiting for the impact of the repurchase on the banking sector. We note that until 23/11, Greek bank shares traded in proportion to the movement of bonds, i.e. not exaggerating in anticipation of even higher prices on their bond portfolios. Thus, pressures which are explained because of possible adverse effects of the repurchase are expected to be reversed. We note that on 23/11 the Greek banking index was trading 18% below its fair value which was estimated using the co-variation with a) 10-year Greek bond yields, b) the EURUSD rate and c) the European STOXX 600 Bank Index, (June 2011-November 2012, standard deviation of estimation error 15%).

Corporate Profitability Trends



Source: Bloomberg, Piraeus Bank Research

Greek Bank Index vs. Fair Value



Source: Bloomberg, Piraeus Bank Research

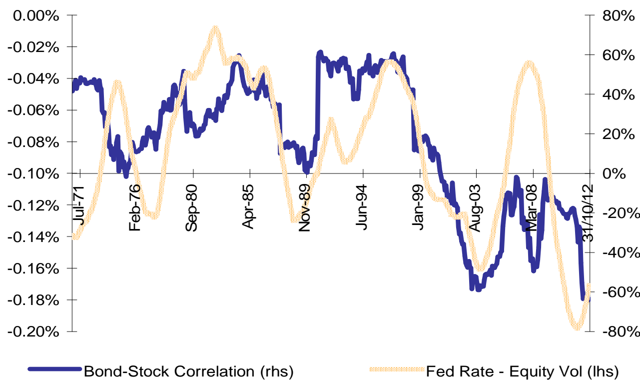
Bond Markets

- **Concerns over the financial cliff and the Eurozone crisis** have had a more lasting effect on bond markets which, despite the positive investment environment and the fall in volatility, rallied and yields declined (3 bps and 5 bps for U.S. and German 10-year maturities). The slowdown in the annual growth of broader monetary indicators (the Eurozone M3 and M2 - M1 in the U.S.) may explain part of this decline.

- **Since the beginning of this year there has been a parallel rise in both equity and bond markets.** This positive co-variance is an exception to the 10-year trend, as we calculate that from September 2001 the correlation between stock and bond monthly returns is negative. In the first graph below we display the 36-month moving correlation between the S&P500 and the 10-year treasury and see that it currently stands at an all time low of -64%. In contrast, we observe that prior to 2001 the correlation was positive with a high of 56% in September 1997. According to scientific literature and long-term experience, the correlation is negative when demand for safe havens is high (high volatility), and/or inflationary expectations low, when investors do not expect rises in interest rates and movements of stocks and bonds are determined mainly by growth expectations. The current environment of zero interest rates and mild inflation expectations provides additional incentives for substituting bonds with shares, while in periods of high volatility the shift to bonds is easier given the security provided by the FED’s zero interest rate commitment. As shown in the graph in an environment of very low interest rate - volatility differential, equity gains from portfolio diversification for investors is at its peak as the stock/bonds correlation is at its minimum. To conclude, the recent positive correlation between the two markets is considered to be rather temporary, and given our prediction of an environment of stable or declining volatility, the more likely scenario is that of downward pressures on bond prices. To the extent

that these are not caused by rising inflation, they are not expected to cause pressure on shares. But in the longer term, a more inflationary Asia (as we mentioned above) could be the beginning of a transition to positive equity/bond correlations when pressure on bonds will, initially at least, lead to some equity market weakening.

Bond, Stock Correlation & FED Rate-Equity Vol



Source: Bloomberg, Piraeus Bank Research

10-Year Bund Yield

Source: Bloomberg, Piraeus Bank Research

- **At this stage, bond yields continue to include a substantial risk premium** associated with persistent structural uncertainties making bonds expensive, mainly in the U.S. but also in Germany. The technical picture has developed to negative in the U.S. and positive in Germany. The overall view is negative for the U.S. and neutral for Germany. The implied rise of U.S.-German spreads is consistent with our expectations for a stronger recovery in the U.S.

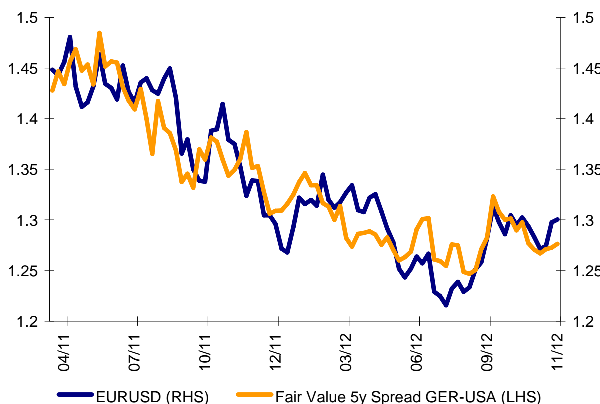
- **Corporate spreads** (IBOXX BBB index $) have risen by 20 bps since mid-October and remain relatively low compared to corporate profitability, equity volatility (which is expected to remain on a downward trajectory) and the spread's long-term average. These factors make corporate bonds fair (to marginally expensive) in relation to the sovereigns, from a fundamental standpoint. The technical picture has evolved to neutral with a positive disposition. The overall picture is neutral (with respect to sovereigns).

Forex

- **Concerns about the U.S. fiscal cliff** and the reduction of the likelihood of extreme events in the Eurozone (country exit, dissolution), have contributed to the recent EURUSD upward momentum to the 1.30 area (from recent lows of 1.26). At this level the cross exaggerates both the bond market's estimates of the relative US-EZ cyclical dynamics (as reflected in the U.S.-German spreads) and the observed decline in the spreads of other EZ countries against Germany. In relation to the first dynamic, we expect further widening of U.S.-German bond spreads and a subsequent increase in the pressure of the euro. At the same time, we note that Eurozone spreads have a significant downward momentum that is expected to continue (albeit with high volatility). Thus, despite the fact that from current levels there is a significant probability of a correction (in agreement with our measurements for a deteriorating technical picture) the medium-term potential drawdown is probably smaller than our previous estimates.

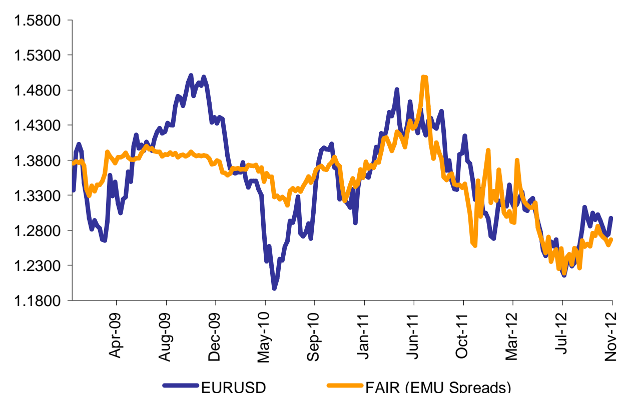
- Apart from the positive developments in the Eurozone (which we have already mentioned) fundamental macroeconomic factors such as the rise in the Eurozone trade surplus and the contraction in the difference between M2 growth between US-EZ, tend to raise our long-term estimates for the cross. In addition to this, the persistently high price of gold reveals an ongoing concern among investors about the U.S. dollar. At this stage we are not altering our 12-month target (at 1.19) but it is under review for a possible upward adjustment. *We have downgraded the technical picture to clearly negative, but have upgraded the fundamental one to marginally negative (from purely negative). For the next 1-2 months we expect trading in the 1.2550-1.3175 range. Over the next six months, we expect a 1.23-1.35 range.*

EURUSD vs 5y German-US Bond Spread



Source: Bloomberg, Piraeus Bank Research

EURUSD vs Intra-Eurozone Bond Spreads



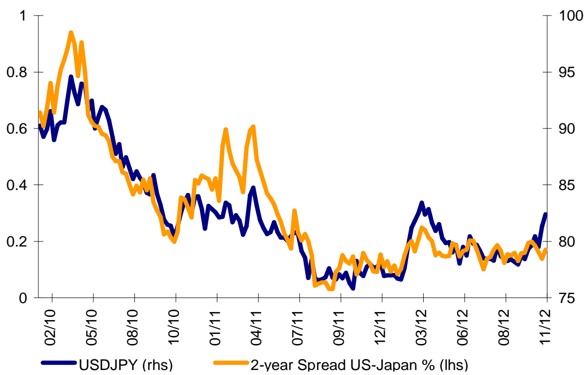
Source: Bloomberg, Piraeus Bank Research

- **The Japanese yen has remained under pressure** against the dollar (falling by approximately 2%) as the USDJPY rate approached the 83 area. As mentioned above, the prospect of a new Liberal government paves the way for a more expansionary economic policy, with a parallel increase in the BoJ's inflation target over 1% (undermining central bank independence). These factors are yen-negative, both because of the potential increase in inflation, but also because the expansionary policy is expected to affect consumption and government spending rather than productive investment. On the other hand, the possibility of a review of the intention to move away from nuclear energy (as announced by the liberal leader Shinzo Abe) could help the yen as it will likely reduce future deficits due to necessary fuel imports. At this stage, the 82 level in USDJPY is high in relation to its co-variance with both the two- and ten-year U.S.-Japanese spreads which have been relatively unchanged over the last month. So in the shorter term, we will either witness a correction of the exchange rate towards 80 or a relative rise in U.S. bond yields. Both, the positive technical picture of the USDJPY cross and the negative of the U.S. bond market suggest a limited correction towards 81 (probably in relation to concerns about the financial cliff) and then a continuation of the upward trend possibly in parallel with upward pressures on U.S. bond yields.

We are raising our annual target to 84.50.

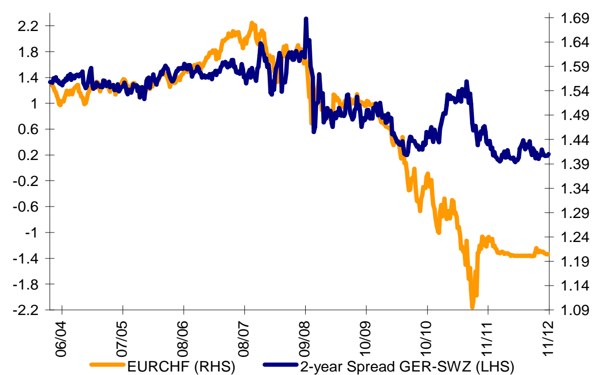
- **Despite the prevailing relative euphoria concerning the EZ crisis, the EURCHF rate** came under marginal pressure (-0.4%) during the previous month. Perhaps concerns about the fiscal cliff in the U.S. have led to a disproportionate rally on the USDCHF front (-1.7%). The economic data in Switzerland continued to surprise positively last month with inflation now just below zero (-0.1%), the manufacturing PMI index at 46.1 (from 43.6) and GDP growing at an annual 1.4% (from 0.5% in the previous quarter). Indications such as the PMI manufacturing index (under 50) and the still negative inflation rate continue to indicate the headwinds that still face the economy, advocating the preservation of the 1.20 target rate as the franc remains expensive.

USDJPY vs 2y US-Japan Bond Spread



Source: Bloomberg, Piraeus Bank Research

EURCHF vs 2y German-Swiss Bond Spread



Source: Bloomberg, Piraeus Bank Research

Commodities

- **Commodity prices** are affected by both the performance of the U.S. dollar (negative) and global growth estimates with a particular emphasis on China. The recent euphoria on the European front drove commodities higher (+1.3% for the CCI index) last month. Yet, the persistent weakness of the Chinese economy and the uncertainty regarding the outcome of the U.S. budget negotiations remain important negative factors. However, as mentioned in relation to other markets, the weight of probability is shifted towards an eventual positive surprise. The overall picture has changed from negative to neutral with a positive predisposition.

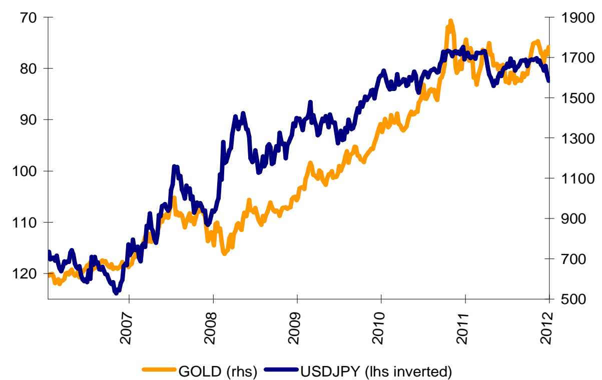
- **The price of oil (crude)** remained almost unchanged, in the region of $87 last month. Apart from the factors that affect other commodities, the prospect of a warmer winter in North America had a negative effect causing underperformance, while the European-oriented Brent rose by 2.7%. On the other hand, the stabilization of inventories after a period of accumulation had a positive effect. Overall, current supply and demand trends remain negative for oil prices while a possible decline in the U.S. dollar (in trade-weighted terms) would be a positive development. Compared with last month's assessment, there has been a significant improvement in this market as the recent price pressures coupled with the improvement of cyclical economic data have caused an improvement in both the fundamental - quantitative axis, from significant negative to marginally negative and the technical one, to neutral with a positive predisposition from negative.

- **The price of gold remained virtually unchanged last month.** The emerging trend of improving sentiment in the Eurozone supported prices (low demand for $) but the price of gold reacted negatively to statements by officials that increased the likelihood of avoiding the U.S. fiscal cliff. Overall, high liquidity, negative interest rates and the reduction of European spreads support the gold price, but it seems unable to rally further and appears to be trading within a range. We continue to believe that at recent highs of $1900 a significant number of gold-positive factors have been discounted and the weight of probability is tilted towards a trend reversal. One such development is the possible strengthening of the dollar against the yen with a parallel rise in U.S. yields which are expected to be accompanied by pressures on the price of gold, to the extent that inflationary pressures remain tame (as this will increase real long-term interest rates). We also note the significant negative correlation between gold and the USDJPY cross. *We continue to maintain a neutral point of view mainly because of the enduring positive technical picture.*

Crude Price

Source: Bloomberg, Piraeus Bank Research

Gold & USDJPY (inverted)



Source: Bloomberg, Piraeus Bank Research

Economic Analysis & Markets Division

Lekkos Ilias	Chief Economist	2103288120	Lekkosi@piraeusbank.gr
	Greek Economy		
Staggel Irini	Economist	2103288192	Staggelir@piraeusbank.gr
Kefalas Konstantinos	Junior Economist	2103739369	Kefalask@piraeusbank.gr
	Developed Economies		
Patikis Vassilis	Head of Developed Markets	2103288855	Patikisv@piraeusbank.gr
Polychronopoulos Dionysis	Economic Analyst	2103288694	Polychronopoulosd@ piraeusbank.gr
	Developing Markets		
Rotsika Dimitria	Junior Economist	2103288365	Rotsikad@piraeusbank.gr
	Sectoral Studies		
Dagalidis Athanasios	Senior Economist	2310293564	Athanasios.Dagalidis@ piraeusbank.gr
Vlachou Paraskevi	Economic Analyst	2103335631	VlachouPar@piraeusbank.gr
Fragoulidou Ifigeneia	Junior Economist	2310293403	a313@piraeusbank.gr
	Secretary		
Papioti Liana	Secretary	2103288187	PapiotiE@piraeusbank.gr

Disclaimer: This note constitute an investment advertisement, is intended solely for information purposes and it cannot in any way be considered investment advice, offer or recommendation to enter into any transaction. The information included in this note may not be construed as suitable investment for the holder, nor may it be considered as an instrument to accomplish specific investment goals or relevant financial needs of the holder and may neither be reckoned as a substitute to relevant contractual agreements between the Bank and the holder. Before entering into any transaction each individual investor should evaluate the information contained in this note and not base his/her decision solely on the information provided. This note cannot be considered investment research and consequently it was not compiled by Piraeus Bank according to the requirements of the law that are intended to ensure independence in the sector of investment research. Information comprised in this note is based on publically available sources that are considered to be reliable. Piraeus Bank cannot be held accountable for the accuracy or completeness of the information contained in this note. Views and estimates brought forward in this note represent domestic and international market trends on the date indicated in the note and they are subject to alteration without previous warning. Piraeus Bank may also include in this note investment research done by third parties. This information is not modified in any way, consequently the Bank cannot be held accountable for the content. The Piraeus Bank Group is and organization with a considerable domestic and international presence, and provides a great variety of investment services. In cases where conflicts of interest issues should arise while Piraeus Bank or the rest of the companies of the group provide investment services in relation to the information provided in this note, Piraeus Bank and the companies of the Group should be underlined that (the list is not exhaustive): a) No restrictions apply in dealing for own account, or with regards to trading in relation to portfolios managed by Piraeus Bank or companies of its group before the publication of this note, or with regards to trading before an initial public offer. b) It is possible that investment or additional services are provided to the issuers included in this note against a fee. c) It is possible that Bank or any of its subsidiaries participate in the share capital of any of the issuers included in this note or may attract other interests financial or not from them. d) The Bank or any of its subsidiaries may act a market maker or an underwriter for any of the issuers included in the note. e) Piraeus Bank may have issued similar notes with different or incompatible content with the content of this note. It should be explicitly noted that: a) Figures refer to past performances and past performances do not constitute a safe indication for future performances. b) Figures constitute simulation of past performances and they are not a safe indication of future performances. c) Any projections or other estimates are not safe indications for future performances. d) Taxation treatment of information provided in this note may differ according to the rules that govern each individual investor. Therefore the holder should seek independent advice in relation to taxation rules that may affect him/her. e) Piraeus Bank is not under any obligation to keep data and information provided herein updated.