PIRAEUS BANK

11/10/2013

Global Economic & Market Monthly Review: Strong Fundamentals, Probably Discounted By Markets

ECONOMIC ANALYSIS & RESEARCH DIVISION

Executive Summary

In the US, the positive surprises in manufacturing continue, creating expectations for acceleration in growth and corporate profitability in 2014. On the other hand, the observed deterioration of the new orders to inventories ratio might presage the end of the recent series of positive surprises in the sector.

Abating geopolitical concerns and the absence of any tapering of bond market purchases are further positive surprises as the deflation of the geopolitical premium puts pressure on the oil price and the environment of excess liquidity is maintained.

The Fed's positive surprise can be explained either by concerns about the side-effects of its exit policies or by (the Fed's) expectations for future strong negative fiscal shocks.

In the Eurozone, after the German elections, we could be entering a period where intense discussions on the nature and extent of European integration are more likely. In this context a rise of fluctuations in European markets is increasing in probability. The timing of such a change of climate remains elusive. The economic data in Japan continue to improve but the Fed's excess liquidity surprise and the recent hike in the sales tax, pose significant risks. In China cyclical data have also improved, but the shadow banking system seems to remain in an expansion mode.

A large number of positives are likely discounted in the US equity markets, which remain relatively expensive while entering a period of neutral (from positive) technical indications. Emerging market equities remain relatively cheap and are likely to enter a period of over-performance. The combination of excess Fed liquidity and the debt-ceiling concerns are particularly negative for the dollar. At this stage, as things on the European front remain quiet, the EURUSD maintains an upward trend. We are raising our 12-month target to 1.30. The price of gold is unable to benefit from the current environment as investors reduce strategic positions. The price of oil remains too high while the geopolitical premium is correcting. US government bonds appear expensive, while the long-term technical picture remains negative. However in the US fiscal concerns have a deflationary impact strengthening its bond markets. We expect any such trend to be short-lived. In Germany, government bonds have a neutral picture (with a negative bias) both in terms of valuations and relative to market dynamics. The trend in European periphery spreads remains downward, but already many positives could be discounted.

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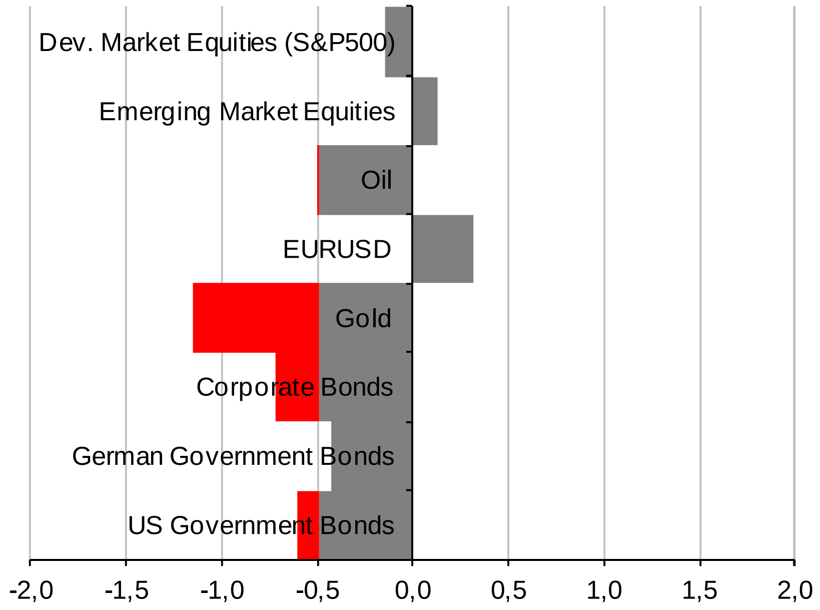
Global Market Risk-Return Scoring

(6-9 month horizon)

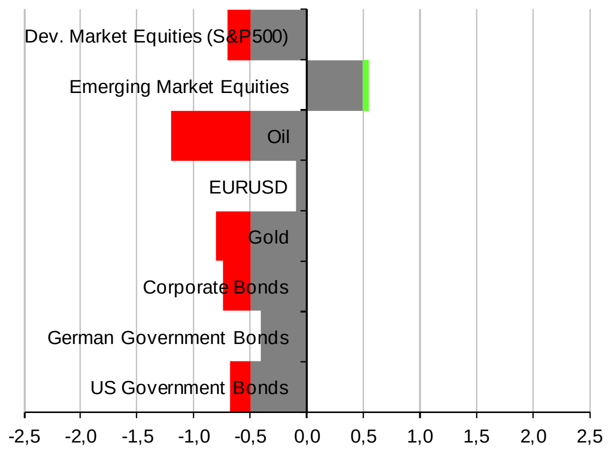


Scoring between -2.5 and 2.5 reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

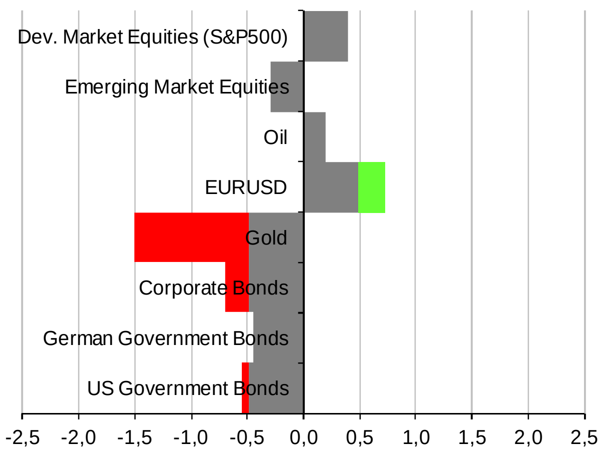
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

For long-term estimates (+9 months), more weight should be given to fundamental and quantitative factors, while for the medium term (3-6 months), more weight should be given to technical factors.

Fundamental & Quantitative Estimates



Technical Analysis



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

Economic Developments

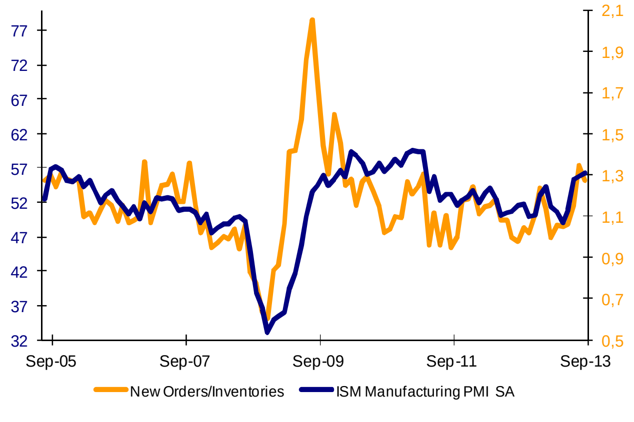
United States: Positive Trajectory

- The US economy is on a satisfactory growth path, remaining nevertheless under the (ever decreasing) weight of the structural shocks of the 2007-2009 period. The economy displays evidence of strong cyclical dynamics primarily in manufacturing as the ISM index surprised at 56.2. Although the ratio of new orders and sales to inventories has been broadly increasing recent readings could foreshadow the end of the string of recent positive surprises. So, although this ratio increased to 1.21 from 0.99 4 months ago, it decreased to 1.33 last month pointing to an ISM index closer to 53. The service sector showed a significant positive surprise as well with the corresponding ISM index climbing at 58.6. The result of these positive surprises is growing expectations for accelerating growth and profitability in 2014. The housing market which was atthe centre of the 2007 crisis, remains on a recovery path, but has recently shown (probably temporary) signs of fatigue.

- The focus remains on the high unemployment rate, the last “symptom” of the Great Recession, which combined with low inflation, is the main factor supporting the current environment of ultra-loose monetary policy and low interest rates (second chart). In this sector there has been improvement too, with unemployment falling to 7.3% from 7.8% 12 months ago, but also participation in the workforce continues to diminish to 63.2% from 63.6% a year ago and 66% in 2007. This factor combined with the relative slowdown in hiring in the last quarter (148,000 on average compared to the twelve-month average of 190,000) was a concern for the Fed and was included in the justification for not reducing the rate of bond purchases. An additional cause of concern must have been the significant rise in bond yields (approximately 140 bp from the beginning of May for the 10-year tenure) which increased the cost of borrowing in sectors such as the housing market and likely contributed to its recent slowdown.

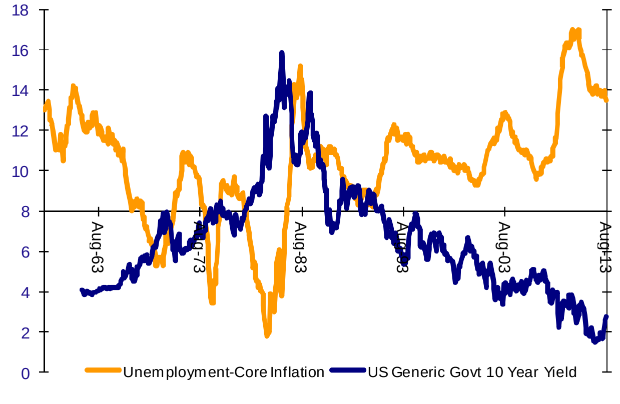
- On the positive side, productivity increased at an annualized 2.3% in the second quarter and inflation remains tame with core inflation rising by 1.8% per annum and the consumer expenditure deflator by 1.2%. Mild negative surprises were seen in the consumer sector where retail sales decelerated while consumer confidence declined. At this stage, we note that the rates of improvement in the housing and labour markets, along with the still low borrowing costs could support a higher rate of consumer spending.

ISM & New Orders / Inventories



Source: Bloomberg, Piraeus Bank Research

Unemployment-CPI % vs. 10 year yields



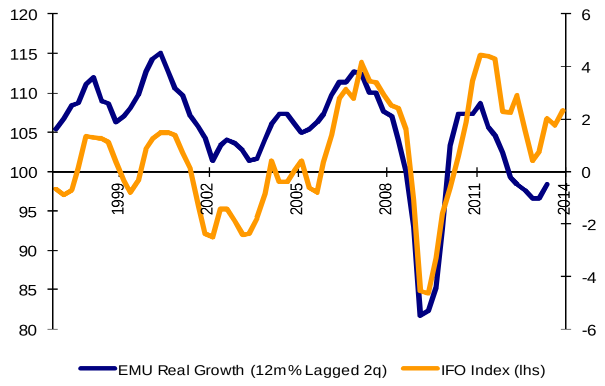
Source: Bloomberg, Piraeus Bank Research

Eurozone: Positive Trends Emerging - Institutional Uncertainty Remains

- The economic data continue to support the view that the Eurozone is exiting the current recession. We see a further rise in the PMI indicators above 50, which according to initial estimates for September were reported at 51.1 for manufacturing and at 52.1 for services. At the same time, a number of other indicators are consistent with a high level of uncertainty as retail sales (-1.3% yoy) and industrial production (-2.1% yoy) surprised negatively. Regarding industrial production, this recent result was out of synch with a number of leading indicators (such as the manufacturing PMI index) and it is possible that this will be reversed in the following month. In the monetary sector, the M3 money supply increased marginally to 2.3% (from 2.2%), while inflation fell to 1.3% from 1.6%. For the third consecutive month the EZ trade surplus retreated from the recent all-time high (of 11.10 billion). We note that from 1999 until December 2012 the barrier of 10 billion was not broken, while the average for the whole period is 2.1 billion. Data from Germany remain strong, especially in the services sector (PMI at 54.4), while leading indicators, such as the analyst and business confidence indices ZEW & IFO, continued to rise. In the manufacturing sector, we observed a slight decline in the PMI index to 51.3 from 51.8 while, like the rest of the Eurozone, industrial production contracted unexpectedly by 1.7% in one month. For the second consecutive month retail sales surprised negatively. In the countries of the periphery, the Spanish PMI manufacturing remains above 50 (51.1) while annual industrial production growth appears to have "stabilized" at -1.7% in the past three months (the quarterly average was at -6% in March), while in Italy the PMI is at 51.3 while the annual rate of industrial production recorded a deterioration to an annual -4.3% (from -2.1%).

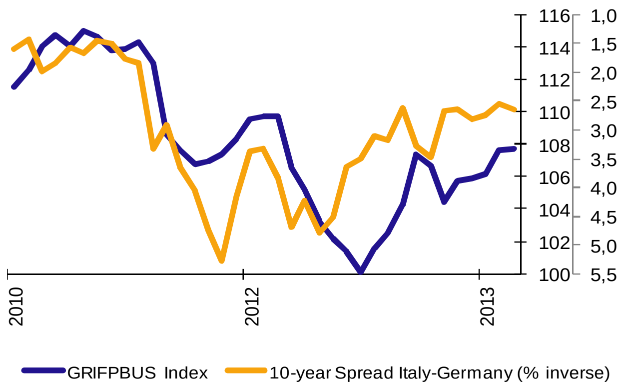
- We remain in an environment where a number of leading indicators suggest a stronger belief in an eventual recovery than the actual data (first chart). Part of this rise in confidence is related to the improvement on the Eurozone crisis front since the summer of 2012. For example in the second graph, we observe that during 2010-2012 the IFO business confidence index in Germany came under pressure during the rise of the spread between Italy and Germany (inverted in the diagram). This close negative relationship has been maintained during the recent reduction of the spread to 3%. As we will analyze below, the chances for deterioration in the UY remain significant increasing uncertainty about the recovery path.

IFO Index & Eurozone GDP %



Source: Bloomberg, Piraeus Bank Research

IFO & 10-year-Spread Italy-Germany



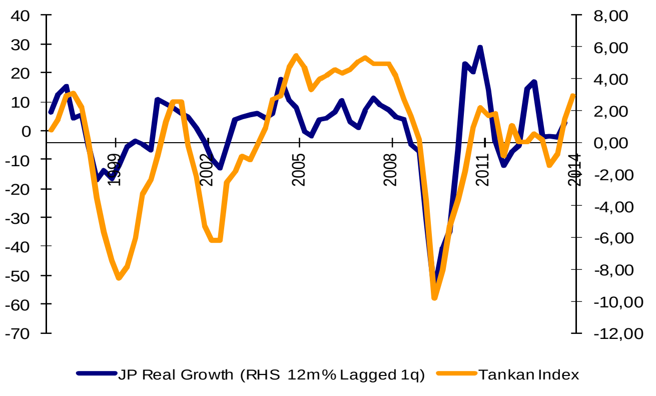
Source: Bloomberg, Piraeus Bank Research

Japan & China

- The Japanese data remain positive overall. Inflation increased to 0.7% from 0.4%, industrial production accelerated from -4.6% to 1.6% on a yearly basis and the manufacturing Tankan index surprised positively. There has been a mild improvement in the trade balance, as the three-month average has increased from 968 billion yen to -663. These improvements have coincided with the substantial depreciation of the yen in the context of the ongoing aggressive monetary easing. Since May 2012 the Japanese currency has depreciated 28% against the dollar and is now trading at 98, after having touched the 105 area. Around that high, 5-year inflation expectations reached 1.9% to retreat recently to 1.42%. Much of the improvement in the data we observed is connected with the yen depreciation and many analysts believe that devaluation against the dollar to 120 is necessary to achieve the inflation target of 2%. The reluctance of the Fed to tighten its monetary stimulus is an obstacle to a "linear" yen devaluation increasing the difficulty in achieving these objectives, while on the other hand the recent increase in the sales tax, in an effort to reduce deficits is an additional risk.

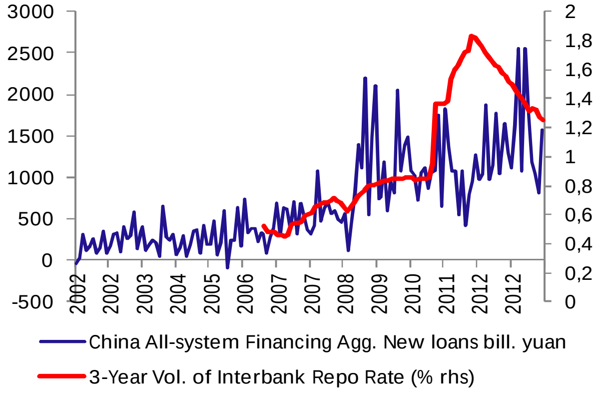
- For another month, cyclical economic data in China improved, while concerns over the need to reduce the parallel (shadow) banking sector began to subside. The manufacturing PMI index increased above 51, there has been a rise / positive surprise in industrial production and a positive surprise in retail sales. Inflation also seems to be stabilizing around 2.4%. Still, evidence from the credit - monetary front continues to point to an inflating shadow banking sector. Annual monetary growth (M2) is at 14%, which, although lower than its long-term average, remains 4% higher than the growth in nominal GDP, and 1% higher than the average trend in the difference between the two (monetary - nominal growth). The central bank has shown a friendly face during recent months offering market liquidity and pushing down borrowing costs, after the spike that it caused on 20th June in its effort to reduce shadow lending. However the 100-day average of the daily repurchase interbank rate (repo) has risen to 3.25% from 2.55% before that date. Also, data from total new borrowing and financing of the economy continue to show an upward trend (1570 billion Yuan in August from 808 in July and a 10-year average of 775 billion).

Japan GDP% & Tankan Index



Source: Bloomberg, Piraeus Bank Research

China: economy Financing & Rate Volatility



Source: Bloomberg, Piraeus Bank Research

Markets: Too many positives discounted – Volatility is still too Low

- Two of the main sources of uncertainty that potentially could have caused a rise in uncertainty and deterioration in the investment climate, surprised positively. Primarily, the Fed's decision not to alter the rate of financing of the economy, but also the avoidance of a US intervention in Syria, caused significant market relief, which in turn found support from the potential emergence of a strong government in Germany. In this context, almost all markets strengthened. In equity markets there has been a significant monthly rise (MSCI Emerging Index 6%, S&P500 3%, Eurostoxx50 7%, Nikkei225 8%). Alongside equities, bond markets also gained with the 10-year US yields declining by 17 bps and the 2-year ones by 8 bps, while in Germany 10-year yields fell by 8 bps and 2-year ones by 7 bps. At the same time Fed's decision caused rising inflation expectations by 9bps (for the 10-year average inflation as measured by inflation protected bonds). Most commodities came under pressure with the CCI Index declining by 1.1%, mainly because of pressure on the price of oil (Crude -5%, Brent -5%) and on precious metals, with gold ending the month 5% lower. In contrast, cyclical metals gained (LMEX index 2.54%). In currency markets, the Fed's surprise caused pressure on the dollar which in trade-weighted terms weakened by 2%, while it lost 2.7% vs. the euro. In the European periphery, if we exclude a widening of the Italian ten-year spreads (vs Germany) by 11 bps, we observed narrowing by 16bps in Spain and by 89 bps in Greece.

- On the geopolitical front developments are positive. Non-intervention by the US in Syria along with the initiative of the new Iranian president to open talks with the US could potentially defuse concerns in the Middle East, greatly reducing the geopolitical premium in the oil price, which remains significantly overvalued according to our estimates. So a possible fall in the price of oil into the $80 - $90 range would act as a strong positive for the global economy and markets. Certainly such a course is not expected to be linear given the very fluid and complex overall Middle East situation and the absence, at this stage, of a solution to the Syrian problem. Technically the price of oil continues to maintain a (marginally) positive long-term picture which means that the investment community remains concerned about geopolitical developments. We observe, however, a decline in the difference between the twelve and one month futures price differential from -$14 to -$9 (smaller backwardation) which could indicate a fall in the risk premium.

- On the monetary policy front, the Fed's decision not to change the rate of liquidity infusion in the US economy, had a significantly positive impact and is a positive development, in the short term at least, for the economy and markets. Still, it is difficult to explain the reasons behind the Fed's decision since during the last six months it acted to familiarize markets with the idea of reducing the rate of bond purchases (tapering). In the mean time, the economic data have surprised positively with the exception of the construction sector and a marginal deterioration in hiring outside the agricultural sector. Overall, however, the picture of the labour market has improved and housing remains on a recovery track. So, in this context, a reduction of bond purchases by 10 billion per month (market expectations) in parallel with very meek and reassuring guidance would have a neutral, maybe a positive result as it would mark the beginning of a return to normalcy. This decision, therefore, could alternatively be explained either by expectations for a strong negative fiscal shock due to a possible failure of negotiations between the White House and Congress in the upcoming discussions on the debt ceiling, or maybe, the Fed was concerned about the rise by 140 bps of (10-year) Treasuries yields since early May when the prospect of a change in the policies of the central bank began to emerge more strongly. On one hand, the Fed is rightly concerned about the negative impact on borrowing costs, on the other, this is the cost it has to "pay" given this specific policy tool and so the need for a gradual, even a 'symbolic ' reduction in bond purchases would be beneficial. A Fed which hesitates to initiate policy normalization in an environment of improving economic data is risking even greater market reactions as yields will tend to converge abruptly with ever-higher fair yields. Moreover, the possibility of an excessive reaction of investors in such an environment is increased. Last month we estimated that the rise in 10-year yields was excessive taking into account the guidance of the Fed for intervention rates, and the flow of economic data. Indeed following recent moves the 10-2 year yield slope decreased by 6 bps. Overall in view of the analysis above, we would be very hesitant to consider the maintenance of the monetary status quo in itself as a positive for markets. Although the central bank has communicated that it will keep the bonds on its balance sheet until maturity, expectations for changes in the rate of accumulation can give rise to significant market fluctuations.

- On the US economic data front, after the recent positive surprises in manufacturing the weight of probabilities has tilted towards a negative surprise which could be a possible counterweight to a potential positive surprise in consumption.

- According to our favoured scenario, the end of the German elections and the formation of a new government have the potential to initiate a period of more intensive discussions (among the Eurozone countries and the markets) in relation to the nature of the kind of European integration that will follow. This may be one of a substantial deepening, where the pooling of future risks (fiscal and banking) will entail a transfer of sovereignty to the centre (Brussels) or, alternatively, the system may eventually reach an equilibrium on the middle ground where monitoring (fiscal and banking) will be carried out centrally but finding resources for a solution will be done locally. This second scenario is more in line with German tastes as they have so far been manifested. The expected participation of social democrats in the new German government raises, only marginally the probability for deeper integration. The countries of the South would like a more substantial pooling of risks, but it is unclear if they are ready to pay the political cost. On the other hand, markets, which seem to have given the Eurozone a generous time credit, want to eliminate the lingering uncertainty over whether a euro in the North equals one euro in the South. Such an equation would be possible only in an environment of substantial risk-pooling and deeper integration. These differences are expected to emerge after the creation of the new government in Germany. In the interim, however, the markets appear patient and the possible presence of the Social Democrats could slow this process by giving "space" for possible over-performance, of, European assets.

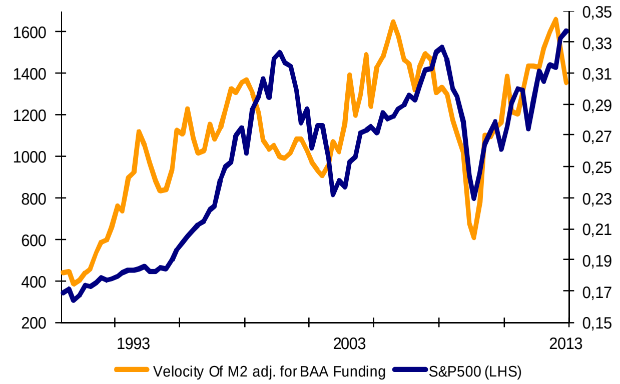
Equity Markets

- The US market is still overvalued, as the recent S&P500 levels are not justified by corporate profits (mild growth rates), corporate borrowing costs (rising trend) and the decreasing velocity of money, whose negative effect was balanced by the diminishing long-term borrowing costs. When the nominal GDP grows faster than the money supply (i.e. the velocity of money increases), households seek alternative investment vehicles and consequently they place a part of their wealth in equities. The current economic and financial environment is characterized by excessive money supply (i.e. low velocity of money), which continues to support equities (due to the low long-term interest rate level) in combination with low corporate borrowing costs and the low returns offered by alternative (lower risk) investment options. We are at the stage of losing support from the low interest rates, while it is uncertain whether this will be replaced by the positive effect from a higher corporate profit growth rate. Although the recent indicators of the sales or orders to inventories ratios in the US economy increase the possibility of a future positive surprise in corporate profits, the equity market now seems to be focused on the increasing interest rates and the Fed's QE exit consequences.

- It is worth mentioning that (since the end of 2011) the S&P500's gains are explained more by the Fed's policy than the corporate profitability growth path. During the May 2009–December 2011 period, the S&P500's corporate profits posted an average quarterly growth rate of 5%, while during the period since January 2012 it was only 1%. On the other hand, the S&P500 Index posted an average quarterly return of 3.3% during the former period and 4.5% during the latter period. Therefore, a temporary increase in volatility will take place together with the QE's reversal policy. If the positive surprise in the corporate profitability does not happen in the near future, the positive surprise from the Fed's decision (for no tapering) increases the possibility of a bigger future negative impact on equities. Moreover, the risks related to the fiscal developments seem to be underestimated.

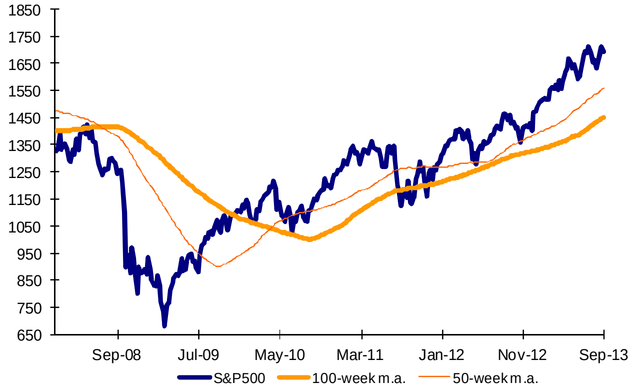
- The fundamental view is still negative, while the technical view has deteriorated from positive to neutral (with positive bias), as the S&P500 Index seems to be overbought, while positive economic data releases seem to have already been discounted for the next 1 – 3 months. Hence, the total view deteriorates to neutral with negative bias.

S&P500, M2 Velocity & Interest Rates



Source: Bloomberg, Piraeus Bank Research

S&P500

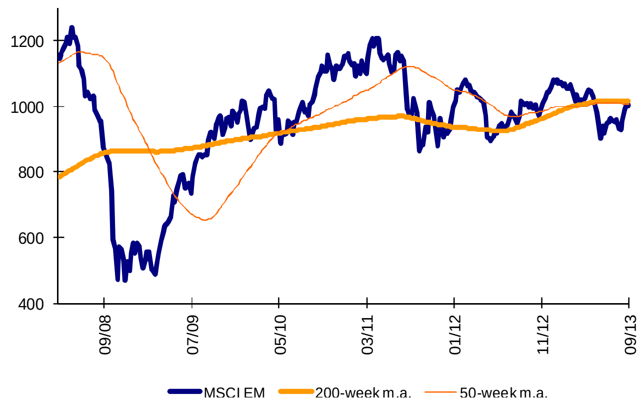


Source: Bloomberg, Piraeus Bank Research

- The impact of the Fed's decision on emerging markets was particularly positive. The emerging equity markets are still cheap in P/E terms (MSCI EM at 11.9). The combination of better US leading manufacturing indicators and the maintenance of the ultra-easy monetary policy affect EM markets positively, as a US recovery stabilization could also benefit their economies. The emerging equity markets technical view has also stabilized after the recent upward reaction. However, this development, combined with the negative corporate profit releases, have made emerging equity markets less cheap (compared to the recent past), as the P/E ratio rose from 10.7 to 11.9. The inflation rate in BRIC countries (except for China) runs above 6%, while industrial production is around 1.5%. Concerning China, we mentioned above the improvement in the cyclical indicators and the lingering worries about the shadow banking system. The recent positive developments had a very positive effect on the technical view, as both the fall in the oil price and the maintenance of ample liquidity in the USA provides strong support. We observe that the emerging equity markets could be gradually entering a phase of over-performace compared to US equities. The fundamental view has marginally deteriorated but it is still positive. The technical view has improved significantly from very negative to neutral with negative bias. Therefore, the overall view has also improved to neutral with positive bias.

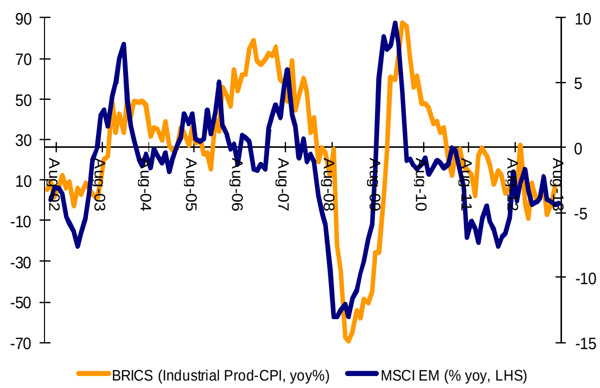
- Apart from the probability of a cyclical positive surprise in the emerging markets compared to the US, it should be highlighted that on the structural front, the US economy is very close to a normalization period (after the structural wobble of 2007-2008), which will be corroborated when the Fed begins its drastic QE tapering actions. Conversely, many emerging economies are at the advent of substantial structural challenges. For example, China has to move from an export driven to consumption driven economy, while it should be careful with the deleveraging and consolidation of its banking system. India seems to be too weak to move forward with further structural changes which would lead to the deregulation of the economy and productivity enhancement. Specifically, India faces more pressing problems, such as the Current Account Deficit (which is at 5% from 1% in 2007), while equities are relatively expensive (P/E is at 17).

MSCI Emerging Markets Index



Source: Bloomberg, Piraeus Bank Research

MSCI EM 12m% & Ind. Production-CPI%



Source: Bloomberg, Piraeus Bank Research

Bond Markets

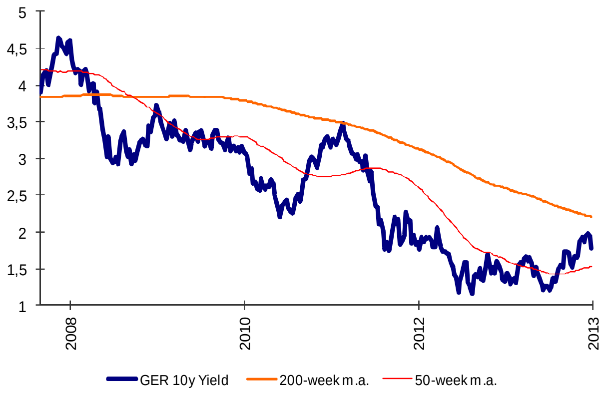
- Bond markets are at the centre of market attention. In the previous month report, we had mentioned that in the US bond market, the long term yields had started becoming very high, according to the policy rate and short term yields, while the short term funding cost stayed at very low levels. This very big increase in the yield curve slope was the main reason for the Fed's decision for no tapering. As we mentioned above, in the case of Fed's exit attempt, the markets will probably overreact. The higher the growth rate will be at the time of the Fed's exit attempt, the more incentive will be for the investors to sell their overvalued assets. Historically, the size of the overvaluation is proportional to the distance of the actual value from its fair value, as at the high value levels the marginal buyers are either aggressive short run speculators or imperfectly informed investors.

- In the US, the economic releases were mainly positive, as the money supply growth rate (M2-M1) accelerated, the inflation rate also accelerated, payrolls increased and stock market volatility dropped further, standing for an increase of 40 bps in the two year yield and of 15 bps in the ten year yield. In Germany, the increase in the IFO leading indicator, the acceleration in the money supply growth rate (M3) and the fall in the stock market volatility could stand for an increase of 10 bps in the two year yield. On the other hand, these developments coupled with the realized fall of 6bps in the two year yield justify the realized fall in the ten year yield. Therefore, the US two year bonds have become more overvalued, leading the whole yield curve to the same direction. Contrarily, in Germany we do not observe considerable change in the valuations. Hence, in the US, the fundamental view deteriorates form neutral to negative, while the technical view improves but it is still negative. The recent worries about the impact of the US fiscal situation on growth prospects could lead to additional overvaluation, but this will probably be temporary due to the developments in the fundamental and price factors. In Germany, the fundamental view is still neutral with negative bias, while the technical view is still neutral with negative bias. The political developments in Eurozone countries, coupled with the US fiscal developments will probably lead to temporary additional overvaluation.

US 10 - Year Yield

Source: Bloomberg, Piraeus Bank Research

German 10 - Year Yield



Source: Bloomberg, Piraeus Bank Research

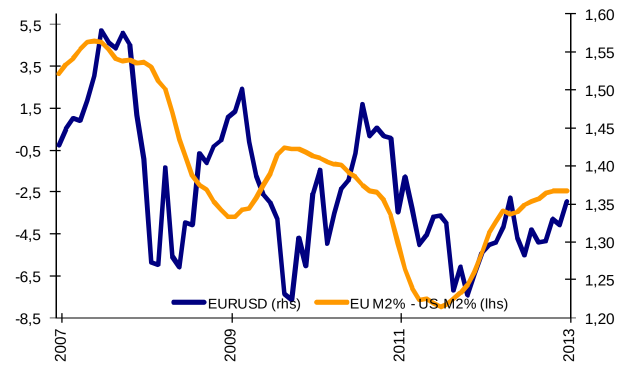
Foreign Exchange

- The EURUSD exchange rate increased by 2.7%, during the last month. The surprise of Fed's no tapering decision coupled with the positive geopolitical developments (Syria and Iran) affected negatively the USD. Surprise from the cyclical data releases was more marginally more supportive for the USD (for example the ISM indicator was more positive than the IFO indicator). From the fundamental point of view, the EURUSD exchange rate continues to find its support from the high EZ trade surplus and the faster Fed's (than ECB's) balance sheet expansion. The recent Fed's decision affirms this trend. Moreover, the strong support for the EUR is also fueled by the reduction in the difference between the M2 money supply growth rates (US minus Eurozone) from the high level of 8% on 31/1/2012 to the recent low level of 3%. The positive surprise for the EUR from the Fed's decision may be enhanced by the lingering disagreement between Democrats and Republicans on new fiscal year's budget and debt ceiling, as it will probably make Fed change its expected behaviour.

- Concerning possible future pressures, we focus on the Eurozone political developments as we mentioned above. Even though the EURUSD exchange rate seems to undervalue marginally those risks, as they are depicted in the intra - Eurozone bond spreads, which have shrunk tremendously during the last two years, we now believe that the bond markets are again vulnerable to possible negative surprises.

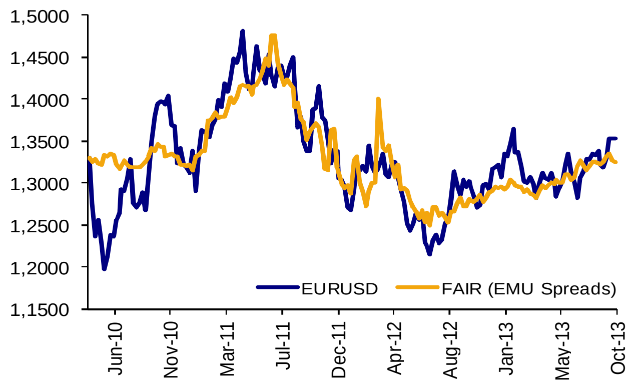
- At this stage, we observe a small deterioration in the fundamental view, due to the positive US ISM surprise and the fact that the EURUSD exchange rate has begun to be overvalued according to the intra - Eurozone spreads and Germany's Bunds – US Treasuries spreads. Therefore, the fundamental view deteriorates slightly to neutral with negative bias for neutral. Simultaneously, the technical view improves (it is still positive) given the dynamic trend from the Fed's decision and the US fiscal worries. At the same time, it is very difficult to be estimated when the worries about the Eurozone's institutional worries will arise leading to the reversal of that dynamic trend. Hence, the total view is still neutral with positive bias. For the next three months, we expect moves within the 1.3150 – 1.3800 range. For the next six months, we expect possible corrective moves within the 1.28 – 1.40 range. We raise our twelve month target from 1.26 to 1.30.

EURUSD & D**M**2 12month% (US-**EZ**)



Source: Bloomberg, Piraeus Bank Research

EURUSD & Intra-Eurozone Spreads

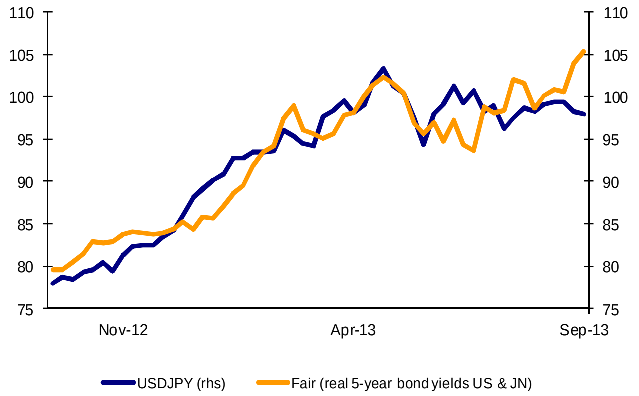


Source: Bloomberg, Piraeus Bank Research

- The USDJPY exchange rate decreased by 1.3%, during the last month. The market has adopted (in the short – medium run) the view that the inflation rate acceleration in Japan is positive for the JPY, as it reduces the possibility for additional escalation in the BoJ's QE program. Simultaneously, the US developments (as we mentioned to them above) are also positive for the JPY. On the other hand, the JPY has begun to be overvalued, as during the last month the real five year US yield has come up by 39 bps, while the JP's have come down by 26 bps, which could lead to an ascending pressure in the USDJPY exchange rate at the area of 105 (left chart). The combination of the Fed's decision and US fiscal worries probably changes the dynamic trend of the USDJPY exchange rate, as it is possible to have a medium run move to 95 and then twelve month target at 105 (i.e. upward revision from 95).

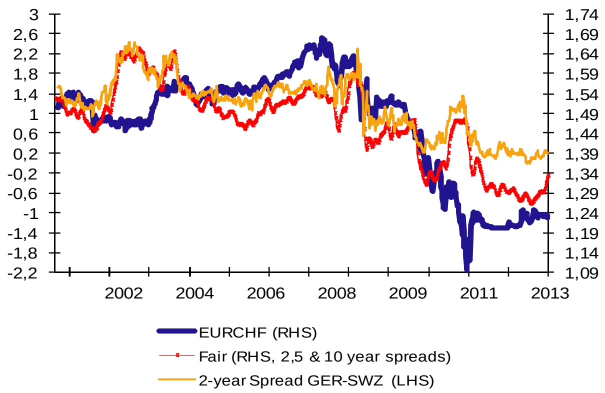
- The EURCHF exchange rate came under pressure (-0.71%) during the last month, as the CHF strengthened and is traded at the area of 1.2240. In Switzerland, the economic data releases continue to be positive, as the Q2's real GDP growth rate was 0.5%, above the 0.3% expectations. The yearly growth rate accelerated from Q1's 1.2% to Q2's 2.5%. Moreover, positive surprises came from the leading PMI – Manufacturing Index (which increased to 55.3) and leading KOF Indicator (which also increased). On the other hand, negative surprises came from the retail sales and industrial production data releases. During the last quarter, the positive surprises in Eurozone have led to a widening in the Germany – Swiss spreads, especially in the longer maturities, as the German yields increased to a greater extent than the Swiss yields (by 14, 15 and 39 bps for 2, 5 and 10 year maturities). According to those yield metrics, we build a "fair value" for the EURCHF exchange rate which comes up to 1.34. We also show (right chart) the co – movement with the two year yield spread, which has been relatively stable, as both the ECB and SNB adopt similar mild monetary policy. The SNB's president has recently reiterated the necessity for the maintenance of the EURCHF exchange rate floor, in order to avoid deflation. He has also mentioned that the EURCHF exchange rate is still at very low level (i.e. the CHF is still overvalued). In the short – medium run, a rise in the volatility could lead to additional CHF appreciation to the 1.20 limit.

USDJPY & US-JP Real 5y Yields



Source: Bloomberg, Piraeus Bank Research

EURCHF & Germany-Switzerland Spreads



Source: Bloomberg, Piraeus Bank Research

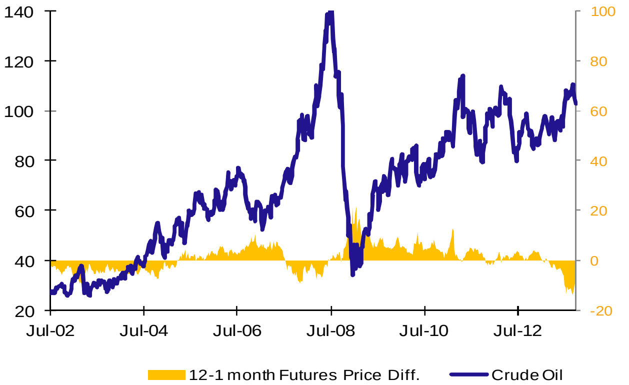
Commodities

- Despite the positive climate, the commodities remained in negative ground, due to the strong downward pressure in oil prices (-5%) and precious metals (gold:-5% and platinum:-8%), as the Syria's crisis detensified, while the Fed's decision was capable enough to support the precious metals. The weighted CCI Index fell by 1%, while the trend in the cyclical metals was ascending (2.5% for LME Index), as in the agricultural products (1%). The improved economic data, coupled with the milder (than expected) Fed's policy make the commodities prices fairer, while their technical view (in terms of CCI Index) is still negative.

- In the oil market, the fundamental data was mostly positive. Although, the increasing supply data continued to contribute to a lower fair price, the Fed's decision (for no tapering) weakened the USD, contributing to a higher fair price. Thus, the overvaluation of the oil price reduced by 10%, during the previous month. Additionally, we observed a fall in the difference in the future price between one and twelve months from -$14 to -$9 (narrower backwardation), signaling lower geopolitical risk premium. Therefore, the fundamental view improves significantly, but it remains to be negative. The technical view deteriorates to neutral with positive bias. Hence, the total view has improved to marginally negative.

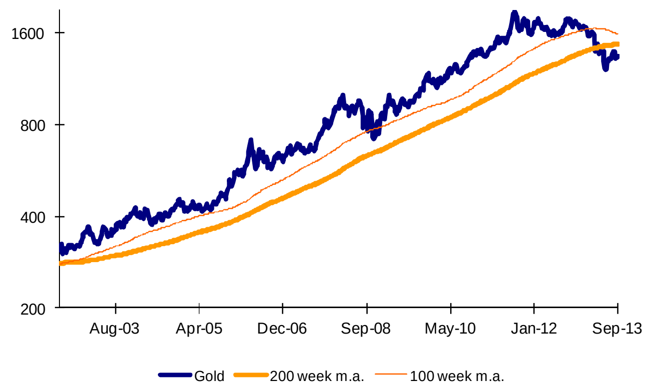
- The gold price posted impressive increase by 6% due to the Fed's decision, but it lost its momentum and it closed lower by 5% in the last month, as investors have large positions in gold and economic data improve gradually. Under these circumstances, determining the timing of the change in Fed's policy is not as important as the investors' attitude to reduce their position. The fundamental view has shown small improvement (but it is still negative), while the negative technical view has further deteriorated. In the case of heightening US fiscal worries, there will probably be a short run ascending reaction. However, this will not probably change the negative total view.

Crude & 12-1month Future Price Difference



Source: Bloomberg, Piraeus Bank Research

Gold Price



Source: Bloomberg, Piraeus Bank Research

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