Global Economic & Market Monthly Review: Liquidity Worries

ECONOMIC ANALYSIS & RESEARCH DIVISION

Executive Summary

In an environment of moderate economic growth internationally, market attention has recently been focused on quantitative easing, mainly in the US, which in combination with equivalent policies in the United Kingdom and Japan has led to significant returns on equity markets of developed countries. Many of these equity indices are overbought and are trading at levels higher than those of 2007 (US).

As concerns about the withdrawal of monetary stimulus emerge in the US, it is likely that volatility will rise resulting in pressures on these markets. We expect that these will be short-lived. The high and gradually declining unemployment rate in the US, along with the downward trend in inflation are a perfect combination in terms of maintaining ultra-loose monetary policies. In addition to this we expect that US consumption will retain its recent positive trend with possible upward surprises in growth. Equity valuations are also more favourable than in 2007.

In the Eurozone, sentiment remains positive as the economic data, although negative, remain on a trajectory of marginal improvement, while markets continue to remain very optimistic about both economic growth and the resolution of the Eurozone crisis. It is likely that the German elections have imposed a pause in the usual dialectic on Eurozone governance matters resulting in a (partially, at least) non-sustainable decline in volatility.

The economic data in China, and other emerging countries, remain neutral to negative as the country tries to settle on a growth trajectory over 7%, while markets do not appear to have yet fully discounted this process. Thus, although emerging market equities are considered cheap, they display a relatively negative technical picture. Commodities and especially oil, display a particularly negative overall picture.

The recent upward pressures on Treasuries yields that is happening in parallel with falling inflation expectations in the US, is producing higher real yields, rendering bonds less expensive, and supporting the dollar and equities, while it increases the pressure on commodities and particularly gold.

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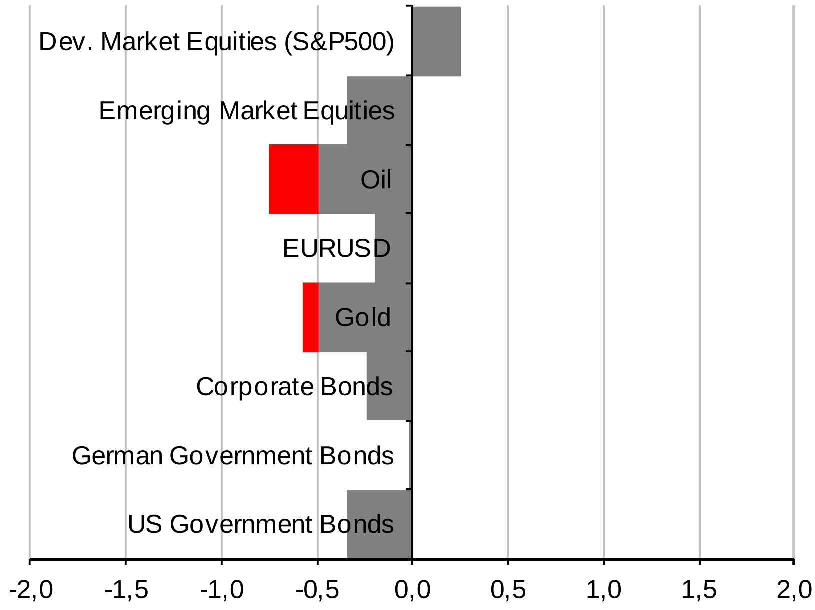
Global Market Risk-Return Scoring

(6-9 month horizon)

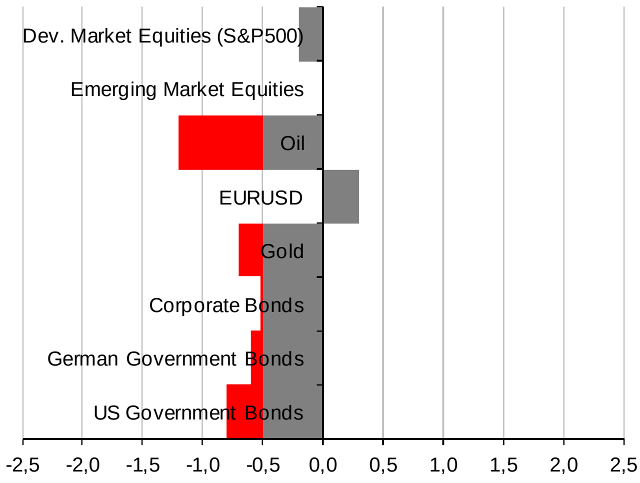


Scoring between -2.5 and 2.5, reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

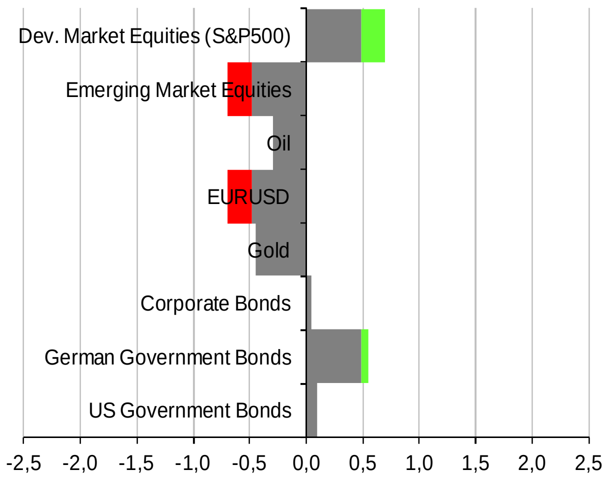
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

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

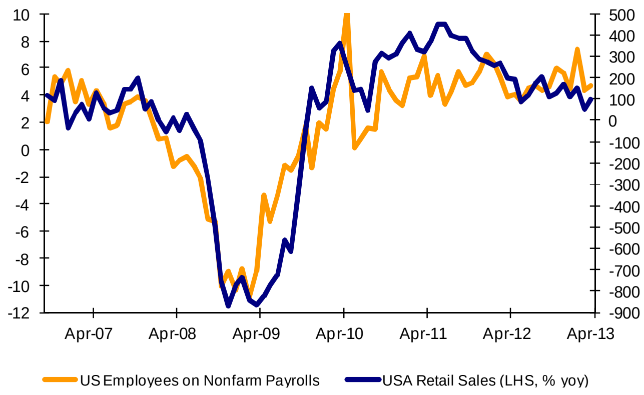
US: Positive Surprises in Consumption

- We remain at a stage of mild recovery, where economic data appear mixed. Currently the evidence from consumption is quite positive, supporting the economy. Retail sales surprised positively and are growing at an annual rate of 3.7%, while consumer confidence is rising, also surprising positively. Consumption - supporting factors remain healthy. The job market is undergoing a gradual, yet wobbly, recovery as both the pace of hiring and unemployment claims are moderately encouraging. At the same time, the real estate market continues to show signs of growth. Inventories of new homes are at four months of sales, below the 10 and 30-year averages, while prices are beginning to appreciate. These factors, as well as the continuing strength of the US equity market along with the low interest rates are expected to continue to support consumption. A negative impact on consumption is expected from the rapid increase in net tax revenue ($ 240bil) last month. Still, overall risks are tilted towards the upside.

- The recent fall in inflation is a very positive development. Currently, core inflation (excluding food and energy) is recorded at 1.7% annually, while the overall rate is 1.1%. In general, recent surprises in prices have been negative, while the overall trend remains downward. The combination of low and falling inflation with high and only gradually declining unemployment, increases the probability that the Fed will maintain the current rate of QE (despite recent concerns), reducing the chance of a significant negative surprise.

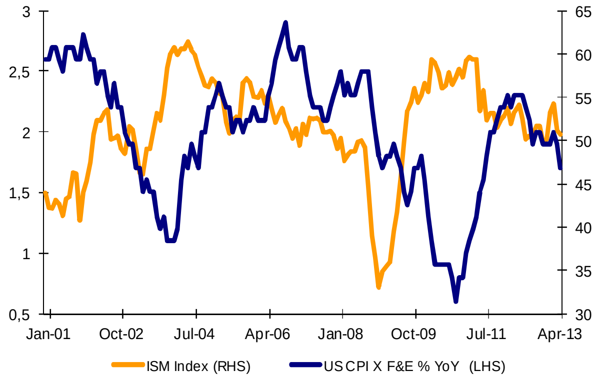
- At this juncture, the manufacturing sector trends remain worrying. As inventories remain at relatively high levels as a proportion of sales, it is unlikely, at this stage, that a significant recovery in manufacturing (eg ISM over 51) is about to happen. Given the dynamics of consumption, in the longer run the more likely scenario is that of a positive surprise in both manufacturing and overall growth. Using the movements of the markets (equities, cyclical commodities slope of bonds, etc) to "read" the embedded investor expectations about growth, we compute an annual rate of 3% six months from now, an estimate that converges to the model that uses a series of leading indicators (inventories, sales, new orders, jobless claims, consumer confidence).

Retail Sales & Nonfarm Payrolls



Source: Bloomberg, Piraeus Bank Research

Inflation & ISM Manufacturing



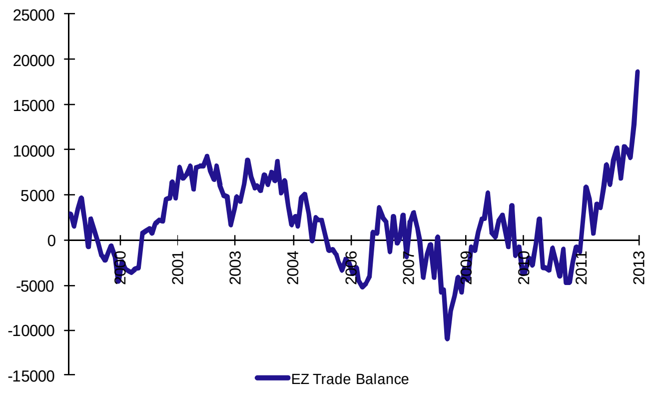
Source: Bloomberg, Piraeus Bank Research

Eurozone: Still in a marginal improvement mode

- In the Eurozone, the discrepancy between expectations exhibited by European asset prices and actual economic data is still prevalent. A series of economic data remain relatively negative but improving, such as industrial production, which is shrinking by 1.8% per annum (from -3.2%) and the overall PMI index which, although it remains below 50, has made a recovery from 46.5 of March (manufacturing has displayed a similar trend). However, indications from retail sales were negative (-2.4% from -1.4%) while unemployment continued to rise to 12.2%. On a more positive note, inflation declined significantly to 1.4% (from 1.7% two months ago) and the M3 monetary growth accelerated to 3.2% (from 2.6%). The only sector that remains really dynamic is that of foreign trade, as the trade surplus reached a new all-time high of 18.7 billion Euros mainly due to increased exports to the USA and to a lesser extent in Japan. So, on a six-month horizon, a series of leading indicators would be consistent with an annual growth rate of 0.8% while markets remain much more optimistic and would be consistent with a growth rate of 1.7%.

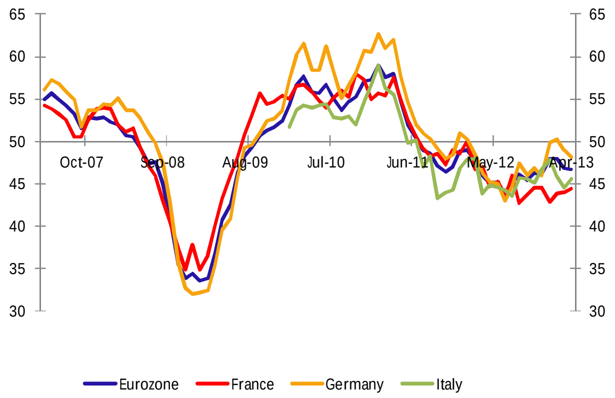
- Within this context, the ECB cut its intervention rate to 0.5% while the probability of a further reduction has increased. As we will analyze below, market focus remains on the progress of the EU banking and fiscal integration processes, but also on whether the emerging trend for a more relaxed fiscal policy will become an official economic policy in the future, or is it simply that the German elections have imposed a moratorium on the usual rhetoric with respect to EMU governance issues, paving the way for not so positive surprises with the conclusion of the German election process.

Eurozone Trade Balance



Source: Bloomberg, Piraeus Bank Research

PMI Manufacturing



Source: Bloomberg, Piraeus Bank Research

Japan & China

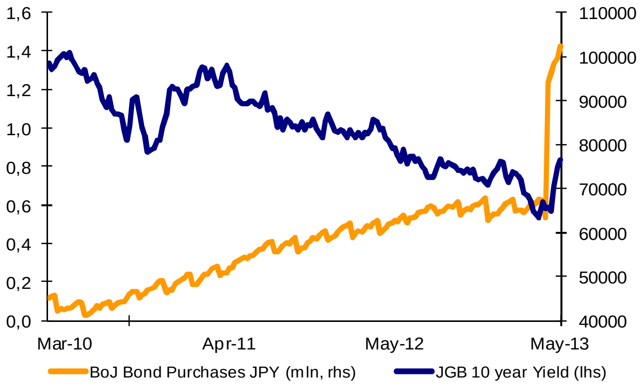
- News in Japan continues to revolve around monetary policy. Since early April, the Bank of Japan has significantly increased purchases of government bonds and the total portfolio of the central bank has increased by 14,528 trillion yen ($ 125 billion). At the same time, this policy is causing a rapid fall in the yen and, despite BoJ purchases, rising yields on Japanese bonds as investors anticipate higher inflation. The fall in the yen is, to some extent, positive for exports, but if the devaluation causes a faster increase in production costs (due to the fact that many raw materials are imported) than the increase in foreign sales, it would be an overall negative.

- For every 10bp rise in the yields of Japanese bonds, the cost of servicing Japanese debt increases by 100bn yen, according to calculations by the Ministry of Finance. Since late March 10-year Japanese bond yields have increased by 50 basis points to 1%. Japanese debt currently stands at 992 trillion yen (245% of GDP in 2013 according to IMF estimates). So the risks at this stage are focused on possible outcomes that are contrary to those initially expected due to violent market reactions to announcements by the Bank of Japan (BoJ). These fluctuations could affect the US, as a collapse of Japanese bonds, could ripple through to US treasuries to the extent that concerns about the effects of quantitative easing policies prevail globally.

- Japan's GDP grew by an annualized 3.5% in the first quarter of 2013, surprising positively, while analysts expect an increase of 1.4% for 2013 and 1.3% in 2014 (Bloomberg). We note that for 2013 the expectations were at 0.6% in December 2012. However the news about inflation was not encouraging for the prospects of achieving the target of 2% set by the central bank. The GDP deflator fell by 1.2% per year, and prices excluding food dropped by 0.5%. The remaining items were positive and upward trends were observed in industrial production (+0.9% per month) and in machinery orders, while improvements were also noted in the trade balance, where the deficit fell to 219bn yen from 1500 bn two months ago.

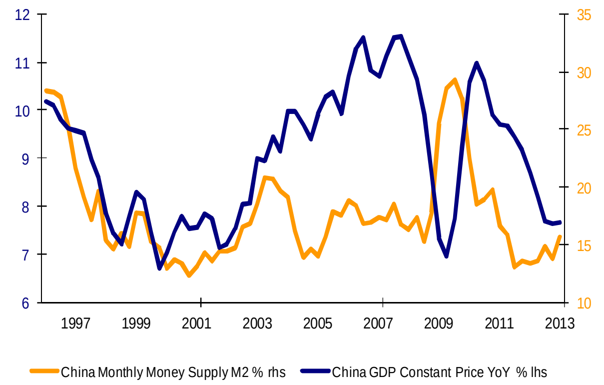
- China's economy remains in a period of relative slowdown. Recent data from industrial production and retail sales surprised negatively, while the manufacturing index PMI (HSBC) was below 50, signifying growth trends below the long-term trend. The corresponding services index also posted a significant drop to 51.1 from 54.3. Inflation surprised on the upside (to 2.4% yoy), while producer prices are still declining (-2.6%). One positive, particularly for equity markets, was the increase in the annual rate of monetary growth M2 to 16.1%. Overall, neither the central bank nor the government appears ready to implement expansionary policies as the real estate market is still overheating. China's GDP grew by an annualized 7.7% for Q1 2013 surprising positively, while analysts expect an increase of 7.9% for 2013 and 7.8% in 2014 (Bloomberg). We note that for 2013 expectations were at 8.1% in December 2012 and 8.5% in June of that year. According to recent announcements by the Chinese Prime Minister, the current growth rate of 7.7% is in line with expectations and the government's programme.

BoJ Bonds In Balance Sheet & 10 JGB year yield



Source: Bloomberg, Piraeus Bank Research

China: GDP & M2 Growth



Source: Bloomberg, Piraeus Bank Research

Markets: Volatility Emerging – Positive Trends to Remain

- The investment climate remains positive for another month, yet the important "asymmetries" that we have pointed out, referring to the differences between the positive developed market equity picture , and the negative/neutral one for emerging equities and commodities remain. So in the past month, the S&P500 index strengthened by 3.6% while the MSCI World increased by 1%. Given the pressures on the Nikkei225 index in late May (-13% between 23-31/5), Japanese equities lost their upward trend (-0.6%), European ones were positive overall (Eurostoxx50 3.2 %), and emerging markets remained negative (EM MSCI index -2.2%). In parallel to the mostly positive equity market picture, bonds fell as American and German ten-year yields rose by 42 and 27bp respectively. It is interesting that European periphery bonds have begun in recent weeks to have a positive correlation with German ones as the upward pressure on German yields is combined with an upward one in Italy and Spain (by 20 and 21 bps respectively). This month the dollar strengthened (1.9% in trade-weighted terms, 3.4% against the yen and 0.9% against the euro). Commodities remained under pressure (CCI index -2%) but at this stage the positive picture of cyclical metals (copper 4%, LME Index 1%) is noteworthy. The picture for the oil market was neutral (crude 0.1%, Brent -0.5%) while precious metals produced negative returns (gold -4%, platinum -1.8%).

- We remain in a period of favourable investment climate which, to some extent, but not exclusively, is based on the quantitative easing policies of developed countries. Since the beginning of the year, in developed countries where the central bank is implementing monetary (quantitative) easing or intervening in the currency market (Switzerland) there have been significant equity returns (USA 16%, Japan 33%, UK 13% Switzerland 18%). In contrast, shares in the Eurozone have produced limited returns (Eurostoxx 50 6%) while emerging markets are in negative territory (-3.7%). As we will discuss in the equities section, these markets appear short-term overbought, resulting in increased price sensitivity to borderline negative news and the possibility of a short-term peak is relatively high. The non-diffusion of the recent Nikkei225 significant losses shows on one hand the resilience of markets, but on the other hand, the tremors that occurred in the markets following the recent Bernanke QE tapering comments, indicate an increased sensitivity to the possibility of monetary stimulus withdrawal from the Fed (during his recent testimony to the Congress Finance Committee, Bernanke suggested that a reduction in the rate of bond market purchases is now more likely – as is natural – but it will ultimately depend on the certainty of the sustainability of economic growth).

- An announcement of monetary stimulus reduction would lead to an increase in market fluctuations, and pressures on equity and bond markets. The size and duration of these pressures will depend on the reasons behind any policy change. If such a change is due to rising inflationary signs, then it is likely that such pressures will have a more permanent character, but if it emanates from a significant reduction in unemployment, then these are expected to be temporary and would provide an opportunity to buy risky assets. Currently, we are in a time of high but gradually decreasing unemployment and low and falling inflation. This combination is ideal for risky values as high unemployment suggests that the Fed will maintain a preference for high liquidity, its decline demonstrates that we remain in a positive stage of the economic recovery, while the low and declining inflation rate gives additional room to the central bank , allowing it to maintain excess liquidity beyond any "optimal amount" that is calculated given the current of the economic environment. The most likely scenario is that this environment will be sustained at least in the medium term, offering support to markets.

- The US economy remains at a stage where the building of medium-term inflationary pressures is a low probability event, as the broader M2 monetary growth continues to fall short of M1 (referring to an environment of low credit growth) and the velocity of money continues to fall and is at low levels. External factors such as the decline in commodities and raw materials also point to an environment of low medium-term inflation. Developments in Japan have implications for inflation worldwide. To the extent that inflation is not created, declines in the yen work in such a way as to export Japanese deflation to the rest of the world. In the long term, an escalation of Japanese inflation could contribute to a broader escalation of global inflation risks. In the long term, a rise in inflation risks could be accompanied by a partial restoration of the transmission mechanism of monetary policy in the US economy. According to our initial calculations, the price level is very low compared to the level of GDP, the level of money supply and interest rates. So a return to conditions of macroeconomic normalcy incorporates the risk of long-term inflationary acceleration.

- Europe remains in a state of tranquillity since Draghi's statements in July 2012 which along with the EU Summit’s decisions for a long-term roadmap for banking and financial integration, have produced a very significant decline in volatility, shrinking of spreads and strengthening of the euro, all this in an environment of deteriorating macroeconomic aggregates and high institutional uncertainty, as long as the integration is limited to audit of national spending and fiscal adjustment mechanisms , while on the other hand discord and inaction continue over the more fundamental issues of banking union, deposit insurance and other reciprocity and solidarity mechanisms which lie at the heart of a real and viable economic union. Of course such a union requires a transfer of powers from the member states to central European institutions and therein lies the main source of the prevailing institutional uncertainty.

- At the same time, markets have not yet tested the ECB’s commitment “to do whatever it takes to save the euro”. As we have mentioned in the past, the most likely scenario is that the German elections have imposed an unofficial moratorium on the production of and official commentary on news so that differences of opinion in relation to the Union's future are blunted. This reduces market volatility, creating the impression of a positive climate on the European front. So although it would be rational to assume that the end of the German elections period will coincide with an environment of easier fiscal policy, recent market price levels have probably discounted such a development. On the other hand, the end of the “moratorium” would bring back to the surface differences about long-term policy and market variability. So, to conclude it is likely that the current positive climate in Europe will be maintained as we approach the election date (22/9), but after that an increase in volatility seems more likely.

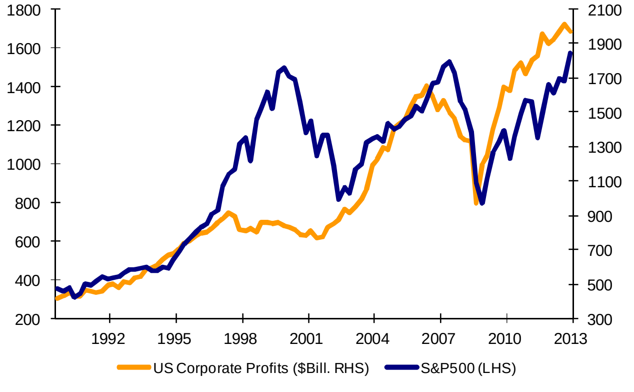
- The third source of uncertainty at this stage is the Chinese economy, which remains, as we have noted in the past, in the process of a slowdown as authorities try to redirect the economy from export & manufacturing to consumption & services. At this stage, we observe a continuing slowdown in the manufacturing sector which is not replaced by stronger growth elsewhere. This decline does not appear discounted as we had previously thought, as both Chinese equities, and commodities appear to maintain a positive relationship with these negative surprises. So China is likely to remain a source of uncertainty and instability in international markets.

Equity Markets

- The main characteristic of the equity markets is the significant positive returns of equities in economies where the central bank continues a QE program and/or intervenes to depreciate its currency. Therefore, the US and JP equity markets and, to a lesser extent, UK and Swiss equity markets have surpassed or approached their 2007 peaks, even though they seem to be overbought. Despite Bernanke's comments on a slower QE pace (which could lead to a short-term correction), the developments in inflation and the unemployment rate and auspicious prospects in personal outlays support the US equity market.

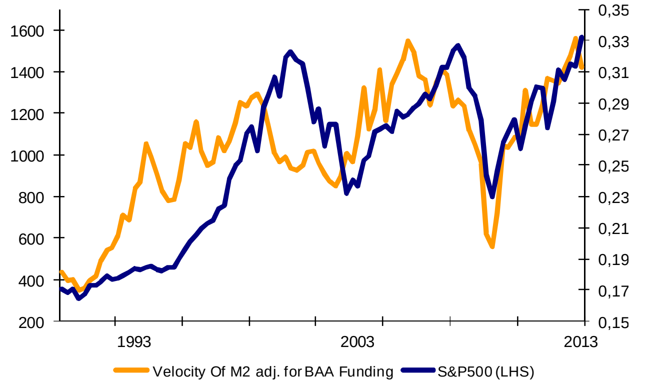
  Worries about overvaluation have increased, as US stock indices have surpassed their 2007 peaks. The P/E ratio has increased from 11.6 (at the end of 2011) to 16.6, signalling that prices grew faster than profits during the last 1.5 years. We should note that since 1954 the average P/E ratio value is 16.3, while in October 2007 (when the previous highs took place) it was 17.5, so there is now a higher EPS than in 2007. Taking into consideration the current lower interest rates, we infer that supporting factors are stronger now than in 2007. On the downside, we should note the post 2009 malfunction in the monetary policy transmission–diffusion mechanism, as it is calculated by the money velocity, which is positively correlated with the S&P500 Index. During the fourth quarter of 2007, the velocity was 1.9 (denoting that the nominal GDP was 1.9 times higher than the M2 money supply), while now it is at a record low level of 1.5. The low interest rate level counterbalances this to a certain extent. In the bottom right chart, we depict the relation between the S&P500 Index and the ratio of M2 velocity over corporate funding costs. Taking all these factors into consideration, we assess that the US equity market is marginally expensive.

S&P500 & Corporate Profits



Source: Bloomberg, Piraeus Bank Research

S&P500 & Money (**M**2) Velocity



Source: Bloomberg, Piraeus Bank Research

- As far as monetary policy worries are concerned, the equity markets have shown no sensitivity to the recent yield increase, even though it did not happen due to positive economic releases. However, the maintenance of pressures on the gold price denotes a positive development in the normalization of investor expectations for the existing risks. The continuation of this trend (increase in bond yields and fall in gold price) could be an additional supporting factor for the US equity market. Nevertheless, the current US equity indices levels deviate from levels which are consistent with their long-term co-variations with the other international financial markets.

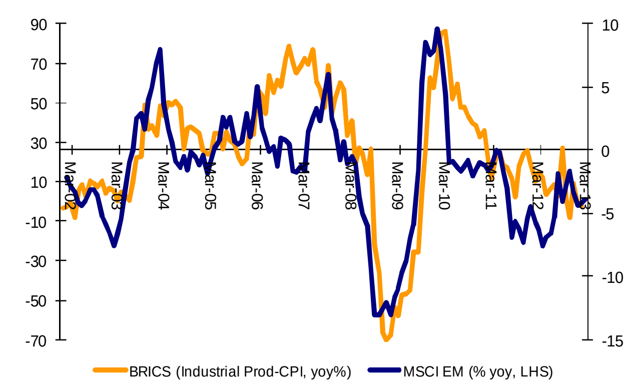
- The fundamental/quantitative outlook remains neutral (with marginally negative predisposition) for the US equity market. Even though the market seems to be overbought, our technical view posts possible pressures during the coming days or weeks, but not months. In the past, similar overbought signs (in MACD and RSI terms) resulted in further rises in the S&P500 (despite some short-term downswings). Moreover, the low volatility level and falling trend is an additional positive factor. Hence, the general view remains neutral (with marginally positive predisposition).

- In emerging economies, the equity markets picture remains uncertain. Apart from the deceleration in China's economy, the relation between inflation and growth in BRICs remains negative. China's and Russia's inflation rates post ascending trends, while Brazil's and Russia' industrial production post descending ones. At the same time, corporate profits are diminishing (-18% y/y). MSCI Emerging Markets P/E ratio is relatively cheap at 12.6, compared to the 2007 high level of 17.4. Compared to the previous month, there has been a deterioration in the fundamental/quantitative view (due to the increase in China's inflation rate and the fall in China's corporate profits), which remains neutral (without positive predisposition, any longer), while the technical view remains negative. Therefore, the overall view is neutral, with negative predisposition.

Technical View of S&P500

Source: Bloomberg, Piraeus Bank Research

MSCI Emerging Markets & Growth versus Inflation



Source: Bloomberg, Piraeus Bank Research

Bond Markets

- Bond markets came under pressure during the previous month. The ten-year US yield went up by 42bps and the equivalent German yield by 27bps. The ascent in yields happened together with neutral–negative economic releases and stable or diminishing inflationary expectations, resulting in higher real yields, which are usually related to higher real growth rates. Simultaneously, there were also increases in the JP 10-year yield of 33bps, the Italian yield of 20 bps and the Spanish yield of 21bps. The possible slower pace of the Fed's QE partly explains the increasing pressures on yields, while the fact that private JGB holders are selling at faster pace than the BoJ buys could bear down on the US Treasuries. In the Eurozone, it is generally admitted that a new less austerity focussed era is to come, leading to a parallel increase in the core and peripheral yields, due to expectations of a more favourable economic climate. We believe that higher volatility should be expected after the German elections.

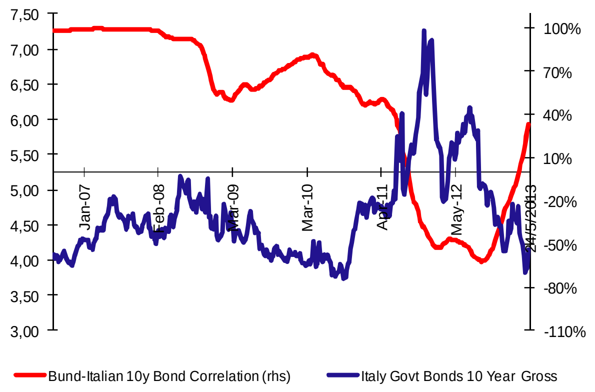
- In Germany, the increase in yields could be explained by the acceleration in the M3 growth rate, higher IFO leading indicator and oil price. Contrarily, the fiscal surplus (announced to be 3% of the nominal GDP) exerts a diminishing force on yields. The increase in the US yield can be explained with more difficulty, as inflation and capacity utilization rates fell and the oil price rose. We should note that the higher oil price has a different impact on German than on US yields, as in the US, this is related to lower growth rates, while in the German case, it is related to higher inflationary pressures. The fundamental outlook is still negative for US bonds. The recent pressures on US treasuries have made the technical outlook neutral, with marginally positive predisposition. The recent pressures on the German Bund have turned its technical outlook (especially in the longer maturities) from significantly to marginally positive. The total outlook for the German Bund is neutral, while for US treasuries, it is neutral but with negative predisposition.

- It is worth noting that peripheral bond trading has started posting excessive “normalization” compared to the existing Eurozone cohesion risks. The correlation coefficient between the Italian and German ten-year yield has become positive once again, after being negative from 09/2011 to 12/2012. For Spanish bonds, the corresponding correlation coefficient is marginally negative, after being considerably negative. We should note that in both cases the correlation coefficient was around 97% before 2007. Hence, Spanish and Italian bonds have become substitutes for the German Bund, as their spreads have stabilized at low levels.

US 10Y Treasury Yield

Source: Bloomberg, Piraeus Bank Research

Correlation between Italian & German 10Y Yield



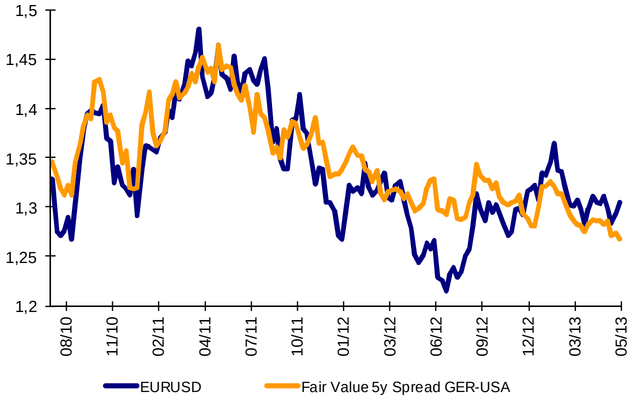
Source: Bloomberg, Piraeus Bank Research

FOREX

- The EURUSD exchange rate fell by 0.9% during the previous month. The majority of economic releases supported the EUR. The acceleration in the Eurozone’s M3 money supply growth rate (against the US M2), the increase in the leading IFO indicator (versus the US ISM), the further widening of the Eurozone’s trade surplus and the tightening in the peripheral sovereign spreads support the EURUSD ascending trend. On the other hand, the expectations for slower pace of the Fed’s QE widen the US–Germany sovereign spread, while pressure on the gold price and lower US inflationary expectations would support the USD.

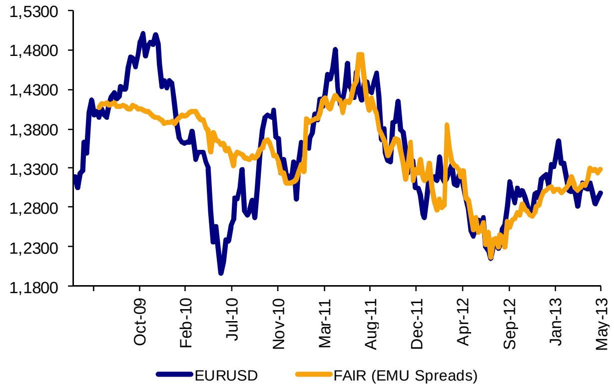
- The EURUSD rate seems to be undervalued according to the intra euro spreads (fair value of 1.32), but overvalued according to the US–Germany spread (fair value of 1.27). The continuous widening of the Eurozone trade surplus, the relatively expensive gold price and the remarkable tightening in the German–Italian sovereign spread maintain the EURUSD fair value at a high level (1.37). On the other hand, the cyclical dynamics are stronger in the US economy, leading to a EURUSD fair value below 1.27. Hence, the fundamental/quantitative view has improved (from neutral to positive predisposition), but the technical view has deteriorated to negative. The overall outlook remains neutral with negative predisposition. For the next three month period we expect the rate to be in the 1.28 – 1.32 range and for the next six months in the 1.22 – 1.33 range. Our twelve month target is 1.26.

EURUSD, Spread in 5Y Bund versus Treasury



Source: Bloomberg, Piraeus Bank Research

EURUSD & Euro-zone Spreads

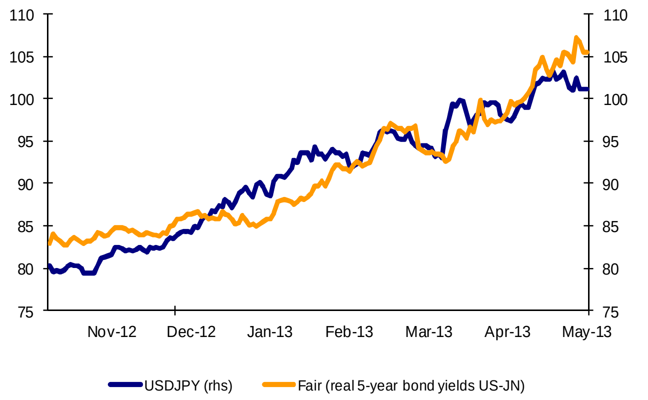


Source: Bloomberg, Piraeus Bank Research

- The USDJPY exchange rate was under upward pressure (rising 3.5%) and increased volatility during the last month, due to the expectations of a faster pace of QE from the BoJ's and simultaneously a slower QE pace from the Fed. Although some positive economic releases from Japan have led the 5Y JGB yield up by 18bps, the respective US yield has gone up by 42bps and there has been a fall in the difference between the US and JP inflationary expectations of 22bps. These movements have increased the real 5Y spread, justifying a value of 105 for the USDJPY exchange rate. The continuous fall in JP consumer prices has heightened the expectations of a laxer monetary policy. Since we expect lower US inflationary pressures, together with higher US yields, we estimate that breaking the 100 level (up to 109) is possible. In the long run, uncertainty about achieving the 2% JP inflation target, the contingent restarting of operations at the nuclear plants, the fall in international oil prices (resulting in less energy import spending) and possible safe haven seeking strategy will exercise descending pressure on the USDJPY exchange rate. Due to the steep ascending path and the relatively low impact of economic data, we raise our 12-month target from 89 to 95.

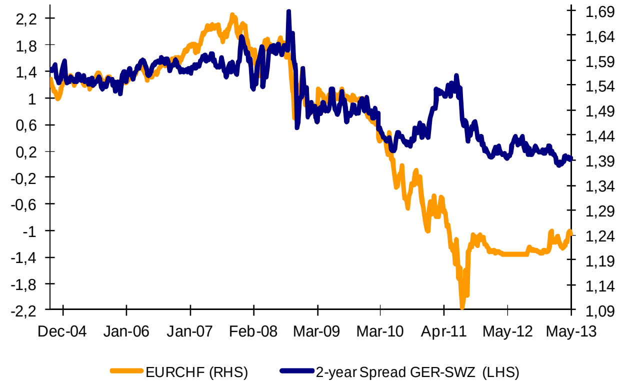
- The EURCHF exchange rate reacted positively (by 1.6%), to the fall in the EMU peripheral funding costs and it is trading around 1.24. In Switzerland, there have been several positive economic releases, such as the increase in the PMI Manufacturing (to 50.3), the fall in the unemployment rate (to 3.1%), the acceleration in the M3 money supply growth rate (at 10.3%) and the positive surprise of the first quarter growth rate (at 0.6% instead the expected 0.2%). However, negative implications (which suggest the maintenance of the 1.20 peg) still remain, such as the negative inflation rate (-0.4%), the negative retail sales growth rate (-0.9%) and the tightening in the trade surplus.

USDJPY



Source: Bloomberg, Piraeus Bank Research

EURCHF



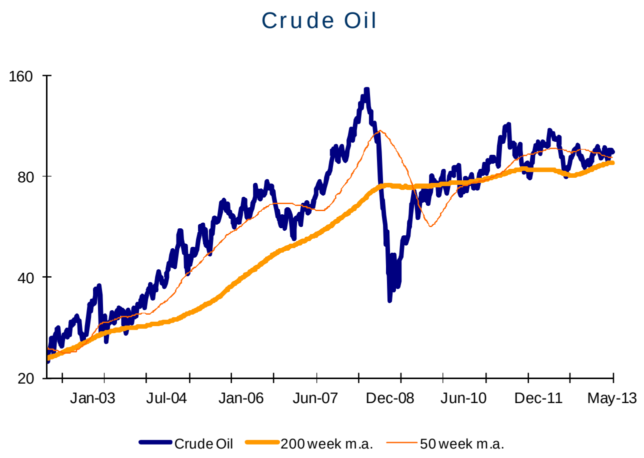
Source: Bloomberg, Piraeus Bank Research

Commodities

- It is possible that cyclical commodities are entering a period of structural weakness due to a) the structural change in China's economy to a more consumption oriented model, b) the increase in the production of commodities and c) the end of the peak of the central banks QE impact of excess liquidity. The technical picture has significantly deteriorated in the CCI Index. After April's strong downward pressure, the CCI Index went down again in May (by 2%), with the cyclical metals outperforming (copper 4%, cyclical metals LME Index 1%), while precious metals fell (gold by 4%, silver by 4% and platinum by 2%). The oil market picture was neutral (crude: 0.1%, brent: -0.5%). Agricultural commodities were under upward pressure (by 2.8%), while the ascending trend in the natural gas market was maintained (by 2.7%).

- In the oil market, the majority of the determinants were negative, such as the weak economic releases in China's economy, the appreciated USD (in trade–weighted terms) and the increase in oil production. The developments on the demand side were positive. All these factors together exerted downward pressure on the fair value by 5%, leading to wider deviation in the long-term overvaluation. Thus, we believe that even within a cyclically better macroeconomic environment, the magnitude of the overvaluation will allow downward pressures to prevail in the long run. The fundamental/quantitative view has deteriorated to significantly negative, while the technical view has improved from negative to neutral, but with negative predisposition. The oil price appears to have short-term support in the 200 day moving average at the $92 level. The overall view remains negative.

- Worries about a slower pace of the Fed's bond purchases coupled with lower inflationary expectations increase real US yields, intensifying the descending pressure on the gold price, which remains overvalued, if we take into consideration the deficits in the US economy, the monetary policy relaxation and the still negative real interest rates. After the sizable fall in the gold price over the last few months (-14% since the beginning of 2013 and -12% since the end of March), we believe that short-term upward pressures are possible as gold is trying to defend its long-term upward trend. The technical view has deteriorated but remains neutral with negative predisposition. The overall view remains negative (from neutral to marginally negative predisposition).



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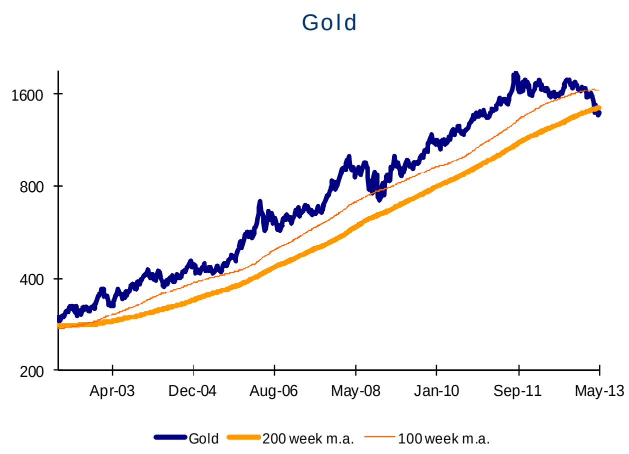

Source: Bloomberg, Piraeus Bank Research

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