Global Economic & Market Monthly Review: Supported by Central Bank Intervention

ECONOMIC ANALYSIS & RESEARCH DIVISION

Executive Summary

- Economic data continue to appear negative in the U.S., with some signs of stabilization in sight. This weakness is expressed, at this stage, mainly by a slowdown in sales relative to stock, which mainly affects manufacturing. At the same time, the labour market also appears weak, while the property market seems to be recovering.

- The Eurozone economy remains in a slowdown/recession mode because of the ongoing policy of fiscal contraction and the deterioration in the business climate caused by the euro crisis.

- The recent reform measures announced by the Indian government, and the upcoming election of the new leadership of the Chinese Communist Party could pave the way for economic stimulus measures, which could provide additional impetus to the global economy and markets.

- Both the ECB and the FED announced measures which exceeded expectations. These could provide significant support to economies and markets. Despite this support, uncertainty remains about their ability to produce growth. With regards to the FED, it is uncertain whether monetary stimulus will be able to address the, partly structural, high unemployment. Regarding the ECB measures, additional political action is a necessary condition for a more permanent improvement in investor and business sentiment.

- In the medium term, there is probably still room for a continuation of the recent positive investment sentiment; in the longer term, however, we note that recent movements in markets are already pricing in a fairly positive economic scenario, while the fundamentals are expected to remain relatively weak. We note an improvement in the overall picture for emerging market equities and also for the euro, which remains relatively expensive, while U.S. equities are unlikely to maintain their outperforming streak. The price of oil is high in terms of both economic fundamentals and the dynamics of supply and demand, perhaps incorporating a very high geopolitical premium.

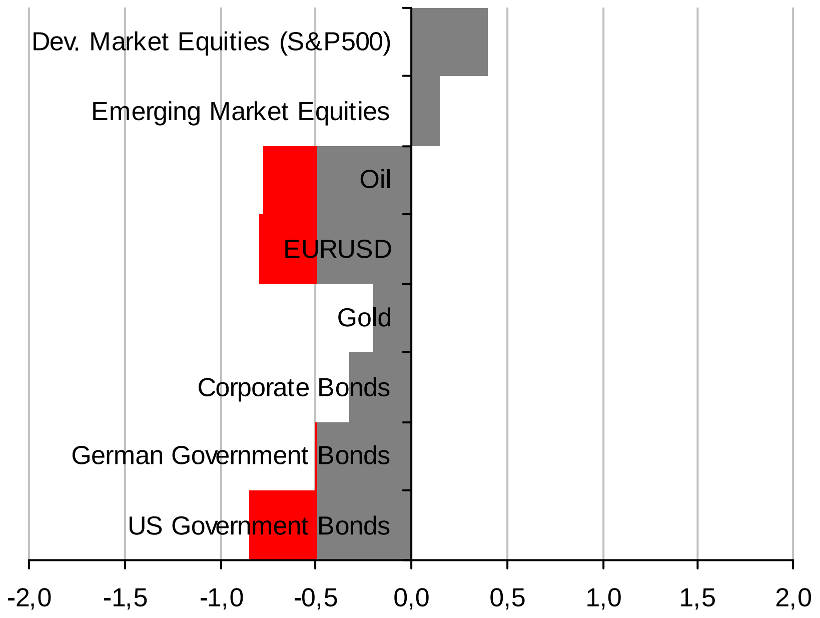
September, 2012

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 Asset Scoring

(6-9 month horizon)

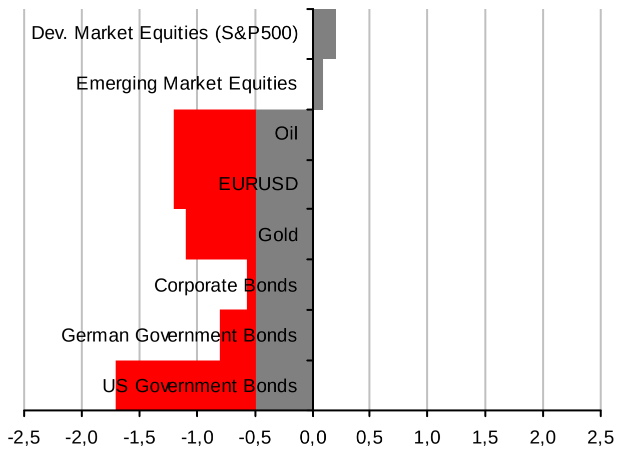


Scoring between -2.5 and 2.5,reflects an average estimate (50%) quantitative fundamental, & (50%) technical factors affecting individual markets.

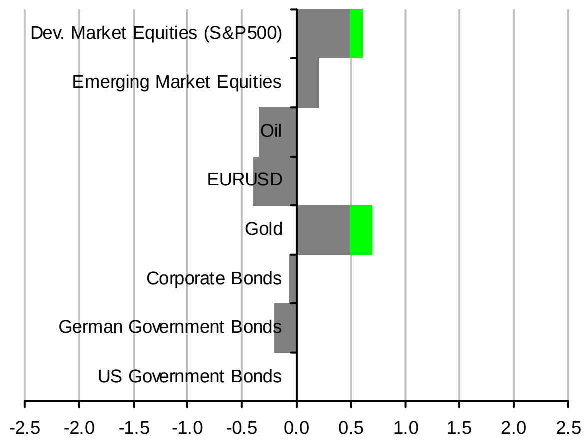
- *-0.49 to 0.49 neutral assessment*
- *0.5 to 1.49 positive assessment (-0.5 to -1.49 negative assessment)*
- *> 1.5 very positive assessment (<-1.5 very negative assessment)*

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

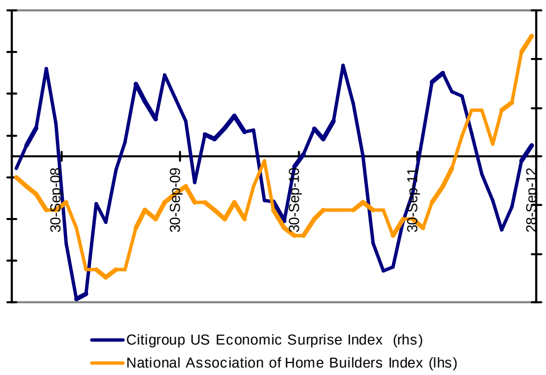
U.S.: Potential Stabilization

• Although U.S. economic data continue to deteriorate, expectations have already shifted significantly downwards, and it is most likely that we are emerging from a period of negative surprises, as shown by the corresponding Citigroup index in the first diagram below. The most recent positive surprises are mainly related to the real estate market, where inventories of new homes have dropped significantly, leading to a higher business confidence in the sector, while causing a gradual upward trend in prices. Apart from the property market most economic data remain weak.

• The weakness in this phase mainly manifests itself in a slowdown in sales relative to inventories in the U.S. economy. This factor is behind the general weakness of the manufacturing sector and the recent drop in the ISM index below 50, to 49.6. Moreover, in manufacturing, other indicators, such as a significant drop in new orders with a parallel rise in stocks, are alarming and would not support a rapid or immediate recovery. The weakness of the labour market remains in focus, especially in payrolls, while a recent positive was a fall in weekly initial jobless claims. Within the last 3 months, the U.S. economy has added only 96,000 new jobs while in the last twelve, 150,000 were created. The trend in consumption has remained relatively strong, with personal consumption growing by 2% per year and retail sales by 3.5% (excluding automobiles and gasoline). The concern at this stage is the fact that these rates are not sustainable without a rapid recovery in the labour market, as we see in the second chart. Amongst the positive signs, we should also include the rise in consumer confidence and the acceleration in growth of the broader M2 money supply relative to the M1, which has a positive correlation with economic activity.

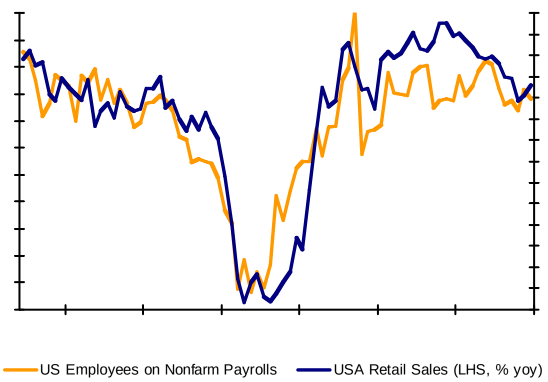
• Using information embedded in recent market movements (equities, cyclical commodities slope of bonds, etc) to infer growth expectations, we estimate an annual expected rate of 3% 6 months from now. On the other hand, using a series of leading indicators (inventories, sales, new orders, new unemployment claims) we estimate a relatively modest growth of 2.4%, a difference that is probably attributable to the FED's recent QE announcements.

Economic Surprise & Housebuilder Indices



Source: Bloomberg, Datastream, Piraeus Bank Research

Retail Sales & Non-Farm Payrolls



Source: Bloomberg, Datastream, Piraeus Bank Research

Eurozone: Economic trend deterioration

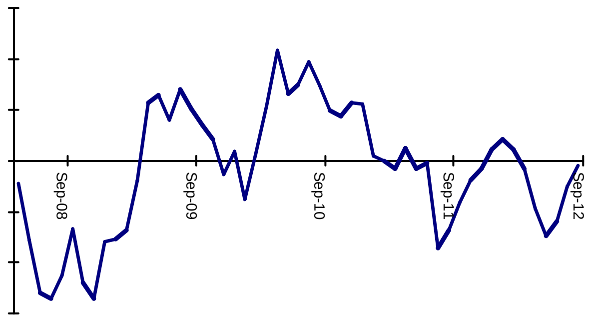
• The Eurozone economy remains in a significant slowdown/recession mode because of both the ongoing policy of fiscal contraction and the deterioration in the business climate caused by the euro crisis. Thus, on an annual basis, the EZ economy shrank by 0.5%, while the outlook remains negative. Although recent ECB announcements (bond market interventions) and the European Commission draft for Banking Union are indispensable for crisis resolution, uncertainty about the political will for further economic integration and substantial financial solidarity remains high, while the dynamics of the economyare negative. So, a number of leading indicators, such as expectations contained in the IFO index and the PMI indices indicate a further deterioration in economic activity.

• The picture in the two southern economies which have recently attracted market attention remains alarming. Industrial production in Italy continues to decline on an annual basis (-7.3% per year, from -9.2% in April) as it does in Spain (-5.4% from -8.4% in the same month). On the other hand, the consolidation of Portuguese industrial production (-0.2% yoy from -7.4% in April) is encouraging, as is, to an even greater degree, the resumption of industrial production growth in Ireland (4.8% from -2.6% in February).

• Although the economic data remain negative, analysts seem to have now begun to anticipate that the momentum is changing, and according to the corresponding Citigroup index we could also be emerging from a period of negative surprises in the Eurozone as well. Here though, the possibility of positive surprises seems even more remote than it is for the U.S.

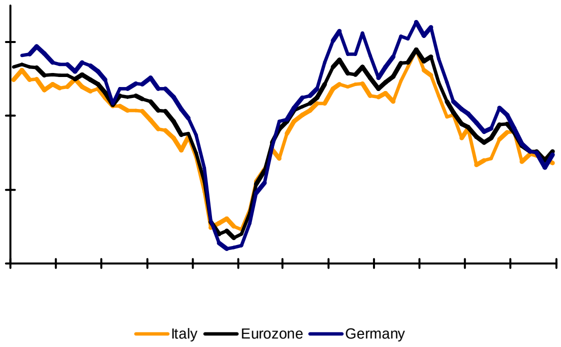
• Unlike the U.S., where the difference between market expectations and the outlook based on leading indicators is relatively small, in the Eurozone there are significant differences between the growth expectations implied by leading indicators and markets. The latter anticipate an annual rate of 1.4% 6 months from now, while leading indicators predict a recession of similar size (-1.4%), a result perhaps of the recent ECB announcements about bond market interventions.

Economic Surprise Index



Source: Bloomberg, Datastream, Piraeus Bank Research

PMI Manufacturing Indices



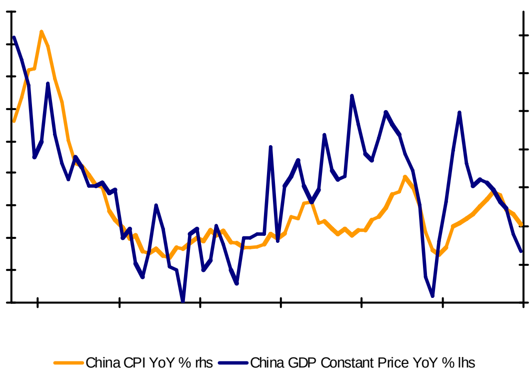
Source: Bloomberg, Datastream, Piraeus Bank Research

China & India: Policy Changes on the Horizon

• The economy in China continues to decline with the PMI index (HSBC) remaining around 47, while deceleration is also observed in most sectors, such as retail sales, industrial production and corporate profits. The deceleration of monetary growth M2 to 13.5% from 13.9% is alsoa negative as is the fall of the Leading Indicator (National Bureau of Statistics and Goldman Sachs) to near the 2008 lows. Consumer price inflation, at 2%, remains on a downward trajectory, while a downward trend is observed in producer prices (-3.5% yoy). The relative inactivity in the communication and implementation of policies to stimulate the economy, has led many analysts to reduce estimates for growth to below 8%. To the extent that the absence of such measures is due to concerns over renewed upward pressures on consumer and property prices, the pessimism is probably warranted. However, if it is simply due to the significant upcoming change of leadership of the Chinese Communist Party in early November, then a positive surprise would be likely as markets in China are already discounting a fairly negative scenario. Of course, regardless of any medium-term stimulus, the Chinese economy remains at an important crossroads with serious dilemmas. Although inflation remains low now, the real estate market remains vulnerable to upward pressures, while the goal of converting the economy from export to consumption-driven is hard to achieve and this change could lead to a transition period with a significant slow-down. A third scenario could include a planned deceleration in the broader context of economic restructuring. Such a development, regardless of any short-term negative consequences would, in the long run, be very positive, both in terms of the growth of China and other emerging countries but also, and perhaps to an even greater degree, in relation to the growth of developed economies. In these countries, ongoing private and public deleveraging creates a demand gap which could be filled by the rise of Asian consumption.

• The Indian economy remains in decline, with high inflation (10%), swelling fiscal and trade deficits and declining industrial production (-1.9% yoy). After months of inaction, the government appears to have reacted to the deteriorating trend by adopting economic reforms to the energy market (abolishing subsidies) while opening up the airline and retail trade industries to foreign investors. Although there are implementation risks, these announcements are very important for a turnaround in the business and investment climate.

China: Growth & Inflation



Source: Bloomberg, Piraeus Bank Research

India: Growth & Inflation

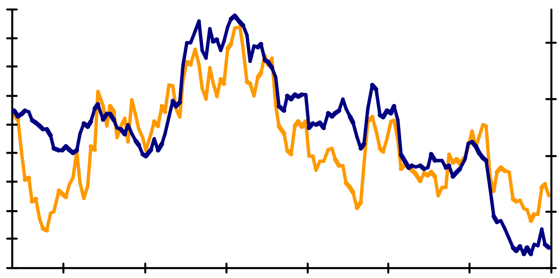
Source: Bloomberg, Piraeus Bank Research

Markets: Driven by Economic Policy Positive Surprises

• The positive policy surprises that occurred during the last few weeks came on top of a summer market performance that was a lot better than expected. To an extent, markets discounted the positive interventions of central bankers, but, as both the ECB and the FED announced measures that significantly exceeded analyst expectations, we are likely to remain, in the short term at least in a mode of positive investor climate and declining volatility as investors could be more patient than usual in waiting for the positive effects of these actions. However, as noted above, both in the U.S. but mainly in the Eurozone, market movements have already discounted a quite favourable economic environment, compared to that which is inferred from various leading indicators of economic activity. It is possible that announcements of economic policy support from China will bridge that gap, but investors, in order to benefit, will have to be redirected to the respective markets (Chinese equities, cyclical metals, equities countries/companies exporting raw materials), that will probably remain subject to developed economies' shocks.

• With respect to the Eurozone, the ECB announcement of the intention to make unlimited bond purchases (for up to 3 years' maturities) for countries that agree to participate in a rescue mechanism and the waiver of its seniority rights, has led to a major decline in yields of Italian and Spanish bonds. Although this decline has been supporting the euro and European equities, there is a risk of weakening the incentives (i.e. market pressure) for the governments of Spain and Italy to ask for support, a strict condition for ECB intervention. So, while the rational response of governments would be to take advantage of falling interest rates in order to enter into negotiations from a stronger position, there is a risk of inactivity, which would result in a renewed rise in yields, a deterioration in the investment climate and then a possible formal request for support and draft of a memorandum of understanding. Such a memorandum would include stringent austerity features with a lower probability of success. Although this result would not be optimal in economic terms, the political reality may require market pressure to request a rescue mechanism. *Overall, these ECB policies are very important and could potentially lead, together with plans for a banking union, to a more permanent positive shift in investor sentiment. They are, however, a necessary but not sufficient condition. An essential final ingredient remains political agreements that lead to the sharing/mutualisation of the overall fiscal risk in the Eurozone*.

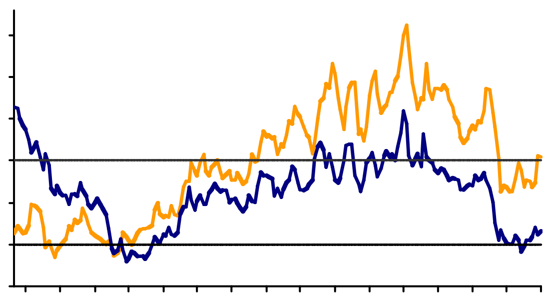
EURUSD, &Eurostoxx500 Volatility



Eurostoxx50 Vol RHS — EUR-USD OPT VOL 1Y % LHS

Source: Bloomberg, Piraeus Bank Research

Spanish & Italian 10-year Yields



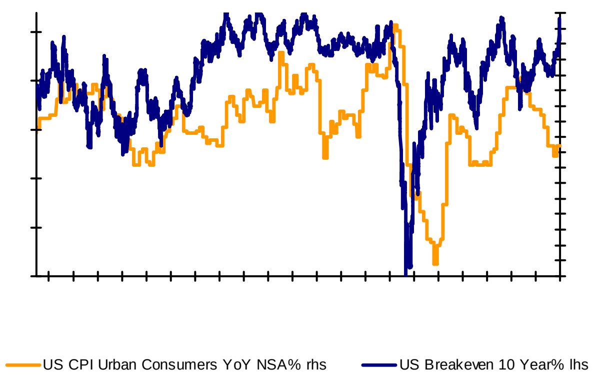
Spain — Italy — 6% — 5%

Source: Bloomberg, Piraeus Bank Research

• In the U.S. the FED's commitment to expand its balance sheet (buying bonds linked to mortgages) until the unemployment rate is significantly reduced, has also contributed to an improvement in the investment climate in anticipation of the provision of unlimited liquidity. What differentiates this round of quantitative easing from the previous one is that at this stage there is no risk of deflation, as prices are on the rise (with core inflation at 1.9% and the headline rate at 1.7%). For this reason, the FED's announcement has led to a rise in inflation expectations. Expected inflation embedded in inflation-protected 10-year bonds (TIPS inflation breakeven) rose at 2.7%, the highest rate since 1998. Although fundamentals in both the U.S. and the rest of the world (high unemployment, low credit expansion in the U.S., in conjunction with the European crisis and a slowdown in emerging economies) do not point to an inflationary surprise, the probability of one is higher than in the past. in addition to rising inflation, capacity utilization (positively correlated to inflation) at 78%, is close to its 10-year average, while linking an unconditional increase in liquidity to unemployment leaves the economy potentially vulnerable, for a presumably long period of time, to external factors that could prove inflationary (geopolitical and climatic shocks that cause pressure on the price of oil and food, policies that weaken the currencies of other countries: Japan, China, etc.). Also a large degree of uncertainty remains about the effectiveness of these monetary measures. A large proportion of economists argue for the structural nature of unemployment in the U.S. as a result of the recent but persistent contraction in the construction and financial sectors coupled with the longer-lasting decline in manufacturing. In that case, a monetary cure could be ineffective in reducing unemployment.

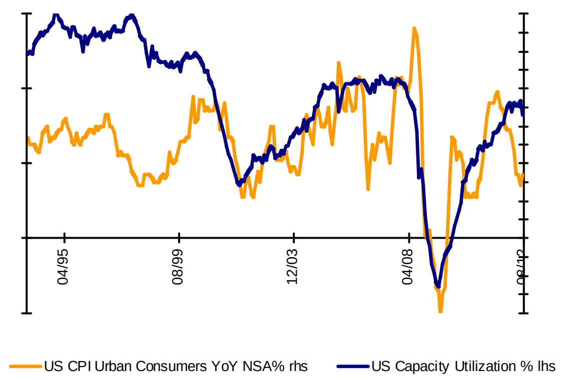
• These policies are likely to provide protection against the risk of a more substantial slowdown but it is doubtful whether they will be able to generate growth. Nevertheless, this round of quantitative easing could be a counterweight to the potential fiscal contraction due to a potential failure of the President and Congress to reach agreement after the November elections. According to many analysts, the cost of such an outcome would be around 3% - 4% of GDP as tax relief and income support measures expire. So far there are no signs of market concerns about this possibility. Investors are likely to start to worry after the election, but it is also possible to observe a cancelling out of these two opposing effects. Certainly the possibility of such a big negative shock increases the incentives for finding a solution and, indeed, after the election an agreement could be easier to reach when all party rhetoric is set aside. Then, the final overall result of recent policy initiatives would be positive for both the economy and the markets.

Expected & Realized Inflation



Source: Bloomberg, Piraeus Bank Research

Capacity Utilization & Inflation



Source: Bloomberg, Piraeus Bank Research

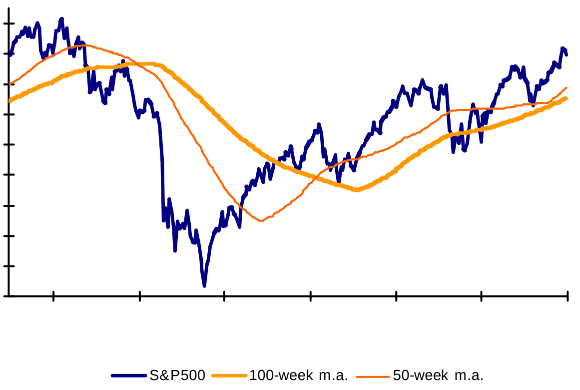
• From the early June lows, we observed a significant rise in equity markets (15% S&P500, 15% MSCI Emerging Markets, 25% DAX, 65% ASE), rising government bond yields (44 bps in the U.S. 10y and 61 in the German one), 9% rise of the euro and 19% increase in commodities. The rise of the euro coupled with the over-performance of European equities and underperformance of German bonds, and the equal performance of emerging markets (wrt the S&P500) suggests that, for the most part, the improved investment climate was due to positive European developments and not related to the FED QE announcements.

Equity Markets

• Equity markets in the U.S. continue to present a positive picture overall mainly because of the FED's actions in combination with the high unemployment which compresses labour costs. According to the Q2 2012 earnings results, profitability increased 13% annually, with sales lagging at 9.7%. During this time, while 73% of companies surprised positively on profits, 58% surprised negatively relative to sales, highlighting the fact that boosting earnings by wage-cutting is not sustainable because, in the aggregate economy, reducing work income negatively affects consumer purchasing power. As far as valuations are concerned, the S&P500 trades at a P/E of 14.8 which is considered reasonable but not cheap. Moreover, given the shortfall in sales and the recent rise of inventories relative to sales, a slowdown in profitability in the U.S. is likely. At this stage, analysts expect a growth in earnings of 9.5% over the next 12 months, which is higher than the long-term average of 8.5%. A convergence below that average would be more likely in the current environment. *Furthermore, we observe a deterioration in the (still positive) technical picture for the S&P500 as the market appears over-bought. Overall, our stance is downgraded to neutral with a positive bias.*

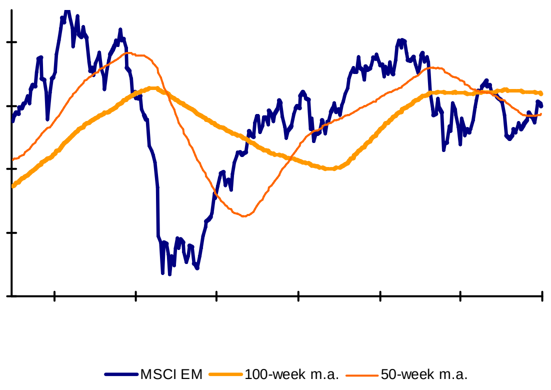
• Emerging market shares continue to show significant underperformance. The deleveraging of European banks, the Chinese slowdown and political uncertainty, and the stagnation of structural changes were the main factors. The recent measures announced by the Indian government and the upcoming election of the new leadership of the CCP, remove two sources of uncertainty. On the other hand, profitability in emerging economies remains on a downward trajectory, -20% in the past 12 months, making equities more expensive with the price-earnings ratio rising from 9.5 to 12.5, levels that are considered fair but not cheap. For the next 12 months consensus earnings expectations of 18% are considered relatively optimistic. *The technical picture has improved to neutral. Our overall stance is upgraded to neutral with a positive bias.*

S&P500



Source: Bloomberg, Piraeus Bank Research

MSCI Emerging Markets

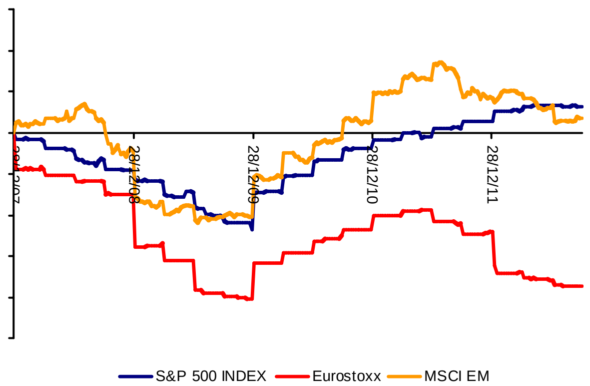


Source: Bloomberg, Piraeus Bank Research

• European shares are expensive, especially after the strong summer rally, as profitability is on a negative trajectory (-55% over the past 12 months). If you exclude the German DAX, trading with a 14 P/E ratio, the wider European Eurostoxx index is high at 25. Of course, if analyst expectations of a 135% earnings growth materialize, then the P/E ratio is expected to fall to 11, a level that is considered cheap. The nature of this crisis (political and institutional) makes the formulation of such expectations highly uncertain, *suggesting the existence of a significant risk premium in the valuation of European equities.*

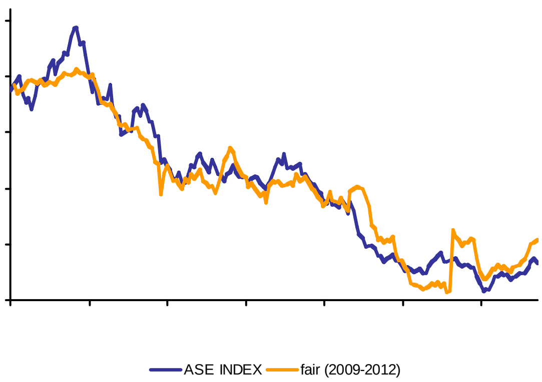
• The Greek stock market has made significant gains from its summer lows. The formation of the government in conjunction with international developments has reduced the likelihood of an exit from the euro in the coming months. This is also reflected in bond yields, which have declined significantly from their recent high (19.5% from 30% for 10y GGB's), probably due to expectations of a new "haircut" on the debt that is in the hands of the official sector. A further decline to 18% (post PSI low) is likely, assuming the positive picture in the international markets is maintained, pointing to an upper limit of 950 for the ASE, according to the model we use. We note that there is a strong technical resistance at the 800 area. For further gains information on positive earnings & economic growth and/or a more favourable international environment (elongation, development measures and a new "haircut") would be necessary.

Corporate Profits since 31/12/2007



Source: Bloomberg, Piraeus Bank Research

ASE vs Fair (10y GGB yield, EURUSD, S&P500)



Source: Bloomberg, Piraeus Bank Research

Bond Markets

• Despite the downturn, following recent central banks announcements, the long-term bond market trend remains strong. The deterioration in the Eurozone cyclical indications and stagnation in the U.S. exert downward pressure on bond yields. On the other hand, the decline in volatility in global markets and the resulting decline in demand for safe havens, as a result of central bank policies, along with marginally faster signs of money expansion in the Eurozone (M3) and the fastest expansion of the wider M2 money supply versus the narrower M1 in the U.S., exert upward pressure on bond yields, that in the last 2-3 months outweigh other forces, resulting in a short-term upward pressure on bond yields.

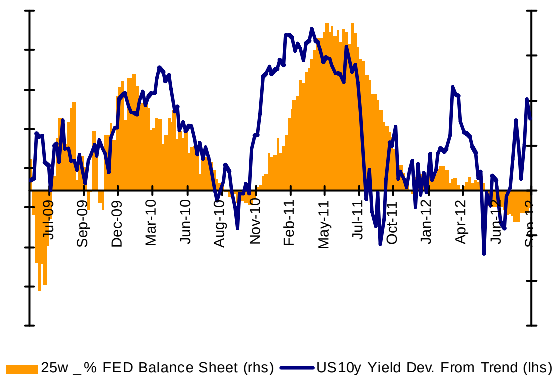
• Monetary easing policies (QE) usually lead "paradoxically" to higher bond yields despite FED bond buying, as the nascent improvement in the investment climate typically leads to significant bond sales by investors, replacing them with stocks, commodities and other assets. In the first diagram below, we can observe a positive relationship between deviations of 10-year U.S. bond yields from their medium-term trend with 25-week changes in the FED's balance sheet, a product of the last two rounds of quantitative easing policies. Certainly, previous periods of quantitative easing, coincided with periods of positive surprises in U.S. economic data. There is a possibility that this relationship will continue, but as we noted in the economic analysis section, a possible improvement would be rather mild, so the potential rise in yields would be even smaller. Also, the recent rise in yields already discounted part of the FED intervention.

• The Eurozone economy remains in a deteriorating orbit, but expectations of investors and analysts have begun to incorporate this trend. So, in relation to the performance of the German bond market, investors are focusing on announcements of crisis-resolution measures. Measures that will apparently lead to a deeper intra-regional pooling of debt are causing upward pressure on German yields as, in this scenario, Germany will eventually bear a large part of the total fiscal risk. In instances where the measures disappoint, the demand for safe havens will increase, causing downward pressure on German yields.

• Corporate spreads ($IBOXX index BBB) have fallen by 50 bps since the beginning of the summer, while remaining relatively high, compared to corporate profitability and equity volatility (which itself remains on a downward trajectory). BBB spreads are trading at 200 bps now, slightly below the long-term average. These factors render corporate bonds cheap – when compared to sovereigns – from a fundamental standpoint. The technical picture has improved, but we are approaching levels where there is a likelihood of spikes in volatility and spreads. *The overall picture is marginally positive (relative to sovereigns).*

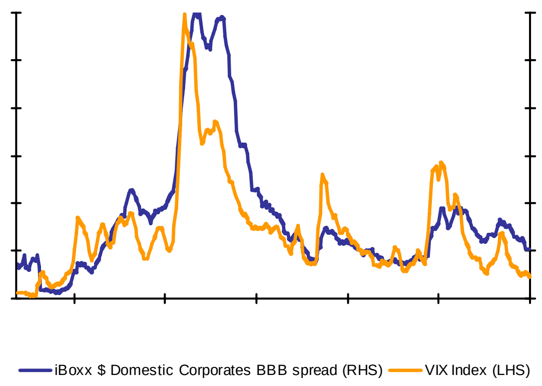
• At this stage, both German and American government bonds still contain a significant risk premium associated with persistent structural uncertainties, making them expensive (and more difficult to predict). *The technical picture in the U.S. has changed to neutral and to slightly negative in Germany. The downturn in the euro area economy and the recent downward trend in bond prices improved the overall picture of German bonds to marginally negative, while the one for the U.S. remains negative.*

10y UST yield vs. FED Balance Sheet Changes



Source: Bloomberg, Piraeus Bank Research

Corporate Spreads vs. Equity Volatility



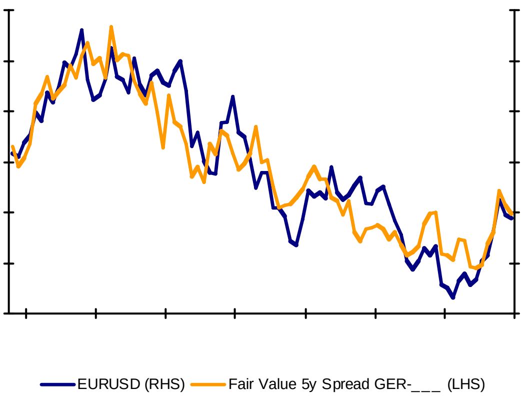
Source: Bloomberg, Piraeus Bank Research

Forex

• The EURUSD cross, reacted strongly after its July low, as a result of the Draghi announcements, the subsequent significant reduction in European regional spreads and the FED QE announcements which are "normally" negative for the US dollar. As previously mentioned, the ECB interventions are very important and offer medium-term support to the euro. But for stabilization and a permanent reversal of current negative trends, it is necessary that policies and decisions emerge that lead to substantial fiscal consolidation. Regardless of the political dimension, the economic data continue to be dollar-positive. So while the U.S. economy is likely to emerge from a period of slowdown, even to a mild growth equilibrium, the Eurozone economy remains in a state of cyclical deterioration, a combination that is expected to exert downward pressures on the EURUSD. At this stage, at 1.2850, the cross is fairly valued relative to the bond spreads of the U.S. and Germany and only marginally expensive compared to spreads of German vs. the rest of Eurozone. As we mentioned in previous issues, the rate remains significantly overvalued in relation to differences in manufacturing activity, the trade deficit and monetary growth.

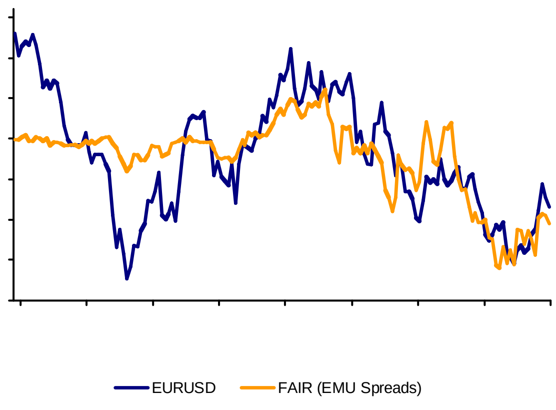
• The potential ECB intervention of direct purchases of bonds, offers significant medium-term protection in the region of 1.20, and the risk is now of a failure of politicians to leverage on ECB policy announcements. For the next 3-4 months we expect trading in the 1.2030 - 1.3450 range. We expect significant short-term support at 1.2700 and resistance at 1.3050. An upward break could come as a result of change in the political climate, announcements of deeper integration and/or faster European recovery, while a downward one could be a result of faster recovery in the U.S., significant delays of Spain (and Italy perhaps) in requesting some sort of bail-out and an overall policy failure to benefit from the actions of the ECB. *We maintain our 12-month target of 1.19. We note that the previous very negative technical picture has evolved to neutral with a negative bias while on the valuation front the cross has only partially covered its great deviation from various fair value measurements.*

EURUSD vs 5y German-US Bond Spread



Source: Bloomberg, Piraeus Bank Research

EURUSD vs Intra-Eurozone Bond Spreads

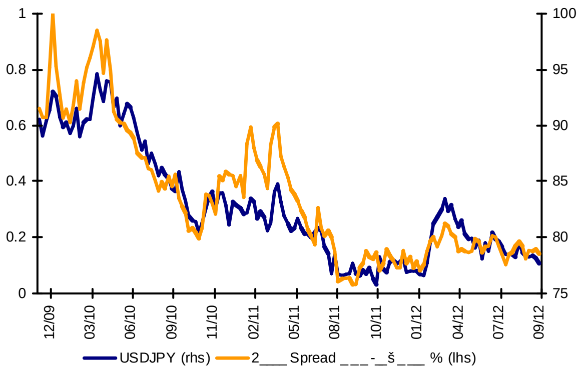


Source: Bloomberg, Piraeus Bank Research

• The Japanese yen strengthened against the dollar by about 3% during the summer months despite the significant improvement in the investment climate. The policies of quantitative easing in Japan could not be a counterweight to the U.S. ones, the uncertainties about global growth (especially in China) and geopolitical concerns arising from recent claims on islands in the East China Sea. Japanese economic data remain disappointing with the trade balance in deficit, declining industrial production and negative yoy inflation. The Bank of Japan, which has set a target annual inflation rate of 1%, has every incentive to intervene against any tendency to strengthen the yen, but until now the effects are not sufficient as most factors continue to push USDJPY lower. Behind the strengthening of the yen, we are able to detect only a marginal contraction in 2y U.S.-Japan spreads. The general impression is that the cross begins to enter levels where the yen is expensive compared to U.S.-Japan bond spreads and other market and economic variables. *The short-term trend remains downward, and a move towards 76 is possible (in the absence of intervention by the central bank). Overall, however, we maintain that a cyclical supremacy of U.S. vs Japan and the policies of central banks will support an upward trend in USDJPY. We maintain our annual target at 82.50.*

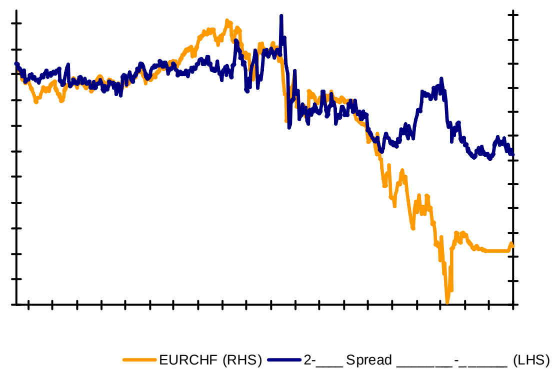
• The relief of Eurozone crisis related-pressures was reflected in a rising EURCHF exchange rate, by 1.5% to 1.2180, followed to a correction to 1.2085 recently. The new ECB measures are expected to remove most of the upward pressure on the Swiss franc, greatly reducing concerns about a downward displacement of the target value of the Bank of Switzerland (SNB). In the meantime, economic data remain negative in Switzerland thus calling for a weaker franc. Although inflation has risen, it remained negative at -0.5%, the PMI manufacturing index fell significantly to 46.7 while GDP growth was negative for the second quarter (-0.1%). Central Bank reserves rose by "only" 12 billion in August after the inflow of CHF 59 billion in July as a result of this easing of pressures. According to recent statements by the chairman of the SNB, the Swiss franc is overvalued; signalling that the 1.20 floor in EURCHF would be in place for a long time.

USDJPY vs 2y US-Japan Bond Spread



Source: Bloomberg, Piraeus Bank Research

EURCHF vs 2y German-Swiss Bond Spread



Source: Bloomberg, Piraeus Bank Research

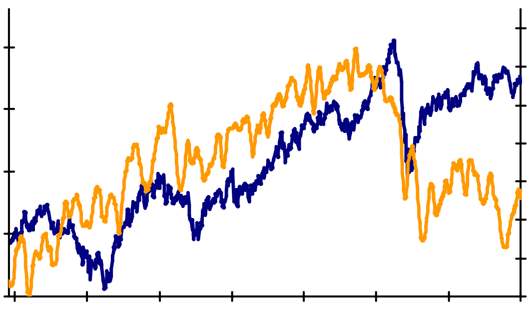
Commodities

• Commodity prices have increased significantly since the beginning of June, primarily due to the improvement in the climate in the Eurozone and secondarily due to the announcement of quantitative easing measures from the FED. The market will continue to focus on Eurozone issues and on U.S. growth, but at this stage China is an important parameter with respect to any announcements on economic policy that could occur after the change of leadership of the CCP at the beginning of November. Given the concerns about Chinese growth that have recently been incorporated into the markets, a medium positive surprise is likely. *Overall, commodities remain relatively expensive given the dynamics of the global economy with cyclical metal being relatively cheaper and precious metals more expensive*. Certainly in relation to the latter, the strikes in South African mines are an exogenous factor that could continue to support prices at high levels.

• The price of oil (crude) recorded an impressive increase of 29%, parallel to the EURUSD rising to 1.31, then retreated as strongly from $100 to $90 recently due to concerns about the economy in China and also because of uncertainty about whether Spain will ask for a support mechanism. Although an announcement of a Chinese stimulus package would lead to a retesting of the $100 region, the broader global economic dynamics, the persistent crisis of the euro and the correlation with the demand for fuel (which moves downwards) and the production of oil (which is rising) suggest a much lower price of around $80. Overall, the price of oil is high in terms of both financial/economic data and the dynamics of supply and demand, perhaps incorporating a very high geopolitical premium (Iran, China-Indian). *The technical picture of the oil price changed to neutral with a negative bias and our overall view to negative.*

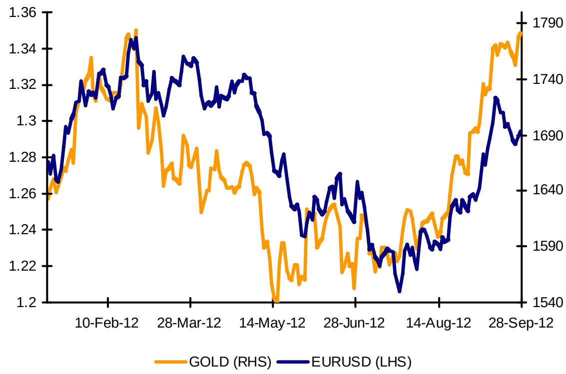
• The price of gold has risen 16% from its May lows, as a number of central banks (USA, EZ, Japan, China) surprised positively in providing liquidity. The technical picture is significantly positive but short-term over-bought. According to our expectations for the resumption of the downward trend in euro and of a stabilizing U.S. economy, further significant gains will be difficult to achieve, especially as the price of gold continues to exaggerate a series of fundamentals (budget deficits, money supply, inflation, interest rates, dollar). *Technically, however, stabilization over 1800 would increase the chance for a significant further rise above $2000. We continue to maintain a neutral point of view.*

Crude Price & US Fuel Demand



Source: Bloomberg, Piraeus Bank Research

Gold & EURUSD



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