ISSN: 1791-3535

Eurobank Research
www.eurobank.gr/research
research@eurobank.gr

GLOBAL ECONOMIC & MARKET OUTLOOK

Eurobank

November, 2013

Olga Kosma
Economic Analyst
okosma@eurobank.gr

Vasilis Zarkos
Economic Analyst
vzarkos@eurobank.gr

- We expect global economic growth to pick up momentum in 2014
  - The euro area economy is expected to continue growing at a subdued pace on the backdrop of receded break up risk and improving sentiment
  - In the US, we expect a gradual acceleration of economic activity, as the negative drag from the fiscal pinch dissipates over time and consumers pick up spending
  - Economic activity in EMs is expected to accelerate modestly due to higher demand in advanced economies
- Risks to our economic outlook originate from multiple sources
  - Unexpected fireworks in global financial markets as the exceptionally accommodative US monetary policy reaches a turning point
  - Fragile political stability in the EA periphery that threatens economic confidence and decelerates structural reforms
  - Intensification of financial conditions in the euro area due to bail-in clauses and lack of national backstops

Table of contents

I. Global Outlook

Olga Kosma, Vasilis Zarkos

Global economy is expected to move into higher gear in 2014, mainly due to a pick up in growth momentum in advanced economies. Growth in developed countries will be supported by loose monetary policy, lower pace of fiscal consolidation and contained disintegration risks in the euro area. Developing economies are expected to expand at a lower rate compared to that observed in previous years and follow a differentiated growth trajectory. Higher demand in advanced economies is expected to boost emerging markets with strong trade links with them. On the other hand, those emerging markets vulnerable to global capital flows (e.g. Indonesia, India, Turkey and Brazil) are expected to be most affected by the anticipated tightening of monetary conditions in the US. Overall, global economy is forecasted to expand by 2.9% in 2013 and accelerate to 3.6% in 2014.

Country/regional economic outlook

A key to the **US** economic outlook will be the extent to which fiscal retrenchment contributes negatively to real GDP growth in the second half of the year relative to H1. We expect H2 GDP growth to track around 2.0%, with the two-week government shutdown constituting only a modest drag on Q4 13 real growth. Looking ahead, we expect a gradual acceleration of economic activity in 2014 with real GDP growth hovering around 2.5-3.0%, up noticeably from the 1.6% expected growth in 2013, as the negative drag from the fiscal pinch dissipates over time and consumers pick up spending. Rising real estate sector and higher household financial wealth are expected to contribute the most to a more sustained economic recovery, supported by easier bank lending conditions and rising credit growth both for firms and households. However, it should be noted that the acceleration of US economic growth presupposes political calmness as well a smooth path to the Fed exit from its loose monetary policy, so that yields remain well contained and financial conditions accommodative.

The **euro area economy** is expected to continue growing on the backdrop of receded break up risk and improving sentiment. However, GDP growth is expected to remain subdued due to ongoing public and private consolidation and tight financial markets. In an environment of accumulated social fatigue and meager economic prospects, fragile government coalitions in periphery countries put continued improvement in economic confidence at risk. Shortcomings in the handling of weak banks in the scheduled asset quality review and subsequent stress tests may cause an escalation of tensions in the banking sector. The ECB is challenged by keeping money market rates anchored and by persistent financial fragmentation. In the period ahead, liquidity provision through a new round of long maturity operations is, in our view, the most likely response to both challenges in the period ahead.

The **Japanese economy** is expected to outperform its peers in 2013, supported by aggressive monetary easing, fiscal stimulus measures, weak yen, positive wealth effects and solid global demand. Growth will slow down in 2014 due to reduced private consumption and unwinding of fiscal stimulus. In the short term, risks to the Japanese economy are mainly external, stemming from an escalation of the euro area crisis, adverse effects from fiscal and monetary policy responses in the US and lower than expected growth in emerging economies. Longer term, prospects of the Japanese economy depend heavily on the successful implementation of comprehensive structural reforms which are deemed necessary to increase the country's potential output, achieve sustained healthy consumer price increases and improve public debt dynamics.

In **emerging economies,** growth prospects have been downgraded across the board both for 2013 and 2014, as the expected turning point in US monetary policy has sparked a sharp tightening in EM financial conditions. The withdrawal of foreign investors from many emerging bond and equity markets caused massive capital outflows and led to declining equity prices. Growth deceleration is expected to be most severe for countries with large external imbalances that are most negatively affected by deteriorating financial conditions, such as India. Nevertheless, the recent stabilization in global financial markets after Fed's continuation of its current expansionary monetary policy and the reacceleration of economic activity in China pose some upside risk to the outlook in the short term. More favorable growth prospects in the US, Euro area and China should be supportive for emerging economies' external demand.

Risks to our global growth outlook

(a) Unexpected fireworks in global financial markets, as the exceptionally accommodative US monetary policy reaches a turning point

The US Fed's communication at its June meeting about a slower pace of easing later in the year has led to a significant increase in global bond yields, a decline in global stock prices and large capital outflows from emerging market economies. The dovish tone of Fed's September meeting highlighting that the US economy is not still ready for a tapering of its asset purchases gave global markets breathing space, as Treasury yields moved lower, emerging market equities recovered pretty strongly and the sharp drawdown in their emerging markets FX reserves has been partially reversed. Given that the US monetary policy has a significant influence on global financial conditions, the reaction of the market to the withdrawal of the US monetary stimulus poses a major risk to the outlook. Historical experience suggests that while there were episodes where US monetary policy has turned the corner with limited negative international implications (i.e. 1999, 2004), the 1994 episode did actually lead to more volatility, exceptionally higher yields and deteriorating financial conditions in emerging market economies, ultimately triggering crises and recessions such as in Mexico. Hence, careful monetary policy implementation and transparent communication on the part of the Fed is of vital importance in order to mitigate risks arising from its exit policy.

(b) Political uncertainty threatening economic confidence in the euro area

Political instability in the euro area periphery is a major threat to improved economic confidence and to the continuation of structural reforms. Accumulating social fatigue amidst dire unemployment conditions and deteriorated living standards jeopardise weak government coalitions in periphery countries. In Portugal and Greece, political strains are likely to intensify as the two countries are expected to enter into negotiation talks for new financial aid.

Moreover, Italian politics remain a source of uncertainty. Although the government coalition managed to secure a confidence vote, its sustainability remains highly questioned. Italy has done little to improve its low competitiveness while its debt overhang is deteriorating (expected to surpass 130% of GDP in 2013). Even worse, the fragile political situation does not allow much hope for implementation of comprehensive reforms. Admittedly, markets held up during the last political crisis incident, with muted movements of bond spreads observed. However, markets' reactions can be unpredictable. If investors turn focus on Italy's structural weaknesses and pressure builds up, the loose cohesion of the Italian government may be severely tested. In this context, Italian lawmakers should move quickly with reforming the electoral law. If escalated political tensions lead to snap elections in 2014 before a new electoral law producing stable governments is approved the result may turn out inconclusive, adding to political unrest.

(c) Intensification of financial conditions in the euro area

Divergent views on European integration and risk sharing have slowed down progress in building a banking union, while subdued market pressures have led policymakers to adopt a complacent approach. Striking an agreement on a Single Resolution Mechanism before year end is challenging, while the final outcome may be a mechanism with significantly watered down power. With respect to the scheduled banks' balance sheet assessment and stress tests, disagreement in setting up financial backstops poses the risk of leaving the euro area ill-prepared to accommodate capital shortfalls revealed by the exercise that cannot be covered by private investors. Policymakers in core countries remain reluctant to endow the ESM with greater leeway to provide support due to the prevailing view that legacy burdens should be dealt with at the national level. The lack of credible backstops for the stress tests may erode markets' confidence on the rigorousness of the tests due to concerns that they will be tailored so as to hide capital shortfalls that countries are unable to address. Finally, likely bail-in of private investors, as dictated by the new state aid rules, would increase borrowing costs for weak banks, boding ill for the reduction of financial fragmentation.

II. Global Economic Outlook

1. The US economy

Olga Kosma

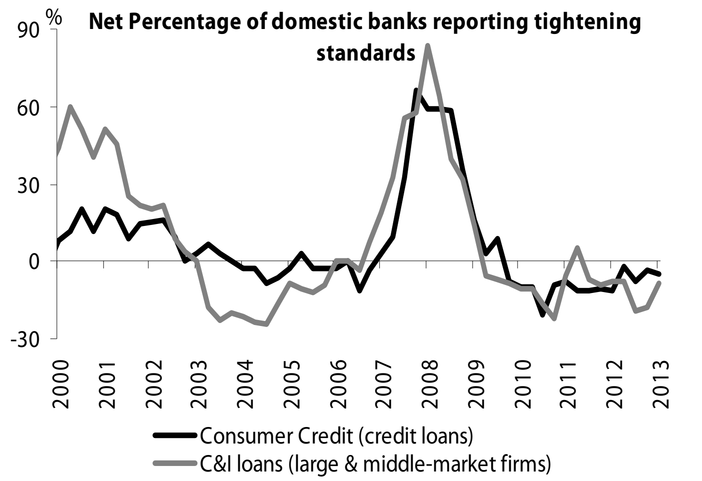
- Fiscal tightening proved to be less of a drag than previously feared in Q2 2013, as the fiscal drag has been partially offset by a positive wealth effect with private domestic demand remaining notably resilient.
- Nevertheless, there has recently been a loss of growth momentum. Sequester cuts remain in place causing households to be fairly cautious about their expenditures, the political mess has increased the economic uncertainty and has weighed on consumer and business confidence, while there has been a slowing in the pace of the housing recovery.
- The temporary government shutdown that lasted from October 1 until October 16 is expected to have a negative impact of about 0.25pp on real GDP growth in Q4, without taking into account any indirect economic impact stemming from a decline in household and business sentiment due to the political uncertainty.
- Looking ahead, we expect a gradual acceleration of economic activity in 2014 with real GDP growth hovering around 2.5%, up noticeably from the 1.6% expected growth in 2013, as the negative drag from the fiscal pinch dissipates over time and consumers pick up spending.
- The housing market recovery and improving household finances are expected to contribute the most to a more sustained economic recovery, supported by easier bank lending conditions and rising credit growth both for firms and households.
- The recent soft trend in payroll growth, coupled with the uncertainty caused by the political controversy and the government shutdown, increases the likelihood that the Fed would wait until its March FOMC meeting in order to start tapering its monthly rate of asset purchases.

Overview

Real economic activity accelerated in the second quarter of 2013 to 2.5% q-o-q saar from 1.1% in the first quarter, on the back of stronger business and residential investment. Fiscal tightening proved to be less of a drag than previously feared, as the fiscal drag has been partially offset by a positive wealth effect. Although household tax rates increased at the start of the year with a subsequent hit to real disposable income, private domestic demand remained notably resilient. Nevertheless, recent data suggest that economic activity has decelerated in the third quarter of the year. Sequester cuts remain in place causing households to be fairly cautious about their expenditures, while the fiscal standoff has increased the economic uncertainty and has recently weighed on consumer sentiment. A key to the US economic outlook will be the extent to which fiscal retrenchment contributes negatively to real GDP growth in the second half of the year relative to H1. We expect H2 GDP growth to track around 2.0%, with the two-week government shutdown constituting only a modest drag on Q4 13 real growth. Looking ahead, we expect a gradual acceleration of economic activity in 2014 with real GDP growth hovering around 2.5%, up noticeably from the 1.6% expected growth in 2013, as the negative drag from the fiscal pinch dissipates over time and consumers pick up spending. Rising real estate sector and higher household financial wealth are expected to contribute the most to a more sustained economic recovery, supported by easier bank lending conditions (Figure 1.1) and rising credit growth both for firms and households (Figure 1.2). However, it should be noted that the acceleration of US economic growth presupposes political calmness as well a smooth path to the Fed exit from its loose monetary policy, so that yields remain well contained and financial conditions accommodative.

Figure 1.1

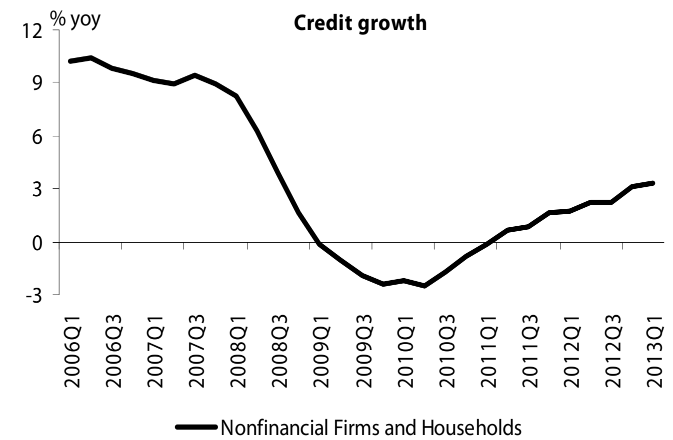
US: Lending Conditions continue to loosen



Source: Federal Reserve, The Senior Loan Officer Opinion Survey on Bank Lending Practices, October 2013

Figure 1.2

US: Rising credit growth for both firms and households

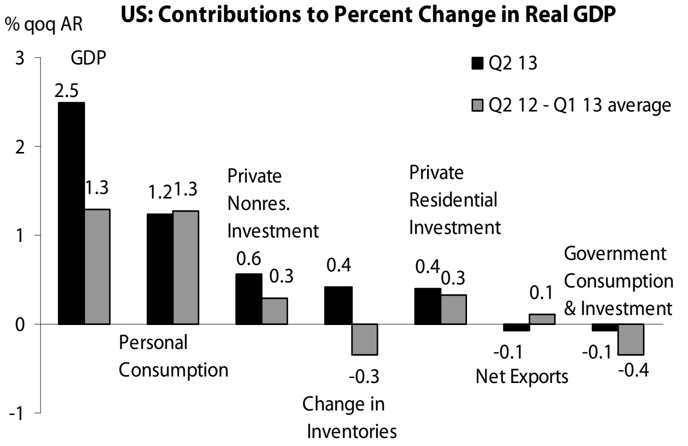


Source: Federal Reserve, Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts, September 2013

Decent GDP growth in Q2 but economic activity due to decelerate in Q3

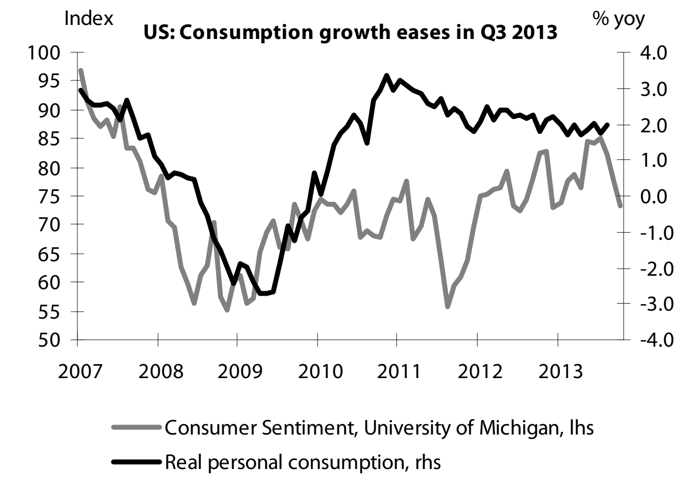
According to the third estimate of the Bureau of Economic Analysis (BEA), real GDP increased by 2.5% q-o-q saar in Q2 2013, after a 1.1% quarterly growth in Q1. The acceleration in real economic activity in Q2 was mainly attributed to a rebound in fixed business investment, stronger residential investment and a broadly neutral contribution from net trade as well as the government sector, which both subtracted 1.1% from Q1 GDP growth. Private consumption growth decelerated to 1.8% from 2.3% q-o-q saar, giving way for an increase in the personal saving rate from 4.0% in Q1 to 4.5% in Q2. It seems that US households, which had financed their consumption expenditures in Q1 with savings, tried to restore saving in Q2 with a slower pace of consumption. In addition, inventory accumulation surprised on the upside, adding 0.4% to growth after a 0.9% contribution in the previous quarter (Figure 1.3).

Figure 1.3



Source: US Bureau of Economic Analysis, Eurobank Research estimates

Figure 1.4



Source: US Bureau of Economic Analysis, University of Michigan, Ecowin

High-frequency indicators suggest that real economic activity actually decelerated in the third quarter of the year. Real private consumption growth has been quite slow in recent months, with both the University of Michigan index of consumer sentiment and the Conference Board's index of consumer confidence falling significantly over the past couple of months (Figure 1.4). Core capital goods shipments, which are the main input for equipment and software, contracted in September, while growth in August was downwardly revised, suggesting a loss of momentum in business investment. The recent slowing in the pace of the housing recovery suggests a smaller positive contribution from residential investment to real GDP growth compared to the previous quarter.

The negative impact of the temporary government shutdown on Q4 GDP growth

The Federal government entered the 2014 fiscal year on October 1 with no agreement on a continuing resolution (CR) that extends spending authority past the end of FY 2013. Given that Congress usually fails to agree on a year-long budget by the deadline, it typically passes short-term CRs that simply extend the existing policy for a few months or just a few days. In the absence of a budget deal at the beginning of October, the US government has partially shutdown for the first time since 1995-1996. The US Congress finally managed to pass a deal on October 16, providing a temporary relief since the agreement provided spending authority until January 15, 2014. A government shutdown means that non-essential discretionary government operations cease and non-essential employees are being furloughed without pay. Only essential functions continue to operate, which include Congress, the White House, presidential appointees as well as functions related with national security and public health. The partial federal shutdown leads to a decline in non-essential employee compensation due to the reduced hours worked. The government shutdown that occurred in 1995-96 forced approximately 800k federal civilian workers to take leave without pay, which is about one third of the federal workforce. According to CBO's estimates, the 1995-96 government shutdown that lasted about 28 days reduced the annual rate of real GDP growth by about 0.5% in Q4 1995. Based on historical experience, a two week government shutdown would reduce compensation by roughly $2.8bn in October, or about $33bn at an annualized rate. This represents a decline of about 3.0% q-o-q saar in real federal consumption and gross investment, as national defense and nondefense consumption and investment totaled $1168.2bn in Q2 2013 (2009$ prices). This implies a drag on real GDP growth of roughly 0.25pp in Q4 2013. On an annual basis, the effect is even smaller, as a two-week shutdown would reduce 2013 GDP growth by not more than 0.1% points. Nevertheless, it should be noted that this is only the direct effect on growth from a government shutdown and does not include the indirect economic impact coming from a decline in household and business confidence due to the political uncertainty.

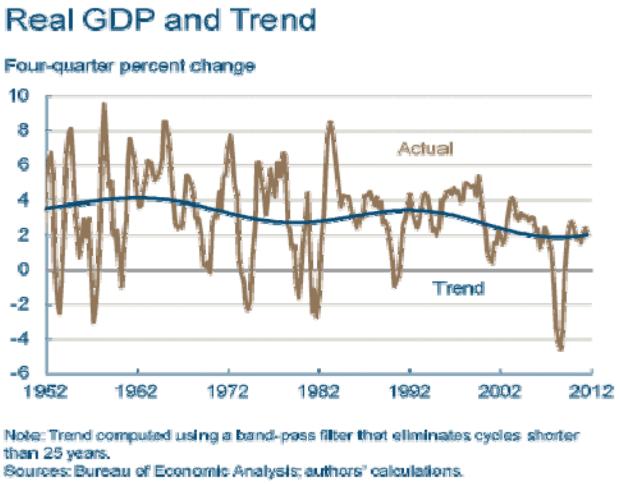
Prospects for 2014 US growth are encouraging

Given that US trend growth is currently close to a historically low rate of 2.0% (Figure 1.5), we expect that US economic activity will achieve above-trend growth in 2014, boosted by robust private domestic demand and a fading fiscal drag. Tax increases and spending cuts under sequestration constituted a drag on 2013 growth of about 2.0%. This is actually one of the largest fiscal consolidations in the past forty years, with the federal budget deficit falling to about 4.0% of GDP in 2013 from 6.8% of GDP in 2012 (Figure 1.6). Although fiscal policy will continue to weigh on growth for several years, the degree of fiscal tightening is expected to ease around 0.75% of GDP, allowing for stronger growth in private spending and business investment in 2014.

The housing market should also be a key driver of growth. Although the recent increase in mortgage rates could restrain the housing recovery in the short term, real estate sector should continue to gain momentum in the medium-term due to the contribution from homebuilding and the indirect wealth effects stemming from house price appreciation. We expect housing activity to keep pace with the recent upward momentum in home builder sentiment (Figure 1.7). Its seems that there is significant potential for catch-up growth as current levels of housing activity are still low relative to historical standards. Residential investment comprises about 3.0% of GDP as of Q2 2013, while its historical average surpasses 5.0% of GDP so there is a long way to go until housing activity returns to average. Improving household income prospects and an increasing housing demand should underpin further improvement in house prices and sales volumes.

Figure 1.5

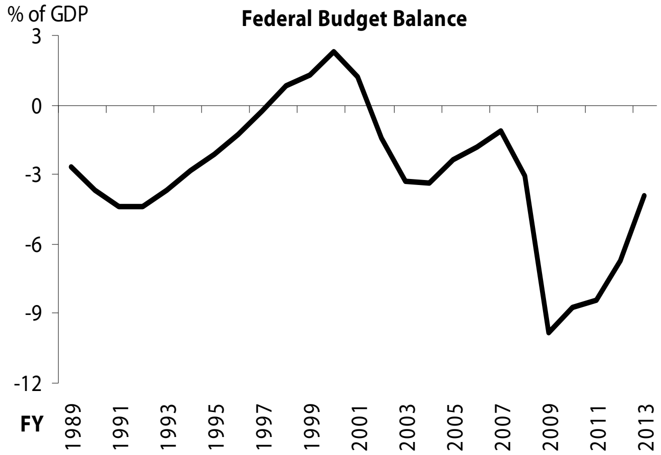
US: Trend growth has declined significantly



Source: BEA, Jacobson M. and F. Occhino, "Estimating Real GDP Growth Trends", Federal Reserve Bank of Cleveland, September 2012

Figure 1.6

US: Sharp fiscal consolidation

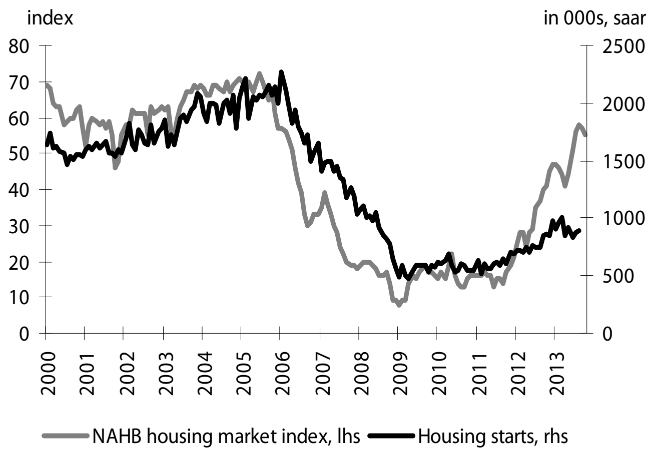


Source: US Department of the Treasury, Ecowin

Furthermore, the recent improvement in household finances should be supportive of stronger economic activity in 2014. Liquidity ratios which measure households' ability to pay off their short-term debt obligations suggest that rising stock prices, in combination with the pay-down of debt, have contributed to the repair of households' balance sheets since the end of the 2007-09 recession. Figure 1.8 measures liquid assets of the personal sector against their total liabilities, showing that this ratio has surged to its highest level in about 13 years (2.4), and it is well above its long term average of 2.2. Apart from the repair of US households' balance sheets, consumers' purchasing power can be fueled through real disposable personal income as well as consumer credit. We expect that growth in personal income will increase in line with a healthier labor market recovery as we move into 2014. Furthermore, existing lines of credit (i.e. credit cards) have recently been on an upward trend, with the annual growth rate accelerating to roughly 6.5% in 2013 after an average of 5.2% in 2012. Consumers can also borrow against the value of their homes through home equity lines of credit or even cash-out financing. Although house prices are still about 20% lower than their most recent peak in 2006, the upward trend in home prices has raised homeowners' equity by over $2 trillions during the last 12 months. Appreciating home values should continue to have a significant impact on consumer buying power in the medium to longer term, helping financial sector's balance sheet repair.

Figure 1.7

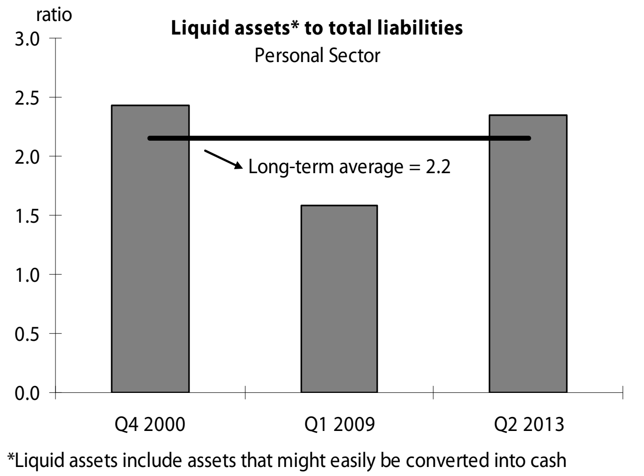
US: Housing to keep pace with rising home builder sentiment



Source: US National Association of Home Builders (NAHB), US Census Bureau, Ecowin

Figure 1.8

US: Improving households' ability to pay off their obligations



Source: Federal Reserve, Eurobank estimates

Monetary policy: The path of the asset purchase program stays data dependent

In a surprise move, the Fed decided not to taper its monthly rate of asset purchases at its September meeting, but instead continue purchasing additional agency MBS at a pace of $40 billion per month and longer-term Treasuries at a pace of $45 billion per month. According to the statement and Bernanke's comments in the press conference, although the downside risks to growth have diminished over the past year, the tightening of financial conditions and, in particular, the increase in mortgage rates, if sustained, could derail the economic recovery. In addition, the ongoing fiscal retrenchment and the risks associated with the budget and debt ceiling negotiations have created doubts about the near-term outlook of the US economy. Furthermore, while the US labor market has gradually improved, the unemployment rate remains well above desirable levels. Hence, the overall economic assessment did not provide sufficient confirmation for a sustained economic expansion that would warrant a slower pace of easing.

The dovish tone of the September FOMC meeting was reinforced by participants' fed funds rate projections in the Summary of Economic Projections (Table 1.1). In particular, the median fed funds rate has steadily fallen for both 2014 and 2015 as well as in the longer run, as FOMC participants have revised their projections lower. Regarding the new year-end 2016 forecasts, even though the unemployment rate and inflation are projected to reach more or less their longer-term neutral levels, the median forecast for the target federal funds rate is only 2.0%, well below a neutral Fed funds rate which is considered to be around 4.0%. The consensus of the FOMC is in accordance to vice chairwoman Yellen's view that the federal funds rate should be kept lower for longer than what the interest rate rules -which serve as reliable guides for monetary policy in normal times- would suggest. As Bernanke highlighted at the press conference, the expected pace of fed funds rate normalization should be slow and well below historical norms, as a neutral fed funds rate might be reached two or even three years after 2016. Moreover, the chairman did not repeat the 7.0% unemployment rate as a guidepost for the completion of the asset purchase program, but instead he stated that the unemployment rate "is not necessarily a great measure in all circumstances of the state of the labor market" and that there is not a specific number for unemployment as a Fed target. The beginning of the Fed tapering is possible later this year, but there is no preset course for quantitative easing, as the path of the asset purchase program will undoubtedly be data dependent.

The October FOMC statement contained few changes relative to that released at the time of the September meeting. Describing the current economic situation, the characterization of the housing market was downgraded, acknowledging that the recovery in the housing sector has slowed somewhat in recent months. However, this downgrade was offset by the fact that there is no longer a direct mentioning of tighter financial conditions that could slow the pace of improvement in the labour market. Indeed, yields have moved lower since the September meeting and stock prices have been on an upward trend. Although the October statement does not rule out tapering at the December 17-18 meeting, we do not believe that data will be strong enough to prompt a reduction in the pace of asset purchases. The recent loss of growth momentum, combined with the political mess and the government shutdown in October, have increased the uncertainty for the US economic outlook in the short term. Besides, the recent pace of payroll growth has been rather soft, reducing the likelihood the Fed tapers assets purchases in the near future. Hence, we do not expect the Fed to start scaling back its massive monetary stimulus at its December meeting, so as to ensure that the current weakness will prove to be temporary. We now believe that Fed officials will likely taper the monthly rate of its asset purchases at the March 18-19 meeting, which will be the first meeting with Janet Yellen as Fed Chair and will include another round of updated economic forecasts and another press conference. In line with Krishnamurthy and Vissing-Jorgensen's paper presented at the Jackson Hole conference in late August[1], we believe that the Fed will focus most or all of the slowing of quantitative easing on Treasury purchases rather than Mortgage Backed Securities (MBS) purchases. The empirical findings of the above mentioned study, which are consistent with some Fed officials' thinking on the effectiveness of asset purchases, highlight that MBS purchases have been more effective in lowering mortgages rates and easing financial conditions than Treasury purchases. The reason is that Treasury purchases push down Treasury yields and, therefore, affect government borrowing costs, but leave other private sector yields largely unaffected, while MBS purchases lower private borrowing costs more directly, having a much more direct and effective effect on the economy.

Having said that, the Fed will likely embark on a modest taper, whereby Treasury purchases are reduced from $45bn to $35bn per month and MBS purchases are either held steady at $40bn per month, or reduced to $35bn per month. The slower pace of easing should be accompanied by a strengthening of Fed's forward guidance, so as not to spook the market. The quantitative easing program should not be concluded until Q3 2014 at the earliest, in order to ensure a sustained economic recovery and, at the same time, leave the markets to adapt to the new monetary stance. A decision to start reducing the monthly pace of asset purchases does not constitute a tightening of financial conditions. The first rate hike is not expected until mid-2015 (Figure 1.9), given the very dovish message Chairman Bernanke sent at the September meeting for low interest rates for a longer time period.

[1] Krishnamurthy, A. and A. Vissing-Jorgensen, 2013, "The Ins and Outs of LSAPs", Federal Reserve Bank of Kansas City, August 9.

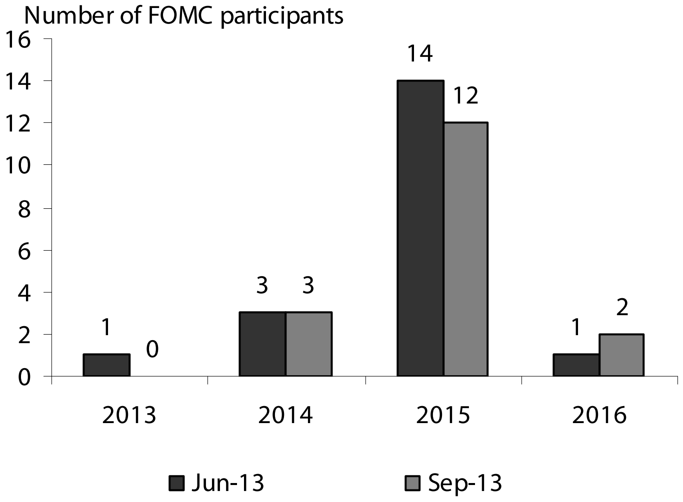
Table 1.1: Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, September 2013

USA	Central Tendency*				
	2013	**2014**	**2015**	**2016**	**Longer run**
Change in real GDP	**2.0 – 2.3**	**2.9 - 3.1**	**3.0 – 3.5**	**2.5 – 3.3**	**2.2 - 2.5**
June forecast	(2.3-2.6)	(3.0-3.5)	(2.9-3.6)		(2.3-2.5)
Unemployment rate	**7.1 – 7.3**	**6.4 – 6.8**	**5.9 - 6.2**	**5.4 - 5.9**	**5.2 – 5.8**
June forecast	(7.2-7.3)	(6.5-6.8)	(5.8-6.2)		(5.2-6.0)
PCE inflation	**1.1 - 1.2**	**1.3 – 1.8**	**1.6 - 2.0**	**1.7 – 2.0**	**2.0**
June forecast	(0.8-1.2)	(1.4-2.0)	(1.6-2.0)		(2.0)
Core PCE inflation	**1.2 - 1.3**	**1.5 – 1.7**	**1.7- 2.0**	**1.9 - 2.0**	
June forecast	(1.2-1.3)	(1.5-1.8)	(1.7-2.0)		
Fed Funds Rate	**0.00 - 0.25**	**0.00 – 0.25**	**0.75- 1.50**	**1.75 – 2.75**	**3.75 - 4.00**
June forecast	(0.00 - 0.25)	(0.00 – 1.00)	(0.75- 2.00)		(3.75 – 4.25)

*The central tendency excludes the three highest and three lower projections for each variable in each year.

Source: Federal Reserve, Eurobank Research

Figure 1.9: Appropriate Timing of Policy Firming in the US



Source: Federal Reserve

2. The euro area economy

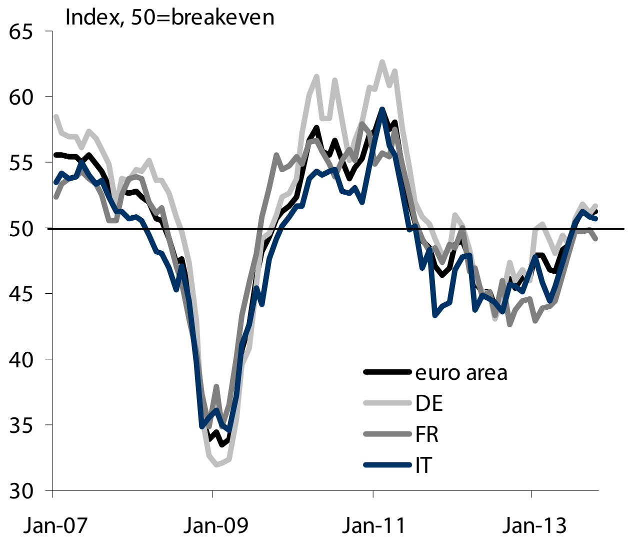
Vasilis Zarkos

- The euro area economy is expected to continue growing on the backdrop of receded break up risk and improving sentiment. However, GDP growth is expected to remain subdued due to ongoing public and private consolidation and tight financial markets.
- In an environment of accumulated social fatigue and meager economic prospects, fragile government coalitions in periphery countries put continued improvement in economic confidence at risk.
- Shortcomings in the handling of weak banks in the scheduled asset quality review and subsequent stress tests may cause an escalation of tensions in the banking sector.
- The ECB is challenged by keeping money market rates anchored and by persistent financial fragmentation. In the period ahead, liquidity provision through a new round of long maturity operations is, in our view, the most likely response to both challenges in the period ahead.

We remain cautiously optimistic that the euro area economy will continue growing in 2014

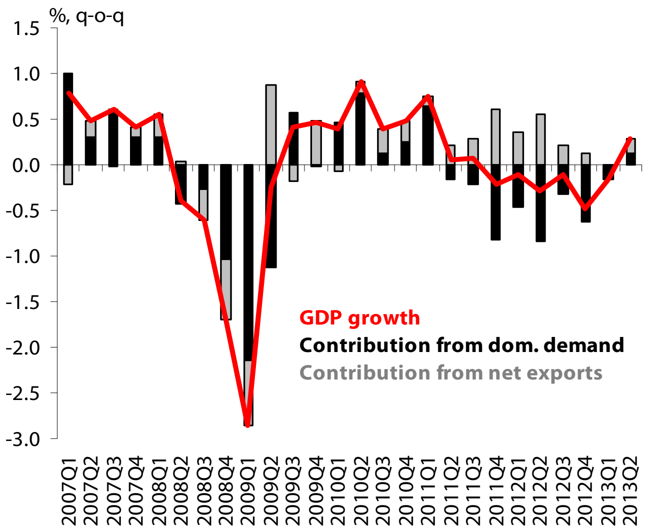
Over the past few months euro area economic data have been on the upside, confirming our and consensus expectations of an economic recovery materializing in the second half of the year. An incipient recovery has taken place in the second quarter, with GDP expanding by 0.3% for the first time after six quarters. Reduced fears of euro area disintegration, progress in the banking union project, visible results in fiscal consolidation and in recouping competitiveness have led to a continuous improvement of economic confidence (Figure 2.1) and some normalization in financial conditions, which eventually passed through to the real economy. Economic expansion has been broad based (Figure 2.2). Besides trade, domestic demand also posted a positive contribution to GDP growth, reflecting mainly strengthening private expenditures in Germany.

Figure 2.1
euro area: PMI Manufacturing Index



Source: Eurostat

Figure 2.2
euro area: broad based recovery in Q2/2013



Source: Eurostat

Looking ahead, we expect GDP growth rates to remain positive on the backdrop of improving confidence and very accommodative monetary policy. Nevertheless, economic expansion will be lackluster due to significant headwinds. Ongoing fiscal adjustment and tight credit conditions are expected to confine domestic demand to anemic levels. Trade is expected to offer only a limited boost to GDP growth, as economic activity in emerging markets is receding to a lower trajectory. As a result we forecast GDP to grow by 1% in 2014, below potential rate.

Leading indicators are in line with our outlook of sustained, widespread economic expansion in the second half of the year. The PMI manufacturing index for the euro area as a whole has remained steadily above 50 for the last four months, with the composite index standing at a 27-month high in September before dropping in October. The drop is largely attributed to a large decline in the services index. The decline does not change our baseline scenario of a weak recovery, albeit it underscores its fragility. The tone from periphery countries is also encouraging. PMI indices have turned above 50 in Italy and Spain, pointing to tentative growth resumption in those countries. In Greece the PMI manufacturing index still points to contraction of economic activity, albeit at a decreasing pace. Other leading indicators including the Ifo and the EC economic confidence index paint a similar picture for the euro area economy.

The divergent growth pattern between core and periphery countries is expected to continue. In Germany, strong fundamentals guarantee solid economic expansion. In the second quarter, the German economy grew by 2.9% q-o-q annual rate partly thanks to some payback from Q1 when temporary factors, including cold weather, restricted economic activity. Looking forward, wage gains, positive wealth effects from a buoyant housing sector, relatively easy funding conditions and absence of fiscal consolidation should support private consumption and investment plans. Higher spending in Germany would benefit the euro area rebalancing process as it would support periphery exports, thus creating a positive feedback loop.

Tight credit conditions constitute another major headwind to the euro area economy. Excess liquidity provision has failed to translate to credit expansion. Amidst rising NPLs, euro area banks have continued tightening lending standards in H1 2013, mainly on the backdrop of adverse economic expectations. The improvement in financial markets due to ECB interventions (liquidity provision through 3-year LTROs and the OMT program) averted a credit crunch and allowed lending rates to decline in both core and peripheral members. However, the euro area banking system remains fragmented, as is evident by the fact that banks in weak countries extend new loans at considerably higher rates than their German peers (Figure 2.3). Before taking into its supervision duties, the ECB will conduct thorough balance sheet reviews in order to clean up toxic assets. Unloading toxic assets and creating full transparency are necessary conditions to bring banks back to health and revitalize lending. However, in the short term, asset quality reviews may discourage banks from extending new loans as they will likely focus on strengthening their capital position. Banks in the periphery may choose to invest in government bonds which are likely to be treated as risk-free assets in the stress tests rather than load their balance sheets with risky corporate loans.

Risks to the euro area economy are on the downside

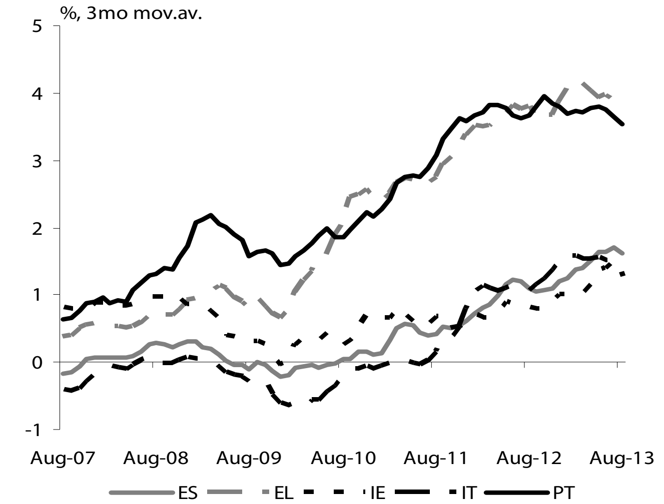
a) Political uncertainty threatens economic confidence

Despite the signs of stabilization and some rebalancing of risks, in our view, the euro area economy is not out of the woods yet and the road ahead will likely remain bumpy. Political instability is a major threat to improved economic confidence and to the continuation of structural reforms. Accumulating social fatigue amidst dire unemployment conditions (Figure 2.4) and deteriorated living standards jeopardise weak government coalitions in periphery countries. In Portugal and Greece, political strains are likely to intensify as the two countries are expected to enter into negotiation talks for new financial aid. Social discontent and political frictions would be magnified if new programs entailed further cuts on households' income. In Portugal, repeated rulings of the constitutional court against deficit reduction measures test political parties' ability to find consensus on new measures to fill funding gaps.

Italian politics remain a source of uncertainty. Although the government coalition managed to secure a confidence vote, its sustainability remains highly questioned. Italy has done little to improve its low competitiveness (Figure 2.4), while its debt overhang is deteriorating (expected to surpass 130% of GDP in 2013). Even worse, the fragile political situation does not allow much hope for implementation of comprehensive reforms. Admittedly, markets held up during the last political crisis incident, with muted movements of bond spreads observed. However, markets' reactions can be unpredictable. If investors turn focus on Italy's structural weaknesses and pressure builds up, the loose cohesion of the Italian government may be severely tested. In this context, Italian lawmakers should move quickly with reforming the electoral law. If escalated political tensions lead to snap elections in 2014 before a new electoral law producing stable governments is approved the result may turn out inconclusive, adding to political uncertainty.

Amidst accumulated reform fatigue in the periphery and bail-out fatigue in the core, likely significant gains of euro-skeptic political parties in the European Parliament elections next May would most likely render decision making even more complex.

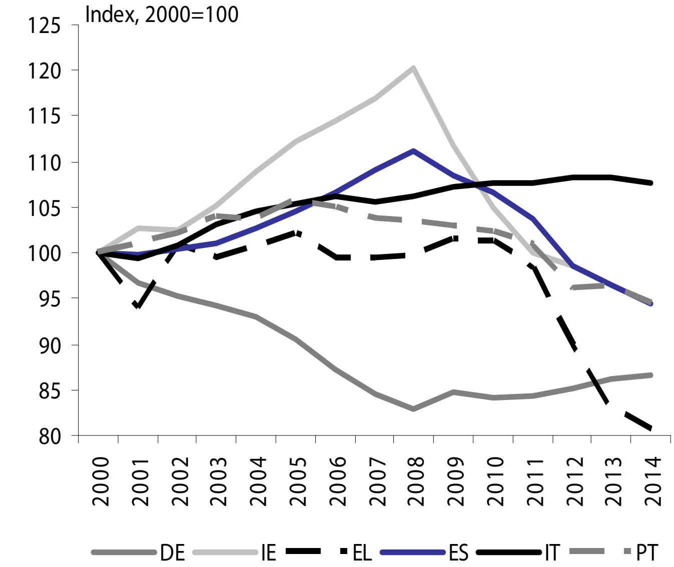
Figure 2.3
Lending rates to NFCs in euro area countries (spreads over German rates)



Note: Lending rates refer to new business loans with initial maturity up to 1 year

Source: ECB

Figure 2.4
euro area: unit labor costs



Source: AMECO

b) financial fragmentation may remain poorly addressed

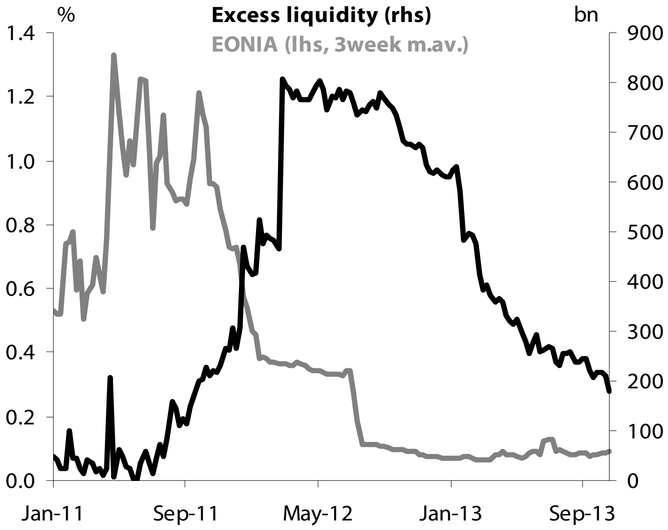
At the euro area level, divergent views on European integration and risk sharing have slowed down progress in building a banking union, while subdued market pressures have led policymakers to adopt a complacent approach. Striking an agreement on a Single Resolution Mechanism before year end is challenging, while the final outcome may be a mechanism with significantly watered down power. With respect to the scheduled banks' balance sheet assessment and stress tests, disagreement in setting up financial backstops poses the risk of leaving the euro area ill-prepared to accommodate capital shortfalls revealed by the exercise that cannot be covered by private investors. The risk is more pronounced for periphery countries whose banks are more vulnerable and their fiscal leeway to support banks is restricted. Policymakers in core countries remain reluctant to endow the ESM with greater leeway to provide support due to the prevailing view that legacy burdens should be dealt with at the national level. The lack of credible backstops for the stress tests may erode markets' confidence on the rigorousness of the tests due to concerns that they will be tailored so as to hide capital shortfalls that countries are unable to address. Finally, likely bail-in of private investors, as dictated by the new state aid rules, would increase borrowing costs for weak banks, boding ill for the reduction of financial fragmentation.

ECB challenged by higher short term rates and financial fragmentation.

The ECB needs to address likely increase in short term rates and persistent financial fragmentation. The unexpected Fed's decision to refrain from tapering asset purchases in September has alleviated pressure on euro area short term rate expectations. However, the Fed is expected to eventually reduce the pace of asset purchases, very likely in March 2014. Fed tapering and declining excess liquidity in the euro area banking system (Figure 2.5) are expected to put upward pressure on money market rates. The ECB has several options to avert a material and persistent increase in higher rates that could hurt the nascent euro area recovery. Hiking the main refinancing rate is likely option, though consensus may prove difficult to build amidst gradual improvement of economic conditions. In our baseline scenario, we expect the main policy rate to remain unchanged at least until the end of 2014. However, recent lower than expected inflation recordings and strengthened euro have raised the likelihood of a refi rate cut. Cutting the deposit rate below zero is deemed unlikely due to its uncertain impact on lending conditions. In fact, the Danish experience showed that negative rates translated into higher lending rates. We believe the ECB would refrain from taking any measure that poses the risk of making a tight credit market even tighter. A stronger form of forward guidance tying the future path of policy rates to specific economic indicators would in all likelihood be the most effective tool to anchor short term rate expectations. However, resistance to such a regime shift would probably be very difficult to curb.

This leads us to the most likely option the ECB may use: liquidity provision through a new round of long maturity operations. New LTROs would address both challenges mentioned above. First, it would reverse shrinking liquidity conditions, thus counteracting the upward pressure on money market rates due to passive monetary tightening. Second, carefully designed LTROs would encourage banks to use the liquidity provision to increase credit provision to SMEs, which face the hardest challenges in acquiring adequate financing. For example, the ECB could accept specific assets related to SMEs as collateral for the LTROs (Mr. Draghi mentioned that the ECB could accept ABS SME mezzanine tranches as collateral). Thus, new LTROs could contribute to the reduction of financial fragmentation. Furthermore, new LTRO rules should also discourage banks from pouring cheap liquidity into government bond purchases which reinforce contagion between banks and sovereigns.

Figure 2.5
euro area: excess liquidity is declining



Source: Bloomberg

3. The Japanese economy

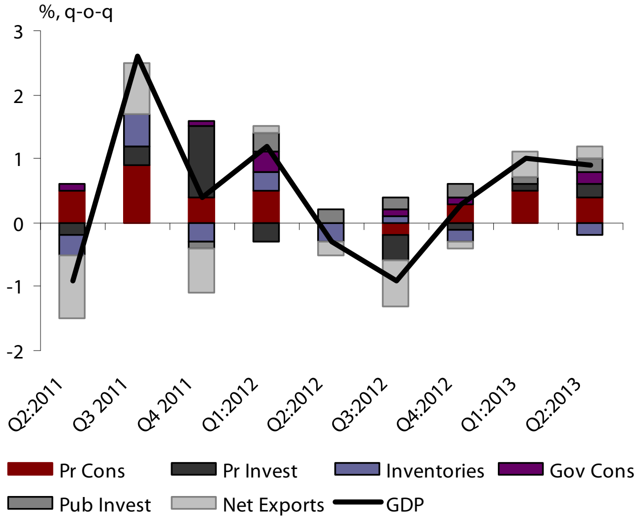
Vasilis Zarkos

- The Japanese economy is expected to outperform its peers in 2013, supported by aggressive monetary easing, fiscal stimulus measures, weak yen, positive wealth effects and solid global demand. Growth will slow down in 2014 due to reduced private consumption and unwinding of fiscal stimulus.
- In the short term, risks to the Japanese economy are mainly external, stemming from an escalation of the euro area crisis, adverse effects from fiscal and monetary policy responses in the US and lower than expected growth in emerging economies.
- Longer term, prospects of the Japanese economy depend heavily on the successful implementation of comprehensive structural reforms which are deemed necessary to increase the country's potential output, achieve sustained healthy consumer price increases and improve public debt dynamics.

The Japanese economy continued expanding in the second quarter of the year by 0.9% on a quarterly basis. Growth has been broad based with both domestic demand and net exports contributing positively to the economy (Figure 3.1). Domestic demand is supported by both the private and public sector. Since the beginning of the year, improved economic sentiment due to PM Abe's initiatives have stimulated household consumption. In addition, private non-residential investment posted a positive contribution to GDP growth in Q2 for the first time after five consecutive quarters.

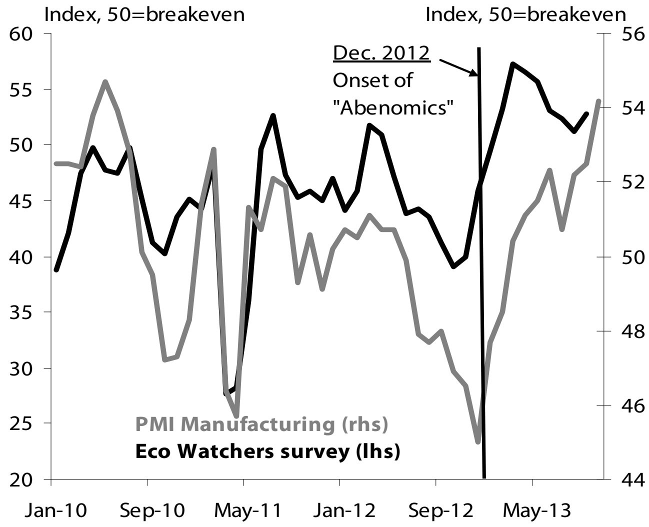
The Japanese economy is expected to outperform its peers in 2013. Aggressive monetary easing, fiscal stimulus measures, weak yen, positive wealth effects and solid global demand are expected to keep supporting the economy in the second half of the year. Leading indicators pointing to ongoing recovery, corroborate this view (Figure 3.2). The Tankan survey shows that confidence among large manufacturers is at its highest level since the onset of the financial crisis. In line with the Tankan index, the PMI manufacturing indicator points to robust production activity. Consumer confidence of households measured by the Eco Watchers survey remains robust, albeit higher living expenses due to weaker yen seem to have taken a toll on perception of economic conditions.

Figure 3.1
Japan: Contributions to quarterly GDP growth



Source: Cabinet Office

Figure 3.2
Japan



Source: Bloomberg

Looking further ahead, GDP growth is expected to recede to a lower trajectory in 2014 due to a drop in consumption beyond April 2014 and unwinding of fiscal stimulus. Based on past experience, the VAT hike from 5% to 8% scheduled for next April is expected to distort household expenditures. Frontloading of consumption is expected to propel GDP growth for a couple of quarters before the hike, i.e. in Q4 2013 and Q1 2014, followed by a sharp decline afterwards.

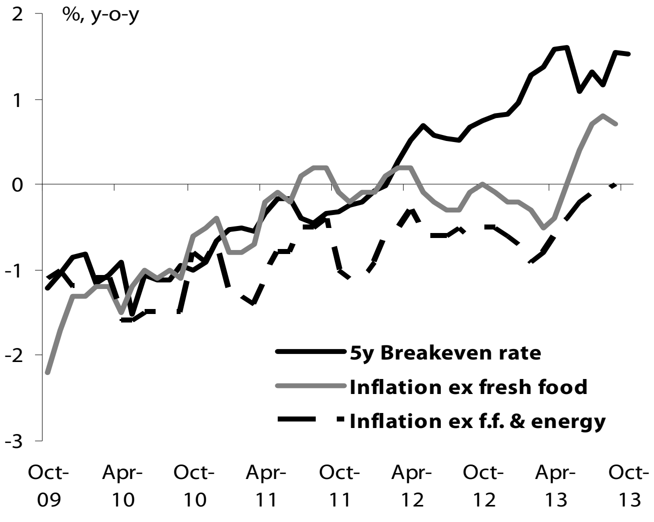
The Tankan survey revealed improvement in employment conditions (as measured by surplus of employees minus shortage) at both manufacturing and non-manufacturing firms. In August, unemployment rose sharply to 4.1% from 3.8% a moth earlier. However, the rise was attributed to new jobseekers entering workforce, a sign of strengthening job market conditions. In September, the increase in the number of employed outweighed further increase in workforce, leading to a decline in unemployment to 4%.

Recent increases in headline inflation result from energy costs (Figure 3.3). Inflation excluding energy and fresh food has been hovering in negative territory, touching the 0% border in September. Narrowing output gap and weakening JPY are expected to lead to positive gains in consumer prices. On the negative side, wage developments remain disappointing, recording negative y-o-y growth rates (Figure 3.4). However, we would expect wage gains to eventually materialize on the backdrop of continued economic robustness leading firms to increase their employees' compensation. Overall, although inflation is expected to rise, achieving the target of sustained annual rate of inflation of about 2% depends heavily on successful implementation of comprehensive structural reforms.

On the backdrop of improved economic confidence and buoyant activity, the Bank of Japan has kept its policy measures on hold, with its monetary base expanding as planed. As inflation excluding the consumption tax hike will likely remain significantly below the 2% target, additional easing by the BoJ is likely next year. This could take the form of higher pace of monthly asset purchases and/or extension of purchases in 2015.

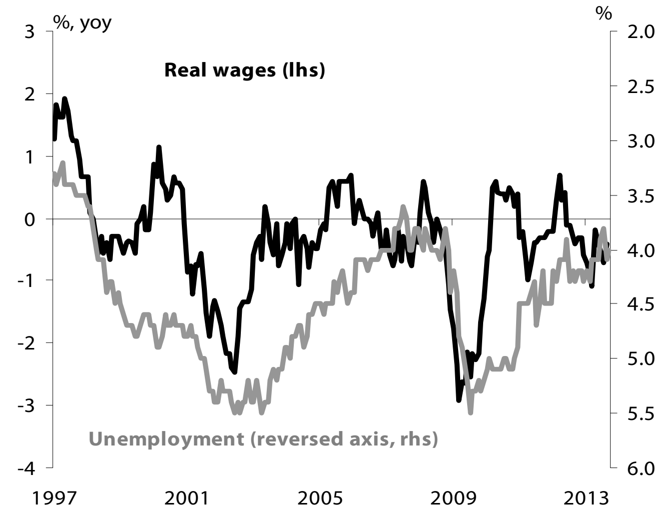
In the short term, risks to the Japanese economy are mainly external, stemming from an escalation in the euro area crisis and from adverse effects from fiscal and monetary policy responses in the US. Moreover, Japanese exports would be impacted if downside risks to growth in emerging markets materialized. Medium to longer term, Japan's main risk stems from policy failure to increase the country's potential output and address its entrenched public finances. Super loose monetary policy without a credible plan for fiscal consolidation will likely permanently raise borrowing costs, aggravating the country's fiscal situation. In view of high pressures on state's budget due to a rapidly ageing population, policymakers should embark on structural reforms that would set in motion a positive feedback loop between economic growth and debt dynamics. Full control of both the Lower and the Upper House should facilitate the government to push through structural changes.

Figure 3.3
Japan



Source: Bloomberg

Figure 3.4
Japan



Source: Bloomberg

III. Macro Forecasts

Real GDP growth						
	2011	2012	2013f		2014f	
			Eurobank	Consensus	Eurobank	Consensus
US	1.8	2.8	1.6	1.6 (1.4 – 2.8)	2.5	2.6 (1.0 – 3.6)
EA	1.5	-0.6	-0.4	-0.3 (-0.6 – -0.1)	1.0	1.0 (0.3 – 1.9)
Japan	-0.6	2.0	1.9	1.9 (1.5 – 2.2)	1.6	1.6 (1.0 – 2.7)
China	9.3	7.7	7.6	7.6 (7.2 – 7.8)	7.4	7.4 (6.7 – 8.6)
India	7.5	5.1	4.3		5.0	
Russia	4.3	3.4	1.9	1.9 (1.4 – 2.5)	2.8	2.8 (-1.0 – 3.6)
Brazil	2.8	0.9	2.4	2.4 (2.0 – 3.1)	2.5	2.5 (1.5 – 4.0)

Inflation						
	2011	2012	2013f		2014f	
			Eurobank	Consensus	Eurobank	Consensus
US	3.2	2.1	1.5	1.5 (1.1 – 2.5)	2.0	1.9 (1.0 – 2.9)
EA	2.7	2.5	1.5	1.5 (1.2 – 1.7)	1.4	1.5 (0.1 – 2.1)
Japan	-0.3	0.0	0.3	0.3 (-0.2 – 1.1)	2.3	2.3 (0.6 – 2.8)
China	5.4	2.7	2.7	2.7 (2.3 – 3.5)	3.2	3.2 (1.8 – 4.3)
India (WPI)	9.5	7.5	5.8		5.5	
Russia	8.5	5.1	6.6	6.6 (5.5 – 7.0)	5.4	5.4 (4.1 – 6.6)
Brazil	6.6	5.4	6.1	6.1 (5.7 – 6.6)	5.9	5.9 (5.0 – 6.5)

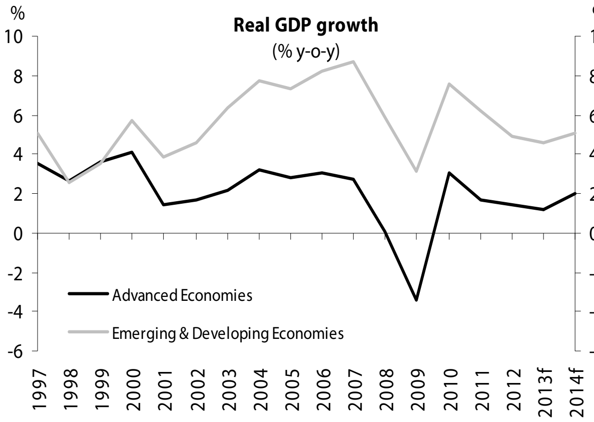
Note: Range of forecasts by Bloomberg's survey in parentheses below point estimates.

Policy Rates					
		Eurobank			
	Current	Q1 14f	Q2 14f	Q3 14f	Q4 14f
US	0.00 – 0.25	0.00 – 0.25	0.00 – 0.25	0.00 – 0.25	0.00 – 0.25
EA	0.50	0.50	0.50	0.50	0.50
Japan	0.10	0.10	0.10	0.10	0.10
China	6.00	6.00	6.00	6.00	6.00
India	7.75	7.75	7.75	7.75	7.25
Russia	8.25	7.75	7.50	7.50	7.25
Brazil	9.50	10.00	10.00	10.00	10.00

IV. Graphs

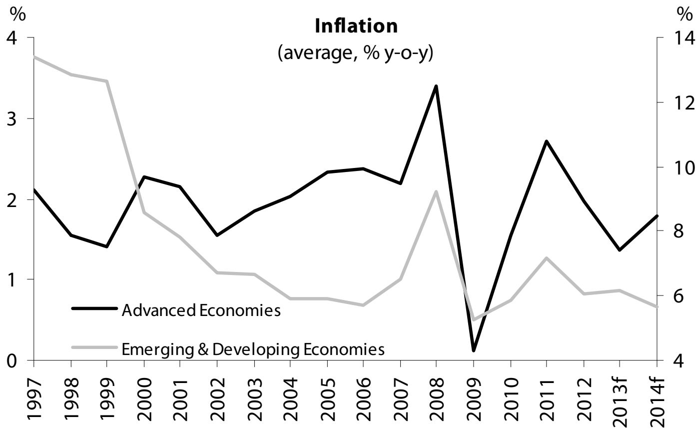
Global Economic Indicators – World Economy

World Economy

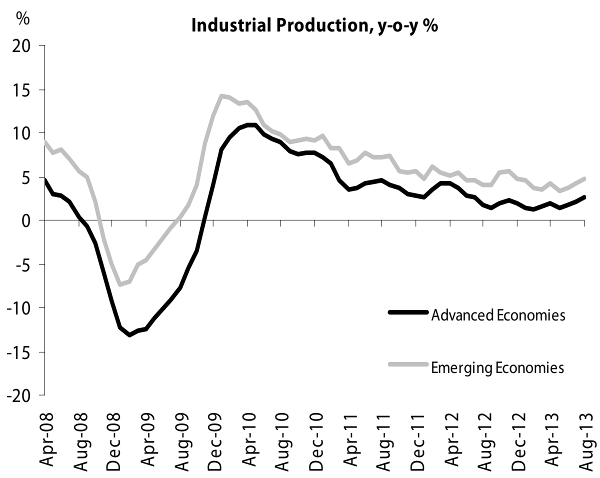


Source: IMF

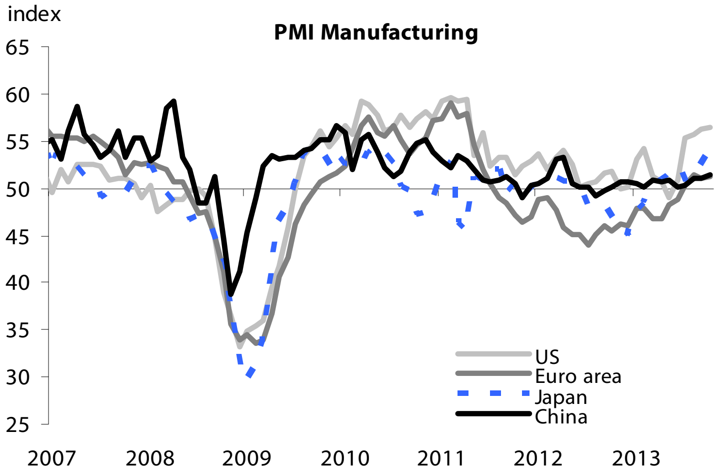
World Economy



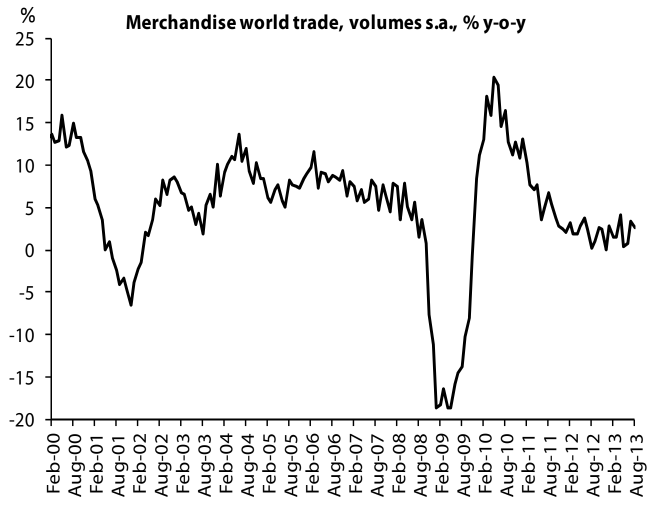
Source: IMF



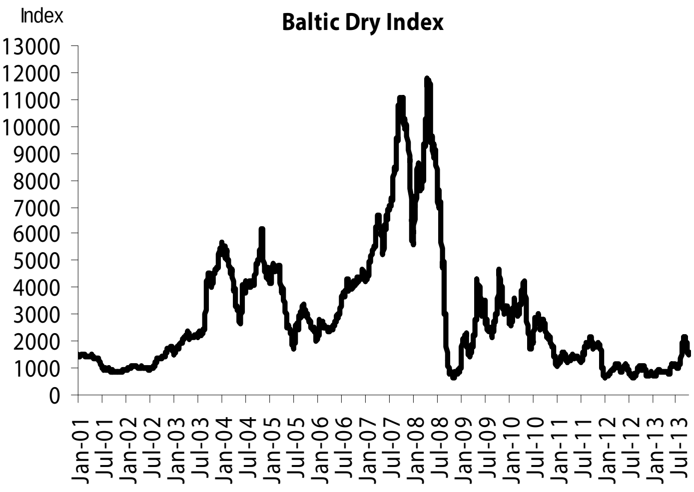
Source: CPB Netherlands Bureau for Economic Policy Analysis



Source: Bloomberg



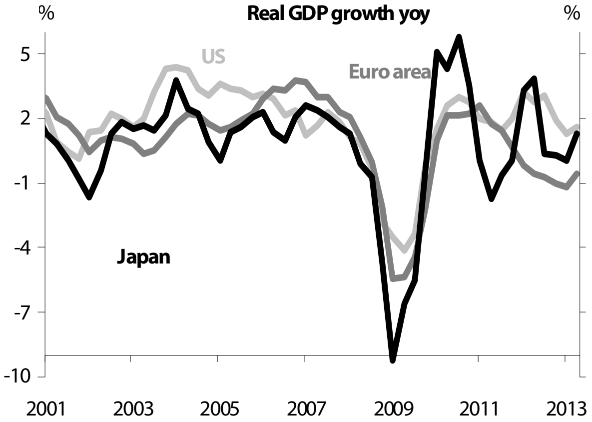
Source: CPB Netherlands Bureau for Economic Policy Analysis

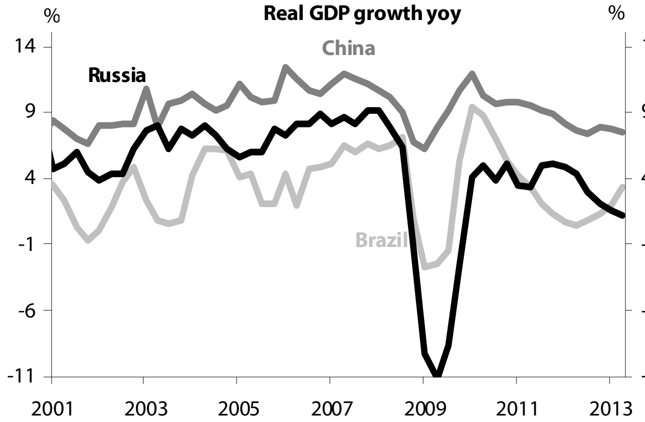


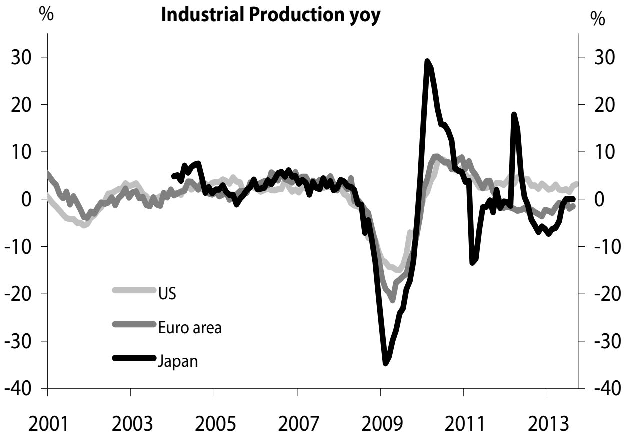
Source: Bloomberg

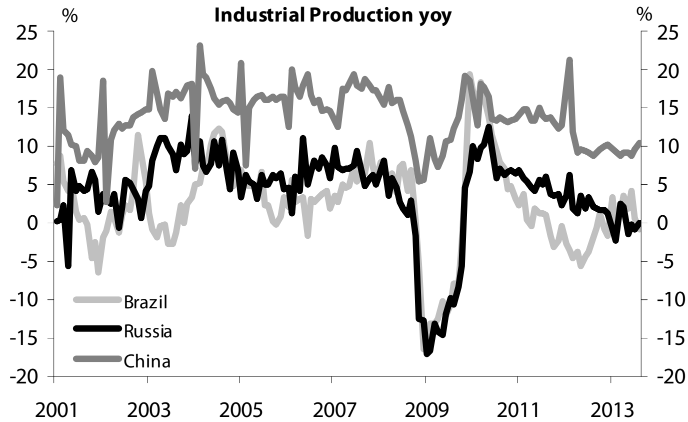
Global Economic Indicators

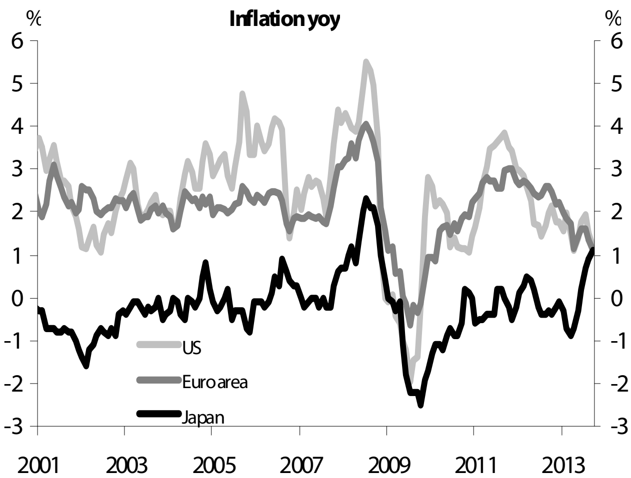
Advanced Economies	Emerging Economies

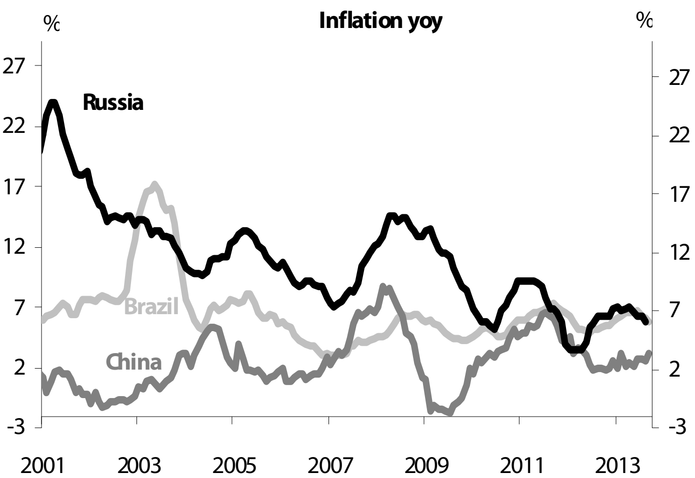








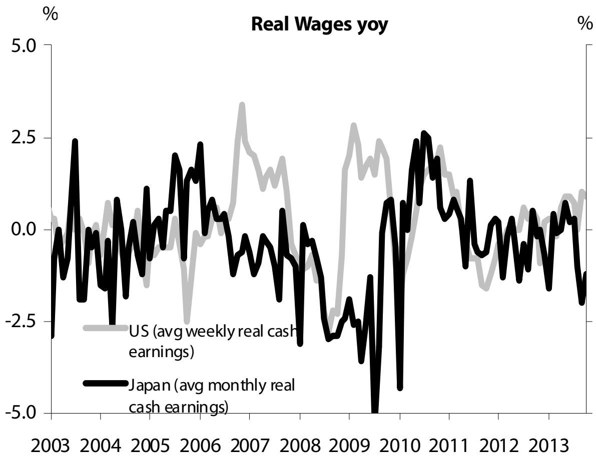




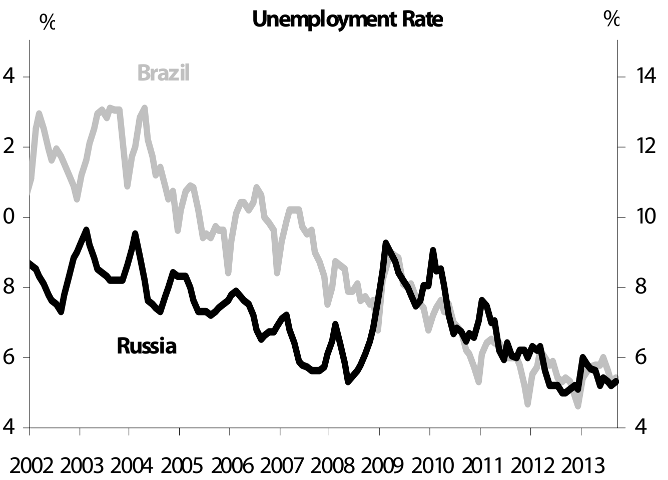
Source: Bloomberg, Ecowin

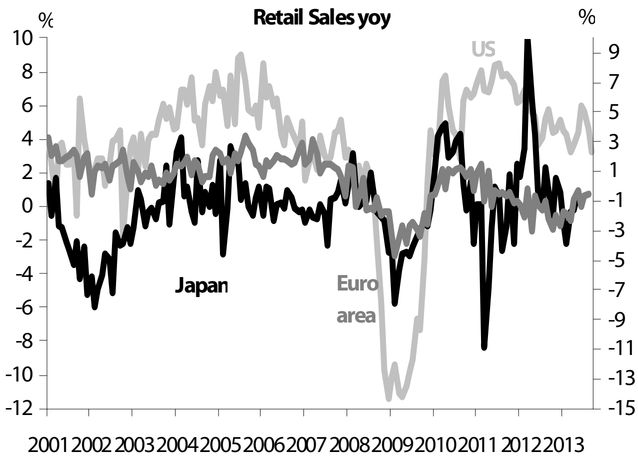
Global Economic Indicators

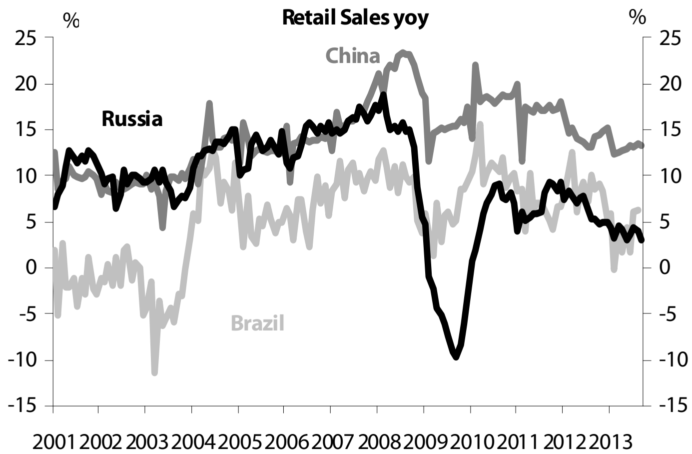
Advanced Economies



Emerging Economies



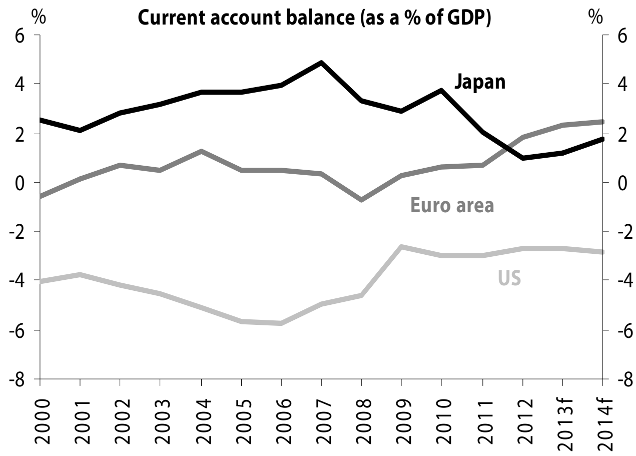




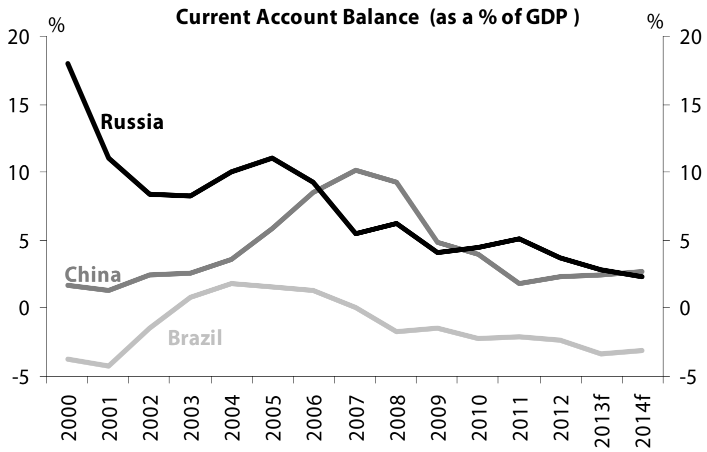
Source: Bloomberg, Ecowin

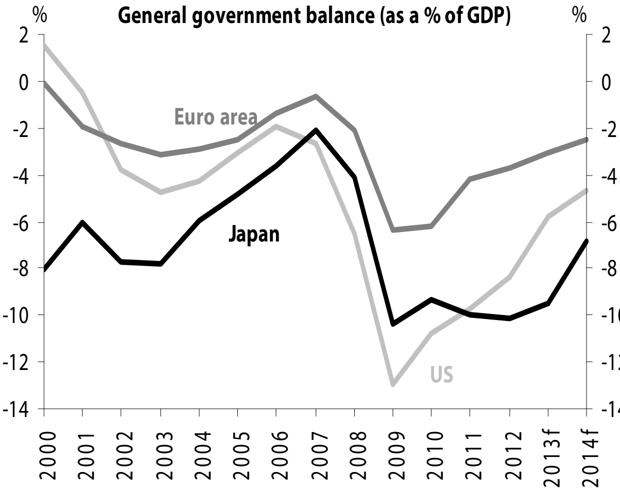
Global Economic Indicators

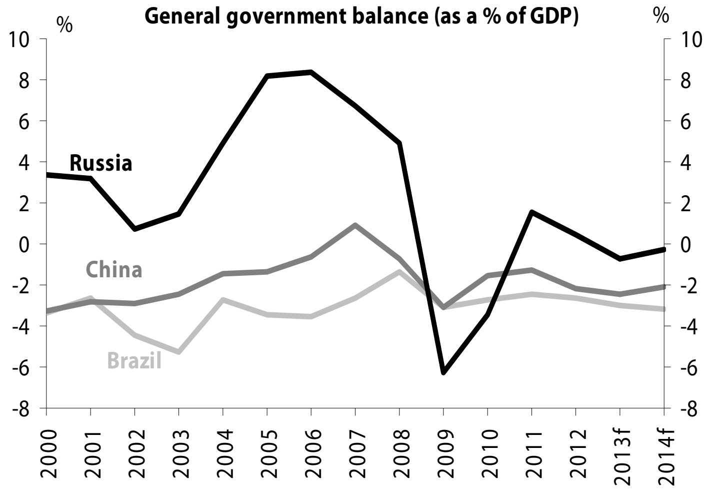
Advanced Economies

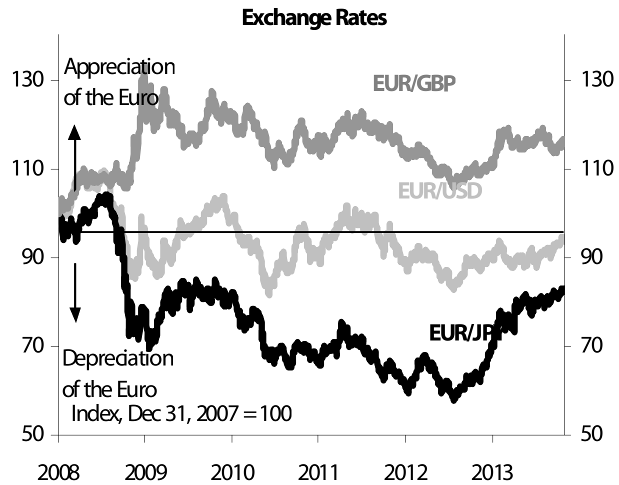


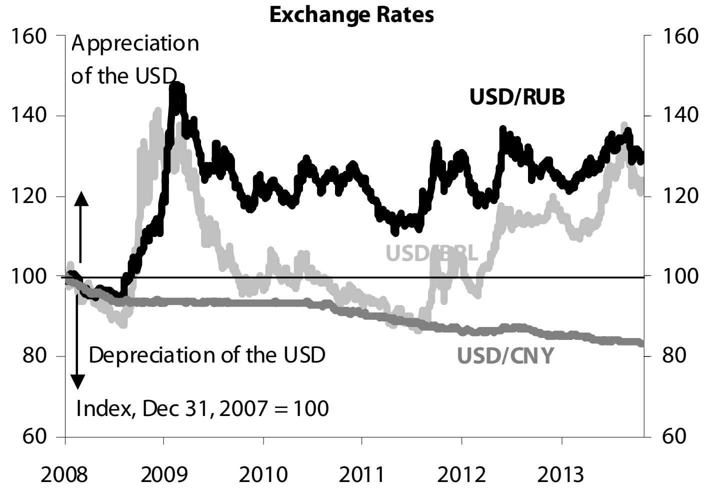
Emerging Economies







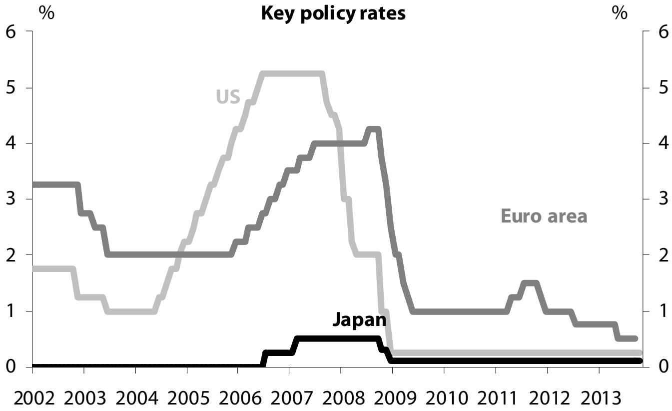




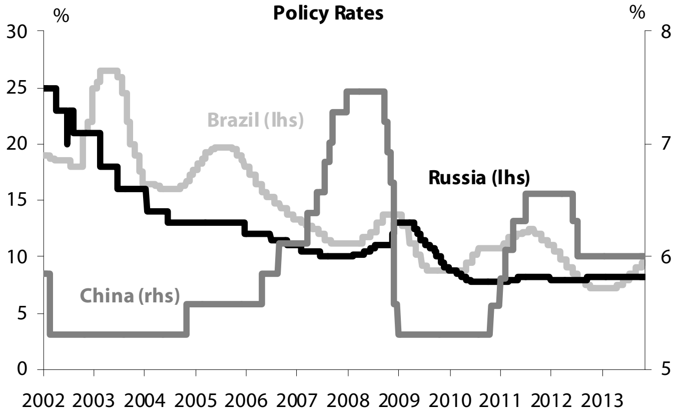
Source: Bloomberg, Ecowin, IMF, Eurobank Research

Global Economic Indicators

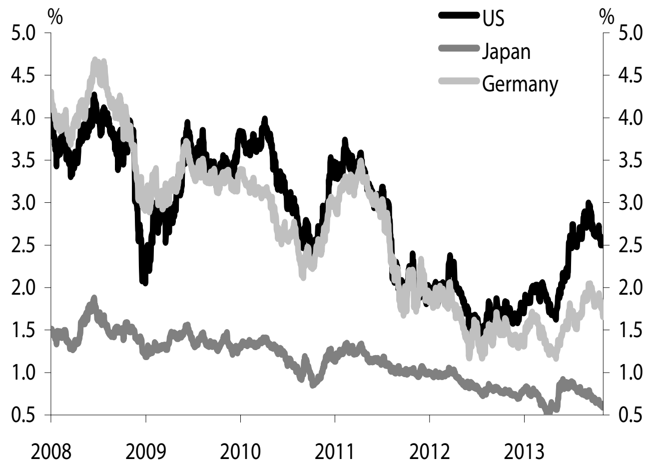
Key policy rates



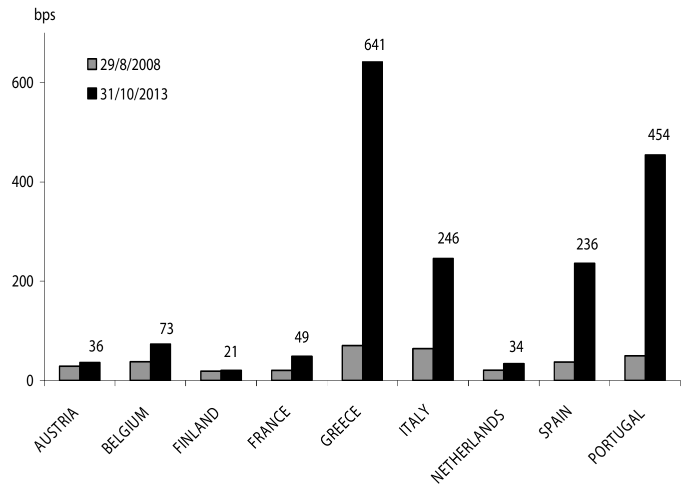
Policy Rates



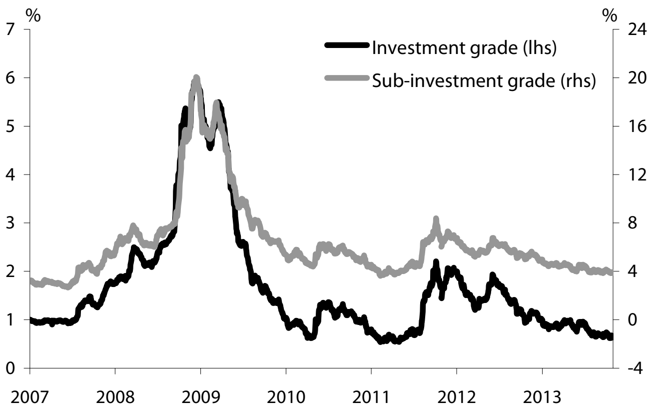
10y Government Bonds



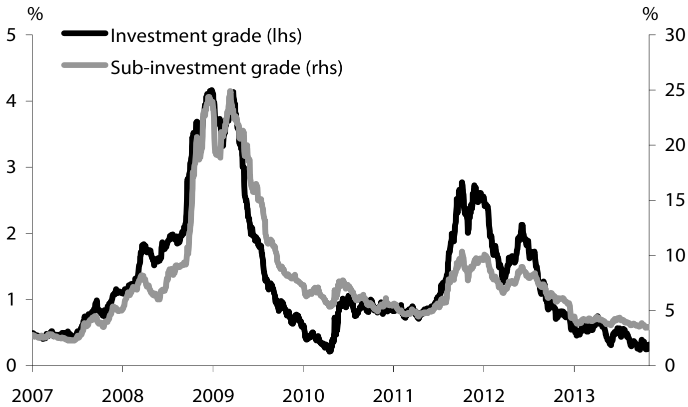
10yr government spreads vs Germany



US Corporate bond yield spreads vs 10-yr government bond



EU Corporate bond yield spreads vs 10-yr government bond



Source: Bloomberg, Ecowin

Global Equities & Sector Performance

Total Return (%) as of October 31, 2013

Global Equity Indices (in local currency)								
Region	**Index**	**Last Price**	**1w**	**1m**	**6m**	**12m**	**YTD**	**2012**
US	**S&P 500**	1756.5	0.3	3.6	11.0	23.0	23.2	13.4
EURO AREA	**DJ Euro Stoxx 50**	3068.0	1.1	4.6	13.1	21.1	16.4	13.8
GERMANY	**DAX**	9033.9	0.5	4.0	14.2	23.2	18.7	29.1
FRANCE	**CAC 40**	4299.9	0.6	2.5	11.5	23.7	18.1	15.2
UK	**FTSE 100**	6731.4	0.2	4.2	4.3	14.8	14.1	5.8
JAPAN	**Nikkei**	14327.9	1.7	-1.1	3.8	60.1	37.8	22.9
CHINA	**CSI 300**	2373.7	0.2	-1.5	-3.0	3.3	-5.9	7.6
INDIA	**SENSEX**	21164.5	2.3	8.4	8.5	14.0	8.9	25.7
RUSSIA	**MICEX**	1510.2	0.4	2.6	9.0	5.5	2.4	5.2
BRAZIL	**IBOV**	54256.2	-1.1	2.0	-3.0	-7.1	-11.0	7.4

Source: Bloomberg

Sector performance as of October 31, 2013

US Sector Indices (in USD)							
US – S&P 500	**Last**	**1w**	**1m**	**6m**	**12m**	**YTD**	**2012**
1. Consumer Discretionary	502.4	0.9	3.7	16.7	36.2	33.6	21.9
2. Consumer Staples	435.4	1.0	5.5	3.2	19.3	20.7	7.5
3. Energy	629.5	0.4	3.5	10.6	15.9	18.1	2.3
4. Financials	276.8	-1.1	2.4	11.1	27.8	25.1	26.3
5. Health Care	610.7	0.1	2.9	12.5	30.7	31.9	15.2
6. Industrials	420.9	0.3	4.3	18.7	30.4	28.0	12.5
7. Information Technology	542.6	0.6	3.5	12.2	15.7	17.0	13.1
8. Materials	275.9	-0.8	3.6	12.8	18.9	16.1	12.2
9. Telecommunication Services	160.3	2.3	6.7	-3.4	6.3	9.7	12.5
10 Utilities	196.8	-0.2	3.3	-5.6	6.2	10.8	-2.9

Source: Bloomberg, Ecowin

Global Equities & Sector Performance

Sector performance as of October 31, 2013

European Sector Indices (in €)

Europe - DJ Stoxx 600	Last	1w	1m	6m	12m	YTD	2012
1. Consumer Discretionary							
Automobiles & Components	721.3	0.7	3.2	32.1	48.8	34.9	39.2
Travel & Leisure	300.0	0.1	1.9	9.2	27.6	20.5	33.6
Media	422.3	0.2	4.8	20.6	38.4	32.9	21.6
Retail	594.9	0.9	2.4	13.5	26.3	24.1	12.4
2. Consumer Staples							
Food & Beverage	843.7	0.6	3.1	-1.4	12.7	10.4	21.7
Personal & Household Goods	1024.0	1.0	2.4	5.0	21.4	16.8	24.2
3. Energy							
Oil & Gas	698.7	2.2	4.6	7.2	3.7	7.6	-0.6
4. Financials							
Banks	397.8	0.0	4.1	14.1	26.3	21.9	27.4
Financial Services	636.0	-1.0	3.5	14.0	38.7	30.9	26.6
Insurance	391.4	0.9	6.7	16.5	34.4	27.6	38.7
Real Estate	137.4	-0.7	2.9	2.4	8.3	6.3	24.9
5. Health Care	893.3	1.3	2.4	2.6	21.3	20.2	15.5
6. Industrials							
Industrial Goods & Services	663.6	0.5	1.1	13.3	26.0	21.3	25.2
7. Information Technology	277.9	1.9	-0.8	11.6	31.2	21.2	21.8
8. Materials							
Basic Resources	759.9	-0.3	3.7	9.2	-6.7	-9.6	7.1
Chemicals	1306.5	0.1	2.0	5.8	17.4	10.9	32.5
Construction & Materials	558.4	0.8	2.9	16.8	31.1	22.5	19.2
9. Telecommunication Services	619.2	1.3	5.4	20.7	29.6	34.2	-5.2
10. Utilities	649.6	0.7	2.4	6.9	8.5	12.8	4.7

Source: Bloomberg

Sector performance as of October 31, 2013

Asia Sector Indices (in USD)

Asia – S&P 50 Index*	Last	1w	1m	6m	12m	YTD	2012
1. Consumer Discretionary	11683.4	-0.1	5.1	25.1	17.9	16.7	5.3
2. Consumer Staples	13715.2	2.3	2.4	1.0	9.2	8.0	-9.1
3. Energy	13244.0	1.8	2.3	3.1	-3.1	-7.8	21.7
4. Financials	4046.8	1.8	3.8	4.4	17.6	7.3	26.5
5. Industrials	3177.8	-0.1	3.7	9.4	13.8	9.0	21.9
6. Information Technology	13306.8	1.8	9.4	4.5	19.3	3.7	40.9
7. Materials	3968.3	0.3	3.8	10.8	7.5	1.7	-0.6
8. Telecommunication Services	2805.7	2.1	-2.6	-2.9	1.3	-3.2	14.8
9. Utilities	3902.8	0.2	-2.8	-9.9	-0.3	-1.0	15.0

Source: Ecowin

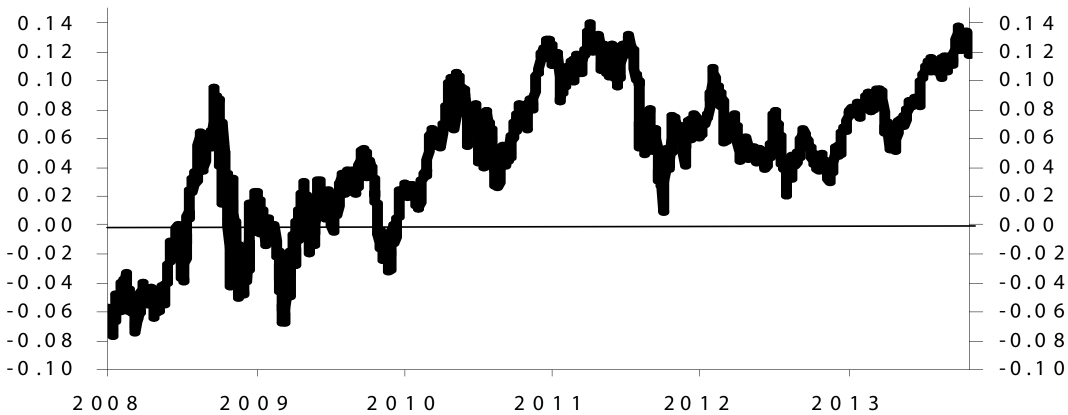
US Style Equity Indices

Total Return (%) as of October 31, 2013

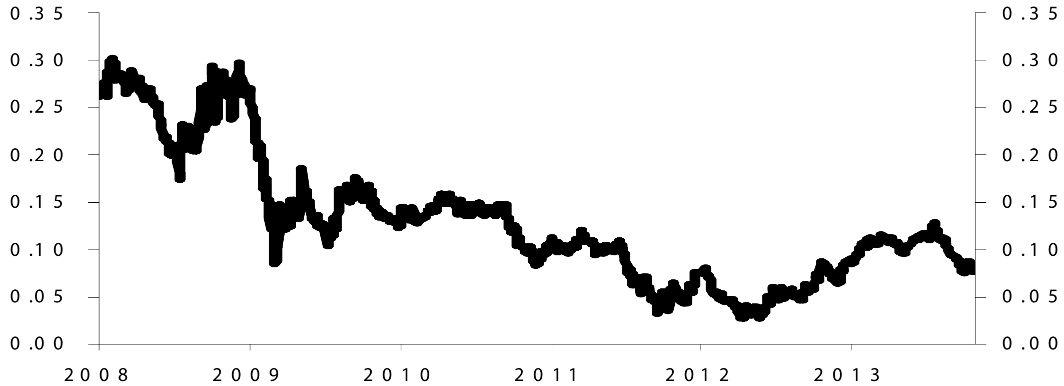
US Style Indices (in USD)

Index	Last Price	1w	1m	6m	12m	YTD	2012
Russell 1000 (Large Cap)	979.7	0.1	3.4	11.6	24.2	24.0	13.9
Russell 2000 (Small Cap)	1100.2	-1.7	1.2	19.0	32.9	29.5	14.6
Relative performance (Small vs Large)		-1.8	-2.2	7.5	8.7	5.5	0.7
Russell 1000 Value	884.1	0.0	3.4	10.2	23.8	23.4	14.5
Russell 1000 Growth	819.5	0.3	3.3	12.8	24.4	24.5	13.3
Relative performance (Value vs Growth)		-0.3	0.1	-2.6	-0.6	-1.1	1.2

Relative Performance (small vs large)
(logarithmic scale)



Relative Performance (value vs growth)
(logarithmic scale)



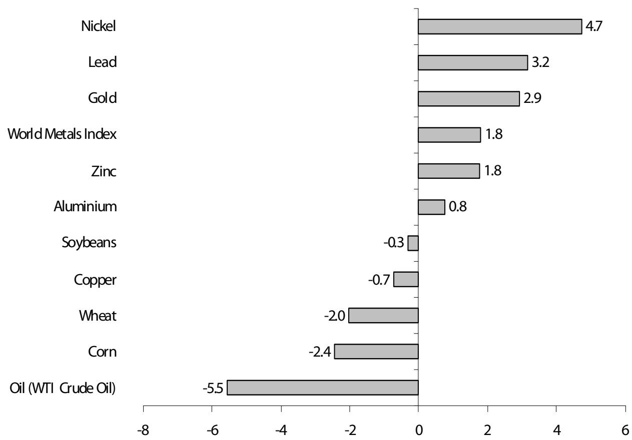
Source: Bloomberg

Commodities

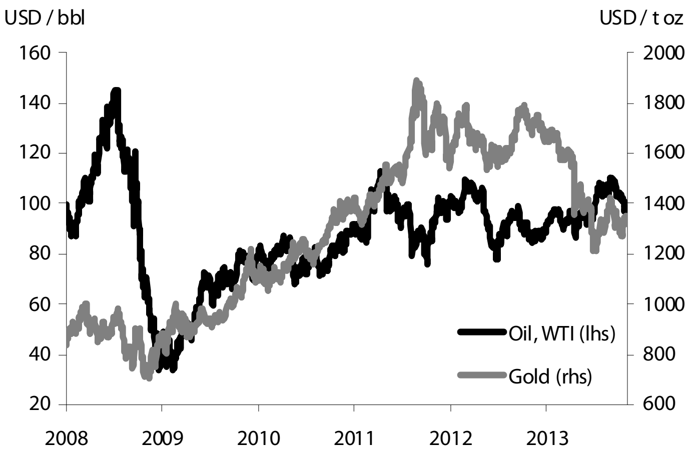
Commodity Performance (%) as of October 31, 2013

Commodities	Units	Last Price	1w	1m	6m	12m	YTD	2012
Oil (WTI Crude Oil)	USD/bbl	96.4	-1.5	-5.5	5.9	10.7	5.0	-7.1
Gold	USD/t oz	1323.7	-2.1	2.9	-8.5	-22.8	-21.0	7.0
Base Metals								
World Metals Index		3149.6	0.1	1.8	5.8	-5.1	-8.8	4.5
Aluminium	USD/lb	1859.0	-0.1	0.8	-0.6	-2.5	-10.3	2.6
Copper	USD/mt	7249.0	1.0	-0.7	2.7	-6.6	-8.6	4.4
Lead	USD/mt	2184.0	0.5	3.2	7.7	5.9	-6.3	14.5
Nickel	USD/mt	14615.0	-0.2	4.7	-5.0	-9.8	-14.3	-8.8
Zinc	USD/mt	1952.0	0.8	1.8	4.5	4.4	-6.2	12.7
Agriculture								
Corn	USD/bu	428.3	-2.7	-2.4	-37.2	-43.0	-38.7	8.0
Soybeans	USD/bu	1266.3	-2.1	-0.3	4.0	-6.5	-3.3	10.0
Wheat	USD/bu	667.5	-3.4	-2.0	-6.1	-23.1	-14.2	19.2

1-Month Return



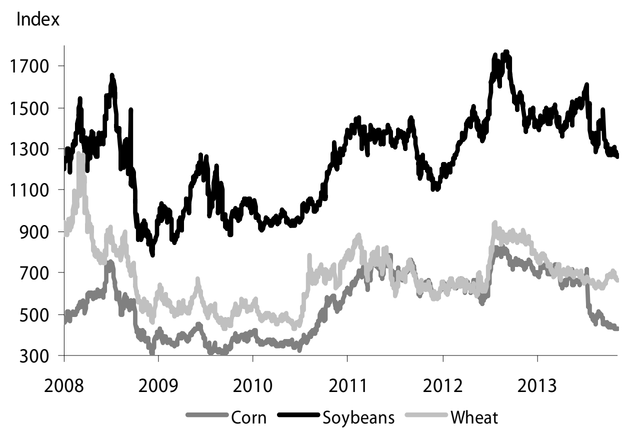
Oil & Gold



World Metals Index

Agricultural Index

Agricultural Indices



Source: Bloomberg, Ecowin

Economic Research Team

Editor, Professor **Gikas Hardouvelis**
Chief Economist & Director of Economic Research

Economic Research & Forecasting Division
Tasos Anastasatos: *Senior Economist*
Ioannis Gkionis: *Research Economist*
Vasilis Zarkos: *Economic Analyst*
Olga Kosma: *Economic Analyst*
Maria Prandeka: *Economic Analyst*
Theodoros Stamatiou: *Research Economist*

Eurobank, 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333 .7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr

Eurobank Economic Research

More research editions available at http://www.eurobank.gr/research

- **New Europe**: Economics & Strategy Monthly edition on the economies and the markets of New Europe
- **Economy & Markets**: Monthly economic research edition
- **Global Economic & Market Outlook**: Quarterly review of the international economy and financial markets

Subscribe electronically at http://www.eurobank.gr/research
Follow us on twitter: http://twitter.com/Eurobank_Group

ISSN: 1791-3535