ISSN: 1791-3535

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GLOBAL ECONOMIC & MARKET OUTLOOK

April, 2014

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- 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, improved sentiment and loose monetary policy
    - In the US, we expect above-trend growth in 2014, boosted by robust private domestic demand and a fading fiscal drag
    - Higher demand in advanced economies is growth positive for EMs, which need to adapt to tighter financial conditions
- Risks to our economic outlook originate from multiple sources
    - Normalization of US monetary policy poses the risk of fueling tensions in global financial conditions
    - Fragile political stability in euro area members threatens economic confidence and implementation of structural reforms
    - Shortcomings in the ECB's asset quality review pose a risk to the restoration of market confidence on the euro area banking sector
    - De-anchoring of inflation expectations in the euro area

Table of contents

I. Global Outlook

Olga Kosma, Vasilis Zarkos

Global economy remains broadly intact, corroborating expectations that it will move into higher gear in 2014. Global growth acceleration is mainly due to a pick up in growth momentum in advanced economies. Economic expansion in developed countries will be supported by loose monetary policy, lower pace of fiscal consolidation (with the exception of Japan), improving labor markets and receded disintegration risks in the euro area. Developing economies need to adjust to an environment of lower global liquidity. As a result, they are expected to 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, emerging markets vulnerable to global capital flows (e.g. Indonesia, India, Turkey and Brazil) are affected by tighter monetary conditions in the US. Domestic demand in developing economies will be negatively affected by increased cost of capital. Growth in China is forecasted to slow down in 2014, as a result of rebalancing efforts towards a more sustainable path. Overall, global economy is forecasted to accelerate to 3.6% in 2014, from 3% in 2013.

Country/regional economic outlook

Although adverse weather conditions have weighed on **US** economic and labor market conditions at the beginning of 2014, we do expect real economic activity to rebound in the medium-term and achieve above-trend growth in 2014, boosted by robust private domestic demand and a fading fiscal drag. Real personal consumption growth is expected to accelerate in line with a healthier labor market recovery, given the considerable wealth effect and the recent improvement in household finances. Furthermore, the fundamental drivers of business investment growth remain strongly supportive for 2014, with high corporate profits and better access to credit. The US housing market will continue to recover, albeit at a slower pace, contributing positively to real economic activity. Overall, we expect real GDP to accelerate to about 2.8% y-o-y in 2014, from 1.9% in 2013, with a lessening fiscal drag of about 0.3-0.5pp.

The **euro area economy** is expected to continue expanding on the backdrop of lighter fiscal adjustment requirements, improved sentiment and loose monetary policy. However, GDP growth is expected to remain subdued and uneven due to ongoing public and private consolidation and persistent financial fragmentation. Fragile government coalitions and likely strong gains of euro skeptic parties in the European elections threaten political stability in periphery members. Reduced market pressure on sovereign bond yields raises concerns of complacency by policymakers, particularly in France and Italy. Lack of a common backstop poses a risk to the effectiveness of the ECB's comprehensive assessment in fully restoring markets' confidence in the euro area banking sector. Outright deflation should not materialize on the back of ongoing economic recovery, expansion of domestic demand, stabilization in labour markets and strong wage growth in Germany. We expect the ECB to keep policy rates unchanged and take additional unconventional measures to boost credit growth. Quantitative easing is an available option if deflation fears escalate.

The **Japanese economy** is expected to contract in Q2 due to the consumption tax hike. A rebound is expected in the second half of the year as the economy is supported by loose monetary policy, weak yen and solid global demand. Prospects of the Japanese economy depend 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. As the effect of depreciated yen on inflation will start waning, the Bank of Japan will likely step up its asset purchase program, possibly in July, when the BoJ publishes its semi-annual Outlook Report.

Risks to our global growth outlook

(a) Fed's normalization of monetary policy

US fiscal and political risks have abated over the last few months, given the two-year budget agreement that was reached in December 2013 and the suspension of the US debt ceiling until March 2015. Nevertheless, there are risks concerning the Fed's exit from extraordinary monetary stimulus and its ability to offset any market reaction with enhanced forward-interest-rate guidance. The tapering process, which will probably be concluded by the end of 2014, has been accompanied by the adoption of qualitative forward guidance that provides investors with greater confidence that the committee will keep the target federal funds rate below levels considered as normal in the longer run. However, the key risk arising from Fed's exit policy includes sharp increases in interest rates that do not reflect stronger growth fundamentals but rather expectations of earlier-than-expected monetary tightening due to increased inflationary pressures or a change in the Fed's policy reaction function. In such a case, there could be a significant negative impact on the US economic activity and, consequently, a deterioration in global financial and economic conditions.

b) Political risk threatens economic sentiment

Political risk is a major risk to our baseline scenario for the euro area economy. Weak government coalitions in periphery countries need to maintain momentum on structural reforms and exert fiscal discipline, as both are required to enhance fragile debt sustainability. Yet, ongoing economic adjustment efforts could test governments' viability and cause tensions to escalate. The Greek government coalition enjoys a very narrow majority in Parliament. In Portugal, the government cohesion is tested by the Constitutional Court rulings. In France, low popularity of the governing party bodes ill for agreeing on budget savings and pushing through policies to increase competitiveness of the economy. In a similar vein, constructive economic reforms in Italy are at risk due to a fractured government coalition. Reduced sovereign market pressures raise the risk of a complacent approach by policymakers, all the more exacerbated by the weakness of government coalitions. The upcoming European Parliament elections could fuel political tensions in case euro skeptic political powers exhibit strong results.

c) Lack of a common backstop poses a risk on restoring confidence on the euro area banking sector

Our economic outlook relies on the ability of the ECB's comprehensive assessment of banks' balance sheets to restore confidence in the banking sector, reduce financial fragmentation and increase the ability of financial institutions to finance the real economy. However, the doom-loop between banks and sovereigns remains poorly addressed, raising concerns about the rigorousness of the whole exercise and its effectiveness to identify all remaining vulnerabilities and force unviable banks to close down. European policymakers have recently agreed on faster mutualization of national resolution funds into a single resolution fund (40% of the total amount of €55bn will be mutualized in 2015). However, it remains highly uncertain whether the common funds will be available to shoulder resolution costs identified by the comprehensive assessment that cannot be covered by the private sector. This is in line with the strong reluctance to use common funds to cover costs stemming from legacy problems, arisen due to inefficient supervision by national authorities in the past. Furthermore, taking advantage of the ESM's ability to directly recapitalize banks remains unlikely, as the idea of using taxpayers' money to directly fund banks is highly controversial. Regarding the bail-in of private bank creditors, the harmonized set of resolution rules will come into force in 2016, leaving only junior bond holders on the hook to fill in capital shortfalls. As a result, the national backstop funds will have to bear the burden of any resolution costs that cannot be covered by the private sector. To avoid a material worsening of the sustainability of pubic finances, the stringency of the asset quality review could be reduced, posing a risk on its ability to restore confidence in the euro area banking sector.

d) Risk of deflation in the euro area threatens debt sustainability

Debt sustainability is threatened by adverse impact of low inflation on nominal growth. Inflation has receded to a lower than expected trajectory and is expected to remain subdued due to adverse base effects related to energy prices, significant economic slack receding only at a slow pace and internal devaluation in several euro area members. Nonetheless, in our baseline scenario, deflation should not materialize due to a strengthening recovery, stabilization in labor markets and expansion of domestic demand. We expect Germany to boost inflation in the euro area, as strong wage increases and a rebound in investment will drive overall euro area prices higher. The Commission's consumer survey provides supportive evidence to our base case view. Consumers' inflation expectations remain anchored despite a slow downward inching, while there is no evidence of households postponing big ticket purchases. However, we would not exclude the possibility of outright deflation as i) downside risks to the economy could blow economic sentiment and lead to negative inflation, ii) already low level of price growth imply that there is little room to accommodate adverse economic developments and iii) economic adjustment continues and may gain momentum in France and Italy, driving prices lower. Low inflation renders the euro area recovery more vulnerable to global risks. Apart from the trade channel, lower global growth would drive commodity prices lower, exerting a negative impact on domestic inflation

II. Global Economic Outlook

1. The US economy

Olga Kosma

- Although adverse weather conditions have weighed on economic and labor market conditions at the beginning of 2014, we do expect real economic activity to rebound in the remainder of the year. Overall, we expect real GDP to accelerate to about 2.8% y-o-y in 2014, from 1.9% in 2013, with a lessening fiscal drag of about 0.3-0.5pp.
- Real personal consumption growth is expected to accelerate in line with a healthier labor market recovery, given the considerable wealth effect and the recent improvement in household finances.
- The fundamental drivers of business investment growth remain strongly supportive for 2014, with high corporate profits and better access to credit. The US housing market will continue to recover, albeit at a slower pace, contributing positively to real economic activity.
- Absent a severe deterioration in economic and labor market conditions, we expect the Fed to reduce its monthly pace of asset purchases by about $10bn at each subsequent meeting coupled with a strong forward guidance, concluding the asset purchase program at its October or December 2014 meeting. The first rate hike won't come until mid-2015, when the unemployment rate should hopefully have reached 5.8% and core PCE inflation 1.7% y-o-y.

Overview

Economic activity decelerated to 1.9% y-o-y in 2013, from 2.8% in 2012, due to a sharp fiscal consolidation, with measures worth about 1.5% of 2013 nominal GDP. The biggest component of the 2013 fiscal drag was a $200bn payroll and income tax hike, which kept real personal consumption growth at 2.0% for the year as a whole. Businesses have been reluctant to invest in an economy with a heavy fiscal restraint, so real business fixed investment growth slowed significantly from 7.3% in 2012 to a mere 2.6% in 2013. With plenty of slack remaining in the economy, annual average core PCE inflation has declined to 1.2% in 2013, from 1.8% in 2012. However, real GDP growth accelerated in the second half of the year to 3.4%, from 1.8% in the first half, given the waning effect of the fiscal drag, the considerable increase in household net worth and record inventory building. Looking ahead, although adverse weather conditions have weighed on economic and labor market conditions at the beginning of 2014, we do expect real economic activity to rebound in the medium-term and achieve above-trend growth in 2014, boosted by robust private domestic demand and a fading fiscal drag. Real personal consumption growth is expected to accelerate in line with a healthier labor market recovery, given the considerable wealth effect and the recent improvement in household finances. Furthermore, the fundamental drivers of business investment growth remain strongly supportive for 2014, with high corporate profits and better access to credit. The US housing market will continue to recover, albeit at a slower pace, contributing positively to real economic activity. Overall, we expect real GDP to accelerate to about 2.8% y-o-y in 2014, from 1.9% in 2013, with a lessening fiscal drag of about 0.3-0.5pp.

Q4 GDP deceleration on the back of government spending and housing investment

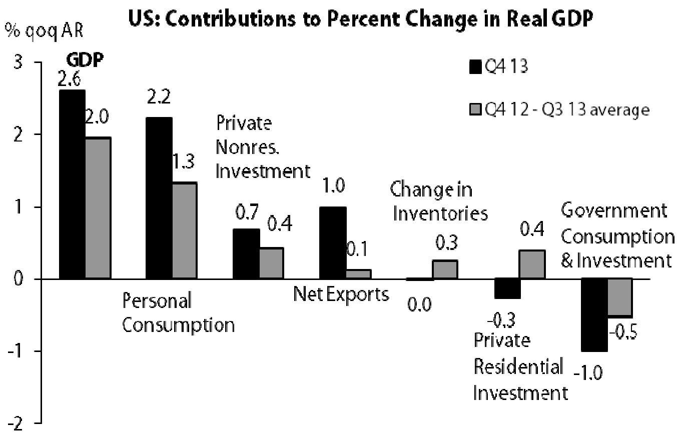
According to the third estimate of the Bureau of Economic Analysis (BEA), real GDP growth slowed to 2.6% q-o-q saar in Q4 2013, after a surge of 4.1% in Q3 (Figure 1.1). The deceleration in real economic activity in the final quarter of 2013 was driven by a significant decline in government consumption, which fell 5.2% q-o-q saar, largely driven by a 14.4% drop in national defense. As a result, the government sector has subtracted a total of 1.0% from real GDP growth, one third of which is attributed to the government shutdown[1]. Furthermore, real residential investment fell by 7.9% q-o-q saar for the first time after three years of positive growth, partly reflecting the lagged effect of weaker housing starts in previous months. On the positive side, real personal consumption accelerated to 3.3% q-o-q saar from 2.0% in the previous quarter, with broad based strength across durable (2.8%), nondurable goods (2.9%) and services (3.5%). Moreover,

[1] According to the US Department of Commerce, the federal government shutdown during the first half of October subtracted about three-tenths from Q4 real GDP growth.

business fixed investment accelerated to 5.7% q-o-q saar from 4.8% in Q3, with strong gains in equipment investment that surged to 10.9% q-o-q saar in Q4 from almost zero growth one quarter earlier. As far as external demand is concerned, net trade added 1.0pp to real economic activity, as a surge in real exports (9.5%) was accompanied by mediocre growth in real imports (1.5%). Finally, inventory accumulation was almost neutral for growth, after a very significant inventory build in Q3 that added 1.7% to growth.

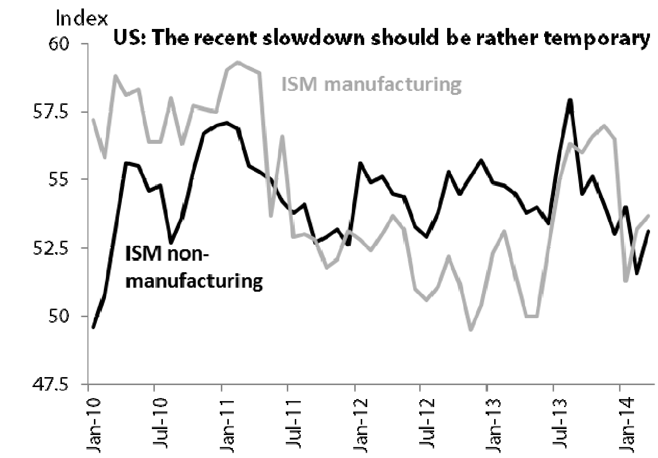
High-frequency data suggest that economic activity has slowed at the beginning of the year -relative to H2 2013- due to bad weather conditions and inventory correction. Retail sales and manufacturing output declined significantly in January, and while there was a positive payback for the weather effect in February, the underlying trend remains relatively soft. Both ISM manufacturing and non-manufacturing indices have slowed somewhat (Figure 1.2), but they still remain above the 50-threshold that indicates expansion. Nonfarm payroll growth has moved to a lower path, with the three-month moving average recently decelerating to roughly 142k during December 2013-February 2014 from 225k during September-November 2013. However, over the last month several indicators (nonfarm payrolls, consumer confidence, regional manufacturing surveys such as Chicago PMI, Empire State and Philadelphia Fed survey, ISM indices) have surprised to the upside, suggesting that the recent slowdown was rather temporary and the normalization of weather may well contribute to a positive payback in real economic activity in the following months (Figure 1.2).

Figure 1.1



Source: US Bureau of Economic Analysis, Eurobank Research estimates

Figure 1.2

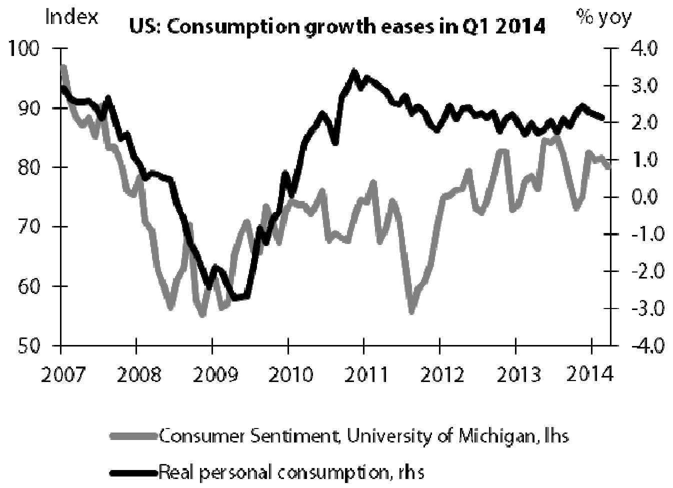


Source: Institute for Supply Management

Soft private domestic demand in Q1, but due to accelerate

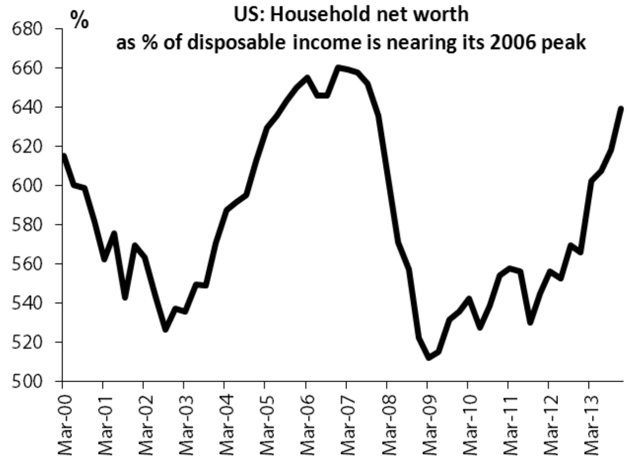
Real personal outlays increased by 0.2% m-o-m in February, with downward revisions to the two prior months. Although bad weather conditions have weighed on consumption goods (real goods consumption declined 0.7% m-o-m in January and recovered modestly increasing by 0.2% in February), the Affordable Care Act (ACA) resulted in an increased demand for healthcare services, which -according to the BEA- have added roughly $20bn to nominal expenditures in January and $13bn in February. Looking ahead, this boost in services consumption is probably rather temporary due to increased ACA-related expenditures and increased spending on gas and electricity owing to bad weather and should fade in the following months, but goods spending should accelerate as weather effects fade. February retail sales have already recovered some of the lost ground in the previous month, while the Conference Board's index of US consumer confidence increased to 82.3 in March from 78.3 in February, driven by a rebound in the expectations index. Meanwhile, vehicle sales rebounded in March following three soft months probably due to bad weather conditions. All in all, while we do expect a softening in real consumption growth in the first quarter of the year to roughly 2.0% q-o-q saar from 3.3% in Q4 2013 due to inclement weather (Figure 1.3), we believe that real personal expenditures will accelerate in the remainder of the year towards 2.5% y-o-y from 2.0% y-o-y reported in 2013. The recent improvement in household finances should be supportive, given the recent repair of households' balance sheets, in combination with the upward trend in consumer credit, the considerable wealth effect (Figure 1.4) and the waning effect of the tax increases.

Figure 1.3



Source: US Bureau of Economic Analysis, Thomson Reuters/University of Michigan

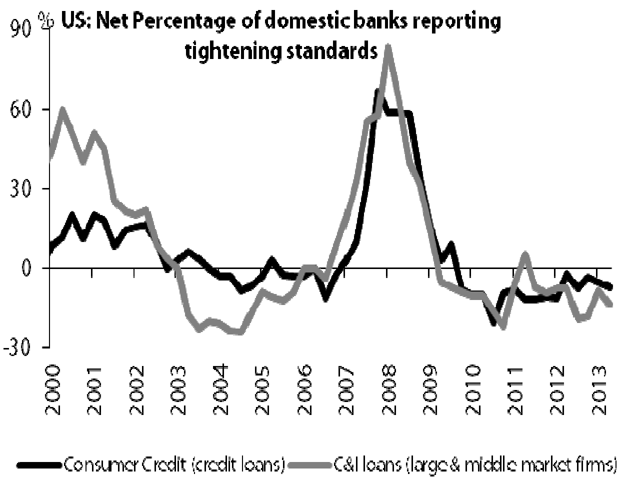
Figure 1.4



Source: Federal Reserve

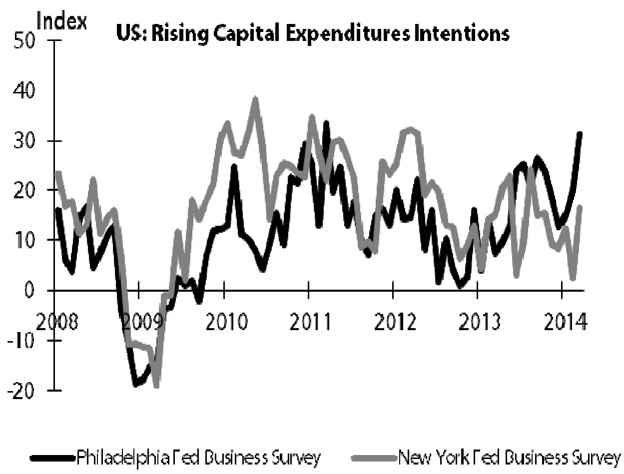
Capital spending has underperformed in 2013, as businesses have been reluctant to invest in an economy with a heavy fiscal drag. In addition, capital spending was reduced in 2013 due to a tax distortion which resulted in a surge in nonresidential investment in 2012. Nonresidential fixed investment growth has slowed from its recent peak of about 7.6% in 2011 to a mere 2.7% in 2013. High-frequency indicators suggest a slowdown in the first quarter of the year. Core capital goods shipments, which are the main input for equipment and software, declined in January and the rebound reported in February was mainly attributed to volatile components (aircraft, defense and vehicles). Looking ahead, the fundamental drivers of business investment growth remain strongly supportive for the remainder of the year, suggesting an acceleration to about 6.0% in 2014 as consumer demand growth improves. Profit rates are high, lending standards continue to ease (Figure 1.5), and the US fiscal and political risks have declined considerably. Meanwhile, regional indices of future capital expenditures -such as New York and Philadelphia business surveys- point to increased capital expenditures intentions in the following months (Figure 1.6).

Figure 1.5



Source: Federal Reserve

Figure 1.6

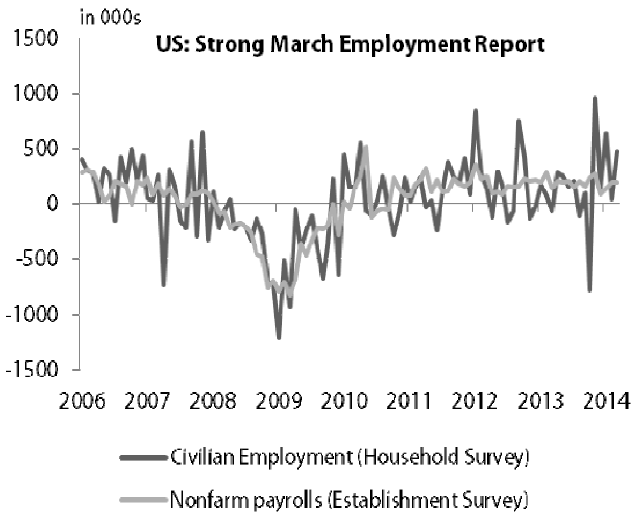


Source: Federal Reserve Bank of New York, Federal Reserve Bank of Philadelphia

Solid employment growth, with waning weather effect

Following a significant slowing in the pace of job growth at the end of 2013 due to adverse weather conditions, nonfarm payrolls increased by 175k in February, with 37k upward revisions in the two prior months. Private services reported the most significant increase (+167k), while retail employment rebounded with a 21k increase after two months of consecutive declines. Nevertheless, the manufacturing sector was remarkably weak, posting its first negative reading since July 2013 (-1k). The household survey was equally strong, with civilian employment increasing by 476k. However, the unemployment rate remained stable at 6.7%, as the labor force participation rate rose two-tenths to 63.2%. All in all, the labor market report was rather solid, with an above trend increase in nonfarm payrolls, with the three month moving average increasing to 178k from 142k in the previous three months (Figure 1.7).

Figure 1.7



Source: Bureau of Labor Statistics (BLS)

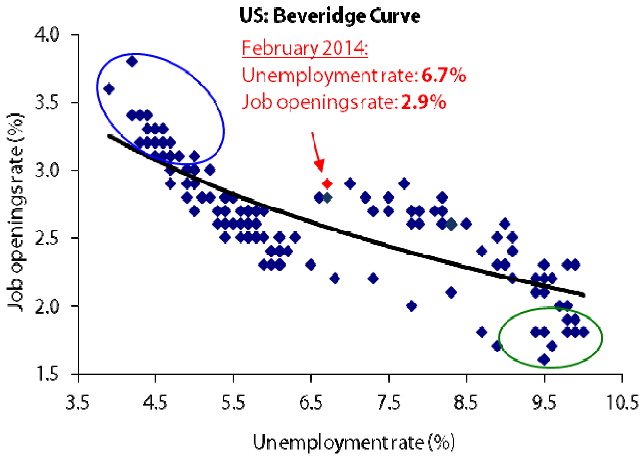
Figure 1.8

Source: Bureau of Labor Statistics (BLS), Eurobank Research

Labor market slack on a downward trend, but still elevated

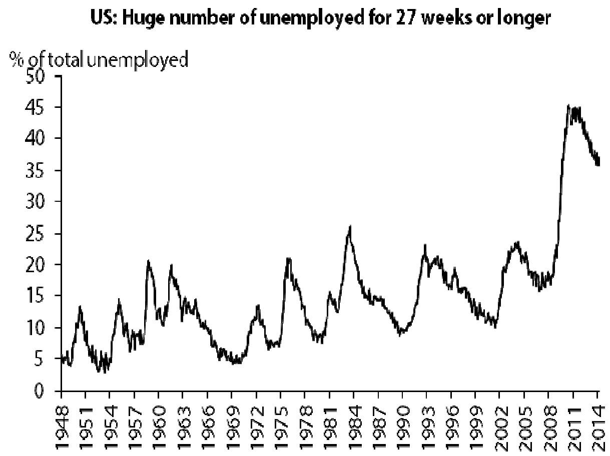
The Job Openings and Labor Turnover (JOLTs) February report has shown 4,173k job openings, registering a 299k rise from the previous month and resulting in an increase in the job opening rate steady to 2.9%. As is evident in Figure 1.8, unemployed job seekers for each job opening fell to 2.50 in February from 2.64 in January, which is down significantly from the level 3.33 at the beginning of 2013, suggesting that labor market slack is on a downward trend, albeit not at its pre-crisis level. Unemployment and job openings rates tend to vary in a systematic way during the business cycle. The negative slope between the two variables is widely known as the Beveridge curve (Figure 1.9). The dots in the green cycle represent low job openings and high unemployment with a position low and to the right on the curve, indicating a period of economic contraction. On the contrary, the dots in the blue cycle (high and to the left on the curve) represent high job openings and low unemployment rates, indicating a period of economic expansion. Figure 1.9 shows that there is increased recruiting activity on the part of the business sector as is evident by the high openings rate, while there is a relatively smaller decline in the unemployment rate (red dot). The 2.9% job openings rate reported in February 2014 would correspond to an unemployment rate of roughly 5.5%, while the current rate of unemployment currently stands at 6.7%.

Figure 1.9



Source: Bureau of Labor Statistics (BLS), Eurobank Research

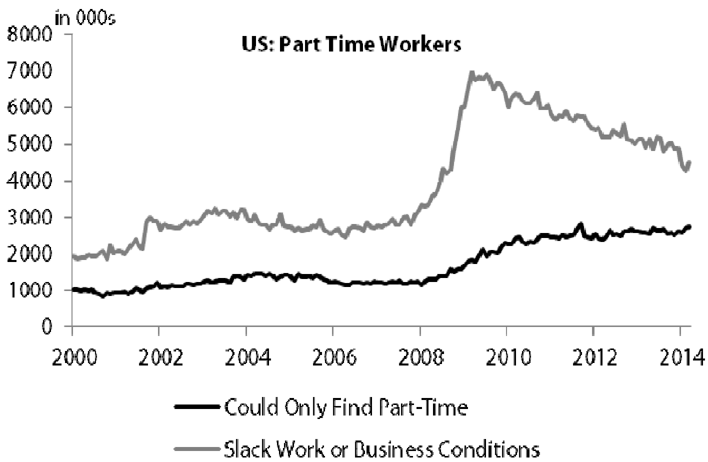
Figure 1.10



Source: Bureau of Labor Statistics (BLS), Eurobank Research

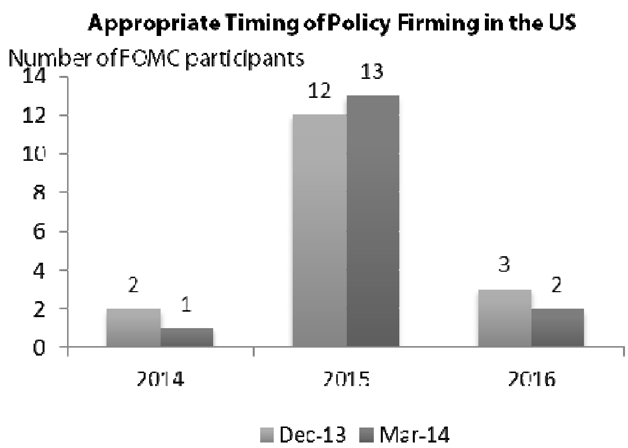
There are several possible reasons for this mismatch between available jobs and the unemployed. From the cyclical point of view, the economy usually takes time to adjust to changes in job openings and unemployment as it may take longer for unemployment to decline than for job openings to increase. This could be attributed to the reentry into the labour force of jobseekers who had stopped looking for a job when the economy was in decline. Furthermore, there are structural forces that create mismatches between the types of job openings and the skill set of available workers. Long-term joblessness, which has been a key feature of the latest recession and recovery (Figure 1.10), tends to create structural unemployment, as long-term unemployed workers tend to lose skills and contacts and find it difficult to get a job. Moreover, alternative measures of underemployment such as involuntarily part-time employees who would rather be full-time suggest that the skills of part time workers are not consistent with the current types of full time jobs. In particular, Figure 1.11 shows that part-time employees (working less than 35 hours per week) who had their hours reduced due to unfavorable business conditions (cyclical reasons) are falling, while part-time employees who searched but could not find a full-time job is holding steady (structural).

Figure 1.11



Source: Bureau of Labor Statistics (BLS), Eurobank Research

Figure 1.12



Source: Federal Reserve

Continuity in Fed's approach to monetary policy, with some more hawkish dots among FOMC participants

In her first testimony concerning the Semiannual Monetary Policy Report to the Congress, Fed Chair Janet Yellen was not as dovish as when she served as San Francisco Fed President, because at the moment she is not expressing her personal beliefs but rather speaks on behalf of the committee as a whole. On balance, Yellen's approach to monetary policy is in line with Bernanke's approach in the past, pointing to a high degree of policy continuity. The current policy stance will remain in place with a gradual reduction in the pace of asset purchases, while any considerable deterioration in the economic outlook could lead to a change in Fed's monetary policy and a possible pause in the tapering process. Downplaying the recent weakness in some high-frequency data and volatility in financial markets, Yellen sounded confident that economic activity will accelerate in 2014 and 2015 and labor market conditions will continue to improve, leading to measured reductions in the pace of asset purchases at future meetings.

The Fed has begun normalizing its monetary policy stance by reducing the pace of its asset purchases at the end of 2013. In particular, the Committee has so far reduced its monthly asset purchases by a total of $30bn (from $85bn previously to $75bn in December 2013, $65bn in January 2014 and finally $55bn in March 2014 beginning in April), equally split between Treasuries and MBS. At its March 18-19 meeting, Fed's assessment of economic conditions pointed to softer economic activity during the winter months, partly due to adverse weather conditions, with nearly balanced risks to the outlook for the economy and the labor market. Furthermore, the Committee sounded more hawkish than expected, revising higher the median forecast of its expected fed funds rate path by 25bp for year-end 2015 (from 0.75% to 1.0%) and by 50bp for year-end 2016 (from 1.75% to 2.25%). This shift in the Fed's projections of the pace of tightening is mainly due to a lower projected path for the unemployment rate. In particular, the central tendency of the unemployment rate forecast was lowered by 0.25pp in Q4 2014 (from 6.3-6.6% to 6.1-6.3%), by 0.20pp in Q4 2015 (from 5.8-6.1% to 5.6-5.9%) and by 0.15pp in Q4 2016 (from 5.3-5.8% to 5.2-5.6%). As is evident in Table 1.1, the Fed's forecasts for real economic activity and inflation were little changed since December 2013, so the change in Fed's outlook for the unemployment rate seems to have led to the shift in tightening expectations. Nevertheless, Chair Yellen explained that investors should pay more attention to the statement, which is the product of the voters of the FOMC, than on the FOMC projections, which express the views of all the FOMC participants including non-voters.

Table 1.1: Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, March 2014

	Central Tendency*			
USA	**2014**	**2015**	**2016**	**Longer run**
Change in real GDP	**2.8 - 3.0**	**3.0 - 3.2**	**2.5 - 3.0**	**2.2 - 2.3**
December forecast	(2.8-3.2)	(3.0-3.4)	(2.5-3.2)	(2.2-2.4)
Unemployment rate	**6.1 - 6.3**	**5.6 - 5.9**	**5.2 - 5.6**	**5.2 - 5.6**
December forecast	(6.3-6.6)	(5.8-6.1)	(5.3-5.8)	(5.2-5.8)
PCE inflation	**1.5 - 1.6**	**1.5 - 2.0**	**1.7 - 2.0**	**2.0**
December forecast	(1.4-1.6)	(1.5-2.0)	(1.7-2.0)	(2.0)
Core PCE inflation	**1.4 - 1.6**	**1.7- 2.0**	**1.8 - 2.0**	
December forecast	(1.4-1.6)	(1.6-2.0)	(1.8-2.0)	
Fed Funds Rate	**0.00 - 0.25**	**0.50 - 1.50**	**1.75 - 3.00**	**3.50 - 4.00**
December forecast	(0.00 - 0.25)	(0.50 - 1.50)	(1.50 - 3.00)	(3.50 - 4.00)

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

Source: Federal Reserve, Eurobank Research

According to the statement, the Committee adopted qualitative forward guidance, replacing the 6.5% unemployment rate threshold by stating that it expects to keep the current 0-0.25% fed funds rate target "for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2% longer-run goal, and provided that longer-term inflation expectations remain well anchored." Factors to be considered for the beginning of the tightening cycle are labor market conditions, inflationary pressures and inflation expectations, as well as developments in financial markets. As the most recent statement in March highlighted, "even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer-run." That is why the Fed's projections for year-end 2016 include a fed funds rate well below the 4% neutral rate, even though the economy is projected to have returned to above-trend growth and full employment.

Absent a severe deterioration in economic and labor market conditions, we expect the Fed to reduce its monthly pace of asset purchases by about $10bn at each subsequent meeting with a strong forward guidance, concluding the asset purchase program at its October or December 2014 meeting. The reduction in its asset purchases is expected to be evenly applied to Treasuries and MBS, in line with the consensus of the FOMC participants. Should we prove to be right, the total amount of asset purchases would reach roughly $1.600trn with the Fed's balance sheet surging to about 4.300trn in Q4 2014. We continue to believe that the first rate hike won't come until mid-2015, when the unemployment rate should hopefully have reached 5.8% and core PCE inflation 1.7% y-o-y.

2. The euro area economy

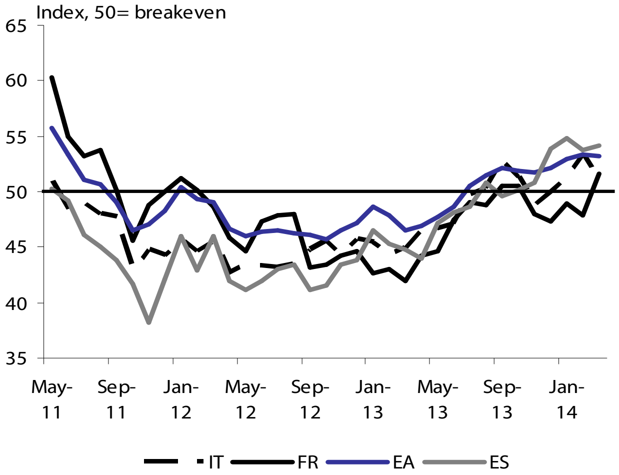
Vasilis Zarkos

- The euro area economy is expected to continue expanding on the backdrop of lighter fiscal adjustment requirements, improved sentiment and loose monetary policy. However, GDP growth is expected to remain subdued due to ongoing public and private consolidation and persistent financial fragmentation.
- Fragile government coalitions and likely strong gains of euro skeptic parties in the European elections threaten political stability in periphery members.
- Reduced market pressure on sovereign bond yields raises concerns of complacency by policymakers, particularly in France and Italy.
- Lack of a common backstop poses a risk to the effectiveness of the ECB's comprehensive assessment in fully restoring markets' confidence in the euro area banking sector.
- Outright deflation should not materialize on the back of ongoing economic recovery, expansion of domestic demand, stabilization in labour markets and strong wage growth in Germany.
- We expect the ECB to keep policy rates unchanged and take additional unconventional measures to boost credit growth. Quantitative easing is an available option, if deflation fears escalate.

The euro area economic growth is expected to continue in the coming quarters

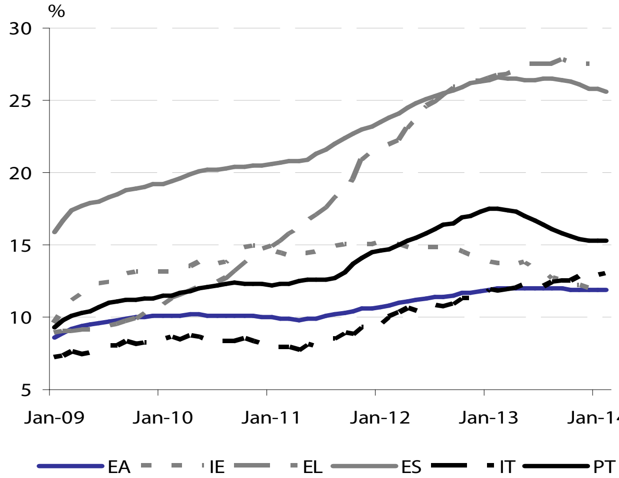
The euro area economy continued expanding in the second half of the year, confirming our expectations of a subdued economic recovery materializing in H2 2013. Reduced fears of euro area disintegration, progress in the banking union project, visible results in fiscal consolidation and in recouping competitiveness 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. The positive impact of improved sentiment is particularly evident in the acceleration of capital expenditures, indicating that firms expect a sustained expansion of consumption expenditures. Economic expansion has been broad based, with growth in periphery members such as Portugal, Spain and Italy entering positive territory in H2 2013. Painful efforts to correct fiscal and macroeconomic imbalances have lead to a recoup of investors' confidence on euro area sovereign debt markets. Borrowing costs in Spain, Portugal and Italy have fallen to levels below those observed before the onset of the sovereign debt crisis.

Figure 2.1
euro area: PMI Composite Index



Source: Bloomberg

Figure 2.2
euro area: unemployment rates



Source: Eurostat

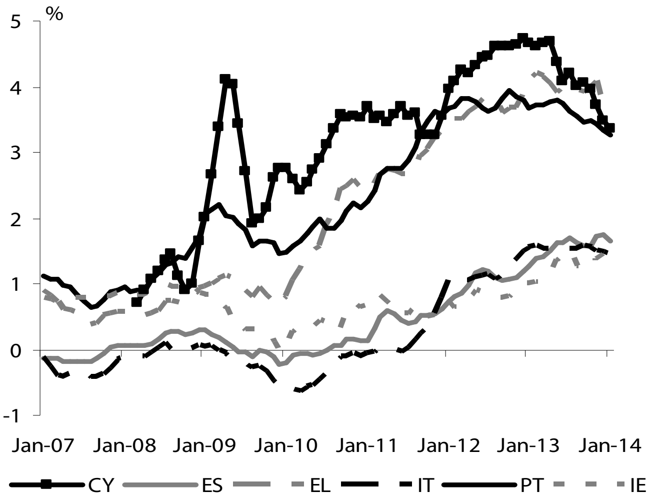
Looking ahead, we expect GDP growth rates to remain positive on the backdrop of improved confidence, stabilization of labor markets and very accommodative monetary policy. Nevertheless, economic expansion will be lackluster due to significant headwinds. Ongoing fiscal adjustment and persistent financial fragmentation are expected to confine domestic demand to modest levels. As a result we forecast GDP to grow by 1.1% in 2014, below potential rate. Further ahead, waning headwinds and the positive impact of structural reforms are expected to allow the economy to gain momentum and grow by 1.5% y-o-y in 2015.

Leading indicators are in line with our outlook that a sustained, widespread economic expansion is under way. The PMI manufacturing index for the euro area as a whole has remained steadily above 50 for nine consecutive months, with the composite index standing at a 27-month high in February before inching lower in March. In France, the PMI manufacturing index rose above 50 for the first time since February 2012. The tone from periphery countries is also encouraging, boding well for a widespread economic expansion in the euro zone. Other leading indicators, including the Ifo and the EC economic confidence index, paint a similar picture for the euro area economy.

Employment in the euro area rose by 0.1% in the fourth quarter of 2013 for the first time since Q2 2011. Unemployment has embarked on a declining path in several periphery countries (Figure 2.2). However, this is to a large part attributed to a declining labor force. Looking ahead, employment is expected to increase at a very slow rate. In an environment of subdued growth, firms will be hesitant in hiring new staff. Companies will first convert part-timers to full time workers and seek to increase productivity and their profit margins. Moreover, sectoral reallocation of resources is expected to slow down the absorption of unemployed workers.

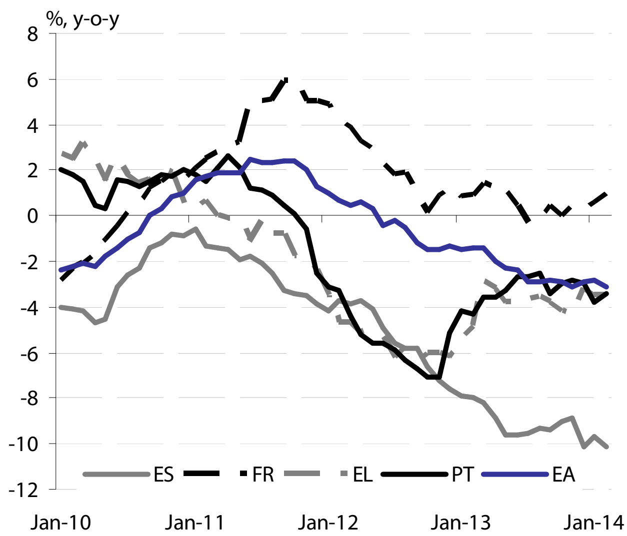
Persistent financial fragmentation constitutes a major headwind to the euro area economy. The improvement in financial markets due to ECB interventions (liquidity provision through 3-year LTROs and the OMT program) averted a credit crunch and allowed lending rates to decline in both core and peripheral 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). Amidst rising NPLs, euro area banks have continued tightening lending standards in H2 2013, mainly on the backdrop of modest economic expectations. The ECB is in the process of conducting thorough balance sheet reviews before taking into its supervision duties in November, in order to clean up toxic assets. Unloading toxic assets and creating full transparency are necessary conditions to restore confidence on the euro area banking sector, reduce financial fragmentation and increase banks' ability to revitalize lending. However, in the short term, asset quality reviews seem to be discouraging banks from extending new loans, as they focus on strengthening their capital position. Indeed, the fall of credit growth to firms on an annual basis has shown no signs of turnaround in the first months of 2014 (Figure 2.4), defying hopes of a change in lending dynamics after December 2013, when the snapshot picture of banks' balance sheets for the ECB's review has been taken.

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



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

Figure 2.4
euro area: credit to NFCs



Note: loan growth adjusted for securitization
Source: ECB

The worst is behind us but risks to the euro area economy remain on the downside

a) Political risk threatens economic sentiment

Although the worst is behind us, in our view, the euro area economy is not out of the woods yet and the road ahead will likely remain bumpy. Political risk is a major risk to our baseline scenario for the euro area economy. Weak government coalitions in periphery countries need to maintain momentum on structural reforms and exert fiscal discipline, as both are required to enhance fragile debt sustainability. Yet, ongoing economic adjustment efforts could test governments' viability and cause tensions to escalate. The Greek government coalition enjoys a very narrow majority in Parliament. In Portugal, the government cohesion is tested by the Constitutional Court rulings. In France, low popularity of the governing party bodes ill for agreeing on budget savings and pushing through policies to increase competitiveness of the economy. In a similar vein, constructive economic reforms in Italy are at risk due to a fractured government coalition. Reduced sovereign market pressures raise the risk of a complacent approach by policymakers, all the more exacerbated by the weakness of government coalitions. The upcoming European Parliament elections could fuel political tensions in case euro skeptic political powers exhibit strong results.

b) Lack of a common backstop poses a risk on restoring confidence on the euro area banking sector

Our economic outlook relies on the ability of the ECB's comprehensive assessment of banks' balance sheets to restore confidence in the banking sector, reduce financial fragmentation and increase the ability of financial institutions to finance the real economy. However, the doom-loop between banks and sovereigns remains poorly addressed, raising concerns about the rigorousness of the whole exercise and its effectiveness to identify all remaining vulnerabilities and force unviable banks to close down. European policymakers have recently agreed on faster mutualization of national resolution funds into a single resolution fund (40% of the total amount of €55bn will be mutualized in 2015). However, it remains highly uncertain whether the common funds will be available to shoulder resolution costs identified by the comprehensive assessment that cannot be covered by the private sector. This is in line with the strong reluctance to use common funds to cover costs stemming from legacy problems, arisen due to inefficient supervision by national authorities in the past. Furthermore, taking advantage of the ESM's ability to directly recapitalize banks remains unlikely, as the idea of using taxpayers' money to directly fund banks is highly controversial. Regarding the bail-in of private bank creditors, the harmonized set of resolution rules will come into force in 2016, leaving only junior bond holders on the hook to fill in capital shortfalls. As a result, the national backstop funds will have to bear the burden of any resolution costs that cannot be covered by the private sector. To avoid a material worsening of the sustainability of public finances, the stringency of the asset quality review could be reduced, posing a risk on its ability to restore confidence in the euro area banking sector.

c) Risk of deflation threatens debt sustainability

Debt sustainability is threatened by adverse impact of low inflation on nominal growth. Inflation has receded to a lower than expected trajectory and is expected to remain subdued due to adverse base effects related to energy prices, significant economic slack receding only at a slow pace and internal devaluation in several euro area members. Nonetheless, in our baseline scenario, deflation should not materialize due to a strengthening recovery, stabilization in labor markets and expansion of domestic demand. We expect Germany to boost inflation in the euro area, as strong wage increases and a rebound in investment will drive overall euro area prices higher. The Commission's consumer survey provides supportive evidence to our base case view. Consumers' inflation expectations remain anchored despite a slow downward inching, while there is no evidence of households postponing big ticket purchases. However, we would not exclude the possibility of outright deflation as i) downside risks to the economy could blow economic sentiment and lead to negative inflation, ii) already low level of price growth imply that there is little room to accommodate adverse economic developments and iii) economic adjustment continues and may gain momentum in France and Italy, driving prices lower. Low inflation renders the euro area recovery more vulnerable to global risks. Apart from the trade channel, lower global growth would drive commodity prices lower, exerting a negative impact on domestic inflation.

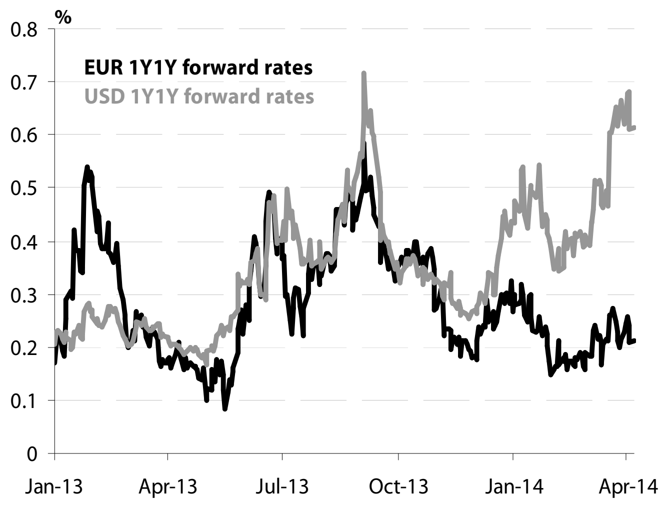
We expect the ECB to adopt measures to reduce financial fragmentation. Door to QE is open

Worrisomely low levels of inflation exert pressure on the ECB to ease monetary policy. In the April meeting, the Governing Council saw through a steep decline of the headline inflation to 0.5%, which was largely attributed to technical factors. However, President Draghi conveyed a clear message that the ECB stands ready to adopt unconventional measures, including quantitative easing, if persistently low inflation de-anchors long term inflation expectations. For the time being, market metrics show that investors remain confident on the ECB's ability to maintain price stability. As we expect inflation to start drifting upwards on the back of continued recovery, we consider the possibility of the ECB embarking on Fed-type QE, i.e. including government bond purchases, as limited. For the same reason, the ECB should keep policy rates unchanged.

We continue to expect the ECB to use its balance sheet to fight financial fragmentation and boost credit growth. A possible measure is a tailor-shaped LTRO, so as to provide incentives to banks to extend new credit to businesses, while discouraging them from funnelling cheep liquidity into government bonds. The ECB could also opt for purchasing private debt. Mr. Draghi highlighted that the design of a QE-like asset purchase programme would need to reflect the fact that the euro area economy is bank-based. Purchasing SME loan ABS would be compatible with such an assessment. In our view, it would be an effective credit growth measure. It would remove risk from banks' balance sheets, luring them into extending new credit.

Liquidity conditions remain favourable. The EONIA rate hovers at around 20bps despite the decline of excess liquidity to about €100bn. In addition, euro area money market rates have decoupled form US rates (Figure 2.5), illustrating the success of the ECB's forward guidance. In March press conference, President Draghi strengthened the ECB's forward guidance underlying the impact of sizable economic slack on future path of policy rates. In particular, the easing bias on policy rates remains, despite tangible signs of the economy gathering momentum, precisely because of the existing slack in the economy. The risk of a liquidity accident is well contained by the fixed rate full allotment procedure the ECB follows in its operations, through which banks can borrow unlimited liquidity. If worse comes to worst, the ECB could launch another unconditional long term LTRO to inject liquidity in the system.

Figure 2.5
euro area: short term rates



Source: Bloomberg

3. The Japanese economy

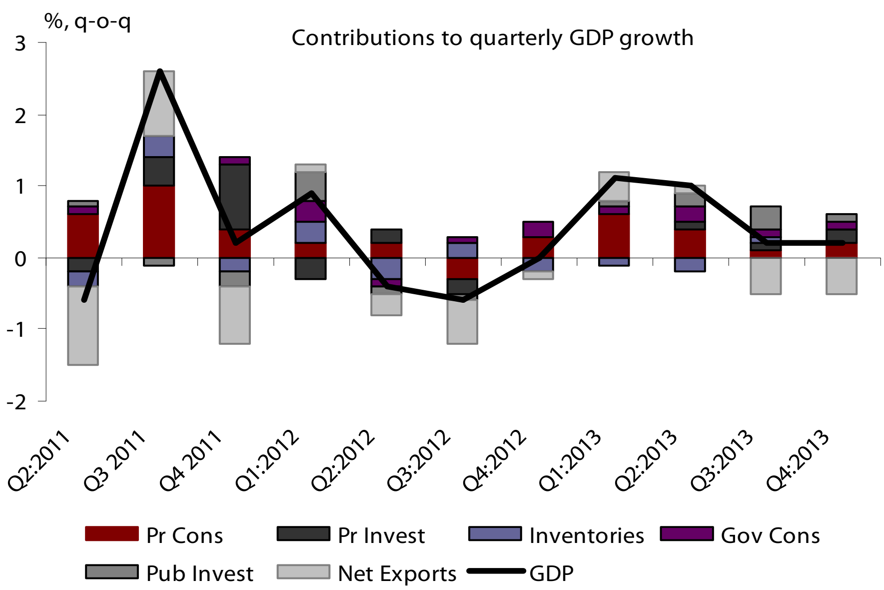
Vasilis Zarkos

- The Japanese economy is expected to contract in Q2 due to the consumption tax hike. A rebound is expected in the second half of the year, as the economy is supported by loose monetary policy, a weak yen and solid global demand.
- Prospects of the Japanese economy depend 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.
- As the effect of a depreciated yen on inflation will start waning, the Bank of Japan will likely step up its asset purchase program, possibly in July, when the BoJ publishes its semi-annual Outlook Report.

The Japanese economy slowed down in the second half of 2013 due to negative contributions from net exports. The drag from net exports was mainly the result of large energy imports, exacerbated by sluggish export performance. However, private demand has remained resilient (Figure 3.1), while the public sector supported domestic demand.

The Japanese economy is expected to have reaccelerated in the first quarter of 2014 due to front loading of private expenditures ahead of the VAT hike (from 5% to 8%) in April. However, based on past experience, a sharp decline in private demand should follow, dragging GDP growth in Q2 to negative territory. This is reflected in Eco Watchers Survey of frontline workers' expectations, which slipped in March for the forth month in a row. Nonetheless, aggressive monetary easing, fiscal stimulus measures, a weak yen and solid global demand are expected to keep supporting the economy. Investment is expected to support growth. Buoyant machinery orders suggest ongoing investment expenditures. The BoJ Tankan survey reveals that large firms expect positive growth in capex in the next 12 months for the first time in the last seven years. Public consumption is also expected to be growth positive, thanks to a fiscal package worth ¥5tn, which should partly counterbalance the effect of the VAT hike. Exports are expected to add to growth on the back of solid growth in emerging markets and ongoing recovery in the US and Europe.

Figure 3.1



Source: Cabinet Office

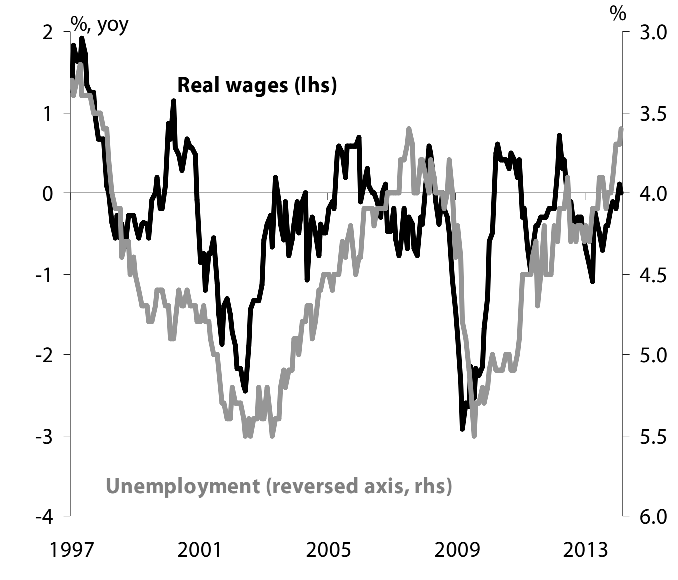
Employment conditions keep improving, with unemployment being on a declining path. However, real wage growth, albeit stabilized, has failed to increase (Figure 3.2). Small firms, which account for 70% of total jobs, have limited ability to raise salaries. Moreover, firms choose to hire lower paid part time workers or give bonuses which can be easily reversed if earnings fall. Looking forward, we would expect wage gains to eventually accelerate on the backdrop of continued economic robustness and tight labour market conditions, leading firms to increase their employees' regular compensation.

Slow wage growth contains price pressures. Inflation excluding food and energy remains modest. However, it has entered positive territory since October 2013. (Figure 3.3). Inflation uptrend (excluding the effect from the VAT hike) may be limited beyond April, when the effect from yen depreciation triggered by the introduction of QQE will start fading.

On the backdrop of ongoing economic recovery, the Bank of Japan has kept its policy measures on hold, with its monetary base expanding as planned. However, additional monetary easing is likely, as risks to inflation are to the downside. This could take the form of higher pace of monthly asset purchases and/or extension of purchases in 2015.

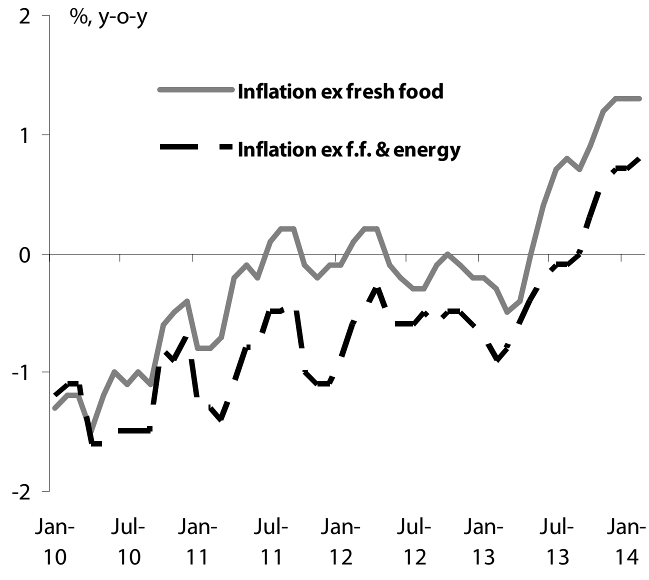
Risks to the Japanese economy stem from policy failure to increase the country's potential output and address its entrenched public finances. Structural reforms are required to allow faster income growth that would propel inflation towards the target of 2%, in a sustainable manner. Super loose monetary 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 reforms that would set in motion a positive feedback loop between economic growth and debt dynamics. External risks stem from a sharper than expected slowdown in China, escalation of tensions in the euro area and adverse effects from monetary policy response in the US.

Figure 3.3
Japan



Source: Bloomberg

Figure 3.4
Japan



Source: Bloomberg

III. Macro Forecasts

Real GDP growth						
	2012	2013	2014f		2015f	
			Eurobank	Consensus	Eurobank	Consensus
US	2.8	1.9	2.8	2.7 (1.6 – 3.7)	3.0	3.0 (1.0 – 4.0)
EA	-0.6	-0.4	1.1	1.1 (0.5 – 1.5)	1.5	1.5 (0.3 – 1.9)
Japan	1.5	1.5	1.4	1.4 (0.3 – 2.5)	1.3	1.3 (-0.1 – 2.0)
China	7.7	7.7	7.2	7.4 (7.0 – 7.8)	7.4	7.3 (6.0 – 8.1)
India	4.8	4.6	4.8		5.3	
Russia	3.4	1.3	2.0	1.1 (-1.0 – 2.6)	2.1	2.1 (1.0 – 3.5)
Brazil	1.0	2.3	1.9	1.9 (1.0 – 2.6)	2.4	2.4 (1.0 – 3.4)

Inflation						
	2012	2013	2014f		2015f	
			Eurobank	Consensus	Eurobank	Consensus
US	2.1	1.5	1.7	1.6 (1.0 – 3.3)	2.0	2.0 (1.2– 4.0)
EA	2.5	1.3	1.0	0.9 (0.5 – 1.6)	1.3	1.4 (0.6 – 2.3)
Japan	0.0	0.4	2.5	2.6 (1.5 – 3.4)	1.8	1.8 (1.0 – 2.5)
China	2.7	2.6	2.8	2.7 (1.8 – 3.5)	3.2	3.1 (1.6 – 3.8)
India (WPI)	7.5	6.3	5.5		5.6	
Russia	5.1	6.8	5.5	6.0 (4.2 – 6.8)	5.0	5.2 (4.1 – 6.2)
Brazil	5.4	6.2	5.9	6.0 (5.3 – 6.5)	5.8	5.7 (5.0 – 7.9)

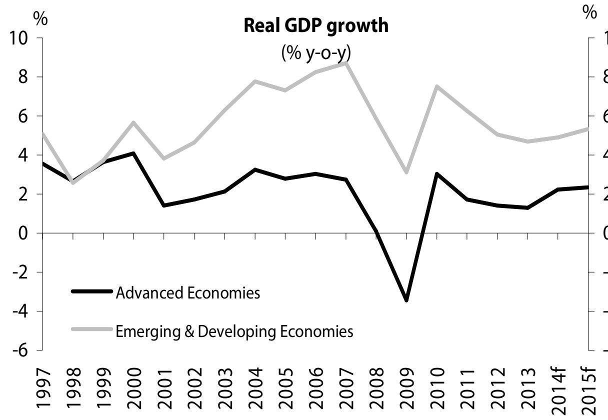
Note: Range of forecasts by Bloomberg's survey in parentheses below point estimates.

Policy Rates					
		Eurobank			
	Current	Q2 14f	Q3 14f	Q4 14f	Q1 15f
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	8.00	8.00	8.00	8.00	7.75
Russia	8.25	7.50	7.50	7.25	7.25
Brazil	10.75	11.00	11.00	11.00	11.50

IV. Graphs

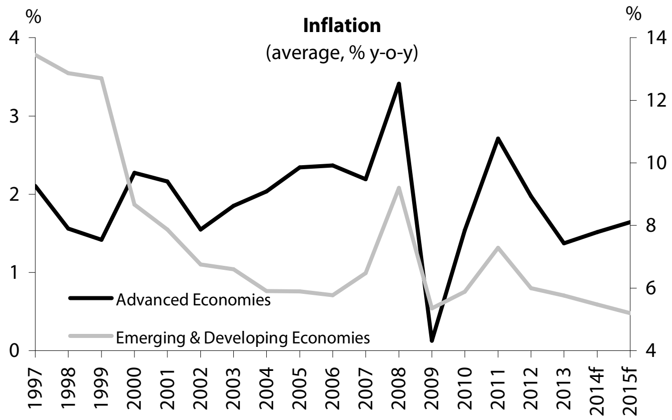
Global Economic Indicators – World Economy

World Economy

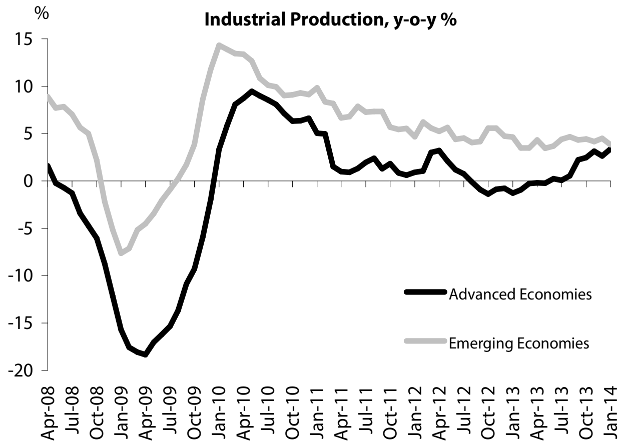


Source: IMF

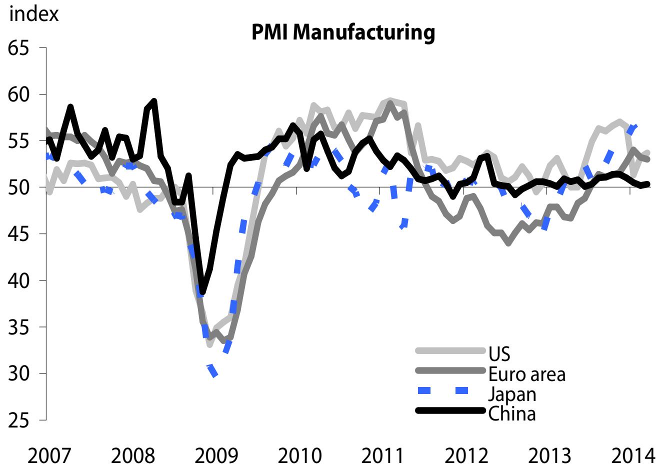
World Economy



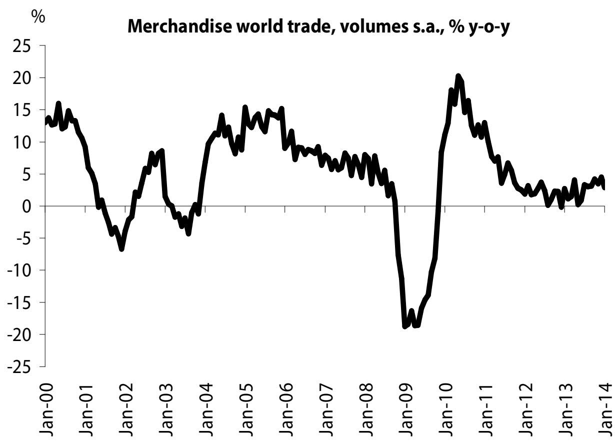
Source: IMF



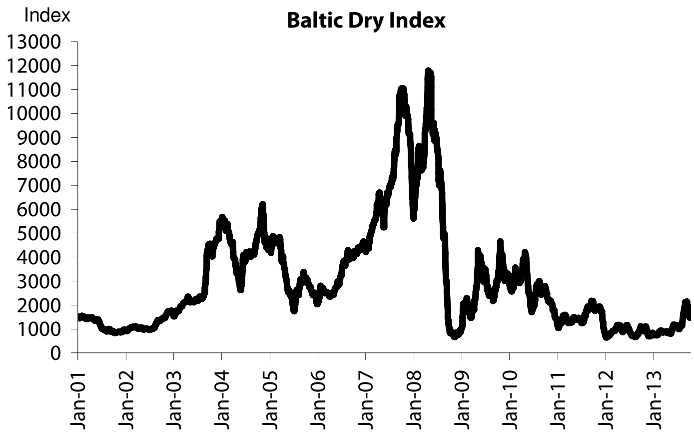
Source: CPB Netherlands Bureau for Economic Policy Analysis



Source: Bloomberg



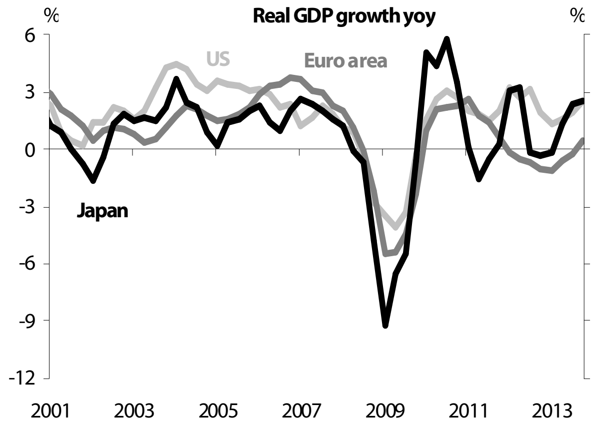
Source: CPB Netherlands Bureau for Economic Policy Analysis

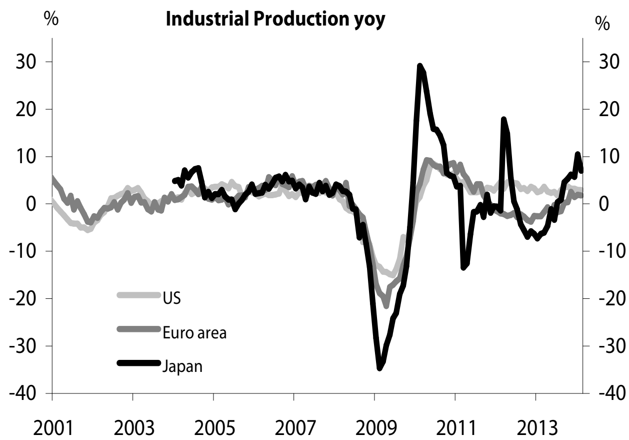


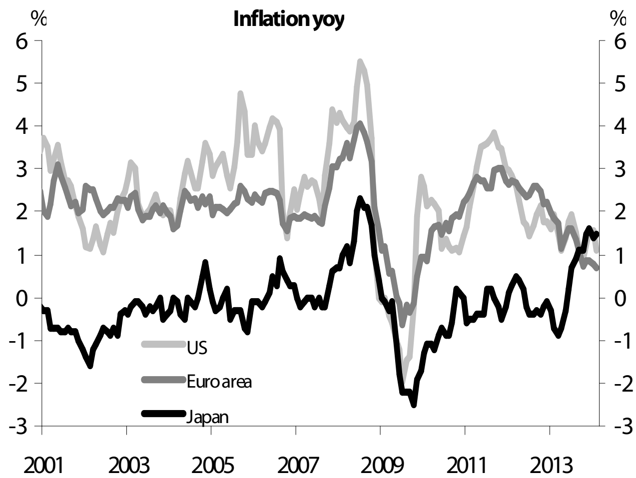
Source: Bloomberg

Global Economic Indicators

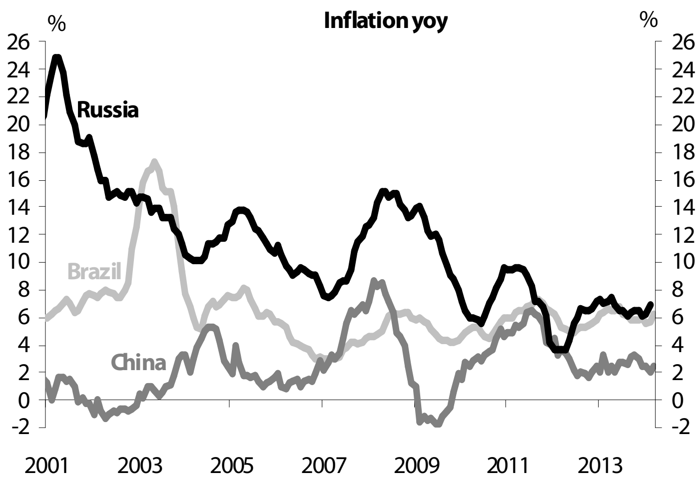
Advanced Economies







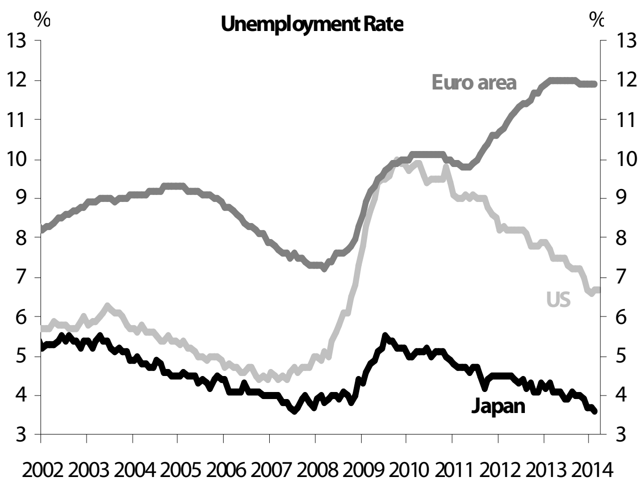
Emerging Economies

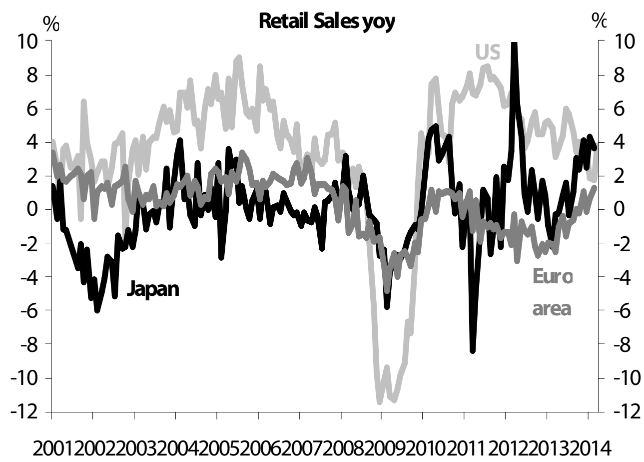


Source: Bloomberg, Ecowin

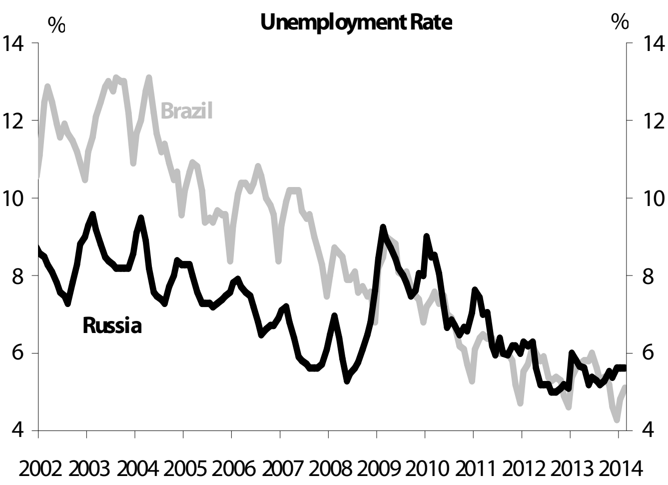
Global Economic Indicators

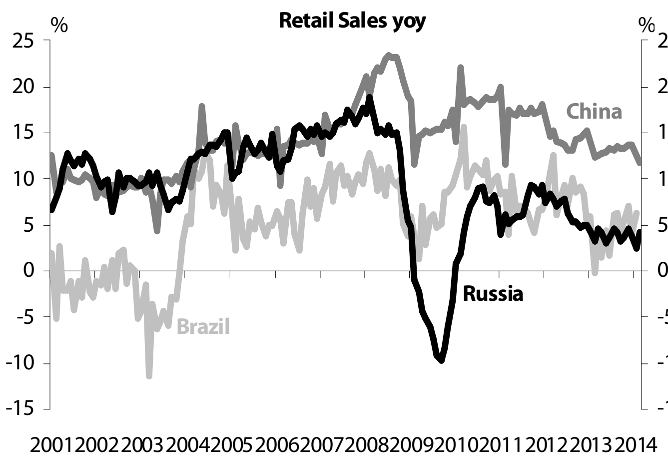
Advanced Economies





Emerging Economies

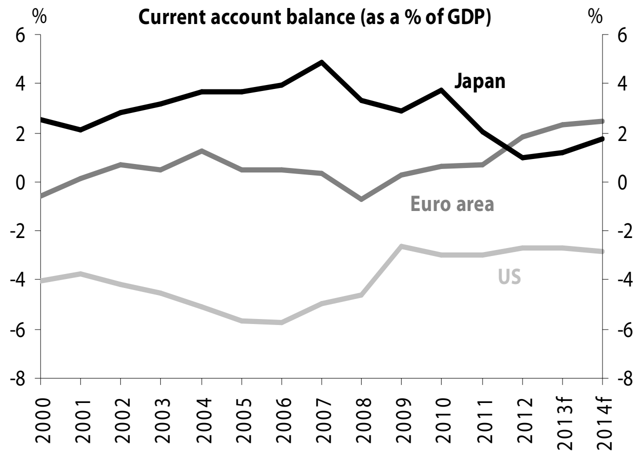


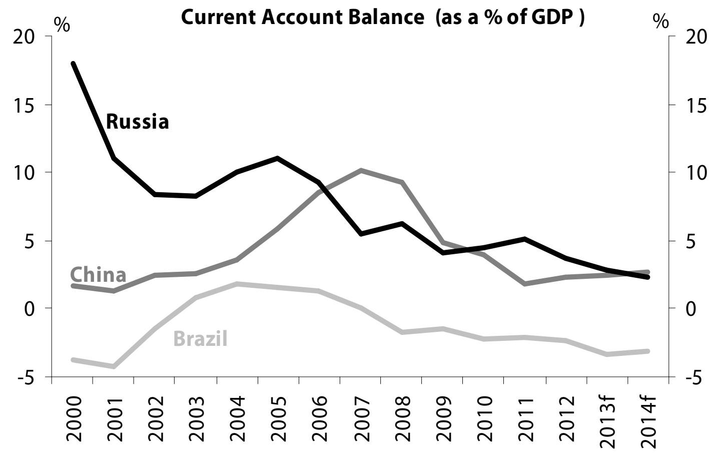


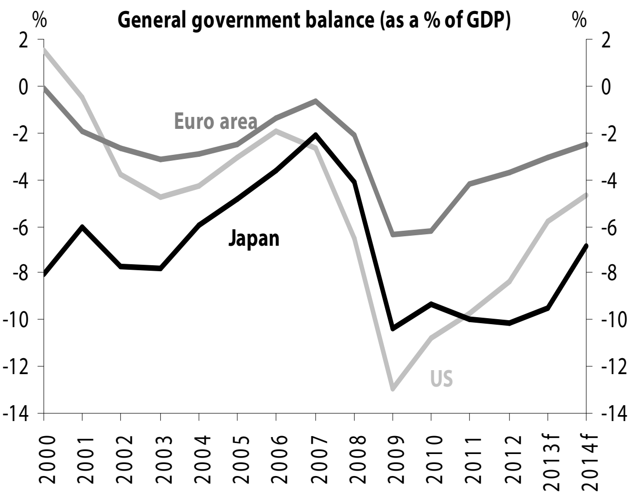
Source: Bloomberg, Ecowin

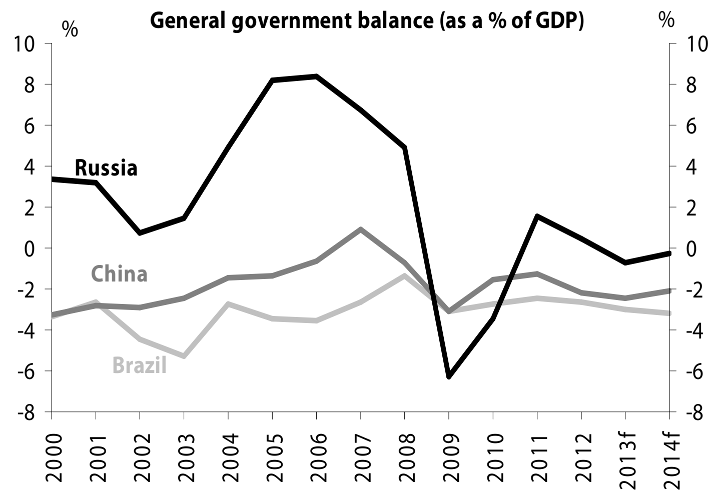
Global Economic Indicators

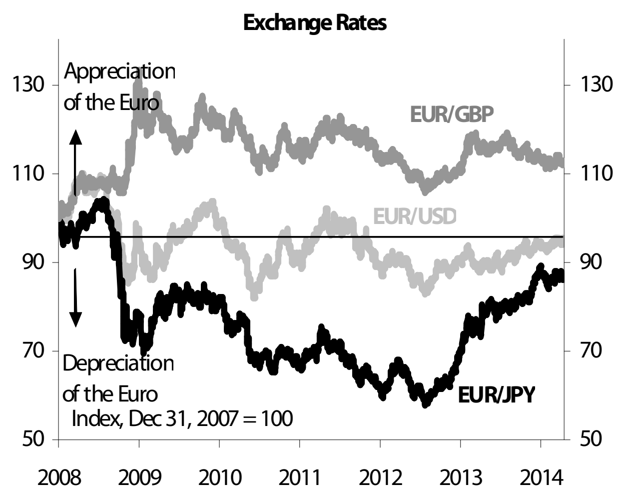
Advanced Economies | **Emerging Economies**

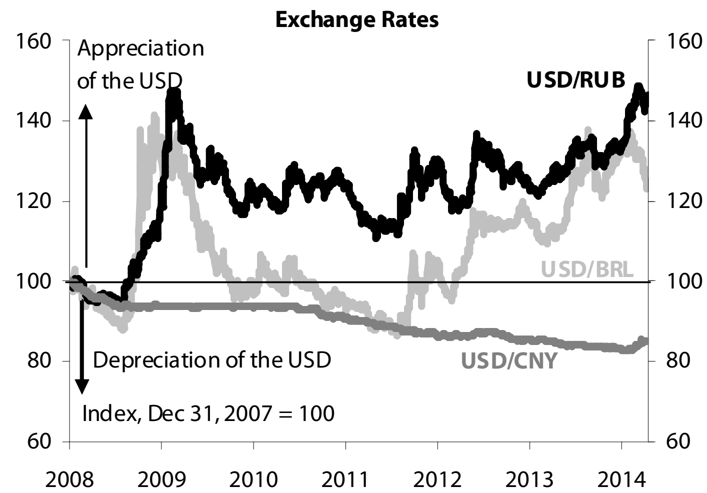












Source: Bloomberg, Ecowin, IMF, Eurobank Research

Global Equities & Sector Performance

Total Return (%) as of April 14, 2014

Global Equity Indices (in local currency)

Region	Index	Last Price	1w	1m	6m	12m	YTD
US	S&P 500	1830.6	-0.8	-0.6	7.8	17.9	-1.0
EURO AREA	DJ Euro Stoxx 50	3131.6	-1.5	4.2	4.2	19.3	0.7
GERMANY	DAX	9339.2	-1.6	3.1	6.1	21.1	-2.2
FRANCE	CAC 40	4384.6	-0.9	4.0	3.0	18.2	2.1
UK	FTSE 100	6583.8	-0.1	0.9	0.5	3.8	-2.4
JAPAN	Nikkei	13910.2	-4.8	-2.9	-3.7	4.8	-14.6
CHINA	CSI 300	2268.6	1.4	6.9	-8.1	-6.9	-2.6
INDIA	SENSEX	22629.0	1.2	3.8	9.8	24.0	6.9
RUSSIA	MICEX	1344.9	-0.6	8.7	-12.2	-1.1	-10.6
BRAZIL	IBOV	51596.6	-1.1	14.7	-6.2	-2.6	0.2

Source: Bloomberg

Sector performance as of April 14, 2014

US Sector Indices (in USD)

	US – S&P 500	Last	1w	1m	6m	12m	YTD
1.	Consumer Discretionary	497.5	-1.0	-4.4	3.8	18.5	-6.1
2.	Consumer Staples	442.5	0.2	1.7	6.4	6.9	0.0
3.	Energy	657.3	1.1	4.5	6.9	18.7	0.9
4.	Financials	289.1	-1.8	-1.4	5.9	18.7	-1.9
5.	Health Care	648.0	-2.5	-4.0	9.1	18.9	0.9
6.	Industrials	441.7	-1.1	0.2	9.9	25.7	-2.4
7.	Information Technology	581.1	-0.3	-0.5	10.8	23.2	-0.7
8.	Materials	292.6	-0.6	-0.9	9.4	24.7	0.3
9.	Telecommunication Services	154.8	-0.9	5.8	3.9	-5.8	-0.5
10	Utilities	213.2	1.4	3.3	12.3	5.6	10.3

Source: Bloomberg, Ecowin

Global Equities & Sector Performance

Sector performance as of April 14, 2014

European Sector Indices (in €)

	Europe - DJ Stoxx 600	Last	1w	1m	6m	12m	YTD
1.	**Consumer Discretionary**						
	Automobiles & Components	804.4	-1.6	5.7	12.9	57.6	6.8
	Travel & Leisure	328.1	-3.0	-2.7	11.3	21.7	0.9
	Media	415.2	-1.5	-1.3	1.2	21.7	-5.2
	Retail	560.2	-1.4	0.3	-3.6	9.3	-4.8
2.	**Consumer Staples**						
	Food & Beverage	875.2	0.8	7.4	8.5	2.8	3.3
	Personal & Household Goods	1041.8	2.0	4.7	5.6	9.5	1.7
3.	**Energy**						
	Oil & Gas	715.5	0.4	5.2	6.1	13.3	2.2
4.	**Financials**						
	Banks	411.6	-2.0	3.3	3.3	24.4	3.0
	Financial Services	665.9	-2.8	1.1	6.6	22.4	-1.7
	Insurance	402.0	-1.5	1.1	6.4	25.1	-1.8
	Real Estate	142.6	-0.9	1.6	5.8	9.2	4.7
5.	**Health Care**	949.4	-1.0	-0.1	10.7	9.4	3.4
6.	**Industrials**						
	Industrial Goods & Services	675.6	-2.0	2.3	4.6	17.3	-1.5
7.	**Information Technology**	277.6	-3.2	0.4	0.9	16.2	-4.4
8.	**Materials**						
	Basic Resources	785.4	-0.9	8.2	4.1	13.8	4.6
	Chemicals	1324.6	-1.5	1.5	4.4	10.7	-3.4
	Construction & Materials	625.1	-2.1	4.2	14.8	33.8	9.6
9.	**Telecommunication Services**	613.3	-0.9	0.2	0.9	23.1	-3.5
10.	**Utilities**	707.1	-1.2	1.7	8.8	19.4	8.6

Source: Bloomberg

Sector performance as of April 14, 2014

Asia Sector Indices (in USD)

	Asia – S&P 50 Index*	Last	1w	1m	6m	12m	YTD
1.	**Consumer Discretionary**	12301.0	1.7	7.2	7.8	35.9	5.3
2.	**Consumer Staples**	15099.9	6.6	12.6	12.4	19.7	16.8
3.	**Energy**	12703.9	3.6	12.0	-3.8	1.6	0.9
4.	**Financials**	3954.6	2.3	9.1	-1.1	14.9	-2.3
5.	**Industrials**	3277.8	2.0	4.3	2.9	13.8	1.6
6.	**Information Technology**	13348.1	1.0	7.8	4.9	9.2	5.3
7.	**Materials**	3781.0	2.3	9.3	-2.0	8.9	-6.3
8.	**Telecommunication Services**	2590.5	2.2	5.4	-9.0	-5.8	-4.9
9.	**Utilities**	3970.7	3.4	8.5	0.4	-5.9	4.7

Source: Ecowin

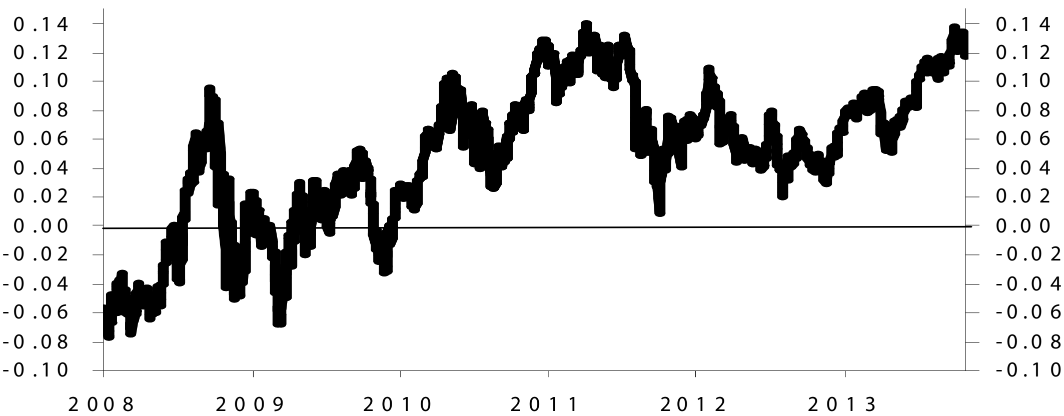
US Style Equity Indices

Total Return (%) as of April 14, 2014

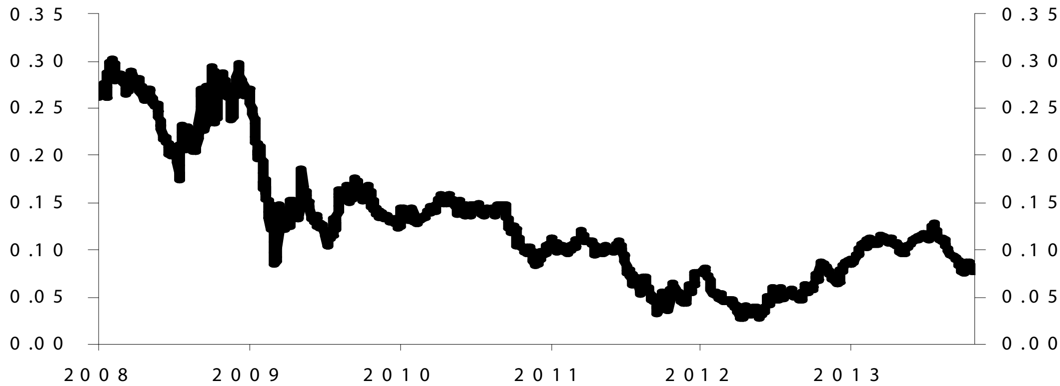
US Style Indices (in USD)

Index	Last Price	1w	1m	6m	12m	YTD
Russell 1000 (Large Cap)	1020.8	-0.8	-1.0	7.7	18.6	-0.9
Russell 2000 (Small Cap)	1115.4	-1.8	-5.6	3.3	22.9	-4.1
Relative performance (Small vs Large)		-1.0	-4.6	-4.4	4.4	-3.2
Russell 1000 Value	930.7	-0.8	0.7	8.3	17.9	0.3
Russell 1000 Growth	845.3	-0.9	-2.5	7.1	19.2	-2.1
Relative performance (Value vs Growth)		0.1	3.2	1.3	-1.3	2.5

Relative Performance (small vs large) (logarithmic scale)



Relative Performance (value vs growth) (logarithmic scale)



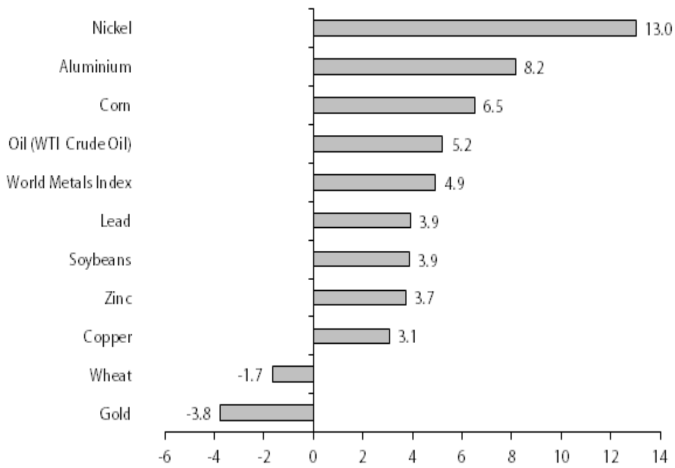
Source: Bloomberg

Commodities

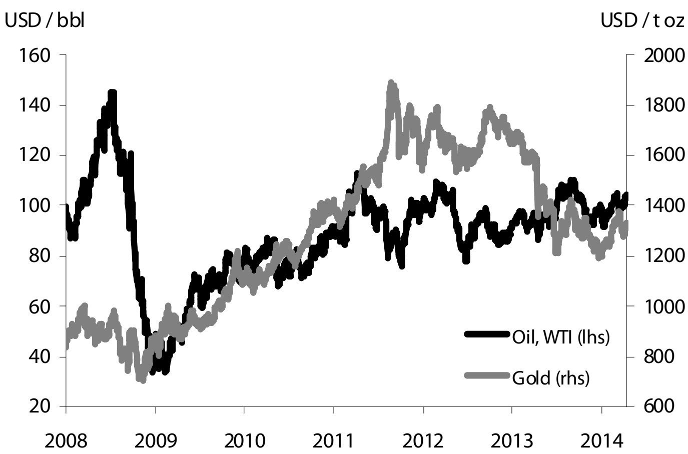
Commodity Performance (%) as of April 14, 2014

	Units	Last Price	1w	1m	6m	12m	YTD
		Commodities					
Oil (WTI Crude Oil)	USD/bbl	104.1	1.5	5.2	2.8	17.3	5.7
Gold	USD/t oz	1327.2	1.4	-3.8	4.3	-2.5	10.4
Base Metals							
World Metals Index		3083.1	1.7	4.9	-1.6	-1.4	-2.4
Aluminium	USD/lb	1882.0	3.6	8.2	0.6	1.5	4.5
Copper	USD/mt	6667.0	-0.1	3.1	-8.1	-10.0	-9.4
Lead	USD/mt	2121.0	2.7	3.9	-0.5	3.5	-4.4
Nickel	USD/mt	17790.0	8.4	13.0	27.0	12.2	28.0
Zinc	USD/mt	2053.5	2.6	3.7	6.5	9.5	-0.1
Agriculture							
Corn	USD/bu	503.0	-0.8	6.5	13.4	-22.2	19.2
Soybeans	USD/bu	1220.0	0.2	3.9	4.7	0.6	7.5
Wheat	USD/bu	678.8	-0.3	-1.7	-1.0	-2.2	12.1

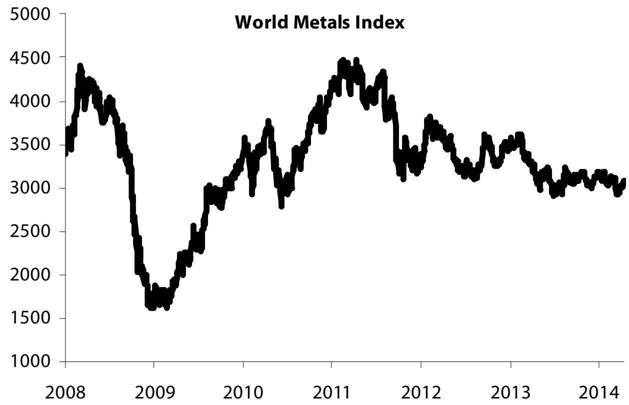
1-Month Return



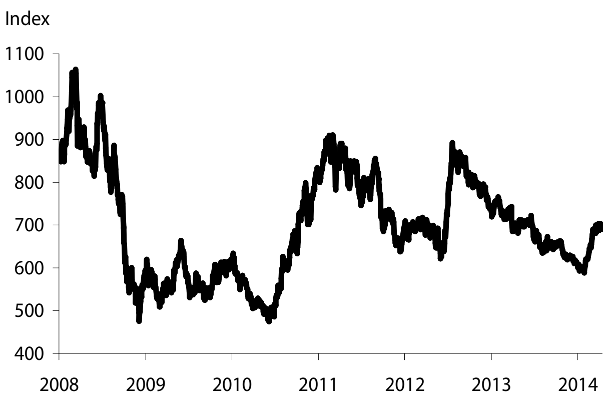
Oil & Gold



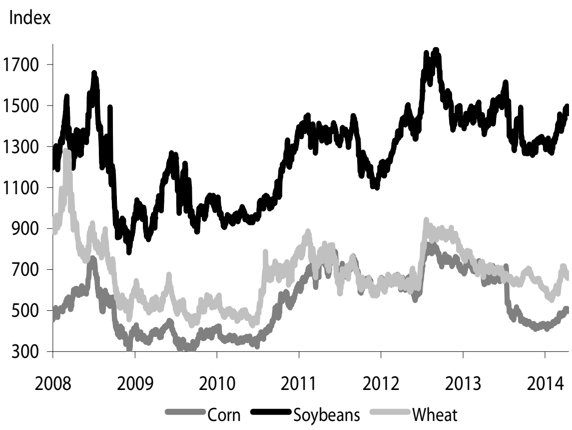
World Metals Index



Agricultural Index



Agricultural Indices



Source: Bloomberg, Ecowin

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ISSN: 1791-3535