ISSN: 1791-3535

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

GLOBAL ECONOMIC & MARKET OUTLOOK

July, 2014

Olga Kosma
Economic Analyst
okosma@eurobank.gr

Vasilis Zarkos
Economic Analyst
vzarkos@eurobank.gr

- Global economic growth is expected to accelerate in H2 2014
  - Economic growth in the euro area is expected to continue be supported by loose monetary policy and improved economic sentiment, albeit remain lackluster due to the lack of a clear growth driver
  - Despite the sharp fall in the Q1 real GDP growth, we believe that the US economy is accelerating to an above-trend pace of growth in the remainder of the year, supported by an improving labor market, a lessening fiscal drag and improved household finances

- Risks to our economic outlook originate from multiple sources
  - Earlier-than-expected monetary tightening could cause sharp increases in interest rates, with a negative impact on global economic activity
  - Implementation risk in the euro area due to reform fatigue, abated market pressure and strengthening euro-skeptic powers
  - De-anchoring of inflation expectations in the euro area amidst anemic growth rates

Table of contents

I. Global Outlook

Olga Kosma, Vasilis Zarkos

Growth of the global economy has been revised down to 3.1% in 2014 from 3.6% three months earlier, mainly due to weaker growth in advanced economies in the first half of the year. Lower GDP printings in advanced economies are expected to be followed by a rebound in the second half of the year. Emerging economies reported relatively weak Q1 printings as well, affected by weaker growth in developed countries. Looking ahead, re-easing government policies should support China's growth in the remainder of the year, while the new reform-oriented budget in India has raised hopes for accelerating economic activity amid the initiation of economic reforms. On the contrary, the Brazilian economy is pulled down by long-term structural problems, while Russia is confronted with intensifying geopolitical tensions.

Country/regional economic outlook

Despite the sharp fall in the Q1 real GDP growth, we believe that the **US economy** is accelerating to an above-trend pace of growth in the remainder of the year. High-frequency indicators suggest that domestic demand has rebounded, supported by a lessening fiscal drag and improved household finances. Manufacturing production is on an upward trend, with leading indicators of manufacturing production pointing to further acceleration ahead. Labor market conditions have improved significantly, with the unemployment rate already reaching Fed's Q4 2014 unemployment rate forecast of 6.0-6.1% and the US job openings climbing to their highest level in roughly five years. Meanwhile, the inflation prints have surprised on the upside over the past couple of months, suggesting that the Fed Reserve is getting closer to its dual mandate. In addition, financial market conditions have eased further, as credit spreads are tight, Treasury yields have recently declined to the relatively low levels of 2.5%, and US equities continue to edge higher. Overall, we expect real GDP to grow by about 1.6% y-o-y in 2014, from 1.9% in 2013, pulled down by the contraction reported in Q1 2014. We look for an acceleration of real economic activity to about 3.0% q-o-q saar in Q2 2014, from -2.9% in Q1 2014. Based on our outlook for the US economy, the Fed is expected to conclude its asset purchase program in October with a final $15bn decrease in the monthly asset purchases, and to proceed with the first rate hike in June 2015.

The **euro area** recovery remains on track, while it is expected to gain some steam in H2. However, it will remain modest, as a clear growth driver is missing. Private consumption is expected to grow at subdued rates. Lingering headwinds are expected to prevent a strong rebound in investment, despite sharp contraction in previous years. Exports are expected to boost the euro area economy, on the backdrop of strong economic performance in the UK, and an acceleration in economic activity in the US and China. Inflation is expected to remain low. Outright deflation should not materialize on the back of ongoing economic recovery, loose monetary policy and stabilization in labor markets. If long term expectations de-anchor, the ECB should launch a large scale purchase program, most likely including sovereign bonds. Constraints on credit growth are expected to gradually recede on the back of abating risk perception about economic prospects, credit easing measures and a better capitalized banking sector, enjoying enhanced transparency as a result of the asset quality review. The ECB is expected to remain on hold and assess the impact of its recently announced series of measures on the economy. Overall, we expect GDP to grow by 1% and 1.6% in 2014 and 2015, respectively

The **Japanese economy** is boosted by aggressive monetary policy and solid global demand. As a result, a sharp contraction in Q2 due to payback from private consumption after the VAT hike in April, is expected to be followed by a rebound in the second half of the year. Solid economic and political environment should allow the government to overcome opposition and undertake bold structural reforms. Adjustment reforms are essential to increase Japan's potential growth, sustain positive inflation and preserve debt sustainability. Re-iterated comments on its confidence of hitting the inflation target of 2% and on the role of the government to accelerate growth through implementation of structural reforms suggest that the bank of Japan will remain on hold in 2014. That said, additional easing should not be excluded in 2015 in order to counteract tighter fiscal policy. Overall, we expect GDP to grow by 1.5% and 1.2% in 2014 and 2015, respectively

Risks to our global growth outlook

(a) Earlier tightening by the Fed than currently priced in by the market

In her semi-annual monetary policy testimony, Chair Yellen acknowledged that the labour market is currently improving more rapidly than Fed's expectations. While she reiterated the message from her June press conference for an accommodative monetary policy, she did make one important language change, pointing that the FOMC might raise rates sooner than it currently projects should the US labor market continue to improve more quickly than anticipated. Markets are pricing the first interest rate hike in Q3 2015 at the moment, with a slower rate hike pace than the FOMC envisions. If the unemployment rate continues to surprise on the positive side and falls to 5.5% early next year, there is a risk that the first rate increase will happen sooner than currently priced by the market, especially if core PCE inflation rises above the long-term goal of 2.0%. Earlier-than-expected monetary tightening could cause sharp increases in interest rates, with a negative impact on the global economic activity.

(b) Implementation risk in the euro area

In our view, the main domestic risk to the euro area recovery stems from failure of policymakers to keep pushing for measures to buttress economic prospects and debt sustainability. Decreased market pressures may lead to complacency with respect to pushing through structural reforms. Yet, the decline of borrowing costs, in our view, does not entirely reflect improvement of fundamentals. It is also the result of search for yield in an environment of abundant liquidity. Moreover, strong gains of euro-skeptics in the recent EP elections are expected to increase reticence of weak government coalitions to abide by fiscal discipline and undertake unpopular reforms. Yet, maintaining the momentum of adjustment reforms is crucial to enhance debt sustainability and sustain improved economic confidence. We are particularly concerned about implementation risk in France, whose economy is lagging behind, while low popularity of the ruling coalition bodes ill with engaging in further constructive economic reforms and cuts in public expenses.

(c) Lingering, albeit reduced, risk of deflation in the euro area

Inflation has receded to a lower than expected trajectory and is expected to remain subdued. The possibility of outright deflation should not be excluded as i) large economic slack exerts downside pressure on prices, 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. Nonetheless, recent policy action by the ECB, gradual abatement of fiscal and credit constraints and the ECB' credibility in maintaining price stability are expected to support long-term inflationary expectations and prevent deflation form materializing.

(d) US political risk

Although US political risks have abated since December 2013 with the two-year budget agreement and the suspension of the US debt ceiling until March 2015, recent political developments may lead to renewed political controversies in the coming months. Following the unexpected recent defeat in the Republican primary election of House Majority Leader Eric Cantor by the Tea Party candidate David Brat on June 10, 2014, there may be a change in the stance the House Republican will confront specific political measures that expire on September 30, 2014: (a) Federal Spending authority for discretionary spending, (b) Export-Import Bank's authority that provides roughly $30bn per year to facilitate US exports and (c) The Federal Highway Program for public transportation infrastructure projects. The most important issue is the first one, the extension of the continuing resolution before the end of the current fiscal year so as to avoid a government shutdown. Although we believe that the most likely scenario is the extension of all the above-mentioned measures, the recent disagreement expressed by opposing political parties, especially regarding the Export-Import Bank, has raised the political risk, a fact that could lead to renewed uncertainty at the end of September.

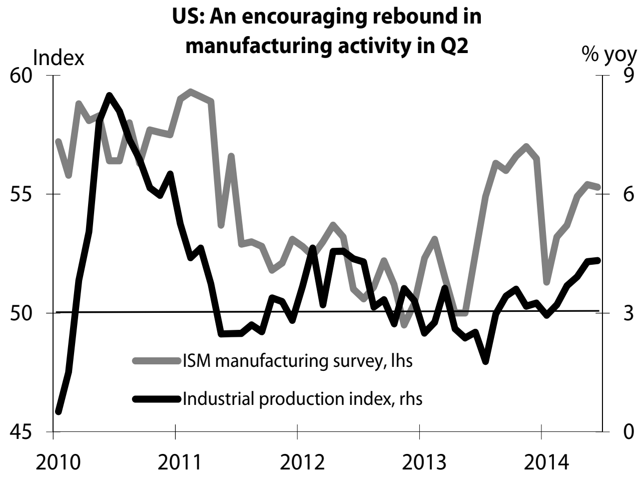
II. Global Economic Outlook

1. The US economy

Olga Kosma

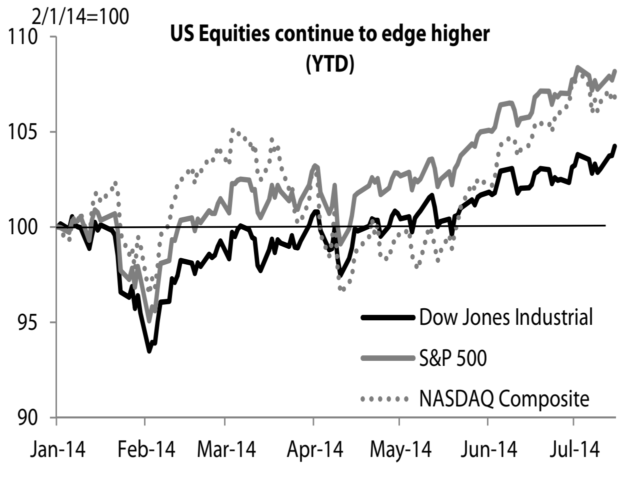
- Although real GDP contracted severely in Q1 2014, high-frequency indicators point to an acceleration to an above-trend growth in the remainder of the year. Overall, we expect real GDP to grow by about 1.7% y-o-y in 2014, from 1.9% in 2013.
- Consumer sentiment as well as auto and retail sales suggest an acceleration in real personal consumption growth, supported by improved household finances, a continuing upward trend in consumer credit and the waning effect of the US fiscal drag.
- We expect stronger business investment growth for the remainder of the year, as consumer demand growth accelerates. Moreover, residential fixed investment will continue to recover, albeit at a slower pace than the rates reported in the previous year.
- Based on our outlook for the US economy, the Fed's asset purchase program is expected to end in October with a final $15bn decrease in the monthly asset purchases. We continue to expect the first rate hike in June 2015, as the unemployment rate has already declined in the range of the FOMC's year-end forecast of 6.0-6.1%.

Figure 1.1



Source: Institute for Supply Management, Federal Reserve

Figure 1.2



Source: Bloomberg

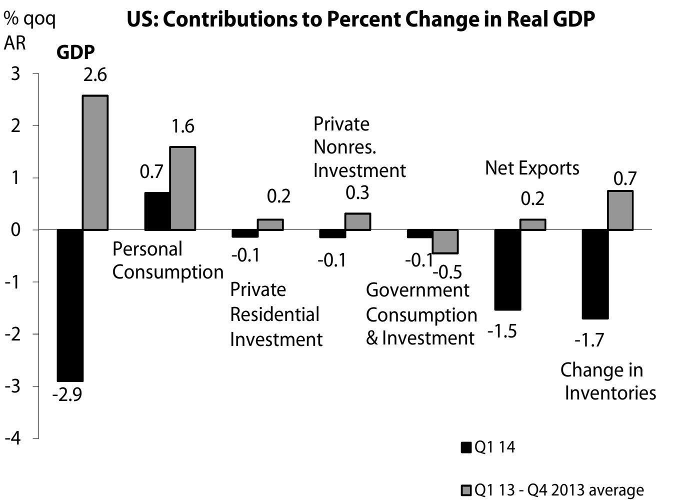
Overview

Despite the sharp fall in the Q1 real GDP growth, we believe that the US economy is accelerating to an above-trend pace of growth. High-frequency indicators suggest that domestic demand has rebounded in the second quarter of the year, supported by a lessening fiscal drag and improved household finances. Manufacturing production increased by 6.7% q-o-q saar in Q2, with the ISM manufacturing index quarterly average increasing to 55.2 in Q2, from 52.7 in the previous quarter (Figure 1.1). Both the Philadelphia Fed and the Empire State Manufacturing Indices suggest that this acceleration continued into Q3 14, as the new orders and shipments indices showed continued strength in July, reaching new highs in almost 10 years. Labor market conditions have improved significantly, with the unemployment rate already reaching Fed's Q4 2014 unemployment rate forecast of 6.0-6.1% and the US job openings climbing to their highest level in roughly five years. Meanwhile, the inflation prints have surprised on the upside over the past couple of months, suggesting that the Fed Reserve is getting closer to its dual mandate. In addition, financial market conditions have eased further, as credit spreads are tight, Treasury yields have recently declined to the relatively low levels of 2.5%, and US equities continue to edge higher (Figure 1.2). Overall, we expect real GDP to grow by about 1.7% y-o-y in 2014, from 1.9% in 2013, mainly due to the contraction reported in the first quarter of the year. We look for an acceleration of real economic activity to about 3.0% q-o-q saar in Q2 2014, from -2.9% in Q1 2014. Based on our outlook for the US economy, the Fed is expected to conclude its asset purchase program in October with a final $15bn decrease in the monthly asset purchases, and to proceed with the first rate hike in June 2015.

Q1 GDP contracted significantly on the back of weak domestic and external demand

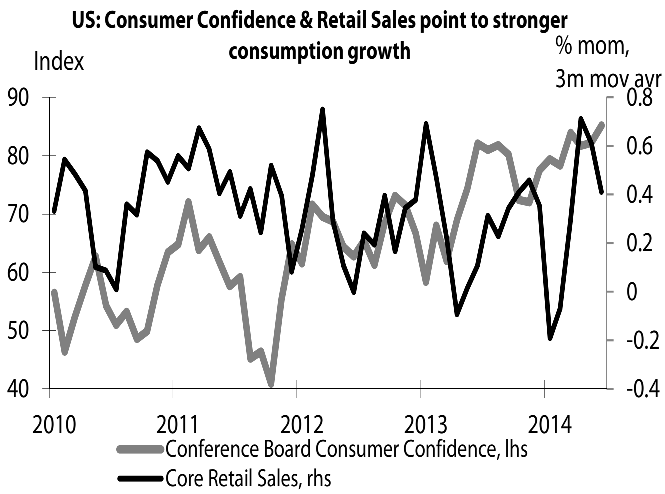
According to the third estimate of the Bureau of Economic Analysis (BEA), real GDP growth declined 2.9% q-o-q saar in Q1 2014, after an annualized increase of 2.6% in the final quarter of 2013 (Figure 1.1). The contraction in real economic activity was partly driven by a significant slowdown in personal consumption growth, from 3.3% q-o-q saar in Q4 2013 to 1.0% in Q1 2014. The expected increase in healthcare spending due to the implementation of the Affordable Care Act did not materialize, as medical services consumption contracted by 1.4% q-o-q saar. Furthermore, nonresidential fixed investment fell 1.2% q-o-q saar, following a 5.7% quarterly growth in the previous quarter, subtracting 0.14% from real economic activity. Real residential investment fell for a second consecutive quarter (-4.2% q-o-q saar after a 7.9% decline in Q4 2013), pointing to a slow rebound of the housing sector after the negative impact of the adverse weather conditions. As far as external demand is concerned, net trade subtracted 1.5pp from real GDP growth as real exports declined by 8.9% while real imports increased by 1.8% q-o-q saar. Finally, inventory accumulation subtracted 1.7pp from Q1 GDP, after having added an average of 0.75pp per quarter over the past year.

Figure 1.3



Source: US Bureau of Economic Analysis, Eurobank Research estimates

Figure 1.4



Source: The Conference Board, US Census Bureau

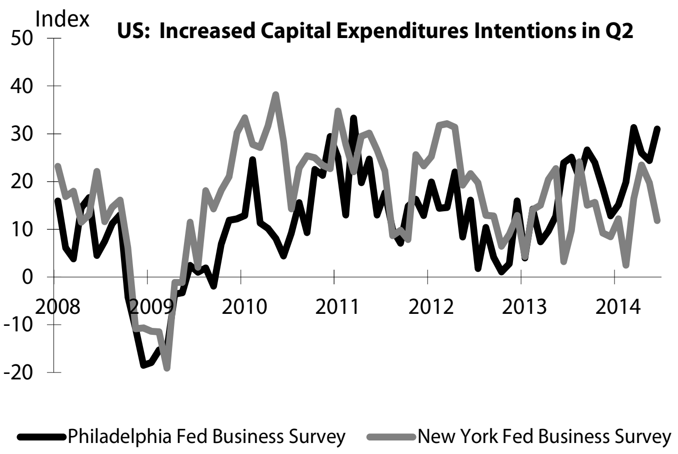
Real private consumption to accelerate modestly in Q2 2014

Personal consumption expenditures gained 0.2% m-o-m in May, after a flat reading in the previous month. Goods spending increased by 0.4% m-o-m after zero growth in April, with auto sales boosting durable goods spending. Services spending grew by a mere 0.1% m-o-m, with modest gains in April and May healthcare services and downward revisions in Q1 healthcare readings. Headline and core PCE price indices rose 0.2% on a m-o-m basis, leaving real personal outlays at a negative territory for another consecutive month (-0.2% and -0.1% m-o-m in April and May, respectively). The drop in real personal consumption was driven by a decrease in real services consumption (-0.2% m-o-m), partially offset by a 0.1% increase in real goods spending. Nevertheless, auto sales reported their highest reading in almost 8.5 years, moderating fears produced by the bearish tone of recent consumer monthly report. Meanwhile, both consumer sentiment indices (the University of Michigan's index of US consumer sentiment and the Conference Board's index of US consumer confidence) increased in June above the consensus forecast (Figure 1.4), with a broad-based improvement in the present situation and the economic outlook indices as well. Last but not least, core retail sales -which exclude autos, building materials, and gasoline- increased by a robust 0.6% m-o-m in June, with upward revisions in the previous two months (to 0.2% from 0.0% in May and to 0.5% from 0.2% in April, Figure 1.4). On balance, high-frequency data for personal expenditures point to a modest rebound in Q2 consumption growth to about 2.0% q-o-q saar from 1.0% in Q1 2014. A further improvement towards 3.0% q-o-q saar is expected for the second half of the year, given improved household finances, a continuing upward trend in consumer credit, a positive wealth effect and the waning effect of the US fiscal drag.

Business and residential fixed investment are set for a stronger rebound

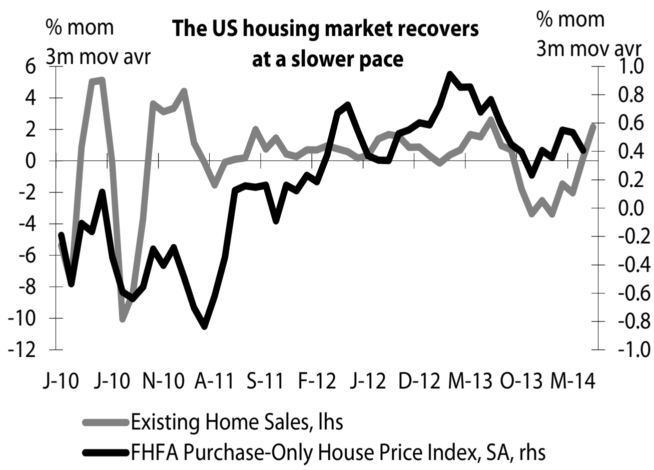
The weakness in nonresidential investment was broad-based, as equipment spending fell 2.8% in Q1 2014 after having increased by 10.9% in Q4 2013, while structures investment declined by 7.7%, following a drop of 1.8% in the previous quarter. While US durable goods orders fell 1.0% m-o-m in May after a 0.8% rise in the previous month, the decline was mainly due to the volatile components of defense and civilian aircraft. Core capital goods orders and shipments, which are the main input for equipment and software, rose 0.7% m-o-m and 0.4%, respectively, in May after a 1.1% and 0.4% decline in April. Regional indices of future capital expenditures -such as New York and Philadelphia business surveys- point to increased capital expenditures intentions in the second quarter of the year relative to the first (Figure 1.5). We expect stronger business investment growth for the remainder of the year as consumer demand growth increases, given that the fundamental drivers of business investment remain supportive (high profit shares and easier credit standards). Meanwhile, although residential investment largely disappointed over the last two quarters, both existing and new home sales point to stronger housing activity in Q2 2014 (Figure 1.6). US home price appreciation slowed in April, but on an annual basis all price indices remain above their year-ago levels (Figure 1.6). In addition, the NAHB Housing Market Index of homebuilder sentiment rose further in July to 53, from 49 in June, surpassing consensus expectations of 50. We look for an acceleration in residential fixed investment growth for Q2 and H2 2014, albeit at a slower pace than the rates seen last year. Overall, we expect real residential fixed investment growth to decelerate to roughly 3.0% in 2014 from 12.2% in 2013.

Figure 1.5



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

Figure 1.6



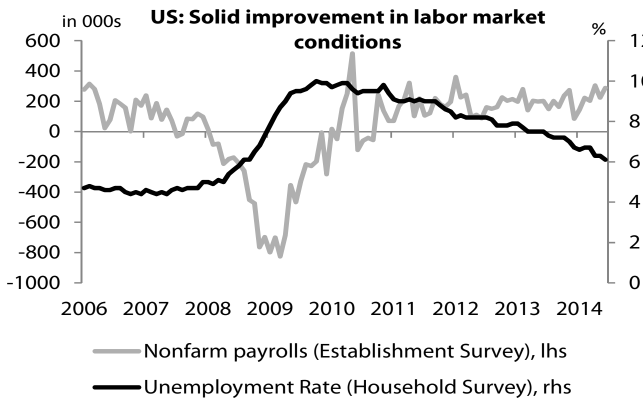
Source: US National Association of Realtors, Office of Federal Housing Enterprise Oversight (OFHEO)

Solid improvement in the labor market, with the unemployment rate already reaching Fed's Q4 2014 forecast

US nonfarm payrolls increased by 288k in June after a 224k increase in May, surpassing consensus expectations of 215k payroll growth. Upward revisions of 29k in the prior two months increased the 3-month moving average job gain at 272k, from 244k in the previous month (Figure 1.7). Employment gains were widespread across different sectors. Private services reported the most significant increase (+236k), with business services and retail trade rising by 67k and 40k, respectively. Aggregate hours worked increased by 0.2% m-o-m in June and 3.8% q-o-q saar in Q2 14, up from 1.6% in Q1 14, pointing to an acceleration in real economic activity in the second quarter of the year. As far as the household survey is concerned, civilian employment increased by 407k, after a 145k increase in the previous month. The labor force participation rate was unchanged on the month at 62.8%, so the rate of unemployment fell by 0.2pp, to 6.1% in June from 6.3% in May (Figure 1.7). It is worth pointing out that the unemployment rate has already reached Fed's Q4 2014 unemployment rate forecast of 6.0-6.1%. After a significant slowing in the pace of job growth at the end of 2013 due to adverse weather conditions, the obvious improvement in the employment growth partly reflects the weather-related rebound. But apart from the positive payback from bad weather conditions, the unemployment rate has fallen in 2014 more rapidly than generally expected due to a faster employment growth and not due to a lower labor force participation (as was the case in 2013), which remains stable since December 2013. Moreover, both initial and continuing jobless claims have been on a downward trend since the start of 2014, with a level consistent with employment gains exceeding 250k per month.

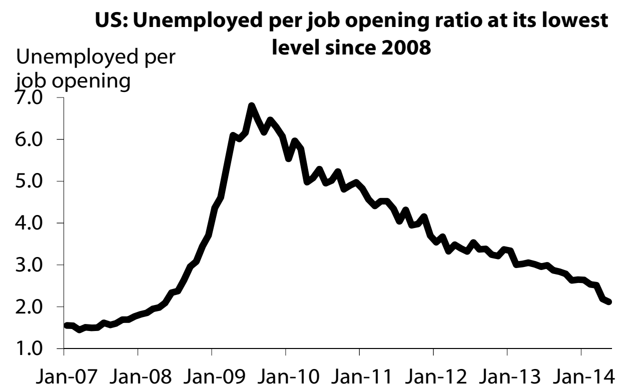
The Job Openings and Labor Turnover (JOLTs) May report has shown 4,635k job openings, well above the April level of 4,464k. As a result, the job opening rate surged to its highest level since the end of the recession, registering a 171k rise from the previous month and resulting in an increase in the job opening rate steady to 3.2%. As is evident in Figure 1.8, unemployed job seekers for each job opening fell to 2.11, its lowest level since 2008, pointing to the continuing downward trend in US labor market slack.

Figure 1.7



Source: US Bureau of Labor Statistics

Figure 1.8



Source: US Bureau of Labor Statistics

Fed taper to end in October

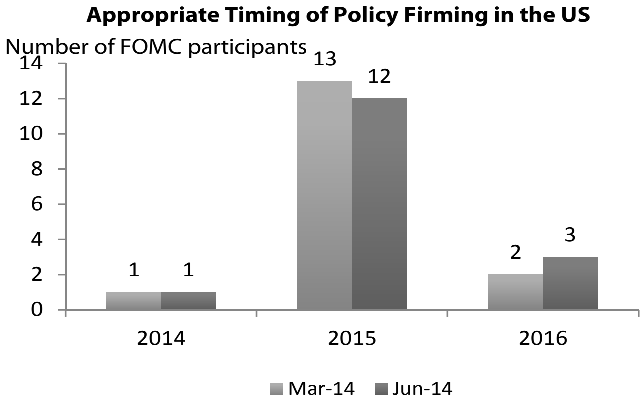
As expected, the Fed continued to normalize its monetary policy at its June 17-18 meeting, reducing its monthly asset purchases by $10bn (from $45bn previously to $35bn) beginning in July. Although the FOMC lowered its projection of short-term growth -from 2.8-3.0% in 2014 down to 2.1-2.3% (Table 1.1)- due to the weak Q1 reported GDP growth, it left its longer-term GDP forecasts unchanged. The description of current conditions generally improved from the March statement, with unemployment rate forecasts down through 2014-2016. Although some FOMC participants seemed worried about the strength of consumption and the housing market, most members look for further improvement in the labor market and believe that risks to economic, labor and financial conditions are broadly balanced. The committee still expects modest wage growth, with PCE inflation remaining at or below its target of 2.0% over the next couple of years.

Based on the Fed's outlook for the US economy, FOMC members expect the asset purchase program to conclude in October with a final $15bn decrease in the monthly asset purchases, and not extend the program into December. The tone of the June FOMC meeting was slightly dovish, given that one additional participant now looks for the first rate hike in 2016 (Figure 1.9) and that the median long-run fed funds rate projection fell to 3.75% from 4.00% in March FOMC meeting. Meanwhile, Chair Yellen highlighted that inflation is evolving in line with Fed's expectations, but seemed rather willing to let inflation surpass the 2% target, should the labor market dynamics fall short of expectations. However, given that the slight dovish undertone predated the stronger than expected employment and housing data reported recently, we continue to expect the first rate hike in June 2015, as the unemployment rate is already in the range of the FOMC's year-end forecast of 6.0-6.1%.

The June FOMC minutes revealed extensive discussions by Fed officials of aspects of the exit strategy. The committee prefers to keep the fed funds rate as a primary instrument of monetary policy stance in order to keep the frame of the financial industry and not to reshape it in ways that would be difficult to anticipate, providing a target range at least at the early stages of the normalization process. Furthermore, FOMC participants believe that the interest rate paid on excess reserves (IOER) should play a key role in the Fed's exit strategy, and the fixed-rate reverse repo (RRP) could have a supporting role (Chair Yellen referred to the RRP facility as a "back-up tool" in her semi-annual monetary policy testimony before the Senate). Maintaining a relatively wide spread between IOER and the RRP facility rates near or above the current level of 20bp might be appropriate. Otherwise, there is a risk that in times of financial stress, the facility's counterparties could shift investments toward the facility instead of financial and nonfinancial corporations, increasing the Fed's role in financial intermediation and possibly causing funding disruptions.

In terms of the ordering of Fed's exit strategy, many FOMC participants are in favor of removing the reinvestment of maturing Treasury securities and MBS after the first rate hike, using a rather smooth process for Fed's balance sheet decline. For example, the Fed could reinvest some maturing securities in cases of large maturities, so as not to generate disruptions to the US financial market. New York Fed President Dudley, San Francisco Fed President Williams and Boston President Rosengren have expressed publicly their view for a later end to reinvestment ahead of the June FOMC meeting.

Figure 1.9



Source: Federal Reserve

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

	Central Tendency*			
USA	**2014**	**2015**	**2016**	**Longer run**
Change in real GDP	**2.1 - 2.3**	**3.0 - 3.2**	**2.5 - 3.0**	**2.1 - 2.3**
March forecast	(2.8-3.0)	(3.0-3.2)	(2.5-3.0)	(2.2-2.3)
Unemployment rate	**6.0 - 6.1**	**5.4 - 5.7**	**5.1 - 5.5**	**5.2 - 5.5**
March forecast	(6.1-6.3)	(5.6-5.9)	(5.2-5.6)	(5.2-5.6)
PCE inflation	**1.5 - 1.7**	**1.5 - 2.0**	**1.6 - 2.0**	**2.0**
March forecast	(1.5-1.6)	(1.5-2.0)	(1.7-2.0)	(2.0)
Core PCE inflation	**1.5 - 1.6**	**1.6- 2.0**	**1.7 - 2.0**	
March forecast	(1.4-1.6)	(1.7-2.0)	(1.8-2.0)	
Fed Funds Rate (at year-end)	**0.00 - 0.25**	**0.50 - 1.75**	**2.00 - 3.50**	**3.50 - 4.00**
March forecast	(0.00 - 0.25)	(0.50 - 1.50)	(1.75 - 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

2. The euro area economy

Vasilis Zarkos

- The euro area recovery remains on track, while it is expected to gain some steam in H2. However, it will remain modest, as a clear growth driver is missing. Private consumption is expected to grow at subdued rates. Lingering headwinds are expected to prevent a strong rebound in investment, despite sharp contraction in previous years.
- Exports are expected to boost the euro area economy, on the backdrop of strong economic performance in the UK, and an acceleration in economic activity in the US and China.
- Inflation is expected to remain low. Outright deflation should not materialize on the back of the ongoing economic recovery, loose monetary policy and stabilization in labor markets. If long term expectations de-anchor, the ECB should launch a large scale purchase program, most likely including sovereign bonds.
- Constraints on credit growth are expected to gradually recede on the back of abating risk perception about economic prospects, credit easing measures and a better capitalized banking sector, enjoying enhanced transparency as a result of the asset quality review.
- The ECB is expected to remain on hold and assess the impact of its recently announced series of measures on the economy. In the medium term, it should initiate an ABS purchase program in order to boost credit growth to SMEs.
- Weak government coalitions, low market pressure and strong gains of euro-skeptics in the EP elections raise implementation risks with respect to structural reforms. External risks stem mainly from Fed exit talks and tensions in Iraq and Ukraine.

Ongoing recovery still lacks a clear growth driver

Recovery in the euro area is ongoing, with the first quarter of 2014 marking the fourth consecutive quarter of economic expansion (0.2% q-o-q). Domestic demand continued contributing positively to GDP growth. However, the economy lacks a clear growth driver. Private consumption is expected to keep growing-but at a pace much lower than that recorded during the pre-crisis period-due to elevated unemployment, weak disposable income and scarce credit. Weak demand and uncertainty about the sustainability of the recovery confine growth in investment expenditures to anemic rates, despite a sharp cumulated contraction in the past years (Figure 2.1). Weak global demand in Q1 resulted in a negative contribution of net exports to GDP growth, dragging down growth by 0.2pp. However, exports are expected to pick up in H2, on the back of strong economic performance in the UK, euro area's main trade partner, and an acceleration of economic activity in the US and China. Overall, we expect annual GDP to expand by 1% in 2014.

Looking further ahead, euro area GDP growth is expected to accelerate to 1.7% in 2015, as headwinds are expected to recede. The fiscal policy is expected to turn less restrictive. According to the European Commission's forecasts, the annual change of the cyclically adjusted budget balance is expected to recede to 0.3pp in 2014, from 1.1pp in 2013, and turn negative in 2015 (-0.2pp). Furthermore, growth should strengthen, as the impact of structural reforms feeds through to economic activity, ECB credit easing measures begin to bear fruit and the asset quality review leads to a sounder banking system. Growth in investment expenditures could be a source of upside risk, if demand and confidence rise faster than expected in the course of the following quarters.

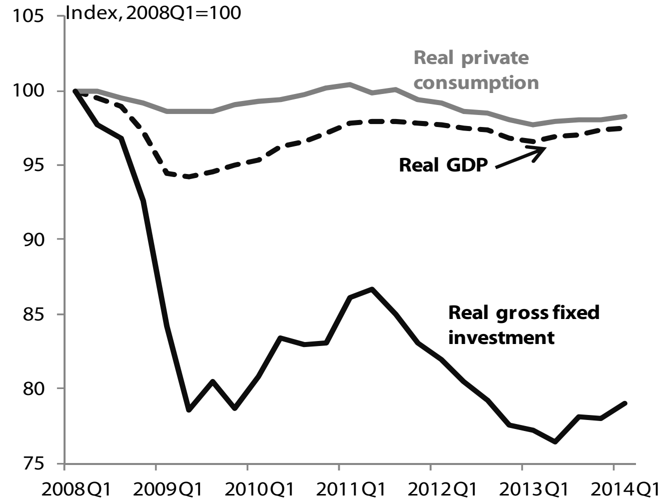
Inflation is expected to remain persistently low

Inflation is expected to remain very low throughout 2014 due to lingering economic slack. Moreover, internal devaluation and structural reform undertaking is gathering momentum in Italy and France, putting a lid on inflation expectations of the euro area as a whole. Low inflation has its own detrimental effect on growth as it results in high real interest rates which hamper demand and investment. It also undermines the price adjustment process in several euro zone countries, offsetting wage cuts and price reductions. On the fiscal front, elevated real rates erode debt sustainability prospects.

Slowly decreasing economic slack coupled with persistently low inflation printings pose deflationary risks. Nonetheless, in our baseline scenario, outright deflation should be averted on the back of lasting recovery implying a shrinking output gap. In particular, improving labor market conditions point to higher consumption expenditures and put upside, albeit moderate, pressure on wages (Figure 2.2).

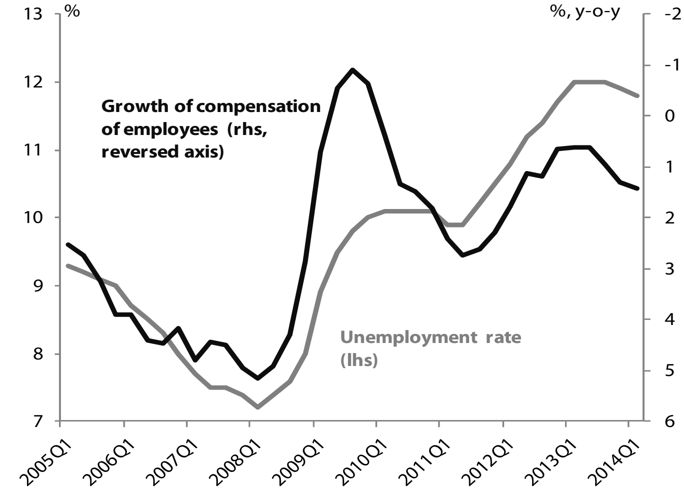
Moreover, an expected pick up in credit growth, loose monetary policy and the ECB's credibility in maintaining price stability is expected to support long-term inflationary expectations. Furthermore, the projected depreciation of the euro will put upward pressure on prices, while elevated risk of energy supply disruption due to tensions in Iraq and Ukraine result to some rebalancing of risks with respect to inflation.

Figure 2.1
euro area: Cumulative growth of GDP components



Source: Eurostat

Figure 2.2
euro area



Source: Eurostat

ECB officials reiterate the fact that they remain open to large scale asset purchases, if downside risks to inflation materialize. However, outright QE in the euro area remains heavily burdened by political and practical constraints. Intervention in sovereign bond markets, similar to programs launched by the Fed, the BoE, and the BoJ, are deemed the most successful means of conducting QE. By decreasing government bond yields, the central bank encourages investment in private assets through the portfolio rebalancing channel.

Nonetheless, purchases of government debt are highly controversial as they are perceived as debt monetization. The absence of any reference to sovereign bond purchases by ECB officials is suggestive of the lack of consensus on the matter. On the practical side of the issue, the effect of portfolio rebalancing may prove limited compared to the US or the UK experience, given that capital markets are not as advanced in the euro area. To circumvent the thorny issue of monetary financing, purchases of foreign assets, most likely US bonds which enjoy depth and liquidity, have been proposed as an alternative option. Such a choice, however, would be seen as unilateral FX intervention, raising discontent to other central banks.

A third option of QE would be private asset purchases. Eligible assets would include covered bonds, securitized assets and non-financial corporate debt. Presidents Draghi and Weidman have repeatedly commented that intervention in private sector assets would be the most appropriate form of QE due to the bank-based character of the euro zone economy. However, these markets lack depth and liquidity. As a result, this choice might not allow the ECB to expand its balance sheet meaningfully, while it would run the risk of crowding out private investors.

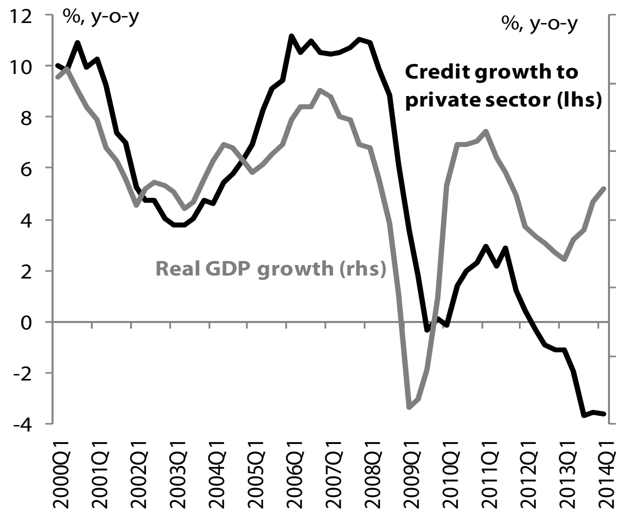
Despite the constraints discussed above, we remain confident that the ECB will push its mandate to the limits in order to protect the Eurozone from protracted deflation. At the same time, these complexities have raised the bar for QE in the euro area very high. In our view, if downside risks materialize, markets will most likely test heavily the ECB's determination to defend price stability through large scale asset purchases. This implies that the ECB may be obliged to include sovereign bond purchases in its QE program, in order to impress markets and successfully dilute deflationary fears.

Constraints on credit growth are expected to gradually recede

Persistent financial fragmentation remains a major headwind to the euro area economy. The euro area recovery has so far remained credit-less (Figure 2.3), which explains in part the anemic recorded economic growth rates. Firms in the periphery continue facing much higher borrowing costs than their German peers (Figure 2.4). Looking forward, we expect binding constraints on credit growth to gradually recede, particularly in the course of 2015, for a series of reasons. First, the ECB's recently announced credit easing measures are expected to boost lending activity. Second, banks are strengthening their capital base in view of the asset quality review, suggesting that they are better positioned to meet increasing loan demand. Third, enhanced transparency of banks' balance sheets through the AQR process is expected to improve confidence in the banking sector and contribute to the reduction of financial fragmentation. Finally, we expect efforts to revive the securitization market to eventually bear fruit, having a positive impact on credit extension to SMEs.

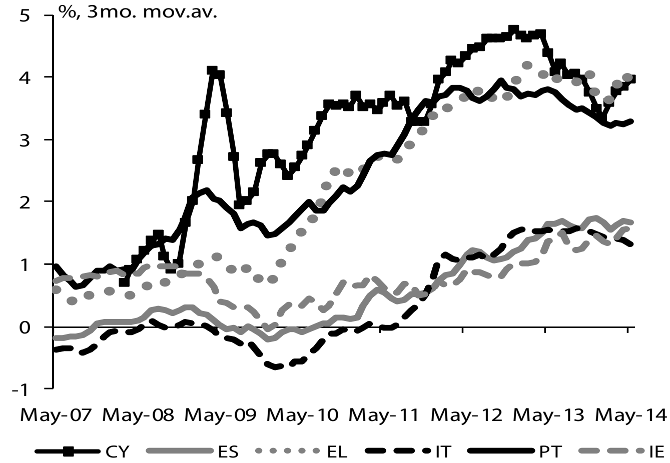
The ECB's bank lending survey reveals tentative signs of a turnaround in credit conditions in the euro area. Banks' credit standards on loans to enterprises remained broadly unchanged in the first quarter of 2014, while an easing is forecasted to have materialized in Q2. Importantly, banks' risk perception about economic prospects has led to an easing of credit standards in Q1 for the first time since Q2 2007. That said, credit developments across countries are expected to remain diverse. Credit growth in periphery countries, where uncertainty is elevated and banks are mired in high NPLs, is expected to remain sluggish.

Figure 2.3
euro area



Source: Eurostat, ECB

Figure 2.4
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

ECB maintains its easing bias

Downside surprises in inflation, along with persistently fragmented financial markets, have led the ECB to deliver a comprehensive package of measures in June. The latter consists of both conventional and unconventional measures, including negative deposit rate, targeted LTROs (TLTROs) and suspension of SMP sterilization. The battery of measures aims at boosting growth and, thus, avoiding a de-anchoring of long term inflation expectations. Indeed, long-term inflation expectations have picked up since May (Figure 2.5), when the ECB signaled upcoming action.

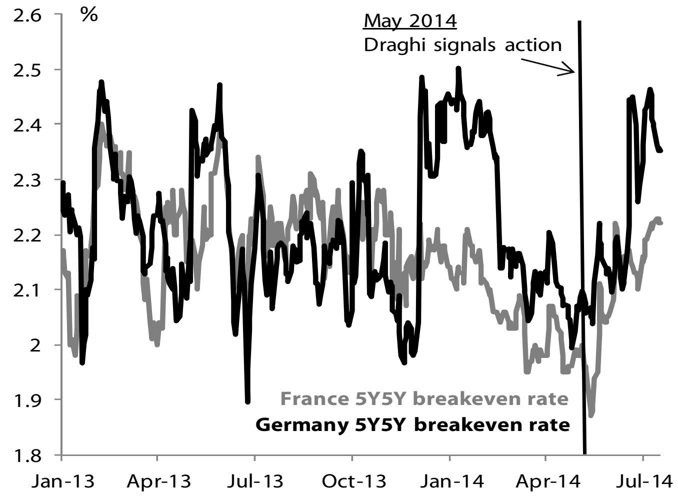
The ECB has enhanced its forward guidance through the extension of fixed rate full allotment operations until at least end 2016, as well as by fixing the liquidity borrowing rate of the announced TLTROs to the rate prevailing at the time of take-up. In response, forward rates have declined further after the June meeting, while they remain decoupled from US rates as a result of diverging monetary policy stances (Figure 2.6).

Lower expectations of future rates are expected to facilitate the deleveraging process of the private sector, weaken the euro and support competitiveness. Moreover, a glut of cheap long term liquidity at fixed rates is intended to facilitate new loan extension at a time when credit demand is picking up.

Nonetheless, the announced measures are not expected to be a game changer. Abundant liquidity and anchored expectations of future rates do not address banks' capital adequacy concerns. Furthermore, TLTRO uptake is not connected to loan extension to SMEs, the category of business which faces the biggest hurdle for bank lending. Not least, retention of liquidity injected through the first two 4-year TLTROs scheduled for September and December 2014 is not tied to new credit extension for the first two years of their duration. Thus, banks may use the operations for carry trade purposes, i.e. buy sovereign bonds, and repay two years later, just as several banks did in the first round of liquidity largesse in 2011/2012.

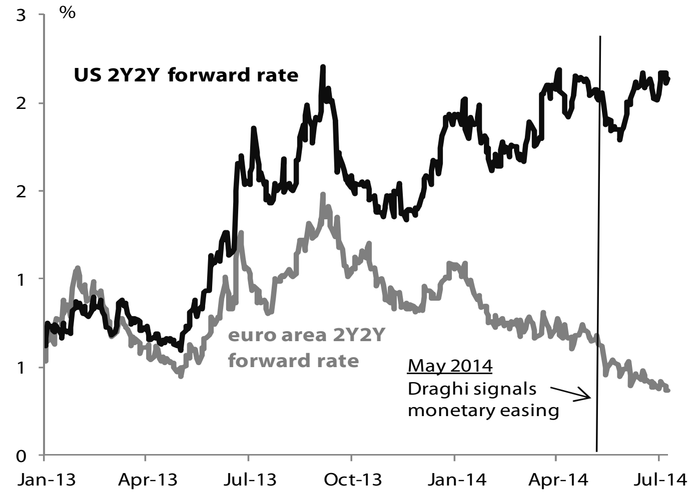
In our view, initiatives that remove credit risks from banks' balance sheet could prove more effective in stimulating credit growth. In light of this, we consider promising the fact that the ECB is working on this direction by trying to hammer ways to revive the securitization market. The ECB is willing to buy ABSs backed by loans to SMEs as a way to support loan provision to a category of firms that have few other funding alternatives. However, the market remains very small, while regulatory issues including capital and liquidity issues act as impediment to the revival of the market. These rules should be rendered more lenient in order to stimulate channeling of liquidity from banks and other private lenders to SMEs.

Figure 2.5
euro area: breakeven inflation rates



Source: Bloomberg

Figure 2.6
euro area: short-term rates



Source: Bloomberg

The economic recovery is threatened by implementation risk

Domestic risks to the euro area economy have declined. The euro area recovery is taking hold, systemic threats have abated, financial conditions keep normalizing and the fiscal headwind is gradually receding. However, the euro area economy is not out of the woods yet. In our view, the main domestic risk stems from failure of policymakers to keep pushing for measures to buttress economic prospects and debt sustainability. Decreased market pressures may lead to complacency with respect to pushing through structural reforms. Yet, the decline of borrowing costs, in our view, does not entirely reflect improvement of fundamentals. It is also the result of search for yield in an environment of abundant liquidity. Moreover, strong gains of euro-skeptics in the recent EP elections are expected to increase reticence of weak government coalitions to abide by fiscal discipline and undertake unpopular reforms. Yet, maintaining the momentum of adjustment reforms is crucial to enhance debt sustainability and sustain improved economic confidence. We are particularly concerned about implementation risk in France, whose economy is lagging behind, while low popularity of the ruling coalition bodes ill with engaging in further constructive economic reforms and cuts in public expenses.

While domestic risks are rebalancing, in the external environment new risks are added to old ones. Withdrawal of stimulus by the Fed constitutes a major source of uncertainty in the period ahead. Talks about hiking rates are expected to intensify in the second half of 2014. Poor communication management by the Fed could lead to sharp rise in US yields. This could create new shock waves hitting emerging economies and subsequently, the euro area through trade. On the geopolitical front, downside risks stem from an escalation of the Ukrainian crisis and increased upheaval in the Middle East, which could lead to energy supply and trade disruptions. Finally, the Scottish referendum may cause financial unrest, which may escalate in the unlikely event that secessionist forces prevail.

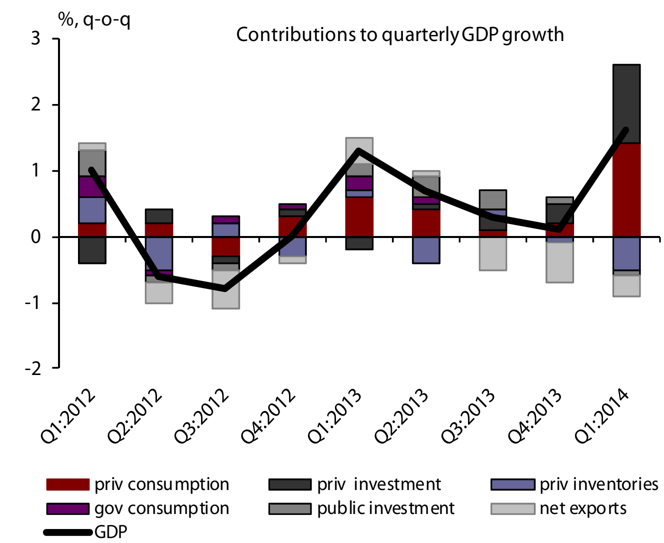
3. The Japanese economy

Vasilis Zarkos

- The Japanese economy is boosted by aggressive monetary policy and solid global demand. As a result, a sharp contraction in Q2 due to payback from private consumption after the VAT hike in April, is expected to be followed by a rebound in the second half of the year.
- Solid economic and political environment should allow the government to overcome opposition and undertake bold structural reforms. Adjustment reforms are essential to increase Japan's potential growth, sustain positive inflation and preserve debt sustainability.
- Re-iterated comments on its confidence of hitting the inflation target of 2% and on the role of the government to accelerate growth through implementation of structural reforms suggest that the bank of Japan will remain on hold in 2014. That said, additional easing should not be excluded in 2015 in order to counteract tighter fiscal policy.

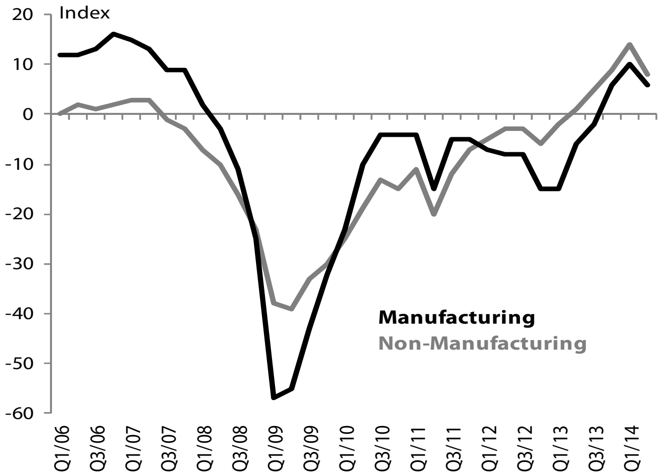
As expected, GDP growth in Q1 spurted to 1.6% q-o-q from just 0.1% q-o-q in Q4 2013 (Figure 3.1), as a result of front-loading of personal consumption due to a VAT hike form 5% to 8% in April. Hence, output is expected to contract sharply in Q2 due to a payback from private consumption. The economy is expected to re-enter positive territory in the second half of the year and remain domestic demand driven. Accommodative monetary policy and fiscal stimulus, aimed at compensating the effect of the VAT increase, are expected to bolster private and public demand. Additionally, net exports are expected to contribute positively to economic expansion due to a decline in imports, stronger global demand and weak yen. In line with our expectations, business conditions for manufacturers and non-manufacturers, as measured by the Tankan survey, remain elevated (Figure 3.2), despite a small drop in Q2 attributed to the VAT hike. Overall, GDP is expected to grow by 1.5% in 2014, while economic expansion is projected to recede to 1.2% in 2015, due to fiscal consolidation and waning monetary stimulus.

Figure 3.1
Japan



Source: Cabinet Office

Figure 3.2
Japan: Tankan survey business conditions



Note: The Tankan survey is conducted by the BoJ on a quarterly basis. The "Business Conditions" indices are calculated by subtracting the percentage share of enterprises responding "Unfavorable" from that of "Favorable"
Source: Bloomberg

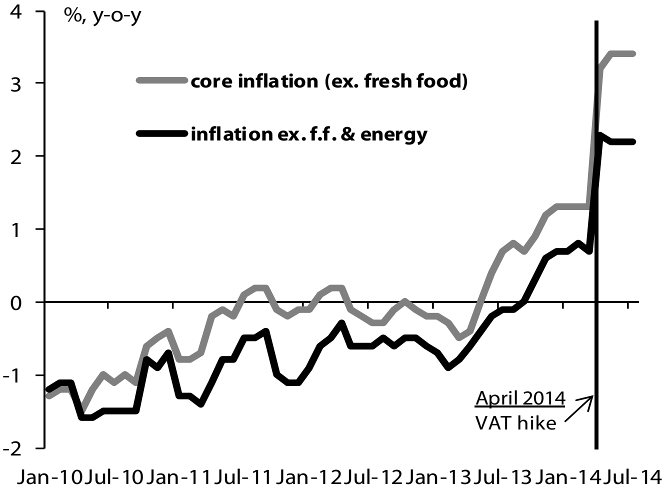
The first two arrows of "Abenomics ", i.e. aggressive monetary easing and fiscal stimulus, have been successful in kick-starting the economy and putting an end to protracted deflation. Focus is now turned on the third pillar of "Abenomics ", that of boosting Japan's potential growth through extensive structural reforms. Key areas of reform comprise corporate taxation, labor market, investments of public pension funds and special zones where deregulation rules will be applied. With respect to corporate taxes, the government plans to reduce the tax rate and broaden the tax base. Corporate tax currently stands at around 35%, the highest among OECD countries. With respect to labor markets, the government intends to increase labor mobility and loosen onerous dismissal laws. The pension funds reform aims at re-orientating their asset allocation towards riskier assets by increasing holdings of domestic equities. Through deregulation in special zones, the government intends to create favorable entrepreneurship conditions that would attract international businesses, funds and talented employees.

Japan's long term growth prospects and its debt sustainability depend on successful adjustment of its economic structures. Solid economic growth and improved sentiment as a result of the first two arrows of "Abenomics" provide with a solid background to undertake structural reforms. Moreover, the government enjoys high approval rates, controlling both the upper and lower house. This suggests that, in contrast to the period 2006-2012 which saw one administration per-year, a solid political background, favorable for reform implementation, is in place. That said, implementation risk remains considerable. Measures span over a wide range of sectors and vested interest will be difficult to curb. Moreover, on the negative side, the electoral cycle (nationwide regional elections in April 2015 and ruling LDP presidential elections in September 2015) may weigh on the governments' decisiveness to push through unpopular reforms.

The core consumer prices index (i.e. CPI excluding fresh food) was up 3.4% in April, staying in positive territory for 12 months in a row (Figure 3.3). Excluding an estimated 2pp impact from the VAT hike, actual inflation stood at 1.4%. In our view, the BoJ's target inflation of 2% remains a challenge. The fading effect of yen depreciation poses downside risk on consumer prices. Furthermore, real wage growth remains negative despite low unemployment (Figure 3.4), underscoring the importance of labor market reforms to sustainably positive growth in consumer prices.

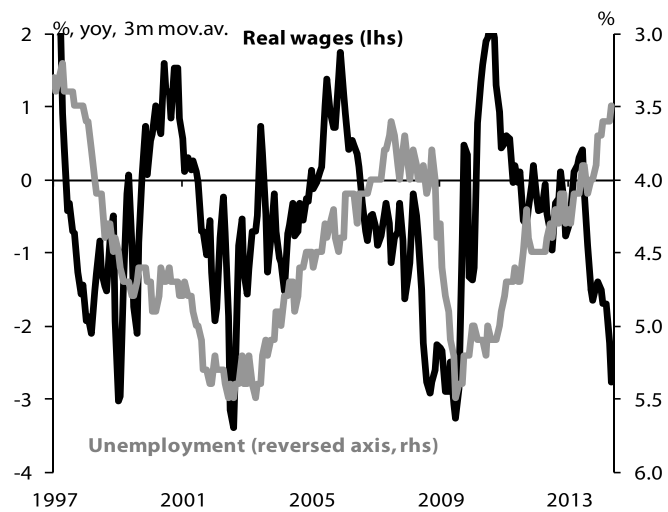
The Bank of Japan (BoJ) continues with its plan to double the monetary base (its operating target since April 2013) from ¥158trn at end-2012 to about ¥270-290trn by end 2014. The expansion of the BoJ balance sheet is achieved through outright quantitative easing, including purchases of government bonds, ETFs, J-REITs and corporate bonds. The BoJ is expected to refrain from additional easing in the course of 2014 for the following reasons. The forecasted contraction in Q2 is expected to prove short-lived and the economy is projected to rebound in H2. The BoJ's assessment that Japan's economy has continued to recover moderately and its projections of core CPI (1.3% in FY2014 and 1.9% in FY2015, excluding the impact of VAT hikes) imply that further easing is unlikely in 2014. Furthermore, the BoJ reiterates its strong confidence that it will hit its inflation goal of 2% by around end 2015. Finally, frequent comments by BoJ officials on the role of the government to boost potential growth may reflect considerations about monetary policy limitations and imply that the BoJ may not be willing to ease policy much further. That said, the BoJ should provide some form of guidance on the evolution of the monetary base beyond 2014. Continued expansion of the monetary base seems to be the most likely option in order to boost inflation, counteract tighter fiscal policy and maintain JGB rates at low levels.

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	1.6	1.7 (1.2 – 3.4)	3.0	3.0 (1.5 – 4.2)
EA	-0.7	-0.4	1.0	1.0 (0.5 – 1.4)	1.6	1.5 (1.0 – 2.5)
Japan	1.4	1.5	1.5	1.5 (0.9 – 2.5)	1.2	1.2 (-0.3 – 2.3)
China	7.7	7.7		7.4 (7.0 – 7.8)		7.2 (6.0 – 8.1)
Russia	3.4	1.3		0.5 (-1.3 – 1.6)		1.8 (-1.8 – 3.0)
Brazil	1.0	2.5		1.3 (0.7 – 2.0)		1.8 (0.9 – 3.2)

Inflation						
	2012	2013	2014f		2015f	
			Eurobank	Consensus	Eurobank	Consensus
US	2.1	1.5	1.9	2.0 (1.0 – 3.7)	2.1	2.2 (1.2– 5.2)
EA	2.5	1.3	0.6	0.7 (0.5 – 1.5)	1.2	1.2 (0.5 – 1.6)
Japan	0.0	0.4	2.7	2.7 (2.2 – 3.4)	1.8	1.8 (1.0 – 2.7)
China	2.7	2.6		2.5 (2.0 – 3.0)		3.0 (2.1 – 3.8)
Russia	5.1	6.8		6.9 (5.2 – 7.7)		5.5 (4.2 – 7.5)
Brazil	5.4	6.2		6.4 (5.8 – 6.8)		6.3 (5.5 – 6.7)

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

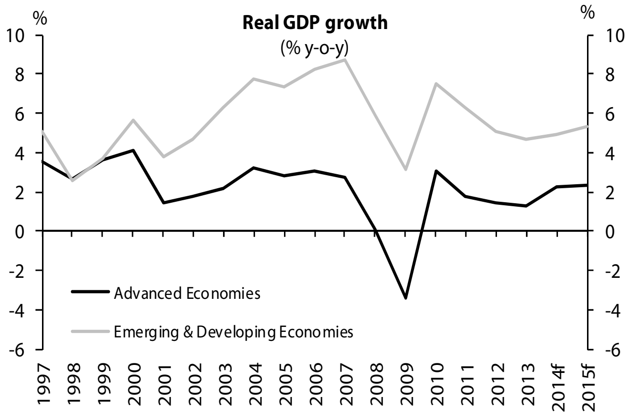
Policy Rates					
	Current	Q3 14f	Q4 14f	Q1 15f	Q2 15f
US	0.00 – 0.25	0.00 – 0.25	0.00 – 0.25	0.00 – 0.25	0.50
EA	0.15	0.15	0.15	0.15	0.15
Japan	0.10	0.10	0.10	0.10	0.10
China*	6.00	6.00	6.00	6.00	6.00
Russia*	7.50	7.40	7.25	6.90	6.50
Brazil*	11.00	11.00	11.10	11.50	11.75

*Bloomberg forecasts

IV. Graphs

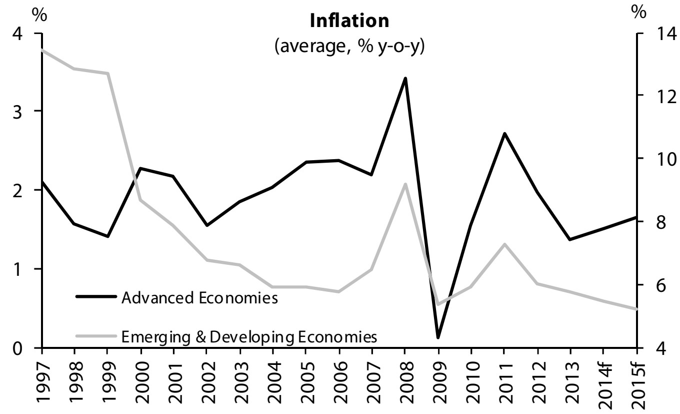
Global Economic Indicators – World Economy

World Economy

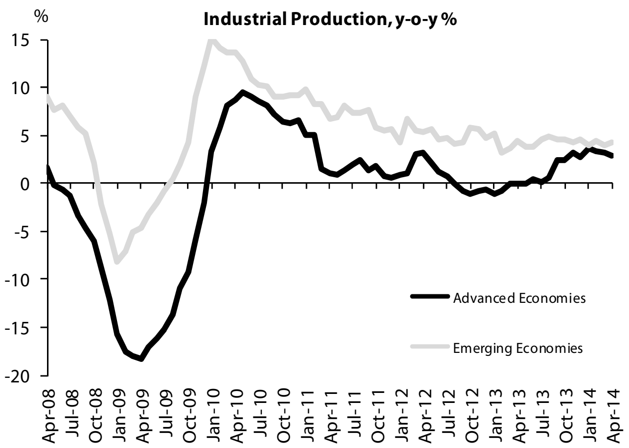


Source: IMF

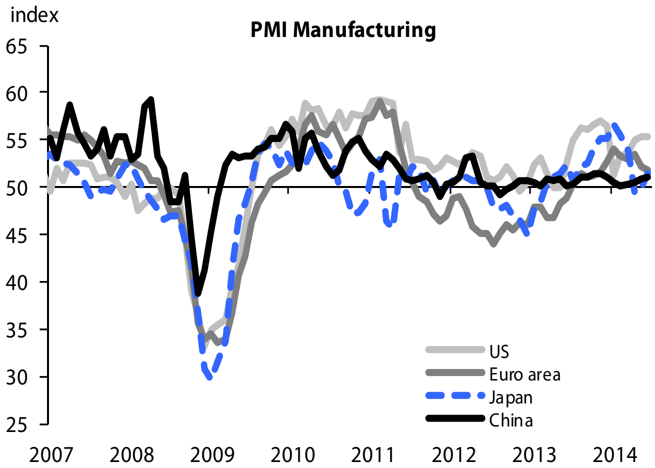
World Economy



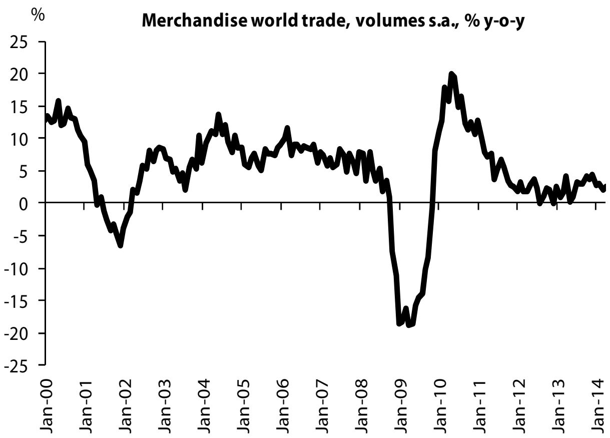
Source: IMF



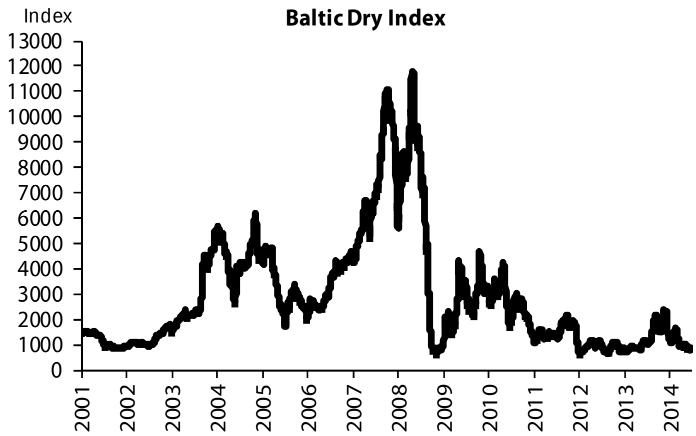
Source: CPB Netherlands Bureau for Economic Policy Analysis



Source: Bloomberg



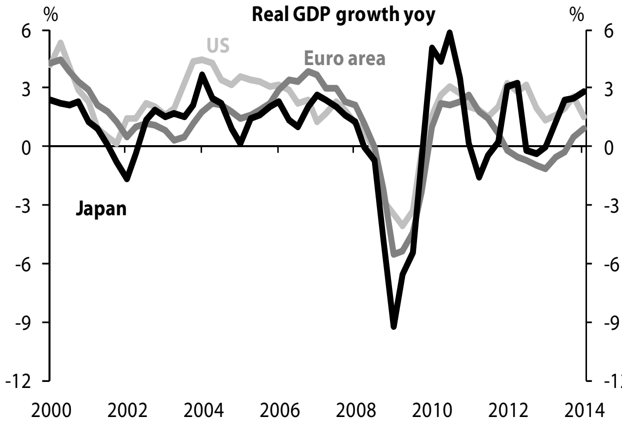
Source: CPB Netherlands Bureau for Economic Policy Analysis



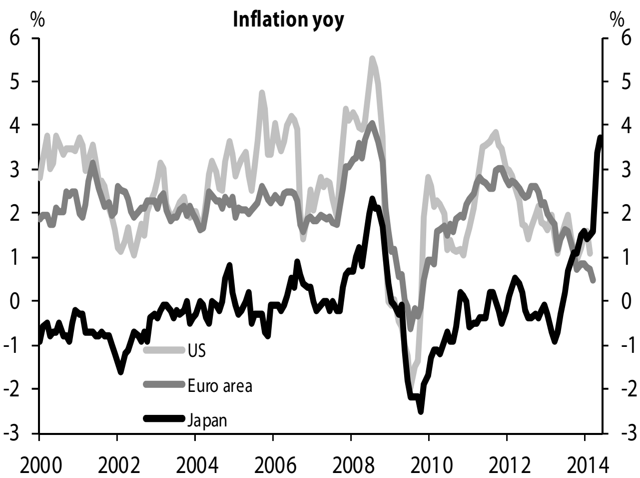
Source: Bloomberg

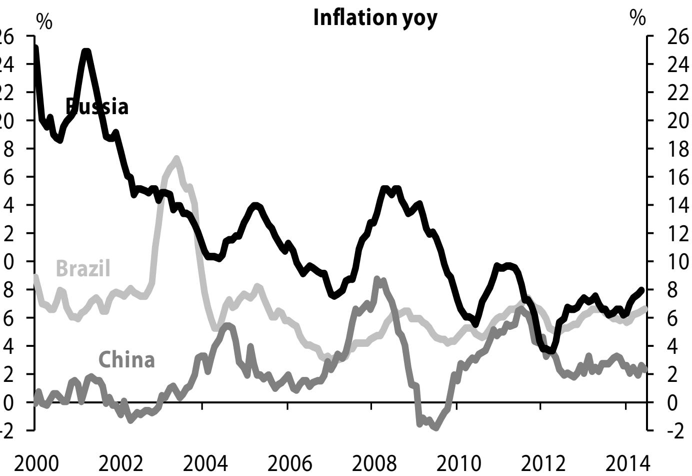
Global Economic Indicators

Advanced Economies



Emerging Economies

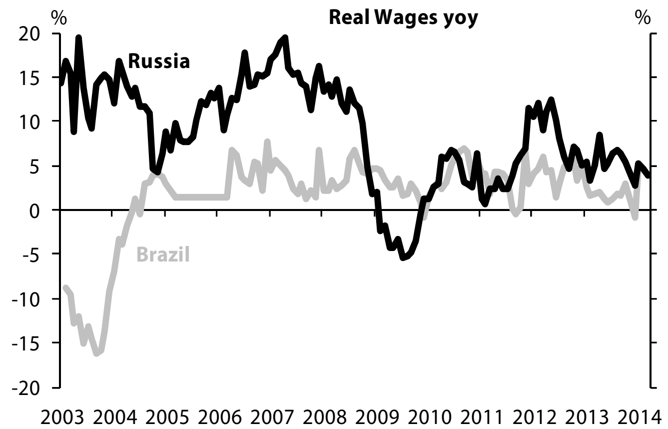


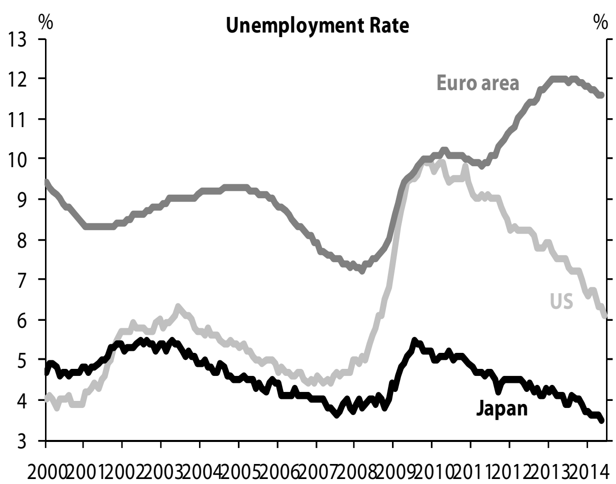


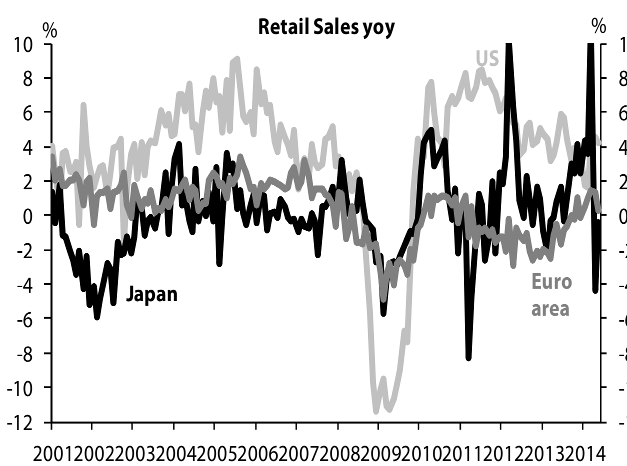
Source: Bloomberg, Ecowin

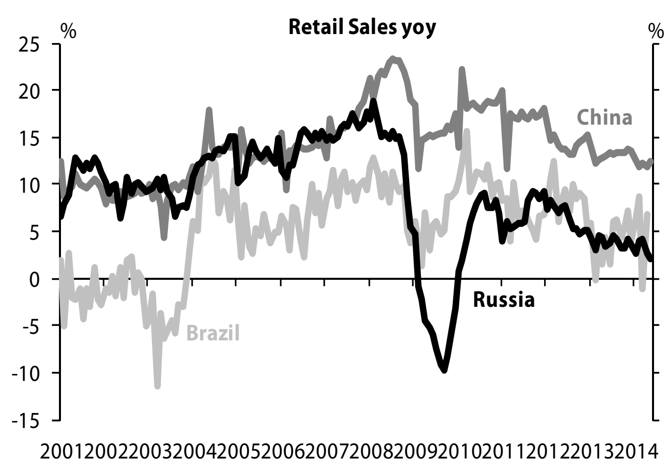
Global Economic Indicators

Advanced Economies | **Emerging Economies**





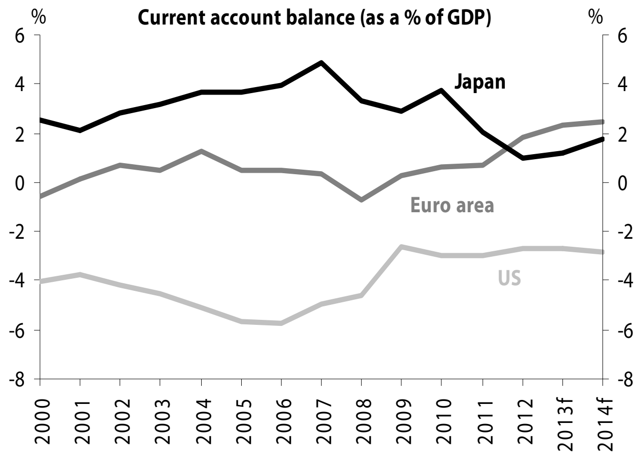




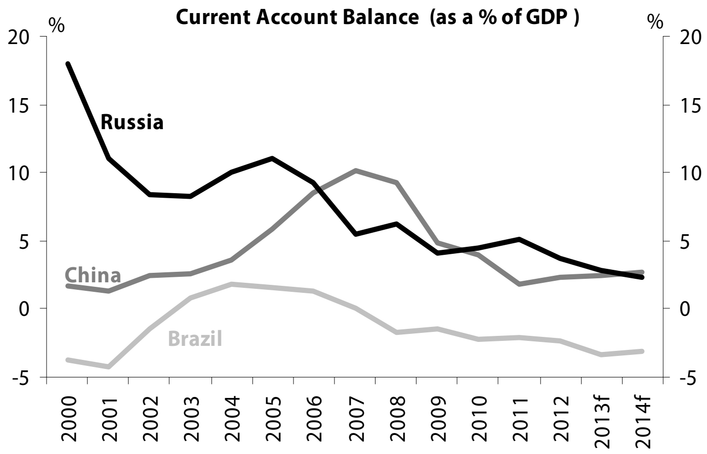
Source: Bloomberg, Ecowin

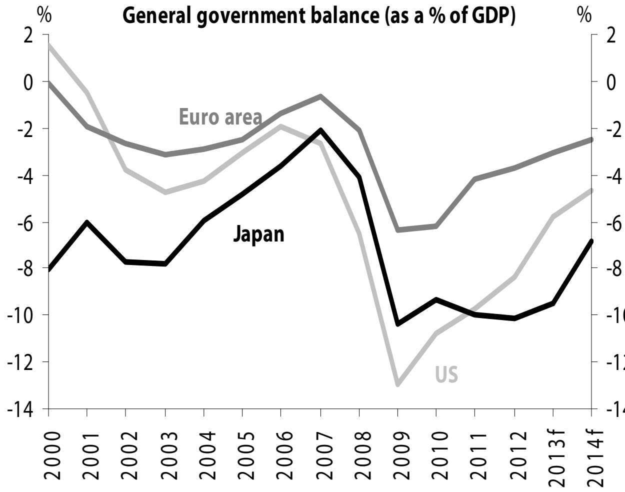
Global Economic Indicators

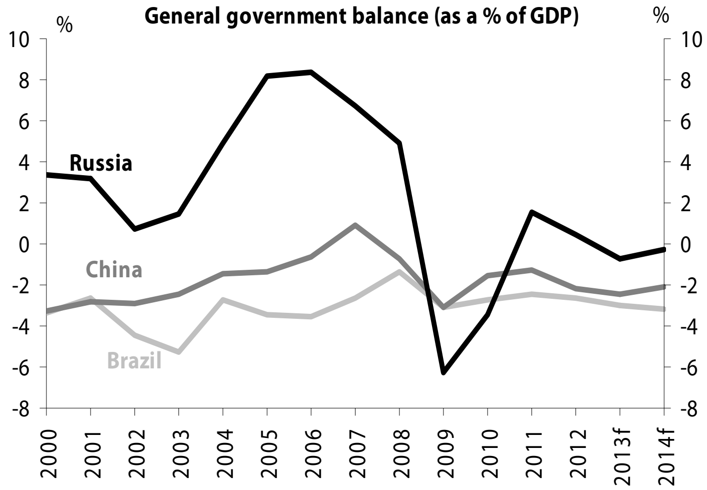
Advanced Economies

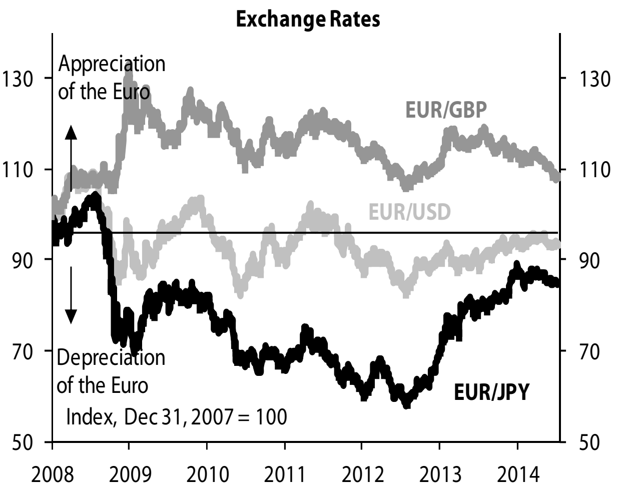


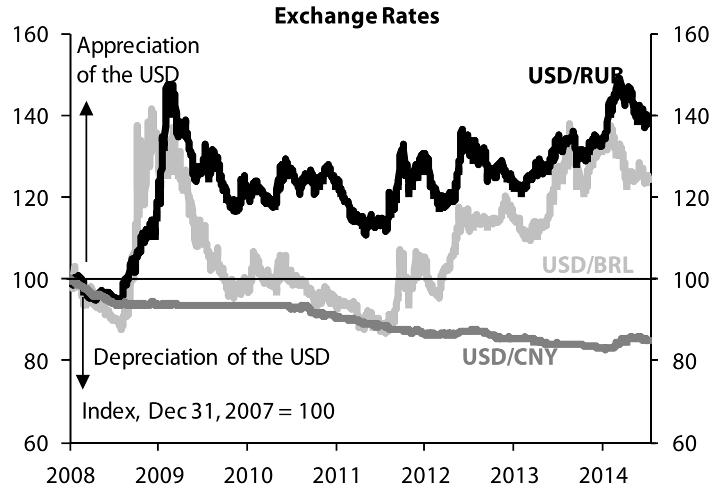
Emerging Economies











Source: Bloomberg, Ecowin, IMF, Eurobank Research

Global Equities & Sector Performance

Total Return (%) as of July 15, 2014

Global Equity Indices (in local currency)

Region	Index	Last Price	1w	1m	6m	12m	YTD
US	S&P 500	1973.3	0.5	1.8	6.9	17.7	6.8
EURO AREA	DJ Euro Stoxx 50	3153.8	-1.5	-3.3	0.1	18.3	1.4
GERMANY	DAX	9719.4	-0.9	-1.7	0.0	18.5	1.8
FRANCE	CAC 40	4305.3	-1.3	-4.5	-0.3	11.8	0.2
UK	FTSE 100	6710.5	-0.1	-0.7	-1.5	2.4	-0.6
JAPAN	Nikkei	15395.2	0.6	3.1	-2.2	5.5	-5.5
CHINA	CSI 300	2175.0	1.2	-0.8	-1.7	-6.2	-6.7
INDIA	SENSEX	25228.7	-0.8	0.2	18.6	27.1	19.2
RUSSIA	MICEX	1475.8	-2.5	-1.2	-0.3	4.7	-1.9
BRAZIL	IBOV	55973.6	4.0	2.5	12.6	19.4	8.7

Source: Bloomberg

Sector performance as of July 15, 2014

Asia Sector Indices (in USD)

Asia – S&P 50 Index*	Last	1w	1m	6m	12m	YTD
1. Consumer Discretionary	11404.7	-2.3	1.2	-2.8	20.3	-2.4
2. Consumer Staples	14813.5	1.7	6.1	18.4	17.3	14.5
3. Energy	13688.5	-0.4	-0.9	15.2	14.3	8.8
4. Financials	4166.8	0.3	1.8	7.5	21.1	3.0
5. Industrials	3241.7	-1.9	-1.8	2.5	15.3	0.4
6. Information Technology	14112.5	-0.5	1.9	15.5	21.0	11.3
7. Materials	3798.1	-2.6	0.6	-0.7	3.5	-5.9
8. Telecommunication Services	2750.7	2.0	2.7	4.6	-1.9	1.0
9. Utilities	4102.3	0.0	0.7	11.3	1.5	8.1

Source: Bloomberg, Ecowin

Global Equities & Sector Performance

Sector performance as of July 15, 2014

European Sector Indices (in €)

	Europe - DJ Stoxx 600	Last	1w	1m	6m	12m	YTD
1.	**Consumer Discretionary**						
	Automobiles & Components	812.3	0.1	-2.0	3.7	28.8	7.8
	Travel & Leisure	339.5	-0.9	-2.5	0.6	17.2	4.4
	Media	426.2	-0.9	-3.0	-3.3	15.9	-2.7
	Retail	574.6	0.1	-0.9	-2.8	8.5	-2.4
2.	**Consumer Staples**						
	Food & Beverage	912.6	-0.3	-0.5	7.7	10.6	7.7
	Personal & Household Goods	1085.0	-0.1	-0.9	8.6	10.8	6.0
3.	**Energy**						
	Oil & Gas	766.4	-1.7	-3.2	8.6	18.4	9.5
4.	**Financials**						
	Banks	398.1	-0.7	-6.6	-6.5	16.3	-0.4
	Financial Services	711.1	-0.6	-2.0	4.3	22.9	4.9
	Insurance	425.9	0.1	0.4	2.3	21.7	4.1
	Real Estate	151.9	0.3	-0.1	9.7	14.7	11.6
5.	**Health Care**	1050.8	0.6	0.5	11.6	21.1	14.4
6.	**Industrials**						
	Industrial Goods & Services	677.6	-0.8	-3.0	-2.9	12.4	-1.2
7.	**Information Technology**	277.4	-1.5	-3.0	-3.0	7.2	-4.5
8.	**Materials**						
	Basic Resources	821.1	0.5	5.9	8.0	25.6	9.4
	Chemicals	1407.6	-1.5	-1.7	3.4	12.5	2.6
	Construction & Materials	616.4	-1.3	-5.6	3.8	26.7	8.0
9.	**Telecommunication Services**	646.0	-0.1	-2.5	-0.7	27.9	1.6
10.	**Utilities**	763.1	0.0	-0.7	16.4	32.4	17.2

Source: Bloomberg

Sector performance as of July 15, 2014

US Sector Indices (in USD)

	US – S&P 500	Last	1w	1m	6m	12m	YTD
1.	**Consumer Discretionary**	534.1	0.5	2.4	2.9	13.7	0.8
2.	**Consumer Staples**	463.5	-0.1	1.0	6.1	8.6	4.7
3.	**Energy**	720.3	-0.7	0.2	13.4	19.9	10.5
4.	**Financials**	309.6	1.0	2.3	4.3	12.9	5.0
5.	**Health Care**	709.0	0.0	2.9	7.3	23.3	10.4
6.	**Industrials**	468.6	0.8	0.2	4.0	22.0	3.6
7.	**Information Technology**	643.8	1.2	2.9	9.1	25.2	10.0
8.	**Materials**	312.4	-0.2	1.3	7.6	24.5	7.1
9.	**Telecommunication Services**	162.9	2.8	3.0	7.2	2.0	4.8
10	**Utilities**	216.2	-0.9	0.1	11.7	8.9	11.9

Source: Ecowin

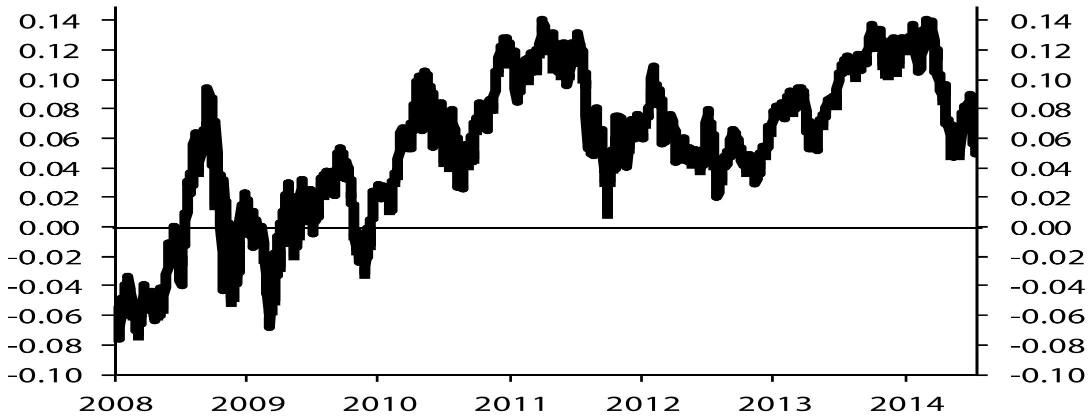
US Style Equity Indices

Total Return (%) as of July 15, 2014

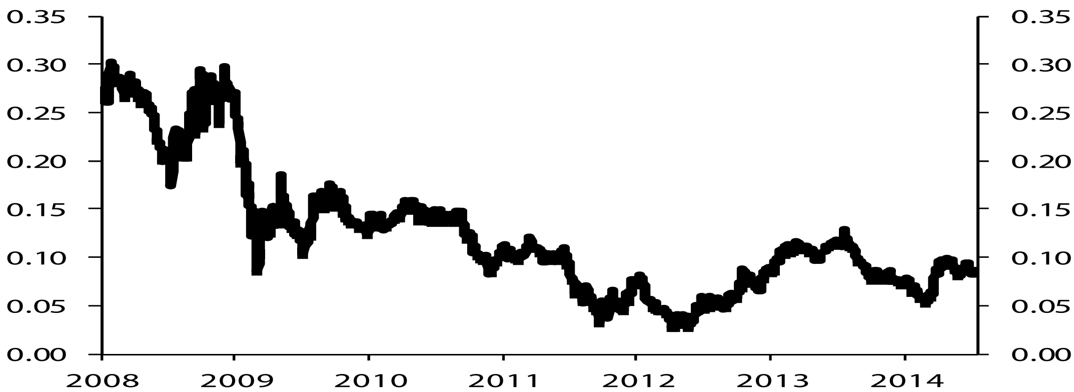
US Style Indices (in USD)

Index	Last Price	1w	1m	6m	12m	YTD
Russell 1000 (Large Cap)	1098.8	0.4	1.7	6.6	18.1	6.6
Russell 2000 (Small Cap)	1153.8	-1.6	-1.1	-1.6	11.1	-0.8
Relative performance (Small vs Large)		-2.0	-2.8	-8.3	-7.1	-7.5
Russell 1000 Value	997.3	0.5	1.6	7.5	16.7	7.5
Russell 1000 Growth	913.9	0.4	1.7	5.7	19.6	5.8
Relative performance (Value vs Growth)		0.1	-0.2	1.8	-3.0	1.7

Relative Performance (small vs large)
(logarithmic scale)



Relative Performance (value vs growth)
(logarithmic scale)



Source: Bloomberg

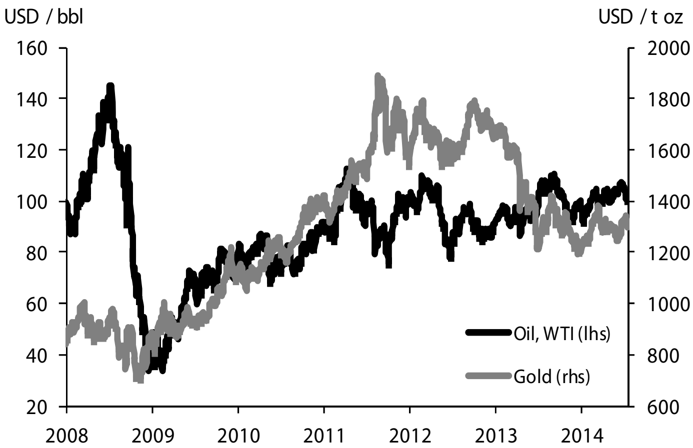
Commodities

Commodity Performance (%) as of July 15, 2014

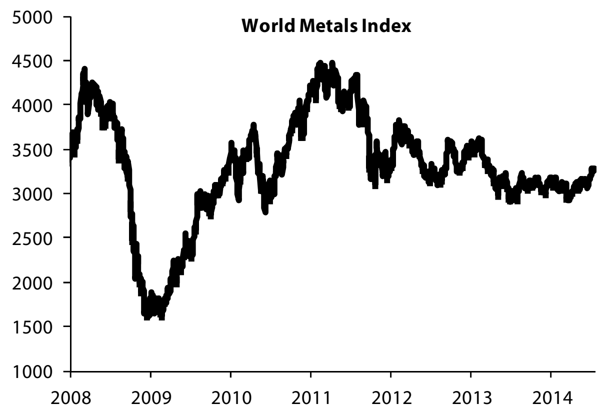
Commodities

	Units	Last Price	1w	1m	6m	12m	YTD
Oil (WTI Crude Oil)	USD/bbl	100.0	-2.3	-6.5	6.4	-5.7	1.6
Gold	USD/t oz	1297.1	-2.1	1.7	4.6	0.5	7.9
Base Metals							
World Metals Index		3272.4	0.3	6.0	3.4	8.3	3.6
Aluminium	USD/lb	1960.0	1.0	6.2	9.9	8.6	8.9
Copper	USD/mt	7130.0	0.0	7.1	-3.0	3.1	-3.1
Lead	USD/mt	2208.0	-0.4	5.9	-0.1	7.4	-0.5
Nickel	USD/mt	19325.0	-2.3	6.9	33.0	43.1	39.0
Zinc	USD/mt	2299.0	0.7	10.1	10.5	21.5	11.9
Agriculture							
Corn	USD/bu	374.0	-7.4	-15.2	-12.6	-31.4	-11.4
Soybeans	USD/bu	1086.3	-1.6	-10.7	-3.2	-12.6	-4.3
Wheat	USD/bu	537.8	-0.3	-7.4	-6.1	-19.7	-11.2

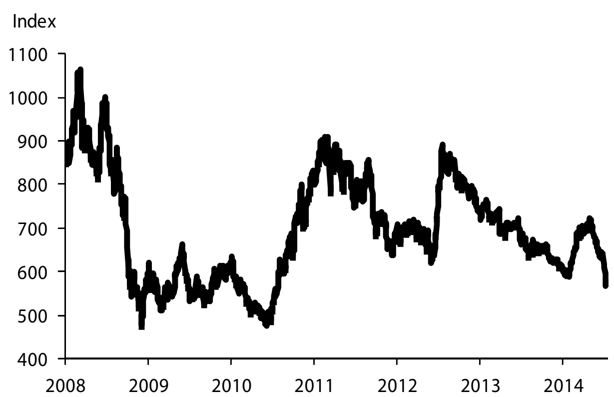
Oil & Gold



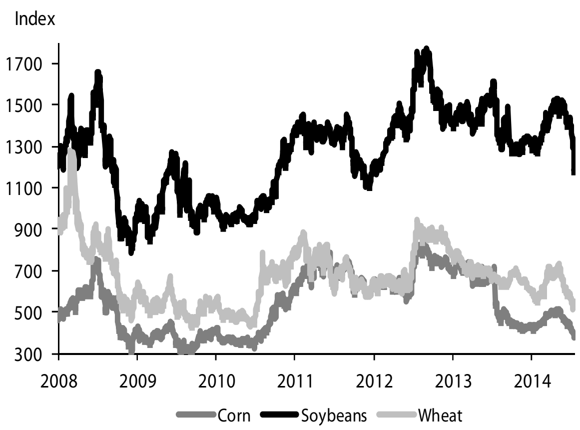
World Metals Index



Agricultural Index



Agricultural Indices



Source: Bloomberg, Ecowin

Economic Research Team

Economic Research & Forecasting Division

Tasos Anastasatos: *Senior Economist*
Ioannis Gkionis: *Research Economist*
Stylianos Gogos: *Economic Analyst*
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