



## WEEKLY REPORT 24 December 2012

*Making sense of global markets,  
information and analysis for an informed investment*



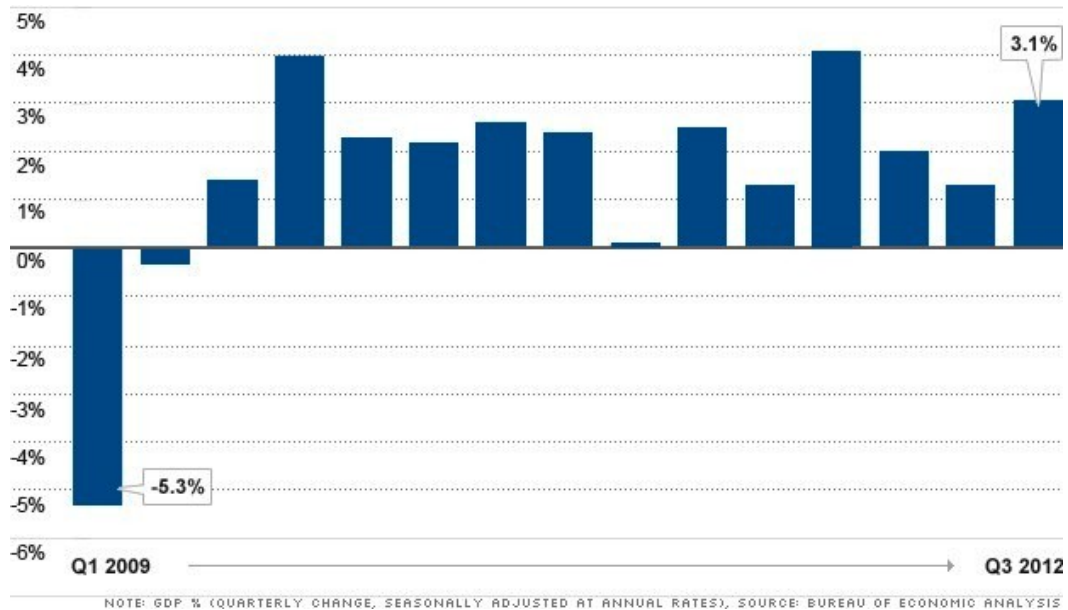
This is the seventh issue in a new series of TeleTRADE Armenia weekly reports offering insightful analysis of international market trends and financial & economic developments, with a focus on Armenia but also covering global market trends and developments in the US, Europe and Asia.

### *Highlights*

- The US economy expanded more than expected as GDP posted the fastest growth rate since late 2011, and investor confidence was boosted by stronger trade, with increased exports and lower imports, and a sharp increase in home sales;
- After the release of a new large bailout fund for Greece, investors were largely reassured that Greece will remain in the euro zone, although European markets remains concerned over Spain's struggle to meet its 2012 deficit target and as political instability mounted after the unexpected forced resignation of the Italian government;
- Investors in Asian markets were concerned after falling Chinese stocks ended a four-month high, driven by market doubt over the longer term, four-year rally in the Chinese stock market, although economic growth of 8.4 percent is expected next year. In Japan, after pressure mounted on the newly elected government to spark an economic recovery, the Central Bank will buy a sizable amount of state bonds and "review" its inflation target. Japan is still plagued by weak exports and declining industrial production;
- The EU warned Armenia against joining a Russian-proposed Customs Union," which would endanger ongoing talks over an Armenia-EU Association Agreement. But over the past few weeks, Armenia moved closer to finalizing a free trade agreement with the EU, despite greater Russian pressure to join its proposed "Eurasian Union." Armenia remains committed to deepening trade and investment ties with Europe, and recently signed a new visa liberalization agreement with the EU easing visa requirements for Armenian citizens.

### *US Economy Grows More than Expected*

The US economy expanded more than expected as GDP posted a 3.1 percent gain for the third quarter, representing the fastest rate of growth since the fourth quarter of 2011 (see chart below). Investor confidence was boosted by a stronger trade performance, as exports increased and imports declined, and by increased government spending, which rose by 3.9 percent due to a one-time expansion of local and state construction. Other positive signs indicating a deeper improvement in the US economy included a sharp 5.9 percent increase in existing home sales for November, up by 14.5 percent over last year, posting the highest gain for the last three years.



### *Greater Confidence in Europe*

Following a recent decision by EU finance ministers to release a long-awaited 49.1 billion euro (\$64 billion) bailout fund for Greece, investors were largely reassured that Greece will remain in the euro zone. Investor confidence was also confirmed after Standard & Poor's raised Greece's credit rating last week, granting an improved ranking several grades above its previous status. Although Greece remains troubled by deep economic problems after six consecutive years of recession, an overall EU commitment to assist the Greek government remains firm, especially as German Chancellor Angela Merkel has recently succeeded in overcoming long-standing resistance in Germany over providing additional bailout funds for Greece.

Meanwhile, Spain continues to struggle to meet its 2012 deficit target as the country's economic contraction has limited the impact of the deepest budget cuts in Spanish history. Overall, the euro area's fourth-largest economy is expected to further contract for a sixth straight quarter and unemployment is already the highest in the EU, with more than a quarter of the workforce unemployed. Although the Spanish government has not yet sought European assistance, the economy faces structural challenges, including a serious budget shortfall, equal to almost 4.4 percent of GDP, and a looming gap of about one percent of overall output in the social security and pension system. But more recently, there were some positive signs, as Spanish exports increased by 8.7 percent in October, compared to a year earlier, and Spain's trade deficit decreased by 28 percent over the first ten months, as falling labor costs made products more competitive. The Spanish government recently agreed to EU targets for an overall deficit target of 6.3 percent of GDP for 2012, although observers forecast the recession to worsen in 2013.

And European markets were shaken by the sudden fall of the Italian government, as President Giorgio Napolitano dissolved parliament after Prime Minister Mario Monti was forced to resign after serving only 13 months in office. Outgoing Prime Minister Monti, who made impressive gains in recovering investor confidence in Italy while implementing some 20 billion euros (\$26.5 billion) in painful cuts and austerity measures, was forced to resign after losing his majority in parliament when former Prime Minister Silvio Berlusconi withdrew support.

With Italy's election likely to be held in February, Monti may return as the candidate of a group of centrist political parties backing him on a platform of continued reform of the euro zone's third-largest economy. But most polls indicate a stronger performance by a rival, Pier Luigi Bersani, a former communist. The Italian economy remains in its fourth recession since 2001, and is only expected to contract by 2.1 percent for 2012, with the unemployment rate at a 13-year high of 11.1 percent, confidence is now seriously undermined by political instability.

### ***Focus on Asia***

Investors in Asian markets were concerned after Chinese stocks fell abruptly from a four-month high, driven by market speculation fueled by doubts over the longer term, four-year rally in the Chinese stock market that elevated share prices. But the outlook for the overall Chinese economy remained positive, as the world's second-largest economy seems set for a recovery from a seven-quarter slowdown. The World Bank also released new estimates forecasting economic growth of 8.4 percent in 2013, after a 13-year low of only 7.9 percent in 2012.

Meanwhile in Japan, pressure mounted last week on the newly elected Japanese government to adopt a more active policy of state intervention to try to spur an economic recovery in the world's third largest economy. The Japanese Central Bank responded by announcing plans to purchase another 10 trillion yen (\$119 billion) in new Japanese treasury bills and government bonds, totaling some 101 trillion yen, and promised to "review" its official inflation target next month. The Central Bank's planned intervention will be the fifth time in 2012 that the Bank of Japan has directly increased the level of funds in the Japanese economy. Last week's election of opposition leader Shinzo Abe is expected to further pressure the Central Bank to double its current 2 percent inflation target and encourage more aggressive measures to address the economic slump that triggered a fourth recession for the Japanese economy since 2000.

The incoming Abe government is also widely expected to introduce a new supplemental budget containing sharp increases in state spending on infrastructure. But any immediate impact from such measures on the Japanese economy will be fairly limited, as the country remains challenged by a high rate of national debt, which is already double the size of the economy, thereby hindering additional external borrowing. In addition, although Japanese stocks have posted a roughly 10 percent gain over the last month, the economy is still plagued by weak exports and declining industrial production, exacerbated by simmering tension with China, which has hurt exports, and by the lingering impact of the nuclear disaster and tsunami.

### ***Commodities: Focus on Oil***

In large part reflecting deeper market uncertainty and investor concern over instability in the Middle East, with specific worry over the political situation in Egypt and the danger of possible Western or Israeli military action against with Iran, monthly oil prices posted a slight rise of 0.79 percent last week (see chart below).

### Global Crude Oil Prices (Monthly Change)



Over the longer-term, one-year period, the deeper trend in oil prices was downward, decreasing by 12.16 percent last week for a year-on-year trajectory, mainly due to easing demand in China and higher global oil production and supply considerations (see chart below).

### Global Crude Oil Prices (Yearly Change)



The *commodities market* was also marked by a decrease in monthly gold prices, which fell by nearly 4.7 percent (see chart below).

### Gold Prices (Monthly Change)



But through the long term, global gold prices remain fairly high, increasing by 3.8 percent in a year-on-year perspective, as investors continued to see gold as a safe haven (see chart below).

**Global Gold Prices (Annual Change)**



In other international news, the Russian gas firm Gazprom completed negotiations with Kyrgyz officials last week over the acquisition of Kyrgyzgaz, the state-controlled natural-gas company. In a deal that is to take effect on April 1, 2013, Gazprom will acquire Kyrgyzstan's 75 percent stake in the firm and is expected to invest over \$650 million to modernize and expand the firm, as part of a broader Russian strategy to bolster its position in Central Asian gas markets.

Elsewhere in the Commonwealth of Independent States (CIS), President Alyaksandr Lukashenka of Belarus announced last week that the national currency will not be devalued. Although the Belarusian ruble has been regularly devalued since 2010, Lukashenka explained that the move is no longer necessary due to an increase in the level of the country's gold and foreign-currency reserves, reportedly now at an all-time high. The Belarus leader also pledged to "take any necessary measures to support the value of the currency" and noted the country's stronger financial position in the wake of a recent Chinese \$1 billion low-interest loan. He added that Belarus is now negotiating a new \$2 billion loan from Russia, after a recent agreement with Moscow over imports of 23 million tons of Russian oil to Belarus next year.

### ***Spotlight on Armenia***

In the wake of recent Armenian assurances to European leaders that the country remains committed to pursuing closer economic and trade ties to Europe, officials in Brussels warned last week that Armenia would not be able to forge a sweeping Association Agreement with the European Union if it joins the Russian-proposed Customs Union. The warning, articulated by Maja Kocijancic, a spokeswoman for EU foreign policy chief Catherine Ashton, noted that while "Armenia is free and sovereign to enter into any agreement, including agreements with third countries," any move by Armenia to join "any customs union would not be compatible" with a Deep and Comprehensive Free Trade Agreement (DCFTA) between the EU and Armenia. As Armenia is now moving closer to concluding negotiations over the free trade agreement with the EU, Russian pressure on Armenia has notably increased, as Moscow seeks Armenian membership in the customs union comprising Belarus, Kazakhstan and Russia.

For the EU, Armenian membership would endanger the free trade agreement since “a customs union has a common external trade policy and an individual member country no longer has sovereign control over its external trade policies,” Kocijancic explained. Moscow has also escalated pressure on a number of post-Soviet states, including Armenia, to join the custom union as a first step in transforming that Russian-led trade bloc into an even larger, more ambitious “Eurasian Union” of former Soviet countries.

To date, the Armenian government has remained firm in its commitment to completing and signing the Association Agreement with the EU, which would offer an important new opportunity to overcome Armenia’s geographic isolation and closed borders by offering an important new deepening of trade and investment ties, and expanded access to European markets. Only last week, Armenia has also signed a new visa liberalization agreement with the EU, easing visa requirements for Armenians planning to visit EU countries. Signed in Brussels in a session of the EU-Armenia Cooperation Council, the new agreement provides speedier and easier access for Armenian citizens to the so-called Schengen zone, grants new categories of travelers, such as university students, academics and state officials, easier eligibility rules for long-term and multiple-entry Schengen visas, and brings Armenia and the EU a step closer towards a wide-ranging “association” agreement. For its part, Armenia has also unilaterally lifted its visa requirements for EU nationals, with the new measure to enter into force on January 1, 2013, offering EU citizens a visa-free regime good for up to ninety days per visit to Armenia.

-Richard Giragosian



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