Professional approach to trading

WEEKLY REPORT

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

This is the eighth 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

- Uncertainty over the US budget crisis drove down stock prices, although overall, stock performance remained strong in 2012, due to a projected increase in economic output, positive job creation, a decreasing unemployment rate and an improved housing sector;

- European stock values fell due to concern over the US fiscal crisis, but was matched by the stabilization in the value of the euro. Italy was able to regain a degree of investor confidence, as seen in a sale of state bonds, but is challenged by a five-quarter recession;

- Japanese economic performance was mixed, as stock values increased and Toyota became the world's largest car maker, but the economy remains sluggish after years of contraction. Elsewhere, Russia concluded a $3 billion military aircraft deal with India;

- Concerned over slow growth and the US fiscal crisis, global investors turned to gold, driving prices up for the 12th consecutive year. Oil prices decreased, as gasoline supplies climbed and US demand slowed;

- Georgia faced an unexpected challenge as oil workers went on strike at a strategic oil terminal facility at Georgia's Black Sea port of Kulevi, a facility that is owned and operated by the State Oil Corporation of the Azerbaijan Republic (SOCAR);

- Armenia's GDP posted an estimated 7 percent for 2012, up from 4.7 last year, while total external debt increased, but inflation decreased to lowest level since 2005.

US Markets Reflect Concern over Looming Budget Deadline

Investor ***uncertainty over an approaching budget deadline drove down US stocks*** last week. US markets are likely to become only more volatile in the face of a “fiscal cliff,” or January 1, 2013 deadline, which will automatically trigger some $600 billion in spending cuts and tax increases unless the US Congress takes action. Unless the crisis is averted, many economists warn that the resulting spending cuts may trigger a new US recession in the first half of 2013.

At the close of the last week of trading for 2012, the yield for US Treasury ten-year notes reached their lowest annual average since World War II as investors faced pressure from sluggish global growth, the European debt crisis and a slow US economic recovery. More specifically, the benchmark 10-year yield declined by 18 basis points, or 0.18 percentage points, to 1.7 percent for 2012, representing a third consecutive annual loss. Stocks closed slightly lower, although overall stock performance for the year was positive, as all three stock indexes grew by between 6 and 14 percent annually.

Overall, the close of the year was capped by a forecast of a 2 percent increase in US economic output for 2013, following a 2.2 percent increase in 2012. While the US unemployment rate held steady for December at 7.7 percent, the lowest level since 2008, the overall average unemployment rate for 2000-2007 was 5 percent, and the US economy created some 1.7 million new jobs in 2012. Other positive signs included stronger new home building, at the strongest level for the last three months and marking the best performance for residential construction in the past four years, due to record-low borrowing costs that bolstered the overall housing market.

Greater Confidence in Europe

European markets ended the year last week with a ***fall in stocks*** that ended a five-week increase. The fall in European stocks was driven by concern over the US fiscal crisis, but was matched by an end to a two-year downturn in the value of the euro, as the European Central Bank calmed investor concern by promising to maintain the value of the currency. The euro was up 2 percent for 2012 overall, in the wake of a 3.2 percent drop last year and a 6.5 percent decrease in 2010.

After the forced resignation of Italian Prime Minister Mario Monti last month, Italy struggled to overcome a new period of political instability. But the country was able to secure a degree of investor confidence through a successful sale of 3 billion euros in ten-year government bonds last week. Yet ***Italy remains challenged*** by nearly 2 trillion euros in government borrowing, representing a debt level equal to almost 130 percent of Italy’s GDP, and by the need to raise a further 420 billion euros in new revenue from additional state bonds in 2013 in order to meet its debt servicing payments. In addition, the Italian economy has been struggling with a recession for five consecutive quarters and is expected to further contract by another 2.4 percent in 2012.

In France, the government of Socialist President Francois Hollande was challenged by a court decision to reject a planned 75 percent millionaire-tax as unconstitutional. The proposed tax on the wealthy would have imposed a new 18 percent tax rate on individual incomes of more than 1 million euros ($1.32 million), which was to provide the state with about 500 million euros in expected tax revenue. The ruling was a setback to the government’s plan to slash public debt to 3 percent of GDP in 2013, down from an estimated level of 4.5 percent of GDP for 2012.

Focus on Asia

The ***Japanese economy was marked by a mixed record*** in 2012, as the country's Nikkei stock index increased by more than 20 percent for the year, although the positive trend was driven by a weakening of the value of the yen, which was down by 14 percent for 2012. The election of the opposition in the December parliamentary elections also suggested a new Japanese government policy of "bold monetary easing," with measures expected to further weaken the value of the currency and raise inflation targets in order to achieve a goal of 3 percent economic growth in 2013, seeking to end Japan's overall 7 percent in economic contraction since 2007.

But there was some good news, as Japan's Toyota car company overtook General Motors as the world's largest car maker for 2012, after a sharp increase in both domestic car sales and as exports expanded significantly. Toyota was able to post an overall 22 percent increase in sales, reaching a level of sales of 9.7 million vehicles for 2012, despite a set of challenges, ranging from auto recalls to a boycott by some Chinese buyers. With overall vehicle production up by some 26 percent for 2012, the Toyota group is predicting further growth in 2013, in large part based on expected further increases in worldwide sales of its Toyota and Lexus brands. Most notably, Toyota overcame the negative impact from being forced to pay $1.1 billion in fines last week to settle a class-action suit by car owners over safety concerns from defective brakes. The company also agreed to create a new $250 million fund to be used to pay former Toyota owners to compensate for the reduced value of the cars from the case's negative publicity, with a separate Toyota fund of $250 million also to be used to compensate current Toyota car owners.

In other developments, a state visit to India by Russian President Vladimir Putin concluded with a new $3 billion deal to export Russian military aircraft to India. The agreement was accompanied by planned investments of $1 billion in bilateral trade and technology projects.

Commodities: Gold Up, Oil Down

Global currency markets were dominated by the ***stabilization in the value of the euro***, which posted a 2 percent increase for 2012, ending a two-year decrease. Meanwhile, the Japanese yen fell by 10.5 percent, followed by similar losses in the value of the Brazilian real, which lost 8.8 percent versus the dollar in 2012. Currency gains included the South Korean won, which posted a 7.7 percent gain and the South African rand, which gained 5.1 percent in value.

Reflecting concern over slow economic growth worldwide, unsustainable levels of European debt, and the US fiscal crisis, global ***investors continued to be turning to the gold market***. Compared to 2011, investors purchased some 60 percent more in gold in 2012 through gold-backed products, boosting gold holdings to a record level of $140.5 billion. Gold prices closed the year last week by increasing by 6 percent, to $1,656.85 per ounce, representing a gain for the twelfth consecutive year. Elsewhere in the global commodities market, the price for copper also increased by 4 percent, to $7,903 a ton for 2012, and the prices for corn and wheat rose by 6.8 and 17 percent respectively. Meanwhile, global ***oil prices also closed the year with a slight decrease***, as US gasoline supplies climbed to a nine-month high on weaker demand and as US gasoline stockpiles rose to 223.1 million barrels last week. At the same time, the trend was also driven by a 5.5 percent fall in total US petroleum consumption last week, down to 18.9 million barrels a day, marking the largest drop since August 2012. That was especially significant, as the US is the world's largest oil-consuming country, followed by China and Japan.

Russia's LUKoil firm announced that it has rejected an offer to invest in a large Iraqi oilfield from ExxonMobil. The decision to turn down a purchase of a 60 percent share in the $50 billion West Qurna-1 project, an oilfield holding an estimated 9 billion barrels of oil, reflected a move by LUKoil to focus on its 75 percent stake in another Iraqi oilfield. The decision opens the way for the China National Petroleum Corporation to acquire the West Qurna-1 project. But the outlook for Iraqi energy is weakened by a suspension of oil exports by the regional Kurdish government in northern Iraq. Although that suspension of oil exports was due to a dispute over some $848 million in overdue Iraqi government debt to the Kurds, the move is rooted in a deeper conflict between the autonomous Kurdish region and the central Iraqi government after the Kurds unilaterally negotiated roughly fifty different oil contracts with foreign energy companies.

In an ***unexpected challenge to the new Georgian government***, oil workers went on strike for a third consecutive day at a strategic oil terminal facility at Georgia's Black Sea port of Kulevi. The roughly 200 workers, organized by Georgia's United Trade Unions, are on strike to demand higher pay and better working conditions. The Kulevi terminal is owned and operated by the State Oil Corporation of the Azerbaijan Republic (SOCAR), which has already invested more than $350 million to modernize and upgrade the facility, which is the central hub for loading Azerbaijani crude oil onto tankers for transport across the Black Sea.

Spotlight on Armenia

According to the official year-end reports presented by each Armenian government ministry, Armenian ***GDP posted an increase of 7 percent for 2012***, with Finance Minister Vache Gabrielyan noting a continued low level of inflation, and promising a decrease in poverty of between 2-3 percent for 2013. The official national poverty level is now estimated at 34 percent, compared to 36 percent in 2010 and 24 percent in 2008. The minister also reported that for 2012, tax collection is expected to reach 21.66 percent of GDP and total ***external debt stood at nearly $4.38 billion*** for 2012, up by roughly $252 million from the 2011 level of $4.128 billion.

According to official statistics, economic growth for 2011 was 4.7 percent, but the government set a new 7 percent GDP growth target for 2013, although most economic forecasters see a ***6.2 increase in GDP for 2013*** as more realistic. In a separate announcement, officials announced a new $11 million Chinese aid package, with most funding being directed to supporting the "reform and modernization of the customs" system, with other Chinese assistance being directed to the agricultural, healthcare and transportation sectors.

The Armenian government last week released new statistics regarding consumer price inflation, showing a ***decrease in inflation*** for 2012 that marked the lowest level since 2005. According to the National Statistical Service (NSS), the annual inflation rate for 2012 was 2.6 percent, well below the governments maximum target rate of 5.5 percent. The 2012 consumer price index was largely driven by the rising cost of consumer goods other than food, which increased by 4.6 percent, although food prices increased by only 2 percent. The figures were also linked to an 8 percent increase in agricultural output for January-October 2010, which was due to more favorable weather conditions and led to lower retail prices for domestic fruits and vegetables.

In a surprise announcement last week, the Armenian government overturned its previous decision to sell a central Yerevan building housing three state ministries, including the Ministry of Foreign Affairs. The government's decision to annul the controversial sale was reportedly due to public pressure over the deal, and according to Arman Sahakian, the head of the agency managing state-owned properties, the government decided to auction off the property to the highest bidder in order to ensure greater transparency.

According to the terms of the original October 2012 decision, the building was to be sold for $51.7 million to the Tango Company, a small, obscure private firm owned by Argentine-Armenian businessman Eduardo Eurnekian, who operates the country's sole international airport. In return, the company was obligated to construct a new office building for the ministries by September 2015, with the Armenian government paying for the construction with the proceeds from the sale. The sale, which was also initially concluded through a closed, non-competitive tender, was to transform the 14,000-square meters of office space and land into a five-star hotel that was to become part of an "internationally renowned hotel chain."

Armenian officials also confirmed reports of ***new negotiations with Iranian officials*** over the possible leasing of "several thousand hectares" of Armenian pastures for ***grazing by Iranian sheep and cattle***. Iranian interest is driven by the governor of Iran's East Azerbaijan province bordering Armenia, Alireza Beigi, who is not only seeking to rent at least 4,000 hectares of pastures for livestock grazing, but has also expressed interest in creating a new "free economic zone" comprising the region of East Azerbaijan and the southern Armenian Syunik regions. The potential new agreement follows a steady increase in the volume of exports of Armenian sheep to Iran over the last two years and also reportedly involves the establishment of new sheep and cattle breeding activities in the region of Syunik. Earlier interest in sheep breeding in Armenia this year was also expressed by an unidentified group of Saudi investors.

-Richard Giragosian