



WEEKLY REPORT

21 January 2013

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



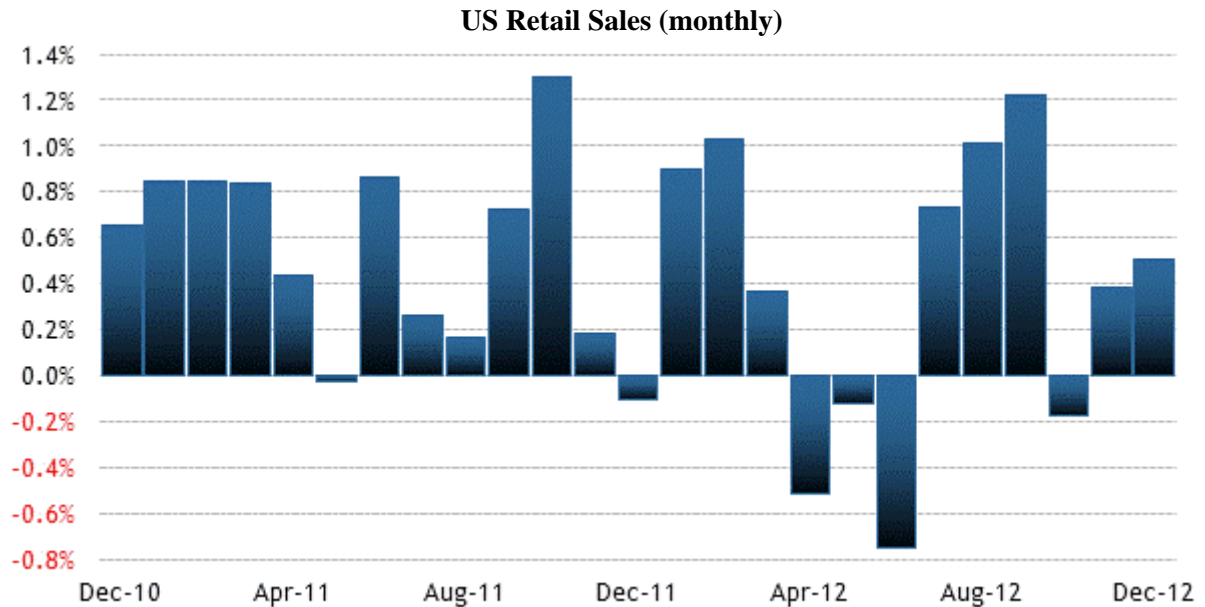
This is the third issue of the second volume in a series of TeleTRADE Armenia weekly reports offering insightful analysis of international market trends and financial & economic developments, with a focus on Armenia but also covering global market trends and developments in the US, Europe and Asia.

Highlights

- US retail sales increased more than projected, bolstered by improving employment, a recovery in the housing market, lower gasoline prices and rising consumer spending, and both wholesale prices and the producer price index decreased, raising hopes for a strengthening economic recovery;
- Internationally, the World Bank lowered its forecast for global growth, with projections predicting only a 2.4 percent expansion of the world economy, mainly due to high rates of unemployment, low business confidence and sustained austerity policies adopted in response to the eurozone crisis;
- Reflecting the structural weakness plaguing the eurozone, Italy may need at least 9 billion euros (\$12 billion) in additional revenue in order to meet deficit targets, as the country expects another economic contraction and struggles to lower its deficit;
- Developments in Asia were dominated by a 7.9 percent increase in Chinese growth, as exports, industrial production and tourism increased, and the Japanese government was concerned over how far to allow a weakening in the value of the yen.

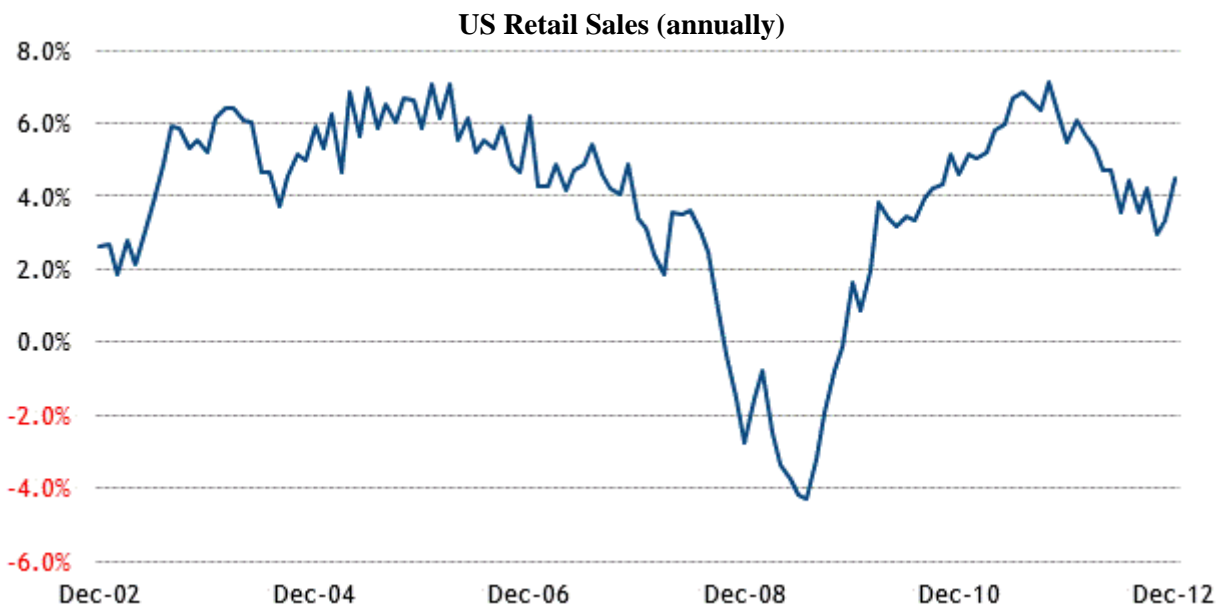
US Economic Recovery Remains Weak

US retail sales increased slightly more than projected in December 2012, posting a 0.5 percent gain in the largest increase in three months, and following a similarly higher than expected rise in November 2012 (see chart below).



Source: US Census Bureau

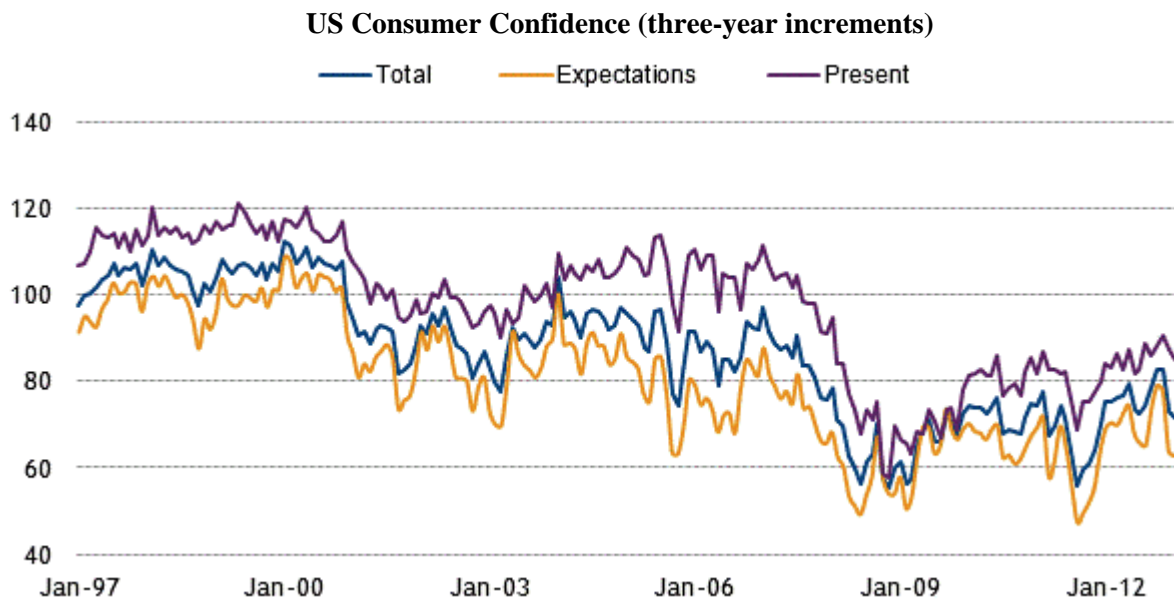
Much of the increase in retail sales was due to four positive trends, including improving employment, a housing market recovery, lower gasoline prices and rising consumer spending. Overall, retail sales increased by 5.2 percent for 2012, after sustaining a 7.9 percent rise for 2011 (see chart below).



Source: US Census Bureau

Other statistical data released last week also showed a positive trend, with a decrease in wholesale prices in December, for a third month in a row, and matched by a similarly slight decline in the producer price index (PPI), decreasing by 0.2 percent in December 2012, after a 0.8 percent decrease in the previous month.

But reflecting the fragility of the US economic recovery, last week's release of the University of Michigan Consumer Sentiment Index revealed a decline in consumer confidence, falling from 72.9 in December 2012 to 71.3 in the preliminary January 2013 report. The figure represents the lowest level of consumer confidence since December 2011 (see chart below).



Source: University of Michigan

For the same period, US industrial production increased slightly by 0.3 percent, driven by a rise in equipment demand. Manufacturing output also expanded by 0.8 percent in December 2012, after posting a serious increase by 1.3 percent in November 2012, and representing the strongest back-to-back reading in almost a year. The most promising element was a significant 2.6 increase in the production of motor vehicles and auto parts, in the wake of a more impressive 5.8 percent jump the previous month.

The Global Economy

The overall outlook for the global economy continued to be marked by lower levels of economic growth. According to a new report by the World Bank, the forecast for global growth was further decreased, with projections estimating a 2.4 percent expansion of the world economy, a downward revision from the June 2012 estimate of 3 percent growth, and after the global economy posted a 2.3 increase in 2012. The lower estimate was based on high rates of unemployment, low business confidence and sustained austerity policies adopted in response to the eurozone crisis. More specifically, the World Bank analysis cuts its projections for Japanese economic growth by half, to a forecast of 0.8 percent in 2013, reduced its estimate for the US to 1.9 percent, and predicted a second year of economic contraction within the eurozone, as well as lowered projections for emerging markets, such as Brazil, India and Mexico. The World Bank forecast included an overall 1.3 percent rise for developed economies and a 5.5 percent increase for developing countries. While China's growth outlook was lowered to 8.4 percent from 8.6 percent, and India's was reduced to 6.1 percent from 6.9 percent, each economy is expected to sustain a longer term global recovery.

A Disappointing Outlook for Europe

In part revealing the deeper structural weakness plaguing the eurozone, Italian officials announced last week that reflecting Italy may need at least 9 billion euros (\$12 billion) in additional budget measures in 2013 in order to meet its deficit targets as the country continues to face a deepening recession, lower tax revenue and high unemployment. The announcement followed a move by the Bank of Italy to cut its forecast for the economy, predicting a contraction of 1 percent in 2013, making it more difficult for Italy to meet its goal of a 2013 deficit of 1.6 percent of GDP. For the next Italian government, to be elected in late February, the post-election challenge will be to consider a choice of key policies: to try to collect more tax revenue and combat pervasive tax evasion, reduce state spending significantly, embark on a large sell-off of state assets and property, or allow the deficit run above 2 percent of GDP through 2013.

Focus on Asia

Asian economies were dominated by a recent 7.9 percent increase in Chinese growth, as exports increased by 14.1 percent in December from the same month a year earlier, representing the largest 12-month gain since May 2012. Although last year China recorded its weakest growth in 13 years, a rebound in the fourth quarter of 2012 reassured investors of a sustained recovery. In addition, the Chinese economy posted gains in GDP, by 7.8 percent for 2012, and increases in both exports and industrial production for the same period. The Chinese government also sought to bolster these trends by expanding credit by some 28 percent from December 2011. An expansion of the tourism sector also helped to drive economic growth, as the overall total of Chinese tourism income is forecast to increase some 15.1 percent in 2012, to 2.59 trillion yuan (\$420 billion). China's tourism is also expected to post another increase in 2013, by an estimated 14.2 percent, to 2.96 trillion yuan. At the same time, Chinese airline passenger traffic also increased 11.8 percent in December 2012, to 23.8 million passengers.

In an announcement by a senior advisor to the new Japanese premier, the government warned that the Bank of Japan will need to slow its policy of monetary easing if the effects on prices and the weakening of the yen go too far. According to Koichi Hamada, advisor to Prime Minister Shinzo Abe, the Japanese government is "working hard to raise prices and influence the yen," but is now considering how far to allow a weakening in the value of Japanese currency. After the prime minister promised to introduce more aggressive fiscal and monetary action, the value of the yen against the dollar plunged by a sudden 10 percent decline. In trading last week, the yen fell by 0.2 percent to 90.10 per dollar and reached 90.21, the weakest rate since June 2010. Overall, the Japanese government is struggling to overcome deflation and spur an economic recovery in the world's third-biggest economy.

Global Commodities

The commodities market was led by an increase in US crop prices, capped by a rise in corn prices that was tied to the longest price rise since February 2012, and due to lower US crop inventories amid rising demand. In US inventory data released last week, corn stores fell by 17 percent, to 8.03 billion bushels, wheat reserves decreased by 5 percent to 716 million bushels, and corn inventories down to 602 million bushels, the lowest level since 1996.

In global currencies, Asian currencies posted gains for the fourth consecutive week, representing their longest upward rise since September 2012, driven by stronger optimism that the global economy is recovering and bolstered by Chinese economic growth, which accelerated for the first time in two years, and by a marked improvement in the US housing market. More specifically, the Thai baht ended the week with its biggest weekly advance since 2011, reaching a 17-month high of 29.72 per dollar, as global investment funds favored higher-yielding assets.

For the same period, the Indian rupee also rose in value, reaching an 11-week high last week, which then led state refineries to introduce new gradual increases in diesel prices, a move aimed at reducing energy subsidies and bolstering India's public finances. Such a policy is essential in order to meet targets for cuts in spending and subsidies and to reach the Indian government's goal of reducing the budget deficit to 5.3 percent of GDP, in order to avoid a likely downgrade in the country's sovereign debt rating.

In other news in the commodities market, platinum prices increased last week to cost more than gold, for the first time since March 2012, and as part of a broader trend tied to rising confidence in the global economy and investor expectations that the US Federal Reserve Bank is preparing to end its massive stimulus program. More specifically, prices for platinum prices closed last week at \$1,700.50 an ounce, almost \$10 more expensive than gold, which ended the week trading at \$1,690.80 an ounce. Over the past month, platinum futures have gained more than 10 percent, compared with only a 0.7 percent gain for gold, revealing an upward longer term market correction for platinum prices.

The new trend is actually a return to a historic relationship between gold and platinum, as gold prices usually only overtake platinum in times of increasing economic uncertainty and global economic weakness worldwide, reflecting investors drive toward gold assets. Platinum prices, on the other hand, are typically higher than gold in times of economic development and growth. Both platinum and gold are considered precious metals and prices often move in the same direction, but their prices are each driven by very different sources of demand. Moreover, platinum is particularly sensitive to changes in supply due to its rarity, and is roughly thirty times more rare than gold.

Spotlight on Armenia

In a statement last week, the Armenian government expressed new optimism for the economy as industrial production is now expected to continue to grow strongly this year despite what government officials defined as "an unfavorable external environment." According to official reports, the rise in Armenian industrial output, accounting for more than one-quarter of Armenian GDP, is projected to increase by more than 9 percent in 2013, in part due to state efforts to support domestic manufacturing. The National Statistical Service (NSS) released data last week showing a 9 percent increase in industrial growth for January-November 2011, driven by stronger gains in the mining and energy sectors, and by expanded production of alcohol and tobacco products. The Armenian finance ministry also forecast a 7 percent increase in GDP for 2012, and predicted a 6 percent growth rate for 2013.

-Richard Giragosian



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