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Global Financial Market: Topical Issues 2011

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Results of 2011

Although most leading economies displayed good growth in the first half of 2011, it declined dramatically in the second half of the year, causing drop in annual GDP increase year-on-year.

According to some measurements, world GDP growth in 2011 may be about 4.2%, compared to 4.6% in 2010. Rate of the US GDP growth will decrease from 2.8% to 1.9%, that of euro area – from 1.8% to 1.1%, in China – from 10.3% to 9.5%, and in Japan – from 3.9% to 1.4%.

Rates of GDP growth are expected to fall even more sharply in 2012. At the end of 2011, OECD forecasts on global economic growth in 2012 were brought down to 3.4% from 4.6% expected half a year ago. As far as euro area is concerned, the growth is anticipated to be just 0.2%, unlike 2% (!) expected in a review published half a year ago.

At the end of 2011, analysts started talking about possibility of the world leading economies entering another recession (two and more quarters of GDP negative growth) in 2012, which is especially true for euro area economy.

But the strongest negative in 2011 (which became one of the reasons of weakening economic growth) was increased of the debt problems of developed economies and particularly the growth of the debt crisis in the euro area.

Throughout the year, crisis in the area continued to deepen and expand, leading to a de facto partial default in Greece and Italy, plunging into it (PIGS again turned to PIIGS), and at the end of the year looming over Belgium as well (PIIGS can become BIGPIS).

In 2011, debt problems also worsened in the world leading economy, so that, for the first time in history, S&P has downgraded the USA credit rating from AAA to AA +.

At the same time, the mere fact that, despite serious debt problems, the global financial system has withstood from slipping into the enormity of the crisis can be considered positive news of 2011.

Given this external background, negative trends prevailed in the global stock market in 2011, and almost all the world's leading index monitored by us ended the year dropping.

In the bond market, outside of PIIGS sector, the year was more positive. Emerging market bonds have shown significant growth, with public debt index EMBI Global increasing by more than 7% over the year.

Even greater increase was demonstrated by bonds of the most developed countries, which continue to play the role of safe haven, and U.S. 10-year treasuries rose by more than 10% for the year.

In the foreign exchange market, the year was very volatile both in the sector of developing countries' currencies, and that of developed countries. Although dollar experienced substantial decline against euro at the beginning of the year, the U.S. currency closed the year growing.

An important event in this market was the National Bank of Switzerland setting the upper limit of the growth of the franc against the euro, which virtually changes the architecture of the modern Jamaican currency system.

In the commodity markets, the year was not less volatile, ending with nearly 15% increase in gold prices.

The year was really dramatic for silver market, where a sharp price increase in February-April led to the virtual bubble burst and prices fall below their opening level of the year.

In the oil market, it was the year of "playing the spread," where price differences between brands of Brent crude and WTI rocketed from a few dollars at the beginning of the year to $30 in October and then reduced to $8 by the end of the year.

It is expected that the coming 2012 will also be a year of serious challenges to the global financial and economic system, and the focus will remain on public debt crisis of developed countries.

Expectations 2012

It is expected that the coming 2012 will also be a year of serious challenges to the global financial and economic system.

The main topic of the year will remain the problem of public debt of developed countries and especially the debt crisis in the euro area, for which 2012 could be crucial.

In 2012, ratings of European countries that have not yet been drawn into a debt crisis can be downgraded, and America could lose the highest rating from the other two leading agencies – Fitch and Moody's.

This will further aggravation of the debt crisis in developed countries, and especially in the euro area.

If no drastic measures are taken to overcome the crisis (such as issuing eurozone common bonds and increasing securities buyout from the market by the ECB), the crisis in the euro area may worsen.

Consequently, it will have extremely negative impact on the markets of risk assets (which the euro itself can be classified as), especially in the global stock market.

Nevertheless, the world and euro area authorities still have sufficient resources to prevent the onset of the large-scale global crisis in 2012.

Topical issues 2011

The year 2011 was very eventful, and those had significant impact on the situation in global financial markets and deserve the title of topical issues 2011.

For example, one should not underestimate the impact that Arab revolutions or the Japanese tragedy of 11 March 2011 had on the state of the global financial and economic system.

However, we will focus only on the last year topical issues that we consider to be the most important:

- the debt crisis in the euro area,
- loss of America's highest credit rating,
- two different approaches applied by the world’s two largest central banks in the fight against crisis.

Crisis in the euro area: too little, too late

Throughout the year, the debt crisis in the euro area continued to deepen and expand, despite the numerous talks, workshops, meetings and decisions of the leaders of the eurozone.

There were tens of meetings and summit talks in 2011, also with leaders of the European Union and the G20 participating in those.

A number of important decisions was made, including:

- financial aid to Portugal of €78 billion adopted in May,
- second aid package to Greece, amounting to €158 billion, adopted in July,
- an agreement on the private sector writing off 50% of the Greek debt was added in October,
- at the same time, EFSF was increased to €1 trillion,
- and finally, in December 26 EU countries (excluding Britain) signed the budget agreement, binding (at the level of constitutional law) to prevent a budget deficit above 0.5% (exceeding the 3% deficit will be punished with financial sanctions).

However, these measures are not enough to stop the current debt crisis.

Moreover, many of them are not specified for a long time (like procedure for writing off Greek debt), and some look like difficult to implement (e.g. achievement of 0.5% budget deficit).

As in 2010, while measures are discussed and their opponents persuaded, the decision becomes ineffective.

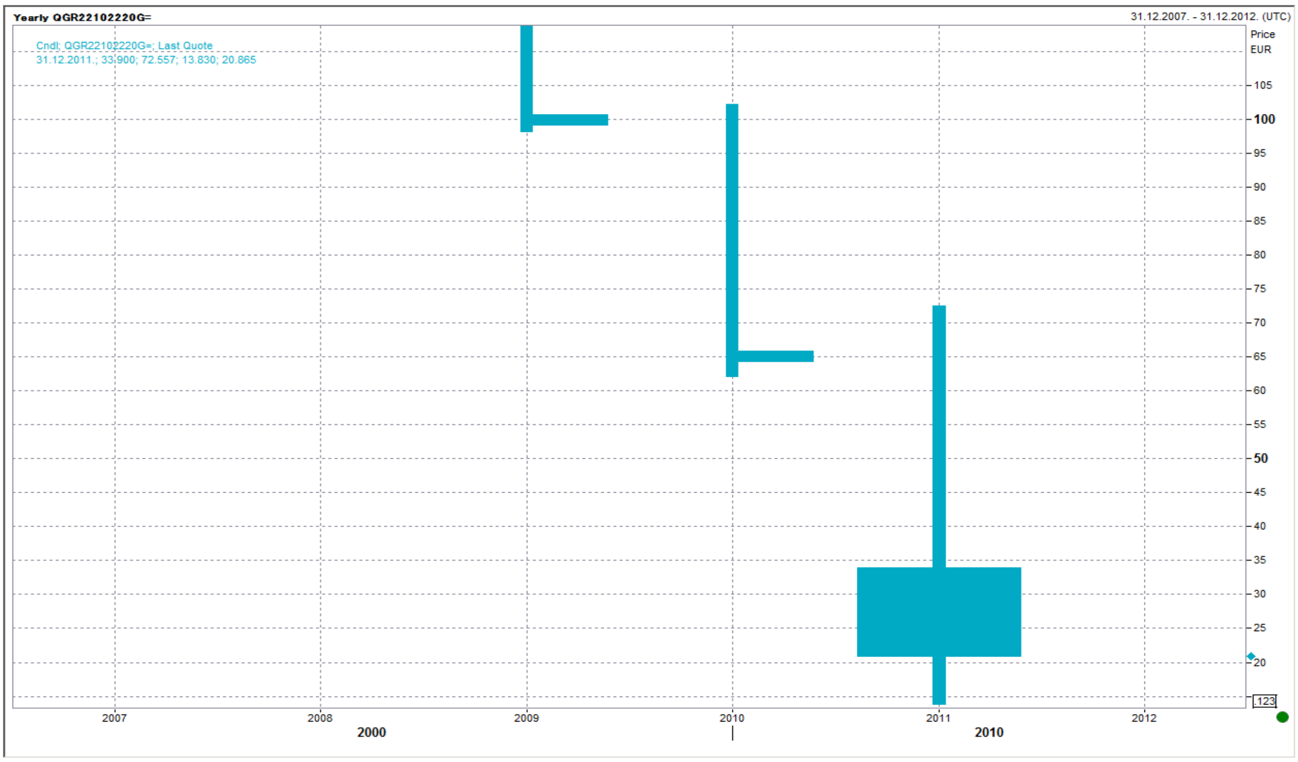
In other words, the measures taken by the leadership of the euro area to overcome the crisis can be described as: “too abstract, too little, too late”.

Therefore, in the eurozone vs. crisis, the latter was winning in 2011.

Throughout the year, PIGS bonds on the market were under intense pressure and showed a significant drop in prices (except for the Irish securities, which closed the year with a slight increase).

During the year, bonds of Greece suffered the greatest losses, and their benchmark 10-year bonds lost 67%(!) for the year (see Fig. 1), falling to a level 20, whereas their yield increased from 12% to 34%!

Fig. 1. The dynamics of price movements in the Greek bonds, annual bars



Source: Reuters

In July, the market began to make pressure on the Italian securities, and for the year 10-year securities fell by 10% (and in November, their yield briefly rose above 7%) and PIGS again turned to PIIGS.

In November, Belgian securities were attacked as well, and Belgium has one of the biggest debts in the world (see tab. 1), so that in 2012 PIIGS can expand to BIGPIS.

Tab. 1. Government debt and deficits in countries with high debt

	2010		2009		2008		2007	
Country	**Government debt to GDP**	**Budget to GDP**	**Government debt to GDP**	**Budget to GDP**	**Government debt to GDP**	**Budget to GDP**	**Government debt to GDP**	**Budget to GDP**
Japan	**220.3%**	-9.5%	216.3%	-10.3%	195%	-4.2%	187.7%	-2.4%
Greece	**142.8%**	-10.5%	127.1%	-15.4%	110.7%	-9.8%	105.4%	-6.4%
Italy	**119.0%**	-4.6%	116.1%	-5.4%	106.3%	-2.7%	103.6%	-1.5%
Belgium	**97.1%**	-4.1%	96.2%	-5.9%	89.6%	-1.3%	84.2%	-0.3%
Ireland	**96.2%**	-32.4%	65.6%	-14.3%	44.4%	-7.3%	25.0%	0.1%
Portugal	**93.0%**	-9.1%	83.0%	-10.1%	71.6%	-3.5%	68.3%	-3.1%
USA	**91.6%**	-10.6%	84.6%	-12.7%	71.2%	-6.4%	62.2%	-2.7%
Germany	**83.2%**	-3.3%	73.5%	-3.0%	66.3%	0.1%	64.9%	0.3%
France	**81.7%**	-7.0%	78.3%	-7.5%	67.7%	-3.3%	63.9%	-2.7%
England	**80.0%**	-10.4%	69.6%	-11.4%	54.4%	-5.0%	44.5%	-2.7%
Spain	**60.1%**	-9.2%	53.3%	-11.1%	39.8%	-4.2%	36.1%	1.9%

Source: Eurostat, EconomyWatch

Though, at the end of the year, BIGPIS (except Greek) securities showed good growth after the world leading Central Banks decided to improve liquidity in the banking sector.

However, this does not signal an end to the crisis.

It still has a long way to go, and it is not clear what will be the outcome.

Effective measures to prevent the crisis could be the issue of eurozone common bonds and ECB participation in an active securities buyout from the market.

But one of the leaders of the euro area – Germany – currently is in great opposition to this solution.

Perhaps in the coming 2012 another effective way of combating the crisis will be found, but it is possible that Mrs. Merkel will be forced to withdraw her objections to the above measures.

America is not a safe haven anymore?

In 2011, debt problems also worsened in the world's leading economy – the U.S.

In the middle of the year, the U.S. gross national debt exceeded 100% of GDP, and by the end of the year it has also passed the astronomical level of $15 trillion!

All attempts to limit budget deficits, which were close to 10% during the last three years, are still unsuccessful.

Several plans of deficit reduction, proposed by Obama in 2011 (supposing the budget deficit to be decreased by $4 trillion over 12 years), could not get the support of the Republican majority.

Adopted as a compromise, the plan to reduce the deficit by 2.4 trillion over 10 years also faced problems due to the inability of Republicans and Democrats to come to an agreement.

The trouble is that even in case the adopted plan of deficit reduction is implemented, gross public debt could reach 140%-150% of GDP in 10 years.

In this situation, on 5 August S&P lowered the U.S. credit rating from AAA to AA +, for the first time in the history.

The financial markets reacted to the news extremely negatively, and there was real price collapse observed in the global stock market.

Indeed, these days there are no countries having gross public debt above 100% of GDP and the highest rating of AAA at the same time (see Tab. 2).

Tab. 2. Ratings of developed countries with public debt above 100% of GDP

Country	Public debt/GDP 2010	S&P rating
Japan	225%	AA-
Greece	144%	BB-
Iceland	124%	BB+
Italy	118%	AA-
Belgium	101%	AA+

Source: CIA's World Fact book, Reuters

However, it should be noted that the U.S. (and Japan) public debt has some peculiarities, not present in most developed countries.

Up to 35% of the debt is held by government agencies (though, also including the FRS, which is not quite a government agency), and "pure" public debt amounts to only 75% of GDP.

Still, the U.S. (and Japan) public debt has some peculiarities, not present in most developed countries. Up to 35% of the U.S. debt is held by government agencies (though, also including the FRS, which is not quite a government agency), and "pure" public debt is measured to be only 74% of GDP.

This is less than that of the leading eurozone countries (including Germany 83% France 82% and England 80% - data for 2010), preserving the highest S&P rating.

Nonetheless, the U.S. public debt is really very high, and it will be very difficult to stop the process of its growth.

At the end of 2011, Fitch, the last of the three leading agencies, reduced the U.S. rating outlook from "stable" to "negative".

Now there's a 50% chance that in 2012 Fitch and Moody's will join the S&P and will deprive the U.S. of the highest credit rating AAA.

Despite the downgrade, behaviour of the treasuries market (10-year ones grew by 10% over the year) indicates that the treasuries are still safe haven both for the dollar sector and the global financial market in general.

However, if the U.S. public debt continues to increase like this, both treasuries and the dollar will be at risk of losing the status of major shelters in the financial world soon.

FRS vs. ECB – concept contest

Another interesting topic in 2011 was the continuation of the struggle of ideas and approaches of influencing the financial and economic system used by two leading central banks of the world.

The difference between these approaches is clearly visible both during the global financial crisis of 2008-2009, and post-crisis period.

From November 2008 to June 2011, the FRS has held two large-scale rounds of QE, having bought from the market treasuries worth approximately $1.7 trillion (> 10%).

In September 2011, the U.S. central bank applied another unconventional measure – the "Twist" programme, shifting $400 billion from short securities to long ones.

In addition, the FRS has promised to keep the refinancing rate, reduced in 2009 to 0.25%, at this low level until at least mid-2012.

All of these major steps formally were taken to stimulate the economy and lending (but unofficially, of course, also to support financial markets, especially the treasuries market).

Whereas the ECB spoke strongly against printing money by buying debts from the market and insisted on maintaining the price stability as a primary goal.

Up until August 2011, the total of €80 billion was spent on purchasing public debts, despite the debt crisis raging during a year and a half already.

Moreover, despite the crisis, given the signs of inflation growth in April and June, the ECB raised the rate twice by 0.25% to 1.5%.

Now it is very likely that these actions have exacerbated the crisis and contributed to the slowdown in economic growth.

After the change of the ECB management in October, it actually recognized the fallacy of these actions and in two steps restored the rate to 1%.

According to the new head of the ECB Draghi, now the rate may also be reduced below this record level.

The ECB is still not active in the public debt market, although following downgrade of the U.S. rating in August it resumed buyout from the market.

Another movement towards mitigating the ECB monetary policy was the first three-year unlimited auction conducted on 21 December, where more than 500 commercial banks borrowed from the Central Bank €489 billion.

Nevertheless, in our opinion, the ECB is not as good as the FRS in giving flexible and adequate response to the complex challenges of the modern financial system.

Global stock market

In the past year, given the debt crisis now decreasing, now intensifying, and largely positive corporate reports, growth and drop trends in the market alternated. Thus, many global indexes in October experienced their maximum growth since May 2009 and the U.S. indexes – since December 1991.
Nevertheless, negative trends still dominated, but the fall in prices in August and a five-month dip in May-September reminded crisis trading of 2008-2009.

Accordingly, most of the world's leading indexes monitored by us closed the year with a decrease, and many of those – with double-digit ones (see Tab. 3).

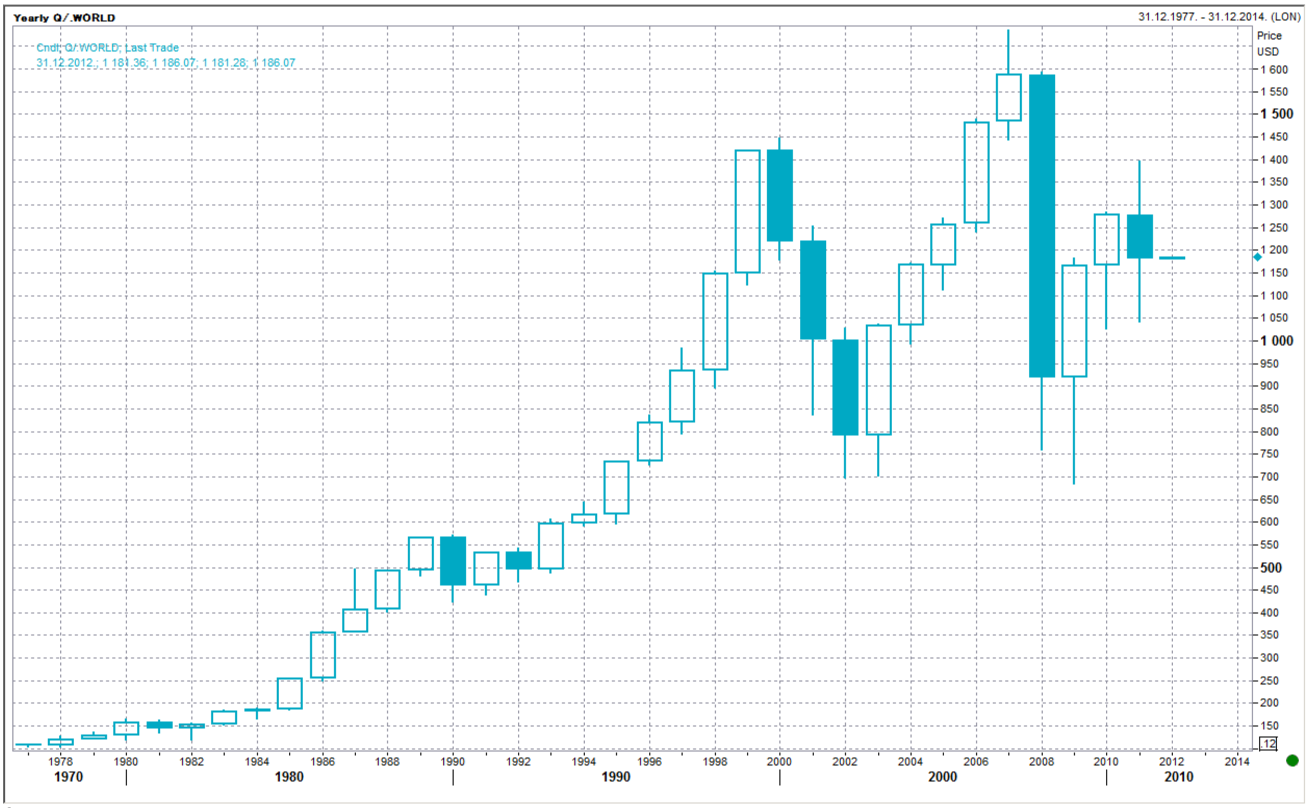
Tab. 3. The results of the dynamics of movements of several leading stock market indexes

Stock index	P/E	Div.Yel	For 2003-2007	For 2008	For 2009	For 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	3a 2011
DJI (USA)	12.6	2.6	59.0%	-33.8%	18.8%	11.0%	6.4%	0.8%	-12.1%	11.9%	5.5%
S&P 500 (USA)	13.2	2.1	66.9%	-38.5%	23.5%	12.7%	5.4%	-0.4%	-14.3%	11.1%	0.0%
Nasdaq Comp. (USA)	22	1.1	98.6%	-40.5%	43.9%	16.9%	4.9%	-0.3%	-12.9%	7.9%	-1.8%
GDAX (Germany)	10.3	4	178.9%	-40.4%	23.8%	16.1%	1.8%	4.8%	-25.4%	7.2%	-14.7%
N225 (Japan)	16.6	2.2	78.4%	-42.1%	19.0%	-3.0%	-4.6%	0.6%	-11.4%	-2.8%	-17.3%
FTSE (England)	10	4	61.5%	-31.0%	23.2%	9.0%	0.1%	0.6%	-13.7%	8.7%	-5.6%
CAC (France)	9.4	4.9	83.2%	-42.7%	22.3%	-3.4%	4.9%	-0.2%	-25.1%	6.0%	-17.0%
RTS (Russia)	5.2	2.4	537.9%	-72.4%	128.6%	22.5%	15.5%	-6.8%	-29.6%	2.9%	-22.0%
MICEX (Russia)	5.2	2	492.3%	-67.2%	121.1%	23.2%	7.4%	-8.1%	-18.1%	2.7%	-16.9%
SSEC (China)	11.5	2.2	287.4%	-65.4%	80.0%	-14.3%	4.3%	-5.7%	-14.6%	-6.8%	-21.7%
HSI (Hong Kong)	8.5	3.6	198.4%	-48.3%	52.0%	5.3%	2.1%	-4.8%	-21.5%	4.8%	-20.0%
KOSPI (Korea)	14.3	1.5	202.3%	-40.7%	49.7%	21.9%	2.7%	-0.3%	-15.8%	3.2%	-11.0%
TWII (Taiwan)	15.9	4.7	91.0%	-46.0%	78.3%	9.6%	-3.2%	-0.4%	-16.5%	-2.1%	-21.2%
SENSEX (India)	14.5	1.6	500.7%	-52.4%	81.0%	17.4%	-5.2%	-3.1%	-12.7%	-6.1%	-24.6%
BOVESPA (Brazil)	9.4	4.1	467.0%	-41.2%	82.7%	1.0%	-1.1%	-9.0%	-16.2%	8.5%	-18.1%
IPC (Mexico)	18.1	1.4	382.1%	-24.2%	43.5%	20.0%	-2.9%	-2.4%	-8.4%	10.7%	-3.8%
TOP40 (South Africa)	11.2	2.8	202.4%	-25.9%	28.6%	14.6%	1.4%	-1.7%	-7.6%	7.9%	-0.6%
MSCI WD (World)			100.6%	-42.1%	27.0%	9.6%	4.3%	-0.3%	-17.1%	7.1%	-7.7%
MSCI EM (Emerging)			326.6%	-54.5%	74.4%	16.4%	1.7%	-2.1%	-23.2%	4.1%	-20.4%

Source: Thomson Reuters, Bloomberg, ABLV Bank

The fall in prices on the world index MSCI World was 7.7% for the year, offsetting most of the index growth in 2010 (see Fig. 1).

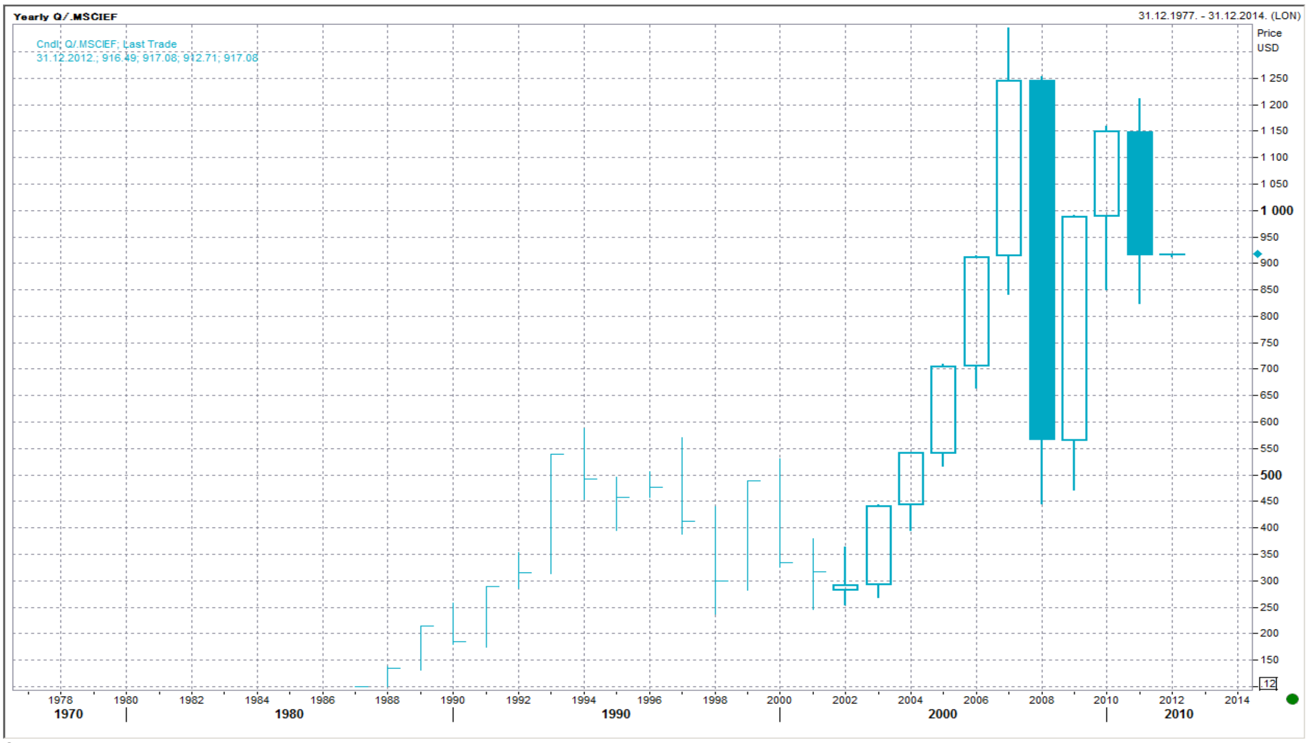
Fig. 1. Dynamics of the MSCI WORLD index, annual bars



Source: Thomson Reuters

Fall in prices on developing countries index MSCI EM was even greater: 20.4%, and this is significantly greater than the index growth in 2010, which was 16.4% (see Fig. 2).

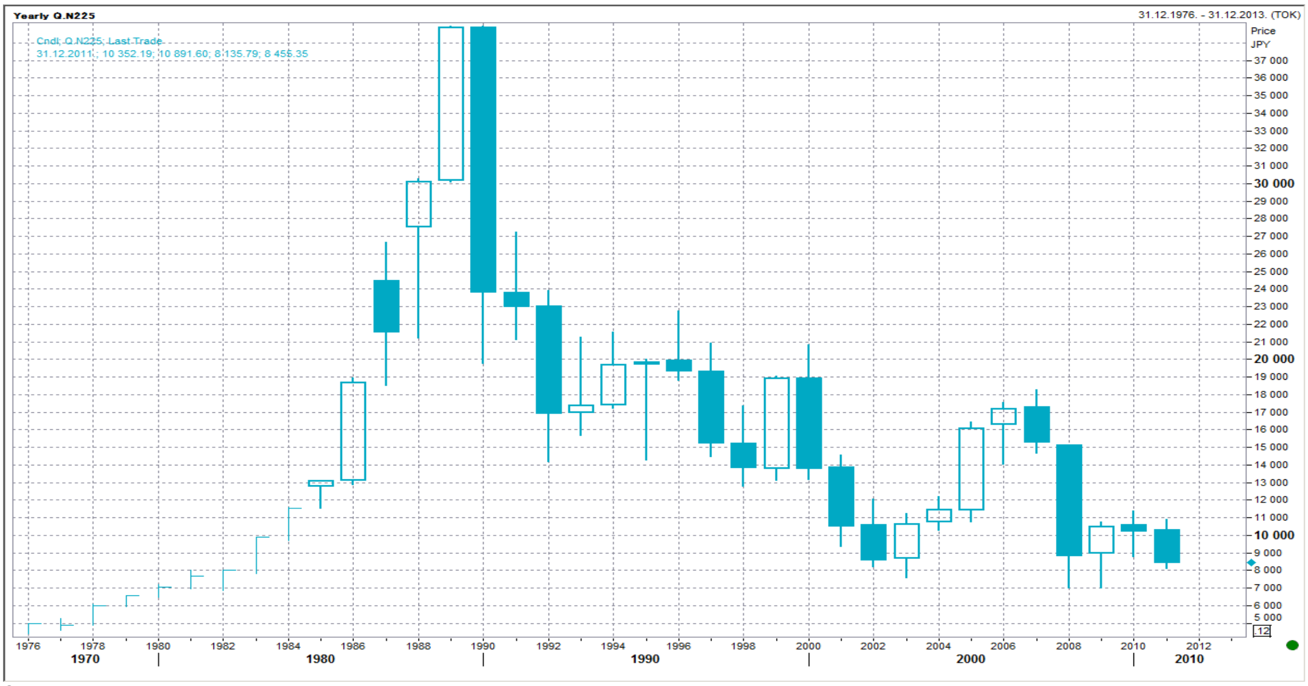
Fig. 2. Dynamics of the MSCI EMERGING MARKETS index, annual bars



Source: Thomson Reuters

The largest drop for the year among the indexes of the developed countries showed Japanese N222, which fell by 17.3% (see Fig. 3), which was largely due to the additional negative mood brought to the market by consequences of the March disaster in Japan.

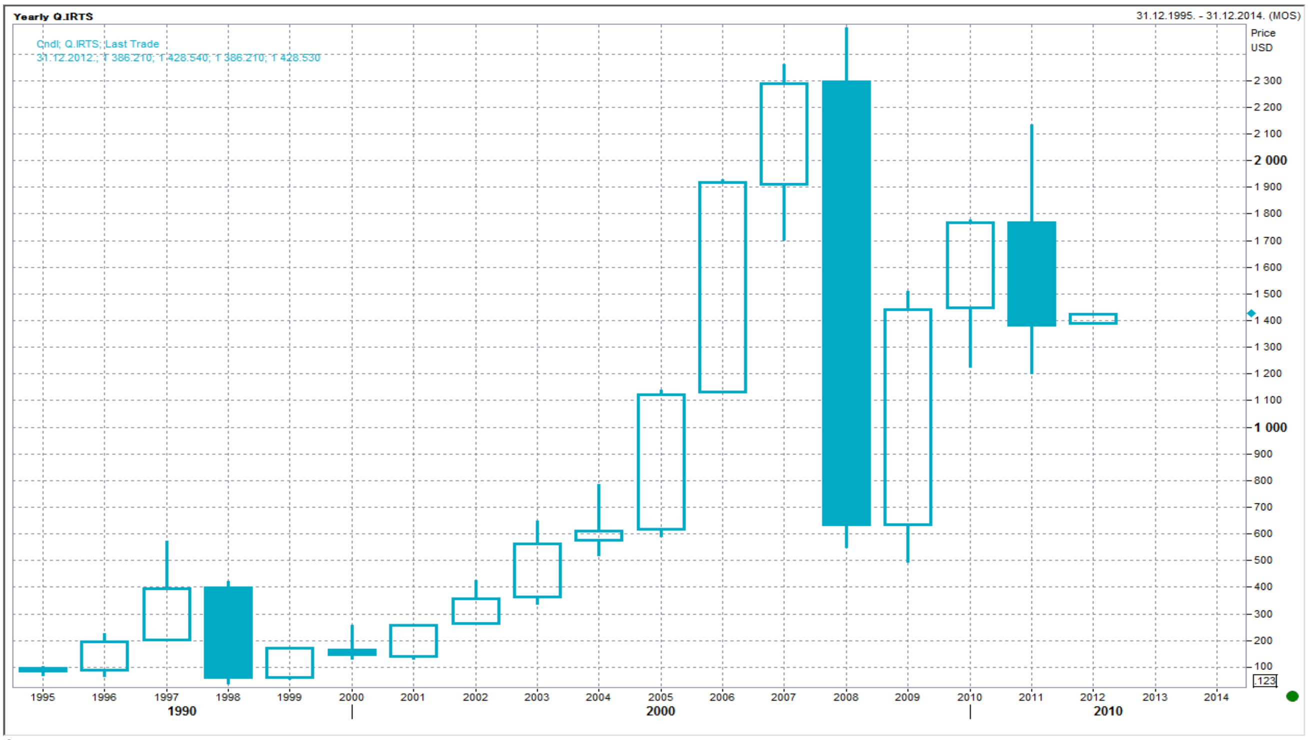
Fig. 3. Dynamics of the N222 index, annual bars



Source: Thomson Reuters

In 2011, one of the biggest falls among the indexes monitored by us was showed by Russian RTS, which fell by 22% (see Fig. 4). Though, this decline was partly due to the weakening of the rouble, and the rouble index of the Russian market MICEX fell less over the year – by 17%.

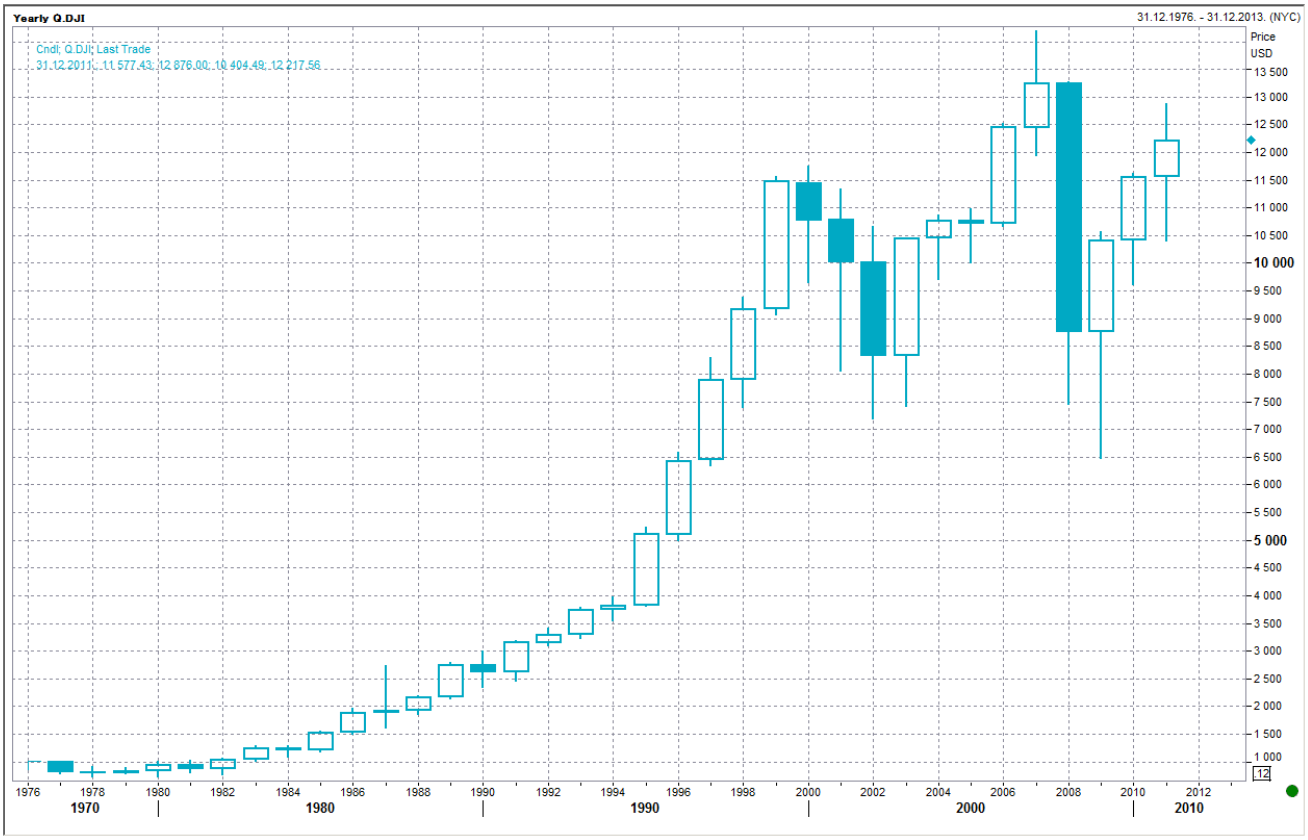
Fig. 4. Dynamics of the RTS index, annual bars



Source: Thomson Reuters

One of the few indexes to close the year with an increase was the U.S. DJ, which grew by 5.5% (see Fig. 5). This confirms the fact that the U.S. blue chips are considered by many investors as a safer asset compared to stocks of other sectors and other countries.

Fig. 5. Dynamics of the DJI index, annual bars



Source: Thomson Reuters

Our assessment of future scenarios

The situation in the global stock market remains very uncertain. If the debt crisis in Europe is not stopped in 2012, it is very likely that strong negative trends will return to the global stock market.

However, the achieved price levels remain attractive for long-term investment in stocks. Therefore, one can continue to follow the strategy proposed in our previous reviews – gradual entry into this market, choosing strong companies (or indexes) with low P/E and high dividend payouts Div. Yield (see Table 3), increasing the disposition of a further fall in prices.

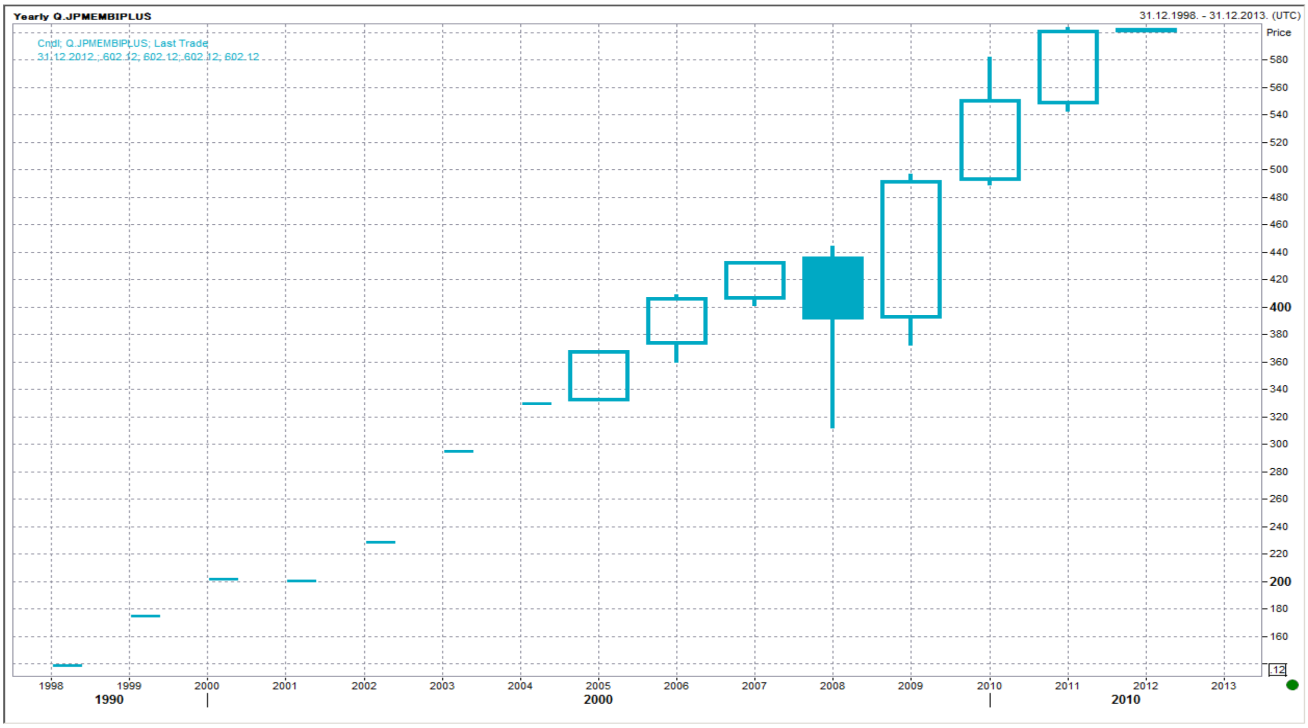
The high level of dividends will allow investors to outwait the crisis, receiving a steady cash flow, which exceeds current coupon yield on government bonds of the leading countries.

Global bond market

In 2011, situation in the global bond market, outside the PIIGS sector, was more positive, although prices fell deeply in September, following strong drop of prices in the global stock market.

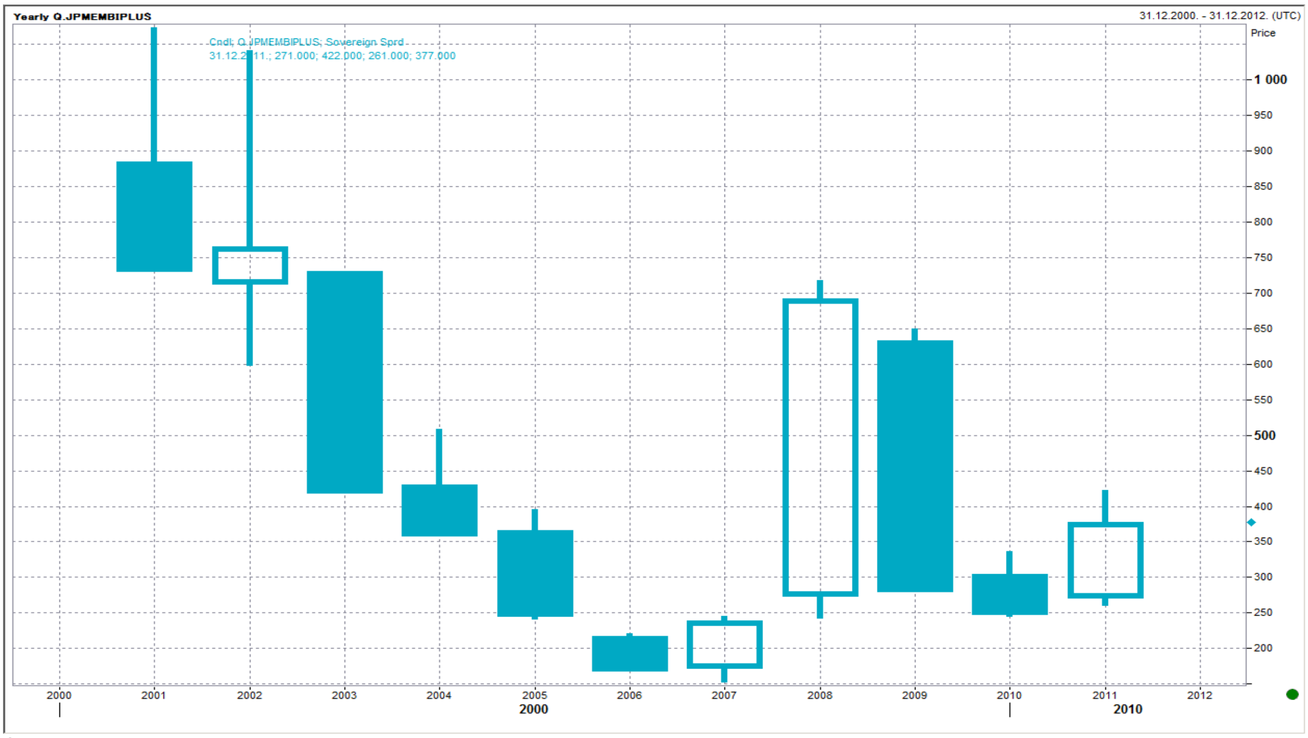
During the year, developing countries public debt index EMBI + grew by significant 9.2% (see Fig. 6), but its spread to treasuries increased by 120 basis points to reach 3.8%, due to further growth of the U.S. securities for the year (see Fig. 7).

Fig. 6. Dynamics of the EMBI + index, the monthly closures line



Source: Thomson Reuters

Fig. 7. Dynamics of the EMBI + index spread, the monthly closures line



Source: Thomson Reuters

Growth in emerging market corporate bonds was less substantial, and their index CEMBI grew by 3.5% over the year, and its spread to the U.S. treasuries increased to 4.4%.

Russian corporate securities showed worse results than broad market, and their index RUBI grew by 2.1%, and its spread to the U.S. treasuries reached 5.76%.

More significant growth over the year was shown by U.S. bonds and German bunds, playing the role of safe haven for dollar and euro zones.

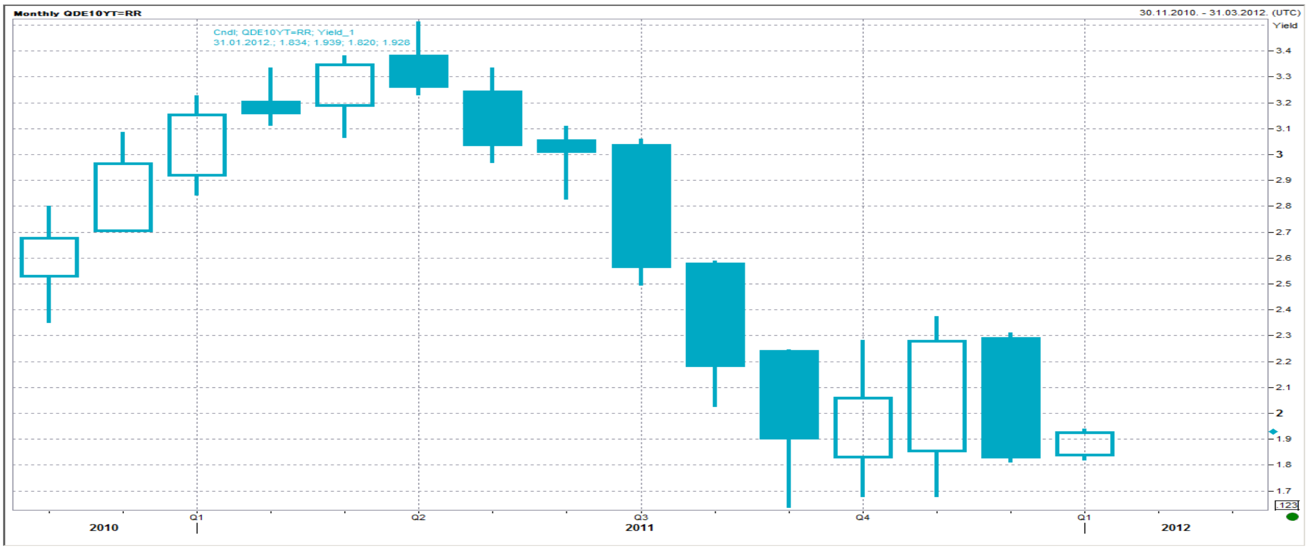
However, German securities experienced a sizeable drop in prices at the end of the year, after a very unfortunate placement of 10-year bonds on 23 November, where 9% of the issue was bought by the Bundesbank due to low demand.

In the PIIGS sector, only Ireland securities closed 11 months with a slight increase, and the rest showed falling prices.

The greatest losses were incurred by Greek bonds, where the 10-year ones fell by 67%! Securities of Portugal and Italy also demonstrated a significant drop, with 10-year securities falling by 34% and 10%.

The fall of the German long securities after the unsuccessful placement of new 10-year bonds on 23 November led to an increase in their yield in November from 1.9% to 2.3% (see Fig. 8), but for the year the yield fell from 2.9% to 1.8%.

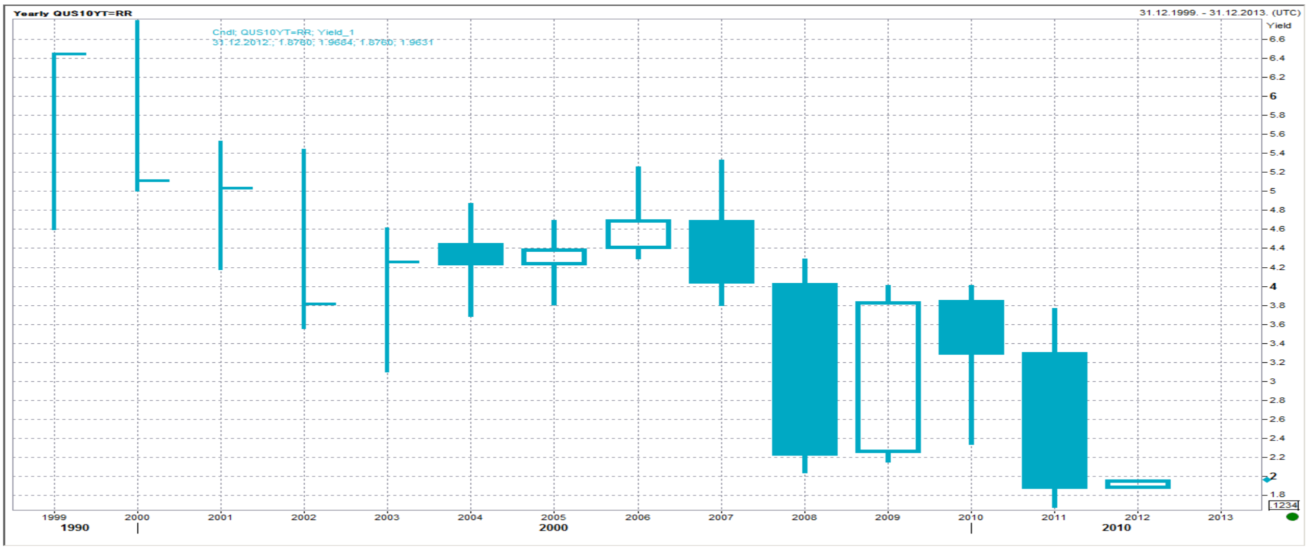
Fig. 8. Yield dynamics of 10-year German bunds, monthly bars



Source: Thomson Reuters

The U.S. long securities managed to show good growth for the year, and the yield on the benchmark 10-year bonds fell from 3.3% to 1.9% over the year, setting a new historic minimum yield (see Fig. 9).

Fig. 9. Yield dynamics of the U.S. 10-year government bonds, annual bars



Source: Thomson Reuters

Global currency market

The past year was fairly volatile in the global currency market, in the sectors of both developed and developing currencies.

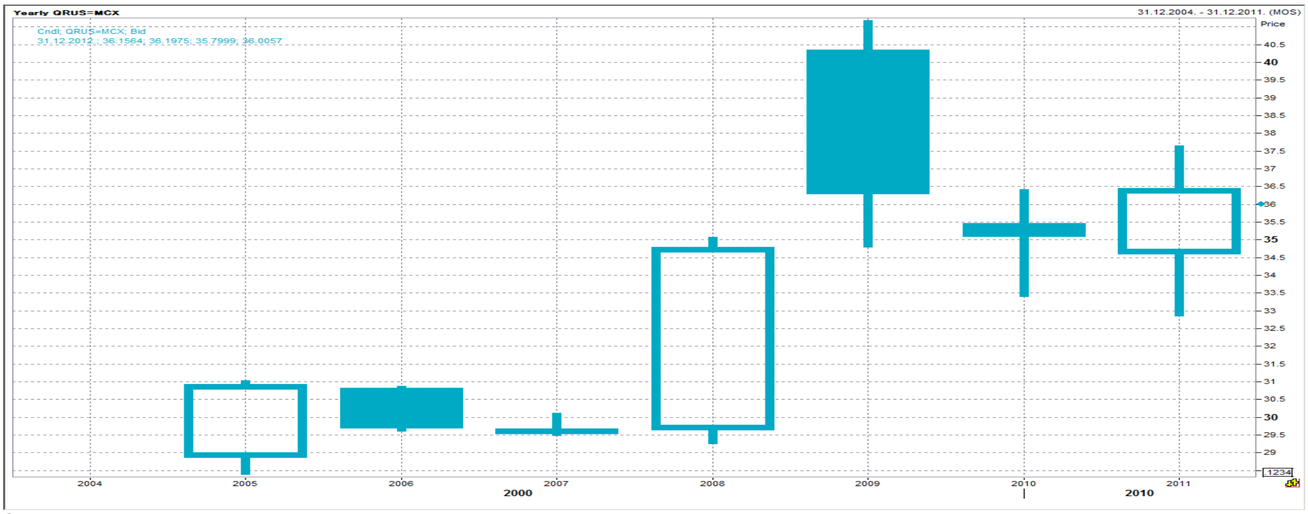
The latter demonstrated a strong decline to the dollar in September-October, given the risk aversion after the U.S. rating downgrade.

The largest annual drop against the dollar was shown by the Belarusian rouble, which fell as a result of the forced devaluation of 180%.

Substantial losses were also incurred by the Turkish lira, which fell by 17.5%, Polish zloty and Hungarian forint, which fell by 12.7%, and the Mexican peso and Brazilian real, losing 11.2% and 10% respectively.

The Russian rouble also fell against the dollar, but less dramatically, losing 5.2%, whereas the rouble drop against euro-dollar basket was 4% (see Fig. 10).

Fig. 10. Dynamics of the Russian rouble to euro-dollar basket, annual bars



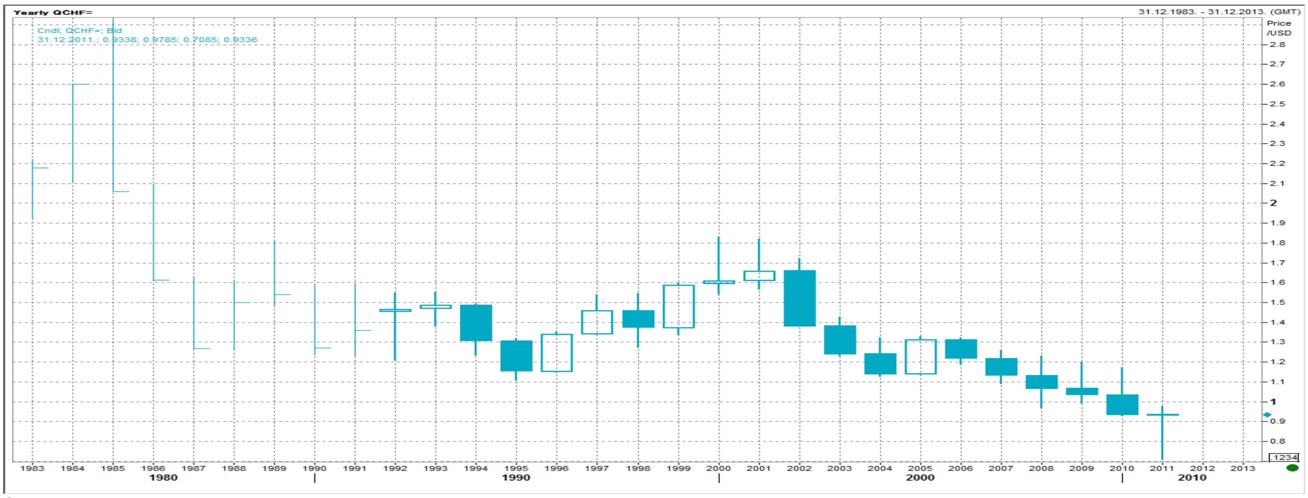
Source: Thomson Reuters

In the developed currencies market, a significant event in 2011 was a "revolutionary" decision made by the National Bank of Switzerland.
On 6 September, the National Bank of Switzerland announced that it will not allow weakening of euro against franc below 1.20, holding this level by purchasing foreign currency for francs in unlimited quantities!

This decision actually changes the architecture of today's global monetary system. Although an option for taking such measures existed since the gold standard was abandoned, no central bank has not yet dared to exercise it.

As a result, franc, which began the year with continued strengthening against the dollar, reaching new historic maximum of 0.7085 USD/CHF (+24%) at the beginning of August, closed it at the opening level of the year (see Fig. 11).

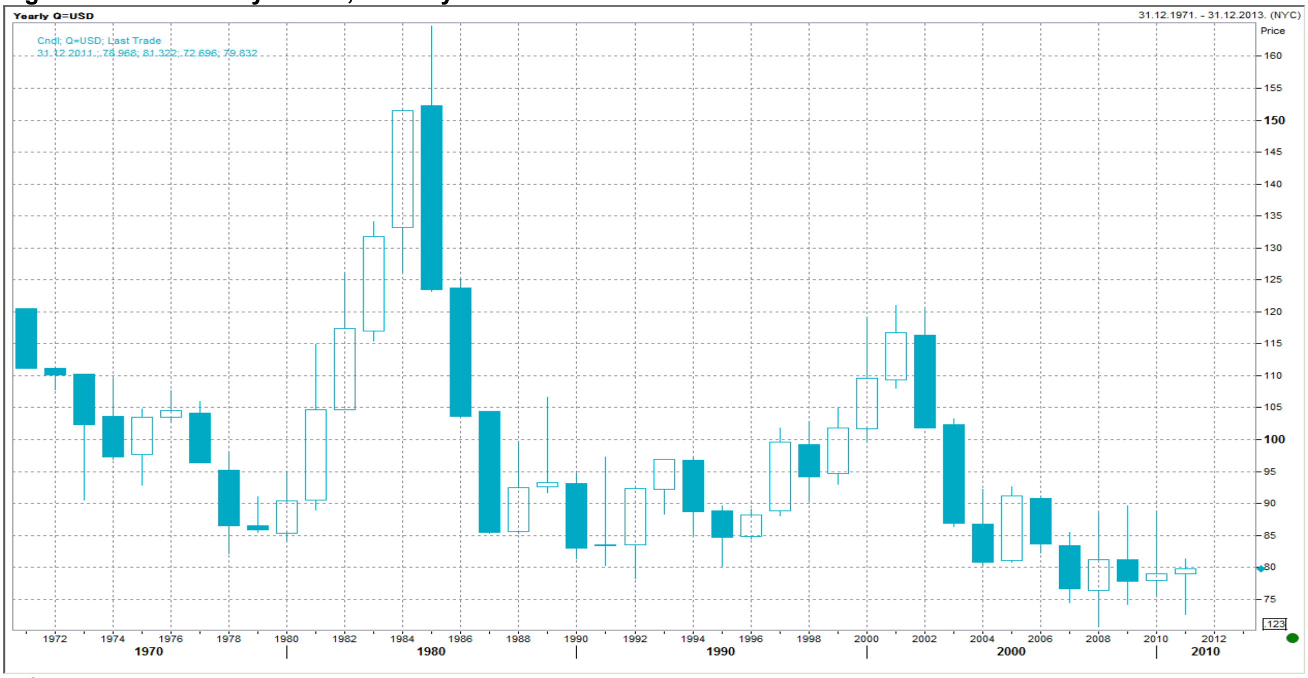
Fig. 11. Swiss franc to dollar dynamics, annual bars



Source: Thomson Reuters

Dollar index – the dollar's rate against six leading world currencies – started the year with a noticeable decline, largely due to a sharp drop in the dollar to the franc, but still ended it with a slight increase of about 1% (see Fig. 11).

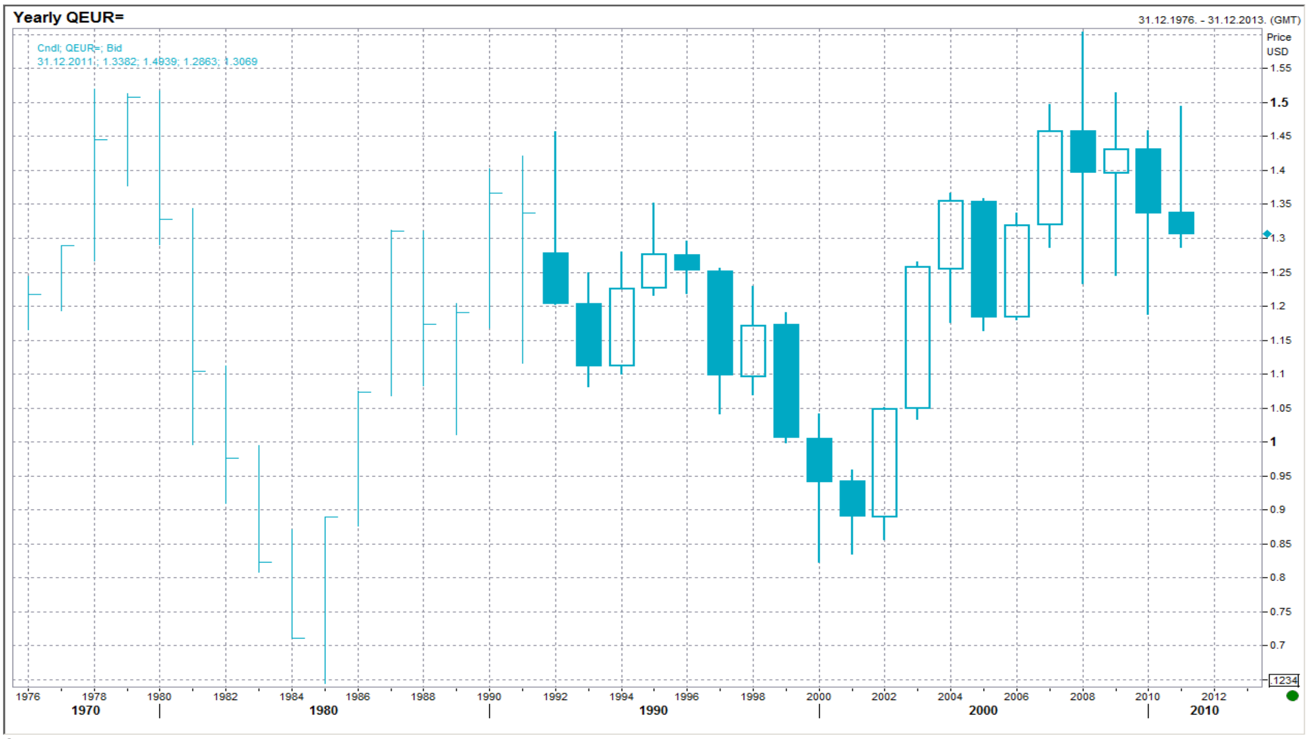
Fig. 11. Dollar index dynamics, monthly bars



Source: Thomson Reuters

As for the main rival of the dollar – euro, it started the year with a considerable growth against the dollar. However, alongside growing debt crisis in the euro area, the trend reversed, and euro closed the year with a fall against the dollar by 2% (see Fig. 12).

Fig. 12. Euro to dollar dynamics, annual bars



Source: Thomson Reuters

Our assessment of future scenarios

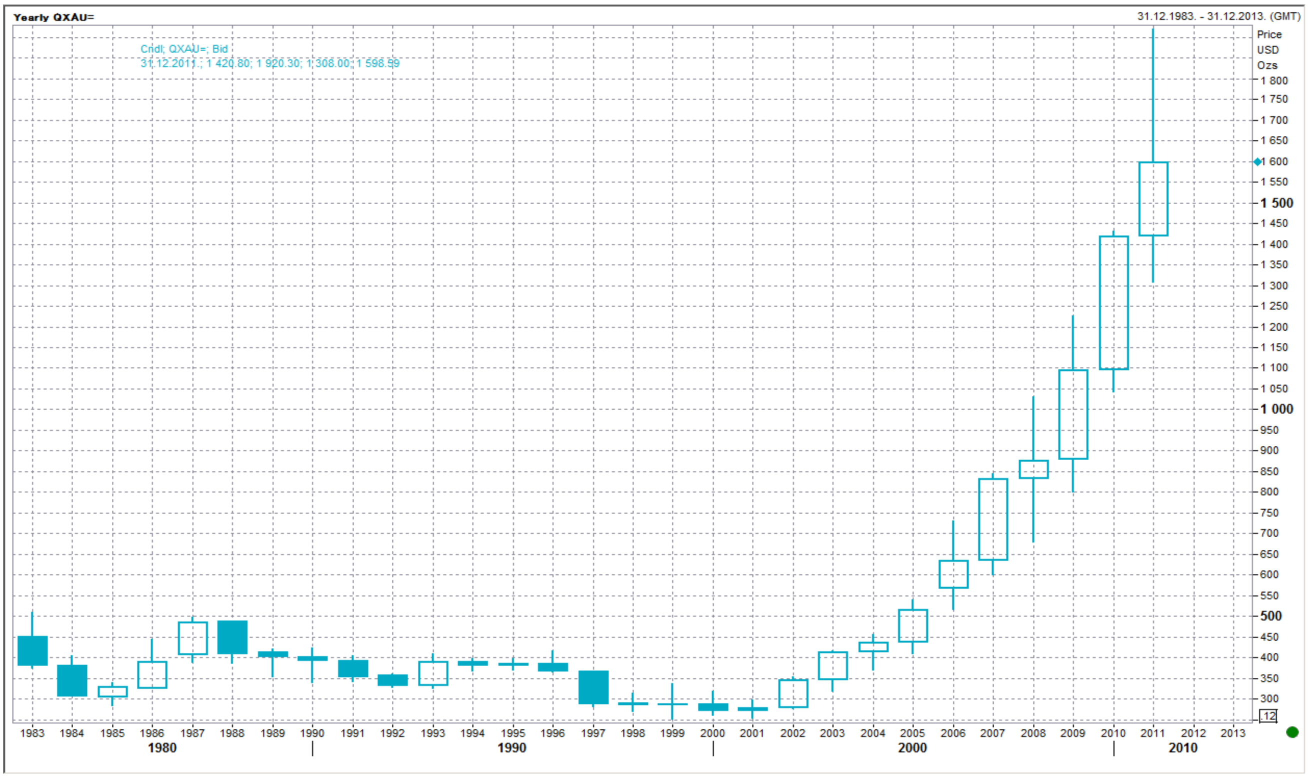
Our main scenario for the euro-dollar market remains unchanged. According to this scenario, the dollar minimum reached in July 2008 at the level of 1.6040 EUR/USD, is the end point of the long-term trend of the dollar falling against euro and the beginning of the trend for its long-term growth.

Consequently, we do not change our fundamental outlook for the market, according to which exchange of the euro to the dollar will fall to parity-close levels (1 EUR/USD) in 1-2 years.

Gold

In 2011, gold trading was quite volatile, and in September new gold price maximum of **$1920** per ounce was set (+35%, compared with the beginning of the year). But then the market has organized a strong downward correction in prices, and gold closed the year near the level of $1600 per ounce, which is only 14% above the opening of the year (see Fig. 13).

Fig. 13. Dynamics of the gold prices, annual bars



Source: Thomson Reuters

Our assessment of future scenarios

Gold prices have already entered the hall reached $1750-$2000 per ounce, which at the beginning of the year was considered a target one for the current growth trend and a level where the basis for the trend reversal will be formed. However, given the strength of the growth trend, it is still very likely that prices will continue to grow, reaching the level of $2000-$2500 per ounce.

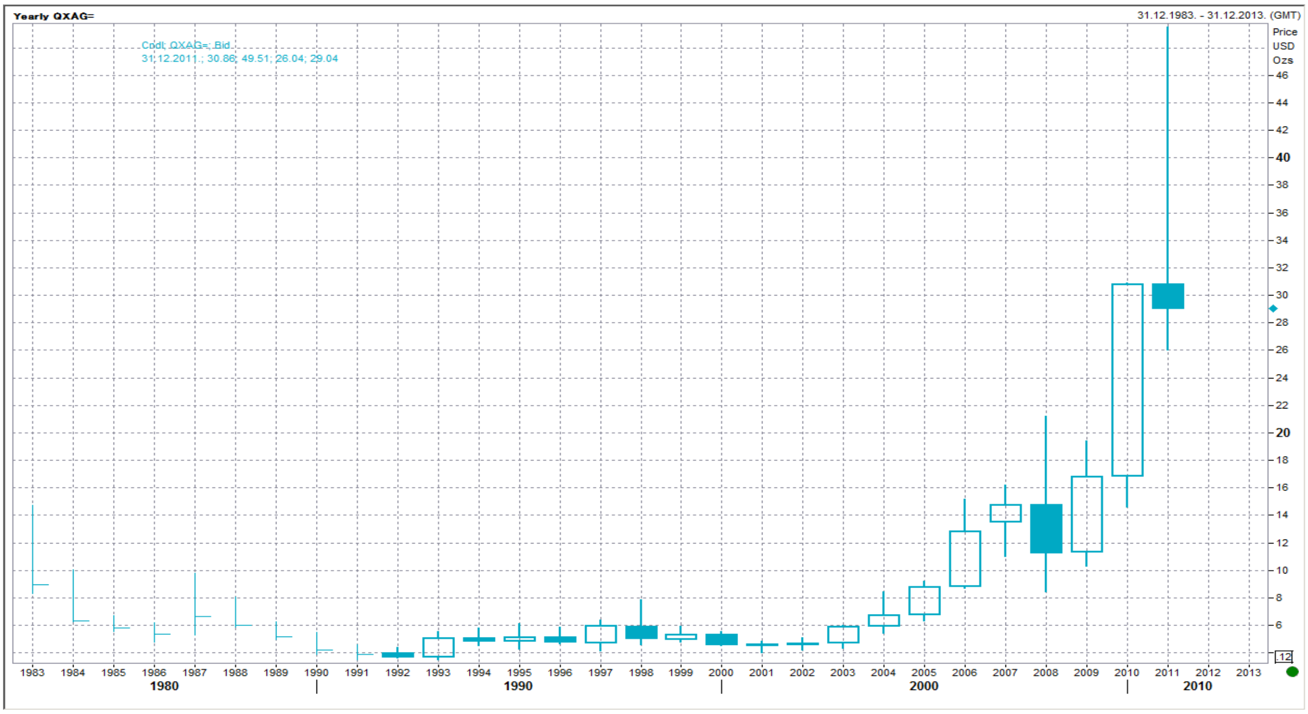
At the same time, the speculative nature of the movement in gold prices suggests that prices will not remain at high levels for long. Later, we are likely to see a rapid fall in prices, often observed in other speculative bubbles. Of course, it is possible that prices do not go back to previous levels of $300-$400 per ounce, but return to levels near $1000 is very likely.

A possible signal for the bubble break can be a sharp rise in prices for a short time, similar to that of August, but with greater amplitude and during a shorter time.

Silver

The year 2011 was really dramatic for silver market, where a sharp price increase by **75%**(!) in February-April ended with a bubble burst and prices fall below their opening level of the year (see Fig. 14).

Fig. 14. Dynamics of the silver prices, annual bars



Source: Thomson Reuters

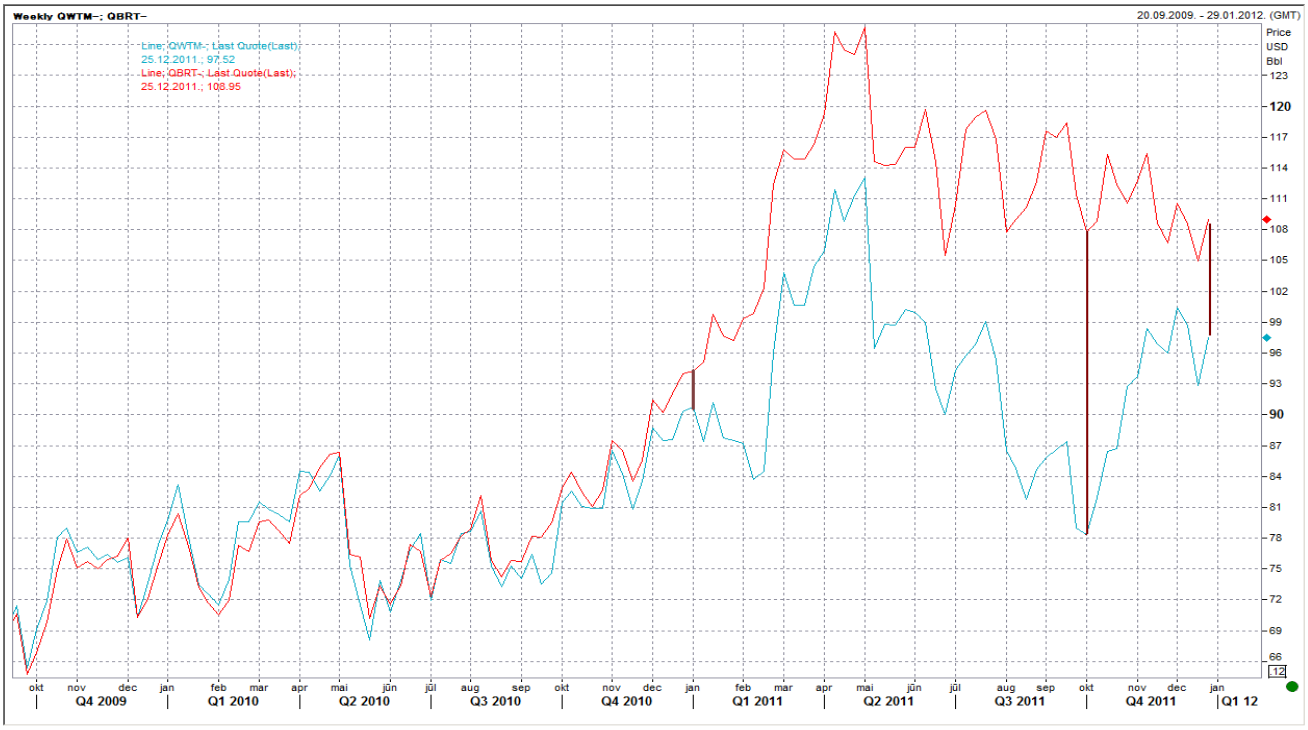
Our assessment of future scenarios

Strong fall in prices in May and September indicates that the price bubble of 2010-2011 had indeed burst. However, the dynamics of further movement in prices is still uncertain and may depend on price movements in the gold market.

Oil

In the oil market, it was the year of "playing the spread," where price differences between brands of Brent crude and WTI rocketed from a few dollars at the beginning of the year **to $30** in October, and then it was reduced to $8 by the end of the year. As a result, prices of WTI and Brent showed different dynamics, and the price of the former grew by 10% for the year, while that of the latter – by 17% (see Fig. 15).

Fig. 15. Brent and WTI price dynamics, monthly lines



Source: Thomson Reuters

Our assessment of future scenarios

We continue to believe that the price maximum of $128 per barrel achieved in May is a local maximum. Accordingly, in the medium term fall in prices close to $90-$100 per barrel and below is more likely than the resumption of growth of prices to new maximum above $128.

Review information

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The review author is ABLV Asset Management, IPAS (legal address: 23 Elizabetes street, Riga) officer Leonīds Aļšanskis, Dr. Math. The information contained in the review is obtained from sources considered to be trustworthy in financial markets, but ABLV Asset Management, IPAS or its officer shall not be held responsible for accuracy and comprehensiveness of the obtained and provided information.

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