

## Rising Investment Interest in Telecom; GDP Surpasses Expectations

### Market overview

Between November 18 and December 2, 2024, Armenia's stock market exhibited mixed dynamics. Shares of Telecom Armenia surged by 10.0%, reaching their highest value since the IPO. This upward momentum began when Telecom Armenia announced the most significant modernization of its network infrastructure and software in the company's history. In contrast, shares of ACBA Bank remained relatively stagnant, showing approximately zero growth, even though the statistic showed that country's GDP for Q3 slightly exceeded expectations.

The price index for three-year corporate bonds remained virtually unchanged during the period, with trading confined to a narrow range over the past few weeks. Overall, we anticipate a state of zero dynamics amidst a relative absence of significant surprises in macroeconomic statistics. The Armenian dram (AMD) exchange rate has depreciated by an additional 2.2%, settling at approximately 392.8 AMD/USD. This depreciation is largely attributed to external factors, particularly the strengthening of the U.S. dollar on the global stage. However, if this currency weakening persists, it could exert pressure on importers and potentially accelerate inflation in Armenia over the coming period.

### Economic news

Between November 18 and December 2, 2024, the Armenian Statistical Committee released GDP data for the third quarter, which revealed slightly stronger performance than anticipated. For the first time since May 2024, producer price growth showed a noticeable acceleration. Additionally, a report from the World Bank highlighted that, in the absence of re-exports of (semi-)precious metals (particularly gold) and stones, export growth would have been nearly stagnant. While this observation comes as no surprise, it indicates a potential for significant currency volatility (weakening) over the medium to long term, should there be shifts in market conditions or changes in import/export dynamics.

- o In the third quarter, the country's GDP growth slowed slightly to 5.2% year-on-year and 25.6% quarter-on-quarter, surpassing the consensus forecast of 4.4% year-on-year. The manufacturing and accommodation & food services sectors led this growth. Although the stronger-than-expected GDP performance is a minor positive for investment activity, its direct impact on securities prices is unlikely due to low market efficiency, and small trading volumes.
- o In October, the economic activity index was slightly below the previous month and expectations: +4.2% year-over-year versus an expected +5.0% and September's +7.0%. If this slowdown in economic activity persists, it may provide further support to the Central Bank's path of monetary policy easing in the short-term. Conversely, industrial production and retail sales exceeded both last month's levels and projected values.
- o According to the World Bank, without the re-export of precious and semiprecious metals - particularly gold - and stones, the country's exports in September would have shown nearly no growth. This factor remains the primary driver of export expansion. The reliance on a single factor indicates potentially weak sustainability of current foreign trade levels and currency flows. This could lead to volatility or weakening of the country's currency in the future, driven by potential changes in factors such as import/export conditions (including taxes and restrictions), declining global demand for precious metals, and lower prices, especially for gold and silver, which are currently trading near historical highs.



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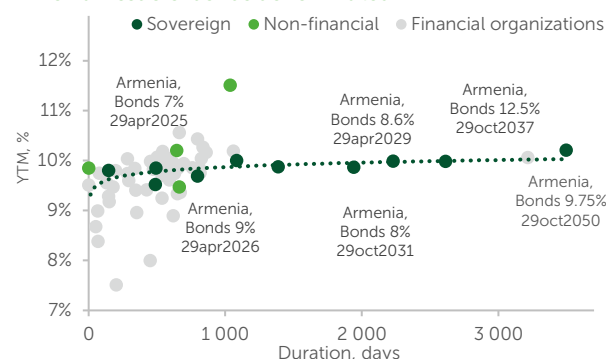
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### Key economic indicators

	Growth YoY	Growth MoM
CPI - Oct	0.6%	0.3%
GDP - 3Q	5.2%	25.6% QoQ
Economic activity index - Oct	4.2%	4.6%

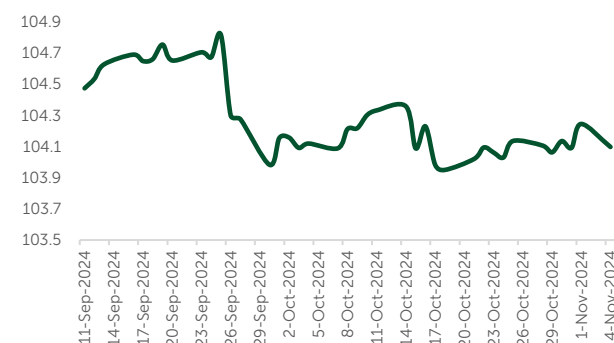
Source: armstat.am, Freedom Broker Armenia

### Armenian issuers' bonds denominated in AMD



Source: cbonds.com, Freedom Broker Armenia

### Three-year corporate bonds index in AMD \*



Source: amx.am, Freedom Broker Armenia

\*The historical comparison of the index is irrelevant - since September 10 the calculation method was revised

- The Producer Price Index (PPI) for October rose to 4.9% year-on-year, significantly surpassing market expectations of 3.0% year-on-year. This increase marks the highest level since May and indicates some acceleration of inflation in the country. If this trend continues, it may also affect consumer inflation (CPI) dynamics. Additionally, the continued weakening of the AMD could become a new driver for accelerating inflation in Armenia.

#### Company news

- The acquisition of 100% of the shares of "HSBC Bank Armenia" CJSC by "Ardshinbank" has been finalized. After nearly ten months of integration, HSBC Armenia has been renamed "Ardshininvestbank."
- Armenian startup SuperAnnotate has announced that it raised \$36 million in its second round of funding, led by Socium Ventures, according to Arka.

#### Bond market overview

**US Market:** Yields on US government bonds (US Treasuries) decreased across the curve last week (ending November 29). However, we believe the current level of 10-year US Treasuries yields is within a fair range. Although yields are expected to decrease further over the medium term amid a correction in forward rates. Overall, we think the current levels of the yield curve have priced in a lot of positive factors and few risks.

**Global High-Yield Bond Market:** Corporate high-yield bonds (HY) in global markets faced price growths last week. Appetite for credit risk deteriorated, and OAS spreads on high-yield bonds widened amid rising uncertainty due to fears of trade wars. Overall, we believe that now is not the most favorable time to buy HY bonds, except for issues with high premiums and coupons.

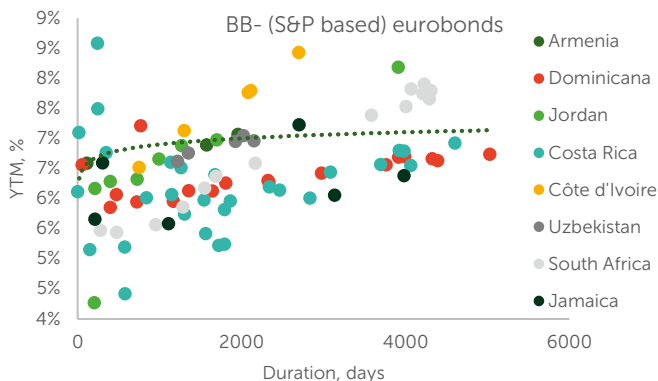
**Armenian Market:** The Armenian bond market, denominated in drams, remains quiet. The yield curve has hardly changed, awaiting further actions from the central bank. However, the risk of further currency depreciation may act as a restraining factor for yield corrections, despite the expected continuation of rate cuts in the economy.

#### Outlook for the next two weeks

Between December 6 and 16, 2024, the release of statistical data on a limited number of macroeconomic indicators is planned. Additionally, there may be updates to previously published data with final, refined metrics.

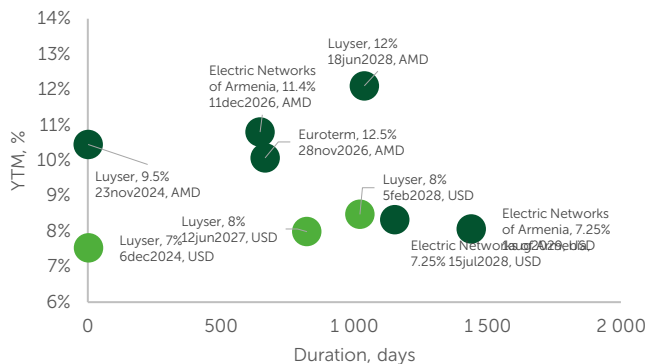
The publication of the CPI is expected to indicate an acceleration in price growth from 0.6% to 0.9%. This inflation data may significantly impact the Central Bank's decision on the refinancing rate in December, which also falls within the relevant timeframe. In our baseline scenario, we anticipate the Central Bank of Armenia to continue easing monetary policy with at least one more rate cut in the next two to three months. This expectation is based on inflation persisting below the Central Bank's target level and the still-high unemployment rate in the country. However, the regulator's decisions will heavily depend on the forthcoming data.

#### Sovereign Eurobonds of developing countries with BB-rating, in USD



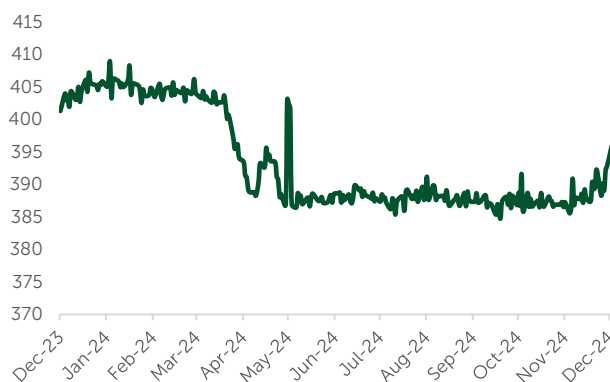
Source: amx.am, cbonds.com, Freedom Broker Armenia

#### Non-financial organizations' bonds of RA



Source: cbonds.com, Freedom Broker Armenia

#### USD/AMD dynamics



Source: amx.am, Freedom Broker Armenia

Chart 1: Currency rate dynamics

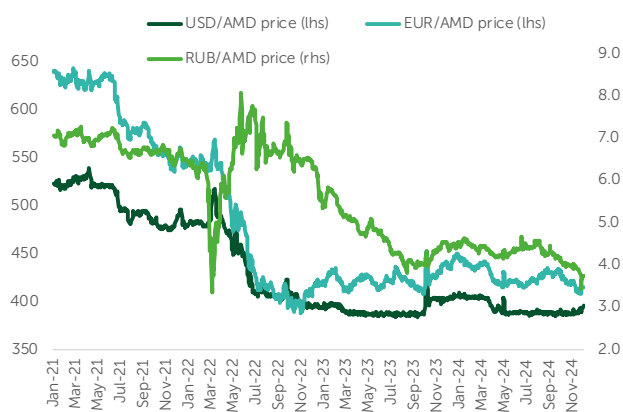


Chart 2: CPY vs refinancing rates of RA

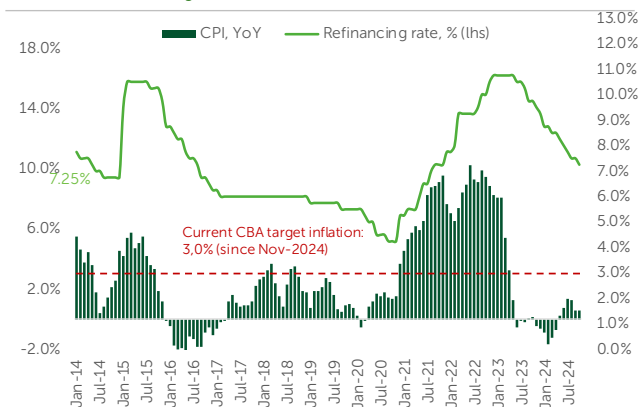


Chart 3: Armenian export breakdown by countries

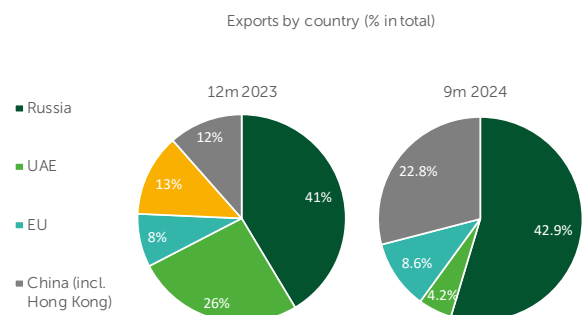


Chart 4: Armenian import breakdown by origin countries

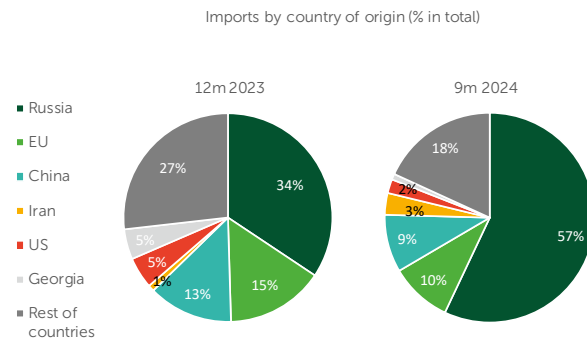


Chart 5: Armenian export breakdown by products

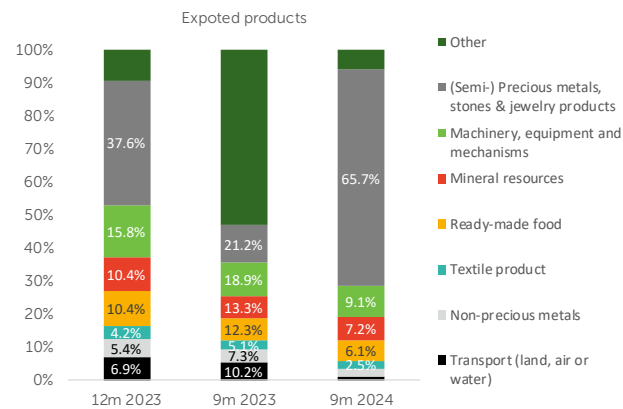


Chart 5: Armenian import breakdown by products

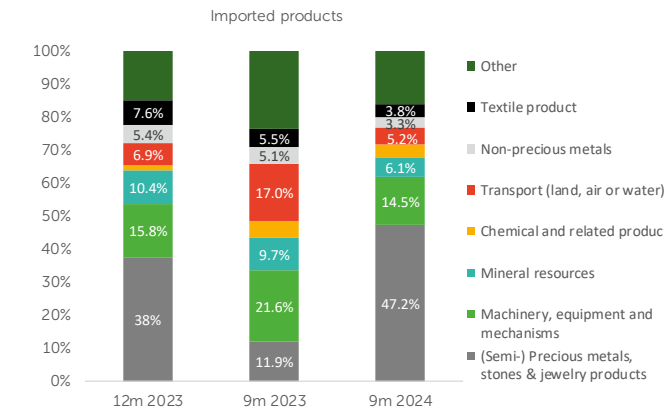


Chart 6: Construction price index

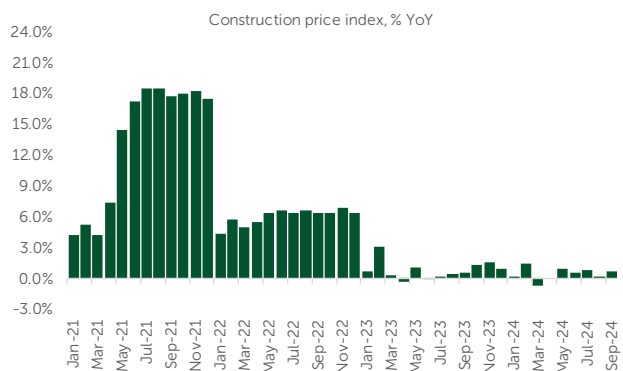
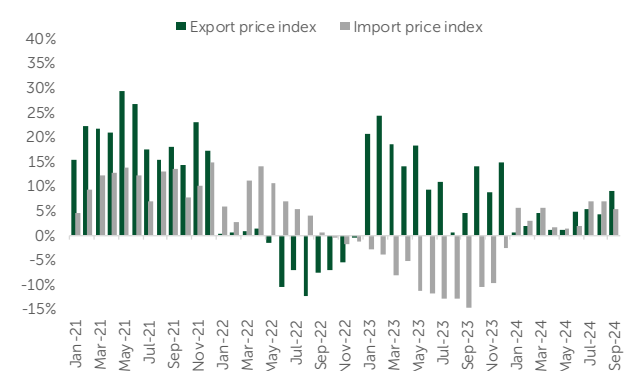


Chart 7: Export and import price indices



Source: armstat.am, cba.am, FactSet, Bloomberg, Freedom Broker Armenia

# Freedom Broker Armenia

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