

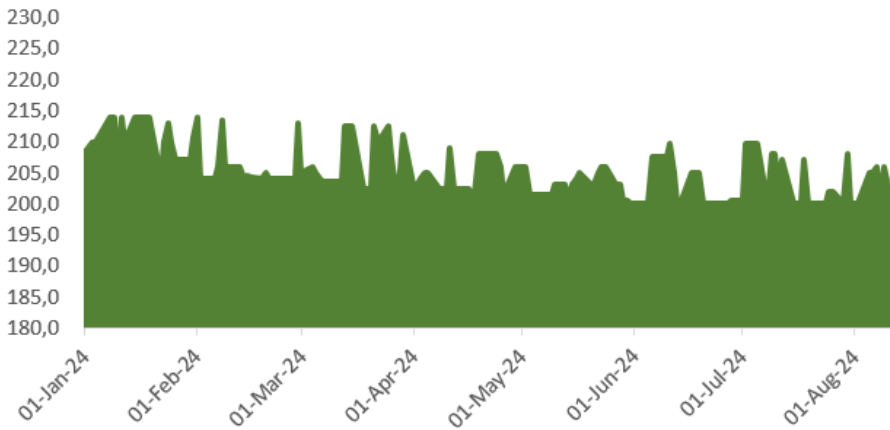
Acceleration of Inflation and Capital Flow into the Banking Sector

- The Armenian stock market exhibited mixed dynamics from July 29 to August 12, 2024. ACBA Bank shares slightly increased by 2.7%, reaching a peak not seen since mid-June after falling nearly 8.0% since the end of April (as of August 9). Positive news includes recent statistics indicating a weak but positive growth in lending volumes by commercial banks in Armenia for June (up 1.4% month-on-month). On the other hand, the Central Bank of Armenia's refinancing rate cut at the end of July and a 1.1% month-on-month decline in bank deposits are likely to counterbalance the positive backdrop. In our view, this movement is more related to a flow of funds from the telecommunications sector to the financial industry, likely due to the lack of growth catalysts for the former in the near term. June statistics indicated that revenue in the communications sector grew by only 1% month-on-month. Consequently, Telecom Armenia's shares fell by 4.6%, dropping below the important AMD 200 per share support level for the first time in 2024, posing risks of further pressure on the stock.
- The three-year corporate bond price index remained stable during the period under review. The Armenian dram exchange rate also remained steady. With the Central Bank maintaining a conservative approach to monetary easing, its impact on bond yields, prices, and the currency market's balance of supply and demand has been minimal. On the other hand, the acceleration of inflation in the country in July was no surprise to the market. However, it slightly exceeded expectations and was likely already reflected in the prices of financial instruments and bonds. We expect at least two more rate cuts from the Central Bank this year to ensure inflation nears its target level.

ACBA BANK share dynamics, 1 year

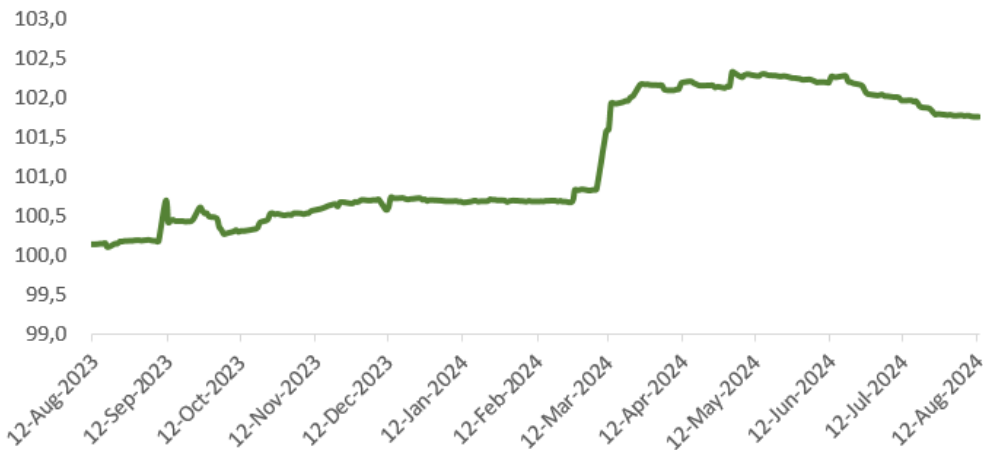


Telecom Armenia (post-IPO) share dynamics



Source: amx.am

3-year corporate bond index (AMD), 1 year



Source: amx.am

Economic News

Between July 29 and August 12, 2024, Armenia's Statistical Committee released several important data points. Inflation in the country accelerated slightly more than expected in July. However, deflation persists in the country for the first seven months of the year, which, in our view, could prompt the regulator to make at least two more rate cuts this year. The statistics also indicated a larger increase in the negative trade balance. If this trend continues, along with the Central Bank's rate cuts, it could pressure the dram's exchange rate.

- Armenia's inflation (CPI) reached 1.4% year-on-year (y/y), compared to the forecasted level of 1.0%. Food and non-alcoholic beverages rose by 0.7% y/y last month, reversing a decline from the previous month. However, the largest price increases, as in the last month, were seen in alcoholic beverages and tobacco (+4.3% y/y compared to +4.8% in June) and transport costs (+10.0% y/y compared to 10.8% in June). Despite this, deflation remains for the first seven months of 2024, though it has halved to 0.3% y/y.

Against this backdrop, we expect at least two more rate cuts by the Central Bank in 2024.

- The negative net export balance in June increased by 24.8%, reaching \$252 million. Exports in June grew by 59.9% y/y but were 10.9% lower month-on-month. Import growth was 20.6% year-on-year, but compared to the previous month, the volume of imports fell more slowly than exports, down by 3.5% month-on-month. The exchange rate will likely be pressured if the month-on-month export decline continues, combined with further rate cuts.

- Copper concentrate production in Armenia increased by 15% y/y to 144,600 tons in the first half of 2024. Production of zinc and molybdenum also rose by 20.8% and 25.2% y/y to 5,390 tons and 7,920 tons, respectively. While the increased production rates should already be reflected in currency dynamics and likely contributed to its strengthening in the first half of the year, non-precious metals currently account for only about 2% of total exports. The production and export of precious metals and jewelry have a much greater influence on the exchange rate.

Company News

- Armenian company ServiceTitan, founded in 2013, ranked sixth on Forbes' annual list of the 100 best cloud companies (Forbes Cloud 100 Rising Stars). According to the magazine, the company is valued at \$7.4 billion and employs 2,300 people

Expectations for the Next Two Weeks

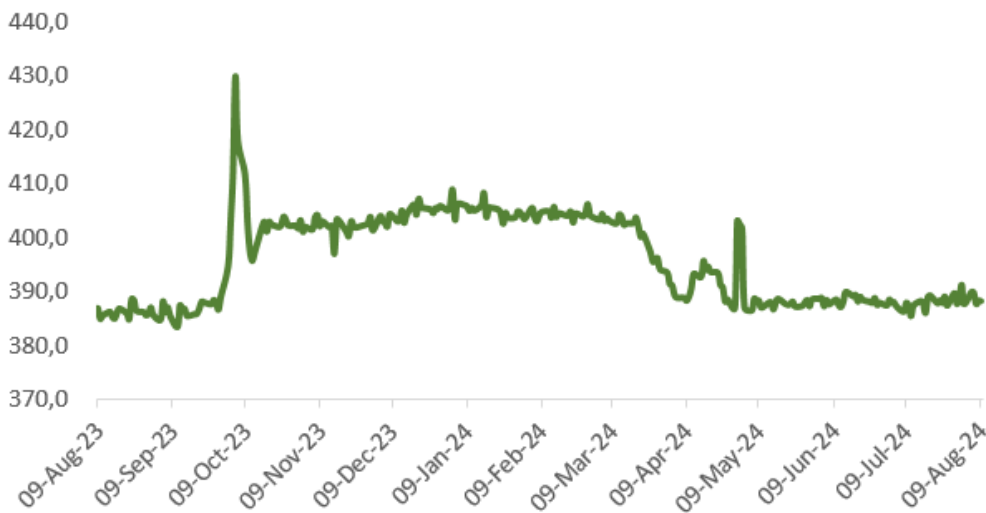
The Republic of Armenia is scheduled to release several important macroeconomic data points between August 16 and 26, 2024, though delays are possible. Revised (final) values of previously published indicators will also be released.

We do not expect any major surprises from the statistics over the next two weeks, and market dynamics should remain calm, according to our expectations. The July trade balance report, which could provide more insight into currency movement potential, is forecasted to show a deficit increase to \$280 million.

Second-quarter GDP growth is expected to decline to 5.5% from 9.2% in the first quarter of 2024. However, this statistic should already be indirectly factored into the prices of financial instruments, so we do not expect a significant market impact. Additionally, the publication of the economic activity index is planned, with expected growth slowing to 4.1% y/y in July from 7.1% in June. This, along with the expected cooling of domestic consumption growth – retail sales – from 16.2% to 4.5% y/y, should provide insights into the economy's trends at the start of the year's second half. In general, slight cooling should not significantly affect the country's investment climate.

The Producer Price Index (PPI) for July is expected to decrease to 4.5% from 4.8%. Inflation indicators (CPI, PPI) are currently within expected ranges, reinforcing annual inflation forecasts.

USD/AMD dynamics, 1-year



Source: amx.am

Freedom Broker Armenia

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