

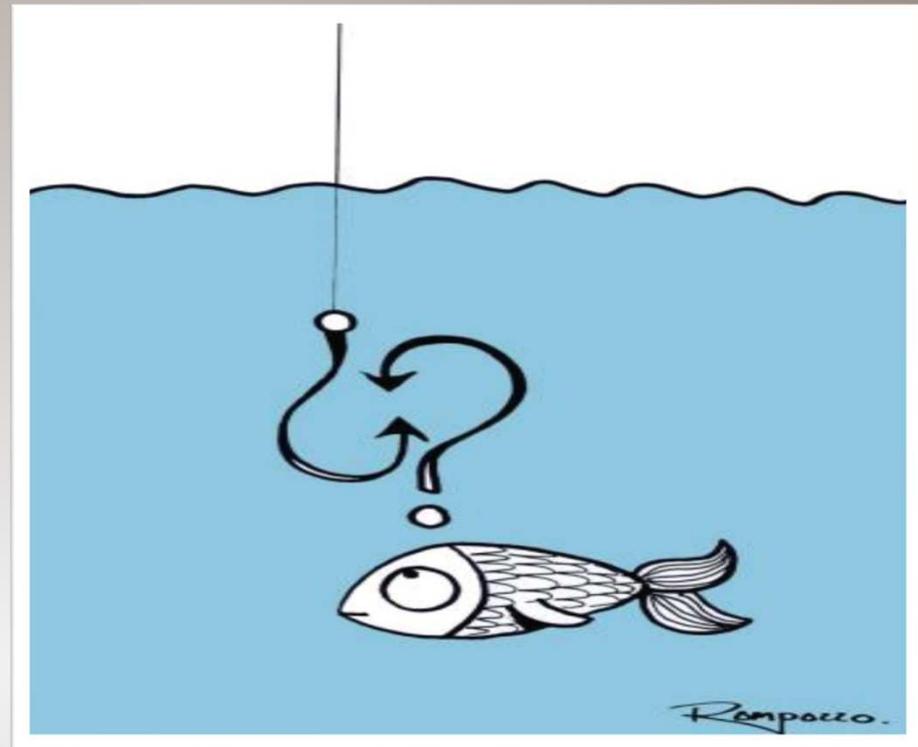
ANDBANK RESEARCH

Global Economics &
Markets

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Working paper - 47

This is no longer a lemming-like world . Do not be fooled by goldilocks type theories. Some ideas and recommendations.

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ANDBANK /
Private Bankers

Is this a mediocre lemming-like market where your earnings has nothing to do with your abilities or ... is a rigorous and highly demanding one, where certain skills are required?

One way to assess the type of market in which we operate is through the analysis of the Forex market, and more particularly the performance of each currency category. But, first of all, let us show you what these categories are.

Currency Category	Examples	The best environment
"Stores of Value" Considered the savings currency. Usually the ones with lower yields.	CHF, GBP, EUR	When it seems that the world is going to hell
"Standards of Value" Considered the commodity currencies. Are those backed by gold or other commodities traditionally held within the country.	NOK, ZAR, AUD, NZD, CAD, BRL	When money-printing excess looks to reflate the economy & asset markets
"Means of Exchange" Trading currencies which do a lot of trade with the "high income – high consumer" economies	MXN, CNY, SGD, PHP, THB, MYR, IDR, JPY, KRW, TWD	Global Upward cycles.

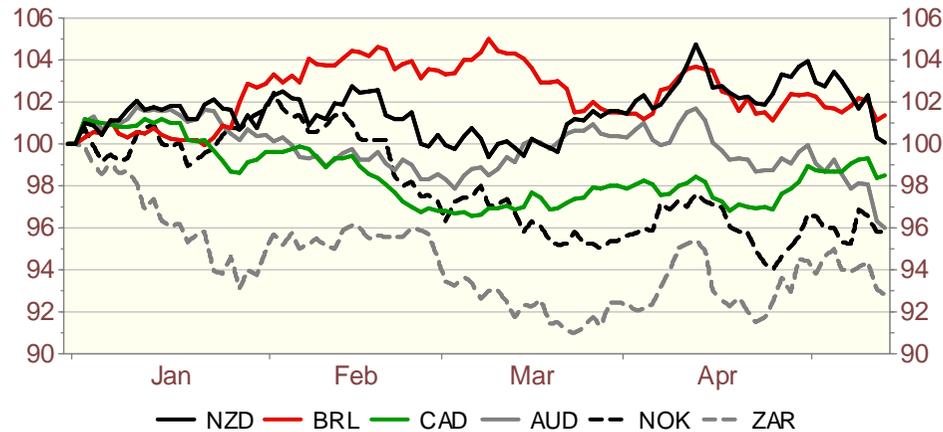
*Categories defined by Pierre Gave in its May 14 paper.

Now, let us go through the analysis of the year to date performance of each currency category, in order to assess what type of market we operate in.

Currency Category	Global Assessment of YTD Performance (vs USD)	Specific Behavior of Currencies (vs USD)
"Stores of Value"	NEGATIVE PERFORMANCE	CHF (-4,6%) GBP (-5,4%) EUR (-1,8%)
"Standards of Value"	MIXED	Positive to Stable Performance: BRL (+1,4%), NZD (+0,1%), CAD (-1%) Negative Performance: ZAR (-7,8%), NOK (-4,13%), AUD (-4%)
"Means of Exchange"	MIXED	Positive Performance: MXN (+6,8%), THB (+3%), MYR (+2%), CNY (+1,4%), PHP (0%) Negative Performance: IDR (-1%), SGD (-1,6%), TWD (-2,55%), KRW (-3,7%)

Graphically, the mixed YTD performance of the currencies within the last two categories

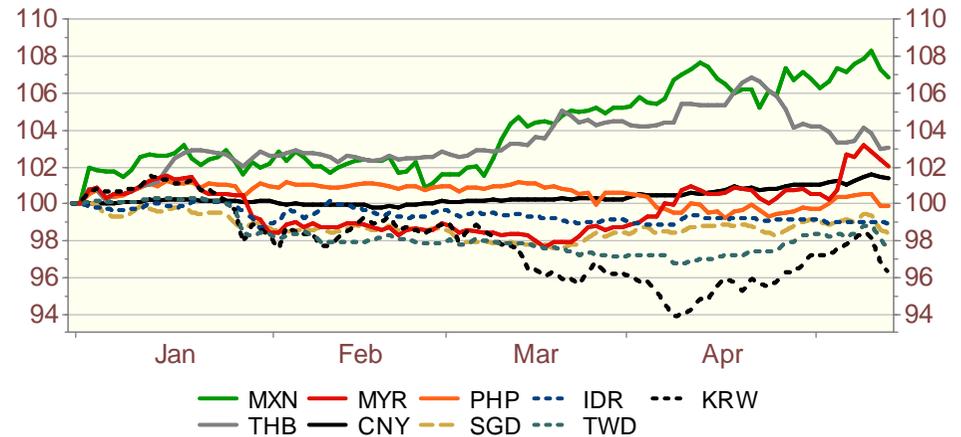
"STANDARDS OF VALUE" vs USD (Commodity currencies) - Index 100



Source: Andbank, WM/Reuters, Factset

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"MEANS OF EXCHANGE" vs USD - Index 100



Source: Andbank, WM/Reuters, Factset

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The messages derived from this analysis are clear.

1st Message: "According to the most liquid and sophisticated market (Fx), the World is not going to hell"

- ✓ Otherwise, the first group of currencies ("Stores of Value") would have appreciated instead of experiencing a very rough time this year.
- ✓ Investors are stepping away from classic safe-haven currencies,

2nd Message: "This is no longer a lemming-like market, but a rigorous one that requires of certain skills"

- ✓ Otherwise, the performance of the currencies within the other two categories would have been similar.
- ✓ Instead, the mixed performance within the two categories (Standards of Value & Means of Exchange), suggests two things:
 1. Investors would be now displaying a more discerning approach
 2. Aspects such as underlying fundamentals matter now much more

About our Perspectives. The “Bullet points”

1. This pattern will continue developing.
 - ✓ Uneven performance of currencies (even those within the same category)
 - ✓ Uneven performance of equity markets
 - ✓ Uneven performance of sectors within the same market (both in equities and credit).
2. What means that we are not dealing with a “goldilocks” type market ... nor a lemming-like market. You should not assume that the next two years will be the same as the previous five years.
3. Investors will probably continue displaying a more discerning approach, where aspects such as underlying *fundamentals* will matter much more and should stand as the most decisive factor.
4. Knowing this, and according to our outlook for the global economy and financial markets environment, we to advocate for positioning portfolios structurally in assets (equities, fixed income and Fx) related to the currencies of the third category “Means of Exchange” (except those closely linked to the JPY).

Instruments and ideas that suit best the environment described

Tailor made products

1. Currency basket, Mean of Exchange-type (vs USD).

- Underlying currencies: CNH, THB, MYR, IDR & INR (equally weighted)
- Upside potential: 85% of the basket appreciation vs USD (no coupon payments)
- Guaranteed Capital: 95%
- Maturity: 3 years
- Issuer of the note (credit risk): HSBC senior, Rating Aa3, A+, AA-
- Possible scenarios at the end of the product:
 1. If the basket has appreciated versus USD at maturity date, client will receive 100% of principal plus 85% of the appreciation.
 2. If the basket has depreciated versus USD at maturity date, client will receive 95% of principal.

For further details, please contact with our trading desk in Andorra or Panamá

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