ECONOMY & FINANCIAL MARKETS

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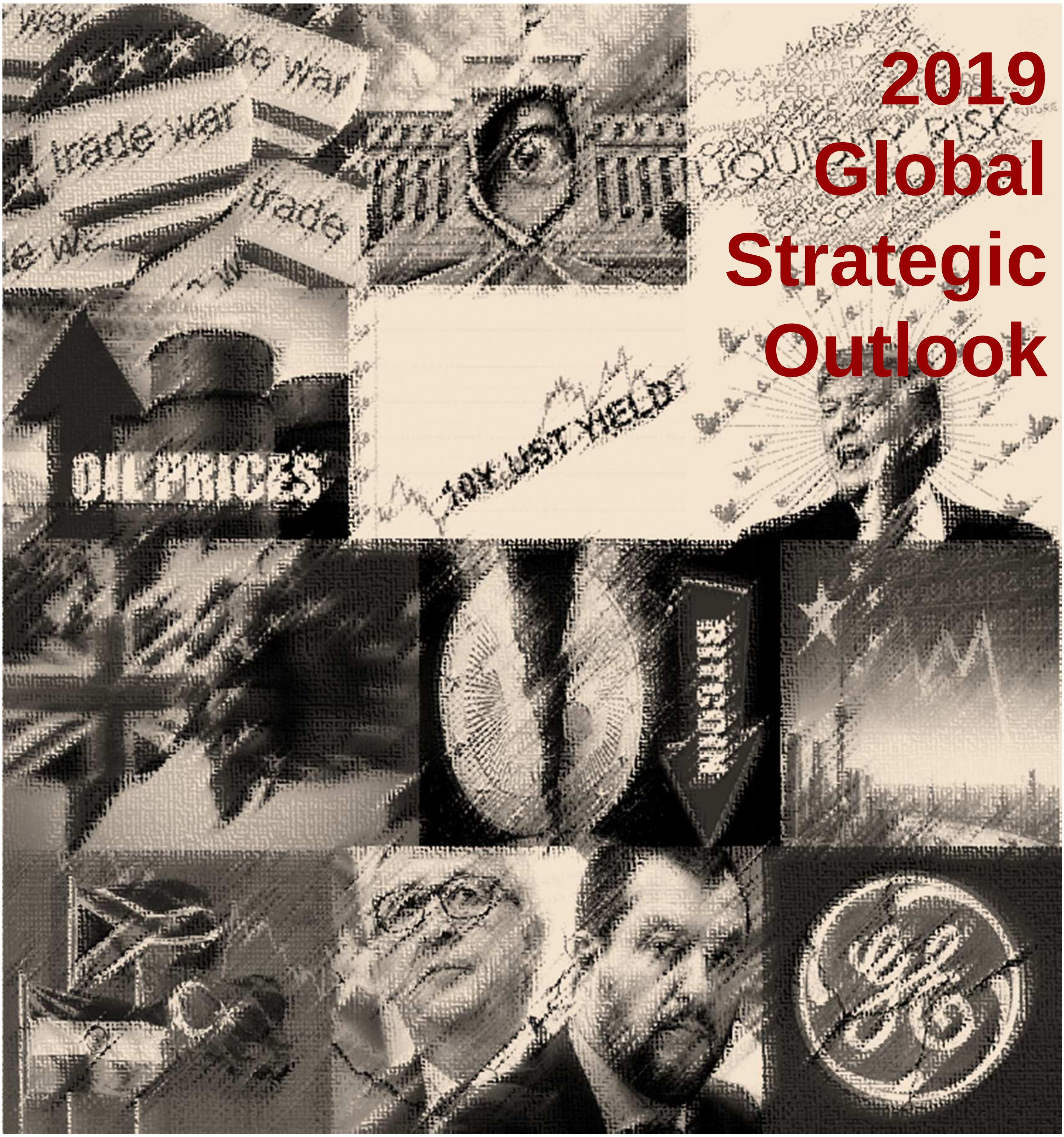
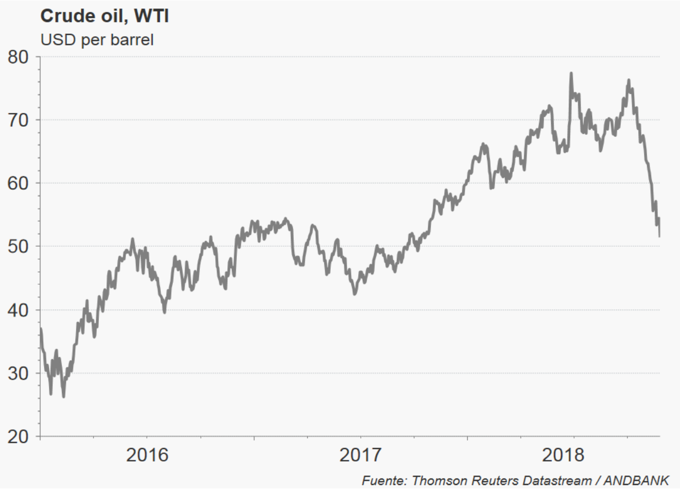
Andbank Monthly Corporate Review | Global Strategic Outlook 2019

2019 Global Strategic Outlook



EXECUTIVE SUMMARY

CHARTS OF THE YEAR



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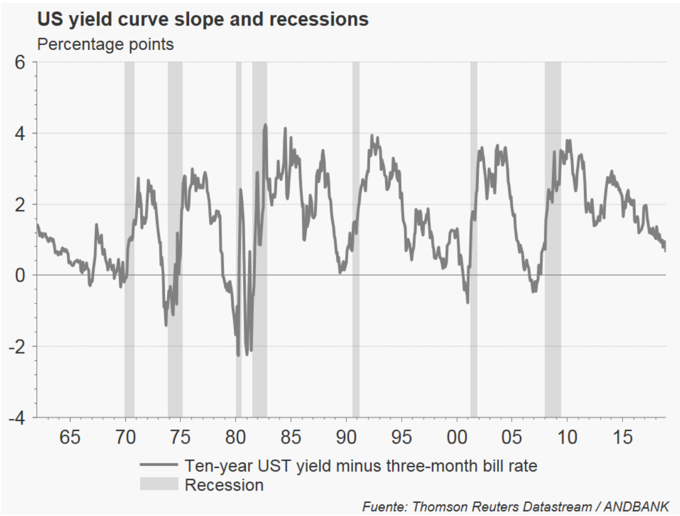

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EQUITIES

Corporate margins are probably nearing a cyclical peak. This is usually a sign of maturity, even if it does not imply that earnings growth can't rise further. As a result, the market is tilted towards punishing companies that miss market expectations. ***S&P***: NEUTRAL-POSITIVE. Central point 2,800. Exit point 3,080. ***Stoxx 600 Europe***: POSITIVE Central point 370. Exit point at 407. ***Ibex***: POSITIVE: Central point 9600. Exit point at 10.500. ***Emerging Markets:*** POSITIVE (preferred markets are India, China, Brazil)

FIXED INCOME

Our base case sees the Fed hiking rates twice in 2019, becoming increasingly vigilant with regard to signs of a deceleration in growth and would stand ready to adjust the monetary policy stance. In Europe, We expect the depo rate to start returning to "0" within 2019, with the first hike around September. QE expires in December 2018, but reinvestments in 2019 could be around 185 bn. Bund target at 0.9%. We remain cautious on Peripheral debt, which we consider expensive. Following 2018's correction, we project positive returns for EM bonds.

CORPORATE CREDIT

Corporate spreads look stretched, mainly among lower-rated speculative-grade bonds (B- and CCCs) which currently offer a risk premium close to historical lows. The speculative-grade segment, driven tighter by strong investor appetite for yield and spread in the fixed income world, appears quite tight vs the IG segment. We remain negative on euro denominated IG credit, and more neutral on HY, fixing our targets for the at 92 and 350 bps respectively. We are neutral-positive on USD IG credit, with a target of 85 in the CDX IG, and Neutral-negative in the CDX HY, with target at 490.

CURRENCIES

G4 reserve currencies (ex-USD) continued their trend of extending shorts, with market volatility failing to trigger a consistent change across non-US reserve currency positioning. The dollar continues being the main beneficiary in positioning buildup, with the JPY, the EUR and the CHF being sold. We still favor the USD vs EUR, the GBP vs USD, and the CHF vs EUR.

COMMODITIES

Energy: Neutral. The justifiable fundamental price, in our opinion, would be around USD50 for the WTI, and some factors could help keep oil prices subdued in 2019: 1) Saudi-Russian alliance facing its toughest test. 2) Demand will probably ease in 2019. 3) We could see more Iranian crude in the market than many expect.

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USA

Growth to ease to 2.7%. The Fed will hike rates twice

Domestically driven growth. Inflation & the Fed

We forecast full year growth of around 2.7%, with H2 averaging 2.1%. The risks to these forecasts come in the form of a monetary policy mistake, with the Fed hiking rates faster than necessary and an escalation in the trade war. Spending remains solid: Labor income growth has accelerated well above its post-crisis average, with broad wage growth adding to a rapid pace in job gains. Household balance sheets appear healthy and the savings rate is up, making the consumer outlook even more resilient. We expect wage pressure to continue on a gentle upside trend, resulting in price dynamics being contained. With a flat Phillips Curve, the key to driving inflation will be inflation expectations, but it takes a lot to significantly move expectations. We forecast core CPI ending 2019 at 2.2%. Our base case sees the Fed hiking rates twice in 2019, becoming increasingly vigilant with regard to signs of growth deceleration and would stand ready to adjust the monetary policy stance.

Corporate sector

Business confidence improved meaningfully after the passage of tax reform, but we never saw a true lift-off in capex with growth only reaching the mid-single digits. If trade tensions are resolved, it could unleash pent-up investment which would be a positive surprise for 2019. Moreover, with oil prices heading lower, energy-related investment won't be as attractive but new rules on expenses should encourage equipment spending in the near term. Surveys of capital spending plans show they have declined from their highs, but continue to point to strong growth. A general decline in the debt growth trend helped to stabilize the degree of leverage in most sectors, despite overall debt levels remaining near cyclical highs. On the flip-side, corporate spreads look stretched mainly among lower-rated speculative-grade bonds (B- and CCCs) which currently offer risk premiums close to historical lows. The speculative-grade segment, driven tighter by strong investor appetite for yield and spread in the fixed income world, appears quite tight vs the IG segment: the average spread between BB- and BBB-rated debt is currently at historical lows, after recently compressing below 2014 lows. The combination of supportive trends in fundamentals and tighter valuations in a mature phase of the cycle calls for a more selective approach to credit markets. Furthermore, on the technical side, despite the absence of a "maturity wall" for US companies, refinancing needs are high over the next few years on the back of unprecedented growth in the size of the market over the last few years.

US Equity indices. No change in trend.

Corporate margins are probably nearing a cyclical peak. This is usually a sign of maturity, even if it does not imply that earnings growth can't rise further. As a result, the market is becoming more tilted towards punishing companies that miss market expectations vs rewarding companies that beat estimates. We project sales to grow 5.7% in 2019, with margins easing to 11.9% (from 12.2% last year) mainly due to the increase in labor costs and funding conditions. This could lead FY2019 EPS for the S&P to around 169, representing growth of just 3%. As we do not expect multiples to increase substantially, remaining in the 16.6x range, this leaves us with our new justifiable fundamental target price of ~2,800, with an exit level of 3,080.

Financial market outlook

Equities – S&P: NEUTRAL-POSITIVE. Target 2,800. Exit point 3,080

Bonds – Govies: NEUTRAL (10YUST entry point 3.25%)

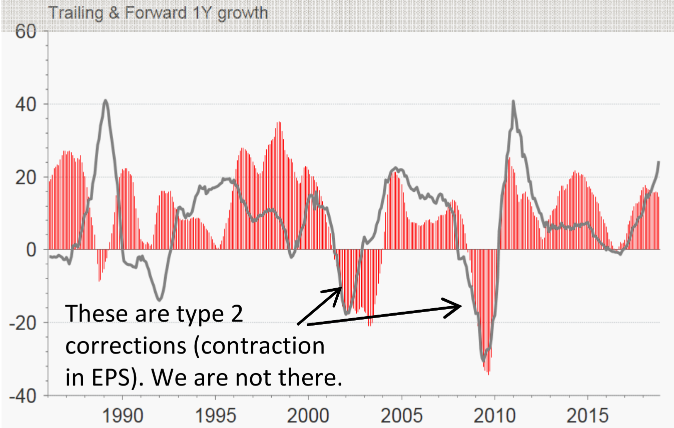
CDX IG : NEUTRAL-POSITIVE (Target Spread 85)

CDX HY: NEUTRAL-NEGATIVE (Target Spread 490)

Forex – CDX index: NEUTRAL

S&P 500 - EPS

Trailing & Forward 1Y growth



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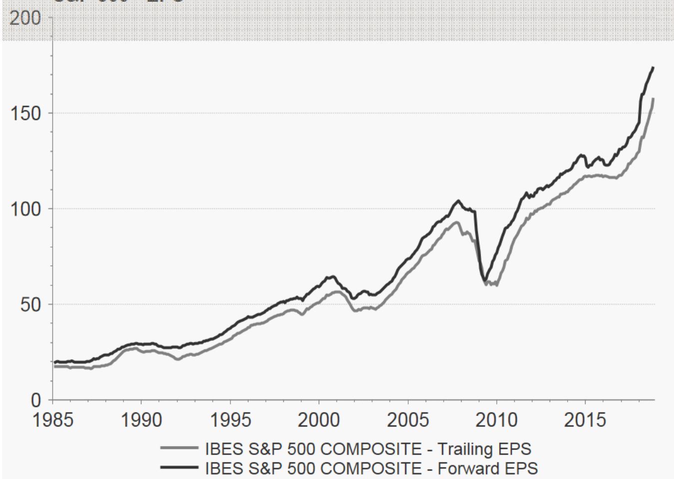
S&P 500 - EPS



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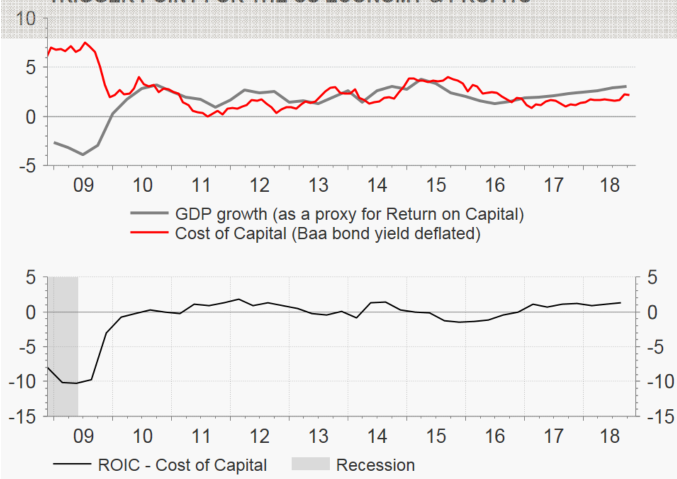
TRIGGER POINT FOR THE US ECONOMY & PROFITS



Fuente: Thomson Reuters Datastream / ANDBANK

EUROPE

Negative in bonds. Positive in Equities

GDP growth to ease again but the ECB will normalize

We project 2019 GDP growth of 1.8% YoY for the Eurozone and 1.9% for the EU. This is low compared to historical standards, but still above potential (1.5%). 2019 inflation estimates should hover around 1.8% for the overall reading, with the core figure stepping up from 1.1% to 1.4% fueled by higher wages. A reasonable trend and levels to ensure the gradual normalization of the ECB's monetary policy. We expect the depo rate to start returning to "0" within 2019, with the first hike around September. QE expires in December 2018, but reinvestments in 2019 could be around €185 bn, €17 bn/month, which would allow for a gradual decrease in monetary support. TLTRO III cannot be totally discarded, but would be controversial if perceived as a dovish signal.

Government & Corporate bonds

Increasing supply in addition to lower demand from the ECB and further steps towards the normalization of short term rates give us a negative view on government bonds. Peripherals have benefited the most from QE, among others, and most of the good news regarding Spain and Portugal seems to be behind us. Italian bonds deserve a special mention. Cheap on a relative basis, they will remain highly dependent on political news. Banks will not help this time as they already hold a large amount of BTPs. Wide ranges and high volatility should be expected. Fundamentally speaking, spreads should contract in 2019 towards 250 bp. In the corporate bond market, CSPP activities will be restricted to reinvestment of the less than €6bn of maturing corporate bonds in 2019. On the positive side, non-financial corporates will cut their net issuance to €60bn (from €95bn seen in 2018). The outlook appears weaker for Financials as they will face a substantial increase in net debt issuance (from €65bn to €145bn) to meet the new MREL requirements. EBA-stress tests showed "that participating banks are more resilient to macroeconomic shocks than two years ago". On the negative side, UK banks suffered substantial hypothetical hits to their CET1 ratios associated with Brexit. We stick to our defensive stance and continue being cautious in Peripheral and UK names.

European area equity indices

We project sales growth of 5.6% in the companies of the Stoxx 600 Europe Index. On the negative side we expect a slight contraction in margins to 8.3% (from 8.5% in 2018) mainly due to a gradual increase in labor costs (+1.3%) and funding costs (0.25%), which will only be partially offset by meagre growth in productivity (+1%). This will leave us with EPS of ~€26.9, representing earnings growth of about 3.5%. We prefer to extend the current levels of trailing PE ratios to Dec 2019 (we have not got enough evidence to assume any growth in PE multiples), which results in a reasonable fundamental price of 370 for this index.

Financial market outlook

Equities – Stoxx Europe: POSITIVE. Central point 370. Exit 407

Equities - Euro Stoxx: POSITIVE. Central point 367. Exit 403

Bonds – Core governments: NEGATIVE (Bund target yield 0.90%)

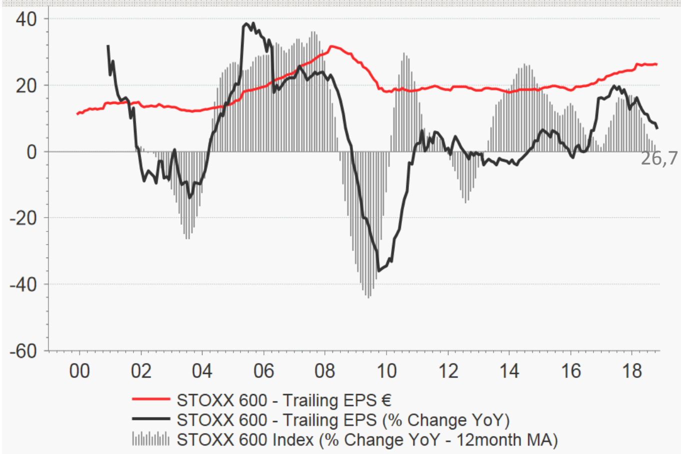
Bonds – Peripheral : NEGATIVE (SP 1.90%, IT 3.5%, PO 2.2%)

Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 92)

Credit – Itraxx Europe (HY) : NEUTRAL (Target Spread 350)

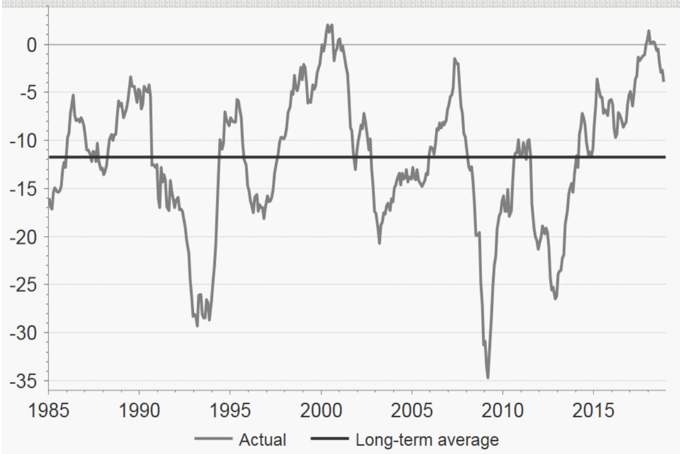
Forex – EUR/USD: NEGATIVE (1.125)

STOXX 600 - EPS
1Y % Change



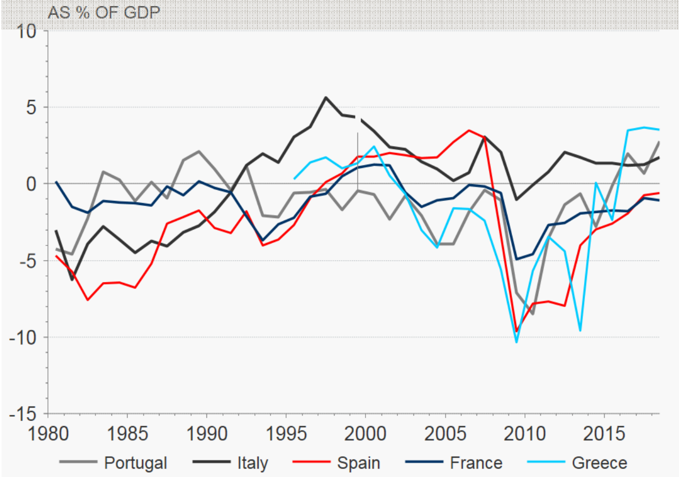
Fuente: Thomson Reuters Datastream / ANDBANK

Euro area consumer confidence
Balance



Fuente: Thomson Reuters Datastream / ANDBANK

GOVERNMENT PRIMARY BALANCE
AS % OF GDP



Fuente: Thomson Reuters Datastream / ANDBANK

SPAIN

After a sharp rise in the risk premium, the Ibex offers value

A significant political hubbub

Political uncertainty will probably increase again in Spain. This year we will have at least three elections. Almost all the regional parliaments have to be elected, although it is highly unlikely we will see early elections in the volatile region of Catalonia. At the national level, despite the Government's efforts to stay for a full parliamentary term and shelve general election plans until mid-2020, we do not rule out that elections may happen sooner. Possibly in 2019. Everything will depend on the results of the regional elections. We do not believe that the trigger will be the minority PSOE government failing to get its 2019 budget through parliament. With regards to this budget, we are relatively confident that any budget that obtains the approval of the Spanish Congress will be approved by the European Commission, and Moscovici and his team at a European level. However, it is highly likely that Sanchez will not receive the necessary support to approve his budget, making a scenario in which the government will have to extend the 2018 budget increasingly likely.

Softer growth after recent strong years

The Spanish economy is slowing down, but continues to enjoy solid growth above the euro area average. The economy is losing the tailwinds of the external sector and tourism is waning. The fundamental pillars of the strong growth in recent years have been the continued recovery of the labor markets (which supports household consumption), real estate and dynamic fixed investment. With respect to prices, our headline inflation forecast for 2019 is 1.7%. We expect a downward trend throughout the year with less pressure from oil prices. However, we project core inflation to end 2019 at 1.4%, from the current 1%. Salary growth per hour, which has been negative in the last two years, should finally recover. But we do not translate the expected wage improvement to demand, since households are likely to use part of the increase to restore their savings ratio, which has fallen to a historical low of 5.5%.

Spanish equity index (IBEX)

As one of the cheapest indexes in the world, the Ibex is trading at less than 12 times its income. 2018 has been a challenging year for Spanish equities, due to domestic politics, intense elections in Latin America, UK exposure, Turkey, the significant weight of banks in the index, the effects of the EU-Italian stand-off, etc. Some of this weakness could fade next year, as we expect a better environment in Latin American economies at some pint in 2H 2019. Moreover, a clearer political future or softer peripheral risk could bring some well-deserved respite to the depressed Spanish P/E multiple. We forecast sales at Ibex companies to grow by 3.6% in 2019, with margins easing to 9.3% (from 9.4%) mainly due to an increase in labor costs (+1%) partially offset by productivity gains (+1%). We fix the EPS forecast at 769, which means just 2.2% growth in earnings. On the positive side, we think there is space for PE multiples to expand moderately to the ~12.5x area, resulting in a fundamental target price of 9,612 for the Ibex index.

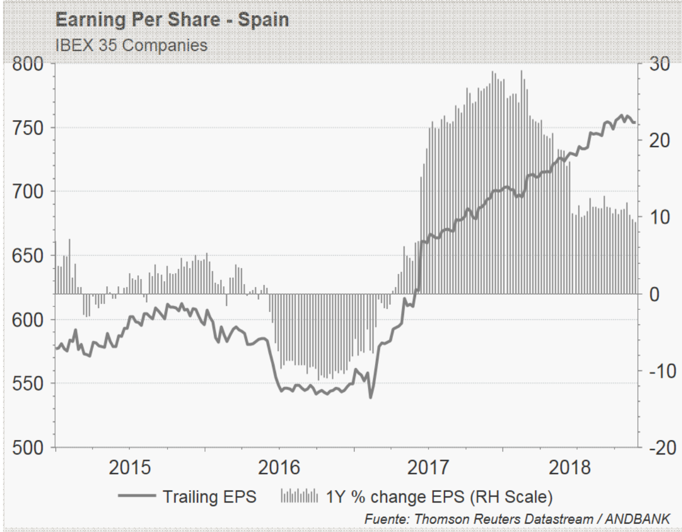
Financial market outlook

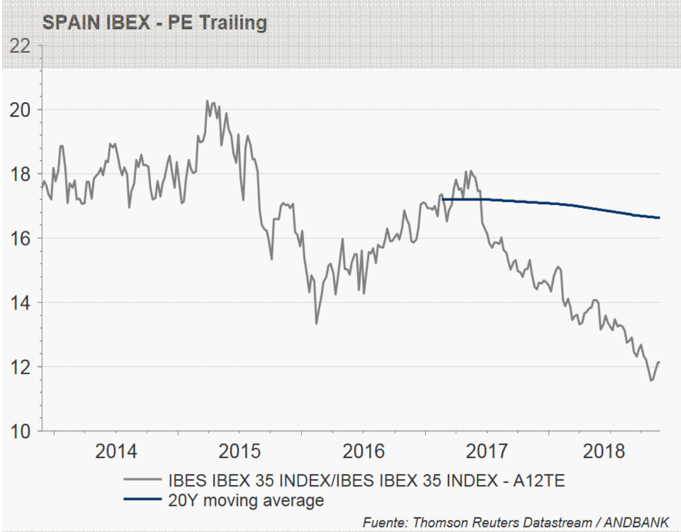
Equities–IBEX: POSITIVE. Central point 9,612. Exit point 10,570

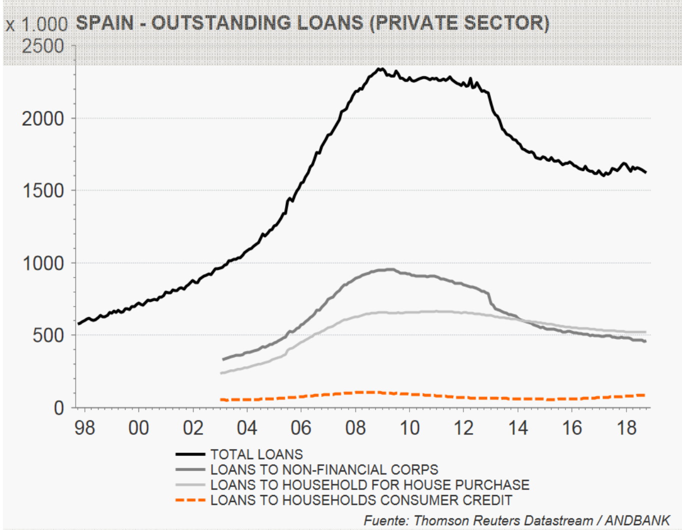
Bonds – Governments: NEGATIVE (BONO target yield 1.90%)

Credit – Invest. grade: NEGATIVE

Credit - High yield: NEUTRAL







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MACROECONOMY

JAPAN

Debt levels higher than the end of WWII but still not worrisome

Fiscal situation. Policy and Outlook.

While net debt at 128% of GDP is much smaller than gross debt of 224% in Japan, it is still notably higher than the OECD average (60%), and more importantly, the trend in indebtedness also holds for net debt. Behind the persistent growth in the debt-to-GDP ratio is a stubborn fiscal deficit largely reflecting secular challenges of an aging population (social security expenditure) and a retreating active population (no rise in tax revenues). The government's strategy to lower the debt-to-GDP ratio is to pursue higher nominal growth through financial repression – huge monetary stimulus– which diverts capital from financial markets to real investment. Indeed, Abe could still use further fiscal stimulus to combat the low level of growth since inflation remains significantly lower than 2% and the current account is still in surplus (net financing capacity). However, this could pose serious risks given the already high level of debt. As such, we believe that Abe will opt for mild austerity through a rise in the VAT rate from 8% to 10% in October 2019; something that could calm investors' concerns about the fiscal situation. Another reassuring aspect is that Japan's national burden ratio is lower than in other major economies (it ranks 28th). Japan could still raise some indirect taxes that would drag less on economic growth than raising income or corporate taxes.

BOJ policy

Japan's traditional policy rate (overnight rate) has basically been zero since end of the 1990s, when the BoJ introduced QE policy far ahead of the Fed and ECB in 2001. It then invented QQE in April 2013 to dramatically expand the rate of JGB purchases, accompanied by an increase in the monetary base to raise the general public's inflation expectations. In 2015, the BoJ introduced yield curve control (YCC) targeting the 10-year JGB yield at around 0% while setting the overnight rate at -0.1%. The side effects of these policies are: 1) The BoJ holds 45% of all outstanding public debt, with foreign investors holding just 10% of total JGBs, 2) A dysfunctional JGB market, and 3) A profit squeeze in financial institutions. We believe that the BoJ is unlikely to raise rates and yields until 2020 based on its forward guidance, which reiterates that the current policy will be maintained for an extended period of time. Why? According to Carmen M. Reinhart (Harvard), there are five ways to reduce government debt to GDP: 1) Achieving higher GDP growth, 2) Austerity, 3) Financial repression (low real rates), 4) Through abrupt inflation, 5) Outright default. In essence, Abenomics is a combination of the first three and we think the strategy will remain in place.

Labor costs will grow above productivity, limiting share price expansion

Japan's economic outlook shows expected FY19 Real GDP growth of around 0.8%. On the labor front, demand for workers remains unmet and wage gains are now becoming more broad-based across the workforce. If sustained, this rise in workers' incomes should translate into stronger tax revenues, consumer spending and higher sales for corporations. Corporate profitability remains high, meaning that Japanese corporations can absorb a large part of the increased wage bill. Productivity growth will continue but we doubt it can keep pace with the rise in labor costs. As such, profit margins are likely to come under some pressure. Japanese corporations investing domestically suggests expectations of productivity growth are reasonable.

Financial market outlook

Equities – N225: NEGATIVE Central point 22,500. Exit 24,750

Bonds – Govies: NEGATIVE. Target yield 0.10%

Forex – USDJPY: NEUTRAL-NEGATIVE. Mid-term target 114

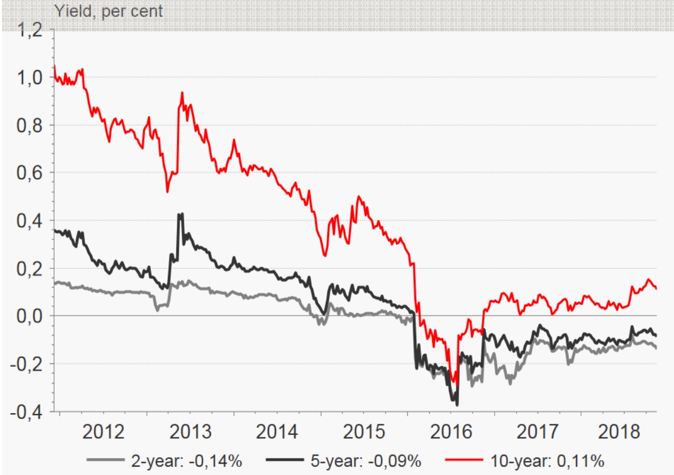
Japan Nikkei 225 price / earnings

Ratio

Fuente: Thomson Reuters Datastream / ANDBANK

Japan benchmark government bonds

Yield, per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Japan LIBOR-OIS spread

Basis points

Fuente: Thomson Reuters Datastream / ANDBANK

CHINA
Trade war as the main risk

The case for and against a deal with China

The case in favor of a deal is that China will be happy to cut an agreement that gives it more breathing room. Through its sanctions on ZTE and now on Fujian Jinhua, Washington has shown that it can shut down major Chinese companies in an instant, threatening China's entire semiconductor plan, and putting Chinese national telecom company, Huawei, at risk. On the other hand, Trump needs a statesmanlike win that will position him for the 2020 presidential election as "the man who tamed China" (in the words of one of my local partners). The case against a deal is that the US hardliners on the National Security and Trade teams (J. Bolton, Peter Navarro) have so far won every internal battle against the Free-traders team (Rex Tillerson, Gary Cohn). While Mr Trump might find it expedient to delay a deal with China until closer 2020, he acknowledges that trade tensions are not only impacting stock markets but also corporate credit markets and therefore growth. My guess is that Trump will cut a deal sooner than later.

What kind of truce could be declared?

A truce was declared in the same form as Trump's deal with EC's president Juncker in July. This is a freeze on tariffs at current levels pending negotiations on the various issues under dispute. In China's case, this would mean negotiations over a list of 140 demands that the US Treasury presented to Liu He over the summer. The good news is that Liu has already indicated that China can meet 40% of those demands soon (tariff levels and market access), and can address another 40% over time (issues related to technology transfer requirements or joint ventures). The bad news is that Liu suggested that China cannot budge on the remaining 20% of demands (related with Beijing's strategy to continue running its industrial policy with big subsidies).

Is a No-Deal scenario possible? What about the consequences?

Trade representative R. Lighthizer and trade adviser Peter Navarro prefer a No-Deal as they believe that much more pressure is needed to achieve their twin aims (thwarting China's economic and technological ambitions, and encouraging US firms to start moving investments out of China). If a No-Deal scenario occurs, Trump would probably go ahead with his threat to bump up tariff rates on all Chinese imports. Nevertheless, there is a stronger case for a deal with China. Trump issued waivers for sanctions against some countries (including China) buying oil from Iran. We frame this action in a effort from Washington to cut oil price, which suggest that Trump has abandoned his hardline ship at the slightest sign of economic or market stress. Just recall how GM, after loosing US$1bn due to tariffs on aluminum, announced 14.000 layoffs. With the cost of tariffs falling also on US consumers and business sentiment, and China preparing to offset any loss of exports with economic stimulus, it must be obvious to Trump that Xi Jinping will not capitulate to some of the US aggressive demands. Thus, the only strategy for quickly securing a successful deal is by backing away from some unrealistic demands for China to stop using government subsidies to is national companies and instead request Beijing for concessions in the areas of market access, intellectual property protection or agricultural imports. In a statement, China's Ministry of Commerce said that the trade meeting with the US was "very successful" and is confident of implementing the results agreed upon at the talks.

Financial market outlook

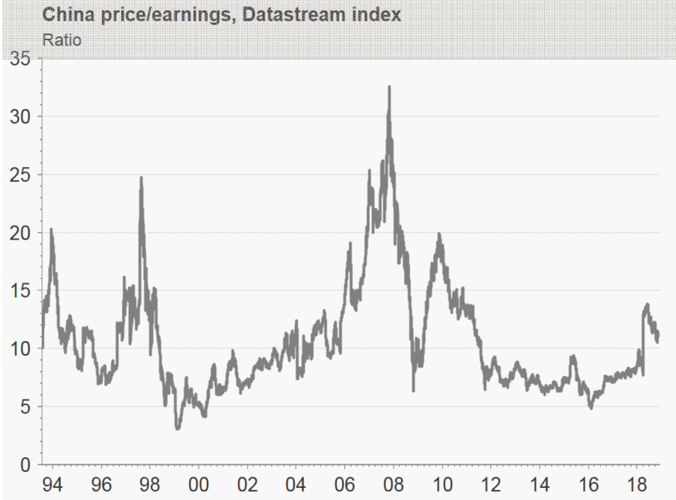
Equities – SHANGHAI index: NEUTRAL-POSIT (central point 2,907)

Equities – SHENZHEN Index: POSITIVE (central point 1,506)

Bonds – Govies: NEUTRAL-POSITIVE (target yield 3.30%)

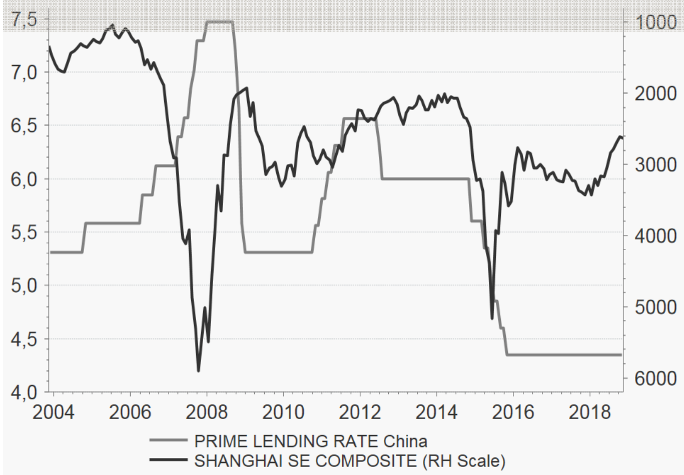
Forex – CNY/USD: NEUTRAL-POSITIVE (target 6.70)

China price/earnings, Datastream index



Fuente: Thomson Reuters Datastream / ANDBANK

Policy rates & Equity market - China



Fuente: Thomson Reuters Datastream / ANDBANK

China imports from US

Fuente: Thomson Reuters Datastream / ANDBANK

INDIA

Fintech to have a macro impact

Shifting towards a complete digital payment system

After Delhi's drive to boost financial inclusion by opening 300 million new bank accounts, providing every citizen with a unique identity number based on their biometric data, and encouraging cashless payments (mobile), India is now on a mission to bring order to this new situation. The JAM project is designed to propel India into the digital age, with India's *fintech* sector massively tapping into this digital payment and tech-enabled lending ecosystem. Foreign capital is pouring in as well, as investors bet that India will follow China's shift to a cashless economy. India already has one of the world's lowest mobile costs, helping digital payments to grow rapidly and forecasted to reach US$500 bn in one year. A government-led initiative called the Unified Payment Interface (UPI) represents an alternative to the "mobile wallets payment system", as it is free and does not require consumers to pre-load money. The UPI-enabled payment system transfers funds between bank accounts with no intermediary. Transfers are made using a virtual permanent address secured with the sender's biometric ID linked to their bank account. Most banks have their own UPI app, and Google has launched its own one. There were 406 million UPI transactions in September (10 times as many just a year earlier).

Tech-enabled lending to boost financial services

An impressive state-built digital infrastructure is leading to an explosive growth in financial & digital data, which is enabling many small businesses to borrow for the first time, with analysts projecting volumes will jump sooner than later. While India is far behind China in mobile payments and tech-enabled lending, digitalization is a vital entry point for alternative financial services. While payments companies are not currently allowed to make consumer or business loans, they generate the inputs necessary for fintech lenders to develop ways of assessing credit risk, that ultimately facilitates the lending activity. This is a critical development, because traditional banks are unwilling to lend to small businesses and unproven entrepreneurs. According to our local sources, Fintech lenders are beginning to create a layer of financial services on top of the existing banks, and are proliferating in Mumbai, Bangalore and Delhi. Tech lenders reach where banks cannot. A clear example is ZipLoan, which extends credit to proprietors that cannot ordinarily get bank loans because they are not formally audited. Executives at Niyogin Fintech believe that "there is a fortune to be made at the bottom of the pyramid". "It's banking for people at the bottom, and it's profitable". There are about 40 million businesses in India with revenues below US$1.5m with no access to funding or had to rely on the dreaded *sahukar* (the village money lender). There are now alternative credit sources to inject capital into this important part of the economy that was bogged down by poorly managed state banks. The immediate challenge is to broaden fintech's reach beyond big cities, but mobile connectivity has improved enormously since Reliance Industries launched its super-cheap Jio mobile network, driving down the cost of 1GB from US$3 to just 17 cents.

The RBI-government standoff remains a source of pressure

At the heart of this standoff is a proposal by the Government seeking to transfer a surplus of Rs 3.6 lakh crore (some US$50bn) equivalent to 33% of the capital the RBI keeps as contingency funds to cover various risks. The government is of the view that the RBI has over-estimated its capital reserves requirements. The central bank considers this attempt by the Government to dip into its reserves to fund a fiscal deficit as a negative factor for macro-economic stability. When compared with central banks in the US, UK, France or Singapore, the RBI holds much higher total capital as a percentage of its total assets (about 28%).

Financial market outlook

Equities – SENSEX Index: POSITIVE (central point 40,850)

Bonds – Govies: POSITIVE (target yield 6.80%)

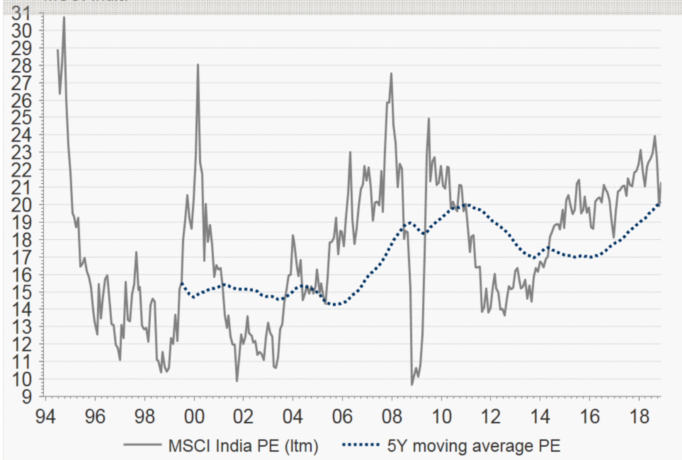
Bonds – Corporates: POSITIVE

Forex – INR/USD: STABLE (target 72)

India domestic credit
Twelve-month percentage change

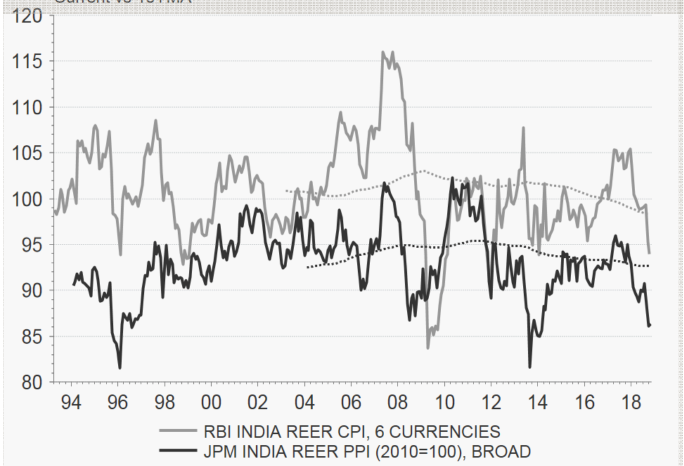
Fuente: Thomson Reuters Datastream / ANDBANK

PE - India
MSCI India



Fuente: Thomson Reuters Datastream / ANDBANK

Indian Rupee REER (CPI & PPI based)
Current vs 10YMA



Fuente: Thomson Reuters Datastream / ANDBANK

MEXICO

AMLO is using consultations to justify a populist shift in policy

Uncertain economic and fiscal policy

The decision by Mexico's President-elect, Andrés Manuel López Obrador (Amlo), to hold another public consultation in the last week of November suggests a shift away from orthodox policymaking, and could result in a larger budget deficit and more interest rate hikes. The last consultation gathered public opinion on issues such as AMLO's campaign promise to build a new oil refinery in Tabasco, whether to build a new tourist train line, increase pensions for people with disabilities or grant more job training to young people. While the results won't be legally binding, Amlo has pledged to respect the results (which were favorable for all the projects). This follows last month's airport consultation that led to a sell-off in Mexican assets due to the lack of respect for the contracts awarded to corporates that were already a third of the way through the project. Amlo is clearly a fan of referendums and consultations on issues ranging from oil auctions to the government's structural reform programme. Any row-back on these would probably prompt a very large negative market reaction. After all, Amlo has started to unnerve investors.

Amlo backs down to avoid lawsuits

GACM, the state-owned airport management company, decided to postpone the cancellation of the airport works in Texcoco, to give more time for the Government to reach an agreement with the bondholders on this project. At the same time, a program has been launched with an offer to repurchase up to US$1.8 bn of bonds issued to finance the new airport (of a total US$6 billion existing), to minimize the number of legal claims that an imminent cancellation of the airport would entail. The price of those bonds had fallen in the midst of uncertainty. The program offers a minimum price of US$90 cents on the dollar and seeks to restore investor confidence and reduce uncertainty. The plan to cancel the airport remains in place. If the purchase offer is satisfactory, the end of the works in Texcoco could officially be announced in the second half of December.

Monetary conditions worsen GDP Outlook

Rising political risks are likely to convince Banxico to raise interest rates further. The central bank increased its reference rate by 25 bp to 8% in a split decision in which one member voted to increase it by 50 bp. Internal risks were among the main negative factors cited by the central bank affecting its outlook. On the positive side, inflation has slowed recently compared to the 5% level reached in recent months and stood at 4.6% in October. We are setting our 2019 GDP growth estimate at a meagre 2% YOY, with our inflation target fixed at 4.5%

Uncertainty will weigh on Mexican assets

We believe a large part of the gloomier outlook may already be priced in, but we see few catalysts for a re-rating in Mexican assets. We are considering two possible scenarios for the end of 2019, with special emphasis on the outcome of AMLO's budget proposal.

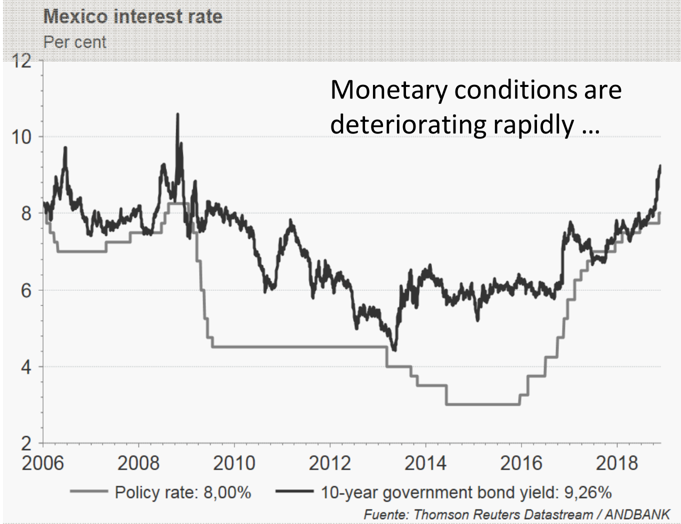
Financial market outlook

Equities – Mex IPC: NEGATIVE (Target 41,650). Exit 45,800

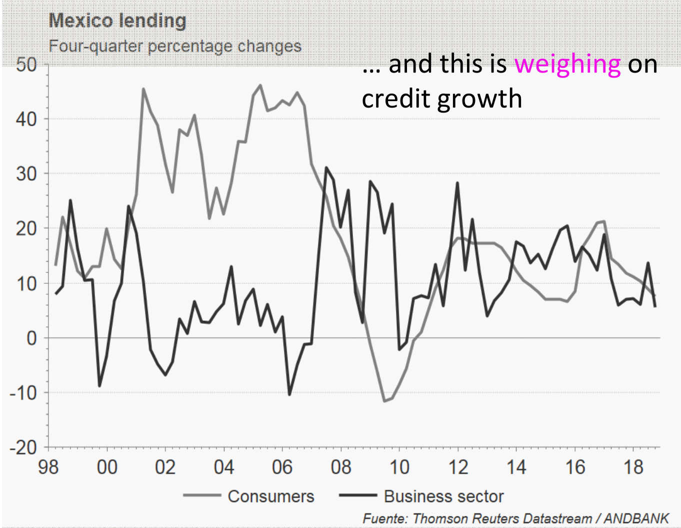
Bonds – Govies Local: NEUT-POSIT (target spread 550, yield 8.75%)

Bonds - Govies USD: NEUTRAL (target spread 175, yield 5%)

FX – MXN/USD: NEUTRAL (Mid-term target 20.25)



Fuente: Thomson Reuters Datastream / ANDBANK



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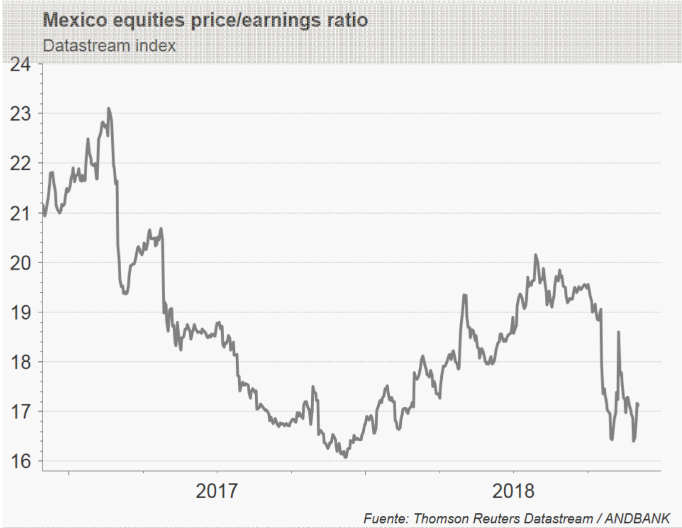


Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL
Window of opportunity but execution will be key

Politics. A liberal government ahead

The election of Jair Bolsonaro removed the lingering risk of the left returning to power and reversing the pro-business economic agenda adopted by the Temer administration. We believe the newly elected president will have an opportunity to push through and enhance this reform agenda after being democratically elected with a 10% margin over the runner-up. The big reform that will make or break this administration is the Pension Reform. The country will need to implement a fiscal adjustment of around 4% of GDP in the next few years to stabilize public debt – and the largest primary expense is pensions. The new administration will therefore need to build a strong political base in Congress and be able to skillfully negotiate with special interest groups with strong congressional representation that will present resistance to the reforms.

Time plays against the government

The economic team of the incoming government is beginning to issue more substantive signals about what it intends to propose to Congress in 2019. There would be a proposal for reform of the Social Security system (though the political process of approving the Social Security reform remains opaque, with no thesis and no text) and for tax reform and disassociating certain expenditure from the budget. The good news is that there is a consensus in Brasilia that pension reform is necessary. Deindexing spending could also require constitutional amendment bills (PECs). As such, it is important to have a consistent legislative strategy to address all of these issues, but without the use of the traditional instruments of coalition government, these limitations would be even more complex. There are also favorable indications for the privatization of part of Petrobras and units of Banco do Brazil and Caixa. Recently, some contact was made with the "rapporteur" of the tax reform in the Chamber of Deputies. In short, everything is going well.

Economics: favorable cyclical position for GDP growth

The cyclical position of the Brazilian economy is very favorable. Banks, which had reduced their loan portfolios in the last few years digesting the effects of the recession on their balance sheets, are ready to lend again. The large output gap, the historically low interest rates and the low current and projected inflation, allow a non-inflationary recovery of the economy to take place in the next two years. We believe interest rates will stay at current low levels during the first half of the year with the Central Bank embarking on a slow tightening cycle thereafter. After the severe recession of 2015-2016, companies have reduced costs significantly and deleveraged, positioning their earnings to benefit strongly from an economic recovery through operational and financial leverage. This bodes well for the stock market. Unlike other EM countries, Brazil has maintained a very low external vulnerability with a low current and projected current account deficit, large FDI inflows and foreign exchange reserves and negative net external public debt.

Financial market outlook

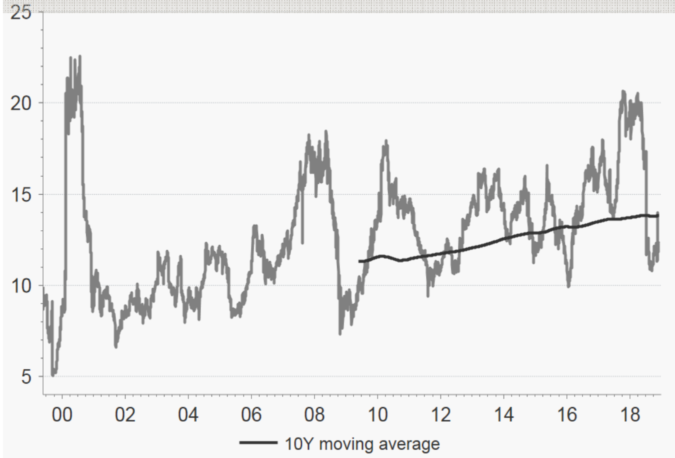
Equities – IBOVESPA: NEUT-POSIT (Target 94,200). Exit 103,600

Bonds – Gov. Local: POSITIVE (Target spread 645bp. yield 9.7%)

Bonds – Gov. USD: POSITIVE (Target spread 230bp. yield 5.55%)

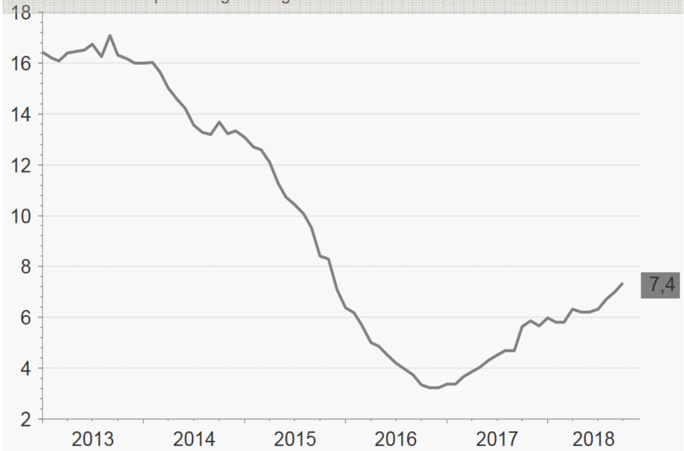
FX – BRL/USD: POSITIVE (mid-term target 3.75)

Brazil price/earnings, Datastream index
Ratio



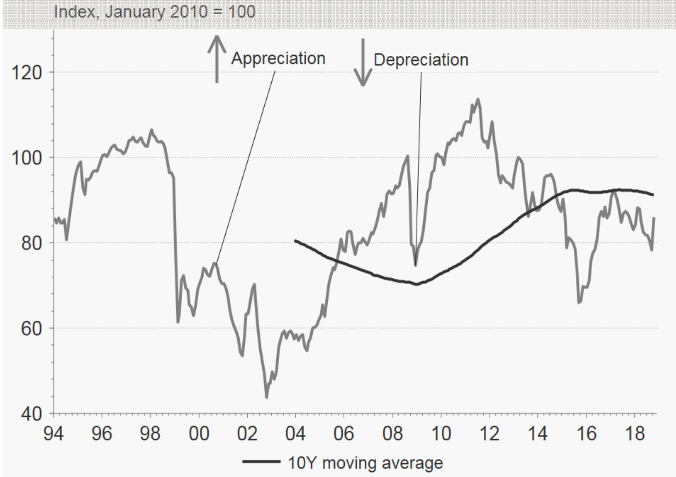
Fuente: Thomson Reuters Datastream / ANDBANK

Brazil domestic credit to private sector
Twelve-month percentage change



Fuente: Thomson Reuters Datastream / ANDBANK

Brazil real broad effective exchange rate
Index, January 2010 = 100



Fuente: Thomson Reuters Datastream / ANDBANK

ANDBANK
Private Bankers

ARGENTINA
2019: An Unusual Electoral Year

2019 comes loaded with uncertainties. The most significant comes from the election side and is reflected in the wider spread between the 2021 and 2019 Global bonds. Opposition candidates have still been unable to capitalize on the damaged image of President Macri and no matter how good macroeconomic data releases are, it seems that Argentina's spread won't drop below the 600bp threshold at least until the electoral scenario clears after 1H19. When electoral polls start shedding light on the presidential race, if re-election chances improve, spreads could compress close to the 350 bp level, but could widen even further if the opposite is confirmed depending on who emerges as the alternative. 2019 will therefore be a challenging year in which huge fiscal effort has to be made to achieve the fiscal balance target agreed as part of the revised IMF deal. This is in a context of interest rates above 60% and shrinking economic activity that is expected to end 2019 with a 1.0% fall in GDP according to some forecasters. In our view, growth will outperform these estimates in 2019.

GDP officially in recession, but inflation could be receding

Argentina is officially in recession after it registered its second consecutive quarter of declining economic activity (3Q18: -0.4% QoQ vs 2Q18: -4.1% QoQ). The manufacturing industry and commerce sectors led the fall in the third quarter. As for inflation, after a hard period of price increases resulting from the harsh (though necessary) updating of the exchange rate delay, we now have the first readings for prices in November, showing a significant easing of inflation. The increase in November is 3% per month (far from the 6.54% observed in September).

Fiscal

October's YTD primary deficit stood at ARS 169 billion, posting a 33.33% decrease versus the same period in 2017. The accumulated figure for the first ten months of the year reached 1.2% of GDP, half of the 2.4% deficit observed in 2017 and paving the way for a good fiscal performance in 2018. Tax collection rose 42.2% YoY in October with foreign related taxes being the main drivers (export duties and import taxes rose 265.5% and 65.3% YoY, respectively).

The "Zero deficit 2019 Budget is passed"

The Senate passed the 2019 budget, aimed at achieving a primary balance that secures the disbursement of IMF funds. This fiscal target is expected to be "practically" accomplished. In order to reach a zero primary deficit, the budget assumes the application of discretionary measures worth 3.8% of GDP, however not all of them seem to be that feasible. In fact two items pose the most significant threats: the cut in energy subsidies and the revenue resulting from the drawdown of FGS assets. The subsidies included in the budget do not seem to be enough to cover both energy production incentives and energy consumption. The government would therefore have to find a way to honor the agreed energy production incentive payments while moderating consumers' bill increases and sticking to the subsidies cut assumed in the budget. In terms of the *Fondo de Garantía de Sustentabilidad* (FGS), the poor performance of the fund makes it difficult for the government to draw down assets from it without having serious conflicts with the opposition. Assuming that any deviations would result in a primary deficit of around 0.5% of GDP, this would mean an increase in financial needs of about USD 2.3 bn, which would have to be covered by an increase in the roll-over ratio of short term debt instruments.

Financial market outlook

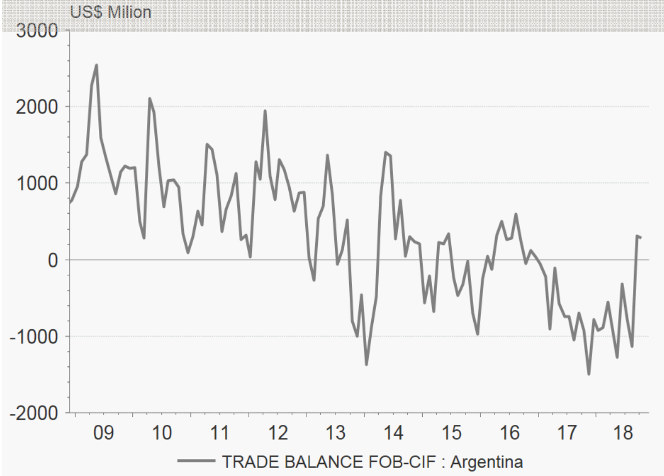
Bonds – 10YGov USD: POSITIVE. (Target spread 550bp. yield 8.75%)

FX –USDARS: NEGATIVE (year-end target 44)

Argentina 5Y CDS
Basis points

Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINE TRADE BALANCE
US$ Milion



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA - LABOUR PRODUCTIVITY GROWTH
Efficiency of labour measured in terms of output per worker

Fuente: Thomson Reuters Datastream / Fathom Consulting

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Andbank's Sales growth 2019	Projected Net Margin 2019	EPS 2019	EPS Growth 2019	Current PE ltm EPS 2018	Dec 2019 PE ltm EPS 2019	INDEX CURRENT PRICE	2019 Central Point (Fundam range)	2019 E[Perf] to Centr. Point	2018 Exit Point
USA S&P 500	5,7%	11,9%	168,7	2,9%	16,07	16,60	2.633	2.800	**6,4%**	3.080
Europe - Stoxx Europe (	5,6%	8,3%	26,9	3,4%	13,14	13,73	342	370	**8,0%**	407
Euro Zone - Euro Stoxx	5,5%	7,5%	27,1	4,5%	12,89	13,55	334	367	**9,8%**	403
Spain IBEX 35	3,6%	9,3%	769	2,2%	11,61	12,50	8.739	9.612	**10,0%**	10.573
Mexico IPC GRAL	6,7%	7,9%	2.975	1,0%	14,22	14,00	41.870	41.655	**-0,5%**	45.820
Brazil BOVESPA	7,1%	10,6%	7.080	8,1%	13,49	13,30	88.314	94.167	**6,6%**	103.583
Japan NIKKEI 225	5,6%	6,3%	1.445	3,1%	16,11	15,40	22.575	22.250	**-1,4%**	24.475
China SSE Comp.	8,0%	9,3%	277	12,2%	10,47	10,50	2.585	2.907	**12,5%**	3.197
China Shenzhen Comp	8,2%	6,3%	100	14,6%	15,20	15,00	1.333	1.506	**13,0%**	1.657
India SENSEX	10,1%	10,9%	2.042	16,6%	19,95	20,00	34.960	40.843	**16,8%**	44.927
MSCI EM ASIA	7,3%	9,7%	47	12,6%	11,75	11,60	493	548	**11,2%**	603

GLOBAL FLOWS

By Asset Type & Regions


FLOWS BY ASSET TYPE - AS OF 11/30/2018

1D 1W 1M 1Y

NORTH AMERICA	
Asset Type	Flow $B
Money Market	87.62
Bond	-5.97
Equity	-7.03
Other	-7.57
Mixed Assets	-7.88

EUROPE	
Asset Type	Flow $B
Equity	2.21
Other	-6.22
Money Market	-9.53
Mixed Assets	-10.16
Bond	-20.71

ASIA	
Asset Type	Flow $B
Equity	7.53
Money Market	1.01
Mixed Assets	0.49
Other	0.09
Bond	-2.17

GLOBAL	
Asset Type	Flow $B
Money Market	86.59
Equity	6.94
Mixed Assets	0.75
Other	-13.48
Bond	-37.74

TECHNICAL ANALYSIS

Trending scenario.
Supports & resistances (1 month)

S&P: SIDEWAYS-BEARISH
Support at 2,532. Resistance at 2,815

STOXX600: SIDEWAYS
Support at 348. Resistance at 369

EUROSTOXX50: SIDEWAYS
Support at 3,090. Resistance at 3,274

IBEX: SIDEWAYS-BEARISH
Support at 8,500. Resistance at 9,665

EURUSD: SIDEWAYS-BEARISH
Support at 1,11. Resistance at 1,162

Oil (WTI): SIDEWAYS
Support at 55. Resistance at 64.45

Gold: SIDEWAYS-BULLISH
Support at 1,180. Resistance at 1,243

US Treasury: SIDEWAYS-BULLISH
Support at 3.00%. Resistance at 3.26%.

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.45%. Fair value 3.2%. Ceiling 4.7%

Swap spread: The swap spread down ticked to +7 bp (from +9 bp last month). For this spread to normalize at +5 bp, with the swap rate anchored in the 2.5% area (inflation expectation), the 10Y UST yield would have to move towards 2.45%.

Slope: The slope of the US yield curve fell to 21bp (from 8). With the short end normalizing towards 3% (today at 2.85%), to reach the 10Y average slope (of 170 bp) the 10Y UST yield would have to move to 4.7%.

Real yield: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a "BUY".

GER Bund: Floor 0.80%. Fair value 1.04%. Ceiling 2.7%

Swap spread: The swap spread fell to 57 bp (from 60 bp last month). For the swap spread to normalize at 36 bp, with the swap rate anchored in the 1.40% area (today at 0.91%), the Bund yield would have to move towards 1.04% (entry point).

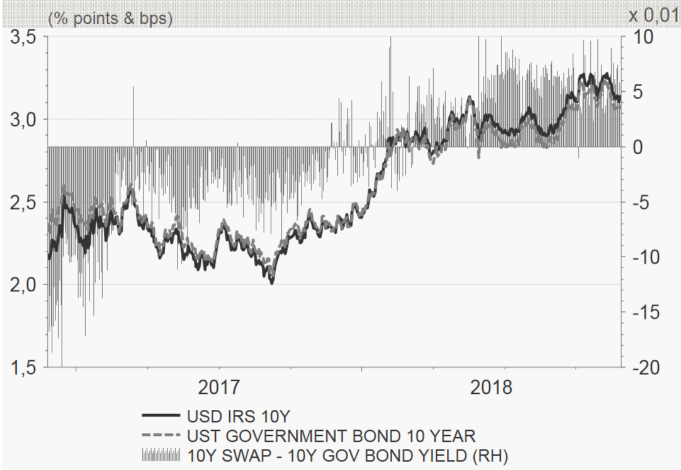
Slope: The slope of the EUR curve fell to 96 bp (from 99 bp last month). If the short end "normalizes" in the -0.50% area (today at -0.62%), to reach the 10Y average yield curve slope (130 bp) the Bund yield would have to move to 0.80%.

Real yield: A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI forecast of 1.7%, the Bund yield would have to rise to 2.7% to become a "BUY".

UK Gilt: Fair value 1.9%. Ceiling 3.6%

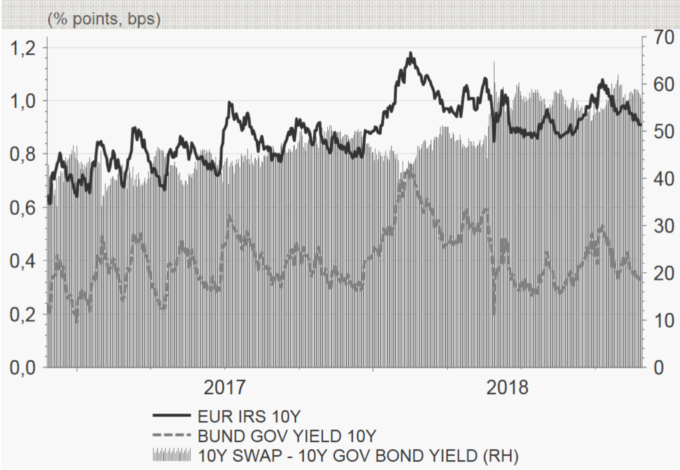
Swap spread: The swap spread rose to 18 bp (from 16 bp last month). For the swap spread to normalize at 12 bp, with the swap rate anchored in the 2% area (today at 1.57%), the 10Y UK Gilt would have to shift to 1.9%.
Slope: With 2Y normalized at 1.5%, to reach the average slope at 1.65%, the 10Y Gilt would have to move to 3.15%.
Real yield: Expectations are for FY19 inflation to ease to 2.2%. A 1% real yield means the 10Y gilt should be at 3.2%.

SWAP SPREAD USD



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.90%
Italian bond BTPI: Target yield at 3.50%
Portuguese Gov bond: Target yield at 2.20%
Ireland Gov bond: Target yield at 1.20%
Greece Gov bond: Target yield at 4.50%

EMERGING MARKET BONDS

Fundamental targets

To date, our rule of thumb for EM bonds has been "buy" when the following two conditions are met: 1) The US Treasury real yield is at or above 1%; and 2) EM bond real yields are 1.5% above the UST real yield.
Assuming that the first condition is met, we should only buy those EM bonds offering a real yield of 2.50% or more. In gray shading are the markets (and its government bonds) that meet such requirements.

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	7,99%	3,16%	4,83%	-1,00%	6,99%
	India	7,51%	3,28%	4,23%	-1,00%	6,51%
	Philippines	7,08%	6,70%	0,38%	0,00%	7,08%
	China	3,26%	2,50%	0,76%	0,00%	3,26%
	Malaysia	4,07%	0,58%	3,48%	-1,00%	3,07%
	Thailand	2,49%	1,27%	1,21%	-0,50%	1,99%
	Singapore	2,20%	0,73%	1,48%	-0,50%	1,70%
	South Korea	1,91%	1,97%	-0,06%	1,00%	2,91%
	Taiwan	0,89%	1,21%	-0,32%	1,00%	1,89%
EME	Turkey	16,70%	25,24%	-8,54%	1,00%	17,70%
	Russian Fed	8,67%	3,50%	5,17%	-1,00%	7,67%
LATAM	Brazil	10,03%	4,00%	6,03%	-1,00%	9,03%
	Mexico	9,02%	4,97%	4,05%	-1,00%	8,02%
	Colombia	6,86%	3,34%	3,52%	-1,00%	5,86%
	Peru	6,01%	1,77%	4,23%	-1,00%	5,01%

ENERGY – OIL

Fundamental view (WTI): Target range USD50-70/bbl. Sell > USD65. Buy < USD50

Short-term drivers

(Price Negative) – Saudi-Russian alliance facing its toughest test: Russian Energy Minister Novak sounded less convinced about the need for production cuts (Russian producers haven't shown much enthusiasm for cutting output either). Novak also observed that the Russian government can cover its budget spending next year even if its Urals crude benchmark falls to $40, underlining that "the government may welcome lower inflationary pressures" as well. Meanwhile, Saudi Arabia would be pumping as much as 11.2M bpd, which would be the highest production level since the kingdom extracted its first oil eight decades ago. Production was already running at high levels (about 10.9M bpd) earlier in November as it responded to stronger-than-usual demand from clients preparing for a reduction in Iranian supplies. The increase of oil exports may be due to the Saudis continuing to raise output or supplementing supply from inventories.

(Price Negative) – Global demand will probably ease in 2019. *Growth in a number of important economies (China and the Eurozone) appears to be slowing, w*hich is never good news for the price of cyclical commodities. There is no doubt that one thing that could trigger further falls in the oil price would be a collapse in demand. To get some insight about this probability we have to look to China, which has just overtaken the US as the world's largest oil importer (about 9M bpd). While it seems unlikely that Chinese growth will implode over the coming year, there are two factors that could lead Beijing to decide to restrict energy imports (causing a fall in global demand). 1) Beijing may want to hold on to US dollars (savings) to preserve its stimulus capacity if it feels that the US-China economic cold war could take a turn for the worse. 2) Beijing may simply want to ensure that China's current account balance remains in surplus, if only to keep its need for external financing at low levels in a global scenario of tight liquidity.

(Price Negative) – We could see more Iranian crude in the market than many expect. The rise in oil prices was a contributing factor in this summer's meltdown in markets such as Turkey, Argentina or India. Let's focus in Turkey, which is both a large oil importer (650K bpd) and runs a large current account deficit (6.5% of GDP in 2Q), which helps to explain why any increase in the price of crude causes significant damage to the Turkish economy and its assets. Putting together the three main actors in the unfortunate case of the Saudi journalist Khashoggi, (Saudi Arabia, Turkey and the USA), if we imagine what everyone already seems to understand, that Turkey has information about everything that happened in the Saudi consulate in Istanbul; the most intelligent thing that Turkey can do (and it seems to be doing so) would be to cut a deal with Washington, making it clear that Ankara must continue to buy cheap oil from Iran (although it has to transit through Iraq first), basically because the Turkish economy cannot absorb such a high oil price. In return, it seems likely that Ankara could agree not to disclose the information of what happened in that fateful consulate; something that would be very compromising for the Saudi crown, and that could compromise all the trade agreements signed between Washington and Riyadh. The result is that there could be more Iranian crude oil than initially thought. Why is that important? Because the rally seen in oil price during most part of 2018 was in part caused by the belief that Iranian oil exports could collapse again to the levels seen in 2014-2015 (of 1.3M bpd). This transfer of power in the Middle East (less power for producers such as Saudi Arabia, and more power for consumers such as Turkey), means that the risk for oil is now skewed to the downside. Perhaps the October sell-off in oil prices is already reflecting this heightened risk.

(Price Positive) – Venezuelan's oil production will continue to collapse. The bullish case for oil has been resting on several factors, but one of particular importance: The economic catastrophe of Venezuela has meant that the country with the largest proved oil reserves in the world has seen its production collapse. In just three years, it has gone from having 80 operational oil rigs to only 24. Almost every Western oil field services company has left the country, and any Venezuelans with any marketable skills have fled to Brazil or Colombia. The result has been a decline in oil production of almost 50% (from about 3M bpd four years ago to just 1.4M today). In a scenario without any meaningful political changes, production in Venezuela will most likely continue to collapse to the point where the country no longer contributes a significant amount of oil to the market.

Long-term drivers

(-) Alternative energies picking up the baton: Producers must bear in mind that the value of their reserves is dictated by the amount of time they can pump before alternative energies render oil obsolete. In order to push back this deadline as far as possible, it is in producers' interests to keep oil prices low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

(-) Growing environmental problems will gradually tighten legislation and production levels; the value of producers' reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulations come in. With growing environmental problems that will likely continue to put a lot of pressure on the market for fossil fuels over the coming decades, OPEC's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Producers therefore have a powerful incentive to monetize as much of their reserves as soon as they can.

(-) Are OPEC producers able to structurally fix prices? While it is true the agreement between the Saudis and Russia to strangle the global energy market has worked well in achieving a considerable increase in the price of oil, this has been at the cost of a loss of market share, meaning that OPEC producers are no longer able to easily fix prices without bearing costs. Back in the 1970s and the early 2000s, the exporters cartel agreed to cut output and the approach worked well, as the principal competition was among conventional oil producers (in particular between OPEC and non-OPEC producers). Today's biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil should therefore easily be offset (in theory) by a quick increase in shale oil production.

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,200/oz. Sell above US$1,300

Negative drivers

Gold in real terms: In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) fell to US$1,100 (from US$1,112 last month). In real terms, gold continues to trade well above its 20-year average of US$891. Given the global deflator (now at 1.10768), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$987.

Gold to Silver (Preference for Store of Value over Productive Assets): This ratio rose to 85.99x (from 83.82x last month) and still remains well above its 20-year average of 62.69x, suggesting that gold is expensive (at least relative to silver). For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$889/oz.

Gold to Oil: This ratio rose during the month to 24.01x (from 17.73x last month), still well above its 20-year average of 14.96x. Considering our fundamental long-term target for oil of US$50pb (our central target for the long term) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$750 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Longs are now fixed at 156k (from 197k last month). Short contracts fell to 154k (from 208k). Thus, the net position rose to +1.9k during the month (from -11k), suggesting that speculators' appetite for gold remains subdued..

Financial liberalization in China. Higher “quotas” each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

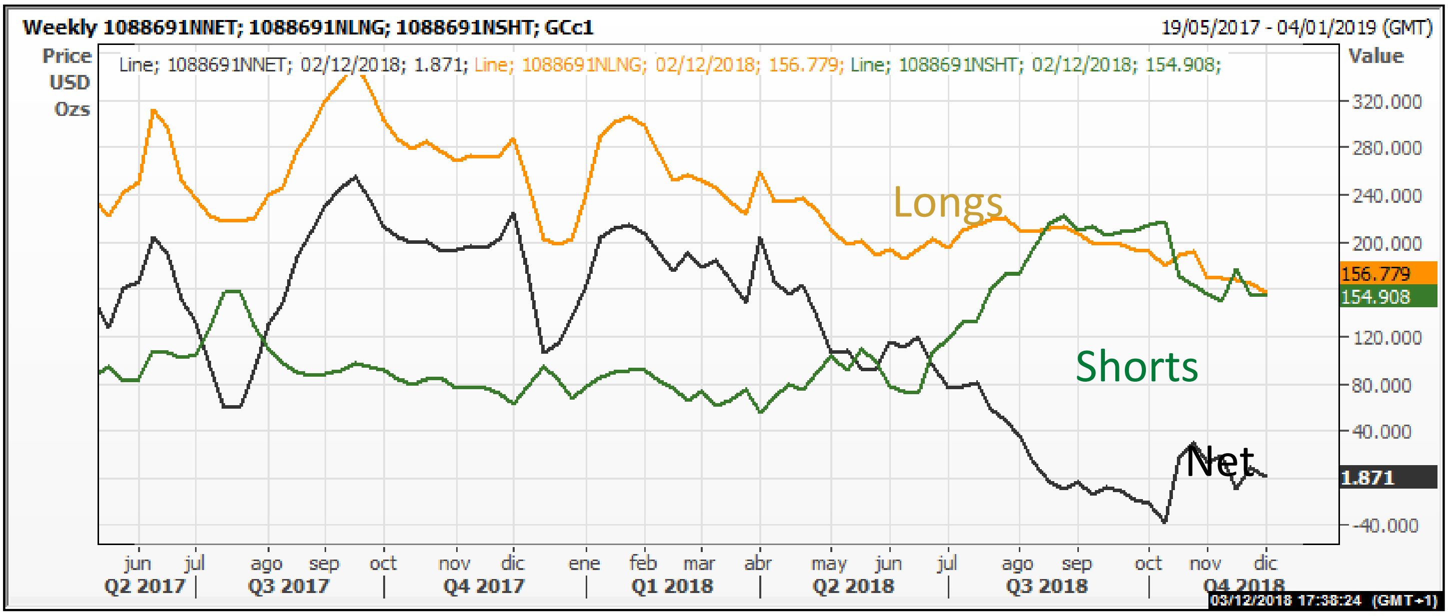
Positive drivers

Gold to the S&P500: This ratio fell to 0.442x (from 0.443x last month) but is still well below its LT average of 0.597x. Given our target price (central point) for the S&P of US$2,800, the price of gold must approach US$1,670 for this ratio to remain near its LT average.

Gold to the DJI Index: This ratio fell to 0.0477x (from 0.0484x last month) but is still well below its LT average of 0.0659x. Given our target price (central point) for the DJI Index of US$25,900, the price of gold must approach US$1,700 for this ratio to remain near its LT average.

Negative yields still make gold attractive: The disadvantage of gold compared to fixed-income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds, although the importance of this factor is diminishing as yields continue to rise.

Relative share of gold: The total value of gold in the world is circa US$6.9tn, a fairly small share (3.2%) of the total global cash market (212tn). The daily volume traded on the LBMA and other gold marketplaces is around US$173bn (just 0.08% of the total in the financial markets).



EXCHANGE RATES

Fundamental targets

EURUSD: Fundamental mid-term target 1.125 // Support at 1.11 // Resistance at 1.162

Flows: G4 reserve currencies (ex-USD) continued their trend of extending shorts in recent months, with market volatility failing to trigger a consistent change across non-US reserve currency positioning. The dollar continues being the main beneficiary in positioning buildup, with the JPY, the EUR and the CHF being sold. Dollar net longs extended again, with global investors' positioning in USD now sitting at USD30.11bn (largest since January 2016) and current positioning representing a +1.67 sigma vs G10 currencies on a three-year z-score basis (vs +1.15 last month). **Outlook:** **Flow analysis:** Although this is not an extreme positioning, we do begin to see some stress in the dollar, especially against JPY, and the AUD, and to a lesser extent against the EUR, in which due to idiosyncratic factors, a structurally weaker position is justified. Our more **fundamental discussion** sticks with our structural bearish view on the Euro with a mid-term target at 1.125. Our **technical analysis** within the Investment Committee indicated a sideways-bearish view. The EURUSD is now facing a key support at 1.11, with resistance at 1.162.

USDJPY: Target 114; **EURJPY**: Target 128.25

Although we do begin to see some stress in the dollar, especially against JPY, in our view, several aspects suggest that JPY should not appreciate significantly versus the USD: (1) real yields are lower in JGBs, and with the 10Y JGB controlled at 0.10% there is little prospect that Japanese real yields will rise; (2) we downplay the tapering option after the BoJ has reiterated that it intends to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unachievable in the short term); (3) meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (4) the prospect of the Fed paring back its balance sheet (withdrawing liquidity) makes the USD more attractive (or the JPY less appealing).

GBPUSD: Target 1.37; **EURGBP**: Target 0.82

USDCHF: Target 0.98; **EURCHF:** Target 1.10

USDMXN: Target 20.25; **EURMXN:** Target 22.78

USDBRL: Target 3.75; **EURBRL:** Target 4.22

USDARS: Target 44

USDINR: Target 72

CNY: Target 6.7

RUB: NEUTRAL

AUD: POSITIVE

CAD: NEUTRAL

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month in the currency (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score Z-score 3-yr
USD vs All	30,11	1,86	30,1	-28,2	3,5	**1,57**
USD vs G10	30,93	2,16	30,9	-25,4	4,7	**1,67**
EM	0,82	0,30	3,8	-0,8	1,4	**-0,04**
EUR	-7,77	-3,14	23,4	-7,8	9,8	**-0,75**
JPY	-11,46	-1,33	0,6	-13,9	-7,2	**-1,10**
GBP	-3,12	1,05	4,3	-6,5	-1,0	**0,00**
CHF	-2,64	-0,83	0,0	-6,0	-3,1	**-0,57**
BRL	0,06	0,49	0,4	-0,8	-0,4	**-0,06**
MXN	0,37	-0,47	2,8	-0,5	1,3	**0,01**
RUB	0,38	0,28	1,2	-0,2	0,5	**-0,15**
AUD	-3,89	1,11	3,1	-5,2	-1,9	**-1,66**
CAD	-0,65	0,09	3,6	-4,0	-0,6	**-0,17**

Positive
Neutral-Positive
Neutral-Negative
Negative

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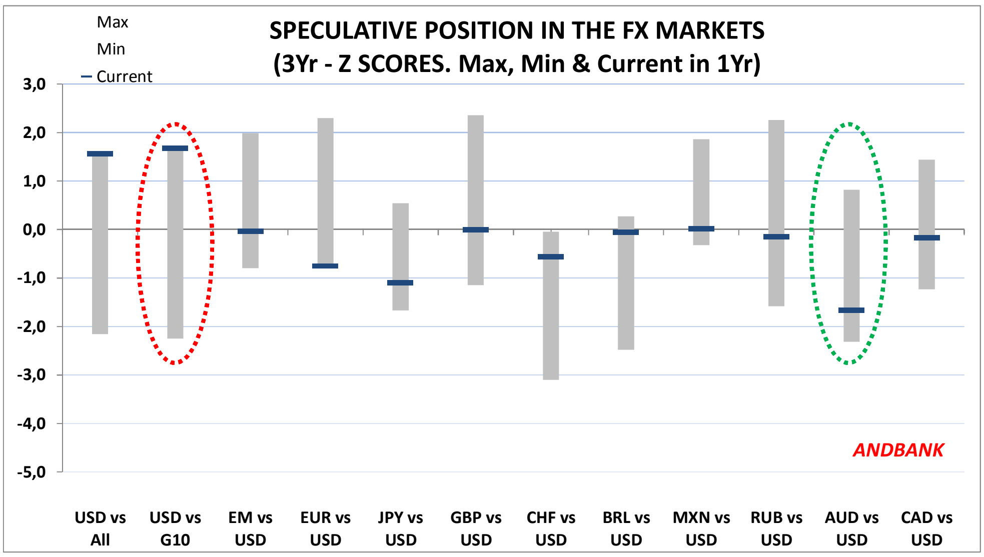

The currencies we technically favor are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fundamental Central Point 2019	Exp. Performance 2019
Equity	USA - S&P 500	-3,4%	-1,5%	2.633	2800	6,4%
	Europe - Stoxx Europe 600	-5,4%	-11,2%	342	370	8,0%
	Euro Zone - Euro Stoxx	-5,3%	-12,8%	334	367	9,8%
	SPAIN - IBEX 35	-3,7%	-12,2%	8.739	9.612	10,0%
	MEXICO - MXSE IPC	-3,3%	-15,2%	41.870	41.655	-0,5%
	BRAZIL - BOVESPA	3,3%	15,3%	88.314	94167	6,6%
	JAPAN - NIKKEI 225	1,5%	-6,8%	22.575	22250	-1,4%
	CHINA - SHANGHAI COMPOSITE	-1,7%	-21,2%	2.585	2907	12,5%
	CHINA - SHENZEN COMPOSITE	-2,1%	-29,8%	1.333	1506	13,0%
	INDIA - SENSEX	0,4%	4,7%	34.960	40.843	16,8%
	MSCI EM ASIA (in USD)	1,7%	-15,9%	493	548	11,2%
Fixed Income Core countries	US Treasury 10 year Govie	2,9%	-1,3%	2,86	3,25	-0,1%
	UK 10 year Gilt	1,5%	0,5%	1,26	2,00	-4,6%
	German 10 year BUND	1,1%	1,8%	0,25	0,90	-4,9%
	Japanese 10 year Govie	0,5%	0,0%	0,05	0,10	-0,3%
Fixed Income Peripheral	Spain - 10yr Gov bond	1,2%	2,3%	1,44	1,90	-2,2%
	Italy - 10yr Gov bond	2,8%	-7,0%	3,10	3,50	0,1%
	Portugal - 10yr Gov bond	1,3%	2,7%	1,78	2,20	-1,4%
	Ireland - 10yr Gov bond	1,0%	-1,0%	0,85	1,20	-1,9%
	Greece - 10yr Gov bond	1,4%	2,6%	4,19	4,50	2,0%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,4%	-1,0%	87,75	92	-1,5%
	Credit EUR HY-Itraxx Xover	-1,2%	-1,8%	346,76	350	1,3%
	Credit USD IG - CDX IG	-0,2%	1,5%	82,75	85	2,5%
	Credit USD HY - CDX HY	-1,1%	1,4%	423,05	490	4,1%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	-1,2%	-30,3%	16,50	16,00	20,5%
	Russia - 10yr Gov bond	2,9%	-1,6%	8,67	7,70	16,4%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	1,6%	-7,9%	7,98	7,25	13,9%
	India - 10yr Gov bond	3,3%	5,9%	7,46	6,80	12,7%
	Philippines - 10yr Gov bond	3,9%	-10,8%	7,08	7,00	7,7%
	China - 10yr Gov bond	1,8%	8,2%	3,27	3,30	3,0%
	Malaysia - 10yr Gov bond	0,7%	2,5%	4,06	3,25	10,5%
	Thailand - 10yr Gov bond	1,5%	0,5%	2,49	2,00	6,4%
	Singapore - 10yr Gov bond	2,3%	0,1%	2,20	2,00	3,8%
	South Korea - 10yr Gov bond	1,8%	6,0%	1,92	2,25	-0,7%
	Taiwan - 10yr Gov bond	0,0%	1,2%	0,90	1,75	-5,9%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-0,5%	-3,3%	9,02	8,75	11,2%
	Mexico - 10yr Govie (USD)	0,4%	-7,1%	4,97	5,00	4,8%
	Brazil - 10yr Govie (Loc)	4,2%	11,4%	10,03	9,70	12,7%
	Brazil - 10yr Govie (USD)	1,2%	-2,1%	5,57	5,55	5,8%
	Argentina - 10yr Govie (USD)	-6,6%	-32,7%	10,56	8,75	25,0%
Commodities	Oil (WTI)	-12,2%	-12,9%	52,6	50,00	-5,0%
	GOLD	3,9%	-4,2%	1.247,7	1.100	-11,8%
Fx	EURUSD (price of 1 EUR)	1,4%	-5,2%	1,138	1,125	-1,1%
	GBPUSD (price of 1 GBP)	-0,9%	-5,8%	1,27	1,37	7,7%
	EURGBP (price of 1 EUR)	2,5%	0,7%	0,89	0,82	-8,2%
	USDCHF (price of 1 USD)	-2,0%	1,6%	0,99	0,98	-1,3%
	EURCHF (price of 1 EUR)	-0,5%	-3,5%	1,13	1,10	-2,6%
	USDJPY (price of 1 USD)	-1,0%	0,0%	112,72	114,00	1,1%
	EURJPY (price of 1 EUR)	0,5%	-5,0%	128,39	128,25	-0,1%
	USDMXN (price of 1 USD)	-0,5%	3,1%	20,26	20,25	0,0%
	EURMXN (price of 1 EUR)	1,1%	-2,1%	23,08	22,78	-1,3%
	USDBRL (price of 1 USD)	3,7%	18,0%	3,91	3,75	-4,0%
	EURBRL (price of 1 EUR)	5,2%	11,9%	4,45	4,22	-5,1%
	USDARS (price of 1 USD)	5,3%	100,7%	37,33	44,00	17,9%
	USDINR (price of 1 USD)	-2,8%	11,0%	70,85	72,00	1,6%
	CNY (price of 1 USD)	-1,3%	5,6%	6,87	6,70	-2,5%

** For Fixed Income instruments, the expected performance refers to a 12 month period*

ASSET ALLOCATION & RISK TOLERANCE

Monthly asset & currency allocation proposal

Asset Class	Conservative Strategic (%)	Conservative Tactical (%)	Moderate Strategic (%)	Moderate Tactical (%)	Balanced Strategic (%)	Balanced Tactical (%)	Growth Strategic (%)	Growth Tactical (%)
Cash	**15,0**	**19,3**	**10,0**	**12,8**	**5,0**	**6,2**	**5,0**	**0,3**
Short-Term debt & MM instrument	**25,0**	**29,9**	**15,0**	**17,9**	**5,0**	**5,8**	**0,0**	**0,2**
Fixed Income Long-Term - OECD	**30,0**	**24,0**	**20,0**	**16,0**	**15,0**	**12,0**	**5,0**	**4,0**
US Gov & Municipals & Agencies		19,2		12,8		9,6		3,2
EU Gov & Municipals & Agencies		0,0		0,0		0,0		0,0
European Peripheral Risk		4,8		3,2		2,4		0,8
Credit (OECD)	**20,0**	**16,0**	**20,0**	**16,0**	**15,0**	**12,0**	**5,0**	**4,0**
Investment Grade USD		8,0		8,0		6,0		2,0
High Yield Grade USD		3,2		3,2		2,4		0,8
Investment Grade EUR		3,2		3,2		2,4		0,8
High Yield Grade EUR		1,6		1,6		1,2		0,4
Fixed Income Emerging Markets	**5,0**	**5,3**	**7,5**	**7,9**	**10,0**	**10,5**	**15,0**	**15,8**
Latam Sovereign		1,6		2,4		3,2		4,7
Latam Credit		1,3		2,0		2,6		3,9
Asia Sovereign		1,6		2,4		3,2		4,7
Asia Credit		0,8		1,2		1,6		2,4
Equity OECD	**5,0**	**5,5**	**20,0**	**22,0**	**32,5**	**35,8**	**50,0**	**55,0**
US Equity		2,2		8,8		14,3		22,0
European Equity		2,8		11,0		17,9		27,5
Japan Equity		0,6		2,2		3,6		5,5
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,5**	**10,0**	**11,0**	**10,0**	**11,0**
Asian Equity		0,0		3,6		7,2		7,2
Latam Equity		0,0		1,9		3,9		3,9
Commodities	**0,0**	**0,0**	**2,5**	**1,9**	**5,0**	**3,8**	**5,0**	**3,8**
Energy		0,0		0,6		1,1		1,1
Minerals & Metals		0,0		0,3		0,6		0,6
Precious		0,0		0,7		1,3		1,3
Agriculture		0,0		0,4		0,8		0,8
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**3,0**	**5,0**	**6,0**
REITs		0,0		0,0		0,8		1,5
Alt.Energy (wind, solar, etc)		0,0		0,0		0,6		1,2
Market Neutral		0,0		0,0		1,1		2,1
Volatility		0,0		0,0		0,6		1,2
Currency Exposure (European investor perspective)								
EUR		94,2		90,0		85,7		80,5
USD		5,8		10,0		14,3		19,5

Strategic and tactical asset allocation are investment strategies that aim to balance risk and reward by apportioning a portfolio's assets according to an individual's risk tolerance, investment horizon, and our own projected performance for each asset class. This recommended asset allocation table has been prepared by Andbank's Asset Allocation Committee (AAC), comprising managers from the portfolio management departments in each of the jurisdictions in which we operate.

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