ECONOMY & FINANCIAL MARKETS

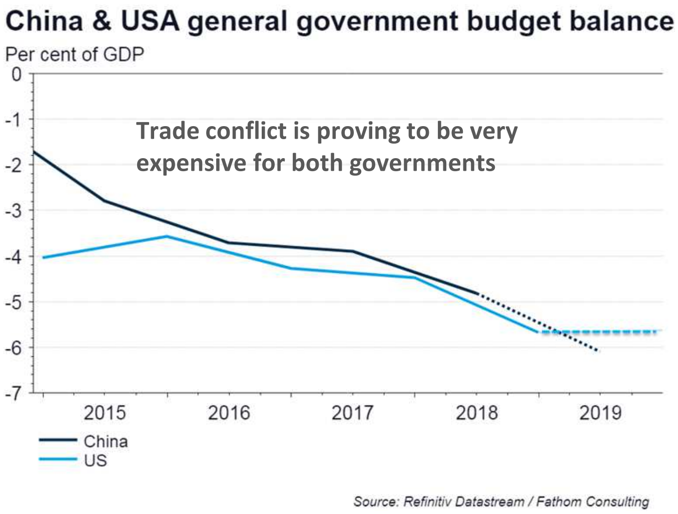
ANDBANK
Private Bankers

Andbank Monthly Corporate Review | Global Strategic Outlook – 2020

Alex Fusté
Chief Global Economist
+34 673 041 058
+376 881 248
alex.fuste@andbank.com

EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

US S&P: MW-OW. Target 3,240. Exit point 3,402 ***Stoxx 600 Europe***: MARKETWEIGHT. Target 418. Exit 438. ***Euro Stoxx:*** OVERWEIGHT. Target 427. Exit 448. ***Spain IBEX:*** MW-OVERWEIGHT. Target 9,882. Exit point 10,376. ***Japan N225:*** UNDERWEIGHT. Target 23,732 (Exit 24,919) . ***China SHANGHAI Idx:*** MW-OW. Target 3,207. Exit 3,367. ***SHENZHEN Idx:*** OVERWEIGHT. Target 1,808. Exit 1,900. ***India SENSEX:*** MARKETWEIGHT-OW. Target 45,477. Exit 47,750. ***Israel TLV35 Index:*** MW-UW (slightly expensive). ***Brazil IBOVESPA:*** OVERWEIGHT (Target 116,437. Exit point 122,260). ***Mexico IPC Index*** : MW-OVERWEIGHT. Target 44,866. Exit 47,110.

FIXED INCOME

International fixed income markets performed poorly last month. Valuations continue to be extreme, especially in European bonds but we believe support from central banks will not disappear in the short term. ***UST 10Y:*** UW-MARKETWEIGHT. (10Y UST entry point 2.0%). ***German Bund:*** UNDERWEIGHT (Bund target -0.00%). ***Spanish bono:*** UNDERWEIGHT, target 0.50%. ***Italian bond***: OVERWEIGHT, target 1.0%. ***Portuguese bond:*** UNDERWEIGHT, target 0.50%. ***Irish bond:*** UNDERWEIGHT, target 0.20%. ***Israel bond***: MW-UNDERWEIGHT. ***EM bonds Asia:*** OVERWEIGHT (preferred Indonesia, India, Philippines, Malaysia, Thailand, Singapore and South Korea. Neutral in China. Avoid Taiwan. ***EM bonds Latam:*** OVERWEIGHT (preferred Mexico in local and Brazil in USD and local).

CORPORATE CREDIT

EUR Credit: The spectacular behavior seen in 2019 will not be easily replicated in 2020. Main factors of uncertainty are the threat of tariffs to the automobile sector. A support factor will be the continuation of the ECB's purchase program of credit bonds at a rate of €4bn/month as the "eligible" market for the ECB has increased considerably. The issuers most interested in going out to finance will continue to be the "Reverser Yankees" (US issuers in € currency), long-term (taking advantage of the investment appetite), and hybrids (given the pressure of rating agencies). Regarding flows, during 2019 we have not seen a single negative month in the world degree of investment (record of 10 consecutive months). ***IG € (Itraxx):*** UNDERWEIGHT (Target Spread 70). ***HY € (Xover):*** MW-UW, target 275. ***US$ CDX IG:*** MARKETWEIGHT, target 48. ***Credit $ CDX HY:*** MW-OW, target 382.

CURRENCIES

Preferred currencies: BRL, AUD, CHF & GBP. Temporarily we like the EUR vs USD. Avoid MXN & RUB

COMMODITIES

Fundamental target price for the WTI at US$55. Sell WTI above US$65. Gold remains expensive. Fundamental price for gold at US$1,200/oz. Sell above US$1,300

USA

2020 GDP growth at 1.7%. Real Fed rates at 0%. Equities keep upside potential.

Equities, bonds & credit

We project sales growth of 4.7% for S&P companies (based on nominal domestic and world GDP growth of 3.7% and 6.25%, respectively). We estimate a deterioration in margins (from 11.4% in 2019 to 11.4% in 2020), mainly because the increase in labor costs (+ 2.7%) will not be offset by productivity (+ 1.6%), which allows us to project a 2020 EPS estimate of USD 166 for the S&P (well below the consensus, at USD 182). On the other hand, we feel comfortable expanding the multiple PE ltm to 19.5x in Dec 2020, resulting in what we consider a reasonable fundamental price of 3,240 for the S&P in 2020, with a recommended "sell" level at 3,420. ***Bonds:*** Momentum around the trade conflict and the possible tariff reversal may push 10Y yields in the UST temporarily higher above the 2% level; however, if the trade deal fails to unwind two years of damage to the global economy and global data continues to deteriorate, the 10yT yield is likely to break below 1.65% again. Regarding corporate debt, we believe that spreads for IG bonds should move at levels close to 45bp, and 325bp for HY bonds

Fed will keep real rates at 0%

The October CPI and PPI reports showed that core PCE inflation is running at 1.65%, 0.35pp below target and close to the 1.72% average pace of the previous three years. The scope for reflation is likely to be limited. We expect the tariff impact on yoy inflation will be felt a little more during the next quarters, before declining later in 2020. That is why we believe that the Fed will maintain real interest rates at levels close to zero and monetary conditions in expansionary territory, which will provide an additional boost for financial assets in an environment where we expect a deceleration but do not anticipate a recession.

Economic outlook

Making up over two-thirds of the US economy, consumption has been the key engine of growth in 2019. Despite the global deceleration in growth, consumption in the US has managed to grow at a near 3% pace (saar) in Q3. With weakness in capex and a significant decline in business surveys, there is also some concern that consumption cannot stand on its own. During the period from August to October the sales control group data (which excludes gasoline, autos, food services, and building materials) softened, deteriorating the robust run of consumer spending we had during the first half of the year. Although fundamentals for consumer spending still look healthy for the most part, some of the latest data we have point to a drop in consumer sentiment and a recent increase in layoffs. If sustained, these developments could weigh on consumer spending. The sharp decline in business sentiment, which began in 2018 and seems driven by concerns around trade policy, has impacted capital expenditures, which have fallen since earlier this year. The slowdown has been widespread across different forms of business spending, as 10 out of 12 categories have shown signs of deceleration. As the most obvious explanation for this is the uncertainty and the sentiment effects around a trade war, we do not expect an easing of trade tensions with a "phase 1 deal" to prompt a rebound in business sentiment and spending, as the uncertainty has turned political with the impeachment process and the recent local elections, which have reduced the chances of President Trump being reelected.

Financial market assessment

Equities – S&P: MARKETWEIGHT-OW. (Target 3,240. Exit point 3,402)

Bonds – Govies: UW-MARKETWEIGHT. (10Y UST entry point 2%)

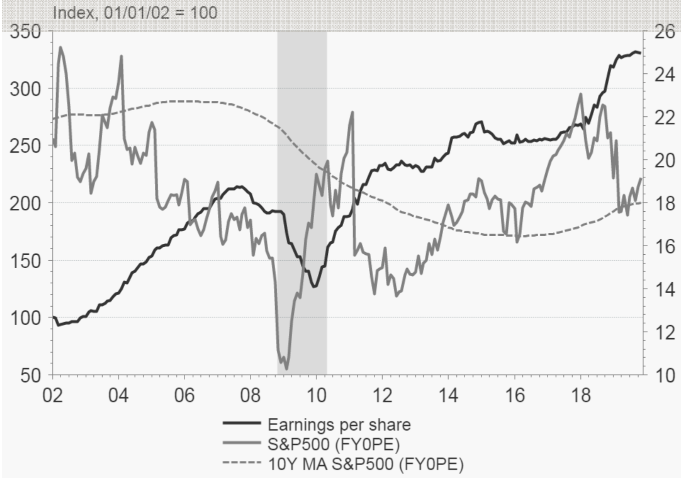
CDX IG: MARKETWEIGHT (Target Spread 48)

CDX HY: MW-OW (Target Spread 382)

Forex – DXY index: UW-MARKETWEIGHT

S&P 500 index, EPS and PE ratio

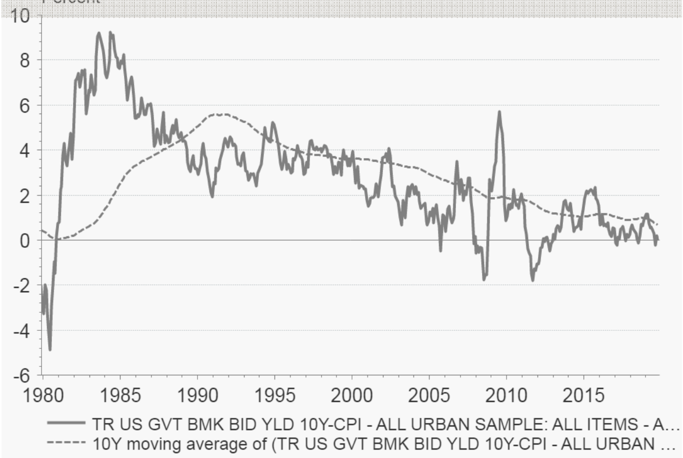
Index, 01/01/02 = 100



Source: Refinitiv Datastream / ANDBANK

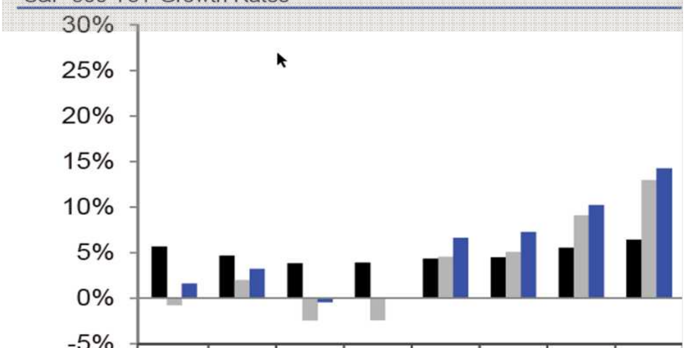
10Y UST Real Yield

Percent



Source: Refinitiv Datastream / ANDBANK

S&P 500 YoY Growth Rates



	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Revenue	5.7%	4.7%	3.8%	3.9%	4.3%	4.5%	5.6%	6.4%
Net Income	-0.8%	2.0%	-2.4%	-2.4%	4.5%	5.1%	9.1%	13.0%
Earnings	1.6%	3.2%	-0.4%	-0.1%	6.6%	7.3%	10.2%	14.3%

Source: I/B/E

EUROPE

Slight rebound in growth. ECB on hold. Less political risk. Positives in equities

Economics

More growth could be expected from Europe in 2020 (1.4% YoY est. for the EU and 1.2% for the Euro area), relying on further fiscal support and lower trade tensions compared to 2019. The main question mark is how consumption will behave after a year in which saving rates have gone up (despite negative interest rates), with job creation continuing to slow down. Fiscal policy remains key and, although it may not be the “game changer” that some expect, we estimate a fiscal boost on the order of 0.3% of GDP, which is meant to add 0.2% to Eurozone growth. The main risks to our growth estimates could come from a non-agreement Brexit, further trade escalation or contagion to the service part of the economy. None of them are part of our base case scenario.

Lagarde’s ECB: “On hold” in 2020

Further monetary measures should not be expected during the year. The ECB is likely to continue to implement mini-QE (20 bill.€/month) and will not need to change the ISIN limits till the end of 2020. The ECB will probably not act unless we face a shock. Our low estimate for 2020 CPI (at 1.2% yoy), together with the ECB’s statements that they will play with annual price averages (meaning that a rebound in prices will not cause a reaction from the ECB), makes us think that Mrs Lagarde is going to keep the rates unchanged throughout 2020.

Equities, government bonds & credit

Equities: We project sales growth of 4% for the Euro Stoxx index (based on nominal domestic and world GDP growth of 1.2% and 6.25%, respectively, and considering the fact that 60% of sales go outside the Eurozone). Margins will remain in the 7.3% area (perhaps a little bit lower, as productivity growth will not offset the expected +1.5% growth in wages). As a result, we estimate 2020 EPS of €26.4 for the Euro Stoxx (below the consensus, at €28). We expand the year-end trailing PE multiple to 16.2x, resulting in what we consider a reasonable fundamental price of 427 for this index in 2020, with a recommended “sell” level at 448. ***Bonds:*** We expect the bund yield to remain in negative territory, as no rate hikes are anticipated. The lowest levels (-0.7%) seen last year are unlikely to be revisited. We slightly adjust our bund target from -0.3% to -0.2%. As for peripheral spreads, our 2020 targets are: 120 bp for the Italian 10Y, 70 bp for the Spanish and Portuguese 10Y, 40 bp for the Irish 10Y and 170 bp for the Greek bond. The Italian draft budget (though some issues are still pending) points to a government deficit of 2.3% for 2020, confirming a “no-clash” scenario with the EU and leaving the door open for further convergence. ***Credit:*** After a 2019 of spectacular behavior in the credit markets, we do not believe that it is likely to be replicated in 2020. One of the main factors of uncertainty is the introduction of tariffs to the automobile sector by the United States. Support factors are the continuation of the credit repurchase program by the ECB at an estimated rate of 3.5-4.0 bn per month and the fact that the “eligible” market for the ECB has increased considerably. We believe that the issuers most interested in going out to finance will continue to be the “Reverse Yankees” (US issuers in € currency), long-term issuers (due to the investment appetite), and hybrids (given the rating pressure). Regarding flows, during 2019 we have not seen a single negative month in the Investment Grade universe.

Financial market assessment

Equities – Stoxx Europe: MARKETWEIGHT. Target 418. Exit 438

Equities – Euro Stoxx: OVERWEIGHT. Target 427. Exit 448

Bonds – Core governments: UNDERWEIGHT (Bund target -0.20%)

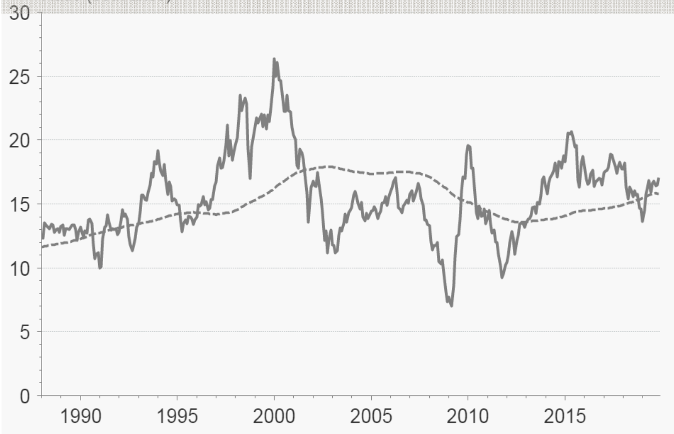
Peripheral - UW SP(0.5%), PO(0.5%), IE (0,2%), GR (1.5%). OW IT

Credit – Itraxx Europe (IG): UNDERWEIGHT (Target Spread 70)

Credit – Itraxx Europe (HY): MW-UW (Target Spread 275)

Euro area price-to-earnings ratio

Ratio (both axes)



Source: Refinitiv Datastream / ANDBANK

Euro STOXX banks Index

Source: Refinitiv Datastream / ANDBANK

EURUSD exchange rate

Spot rate

Source: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

SPAIN

Moderate growth in 2020, but still above the European average.

Economics

Looking to 2020 we expect growth of 1.8% in Spanish GDP (a pace similar to that observed in 2019), with inflation growing at 1.3% and an unemployment rate that will marginally improve, to 13.7%. In the fiscal area, we expect a deficit on the order of 2.2% (an improvement from 2.5% in 2019 but worse than the consensus estimate, which is 2.0%). Activity data in Spain took a clear downward path in the last part of 2019 (as opposed to the improvement observed in the neighboring countries of the Euro area). PMI indexes weakened, truck registrations hit lows not seen since 2017 and the industrial production index forecast was at low levels not seen in years. Regarding household confidence, the indicators also fell to 2016 levels, as a result of a labor market that no longer shows the vigor of previous months (with the unemployment rate standing at a high 14%). However, there are some grounds for optimism, reducing the risk of an abrupt paralysis of the economy. 1) Cement consumption and construction licenses have picked up. 2) Household savings have risen to a notable 8.7% of disposable income, with net household financing capacity (ISFLSH) increasing significantly.

Spanish Equities

We project sales growth of 3% for the Ibex Index (based on nominal domestic and world GDP growth of 3% and 6.25%, respectively, and considering the fact that 50% of Spanish companies' sales go abroad). Margins will remain in the 9.1% area (perhaps a little bit lower, as productivity growth will not offset the expected growth in wages due to the possible increase in the minimum wage). However, it is likely that the ECB will eventually increase the Depo Tiering limit, so that banks will see some of the interest burden on their deposits in the ECB eased, which may improve margins at the aggregate level. We fix the 2020 EPS estimate at €732 (below the consensus of €781), thus posting 3% yoy growth in EPS. Using a conservative year-end PE ltm multiple level of 13.5x, we reach a fundamental target for the Ibex Index of 9,882 points for 2020, with a recommended "sell" level fixed at 10,376.

Politics. PSOE and UP will likely be able to form a government

These two political forces (PSOE and UP) have 155 seats in Spain's 350-seat Parliament. In the first vote, the candidate needs an absolute majority (176 votes) to be elected; in the second vote, a simple majority is sufficient. Considering that the conservative parties (PP, C's and VOX) do not have a blocking minority (they only hold 152 seats), the Socialists and UP can probably gather enough support/abstentions among nationalist, regionalist and secessionist forces to form a government. That said, the new Government will be a weak one, similar to those led by the PP between 2016 and 2018 and by the Socialists from 2018 until April 2019. Every piece of legislation will therefore be the consequence of a complicated political agreement among many, diverse political forces. The first test will be the state budget, as the Government is still working with the 2018 budget produced by the PP administration. From a market perspective, we understand that having the extreme-left UP as a junior member in the government coalition will not cause a favorable flow of news for investors; however, we must not forget that UP has a relatively weak position within the administration, with just 35 seats against the Socialists' 120, and that the new administration will have limited legislative capacity.

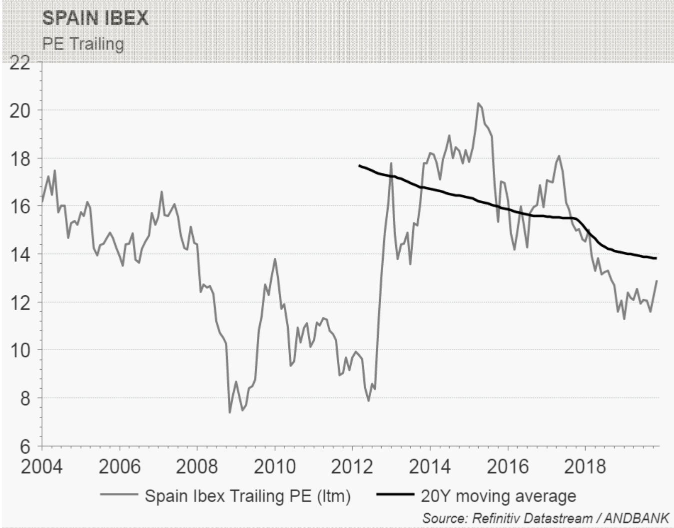
Financial market assessment

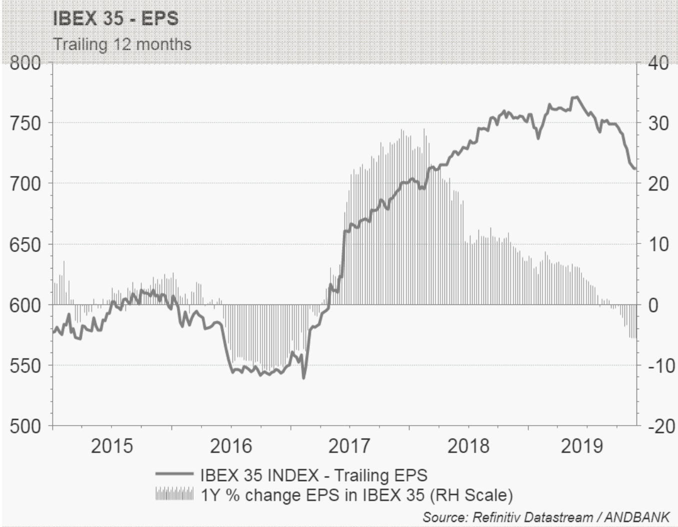
Equities – IBEX: MW-OVERWEIGHT. Target 9,882. Exit point 10,376

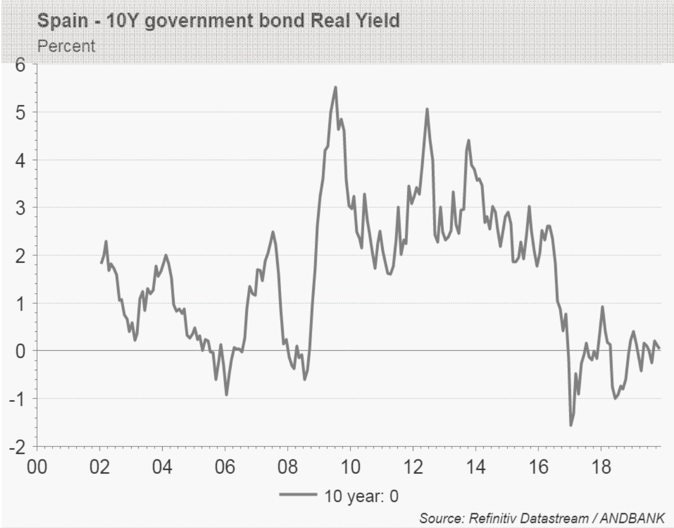
Bonds – Government: UNDERWEIGHT (BONO target yield 0.50%)

Credit – Investment grade: UNDERWEIGHT

Credit – High yield: UNDERWEIGHT







JAPAN

2020 GDP seen at 0.5% but the BoJ unlikely to ease further

The case for additional stimulative action by the BoJ

In the last two years, governor Haruhiko Kuroda, has cleverly convinced investors that he has more policy ammunition at the ready, without actually using it. That has been a tough trick to pull off since Japan looks to have reached the effective limit of unconventional monetary policy. Each time the yen has begun to strengthen—threatening to hurt exporters—Kuroda has been able to jawbone it lower. The case for simulative action can be seen in August's -14.5% year-on-year fall in core machine orders, headline consumer inflation slippage to 0.2% in September (the lowest in two years) and wages falling in both nominal and real terms in recent months. Also, the latest Tankan survey has shown broad-based weakness in business sentiment. But what can Kuroda do to keep the yen weak and avert a collapse in animal spirits? His problem is that both the Federal Reserve and the European Central Bank are back to expanding their balance sheets, while the BOJ has bought ¥20trn of assets in the last year, far short of its planned ¥80trn. The man himself insists that he retains flexibility and the BoJ has four different ways of responding: (i) making more asset purchases, (ii) expanding the scope of those purchases, (iii) cutting the target for 10-year government bond yields and, (iv) lowering short-term interest rates further into negative territory. Buying more bonds would just make the situation worse (inverted curve). The same logic applies to other fixed income assets. The option of cutting the BoJ's long-term yield target (now at zero) to below zero is possible, but would be resisted by regional banks, which are already suffering from crushed lending margins. That leaves the approach of cutting the short-term policy rate from -0.1% further into negative territory.

Reasons to think the BoJ will retain current policy settings and will not ease further

1) Japan's Government Pension Investment Fund, which has total assets of around ¥160trn, has been green-lighted to buy more foreign debt on an unhedged basis. This followed a rule change that reclassified foreign debt holdings that were currency-hedged as being "domestic". The effect will be to create more selling pressure on the yen, and thus, no need to ease policy to compensate for the effects of a rise in Fx. 2) Global risk-on environment points to continued capital flows out of Japan. On balance, the yen is likely to stay in the ¥105-¥115 range, 3) While recent data has been soft; that was to be expected ahead of this month's 2pp hike in the consumption tax. The combination of investment spending associated with next year's summer Olympics and offsetting fiscal supports suggests that Japan can weather a soft patch without suffering a fully-fledged downturn.

3Q GDP disappointed. Japan's 2018 profit outlook plunged $18B in worst downgrade in 7 years.

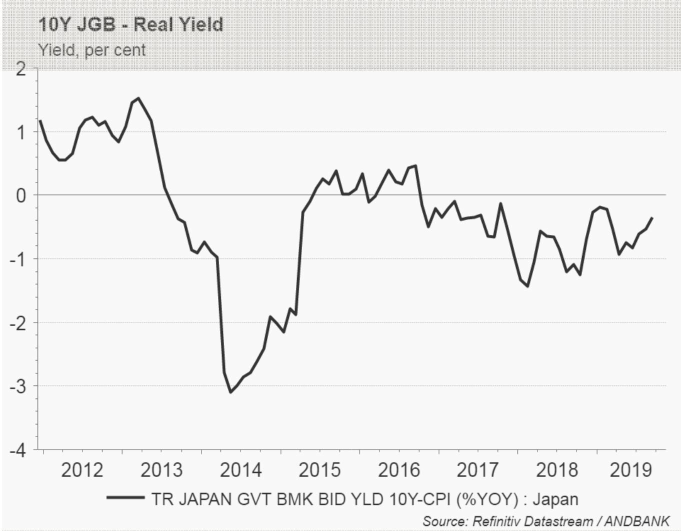
Q3 GDP growth was fixed at +0.2% q/q annualized vs consensus +0.8% and revised +1.8% in prior quarter. September core machinery orders growth was (2.9%) m/m, vs consensus +0.9% and (2.4%) in prior month. Meanwhile, Nikkei analysis showed Japanese listed companies have cut FY19 profit forecasts by over ¥2T ($18.3B), the steepest downgrade in seven years, as a slowing global economy weighs on exporters. About 70% of 574 major companies lowered FY guidance as of 13th November. H2 aggregate forecasts point to 2% growth, following ~20% gains seen as of 1-Oct.

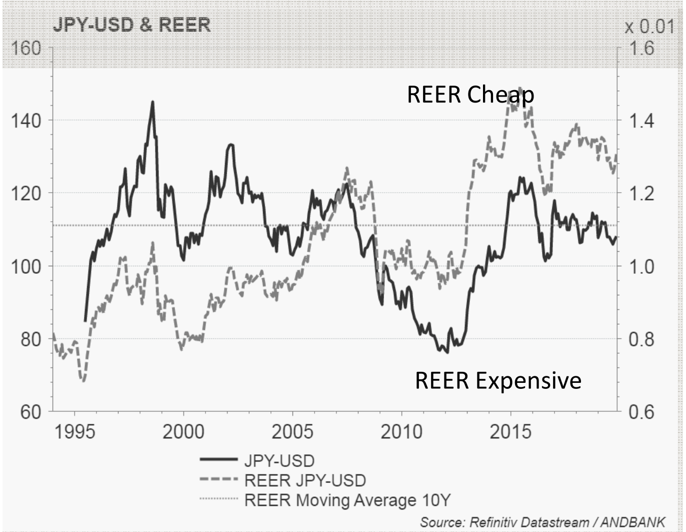
Financial market outlook

Equities – N225: UNDERWEIGHT. Target 23,732 (Exit 24,919)

Bonds – Govies: UNDERWEIGHT. Target yield 0.00%

Forex – USD-JPY: UNDERWEIGHT. Mid-term target 110





CHINA

2020 GDP seen at 5.9%. The PBoC is set to begin the path of many rate cuts.

PBoC

Markets have been expecting the PBoC to cut policy rates ever since it promised to lower funding costs. On Tuesday, the central bank finally delivered, rolling over its one-year medium-term lending facility (MLF) at 3.25%, 5bp below the previous rate of 3.3%. The move confirmed that the Chinese authorities are indeed set on easing policy, which markets had begun to doubt because of the PBoC's long delay in moving rates. Indeed, it is hard to get too excited about a 5bp move, but the PBoC is rolling out incremental measures that deliver targeted support to various parts of the economy. The MLF rate cut is widely expected to be the first of many small cuts, gradually lowering borrowing costs as, under the PBoC's new system, the 5bp cut in the MLF should mechanically lead to a 5bp decline in the one-year loan prime rate (LPR). The LPR, the rate banks charge their best customers, is supposed to be the new reference rate for corporate loans, which will contribute to improve credit conditions.

Trade. Kudlow says US and China getting close to an agreement

Reuters cited White House economic adviser Larry Kudlow at the Council on Foreign Relations in Washington on Thursday 14th November, in which he said the US and China are getting close to a trade agreement. Kudlow referenced very constructive discussions with Beijing, stating that "the mood music is pretty good." The FT also reported that the US and China are struggling to complete a phase one deal to halt their trade war, with officials from both sides still jostling over IP provisions, agricultural purchases, and tariff roadblocks. Nevertheless, the article also cited that Trump administration officials "are frustrated that China has not offered enough concessions to justify a reduction in US tariffs on Chinese goods". For its part, the CNBC cited China Ministry of Commerce spokesman Gao Feng, at a press conference, stating that "the trade war began with adding tariffs, and should end by their cancelation". Meanwhile, China lifted its four-year-old ban on US poultry shipments in November, a small sign of trade-deal progress at a time when agriculture purchases have become a sticking point in negotiations.

Outlook for Chinese financial markets

Previous rate-cut cycles in China triggered strong rebounds in credit and nominal GDP growth. Nevertheless, some analysts do not expect that this easing cycle is going to have big effects in the real economy, in part because a lower one-year LPR also does not affect rates on mortgage loans, which are to be priced off the five-year LPR, so the housing sector could get much less of the benefit, but also because financial regulation has turned rather conservative, with property lending seen as increasingly risky and the authorities focused on expanding credit by lending more only to small and private businesses. We believe that a lower LPR (loans to big customers) could incentivize banks to lend more to riskier borrowers to maintain their margins. For that to happen, however, regulators would have to signal to banks that they won't be punished for any subsequent rise in nonperforming loans. So far, there's no sign that regulators have gotten so relaxed. In summary, China's overall policy stance remains cautious, although with a clear tilt toward more easing. Although It's hard to see a strong up-cycle in activity (housing construction looks set to grind lower in 2020), some of the drags on growth in 2019 could dissipate as the year turns. ***Bonds:*** Combine those fundamentals with policy interest rates that are expected to keep drifting down, and it looks like yields on Chinese government bonds will eventually have to go lower. ***Equities:*** Along with rising optimism that the US and China will sign an initial trade deal sometime in November, expectations of further easing measures should keep Chinese equity markets inching higher.

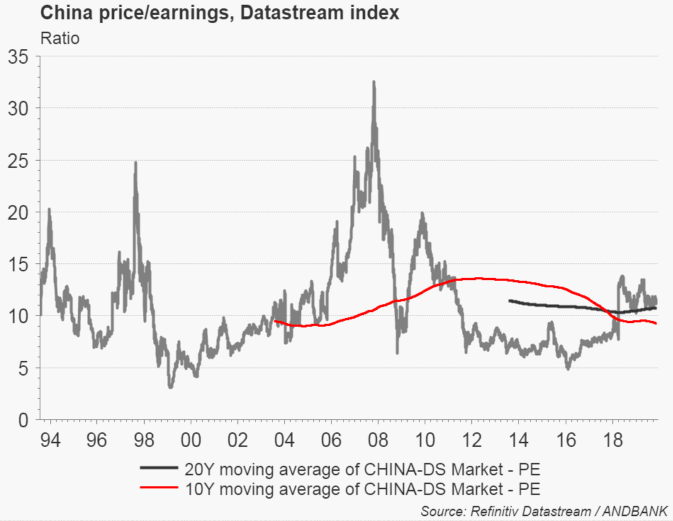
Financial market outlook

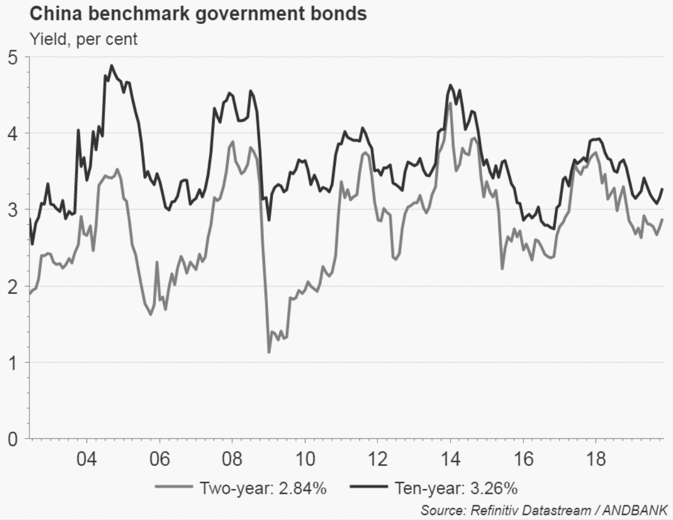
Equities– SHANGHAI Idx: MW-OW. Target 3,207. Exit 3,367

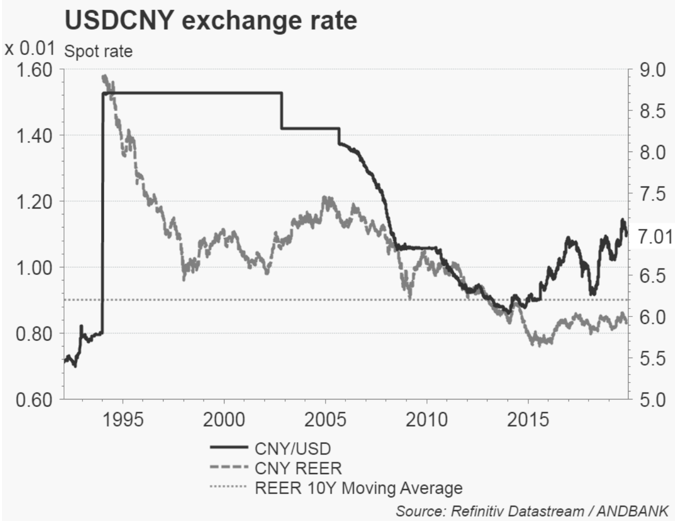
Equities – SHENZHEN Idx: OVERWEIGHT. Target 1,808. Exit 1,898

Bonds – Govies: MW (Target yield 3.18%)

Forex – CNY/USD: MW (Target 6.75)







MACRO ECONOMY

INDIA

2020 GDP seen at 6.1%. Equity market still has a favorable long-term outlook, although it is a bit expensive today

Understanding Modi's modernization plan

On taking office in 2014, one of the first steps Modi took was to replace the Planning Commission—an institutional relic from the days when India experimented with Soviet-style command economy structures—with a policy think tank named the National Institute for Transforming India (or NITI Aayog). Among the tasks entrusted to NITI Aayog was coming up with a coherent energy policy. In 2017, it duly published a draft, setting out ambitious targets for providing affordable energy, powering economic growth and bolstering energy security. Providing both rural populations and urban poor with reliable and cheap energy sources is a key factor in driving future economic growth. The NITI Aayog plan envisaged doubling India's per capita energy consumption between 2014 and 2040, but the Ministry of Finance goes even further, implying that per capita energy consumption should triple from the current 0.6 mtoe to 1.8 mtoe in order to come into line with the global average—a clear sample of the ambition, in terms of growth, that the government has for this economy.

How to do it once we accept that India cannot follow an energy development similar to China's?

1) After India more than doubled its renewable electricity generation capacity over the past five years to 82GW, Modi's government is now looking to more than double renewable power generation again by 2022 to 175GW (with a target of 100GW from solar energy alone). After that, the government is looking for a further 150% increase in renewable power generation to 450GW by 2030. Impossible or prohibitively expensive? The unit cost of providing solar power in India has recently fallen below the unit cost of power from thermal coal. 2) At the same time, the government is pushing for greater energy efficiency, after crediting the success of its efficiency drives for the recent decline in India's energy intensity (the energy consumed for each unit of GDP has declined from 0.12 mtoe per US$1000 GDP in 2008 to 0.09 mtoe).

More liberalizing reforms are coming

Even PM Modi's advisors seem to be surprised by the transformation and the sense that further liberalizing reforms will follow. Talk is of a middle-class income tax cut aimed at reviving sagging consumption. Another "possibility" is a renewed push to ease outdated land and labor laws (unfinished business for Modi). There are also reports indicating that privatization is back on the agenda (the state carrier Air India will be put back on the market, but this time without the onerous restrictions that put off buyers the first time). The government is also preparing to ask parliament to approve the sale of its entire shareholding in four big public companies (including Bharat Petroleum, sixth largest company by sales). One of the motivations for selling off state assets is to help fill the fiscal hole, specially if we consider that structural reforms always take a few years to achieve the desired results. Corporate tax cuts and simplification always improve corporate profitability, helping companies to preserve jobs; but companies only start investing when consumer demand picks up. It will be a year or two before a new wave of direct investments materializes. On the negative side, the credit crunch in the shadow banking sector (a vital source of small loans) continues to weigh heavily. Non-bank financial companies still cannot get any money from banks. The government recently instructed 32 large central public enterprises to spend more quickly. This, together with the rest of the fiscal measures, could push up interest rates. If bond investors take fright, the rupee could also come under pressure.

Financial market outlook

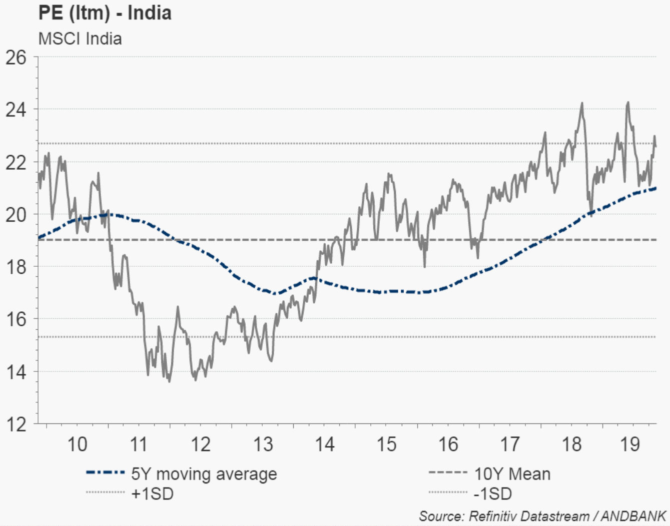
Equities – SENSEX: MW-OV

ERWEIGHT. Target 45,477. Exit 47,750

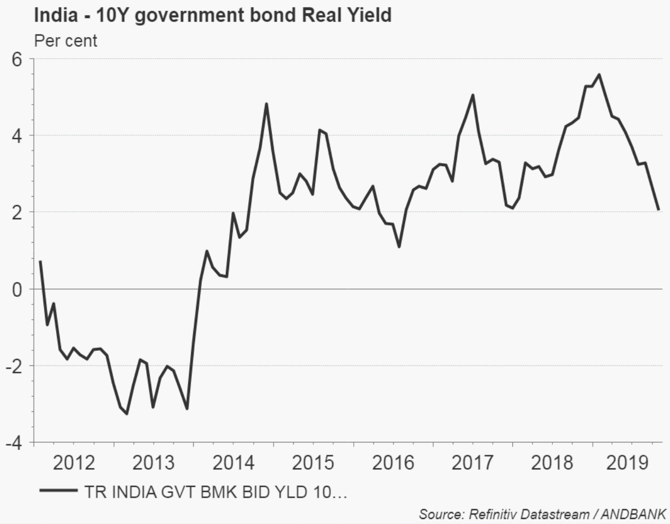
Bonds – Govies: OVERWEIGHT (Target yield 5.75%)

Bonds – Corporates: OVERWEIGHT

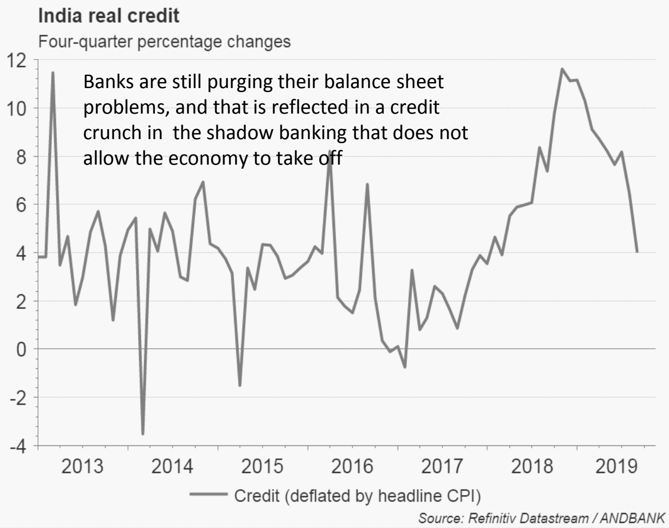
Forex – INR/USD: MARKETWEIGHT (Target 73.1)



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

ISRAEL

Equities are expensive. Buy duration in government bonds. Neutral in credit

Economics

Industrial manufacturing showed a decline in growth during the last three months, but this was explained by an adverse base effect, as the economy did not enjoy the one-time increase in medicine exports seen in the previous months. The rest of the data continued to show a fairly solid shape of the economy. Positive data came from investments in the venture capital industry and local start-up companies during the third quarter, adding up to USD2.24B, and with signs that this could continue growing. The Labor Force Survey indicated a decrease in the number of job vacancies. Inflation in October rose by 0.4%, in line with market expectations, and analysts' forecasts for the coming month's CPI ranged from 0.8% to 1%. A scenario of low inflation that is fueled, in part, by the strength of the Shekel, which continues to strengthen against the major currencies (7.76% YTD vs the USD and 10.77% vs the EUR).

Dissecting Israel's equity market, its strengths and weaknesses, to understand a little more that you can offer us in 2020

The TLV stock indices are trading at record levels, just at the time when some of their companies have already started releasing their 3Q19 financial reports, and it seems clear that the 2019 is headed to end up yielding a very good result for the Israeli equity market. The TLV 90 index (which represents medium-capitalization companies) has increased 35% since the beginning of the year, mainly due to a 61% increase in the TLV real estate index and a 52% increase in the TLV technology index. Most of the medium-capitalization companies have released solid results throughout the first half of 2019 and we expect solid results in the second half of the year as well. To date, 135 companies have published their 3Q earnings reports and we can already point out solid results in the software services sector (Malam-Tim, Sapiens, One, etc.) and the real estate sector (Amot, Sela, ADO, etc.). We also expect strong figures in the alternative energy sector (Enlight, Energics, O.P.C.) and the private lending sector (Nawi, Opal balance, Peninsula, Soham, etc.). These favorable results are supported by a recent publication on the annual GDP growth rate of 4.1% in the third quarter. On the other hand, TLV 35 (which represents large-cap companies) has increased only 13.8%, due mainly to the low performance of the large pharmaceutical company TEVA (-38.7%) and OPKO (-53%). However, TEVA shares began to recover after the publication of their third quarter report in November, which gave investors room for optimism. Israel Chemicals and its parent company, Israel Corp., have also lagged, mainly due to lower potassium prices. The equity market seems to be expensive at current levels, with a PE multiple clearly above its 10-year moving average.

Bond market. Credit & Government bonds

Corporate credit spreads have narrowed considerably during the last year, bringing absolute yields to historical low levels. The Israeli highest grade corporate bonds index (Tel-Bond20) offers a spread of 1.35% over the CPI-linked government bonds curve and we believe that the TelBond20 is still an attractive investment in this late cycle phase of the economy, with low growth and low interest rates. We believe that a high grade index that can give you a 0.5% plus inflation in absolute terms is an attractive return, compared to the risk. Regarding government bonds, Israel is going to be included in the FTSE-RUSSELL government bond index WGBI starting in March 2020, and that will also support the ILS and bond prices. We believe that the yield curve will continue to flatten, so a long duration position of 5-6 years is highly recommended.

Financial market outlook

Equities – TLV35 Index: UW-MW (Slightly expensive)

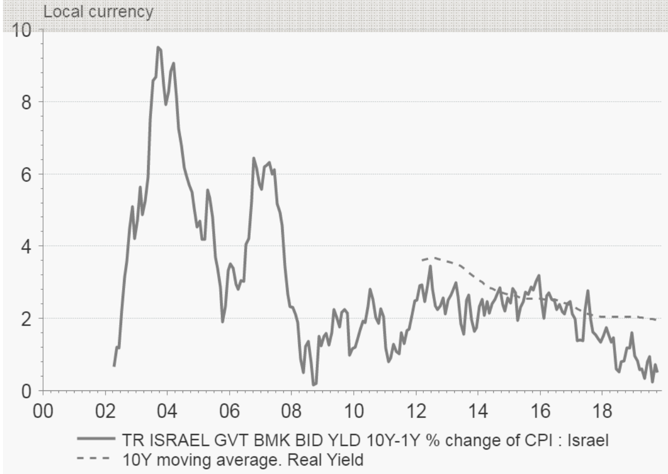
Bonds – 10YGov USD: MW-UNDERWEIGHT (Duration 5-6 years)

Fx – ISL vs USD: MW-UW (ISL is slightly expensive in REER)

Israel price/earnings, Datastream index
Ratio

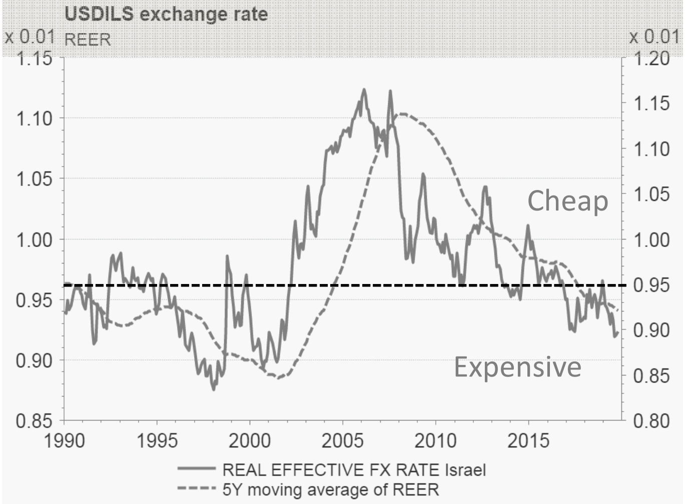
Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y
Local currency



Source: Refinitiv Datastream / ANDBANK

USDILS exchange rate
REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

GDP growth to accelerate to 2% in 2020. Equities still offer some value

Fx turmoil: We believe it will be temporary

The combination of the political turmoil in Latam countries, the lack of positive news flow regarding new reforms and the external position deteriorating exerted downward pressure on the BRL, which remains well above the 4.00 mark against the USD. Worryingly, October's current account deficit posted the second worst print for the month since 1995 (c. USD 7.9 billion), with the deficit accumulated in 12 months widening to 3% of GDP (from -2.3% in September), while FDI came in below market expectation's floor and was insufficient to cover the gap in the month. All said, the general external picture is not bad, as the trailing twelve-month clip of 4.4% of GDP in FDI still covers comfortably the external CA deficit. Historic low levels of domestic interest rates are incentivizing outflows of portfolio investments (specially fixed income) and prompting companies to prepay their external debt. These facts, combined with the rapidly weakening trade surplus, are pressuring the currency. Demand for dollars from locals is also explained by the political noise after Lula's release, but also due to the recent statements by Minister Guedes suggesting that people should get used to a low BRL, which fueled speculation about a policy of voluntary devaluations. Another bearish factor was the disappointing oil auction, when the major US and European oil companies showed no interest in bidding for oil fields in the country. Against this backdrop, the BCB announced a series of spot auctions in order to provide the necessary liquidity to the spot market, but reiterated its intention of only intervening in case of market malfunction or high volatility. It is worth mentioning that other asset prices used to define a fair value for the currency haven't changed much since the BRL high of 3.72 (per USD) in mid-July. In this period, the Brazilian currency depreciated c. 13%, while the DXY Index gained less than 2% and the 5-year CDS tightened almost 5bp, which suggests that there could have been an overreaction in the market regarding the BRL.

Politics: Polarization and a new opposition

On November 8, the former president of Brazil, Lula da Silva, was released after having spent 580 days in prison, following a Supreme Court decision ruling that defendants could only be imprisoned after all appeals to high courts have been exhausted. His release will further ignite the polarization in the 2020 municipal elections. The main social criticisms are regarding economic policy and the high unemployment rate. We do not believe, however, that Lula could become a viable candidate for the 2022 presidential election. On November 12, President Jair Bolsonaro decided to leave the Partido Social Liberal (PSL) and intends to create a new party, the Alliance for Brazil. Bolsonaro has already started the strategy for re-election in 2022. The scheduled tax and administrative reforms have been postponed to 2020.

Economics and Central Bank

Focus Report economic forecasts show improvements in growth forecasts and falling inflation rates. 2019 GDP consensus was revised up from 0.88% yoy to 0.92% yoy, in the wake of better economic activity data at the margin. Expectations for 2020 GDP climbed to 2.08%. Nevertheless, confidence indicators in the industry have failed to gain momentum due to the still perceived risk of a global slowdown, which has prevented the resurgence of economic confidence. Regarding long-term interest rate forecasts, the consensus shows stability for 2020, linked to anchored inflation expectations.

Financial market outlook

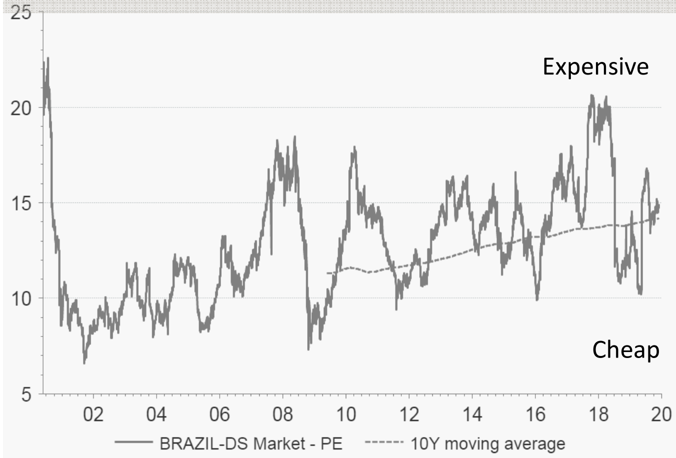
Equities – IBOV: OVERWEIGHT (Target 116,437 Exit point 122,259)

Bonds – Gov. 10y Local: OVERWEIGHT (Target 7.0%. Spread 500)

Bonds – Gov. 10y USD: OVERWEIGHT (Target 4% Spread 200)

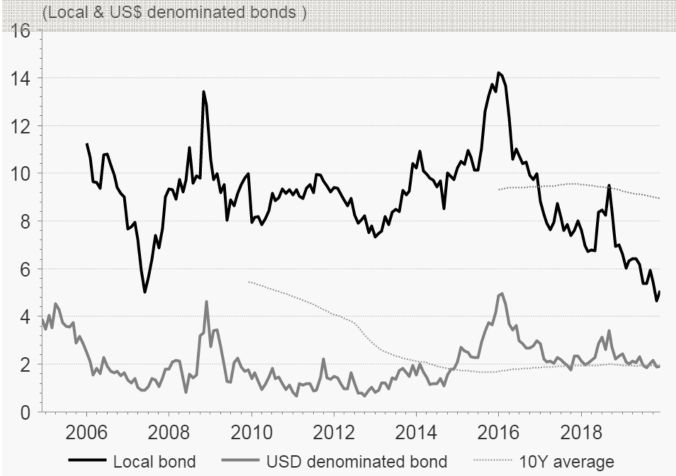
FX – BRL/USD: OVERWEIGHT (Mid-term target 4.00)

Brazil price/earnings, Datastream index
Ratio



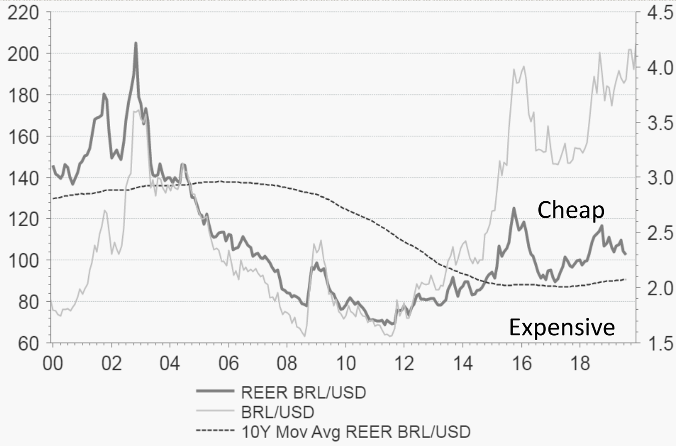
Source: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST
(Local & US$ denominated bonds)



Source: Refinitiv Datastream / ANDBANK

BRAZILIAN REAL - REER
vS USD



Source: Refinitiv Datastream / Fathom Consulting

MEXICO

2020 GDP growth at 1.3%. We see value in long-dated bonds and equities

The Central Bank will continue to offer support to the market

Banxico decided to cut the reference rate by 25bp, to 7.50%, in line with market expectations. The decision was not unanimous, with two members in favor of reducing the rate by 50 bp, to 7.25%. Overall, the regulator's statement was dovish, setting itself apart from the Fed and leaving open the possibility of a final cut in interest rates by the same amount at the meeting on December 19. Positive for the bond market. The inflation for the month of October in Mexico supports our thesis of a dovish central bank, since the CPI remained at an annual 3.00%, meeting the central bank's long-term goal. Anchored prices are the result of controls on agricultural goods and gasoline, with some of these sub-indices having reached historical low levels (YoY). We may see a rebound in prices in the last 2 months of the year, but this would not jeopardize our vision for a monetary policy of downward rates, since the rebound in prices will be motivated by the elimination of a subsidy on electricity in the north of the country.

Public finance and politics do not seem to be a risk for 2020

Finally, the Budget for 2020 was approved. On the revenue side, few changes regarding the executive's proposal. The approved primary surplus remained at 0.7%. Recent public finance data continued to show a decline in revenue, but this decrease was partially offset by a lower execution of budgeted expenditure. The government will use half of a Budget Stabilization Fund (some MXN150bn) to balance the budget in the remainder of the year and in 2020.

Pemex seems to have stopped being a risk

Successful placement of Pemex to modify its maturity profile substantially improved the perception of risk on the company, although the review of its rating by the rating agencies remains pending. A recent cyber attack on the company raised concerns about austerity measures and whether what the company receives from the federal government is being spent properly.

Equity Market: IPC Equity Index

We project sales growth of 5.7% for the Mexican IPC Equity index (based on nominal domestic and world GDP growth of 4.75 and 6.25%, respectively, and considering the fact that 60% of sales go outside the country). Margins will remain in the 7.8% area (below the 8% seen in 2019). The cut in margins will come from a rise of 3% in wages, which will not be offset by a rise in productivity (projected to grow at +1.2%) or a decline in funding costs (some 100bps in 2020). As a result, we estimate 2020 EPS of MXN2,926 for companies in the IPC Index (below the consensus, at MXN3,175), representing a shy 3.4% growth in EPS. We keep the 2020 year-end trailing PE multiple stable at 15.3x, resulting in what we consider a reasonable fundamental price of 44,900 for this index in 2020, with a recommended "sell" price at 47,110. Certain internal and external risks persist, such as the implementation of the AMLO administration's economic policy and possible rating action, particularly due to the spending decisions on Pemex.

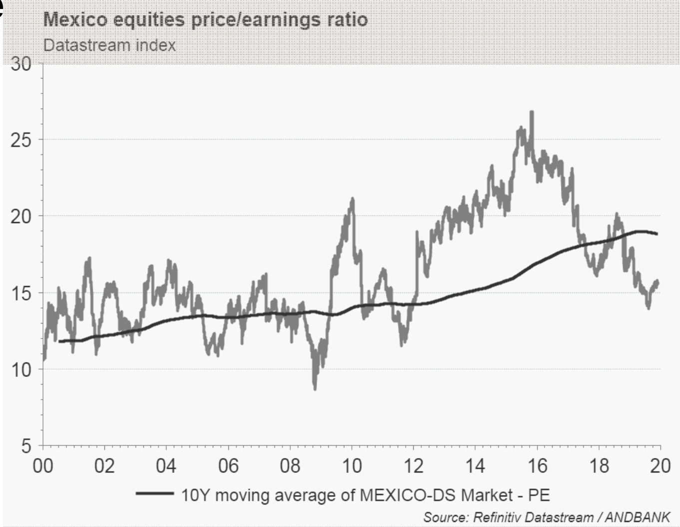
Financial market outlook

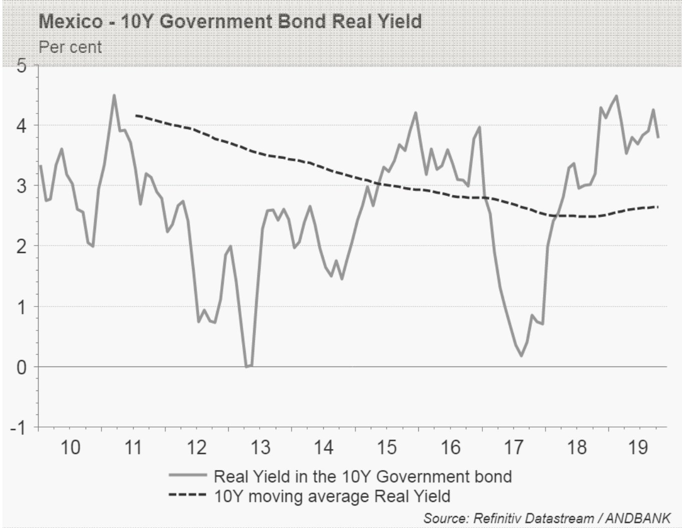
Equities – Mex IPC: MW-OVERWEIGHT. Target 44,866. Exit 47,110

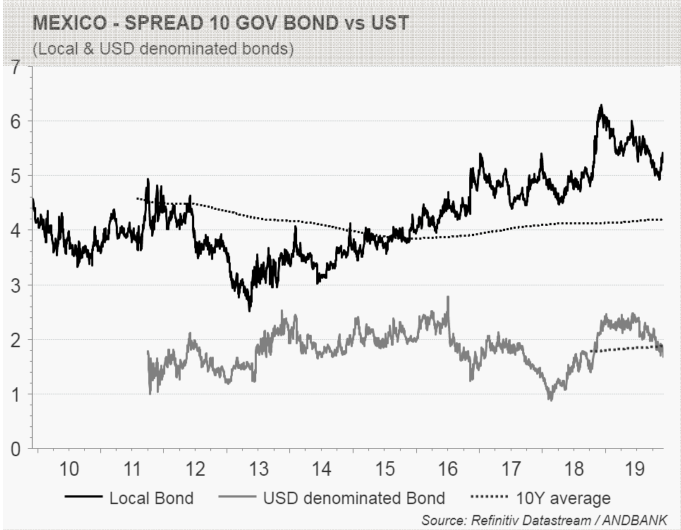
Bonds – Govies Local: OVERWEIGHT (Yield 7%. Spread 500)

MARKETWEIGHT (Yield 3.5%. Spread 150)

FX – MXN/USD: MW-UNDERWEIGHT (Mid-term target 20.00)







ANDBANK Private Bankers

ARGENTINA

We expect a 20% haircut, with 5-10Y maturity extension and coupon reduction

Politics and the economy

The newly elected President starts his mandate on December 10th, but uncertainties around economic measures to be carried out still remain. The incoming government needs to act swiftly and must show that an Economic plan is in place from day one. The program must be exhaustive and internally consistent. Rationality must prevail over naive voluntarism if Argentina want to get back to a growth path. Fernandez's statements in recent days seem to be in line with Guzman's proposal, which has three pillars: i) Argentina cannot continue the fiscal adjustment; ii) do not pay debt for two years, with extension of maturities and interest rebalancing; and iii) do not ask for more funds from the IMF. Fernandez's presumed strategy is summed up by a recent statement of his: "We are going to pay the day we have grown, produced more, exported more and obtained the dollars with which to pay this debt. I don't want to default. I want to pay."

Solving the Debt Puzzle: How and when?

Net Debt to GDP (netting intra-government debt) is around 60%, looking manageable at first sight. First challenge to tackle is Debt in ARS (15 Bn USD until May 2020), then the USD Local Law debt (around 90% of 2020 payments and easier from a legal point of view), and last but not least, IMF and foreign law debt. Despite Fernandez's first stance of trying to solve the problem with only a maturity extension of short-term debt (the Uruguay way in 2003), we think that Argentinian politicians have neither the economic incentive (need to reduce interest payments, which today represent 3% of GDP) nor the political willingness (a very friendly stance will be seen as a loss by the more leftist factions of Peronism) to take the Uruguayan road. Our view is that we should expect: i) a principal payment extension (5 to 10 years); ii) a small principal haircut (20% probably), and iii) a coupon reduction. We think that nominal reduction will be limited, as Argentina needs to return to the capital markets as quickly as possible to attract foreign investment after years of low capital formation. That said, we shouldn't expect a solution for Global and foreign law bonds in 1H20, as Local Law and IMF will be the priority.

An assessment of the bond market

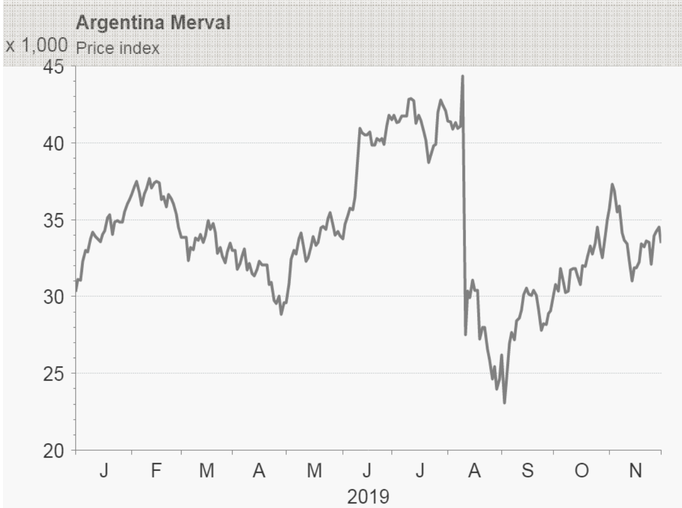
Argentinian debt is currently trading below 40 cents on the dollar, pricing a very negative outcome. Lack of definition regarding debt renegotiation and integration of the economic cabinet continue to cause a fall in Argentine sovereign bonds, while provincial and corporate bonds continue to show, on average, a recovery trend. Having said this, we expect higher recovery values, with considerable upside potential from current levels, driven by a lower haircut than that implied by current prices and the feasibility of debt entering a sustainable path. The decision of the BCRA, which made the new exchange rate regime more flexible, can contribute to this. The communication states that if a local company makes a new placement of debt in dollars and sells the US dollars it receives in the local market to operate domestically, the BCRA will guarantee access to the foreign exchange market at the time of generating interest and payments of capital of the new debt issued. The measure will facilitate the issuance of debt in dollars for companies, so that the dollars that left the domestic financial system are transformed back into a source of financing.

2020 expectations

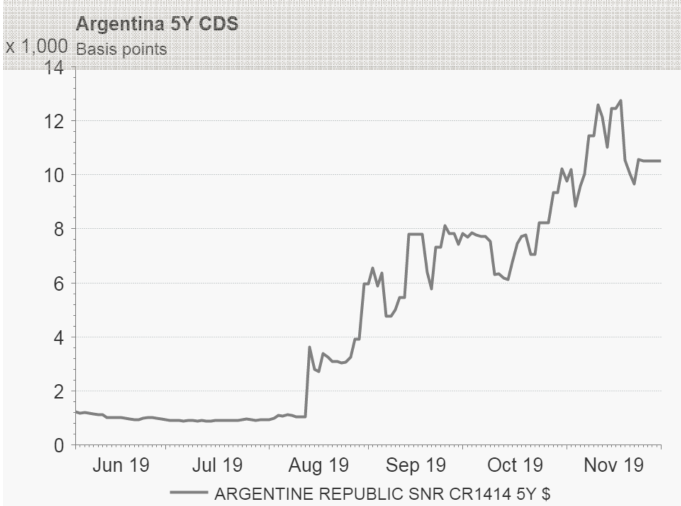
Main takeaways: i) 2020 Inflation forecast revised upwards to 42.9%; ii) Year-end consensus for FX rate at USD/ARS 87.4; iii) GDP growth projections for 2019 cut to -3.0%, while decreased to -1.7% for 2020.

Financial market outlook

Bonds – 10YGov USD: MARKETWEIGHT
FX – USD-ARS: UNDERWEIGHT (2020 year-end target 80)



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / Fathom Consulting

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Sales growth Andbank Estimate 2020	Projected Net Margin Andbank 2020	Projected EPS Andbank 2020	Projected EPS Growth Andbank 2020	Current PE (EPS 2019)	Projected PE ltm EPS 2020	INDEX CURRENT PRICE	2020 Central Point (Fundam range)	2020 E[Perf] to Centr. Point	Recomm	2020 Exit Point
USA S&P 500	4,7%	11,4%	166	0,9%	18,93	19,50	3.117	3.240	3,9%	MW/OW	3.402
Europe - Stoxx Europe 600	3,5%	8,0%	25,8	-0,5%	15,60	16,20	404	418	3,3%	MW	438
Euro Zone - Euro Stoxx	4,0%	7,3%	26,4	4,6%	15,70	16,20	396	427	7,9%	OW	448
Spain IBEX 35	3,0%	9,1%	732	3,0%	13,05	13,50	9.276	9.882	6,5%	MW/OW	10.376
Mexico IPC GRAL	5,7%	7,8%	2.926	3,4%	14,92	15,33	42.216	44.866	6,3%	MW/OW	47.110
Brazil BOVESPA	6,0%	10,2%	7.512	2,9%	15,16	15,50	110.622	116.437	5,3%	OW	122.259
Japan NIKKEI 225	4,9%	6,1%	1.360	2,4%	17,54	17,45	23.300	23.732	1,9%	UW	24.919
China SSE Comp.	7,2%	9,1%	277	10,2%	11,59	11,58	2.912	3.207	10,1%	MW/OW	3.367
China Shenzhen Comp	7,4%	9,0%	93	11,8%	19,65	19,37	1.640	1.808	10,2%	OW	1.898
India SENSEX	8,6%	11,7%	2.095	12,9%	21,81	21,71	40.445	45.477	12,4%	MW/OW	47.750
Vietnam VN Index	7,8%	7,6%	65	9,2%	16,19	16,85	964	1.096	13,7%	OW	1.150
MSCI EM ASIA	7,4%	8,8%	44	12,5%	13,47	13,52	530	599	12,8%	MW/OW	629

UPWARD REVISION   DOWNWARD REVISION   *ANDBANK ESTIMATES*

POSITIONING, FLOW & SENTIMENT ANALYSIS

Perspective: No stress in markets
Andbank's Assessment: -1.5 (in a -7/+7 range)

Aggregate (UW-MW bias): Overall, investors have shifted their positioning, increasing their risk toward equities and reducing the hedge level, except against violent moves (most likely linked to uncertainty in political backdrop and growth concerns). Our interpretation is that there is some degree of complacency. Our contrarian view, however, gives us a negative reading.

Market Positioning (Slight UW bias): Asset allocation in equity remains relatively high. Similarly, the put-call ratio indicates that investors have unwound their hedges. Our reading (contrarian view) continues to have negative implications, as the market still seems too complacent. That said, the skew index level grew to 130 (8-month high), indicating that fears of violent downside movement have grown (thought not to extreme levels).

Flow Analysis (OW bias): Positive flows toward US equity indicate a bullish momentum in equity markets. China also received positive flows in November on improving trade negotiation news. On the other side, outflows affected Germany on growth concerns, followed by Hong Kong and Taiwan amid ongoing protests.

Surveys & Sentiment Analysis (UW bias): Positive sentiment from investor surveys amid good performance also reflects a kind of complacency in the market. We have a negative reading (contrarian).

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	Ticker Reuters	Annual View	Principal Support	Principal Resistance	Target 2020	@	Return to Target (TA)
INDEXES	Euro Stoxx Index	.STOXXE	Bullish	367,29	406,57	443,00	399,57	10,87%
	Euro Stoxx 600	.STOXX	Lateral Bullish	361,00	415,18	441,75	405,99	8,81%
	Ibex	.IBEX	Lateral	8.229,00	9.665,00	9.665,00	9258,00	4,40%
	S&P	.SPX	Lateral Bullish	2.728,00	Free rise	3.281,00	3122,03	5,09%
	Japón	.N225E	Lateral	20.110,00	24.448,00	22.362,00	23292,65	-4,00%
	China	.SZSC	Bearish	1.458,00	1.799,00	1.458,00	1646,80	-11,46%
	India	.BSESN	Lateral Bearish	36.100,00	Free rise	37.700,00	40284,19	-6,41%
	Brasil	.BVSP	Lateral Bearish	95.855,30	Free rise	99.800,00	106269,25	-6,09%
	México	.MXX	Lateral Bullish	36.898,00	46.554,00	46.554,00	43392,36	7,29%
OTHERS	Oil West Texas	WTCLc1	Bullish	50,52	66,60	66,60	56,89	17,07%
	Oro	XAU=	Lateral Bullish	1.358,00	1.557,00	1.564,00	1470,75	6,34%
	Treasury 10 años USA	US10YT=RR	Bullish	1,3210%	2,3500%	2,3500%	1,8144%	29,52%

Bullish -> Potential > 10% ; Sideways Bullish -> (+5%,+10%); Sideways-> (- 5% , +5%); Sideways bearish-> (-10%,-5%); Bearish -> < -10%

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 1.97%. Fair value 3%. Ceiling 3.50%

Swap spread: The swap spread down-ticked to -3bp (from -6p last month). For this spread to normalize at +3bp, with the swap rate anchored in the 2.0% area (our LT inflation expectation), the 10Y UST yield would have to move towards 1.97%.

Slope: The slope of the US yield curve down-ticked to 17bp (from 18bp last month). With the short end normalizing towards 2% (today at 1.5%), to reach the long-term average slope (of 150bp) the 10Y UST yield would have to move to 3.50%.

Real yield: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our long-term CPI forecast of 2%, the UST yield would have to rise to 3% to become a "BUY".

GER Bund: Floor 0.63%. Fair value 1.22%. Ceiling 2.5%

Swap spread: The swap spread down-ticked to 36bp (from 37bp last month). For the swap spread to normalize at 37bp, with the swap rate anchored in the 1.00% area (today at 0.11%), the Bund yield would have to move towards 0.63% (entry point).

Slope: The slope of the EUR curve rose to 40bp (from 33bp last month). If the short end "normalizes" in the 0% area (today at −0.65%), to reach the 10Y average yield curve slope (122bp) the Bund yield would have to move to 1.22%.

Real yield: A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI mid-term forecast of 1.5%, the Bund yield would have to rise to 2.5% to become a "BUY".

UK Gilt: Floor 1.9%. Fair value 2.4%. Ceiling 2.75%

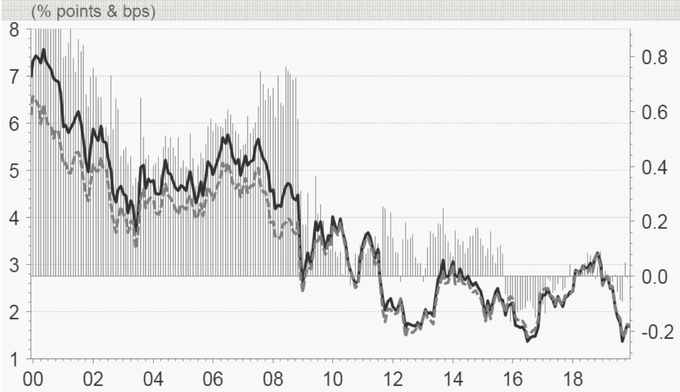
Swap spread: The swap spread rose to 27bp (from 23 last month). For the swap spread to normalize at 10bp, with the swap rate anchored in the 2% area (today at 0.94%), the 10Y UK Gilt would have to shift to 1.9%.

Slope: With a 2Y bond normalized at 1%, to reach the average slope at 1.43%, the 10Y Gilt would have to move to 2.43%.

Real yield: Given our CPI mid-term forecast of 1.75%, the Gilt yield would have to rise to 2.75% to become a "BUY".

SWAP SPREAD USD

(% points & bps)



Source: Refinitiv Datastream / Fathom Consulting

SWAP SPREAD EUR

(% points, bps)

Source: Refinitiv Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Tactical targets – 10Y yields

Spanish bono: Target yield at 0.50%
Italian bond BTPI: Target yield at 1.0%
Portuguese Gov bond: Target yield at 0.5%
Ireland Gov bond: Target yield at 0.2%
Greece Gov bond: Target yield at 1.50%

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. The markets (and government bonds) that meet such requirements are shaded gray.

		10 Year Yield Nominal	CPI (y/y) 3 month Mov Avg	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	7,07%	3,34%	3,73%	-1,00%	6,07%
	India	6,64%	3,95%	2,69%	-0,75%	5,89%
	Philippines	4,63%	1,13%	3,50%	-1,00%	3,63%
	China	3,19%	2,44%	0,75%	0,00%	3,19%
	Malaysia	3,42%	1,27%	2,16%	-0,75%	2,67%
	Thailand	1,53%	0,33%	1,20%	-0,50%	1,03%
	Singapore	1,74%	0,48%	1,26%	-0,50%	1,24%
	South Korea	1,59%	-0,15%	1,74%	-0,50%	1,09%
	Taiwan	0,61%	0,42%	0,19%	0,00%	0,61%
EME	Turkey	11,83%	10,94%	0,89%	0,00%	11,83%
	Russian Fed	6,39%	4,03%	2,36%	-0,75%	5,64%
LATAM	Brazil	6,81%	2,92%	3,89%	-1,00%	5,81%
	Mexico	6,94%	3,09%	3,85%	-1,00%	5,94%
	Colombia	6,05%	3,76%	2,29%	-0,75%	5,30%
	Peru	4,93%	1,92%	3,01%	-1,00%	3,93%

ENERGY – OIL

Fundamental view (WTI): Target range USD45-65/bbl.

Buy < USD45; Sell >65

Short-term drivers

(Price Positive) –Industry begins to worry about Democrats' calls for slowing US oil output: Oil producers are preparing for calls by Democrats running for president who have pledged to ban drilling on federal lands The potential policy change could disrupt a quarter of the US daily crude output and throw thousands of federal leases into question. Some estimate new prohibitions could disrupt 2.9M bpd of existing crude oil output, while a ban on leasing on federal lands could cut output an additional 650K bpd.

(Price Positive) – Bearish bets drop sharply November. Net longs rise. Bloomberg reports that the net-long position in WTI rose 32% for the week through 12-Nov, driven entirely by managers unwinding short bets (which fell 41%, while long-only bets dropped 3.3%). The recent optimism may be driven by the more promising tone of US-China trade talks, although many investors find it difficult to be bullish about the long term given concerns about global growth and an impending supply influx from Brazil.

(Price Negative) – ***IEA heavily lifts non-OPEC 2020 supply estimates***. IEA's latest monthly oil market report showed expectations for global oil markets to remain calm next year, as high non-OPEC production and high inventories will keep consumers comfortably supplied. The agency estimated that non-OPEC supplies will increase by 2.3M bpd next year, twice the rate of global demand, and 100K bpd higher than last month's estimate. The agency expects global demand to increase to 1.9M bpd y/y in Q4-2019, led by strong China demand growth.

(Price Negative) –Analysts see prices falling below $50 without further cuts: Bloomberg reported that OPEC and its allies have signaled they won't cut deeper, but a surplus looms that could send the market crashing next year. The article noted that analysts see prices falling by around 30% to $45 a barrel if OPEC avoids cuts. Such a move would also intensify the strain on Venezuela, Iran, and Iraq, which have all faced economic and political challenges. However, analysts also noted the decision would also impact on US shale, which balances the market, with some estimating US drilling plunging by 20% if OPEC+ eschews additional cutbacks, as American shale production has already slowed considerably as prices have fallen.

(Price Negative) – Aramco says it is aiming at a $1.65T valuation. The saga comes to an end. The WSJ reports that Saudi Aramco is targeting a $1.65T valuation for its upcoming IPO, notably short of initial hopes for ~$2T, suggesting that this saga may be close to an end. Despite the price, it could still be the largest-ever IPO, with Aramco offering a 1.5% stake that could be valued at ~$25B (near Alibaba's IPO from 2014). The Saudis are heavily promoting the IPO to local retail investors (who will have access to about $8.5B of the IPO), and that the Saudi central bank has relaxed lending limits to boost demand from local investors after bankers were unable to convince many international money managers of the merits of the deal. The company has canceled the London leg of its roadshow and has also decided not to market the sale in the U.S., Canada or Japan.

(Price Negative) –Tankers avoiding tracking, secretly exporting millions of barrels of Venezuelan oil. Data show an increasing number of tankers that have turned off their transponders before moving into Venezuelan waters. An article in Bloomberg said Venezuela loaded 10.86M barrels of crude in the first 11 days of November, more than double the volume over the same period last month. Around half those barrels were loaded onto ships that turned off their transponders, which later delivered cargoes to China and India. Venezuelan production plummeted after this year's US sanctions, falling to a 16-year low of 644K bpd in September.

(Price Negative) – Recent discovery could boost Ghana's production potential to 250k bpd. An independent Ghanaian company plans to announce it has made two deepwater discoveries totaling ~1.2B barrels. Ghana expects to be producing about 250K bpd next year, significantly boosting the country's production. The company acknowledged that there might be some skepticism about the find, especially as it is located in a block abandoned by Kosmos in 2016.

Long-term drivers

(Price Negative) – Alternative energies picking up the baton: Conventional 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).

(Price Negative) – Growing environmental problems will gradually tighten legislation over 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.

(Price Negative) – 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 rapid increase in shale oil production.

PRECIOUS METALS - GOLD

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

Negative drivers for Gold

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$1,316 (from US$1,329 last month). In real terms, gold continues to trade well above its 20-year average of US$919. Given the global deflator (now at 1.12307), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,032.

Gold to Silver (Preference for store of value over productive assets). This ratio rose to 88.15x (from 84.93x last month) and still remains well above its 20-year average of 64.3x, 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$1,103/oz.

Gold to Oil: This ratio down-ticked during the month to 26.36x (from 26.77x last month), still well above its 20-year average of 15.4x. Considering our fundamental long-term target for oil of US$55 pb (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$847 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long rose to 325k (from 319k last month). Short contracts fell to 53k (from 66k). Thus, the net position rose to 271k contracts during the month (from +253k the previous month).

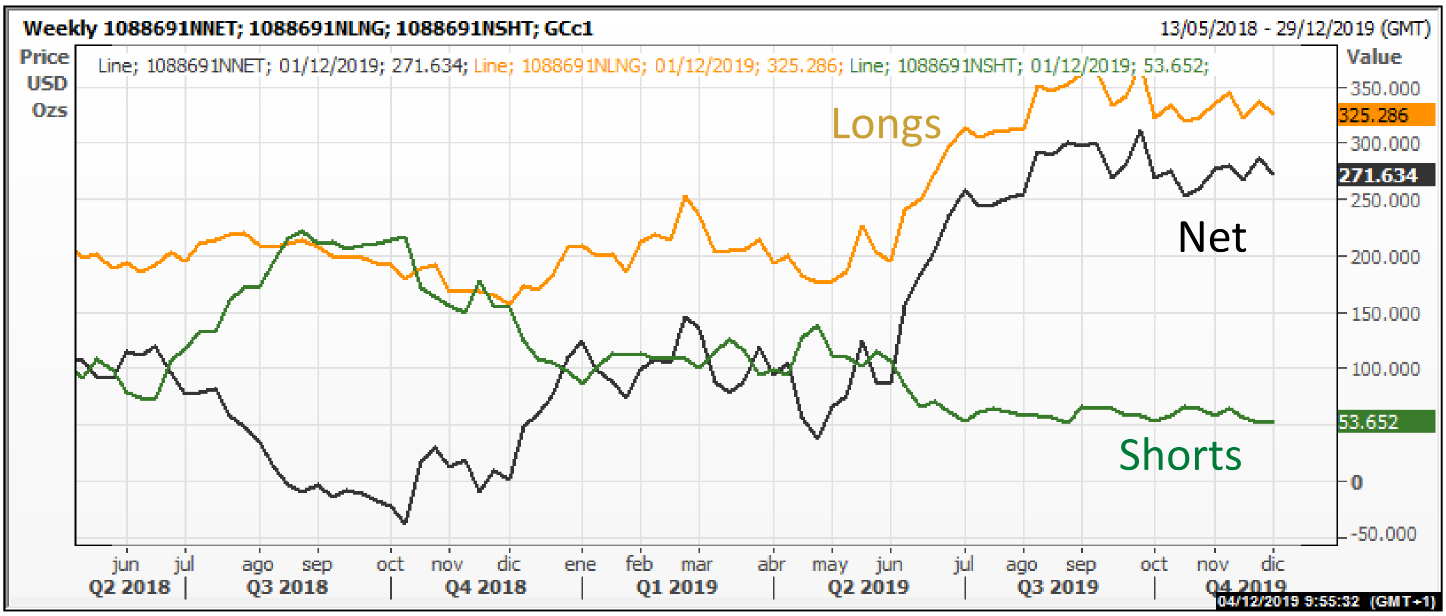
Demonetization in India. Demonetization forced millions of households to use formal banking services for the first time, helping to integrate them into the formal economy. The move will help mobilize billions of dollars in savings that were residing in unproductive physical assets such as gold.

Positive drivers for Gold

Gold to the S&P500: This ratio down-ticked to 0.478x (from 0last month) but is still well below its LT average of 0.61x. Given our target price for the S&P of US$3,240, the price of gold must approach US$1,976 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 (>US$13trn of face value is yielding negative rates).

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

Flow analysis & Fundamental targets

November resulted in the USD adding incrementally to its long positioning, though it remains trapped within its $10bn range, which has persisted since June (and which compares to the $63bn trough-to-peak USD positioning range from mid-2018 to mid-2019). It is not surprising to see some volatility in the USD positioning now that is near the 1-year lows. It's not politics that has been the primary driver behind USD positioning in the last 18 months. Rather, the shift in growth momentum in 2018 and the Fed pivot in June 2019 effected the most significant changes in USD positioning in the last two years. With expectations that the US is slated to slow further, while the rest-of-world might show some lift into 2020, this may allow for USD longs to fall to neutral over coming months.

EUR-USD: Fundamental year-end 2019 target at 1.10

Global positioning in the US dollar up-ticked last month (to US$18,93bn from US$15.10bn), with a 3-year z-score at levels growing to 0.63 (vs. 37 the previous month). The benefactors of the rotation into the USD were the CHF, CAD, EUR and JPY currencies. Net longs in USD continue being far lower than the US$32,1bn seen in the last 12 months and show a 3Y Z-Score of 0.63, meaning that there is still no stress in positioning. The sharp increase in Z-score in EM positioning (1.15 vs 0.64 last month) suggests that these currencies are now slightly overbought but is also indicative that there are no fears of a global recession. All said, global positioning still suggests that investors think the US economy will perform well, as will emerging market economies in the coming months. Our **fundamental (long-term) discussion** still reflects our structural bullish view on USD against EUR. Our year-end target remains unchanged at 1.10. Our **technical analysis** within the Investment Committee now indicates a sideways-bearish view for the EUR, with a target of 1.07.

USD-JPY: Target 110; **EUR-JPY**: Target 121

Several aspects suggest that JPY should not appreciate versus USD: (1) The BoJ will probably continue to expand its balance sheet and the money supply, making USD more attractive (or JPY less appealing). We downplay the tapering option after the BoJ 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) Real yields are lower in JGBs, and with the 10Y JGB controlled at 0% there is little prospect that JGB real yields will rise.

GBP-USD: Target 1.32; **EUR-GBP**: Target 0.83

USD-CHF: Target 0.98; **EUR-CHF:** Target 1.07

USD-MXN: Target 20; **EUR-MXN:** Target 22

USD-BRL: Target 4.00; **EUR-BRL:** Target 4.40

USD-ARS: Target 80

USD-INR: Target 73.12

CNY: Target 6.75

RUB: NEGATIVE

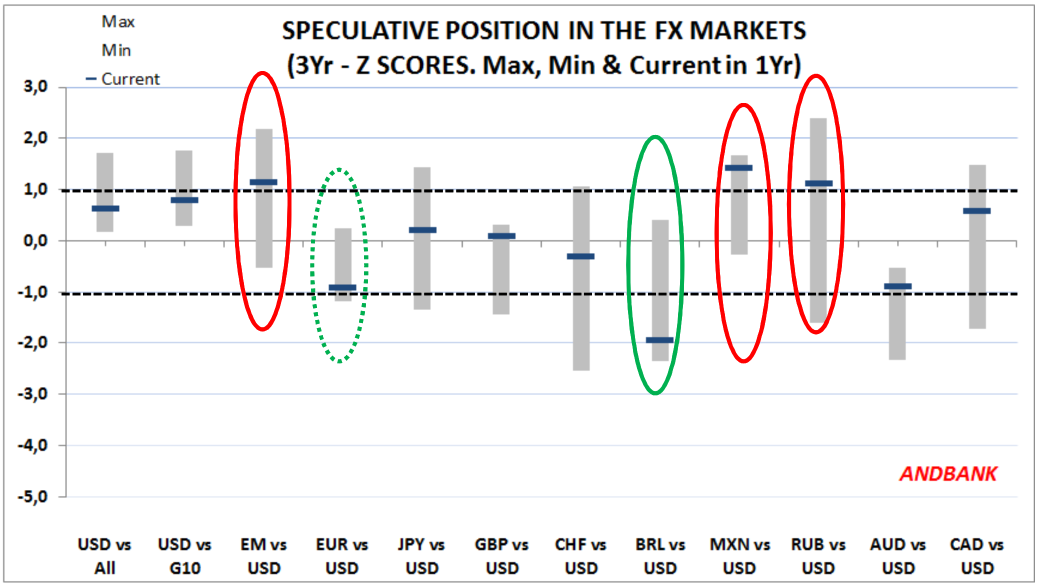
AUD: NEUTRAL

CAD: NEUTRAL

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	18,93	3,83	32,1	10,6	22,1	**0,63**
USD vs G10	22,42	4,54	34,7	0,0	23,5	**0,78**
EM	3,49	0,71	4,7	-0,2	2,1	**1,15**
EUR	-8,46	-1,36	1,6	-12,3	-5,8	**-0,91**
JPY	-4,54	-2,45	4,0	-12,8	-4,8	**0,20**
GBP	-2,94	1,28	-2,3	-7,8	-5,0	**0,08**
CHF	-2,63	-1,20	-0,4	-6,0	-2,4	**-0,30**
BRL	-1,05	0,10	0,2	-1,2	-0,4	**-1,94**
MXN	3,48	0,53	3,7	0,0	1,9	**1,43**
RUB	1,07	0,09	1,3	-0,2	0,7	**1,13**
AUD	-3,08	-0,06	-1,8	-5,2	-3,7	**-0,88**
CAD	1,53	-1,02	4,1	-5,0	-0,5	**0,59**

Positive
Neutral-Positive
Neutral-Negative
Negative

ANDBANK



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 2020	Expected Performance to central point 2020
Equity	USA - S&P 500	1,3%	24,4%	3.117	3.240	3,9%
	Europe - Stoxx Europe 600	-0,2%	19,3%	404	418	3,3%
	Euro Zone - Euro Stoxx	-0,5%	20,0%	396	427	7,9%
	SPAIN - IBEX 35	-1,3%	8,2%	9.274	9.882	6,6%
	MEXICO - MXSE IPC	-3,7%	1,4%	42.216	44.866	6,3%
	BRAZIL - BOVESPA	2,1%	25,9%	110.622	116.437	5,3%
	JAPAN - NIKKEI 225	0,2%	16,4%	23.300	23.732	1,9%
	CHINA - SHANGHAI COMPOSITE	-2,2%	16,3%	2.912	3.207	10,1%
	CHINA - SHENZEN COMPOSITE	-0,1%	28,3%	1.640	1.808	10,2%
	INDIA - SENSEX	0,0%	13,1%	40.468	45.477	12,4%
	VIETNAM - VN Index	-6,0%	7,9%	964	1.096	13,7%
	MSCI EM ASIA (in USD)	-2,3%	9,3%	530	599	12,8%
Fixed Income Core countries	US Treasury 10 year Govie	0,4%	9,6%	1,80	2,00	0,3%
	UK 10 year Gilt	-0,4%	5,2%	0,76	0,80	0,5%
	German 10 year BUND	-0,3%	4,5%	-0,30	-0,20	-1,1%
	Japanese 10 year Govie	-0,6%	0,1%	-0,02	0,00	-0,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	-1,5%	8,8%	0,48	0,50	0,3%
	Italy - 10yr Gov bond	-2,7%	12,6%	1,46	1,00	5,3%
	Portugal - 10yr Gov bond	-1,5%	11,9%	0,41	0,50	-0,3%
	Ireland - 10yr Gov bond	0,0%	7,6%	0,04	0,20	-1,2%
	Greece - 10yr Gov bond	-2,6%	26,4%	1,50	1,50	1,6%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,0%	1,8%	47,75	70	-1,1%
	Credit EUR HY-Itraxx Xover	0,4%	7,0%	223,38	275	-0,1%
	Credit USD IG - CDX IG	0,2%	1,7%	50,45	46	1,8%
	Credit USD HY - CDX HY	0,4%	7,6%	327,36	377	3,1%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	4,1%	45,6%	12,00	11,00	20,9%
	Russia - 10yr Gov bond	0,1%	26,3%	6,40	6,75	4,1%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	-0,5%	13,9%	7,07	6,00	16,1%
	India - 10yr Gov bond	-0,8%	12,6%	6,65	5,75	14,3%
	Philippines - 10yr Gov bond	-0,3%	25,8%	4,63	3,60	13,2%
	China - 10yr Gov bond	0,5%	2,6%	3,19	3,25	3,0%
	Malaysia - 10yr Gov bond	0,4%	9,0%	3,42	2,75	9,1%
	Thailand - 10yr Gov bond	0,3%	9,0%	1,53	1,00	5,8%
	Singapore - 10yr Gov bond	0,2%	4,1%	1,74	1,20	6,2%
	South Korea - 10yr Gov bond	1,4%	4,2%	1,59	1,10	5,6%
	Taiwan - 10yr Gov bond	0,3%	2,8%	0,61	0,70	-0,1%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-0,9%	21,5%	6,94	7,00	7,0%
	Mexico - 10yr Govie (USD)	0,8%	16,8%	3,38	3,50	2,6%
	Brazil - 10yr Govie (Loc)	-2,2%	27,7%	6,81	7,00	5,7%
	Brazil - 10yr Govie (USD)	-0,2%	14,5%	4,29	4,00	6,9%
Commodities	Oil (WTI)	3,6%	28,5%	58,4	55,00	-5,8%
	GOLD	-1,1%	14,9%	1.473,7	1.200	-18,6%
Fx	EURUSD (price of 1 EUR)	0,3%	-3,2%	1,110	1,100	-0,9%
	GBPUSD (price of 1 GBP)	2,1%	2,9%	1,31	1,32	0,6%
	EURGBP (price of 1 EUR)	-1,7%	-5,8%	0,85	0,83	-1,5%
	USDCHF (price of 1 USD)	-0,5%	0,6%	0,99	0,97	-1,8%
	EURCHF (price of 1 EUR)	-0,2%	-2,6%	1,10	1,07	-2,7%
	USDJPY (price of 1 USD)	-0,3%	-0,9%	108,61	110,00	1,3%
	EURJPY (price of 1 EUR)	0,0%	-4,1%	120,58	121,00	0,3%
	USDMXN (price of 1 USD)	1,1%	-1,5%	19,35	20,00	3,4%
	EURMXN (price of 1 EUR)	1,5%	-4,7%	21,47	22,00	2,5%
	USDBRL (price of 1 USD)	2,5%	7,9%	4,19	4,00	-4,4%
	EURBRL (price of 1 EUR)	2,8%	4,4%	4,65	4,40	-5,3%
	USDARS (price of 1 USD)	0,5%	59,4%	59,96	80,00	33,4%
	USDINR (price of 1 USD)	0,6%	2,7%	71,40	73,10	2,4%
	CNY (price of 1 USD)	0,5%	2,3%	7,03	6,75	-4,0%

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

UPWARD REVISION DOWNWARD REVISION

PRINCIPAL CONTRIBUTORS

Together
Everyone
Achieves
More

Eduardo Anton
US: Equity, Bonds & Corporates
+1 305 702 0601

Jonathan Zuloaga
Mexico: Rates, Equity & FX
+52 55 53772810

Marian Fernández
Europe: Rates, Macro & ECB
+34 639 30 43 61

Alicia Arriero
Europe: Corporate Credit IG & HY
+34 91 153 41 17

Juan Manuel Lissignoli
Uruguay & Argentina: Bonds, FX, Macro & Politics,
+598 2626 2333

Victoria Gonzalez
Uruguay & Argentina: Bonds, FX, Macro & Politics,
+598 2626 2333

David Tomas
Spain & Europe: Equity
+34 647 44 10 07

Yair Shani
Israel: Rates & Equity market
+972 3 6138218

Sofiane Benzarti
Luxembourg: Global Flows & positioning
+352 26 19 39 21

Carlos Hernández
Global Technical Analysis
+376 873 381

Rodrigo Octavio Marques de Almeida
Brazil: Bonds, Equity & Fx
+55 11 3095-7045

Alex Fusté
EM Asia & Japan: Bonds, Equities & FX
Brazil: Bonds, Equity, FX.
Commodities: Energy & Precious Metals
+34 673 041 058

LEGAL DISCLAIMER

All notes and sections in this document have been prepared by the team of financial analysts at ANDBANK. The opinions stated herein are based on a combined assessment of studies and reports drawn up by third parties. These reports contain technical and subjective assessments of data and relevant economic and sociopolitical factors, from which ANDBANK analysts extract, evaluate and summarize the most objective information, agree on a consensual basis and produce reasonable opinions on the questions analyzed herein.

The opinions and estimates contained herein are based on market events and conditions occurring up until the date of the document's publication and cannot therefore be decisive in evaluating events after the document's publication date.

ANDBANK may hold views and opinions on financial assets that may differ partially or totally from the market consensus. The market indices have been selected according to those unique and exclusive criteria that ANDBANK considers to be most suitable.

ANDBANK does not guarantee in any way that the forecasts and facts contained herein will be confirmed and expressly warns that past performance is no guide to future performance, that investments analyzed could be unsuitable for all investors, that investments can vary over time regarding their value and price, and that changes in the interest rate or forex rate are factors which could alter the accuracy of the opinions expressed herein.

In compliance with Andorran Law 17/2019, of February 15, amending Law 8/2013, of May 9, on the organizational requirements and operating conditions of financial system operating entities, investor protection, market abuse and financial guarantee agreements, this document cannot be considered, in any case, an offer or proposal to sell the products or financial assets mentioned in this document, all the information contained herein is indicative and may not be considered as the only relevant factor in the decision to make a specific investment.

There are also additional major factors influencing this decision that are not analyzed in this document, including the investor's risk profile, financial expertise and experience, financial situation, investment time horizon and the liquidity of the investment.

As a consequence, the investor is responsible for seeking and obtaining the appropriate financial advice to help him assess the risks, costs and other characteristics of the investment that he is willing to undertake.

ANDBANK expressly disclaims any liability for the accuracy and completeness of the evaluations mentioned herein or for any mistakes or omissions which might occur during the publishing process of this document. Neither ANDBANK nor the author of this document shall be responsible for any losses that investors may incur, either directly or indirectly, arising from any investment made based on information contained herein.

The information and opinions contained herein are subject to change without notice.