GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review | Andbank Monthly Corporate Review – June 2020

Corporate Review
June 2020

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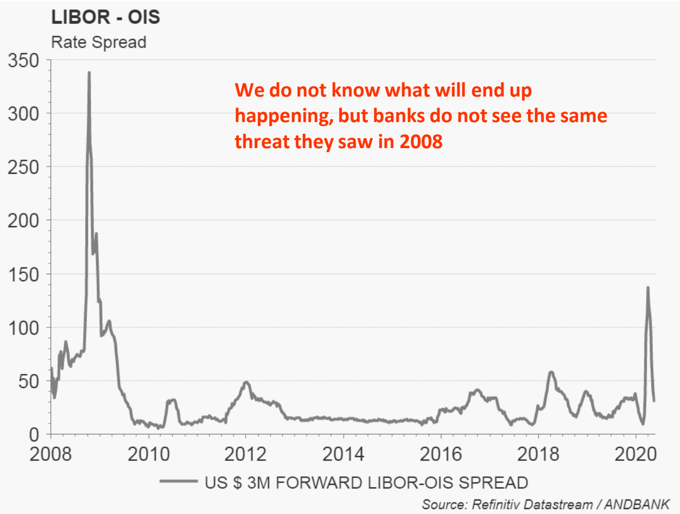
EXECUTIVE SUMMARY

CHART OF THE MONTH



Source: Refinitiv Datastream / ANDBANK

EQUITIES

Index	INDEX CURRENT PRICE	2020 Floor Point (Fundam range)	2020 E[Perf] to Floor Point	Recomm	2020 Exit Point
USA S&P 500	3.036	2.451	-19,3%	UW	2.942
Europe - Stoxx Europe 600	353	302	-14,4%	OW	363
Euro Zone - Euro Stoxx	339	293	-13,7%	OW	352
Spain IBEX 35	7.161	7.199	0,5%	OW	7.919
Mexico IPC GRAL	36.890	33.067	-10,4%	UW	36.374
Brazil BOVESPA	87.946	80.784	-8,1%	OW	90.478
Japan NIKKEI 225	21.916	18.071	-17,5%	UW/MW	21.685
China SSE Comp.	2.846	2.827	-0,7%	MW	3.110
China Shenzhen Comp	1.770	1.653	-6,6%	UW	1.818
India SENSEX	32.201	29.950	-7,0%	MW/OW	32.945
Vietnam VN Index	861	804	-6,7%	MW/OW	924
MSCI EM ASIA	499	496	-0,5%	OW	546

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Current Price	Fundamental Floor Point 2020	Expected Performance to Floor point 2020
Fixed Income Core countries	US Treasury 10 year Govie	0,68	1,40	-5,4%
	UK 10 year Gilt	0,19	0,80	-4,7%
	German 10 year BUND	-0,44	-0,20	-2,2%
	Japanese 10 year Govie	-0,01	0,00	-0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,60	1,00	-2,8%
	Italy - 10yr Gov bond	1,46	2,00	-3,4%
	Portugal - 10yr Gov bond	0,58	1,15	-4,2%
	Ireland - 10yr Gov bond	0,09	0,30	-1,6%
	Greece - 10yr Gov bond	1,53	2,30	-5,3%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	73,38	80	0,1%
	Credit EUR HY-Itraxx Xover	433,25	450	1,9%
	Credit USD IG - CDX IG	83,80	75	0,8%
	Credit USD HY - CDX HY	559,81	663	0,2%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Current Price	Fundamental Floor Point 2020	Expected Performance to Floor point 2020
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	11,95	13,00	-1,3%
	Russia - 10yr Gov bond (local)	5,56	5,70	2,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	7,28	6,80	8,1%
	India - 10yr Gov bond (local)	5,99	6,00	3,5%
	Philippines - 10yr Gov bond (local)	3,15	3,30	0,7%
	China - 10yr Gov bond (local)	2,67	2,50	3,0%
	Malaysia - 10yr Gov bond (local)	2,93	2,40	6,0%
	Thailand - 10yr Gov bond (local)	1,12	0,70	4,0%
	Singapore - 10yr Gov bond (local)	0,82	1,00	-1,0%
	Rep. Korea - 10yr G. bond (local)	1,17	1,30	-0,4%
	Taiwan - 10yr Gov bond (local)	0,45	0,50	-0,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	6,14	6,90	-2,4%
	Mexico - 10yr Govie (USD)	3,66	4,15	-1,8%
	Brazil - 10yr Govie (Loc)	7,00	8,00	-3,8%
	Brazil - 10yr Govie (USD)	5,11	5,00	4,0%

COMMODITIES

Asset Class	Indices	Current Price	Fundamental Floor Point 2020	Expected Performance to Floor point 2020
Commodities	Oil (WTI)	32,3	40,00	23,9%
	GOLD	1.724,0	1.600	-7,2%
Fx	EURUSD (price of 1 EUR)	1,101	1,100	0,0%
	GBPUSD (price of 1 GBP)	1,22	1,32	7,8%
	EURGBP (price of 1 EUR)	0,90	0,83	-7,3%
	USDCHF (price of 1 USD)	0,97	0,97	0,0%
	EURCHF (price of 1 EUR)	1,07	1,07	-0,1%
	USDJPY (price of 1 USD)	107,77	110,00	2,1%
	EURJPY (price of 1 EUR)	118,61	121,00	2,0%
	USDMXN (price of 1 USD)	22,33	23,50	5,2%
	EURMXN (price of 1 EUR)	24,57	25,85	5,2%
	USDBRL (price of 1 USD)	5,27	5,50	4,3%
	EURBRL (price of 1 EUR)	5,80	6,05	4,2%

USA

We are more confident that a large amount of activity will return fairly quickly. S&P has already priced this in

Re-opening of the economy and high frequency data tracking

The US economy now appears to be through the trough, based on the data seen before economic activity started to pick up in the recent weeks, as some parts of the US began to ease lockdowns. We are more confident that a large amount of activity will return fairly quickly. While some activities may remain depressed for a while, others—auto production, non-COVID medical procedures, restaurant meals, and some retail shopping, for example—will likely rebound quickly, if incompletely. We have therefore increased our assumptions about the pace of normalization in June. Thirty-nine states (61% of the states by GDP) are either partly or fully easing the social distancing orders previously in place, while 13 states are still largely in lockdown, with non-essential businesses closed. There does not seem to be much correlation between the spread of the virus and the decision to reopen. Indeed, it seems that 10 of the 39 states that have started to reopen are still seeing a rising rate of infections, pointing to the risk of a resurgence of the virus. There is a common goal to reopen the economy and get people back to work, but the question of consumer behavior arises, as the virus is still a threat. Tracking alternative data • US hotel occupancy reported by Smith Travel edged up from 26% to 28.6%, the third consecutive small weekly increase. • OpenTable also reported the first small increases in seated restaurant diners tracked by their software. • Mobility data from Apple Maps users and Google show a somewhat greater increase in states like Texas and Georgia than in California and New York.

FED

FED chair Powell delivered a quite downbeat assessment of the outlook this week and also made it clear that the FOMC was unlikely to try out a negative interest rate policy. We have little doubt the Fed will keep the front end of the curve lower for longer, as it does its best to support the recovery. However, we have less faith in its ability to keep the back end of the curve suppressed if growth or inflation surprises to the upside. That said, we remain confident that there are no inflationary pressures in sight, which is why we would set an entry price in the 10Y UST at 1.4% yield.

Corporate

On the corporate side the par-weighted high yield default rate is currently 4.76%, while for loans the par-weighted default rate is 2.81%. Recent defaults include J. Crew ($1.6bn, 5/4), Northwest Acquisitions ($550mn, 4/22), and Neiman Marcus ($4.3bn, 4/15). The rating agencies continue to downgrade aggressively. YTD 9% of Non-Financial HG bonds have been downgraded: 6% of the downgrades have been within HG while 3% have been from HG to HY. Of the BBB- debt remaining, after excluding new issuance, 32% has a negative ratings outlook, suggesting further downgrades are pending. The distribution of equity valuations is currently the widest it has been since the peak of the Tech Bubble. The median Nasdaq100 trades at a 34% P/E premium to the median S&P500 (21x vs 16x), the largest in 15 years, while the 40% discount carried by the Russell2000 stock is the largest on record. Valuation dispersion is extremely elevated today, even within individual sectors. The collective top 20% of stocks from every S&P 500 sector trade at a median FY2 multiple of 27x, while the bottom 20% of stocks with the same sector composition trade at a multiple of 9x. However, the Info Tech sector's current multiple does not register as particularly extreme—it trades at an FY2 P/E multiple of 24x, just 13% above the aggregate S&P 500 multiple of 17x. Differences in current profitability across US stocks appear to explain the current extreme degree of valuation dispersion or, more exactly, the current 10% difference in ROE between the highest valuation stocks (median ROE of 23%) and the lowest valuation stock.

Financial market assessment

Equities – S&P: UNDERWEIGHT (Target 2,451. Exit point 2,942)

Bonds – Govies: UNDERWEIGHT. (10Y UST Entry point 1.4%)

CDX IG: OVERWEIGHT (Target Spread 75)

CDX HY: OVERWEIGHT (Target Spread 660)

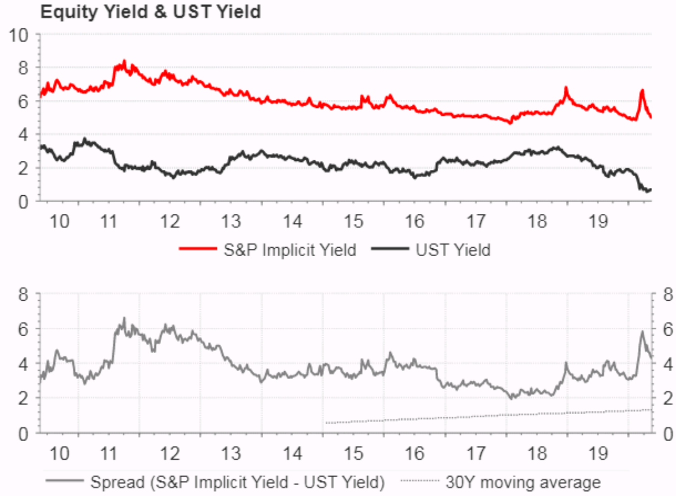
Forex – DXY index: MARKETWEIGHT

US price-to-earning ratio

Ratio vs average

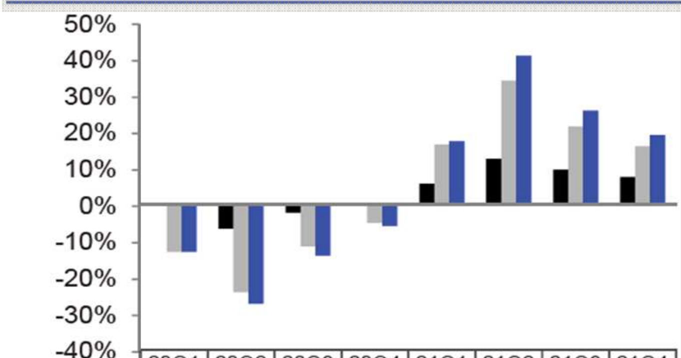
Source: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

Exhibit 5. S&P 500 YoY Growth Rates



	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Revenue	0.3%	-6.7%	-2.3%	-0.3%	5.6%	12.5%	9.5%	7.4%
Net Income	-13.0%	-24.1%	-11.5%	-5.1%	16.4%	34.0%	21.4%	15.9%
Earnings	-13.0%	-27.3%	-14.1%	-5.9%	17.3%	40.8%	25.7%	19.0%

EUROPE

Can the European Recovery Fund be a game changer?

Waiting for the European Recovery Fund

The EC wants to raise its financial firepower by increasing the EU's revenues and leveraging its budget by borrowing additional funds on the financial markets. We expect a "temporary, targeted and commensurate" recovery fund, which could reach an amount of around €1–1.5 billion. Italy has already announced its willingness to apply for it. Some already compare the Franco-German proposal with the historic signing that took place between Thomas Jefferson and Alex Hamilton, which gave rise to a genuine union of states, surpassing the mere sum of independent states. This comparison may seem hyperbolic at present, as there are still plenty of reasons for skepticism. The history of Europe is characterized by the enormous distance between what is said and what is done. Merkel is here today but will be gone tomorrow, and a great discrepancy remains between the Club Med nations and the Frugal Four, led by the Netherlands (calling for a responsible EU budget). However, what makes this agreement a possible game changer are the three innovations included in the proposal. The first is that the Recovery Fund is financed by bonds issued directly by the EU in its own name and guaranteed by the EU's own revenues (instead of being guaranteed by the national states). This is very different from state-guaranteed Eurobonds (which German public opinion deems politically toxic). The second innovation has to do with the need to channel more resources to the EU, so that it can cope with an ambitious debt issuance, by increasing its budget (a consensus seems to be emerging that pan-European taxes should be based on economic activities that transcend national boundaries—maybe a new tax on financial transactions or digital services, or a future CO_2 border-adjustment tax). An increase in the European Commission's budget increases the Commission's capacity for action and its influence on national markets. The third innovation is to allow the EU to finance its activities with resources that go beyond its budget, that is, with debt issuance. What is sought is a strong capacity for leverage, and the idea of issuing perpetual debt (cancellable only at the discretion of the issuer) involving the payment of annuities has emerged. The cost could range from 1% to 2%. In this way, the EU would have plenty of leverage, issuing €500bn to finance the recovery fund, and paying just €5bn in annual interest.

In the meantime, no country has applied for the ESM credit lines so far, despite its conditions (rates at 0.1%). Applying for the ESM funds remains unpopular in some countries; moreover, refusal allows Southern countries to push for further steps in terms of risk sharing to complete the Monetary Union.

Towards more ECB purchases in June

More liquidity measures were announced in April (PELTROs, 7-monthly auctions), plus better conditions for the long-term TLTRO coming in June (€600–750bn could be allotted), all meant to support money markets as long-term facilities expire. As for June's meeting, the likelihood of new announcements has increased due to the speed at which ECB purchases are being made. If they continue at this pace, we are likely to "run out of ammunition" before autumn. Lane says the ECB may adjust the size or duration of purchases if the pressure on individual bond markets does not reflect fundamentals. An increase in the Pandemic Purchases Programme is thus expected. Even 2/3 of the consensus expect broader measures, reaching the High Yield universe. Regarding the impact of the German Constitutional Court decision, markets have taken a pragmatic approach, expecting a compromise solution. Despite this issue being a "Pandora's box" for Europe, we attach little probability to a no-response from the ECB in the next two and a half months.

Financial market assessment

Equities – Stoxx Europe: OW. Target 302. Exit 363

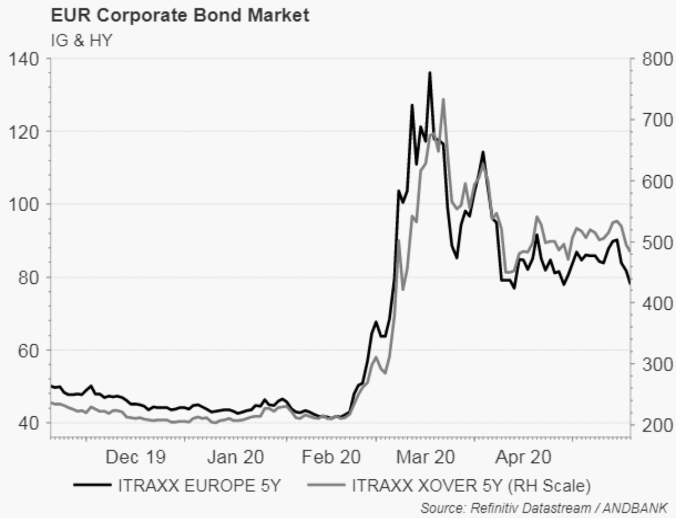
Equities – Euro Stoxx: MARKETWEIGHT. Target 293. Exit 352

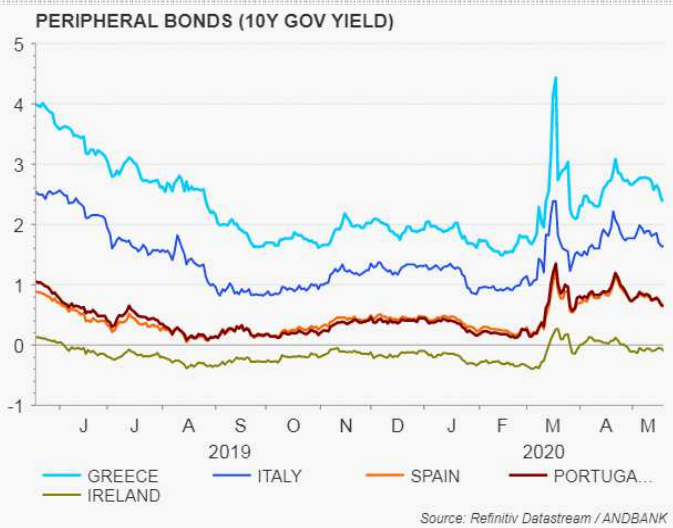
Bonds – Core governments: UNDERWEIGHT (Bund target -0.20%)

Peripheral – MW SP(1%), IT (2%), PO (1.15%), IE (0.3%), GR (2.5%).

Credit – Itraxx Europe (IG): MARKETWEIGHT (Target Spread 80)

Credit – Itraxx Europe (HY): OVERWEIGHT (Target Spread 450)





SPAIN

Waiting for help from Europe after one of the strictest lockdowns in the world

Economy

With regard to data in April, the destruction of employment has been slowed thanks to temporary layoffs (ERTEs). The rest of the activity data reflects the impact of one of the toughest lockdowns applied worldwide. Road trips are 55% below the figures recorded prior to COVID. Mobility in big cities (remember that Barcelona and Madrid are still in phase 0) is 40% of what it was in the same period of the previous year. Even electricity consumption, which a priori should have been more stable, has been around 25,000 MW per day, which is 10,000 MW (29%) less than at the start of confinement but 5,000 more than a month ago.

The deficit & debt problem. How the government intends to tackle the problem

The government wants to solve this problem via income, at a time when Spain collects taxes amounting to 40% of GDP, much in line with other European nations. With the tax increases suggested in the electoral program, the government plans to increase tax collection by some 6,000 million per year (Tobin rate, minimum corporate tax of 15–18% for banks, Google tax, increase in personal income tax, etc.). In the reconstruction commission (a discussion previous to the negotiation of budgets) there is talk of raising a further 11,000 million via a so-called "Covid rate". It seems evident that in acting exclusively on the revenue side the government cannot even contemplate an effective reduction of the current structural deficit, which is why it is absolutely necessary to tackle structural reforms on the side of current spending.

According to the consensus, Spain will end the year with a deficit of more than 10%. The government figures point to €115bn and a debt close to 120% of GDP. The problem with the Spanish deficit is that the structural part is 3.1% of GDP, about €35bn annually, and the problem with the debt is that more than €200bn matures within the next 16 months.

With these numbers, it will be difficult for Spain to survive without the help of the European Union. For the debt refinancing part, we have the ECB and the lower indebtedness of households and companies, which would help banks increase their position in Spanish debt, given that the Spanish banking sector today is much better capitalized than it was in the previous crisis.

We lower our fundamental floor & ceiling price for the Ibex index. Still an OW recommendation

We lower our fundamental floor level for the Ibex to 7.199 (from 7.448 points) towards the end of the year, as we have adjusted the FY2020 EPS growth (from -22% to -25%). We continue to believe that part of the decline in EPS will be recovered in the second half of the year. The most worrisome thing is the lack of profitability on equity (ROE) at index level, due to the still significant size of the banking sector, which, though lower each month, continues to carry considerable weight.

In favor of this index is the gradual change in its composition towards a more flexible index better adapted to cycles. For example, the services sector, which carries greater weight in the index, is much more flexible than was the construction & real estate sector, which accounted for a high portion of the index few years ago.

Additionally, the economic agents are also starting from a better income and debt situation, and we hope that a rapid recovery will help maintain employment better than in the previous crisis, which should be reflected in consumption in the latter part of the year. This could help to drive sales.

Financial market assessment

Equities – IBEX: MW-OVERWEIGHT. (Target 7,199. Exit point 7,919)

Bonds – Government: MARKETWEIGHT (BONO target yield 1.00%)

Credit – Investment grade: MARKETWEIGHT

Credit – High yield: OVERWEIGHT

SPAIN IBEX
PE Trailing

Source: Refinitiv Datastream / ANDBANK

Spain government bond spreads
Spread over German bunds, basis points

Source: Refinitiv Datastream / ANDBANK

BANK INDEX - Spain vs Europe
Index base 100

Source: Refinitiv Datastream / ANDBANK

CHINA

"China doesn't need big economic stimulus but Beijing will increase fiscal expenditure"

Policy: China doesn't need big economic stimulus but Beijing will increase fiscal expenditure

"China doesn't need big economic stimulus." The SCMP cited comments from government, suggesting China does not need large economic stimulus to address the damage being done by the coronavirus pandemic. The comments expressed particular skepticism toward unconventional measures such as quantitative easing and debt monetization. Ahead of this week's National People's Congress, the story notes there is ongoing debate in policy making circles about the size of stimulus and how to implement it, particularly about whether to keep control of fiscal spending by avoiding an excess monetary stimulus. All said, China Finance Minister Liu Kun wrote in a People's Daily article that China will increase fiscal expenditure this year to help offset the damage to the economy resulting from the coronavirus outbreak and ensure that the nation is able to reduce poverty and achieve its target of building up a comprehensively well-off society by the end of 2020.

Data: China's oil demand near pre-pandemic levels

Chinese oil demand is nearing 13M bpd, only slightly below year-ago levels and a bit under the 13.7M bpd seen in December. The number would be higher were it not for continuing weakness in jet-fuel consumption. However, the International Energy Agency (IEA) remains pessimistic about the consumption picture, saying China could see lower y/y usage figures every month for the rest of 2020.

April new house prices +5.1% y/y and +0.5% m/m. April industrial production +3.9% (-1.1% in prior month). April FDI (8.4%) y/y YTD dollar terms vs (10.6%)% in prior month, i.e. +2.6% mom. Retail sales (7.5%) y/y in April vs (15.8%) in prior month, i.e. +9% mom. Unemployment rate remains at 6.0% (5.9% in prior month). April new loans CNY1.70T versus CNY2.85T in prior month. Outstanding loans +13.1% y/y vs consensus +12.9% and +12.7% in prior month. M2 money supply +11.1% y/y versus consensus +10.3% and +10.1% in prior month.

US-China trade spat intensifies

The US Commerce Department said it was amending an export rule to strategically target Huawei's acquisition of semiconductors that are the direct product of certain US software and technology, which cuts off Huawei's effort to bypass US export controls. Under the rule change, foreign companies that use US chipmaking equipment will be required to obtain a US license before supplying certain chips to Huawei or its affiliates.

Nasdaq Inc (NDAQ) is set to unveil new restrictions on IPOs, a move that will make it more difficult for some Chinese companies to debut on its stock exchange. Sources noted that while Nasdaq will not cite Chinese companies specifically in the changes, the move is being driven largely by concerns about some of the Chinese IPO hopefuls' lack of accounting transparency and close ties to powerful insiders.

US agencies have warned that China is attempting to steal vital coronavirus research by hacking US groups studying the disease, in the latest escalation of tensions between Washington and Beijing over the pandemic. In a warning on Wednesday, the FBI and the Cybersecurity and Infrastructure Security Agency (Cisa) said they were investigating the "targeting and compromise" of US research groups by the People's Republic of China and its affiliates, and warned the illicit campaign could jeopardize the delivery of treatments.

Meanwhile, the Global Times reported China is ready to take a series of countermeasures against a US plan to block shipments of semiconductors to Chinese telecom firm Huawei, including putting US companies on an "unreliable entity list," launching investigations and imposing restrictions on US companies such as Apple and suspending the purchase of Boeing airplanes.

Financial market outlook

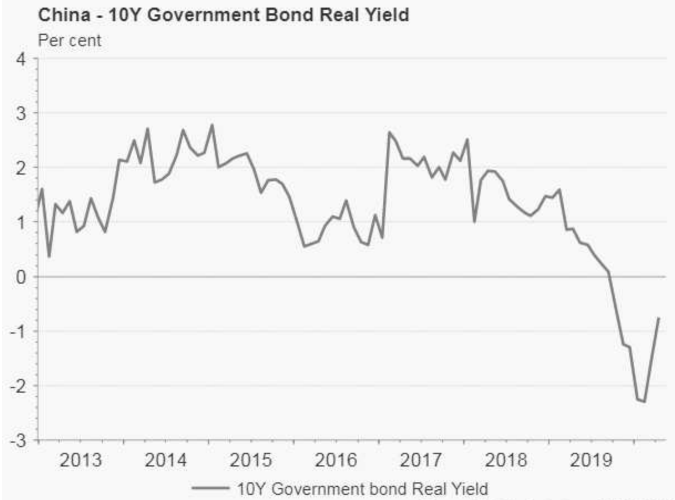
Equities – SHANGHAI Idx: MW (Target 2,827. Exit point 3,110)

Equities – SHENZHEN Idx: UW (Target 1,653. Exit point 1,818)

Bonds – Govies: MARKETWEIGHT (10Y Yield target 2.50%)

Forex – CNY/USD: OW (Target 6.90)

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK

JAPAN

We have reached our exit point in this market. UW Japanese equities

Investors' mood remains upbeat

Most sectors advanced in recent weeks, led by mining, real estate, and info & communications. In contrast, iron & steel and air transportation logged the biggest declines. Optimism over recent low coronavirus infection rates and encouraging early results from Moderna's experimental COVID-19 vaccine were widely cited as the main tailwind, further reinforcing post-virus normalization perception, while the contraction in Q1 GDP had limited impact. Also supportive was a yen marginally softer, while JGB yields kept lower, with the 5y sector supported by a solid auction. In contrast, US-China tensions remained an overhang.

International transactions of Japanese investors for the week ended May 9: Domestic investors were net buyers of ¥66.1bn in foreign equities (vs ¥5.5bn of net purchases the previous week) and were also net buyers of ¥239.1bn in foreign long-term debt (vs ¥1,107.6bn of net sales the previous week).

Economy

Q1 GDP -0.9% q/q (-3.4% saar). The figure was better than the expected -1.2% q/q (-4.6% saar). Consensus poll expects GDP to crater -21.5% saar in Q2. Aware that the economy still needs more life-support measures, PM Abe called Thursday for a second extra budget, barely two weeks after parliament passed a beefed-up first supplementary budget. Existing stimulus measures already total more than 20% of GDP.

As for the risks of inflation arising from the unprecedented expansion in the monetary base, the answer is clear: you only have to look at the evidence in Japan to predict what will end up happening in the West. Japan April CPI Tokyo All items less food -0.2% y/y. Japan April Corporate Good Price Index CGPI -2.3% y/y (vs -0.4% the prior month, much lower than consensus at -1.4%). Of course, BoJ Governor Kuroda repeated the usual line that "it will likely take an extended period of time to achieve the +2% inflation target." Bottom line: Rates lower for longer… worldwide.

Covid-19. Japan lifts emergency declaration for most prefectures and Tokyo looks set to ease restrictions

The Japanese government has decided to lift a state of emergency for 39 out of 47 prefectures where the coronavirus is currently not spreading widely, ahead of the scheduled expiry at the end of this month. Economic revitalization minister Nishimura said the total number of reported cases has been falling in these regions and they have enough capacity to provide medical care. Urban regions such as Tokyo and Osaka will likely remain under the state of emergency, but Tokyo Governor Yuriko Koike on Friday unveiled a road map for easing coronavirus restrictions. The plan includes three numerical targets to be cleared. The number of new infections must be lower than 20 a day, the proportion of unknown infection routes must be lower than 50% and the weekly rate of increase in positive cases must be less than that of the previous week. Takara Bio's saliva-based coronavirus test to allow samples taken at home: Nikkei reported Takara Bio (~4974.JP~) will release a saliva-based coronavirus test in Japan as early as this month, in what could be a major step toward increased testing and improved health care worker safety. Health Ministry is expected to give its approval soon. Takara Bio is already preparing to handle 2 million tests a month.

Corporate: Nissan to cut capacity by 20%

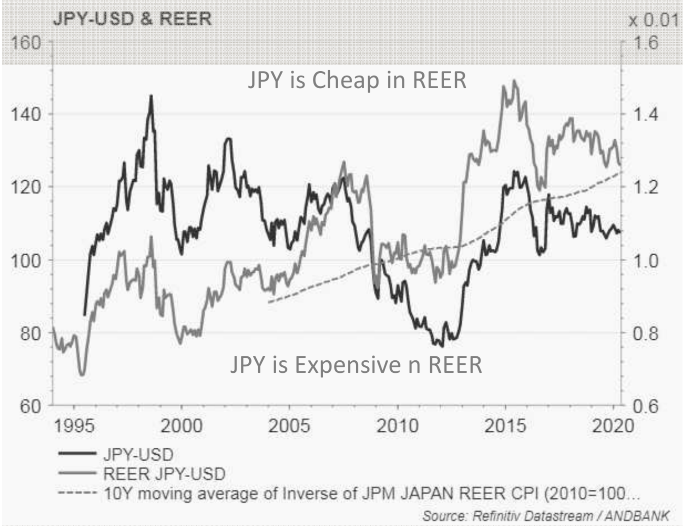
The auto alliance of Nissan Motor (7201.JP), Renault (RNO.FR), and Mitsubishi Motors (7211.JP) is being forced into a major reshuffle by the coronavirus pandemic that could include Nissan slashing production capacity by 20% in the fiscal year through March 2023. They will decide on a joint mid-term business plan later this month. Nissan will close a car assembly factory in Barcelona, Spain, that makes commercial vehicles and exports them overseas. The plant has been running at about 30% of capacity, well below the level needed to turn a profit.

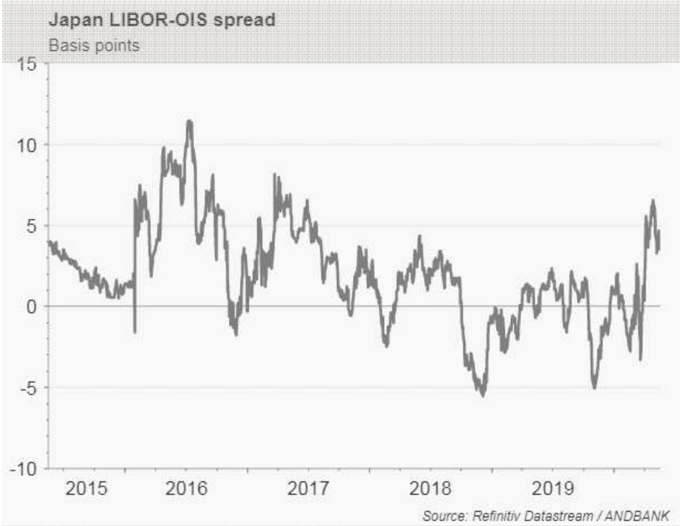
Financial market outlook

Equities – N225: MARKETWEIGHT/UW. (Target 18,071, Exit 21,685)

Bonds – Govies: MARKETWEIGHT. (Target yield 0.00%)

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





INDIA

Even from the bad you can extract something good

First of all. Assessing the magnitude of the damage

The unofficial rate has risen to 24%, with up to 175 million people either out of work or simply not seeking jobs. The manufacturing PMI fell to 27 in April, down from 52 in March, while the services PMI plunged to just 5. Even when factories and businesses reopen, they will operate well below capacity.

An assessment for the equity market

Regular readers will remember that, as a result of the Covid-19 crisis, for the Indian market we set a profit growth of -15% for this fiscal year. We continue to believe that this is a realistic estimate, especially in view of analyst estimates (see the attached chart for profit estimates for the next 12 months). This would leave us with a FY2020 EPS level of 1,576, which, applying a multiple PE ltm of 20 as of December 2020, results in a floor level of 31,527 for the index and a reasonable exit level of 34,626 (12% above current price).

What positive aspect could be extracted from an unfavorable panorama?

It seems evident that with manufacturing's share of GDP at a paltry 15% of GDP, any attempt to reinvigorate the flailing "Make in India" campaign is welcome—especially if it actually encourages foreign investment. Nitin Gadkari, the combative minister for small and medium enterprises, sees the post-pandemic "hatred for China as an opportunity for India," as it seeks both to lure away foreign manufacturers and to reduce India's own reliance on Chinese imports. Just recall that India is the world's largest producer of generic drugs but depends on China for 70% of its active pharmaceutical ingredients. Apple is showing the way with a plan to shift one-fifth of its production capacity from China to India within five years. This would make it India's top exporter, boosting annual exports by up to USD 40bn. In parallel, the crisis is pushing state governments into action, as several have begun to remove hurdles to investment, relaxing stringent laws on firing workers and hacking away at unnecessary red tape. With so many people unemployed and local coffers running bare, they are desperate to give struggling companies the confidence to hire workers. The central government, too, is promising new policies on "land, labor, liquidity and laws." It has reportedly identified 462,000 hectares of land for industrial use, specifically to attract foreign businesses relocating from China. If it pushes ahead with reforms to kick-start a new wave of much-needed investment, India's economy could revive. Our concern is whether the focus on "self-reliance" presages a new bout of protectionism. Despite his assurance that self-reliance need not be "exclusionary or isolationist," import tariff hikes in recent years show that Modi is not a free trader. Even before the Finance Minister announced that no new government contracts below USD 25mn would be open to foreign tender, the Home Ministry declared it would ban the sale of foreign goods in stores serving the 5 million family members of India's security forces.

India's finance minister outlined a USD 265bn fiscal package

The headline number represents 10% of GDP, yet on closer inspection, some USD 170bn had already been committed for liquidity infusions and poverty relief. Despite the large size of the headline package, the announcements so far only provide modest fiscal support, as much of the focus is on off-balance-sheet support via credit guarantees and tax deferrals. Around USD 170bn has already been allocated, leaving USD 85bn for later announcements. It looks to be just enough to stop a slide into depression. The government, in fact, remains fairly tightfisted, merely guaranteeing loans to firms, while covering losses should they occur. A worrying factor in its response is an apparent lurch towards protectionism, which would undermine any gains made from much-needed reforms to land and labor markets. The centerpiece of the package—dubbed the "Self-reliant India Scheme"—is to save small firms and safeguard jobs. These measures mean that the backbone of the Indian economy now has a chance of surviving. A headline fiscal deficit nearing 8% of GDP for the central government alone is on the cards. A credit rating downgrade may follow.

Financial market outlook

Equities – SENSEX: MARKETWEIGHT-OW (Target 31,527. Exit 34,679)

Bonds – Govies: OVERWEIGHT (Target yield 6%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: MARKETWEIGHT-OW (Target 74)

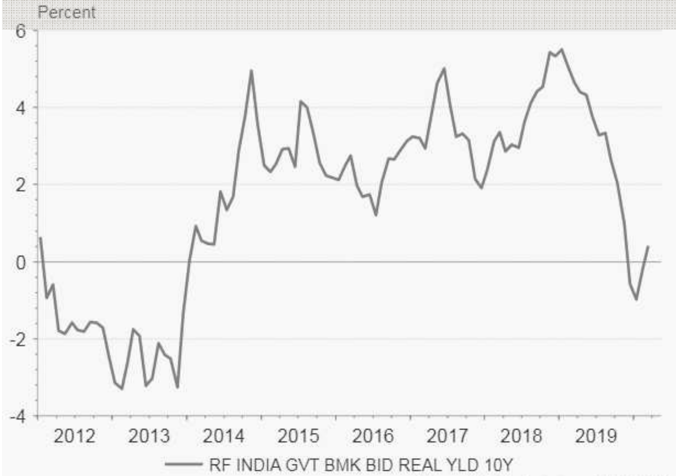
EPS (Trailing & Forward)
MSCI India

Source: Refinitiv Datastream / ANDBANK

PE (ltm) - India
MSCI India

Source: Refinitiv Datastream / ANDBANK

India - 10Y government bond Real Yield
Percent



Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

ISRAEL

Overweight TLV35 Index (Cheap). Marketweight Gov bonds (Still Expensive in local)

Economy

1Q20 GDP was released and resulted in a 7.1% QoQ contraction. The consumer confidence survey went down by -31% to its lowest point ever. Israel's CPI in April showed a decline of 0.6% YoY. The figures mark a sharp turn versus the GDP for the 4Q of 2019, which resulted in an increase of 4.6% YoY, with most of the jump coming from personal consumption (+10.4% YoY), and investments in permanent assets, mostly vehicle imports, at + 7.3%. As for the trade balance, 4Q19 was also a good quarter, with exports of goods and services (without hi-tech and diamonds) going up by 9.8% YoY, and Import also growing by 11.3%. For FY2019, Israel GDP rose by 3.5% YoY. The most up-to-date activity data we have is for February's industrial production, in which we observed a growth of 1.7% MoM (which is a good figure, but a slowdown compared to the +3.7% observed in the previous month).

Politics

The government in Israel was sworn into office after more than a year of temporary cabinet. This is likely to help the new coalition government (where the parties have few issues they agree on) to concentrate on improving the economy after the Covid-19 crisis.

The Israeli economy is in a relatively strong position to confront the Covid-19 crisis successfully. We would also like to mention that the strong Israeli Shekel is also a lucrative benefit to foreign investors in the Israeli currency.

Israeli Prime Minister Benjamin Netanyahu and his former rival in the polls, Benny Gantz, announced last month that they had reached an agreement to form a unity government, ending the longest political crisis in Israel's history, and concentrate on fighting the coronavirus pandemic. The agreement avoids the fourth set of elections in a year.

Equity Market

Since our last update (April 18), the TLV equity indexes continued their gradual recovery from the corona epidemic. This was accompanied by a gradual reopening of the economy and release from quarantine. Starting in May, public companies in Israel released their results for the first quarter of 2020, in which the effects of the virus are clearly evident. The companies that have been hardest hit are mainly local market businesses, such as banks, insurance companies, shopping malls, gas stations, construction, real estate companies, gym centers, etc. The tech sector has suffered the least, if at all, as have food chains, which experienced growth in their sales.

Bond market

Credit spreads continued their down trend towards more normal levels in May, after jumping in March to their highest levels since the financial crisis. The credit spread in the CPI-linked TelBond60 index dropped to 182bp, compared to 210bp in April and a pre-crisis level of 120-125bp. The credit spread in the non-CPI-linked TelBond Shikli50 dropped to 166bp, compared to 310bp in April and a pre-crisis level of 130-150bp. The Israeli economy reopened much faster and with fewer casualties than most West European countries, thanks to effective isolation and treatment of Covid-19 cases.

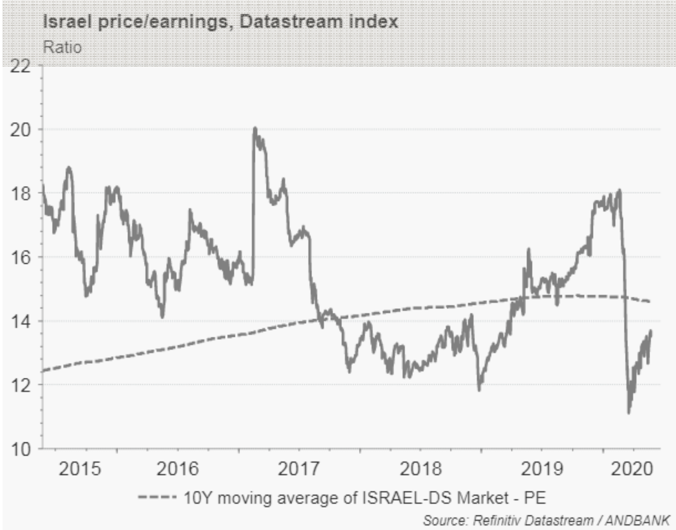
.

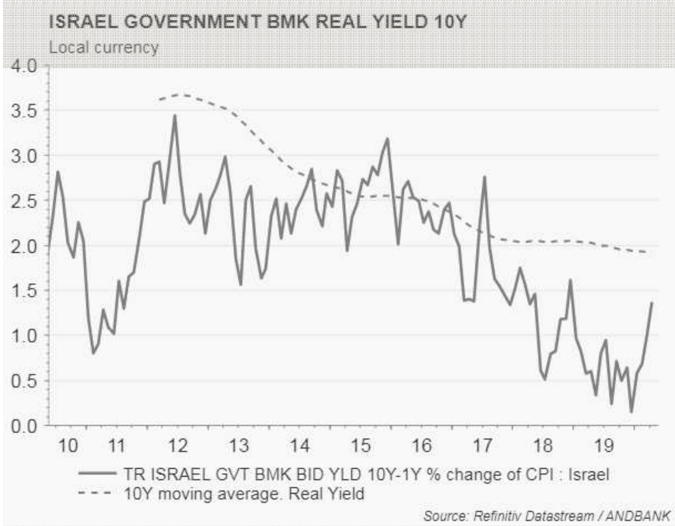
Financial market outlook

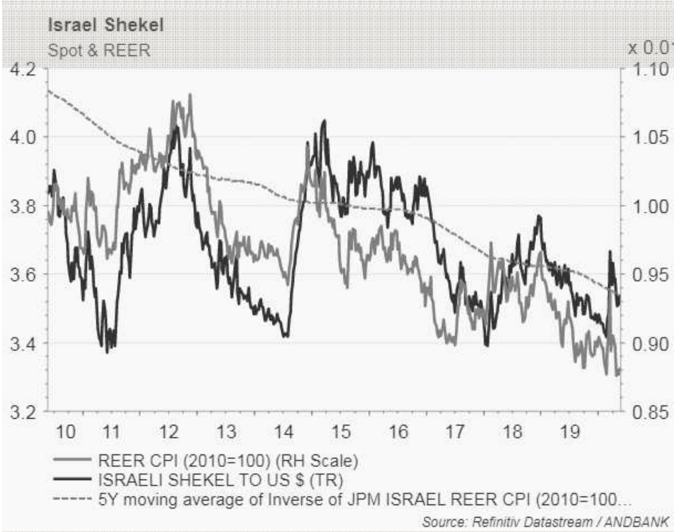
Equities – TLV35 Index: OVERWEIGHT (Cheap)

Bonds – 10Y Gov USD: MARKETWEIGHT (Still Expensive in Loc)

FX – ISL vs USD: UW-MW (Expensive in REER)







BRAZIL

The Central Bank finally signals its reserve capacity, and the BRL rallied

Brazilian assets rallied in the last part of the month

Brazilian assets responded to much better news during the last part of the month. On the domestic scene, an agreement between the Federal Government and State & Local Governments on freezing civil service pay rises in 2021 partially dissipates fiscal uncertainties once Covid-19 is past us. Finally, BCB Governor Campos Neto stated that "the BCB still has ample room to sell reserves." As a result, the USDBRL ended Friday 22 May at 5.5321, appreciating by 5.5% from last month, and the 5yr CDS spread tightened by 41bp to 307bp. It is possible we will see further appreciation in the BRL towards 5.00, but a sustained volatile period over the next few weeks due to political noise and Copom's decision to cut rates adds some risks for the currency in the short term.

The depreciation of the BRL generated BRL 600bn of fiscal gain for the government

The Secretary of the National Treasury, Mansueto Almeida, said on Friday (22) that part of the Central Bank's financial gains from the valuation of reserves will be transferred to the Treasury's cash. "We are talking about something around R$500 billion," said Mansueto. Valor PRO showed that the BC's result reserve was close to R$600 billion, due to the devaluation of the real against the dollar this year.

Politics: Ministers Moro and Teich spoke after their resignation

Former Minister of Justice and Public Security Sergio Moro said there was no support from President Jair Bolsonaro in fighting corruption. "The President's followers will forgive me if this is an inconvenient truth, but this anti-corruption agenda did not have the necessary backing from the President of the Republic for us to implement it."

Former Health Minister Nelson Teich said on Sunday that he left the government over disagreements with President Jair Bolsonaro, although he was not pressured by the president either to take a stand against social isolation measures or to approve the use of chloroquine as a treatment for Covid-19.

Big fiscal deficit but first signs of economic recovery

Total tax revenue in April was BRL 101.2bn, down 28.9% y/y in real terms (Mar20: -3.3% y/y). Based on this tax revenue, the April figures, to be released on 28 May, will show a record Central Government primary fiscal deficit of BRL 116.3bn. Nevertheless, a preview by think tank FGV on Industrial Confidence shows a slight improvement in May, driven by expectations. Overall, May's industry confidence numbers suggest that the bottom for manufacturing output may have been contained in April, though a V-shaped recovery looks much less likely. The Copom will cut rates further in June to promote economic activity. On 20 May 2020, BCB Governor Campos Neto repeated the message already conveyed by the statement and the minutes that in June a final cut to the Selic will be promoted. Moreover, on 22 May 2020, BCB Deputy Governor Kanczuk said, "We have to be cautious," as the Selic rate is about to cross an effective lower bound given by the risk premium. We take both stances to reinforce our view that the Copom's next step in June will be a final adjustment of this easing cycle and most likely will be equal to a 75bp cut.

In terms of macro releases, we will have important events on almost all economic fronts. The most important will be the 1Q20 GDP release (-0.1% y/y; -2.2% q/q expected).

Financial market outlook

Equities – IBOV: OVERWEIGHT (Target 80,000. Exit 90,000)

Bonds – Gov. 10y Local: MW (Target 8%. Spread 660)

Bonds – Gov. 10y USD: OW (Target 5%. Spread 360)

FX – BRL/USD: MARKETWEIGHT (Mid-term target range 5.5)

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

ANDBANK Private Bankers

MACRO ECONOMY

MEXICO

Underweight Mexican equities. Marketweight bonds in USD.

Monetary environment

Banxico cut its official rates by another 50 bp in its last monetary policy meeting, putting its reference rate at 5.50% and accumulating 175 bp in cuts in 2020. The decision was unanimous and new cuts were not ruled out as stimulus measures for the economy in the face of the pandemic. The median in local surveys forecasts a level of between 4.25 and 4.75 for the end of 2020.

Economics

The GDP for the first quarter of 2020 decreased by 2.4% in annual terms. Social distancing measures began in the last 10 days of March. Remittances grew 40% in March. The level of the exchange rate and decisions to advance shipments to the country prior to the total closure of activities in April were the main catalysts for the phenomenon. March inflation showed the downward path, reflecting the effect of lower aggregate demand, although the underlying part continues to show some degree of persistence, as it still remains above levels of 3.50%. The general index reached its lowest level since 2015, 2.15%, which helps Banxico to continue to apply easing monetary measures.

Economics

New electricity sector regulations aimed at replacing generation from clean sources under the pretext of requiring more speed in generation due to the Covid pandemic in Mexico have questioned the viability of current projects with private, local and foreign investment. Affected companies and countries could receive compensation exceeding 6 billion pesos. However, this shift in government criteria has further complicated relations between private investment capital and the government, which may put a brake on investment activity and thus on GDP.

A scheme for a gradual reopening of the economy was announced based on the number of Covid-19 cases per municipality and the importance of the activity. Activities classified as essential will reopen from May 18. It is expected that the last activities to resume will be the educational ones. The number of cases and deaths in the country is expected to have peaked between May 11 and 15.

Mexican assets

Equities (IPC Index): Uncertainty in the business sector continues and pessimism will persist in private investment in the area of renewable energy and electricity. Mexico is poorly positioned for a V-shaped recovery. We keep our fundamental target unchanged in the 30,000-38,000 area. **Fixed Income:** Spreads between Mexican bond rates in pesos and dollars have recovered quite considerably since March. The spread currently stands at 543 bp, following the effects of the cuts in the Banxico rate. For dollar rates, low levels of yields in the UST caused a widening of the spread vs the Mexican bond in USD to around 330 bp. Our perspective is that spreads in local currency-denominated bonds could widen a bit more, due to a widespread perception of higher country risk, specially after recent downgrades and domestic policy problems. We set the target spread for the 10Y MXN bond in pesos at 550-575 bp vs the UST yield. For the USD-denominated Mexican bond, we set the target spread at 275 bp.

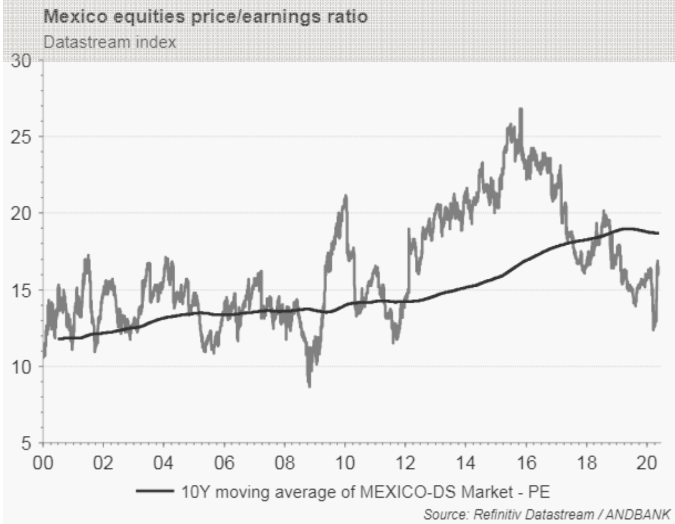
Financial market outlook

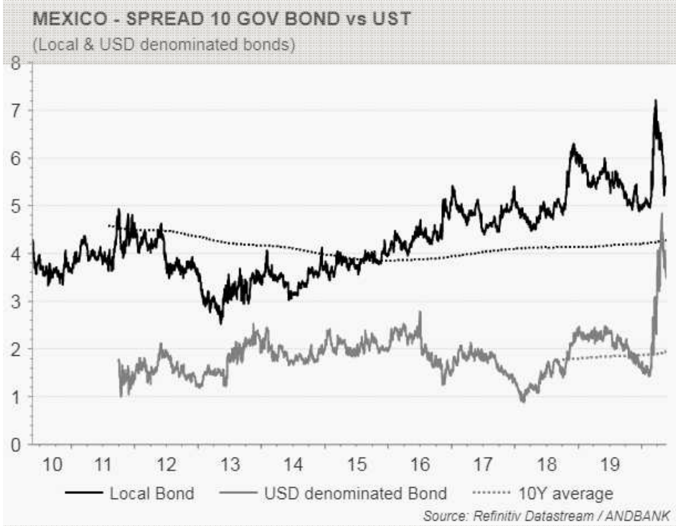
Equities – Mex IPC: UW. Target 33,067. Exit 36,374

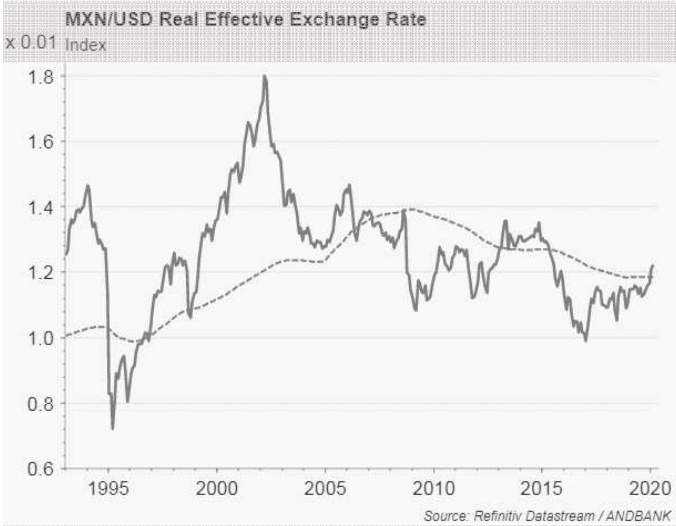
Bonds – Govies Local: UNDERWEIGHT (Yield 6.9%. Spread 550)

Bonds – Govies USD: MARKETWEIGHT (Yield 4.5%. Spread 275)

FX – MXN/USD: MARKETWEIGHT (Mid-term target 23.50)







ARGENTINA

Debt: A matter of will

Despite having the support of the IMF and more than 100 well known international economists, Argentina's debt exchange offer was a complete failure (media reports suggested support of around 15%), thanks to an average NPV of 40 cents (exit yield 10%) and a non-negotiating stance on the part of the Economy Minister.

The government decided to extend the offer until May 22 (last day of the 30-day grace period for coupon payment) and went from a take-it-or-leave-it attitude to saying it was open to counteroffers from creditors, with each of the Committees (three) making an offer with an NPV between 58 and 60 cents. The creditors are asking for a reduction of the grace period from three years to just one year, higher coupon rates (almost double the government's proposal), cash payment of accrued interest and a reduction of the principal haircut. Given the short period of time until May 22, there is a high probability that an event of default will occur.

Provinces waiting for Sovereign restructuring

Buenos Aires Province (PBA), Argentina's largest province, incurred an event of default after it failed to make a capital payment of USD 115mn. PBA also extended the expiration date for its exchange offer until May 26 after only 24% of bondholders decided to exchange their bonds. Not only PBA is trying to restructure its debt; provinces previously seen as safe credits with better fiscal numbers, like Cordoba and Mendoza, appointed financial advisors to reorder their foreign liabilities. Argentina managed to exchange more than USD 2bn of dollar Treasury Bills (issued under local law) for a basket of peso instruments linked to inflation. The offer was valued at 40 cents per dollar.

April numbers showing the severity of the crisis

Government extended mandatory lockdown until May 24. April data (first month with full lockdown) show the depth of the slowdown: a) Vehicle Sales falling 73.6% YoY to just 7,512 units (the worst month since 2003); b) Tax collection +11.6% YoY, well below projected inflation of 48% (vs. +35.3% YoY in March); c) Real retail sales dropping 57.6% YoY in April (7 out of 12 sectors with sales decreasing more than 75%).

Inflation decelerating, helped by price controls & economic contraction

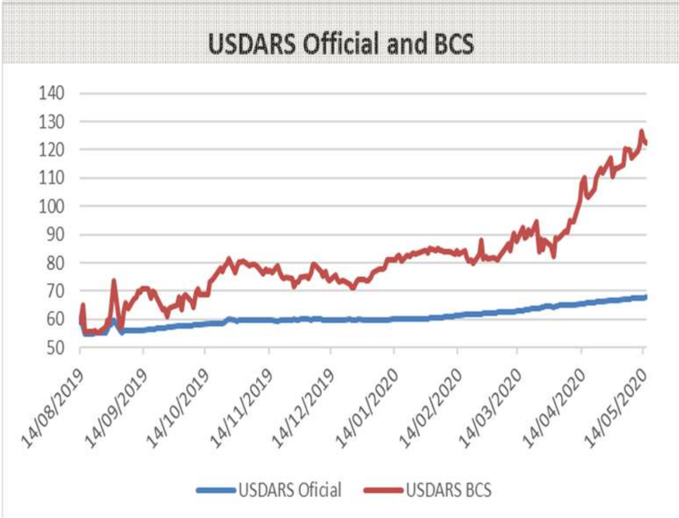
April CPI closed at 1.5% MoM (vs 3.3% in March), with the YoY register further decelerating to 45.6% (from 48.4% in Mar). By component, food and beverages rose the most +3.2%, contrasting with communications -4.1% and education -1.5% (both one offers). Inflation is expected to accelerate in the coming months as the economy reactivates, as a result of monetary financing of the fiscal deficit (primary fiscal deficit forecasts below -5% GDP)

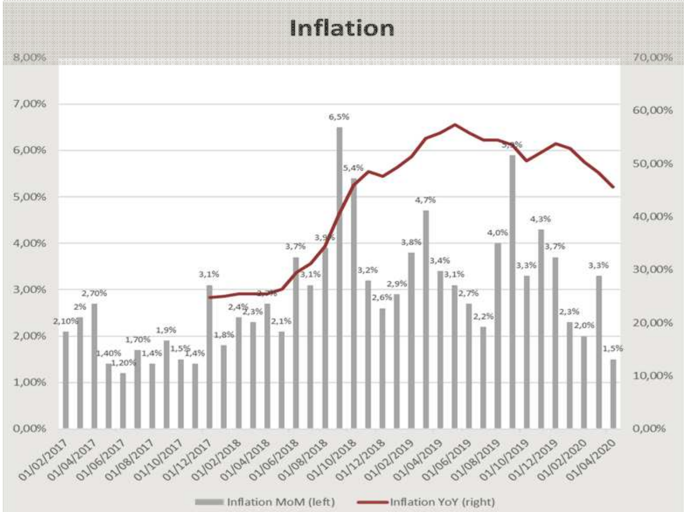
Despite issuing several regulations to discourage blue chip swap (BCS) transactions (e.g. restricting access to the official market to companies and individuals who have done BCS within the previous 30 days), the gap between the official FX (67.7) and the BCS (122.5) and black market FX (133) is 81% and 96%, respectively.

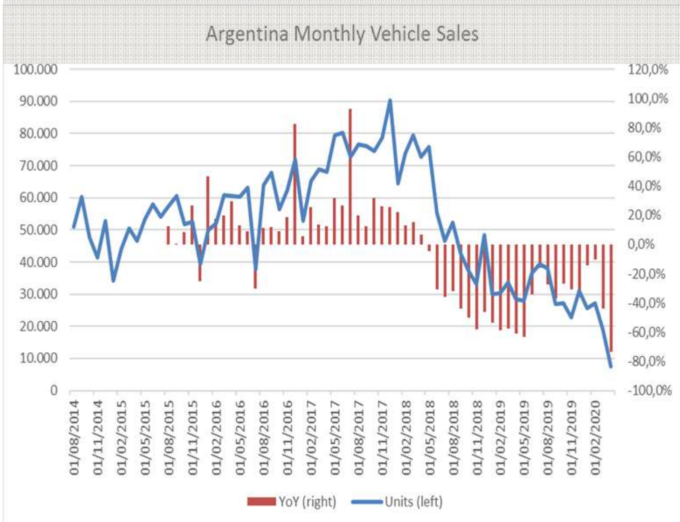
The Central Bank lowered the minimum annual nominal rate of 26.6% on all time deposits (-13% in real terms). Government is pushing banks to extend subsidized credits to SMEs but banks are protecting their balances by increasing their liquidity position (with lower remuneration today, as the Central Bank limited LELIQ positions). Bank margins are likely to come under more pressure as government increases its regulation (e.g. changing LELIQs for longer Treasury notes)

Financial market outlook

Bonds – 10YGov USD: NEUTRAL
FX – USDARS: NEGATIVE (2020 year-end target 80)







GLOBAL EQUITY INDICES

Fundamental assessment

Index	Projected EPS Andbank 2020	Projected EPS Growth Andbank 2020	Current PE fw EPS 2020	Current PE (EPS 2019)	Projected PE ltm EPS 2020	INDEX CURRENT PRICE	2020 Floor Point (Fundam range)	2020 E[Perf] to Floor Point	Recomm	2020 Exit Point	E[Perf] to Exit point
USA S&P 500	129	-21,6%	23,53	18,45	19,00	3.036	2.451	-19,3%	UW	2.942	-3,1%
Europe - Stoxx Europe 600	19,50	-25,0%	18,10	13,58	15,50	353	302	-14,4%	OW	363	2,7%
Euro Zone - Euro Stoxx	18,9	-25,0%	17,95	13,46	15,50	339	293	-13,6%	OW	352	3,6%
Spain IBEX 35	533,3	-25,0%	13,43	10,07	13,50	7.160	7.199	0,5%	OW	7.919	10,6%
Mexico IPC GRAL	2.320	-18,0%	15,90	13,04	14,25	36.890	33.067	-10,4%	UW	36.374	-1,4%
Brazil BOVESPA	5.984	-18,0%	14,70	12,05	13,50	87.946	80.784	-8,1%	OW	90.478	2,9%
Japan NIKKEI 225	1.063	-20,0%	20,62	16,49	17,00	21.916	18.071	-17,5%	UW/MW	21.685	-1,1%
China SSE Comp.	226	-10,0%	12,58	11,33	12,50	2.846	2.827	-0,7%	MW	3.110	9,3%
China Shenzhen Comp	75	-10,0%	23,55	21,20	22,00	1.770	1.653	-6,6%	UW	1.818	2,8%
India SENSEX	1.576	-15,0%	20,43	17,36	19,00	32.201	29.950	-7,0%	MW/OW	32.945	2,3%
Vietnam VN Index	54	-10,0%	16,08	14,47	15,00	861	804	-6,7%	MW/OW	924	7,3%
MSCI EM ASIA	35	-10,0%	14,07	12,66	14,00	499	496	-0,5%	OW	546	9,5%

POSITIONING, FLOW & SENTIMENT ANALYSIS

Perspective: High stress in markets during March
Andbank's Assessment: +4.0 (in a -7/+7 range)

Aggregate (OW-MW bias): The markets remain stressed, our tactical reading is positive but to a lesser extent than previous month.

Market Positioning (MW-OW bias): Asset allocation in equity is in neutral territory. The put-call ratio indicates also that investors have adopted a neutral stance. Finally, Skew in positive territory reflects that fear of a more violent downside movement is still present.

Flow Analysis (MW bias): Small negative flows toward US equity indicate a neutral momentum in equities. Europe did not benefit from positive flows, which remain flat, indicating a global neutral stance toward the asset class.

Surveys & Sentiment Analysis (Strong OW bias): Sentiment from investors is very low, (stress) our contrarian reading remains positive.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	Ticker Reuters	View 1 month	Principal Support	Principal Resistance	Support 1 month	Resistance 1 month	Target (TA) 2020	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	lateral	234,00	443,29	253,00	350,00	330,00	308,49	6,97%
	Euro Stoxx 600	.STOXX	lateral	237,00	433,90	268,00	360,00	360,00	328,24	9,68%
	Ibex	.IBEX	lateral	5.266,00	8.286,00	5.905,00	7.500,00	7.500,00	6.474,90	15,83%
	S&P	.SPX	lateral	2.346,00	3.393,52	2.346,00	3.028,00	3.000,00	2.863,70	4,76%
	Japón	.N225E	lateral bullish	14.865,00	24.448,00	17.600,00	22.362,00	22.362,00	20.133,73	11,07%
	China	.SZSC	lateral bullish	1.458,00	2.000,00	1.552,00	1.945,00	2.060,00	1.800,84	14,39%
	India	.BSESN	Lateral bearish	24.833,00	42.273,00	25.638,00	33.291,00	35.750,00	31.097,73	14,96%
	Brasil	.BVSP	lateral	57.600,00	119.593,00	61.690,00	90.000,00	90.000,00	77.556,62	16,04%
	México	.MXX	Lateral bearish	30.000,00	45.955,00	31.561,00	38.265,00	36.900,00	35.691,39	3,39%
OTROS	Oil West Texas	WTCLc1	lateral bullish	10,37$	51,00$	18,00$	35,50$	35,00$	29,50$	18,64%
	Oro	XAU=	bullish	1.358,00$	1.920,00$	1.557,00$	1.802,00$	1.920,00$	1.741,00$	10,28%
	Treasury 10 años USA	US10YT=RR	lateral	0,1289%	1,3210%	0,3180%	0,8658%	0,8658%	0,6436%	34,52%

Bullish ->+3.5%; Lateral bullish -> (+1.5% , +3.5%); Lateral -> (-1.5, + 1.5%); Lateral bearish -> (-3.5%, -1.5%); Bearish <-3.5%

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 1.47%. Fair value 2.35%. Ceiling 2.5%

Swap spread: The swap spread was fixed at 0bp For this spread to normalize at +3bp, with the 10Y swap rate anchored in the 1.5% area (our LT inflation expectation), the 10Y UST yield would have to move towards 1.47%.

Slope: The slope of the US yield curve (10-year minus 2-year bond yield) was fixed at 49bp. With the short-end normalizing towards 1%, to reach the long-term average slope (of 135bp), the 10Y UST yield would have to move to 2.35%.

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 1.5%, the UST yield would have to rise to 2.5% to become a "BUY".

GER Bund: Floor 0.10%. Fair value 1.11%. Ceiling 1.5%

Swap spread: The swap spread was fixed at 36bp. For the swap spread to normalize at 38bp, with the swap rate anchored in the 0.5% area, the Bund yield would have to move towards 0.10% (entry point).

Slope: The slope of the EUR curve (10-year minus 2-year bond yield) was fixed at 16bp. If the short-end normalizes at 0%, to reach the 10Y average yield curve slope (111bp), the Bund yield would have to move to 1.11%.

Real yield: A good entry point in the German Bund would be when the real yield hits 0.5%. Given our CPI mid-term forecast of 1%, the Bund yield would have to rise to 1.5% to become a "BUY".

UK Gilt: Floor 1.4%. Fair value 2.3%. Ceiling 2.5%

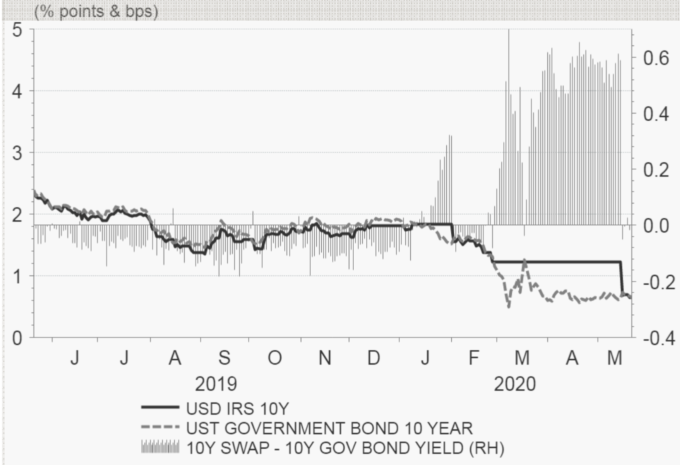
Swap spread: The swap spread was fixed at 20bp. For the swap spread to normalize at 11bp, with the swap rate anchored in the 1.5% area, the 10Y UK Gilt would have to shift to 1.4%.

Slope: With the 2Y bond normalized at 1%, to reach the average slope at 1.3%, the 10Y Gilt would have to move to 2.30%.

Real yield: Given our CPI mid-term forecast of 1.5%, the Gilt yield would have to rise to 2% to become a "BUY".

SWAP SPREAD USD

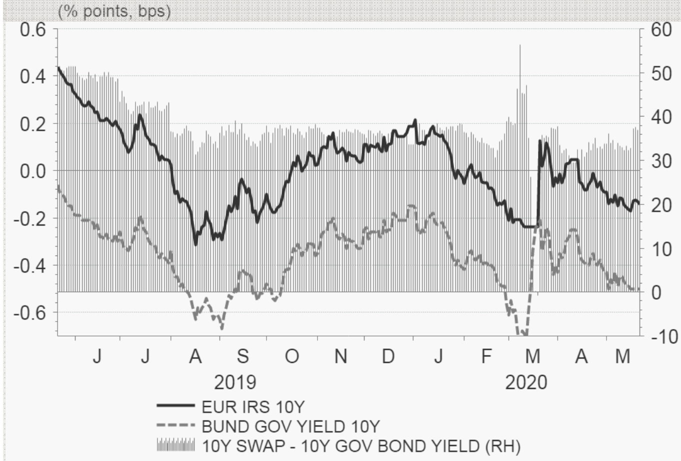
(% points & bps)



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 1%
Italian bond BTPI: Target yield at 2%
Portuguese Gov bond: Target yield at 1.15%
Ireland Gov bond: Target yield at 0.3%
Greek Gov bond: Target yield at 2.30%

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	7,28%	2,82%	4,46%	-1,00%	6,28%
	India	5,99%	6,03%	-0,04%	1,00%	6,99%
	Philippines	3,15%	2,35%	0,80%	0,00%	3,15%
	China	2,67%	2,44%	0,23%	0,00%	2,67%
	Malaysia	2,93%	-1,60%	4,53%	-1,00%	1,93%
	Thailand	1,12%	-1,78%	2,90%	-0,75%	0,37%
	Singapore	0,82%	-0,04%	0,86%	0,00%	0,82%
	South Korea	1,17%	0,51%	0,65%	0,00%	1,17%
	Taiwan	0,45%	-0,51%	0,96%	0,00%	0,45%
EME	Turkey	11,95%	11,40%	0,55%	0,00%	11,95%
	Russian Fed	5,56%	2,80%	2,76%	-0,75%	4,81%
LATAM	Brazil	7,00%	2,89%	4,12%	-1,00%	6,00%
	Mexico	6,14%	2,67%	3,47%	-1,00%	5,14%
	Colombia	5,30%	3,68%	1,62%	-0,50%	4,80%
	Peru	4,61%	1,69%	2,92%	-0,75%	3,86%

ENERGY – OIL

Fundamental view (WTI): Target range USD30-40bbl.

Buy < USD30; Sell >40

Short-term drivers

(Price Positive) – Congressional Democrats are pushing the Fed to bar oil firms from its lending program and, as a result of this pressure, the White House is not planning further relief measures for the oil industry. This could put the sector and its companies under the path of an oncoming bus. A group of Democratic lawmakers have called on Fed Chair Jay Powell to cut oil and gas firms out of the bank's Main Street lending program. The lawmakers argued that those firms created systemic-level risks to the US financial system. The letter came after Energy Secretary Dan Brouillette said this week that the White House asked the Fed to ensure there is access for those energy companies. Energy Secretary Dan Brouillette said that he is not anticipating any steps beyond what has already been done for the oil industry and that he is not planning for a specific second or third step. However, Brouillette was positive on the idea of the government buying more oil to fill the SPR and said he sees growing support in Congress to fund purchases to add to the emergency stockpile.

(Price Positive) – Storage stress eases: DOE showed a crude draw of 750K bpd in oil storage in the week ended 8 May, which broke a streak of 15 consecutive inventory builds. Data included the rig count, which last week fell by 29 to 285. DOE data showed US production down 1.6M bpd from 13 Mar. Regarding the US strategic petroleum reserve (SPR), US Energy Secretary Brouillette said the DOE may seek to negotiate additional rental contracts with producers to store private supplies in the government caverns.

(Price Positive) – **IEA says outlook not as severe as previous estimate:** Platts reported that the IEA monthly report showed global output showed signs of the global market rebalancing faster than previously expected. The oil demand decline for this year on 8.6M bpd was less than last month's 9.3M estimate, while it noted that non-OPEC output has already fallen by more than 3M bpd since the start of the year, and cuts could rise to 4M by June. US production fell by as much as 630K in April and is expected to see a further 1.2M bpd decline in May, with a total US supply cut of 2.8M by the end of the year. The OPEC+ cut, which took effect 1 May, is expected to bring down global supplies by 12M bpd.

(Price Positive) – Oil demand rising in countries emerging from coronavirus lockdowns: WSJ reported that oil consumption is rising in parts of the world emerging from coronavirus lockdowns, which has taken the pressure off global storage and helped move to rebalance the market. The article noted that this week IEA executive director Birol highlighted a gradual, but still fragile, global rebalancing, while Saudi Energy Minister Prince Abdulaziz and Russia's Alexander Novak said that they are pleased with the recent signs of improvement, especially the growth in oil demand and the easing of concerns about storage limits. The better outlook has supported prices, with Brent rising 23% and WTI jumping 46% month-to-date.

(Price Positive) – OPEC sees global demand picking up in second half of the year: Platts reported that global demand for its crude was coming in at 16.77M bpd this quarter. However, it sees demand picking up in the second half of the year, rising to 27.89M in Q3 and 31.18M in Q4. To put this in perspective, just recall that OPEC was producing 30.41M bpd in April, with Saudi Arabia producing 12.01M bpd in April, up 2.27M bpd from March. The report said that OECD commercial inventories in March were 88.6M barrels above the five-year average, up from 57.7M bpd the prior month. The article noted that the glut could take months or even years to draw down, even with the higher demand expectations.

(Price Positive) – Saudi Arabia to further trim exports: Saudi Arabia will trim oil shipments to Asia in June and will be more aggressive about cuts to Europe and the US. The kingdom is seeking to shore up the recent recovery in crude markets, and the move comes as it also voluntarily reduced supply beyond its OPEC+ quota to the lowest level in 18 years. Eight of the 12 refiners in Asia that saw supply cuts had curtailments of 20-30%. Buyers in the US and Europe will see shipments cut in half, with some purchases slashed by as much as 70%. The move also comes as President Trump has threatened to impose tariffs on Saudi crude imports, after speaking last week to Saudi King Salman before the voluntary additional 1M bpd cut was announced.

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' interest 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, which 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$1,600/oz. Buy at $1.400

Positive drivers for gold

Relative qualities of gold as an anti-fragile asset: Gold, like the US Treasury bond, is an anti-fragile asset. Investors should therefore always carry out the exercise of deciding which anti-fragile asset should be kept in the portfolio to hedge against demand or supply shocks or inflation shocks. The answer will have a lot to do with the perception of which of the two anti-fragile assets is likely to perform better in the future. This, in turn, will depend on the relative supply of the two anti-fragile assets. The one with the lower relative supply will be the one that will perform better and will better display its quality as an anti-fragile asset in the face of a shock. In this respect, we are very clear that the supply of US Treasury bonds will be almost unlimited, whereas the supply of gold will remain very limited over the next decade. Given the low margins of the mining companies and the inevitable mergers (necessary to survive), we think that the probability of investing in new lows is really very low. The relatively lower supply of gold should translate into better performance in relation to the UST.

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$13tn of face value is yielding negative rates).

Gold to the S&P500: This ratio stands at 0.59x, just shy of the LT average of 0.61x. Given our target price for the S&P of US$2,900, the price of gold must approach US$1,769 for this ratio to remain near its LT average.

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).

Negative drivers for gold

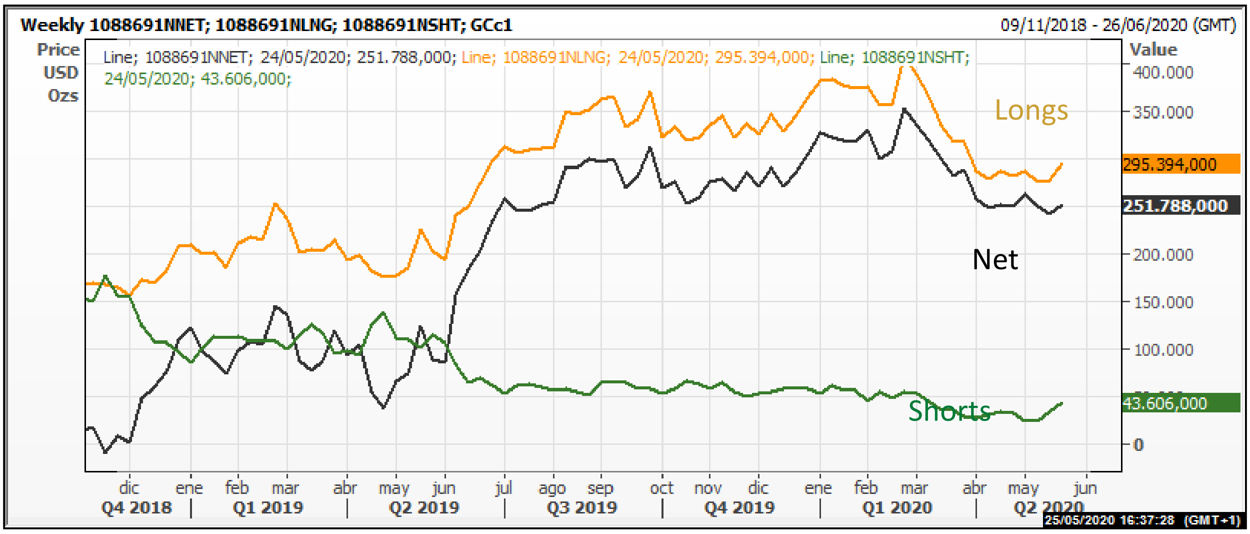
Gold in real terms: In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) is US$1,528. In real terms, therefore, gold continues to trade well above its 20-year average of US$956. Given the global deflator (now at 1.13553), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,085.

Gold to Silver (Preference for store of value over productive assets). This ratio is at 101.57 and still remains well above its 20-year average of 65.32x, 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$1,116/oz.

Gold to Oil: This ratio is at 5047, still well above its 16-year average of 16x. Considering our fundamental long-term target for oil of US$40 pb (our central target for the long term) and that the utility of oil relative to gold will remain unchanged, the price of gold must approach US$640 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long contracts at 295k (from 282k last month). Short contracts at 43.6 (from 32.6 last month). Thus, the net current position in gold futures remains at 251k contracts during the 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.



EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.10
USD-JPY: Target 110; **EUR-JPY**: Target 121
GBP-USD: Target 1.32; **EUR-GBP**: Target 0.83
USD-CHF: Target 0.97; **EUR-CHF:** Target 1.07
USD-MXN: Target 23.5; **EUR-MXN:** Target 25,85
USD-BRL: Target 5.50; **EUR-BRL:** Target 6,05
USD-ARS: Target 80
USD-INR: Target 74
CNY: Target 6.90
RUB: NEUTRAL-POSITIVE
AUD: NEUTRAL
CAD: NEUTRAL-POSITIVE

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	-6,58	4,07	32,1	-10,7	16,1	-0,76
USD vs G10	-6,70	3,97	32,7	-10,7	17,1	-0,88
EM	-0,12	-0,10	5,2	-0,2	1,6	-1,09
EUR	9,91	-1,93	11,9	-15,5	-3,3	0,60
JPY	3,19	0,17	3,8	-12,8	-5,3	1,63
GBP	-1,45	-1,35	2,8	-6,5	-2,1	0,24
CHF	1,12	0,49	1,1	-6,0	-1,6	1,79
BRL	-0,18	0,00	0,1	-1,2	-0,4	-0,23
MXN	-0,13	-0,15	4,6	-0,1	1,7	-0,75
RUB	0,19	0,05	1,2	-0,2	0,5	-0,90
AUD	-2,59	-0,40	-1,3	-5,2	-3,1	-0,84
CAD	-2,52	-0,83	2,9	-5,0	-0,9	-0,76

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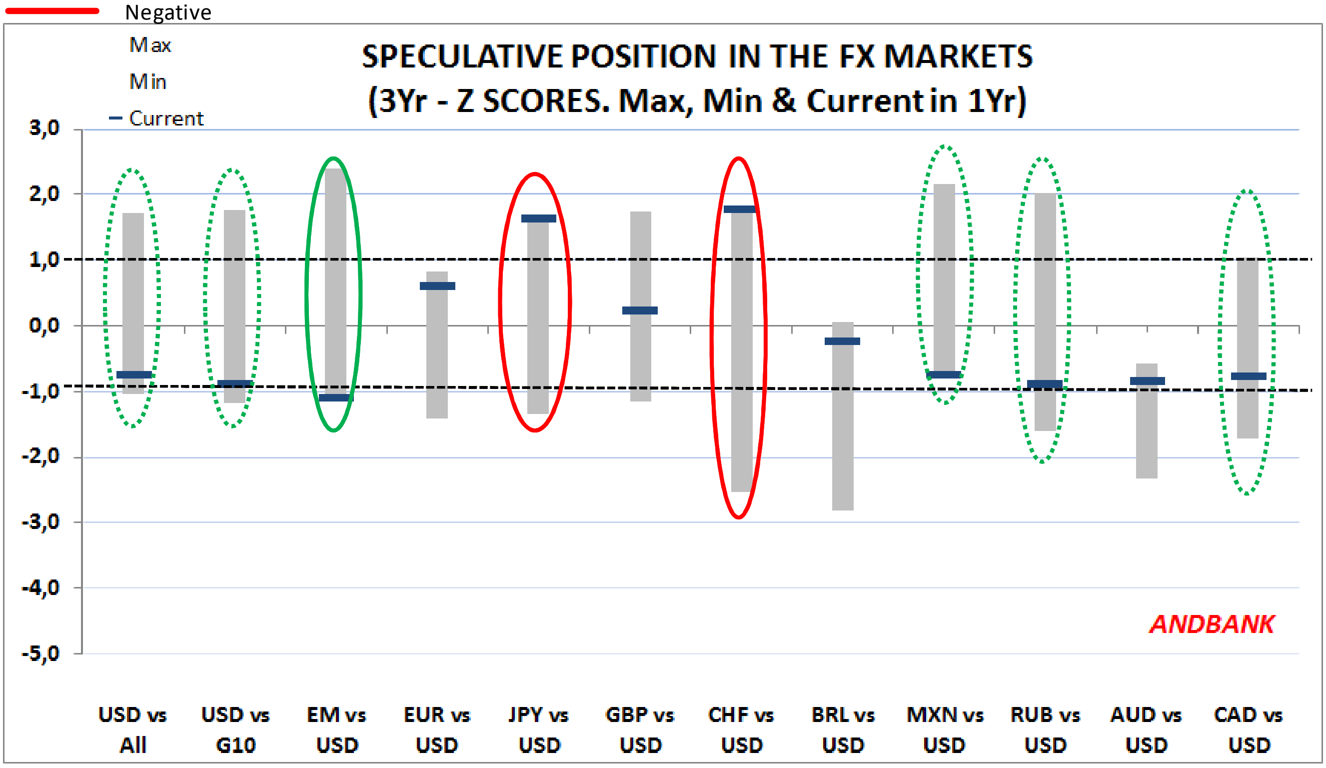
Positive
Neutral-Positive
Neutral-Negative
Negative



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 Floor Point* 2020	Expected Performance to Floor point 2020
Equity	USA - S&P 500	6,0%	-6,0%	3.036	2.451	-19,3%
	Europe - Stoxx Europe 600	3,5%	-15,9%	353	302	-14,4%
	Euro Zone - Euro Stoxx	5,6%	-16,6%	339	293	-13,6%
	SPAIN - IBEX 35	4,7%	-24,9%	7.156	7.199	0,6%
	MEXICO - MXSE IPC	3,0%	-15,3%	36.890	33.067	-10,4%
	BRAZIL - BOVESPA	8,2%	-24,0%	87.946	80.784	-8,1%
	JAPAN - NIKKEI 225	8,8%	-7,4%	21.507	18.071	-16,0%
	CHINA - SHANGHAI COMPOSITE	1,3%	-6,7%	2.846	2.827	-0,7%
	CHINA - SHENZEN COMPOSITE	2,1%	2,7%	1.770	1.653	-6,6%
	INDIA - SENSEX	0,3%	-23,4%	32.201	29.950	-7,0%
	VIETNAM - VN Index	12,3%	-10,4%	861	804	-6,7%
	MSCI EM ASIA (in USD)	1,1%	-11,9%	499	496	-0,5%
Fixed Income Core countries	US Treasury 10 year Govie	-0,5%	10,7%	0,68	1,40	-5,4%
	UK 10 year Gilt	0,7%	5,3%	0,19	0,80	-4,7%
	German 10 year BUND	-0,3%	1,9%	-0,44	-0,20	-2,2%
	Japanese 10 year Govie	-0,4%	-0,2%	-0,01	0,00	-0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	1,9%	-1,0%	0,60	1,00	-2,8%
	Italy - 10yr Gov bond	2,1%	-0,2%	1,46	2,00	-3,4%
	Portugal - 10yr Gov bond	3,0%	-1,1%	0,58	1,15	-4,2%
	Ireland - 10yr Gov bond	0,5%	0,0%	0,09	0,30	-1,6%
	Greece - 10yr Gov bond	4,9%	-0,4%	1,53	2,30	-5,3%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,3%	-0,9%	73,38	80	0,1%
	Credit EUR HY-Itraxx Xover	2,2%	-6,4%	433,25	450	1,9%
	Credit USD IG - CDX IG	0,4%	-0,2%	83,80	75	0,8%
	Credit USD HY - CDX HY	3,7%	-6,5%	559,81	663	0,2%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-3,3%	4,5%	11,95	13,00	-1,3%
	Russia - 10yr Gov bond (local)	4,4%	7,7%	5,56	5,70	2,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,7%	0,6%	7,28	6,80	8,1%
	India - 10yr Gov bond (local)	1,6%	7,2%	5,99	6,00	3,5%
	Philippines - 10yr Gov bond (local)	2,5%	12,0%	3,15	3,30	0,7%
	China - 10yr Gov bond (local)	-1,2%	4,9%	2,67	2,50	3,0%
	Malaysia - 10yr Gov bond (local)	-0,3%	4,3%	2,93	2,40	6,0%
	Thailand - 10yr Gov bond (local)	0,6%	3,0%	1,12	0,70	4,0%
	Singapore - 10yr Gov bond (local)	1,2%	7,9%	0,82	1,00	-1,0%
	Rep. Korea - 10yr G. bond (local)	1,9%	3,8%	1,17	1,30	-0,4%
	Taiwan - 10yr Gov bond (local)	0,1%	1,6%	0,45	0,50	-0,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	5,8%	8,4%	6,14	6,90	-2,4%
	Mexico - 10yr Govie (USD)	10,0%	-1,2%	3,66	4,15	-1,8%
	Brazil - 10yr Govie (Loc)	6,2%	1,1%	7,00	8,00	-3,8%
	Brazil - 10yr Govie (USD)	6,5%	-5,9%	5,11	5,00	4,0%
Commodities	Oil (WTI)	161,6%	-47,1%	32,3	40,00	23,9%
	GOLD	1,0%	13,6%	1.724,0	1.600	-7,2%
Fx	EURUSD (price of 1 EUR)	1,7%	-1,8%	1,101	1,100	0,0%
	GBPUSD (price of 1 GBP)	-1,4%	-7,7%	1,22	1,32	7,8%
	EURGBP (price of 1 EUR)	3,2%	6,3%	0,90	0,83	-7,3%
	USDCHF (price of 1 USD)	-0,5%	0,2%	0,97	0,97	0,0%
	EURCHF (price of 1 EUR)	1,2%	-1,6%	1,07	1,07	-0,1%
	USDJPY (price of 1 USD)	0,9%	-0,8%	107,77	110,00	2,1%
	EURJPY (price of 1 EUR)	2,6%	-2,6%	118,61	121,00	2,0%
	USDMXN (price of 1 USD)	-8,0%	18,0%	22,33	23,50	5,2%
	EURMXN (price of 1 EUR)	-6,4%	16,0%	24,57	25,85	5,2%
	USDBRL (price of 1 USD)	-4,1%	31,2%	5,27	5,50	4,3%
	EURBRL (price of 1 EUR)	-2,5%	28,8%	5,80	6,05	4,2%
	USDARS (price of 1 USD)	2,6%	14,1%	68,30	80,00	17,1%
	USDINR (price of 1 USD)	-0,3%	6,3%	75,82	74,00	-2,4%
	CNY (price of 1 USD)	1,1%	2,8%	7,16	6,90	-3,6%

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

UPWARD REVISION DOWNWARD REVISION

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Achieves
More

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