GLOBAL OUTLOOK

# ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review | Global Strategic Outlook – May 2019

# Corporate Review

***May 2019***

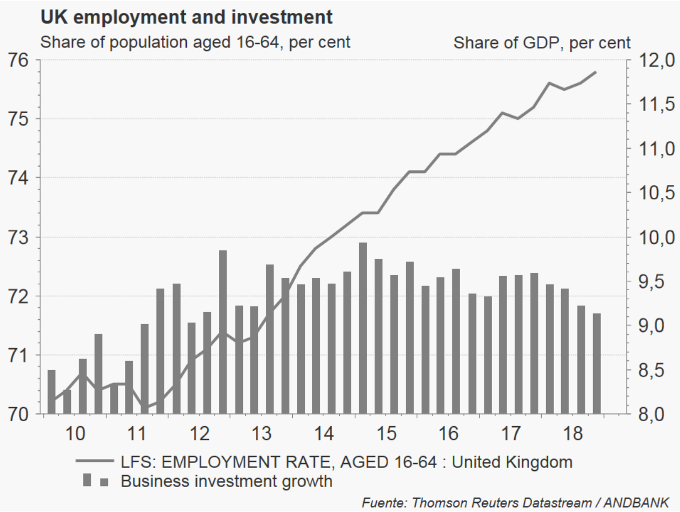
**Uncertainty over whether US shale can offset Iran losses**


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

# EXECUTIVE SUMMARY

## *CHART OF THE MONTH*

*(UK activity, investment & employment remains vibrant despite Brexit)*







### EQUITIES

While the Fed's "patient pause" in tightening has been the ultimate arbiter of the V-shaped recovery in equities and high yield in the start of the year, several widely-followed indicators have begun to turn positive, which could provide continued support for risk assets. ***S&P***: NEUTRAL (cautious bias), central point 2,800, exit point 3,070. ***Stoxx 600 Europe***: NEUTRAL-POSITIVE, central point 395, exit point at 414. ***Spain (Ibex)***: NEUTRAL-POSITIVE, target 9,700. ***Japan (N225):*** NEUTRAL (cautious bias), target 22,250. ***China (Shenzhen):*** NEUTRAL-POSITIVE, target 1,857. ***India (Sensex):*** POSITIVE, target 40,850. ***Mexico:*** NEUTRAL. ***Brazil:*** NEUTRAL.

### FIXED INCOME

***UST 10Y:*** NEGATIVE, entry point at 3%. ***German Bund:*** NEGATIVE, target 0.35%. ***Spanish bono:*** NEGATIVE, target 1.35%. *Italian bond:* POSITIVE, target 2.45%. ***Portuguese bond:*** NEGATIVE, target 1.65%. ***Ireland bond:*** NEUTRAL, target 0.65%. ***EM bonds Asia:*** POSITIVE (preferred India, Indonesia, Malaysia, Philippines, Malaysia and China). ***EM bonds Latam:*** POSITIVE (preferred Brazil in Local and USD, Mexico in Local).

### CORPORATE CREDIT

Despite strong supply and a negative data surprise, yield seeking activity has continued to support credit spread resilience. We see some excesses in the credit market and we think that corporate bonds will be susceptible to some profit taking after the strong and positive moves of recent months. ***Credit € IG (Itraxx):*** NEGATIVE, target 92. ***Credit € HY (Xover):*** NEGATIVE, target 350. In the USD market, both credit and high yield spreads continue to tighten as the technical picture remains very supportive thanks to low yields globally and light net bond supply. Net supply was lower in the last two quarters than any quarter since 3Q11 ***t $ CDX IG:*** NEGATIVE, target 70. ***Credit $ CDX HY:*** NEGATIVE, target 450.

### CURRENCIES

Globally, dollar positions increased again during the last month. Though not at extreme levels, net long speculative positions in the greenback are considerable. Speculators financed their long positions in USD through short positions mainly in G10 developed country currencies. . Cautious view on USD against a broad basket of currencies. Preferred currencies: AUD, CAD and BRL. Bearish view on MXN, RUB, and JPY.

### COMMODITIES

The White House announced that it would not grant any more extensions to waivers on Iranian sanctions. The decision to not renew sanctions waivers for buyers of Iranian crude threatens to squeeze global supplies in a market that is already facing supply disruptions. Sell WTI above US$ 65.

# USA

## Fed's patient approach can last, being a balsamic factor for markets

**The Fed**

The Federal Reserve's patient approach to normalization is appropriate, considering the uncertainty around the baseline and muted inflation. Under our baseline projection, labor markets are expected to tighten further and wage growth to pick up, likely warranting a further rate hike in the second half of the year.

**US equity market**

While the Fed's "patient pause" in tightening has been the ultimate arbiter of the V-shaped recovery in equities and high yield in the start of the year, several widely-followed indicators have begun to turn positive, which could provide continued support for risk assets. It is clear to us that this quarter's earnings season will help guide the direction of the market, particularly guidance from management. With estimates declining in recent weeks, companies exceeding expectations will be key to improving guidance, and this could fuel a continued equity rally. Recent results from some of the larger banks look encouraging and we will be watching closely the S&P reports over the next month. Consensus expectations are for margins to contract in all 11 sectors, with margins forecast to grow in only 38% of S&P 500 companies. If there are historical surprises, the percentage of companies with margin upside could increase to 56%. As of writing, 18.6% of the S&P 500 market cap firms have reported 1Q results. Earnings are beating forecasts by 6.1%, with 80% of companies exceeding their bottom-line estimates. This compares to 5.4% and 71%, respectively, over the past 3 years. Revenues are expected to grow by 2.4% in 1Q. EPS is on track to grow by 2.5%, assuming a typical beat rate for the remainder of the season. Volatility remains a threat as we move later in the cycle and we therefore reiterate our fundamental value for the S&P of 2800 by year end.

**US Treasury & Corporate bond market**

For the first time since mid-2007, the 3 month/10 year Treasury yield spread inverted in early April following weak European economic readings. Inversion of this part of the curve has only falsely signaled an upcoming recession once, while the timing of the recessions thereafter should be noted: the average time to recession after historical inversions is 27 months. So a recession may follow within the next 2.25 years if this trend continues. Currently we assign a ~21% probability of a recession in the next 12 months. We believe that downward pressure on yields is linked to global uncertainties such as Brexit and recession risks in Europe, as well as a more dovish Federal Reserve. Meanwhile, US rates appear to have settled into a new range as global growth concerns eased on the back of a recovery in ISM manufacturing, improvement in Chinese PMIs, optimistic rhetoric around US-China trade progress, and the higher probability of a positive Brexit outcome. 10y yields have stabilized around 2.50%, with 10y break evens flat lining around 1.90%. We continue to believe that the 10y treasury offers an attractive entry point around 3%.

Both credit and high yield spreads continue to tighten as the technical picture remains very supportive thanks to low yields globally and light net bond supply. Net supply was lower in the last two quarters than any quarter since 3Q11. We continue to see excesses in the credit market (cautious outlook). We consider it is prudent to reduce risk gradually.

**Financial market assessment**

Equities – S&P: NEUTRAL. Target 2,800. Exit point 3,070

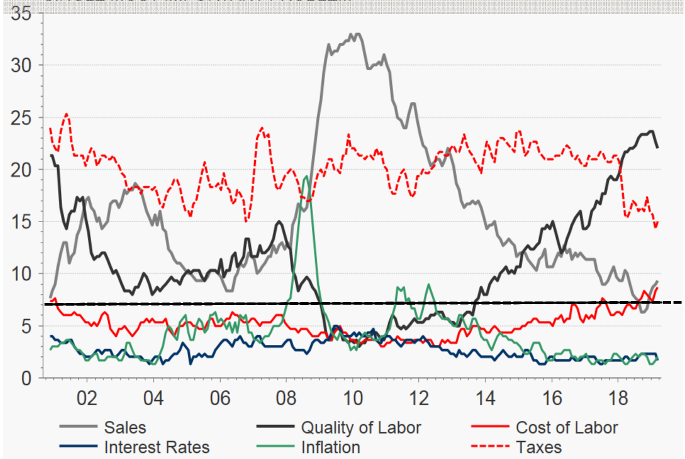
Bonds – Govies: NEGATIVE (10YUST entry point 3%)

CDX IG: NEUTRAL (Target Spread 70)

CDX HY: NEGATIVE (Target Spread 450)

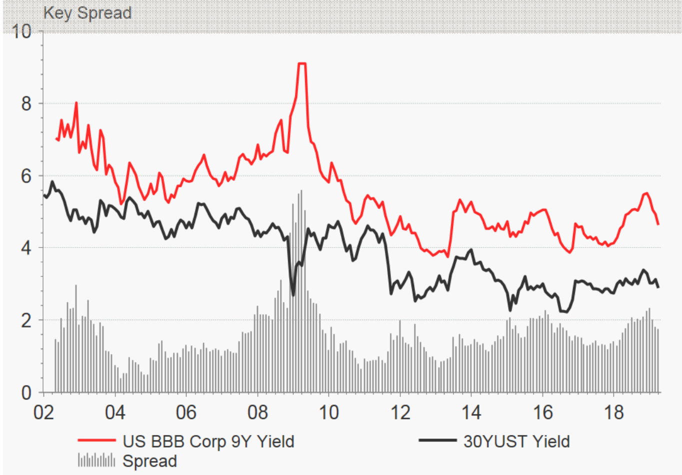
Forex – DXY index: NEUTRAL

**US BUSINESES ASSESSMENT (NFIB)**
SINGLE MOST IMPORTANT PROBLEM



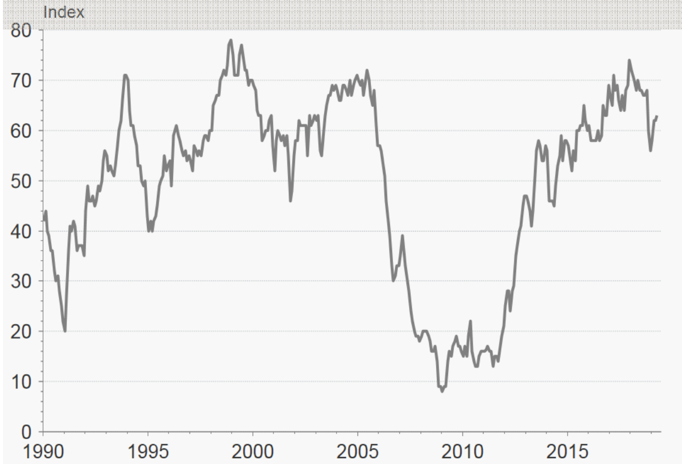

*Fuente: Thomson Reuters Datastream / ANDBANK*

**US Corp Bond Yield Vs 30YUST Yield**
Key Spread




*Fuente: Thomson Reuters Datastream / ANDBANK*

**US NAHB housing market index**
Index




*Fuente: Thomson Reuters Datastream / ANDBANK*

MACRO ECONOMY



# EUROPE

## Neither recession, nor deflation…

**Industrial stabilization could be closer**

The Eurozone economy regained some lost momentum with growth increasing by an annualized 1.5% in Q1 as French growth steadied and Spanish growth accelerated. Weakness in exports during Q1 had fed pessimism among manufacturers, but businesses that sell mostly to Eurozone consumers are in a more upbeat mood as unemployment continues to fall and wages rise more rapidly. The Italian economy also moved out of recession, with growth coming in at 0.2% in Q1, which was better than the 0.1% consensus. We could be closer to witnessing some relief on the industrial front. We do not envisage a steep rebound, rather a stabilization from the industrial side in the coming months. But this, together with supportive signs from the service sector, could put an end to the long phase of downward revisions for European growth.

**ECB ready to" adjust all instruments if needed"**

After new TLTRO program was announced, more measures could follow, such as depo tiering. epo tiering is already applied by other central banks (BoJ and SNB) to soften the impact of negative rates. Aggregate impact on European banks is uncertain. It should be positive for core and semicore banks, which hold more excess reserves in the ECB, but less supportive for peripherals. The final effect depends on their asset-liabilities structure and the pass-through to the clients´ depo rates. According to some market sources, it could also open the door for further marginal depo rate cuts. Depo tiering should be seen as a potential additional tool for reinforcing forward guidance. September, with updated macro estimates, could be a more likely time for the ECB to "widen its toolkit".

**Brexit "*Flextension*"**

The EU granted a "flexible extension" to the date of article 50 until October 31st. If the UK does not ratify a deal before May 23rd, the UK will automatically hold European Parliament elections. As the British Parliament (only) agreed on the "no deal exit", at least two scenarios remain: either the approval of May´s Withdrawal Agreement, or changing the strategy and revoking article 50. A May-Corbyn agreement does not seem likely so many months from the deadline. The issue remains unresolved, but we have lost the sense of urgency.

**Equity market**

We slightly modified our target prices, after improving our Brexit outlook, and to reflect the ECB's awareness abut the negative effects on banks' profits of its negative rate policy. In the case of the Stoxx Europe 600 we are raising the PE multiple to 14.7x (from 14.25x). Our new target price for the Stoxx Europe 600 is set at 395, with an exit point at 415. Italian and Spanish banks could be favored if the ECB mitigates the effects of negative rates, as interest paid by banks in 2018 was around €7bn. The banks' main problem is not with capital levels, but with profitability. There is currently some M&A news in the sector (Unicredit, Commerzbank, Deutsche Bank, ING). Synergies would make businesses more profitable , at least in the short term.

**Financial market assessment**

Equities – Stoxx Europe: NEUT-POSIT. Central point 395. Exit 415

Equities – Euro Stoxx: NEUT-POSITIVE. Central point 384. Exit 304

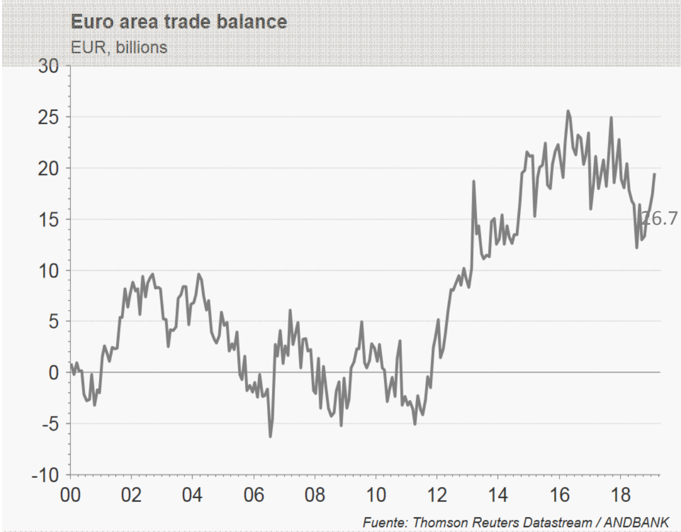
Bonds – Core governments: NEGATIVE (Bund target yield 0.35%)

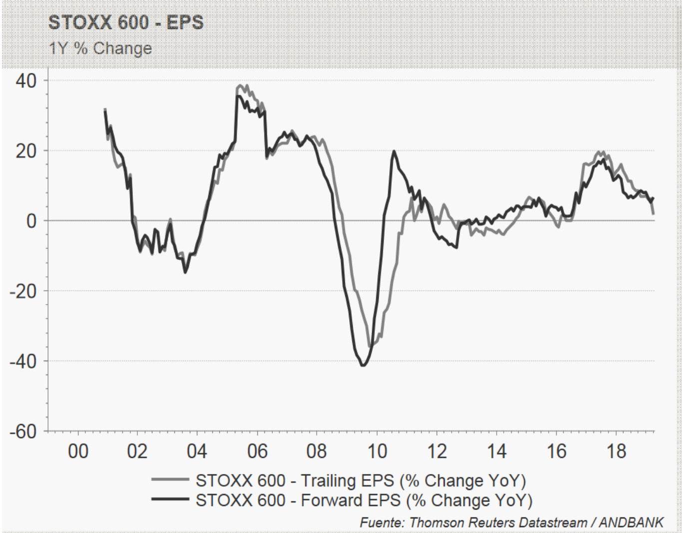
Bonds – Peripheral: NEGATIVE (SP 1.35%, IT 2.45%, PO 1.65%)

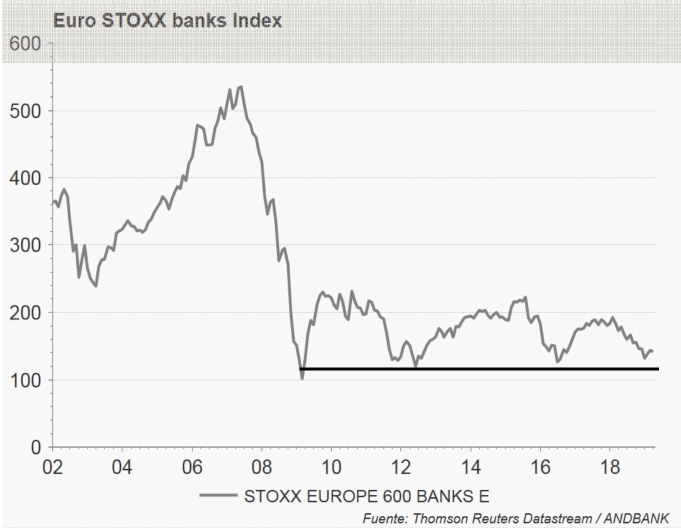
Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 92)

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

Forex – EUR/USD: NEGATIVE (1.125)



# SPAIN

## Spain elections. A preliminary reading

### Governance & Fiscal Policy

The Socialist Party can choose between several options to form a government. From governing in minority with specific agreements, to the formation of coalitions of different nature. We believe, therefore, that the scenario of ungovernability is moving away considerably. This possibility of election on the part of the PSOE, subtracts capacity of influence to the rest of parties of national scope with which could form government, in favor of the PSOE,,the great winner. Spanish social democracy is well known in international markets. From this point of view we can say, at least, that capital markets are not facing the unknown. On the coalition options, we believe that the most probable right now is a left-wing coalition voted in a second round and reaching a simple majority, with abstentions from some parties. The coalition of left and center right (PSOE + C's) is clearly a possibility, more favorable to markets' interests. However, this option will depend on the will of the parties, and there seems to be little predisposition today. We will have to wait until after the elections to the European Parliament and the municipal ones. A quick reading from the point of view of markets, leads us to conclude the following: 1) We will have a stable government (something we did not have). 2) In the case of the left coalition, although the markets may have an unfavorable interpretation regarding the inclusion of Podemos in the government, the truth is that the prevailing economic program will be that of PSOE. If we add to this the overwhelming majority of PSOE in the Senate, together with the pro-European discourse of the new president and the supposed alignment with the economic doctrine imposed from Brussels, it makes us feel relatively comfortable in terms of the potential risks of a fiscal disorder. In principle there should not be nerves, but if the market falls, we believe that it should not be for a reason of extreme political distrust.

### Domestic improvements still persist

The data released for the first quarter of the year confirms the upturn in the domestic activity of the Spanish economy, with retail sales growing at 1.6% per annum in February, accelerating pace from January. The real estate market continues to improve in terms of both activity and prices. Consumer confidence also continues to rise, causing us to remain optimistic on domestic demand. This, plus the optimism coming from the industrial sector (based on the outlooks issued in recent surveys) and an external sector still showing positive dynamics, justifies our confidence in our FY2019 GDP growth forecast of 2%-2.1%. The debt service cost continues to decrease (falling from 2.8% of GDP in December to 2.3% in March). The foreign sector still does not requires net funding, so despite the increase in public expenditure, driven by this year's elections, we maintain our forecast of public deficit at 2.2%.

### Spanish equities

After last month's rise to 9,700 points, we maintain our forecasts for the Ibex. The ECB's support for banks through a new TLTRO program, a potential *tiering* of negative depo rates, and the likelihood of concentration in the banking sector (the rumored mergers affecting several major banks in Europe will probably materialize) have brought the index close to our target. Though this has resulted in a rise in the PE ratio, we think it is too early to raise our projected margins and EPS. Recognizing a better risk perception for banks (30% of the Ibex35) it seems to us that is still too early to be more aggressive in our target price via PE expansion as well.

### Spanish bondsFinancial market assessment

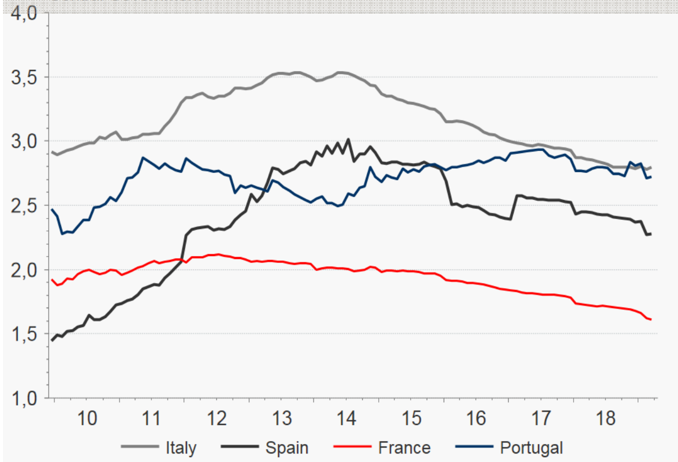
Equities – IBEX: NEUT-POSITIVE. Target 9,736. Exit point 10,200

Bonds – Government: NEGATIVE (BONO target yield 1.35%)

Credit – Investment grade: NEGATIVE

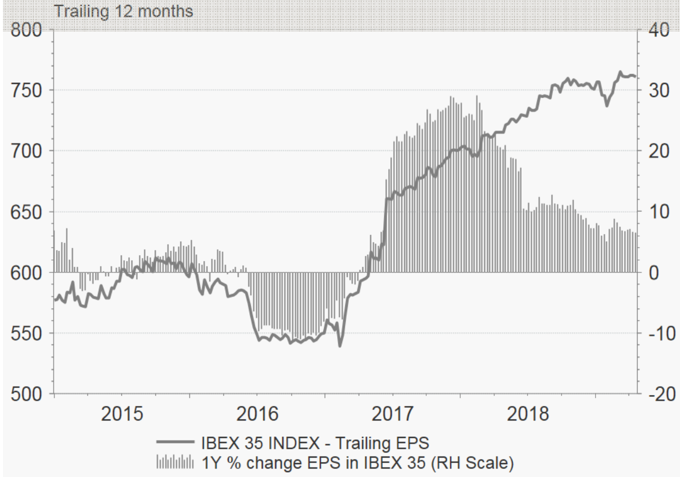
Credit – High yield: NEGATIVE

**DEBT SERVICE (1 YEAR, AS % OF GDP)**
Central Government



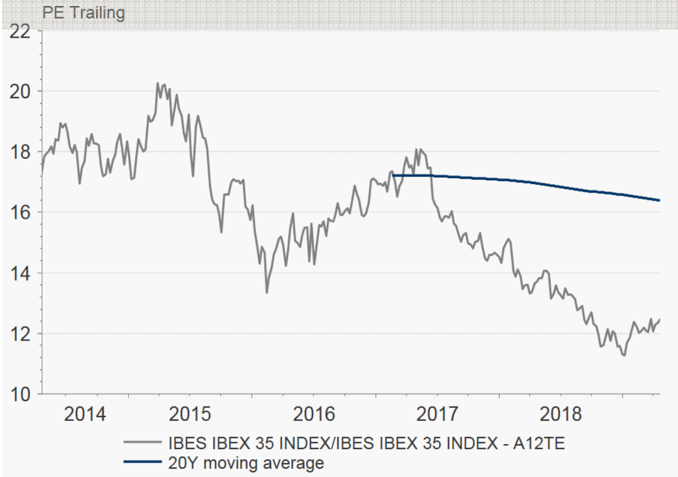

*Fuente: Thomson Reuters Datastream / ANDBANK*

**IBEX 35 - EPS**
Trailing 12 months




*Fuente: Thomson Reuters Datastream / ANDBANK*

**SPAIN IBEX**
PE Trailing




*Fuente: Thomson Reuters Datastream / ANDBANK*

# JAPAN

## The US opts for quick agreement with Japan on agriculture

**Trade talks**

Japanese Economy Minister Toshimitsu Motegi said that no broad agreement had been reached on trade issues with the US in April. The USTR raised concerns about the "very large" US trade deficit with Japan, while Tokyo stated that it would reject any requests for automobile quotas or FX provisions, although it is willing to discuss the streamlining of customs procedures. The US Agriculture Secretary Sonny Perdue stressed that "the US wants to reach a temporary trade agreement limited to agricultural products with Japan" ahead of a full-fledged bilateral deal. Said and done. According to a Nikkei report, the US accepted Japan's proposal for tariff reductions on American agricultural products that are consistent with the Trans-Pacific Partnership. Some in the US administration had called for deeper cuts, but negotiators decided to prioritize quick results that can be touted to American voters. The US also seemed to prioritize speed in talks on autos and other industrial products, avoiding such potentially contentious demands as a quota on Japanese vehicle exports to the US.

**BoJ is projected to be the top holder of Japan stocks**

The BoJ held over 28 trillion yen ($250 billion) in ETFs as of the end of March, 4.7% of the total market capitalization of the first section of the Tokyo Stock Exchange. Assuming that the bank maintains its current target of 6 trillion yen in new purchases a year, its holdings will expand to about 40 trillion yen by the end of November 2020. This would place it above the Government Pension Investment Fund's TSE first-section holdings of more than 6%. More importantly, the BoJ has become the top shareholder in 23 companies and is among the top 10 shareholders for 49.7% of all Tokyo-listed enterprises at the end of March. Behind this strategy of snapping up stocks is the belief that by keeping the market stable, the BoJ will support forward-looking economic activity by companies. BoJ Governor, Kuroda said "High stock prices do have a significant positive effect on the economy, encouraging investment and lifting public sentiment." While we know the BoJ's purchases are unlikely to push down prices, we strongly believe that the side effects (downside risks) clearly outweigh the upside potential. The BoJ's asset purchase program is eroding market discipline as companies are rewarded simply for being in major market indexes, rather than for having clever and profitable business strategies. This clear disruption to the proper functioning of the market is bound to be reflected somewhere in the Japanese financial markets, and we suspect this malpractice must be having an impact on the value of the currency.

**Economics**

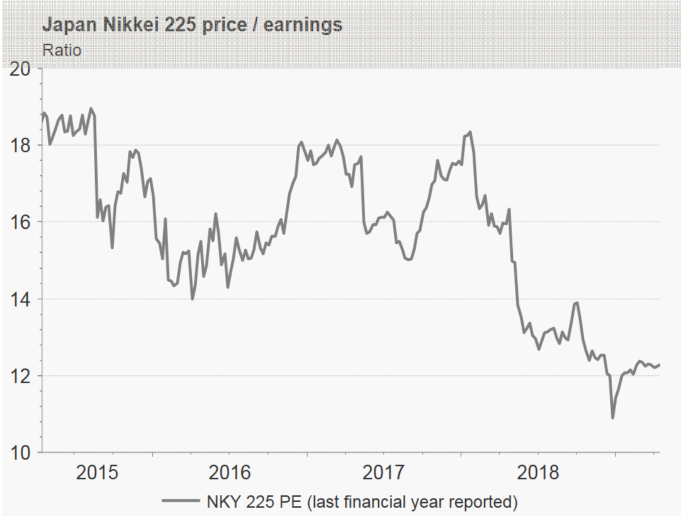
POSITIVES: February revised final industrial production +0.7%m/m vs (2.5%) in prior month. February core machinery orders +1.8% m/m vs revised (5.4%) in prior month. March bank lending +2.4% y/y vs +2.3% in prior month. March CGPI (Capital goods price index) +1.3% y/y vs revised +0.9% in prior month. NEGATIVES: March Economy Watcher Survey current conditions index 44.8 vs 47.5 in prior month. Outlook index 48.6 vs 48.9 in prior month. Expectations are that Japan will go ahead with a planned sales tax hike to 10% in October (from 8%), likely sending the economy into contraction in Q4.

**Financial market outlook**

Equities – N225: NEUTRAL (cautious). Target 22,250 (Exit 23,300)

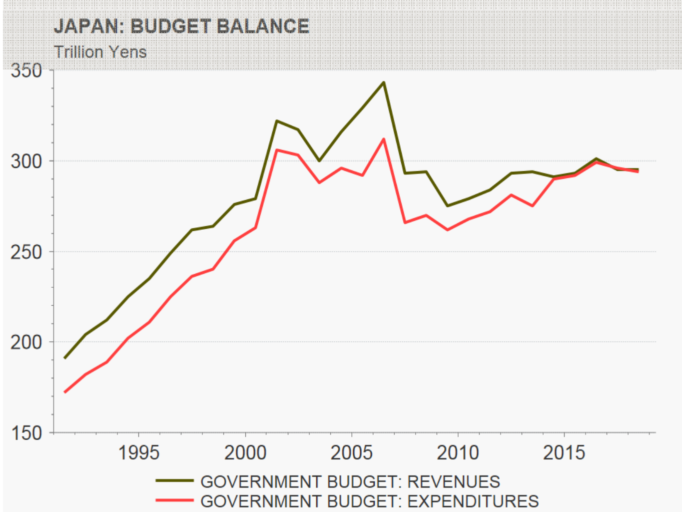
Bonds – Govies: NEGATIVE. Target yield 0.10%

Forex – USD-JPY: NEGATIVE. Mid-term target 114



Fuente: Thomson Reuters Datastream / ANDBANK

Fuente: Thomson Reuters Datastream / Fathom Consulting



Fuente: Thomson Reuters Datastream / ANDBANK

MACRO ECONOMY



# CHINA
## Trade talks. Nearing the final round?

**Trade**

US Treasury Secretary Steven Mnuchin said that a US-China trade agreement would go “way beyond” previous efforts to open China’s markets to US companies and hoped that the two sides were “close to the final round” of negotiations. One of the key points for the advance in negotiations has been that the US has recently softened its demand for China to reduce state industrial subsidies. Citing US negotiators, Washington would have tempered demands that China curb industrial subsidies as a condition for a trade deal after strong resistance from Beijing, marking a retreat on a core US objective for the trade talks. The US has become resigned to securing less than they would like on curbing subsidies in order to secure a deal that meets Washington objectives in terms of forced technology transfers, improving intellectual property protection and widening access to China’s markets. In line with this “harmonious” thinking between the two countries, China is considering a US request to shift some tariffs on key agricultural goods to other products to boost the Trump administration's clout with farmers ahead of the 2020 election. The US is seeking this shift as it does not plan to remove its own duties on $50Bn of Chinese imports even if the two sides manage to secure an agreement to end the trade war. The WSJ reported that as part of a prospective trade deal, the US and China have agreed on measures that would require greater disclosure of economic actions as a way of deterring Beijing from currency manipulation. While currency manipulation is already disallowed under the guidelines of international organizations such as the G20, these lack enforcement mechanisms. Regarding this last point of enforcement mechanisms, the US Treasury Secretary Steven Mnuchin said at the IMF meetings that the US is open to facing "repercussions" if it doesn't live up to its commitments in a potential trade deal with China, acknowledging that the enforcement mechanism works in both directions.

Perhaps the most obvious reflection of all these advances is that China's bond holdings increased $4.2bn m/m in February to $1.13tn, marking the third straight rise.

**Economy: Chinese economy has been “generally stable”**

According to China Association of Automobile Manufacturers (CAAM) data, China's auto sales fell 5.2% y/y in March to 2.52M units, marking the ninth straight decline, though the smallest since August 2018. A CAAM official was optimistic amid support from recent VAT cuts and hopes to see a turning point around July and August. According to Xinhua, the Chinese economy has been "generally stable" with the stock market "showing signs of bottoming out and recovering." The newspaper added that China will continue to implement prudent monetary policy and proactive fiscal policy this year.

**Policy: China to further expand financial sector opening-up**

PBOC vice governor Chen Yulu stated that China will further expand the opening-up of its financial sector "in a systemic manner at the institutional level." He added that the government is working toward treating Chinese and foreign-funded financial institutions "equally in a way that is more transparent and consistent with best international practices." On FX, he reiterated China's commitment to improving the exchange rate mechanism and keeping the RMB exchange rate in line with fundamentals at an adaptive equilibrium level.

**Financial market outlook**

Equities – SHANGHAI Idx: NEUTRAL. Target price 3,460. Exit 3,529

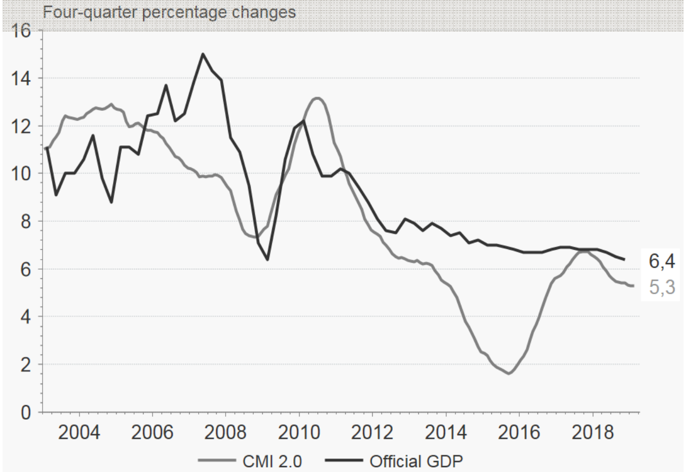
Equities – SHENZHEN Idx: NEUT-POSITIVE. Target 1,857. Exit 1,950

Bonds – Govies: POSITIVE (target yield 2.75%)

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

**Fathom China Momentum Indicator 2.0 and GDP**

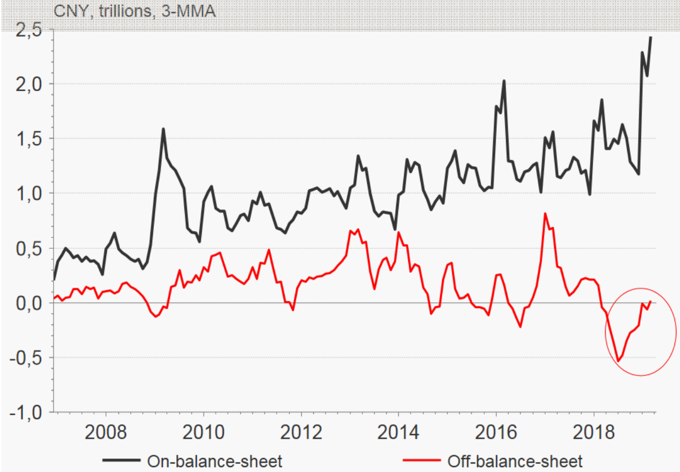
Four-quarter percentage changes




*Fuente: Thomson Reuters Datastream / ANDBANK*

**China net new total social financing**

CNY, trillions, 3-MMA




*Fuente: Thomson Reuters Datastream / ANDBANK*

**China price/earnings, Datastream index**

Ratio


*Fuente: Thomson Reuters Datastream / ANDBANK*

# INDIA

## The world's biggest democratic exercise kicks off (runs to May 19)

**Elections**

Confidence that Modi (a former tea-seller) can win a second term has grown in recent weeks. Earlier doubts followed a weak performance by his party late last year in elections in three states. However, sentiment has changed after India launched airstrikes against Pakistan in retaliation for a deadly car bombing. Voters appear to have liked Modi's strongman tactics. The market is pricing a Modi win as part of a coalition, compared to 2014 when his party won the first outright majority in three decades. We consider that stocks may rise further if Modi's BJP repeats its previous success.

**Growth to pick up to 7.3 % in 2019 and 7.5% in 2020**

According to the IMF's WEO, India is projected to grow at 7.3% in 2019 and 7.5 % in 2020, thus remaining the world's fastest growing major economy. In 2018, India's growth rate was 7.1%, as against China's 6.6%. looking ahead, India's growth is expected to stabilize at 7% over the medium term, based on the continued implementation of structural reforms and the easing of infrastructure bottlenecks. However, the report also stressed that continued fiscal consolidation is needed to bring down India's public debt and secure the economy's growth prospects. "In the near term, growth should be supported by strengthening goods and services tax compliance and the important steps that have been taken to strengthen financial sector balance sheets, including through accelerated resolution of non-performing assets under a simplified bankruptcy framework".

**"We are poised to become a US$5trn economy in 2024"**

Presenting the 2019-20 Budget, Finance Minister Piyush Goyal said the past five years of Prime Minister Narendra Modi-led government have witnessed a wave of next-generation structural reforms, which have set the stage for decades of high growth. Mr. Goyal also said the country is poised to become a USD 5-trillion economy in the next five years and aspires to become a USD 10-trillion economy in the next 8 years thereafter. During the last five years we have seen India being universally recognized as a bright spot of the global economy. IMF records show that India is the fastest-growing major economy in the world, with higher GDP growth in the past 5 years than under any previous government. From being the 11th largest economy in the world in 2013-14, India is now the 6th largest in the world. More importantly, besides generating high growth rate, the government managed to contain double-digit inflation and restored fiscal balance.

**Mass production of iPhones will begin in India, not China**

The president of Foxconn, Terry Gou, said that this year the iPhone will enter mass production in India. This is an important change for the largest Apple phone assembler, which has long concentrated such work in China. Apple has manufactured older phones at a plant in Bangalore for several years, but will now also assemble the latest models. Foxconn said it is ready to begin test production of the iPhones before starting large-scale assembly at its factory located in the city of Chennai (south of India). Why now? Apple has been losing share to local competitors such as Huawei and Xiaomi. Additionally, Indian legislation will help the Californian company avoid import tariffs of 20 percent.

**Financial market outlook**

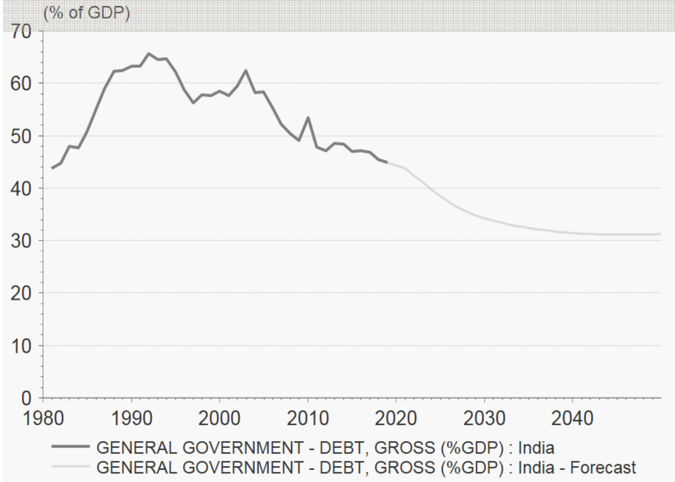
Equities – SENSEX Index: POSITIVE. Target price 40,850. Exit 42,885

Bonds – Govies: POSITIVE (target yield 6.80%)

Bonds – Corporates: POSITIVE

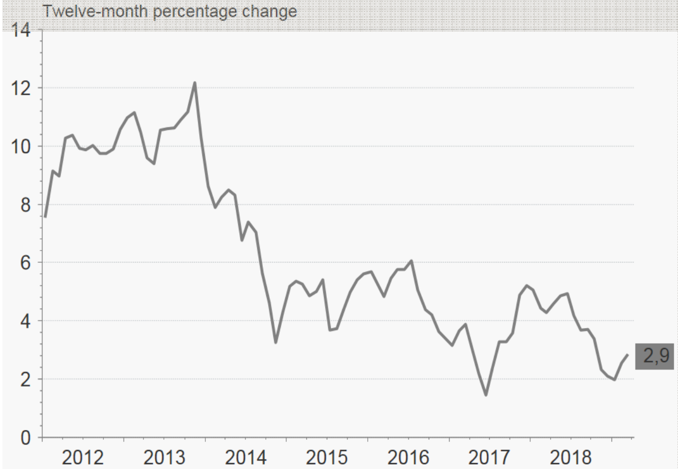
Forex – INR/USD: STABLE (target 72)

**INDIA - GENERAL GOVERNMENT DEBT**
(% of GDP)



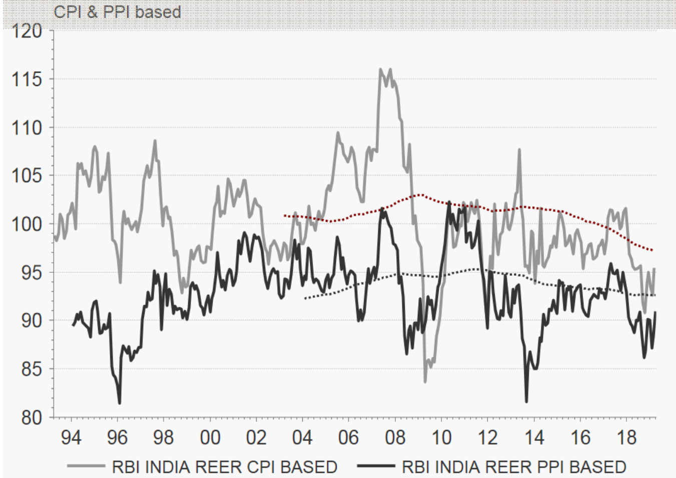

*Fuente: Thomson Reuters Datastream / ANDBANK*

**India CPI**
Twelve-month percentage change




*Fuente: Thomson Reuters Datastream / ANDBANK*

**Indian Rupee REER vs 6 currencies**
CPI & PPI based




*Fuente: Thomson Reuters Datastream / ANDBANK*

# ISRAEL

## The equity market has digested well the economic slowdown

**Politics**

The last few months were characterized by political uncertainty that affected Israeli capital markets. Elections for the Israeli parliament took place on April 9th and according to the results it appears that the current Israeli prime minister, Benjamin Netanyahu will hold his position and will lead the next government. The next minister of finance will have to deal with the deficit left by the previous government and reduce it.

**Central Bank, Monetary Policy and growth outlook**

Following the global slowdown, the Bank of Israel lowered its growth forecast for the coming year to 3.5% and left the interest rate at its current level of 0.25%. The recent strengthening of the shekel has made it difficult for the Monetary Committee to raise the interest rate. The IMF lowered its forecast growth for 2019 and 2020even more than the Bank of Israel did, to 3.3%, and estimated that unemployment would rise to 3.9% - 4%, with an inflation forecast well anchored at 0.9% in 2019. The slowdown in business sector indicators last month strengthened the case for believing the economy will continue to slow.

**Israeli Capital Markets. A quick assessment**

***Equity market:*** The Israeli stock market's financial reports season finished just before the elections to the Israeli parliament. Most companies, especially Small/Mid Cap ones, reported good results and continued growth. The Mid Cap index – TLV 90 has risen 12.6% YTD, compared to only 8.1% for the large cap TLV 35 index.

The TLV 90 (Mid caps) index includes many real estate companies which benefit from the low interest rate environment. Other companies in the TLV 90 are dual listed hi-tech companies who also trade in the U.S market. These tech companies, being highly correlated with the Nasdaq index, show double digit EPS growth and PE multiples. However, many local companies that are traded in the TLV 90 are priced around single digit PE multiples.

The large cap TLV 35 index is trading (as of April 21st) at its average PE ltm multiple of 14.2x, with a net 2018 earnings average growth of +10.2%.

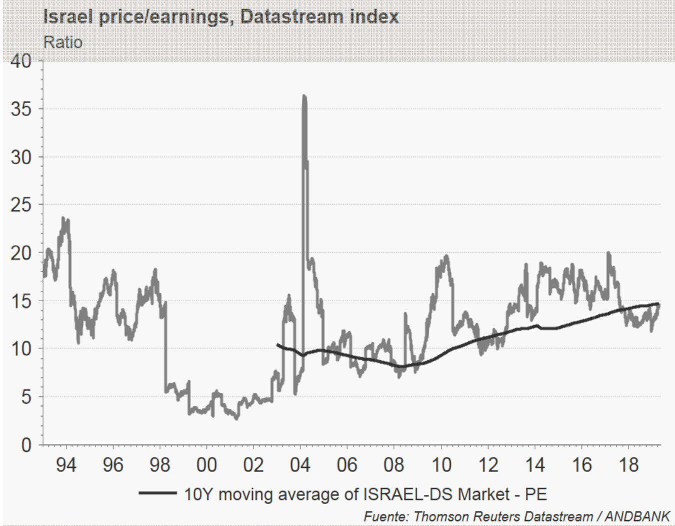
***Bond market:*** The Israeli bond market reacted to the US yield rise as expected, with a yield rise. The rise in oil prices and other commodities that have a strong effect on the Israeli CPI, renewed concerns of a rate hike. A short 2-year government bond can yield almost 0.55%, while the longer 10 year bond can yield close to 2%. The Israeli investment grade index Tel-Bond60 trades at a spread of just 1.07% vs the lows of the last six years. The Israeli high yield index "Tel-Bond-Tsuot", trades at 312bps spread (just 1.5% above its all time low).

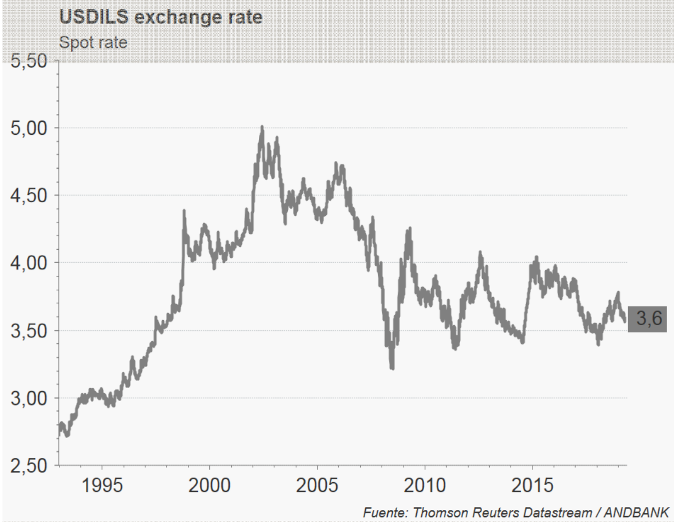
***Fx:*** From the beginning of 2019 the Israeli Shekel has gained almost 6% against the Euro.

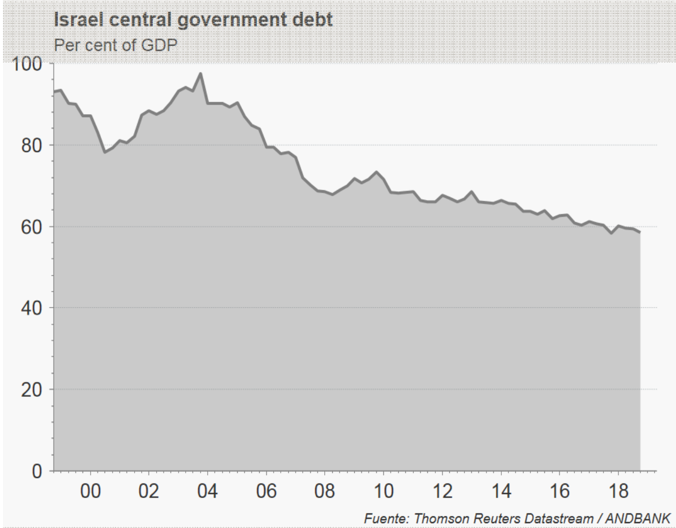
**Financial market outlook**

Equities – TLV35 Index: NEUTRAL (Fair valued)

Bonds – 10YGov USD: CHEAP (Current SPREAD over UST +105bp)



# MEXICO
## We still see upside potential in debt instruments. Not so much in equities

**Political Risk**

Indicators of insecurity have worsened nationally in the first months of the year, leading society to begin to question the solvency and capabilities of the new government. On Monday, April 29 construction of the new Santa Lucia airport begins after the cancellation of the Texcoco airport.

**Economics**

Investment, industrial production and the sales of department stores and self-service stores in Mexico continue to decline. Investment was down by more than 6% at the end of 2018. However, industrial production managed to recover slightly in December, putting a brake on 3 consecutive months of downturn. Inflation in Mexico in the first half of April again broke through the upper range of Banxico's long-term target, at around 4.4%. Underlying inflation also exceeded analysts' expectations, reaching 3.94%.

**Public Finance (February budget execution)**

Revenues remain below budget, although they showed an improvement as the use of oil tankers declined. VAT revenues in particular were down, linked to the slowdown in the local economy. Expenditure was below budget, particularly planned expenditure. It should be noted that cumulative investment in February was down 5.8% year-on-year, the figures having been surprisingly positive in the first part of the year.

The total budget deficit was MXN27,626 million (better than expected), while the primary budget outturn reported a surplus.

**Central Bank and Monetary Policy**

Banxico is keeping its benchmark rate unchanged following its revised outlook on future Fed decisions, as well as recent reductions in growth and inflation estimates for the year. The prospect of Banxico continuing to raise its rate has virtually disappeared. In fact, there is an increased perception it may cut rates towards the end of the year (50 percent probability).

**Investor mood for Mexican assets**

*Equities*: Equities have rallied (+11.72% in the IPC Index and 18% in the main US stock indices), but internal and external risks remain in place. In particular, the possibility of economic slowdown means defensive stocks should be selected. There is also the risk inherent in the uncertainty surrounding AMLO’s objectives as well as the possibility of revisions to the USMCA. Our 2019 fair value price for the IPC Index is 44,000, with an exit point at 46.200.

*Fixed Income*: We maintain a neutral to positive outlook, taking into account the downward movements throughout the entire reference curve thanks to the inflow of capital from carry trade activity. The M10 / UST10 spread is currently over 500 points, our target for this spread is 475bps. Given the local context, there is still a risk of Pemex's problems being transferred to Mexico's sovereign debt , which could put pressure on both the Mexican debt market and corporates. We expect USD / local debt spreads to remain unchanged at 175bps.

**Financial market outlook**

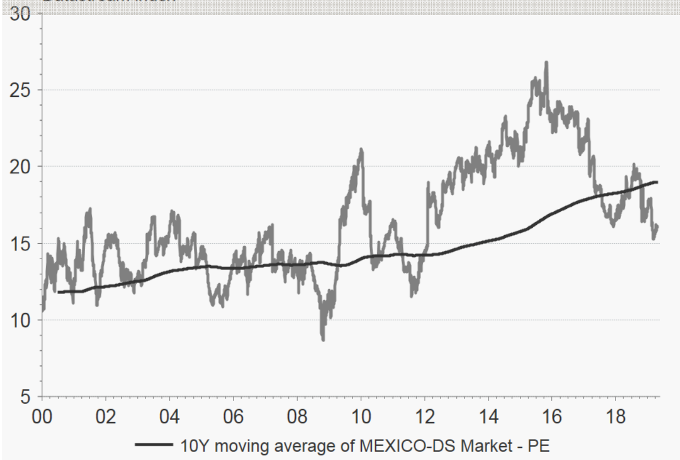
Equities – Mex IPC: NEUTRAL. Target 44,000. Exit 46,200

Bonds – Govies Local: NEUT-POS (Target spread 475, yield 7.75%)

Bonds – Govies USD: NEUTRAL (Target spread 175, yield 4.75%)

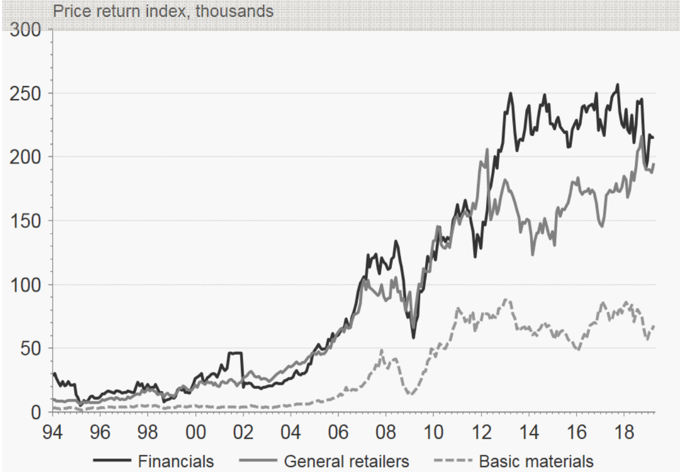
FX – MXN/USD: NEUTRAL-NEGATIVE (Mid-term target 20.00)

**Mexico equities price/earnings ratio**
Datastream index



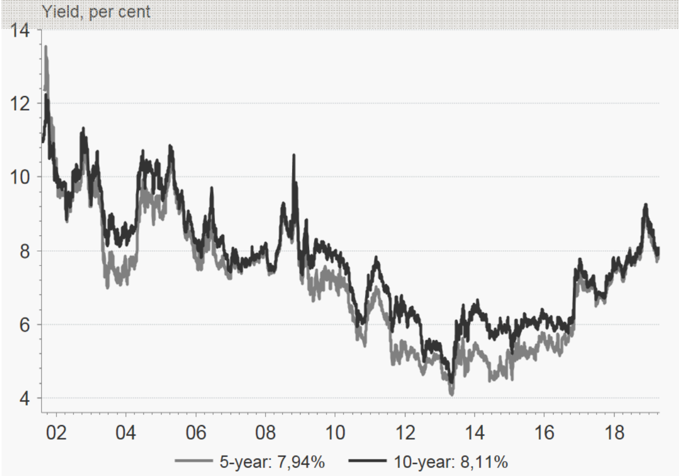

*Fuente: Thomson Reuters Datastream / ANDBANK*

**Mexico FTSE index**
Price return index, thousands




*Fuente: Thomson Reuters Datastream / ANDBANK*

**Mexico benchmark government bonds**
Yield, per cent




*Fuente: Thomson Reuters Datastream / ANDBANK*

# BRAZIL

## Pension reform faces political resistance as expected

**Politics: Noise on the political front**

Recent weeks have been noisy on the political front. It is unclear whether Bolsonaro's government, with its "new politics", can bring about the constitutional reforms it needs and there is increased uncertainty about the extent of the potential savings to be achieved when the pension reform is in place. The government is struggling to get its reforms past the Constitutional and Legal Affairs Committee (CCJ), a necessary first step for any amendment to the Constitution. The Committee stage focuses only on legal issues and is considered to be an easier process than the subsequent steps in the reform process. The lack of coordination within the government's congressional base is allowing opposition congress members to delay CCJ approval, which we expect will be obtained in late April. The bill will then go to the Special Committee, where some adjustments are expected. We believe that the expected savings will be around BRL700bn by the end of the process (some USD180bn or near 9% of GDP).

Jair Bolsonaro is taking a different approach from previous presidents to negotiations with Congress, based not on giving allies posts in the government structure but on negotiating common interests with specific groups in Congress. The success of this "new politics" is still uncertain and will likely cause further volatility in the markets. However, it does indicate there will be fewer incentives for corruption and a more republican approach to political discussion.

**Economics: economists adjust their projections, weaker activity ahead**

The latest economic figures have not been encouraging. The IBC-Br index, an economic activity indicator produced by the Central Bank, stood at -0.73% in February, well below market expectations of -0.25%. Services and retail figures were the main detractors this month. The slower than expected recovery of the labor market is pushing household consumption downwards, while wages are rising more slowly than anticipated. Inflation, however, has accelerated in the past two months, mainly due to transportation and food prices (the latter are now up 8.71% YoY, against an IPCA index of 4.58% YoY as of March).

The Central Bank has signaled that it will wait for further data to decide whether or not to cut the Selic rate further following the latest inflation numbers. GDP growth projections have been adjusted downwards. According to the Central Bank's "Boletim Focus", the market median forecast GDP growth in FY19 is now 1.71% (down from around 2.50% at the beginning of the year).

Banks have reduced their loan portfolios in the last few years while they digested the effects of the recession on their balance sheets, and are ready to lend again. After the severe recession of 2015-2016, companies have deleveraged, positioning their earnings to benefit strongly from an economic recovery through operational and financial leverage. Unlike other EM countries, Brazil has kept its external vulnerability very low, with a low projected current account deficit, large FDI inflows, foreign exchange reserves and negative net external public debt.

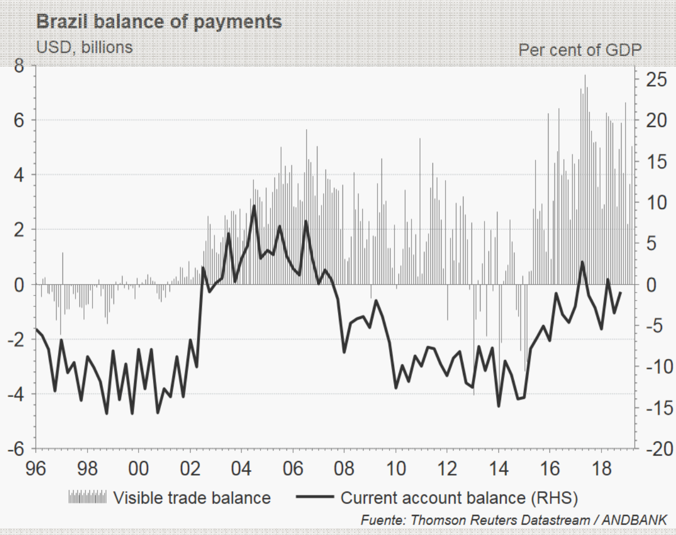
**Financial market outlook**

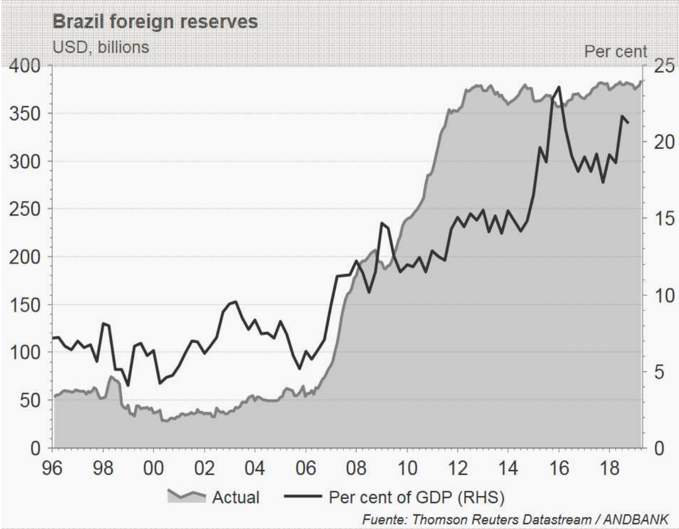
Equities – IBOVESPA: NEUTRAL (Target 94,200. Exit 103,600)

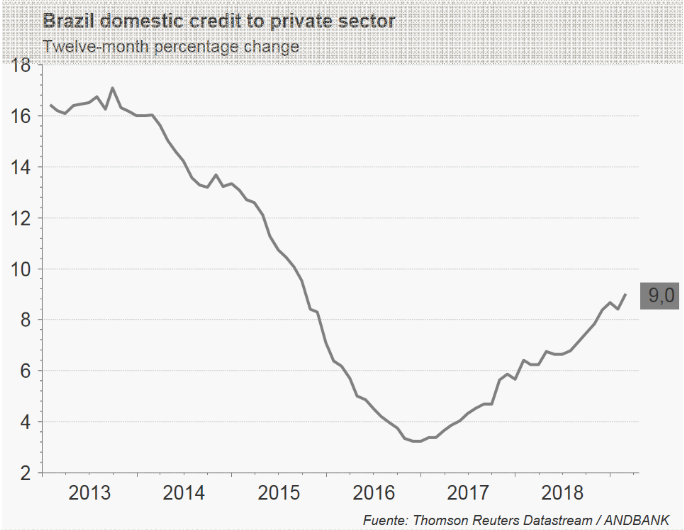
Bonds – Gov. Local: POSITIVE (Target spread 550bp. Yield 8.5%)

Bonds – Gov. USD: POSITIVE (Target spread 150bp. Yield 4.5%)

FX – BRL/USD: NEUTRAL (Mid-term target 3.75)



# ARGENTINA
## All-in for reelection

Once again inflation figures were disappointing. Prices rose 4.7% MoM in March (vs +3.8% MoM in February and +4.05% expected) which translates to +54.7% YoY. Seasonal fluctuations were the most significant factor, with education and clothing seeing the highest increases (+17.9% MoM and +6.6% MoM, respectively). On the same day the inflation figures were released, the BCRA announced changes to its FX framework: ending daily adjustments to the NIZ (the lower and upper bands are now fixed at 39.755 and 51.448), with a commitment to not buy USD if the peso goes below the NIZ until June 30.

### New package of economic and social measures

The next day the government announced: a) guidelines to keep the prices of 60 items, mostly food and beverages, frozen for 6 months (building on an existing initiative introduced under the Kirchner regimes); b) no further increases in electricity, gas and transport rates during the second half of the year; c) higher lending to pensioners and social security beneficiaries; d) measures to support SMEs (certain exemptions from export taxes). Some of these measures, particularly a) and c), aren't expected to have a significant economic impact but are actually intended to boost the government's approval ratings. On the other hand, tariff freezing will cost ARS 9BN (USD 214MN) and is expected to reduce 4Q19 inflation by 1-1.5 ppt. The government is using all the weapons it has left, applying short term patches that postpone the adjustment to next year in the hope that reelection will ease some pressures, such as FX, and finally bring country risk down significantly.

### Country risk shoots up and the electoral race turns tougher

Country risk has jumped to 851, its highest level since 2014. In addition, the latest polls show support increasing for CFK (between 35.9% and 39.8%) while voting intentions for Macri are down to between 28.8% and 31.2%. Lavagna is in third place at around 16.5%, but is gaining ground against the other two candidates if the voting goes to ballotage. CFK and Macri appear tied with little difference in a ballotage. A Presidential decree has banned the use of collective party lists ("colectoras"), a tool the Peronists were trying to use in Buenos Aires province, in particular.

### Some activity figures improving

Industrial production dropped -8.5% YoY in February (vs -10.8% YoY in January) but increased +2.4% MoM. The same happened with construction activity, falling -5.3% YoY in February (vs -15.7% YoY in January) and growing +8.3% MoM, the second monthly increase in a row and the highest since March 2017. In its REM for March, the BCRA has revised its GDP growth forecast for 2019 upward from -1.3% to -1.2%, while the opposite happened for 2020, as it reduced its previous growth forecast from +2.5% to +2.4%.

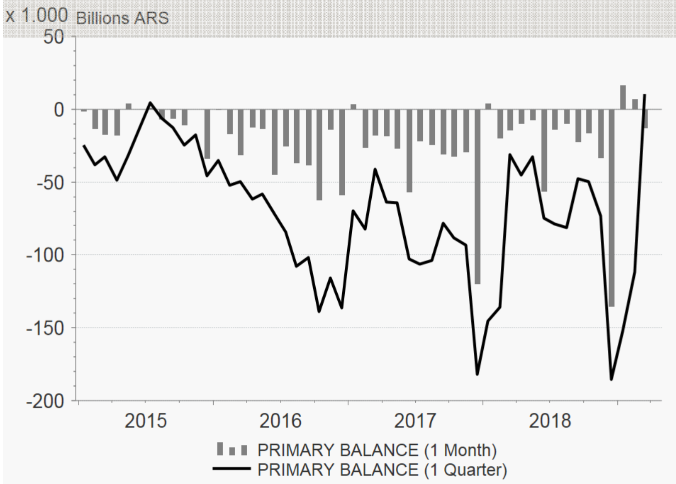
### Fx dynamics

On the 15th of April the BCRA started daily auctions for up to USD 60MN on behalf of the Treasury. In addition, agri-exports started to flow to the market in meaningful quantities. These, along with a reduced capital outflow risk, the changes to the FX framework and the shrinkage in ARS liquidity are supporting factors for the ARS. However, as we get closer to the elections, USD demand is expected to increase and, taking into account the BCRA's currently reduced capacity to intervene in FX, it makes sense that the latest REM shows an expected FX of 50 ARS/USD for December 2019.

### Financial market outlook

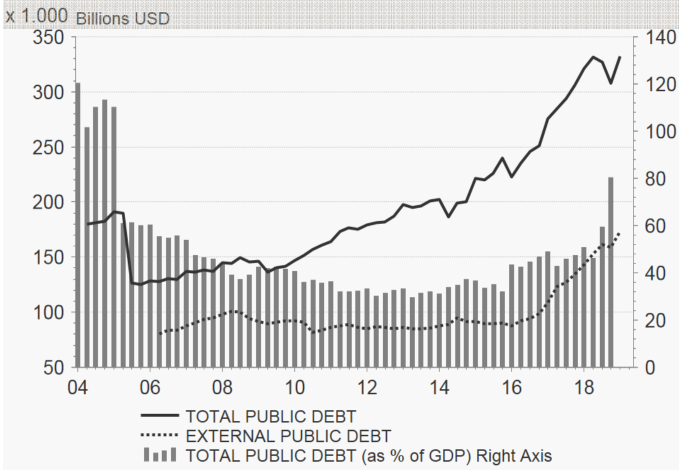
Bonds – 10YGov USD: NEUTRAL-POSITIVE. (Target yield 9.50%)
FX – USD-ARS: NEGATIVE (2019 year-end target 47)

ARGENTINE PRIMARY BALANCE



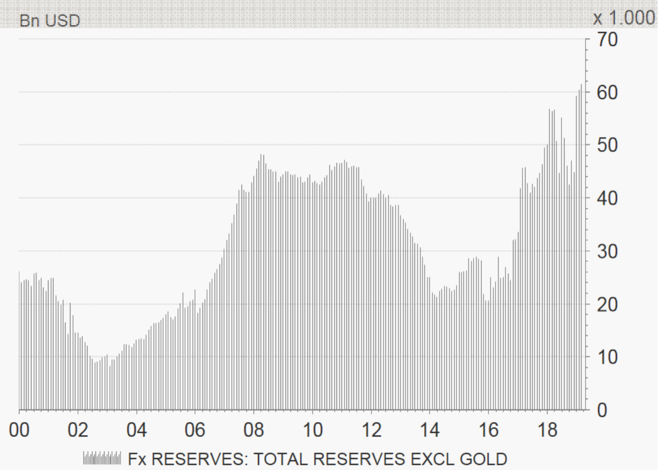

*Fuente: Thomson Reuters Datastream / ANDBANK*

ARGENTINA - TOTAL & EXTERNAL DEBT




*Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK*

ARGENTINA - FX RESERVES



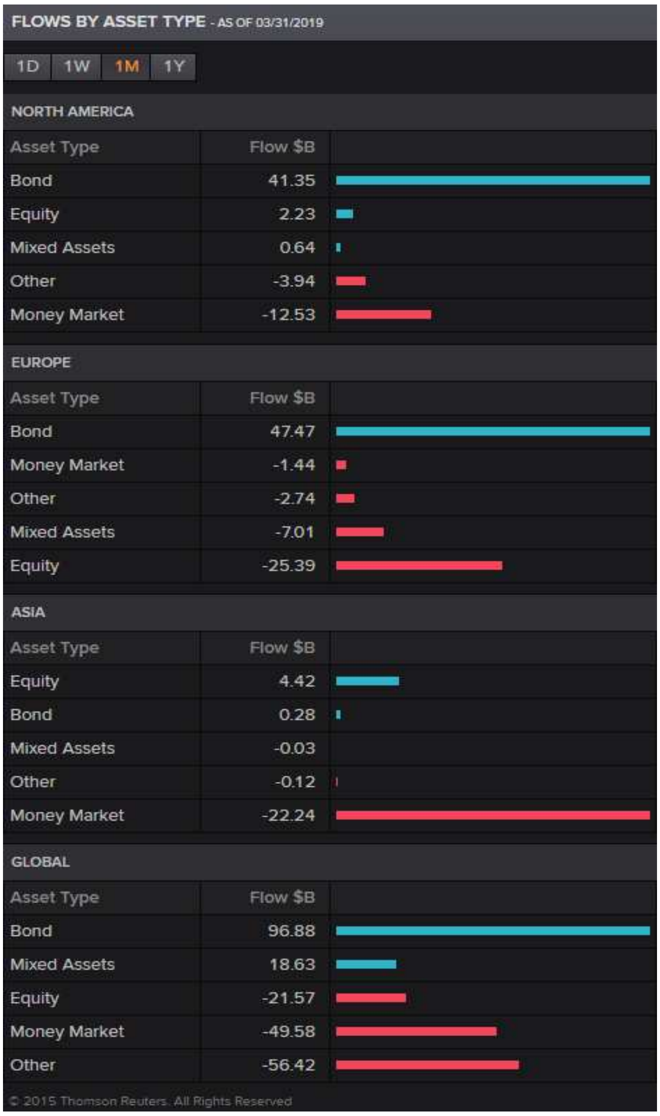

*Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK*

## GLOBAL EQUITY INDICES
# Fundamental assessment

| Index | Andbank's Sales growth 2019 | Sales per Share 2019 | Projected Net Margin 2019 | EPS 2019 | EPS Growth 2019 | Current PE ltm EPS 2018 | Dec 2019 PE ltm EPS 2019 | INDEX CURRENT PRICE | 2019 Central Point (Fundam range) | 2019 E[Perf] to Centr. Point | 2018 Exit Point |
|---|---|---|---|---|---|---|---|---|---|---|---|
| USA S&P 500 | 5,5% | 1.419 | 11,9% | 168 | 2,7% | 17,96 | 16,60 | 2.943 | 2.794 | -5,1% | 3.073 |
| Europe - Stoxx Europe 600 | 5,3% | 322 | 8,3% | 27 | 3,1% | 14,99 | 14,70 | 390 | 395 | 1,1% | 414 |
| Euro Zone - Euro Stoxx | 3,4% | 354 | 7,5% | 27 | 2,3% | 14,76 | 14,50 | 382 | 384 | 0,5% | 404 |
| Spain IBEX 35 | 3,5% | 8.242 | 9,5% | 779 | 3,5% | 12,68 | 12,50 | 9.537 | 9.736 | 2,1% | 10.223 |
| Mexico IPC GRAL | 6,7% | 37.453 | 7,9% | 2.975 | 1,0% | 15,27 | 14,80 | 44.957 | 44.035 | -2,1% | 46.237 |
| Brazil BOVESPA | 7,1% | 66.644 | 10,6% | 7.080 | 8,1% | 14,74 | 13,30 | 96.547 | 94.167 | -2,5% | 103.583 |
| Japan NIKKEI 225 | 5,6% | 22.928 | 6,3% | 1.445 | 3,1% | 15,39 | 15,40 | 21.557 | 22.250 | 3,2% | 23.362 |
| China SSE Comp. | 8,0% | 2.972 | 9,3% | 277 | 12,2% | 12,47 | 12,50 | 3.078 | 3.460 | 12,4% | 3.529 |
| China Shenzhen Comp | 8,2% | 1.603 | 6,3% | 100 | 14,6% | 18,67 | 18,50 | 1.637 | 1.857 | 13,5% | 1.950 |
| Hong Kong HANG SENG | 3,0% | 12.535 | 15,2% | 1.905 | 5,4% | 16,44 | 16,00 | 29.699 | 30.481 | 2,6% | 32.005 |
| India SENSEX | 10,1% | 18.808 | 10,9% | 2.042 | 16,6% | 22,28 | 20,00 | 39.032 | 40.843 | 4,6% | 42.885 |
| Vietnam VN Index | 8,4% | 690 | 9,0% | 62 | 10,8% | 17,43 | 17,00 | 980 | 1.059 | 8,1% | 1.112 |
| MSCI EM ASIA | 7,3% | 488 | 9,7% | 47 | 12,6% | 13,09 | 11,60 | 550 | 548 | -0,2% | 576 |

UPWARD REVISION DOWNWARD REVISION *ANDBANK ESTIMATES*

## GLOBAL FLOWS (Monthly)
# By Asset Type & Region




## TECHNICAL ANALYSIS
# Trending scenario.
# Supports & resistances (1 month)

**S&P: SIDEWAYS**
Support at 2.785. Resistance at 2,940

**STOXX600: SIDEWAYS**
Support at 372. Resistance at 394

**EUROSTOXX: SIDEWAYS**
Support at 359. Resistance at 391

**IBEX: SIDEWAYS-BULLISH**
Support at 9,106. Resistance at 9,671

**EUR-USD: SIDEWAYS-BULLISH**
Support at 1.117. Resistance at 1.148

**Oil (WTI): BULLISH**
Support at 57.8. Resistance at 71.4

**Gold: SIDEWAYS-BEARISH**
Support at 1,255. Resistance at 1,324

**US Treasury (Yield perspective): SIDEWAYS**
Support at 2.30%. Resistance at 2.80%

DEVELOPED MARKETS

# Fundamental assessment

**US Treasury: Floor 2.45%. Fair value 3.2%. Ceiling 3.60%**

**Swap spread:** The swap spread swung into negative territory again at -2.5bp (from 8.4bp last month). For this spread to normalize at +5 bp, with the swap rate anchored in the 2.5% area (according to our inflation expectation), the 10Y UST yield would have to move towards 2.45%.

**Slope:** The slope of the US yield curve rose to 19bp (from 14bp last month). With the short end normalizing towards 2% (today at 2.4%), to reach the long-term average slope (of 161 bp) the 10Y UST yield would have to move to 3.61%.

**Real yield**: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2%-2.25%, the UST yield would have to rise to 3-3.25% to become a "BUY".

**GER Bund: Floor 0.64%. Fair value 1.30%. Ceiling 2.2%**

**Swap spread:** The swap spread rose to 50bp (from 46bp last month). For the swap spread to normalize at 36 bp, with the swap rate anchored in the 1.00% area (today at 0.57%), the Bund yield would have to move towards 0.64% (entry point).

**Slope:** The slope of the EUR curve fell to 62bp (from 70bp last month). If the short end "normalizes" in the 0% area (today at -0.56%), to reach the 10Y average yield curve slope (130 bp) the Bund yield would have to move to 1.30%.

**Real yield:** A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI forecast of 1.2%, the Bund yield would have to rise to 2.2% to become a "BUY".

**UK Gilt: Fair value 1.9%. Ceiling 3.2%**

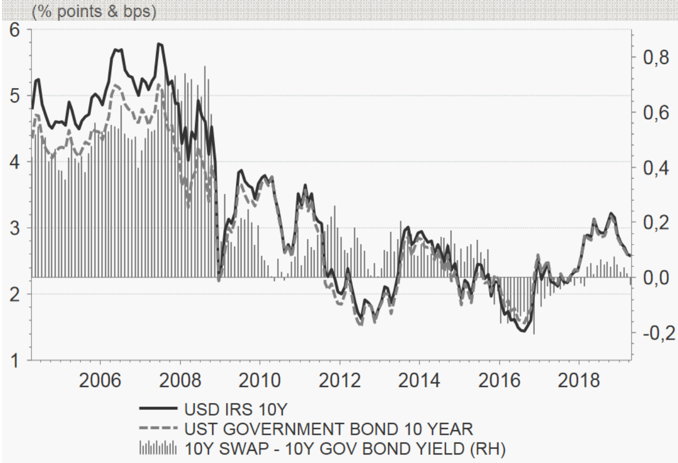
**Swap spread:** The swap spread fell to 16bp (from 22bp last month). For the swap spread to normalize at 11 bp, with the swap rate anchored in the 2% area (today at 1.4%), the 10Y UK Gilt would have to shift to 1.89%.

**Slope:** With a 2Y bond normalized at 1%, to reach the average slope at 1.6%, the 10Y Gilt would have to move to 2.6%.

**Real yield:** Expectations are for FY19 inflation to ease to 2.2%. A 1% real yield means the 10Y gilt should be at 3.2%.

**SWAP SPREAD USD**

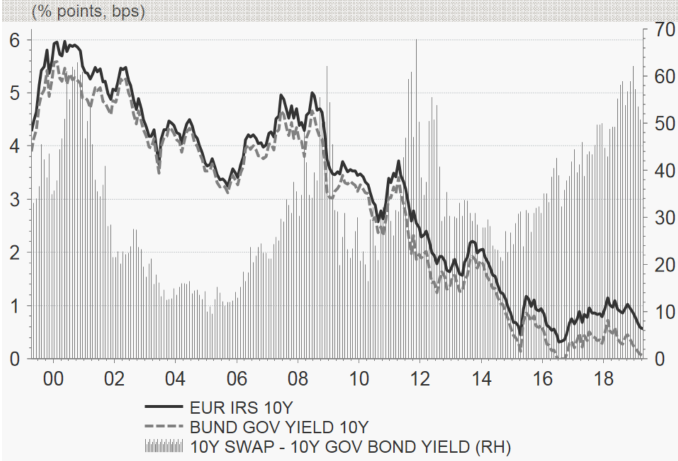
(% points & bps)




*Fuente: Thomson Reuters Datastream / Fathom Consulting*

**SWAP SPREAD EUR**

(% points, bps)




*Fuente: Thomson Reuters Datastream / Fathom Consulting*

EUROPEAN PERIPHERAL BONDS

# Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.35%

Italian bond BTPI: Target yield at 2.45%

Portuguese Gov bond: Target yield at 1.65%

Ireland Gov bond: Target yield at 0.65%

Greece Gov bond: Target yield at 3.95%

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) Last reading | 10 Year Yield Real | Projected change in Yield | Target Yield |
|---|---|---|---|---|---|---|
| EM ASIA | Indonesia | 7,76% | 2,48% | 5,28% | -1,00% | 6,76% |
| | India | 7,41% | 2,81% | 4,60% | -1,00% | 6,41% |
| | Philippines | 6,01% | 3,30% | 2,71% | -0,75% | 5,26% |
| | China | 3,39% | 2,30% | 1,09% | -0,50% | 2,89% |
| | Malaysia | 3,78% | -0,42% | 4,20% | -1,00% | 2,78% |
| | Thailand | 2,42% | 1,25% | 1,17% | -0,50% | 1,92% |
| | Singapore | 2,15% | 0,47% | 1,68% | -0,50% | 1,65% |
| | South Korea | 1,77% | 0,38% | 1,39% | -0,50% | 1,27% |
| | Taiwan | 0,73% | 0,57% | 0,16% | 0,00% | 0,73% |
| EME | Turkey | 18,68% | 19,71% | -1,03% | 1,00% | 19,68% |
| | Russian Fed | 8,14% | 5,30% | 2,84% | -0,75% | 7,39% |
| LATAM | Brazil | 8,98% | 4,67% | 4,31% | -1,00% | 7,98% |
| | Mexico | 8,09% | 4,04% | 4,05% | -1,00% | 7,09% |
| | Colombia | 6,59% | 3,15% | 3,44% | -1,00% | 5,59% |
| | Peru | 5,54% | 2,23% | 3,30% | -1,00% | 4,54% |

ENERGY – OIL

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

Buy < USD45; Sell >65

## Short-term drivers

***(Price Positive) – The White House announced that it would not grant any more extensions to waivers on Iranian sanctions.*** Prices are still pushing higher despite pledges from Saudi Arabia and UAE to increase output if Iranian exports collapse. The decision to not renew sanctions waivers for buyers of Iranian crude threatens to squeeze global supplies in a market that is already facing supply disruptions. An Iranian military official said it would close the Strait of Hormuz if the country is prevented from using it.

***(Price Negative) – Saudi Arabia, UAE pledge to boost output by 1.5M bpd.*** Saudi Arabia's energy minister Khalid Al-Falih said that the kingdom will work with other producers to ensure adequate supplies are available and that the market doesn't go out of balance. The Saudis and UAE could increase their combined production by 1.5M bpd within a short period, which is more than the 1.1M bpd of crude and condensate oil that Iran shipped in the first two weeks of April, and more than the 700-800K bpd that could be removed from the global markets in the short term due to the elimination of waivers. This is in line with Trump's statement that Saudi Arabia and other OPEC nations could "more than make up" for any shortfall Iranian exports. The comments followed a report last week suggesting that any decision by the Trump administration on Iran sanctions would likely be tied to production increases by Saudi Arabia. Assessing the impact of the end of waivers on global prices is difficult. The decision to not renew sanctions waivers for buyers of Iranian crude threatens to squeeze global supplies in a market that is already facing supply disruptions. At the same time, the decision could jeopardize the output cut deal between OPEC and its allies (giving place to a rise in global output). Analysts in the energy sector detailed how the decision will make it harder for OPEC and its allies to maintain supply discipline. Russia has already hesitated over extending the cuts, while increased output from Saudi Arabia could make it difficult to persuade others to limit their own production.   Kuwait's oil minister Khaled Al Fadhel said that the American sanctions would be a hot topic at the Joint Ministerial Monitoring Committee meeting next month, but that a decision would be made only after reviewing oil prices and understanding how that would influence prices. Analysts from Barclays said that the decision to end waivers pushes up the Brent price forecast for this year by $5 to $70 a barrel, though argued the move doesn't affect the longer-term price outlook. The bank's analysts also said that the decision increases the risk of conflict in the Middle East

***(Price Negative) – OPEC+ agreement was in danger of imploding at its December meeting*** amid acrimony around troubled states such as Venezuela and Libya as well as pressure from the US to keep prices low. Intervention from Russia was critical to resolving the crisis. As OPEC has recently lurched from crisis to crisis, Russia has used its influence as a major global producer to help. However, there has been recent uncertainty about whether Russia will continue to cooperate in the group's production-cut pact beyond June. In fact, reports have been released saying that Russian Finance Minister Anton Siluanov pointed his country faces a dilemma, either to lose market share to the US or quit the OPEC+ deal. Siluanov added that if the deal is abandoned, oil prices would go down but could pressure shale (where production costs are higher). The minister stressed there had been no decision made about the OPEC+ agreement beyond June.

***(Price Negative) – EIA sees likely shale output rise in May:*** EIA's monthly Drilling Productivity Report shows US crude output from seven major shale formations is expected to rise in May by ~80K bpd to hit a record of 8.46M bpd. The article notes that the largest change is expected in the Permian, where output is expected to rise by 42K bpd to a new peak of 4.14M bpd. It adds that production growth in the Permian and other basins has slowed in response to Q4's price slump as well as spending cuts driven by investor pressure to focus on earnings growth, though it observes major oil companies are boosting their shale presence, particularly in the Permian.

## Long-term drivers

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

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

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

PRECIOUS METALS - GOLD

# Fundamental price for gold at US$1,100/oz. Sell above US$1,300

## Negative drivers

**Gold in real terms:** In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) fell to US$1,144 (from US$1,169 last month). In real terms, gold continues to trade well above its 20-year average of US$899. Given the global deflator (now at 1.11258), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,001.

**Gold to Silver** (Preference for store of value over productive assets): This ratio rose to 85.08x (from 84.99x last month) but still remains well above its 20-year average of 63x, 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$946/oz.

**Gold to Oil:** This ratio fell during the month to 19.98x (from 22.25x last month), still well above its 20-year average of 14.99x. Considering our fundamental long-term target for oil of US$50pb (our central target for the long term) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$750 for this ratio to remain near its LT average.

**Speculative positioning**: CFTC 100oz Active Future non-commercial contracts: Longs are now fixed at 199k (from 205k last month). Short contracts fell to 94.1k (from 126k). Thus, the net position rose to 105k contracts during the month (from +78k the previous month), suggesting that speculators' appetite for gold has "increased" somewhat recently.

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

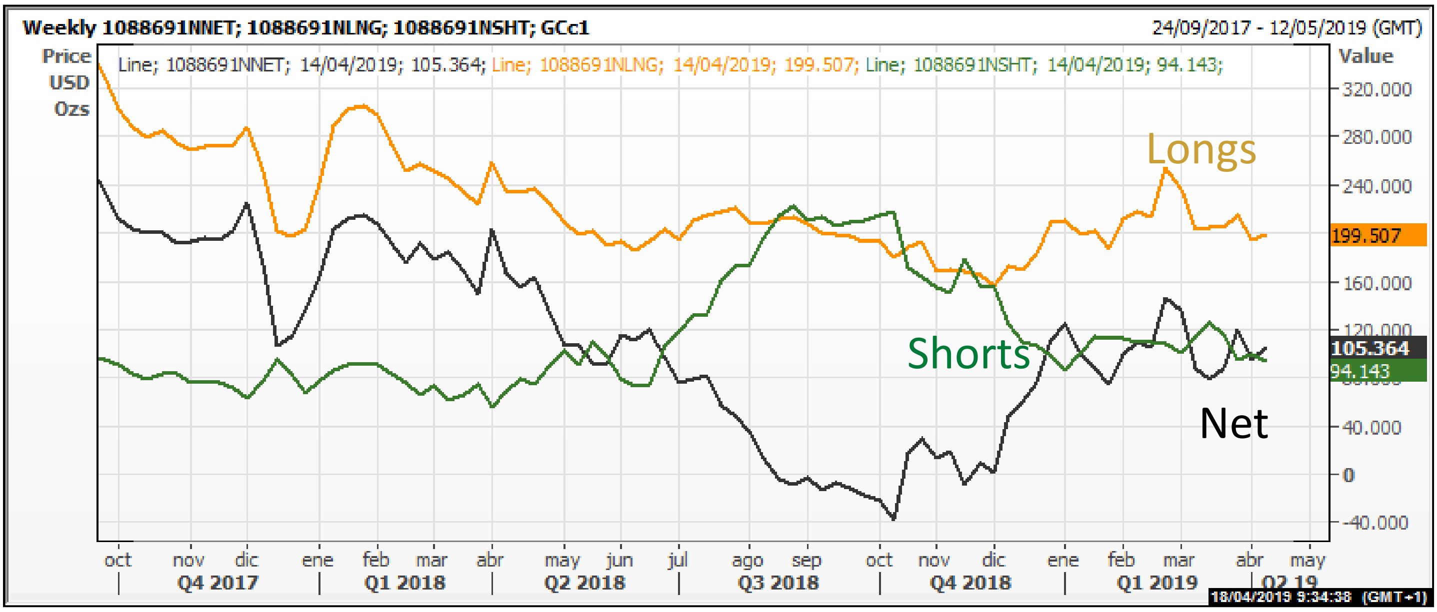
**Demonetization in India.** Demonetization forced millions of households to use formal banking services for the first time, helping to integrate them into the formal economy. The move will help mobilize billions of dollars in savings that were residing in unproductive physical assets such as gold.

## Positive drivers

**Gold to the S&P500:** This ratio fell to 0.44x (from 0.46x last month) but is still well below its LT average of 0.60x. Given our target price for the S&P of US$2,800, the price of gold must approach US$1,680 for this ratio to remain near its LT average.

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

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



EXCHANGE RATES

# Flow analysis & Fundamental targets

**EUR-USD: Fundamental mid-term 2019 target at 1.125**

Global positioning in the dollar increased again in the derivatives market during the last month, with a 3-year z-score at levels of 1.30 (vs. 1.22 in the previous month). Though not at extreme levels, net long speculative positions in the greenback are considerable. It came as no surprise to us that speculators financed their long positions in USD through short positions in developed currencies of the G10 (GAB). Looking at the table (below) in detail, we can see how the long USD position is essentially financed by short positions in EUR, CAD, AUD and CHF. Of particular note is how investors have also increased their net long position in emerging market currencies (up to a market value of 5bn USD), reaching a 3-year record high (as reflected by a Z-score of 2.33x). This suggests that investors think the US economy will perform well, as will emerging market economies in the coming months. The other reading is that these EM currencies would now be more overbought than oversold, especially in the case of the MXN and the RUB. This would not be the case for the BRL, which we consider oversold (as reflected by the -1,07 Z-score). Our **fundamental discussion** sticks with our structural bullish view on the USD against the EUR, with a mid-term target at 1.125, without ruling out increases in the European currency to 1.15, due to a reversal of speculative flows. Our **technical analysis** within the Investment Committee indicated a sideways-bullish 1-month view, with the EUR-USD now facing a key support at 1.117, with resistance at 1.148.

**USD-JPY:** Target 114; **EUR-JPY**: Target 128,25

In our view, several aspects suggest that JPY should not appreciate versus the USD: (1) Although the Fed hints that it will ease off on cutting its balance sheet, the truth is that, although at a lower rate, it will continue to do so, while the BoJ will probably continue to expand its balance sheet and the money supply, making USD more attractive (or JPY less appealing). (2) 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 0.10% there is little prospect that Japanese real yields will rise.

**GBP-USD:** Target 1.37; **EUR-GBP**: Target 0,82

**USD-CHF:** Target 0.98; **EUR-CHF:** Target 1,10

**USD-MXN:** Target 20; **EUR-MXN:** Target 22,50

**USD-BRL:** Target 3.75; **EUR-BRL:** Target 4,22

**USD-ARS:** Target 47

**USD-INR:** Target 72

**CNY:** Target 6,7

**RUB:** NEGATIVE

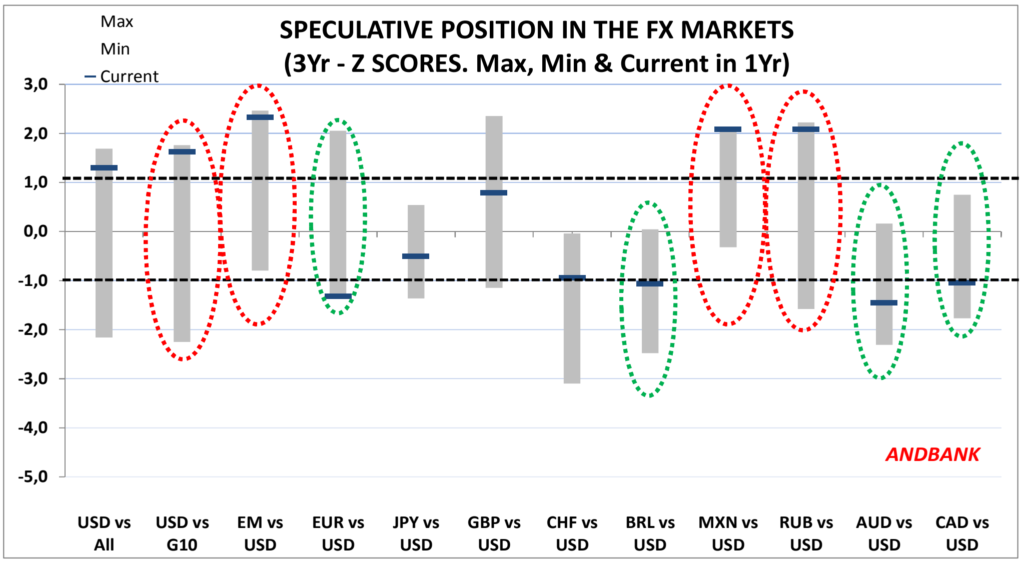
**AUD:** POSITIVE

**CAD:** POSITIVE

Positive
Neutral-Positive
Neutral-Negative
Negative

| 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 | 28,70 | 2,36 | 32,1 | -28,2 | 13,9 | **1,30** |
| USD vs G10 | 33,70 | 4,67 | 33,7 | -25,4 | 14,4 | **1,62** |
| EM | 5,00 | 2,32 | 5,0 | -0,8 | 1,3 | **2,33** |
| EUR | -14,39 | -3,70 | 23,4 | -14,4 | 1,9 | **-1,32** |
| JPY | -8,05 | -1,45 | 0,6 | -12,8 | -5,6 | **-0,50** |
| GBP | -0,53 | 2,47 | 4,3 | -6,5 | -2,2 | **0,79** |
| CHF | -3,52 | -0,63 | 0,0 | -6,0 | -3,2 | **-0,94** |
| BRL | -0,38 | -0,27 | 0,1 | -0,8 | -0,4 | **-1,07** |
| MXN | 4,11 | 2,16 | 4,1 | -0,5 | 1,3 | **2,08** |
| RUB | 1,28 | 0,42 | 1,3 | -0,2 | 0,4 | **2,09** |
| AUD | -3,88 | -0,78 | 1,4 | -5,2 | -2,8 | **-1,46** |
| CAD | -3,24 | -0,17 | 1,9 | -5,0 | -1,9 | **-1,05** |

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 2019 | Expected Performance 2019 |
|---|---|---|---|---|---|---|
| **Equity** | USA - S&P 500 | 2,6% | 17,4% | 2.943 | 2794 | -5,1% |
| | Europe - Stoxx Europe 600 | 1,8% | 15,9% | 390 | 395 | 1,1% |
| | Euro Zone - Euro Stoxx | 3,0% | 16,6% | 382 | 384 | 0,5% |
| | SPAIN - IBEX 35 | 2,1% | 0,11 | 9.537 | 9.736 | 2,1% |
| | MEXICO - MXSE IPC | 2,9% | 8,0% | 44.957 | 44.035 | -2,1% |
| | BRAZIL - BOVESPA | 0,5% | 9,4% | 96.547 | 94167 | -2,5% |
| | JAPAN - NIKKEI 225 | 4,4% | 11,2% | 21.557 | 22250 | 3,2% |
| | CHINA - SHANGHAI COMPOSITE | -2,9% | 23,4% | 3.078 | 3460 | 12,4% |
| | CHINA - SHENZEN COMPOSITE | -6,8% | 29,1% | 1.637 | 1857 | 13,5% |
| | INDIA - SENSEX | 0,4% | 8,3% | 39.032 | 40.843 | 4,6% |
| | MSCI EM ASIA (in USD) | 1,2% | 13,2% | 550 | 548 | -0,2% |
| **Fixed Income Core countries** | US Treasury 10 year Govie | 0,0% | 2,1% | 2,53 | 3,00 | -2,1% |
| | UK 10 year Gilt | -1,1% | 1,1% | 1,19 | 2,00 | -5,7% |
| | German 10 year BUND | -0,5% | 1,7% | 0,03 | 0,35 | -2,5% |
| | Japanese 10 year Govie | -0,3% | 0,4% | -0,05 | 0,10 | -1,2% |
| **Fixed Income Peripheral** | Spain - 10yr Gov bond | 1,0% | 3,7% | 1,01 | 1,35 | -2,0% |
| | Italy - 10yr Gov bond | -0,7% | 1,7% | 2,61 | 2,45 | 3,0% |
| | Portugal - 10yr Gov bond | 1,3% | 5,3% | 1,12 | 1,65 | -3,5% |
| | Ireland - 10yr Gov bond | 0,0% | 2,8% | 0,57 | 0,65 | -0,2% |
| | Greece - 10yr Gov bond | 2,4% | 9,0% | 3,35 | 3,95 | -2,5% |
| **Fixed Income Credit** | Credit EUR IG-Itraxx Europe | 0,2% | 1,1% | 57,95 | 92 | -1,9% |
| | Credit EUR HY-Itraxx Xover | 0,3% | 4,0% | 257,54 | 350 | -2,3% |
| | Credit USD IG - CDX IG | 0,3% | 1,1% | 57,80 | 70 | 0,2% |
| | Credit USD HY - CDX HY | 0,9% | 5,1% | 325,87 | 450 | -1,4% |
| **Fixed Income EM Europe (Loc)** | Turkey - 10yr Gov bond | -14,8% | -17,4% | 18,68 | 15,00 | 48,1% |
| | Russia - 10yr Gov bond | 2,7% | 7,2% | 8,14 | 7,70 | 11,7% |
| **Fixed Income Asia** (Local curncy) | Indonesia - 10yr Gov bond | -1,0% | 3,6% | 7,76 | 7,25 | 11,8% |
| | India - 10yr Gov bond | 0,0% | 2,0% | 7,41 | 6,80 | 12,3% |
| | Philippines - 10yr Gov bond | -1,9% | 10,5% | 6,01 | 5,75 | 8,1% |
| | China - 10yr Gov bond | -2,3% | -0,9% | 3,39 | 2,75 | 8,5% |
| | Malaysia - 10yr Gov bond | 0,2% | 3,7% | 3,78 | 3,25 | 8,0% |
| | Thailand - 10yr Gov bond | 0,4% | 0,4% | 2,42 | 2,00 | 5,8% |
| | Singapore - 10yr Gov bond | -0,6% | -0,4% | 2,15 | 1,75 | 5,3% |
| | South Korea - 10yr Gov bond | 0,3% | 1,6% | 1,77 | 1,40 | 4,7% |
| | Taiwan - 10yr Gov bond | 0,3% | 1,3% | 0,73 | 0,75 | 0,5% |
| **Fixed Income Latam** | Mexico - 10yr Govie (Loc) | -0,2% | 7,1% | 8,09 | 7,75 | 10,8% |
| | Mexico - 10yr Govie (USD) | 1,2% | 6,6% | 4,28 | 4,75 | 0,5% |
| | Brazil - 10yr Govie (Loc) | -0,6% | 4,8% | 8,98 | 8,50 | 12,8% |
| | Brazil - 10yr Govie (USD) | 0,0% | 5,6% | 4,97 | 4,50 | 8,8% |
| | Argentina - 10yr Govie (USD) | -16,1% | -4,2% | 12,48 | 9,50 | 36,4% |
| **Commodities** | Oil (WTI) | 4,2% | 41,3% | 64,2 | 50,00 | -22,1% |
| | GOLD | -0,2% | 0,1% | 1.284,6 | 1.100 | -14,4% |
| **Fx** | EURUSD (price of 1 EUR) | 0,0% | -2,2% | 1,121 | 1,125 | 0,3% |
| | GBPUSD (price of 1 GBP) | -0,8% | 1,8% | 1,30 | 1,37 | 5,5% |
| | EURGBP (price of 1 EUR) | 0,8% | -3,9% | 0,86 | 0,82 | -4,8% |
| | USDCHF (price of 1 USD) | 2,0% | 3,8% | 1,02 | 0,98 | -4,1% |
| | EURCHF (price of 1 EUR) | 2,0% | 1,5% | 1,14 | 1,10 | -3,7% |
| | USDJPY (price of 1 USD) | 0,0% | 1,6% | 111,30 | 114,00 | 2,4% |
| | EURJPY (price of 1 EUR) | 0,0% | -0,7% | 124,83 | 128,25 | 2,7% |
| | USDMXN (price of 1 USD) | -0,7% | -3,3% | 19,00 | 20,00 | 5,3% |
| | EURMXN (price of 1 EUR) | -0,7% | -5,4% | 21,30 | 22,50 | 5,6% |
| | USDBRL (price of 1 USD) | 2,4% | 1,6% | 3,94 | 3,75 | -4,9% |
| | EURBRL (price of 1 EUR) | 2,4% | -0,6% | 4,42 | 4,22 | -4,6% |
| | USDARS (price of 1 USD) | 3,8% | 17,8% | 44,31 | 47,00 | 6,1% |
| | USDINR (price of 1 USD) | 0,8% | 0,3% | 69,76 | 72,00 | 3,2% |
| | CNY (price of 1 USD) | 0,4% | -2,1% | 6,73 | 6,70 | -0,5% |

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

UPWARD REVISION DOWNWARD REVISION

ASSET ALLOCATION & RISK TOLERANCE

# Monthly asset & currency allocation proposal

| | Conservative | | Moderate | | Balanced | | Growth | |
|---|---|---|---|---|---|---|---|---|
| **Asset Class** | Strategic (%) | Tactical (%) | Strategic (%) | Tactical (%) | Strategic (%) | Tactical (%) | Strategic (%) | Tactical (%) |
| **Cash** | **15,0** | **21,9** | **10,0** | **16,2** | **5,0** | **10,8** | **5,0** | **6,5** |
| **Short-Term debt & MM instrument** | **25,0** | **33,1** | **15,0** | **21,9** | **5,0** | **9,8** | **0,0** | **3,3** |
| **Fixed Income Long-Term - OECD** | **30,0** | **21,0** | **20,0** | **14,0** | **15,0** | **10,5** | **5,0** | **3,5** |
| US Gov & Municipals & Agencies | | 15,8 | | 10,5 | | 7,9 | | 2,6 |
| EU Gov & Municipals & Agencies | | 1,1 | | 0,7 | | 0,5 | | 0,2 |
| European Peripheral Risk | | 4,2 | | 2,8 | | 2,1 | | 0,7 |
| **Credit (OECD)** | **20,0** | **14,0** | **20,0** | **14,0** | **15,0** | **10,5** | **5,0** | **3,5** |
| Investment Grade USD | | 8,4 | | 8,4 | | 6,3 | | 2,1 |
| High Yield Grade USD | | 2,8 | | 2,8 | | 2,1 | | 0,7 |
| Investment Grade EUR | | 2,1 | | 2,1 | | 1,6 | | 0,5 |
| High Yield Grade EUR | | 0,7 | | 0,7 | | 0,5 | | 0,2 |
| **Fixed Income Emerging Markets** | **5,0** | **5,3** | **7,5** | **7,9** | **10,0** | **10,5** | **15,0** | **15,8** |
| Latam Sovereign | | 1,6 | | 2,4 | | 3,2 | | 4,7 |
| Latam Credit | | 1,3 | | 2,0 | | 2,6 | | 3,9 |
| Asia Sovereign | | 1,6 | | 2,4 | | 3,2 | | 4,7 |
| Asia Credit | | 0,8 | | 1,2 | | 1,6 | | 2,4 |
| **Equity OECD** | **5,0** | **4,8** | **20,0** | **19,0** | **32,5** | **30,9** | **50,0** | **47,5** |
| US Equity | | 2,4 | | 9,5 | | 15,4 | | 23,8 |
| European Equity | | 1,9 | | 7,6 | | 12,4 | | 19,0 |
| Japan Equity | | 0,5 | | 1,9 | | 3,1 | | 4,8 |
| **Equity Emerging** | **0,0** | **0,0** | **5,0** | **5,0** | **10,0** | **10,0** | **10,0** | **10,0** |
| Asian Equity | | 0,0 | | 3,0 | | 6,0 | | 6,0 |
| Latam Equity | | 0,0 | | 2,0 | | 4,0 | | 4,0 |
| **Commodities** | **0,0** | **0,0** | **2,5** | **2,0** | **5,0** | **4,0** | **5,0** | **4,0** |
| Energy | | 0,0 | | 0,3 | | 0,6 | | 0,6 |
| Minerals & Metals | | 0,0 | | 0,5 | | 1,0 | | 1,0 |
| Precious | | 0,0 | | 0,8 | | 1,6 | | 1,6 |
| Agriculture | | 0,0 | | 0,4 | | 0,8 | | 0,8 |
| **Alternative Investments** | **0,0** | **0,0** | **0,0** | **0,0** | **2,5** | **3,0** | **5,0** | **6,0** |
| REITs | | 0,0 | | 0,0 | | 0,8 | | 1,5 |
| Alt.Energy (wind, solar, etc) | | 0,0 | | 0,0 | | 0,8 | | 1,5 |
| Market Neutral | | 0,0 | | 0,0 | | 1,1 | | 2,1 |
| Volatility | | 0,0 | | 0,0 | | 0,5 | | 0,9 |
| **Currency Exposure (European investor perspective)** | | | | | | | | |
| EUR | | 95,0 | | 91,5 | | 87,8 | | 84,0 |
| USD | | 5,0 | | 8,5 | | 12,2 | | 16,0 |

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

## PRINCIPAL CONTRIBUTORS



**T**ogether
**E**veryone
**A**chieves
**M**ore

**Giuseppe Mazzeo**
US Economics, Rates & Equity
+1 786 471 2426

**Eduardo Anton**
US Corporate Credit IG & HY
+1 305 702 0601

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

**Ricardo Braga**
Brazil Macro, Politics, Rates & FX
+55 11 3095 7075

**Gabriel Lopes**
Brazil Bonds and Equity
+55 11 3095 7075

**Marian Fernández**
Europe Macro, ECB & Gov. bonds
+34 639 30 43 61

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

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

**Carlos Hernández**
Global Technical Analysis
+376 873 381

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

**Alex Fusté**
EM Asia & Japan: Bonds, Equities & 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.
This document cannot be considered in any way as a selling proposition or offer of the products or financial assets mentioned herein, and all the information included is provided for illustrative purposes only and cannot be considered as the only factor in the decision to make a certain 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.