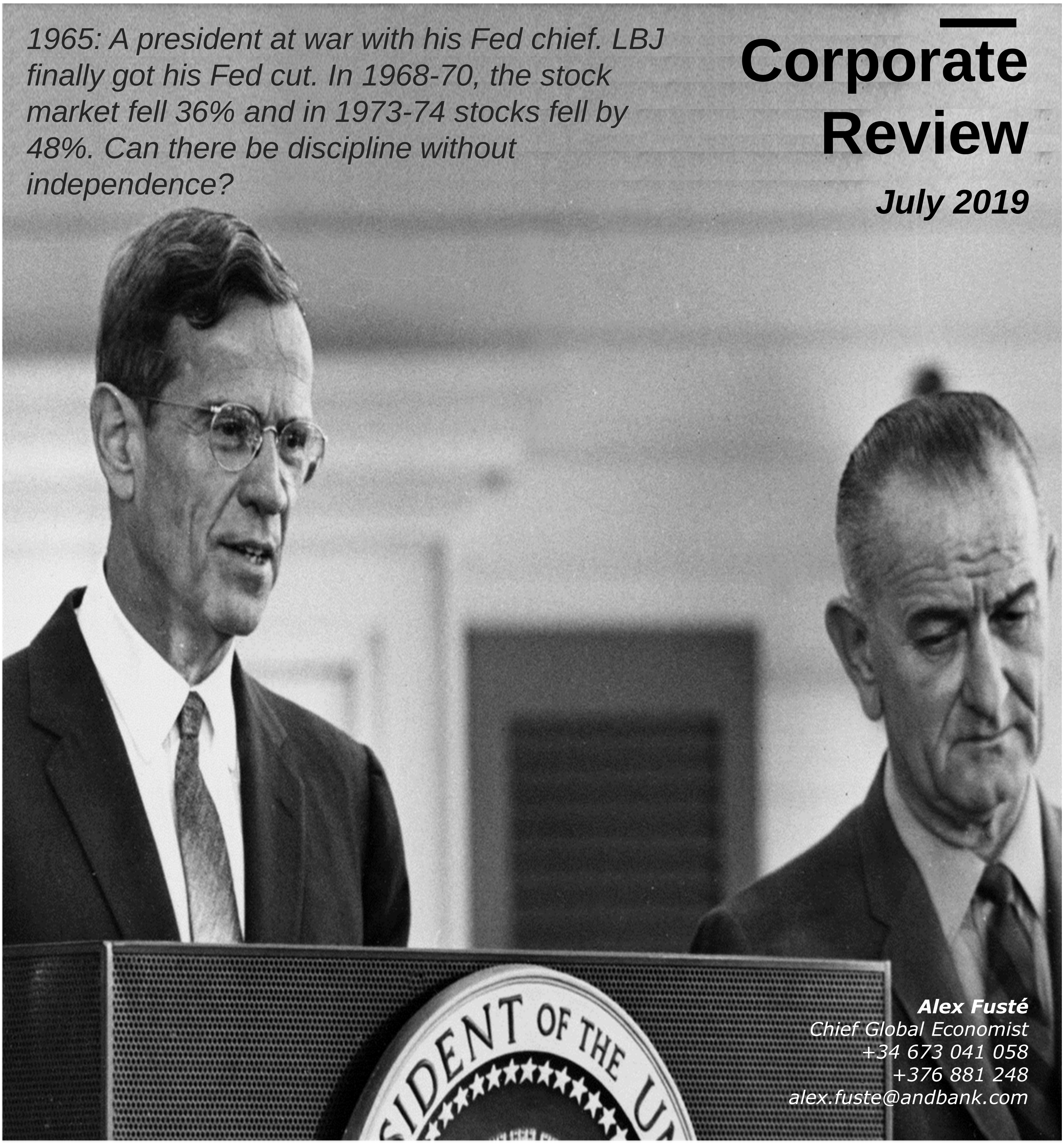
GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review

Global Strategic Outlook – July 2019



1965: A president at war with his Fed chief. LBJ finally got his Fed cut. In 1968-70, the stock market fell 36% and in 1973-74 stocks fell by 48%. Can there be discipline without independence?

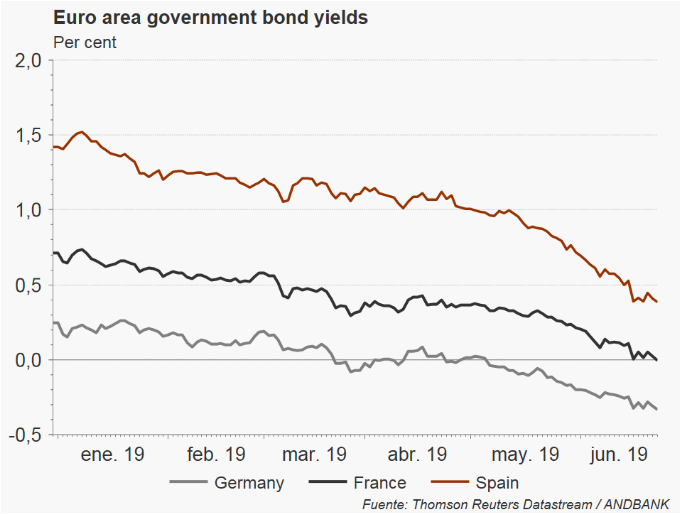
Corporate Review

July 2019

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

EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

In the absence of a full blown trade war, the equity market could remain well sustained until year end. However, we still see some volatility around trade. ***US S&P***: UW-MARKETWEIGHT, central point 2,800, exit point 3,070. ***Stoxx 600 Europe***: MW-OW, central point 387, exit point at 406. ***Spain (Ibex***): OVERWEIGHT, target 9,700. ***Japan (N225):*** MARKETWEIGHT, target 22,250. ***China (Shenzhen):*** UNDERWEIGHT, target 1,600. ***China (Shanghai):*** UNDERWEIGHT, target 3,000 ***India (Sensex):*** MARKETWEIGHT, target 40,023. ***Brazil (Ibovespa):*** UW-MARKETWEIGHT, target 94,200. ***Mexico (IPC Index):*** MARKETWEIGHT, target 44.000. ***Israel (TLV Index):*** MARKETWEIGHT.

FIXED INCOME

Fixed income markets continued to perform positively last month given extremely dovish central banks. Risks such as trade tensions are likely to put a temporary cap on benchmark bond yields. ***UST 10Y:*** UNDERWEIGHT, target 2.20%. ***German Bund:*** UNDERWEIGHT, target -0.10%. ***Spanish bono:*** UNDERWEIGHT, target 0.65%. ***Italian bond***: MARKETWEIGHT, target 2.10%. ***Portuguese bond:*** UNDERWEIGHT, target 0.80%. ***Irish bond:*** MARKETWEIGHT, target 0.20%. ***EM bonds Asia:*** MIXED (preferred India, Indonesia, Malaysia and Philippines. Avoid Taiwan, Thailand and South Korea). ***EM bonds Latam:*** Preferred Mexico in local, Argentina in USD. Brazil Underweight in local, UW-MW in USD.

CORPORATE CREDIT

EUR Credit: The movement in credit spreads goes along with the movement in the stock market, but with less euphoria. The more dovish message from CBs (ECB & FED) has been supportive for spreads (IG&HY). Investors' belief in central banks' ability to keep markets afloat lies behind the strong inflows into credit during 1Q19. TLTRO III is less attractive for European Banks than its predecessor given its shorter maturity, the inability to repay early and the slightly higher relative cost. Italian banks will likely be the biggest users. For Spanish banks there is little difference in the pricing and German & French banks are unlikely to be big takers under the new program. ***IG € (Itraxx):*** UNDERWEIGHT, target 80. ***HY € (Xover):*** UNDERWEIGHT, target 325. ***US$ CDX IG:*** MARKETWEIGHT, target 50. ***Credit $ CDX HY:*** UNDERWEIGHT, target 400.

CURRENCIES

Preferred currencies (short-term view): BRL, AUD, EUR versus the USD. We consider RUB and MEX to be expensive.

COMMODITIES

Sell WTI above US$ 65. Saudi Arabia clearly wants to extend OPEC+ production while Russia's energy minister warned that prices could sharply fall below US$40 if producers pump too much oil. We take the comments as a signal that the OPEC+ agreement would be extended into the second half of the year.

USA

Data have not weakened enough to cause a rate cut in the short term

Trade conflict

Despite some optimistic statements on social media regarding an approach in the positions between the US and China, the recent experience means there is still huge distrust with respect to the possibility of reaching stable agreements. Averting tariffs on Mexico is not enough to think that the same could happen with China. As a result of this, there could be a pause in hostilities in the short term, but we still think that tensions between the two powers are tectonic and are here to stay. Our scenario is one of relief from short-term tensions and disappointment later. The escalation of the trade war gained ground this month as Mexico entered the scene. While the decision not to impose tariffs on Mexico clearly reduces uncertainty, the fact that the threat was made raises the risk that the White House might propose tariffs against other countries to achieve various goals, including those unrelated to trade policy.

Fed & Growth

No change in rates during the last FOMC, but the Fed provided some significant shifts in the dot plot where 8 out the 17 participants are projecting cuts in 2019 (seven projected 0.50pp and one projected 0.25pp). The projected range for 2019 fell to 1.9%-2.6% (mid-point at 2.25%), somewhat lower than March's projected range of 2.4%-2.9 (mid-point 2.65%). The Fed also pushed down the 2020 midpoint to 2.125% (from 2.65%). Regarding growth, the Fed characterizes it as "moderate" instead of "solid". The Fed emphasized what we have been witnessing recently around the fact that investment in capex "remains soft", although the Fed stressed that "job gains have been solid, on average" and "consumer spending appears to have picked up". As can be seen, corporate negativity has not yet trickled through to consumer habits and sentiment. There was no special mention about inflation, but it continues below the 2% target (headline CPI currently at 1.79% YoY). The biggest change in the statement was a switch from "being patient" (suggesting that it was keeping monetary tightening on hold) to "the Committee will closely monitor the incoming information and will act as appropriate to sustain growth and reach the 2% inflation target". This means that the Fed is now more open to cut rates in 2019, than to restart monetary tightening (which in turn means that the Fed was wrong in 4Q18, apparently once again incurring the so-called "Fed mistake"). We foresee a rate cut in 2019 but in 4Q19 rather than July.

Equity market

In the absence of a full blown trade war, the equity market could remain well sustained until year end. However, we still see some volatility around trade. The macro backdrop isn't all bad. Furthermore, 1Q earnings season has been positive so far, above analysts' forecasts, which is much better than the original outlook for an earnings recession. Earnings are outperforming by 6.6% with 72% of companies exceeding their bottom-line estimates. EPS is on pace for 2.9%, assuming a typical beat rate for the remainder of the season. For the time being we have no reason to change our year-end fundamental target price for the S&P 500 of 2,800.

Financial market assessment

Equities – S&P: UW-MARKETWEIGHT. Target 2,800. Exit point 3,070

Bonds – Govies: UNDERWEIGHT (10Y UST entry point 2.2%)

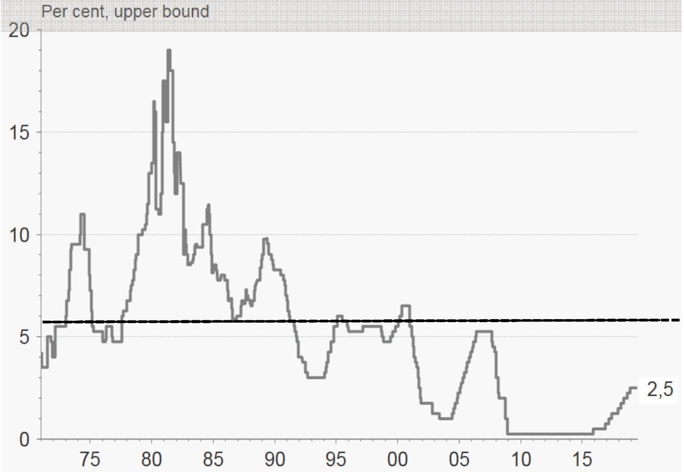
CDX IG: OVERWEIGHT (Target Spread 50)

CDX HY: MARKETWEIGHT (Target Spread 400)

Forex – DXY index: MARKETWEIGHT

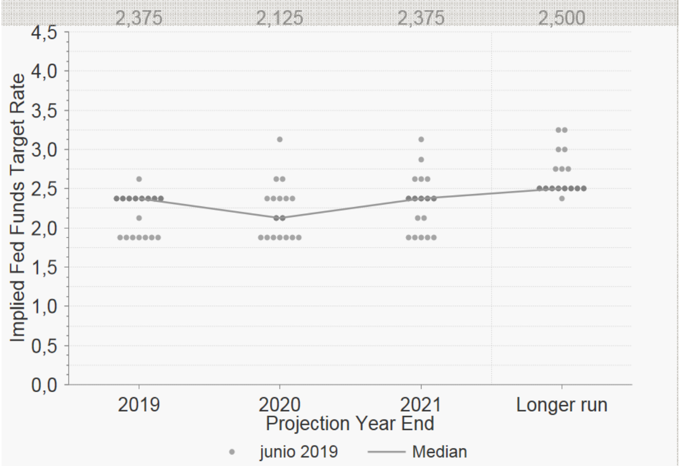
US policy rate

Per cent, upper bound



Fuente: Thomson Reuters Datastream / ANDBANK

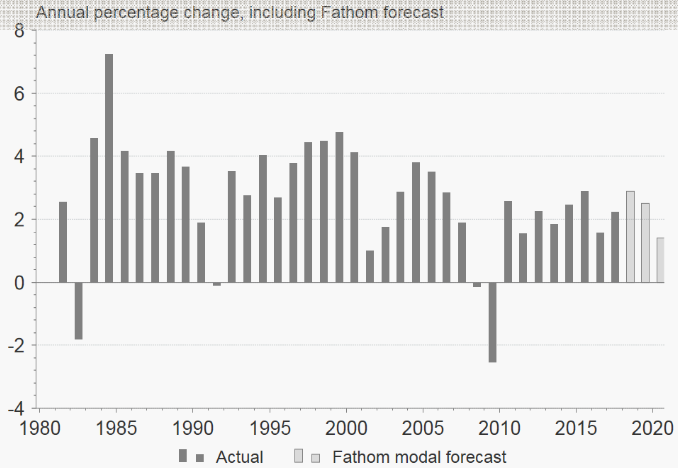
Federal Open Market Committee Projections



Fuente: Thomson Reuters Datastream / ANDBANK

US GDP

Annual percentage change, including Fathom forecast



Fuente: Thomson Reuters Datastream / ANDBANK

EUROPE
ECB opens up whole toolbox

ECB "determined to act in case of adverse contingencies"

A more dovish Draghi has "opened up the whole toolbox" as uncertainty has grown. As expected, depo tiering was not announced but financial conditions for the next TLTROs were disclosed. However, a six-month extension for the rates forward guidance was granted (rates will now remain at present levels until at least mid-2020). Furthermore, rate cuts, restarting QE, and/or additional changes in the forward guidance were all raised as possibilities. The ECB has taken a step forward, being explicit about the measures that could eventually be taken should the situation worsen.

Brexit: when the person matters

Boris Johnson is leading both the internal and the external polls. What would he mean for Brexit? A more radical approach compared to May's in a polarized country (as the European Parliament elections results showed) and increasing support for the Brexit party should elections be called. Johnson will try to renegotiate some key aspects of Brexit with the EU but it is hoped that Brussels will not change its position. Johnson would then try to exit without an agreement but Parliament would likely block it, and we would be back at the starting point. It is highly likely that this will end in general elections in the UK. Volatility surrounding the campaign can be expected.

Fixed Income market

German yields have nosedived into negative territory, coming in lower than Japanese yields. Though it is not the first time, it raises fears of the "Japanization" of the European economy. The bond market seems to have priced in several rate cuts from the FED (3 cuts in a year) and the lack of agreement between China and the USA. After the Fed meeting (leaving the door open for rate cuts), and following the ECB's dovish tone, we are updating our fixed income targets for the bund to -0.10%. Should we have a (positive) surprise in terms of trade negotiations, the bund yield could be fixed a touch higher (+0.1-0.2%). In Italy, (+) recent support from the ECB's determination to restart its QE strategy, if needed, is in addition to TLTRO III that mainly benefits Italian banks. (=) Confrontation with the EU remains but so far has been limited, and though the first steps towards excessive deficit procedures have been taken, it takes time (end of the year?) and could ultimately be avoided with some concessions from Italy. (-) 2020 budget to be discussed in the autumn will bring back rating fears, but market already knows that. Target spread at 220 bp.

Equity market

Earnings are gaining positive momentum in Europe. After an earnings season that came in slightly better than expected, we are seeing some earnings upgrades across the continent. The UK, Netherlands and Sweden show downwards EPS revisions since last month, while Spain, Switzerland and Germany show improved EPS revisions over the past month. We maintain our year-end target expecting Q2 earnings to match this more positive scenario that draws on the consensus.

Financial market assessment

Equities – Stoxx Europe: MARKETWEIGHT. Target 387. Exit 406

Equities – Euro Stoxx: MARKETWEIGHT. Target 379. Exit 398

Bonds – Core governments: UNDERWEIGHT (Bund target -0.10%)

Bonds – Peripheral: MIXED (SP 0.65%, IT 2.10%, PO 0.8%. IE 0.20%)

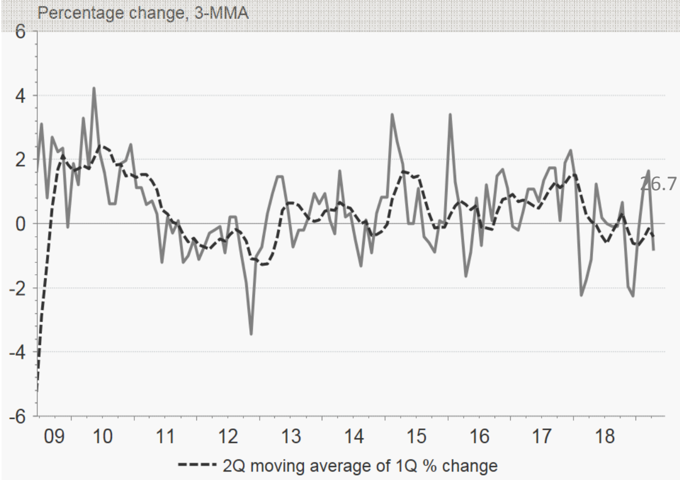
Credit – Itraxx Europe (IG): UNDERWEIGHT (Target Spread 80)

Credit – Itraxx Europe (HY): UNDERWEIGHT (Target Spread 325)

Forex – EUR/USD: MARKETWEIGHT (1.125)

Euro area industrial production

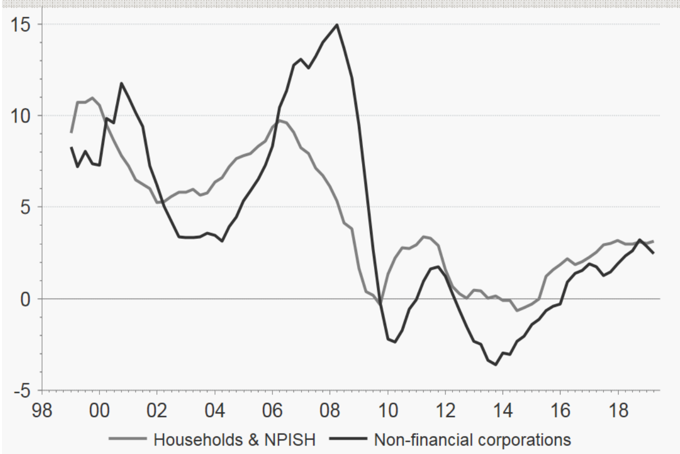
Percentage change, 3-MMA



Fuente: Thomson Reuters Datastream / ANDBANK

Euro area lending by sector

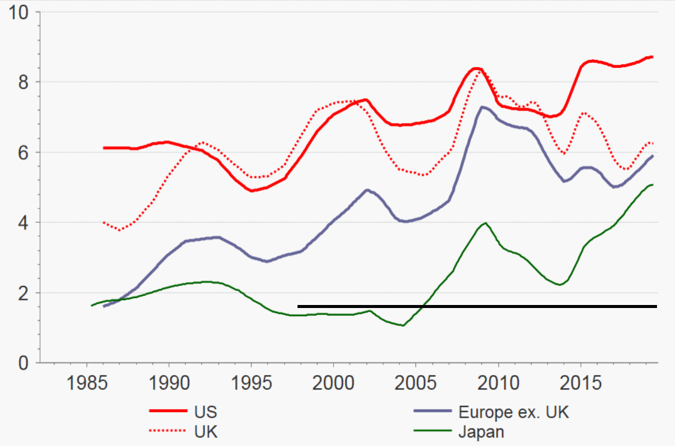
Twelve-month percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

Net profit margins

Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

SPAIN

Better first quarter data leads to upwards GDP revisions

Governance & Fiscal Policy

We've just finished an exhausting election period, with four elections in less than one month, and we are still in the middle of negotiations to form a national government. We await Pedro Sánchez's first attempt in the first two weeks of July to become President, but we suspect that he will not achieve his goal at this first attempt. Sanchez would just need some abstentions from a party in the conservative bloc, which is likely to happen because according to internal surveys of the Cs party, a majority want their party to allow the investiture through abstention. It is important to emphasize that this period used to form a government will prevent a budget being presented for this year. Nevertheless, Sanchez will resubmit the same proposal made in 2018, already approved by the EU.

Better first quarter data leads to upwards GDP revisions

Official figures show that activity was stronger than anticipated in the first half of the year, leading the Bank of Spain to upwardly revise GDP growth for this year. "Having grown by 2.6% in 2018, GDP growth is expected to edge down to 2.4% in 2019. Compared to the March projections, GDP growth in 2019 as a whole has been revised upwards by 0.2 percentage points (pp)".

With regards to inflation, a hypothetical materialization of the risks to activity described above would probably lead to lower-than-expected price growth. Moreover, the projected increase in core inflation is based on the assumption regarding a reduction in the degree of slack in the economy, but this remains subject to a high degree of uncertainty.

Spanish equities

The ECB is pushing down the yield curve across all Euro countries, and this is weighing on banks, although it clearly benefits other sectors, such as utilities, which are taking the lead. The banking sector still has a 28% weighting in the Ibex index, but utilities, retail and telecoms now account for more than 32%. The last corporate results season ended with above-consensus sales, but margins were 20 basis points below expectations, and earnings therefore ended slightly below consensus. Despite this, analysts and investors are keeping their EPS forecasts in the 800 euros range, slightly above our own forecasts of an end-of-year EPS target at €780. Considering the external risks that could potentially affect the Spanish market (a hard Brexit being the most obvious), we have decided to keep the Dec19 PE LTM ratio at 12.5x, which represents a significant discount compared to other European markets. Fundamental target price for the Ibex at 9,736; sell at 10,200.

Spanish bond market

To fix the target on the Spain Bono we are using a 70 bp risk premium over the Bund. As we have cut our 2019 target for the 10Y bund to -0.10%,, we are now forecasting a yield for the Spanish Bono at 0.65%.

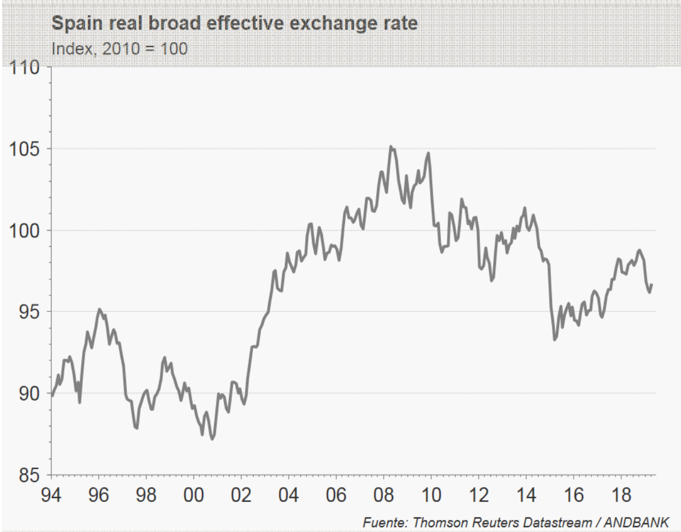
Financial market assessment

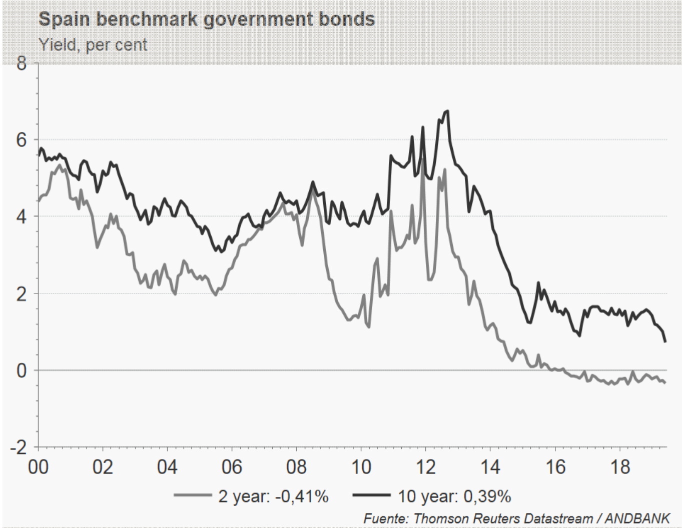
Equities – IBEX: OVERWEIGHT. Target 9,736. Exit point 10,200

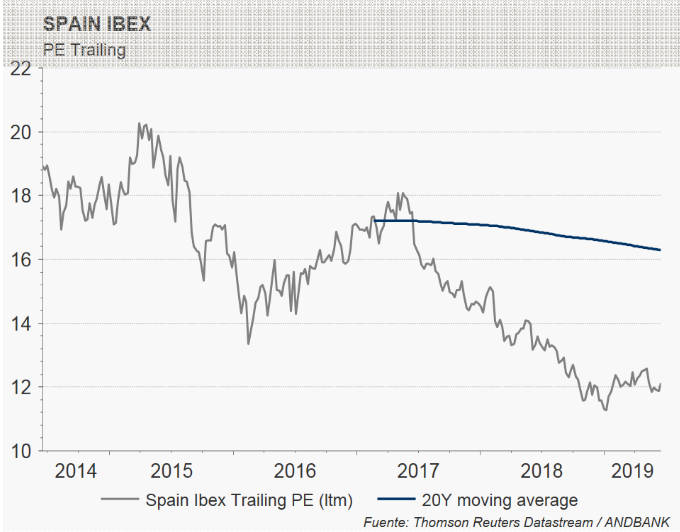
Bonds – Government: UNDERWEIGHT (BONO target yield 0.65%)

Credit – Investment grade: UNDERWEIGHT

Credit – High yield: UNDERWEIGHT







JAPAN

Japan withdraws report casting doubt on pension system

The government effectively withdrew the FSA report that casts doubt on the sustainability of the public pension system and its ability to sustain people's livelihoods in the face of a rapidly aging society. Renewed worries over the creaking pension system may dent Abe's majority in the parliament's upper house election next month. FinMin Taro Aso reiterated that "the public pension was basically sufficient". Opposition parties accused the LDP of being "out of touch" with the financial concerns of ordinary Japanese. The country had 918,397 births in 2018, down by 27,668 from 2017, which is roughly a third of the 1949 peak of 2.69 million births. The fertility rate fell for the 3rd straight year to 1.42x. The government has taken many steps, such as work reforms (reducing long working hours, imposing a cap on overtime with penalties for violations), early childhood education and free childcare, etc. The problem is that many of these moves focus on those who already have children. Or maybe the problem is much deeper, as the Japan Research Institute suggests by saying that "the decline in birth rates is partly because it's become less clear to people that getting married and having children will make them happy". Meanwhile, the government is encouraging companies to allow employees to work until 70.

1Q19 GDP accelerated. Abe claims that his goals "were met"

1Q GDP expanded at an annualized pace of 2.2% (above the initial estimate of 2.1%, and an acceleration from a 1.8% gain in 4Q18). Shinzo Abe said his real economic objectives, including full employment, have been achieved even though 2% inflation has not. In the six years since Abe launched his Abenomics program, unemployment has fallen from 4.3% to as low as 2.3%, a 26-year low. Still, a tight job market has failed to boost wages by the amount needed to increase consumption and prices as much as hoped. However, GDP figures could not be as positive in 2Q19. The Japan Center for Economic Research showed that April's real GDP dropped (0.8%). The need for automation to cope with a labor shortage drove domestic capital spending during 1Q, although for Japan's big manufacturers it's a different story, as they already started cutting spending in the first quarter (Nikkei report). April household spending decelerated to +1.3% YoY (+2.1% in prior month). May Composite PMI fell to 50.7 (from 50.8). The Economy Watcher Survey also deteriorated in May, with the current conditions index falling to 44.1 (from 45.3) and the Outlook index also falling to 45.6 (from 48.4). Retailers and restaurants are cutting their number of stores as e-commerce grows and the population shrinks. A Nikkei report states that "Japan may face a threat of retail disruption as the declining population is eroding consumer spending and the labor force".

BoJ's Kuroda claims to have more ammunition

Kuroda emphasized that "the central bank was still capable of big stimulus measures" and that he would take "further action if momentum was lost". Growing maturities in corporate bonds are reportedly a consequence of ultra-low interest rates. The average maturity of corporate bonds has exceeded 10 years for the first time since 1991.

Global asset managers on the hunt for Japanese savings

Global asset management companies that have been operating in Japan managing assets for pension funds are now launching publicly traded mutual funds to make inroads into the retail market in Japan. Focused on stocks and debt around the world, they are targeting some of the USD16trn of financial assets held by Japanese households.

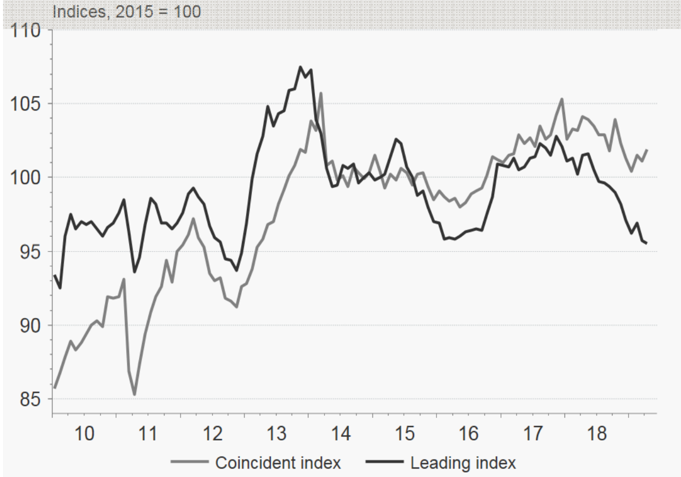
Financial market outlook

Equities – N225: MARKETWEIGHT. Target 22,250 (Exit 22,700)

Bonds – Govies: UNDERWEIGHT. Target yield 0.10%

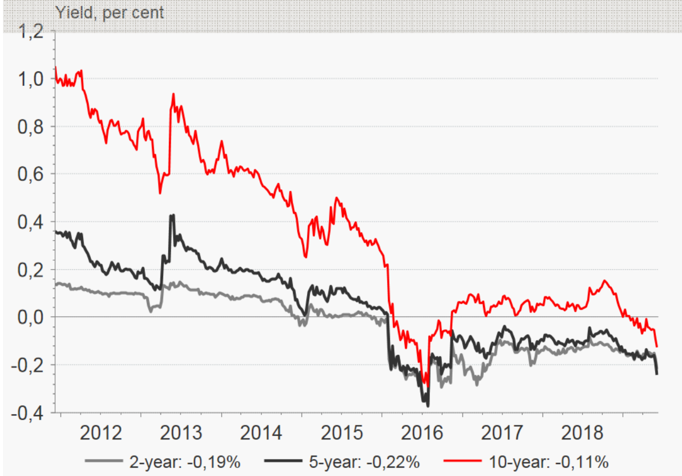
Forex – USD-JPY: UNDERWEIGHT. Mid-term target 114

Japan composite indices of business conditions
Indices, 2015 = 100



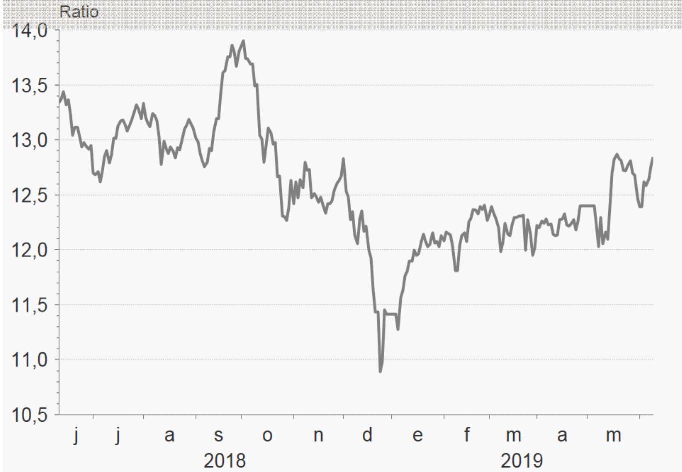
Fuente: Thomson Reuters Datastream / ANDBANK

Japan benchmark government bonds
Yield, per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Japan Nikkei 225 price / earnings
Ratio



Fuente: Thomson Reuters Datastream / ANDBANK

ANDBANK Private Bankers

CHINA

IMF cuts China GDP growth forecast to 6.2% in 2019 and 6% in 2020

Economic deceleration but the PBoC unlikely to cut rates

May Industrial production decelerated to 5% YoY (versus 5.4% in prior month). Fixed asset investment growth fell to 5.6% YoY in the first five months (from 6.1% in prior month). US investment in China grew by +7.5% in Jan-May, compared to +24.3% in Jan-Apr. The IMF cut its 2019 economic growth forecast for China to 6.2%. It also cut the growth forecast for 2020 to 6% from 6.1%. Nevertheless, the China Securities Journal said that "despite downward pressure persisting in the economy, China needs to be independent on its own monetary policies". The piece noted that "even with a PBoC rate cut, the real economy may not be boosted" and "the risk of asset price inflation is higher".

Beijing implements new stimulus but this cannot last

1. Central bank has more tools to inject liquidity: The PBoC is fulfilling its promise to provide liquidity to small and medium-sized banks. To cope with quarter-end liquidity tightness, the PBoC has SLF and MLF, and also mentioned that refinancing and rediscounting could also be potential tools. China's central bank has cut the amount of the Required Reserves Ratio six times since the start of 2018 to spur lending and prop-up its slowing economy. 2. Beijing is also fast-tracking infrastructure spending. The NDRC announced that it has approved 20 fixed-asset investment projects with a combined investment totaling CNY51.6B ($7.48B) in May. The projects were mainly in the high-tech and transport industries. FAI grew 5.6% YoY in Jan-May. Lending restrictions for infrastructure investments have been eased. Local government will be allowed to issue special-purpose bonds to fund key infrastructure projects. Local authorities and financial institutions are also encouraged to expand funding sources for these projects through market-based financing methods. In fact, the issuance of local debt exceeded CNY2T from January to May this year, which is almost half of the issuance target. 3. Beijing has also rolled out tax cuts worth trillions of yuan to support businesses, especially manufacturers, hurt by the intensifying trade war. The IMF suggested that China's efforts to rebuild national finances could be ruined with all this stimulus, stressing that it is important for Beijing to push forward its financial regulatory reforms despite trade tensions. All said, China will not be able to defend its economy with stimulus in the long term: Fiscal revenue in May grew +3.8% YoY (well below the +5.3% YoY seen in prior month), and fiscal expenditure had to adapt to a necessarily lower rate of +12.5% YoY (vs +15.2% in prior month).

Trade: China ready for long battle with US. China raises anti-dumping duties on alloy-steel pipes from US and EU

The Communist Party journal, Qiu Shi, reported in a commentary that China would not give way and its people are ready to fight a long trade war with the US. The piece disagreed with the US viewpoint that China had gained benefits from the China-US trade relations, noting that the US has reaped huge benefits instead and that the US has been stifling Chinese technology innovation. The Ministry of Commerce issued a statement and raised anti-dumping duties on imports of alloy-steel seamless pipes from the US and the EU. US producers of tubes and pipes for high temperature and pressure uses are subject to anti-dumping duties of between 101-147.8%, while rates for EU companies range between 57.9% and 60.8%.

Financial market outlook

Equities – SHANGHAI Idx: UNDERWEIGHT. Target 3,000. Exit 3,100

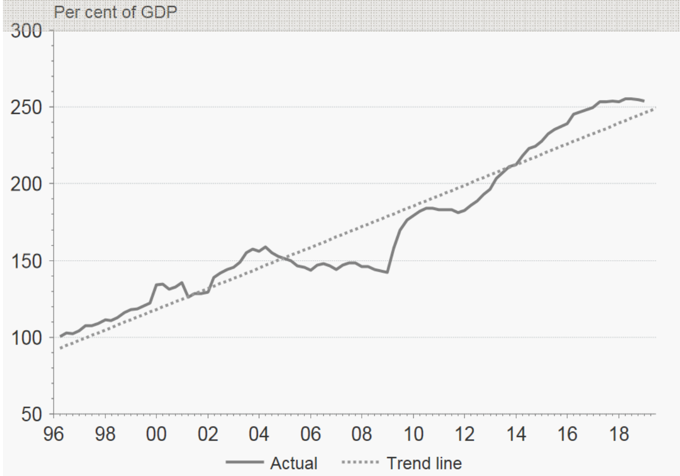
Equities – SHENZHEN Idx: UNDERWEIGHT. Target 1,600. Exit 1,640

Bonds – Govies: MARKETWEIGHT (target yield 3.25%)

Forex – CNY/USD: UNDERWEIGHT (target 7.00)

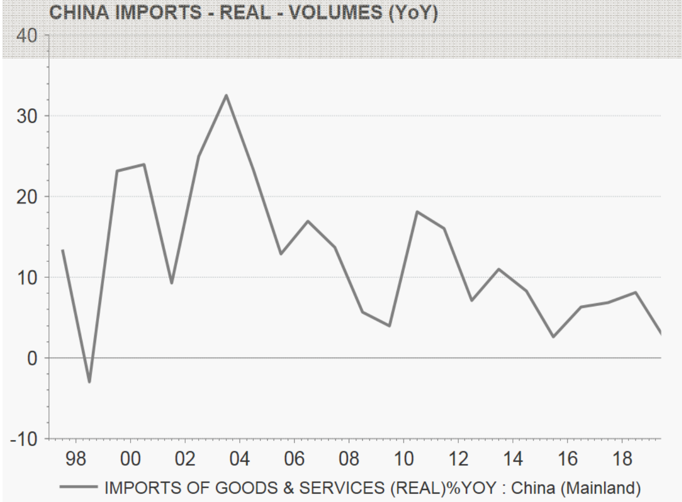
China credit to nonfinancial sector

Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

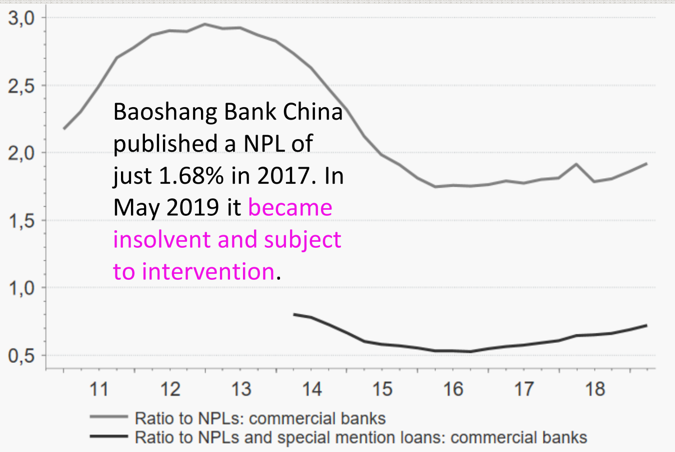
CHINA IMPORTS - REAL - VOLUMES (YoY)



Fuente: Thomson Reuters Datastream / ANDBANK

China commercial bank provision coverage

Ratio



Fuente: Thomson Reuters Datastream / ANDBANK

INDIA

World Bank maintains Indian growth rate forecast for 2019-20 at 7.5%

Equity Market

We have lowered the estimate for some parameters in India: we are cutting productivity growth (from 5% to 4.5%) given the lack of success of the Modi government to implement its agenda to boost manufacturing. We also cut GDP growth (from 7.5% to 7%), which leads us to cut the margins target (from 10.9% to 10.7%) and results in a cut in our target for the Sensex index, from 40,800 to 40,000

Economy

India is projected to grow at an average of 7.5% over the next three years supported by robust investment and private consumption, according to the World Bank n its Global Economic Prospects. In the fiscal year 2018/19, which ended March 31, India has grown 7.2%. A slowdown in consumption was offset by solid investment, which benefitted from public infrastructure spending. The World Bank said that India's urban consumption was supported by a pickup in credit growth, whereas rural consumption was hindered by soft agricultural prices. On the production side, "robust growth was broad-based, with a slight moderation in services and agricultural activity accompanied by an acceleration in the industrial sector". Looking ahead, private consumption and investment will benefit from strengthening credit growth amid more accommodative monetary policy, with inflation having fallen below the Reserve Bank of India's target. According to the WB, "India will continue to retain the position of being the fastest growing emerging economy during the next three years. And by 2021, its growth rate is projected to be 1.5% more than China's 6%".

Jobs will define next five years

Unemployment rate stood at 6.1% in 2018 (the highest since 1972). India needs at least 6 million new jobs each year. Some 12 million people reach the working age annually, but labor force participation is dismal at barely 50%. People are simultaneously ditching agriculture (the sector indirectly employs almost half the workforce) but is in severe distress due to price pressures. High-quality jobs are rare. Last year, there were 25 million applications for 90,000 jobs with the state-run railways. There are now more factories assembling mobile handsets, but manufacturing remains at barely 16% of GDP, well below Modi's 25% target. With the rise of automation, many believe the country has missed its opportunity, and see little hope of capitalizing on factories forced out of the mainland by a worsening US-China trade war. Yet qualified staff are still hard to find due to poor training. India also suffers from one of the highest levels of inequality in the world. Modi recognized the problem in 2014, with a promise to create 100 million jobs by 2022 through his "Make in India" push. Modi has one job – to create jobs.

Politics

Indian Prime Minister Narendra Modi's ruling alliance could achieve a crucial majority in the upper house of parliament next year if some small regional parties join the bloc that recently won a massive mandate in the lower house. Dominating both houses is essential to pass controversial legislation that Modi's Bharatiya Janata Party (BJP) has promised. The government's legislative pipeline could include pushing key economic reforms, such as changing labor regulations and rules on land acquisition that have long been demanded by Indian industry.

Financial market outlook

Equities – SENSEX: MARKETWEIGHT. Target price 40,023. Exit 42,000

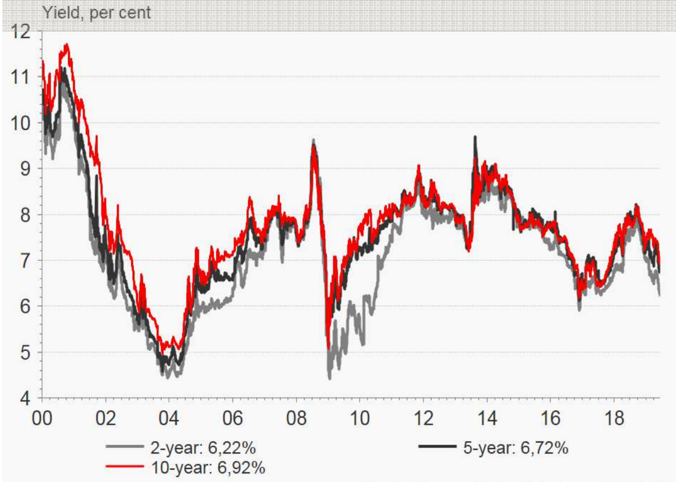
Bonds – Govies: OVERWEIGHT(target yield 6.00%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: UNDERWEIGHT (target 72)

India benchmark government bonds

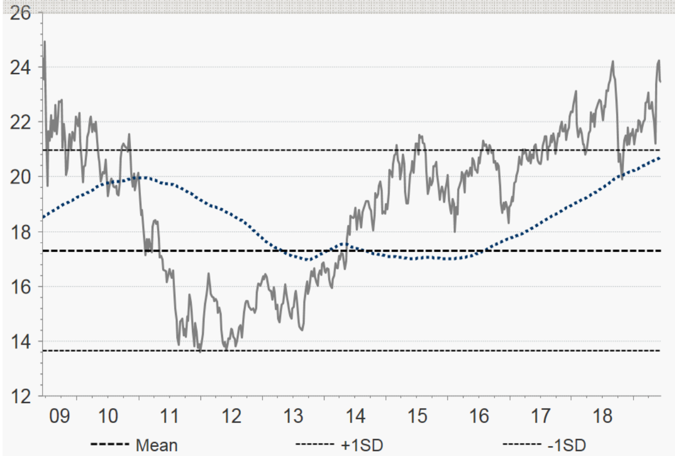
Yield, per cent



Fuente: Thomson Reuters Datastream / ANDBANK

PE - India

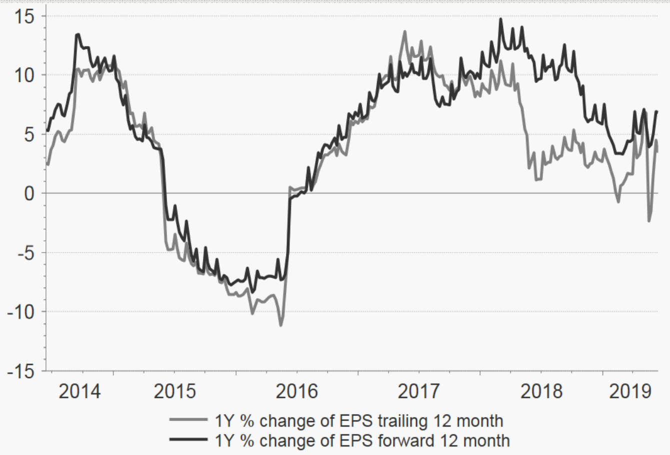
MSCI India



Fuente: Thomson Reuters Datastream / ANDBANK

EPS (Trailing & Forward)

MSCI India



Fuente: Thomson Reuters Datastream / ANDBANK

ISRAEL

After recent declines, the equities market trades at fair value

Macro and Politics

Activity is slowing down, with industrial production weakening, as in other developed economies, affected by a slowdown in the global economy. Consumer Price Index rose by 0.7%, above analysts' expectations. The biggest rise was in the fruits component. The growing demand for apartments, combined with the continuing decline in new housing inventory, led to a third monthly rise in house prices. Israel is preparing for more elections, after Benjamin Netanyahu failed to bring enough parties to an agreement.

Israeli Capital Markets. A quick assessment

Equity market:

In May, the TLV-125 index fell 2.3%, following a 5.1% decline in the S&P 500 index. The TLV-125 suffered from a sharp decline in pharmaceutical shares such as TEVE (-37.5%), PERRIGO (-4.5%) and OPKO (-20%). Combined these represent around 10% of the TLV-125 index. The bank's index remained unchanged; the TLV-Technology index rose 1%; and the TLV-Real Estate index rose 4.5% mainly due to expectations of lower interest rates in the US and an unchanged base rate in Israel at 0.25%. The question over whether the TLV Index is expensive or not depends, as always, on the sector. The real estate sector is priced relatively high with price to book value well above 1. This is due to the low interest rate environment that is expected to remain low and thus preserve high returns over equity. A good example of cheap valuations with EV/EBITDA equal to or below 5 is the telecoms sector, although there is a reason for this, as the highly competitive environment is gradually eroding profits. A fair valued sector is the banking sector, which trades around a price to book value of 1.

Regarding corporate earnings reports, excluding telecom, oil & gas, and the pharma sectors, all other sectors – banks, insurance, real estate and tech – are expected to report higher-than-expected EPS growth in 2019.

Bond market: The drop in US treasury yields sent Israeli government bond yields to new lows. The quickly rising budget deficit and the fact that there are new elections in September caught the attention of the Israeli central bank chairman, but didn't seem to have any effect on the Israeli government bond market.

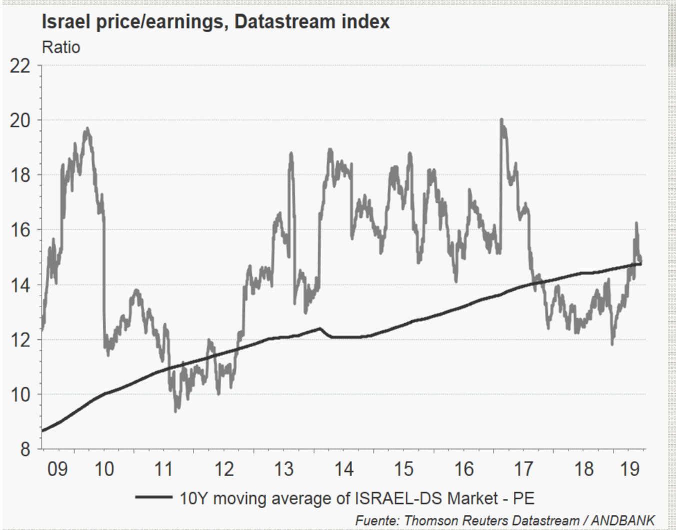
Corporate bond market: It was a different story in the corporate bond market. The credit spread in the Israeli investment grade index, Tel-Bond60, widened about 15 bp to 1.25%, while the credit spread in the Israeli high yield index, Tel-Bond-Tsuot, widened about 30 bp to 2.68%. However both corporate bond indices received some support from the fall in interest rates (yields). Our outlook remains negative for the Israeli bond market and we recommend shorter duration and prefer investment grade corporate bonds over high yield.

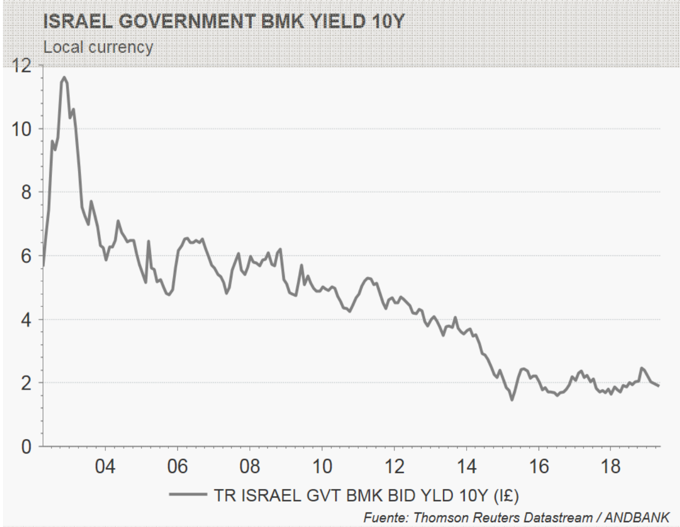
FX: The Israeli Shekel lost ground vs the USD during the first half of June but then recovered its lost ground. The Shekel has accumulated a YTD gain of 3.39% vs the USD.

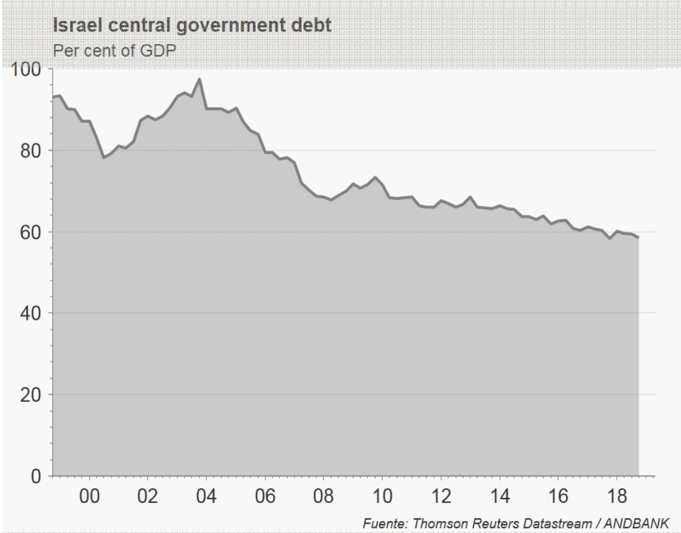
Financial market outlook

Equities – TLV35 Index: MARKETWEIGHT (Fairly valued)

Bonds – 10YGov USD: UNDERWEIGHT (Real yield at 0.33%)







BRAZIL
Political noise but the liberal agenda continues to develop

Politics: The pension reform advances

The overall environment for approval of the pension reform has improved in recent weeks. There is a broader consensus about the need and the importance of the reform. A poll conducted by XP/Ipespe now points to a majority of the population being in favor of a pension reform. Guedes heavily criticized a congressional committee's report last week, which cut the bill's targeted savings over the next decade to around 860 billion reais ($221 billion) from 1.237 trillion reais, according to the Ministry of Economy's calculations. But speaking to Reuters on Sunday, Guedes said 100 billion reais of savings could be recovered by tightening up rules for the transition to the new pension system, which he said had been loosened due to lobbying by lawmakers' own staff. That would bring total savings up to 960 billion reais, close enough to the 1 trillion mark Guedes and other government officials have insisted is needed to pack the fiscal punch that will turn Brazil's financial and economic fortunes around. In the report presented to the special committee there were few changes to the original government proposal. These include maintenance of the BPC and the rural pension rules as they were before, as these are the most sensitive from a social standpoint. Capitalization was cast out from the reform, which provoked a reaction from Finance Minister Paulo Guedes. States and municipalities were not included in the report, although new negotiations about this subject are on course. Market view is that the final version of the reform would have a fiscal impact between BRL 500 and BRL 700 billion.

Still on the political front, Sergio Moro, the Minister of Justice, was involved in the news-flow about the leaked conversation with a federal attorney, in the context of the Lava Jato investigation. According to Moro, some of the leaked messages attributed to him "have been doctored to generate scandal". These leaks, however, are not legally compromising and the negative news-flow tends to fade away.

The president of the BNDES (the state-owned development bank), Joaquim Levy, has resigned, after comments from Jair Bolsonaro saying that he was close to being fired. He was replaced by Gustavo Montezano, more aligned with the government's privatization goals.

Economics: activity remains weak, interest rates should remain lower for longer

On the economic activity front, the recovery continues to disappoint and downward revisions have set the growth consensus below 1.0% for year-end 2019. This scenario points to a possible rate cut between 75 and 100 basis points as the inflation scenario remains well under control, mainly for 2019, for which the IPCA consensus is 3.84% YoY, below the target midpoint (4.25% on year end). The inflation index stood at 0.13% in May, with the deflation impact coming mainly from food prices.

Bond market has already priced in a conclusion for the pension reform. After the rally, we have a more cautious view

Long term public debt dynamics will be dependent on reforms, however the market has priced in a conclusion for the pension reform (in some magnitude). We believe that the local 10Y bond will be at 8.75% by year end.

Financial market outlook

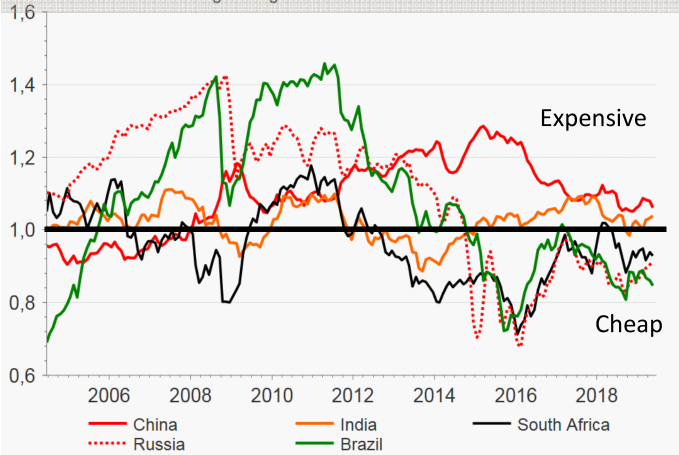
Equities – IBOV: UW-MARKETWEIGHT (Target 99,100. Exit 109,000)

Bonds – Gov. 10y Local: UNDERWEIGHT (Target 8.5%)

Bonds – Gov. 10y USD: UW-MW (Target 4.5%)

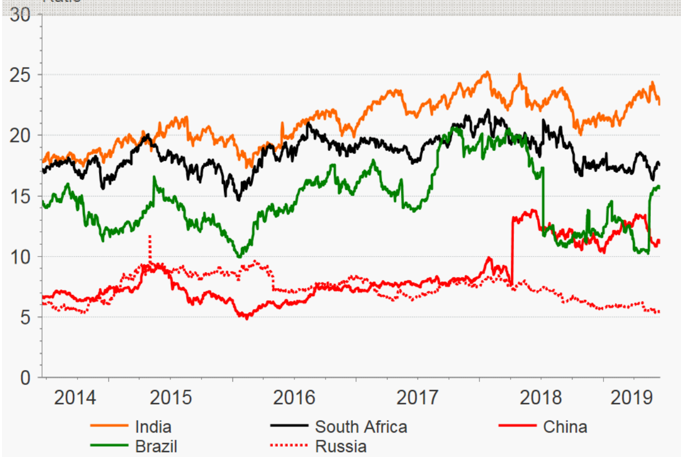
FX – BRL/USD: OVERWEIGHT (Mid-term target 3.75)

BRICS real effective exchange rates (CPI-based)
Relative to 10Y moving average



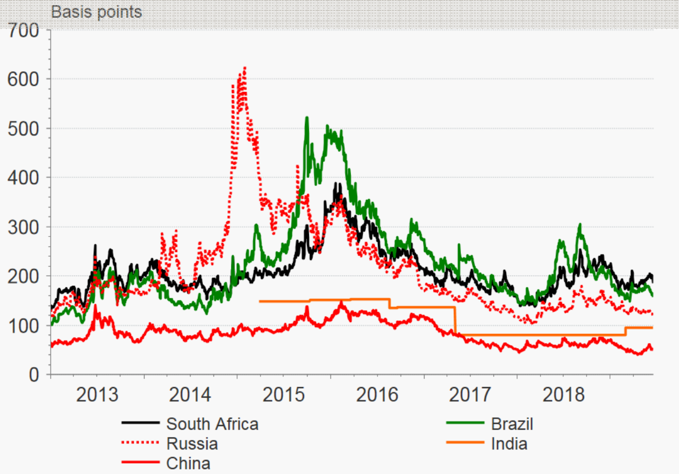
Fuente: Thomson Reuters Datastream / ANDBANK

BRICS PEs
Ratio



Fuente: Thomson Reuters Datastream / ANDBANK

5Y CDS
Basis points



Fuente: Thomson Reuters Datastream / ANDBANK

MEXICO

Equity market is not expensive; still upside potential in bonds

Political Risk

Fitch reduced its rating to BBB with a stable outlook and Moody's (A3) set its outlook to negative. This shift relates to weak growth estimates and uncertainty around the trade issue. In that sense, it negatively impacted Trump's threat to apply tariffs to all of Mexico's imports, linking it to concessions around immigration policy on which the Mexican government agreed to make the country a "safe third country". Public finance risks remain linked to the financing of Pemex, which most recently was related to stabilization funds aimed at repaying debt.

Public Finance

A primary surplus has been maintained to date. However, revenues continue to be dependent on the tax on gasoline and have been lower than scheduled, highlighting the fall in consumer tax receipts in the face of an economic slowdown. Expenditure has also remained below budget, as expected. Under-spending was predicted in the first quarter of the year, as happens at the beginning of every six-year period, prior to the change of administration. If tradition prevails, we will begin to see deteriorating tax performance.

Central Bank and Monetary Policy

Although it has maintained its benchmark rate at 8.25% with unanimous votes, recent comments from the Monetary Policy Committee have highlighted divisions about the outlook for the inflation balance. The Fed's monetary policy has supported a *de facto* restrictive policy that maintains a high real rate (particularly in emerging countries) but the negative perception of economic growth remains and the central bank has recently cut its projections for 2019, leaving the door open for future cuts. Inflation for the month of May in Mexico fell to 4.28% YoY, while core inflation also dropped, to 3.77% YoY from 3.87%.

Equity Market

Following the start to the year, recent corrections in Mexico have eliminated the double-digit gains accumulated by the market. Clear internal and external risks are still recognized, in particular the economic slowdown, which calls for a selection of defensive stocks. Dormant bullish influences are related to execution of the AMLO administration's fiscal policy, as well as the possible actions of the rating agencies. The market is not expensive. Target price stable at 44,000

Mexican Bonds

Neutral perspective despite fiscal developments. There was a considerable downward shift in the entire yield curve, thanks to the entry of capital due to carry trade activity. The transfer of risk from Pemex to the sovereign remains latent. Taking into account that the M10 currently trades at 500 spread points to the UST10, and that we expect levels below 500bp, we believe that this bond still has upside potential. We expect the spread level on USD-denominated debt to remain unchanged. Our target spreads (750bps in local bonds and 175bps for USD denominated bonds) remain unchanged.

Financial market outlook

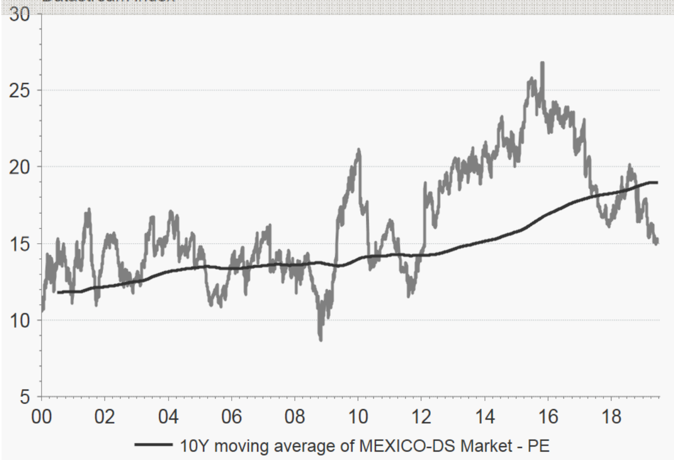
Equities – Mex IPC: MARKETWEIGHT. Target 44,000. Exit 46,200

Bonds – Govies Local: OVERWEIGHT (Target spread 475 or 6.95%)

Bonds – Gov. USD: MARKETWEIGHT (Target spread 175 or 3.95%)

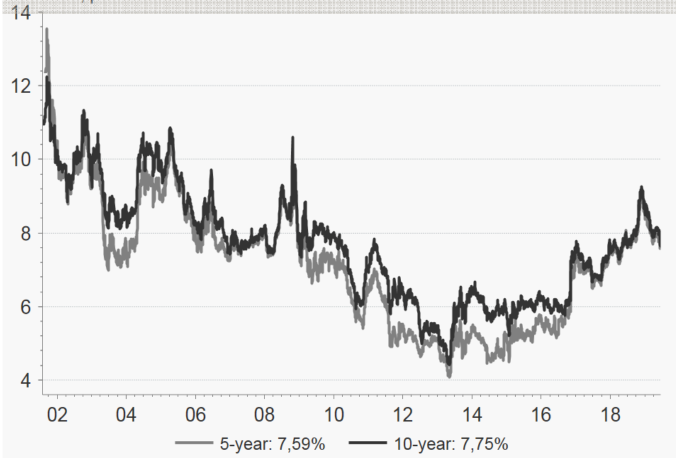
FX – MXN/USD: UNDERWEIGHT (Mid-term target 20.00)

Mexico equities price/earnings ratio
Datastream index



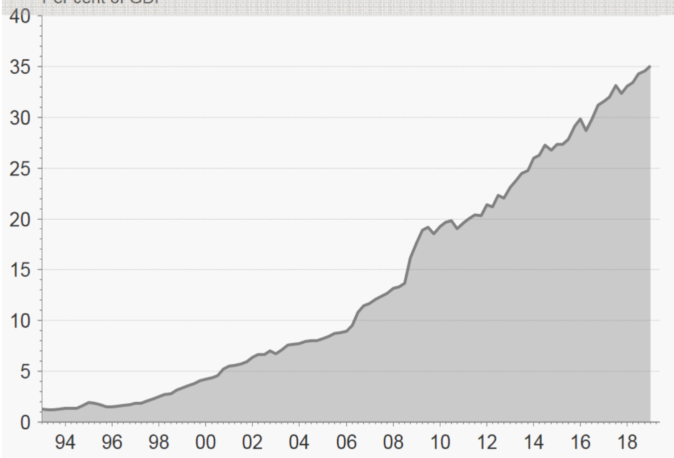
Fuente: Thomson Reuters Datastream / ANDBANK

Mexico benchmark government bonds
Yield, per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Mexico central government debt
Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA
Game of Thrones

FX stability means price stability

The ARS remained stable over the last month, contributing to the improvement in Macri's approval rate and vote intention. Accordingly, the 5Y CDS for Argentine Bonds dropped from 1190 at the end of May to the current 1010. YTD the ARS has accumulated a depreciation of +16.8%. Inflation stability had a positive effect too since May's CPI was fixed at +3.1% (vs +3.4% in April and 4.7% in March). The food and non-alcoholic beverages category performed in line with April, increasing +2.4%. Meanwhile the housing & energy and health categories, which also carry a significant impact, rose +4.0% and +5.1% respectively. As per May's REM, inflation is expected to reach +40.3% in 2019 and +26.1% in 2020.

Politics

Politics, politics and then more politics. This seems to be the only concern regarding Argentina these days. Pushed by the deadline for the closing of political alliances (June 12) we have seen some big movements in the political landscape. The most relevant announcement was the nomination of Miguel Angel Pichetto as running mate for President Macri in this year's presidential elections. Pichetto, from the Justicialist Party (PJ), has been the leader of the Senate majority for more than 15 years. Despite belonging to the opposition, Pichetto was a key figure during Macri's Presidency, using his strong ties with opposition governors to get support for different bills, setting him apart from the "Kirchnerism" bloc, which has taken a combative stance throughout Macri's presidency. Pichetto gave a very market-friendly speech and his nomination is expected to broaden Macri's political support. The opposition alliance, commanded by Fernández-Fernández (F-F), also received a boost with the support of Sergio Massa, third in the 2015 presidential elections (21.4% of the votes, behind Scioli, 37%, and Macri, 34.1%), but he experienced a major decline in his political support in the 2017 congressional elections. It still isn't clear if he is going to run in the internal elections (August 11) against F-F or if he will have a different role. This is also a movement that appeals to centrist voters, especially in the Province of Buenos Aires, and could increase the chances of a "Kirchnerism" win. Roberto Lavagna, former Economy Minister, will be the third contender, with the Governor of Salta Juan Manuel Urtubey as the vice-president candidate. Given the other political announcements, his ability to convince centrist voters has diminished as voters will probably polarize between the leading choices.

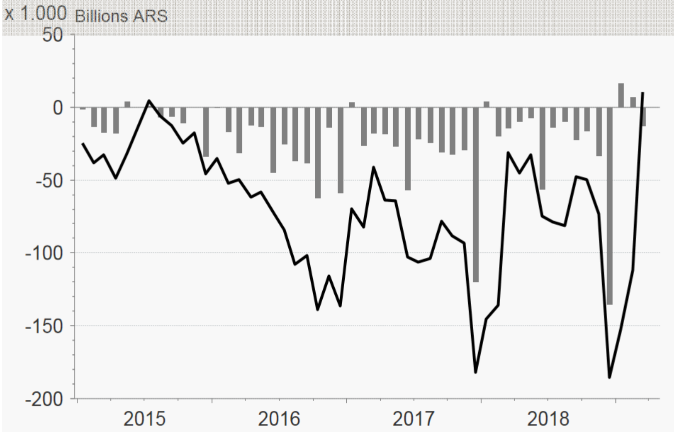
Leading indicators show recovery

The GDP proxy indicator (EMAE) fell -1.3% MoM on an SA basis in March (vs +0.2% in February). However, the use of installed capacity rose to 61.6% in April, the highest figure YTD, still registering a decrease of -8.8% YoY but improving from the -13.9% YoY seen in March. The construction activity index fell -0.3% MoM on an SA basis in April versus -3.4% registered in March. Meanwhile cement production and sales rose +4.6% YoY in May versus -5.6% in April, showing a steep recovery.

Financial market outlook

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

ARGENTINE PRIMARY BALANCE
Billions ARS

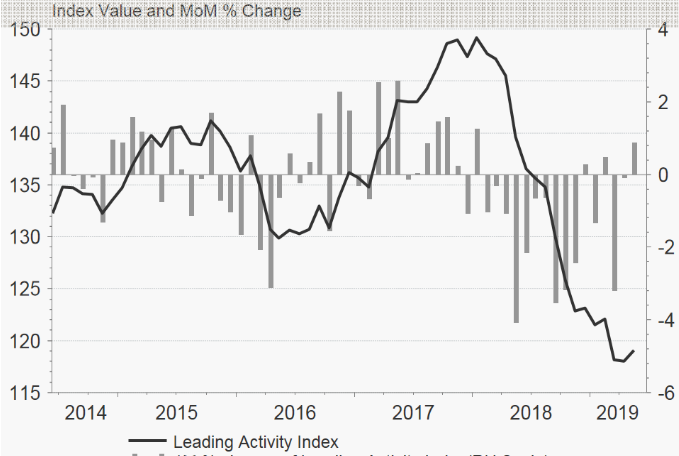


Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINE TRADE BALANCE
US$ Milion

Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA - LEADING INDICATOR
Index Value and MoM % Change



Fuente: Thomson 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 EPS 2018	Dec 2019 PE ltm EPS 2019	INDEX CURRENT PRICE	2019 Central Point (Fundam range)	2019 E[Perf] to Centr. Point	2019 Exit Point
USA S&P 500	5,5%	1.419	11,9%	168	2,7%	17,78	16,60	2.914	2.794	-4,1%	3.073
Europe - Stoxx Europe 600	5,3%	322	8,2%	26	1,1%	14,70	14,70	383	387	1,0%	406
Euro Zone - Euro Stoxx	3,4%	354	7,4%	26	1,0%	14,42	14,50	374	379	1,6%	398
Spain IBEX 35	3,5%	8.242	9,5%	779	3,5%	12,20	12,50	9.179	9.736	6,1%	10.223
Mexico IPC GRAL	6,7%	37.453	7,9%	2.975	1,0%	14,87	14,80	43.792	44.035	0,6%	46.237
Brazil BOVESPA	7,1%	66.644	10,6%	7.080	8,1%	15,38	14,00	100.689	99.123	-1,6%	109.035
Japan NIKKEI 225	5,6%	22.928	6,3%	1.445	3,1%	15,05	15,40	21.087	22.250	5,5%	22.695
China SSE Comp.	7,7%	2.965	9,3%	276	11,9%	12,14	11,00	2.997	3.038	1,4%	3.099
China Shenzhen Comp	8,2%	1.603	6,3%	100	14,6%	18,00	16,00	1.578	1.606	1,8%	1.639
India SENSEX	9,4%	18.689	10,7%	2.001	14,2%	22,67	20,00	39.718	40.023	0,8%	42.024
Vietnam VN Index	8,4%	690	9,0%	62	10,8%	16,78	16,50	943	1.028	9,0%	1.079
MSCI EM ASIA	7,3%	488	9,7%	47	12,6%	12,45	11,60	523	548	4,9%	576

UPWARD REVISION | DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL FLOWS (Monthly)
By Asset Type & Region

FLOWS BY ASSET TYPE - AS OF 05/31/2019

1D | 1W | 1M | 1Y

NORTH AMERICA

Asset Type	Flow $B
Money Market	82.11
Bond	22.27
Mixed Assets	3.6
Other	-2.07
Equity	-25.02

EUROPE

Asset Type	Flow $B
Bond	19.72
Money Market	6.11
Other	0.63
Mixed Assets	-2.28
Equity	-25.42

ASIA

Asset Type	Flow $B
Money Market	8.64
Other	1.17
Mixed Assets	0.87
Bond	0.11
Equity	-2.24

GLOBAL

Asset Type	Flow $B
Money Market	97.7
Bond	56.02
Other	11.96
Mixed Assets	10.8
Equity	-52.65

POSITIONING, FLOW & SENTIMENT ANALYSIS
Equity Perspective

Market Positioning (UW bias): Asset allocation in equity is high (contrarian view suggests UW stance) combined with a negative signal on the Put call ratio which indicates that investors are hedging their portfolios. Skew index remains in neutral territory, indicating that for the moment a very aggressive movement is not expected.

Flow Analysis (OW bias): Flows toward US equity indicate at first sight a bullish momentum for the last week. However, this has to be mitigated by the fact that the rest of equity markets have lost 2.2 bn over the same period worldwide. EU and Emerging markets have suffered net outflows, which came as a response of increasing US/China tensions, but also due to the EU political/economic uncertainty.

Surveys & Sentiment Analysis (OW bias): Slightly positive signal indicating a bullish stance from investors.

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

S&P: SIDEWAYS
Support at 2,785. Resistance at 2,954

STOXX600: SIDEWAYS-BEARISH
Support at 369. Resistance at 392

EUROSTOXX: SIDEWAYS-BEARISH
Support at 359. Resistance at 384

IBEX: SIDEWAYS-BEARISH
Support at 8,826. Resistance at 9,588

EUR-USD: SIDEWAYS-BEARISH
Support at 1.11. Resistance at 1.132

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

US Treasury (Yield perspective): SIDEWAYS
Support at 2.30%. Resistance at 2.61%

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.20%. Fair value 3.1%. Ceiling 3.40%

Swap spread: The swap spread fell to -6bp (from +5bp last month). For this spread to normalize at +5bp, with the swap rate anchored in the 2.25% area (according to our inflation expectation), the 10Y UST yield would have to move towards 2.20%.

Slope: The slope of the US yield curve up-ticked to 24 bp (from 17 bp last month). With the short end normalizing towards 2% (today at 1.85%), to reach the long-term average slope (of 157 bp) the 10Y UST yield would have to move to 3.42%.

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 0.63%. Fair value 1.30%. Ceiling 2.2%

Swap spread: The swap spread down-ticked to 47bp (from 51 bp last month). For the swap spread to normalize at 37 bp, with the swap rate anchored in the 1.00% area (today at 0.25%), the Bund yield would have to move towards 0.63% (entry point).

Slope: The slope of the EUR curve fell to 44 bp (from 54 bp last month). If the short end “normalizes” in the 0% area (today at -0.69%), to reach the 10Y average yield curve slope (128 bp) the Bund yield would have to move to 1.28%.

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: Floor 1.9%. Fair value 2.5%. Ceiling 3.2%

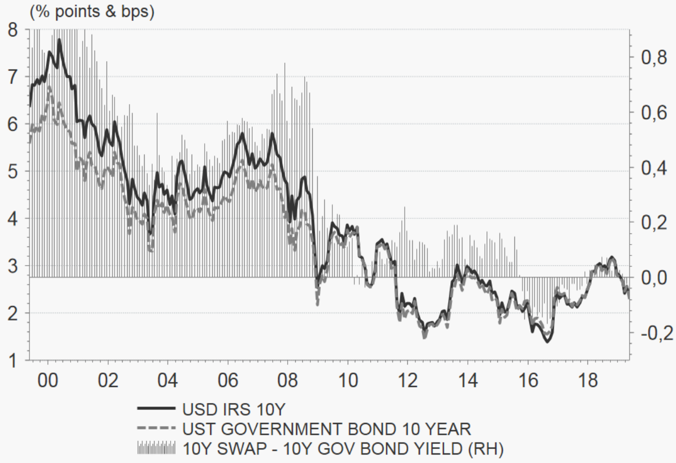
Swap spread: The swap spread fell to 19bp (from 24bp last month). For the swap spread to normalize at 11 bp, with the swap rate anchored in the 2% area, the 10Y UK Gilt would have to shift to 1.89%.

Slope: With a 2Y bond normalized at 1%, to reach the average slope at 1.56%, the 10Y Gilt would have to move to 2.56%.

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

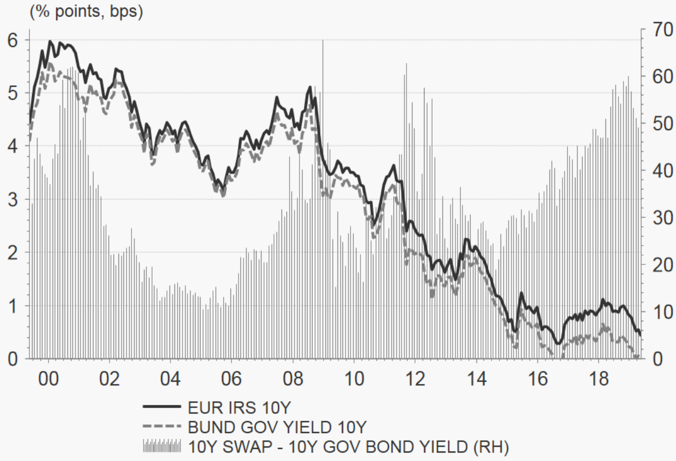
(% points & bps)



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR

(% points, bps)



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Tactical targets – 10Y yields

Spanish bono: Target yield at 0.65%
Italian bond BTPI: Target yield at 2.10%
Portuguese Gov bond: Target yield at 0.8%
Ireland Gov bond: Target yield at 0.20%
Greece Gov bond: Target yield at 2.65%

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	7,39%	3,32%	4,07%	-1,00%	6,39%
EM ASIA	India	6,89%	3,02%	3,87%	-1,00%	5,89%
EM ASIA	Philippines	5,09%	3,20%	1,89%	-0,50%	4,59%
EM ASIA	China	3,23%	2,70%	0,53%	0,00%	3,23%
EM ASIA	Malaysia	3,64%	0,25%	3,39%	-1,00%	2,64%
EM ASIA	Thailand	2,13%	1,15%	0,98%	0,00%	2,13%
EM ASIA	Singapore	2,01%	0,88%	1,13%	-0,50%	1,51%
EM ASIA	South Korea	1,54%	0,64%	0,90%	0,00%	1,54%
EM ASIA	Taiwan	0,69%	0,95%	-0,26%	1,00%	1,69%
EME	Turkey	15,71%	18,71%	-3,00%	1,00%	16,71%
EME	Russian Fed	7,41%	5,10%	2,31%	-0,75%	6,66%
LATAM	Brazil	7,59%	4,78%	2,81%	-0,75%	6,84%
LATAM	Mexico	7,69%	4,31%	3,38%	-1,00%	6,69%
LATAM	Colombia	5,99%	3,24%	2,75%	-0,75%	5,24%
LATAM	Peru	4,92%	2,70%	2,22%	-0,75%	4,17%

ENERGY – OIL

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

Buy < USD45; Sell >65

Short-term drivers

(Price Negative) – Investors worried about downside risk for 2020. Optimism around higher oil prices in 2020 has fallen in recent weeks. This month's IEA report will show the first official assessment of 2020, which could show rising shale production, and a slowing global economy as potential downside risks to global oil prices. What we already know is that the IEA has set its 2019 US production forecast at 12.32M bpd (slightly down by 130k vs prior forecast), and 13.26M for 2020 (+1M bpd of US production. Not bad considering that the report expects a +1.2M bpd growth in global demand). In its Short-Term Energy Outlook, Platts noted that 2019 WTI price estimates were cut by $3.50 to $59.3 pbl, while 2020 estimates were unchanged at $63 pbl.

(Price Negative) – Storage-facility continues to grow in the US. The US oil hub in Cushing continues to grow even as producers and traders look to move storage of surging West Texas production to the coast for export. The US petroleum industry is planning to build ~4.8M barrels of additional storage capacity and as many as seven new pipelines to move oil to and from the hub as trading volume in Cushing has increased ~10% YoY amid new output. The mid-term implications are clear. Occasional bottlenecks (due to lack of energy transport infrastructure) has been one of the reasons why unconventional producers stopped investing and producing during certain periods. Now, the construction of these facilities (storage warehouses and pipelines) will probably help to avoid investment and production stoppages, ensuring a greater flow and volume of gas and oil.

(Price Negative) – Saudi Arabia-Iran tensions causing uncertainty over OPEC meeting date: The geopolitical rivalry between Saudi Arabia and Iran is causing gridlock in the cartel, with the upcoming OPEC meeting date the latest example of the tensions. Iran is the only holdout to agreeing to shift the meeting. The intransigence is almost no coincidence, as Saudi Arabia and other OPEC nations take Iran's market share as its crude exports are squeezed by US sanctions.

(Price Neutral) – US exports to China unlikely to rebound, but Taiwan, other East Asia countries stepping up purchases: Platts reported that China's appetite for US crude seems unlikely to recover in 2H-2019 amid the ongoing trade war between the two countries, though Taiwan has filled the demand gap left by Chinese buyers. The article noted that exports to Taiwan more than doubled in Q1 to 15.73M barrels, while total sales to East Asia's top six buyers increased 75% YoY in Q1 to 83.76M barrels.

(Price Positive/Neutral) – US is implementing "energy colonialism". A third of global oil reserves is currently restricted by US sanctions on Iran and Venezuela. This leaves much less marketable oil in the world. A great space that the USA intends to fill with its own oil and gas.

(Price Positive) – OPEC+ says it will take recent bearishness into account. Saudi Arabia clearly wants to extend the OPEC+ production cuts while Russia has been, at best, non-committal. Nevertheless, Russia's energy minister warned in early June that prices could fall sharply below US$40 if producers pump too much oil, echoing statements from Saudi Arabia's Al-Falih. We take the comments as a possible signal that the production cut agreement would be extended into the second half of the year if prices continue to fall. The Saudis need higher prices (to cover their budget needs), but the benefits for Russia so far have not been as clear, with the country being slower than others to make the cuts agreed. Goldman Sachs analysts argued that sluggish demand growth does not support exiting the production agreement, but is not bad enough to reinforce more cuts. "Weakening in consumption may require OPEC+ to extend cuts, which Russia may not be ready to sign up for". The Goldman analysts noted that it is easier to unify a position when there is strong demand, but the middling environment makes the tensions between Russia and Saudi Arabia more apparent. An S&P Global Platts report showed Saudi Arabia's crude production falling 120K bpd in May to 9.70M bpd, the lowest in four-and-a-half years. Iranian production also fell 120K bpd to 2.45M bpd, the lowest since Nov-1988 as the country struggled to find buyers after the US declined to extend waivers to sanctions. Total OPEC production fell 170K bpd MoM to 30.09M bpd, the lowest since Feb-15. Production cut compliance was 117% in May, led by Saudi Arabia, which was 610K bpd under its cap. Iraq was 310K bpd above its limit. Meanwhile, OPEC Secretary General Barkindo said that the group and its non-cartel partners will take the current economic bearishness into account when they meet in the coming weeks.

Long-term drivers

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

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

(-) 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$1,100/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) rose to US$1,211 (from US$1,145 last month). In real terms, gold continues to trade well above its 20-year average of US$909. Given the global deflator (now at 1.1147), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,013.

Gold to Silver (Preference for store of value over productive assets). This ratio rose to 90.44x (from 88.37x last month) but still remains well above its 20-year average of 63.5x, 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$947/oz.

Gold to Oil: This ratio rose during the month to 25.73x (from 20.3x last month), still well above its 20-year average of 15.04x. Considering our fundamental long-term target for oil of US$50 pb (our central target for the long term) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$750 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long contracts rose sharply to 250k (from 226k last month). Short contracts fell significantly to 65k (from 102k). Thus, the net position rose sharply to 184k contracts during the month (from +124k the previous month), suggesting that speculators' NET appetite for gold has "increased" 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).

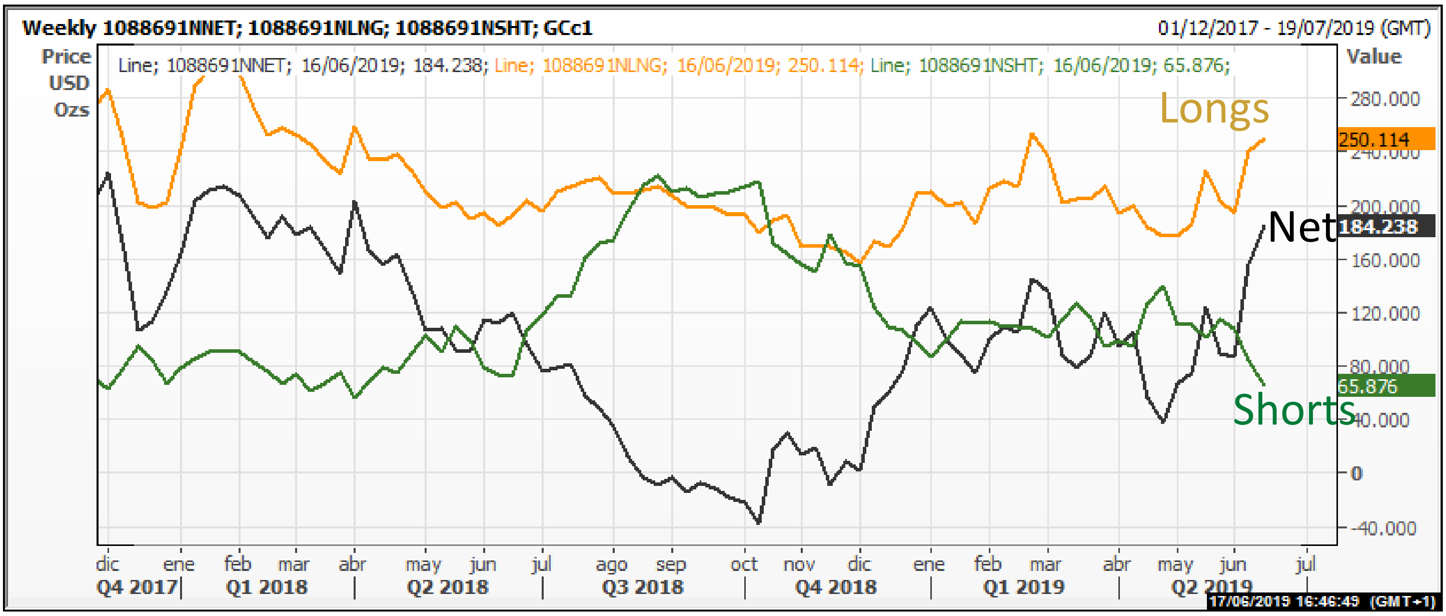
Demonetization in India. Demonetization forced millions of households to use formal banking services for the first time, helping to integrate them into the formal economy. The move will help mobilize billions of dollars in savings that were residing in unproductive physical assets such as gold.

Positive drivers

Gold to the S&P500: This ratio up-ticked to 0.468x (from 0.45x 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 (>US$11trn of face value is yielding negative rates).

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



EXCHANGE RATES

Flow analysis & Fundamental targets

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

Global positioning in the US dollar decreased during the last month (from US$30.8bn to US$28.9bn), with a 3-year z-score at levels falling to 1.18 (vs. 1.33 in the previous month). The dollar gave back some of its net longs with a broad-based trimming of risk across FX futures. Nevertheless, the fact that USD net longs remain 50% above 2019 lows ($28.9bn vs $19.2bn in Feb), is illustrative of the dollar's ongoing relative resilience. Though at lower levels, net long speculative positions in the greenback are still considerable. Speculators continue to finance their long positions in USD through short positions in EUR (-US$12.3bn), AUD (US$-4.4bn), and BRL (US$-0.67bn). Investors have continued to reduce their net long position in emerging market currencies (to a market value of US$3.27bn, from US$4.62bn last month), but the sharp fall in Z-score in EM positioning (1.05 vs 1.93) suggests that these currencies are not significantly overbought. Global positioning still suggests that investors think the US economy will perform well, as will emerging market economies in the coming months. Our **fundamental discussion** sticks with our structural bullish view on the USD against the EUR, although our mid-term target remains unchanged at 1.125, without ruling out increases in the European currency due to a temporary reversal of speculative flows (which should be used to sell EUR and buy USD). Our **technical analysis** within the Investment Committee now indicates a sideways-bearish 1-month view, with the EUR-USD now facing key support at 1.11, with resistance at 1.132.

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 7.00

RUB: NEGATIVE

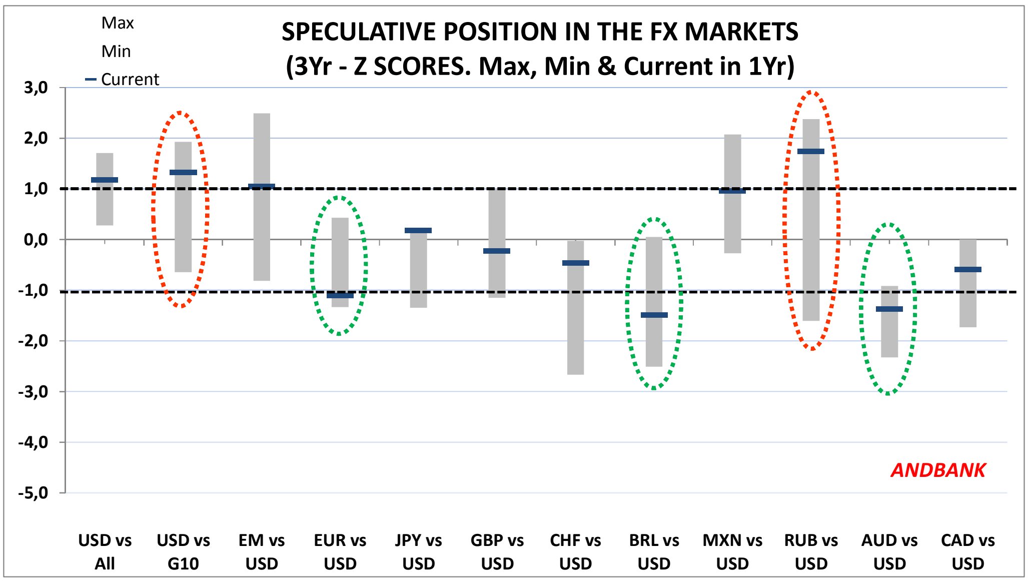
AUD: POSITIVE

CAD: 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	28,85	-0,89	34,9	0,0	23,1	**1,18**
USD vs G10	32,11	-2,22	39,6	0,0	23,8	**1,33**
EM	3,27	-1,33	5,0	-0,8	1,6	**1,05**
EUR	-12,29	1,06	5,4	-14,8	-6,0	**-1,11**
JPY	-5,20	1,82	-3,6	-12,8	-7,9	**0,18**
GBP	-3,56	-3,29	0,1	-6,5	-3,5	**-0,23**
CHF	-3,12	1,84	-1,6	-6,0	-3,6	**-0,47**
BRL	-0,67	-0,01	0,1	-0,8	-0,3	**-1,49**
MXN	2,65	-1,22	4,1	-0,3	1,6	**0,96**
RUB	1,29	-0,09	1,4	-0,2	0,5	**1,74**
AUD	-4,40	0,04	-1,9	-5,2	-3,7	**-1,38**
CAD	-2,47	1,06	-0,2	-5,0	-2,6	**-0,59**

Positive
Neutral-Positive
Neutral-Negative
Negative

ANDBANK



The currencies we technically favor are circled in green

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	4,7%	16,2%	2.914	2.794	-4,1%
	Europe - Stoxx Europe 600	3,4%	13,2%	383	387	1,0%
	Euro Zone - Euro Stoxx	3,9%	13,4%	374	379	1,6%
	SPAIN - IBEX 35	1,1%	0,07	9.179	9.736	6,1%
	MEXICO - MXSE IPC	2,2%	5,2%	43.792	44.035	0,6%
	BRAZIL - BOVESPA	4,3%	14,6%	100.689	99.123	-1,6%
	JAPAN - NIKKEI 225	-0,5%	5,4%	21.087	22.250	5,5%
	CHINA - SHANGHAI COMPOSITE	2,8%	19,3%	2.997	3.038	1,4%
	CHINA - SHENZEN COMPOSITE	2,3%	23,1%	1.578	1.606	1,8%
	INDIA - SENSEX	0,5%	9,8%	39.719	**40.023**	0,8%
	MSCI EM ASIA (in USD)	5,8%	7,7%	523	548	4,9%
Fixed Income Core countries	US Treasury 10 year Govie	1,8%	6,3%	2,05	**2,20**	-0,1%
	UK 10 year Gilt	0,5%	4,0%	0,85	**1,00**	-0,8%
	German 10 year BUND	0,8%	4,3%	-0,29	**-0,10**	-1,6%
	Japanese 10 year Govie	0,3%	1,1%	-0,15	**0,00**	-1,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	2,7%	8,8%	0,40	**0,65**	-1,8%
	Italy - 10yr Gov bond	4,1%	5,9%	2,15	**2,10**	1,5%
	Portugal - 10yr Gov bond	2,9%	10,6%	0,49	**0,80**	-2,2%
	Ireland - 10yr Gov bond	1,8%	5,8%	0,21	**0,20**	0,2%
	Greece - 10yr Gov bond	5,4%	17,2%	2,41	**2,65**	-0,7%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,4%	1,3%	54,81	**80**	-1,4%
	Credit EUR HY-Itraxx Xover	1,7%	4,3%	263,25	**325**	-1,4%
	Credit USD IG - CDX IG	0,5%	1,2%	57,40	**50**	1,0%
	Credit USD HY - CDX HY	1,8%	5,6%	332,88	**400**	0,2%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	23,7%	8,8%	15,71	**17,00**	5,4%
	Russia - 10yr Gov bond	5,1%	14,4%	7,41	6,90	11,5%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	5,1%	7,8%	7,39	**6,70**	12,9%
	India - 10yr Gov bond	2,4%	7,4%	6,89	**6,00**	14,0%
	Philippines - 10yr Gov bond	5,1%	18,9%	5,09	**4,70**	8,2%
	China - 10yr Gov bond	0,7%	0,9%	3,23	**3,25**	3,1%
	Malaysia - 10yr Gov bond	1,6%	5,5%	3,64	**2,75**	10,7%
	Thailand - 10yr Gov bond	1,9%	3,1%	2,13	**2,10**	2,3%
	Singapore - 10yr Gov bond	0,7%	1,0%	2,01	**1,50**	6,1%
	South Korea - 10yr Gov bond	1,2%	3,7%	1,54	**1,50**	1,9%
	Taiwan - 10yr Gov bond	0,1%	1,7%	0,69	**1,70**	-7,4%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	2,6%	11,6%	7,69	**6,95**	13,6%
	Mexico - 10yr Govie (USD)	2,8%	10,7%	3,87	**3,95**	3,3%
	Brazil - 10yr Govie (Loc)	7,8%	17,4%	7,59	8,50	0,3%
	Brazil - 10yr Govie (USD)	4,2%	11,1%	4,40	4,50	3,6%
	Argentina - 10yr Govie (USD)	8,0%	8,5%	11,13	9,50	24,1%
Commodities	Oil (WTI)	0,3%	29,9%	59,0	50,00	-15,3%
	GOLD	9,8%	9,5%	1.404,8	**1.200**	-14,6%
Fx	EURUSD (price of 1 EUR)	2,2%	-0,9%	1,137	1,125	-1,1%
	GBPUSD (price of 1 GBP)	0,6%	-0,5%	1,27	1,37	7,9%
	EURGBP (price of 1 EUR)	1,6%	-0,3%	0,90	0,82	-8,3%
	USDCHF (price of 1 USD)	-2,9%	-0,3%	0,98	0,98	-0,2%
	EURCHF (price of 1 EUR)	-0,8%	-1,1%	1,11	1,10	-1,2%
	USDJPY (price of 1 USD)	-1,5%	-1,5%	107,97	114,00	5,6%
	EURJPY (price of 1 EUR)	0,7%	-2,3%	122,78	128,25	4,5%
	USDMXN (price of 1 USD)	-0,1%	-2,7%	19,11	20,00	4,7%
	EURMXN (price of 1 EUR)	2,2%	-3,5%	21,74	22,50	3,5%
	USDBRL (price of 1 USD)	-3,3%	-1,0%	3,84	3,75	-2,4%
	EURBRL (price of 1 EUR)	-1,2%	-1,8%	4,37	4,22	-3,5%
	USDARS (price of 1 USD)	-4,0%	13,4%	42,67	47,00	10,1%
	USDINR (price of 1 USD)	-1,1%	-0,7%	69,11	72,00	4,2%
	CNY (price of 1 USD)	-0,5%	0,0%	6,88	7,00	1,8%

* *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**	**20,9**	**10,0**	**15,8**	**5,0**	**11,6**	**5,0**	**9,2**
Short-Term debt & MM instrument	**25,0**	**32,6**	**15,0**	**22,2**	**5,0**	**10,9**	**0,0**	**4,6**
Fixed Income Long-Term - OECD	**30,0**	**19,5**	**20,0**	**13,0**	**15,0**	**9,8**	**5,0**	**3,3**
US Gov & Municipals & Agencies		14,6		9,8		7,3		2,4
EU Gov & Municipals & Agencies		0,0		0,0		0,0		0,0
European Peripheral Risk		4,9		3,3		2,4		0,8
Credit (OECD)	**20,0**	**17,0**	**20,0**	**17,0**	**15,0**	**12,8**	**5,0**	**4,3**
Investment Grade USD		10,2		10,2		7,7		2,6
High Yield Grade USD		2,6		2,6		1,9		0,6
Investment Grade EUR		2,6		2,6		1,9		0,6
High Yield Grade EUR		1,7		1,7		1,3		0,4
Fixed Income Emerging Markets	**5,0**	**5,8**	**7,5**	**8,6**	**10,0**	**11,5**	**15,0**	**17,3**
Latam Sovereign		1,7		2,6		3,5		5,2
Latam Credit		1,7		2,6		3,5		5,2
Asia Sovereign		1,4		2,2		2,9		4,3
Asia Credit		0,9		1,3		1,7		2,6
Equity OECD	**5,0**	**4,3**	**20,0**	**17,0**	**32,5**	**27,6**	**50,0**	**42,5**
US Equity		1,7		6,8		11,1		17,0
European Equity		1,9		7,7		12,4		19,1
Japan Equity		0,6		2,6		4,1		6,4
Equity Emerging	**0,0**	**0,0**	**5,0**	**4,5**	**10,0**	**9,0**	**10,0**	**9,0**
Asian Equity		0,0		2,5		5,0		5,0
Latam Equity		0,0		2,0		4,1		4,1
Commodities	**0,0**	**0,0**	**2,5**	**1,9**	**5,0**	**3,8**	**5,0**	**3,8**
Energy		0,0		0,4		0,8		0,8
Minerals & Metals		0,0		0,4		0,8		0,8
Precious		0,0		0,6		1,1		1,1
Agriculture		0,0		0,6		1,1		1,1
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**3,1**	**5,0**	**6,3**
REITs		0,0		0,0		0,9		1,9
Alt.Energy (wind, solar, etc)		0,0		0,0		0,3		0,6
Market Neutral		0,0		0,0		1,3		2,5
Volatility		0,0		0,0		0,6		1,3
Currency Exposure (European investor perspective)								
EUR		93,5		89,3		85,0		80,0
USD		6,5		10,8		15,0		20,0

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

Together
Everyone
Achieves
More

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

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

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

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

Ricardo Braga
Brazil: Rates, Equity & FX
+55 11 3095 7075

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

Gabriel Lopes
Brazil: Rates, Equity & FX
+55 11 3095 7075

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

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

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

Carlos Hernández
Global Technical Analysis
+376 873 381

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

LEGAL DISCLAIMER