ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review | Global Strategic Outlook – August-September 2019

Corporate Review

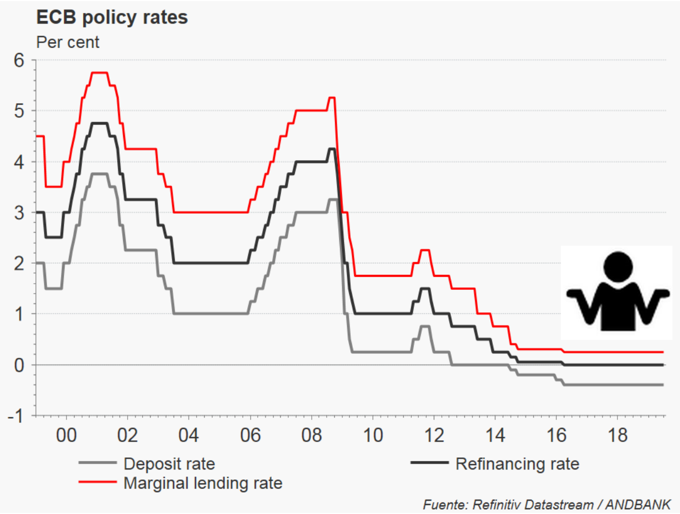
August-September 2019

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

EXECUTIVE SUMMARY

CHART OF THE MONTH

Whatever it takes, Part II?



Fuente: Refinitiv Datastream / ANDBANK

EQUITIES

Q2 results have generally been viewed as better than expected, with 78% of reporters exceeding consensus earnings estimates. In aggregate, US companies are beating the consensus by 6.5%. ***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):*** MW-OVERWEIGHT, target 22,250. ***China (Shenzhen):*** UNDERWEIGHT, target 1,600. ***China (Shanghai):*** UNDERWEIGHT, target 3,000 ***India (Sensex):*** MARKETWEIGHT-OW, target 40,023. ***Brazil (Ibovespa):*** UW-MARKETWEIGHT, target 102,600. ***Mexico (IPC Index):*** OVERWEIGHT, target 43,000. ***Israel (TLV Index):*** MARKETWEIGHT.

FIXED INCOME

Fixed income markets continued to perform positively last month given extremely dovish central banks. Despite extreme valuations, especially in European bonds, this support will not disappear in the short term. ***UST 10Y:*** UNDERWEIGHT, target 2.20%. ***German Bund:*** UNDERWEIGHT, target -0.10%. ***Spanish bono:*** UNDERWEIGHT, target 0.70%. ***Italian bond***: MARKETWEIGHT, target 2.0%. ***Portuguese bond:*** UNDERWEIGHT, target 0.80%. ***Irish bond:*** MARKETWEIGHT, target 0.20%. ***EM bonds Asia:*** MIXED (preferred India, Indonesia, Malaysia, Philippines and Singapore. Avoid Taiwan, Thailand and South Korea). ***EM bonds Latam:*** OW Mexico in local, MW Mexico in USD. Argentina in USD. Brazil Underweight in local, UW-MW in USD.

CORPORATE CREDIT

EUR Credit: Although we are seeing record credit issuance, the renewed hunt for yield has attracted inflows into IG & HY. A dovish ECB this month is adding even more support to spreads. The number of negative-yielding euro junk bonds has risen to 14 from 0 at the beginning of the year. There is a significant imbalance between upside and downside risks. Weak growth, budget conflicts and trade wars have the potential to trigger spread volatility, and credit-specific factors from risk/reward considerations through to supply dynamics could also play a bigger role. The green bond market remains on fire. Supply increased across all segments with banks posting the largest increase. ***IG € (Itraxx):*** UNDERWEIGHT, target 80. ***HY € (Xover):*** UNDERWEIGHT, target 325. ***US$ CDX IG:*** MARKETWEIGHT, target 50. ***Credit $ CDX HY: MW-***UNDERWEIGHT, target 354.

CURRENCIES

Preferred currencies: USD, AUD & GBP. The currencies that we like least are: JPY, MXN, RUB, CAD

COMMODITIES

Sell WTI above US$65. OPEC+ pact does not change our fundamental outlook of an oversupplied market, but in the short-term, Iran is maintaining tensions with the US by pushing back Pompeo's negotiation claims, helping to sustain the oil price.

USA
Q2 results have generally been viewed as better than expected.

Economy

Macroeconomic data have generally been better than the previous month, easing fears of an impending slowdown. The following stand out among the most important data that highlight the strength of the economy: Initial jobless claims at 206K (from previous 216K); Durable goods growth at 2% (from -1.3% previous month); New home sales growth at +7% YoY; Markit Composite Index upticked to 51.6 (from 51.5), with services index accelerating to 52.2 (from 51.5); Philly Fed business index rose to 21.8 (from 0.3 last month), and Capex component grew to 36.9 (from 28). In the inflation camp, data suggests that we are comfortably near the Fed's 2% target, with PCE Inflation reading at 2.3%.

Fed

In a move underappreciated by the market (investors just focused on the 25bp rate cut), the Fed also decided to halt the shrinking of its balance sheet. What do this means? So far, the Fed was not rolling over some US$35bn of its maturing holdings of debt, and was going to keep this until end of September. Its decision (to keep unchanged the size of its balance sheet, and start reinvesting its maturing holdings) means US$70bn of new liquidity and demand for Treasuries relative to earlier expectations. Powell offered two reasons behind its decision to end QT. 1) Provide protection against downside risks, and 2) Encourage a pick-up in inflation. Inflation is already running at or near the Fed's 2% target what turns the second reason into something bogus. There is just one situation in which one must invent an additional argument to make a decision. That in which the official argument cannot be justified., meaning that the Fed does not see relevant downside risks. .

Equity market

Liquidity environment will be more benign for 3Q-4Q 2019, and this reinforces a bullish view of equity markets based on improving liquidity.Q2 results have generally been viewed as better than expected as of the week ended 26th July. Beat rates remain high with 78% of reporters exceeding consensus earnings estimates, ahead of the 76% one-year average and the 72% five-year average. In aggregate, companies are beating the consensus by 6.5% (above the 4.8% five-year average positive surprise). Industrial results are still leaning to the softer side, but is not a surprise, and guidance seems better than feared. Latest semi guidance has been better than feared, but the bottom may be a quarter or two away. Looking ahead, some takeaways from the latest batch of results might not sound as upbeat: 1) Trade and geopolitical tensions remain among the big macro headwinds. 2) Weather still an overhang. 3) Slowdown in global auto cycle an issue for a number of companies. 4) Revenue growth slowdown in the tech sector, with Huawei constraints still weighing; product delays and model transition challenges among the big themes in tech today. 5) Softer Chinese demand also getting some attention today. We think the focus is now on the guidance for 2H19 and into 2020. Estimates here still look materially too high to us and we expect companies will begin to temper expectations for a second half recovery. With earnings coming down, we suspect the market will have a difficult time getting excited about growth reaccelerating and further multiples growth. We see no reason to raise our central target and exit point for the S&P.

Financial market assessment

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

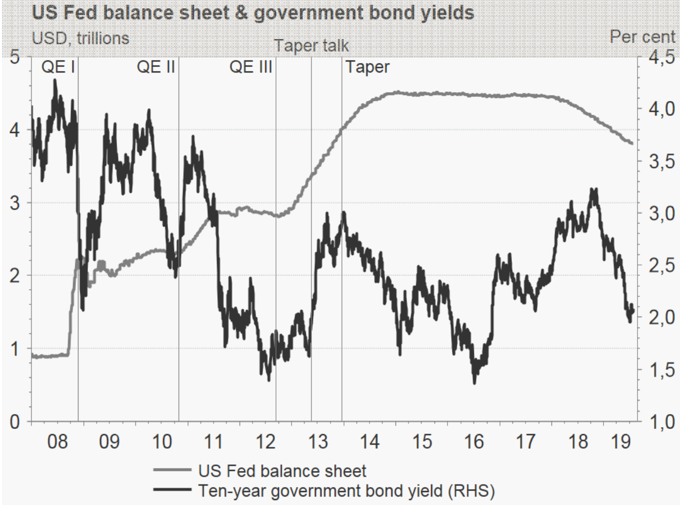
Bonds – Govies: UW-MARKETWEIGHT. (10Y UST entry point 2.2%)

CDX IG: MARKETWEIGHT (Target Spread 50)

CDX HY: MW-UNDERWEIGHT (Target Spread 354)

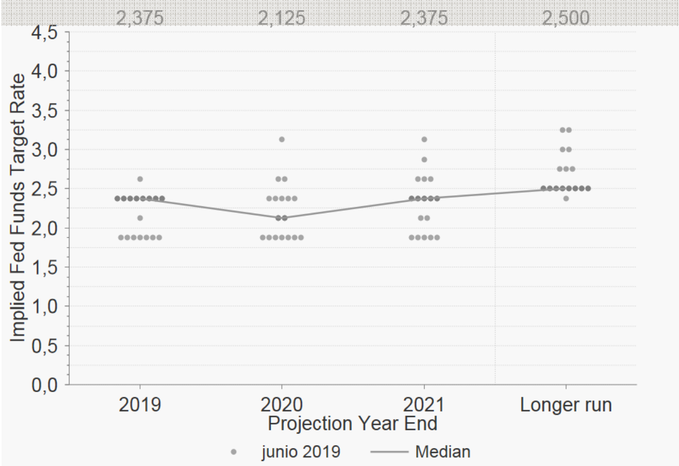
Forex – DXY index: MARKETWEIGHT

US Fed balance sheet & government bond yields



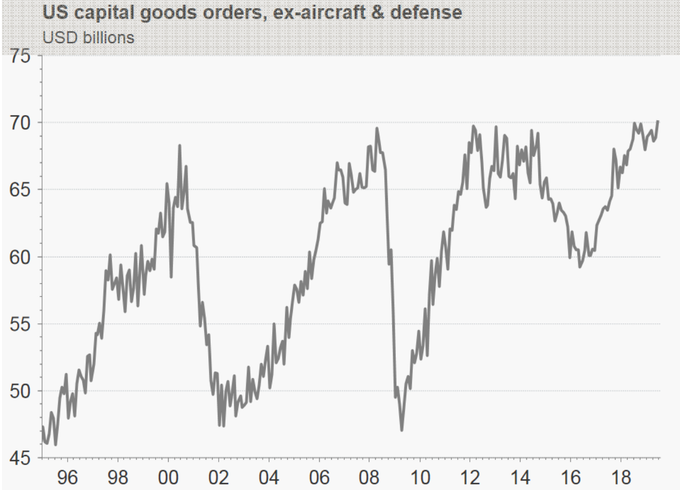
Fuente: Refinitiv Datastream / ANDBANK

Federal Open Market Committee Projections



Fuente: Thomson Reuters Datastream / ANDBANK

US capital goods orders, ex-aircraft & defense



Fuente: Refinitiv Datastream / ANDBANK

EUROPE

ECB's Draghi: Whatever it takes, Part 2

ECB

At the annual ECB conference, President Draghi gave a clear hint about further easing, noting that lingering uncertainty is in itself already a materialization of downside risks. In summary, the meeting confirmed the message from Sintra, and was essentially a pre-announcement that action will be taken at the next meeting. What to expect in September? 1) A rate cut appears certain. The deposit rate cut is the most consensual of the measures that ECB staff will be looking at. 2) With regards to tiering, a significant number of GC members remain unconvinced. 3) While asset purchases are likely, finding more eligible assets to buy is not easy. There are misgivings about buying more corporate bonds because of the risks they entail. Purchases of stocks and bank bonds are also seen as unlikely. On the govies front, increasing the issuer limit to 50% or disregarding it altogether are seen as the easiest solutions. 4) The ECB's guidance on the future path of interest rates will be changed at the September 2019 meeting to guarantee an easy stance even after July 2020.

Brexit, 10 reasons for calm. Good time to start buying sterling?

1) Sterling is at 2017's flash crash level and a lemming-like rush of analysts are projecting even lower targets. In REER terms, sterling is 20% below its 40-year average. 2) Market sentiment is overwhelmingly negative, as Boris Johnson has devoted his efforts to normalizing the idea of a No Deal Brexit (NBD). 3) To make matters worse, they are now publicly describing a No Deal as a "significant risk". 4) Parliamentary forces arrayed against a NDB are even more powerful now, with Jonson's majority even smaller than May's one, and opposition even more united in trying to defeat Johnson. 5) It needs only two dissident Tories to vote down Johnson's government, and at least three Tory MP's have publicly stated that they are willing to bring down the government to avert a NDB. Johnson knows this and will try to reunite his party by delivering some form of Brexit that satisfies everyone. 6) The idea that Johnson could suspend Parliament to prevent a vote of no confidence is a delusion. 7) Johnson could find a way to avoid a NDB by just asking for some cosmetic changes to May's Plan (a time limit on the backstop). Parliament could pass this "enhanced" plan, because the hardliners who just wanted to oust Theresa May will now do whatever is necessary to get Brexit done and maximize Johnson's chances of winning a snap general election. Centrist Tories have now given up and prefer any kind of negotiated Brexit to a NDB. 8) EU leaders also want the Brexit saga finished. 9) A time limit on the backstop that guarantees an open border between the two Irelands matters to Ireland. A NDB would be bad news for Ireland in terms of economic uncertainty and security. Dublin could "guide" other EU governments. 10) Boris Johnson himself has repeatedly said that though he will never abandon the NDB as a negotiating tactic, the possibility of a NDB happening is a million to one against.

Financial market assessment

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

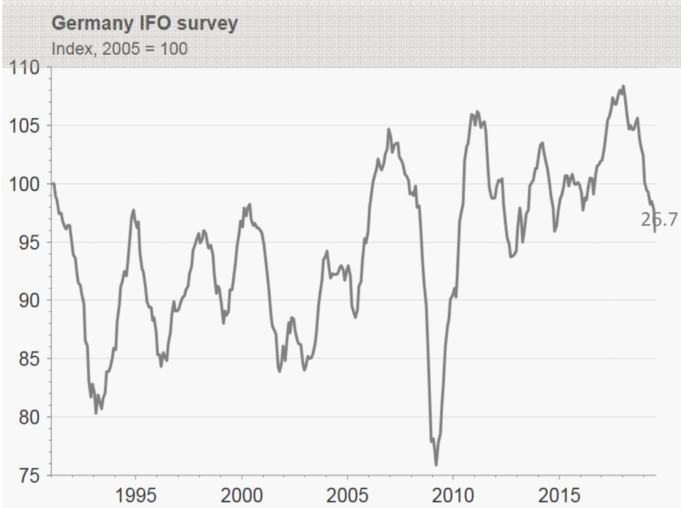
Equities – Euro Stoxx: MARKETWEIGHT-OW. Target 379. Exit 398

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

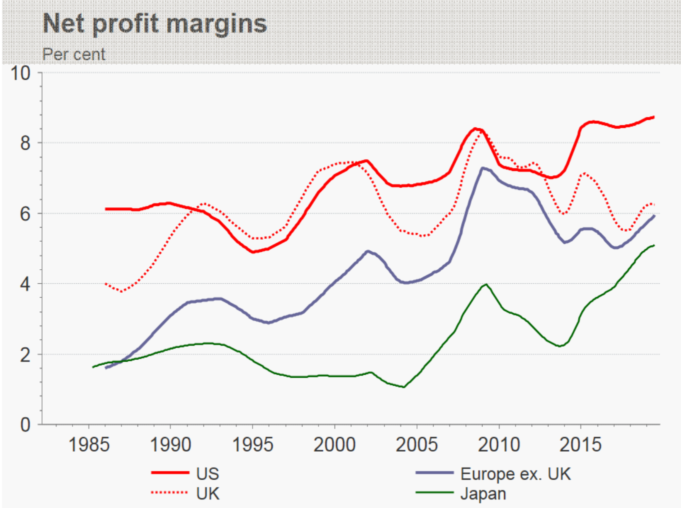
Bonds – Peripheral: UW (SP 0.70%, IT 2.0%, PO 0.8%. IE 0.20%)

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

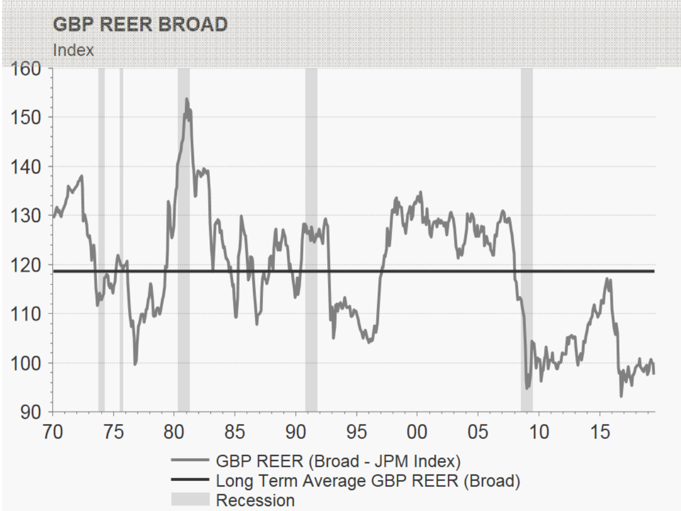
Credit – Itraxx Europe (HY): UNDERWEIGHT (Target Spread 325)



Fuente: Refinitiv Datastream / ANDBANK



Fuente: Refinitiv Datastream / ANDBANK



Fuente: Refinitiv Datastream / ANDBANK

SPAIN

A new election in November would not be disruptive

Politics

Acting Spanish PM Sanchez's bid to become PM fell short in the parliamentary ballot on Thursday 25th, his second defeat in a week, after his Socialist party failed to iron out the conditions for a tie-up with the anti-austerity group Podemos. According to today's polls, a new election on November 10 would not change the political landscape excessively, apart from the mainstream parties (PSOE and PP) increasing their in votes and seats, and who knows if they would be the two clear winners. The PP could abstain and facilitate governability (in a Dec 2015-style decision) to clearly lead the opposition. This scenario would probably lead us to roll over the 2018 budget another year.

Economics

Almost all forecasts are rising and are in a range of 2.2-2.3% for 2019. We continue to forecast 2.1% growth. Consumer confidence continues to rise, retail sales are performing well, real estate continues to recover, but investment has dropped somewhat. Our 2.1% GDP growth forecast remains unchanged pending the definitive data for 2Q and the progress of the third quarter. The economic data has continued to be favorable in the Spanish economy in general. However, the manufacturing sector continues to decline, a trend seen in other countries around the world. The following are among the most outstanding data published this month: Retail sales YoY at 2.4% (from 2.7%); Services PMI rose to 53.6 (from 52.8); Industrial output in June grew at 1.8% YoY; Manufacturing PMI fell to 47.9 (from 50.1); and estimated GDP remains at 2.4% YoY in 2Q2019 (vs 2.4% in 1Q2019). On the inflation front, the recent data suggest that price pressures remain subdued, with the HICP YoY at 0.6% at the last reading.

Corporate sector. Results

Banks with national businesses are posting very poor results. The only ones releasing good figures are the big banks with businesses abroad. Banco Santander presented better than expected results from Brazil, Mexico and the USA. On the other hand, banks with a more domestic base are lowering their forecasts after the ECB announcements about new interest rate cuts and doubts about tiering (Banco Sabadell expects negative net interest income this year). This also negatively affected some restructuring (Caixabank) more than expected. The remaining banks have not been so aggressive in cutting their forecasts but have said they would not meet expectations (Bankia, Unicaja and Caixa). The rest of the sectors in the Spanish market are doing quite well, led by Iberdrola, Repsol and the other leading cyclical stocks. The consensus around profits has been cut and is converging towards our year-end EPS estimates (753 euros per share), which is the target level for 2019 that Andbank set at the beginning of the year. Consequently, for the moment we have decided not to touch our central target (or the starting point) for the Ibex 35. We are holding 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 9,425; sell at 9,900.

Financial market assessment

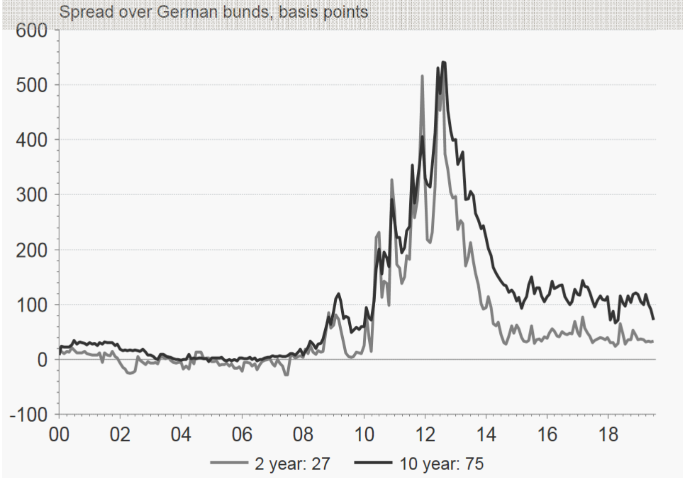
Equities – IBEX: OVERWEIGHT. Target 9,425. Exit point 9,900

Bonds – Government: UNDERWEIGHT (BONO target yield 0.70%)

Credit – Investment grade: UNDERWEIGHT

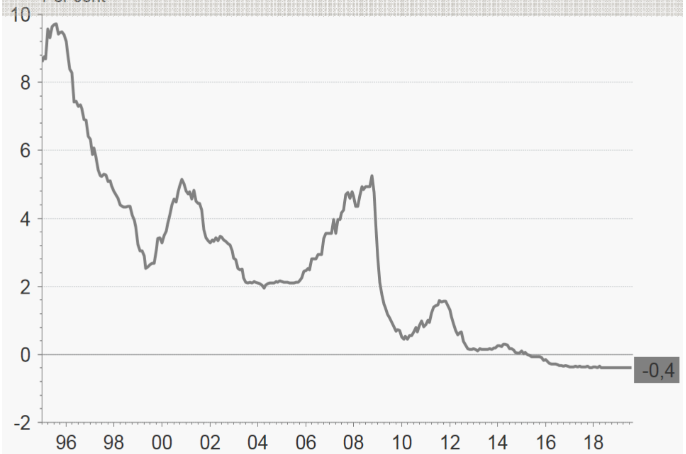
Credit – High yield: UNDERWEIGHT

Spain government bond spreads
Spread over German bunds, basis points



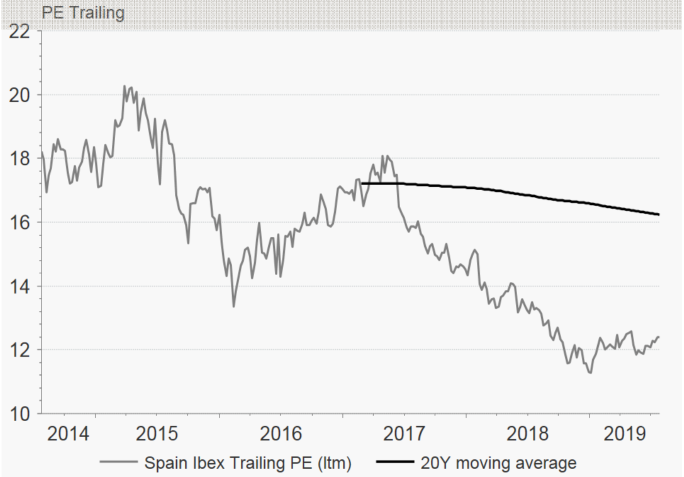
Fuente: Refinitiv Datastream / ANDBANK

Spain 3-month interbank rate
Per cent



Fuente: Refinitiv Datastream / ANDBANK

SPAIN IBEX
PE Trailing



Fuente: Refinitiv Datastream / ANDBANK

JAPAN

Corporate sector sees no need for more BoJ easing

Inflation and activity

(-) June overall CPI +0.7% YoY vs +0.7% in prior month. Core CPI +0.6% YoY vs +0.8% in prior month.

(-) July's Tankan sentiment index for manufacturers fell to 3 in July (lowest since August 2016) from 6 in June, dragged down by industries such as textiles/paper, steel/non-ferrous metals and precision machinery. (+) However, the service-sector index improved to 25 in July from 22 in the previous month, led by real estate/construction and wholesalers. Although the index is seen falling to 16 in October.

(+) May final industrial production +2.0% MoM vs +0.6% in prior month. Production capacity (0.5%) YoY vs (0.5%) in prior month.

(-) May tertiary sector activity index (0.2%) MoM vs consensus (0.1%) and +0.8% in prior month

Trade: Japan and South Korea pull world into their trade spat

Japan and South Korea are expected to clash over Tokyo's restrictions on exports of high-tech materials at the World Trade Organization's General Council next week as historical grievances and the threat of further trade curbs loom heavy over bilateral ties. The two sides are seen sticking to their official lines at the two-day session starting Tuesday and will likely not make much progress toward bridging the gap.

US and Japan eye possible small trade deal by September. They are working on a *quid pro quo* deal involving agriculture and autos that could be agreed by President Donald Trump and Japanese Prime Minister Abe when they meet in New York in September.

Monetary easing: Corporate sector sees no need for more BoJ easing

A Reuters poll shows an overwhelming majority of Japanese firms see no need for the BoJ to ease policy further this year despite speculation the central bank may do so as early as this month as economic pressures mount. The story noted that 88% of firms said no additional easing was needed.

International transactions by Japanese investors

Week ended 30-June: Net buyers of ¥514.5B in foreign debt. Net buyers of ¥115.6B in foreign equities.

Week ended 6-July: Net buyers of ¥297.1B in foreign debt. Net buyers of ¥39B in foreign equities.

Week ended 13-July: Net buyers of ¥950B in foreign debt. Neutral in foreign equities.

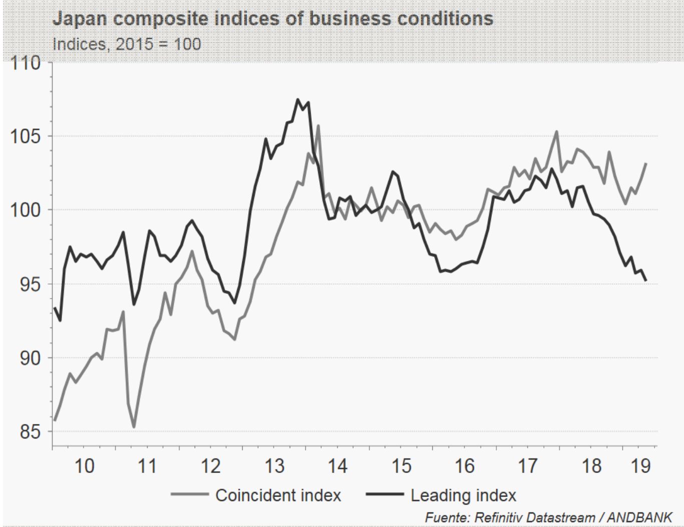
In our last Corporate Opinion document we said that "Global asset managers are on the hunt for Japanese savings", and we mentioned that this represents a bridge that would channel savings in Japan (> US $ 16trn) towards debt assets abroad, and that therefore this demand would continue to support bonds (mainly emerging market bonds). We do not know exactly where we are in this process of channeling Japanese savings into foreign assets, but we do know that US$16trn is an enormous amount of money and we are almost convinced that there is still much to be channeled. Additionally, the BoJ has decided that it is time to restate monetary stimuli, ensuring that negative real yields in Japan are maintained for longer, and this will continue to drive the ongoing expulsion of all those savings towards debt assets abroad.

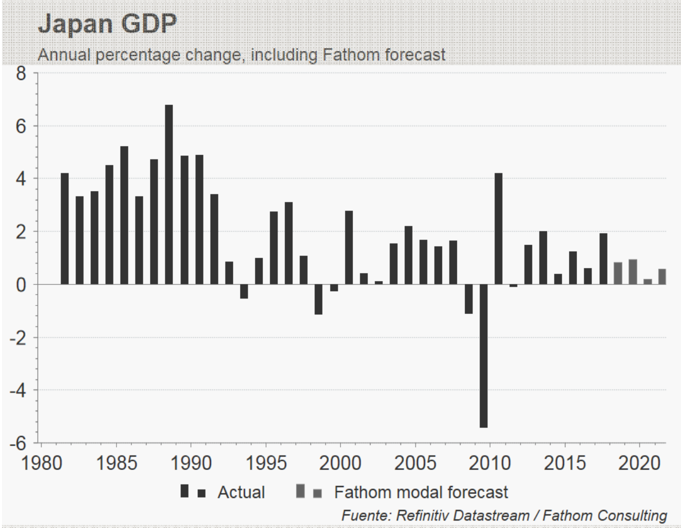
Financial market outlook

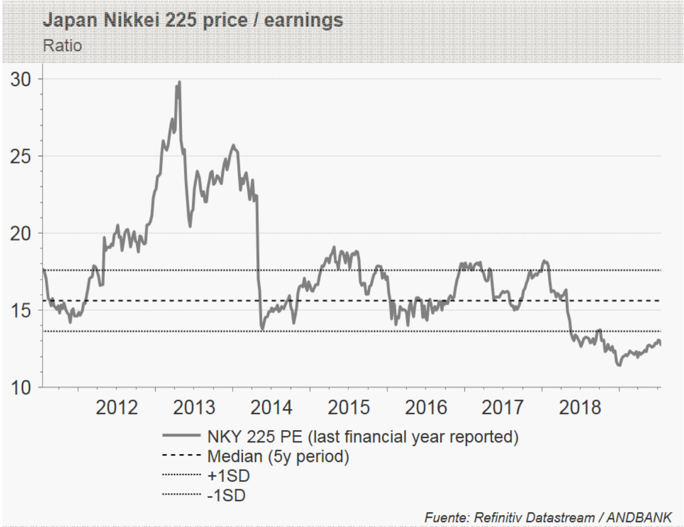
Equities – N225: MW-OVERWEIGHT. Target 22,250 (Exit 22,700)

Bonds – Govies: UNDERWEIGHT. Target yield 0.00%

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







MACRO ECONOMY

CHINA

Manufacturers move supply chains out of China. 'Once you move, you don't go back'

Economy

The WSJ discussed how US manufacturers are shifting production to countries outside of China as trade tensions stretch into a second year. Executives at companies that are moving operations outside China said they expect to keep them that way because of the time and money already invested in setting up new facilities and reorganizing shipping arrangements.

Record-low quarterly GDP growth continued to weigh on sentiment and was conducive to profit-taking activity. Q2 GDP growth was 6.2% YoY (below the 6.4% seen in Q1). Nevertheless, fiscal stimulus is having a modest positive effect, as seen in June data, with industrial production expanding at 6.3% (vs 5% in prior month), and fixed asset investment growing at 5.8% YoY (vs 5.6% in prior month). The statistics bureau reported that H1 growth was "hard-won" and laid a good foundation for achieving a full-year growth target of between 6% and 6.5%. NBS spokesman Mao Shenyong told reporters that China's recent counter-cyclical measures to support the economy will show more obvious results during the second half of 2019.

Beijing implements new stimulus but this cannot last

Fiscal expenditure +10.7% YoY YTD (vs +12.5% in prior month). This compares badly with June fiscal revenues at +3.4% YoY YTD (also declining vs +3.8% in prior month). Where is all this public spending going? The National Development and Reform Commission (NDRC) announced that it approved 94 fixed-asset investment projects in January-June worth a total of CNY471.5B ($68.60B), up 81% YoY. We also knew that total social financing in June was CNY2.26T (above the CNY1.40T seen in prior month). On the monetary front, the PBOC injected CNY200B via its one-year medium-term lending facility (MLF), with the interest rate unchanged at 3.30%. A batch of MLF loans totaling CNY188.5B matures on Monday. The PBoC also said it would implement a previously announced third phase of cuts to the reserve requirement ratio for county-level rural commercial banks on Monday, releasing long-term capital worth about CNY100B.

NDRC drafts plan to make it easier to do business as a measure to reverse the effects of the trade spat

The National Development and Reform Commission drafted guidelines to make it easier to do business in China, from nurturing private enterprises to widening market access, as economic growth slows amid a protracted trade war with the US. Measures include better protection of intellectual property, equal market access and more support for private businesses and small companies as part of wider plans to stimulate the economy.

Trade

Treasury Secretary Steven Mnuchin told reporters that he and USTR Robert Lighthizer may travel to Beijing for trade negotiations if talks by phone in mid-July were productive. Earlier, President Trump indicated the US tariffs on China were having their intended impact by squeezing China's economy: "The United States' tariffs are having a major effect on companies wanting to leave China for non-tariffed countries. This is why China wants to make a deal."

Financial market outlook

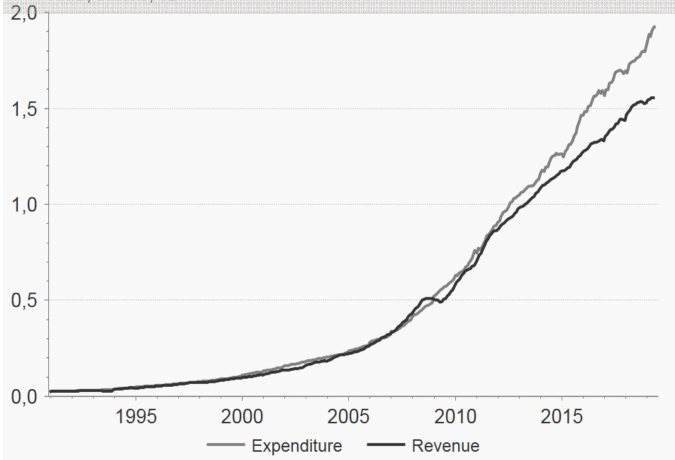
Equities – SHANGHAI Idx: UNDERWEIGHT. Target 3,000. Exit 3,100

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

Bonds – Govies: MARKETWEIGHT (target yield 3.25%)

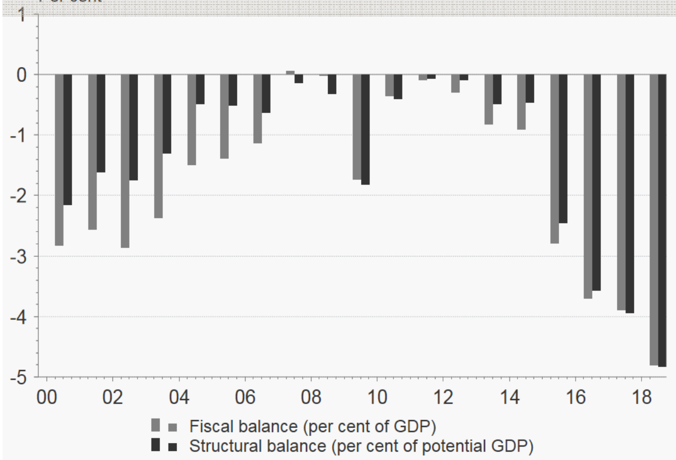
Forex – CNY/USD: UNDERWEIGHT (target 7.00)

China government budgetary exp. & rev.
RMB, trillions, 12-MMA



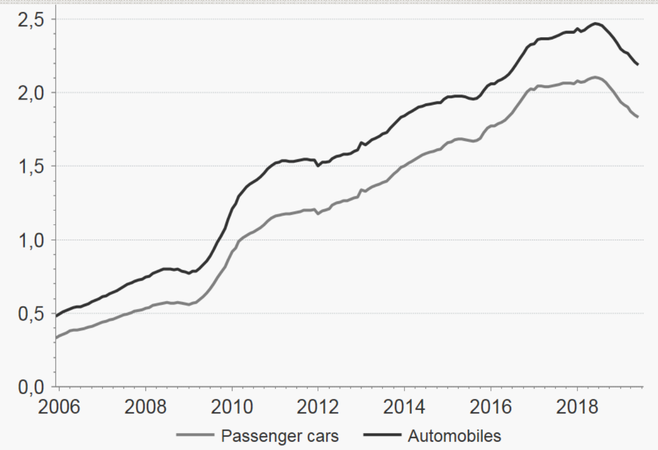
Fuente: Refinitiv Datastream / ANDBANK

China fiscal stance
Per cent



Fuente: Refinitiv Datastream / ANDBANK

China monthly domestic motor vehicle sales
Millions, twelve-month moving average



Fuente: Refinitiv Datastream / ANDBANK

INDIA

Towards a US$5trn economy by 2025? We doubt it, but the outlook continues to be interesting

Fiscal consolidation: A good move to reduce vulnerability

The new government of India, and its finance minister, Nirmala Sitharaman, delivered a very measured budget this month, preferring to maintain an appearance of fiscal rectitude than to prioritize growth and jobs through public spending. Disappointing GDP (and tax revenue growth) meant that balancing the books is now trickier than previously estimated. That is why the government targeted a deficit of 3.3% (central government), shaving 10bp off last year's number and ignoring calls for stimulus to revive an economy that grew by just 5.8% YoY in the January-to-March quarter. The government plans to tap other revenue sources, including selling US$15bn of state assets. The government relaxed the FDI requirements in the aviation sector, raising the possibility of a 100% sale of Air India. A budget with lower public spending will result in a lower economic boost in the short-term, but the implications are positive in the long-run as it signals a strong commitment while avoiding the emergence of distorting bubbles and feeding a more credible economic narrative of longer and sustainable cycles. It is also a necessary step for an economy that, in fiscal terms, is one of the most overextended emerging markets, with a consolidated deficit (general government) of about 7% of GDP, and a public debt-to-GDP ratio of more than 60%.

Economy: Towards a US$5trn economy by 2025?

Newly reelected president Narendra Modi pledged to create a US$5trn economy by 2024-25. The problem is that this goal requires India to grow at an annual real GDP rate of 8% until the end of that period. We do not care that this objective is not reached within the established period. If the average growth is around 7-7.5%, as predicted by the World Bank, it would result in a very considerable and positive transformation of this economy. We therefore believe that the fiscal consolidation policy can help achieve that long-term objective. The question is: how to accelerate growth from current levels without more public spending? The desirable option would be for growth to come from private investment. By tapping foreign borrowers (the finance minister hinted at the first overseas bond sale) the government hopes to free up domestic savings for the private sector. India has steered clear of borrowing in foreign currency after the Asian financial crisis of 1997-98 but this foreign bond issue comes after the government realized that domestic household savings are insufficient to finance both public and private borrowing. The challenge is to expand external borrowing sufficiently to fund new investment without becoming dangerously dependent on it. We do not see this bond issue as problematic at this stage, since it only represents 10% of the total current-year financing and India's external debt remains under 20% of GDP. Foreign demand will not be a problem as foreign investors are likely to gobble up sovereign debt offering attractive yields given the global backdrop of negative interest rates. It makes sense for India to finance itself abroad, given the external conditions of negative interest rates (more than US$11trn of bonds are offering negative yields). This will allow Delhi to pay a much lower interest rate. Another positive side effect is that these lower costs should feed through into lower foreign-currency borrowing rates for corporates. Currently, State Bank of India's dollar-denominated debt is used as a proxy benchmark, but the government will issue paper more cheaply.

Financial market outlook

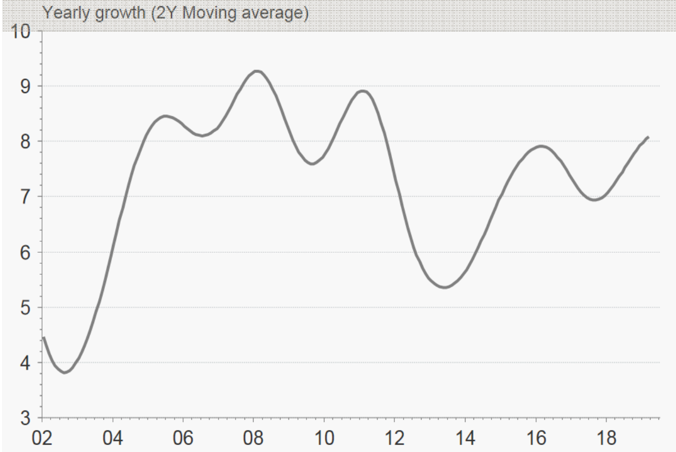
Equities – SENSEX: MARKETWEIGHT-OW. Target 40,023. Exit 42,000

Bonds – Govies: OVERWEIGHT(target yield 5.75%)

Bonds – Corporates: OVERWEIGHT

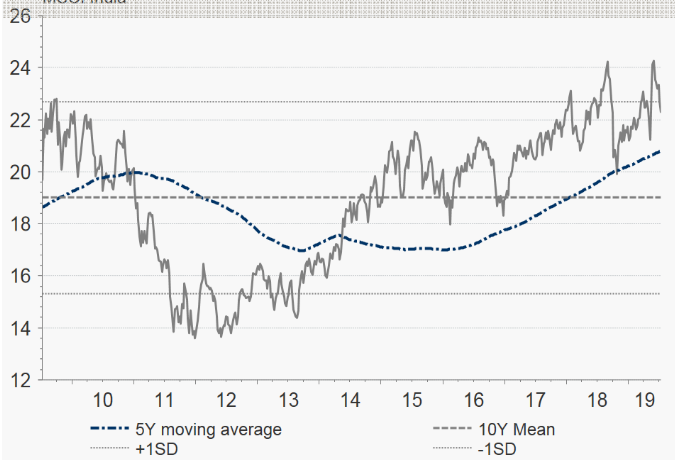
Forex – INR/USD: UNDERWEIGHT (target 72)

India composite leading indicator
Yearly growth (2Y Moving average)



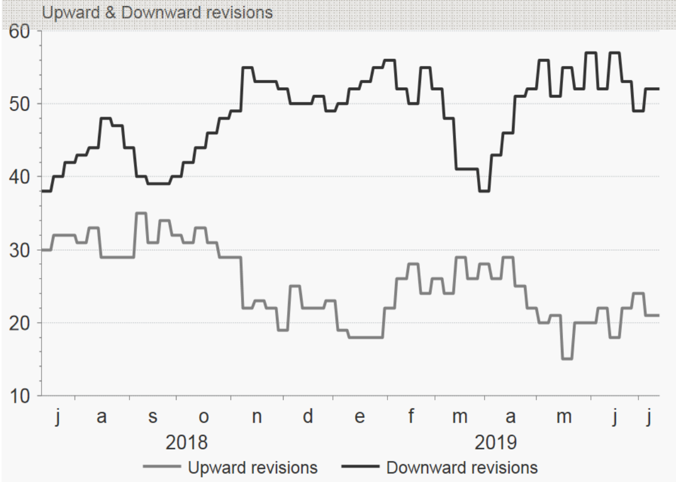
Fuente: Refinitiv Datastream / ANDBANK

PE - India
MSCI India



Fuente: Refinitiv Datastream / ANDBANK

Number companies revising its estimates
Upward & Downward revisions



Fuente: Refinitiv Datastream / ANDBANK

ISRAEL

Equity market seems to be fairly valued. Bonds remain expensive

Macro summary

The Israeli economy grew by 5% in the first quarter of 2019 compared to the fourth quarter of 2018. The figure was revised upwards (from 4.8% initially reported) due to an increase in private consumption of motor vehicles and household appliances. The consumer price index (June) missed forecasts and fell by 0.6% (a 0.3% fall was expected) and pulled the long bond yields to a new low. The Central Bureau of Statistics published figures showing that the average wage per employee rose at a rate of 3.7% in April. The Bank of Israel interest rate remained unchanged but according to the bank's research division forecast, the interest rate will rise once this year and twice next year (Target is 1%; Current level 0.25%).

Politics

The State of Israel is approaching its second elections this year.

The upcoming government is expected to cope with a large deficit and the housing problem that is still making it difficult for young couples in Israel (house prices rose + 0.5% in April-May).

Israeli Capital Markets. A quick assessment

Equity market:

The Israeli equity market seems to be fairly valued, with the PE multiple just above its 10Y moving average. Just a little before the beginning of the 2nd quarter financial reporting season and since our last update (June 17th), the Tel-Aviv 125 index has risen 2.56% following a 2.9% rise in the S&P 500. The rise in both markets were due to expectations of interest rate cuts in the U.S. Year to date, the TLV-125 has risen 10.5%, with the real estate and tech companies leading the index with gains of 5.8% and 5.2% respectively. Oil & gas companies (Delek Group, Delek drilling etc.) and pharmaceutical companies (Teva, Perrigo) have lagged behind. We expect a strong earnings season starting towards the end of July but also a rise in market volatility during this period, mainly because many stocks in the TLV-125 index are trading around peak levels. We continue to overweight the real estate and tech sectors (helped by the low interest rate environment) while we continue to underweight the pharma and oil & gas sectors.

Bond market:

Low inflation, a strong Shekel and government yields dropping almost all around the developed world, make it very hard (almost impossible) for the Israeli central bank to raise interest rates in the near future. We have also seen the first signs of a slowdown in the Israeli job market, and a decrease in the growth rate of consumption (though they still remain at very healthy levels). The credit spread in the Israeli investment grade index Tel-Bond60 dropped about 15 bp to 1.11%, while the credit spread in the Israeli high yield index Tel-Bond-Tsuot dropped about 35 bp to 2.38%. Due to low yields and the strong correlation with the long end of the US yield curve, our outlook remains negative on the Israeli bond market and we recommend shorter duration, focusing on investment grade corporate bonds over high yield due the sharp drop in high yield credit spread.

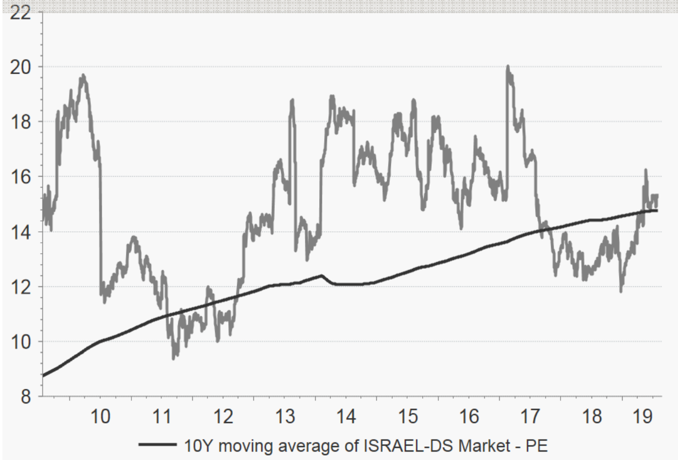
FX: The Israeli Shekel continued its rally against the USD and the EUR. The Shekel has accumulated a YTD gain of 5.60% vs the USD.

Financial market outlook

Equities – TLV35 Index: MARKETWEIGHT (Fairly valued)

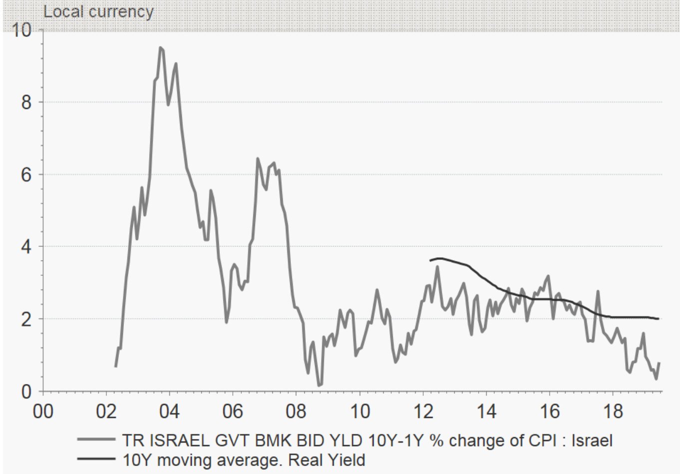
Bonds – 10YGov USD: UNDERWEIGHT (Real yield at 0.79%)

Israel price/earnings, Datastream index
Ratio



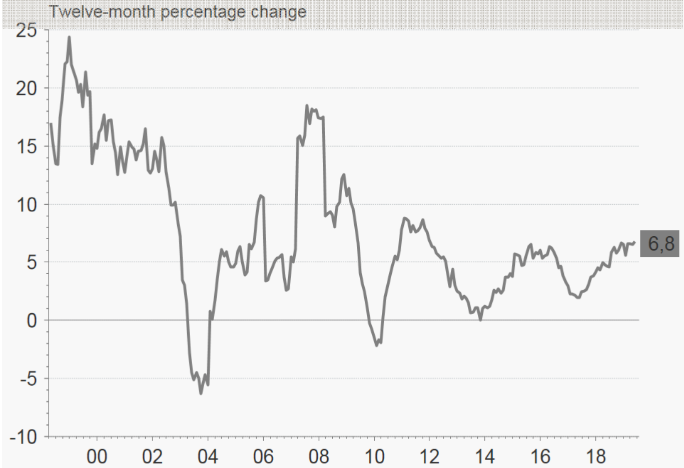
Fuente: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y
Local currency



Fuente: Refinitiv Datastream / ANDBANK

Israel domestic credit to the private sector
Twelve-month percentage change



Fuente: Refinitiv Datastream / ANDBANK

BRAZIL

Growth forecasts in Brazil may bottom out

Economy

At the start of last year there were high hopes that the recovery from the deep 2015/16 recession would become more robust. As it became evident last year that output was failing to gain momentum, the median projection was gradually pared back and predictions have been slashed to a poor 0.8% growth for FY19. The good news -if it can be called that- is that the consensus forecast has recently showed some signs of levelling off. Projected GDP growth in 2020 has already been lowered from 2.8% to 2.1%, but “there is at least a chance it may now stabilize and even turn upwards at some stage”, according to the firm EM Funding. In fact, the IBC-Br (the broad activity index calculated by the BCB) rose 0.5% MoM in May, in what represents the first positive monthly change recorded this year. There is little doubt that the economy remained weak in the second quarter. Looking further ahead, analysts forecast a gradual improvement in activity from 2H19 onwards, on the heels of easier financial conditions (especially following likely BCB rate cuts) and less negative economic sentiment (especially with the approval of an effective pension reform).

Central Bank. Ready to boost the economy?

The BCB cuts 50bps to 6% (The market was not fully pricing a 50bps cut). Consensus is that the move basically locks-in another 50bps cut in the September meeting. We think that there is room to go slightly below 5% going into 2020. Why now? Having reduced some political uncertainties (after achieving some concrete steps in the reform agenda), the BRL seems now more resilient. Thus, the BCB can now afford to cut rates (and help the economy). The downward revisions of GDP could have already bottomed out (and we can start seeing some upward revisions and positive momentum for 2020 macro figures. Our projections are for real 2020 GDP growth in the 2.25% area).

Politics

After the pension reform passed in first round in the Lower House (by a wide margin) in mid-July, economic policymakers are starting to think and take the (quite necessary) subsequent steps to mend the economy. Privatizations of subsidiaries of state-owned companies are starting to make headlines. Additionally, in a bid to boost consumer spending in the short term and improve labor productivity in the longer run, the government recently announced new rules for Brazilian workers to tap funds from their FGTS mandatory savings accounts. The positive moves in economic policy and reforms are propping up Brazilian assets (and hopefully the economy, in time). The overhaul of the social security system should also provide an activity stimulus by boosting confidence, particularly if it paves the way for other needed structural changes like tax reform, privatization and trade liberalization.

Bond market has already priced in a conclusion for the pension reform.

The rally in nominal rates kept going this month, amid further evidence of a favorable inflation outlook. As this week’s July IPCA-15 report showed, core trends are drifting further below the BCB’s target. Policymakers therefore have plenty of room to cut rates. Analysts are still divided between a cut of 25bp or 50bp; the local yield curve is pricing in nearly a 90% chance of a 50bp move.

Financial market outlook

Equities – IBOV: UW-MARKETWEIGHT (Target 102,600)

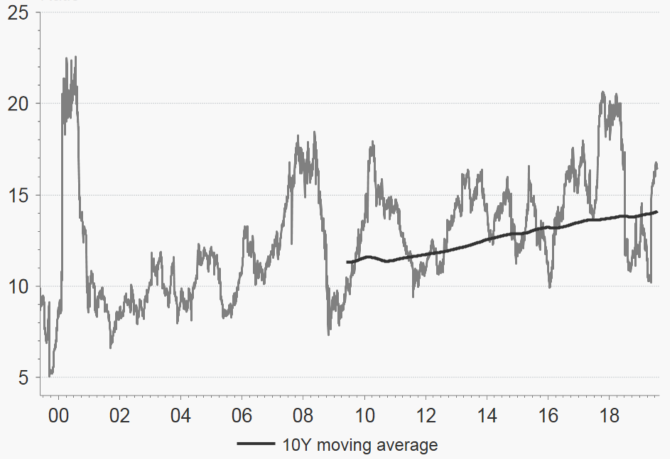
Bonds – Gov. 10y Local: MARKETWEIGHT (Target 7.5%)

Bonds – Gov. 10y USD: MARKETWEIGHT (Target 4.2%)

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

Brazil price/earnings, Datastream index

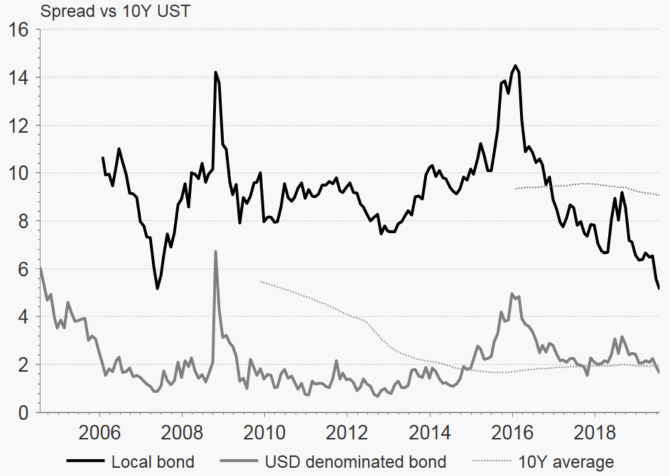
Ratio



Fuente: Refinitiv Datastream / ANDBANK

BRAZIL - 10Y GOVERNMENT BOND (Local & USD)

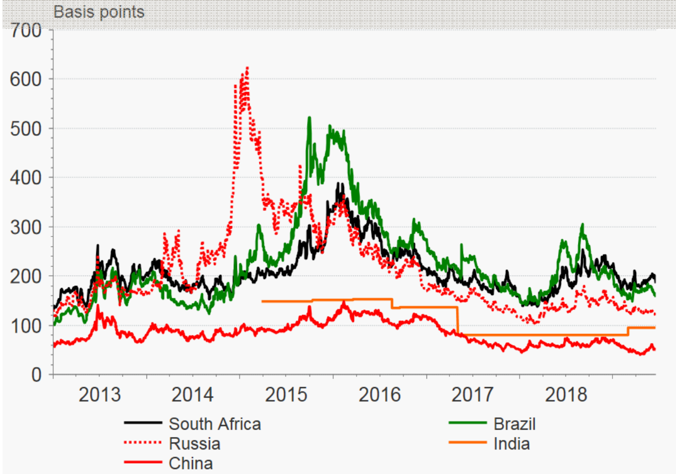
Spread vs 10Y UST



Fuente: Refinitiv Datastream / ANDBANK

5Y CDS

Basis points



Fuente: Thomson Reuters Datastream / ANDBANK

MEXICO
Investors view Pemex rescue favorably

Central bank has not yet decided to stimulate the economy

In the last statement there was a split decision about keeping the benchmark rate unchanged at 8.25%. June's inflation figure in Mexico was once again within the central bank's range (3 +/- 1%), while its annual reading was 3.95%. This means that the central bank has room to boost the market by lowering interest rates, and if it doesn't, it is because of the political risk associated with arbitrary presidential decisions. The negative perception of economic growth remains in place, with the central bank recently cutting its projections for 2019.

Politics & Pemex

A business plan for Pemex was announced that will seek to give it short-term relief through transfers, less taxes and contracts with individuals (US$18.9bn between 2020 and 2023). For example, the tax that the company pays to the government will be reduced from 65% to 54% over 3 years. This comprehensive "bailout" represents 0.2% of Mexico's GDP and so far has not generated any negative movements with the rating agencies. Even the local market reacted positively to the announcement of the program. The funding allocated to the oil company will seek to give it the possibility of investing to reverse the decline in the production platform. However, both forecasts of the company's growth, as well as the expected level in oil prices, seem quite optimistic today. The latest comments from S&P and Moody's seem to offer reassurance, viewing the rescue as necessary but insufficient to reverse the company's situation, which has more than US$100bn of debt.

Public Finance

Public finance data available to May shows a primary surplus has been maintained despite the fact that revenues, which continue to be dependent on the gasoline tax, have been lower than planned, highlighting the fall in consumption tax receipts in light of a slowdown in the country's economic activity. The surplus, therefore, has been due to the fact that expenditure has also come in below budget, as expected, since lower expenditure was forecast during the first part of the year due to the change in administration.

Equity Market: IPC Equity Index

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 possible actions by the rating agencies. The market is not expensive. We down-ticked our target price to 43,000 for this index.

Mexican Bonds

There was a considerable downward shift in the entire yield curve thanks to the entry of capital due to carry trade activity. Taking into account that the M10 currently trades at 550 spread points to the UST10, and that we expect levels below 500bp, we believe that this bond still has upside potential. Our target spreads (500bp in local bonds and 175bp for USD denominated bonds) remain unchanged.

Financial market outlook

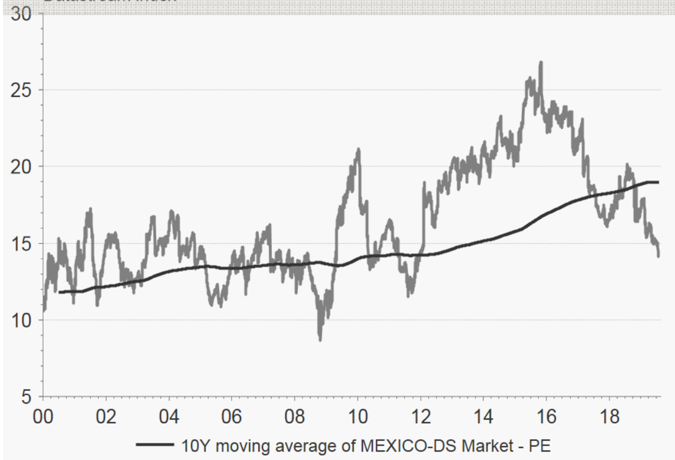
Equities – Mex IPC: OVERWEIGHT. Target 43,000. Exit 45,400

Bonds – Govies Local: OVERWEIGHT (Target spread 500 or 7.20%)

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

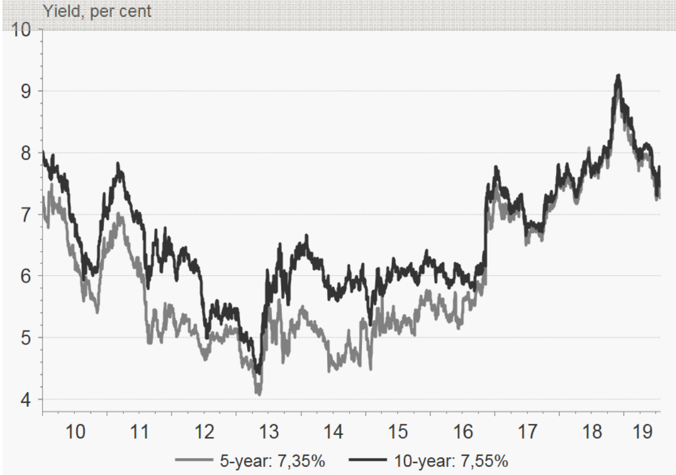
FX – MXN/USD: UNDERWEIGHT (Mid-term target 20.00)

Mexico equities price/earnings ratio
Datastream index



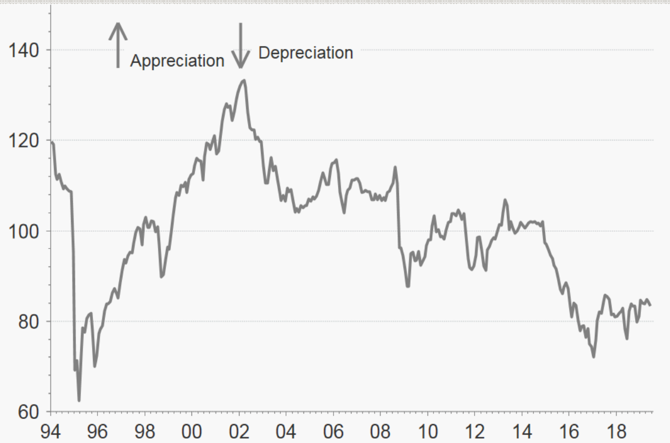
Fuente: Refinitiv Datastream / ANDBANK

Mexico benchmark government bonds
Yield, per cent



Fuente: Refinitiv Datastream / ANDBANK

Mexico real broad effective exchange rate
Index



Fuente: Refinitiv Datastream / ANDBANK

ARGENTINA
Positive signs ahead of elections

BCRA is keeping USD under control

The IMF allowed the Central Bank to raise the ceiling for FX futures' sales (from US$1bn to US$3.6bn by end-September) in order to provide greater flexibility if the FX volatility increases driven by a negative outcome on the political front.

Inflation slowing down but still at high levels. Enough to keep support for Macri in the polls?

June CPI increased +2.7% MoM, in line with estimates and below the +3.1% of May, accumulating +55.75% YoY. Core inflation also rose +2.7% reverting May and April trends of increases above the headline number. In their latest staff report the IMF is now expecting an inflation of +40.2% for 2019, in line with market expectations (REM). It also lowered the 2019 GDP growth forecast to -1.3% from -1.2% and slashed in half the number for 2020 from +2.2% to +1.1%.

The strengthening trend of the ARS advanced this month with an appreciation of +2.5% compared to June. This was positive for Argentinian assets with both bonds and equities showing gains. After reaching 1200bp in May, the 5yr CDS on for Argentinian bonds continued dropping and is now at 872.

Is the economy bottoming out?

The GDP proxy EMAE indicator posted +2.6% YoY (SA) in May (vs 0.1% projected and -1.3% in April). Consumer confidence rose to 44.18 (vs 40.57 in prior month), a sign that the economy might be bottoming out. The enhanced intervention capacity of the BCRA boosted FX stability and consumer confidence has improved as a result, which is positive for Macri's reelection chances. Nevertheless, we are still far from a booming environment.

The trade balance continued to improve with a surplus of 1.061 bn USD in June (following a surplus of 1.373 bn USD in May) and compared to -1.282 bn USD last year, explained not only by lower imports as the result of the major depreciation in the peso (-28% YoY) but also helped by higher exports (+17%) with a much better crop season compared with last year.

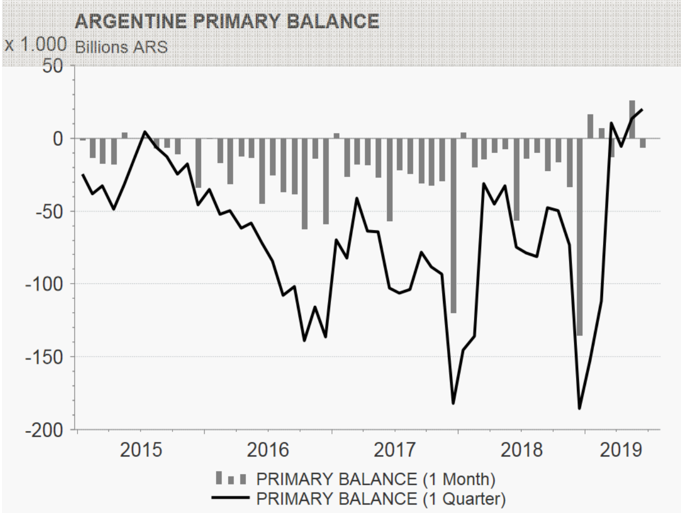
Politics: The gap between Macri and Fernández narrows ahead of the PASO

National polls released after the formats that will run in the PASO primaries were announced, show an improvement in voting intention for Mauricio Macri and reducing the gap with Alberto Fernández. On average, Fernández is 3.9% ahead of Macri. The team lead by Roberto Lavagna has lost strength and is now polling at around 9% showing increased polarization. The latest survey released by Synopsis shows Macri leading a ballotage scenario with 47.6% versus Fernández with 45.5% given that 70% of Lavagna's electorate would vote for Macri.

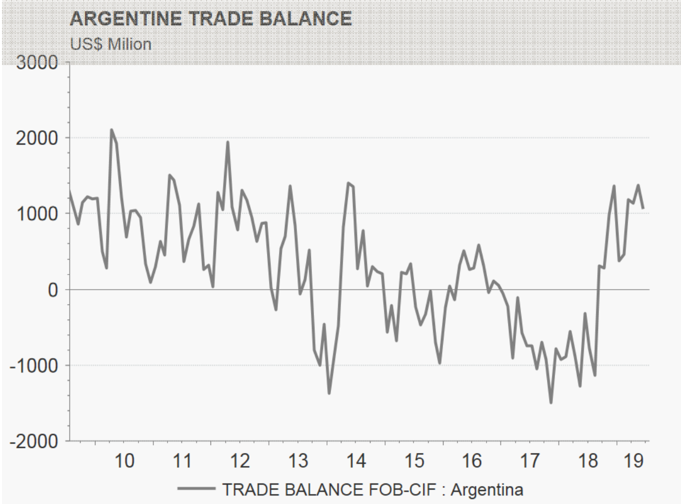
Macri's VP candidate Pichetto has been building alliances to expand the legislative support in case Macri wins reelection. This is becoming increasingly important given the need for urgent structural reforms. In October, half of the lower house and one third of the Senate will be up for renewal.

Financial market outlook

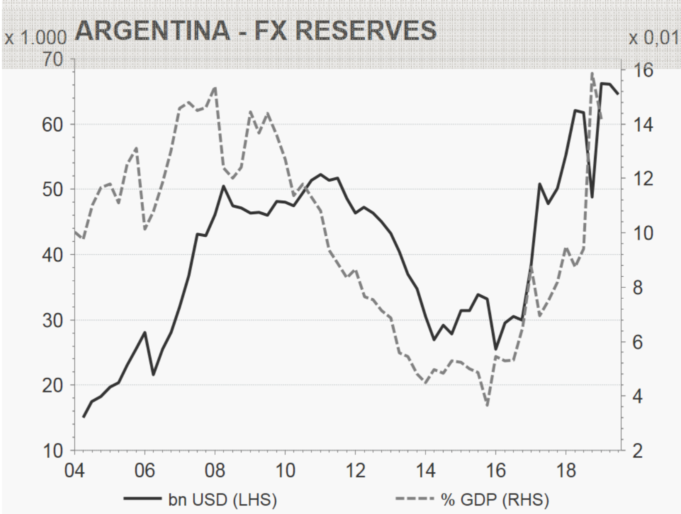
Bonds – 10YGov USD: OVERWEIGHT. (Target yield 8.95%)
FX – USD-ARS: UNDERWEIGHT (2019 year-end target 47)



Fuente: Refinitiv Datastream / ANDBANK



Fuente: Refinitiv Datastream / ANDBANK



Fuente: Refinitiv Datastream / Fathom Consulting

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%	18,30	16,60	3.000	2.794	-6,9%	3.073
Europe - Stoxx Europe 600	5,3%	322	8,2%	26	1,1%	14,83	14,70	386	387	0,2%	406
Euro Zone - Euro Stoxx	3,4%	354	7,4%	26	1,0%	14,56	14,50	377	379	0,6%	398
Spain IBEX 35	3,5%	8.075	9,3%	754	0,4%	11,99	12,50	9.007	9.423	4,6%	9.895
Mexico IPC GRAL	6,7%	37.453	7,8%	2.921	-0,8%	13,86	14,80	40.823	43.236	5,9%	45.397
Brazil BOVESPA	7,1%	66.644	10,6%	7.080	8,1%	15,79	14,50	103.396	102.663	-0,7%	112.929
Japan NIKKEI 225	5,6%	22.928	6,3%	1.445	3,1%	15,46	15,40	21.658	22.250	2,7%	22.695
China SSE Comp.	7,7%	2.965	9,3%	276	11,9%	11,79	11,00	2.909	3.038	4,4%	3.099
China Shenzhen Comp	8,2%	1.603	6,3%	100	14,6%	17,84	16,00	1.563	1.606	2,8%	1.639
India SENSEX	9,4%	18.689	10,7%	2.001	14,2%	21,13	20,00	37.018	40.023	8,1%	42.024
Vietnam VN Index	8,4%	690	9,0%	62	10,8%	17,75	16,50	997	1.028	3,0%	1.079
MSCI EM ASIA	7,3%	488	9,7%	47	12,6%	12,29	11,60	516	548	6,2%	576

UPWARD REVISION DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL FLOWS (Monthly)
By Asset Type & Region

FLOWS BY ASSET TYPE - AS OF 06/30/2019

1D 1W 1M 1Y

NORTH AMERICA

Asset Type	Flow $B
Money Market	73.16
Bond	26.13
Other	0.16
Mixed Assets	-4.13
Equity	-24.96

EUROPE

Asset Type	Flow $B
Bond	38.48
Money Market	36.38
Equity	10.68
Other	0.8
Mixed Assets	-2.18

ASIA

Asset Type	Flow $B
Mixed Assets	1.16
Equity	0.97
Bond	-0.29
Other	-0.33
Money Market	-0.81

GLOBAL

Asset Type	Flow $B
Money Market	97.72
Bond	66.13
Mixed Assets	33.58
Other	2.37
Equity	-13.42

POSITIONING, FLOW & SENTIMENT ANALYSIS
Perspective: Slightly negative assessment
Final: -1 (in a +7/-7 range)

Market Positioning (Slight UW bias): Asset allocation in equities is still important but much lower than previous month (contrarian) combined with a negative signal on the Put call ratio, which indicates that investors are hedging their portfolios, while the Skew index in positive territory indicates that the fear of a violent downside movement is building.

Flow Analysis (OW bias): Flows toward US equities indicate a bullish momentum in equity markets. Unlike the previous month, flows have been widespread simultaneously reaching emerging markets, Japan and developed markets, indicating an easing in trade tensions combined with some easing from CBs.

Surveys & Sentiment Analysis (UW bias): Slightly negative signal indicating a bearish stance from investors.

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

S&P: SIDEWAYS-BULLISH
Support at 2,900. Resistance at 3,046

STOXX600: SIDEWAYS
Support at 376. Resistance at 394

EUROSTOXX: SIDEWAYS
Support at 365. Resistance at 384

IBEX: SIDEWAYS
Support at 8,900. Resistance at 9,417

EUR-USD: SIDEWAYS
Support at 1.11. Resistance at 1.145

Oil (WTI): SIDEWAY-BEARISH
Support at 50,6. Resistance at 63.8

US Treasury (Yield perspective): SIDEWAYS-BEARISH
Support at 1.9%. Resistance at 2.17%

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 1.95%. Fair value 3%. Ceiling 3.50%

Swap spread: The swap spread upticked to -5bp (from -6p last month). For this spread to normalize at +4bp, with the swap rate anchored in the 2.0% area (according to our inflation expectation), the 10Y UST yield would have to move towards 1.95%.

Slope: The slope of the US yield curve down-ticked to 20bp (from 24bp last month). With the short end normalizing towards 2% (today at 1.85%), to reach the long-term average slope (of 154bp) the 10Y UST yield would have to move to 3.54%.

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

GER Bund: Floor 0.60%. Fair value 1.25%. Ceiling 2.2%

Swap spread: The swap spread down-ticked to 43bp (from 47bp last month). For the swap spread to normalize at 37bp, with the swap rate anchored in the 1.00% area (today at 0.06%), the Bund yield would have to move towards 0.63% (entry point).

Slope: The slope of the EUR curve fell to 39bp (from 44bp last month). If the short end “normalizes” in the 0% area (today at -0.76%), to reach the 10Y average yield curve slope (126bp) the Bund yield would have to move to 1.26%.

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 3.0%

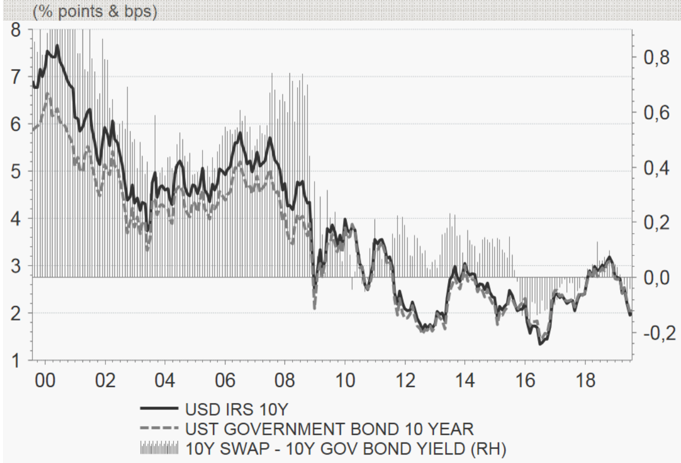
Swap spread: The swap spread rose to 27bp (from 19 last month). For the swap spread to normalize at 11bp, with the swap rate anchored in the 2% area (today at 0.92%), the 10Y UK Gilt would have to shift to 1.89%.

Slope: With a 2Y bond normalized at 1%, to reach the average slope at 1.54%, the 10Y Gilt would have to move to 2.54%.

Real yield: Expectations are for FY19 inflation to ease to 2.0%. A 1% real yield means the 10Y gilt should be at 3.0%.

SWAP SPREAD USD

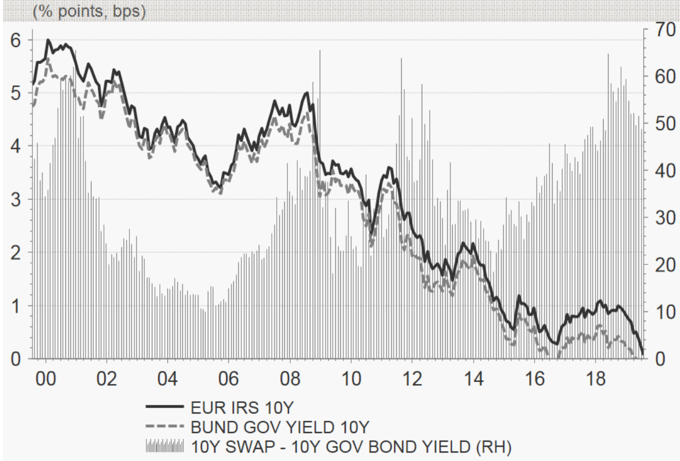
(% points & bps)



Fuente: Refinitiv Datastream / Fathom Consulting

SWAP SPREAD EUR

(% points, bps)



Fuente: Refinitiv Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Tactical targets – 10Y yields

Spanish bono: Target yield at 0.70%
Italian bond BTPI: Target yield at 2.0%
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	7,21%	3,28%	3,93%	-1,00%	6,21%
	India	6,41%	3,16%	3,25%	-1,00%	5,41%
	Philippines	4,74%	2,70%	2,04%	-0,75%	3,99%
	China	3,15%	2,70%	0,45%	0,00%	3,15%
	Malaysia	3,58%	1,51%	2,07%	-0,75%	2,83%
	Thailand	1,86%	0,88%	0,98%	0,00%	1,86%
	Singapore	1,90%	0,63%	1,28%	-0,50%	1,40%
	South Korea	1,33%	0,69%	0,64%	0,00%	1,33%
	Taiwan	0,67%	0,87%	-0,20%	1,00%	1,67%
EME	Turkey	14,81%	15,72%	-0,91%	1,00%	15,81%
	Russian Fed	7,30%	4,70%	2,60%	-0,75%	6,55%
LATAM	Brazil	7,21%	3,31%	3,90%	-1,00%	6,21%
	Mexico	7,53%	3,96%	3,57%	-1,00%	6,53%
	Colombia	5,75%	3,35%	2,40%	-0,75%	5,00%
	Peru	4,54%	2,27%	2,28%	-0,75%	3,79%

ENERGY – OIL

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

Buy < USD45; Sell >65

Short-term drivers

(Price Negative) – OPEC+ pact does not change fundamental outlook of an oversupplied market: In the latest edition of the IEA's Oil Market Report, the organization says the latest data show a global crude surplus in H2, noting that this will add to recent stockpile builds and that rebalancing seems to have moved further into the future. The report notes that the widely anticipated extension of the OPEC+ output pact does not change the outlook for an oversupplied market, and suggests OPEC may have to dial back production by an additional 800K bpd in 2020 to prevent another surplus (which would mark its lowest production level since 2003). It adds that in the near term, the main area of focus remains on demand growth, which will be impacted in H2 by sluggish European economies, waning growth in India, and lower YoY US fuel demand.

(Price Negative) – OPEC+ pact could suffer tensions due to recent under-compliance by some members. While the OPEC cartel's adherence to the OPEC+ production-cut pact was 122% in June, non-OPEC adherence slipped to 98% as Kazakhstan's recent over-commitment faded amid the end of maintenance operations at a large oilfield. Among the larger OPEC cartel producers, the UAE slipped out of compliance, joining Iraq (which hasn't yet fully complied in 30 months). Nevertheless, these shifts are outweighed by Saudi Arabia's 255% compliance rate.

(Price Neut-Positive) – Iran maintains tension with the US by pushing back Pompeo's negotiation claims. Iranian Foreign Minister Javid Zarif pushed back against comments from US Secretary of State Mike Pompeo, who said Iran was prepared to negotiate on its missile program for the first time, in what he characterized as evidence that US pressure on the country was working. Zarif suggested the US had misinterpreted his public statements. A NYT article detailed recent diplomatic efforts, but highlighted Iran's resistance to talks with the US.

(Price Negative) – Military shipping escorts to prevent new incidents in the Hormuz Strait. The US Defense and State departments plan to unveil a “maritime security initiative” that could involve military escorts of oil shipments through the Strait of Hormuz by a US-led coalition. Mike Esper, nominee for Secretary of Defense, noted that the presence of a Royal Navy ship last week prevented an incident between Iranian vessels and a UK-owned tanker from escalating.

(Price Negative) – Pemex to ramp up investment to boost oil production. Mexico's state-owned Pemex plans to ramp up investment with tax breaks and government support over the next three years in an effort to boost oil production, which has been declining for the past 15 years. The long-awaited business plan was outlined in July by Pemex CEO Romero, who pointed out that government tax breaks could give the company around $2.4bn to invest in 2020, and some $4.4bn in 2021.

(Price Negative) – New legislation could open up Nigeria's crude industry: An overhaul of oil policy that has been in the works for more than a decade could move through Nigeria's parliament. Reforms are needed to drive investment in oil exploration and production that have been withheld because of policy uncertainty, which has led to stagnation in the industry and pushed back targets for 4M bpd of production by more than 15 years.

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$1,270 (from US$1,211 last month). In real terms, gold continues to trade well above its 20-year average of US$909. Given the global deflator (now at 1.1151), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,014.

Gold to Silver (Preference for store of value over productive assets). This ratio fell to 87x (from 90.44x last month) and still remains well above its 20-year average of 63.7x, suggesting that gold is expensive (at least relative to silver). For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$1,044/oz.

Gold to Oil: This ratio down-ticked during the month to 25.48x (from 25.73x last month), still well above its 20-year average of 15.09x. 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$754 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long contracts rose sharply to 309k (from 250k last month). Short contracts remained stable at 64k (from 65k). Thus, the net position rose sharply to 245k contracts during the month (from +184k the previous month), setting a maximum level not seen since September 2017.

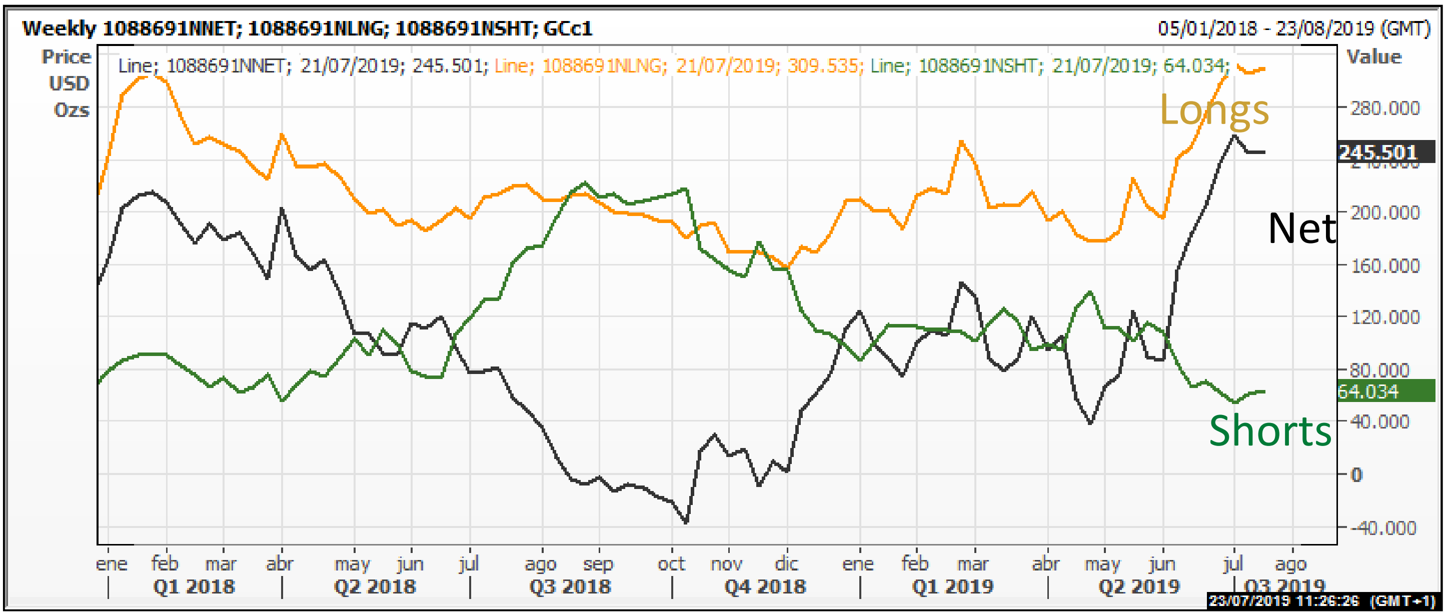
Demonetization in India. Demonetization forced millions of households to use formal banking services for the first time, helping to integrate them into the formal economy. The move will help mobilize billions of dollars in savings that were residing in unproductive physical assets such as gold.

Positive drivers

Gold to the S&P500: This ratio up-ticked to 0.478x (from 0.468x 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$13trn of face value is yielding negative rates).

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



EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Fundamental year-end 2019 target at 1.125

Global positioning in the US dollar decreased sharply last month (to US$11.50bn from US$28.9bn), with a 3-year z-score at levels falling to 0.09 (vs. 1.18 the previous month). The benefactors of the rotation out of USD were EUR, JPY, CHF, MXN and CAD. Net longs in USD are now far lower than the US$35bn seen in the last year, and shows a 3Y Z-Score of just 0.09, meaning that there is now a lot of room to build new positions in the greenback. The sharp rise in Z-score in EM positioning (1.73 vs 1.05) suggests that these currencies are starting to be 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** still reflects our structural bullish view on USD against EUR. Our year-end target remains unchanged at 1.125, but we are considering cutting that target below 1.12. 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 1.145.

USD-JPY: Target 114; **EUR-JPY**: Target 128.25

In our view, several aspects suggest that JPY should not appreciate versus 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 continues 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% there is little prospect that Japanese real yields will rise.

GBP-USD: Target 1.32; **EUR-GBP**: Target 0.85

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

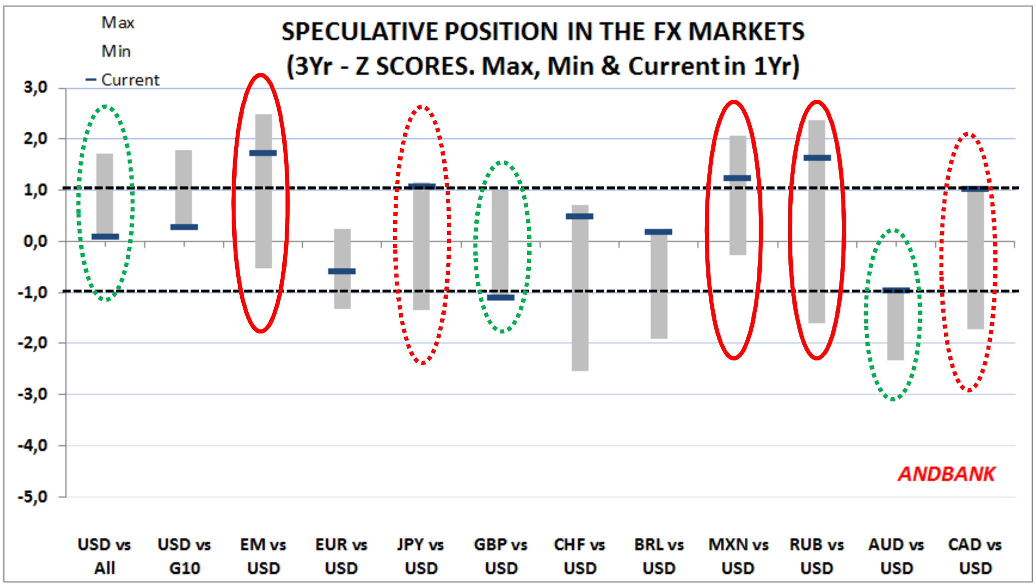
AUD: POSITIVE

CAD: 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	11,50	-8,25	34,9	11,5	26,5	**0,09**
USD vs G10	16,14	-7,16	39,6	0,0	28,1	**0,27**
EM	4,64	1,09	5,0	-0,2	2,3	**1,73**
EUR	-5,44	2,56	1,6	-14,8	-7,1	**-0,58**
JPY	-1,08	0,10	-0,1	-12,8	-7,4	**1,07**
GBP	-6,11	-1,43	0,1	-6,5	-3,7	**-1,11**
CHF	-1,67	0,44	-1,3	-6,0	-3,1	**0,50**
BRL	0,08	0,67	0,1	-0,8	-0,3	**0,18**
MXN	3,25	0,26	4,1	0,0	1,9	**1,23**
RUB	1,30	0,16	1,4	-0,2	0,6	**1,64**
AUD	-3,36	1,25	-1,9	-5,2	-3,7	**-0,96**
CAD	2,34	3,47	2,3	-5,0	-2,2	**1,03**

Positive
Neutral-Positive
Neutral-Negative
Negative

ANDBANK



The currencies we technically favor are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance Last month*	*Performance YTD*	*Current Price*	*Fundamental Central Point 2019*	*Expected Performance 2019*
Equity	USA - S&P 500	0,9%	20,2%	3.000	2.794	-6,9%
	Europe - Stoxx Europe 600	-0,8%	14,3%	386	387	0,2%
	Euro Zone - Euro Stoxx	-0,6%	14,4%	377	379	0,7%
	SPAIN - IBEX 35	-3,0%	0,05	9.007	9.423	4,6%
	MEXICO - MXSE IPC	-6,0%	-1,9%	40.823	43.236	5,9%
	BRAZIL - BOVESPA	2,8%	15,9%	103.396	102.663	-0,7%
	JAPAN - NIKKEI 225	2,7%	7,5%	21.658	22.250	2,7%
	CHINA - SHANGHAI COMPOSITE	-4,4%	17,6%	2.909	3.038	4,4%
	CHINA - SHENZEN COMPOSITE	-3,5%	23,9%	1.563	1.606	2,8%
	INDIA - SENSEX	-7,0%	3,9%	37.018	40.023	8,1%
	MSCI EM ASIA (in USD)	-3,1%	6,4%	516	548	6,2%
Fixed Income Core countries	US Treasury 10 year Govie	0,1%	7,2%	1,98	2,20	-1,0%
	UK 10 year Gilt	1,1%	6,2%	0,59	**0,80**	-1,5%
	German 10 year BUND	0,6%	5,7%	-0,45	-0,10	-3,0%
	Japanese 10 year Govie	-0,1%	1,1%	-0,14	0,00	-1,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,1%	9,9%	0,28	0,70	-3,3%
	Italy - 10yr Gov bond	2,5%	11,0%	1,54	2,00	-3,0%
	Portugal - 10yr Gov bond	0,2%	12,0%	0,34	0,80	-3,6%
	Ireland - 10yr Gov bond	0,4%	7,1%	0,07	0,20	-1,0%
	Greece - 10yr Gov bond	1,0%	20,7%	2,02	2,65	-4,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,1%	1,4%	52,99	80	-2,0%
	Credit EUR HY-Itraxx Xover	-0,4%	4,8%	256,93	325	-2,3%
	Credit USD IG - CDX IG	0,1%	1,3%	54,95	50	0,5%
	Credit USD HY - CDX HY	0,2%	6,2%	325,56	354	0,6%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	6,0%	16,0%	15,00	**16,00**	7,0%
	Russia - 10yr Gov bond	1,2%	15,9%	7,32	**6,75**	11,9%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	-0,3%	8,3%	7,42	**6,50**	14,8%
	India - 10yr Gov bond	3,9%	11,9%	6,42	5,75	11,7%
	Philippines - 10yr Gov bond	4,2%	23,0%	4,67	**4,25**	8,0%
	China - 10yr Gov bond	0,7%	2,0%	3,13	**3,25**	2,1%
	Malaysia - 10yr Gov bond	0,6%	6,2%	3,59	2,75	10,3%
	Thailand - 10yr Gov bond	1,8%	5,9%	1,80	2,10	-0,6%
	Singapore - 10yr Gov bond	0,7%	2,1%	1,90	1,50	5,1%
	South Korea - 10yr Gov bond	1,6%	5,6%	1,33	1,50	0,0%
	Taiwan - 10yr Gov bond	0,1%	1,9%	0,68	1,70	-7,5%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	0,0%	14,3%	7,46	7,20	9,5%
	Mexico - 10yr Govie (USD)	-0,4%	11,3%	3,85	3,95	3,0%
	Brazil - 10yr Govie (Loc)	1,3%	21,1%	7,23	7,50	5,1%
	Brazil - 10yr Govie (USD)	0,8%	13,1%	4,22	4,20	4,4%
	Argentina - 10yr Govie (USD)	1,2%	16,6%	10,25	8,95	20,7%
Commodities	Oil (WTI)	1,5%	25,7%	57,1	50,00	-12,4%
	GOLD	-0,5%	10,0%	1.411,4	1.200	-15,0%
Fx	EURUSD (price of 1 EUR)	-2,0%	-3,6%	1,106	1,125	1,8%
	GBPUSD (price of 1 GBP)	-3,8%	-5,0%	1,21	1,32	9,0%
	EURGBP (price of 1 EUR)	1,8%	1,6%	0,91	0,85	-6,6%
	USDCHF (price of 1 USD)	0,8%	1,3%	0,99	0,98	-1,7%
	EURCHF (price of 1 EUR)	-1,2%	-2,3%	1,10	1,10	0,0%
	USDJPY (price of 1 USD)	0,4%	-1,2%	108,29	114,00	5,3%
	EURJPY (price of 1 EUR)	-1,6%	-4,7%	119,74	128,25	7,1%
	USDMXN (price of 1 USD)	0,6%	-2,4%	19,16	20,00	4,4%
	EURMXN (price of 1 EUR)	-1,4%	-5,9%	21,18	22,50	6,2%
	USDBRL (price of 1 USD)	-0,8%	-1,7%	3,81	3,75	-1,7%
	EURBRL (price of 1 EUR)	-2,9%	-5,3%	4,22	4,22	0,1%
	USDARS (price of 1 USD)	5,4%	17,9%	44,36	47,00	6,0%
	USDINR (price of 1 USD)	0,2%	-0,8%	68,99	72,00	4,4%
	CNY (price of 1 USD)	0,4%	0,4%	6,90	7,00	1,4%

* *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**	**16,6**	**5,0**	**12,2**	**5,0**	**9,3**
Short-Term debt & MM instrument	**25,0**	**33,6**	**15,0**	**23,0**	**5,0**	**11,3**	**0,0**	**4,7**
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		15,6		10,4		7,8		2,6
EU Gov & Municipals & Agencies		1,0		0,7		0,5		0,2
European Peripheral Risk		2,9		2,0		1,5		0,5
Credit (OECD)	**20,0**	**15,0**	**20,0**	**15,0**	**15,0**	**11,3**	**5,0**	**3,8**
Investment Grade USD		9,0		9,0		6,8		2,3
High Yield Grade USD		2,3		2,3		1,7		0,6
Investment Grade EUR		3,0		3,0		2,3		0,8
High Yield Grade EUR		0,8		0,8		0,6		0,2
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		1,4		2,2		2,9		4,3
Asia Sovereign		1,4		2,2		2,9		4,3
Asia Credit		1,2		1,7		2,3		3,5
Equity OECD	**5,0**	**4,3**	**20,0**	**17,0**	**32,5**	**27,6**	**50,0**	**42,5**
US Equity		1,5		6,0		9,7		14,9
European Equity		1,5		6,0		9,7		14,9
Japan Equity		1,3		5,1		8,3		12,8
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,0**	**10,0**	**10,0**	**10,0**	**10,0**
Asian Equity		0,0		2,5		5,0		5,0
Latam Equity		0,0		2,5		5,0		5,0
Commodities	**0,0**	**0,0**	**2,5**	**1,8**	**5,0**	**3,5**	**5,0**	**3,5**
Energy		0,0		0,4		0,7		0,7
Minerals & Metals		0,0		0,4		0,7		0,7
Precious		0,0		0,6		1,2		1,2
Agriculture		0,0		0,4		0,9		0,9
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**2,9**	**5,0**	**5,8**
REITs		0,0		0,0		0,9		1,7
Alt.Energy (wind, solar, etc)		0,0		0,0		0,6		1,2
Market Neutral		0,0		0,0		1,2		2,3
Volatility		0,0		0,0		0,3		0,6

Currency Exposure (European investor perspective)								
EUR		95,4		91,2		87,0		82,4
USD		4,6		8,8		13,0		17,6

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

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

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

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

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

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

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

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

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

Carlos Hernández
Global Technical Analysis
+376 873 381

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.