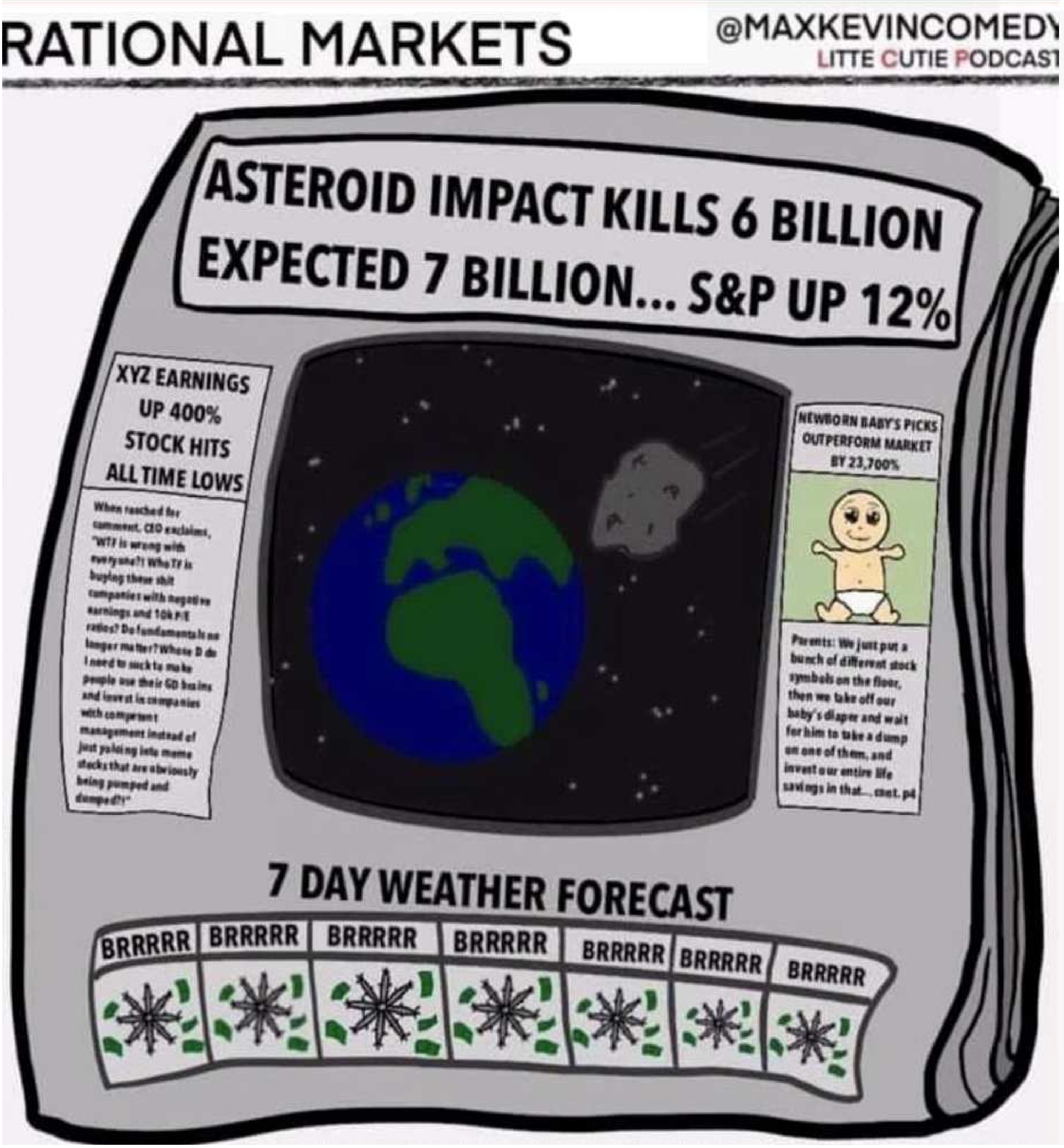
GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

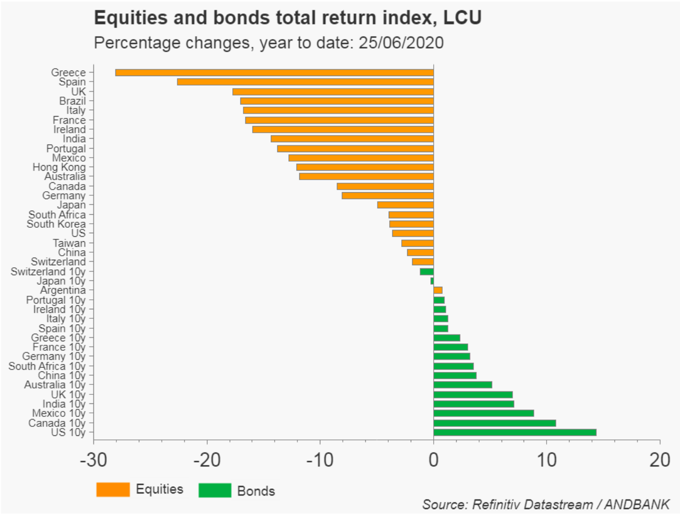
Andbank Monthly Corporate Review

Andbank Monthly Corporate Review – July 2020



EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2020 E[Perf] to Fair Value	Recomm	2020 Exit Point
USA S&P 500	3.116	2.962	-4,9%	MW	3.407
Europe - Stoxx Europe 600	365	340	-6,8%	MW/OW	408
Euro Zone - Euro Stoxx	357	330	-7,8%	MW/OW	395
Spain IBEX 35	7.365	7.764	5,4%	OW	8.541
Mexico IPC GRAL	37.620	36.374	-3,3%	UW	40.011
Brazil BOVESPA	96.203	88.862	-7,6%	OW/MW	106.635
Japan NIKKEI 225	22.146	19.878	-10,2%	UW	23.854
China SSE Comp.	3.091	2.968	-4,0%	MW/UW	3.265
China Shenzhen Comp	2.016	1.894	-6,1%	UW	2.083
India SENSEX	35.844	33.891	-5,4%	OW	40.669
Vietnam VN Index	842	864	2,5%	OW	1.037
MSCI EM ASIA	543	533	-1,8%	OW	640

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	*Indices*	*Current Price*	*Fair Value EPS 12m fw*	Expected Performance to Fair Value 2020
Fixed Income Core countries	US Treasury 10 year Govie	0,67	1,20	-3,9%
	UK 10 year Gilt	0,20	0,80	-4,7%
	German 10 year BUND	-0,40	-0,20	-1,8%
	Japanese 10 year Govie	0,04	0,00	0,3%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,50	0,60	-0,6%
	Italy - 10yr Gov bond	1,32	1,40	0,1%
	Portugal - 10yr Gov bond	0,45	0,60	-1,0%
	Ireland - 10yr Gov bond	0,05	0,30	-2,0%
	Greece - 10yr Gov bond	1,14	2,05	-6,7%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	66,70	70	0,0%
	Credit EUR HY-Itraxx Xover	385,81	400	1,3%
	Credit USD IG - CDX IG	75,85	70	0,7%
	Credit USD HY - CDX HY	516,73	450	4,7%

FIXED INCOME EMERGING MARKETS

Asset Class	*Indices*	*Current Price*	*Fair Value EPS 12m fw*	Expected Performance to Fair Value 2020
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	11,50	11,75	3,7%
	Russia - 10yr Gov bond (local)	5,94	5,00	10,5%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	7,15	6,00	12,8%
	India - 10yr Gov bond (local)	5,83	7,00	-6,4%
	Philippines - 10yr Gov bond (local)	2,81	3,00	-0,2%
	China - 10yr Gov bond (local)	2,84	2,75	2,1%
	Malaysia - 10yr Gov bond (local)	2,98	2,00	9,4%
	Thailand - 10yr Gov bond (local)	1,21	0,25	8,3%
	Singapore - 10yr Gov bond (local)	0,88	0,40	4,3%
	Rep. Korea - 10yr G. bond (local)	1,23	0,75	4,5%
	Taiwan - 10yr Gov bond (local)	0,32	0,00	2,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	5,71	6,70	-5,1%
	Mexico - 10yr Govie (USD)	3,64	3,95	-0,7%
	Brazil - 10yr Govie (Loc)	6,58	8,20	-9,7%
	Brazil - 10yr Govie (USD)	4,78	4,20	7,0%

COMMODITIES

Asset Class	*Indices*	*Current Price*	*Fair Value EPS 12m fw*	Expected Performance to Fair Value 2020
Commodities	Oil (WTI)	39,8	40,00	0,5%
	GOLD	1.770,0	1.600	-9,6%
Fx	EURUSD (price of 1 EUR)	1,125	1,100	-2,2%
	GBPUSD (price of 1 GBP)	1,25	1,32	5,9%
	EURGBP (price of 1 EUR)	0,90	0,83	-7,6%
	USDCHF (price of 1 USD)	0,95	0,97	2,6%
	EURCHF (price of 1 EUR)	1,06	1,07	0,3%
	USDJPY (price of 1 USD)	107,46	107,00	-0,4%
	EURJPY (price of 1 EUR)	120,90	117,70	-2,6%
	USDMXN (price of 1 USD)	22,67	23,50	3,7%
	EURMXN (price of 1 EUR)	25,71	25,85	0,6%
	USDBRL (price of 1 USD)	5,32	5,50	3,4%
	EURBRL (price of 1 EUR)	5,98	6,05	1,1%
	USDARS (price of 1 USD)	70,51	90,0	27,6%
	USDINR (price of 1 USD)	75,48	74,00	-2,0%
	CNY (price of 1 USD)	7,07	6,90	-2,4%

USA

The surprisingly quick return to 'normal'

The US is on track to return to business as usual

All states re-opened non-essential businesses by late May and most states have lifted orders on other social distancing policies. Daily new COVID-19 cases stabilized around 25,000 over the first two weeks of June, but have rebounded strongly, above 40,000 daily. Among the reasons can be found the lifting of the restrictions, although in other countries the restrictions have also been lifted without this having meant a great leap in infections. Perhaps the reason has to do with the massive rallies that have been touring the country in recent weeks or the expanded testing capacity. The good news is that the share of positive tests fell to 4.5% from 5.5% two weeks ago. Meanwhile, daily new deaths have dropped steadily and currently stand at around 500-700, from a peak value of 2,200. Hospital capacity, not case growth, is likely the factor that could force state and local officials to pause or reverse reopening plans and the share of hospital inpatients receiving treatment for COVID-19 remains low. The latest Google data suggests that visits to grocery and pharmacy stores have returned to similar levels as earlier this year. Meanwhile, the Dallas Fed's mobility engagement index has continued its gradual ascent and if the current trend continues, the measure should return to the pre-COVID-19 level by late August. In addition to these two mobility measures, air travel and demand for motor gasoline and jet fuel continue to recover. Measures of labor market activity remain depressed but have continued to show progress, albeit gradual. Initial jobless claims fell for a tenth consecutive week to 1.5mn and continuing claims also edged down modestly to 20.9mn Meanwhile, the latest data from Homebase continues to indicate that more small businesses are opening back up and are hiring. If the reopening is able to continue on its current trajectory, we would expect further improvement in the labor market. It is, however, likely that not all businesses will return. Consistent with the Homebase data, the latest reading from the Census Bureau's Small Business Pulse survey suggests there has been a leveling off in the number of businesses that are increasing hours worked and number of employees in the past seven days.

Fiscal support

Fiscal policy is likely the most imminent risk in the short term. First, the Paycheck Protection Program (PPP) will be exhausted between mid-June and early July. Second, the extra $600 per week in jobless benefits that Congress approved in March expires at the end of July. Third, the boost to consumers from payments in April and May has likely now faded. Fourth, the economic impact of COVID-19 has also taken a toll on state budgets. Overall, despite the strong May jobs report, we continue to expect that Congress will enact another $1.5 trillion (7% of GDP) in fiscal measures. Most of this looks likely to come through the next fiscal bill that Congress enacts, likely in late July.

Corporate bonds & Equities

Both HG and HY spreads rallied over the past month, driven both by the anticipation of a successful reopening happening around the country as well as extremely strong technical aspects. HG bond supply is over $1 trillion YTD, and we believe the bulk of demand has come from traditional HG investors who have scaled up their exposure to HG bonds. The question is if the recent spike in issuance has placed bonds in relatively steady hands or is reliant on the Fed CCF programs coming to fruition in size this summer. High-yield new-issue volume now totals $199.1bn YTD or $81.0bn net of refinancing, which is up 57% and 89% year-over-year. YTD 51 companies totaling $92.3bn in bonds and loans have defaulted or completed a distressed exchange, already the 2nd highest annual default total on record, trailing $205.0bn in 2009. Thus, US high-yield bond and loan default rates have risen to 10yr and 5yr highs of 6.11% and 3.75%, respectively. We have performed the typical mid-year review for EPS estimation. We have incorporated partial benefits for next year, and we played with an EPS next 12 months of 148. We have also increased the PE multiple to 20 (according to the new composition of the S&P index, and the direct support from the Fed). The result has been an increase in the fair value to 2,951, with an exit point (strong sale) for the S&P at 3,393 points.

Financial market assessment

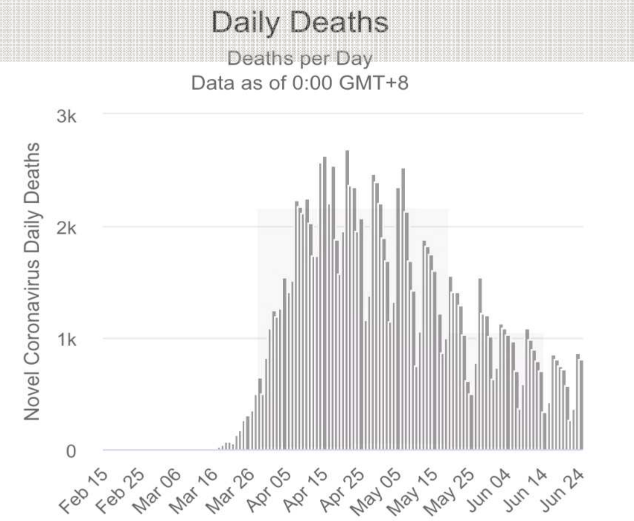
Equities – S&P: MARKETWEIGHT (Target 2,962. Exit point 3,400)

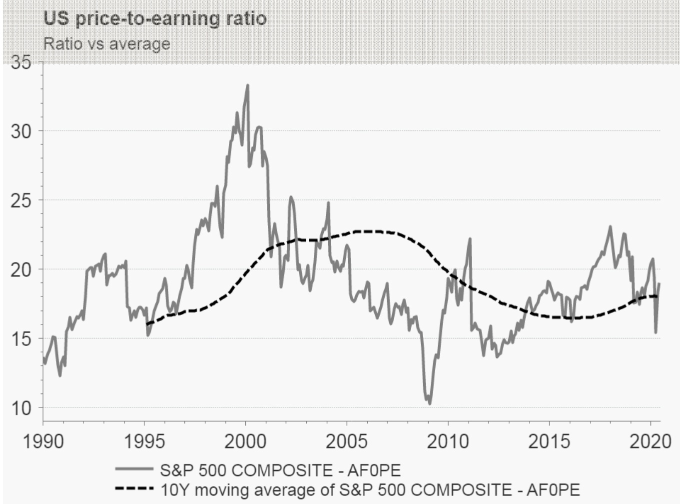
Bonds – Govies: UNDERWEIGHT-MW. (10Y UST Entry point 1.2%)

CDX IG: MARKETWEIGHT (Target Spread 70)

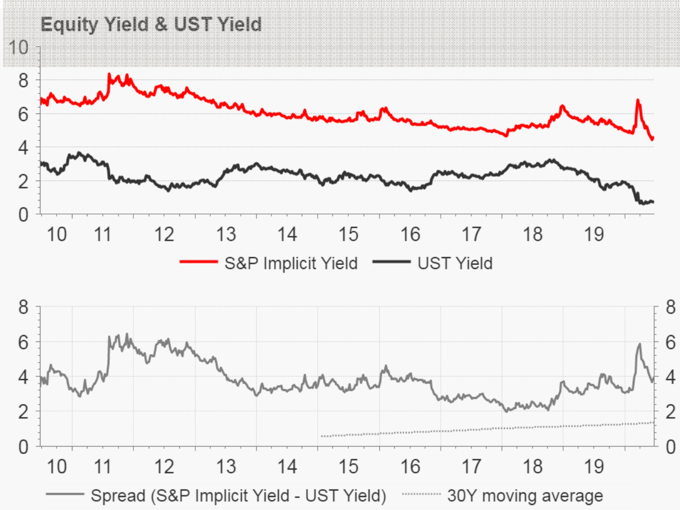
CDX HY: OVERWEIGHT (Target Spread 450)

Forex – DXY index: MARKETWEIGHT





Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

EUROPE

Recovery fund for July?

Sentiment indices surprising on the upside

Surveys have improved significantly since April, with French PMIs even returning to expansion levels and thus pointing to a robust recovery, but a prudential approach is needed as sentiment "outperforms" real data during recession periods. The information received from High Frequency data continues to show a positive trend, though mobility regarding recreation/retail and public transport remains well below the baseline figures. Labor market figures have surprised on the upside, proving resilient, but evidence remain to be seen from the external and industrial side of the economies.

ECB: Further, and bigger than expected, monetary stimulus

Last ECB meeting did not disappoint the markets, announcing a bigger than expected increase in the PEPP (an additional envelope of €600 bill.) plus the extension of the program until mid 2021, and the reinvestment of maturities at least till the end of 2022. The ECB's new macro projections do not pencil a "V": very low inflation figures that would only recover the pre-COVID path by 2022, and a GDP gap that would not be closed by 2022.

More measures to come? Not in the short run. The above decision was not unanimous, fallen angels were not discussed and the TLTRO III provides enough long-term liquidity for the banking sector (€1.300 bill. which means a €550 bill. net liquidity injection).

Time is running regarding the German Constitutional Court decision. Alternative solutions could either involve the European Parliament. Lagarde has already announced that the coming ECB Minutes will elaborate on the cost/benefit analysis and proportionality issues regarding their measures and could also be included in the Strategic Review. Will it be enough? Markets stick to the pragmatic approach that a compromise solution will be found.

The Recovery Fund: key for the institutional credibility of the EU

The EC proposal could be a real game changer: ambitious in terms of funds (€750 bill.), and with solidarity elements: 2/3 would be rendered in grants (1/3 in loans) and financed by EU-backed issues. Despite majority support (the "big 4", among others), hurdles remain, as unanimity is needed for budget decisions. Our base scenario is an agreement that would differ from the first proposal in terms of conditionality/attribution criteria (being harder), amount (lower, €600 bill.?) or proportion of loans/grants (50-50%?), but that should maintain the spirit of the "Mercron" proposal. July summit(s) could be a good time to achieve an agreement.

Tailwinds for the Corporate bond market & Govies

The European corporate fixed income market has followed the upward trend. The improvement has come from the cyclical side. Money continues to enter the corporate bond market, with flows capable of counteracting high primary issuance. Appetite remains high but has normalized (between 2x-3.3x oversubscription, from 6x a month ago). The long-awaited announcement of explicit support for HY from the ECB has not come, causing a weaker performance of euro-denominated HY indices (compared to USD HY). We continue to see downgrades within banks (the latest in BBVA). Stress tests for the banking sector have been postponed, and the regulatory aspects have been "softened" to reduce pressure on the sector. We have also seen downgrades in the airline sector (EasyJet, Lufthansa, Iberia and Norwegian), highlighting the need for aid to the sector. Carnival (cruises) is unable to confirm even when they will resume their activity. The month was also marked by other scandals relating to the German Wirecard (online payment methods). We have slightly improved the target levels for both IG and HY, but our recommendation is neutral, as we believe we are entering a summer period in which levels will need to be stabilized. We are moving towards a less defensive bias (we would take risks with more cyclical names; and within the HY, high rating and not long duration).

Financial market assessment

Equities – Stoxx Europe: OW-MW. Target 340. Exit 408

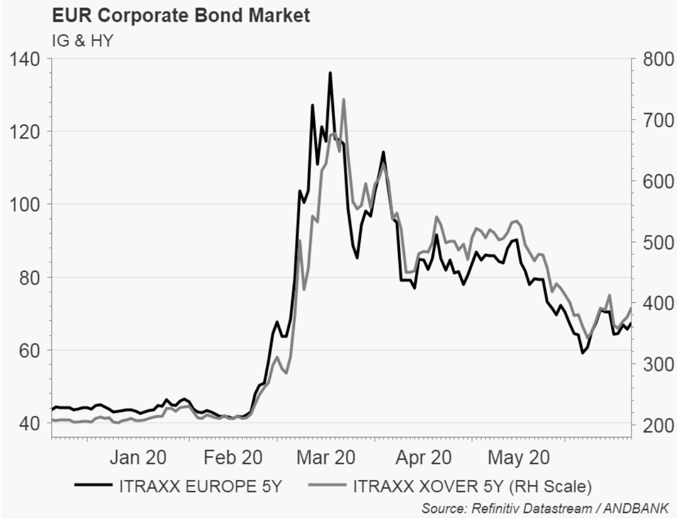
Equities – Euro Stoxx: OW-MW. Target 330. Exit 395

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

Peripheral – UW SP(0.6%), PO (0.6%), IE (0.3%), GR (2%). MW IT (1.4%)

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

Credit – Itraxx Europe (HY): MARKETWEIGHT (Target Spread 400)



SPAIN

In the hands of Europe…, and Covid

Economy

We are still working with data for May, and Spain remains one of the countries showing the greatest damage to its economy, with one of the strictest lockdowns and a service sector closely linked to tourism, which accounts for more than 12% of GDP and generates 13% of employment in the country.

Confidence indices show that the sectors hardest hit by the lockdown in the March-May period do not seem to be recovering as quickly as other segments of the economy. This can be attributed to the fact that, despite May being the first month of resumption of activity throughout Spain, the lockdown has been lifted in phases and at different speeds in each region. With the borders still closed to international tourism, many key sectors will lag behind, decreasing the chances of a V-shaped recovery. The phased resumption of activity is reflected in card spending as monitored by BBVA, with much lower spending in regions that have not reached phase 3. Given that these lower-spending regions include Catalonia, Madrid and Valencia, which together account for almost 50% of Spanish GDP, the May data will still come out dim. Looking ahead to the June data, however, with all regions fully operational (and assuming no new uncontrolled outbreak), we could see a significant rise in the confidence of economic actors.

The obstacle to a V-shaped recovery is the fact that so many companies have been destroyed in just two months, leaving Spain back at the levels seen during the euro crisis. Reinstating workers laid off under a temporary scheme (so-called ERTE) is more difficult when there is no workplace to go back to.

The business weakness is reflected in the duration of the temporary layoffs, which is currently being negotiated between economic agents and the government. For some of the hardest hit sectors the layoffs are expected to continue until September, although the arrival of tourists in the summer may bring better prospects. As of today we think that at least 25% of the approximately 800,000 people laid off under ERTE schemes will not return to the job market, so we expect an unemployment rate of 19-20%. Although this is a dangerous level, it remains well below the 26% seen during the financial crisis.

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

The government aims to solve this problem via income, at a time when Spain collects taxes amounting to 40% of GDP, much in line with other European nations. With the tax increases suggested in the electoral program, the government plans to increase tax collection by some 6,000 million per year (Tobin rate, Google tax, minimum corporate tax rate of 15–18%, increase in personal income tax, etc.). In the reconstruction commission (a discussion previous to the negotiation of budgets) there is talk of raising a further 11,000 million via a so-called "Covid rate". It seems evident that in acting exclusively on the revenue side the government cannot even contemplate an effective reduction of the current structural deficit, which is why it is absolutely necessary to tackle structural reforms on the side of current spending. Spain will end the year with a deficit of more than 10%. The government figures point to €115bn and a debt close to 120% of GDP. With these numbers, it will be difficult for Spain to survive without the help of the European Union.

Financial market assessment

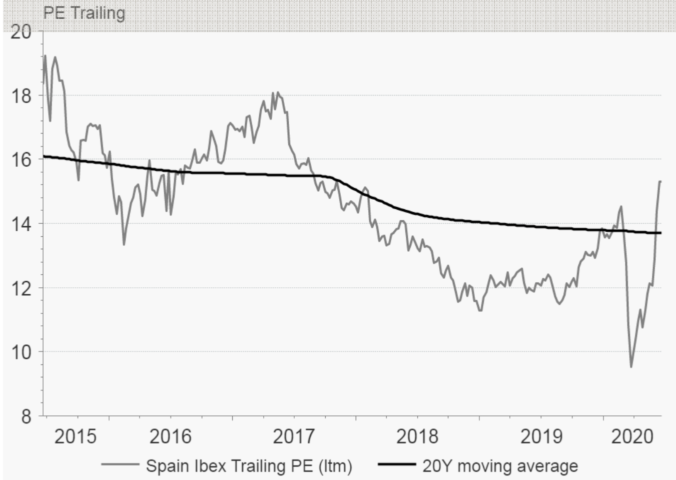
Equities – IBEX: OVERWEIGHT (Target 7,76. Exit point 8,541)

Bonds – Government: UNDERWEIGHT (BONO target yield 0.60%)

Credit – Investment grade: MARKETWEIGHT

Credit – High yield: MARKETWEIGHT

SPAIN IBEX
PE Trailing



Source: Refinitiv Datastream / ANDBANK

Spain government bond spreads
Spread over German bunds, basis points, (and 5yr MA)

Source: Refinitiv Datastream / ANDBANK

BANK INDEX - Spain vs Europe
Index base 100

Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

CHINA

"Beijing's outbreak has been brought under control"

COVID-19

The National Health Commission registered a very positive sequence of new cases in the mainland just after the inception of this fresh outbreak in Beijing. (Daily cases were 57, 44, 9, 18, 22.) As a result, the chief epidemiologist of China's Center for Disease Prevention and Control, Wu Zunyou, said "Beijing's outbreak has been brought under control". This sentence, which is the most important we could hope for, has come even sooner than we thought, as with all the measures adopted we were inclined to think that the outbreak would be controlled in a week or two. If what Beijing says is true, we already know two very important things: 1) Managing and controlling outbreaks is possible. 2) We now know how to do it.

Monetary authorities to support Chinese shares. Fiscal support. Equities still headed to underperform

China's shares kept a positive tone in June after the country's monetary policy authorities assured investors that the economy is gradually recovering from the coronavirus crisis, while promising more reforms and liquidity to strengthen the capital market. According to the PBoC, China will maintain ample liquidity in the financial system in the second half of the year as the economy recovers from the coronavirus (although it also said, "it will be necessary to consider withdrawing that support at some point"). New loans are likely to reach almost 20 trillion yuan (2.83 trillion dollars) this year, +19% from the 16.81 trillion yuan registered in 2019. Social financing could increase by more than 30 trillion yuan (USD4.3trn, or 30% of GDP).

The economy continues to recover

Foreign direct investment (FDI) into the Chinese mainland, in actual use, expanded by 7.5% yoy in May, to 68.63 billion (according to the spokesperson for the Ministry of Commerce). From January to May, the country's YTD FDI totaled 355.18 billion yuan, still down 3.8% yoy. During the period, the inflow to high-tech industries rose by 2%, with the information and e-commerce services sectors up 42.3% and 67.9%, respectively. Investment from members of the Association of Southeast Asian Nations increased 10.1%, while that from countries participating in the Belt and Road Initiative rose 6%. The country has rolled out a string of policies to better invigorate and protect foreign investors, which advanced the growth of the FDI, the ministry said earlier. May industrial production +4.4% y/y vs +3.9% in prior month. Retail sales (2.8%) y/y vs (7.5%) y/y in prior month. Unemployment rate came in at 5.9% vs 6.0% in prior month. May new house prices +0.5% m/m (last month also saw a 0.5% growth on a m/m basis). Fixed asset investment (YTD) improved to (6.3%) y/y vs (10.3%) y/y in prior month, meaning a significant growth on a m/m basis.

US-China tensions. Bolton said Trump put re-election prospects ahead of national interest

WSJ cited former national security adviser John Bolton in his new book, claiming that President Trump's decision-making consistently prioritized his re-election and his family's well-being ahead of the national interest. Among the episodes he recounts are June 2019 meetings with Chinese President Xi Jinping, in which he says Trump pleaded with his counterpart to help him win re-election by purchasing agricultural products from the US and gave China his blessing to continue building camps for Uighur Muslims. Meanwhile, US Secretary of State Mike Pompeo met China's top diplomat, Yang Jiechi, in Hawaii amid a deep deterioration of ties, marking their first face-to-face meeting since last year. Yang told Pompeo that Washington needs to respect Beijing's positions on key issues, halt its interference on matters such as Hong Kong, Taiwan and Xinjiang, and work to repair relations. Pompeo stressed "the need for fully-reciprocal dealings between the two nations across commercial, security, and diplomatic interactions". President Donald Trump said the US could pursue a "complete decoupling from China" in response to unspecified conditions, his most forceful statement yet on the souring ties with Beijing. Trump refuted comments a day earlier by US Trade Representative Robert Lighthizer, who said a full decoupling of the world's two biggest economies was not "a reasonable policy option". Meanwhile, China plans to accelerate purchases of American farm goods to comply with the phase one trade deal with the US, following talks in Hawaii this week. China intends to step up buying of everything from soybeans to corn and ethanol after purchases fell behind due to coronavirus disruptions.

Financial market outlook

Equities – SHANGHAI Idx: MW/UW (Fair value 2,968. Exit point 3,265)

Equities – SHENZHEN Idx: UW (Fair value 1,894. Exit point 2,083)

Bonds – Govies: MARKETWEIGHT (10Y Yield target 2.70%)

Forex – CNY/USD: OW (Target 6.90)

CHINA SSE Index PE Ratio
PE LTM

Source: Refinitiv Datastream / ANDBANK

China price/earnings, Datastream index
Ratio

Source: Refinitiv Datastream / ANDBANK

USDCNY exchange rate
Spot rate

Source: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

JAPAN

Japan reopens for business, pinning hopes on tracing app. Negative rates until 2023

Lifting of all domestic travel restrictions

The Nikkei discussed the response to the lifting of all domestic travel restrictions in Japan on Friday, drawing crowds back to Haneda Airport. This is part of broader relaxations across the economy and now the Government must try to strike a balance between firing up the economy and keeping the virus under control. Resorts, amusement parks and nightclubs have also sprung back to life. The health ministry rolled out a contact tracing app called Cocoa, which uses Bluetooth signals to keep a record of people who have been within 1 meter of the user for 15 minutes or longer. Meanwhile, a team led by Japanese biotech venture AnGes is preparing to reach mass production capacity (for 1 million doses) of coronavirus vaccines by March, a fivefold increase from the original plan, in order to ensure swift access for the domestic population. This follows similar moves in the US and elsewhere to set up facilities capable of producing billions of doses of vaccines, which means supply may not be available for Japan to import vaccines.

Government "upgrades" economic assessment for the first time since 2018

The government's monthly economic report for June noted that while the economy remains in an extremely severe situation, it is stabilizing. This compares to the May report, which stated ongoing rapid deterioration. On the outlook, the government expects the economy to head towards improvement, mainly citing the impact of policy support measures. Details show tweaks to the individual assessment of private consumption, now showing signs of recovery after the state of emergency was lifted, versus the rapid declines seen as of May. Employment conditions are now seen as weak, whereas the prior report noted rapid deterioration.

BoJ: "Negative rates until 2023". This will boost the carry trade

BOJ Governor Haruhiko Kuroda clarified that he does not think they will be anywhere near raising rates in 2021 or 2022, matching the Fed's time horizon. Noted high level of uncertainty in financial markets (despite equity optimism towards reopening of the economy). As a result, Japan carry trades boost long-term dollar swaps. The 30-year cross-currency basis for yen-dollar dropped to a record low of −76bp in May and was at −64bp on Thursday. Low-rate environment is compelling Japanese investors to dive deeper into riskier assets. With the BOJ predicting that negative rates will stay through to 2023, there is little incentive to hold onto the yen.

International transactions in Japanese securities for the week ended June 13: Domestic investors were net sellers of ¥186.4B in foreign equities, but net buyers of ¥1,656.6B in foreign long-term debt (vs ¥1,067.8B of net purchases the previous week).

Japanese companies cut share buybacks 78% amid pandemic

Share buybacks announced by listed Japanese companies fell 78% to around ¥896.1B ($8.3B) in the April-June quarter from the previous year, highlighting cash-strapped businesses that have been hit hard by the coronavirus pandemic. The number of buybacks announced since April stood at 146, about half the previous year's total to date. FY20 nominal total could end up at a third of the ¥7.8T in FY19.

Toshiba to offload memory chip unit to buffer market volatility. Toshiba (6501.JP) will gradually unwind its stake in memory chip unit Kioxia Holdings in a bid to distance group earnings from the volatile semiconductor industry. Kioxia, the spinoff formerly named Toshiba Memory, plans to list on the Tokyo Stock Exchange by October. Toshiba will sell its 40.2% holding after the float. More than half the after-tax proceeds from the sales will be returned to shareholders

Financial market outlook

Equities – N225: UNDERWEIGHT (Target 19,878, Exit 23,854)

Bonds – Govies: MARKETWEIGHT (Target yield 0.00%)

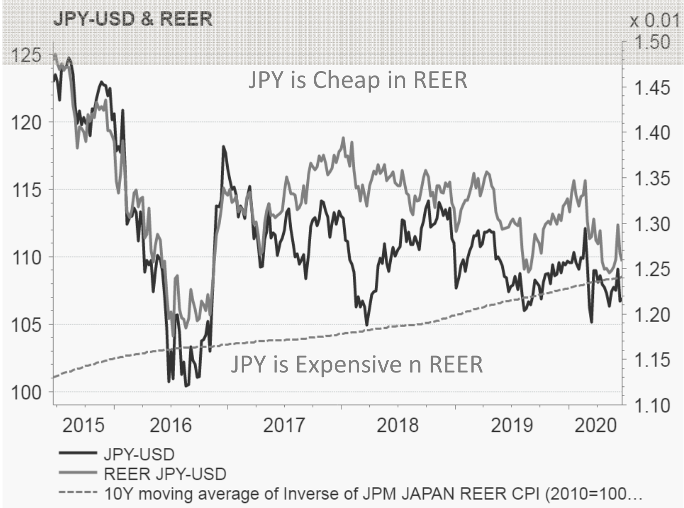
Forex – USD-JPY: MARKETWEIGHT (Mid-term target 107)

Japan Nikkei 225 price / earnings

Ratio

Source: Refinitiv Datastream / ANDBANK

JPY-USD & REER



Source: Refinitiv Datastream / ANDBANK

Japan LIBOR-OIS spread

Basis points

Source: Refinitiv Datastream / ANDBANK

INDIA

The government puts fiscal order before growth. This may save India from rating cuts.

Too early to say that India's growth story is over but difficult to see a quick recovery.

Perhaps the biggest surprise from India's latest release of GDP data was the growth of 3.1% YoY in the January-to-March quarter, well above consensus expectations of 1.6% (though in my view, a revision is likely). For the fiscal year as a whole (which ends on March 31), FY20 GDP was + 4.2% (from + 6.1% in FY19). The problem is that the lockdown started in India around March 20 (distorting only around 11% of the quarter), suggesting that activity would have been running at 89% of its potential pace in the whole quarter. According to this, 1Q20 growth should have been fixed at 3.61% yoy (well above the actual +3.1%). This is why some argue that behind the sharp slowdown lies an underlying weakness in the Indian economy. We believe that it is still too early to affirm such a thing, as not only domestic lockdown has affected the economy, also external (previous) lockdowns likely caused great distortion in India's activity. Looking ahead to 2Q20, a sharp drop of −7.5% QoQ is expected, and for FY2021 as a whole the figure could be −5%. All said, the "red zones" of the country that are likely to make the slowest exit from lockdown account for more than 50% of the economy. Unemployment rate now stands at an estimated 25%, and many of those unemployed workers, including tens of millions of now-penniless rural migrants, could be reluctant to return immediately to their jobs in factories after fleeing the cities, often on foot. The pertinent question is what monetary policy and the RBI's rate cuts will achieve. Admittedly, liquidity injections and refinancing windows have so far failed to channel much credit to the real economy. But it is too early to conclude that these policies will fail. We have seen experiences in other countries (such as China), where liquidity and credit injections also took some time to take off, and despite this we have seen favorable behavior of the economic aggregates afterwards. My main concern, perhaps, after borrowers were offered a six-month repayment moratorium, is that another spike in NPLs could be around the corner. In my view this is the most worrying aspect, given the more precarious situation of banks in India. This could be a good opportunity to see if Modi's financial reform, (bankruptcy and insolvency law) has helped to strengthen the banking system.

Fiscal. Modi's government decided against a populist fiscal splurge

Modi's government decided against a big fiscal spending boost to arrest the economic slowdown, relying instead on monetary policy to keep the economy afloat. This policy mix is good for bonds and credit conditions, but bad for the currency (an effect which perhaps has been consciously sought to stimulate the external sector's contribution). The fiscal measures announced under the government's headline INR20trn stimulus package primarily took the form of loan guarantees and liquidity injections rather than direct fiscal spending, and could end up representing no more than 1% of GDP. This may save India from a credit downgrade—though a deep recession could hit government revenues hard. There has been no revision to the official deficit target of 3.5% in FY21. But with revenues collapsing, the actual headline deficit will likely exceed 6.5%.

Bond market and Equities

The RBI has cut rates by 115bp so far this year and promised further cuts if inflation continues to decelerate. Inflation is likely to remain contained, allowing the RBI to deliver on its pledge. Short-term bond yields continue to head lower (due to rate cuts and INR8trn of liquidity infusions). Prospects are for bonds to perform well, not only due to outright debt monetization but also because these bonds still offer relatively high yields and positive real rates, and policymakers have relaxed limits on foreign participation, while also explicitly stating their aim of getting India's debt included in global bond indexes, which would lower funding costs. **Equities** rebounded recently after their comparatively lackluster recovery. One rare piece of good news is that the −25% sell-off this year has brought about a reset of valuations, with both PE and PBV ratios now at multi-year lows. If India had a plan to get back to structural nominal GDP growth of 10%, most foreign investors would be happy to consider paying a small premium to own Indian equities.

India is well-positioned to deal with an external shock

India is not as dependent on trade as its regional peers. With the basic balance back in positive territory and the RBI sitting on US$450bn of foreign exchange reserves, India is well-placed to ride out external shocks.

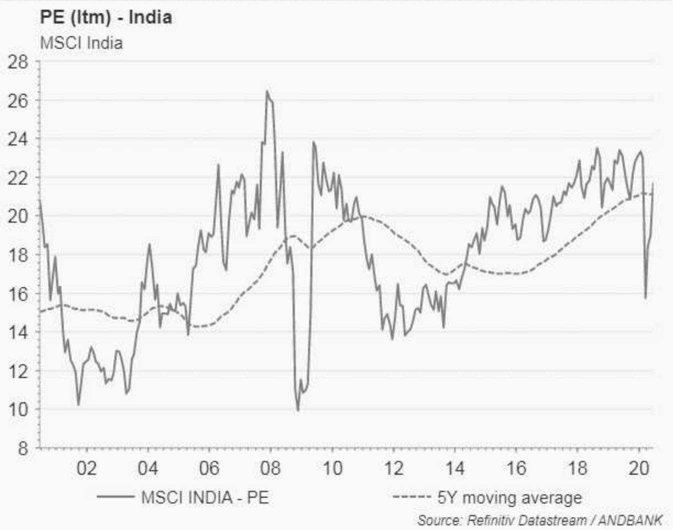
Financial market outlook

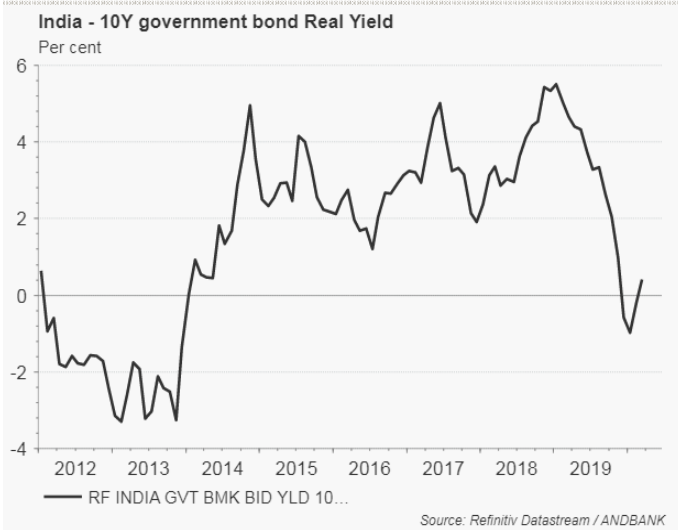
Equities – SENSEX: OVERWEIGHT(Target 33,8. Exit 40,669)

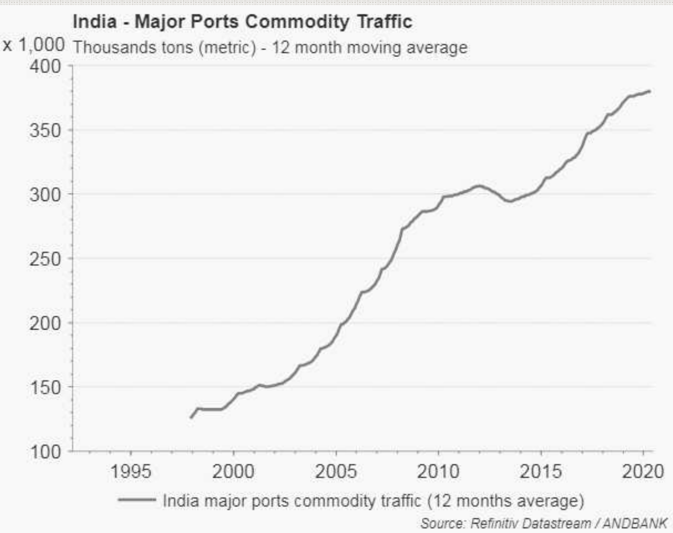
Bonds – Govies: UNDERWEIGHT (Target yield 7%)

Bonds – Corporates: UNDERWEIGHT

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







ISRAEL

Big jump in consumer confidence. TLV35 Index likely above its fair value but far from a "sell" point

Economy

Israel is still in the process of slowly getting "back to normal", as malls are already open, as well as most of the food industry. Israel's CBS released its consumer confidence survey, which showed an increase to −14%, after the sharp decline of −31% seen in April. The big jump in the survey came from the subindex "the expected change in the state of the country's economy next year", which rose to −13% (from −54% in April), and the section "the expected change in the household economy next year", which went up to +5% (from −19% in April).

The average wage showed a decline of 1.5% YoY and the number of employment positions went down by 1.8% YoY to 68.2 thousand.

Credit card purchases decreased in April by 11.5% MoM and 4.9% YoY.

Total exports (without startups) declined by 8.8% MoM, reaching $4.2B.

Corporate

Artificial Intelligence startup, Viziblezone, has announced a strategic alliance with renowned global analytics company Verint to aid companies with returning workforces. Verint offer Viziblezone high accuracy contact tracing technology as part of their comprehensive COVID-19 operational solution. Verint provides a range of software and hardware products for customer engagement management, security, surveillance, and business intelligence. Moreover, the technology has the potential to play a crucial role in assisting offices and companies to bring back their workforces in the most efficient and secure manner. While many global brands have already stated their intention to keep employees working from home, this solution has particular benefit for companies who require their workforce to be physically present.

Equity Market; Neutral

Since our last update (May 22) the main equity index, TLV 125, declined 1.8%, mainly due to strong falls in real estate companies (−8%) and oil & gas companies (−18.8%). The TLV Real estate index is still lagging behind the composite index, mainly due to the estimates that "working from home" is a trend that will continue and thus lead to lower demand for offices in city centers. In contrast, telecom and IT companies continued their upward path, rising by around 6.6% on average during the last month. BEZEQ, the Israeli telecom incumbent, rallied 23%, mainly due to expectations of regulatory changes made by the newly formed government that will benefit the company. BCOM, Bezeq's leveraged parent company, soared 67%. The rest of Tech companies continued their rally from previous months, gaining 4% in the month. The TLV Tech index is up 16.8% YTD. Israeli banks still lag behind the market and trade at relatively low value to book multiples (below one), reflecting weak prospects for profitability and write-offs.

Bond market: Positive

Credit spreads continued their downward trend in late May and the first half of June. The spread in the CPI-linked TelBond60 index is at 1.80%, compared to 1.83% in mid-May and pre-crisis levels of 1.2%-1.25%.

The credit spread in the non-CPI-linked TelBond Shikli50 is at 1.82%- compared to 1.96% in May and pre-crisis levels of 1.3%-1.5%.

In June we also saw a growing differentiation between companies the market sees as more negatively affected by the Covid-19 crisis (such as office buildings) and those the market considers "safe" (such as banks and technology).

Financial market outlook

Equities – TLV35 Index: MARKETWEIGHT (Cheap)

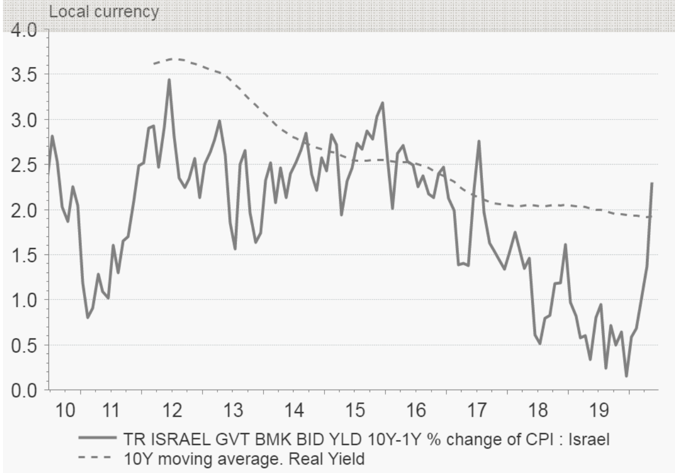
Bonds – 10Y Gov USD: MW-OW (Cheap in local currency)

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

Israel price/earnings, Datastream index
Ratio

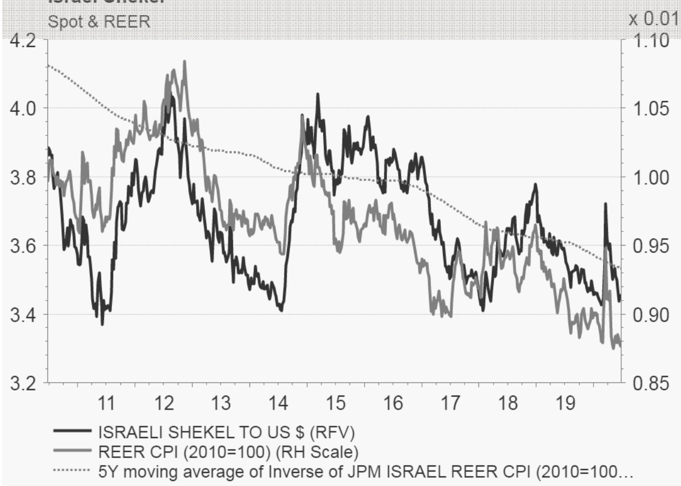
Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel
Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

The equity market continues to offer some value. We like USD bonds.

Economy

The central bank chief said Brazil's GDP outlook is brighter than the newly reduced forecast of a 6.4% contraction this year, adding that the bank has not abandoned its inflation goals. This estimate contrasts with the International Monetary Fund's forecast of a 9.1% contraction this year.

New unemployment insurance claims in Brazil rose by 351,315 in the first two weeks of June, a 35% increase vs. the same period last year and a reflection of the COVID-19 pandemic's impact on the jobs market. The good news is that the figure was down 23% from the number of claims made in the last two weeks of May, suggesting there may have been the beginnings of a labor market recovery in June. Jobless insurance claims surged by almost 1 million in May, a record rise for any month since the series began 20 years ago. The rise in the first two weeks of June brought total claims so far this year up to 3.65 million (an increase of 14% vs. the same period last year). Brazil's unemployment rate in the three months to April stood at 12.6%. Figures released by statistics agency IBGE this week showed that nearly 10 million Brazilian workers did not receive their wage or salary in May, and 19 million registered employees were kept away from their place of work.

Brazil & the global economy

According to the IMF, the coronavirus pandemic has caused wider and deeper damage to economic activity than first thought, prompting the institution to slash its 2020 global output forecasts further. The IMF said it now expects 2020 global output to shrink by 4.9%, compared with a 3.0% contraction predicted in April. The projected recovery in 2021 will also be weaker, with global growth forecast at 5.4% for the year, compared to 5.8% in the April forecast. "The IMF views the current recession as the worst since the 1930s Great Depression, which saw global GDP shrink 10%, but also said that the $10 trillion in fiscal support and massive easing by central banks had so far prevented large-scale bankruptcies." U.S. output is expected to shrink 8.0% and eurozone output 10.2% in 2020, both more than 2 percentage points worse than the April forecast. Regarding Latin American economies, where infections are still rising, the IMF anticipates some of the largest downgrades, with Brazil's economy now expected to shrink 9.1%, Mexico's 10.5% and Argentina's 9.9% in 2020.

Covid & a new sanitation bill aimed at luring investors

Brazil's Senate late on Wednesday approved a new sanitation bill, in a move that is expected to prompt states and municipalities to privatize water and sewage companies, luring investors. The bill, which needs President Jair Bolsonaro's approval to become law, foresees the universalization of sanitation services by 2033, which would require 700 billion reais ($132 billion). "The approval is a huge step in the improvement of the precarious condition of the basic sanitation system, where 16% of Brazilians (almost 35 million people) lack access to clean water and almost half the population lack access to sewage collection," BTG's analysts wrote in a note. Analysts see state-run Sabesp SBSP3.SA and Copasa CSMG3.SA as the companies with the highest chances of being privatized soon, as the governors of the states of Sao Paulo and Minas Gerais have already revealed plans in this respect.

Equities: Slight overweight

We have carried out the half-year review for profits, partially incorporating the expected earnings for 2021. We believe EPS will end 2020 with growth of −18% and that in 2021 they will grow 20%. Thus, the EPS in the next 12 months will be 6,564 (still far below the level seen at the end of 2019, when they stood at 7,181). We use a PE fw multiple of 13.5x, which leaves us a fair value for the Ibovespa of 88,600, with a starting point (sale) at 106,343.

Financial market outlook

Equities – IBOV: MW-OVERWEIGHT (Target 88,862. Exit 106,635)

Bonds – Gov. 10y Local: UW (Target 8,2%. Spread 700)

Bonds – Gov. 10y USD: OW (Target 4.2%. Spread 300)

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

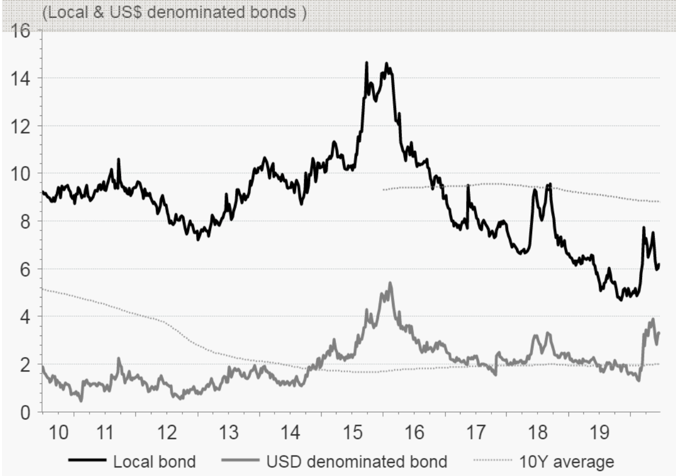
Brazil price/earnings, Datastream index

Ratio

Source: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

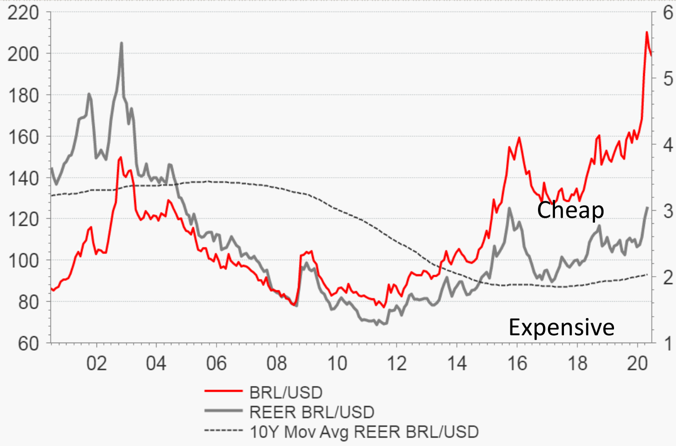
(Local & US$ denominated bonds)



Source: Refinitiv Datastream / ANDBANK

BRAZILIAN REAL - REER

vS USD



Source: Refinitiv Datastream / Fathom Consulting

MEXICO

Underweight Mexican assets. Bond spreads above historical average, but justified

Economics

The Ministry of Finance estimates that April's monthly GDP would have fallen −19% yoy, while estimates by private sector analysts put the drop at −22% yoy. In the most recent indicators, industrial activity decreased −30% yoy in April and gross fixed investment 11% in March. May inflation continues to show the downward effect of lower aggregate demand, although the underlying part continues to show persistence above 3.60% levels. The general price index has already rebounded somewhat from levels around 2.15% (lowest in five years) and now stands at 2.84%, responding to the recent rebound in energy prices.

Monetary environment remains supportive

The cut of another 50 basis points in the Banxico reference rate was expected to leave the rate at 5%. The decision was unanimous and further cuts were not ruled out as a stimulus measure for the economy in the face of the pandemic. The median in local surveys forecasts a level of 4.50% for the end of 2020 and unchanged in 2021.

Covid & Fiscal

The increasing rate of infections and deaths from Covid has continued. As of June 21, Mexico had the highest daily number of deaths in the world. However, after confinement, the policy of a gradual reopening of the country has been maintained. In CDMX, two days after an initial announcement of a change from red to orange, the measure was reversed. In the public finance report for April, the debt-to-GDP level rose to 52%, having ended 2019 above 45%. A primary surplus was maintained, despite the fact that the year is expected to end with a deficit of 0.4%, and surprisingly there was an increase in tax revenues linked to the consumption tax.

Mexican assets

Equities (IPC Index), UW-MW: Uncertainty in the business sector continues and a certain pessimism persists in private investment, which will continue to be adversely affected in renewable energy and electricity, after certain political decisions that hit the sector. Mexico is poorly positioned for a V-shaped recovery. Fair value for the IPC Index is in the 30,000-38,000 range (as of June 22, the upper part of the range was exceeded). **Fixed Income, UW:** The spread on the Mexican (local and USD-denominated) bond against the UST has recovered substantially since its worst moment in March. Currently, the bond in pesos trades at 520 basis points above the UST, following the effect of cuts in the Banxico rate on the yield curve. For dollar-denominated bonds, the spread widened to around 300 basis points. We set the target spread for the 10Y MXN bond in pesos at 550-575 bp vs the UST yield. For the USD-denominated Mexican bond, we set the target spread at 275 bp. In both cases, we consider Mexican bonds expensive. **Forex, Target at 23.5:** The exchange rate has fluctuated between 22 and 22.70 against the dollar, in a period of less volatility. However, the peso remains one of the weakest currencies this year, despite the fact that rates in Mexico have been kept high. This has not been enough to prompt a greater inflow of capital. On the contrary, holdings of assets in pesos by foreigners are at levels not seen since 2016, while the positioning on Mexico in futures markets is at a level balanced between short and long. Target for MXN-USD at 23.50.

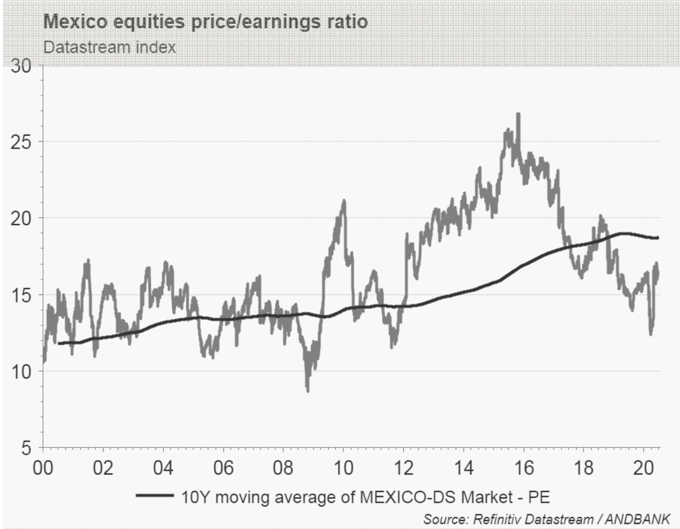
Financial market outlook

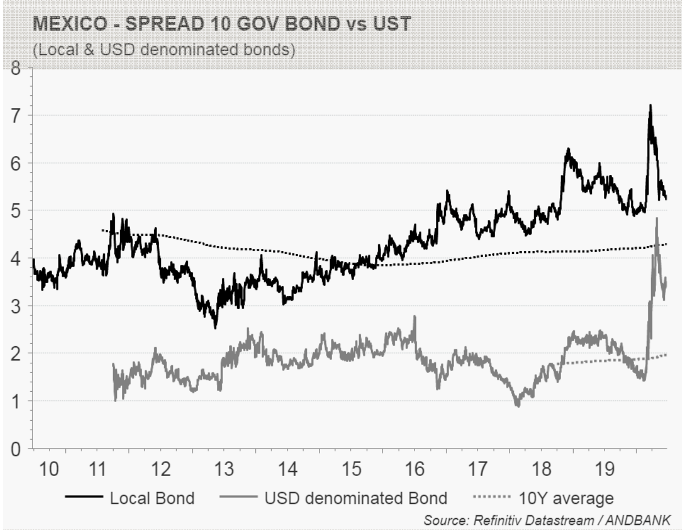
Equities – Mex IPC: UNDERWEIGHT. Target 36,374. Exit 40,011

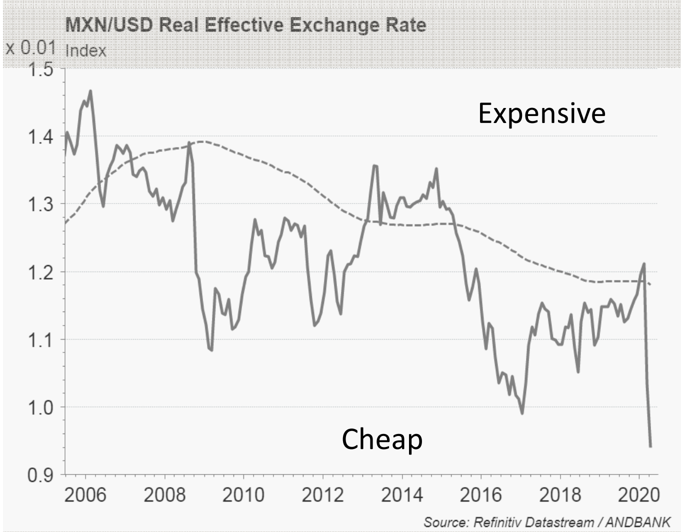
Bonds – Govies Local: UNDERWEIGHT (Yield 6.7%. Spread 550)

Bonds – Govies USD: UNDERWEIGHT (Yield 4%. Spread 275)

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







ARGENTINA

Debt restructuring: Parties getting closer but legal issues remain

Argentina extended its debt exchange offer until July 24. No new offer has been made since April 17, but Argentina and its creditors are getting closer as per the proposals of both parties used in private negotiations and disclosed by the Ministry of Economy.

If we compare Argentina's last draft offer with the original one, we see the following changes: i) Grace period of only one year (vs 3 years), with coupon payments restarting during 2021; ii) Nominal haircut for "Macri" bonds trimmed to 3%; iii) Average coupon of 3% (+90 bps vs original offer); iv) Payment of accrued interest through a bond maturing in 2030; v) Inclusion of a Value Recovery Mechanism (VRM) linked to exports, with an extra coupon payment of up to 0.75% from 2026 to 2046, when payment conditions are met. The NPV of this offer is around USD 52 if the export-linked VRM is included.

The Ad Hoc group (led by Blackrock), alongside the Exchange Bondholder group (EBG), submitted a proposal with a NPV of 60.2 that includes a VRM linked to GDP as measured by the IMF and calls for half of the accrued interest to be paid in cash on the settlement date and the other half to be paid through a new dollar bond maturing 2023. At the same time, the Argentina Credit Committee, Gramercy and Fintech made a proposal with a USD 54.7 NPV in line with Argentina's offer but including a more generous export-linked VRM.

Monetary difference are narrowing (only 1% of GDP), but there are also differences in legal matters. The most important is under which indenture the new bonds are to be issued. In the original offer all bonds had the same indenture as "Macri" bonds. Now, the Ad Hoc and EBG committees are requesting that all bonds be issued under the 2005 indenture (exchanged bonds). They are also requesting that Argentina remove the re-designation provision from the offer, among other things.

Mendoza: Second Provincial Default

On Friday 19, the 30-day grace period for Mendoza's 2024 bond expired without payment, making Mendoza the second province to default. Previously, the province had announced an exchange offer with no nominal haircut, extending maturities (2024 to 2029) and with a more aggressive than expected coupon reduction (0% until Nov-21, 2% from Nov-21 to Nov-23, and 4% until maturity), prompting rejection by creditors.

Buenos Aires Province (PBA), the first to enter payment default, is also extending its offer until July 31.

Inflation slowing as lockdown continues

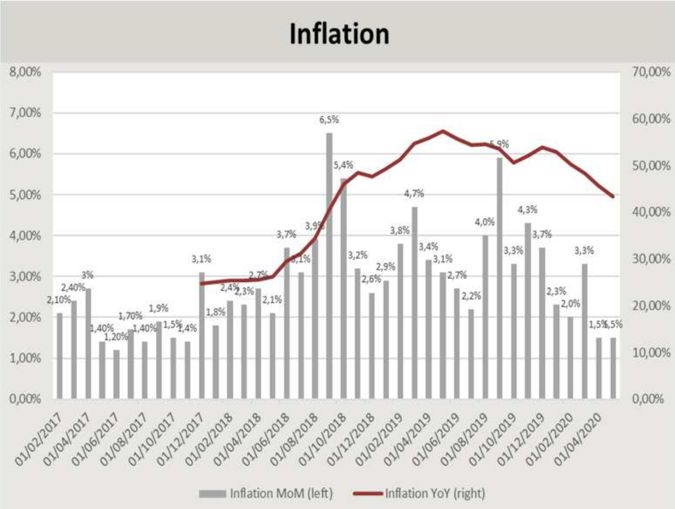
The May CPI rose 1.5% MoM (vs 1.5% April), with the YoY rate further decelerating to 43.4% (from 45.6% in April), helped by frozen utility tariffs and transport and fuel prices, coupled with declining activity and FX controls. Given the significant monetary expansion to finance the increasing fiscal deficit, the risk of a an inflationary depression is growing.

The extended mandatory lockdown to fight Covid-19 has brought good results on the health side but is generating a critical situation on the economic front: i) May tax revenues +12% YoY (well below inflation); ii) May real retail sales −50.8% YoY; iii) April IP −33.5% YoY. According to the central bank's Expectations Survey, analysts are expecting a 9.4% GDP contraction for 2020.

Gap between the official FX (69.8) and the BCS (111.9) and black market FX (128) is 61% and 93%, respectively.

Financial market outlook

Bonds – 10YGov USD: NEUTRAL
FX – USDARS: NEGATIVE (2020 year-end target 90)



GLOBAL EQUITY INDICES

Fundamental assessment

Index	Projected EPS Andbank 2020	Projected EPS Andbank 2021	Projected EPS Andbank Fw 12m	Projected EPS Growth Andbank 2020	Projected EPS Growth Andbank 2021	Projected PE EPS nxt 12m	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2020 E[Perf] to Fair Value	Recomm	2020 Exit Point	Margin	E[Perf] to Exit point
USA S&P 500	132	165	148	-20,0%	25,00%	20,00	3.116	2.962	-4,9%	MW	3.407	1,15	9,3%
Europe - Stoxx Europe 600	19,5	24	22	-25,0%	25,00%	15,50	365	340	-6,7%	MW/OW	408	1,2	11,9%
Euro Zone - Euro Stoxx	18,9	24	21	-25,0%	25,00%	15,50	357	330	-7,7%	MW/OW	395	1,2	10,7%
Spain IBEX 35	498	697	597	-30,0%	40,00%	13,00	7.364	7.764	5,4%	OW	8.541	1,1	16,0%
Mexico IPC GRAL	2.320	2.785	2.553	-18,0%	20,00%	14,25	37.620	36.374	-3,3%	UW	40.011	1,1	6,4%
Brazil BOVESPA	5.984	7.181	6.582	-18,0%	20,00%	13,50	96.203	88.862	-7,6%	OW/MW	106.635	1,2	10,8%
Japan NIKKEI 225	1.063	1.276	1.169	-20,0%	20,00%	17,00	22.146	19.878	-10,2%	UW	23.854	1,2	7,7%
China SSE Comp.	226	249	237	-10,0%	10,00%	12,50	3.091	2.968	-4,0%	MW/UW	3.265	1,1	5,7%
China Shenzhen Comp	75,1	83	79	-10,0%	10,00%	24,00	2.016	1.894	-6,1%	UW	2.083	1,1	3,3%
India SENSEX	1.576	1.813	1.695	-15,0%	15,00%	20,00	35.844	33.891	-5,4%	OW	40.669	1,2	13,5%
Vietnam VN Index	53,6	62	58	-10,0%	15,00%	15,00	842	864	2,5%	OW	1.037	1,2	23,0%
MSCI EM ASIA	35,4	41	38	-10,0%	15,00%	14,00	543	533	-1,8%	OW	640	1,2	17,8%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS

Perspective: Overall assessment still constructive

Andbank's Assessment: +2.5 (in a −7/+7 range)

Aggregate (MW-OW bias): The markets remain nervous, yet our overall assessment is still positive.

Market Positioning (MW bias): Asset allocation in equity is low and stable month-on-month, we thus keep our MW review. The put-call ratio indicates also that investors have reduced their hedges overall (also vs last month). Finally, Skew in positive territory reflects that fear of a more violent downside movement is still present.

Flow Analysis (MW-OW bias): Net inflows in US equity indicate a positive momentum in equities. Europe, Japan and Taiwan follow the US but with very small volumes. China, on the other hand, was a net seller on mounting tensions with the US.

Surveys & Sentiment Analysis (OW bias): Sentiment from investors is still negative; our contrarian reading remains positive.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	Ticker Reuters	View 1 month	Principal Support 2020	Principal Resistance 2020	Support 1 month	Resistance 1 month	Target (TA) 2020	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	Lateral	252,89	443,29	302,29	391,00	443,00	354,77	24,87%
	Euro Stoxx 600	.STOXX	Lateral	268,57	433,90	322,87	403,72	441,75	363,41	21,56%
	Ibex	.IBEX	Lateral	5.814,50	10.100,00	6.421,00	8.375,60	8.375,60	7390,20	13,33%
	S&P	.SPX	Lateral	2.191,86	3.393,52	2.766,64	3.337,75	3.393,52	3115,34	8,93%
	Japón	.N225E	Lateral	16.358,19	24.448,00	19.000,00	24.116,00	24.116,00	22355,46	7,88%
	China	.SZSC	Lateral bullish	1.458,00	2.000,00	1.741,58	1.966,14	2.060,00	1908,33	7,95%
	India	.BSESN	Lateral	24.833,00	42.273,00	29.968,45	36.000,00	35.750,00	34208,05	4,51%
	Brasil	.BVSP	Lateral	57.600,00	119.593,00	83.598,00	106.650,00	106.650,00	96125,24	10,95%
	México	.MXX	Lateral	30.000,00	45.955,00	35.277,54	41.388,78	41.388,00	37632,89	9,98%
OTROS	Oil West Texas	WTCLc1	Lateral	10,37	51,00	29,11	41,28	50,00	38,75	29,03%
	Gold	XAU=	Lateral bullish	1.445,18	1.920,00	1.659,68	1.764,55	1.920,00	1722,62	11,46%
	Treasury 10Y USA	US10YT=RR	Lateral	0,1289%	1,3210%	0,5430%	0,9590%	0,8658%	0,7060%	22,63%

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

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 1.47%. Fair value 2.32%. Ceiling 2.5%

Swap spread: The swap spread was fixed at 1.4bp. For this spread to normalize at +3bp, with the 10Y swap rate anchored in the 1.5% area (our LT inflation expectation), the 10Y UST yield would have to move towards 1.47%.

Slope: The slope of the US yield curve (10-year minus 2-year bond yield) was fixed at 49bp. With the short-end normalizing towards 1%, to reach the long-term average slope (of 132bp), the 10Y UST yield would have to move to 2.32%.

Real yield: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our long-term CPI forecast of 1.5%, the UST yield would have to rise to 2.5% to become a "BUY".

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

Swap spread: The swap spread was fixed at 31bp. For the swap spread to normalize at 38bp, with the swap rate anchored in the 0.5% area, the Bund yield would have to move towards 0.10% (entry point).

Slope: The slope of the EUR curve (10-year minus 2-year bond yield) was fixed at 24bp. If the short-end normalizes at 0%, to reach the 10Y average yield curve slope (111bp), the Bund yield would have to move to 1.11%.

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

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

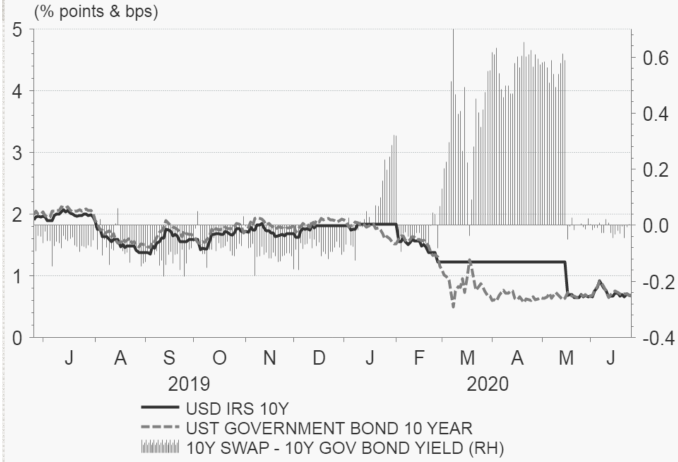
Swap spread: The swap spread was fixed at 25bp. For the swap spread to normalize at 11bp, with the swap rate anchored in the 1.5% area, the 10Y UK Gilt would have to shift to 1.4%.

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

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

SWAP SPREAD USD

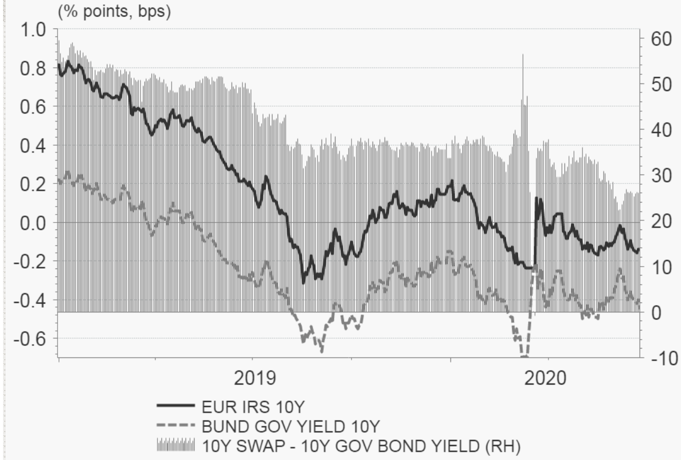
(% points & bps)



Source: Refinitiv Datastream / Fathom Consulting

SWAP SPREAD EUR

(% points, bps)



Source: Refinitiv Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Tactical targets – 10Y yields

Spanish bono: Target yield at 0.6%
Italian bond BTPI: Target yield at 1.4%
Portuguese Gov bond: Target yield at 0.6%
Ireland Gov bond: Target yield at 0.3%
Greek Gov bond: Target yield at 2.0%

EMERGING MARKET BONDS

Fundamental targets

To date, our rule of thumb for EM bonds has been "buy" when the following two conditions are met: 1) The US Treasury real yield is at or above 1%; and 2) EM bond real yields are 1.5% above the UST real yield.
Assuming that the first condition is met, we should only buy those EM bonds offering a real yield of 2.50% or more. The markets (and government bonds) that meet such requirements are shaded gray.

		10 Year Yield Nominal	CPI (y/y) 3 month Mov Avg	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	7,14%	2,43%	4,71%	-1,00%	6,14%
	India	5,84%	6,03%	-0,19%	1,00%	6,84%
	Philippines	2,81%	2,15%	0,66%	0,00%	2,81%
	China	2,86%	2,44%	0,42%	0,00%	2,86%
	Malaysia	2,92%	-2,96%	5,88%	-1,00%	1,92%
	Thailand	1,21%	-3,24%	4,45%	-1,00%	0,21%
	Singapore	0,87%	-0,75%	1,62%	-0,50%	0,37%
	South Korea	1,21%	-0,15%	1,36%	-0,50%	0,71%
	Taiwan	0,33%	-1,06%	1,38%	-0,50%	-0,18%
EME	Turkey	11,55%	11,16%	0,39%	0,00%	11,55%
	Russian Fed	5,84%	3,05%	2,79%	-0,75%	5,09%
LATAM	Brazil	6,59%	2,26%	4,34%	-1,00%	5,59%
	Mexico	5,71%	2,45%	3,26%	-1,00%	4,71%
	Colombia	5,66%	3,16%	2,50%	-0,75%	4,91%
	Peru	4,86%	1,72%	3,14%	-1,00%	3,86%

ENERGY – OIL

Fundamental view (WTI): Target range USD35-45bbl.

Buy < USD35; Sell >45

Short-term drivers

(Price Positive) – OPEC, Russia, and allies agreed to production cuts through July: Reuters reported that OPEC, Russia and allies agreed on Saturday, June 6, to extend record oil production cuts until the end of July. The group also demanded that countries such as Nigeria and Iraq, which exceeded production quotas in May and June, compensate with extra cuts in July to September (Iraq output in May was 4.213M bpd, ahead of its 3.592M bpd quota). The initial agreement in April was to cut supply by 9.7M bpd during May-June to prop up prices, which had collapsed due to the coronavirus crisis. Those cuts were due to taper to 7.7M bpd from July to December. Oil demand is expected to recover, but OPEC has yet to clear 1 billion barrels of excess oil inventories accumulated since March.

(Price Positive) – OPEC+ commitment to keep the pact will help bring prices back to normal in one year: UAE's oil minister Al Mazrouei said yesterday that while a return to $40/barrel oil seemed like a dream back in March and early April, the OPEC+ output-cut deal will help prices return to normal within a year or two as demand improves and the pact drains excess barrels from the market. Al Mazrouei suggested the strong rules-based deal could help keep countries from cheating and encourage participants not to resume output too quickly

(Price Positive) – Saudi Arabia raised official oil pricing globally, with the steepest jump hitting July exports to Asia. Overall, the increases erase almost all of the discounts the kingdom made during its brief price war with Russia. The sharp price increases show the kingdom is using all the tools at its disposal to turn around the oil market after April's price plunge into negative territory, and is likely to be followed by price increases from other producers.

(Price Negative) - Asian buyers looking to US amid uncertain OPEC+ supply: Refiners in Asia have been forced to accept big reductions in contracted volumes from Asian suppliers, including Saudi Arabia and Iraq, in recent months, which has pushed those buyers to look at American crude, in part driven by deeper discounts for American crude relative to global benchmarks, including Brent. Flows from the US to Asia have risen from 27M bpd in May and June to an expected 49M barrels next month,

(Price Positive) – **US shale companies cut output sharply:** Some American oil producers are restarting production as prices have rebounded, though producers will likely continue to put off most new drilling, as current prices are still below the levels many companies need to drill new wells profitably. DOE sees US shale output dropping to a two-year low, as the June Drilling Productivity Report from the EIA forecasts that US oil output from its seven major shale regions could fall to 7.63M bpd by July, just after US production fell to around 11.2M bpd in the final week of May, down from a record 13.1M bpd in March. US production could temporarily increase this summer as wells come back online, though production would quickly taper off. Total production is still expected to fall from current levels.

(Price Positive) – China crude imports hit record high in May: Bloomberg reported that China's crude imports surged to 11.34M bpd in May, a 15% jump m/m and 160K bpd higher than the previous record in November. The figure underlines the complete demand recovery in the country following the coronavirus lockdowns, which led to plummeting demand. However, as the article notes, the figure also indicates the country has likely filled its strategic reserves with cheap crude. However, shipping data indicate China could import more than 14M bpd in June.

(Price Positive Short-Term, but Negative Long-Term) – Venezuelan crude exports continue to shrink, creating uncertainty for the Maduro regime: Oil revenue is drying up in Venezuela, adding to the growing instability of Nicolas Maduro's regime. The article noted that crude exports fell by almost half this month, after hitting a 73-year low in May. The decline comes as US sanctions continue to target Venezuela. Venezuela loaded two vessels per day two years ago before sanctions were imposed, though only one tanker is expected to load for the remainder of June. The slowdown has pushed stockpiles higher, up to 15.2M barrels, or 43% more than in January. The country now only has an additional 800K bpd in spare capacity. Elsewhere, Axios reported that Trump suggested he has had second thoughts about recognizing Juan Guaidó as the legitimate leader of Venezuela and said he is open to meeting with Maduro.

Long-term drivers

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

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

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

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,600/oz. Buy at $1.400

Positive drivers for gold

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

Negative yields still make gold attractive: The disadvantage of gold compared to fixed income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds (>US$13tn of face value is yielding negative rates).

Gold to the S&P500: This ratio stands at 0.57x, just shy of the LT average of 0.62x. Given our estimated fair value price for the S&P of US$2,953, the price of gold must approach US$1,830 for this ratio to remain near its LT average.

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

Negative drivers for gold

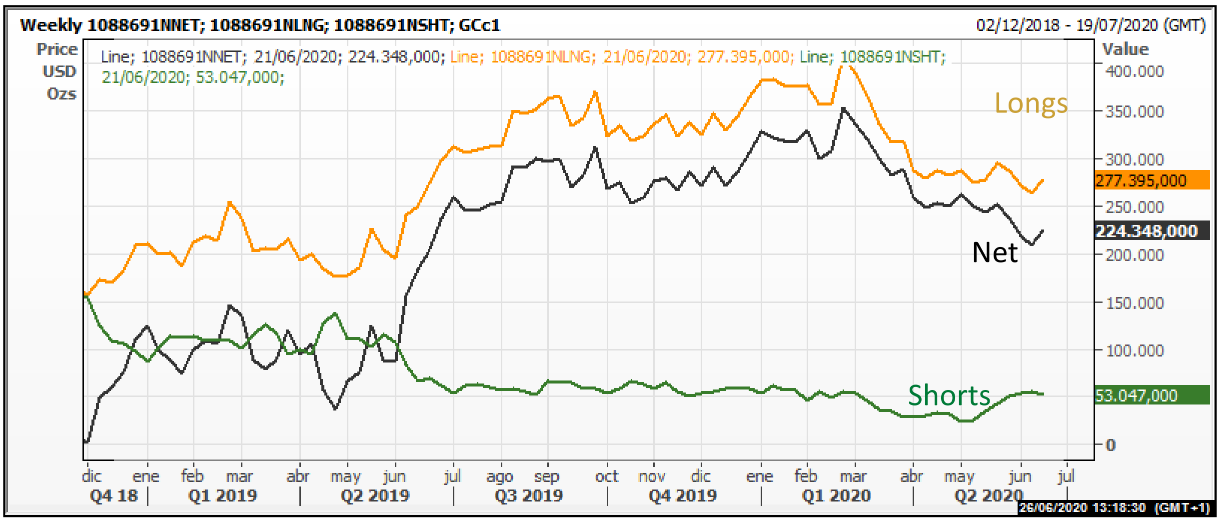
Gold in real terms: In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) is US$1,555. In real terms, therefore, gold continues to trade well above its 20-year average of US$956. Given the global deflator (now at 1.13543), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,085.

Gold to Silver (Preference for store of value over productive assets). This ratio is at 99.24 and still remains well above its 20-year average of 65.52x, 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$1,162/oz.

Gold to Oil: This ratio is at 45.52, still well above its 16-year average of 16.5x. Considering our fundamental long-term target for oil of US$40 pb (our central target for the long term) and that the utility of oil relative to gold will remain unchanged, the price of gold must approach US$660 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long contracts at 277k (from 295k last month). Short contracts at 53k (from 43.6k last month). Thus, the net current position in gold futures remains at 224k contracts during the month (from 251k last month).

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



EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.10

USD-JPY: Target 107; **EUR-JPY**: Target 117,71

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

USD-CHF: Target 0.97; **EUR-CHF:** Target 1.07

USD-MXN: Target 23.5; **EUR-MXN:** Target 25,85

USD-BRL: Target 5.50; **EUR-BRL:** Target 6,05

USD-ARS: Target 90

USD-INR: Target 74

CNY: Target 6.90

RUB: NEUTRAL

AUD: NEUTRAL

CAD: NEUTRAL

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	-17,57	-9,75	32,1	-17,6	13,3	-1,33
USD vs G10	-16,83	-9,16	32,7	-16,8	14,0	-1,43
EM	0,74	0,59	5,2	-0,2	1,3	-0,49
EUR	16,74	6,42	16,7	-15,5	-1,0	1,13
JPY	3,22	-0,80	4,0	-12,8	-4,5	1,53
GBP	-1,45	0,27	2,8	-6,5	-2,1	0,24
CHF	0,19	-0,94	1,2	-6,0	-1,4	1,15
BRL	-0,22	-0,01	0,1	-1,0	-0,4	-0,39
MXN	0,52	0,41	4,6	-0,1	1,3	-0,32
RUB	0,44	0,18	1,2	-0,2	0,4	-0,22
AUD	-0,33	2,36	-0,3	-5,2	-3,0	-0,12
CAD	-1,54	0,93	2,9	-5,0	-1,2	-0,39

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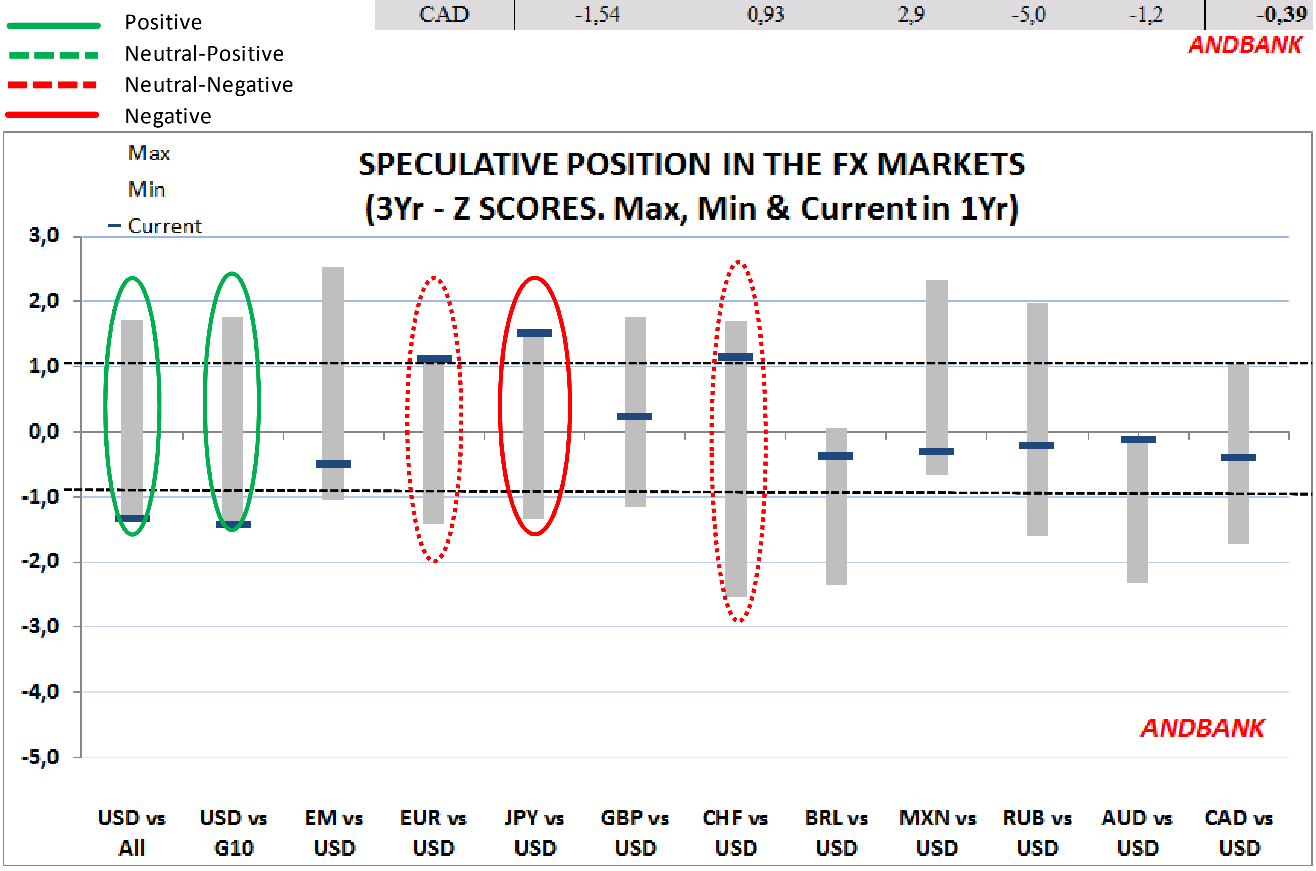

The currencies we technically favor are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fair Value EPS 12m fw	Expected Performance to Fair Value 2020
Equity	USA - S&P 500	-0,2%	-3,6%	3.116	2.962	-4,9%
	Europe - Stoxx Europe 600	-1,1%	-13,1%	365	340	-6,8%
	Euro Zone - Euro Stoxx	-0,5%	-12,7%	357	330	-7,8%
	SPAIN - IBEX 35	-3,4%	-24,3%	7.367	7.764	5,4%
	MEXICO - MXSE IPC	-1,8%	-13,6%	37.620	36.374	-3,3%
	BRAZIL - BOVESPA	3,4%	-16,8%	96.203	88.862	-7,6%
	JAPAN - NIKKEI 225	-4,9%	-6,4%	21.507	19.878	-7,6%
	CHINA - SHANGHAI COMPOSITE	5,7%	1,3%	3.091	2.968	-4,0%
	CHINA - SHENZEN COMPOSITE	9,1%	17,0%	2.016	1.894	-6,1%
	INDIA - SENSEX	5,1%	-14,2%	35.844	33.891	-5,4%
	VIETNAM - VN Index	-4,4%	-12,3%	842	864	2,5%
	MSCI EM ASIA (in USD)	2,6%	-4,0%	543	533	-1,8%
Fixed Income Core countries	US Treasury 10 year Govie	0,6%	10,9%	0,67	1,20	-3,9%
	UK 10 year Gilt	0,5%	5,3%	0,20	0,80	-4,7%
	German 10 year BUND	0,3%	1,6%	-0,40	-0,20	-1,8%
	Japanese 10 year Govie	-0,3%	-0,6%	0,04	0,00	0,3%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,9%	-0,1%	0,50	0,60	-0,6%
	Italy - 10yr Gov bond	1,8%	1,1%	1,32	1,40	0,1%
	Portugal - 10yr Gov bond	0,9%	0,0%	0,45	0,60	-1,0%
	Ireland - 10yr Gov bond	0,6%	0,3%	0,05	0,30	-2,0%
	Greece - 10yr Gov bond	2,7%	2,9%	1,14	2,05	-6,7%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,0%	-0,6%	66,70	70	0,0%
	Credit EUR HY-Itraxx Xover	0,1%	-4,8%	385,81	400	1,3%
	Credit USD IG - CDX IG	0,0%	0,3%	75,85	70	0,7%
	Credit USD HY - CDX HY	-1,3%	-4,7%	516,73	450	4,7%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-0,5%	9,3%	11,50	11,75	3,7%
	Russia - 10yr Gov bond (local)	-2,8%	5,3%	5,94	5,00	10,5%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-0,8%	2,3%	7,15	6,00	12,8%
	India - 10yr Gov bond (local)	2,0%	9,0%	5,83	7,00	-6,4%
	Philippines - 10yr Gov bond (local)	4,0%	15,2%	2,81	3,00	-0,2%
	China - 10yr Gov bond (local)	-0,1%	3,8%	2,84	2,75	2,1%
	Malaysia - 10yr Gov bond (local)	0,1%	4,2%	2,98	2,00	9,4%
	Thailand - 10yr Gov bond (local)	-0,3%	2,4%	1,21	0,25	8,3%
	Singapore - 10yr Gov bond (local)	0,1%	7,6%	0,88	0,40	4,3%
	Rep. Korea - 10yr G. bond (local)	0,2%	3,4%	1,23	0,75	4,5%
	Taiwan - 10yr Gov bond (local)	1,1%	2,7%	0,32	0,00	2,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	3,4%	12,5%	5,71	6,70	-5,1%
	Mexico - 10yr Govie (USD)	-0,4%	-0,8%	3,64	3,95	-0,7%
	Brazil - 10yr Govie (Loc)	1,1%	5,1%	6,58	8,20	-9,7%
	Brazil - 10yr Govie (USD)	2,3%	-2,8%	4,78	4,20	7,0%
Commodities	Oil (WTI)	6,8%	-34,8%	39,8	40,00	0,5%
	GOLD	4,3%	16,7%	1.770,0	1.600	-9,6%
Fx	EURUSD (price of 1 EUR)	0,2%	0,4%	1,125	1,100	-2,2%
	GBPUSD (price of 1 GBP)	-0,8%	-6,0%	1,25	1,32	5,9%
	EURGBP (price of 1 EUR)	1,0%	6,7%	0,90	0,83	-7,6%
	USDCHF (price of 1 USD)	-1,6%	-2,3%	0,95	0,97	2,6%
	EURCHF (price of 1 EUR)	-1,4%	-2,0%	1,06	1,07	0,3%
	USDJPY (price of 1 USD)	-1,3%	-1,1%	107,46	107,00	-0,4%
	EURJPY (price of 1 EUR)	-1,2%	-0,8%	120,90	117,70	-2,6%
	USDMXN (price of 1 USD)	4,2%	19,8%	22,67	23,50	3,7%
	EURMXN (price of 1 EUR)	5,2%	21,3%	25,71	25,85	0,6%
	USDBRL (price of 1 USD)	5,0%	32,3%	5,32	5,50	3,4%
	EURBRL (price of 1 EUR)	5,2%	32,8%	5,98	6,05	1,1%
	USDARS (price of 1 USD)	2,5%	17,8%	70,51	90,0	27,6%
	USDINR (price of 1 USD)	0,2%	5,8%	75,48	74,00	-2,0%
	CNY (price of 1 USD)	-0,6%	1,6%	7,07	6,90	-2,4%

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

UPWARD REVISION DOWNWARD REVISION

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Achieves
More

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