GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – April 2021

Corporate Review

April 2021

Suez. A vital route for world trade

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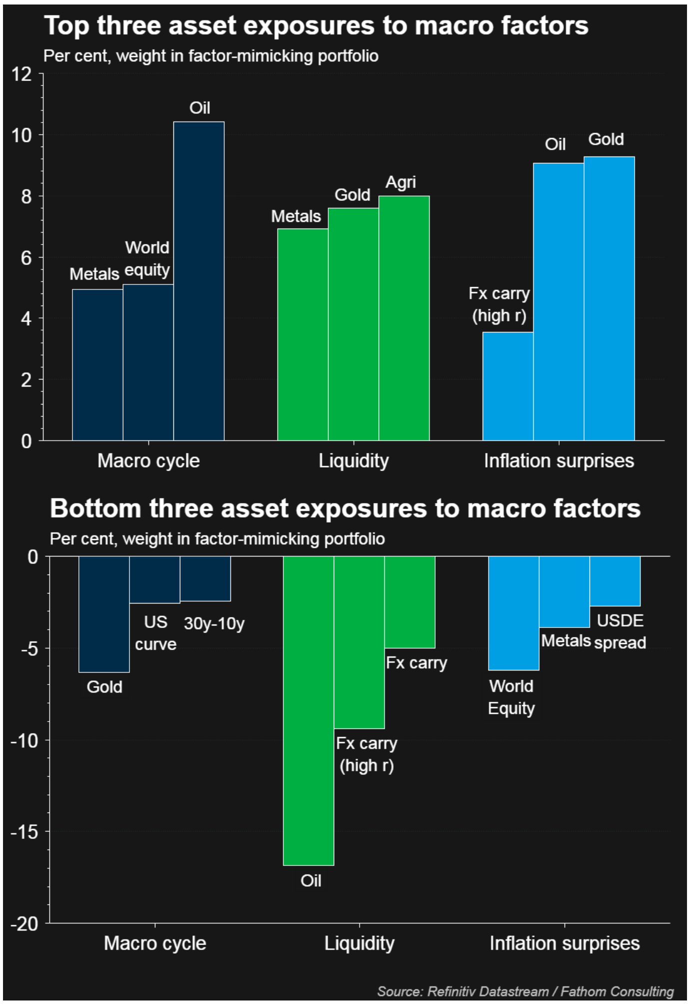
EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2021 E[Perf] to Fair Value	Recomm	2021 Exit Point
USA S&P 500	3.967	3.826	-3,6%	MW	4.399
Europe - Stoxx Europe 600	428	443	3,4%	OW	509
Euro Zone - Euro Stoxx	429	430	0,1%	MW	494
Spain IBEX 35	8.519	7.364	-13,6%	UW	8.468
Mexico IPC GRAL	47.314	50.932	7,6%	OW	58.571
Brazil BOVESPA	114.845	113.856	-0,9%	MW	130.935
Japan NIKKEI 225	29.385	29.911	1,8%	MW	34.398
China SSE Comp.	3.435	3.404	-0,9%	UW	3.914
China Shenzhen Comp	2.219	2.396	8,0%	MW/OW	2.755
India SENSEX	49.009	60.723	23,9%	OW	69.832
Vietnam VN Index	1.176	1.394	18,5%	OW	1.603
MSCI EM ASIA	725	714	-1,5%	MW -UW	821

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income Core countries	US Treasury 10 year Govie	1,69	1,80	0,4%
	UK 10 year Gilt	0,78	0,80	0,4%
	German 10 year BUND	-0,33	-0,25	-0,9%
	Japanese 10 year Govie	0,06	0,25	-1,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,30	0,35	-0,2%
	Italy - 10yr Gov bond	0,63	0,50	1,5%
	Portugal - 10yr Gov bond	0,18	0,35	-1,2%
	Ireland - 10yr Gov bond	0,01	0,15	-1,1%
	Greece - 10yr Gov bond	0,85	1,35	-3,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	53,99	55	0,0%
	Credit EUR HY-Itraxx Xover	267,02	250	2,1%
	Credit USD IG - CDX IG	56,19	49	0,8%
	Credit USD HY - CDX HY	292,49	286	2,6%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	18,13	16,00	30,8%
	Russia - 10yr Gov bond (local)	6,98	5,28	18,9%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,65	5,50	14,2%
	India - 10yr Gov bond (local)	6,12	6,00	5,6%
	Philippines - 10yr Gov bond (local)	4,41	4,00	6,7%
	China - 10yr Gov bond (local)	3,19	2,20	10,3%
	Malaysia - 10yr Gov bond (local)	3,31	2,00	13,0%
	Thailand - 10yr Gov bond (local)	1,65	0,81	8,0%
	Singapore - 10yr Gov bond (local)	1,68	0,93	7,3%
	Rep. Korea - 10yr G. bond (local)	1,86	1,02	8,2%
	Taiwan - 10yr Gov bond (local)	0,37	0,50	-0,8%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	6,75	6,55	6,7%
	Mexico - 10yr Govie (USD)	3,41	3,55	1,5%
	Brazil - 10yr Govie (Loc)	9,22	8,80	10,4%
	Brazil - 10yr Govie (USD)	4,44	4,55	2,5%

COMMODITIES & FX

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Commodities	Oil (WTI)	60,3	55,00	-8,7%
	GOLD	1.710,6	1.900	11,1%
Fx	EURUSD (price of 1 EUR)	1,178	1,19	1,1%
	GBPUSD (price of 1 GBP)	1,38	1,41	2,2%
	EURGBP (price of 1 EUR)	0,85	0,84	-1,1%
	USDCHF (price of 1 USD)	0,94	0,89	-5,5%
	EURCHF (price of 1 EUR)	1,11	1,06	-4,5%
	USDJPY (price of 1 USD)	109,74	105,00	-4,3%
	EURJPY (price of 1 EUR)	129,22	124,95	-3,3%
	USDMXN (price of 1 USD)	20,73	21,00	1,3%
	EURMXN (price of 1 EUR)	24,39	24,99	2,5%
	USDBRL (price of 1 USD)	5,79	5,30	-8,4%
	EURBRL (price of 1 EUR)	6,81	6,31	-7,4%
	USDARS (price of 1 USD)	91,91	140	52,3%
	USDINR (price of 1 USD)	72,75	74,00	1,7%
	CNY (price of 1 USD)	6,57	6,50	-1,1%

USA

Decoupling from the rest of world

Fed, Inflation and UST Yields: Tapering in 2022

The wave of stimulus and vaccine rollout in the U.S. is once more forcing investors to confront the prospect of excessive inflation. We note that core inflation rates are actually on track to jump to near 2.5%oya in the April report released just before the June FOMC meeting, and they may remain above 2% through the end of 2021. But this pattern is largely driven by so-called "base effects." The sharp declines in some price categories during March and April of 2020 will soon drop out of the 12-month window for calculating the over-year-ago changes, while the sharp rebounds in subsequent months will remain. In our view, this spike will prove temporary and should not be taken as a sign of a persistent increase in the rate of inflation. At the March FOMC meeting, the median participant projected a 3.5% unemployment rate and a 2.1% core PCE inflation at the end of 2023, but no rate hikes. The market took this outcome as dovish. In response to questions about tapering asset purchases, Powell emphasized that the "substantial further progress" the FOMC wants to see before tapering is "actual progress, not forecasted progress," and reiterated that the Committee will provide "as much advance notice of any potential taper as possible." We continue to see early 2022 as the most likely timing for the first taper.

Looking ahead, we expect most economic indicators to pick up again. That said, yields are already stretched, with 10-year yields too high after adjusting for the market's Fed and inflation expectations, the expected timing to the first-rate hike, and revisions to our growth forecasts. Dynamics of this sell-off compared to other similar instances indicate the move is likely to abate in coming weeks. Thus, we review our threshold for neutral on duration at 1.8%. While a cycle encouraged by easy monetary and fiscal policy should help steepen the yield curve, specially if the Fed stays the course on its forward guidance and its willingness to let inflation run above 2.0%, a Fed policy that eventually reacts aggressively to violent moves in long rates should cause the yield curve to flatten equally as aggressively.

Fiscal package

President Biden signed the USD1.84trn American Rescue Plan this month largely as initially proposed, but with some stricter targets for stimulus checks and smaller unemployment benefits. The final bill includes USD1400 checks per individual, USD300 federal unemployment benefit supplement through September 6, USD350bn for states and municipalities, and nearly USD300bn for schools and public health. We expect this to be the last major COVID-focused fiscal relief package, but Congress seems likely to renew some of the items in it later this year: expansion of the child tax credit and extend some expanded unemployment benefits through 2022.

Infrastructure bill

The next round of fiscal legislation could be the infrastructure bill, which will have a large headline cost but will probably have a much smaller near-term effect. A USD2trn (over 10 years) infrastructure package would probably raise spending by less than USD200bn in the first year after enactment. We expect an outline of the Administration's plans in a few weeks. President Biden is likely to address a joint session of Congress in April, at which point we expect he will outline plans for infrastructure and the remaining parts of the Administration's agenda.

Vaccination

More states have committed to opening vaccination eligibility to all adults in the coming weeks (May 1). President Biden announced that the country has administered 100m shots within 58 days into his term, which is ahead of the administration's original goal of 100 days. At the time of writing, 131 million doses have been administered, and the country has exceeded the rate of 2.5 million doses administered per day. At these rates, on August 3 we would have 70% of the population fully immunized with two doses. Biden expects to have "normality" by Independence Day.

Equity market

Equity markets closed the month with positive returns, despite a decline towards the end of the month. Turnover in favor of value and small cap continued as a result of the expected post-pandemic normalization and rising bond yields. We project 2021 EPS for the S&P at USD180 and a PE multiple of 21.

Financial market assessment

Equities – S&P: MARKETWEIGHT (Bias to equally weighted strategies)

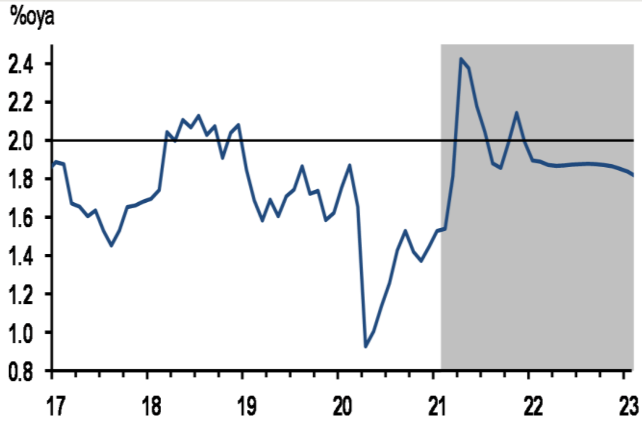
Bonds – Govies: UNDERWEIGHT (10Y UST Entry point 1.80%)

CDX IG: MARKETWEIGHT (Target Spread 50)

CDX HY: OVERWEIGHT (Target Spread 286)

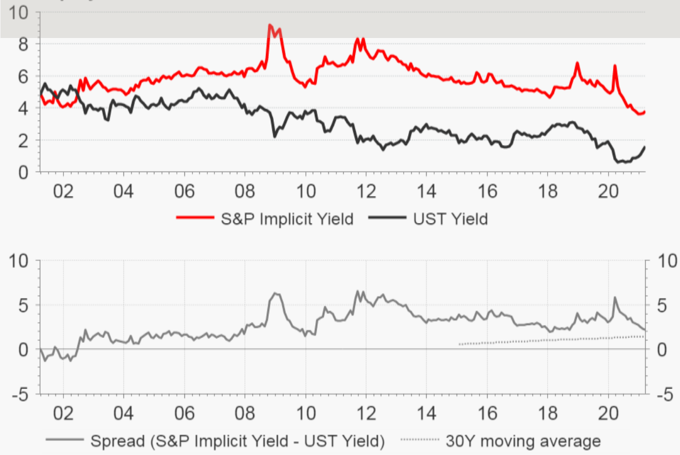
Forex – DXY index: MARKETWEIGHT-OVERWEIGHT

Figure 3: Model forecast for core PCE inflation



Source: Various sources, J.P. Morgan

Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

Federal Reserve balance sheet

Four-week change, USD, billions

Source: Refinitiv Datastream / ANDBANK

EUROPE

ECB drawing the line with the FED

QE acceleration to avoid curves moving ahead of the economy

Last ECB meeting caught the markets by surprise with the announcement of “a significant increase in the purchases during the coming quarter”. Larger temporary purchases will accompany the verbal interventions to smooth an “undesirable monetary tightening”. Higher (long maturity) rates were considered a risk to financial conditions. Consensus estimates point to a range of EUR60-100bn, largely exceeding the recent pace if extrapolating last week’s figures (EUR28.7bn). The ECB is trying to “draw the line” vs. the US economy and rates, due to the different timing of the fiscal stimulus (Biden’s plan already in place in the US, while Next Generation Fund still pending in the €Z) and different growth/inflation expectations. Path/speed more relevant than levels, but a kind of implicit yield curve control remains intact.

Laggards in vaccination, is summer at risk? Economic outlook

Leaving aside the obvious (Europe’s mismanagement of vaccination so far), there are some positives: daily vaccinations have increased, and scheduled vaccine deliveries should allow full coverage by the end of September. The reported EU supply (280 mill. doses) should allow a doubling of the current daily vaccination pace in the second quarter, bringing the share of people vaccinated with at least one dose to 70% by July. There could be more room for improvement from a change of strategy (towards a UK model of prioritizing the 1st dose), or from additional supply from AstraZeneca. As for the economic outlook, although Europe’s economic recovery will be delayed in 2021, the lost ground should be made up in 2022. Positive spillovers are also expected in Europe from the Biden fiscal plan: “it will boost exports” (Lane). Inflation is largely expected to spike in the coming months, due to base effects and energy components, and will be tolerated by the ECB. ECB inflation estimates have been largely revised upwards: 1.5% vs. 1% previously, above our last estimate (1.3%).

European Govies

European yields seem to have reached a ceiling following the ECB’s move. The ECB seems confident that it can decouple its bond market performance from US bonds. A lower, but positive, correlation remains, with the 10Y treasury-bund spread steadily increasing (+32 b.p. since March, +15 b.p. since the ECB meeting). We stick to our targets: -0.25% for the bund and 75-80 b.p. for the Italian spread.

Equity market

Cyclical sectors have led the rise (note that we said cyclical, not value), while the defensive sectors (not growth) have hardly joined the “recovery rally”. The rebound in cyclicals has been so violent that (in some cases) we are starting to doubt whether they can keep up the pace. Meanwhile, on the defensive side, there are sectors that, compared with past recoveries, are following the historical pattern. If the recent (upward) move in yields has little room to go further, it could be time to move portfolios towards defensive sectors. Among those defensive sectors, we favor Food&Beverages, which underperformed significantly last year. This sector could be another winner of the “re-opening trade”, with earnings poised to rebound strongly this year. The consumer spending sector, especially names related to discretionary categories (including restaurants and lodging), is still depressed but should pick up as vaccinations progress and lockdowns ease. The worst sectors, in a scenario in which the recovery cycle may be interrupted in Europe (due to the delay in the vaccination campaign), are Energy, Materials and Travel. Our most favored sectors would be Consumer Staples, Health Care and Utilities. Meanwhile, in Spain we are waiting for doses – and tourists. The recovery in services is likely to correlate 100% with the speed of vaccination and the control of infections and restrictions. Spain is one of the world’s most cyclical economies, with more than 20% of GDP dependent on the Leisure & Tourism sectors. Therefore, speed of vaccination is key. Certain factors could save the summer season even if herd immunity is not reached, notably the EC’s proposal for a “Digital Green Certificate” that would allow EU citizens to travel freely across the bloc. Such a measure could boost tourism activity in some regions. Lufthansa’s low-cost Eurowings airline added 300 extra flights from all over Germany to Mallorca for Easter in response to a fourfold jump in bookings after the quarantine was lifted. Even German TUI said Easter bookings doubled those seen in 2019. If Spain manages to get 30%-40% of the population aged 50+ (who account for 90% of ICU Covid patients) vaccinated by June, the threat of a collapse in the health system would be minimized and the (economically very important) summer season would look brighter.

Financial market assessment

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT

Equities – Spain’s Ibex: UNDERWEIGHT

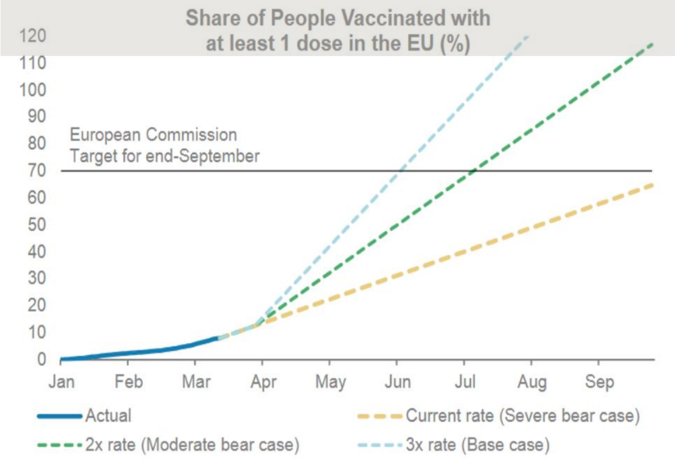
Bonds – Core governments: UNDERWEIGHT (Bund target −0.25%)

Peripheral– OW IT (0.5%). UW: SP (0.35%), PO (0.35%), IE (0.15%), GR (1.35%).

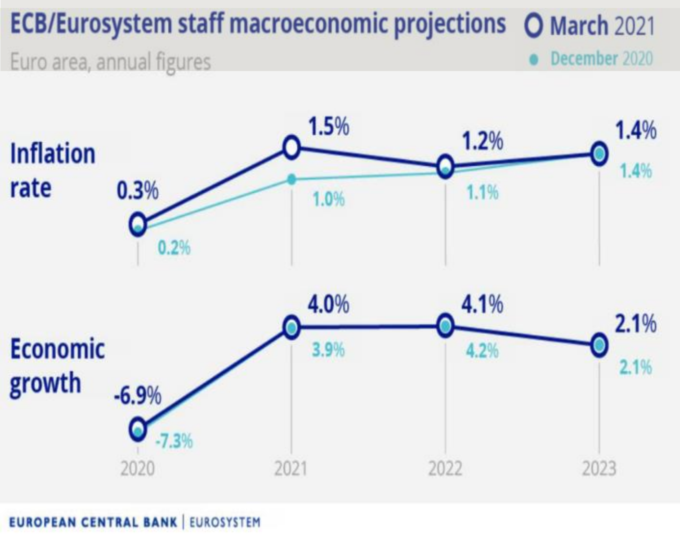
Credit – Itraxx Europe (IG): MARKETWEIGHT-UW (Target Spread 55)

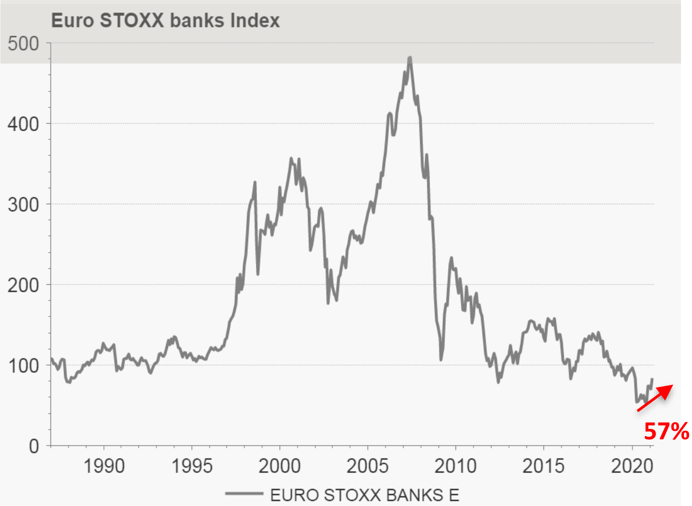
Credit – Itraxx Europe (HY): MARKETWEIGHT-OW (Target Spread 250)

FX – EUR/USD Target 1.19 (Buy USD at 1.23, Sell USD at 1.16)



Source: Our World in Data, Morgan Stanley Research estimate; Note: we assume the new jab rate holds steady through March. Further, while our scenarios are based on overnight stays, and depend on other factors, we see the jab rate as particularly important, with e.g. fast reopening and a normal summer only plausible with a higher jab rate.





Source: Refinitiv Datastream / ANDBANK

CHINA

No breakthrough in US-China relations. Defaults in China on the rise, but not yet a systemic risk

PBOC Governor: Monetary policy needs to support growth but also curb risks

PBOC Governor Yi Gang said in a speech on Saturday that monetary policy needs to strike a balance between supporting economic growth and preventing risks. He said macro leverage is basically stable and expressed support for providing incentives for economic entities while restraining financial risks. He added that broad money supply growth of about 10% at present basically matches nominal economic growth, while monetary policy is in a normal range and has room to provide liquidity and appropriate interest rates: "policy should focus on targeted support for key areas and weak links in the economy".

US-China: No breakthrough in US-China relations

The FT reported on the two-day US-China summit in Alaska, which ended without a breakthrough in relations. It quoted US national security adviser Jake Sullivan as saying the US team was expecting talks to be tough and will consult with allies and partners on the way forward, while China said the talks were candid and constructive. Although there are no clear plans for how the meeting will be followed up, the two sides did agree to set up a joint body to examine how to work together on climate change. SCMP added that Beijing is not pushing hard for further top-level meetings and the chances of an early face-to-face meeting between Xi and Biden are slim.

Geopolitics

The Philippine government has expressed concern after seeing 220 Chinese fishing vessels that appear to be crewed by militia close to the Whitsun Reef, a reef well inside Philippine's exclusive economic zone on 7-Mar. A Philippine government body photographed vessels moored close to the reef, with none appearing to be fishing at the time. Australian's foreign minister, Marise Payne, said that although she had recently reached out to her counterpart, Wang Yi, in an attempt to restart talks with Beijing, she has so far not heard back. She added that the US has shown it has Australia's back after saying Beijing should not expect improved relations with Washington until it stops economic coercion of Australia. China also began and concluded the trial of one of the two Canadians accused of espionage after a closed court hearing that lasted less than two hours. No verdict was given but the article points out Chinese courts have a conviction rate of over 99%. Michael Spavor was arrested on 18-Dec, soon after the arrest of Meng Wanzhou, the CFO of Huawei, in Canada on an extradition warrant from the US, where she is wanted on charges related to Huawei dealings with Iran. Saudi Aramco says it will prioritize supply of oil to China for the next 50 years. Chinese demand for crude was close to pre-pandemic levels, while East Asia in general has seen a strong pick-up.

Covid

Bloomberg reported how the city's bankers have been rattled by a Covid cluster that has forced several firms to close their offices, with employees sent to spartan government-run quarantine facilities. The article quotes an executive at an international bank saying, "the firm would have to consider moving some of its traders to other financial hubs if the policy continued for the long term". Banking groups in the city are close to finalizing a letter urging the Hong Kong government to follow international protocols for outbreaks. Beijing is considering varying its visa policies based on a traveler's vaccination status and virus conditions in their home country. China's Center for Disease Control and Prevention said travelers who have been vaccinated are not yet exempt from testing and isolation measures, but Beijing will watch for developments in adoption of an international vaccine passport and could adjust the rules once a high level of immunization is reached.

Corporate

Corporate defaults in China are more prevalent in certain segments but are not a systemic worry for the country. Property developers total 20% of $10B delinquencies in 2021, while bonds at some weaker real estate firms are underperforming on refinancing worries. LGFVs are also under pressure after Chongqing missed payments on commercial note. Coal companies in north east are struggling to refinance debt following default of Yongcheng Coal & Electricity in Nov-20. Beijing walks a tightrope in allowing struggling companies to default while stopping stress spilling over into wider credit market but so far seems successful, as risk appetite appears to remain robust.

Tsinghua default: A set of international bondholders, who are collectively owed tens of millions of dollars by Tsinghua Unigroup, a Beijing-backed semiconductor company, may be attempting to freeze the company's overseas assets. Tsinghua defaulted on domestic-issued bonds in November, raising concerns about the company's international bond issues, and several bondholders in Hong Kong issued a statement of claims in the city's high court last month in a first step that could freeze company assets before any company restructure can begin. The move could complicate Beijing's attempts to make the company the center of the country's semiconductor industry.

Financial market outlook

Equities – SHANGHAI Idx: UNDERWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.20%)

NEW! Forex – CNY/USD: MW (Target 6.50)

CHINA SSE Index PE Ratio

PE LTM

Source: Refinitiv Datastream / ANDBANK

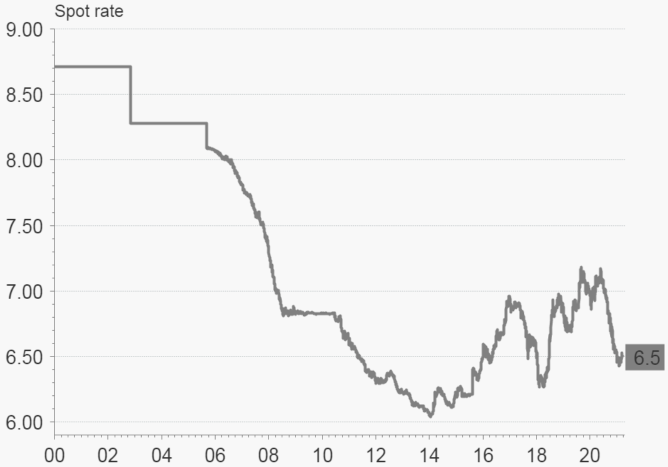
China - 10Y Government Bond Real Yield

Per cent

Source: Refinitiv Datastream / ANDBANK

USDCNY exchange rate

Spot rate



Source: Refinitiv Datastream / ANDBANK

JAPAN

From ubiquitous QE to interventions only when necessary?

Central Bank

BOJ to widen interest rate target range: Nikkei cited sources stating the BOJ is poised to make monetary policy adjustments designed to increase its flexibility and make life easier for financial institutions. The BOJ will look at measures that would allow long-term interest rates to move in a slightly larger range of about +/- 0.25%, versus 0.2% now. Most importantly, the BOJ would also scrap its ¥6T ($55B) annual target for ETF purchases and instead vow to make such purchases only in times of market turmoil.

These rumors come after the ECB already said it will accelerate bond purchases, while the Fed is expected to remain cautious over the strength of the post-pandemic recovery, meaning that it will remain dovish. This backdrop suggests that BOJ needs to avoid implementing any changes that give the impression it is winding back easing.

Latest Reuters consensus poll showed strong majority expect JGB yield band to remain at 20 bp, but majority also expect removal of either or both of ETF annual purchase quota and cap on outstanding holdings. Japanese companies want BOJ to keep bond yields and ETF purchases steady, according to a Reuters poll, with many concerned about rises in borrowing costs, and only 16% of respondents seeing the need to make the BOJ's bond yield target more flexible. Half of Japanese firms want the BOJ to maintain its current program on buying exchange-traded fund (ETFs). 30% call for more flexible purchases and one-fifth want to reduce them. 66% of Japanese firms expect the BOJ to curb rises in long-term interest rates and keep rates steady.

Macro - Japanese companies to offer lowest pay rises in eight years

Reuters reported Japanese companies are set to offer the lowest wage increases in eight years as labor talks wrap up, in a sign the COVID-19 pandemic is putting an end to the benefits brought on by former premier's Abenomics. Analysts noted the coronavirus pandemic has dealt a blow particularly to service-sector firms such as restaurants, transportation, hotels, leisure and tourism, forcing them to prioritize job security over annual base pay increases. Japan's factory mood improves further in March. The Reuters Tankan manufacturers' sentiment index rose to 6 in March from 3 the previous month, led by chemicals and oil refinery/ceramics. The index is expected to rise further to 15 in June. The non-manufacturers' index edged up to minus 5 from minus 7 the previous month. It was seen turning positive to 5 in June. December final industrial production +4.3% m/m vs preliminary +4.2% and (1.0%) in prior month. GDP forecasts seen revised up to 3.8% in FY21 (vs prior 3.6%) and 2.0% in FY22 (vs 1.7%).

Covid & Vaccines: Japan to lift state of emergency in Tokyo area on Sunday

PM Suga told reporters he will propose to the advisory council to lift the state of emergency and added that hospital bed availability has improved after the state of emergency was declared in January. If approved, the government's task force will officially end the emergency declaration. Kyodo reported Tokyo confirmed 409 coronavirus infections Wednesday, the first count above 400 since 18-Feb. Tokyo has seen a decrease in new cases since Prime Minister Yoshihide Suga's government declared a state of emergency on 7-Jan. However, the pace of decline has slowed, with recent seven-day average numbers exceeding those of previous weeks.

US and Japan express 'serious concerns' over China coast guard law

Nikkei reported Japan and the US on Tuesday expressed "serious concerns" over a Chinese law that allows the nation's coast guard to fire at foreign ships in waters around the Japanese-administered Senkaku Islands, which Beijing claims as the Diaoyu. The allies agreed to deepen defense cooperation and hold joint military drills in the area amid an upsurge in Chinese incursions into Japanese waters near the islets.

Corporate

Japanese corporate profitability has been helped by a sharp drop in business expenses in the current business year as a result of staff working from home because of the coronavirus pandemic. Among the expenses that have dropped sharply are those for advertising and travel, as businesses have shifted away from face-to-face meetings and on-site events. For the year ending this month, such cost savings among the 1,400 listed companies that Nikkei analyzed are expected to total some ¥7T ($64B), helping to limit the decline in overall annual profits to about 30%. Toyota partially halts four North American plants amid plastics shortage after storm-related power outages in Texas. Mizuho bank scraps plan to replace banking arm head after system failures. Panasonic announced it will sell two European plants that produce disposable consumer batteries to German asset manager Aurelius Group, marking a shift toward the more promising field of batteries for electric vehicles.

Financial market outlook

NEW! Equities – N225: UNDERWEIGHT (Target price at 29.900. Exit point 34.300)

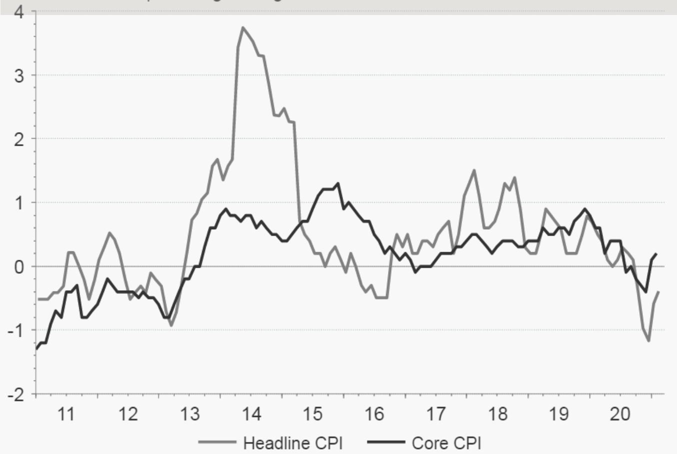
NEW! Bonds – Govies: UNDERWEIGHT (Target yield 0.25%)

NEW! Forex – USD-JPY: MARKETWEIGHT (Mid-term target 105)

Japan Nikkei 225 price / earnings
Ratio

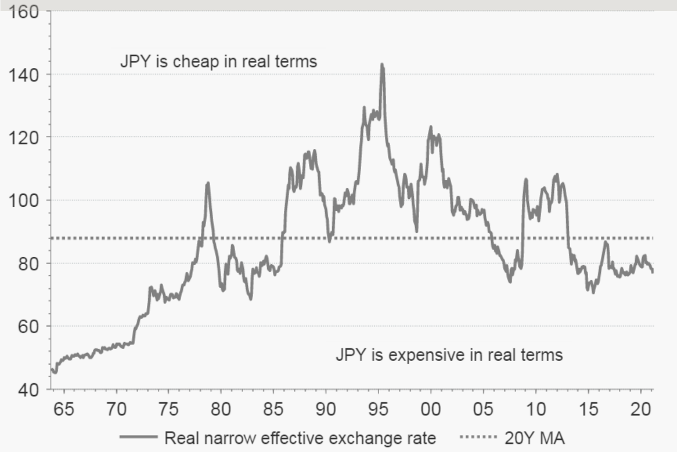
Source: Refinitiv Datastream / ANDBANK

Japan CPI
Twelve-month percentage change



Source: Refinitiv Datastream / ANDBANK

Japan real narrow EER
Index



Source: Refinitiv Datastream / ANDBANK

INDIA

One more step towards a promising horizon

Understanding the importance of this industrial reform.

India is still battling the legacy of misguided industrial policies during the early decades of independence. India's protectionist policies prevented the emergence of large, competitive export industries. Then, in 2014, Modi launched the "Make in India" initiative with the vision of transforming India into a manufacturing giant. The government identified 25 sectors for policy support, from textiles to aviation and spacecraft, and opened all but three up to 100% foreign ownership. It aimed to boost manufacturing's share in GDP to 25%, close to the level in China. But six years on, manufacturing's share still languishes at a measly 15% (and trade has fallen below 40% of GDP, down from a peak of 56% in 2013). Thus, India is far from realizing its potential in labor-intensive industries. Now, Modi's government seeks to forge a "Self-Reliant India" and will spend INR2trn on subsidizing manufacturing. This does not mean "protectionism," as foreign companies are eligible for subsidies alongside domestic firms, as they are crucial to realizing India's dream of building global production hubs. Early enthusiasm from big Taiwanese contract manufacturers suggests the cell phone sector is well placed to benefit.

What does the "Self-Reliant India" project mean?

Critics detect a whiff of Gandhi's failed vision of a self-sufficient village economy and fear an unwelcome return to fantasies of nationalist autarky. They also note the government's decision to increase some import tariffs and withdraw India from the Regional Comprehensive Economic Partnership, which would have lowered trade barriers with 15 countries in the Asia-Pacific. By contrast, analysts most familiar with Indian political affairs consider that India is not seeking to shut itself off from international trade. Policymakers certainly want India to be less dependent on imports, especially from China, but they also want it to become a global base for exporters. "Self-reliant India" actually looks similar to China's new industrial policy of "**dual circulation**," which aims to reduce reliance on foreign supply chains while retaining its position as a global export hub. Modi's own words saying that the goal is to "merge domestic production and consumption with global supply chains" suggest that he is pointing towards this idea of "dual circulation". India's commitment to global markets is clear from the inclusion of foreign firms in the "production-linked incentives" scheme (for which a budget has been confirmed). The scheme will funnel INR2trn into 13 sectors, ranging from mobile phones to medical devices. Manufacturers that hit investment and production targets can apply to receive cashbacks worth 4-6% on incremental sales for up to five years.

Away from the idea of protectionism and autarky.

The production-linked incentive is a very simple scheme aimed at triggering various actions at the same time: "Come to India, invest in India, set up your factory, manufacture products, export outside and earn incentives". The government has picked sectors in which it judges India can develop a competitive advantage and made them candidates to be beneficiaries of this scheme. Any company with a registered Indian unit, domestic or foreign, is eligible. Far from mollycoddling uncompetitive local manufacturers, it will subsidize foreign manufacturers to invest in India and build economies of scale. India is following the path taken by China and, more recently, Vietnam. China's initial export success was heavily dependent on foreign investment. Far from seeking to protect local champions, India wants to create industrial clusters in which they can grow alongside foreign competitors. The first 16 applicants to be approved pledged to invest INR110bn and make phones worth INR10.5trn over five years. They include Taiwan's Foxconn, Pegatron, Wistron and Samsung. Foxconn is investing US$1bn to expand its existing iPhone factory. Apple plans to shift all iPad manufacturing from China to India. It is following Samsung, which moved all its China cell phone production to India and Vietnam in 2019. Smartphone exports were worth only US$3bn in 2019—paltry compared with those of China (US$224bn) and Vietnam (US$63bn). The India Cellular and Electronics Association hailed it as a "game changer" in India's push to become the world's biggest mobile manufacturing hub.

But India's goals may be difficult to achieve

While the incentives are a useful start, India may struggle to realize this ambition. The ICEA estimates that India's various subsidies add up to production savings of 6-9%. But savings are greater in Vietnam (9-13%) and China (19-22%). Many of the problems that have held back "Make in India" since 2014 also remain unresolved. Industrial policies have created a better environment for businesses, pushing India up from 134th to 63rd in the World Bank's "ease of doing business" ranking. Modi's government has lifted or abolished protectionist foreign investment caps, introduced a new insolvency and bankruptcy code, simplified the country's labor laws and taxes, and improved access to utilities. But India remains a harder place to do business than it could be. The recent reforms to labor laws are too weak to stimulate the growth of giant, job-creating garment factories. The success of India's software, autos and pharma industries in recent years is the result of market forces, not industrial policy, and government subsidies are sure to breed cronyism. All said, the potential gains from India's new industrial policy outweigh the losses. The scheme is categorically not a protectionist instrument.

Financial market outlook

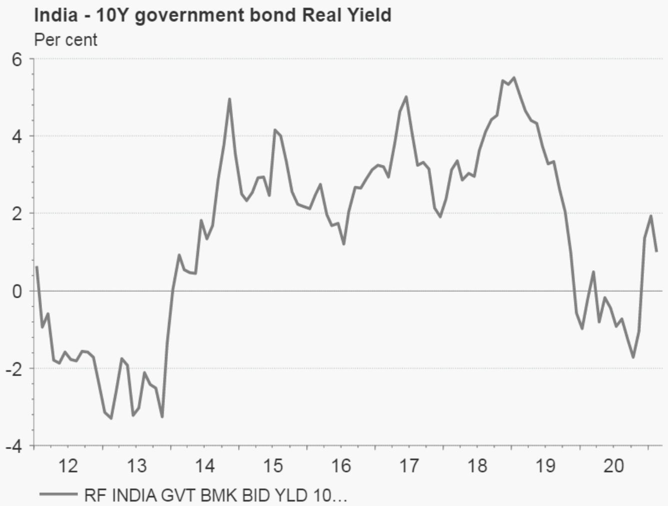
NEW! Equities – SENSEX: OVERWEIGHT (New target price at 60.000. Exit point 70.000)

Bonds – Govies: OVERWEIGHT (Target yield 6.0%)

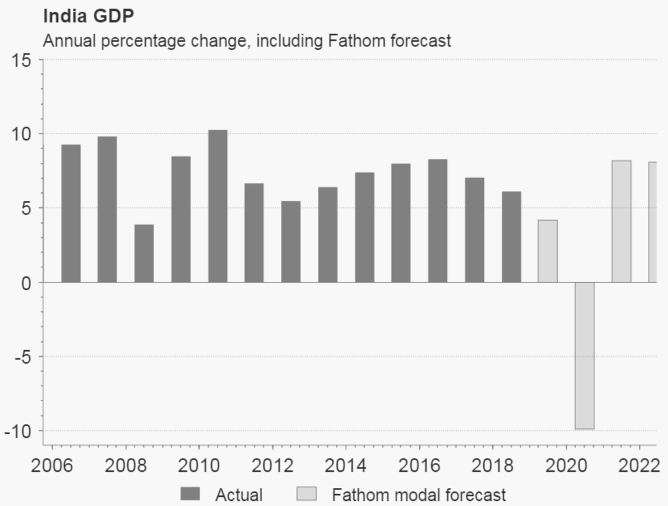
Bonds – Corporates: OW-MARKETWEIGHT

Forex – INR/USD: MARKETWEIGHT (Target 74)

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

ISRAEL

Positive sentiment will continue, led by headlines in world media

GDP & INFLATION

Israel's GDP dropped in 2020 by -2.5% YoY, because of the pandemic on the economy. Most of the decline in the GDP components came from a sharp decline in personal consumption, which suffered a -9.5% YoY decline. The components that showed an increase were public spending, which rose by 2.7% YoY, and exports of goods and services, up 0.7%. Israel's CPI rose in February by 0.3% MoM, after expectations of a 0%-0.1% increase. The components that rose were fresh fruits (5.7%), and clothing (1.2%), while the declines were in fresh vegetables (1.9%) and footwear (1.7%). This month Israel came out from the lockdown and opened restaurants, bars and hotels, leading to an increase in the demand for labor in these sectors. Due to the unemployment checks the government is providing, many employees are hesitant to go back to work, but this will change when the checks come to an end, and the government is also funding a stimulus to get employees back to work.

Bond Market

The consumer price index (CPI) for February was higher than expected (0.3% vs. an expected -0.1%) for the second straight month, leading to large gains in CPI-linked bonds (both government and corporate bonds), while the non-CPI linked yield increased this month, following the same trend overseas. Although there is a slight rise in the inflation environment, there are no signs of any change in official interest rates in the near future.

The strong Shekel (which represents an important deflationary factor) and the high rate of unemployment support that assumption. The yield curve steepened further, joining the world trend in January as investors got scared of inflation in the US and started selling long maturity bonds. We think the major reasons for the rise in inflation expectations will not hold in the long term, especially in Israel, so we expect the yield curve shift to be moderate.

The current credit spread in investment grade bonds is still tight, but we do not expect it to increase in the near term. The current credit spread in the CPI-linked TelBond60 index decreased to 1.12%, compared with 1.18% in late February, 1.67% in mid-July and pre-Covid19 levels of 1.2%-1.25%. The current credit spread in the non-CPI linked Tel Bond Shikli50 decreased to 1.19% compared to 1.23% in late February, 1.71% in mid-July and pre-Covid19 levels of 1.3%-1.35%.

Equity Market

Major global stock indices barely moved during March, while the TA 125 rose by 0.3%. Despite the minor change, dispersion among sectors was very high. Technology stocks followed their peers overseas and dropped by over 7%, while banks kept up the positive momentum from the beginning of the year, rising by 7%. Real estate also performed well, rising by 5.4%.

The high vaccination rate (highest in the world) and fewer hospitalizations were the main reasons for the positive sentiment. In fact, life is nearly back to normal, as can be seen from a variety of indicators. Financial reports for 2020 reveal that the banking system suffered minor damage during the crisis, performing better than expected on the written-off loans front. In addition, recent reports show renewed interest in lending and growth in mortgage applications. Despite impressive performance during the last twelve months (+73%), most Israeli banks trade at a market value/market cap ratio of 0.8. Other sectors also reported good financial results for 2020. Shufersal, Israel's biggest retailer, reported a surge of over 40% in net profit and even companies such as Alony Hets, one of Israel's biggest office owners, showed only a minor reduction in rents and a stable level of revenue.

The fourth elections in the last two years took place on March 23. As of now, it looks as though the market is indifferent about the results but still hoping for a stable government that will introduce a budget, something that has not been done for the last two years. Despite the difficulties in reaching a stable government, positive sentiment in local markets will continue due to the return to normality and the flattering headlines the Israeli economy is currently enjoying in world media.

Financial market outlook

Equities – TLV35 Index: OVERWEIGHT (MW-OW)

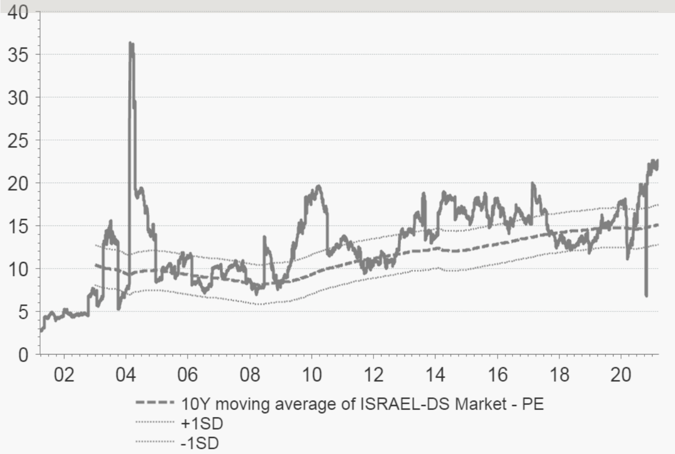
Bonds - Government – 10Y Gov: MARKETWEIGHT-OW (Positive real yield, though historically below long-term average.)

Bonds – Corporates: MARKETWEIGHT-OW

FX – ISL vs USD: Still expensive in REER

Israel price/earnings, Datastream index

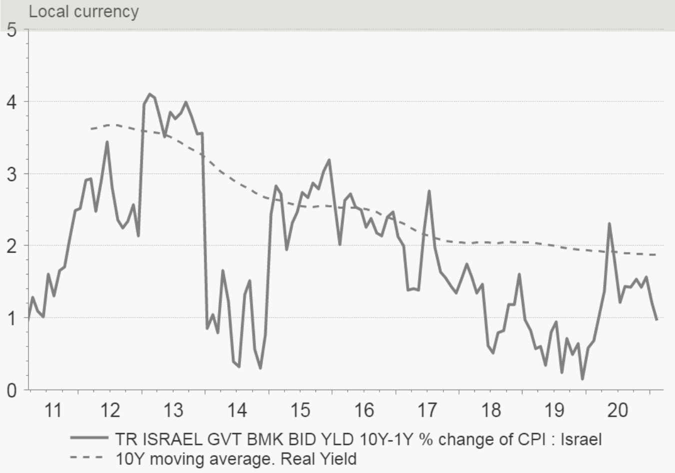
Ratio



Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y

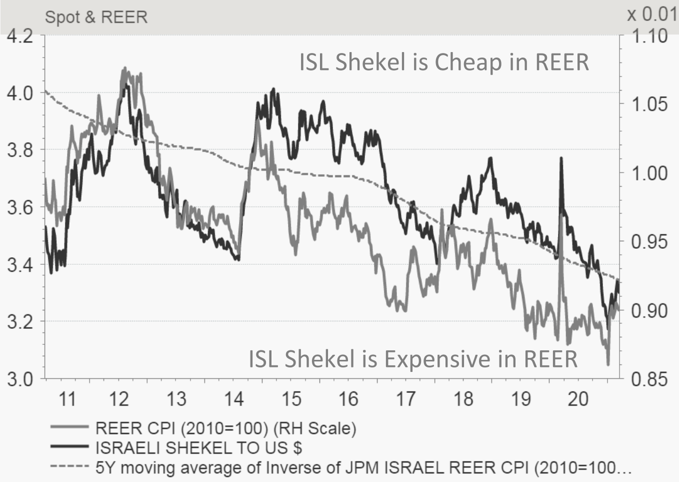
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

Walking a tightrope

Covid: Official data show that Brazil's Covid-19 numbers are yet to spike

On 19 March, infections now stand at 11,871k (from 11,364k the previous Friday), and fatalities at 290,314 (from 275,105), both figures being toppled only by the US. Brazil's 7-day rolling average of new infections surged to 72.6k (from 70.6k a week before) and the same metric for fatalities also increased to 2,173 (from 1,762), with both series trending at their historical highs. As of 19 March, Brazil had already administered Covid-19 vaccines to at least 11.493 mn people, up from 9.548mn a week before. This means 5.4% of the population had received the first dose (from 4.5% a week before) and 1.9% (from 1.6%) was fully vaccinated.

Central Bank: Selic & Inflation projections

With Covid fatalities posting all-time highs, the Copom began the partial normalisation of monetary policy with a surprisingly hawkish hike, promising more in May. The move surprised analysts, who were expecting a slower start to the hike cycle, and raised the policy rate by 75bp, taking Selic to 2.75%. The Committee also left the door open for another hike of the same magnitude. Based on the disclosed statement, analysts now expect the Selic to reach 4.5% by end-21 (from 4.0% before) but still keep 5.50% by end-22. Attention now turns to the Quarterly Inflation Report, which will bring more clarity on the BCB's hawkish policy messages. Projections are for CPI soaring to 0.97% m/m, which has led analysts to revise forecasts for IPCA in 2021 to 4.9% (from 3.9%). The authorities fear that the worsening of the pandemic could delay recovery, driving the inflation path to levels below expected.

Economic recovery

The monthly GDP proxy accelerated to 1.0% m/m in January, performing better than expected (Dec: 0.7%). The strong carry-over of +1.8% q/q tilts the risks to the 21Q1 consensus GDP projection to the upside. The robust rebound in the labour market continued in January but started to show signs of weakness. The economy added net 260k formal jobs in January, but seasonally adjusted new hires fell by 2.8% m/m and new dismissals soared to 7.4%. January's industrial production posted another monthly gain (0.4% m/m), the ninth consecutive expansion. January left a carry-over of 1.3% for 21Q1 but this will likely be eroded by the worsening outlook in the quarter.

Fiscal Risk: On the edge of the (fiscal) abyss

Pressure of fiscal risks persists (such as the recent renewal of the coronavoucher). Local assets are starting to face increased volatility, boosted by rumours over the risk of relaxation of fiscal rules during the Senate vote on the bill containing details on the coronavoucher extension and the triggers for budget cuts (Emergency constitutional amendment). All said, the market's mood improved when the Upper House voted to maintain most of the spending cap adjustment rules. Nevertheless, there is still considerable frustration on the part of international investors with the pace of structural reforms. In our opinion, there is zero chance that any of the necessary structural reforms can be undertaken in 2021, and we very much fear they will not be carried out in 2022 either (as it is an election year). Thus, precious time has been lost by the Brazilian Government and Senate, which will lead to the persistent risk of experiencing a fiscal and debt crisis.

FX estimates

As for the USD/BRL, after touching a low of 5.6827 on 17 March, it posted a high of 5.4499 on 19 March and is trading again at 5.6714 as of writing. An explanation could be that over the last week of the month, the DXY dollar index rose 0.3% and the CRY commodities index dropped by 2.6%. Following the Copom meeting, the yield curve posted an upward shift. The rapid deterioration in the outlook for the pandemic and persistently high fiscal noises make us estimate the USD/BRL at 5.30 by end-2021 (worse than the 5.15 projected in the prior month).

Financial market outlook

Equities – iBovespa: MARKETWEIGHT

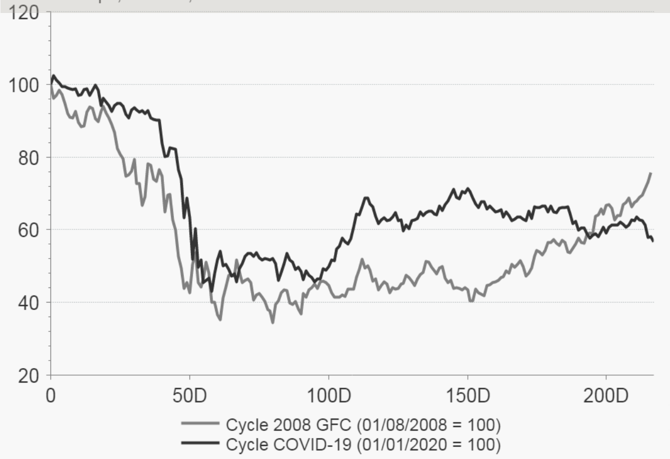
Bonds – Govies Local: MW-OVERWEIGH (Target yield 8.80%. Spread 700)

Bonds – Govies USD: MARKETWEIGHT (Target yield 4.55%. Spread 275)

FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.30)

Brazil equities (USD), 2008 vs 2020

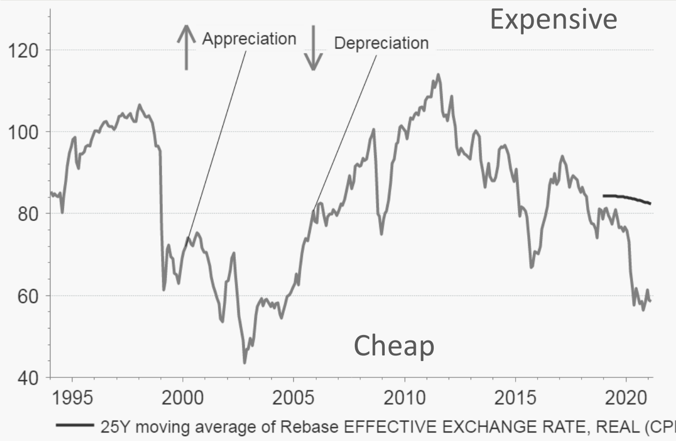
Bovespa, rebased, 100 = crisis start date



Source: Refinitiv Datastream / ANDBANK

Brazil real broad effective exchange rate

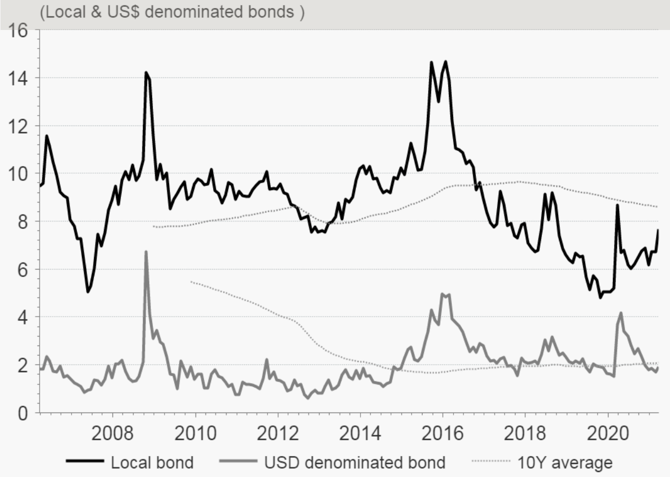
Index, January 2010 = 100



Source: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Source: Refinitiv Datastream / ANDBANK

MEXICO

Favorable environment for the Mexican stock market and other local assets continues

Politics & Fiscal

On March 18, the director of Pemex, Octavio Romero, confirmed what the president of Mexico, Andrés Manuel López Obrador, had announced, namely that the federal government will absorb the amortization payments of the state-owned oil company's bulky debt. The federal government has committed to cover USD6bn of Pemex's debt repayments in 2021, which represents more than 80% of the health budget for the year. Some rating agencies have already reacted to the government decision. Moody's has communicated that although in the short term they do not see a worrying negative effect, financial support of this nature, extending into 2022, could compromise public finances.

The new electricity sector bill was suspended temporarily and later permanently by two judges of the Supreme Court of Justice. The move followed a suit for protection brought by companies affected by the new law, and for now there is no legal viability for its implementation. The judicial decision is a positive factor since, for the moment, it limits the administration's ability to interfere with the contracts established by the companies under the previous, more liberal law.

Central bank and monetary policy

Banxico ended the pause in the movements of its reference rate and cut the rate again by 25 basis points to 4%. The decision by the governing board, now with a majority of members appointed by the current administration, was unanimous, highlighting the board's laxer and more permissive stance regarding any short-term increase in inflation, similar to the Fed. Major polls have moderated expectations of further cuts, due to the rise in inflation seen in recent price revisions. However, interest rates are expected to be cut again at the next meeting by an additional 25 basis points, possibly followed by a pause, perhaps for the rest of the year.

Fiscal path, economy and prices

In public finance, with data as of January 2021, a significant drop in tax revenues was observed, in sharp contrast to the end of last year, when tax revenues showed a positive trend. On the positive side, the drop in income was offset by a significant decrease in spending. This trend in spending is expected to continue during the 1st quarter and reverse in the 2nd as a consequence of the July electoral process. Inflation for the beginning of the year rebounded, standing at 3.76% in February in annual terms. The rebound highlights the increase in the prices of non-food merchandise, due to the supply chain shock caused by pandemic-related restrictions in various sectors, leading to shortages of intermediate products and maintaining the persistence in industrial strengths and in the underlying price indicators, which ended up having an impact on the general price index.

Pandemic

In Mexico, February and March saw an update in the epidemiological traffic lights, with 8 states on orange, 21 on yellow and 3 on green. Remarkably, there is nowhere with a red traffic light. The vaccination campaign is progressing very slowly, with only 2.1% of the population vaccinated so far (vs. 40% in the USA) and only about 198 doses administered daily.

Equity market

The favorable environment for the Mexican stock market and other local assets continues. This environment has benefited emerging markets, due to greater global stimulus, advances in vaccination campaigns and even the weakness of the dollar. This year, the economic recovery in the US is expected to stimulate the local manufacturing sector and thus also exports, positively impacting Mexican GDP. In the short term, local quarterly financial reports are expected to show better performance. The main perceived risks are in the second part of the year, which will be affected by internal political factors, data on the pandemic and its impact on public finances, and a possible fiscal deterioration due to Pemex.

In the short term, bills threatening private investment are once again generating uncertainty. Our 2021 target price is 51,000 points for the IPC Index.

Financial market outlook

Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 6.55%. Spread 475bp)

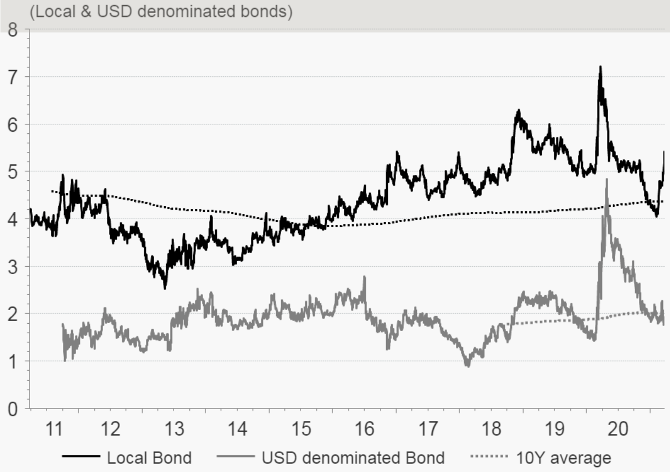
Bonds – Govies USD: MARKETWEIGHT (Target yield 3.55%. Spread 175bp)

FX – MXN/USD: MARKETWEIGHT (Mid-term target 21)

Mexico equities price/earnings ratio
Datastream index

Source: Refinitiv Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST
(Local & USD denominated bonds)



Source: Refinitiv Datastream / ANDBANK

MXN/USD Real Effective Exchange Rate
x 0.01 Index

Source: Refinitiv Datastream / ANDBANK

ARGENTINA

CFK announces Argentina cannot pay and torpedoes efforts to return to markets. President's silence means consent

The probability of seeing an agreement with the IMF during 2021 is getting closer to zero. During the opening session in Congress, President Fernandez said he did not want to rush into a new deal with the IMF. Fernandez and Guzman previously set a May deadline for an agreement, but that deadline looks likely to be missed.

Three main reasons seem to explain this lack of urgency: i) mid-term elections in October, with the government trying to avoid spending cuts before then, due to the sharp drop in approval rates it is undergoing; ii) favorable external backdrop, amid higher agricultural commodity prices (+40%), with the Central Bank being a net buyer for over three months (also putting pressure on the parallel FX); iii) IMF boosting its reserves by USD500bn, implying a potential USD3.35bn SDR allocation for Argentina, providing fresh funding to pay USD1.9bn of debt maturing in September (Guzman stated that he will try to renegotiate the USD2.4bn payment with the Paris Club).

Of course, this is not going to be cost-free for Argentina, which continues to drift without a credible program and with a set of policies that conspire against sustainable growth. Activity gained +0.9% MoM in December (-10%YoY for 2020), 3% below pre-pandemic levels (Feb-20); but recovery seems to be losing strength in the first months of the year, as Argentina is struggling to acquire more vaccines (5.6% of population vaccinated with a single dose and 1.37% with two), fueling concerns that new mobility restrictions could be applied.

Progress with Provincial debt restructures continues

Entre Rios (8.75% 2025, USD500mn) and Jujuy (8.625% 2022, USD210mn) became the next two provinces to achieve an amendment of their foreign debt bonds, bringing the number of provinces that have done so to eight.

After almost a year without news, the Province of Buenos Aires (USD7.15bn outstanding) posted a draft of a possible offer, with conditions closer to those offered (USD43.6 NPV @15%) by the sovereign than those of the provinces that have managed to restructure their debts recently. PBA thus joins La Rioja, Chaco and Tierra del Fuego (the only performing debtor in this group) as the provinces that have announced a restructuring of their debts but have not yet reached an agreement. The City of Buenos Aires and the Province of Santa Fe are not expected to make changes to their debts in the short term.

Core inflation showing worrying dynamics

Headline CPI increased 3.6% MoM in February (40.7%YoY vs 38.5% YoY in January), but core inflation accelerated to 4.1% MoM (more than 65% annualized), evidencing strong underlying inflation pressures and offsetting the public services price freeze, with regulated prices increasing only +2.2% MoM (+21% YoY). That the wholesale price index increased +6.1% MoM (+5.6% in January) and 47.7% YoY is another alarm signal.

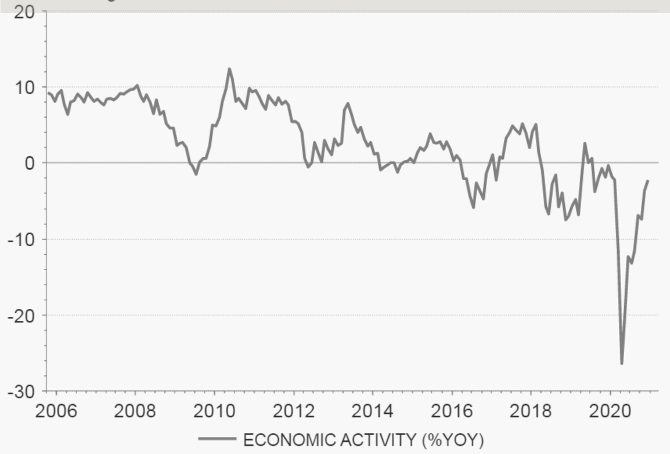
Going forward the government will continue to use its unorthodox toolkit to "control" inflation: i) slower ARS depreciation to reduce pass-through; ii) tariff readjustment running behind inflation; iii) collective wage agreement guided towards 30%; iv) reinforcement of price control programs.

The gap between the parallel (blue chip swap) and the official exchange rate has found some stability in recent months, moving in a range between 60 and 70%.

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2021 year-end target 140)

ARGENTINA - ECONOMIC ACTIVITY INDICATOR
% Change YoY

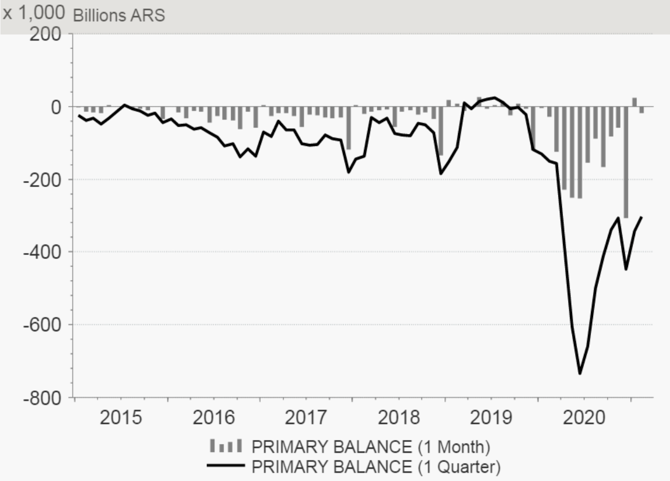


Source: Refinitiv Datastream / ANDBANK

ARGENTINA - LEADING INDICATOR
Index Value and MoM % Change

Source: Refinitiv Datastream / ANDBANK

ARGENTINE PRIMARY BALANCE
Billions ARS



Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES
Fundamental assessment

Index	Projected EPS 2021	EPS Growth 2021	PE EPS 2020	PE EPS 2021	PE EPS nxt 12m	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2021 E[Perf] to Fair Value	Recomm	2021 Exit Point	Max. Risk Premium	E[Perf] to Exit point
USA S&P 500	180,00	29,5%	28,35	21,89	21,00	3.941	3.822	-3,0%	MW	4.396	1,15	11,6%
Europe - Stoxx Europe 600	24,30	41,0%	24,52	17,39	18,00	423	442	4,6%	OW	509	1,15	20,3%
Euro Zone - Euro Stoxx	23,60	46,0%	26,16	17,91	18,00	423	430	1,6%	OW	494	1,15	16,8%
Spain IBEX 35	428	88,5%	36,78	19,51	17,00	8.349	7.358	-11,9%	UW	8.461	1,15	1,3%
Mexico IPC GRAL	3.200	96,4%	28,98	14,76	15,00	47.225	48.539	2,8%	OW	55.820	1,15	18,2%
Brazil BOVESPA	6.250	206,7%	56,42	18,40	18,00	114.979	113.764	-1,1%	MW	130.828	1,15	13,8%
Japan NIKKEI 225	1.285	25,4%	28,29	22,56	23,00	28.996	29.887	3,1%	MW	34.370	1,15	18,5%
China SSE Comp.	258,70	16,8%	15,41	13,19	13,00	3.412	3.401	-0,3%	UW	3.911	1,15	14,6%
China Shenzhen Comp	107,60	23,9%	25,30	20,42	22,00	2.198	2.394	8,9%	MW/OW	2.753	1,15	25,3%
India SENSEX	2.500	55,0%	31,10	20,07	24,00	50.175	60.674	20,9%	OW	69.775	1,15	39,1%
Vietnam VN Index	76,50	27,8%	19,76	15,47	18,00	1.183	1.392	17,7%	OW	1.601	1,15	35,3%
MSCI EM ASIA	44,10	24,1%	20,87	16,82	16,00	742	714	-3,8%	MW -UW	821	1,15	10,6%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS
Risk Outlook: Neutral // Positioning: Slightly cautious

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

Aggregate (UW bias): Flows have been driving markets and are very positive. Our contrarian reading is to be selective.

Market Positioning (MW-UW bias): Positioning remained stable month-on-month; asset allocation in equity has a negative tilt with consistent exposure to the asset class in portfolios. The Put call ratio indicates low hedging level of portfolios. Finally, Skew at current level reflects that the fear of a violent downside movement is present.

Flow Analysis (OW bias): Net inflows in the US equity indicate a positive momentum which has been targeting "high-dividends", "Value"and "Smid" caps. Japan also was a net collector of flows. Conversely, negative flows in Europe reflect the current setback in the pandemic management

Surveys & Sentiment Analysis (UW bias): Sentiment from investors is extreme. Crowd composite sentiment also joined the rest of the indicators turning too optimistic. We keep a contrarian stance.

TECHNICAL ANALYSIS
Trending Scenario. Supports & Resistances

	Name	Refinitiv Ticker	View 1 month	Principal Support 12M	Principal Resistance 12M	Support 1 month	Resistance 1 month	Target (TA) 12M	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	Lateral bullish	329,29	443,29	409,66	443,29	443,00	425,99	3,99%
	Euro Stoxx 600	.STOXX	Lateral bullish	338,57	433,90	404,04	433,90	445,00	424,91	4,73%
	Ibex	.IBEX	Lateral bullish	7.663,50	9.676,00	8.112,00	8.850,60	9.231,00	8.599,50	7,34%
	S&P	.SPX	Lateral	3.209,00		3.725,00		4.193,00	3.974,12	5,51%
	Japón	.N225E	Lateral bullish	24.448,00	38.957,00	27.629,00	31.086,34	32.817,46	30.216,75	8,61%
	China	.SZSC	Lateral bearish	1.744,00	3.156,96	2.119,00	2.511,97	2.905,00	2.237,50	29,83%
	India	.BSESN	Lateral	35.987,00		48.403,97	52.516,76		49.801,62	
	Brasil	.BVSP	Lateral	90.147,00		105.703,62	125.323,53		116.549,44	
	México	.MXX	Lateral bullish	35.652,42	50.603,00	44.089,32	50.041,60	52.714,31	47.679,49	10,56%
OTROS	Oil West Texas	WTCLc1	Lateral	34,49	66,60	58,86	66,60		64,36	
	Gold	XAU=	Lateral bearish	1.659,00	2.072,49	1.659,00	1.809,90	2.230,00	1.744,44	27,83%
	Treasury 10Y USA	US10YT=R	Lateral bullish	0,5040%	1,9730%	1,4290%	1,9730%		1,6453%	
	Bund 10Y German	DE10YT=R	Lateral bullish	-0,9090%	-0,1420%	-0,6710%	-0,2570%		-0,2945%	

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

ENERGY – OIL

Fundamental view (WTI): Target range USD55-65bbl

Buy < USD55; Sell >USD65

Short-term drivers

***(Price Negative)* – China may be increasing Iranian oil purchases routed through third-party countries. China is also ramping up imports from Venezuela:** Chinese data show the country didn't import any Iranian crude in February for the first time since August. However, the official data are at odds with third-party data, which show Iranian flows have expanded exponentially and are likely being routed through Oman and Malaysia, two countries that have seen a surge in Chinese purchases this year. Analysts estimate that China is currently buying close to 1M bpd of sanctioned crude, condensate, and fuel oil from Iran, the most in almost two years. Analysts also see China's oil purchases from Venezuela growing as well. The presence of a major buyer for these two countries has reduced the incentive for either country to negotiate with the US, either on a return to the 2015 nuclear deal for Iran, or to hold credible democratic elections for Venezuela. Meanwhile the US has reminded China that firms helping to import sanctioned crude could risk sanctions of their own.

***(Price Negative)* – Aramco CEO says China energy security is company's highest priority for the next 50 years:** Aramco CEO Amin Nasser told the China Development Forum that Saudi Aramco will ensure China's energy security will be the company's biggest priority for the next 50 years and beyond. Saudi Arabia retained its position as China's top supplier year-to-date, with volumes up 2.1% to 1.86M bpd through February. However, China has pledged to bring carbon emissions to a peak before 2030 and to reach carbon neutrality by 2060, and China's National Petroleum Corp's research institute has also forecast that Chinese oil demand will be capped at 14.7M bpd by around 2025 under Xi's climate pledge.

***(Price Negative)* –Thursday March 18th slump in oil price was a case of too far, too fast:** The sharp decline experienced on Thursday 18th came amid technical indicators suggesting that prices had risen too quickly. The OPEC+ decision to maintain production curbs, the most bullish positioning in a year, and an attack on a Saudi oil facility helped propel crude higher, and this came when US fuel refiners are struggling to recover from February's deep freeze and a slowdown in the pace of oil exports.

***(Price Negative Short-Term, Positive Medium-Term)* – Slow return for US refineries becoming a drag on crude prices:** US oil refineries are running at only ~80% of capacity after a major winter storm shut down most operations across the US Gulf energy belt last month, which is having the effect of pushing down physical crude prices just at a time when energy demand is on the rise. While refining margins are currently near their highest level for the past year, that has not tempted refiners to boost production; instead these firms are happy to keep selling from inventory (~28 days of supply industrywide) rather than increase output.

***(Price Negative)* – Mexico officially announces 1.2B barrel discovery in Tabasco:** Mexico's state-owned Pemex officially announced yesterday the discovery of a large 1.2B barrel onshore field in the state of Tabasco, from which it expects to produce near 300K bpd of oil and a significant amount of gas by the end of 2021, with crude output seen reaching 323K bpd in 2023. Although the estimates could be revised lower and there remains a question about whether the current administration will be able to attract private capital to help Pemex boost overall production, the discovery of the field, which has been teased in recent weeks, means the potential to put more oil in the market.

***(Price Neutral-Negative)* – India's imports of US crude suggest that OPEC's decision to cut production could lose leverage in pushing prices higher.** Platts reports that while India's surge in crude inflows from the US for February partly stems from evolving demand trends, it also reflects New Delhi's objection to OPEC+'s surprise production cuts and has prompted the country to diversify its import basket. While analysts are unclear about whether this is a permanent trend, it is a signal that Indian refiners are getting increasingly comfortable with US crudes. In the same way, other countries could feel inclined to do the same, which would mean a source of diversification of supply

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$1,800 – US$2,000/oz.

Positive drivers for gold

Gold is not a crowded trade: In spite of a 45% surge over the past two years, this rally has garnered limited headlines, unlike the tech sector. The total market of the precious metal sector is small enough to keep running without hitting the big numbers problems. 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).

The three identified threats that could end the gold rally seem to be distant: The 1976-80 rally ended when US short rates were jacked up to break inflation, causing a rise in the USD. The 1985-88 rally ended when Germany pulled out of the Accord Plaza deal and US rates started to push up rates (prompting a rise in the US Dollar). In the 2001-11 period (which saw the gold price skyrocket from $300 to $1,800/oz), President George W. Bush's "guns & butter" policies spurred a rise in EMs, which became new gold buyers. This ended in 2011, when the USD started to strengthen. Looking at this history, when gold bull markets get going, they usually feed on their own momentum for quite a while, and only end when facing higher nominal rates, a stronger USD or a rise in real rates. Therefore, the only three threats to the unfolding gold bull market seem to be: 1) Higher nominal rates. 2) Stronger USD. 3) A rise in real rates. But how real and dangerous is each of these risks in bringing an abrupt end to the gold rally?

Risk #1. Higher nominal rates (LOW RISK): It is almost impossible to find an OECD central banker even thinking of raising interest rates in his or her lifetime.

Risk #2. Stronger USD (LOW RISK): The US current account balance has been gradually improving, leading to a shortage of dollars and a rise in its price. We do not foresee a jump in this current account balance that will boost the USD again. Rather, the balance (deficit) could remain stable at around 2% of GDP and keep the USD well supported but stable, far from a strong rebound that could end gold's bull market.

Risk #3. A rise in real rates (LOW RISK): So if nominal rates are not going to rise, the only way OECD countries could experience surging real rates would be through an already low inflation rate collapsing even more. But how? Such a deflationary outcome could be triggered by a permanent collapse in the price of energy, a collapse in real estate, or even a collapse in the Renminbi. There are few signs of such shocks unfolding permanently. With this in mind, it seems that a surge in real rates is not an immediate threat.

Momentum - Gold bull markets usually feed on their own momentum for quite a while. Our constructive view is that the emerging world will recreate a gold-prone cycle, such as the one experienced in 2001-2011. Gold bull markets can build up over multi-year periods. In the 2001-2011 period, it was the new wealth being created in EMs, with a strong affinity for gold, that pushed gold prices higher. In contrast, in the 2011-2020 decade, most of the world's wealth has been created in campuses on the US-West coast, by people with scant interest in this "relic", and with EM growth having been much more moderate. Despite this, the gold price has ripped higher and is showing strong momentum. Imagine now if EMs thrive again, led by Asia, what a tailwind that would be for gold.

Gold as the new anti-fragile asset: Gold, like the US Treasury bond, is an anti-fragile asset. Investors should always carry out the exercise of deciding which anti-fragile asset should be kept in their portfolio to protect themselves against instability in financial markets, demand or supply shocks, or a collapse in real rates (due to inflation shocks). The answer will have a lot to do with the perception of which of the two traditional anti-fragile assets (Gold & US Treasuries or other Tier 1 Govies) is likely to perform better in the future. This, in turn, will depend on the relative supply of each asset. 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.

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 is fairly valued relative to silver though it is cheap relative to palladium. The Gold/Silver ratio is at 66.25 and is right at its 20-year average of 66.22x, suggesting that gold is fairly valued 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$1,740/oz. Meanwhile, the Gold/Palladium ratio is at 0.722, well below its 20-year average of 1.84x, suggesting that gold is cheap relative to palladium, or palladium is even more expensive than gold.

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.14534), the price of gold in real terms (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) is US$1,518. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,004. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,149.

Gold to oil: This ratio is at 28.26, still well above its 20-year average of 17.66x. Considering our fundamental fair value for WTI oil at US$60 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$1,060 for this ratio to remain near its LT average.

EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.19 (Buy USD at 1.23, Sell USD at 1.16)

USD-JPY: Target 105; **EUR-JPY**: Target 125

GBP-USD: Target 1.41; **EUR-GBP**: Target 0.84

USD-CHF: Target 0.89; **EUR-CHF:** Target 1.06

USD-MXN: Target 21; **EUR-MXN:** Target 25

USD-BRL: Target 5.30; **EUR-BRL:** Target 6.31

USD-ARS: Target 140

USD-INR: Target 74

CNY: Target 6.50

RUB: NEUTRAL-POSITIVE

AUD: NEUTRAL

CAD: NEUTRAL

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	3-yr Max (Bn $)	3-yr Min (Bn $)	3-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	-12,83	16,93	32,1	-35,3	-4,1	**-0,40**
USD vs G10	-13,83	16,25	32,7	-35,6	-3,2	**-0,50**
EM	-1,00	-0,68	3,9	-1,0	1,3	**-1,60**
EUR	13,38	-7,80	27,6	-8,6	11,8	**0,15**
JPY	-4,52	-8,90	6,1	-15,0	-5,6	**0,16**
GBP	2,48	0,56	4,3	-6,5	-1,0	**1,26**
CHF	0,63	-0,54	2,2	-6,0	-1,6	**0,95**
BRL	-0,42	-0,08	0,7	-0,8	-0,2	**-0,61**
MXN	-0,71	-0,75	3,3	-0,7	1,2	**-1,77**
RUB	0,14	0,16	1,2	-0,3	0,3	**-0,45**
AUD	0,59	0,81	6,1	-5,2	-0,3	**0,28**
CAD	0,83	0,18	6,1	-5,0	0,2	**0,22**

Positive
Neutral-Positive
Neutral-Negative
Negative

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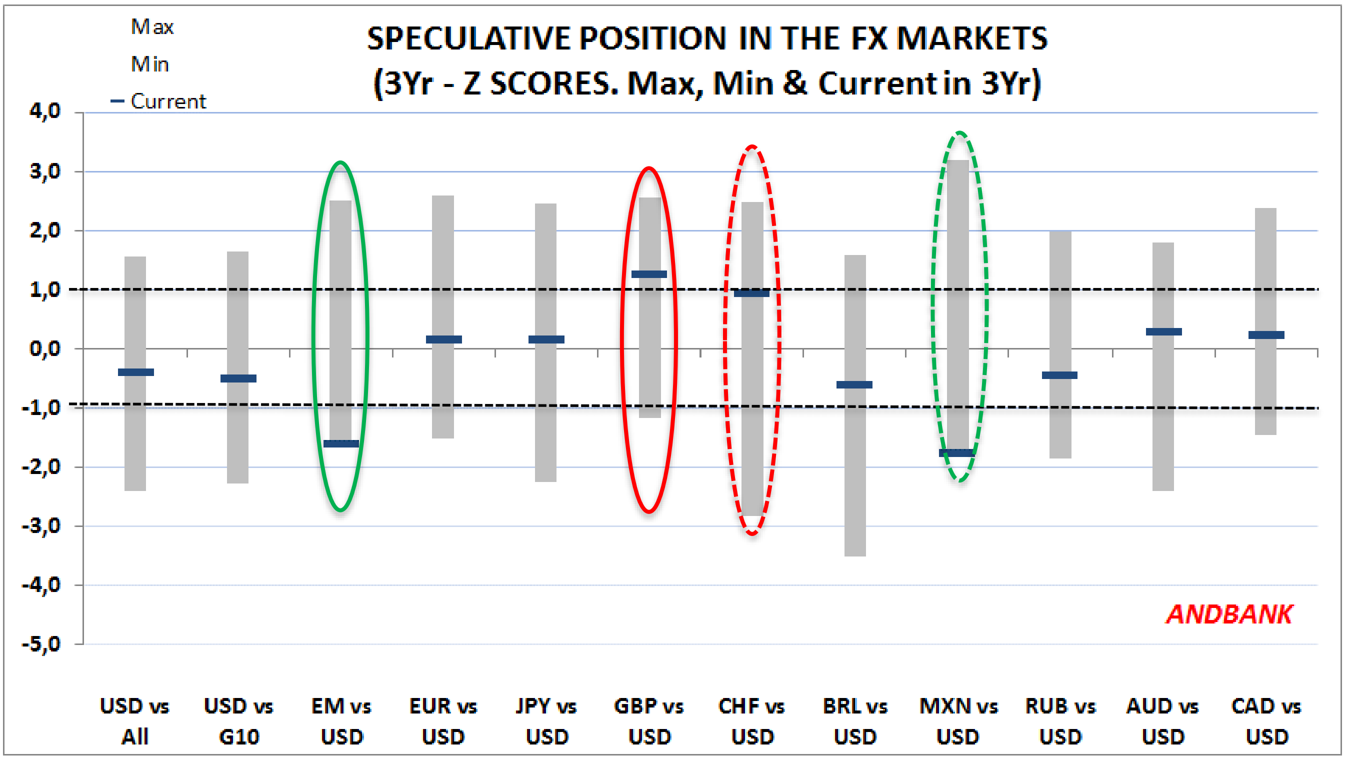

The currencies we technically favor are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Equity	USA - S&P 500	4,1%	5,8%	3.966	3.826	-3,5%
	Europe - Stoxx Europe 600	5,7%	7,0%	428	443	3,4%
	Euro Zone - Euro Stoxx	5,9%	7,6%	429	430	0,1%
	SPAIN - IBEX 35	3,6%	5,3%	8.520	7.364	-13,6%
	MEXICO - MXSE IPC	6,5%	7,5%	47.478	50.932	7,3%
	BRAZIL - BOVESPA	4,5%	-3,6%	114.945	113.856	-0,9%
	JAPAN - NIKKEI 225	1,4%	7,1%	29.385	29.911	1,8%
	CHINA - SHANGHAI COMPOSITE	-2,1%	-1,6%	3.435	3.404	-0,9%
	CHINA - SHENZEN COMPOSITE	-3,3%	-4,7%	2.219	2.396	8,0%
	INDIA - SENSEX	-0,2%	2,6%	49.009	60.723	23,9%
	VIETNAM - VN Index	0,6%	5,3%	1.176	1.394	18,5%
	MSCI EM ASIA (in USD)	-3,4%	1,6%	725	714	-1,5%
Fixed Income Core countries	US Treasury 10 year Govie	-2,2%	-6,0%	1,69	1,80	0,4%
	UK 10 year Gilt	0,4%	-4,7%	0,78	0,80	0,4%
	German 10 year BUND	0,6%	-2,1%	-0,33	-0,25	-0,9%
	Japanese 10 year Govie	0,7%	-0,4%	0,06	0,25	-1,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	1,0%	-2,1%	0,30	0,35	-0,2%
	Italy - 10yr Gov bond	1,1%	-0,8%	0,63	0,50	1,5%
	Portugal - 10yr Gov bond	1,0%	-1,5%	0,18	0,35	-1,2%
	Ireland - 10yr Gov bond	0,6%	-2,8%	0,01	0,15	-1,1%
	Greece - 10yr Gov bond	2,0%	-1,7%	0,85	1,35	-3,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,1%	-0,2%	53,99	55	0,0%
	Credit EUR HY-Itraxx Xover	0,1%	-0,3%	267,02	250	2,1%
	Credit USD IG - CDX IG	0,1%	-0,2%	56,19	49	0,8%
	Credit USD HY - CDX HY	0,8%	0,6%	292,49	286	2,6%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-40,3%	-41,9%	18,13	16,00	30,8%
	Russia - 10yr Gov bond (local)	-1,3%	-7,3%	6,98	5,28	18,9%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-0,4%	-4,9%	6,65	5,50	14,2%
	India - 10yr Gov bond (local)	1,4%	-0,4%	6,12	6,00	5,6%
	Philippines - 10yr Gov bond (local)	-3,8%	-10,9%	4,41	4,00	6,7%
	China - 10yr Gov bond (local)	0,9%	0,4%	3,19	2,20	10,3%
	Malaysia - 10yr Gov bond (local)	-1,6%	-4,6%	3,31	2,00	13,0%
	Thailand - 10yr Gov bond (local)	-0,5%	-4,3%	1,65	0,81	8,0%
	Singapore - 10yr Gov bond (local)	-2,9%	-6,7%	1,68	0,93	7,3%
	Rep. Korea - 10yr G. bond (local)	0,0%	-1,6%	1,86	1,02	8,2%
	Taiwan - 10yr Gov bond (local)	-0,7%	-0,7%	0,37	0,50	-0,8%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-3,8%	-10,7%	6,75	6,55	6,7%
	Mexico - 10yr Govie (USD)	-1,7%	-5,9%	3,41	3,55	1,5%
	Brazil - 10yr Govie (Loc)	-7,7%	-16,7%	9,22	8,80	10,4%
	Brazil - 10yr Govie (USD)	-2,2%	-7,2%	4,44	4,55	2,5%
Commodities	Oil (WTI)	-2,0%	24,2%	60,3	55,00	-8,7%
	GOLD	-1,3%	-9,8%	1.710,6	1.900	11,1%
Fx	EURUSD (price of 1 EUR)	-2,5%	-3,6%	1,178	1,19	1,1%
	GBPUSD (price of 1 GBP)	-0,9%	1,0%	1,38	1,41	2,2%
	EURGBP (price of 1 EUR)	-1,6%	-4,6%	0,85	0,84	-1,1%
	USDCHF (price of 1 USD)	3,4%	6,1%	0,94	0,89	-5,5%
	EURCHF (price of 1 EUR)	0,8%	2,3%	1,11	1,06	-4,5%
	USDJPY (price of 1 USD)	3,0%	6,3%	109,74	105,00	-4,3%
	EURJPY (price of 1 EUR)	0,5%	2,4%	129,22	124,95	-3,3%
	USDMXN (price of 1 USD)	-0,6%	4,3%	20,73	21,00	1,3%
	EURMXN (price of 1 EUR)	-3,1%	0,6%	24,39	24,99	2,5%
	USDBRL (price of 1 USD)	3,4%	11,4%	5,79	5,30	-8,4%
	EURBRL (price of 1 EUR)	0,8%	7,4%	6,81	6,31	-7,4%
	USDARS (price of 1 USD)	2,3%	9,3%	91,91	140	52,3%
	USDINR (price of 1 USD)	-1,6%	-0,4%	72,75	74,00	1,7%
	CNY (price of 1 USD)	1,5%	0,7%	6,57	6,50	-1,1%

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

UPWARD REVISION   DOWNWARD REVISION

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