GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review – June 2021

Corporate Review

June 2021

A Real Risk or Another Market Overreaction?

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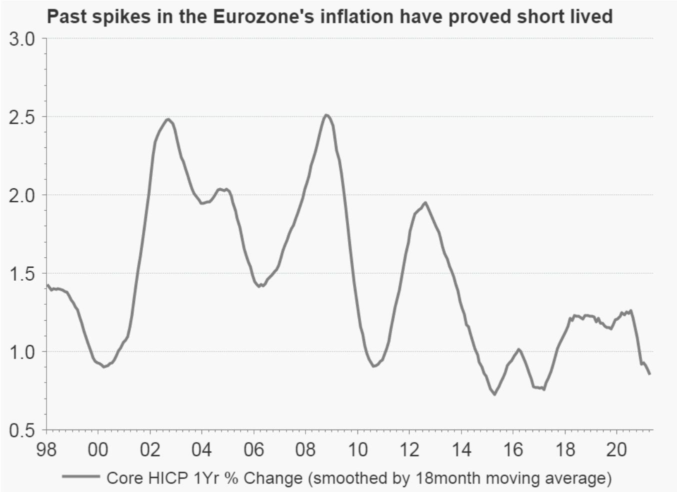
ANDBANK
Private Bankers

EXECUTIVE SUMMARY

CHART OF THE MONTH



Source: Refinitiv Datastream / ANDBANK

EQUITIES

Index	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	4.202	4.043	-3,8%	MW	4.649	1,15	10,6%
Europe - Stoxx Europe 600	451	462	2,6%	OW	531	1,15	18,0%
Euro Zone - Euro Stoxx	452	458	1,5%	MW/OW	527	1,15	16,7%
Spain IBEX 35	9.164	9.228	0,7%	MW/UW	10.612	1,15	15,8%
Mexico IPC GRAL	50.722	53.907	6,3%	OW	61.993	1,15	22,2%
Brazil BOVESPA	128.267	114.858	-10,5%	MW/UW	132.087	1,15	3,0%
Japan NIKKEI 225	28.946	30.174	4,2%	MW/OW	33.192	1,10	14,7%
China SSE Comp.	3.597	3.434	-4,5%	MW/UW	3.949	1,15	9,8%
China Shenzhen Comp	2.401	2.417	0,7%	MW	2.779	1,15	15,8%
India SENSEX	51.849	61.258	18,1%	OW	70.446	1,15	35,9%
Vietnam VN Index	1.341	1.406	4,9%	OW	1.617	1,15	20,6%
MSCI EM ASIA	760	735	-3,3%	MW	845	1,15	11,2%

ANDBANK ESTIMATES

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	1,60	1,80	0,0%
	UK 10 year Gilt	0,81	0,80	0,9%
	German 10 year BUND	-0,19	0,25	-3,7%
	Japanese 10 year Govie	0,07	0,25	-1,3%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,45	0,85	-2,7%
	Italy - 10yr Gov bond	0,89	1,00	0,0%
	Portugal - 10yr Gov bond	0,44	0,85	-2,8%
	Ireland - 10yr Gov bond	0,18	0,65	-3,6%
	Greece - 10yr Gov bond	0,81	1,85	-7,5%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	51,40	55	-0,1%
	Credit EUR HY-Itraxx Xover	244,88	250	1,8%
	Credit USD IG - CDX IG	50,02	63	0,3%
	Credit USD HY - CDX HY	285,15	299	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)	17,92	16,00	33,3%
	Russia - 10yr Gov bond (local)	7,20	6,60	12,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,37	5,50	13,3%
	India - 10yr Gov bond (local)	6,01	5,50	10,0%
	Philippines - 10yr Gov bond (local)	3,96	5,00	-4,4%
	China - 10yr Gov bond (local)	3,08	2,20	10,1%
	Malaysia - 10yr Gov bond (local)	3,20	2,30	10,4%
	Thailand - 10yr Gov bond (local)	1,70	0,81	8,8%
	Singapore - 10yr Gov bond (local)	1,49	1,50	1,4%
	Rep. Korea - 10yr G. bond (local)	2,11	1,90	3,8%
	Taiwan - 10yr Gov bond (local)	0,40	1,35	-7,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	6,52	6,80	4,3%
	Mexico - 10yr Govie (USD)	3,11	3,55	-0,4%
	Brazil - 10yr Govie (Loc)	9,09	8,80	11,4%
	Brazil - 10yr Govie (USD)	3,99	4,55	-0,5%

COMMODITIES & FX

Asset Class	*Indices*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Commodities	Oil (WTI)	68,3	60,00	-12,1%
	GOLD	1.905,3	1.900	-0,3%
Fx	EURUSD (price of 1 EUR)	1,219	1,19	-2,3%
	GBPUSD (price of 1 GBP)	1,42	1,41	-0,4%
	EURGBP (price of 1 EUR)	0,86	0,84	-2,0%
	USDCHF (price of 1 USD)	0,90	0,89	-1,5%
	EURCHF (price of 1 EUR)	1,10	1,06	-3,8%
	USDJPY (price of 1 USD)	109,71	106,40	-3,0%
	EURJPY (price of 1 EUR)	133,71	126,62	-5,3%
	USDMXN (price of 1 USD)	19,98	21,00	5,1%
	EURMXN (price of 1 EUR)	24,35	24,99	2,6%
	USDBRL (price of 1 USD)	5,16	5,30	2,6%
	EURBRL (price of 1 EUR)	6,29	6,31	0,2%
	USDARS (price of 1 USD)	94,54	140	48,1%
	USDINR (price of 1 USD)	73,01	74,00	1,4%
	CNY (price of 1 USD)	6,38	6,00	-6,0%

USA

The lifting of lockdowns moved prices from super discount levels to pre-pandemic levels

Pandemic. Under control

The share of the population having received a first shot stands at 47.3% while fully vaccinated stands at 37%. Though the daily pace of new doses administered (7DMA) decreased to 1.9M in the US, confirmed cases lowered the 7-day moving average to 33K (45k LIC). Hospitalizations also fell across census regions.

Inflation. Drivers for prices have little staying power but transient inflation does not mean one month.

The lifting of the lockdown is pushing prices to normalize to pre-pandemic levels, which means a sharp rise compared to the prices with super discounts applied during the crisis. The April CPI print came in at a much stronger-than-expected +0.8% on a month-on-month basis (vs. +0.2% expected) and sent the YoY print to +4.2%. Core inflation came with a +0.9% MoM increase, sending the annual figure up to +3.0%.

Close to 60% of the month-over-month increase came from five components -- used cars, rental cars, lodging, airfares, and food away from home -- which will have little staying power. Both goods and services prices accelerated, albeit with transport commodities -- mainly used cars and trucks -- alone accounting for roughly a third of the overall CPI gain, as they rose 10%. Transient does not mean one month. Semiconductor shortages are restraining new car production, leaving both consumers and rental fleets sweeping up used vehicles at higher prices. Airfares and car rental prices surged, and car insurance prices also rose as driving habits returned to normal. Prices at restaurants and lodging away from home also rose. A temporary shortage of available workers in customer-facing industries will keep these prices elevated at least through the summer months. We expect all of these sources of upward pressure on inflation to materialize to some degree however we recognize the risk that price spikes caused by temporary pandemic oddities could have a more lasting impact if they raise inflation expectations substantially.

The Fed

The FOMC wants inflation to average 2% in the future, not the 1.7% rate that the core PCE index has averaged over the last quarter-century. Multiple members have been doubling down on the transitory inflation message during the last months, aimed at helping the market in the short-term, but this message also creates more market risk if they are forced to eventually admit that there is a permanence to some of the inflation further down the road. The Fed is going to have a real communication and policy problem if this inflation isn't transitory. With regards to starting the tapering, our base case is that the hints will begin in 2H2021 and tapering will begin in early 2022 to phase out the current $120bn rate of monthly purchases across 2022. After that, the FOMC will likely want to pause to take stock of the tapering impact for at least one and ideally two quarters to come with the first rate hike in 2H2023. The fact that monetary policy will tighten in the coming quarters is both logical and well understood. The direction of policy is clear.

Fixed income market and the yield curve

US 10 year yields remained stable around the 1.65% zone for much of the month. There have been some spikes in yields, driven by the rise in inflation expectations, in addition to a smaller rise in real yields. The US 10Y breakeven rate was fixed at 8 year highs (2.53%) and the US 5Y breakevens are at their highest since 2008 at 2.71%.

Credit and high yield bond prices experienced moderate volatility around the rise in rates and weakness in stocks during this month, although they managed to recoup a portion of those losses over the subsequent days. Corporate earnings are coming in very strong, and M&A has surged too, but deal sizes are smaller than in prior periods, contributing to the market's comfort with the trend. We continue to believe the bias is for modestly tighter spreads over time, and equity market strength is supportive of this direction. Our year-end target for the 10Y UST yield is 1.8%, and our recommendation is to be underweight duration.

Equity market

In the course of 2021 the S&P500 has already accumulated +11.44% and the Nasdaq +4.07%. In April, S&P500 Value grew +3.73%, and SP&500 Growth grew +6.87%, but in May the S&P500 Value index has grown +1.68%, while the SP&500 Growth index fell -3.12%. We are keeping our neutral position about sectors, and our Marketweight recommendation in US equities.

Financial market assessment

Equities – S&P: MARKETWEIGHT (But bias to our 4 rotation strategies)

Bonds – Govies: UNDERWEIGHT (10Y UST. Target 1.80%)

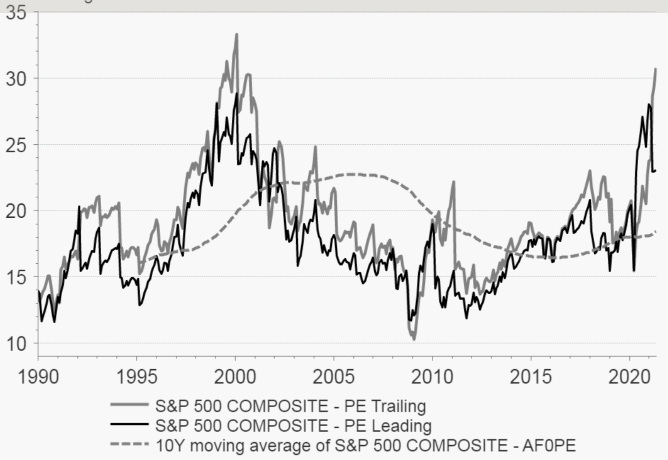
CDX IG: MW-UNDERWEIGHT (Target Spread 66)

CDX HY: MW-OVERWEIGHT (Target Spread 300)

Forex – DXY index: MARKETWEIGHT

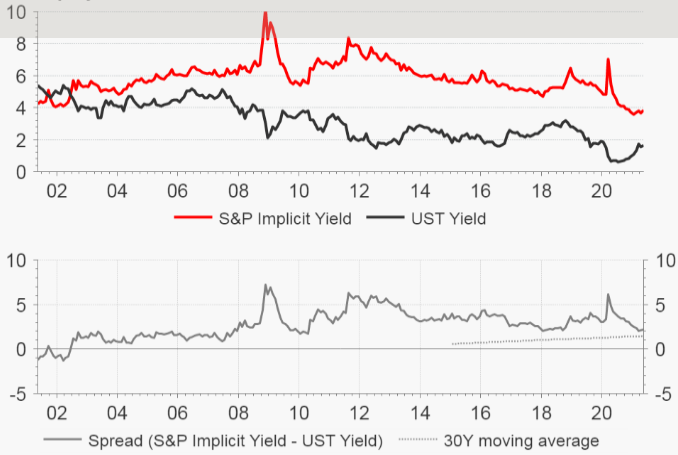
US price-to-earning ratio

Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

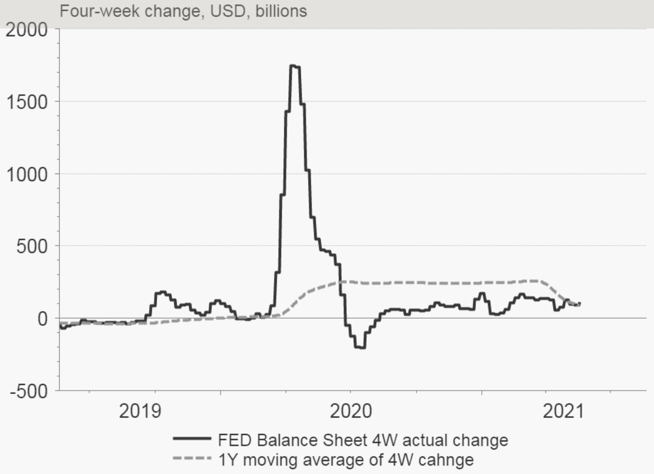
Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

Federal Reserve balance sheet

Four-week change, USD, billions



Source: Refinitiv Datastream / ANDBANK

EUROPE

Good set of earnings data should lead the rise of FY2021 EPS expectations from analysts

Europe "filling the gap" in terms of vaccination

The promised step up in the vaccination rate has been delivered. The EU's commitment to reach the threshold of 70% of the adult population by the end of the summer seems in sight. Optimism towards the summer season grows and there is room for improvement in the sentiment surveys. As expected, GDP contracted in the first quarter (-0.6% QoQ, -1.8% YoY), but the economic outlook has improved slightly over the last month, with the European Commission upgrading its estimates for both growth and prices. New projections for 2021 point to GDP increasing by 4.3% YoY (vs. 3.8% prev.) and HCPI at 1.7% YoY (vs. 1.4% prev.). Noisy data will be seen throughout these months both in terms of activity and prices, both being affected by the reopening and some bottlenecks in the industrial sector due to the scarcity of certain components. Inflation pressures, though one step behind prices in the US, will be closely monitored, with the potential for short term upward surprises.

ECB: Still premature for taper talk

No tapering was discussed in the last ECB meeting. We expect a positive revision of the macro-outlook, in line with EC estimates, along with an extension of the "significantly higher" pace of asset purchases under the PEPP into the third quarter. A slowdown to €60bn/month would come later, maintaining this pace at least through to the termination of the PEPP (March 2022). We would not expect the ECB to overtake the Fed and any announcement of tapering is therefore not envisaged until Q4. France's central bank governor Francois Villeroy strongly downplayed any notion of the ECB paring back its asset purchases at its upcoming meeting. Though the long end of the curve and inflation breakevens have amplified the major movements, the shorter end has also contributed with implicit rates pricing in a 10bp rate hike for June 2023.

Bond market: Govies & Corporates

Govies: The 10Y treasury-bund spread has narrowed further, trading below 180bp levels. A more cyclical profile of the European economy, added to the ECB's tolerance of higher inflation readings could support yields above our previous target (-0.25%). We are therefore revising our bund target upwards to +25bp. Peripheral spreads, especially in Italy, have widened despite positive news. Market participants have little confidence in Italy's ability to generate growth from Draghi's stimulus plan (€260bn) and may also be worried about the rumors of Draghi becoming President of the Republic, stepping out of his PM post. We stick to the opinion of lower Italian spreads: the country will be the first beneficiary of the European fund and the ECB would be buying most of the amounts issued until 2024.

Corporates: Fears of sudden and recurring inflation have reared their head and may resurface from time to time. It is true that on the positive side we continue to have the support of the ECB purchases and that the economic recovery is increasingly evident and should provide an additional layer of support, but the expected higher yields in the government bonds universe should limit inflows towards corporate bonds, limiting the additional narrowing of spreads. We keep our preference for higher beta assets, given their lower sensitivity to rates, higher carry, and capacity for improvement accompanying the economic recovery. With regards to the financial sector, we highlight Moodys' change of outlook from negative to stable for nine Italian banks. We are therefore analyzing new issues from Italian companies that may have lagged in price and could represent an opportunity.

Equity market

Some 45% of Stoxx600 companies have released Q1 results. EPS growth was +41% YoY (with 74% of companies beating estimates by 18%). The discretionary consumption sector is coming in particularly strong, while eight of the remaining sectors are also seeing double-digit earnings growth. In terms of sales, 66% of companies are beating estimates, with revenue growth fixed at +3% YoY. Seven out of ten sectors reported positive Q1 sales growth. For EuroStoxx companies, Q1 EPS and sales growth also improved (EPS growth came in at +57% YoY, which is a positive surprise of 28% vs consensus estimates). This good set of earnings should lead to a rise in analysts' expectations for the full year. The higher EPS with modest sales growth indicates that companies have managed to defend and maintain margins.

Financial market assessment

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT- OVERWEIGHT

Equities – Spain's Ibex: MARKETWEIGHT-UNDERWEIGHT

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

Peripheral – OW IT (1%). MW: SP (0.85%), PO (0.85%), IE (0.65%), GR (1.85%).

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)

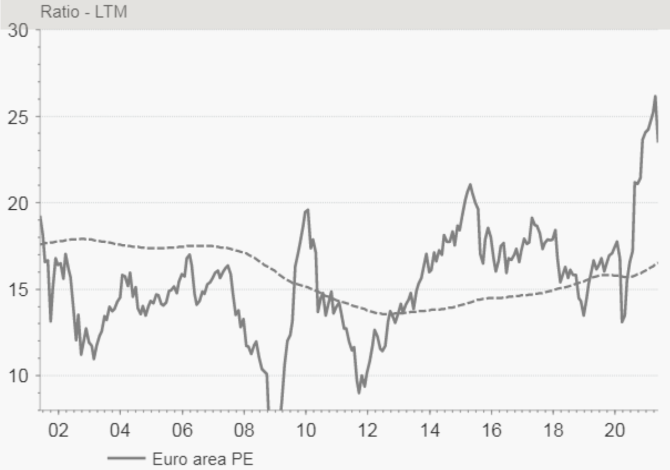
Euro area inflation
Twelve-month percentage changes

Source: Refinitiv Datastream / ANDBANK

ECB balance sheet - total assets
EUR, billions

Source: Refinitiv Datastream / ANDBANK

Euro area & EU price-to-earnings
Ratio - LTM



Source: Refinitiv Datastream / ANDBANK

CHINA

MSCI China enters bear market after tech sell-off. China normalizes activity, but continues to boost the price of commodities

MSCI China enters bear market

The MSCI China Index extended its losses last week from its mid-February high to more than 20%. This is the second time the gauge has fallen into a bear market in little over a year. Greater China benchmarks are among the world's worst performers since February as Beijing cracks down on tech firms over monopolistic practices, further worsening investor sentiment already soured by concerns of liquidity tightening in China. The MSCI Index, skewed by Tencent and Alibaba, has been falling since February.

PBoC injects $15.5B and sees the need to maintain liquidity

PBoC announced the injection of $15.5B in one-year funds via its medium-term lending facility to maintain liquidity aided to calming nerves. This sent a positive signal that Beijing was prepared to support markets with enough cash to support liquidity-sensitive stocks and its bond market. The move comes just as data showed PPI was surging but also as the supply of local government bonds increased, hinting that the PBoC was less concerned about inflation and more to soak up the pending local government debt.

Macroeconomics: Data shows economy is normalizing but new problems emerge

China’s activity data misses expectations: The National Bureau of Statistics (NBS) reported YoY economic activity starting to normalize as base-year effects begin to fade. April data showed a steady improvement overall but new problems are emerging. “The foundations for a domestic recovery are secure, and there is also support for external trade to continue to expand”. Food prices would be steady thanks to a solid harvest while the transmission of higher PPI into higher CPI was not smooth because of abundant supplies.

Retail sales missed on forecasts, up 17.7% vs consensus 25.0%, and followed March's 34.2% growth. Details showed all categories are still growing, though home appliances fell from 38.9% growth in March to just 6.1% in April. Online sales growth continued, +27.6%, with 2-year growth at 13.9%. Online sales account for 22.2% of total sales.

Industrial production rose 9.8% YoY versus 14.1% in March, and 35.1% in the Jan-Feb period. The NBS reported a two-year average of 6.8%. Computers, smartphones and integrated circuits grew by double-digit percentages. Aluminum production rose 12.4% MoM to a record high. Passenger cars and raw coal were the only sub-groups that saw a contraction. Service sector growth and business activity continue to expand but at slower pace: The services sector grew 26.4% in the first four months YoY versus 37.1% YoY, indicating a slowdown in growth with the two-year average dropping from 10.2% to 6.7%. The business activity index for services stood at 54.4 (with continued expansion). High tech industries are leading the fixed asset expansion, but overall growth is slowing: Fixed asset investment expanded 19.9% YTD versus 25.6% in March. Investment in high-tech manufacturing and services grew 34.2% and 18.1%.

China's housing market "out of control" as prices continue to climb?

China's housing prices grew at the fastest pace in eight months in April despite measures designed to curb buyer enthusiasm. New home prices in 70 cities rose 0.48% MoM from March (from 0.41% MoM seen in February), showing prices were still accelerating. The secondary market with less government intervention, rose 0.4%, the same as in March. The more resilient the market becomes, the more likely a trial of a home ownership levy becomes as the housing market showed signs of being "out of control". Commercial real estate sales remained high and private-sector fixed investment, which is responsible for 60% of total investment, rose at an important 21.0% in January to April (versus the 26.0% jump in January to March), meaning that investment activity has moderated in April.

Iron ore price rebounds as Chinese steel mills produce at record pace

Iron ore prices climbed back over $200/ton on Monday after data from China showed local steel mills churning out a record 97.9M tons (with a YTD total of 375M tons, representing a 16% YoY increase). It was also reported that iron ore stockpiles at Chinese ports declined for a third week running last week. Prices had plunged recently, after nationwide inspections were planned on the implementation of capacity cuts.

China continues to fight for dominance in the quantum computing race

A research team at the Chinese University of Science and Technology (CSU) has successfully developed a 62-qubit programmable superconducting quantum computing prototype called “Zuchongzhi” and realized a programmable two-dimensional quantum walk on this basis. Meanwhile, the German government announced it will provide US$2.4B for Quantum Research and Development. The funding programs will follow a Quantum Computing Roadmap.

Financial market outlook

Equities – SHANGHAI Idx: MARKETWEIGHT-UNDERWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT

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

NEW! Forex – CNY/USD: MW (Target 6.00)

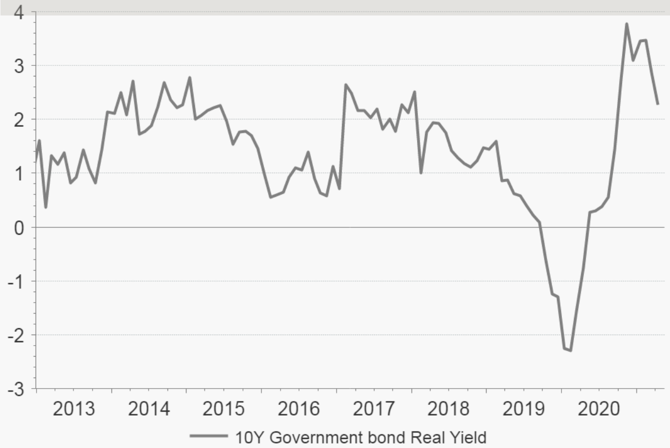
CHINA SSE Index PE Ratio

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

Domestic investor appetite could be coming back

Macro. Poor Q1 figures as expected

Q1GDP (1.3%) QoQ vs consensus (1.2%) and +2.8% in prior quarter. In annualized terms, the Q1 GDP fall has been significant (5.1%) QoQ annualized, a significant fall vs the revised +11.6% in prior quarter. The April CGPI was fixed at +3.6% YoY vs consensus +3.1% and revised +1.2% in prior month.

Covid - Tougher Covid-19 measures come into effect

New and tougher Covid-19 measures commenced on Sunday 16th in six prefectures in Japan as infections continue to surge ahead of the Summer Olympics, with three coming under an expanded state of emergency and another three under a quasi-emergency. Hokkaido, Okayama and Hiroshima joined Tokyo and five other prefectures already under a state of emergency until May 31, while a quasi-emergency state currently covering seven prefectures was expanded to Gunma, Ishikawa and Kumamoto until June 13.

Accordingly, a Kyodo poll found that 59.7% of people in Japan believe the Tokyo Olympics and Paralympics this summer should be canceled, as infections in the country continue to surge and the vaccine rollout remains slow less than three months before the games. The survey also found that 25.2% said the games should be held without spectators, while 12.6% favor holding the global sporting event with a limited number of spectators.

Geopolitics. Japan to restrict use of foreign tech in telecom, power grids

Nikkei reported that Japan will introduce new regulations for 14 critical infrastructure sectors to bolster cyber defenses, learning from the recent Colonial Pipeline hack. Sectors include telecommunications, electricity, finance, railroads, government services and health care. The government will require operators of such key infrastructures to address national security concerns when procuring foreign-made equipment.

International transactions from domestic investors. Risk appetite back

Domestic investors were net buyers of ¥189.7B in foreign equities (vs net purchases of ¥114.1B in previous week), and net buyers of ¥600.2B in foreign long-term debt (vs net sales of ¥72.2B in previous week)

Demographics – Still a deflationary driver. Good for growth stocks

The Cabinet Office survey conducted every five years showed that 61.1% of people in Japan believe it is hard to raise children in the country, highlighting a perception of insufficient support for parenting compared with other nations. The result marks a stark contrast to overwhelming majorities in Sweden, France and Germany that indicated it was easy to raise children in those countries. The government plans to mention the results of the survey in an annual white paper on measures against Japan's declining birthrate that is expected to be endorsed by the Cabinet of Prime Minister Yoshihide Suga in June.

Corporate. Very interesting moves in the market

Itochu takes top stake in 24M Technologies after a fundraising round to fund semisolid battery technology: 24M Technologies announced that Itochu (8001.JP) has become the largest shareholder (~30%), leading a $56.8 million fundraising round, joined by other investors including Fujifilm and a fund run by Japan's Sparx Group. 24M specializes in "semisolid" battery technology, which has the potential to slash manufacturing costs while also improving safety. Mass production of the new batteries is set to begin in Thailand this year.

Ricoh develops new solar cell: Ricoh (~7752.JP~) has developed a new solar cell that has a 20% higher maximum power output than its current product and can generate electricity from domestic lighting or less. As the cell can operate at subfreezing temperatures, it can be used in refrigerator sensors and for a variety of other purposes. Ricoh plans to start selling the product in late May, targeting plants and distribution warehouses, among other customers.

SoftBank to expand Vision Fund portfolio to 500 companies: Softbank Group (9984.JP) CEO Masayoshi Son told the Nikkei that he wants to double the Vision Fund portfolio to 500 companies, saying his focus was completely on the Vision Fund. He noted that he has no interest in buying controlling stakes in companies, but wants to build a pipeline that generates listings of dozens of companies every year. Son said he expects to make a few investments using SoftBank's own SPACs and that it could include merging with a Vision Fund portfolio company.

Financial market outlook

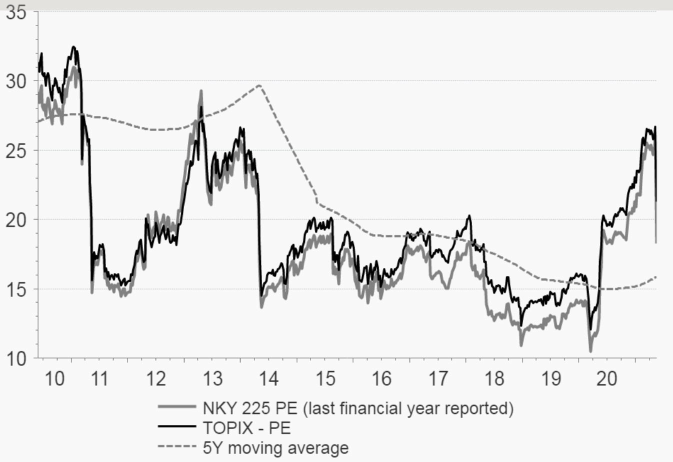
Equities – N225: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: OVERUNDERWEIGHT (Target yield 0.25%)

Forex – USD-JPY: MARKETWEIGHT-OW (Mid-term target 106.4)

Japan Nikkei 225 price / earnings

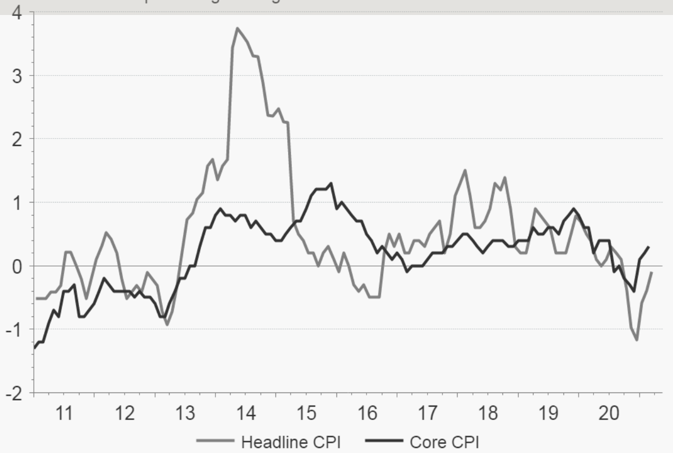
Ratio



Source: Refinitiv Datastream / ANDBANK

Japan CPI

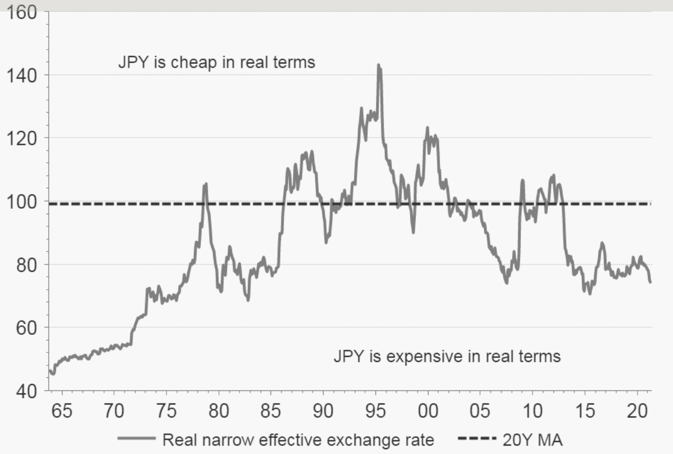
Twelve-month percentage change



Source: Refinitiv Datastream / ANDBANK

Japan real narrow EER

Index



Source: Refinitiv Datastream / ANDBANK

INDIA

Problems naturally persist in India, but we remain constructive regarding the Indian market

Daily infections fall and active cases also gradually improve

After the strong resurgence in infections in April, it seems that we may have already passed the peak of infections, with the number of daily cases falling from 400k to 310k. This improvement could also be reflected in a drop in the number of active cases (which have gone from 3.7 million to 3.4 million). As for the number of daily Covid deaths, the improvement has not yet materialized, but it seems that the series is reaching a plateau and has stabilized at 4,000 per day.

The Indian market has been resilient despite the serious pandemic crisis. Why?

About 20 states have imposed restrictions affecting 80% of the population. Despite this, Indian financial markets and assets have been able to avoid a correction, with equities remaining flat and the currency remaining strong against the USD. The reason is that the government has resisted calls for a total shutdown of the economy.

We remain constructive with the Indian market. Why?

Despite what investors see today, what is unseen seems more favorable: 1) Of course, the 12% GDP growth target set at the beginning of the year will not be achieved due to the restrictions applied in April. However, if the peak of the pandemic occurred in mid-May (as it seems), the favorable base effect would still persist for much of the year and growth of 10% could be achieved in fiscal year 2021-22. If the peak of the pandemic occurs later (June), the growth would be 8%. We are optimistic about the hypothesis of seeing the peak in May.

With India being the second highest country in absolute numbers of infections, and third for the number of deaths, it is surprising to see how the equity market is still trading very close to all-time highs. This is due to the fact that, despite the significant outflows of foreign investors (highest outflow seen since March 2020), this has been offset by domestic inflows into Indian assets (mainly from insurers and investment funds). It seems as if local investors were already looking to the post-pandemic period in India and the effects that all the steps (reforms) taken in recent months and years will have, which paint a more promising outlook for this country: Industrial, agricultural, financial sector, labor market and tax reforms.

Despite the fact that India may suffer a rating cut, the local debt market could handle it well, given that this market is mainly oriented towards the domestic investor. In the same way, the stable Rupee, thanks to the support of almost US$600bn of international reserves in the RBI, provides a great capacity to absorb external shocks

Naturally, problems persist in India

Migrant workers are returning to their homes in rural areas, without being tested, and are an important vehicle for transmitting the virus. There is no government coordination in this regard, and vaccination efforts are not yet yielding the expected results due to the slow pace. At the current rate, the country will only be able to vaccinate 40% of the population by the end of the year, leaving the country at the mercy of a new wave after the current one. That said, we have information that the number of vaccines could rebound remarkably from June (with the availability of the Russian Sputnik V vaccine).

QoQ data for the first quarter is going to be double digits (and the YoY benchmark is going to be good too), but April's restrictions will cause QoQ data for Q2 to drop precipitously in June. Some 7.5 million people lost their jobs in April, and the figure may reach 20 million in Q2. To compensate for this, the government is thinking of distributing sacks of grain for more than 800 million people, while the Reserve Bank of India (RBI) is reissuing the "Loan Relief" and "Liquidity Injections" programs, although some analysts believe this may not be enough.

Will this economy be able to regain structural growth? Or more importantly, will companies be able to regain record earnings? It should be remembered that last year, despite Covid, companies were able to show very good results because they were able to cut costs at a rate even higher than the fall in revenue. Today the ability to cut expenses is not the same, which hinders the ability to defend margins. The wage cuts, coupled with the loss of employment, means that the recovery in sales may be limited. This means that current valuations and the evolution of PE multiples may also see their path limited. Despite this, if the government persists in its reformist agenda, this issue around sales may be temporary, keeping India among those countries with the greatest potential of the emerging economies.

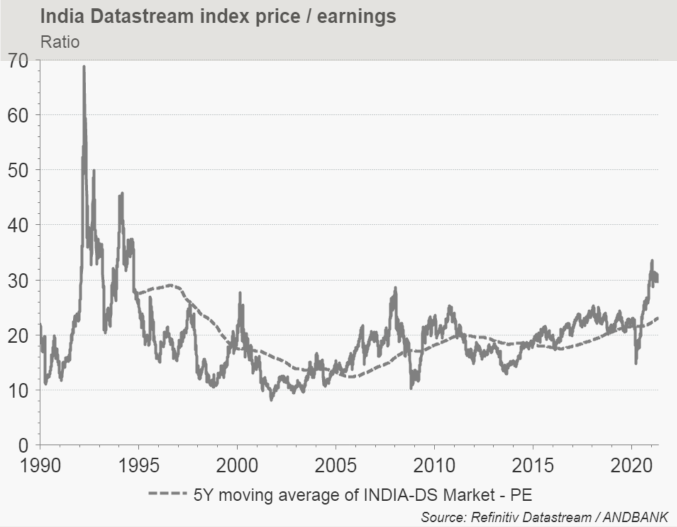
Financial market outlook

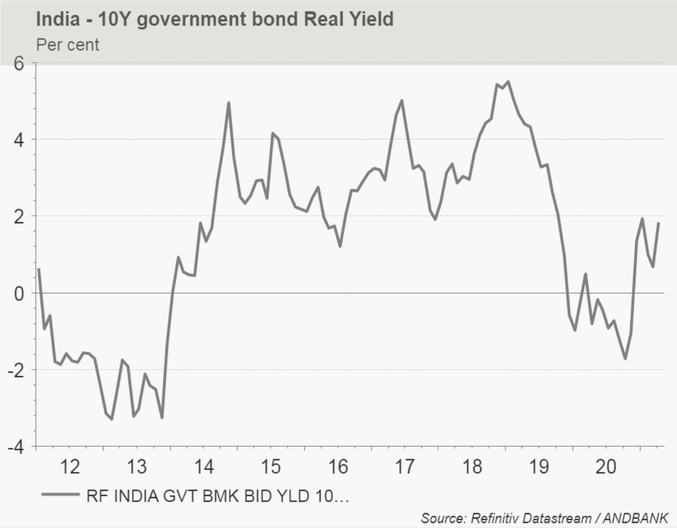
Equities – SENSEX: OVERWEIGHT

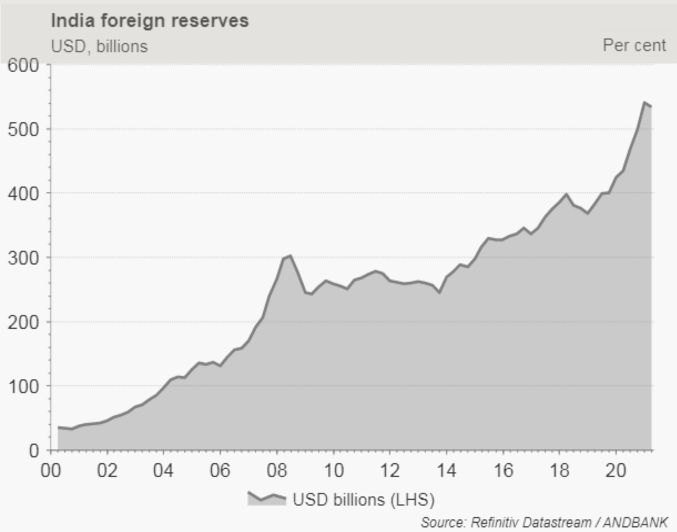
Bonds – Govies: OVERWEIGHT (Target yield 5.5%)

Bonds – Corporates: OW

Forex – INR/USD: MARKETWEIGHT (Target 74)







ISRAEL

Israeli stocks are attractively priced, though recent events cast a cloud over the market

GDP & INFLATION

CPI for April rose by 0.3%, lower than the expected of 0.5%, led by an increase in the prices for most of the "cyclical" goods due to the re-opening of the economy. The most notable rise was recorded in goods and services related to the real estate market. We expect prices to rise 1.4% in the next 12 months, making 2021 the first in the last seven years to record a rise in inflation.

Israel's unemployment rate for March was 10.9%, including unemployment unrelated to the pandemic (5.0%). The high rate of vaccination is encouraging the rapid pace of re-opening. We expect more people to rejoin the labor force from the beginning of June as the unemployment grants that were introduced early last year are expected to be eliminated soon.

As the economy opens up, Israel's trading balance is showing an improvement as exports increased by 6.99% MoM and imports were down 3.4%.

Israel's foreign exchange reserves at the end of April 2021 stood at $193,996 million, an increase of $8,316 million from their level at the end of the previous month due to a positive trade balance and the foreign currency purchase policy implemented by the central bank. Reserves represent an impressive 48.1% of GDP.

Equity Market

The Israeli stock market continued its positive trend, although at a slower pace, with the TA125 index rising by 0.8% in recent months. Financial results for the quarter published by the banks showed an impressive recovery from the Covid crisis. The above expectations results were the main driver of the performance of the sector, rising by over 5% for the month and 25% from the beginning of the year. The re-opening of the economy gave rise to a strong revival of the real estate market marking the sector out as the top performer of the market after rising by over 7% during the month. We expect the real estate sector (especially home builders) to perform well during the coming months due to strong demand for housing. The run of the technology sector followed its peers overseas, after declining by 7% during the month. Although we think Israeli stocks are attractively priced compared to most developed markets, recent events cast a cloud over the market. The escalation of the military situation with the Palestinian authority in Gaza might serve as a headwind for the market in the short term. In addition, internal riots that erupted in recent days (and thankfully stopped) might also prove to be a challenge to local investors. Furthermore, the political deadlock looks to be far from resolved, adding more uncertainty.

Bond market

The positive trend of the CPI-linked bonds (both government and corporate bonds) continued in April, supported by the rise in the price of commodities around the world and the decline in the unemployment rate in Israel and the US. However, for the first time this year, the consumer price index (CPI) for April was lower than expected (0.3% compared to 0.6%), which might tone down the gains of CPI-linked bonds. We still think that the major reasons for the rise in the inflation environment will not hold for the long term, especially in Israel, leading us to forecast a downward moderation of the yield curve. Nonetheless, the yield of the 10-year non-CPI-linked yield rose this month, unlike the trend in overseas bond markets, due to security tensions in Gaza, civilian riots and the lack of a verdict on the identity of the new government, which prolong the difficulties of passing a new budget in the Keneset-parliament.

The current credit spread on investment grade bonds is still tight and trading closely to the lowest spreads in Israel's corporate bond market history (both CPI-linked and non-CPI-linked bonds). We therefore think it's time to implement a very cautious policy in the corporate market.

The current credit spread in the CPI-linked TelBond60 index fell to 0.99% compared with 1.01% in late-April, 1.67% in mid-July and compared to pre-Covid19 crises spread levels of 1.2%-1.25%. The current credit spread in the non-CPI-linked TelBond Shikli50 decreased to 1.09% compared to 1.02% late-April, 1.71% in mid-July, and compared to pre- Covid19 spread levels of 1.3%-1.35%.

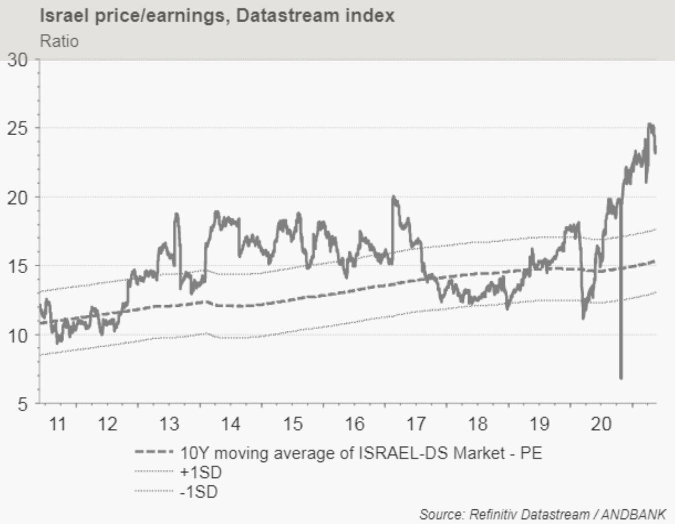
Financial market outlook

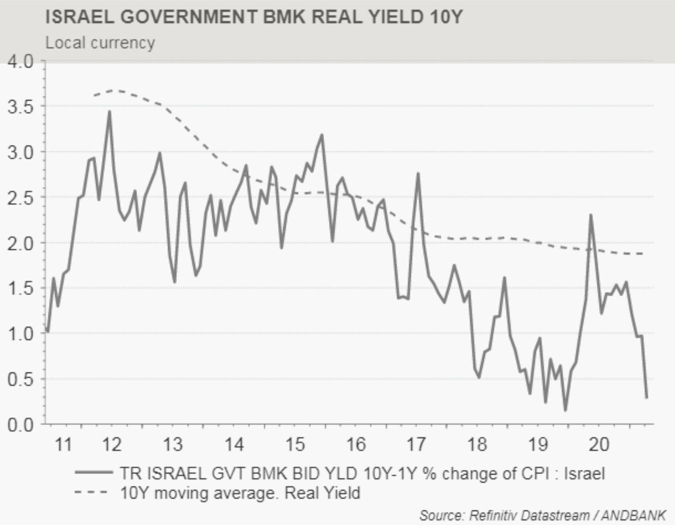
Equities – TLV35 Index: MARKETWEIGHT-OVERWEIGHT

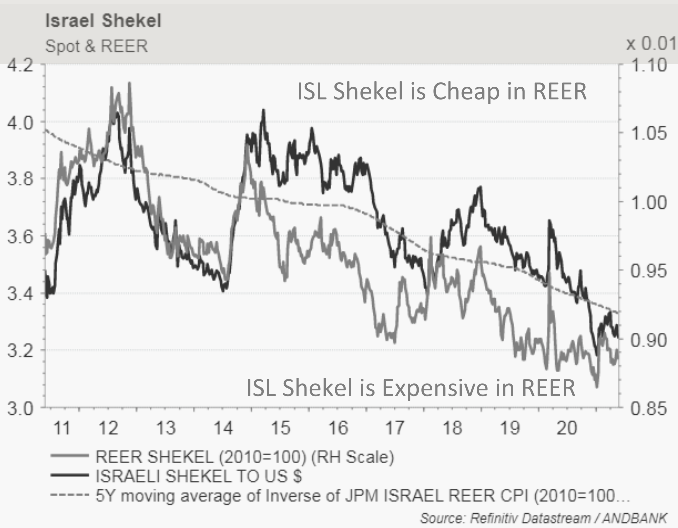
Bonds – Government–10Y Gov: MARKETWEIGHT-OW (Still positive real yield, though historically below long-term average)

Bonds – Corporates: MARKETWEIGHT (Cautious stance)

FX – ISL vs USD: Slightly expensive in REER







BRAZIL

Brazil has finally been able to control its second Covid wave

Politics: Feels like the election has begun

Two new important events have developed, both of which have the potential to weaken President Bolsonaro's re-election prospects.

First, Brazil's Senate launched a probe into President Jair Bolsonaro's handling of the Covid pandemic. A Parliamentary Inquiry Commission (CPI) has been established to interview the four health ministers that headed the Covid effort under Bolsonaro, and a number of yet-to-be-determined officials, to investigate if the president committed any wrongdoings during the period.

Bolsonaro is known for his stance against social distancing and mask usage and in favor of treatment medicines, such as hydroxychloroquine, relegating vaccination to second place until just very recently. Bolsonaro himself, whose age group has already been vaccinated, has not yet taken the vaccine in stark contrast to other world leaders that have taken their shots publicly to raise public awareness of the importance of getting vaccinated.

In yet another development, O Estadao de São Paulo, a major news publication in Brazil has uncovered a trail of hundreds of memorandums from Bolsonaro's supporter base in Congress and the Senate freely directing funds (BRL 3bn in total) to purchase farm equipment throughout Brazil. These memos are a breach of budgetary discipline, as constitutionally each congressman has a maximum R$8 million to disburse freely in any given year. Some of the people more closely related to Bolsonaro were given the opportunity to disburse hundreds of millions of Reais each. The opposition is already collecting signatures to start another Parliamentary Inquiry Commission (CPI) on this case.

Aside from the damage to Bolsonaro's image as an anti-corruption crusader just as the assessment of his government has slipped to 50% "Bad/Terrible", the consequence of two CPIs running at the same time means that any chance of discussing reforms or any other growth-inducing or debt-reducing policies becomes slim at best, at a time when the country is under scrutiny for its fiscal weakness.

Fiscal risk: More budget cuts still needed

Brazil has a long history of fiscal imbalance. However, it's important to say that over the past 20 years, there has been a lot of improvement, notably around the composition of government debt. Today, Brazil holds less than 5% of its total debt internationally, while its international reserves exceed US$350bn (20-25% of GDP, depending on FX). There has also been great improvement in the maturity schedule of domestic debt, with approximately 18% of the debt maturing in less than 12 months, compared with percentages higher than 30% as recently as 2006. It's important to put that in context when discussing Brazil's fiscal situation because the discussion is not about where we are today, but the future trajectory of the debt. Accordingly, there is a lot of concern that the situation might derail if the central government doesn't take it seriously.

Pandemic

Brazil has finally managed to control its second Covid wave. While numbers are still high, around 60,000 new cases and 2,300 deaths daily, they are far better than the peak of 100,000 new cases and 4,200 deaths that were recorded between the end of March and the beginning of April. Consequently, ICU usage also fell from over 90% usage during the peak period to around 82% now.

The second wave of the pandemic brought an increase in the number of states that established tighter restrictions on population movements, consequently bringing activity down for the period. The initial numbers for the period have been published. For example, the IBC-Br (Index of Economic Activity), a commonly used proxy for GDP, fell 1.59% for March after 10 months of continuous growth. Similar figures are expected for April.

With regards to vaccines, Brazil entered the vaccine buying queue a little later than others, and has therefore had difficulties in keeping its public health system stocks supplied. The lack of doses and other basic supplies has slowed down the vaccination campaign. As the chart shows, Brazil has reached a peak of 800,000 doses applied per day (30 day moving average). This rate would mean completing vaccinations for the population by February 2022. Brazil needs to increase its average to 1,000,000 doses to be able to vaccinate its entire adult population by end of year.

Any delay will most likely impact recovery, pushing improved economic prospects to the beginning of next year, which will be a presidential election year in Brazil and which normally brings additional market volatility.

Financial market outlook

Equities – iBovespa: MARKETWEIGHT-UNDERWEIGHT

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

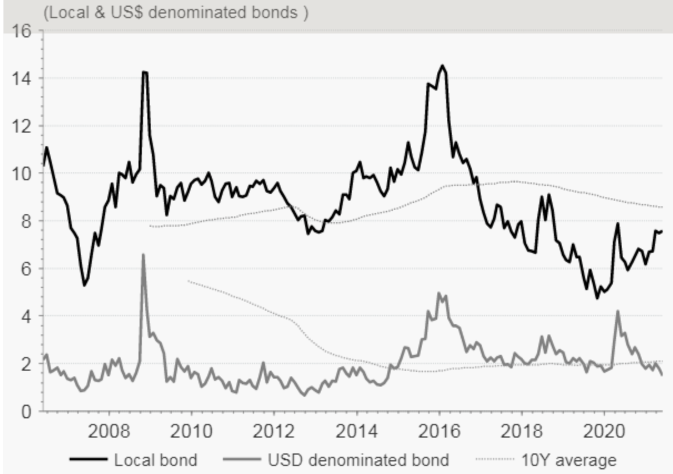
Bonds – Govies USD: MARKETWEIGHT-UW (Target yield 4.55%. Spread 275)

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

Brazil price/earnings, Datastream index
Ratio

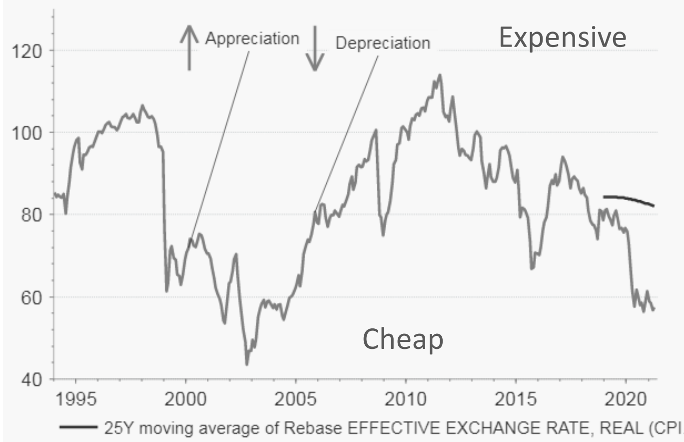
Source: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST
(Local & US$ denominated bonds)



Source: Refinitiv Datastream / ANDBANK

Brazil real broad effective exchange rate
Index, January 2010 = 100



Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

MEXICO

Quarterly financial reports have favorable bias. The economy shows visible improvement. Fiscal front helps

Economy & Covid

On the economic front, the data is beginning to show a visible improvement. So far the only good news has come from external indicators, but we are now beginning to see more dynamism in the domestic data. The improvement in pandemic data and the positive progress of the epidemiological traffic light scheme (only three states have an amber traffic light), has accelerated the reactivation of activity (including mass events). The vaccination process aimed at vulnerable people should be showing its first fruits in terms of an improvement in the number of serious cases. It was also a pleasant surprise to see how there been no new wave of infections after the Easter holidays. We hope that the improvement in infection data will continue as countries like the US release more vaccines. This should contribute to a permanent improvement in the Mexican economy as well.

Fiscal path – A calm situation. Low risk of a debt crisis

In public finances, as of March 2021 data, although the fall in tax revenues observed in the first two months of the year has slowed, income tax collection has accelerated and total revenues were also boosted by the rise in oil rent (higher prices). The rating agencies have been ratifying Mexico's rating and the threats of expected ratings cuts (by Moodys) have not materialized. The outlook is also stable. Good news then from this front.

Monetary conditions will remain stable for the time being. Chances of a year-end tightening are increasing, but it shouldn't be dramatic

Headline inflation was 6.08% YoY in April, 200bp above the top end of the central bank's long-term goal (3 +/- 1%). A persistent trend has been maintained in core inflation and this time the effect of higher agricultural prices was reinforced. Although the rise in energy prices softened during the period, gasoline has experienced a 30% rise in annual terms.

This situation leaves the central bank in a difficult position, so that if these inflation tensions persist it may be forced to raise interest rates (today at 4%) towards the third quarter.

Banxico unanimously decided at its last meeting to keep the rate at 4%. The negative view on inflation was reconfirmed for the effective horizon of the central bank's monetary policy. The only thing holding Banxico back from deciding to raise interest rates immediately is that the balance of risks for growth also continues to be negative.

The market is beginning to discount an increase of between 25 and 50bp by the end of the year through forward transactions. This would imply monetary tightening, although we understand that this would be very slight and would not have a highly negative impact on activity expectations.

Politics. Trends in voting intention appeal to the market

The polls continue to show a decrease in public support for Morena (the president's party), falling from 55% to 40% for the Chamber of Deputies. However, the participation of satellite parties around Morena that have gained ground in the polls, could help to maintain a qualified majority for Morena and like-minded people. State polls continue to show better results for the opposition, and as the vote for the governor tends to be aligned with local legislators, the qualified majority would weaken if the party loses the local congresses.

Equity market. Quarterly financial reports had a favorable bias

On the positive side, the global context continues to favor Mexican assets. There was even a greater inflow of foreign capital into the stock market recently. There are better growth prospects based on recovery in the US, and the political environment has improved in anticipation of the loss of Morena's qualified majority.

The quarterly financial reports also had a favorable bias, with a 5.2% increase in sales and an 18.9% rise in profits. The internal risk remains under control but has become dependent on the outcome of the election, which would avoid constitutional changes that generate investment uncertainty.

Twelve-month consensus target price is now fixed at 53,900 points, currently 49,380.

Financial market outlook

Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 6.80%. Spread 500bp)

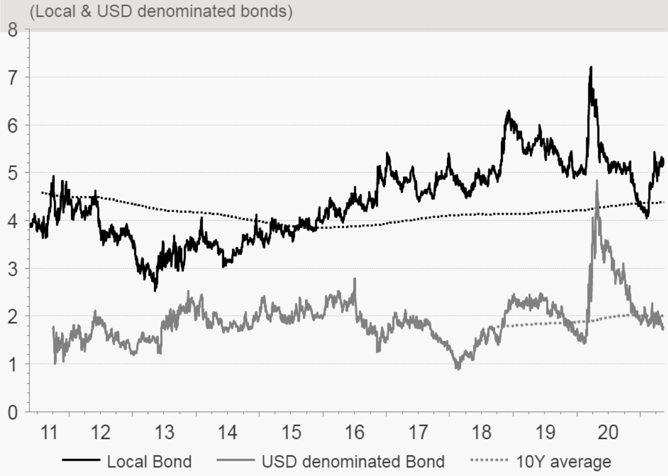
Bonds – Govies USD: UNDERWEIGHT (Target yield 3.55%. Spread 175bp)

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

Mexico equities price/earnings ratio
Datastream index

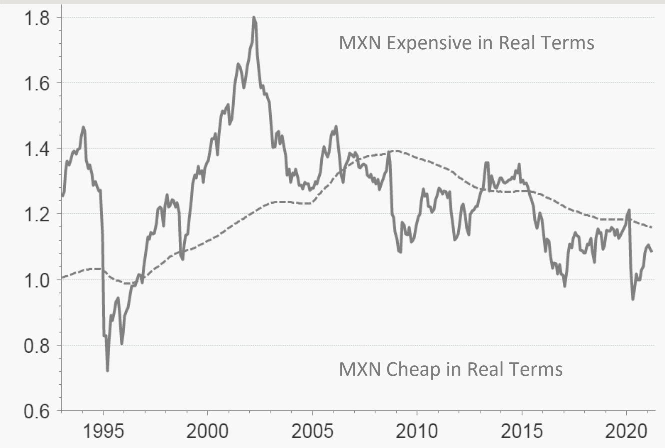
Source: Refinitiv Datastream / ANDBANK

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

European tour with positive balance

President Alberto Fernández has finished a European tour visiting Portugal, Spain, France and Italy, where he met the leaders of the respective countries. The main goal of these meetings was to gather support from these countries for Argentina's position in the negotiation with the Paris Club and the IMF. With the former it is looking to postpone payment after reaching an agreement with the IMF, while with the latter it is looking not only to achieve an Extended Facility program but also to reduce interest surcharges. According to Bloomberg, Paris Club creditors are willing to delay the US$2.4bn debt payment due this month if the nation meets certain conditions (could be a comfort letter from the IMF detailing negotiations and plans to agree on a new program).

After meeting European counterparts Fernandez extended his European tour to meet IMF Managing Director Kristalina Georgieva in Rome on Friday in a bid to drum up support for a delay and renegotiations with the IMF. After the meeting, Fernandez indicated he wanted to reach an agreement as quickly as possible, but without demanding greater efforts from the Argentine people. Meanwhile Georgieva stated that they are taking note of Argentina's request for a reform of the IMF's surcharges policy and that she will consult with the membership on this issue.

Our base case scenario continues to be that an IMF deal in 2021 is unlikely and that the government's willingness and ability to commit to an ambitious program that tackles Argentina's structural problems is very low, leaving limited room for a recovery in asset prices in the medium term (with the opposition performing better than expected).

With mid-term elections in November (after an agreement between the government and the opposition to hold them a month later) the Economy Minister, Martin Guzman, is under pressure from officials and congressmen, who report to the vice-president Cristina Fernandez, to expand social spending and suppress utilities tariff increases after May's adjustment (+9% in domestic electricity, the first hike since March 2019) making the minister's goal of maintaining subsidies constant in real terms unfeasible.

Province of Buenos Aires: waiting mode

The PBA extended the invitation of its April 2020 restructuring offer for the 16th time until May 21st, with bondholders denying that they requested the extension as PBA claimed in the statement. PBA Finance Minister, Pablo Lopez, announced that the Province was going to make a new offer on a date close to the previous expiration but this has yet to happen.

Price increases remain at high levels

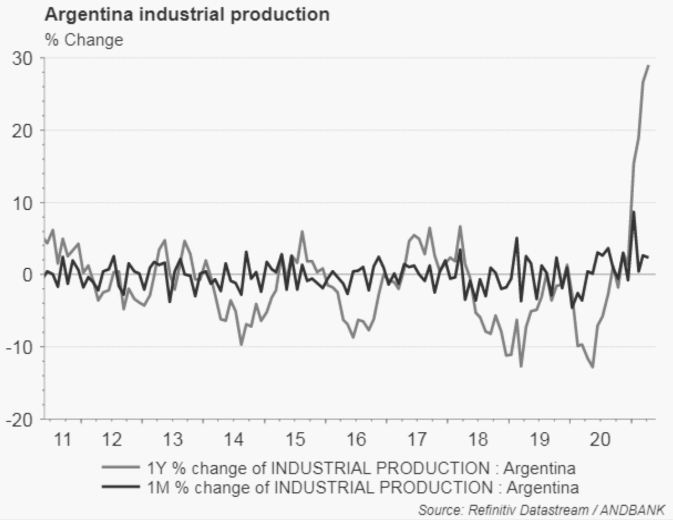
The increase in headline CPI accelerated more than economists expected in April (+4.1% MoM vs +3.8% BCRA REM Survey). Following April's figures, the CPI has accumulated 17.6% YTD (60% of the government's 29% target for the year) and 46.3% over the last 12 months.

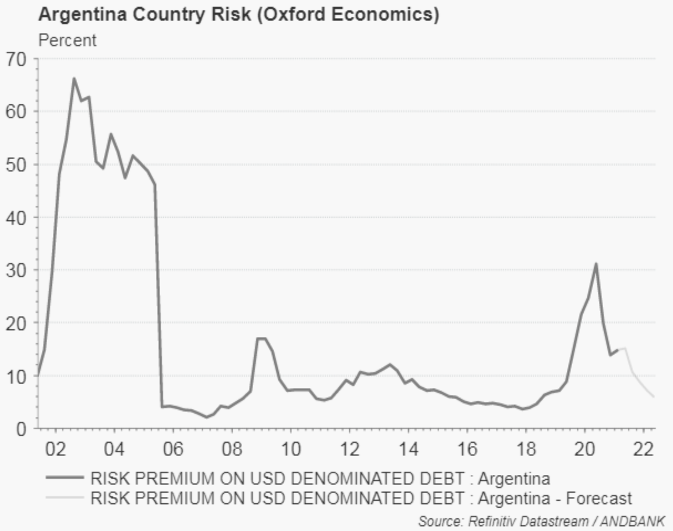
Core inflation accelerated to 4.6% MoM, from 4.5% in March, showing strong inertial inflationary forces once again.

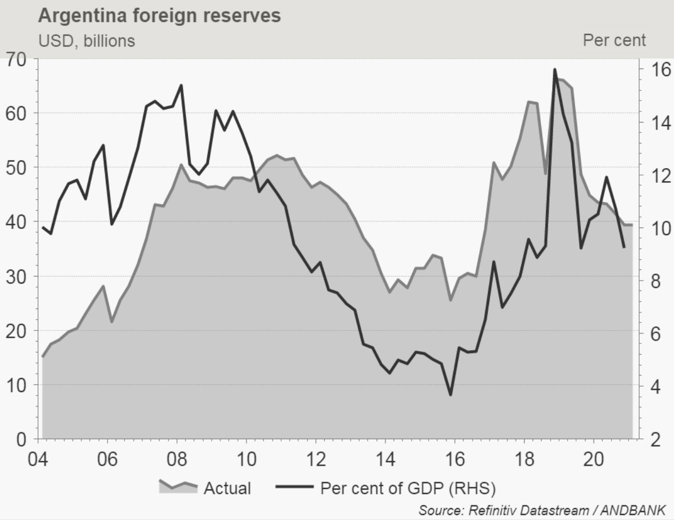
Seasonal prices decelerated as expected (+2.2% MoM vs +7.2% MoM in March) but were insufficient to offset core prices, while regulated prices fell by 3.5% MoM (vs +4.5% MoM in March). JP Morgan forecasts that repressed inflation today is 15% and could even go up to 30 percentage points by year-end in the absence of further tariff increases. The government is expected to reinforce price controls and further lower the depreciation rate of the official FX rate to curb short term price increases without tackling inflation drivers.

Financial market outlook

Bonds – 10YGov USD: NEUTRAL
FX – USDARS: NEGATIVE (2021 year-end target 140)







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%	30,23	23,34	22,00	4.202	4.043	-3,8%	MW	4.649	1,15	10,6%
Europe - Stoxx Europe 600	24,90	44,4%	26,14	18,10	18,00	451	462	2,5%	OW	531	1,15	17,9%
Euro Zone - Euro Stoxx	24,42	51,1%	27,95	18,50	18,00	452	458	1,4%	MW/OW	527	1,15	16,7%
Spain IBEX 35	490	115,9%	40,38	18,71	17,00	9.166	9.228	0,7%	MW/UW	10.612	1,15	15,8%
Mexico IPC GRAL	3.300	102,5%	31,13	15,37	16,00	50.722	53.907	6,3%	OW	61.993	1,15	22,2%
Brazil BOVESPA	6.250	206,7%	62,94	20,52	18,00	128.267	114.858	-10,5%	MW/UW	132.087	1,15	3,0%
Japan NIKKEI 225	1.285	25,4%	28,24	22,53	23,00	28.946	30.174	4,2%	MW/OW	33.192	1,10	14,7%
China SSE Comp.	258,70	16,8%	16,25	13,90	13,00	3.597	3.434	-4,5%	MW/UW	3.949	1,15	9,8%
China Shenzhen Comp	107,60	23,9%	27,64	22,31	22,00	2.401	2.417	0,7%	MW	2.779	1,15	15,8%
India SENSEX	2.500	55,0%	32,14	20,74	24,00	51.849	61.258	18,1%	OW	70.446	1,15	35,9%
Vietnam VN Index	76,50	27,8%	22,39	17,53	18,00	1.341	1.406	4,9%	OW	1.617	1,15	20,6%
MSCI EM ASIA	44,10	24,1%	21,38	17,23	16,00	760	735	-3,3%	MW	845	1,15	11,2%

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): Latest flow figures are negative. However, positioning and sentiment are now less stretched than before showing some normalization. We keep our UW (without stress).

Market Positioning (MW-OW bias): Positioning has normalized this month; the asset allocation in equities is reaching neutral levels in portfolios. The Put-Call ratio indicates a low hedging level of portfolios, yet higher month on month. Finally, the current level of skew reflects the fear of a violent downside movement (indicator has been stable).

Flow Analysis (UW bias): Elevated net outflows in US equities indicate a very negative momentum on inflation concerns. China, Japan and EU on the other side have benefited from small inflows potentially as part of a risk-off move from the US.

Surveys & Sentiment Analysis (UW bias): Sentiment from investors is still high yet lower than last month.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	@	Actual RSI	Actual CCI	Actual MACD-F	Actual SMA15	Actual SMA50	Actual SMA200	Last month RSI	Last month CCI	Last month MACD-F	Last month SMA15	Last month SMA50	Last month SMA200
INDICES	Euro Stoxx Index	444,69	68,96	100,09	0,530	427,99	387,61	376,35	71,33	160,57	2,150	416,96	377,94	375,05
	Euro Stoxx 600	442,53	67,63	102,40	0,620	426,75	390,82	381,67	70,69	160,82	2,049	417,39	382,74	380,52
	Ibex	9.145,60	70,19	167,90	49,700	8.530,94	7.750,69	8.927,81	61,73	110,50	19,900	8.317,20	7.578,96	8.960,71
	S&P	4.173,85	68,10	104,02	9,530	4.020,96	3.614,26	3.008,61	71,39	190,53	13,500	3.913,01	3.514,77	2.973,50
	Japón	27.824,83	48,92	-128,33	-375,780	29.294,34	25.831,75	22.753,27	65,86	76,98	-93,040	29.139,50	25.175,89	22.577,08
	China	2.320,33	54,08	6,14	-6,385	2.288,93	2.235,39	1.816,71	47,00	-8,76	-25,990	2.318,70	2.195,90	1.808,74
	India	48.732,55	58,37	-4,48	-478,000	49.692,19	43.496,24	37.877,30	57,48	-9,21	-432,390	49.584,30	42.120,99	37.531,51
	Brasil	121.880,82	60,69	88,32	-85,480	117.725,30	108.405,40	93.620,49	60,58	81,02	-511,490	117.360,67	105.286,46	92.462,50
	México	49.219,26	67,39	119,67	71,770	47.035,39	41.836,57	44.183,72	68,80	124,88	138,770	46.016,84	40.829,63	44.206,17
OTROS	Oil West Texas	65,01	69,00	97,43	-0,150	62,07	48,44	54,26	67,66	73,70	0,070	58,94	45,78	53,88
	Gold	1.842,19	57,42	87,20	11,881	1.768,10	1.839,65	1.485,49	45,27	-59,31	-6,970	1.778,44	1.833,32	1.474,09
	Treasury 10Y USA	1,6344%	67,41	55,55	-0,009	1,5384	1,0159	1,9605	69,37	81,00	0,033	1,4035	0,9401	1,9742
	Bund 10Y German	-0,1245%	71,45	139,11	0,020	1,1999	1,1851	1,1566	64,16	91,50	0,017	1,2011	1,1756	1,1552

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 Neutral) **– Global COVID trends continue to be the key driver of the crude market**. Lockdowns in parts of India extended until later this month, while Taiwan and Singapore have introduced new restrictions following a rise in cases. However, global demand has been supported by the US, Europe and China as mobility data continues to show increasing demand trends.

(Price Negative) **– Investors in global oil market see strong recovery in demand as imminent though headwinds persist:** Crude bulls are looking past the potential weakness in China and India and expect a broad demand recovery in the months ahead. While China looks set for another month of modest imports in May and India's imports have continued to be weighed down by its coronavirus wave, the global market sees both as temporary factors. The fact is that a pick-up in Asia's demand could be slower than other regions as China continues to work through the stockpile it built up last year, while Japan and South Korea have not yet rebounded to pre-pandemic levels. Higher global prices could also weigh on the demand rebound across Asia, as suggested by the growing gap between Brent and the physical crude price in Asia in recent weeks.

(Price Negative) **– DUCs fall to near three-year lows and the EIA raises US output forecast :** EIA Drilling Productivity Report for May increased total shale output production for June by ~26K (to 7.733M bpd), up from a 2.8K increase in May, and up from last month's forecast for a 13K gain to 7.6M bpd. EIA officials highlighted higher productivity per rig and a faster rebound as factors behind the revision. The biggest increase will be from the Permian, with output forecast to increase by 54K bpd to 4.59M, the highest since Mar-20. Producers completed 754 wells in April, while total drilled but uncompleted wells fell by 241 to 6.857, the lowest since Oct-18.

(Price Negative) **– Iran preparing to ramp up sales, but any additional supply may be gradual:** while Iran is preparing to increase oil sales, a deal could only lead to a gradual increase of crude into global markets. Officials said the country could return to pre-sanctions production of almost 4M bpd in as little as three months, though they noted that any agreement must fully dismantle the US barriers on trade, shipping and insurance involving Iranian entities (something difficult to happen imminently). While officials have said that an agreement is within reach, a deal may be hampered by rising tensions in the Persian Gulf between US and Iranian vessels, next month's elections in Iran, and a long lead time for the country to sign long-term agreements with refiners.

(Price Negative) **– India: Lockdowns continue to weigh on India's oil demand:** India's oil demand worsened in the first half of May amid the country's expanded lockdowns. Sales of road transport fuels in the first half of the month dropped by ~20% from April and held about 28% below 2019 levels. India's plunge in consumption is expected to weigh on sentiment and expectations for a global demand rebound, with the IEA last week lowering its 2021 demand forecast on India's COVID outbreak.

(Price Negative) **– Colonial Pipeline says now delivering products to all markets, though at half capacity.** Colonial Pipeline said it has made substantial progress in restarting its 5,500-mile pipeline system and is now delivering product to all its markets. Nevertheless, the system is running at less than half capacity, with the operator warning that some areas may experience interruptions during the restart process. President Biden made a statement reassuring drivers that fuel supplies should start returning to normal by this weekend (22nd May) as fuel shortages worsened in the southeast.

(Price Negative) **– Senator proposes federal assistance for states that undertake the energy transition :** Sen. Martin Heinrich (D-NM) yesterday introduced a bill aimed at providing financial assistance in the form of "energy transition payments" to states that otherwise rely on revenue from federal mineral leasing. The article notes that Heinrich's aim is to help states move away from their reliance on extractive industries and give them time to invest in new sectors as the economy moves away from fossil fuel dependence. The bill comes after the Biden administration paused federal oil and gas leasing on federal lands, which accounts for ~25% of domestic petroleum production.

(Price Positive) **– Pandemic oil glut is almost drained:** The excess crude inventories built up during the pandemic have been drained almost completely amid improving mobility. All said, the world's major forecasters have also sounded notes of caution about the global demand backdrop. Both the IEA and OPEC have said that Q2 demand is ~4M bpd below the same period in 2019. Both the IEA and EIA have cut their demand forecasts for 2021, with the IEA's recent cut of 270K bpd to YoY growth (more than wiping out upward revisions it made in the previous month's report).

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 cheap relative to palladium, though fairly valued relative to silver. The Gold/Silver ratio is at 67.99 and is right at its 20-year average of 66.29x, suggesting that gold is just slightly expensive 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$1,843/oz. Meanwhile, the Gold/Palladium ratio is at 0.60, well below its 20-year average of 1.84x, suggesting that gold is deeply 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 1.15768), 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$1,633. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,020. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,180.

Gold to oil: This ratio is at 28.29, still well above its 20-year average of 17.83x. 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$1,069 for this ratio to remain near its LT average.

CURRENCIES

EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.19 (Buy USD at 1.23, Sell USD at 1.16)
USD-JPY: Target 106.4; **EUR-JPY**: Target 126.6
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 6.00
RUB: NEUTRAL-POSITIVE
AUD: NEUTRAL
CAD: NEGATIVE

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	-17,05	-6,53	32,1	-35,3	-2,6	**-0,69**
USD vs G10	-16,98	-6,21	32,7	-35,6	-1,8	**-0,75**
EM	0,08	0,32	3,9	-1,0	1,3	**-0,82**
EUR	15,93	3,69	25,1	-8,6	10,9	**0,51**
JPY	-5,77	-0,19	6,1	-15,0	-6,5	**0,11**
GBP	2,71	0,17	4,3	-6,5	-0,7	**1,17**
CHF	-0,17	-0,07	2,0	-6,0	-1,8	**0,76**
BRL	0,11	0,59	0,7	-0,8	-0,2	**0,70**
MXN	-0,21	-0,24	3,3	-0,7	1,1	**-1,17**
RUB	0,18	-0,03	1,2	-0,3	0,3	**-0,45**
AUD	-0,06	0,05	6,1	-5,2	-0,2	**0,06**
CAD	3,72	2,45	6,1	-5,0	0,5	**1,18**

Positive
Neutral-Positive
Neutral-Negative
Negative

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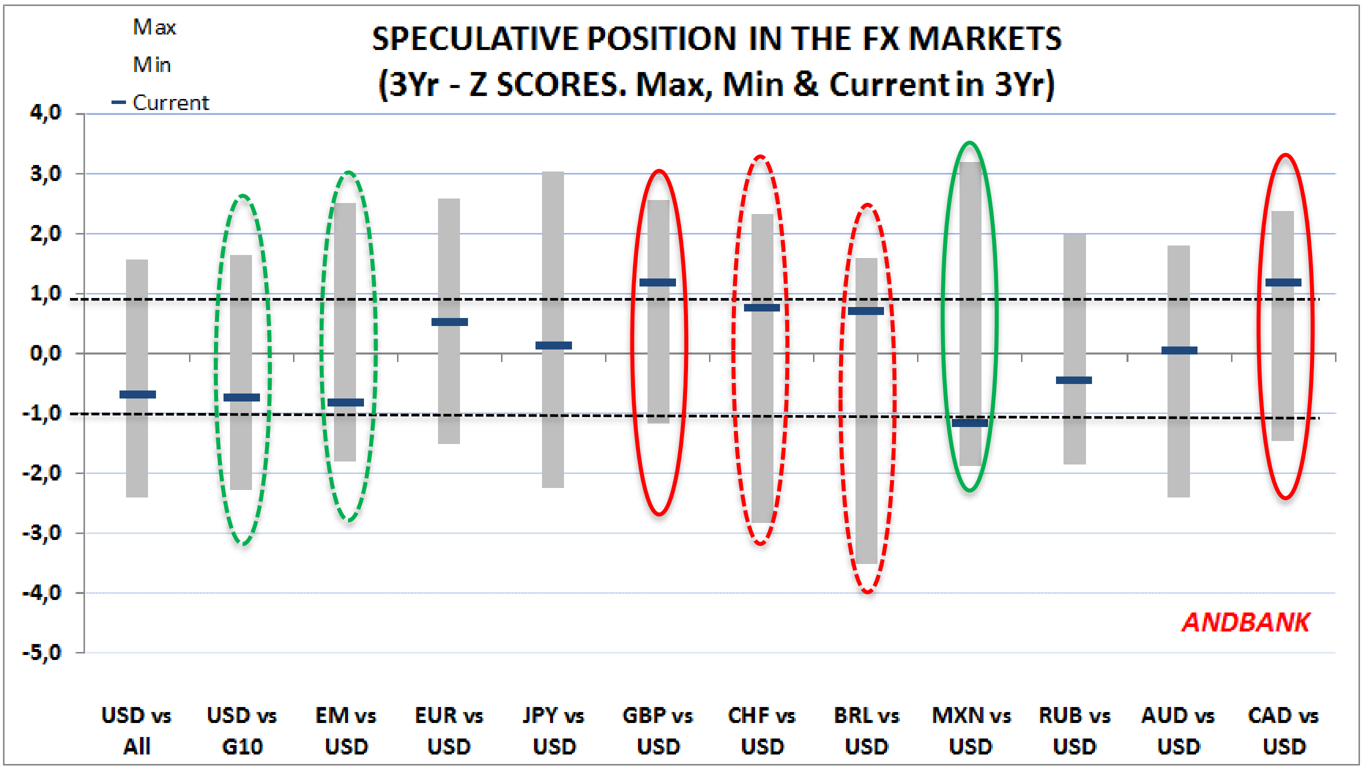

The currencies we technically favor are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance Last month*	*Performance YTD*	*Current Price*	*Fair Value*	**Expected Performance to Fair Value***
Equity	USA - S&P 500	0,2%	11,9%	4.202	4.043	-3,8%
	Europe - Stoxx Europe 600	2,5%	12,8%	451	462	2,5%
	Euro Zone - Euro Stoxx	2,0%	13,6%	452	458	1,4%
	SPAIN - IBEX 35	3,1%	13,8%	9.167	9.228	0,7%
	MEXICO - MXSE IPC	4,6%	15,1%	50.722	53.907	6,3%
	BRAZIL - BOVESPA	7,6%	7,8%	128.267	114.858	-10,5%
	JAPAN - NIKKEI 225	#N/A	5,5%	28.946	30.174	4,2%
	CHINA - SHANGHAI COMPOSITE	4,4%	3,6%	3.597	3.434	-4,5%
	CHINA - SHENZEN COMPOSITE	4,4%	3,1%	2.401	2.417	0,7%
	INDIA - SENSEX	6,4%	8,8%	51.849	61.258	18,1%
	VIETNAM - VN Index	8,2%	21,5%	1.341	1.406	4,9%
	MSCI EM ASIA (in USD)	3,0%	6,6%	760	735	-3,3%
Fixed Income Core countries	US Treasury 10 year Govie	0,1%	-5,1%	1,60	1,80	0,0%
	UK 10 year Gilt	0,3%	-4,9%	0,81	0,80	0,9%
	German 10 year BUND	-0,1%	-3,3%	-0,19	**0,25**	-3,7%
	Japanese 10 year Govie	0,1%	-0,5%	0,07	0,25	-1,3%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,0%	-3,3%	0,45	**0,85**	-2,7%
	Italy - 10yr Gov bond	-0,4%	-2,8%	0,89	**1,00**	0,0%
	Portugal - 10yr Gov bond	0,1%	-3,6%	0,44	**0,85**	-2,8%
	Ireland - 10yr Gov bond	-0,3%	-4,2%	0,18	**0,65**	-3,6%
	Greece - 10yr Gov bond	1,3%	-1,3%	0,81	**1,85**	-7,5%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,0%	-0,1%	51,40	55	-0,1%
	Credit EUR HY-Itraxx Xover	0,3%	0,7%	244,88	250	1,8%
	Credit USD IG - CDX IG	0,0%	0,0%	50,02	**63**	0,3%
	Credit USD HY - CDX HY	0,2%	1,2%	285,15	**299**	2,6%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-1,6%	-38,0%	17,92	16,00	33,3%
	Russia - 10yr Gov bond (local)	-0,3%	-8,0%	7,20	6,60	12,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	0,8%	-1,7%	6,37	5,50	13,3%
	India - 10yr Gov bond (local)	0,4%	1,5%	6,01	5,50	10,0%
	Philippines - 10yr Gov bond (local)	0,6%	-6,7%	3,96	5,00	-4,4%
	China - 10yr Gov bond (local)	0,9%	1,9%	3,08	2,20	10,1%
	Malaysia - 10yr Gov bond (local)	-0,4%	-3,2%	3,20	2,30	10,4%
	Thailand - 10yr Gov bond (local)	-0,8%	-4,5%	1,70	0,81	8,8%
	Singapore - 10yr Gov bond (local)	0,7%	-5,0%	1,49	1,50	1,4%
	Rep. Korea - 10yr G. bond (local)	-0,5%	-3,2%	2,11	1,90	3,8%
	Taiwan - 10yr Gov bond (local)	-0,2%	-0,9%	0,40	1,35	-7,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	3,2%	-8,0%	6,52	**6,80**	4,3%
	Mexico - 10yr Govie (USD)	1,3%	-3,0%	3,11	3,55	-0,4%
	Brazil - 10yr Govie (Loc)	1,7%	-14,5%	9,09	8,80	11,4%
	Brazil - 10yr Govie (USD)	1,9%	-3,0%	3,99	4,55	-0,5%
Commodities	Oil (WTI)	5,8%	40,7%	68,3	60,00	-12,1%
	GOLD	6,3%	0,5%	1.905,3	1.900	-0,3%
Fx	EURUSD (price of 1 EUR)	1,0%	-0,2%	1,219	1,19	-2,3%
	GBPUSD (price of 1 GBP)	1,8%	3,6%	1,42	1,41	-0,4%
	EURGBP (price of 1 EUR)	-0,8%	-3,7%	0,86	0,84	-2,0%
	USDCHF (price of 1 USD)	-1,1%	1,8%	0,90	0,89	-1,5%
	EURCHF (price of 1 EUR)	-0,1%	1,6%	1,10	1,06	-3,8%
	USDJPY (price of 1 USD)	0,6%	6,3%	109,71	106,40	-3,0%
	EURJPY (price of 1 EUR)	1,6%	6,0%	133,71	126,62	-5,3%
	USDMXN (price of 1 USD)	-0,9%	0,5%	19,98	21,00	5,1%
	EURMXN (price of 1 EUR)	0,1%	0,5%	24,35	24,99	2,6%
	USDBRL (price of 1 USD)	-5,1%	-0,6%	5,16	5,30	2,6%
	EURBRL (price of 1 EUR)	-4,1%	-0,8%	6,29	6,31	0,2%
	USDARS (price of 1 USD)	0,9%	12,4%	94,54	140	48,1%
	USDINR (price of 1 USD)	-1,1%	0,0%	73,01	74,00	1,4%
	CNY (price of 1 USD)	-1,4%	-2,2%	6,38	**6,00**	-6,0%

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

UPWARD REVISION DOWNWARD REVISION

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