ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review – July 2021

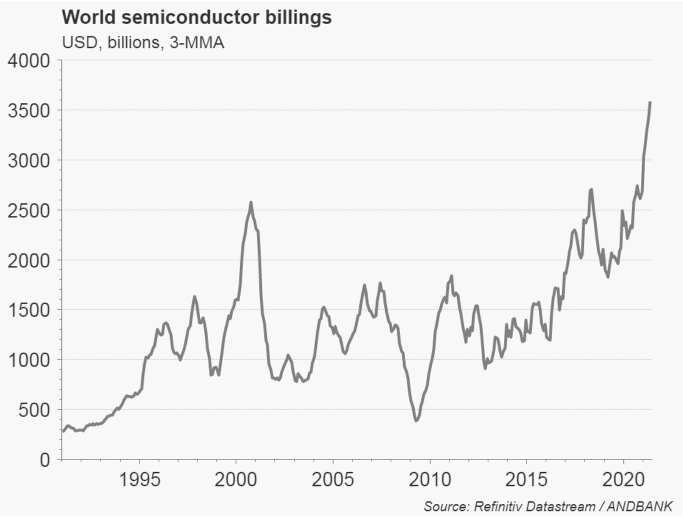
Corporate Review

July 2021

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

EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Recomm	Exit Point	Max. Risk Premium	E[Perf] to Exit point
USA S&P 500	4.320	4.386	1,5%	MW/OW	4.825	1,10	11,7%
Europe - Stoxx Europe 600	456	465	2,0%	MW	511	1,10	12,2%
Euro Zone - Euro Stoxx	454	462	1,6%	MW	508	1,10	11,8%
Spain IBEX 35	8.932	9.957	11,5%	MW/OW	10.953	1,10	22,6%
Mexico IPC GRAL	50.377	53.310	5,8%	OW	58.641	1,10	16,4%
Brazil BOVESPA	125.666	127.322	1,3%	UW	140.054	1,10	11,4%
Japan NIKKEI 225	28.707	29.321	2,1%	MW/OW	32.253	1,10	12,4%
China SSE Comp.	3.520	3.601	2,3%	MW	3.961	1,10	12,5%
China Shenzhen Comp	2.397	2.549	6,3%	MW/OW	2.804	1,10	17,0%
India SENSEX	52.344	57.195	9,3%	OW	62.914	1,10	20,2%
Vietnam VN Index	1.417	1.547	9,2%	OW	1.702	1,10	20,1%
MSCI EM ASIA	747	785	5,1%	MW	863	1,10	15,6%

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	1,46	1,80	-1,3%
	UK 10 year Gilt	0,72	0,80	0,0%
	German 10 year BUND	-0,21	0,25	-3,9%
	Japanese 10 year Govie	0,04	0,25	-1,7%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,39	0,85	-3,3%
	Italy - 10yr Gov bond	0,80	1,00	-0,8%
	Portugal - 10yr Gov bond	0,35	0,85	-3,6%
	Ireland - 10yr Gov bond	0,15	0,65	-3,9%
	Greece - 10yr Gov bond	0,82	1,85	-7,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	46,56	55	-0,3%
	Credit EUR HY-Itraxx Xover	230,50	250	1,2%
	Credit USD IG - CDX IG	47,80	63	0,2%
	Credit USD HY - CDX HY	273,57	287	2,5%

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)	16,81	17,00	15,3%
	Russia - 10yr Gov bond (local)	7,16	6,60	11,6%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,52	5,50	14,7%
	India - 10yr Gov bond (local)	6,04	5,50	10,4%
	Philippines - 10yr Gov bond (local)	3,99	4,75	-2,1%
	China - 10yr Gov bond (local)	3,08	2,60	6,9%
	Malaysia - 10yr Gov bond (local)	3,24	4,25	-4,8%
	Thailand - 10yr Gov bond (local)	1,55	2,50	-6,1%
	Singapore - 10yr Gov bond (local)	1,54	2,50	-6,2%
	Rep. Korea - 10yr G. bond (local)	2,00	2,90	-5,2%
	Taiwan - 10yr Gov bond (local)	0,39	1,35	-7,3%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	7,02	6,80	8,8%
	Mexico - 10yr Govie (USD)	3,09	3,55	-0,6%
	Brazil - 10yr Govie (Loc)	9,20	8,80	12,4%
	Brazil - 10yr Govie (USD)	4,04	4,55	0,0%

COMMODITIES & FX

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Commodities	Oil (WTI)	75,1	60,00	-20,1%
	GOLD	1.774,8	1.900	7,1%
Fx	EURUSD (price of 1 EUR)	1,183	1,19	0,6%
	GBPUSD (price of 1 GBP)	1,37	1,41	2,6%
	EURGBP (price of 1 EUR)	0,86	0,84	-2,0%
	USDCHF (price of 1 USD)	0,93	0,89	-4,3%
	EURCHF (price of 1 EUR)	1,10	1,06	-3,7%
	USDJPY (price of 1 USD)	111,62	108,00	-3,2%
	EURJPY (price of 1 EUR)	132,02	128,52	-2,7%
	USDMXN (price of 1 USD)	20,02	21,00	4,9%
	EURMXN (price of 1 EUR)	23,68	24,99	5,5%
	USDBRL (price of 1 USD)	5,05	5,30	5,0%
	EURBRL (price of 1 EUR)	5,97	6,31	5,6%
	USDARS (price of 1 USD)	95,76	140,00	46,2%
	USDINR (price of 1 USD)	74,86	74,00	-1,1%
	CNY (price of 1 USD)	6,48	6,25	-3,6%

USA

Yield curve flattens after more hawkish Fed forecast. Backdrop for equities remains positive

Pandemic. Progressing but full vaccination goals delayed

The fully vaccinated population now stands at 45.4%, while the share of population with at least one dose now stands at 53.6% (both +7% vs. last month). 77.3% of the population aged 65 and older is fully vaccinated, which has led to a decrease in hospitalizations and mortality rates.

Fiscal policy

Biden administration's infrastructure plan met with resistance in the Senate. The administration asked for an infrastructure plan worth around USD 2 trillion, but the Senate approved only traditional infrastructure spending, neglecting non-traditional infrastructure (EVs, renewable energies and broadband), which it viewed as unnecessary. A bipartisan infrastructure plan costing around USD 1 trillion has been gaining support. The biggest hurdle in achieving a bipartisan broad infrastructure bill is the financing behind it, with the Republicans opposed to increasing the corporate tax rate (from 21% to 28%) and Biden, to indexing gas tax to inflation.

Inflation. Headline still high but expectations start to give

Another high CPI print in May (+0.6% MoM, +5% YoY), driven by used cars and trucks (+7.3% MoM), which accounted for about a third of the MoM increase, and by Covid-sensitive sectors (airfares +7.0% MoM, parking fees +1.3% MoM, apparel +1.2% MoM). Remainder of core (ex covid-affected sectors) increasing 0.35% MoM (rents 0.24% MoM), showing signs of underlying strength. Average hourly earnings were up 1.9% YoY (leisure and hospitality +3.7% YoY), with business complaining about labor shortages. State governments' answer to this has been to start removing unemployment benefits and the federal government has said it will end federal stimulus between Q3 and Q4 of 2021. This measure is taken to further incentivize the work-eligible population to go back to work.

The Fed

Stayed on course on policy, keeping rates unchanged and asset purchases at USD120 billion per month. The statement was largely unchanged from April, keeping the language on inflation as being driven largely by "transitory factors" but now acknowledging that it was no longer running "persistently below" the FOMC's 2% longer-run goal (phrase now in past tense). The 'dot plot' was center stage, catching us by surprise by the scale of the shift, moving the median dot to two rate hikes by the end of 2023 (from previous zero). Powell stated that the June meeting could be seen as the "talking-about-talking-about" regarding tapering but reiterated that economic progress is still a "ways off" and that advance notice would be given to ensure it is "orderly, methodical, and transparent."

Fixed income market and the yield curve

Bond prices reacted strongly to the Fed announcement. By the end of the week, however, the yield curve flattened significantly, with longer yields falling sharply back to 1.44% (driven by a 10.1 decline in inflation expectations). On the other hand, 5yr yields finished the week 13.6 bps higher at 0.87%. Overall that left the 5yr-30yr yield curve at late-September levels, after the largest one-week flattening (−26.1 bps) in nearly ten years. We remain underweight duration, with our year-end target at 2.00%.

Credit and High yield bond spreads reached our YE forecast as they rallied with almost all risky asset classes, thanks to the fiscal, monetary and vaccine stimulus. All three stimuli remain in place, supportive of further spread tightening. However, all three will be less strong in 2H21 than in 1H21, and valuation is tighter now than it was at the beginning of the year. We believe we are likely to enter a range-bound period for a while, and we keep our YE spread forecast unchanged.

Equity market

YTD the S&P500 already accumulates +13.27% and Nasdaq +10.09%. The current S&P 500 level is 4,225 points. In May S&P500 Value grew +2.41%, while SP&500 Growth decreased −0.89%. We keep our neutral position about sectors and move our exit point to 4,812 points.

Financial market assessment

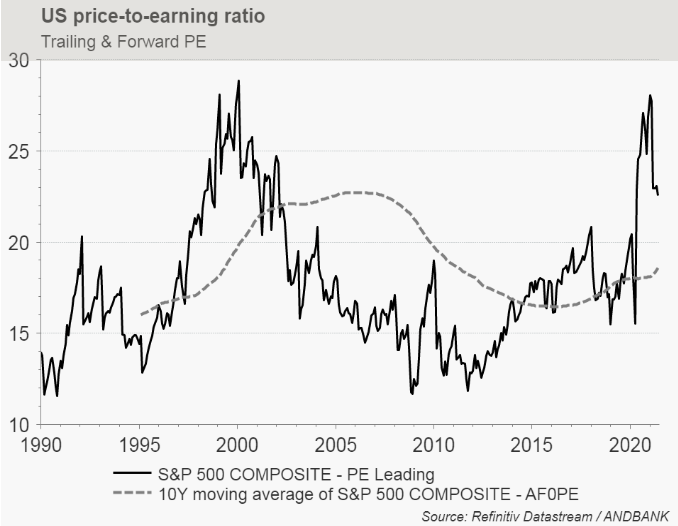
Equities – S&P: MW-OVERWEIGHT

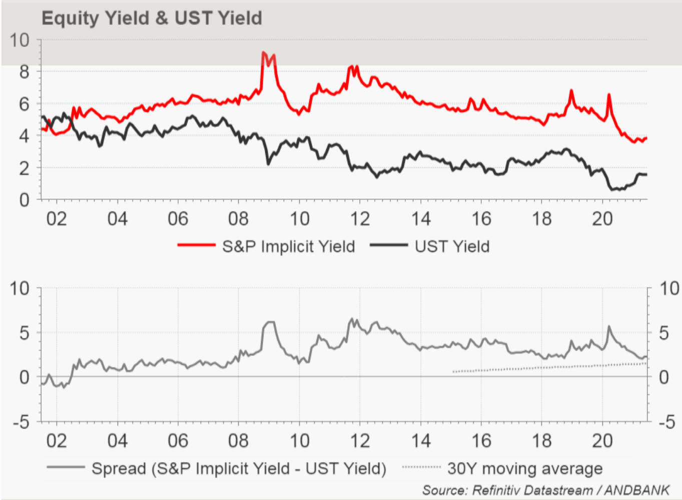
Bonds – Govies: UNDERWEIGHT (10Y UST. Target 1.80%)

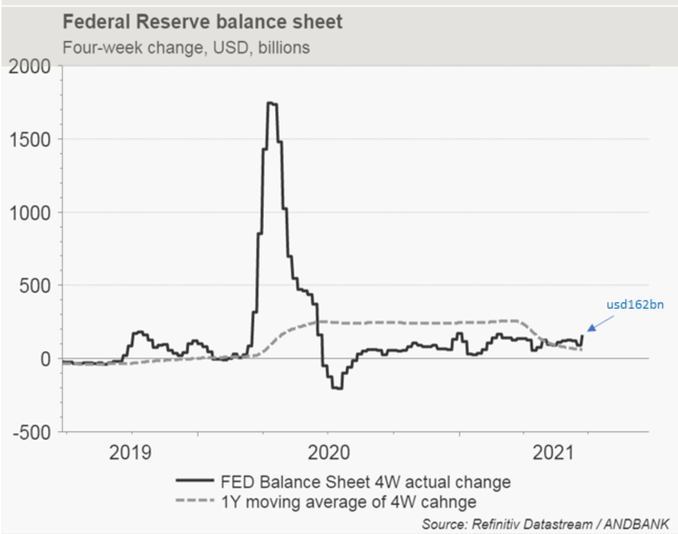
CDX IG: MW-UNDERWEIGHT (Target Spread 115)

CDX HY: MW-OVERWEIGHT (Target Spread 330)

Forex – DXY index: MARKETWEIGHT







EUROPE

ECB still supportive. Economy recovering fast, inflation rising but within target

Europe "filling the gap" in terms of vaccination

COVID cases falling across Europe (ex-UK where the Delta variant is spreading), as quick rollout of the vaccination now happening (57.4% of adults with at least one dose). Positive for tourism as summer season kicks off, with US citizens (even those not vaccinated) allowed to come. Some "clouds" coming from the appearance of the Delta variant (dominant in Portugal, with clusters across Germany, France and Spain), which has caused a delay in the UK reopening.

From the macro side, surveys remain supportive, with remarkable and logical improvements on the services front (June PMI 58 vs. 55.2 in May). As for inflation (+2% YoY), data on prices continues to surprise on the upside, at levels significantly behind those in the US, and with no inflation pressures from the labor side in sight. NGEU (pandemic recovery package) funding has finally started and the news flow in the coming months will be positive as resources spread among EU members (13% first tranche disbursement in 2021). On the external side, Biden's visit to Europe was a sign that US diplomacy is back, moving closer in a more coordinated way relatively to China.

In Germany (Chancellor elections in September), latest polls show an improvement in voting intention for CDU/CSU, after a sharp fall, pulling ahead of the Greens. Moreover, a recent state election (37% for CDU, +7% from previous election) confirmed what could have been an overreaction of the polls following the appointment of the CDU leader and the slow vaccination roll-out. The main current options would be various coalitions of center-right and center-left parties. What really matters in terms of policies (e.g. German fiscal position) is the relative weight of center-left and center-right parties in any new coalition after September's election.

ECB: see you in September!

June's meeting met expectations of an upward revision in the macro estimates and a continuation of the current rate of bond purchases (80 billion monthly) till September. Further growth for 2021-2022 and higher prices are now forecasted. Though tapering talk was discarded as "premature and unnecessary" by Lagarde, the discussion was not unanimous. More hawkish voices are emerging (Germany, Netherlands, Austria), highlighting the inflation risks. September, with new macro projections, the NGEU fully operational and herd immunity, could open the door to a reduction in the monthly purchases. It would also be time for the ECB's Strategic Review, where progress seems to have been made: some sources say there has been convergence towards the symmetrical 2% inflation target. Though some progress was made (the long-running Airbus/Boeing dispute was settled), areas of disagreement remain (e.g. European steel).

Bond market: Govies & Corporates

Govies: Fixed income markets had "bought" the continuing ECB support, with yields coming down and more volatility after the FED's more hawkish stance at the last Committee. Spillover effects, correlation with the treasury should drive European yields higher during the year. We stick to our previous target levels.

Corporates: No significant changes, with spreads continuing to narrow. ECB officials said it is premature to talk about phasing out the PEPP (pandemic emergency purchase program). Our view is that that any increase in spreads will be limited, as spreads will continue to be supported by the ECB, with PEPP purchase reductions offset by the Corporate sector purchase program (€5 billion monthly maximum). We remain Neutral for IG and HY credit, with a prefence for the latter (we like BBs and subordinated debt).

Equity market

EPS momentum is likely peaking, but that should not be a surprise, given that it was near all-time highs. This should not be interpreted as a negative for stocks, as activity is expected to remain strong for the foreseeable future. While many are concerned about a potential margin squeeze, we maintain that the profit margin outlook will likely stay healthy. Regarding sectors, the current interest rate scenario is still positive for cyclicals, but we expect defensive stock to come back after the summer.

Financial market assessment

Equities – Stoxx Europe: MARKETWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT

Equities – Spain's Ibex: MARKETWEIGHT-OVERWEIGHT

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

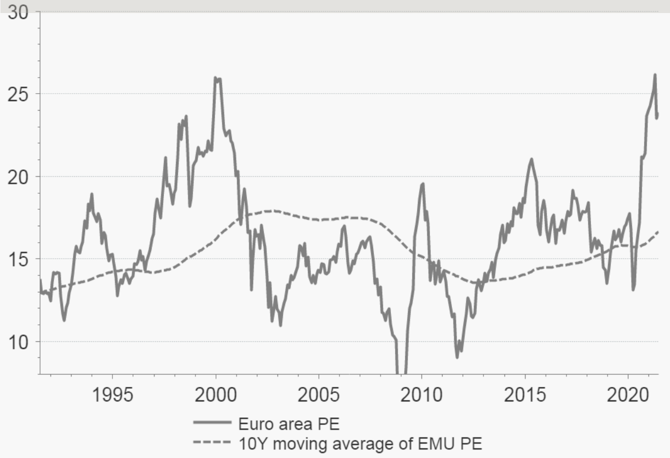
Peripheral – OW IT (1%). MW: SP (0.85%), PO (0.85%), IE (0.65%), GR (1.85%).

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 & EU price-to-earnings
Ratio - LTM

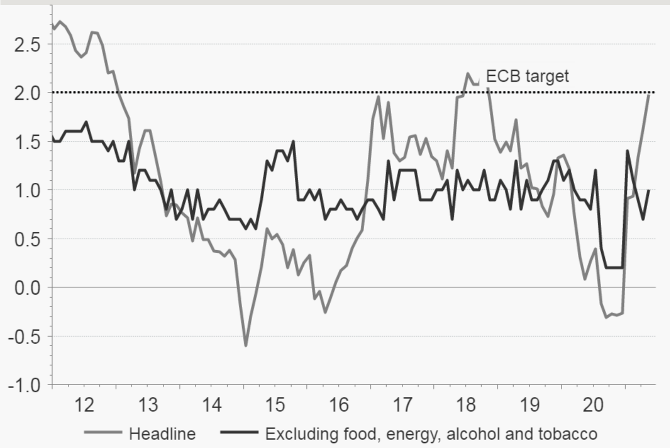


Source: Refinitiv Datastream / ANDBANK

Euro STOXX banks Index

Source: Refinitiv Datastream / ANDBANK

Euro area inflation
Twelve-month percentage changes



Source: Refinitiv Datastream / ANDBANK

CHINA

Belligerent attitude of China towards the ROW, and warmongering position towards Taiwan, will not do anything good for Chinese financial assets.

PBOC: Monetary stance

1-year loan prime rate unchanged at 3.85% (consensus was 3.85%). The 5-year LPR was also unchanged at 4.65% (in line with consensus).

Covid: China crosses 1Bn Covid vaccine doses administered

China Daily said the country has administered more than 1Bn Covid shots as of Saturday, after 20M were given in a single day. Beijing estimated around 80% of the population will need to be inoculated to achieve herd immunity, with this now in sight by the end of the year. 72.3 total doses per 100 residents have now been given in China, according to FTVaccineTracker, still well behind Israel, UK and US.

The manufacturing hub city of Dongguan has launched a mass testing programme after finding its first two 'delta' variant infections. Residents were also told not to leave the city. The greater Guangdong region has now reported 168 infections since 21-May with 90% in its capital Guangzhou

Geopolitics. China-West relations

US-China: "China risks isolation in search for Covid origin," says White House. Comments from the US National Security Advisor, Jake Sullivan, said China risks international isolation if it fails to allow a "real" investigation, on its territory, into the origins of Covid. However, he added the US is not at the point of issuing threats or ultimatums, but if China does not live up to its obligations, the US will have to consider its responses. US regulator (FCC) is proposing a ban on products from Huawei and other Chinese electronics companies, including Hikvision. Products include surveillance cameras used by US schools but linked to human rights abuses in western China. The FCC order would ban US sales of specified equipment from companies and could force schools and other US customers to replace their camera systems. The order kicks off a period of review before a final vote is taken.

Taiwan to withdraw staff from its Hong Kong office: Taipei began withdrawing staff from its Hong Kong office on Sunday after Beijing officials demanded staff sign a document supporting Beijing's claim to Taiwan. The Taiwan government said only local staff would remain in the office after Beijing "repeatedly set unreasonable political conditions" for staff visas in Hong Kong. Taiwanese staff will not sign any such "one China" letter, it added. Some US lawmakers plan pro-Taiwan legislation in swipe against China. A group of bipartisan US lawmakers will introduce legislation this month that seeks to boost US ties with Taiwan. The new bill does not advocate a pivotal switch from the long-standing "strategic ambiguity", rather, calls on the White House to enhance deterrence against a cross-Strait conflict and stress cooperation with allies.

Beijing's grip on Hong Kong continues to tighten: Hong Kong leader Carrie Lam said on Sunday that "Hong Kong was looking to strengthen its position as a global financial hub by greater integration with China". She also said that Beijing had helped to restore stability in the city and that contributing to China's financial reform and opening would inject fresh vigor into Hong Kong's economy. Additionally, an advisor to the jailed owner of the pro-democracy newspaper Apple Daily, Jimmy Lai, said the newspaper will be forced to close in a matter of days after the authorities froze the company's assets under the recently introduced national security law. Next Digital (~282.HK~), which owns the newspaper, would decide Monday on the next move forward after its lines of credit were frozen. The move comes just days after police raided the newspaper's offices and arrested several executives.

China-Australia: The Australian government said on Saturday it was lodging a formal complaint with the WTO over China's imposition of anti-dumping duties on Australian wine imports. China responded to Canberra's banning Huawei from participating in 5G networks in Australia and call for an international investigation into the origins of Covid by imposing tariffs that doubled or tripled the price of Australian wine in China, making the market unviable for exporters.

Ministry of Commerce looks for additional tools to cool commodity markets

China will further release its state reserves of copper, aluminum and zinc to stabilize prices and ease cost pressure. NDRC spokesperson said that "recent measures to increase market supervision and alleviate production bottlenecks have begun to cool speculative activity in commodity markets."

Financial market outlook

Equities – SHANGHAI Idx: MARKETWEIGHT-UNDERWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.60%)

NEW! Forex – CNY/USD: MW (Target 6.25)

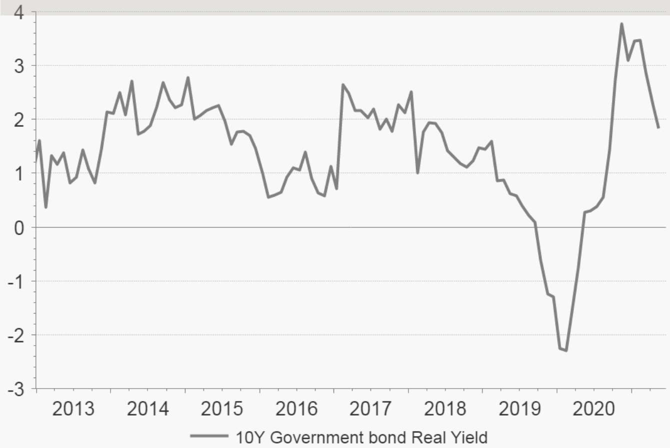
CHINA SSE & Shenxhen Index - PE Ratio

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

Japan is to reach its goal of 1M vaccine shots per day. Risk appetite of domestic investors is back

Reforms: Japan aims to double foreign executives to spark investment

The government aims to roughly double the number of foreign senior executives in the country by 2030. The number of foreigners working in Japan under a business manager visa will be raised to about 200,000 from around 95,000 in 2019. By bringing in more foreigners with managerial and technical know-how, Japan also seeks to double foreign direct investment to ¥80T ($726B) by 2030.

Macro: Japan manufacturers remained optimistic in June

The Reuters Tankan manufacturers' sentiment index rose to 22 in June from 21 the previous month. Transportation equipment and metal products saw the biggest improvement, while materials sectors were generally flat to softer. Non-manufacturing index fell to 0 in June from 2 the prior month. Retailers saw sharp deterioration, followed by transport/utility and other services. But strong expectations of a rebound in these sectors led the outlook index to 10 in September. May overall CPI (0.1%) y/y vs consensus (0.2%) and (0.4%) in prior month. But CPI excl. fresh food & energy (0.2%) y/y vs consensus (0.3%) and (0.2%) in prior month.

Covid: Japan corporates step in to fill vaccine gaps

Bloomberg highlighted how the government is enlisting the help of major employers to accelerate its coronavirus vaccine rollout. Toyota, SoftBank and Nomura are among those allowed to administer vaccine shots to their own employees within office premises from Monday. The effort is expected to cover about 10% of Japan's 126M residents. Japan's vaccine rollout has accelerated since May and the addition of workplace vaccinations is expected to help Japan reach its goal of 1M shots per day by the end of June. The government decided to lift the state of emergency in nine prefectures, though seven areas, including Tokyo and Osaka, will remain under a quasi-emergency state through 11-Jul. Prime Minister Yoshihide Suga said the government will take a flexible approach, strengthening countermeasures if infections increase or there are signs of a potential collapse of medical systems.

Diplomacy & ESG

Tokyo vows at G7 to cut off overseas coal financing this year. Japan, Australia and Germany also agreed on a new technological partnership toward the goal of achieving net zero carbon emissions by 2050. This includes lower emissions LNG production, clean hydrogen, and carbon capture technology and storage (*The Guardian*). While Japan reaffirmed its commitment to net zero by 2050, Australia reaffirmed its commitment only to achieving net zero as soon as possible, preferably by 2050.

Monetary Policy: BOJ leaves key policy rates unchanged

According to the policy statement, board members voted 8-0, with 1 abstention, to extend the duration of the special coronavirus financing support program by six months to the end of March 22. Vote was 7-1 to keep short and long-term target rates unchanged. In a new development, they discussed the growing importance of climate change issues and signaled the BOJ will introduce a new funding measure to facilitate corporate sector efforts in this area. Launch will likely be this year, replacing the existing program to support foundations for economic growth.

International transactions from domestic investors. Risk appetite is back

For the week ended 12-Jun, domestic investors continued being net buyers in foreign equities (with net purchases of ¥105.3B) and net buyers of ¥411B in foreign long-term debt (vs net buyers of ¥600.2B in the same week last month).

Corporate

Hitachi plans to invest ¥300B ($2.7B) in R&D in the medical and health care sector and search for M&A opportunities. Hitachi will concentrate investment in fields where data analysis technologies can be utilized, such as in the risk assessment of contracting particular diseases and the development of regenerative medicines.

Honda Motor will stop production of the Clarity fuel cell car this year as part of a broader push to trim underperforming models. Honda has also decided to stop making the Legend, as well as the Odyssey luxury sport utility vehicle. The company will focus on electrics to advance toward its goal of selling only zero-emissions vehicles by 2040.

Mizuho Financial Group said its President and Group CEO Tatsufumi Sakai and 10 other executives will take pay cuts over a series of system failures that hit Mizuho Bank earlier this year, including many of its automated teller machines. Satoshi Ishii, deputy president of Mizuho Bank and head of the financial group's information technology and systems, will have his remuneration cut by 40% for four months. The other eight executives will take pay cuts of 10 to 20% for four months

Financial market outlook

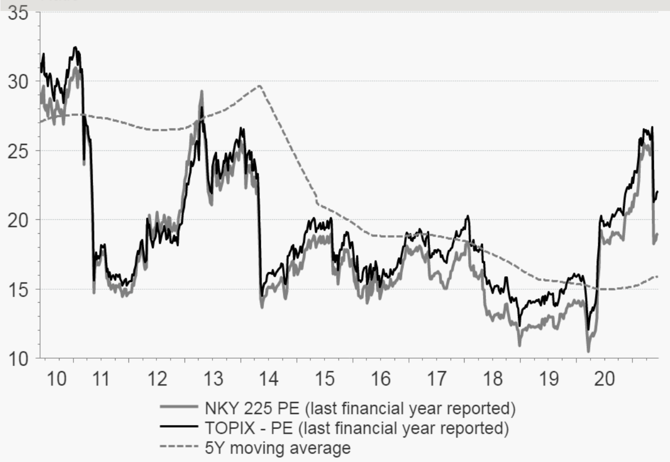
Equities – N225: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: OVERUNDERWEIGHT (Target yield 0.25%)

Forex – USD-JPY: MARKETWEIGHT-OW (Mid-term target 108)

Japan Nikkei 225 price / earnings

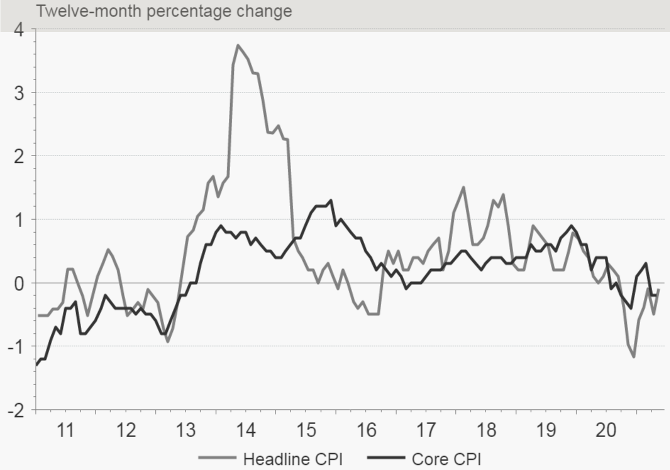
Ratio



Source: Refinitiv Datastream / ANDBANK

Japan CPI

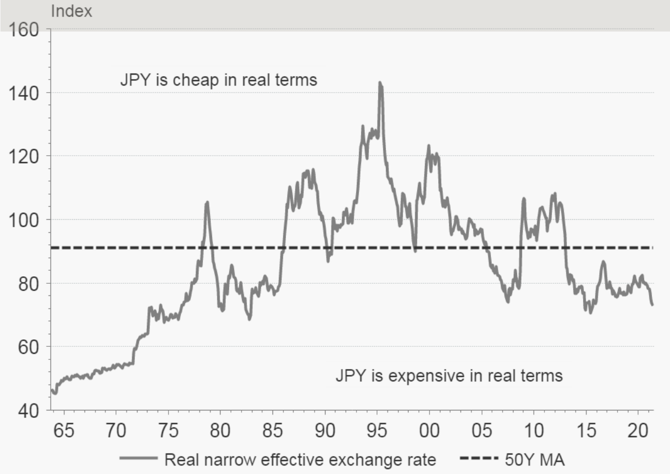
Twelve-month percentage change



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 ranking second in absolute numbers of infections and third in number of deaths, it is surprising to see how the equity market is still trading very close to all-time highs. This is because the significant outflow of foreign investors (highest outflow seen since March 2020) 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 foreseeable effects of all the steps taken in recent months and years (industrial, agricultural, financial sector, labor market and tax reforms), which paint a more promising outlook for this country.

Despite the fact that India may suffer a rating cut, the local debt market could handle it well, as it is mainly oriented towards the domestic investor. Moreover, 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 the emerging economies with the greatest potential.

Financial market outlook

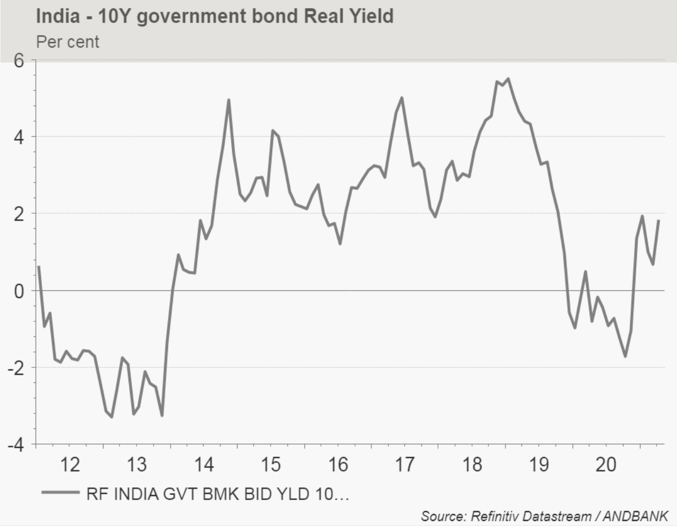
Equities – SENSEX: OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 5.5%)

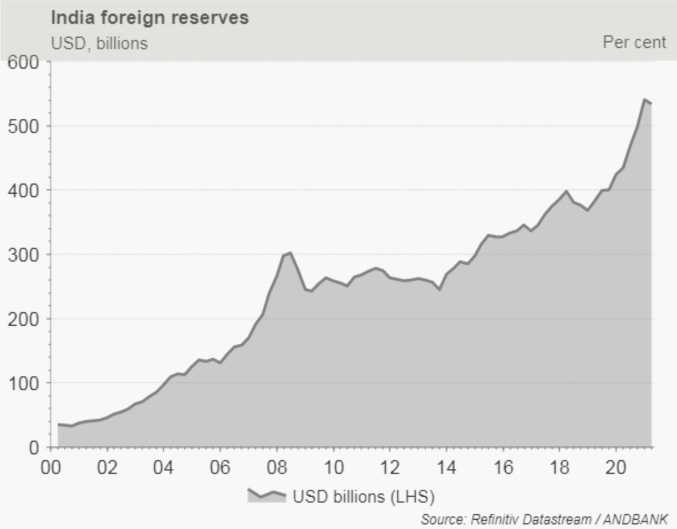
Bonds – Corporates: OW

Forex – INR/USD: MARKETWEIGHT (Target 74)

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

ISRAEL

What will a new government hold for the economy?

The most significant news coming out from Israel is the formation of the new government, with Naftali Bennett becoming Prime Minister until September 2023. Despite the fact that the new coalition hinges on a very fragile majority (60-59) and a heterogeneous base (eight factions), there is a slight sense of optimism among investors, as more political stability is expected. A new budget is expected to be introduced after nearly three years, with the hope of addressing some major issues, especially housing prices.

Economy

Israel's GDP showed a 6.5% annualized decline in 1Q21. The biggest contributor to the decline was the decrease in imported cars, due to taxation changes (-86%), causing a -3.2% contraction of private consumption. Excluding this item, private consumption grew +7.2%, while the fall in GDP would have been 2.5% annualized. Another major contributor to the decline was public consumption (-23%), due to the surge in 4Q20 caused by the purchase of medical equipment to fight Covid-19. On the positive side we can see an improvement in exports of goods and services, with a 15% increase. Israel's CPI showed an increase of +1.5% YoY in May (+0.4% MoM), the first time in two years it has reached the government target (1%-3%). May's rise is mainly explained by fruit and vegetables, up +3.4% MoM, and footwear and clothing, +2% MoM. Unemployment rate trending lower, as more businesses are opening up and recruiting employees, with unemployment transfers expected to expire by the end of June. The unemployment rate is 5.1% without COVID-19 unemployed and 9.8% with them, down 10.6% from last month.

Equity Market

The market continued its positive trend, although at a slower pace compared to recent months. Reaction to the new government was fairly muted, with overseas investors still the main source of market movements (63 companies, including 44 tech firms listed in the TASE this year). Bank stocks were among the leaders (+3%), mainly due to the pickup in economic activity, especially the mortgage market. Bank Mizrahi, the leader in mortgage lending in Israel, rose by nearly +4% as it presented its strategic plan for the next five years, aiming to achieve a 14.5% return on its capital (one of our top picks in local stocks). Real estate stocks rose by +2.5%, after an impressive performance in the last year (+61%). The sector's impressive performance was due to low inventory and below average building starts, which caused house prices to rise. This issue is definitely the biggest economic challenge for the new government. Until the government introduces new measures to temper prices, builders, mortgage lenders and other industry players will be benefiting from this situation. Although we are very optimistic about the long-term prospects for the local economy, we think the market's run is due for a slowdown and now take a slightly more cautious view.

Bond market

The trend of high gains in CPI-linked (government and corporate) bonds continued in May and early June, supported by the price gains in commodities and the decline in the rate of unemployment. However, lower than expected CPI in May (0.4% vs. 0.5%) toned down the gains. We still think that the major reasons for the rise in inflation are temporary, probably leading to a moderation of the yield curve. However, the 10-year non-CPI-linked yield continued to rise, contrary to world trend, probably due to the throttling of the supply of liquidity to the financial system by the Israeli central bank.

The credit spread of investment grade bonds is still tight, close to the lowest level in the history of Israeli corporate bonds (both CPI-linked and non-linked). We still recommend a thoughtful positioning in the corporate market. The current credit spread in the CPI-linked TelBond60 index decreased to 0.95%, compared with 0.99% in late May and 1.2%-1.25% pre-Covid19. The current credit spread in the non-CPI-linked TelBond Shikli50 decreased to 0.93% compared to 1.09% in late May and 1.3%-1.35% pre-Covid19.

Financial market outlook

Equities – TLV35 Index: MARKETWEIGHT-OVERWEIGHT

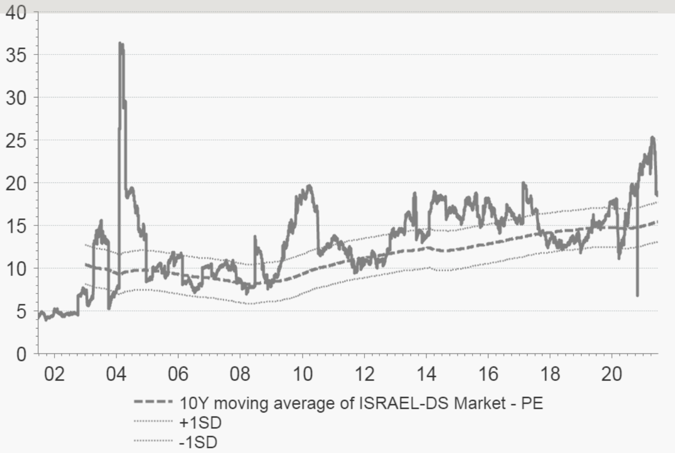
Bonds – Government–10Y Gov: UNDERWEIGHT (Negative real yield)

Bonds – Corporates: MARKETWEIGHT (Cautious stance)

FX – ISL vs USD: Slightly expensive in REER

Israel price/earnings, Datastream index

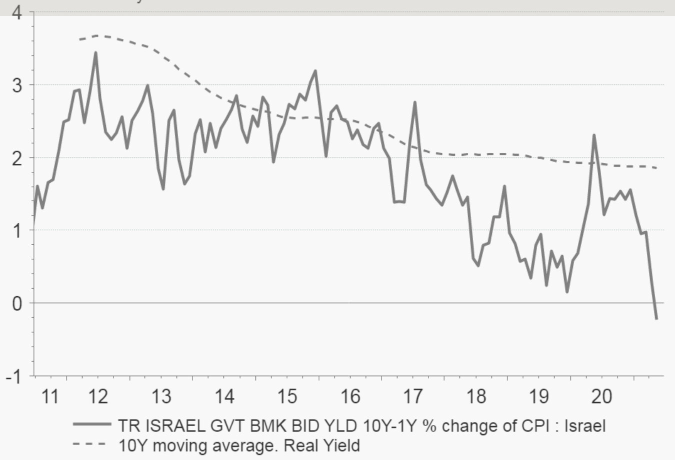
Ratio



Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y

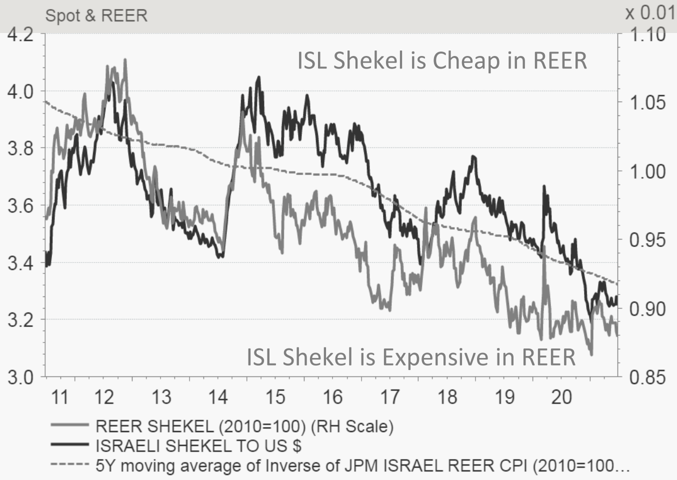
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

Positive GDP takes financial markets to new highs, moving Equity to underweight

First quarter GDP was a positive surprise

1Q21 GDP came in at a surprising +1.2% QoQ, above expectations (+0.8% to +1.0%), returning to pre-pandemic levels and taking forecasts for 2021 to new highs (+3.6% to +4.6% according to BCB). Most economic analysts attribute this difference to businesses' resilience to the second wave of COVID that hit Brazil during the quarter. Agribusiness and Manufacturing performed better than during the first wave in 2020, thanks to learned experiences in adjusting to work from home, stock management and strong exports. The services industry, which relies a lot more on personal interaction, still had a negative quarter. Last month the Equity market expanded +5.5% and BRL appreciated more than 6% (+12% USD returns).

Inflation in May accumulated a 8.06% rise, pushing up the forecast for 2021, which now stands at 5.9%, well above the target of 3.75% and 0.55% above the upper limit of the range (target +/− 1.50%). That in turn is putting pressure on the Brazil Central Bank to speed up the pace of rate normalization, so as to bring inflation within the target range. BCB raised its benchmark rate (+75 bps) for the third time this year, to 4.25% (25 bps below the pre-pandemic level) and provided guidance of another hike in the next meeting. The BCB Focus survey put the year-end SELIC rate at 6.50% (vs 6.25% pre-COPOM). This number is still far from the two-digit rates of the past and should allow Brazil to continue in pursuit of the last decade's lost growth.

Pandemic

As previously stated, even though the second wave has subsided, the numbers of cases and deaths have stabilized at a higher level than after the first wave. Brazil has now surpassed 500,000 deaths (second in the world behind USA) and still has the second largest new cases count, just behind India. The country's vaccination results are mediocre, with 32% having received at least one dose and only 11.8% of the population fully vaccinated. Looking through brighter lenses, based on previous vaccination campaigns, the public health agency (SUS) is thought to have the capacity to vaccinate up to 2.4 million people per day and Brazil is set to start receiving more shipments of vaccines during the third quarter, thus speeding up immunization. Many states are currently reviewing their schedules to allow for first dose vaccination of their entire population by the end of the third quarter.

Covid Handling Investigation

The parliamentary investigation (CPI) led by the Brazil Senate continues to invite government officials, doctors and vaccine industry executives who in one way or another had dealings with the federal government during the pandemic. Even though there has been no single big event to report, there has been evidence that there was a structural denial of the severity and/or length of the pandemic. The Covid CPI has gathered evidence that the federal government in Brazil did indeed decide against purchasing vaccines when they were offered by the industry during 2020. So far, it is hard to say whether the CPI will lead to any formal charges, but we can safely assume that the government lost part of its support with Congress and the population, which might affect Bolsonaro's chances of re-election. To boost his electoral chances the President is trying to increase the "Bolsa Familia" program from 190 to 300 Reais, once again stressing the relationship with Paulo Guedes.

Pray for rain

Brazil produces 90% of its energy from hydroelectric plants, with the rest coming mostly from thermoelectric and a small fraction from nuclear. That said, Brazil is highly dependent on the rain regime to stabilize its energy production costs. The country is going through the worst drought of the past 91 years, which will have a big impact on water reservoir levels. That means reducing energy output to save water, which increases energy prices and so affects inflation directly. Depending on the severity, water rationing may be imposed in big cities and the drought may even affect agricultural production in some areas. Brazil has exited its rainy season as of May, and should return in September. Water consumption and rain forecasts will be monitored very closely until then.

Financial market outlook

Equities – iBovespa: UNDERWEIGHT

Bonds – Govies Local: OVERWEIGHT (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)

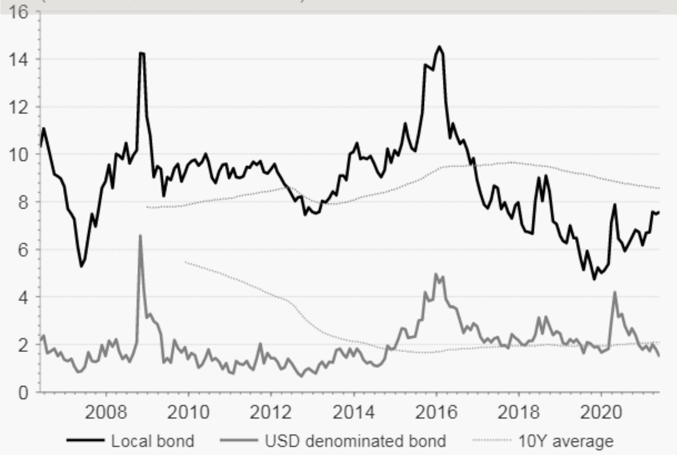
Brazil price/earnings, Datastream index

Ratio

Source: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

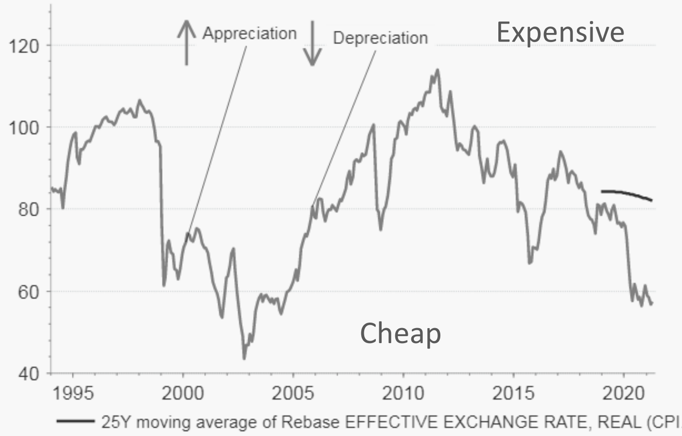
(Local & US$ denominated bonds)



Source: Refinitiv Datastream / ANDBANK

Brazil real broad effective exchange rate

Index, January 2010 = 100



Source: Refinitiv Datastream / ANDBANK

MEXICO

Uncertainty reduced after elections, positive for Equities

Surprise Central Bank move

The Banxico decision to increase the benchmark rate by +25 bps (from 4% to 4.25%) marked the first hike since the end of 2018. The move surprised the market, as the Central Bank had described the rise in inflation as transitory, yet decided to raise rates because of the magnitude and extended time frame in which they have been affecting inflation, thus posing a risk to the price formation process. The inflationary scenario became more challenging after the June first-half CPI numbers were published (+6.02% YoY), showing that core inflation continues to increase (+4.58% YoY vs +4.37% end of May), with headline inflation driven by agricultural (+8.42% YoY) and energy prices (+13.36% YoY). Banxico targets inflation of 3% with a +/−1% range. The Central Bank statement wording seems to leave the door open for new hikes this year (four more meetings this year). Regarding Banxico governance, Lopez Obrador appointed current Finance Minister, Arturo Herrera, to be the new governor when current governor, Alejandro Díaz de León, finishes his term at the end of year.

Fiscal numbers

The data for April again showed a decrease in tax revenues overall, although some taxes showed an increase. The fiscal position remains balanced, but negative effects arising from spending policies in social programs and in companies such as Pemex and CFE (electric power) cannot be ruled out. S&P ratified the long-term sovereign credit rating in foreign currency at BBB but maintained the negative Outlook, due to the weakening of public finances, with complex fiscal challenges ahead related to Pemex. The agency expects growth to slow after a 2021 rebound, as pressures in the environment to do business (some old and others associated with recent policies) weigh on investment.

Politics and Pandemic management

In the mid-term elections the incumbent coalition lost its (two-thirds) supermajority in the Congress, limiting the government's ability to pass constitutional amendments. However, the President's coalition remains the leading political force, holding a simple majority with only Morena votes and an absolute majority (50+1) with allies, giving the government freedom for budgetary issues. Lopez Obrador will focus on increasing tax revenue through higher tax rates and closer oversight of large companies, which the authorities say are paying less taxes than they should. At the same time, Morena obtained 11 state governorships (out of 15 up for grabs), ruling 17 of the total of 32 states, although it lost half the mayors in the capital city. Looking ahead to the next presidential vote (2024), at present there is nothing like a strong opposition and the latest results seems to be attributable mainly to disputes within the ruling coalition (e.g. handling of metro collapse in México City).

Currently, no states remain under lockdown, with activity continuing as normal in 19 out of 32 states. Mexico has 14% of its population fully vaccinated and 23% with at least one dose.

Financial Markets. Positive internal and external setup for Equities

Equity: On the positive side, the global context continues to favor risky assets, with a greater inflow of foreign capital to the stock market. There are better growth prospects in the US and the political environment has improved, as the loss of Morena's qualified majority materialized. Several internal risks remain: i) September budget and fiscal reform; ii) higher interest rates due to rising inflation; iii) lower FDI because of erratic energy policy. Greater positioning in the materials (Cemex) and consumption (Walmex) sectors as a result of higher remittances and the positive effect of US growth. We set a twelve-month consensus target price of 55,000 points (current level: 50,500).

Fixed Income & FX: With 10-year treasury returning to 1.50%, the spread with Mexican bonds reached a low of 140 bps, below the last 12-month average of 180 bps. We remain negative for USD sovereign debt. The surprise interest rate hike by the Central Bank led to a Peso appreciation of 2%, reaching a level of 19.8. We maintain our target of 21.0 for 2021 with a negative stance.

Financial market outlook

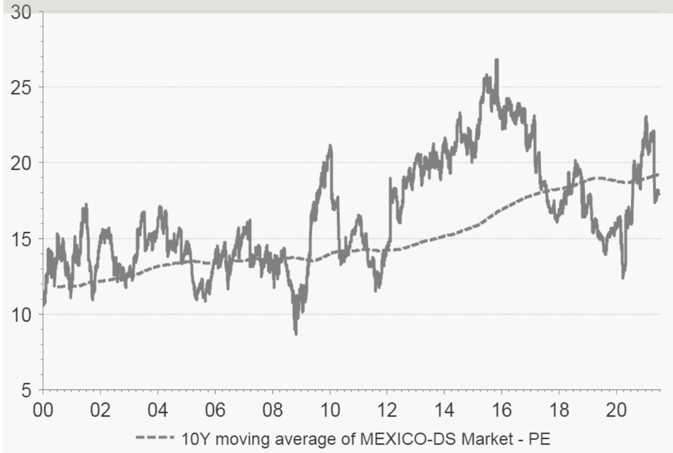
Equities – Mex IPC: OVERWEIGHT

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

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

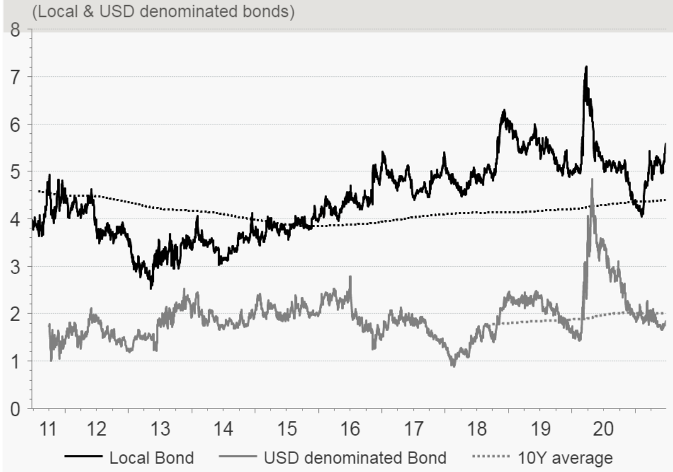
FX – MXN/USD: UNDERWEIGHT (Mid-term target 21)

Mexico equities price/earnings ratio
Datastream index



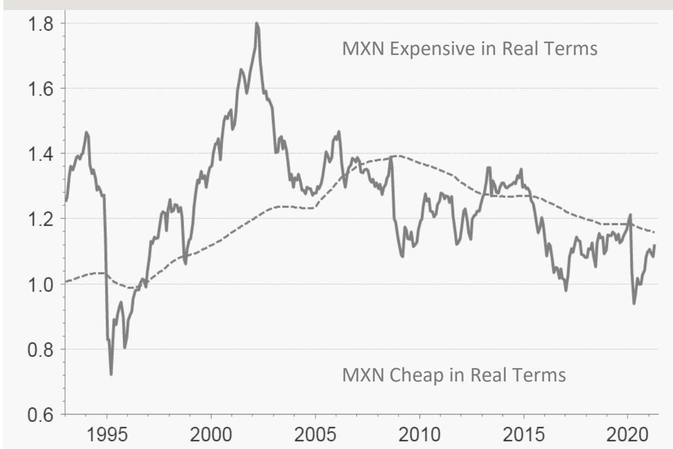
Source: Refinitiv Datastream / ANDBANK

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

Attention shifting to politics

With mid-term elections approaching (primary elections September 12 and general elections November 14), politics begins to dominate the agenda. With approval ratings dropping to the low 30s and approximately one-fifth of voters undecided (mostly Peronist voters), the government decided to implement a set of measures to boost electoral support: i) expand social spending, ii) validate salary increases well above the 29% inflation of the 2021 budget, iii) increase disposable income by reducing taxes and freezing tariffs, iv) step up infrastructure spending.

Argentina managed to reach an agreement with countries grouped under the Paris Club to avert default after failing to pay the USD 2.4 billion it owed on time (05/30). The country will pay USD 430 million of principal in two equal installments (July 21 and February 22) and will have until March 2022 to agree with the club on a permanent restructuring.

Regarding negotiations with the IMF, the IMF spokesman Gerry Rice noted that the fund and the Argentine authorities continue working on the new support program but have no specific timeline for the moment. Also, the U.S. Deputy Treasury Secretary, Wally Adeyemo, spoke to Argentina's Economy Minister, Martin Guzman, about the new IMF program. After the conversation the department issued a statement in which it said that "…a strong economic policy framework for Argentina that provides a vision for private sector job growth would have the support of the United States." The deputy Chief of Staff, Cecilia Todesca, replied saying that Argentina has a program but the problem is that the market doesn't like it.

Only 8.5% of the population has been fully vaccinated and 34.3% have received at least one dose, as the government is prioritizing giving as many people as possible a first dose over getting people fully vaccinated.

Province of Buenos Aires: differences have been shortened

The Province of Buenos Aires (PBA) announced a new extension of its invitation to bondholders to exchange their debt. The offer is the same as in April last year, but the parties are getting closer (despite an escalation in verbal confrontation), based on details disclosed by PBA and bondholders (approximately USD 2-4 difference in NPV). The missing ingredient to close the deal seems to be political will. The province of Chaco became the ninth province to reach an agreement with creditors (93.34% acceptance) to restructure its debt. La Rioja and Tierra del Fuego are the other provinces, besides PBA, still in restructuring processes

Inflation: Stronger than expected deceleration

Headline CPI increased +3.3% MoM (+48.8% YoY) in May, below the Central Bank consensus survey (+3.6% MoM) and significantly lower than the April figure of +4.1% MoM. YTD inflation stood at +21.5%. Core prices also decelerated to +3.5% MoM (+4.6% MoM in April), still evidencing strong underlying inflation pressures. Regulated prices increased +3.8% MoM, while seasonal prices advanced only +1.5% MoM. Lower inflation seems to be the result of the decline in the pace of FX devaluation in recent months and the contraction of monetary aggregates.

Economic activity decreased by 0.2% MoM (SA) in March, from -0.9% MoM in February. Compared with last year, activity grew by 11.4% (positive base effect). The economy remains 10% below its year-end 2017 peak. The downward trend in agricultural commodity prices (with soybean prices dropping more than 10% in the last couple of weeks) is a warning sign for Argentina, as higher prices have allowed the government to increase its reserves in recent months.

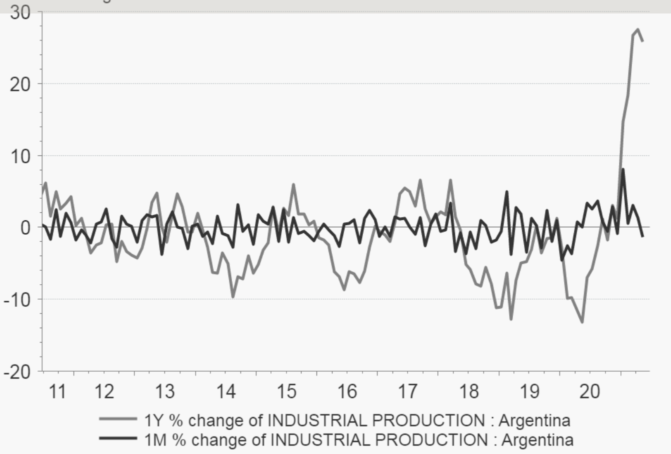
The gap between the parallel (blue chip swap) and the official exchange rate started to widen from the end of April and now stands at nearly 75% (Official FX 95.4 , BCS FX 167.5)

Financial market outlook

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

Argentina industrial production

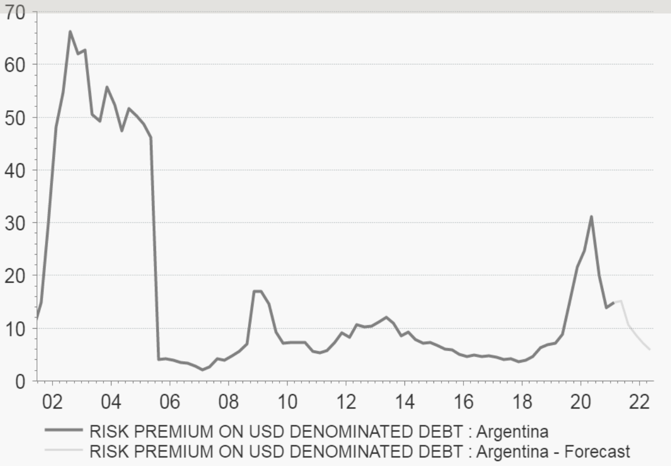
% Change



Source: Refinitiv Datastream / ANDBANK

Argentina Country Risk (Oxford Economics)

Percent



Source: Refinitiv Datastream / ANDBANK

Argentina foreign reserves

USD, billions Per cent

Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Projected EPS 2021	Projected EPS 2022	EPS Fw 12 months	EPS Growth 2021	Projected EPS Growth Andbank 2022	PE EPS 2021	Target PE EPS nxt 12m	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Recomm	### Entry Point	Exit Point	Max. Risk Premium	E[Perf] to Exit point
USA S&P 500	188,7	210,0	199	35,8%	5,00%	22,89	22,00	4.320	4.386	1,5%	MW/OW	##	4.825	1,10	11,7%
Europe - Stoxx Europe 600	24,9	26,8	25,8	44,4%	5,00%	18,30	18,00	456	465	2,0%	MW	##	511	1,10	12,2%
Euro Zone - Euro Stoxx	24,4	26,9	25,7	51,1%	5,00%	18,61	18,00	454	462	1,6%	MW	##	508	1,10	11,8%
Spain IBEX 35	490,0	616,0	553	115,9%	5,00%	18,23	18,00	8.932	9.957	11,5%	MW/OW	##	10.953	1,10	22,6%
Mexico IPC GRAL	3.300,0	3.578,0	3.439	102,5%	5,00%	15,27	15,50	50.377	53.310	5,8%	OW	##	58.641	1,10	16,4%
Brazil BOVESPA	12.175	12.077	12.126	497,4%	5,00%	10,32	10,50	125.666	127.322	1,3%	UW	##	140.054	1,10	11,4%
Japan NIKKEI 225	1.468,0	1.618,0	1.543	43,2%	5,00%	19,56	19,00	28.707	29.321	2,1%	MW/OW	##	32.253	1,10	12,4%
China SSE Comp.	272,0	304,0	288	22,9%	5,00%	12,94	12,50	3.520	3.601	2,3%	MW	##	3.961	1,10	12,5%
China Shenzhen Comp	103,5	123,0	113	19,2%	5,00%	23,16	22,50	2.397	2.549	6,3%	MW/OW	##	2.804	1,10	17,0%
India SENSEX	2.500,0	2.699,0	2.600	55,0%	5,00%	20,93	22,00	52.334	57.195	9,3%	OW	##	62.914	1,10	20,2%
Vietnam VN Index	82,4	99,6	91	37,6%	10,00%	17,20	17,00	1.417	1.547	9,2%	OW	##	1.702	1,10	20,1%
MSCI EM ASIA	46,5	51,5	49	30,9%	10,00%	16,05	16,00	747	785	5,1%	MW	##	863	1,10	15,6%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS

Risk Outlook: // Positioning:

Andbank's Assessment: -0.5 (in a −7/+7 range)

Aggregate (MW): Latest figures have been stable, except for flows that reversed positively. We were expecting them to normalize after the violent movement caused by fear of an increase in inflation. The overall assessment is in neutral territory.

Market Positioning (MW-OW bias): Positioning has been stable; asset allocation in equity is at neutral levels in portfolios. The put-call ratio indicates somewhat low level of portfolio hedging, stable month-on-month. Finally, the current level of skew reflects fear of a violent downside movement (indicator has been stable).

Flow Analysis (OW bias): High net inflows in US equities indicate a positive momentum on lower inflation expectations. EU has also benefited from inflows. China suffered outflows.

Surveys & Sentiment Analysis (UW bias): Investor sentiment is still high. We maintain our contrarian view.

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 bearish	375,63	469,25	429,01	469,25	451,66	452,32	-0,15%
	Euro Stoxx 600	.STOXX	Lateral bearish	338,57		430,03		486,45	452,05	7,61%
	Ibex	.IBEX	Lateral	7.663,50	9.676,00	8.426,00	9.886,20	9.717,40	9.030,60	7,61%
	S&P	.SPX	Lateral bearish	3.209,00		4.056,88		4.571,26	4.166,45	9,72%
	Japón	.N225E	Lateral	24.448,00	38.957,00	27.385,00	29.685,41	32.817,46	28.010,93	17,16%
	China	.SZSC	Lateral bullish	1.744,00	3.156,96	2.212,21	2.511,97	2.441,00	2.396,20	1,87%
	India	.BSESN	Lateral bullish	35.987,00		50.375,77			52.344,45	
	Brasil	.BVSP	Lateral bullish	90.147,00		117.630,62			128.405,35	
	México	.MXX	Lateral bullish	35.652,42	50.603,00	48.781,00	51.772,37	52.714,31	50.319,57	4,76%
OTROS	Oil West Texas	WTCLc1	Bullish	34,49	76,90	66,60	76,90	76,90	71,27	7,90%
	Gold	XAU=	Lateral bearish	1.659,00	2.072,49	1.755,81	1.916,40	1.897,13	1.763,34	7,59%
	Treasury 10Y USA	US10YT=RR	Lateral	0,5040%	1,9730%	1,2099%	1,7070%		1,4423%	
	Bund 10Y Germany	DE10YT=RR	Lateral bearish	-0,9090%	-0,1420%	-0,2490%	0,1020%		-0,2045%	

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)* – Russia considers proposing additional production increases:** Bloomberg reports Russia may propose additional output hikes from August when the OPEC+ group next meets on 1-Jul. The article adds that Russia expects the current global supply shortfall to persist in the medium term, an outlook consistent with that of the International Energy Agency (which has urged OPEC+ to bolster supply as demand rebounds). Reuters seems to imply the suggestion to output hikes may also be coming from elsewhere inside OPEC+ and observes this could mean there is a possibility for common ground to be found, since OPEC's de facto leader, Saudi Arabia, has typically been more cautious about output hikes.

***(Price Negative)* – China's North Sea imports likely to wane after recent jump:** Platts reports that May saw Chinese imports from the North Sea and Africa jump in May, but the trend is unlikely to continue, with the Brent-Dubai spread hovering around $3/barrel. Imports from the UK and Norway were up ~34% for the January-May period, while shipments from Angola are up ~12% YTD. Traders see WTI-linked US crude cargoes as potentially more attractive going forward.

***(Price Neutral/Positive)* – Iranian presidential election could impact both the nuclear deal and the country's crude output**. The new government inherits an oil industry that has suffered from years of underinvestment, with the country's output of 2.43M bpd in May below pre-sanctions level of almost 4M bpd in May-18. The victory of the conservative judiciary chief Raisi could mean that Iran may concentrate on developing its refining and petrochemical sectors in order to reduce crude exports that are vulnerable to sanctions. The country currently has refining capacity for about 2.2M bpd, though many units are in need of repairs and upgrades. The outcome of the elections could impact the nuclear deal, which remains in limbo, and we do not know whether the winner has a clearer mandate to finalize an agreement. Raisi is not viewed as particularly friendly toward the West, though he has said he is committed to the JCPOA. An agreement could increase the country's exports from 600K bpd in May to 1.5M bpd by December, according to analysts

***(Price Neutral)* – Iran says its return to the nuclear deal relies on decisions by the US:** Iranian government spokesman Ali Rabiei said today that the US must make a "political decision" about whether it wants Iran to return to the 2015 nuclear deal, saying a "clear text" had been developed that involves the removal of sanctions on Tehran. Bloomberg notes that Rabiei suggested the international talks could extend past August, saying if no deal is struck during the remainder of the term of current President Rouhani (who has staked his political career on the deal succeeding), then negotiations will be handled by the administration of recently elected Ebrahim Raisi (a conservative cleric who has voiced hostility toward the West).

***(Price Neutral)* – US rejects Maduro's call for sanctions relief:** The Biden administration has rejected a plea from Venezuelan President Maduro to lift sanctions on his country and end the "demonization" of Venezuela. A State Department spokesman said the US position on Maduro's lack of legitimacy has not changed since Biden took office, with National Assembly leader Guaido still seen as the interim president.

***(Price Negative)* – Libya reopens coast road in bid to reunite territories**: Bloomberg reports that ahead of an international conference in Berlin Wednesday to work out details for upcoming national elections, Libya's interim government has reopened its coastal highway in a bid to bring its eastern and western territories closer together after years of civil war. It adds the move comes after March saw the resumption of flights between the western city of Misrata and the eastern stronghold of Benghazi. This information feeds the possibility of normalizing production and reaching the country's full export potential.

***(Price Positive)* – US inventories remains at three-year lows, and producers still slow to increase output**: Despite the steady increase in US demand in recent months, producers in West Texas aren't increasing their rig count, with production still down 15% from the peak last year. This dynamic could push WTI higher than Brent for the first time in five years. Shale drillers have continued to honor their vow of capital discipline, at a time when refiners have tried to take more domestic barrels rather than see them for export, also pushing prices higher as stocks at Cushing are at a three-year low. Refineries are also running at the highest rate since Sep-19, adding further support for WTI. However, there may be signs of a production comeback, with this week's DOE weekly showing domestic output up 200K bpd to the highest level in over a year.

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.

EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.19 (Buy USD at 1.23, Sell USD at 1.16). (Neutral the EUR using Z-Score)

USD-JPY: Target 108; **EUR-JPY**: Target 128.5 (Neutral the JPY using Z-Score)

GBP-USD: Target 1.41; **EUR-GBP**: Target 0.84 (Neutral-Negative the GBP using Z-Score)

USD-CHF: Target 0.89; **EUR-CHF:** Target 1.06 (Negative the CHF using Z-Score)

USD-MXN: Target 21; **EUR-MXN:** Target 25 (Positive the MXN using Z-Score)

USD-BRL: Target 5.30; **EUR-BRL:** Target 6.31 (Negative the BRL using Z-Score)

USD-ARS: Target 140

USD-INR: Target 74

CNY: Target 6.25

RUB: NEUTRAL

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	-13,04	4,01	32,1	-35,3	-2,7	**-0,50**
USD vs G10	-13,03	3,95	32,7	-35,6	-1,9	**-0,56**
EM	0,01	-0,06	3,9	-1,0	1,3	**-0,87**
EUR	13,29	-2,64	25,1	-8,6	10,6	**0,27**
JPY	-6,09	-0,32	6,1	-15,0	-6,9	**0,14**
GBP	1,56	-1,15	4,3	-6,5	-0,6	**0,74**
CHF	1,85	2,01	2,0	-6,0	-1,8	**1,73**
BRL	0,37	0,26	0,7	-0,8	-0,2	**1,29**
MXN	-0,70	-0,49	3,3	-0,7	1,1	**-1,55**
RUB	0,35	0,16	1,2	-0,3	0,3	**-0,01**
AUD	-1,33	-1,26	6,1	-5,2	-0,3	**-0,36**
CAD	3,51	-0,20	6,1	-5,0	0,7	**1,03**

Positive
Neutral-Positive
Neutral-Negative
Negative

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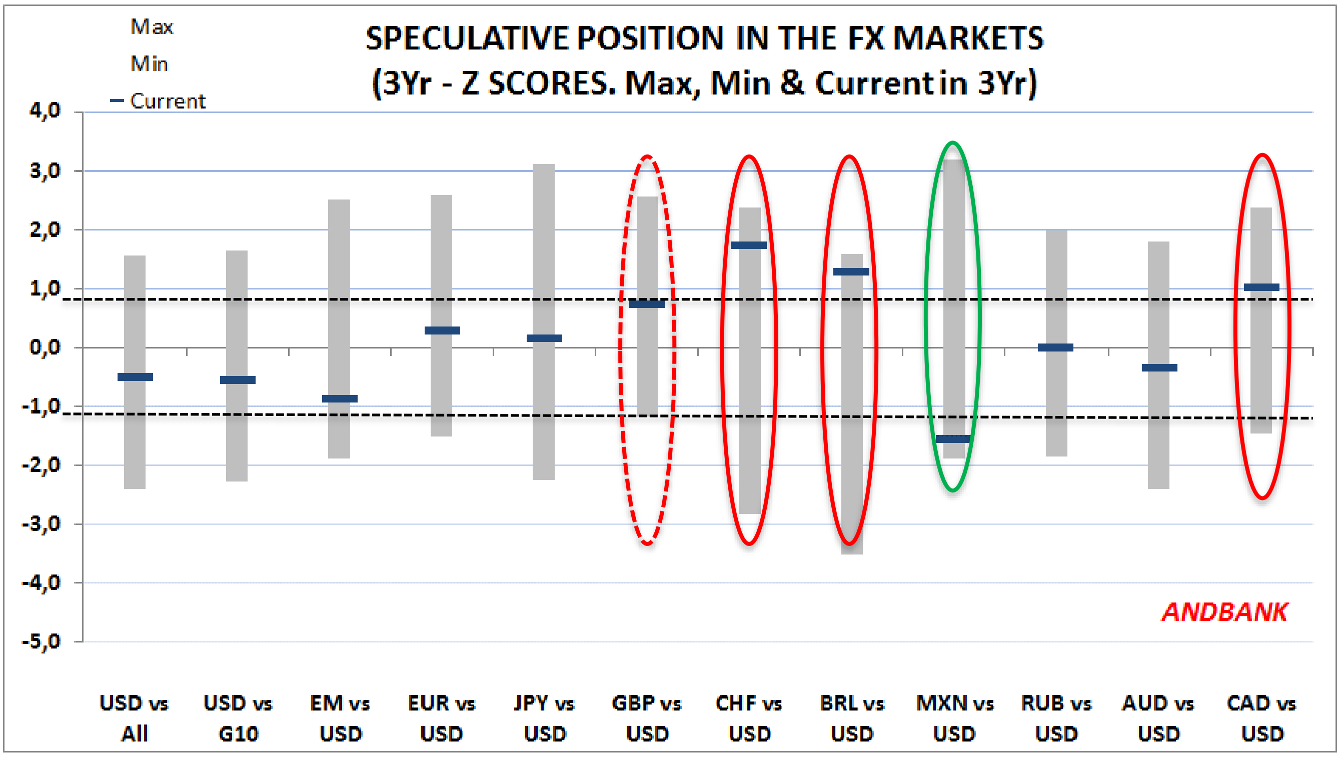

The currencies we technically favor are circled in green

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	2,7%	15,0%	4.320	4.386	1,5%
	Europe - Stoxx Europe 600	1,0%	14,2%	456	465	2,0%
	Euro Zone - Euro Stoxx	0,4%	14,3%	454	462	1,6%
	SPAIN - IBEX 35	-2,7%	10,6%	8.932	9.957	11,5%
	MEXICO - MXSE IPC	-0,7%	14,3%	50.377	53.310	5,8%
	BRAZIL - BOVESPA	-3,0%	5,6%	125.666	127.322	1,3%
	JAPAN - NIKKEI 225	-0,8%	4,6%	28.707	29.321	2,1%
	CHINA - SHANGHAI COMPOSITE	-2,2%	3,3%	3.520	3.601	2,3%
	CHINA - SHENZEN COMPOSITE	-0,2%	4,8%	2.397	2.549	6,3%
	INDIA - SENSEX	0,9%	9,6%	52.340	57.195	9,3%
	VIETNAM - VN Index	5,7%	28,4%	1.417	1.547	9,2%
	MSCI EM ASIA (in USD)	-1,2%	4,7%	747	785	5,1%
Fixed Income Core countries	US Treasury 10 year Govie	1,2%	-3,9%	1,46	1,80	-1,3%
	UK 10 year Gilt	0,7%	-4,1%	0,72	0,80	0,0%
	German 10 year BUND	0,1%	-3,3%	-0,21	**0,25**	-3,9%
	Japanese 10 year Govie	0,3%	-0,2%	0,04	0,25	-1,7%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,5%	-2,8%	0,39	0,85	-3,3%
	Italy - 10yr Gov bond	0,7%	-2,0%	0,80	1,00	-0,8%
	Portugal - 10yr Gov bond	0,7%	-2,9%	0,35	0,85	-3,6%
	Ireland - 10yr Gov bond	0,2%	-3,9%	0,15	0,65	-3,9%
	Greece - 10yr Gov bond	-0,2%	-1,3%	0,82	1,85	-7,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,1%	0,0%	46,56	55	-0,3%
	Credit EUR HY-Itraxx Xover	0,6%	1,3%	230,50	250	1,2%
	Credit USD IG - CDX IG	0,1%	0,0%	47,80	**63**	0,2%
	Credit USD HY - CDX HY	0,6%	1,8%	273,57	**287**	2,5%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	11,1%	-28,0%	16,81	17,00	15,3%
	Russia - 10yr Gov bond (local)	0,8%	-7,2%	7,16	6,60	11,6%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-0,7%	-2,4%	6,52	5,50	14,7%
	India - 10yr Gov bond (local)	0,2%	1,7%	6,04	5,50	10,4%
	Philippines - 10yr Gov bond (local)	0,1%	-6,7%	3,99	4,75	-2,1%
	China - 10yr Gov bond (local)	0,3%	2,1%	3,08	2,60	6,9%
	Malaysia - 10yr Gov bond (local)	-0,1%	-3,3%	3,24	4,25	-4,8%
	Thailand - 10yr Gov bond (local)	1,3%	-3,2%	1,55	2,50	-6,1%
	Singapore - 10yr Gov bond (local)	-0,3%	-5,3%	1,54	2,50	-6,2%
	Rep. Korea - 10yr G. bond (local)	1,1%	-2,2%	2,00	2,90	-5,2%
	Taiwan - 10yr Gov bond (local)	0,1%	-0,8%	0,39	1,35	-7,3%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-3,3%	-11,5%	7,02	6,80	8,8%
	Mexico - 10yr Govie (USD)	0,4%	-2,6%	3,09	3,55	-0,6%
	Brazil - 10yr Govie (Loc)	0,5%	-14,8%	9,20	8,80	12,4%
	Brazil - 10yr Govie (USD)	-0,4%	-3,2%	4,04	4,55	0,0%
Commodities	Oil (WTI)	9,1%	54,8%	75,1	60,00	-20,1%
	GOLD	-7,0%	-6,4%	1.774,8	1.900	7,1%
Fx	EURUSD (price of 1 EUR)	-3,1%	-3,2%	1,183	1,19	0,6%
	GBPUSD (price of 1 GBP)	-3,0%	0,5%	1,37	1,41	2,6%
	EURGBP (price of 1 EUR)	-0,2%	-3,7%	0,86	0,84	-2,0%
	USDCHF (price of 1 USD)	3,3%	4,7%	0,93	0,89	-4,3%
	EURCHF (price of 1 EUR)	0,0%	1,4%	1,10	1,06	-3,7%
	USDJPY (price of 1 USD)	1,9%	8,1%	111,62	108,00	-3,2%
	EURJPY (price of 1 EUR)	-1,3%	4,6%	132,02	128,52	-2,7%
	USDMXN (price of 1 USD)	0,7%	0,7%	20,02	21,00	4,9%
	EURMXN (price of 1 EUR)	-2,4%	-2,3%	23,68	24,99	5,5%
	USDBRL (price of 1 USD)	-0,5%	-2,8%	5,05	5,30	5,0%
	EURBRL (price of 1 EUR)	-3,7%	-5,9%	5,97	6,31	5,6%
	USDARS (price of 1 USD)	1,0%	13,9%	95,76	140,00	46,2%
	USDINR (price of 1 USD)	2,6%	2,5%	74,86	74,00	-1,1%
	CNY (price of 1 USD)	1,6%	-0,6%	6,48	6,25	-3,6%

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

UPWARD REVISION DOWNWARD REVISION

PRINCIPAL CONTRIBUTORS

Together
Everyone
Achieves
More

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

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

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

Idan Azoulay
Israel: Rates, Corporate bonds & Equities
+972 3 6138218

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

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

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

Carlos Hernández
Global Technical Analysis
+376 873 381

Juan Manuel Lissignoli
Uruguay & Argentina: Bonds, FX, Macro & Politics,
+598 2626 2333

Marcus Vinicius de Macedo
Brazil: Bonds, Equity & FX
+55 11 3095-7045

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

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