

ECONOMY & FINANCIAL MARKETS

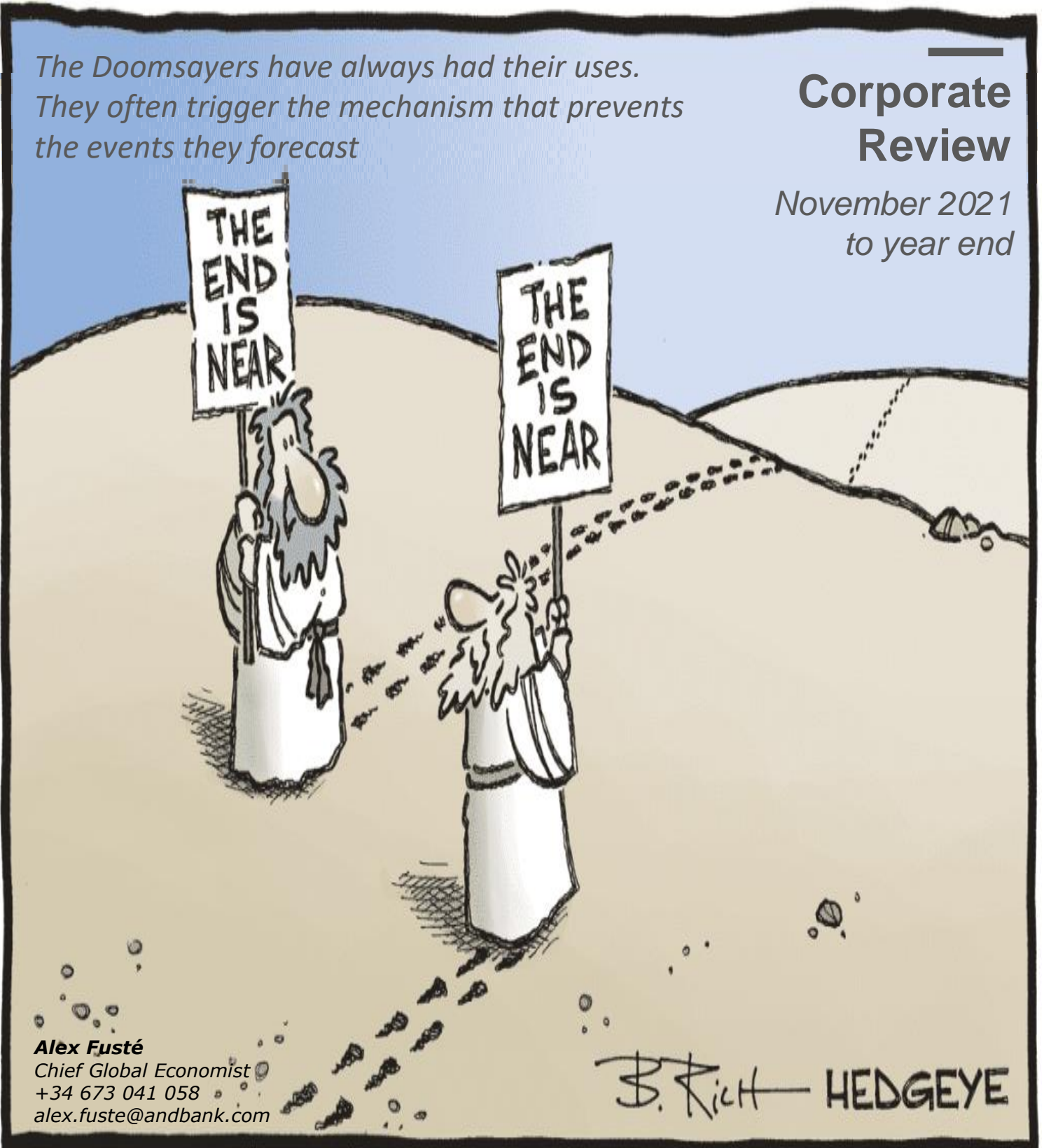
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Private Bankers

Andbank Monthly Corporate Review – October 2021

*The Doomsayers have always had their uses.
They often trigger the mechanism that prevents
the events they forecast*

Corporate Review

*November 2021
to year end*

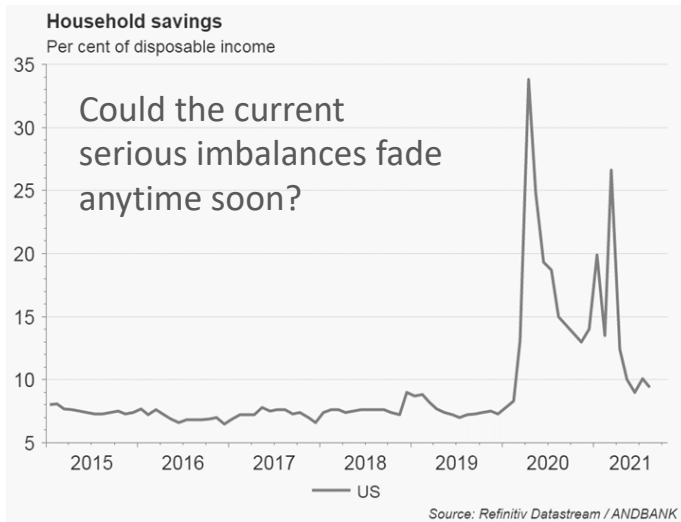


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B. Rich — HEDGEYE

EXECUTIVE SUMMARY

CHART OF THE MONTH



SENTENCE OF THE MONTH

October has not been the dreaded month and leads to a likely quiet end of the year for markets



EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point	E[Perf] to Exit point
USA S&P 500	4.593	4.535	-1,3%	MW/UW	4.989	8,6%
Europe - Stoxx Europe 600	476	505	6,1%	MW	555	16,7%
Euro Zone - Euro Stoxx	472	503	6,5%	MW/OW	553	17,2%
Spain IBEX 35	9.002	10.710	19,0%	OW	11.781	30,9%
Mexico IPC GRAL	51.912	56.099	8,1%	MW/UW	61.709	18,9%
Brazil BOVESPA	107.177	125.180	16,8%	MW/OW	137.698	28,5%
Japan NIKKEI 225	29.106	30.227	3,9%	MW/OW	33.249	14,2%
China SSE Comp.	3.598	3.728	3,6%	UW	4.100	14,0%
China Shenzhen Comp	2.424	2.628	8,4%	MW	2.891	19,3%
India SENSEX	61.350	61.249	-0,2%	MW	67.374	9,8%
Vietnam VN Index	1.392	1.640	17,9%	OW	1.804	29,7%
MSCI EM ASIA	699	760	8,6%	OW	835	19,4%

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income	US Treasury 10 year Govie	1,64	1,80	0,3%
Core countries	UK 10 year Gilt	1,14	1,50	-1,7%
	German 10 year BUND	-0,11	0,00	-1,0%
	Japanese 10 year Govie	0,10	0,20	-0,7%
Fixed Income	Spain - 10yr Gov bond	0,51	0,60	-0,2%
Peripheral	Italy - 10yr Gov bond	0,21	0,75	-4,1%
	Portugal - 10yr Gov bond	0,38	0,60	-1,3%
	Ireland - 10yr Gov bond	0,26	0,40	-0,9%
	Greece - 10yr Gov bond	1,01	1,60	-3,7%
Fixed Income	Credit EUR IG-Itraxx Europe	51,75	55	-0,1%
Credit	Credit EUR HY-Itraxx Xover	268,64	250	2,7%
	Credit USD IG - CDX IG	52,09	67	0,2%
	Credit USD HY - CDX HY	301,77	318	2,7%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income	Turkey - 10yr Gov bond (local)	19,12	20,00	12,1%
EM Europe (Loc)	Russia - 10yr Gov bond (local)	7,97	7,50	11,7%
Fixed Income	Indonesia - 10yr Gov bond (local)	6,11	5,10	14,2%
Asia	India - 10yr Gov bond (local)	6,36	6,00	9,2%
(Local curncy)	Philippines - 10yr Gov bond (local)	4,88	4,75	5,9%
	China - 10yr Gov bond (local)	2,98	2,25	8,8%
	Malaysia - 10yr Gov bond (local)	3,58	3,25	6,3%
	Thailand - 10yr Gov bond (local)	1,92	1,50	5,3%
	Singapore - 10yr Gov bond (local)	1,73	2,75	-6,5%
	Rep. Korea - 10yr G. bond (local)	2,35	3,40	-6,0%
	Taiwan - 10yr Gov bond (local)	0,49	1,35	-6,4%
Fixed Income	Mexico - 10yr Govie (Loc)	7,58	7,55	7,8%
Latam	Mexico - 10yr Govie (USD)	3,25	3,55	0,9%
	Brazil - 10yr Govie (Loc)	11,96	9,80	29,2%
	Brazil - 10yr Govie (USD)	4,83	4,55	7,1%

COMMODITIES & FX

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Commodities	Oil (WTI)	83,7	60,00	-28,3%
	GOLD	1.800,8	1.900	5,5%
Fx	EURUSD (price of 1 EUR)	1,160	1,18	1,7%
	GBPUSD (price of 1 GBP)	1,38	1,38	0,5%
	EURGBP (price of 1 EUR)	0,84	0,85	1,2%
	USDCHF (price of 1 USD)	0,92	0,93	1,1%
	EURCHF (price of 1 EUR)	1,07	1,10	2,8%
	USDJPY (price of 1 USD)	114,04	111,06	-2,6%
	EURJPY (price of 1 EUR)	132,32	131,05	-1,0%
	USDMXN (price of 1 USD)	20,22	20,50	1,4%
	EURMXN (price of 1 EUR)	23,44	24,19	3,2%
	USDBRL (price of 1 USD)	5,56	5,30	-4,6%
	EURBRL (price of 1 EUR)	6,44	6,25	-3,0%
	USDARS (price of 1 USD)	99,38	140,00	40,9%
	USDINR (price of 1 USD)	75,12	74,00	-1,5%
	CNY (price of 1 USD)	6,38	6,35	-0,5%



MACRO ECONOMY

USA

Employment and inflation data appear to flash green for the FED

Debt Ceiling: first bullet dodged

Democratic and Republican Senators agree to pass legislation to raise the debt ceiling. The Senate voted 50-48 with no Republicans blocking the legislation to increase the debt limit by 480 bn USD. This extension means that a number of deadlines have now been pushed into the year-end, including the government funding and the debt ceiling (both now expiring the first Friday of December). To raise the ceiling for a longer period, the Republicans made it clear that Democrats would need to proceed in a partisan manner as part of the reconciliation process (lengthy and cumbersome according to Democrats, who favor a bipartisan agreement), through a bill containing many of their social proposals, alongside the 550 bn USD bipartisan infrastructure package. Biden's economic agenda is now estimated at around 1.9-2.2 trillion USD.

Data: US Labor Market better, CPI growing

Much better than expected data on US jobless claims, which marks a change from previous underwhelming September employment report with nonfarm payrolls report showing the slowest growth so far this year (194k vs 500k estimates). In terms of details, the weekly initial jobless claims for the week through October 16 fell to a post-pandemic low of 290k (vs. 300k expected). That also saw the 4-week moving average hit a post-pandemic low of 319.75k, just as the continuing claims number also reached a post-pandemic low of 2.48m (122K decline vs previous week). At this moment we have a disappointing September employment report and strong jobless claims reaching pre-pandemic levels. In September meeting Powell stated that it wouldn't take a super-strong employment report to start the tapering but that doesn't seem to be the case.

US consumer prices were up by +0.4% MoM in September (vs. +0.3% MoM expected), marking the 5th time in the last seven months that the figure has come in above the median estimate on Bloomberg, though core prices were in line with consensus at +0.2% MoM. There were a number of drivers behind the faster pace, but food inflation (+0.93% MoM) saw its biggest monthly increase since April 2020. Whilst some pandemic-sensitive sectors registered soft readings, housing-related prices were much firmer. Rent of primary residence grew +0.45% MoM (fastest pace since May 2001) and owners' equivalent rent increased +0.43% MoM (highest since June 2006). These housing gauges are something that Fed officials have signposted as having the potential to provide more durable upward pressure on inflation.

Fixed Income

Markets are in flux as rising inflation awareness and the expected start of tapering have markets thinking about the Fed hiking sooner and faster than previously assumed. There's a wide divergence between market-based Fed and inflation expectations. We believe the most likely path for this gap to close implies a rise in nominal rates: stay short in 10-year Treasuries as we expect a continued move to 1.80 (current 1.60)

We expect HG bond spreads to reverse the recent widening of 5bp and tighten modestly into year-end if the sentiment improves given the earnings reports season and political negotiations. However, as there is little room for error in the current low spread/low carry environment we do not see the risk/return in HG credit as attractive at current levels and are keeping our target 115 (current 89). High Yield has been resilient this month with spreads at a mere 2bp wider in September as the market remains comfortable with valuations at this early stage of the credit cycle. We remain Neutral with a target spread of 330.

Equities: Good start for earnings season

In the course of 2021 the S&P500 already accumulates +20.79% (S&P500 of 4,486 points, less than -1.5% off its record high from early September) and the Nasdaq +17.16%. In September S&P500 Value fell -3.29%, and SP&500 Growth -6.04%, with Growth still leading in 2021 with a +22.05% performance against +19.33% in Value.

Early season positive earnings across the board have definitely buoyed sentiment over the last several weeks as companies across varying sectors are beating expectations, overshadowing the concerns about supply chain disruptions squeezing margins. We're still seeing "growthflation" and not "stagflation", particularly in the US, even if there are obvious risks to growth. For now, there is still a buffer before we should get really worried. We maintain our neutral position about sectors and the current level for the exit point again this month

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT - UNDERWEIGHT

Bonds: Govies MARKETWEIGHT. 10Y UST Target 1.80

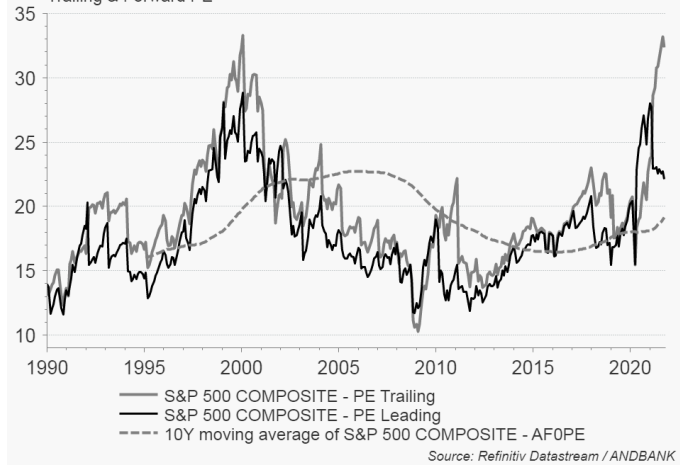
CDX: IG MARKETWEIGHT (Target Spread 67)

CDX: HY OVERWEIGHT (Target Spread 318)

Forex: DXY index SLIGHTLY UNDERWEIGHT

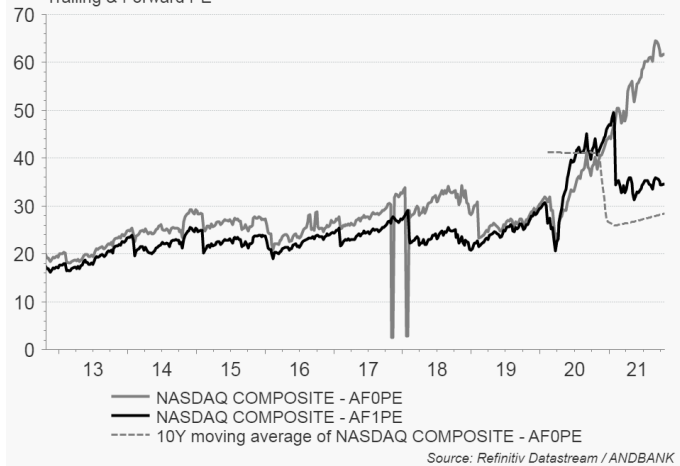
US price-to-earning ratio

Trailing & Forward PE

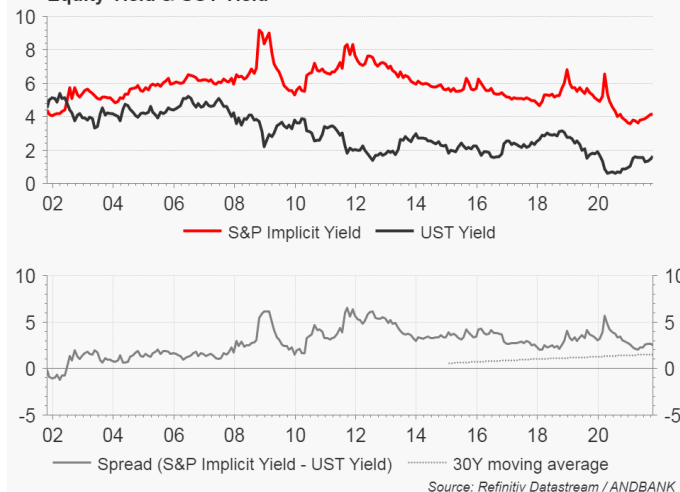


Nasdaq price-to-earning ratio

Trailing & Forward PE



Equity Yield & UST Yield





EUROPE

Economy slowing down and energy prices putting pressure in costs

Higher energy costs: "shortflation"?

Inflation has become increasingly difficult to estimate among central banks (ECB included). While the official "mantra" continues defending the temporary nature of the inflation, some members have started to point out risks on the upside (e.g.: from housing costs) and inflation expectations keep rising. "Shortflation" has been coined to better describe the current situation (price pressures as the result of shortages).

On the activity side, recent macro numbers have disappointed, showing decelerating industrial production. However, Europe stands among other geographies in terms of positive GDP revisions and stagflation is not seen in the horizon, but the loss of purchasing power from higher energy prices will leave traces on private consumption. The EU Commission has submitted proposals on how the burdens of higher energy costs can be cushioned for private households and businesses (targeted income subsidies for low-income households, government aid for SMEs). Governments in Spain, France, Italy and Greece have already announced that they will help low-income households pay their energy bills. This will add to public budget deficits.

ECB looking towards December

28th October meeting was meant to be uneventful with all attention focused on December's. The ECB may now be evaluating a transition program retaining some of the extra flexibility from the PEPP (across asset classes and among jurisdictions). The ECB seems to be exploring raising its current 10% cap on purchases of debt issued by international bodies such as the European Union. PEPP will probably end by March 2022 but TLTROs would remain as a liquidity backstop. Meanwhile the BoE is a step ahead, and seems closer to a rate hike that could be announced by year-end. In the BoE Governor's words: "we will have to act to curb inflationary forces and prevent higher inflation expectations from becoming entrenched".

Germany: An SPD ruled coalition the most likely scenario

Among the potential coalitions, the "traffic light" option seems to be leading, with the Greens voting to enter formal coalition talks with SPD-FDP. The Jamaica (CDU/CSU-Green-FDP) option lacks public support. The FDP agreed to the SPD's and Greens' demand of a €12/hour minimum wage (from €10.45 by mid-2022), and to a number of other social initiatives (a basic payment for children, no cuts in pensions, no increases in the pension age, etc). At the same time, the FDP got a number of its own demands, including no increases in taxes on high incomes/wealth.

Financial Markets: Govies, Corporate Credit & Equity

Govies: Long-term yields have returned to their highs of April, with the focus back on the tapering debate and other central banks starting to outline exit strategies. We stick to our recent 10-year targets. As for the short end of the curve, despite the ECB dovish stance, yields are not anchored. The market is now discounting the first full 10bp ECB depo rate hike in early 2023. Too far, too fast? Europe may be a laggard in terms of policy action but far from immune to global developments such as inflation

Corporates: Since September, the more negative market sentiment has been somewhat noticeable in the European HY category. In contrast, IG has shown significant resistance, considering the large supply of paper. This offer has been used by the ECB to go out buying on the market with its two corporate programs (PEPP and CSPP). In total, in the month of September, the volume acquired by the ECB was € 7.6bn, the largest amount since March of this year. Regarding flows, we have seen moderate outflows in the high-yield universe and the most notable would be the inflows in inflation-linked bonds. We maintain targets and recommendation of Neutrality in both IG and HY.

Equity market: Apparently the last quarter began to reignite the value/growth rotation that paused during the summer. We are witnessing the second major episode of revival of equity value in this post-pandemic bull market, in this context we could expect higher risk cyclical value to out-perform because it is a low duration asset. The paradox is that many higher risk, lower quality stocks will out-perform even in a period of investor caution. We stick to our year-end targets and favor sectors like Energy, Autos or Banks over Healthcare or Utilities, Value vs Growth and Big vs Small&Mid caps for the 4Q21. In this context the Spanish stock market with a large weight of cyclicals and banks, and an economy very dependent on mobility, could do some catching up with its peers in the coming months.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT-OVERWEIGHT

Equities – Spain's Ibx: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 0%)

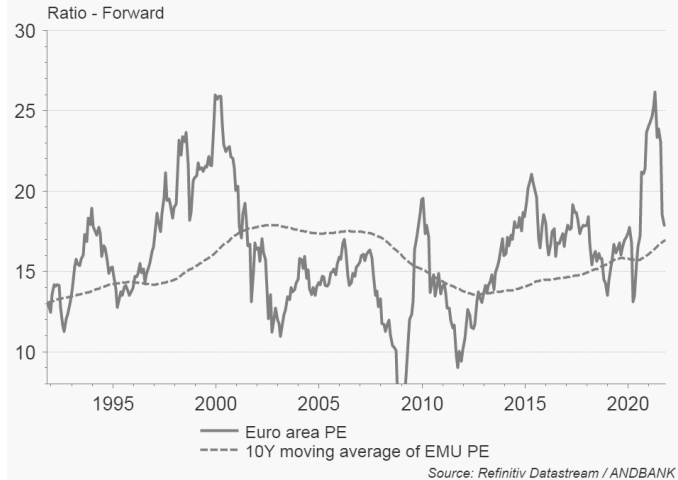
Peripheral – OW IT (0.75%). MW: SP (0.60%), PO (0.60%), IE (0.40%), GR (1.60%).

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

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

FX – EUR/USD Target 1.18 (Buy USD at 1.20, Sell USD at 1.16)

Euro area & EU price-to-earnings



Euro STOXX banks Index



STOXX 600 - EPS





MACRO ECONOMY

CHINA

REIT crisis in China could still have unforeseen second-round effects, but not systemic ones

REITs crisis in China

China home sales slump 17% y/y as Evergrande crisis deters buyers: Home sales by value slid 16.9% in September y/y, following August's 19.7% drop. Investment in Real State also slid (-3.5% y/y), the first time since the onset of the pandemic investment fall. Articles point out that the sales slump could lead to a vicious cycle by worsening cash shortages at developers, forcing them to offer larger discounts. "No one is buying new properties because they are getting afraid," Helen Qiao, chief Greater China economist at Bank of America Corp, said in an interview on Bloomberg Television. "So we could see further downside on the economy." Meanwhile, two large property firms make coupon payments. Even Evergrande's Hengda Real Estate Group. China Hengda Real Estate Group (Evergrande's parent company) has also remitted funds for a CNY121M (\$19M) onshore bond payment. Kaisa Group (1638.HK) paid a coupon due on 16-Oct and had plans for a coupon payment worth \$35.85M due on 22-Oct. Meanwhile, Sunac China (1918.HK) paid its bondholders a \$27.14M payment due on Tuesday.

Risks under control (according to PBOC)

China's government could marginally relax policy on real estate financing at the end of this year, especially on home mortgage loans, in an attempt to offset some of the negative effects of Evergrande's debt problems. Meanwhile, PBOC's Governor said that authorities can contain risks posed to the Chinese economy and financial system from Evergrande. He said the company's liabilities were spread across hundreds of entities in the financial system so there is not much concentration. He added the rights and interests of creditors and shareholders will be fully respected. However, Beijing is also trying to protect consumers and homebuyers. Beijing is saying that there are at least 65M empty homes, which certainly does not help an immediate reactivation of investment.

PBOC keeps liquidity ample at reasonable levels, but not easing conditions

The PBOC is rolling over CNY500B in policy loans as it looked to maintain liquidity at existing levels. It injected the cash through its medium-term lending facility, leaving the rate at 2.95%. No additional easing actions from the PBOC in the short term as easing expectations have been pushed back, with the PBOC expected to leave the RRR unchanged in Q4, and only deliver a 50bp cut (easing move) in 1Q22. This contrasts with the July estimates, in which a rate cut was expected in Q4. Banks required to keep ample liquidity: Beijing has also ordered banks (and their wealth management units) to cut their exposure to cash-management products to 40% of their overall product portfolio by year-end in order to contain liquidity.

Power shortages in China threatens to lengthen disruptions of global supply chain

Factory owners in China and their global customers have been told to prepare for power supply disruptions "becoming part of life". In Guangdong, as many as 150K companies were hit by energy shortages and local officials warned rationing would continue.

The government wants to fix the shortages and control energy prices: The government ordered a rise in coal inventories at several north-eastern power plants owned by SoEs (inventories have increased by 28% in two weeks). The number of days of coal in inventory also increased. Additionally, Beijing has taken steps to increase imports of electricity and coal from Russia, while Chinese energy companies are in advanced talks with US exporters to secure long-term liquified LNG supplies. At least five major SoEs including Sinopec and CNOOC are involved in the talks that could lead to deals worth tens of billions of dollars, with Sinopec taking as much as 4M tonnes annually. Beijing also announced that it will cut exports of oil products from its refineries until the tight situation of fuel balances improves. Despite all these measures to control energy prices, coal prices are still extending gains, with forward prices reaching new record highs.

China GDP came in softer than expected:

Q3 GDP expanded 4.9% y/y versus consensus 5.2% (and far below the 7.9% in Q2). Translated into q/q terms the expansion was just +0.2% q/q (against consensus +0.5% and prior +1.3%). Industrial production rose by only a 3.1% y/y in September (below consensus of +3.9% and far below the previous month's August reading of +5.3%). Several categories are now in decline, led by steel products, cement and autos. Q3 capacity utilization fell to 77.1%, declining from 78.4% in Q2..

Inflation: Producer prices rise again, but headline inflation remains stable

China's PPI rose 10.7% y/y in September (above August's 9.5%). It was the ninth straight month of increases in factory gate prices and the strongest growth since Nov-95, reflecting both rising commodity prices and a low base effect. Prices of raw materials rose 20.4% y/y (versus 18.3% in August), while mining was 49.4% higher y/y. On the positive side, Headline CPI remains low at 0.7% y/y in September (with a 0% change m/m) and moderating vs August's CPI of 0.8% y/y. Core inflation remained steady at 1.2% y/y.

Market outlook – Recommendations & Targets from fundamental analysis

- Equities – SHANGHAI Idx: UNDERWEIGHT
- Equities – SHENZHEN Idx: MARKETWEIGHT
- Bonds – Govies: OVERWEIGHT (10Y Yield target 2.25%)
- Forex – CNY/USD: MW (Target 6.35)

CHINA SSE & Shenzhen Index - PE Ratio



Source: Refinitiv Datastream / ANDBANK

China - 10Y Government Bond Real Yield



Source: Refinitiv Datastream / ANDBANK

USDCNY exchange rate



Source: Refinitiv Datastream / ANDBANK



MACRO ECONOMY

JAPAN

BoJ's Noguchi: "Policy normalization will not be an option for Japan for some time"

BoJ likely to cut growth forecast as supply constraints hit output

The BoJ is expected to downgrade its economic growth forecast for the current fiscal year as supply constraints caused by Asian factory shutdowns cripple output and exports. It is also likely to trim its inflation forecast for the year ending in March. Under current projections made in July, the BoJ expects the economy to grow 3.8% in the year ending in March and core consumer inflation to hit 0.6%. In the consensus poll, Q3 GDP is expected to expand 0.8% annualized, weaker than last month's median forecast of 1.2%. Q4 projection little changed at 4.5% vs prior 4.4%. The BoJ cited ongoing risks from soaring raw material prices and coronavirus-linked production and supply disruptions. Analysts warned of risks such as an unexpected economic slowdown in China and semiconductor chip and factory parts shortages due to the pandemic. They also noted that cost pressures alongside yen weakness could erode margins.

Monetary Policy: BoJ board member Noguchi discussed how post-pandemic dynamics are playing out different in the G3 regions, and suggested Japan will not see that those forces warrant dialing back monetary easing. Hence, policy normalization will not be an option for Japan for some time. He stressed the first condition for such a shift is inflation running comfortably above 2%, noted that Japan was handicapped by years of low inflation prior to the pandemic and expects a lower impetus from recovery dynamics driving the US and Europe.

Politics & Geopolitics

The electoral victory of LDP party suggests continuity of the expansive policies of the former PM Shinzo Abe. In fact, new Prime Minister Fumio Kishida commented on Monday that he will draw up a stimulus package by mid-November to prop up the coronavirus-hit economy following the ruling coalition's victory in the general election. Kishida said the stimulus package, featuring financial aid for businesses and people hit hard by the pandemic, will be funded by an extra budget the government aims to pass within the year.

In the international arena, a group of ten naval vessels from China and Russia sailed through a strait between Japan's mainland and the northern island of Hokkaido on Monday.

Flows: Domestic investor ease their purchases abroad

International transactions for the week ended 9-Oct showed that domestic investors were net buyers of ¥119.2B in foreign equities (far below net purchases of ¥525.5B in previous week), and also were net buyers of ¥139.8B in foreign long-term debt (also far below the net purchases of ¥1,194.5B in previous week).

Corporate

Toyota to cut global output 15% in November due to chip shortage. Toyota Motor's announced that it will build a US plant to make batteries for electric cars and other vehicles. This is part of roughly \$3.4B in battery-related investments to be made in the American market through the end of the decade. The venture, which will be 90% owned by Toyota, will aim to begin production in 2025. TSMC has announced plans to build first chip plant in Japan. Total investment will be up to ¥1T (\$8.8B), according to the Japanese government. Construction planned to start next year, with mass production slated to begin in 2024. TSMC does not rule out JVs, though it did not comment on an earlier report about an investment from Sony.

Sony announced it is selling its mobile gaming subsidiary GSN Games to Scopely for about \$1B. Sony made Game Show Network a wholly-owned subsidiary in 2019 by investing about \$380M. Chinese authorities slapped a fine of ¥1M (\$155,500) on Sony Group's Chinese subsidiary over violations of advertising laws, after announcing plans to hold a product launch event on 7-Jul, the anniversary of the clash between Japan and China in 1937. Sharp will sell smart televisions equipped with Roku streaming capabilities in the US starting in spring 2022, returning to the American consumer TV market after a six-year absence. Sharp looks to roll out 50- to 75-inch liquid crystal display TVs with a 4K display, to be made at a Mexican plant run by Foxconn.

A nationwide system failure has it NTT Docomo. NTT Docomo mobile phone customers on Friday continued to face difficulties in making calls and data connections following a nationwide system outage on Thursday evening. Docomo said there was a system issue at around 5 pm Thursday due to troubles during work on its network. Services were restored three hours later, but connections remained unstable for some users due to network congestion as many people tried to access the network. Major 4G and next-generation 5G networks returned to normal at 5:05 am, but the 3G network used by older pre-smartphone devices was yet to be fixed.

Market outlook – Recommendations & Targets from fundamental analysis

NEW!! Equities – N225: MARKETWEIGHT-OVERWEIGHT

NEW!! Bonds – Govies: UNDERWEIGHT (Target yield 0.20%)

NEW!! Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 111)

Japan Nikkei 225 price / earnings



Source: Refinitiv Datastream / ANDBANK

Japan CPI

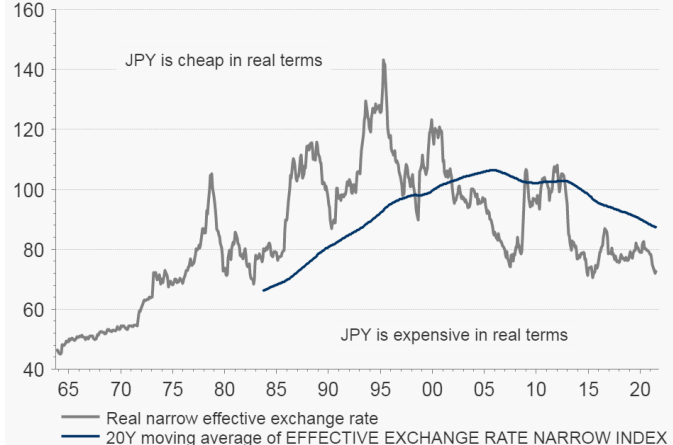
Twelve-month percentage change



Source: Refinitiv Datastream / ANDBANK

Japan real narrow EER

Index



Source: Refinitiv Datastream / ANDBANK



INDIA

India will continue to be the fastest growing of the largest economies in 2022

India remains as the best market among global markets in 2021. Factors behind the enhanced confidence in Indian market: can they continue driving the rally?

Indian Equities and NIFTY Index continued its robust performance, standing out as one of the best performing indices across the globe. MSCI India outperformed the MSCI EM Index in September by a sizeable margin. Also mid- and small-cap indices in India are performing well. Most sectors delivered positive returns. Behind the acceleration in Indian equity prices there is an evident boost in market sentiment during the month, spurred by both domestic and external factors: (1) The Indian government announced a slew of reforms—the cabinet approved PLI schemes for auto, drone and textiles sectors, announced a relief package for telecom sector, and FM announced further steps towards formation of a bad bank; (2) Covid cases continued to decline in India and the pace of vaccination picked up (average daily vaccination of 10+ million vaccines on some days); (3) Expectations of strong medium-term growth; (4) The US Fed chairman commented that the US central bank won't be in a hurry to raise rates, even after it tapers its asset purchases. However, rising US bond yields, surge in crude oil prices, fear of contagion from China's property giant Evergrande and ongoing debt ceiling debate in the US could weigh on investor's sentiments in the coming months, although we believe most of these risks are temporary, irrelevant or already discounted. Foreign investors (FIIs) were net buyers of Indian equities to the tune of USD 1.77 bn while domestic investors (DIIs) were net buyers of USD 0.80 bn.

Central Bank (RBI) withdraws liquidity after macro improvement, but in a non-disruptive manner

In the recent meeting, the Indian central bank, RBI, decided to withdraw surplus liquidity, commensurate with the evolving macroeconomic conditions in a "gradual, calibrated and non-disruptive" manner. The RBI retained its growth projection at 9.5% for F2022 led by early signs of recovery broadening to all sectors of the economy as indicated by the incoming high-frequency data. Inflation is already moderating. RBI lowered its headline CPI projections to 5.3% for F2022 (from 5.7%), on the back of favorable base effect and robust kharif sowing, with risks broadly balanced. While volatility in the global supply of key commodities does pose risks to the upside, the weak demand has prevented any pass-through to output prices thus far.

Indian Corporate profits are robust. Outlook for the Indian equity market

In India, the corporate earnings season is back with expectations of a strong growth trajectory for the current quarter for most sectors. This is in spite of the large 2nd wave of pandemic hitting the Indian economy. The strong corporate earnings and expectations are the other factor buoying Indian equities. Quality large cap names, together with defensive companies, will continue to deliver superior returns and enable it to withstand the emerging volatile economy environment. Companies with broader market access can continue to gain market share until recovery is more broad-based. From a sector perspective, financials, led by private retail banks, corporate banks, asset management and life insurance companies, will continue lifting the Indian indices. Foreign asset managers are overweighting private sector banks with strong liability franchises, backed by able management and healthy CASA ratio. Investors also remain positive on pharma companies, focusing on the domestic market and on healthcare service spaces like hospitals. The current supply shock in energy has prompted some investors to rethink the energy underweight and reduce the same. The Indian market is well positioned to navigate the current volatile economic environment and delivery good risk-adjusted returns over the medium term

Macroeconomic front is improving

High frequency macro indicators and data from on-the-ground activities such as GST collections, PMI, personal loan growth, electricity & core sector demand, international trade data, etc suggest an improved demand environment, led by the easing of restrictions, lower active COVID-19 cases and a pickup in vaccinations. On the economic front, July IIP grew by a 11.5% compared to 13.6% in June. August CPI inflation moderated to 5.3% from 5.59% in July led largely by lower-than-expected food inflation even though core inflation remained high. Manufacturing PMI expanded at a faster pace in September, with PMI Index rising to 53.7 in September (against 52.3 in August). Companies benefited from strengthening demand conditions amid the easing of Covid-19 restrictions. The current account registered a surplus in 1QFY22, rising to US\$6.5 bn (0.9% of GDP) against a deficit of US\$8.2 bn in 4QFY21 (-1% of GDP). Nevertheless, the 1Q current account figure is still well below the US\$19.1 bn surplus (3.7% of GDP) seen in 1QFY21, meaning that there is still a lot of room for improvement from the external front.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: MARKETWEIGHT (due to momentum)

Bonds – Govies: OVERWEIGHT (Target yield 6.0%)

Bonds – Corporates: OW

Forex – INR/USD: MARKETWEIGHT (Target 74)

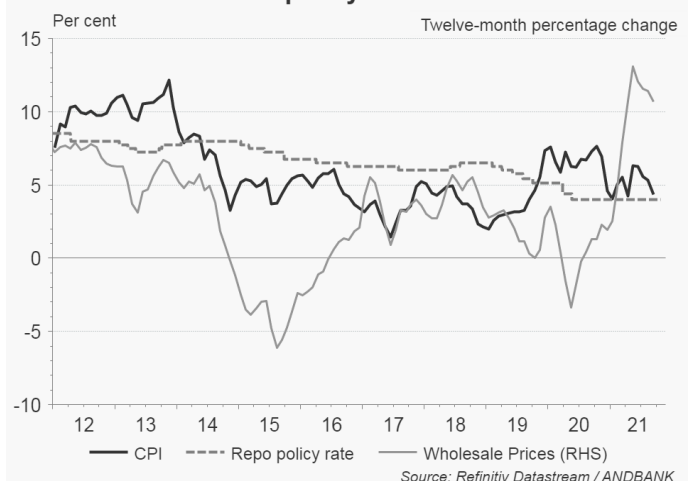
India Datastream index price / earnings



India - 10Y government bond Real Yield



India inflation and policy rate





MACRO ECONOMY

ISRAEL

Growth prospects have increased

Economic and political scene

Budget for 2022 was introduced in parliament (Knesset) and is supposed to be approved before the November 14th deadline. Odds for approval have increased recently as more members of the small majority coalition expressed their confidence in the budget. It should be noted that the 2022 budget is the first to be approved in more than three years, a factor that boosts investor confidence. Another reason to be optimistic about the Israeli economy is the updated IMF forecast published last week. Israel was one of the few economies in the developed markets that saw its growth forecast for 2021 increased (to 7.1% from 5% in the previous publication). The growth forecast for 2022 was lowered slightly to 4.1% (vs. 4.3% in July publication), which is still higher than the pre-pandemic level. Job vacancies climbed to a record high in September (137K vs 134K in August) but the unemployment rate is still above the pre-pandemic level.

Two issues should be followed in the next months. The first is the enormous inflow of venture capital investment in tech startups that amounted 17.8 bn USD in the first three quarters of the year, compared 10.2 bn USD during the whole of 2020. The large increase in tech investment is expected to support GDP growth and weigh on the Shekel. The second issue relates to home prices, which rose by 9.2% in the last 12 months. Although this is a global phenomenon, we would argue that due to structural pitfalls, housing issues pose not only an economic risk to the economy but a social risk as well. As long as the government does not present practical solutions for addressing the housing issue, we maintain it poses the main risk for the Israeli economy in the future.

The fourth Covid wave ended with cases under control at this moment as Israel reaches 62% of population fully vaccinated and more than 40% having received the third booster shot. The country approved a plan to authorize vaccinated and recovered tourists starting November 1st.

Monetary policy & Fixed income

We estimate that recent inflation figures (+0.2% MoM and +2.5% YoY, highest in almost 10 years) will force the Bol to raise interest rates sooner than previously predicted. The Bol left the benchmark rate at 0.1% to support "the continued recovery of economic activity", but one of the six setters voted to hike to 0.25% (following successive 6-0 voting in August and July). We perceive such a move to be positive for the market because it will show the central bank is in control of the situation while still governing a loose monetary policy. Inflation expectations have risen during the month to 2.8% at the peak, a level not seen in years, just before dropping back to 2.6%. It should be noted that the most extreme inflation forecast among macro analysts for the next twelve months is 2.5%. In addition, the high volatility in the bond market is creating some interesting trading opportunities. For instance, fear of inflation drove down long-duration bonds by over 1% from the beginning of the month, just before recouping more than 2% in the last week. On the other hand, the BOI announced that it would end its bond buying program by early December (23.6 bn USD so far).

Stocks

Contrary to our pessimistic prediction and unlike its peers overseas, the Israeli stock market produced an impressive performance during recent months. The main index, Tel Aviv 35, rose by 1.3% and Tel Aviv 125 increased by 1.8%. The financial sector led the market as it rose by 3%, with banks the main contributors, adding 3.6% to their value. The "stars" of the month were the Clean Tech companies that rose by 5.7% after showing poor performance from the beginning of the year, when they dropped approximately 4%. We think that the recent energy crisis presents an enormous opportunity for the industry as a whole, as it will speed up the development of environmental solutions, leading to proliferation of the industry. We are positive in the stock market, especially in the renewable energy sector with an overweight position.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: MARKETWEIGHT

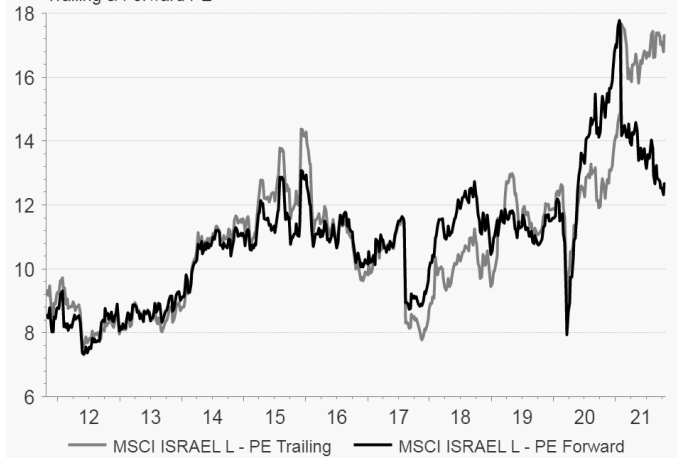
Bonds – Government–10Y Gov: UNDERWEIGHT

Bonds – Corporates: UNDERWEIGHT - MARKETWEIGHT

FX – ISL vs USD: Expensive in REER

Israel price-to-earning ratio

Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y

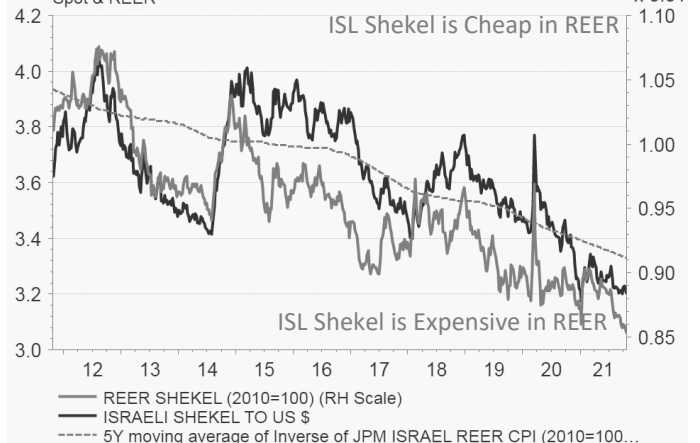
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: Refinitiv Datastream / ANDBANK



BRAZIL

Get your affairs in order, elections are coming!

Political situation remains volatile. New noise coming from the economic team

After Bolsonaro's September 7th outburst, and the not so apologetic letter the next day, political noise from the president's side diminished during the following weeks. As the election year approaches, his first hurdle is the 2022 budget discussions. Bolsonaro has about two months to get space in next year's budget for his revamping of *Programa Bolsa Familia* (PBF) to his own *Programa Auxílio Brasil*, suggesting an increase between 50% and 100% in value to the average payment made by the government. PBF benefits low-income families that send their kids to school and keep them properly vaccinated, among other conditions, with a monthly cash payment. The PBF is already one of the largest conditional cash transfer programs in the world. This program was instituted in 2003 by then President Lula, who had revamped a previous program from President Fernando Henrique before him.

Given that there is a reasonable chance that Bolsonaro will go onto the second round of the election against Lula, it would be awkward for him to have to answer why the major program in social welfare for his government is still Lula's program. Furthermore, Bolsonaro noticed the impact that the emergency aid checks in the beginning of the pandemic had on his popularity and is looking to get a ratings boost as he approaches the election year. The issue here is that, because of new election laws passed as recently as 2016, no government may implement changes to welfare programs during an election year. That implies that any modifications to the body of rules for PBF would have to be approved still in 2021, leaving only two months to carve out space in the 2022 budget, amid pressure from the recent rise in *precatórios* (judicial payment orders arising from debts owed by the states, municipalities, federal treasury and other governmental entities in Brazil) and the debt ceiling which limits new spending. Without sorting out how to deal with the increase in *precatórios*, there will not be a *Programa Auxílio Brasil*, and that could be a fatal blow to Bolsonaro's chances for re-election. At the moment Bolsonaro has not provided details of how the new spending is going to be financed and Economy Minister, Paulo Guedes, talked about the possibility of a one-off breach of constitutional spending cap to pay for the new programs. This situation triggered the resignations of the Treasury Secretary and Budget Secretary (Jefferson Bittencourt and Bruno Funchal) and their two deputies as they are opposed to the relaxation of fiscal limits, leading to a worsening in the performance of Brazilian assets.

Fiscal Situation is getting dire

The situation has rapidly deteriorated with the government moving forward with what is considered fiscally irresponsible proposals such as the changes to the spending cap rules, triggering the departure of several members of the economics team, further eroding policy credibility.

Corporates remain in good shape to withstand deteriorating macro conditions

According to JPM, Brazilian issuers are sitting on much stronger balance sheets (lower leveraging, stronger liquidity profiles) than in previous times and therefore now seem more resilient to political noise and deteriorating domestic conditions. "Many corporates have improved their business profiles, increasing geographic diversification into DM (e.g., protein names), for example, or using strong commodity prices to reduce leverage and improve amortization schedules as in the case of CSN". Analysts also point out that many of these names are now rated above the sovereign, reflecting their improved metrics as well as a higher export focus and/or geographic diversification. However, asset prices are not immune, and the increased turbulence in the fiscal and political situations have translated into higher volatility for corporates. In recent days the CEMBI Brazil widened 30bp with the HY subsegment leading the move, while IG proved slightly more resilient.

Political noise could persist with limited positive near-term top-down catalysts

The amendment of the spending cap rule requires congressional approval but there is a small possibility of it being rejected. The process will contribute to further damage the fiscal credibility of the current administration, potentially increasing risks to inflation, rates and growth. In addition, Brazil's deteriorating fiscal stance could lead to downgrades by rating agencies. Looking at the CEMBI Brazil HY and the CEMBI Brazil IG, the HY subsegment exhibits a significant correlation to the sovereign. In the case of IG-rated corporates, which tend to be export-oriented or geographically diversified, the correlation and beta are much lower compared with the HY subsegment, highlighting that other factors can play a bigger role, such as commodity prices. Going forward, IG could continue to perform better even with sovereign deterioration if commodity prices remain high, which largely depends on dynamics in China. HY bonds are likely to continue to see more volatility alongside the sovereign, as we note these issuers tend to operate in domestic industries, have government intervention risk and, in terms of ratings, are many times capped by the sovereign. Banco do Brasil, Petrobras and the airlines sector, are the most vulnerable.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 9.80%. Spread 800)

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

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

Brazil MSCI Index price-to-earning

Trailing & Forward PE



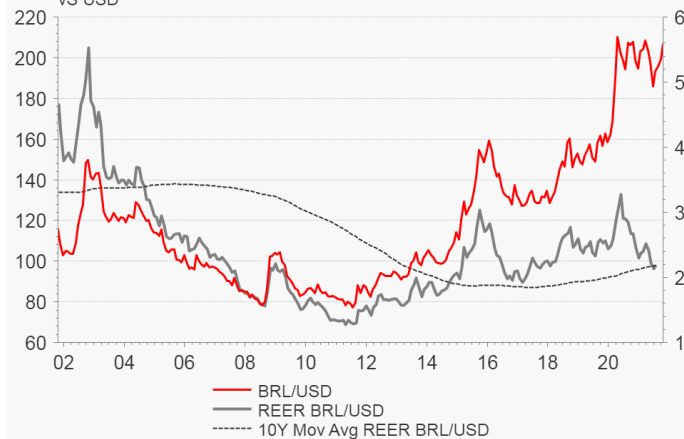
BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US\$ denominated bonds)



BRAZILIAN REAL - REER

vs USD





MEXICO

New energy reform project bringing unnecessary noise

Central Bank

Banxico decided in its last meeting, but not unanimously, to increase the reference rate at to 4.75% (25 bps hike). Two more increases in the year are discounted, the first of 25 bps in the November meeting. Unlike the last two increases, the central bank board voted 4-1 for the increase (August 3-2). The board composition will change in December with the addition of current Finance Secretary (Rogelio Ramirez de la O) as new governor, bringing a more dovish approach. The current voting distribution changes the bank's action outlook for next year as the more dovish approach of the new governor will not be sufficient to counter a hawkish board. The negative view on inflation was reaffirmed for the horizon where the central bank's monetary policy is effective; the balance of risks for growth also continues to be negative and there are emerging worries that current levels of inflation will remain through the beginning of 2022.

Economy and Inflation

Growth prospects for 2021 have remained above 6%, hand in hand with US economic performance and the impact it has on the external sector. The outlook for the following years reflects a return to trend growth, much closer to what has been the average for recent years. Inflation has for seven months remained above Banxico's long-term goal (+6.12% YoY for the 1H of October), driven by higher priced goods and services. The persistence in the increases, as in other economies, is due to the reopening of various sectors and the recent effect of energy prices. We estimate that YoY inflation will close 2021 above 6.2%.

Politics: All eyes on the new Energy reform

A bill was presented to reform articles 25, 27 and 28 of the Constitution seeking to make Mexico's state-owned utility *Comisión Federal de Energía* (CFE) the center of the electricity industry, boosting state control in this market. CFE will have the power to set wholesale and retail electricity prices (eliminating today's independent regulator), arguing that this will help to keep consumer prices low. With the electricity reform initiative, incentives in the clean energy sector are eliminated (harmful effect on private investment and the rule of law), and if it is approved and implemented, the US and Canada could file a State-State lawsuit. Finally, the bill would reserve future lithium extraction for the state. Our view is that there is a very low probability that the reform will be approved given the current congressional composition, but just the possibility of this outcome is giving the market jitters. President Lopez Obrador could be presenting the project even knowing that it will not be approved, with the idea of using it as a scapegoat to justify a higher energy prices environment.

Financial Markets. Positive on Equity but more cautious

Equity: The global context continues to favor risky assets, and in the case of Mexico we see better prospects for the fiscal position compared to relevant peers, with help also coming from the recovery of the US economy. Also on the positive side, the budget doesn't seem to include elements that discourage private investment. On the risk factors side, approval of the energy reform would be a negative for near-term equity market performance. We still see a positive environment for raw materials and infrastructure sector and companies with revenues tied to US economic performance. Expectations of growth, inflation and higher rates could be a favorable environment for financial companies.

Fixed Income & FX: The spread between peso bonds and US treasuries (10Ys) increased to 600 bps due to the proportionally greater increase in the peso curve with respect to the dollar curve and increases in the slope of the local curve given higher inflation, rate hikes and higher risk aversion. Regarding USD-denominated bonds, the return on the 10Y t-rate rate to levels of 1.60% cut the spread of the Mexican bond in dollars against the Treasury bond to 150 bps (below the average of the last 12M). We maintain the negative outlook on assets by estimating a spread of around 175 basis for the end of the year similar to the end of 2020. Regarding FX, volatility has increased in recent weeks (trading in the 20.30-20.60 range) with a target of 20.50 for year end.

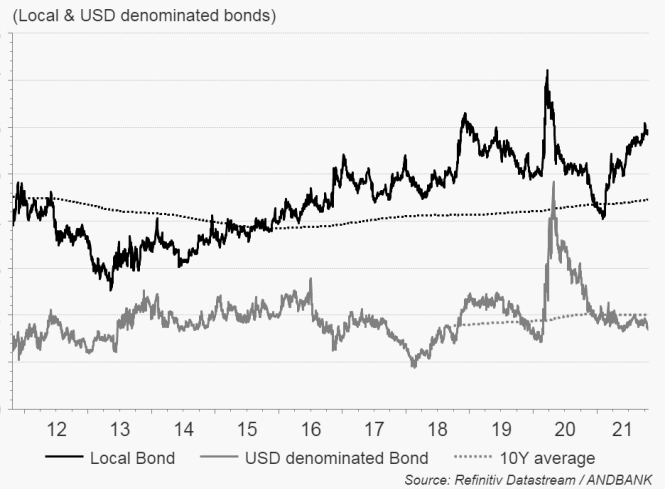
Market outlook – Recommendations & Targets from fundamental analysis

- Equities – Mex IPC: MARKETWEIGHT-UNDERWEIGHT
- Bonds – Govies Local: OVERWEIGHT (Spread 575bp)
- Bonds – Govies USD: UNDERWEIGHT (Spread 175bp)
- FX – MXN/USD: UNDERWEIGHT (Mid-term target 20.5)

Mexico MSCI Index price-to-earning



MEXICO - SPREAD 10 GOV BOND vs UST



MXN/USD Real Effective Exchange Rate





ARGENTINA

Expanding spending to achieve the miracle

All eyes are on November 14th, the day that midterm elections will be held. The government is resorting to a stimulus package (with increased monetary financing) to make up for the lost ground after the heavy defeat in the congressional primary election which resulted in strong internal disputes and a Cabinet reshuffle.

The ruling coalition is focusing on turning the election in Buenos Aires Province (4% difference in the primary elections) and in the senate races where the differences are not significant (especially in La Pampa and Chubut) in order to maintain sufficient seats to have quorum in the upper house. In Buenos Aires Province the government is trying to capture the votes of the former CFK minister, Florencio Randazzo (3.7% percent of votes) and the sector that voted for Facundo Manes in the *Juntos por el Cambio* (JxC) internal voting.

It seems very unlikely that the incumbent coalition will be able to reverse the results. The latest polls indicates that the government support has dropped (especially in the City of Buenos Aires) and that Diego Santili (JxC candidate in Buenos Aires Province) has been able to retain most of Facundo Manes votes and keep his distance with ruling coalition candidate (Tolosa Paz). Also in previous elections JxC benefited from higher turnout in the actual elections compared with primaries (JxC has an electorate with a higher average age). Last but not least, the government reaction after the primary elections shows a fragmented ruling coalition with no economic or social agenda.

IMF: Resuming dialogue

Argentina paid the IMF its first principal payment (1.88 bn USD) on its 2018 bailout loan, helped by the SDRs issued by the organization back in August (Argentina received 4.3 bn USD). The country has to face another payment for the same amount in December and 19 bn USD in total payments for 2022, making it imperative that the government close a deal by early 2022 at the latest. Fernandez said that Argentina wants to close a new deal as soon as conditions allow, denying reports that he had told a group of CEOs that an agreement wasn't expected for this year. Also Cabinet Chief Juan Manzur, during a meeting in the US with private investors, said that a positive agreement with the IMF is a national priority.

IMF MD, Kristalina Georgieva, met with Economy Minister Martin Guzman, and the two agreed to continue working together on developing a credible IMF loan program. One of Argentina's requests, voiced in several international forums, has been the elimination of interest surcharges that the IMF adds for loans to countries above its quota in the organization (200-300 bps). According to Bloomberg the board of the IMF, in an informal meeting, rejected this proposal.

CPI: No signs of relief

Prices jumped +3.5% MoM in September (vs. 2.5% MoM in August), well above market expectations (+2.8%), reaching a 12 month inflation of 52.5% YoY (vs 51.4% in August). Compared to last month there was no help from seasonal and regulated prices (+6.4% MoM & +3% MoM vs 0.6% MoM & +1.1% MoM in August) while core inflation stood above 3% (+3.3% MoM) for the 12th consecutive month (+57% YoY). The government is looking to freeze around 1,300 for a 90 days period, attacking the symptoms and not the illness (fiscal deficit monetization) and repressing inflation even more

Economic activity in August increased +1.1% MoM (SA) after a +0.9% MoM in July, surpassing the pre-pandemic level by 0.3% but still 7.5% below the November 2017 peak. The IMF improved its 2021 growth forecast for Argentina GDP (+7.5% vs previous +6.4%) in its new World Economic Outlook report, below the government's expectations (+8%). Regarding inflation and other fiscal variables, the IMF refused to offer forecasts for the 2021-2026 period, stating that they "are to a large extent linked to still-pending programme negotiations." The IMF Chief Economist, Gita Gopinath, added that inflation expectations are unanchored, in part due to the dependence on monetary financing in Argentina.

The gap between the parallel (blue chip swap) and the official exchange rate has been increasing in recent weeks, after a new wave of regulations in the foreign exchange market, currently standing at almost 100% (USDARS Official = 99.18, USDARS BCS= 195.22).

Market outlook – Recommendations & Targets from fundamental analysis

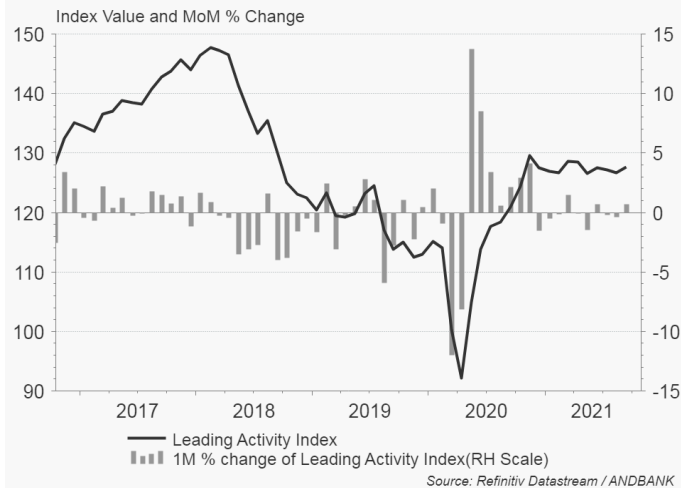
Bonds – 10YGov USD: NEUTRAL

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

ARGENTINA - ECONOMIC ACTIVITY INDICATOR



ARGENTINA - LEADING INDICATOR



Argentina foreign reserves





GLOBAL EQUITY INDICES

Fundamental assessment

Index	Projected EPS 2021	Projected EPS 2022	EPS Fw 12 months	Projected EPS Growth		Target PE	Spread PE trailing vs fw	INDEX CURRENT	Current Fair Value	E[Perf] to Fair Value	Qualitative Assessment	Exit Point	E[Perf] to Exit point
				PRICE	(EPS 12 month fw)			Fair Value					
USA S&P 500	188,7	210,0	206	35,8%	11,29%	22,00	0,90	4.592	4.535	-1,2%	MW/UW	4.989	8,6%
Europe - Stoxx Europe 600	27,2	28,3	28,1	57,5%	4,05%	18,00	1,03	476	505	6,1%	MW	555	16,7%
Euro Zone - Euro Stoxx	26,9	28,2	27,9	66,3%	4,76%	18,00	1,03	472	503	6,5%	MW/OW	553	17,2%
Spain IBEX 35	500,0	616,0	595	120,3%	23,20%	18,00	1,00	9.002	10.710	19,0%	OW	11.781	30,9%
Mexico IPC GRAL	3.400,0	3.815,0	3.740	108,6%	12,21%	15,00	0,98	51.890	56.099	8,1%	MW/UW	61.709	18,9%
Brazil BOVESPA	12.175	12.077	12.095	497,4%	-0,80%	10,35	1,18	107.042	125.180	16,9%	MW/OW	137.698	28,6%
Japan NIKKEI 225	1.468,0	1.618,0	1.591	43,2%	10,22%	19,00	0,96	29.106	30.227	3,9%	MW/OW	33.249	14,2%
China SSE Comp.	272,0	304,0	298	22,9%	11,76%	12,50	0,95	3.598	3.728	3,6%	UW	4.100	14,0%
China Shenzhen Comp	103,5	123,0	119	19,2%	18,84%	22,00	0,94	2.424	2.628	8,4%	MW	2.891	19,3%
India SENSEX	2.500,0	2.699,0	2.663	55,0%	7,96%	23,00	0,94	61.350	61.249	-0,2%	MW	67.374	9,8%
Vietnam VN Index	82,4	99,6	96	37,6%	20,89%	17,00	1,01	1.392	1.640	17,9%	OW	1.804	29,7%
MSCI EM ASIA	46,5	51,5	51	30,9%	10,74%	15,00	1,00	699	760	8,6%	OW	835	19,4%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS

Risk Outlook: Andbank's Assessment: -1 (in a -7/+7 range)

Aggregate (MW-UW): We remain cautious although last week has shown some relief.

Market Positioning (MW-UW): Asset allocation in equity is still high in portfolios (not necessarily in the same stocks). The Put/Call ratio indicates high hedging level of portfolios with an increase month on month. Finally, Skew at 150 levels reflects that fear of a violent downside movement remains well present.

Flow Analysis (MW): Net inflows in US equities indicate a positive trend in equities during the last week, offsetting previous outflows. However, there has been a reallocation toward ESG and Value thematic. Asian countries and developed markets also recovered.

Surveys & Sentiment Analysis (MW-UW): Sentiment from investors has reached a more neutral area after a huge drop during the market sell-off; our reading still sees it as slightly negative.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

Name	Refinitiv Ticker	View 1 month	Principal Support	Principal Resistance	Support 1 month	Resistance 1 month	Target (TA) 12M	@	Return to Target (TA)
Euro Stoxx Index	.STOXXE	Lateral	375,63	469,25	437,06	475,48	468,54	466,08	0,53%
Euro Stoxx 600	.STOXX	Lateral	338,57	475,13	430,03	476,16	486,45	469,39	3,63%
Ibex	.IBEX	Bullish	7.663,50	9.676,00	8.252,00	9.310,80	10.000,00	8.997,00	11,15%
S&P	.SPX	Lateral	3.209,00		4.233,00	4.545,85	4.577,00	4.471,37	2,36%
Japón	.N225E	Lightly bullish	24.448,00	38.957,00	29.128,00	33.344,00		29.025,46	
China	.SZSC	Lightly bearish	1.744,00	3.156,96	2.330,85	2.511,97	2.441,00	2.402,04	1,62%
India	.BSESN	Lightly bullish	35.987,00		53.290,00			61.305,95	
Brasil	.BVSP	Lateral	90.147,00		107.319,15	0,00		114.647,99	
México	.MXX	Lightly bullish	35.652,42	50.603,00	50.268,45	53.400,27	52.714,31	52.798,38	-0,16%
Oil West Texas	.WTCLc1	Bullish	57,26	107,56	69,41	91,25	96,70	82,50	17,21%
Gold	.XAU=	Lightly bearish	1.659,00	2.072,49	1.684,37	1.832,40	1.897,13	1.767,26	7,35%
Treasury 10Y USA	.US10YT=RR	Lightly bullish	0,5040%	1,9730%	1,2600%	1,7760%		1,573%	
Bund 10Y Germany	.DE10YT=RR	Lightly bullish	-0,6710%	-0,0740%	-0,3700%	-0,0740%		-0,173%	
Euro	.EUR=	Lightly bearish	1,1400	1,2555	1,1492	1,1909	1,2156	1,1600	4,79%
Libra	.GBP=	Lightly bullish	1,1957	1,4376	1,3449	1,4008		1,3749	
Yen	.JPY=	Bullish	102,5700	115,5000	111,6500	115,5000	117,9000	114,2000	3,24%
Franco Suizo	.CHF=	Lightly bullish	0,7360	0,9600	0,9053	0,9472		0,9226	
Real Brasileño	.BRL=	Lateral	4,8165	5,9708	5,1150	5,8077		5,4611	
Peso Mexicano	.MXN=	Lateral	18,5100	25,7387	19,5300	21,6310	21,6500	20,3290	6,50%

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 USD60-70/bbl

Buy < USD60; Sell >USD70

Short-term drivers

(Price Negative) – EIA data show Permian output nearing pre-pandemic record: Yesterday's EIA Drilling Productivity Report forecast total US shale output up 77K bpd in November to 8.219M bpd, extending the 68K bpd m/m growth from October. Permian production is expected to increase by 62K BPD in November to 4.888M bpd, up from a 54K bpd rise in October. Bakken production for November is expected to grow by 5.6K bpd. While total US production is still lagging, Permian output rose close to the 4.913M bpd record set in Mar-20, just before the pandemic. The Permian has low breakeven production costs, high rates of productivity, and is the US region best positioned to recover. Other shale plays have seen a slow recovery, with Bakken expected to still be 26% short of its historical high and Eagle Ford 37% below its peak.

(Price Negative) – Hedge fund oil trades are becoming crowded. There is a risk of a sharp reversal. Hedge fund buying interest in oil trades is becoming crowded and at risk of a sudden reversal. According to regulatory records, hedge funds and other money managers purchased the equivalent of 24M barrels in oil-related futures and options contracts in the week to 5-Oct. Purchases over the past six weeks have totaled 194M barrels, reversing more than two thirds of the 268M barrels sold over the previous 10 weeks, while the number of short positions across all six most relevant contracts has fallen to the lowest for 124 weeks, as continued price escalation forces bearish fund managers to close out positions. In summary, there are almost no shorts in crude, while longs are at highs. In the week of 18th October, the combined position (WTI plus Brent) across the six most important petroleum-linked contracts was down 16M barrels w/w, but still remains at 855M barrels, in the 77th percentile since 2013, while the long-to-short ratio of 6.9:1 remains in the 86th percentile. The bullish positioning is underpinned by the reluctance of OPEC+ but also of US shale producers to increase output despite the highest prices in seven year, though prices risk a sharp reversal if consumption proves weaker than expected or managers take some profits.

(Price Negative) – Bullish bets on crude to reach \$100 as traders bet on more supply chain disruptions and shortages: Traders are betting again that WTI will surge above \$100 a barrel as early as December, a level crude hasn't hit since the oil crash of 2014. Bets for Brent hitting \$200 by the end of 2022 have also risen recently, with investors betting that supply chain disruptions and regional shortages will continue to push energy markets higher. The expected volatility in the crude options market has also risen alongside prices, reversing the typical relationship and a sign that so many traders are piling into the market that bigger swings are almost becoming inevitable. However, we should warn that ebbing demand could weigh heavily on prices. Moving ahead, we still think that oil fundamentals could ultimately disappoint, and that downside risks are underappreciated.

(Price Negative) – Saudis say they are serious about mending fences with Iran: Saudi Arabia's Foreign Minister Faisal bin Farhan al-Saud said ongoing talks with Iran are serious and cordial, but exploratory. Riyadh believes negotiations have not made enough progress to justify restoring full diplomatic relations, but that the kingdom is evaluating a request to reopen an Iranian consulate in Jeddah. Saudi officials have said the talks show Tehran is trying to signal its seriousness in resolving regional tensions, which could have a meaningful impact on Iran's nuclear negotiations with the US and other powers about returning to the 2015 nuclear pact. Saudi foreign minister said he and US Secretary of State Blinken exchanged views on Iran's nuclear program in a face-to-face meeting.

(Price Negative) – Oil cargos begin to circulate. China's largest refinery to receive its first cargo: Platts reports Shendong Petrochemical, a privately owned facility that is now China's largest refinery, will receive its first crude cargo in late October after getting its first quota round today.

(Price Positive) – OPEC and its allies fail in September to produce enough to meet output targets: OPEC+ production for September was 15% below its target, compared with 16% in August and 9% in July. Total output could have been 747K bpd higher had the group hit its target for the month. Some members, including Angola, Nigeria, and Azerbaijan, were unable to raise output to agreed volumes due to lack of investment, exploration, and other issues. The report comes ahead of the next OPEC+ meeting, which takes place 4-Nov and comes amid heightened political pressure from consumers.

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 on 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 view (Gold): Target range USD1,700 – 1,900 /oz

Buy < USD1,700; Sell >USD1,900

Positive drivers 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: The Gold/Palladium ratio jumped to 0.92, well below its 20-year average of 1.85x, suggesting that gold is deeply cheap relative to palladium, or palladium is even more expensive than gold.

Negative drivers for gold

Gold expensive relative to silver. The Gold/Silver ratio fell to 73.62 but is still above its 20-year average of 66.48x, suggesting that gold is 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\$1,631/oz.

Gold to oil: This ratio fell to 21.49, still well above its 20-year average of 18.13x. Considering our fundamental fair value for WTI oil at US\$65 and assuming that the functional utility of both commodities will remain unchanged, the price of gold must approach US\$1,178 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.1782), 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\$1,533. Therefore, in real terms, gold continues to trade well above its 20-year average of US\$1,035. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US\$1,219.

The three identified threats that could end the gold rally no longer seem so distant. What are these threats? 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 Plaza Accord 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. Therefore, the only four threats to the gold bull market seem to be: 1) higher nominal rates; 2) stronger USD; 3) a rise in real rates; 4) a loss of momentum. But how real and dangerous is the risk of each of these factors bringing an abrupt end to the gold rally?

Looking at this history and knowing that a gold bull market usually feeds on its own momentum for quite a while, and only ends when facing higher nominal rates or a stronger USD or a rise in real rates, it seems reasonable to me to sound a small alarm signal that **we could be close to a turn in the trend of gold (downward)**, since gold has totally lost its momentum, and also because the possibility of an increase in interest rates, which is becoming more visible with the imminent start of tapering by the Fed.

Risk #1. Higher nominal rates (MEDIUM RISK): Although a few months ago it seemed impossible to think of rate hikes by monetary authorities, this possibility is gaining ground with each passing day.

Risk #2. Stronger USD (MEDIUM RISK): The US current account balance has been gradually improving, leading to a shortage of dollars and a rise in its price (negative for gold). With a longer-term view, we do not foresee a jump in the US current account balance that will boost the USD dramatically. 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. However, a more determined FED in its exit strategy (tapering) could cause a certain shortage of the USD, which would have a very negative effect on the price of gold.

Risk #3. A rise in real rates (LOW RISK): Even if nominal rates rise, the only way OECD countries could experience surging real rates would be through inflation rates collapsing. 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 right now. With this in mind, it seems that a surge in real rates is not an immediate threat.

Risk #4 Momentum – (MEDIUM RISK) Gold bull markets usually feed on their own momentum for quite a while. The price of gold has lost traction and momentum for some time, and with it, a self-reinforcing momentum. A constructive view could be that perhaps the emerging world could recreate a gold-prone cycle, such as the one experienced in 2001-2011. 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 was created in the US (by people with scant interest in gold), and with EM growth having been much more moderate. If EMs thrive again, led by Asia, this could be a tailwind for gold. But at the moment we do not have a clear opinion about Asia, dragged by a China engrossed in a kind of nihilist existence.



CURRENCIES

EXCHANGE RATES

Flow analysis & Fundamental targets

USD vs All: Z-Score Analysis: Unfavorable view for the US dollar in the short-term.

EM Currencies: Z-Score Analysis: Favorable view for the US dollar in the short-term.

EUR-USD: Fundamental Target 1.18 (Buy USD at 1.20, Sell USD at 1.16) // Z-Score Analysis: Favorable to the EUR in the ST

USD-JPY: Fundamental Target 111; **EUR-JPY:** Target 131 // Z-Score Analysis: Slightly favorable to the JPY vs the USD

GBP-USD: Fundamental Target 1.38; **EUR-GBP:** Target 0.85 // Z-Score Analysis: Neutral view on the GBP vs the USD

USD-CHF: Fundamental Target 0.93; **EUR-CHF:** Target 1.10 // Z-Score Analysis: Neutral view on the GBP vs the USD

USD-BRL: Fundamental Target 5.30; **EUR-BRL:** Target 6.25 // Z-Score Analysis: Neutral view on the BRL vs the USD

USD-MXN: Fundamental Target 20,5; **EUR-MXN:** Target 24.2 // Z-Score Analysis: Favorable to the MXN vs the USD

USD-ARS: Target 140, Negative on the ARS

USD-INR: Target 74, Neutral on the INR

CNY: Target 6.35. Neutral on the CNY

RUB: Negative view on the RUB vs USD

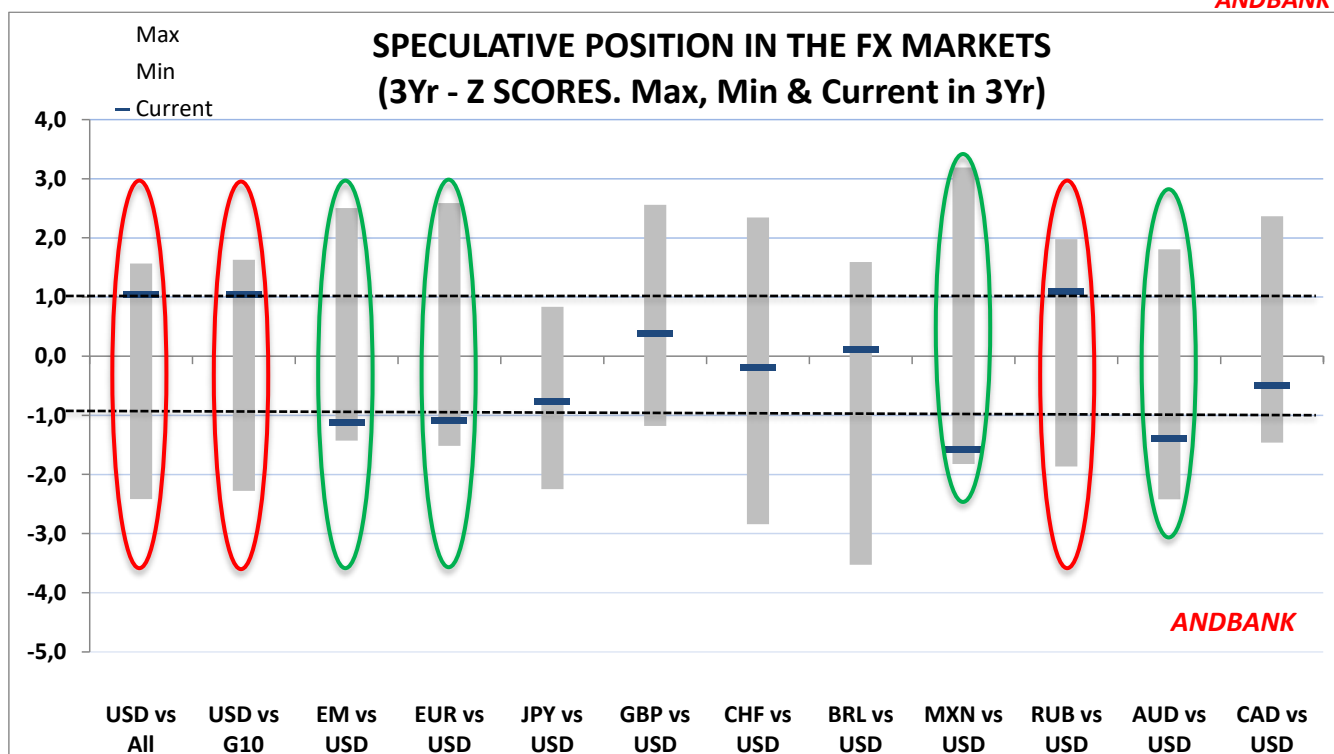
AUD: Favorable view on the RUB vs USD

CAD: Neutral view on the RUB vs USD

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	21,52	8,07	32,1	-28,2	1,9	1,04
USD vs G10	21,34	7,63	32,7	-25,4	2,8	1,03
EM	-0,18	-0,44	3,9	-0,8	1,4	-1,13
EUR	-1,76	-3,53	23,4	-8,6	8,5	-1,10
JPY	-11,23	-4,81	0,6	-15,0	-8,0	-0,77
GBP	0,14	0,16	4,3	-6,5	-0,9	0,39
CHF	-2,38	-1,13	1,8	-6,0	-2,0	-0,20
BRL	-0,01	-0,12	0,7	-0,8	-0,1	0,11
MXN	-0,95	-0,48	3,3	-1,0	1,0	-1,58
RUB	0,78	0,16	1,2	-0,3	0,4	1,09
AUD	-5,68	0,51	6,1	-6,6	-1,0	-1,39
CAD	-0,88	1,29	6,1	-5,0	0,5	-0,50

- 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	3,3%	21,6%	4.590	4.535	-1,2%
	Europe - Stoxx Europe 600	2,9%	18,3%	476	505	6,1%
	Euro Zone - Euro Stoxx	1,5%	17,7%	472	503	6,5%
	SPAIN - IBEX 35	0,0%	10,5%	9.002	10.710	19,0%
	MEXICO - MXSE IPC	0,6%	17,6%	51.928	56.099	8,0%
	BRAZIL - BOVESPA	-5,8%	-8,7%	106.941	125.180	17,1%
	JAPAN - NIKKEI 225	-3,8%	4,2%	29.106	30.227	3,9%
	CHINA - SHANGHAI COMPOSITE	0,4%	3,9%	3.598	3.728	3,6%
	CHINA - SHENZHEN COMPOSITE	0,7%	4,5%	2.424	2.628	8,4%
	INDIA - SENSEX	2,1%	27,7%	61.350	61.249	-0,2%
	VIETNAM - VN Index	5,0%	25,5%	1.392	1.640	17,9%
	MSCI EM ASIA (in USD)	2,5%	-1,9%	699	760	8,6%
Fixed Income Core countries	US Treasury 10 year Govie	-1,1%	-5,0%	1,64	1,80	0,3%
	UK 10 year Gilt	-1,5%	-7,5%	1,14	1,50	-1,7%
	German 10 year BUND	-0,9%	-4,2%	-0,11	0,00	-1,0%
	Japanese 10 year Govie	-0,4%	-0,7%	0,10	0,20	-0,7%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,8%	-3,8%	0,51	0,60	-0,2%
	Italy - 10yr Gov bond	4,7%	2,8%	0,21	0,75	-4,1%
	Portugal - 10yr Gov bond	-0,6%	-3,2%	0,38	0,60	-1,3%
	Ireland - 10yr Gov bond	-1,2%	-4,9%	0,26	0,40	-0,9%
	Greece - 10yr Gov bond	-1,6%	-2,6%	1,01	1,60	-3,7%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,1%	-0,2%	51,75	55	-0,1%
	Credit EUR HY-Itraxx Xover	-0,6%	0,8%	268,64	250	2,7%
	Credit USD IG - CDX IG	0,0%	-0,1%	52,09	67	0,2%
	Credit USD HY - CDX HY	-0,1%	1,7%	301,77	318	2,7%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-9,2%	-42,5%	19,12	20,00	12,1%
	Russia - 10yr Gov bond (local)	-4,8%	-11,8%	7,97	7,50	11,7%
Fixed Income Asia (Local currency)	Indonesia - 10yr Gov bond (local)	1,1%	2,7%	6,11	5,10	14,2%
	India - 10yr Gov bond (local)	-0,8%	1,0%	6,36	6,00	9,2%
	Philippines - 10yr Gov bond (local)	-3,1%	-12,9%	4,88	4,75	5,9%
	China - 10yr Gov bond (local)	-0,6%	4,0%	2,98	2,25	8,8%
	Malaysia - 10yr Gov bond (local)	-1,1%	-5,3%	3,58	3,25	6,3%
	Thailand - 10yr Gov bond (local)	-1,0%	-5,8%	1,92	1,50	5,3%
	Singapore - 10yr Gov bond (local)	-1,8%	-6,6%	1,73	2,75	-6,5%
	Rep. Korea - 10yr G. bond (local)	-2,1%	-4,5%	2,35	3,40	-6,0%
	Taiwan - 10yr Gov bond (local)	-0,5%	-1,5%	0,49	1,35	-6,4%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-2,1%	-14,3%	7,58	7,55	7,8%
	Mexico - 10yr Govie (USD)	-0,6%	-3,1%	3,25	3,55	0,9%
	Brazil - 10yr Govie (Loc)	-6,3%	-34,6%	11,96	9,80	29,2%
	Brazil - 10yr Govie (USD)	-2,8%	-8,4%	4,83	4,55	7,1%
Commodities	Oil (WTI)	10,9%	72,5%	83,7	60,00	-28,3%
	GOLD	2,9%	-5,0%	1.800,8	1.900	5,5%
Fx	EURUSD (price of 1 EUR)	-0,8%	-5,0%	1,160	1,18	1,7%
	GBPUSD (price of 1 GBP)	0,6%	0,7%	1,38	1,38	0,5%
	EURGBP (price of 1 EUR)	-1,3%	-5,7%	0,84	0,85	1,2%
	USDCHF (price of 1 USD)	-0,5%	4,1%	0,92	0,93	1,1%
	EURCHF (price of 1 EUR)	-1,3%	-1,1%	1,07	1,10	2,8%
	USDJPY (price of 1 USD)	2,7%	10,5%	114,04	111,06	-2,6%
	EURJPY (price of 1 EUR)	1,9%	4,9%	132,32	131,05	-1,0%
	USDMXN (price of 1 USD)	0,6%	1,7%	20,22	20,50	1,4%
	EURMXN (price of 1 EUR)	-0,2%	-3,3%	23,44	24,19	3,2%
	USDBRL (price of 1 USD)	3,0%	7,0%	5,56	5,30	-4,6%
	EURBRL (price of 1 EUR)	2,2%	1,6%	6,44	6,25	-3,0%
	USDARS (price of 1 USD)	1,0%	18,2%	99,38	140,00	40,9%
	USDINR (price of 1 USD)	1,8%	2,8%	75,12	74,00	-1,5%
	CNY (price of 1 USD)	-1,1%	-2,2%	6,38	6,35	-0,5%

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

UPWARD REVISION

DOWNWARD REVISION



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