GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – August –September 2022

Corporate Review

August-September 2022

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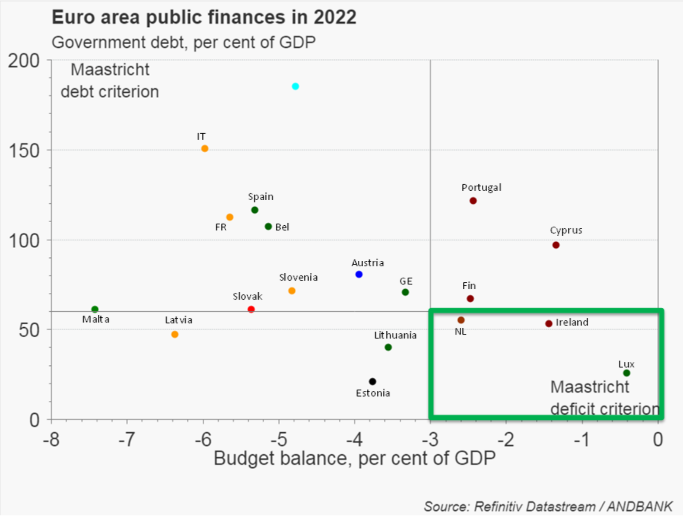
EXECUTIVE SUMMARY

CHART OF THE MONTH



As Marcus Aurelius very wisely said: “what is not useful for the hive, is not useful for the bee”

EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point
USA S&P 500	4.119	4.390	6,6%	MW-OW	4.829
Europe - Stoxx Europe 600	435	479	10,1%	MW-OW	527
Euro Zone - Euro Stoxx	407	470	15,4%	MW-OW	517
Spain IBEX 35	8.093	9.623	18,9%	OW	10.585
Mexico IPC GRAL	47.385	60.730	28,2%	OW	66.803
Brazil BOVESPA	102.225	112.500	10,1%	MW	123.750
Japan NIKKEI 225	27.595	29.748	7,8%	MW	32.723
China SSE Comp.	3.186	3.476	9,1%	MW	3.823
China Shenzhen Comp	2.138	2.468	15,4%	MW/OW	2.715
India SENSEX	58.079	69.899	20,4%	OW	76.889
Vietnam VN Index	1.242	1.713	38,0%	OW	1.884
Taiwán SE Weighted Index	14.747	18.514	25,5%	MW/OW	20.366
MSCI EM ASIA	536	637	18,9%	OW	700

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Indices	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
US Treasury 10 year Govie	-7,5%	2,56	3,50	-4,9%
UK 10 year Gilt	-5,8%	1,76	1,75	1,8%
German 10 year BUND	-7,4%	0,73	1,75	-7,4%
Japanese 10 year Govie	-0,8%	0,17	0,25	-0,5%
Spain - 10yr Gov bond	-9,8%	1,81	2,75	-5,7%
Italy - 10yr Gov bond	-13,7%	2,95	4,05	-5,9%
Portugal - 10yr Gov bond	-9,9%	1,72	2,75	-6,5%
Ireland - 10yr Gov bond	-8,8%	1,35	2,25	-5,9%
Greece - 10yr Gov bond	-11,8%	2,82	3,95	-6,2%
Credit EUR IG-Itraxx Europe	-1,7%	102,81	80	1,9%
Credit EUR HY-Itraxx Xover	-7,3%	520,13	400	9,0%
Credit USD IG - CDX IG	-1,0%	80,43	90	3,3%
Credit USD HY - CDX HY	-4,0%	471,12	475	7,4%

FIXED INCOME - EM

Indices	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Turkey - 10yr Gov bond (local)	61,0%	17,00	20,00	-7,0%
Russia - 10yr Gov bond (local)	0,0%	9,00	14,00	-31,0%
Indonesia - 10yr Gov bond (local)	-2,6%	7,12	6,25	14,0%
India - 10yr Gov bond (local)	-2,3%	7,20	7,25	6,8%
Philippines - 10yr Gov bond (local)	-8,9%	6,17	6,20	5,9%
China - 10yr Gov bond (local)	1,9%	2,73	2,75	2,5%
Malaysia - 10yr Gov bond (local)	-0,4%	3,88	3,50	6,9%
Thailand - 10yr Gov bond (local)	-2,7%	2,35	3,50	-6,9%
Singapore - 10yr Gov bond (local)	-6,8%	2,62	3,75	-6,4%
Rep. Korea - 10yr G. bond (local)	-5,3%	2,98	4,00	-5,2%
Taiwan - 10yr Gov bond (local)	-3,0%	1,11	2,25	-8,0%
Mexico - 10yr Govie (Loc)	-2,3%	8,40	9,30	1,2%
Mexico - 10yr Govie (USD)	-10,9%	4,73	5,40	-0,6%
Brazil - 10yr Govie (Loc)	-14,6%	12,88	13,00	11,9%
Brazil - 10yr Govie (USD)	-7,7%	5,95	6,75	-0,4%

COMMODITIES & FX

Indices	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Oil (WTI)	23,6%	92,9	100,00	7,6%
GOLD	-3,1%	1.771,1	1.800	1,6%
EURUSD (price of 1 EUR)	-10,0%	1,023	1,04	1,7%
GBPUSD (price of 1 GBP)	-9,9%	1,22	1,27	3,8%
EURGBP (price of 1 EUR)	-0,1%	0,84	0,82	-2,0%
USDCHF (price of 1 USD)	4,3%	0,95	0,93	-2,2%
EURCHF (price of 1 EUR)	-6,1%	0,97	0,97	-0,6%
USDJPY (price of 1 USD)	13,9%	131,08	128,00	-2,3%
EURJPY (price of 1 EUR)	2,5%	134,13	133,12	-0,8%
USDMXN (price of 1 USD)	-0,3%	20,42	20,75	1,6%
EURMXN (price of 1 EUR)	-10,3%	20,88	21,58	3,3%
USDBRL (price of 1 USD)	-6,9%	5,19	5,25	1,2%
EURBRL (price of 1 EUR)	-16,2%	5,31	5,46	2,9%
USDARS (price of 1 USD)	28,4%	131,89	175,00	32,7%
USDINR (price of 1 USD)	5,6%	78,61	76,00	-3,3%
CNY (price of 1 USD)	6,4%	6,76	6,65	-1,6%

US

But the Fed signaled at its July meeting that it could have changed from a backward-looking approach to a more forward-looking one

Until recently, investors thought the Fed would continue to tighten aggressively

With both trailing inflation and forward inflation expectations running above policymakers' comfort zone, market participants are convinced that the Fed will continue to tighten aggressively. That could be reason enough for any investor to sell their risk assets and forget about the market for a while. However, too many questions need to be answered, and that makes investment decisions difficult today. What will happen if the Fed succeeds in its mission to put the inflation genie back in the bottle? How will it define success? Inflation expectations fall back to target while trailing inflation measures remain elevated? Or is it necessary to see both measures under control? Is the Fed more backward-looking or forward-looking? But the Fed's new policy approach weighs heavily on investors' sentiment: Before 2020, the Fed maintained a forward-looking approach, but recently the Fed revised its policy approach and effectively split the target into two: (i) trailing inflation that averages 2% over some unspecified time, and (ii) inflation expectations that are well anchored around 2%. That is why investors believe the Fed could continue to tighten aggressively. While market-based measures of inflation expectations have already moderated (the breakeven inflation rate on 10-year Treasury inflation protected securities has fallen from 3% three months ago to 2.3%—not so far above the Fed's target of 2%), the flip side of the coin is that trailing measured inflation is running hot (in June, the US consumer price index was up 9.1% year-on-year, and up an annualized 11% on a qoq basis), meaning that by all conceivably-relevant look-back periods, trailing inflation has overshot the Fed's average 2% target, and this calls for further tightening.

A change in the Fed's approach that has been very well received by the market

Today's Fed is likely to give inflation expectations at least as much weight, or even more, as trailing inflation. Why? 1) Fed chairman Jay Powell has repeatedly stated that the "ultimate goal" of monetary policy is well-anchored inflation expectations and that the Fed's average 2% target for trailing inflation is merely a means to that end. This puts the emphasis on inflation expectations. 2) Trailing inflation can be noisy. Prices are affected by transient factors —which can be misleading. 3) Inflation expectations have proved a useful guide to Fed policy in the past. In 2013, after the 10-year breakeven inflation rate rose to the high end of its normal range (around 2.5%), then-chairman Ben Bernanke started talking about tapering quantitative easing, even though trailing inflation was still on target. In 2021, after the 10-year breakeven rate again rose to 2.5%, the Fed immediately started to talk seriously about tapering. 4) In January, Powell declared: "There's nothing in our framework about having inflation run below 2%... What we're trying to do is... keep inflation expectations well anchored at 2%. That's always the ultimate goal." In other words, the only reason the Fed would intentionally run inflation cold would be if it was deemed necessary to reanchor long-term inflation expectations back down at 2%.

Thus, it is clear that the focus is on the expectation of inflation. If it falls back to target or below—and shows signs of staying there—the Fed may well ease up on the brakes, even if trailing inflation is still elevated. Of course the Fed would like to see measured inflation cool from present levels. In that regard, and despite the strong inflation figure in June, we think several dynamics will help to reduce measured inflation in the upcoming months. As a result of lower oil prices seen recently, gasoline prices dropped 14% from the mid-June peak (4.35 USD per gallon vs 5 USD) but they are still well above the levels seen at the beginning of the year (3.2 USD). On the other hand, we are seeing increasing signs that disruptions and delays in global component supplies are gradually being resolved. Also, inventories are beginning to grow, readjusting supply and demand, while mortgage rate increases are impacting home sales and mortgage applications.

Economic activity: Mixed data

All said, the question is what effect the Fed's restrictive policy may have on economic activity. The analysts are expecting a negative growth number for the second quarter GDP, therefore a technical recession. We see this as a narrow way to define a recession, requiring attention to a broader data set. The strength of the labor market continues to be the bright spot of the American economy. Total nonfarm payroll employment rose by 372K in June (vs 384K in May), with private payrolls reaching pre-pandemic levels, while the unemployment rate remained at 3.6 percent. Job openings still greatly exceed the number of job seekers (1.9 job openings for every unemployed person in May).

Leading confidence indicators have been on the decline for several months and today they constitute the main evidence that supports the thesis of economic recession for the following months. The Conference Board Consumer Confidence decreased in July, following a decline in June and May. The Index fell to 95.7 (from 98.4 in June) and now stands at its lowest level since February 2021 (Index=95.2). Total existing-home sales dipped 5.4% m/m to a seasonally adjusted annual rate of 5.12 million in June (-14.2% y/y). But building permits stood at 1,685,000, still below the 1,805,000 peak in April 2022.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT-OVERWEIGHT

Bonds: Govies UNDERWEIGHT. 10Y UST Target 3.5%

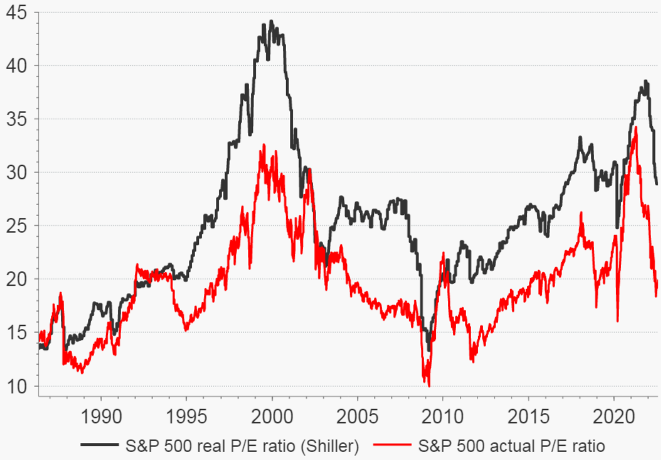
CDX IG: MARKETWEIGHT (Target Spread 90)

CDX HY: MW-OVERWEIGHT (Target Spread 475)

Forex: DXY index MARKETWEIGHT-UNDERWEIGHT

US measures of price / earnings

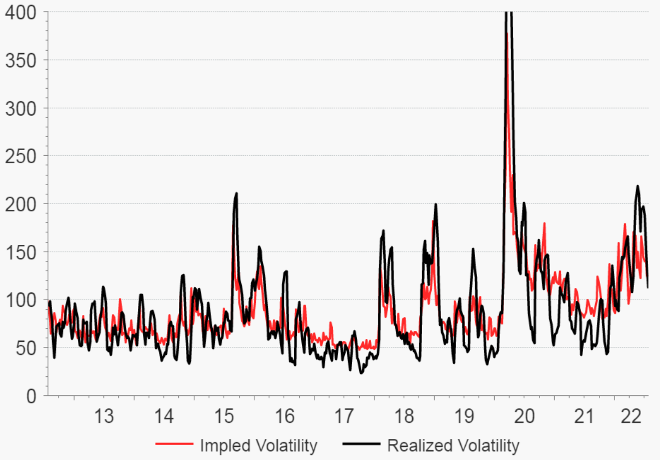
Ratios



Source: Refinitiv Datastream / ANDBANK

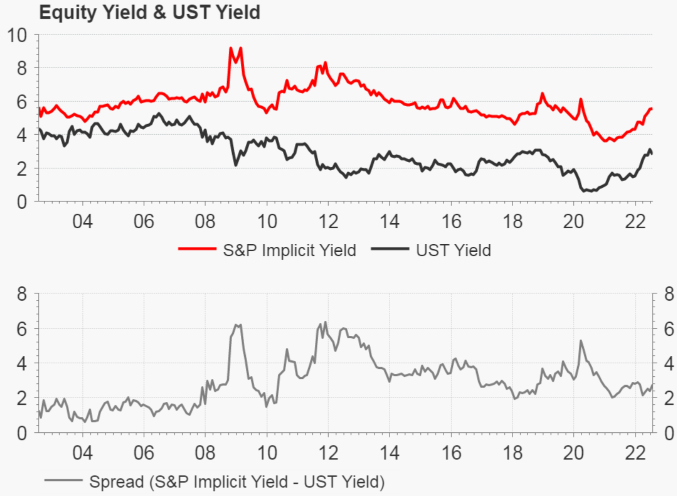
VIX VOLATILITY INDEX

Rebased 100



Source: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

EUROPE

ECB: The new “hiking club” member

ECB: ECB unanimous in accelerated rates rise and approval of the TPI

The European Central Bank has finally joined the majority of the world’s issuing institutions that have taken the step of raising interest rates. Surprise rate hike: +50 bps (applicable to the ECB’s three benchmark rates). This is the first hike in 11 years and, furthermore, the highest rise in 22 years (50 bps vs 25 bps hike consensus). Decisions will now be made “meeting by meeting.” We are waiting for inflation that could peak in September-October, and we maintain a +75 bps rise towards the end of the year, with the risk of a 100 bps move.

At the same time, the ECB has agreed to create an anti-fragmentation mechanism, without resource limits, to prevent the rise of interest rates from being translated into a higher risk premium and causing the financial fragmentation of the euro zone. The program was not rich in details, although enough information was given. It should be noted that there was unanimity within the Council. A program designed to meet market expectations of not having a limited quantity. The magnitude of the TPI’s debt purchases will depend on the severity of the market disorder. Requires compliance with a series of fiscal criteria (EU fiscal scheme, fiscal sustainability), macro conditions (absence of significant imbalances), and compliance with EU policies. That said, the ECB did not mention some important details about sterilization, evaluation of the conditions that trigger the use of the program, or the communication mechanism. The decision on the use of the new instrument will be discretionary by the ECB.

On the macro side, there is a slowdown in demand that clouds forecasts, and inflation that will remain high and above the ECB’s target for some time. Asked about the risk of recession, Lagarde recalled that it was not the ECB’s baseline scenario in 2022 or 2023 and insisted on the risks and also on the ECB’s mandate to achieve price stability, discretionary by the ECB. Logical room for maneuver for the ECB.

Europe’s leadership crisis in Italy

Italy is heading for snap elections (September 25) after Draghi’s resignation, as key coalition allies boycotted a confidence vote. Opinion polls are showing a competitive race between the center-left Democratic Party and the right-wing Brothers of Italy party (allies of Forza Italia and the League). On the other hand, the UK is on its way to choosing a new Conservative leader after its PM resigned following a cabinet crisis. Sunak leads in the Tory leadership ballot.

Russian oil: a coin toss

Europe’s main macro threat is called Russian gas. Supply has been reduced by 2/3, with Uniper (main Gazprom client) receiving just 40% of the supplies and inventory levels well below winter needs. If supplies are not normalized in the coming weeks, Europe will be forced to deploy some degree of gas market intervention. How could Russian gas be offset? There seems to be little room from LNG, as European imports are at high levels and most of the new projects will not be implemented in the short term. Moreover, Europe will be facing competition from other countries whose demand recovers (e.g. China). Adjustment would therefore have to come from the demand side, which would need to be lowered by 7-8% in 2022, and 5-6% in 2023. Although this reduction does not seem dramatic in absolute terms, these percentages constitute a big challenge, as they amount to half the reductions experienced during the first COVID lockdowns. The industrial complex would be deeply affected, leading to recession in Europe. The final impact is still hard to gauge and would also depend on eventual savings on the consumption side (38% of the gas demand), likely prioritized in terms of supply but with a role to play to diminish the drag in activity. Should gas prices remain at these levels, the HCPI would have to be revised upwards (+1%) and growth downwards (-0.5%).

Financial Markets: Govies, Corporate Credit & Equity

Govies: Since we lack visibility regarding Europe’s macro forecasts, we stick to our revised Bund target of 1.75%, valid into 1H2023. As for peripherals, we are updating our Italian premium (from 180 bps to 230 bps) as a result of increased political uncertainty.

Corporates: Yields for Senior IG have compressed from 3.5% to 3.14%. If we look at the medium or long term, we are more optimistic and believe that also the high yield category and the financial sector will be able to recover and are offering opportunities.

Equity market: The multiple expansion seen in 2021 has disappeared. If a sharp recession doesn’t come through, it may be time to increase exposure to cyclical names. UK remains our top country pick at this time. Spanish equities is another way to play a catch-up.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT-OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT-OVERWEIGHT

Equities – Spain’s Ibex: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 1.75%)

Peripheral – UW IT (4.05%), SP (2.75%), PO (2.75%), GR (3,95%), IE (2.25%)

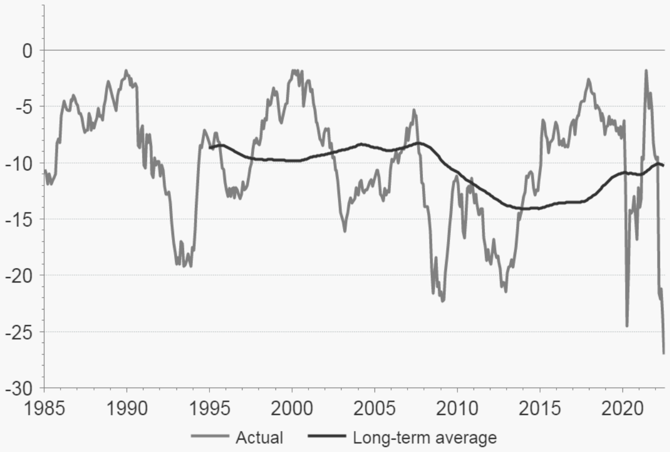
Credit – Itraxx Europe (IG): MARKETWEIGHT- OW (Target Spread 80)

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

FX – EUR/USD Target 1.04 (Buy USD at 1.07, Sell USD at 1,00)

Euro area consumer confidence

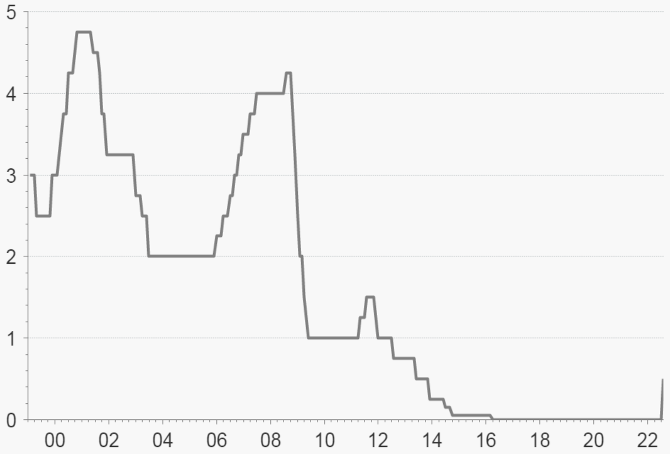
Balance



Source: Refinitiv Datastream / ANDBANK

European Central Bank main refinancing rate

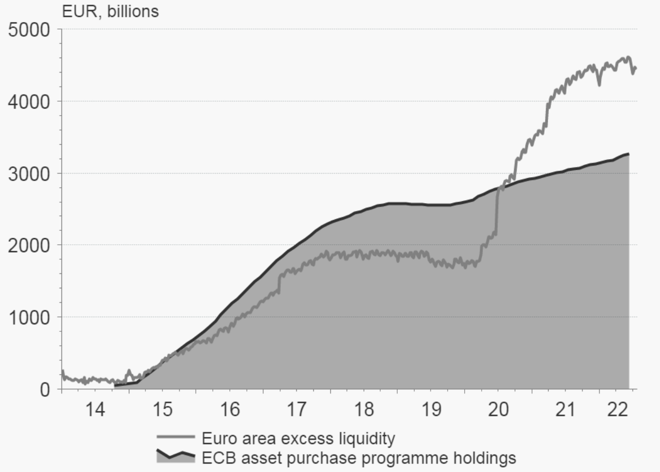
Per cent



Source: Refinitiv Datastream / ANDBANK

ECB excess liquidity

EUR, billions



Source: Refinitiv Datastream / ANDBANK

CHINA

Desperate measures to regain economic growth at a time when Covid infections surge at two-month high

Desperate to regain economic growth Beijing asks banks to fund housing projects

The China Banking and Insurance Regulatory Commission has asked lenders to provide credit to eligible developers so they may complete unfinished residential properties. The move came after hundreds of home buyers stopped paying mortgages on at least 100 projects across 50 cities last week, prompting regulators to summon banks as fears of contagion to the wider financial market grew. Regulators are also working to expedite issuance of special local government debt. The CBIRC, the PBOC and the finance ministry have combined to help accelerate the issuance of local government bonds, as Beijing moves to help supplement the capital of small and medium-sized banks. In Jan-May, smaller banks disposed of CNY394.3B ($58.4B) of non-performing loans, up almost one third from 2021, with this capital raising round to total around CNY103B.

Central Bank - PBOC Governor Yi reiterates pledges of economic support

PBOC Governor Yi Gang pledged at the G20 summit to step up implementation of monetary policy to provide stronger economic support. Yi said inflation is low and expectations remain stable but acknowledged the economy is facing downward pressure amid local Covid conditions and external shocks. The State-owned newspaper *Securities Times* also said that "the PBOC has ample room and tools to support the economy and meet new challenges amid a shaky economic recovery." The tools include further cutting banks' reserve requirements, but this is at odds with many analysts, who believe the central bank has limited room for easing. The IMF said the PBOC should continue providing monetary support, given low core inflation and a negative output gap. More support from China would help fight the disruption to global economic activity caused by the pandemic. Liquidity conditions have eased in China, with overnight interbank rates falling this month to a more than 1.5-year low of 1.17%. China could be finally "giving a green light for re-leveraging in 2022."

Investment: China becomes pariah for global investors as Xi's policies backfire

Bloomberg discussed views from money managers who were once enticed to invest by China's yield premium and large-scale tech companies, who now cite Covid policies, unpredictable regulatory campaigns and the risky real estate market as reasons to avoid the country. "It's just easier to put China aside for now," said one. The Hong Kong talent pool has drained further as graduates leave. Bloomberg noted how Hong Kong recruiters for legal and financial services are struggling to hire even junior overseas talent as the city loses its attractiveness. One global recruiter reported a 40% decline in candidates for entry-level positions compared to the period just before the pandemic hit.

China Covid infections at two-month high

China confirmed 580 locally transmitted infections on Saturday, the highest since 23 May. Most were discovered in Guangxi and Gansu provinces. Lanzhou extended a temporary lockdown by another seven days to 24 July, while Chengdu closed entertainment venues after a cluster was discovered. Shanghai reported 26 new local cases for Saturday, with one case found outside of its quarantine zone, as health officials described the Covid situation as "relatively severe". It will also begin a mass Covid testing programme. Macau's government will extend a lockdown on casinos and asked residents to stay at home for another week until Friday 22. The lockdown was due to expire today. The city also began its eleventh round of mass testing on Monday 18.

China GDP disappoints as lockdowns have taken a heavy toll.

2QGDP pace fell sharply to +0.4% y/y vs consensus +1.0% and +4.8% in prior quarter. In q/q terms, GDP growth was -2.6% q/q (vs consensus of -1.5%, and +1.3% in Q1). In June, industrial production was +3.9% y/y (vs consensus +4.0% and +0.7% in previous month). June industrial activity was more positive, as it showed a modest bounce back, but was still a long way from full recovery. Just under half of all product groups logged increases (Autos swung sharply positive), but key cyclical products such as cement, integrated circuits, and smartphones, remained negative. Retail sales in June grew at +3.1% y/y vs consensus +0.3% and (6.7%) in previous month, marking a return to growth for the first time in four months as food & beverages, accessories, communication equipment, autos and fuel rose. On the downside, catering, and building materials.

Real Estate sector continues to struggle

There are few signs of recovery in China's real estate market, although drops in home prices in second- and third-tier cities slowed or stabilized compared to May. Property prices fell in June for the tenth consecutive month (-0.1% m/m, vs -0.17% in May). Authorities pledge to deliver homes on time as homebuyers threaten to halt mortgage payments. The China Banking and Insurance Regulatory Commission (CBIRC) and PBOC on Thursday pledged to aid local governments in timely delivery of real estate projects after hundreds of homebuyers halted mortgage payments on unfinished homes. As many as 16 banks disclosed exposure that represents 0.01% of total personal mortgages.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SHANGHAI Idx: MARKETWEIGHT

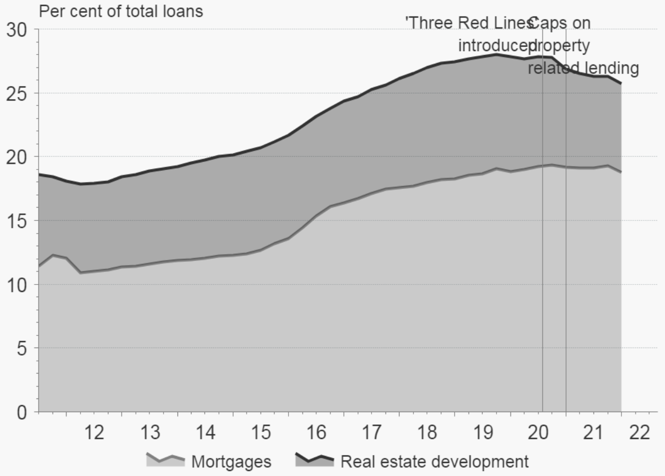
Equities – SHENZHEN Idx: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: MARKETWEIGHT (10Y Yield target 2.75%)

Forex – CNY/USD: MW (Target 6.65)

China property loans

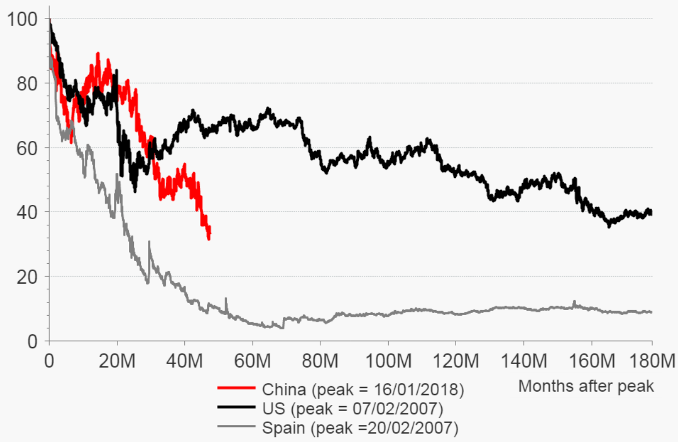
Per cent of total loans



Source: Refinitiv Datastream / ANDBANK

Real estate relative to broader equity market

Index, cyclical peak = 100



Source: Refinitiv Datastream / ANDBANK

China residential floor space for sale

Twelve-month percentage change, year to date

Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

JAPAN

BOJ buys record amount of JGBs. Kuroda likely to maintain easing stance.

Consensus GDP forecasts revised lower

A recent survey found that Q3 GDP is expected to expand an annualized 3.1% q/q, lower than the 3.5% estimated in June, amid growing risks of a global economic slowdown and ongoing supply woes. Economists also slightly downgraded estimates for Q4 2022 and Q1 2023. FY22 GDP growth will probably be downgraded by the government from the current 2.9%, reflecting impact on manufacturing from China's pandemic lockdowns.

Core CPI inflation is seen reaching 2.4% in Q4 and then aligning with the BOJ's 2.0% target early next year.

Monetary Policy: Kuroda likely to maintain easing stance and 90% of analysts said any unwinding of the BOJ's ultra-easy policy will not happen until 2023 or later

Bloomberg cited people familiar with the matter, stating that Governor Haruhiko Kuroda is in no mood to give up on stimulus and jeopardize his legacy now, with just months remaining of his decade-long mission to push up price gains to a consistent rate of 2%.

BOJ buys record amount of JGBs in June. Data showing JGB purchases totaled a monthly record of ¥16.20T ($119B) in June, reflecting efforts to stem a rise in long-term yields above its upper limit. BOJ held a record ¥528.23T worth of long-term Japanese government bonds at the end of June, roughly half of the outstanding government debt. Kuroda has maintained that the time is not ripe to consider policy normalization.

FX: Yellen-Suzuki talks offer no reprieve for yen. JPY's weakness could persist

Reuters cited comments from US Treasury Secretary Yellen acknowledging the substantial yen depreciation in recent weeks, but the US maintains the view that rich nations should have market-determined exchange rates and intervention was warranted "only in rare and exceptional circumstances." Yellen told reporters after separate meetings with Finance Minister Suzuki and BOJ Governor Kuroda that they had reviewed the yen's depreciation but did not discuss intervention or related policy.

Latest Reuters poll found yen expected to remain weaker than the key psychological level of 130 per dollar over the next six months on the back of interest rate differentials. Median forecast was for yen to strengthen to 131 in six months' time, compared with 126.84 in last month's forecast. Speculation about FX intervention remains after authorities stepped up verbal intervention. Ten of 22 analysts do not see it happening, six predicted 140 as the line in the sand, with the remainder placing a higher threshold

Macro data & inflation. Mixed figures

July Reuters Tankan manufacturers' sentiment index +9 (vs +9 in prior month). Service sector index +14 (vs +13 in prior month). June Economy Watchers Survey current conditions index 52.9 (vs 54.0 in prior month). Outlook index 47.6 (vs 52.5 in prior month). June bank lending +1.3% y/y (vs +0.7% in prior month). May household spending (0.5%) y/y (vs -1.7% in prior month). June CGPI +9.2% y/y vs consensus +8.9% and revised +9.3% in prior month

Energy: Kishida wants up to 9 nuclear reactors running this winter

Nikkei cited Prime Minister Kishida stating Japan will have as many as nine nuclear reactors in operation this winter, seeking to ensure stable power supplies during peak demand. With five reactors currently running, the additions would boost combined capacity from nuclear power to around 10% of the country's electricity needs. Regional utilities already planned to have nine nuclear reactors operating this winter and they will consider accelerating this time frame, but considering that these plans were already in motion, Kishida's announcement is seen as having a limited impact on Japan's energy supply and demand balance.

Corporate and industrial developments

Sony Group (6758.JP) will develop a new self-driving sensor that uses 70% less electricity, helping to reduce autonomous systems' voracious appetite for power and extend the range of electric vehicles. The sensor, made by Sony Semiconductor Solutions, will be paired with new software to be developed by Sompo Holdings-backed (8630.JP) startup Tier IV. The companies hope to achieve Level 4 technology, allowing cars to drive themselves under certain conditions, by 2030.

Japan-China: Japanese firms more loath to invest in China amid zero-COVID policy

Kyodo discussed how Japanese companies have become more reluctant to expand investment in China, citing the "zero-COVID" policy, including the frequent imposition of lockdowns in major cities, as a political risk. Many Japanese enterprises have also been eager to reduce their staff in China, given the country's strict quarantine requirements, even for those not infected. A Tokyo Shoko Research survey found 66.3% of Japanese firms had suffered a "negative impact" from the lockdown in Shanghai, with many of them citing difficulties in the procurement of materials or components.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: MARKETWEIGHT

Bonds – Govies: MARKETWEIGHT-UNDERWEIGHT (Target yield 0.25%)

Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 128)

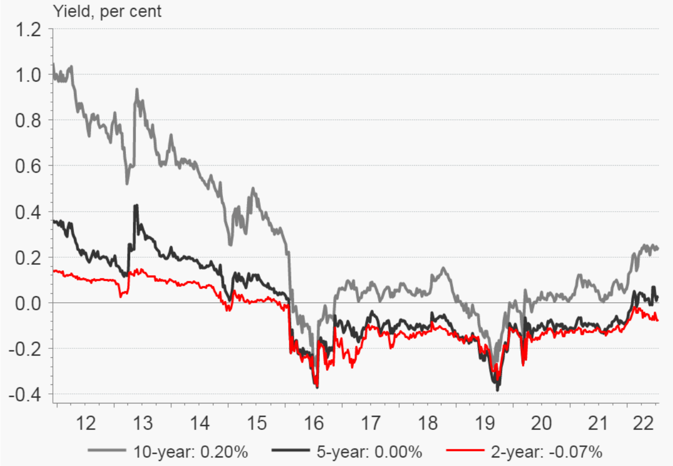
Japan Nikkei 225 price / earnings

Ratio

Source: Refinitiv Datastream / ANDBANK

Japan benchmark government bonds

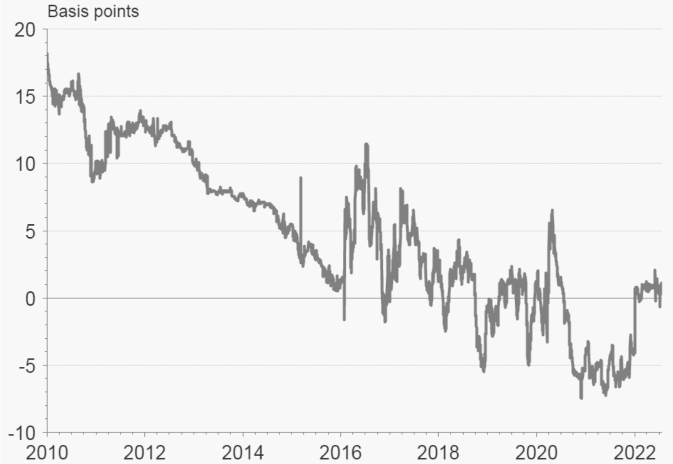
Yield, per cent



Source: Refinitiv Datastream / ANDBANK

Japan LIBOR-OIS spread

Basis points



Source: Refinitiv Datastream / ANDBANK

INDIA

Forecasts are still for bullish growth, although food inflation hits India harder than any other country.

Food and energy inflation. A real test for India

India is heavily dependent on expensive imported oil, and some 800mn Indians rely on subsidized wheat and rice. In the state of Maharashtra, leftist parties have been holding a long protest against "unbearable price rises." Having recently passed the psychologically key level of INR100 per liter, the price of gasoline dominates discussion. The government had to cut duties on imported food staples and on petrol and diesel sales, a decision that has staved off nationwide protests, for now.

Being less pressed than its neighbors can help. Also that CPI readings seem to be moderating.

India is also under less pressure than its neighbors, as inflation tops 13% in Pakistan and soars towards 40% in Sri Lanka. But with household consumption still depressed after repeated lockdowns, inflation is the biggest threat to India's economic recovery. April's consumer inflation print of 7.8% YoY was the highest since 2014, but the good news is that the two subsequent readings have moderated (7.04% for May, and 7.01% for June), giving the impression that the worst in inflation is behind us.

Understanding the risk

The single biggest worry is a shortage of wheat, the staple food for northern Indians. After a heatwave parched spring crops across the water-depleted northern wheatbelt, annual production to June is projected at 106mn tons, below February's forecast of 111mn. Trade sources say it could fall as low as 95mn tons. That is why, in May, India banned private-sector wheat shipments in an attempt to protect national supplies and crimp rising prices. The government is buying up wheat at the minimum support price, denying angry exporters the right to sell at higher international prices. The measure was initially successful, as it caused a drop in the domestic price of wheat, but the wheat price soon rose again to levels prior to the export ban.

Government fight against inflation. A long list of monetary and fiscal measures.

Policymakers are attacking inflation with coordinated monetary, fiscal and administrative measures. The RBI raised the benchmark repo rate by 40bp in May (to 4.4% in early May) and another 50bp in June (to 4.9%). This was accompanied by a 50bp hike in the required cash reserve ratio, indicating that the RBI is no longer comfortable with the level of liquidity sloshing around the banking system. The RBI governor used hawkish language, strongly implying that more hikes will be forthcoming, depending largely on the trajectory of global commodity prices.

On the fiscal front, the most eye-catching fiscal policy is the cut in excise duty on gasoline and diesel by INR8 and INR6 per liter, respectively. This adds up to a fiscal hit of INR1trn (US$12.9bn), on top of the INR1.2trn cost of last November's fuel duty reduction. Some states have also cut value added tax on fuel. In addition, the government has reduced import duty on key raw materials and raised the export levy on iron ore and steel. To reduce food costs, it is providing relief on imports of crude palm oil and lentils and will allow duty-free imports of soybeans and sunflower oil up to 2mn tons each. Sugar exports will be capped at 10mn tons annually from June 1. Finally, it will boost food, fertilizer and liquid petroleum gas subsidies by INR1.6trn, or 0.6% of GDP.

Expected effectiveness of all these measures

The fiscal measures are expected to cool inflation by at least 0.50%, but inflation is unlikely to fall below the central bank's target ceiling of 6% in the fiscal year to March 31, 2023, leaving the RBI with little room to maneuver as it seeks to protect growth. Rising interest rates will complicate this goal.

It should be mentioned from the currency exchange front that, although the rupee is down -4% against the US dollar this year, taking into account the global strength of the greenback, we could say that the Rupia has been relatively resilient, and that the problem of imported inflation has not worsened much, while other countries are having greater problems with imported inflation due to a weaker currency.

Fiscal measures will almost certainly widen the deficit beyond the budgeted 6.4% of GDP. This has pushed up bond yields by nearly 150bp over the past year, with the 10-year bond currently trading at 7.4%, although these yield levels cannot be considered uncontrolled, as they are still well below the levels seen in previous IRR rallies in 2014 and 2018.

Forecasts are still for bullish growth.

Growth in the first quarter of 2022 moderated to +4.1% yoy (down from 5.4% in the December quarter). The government continues to forecast bullish growth of 8.0-8.5% in the 2022-23 fiscal year, but that now looks much too optimistic in our opinion. We are inclined to think that GDP growth will be closer to 7.2% this fiscal year, and then will moderate to 6.5% for FY2024 and 2025. For inflation, projections are of a decline to 6.8% this year, declining to 5.2% and 4.75% in the subsequent years.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 7.25%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 76)

India Datastream index price / earnings

Ratio

Source: Refinitiv Datastream / ANDBANK

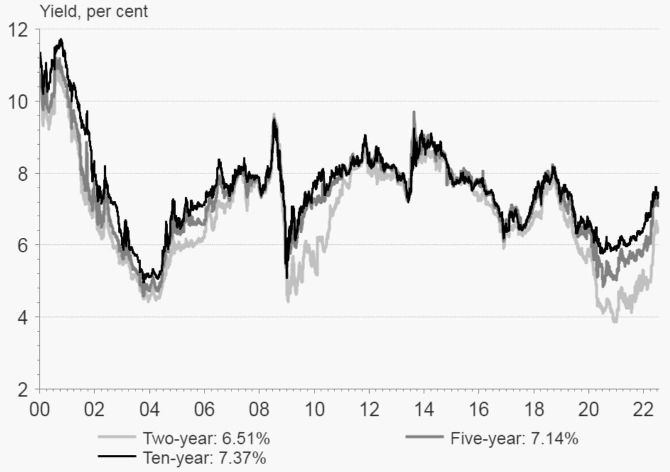
EPS (Trailing & Forward)

MSCI India

Source: Refinitiv Datastream / ANDBANK

India benchmark government bonds

Yield, per cent



Source: Refinitiv Datastream / ANDBANK

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ISRAEL

Growth expectations reduced, still impressive in global comparison

Economic activity

So far, the Israeli economy has managed to evade the slowdown in the global economy. GDP continued to grow at an impressive rate and forecasts were not revised downwards. However, the slowdown seems to have reached the Israeli economy as well, as reflected in a few recently published indicators. The consumer confidence index in June (fell from -14 points in May to -21 points in June, 100 being the most optimistic scenario and -100 the most pessimistic) was at its lowest level since October 2020 against the background of a decline in all sub-items of the index. The rise in the cost of living, the sharp rise in interest rates, political uncertainty and declines in the stock market have affected consumers and it seems that the impact of these factors will intensify in the coming months. Following the Bank of Israel's updated forecast, we assume that the growth rate of the Israeli economy in 2022 will be lower than current forecast (5%) and will fall to a level between 4% and 4.5%, still a significantly higher level than most developed countries.

The basis for optimism about the Israeli economy lies in several recently published indicators which show that the local economy has a high resilience dealing with the current crisis. For the first time since 2007, a budget surplus of 0.4% was recorded. The budget surplus is due to a 25% increase in tax revenues and a 12% decrease in expenses. We estimate that the good macro data will be able to overshadow the political uncertainty and whoever the winner is, the Israeli economy will continue to show high resilience in the face of global challenges, albeit at lower numbers than those predicted so far.

Regarding the November election, the coalition led by former PM Benjamin Netanyahu (Likud, Yesh Atid, Blue and White-The New Hope) is leading the polls, but it is not clear whether it will win enough votes to reach the 61 seats needed to achieve the necessary parliamentary majority.

Monetary policy and bond market

In July, the Bank of Israel raised the interest rate by 50 bps (from 0.75% to 1.25%) in a unanimous decision and matching surveys, taking into consideration that the economy is at full employment, with wage pressures in most sectors (unemployment rate fell to 3.3% in June from 3.7% in May). The Bank estimates that the interest rate will reach 2.75% at the end of the current cycle, while the market expects the interest rate to reach 2.25% in a year and we consider this a more probable scenario.

CPI rose 0.4% m/m in June, bringing the annual inflation rate to 4.4% y/y, the highest since March 2011. Over the past 12 months food prices (excluding fruit and vegetables) have risen 5.2%. Despite the rise in the inflation rate, the expectation is for a sharp decline over the next twelve months (3.1% according to the average forecast in a Bank of Israel survey of economists) Like most economies in the world, the effect of rising energy prices is the main cause of rising inflation, and in light of the recent sharp drop in oil prices this is likely to be reflected in inflation data in upcoming months.

The yield curve has experienced a sharp flattening in recent months, which greatly reduces the viability of extending the duration. Therefore, we recommend duration in the range of 3-3.5 years.

Stock market

The Israeli stock market continued to show great strength, as over the past month the Tel Aviv 125 index has risen by approximately 6.5%, led by bank shares that rose more than 8% and communications and technology shares that jumped 12%.

The pricing of the Israeli stock market remains very attractive, despite its impressive performance since the beginning of the year. Forward P/E stands at 9, the lowest figure among all markets, the Price to Book Value is also low and stands at 1.6, and the Earnings yield is 7.9%. In light of the strong macro picture of the Israeli economy and the pricing that embodies very attractive risk-reward ratios, we recommend an overweight of the Israeli market.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: OVERWEIGHT

Bonds – Government–10Y Gov: MARKETWEIGHT-UNDERWEIGHT

Bonds – Corporates: MARKETWEIGHT-OVERWEIGHT

FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio

Trailing & Forward PE

Source: Refinitiv Datastream / ANDBANK

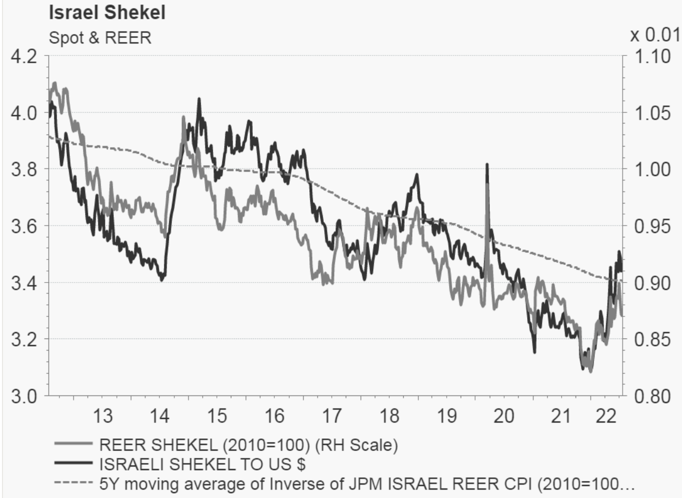
ISRAEL GOVERNMENT BMK YIELD 10Y

Local currency

Source: Refinitiv Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: Refinitiv Datastream / ANDBANK

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MACRO ECONOMY

BRAZIL

Fiscal concerns ahead?

It´s the fiscal lullaby's again

Bolsonaro´s government is trying a risky move in an election year. Both the senate and the lower house have approved a constitutional amendment that allows the government to spend BRL 41.3 Billion, claiming state of emergency due to rising oil prices, creating a new exception to the debt ceiling,

The constitution forbids the creation or modification of new social benefits in election years, unless a state of emergency is declared.

Most of the money is geared to increasing the Auxilio Brasil Program by 50%, from BRL 400 to BRL 600, however there is also a BRL 1000 check for self-employed truckers and taxi drivers and doubling the current subsidy for lower class to buy cooking gas. The opposition has made very clear that Bolsonaro´s intentions are electoral and not philanthropic. One of the major reasons cited, is that all of these benefits are only valid till December.

Even so, given that deputies and senators are also looking for re-election, the proposal was approved by a very large margin. In the lower house, the bill was approved by a 469 to 17 vote count.

Even though the current fiscal numbers are not bad, economists are very concerned about the coming years. It sounds almost unbelievable to say that this increase in expenditures just followed a tax cut aimed at lowering fuel prices, a couple of weeks ago. That is an explosive combination, lowering government's revenues while increasing its expenses.

As expected, local markets reacted very badly. Ibovespa, the main local equity index, fell by 11.50%, to a negative 6% year-to-date. In respect to target rates, they were raised by another 50 bps, and markets expect another similar hike in the next meeting, while markets anxiously wait for the Brazilian Central Bank to finally say they are done. In the meantime, as the USD is strengthening globally, the Brazilian Real follow suit, and has devalued 10% during the month of June.

The bout between Lula and Bolsonaro is clear

The alternative candidates are having an ever so hard time to show some competitiveness, and many analysts have dismissed any chances of a second term with different candidates than Lula and Bolsonaro.

All polls show Bolsonaro trailing Lula, some by a large, other by a medium margin. That´s also one of the arguments used by the opposition to condemn the government initiative of declaring the state of emergency.

As the election approaches, and the polls continue to put Lula as a favorite to take the top seat, Bolsonaro is increasing his tone about the validity of the election by questioning the electronic voting system. Bolsonaro, and ex-army lieutenant, is instigating the military to run a parallel vote counting to the official one, "so Brazilians can be sure this will be clean elections" (in his words).

This is all very similar to what Donald Trump, one of Bolsonaro´s idols, did in the last US election.

Brazil being dragged into the global recession

Despite better numbers in employment, services volume, consumer confidence, and some others, the Brazilian financial market is facing headwinds coming from the looming global recession.

As central bankers around the globe discuss if or when a global recession will come, markets price a global slowdown that saves no one, especially emerging markets that normally get hard hit when developed countries slow their purchase of commodities. We doubt that China could be on the opposite direction and be considered as a possible commodity price picker-upper,. In any case, no one is willing to bet that China alone would be enough to counterbalance a recession in both the United States and Europe.

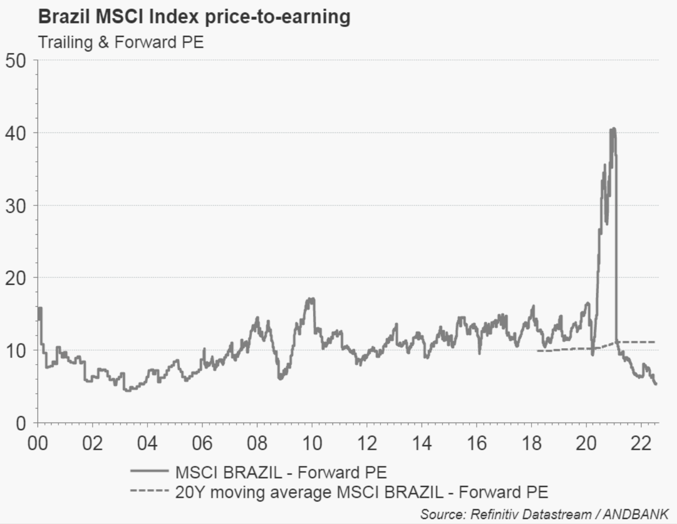
Market outlook – Recommendations & Targets from fundamental analysis

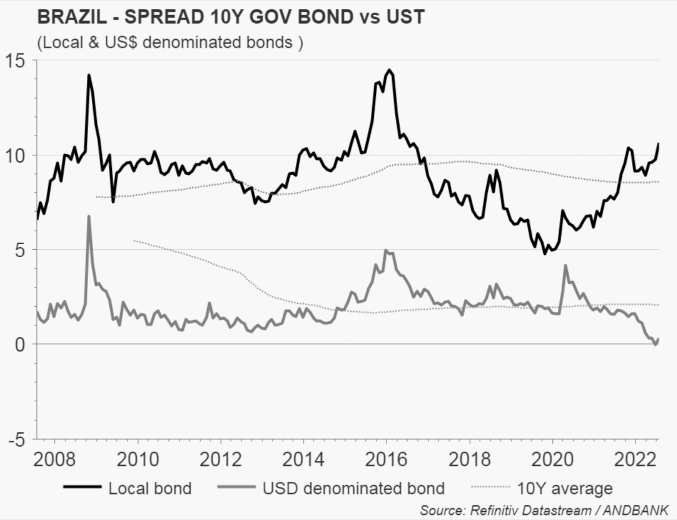
Equities – iBovespa: MARKETWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 13%. Spread 950)

Bonds – Govies USD: UNDERWEIGHT (Target yield 6.75%. Spread 325)

FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.25)





MEXICO

Central bank maintains its hawkish stance. Inflation continues to rise despite government price policies

Central Bank

After raising its target rate by 75 bps (following 50 bps increases in each of its four previous meetings), bringing the monetary policy rate to 7.75%, the Bank of Mexico is expected to make another 75 bps hike at its meeting of August 11th and November 10th meetings. The central bank's governing board decision was unanimous and has maintained restrictive language, aiming to follow the Fed in its next moves. The outlook has increased towards further action by the central bank (10.25% year-end level for the market and 9.50% according to analyst surveys).

President Lopez Obrador has been vocal regarding the Central Bank warning of risks to Mexico's economy from higher borrowing costs and urging Banxico to find ways of taming inflation other than raising rates, so as to spare the economy.

Inflation and activity

Consumer prices rose higher than expected in the first half of July. Inflation in the year-on-year comparison reached 8.16% (target of 3% plus or minus one percentage point), the highest level since January 2001, while compared with the second half of June it accelerated 0.43%. Core inflation reached 7.56% y/y through early July. Lopez Obrador stated that the government's inflation strategy to contain inflation by subsidizing fuel prices and capping the cost of certain foods has kept Mexico from being "completely overwhelmed" by inflation

Long-term perspectives according to the central bank estimates, between five and eight years, have risen above 3.50% (the level at which they had remained anchored for several years) but, after the recent increases in the central bank's reference rate, have not taken off significantly beyond this level. The central bank (7.50% y/y) and private analysts (7.60% y/y) increased the estimated level for 2022. Growth prospects have remained unchanged in the last three months. On average, for the consensus of analysts the estimate is 1.8% for both 2022 and 2023.

Fiscal policy

The policy of subsidizing gasoline prices, at the rate of 10 pesos (50 cents USD) per liter of low-octane gasoline, has been maintained. Until June, with the effect of this policy, the public finances have behaved as follows: A) Revenues: +4% y/y real, driven by the increase in oil revenues (26.9%) and tax revenues (3.3%). Despite the drop in the Special Tax on Production and Services (IEPS) due to the gasoline subsidy (-54.4%), income tax collection increased in April and May. B) Expenses: +0.5% y/y real. With the exception of some administrative branches, ISSSTE, CFE and non-programmable ones, there has been an under-exercise of spending in most items with respect to what was budgeted. C) Balance: Primary balance in May shows a surplus of 178 billion pesos and looks set to end the year with a marginal deficit as a percentage of GDP.

Moody's lowered its rating, which had lagged behind the levels observed by Fitch and S&P. The sovereign note remains at investment grade and, with the recent ratifications and adjustments, the perspective of all rating agencies is now stable.

Financial markets

Equity: Positive outlook due to higher remittances and greater mobility, which has favored the tourism sector. Consumption, services and exports stand out, with growing consumer confidence. The current valuation of the local index also favors positive expectations on the asset (P/E 12.5 vs 12-month average of 13.8). As a counterweight we have the pressure on emerging markets as a result of the Fed's restrictive monetary policy and the recent volatility in global financial markets, which also increases the risks of a global economic slowdown or recession. We have a target price of 61,600 for the next 12 months (current 47,100 points).

Fixed Income & FX: The spread between bonds in pesos and Treasury bonds (10 years) rose to 610 bps from 590 bps. We maintain an estimated level for the spread in a range with a midpoint of 600 bps. For USD bonds the spread reached 213 bps (target 200 bps).

The volatility in FX continued to increase between June and July, with the Mexican currency one of the best performers in the year, despite the appreciation of the USD. We have a 21 pesos target for the end of the year.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: OVERWEIGHT

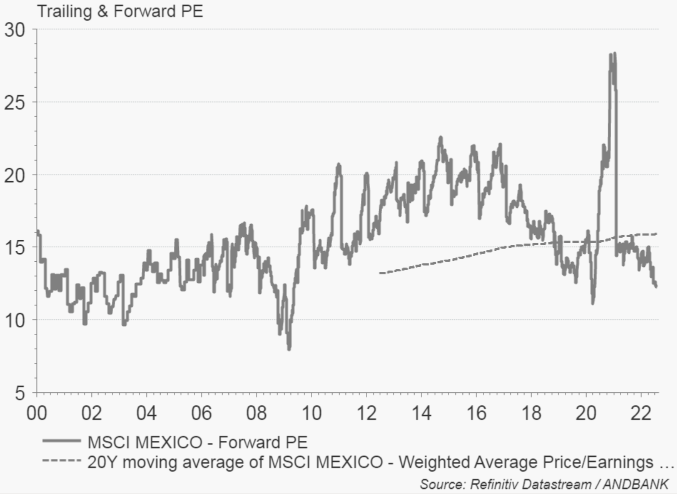
Bonds – Govies Local: OVERWEIGHT (Target yield 9.30%. Spread 580)

Bonds – Govies USD: UNDERWEIGHT (Target yield 5.40%. Spread 190)

FX – MXN/USD: MARKETWEIGHT (Mid-term target 20.75)

Mexico MSCI Index price-to-earning

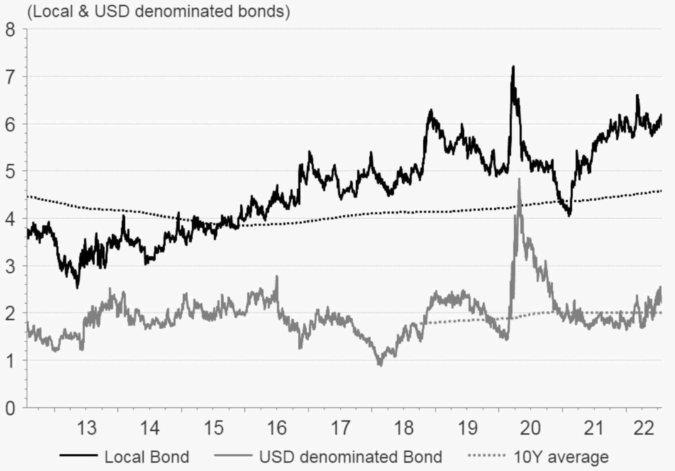
Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

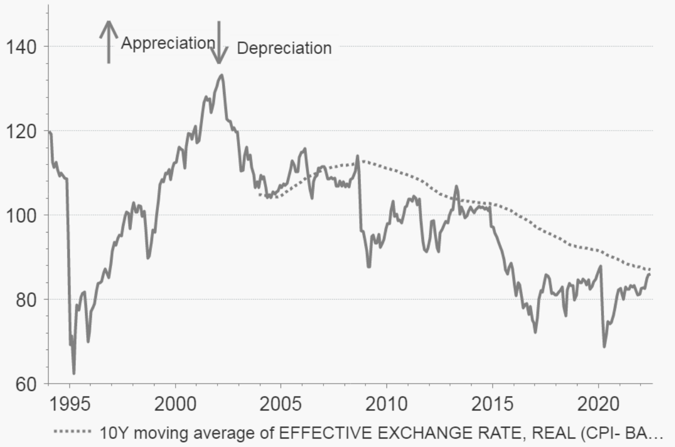
(Local & USD denominated bonds)



Source: Refinitiv Datastream / ANDBANK

Mexico real broad effective exchange rate

Index



Source: Refinitiv Datastream / ANDBANK

ARGENTINA

The new economy minister Batakis is no longer a minister. Sergio Massa becomes super minister

Politics: Heads keep rolling

After an eternal July, August was –again– all uncertainty. Just a month after the resignation of Martín Guzmán, a second minister, Massa, disembarks after the very careless ejection of the ephemeral Silvina Batakis.

Massa has slowly begun to publish the names of who would be the members of his team, to later visit Cristina Kirchner in the Senate, a show of support from the vice president that Batakis did not count on, much less Guzmán.

The new minister keeps under lock and key the measures that he is designing. Among them, it was commented that it would not be a surprise if Massa presented a proposal for the repurchase of sovereign debt taking advantage of the low prices of the bonds. However, we ask ourselves: with what money, if precisely the BCRA suffers a drought of dollars, are precedents? This was an initiative recommended by large businessmen linked to the real state.

Masa has an excellent relationship with investment funds, particularly with those that were an important part of the restructuring.

A devaluation jump seems ruled out (the fear in the Frente de Todos, since it would lead to a spiraling of inflation, which is already widespread). But there is talk of an "improved" dollar to liquidate agricultural exports. It would be to bring the mechanism presented by Miguel Pesce to improve access to the dollar to the countryside to a true establishment of differential exchange rates.

"The goal is to order and take care of public accounts," Massa said in a tweet.

It was ruled out that Massa will expressly ratify the objectives sealed in the agreement with the International Monetary Fund (IMF). However, his relatives have already stated that he would have to clarify how he would comply with them, mainly the fiscal path (today analysts believe that the deficit would be at a point above what the program with the Fund establishes). "Fiscal relief" is also planned for foreign exchange-generating sectors (a possible reduction in taxes on incremental exports), such as agriculture, mining, energy and human capital.

For now, the sharp increase in interest rates announced by the Central Bank (BCRA) last week is in line with the path to establishing positive real rates that Massa also endorses.

Interestingly, Massa will keep part of the team of former Minister Guzmán. The first confirmed was Raúl Rigo in the position of Secretary of the Treasury. Rigo is a recognized specialist in public finances, who was also an advisor to Hernán Lacunza in the province of Buenos Aires and had some contact with Horacio Rodríguez Larreta during his time at Anses

First Tour

The new economy minister is already preparing a first trip abroad for the third week of August. The destinations would be Washington, New York, Paris and Qatar. There they will seek to maintain contacts with the IMF, the US Treasury Department, the World Bank and the Inter-American Development Bank (IDB). "We welcome the opportunity to work with the new Minister of the Economy, Sergio Massa, and look forward to working closely with him in his role," IDB President Mauricio Claver-Carone said last week. They will also seek to include Wall Street investors and bondholders, a meeting with representatives of the Paris Club and with those of the Qatar Sovereign Fund, they specified.

According to the minister's team, the idea of this trip has two axes: "Strengthen reserves and stabilize fiscal numbers." For dollars, they think of the increase in exports, productive investments and the promotion of receptive tourism, in addition to international loans. Mendiguren, Gustavo Pandiani and Guillermo Michel are working on that program today, in contact in the US with Juan González, senior adviser for Latin America and the Caribbean at the United States National Security Council and the Argentine ambassador to that country, Jorge Arguello

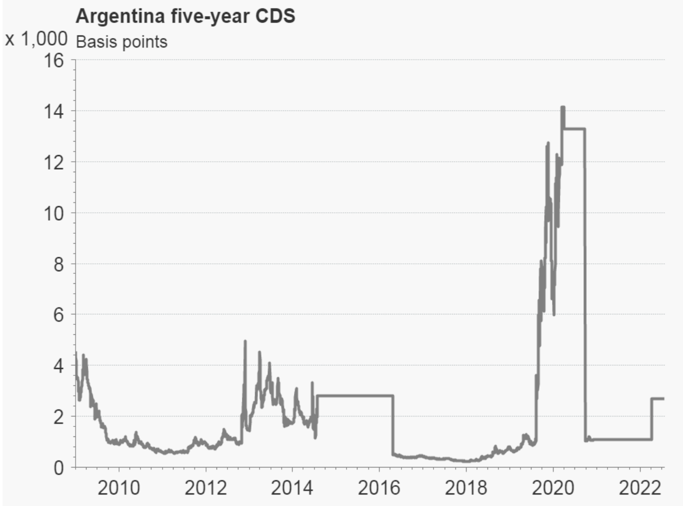
FX: covering a bleed with a Band-Aid

After imports reached new record levels, to contain the reserves drainage the BCRA also restricted access to FX for imports, except if internationally financed, for 180 days for most industries except energy, fertilizers, phytosanitary products and automakers (other exceptions are also in place). In addition, purchases made abroad will be taxed at 75% (vs. previous 65%) and can no longer be paid in installments (travel expenses already had this restriction applied).

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2022 year-end target 175)



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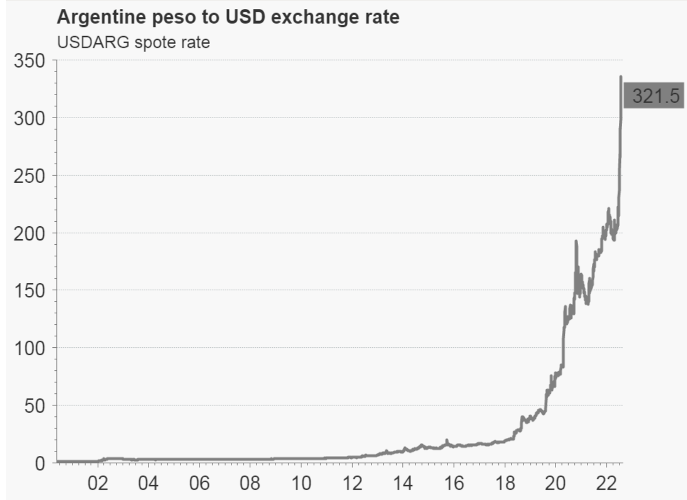

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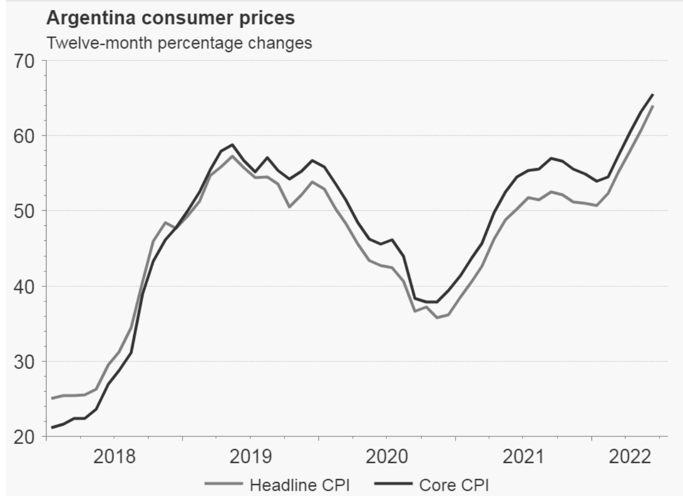


Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES

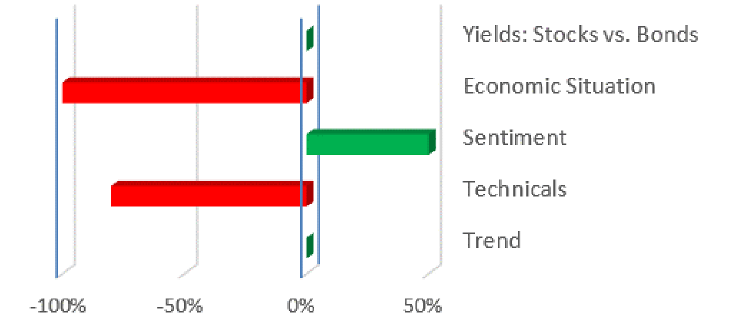
Fundamental assessment

Index	Projected EPS 2022	Projected EPS 2023	EPS Fw 12 months	EPS Growth 2022	Projected EPS Growth 2023	E [PE] ltm Year End	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point
USA S&P 500	225,0	246,0	237	7,7%	9,33%	18,50	4.119	4.390	6,6%	MW-OW	4.829
Europe - Stoxx Europe 600	30,5	33,0	32,0	4,3%	8,20%	15,00	435	479	10,1%	MW-OW	527
Euro Zone - Euro Stoxx	29,0	33,0	31,3	2,5%	13,79%	15,00	407	470	15,4%	MW-OW	517
Spain IBEX 35	634,0	725,0	687	1,8%	14,35%	14,00	8.093	9.623	18,9%	OW	10.585
Mexico IPC GRAL	4.000	4.200	4.117	10,6%	5,00%	14,75	47.385	60.730	28,2%	OW	66.803
Brazil BOVESPA	15.000	15.000	15.000	4,1%	0,00%	8,00	102.225	112.500	10,1%	MW	123.750
Japan NIKKEI 225	1.810	1.894	1.859	3,7%	4,64%	16,00	27.595	29.748	7,8%	MW	32.723
China SSE Comp.	310,2	374,0	348	32,5%	20,58%	10,00	3.186	3.476	9,1%	MW	3.823
China Shenzhen Comp	120,3	149,0	137	24,0%	23,84%	18,00	2.138	2.468	15,4%	MW/OW	2.715
India SENSEX	2.760	3.236	3.039	18,8%	17,25%	23,00	58.070	69.899	20,4%	OW	76.889
Vietnam VN Index	105,1	134,6	122	19,5%	28,04%	14,00	1.242	1.713	38,0%	OW	1.884
Taiwán SE Weighted Index	1.423	1.425	1.424	12,3%	0,14%	13,00	14.747	18.514	25,5%	MW/OW	20.366
MSCI EM ASIA	47,2	53,6	51	8,3%	13,38%	12,50	536	637	18,9%	OW	700

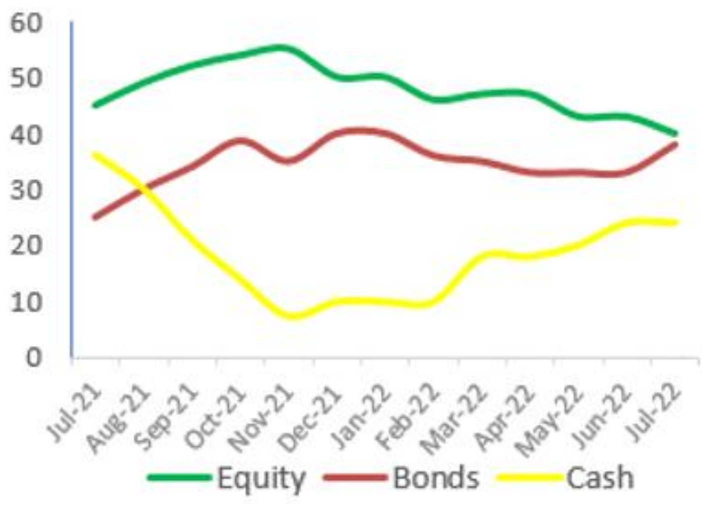
ANDBANK ESTIMATES

NED DAVIS – 13 Indicators to decide whether to invest in Equities or Bonds and decide on geographic and sectorial exposure.

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



red (bond & cash preference) green (equity preference)



GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	63%	60,7%
Europe ex. U.K.	11%	12,4%
Emerging Markets	9%	11,6%
Japan	8%	5,7%
U.K.	4%	3,7%
Canada	3%	3%
Pacific ex. Japan	2%	2,9%
Utilities	4%	2,5%
Energy	4%	3,3%
Materials	3%	2,5%
Consumer Discretionary	12%	12,6%
Consumer Staples	7%	6,6%
Health Care	15%	13,3%
Information Technology	27%	27,6%
Communication Services	10%	10,2%
Real Estate	3%	2,7%
Industrials	8%	7,9%
Financials	7%	10,7%

ENERGY – OIL

Fundamental view (WTI): Target range USD90-110bbl

Buy < USD90; Sell >USD110

Short-term drivers

(Bullish price factor) – Biden sees few concrete wins from Middle East trip, but White House remains hopeful on oil: President Biden's much-anticipated trip to the Middle East concluded on July 17, though without an agreement from Saudi Arabia to boost oil output or progress on US efforts for a regional security axis that includes Israel. However, despite the absence of a specific commitment, US Energy Department advisor Amos Hochstein said yesterday that he believes there is spare oil-production capacity among Mideast producers, and that he is confident more steps on that front will be announced in the coming weeks.

(Bullish price factor) – Saudis reiterate oil-production decisions are in OPEC+'s hands: Saudis reiterate oil-production decisions are under the control of the OPEC+ cartel, which evaluates the market situation and supplies energy as needed. Platts adds that Saudi Foreign Minister al-Jubeir said that Saudi policy was to work through OPEC and OPEC+, which have been making sure markets are adequately supplied.

(Bullish Short-Term & Bearish Long-Term price factor) – Russia's Putin visits Iran: Reuters reports that Russian President Putin, in his first foreign foray since the Ukraine invasion, will be visiting Iran today for face-to-face meetings with both Supreme Leader Khamenei and Turkey's President Erdogan. The article notes that Tehran is eager to strengthen ties to Russia, which may give it extra leverage to pressure Washington on concessions amid negotiations for a return to the 2015 nuclear deal. It adds, however, that Russia's cheaper crude has recently elbowed out Iranian exports to China, where ~40M currently sit on tankers awaiting buyers. Anything that empowers Iran is detrimental to Saudi Arabia, which could respond by reducing its alignment with OPEC+ (ie Russia).

(Bearish price factor) – Yellen continues her pitch to impose a price cap on Russian oil: US Treasury Secretary Yellen is in South Korea today and carrying on discussions about the US-led proposal to introduce a price cap on Russian crude exports to help hold Moscow accountable for its invasion of Ukraine. The South Korean government released a statement after President Choo Kyung-ho's meeting saying it is willing to support the effort. Yellen said she has had "encouraging" talks with India regarding a proposed price cap on Russian oil and is feeling generally positive about the initiative. The article notes that a senior Treasury official said India (which has continued to import Russian crude) has made no promises but also has not expressed hostility to the concept.

(Bearish price factor) – Five tankers ready to load after Libya lifts force majeure: Platts reports that Libya's National Oil Company expects five tankers to load at its crude terminals over the next three days. The article notes the loadings will be the first since the NOC replaced its board on 14-Jul and lifted force majeure. Platts adds that its analysts, surveying the ongoing political stress and uncertainty, see Libya's July output coming in at 600K bpd, 200K bpd above current levels but still half of effective capacity.

(Bearish price factor Long Term) – The Chicken game continues, and a likely scenario of recession will lead to higher global spare capacity and marginal price-setting barrel would no longer be exclusively from Russia: A Reuters column argued that US and EU policymakers would not deliberately push their economies into recession by intensifying economic pressure on Russia, but if economies do go into recession, that would likely put even tighter sanctions on Russia oil exports from this year into 2023. The column argued that a prolonged recession would create spare capacity for the global oil market, which would mean the marginal price-setting barrel would no longer be exclusively from Russia - a situation that would allow barrels from non-sanctioned sources to replace sanctioned barrels.

(Bearish price factor) – Yellen says ban on shipping insurance, financial services for Russia could be waived if price caps implemented: US Treasury Secretary Yellen said that the US and EU could waive their ban on shipping insurance and financial services for Russia if key global importers back price caps on Russian oil. Yellen said that the exception would be implemented because Russia would otherwise face a situation where they're completely cut off from those services, likely leading to a substantial shut-in of Russian oil. Yellen also said that Russia still need an incentive to produce, as a complete cut in production would impact the country's longer-term capacity as it may not be able to restart shut down wells.

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 is cheap relative to palladium: The Gold/Palladium ratio rose to 0.931, still 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 will no longer be the only 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 such a disruptive scenario. 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 regard, we must say that until now we saw the supply of UST as unlimited, which favored gold as the quintessential anti-fragile asset. However, with the QT in full swing, we no longer see unlimited supply of UST; instead, after learning of the Fed's intentions, we foresee a very limited supply in relation to the strong demand that there may be for UST (typical demand of external central banks in an environment of expansion and economic recovery). That is why the UST can once again dethrone gold as an anti-fragile asset and take command. This is bad news for gold; however, it should be said that the supply of gold will also remain very limited over the next decade

The massive negative returns in bonds have disappeared and no longer make gold attractive: The disadvantage of gold compared to fixed income instruments (gold does not offer a coupon) was neutralized with negative yields in a large number of global bonds. But this circumstance has now disappeared, with most of the bonds in the USD universe offering positive returns and making them attractive against gold, which again suffers from the disadvantage of not offering a coupon or yield.

Gold expensive relative to silver. The Gold/Silver ratio fell to 88.52 but is still above its 20-year average of 67.08x, 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$1,331/oz.

Gold to oil: This ratio rose to 17.68, still well above its 20-year average of 18.39x. Considering our long-term fundamental fair value for WTI oil at US$70 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$1,287 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.26731), 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$1,383. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,091. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,382.

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 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. 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 each of these risks in 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 give a small alarm signal that **we could be close to a turn in the trend of gold (down),** since gold has totally lost its momentum, and also because the possibility of an increase in interest rates has become 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 the monetary authorities, this is a possibility that 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 the inflation rate 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 much more moderate EM growth. 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, held back by a China engrossed in a kind of nihilistic existence.

ANDBANK Private Bankers

EXCHANGE RATES

Flow analysis & Fundamental targets

Outlook (of the respective currency against the USD) according to the analysis by Altman's Z. Fundamental objectives.

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

EM Currencies: Z-Score Analysis: Neutral-UW view for the EM currencies in the short-term.

EUR-USD: Fundamental Target 1.04 (Buy USD at 1.07. Sell at 1.00) // Z-Score Analysis: favorable to the EUR in the ST

USD-JPY: Fundamental Target 128; **EUR-JPY**: Target 133 // Z-Score Analysis: Slightly Negative to the JPY vs the USD

GBP-USD: Fundamental Target 1.27; **EUR-GBP**: Target 0.82 // Z-Score Analysis: Slightly Favorable view on the GBP vs the USD

USD-CHF: Fundamental Target 0.93; **EUR-CHF:** Target 0.97 // Z-Score Analysis: Neutral view on the CHF vs the USD

USD-BRL: Fundamental Target 5.25; **EUR-BRL:** Target 5.46 // Z-Score Analysis: Neutral view on the BRL vs the USD

USD-MXN: Fundamental Target 20,75; **EUR-MXN:** Target 21.58 // Z-Score Analysis: Favorable to the MXN vs the USD

USD-ARS: Target 175, Negative on the ARS

USD-INR: Target 76, Neutral on the INR

CNY: Target 6.65. Neutral on the CNY

RUB: Neutral view on the RUB vs USD

AUD: Neutral view on the AUD vs USD

CAD: Neutral view on the CAD 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	0,00	-15,15	32,1	-28,2	3,0	**0,79**
USD vs G10	18,72	4,74	32,7	-25,4	6,2	**0,72**
EM	0,00	-0,93	3,9	-0,8	1,5	**-0,75**
EUR	-5,26	-3,86	23,4	-8,6	7,3	**-1,33**
JPY	-5,61	-0,79	0,6	-15,0	-8,3	**0,65**
GBP	-4,06	-0,01	4,3	-6,5	-2,0	**-0,71**
CHF	-1,47	-0,35	0,2	-6,0	-2,4	**0,58**
BRL	0,22	-0,48	1,0	-0,8	0,1	**0,29**
MXN	-0,73	-0,38	3,3	-0,8	1,2	**-1,71**
RUB	0,00	-0,31	1,2	-0,3	0,4	**-0,10**
AUD	-3,29	-0,32	6,1	-6,2	-1,1	**-0,65**
CAD	1,22	0,52	6,1	-5,0	0,4	**0,31**

Positive
Neutral-Positive
Neutral-Negative
Negative

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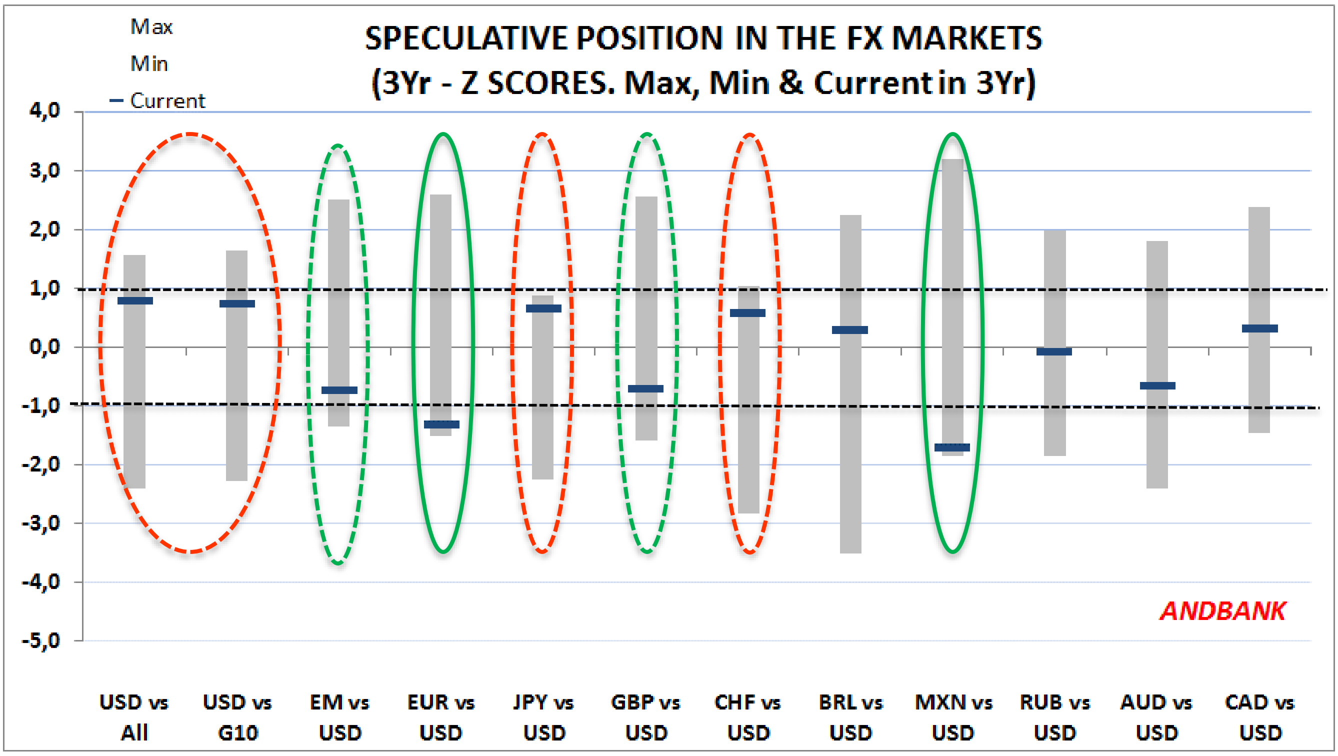

The currencies we technically favor are circled in green

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	7,7%	-13,6%	4.119	4.390	6,6%
	Europe - Stoxx Europe 600	6,4%	-10,7%	435	479	10,1%
	Euro Zone - Euro Stoxx	6,4%	-14,9%	407	470	15,4%
	SPAIN - IBEX 35	-0,9%	-7,1%	8.091	9.623	18,9%
	MEXICO - MXSE IPC	-1,4%	-11,1%	47.385	60.730	28,2%
	BRAZIL - BOVESPA	3,7%	-2,5%	102.225	112.500	10,1%
	JAPAN - NIKKEI 225	5,5%	-4,2%	27.595	29.748	7,8%
	CHINA - SHANGHAI COMPOSITE	-6,4%	-12,5%	3.186	3.476	9,1%
	CHINA - SHENZEN COMPOSITE	-4,8%	-15,5%	2.138	2.468	15,4%
	INDIA - SENSEX	9,1%	-0,3%	58.076	69.899	20,4%
	VIETNAM - VN Index	3,9%	-16,4%	1.242	1.713	38,0%
	MSCI EM ASIA (in USD)	-0,9%	-19,6%	536	637	18,9%
Fixed Income Core countries	US Treasury 10 year Govie	2,8%	-7,5%	2,56	3,50	-4,9%
	UK 10 year Gilt	3,7%	-5,8%	1,76	1,75	1,8%
	German 10 year BUND	4,9%	-7,4%	0,73	1,75	-7,4%
	Japanese 10 year Govie	0,4%	-0,8%	0,17	0,25	-0,5%
Fixed Income Peripheral	Spain - 10yr Gov bond	4,9%	-9,8%	1,81	2,75	-5,7%
	Italy - 10yr Gov bond	3,4%	-13,7%	2,95	**4,05**	-5,9%
	Portugal - 10yr Gov bond	5,5%	-9,9%	1,72	2,75	-6,5%
	Ireland - 10yr Gov bond	4,9%	-8,8%	1,35	2,25	-5,9%
	Greece - 10yr Gov bond	5,6%	-11,8%	2,82	3,95	-6,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,6%	-1,7%	102,81	80	1,9%
	Credit EUR HY-Itraxx Xover	2,5%	-7,3%	520,13	**400**	9,0%
	Credit USD IG - CDX IG	0,9%	-1,0%	80,43	**90**	3,3%
	Credit USD HY - CDX HY	3,8%	-4,0%	471,12	**475**	7,4%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	13,0%	61,0%	17,00	20,00	-7,0%
	Russia - 10yr Gov bond (local)	1,8%	0,0%	9,00	14,00	-31,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	1,4%	-2,6%	7,12	6,25	14,0%
	India - 10yr Gov bond (local)	1,9%	-2,3%	7,20	7,25	6,8%
	Philippines - 10yr Gov bond (local)	6,8%	-8,9%	6,17	6,20	5,9%
	China - 10yr Gov bond (local)	1,1%	1,9%	2,73	2,75	2,5%
	Malaysia - 10yr Gov bond (local)	2,9%	-0,4%	3,88	3,50	6,9%
	Thailand - 10yr Gov bond (local)	2,3%	-2,7%	2,35	3,50	-6,9%
	Singapore - 10yr Gov bond (local)	1,7%	-6,8%	2,62	3,75	-6,4%
	Rep. Korea - 10yr G. bond (local)	4,0%	-5,3%	2,98	4,00	-5,2%
	Taiwan - 10yr Gov bond (local)	1,1%	-3,0%	1,11	2,25	-8,0%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	4,8%	-2,3%	8,40	9,30	1,2%
	Mexico - 10yr Govie (USD)	4,2%	-10,9%	4,73	5,40	-0,6%
	Brazil - 10yr Govie (Loc)	2,3%	-14,6%	12,88	13,00	11,9%
	Brazil - 10yr Govie (USD)	6,7%	-7,7%	5,95	6,75	-0,4%
Commodities	Oil (WTI)	-14,3%	23,6%	92,9	100,00	7,6%
	GOLD	-2,1%	-3,1%	1.771,1	1.800	1,6%
Fx	EURUSD (price of 1 EUR)	-1,8%	-10,0%	1,023	1,04	1,7%
	GBPUSD (price of 1 GBP)	0,7%	-9,9%	1,22	**1,27**	3,8%
	EURGBP (price of 1 EUR)	-2,5%	-0,1%	0,84	0,82	-2,0%
	USDCHF (price of 1 USD)	-1,0%	4,3%	0,95	0,93	-2,2%
	EURCHF (price of 1 EUR)	-2,8%	-6,1%	0,97	0,97	-0,6%
	USDJPY (price of 1 USD)	-3,4%	13,9%	131,08	**128,00**	-2,3%
	EURJPY (price of 1 EUR)	-5,1%	2,5%	134,13	133,12	-0,8%
	USDMXN (price of 1 USD)	0,8%	-0,3%	20,42	20,75	1,6%
	EURMXN (price of 1 EUR)	-1,0%	-10,3%	20,88	21,58	3,3%
	USDBRL (price of 1 USD)	-2,7%	-6,9%	5,19	5,25	1,2%
	EURBRL (price of 1 EUR)	-4,4%	-16,2%	5,31	5,46	2,9%
	USDARS (price of 1 USD)	4,7%	28,4%	131,89	175,00	32,7%
	USDINR (price of 1 USD)	-0,4%	5,6%	78,61	76,00	-3,3%
	CNY (price of 1 USD)	0,9%	6,4%	6,76	6,65	-1,6%

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

UPWARD REVISION DOWNWARD REVISION

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