ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review – November 2022

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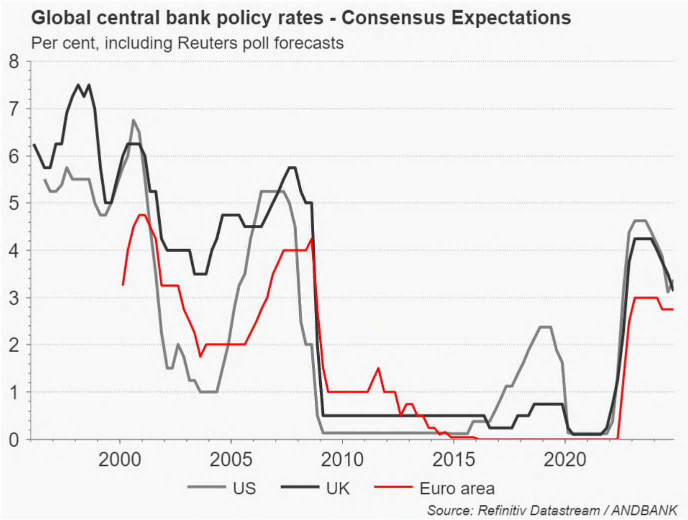
ANDBANK
Private Bankers

EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

Index	INDEX CURRENT PRICE	Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Strategy	Exit Point
USA S&P 500	3.760	3.735	-0,7%	MW	4.108
Europe - Stoxx Europe 600	409	379	-7,2%	MW	417
Euro Zone - Euro Stoxx	389	388	-0,2%	MW	427
Spain IBEX 35	7.841	7.816	-0,3%	MW	8.598
Mexico IPC GRAL	50.865	54.187	6,5%	OW	59.606
Brazil BOVESPA	116.929	120.000	2,6%	MW	132.000
Japan NIKKEI 225	27.663	30.090	8,8%	MW	33.099
China SSE Comp.	2.998	2.889	-3,6%	MW	3.178
China Shenzhen Comp	1.967	1.902	-3,3%	MW/OW	2.093
India SENSEX	60.836	66.368	9,1%	OW	73.004
Vietnam VN Index	1.020	1.169	14,6%	OW	1.286
Taiwán SE Weighted Index	12.987	12.822	-1,3%	MW/OW	14.104
MSCI EM ASIA	453	473	4,3%	OW	520

ANDBANK ESTIMATES

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Indices	*Performance YTD*	*Current Price*	*Andbank's estimate of Fair Value*	*Expected Performance to Fair Value**
US Treasury 10 year Govie	-20,1%	4,19	3,50	9,7%
UK 10 year Gilt	-19,1%	3,45	3,75	1,0%
German 10 year BUND	-19,4%	2,22	2,25	2,0%
Japanese 10 year Govie	-1,4%	0,24	0,25	0,2%
Spain - 10yr Gov bond	-21,7%	3,31	3,25	3,8%
Italy - 10yr Gov bond	-25,0%	4,40	4,65	2,4%
Portugal - 10yr Gov bond	-21,5%	3,19	3,25	2,7%
Ireland - 10yr Gov bond	-19,8%	2,72	2,75	2,5%
Greece - 10yr Gov bond	-26,1%	4,64	4,75	3,7%
Credit EUR IG-Itraxx Europe	-2,1%	116,19	120	2,8%
Credit EUR HY-Itraxx Xover	-7,2%	533,60	550	6,6%
Euribor 3m				
Credit USD IG - CDX IG	-1,2%	88,73	90	5,3%
Credit USD HY - CDX HY	-4,5%	509,60	475	10,6%
Libor Usd 3m				

FIXED INCOME - EM

Indices	*Performance YTD*	*Current Price*	*Andbank's estimate of Fair Value*	*Expected Performance to Fair Value**
Turkey - 10yr Gov bond (local)	113,9%	11,11	12,00	4,0%
Russia - 10yr Gov bond (local)	-5,0%	9,90	14,00	-22,9%
Indonesia - 10yr Gov bond (local)	-2,8%	7,34	6,75	12,1%
India - 10yr Gov bond (local)	-2,9%	7,48	7,25	9,3%
Philippines - 10yr Gov bond (local)	-17,4%	7,39	7,25	8,5%
China - 10yr Gov bond (local)	3,1%	2,67	2,75	2,0%
Malaysia - 10yr Gov bond (local)	-3,1%	4,33	5,25	-3,1%
Thailand - 10yr Gov bond (local)	-8,3%	3,11	4,00	-4,0%
Singapore - 10yr Gov bond (local)	-13,1%	3,46	4,25	-2,9%
Rep. Korea - 10yr G. bond (local)	-13,9%	4,12	5,00	-2,9%
Taiwan - 10yr Gov bond (local)	-8,0%	1,76	2,75	-6,2%
Mexico - 10yr Govie (Loc)	-11,6%	9,80	9,30	13,8%
Mexico - 10yr Govie (USD)	-24,6%	6,56	5,40	15,8%
Brazil - 10yr Govie (Loc)	-3,2%	11,77	12,50	5,9%
Brazil - 10yr Govie (USD)	-13,3%	6,80	6,75	7,2%

COMMODITIES & FX

Indices	*Performance YTD*	*Current Price*	*Andbank's estimate of Fair Value*	*Expected Performance to Fair Value**
Oil (WTI)	17,6%	88,5	100,00	13,0%
GOLD	-11,5%	1.618,4	1.800	11,2%
EURUSD (price of 1 EUR)	-14,3%	0,974	0,975	0,1%
GBPUSD (price of 1 GBP)	-16,9%	1,12	1,17	4,0%
EURGBP (price of 1 EUR)	3,1%	0,87	0,83	-3,7%
USDCHF (price of 1 USD)	11,1%	1,01	0,95	-6,3%
EURCHF (price of 1 EUR)	-4,8%	0,99	0,93	-6,2%
USDJPY (price of 1 USD)	28,8%	148,28	135,00	-9,0%
EURJPY (price of 1 EUR)	10,3%	144,41	131,63	-8,9%
USDMXN (price of 1 USD)	-3,7%	19,74	21,00	6,4%
EURMXN (price of 1 EUR)	-17,5%	19,20	20,48	6,6%
USDBRL (price of 1 USD)	-7,7%	5,14	5,20	1,1%
EURBRL (price of 1 EUR)	-20,9%	5,01	5,07	1,2%
USDARS (price of 1 USD)	53,5%	157,59	175,00	11,0%
USDINR (price of 1 USD)	11,3%	82,89	80,00	-3,5%
CNY (price of 1 USD)	15,1%	7,31	7,50	2,5%

US

Powell, and again inflation, continue without relieving the markets

Federal Reserve

Jerome Powell said at its last meeting that while the pace of interest rate hikes may slow at upcoming meetings, the Federal Reserve was not ready to pause, much less pivot to easing. If that wasn't enough, the blow to the market came when Powel stated that the terminal rate will be above what everyone thinks. If we consider that the bulk of market consensus expected a terminal rate between 4.5% and 5%, one could easily understand that the phrase could lead the market to start thinking of rates of 5.5%, or who knows if a higher level. Something worrying. As expected, the Fed hiked its main interest rate another 75bp and said it will continue to shrink its balance sheet. Bad omens then for risky assets then as, apparently, the prerequisites for a dovish turn have not yet been met. Why not? First, With the breakeven rate on 10-year TIPS Treasury bonds above 2.5%, inflation expectations remain too high (or at least, the current level represents a significant deviation from 2 % wanted). Second, trailing inflation is not yet trending down, especially the core reading. There are early signs of a cooling labor market, but they are not deeply enough set to comfort the Fed. Indeed, Powell pointed to recent consumer price and job market data as the reason why policymakers raised their estimates of the terminal rate for this cycle.

There is still some way to go at the Fed, but we are approaching a level of rates such that the economy is headed for a disinflationary recession.

The US economy may already be close to the level of interest rate (terminal rate) that push the economy into a disinflationary recession. First, financial conditions look to have reached contractionary levels, in the form of a deterioration in the spread between corporate return on capital and the real cost of capital. Second, there is already a dramatic deterioration in housing affordability that will eventually lead to a slowdown in rent inflation and fewer workers quitting their jobs in search of higher pay. This situation is already compatible with a strong economic slowdown that may push down the US inflation.

Our strategy for our discretionary management mandates

Investors were left with the prospects of a more aggressive rate hike cycle from the Fed. The good news is that, if this plan is carried out (make no mistake, Powell is prepared to cause such an outcome), it will still cause pain in financial markets, but it will almost certainly lead to a disinflationary recession. We have the feeling that Powell is prepared to cause such an outcome under his singular and exclusive mandate of restoring price stability, whatever the cost to financial markets, the economy, or even the Fed's own finances (thanks to rate hikes, the Fed now sees losses at an annualized rate of US$326bn).

How to act in such a scenario? Pending the recession and the Fed's pivot point, we will maintain an underweight in discretionary management mandates in equity, credit, housing and any risky asset such as cryptocurrencies. Instead, we will seek refuge in cash or bonds in all tranches (because we do think that the terminal rate could be closer to what Powell suggested yesterday). If this is true, and Powell is closer to the terminal rate than he thinks, this is a reason to start adding exposure to US Treasury bonds, but it is still too early to start adding exposure to equities, real estate or risky asset. When will it be time to overweight equities in our portfolios? Once the recession is underway and the Fed must undertake rate cuts, that will be the time to buy risky assets. For the bravest, perhaps the optimal moment is a little before the market begins to suspect that the first rate cuts are coming. Unfortunately, we are still far from that.

Financial markets

Equities: Value continues to offer protection in the downside, but growth is the winner in positive sessions. Earnings season has started, with a 3.5% positive surprise in earnings so far. The only problem is that while the implicit yield of equity rises (PE falls), so does, and more strongly, the explicit yield of the UST bond, in such a way that the spread between Equity and bond yield has reached a (low) dangerous level of barely 150bp, which suggests that equity is not attractive. Historically, as seen in graph 3, the fall in the spread tends to be followed over time by several exercises of a negative performance in equity. We believe there is still a need to manage equity with a safety net (underweighting equities). We hold our recommendation of a balanced portfolio between Value/Cyclical and Quality Growth companies.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT

Bonds: Govies 10Y UST Target 3.5% (12 months)

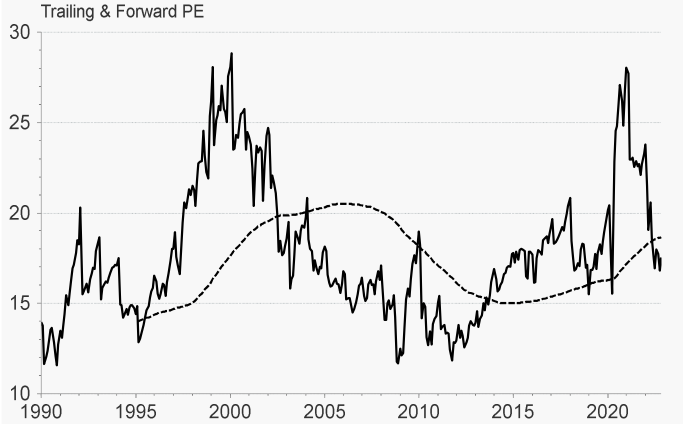
CDX IG: OVERWEIGHT (Target Spread 90)

CDX HY: MARKETWEIGHT-OVERWEIGHT (Target Spread 475)

Forex: DXY index MARKETWEIGHT

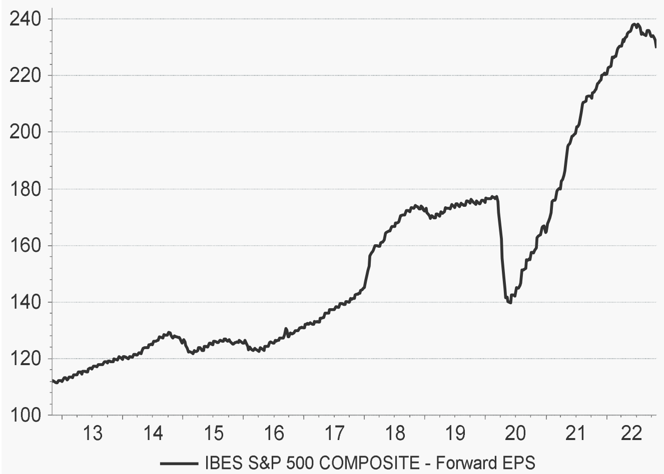
US price-to-earning ratio

Trailing & Forward PE



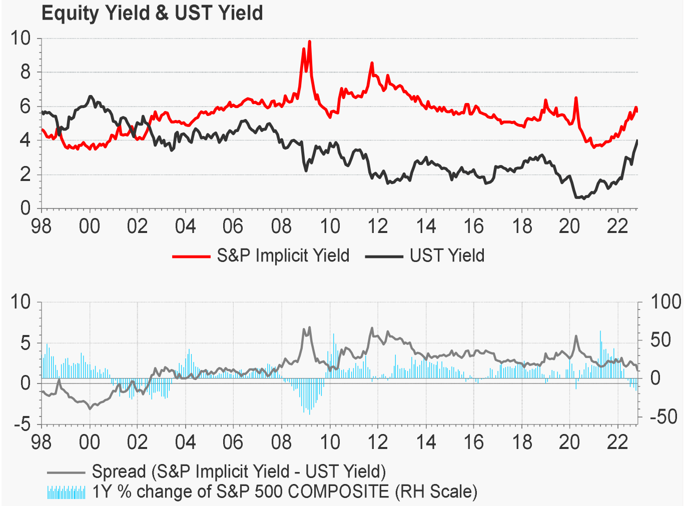
Fuente: Refinitiv Datastream / ANDBANK

S&P 500 - EPS



Fuente: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield



Fuente: Refinitiv Datastream / ANDBANK

EUROPE

Upside risks to inflation and downside to growth

Going into the details of the announcements and the ECB's press conference

In line with changes in official and market forecasts, Lagarde acknowledges that activity has slowed down in Q3 and will do so more in Q4 and Q12023. Without opting for the adverse scenario announced in September (-0.9% YoY) for which she says not all the conditions have been verified, she does confirm a greater slowdown. More cautious bias against the message of the previous meeting. The measures: Raise in 75 p.b. in the three basic rate benchmarks, in line with market forecasts. More importantly, forward indications that substantial progress has been made in withdrawing monetary stimulus, although more is still needed, without suggesting (as on previous occasions) how much, or where the neutral rate would be ("debate not necessary"). Looking ahead to future increases, he says that there will be 3 criteria to consider: 1) inflation forecasts (including the probability of recession); 2) measures already taken; 3) delay in the impact of monetary policy measures. In this sense, two of the three factors could invite us to think of a slower pace of interest rate rises. New dovish element in the message that led the market to not see the 75 bp rise so clearly now in December and is more inclined towards 50 bps, with a terminal rate revised downwards (although called to be above neutral). In sum, a new +75 bp move but a slower pace of rate hikes should be expected, so we stick to our estimates of +50 bp in 1Q2023. That would lead us to a terminal rate around 3%-3.25% on the refi rate (or 2.75% in the dep rate). The full effect of the current monetary tightening will be felt in the next 12 to 18 months. In addition, changes in the conditions of the TLTRO III (remuneration and new payment schedule from 11/23), and in the remuneration of reserves to banks (the depo rate). The logic of the first is to adjust prices to eliminate the extra margin for banks. "TLTROs were an obstacle to monetary normalization" (Lagarde). The banks thus will see their margins negatively impacted by the first route, and that will lead them to advance liquidity repayments. QT not discussed now. It will be in December, according to Lagarde, when we will have the big lines. Big steps were not foreseeable in this meeting, taking into account that other measures have been taken. Market sensitive to a future QT that we hope will be carried out very gradually.

The BoE and the UK fiscal U-turn

The BoE is expected to accelerate its tightening path in November (+100 bp), while QT is likely to be delayed until the gilt market calms. A take-away from the UK's episode is that central banks are swift to respond and change their plans should financial stability arise. Another lesson is that responsible policies are essential and central banks cannot rush as they used to without sacrificing their credibility.

Financial Markets: Govies, Corporate Credit & Equity

Equity market: That said, in order to stay on the safe side and try to figure out what a floor level might be for the European equity market, we have pushed down the estimate for the multiple PE forward to a minimum level of 12, with the aim of collecting all possible risks, and we have assumed zero growth in earnings for 2023 (up to €31.5). That leaves us with a bottom for the market at 415 for the Stoxx Europe 600 (today trading at 380). That is, the floor is -9% below the current price.

Govies: Flight to cash persists and duration aversion is becoming a problem. On outright duration, the peak in the sell-off tends to be reached in the six months before the last hike (towards the end of Q1-Q2 2023), so we could be close to it, according to historical patterns. But this time, with more funding looming large, while the ECB still needs to tighten policy and liquidity being precarious, this trend could continue in the short term. Looking into 2023, we could see a terminal rate around 2.5% and a slightly inverted curve (10Y bund at 2.1-2.3%). As for peripherals, after the Italian elections 10Y BTP spreads have been rejected above 250 bp, with the help of ECB and EU hopes, so we stick to our 240 bp target.

Corporates: IG yields are above 4% (last seen in January 2012), while HY yields at 8.6% imply a difference of a little more than 2 times (vs the 8-times difference back in August 2012). Thus we prefer IG over HY, with a defensive bias (healthcare, food and beverages, and telecoms).

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT

Equities – Spain's Ibex: OVERWEIGHT

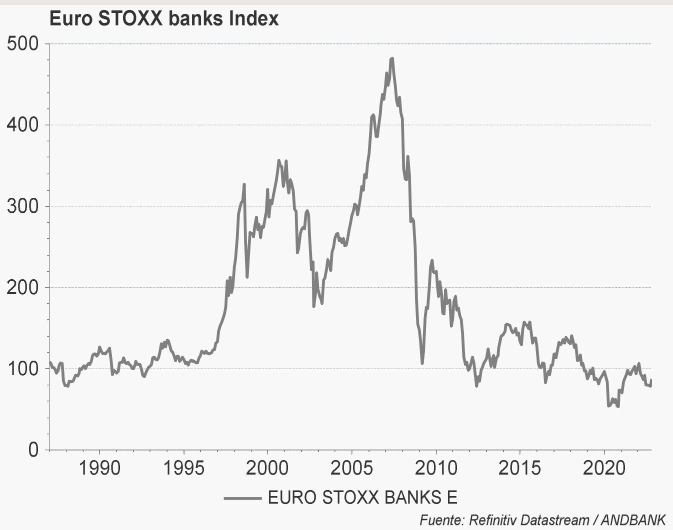
Bonds – Core governments: UNDERWEIGHT (Bund target 2.25%)

Peripheral – UW IT (4.65%), SP (3.25%), PO (3.25%), GR (4.75%), IE (2.75%)

Credit – Itraxx Europe (IG): NEUTRAL-OVERWEIGHT (Target spread 120)

Credit – Itraxx Europe (HY): NEUTRAL (Target spread 550)

FX – EUR/USD Target 0.975 (At 0.95 hedge 75% of your USD. At 1.00 hedge 25% of your dollars)



CHINA

The conclusions of the PCC Congress fell far short of our expectations

Hong Kong exchange proposed lower threshold for cutting-edge tech IPOs

Hong Kong Exchanges & Clearing (338.HK) is planning a system to slash the revenue requirements for advanced tech and science companies to go public, in an effort to revive listings as well as to fit with Beijing's push to beef up its AI and semiconductor sector

Macro. China's important auto market sector could be set for a slowdown.

The broker CMBI said while automakers delivered a record number of cars in the first nine months of the year, retail demand slowed, setting up the market for a slowdown next year. Deliveries rose 33% while sales rose by just 9%, meaning inventory levels increased substantially.

Politics. Hong Kong leader Lee aims to stem expat exodus in maiden policy speech

Hong Kong chief executive John Lee's maiden policy address included a two-year visa for job-hunting graduates and a 'top-talent pass' for higher salary earners, along with the offer of a stamp duty rebate on first-home purchases for permanent residents, all aimed at stemming a brain drain from city (SCMP). Other measures included changing the civil service code to require employees to have "strong awareness of national sovereignty and security"; a new policy unit to gauge the public pulse and research on mainland policies; and a new Covid strategy, although there was no mention of "0+0" quarantine for incoming arrivals, nor will the city 'lie flat' in the fight against the virus.

PCC Congress. A first assessment

As investors, we expected the Chinese Communist Party Congress to make important announcements on four fronts: Pandemic policy. Change in monetary policy in the form of interest rate cuts. A shock plan to definitively fix the serious problem of the Real Estate sector in China. The rhetoric about Taiwan. The reality has lagged behind our expectations, as evidenced by the fact that the Chinese Equity market has received the congress announcements without much enthusiasm.

On the question of pandemic management: Far from calming investors by announcing a shift towards pandemic management that takes more account of the economic effects, President Xi doubled down on his "Covid-zero" strategy. A PCC spokesperson announced that the pandemic policy must continue in the face of the risk that winter poses in terms of the seasonal increase in infections. Thus, we will have to continue to wait for economic weakness and operational problems in public entities already facing conflicts between income and expenses.

On the issue of support to the Real Estate sector, the president this time did not repeat the mantra that "housing is for living, not for speculation," a detail that was seen by some as a hint of support for real estate developers. But the reality is that the message was far from the financial support that the sector requires to put an end to the corporate bloodletting. Given the announcements, this dynamic could continue to spread uncertainty to the rest of the local corporate debt sector and, who knows, perhaps also to municipal and public debt. Although the six state-owned banks have been increasing lending so far this year, this volume barely reached USD1bn.

On financial support in the form of interest rate cuts in the main references: Nothing relevant was announced, even though there are already voices that suggest that China already shows structural characteristics of deflation. In its latest decision, the PBOC announced the renewal of certain programs (MLF) but without changing the rates. Also, in its last reverse repo operation (to inject a minimal amount of liquidity) it also left the rate unchanged. The truth is that we expected the effective realization of that promise at the beginning of the year to carry out monetary stimulus. But none of that has been seen.

On warmongering rhetoric: Xi Jinping reiterated his commitment to gain control of Taiwan through peaceful reunification by 2049. We see that as a step that takes the pressure off the Taiwan issue in the short term, although Mr Xi also warned that China will never rule out the use of force.

Capital markets & Crackdowns. The president included the phrase "common prosperity," a term behind which Beijing has been leveraging to carry out a severe campaign of reforms that has seriously affected key sectors of the economy (such as the technology sector). The inclusion once again of this mantra of "common prosperity" makes us think of the future succession of said "crackdowns," especially in private companies that, due to their good economic performance, stand out in size over the others and cause a certain accumulation of market power. Perhaps as a note of contrast, President Xi expressed his support for the private sector, alluding to the idea that markets "will play a key role." Meanwhile, the Chinese stock market regulator (CSRC) announced a series of market support measures to stop the sharp decline in shares. The measures include a proposal to encourage listed companies to buy back shares, as well as measures to ease restrictions on trading and short-term transactions by mutual funds abroad.

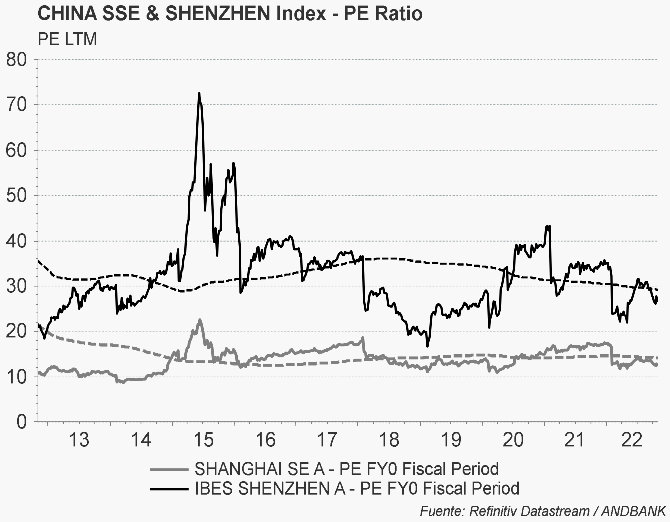
Market outlook – Recommendations & Targets from fundamental analysis

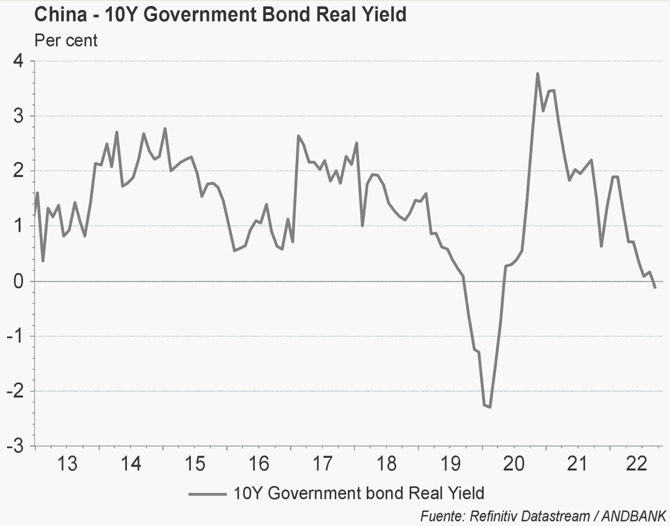
Equities – SHANGHAI Idx: UNDERWEIGHT

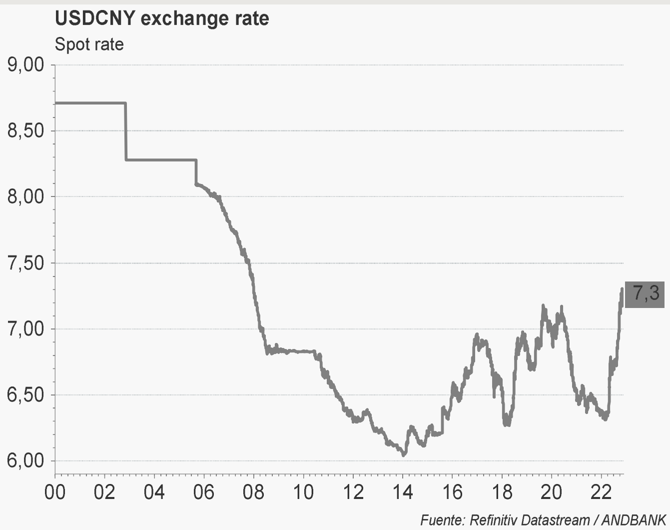
Equities – SHENZHEN Idx: UNDERWEIGHT

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

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)







ANDBANK Private Bankers

MACRO ECONOMY

JAPAN

BOJ seen unfazed by yen weakness. Ramps up bond buying

International investors continue to be net sellers of Japanese assets

International investors: Net sellers of ¥356.6B in domestic equities vs revised net purchases of ¥408.7B in previous week. Net sellers of ¥1,391.2B in domestic long-term debt vs revised net sales of ¥181.4B in previous week.

Monetary Policy: BOJ ramps up bond buying

The BOJ boosted JGB accelerated bond purchases, mainly adding ¥100B in 10-25 years and ¥50B in longer tenors compared to prior operations. Purchases of maturities from three to 10 years were also higher than the initial scheduled amounts. Noted yields on bonds with more than 10 years to maturity have risen over 40 bps in the past six months, compared with an increase of just one basis point in the 10-year yield. The government will urge BOJ to be vigilant to the economic impact of sharp market moves. Document warned that "global recession fears were heightening" and could hurt consumption and capital expenditure. It added that the government and BOJ need to deploy an appropriate fiscal and monetary policy mix to stave off economic risks.

FX: Policy officials maintain yen verbal intervention

Kyodo reported authorities on Monday again warned of taking the necessary steps to counter excessive volatility in the currency market. Top currency diplomat Masato Kanda said authorities were ready to respond "appropriately" to excess volatility at any time, keeping financial markets on alert. Finance Minister Shunichi Suzuki told reporters they cannot tolerate excessive volatility caused by speculative moves and are ready to take necessary steps when needed.

Last week's yen intervention estimated to be record $37B. Nikkei reported Friday's intervention operation may have totaled a record ¥5.5T ($37B), according to estimates based on BOJ current account projections, which would dwarf the ¥2.8T in September. BOJ said it expects a drop of ¥1.18T in its current account from "treasury funds and others" on Tuesday, compared with its forecast of a ¥4.3T increase at the start of the month – a gap that market players attribute to a yen-buying intervention.

Macro data & inflation. Weak yen a boon for Japan cross-border e-commerce

Nikkei discussed strength in international demand for Japanese products online. Noted many smaller companies are joining the market to take advantage of the yen's sharp decline as online commercial activity is enhanced by IT advancement. Cited Beenos data showing yen-based sales rose 80% in H1 over 2020 and are up 3.7-fold from five years ago, led by orders from Southeast Asia, Europe and North America. According to METI, US and China are the biggest markets for Japanese products. Online sales to China hit ¥2.13T ($14.37B) in 2021, up 10% from the previous year, while sales to the US grew 26% to ¥1.22T.

Major Japanese companies are increasing the hiring of college graduates for the first time in four years as the economy recovers from a pandemic slump and a labor shortage intensifies competition for talent. Graduating seniors who have accepted job offers, including those finishing graduate studies, are up 5.7% on the year to 116,079 as of 3-Oct, the second-sharpest rise in 10 years behind FY15.

Government economic assessment unchanged: Government monthly economic report for October showed overall assessment unchanged, maintaining the economy is recovering moderately. There were a few tweaks in the details, with imports downgraded to reflect a flattening in the trend following prior growth, while expressing more conviction in the recovery in capital spending. The report reiterated hopes the BOJ will continue to achieve its 2% inflation target in a stable manner while taking account of economic, inflation, and financial market conditions. September services PPI +2.1% y/y vs consensus +2.1% and revised +2.0% in prior month

Fiscal stimulus: Japan to add utilities relief in stimulus package

Kyodo sources said the government will cut household electricity bills by about 20% early next year under a broader economic package that will include ¥25.1T ($170B) in government spending. NHK said the figure would be north of ¥29T. Headline package will likely reach ¥67.1T when including other outlays and may increase amid calls from the ruling coalition. Recalled ongoing discussions about extending subsidies to gas. Most of the funding will have to come from JGB issuance.

LDP secretary general eyes ¥26T economic package to fight inflation: Kyodo reported LDP Secretary General Toshimitsu Motegi said the stimulus package will likely reach ¥26T ($174B). On BOJ policy, he added that raising interest rates prematurely would have a negative impact on the economy and it would be difficult to make such a move immediately.

Market outlook – Recommendations & Targets from fundamental analysis

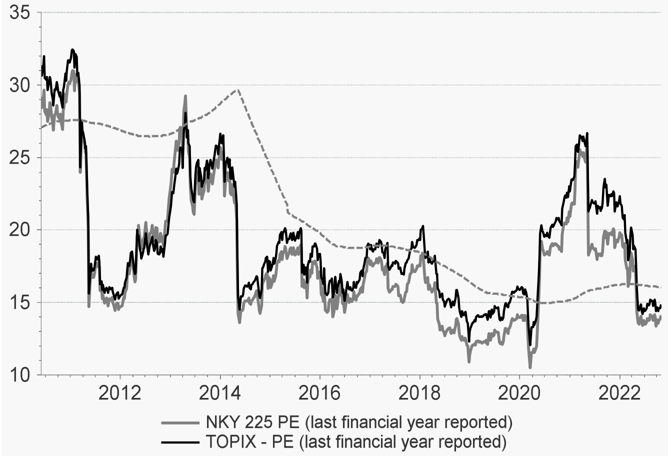
Equities – N225: MARKETWEIGHT

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

Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 135)

Japan Nikkei 225 price / earnings

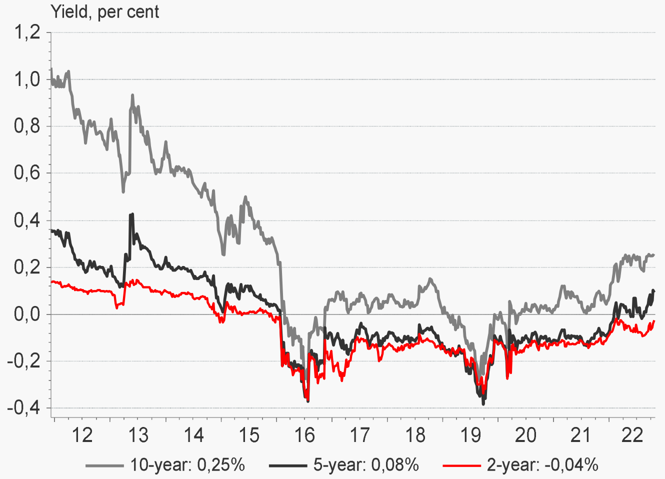
Ratio



Fuente: Refinitiv Datastream / ANDBANK

Japan benchmark government bonds

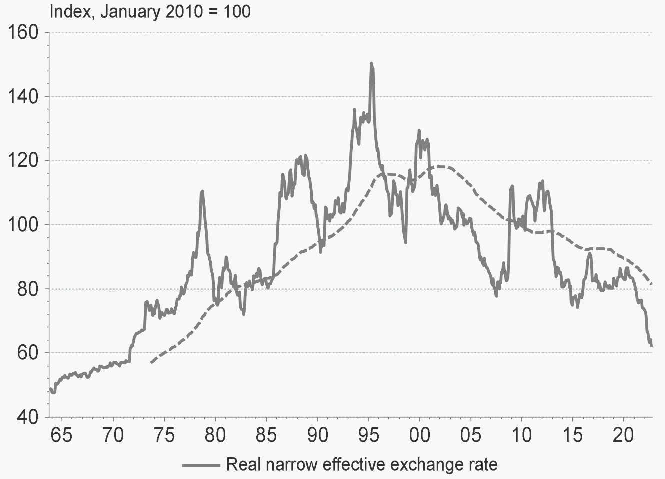
Yield, per cent



Fuente: Refinitiv Datastream / ANDBANK

Japan real narrow EER

Index, January 2010 = 100



Fuente: Refinitiv Datastream / ANDBANK

INDIA

"It's not India's decade, it's India's century," says McKinsey's CEO

Macro & Inflation

The Consumer Price Index (CPI) for July decreased to 6.71% compared to 7.01% the previous month. Core inflation remained stable at 6.25%. The Industrial Production Index (PI) for June moderated to 12.3%.

Forecasts are still for bullish growth

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.

Capital Flows

According to the latest RBI data, the foreign exchange reserve position narrowed marginally to USD 561.05 Bn during the month. The USD appreciated by 0.24% during the month and closed at Rs 79.46/USD from Rs 79.27/USD last month. Foreign investors were net buyers of Indian equities worth USD 6.26 Bn and net buyers of fixed income worth USD 0.54 Bn. Meanwhile, domestic investors were net sellers of USD 0.81 Bn of equities during the month.

Outlook for Indian assets

As a summary of favorable arguments for equities in India, we would highlight the following: It is the country with the highest growth (7.5% growth expected for India in 2022 according to the main institutions). India joins the “USD 3 Tn” club, with a per capita income similar to that of China in 2007. Inflation is under control compared to developed economies, as it is an agricultural country, so the food component is under control, while commodity prices are moderate. According to McKinsey’s CEO: It is not India's decade but India's century. Although the stock market has recovered due to the correction in global commodity prices, which has led to some moderation in inflation expectations, shares in the Indian market continue to trade within reasonable valuation levels. This decrease in global inflation could reduce the current trend of rising interest rates in the West, thus reducing funding costs in foreign currency for EM companies. While the coming months may remain volatile for equity markets in India, due to global factors such as the path of global inflation and the pace of interest rate hikes in the US, domestic earnings are expected to continue to rise, as the underlying demand environment remains robust, and this will lead to valuations remaining reasonable. The Indian economy's fundamentals and long-term growth potential remain strong and we see any correction as an attractive long-term opportunity. On the monetary front, the RBI's monetary policy committee (MPC) decided to hike interest rates by 50 bps, which was slightly hawkish for market consensus, which is favorable for the currency. A very healthy banking system, with net NPAs below 2% and leverage levels also low, with net corporate debt/EBITDA at the lowest level in 15 years.

How is India living with the geopolitical situation?

The policy chosen by India is: strategic autonomy. It is part of the Quad (USA, Japan, Australia), despite having military dependence on Russia (70% of military equipment), and China remains an important trading partner.

Why can India's valuations remain higher than the rest of the EMs?

Valuations in these markets are basically based on ROEs and sustainability of growth. Indian companies are clearly outperforming their peers in terms of ROE and growth, and as a result, valuations will remain higher as long as this continues. India's historical premium is the key to evaluating valuations. **Preferred sectors:** Consumption: banking and financial services, consumer durables, basic products. IT is emerging, which is key for global businesses.

Main risks

Interest rate increases well above the consensus is the main risk. If rates continue to rise, high growth companies with high valuations will be affected. We have to be very attentive to the interest rate-inflation relationship. Based on this, having companies with solid business models and balance sheets is key for the medium term.

What are the expectations for monetary policy and interest rates? Increase of 205 bps during 2022, similar to the FED, with RBI withdrawing liquidity (QT). A 40-50 bps hike was expected at the last meeting (and the central bank delivered that rate hike), and we expect rates to rise above 6% in 2023 (depending on inflation data). We don't see a rate cut until inflation reaches 4%.

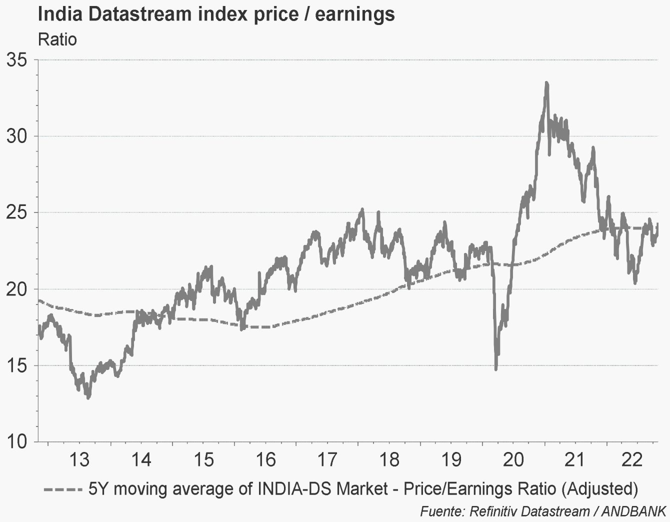
Market outlook – Recommendations & Targets from fundamental analysis

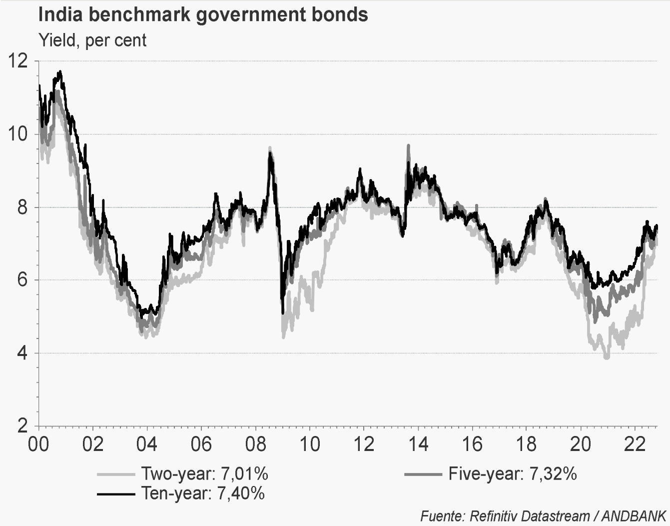
Equities – SENSEX: OVERWEIGHT

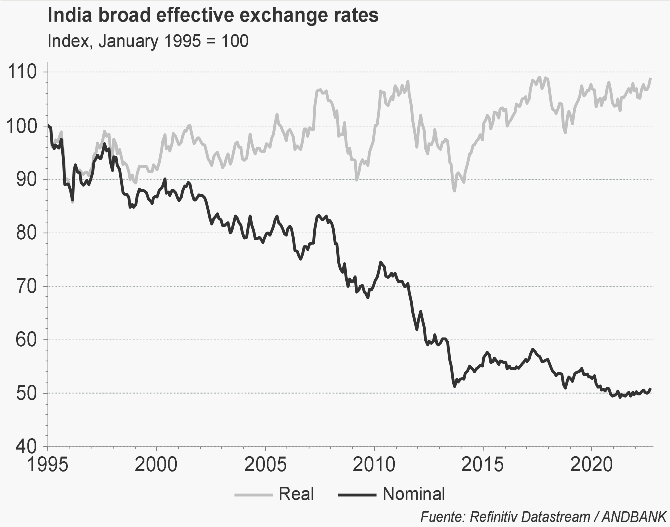
Bonds – Govies: OVERWEIGHT (Target yield 7.25%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 80)







ISRAEL

Growth is fine, consumer trend is fine and real estate is finally cooling

Macro, fixed income and monetary policy

CPI for September increased by 2.0%, meaning that YoY inflation remained at the level of 4.6%. While services inflation continues to rise, supply inflation continues to moderate. We expect this trend to continue further. The next Monetary Committee meeting is expected to be held on 21st of November after the publication of the October CPI, which is expected to indicate a renewed increase in YoY inflation to about 4.9%. Therefore, we estimate that the members of the committee will choose to raise the interest rate by approx. 50bp to about 3.25%. We recall that BOI governor, Yaron, clarified in the last interest rate decision that the BOI aims to raise the interest rate to the level of "3% plus", and that the current interest rate (2.75%) already indicates a restrictive interest rate environment. The consensus is that the interest rate will reach 3.5% by the beginning of 2023. Our current observation is that the markets are now fully embodying the expected interest rate hike, alongside full pricing of the increase in inflation in the coming year. Due to a flat yield curve, we adhere to the opinion that one should hold a short duration of not more than three years. Another essential factor worth noting is the fiscal strengthening of the Israeli economy thanks to a sharp increase in tax collection. The surplus in the state budget in the last 12 months is 0.4%. The sharp increase in tax collection allows the government to repay debts, thereby reducing the debt-to-GDP ratio of the economy, and at the same time increases the flexibility of fiscal policy, which gives the Israeli economy a great advantage in dealing with future crises.

Stocks

After a long period in which the Israeli stock market outperformed most foreign markets, September presented an opposite picture. The Tel Aviv 125 index fell by 3%, with second-tier stocks leading the declines after losing more than 5%. The cooling real estate market along with the rise in interest rates had a negative impact on real estate shares, which dropped by 6%, making this one of the weakest sectors this year, with a cumulative decline of more than 20%. We believe that two sectors deserve special attention due to their strength and future prospects. The first is banks, which despite losing 3% since the beginning of the year still show significant outperformance compared to benchmarks. It seems that the increase in interest rates along with the growth in economic activity in the Israeli economy will continue to support bank shares in the near term (and in the longer term as well). Most banks are currently trading at capital multiples that are close to their multi-year average and present rates of return on capital and dividend yield that are largely higher than in the past. The second sector is insurance companies, which have considerably changed the nature of their activity and their operational structure in recent years. Although insurance companies still have significant exposure to the capital markets, they have also diversified their investment portfolios significantly in recent years, thus reducing their capital market exposure (and their volatility). Companies such as "The Phoenix," which after a long restructuring process became Israel’s largest insurance company, is our preferred holding today.

Market outlook – Recommendations & Targets from fundamental analysis

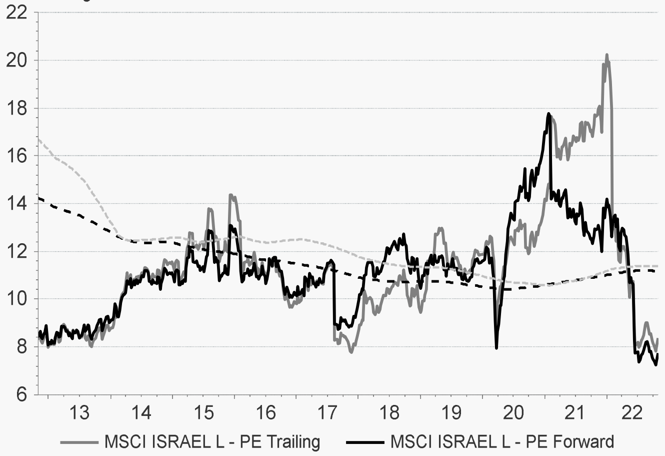
Equities – TLV35 Index: OVERWEIGHT BANKS AND INSURANCE, UNDERWEIGHT REAL ESTATE

Bonds – Government–10Y Gov: SHORT DURATION

Bonds – Corporates:

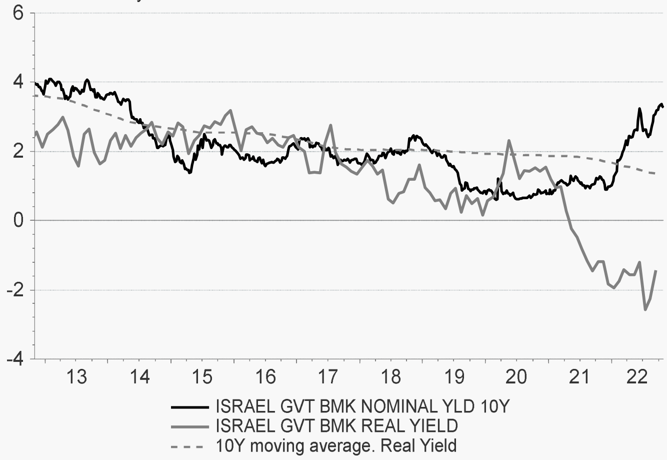
FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio
Trailing & Forward PE



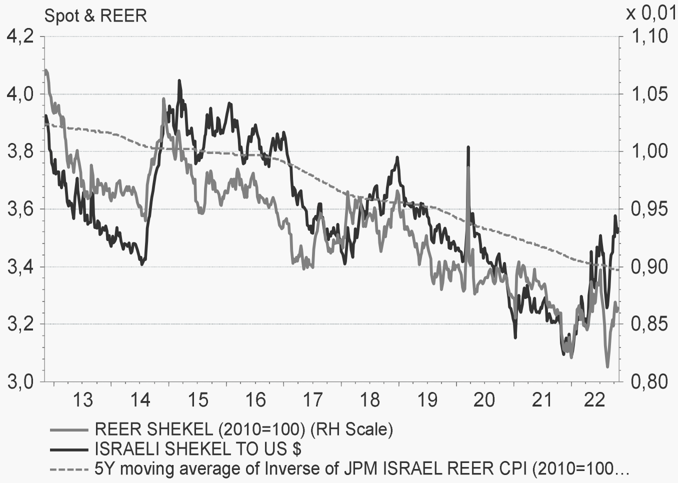
Fuente: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y
Local currency



Fuente: Refinitiv Datastream / ANDBANK

Israel Shekel
Spot & REER



Fuente: Refinitiv Datastream / ANDBANK

BRAZIL

The Copom unanimously puts its bullish cycle on hold at 13.75%

The election is over

One more world-class category election is over. Former left-wing president Lula da Silva (Workers' Party, PT) emerges victorious in the second round of the 2022 elections, earning a very narrow margin against incumbent right-wing president Bolsonaro (Liberal Party). In our opinion, the transition to a new government could fuel defensive positions, although in the Congress we saw a bias towards the right in this election as many deputies with ties to Bolsonaro and/or his ideas have been elected. If Bolsonaro's supporters act in staunch opposition to Lula, the new government would have greater difficulty in approving projects in the Lower House. However, if these parties move more "to the center", as they have traditionally done, Lula will not have major problems governing. Lula's capacity for political negotiation may counterbalance this situation in Congress. In fact, markets reacted positively to this, given that Lula will face a lot of resistance to any attempt to shift economic policies to the left.

Monetary tightening cycle put on hold. Fx view.

The Copom unanimously leaves the hiking cycle on hold at August's 13.75%, pleading vigilance. The Copom's reference-scenario CPI inflation projections now are 4.8% in 23Q4, 3.2% in 24Q2, and 2.9% in 2024. We still expect the Copom's most likely move to cut the Selic rate only in June 2023.

The mid-monthly CPI inflation interrupted two consecutive months of negative levels. The mid-monthly CPI inflation (IPCA15) in October climbed to 0.16% m/m, in annual 12 months the index is in 6.9% y/y. We see CPI inflation at 5.7% in 2022.

Current account deficit continues to worsen and foreign direct investment surprises. In the external sector, the current account in September recorded deficit USD 5.7bn and the foreign director investment (FDI) showed USD 9.2bn. Analysts revised projections for current account deficit for 2022 and 2023 in USD 41 bn and 43.2 bn, and now foresee the FDI in USD 77 bn and 72.6 bn for 2022 and 2023, respectively.

We still see USDBRL at 5.20 at the end of 22. In fact, over the week previous to the second round of the presidential election, the USDBRL appreciated 2.6%.

Meanwhile, what is happening to the economy?

Brazil, especially by comparison, is looking good to the world right now. The country is growing, inflation is coming down, the current fiscal deficit is at acceptable levels, employment has improved, the debt to GDP ratio has receded, and the trade balance is healthy, among other indicators. Of course, Brazil has not solved any of its structural problems, but in a world in which the developed countries are now starting to tackle their post-Covid issues, Brazil did one thing right: the Central Bank of Brazil (BCB) was very aggressive in its rate raising cycle, which started back in March 2021. It took rates from 2.00% to 13.75% in 12 consecutive meetings. Now, it is reaping the benefits of being one of the very first countries to reduce monetary stimulus. The question to be answered by either Lula or Bolsonaro is how to continue to fuel the country's growth amid a possible global recession in the developed world, coupled with a projected slowdown in the activity of its main trade partner (China), both of which could certainly push down the price of commodities (Brazil's main export). Additionally, next year the government will have to reverse the fiscal stimulus given this year, as it was approved for 2022 only. Considering the global slowdown and tighter fiscal maneuverability, whoever wins the election on October 30th will have a lot on their plate for the coming years.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 12.5%. Spread 900)

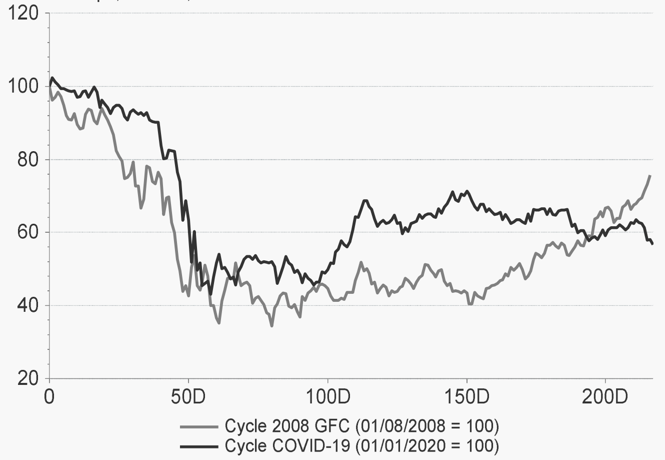
Bonds – Govies USD: OVERWEIGHT (Target yield 6.75%. Spread 325)

FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.20)

Brazil MSCI Index price-to-earning
Trailing & Forward PE

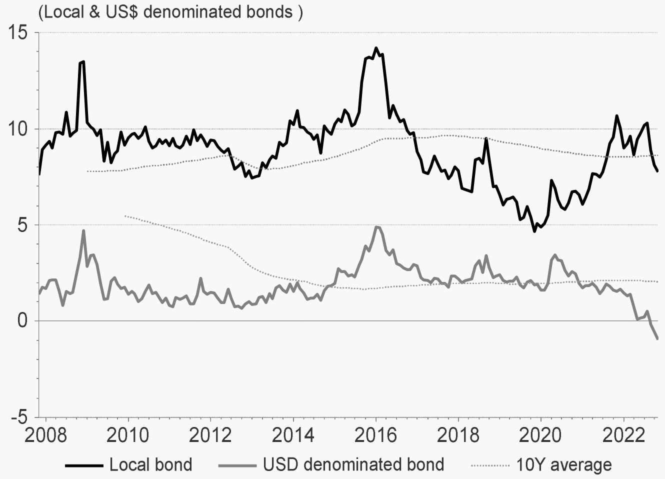
Fuente: Refinitiv Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020
Bovespa, rebased, 100 = crisis start date



Fuente: Refinitiv Datastream / ANDBANK

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



Fuente: Refinitiv Datastream / ANDBANK

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, bringing the monetary policy rate to 9.25% in September, the Bank of Mexico kept its "hawkish" stance, relying on economic data such as inflation, which has not changed its trend, and with a particular concern for relative monetary policy with respect to what the FED does. The outlook has changed towards further action by the central bank, reaching a terminal level of 11% by the end of the tightening cycle. The forward curve already discounts increases at the beginning of 2023. In its latest quarterly report on inflation, the central bank highlighted that the real rate has barely passed the neutral zone and there is still room for further monetary tightening. The authority also pointed out that the long-term outlook has been unanchored and has risen in the last 2 months.

Inflation and activity

Headline inflation remained at 8.70% in September, with increases in core inflation, which has risen to annual levels of 8.28%. The long-term outlook, according to central bank estimates (between 5 and 8 years), has risen from 3.50% (the level at which rates had remained anchored for several years) to 3.70%, but, after recent increases in the central bank's reference rate, has not moved much from that level. The estimated level for 2022 has been increased, in the view of both the central bank and private analysts, to levels above 8%. With convergence to the long-term goal (3%) starting in the second half of 2023, this scenario looks optimistic. Growth prospects have remained unchanged in recent months, with an average consensus of analysts estimating 1.7% for both 2022 and 2023.

Economic policy

Despite questionable political decisions regarding militarization, the rule of law, elections, and other issues, the level of acceptance of AMLO remains high (56%) and no internal risks have been generated. The reviews of disagreements on trade issues in the T-MEC with Canada and the US will be solved in December. Sanctions for anti-competitiveness by Mexico are not ruled out yet.

Financial markets

Equity: Quarterly corporate reports served as a catalyst, with reports in line with expectations and surprises in financials and consumer staples that add to the attractive valuations. Main risks: inflation, rate hikes due to restrictive policy (appreciation of the peso) and the uncertainty that the T-MEC issue could generate. Target price 12 months: 61,800 (vs. current 46,900). Fixed Income & FX: The spread between bonds in pesos and treasury bonds (10 years) has remained in a range of 560-590 basics. We consider that the curve could continue to accelerate its inversion if a recessionary scenario in the US gains probability. We could consider a tactical entry to the duration of the curve in pesos with a return to the 600 basic spread that would remain our central level for the end of 2022. With the same logic, with respect to the bond in dollars, the spread returned to 160 basics, which is also our estimated closing level due to the increase in dollar rates, which has reduced the attractiveness of the asset given the expectation of a closing level above 180 basics. The peso continues to be one of the strongest currencies of the year against the dollar, after the monetary policy decisions of the FED and Banxico. The local currency once again fell below 20 per dollar, although it has maintained some volatility. Closing level of 21 for wholesale units.

Market outlook – Recommendations & Targets from fundamental analysis

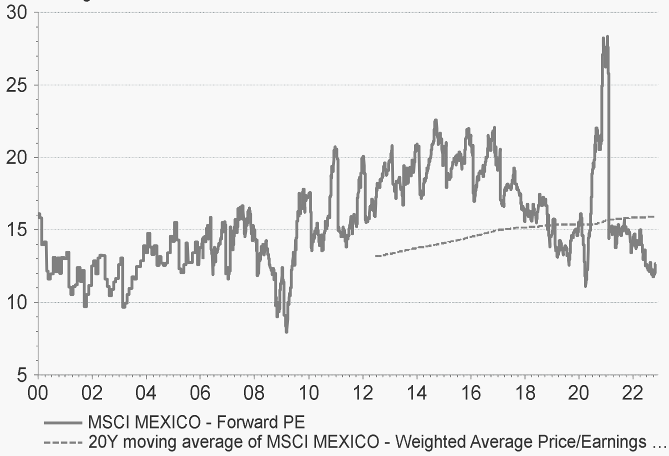
Equities – Mex IPC: OVERWEIGHT

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

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

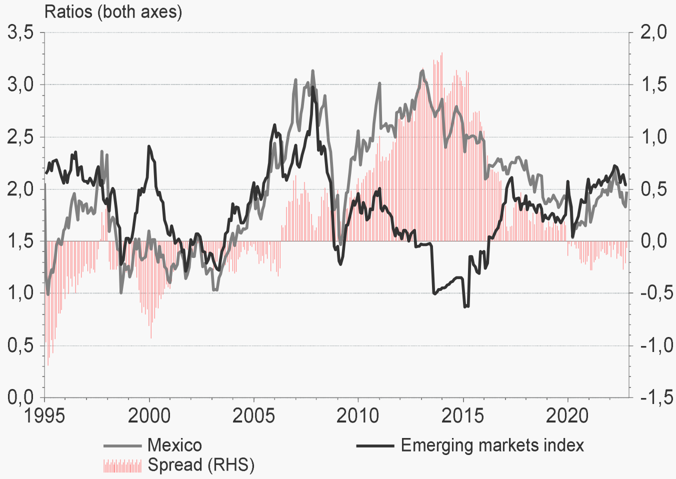
FX – MXN/USD: UNDERWEIGHT (Mid-term target 21)

Mexico MSCI Index price-to-earning
Trailing & Forward PE



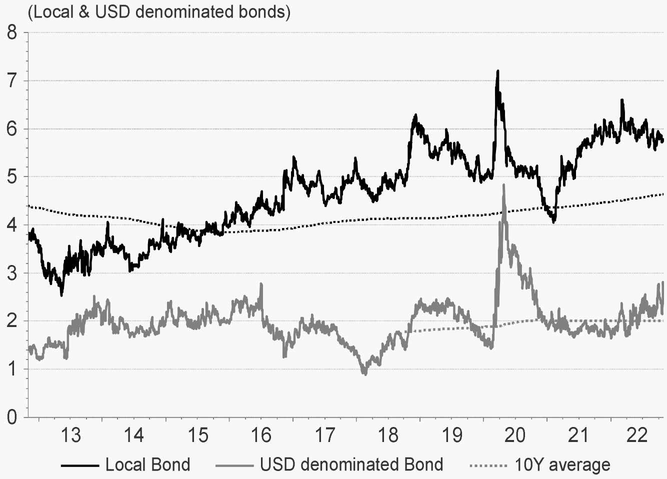
Fuente: Refinitiv Datastream / ANDBANK

Mexico price-to-book ratio
Ratios (both axes)



Fuente: Refinitiv Datastream / ANDBANK

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



Fuente: Refinitiv Datastream / ANDBANK

ARGENTINA

One swallow does not make a summer

IMF: A Vote of Confidence and a Warning

The Executive Board of the IMF approved the second review of the EFF agreement, thus enabling a disbursement of USD 3.8bn. The Board mentioned that the actions of the new economic team were critical to stabilize markets, rebuild reserves and lower BCRA's intervention in the futures and government bond markets. On the other hand, they pointed out that the increase in FX restrictions and the temporary "Soy USD" policy are against the desired market conditions in the EFF.

The review stressed the need for "prudent macroeconomic policies and steadfast implementation" in a context of low international reserves, inflation approaching triple digits, multiple FX controls and a domestic debt market that partially depends on the BCRA's intervention. All relevant quantitative targets were met, even the targets for International Reserves, which seemed impossible to achieve but were over-accomplished by the end of the period.

Reserves: Time to Preserve What Has Been Achieved

The "Soy USD" policy (ARS 200 for soybean sales in Sept.) led to settlements above USD 8bn, exceeding the initial target of USD 5bn. Added to a decrease in energy payments during the month (USD 500mn vs USD 1bn average in the prior three months), this enabled the BCRA to purchase USD 5bn in the FX market from the private sector. The government thus managed to end the quarter with a NIR position of USD 4bn, exceeding the IMF target for the period. Now producers have excess ARS and agro yields have been reduced by the drought that is affecting the sector for the third year in a row. As a result, agro income will probably shrink for the rest of the year. In fact, in the first five days after the "Soy USD" policy ended the BCRA already sold USD 277mn.

Some thought that the objective of "Soy USD" was to accumulate enough reserves to devaluate the Argentine peso, but Massa ruled out that theory by stating that such a change in FX would increase poverty by 20 points. To avoid losing reserves, the government announced further restrictions on imports (goods subject to discretionary government authorization increased from 29% to 46%) and a new system to improve controls was implemented. The differentiated FX for tourism spending was increased to a level near the CCL (currently above ARS 300). The government finally secured a USD 700mn loan from the IBD to reduce the fiscal deficit, promote price stability and ensure debt sustainability.

Inflation: A Nice Surprise

The market expected a September CPI of 6.7%, but the figure came in at 6.2% MoM, down from August's 7% MoM. Annual inflation thus reached 83% YoY, the highest print in three decades. Core inflation dropped significantly to 5.5% MoM (vs 6.8% MoM in August) and regulated prices reached 4.5% MoM (vs previous 6.3% MoM) after the increase in utility tariffs announced for September was postponed to October. As a result of the monthly inflation figure, the BCRA kept its policy rate unchanged at 75%.

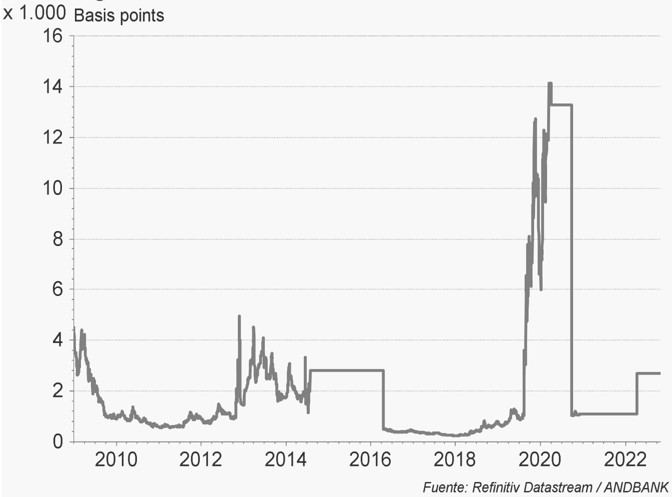
For the following months, price dynamics are worrying. To comply with fiscal deficit targets, adjustments on utilities, public transport and gasoline, among others, have already been announced. In addition we should expect further wage rises in a context in which some unions have already agreed on adjustments at the 100% level, with a government committed to the recovery of real wages. BCRA-REM now points to inflation of 100.1% for end-22, while the IMF sees it at 95%. The monthly figure is expected to remain at or above 7% for the rest of the year.

Market outlook – Recommendations & Targets from fundamental analysis

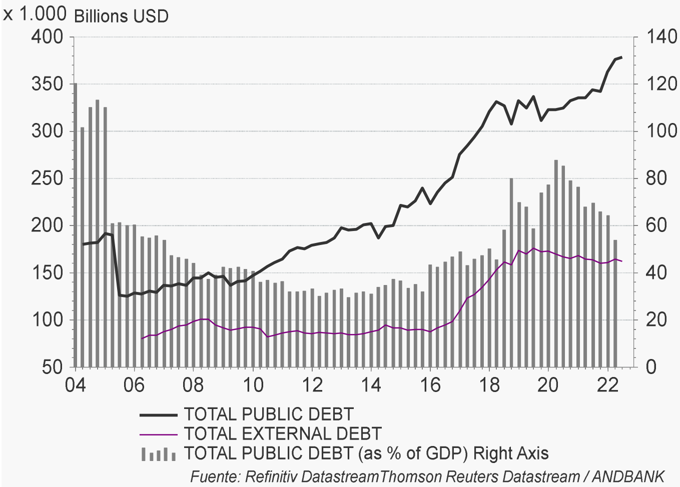
Bonds – 10YGov USD: NEUTRAL

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

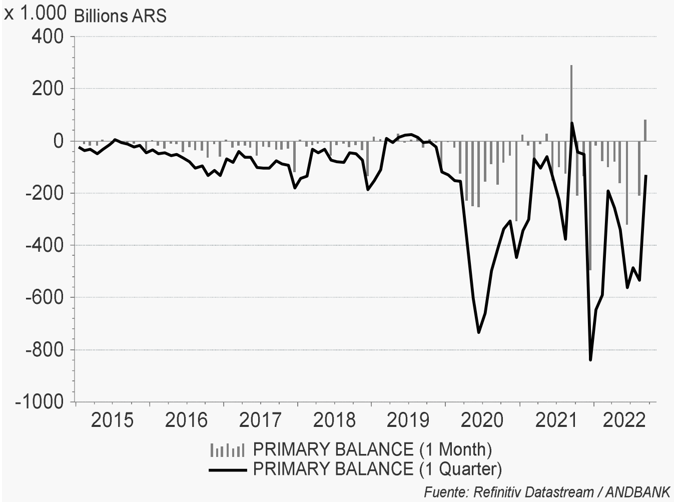
Argentina 5Y CDS



ARGENTINA - TOTAL & EXTERNAL DEBT



ARGENTINE PRIMARY BALANCE



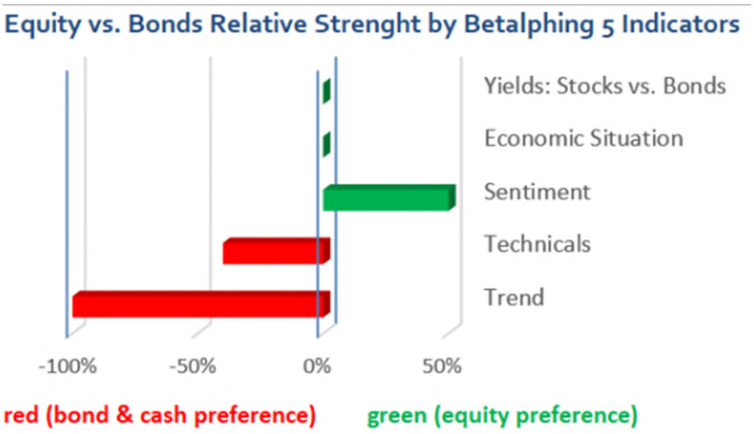
GLOBAL EQUITY INDICES

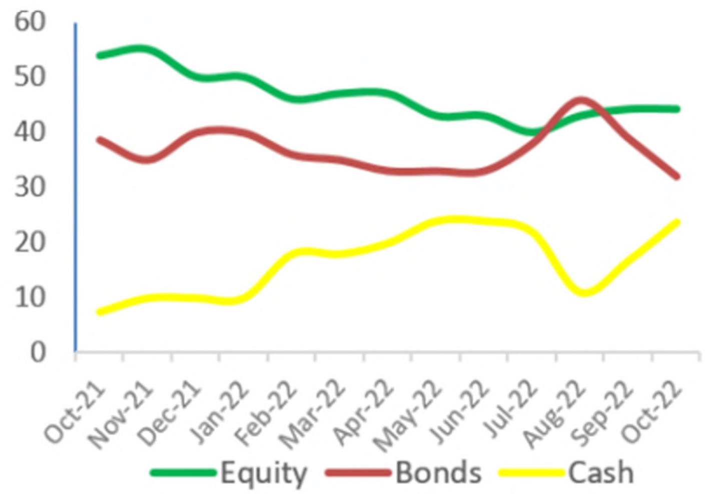
Fundamental assessment

Index	Projected EPS 2022	Projected EPS 2023	Projected EPS Fw 12 months	Projected EPS Growth 2022	Projected EPS Growth 2023	Implicit PE Next 12 months	E [PE] ltm Next 12 months	INDEX CURRENT PRICE	Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Strategy	Exit Point
USA S&P 500	225,0	235,0	233	7,7%	4,44%	16,11	16,00	3.760	3.735	-0,7%	MW	4.108
Europe - Stoxx Europe 600	32,0	31,5	31,6	9,4%	-1,56%	12,93	12,00	408	379	-7,2%	MW	417
Euro Zone - Euro Stoxx	29,0	33,0	32,4	2,5%	13,79%	12,02	12,00	389	388	-0,1%	MW	427
Spain IBEX 35	634,0	725,0	711	1,8%	14,35%	11,03	11,00	7.840	7.816	-0,3%	MW	8.598
Mexico IPC GRAL	4.000	4.200	4.168	10,6%	5,00%	12,20	13,00	50.865	54.187	6,5%	OW	59.606
Brazil BOVESPA	15.000	15.000	15.000	4,1%	0,00%	7,80	8,00	116.929	120.000	2,6%	MW	132.000
Japan NIKKEI 225	1.810	1.894	1.881	3,7%	4,64%	14,71	16,00	27.663	30.090	8,8%	MW	33.099
China SSE Comp.	300,0	325,0	321	28,2%	8,33%	9,34	9,00	2.998	2.889	-3,6%	MW	3.178
China Shenzhen Comp	110,0	130,0	127	13,4%	18,18%	15,51	15,00	1.967	1.902	-3,3%	MW/OW	2.093
India SENSEX	2.760	3.236	3.160	18,8%	17,25%	19,25	21,00	60.836	66.368	9,1%	OW	73.004
Vietnam VN Index	105,1	134,6	130	19,5%	28,04%	7,85	9,00	1.020	1.169	14,6%	OW	1.286
Taiwán SE Weighted Index	1.423,0	1.425,0	1.425	12,3%	0,14%	9,12	9,00	12.987	12.822	-1,3%	MW/OW	14.104
MSCI EM ASIA	47,2	53,6	53	8,3%	13,38%	8,63	9,00	453	473	4,3%	OW	520

ANDBANK ESTIMATES

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





GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	66%	61,3%
Emerging Markets	11%	11,3%
Europe ex. U.K.	9%	12,1%
Japan	5%	5,5%
U.K.	4%	3,7%
Canada	3%	3,1%
Pacific ex. Japan	2%	3%
Energy	5%	3,7%
Health Care	17%	13,6%
Materials	2%	2,5%
Consumer Discretionary	11%	12,4%
Utilities	3%	2,7%
Consumer Staples	7%	6,9%
Information Technology	27%	27,5%
Communication Services	10%	9,5%
Real Estate	3%	2,7%
Industrials	8%	7,8%
Financials	7%	10,6%

ENERGY – OIL

Fundamental view (WTI): Target range USD75-95bbl

Buy < USD75; Sell >USD95

Short-term drivers

(Bullish price factor) – Western countries' vulnerability is increasing as IEA says members' reserve releases "remain active": Platts reports that an International Energy Agency official yesterday said that while the bulk of pledged reserve releases from members were made by late October, the "collective actions remain active". Biden administration officials are considering expanding New England's little-used emergency fuel reserve from its current levels near 1M barrels amid worries of a severe winter disruption. The article notes that multiple options are being considered, including asking Congress to lift the statutory cap on reserve volumes. Meanwhile, the IEA's governing board has asked participants to refrain from replenishing their stocks. The official added that despite the significant emergency reserve releases, total stockholding levels among IEA members remain high.

(Bullish price factor) – Latest comments from Saudi FII conference. Saudi Finance Minister al-Jadaan stressed that the clean-energy transition could take 30 years, necessitating ongoing investments in fossil fuels. Finally, former US Treasury Secretary Mnuchin warned that the US could already be in a recession and that it may take two years to bring inflation under control.

(Bullish price factor) – IEA's Birol says world is in its first truly global energy crisis. In comments at Singapore's International Energy Week conference, IEA Executive Director Birol argued that oil supply cuts and tightening LNG markets have resulted in the first truly global energy crisis, adding that OPEC+'s recent decision to cut its output targets by 2M bpd was "especially risky". Birol also noted, however, that IEA members still have a huge amount of stocks that can be released in the event of supply disruptions. He added that the world will still need Russian oil to flow at ~80-90% to meet global demand despite Western powers about to impose a price cap on Russian crude.

(Bullish price factor) – US is scaling back plans for a price cap: Bloomberg reported yesterday that US officials are scaling back plans for an international price cap on Russian crude exports amid investor skepticism and growing risks in financial markets. The article alleges that an earlier iteration of the plan aimed to put the cap at $40-60/barrel in order to better restrict Russian income from exports, but officials are now discussing a level near the upper end of that range or potentially above, which some EU officials believe will still allow Russia to gain sizable oil income. It adds that US officials increasingly see as viable Putin's threat to refuse sales to anyone participating in a US-EU price-cap scheme, and that there have been EU frustrations that the US is not prepared to bear the economic consequences of a cap. White House says it is staying the course, and Treasury officials pushed back on Bloomberg's allegations the US is scaling back price-cap plans, saying the US will implement an effective, strong price cap. While no price range has been decided yet, a cap could be set in the $63-64/barrel range, which would be in line with historical averages. It adds that the World Bank yesterday cautioned that a G7 price cap was an untested mechanism that could require the participation of emerging markets and developing economies to succeed.

(Bearish price factor) – US diesel crisis may be spreading. US diesel stockpiles are at their lowest seasonal level and suppliers in the Northeast are already rationing supplies. There are some signs the shortage is spreading to the Southeast, where one supplier has begun requiring a 72-hour notice for deliveries under what it characterizes as "rapidly devolving" conditions. While additional supplies are on their way to affected markets, they may take some time to arrive.

(Bearish price factor) – Russian fuel oil in floating storage building up near Singapore: About ~1.1M tons of high-sulfur fuel oil (HSFO) were stored on tankers anchored near Singapore and Malaysia in the week ending 24-Oct. The article notes that the location is often used for ship-to-ship transfers, which could help disguise cargoes' origin. It adds that the influx of Russian product into Asian markets has weighed on demand and refining profits.

(Bearish price factor) – President Biden reiterated his demand to responsibly increase US oil & gas production. President Biden yesterday highlighted recent reductions in average gas prices (pointing to a $1.25/gal drop since summer), but also reiterated his demand to increasingly pass on savings to consumers by asking oil companies to bring down gasoline prices and responsibly increase US oil & gas production. The oil industry continues to push back against these demands, noting ongoing geopolitical instability and reduced US refining capacity. US gasoline prices have continued to drop and are now not far from levels from before Russia's February invasion of Ukraine

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 fell to 0.75, still well below its 20-year average of 1.85x, suggesting that gold is deeply cheap relative to palladium, or palladium is very expensive relative to 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 another 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 84.12 but is still above its 20-year average of 67.32x, suggesting that gold is still 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$1,318/oz.

Gold to oil: This ratio rose to 18.31, in line with its 20-year average of 18.49x. 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$1,294 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.2847), 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$1,282. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,103. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,417.

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.

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 view for the US dollar in the short-term.

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

EUR-USD: Fundamental Target 0.975 (Buy USD at 1.00. Sell at 0.95) // Z-Score Analysis: Neutral to the EUR in the ST

USD-JPY: Fundamental Target 135; **EUR-JPY**: Target 132 // Z-Score Analysis: Neutral to the JPY vs the USD

GBP-USD: Fundamental Target 1.17; **EUR-GBP**: Target 0.83 // Z-Score Analysis: Slightly Favorable view on the GBP vs the USD

USD-CHF: Fundamental Target 0.95; **EUR-CHF:** Target 0.93 // Z-Score Analysis: Slightly Negative view on the CHF vs the USD

USD-BRL: Fundamental Target 5.20; **EUR-BRL:** Target 5.07 // Z-Score Analysis: Negative view on the BRL vs the USD

USD-MXN: Fundamental Target 21; **EUR-MXN:** Target 20.5 // Z-Score Analysis: Slightly Favorable to the MXN vs the USD

USD-ARS: Target 175, Negative on the ARS

USD-INR: Target 80, Neutral on the INR

CNY: Target 6.65. Neutral on the CNY

RUB: Neutral view on the RUB vs USD

AUD: Slightly Favorable view on the AUD

CAD: Slightly Favorable view on the CAD

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	8,69	-2,36	32,1	-28,2	4,0	**0,26**
USD vs G10	9,55	-1,42	32,7	-25,4	6,5	**0,17**
EM	0,87	0,94	3,9	-0,8	1,4	**-0,36**
EUR	9,33	5,16	23,4	-8,6	6,7	**0,27**
JPY	-8,67	-1,60	0,6	-15,0	-8,0	**-0,16**
GBP	-3,43	0,47	4,3	-6,5	-2,1	**-0,46**
CHF	-1,42	-0,55	0,2	-6,0	-2,3	**0,55**
BRL	0,55	-0,08	1,0	-0,8	0,0	**1,09**
MXN	0,32	1,02	3,3	-0,9	1,1	**-0,62**
RUB	0,00	0,00	1,2	-0,3	0,3	**-0,20**
AUD	-3,29	-0,58	6,1	-5,2	-1,0	**-0,70**
CAD	-1,33	-1,49	6,1	-5,0	0,3	**-0,62**

Positive
Neutral-Positive
Neutral-Negative
Negative

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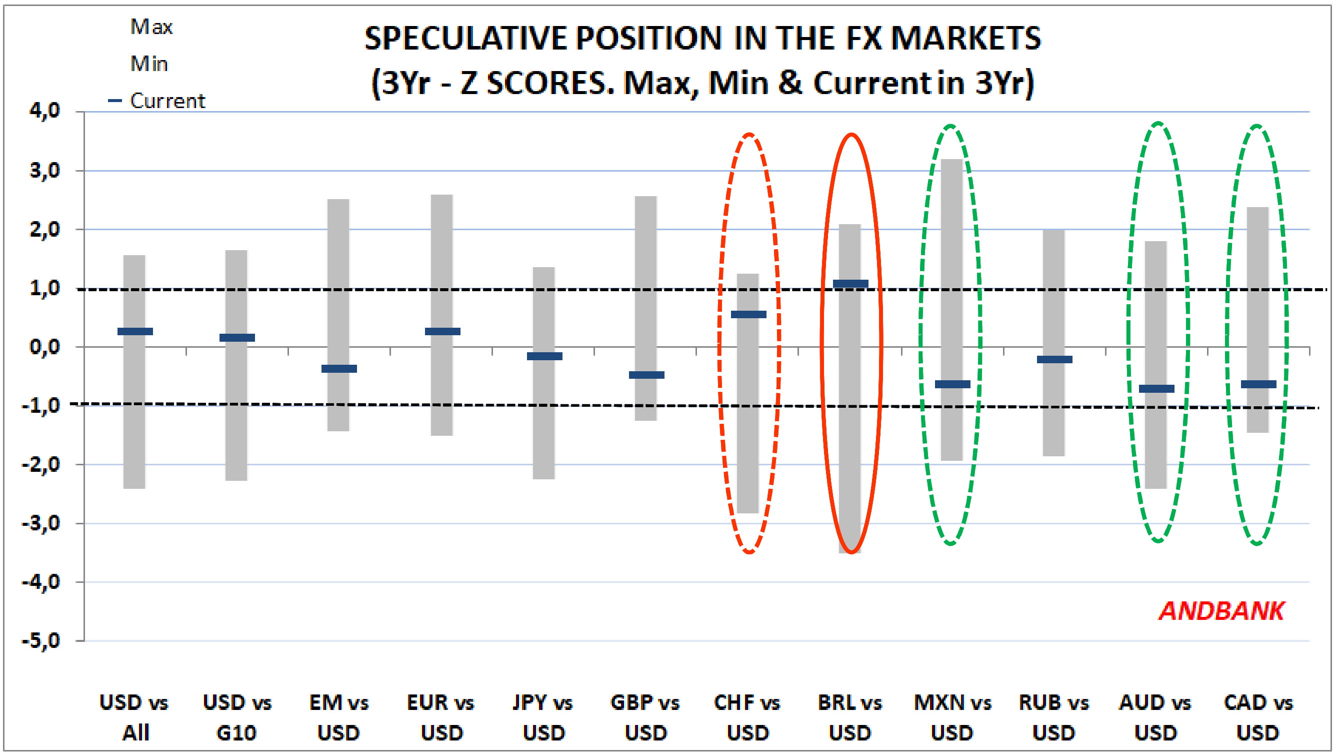

The currencies we technically favor are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Andbank's estimate of Fair Value	Expected Performance to Fair Value*
Equity	USA - S&P 500	-0,8%	-21,1%	3.760	3.735	-0,7%
	Europe - Stoxx Europe 600	1,4%	-16,2%	409	379	-7,2%
	Euro Zone - Euro Stoxx	1,8%	-18,8%	389	388	-0,2%
	SPAIN - IBEX 35	1,8%	-10,1%	7.838	7.816	-0,3%
	MEXICO - MXSE IPC	10,5%	-4,5%	50.865	54.187	6,5%
	BRAZIL - BOVESPA	0,6%	11,5%	116.929	120.000	2,6%
	JAPAN - NIKKEI 225	2,5%	-3,9%	27.663	30.090	8,8%
	CHINA - SHANGHAI COMPOSITE	-0,9%	-17,6%	2.998	2.889	-3,6%
	CHINA - SHENZEN COMPOSITE	2,9%	-22,2%	1.967	1.902	-3,3%
	INDIA - SENSEX	4,8%	4,4%	60.836	66.368	9,1%
	VIETNAM - VN Index	-5,4%	-31,4%	1.020	1.169	14,6%
	MSCI EM ASIA (in USD)	-3,4%	-32,0%	453	657	44,9%
Fixed Income Core countries	US Treasury 10 year Govie	-4,1%	-20,1%	4,19	3,50	9,7%
	UK 10 year Gilt	3,5%	-19,1%	3,45	3,75	1,0%
	German 10 year BUND	-2,7%	-19,4%	2,22	2,25	2,0%
	Japanese 10 year Govie	-0,1%	-1,4%	0,24	0,25	0,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	-2,0%	-21,7%	3,31	3,25	3,8%
	Italy - 10yr Gov bond	-1,4%	-25,0%	4,40	4,65	2,4%
	Portugal - 10yr Gov bond	-2,1%	-21,5%	3,19	3,25	2,7%
	Ireland - 10yr Gov bond	-2,7%	-19,8%	2,72	2,75	2,5%
	Greece - 10yr Gov bond	-0,2%	-26,1%	4,64	4,75	3,7%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,4%	-2,1%	116,19	120	2,8%
	Credit EUR HY-Itraxx Xover	2,8%	-7,2%	533,60	550	6,6%
	Euribor 3m					
	Credit USD IG - CDX IG	0,7%	-1,2%	88,73	90	5,3%
	Credit USD HY - CDX HY	2,2%	-4,5%	509,60	475	10,6%
	Libor Usd 3m					
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	5,0%	113,9%	11,11	12,00	4,0%
	Russia - 10yr Gov bond (local)	-0,2%	-5,0%	9,90	14,00	-22,9%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-0,3%	-2,8%	7,34	6,75	12,1%
	India - 10yr Gov bond (local)	-0,4%	-2,9%	7,48	7,25	9,3%
	Philippines - 10yr Gov bond (local)	-3,3%	-17,4%	7,39	7,25	8,5%
	China - 10yr Gov bond (local)	0,6%	3,1%	2,67	2,75	2,0%
	Malaysia - 10yr Gov bond (local)	0,4%	-3,1%	4,33	5,25	-3,1%
	Thailand - 10yr Gov bond (local)	-1,6%	-8,3%	3,11	4,00	-4,0%
	Singapore - 10yr Gov bond (local)	-1,3%	-13,1%	3,46	4,25	-2,9%
	Rep. Korea - 10yr G. bond (local)	-1,3%	-13,9%	4,12	5,00	-2,9%
	Taiwan - 10yr Gov bond (local)	-0,7%	-8,0%	1,76	2,75	-6,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-1,5%	-11,6%	9,80	9,30	13,8%
	Mexico - 10yr Govie (USD)	-2,8%	-24,6%	6,56	5,40	15,8%
	Brazil - 10yr Govie (Loc)	0,2%	-3,2%	11,77	12,50	5,9%
	Brazil - 10yr Govie (USD)	-0,3%	-13,3%	6,80	6,75	7,2%
Commodities	Oil (WTI)	2,3%	17,6%	88,5	100,00	13,0%
	GOLD	-6,2%	-11,5%	1.618,4	1.800	11,2%
Fx	EURUSD (price of 1 EUR)	-2,5%	-14,3%	0,974	0,975	0,1%
	GBPUSD (price of 1 GBP)	-2,0%	-16,9%	1,12	1,17	4,0%
	EURGBP (price of 1 EUR)	-0,5%	3,1%	0,87	0,83	-3,7%
	USDCHF (price of 1 USD)	3,5%	11,1%	1,01	0,95	-6,3%
	EURCHF (price of 1 EUR)	0,9%	-4,8%	0,99	0,93	-6,2%
	USDJPY (price of 1 USD)	2,9%	28,8%	148,28	135,00	-9,0%
	EURJPY (price of 1 EUR)	0,3%	10,3%	144,41	131,63	-8,9%
	USDMXN (price of 1 USD)	-1,1%	-3,7%	19,74	21,00	6,4%
	EURMXN (price of 1 EUR)	-3,6%	-17,5%	19,20	20,48	6,6%
	USDBRL (price of 1 USD)	-0,7%	-7,7%	5,14	5,20	1,1%
	EURBRL (price of 1 EUR)	-3,1%	-20,9%	5,01	5,07	1,2%
	USDARS (price of 1 USD)	6,1%	53,5%	157,59	175,00	11,0%
	USDINR (price of 1 USD)	1,8%	11,3%	82,89	80,00	-3,5%
	CNY (price of 1 USD)	2,8%	15,1%	7,31	7,50	2,5%

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

UPWARD REVISION DOWNWARD REVISION

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