GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review — Aug & Sept 2018

Corporate Review

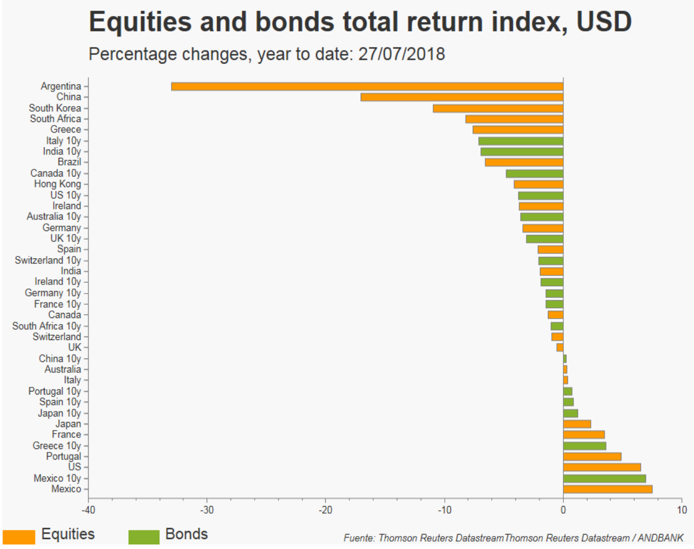
August & September 2018

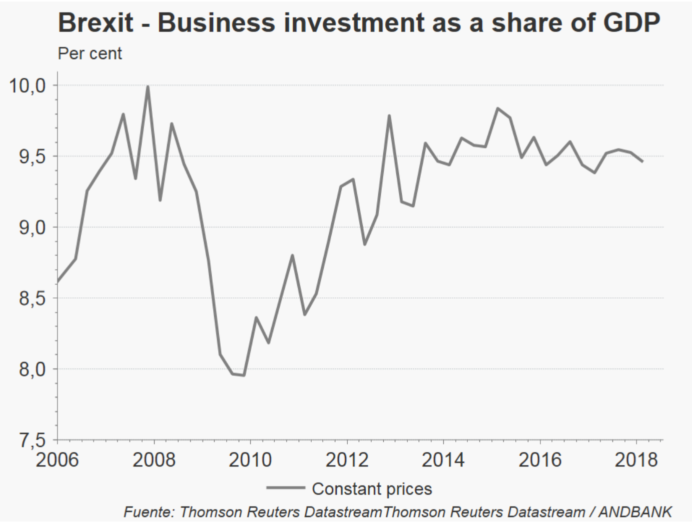
US and EU try to de-escalate trade tension

Alex Fusté
Chief Global Economist
+34 673 041 058
+376 881 248
alex.fuste@andbank.com

EXECUTIVE SUMMARY

CHARTS OF THE MONTH





EQUITIES

In the US, the 2Q18 EPS growth outlook is strong, but that is not enough to make us bullish headed into this earnings season. We think the market will increasingly have to focus on the sustainability of growth. Regarding European equities, without escalating tensions in the tariff conflict, indices should still be on the rise. In EM, our preferred indices are Brazil and India (where we have revised up EPS growth projections to 11.7% from 11%). The markets offering fewest potential gains are Mexico, US and Japan (which we consider are already close to fair value).

FIXED INCOME

Still negative outlook for long-dated government bonds denominated in GBP, EUR and JPY, and to a lesser extent in USD. We have a fair value target for the 10Y UST yield at 3.20%. A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a “BUY”. We would be more concerned about a surge in rates unrelated to the growth and inflation outlook, resulting in investor demand for an extra yield for holding long-term bonds. Positive in EM debt (mid duration)

CORPORATE CREDIT

In the last month we have seen how Italian banks have recovered quite well after the sharp deterioration following the elections. On the other hand, the sectors that have done worst are the ones most affected by the trade conflict (autos and basic materials). Looking at next month, this dynamic will continue and we will see a very erratic credit market, due to the scarce issuance and investors waiting for business results. We keep our negative stance in both IG and HY Euro denominated bonds. In the USD space, we remain positive in IG, while we are more cautious in HY.

CURRENCIES

Our preferred currencies are CHF (-2.53 sigmas in 3yr Z score vs the USD), BRL (-2.22 sigmas), AUD (-1.50 sigmas) and CAD (-1.07 sigmas). The dollar continues on its course, with investors building long positions. Currently, the global futures market holds long positions of US$19.7bn, not seen since January 2017, when the euro-dollar exchange rate was trading at 1.07, backed by very favorable economic expectations

COMMODITIES

Trump asked Saudi King Salman and OPEC to boost oil production by 2M barrels per day, and the US could attack OPEC with a NOPEC bill to sue the cartel. In our view, the oil price has crossed the upper part of a fundamental range.

USA
Well anchored in the economic cycle

US economy. Well anchored in the economic cycle

The unemployment rate ticked higher, from 3.8% to 4% (despite the good payroll numbers), as many people reentered the labor market, lifting the labor force participation rate from 62.7% to almost 63%. The Fed's Powell believes that although the labor market is tight, "it is not excessively tight", as even moderate wage growth is sufficient to encourage greater participation. As wages gradually continue improving, the participation rate could reach the 67% seen in 2000-2001. This potential jump in participation could mean 7-8 million new payrolls or 320bn of extension in consumption. If this is true, it means the US could be well anchored in the current cycle. While an elastic participation rate could prevent an abrupt rise in wages and an unwelcome acceleration in inflation, the labor market seems tight enough to persuade businesses to step up investment in technology, which should boost productivity and support growth.

Politics seem not to hurt the economy. Risk Factors

The trade dispute between the US on one side and China and Europe on the other is showing signs of escalation. Nevertheless, despite the steel and aluminum tariffs coming into force, the US ISM index strengthened in June for a second month and retail sales rose for the fifth consecutive month in June. Our forecast is that real consumer spending accelerated significantly in Q2 to 2.8% (QoQ annualized). Escalating trade restrictions have emerged as a key risk which could derail our constructive growth scenario. None of the trade actions so far is likely to have a meaningful macroeconomic impact. Tariffs targeted at specific industries are disruptive for the businesses affected, but in a large diverse economy these policies are unlikely to affect aggregate data. A tariff on $50bn of imports sounds substantial, but in a $20tn economy this still represents a small portion of overall activity. Even if the cost of these tariffs were fully passed on to consumers, core inflation would see a one-off shock of just around 10bps. However, there are probably unquantifiable indirect risks since global supply chains are a complicated interconnected system.

Financial markets outlook

The 2Q18 EPS growth outlook is strong, but that is not enough to make us bullish headed into this earnings season. We think the market will increasingly have to focus on the sustainability of growth and, with conditions toughening in some respects (the dollar tail wind to EPS dissipating and operating costs moving higher), we think the current level of growth, boosted by a one-time tax benefit, is likely to fall significantly. We are not excluding that the S&P may reach our exit point of 2985. However, our experience reminds us that markets peak on good news. Given the Fed's tightening mood and a prolonged strong stance from the administration on trade issues, we do not qualify these actions as potential good news for equity markets. Also, during mid-term election years, the S&P 500 typically trades poorly. In terms of the yield curve, it is the flattest since 2007, but we see further Fed rate hikes as supportive economic conditions that will lead to higher yields. Rising US deficits and gradual unwinding of the Fed's balance sheet should lead to a rise in term premiums, to reach our target for the 10Y UST at 3.2%.

Equities – S&P: NEUTRAL. Central point 2,715. Exit point 2,985

Bonds – Govies: NEGATIVE (10Y UST target yield 3.2%)

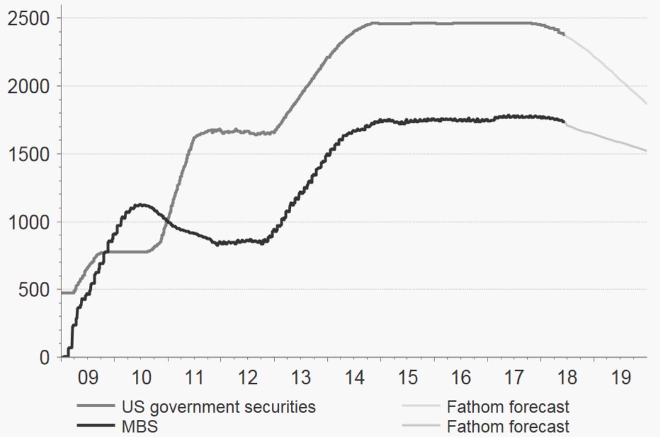
Credit – CDX IG : NEUTRAL (Target Spread 50)

Credit – ICDX HY: NEUTRAL (Target Spread 437)

Forex – CDX index: NEUTRAL

Federal Reserve assets held outright

USD, billions



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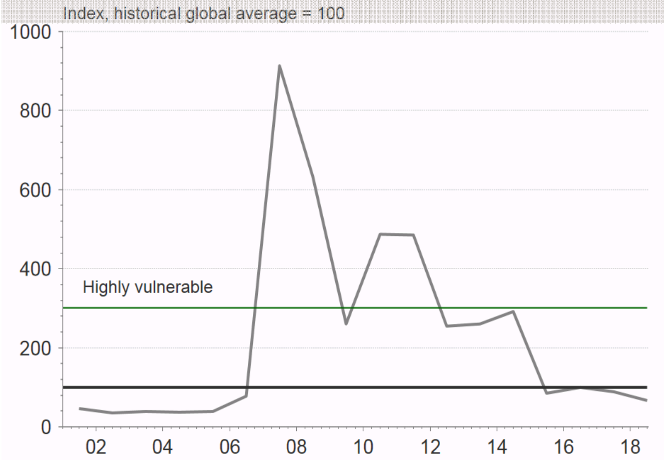
US Financial Vulnerability Indicator

Index, historical global average = 100



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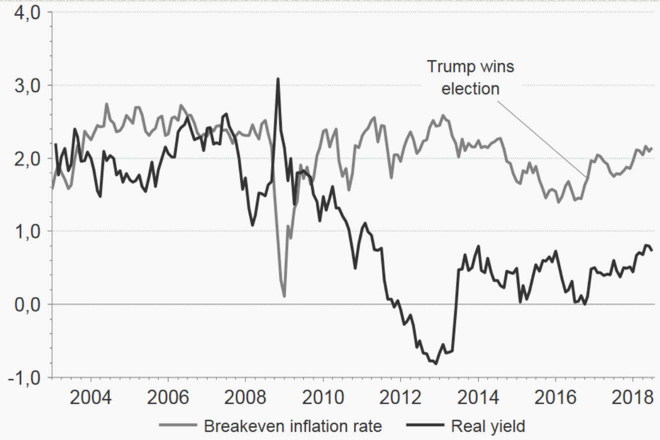
US ten-year TIPS decomposition

Per cent



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MACROECONOMY

EUROPE
Green shoots are back

Trade: EU divided over Trump trade deal

News of an agreement between the US and the EU was tentatively welcomed by Britain while German politicians hailed it as a "breakthrough" that could save millions of jobs. However, it prompted anger in Paris amid fears it would leave France open to an invasion of American food and damage its farming industry. French economy minister Le Maire insisted "agriculture remains out of the field of discussions" and President Macron said he is "not in favour" of negotiations leading to a wide ranging trade agreement. Macron says he needs to see more detail on Trump-Juncker accord. Macron will seek clarifications from the European Commission on elements of the trade agreement, "we have some questions that we will want to clarify in the coming days with our European partners".

Activity figures on the rise, after the slowdown seen in 1H18

Are there green shoots from the activity side? So it seems since macro surprises are recovering, services surveys are stabilizing, factory orders are on the rise, activity figures in neighbor countries such as the UK are also on the rise. We stick to our scenario of a gradual recovery after a weaker first half. Inflation figures spiked in May and should continue at comfortable levels for the rest of the year, positively impacted, in the case of headline CPI, by the higher energy prices. As of June, 2% YoY growth in prices has been registered for headline CPI, and 1% for the core index.

Dovish Draghi. Still supportive for markets

The QE path seems to be well designed: monthly purchases will be halved from September till December (to €15 bn), probably ending in 2018, with the first rate hike delayed until September/October or even December 2019. In the UK, according to latest speeches and improving data, BoE may hike in August (already priced in, and thus should have limited impact on the pound, basically driven by Brexit).

Politics & Financial Market environment

Brexit moves forward. PM May has just presented her White Paper for Brexit, causing the resignation of nine members of her government team. May's proposal includes a soft Brexit for goods (probably designed to overcome the Irish border issue) and a harder stance for services. Migration details will be unveiled in autumn but free movement of people would come to an end. May has given in on the EJC, accepting its role in overseeing any trade deal. As for the Italian and German fronts, more quietness on both. Though the Italian Government remains a source of uncertainty, doubts about Merkel's leadership, questioned by the migration controversy, have calmed down. The European June summit ended more "decaffeinated" than expected. Few steps were taken. In the waiting room for December; the ESM transformation into an EMF, a Eurozone budget for 2021-2027 and a common deposit insurance scheme.

Financial markets outlook

Equities – Stoxx Europe: POSITIVE. Central point 411. Exit 439

Equities - Euro Stoxx: POSITIVE. Central point 413. Exit 454

Bonds – Core governments: NEGATIVE (Bund target yield 0.80%)

Bonds – Peripheral : NEGATIVE (SP 1.60%, IT 2.7%, PO 2.2%)

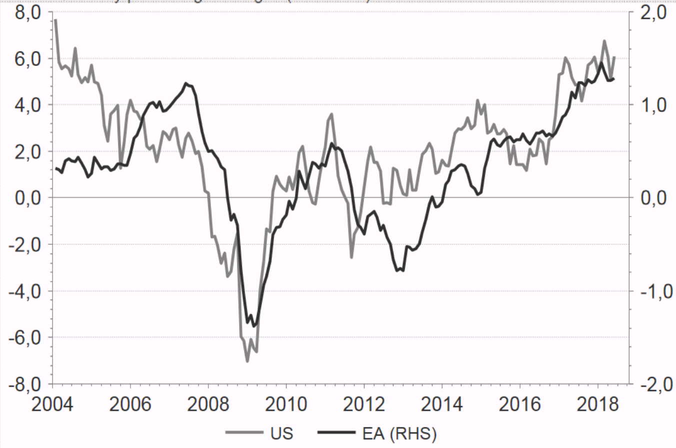
Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 85)

Credit – Itraxx Europe (HY) : NEUTR-NEGAT (Target Spread 330)

Forex – EUR/USD: ST NEUTRAL / LT NEGAT (1.15)

Fathom economic sentiment indicators

Quarterly percentage changes (both axes)



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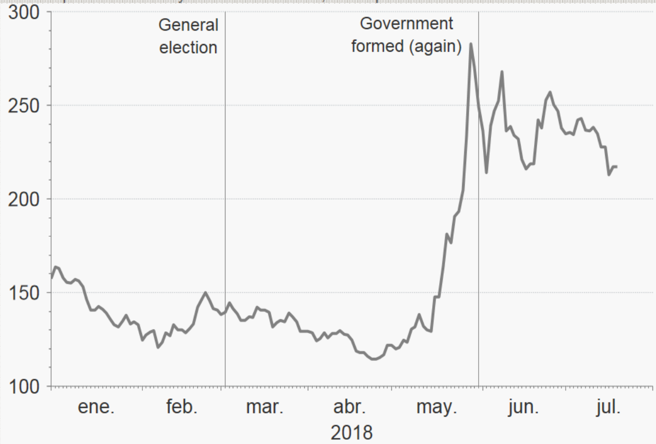
Italy ten-year government bond yield

Spread over ten-year German Bund, basis points



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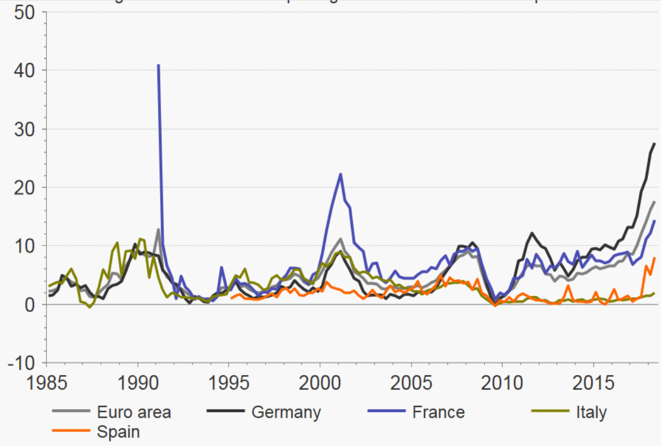
Euro area factors limiting production: labour

Percentage of industrial firms reporting labour as a constraint on production



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SPAIN
Resilience is gradually fading

Growth remains solid but…

Spain's cycle is stretching through 2019, with consensus inching another tenth to 2.8% for GDP growth in 2018. The housing market is in recovery mode (though not as vigorous), with prices and activity climbing month after month. Retail sales and industrial production improved in Q2 relative to Q1. Nevertheless, there are shadows on the horizon. The most relevant is the marked slowdown in productive investment during 1Q18, with Capex growing at a 2.2% yoy pace, clearly below the prior 7.7%. More importantly, the external sector is also showing symptoms of loss of vigor, with exports expanding at 3.2% yoy, vs 4.4% the previous quarter. The rate of expansion of imports also dropped to a sluggish 2.8% vs prior 5.2%.

Spain's annual inflation increased to 2.3 percent in June 2018, compared to 2.1 percent in May, remaining at its highest level since April 2017. However, annual core inflation eased slightly to 1.0 percent in June from 1.1 percent the previous month

Increase in public spending and lack of commitment to budget discipline

With 84 out of 350 MPs in the Congress, the ruling party is facing difficulties to effectively legislate and pass reforms. It is in this context of a weak government that we have to assess the likelihood and potential impact of any fiscal proposal. The majority of the measures proposed so far by this new government relate to increases in spending and laxity in meeting fiscal targets and budget discipline. Sánchez's government has proposed reforms that would increase spending by €4bn in 2019. Last week, after meeting with Finance Commissioner, Pierre Moscovici, the Spanish minister of Economy, Nadia Calviño, announced that the government will raise the deficit target to 2.7% of GDP this year and 1.8% in 2019, as against the 2.2% and 1.3% agreed by the previous government.

Although, this new deficit target won't give the Government any more room to increase spending from its current level (as according to recent data, the budget hole of all administrations was close to 2.9% of GDP as of May). As a result, any budget negotiations will be more than difficult this year.

Market sentiment

We downgraded slightly our year-end target for the Ibex last month. Draghi's "low for longer" interest rate scenario will weigh on this "bank-heavy" index. Depressed rates, and thus margins, for a longer period means that banks will suffer from anemic earnings dynamics for longer. We reflect this by adjusting our projected margins downwards to 9%. The new year-end price target is 10,570.

In the Fixed Income universe, the Kingdom of Spain sold a €7bn 10-year bond on Tuesday, in a trade which provided the first glimpse into investors' appetite for peripheral Europe since Italian debt sold off brutally in May. International investors took over 80% of the allocation, emphasizing Spain's predictability as an issuer, a solid position within the Eurozone and its upward trajectory

Financial Market Outlook

Equities – IBEX: POSITIVE. Central point 10.576. Exit point 11,633

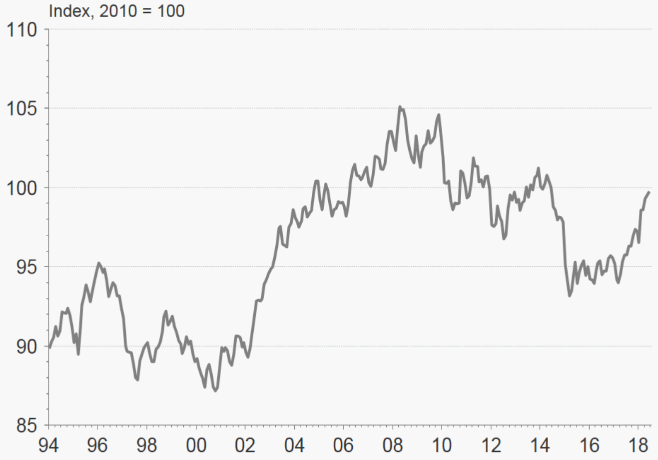
Bonds – Governments: NEGATIVE (BONO target yield 1.60%)

Credit – Invest. grade: NEGATIVE

Credit - High yield: NEUT-NEGATIVE

Spain real broad effective exchange rate

Index, 2010 = 100



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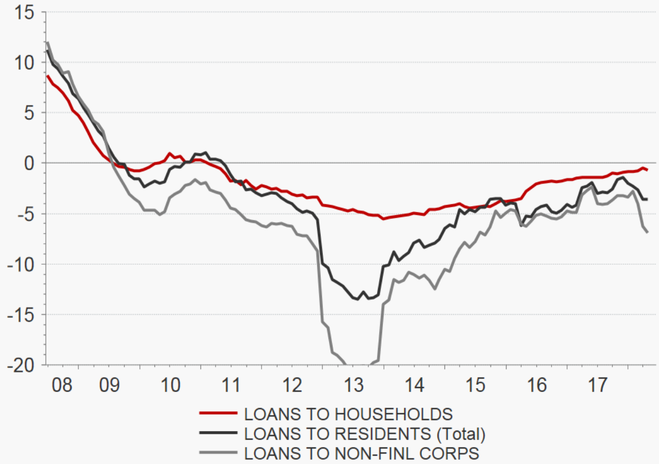
LOANS - SPAIN (% Change YOY)



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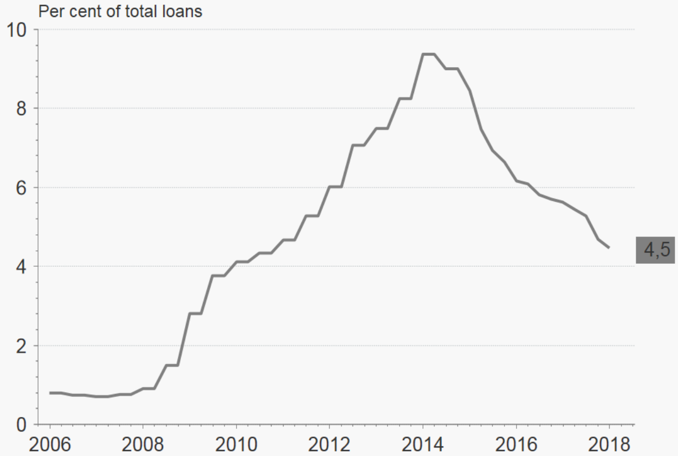
Spain non-performing loans

Per cent of total loans



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JAPAN

GPIFs are less likely to be a force that elevates the market.

BOJ: Kuroda says current easing policy to continue until inflation tops 2%

In an opening address to the BOJ branch managers meeting, Governor Haruhiko Kuroda says the current monetary policy will continue, aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. The central bank will continue expanding the monetary base until the year-on-year rate of increase in the core CPI exceeds 2% and stays above the target in a stable manner. Nevertheless, the Nikkei discussed indications of a fissure among BOJ board members on the side effects of the current ultra-loose monetary policy. While Governor Haruhiko Kuroda is growing increasingly concerned about adverse impacts on the banking sector, Yutaka Harada insisted on staying the course to beat deflation. Similarly, BOJ board member Takako Masai said that it is appropriate to continue with strong monetary easing in a persistent and sustainable manner, while being more careful than ever when examining developments in economic activity and prices. The government forecasts overall consumer price growth of 1.5% in FY19. This compares to market consensus of 1.0% CPI in 2019.

Macro update: Wages accelerate but consumption struggles.

May nominal average wages +2.1% y/y vs consensus +0.9% and revised +0.6% in prior month. Real wages +1.3% y/y vs consensus 0.0% and revised (0.2%) in prior month. The Sankei reported that 82.2% of companies will implement wage hikes from the spring. The report noted that the majority of firms are increasing pay to retain employees amid the tightness in the labor market, particularly among small businesses.
May household spending (3.9%) y/y vs (1.3%) in prior month.

Fiscal

Ministry of Finance reported Japan's FY17 revenues rose 6.0% y/y to ¥58.788T. This marks the third highest on record and the largest in 26 years on the back of corporate earnings strength. Corporate tax revenues expanded 16.1% to ¥11.995T as external demand was a tailwind, boosting exporter earnings. Income tax revenue rose 7.2% to ¥18.882T, with growth in investment income from higher dividends cited as a main driver alongside wage growth.

Outlook:Government sees growth despite tax hike.

The Cabinet Office estimates 1.5% GDP growth in FY19 despite an upcoming tax hike, counting on wage hikes spurred by labor shortages to drive the recovery. The forecast is faster than potential growth of 1%, and markedly more bullish than the 0.8% predicted by the Bank of Japan and private-sector think tanks.

GPIF exceeded its 25% target for stocks

Japan's Government Pension Investment Fund's (GPIF) portfolio exceeded its 25% allocation target for domestic stocks for the first time at the end of March. While president Norihiro Takahashi says investment will not stop, the story noted the fund is now less likely to be a force that elevates the market as it did in the past.

Financial markets outlook

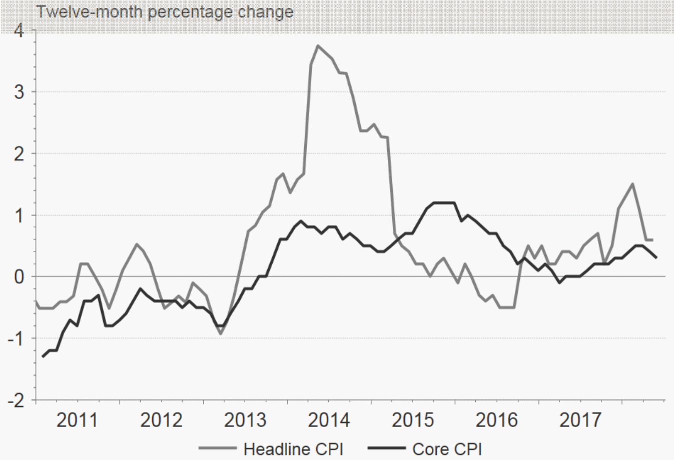
Equities – N225: NEUTRAL. Central point 23,094. Exit 25,400

Bonds – Govies: NEGATIVE. Target yield 0.10%

Forex – USDJPY: NEUTRAL. Mid-term target 111.2

Japan CPI

Twelve-month percentage change



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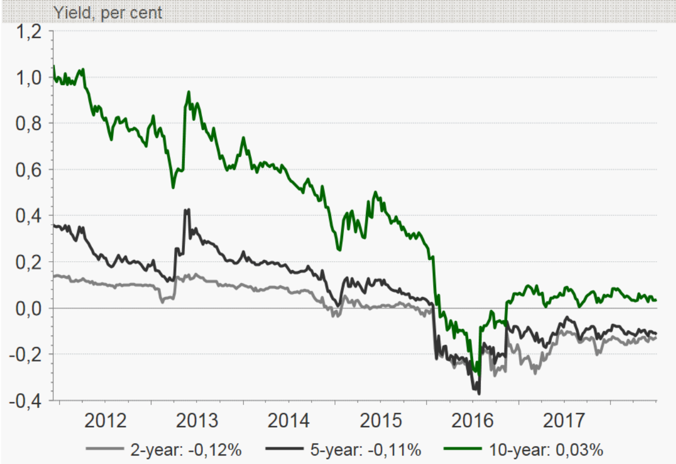
Japan benchmark government bonds

Yield, per cent



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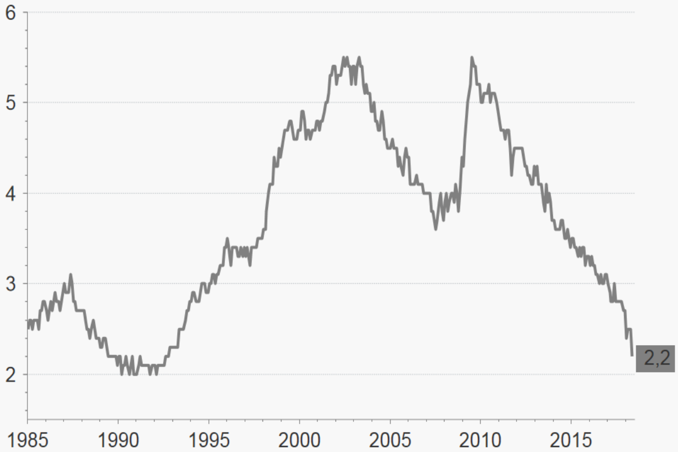
Japan unemployment rate

Per cent



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CHINA
The US tariffs went into effect. What next?

Trade: The US fired the first shot. Mild response from Beijing

Despite some disturbing headlines in some Chinese newspapers citing a Ministry of Commerce statement that “having vowed not to fire the first shot, China is forced to stage counter-attacks to protect the core national interests”, we prefer to emphasize other interventions and assessments made by other government sources, pointing towards a much more measured and pragmatic reaction. According to the South China Morning Post, China President Xi Jinping told Chinese officials the country must pick its battles carefully amid the increasing trade tensions to ensure that nothing derails the country’s process of reform and opening up. Another economic magazine underlined that Xi has repeatedly reminded aides that while US President Donald Trump’s provocations mean Beijing must retaliate, “we must try to contain the damage to prevent the stand-off from compromising its chosen path”.

China thought to be mulling mild countermeasures against US tariffs (without hurting national interests).

Measures being rolled out include: holding up licenses for US firms, delaying approval of mergers and acquisitions involving U.S. companies, or ramping up inspections of American products at borders. More importantly, China’s Vice Minister of Commerce Wang Shouwen called for a resolution to the conflict via a new round of new bilateral negotiations, matching a willingness from Trump officials to resume high-level talks. This resulted in new information last night coming from Chinese and Western medi- suggesting that “Chinese and US officials raise prospect of resuming trade talks”. These reports are yet to be confirmed, since China’s commerce ministry stated that “China has not been in touch with the United States about restarting trade negotiations”.

Market reaction: Foreign funds keep pouring into China despite yuan weakness

Yuan depreciation has not perturbed foreign investors’ appetite for China’s bonds. June saw the yuan’s biggest monthly drop against the dollar since 1994, yet overseas investors poured more into China’s domestic bonds than at almost any time in the last two years. This contrast is a testament to foreign demand for exposure to the country’s $12T bond market.

Economic slowdown confirmed but hard data remains solid

Q2 GDP +6.7% y/y vs +6.8% in prior quarter. June industrial production +6.0% y/y vs +6.8% in prior month. Fixed asset investment (YTD) +6.0% y/y vs +6.1% in prior month. Retail sales +9.0% y/y vs +8.5% in prior month. Unemployment rate stable at 4.8%. Outstanding loans +12.7% y/y vs 12.6% in prior month. M2 money supply +8.0% y/y versus +8.3% in prior month. Steel output hits record in June and totaled 80.2M tons in June, with daily average production in June hitting 2.67M tons, higher than May’s record of 2.62M tons. SOE’s profits rose 23% y/y in H1.

Financial markets outlook

Equities – SHANGHAI index: POSITIVE (central point 9.977)

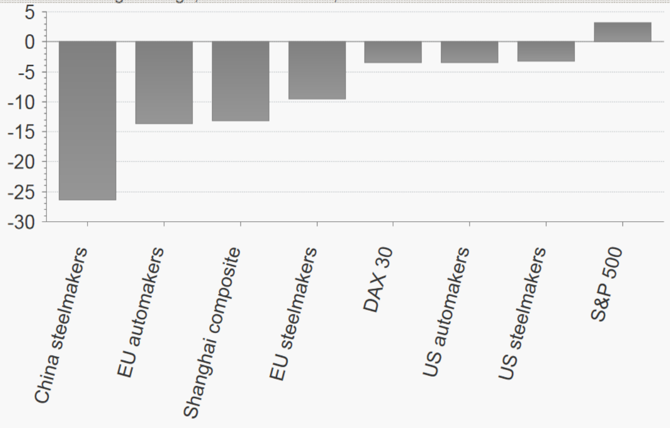
Equities – SHENZHEN Index: POSITIVE (central point 1678)

Bonds – Govies: POSITIVE (target yield 3.25%)

Forex – CNY/USD: POSITIVE (Fundamental target 6.50)

Performance following tariff announcement

Percentage change, since 28/02/2018, in USD



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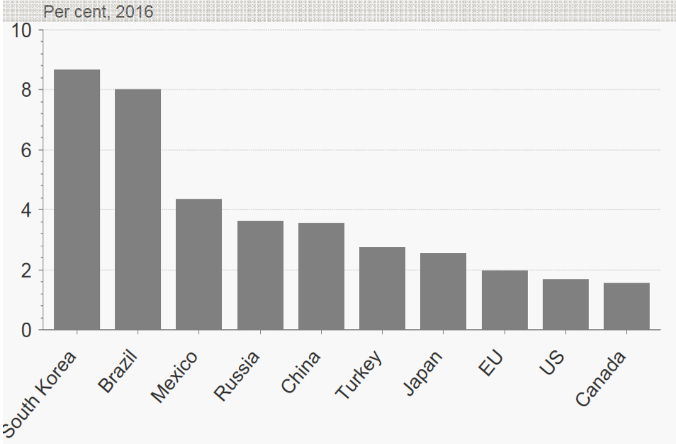
Weighted average tariff rates, all products

Per cent, 2016



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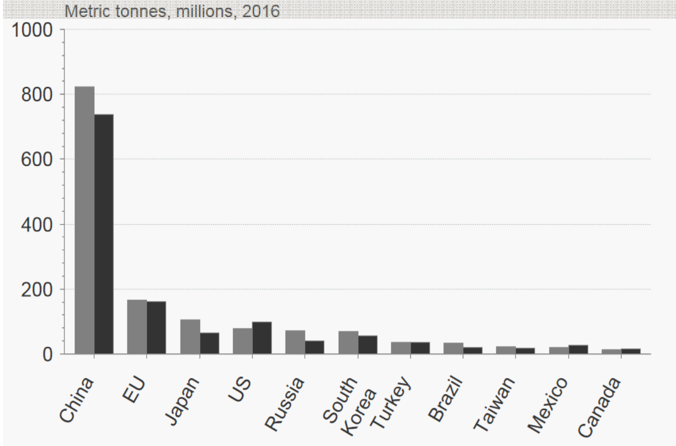
Steel production and consumption

Metric tonnes, millions, 2016



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INDIA

India is not alone among EMs in facing pressure from Oil and USD

Restoring its position as the fastest growing major economy

GDP growth could top 7.5% in 2018—restoring India's position as the world's fastest-growing major economy—supported by more generous government spending ahead of next year's general elections, robust household consumption and a moderate recovery in private investment (as Delhi has gambled that the extra demand created by higher spending will prod companies to invest).

Why has the Indian market not continued the take-off started in 2017?

(1) Several banks have missed their deadlines for resolving their debts. Most of the 12 big cases referred to the new bankruptcy courts—accounting for 25% of US$200bn worth of bad loans—have missed their 270-day resolution deadline, with bad-debt clean-up bogged down in legal disputes. If banks remain clogged up with non-performing assets, they will be unable to support the budding revival in the investment cycle. (2) Recapitalization announcement in October 2017 lifted animal spirits, but credit growth has since wobbled as banks became risk averse after a fraud scandal seen in 1Q18 helped to spread the perception that the stress within the banking sector is far from being resolved. (3) A rate hike cycle seemed imminent as a higher oil import bill (which has expanded the current-account deficit), the government's decision to relax its fiscal-deficit reduction target, and a weak rupee have increased risk of rises in inflation. As such, rate hikes look inevitable.

Outlook: The 6 reasons to remain constructive in this market

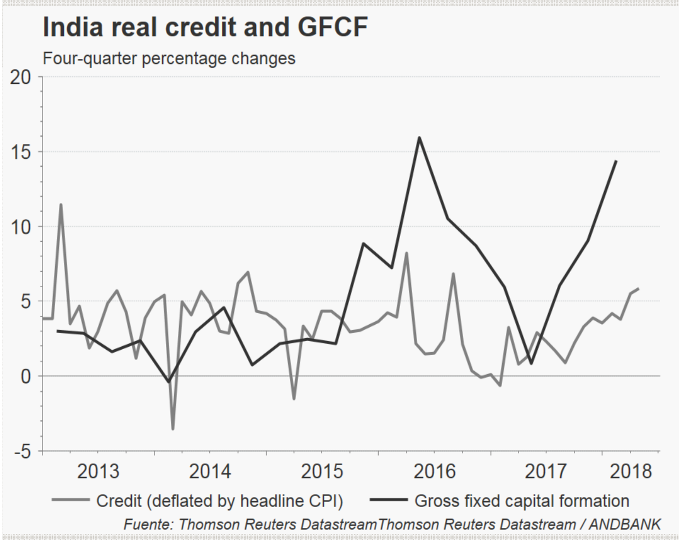
(1) Indian equities show one of the highest valuations after a stellar rally seen in 2017, preventing foreign investors from adding too much exposure at this stage. However, India probably has the strongest fundamentals and brightest prospects among large developing economies, which justifies higher valuations. (2) The rupee has sold off in recent weeks and although it remains vulnerable to souring investor sentiment (which could bring the INR towards 70 to the US dollar), the rupee is no longer overvalued and this should be supportive for the equity market. (3) Base effects should buoy YoY growth rates in 2H18, meaning full year growth could also top 7.5%, prompting corporate sales, and thus earnings, to accelerate as well. (4) The indicators we follow, and that make up our decision tree, still draw a constructive picture for the Indian market: The manufacturing PMI is healthy, export demand has picked up, and private consumption is robust. Encouragingly, there are early signs of a positive turn in the capex cycle. (5) Despite the recent sharp uptick in oil prices, India's oil deficit has so far been relatively contained. At 2.5% of GDP it is still less than half the average in 2009-14. As long as the government maintains its commitment to a market-based pricing regime for fuels, India's current account deficit is unlikely to widen significantly beyond 2.5-3% of GDP. (6) In a rare liberalizing move, the RBI in April removed a restriction that only allowed foreign investors to buy debt with maturities exceeding three years.

Financial markets outlook

Equities – SENSEX Index: POSITIVE (central point 39,000)

Bonds – Govies: POSITIVE (target yield 6.75%)

Bonds – Corporates: POSITIVE



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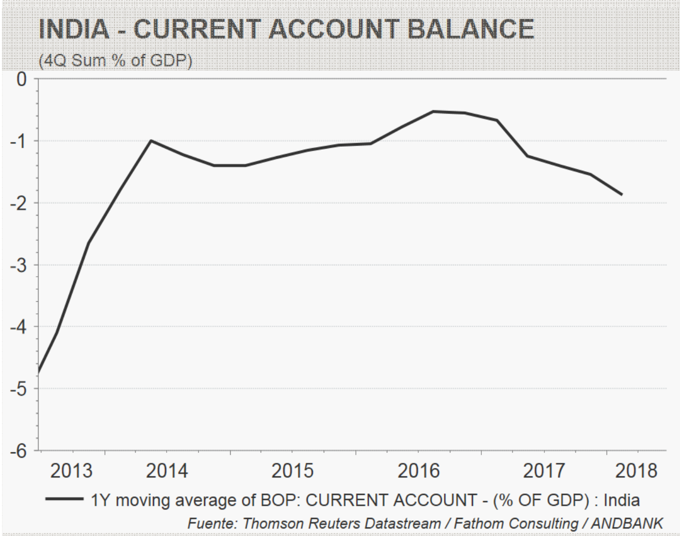

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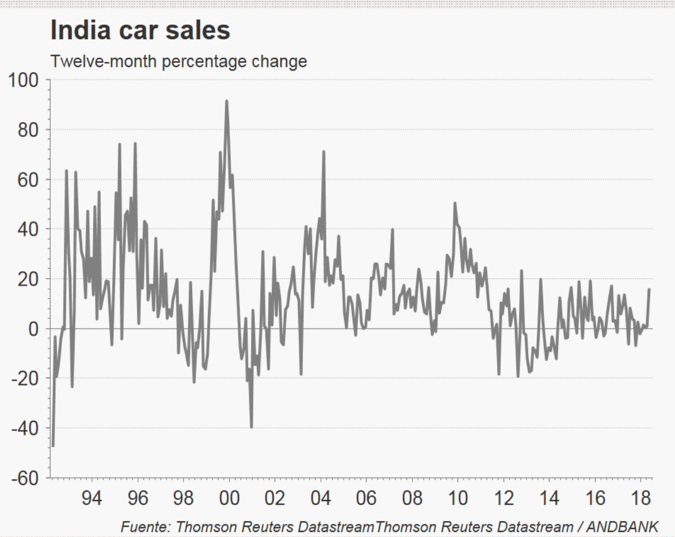

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MEXICO
Politics & NAFTA still weigh

Politics & NAFTA

AMLO won the presidential election with 54% of the votes (around 30 million). Morena will have an absolute majority in both Chambers, allowing it to make decisions about the budget, and will need few additional congressmen to have a qualified majority (2/3 parts) to implement constitutional modifications. AMLO's comments since the election have been interpreted as surprisingly pragmatic, particularly given the extent of his victory. He has emphasized fiscal and monetary orthodoxy, and also underlined his commitment to fiscal stability and his goal of running a primary surplus. Central bank independence is also to be respected. Regarding some of his more radical proposals, he is inclined to continue reviewing their viability, among these are the possible cancellation of the new airport in the capital and the possible cancellation of contracts granted to private companies to explore and extract oil.

Regarding the NAFTA negotiation, the US has escalated its protectionist agenda in the last few weeks ahead of the midterm elections. President Trump wants an agreement before the midterm election in November and before the new Congress in Mexico takes office on September 1. Particularly relevant is the possibility of applying tariffs for the automotive sector, considered by the US as a National Security issue. It goes without saying that this would have implications for the entire Mexican manufacturing sector.

Economic outlook

1Q18 GDP growth was about 1.13% QoQ (2.33% YoY), with exports continuing to advance before major changes foreseen in NAFTA. Consensus for GDP growth forecast remains at 2.5% level, though projections for growth remain in the 2% area. Annual CPI moved up to 4.65% YoY in June. Projections remained anchored around 3.50%.

Central Bank

Banxico raised its monetary policy rate at June meeting by unanimous decision from 7.50 to 7.75 per cent, and highlighted some of the risks to Mexican price index (FX volatility, relative monetary policy with FED, NAFTA renegotiation and economic proposals from the new ruling party.

Market sentiment

Equities: Consensus for Mexican equities is to OW. Pension and other domestic funds had become more constructive, though they are not fully positioned for the new environment. Our broader conversations with international investors suggest that there is room for international liquidity to amplify flows into the Mexican equity markets. Key drivers for the rest of the year will be: (i) LatAm reforms (NAFTA) and political developments; (ii) global liquidity trends and the pace of Fed rates adjustments; and (iii) LatAm GDP growth acceleration.

Fixed Income: We fix our target for the yield in the 10Y Mexican bono at 8.00%. For the USD denominated bonds we think the spreads could remain in the 130-150 bps area, with yields remaining close to 4.60%

Financial markets outlook

Equities – Mex IPC: NEUTRAL (Target 48,400). Exit 51,500

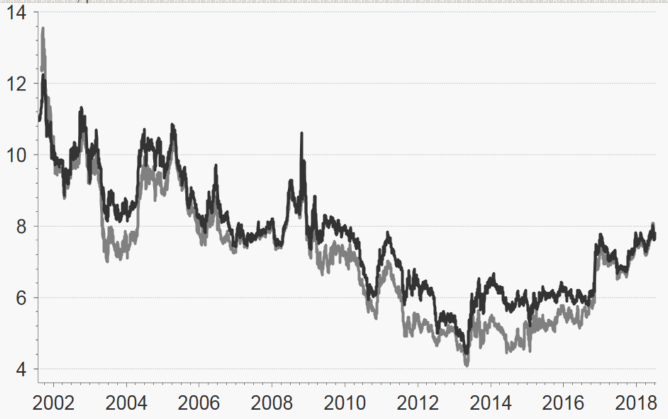
Bonds – Govies Local: NEUTRAL (target spread 480, yield 8.0%)

Bonds - Govies USD: NEGATIVE (target spread 140, yield 4.60%)

Fx – MXN/USD: NEUTRAL (Mid-term target 19.15)

Mexico benchmark government bonds

Yield, per cent



Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

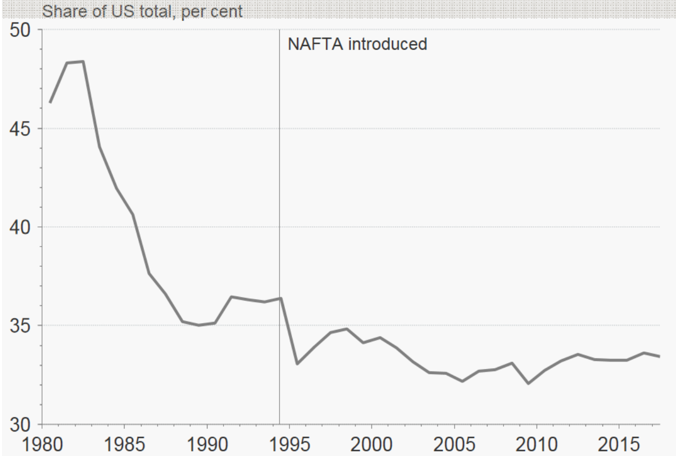
USDMXN exchange rate

Spot rate

Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

Mexico GDP per capita (PPP-adjusted)

Share of US total, per cent



Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

BRAZIL
Candidates consolidation begins

Elections: Little change in polls, but consolidation is beginning

Little has changed in the electoral outlook, as far as polls are concerned. Jair Bolsonaro and Lula are still dueling in the leadership, depending on the poll and its methodology. Ciro Gomes and Geraldo Alckmin are fighting for second place. However, as the deadline for the candidacies registration gets closer, we begin to see the consolidation process between the main names and political parties, which in the end is the main signal of how the election will play out when the rallies start for real. Geraldo Alckmin now has the support of the so-called "Centrão" (the more pragmatic and larger group of congressmen), which adds up considerable TV time in the campaign and thus increases his odds to perform better in October. Centrão's support will be essential to any new government in terms of governability.

Congress' last moves before the recess

As we approach the congressional recess, the Lower House must vote the budget proposal for next year. Fiscal restraining measures proposed by the government's economic team (such as postponement of public service wage increases and reversal of fiscal benefits to selected industrial sectors) were rejected, putting additional pressure on the next president and increasing the challenge of balancing the fiscal results. These measures, however, could be reversed in the next legislature. On the positive side, the congress has recently approved the sale of some public assets, including the distribution division of Eletrobrás, the country's largest electricity company and the "jewel" of an ambitious plan to sell public assets. Before the end of the month, the model to be used for the sale will be announced, but this will entail the sale of an important package of State shares in the company, which currently controls about 60%. This represent a fiscal relief that could have a positive impact on Brazilian assets in the last part of the year, especially if it is accompanied by a hypothetical electoral result favorable to continuity in the reformist agenda, especially taking into account the high level of liquidity in banks today.

Monetary policy: Central Bank sees inflation under control.

The Central Bank has signaled that the inflation outlook is under control in the coming years. The IPCA is projected to end 2018 at 4.2% and stay at 4.1% in 2019 and 2020, considering a base case of a 3.70 BRL/USD level and a Selic rate of 6.50% per year.

Economic activity: Polluted data due to the truckers' strike

The truckers' strike has caused strong one-time effects on many economic readings. Household consumption and industrial production decreased sharply in June. Inflation also spiked, with the IPCA marking a strong 1.26% monthly reading in June, due to a huge shock in food and fuel prices. IBC-Br (the monthly economic activity index produced by the Central Bank) fell 3.34% in May (the worst reading since 2003). However, we expect these effects to dissipate during the year, not without leaving a negative contribution to 2018 GDP.

Financial markets

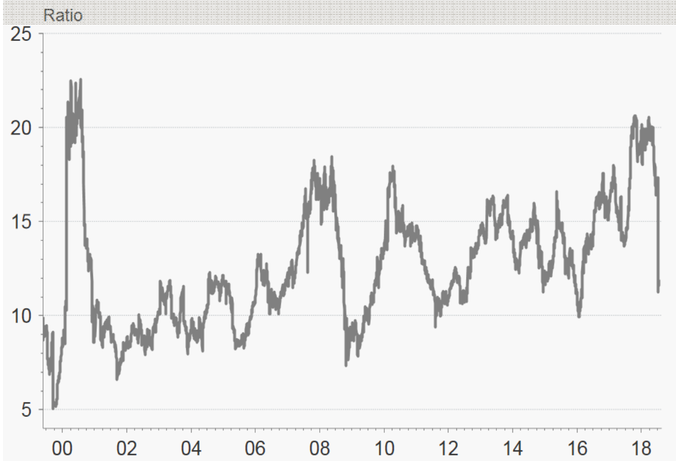
Equities – IBOVESPA: NEUT-POSIT (Target 84,000). Exit 88.200

Bonds – Gov. Local: POSITIVE (target yield 10%)

Bonds – Gov. USD: POSITIVE (target yield 5.3%. Spread 210bp)

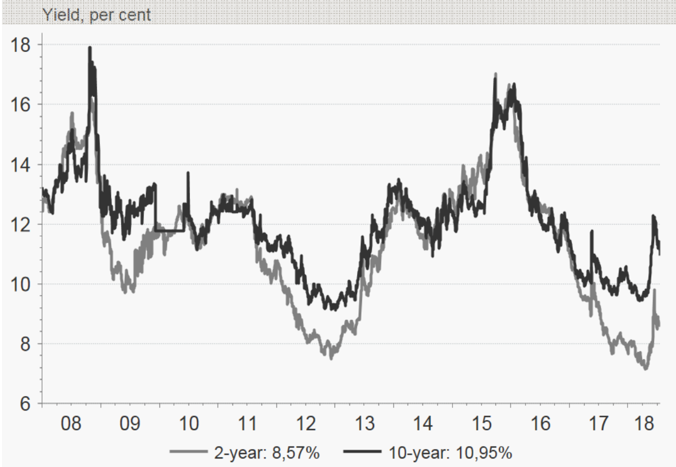
Fx – BRL/USD: POSITIVE (mid-term target 3.50)

Brazil price/earnings, Datastream index



Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

Brazil benchmark government bonds



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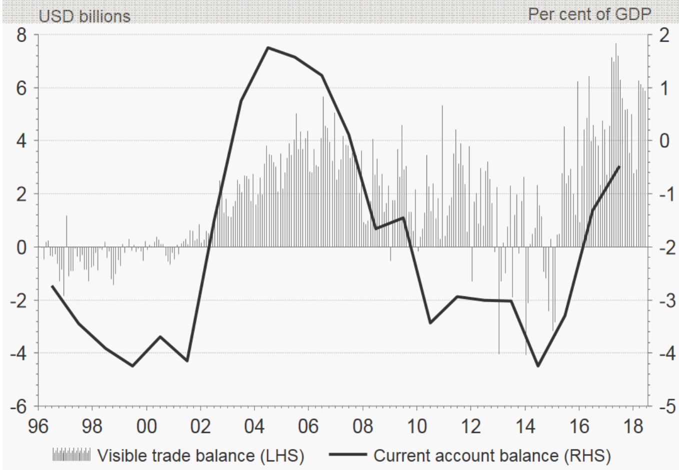
Brazil current account



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ARGENTINA
The ghost of a populist return

Primary deficit cut by 42%yoy in 1H18

The primary deficit for the first semester reached $105,825 million, that is, a nominal reduction of 26.7% with respect to the same period last year, while in real terms the decrease in the primary deficit in the semester was 41.9% year-on-year. In other words, the primary deficit went from representing 1.4% of GDP in 1H17 to 0.8% of GDP in 1H18.

International vote of confidence proved insufficient

Even though the announcement of the agreement with the IMF was ultimately seen as a good step taken by Macri's administration, the above-expected amount proved insufficient on its own to provide stability to the market. The same happened with the MSCI's announcement of the reclassification of Argentina as an Emerging Market. At this point in time, bonds are no longer pricing in President Macri's reelection and the uncertainty about the continuity of a market-friendly government weighs heavily on investors.

Financial needs in a deteriorating environment

After recent issuances totaling USD 6bn, the Ministry of the Treasury indicated that the financial needs for 2018 were over-covered by USD 1.2bn. However, this figure doesn't take into account the commitment made by the Treasury to repurchase not less than USD 6.3bn. of non-transferable bills during 2018. It also assumes that 100% of the Letes stock is rolled over, when Letes' roll-over ratio has dropped from nearly 100% in March-April to slightly above 50% recently. Financial needs for 2019 amount to USD 32.3 bn and the government is assuming a full roll-over of Repo and multilateral funding that together add up to USD 17bn. Ministry Dujovne indicated that USD 3bn will be issued in the international markets, while USD 12.3 bn will be raised domestically.

Central Bank

Interest rates will remain high (at 40%) for some time to ensure market stability and contain the FX pass-through to inflation. REM of June showed an increase in inflation expectations for this year from 27.1% to 30% and June's CPI print of 3.7% MoM vs 2.1% MoM in May signaled a significant acceleration in depreciation. For 2019 and 2020, the expected inflation is now set at 20.2% and 15%, respectively.

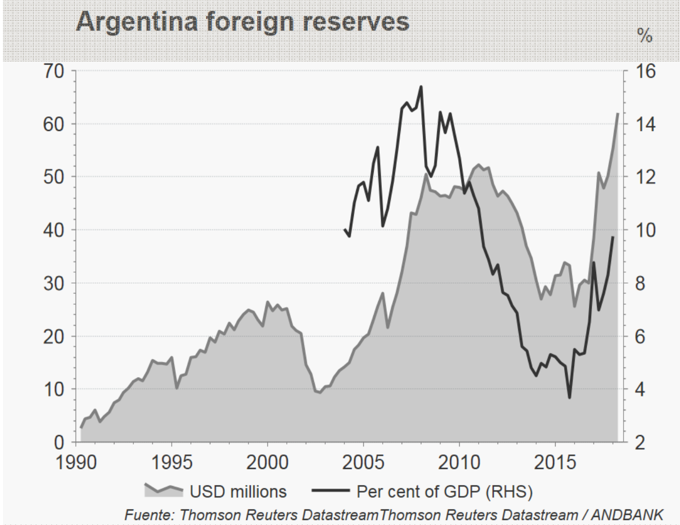
Politics

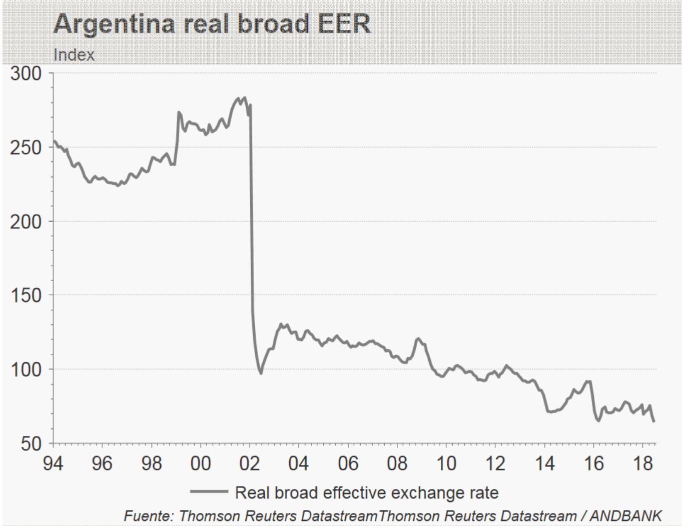
Macri's approval rating has dropped significantly since the beginning of the year and it's not clear if the economy will overcome the current recession soon enough to favor a Cambiemos reelection. June's REM shows that 2018's GDP growth is expected to be 0.5%, while for 2019 the figure is expected to reach 1.6%. In spite of the President's diminished popularity, no figure from the opposition has yet been able to capitalize on it. In this context, all political efforts are now concentrated on discussing the 2019 budget. In the last few hours the government announced that it will be responsible for 66% of the budget cut needed to achieve the -1.3% primary deficit for 2019. Therefore, the provinces saw their burden reduced to 33% from the 50% initially indicated and this should probably ease future negotiations.

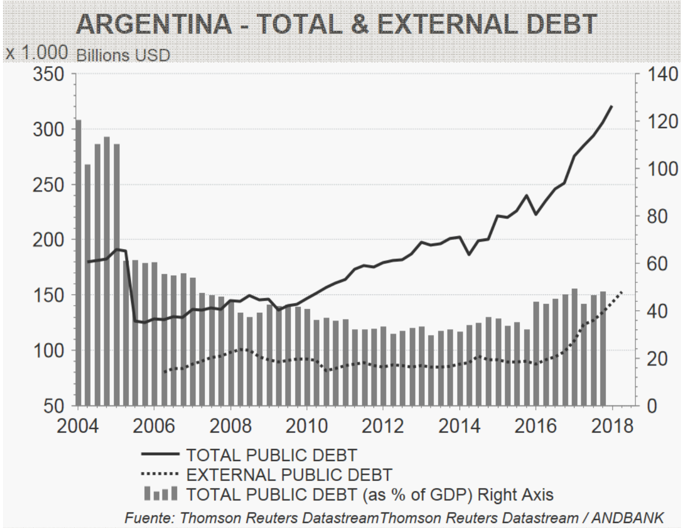
Financial Market Targets

Bonds – 10YGov USD: POSITIVE. Target yield 7.20%.

Fx –USD-ARS: NEGATIVE (year-end target 30)







GLOBAL EQUITY INDICES

Fundamental assessment

Index	Andbank's Sales growth 2018	Sales per Share 2018	Andbank's Net Margin 2018	EPS 2018	EPS Growth 2018	Current PE with EPS 2017	Current PE Fw EPS 2018	PE estimate at Dec 18 EPS 2018	INDEX CURRENT PRICE	2018 Central Point Fundam range	2018 E[Perf] to Centr. Point	2018 Exit Point
USA S&P 500	5,6%	1.301	12,17%	158,3	18,8%	21,15	17,80	17,15	2.819	2.715	**-3,7%**	2.987
Europe - Stoxx Europe 600	5,2%	313	8,19%	25,7	6,6%	16,24	15,24	16,00	391	411	**5,0%**	439
Euro Zone - Euro Stoxx	5,2%	367	7,15%	26,2	6,4%	15,81	14,86	15,75	390	413	**6,0%**	454
Spain IBEX 35	5,0%	7.834	9,00%	705	3,3%	14,45	13,99	15,00	9.867	10.576	**7,2%**	11.633
Mexico IPC GRAL	7,2%	35.891	8,03%	2.881	5,7%	18,21	17,23	16,80	49.644	48.407	**-2,5%**	51.553
Brazil BOVESPA	7,2%	56.514	10,26%	5.798	11,6%	15,37	13,78	14,50	79.866	84.064	**5,3%**	88.267
Japan NIKKEI 225	5,1%	21.099	5,92%	1.248	6,6%	19,13	17,94	18,50	22.397	23.094	**3,1%**	25.403
China SSE Comp.	7,1%	2.831	8,77%	248	7,5%	12,43	11,57	12,00	2.870	2.977	**3,7%**	3.275
China Shenzhen Comp	7,3%	968	8,67%	84	9,3%	20,54	18,79	20,00	1.577	1.678	**6,4%**	1.846
India SENSEX	9,2%	15.530	11,70%	1.818	18,7%	24,51	20,65	21,50	37.530	39.079	**4,1%**	42.987
MSCI EM ASIA (MXMS)	6,8%	454	9,59%	44	8,8%	13,91	12,79	14,40	557	627	**12,6%**	690

UPWARD REVISION DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL EQUITY INDICES: RISK-OFF PROBABILITY

Tactical assessment

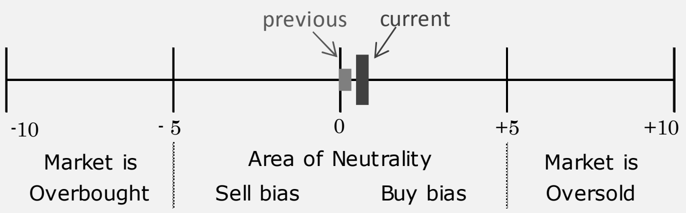
Andbank GEM Composite Indicator: We remain in an area of neutrality. No imminent risk of a sustained sell-off.

Our broad index has ticked up to 0.5 from prior 0.2 (in a range of -10/+10), settling in an area that suggests that the equity market is not expensive, or even that the market could be a little oversold. As a result of this, the risk of a sustained and justified fundamental sell-off is now low.

Risk Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	5	3
Positive Bias	2	2
Neutral	6	11
Negative Bias	5	4
Sell signals	3	1
FINAL VALUATION	**0,2**	**0,5**

Risk Composite Indicator



TECHNICAL ANALYSIS

Trending scenario. Supports & resistances (1 month)

S&P: SIDEWAYS-BULLISH
Support at 2,691. Resistance at 2,872

STOXX600: SIDEWAYS
Support at 370. Resistance at 397

EUROSTOXX50: SIDEWAYS-BULLISH
Support at 3,261. Resistance at 3,596

IBEX: SIDEWAYS
Support at 9,327. Resistance at 10,291

€/$: SIDEWAYS-BULLISH
Support at 1.15. Resistance at 1.185.

Oil (WTI): SIDEWAYS-BULLISH
Supports at 63.61. Resistance at 75.26.

Gold: SIDEWAYS-BEARISH
Supports at 1,194. Resistance at 1,265

US Treasury: SIDEWAYS (price perspective)
Supports at 2.71%. Resistance at 3.01%.

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.1%. Fair value 3.2%. Ceiling 4.2%

Swap spread: The swap spread decreased to +5.6bps (from +7.4bps last month). For this spread to normalize at +10bps, with the swap rate anchored in the 2.2% area (long-term inflation expectation), the 10Y UST yield would have to move towards 2.1%.

Slope: The slope of the US yield curve flattened again during the month and was fixed at 26bps (from 35bps). With the short end normalizing towards 2.50% (today at 2.6%), to reach the 10Y average slope (of 172bps) the 10Y UST yield would have to move to 4.2%.

Real yield: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a "BUY".

GER Bund: Floor 0.80%. Fair value 1.05%. Ceiling 2.4%

Swap spread: The swap spread ticked up to 59bps (from 57bps last month). For the swap spread to normalize at 35bps, with the swap rate anchored in the 1.40% area (today at 0.9%), the Bund yield would have to move towards 1.05% (entry point).

Slope: The slope of the EUR curve flattened at 91bps (from 101bps last month). If the short end "normalizes" in the -0.50% area (today at -0.63%), to reach the 10Y average yield curve slope (130bps) the Bund yield would have to move to 0.80%.

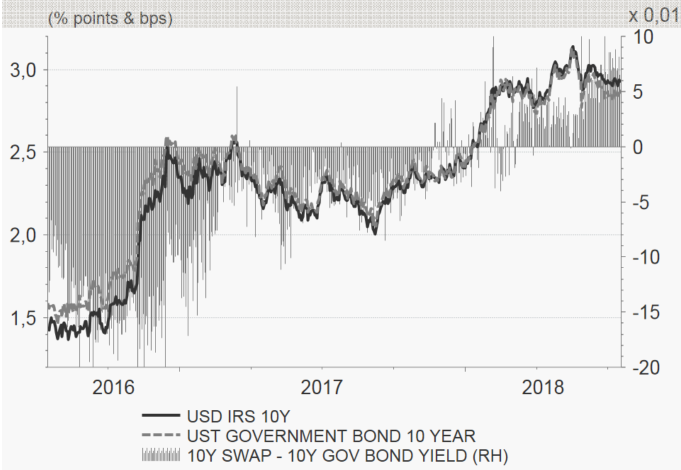
Real yield: A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI forecast of 1.4%, the Bund yield would have to rise to 2.4% to become a "BUY".

UK Gilt: Fair value 1.9%. Ceiling 3.6%

Swap spread: The swap spread ticked up to 24bps (from 22bps last month). For the swap spread to normalize at 13bps, with the swap rate anchored in the 2% area (today at 1.46%), the 10Y UK Gilt should shift to 1.9%.
Slope: With 2Yr normalized at 2%, to reach the average slope at 1.64%, the 10Yr Gilt should move to 3.64%.
Real Yield: A 1% real yield means the 10Y gilt should be at 3.6%.

SWAP SPREAD USD

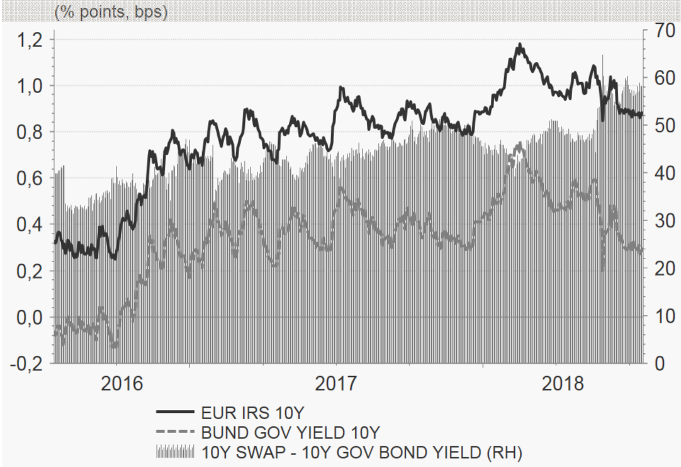
(% points & bps)



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR

(% points, bps)



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.60%
Italian bond BTPI: Target yield at 2.70%
Portuguese Gov bond: Target yield at 2.20%
Ireland Gov bond: Target yield at 1.10%
Greece Gov bond: Target yield at 4.50%

EMERGING MARKET BONDS

Fundamental targets

To date, our rule of thumb for EM bonds has been "buy" when the following two conditions are met: 1) the US Treasury real yield is at or above 1%; and 2) EM bond real yields are 1.5% above the UST real yield.
Assuming that the first condition is met, we should only buy those EM bonds offering a real yield of 2.50% or more.

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	7,65%	3,12%	4,53%	-1,00%	6,65%
	India	7,79%	5,00%	2,79%	-0,75%	7,04%
	Philippines	6,69%	5,20%	1,49%	-0,50%	6,19%
	China	3,47%	1,90%	1,57%	-0,50%	2,97%
	Malaysia	4,07%	0,81%	3,26%	-1,00%	3,07%
	Thailand	2,57%	1,42%	1,15%	-0,50%	2,07%
	Singapore	2,42%	0,57%	1,85%	-0,50%	1,92%
	South Korea	2,49%	1,51%	0,99%	0,00%	2,49%
	Taiwan	0,86%	1,39%	-0,53%	1,00%	1,86%
EME	Turkey	17,55%	15,39%	2,17%	-0,75%	16,80%
	Russian Fed	7,76%	2,30%	5,46%	-1,00%	6,76%
LATAM	Brazil	10,95%	3,53%	7,42%	-1,00%	9,95%
	Mexico	7,75%	4,70%	3,05%	-1,00%	6,75%
	Colombia	6,82%	3,20%	3,62%	-1,00%	5,82%
	Peru	5,74%	1,41%	4,33%	-1,00%	4,74%

ENERGY – OIL

Fundamental price for WTI at US$50pb. Sell above US$60. Buy below US$40

Short-term drivers

***(Price Negative)* – Trump asked Saudi King Salman and OPEC to boost oil production by 2M barrels per day**. Trump sharply criticized OPEC for manipulating the global energy market (by cutting oil output) right at a time when disruptions in Canada and Venezuela have brought down global production. Middle East producers could increase production by 1.1M bpd, according to the IEA, with half from Saudi Arabia. Russia could also increase output by some 300-400k bpd.

(Price Negative)* – *US looks to attack OPEC with NOPEC bill to sue cartel

US lawmakers resurrected the "No Oil Producing and Exporting Cartels Act" bill, which proposes making OPEC subject to the Sherman antitrust law. The move would allow the US government to sue OPEC for energy market manipulation (in order to raise crude prices), and could seek billions of dollars in reparations. June 21: Saudi oil minister al-Falih: "output increase is inevitable".

***(Price Negative)* – Mexican President calls for end to oil imports within three years.** Lopez Obrador will be seeking to end his country's large oil imports (largely from the US) within three years, while boosting Mexico's refining capacity through new construction. AMLO also said he would prioritize increasing crude production, which has fallen sharply for years. The article notes that Mexico's six oil refineries are operating far below capacity, with gasoline production down 50% since 2013.

***(Price Negative)* – The Saudis signal their fears of a structurally bearish market in oil.** Saudi Aramco CEO Amin Nasser said that the oil industry risks a supply crunch as big energy companies focus on US shale over the long-term mega-projects of years past. Nasser argued shale oil is not going to create a major dent in total global supply requirements through 2040.

***(Price Negative)* – Energy companies are gradually resuming spending on seismic services** after a four-year downturn, with the area contracted for seismic work in Q1 doubling q/q. The trend has given surveillance firms reason for optimism, although producers may not be eager to spend on drilling for new reserves unless prices stay high for at least a year (which is exactly what has happened).

***(Price Positive)* – US-Iran tensions rise on Hormuz.** Tensions between the US and Iran are rising amid Iranian threats to close the strategic Strait of Hormuz and the US Central Command's statement yesterday that the navy stands ready to ensure free navigation and the flow of commerce. Meanwhile, the EU, once Iran's biggest oil importer, tries to draw a package of measures aimed at counteracting US sanctions. Iranian Oil Minister said his country was "not happy with the details." Also Asian buyers are already purchasing more non-Iranian barrels, increasing purchases from Saudi Arabia, Kuwait, the UAE, and Iraq.

***(Price Positive)* – Doubts growing about Aramco IPO could press Saudis to continue defending higher oil prices**. The WSJ reported yesterday that preparations for the public listing of Saudi Arabia's state oil company, an effort that is at the center of the government's plan to open its economy, have stalled and left government officials and people close to the process doubting it will go forward at all. This makes me suspect that the Saudis may once again boost the price of crude, in order to facilitate the sale of Aramco. The problem is that Trump has already actively pressed the Saudis to stop strangling the offer.

***(Price positive ST, but negative LT)* – New Permian pipelines may not be completed until late 2019.**The pipeline crunch faced by producers in the Permian basin may not be relieved until late 2019, when three major pipeline projects are slated to open. The projects may enable production to double to 5.4M bpd by 2023, but noted that delays are a concern as developers compete for everything from labor to steel.

Long-term drivers

(-) Alternative energies picking up the baton: 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 delay this deadline as long as possible, it is in producers' interests to keep oil prices low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible). The head of the latest consortium pursuing the large-scale production of cellulosic ethanol from farm waste says that the outlook looks promising again, with "the technology being competitive with oil at $70/ barrel."

(-) Growing environmental problems will gradually tighten legislation and 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 that will likely continue to put big 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 possible.

(-) 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 or 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 quick increase in shale oil production.

(-) Shale producers to raise output considerably at $60 a barrel: The IEA has said that an oil price of $60 would be enough for many US shale companies to restart stalled production.

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,100/oz. Sell above US$1,300

Negative drivers

Gold in real terms: In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) fell to US$1,079 (from US$1,103 last month). In real terms, gold continues to trade well above its 20-year average of US$830. Given the global deflator (now at 1.15039), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$954.

Gold to Silver (Preference for Store of Value over Productive Assets): This ratio ticked up to 78.33x (from 77.34x last month) and still remains well above its 20-year average of 62.20x, suggesting that gold is expensive (at least in terms of silver). For this ratio to reach its LT average, assuming that silver is well priced, then the gold price should go to US$986 oz.

Gold to Oil: This ratio decreased in the month, to 17.49x (from 18.39x last month), still well above its 20-year average of 15.02x. Considering our fundamental long-term target for oil of US$50pb (our central target) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$751 for this ratio to remain near its LT average.

Gold to the DJI: This ratio (inverted) ticked up in the month to 20.14x (from 19.36x last month), still below its LT average of 19.82x. Given our central point (target price) for the DJI of 25,000, the price of gold must approach US$1,261 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Longs are fixed now at 214k (from 203k last month). Short contracts rose to 132k (from 106k). The net position decreased to +81k during the month (from +96k), suggesting that speculators' appetite for gold has decreased markedly in the last three months.

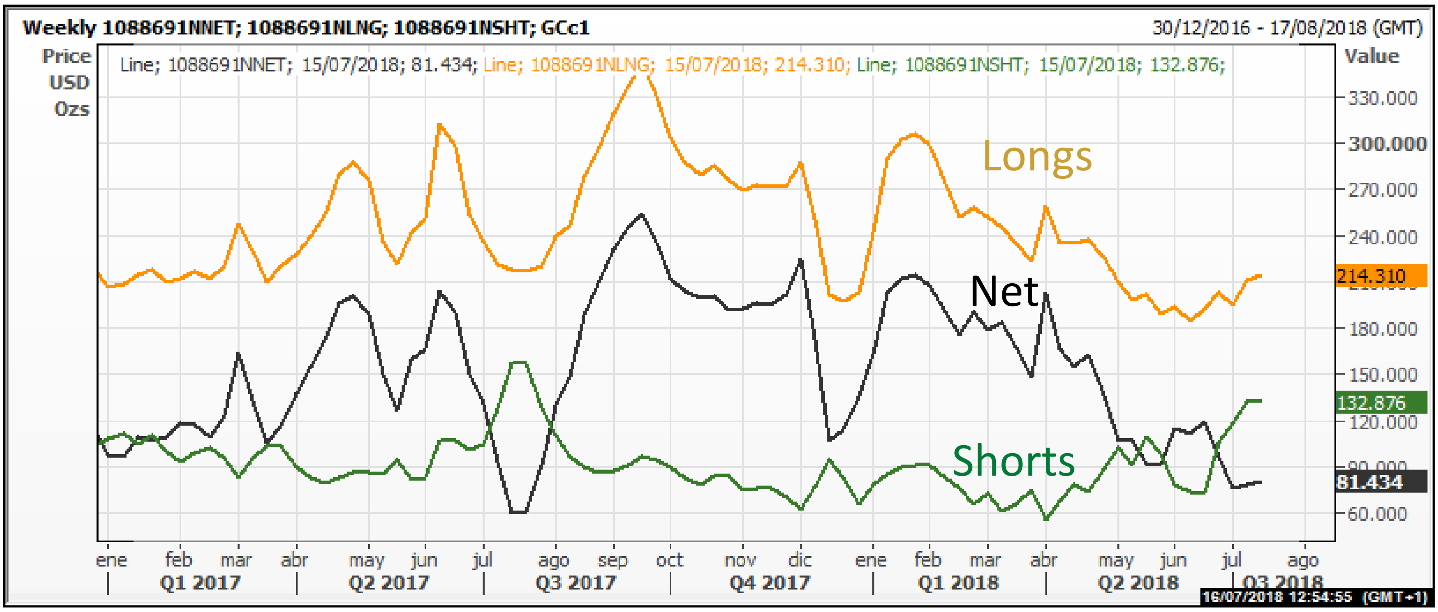
Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio fell to 0.443x (from 0. 461x last month) but is still well below its LT average of 0.594x. Given our target price (central point) for the S&P of $2,715, the price of gold must approach US$1,611 for this ratio to remain near its LT average.

Negative yields still make gold attractive. The disadvantage of gold compared to fixed-income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds, although the importance of this factor is diminishing as yields continue to rise.

Relative share of gold: The total value of gold in the world is circa US$6.9tn, a fairly small share (3.2%) of the total global cash market (212tn). The daily volume traded on the LBMA and other gold marketplaces is around US$173bn (just 0.08% of the total in the financial markets).



EXCHANGE RATES

Fundamental targets

EUR-USD: Strong resistance at 1.26 // Fundamental mid-term target 1.15 // Fundamental long-term target 1.03

Flows: The dollar continues on its course, with investors building long positions at an average pace of US$2.5bn of new long positions per week since the end of June. Currently, the global futures market holds long positions of US$19.7bn, not seen since January 2017, when the euro-dollar exchange rate was trading at 1.07, backed by very favorable economic expectations. **Outlook:** Our **technical analysis** within the Investment Committee indicated three very important things: (1) The EUR/USD continues to face a very strong resistance at 1.26. (2) This resistance level should work well and we therefore believe that the EUR will not cross this resistance. (3) That said, the EUR/USD should be moving back into the longer-term range again; first towards 1.15 and then towards 1.03. Our more **fundamental discussion** sticks with our structural bearish view on the Euro.

USD-JPY: Target 111.2; **EUR-JPY**: Target 127.8

Smart Estimates (the forecasters that historically have shown the best results) fix the 2018 target for the USD/JPY at 108 (below our forecast of 111.2). In our view, despite being cheap in REER vs the USD, several aspects suggest that JPY should not appreciate much further: (1) Real yields are lower in JGBs, and with the 10Y JGB controlled at 0% there is little prospect that Japanese real yields will rise; (2) We downplay the tapering option after the BoJ has reiterated that it intends to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unachievable in the short term); (3) Meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (4) The prospect of the Fed shrinking its balance sheet (withdrawing liquidity) makes the USD more attractive (or the JPY less appealing).

GBP-USD: Target 1.35; **EUR-GBP**: Target 0.85

USD-CHF: Target 0.99; **EUR-CHF:** Target 1.14

USD-MXN: Target 19.15; **EUR-MXN:** Target 22

USD-BRL: Target 3.5; **EUR-BRL:** Target 4

USD-ARS: Target 30

RUB: NEUTRAL

AUD: POSITIVE

CAD: POSITIVE

CNY: Target 6.50

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last week in the currency (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score Z-score 3-yr
USD vs All	19,74	1,80	19,7	-28,2	-11,2	**0,85**
USD vs G10	20,11	1,89	20,1	-25,4	-8,8	**0,90**
EM	0,37	0,09	3,9	-0,8	2,4	**-0,17**
EUR	3,12	-0,46	23,4	3,1	15,4	**0,28**
JPY	-6,50	-2,01	0,6	-15,0	-8,1	**-0,53**
GBP	-3,18	0,18	4,3	-4,3	0,3	**-0,17**
CHF	-5,27	-0,21	0,2	-5,5	-2,2	**-2,53**
BRL	-0,70	0,01	0,7	-0,8	-0,1	**-2,22**
MXN	0,77	0,03	3,3	-0,5	1,9	**0,39**
RUB	0,30	0,05	1,2	-0,3	0,5	**-0,31**
AUD	-2,99	0,06	6,1	-3,2	1,5	**-1,50**
CAD	-3,60	0,43	6,1	-4,0	1,6	**-1,07**

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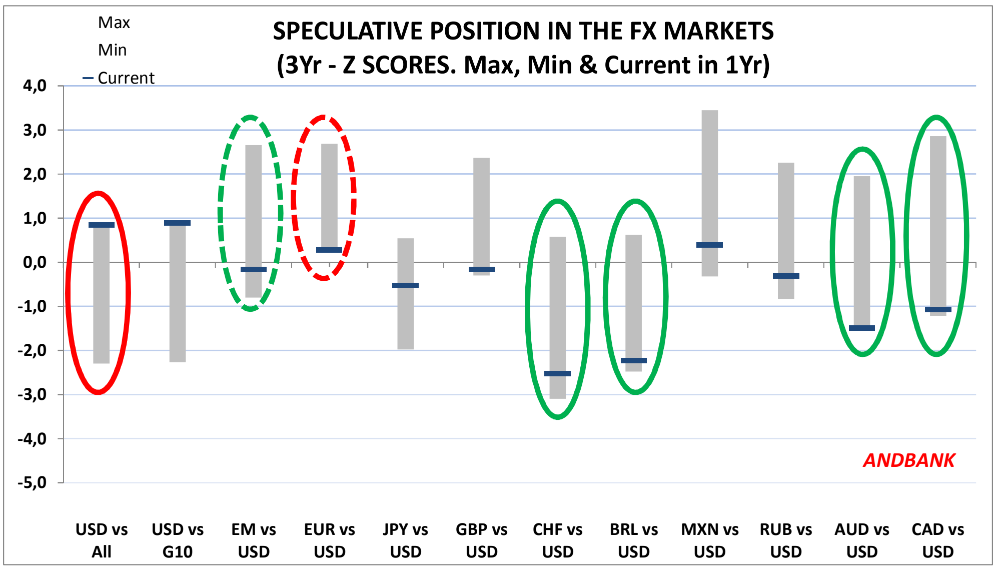

In green circles, the currencies we technically favor

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Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance 1 month	Performance YTD	Current Price 30/07/2018	Central Point (Fundam range)	Exp. Perf. To Central Point
Equity	USA - S&P 500	3,4%	5,4%	2.819	2715	-3,7%
	Europe - Stoxx Europe 600	3,8%	0,7%	391	411	5,0%
	Euro Zone - Euro Stoxx	4,2%	1,3%	390	413	6,0%
	SPAIN - IBEX 35	3,2%	-1,8%	9.863	10576	7,2%
	MEXICO - MXSE IPC	6,4%	0,6%	49.644	48407	-2,5%
	BRAZIL - BOVESPA	9,6%	4,5%	79.866	84064	5,3%
	JAPAN - NIKKEI 225	-0,5%	-1,0%	22.397	23094	3,1%
	CHINA - SHANGHAI COMPOSITE	3,4%	-13,1%	2.870	**2977**	3,7%
	CHINA - SHENZEN COMPOSITE	-0,3%	-17,0%	1.577	**1678**	6,4%
	INDIA - SENSEX	6,4%	9,6%	37.530	39079	4,1%
	MSCI EM ASIA (in USD)	1,6%	-5,1%	557	627	12,6%
Fixed Income Core countries	US Treasury 10 year Govie	-0,6%	-3,2%	2,97	3,20	-0,6%
	UK 10 year Gilt	-0,3%	-0,3%	1,30	2,00	-5,0%
	German 10 year BUND	-0,9%	0,3%	0,42	0,80	-2,9%
	Japanese 10 year Govie	-0,6%	-0,4%	0,10	0,10	0,0%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,7%	2,2%	1,38	1,60	-1,2%
	Italy - 10yr Gov bond	-0,9%	-5,1%	2,78	2,70	1,8%
	Portugal - 10yr Gov bond	0,2%	2,2%	1,75	2,20	-2,8%
	Ireland - 10yr Gov bond	-0,6%	-1,4%	0,87	1,00	-0,7%
	Greece - 10yr Gov bond	0,9%	4,3%	3,80	4,50	-4,0%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,4%	-0,3%	61,56	85	-1,7%
	Credit EUR HY-Itraxx Xover	1,6%	-0,8%	288,21	330	-1,3%
	Credit USD IG - CDX IG	0,5%	1,3%	58,30	50	1,0%
	Credit USD HY - CDX HY	1,4%	2,3%	330,41	437	-1,3%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	-9,6%	-42,8%	17,55	13,50	50,0%
	Russia - 10yr Gov bond	0,1%	2,9%	7,76	6,70	16,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	0,8%	-7,5%	7,65	6,50	16,8%
	India - 10yr Gov bond	1,5%	0,5%	7,79	6,75	16,1%
	Philippines - 10yr Gov bond	-1,3%	-9,5%	6,69	5,75	14,2%
	China - 10yr Gov bond	0,2%	5,2%	3,47	3,25	5,2%
	Malaysia - 10yr Gov bond	1,3%	1,0%	4,07	4,00	4,6%
	Thailand - 10yr Gov bond	0,0%	-1,0%	2,57	1,85	8,3%
	Singapore - 10yr Gov bond	0,5%	-2,4%	2,42	1,57	9,3%
	South Korea - 10yr Gov bond	-0,1%	0,5%	2,49	2,00	6,4%
	Taiwan - 10yr Gov bond	0,6%	1,2%	0,86	1,50	-4,3%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-0,2%	4,1%	7,75	**8,00**	5,8%
	Mexico - 10yr Govie (USD)	1,3%	-3,5%	4,36	4,60	2,5%
	Brazil - 10yr Govie (Loc)	3,3%	0,3%	10,95	10,00	18,6%
	Brazil - 10yr Govie (USD)	4,9%	-3,5%	5,54	5,30	7,5%
	Argentina - 10yr Govie (USD)	5,4%	-18,3%	8,50	**7,20**	18,9%
Commodities	Oil (WTI)	-6,4%	14,5%	69,2	50,00	-27,7%
	GOLD	-1,6%	-6,2%	1.221,9	1.100	-10,0%
Fx	EURUSD (price of 1 EUR)	0,2%	-2,8%	1,167	1,15	-1,4%
	GBPUSD (price of 1 GBP)	-0,1%	-2,9%	1,31	1,35	2,9%
	EURGBP (price of 1 EUR)	0,4%	0,1%	0,89	0,85	-4,2%
	USDCHF (price of 1 USD)	0,0%	2,0%	0,99	0,99	-0,6%
	EURCHF (price of 1 EUR)	0,3%	-0,8%	1,16	1,14	-2,0%
	USDJPY (price of 1 USD)	0,2%	-1,4%	111,08	111,20	0,1%
	EURJPY (price of 1 EUR)	0,4%	-4,1%	129,58	127,88	-1,3%
	USDMXN (price of 1 USD)	-6,6%	-5,2%	18,63	19,15	2,8%
	EURMXN (price of 1 EUR)	-6,6%	-7,8%	21,73	22,02	1,4%
	USDBRL (price of 1 USD)	-5,1%	12,1%	3,71	3,50	-5,8%
	EURBRL (price of 1 EUR)	-4,9%	9,0%	4,33	4,03	-7,1%
	USDARS (price of 1 USD)	-3,3%	46,8%	27,30	**30,00**	9,9%
	CNY (price of 1 USD)	2,5%	4,9%	6,83	**6,50**	-4,8%

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

UPWARD REVISION DOWNWARD REVISION

ASSET ALLOCATION & RISK TOLERANCE

Monthly asset & currency allocation proposal

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Cash	**15,0**	**20,7**	**10,0**	**15,2**	**5,0**	**10,2**	**5,0**	**5,8**
Short-Term debt & MM instrument	**25,0**	**34,1**	**15,0**	**22,5**	**5,0**	**10,1**	**0,0**	**2,9**
Fixed Income Long-Term - OECD	**30,0**	**21,0**	**20,0**	**14,0**	**15,0**	**10,5**	**5,0**	**3,5**
US Gov & Municipals & Agencies		15,8		10,5		7,9		2,6
EU Gov & Municipals & Agencies		1,1		0,7		0,5		0,2
European Peripheral Risk		4,2		2,8		2,1		0,7
Credit (OECD)	**20,0**	**14,0**	**20,0**	**14,0**	**15,0**	**10,5**	**5,0**	**3,5**
Investment Grade USD		7,1		7,1		5,4		1,8
High Yield Grade USD		2,8		2,8		2,1		0,7
Investment Grade EUR		2,4		2,4		1,8		0,6
High Yield Grade EUR		1,7		1,7		1,3		0,4
Fixed Income Emerging Markets	**5,0**	**5,3**	**7,5**	**7,9**	**10,0**	**10,5**	**15,0**	**15,8**
Latam Sovereign		1,6		2,4		3,2		4,7
Latam Credit		1,3		2,0		2,6		3,9
Asia Sovereign		1,3		2,0		2,6		3,9
Asia Credit		1,1		1,6		2,1		3,2
Equity OECD	**5,0**	**5,0**	**20,0**	**20,0**	**32,5**	**32,5**	**50,0**	**50,0**
US Equity		1,8		7,0		11,4		17,5
European Equity		2,2		8,8		14,3		22,0
Japan Equity		1,1		4,2		6,8		10,5
Equity Emerging	**0,0**	**0,0**	**5,0**	**4,8**	**10,0**	**9,5**	**10,0**	**9,5**
Asian Equity		0,0		2,4		4,8		4,8
Latam Equity		0,0		2,4		4,8		4,8
Commodities	**0,0**	**0,0**	**2,5**	**1,8**	**5,0**	**3,5**	**5,0**	**3,5**
Energy		0,0		0,3		0,7		0,7
Minerals & Metals		0,0		0,4		0,9		0,9
Precious		0,0		0,7		1,3		1,3
Agriculture		0,0		0,3		0,6		0,6
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**2,8**	**5,0**	**5,5**
REITs		0,0		0,0		0,7		1,4
Alt.Energy (wind, solar, etc)		0,0		0,0		0,6		1,1
Market Neutral		0,0		0,0		1,1		2,2
Volatility		0,0		0,0		0,4		0,8
Currency Exposure (European investor perspective)								
EUR		92,4		85,0		78,8		72,6
USD		7,6		15,0		21,2		27,4

Strategic and tactical asset allocation are investment strategies that aim to balance risk and reward by apportioning a portfolio's assets according to an individual's risk tolerance, investment horizon, and our own projected performance for each asset class. This recommended asset allocation table has been prepared by Andbank's Asset Allocation Committee (AAC), comprising managers from the portfolio management departments in each of the jurisdictions in which we operate.

PRINCIPAL CONTRIBUTORS

Together
Everyone
Achieves
More

Giuseppe Mazzeo
US Rates & Equity
+1 786 471 2426

J.A Cerdan
Europe Equity Strategist
+376 874 363

Ricardo Braga
Brazil Macro, Politics & Rates
+55 11 3095 7075

Eduardo Anton
US Corporate Credit IG & HY
+1 305 702 0601

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

Gabriel Lopes
Brazil Bonds and Equity
+55 11 3095 7075

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

Marian Fernández
Europe Macro, ECB & Gov. bonds
+34 639 30 43 61

Andrés Pomar
Global Flow & Positioning
+352 26193925

Andrés Davila
Central America & Venezuela
+507 2975800

David Tomas
Spain Macro, Politics & Equity
+34 647 44 10 07

Carlos Hernández
Global Technical Analysis
+376 873 381

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

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