GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review

June 2018

Corporate Review

June 2018

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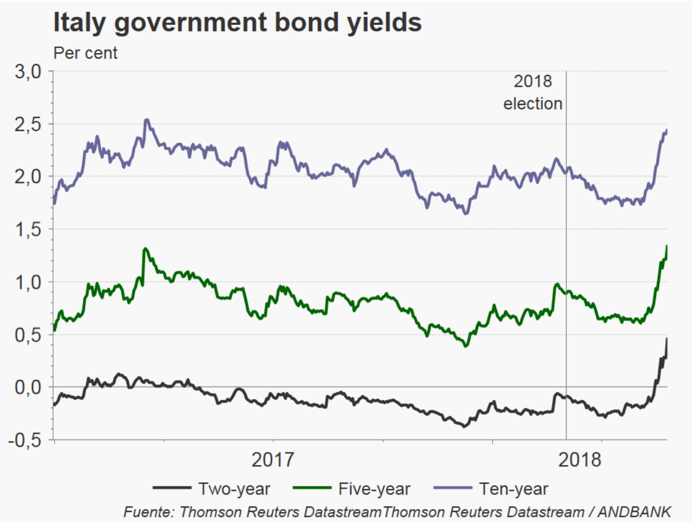
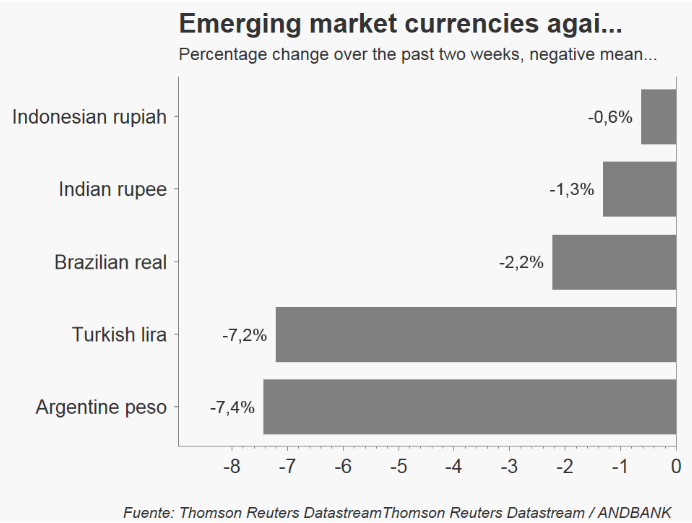
EXECUTIVE SUMMARY

CHARTS OF THE MONTH





EQUITIES

The U.S. tax overhaul and spending plans have supercharged growth and earnings. We still see the overall environment as positive for risk assets. We remain constructive into earnings season, expecting a high bar to be met on a mix of organic growth and tax flow. Our preferred markets are in Europe ones and some specific bets in Asia and LatAm. The markets offering fewer potential gains are Japan and the US (which we consider are already at fair value). No changes in our fundamental targets this month. We still see value despite the recent turmoil in global equities.

FIXED INCOME

We see yields climbing further, if not at the brisk pace of recent months. We would be more concerned about a surge in rates unrelated to the growth outlook, such as one driven by fears of central banks getting behind the curve on inflation or the extra yield investors demand for holding long-term bonds (resulting in a rise in real yields). Still negative outlook for long-dated government bonds denominated in EUR, GBP and JPY, and to a lesser extent in USD.

CORPORATE CREDIT

We believe downside risks remains in European credit with Italy in focus (where things are unlikely to settle down quickly) and credit spreads lagging the moves in peripheral markets. Nevertheless, there is a "certain amount of flexibility around the ECB's CSPP program", so CSPP purchases could rise again. In EUR we remain negative in IG and cautious in HY. In USD, the recent concerns about the spike in treasury yields have put investment grade credit spreads under significant pressure. We remain neutral in IG and HY.

CURRENCIES

The steepest part of the recent USD rally coincides perfectly with an across-the-board cutting of short positions against the greenback. The most crowded trade position globally is now the "Long EUR" trade (despite recent cuts in EUR longs), suggesting that the EUR remains overbought vs the USD. Our preferred currencies are CHF, BRL and AUD

COMMODITIES

Recent analysis suggests that the economic hit from an oil price shock at $100 may be far less painful for the US than in 2011, encouraging both conventional and non-conventional producers to continue raising the price of crude. That said, the IEA suggests "higher prices could constrain demand". In our view, the oil price has crossed the upper part of a fundamental range.

USA

A chance to push back against the idea of an accelerated hiking cycle

US recession risk remains low

Retail sales increased in April, with solid spending growth (gains in 9 out of 13 categories). Meanwhile, US industrial production increased 0.7% MoM, which puts YoY growth at 3.5%. Production momentum (3m/3m% annualized growth) was 5.8% in April. The labor market remains generally healthy, although payroll growth has slowed in the last two reports. The continuing low level of initial claims for unemployment insurance and the near-record 6 million open jobs across the economy suggest that businesses are still looking to hire, pointing to a continued strength in the labor market.

Fed: Inflation data disappoints

Core CPI inflation disappointed in April, the YoY figure stayed unchanged at 2.1%, below consensus expectation of a move up to 2.2%. However, the details look more constructive than the headline miss suggests, as the steadiest category remains strong (shelter) while a few volatile components underperformed (airline fares). The latest CPI could push the YoY measure down to 1.8% from 1.9%. The disappointment in CPI came after four months of very solid readings, when the annualized average was running at 2.9%. The latest numbers don't change our expectation that another hike is coming on June 13th. The Fed's current median projection of 1.9% core PCE at year-end 2018 still looks intact, but the latest report probably gives the doves on the committee a chance to push back against the idea of an accelerated hiking cycle given the modest pick-up in wages and continued uncertainty around trade policy.

Andbank's market sentiment

The U.S. tax overhaul and spending plans have supercharged growth and earnings. We see the overall environment as positive for risk assets, but expect more muted returns and higher volatility in the months ahead. As for earnings, the US numbers are beyond excellent, but a substantial part of that is linked to the changes in the US tax system. The real story of the month has been the US bond market. The 10-Year Treasury yield has increased 66 bps year-to-date, while at the same time, the market's advance has begun to waver, with the S&P 500 up just 1½%. We believe equities will continue to reward, although at more subdued levels, as the fear of rising interest rates will remain investors' focus in the months ahead. We see yields climbing further, if not at the brisk pace of recent months. And we believe risk assets can do well in this scenario: improved growth implies stronger corporate earnings. We would be more concerned about a surge in rates unrelated to the growth outlook, such as one driven by fears of central banks getting behind the curve on inflation, reflected in the extra yield investors demand for holding long-term bonds (resulting in a rise in real yields). Yet we see an ongoing investor thirst for income, as well as structural factors — lower potential growth, aging populations, etc. — keeping rates low relative to the past. While the nominal yield curve has flattened, the real yield curve is steepening.

Financial markets outlook

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

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

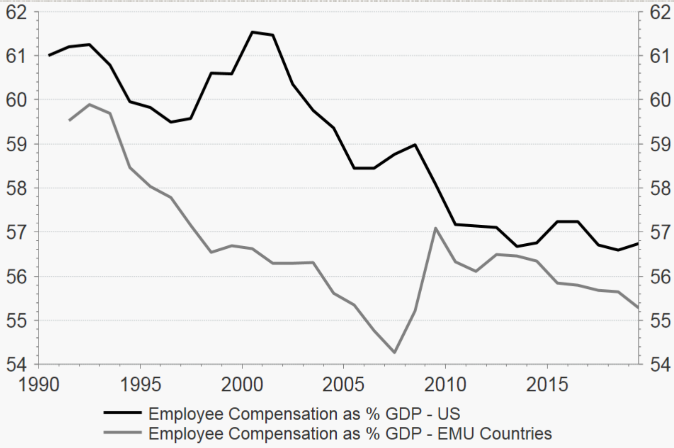
Credit – CDX IG : NEUTRAL (Target Spread 50)

Credit – ICDX HY: NEUTRAL-NEGATIVE (Target Spread 437)

Forex – CDX index: NEUTRAL

WAGE SHARE (US vs EURO ZONE)

% of GDP



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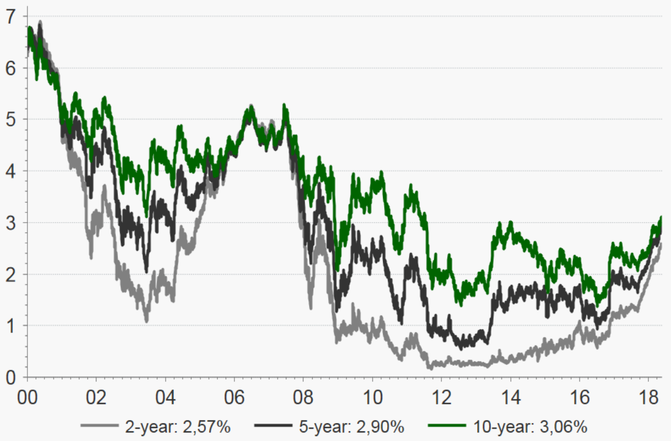
US benchmark government bonds

Yield, per cent



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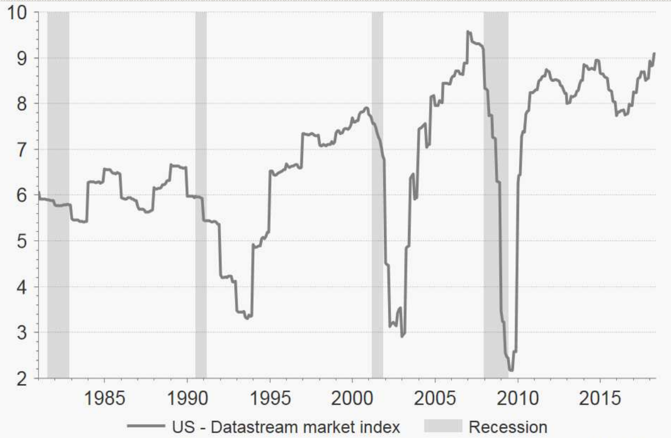
US corporate profits, net margin

Per cent



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EUROPE

We envisage the recent slowdown as a halt at the mid point of a cycle

Political Risk

Italian headline risks remain high, with early elections (our central scenario) as a closer possibility once the Italian President has rejected the populist parties choice of a Eurosceptic finance minister. The risk would be that Matarella's decision results in a radicalization of the voter facing the next elections. The good news would be that the Northern League seems to have strengthened in polls, while the 5-star movement would have lost ground, which could increase the likelihood of a center-right coalition in the elections. At the closing of this document, Five Star Movement is considering proposing the impeachment of President Mattarella, meanwhile, the president has summoned former IMF executive director Cottarelli, who may be asked to try and form an interim government. Just recall that the worst outcome for markets (a coalition between the Five Star movement and Lega Norte) became a reality following an agreement of the two main parties of measures that implied a further increase in the public deficit of between 3% and 5% of GDP. As we move closer to the European summit, expectations have been watered down, due not only to Germany's “silence” but also a lack of clear support from other jurisdictions (Austria, Finland, the Netherlands). The summit runs the risk of being “decaffeinated”. Some further steps on the Banking Union are still on the agenda, such as transforming the ESM into an EMF. There is scant hope of a higher budget for 2021-2027, a common Deposit Insurance scheme, or a European Ministry of Finance. A more integrated Capital Union will also have to wait till 2019.

Macro data continues on the downside. The ECB in mute mode

European surprises closed at lows while PMIs continued on the downside. We continue to envisage it as a halt at the mid point of a cycle rather than as a change of trend towards a negative phase. Inflation figures disappointed in April, especially the core reading, probably impacted by a calendar effect. Inflation should trend gradually higher during the year as growth picks up and higher energy prices from 2H2017 impact on the headline figures, but is far from being self-sustaining. June or even July seem more likely dates for the ECB to shed light on the steps towards normalization. After a widespread, rapid deterioration in the data, the ECB wants to be sure that we are witnessing a transitory deceleration period. It is likely to opt then to reduce its bond purchases to zero by the end of 2018 after a short tapering phase. Expectations regarding a first rate hike have been pushed forward towards mid 2019.

Financial Market environment

German bund yields have benefited from the risk off shift following the latest developments in Italy. The bund-treasury spread is the widest since 1989! Peripherals risk premiums have started to turn upwards, even before the Italian political turmoil entered the scene.

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 0.90%)

Bonds – Peripheral : NEGATIVE (SP 1.65%, IT 2.5%, PO 2.2%)

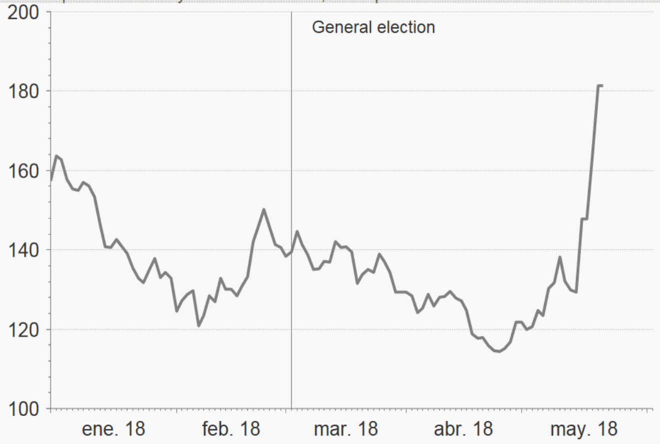
Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 85)

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

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

Italy ten-year government bond yield

Spread over ten-year German Bund, basis points



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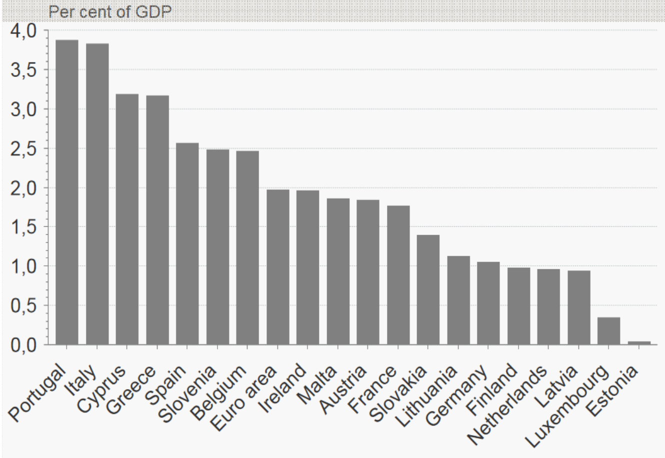
Euro area sovereign interest payments liabilities

Per cent of GDP



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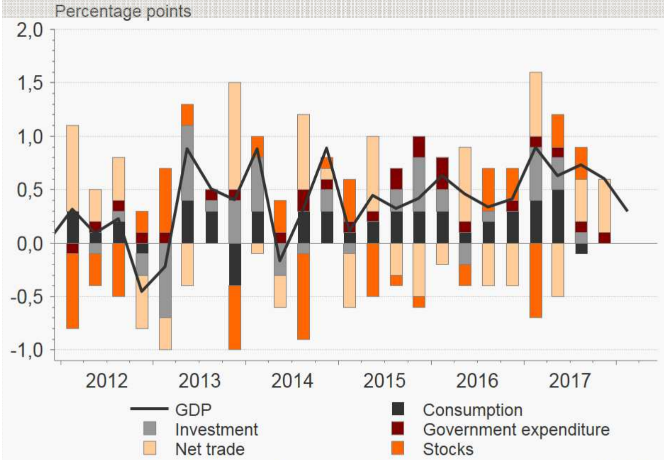
Germany contributions to quarterly GDP growth

Percentage points



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SPAIN

Leading indicators suggest weaker growth

Politics

A new scenario, with different potential results, has been opened after the judicial ruling to the governing party of the PP. The main opposition party (PSOE) has presented a vote of no confidence against Mariano Rajoy, which introduces new uncertainty, and now, early elections are a clear possibility. The current political impasse can be resolved in four ways. Below we detail the probability assigned to each scenario, as well as its repercussion for Spanish assets: (1) The PSOE's initiative of no confidence vote fails. We assign a 40% probability to this option. (2) The initiative of the PSOE goes ahead with the votes of Ciudadanos, leading to new elections. We also assign a 40% probability to this option. (3) The initiative of the PSOE goes ahead without the votes of Ciudadanos. We assign a 10% probability to this scenario. (4) President Rajoy calls for early elections. We assign a 10% probability to this scenario. Thus, according to our decision tree, the most likely scenario is for early elections. Admittedly, the scenario number 3 would be the worst case scenario for Spanish assets, as it would lead to a process of "Italianization" in the country's political context. The other three options would be acceptable to investors. Even the 2nd and 4rth scenario (fall of Rajoy's government), since it would take us to early elections with polls pointing towards a clear victory of pro-market parties.

Leading indicators point to weaker growth

The economy continued to advance without problems so far this year. In seasonally adjusted terms, 1Q GDP expanded by 0.7% QoQ (2.9% annualized) for the third consecutive quarter, providing further evidence of Spain's economic resilience compared to its European peers, where growth slowed down in Q1. In annualized terms, Spain's GDP growth slowed to 2.9%, the lowest rate of expansion of the last three years, although still a decent rate. The preliminary report does not give a breakdown by component, but high frequency indicators suggest that the external sector contributed to growth again in 1Q18 after an anemic performance in 4Q17. Looking ahead, the latest surveys indicate weaker growth during the second quarter, with Markit's composite Purchasing Managers (PMI) index falling slightly to 55.4 in April (from 55.8 in March), but still at a decent rate of expansion. In the labor capm, the unemployment rate increased to 16.7% in the first quarter, above the 16.6% recorded in the fourth quarter of last year and marking the second consecutive quarter in which the unemployment rate has deteriorated. That said, the current figure is still one of the lowest in the last nine years.

Earnings season

Earnings reports for 1Q 2018 exceeded expectations in terms of profit (bottom line) but not in terms of sales. Better margins, along with some recovery on future orders, are causing consensus EPS estimates to be revised upwards. We highlight the banking sector, with positive market trends for volumes, margins, asset quality, solvency, coupled with low trading multiples.

Financial Market Outlook

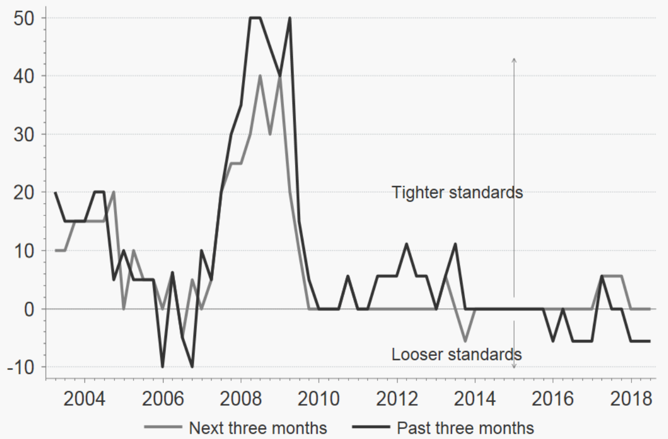
Equities – IBEX: POSITIVE. Central point 10.729. Exit point 11,800

Bonds – Governments: NEGATIVE (BONO target yield 1.65%)

Credit – Invest. grade: NEGATIVE // High yield: NEGATIVE

ECB BLS - Spain credit standards

Diffusion index, housing loans



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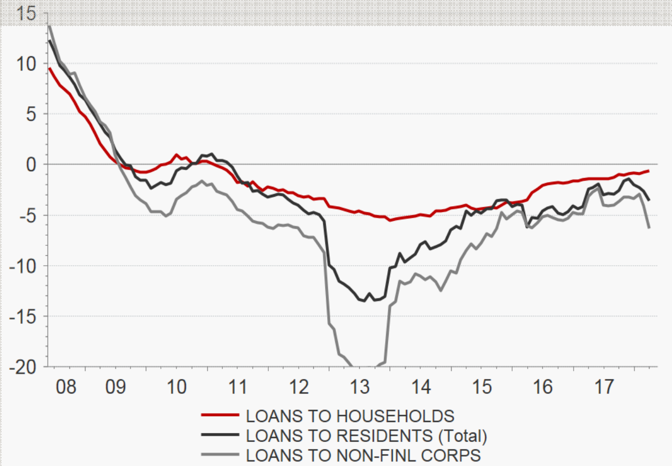
LOANS - SPAIN (% Change YOY)



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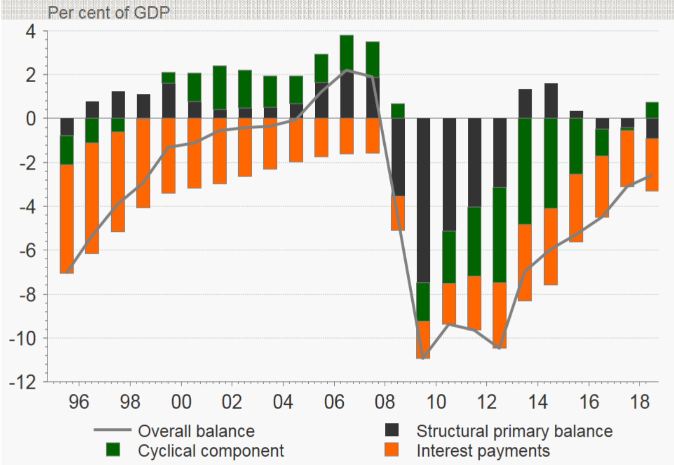
Spain government budget balance

Per cent of GDP



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JAPAN

Has the longest run of growth since the 1980s come to an end?

Japan's GDP contracted by 0.6% y/y in 1Q18

The Japanese economy contracted in 1Q18, after eight consecutive quarters of growth, and shrank by 0.6% y/y, even more than the already weak forecast of -0.1%. The biggest drags were capital spending and sluggish private domestic demand (-1% y/y). This is comparable with the slump seen in 3Q2016. Then, however, external demand was strong enough to counter the impact on GDP. Today, net export growth is offsetting only a third of the decline in domestic demand.

Economic Outlook: Growth is likely to rebound later this year.

(1) Indeed, robust corporate profits seen in the last year have been slow to feed through to real wage increases, causing sluggish growth in private demand (and inflation), but now there are signs that wage pressures are starting to build, with overall nominal wages rising by 2.1% y/y in March, the biggest jump since June 2013, and real wages turning positive again. **(2)** This pick up in wage growth could be long-lasting as the jobless rate, which has fallen to 2.5%, is pushing more companies to hire permanent full-time employees, causing employment growth to accelerate to 3% y/y in 1Q. Permanent hiring means a more stable upward dynamic in wages. The forecasts suggest employee compensation will accelerate growth to the ~4% y/y area in nominal terms, paving the way for higher consumer spending over the coming quarters. **(3)** Also, whereas wage rise bouts in recent decades were driven primarily by manufacturers, this year, non-manufacturers have taken the lead (for first time since 1997). **(4)** Companies' capital spending has slowed recently, with businesses being more cautious now as fears of an escalating trade war, oil price shock, strong yen and the new tensions with Iran have clouded the outlook. This has caused a stocks to fall sharply, which has weighed on GDP data. Nevertheless, our outlook for global growth over the rest of 2018 remains upbeat, meaning that Japanese companies' capital spending should recover from this current soft patch over the coming months.

Our sentiment remains neutral as far as the equity market is concerned

While 1Q GDP is certainly disappointing, analysts still remain constructive in the Japanese equity market: (1) Growth is likely to rebound later this year. (2) Slowing growth in Japan does not necessarily imply weaker corporate profits. (3) Margins have plateaued recently, but corporate governance reforms and rationalization within industrial sectors are already paying off, resulting in the gap in margins between Japan and the rest of the world continuing to narrow. (4) Additionally, equity valuations in Japan are close to their post-2009 lows despite strong corporate profits in the last two years. This means that the downside in Japanese equities could be limited.

Macro-data update

Overall CPI (April) slowed to 0.6% y/y (vs 1.1% y/y in March). CPI excluding food & energy was 0.4% y/y (vs 0.5%)

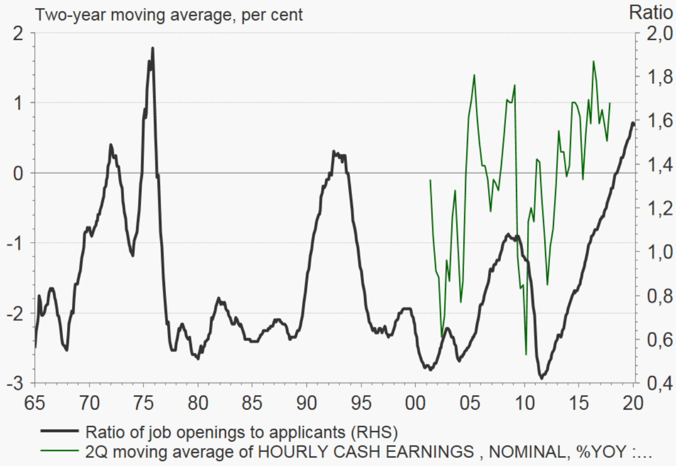
Financial markets outlook

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 labour market tightness & wages



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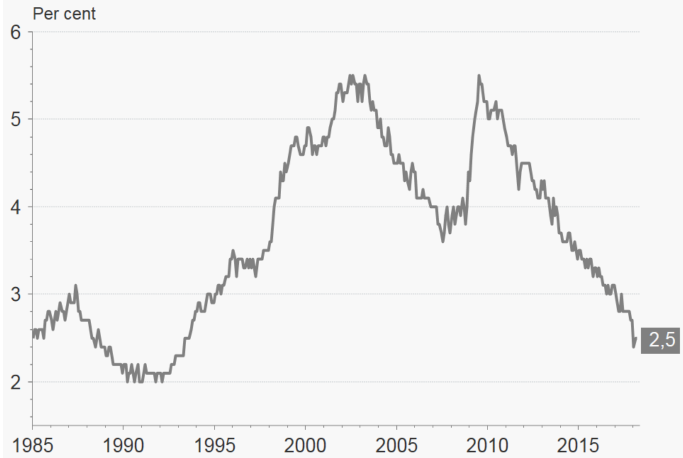
Japan unemployment rate



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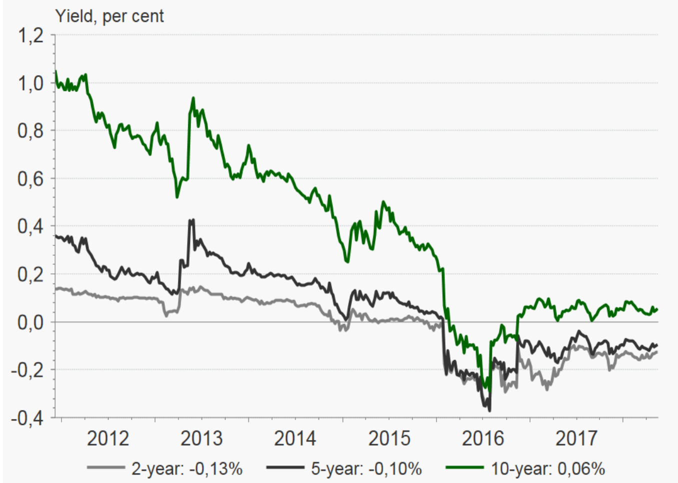
Japan benchmark government bonds



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CHINA
Trade tensions ease

Trade tensions

US President Donald Trump said he was working with Chinese President Xi Jinping to keep ZTE (Telecommunication) in business. The intervention comes less than a month after ZTE was hit with an order banning US companies from selling components to the Chinese business for violating US sanctions on Iran and North Korea. The yuan is expected to move only a little in coming months as authorities keep a tight leash on the currency until it becomes clear whether the trade spat with the US will worsen. The yuan is forecasted to trade steady at 6.36 in a year.

PBOC to continue implementing neutral monetary policy to allow supply-side structural reforms

PBOC will properly implement a prudent and neutral monetary policy to create a moderate financial environment for supply-side structural reform. The PBOC will maintain policy continuity and stability, attach importance to guiding expectations, and keep liquidity at a reasonable level. PBOC rolled over Mid-term lending facilities (MLF) of $24.63B, and injected $13B of funds via Pledged Supplementary Lending. Market participants believe the PBOC may lower the reserve requirement ratio (RRR) two or three times this year.

Reforms (financial market opening)

(1) The PBOC plans to require some of the country's payment platforms to transfer customers' funds to a central custody account. Reports framed the move as a precaution ahead of opening the payment platform market to foreign capital. (2) The China Securities Regulatory Commission (CSRC) will probe bond funds to ensure that they have proper risk controls in place. The investigation will include whether individual firms' funds are shuffling high-risk bonds between them amid suspicion of balance sheet window dressing. (3) China credit spreads hit their widest level in nearly two years this week following new regulations that undermined long-held assumptions about implicit guarantees on debt linked to local governments.

Hard data remains solid

Outstanding loans keeps growing at a sustainable pace (+12.7% y/y), while the PBOC keeps the M2 money supply at +8.3% y/y.

Passenger cars sales grew 11.2% and commercial vehicles expanded by 13% y/y. Nevertheless, the industry association remained cautious, citing low sales in the previous year as a factor to be considered in the current double-digit growth.

CPI remains well under control (at +1.8% y/y, vs +2.1% last month). But PPI rose to +3.4% y/y (vs +3.1% last month)

Corporates: Commercial banks earnings rise in Q1

China's commercial banks posted combined net profits of CNY522.2B ($82.2B) y/y in Q1. At the end of March, commercial banks' non-performing loan ratio stood at 1.75%, almost flat compared with the end of 2017.

Financial markets outlook

Equities – SHANGHAI index: POSITIVE (central point 3.474)

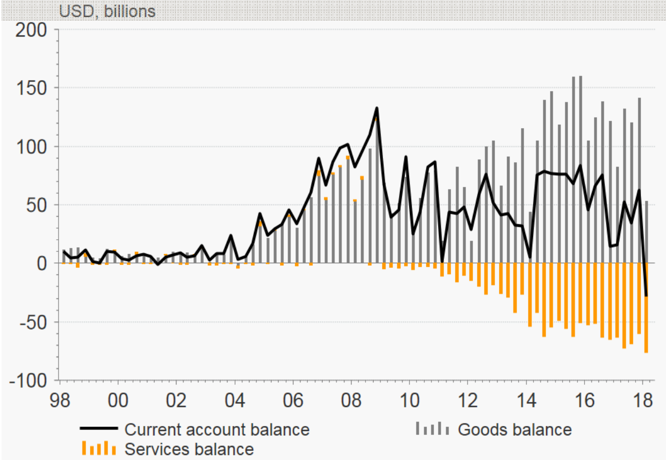
Equities – SHENZHEN Index: POSITIVE (central point 1.930)

Bonds – Govies: POSITIVE (target yield 3.25%)

Forex – CNY/USD: POSITIVE (Fundamental target 6.00)

China current account balance

USD, billions



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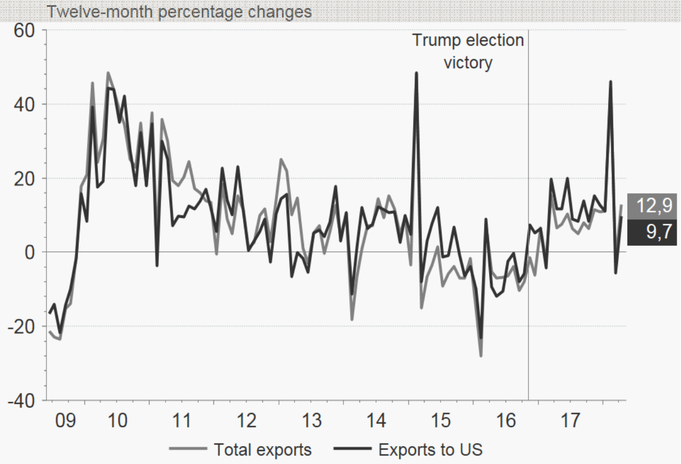
China exports to US

Twelve-month percentage changes



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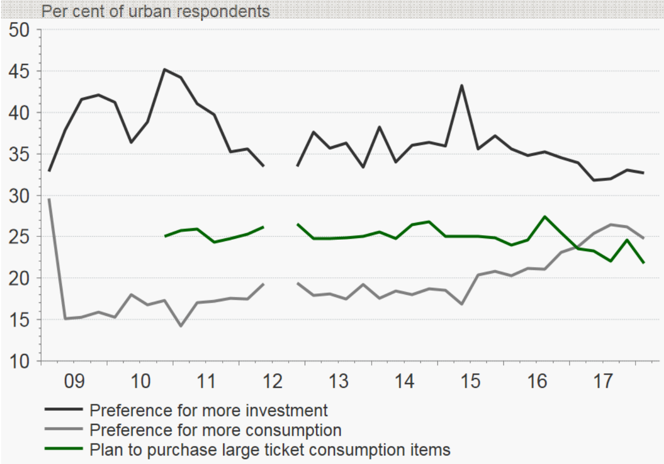
China urban consumer surveys

Per cent of urban respondents



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INDIA

40mn new jobs have been created in the last 5 years.

India's growth is not jobless growth.

The KLEMS database showed that the total number of Indians in work peaked in 2014 at 484mn before slipping back to 482.7mn in 2016, despite the economy growing by 7.2% and 7.6% in 2015 and 2016 respectively. These numbers seem disheartening when you consider that India's working age population (labor force) rose by about 20mn in that two-year period. Dig a little deeper, though, and the reality is less depressing. The main (if not the only) reason for the overall fall in total employment in 2014-2016 can be attributed to the agricultural sector as India shed 15mn farming jobs, while it added close to 14mn new non-farming jobs. In other words, millions of farmers quit agriculture but the economy is not creating enough non-farming jobs to turn total jobs growth positive. Nevertheless, this was not "jobless growth". The good news is that of those 14mn farmers who quit agriculture, 10mn found a better-paid job in the construction sector (infrastructure and housing). And despite being one of the least economically productive sectors, working as a builder boosts an ex-farmer's income by an average 70% (McKinsey Global Institute). The previous government five-year plan (2012-2017) set a target of creating 50mn new jobs in the non-farm sector (10mn jobs a year, much like China's targets), but this target was based on a projected average annual GDP growth of 8%. In the event, annual growth was slower, and India created (according to sources) 34mn new non-farming jobs in the 2012-2016 period (8.5mn per year). Some 6mn new jobs are expected to have been created in 2017 (a very difficult year as the economy slowed and was hit by demonetization and the introduction of the GST reform). In total, 40mn new jobs have been created in the full-five year period. Less than target, but not a dreadful performance either.

Outlook: The problems that India must overcome

(1) The economy must provide jobs for both youthful new entrants to the workforce and for farmers looking for more lucrative work. There has been a historical shift of farmers leaving the land. Having peaked at 258mn in 2004, agricultural jobs have fallen by 5.5mn every year since. Today, 200mn Indians still work in farming (versus 300mn of Indians who have non-farm jobs).

(2) The striking finding in the KLEMS data is where jobs are not concentrated: manufacturing. The small size of India's manufacturing sector (just 16% of GDP) is a problem and an opportunity at the same time. Other countries' experience shows that funneling rural folk into manufacturing jobs is the surest way to boost national productivity. But if farmers leaving the land do not find jobs in the manufacturing sector, then national productivity will remain stagnant. We hope that new reforms (land, banking, taxes, etc.) translate into higher credit and manufacturing activity, helping domestic productivity to take off in the coming years.

(3) Low productivity is also hampered by low education levels. The 2017 education report was dispiriting (many lacked basic skills). The good news is that 86% of young people are now enrolled in formal education.

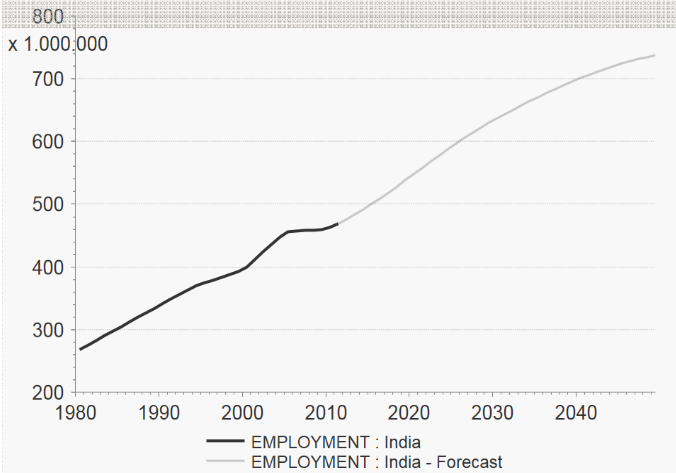
Financial markets outlook

Equities – SENSEX Index: POSITIVE (central point 36,000)

Bonds – Govies: POSITIVE (target yield 6.75%)

Bonds – Corporates: POSITIVE

INDIA - EMPLOYMENT



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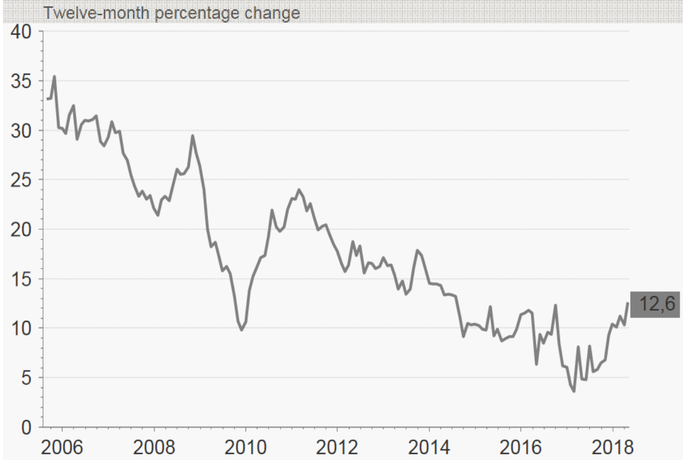
India domestic credit

Twelve-month percentage change



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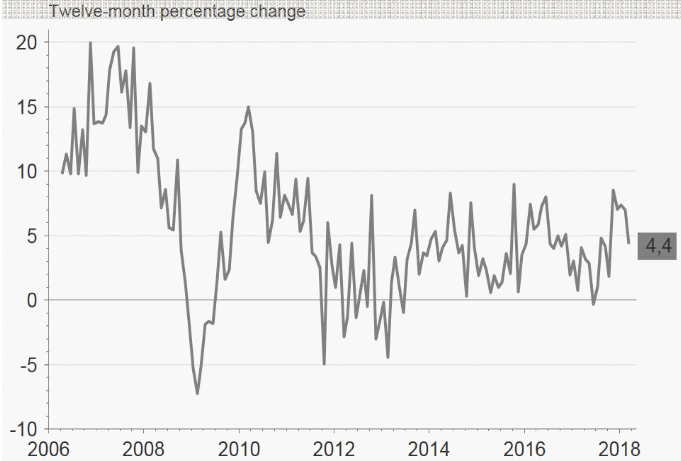
India industrial production

Twelve-month percentage change



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MEXICO
Politics & NAFTA still weigh

Politics & NAFTA

The National Electoral Institute held the second presidential debate last Sunday on the road to the 2018 elections in July. We do not expect major changes to the voting intentions shown by the latest surveys (AMLO 44%, Anaya 29%). As things stand, the consensus scenario is that Obrador will win the presidency, but without a clear majority in the chambers, which would limit his ability to implement excessive spending policies. In general terms, economic policy is likely to be similar to what we have been seeing in recent years.

Regarding NAFTA: The United States, Mexico, and Canada did not reach an agreement. The next important date is June 1, when the Trump administration will decide whether steel and aluminum tariffs will apply to North American partners. Everything seems to indicate that some kind of reform will be agreed in the treaty, but that the most important aspects of the commercial framework will be negotiated in 2019, once the electoral processes in both countries are over.

Economic outlook

1Q18 GDP growth rate resulted in a meagre 1.5% YoY. We still expect FY2018 GDP growth to stay around 2%-2.1%. Annual CPI moved down to 4.55% YoY in April, below analysts' forecasts, due to a lower contribution from electric energy and a fall in some agricultural prices. The latestt Citibanamex private sector survey gives an estimate of 3.90% for inflation in 2018. The medium and long-term outlook remains anchored around 3.50%.

Central Bank & Inflation

Banxico did not move its monetary policy rate at the May meeting, and kept rates stable at 7.5%. The decision was unanimous. Banxico's Governing Board pointed out that price risks in the near future include: FX volatility (mainly driven by international and local circumstances such as relative monetary policy with FED, NAFTA renegotiation and elections). The probability of rate hikes increased as the peso approached 20.00 per USD. Looking beyond, Banxico expects downward pressure on prices (official forecast are for the CPI to close 2018 around 4%-4.5%, approaching the official long-term goal of 3% +/-1% in 2019.

Market sentiment

Equities: Lack of acceleration in the growth rate, Nafta and elections are risk-off events that will continue to produce some volatility. Valuations are moderate (16.8x) and our earnings forecasts are realistic (+5.7% in EPS). This leads us to set our fundamental target in the 46,000-53,000 area, with a central target at the 48,400 point. ***Fixed Income:*** We still expect some pressure on both local and hard currency bonds. ***FX:*** As in other emerging markets, the recent depreciation is explained by the strength of the USD, and some further volatility is to be expected as we get close to the presidential elections. An unexpected NAFTA agreement could be positive for the peso but we believe that US treasury rate hikes will fundamentally determine local currency behavior.

Financial markets outlook

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

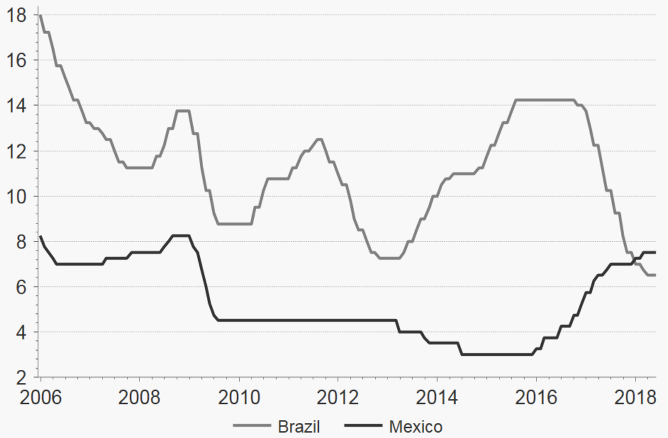
Bonds – Govies Local: NEUTRAL (target spread 480, yield 8.0%)

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

Fx – MXN/USD: NEUTRAL (Mid-term target 19)

Mexico vs Brazil policy rates

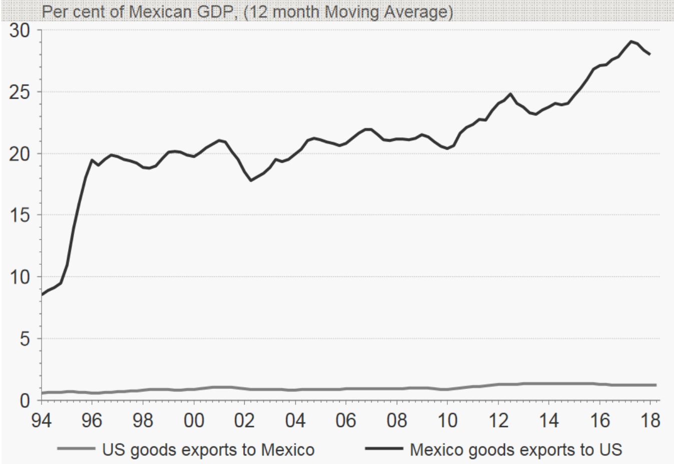
Per cent



Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

US trade relationship with Mexico

Per cent of Mexican GDP, (12 month Moving Average)



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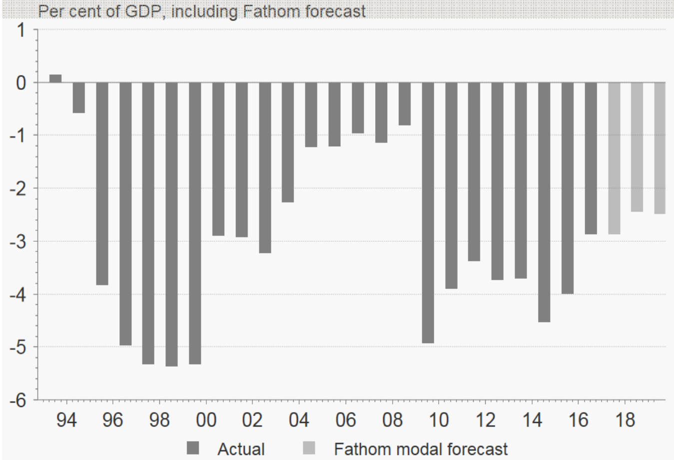
Mexico budget balance

Per cent of GDP, including Fathom forecast



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BRAZIL
Electoral uncertainty remains

Elections: No changes so far, fragmentation persists

Recent polls show little change in the fragmented scenario that has been one of the features of these elections. Jair Bolsonaro, the right-wing candidate is keeping up his ratings at around 20% of voters' intentions. Geraldo Alckmin, the centrist candidate most aligned with liberal-oriented fiscal reforms, is still lacking thrust at the polls, maintaining around 8%-10% of voters' intentions. Ciro Gomes and Marina Silva, representing the left and center-left, respectively, gained a little ground recently. Joaquim Barbosa, former Supreme Court judge, pulled out of the race, narrowing a little further the range of candidates considered to be "outsiders".

Overall, the situation hasn't changed in terms of the level of uncertainty surrounding these elections, which can be summarized as a first round with a large number of evenly matched candidates. We believe that this number should be reduced in the coming months, when the electorate is pressed to effectively decide their vote.

Monetary policy: Ending the cycle (part IV)

The Central Bank has surprised the market with its latest monetary policy decision. Despite signals that the decision would likely be another 25bps cut, the BCB maintained the policy rate at 6.50% per annum. In its statement, the board committee said the balance of risks, mainly from abroad, led to the decision. Recent market volatility and risk-off in emerging economies contributed to the more cautious stance. However, the Selic rate is at historical lows and in expansionary territory.

Macro & Fiscal: Weak data and further downward revision

The latest economic figures were once again weak. Despite the weaker data, we keep our constructive view on Brazil´s cyclical recovery. The IBC-Br index fell by 0.74% in March, below the median market expectation of -0.10%. Services and retail consumption contributed negatively. Inflation is surprising again, reflecting the weaker than expected growth. The IPCA index rose by 0.22% in April, standing at 2.68% YoY, below market expectations of +0.28%.

Tax revenues are surprisingly positive. Even when excluding one-offs, core government tax revenues rose by 4.5% in real terms YoY. FY2018 GDP growth expectations are around 2.3%-2.5%.

Market sentiment

Stocks: The economic recovery and lower interest rates should help boost companies' results, but much of the effect has already been priced in by the equity market. We keep our fw PE at 14.5, and our projected EPS at 5,978, resulting in a target price of 84,000). *Bonds:* Long term public debt dynamics will be dependent on reforms, and thus on elections. In the short term, bond yields could still suffer some volatility (as the USD index appreciates). Nevertheless, there is no strong fall in the dollar against emerging currencies, so there should be no further deterioration in Brazil's debt.

Financial markets

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

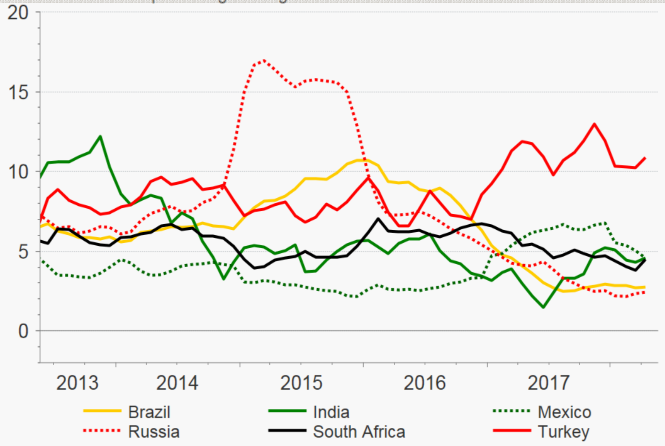
Bonds – Gov. Local: POSITIVE (target yield 9.5% - real yield 5.5%)

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

Fx – BRL/USD: POSITIVE (mid-term target 3.40)

Consumer price index

Twelve-month percentage changes



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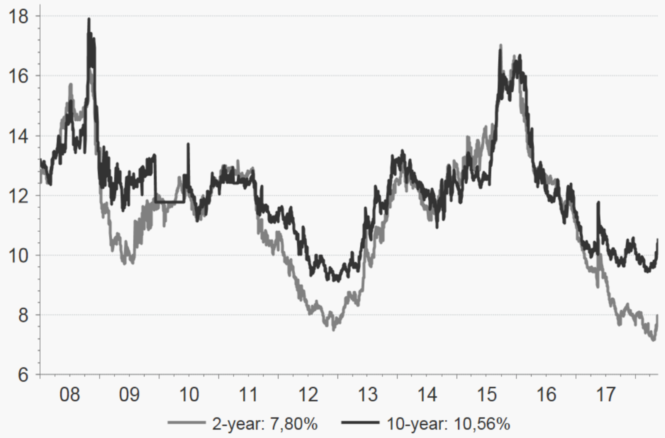
Brazil benchmark government bonds

Yield, per cent



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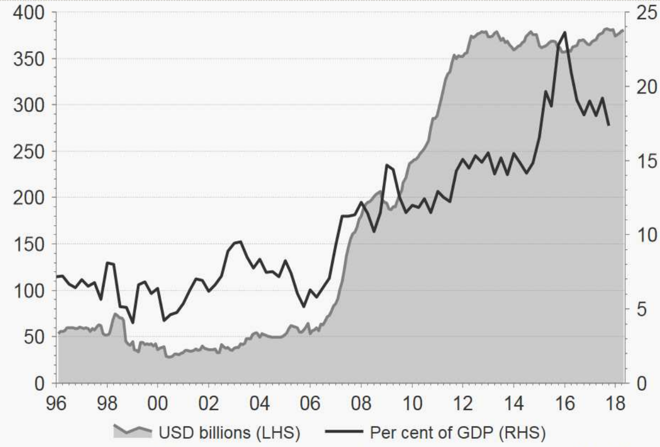
Brazil foreign reserves



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ARGENTINA

In April, the primary fiscal deficit fell 44.6%

Fiscal: For the tenth consecutive month, the deficit shrinks.

In April, the national public sector had a primary deficit of $ -10.3bn (from $-14.7bn in the same month last year). This is because public revenues expanded by over five percentage points more than spending (+20.9% y/y for income vs +14.1% for primary expenses). In relation to GDP (and on a quarterly basis), the 1Q18 deficit represented just 0.3% of GDP, far below the official government target of 0.6%. It has now beaten the fiscal target for five consecutive quarters.

Politics: 2019 Budget. Major adjustments ahead?

On Monday Mauricio Macri met with the parliamentary heads of the Senate (except the Kirchnerites) and asked them to collaborate on implementing major adjustments in 2019. 61 of the 72 senators attended: all those who have spoken out about the need to work together and demonstrate governability and predictability. In the meeting, Macri reiterated the need for gradualism but clarified that it is time to "accelerate" the reforms, and that the opportune moment will be the debate on the 2019 budget (which will take place in September). The meeting resulted in a signed document stating that "the Argentine political system is committed to the defense of financial stability, based on economic growth".

Dismantling the Lebac monster. Towards a more sustainable instrument

The Ministry of Finance put national Treasury bonds in pesos (BOTE) out to tender at a fixed rate, succeeding in increase the supply of dollars by US$3,000bn with the entry of foreign funds. The Ministry reopened issuance of BOTE at 20% for the bond that expires in 2023 and 19% for that expiring in 2026. One of the investment funds that bought the most was BlackRock and another fund was Templeton. The call for bids was a total surprise, since it was not marked on the calendar. The rate seems unattractive (with current annual inflation of more than 22%). So, it seems clear that either geopolitical interests were at play, or these funds think that they may end up being interesting if Argentina reaches a lower inflation for the duration of the bonds.

Outlook: The carry trade allows time to move forward

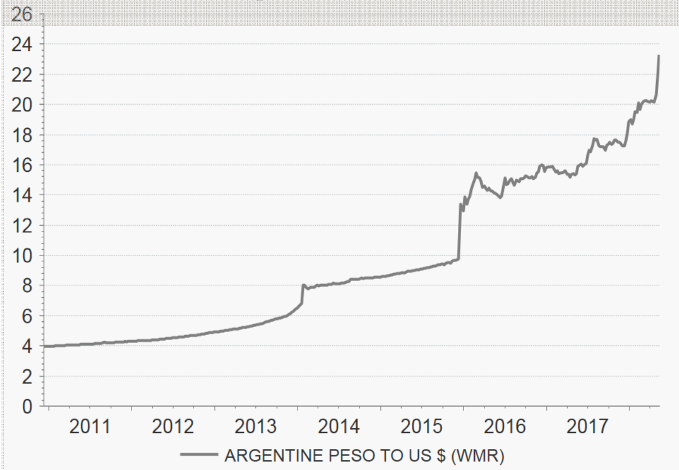
Treasury bonds in pesos are fixed rate illiquid bonds with long duration, which means that a big chunk of these bonds are bought by external funds that try to obtain carry. Although they are exposed to higher risk because they are long-term bonds, these investors tend to hold these positions for a long time, which ultimately contributes to stability. It seems the government has bought time to calm the turbulence. Now it is necessary to make the adjustments that the market demands. Undoubtedly, the recent news on the deficit was excellent, but the government imust take further steps.

Financial Market Targets

Bonds – 10YGov USD: POSITIVE. Target yield 6.20%. Target spread 300 (current 364)

Fx –USD-ARS: NEGATIVE (year-end target 25)

USDARS exchange rate



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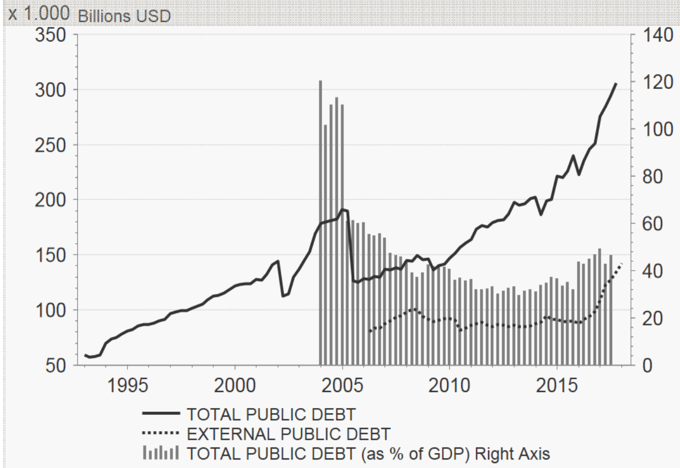
ARGENTINA - TOTAL & EXTERNAL DEBT



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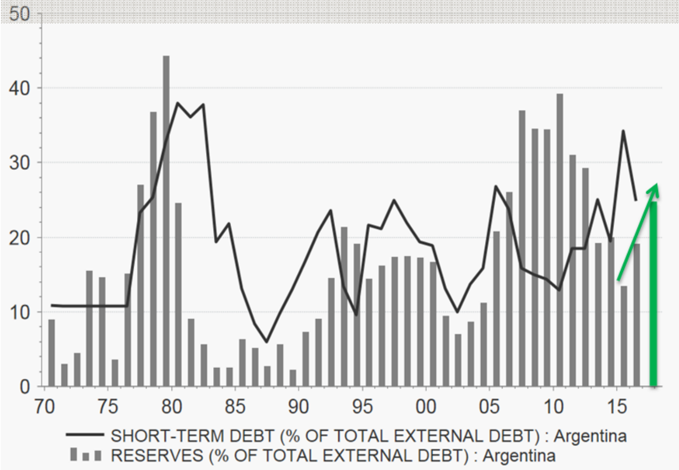
SHORT-TERM DEBT & RESERVES



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GLOBAL EQUITY INDICES
Fundamental assessment

Index	Sales per Share 2017	Net Margin 2017	Andbank's Sales growth 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	1.232	10,8%	5,6%	12,17%	158,3	18,8%	20,42	17,19	17,15	2.721	2.715	-0,2%	2.987
Europe - Stoxx Europe 600	298	8,1%	5,2%	8,19%	25,7	6,6%	16,21	15,20	16,00	390	411	5,3%	439
Euro Zone - Euro Stoxx	349	7,1%	5,2%	7,15%	26,2	6,4%	15,75	14,81	15,75	388	413	6,4%	454
Spain IBEX 35	7.461	9,2%	5,0%	9,13%	715	4,8%	14,28	13,63	15,00	9.750	10.729	10,0%	11.802
Mexico IPC GRAL	33.496	8,1%	7,2%	8,03%	2.881	5,7%	16,55	15,65	16,80	45.105	48.407	7,3%	51.553
Brazil BOVESPA	52.724	9,9%	7,2%	10,26%	5.798	11,6%	14,61	13,10	14,50	75.921	84.064	10,7%	88.267
Japan NIKKEI 225	20.076	5,8%	5,1%	5,92%	1.248	6,6%	19,38	18,18	18,50	22.690	23.094	1,8%	25.403
China SSE Comp.	2.642	8,7%	7,1%	8,77%	248	7,5%	13,58	12,64	14,00	3.135	3.474	10,8%	3.821
China Shenzhen Comp	902	8,5%	7,3%	8,67%	84	9,3%	23,53	21,53	23,00	1.806	1.930	6,8%	2.123
India SENSEX	14.218	10,8%	9,2%	11,06%	1.717	12,1%	22,96	20,48	21,00	35.165	36.063	2,6%	39.669
MSCI EM ASIA (MXMS)	425	9,4%	6,8%	9,59%	44	8,8%	14,67	13,49	14,40	587	627	6,8%	690

UPWARD REVISION DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL EQUITY INDICES: RISK-OFF PROBABILITY
Tactical assessment

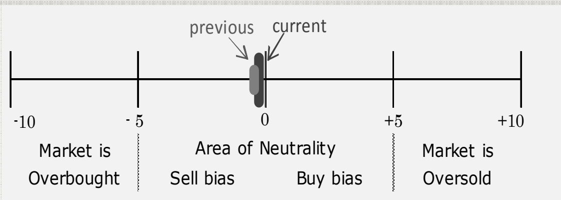
Andbank GEM Composite Indicator: We remain in an area of neutrality. No imminent risk of a sustained sell-off.

Our broad index has remained stable at -0.5 (in a range of -10/+10), settling in an area that suggests that the equity market is no longer overbought and, thus, the risk of a sustained and justified sell-off is now low.

Risk Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	3	3
Positive Bias	2	2
Neutral	9	9
Negative Bias	4	4
Sell signals	3	3
FINAL VALUATION	**-0,5**	**-0,5**

Risk Composite Indicator



TECHNICAL ANALYSIS
Trending scenario. Supports & resistances (1 month)

S&P: SIDEWAYS-BULLISH
Support at 2,594. Resistance at 2,800.

STOXX600: SIDEWAYS-BULLISH
Support at 384. Resistance at 404.

STOXX600: SIDEWAYS-BULLISH
Support at 3448. Resistance at 3714

IBEX: SIDEWAYS-BULLISH
Support at 9.417. Resistance at 10.400.

€/$: SIDEWAYS
Support at 1,166. Resistance at 1,21.

Oil (WTI): SIDEWAYS-BULLISH
Supports at 61.8. Resistance at 74,9. Target 85.49

Gold: SIDEWAYS
Supports at 1.277. Resistance at 1.365

US Treasury: BEARISH (price perspective)
Supports at 2.91%. Resistance at 3.22%.

DEVELOPED MARKETS
Fundamental assessment

US Treasury: Floor 2.1%. Fair value 3.2%. Ceiling 4%
Swap spread: The swap spread up-ticked to 3.1bps (from +2.2bps 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 remained stable during the month at 51bps (from 50bps). With the short end normalizing towards 2.25 % (today at 2.46%), to reach the 10Y average slope (of 175bps) the 10Y UST yield would have to move to 4%.

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".

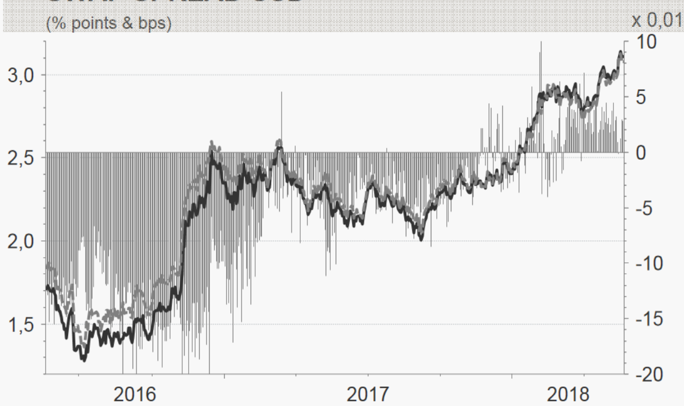
GER Bund: Floor 0.80%. Fair value 1.05%. Ceiling 2,4%
Swap spread: The swap spread upticked to 51bps (from 46bps last month). For the swap spread to normalize at 35bps, with the swap rate anchored in the 1.40% area (today at 1.0%), the Bund yield would have to move towards 1.05% (entry point).

Slope: The slope of the EUR curve was stable at 119bps (from 117bps last month). If the short end "normalizes" in the -0.50% area (today at -0.60%), 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".

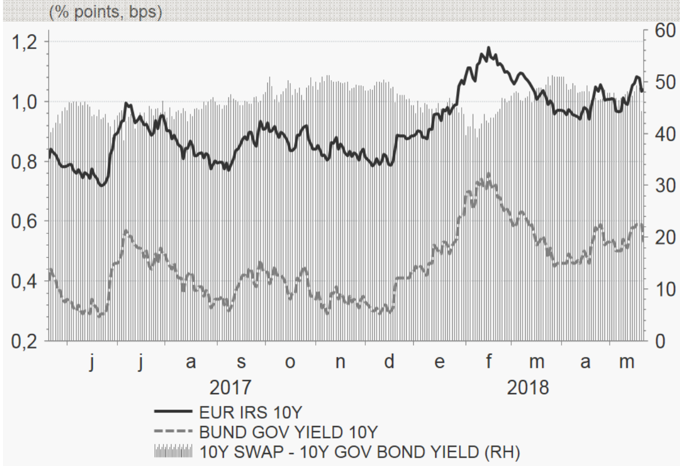
UK Gilt: Fair value 2.3%. Ceiling 3,6%
Swap spread: The swap spread upticked to 16bps (from 10bps last month). For the swap spread to normalize at 14bps, with the swap rate anchored in the 2.5% area (today at 1.68%), the 10Y UK Gilt should shift to 2.35%.
Slope: With 2Yr normalized at 2%, to reach the average slope at 1.62%, the 10Yr Gilt should move to 3.62%.
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 1.65% (from 1.75%)
Italian bond BTPI: Target yield at 2.50%
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	7,10%	3,40%	3,70%	-1,00%	6,10%
	India	7,73%	4,34%	3,40%	-1,00%	6,73%
	Philippines	6,15%	4,30%	1,85%	-0,50%	5,65%
	China	3,61%	2,10%	1,51%	-0,50%	3,11%
	Malaysia	4,23%	1,27%	2,96%	-0,75%	3,48%
	Thailand	2,63%	0,84%	1,79%	-0,50%	2,13%
	Singapore	2,60%	0,25%	2,35%	-0,75%	1,85%
	South Korea	2,65%	1,35%	1,31%	-0,50%	2,15%
	Taiwan	1,01%	1,64%	-0,63%	1,00%	2,01%
EME	Turkey	13,63%	10,24%	3,40%	-1,00%	12,63%
	Russian Fed	7,30%	2,40%	4,90%	-1,00%	6,30%
LATAM	Brazil	10,86%	1,56%	9,30%	-1,00%	9,86%
	Mexico	7,62%	5,07%	2,55%	-0,75%	6,87%
	Colombia	6,64%	3,15%	3,49%	-1,00%	5,64%
	Peru	5,84%	0,34%	5,50%	-1,00%	4,84%

ENERGY – OIL: US Crude production over the 10M bpd mark

Fundamental price for WTI at US$45pb. Sell above US$60. Buy below US$35

Short-term drivers

***(Price Positive)* – Economic hit from an oil price shock at $100 may be far lower for the US than in 2011.** Analysis findings suggest that oil price hitting $100/barrel will reduce US GDP by about just 40bp in 2020. Less of a hit than the oil shocks seen in the past. This greater resilience stems from a reduction in the energy required to produce a unit of economic output, and the fact that the US imports less oil. Thanks to this greater US resilience, the rest of the world should also suffer less, with a projected oil price of $100 hitting global output by ~20bp in 2020.This undoubtedly encourages both conventional and non-conventional producers to continue raising the price of crude oil.

***(Price Positive)* – White House says market can withstand significant reduction from Iran.** The Trump administration released a memo arguing that global oil supplies are plentiful enough to withstand a significant reduction in Iranian exports. The statement paves the way for the reintroduction of efforts to curb Iran's exports, with sanctions due to take effect in November.

***(Price Positive)* – Pemex preparing to test crude for import.** Mexico's state-run oil company Pemex expects to begin testing light crudes as soon as July for possible import as it looks to boost margins at its domestic refineries. Pemex has hardly ever imported crude (preferring to process domestic supplies), but may be looking for oil similar to its own Isthmus grade, the production of which is declining in Mexico.

***(Price Neutral)* – Iran asks China to maintain imports despite US sanctions.** A senior official at Iran's state-owned National Iranian Oil Company (NIOC) held meetings with top executives at Sinopec and state oil trader Zhuhai Zhenrong to ask them to maintain imports after US sanctions kick in. The executives made no firm commitments but said they would take their cues from Beijing and are still assessing the possible impact of sanctions. Under the previous sanctions regime from 2012-15, Chinese companies took up nearly half of Iran's oil exports.

***(Price Negative)* – The IEA says "higher prices could constrain demand".** In its latest monthly oil market report, the International Energy Agency (IEA) cut its 2018 demand-growth forecast by 40K bpd, saying that following a 75% rise in crude prices since June 2017 "it would be extraordinary if such a large jump did not affect demand growth." Asia is posed to spend a record ~$1T this year on crude, driven by both higher consumption but also spiking prices. The region, which accounts for less than 10% of global oil output, consumes more than 35% of the 100M barrels the world uses each day, and is particularly vulnerable to rising oil prices, with poorer Asian countries (like India and Vietnam) having insufficient national wealth to absorb sudden increases in fuel costs.

***(Price Negative)* – Saudi Arabia raises prospect of increasing output which could threaten the OPEC+ deal**. Saudi Arabia said it would "mitigate the effects of any supply shortages", a sentiment later shared by Kuwait. Much of the equation depends on Russia, which must weigh its alliance with Iran against its oil partnership with Saudi Arabia. Russia could be tempted to boost production of Urals crude to offset the decline of Iranian shipments to Europe.

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. "There are remaining process engineering problems to be fixed, but the technology can be 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, Riyadh'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.

(-) The re-entry of Iran was a game changer, equivalent to a structural change in the global energy market. The influence of this as a long-term driver will depend on the number of countries that will continue to adhere to the 2015 agreement with Iran. For now, experts point out that the US withdrawal from the agreement, and the sanctions regime, may affect some 500bpd of Iranian production. No doubt an aspect that puts some upward pressure on the price, but it remains to be seen if that justifies a sustained upward trend.

(-) Are OPEC producers able to structurally fix prices? 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 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 easily be offset (in theory) by a quick increase in shale oil production. While it is true the agreement between the Saudis and Russia to strangle the global energy market has worked well, 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 fix prices without bearing costs.

(-) 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$1,120 (from US$1,169,95 last month). In real terms, gold continues to trade well above its 20-year average of US$830. Given the global deflator (now at 1.1498), 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 up ticked to 78.16x (from 77.81x last month) and still remains well above its 20-year average of 62.04x, 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$1,022 oz.

Gold to Oil: This ratio declined sharply in the month, to 17.83x (from 19.61x last month), still well above its 20-year average of 15.04x. Considering our fundamental long-term target for oil of US$45pb (our central target) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$676 for this ratio to remain near its LT average.

Gold to the DJI: This ratio (inverted) ticked up in the month to 19.41x (from 18.27x last month), now near its LT average of 19.91x. Given our central point (target price) for the DJI of 25,000, the price of gold must approach US$1,255 for this ratio to remain near its LT average.

Speculative positioning: CFTC-CEI 100oz Active Future non-commercial contracts: Longs are fixed now at 2018k (from 237.28k last month). Shorts rose to 109k (from 74.22k) => The net position therefore decreased to +92k during the month (from +163.06k), suggesting that speculators' appetite for gold has declined markedly in the last three months and that gold is still relatively expensive.

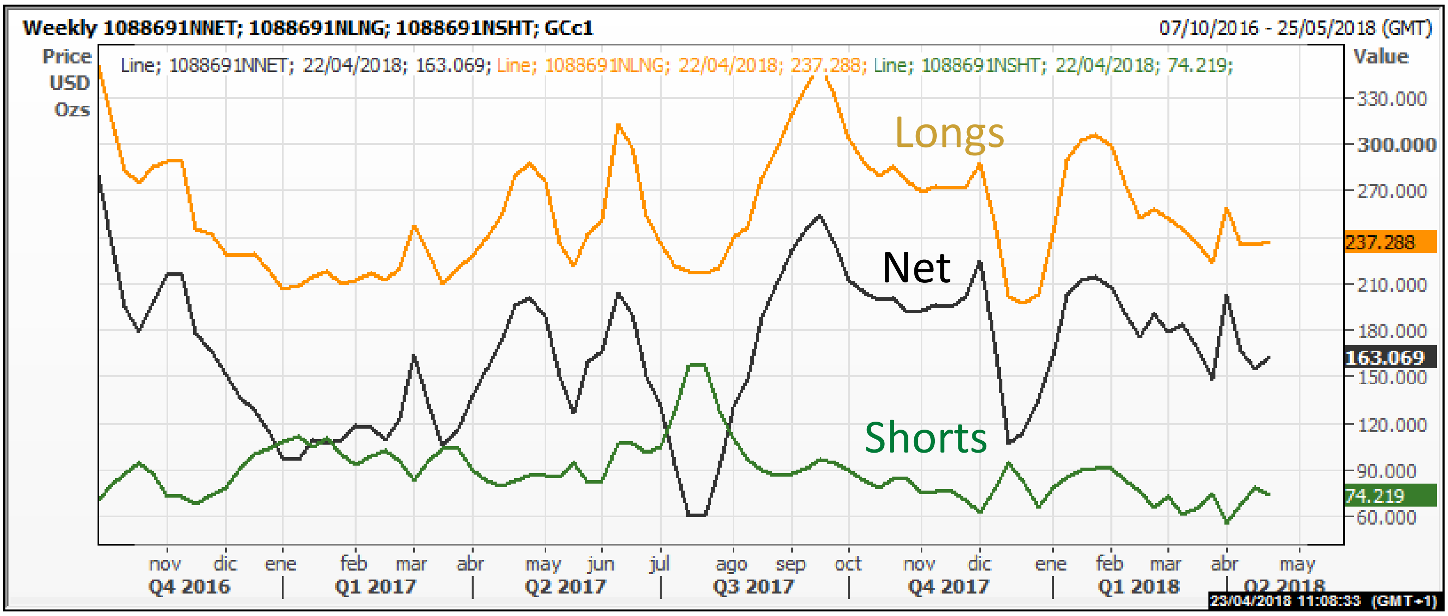
Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio fell to 0.472x (from 0.501x last month) but is still well below its LT average of 0.592x. Given our target price (central point) for the S&P of $2,715, the price of gold must approach US$1,607 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

Flows: The steepest part of the recent USD rally coincides perfectly with an across-the-board cutting of short positions against the greenback, with global market positions in USD having shifted from US$-28bn worth of short contracts three months ago to a US$-11bn position currently. Therefore, the magnitude of the dollar rebound (+5.8% rally in the USD index) has been highly consistent with that of the notional amount unwound (17bn reduction in net notional shorts). Having said that, short positions in USD still persist (US$-11.02bn), although this is no longer statistically significant (-1.07 sigmas below the 3-year average). Now the most crowded trade position globally is the “Long EUR” trade (despite recent cut in EUR longs), suggesting that the EUR remains overbought. A full unwinding of dollar shorts would be consistent with a dollar index 3.75% higher than current levels. Nevertheless, we think that such a complete elimination of USD shorts is unlikely in the short term, since it would require a complete market reassessment of the global market environment. **Outlook:** Our **technical analysis** within the Investment Committee indicated three very important things: (1) The EUR/USD faces very strong resistance at 1.26. (2) This resistance level should work well (as it did in the past). We therefore believe that the EUR will not cross this resistance. (3) After that, the EUR/USD will move back into the mid-term range; first towards 1.15 (this year, according to this analysis) and then towards lower levels. 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 1109 (above 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) Political shocks in Europe now seem allayed, meaning that safehaven flows into Japan are less likely now. (2) Real yields are lower in JGBs, and with the 10Y JGB controlled at 0% there is little prospect that Japanese real yields will rise; (3) 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); (4) Meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (5) 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 18.8; **EUR-MXN:** Target 21.6

USD-BRL: Target 3.30; **EUR-BRL:** Target 3.8

USD-ARS: Target 22

RUB: NEUTRAL

AUD: POSITIVE

CAD: NEUTRAL

NEW! CNY: Target 6.00. POSITIVE

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	-11,02	2,29	6,9	-28,2	-11,6	**-1,07**
USD vs G10	-9,95	1,77	9,0	-25,4	-8,8	**-1,13**
EM	1,07	-0,52	3,9	1,1	2,8	**0,28**
EUR	17,03	-0,83	23,4	6,2	15,5	**1,38**
JPY	0,42	1,04	0,4	-15,0	-8,8	**0,50**
GBP	0,47	-0,29	4,3	-4,3	0,0	**1,03**
CHF	-4,54	-0,47	0,2	-4,5	-1,6	**-2,61**
BRL	-0,70	0,02	0,7	-0,7	0,1	**-1,05**
MXN	1,34	-0,61	3,3	0,8	2,2	**0,76**
RUB	0,44	0,07	1,2	-0,3	0,5	**0,08**
AUD	-1,73	-0,48	6,1	-1,7	2,0	**-0,97**
CAD	-1,84	0,00	6,1	-7,3	1,1	**-0,44**

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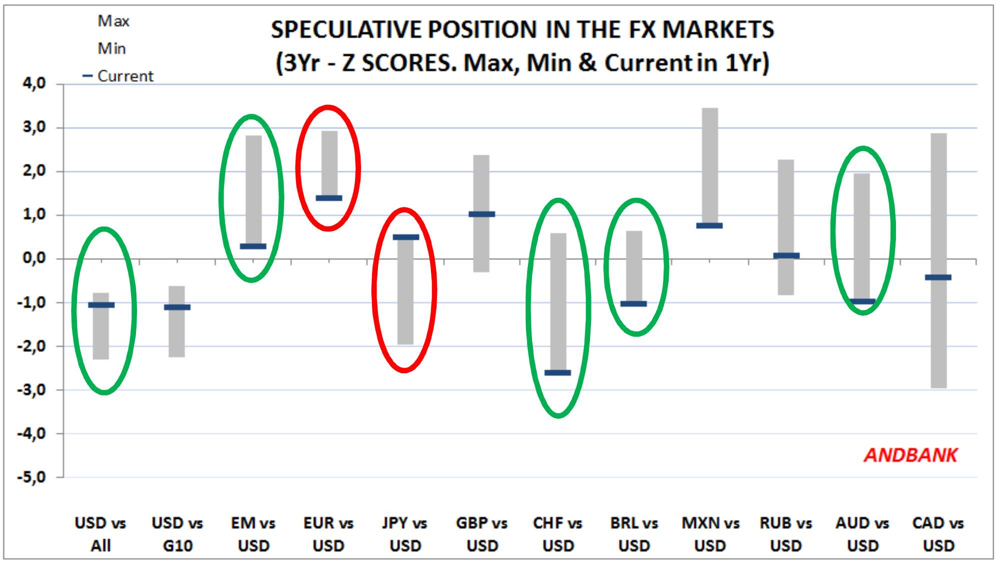

In green circles, the currencies we technically favor

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance 1 month	Performance YTD	Current Price 28/05/2018	Central Point (Fundam range)	Exp. Perf. To Central Point
Equity	USA - S&P 500	2,8%	1,8%	2.721	2715	-0,2%
	Europe - Stoxx Europe 600	1,2%	0,5%	390	411	5,3%
	Euro Zone - Euro Stoxx	-0,6%	1,3%	388	413	6,4%
	SPAIN - IBEX 35	-2,3%	-2,2%	9.750	10729	10,0%
	MEXICO - MXSE IPC	-6,7%	-8,6%	45.105	48407	7,3%
	BRAZIL - BOVESPA	-11,8%	3,3%	75.921	84064	10,7%
	JAPAN - NIKKEI 225	2,7%	-1,2%	22.690	23094	1,8%
	CHINA - SHANGHAI COMPOSITE	1,7%	-5,2%	3.135	3474	10,8%
	CHINA - SHENZEN COMPOSITE	1,7%	-4,9%	1.806	1930	6,8%
	INDIA - SENSEX	0,0%	3,3%	35.165	36063	2,6%
	MSCI EM ASIA (in USD)	-0,6%	0,0%	587	627	6,8%
Fixed Income Core countries	US Treasury 10 year Govie	0,4%	-3,2%	2,93	3,20	-0,4%
	UK 10 year Gilt	0,9%	-0,7%	1,32	2,00	-4,6%
	German 10 year BUND	1,8%	0,8%	0,34	0,90	-4,3%
	Japanese 10 year Govie	0,1%	0,1%	0,03	0,10	-0,5%
Fixed Income Peripheral	Spain - 10yr Gov bond	-1,8%	0,9%	1,50	1,65	-0,3%
	Italy - 10yr Gov bond	-6,9%	-4,5%	2,66	2,50	2,9%
	Portugal - 10yr Gov bond	-2,8%	-0,3%	2,02	2,20	-0,2%
	Ireland - 10yr Gov bond	0,1%	-2,1%	0,95	1,10	-0,7%
	Greece - 10yr Gov bond	-4,9%	-1,0%	4,37	4,50	1,6%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,2%	-0,5%	65,22	85	-2,1%
	Credit EUR HY-Itraxx Xover	-0,6%	-1,4%	298,42	330	-1,0%
	Credit USD IG - CDX IG	0,2%	0,7%	63,50	**50**	1,6%
	Credit USD HY - CDX HY	0,4%	1,0%	343,06	**437**	0,1%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	-10,3%	-13,4%	13,63	**13,50**	14,7%
	Russia - 10yr Gov bond	0,1%	5,3%	7,30	6,70	12,1%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	-1,6%	-4,2%	7,10	**6,50**	11,9%
	India - 10yr Gov bond	0,8%	-0,3%	7,73	6,75	15,6%
	Philippines - 10yr Gov bond	1,2%	-6,1%	6,15	5,75	9,3%
	China - 10yr Gov bond	0,3%	3,4%	3,61	3,25	6,4%
	Malaysia - 10yr Gov bond	-0,5%	-0,9%	4,23	4,00	6,1%
	Thailand - 10yr Gov bond	-1,7%	-1,9%	2,63	1,85	8,9%
	Singapore - 10yr Gov bond	0,1%	-4,1%	2,60	1,57	10,8%
	South Korea - 10yr Gov bond	-0,1%	-1,2%	2,65	2,00	7,9%
	Taiwan - 10yr Gov bond	0,1%	-0,1%	1,01	1,50	-3,0%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-0,7%	3,8%	7,62	8,00	4,6%
	Mexico - 10yr Govie (USD)	0,2%	-3,7%	4,30	4,60	1,9%
	Brazil - 10yr Govie (Loc)	-9,6%	-1,4%	10,94	**9,50**	22,4%
	Brazil - 10yr Govie (USD)	-1,9%	-3,2%	5,39	5,30	6,1%
	Argentina - 10yr Govie (USD)	-3,1%	-10,8%	7,12	6,20	14,4%
Commodities	Oil (WTI)	-1,0%	12,3%	67,9	45,00	-33,7%
	GOLD	-1,2%	-0,3%	1.298,7	1.100	-15,3%
Fx	EURUSD (price of 1 EUR)	-3,7%	-3,1%	1,163	1,15	-1,1%
	GBPUSD (price of 1 GBP)	-3,4%	-1,5%	1,33	1,35	1,5%
	EURGBP (price of 1 EUR)	-0,4%	-1,7%	0,87	0,85	-2,5%
	USDCHF (price of 1 USD)	0,3%	1,9%	0,99	0,99	-0,5%
	EURCHF (price of 1 EUR)	-3,5%	-1,2%	1,15	1,14	-1,6%
	USDJPY (price of 1 USD)	0,0%	-3,0%	109,33	111,20	1,7%
	EURJPY (price of 1 EUR)	-3,7%	-5,9%	127,14	127,88	0,6%
	USDMXN (price of 1 USD)	4,7%	-0,3%	19,59	**19,00**	-3,0%
	EURMXN (price of 1 EUR)	0,7%	-3,4%	22,77	21,85	-4,0%
	USDBRL (price of 1 USD)	5,8%	12,0%	3,71	**3,40**	-8,3%
	EURBRL (price of 1 EUR)	1,8%	8,5%	4,31	3,91	-9,3%
	USDARS (price of 1 USD)	20,4%	32,9%	24,71	**25,00**	1,2%
	CNY (price of 1 USD)	1,0%	-1,7%	6,40	6,00	-6,2%

** 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

Asset Class	Conservative Strategic (%)	Conservative Tactical (%)	Moderate Strategic (%)	Moderate Tactical (%)	Balanced Strategic (%)	Balanced Tactical (%)	Growth Strategic (%)	Growth Tactical (%)
Money Market	**15,0**	**22,3**	**10,0**	**16,1**	**5,0**	**10,3**	**5,0**	**4,5**
Fixed Income Short-Term	**25,0**	**35,2**	**15,0**	**22,8**	**5,0**	**9,7**	**0,0**	**2,3**
Fixed Income (L.T) OECD	**30,0**	**18,0**	**20,0**	**12,0**	**15,0**	**9,0**	**5,0**	**3,0**
US Gov & Municipals & Agencies		12,6		8,4		6,3		2,1
EU Gov & Municipals & Agencies		1,8		1,2		0,9		0,3
European Peripheral Risk		3,6		2,4		1,8		0,6
Credit (OECD)	**20,0**	**14,0**	**20,0**	**14,0**	**15,0**	**10,5**	**5,0**	**3,5**
Investment Grade USD		7,7		7,7		5,8		1,9
High Yield Grade USD		2,8		2,8		2,1		0,7
Investment Grade EUR		2,1		2,1		1,6		0,5
High Yield Grade EUR		1,4		1,4		1,1		0,4
Fixed Income Emerging Markets	**5,0**	**5,5**	**7,5**	**8,3**	**10,0**	**11,0**	**15,0**	**16,5**
Latam Sovereign		1,4		2,1		2,8		4,1
Latam Credit		1,1		1,7		2,2		3,3
Asia Sovereign		1,9		2,9		3,9		5,8
Asia Credit		1,1		1,7		2,2		3,3
Equity OECD	**5,0**	**5,0**	**20,0**	**20,0**	**32,5**	**32,5**	**50,0**	**50,0**
US Equity		1,5		6,0		9,8		15,0
European Equity		2,5		10,0		16,3		25,0
Japan Equity		1,0		4,0		6,5		10,0
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,0**	**10,0**	**10,0**	**10,0**	**10,0**
Asian Equity		0,0		3,0		6,0		6,0
Latam Equity		0,0		2,0		4,0		4,0
Commodities	**0,0**	**0,0**	**2,5**	**1,9**	**5,0**	**3,8**	**5,0**	**3,8**
Energy		0,0		0,4		0,8		0,8
Minerals & Metals		0,0		0,4		0,8		0,8
Precious		0,0		0,8		1,5		1,5
Agriculture		0,0		0,4		0,8		0,8
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**3,3**	**5,0**	**6,5**
REITs		0,0		0,0		0,8		1,6
Alt.Energy (wind, solar, etc)		0,0		0,0		0,5		1,0
Market Neutral		0,0		0,0		1,5		2,9
Volatility		0,0		0,0		0,5		1,0
Currency Exposure (European investor perspective)								
EUR		92,9		85,7		80,1		73,9
USD		7,1		14,3		19,9		26,1

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.

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