GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review

October 2018

Corporate Review

October 2018

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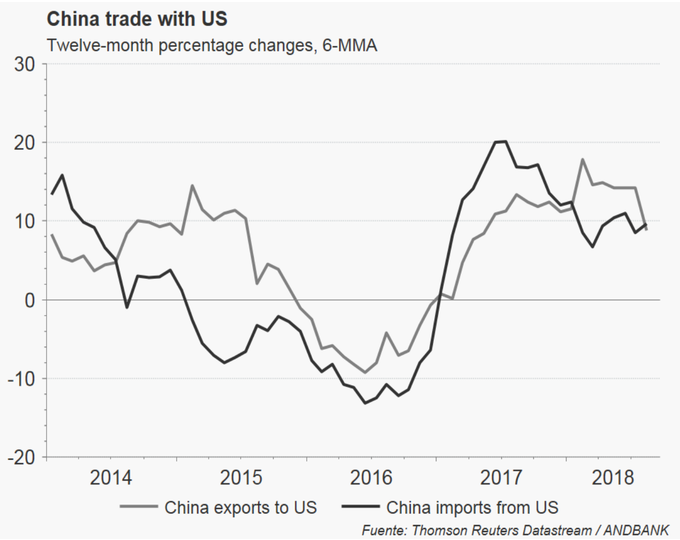
EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

2Q earnings growth was strong and broad. We expect year over year earnings growth to peak in 3Q, as 4Q comparisons look very tough. Ahead of persisting tariff tensions and mid-term elections we expect the markets to remain volatile. Financial conditions remain tighter than most investors appreciate in the US and, until we get relief on that front from more dovish action from the Fed, or a weaker US dollar, we expect global risk markets to remain challenging. We consider the S&P is in expensive territory. We prefer Europe, Ibex, Brazil, and India.

FIXED INCOME

The rise in US bond yields is not being echoed overseas, with core government yields abroad diverging from the UST and contributing to a strengthening of the US dollar (except against the EUR). We keep unchanged our fair value level for the 10Y UST yield at 3.2%, and 0.8% for Bund. In general, we remain cautious on Peripheral debt, which we consider expensive, offering negative potential returns (except for the Italian bond, although for this bond the risk-return ratio remains unattractive). We continue projecting positive returns for EM bonds in hard currency.

CORPORATE CREDIT

The volatility of investment grade spreads in the USD corporate bond market has remained low. The more upbeat corporate news in positive earnings seasons and the still very solid US growth data have kept spreads stable. Things have much been tougher in the EUR denominated credit universe, which has been more affected by protectionism and by a very difficult road to an Italian budget. We keep our targets stable for the EUR IG and HY indices at 85 and 330. We cut our target for the CDX HY in USD to 370.

CURRENCIES

Our preferred currencies are AUD (-2.18 sigmas in 3yr Z score vs the USD), BRL (-1.80 sigmas), and GBP (-1.15 sigmas). Neutral-positive in CAD and EM currencies in general. Dollar net longs extended significantly, with global investors' positioning in USD now just shy of recent peaks, which were the highest since January 2017. The greenback seems overbought against all other currencies, except the EUR.

COMMODITIES

Saudi Arabia and Russia ruled out an increase in crude output at the OPEC meetings in Algiers. Al-Falih said that although Saudi Arabia has spare capacity, it will not increase production given that OPEC projects a big rise in non-OPEC (especially US) production that could exceed global demand growth.

USA
The economy continues to do well courtesy of the easy US fiscal policy

Economic activity pulse

The US economy continues to do well, though we expect the turbo-boost from tax cuts to wane, resulting in a more moderate pace of growth. The ISM manufacturing index jumped to 61.3 in August (the highest level since May 2004). US consumer sentiment, measured by the University of Michigan, has risen to the highest levels since the global financial crisis across all income groups. Retail sales rose for the seventh consecutive month in August and remain at 6.6%, yoy, and 4.7% in real terms. This said, motor vehicle and housing sales continue to show some signs of exhaustion, partly because of rising mortgage and consumer loan rates. In the external sector, the Sub-index for export orders fell in August, not surprisingly given the strength of the dollar. Against this backdrop, the US president has publicly criticized the monetary policy of the US Central Bank, though there is little to stop the Fed raising short term rates by 25bp in September, if only to demonstrate its independence, and, in the light of the favorable economic environment, allowing the Fed to keep to its forward guidance. We continue to expect two more increases in 2018 (September and December).

Corporate results

2Q earnings growth was strong and broad; we expect year over year earnings growth to peak in 3Q, as 4Q comparisons look very tough. Ahead of persisting tariff tensions and mid-term elections we expect the markets to remain volatile. In addition, financial conditions remain tighter than most investors appreciate and until we get relief on that front from more dovish action from the Fed, or a weaker US Dollar, we expect global risk markets to remain challenging. Although valuations have improved, even as stock prices have moved back to their early year highs (reflecting the strong growth in earnings seen in 2018 and expected to continue into 2019), we consider that valuations remain inflated by historical standards. Excessive valuations are not just a function of a few expensive stocks. While tax cuts have certainly helped to fuel the ongoing improvement in earnings, strong economic growth has also played an important role. Sales growth for S&P 500 companies is up over 10% over the past year and earnings have risen more than 26%. This earnings growth has been accompanied by record profit margins, which could come under some pressure as wages and employment costs rise. In addition stocks have historically struggled heading into mid-term elections.

Bond market

The last reading in the core CPI fell to 2.2% yoy (from 2.4%) making the path forward for the Fed much trickier. The rise in US bond yields is not being echoed overseas, with core government yields abroad diverging from the UST and contributing to a strengthening of the US dollar, which in turn helps to keep inflation expectations well anchored. We are keeping a target yield of 3.2% as a fundamental fair value for the UST 10Y bond.

Financial markets outlook

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

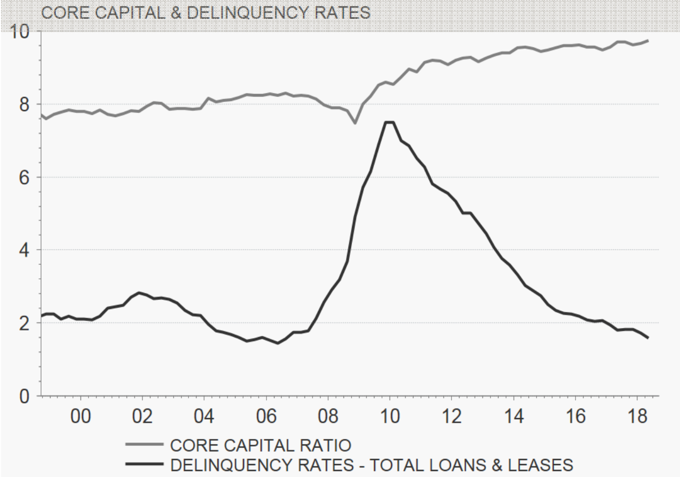
Bonds – Govies: NEUT-NEGATIVE (10Y UST target yield 3.2%)

New! Credit – CDX IG : NEUTRAL (Target Spread 60)

New! Credit – CDX HY: NEGATIVE (Target Spread 370)

Forex – CDX index: NEUTRAL

US BANKING SECTOR
CORE CAPITAL & DELINQUENCY RATES



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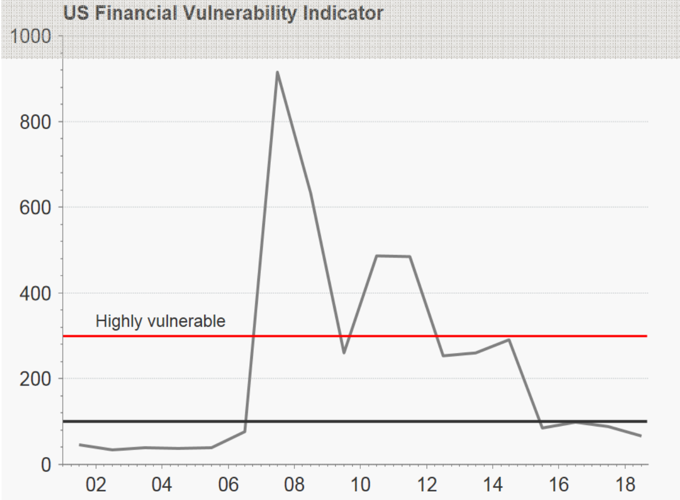
US Financial Vulnerability Indicator



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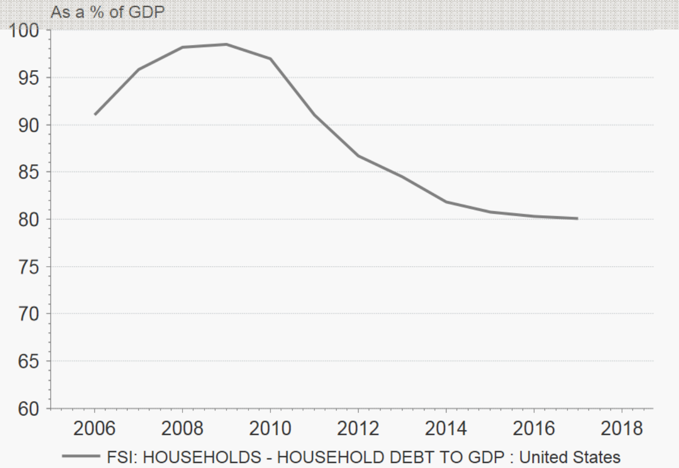
US - HOUSEHOLD DEBT TO GDP
As a % of GDP



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EUROPE

Italy challenges Brussels. Brexit closer

Activity

The ECB has just revised its macro projections lowering GDP estimates for 2018-2019. Nevertheless, Draghi´s message on growth was less dovish than expected as, he talked of broad-based recovery and strong labor momentum. Survey trends remain uneven. The IFO and services PMI indices are up, but consumer confidence is down, while readings from the manufacturing side are just stable. ECB inflation estimates have remained unchanged (1.7% yoy) with a positive official view reinforced: "significantly higher core CPI is expected"; "convergence of inflation will continue after a winding-down of QE". There seems to be room for upside surprises on the inflation front, driven by wages.

ECB tapering

September's meeting brought the expected reduction in monthly purchases, from €30bn to €15bn a month from now to December, with QE probably coming to an end in 2018. No news on the timing of the first rate hike (depo and refi rate).We expect this to take place not before September/October 2019, before Draghi ends his mandate. Meanwhile, the BoE hiked rates in August (as largely expected), and will keep them "on hold" till 2019.

EU rejects Chequers Plan. Italy challenges Brussels.

The Chequers plan (agreed by Theresa May's Cabinet) required the EU to agree to frictionless trade and a permanently open border in Ireland. May presented the EU with a choice between "the Chequers Plan or No deal". In this final phase of the Brexit negotiations, if we assume that the EU sticks to its refusal to allow cherry-picking, May will soon face a binary choice of "No deal or No Brexit". This will be the true choice to be presented to Parliament for its final vote in November. With the Labour party fully committed to opposing any Brexit plan that May presents, just a handful of rebel Tories would be enough to reject the "No Deal" option, but the result would be a legislative stalemate and a constitutional crisis (a government that claims an explicit mandate from "the people" pitted against a Parliament that makes "the will of the people" impossible to implement. The only way to break this deadlock will be to go back to the people, either by calling a general election (Labour's main objective), or by holding a new referendum (probably May's best scenario). Jeremy Corbyn came close to promising a referendum if he could not force an early election. With Labour and other opposition parties all pressing for a new referendum, it would take only a few Tories to create a parliamentary majority demanding a "People's vote" on the final decision.

Italy's populist coalition agreed on a sharp increase in public spending and fix deficit at 2.4% after a tense stand-off with Tria and Brussles.

Financial markets outlook

Equities – Stoxx Europe: POSITIVE. Central point 398. Exit 426

Equities - Euro Stoxx: POSITIVE. Central point 393. Exit 433

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

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

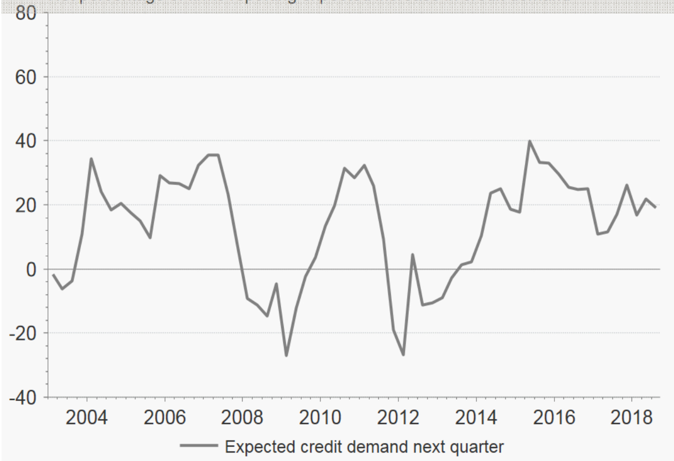
Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 85)

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

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

Euro area bank lending survey

Net percentage of firms reporting expected increase in credit demand



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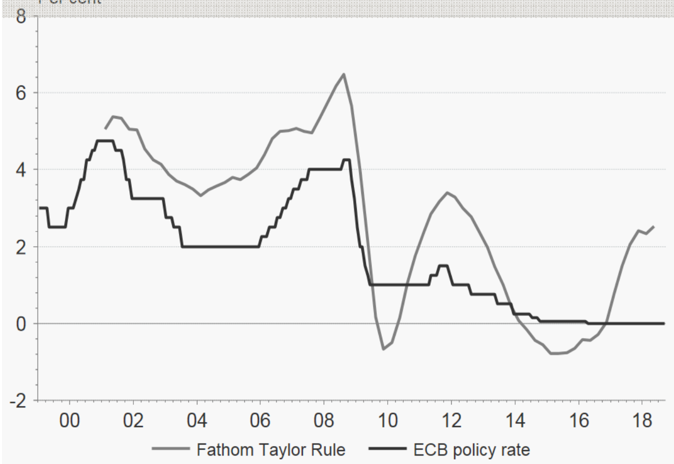
Euro area implied vs actual policy rate

Per cent



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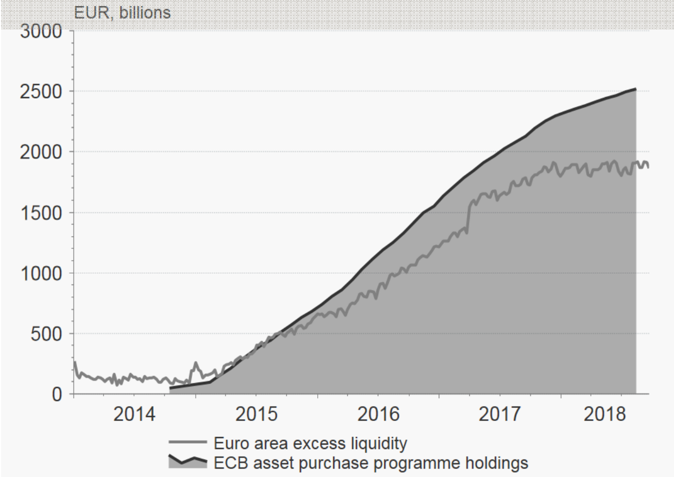
ECB excess liquidity

EUR, billions



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SPAIN

Controversial start to budget negotiations

Expansive budget funded with higher taxes

For the first time in years, budget negotiations begin with a slowdown. Minister Nadia Calviño was optimistic, as expected, and has kept the prediction of GDP growth at 2.7% for this year, although she has acknowledged that the favorable tailwinds (very favorable monetary conditions on the part of the ECB, low interest rates, favorable oil prices, etc.) are running out and that the period of strong growth has corrected very few of the structural imbalances in the Spanish economy. In this context, the Government of Spain seeks to increase public spending by 1.5% -1.8% of GDP, to replace growth from weaker than expected external demand. Paradoxically, Calviño also said that "budgetary discipline and social policies are not incompatible, but they are inseparable if we want to guarantee sustainable growth and this will be the key consideration that frames the government's decisions". Therefore, it seems quite clear that this increase in spending has to be financed through more taxes.

The spending limit must be, in principle, approved by the Senate, where the conservative PP party has a majority, and together with the liberal C's are likely to force Pedro Sánchez to modify his policies of higher spending and higher taxes. However, a parliamentary ruse, by which an ordinary law (such as the budget stability law) can be modified by another ordinary law will allow Pedro Sánchez's government to move forward with his expansive budget, avoiding the veto of the PP conservatives in the Senate. However, the government will still need the votes of ERC and PDeCAT (the Catalan independence parties). Negotiations seem difficult, so we do not expect, at least until November, any budget to pass through Congress.

Weakness in the external sector is deeper than anticipated

The economic upturn in Spain was expected to last until 2019. However, a significant positive trend has faltered this summer, with weaker than expected income from tourism and exports of goods. This is relevant because the external sector has been one of those responsible for growth in recent years. This recent development represents a setback in Spain's goal of maintaining the growth rates observed in the last two years.

Corporate profits

The consensus is adjusting its forecast of business margins and profits for the year, as the tailwinds for reducing costs and increasing demand are fading. Despite the negative impact of the sharp drop in the value of some emerging currencies (in which Spanish companies are heavily exposed), we maintain our projections for sales growth at ~ 5% and margins at ~ 9% (estimates which are still below the consensus). In summary, we think the IBEX index is cheap, until a catalyst comes along. An improvement in the political sphere in Latam, greater visibility on Brexit, or higher interest rates from the ECB, would favor bank margins.

Financial Market Outlook

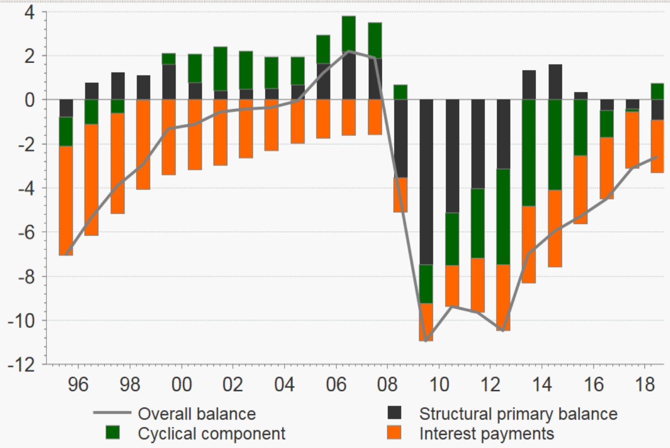
Equities – IBEX: POSITIVE. Central point 10,576. Exit point 11,633

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

Credit – Invest. grade: NEGATIVE

Credit - High yield: NEUT-NEGATIVE

Spain government budget balance
Per cent of GDP



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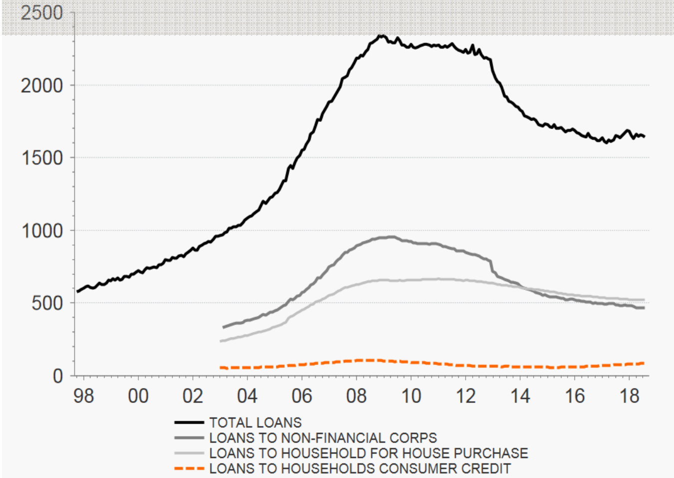
x 1.000 **SPAIN - OUTSTANDING LOANS (PRIVATE SECTOR)**



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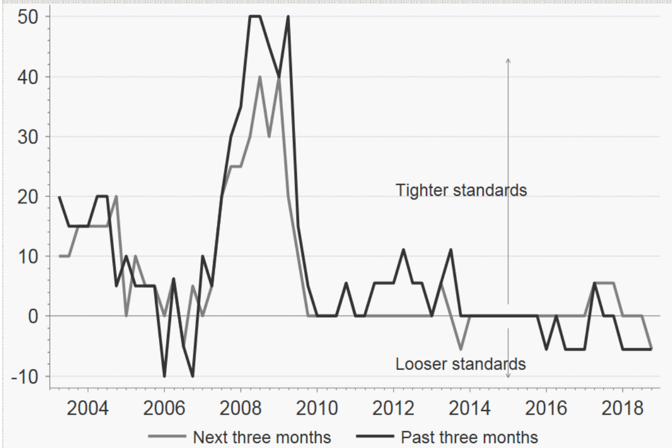
ECB BLS - Spain credit standards
Diffusion index, housing loans



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JAPAN

BOJ to allow bond yields to move more flexibly

But BOJ policy is on hold until after 2019 sales-tax hike

The Chairman of the Japanese Bankers Association gave a lukewarm welcome to the central bank's recent decision to allow bond yields to move more flexibly, calling for further scrutiny on the rising cost of prolonged monetary easing. At the same time, Japanese Prime Minister Shinzo Abe told reporters that the central bank should not maintain its current unprecedented stimulus program forever. BOJ board member Goshi Kataoka said there is a low probability of inflation picking up, given that economic growth is likely to moderate from 2019 and inflation expectations remain weak. The government's recent push for mobile phone carriers to lower their service fees has vexed the central bank, which fears another drag on already sluggish inflation. The BOJ called falling mobile-related prices a "sectoral shock" affecting inflation. It estimated that the drag on the CPI was 0.16 percentage points in June.

A Bloomberg poll showed that economists unanimously expect the BOJ to keep monetary policy unchanged at its Sep 18-19 meeting. Some 57% of the 51 respondents said the most likely timing for the next shift would be in 2020 or later, and the overwhelming majority predicted tightening rather than easing.

Trade & Diplomacy

Trump told reporters on Air Force One that discussions with Japanese officials started this month, but the Nikkei reported that Japan is preparing for the possibility that it will be the next target in the president's crusade against trade deficits, ahead of the American mid-term congressional elections this November.

Russian President Vladimir Putin offered to sign a peace deal with Japan Prime Minister Shinzo Abe by the end of this year. Chief Cabinet Secretary Yoshihide Suga reiterated there is no change in Japan's position that the Northern Territories issue must be resolved before any peace treaty.

Macro update

Q2 revised GDP +3.0% qoq annualized vs consensus +2.9% and preliminary +1.9%.

August bank lending +2.2% yoy vs +2.0% last month.

August Economy Watchers Survey current conditions index 48.7 vs 46.6 last month. Outlook index 51.4 vs 49.0 last month.

July average wages +1.5% yoy vs consensus +2.4% and revised +3.3% last month.

Real wages +0.4% yoy vs consensus +1.1% and revised +2.5% last month.

Fiscal: Ministries seek record FY19 budget:

Budget requests from Japan's government offices have hit a record JPY102.8T ($930B) for the next fiscal year. There was a sharp increase in requests due to bulging welfare costs to support the aging population and rising military outlay in the face of threats from North Korea and China. Shinzo Abe said he would proceed with a planned sales tax hike in October 2019 and carry out fiscal reform.

Financial markets outlook

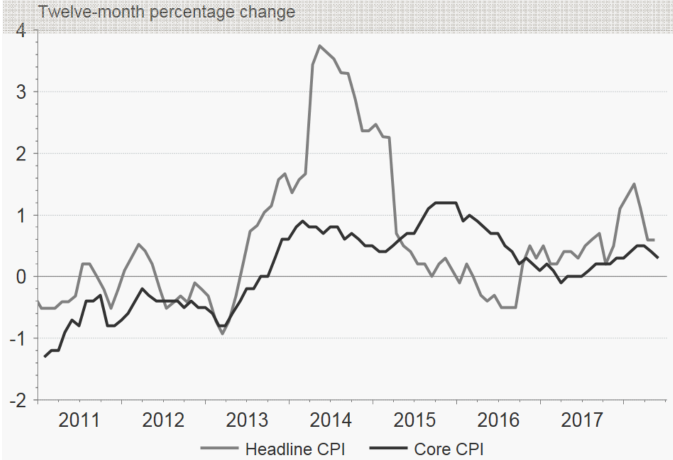
Equities – N225: NEUTRAL. Central point 23.094. Exit 25.400

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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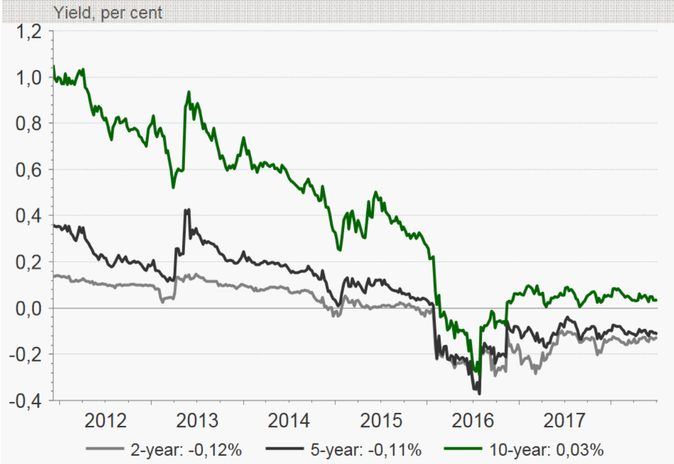
Japan benchmark government bonds

Yield, per cent



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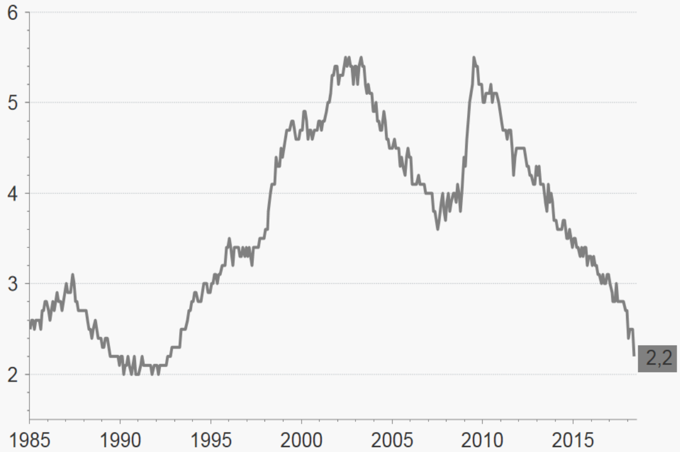
Japan unemployment rate

Per cent



Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

CHINA
Trump has upped the ante in his trade war with China

Trade conflict: US imposes tariffs on an additional US$200bn

The tariffs—ostensibly in response to the forced technology transfer policies condemned by the US Trade Representative in its Section 301 investigation in March—will take effect on September 24 at a rate of 10%, rising to 25% at the beginning of 2019 unless some kind of a deal can be worked out with Beijing. We have reasons for thinking no deal is on the cards, and thus, the trade conflict could escalate further. The US strategy is driven by a powerful coalition of security and economic officials within the White House who believe the US has entered an existential conflict with China for global technological, economic and geopolitical dominance.

Stimulus and reforms: Xi reiterates reform commitment

Beijing is saving ammunition to absorb commercial shock. China is applying fiscal stimuli (CNY1.52T from 1.04T) but holding back from using the (stronger) weapon of monetary stimulus (PBOC central bank moderates M2 supply to 8.2% from 8.5%), controlling loans at a stable +13.2% yoy.

Private investment - China will ease restrictions on private investment in sectors such as infrastructure, public services, care of the elderly and health care, but the authorities gave no details on this.

Supply side reforms - China will put brakes on auto investment to ease the capacity glut. Automakers hoping to add capacity would need to have utilized factories at a higher rate than the industry average for the prior two years, and new-energy vehicles (NEV) will have to make up more of their output than the industry average.

Economic activity: Major banks vow to boost lending in H2

Chinese industrial exports grew in August by +12.5% (accelerating from July's 8.7%), meaning that external demand remains strong and the recent CNY depreciation is compensating for the effects of tariffs. Fixed capital investment in China + 5.3% yoy in August. Though not spectacular, this represents an improvement from the 3% yoy seen in July. Low investment in manufacturing but up in agriculture, may be responding to the more pro-climate growth bias.

Other data: August industrial production +6.1% yoy vs +6.0% last month. YTD FDI rose 2.3% yoy (but FDI growth coming from OBOR countries was +26.3% yoy. FDI in high-tech industries growth was 6.6% and accounted for 22% of total FDI. Retail sales +9.0% yoy +8.8% last month. Unemployment rate at 5.0% (from 5.1%).

Corporate Profits.

Shenzhen-listed Chinese SOEs reported combined profits of US $21.7B (up 32%yoy) and +13% for SOEs listed on the SSE. Traditional sectors such as steel, construction materials and non-ferrous metals recorded significant net profit growth of 128%, 92% and 40%. However, in China's tech sector, profitability was sluggish as it seems unable to leverage Beijing's push to modernize the sector as government subsidies in the targeted fields begin to dry up. Banks' profits rose 6.5% yoy in H1.

Financial markets outlook

New! Equities – SHANGHAI index: NEUTRAL (central point 2,729)

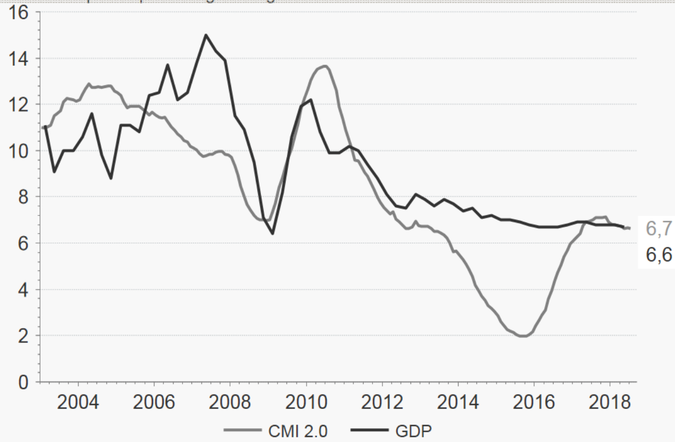
New! Equities – SHENZHEN Index: POSITIVE (central point 1.468)

Bonds – Govies: POSITIVE (target yield 3.25%)

Forex – CNY/USD: NEGATIVE (target 7.00)

Fathom China Momentum Indicator 2.0 and GDP

Four-quarter percentage changes



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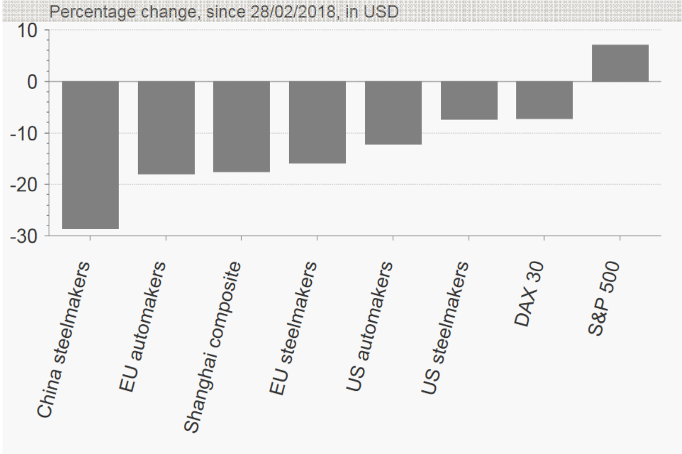
Performance following tariff announcement

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



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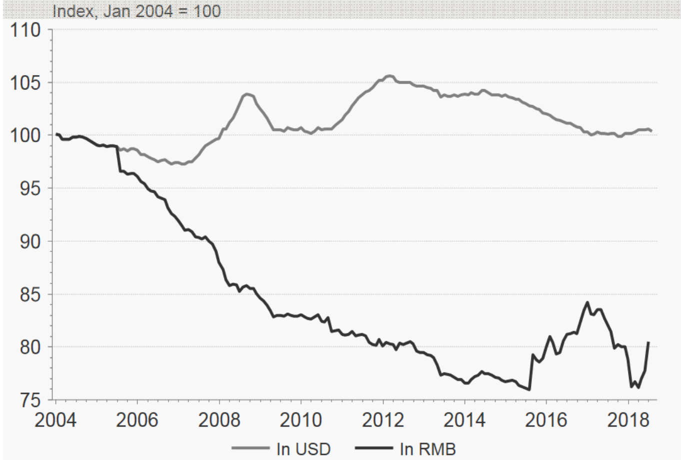
Price of China's exports to US

Index, Jan 2004 = 100



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INDIA

Well intended banking reform but unlikely to meet the timetable

Banking sector reform: hopes and risks

The pro-business Insolvency and Bankruptcy Code (IBC) pragmatically amended a problematic law, barring existing owners from bidding on an NPL auction with the aim of ensuring only clean hands picked up the assets underlying delinquent loans. It has, however, had the unintended consequence of spurring rival bidders to sue each other, and so delay the process. Of twelve batches sent to the bankruptcy courts one year ago only three have been resolved within the 270-day deadline. The log-jam in India's courts has left some 2,500 insolvency petitions still to be processed.

Outlook

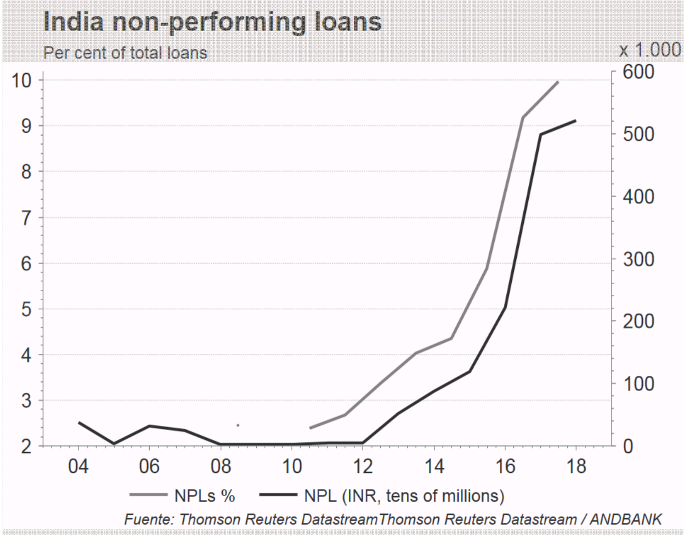
Many bankers are wary of taking market-clearing haircuts for fear of being accused of fraudulently offering forbearance. Bankers are proposing that bad loans of up to INR5bn (US$73mn) should be settled through an "inter-creditor agreement" between lead and junior lenders (big lenders would have the authority to take a hair-cut on bad loans without being tied to the stricter IBC rules). For bad loans exceeding INR5bn, the banks want to create an "asset management company" (bad bank) with bank-funded investment funds. In the view of some experts, the creation of a bad bank won't happen in India as the RBI realizes it may allow a further "extend and pretend" respite for bad debtors. Back in 2001, the RBI took a view that most delinquent borrowers only had cash-flow issues and banks were encouraged to just extend payment periods (and not change repayment terms), so minimizing provisions. These loans were labelled "restructured standard loans" (not NPLs). In 2004, the government had to set up a quasi bad-bank to take over INR90bn of loans and a decade later it had only received 44 cents on the dollar (with smaller loans achieving 100% recovery and big loans doing very badly, evidencing the cozy ties between big firms and banks). Today, large borrowers account for 54% of bank lending but 85% of bad loans. In order to break these close ties and jump-start the clean up of bad debt, in 2015 the former Chicago professor and IMF economist Raghuram Rajan forced Indian banks to rigorously categorize all loans as "standard" or "NPL". As a result, the NPL ratio more than doubled, pointing to an NPL cycle which had seemingly peaked and which could, with the right policies, be cleaned up decisively. But bankers have one eye on the RBI and another on their political masters (who "own" them), meaning that well connected industrialists can exert influence over bankers (postponing the reckoning). In response, the RBI became more prescriptive in 2017, directing banks to submit their bad debts to the new IBC process for resolution (40NPL bundles with a total face value of INR3.6trn, or US$50bn). The RBI also immediately doubled down its efforts issuing two directives that removed any residual flexibility that banks had to manage their bad debts (should a borrower miss a payment by just one day, the lender must file a default report and the borrower must repay all outstanding dues within 180 days or face bankruptcy procedures). But the banks have lobbied and these tight rules have been revised so that banks have other avenues for balance sheet repair. Maybe there is an administrative logic behind this about-face, given that the court system is gummed up with bankruptcy cases. Although India's enhanced creditor protection has started to attract foreign distressed-debt specialists, who prefer negotiated sales of NPLs, on balance, the new regulation has proved insufficient to fix the problem and the process is unlikely to meet the exacting timetable that was laid out. Banks are not yet prepared to fund the kind of capital spending needed to sustain India's high growth trajectory.

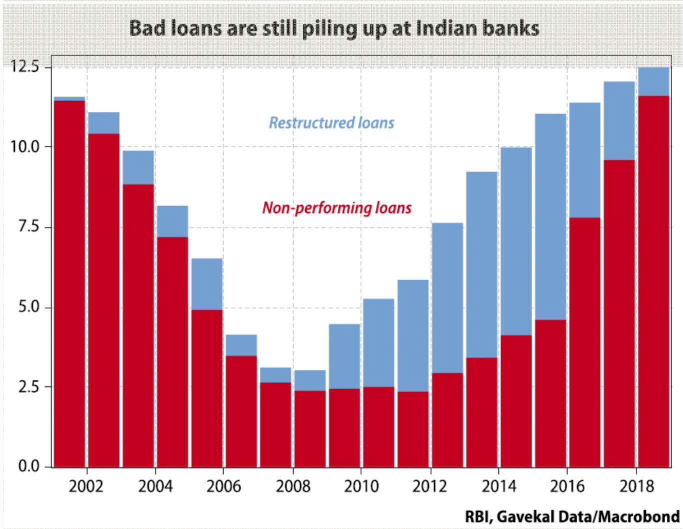
Financial markets outlook

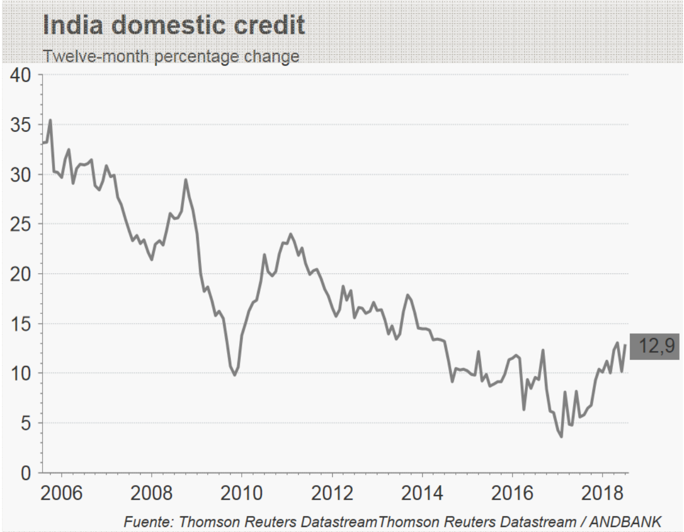
Equities – SENSEX Index: POSITIVE (central point 39.000)

Bonds – Govies: POSITIVE (target yield 6.75%)

Bonds – Corporates: POSITIVE







MEXICO
Continued positive sentiment around AMLO

Politics, Fiscal and Economics

Andrés Manuel López Obrador's position has been generally moderate compared with expectations after the election campaign. The viability of his more radical proposals continues to be assessed, including the possible cancellation of the capital's new airport and the possible cancellation of contracts granted to private companies to explore and extract oil (although it has recently been argued that the tenders will be maintained). We could have information about the budget before the end of the year.

2018 growth forecasts remain at the 2.0-2.5% level, with Annual CPI moving up to 4.90% yoy in August, above analysts' forecasts, due to the higher contribution of gasoline and gas prices. The outlook for the CPI in the medium and long term has remained anchored at around 3.50%. However, upward inflationary risks in the latest Banxico statement caused volatility in the peso.

Central Bank & Monetary conditions

Banxico kept its rate on hold at the last meeting. The central bank's inflation outlook is up as energy prices continue to increase. Another increase in rates of 25 basis points is expected before year end, probably at the last monetary policy meeting of the year.

Nafta negotiations

The United States and Mexico signed a bilateral trade agreement whereby Mexican negotiators made concessions, particularly relating to the automotive sector, with tighter rules of origin and increased levels of higher-wage production to avoid tariffs. It is still unclear whether Canada will sign the agreement. If it does not, the treaty would not be an update to the current NAFTA but a new trade pact which would not get through Congress under TPA procedures. The timing will be relevant; if there is no signed agreement by the end of the year then the US Congress Trump will be putting the deal to will be the one chosen in the mid-term elections on November 6.

Market sentiment

Mexican assets have held reasonably well given the positive news from NAFTA and the continued positive sentiment around AMLO. This favorable sentiment may not be maintained in the face of growing concerns about the Trump administration's trade agenda or if Canada does not sign the trade agreement with the US, in which case the recent signing would not be eligible for consideration by Congress. While a two-way agreement is probably worse for Mexico than NAFTA 1.0 or NAFTA 2.0, it is surely better than a NAFTA-free scenario where US-Mexico trade relations are regulated by WTO rules. AMLO and his team have continued to make the right noises and we remain optimistic in the short and medium term, but are still cautious about the long term. We believe that Mexican equity valuations are moderate and earnings forecasts realistic. We raise our year-end PE to 17.25. Price target 49,700.

Financial markets outlook

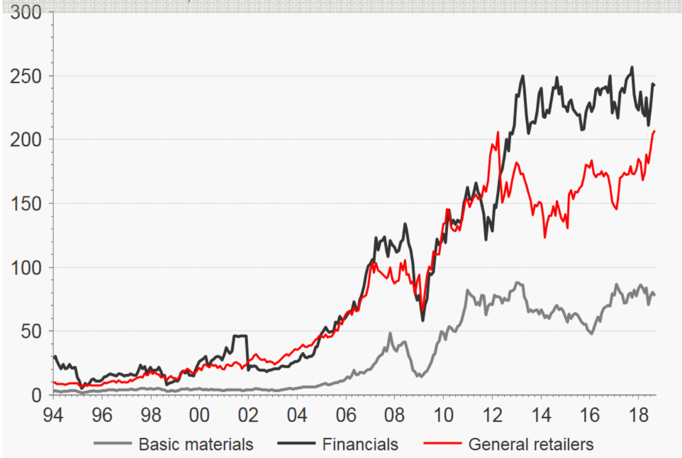
Equities – Mex IPC: NEUTRAL (Target 49,700). Exit 51.500

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

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

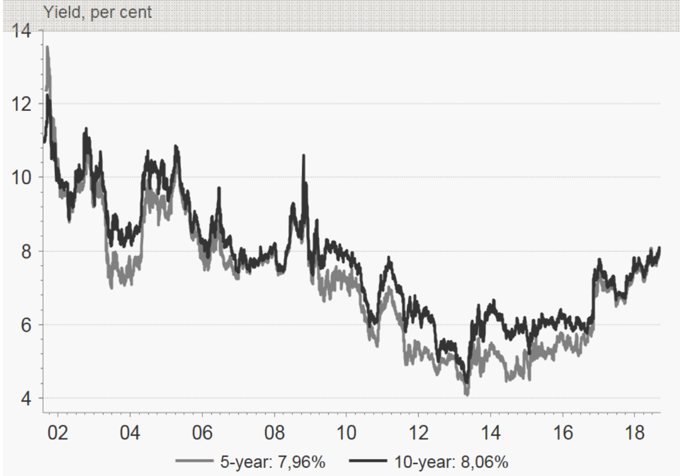
Fx – MXN/USD: NEUTRAL (Mid-term target 19.15)

Mexico FTSE index
Price return index, thousands



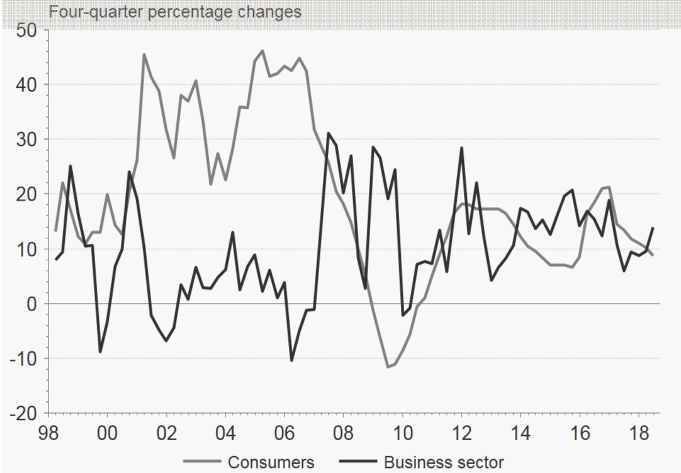
Fuente: Thomson Reuters Datastream / ANDBANK

Mexico benchmark government bonds
Yield, per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Mexico lending
Four-quarter percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL
A plebiscite between right and left populism?

Elections: Bolsonaro keeps the lead and the second place appears to be consolidating.

The electoral race is at full speed. With less than a month to the first round, the polls are indicating a scenario of consolidation that has been building in recent weeks. Jair Bolsonaro (PSL) has not only consolidated his core of support, but has also attracted new voters to his candidature. The second place, heavily fought between the other candidates, appears to be held by the left-wing candidate Fernando Haddad (PT). Centrist candidates, such as Geraldo Alckmin (PSBD), haven't seen improvements in the polls.

The PT and far left candidate for the presidency, Fernando Haddad, already has in mind the profile of his future finance minister if he wins this year's elections: someone very close to the academic sphere who has good relations with the market (according to a source close to the candidate). “One other thing is certain: he would not put a politician in office”. The idea of someone who inspires confidence in the market would be a strategy to show that a Haddad government is committed to fiscal rigor and will stay away from the government-led growth model followed by Dilma Rousseff. In conversations with banks and investment groups, Haddad sought to make it clear that a "PT government under his command would not be a "market friend", nor would it be an enemy”. The identity of this potential finance minister is still unknown. Haddad is on first name terms with economists who are held in high esteem by the markets, such as Samuel Pessôa and Marcos Lisboa. Both fit the profile that Haddad outlines for his Finance Minister, but so far there have been no conversations, no polls, and certainly no invitations.

Geraldo Alckmin, on the other hand, is having difficulties improving his position. Despite his monopoly on TV (he has about half of the total TV time for the presidential candidates), Alckmin hasn´t been able to draw voters to his side. Marina Silva (REDE) is also losing ground quickly at the polls. The current indications point to a competitive second round between Bolsonaro and Haddad.

Fiscal

Despite "pessimism" over the outcome of the October presidential election, the new occupant of the Planalto Palace will find it difficult to backtrack on the reforms initiated by the previous government.

Economics: Low growth , low inflation mix

GDP growth has stalled, as economic agents await the outcome of the elections to invest and take longer term decisions. Household consumption has also moderated. Against this backdrop, inflation figures remain at low levels. The IPCA index (the broad local CPI) stood at -0.09% in August, below market expectations. However, the IBC-Br index (an activity indicator published by the Central Bank) expanded by 0.57% in July, above median expectations. The Central Bank will host the COPOM meeting this week to decide the Selic rate, which is likely to remain stable.

Financial markets

Equities – IBOVESPA: NEUT-POSIT (Target 84,000). Exit 88,200

Bonds – Gov. Local: POSITIVE (target yield 11%)

Bonds – Gov. USD: POSITIVE (target yield 5.50%. Spread 330bp)

Fx – BRL/USD: POSITIVE (mid-term target 3.80)

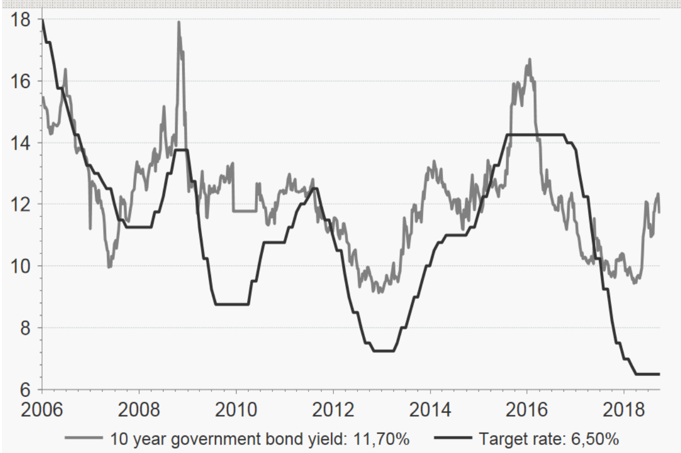
Brazil price/earnings, Datastream index

Ratio

Fuente: Thomson Reuters Datastream / ANDBANK

Brazil interest rates

Per cent

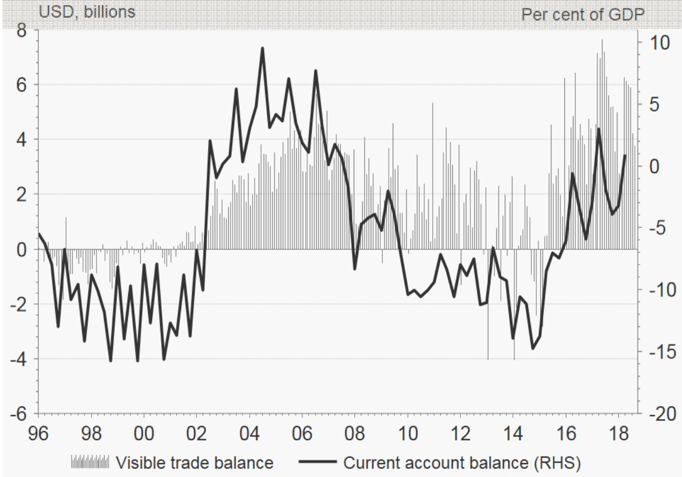


Fuente: Thomson Reuters Datastream / ANDBANK

Brazil balance of payments

USD, billions

Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA
Addressing the "emergency"

The last weeks have seen the government announcing and putting in place several measures aiming at boosting market confidence. President Macri has also proved that he is willing to pay the political cost needed to restore stability and investors' trust, no matter how low his approval ratings could sink. The country's 5Y CDS started August around 400pts and jumped to above 800pts by the first week of the current month and now stands close to 630pts.

Lebac dismantling plan

On August 13 the BCRA announced a plan to gradually shrink the stock of LEBAC notes, amounting to ARS 976bn at that date, by reducing the amount offered in each auction and making it available only to non-banking participants. The objective is to remove liquidity pressure on the Central Bank when it comes to refinancing these high frequency instruments, replacing them with other instruments with longer maturities. The CB's aim is to no longer have the banking sector as its sole counterparty.

New Fiscal Targets and a Possibly Revised IMF Deal

On September 3rd, after Macri described the country's situation as "an emergency", the primary fiscal deficit target was cut to 0% for 2019 (from -1.3%), and he committed the government to a 1.0% primary fiscal surplus for 2020 (from 0%). In order to achieve this fiscal equilibrium new measures were announced. Additional revenue of 1.3% of GDP will come from temporary export duties on all exports and delaying the raising of the minimum non-taxable gross wage threshold. On the other hand, spending will be cut by 1.4% of GDP, through further cuts in public capex, economic subsidies and wages and operation costs. In addition, the number of ministries was cut to less than half. Government officials are working with the IMF to agree on a revised IMF deal. Hopefully it will focus on fiscal targets and loosening the monetary and inflation targets set in the original deal, which currently seem very unlikely to be achieved. IMF Managing Director Christine Lagarde and President Trump have both delivered encouraging signs of support to Argentina. Meanwhile the IMF put the USD 3bn disbursement scheduled for last Saturday on hold while negotiations with Argentine officials continue.

Budget negotiations in an Election Year

Intense negotiations were conducted between the government and opposition legislators in order to arrive at the 2019 Budget Bill presented this month by Treasury Minister Nicolás Dujovne. The government needs to prove to both the market and the IMF that it can get the political support needed to approve the budget and carry out its new fiscal consolidation plan.

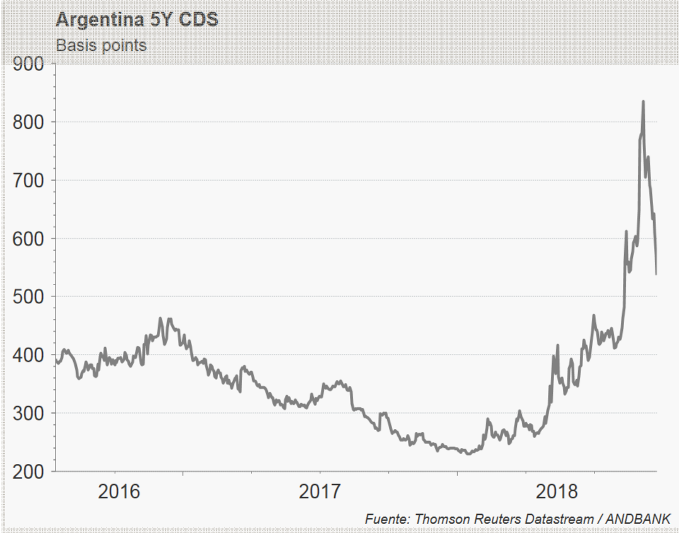
The effects of the big currency adjustment yet to be felt

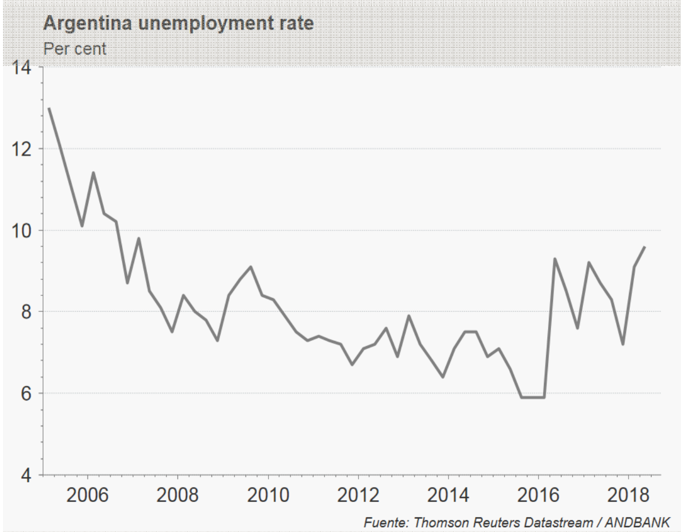
Last week the INDEC reported a 3.9% increase in August's CPI, taking the YTD and yoy figures to 24.3% and 31.2%. The budget for 2019 presented last week is based on a FY18 CPI assumption of 45% and 23% for 2019. Against a backdrop of public capex cuts and with the negative impact of the "notebookgate" scandal, investment will probably be the hardest hit component of GDP, followed by private consumption squeezed by rising inflation.

Financial Market Targets

Bonds – 10YGov USD: POSITIVE. Target yield 8.20%.

Fx –USD-ARS: NEGATIVE (year-end target 40)





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	E[Perf] to Exit point
USA S&P 500	5,6%	1.301	12,17%	158,3	18,8%	21,86	18,41	17,15	2.914	2.715	-6,8%	2.987	2,5%
Europe - Stoxx Europe 600	5,2%	313	8,19%	25,7	6,6%	16,05	15,06	15,50	386	398	2,9%	426	10,2%
Euro Zone - Euro Stoxx	5,2%	367	7,15%	26,2	6,4%	15,55	14,62	15,00	383	393	2,6%	433	12,9%
Spain IBEX 35	5,0%	7.834	9,00%	705	3,3%	13,96	13,51	15,00	9.528	10.576	11,0%	11.633	22,1%
Mexico IPC GRAL	7,2%	35.891	8,03%	2.881	5,7%	18,21	17,23	17,25	49.647	49.703	0,1%	52.934	6,6%
Brazil BOVESPA	7,2%	56.514	10,26%	5.798	11,6%	15,39	13,80	14,50	80.000	84.064	5,1%	88.267	10,3%
Japan NIKKEI 225	5,1%	21.099	5,92%	1.248	6,6%	19,72	18,50	18,50	23.095	23.094	0,0%	25.403	10,0%
China SSE Comp.	7,1%	2.831	8,77%	248	7,5%	12,16	11,32	11,00	2.808	2.729	-2,8%	3.002	6,9%
China Shenzhen Comp	7,3%	968	8,67%	84	9,3%	18,72	17,13	17,50	1.437	1.468	2,2%	1.615	12,4%
India SENSEX	9,2%	15.530	11,70%	1.818	18,7%	23,83	20,07	21,50	36.487	39.079	7,1%	42.987	17,8%
MSCI EM ASIA (MXMS)	6,8%	454	9,59%	44	8,8%	13,44	12,36	13,00	538	566	5,2%	622	15,7%

UPWARD REVISION DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL EQUITY INDICES: RISK-OFF PROBABILITY

Tactical assessment

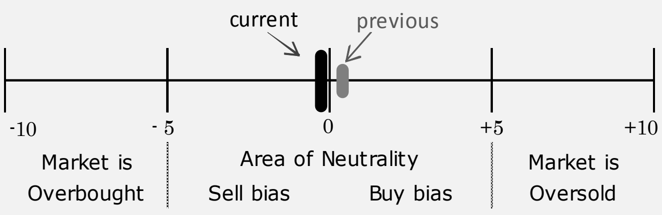
Andbank GEM Composite Indicator: We remain in an area of neutrality. No imminent risk of a sustained sell-off.

Our broad index has ticked down to -0.5 from 0.5 (in a range of -10/+10), settling in an area that suggests that the equity market is not oversold, and remains in neutral territory (in terms of flow stress). Consequently, the risk of a sustained and justified fundamental sell-off is low.

Risk Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	3	2
Positive Bias	2	5
Neutral	11	7
Negative Bias	4	5
Sell signals	1	3
FINAL VALUATION	**0,5**	**-0,5**

Risk Composite Indicator



TECHNICAL ANALYSIS

Trending scenario. Supports & resistances (1 month)

S&P: SIDEWAYS-BULLISH
Support at 2,800. Resistance at 2.949

STOXX600: SIDEWAYS
Support at 370. Resistance at 386

EUROSTOXX50: SIDEWAYS
Support at 3.214. Resistance at 3.463

IBEX: SIDEWAYS
Support at 9.111. Resistance at 9.643

€/$: SIDEWAYS-BULLISH
Support at 1,129. Resistance at 1,185

Oil (WTI): SIDEWAYS-BULLISH
Supports at 64.45. Resistance at 75,26

Gold: SIDEWAYS
Supports at 1.160. Resistance at 1.235

US Treasury: SIDEWAYS
Supports at 2.8%. Resistance at 3.12%.

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.1%. Fair value 3.2%. Ceiling 4,2%

Swap spread: The swap spread remained stable +6bps (from +5bps 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 at 26bps (from 25bps). With the short end normalizing towards 2.50% (today at 2.8%), 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 down to 54bps (from 59bps last month). For the swap spread to normalize at 35bps, with the swap rate anchored in the 1.40% area (today at 0.97%), the Bund yield would have to move towards 1.05% (entry point).

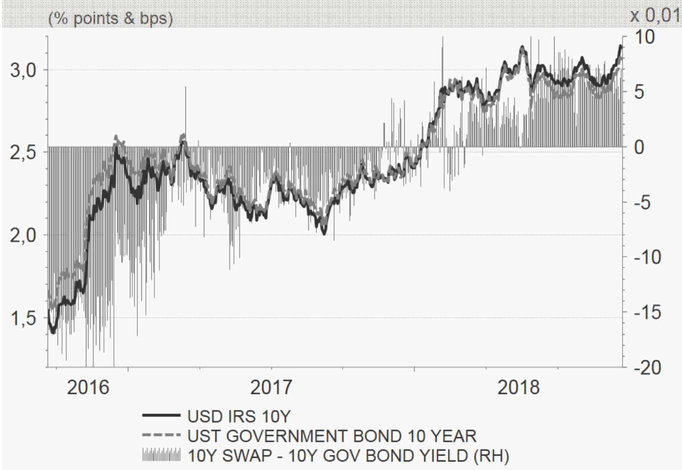
Slope: The slope of the EUR curve increased to 98bps (from 91bps last month). If the short end "normalizes" in the -0.50% area (today at -0.55%), to reach the 10Y average yield curve slope (130bps) the Bund yield would have to move to 0.80%.

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%

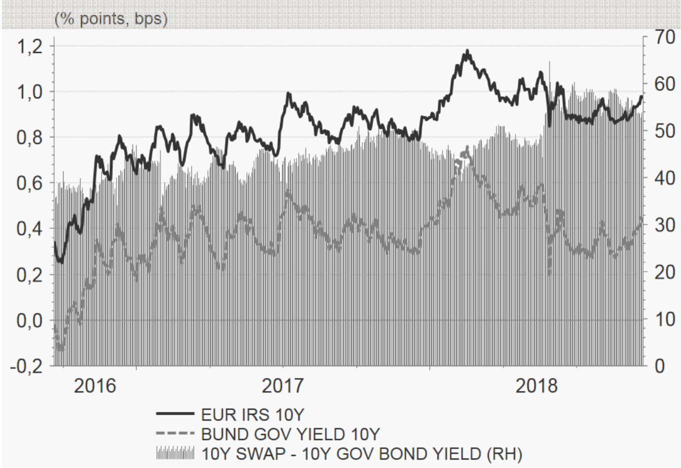
Swap spread: The swap spread fell to 11bps (from 24bps last month). For the swap spread to normalize at 13bps, with the swap rate anchored in the 2% area (today at 1.6%), the 10Y UK Gilt should shift to 1.9%.
Slope: With 2Yr normalized at 2%, to reach the average slope at 1.64%, the 10Yr Gilt should move to 3.64%.
Real Yield: A 1% real yield means the 10Y gilt should be at 3.6%.

SWAP SPREAD USD



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR



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	8,14%	3,20%	4,94%	-1,00%	7,14%
	India	8,03%	3,67%	4,36%	-1,00%	7,03%
	Philippines	7,63%	6,40%	1,23%	-0,50%	7,13%
	China	3,59%	2,30%	1,29%	-0,50%	3,09%
	Malaysia	4,06%	0,96%	3,10%	-1,00%	3,06%
	Thailand	2,62%	1,65%	0,97%	0,00%	2,62%
	Singapore	2,47%	0,66%	1,81%	-0,50%	1,97%
	South Korea	2,26%	1,40%	0,86%	0,00%	2,26%
	Taiwan	0,87%	1,57%	-0,70%	1,00%	1,87%
EME	Turkey	17,18%	17,90%	-0,72%	1,00%	18,18%
	Russian Fed	8,54%	3,10%	5,44%	-1,00%	7,54%
LATAM	Brazil	11,45%	3,64%	7,81%	-1,00%	10,45%
	Mexico	7,89%	4,96%	2,93%	-0,75%	7,14%
	Colombia	6,94%	3,10%	3,84%	-1,00%	5,94%
	Peru	5,91%	1,05%	4,86%	-1,00%	4,91%

ENERGY – OIL

Fundamental view (WTI) : Target price US$50pb. Sell > US$60. Buy < US$40
Technical view (WTI): Sideways-Bullish. Support at 64.45. Resistance at 75,26

Short-term drivers: Headline news is fairly sparse, with US inventory data taking a central place in the narrative.

(Price Negative) **– IEA reports record high global oil supply in August.** Global supply hit a record 100M bpd in August, led by higher output from OPEC countries (which reached a nine-month high supply of 32.63M barrels (+420K bpd m/m) despite falling production in Venezuela and Iran. Non-OPEC production was also up +2.6M barrels yoy, (above the forecast +2M bpd). FY2019 output forecasts indicate an increase of +1.8M bpd. On the other hand, projections for global demand growth remained unchanged at +1.4M bpd in 2018 and +1.5M bpd in 2019. Why then do oil prices remain well supported?

(Price Positive) - Saudi Arabia and Russia ruled out an increase in crude output at the OPEC Ministerial Monitoring Committee meetings in Algiers. Saudi Energy Minister Khalid A. al-Falih said that, although Saudi Arabia has spare capacity to increase output, it will not increase production given that OPEC is projecting a big rise in non-OPEC production that could exceed global demand growth. Saudi Arabia believes US oil production will rise to 13.4M bpd in 2032, from 7.4M in 2017, making the US self-sufficient in oil. Similarly, Russia's Energy Minister, Alexander Novak, said no immediate output increase is needed, citing the challenging environment faced by global markets (that could derail oil demand), including rising trade tensions between the US and China, and the US sanctions on Iran.

(Price Negative) **– Mexico's president-elect Andres Manuel Lopez Obrador will allocate $3.9B in next year's budget to oil extraction in order to lift domestic production. He will also issue calls for tenders in December.** Mexico's incoming government (which has been reluctant to specify whether it will continue auctions to open up its long-closed oil sector) will issue calls for tenders for drilling oil wells in early December. President-elect Lopez Obrador gave no details but said he would flesh out his plans after meeting with oil executives in Tabasco state on Saturday.

(Price Negative) – Iraq output hits record levels: Iraq's Oil Minister said total production in Iraq is 4.36M bpd, the level agreed with OPEC, though exports reached a record of 3.59M bpd. The country also has capacity of 4.75M barrels, even without the semi-autonomous Kurdish region in the north. OPEC and its allies agreed to increase production by 1M bpd in June.

(Price Positive) **– Companies are declining to buy October cargoes from Iran** because of the possibility that they may arrive after 4 November, the date on which the US is scheduled to re-impose oil-related sanctions on Iran. Trade with Iran after this date carries the risk of a country being cut off from the US financial system. The US has thus far failed to extend any waivers.

(Price Positive) **– India's imports of Iranian oil shrank 32% month on month in August, and Korean oil imports from Iran fell to zero.** India, which is the third-biggest oil importer and Iran's top oil client after China, has said it will not completely halt Iranian imports but will determine its strategy after meeting with US officials. Despite lower imports in August, yoy imports were still some 56% higher as a result of higher growth and because state refiners were attracted by discounts offered by Iran earlier this year (to lure Indian buyers, Iran has been offering extended credit terms and almost free shipping to India). US Secretary of State Mike Pompeo, who is in Delhi with US Defense Secretary Jim Mattis, said "the US would be happy if Iranian oil is replaced with American products". South Korea became the first of Iran's top three customers to cut imports to zero in August (down from 200k bpd in July). China has also decreased imports from Iran (according to tanker-tracking & shipping data).

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 and the early 2000s, the exporters' cartel agreed to cut output and the approach worked well, as the principal competition was among conventional oil producers (in particular between OPEC and non-OPEC producers). Today's biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil should therefore easily be offset (in theory) by a 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) upticked to US$1,086 (from US$1,079 last month). In real terms, gold continues to trade well above its 20-year average of US$880. Given the global deflator (now at 1.10282), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$970.

Gold to Silver (Preference for Store of Value over Productive Assets): This ratio ticked up to 83.56x (from 78.33x last month) and still remains well above its 20-year average of 62.45x, suggesting that gold is expensive (at least in terms of silver). For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$900 oz.

Gold to Oil: This ratio decreased in the month, to 16.92x (from 17.49x last month), still well above its 20-year average of 15x. Considering our fundamental long-term target for oil of US$50pb (our central target for the long-term) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$750 for this ratio to remain near its LT average.

Gold to the DJI: This ratio (inverted) ticked up in the month to 22.32x (from 20.14x last month), still above its LT average of 19.74x. Given our central point (target price) for the DJI of 25,000, the price of gold must approach US$1,266 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Longs are fixed now at 197k (from 214k last month). Short contracts rose to 208k (from 132k). Thus, the net position decreased sharply to -11k during the month (from +81k), suggesting that speculators' appetite for gold has decreased markedly in the last three months.

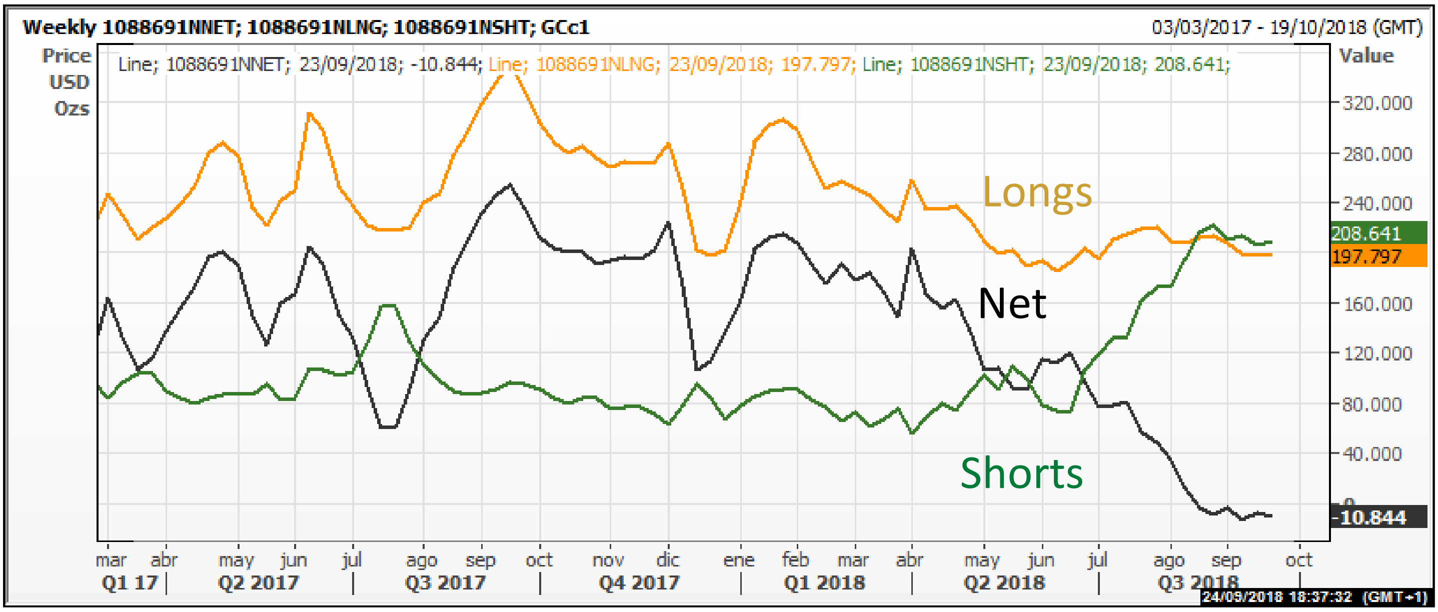
Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio fell to 0.41x (from 0. 44x last month) but is still well below its LT average of 0.59x. Given our target price (central point) for the S&P of $2,715, the price of gold must approach US$1,602 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: ST Resistance at 1.185 // Fundamental mid-term target 1.15 // Fundamental long-term target 1.03

Flows: Dollar net longs extended significantly, with global investors' positioning in USD now sitting at $24.78bn, just shy of recent peaks reached in mid-August, which were the highest since January 2017 (see table) and sharply up from the $19.74bn longs recorded in our last document. The rise in dollar positioning this summer is significant and represents a move of almost 0.8 sigma on a one-year z-score basis. Therefore, the dollar continues on course, with investors building long positions at an average pace of US$2.5bn of new long positions per week. **Outlook:** **Flow analysis:** At a z-score of +1.15 in the global USD positioning, the greenback seems overbought against all other currencies, except the EUR. Our **technical analysis** within the Investment Committee indicated three very important things: (1) The EUR/USD is now facing a key resistance level at 1.185, and then a longer-term one of 1.26. (2) This last resistance level should hold well and we don't believe the EUR will cross it. (3) The EUR/USD should, therefore, 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 0.10% 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 3.8; **EUR-BRL:** Target 4.37

USD-ARS: Target 40

RUB: POSITIVE

AUD: POSITIVE

CAD: POSITIVE

CNY: Target 7.00

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	24,78	3,98	24,9	-28,2	-4,3	**1,15**
USD vs G10	25,09	4,45	25,4	-25,4	-2,7	**1,22**
EM	0,31	0,47	3,8	-0,8	1,8	**-0,26**
EUR	0,24	-1,38	23,4	-1,1	13,2	**0,00**
JPY	-7,09	-1,06	0,6	-15,0	-7,4	**-0,58**
GBP	-6,51	-1,53	4,3	-6,5	-0,1	**-1,15**
CHF	-2,39	2,16	0,0	-6,0	-3,1	**-0,46**
BRL	-0,63	0,02	0,7	-0,8	-0,2	**-1,80**
MXN	1,08	0,70	2,8	-0,5	1,5	**0,52**
RUB	-0,14	-0,25	1,2	-0,1	0,6	**-1,54**
AUD	-4,91	-1,75	6,1	-4,9	-0,1	**-2,18**
CAD	-2,32	-0,26	6,1	-4,0	0,5	**-0,67**

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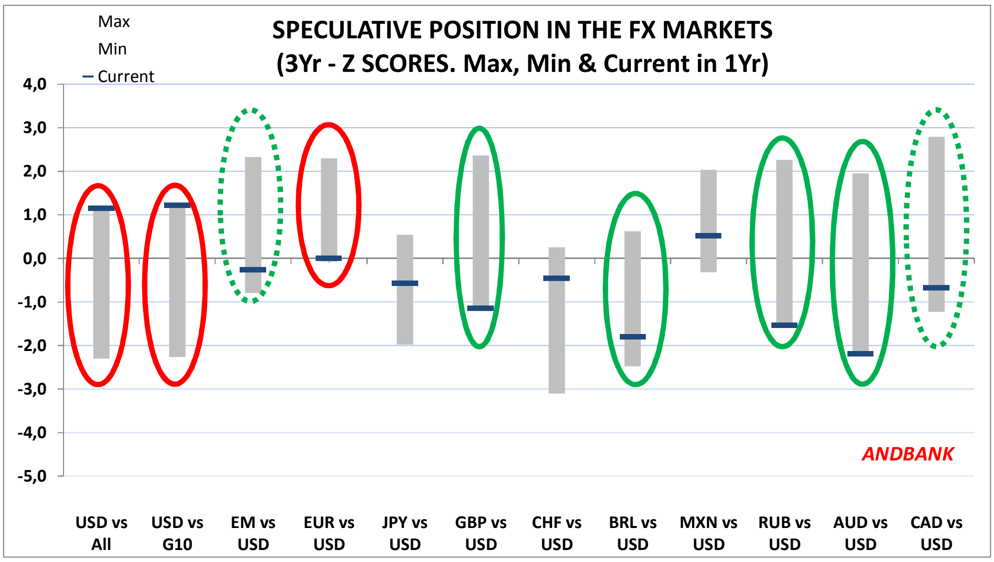

The currencies we technically favor are circled in green

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SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance 1 month*	*Performance YTD*	*Current Price 28/09/2018*	*Central Point (Fundam range)*	*Exp. Perf. To Central Point*
Equity	USA - S&P 500	0,4%	9,0%	2.914	2715	-6,8%
	Europe - Stoxx Europe 600	1,1%	-1,1%	386	**398**	2,9%
	Euro Zone - Euro Stoxx	1,0%	-0,9%	383	**393**	2,6%
	SPAIN - IBEX 35	1,4%	-5,1%	9.528	10576	11,0%
	MEXICO - MXSE IPC	0,2%	0,5%	49.647	49703	0,1%
	BRAZIL - BOVESPA	4,3%	4,7%	80.000	84064	5,1%
	JAPAN - NIKKEI 225	3,7%	5,6%	23.095	23094	0,0%
	CHINA - SHANGHAI COMPOSITE	3,0%	-15,6%	2.808	**2729**	-2,8%
	CHINA - SHENZEN COMPOSITE	-1,0%	-24,7%	1.437	**1468**	2,2%
	INDIA - SENSEX	-5,6%	6,7%	36.487	39079	7,1%
	MSCI EM ASIA (in USD)	-1,7%	-8,3%	538	**566**	5,2%
Fixed Income Core countries	US Treasury 10 year Govie	-1,3%	-3,4%	3,05	3,20	-0,4%
	UK 10 year Gilt	-1,2%	-2,4%	1,59	2,00	-2,9%
	German 10 year BUND	-1,6%	-0,5%	0,53	0,80	-2,1%
	Japanese 10 year Govie	-0,1%	-0,5%	0,11	0,10	0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,3%	1,5%	1,50	1,60	-0,5%
	Italy - 10yr Gov bond	3,2%	-5,3%	2,84	2,70	1,9%
	Portugal - 10yr Gov bond	0,5%	1,7%	1,86	2,20	-2,2%
	Ireland - 10yr Gov bond	-1,3%	-2,5%	1,01	1,00	0,4%
	Greece - 10yr Gov bond	2,7%	3,3%	4,00	4,50	-2,9%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,1%	-0,4%	67,37	85	-1,2%
	Credit EUR HY-Itraxx Xover	1,4%	0,2%	267,13	330	-2,0%
	Credit USD IG - CDX IG	0,3%	1,7%	59,40	**60**	0,5%
	Credit USD HY - CDX HY	0,9%	3,6%	314,70	**370**	-0,5%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	29,1%	-38,0%	17,18	**16,00**	26,6%
	Russia - 10yr Gov bond	1,9%	-2,1%	8,54	**7,70**	15,3%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	-0,2%	-10,4%	8,14	7,25	15,2%
	India - 10yr Gov bond	0,0%	-0,1%	8,02	7,00	16,2%
	Philippines - 10yr Gov bond	-9,3%	-16,3%	7,63	7,00	12,7%
	China - 10yr Gov bond	0,0%	4,7%	3,61	3,25	6,5%
	Malaysia - 10yr Gov bond	-0,1%	1,7%	4,07	3,25	10,7%
	Thailand - 10yr Gov bond	-0,1%	-1,1%	2,62	2,00	7,6%
	Singapore - 10yr Gov bond	-0,9%	-2,6%	2,49	2,00	6,4%
	South Korea - 10yr Gov bond	-0,3%	2,5%	2,29	2,25	2,6%
	Taiwan - 10yr Gov bond	-0,3%	1,3%	0,87	1,75	-6,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	0,8%	4,2%	7,89	8,00	7,0%
	Mexico - 10yr Govie (USD)	-0,2%	-3,9%	4,48	4,60	3,6%
	Brazil - 10yr Govie (Loc)	6,4%	-2,0%	11,45	**11,00**	15,1%
	Brazil - 10yr Govie (USD)	1,5%	-6,2%	5,97	**5,38**	10,8%
	Argentina - 10yr Govie (USD)	16,7%	-24,3%	9,37	**8,20**	18,7%
Commodities	Oil (WTI)	3,3%	19,4%	72,1	50,00	-30,7%
	GOLD	-1,5%	-9,2%	1.182,4	1.100	-7,0%
Fx	EURUSD (price of 1 EUR)	0,3%	-3,0%	1,164	1,15	-1,2%
	GBPUSD (price of 1 GBP)	0,9%	-3,2%	1,31	1,35	3,2%
	EURGBP (price of 1 EUR)	-0,6%	0,2%	0,89	0,85	-4,3%
	USDCHF (price of 1 USD)	0,9%	0,3%	0,98	0,99	1,1%
	EURCHF (price of 1 EUR)	1,2%	-2,7%	1,14	1,14	-0,1%
	USDJPY (price of 1 USD)	2,1%	0,6%	113,36	111,20	-1,9%
	EURJPY (price of 1 EUR)	2,4%	-2,4%	131,96	127,88	-3,1%
	USDMXN (price of 1 USD)	-1,6%	-4,4%	18,78	19,15	1,9%
	EURMXN (price of 1 EUR)	-1,2%	-7,2%	21,86	22,02	0,7%
	USDBRL (price of 1 USD)	-1,0%	21,1%	4,01	**3,80**	-5,3%
	EURBRL (price of 1 EUR)	-0,7%	17,6%	4,67	4,37	-6,4%
	USDARS (price of 1 USD)	6,8%	111,4%	39,30	**40,00**	1,8%
	CNY (price of 1 USD)	0,8%	5,9%	6,89	**7,00**	1,6%

** 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**	**20,0**	**10,0**	**14,8**	**5,0**	**10,1**	**5,0**	**6,7**
Short-Term debt & MM instrument	**25,0**	**31,3**	**15,0**	**20,8**	**5,0**	**9,4**	**0,0**	**3,3**
Fixed Income Long-Term - OECD	**30,0**	**24,0**	**20,0**	**16,0**	**15,0**	**12,0**	**5,0**	**4,0**
US Gov & Municipals & Agencies		18,0		12,0		9,0		3,0
EU Gov & Municipals & Agencies		2,4		1,6		1,2		0,4
European Peripheral Risk		3,6		2,4		1,8		0,6
Credit (OECD)	**20,0**	**15,0**	**20,0**	**15,0**	**15,0**	**11,3**	**5,0**	**3,8**
Investment Grade USD		7,5		7,5		5,6		1,9
High Yield Grade USD		3,0		3,0		2,3		0,8
Investment Grade EUR		2,3		2,3		1,7		0,6
High Yield Grade EUR		2,3		2,3		1,7		0,6
Fixed Income Emerging Markets	**5,0**	**4,8**	**7,5**	**7,1**	**10,0**	**9,5**	**15,0**	**14,3**
Latam Sovereign		1,0		1,4		1,9		2,9
Latam Credit		1,0		1,4		1,9		2,9
Asia Sovereign		1,7		2,5		3,3		5,0
Asia Credit		1,2		1,8		2,4		3,6
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		2,5		10,0		16,3		25,0
Japan Equity		0,8		3,0		4,9		7,5
Equity Emerging	**0,0**	**0,0**	**5,0**	**4,5**	**10,0**	**9,0**	**10,0**	**9,0**
Asian Equity		0,0		2,5		5,0		5,0
Latam Equity		0,0		2,0		4,1		4,1
Commodities	**0,0**	**0,0**	**2,5**	**1,8**	**5,0**	**3,5**	**5,0**	**3,5**
Energy		0,0		0,4		0,9		0,9
Minerals & Metals		0,0		0,3		0,5		0,5
Precious		0,0		0,8		1,6		1,6
Agriculture		0,0		0,3		0,5		0,5
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**2,8**	**5,0**	**5,5**
REITs		0,0		0,0		0,8		1,7
Alt.Energy (wind, solar, etc)		0,0		0,0		0,4		0,8
Market Neutral		0,0		0,0		0,8		1,7
Volatility		0,0		0,0		0,7		1,4
Currency Exposure (European investor perspective)								
EUR		92,0		84,7		78,1		70,3
USD		8,0		15,3		21,9		29,7

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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