GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review

Global Strategic Outlook – June 2019

Corporate Review

June 2019

Trade war intensifies but Fed's patient approach is having a soothing effect on markets

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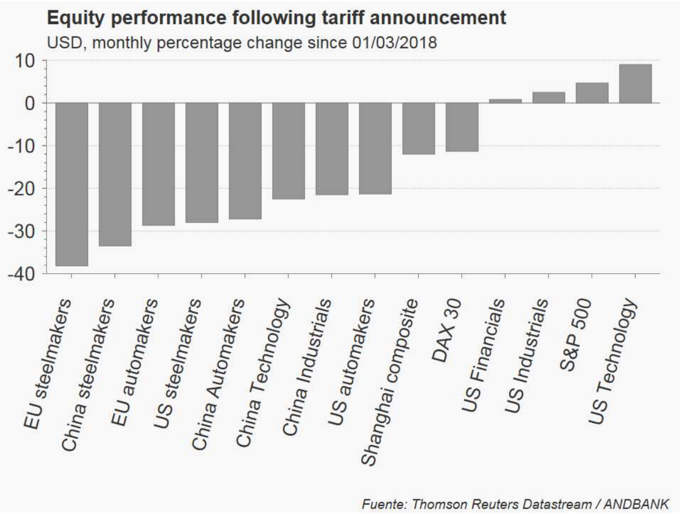
EXECUTIVE SUMMARY

CHART OF THE MONTH

China and the EU among the most affected by tariff war



EQUITIES

The recent market sell-off was not very big and a bit more volatility in the near term would be normal, even though we believe fundamentals remain constructive. The longer that the trade war persists, the more pressure the Fed will come under to cut rates. ***US S&P***: NEUTRAL, central point 2,800, exit point 3,070. ***Stoxx 600 Europe***: NEUTRAL, central point 387, exit point at 406. ***Spain (Ibex)***: NEUTRAL-POSITIVE, target 9,700. ***Japan (N225):*** NEUTRAL (cautious bias), target 22,250. ***China (Shenzhen):*** NEUTRAL-NEGATIVE, target 1,600. ***India (Sensex):*** NEUTRAL-POSITIVE, target 40,850. ***Brazil (Ibovespa):*** NEUTRAL, target 94,200. ***Mexico:*** NEUTRAL. ***Israel:*** NEUTRAL.

FIXED INCOME

Fixed income markets continued to perform positively last month. Financial conditions to remain generally supportive given dovish central banks, and risks such as trade tensions are likely to put a temporary cap on benchmark bond yields. ***UST 10Y:*** NEGATIVE, entry point at 3%. ***German Bund:*** NEGATIVE, target 0.35%. ***Spanish bono:*** NEGATIVE, target 1.25%. ***Italian bond***: POSITIVE, target 2.45%. ***Portuguese bond:*** NEGATIVE, target 1.50%. ***Irish bond:*** NEUTRAL, target 0.65%. ***EM bonds Asia:*** POSITIVE (preferred India, Indonesia, Malaysia, Philippines and China). ***EM bonds Latam:*** POSITIVE (preferred Brazil in local and USD, Mexico in local, Argentina in USD). ***Israel Gov Bond in USD:*** POSITIVE

CORPORATE CREDIT

USD Credit: Investors continue to exhibit a strong “up-in-quality” preference. A monetary policy environment that is "on-hold" is generally supportive for spreads as it tends to have a persistent positive impact on risk appetite. However we continue to hold a negative view for the asset class due to tight valuations. ***US$ CDX IG:*** NEGATIVE, target 70. ***Credit $ CDX HY:*** NEUTRAL-NEGATIVE, target 410.
EUR Credit: Volatility as Italy affairs and trade conflict have emerged. May saw the first week of outflows for €IG credit funds since January 2019. Spreads have widened across the board. Distinct behavior between CSPP-names and their ineligible peers. CSPP 2.0 needed? We continue to hold a negative stance on this asset. ***IG € (Itraxx):*** NEGATIVE, target 92. ***HY € (Xover):*** NEGATIVE, target 350.

CURRENCIES

Preferred currencies: BRL, AUD, CHF and CAD versus the USD. We consider MXN and RUB to be expensive.

COMMODITIES

It is unlikely that tensions in Hormuz could get out of control. Long global positioning suggests little room for further rises. No bottlenecks in the energy market, meaning that nobody should pay a large premium to secure immediate supplies. Sell WTI above US$ 65.

USA

Fed's patient approach can last, having a soothing effect on markets

Trade conflict

A recent paper by economists at the Federal Reserve Bank of New York, Princeton University and Columbia University concludes that the burden from the last round of tariffs in 2018 was largely borne by US consumers. Last year's tariffs and retaliation from China probably shaved 0.1% to 0.2% off US growth. For now, we are tentatively reducing our GDP forecasts for 2019 by 20 bp. This may exacerbate the current slowdown in growth, but is far from a recessionary shock. In terms of inflation, tariffs applied from March 2018 led to a 15 bp increase in core inflation. Without new tariffs, the boost to core PCE acceleration would be temporary. But with the hike from 10% to 25% on $200bn, we believe the 15 bp of the tariff boost will be sustained.

How will the Fed respond?

The longer that the trade war persists, the more pressure the Fed will come under to cut rates. The market is now pricing in a roughly 50% probability that the Fed will cut in September. President Trump has been making the case for the Federal Reserve to cut rates since the beginning of the year and has added to the pressure felt after the new tariffs came into effect. His argument is simple – if the Chinese are going to ease monetary policy to weaken their currency and offset the tariffs, then the Federal Reserve should "match" China in any aid in the trade war. Fed officials have thus far been arguing that a "wait and see" approach is prudent, presumably with hopes that there would be a resolution to the trade war shortly. Under our baseline forecast –a handshake agreement is reached by the end of June around the G-20 meeting– the Fed would be correct to stay on hold given that the shock to the economy would prove temporary. Consequently, we maintain our call for one hike at the end of the year, but recognize the downside risk.

US equity market

The recent market sell-off was not very big and a bit more volatility in the near term would be normal, even though we believe fundamentals remain constructive. We're not totally dismissing the possibility of a prolonged trade war, but we think cooler heads will eventually prevail. We may have to tolerate more volatility in the near term while President Trump and Chinese President Xi pursue a new path to compromise, and tariffs may remain in place for a while so President Trump can show he's playing hardball, while China can show it is willing to walk away. A commonly uttered phrase in stock market investing is "Sell in May and go away". In the absence of a full blown trade war, we think this year could be different. While there may be volatility around trade, we note that the macro backdrop isn't all bad. Furthermore, 1Q earnings season has been positive so far, above analysts' forecasts, which is much better than the original outlook for an earnings recession. Some 94% of the S&P 500's market cap has reported 1Q. Earnings are outperforming by 6.6% with 72% of companies exceeding their bottom-line estimates. This compares to 5.4% and 71% over the past three years. 1Q expectations are for revenues and EPS growth of 2.5%, and 2.5% respectively. EPS is on pace for 2.9%, assuming a typical beat rate for the remainder of the season. For the time being we have no reason to change our year-end fundamental target price for the S&P 500 of 2800.

Financial market assessment

Equities – S&P: NEUTRAL. Target 2,800. Exit point 3,070

Bonds – Govies: NEGATIVE (10Y UST entry point 3%)

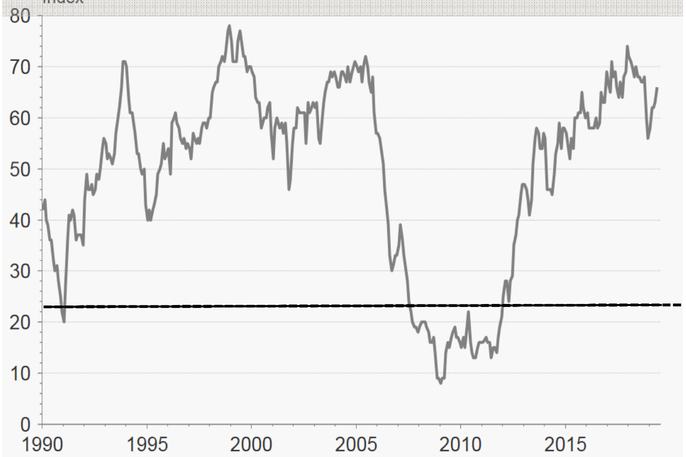
CDX IG: NEGATIVE (Target Spread 70)

CDX HY: NEUTRAL-NEGATIVE (Target Spread 410)

Forex – DXY index: NEUTRAL

US NAHB housing market index

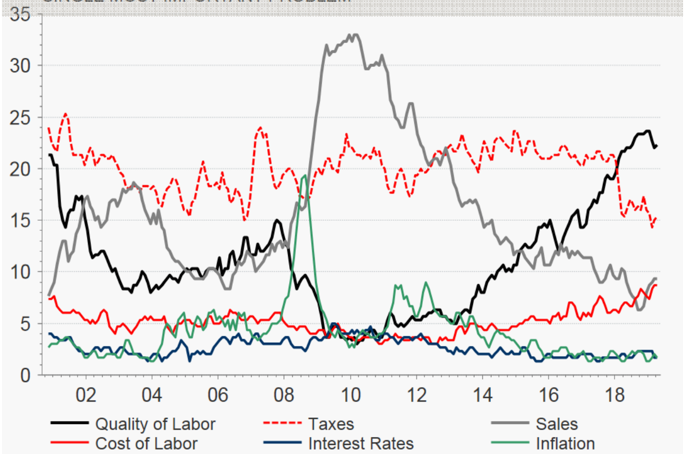
Index



Fuente: Thomson Reuters Datastream / ANDBANK

US BUSINESES ASSESSMENT (NFIB)

SINGLE MOST IMPORTANT PROBLEM



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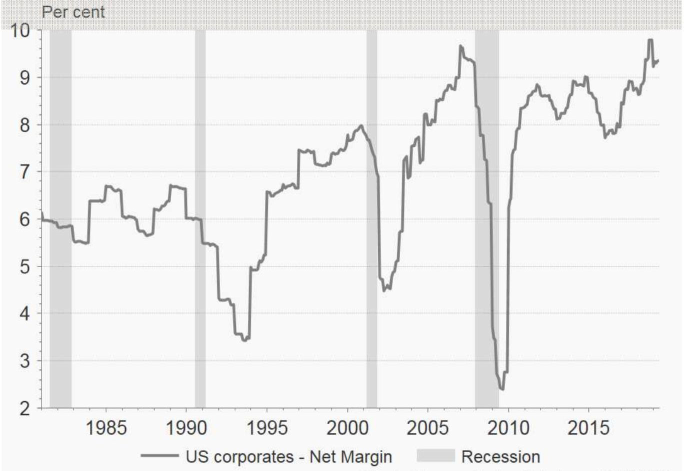
US corporates - Net Margin

Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

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MACRO ECONOMY

EUROPE

Stabilization for now, though risks remain

Industrial stabilization could be closer

European economic data showed some relief in May. Overall positive surprises in GDP growth rates and better manufacturing PMIs. It still remains to be seen if it will be a short-lived recovery as some external risks have recently deteriorated and certain supportive factors could prove to be temporary. For now, downward revisions for European growth have halted. In terms of Inflation, both core and non-core readings picked up in April, with headline CPI increasing to 1,7%, and core inflation to 1.3% YoY. However we suspect that these gains might be partly explained by seasonal effects. Despite this, inflation expectations have returned to low levels, which leaves us with mixed feelings about prices, but no deflation in sight.

ECB: No rate hikes until 2020 (or longer)

We expect the ECB will define the TLTRO III final conditions at its next meeting in June. Beyond that, June seems too early for further steps clarifying the forward guidance. We do not expect new announcements regarding the depo tiering, or about interest rate decisions. We do not foresee any rate hikes until at least 2020.

Fixed Income market: Government bonds & Corporates

Yields are still well below our targets but we are not changing them, since we still see overblown valuations for many of these bonds. Italian bonds have underperformed recently, decoupling from the rest of peripherals, pricing in Salvini's more aggressive message. Should this rhetoric continue after the European elections, the European Commission would get tougher on Italy, leading to wider spreads and/or volatility. Target for Italian bonds under review. We are slightly cutting the 2019 target for the 10Y Irish bond to 1.5% (from 1.65%). **In the European credit market**, volatility has appeared as Italy affairs and trade conflict have emerged again. Spreads have widened across the board. The only aspect we can observe is the distinct behavior between CSPP-names and their ineligible peers, opening a debate about whether a CSPP 2.0 will be necessary? YTD issuance is close to 2016's record level, with non-fins being very active. In terms of flows, May saw the first week of outflows for €IG credit funds since January 2019. We keep our negative stance for this asset class.

Equity market

A tale of "the bitter and the sweet" for European companies in this earnings season. While sales growth has been better than expected, profit margins missed expectations in all sectors. This is due to higher than anticipated labor costs (in all sectors but banks), and raw material prices in EUR terms rising and affecting consumer companies. On the positive side, sales did better than expected, helped by a weaker euro, which boosted sales abroad. We are adjusting our target for margins in Stoxx Europe 600 and Euro Stoxx (to 8.2% and 7.4% respectively), resulting in a lower FY19 EPS growth (now fixed at 1%) and lower target prices for these indexes.

Financial market assessment

Equities – Stoxx Europe: NEUTRAL. Central point 387. Exit 406

Equities – Euro Stoxx: NEUTRAL. Central point 379. Exit 398

Bonds – Core governments: NEGATIVE (Bund target yield 0.35%)

Bonds – Peripheral: MIXED (SP 1.25%, IT 2.45%, PO 1.50%. IE 0.65%)

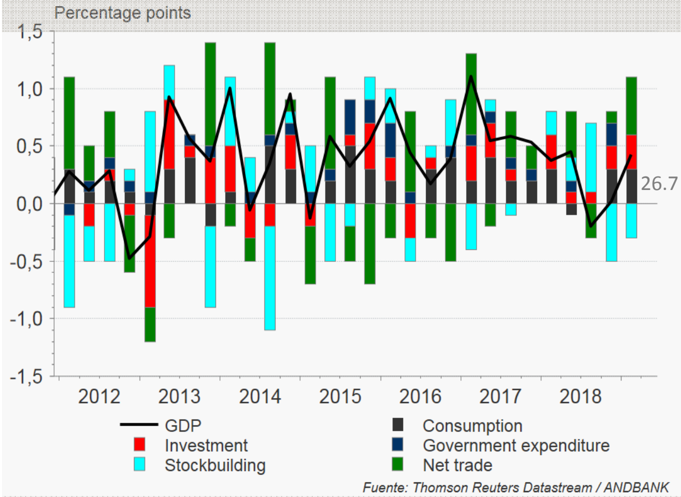
Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 92)

Credit – Itraxx Europe (HY): NEGATIVE (Target Spread 350)

Forex – EUR/USD: NEUTRAL (1.125)

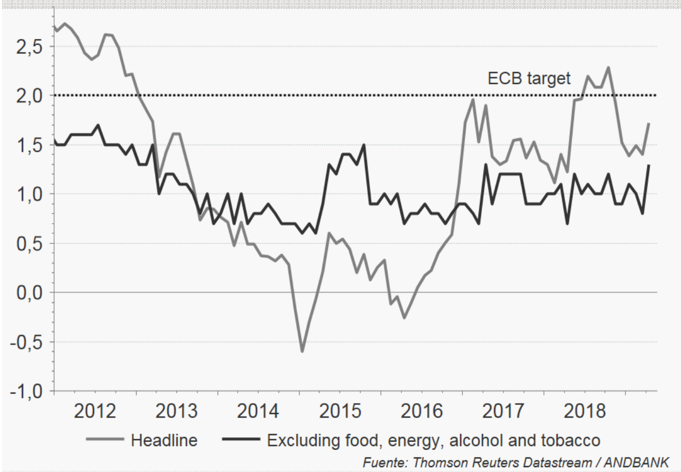
Germany contributions to quarterly growth

Percentage points

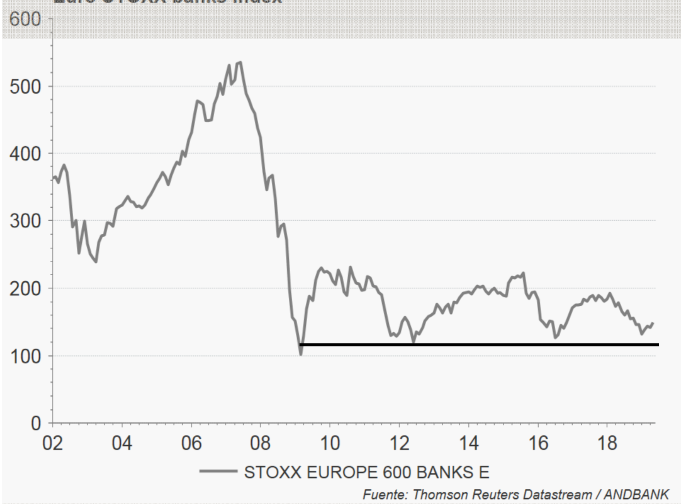


Euro area inflation

Twelve-month percentage changes



Euro STOXX banks Index



ANDBANK Private Bankers

SPAIN

Credible fiscal accounts mean Spanish bonds won't struggle

Governance & Fiscal Policy

The polls rewarded the current government party with 57 deputies more than the second-largest force in Congress, so despite not having an absolute majority it seems it could form a government that breaks through the scenario of ungovernability. That said, it will not be easy to form a broad majority government. In addition to an investiture process, which is likely to be passed in Congress with Pedro Sanchez as president, in three months time MPs will also have to pass the national budget, which was already rejected last year by the regionalist parties, meaning that it must be approved this time around.

Domestic improvements are continuing

The data released for 1Q19 confirmed an acceleration in the GDP growth rate to +0.7% QoQ (2.4% YoY). This rebound has led to improvements in the forecasts by virtually all analysts and official bodies that now put the expected GDP this year at 2.2%, one tenth above Andbank's projections. Looking forwards, the indicators point to a somewhat weaker second quarter, with a certain deceleration in vehicle registrations and the construction sector. Despite this, the OECD's leading indicator has gone from 1.85% in December to 1.98% in March, consistent with our forecasts. This, plus the optimism coming from the industrial sector (based on the outlooks issued in recent surveys) and an external sector still showing positive dynamics, justifies our confidence in our FY2019 GDP growth forecast of 2%-2.1%. The debt service cost continues to decrease (falling from 2.8% of GDP in December to 2.3% in March). The foreign sector still does not require net funding, so despite the increase in public expenditure driven by this year's elections, we maintain our forecast of a public deficit at 2.2%.

Spanish equities

The corporate results season for the Spanish market is over. Company sales have come in above consensus, but margins were 20 basis points below expectations, and thus earnings ended slightly below consensus. Analysts and investors have raised their forecasts for sales and boosted earnings per share up to 800 euros. At this point, we have no choice but to maintain our end-of-year EPS target (at €780), depending how external risks affect the Spanish market, the most obvious of which continues to be Brexit.

Spanish bond market

Within its 2019/2022 stability plan, the ruling party (PSOE) has presented credible accounts and forecasts. A 10-year government bond at 0.89% confirms this, and our scenario is that, despite being expensive, Spain's bond market should not suffer from greater risk perception relative to other European countries as a result of its fiscal policy.

We fix the target spread for the Spanish bond and Bund at 90 bp, which means that we are forecasting a yield for this bond at 1.25%.

Spanish bonds – Financial market assessment

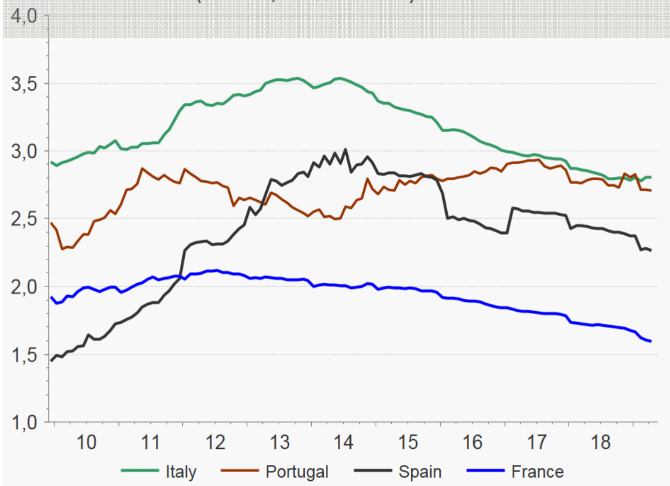
Equities – IBEX: NEUT-POSITIVE. Target 9,736. Exit point 10,200

Bonds – Government: NEGATIVE (BONO target yield 1.25%)

Credit – Investment grade: NEGATIVE

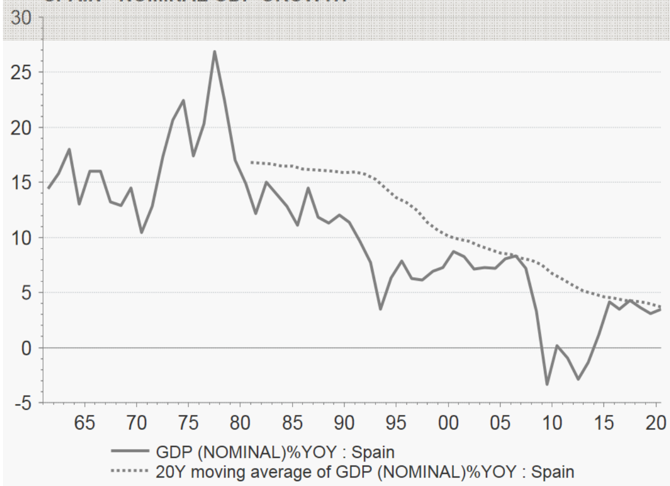
Credit – High yield: NEGATIVE

DEBT SERVICE (1 YEAR, AS % OF GDP)



Fuente: Thomson Reuters Datastream / ANDBANK

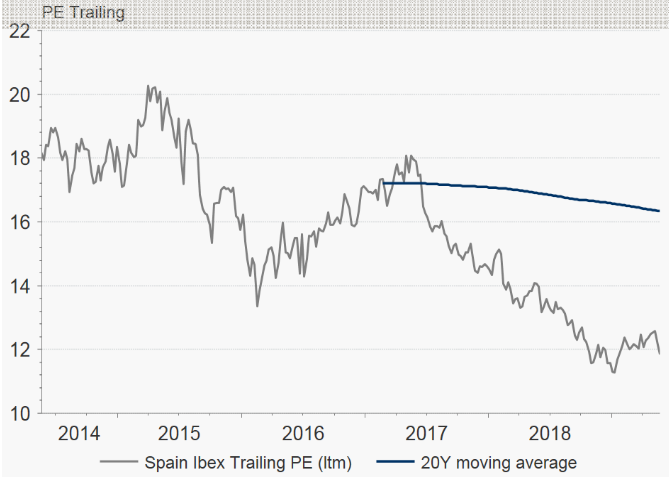
SPAIN - NOMINAL GDP GROWTH



Fuente: Thomson Reuters Datastream / ANDBANK

SPAIN IBEX

PE Trailing



Fuente: Thomson Reuters Datastream / ANDBANK

JAPAN

Japan weighing up economic downgrade again

Economics. Data disappoints again.

The Japanese government is considering downgrading its assessment of the economy next week. This could fuel speculation that Prime Minister Shinzo Abe may once again delay a planned sales tax increase set for October.

Negative macro figures: March final industrial production -0.6% MoM (vs prior +0.7%). March tertiary sector activity index -0.4% MoM (vs prior 0.6% MoM and consensus of +0.1%) with April services PMI falling to 51.8 vs 52.0 in prior month. Leading economic index 96.3 vs 97.1 in prior month. April consumer confidence index 40.4 vs 40.5 in prior month.

Positive macro figures: 1Q GDP unexpectedly grew at 2.1% SAAR. Going forward, Q2 GDP is expected to expand 1.1% as public works spending from the supplementary budget takes effect. April composite index grew to 50.8 (vs 50.4 prior), with manufacturing PMI expanding to 50.2 vs 49.2 in prior month. March household spending +2.1% YoY vs consensus +1.6% and +1.7% in prior month.

More Abenomics & Kurodanomics in sight

A Nikkei report discussed the growing debate around the need for more stimulus, with Japan's economy officially described as deteriorating for the first time in over six years as policymakers prepare for an upper house election in the summer and a tax hike in the fall. BoJ Governor, Haruhiko Kuroda, also said in parliament that he would consider additional easing without hesitation if consumer prices lost upward momentum. He also reaffirmed the BoJ's forward guidance, which committed to keeping rates low until at least the spring of 2020, while at the same time clarified that this "does not mean policy will be re-evaluated immediately after that" (it sounds like "lower for longer").

Corporate earnings post first decline in 3 years as China slows

The Nikkei reported FY net profits from 849 companies fell 2% (as of Friday 10 May) as China's slowdown squeezed demand for smartphones and semiconductors, while the Sino-American trade war continues to loom over future earnings. Forward guidance points to 4% growth in the current year ending March 2020, though estimates still do not account for possible tariff hikes against China by the US.

US urges Japan to cut tariffs for farm goods

The US Agriculture Secretary, Sonny Perdue, said on May 11 after a meeting with his Japanese counterpart that he is eager to reduce his country's large trade deficit with Japan, in the latest push to seek the removal of tariffs on American farm products. Perdue noted that the prospects of the talks are "hopeful" and that the two countries "should be able to come together and conclude these negotiations in a very mutually beneficial way". In other matters, the Japanese government is set to tighten restrictions on foreign investors buying into domestic high-tech manufacturers, in a move that closely reflects the US and its hardline policy on investments from China. Under Japan's plan, to be implemented by the end of 2019, any investment in makers of Japanese technology products like PCs, mobile phones and chips could be blocked if it is deemed to be a national security threat.

Financial market outlook

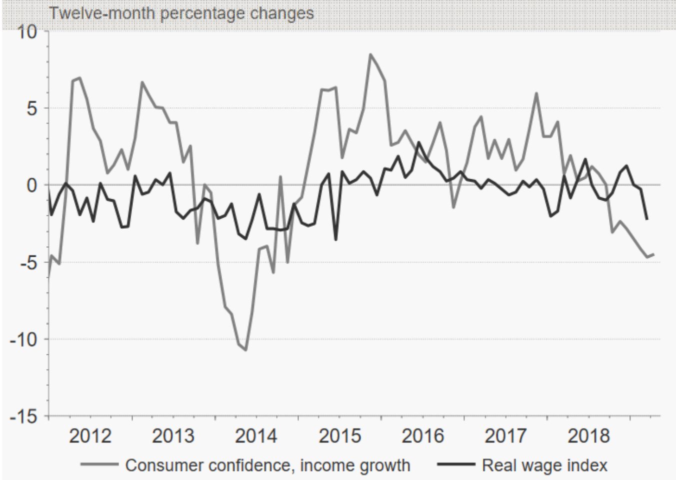
Equities – N225: NEUTRAL (cautious). Target 22,250 (Exit 23,300)

Bonds – Govies: NEGATIVE. Target yield 0.10%

Forex – USD-JPY: NEGATIVE. Mid-term target 114

Japan consumer confidence and wages

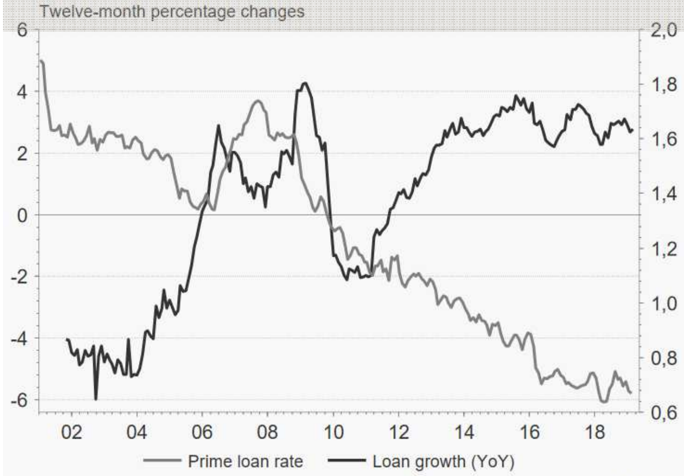
Twelve-month percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

Japan bank lending growth

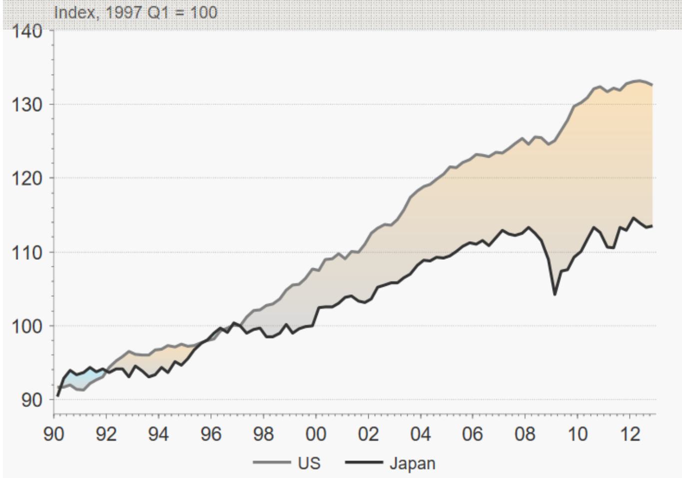
Twelve-month percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

Labour productivity

Index, 1997 Q1 = 100



Fuente: Thomson Reuters Datastream / ANDBANK

CHINA
Economic slowdown confirmed

Macro figures

Industrial output growth fell to 5.4% YoY in April (far below the prior month 8.5%). Retail sales growth also decelerated to 7.2% YoY (below the prior 8.7%). January-April Fixed Asset investments decelerated to 6.1% growth YoY (vs 6.3% in prior month). Credit growth slowed to 10.6% YoY in April. Car sales fell by 14.6% YoY, accelerating the slowdown since March (-5% YoY). In short, the relatively robust growth seen in 1Q19 will not be repeated in 2Q19.

China responded to Trump's tariffs with more tariffs

Although the parties confirm that negotiations are ongoing, the only certainty is that China responded by increasing the tariffs on US products worth US$60 bn. Washington has now started preparing tariffs of 25% for the remaining US$340 bn of Chinese imports. If this continues, we could soon have 100% of the bilateral trade between these two giants covered by punitive tariffs. Beijing may prepare new stimulus in the form of a cut in bank reserve ratios (again) in order to bring interbank rates down, without discarding new "instructions" from the government so that national banks can accelerate lending in an environment with a growing default rate, which quadrupled in 2018 with respect to 2017, and is accelerating again in 2019. The devaluation of the RMB pushes back Beijing's project of becoming a regional reserve currency. Sales of treasuries (claimed by some to be a weapon that could be used by Beijing) do not represent an effective defense mechanism either. The purchase of USTs is, in itself, a way to depreciate the RMB. Furthermore, there is no asset in the world capable of replacing USD 1.15trn in treasuries in central bank reserves, without the quality of such a balance sheet being compromised.

Our assessment

Further stimulus means that China could be positioning itself for an unprecedented escalation of tensions. Trump's constant interventions in the media and social networks, pointing out that the US is in an unbeatable position, do not help either. With a longer term view, new stimulus in China may put the economy back on a path to imbalance. In the first four months of 2019, tax revenues have grown 5%, while expenses have increased by 15%, which leads us to think that this strategy could be wet gunpowder and thus short-lived. More importantly, this will squander two years of work in China, after Beijing's implementation of the national deleveraging program.

The most probable short term effect of all this could be the repetition of the sell-off in Chinese assets that we saw in 2018. We can not rule out all the accumulated gains in 2019 being lost. Tariffs and stimulus also represent a bearish combination for the RMB, especially when the PBoC now seems less inclined to resist the currency's downward pressure.

In the longer term, Beijing's more than evident resistance to restoring itself as a market economy has dampened our outlook for such a transformation any time soon. We must therefore adjust our structural view towards a market that is likely to remain planned (and therefore less efficient) for an indefinite period of time.

Financial market outlook

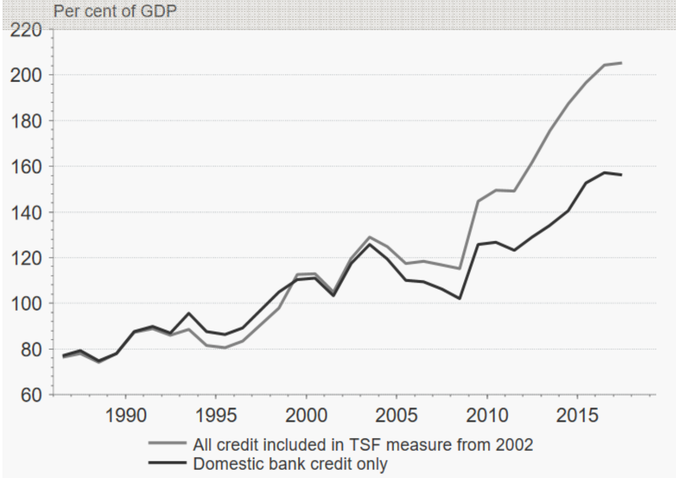
Equities – SHANGHAI Idx: NEUTRAL-NEG. Target 3,000. Exit 3,190

Equities – SHENZHEN Idx: NEUTRAL-NEG. Target 1,600. Exit 1,690

Bonds – Govies: POSITIVE (target yield 2.75%)

Forex – CNY/USD: NEUTRAL-POSITIVE (target 7.00)

China credit to private non-financial sector
Per cent of GDP

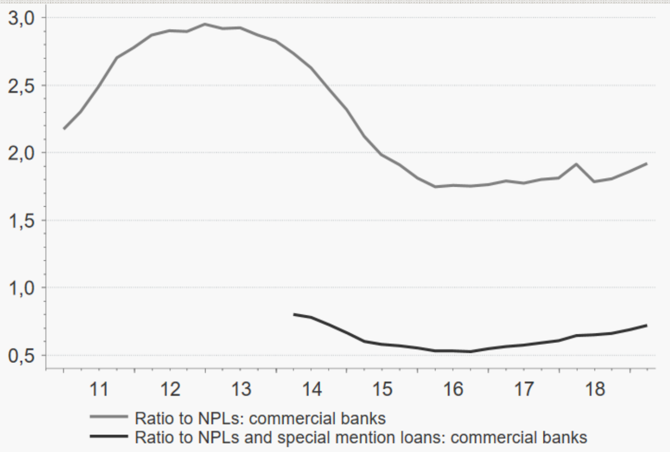


Fuente: Thomson Reuters Datastream / ANDBANK

China imports from US
Per cent of total China imports

Fuente: Thomson Reuters Datastream / ANDBANK

China commercial bank provision coverage
Ratio



Fuente: Thomson Reuters Datastream / ANDBANK

INDIA
Modi's victory satisfies foreign investors

Elections' results

The BJP party (Modi) won 292 of the 542 seats (well above the 272 that mark the absolute majority). This result represents the first time since 1984 that a single party has achieved an absolute majority. Beyond the BJP, the coalition led by Modi, with which the BJP contested the elections and with which it governed in the last legislature (the National Democratic Alliance, NDA) has obtained 347 seats out of 542.

Election results

Despite the complex situation in the country (where the sharp fall in international agricultural prices has caused a decline in the incomes of farmers and rural workers, who represent 50% of India's population), this result confirms citizens' support for Modi's economic management. This, in our opinion, will give wings to the Modi government to continue with the reform agenda undertaken in the last four years, aimed at modernizing the economy, digitalizing it, consolidating public banks or streamlining the tax system. This NDA coalition will probably be maintained, which will endow enormous consensus and legitimacy to the reforms. If the reform agenda continues as in the last four years (as we believe), this will favor the economy, and therefore the country's assets.

The for…

India's market has always done well in the year following elections (irrespective of the outcome), outperforming emerging markets and with mid-caps leading the market. India went into elections in 2009 and 2014 just after significant disruptions with distinct macroeconomic risks and currency challenges. There is some disruption this time too (the NBFC challenge), BUT there has been a fair bit of economic reform and hard work carried out. Additionally, one can expect fiscal and monetary conditions to continue favoring the market (strong imperative for growth and rural voter calls), with pre-poll expectations (market and media) suggesting a continuation of the current government. There is a case to load up and play risk and upside. How much could the stimulus be? There is a significant cushion of low inflation that opens up more policy flexibility.

The against…

India seems to be expensive at current PE multiples, trading higher than ever before going into an election (17.5X 12 month forward, or 1SD from its mean), as the market has remained relatively optimistic over the last three months. More importantly, there is a marked dip in consumption within the economy, credit/funding caution, and limited corporate risk appetite. This indicates that the business cycle could be a little bit stretched, and a recovery is likely to be somewhat laborious. **Fundamentals and macro data continue to be uninspiring**, with India's unemployment rate in April accelerating to 7.6% (the highest since October 2016). India's trade deficit widened to US$15.3 bn in April 19 due to slowing export growth (0.64% YoY) and rising imports (4.5% YoY) as crude prices rose. However, the positive corporate results from ITC Ltd help to provide an overview of how the economy is evolving, since ITC Ltd is one of India's foremost multi-business enterprises, with a diversified portfolio of businesses, spanning FMCG, paperboards & packaging, agri-business, hotels and information technology. For the quarter ended March 2019, ITC Ltd registered a 13% rise in standalone sales, with operating profit growing 20% and EBT up 14%.

Financial market outlook

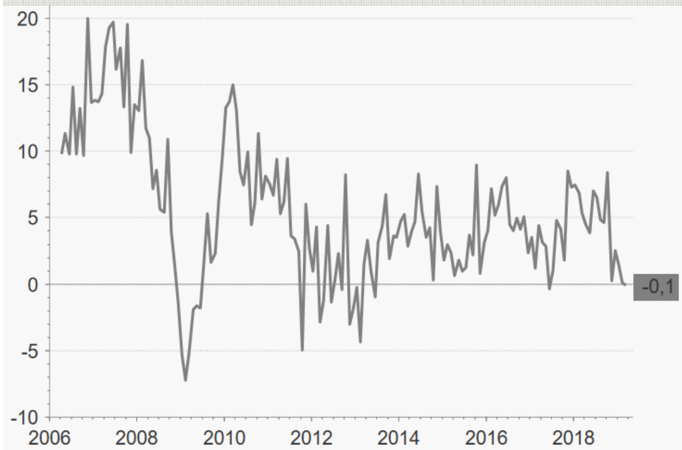
Equities – SENSEX: NEUTRAL-POSIT. Target price 40,850. Exit 42,885

Bonds – Govies: POSITIVE (target yield 6.80%)

Bonds – Corporates: POSITIVE

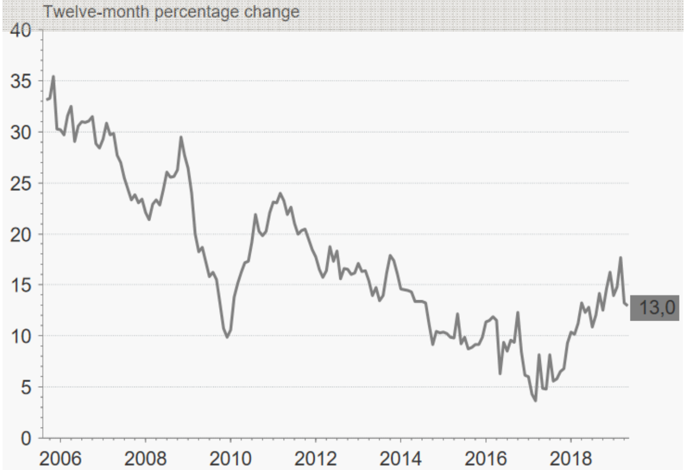
Forex – INR/USD: STABLE (target 72)

India industrial production
Twelve-month percentage change



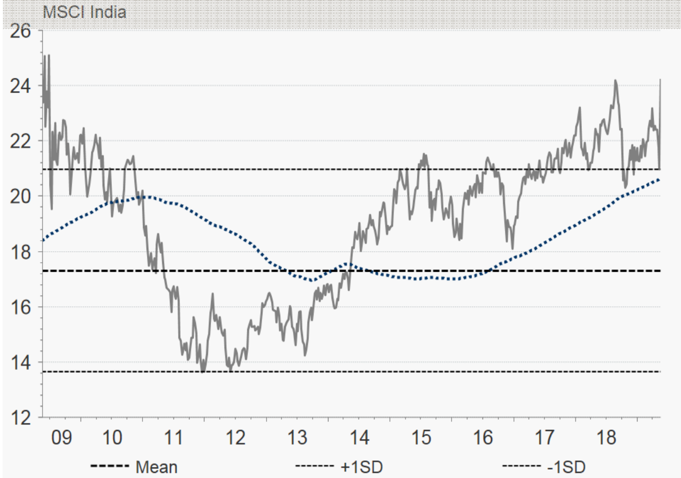
Fuente: Thomson Reuters Datastream / ANDBANK

India domestic credit
Twelve-month percentage change



Fuente: Thomson Reuters Datastream / ANDBANK

PE - India
MSCI India



Fuente: Thomson Reuters Datastream / ANDBANK

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MACRO ECONOMY

ISRAEL
GDP growth accelerates temporarily to an annualized rate of 5.2%

Politics

In the past month, Benjamin Netanyahu was elected to form the Israeli parliament. As of today, the coalition negotiations have not yet succeeded and no government has been formed. During the discussions, there was an escalation in the Gaza strip with hundreds of missiles being fired at Israel.

Economics: Growth accelerates. Central bank maintains rates.

In the 1Q 2019 Israel's GDP grew above expectations at an annualized rate of 5.2%. The relatively high growth rate was due to the "green tax" that accelerated vehicle imports and purchases. Excluding the impact of the "green tax", the domestic economy grew at 3.7%, a still relatively high rate. The April CPI slightly missed forecasts, posting just a 0.3% increase compared to forecasts of 0.5%. Following the data and in light of the CPI's seasonality, together with the sharp appreciation in the shekel since the beginning of the year and the rise in global risks, we continue to believe that there will be no interest rate rises, at least until the end of the year. During the month, the Bank of Israel announced that it is keeping the interest rate unchanged due to appreciation of the Shekel, moderate inflation and increased global risks.

Israeli Capital Markets. A quick assessment

Equity market: In April the TLV-125 index rose 3.5%. During the month, the Israeli stock market was supposed to be influenced by the violent escalation in the Gaza strip. Nevertheless, neither the escalation in Gaza, nor the ceasefire that came after, have had any effect on the local stock market, which was impacted in May by the escalation of the trade war between the US and China as shown by its performance in May (-1%). Looking forward, during the 1Q19 earnings season, most companies reported good results and are expected to demonstrate continued growth. The large-cap TLV 35 index is trading (as of April 21st) at its average PE LTM multiple of 14.2x, with net 2018 earnings average growth of +10.2%.

Bond market: The Israeli bond market saw an increase in volatility in recent weeks due to better than expected economic data and a worse than expected government budget deficit. The government bond yield curve in local currency saw a significant flattening, with the two-year government bond yield at 0.6% (compared to 0.55% last month), while the longer 10-year bond offers a yield close to 1.9% (compared to 2% last month).

Corporate bond market: The Israeli investment grade index Tel-Bond60, is trading in a 1.1% spread near the lows of the last six years (compared to 1.07% last month). The Israeli high yield index Tel-Bond-Tsuot, trades today in a 2.37% spread compared to 3.12% last month. The drop in the spread of the HY index was due to an exclusion of a double-digit high-yield bond from the index (IDB Development). .

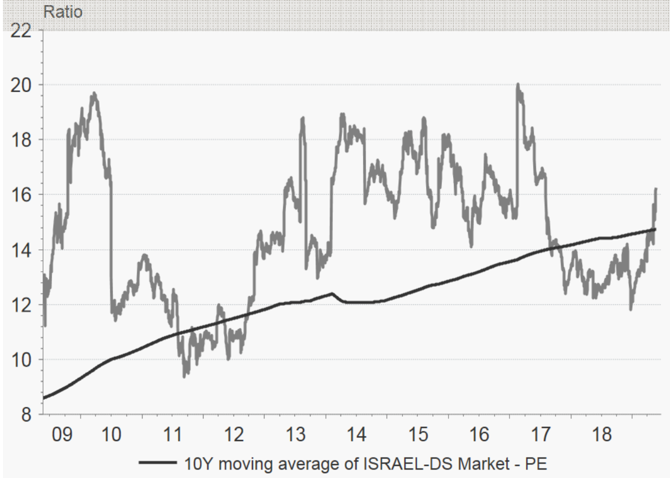
FX: The Israeli Shekel had gained almost 6.5% against the Euro since the beginning of 2019, compared to 0.55% last month.

Financial market outlook

Equities – TLV35 Index: NEUTRAL-NEGATIVE (Slightly expensive)

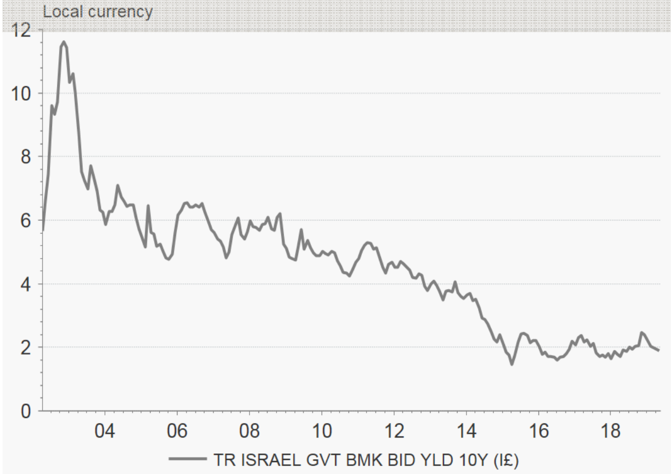
Bonds – 10YGov USD: CHEAP (Current SPREAD over UST +72bp)

Israel price/earnings, Datastream index
Ratio



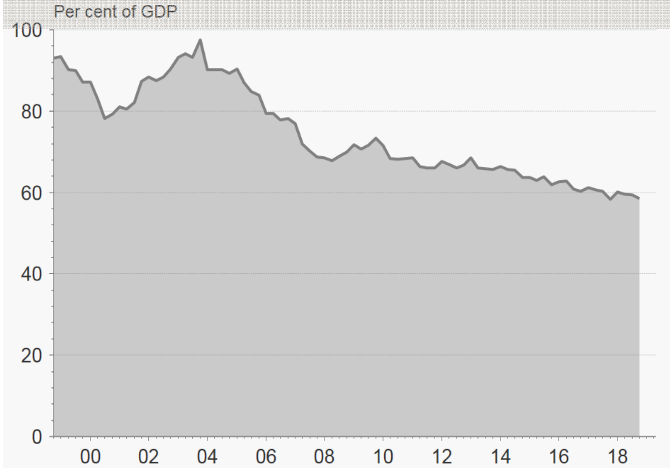
Fuente: Thomson Reuters Datastream / ANDBANK

ISRAEL GOVERNMENT BMK YIELD 10Y
Local currency



Fuente: Thomson Reuters Datastream / ANDBANK

Israel central government debt
Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL

Reform agenda moves despite the noise

Political noise and the liberal agenda

The political noise has persisted over the last month. Further frictions within Bolsonaro's government have occupied the local political headlines, with confrontations between the ideological and the military groups of the government. Despite the relative irrelevance of these matters, they create noise that feed negative news flows. On the same topic, we have had street protests against supposed budget cuts in educational policies and the Ministry of Education has announced budget contingencies, as other governments have done in the past. However, this time public opinion has reacted fiercely against it. The strained tone between the Executive and the Legislature has also persisted, while Bolsonaro is keeping his non-negotiation stance towards Congress. The latter is calling for more protagonism in the liberal reform agenda, trying to distance itself from the figure of the president. In this sense, we believe that the reform agenda will move forwards despite the political noise, given that the elected Congress has a more consolidated consensus than needed for the reforms to be implemented. Finance minister Paulo Guedes is working closely with Rodrigo Maia to produce a better understanding of the reforms among congressmen. The pension reform, in particular, has been approved by the first commission (CCJ) and is now going through the special commission, where we expected some changes to the bill.

Economics: activity remains weak

The economy continues to decelerate. As local market players continue to downgrade the expected GDP growth for this year, the current data confirm the slow pace of economic activity. The IBC-Br index, an activity index measured by the central bank, fell by 0.28% in March, accumulating a -1.37% variation in the last three months. Services volume has also decreased, by 0.70% in March. Inflation, however, is moving higher, mainly in food prices (which are up 9.10% YoY), which weighs heavier on lower income households.

Central bank

On the monetary policy front, the central bank has decided to hold the Selic rate at 6.50% per annum, indicating that fiscal uncertainties are still contributing to holding the interest rate at current levels, despite the very weak economic activity. Market players now expected GDP to grow at 1.0% this year (a huge downgrade compared to the 2.50% figure at the beginning of the year).

Brazilian Assets

The equity market has priced in a conclusion for the pension reform (in some magnitude). Our target for the Ibovespa is 94,200 points.

Government Bonds: Long term public debt dynamics will be dependent on reforms, however the market has also priced in a conclusion for the pension reform. We believe that the local 10Y bond will be at 8.5% by year-end. In USD we fix our yield target at 4.5%

Foreign Exchange: Reforms and external environment should be the main drivers for BRL. We should see BRL trading at BRL 3.75/USD in the medium term.

Financial market outlook

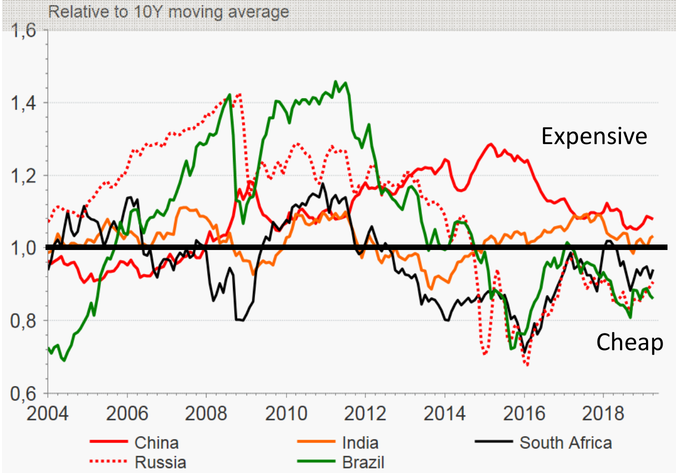
Equities – IBOVESPA: NEUTRAL (Target 94,200. Exit 103,600)

Bonds – Gov. Local: POSITIVE (Target spread 550bp. Yield 8.5%)

Bonds – Gov. USD: POSITIVE (Target spread 150bp. Yield 4.5%)

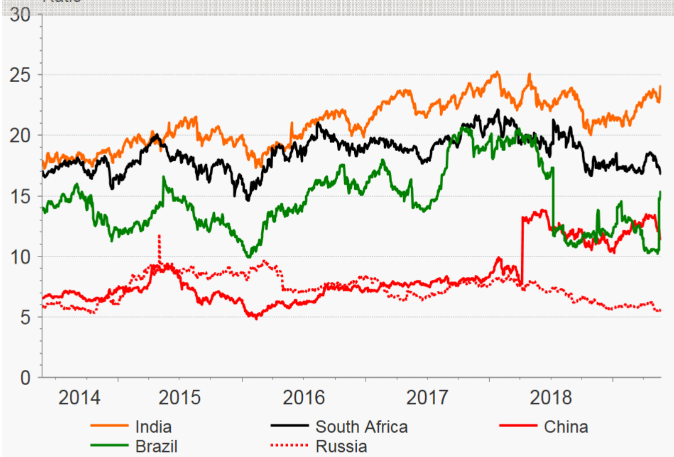
FX – BRL/USD: NEUTRAL-POSITIVE (Mid-term target 3.75)

BRICS real effective exchange rates (CPI-based)
Relative to 10Y moving average



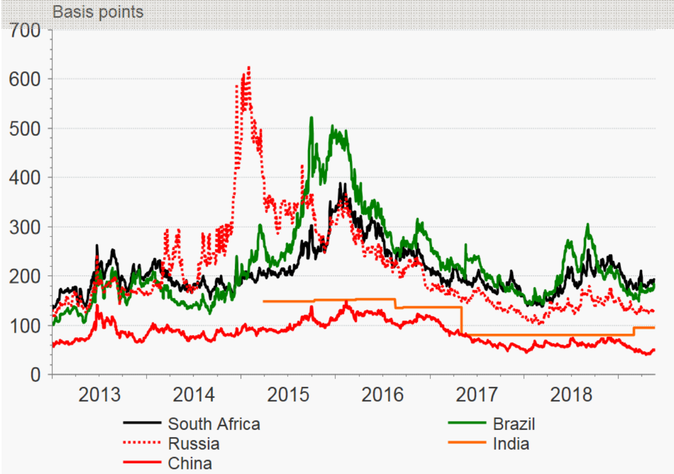
Fuente: Thomson Reuters Datastream / ANDBANK

BRICS PEs
Ratio



Fuente: Thomson Reuters Datastream / ANDBANK

5Y CDS
Basis points



Fuente: Thomson Reuters Datastream / ANDBANK

ANDBANK Private Bankers

MEXICO
Upside potential in local bonds. Not so much in equities

Political Risk

The Obrador administration saw how all the companies that tendered for the "Refinery" mega-project were eliminated from the tender due to price incompatibilities (they argued that the cost would be double the budget) and the execution time. In the face of such a reaction, Obrador announced that Pemex, together with the Secretary of State, will be responsible for the execution of this project. Pemex is the most indebted oil company in the world. Needless to say, this hit Pemex bonds heavily. To counteract the negative perception that hovered over Pemex, Obrador announced a package to refinance Pemex's debt through financial institutions such as JPM, worth USD8bn. A decree was also announced that would allow its tax burden to be reduced, estimated at MXN30bn for 2019. Our question is: Knowing that Pemex represents 20% of the state's tax revenues, how does the government plan to compensate for this fall in tax revenue?

Public Finance

A primary surplus has been maintained to date. However, revenues continue to be dependent on the tax on gasoline and have been lower than scheduled, highlighting the fall in consumer tax receipts in the face of an economic slowdown. Expenditure has also remained below budget, as expected. Under-spending was predicted in the first quarter of the year, as happens at the beginning of every six-year period, prior to the change of administration. If tradition prevails, we will begin to see deteriorating tax performance.

Central Bank and Monetary Policy

April inflation broke the upper end of Banxico's long-term target range, standing at 4.41%. Core inflation rose even more (in relative terms), increasing from 3.55% to 3.87%, given the impact of the Easter holiday period, affecting air travel prices and tourism services. Against this backdrop, Banxico decided to maintain its reference rate unchanged at 8.25%, showing a more hawkish tone compared to its previous statement. The risk of rising inflation remains due to some internal policy factors such as wage increases and due to an uncertain international environment, such as the exchange rate, that could affect local financial assets. Uncertainty around economic growth remains.

Equity Market

In Mexico the recent corrections eliminated the double-digit gains experienced in the local stock market YTD. Internal and external risks still persist. In particular, the economic slowdown and risks relating to the execution of the AMLO administration's economic policy and the ratification of the T-MEC would require a selection of very defensive names. We remain Neutral in this market despite the negative political news flow. The market is not expensive.

Mexican Bonds

Neutral perspective despite fiscal developments. There was a considerable downward shift in the entire yield curve, thanks to the entry of capital due to carry trade activity in 1Q19. The recent rebound in yields has been moderate (just 7 bp) and concentrated at the long-end of the curve. The transfer of risk from Pemex to the sovereign remains latent.

Financial market outlook

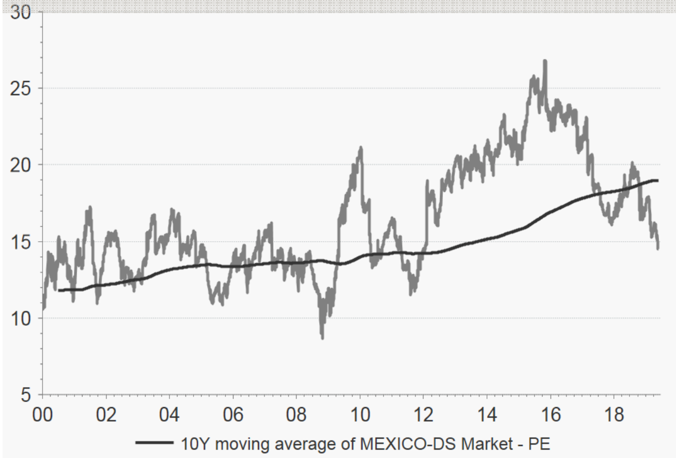
Equities – Mex IPC: NEUTRAL. Target 44,000. Exit 46,200

Bonds – Govies Local: NEUTRAL (Target spread 475, yield 7.75%)

Bonds – Govies USD: NEGATIVE (Target spread 175, yield 4.75%)

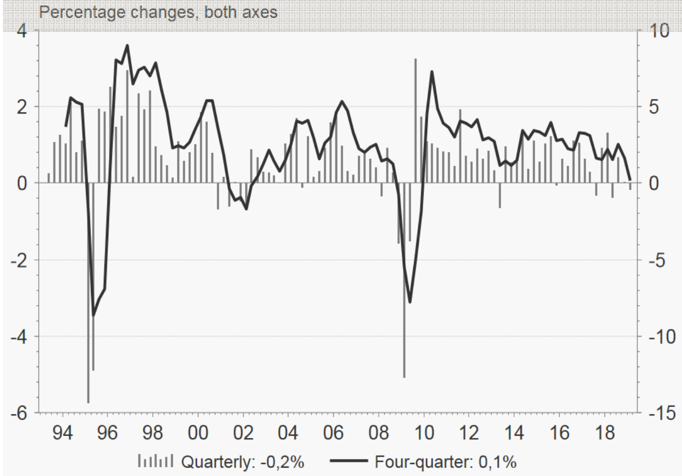
FX – MXN/USD: NEGATIVE (Mid-term target 20.00)

Mexico equities price/earnings ratio
Datastream index



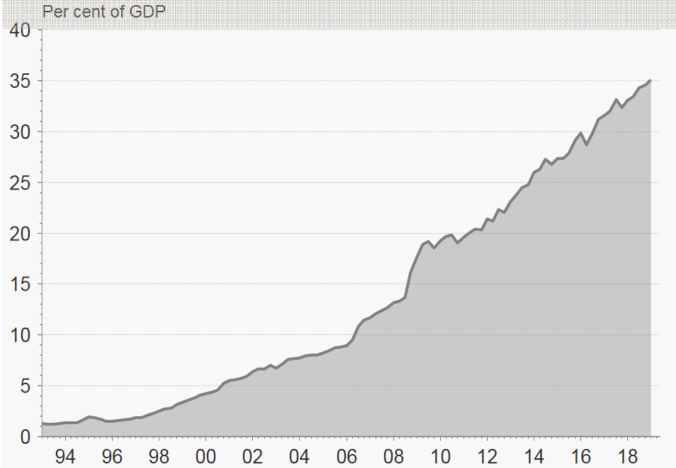
Fuente: Thomson Reuters Datastream / ANDBANK

Mexico GDP
Percentage changes, both axes



Fuente: Thomson Reuters Datastream / ANDBANK

Mexico central government debt
Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA

The implications of CFK's last unexpected movement

Finally, some good inflation and fiscal news

April's CPI increased +3.4% (vs +4.0% expected and +4.7% in March). It's worth noting the significant slowdown in the strongly weighted food and non-alcoholic beverages category that went from +6.0% in March to +2.5% in April. As per April's REM survey, inflation is expected to reach +40.0% in 2019 and 25.2% in 2020. Fiscal data for the month also recovered from the red figure in March as a primary surplus of ARS 499 million was registered (vs previous –ARS 13 bn). The YTD figure of ARS 10.845 bn (+0.05% of GDP) is the best primary fiscal number since 2011. Revenues rose 43.8% YoY, 8 pp above primary spending that increased 36.2% YoY.

More FX intervention allowed by the IMF means more FX and inflation stability

By the end of April, FX volatility increased significantly and the peso jumped close to 46ARS/USD. As a result, and with the IMF's approval, the BCRA announced more intervention in the FX market with the possibility of selling USD250 million/day (instead of USD150 million) if the exchange rate goes above the upper limit of the NIZ (Non Intervention Zone). However, it can also sell USD before the rate reaches the upper limit on days of high volatility. The measure contributed stability to the market and the currency depreciated +1.86% in April vs +10.72% in March. Based on April's REM, FX is expected to end 2019 at 51,2 ARS/USD.

Politics

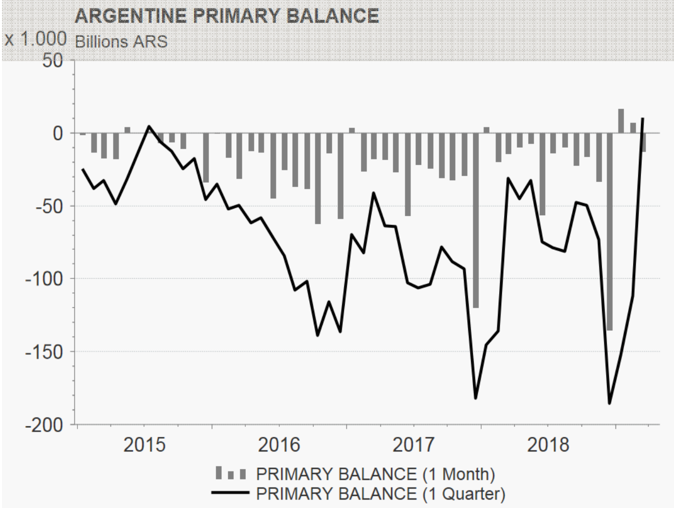
Cristina Fernández de Kirchner (CFK) has finally announced that she will run in the elections as Vice-president with Alberto Fernández as the Presidential candidate. A. Fernández was Chief of Cabinet during Néstor Kirchner's presidency and at the beginning of CFK's term. He broke his ties with Kirchnerism when CFK was President, becoming closer to the traditional Peronist party. Some might see her decision not to stand in the presidential race as a victory for Cambiemos but it may be the perfect strategy to keep her hard-core electorate, while adding A. Fernández could help to attract the votes of moderate Peronists. The recently reelected Governor of Córdoba, Juan Schiaretti, immediately reacted making it clear that CFK belongs to a different party. This diminishes the possibility of building a broad Peronist front. Schiaretti will host a summit with other members of Alternativa Federal, including Lavagna, Urtubey and Massa where they will discuss their strategy towards the PASO elections, among other issues. Meanwhile Mauricio Macri has recently welcomed the opposition to discuss a 10-point political pact to ensure the country's governability. These points include need to stay on the path towards fiscal balance and honor the country's obligations with the IMF and bondholders, no matter who gets elected this year. Some of the points clearly leave CFK out of the discussion, while others like the strengthening of the federalist system, are now fundamental for provincial governors to obey.

But economic dynamics remain uninspiring

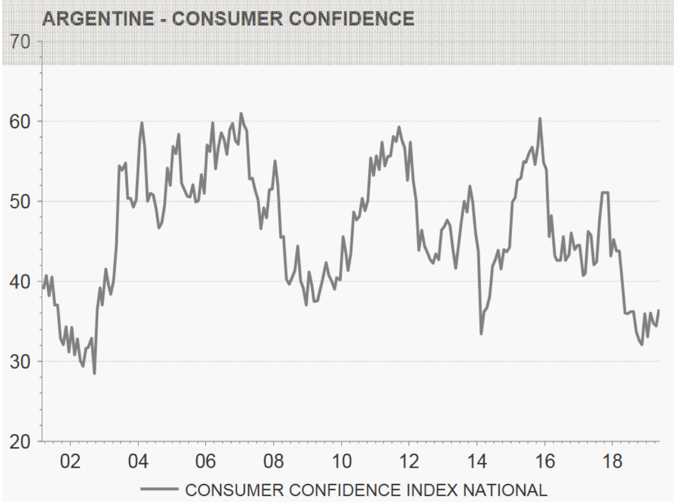
GDP's proxy EMAE indicator rose +0.2% MoM on a SA basis in February (lower than the +0.6% growth seen in January). Looking at indicators already available for March, industrial production dropped -4.3% MoM (vs +2.7% in February). The construction activity index also fell -3.5% in March versus the increase of +8.6% MoM registered in February.

Financial market outlook

Bonds – 10YGov USD: POSITIVE. (Target yield 9.50%)
FX – USD-ARS: NEGATIVE (2019 year-end target 47)



Fuente: Thomson Reuters Datastream / ANDBANK



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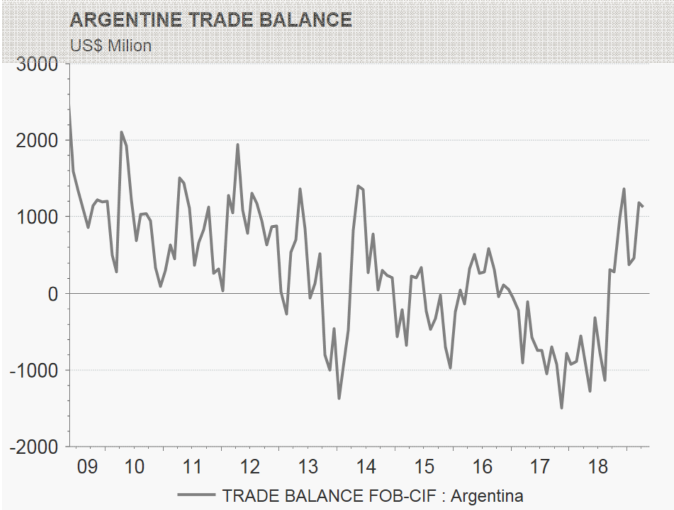


Fuente: Thomson Reuters Datastream / ANDBANK

GLOBAL EQUITY INDICES
Fundamental assessment

Index	Andbank's Sales growth 2019	Sales per Share 2019	Projected Net Margin 2019	EPS 2019	EPS Growth 2019	Current PE ltm EPS 2018	Dec 2019 PE ltm EPS 2019	INDEX CURRENT PRICE	2019 Central Point (Fundam range)	2019 E[Perf] to Centr. Point	2018 Exit Point
USA S&P 500	5,5%	1.419	11,9%	168	2,7%	16,96	16,60	2.780	2.794	0,5%	3.073
Europe - Stoxx Europe 600	5,3%	322	8,2%	26	1,1%	14,23	14,70	371	387	4,4%	406
Euro Zone - Euro Stoxx	3,4%	354	7,4%	26	1,0%	13,89	14,50	360	379	5,5%	398
Spain IBEX 35	3,5%	8.242	9,5%	779	3,5%	12,07	12,50	9.083	9.736	7,2%	10.223
Mexico IPC GRAL	6,7%	37.453	7,9%	2.975	1,0%	14,38	14,80	42.341	44.035	4,0%	46.237
Brazil BOVESPA	7,1%	66.644	10,6%	7.080	8,1%	14,76	13,30	96.663	94.167	-2,6%	103.583
Japan NIKKEI 225	5,6%	22.928	6,3%	1.445	3,1%	15,17	15,40	21.260	22.250	4,7%	23.362
China SSE Comp.	7,7%	2.965	9,3%	276	11,9%	11,81	11,00	2.915	3.038	4,2%	3.190
China Shenzhen Comp	8,2%	1.603	6,3%	100	14,6%	17,59	16,00	1.542	1.606	4,2%	1.687
Hong Kong HANG SENG	3,0%	12.535	15,2%	1.905	5,4%	15,07	16,00	27.236	30.481	11,9%	32.005
India SENSEX	10,1%	18.808	10,9%	2.042	16,6%	22,55	20,00	39.502	40.843	3,4%	42.885
Vietnam VN Index	8,4%	690	9,0%	62	10,8%	17,29	17,00	972	1.059	9,0%	1.112
MSCI EM ASIA	7,3%	488	9,7%	47	12,6%	11,85	11,60	498	548	10,2%	576

UPWARD REVISION | DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL FLOWS (Monthly)
By Asset Type & Region

FLOWS BY ASSET TYPE - AS OF 04/30/2019

1D 1W 1M 1Y

NORTH AMERICA

Asset Type	Flow $B
Bond	53.36
Equity	1.78
Money Market	0.74
Other	-4.09
Mixed Assets	-6.2

EUROPE

Asset Type	Flow $B
Bond	25.83
Money Market	12.58
Other	-1.78
Mixed Assets	-4.55
Equity	-20.73

ASIA

Asset Type	Flow $B
Money Market	18.62
Equity	2.38
Bond	2.24
Mixed Assets	-0.02
Other	-1.78

GLOBAL

Asset Type	Flow $B
Bond	86.53
Money Market	41.48
Mixed Assets	3.02
Other	-8.97
Equity	-21.35

GLOBAL FLOWS (Weekly)
By Asset Type & Region

TOP 5 CLASSIFICATIONS - WEEKLY AS OF 05/22/2019

Lipper Global Classification	Flow $B
Money Market USD	27.48
Money Market EUR	5.74
Equity US	5.07
Equity Global	2.33
Money Market GBP	1.99

BOTTOM 5 CLASSIFICATIONS - WEEKLY AS OF 05/22/2019

Lipper Global Classification	Flow $B
Bond USD Corporates	-0.89
Equity Europe	-1.12
Equity Japan	-1.32
Bond USD Tax Exempt Money Market	-1.61
Equity Emerging Mkts Global	-2.77

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

S&P: SIDEWAYS
Support at 2.785. Resistance at 2,954

STOXX600: SIDEWAYS-BEARISH
Support at 369. Resistance at 392

EUROSTOXX: SIDEWAYS-BEARISH
Support at 359. Resistance at 384

IBEX: SIDEWAYS-BEARISH
Support at 8,826. Resistance at 9,588

EUR-USD: SIDEWAYS-BEARISH
Support at 1.11. Resistance at 1.132

Oil (WTI): BULLISH
Support at 57.8. Resistance at 71.4

US Treasury (Yield perspective): SIDEWAYS
Support at 2.30%. Resistance at 2.61%

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.20%. Fair value 3.2%. Ceiling 3.60%

Swap spread: The swap spread rose to +5bp (from -2.5bp last month). For this spread to normalize at +5bp, with the swap rate anchored in the 2.25% area (according to our inflation expectation), the 10Y UST yield would have to move towards 2.20%.

Slope: The slope of the US yield curve down-ticked to 17 bp (from 19 bp last month). With the short end normalizing towards 2% (today at 2.13%), to reach the long-term average slope (of 158 bp) the 10Y UST yield would have to move to 3.58%.

Real yield: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2%-2.25%, the UST yield would have to rise to 3-3.25% to become a "BUY".

GER Bund: Floor 0.64%. Fair value 1.30%. Ceiling 2.2%

Swap spread: The swap spread rose to 51 bp (from 50 bp last month). For the swap spread to normalize at 36 bp, with the swap rate anchored in the 1.00% area (today at 0.42%), the Bund yield would have to move towards 0.64% (entry point).

Slope: The slope of the EUR curve fell to 54 bp (from 62 bp last month). If the short end "normalizes" in the 0% area (today at -0.62%), to reach the 10Y average yield curve slope (130 bp) the Bund yield would have to move to 1.30%.

Real yield: A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI forecast of 1.2%, the Bund yield would have to rise to 2.2% to become a "BUY".

UK Gilt: Floor 1.9%. Fair value 2.6%. Ceiling 3.2%

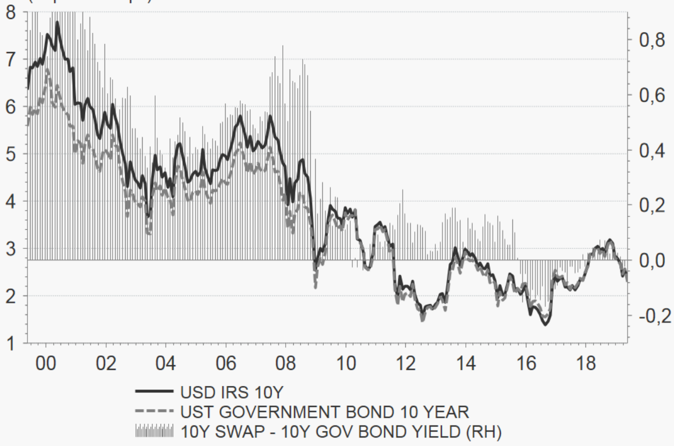
Swap spread: The swap spread rose to 24 bp (from 16 bp last month). For the swap spread to normalize at 11 bp, with the swap rate anchored in the 2% area, the 10Y UK Gilt would have to shift to 1.89%.

Slope: With a 2Y bond normalized at 1%, to reach the average slope at 1.6%, the 10Y Gilt would have to move to 2.6%.

Real yield: Expectations are for FY19 inflation to ease to 2.2%. A 1% real yield means the 10Y gilt should be at 3.2%.

SWAP SPREAD USD

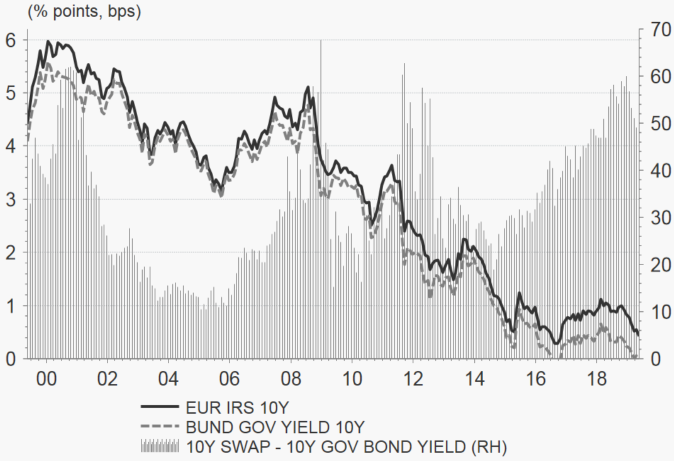
(% points & bps)



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 1.25%
Italian bond BTPI: Target yield at 2.45%
Portuguese Gov bond: Target yield at 1.5%
Ireland Gov bond: Target yield at 0.65%
Greece Gov bond: Target yield at 3.95%

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. The markets (and government bonds) that meet such requirements are shaded gray.

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	7,95%	2,83%	5,12%	-1,00%	6,95%
	India	7,12%	2,88%	4,24%	-1,00%	6,12%
	Philippines	5,67%	3,00%	2,67%	-0,75%	4,92%
	China	3,28%	2,50%	0,78%	0,00%	3,28%
	Malaysia	3,80%	0,16%	3,64%	-1,00%	2,80%
	Thailand	2,35%	1,24%	1,11%	-0,50%	1,85%
	Singapore	2,08%	0,77%	1,32%	-0,50%	1,58%
	South Korea	1,67%	0,53%	1,14%	-0,50%	1,17%
	Taiwan	0,70%	0,65%	0,04%	0,00%	0,70%
EME	Turkey	18,49%	19,50%	-1,01%	1,00%	19,49%
	Russian Fed	7,97%	5,20%	2,77%	-0,75%	7,22%
LATAM	Brazil	8,62%	5,07%	3,55%	-1,00%	7,62%
	Mexico	7,95%	4,45%	3,50%	-1,00%	6,95%
	Colombia	6,49%	3,17%	3,32%	-1,00%	5,49%
	Peru	5,35%	2,57%	2,77%	-0,75%	4,60%

ENERGY – OIL

Fundamental view (WTI): Target range USD45-65/bbl.

Buy < USD45; Sell >65

Short-term drivers

(Price Neutral) – It is unlikely that tensions in Hormuz could get out of control. The WSJ reported yesterday that an initial US assessment has indicated that Iran was likely behind the attacks on two Saudi tankers damaged over the weekend near the Strait of Hormuz, though it adds that the assessment is not conclusive. Iran, however, points to "Israeli mischief" (an Iranian parliamentary spokesman said that the tanker attacks off the coast of the UAE were "Israeli mischief"), though he declined to provide any details on what role Israel may have played in the attacks. Satellite images show no visible damage, but the Norwegian-flagged MT Andrea Victory stated that the ship sustained a hole in its hull above the waterline from "an unknown object". External sources do not believe that this episode can get out of control and feed the tension, as Vice Admiral Jim Malloy, commander of the US Fifth Fleet (based in Bahrain) said threats from Iran will not prevent him from sending an aircraft carrier through the Strait of Hormuz.

(Price Negative) – Long global positioning suggests little room for further rises: Traders are increasing positions in options that would pay off if crude soars to as much as $110 a barrel, amid the backdrop of political risks, turmoil in some OPEC nations, and supposedly tight physical oil markets (with traders willing to pay a large premium to secure immediate supplies). In our humble opinion these traders could be wrong (again).

(Price Negative) – No bottlenecks in the energy market. Oversupply of vessels in the VLCC market still persists (with 20 added to the fleet so far this year), as suggested by margins and earnings in the vessel industry down to levels near or below the operating costs of the ships. This, together with the good pace of oil & gas production in the USA (see the chart overleaf) and the improvement in supply channels, leads us to think that there is no bottleneck problem in the market.

(Price Negative) – Supply side analysis points to a high degree of spare capacity: Total cartel production held steady (low) in April, rising just 30K bpd from March to 30.26M bpd. Despite this, the oil price has remained fairly stable. Iran's sanctions-induced slump was offset by significant rises in Nigeria, Iraq and Libya, but Saudi Arabia held its output at 9.82M bpd, the lowest in four years and well below its OPEC+ quota, suggesting that the Saudis are reluctant to boost oil supplies too quickly and risk a price crash from a buildup in inventories. In fact, at its May meeting, OPEC and its non-cartel allies inched closer to continuing their production-cut pact through the end of the year as "they do not fear Middle East conflict potential effects on oil supply". The Saudis, the group's de facto leader, confirmed that most ministers see a scenario where the decision is to "roll over" the pact.

(Price Negative) – Demand side analysis points to lower demand: While it's true that China's crude imports unexpectedly hit a record high of 10.68M bpd in April -rebounding from 9.3M in March and topping the previous high of 10.48M bpd in November 2018- this rise must be seen in the context of a likely stockpile build from state-run Chinese refiners coming before expected pressures from US sanctions on Iran in May. We think that Chinese oil demand is likely to be much lower from next month.

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 push back this deadline as far 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).

(-) 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 a lot of pressure on the market for fossil fuels over the coming decades, OPEC's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Producers therefore have a powerful incentive to monetize as much of their reserves as soon as they can.

(-) 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.

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) up-ticked to US$1,145 (from US$1,144 last month). In real terms, gold continues to trade well above its 20-year average of US$909. Given the global deflator (now at 1.1150), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,013.

Gold to Silver (Preference for store of value over productive assets). This ratio rose to 88.37x (from 85.08x last month) but still remains well above its 20-year average of 63x, suggesting that gold is expensive (at least relative to silver). For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$916/oz.

Gold to Oil: This ratio rose during the month to 20.34x (from 19.98x last month), still well above its 20-year average of 15.01x. Considering our fundamental long-term target for oil of US$50 pb (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.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long contracts rose sharply to 226k (from 199k last month). Short contracts also rose to 102k (from 94.1k). Thus, the net position rose to 124k contracts during the month (from +105k the previous month), suggesting that speculators' appetite for gold has "increased" recently.

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

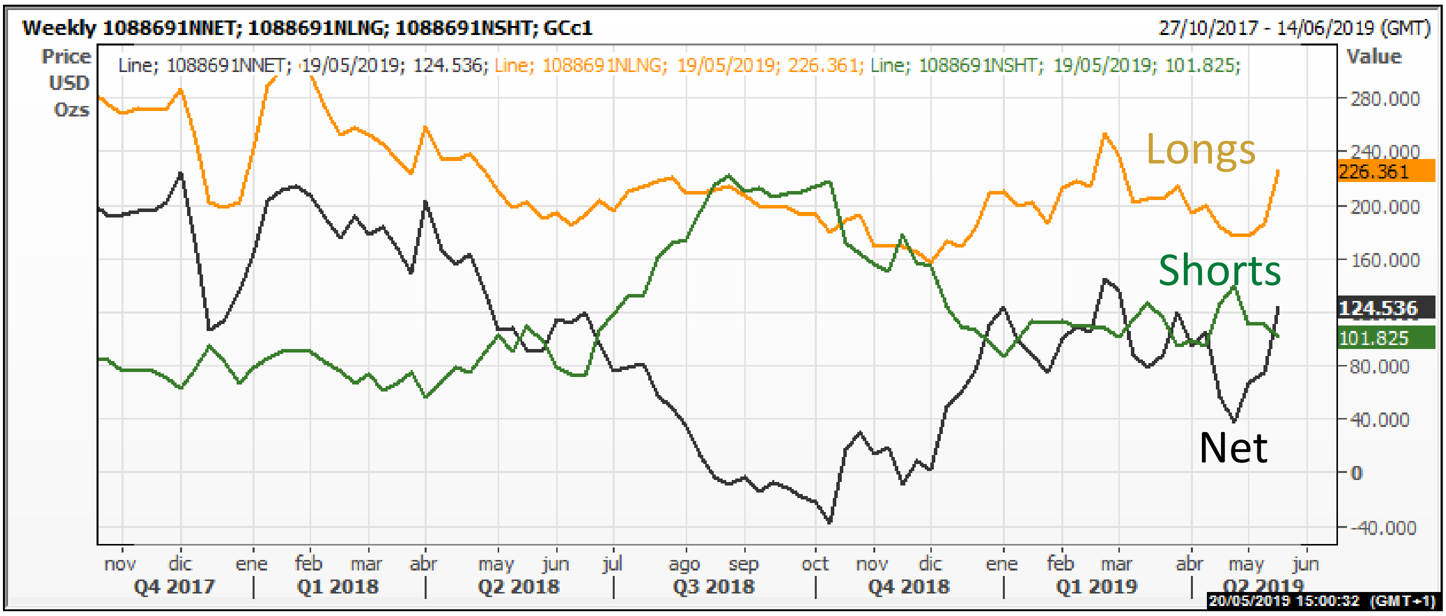
Demonetization in India. Demonetization forced millions of households to use formal banking services for the first time, helping to integrate them into the formal economy. The move will help mobilize billions of dollars in savings that were residing in unproductive physical assets such as gold.

Positive drivers

Gold to the S&P500: This ratio up-ticked to 0.45x (from 0.44x last month) but is still well below its LT average of 0.60x. Given our target price for the S&P of US$2,800, the price of gold must approach US$1,680 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

Flow analysis & Fundamental targets

EUR-USD: Fundamental mid-term 2019 target at 1.125

Global positioning in the US dollar increased again during the last month (from US$28.7bn to US$30.9bn), with a 3-year z-score at levels of 1.33 (vs. 1.30 in the previous month). Though not at extreme levels, net long speculative positions in the greenback are considerable. Speculators continue to finance their long positions in USD through short positions in EUR (-US$14bn), CHF (US$-4.64bn), AUD (US$-4.55bn), CAD (US$-3.15bn) and BRL (US$-0.64bn). Investors have decreased marginally their net long position in emerging market currencies (to a market value of US$4.62bn, from US$ 5bn last month), although the Z-score in EM positioning still remains at a significant 1.93x, though lower than the 2,33x seen last month. This suggests two things: 1) Investors think the US economy will perform well, as will emerging market economies in the coming months. 2) The other reading is that these EM currencies would still be overbought, but not as much as last month (the currencies considered as the most overbought are the MXN and the RUB). This would not be the case for the BRL, which we consider oversold (as reflected by the -1,57 Z-score). Our **fundamental discussion** sticks with our structural bullish view on the USD against the EUR, with a mid-term target at 1.125, without ruling out increases in the European currency above the 1.14 level due to a temporary reversal of speculative flows (which should be used to sell EUR and buy USD). Our **technical analysis** within the Investment Committee now indicates a sideways-bearish 1-month view, with the EUR-USD now facing a key support at 1.11, with resistance at 1.132.

USD-JPY: Target 114; **EUR-JPY**: Target 128.25

In our view, several aspects suggest that JPY should not appreciate versus the USD: (1) Although the Fed hints that it will ease off on cutting its balance sheet, the truth is that, although at a lower rate, it will continue to do so, while the BoJ will probably continue to expand its balance sheet and the money supply, making USD more attractive (or JPY less appealing). (2) We downplay the tapering option after the BoJ 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) 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.

GBP-USD: Target 1.37; **EUR-GBP**: Target 0.82

USD-CHF: Target 0.98; **EUR-CHF:** Target 1.10

USD-MXN: Target 20; **EUR-MXN:** Target 22.50

USD-BRL: Target 3.75; **EUR-BRL:** Target 4.22

USD-ARS: Target 47

USD-INR: Target 72

CNY: Target 7.00

RUB: NEGATIVE

AUD: POSITIVE

CAD: POSITIVE

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	30,85	-1,74	34,9	-7,1	21,3	1,33
USD vs G10	35,47	-2,11	39,6	-7,9	21,7	1,59
EM	4,62	-0,37	5,0	-0,8	1,4	1,93
EUR	-14,10	0,69	13,1	-14,8	-4,6	-1,25
JPY	-6,24	4,31	0,6	-12,8	-7,7	-0,04
GBP	-2,08	-1,93	0,9	-6,5	-3,3	0,27
CHF	-4,64	-0,04	-1,6	-6,0	-3,6	-1,43
BRL	-0,64	-0,22	0,1	-0,8	-0,3	-1,51
MXN	3,85	-0,13	4,1	-0,5	1,4	1,73
RUB	1,40	-0,01	1,4	-0,2	0,5	2,14
AUD	-4,55	-0,97	-1,2	-5,2	-3,5	-1,49
CAD	-3,15	0,39	-0,2	-5,0	-2,5	-0,84

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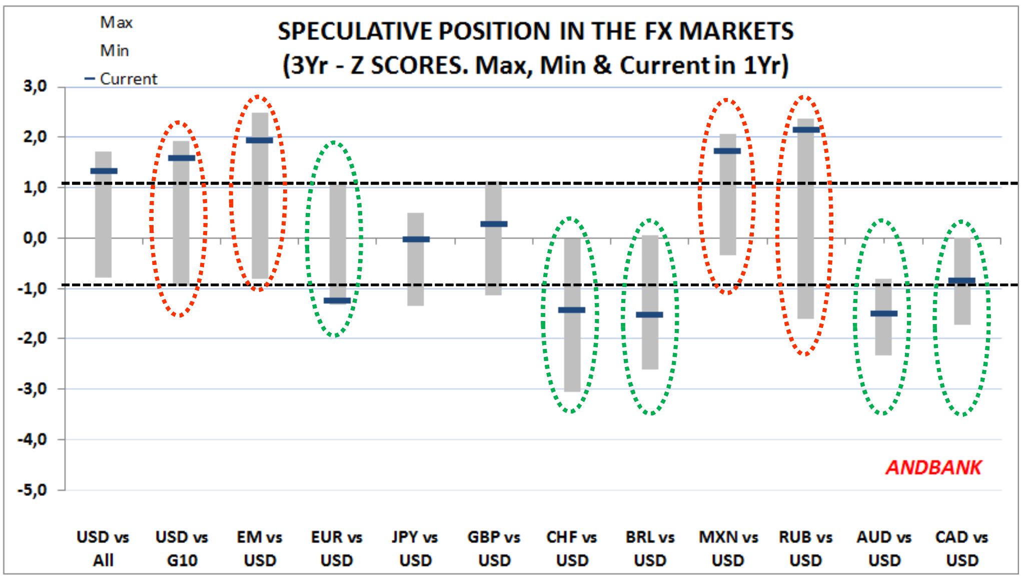
Positive
Neutral-Positive
Neutral-Negative
Negative



The currencies we technically favor are circled in green

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Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fundamental Central Point 2019	Expected Performance 2019
Equity	USA - S&P 500	-5,5%	11,8%	2.781	2794	0,5%
	Europe - Stoxx Europe 600	-5,3%	11,3%	371	387	4,4%
	Euro Zone - Euro Stoxx	-6,1%	11,2%	360	379	5,5%
	SPAIN - IBEX 35	-4,6%	0,08	9.080	9.736	7,2%
	MEXICO - MXSE IPC	-5,8%	1,4%	42.334	44.035	4,0%
	BRAZIL - BOVESPA	0,6%	9,7%	96.728	94167	-2,6%
	JAPAN - NIKKEI 225	-4,5%	4,9%	21.260	22250	4,7%
	CHINA - SHANGHAI COMPOSITE	-4,8%	16,9%	2.915	**3038**	4,2%
	CHINA - SHENZEN COMPOSITE	-5,2%	21,6%	1.542	**1606**	4,2%
	INDIA - SENSEX	1,1%	9,5%	39.502	40.843	3,4%
	MSCI EM ASIA (in USD)	-9,5%	2,5%	498	548	10,2%
Fixed Income Core countries	US Treasury 10 year Govie	2,6%	4,8%	2,22	3,00	-4,9%
	UK 10 year Gilt	2,1%	3,5%	0,90	2,00	-8,3%
	German 10 year BUND	1,4%	3,4%	-0,18	0,35	-4,3%
	Japanese 10 year Govie	0,4%	0,8%	-0,10	0,10	-1,7%
Fixed Income Peripheral	Spain - 10yr Gov bond	2,2%	6,0%	0,73	**1,25**	-3,7%
	Italy - 10yr Gov bond	-0,3%	1,7%	2,64	2,45	3,1%
	Portugal - 10yr Gov bond	2,2%	7,6%	0,85	**1,50**	-4,7%
	Ireland - 10yr Gov bond	0,9%	3,9%	0,44	0,65	-1,4%
	Greece - 10yr Gov bond	1,6%	11,4%	3,09	3,95	-5,0%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,4%	0,7%	73,14	92	-2,0%
	Credit EUR HY-Itraxx Xover	-1,2%	2,8%	304,50	350	-1,5%
	Credit USD IG - CDX IG	0,0%	0,9%	66,50	70	-0,8%
	Credit USD HY - CDX HY	-0,9%	4,1%	370,97	**410**	-0,1%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	1,2%	-14,6%	18,49	15,00	46,4%
	Russia - 10yr Gov bond	2,3%	9,2%	7,97	7,70	10,1%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	-1,1%	2,7%	7,95	7,25	13,5%
	India - 10yr Gov bond	2,9%	5,0%	7,12	6,80	9,7%
	Philippines - 10yr Gov bond	3,2%	13,8%	5,67	5,75	5,0%
	China - 10yr Gov bond	1,3%	0,2%	3,28	2,75	7,6%
	Malaysia - 10yr Gov bond	0,1%	3,9%	3,80	3,25	8,2%
	Thailand - 10yr Gov bond	0,7%	1,2%	2,35	2,00	5,1%
	Singapore - 10yr Gov bond	0,8%	0,3%	2,08	1,75	4,7%
	South Korea - 10yr Gov bond	1,1%	2,5%	1,67	1,40	3,8%
	Taiwan - 10yr Gov bond	0,3%	1,6%	0,70	0,75	0,3%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	1,7%	8,8%	7,96	7,75	9,6%
	Mexico - 10yr Govie (USD)	1,3%	7,8%	4,19	4,75	-0,3%
	Brazil - 10yr Govie (Loc)	4,7%	9,4%	8,49	8,50	8,4%
	Brazil - 10yr Govie (USD)	1,1%	6,8%	4,89	4,50	8,0%
	Argentina - 10yr Govie (USD)	4,8%	0,7%	11,98	9,50	31,9%
Commodities	Oil (WTI)	-9,9%	26,0%	57,2	50,00	-12,6%
	GOLD	0,1%	-0,1%	1.281,1	1.100	-14,1%
Fx	EURUSD (price of 1 EUR)	-0,5%	-3,0%	1,113	1,125	1,1%
	GBPUSD (price of 1 GBP)	-2,5%	-1,1%	1,26	1,37	8,6%
	EURGBP (price of 1 EUR)	2,0%	-1,8%	0,88	0,82	-6,9%
	USDCHF (price of 1 USD)	-1,2%	2,6%	1,01	0,98	-3,0%
	EURCHF (price of 1 EUR)	-1,7%	-0,4%	1,12	1,10	-2,0%
	USDJPY (price of 1 USD)	-2,1%	-0,2%	109,34	114,00	4,3%
	EURJPY (price of 1 EUR)	-2,6%	-3,2%	121,67	128,25	5,4%
	USDMXN (price of 1 USD)	1,1%	-2,1%	19,23	20,00	4,0%
	EURMXN (price of 1 EUR)	0,7%	-5,0%	21,40	22,50	5,1%
	USDBRL (price of 1 USD)	1,3%	3,0%	4,00	3,75	-6,2%
	EURBRL (price of 1 EUR)	0,9%	-0,1%	4,45	4,22	-5,1%
	USDARS (price of 1 USD)	0,0%	17,9%	44,37	47,00	5,9%
	USDINR (price of 1 USD)	0,0%	0,3%	69,80	72,00	3,2%
	CNY (price of 1 USD)	2,7%	0,6%	6,91	**7,00**	1,2%

** 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

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Cash	**15,0**	**22,7**	**10,0**	**17,2**	**5,0**	**12,2**	**5,0**	**7,7**
Short-Term debt & MM instrument	**25,0**	**34,3**	**15,0**	**23,4**	**5,0**	**11,1**	**0,0**	**3,8**
Fixed Income Long-Term - OECD	**30,0**	**21,0**	**20,0**	**14,0**	**15,0**	**10,5**	**5,0**	**3,5**
US Gov & Municipals & Agencies		18,9		12,6		9,5		3,2
EU Gov & Municipals & Agencies		0,0		0,0		0,0		0,0
European Peripheral Risk		2,1		1,4		1,1		0,4
Credit (OECD)	**20,0**	**12,0**	**20,0**	**12,0**	**15,0**	**9,0**	**5,0**	**3,0**
Investment Grade USD		6,6		6,6		5,0		1,7
High Yield Grade USD		2,4		2,4		1,8		0,6
Investment Grade EUR		2,4		2,4		1,8		0,6
High Yield Grade EUR		0,6		0,6		0,5		0,2
Fixed Income Emerging Markets	**5,0**	**5,3**	**7,5**	**7,9**	**10,0**	**10,5**	**15,0**	**15,8**
Latam Sovereign		1,6		2,4		3,2		4,7
Latam Credit		1,3		2,0		2,6		3,9
Asia Sovereign		1,6		2,4		3,2		4,7
Asia Credit		0,8		1,2		1,6		2,4
Equity OECD	**5,0**	**4,8**	**20,0**	**19,0**	**32,5**	**30,9**	**50,0**	**47,5**
US Equity		2,4		9,5		15,4		23,8
European Equity		1,7		6,7		10,8		16,6
Japan Equity		0,7		2,9		4,6		7,1
Equity Emerging	**0,0**	**0,0**	**5,0**	**4,5**	**10,0**	**9,0**	**10,0**	**9,0**
Asian Equity		0,0		2,0		4,1		4,1
Latam Equity		0,0		2,5		5,0		5,0
Commodities	**0,0**	**0,0**	**2,5**	**2,0**	**5,0**	**4,0**	**5,0**	**4,0**
Energy		0,0		0,5		1,0		1,0
Minerals & Metals		0,0		0,4		0,8		0,8
Precious		0,0		0,7		1,4		1,4
Agriculture		0,0		0,4		0,8		0,8
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**2,9**	**5,0**	**5,8**
REITs		0,0		0,0		0,7		1,4
Alt.Energy (wind, solar, etc)		0,0		0,0		0,7		1,4
Market Neutral		0,0		0,0		1,0		2,0
Volatility		0,0		0,0		0,4		0,9
Currency Exposure (European investor perspective)								
EUR		95,0		91,4		87,8		83,8
USD		5,0		8,6		12,2		16,2

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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