ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

These were the underlying conditions before the coronavirus.
Will they remain once the viral outbreak has been controlled?

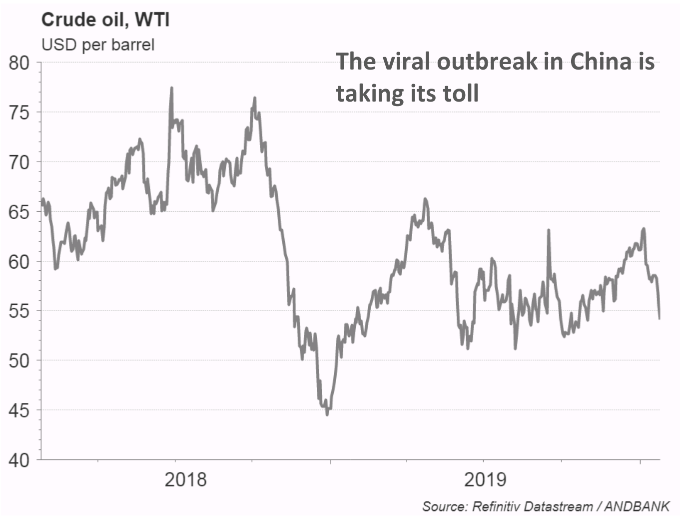
Corporate Review

February 2020

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

EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

US S&P: MARKETWEIGHT. Target 3,240. Exit point 3,402 ***Stoxx 600 Europe***: MARKETWEIGHT-UW. Target 418. Exit 438. ***Euro Stoxx:*** OVERWEIGHT. Target 427. Exit 448. ***Spain IBEX:*** MW-OVERWEIGHT. Target 9,882. Exit point 10,376. ***Japan N225:*** UNDERWEIGHT. Target 23,732 (Exit 24,919) . ***China SHANGHAI Idx:*** MW-OW. Target 3,207. Exit 3,367. ***SHENZHEN Idx:*** MW-OW. Target 1,808. Exit 1,900. ***India SENSEX:*** MARKETWEIGHT-OW. Target 45,477. Exit 47,750. ***Israel TLV35 Index:*** MW-UW (slightly expensive). ***Brazil IBOVESPA:*** MW-OW (Target 116,437. Exit point 122,259). ***Mexico IPC Index***: MW-OVERWEIGHT. Target 45,800. Exit 48,000.

FIXED INCOME

Valuations continue to be extreme, especially in European bonds, but we do not believe support from central banks will disappear in the short term. ***UST 10Y:*** UW-MARKETWEIGHT. (10Y UST entry point 2.0%). ***German Bund:*** UNDERWEIGHT (Bund target -0.20%). ***Spanish bono:*** UNDERWEIGHT, target 0.50%. ***Italian bond***: OVERWEIGHT, target 1.0%. ***Portuguese bond:*** UNDERWEIGHT, target 0.50%. ***Irish bond:*** UNDERWEIGHT, target 0.20%. ***Greek bond:*** UNDERWEIGHT, target 1.50%. ***Israel bond***: MW-UNDERWEIGHT. ***EM bonds EMEA:*** OVERWEIGHT (preferred Turkey, Philippines, India, Indonesia, Malaysia, Singapore, South Korea and Thailand. Neutral in China. Avoid Taiwan. ***EM bonds Latam:*** OVERWEIGHT (preferred Mexico in local and Brazil in local and USD).

CORPORATE CREDIT

EUR Credit: We started the year with a healthy investment appetite and we see no reason for spreads to widen in the next weeks (months?) but rather the opposite, as credit remains well supported by the ECB's CSPP program, favorable flows and the shortage of new issues during the earnings season release. ***USD Credit:*** The year also started with tight spreads. Heavy bond supply matched with heavy demand, especially foreign demand as we saw a decline in FX hedging costs. High Yield prices continue to climb in correlation with the risk appetite in the market. CCC rated bonds are outperforming BB and B. Total issuance is consistent with the average for January since 2010. ***Market Assessment: IG € (Itraxx):*** UNDERWEIGHT (Target Spread 70). ***HY € (Xover):*** UNDERWEIGHT, Target 275. ***US$ CDX IG:*** MARKETWEIGHT, Target 48. ***Credit $ CDX HY:*** MARKETWEIGHT, Target 352.

CURRENCIES

Preferred currencies: USD against EM & G10 currencies (MXN, RUB, CHF, GBP and CAD). We also favor BRL and AUD.

COMMODITIES

Fundamental target price for the WTI at US$55. Sell WTI above US$65. Gold remains expensive. Fundamental price for gold at US$1,200/oz. Sell above US$1,300

USA

Geopolitics could be favorable this year. Domestic politics as the sole focus of risk

Geopolitics remain supportive. Focus should be on the Democrat candidate

The more interesting part of the trade deal is China's agreement to increase imports from the US by more than 50% in 2020 with another sharp increase in 2021. The enforcement mechanism allows both sides to judge for themselves whether they are meeting the spirit of the agreement. In all, we expect an official ceasefire to unfold during the election year. Lastly, and after the US drone strike that killed Soleimani, we believe that Iran and the US have every incentive to limit the probability of a military escalation. Moving to the presidential elections, the nomination of the Democratic candidate will focus attention on the Iowa caucuses on February 3rd, as a victory in Iowa can deliver a boost of roughly 30pp to the candidate's prediction market-implied probability of winning the nomination.

The economy continues to show robustness

Healthy numbers from the housing market, with housing starts surging 16.9% MoM hitting a new high for the cycle. On the manufacturing side, data released in early January weakened (ISM manufacturing index) but surveys such as the Empire Manufacturing index and the Philly Fed manufacturing index rebounded sharply reflecting the positive impact of the "Phase 1" Trade Deal with China and the USCM agreement improvements. On the consumer front, the December retail sales figure reported reasonably solid sales last month. In labor markets, we continue to see the lowest jobless claims readings of the expansion period. Indeed, we see some reduction in openings, but the labor market will continue to add jobs.

Fed on hold during 1H20

Average hourly earnings increased by just 0.1% last month, and the year-ago gain eased to 2.9%, well off the cycle high of 3.4% reached back in February last year. This drives away the ghosts of an inflationary rebound derived from an increase in labor costs. As long as no wage tensions appear, the Fed will remain on hold. As for the Fed's balance sheet, we think the Fed will choose to target reserve balances and continue with the T-bill purchases during the 1Q at a pace of $60bn per month as the size of the TOMO offerings is gradually reduced.

Rates & Credit

Treasury yields have settled in to a fairly narrow, low vol range. Economic data, though positive, is not as yet unambiguously strong to sustain a move higher in yields. While break-evens remain well above their 2019 lows, the rebound has stalled of late (last inflation data was on net disappointing). In the absence of a clear catalyst, yields are likely to remain in their current range. In the credit space, the year started with tight spreads, after heavy bond supply was matched with heavy bond demand, especially foreign demand as we saw a decline in FX hedging costs. We see stability in this asset class. High Yield prices continue to climb in correlation with the risk appetite in the market. CCC rated bonds are outperforming BB and B. Total issuance is consistent with the 26.6bn average for January since 2010. Refinancing continues to account for the majority of the issuance. Companies continue to focus on terming out maturities and improving liquidity, which has been an important driver for the low default backdrop.

Financial market assessment

Equities – S&P: MARKETWEIGHT. (Target 3,240. Exit point 3,402)

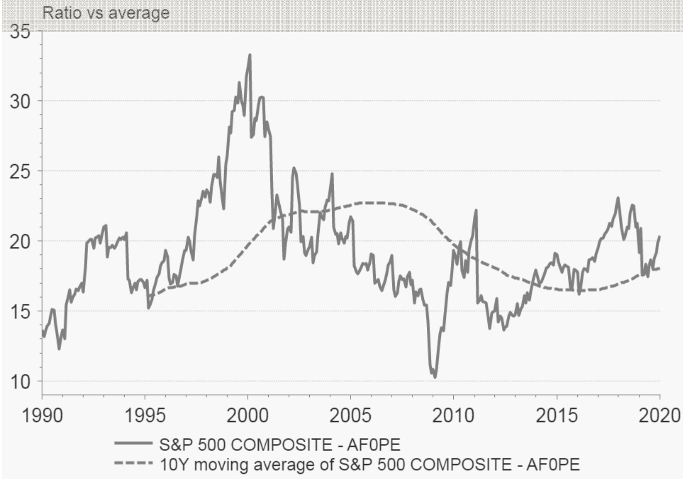
Bonds – Govies: UW-MARKETWEIGHT. (10Y UST entry point 2%)

CDX IG: MARKETWEIGHT (Target Spread 48)

CDX HY: MARKETWEIGHT (Target Spread 345)

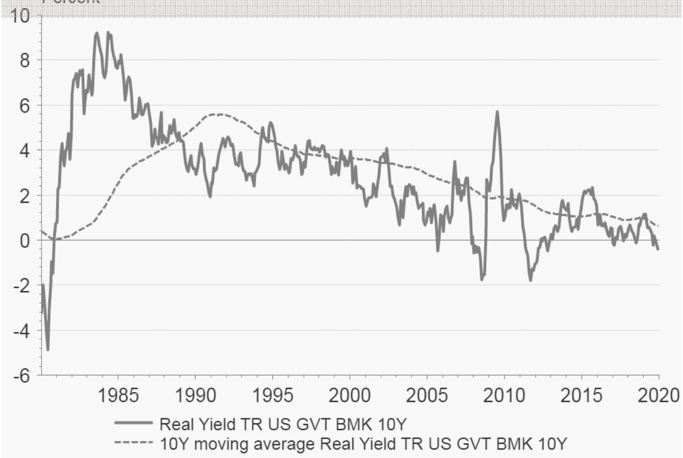
Forex – DXY index: UW-MARKETWEIGHT

US price-to-earning ratio
Ratio vs average



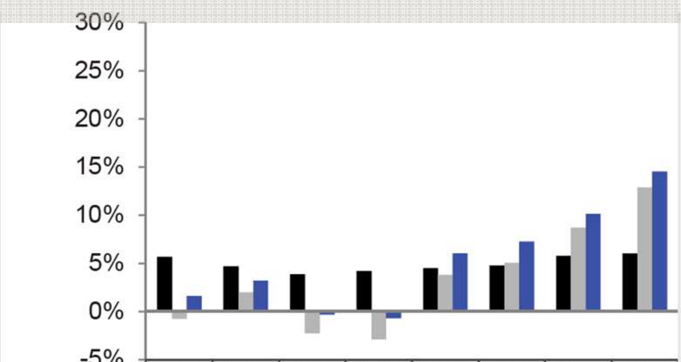
Source: Refinitiv Datastream / ANDBANK

10Y UST Real Yield
Percent



Source: Refinitiv Datastream / ANDBANK

S&P YoY Growth rates (IBES estimates)



	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Revenue	5.7%	4.7%	3.9%	4.2%	4.5%	4.8%	5.8%	6.0%
Net Income	-0.8%	2.0%	-2.3%	-2.9%	3.8%	5.0%	8.7%	12.9%
Earnings	1.6%	3.2%	-0.3%	-0.7%	6.1%	7.3%	10.1%	14.5%

EUROPE

Improving macro. Equity market is not cheap but Euro Stoxx index could gain >8%

Economics: Signs of stabilization. ECB in "wait & see" mode

Macro surprises have improved in the past months, reflecting a less gloomy scenario. Services PMIs up ticked, with strong retail sales, but manufacturing surveys remain a "mixed bag" (IFO expectations improving while PMIs receding), though a gradual industrial recovery is still on the cards. In the labor market, employment creation is losing steam (Germany and Spain), while France is a "positive outlier". Fiscal measures should underpin the service side of the economy, and the easing of the trade conflict is also meant to be supportive for the European economy. All in all, Europe should be a stronger economy during 2020. Inflation expectations have recovered since 4Q19, with better CPI readings, though it is not a concern. We should not anticipate a "more dovish tone" from the ECB due to the reasons mentioned above. Markets are not pricing in further rate cuts; on the contrary, the depo rate is forecast at higher levels over a 12 month horizon.

Politics: Italy & Brexit

Good news from Italy following the victory of the PD over the Lega Norte (51.4% vs. 43.6%) above the expected difference of 2%. This reduces the risk of early elections and give the PD more firepower within the coalition and a diluted 5-star party (<4%), which also suggests that the anti-system movement has no incentive to promote elections. Spreads in Italian bond rallied, and the 10-year yield is close to our goal (1%), but there is still some margin for improvement. We recommend keeping the position pending of next issues to be discussed in the government coalition (tax reform, Atlantia, judicial reform, Alitalia ...) and with other regional elections in sight this spring.. As for Brexit, we are moving into the next phase of trade negotiations: the Conservative majority in Parliament has already approved the Withdrawal Agreement that should come into force on the January 31st. Trade agreement negotiations have traditionally been a long process that may well take some time, though Boris Johnson has insisted on his determination not to ask for a further extension, and a bill ruling this out has even been passed. According to the EU negotiator. At this point, it seems unrealistic to reach an agreement in such a short time period (11 months) but we do not expect the British PM to assume the risk of a hard Brexit.

Equity market overview

Banking and Telcos continue to weigh on the euro index, however the macro improvement, together with a lower perception of risk at a European level (Brexit, Italy, Spain...) led the pan-European index to start the year breaking historical highs. In our view, European indexes are not cheap, in fact they are close to valuation levels seen in 2015 and 2018, meaning there is now little margin of safety when it comes to missing estimates in company results. The good news is that the consensus figure can easily be overcome.

Corporate credit

We started the year with a healthy investment appetite and we see no reason for spreads widening in the coming weeks (months?) but rather the opposite, as credit remains well supported by the ECB's CSPP program, flows and the shortage of new issues during the earnings season release. All said, our assessment remains unchanged.

Financial market assessment

Equities – Stoxx Europe: MARKETWEIGHT-UW. Target 418. Exit 438

Equities – Euro Stoxx: OVERWEIGHT. Target 427. Exit 448

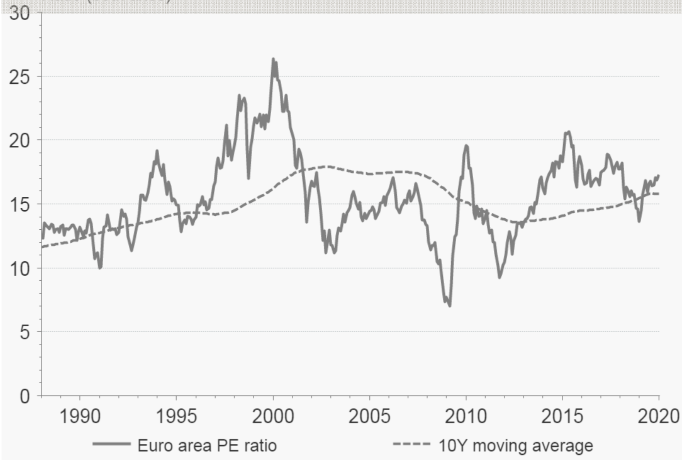
Bonds – Core governments: UNDERWEIGHT (Bund target -0.20%)

Peripheral - UW SP(0.5%), PO (0.5%), IE (0.2%), GR (1.5%). OW IT

Credit – Itraxx Europe (IG): UNDERWEIGHT (Target Spread 70)

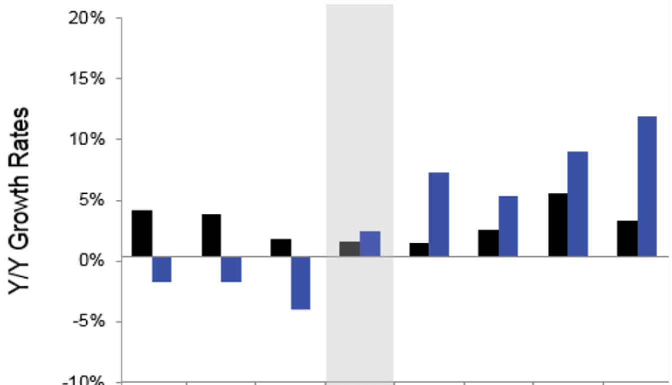
Credit – Itraxx Europe (HY): UNDERWEIGHT (Target Spread 275)

Euro area price-to-earnings ratio
Ratio (both axes)



Source: Refinitiv Datastream / ANDBANK

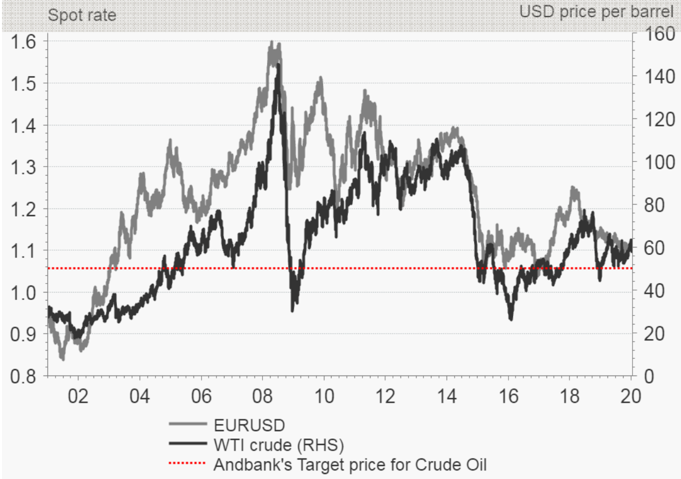
Stoxx 600 YoY Growth rates (IBES estimates)



	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Revenue	3.6%	3.3%	1.3%	1.2%	1.1%	2.1%	5.0%	2.8%
Earnings	-2.0%	-2.1%	-4.3%	2.0%	6.7%	4.8%	8.4%	11.1%

EURUSD and oil price
Spot rate

USD price per barrel



Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

SPAIN

The country finally forms a government

Economics

Good retail figures and improved business confidence levels, with a Services PMI reading at 54.7 and leading indicator expanding at 1.7%. We do not think that news coming from the industrial segment in 1Q20 will be worse than 2H19. What concerns us most is the data related to tourism (after seeing another record year in 2019), the slower pace of job creation, and real estate transactions, where the latest data is not very promising, either for units sold or prices.

Politics: "Much ado about nothing"

After months of failed negotiations and an electoral repetition, the shadow of a third election has pushed politicians to reach an agreement to form a government coalition. A government formed by two parties, a president, four vice-presidencies and 18 ministries with broken up and watertight powers. We consider this to be a "weak government", because to be able to legislate it will need the agreement and support of eight parties, as well as the abstention of two more parties. Every piece of legislation will therefore be the consequence of a complicated political agreement among many diverse political forces. The first test will be the state budget, as the Government is still working with the 2018 budget produced by the PP administration. We are therefore not holding out for big (and necessary) reforms for the country: debt reduction, fiscal sustainability, pensions. The good news is that we do not expect populist turns, especially in the area of economic management, where the senior party (PSOE) has imposed orthodox ministers fronted by Nadia Calviño, or José Luís Escrivá in charge of Social Security. For now we have to wait for the presentation of the general budget that we expect in 2Q20. From a market perspective, we understand that having the extreme-left UP as a junior member in the government coalition will not lead to a favorable flow of news for investors; however, we must not forget that UP has a relatively weak position within the administration.

Corporate results: We expect an improvement during 2020

If fiscal policy or an idiosyncratic risk premium do not undermine the favorable effects derived from the improvement in global momentum, we expect to see an improvement in corporate results in Spain as the year progresses, where the comparative basis is more favorable. In the absence of any fiscal disorder that improves the risk premium that has characterized the Spanish market during 2019 and relaxes current tensions in an already cheap market, we could see the much awaited Ibex's outperformance in relation to the rest of the continent's indexes.

Equity market

We estimate 3% growth in sales for Ibex companies (compatible with our nominal GDP forecasts for Spain and the other economies in which Spanish companies operate). For Ibex companies this means sales per share of 8,044 euros. We project sales margins to stay at 9.1% (similar to last year's), resulting in a projected EPS of 732 euros for all Ibex companies in 2020 (well below the consensus, with a 2020 EPS estimate of 781). Setting a ltm PE ratio at a reasonable level of 13.5x gives us a reasonable target price for the Ibex of 9,882, with an exit point at 10,376.

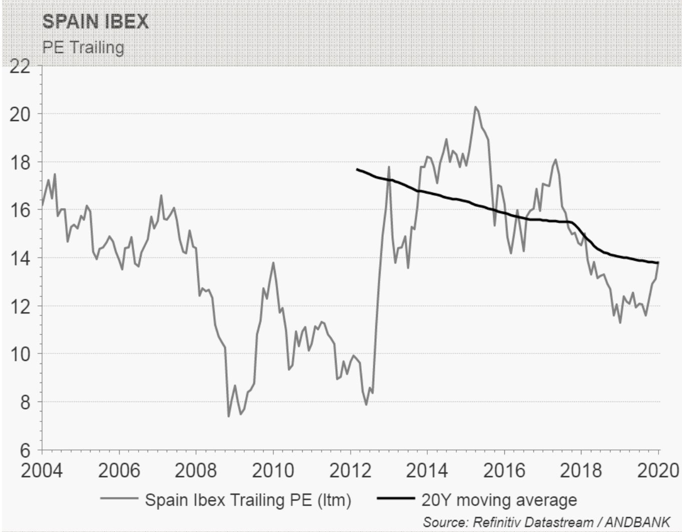
Financial market assessment

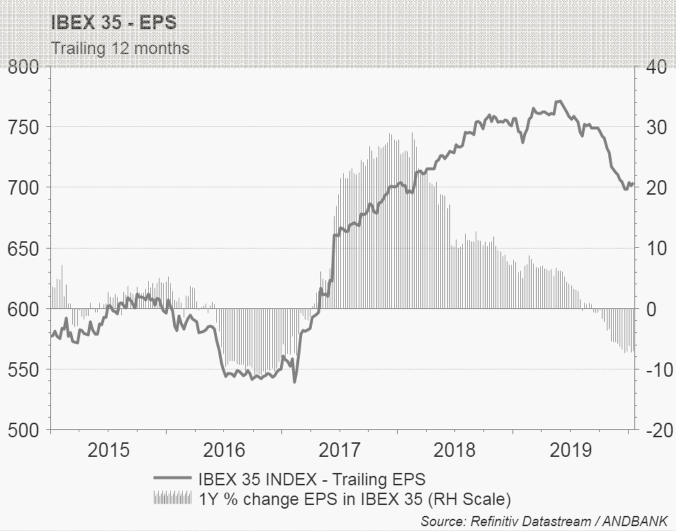
Equities – IBEX: MW-OVERWEIGHT. Target 9,882. Exit point 10,376

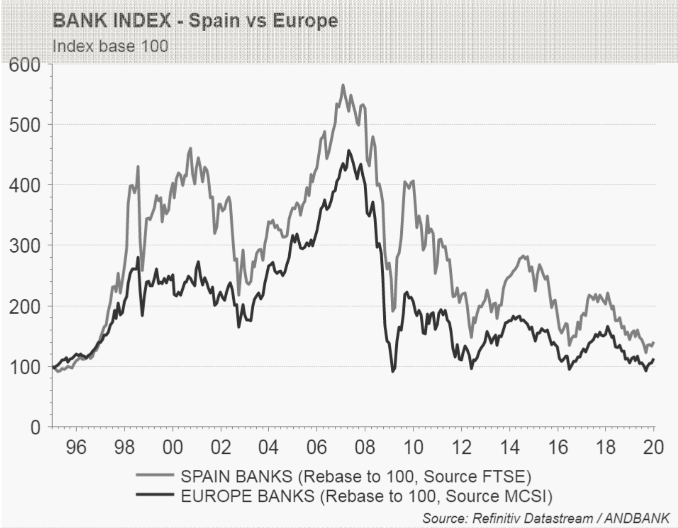
Bonds – Government: UNDERWEIGHT (BONO target yield 0.50%)

Credit – Investment grade: UNDERWEIGHT

Credit – High yield: UNDERWEIGHT







JAPAN

Pressure on policymakers to do more amid slowing economy

Economy

The government and the BoJ will need to devise fresh ways to boost flagging economic growth. There are suggestions that policymakers may have overestimated the strength of consumer demand after department store sales and new car sales fell sharply in the wake of October's consumption tax hike. However, the scope for meaningful fiscal stimulus has been stymied by a large debt load. Although Japan's budget next fiscal year will top ¥100T ($914B) for a second straight year, highlighting the struggle to curb government spending, expenditure will rise only by about 1.2% to ¥102.7T. Data has been weak recently: November household spending growth was -2.0% YoY (although improved vs the -5.1% YoY seen in prior month). It is still in negative territory, and we believe it will continue so, as nominal growth in average wages grew at -0.2% YoY and real wages expanded at a negative rate of -0.9% YoY (worse than the revised -0.4% in prior month). December composite PMI remained weak at 48.6 (deteriorating from 49.8 in November). The fall was mainly due to the decline seen in the Services PMI, which was cut from 50.3 to 49.4, while the Manufacturing PMI deteriorated marginally (from 48.9 to 48.4). December Economy Watcher Survey current conditions index also fell to 39.85 vs 39.4 in prior month, and the Outlook index fell to 45.4 vs previous 45.7.

However, the BoJ leaves policy unchanged and will not ease further

The BoJ voted 7-2 to leave short term rates at -0.1% and long term rates at around 0%. The bank reiterated the idea that "Japan's economy is moderately expanding", though exports, production and business sentiment have shown some weakness, mainly affected by the slowdown in overseas economies and natural disasters. Meanwhile, the BoJ decided to introduce the ETF lending facility, through which it can temporarily lend its ETF holdings to market participants, with the aim of improving the liquidity in ETF markets. The duration of the lending will be within one year, with lending rates determined by multiple-competitive auctions or by the BoJ in advance. We still think that the bank will not ease further in 2020 for the following reasons: 1) Japan's Government Pension Investment Fund, which has total assets of around ¥160trn, has been green-lighted to buy more foreign debt on an unhedged basis. This followed a rule change that reclassified foreign debt holdings that were currency-hedged as being "domestic". The effect will be to create more selling pressure on the Yen, and thus no need to ease policy to compensate for the effects of a rise in FX. 2) Global risk-on environment points to continued capital flows out of Japan. On balance, the Yen is likely to stay in the ¥105-¥115 range, 3) While recent data has been soft, that was to be expected ahead of a recent 2pp hike in the consumption tax. 4. Japan is set to raise GDP outlook to 1.4% growth for next fiscal year. The combination of investment spending associated with next year's summer Olympics, and some offsetting fiscal supports, suggests that Japan can weather a soft patch without suffering a fully-fledged downturn.

Finance: Stricken banks in Japan turn to riskier credit to survive

Some 20 out of 29 Japanese regional banks said they have reduced JGB holdings. Five said they bought foreign notes with ratings at BBB level. This foray into riskier investments marks a dramatic shift from the past.

Domestic investors remain buyers of foreign assets during 1H December: Net buyers of ¥440B in foreign equities and net buyers of ¥747B in foreign bonds.

Financial market outlook

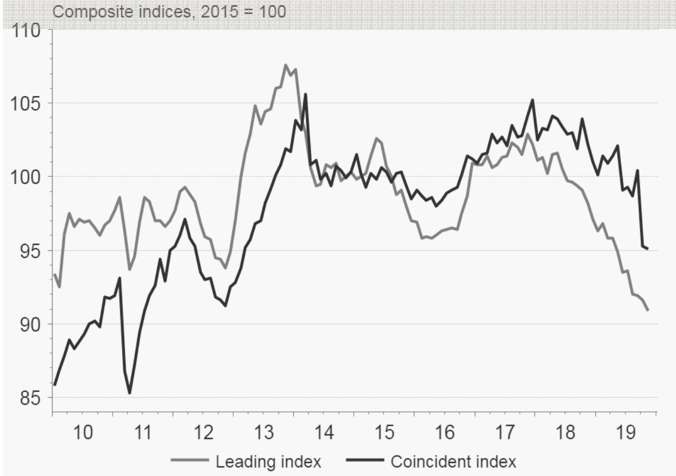
Equities – N225: UNDERWEIGHT. Target 23,732 (Exit 24,919)

Bonds – Govies: UNDERWEIGHT. Target yield 0.00%

Forex – USD-JPY: MARKETWEIGHT. Mid-term target 110

Japan indices of business conditions

Composite indices, 2015 = 100



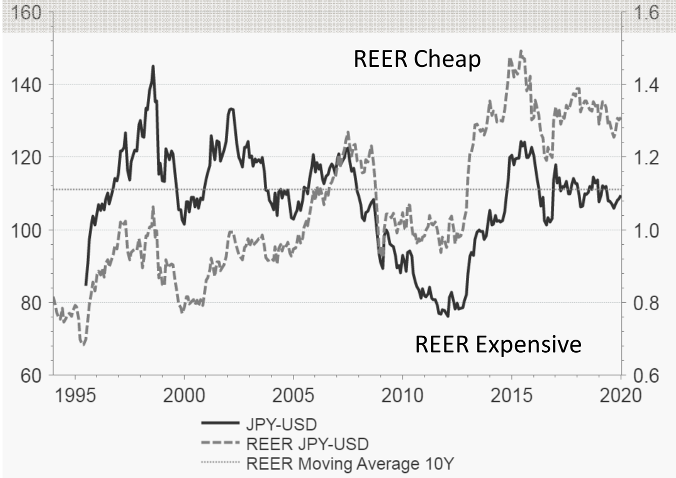
Source: Refinitiv Datastream / ANDBANK

Japan Nikkei 225 price / earnings

Ratio

Source: Refinitiv Datastream / ANDBANK

JPY-USD & REER



Source: Refinitiv Datastream / ANDBANK

CHINA
Washington and Beijing open a more ambitious phase of negotiations

Trade developments: Mixed messages, although the background tone is still favorable

Positives: 1) WSJ reported the US and China have agreed to semi-annual talks to push for economic reform and resolve disputes, borrowing from a format from previous administrations that Trump trade officials had once derided. The effort will be headed by Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He. This is set to be announced on Jan 15th as part of the signing of a phase-one trade deal. 2) Treasury Department no longer designates China a currency manipulator, citing Beijing's enforceable commitments to refrain from competitive devaluation and not to target its exchange rate for competitive purposes. The Treasury added that China has also agreed to publish relevant information related to exchange rates and external balances.

Negatives: 1) CNBC cited US President Donald Trump saying that he may not reach the second part of a trade pact with China until after the 2020 election. Trump said his administration will start "right away" negotiating the next piece of an agreement after striking a so-called phase one deal. But he said “It'll take a little time" to finish an accord and suggested he could have more leverage after his reelection bid in November. 2) China warns “trade war is not over yet” ahead of phase one deal signing, as the US has yet to revoke all its tariffs on China, and China is still implementing its retaliatory measures. Beijing described the deal set to be signed in Washington this month as just “the first step”. In our view, these negative messages are part of the typical fanfare of those who intend to show a position of strength.

Economy

Vehicle sales in China fell 8.2% in 2019 but December demand fell only 0.1% YoY, and although this was the 18th straight drop, it suggests a stabilization of the contraction. On the positive side, leading Chinese real estate developers saw robust annual sales in 2019, with total contracted sales of the top 30 property developers reaching CNY5.74T ($823.65B). We believe the economy will maintain a healthy pace in 2020 as Beijing is poised to take further steps in 2020 to expand its achievements in cutting taxes and fees. The State Taxation Administration pointed out that “more efforts will be made to further optimize the tax business environment”.

Reforms

The Ministry of Natural Resources announced that China will fully open up its market for oil and gas exploration and production to private and foreign companies. Both domestic and foreign companies registered in China with net assets of no less than CNY300M ($42.86M) will be eligible to obtain oil and gas mining rights. The new policy will take effect from May 1st.

Market: Small-cap rally is sending a bullish signal on economy

China's small cap rallies rarely last and typically mark the start of excessive risk taking, but this time is apparently signaling optimism about the economy according to some local sources. The outperformance of the ChiNext Index relative to benchmarks of larger companies has already held for six consecutive months, a feat not seen since 2013 and that we think will continue in 2020. Hence our preference (since last year) for the Shenzhen index, which is up 6% in the first days of the year. Meanwhile, Beijing's decision to direct money from the nation's vast household savings into funds that invest in equities could support a further rally in the country's stocks. The China Banking and Insurance Regulatory Commission published a guideline saying it will promote the conversion of household savings into long-term capital market funds, though it did not say how it would do this.

Financial market outlook

Equities – SHANGHAI Idx: MW-OW. Target 3,207. Exit 3,367

Equities – SHENZHEN Idx: MW-OW. Target 1,808. Exit 1,898

Bonds – Govies: MW (Target yield 3.18%)

Forex – CNY/USD: MW (Target 6.75)

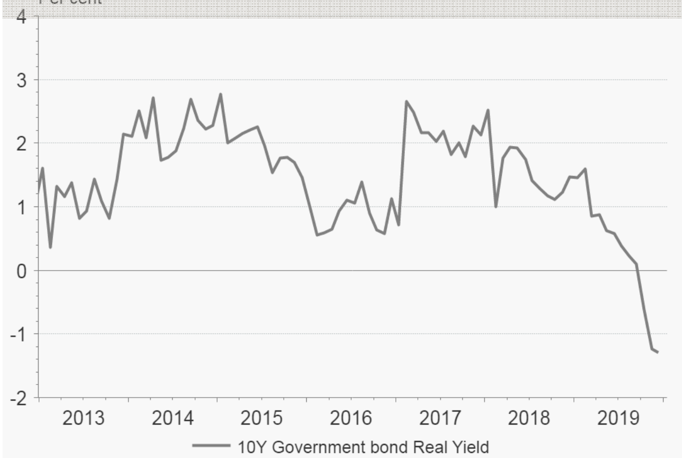
China price/earnings, Datastream index

Ratio

Source: Refinitiv Datastream / ANDBANK

China - 10Y Government Bond Real Yield

Per cent



Source: Refinitiv Datastream / ANDBANK

USDCNY exchange rate

Spot rate

Source: Refinitiv Datastream / ANDBANK

INDIA

India will benefit from favorable tailwinds in EMs, though some deficiencies still limit growth

India will benefit from favorable tailwinds in EMs

There are many reasons to continue betting on emerging Asian markets: 1) Washington and Tehran are dialing down the geopolitical tensions. 2) The US and China have just signed phase 1 of a trade agreement that represents a ceasefire in hostilities. 3) Big central banks are still spraying around liquidity and the effect of easy money will still be felt in 1H20. 4) Even the policy-driven Chinese market has been boosted by a switch towards a mild stimulus stance. 5) USD no longer represents a threat (via appreciation) and a stable or weak dollar is a real driver for EM. 6) On both a price/book and price/earnings basis, EMs trade at a near 20% discount to their developed peers, meaning that if substantial capital inflows do materialize, then a multiple expansion could unfold. 7) Emerging markets have had a lower return than US stocks in the last five years, suggesting that if certain conditions take place, such as a quieter international trade framework, we could see a sort of catch-up. In a nutshell, and assuming that these drivers remain in place, the five-month old EM rally we have witnessed (including India) could have legs and EM equities could outperform for a while yet.

There are some specific risks that have limited growth in EMs, but India has managed to circumvent some of them.

With the notable exception of India, the region will increasingly face demographic headwinds. India, unlike the rest, could benefit from the familiar demographic tailwinds that propelled the region in the last 30 or 40 years. On the negative side, unlike the trade-reliant, tech-heavy South Korean and Taiwanese markets that should outperform the rest as the electronics cycle turns up, India (unfortunately) still lacks a positive catalyst.

India is the most vulnerable market to energy price volatility, but this could change in the next decade.

One of India's big problems is the volatility in international energy prices as no country has comparable resource endowment. In 2018, the country had to import almost half of its primary energy needs. Even in coal, which dominates India’s energy mix, import dependence is rising although India boasts more than 130 years of coal reserves at current production levels. The inferior quality of its coal resources, coupled with institutional bottlenecks that hinder extraction and utilization, mean that India still has to import nearly a quarter of its coal needs. Fortunately, the Modi administration has already set to work to change this situation and reduce India's vulnerability. Modi replaced the Planning Commission –an institutional relic from the days when India experimented with Soviet-style command economy structures– with a policy think tank named NITI Aayog, that has already published a draft called National Energy Policy setting out ambitious targets for providing affordable energy to the population and ensuring energy security. Providing both rural populations and urban poor with reliable, safe and cheap energy sources is clearly a worthy policy aim. The plan envisages doubling India’s per capita energy consumption by 2040.

More liberalizing reforms are coming

Talk is of a middle-class income tax cut aimed at reviving sagging consumption. There is also a renewed push to ease outdated land and labor laws (unfinished business for Modi). There are also reports indicating that privatization is back on the agenda, with the government ready to ask parliament to approve the sale of its entire shareholding in four big public companies (including Bharat Petroleum). On the negative side, the credit crunch in the shadow banking sector continues to weigh heavily as non-bank financial companies still cannot get any money from banks.

Financial market outlook

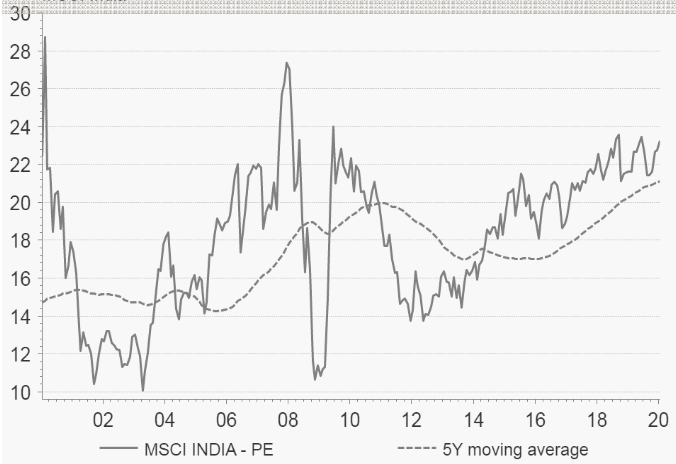
Equities – SENSEX: MW-OVERWEIGHT. Target 45,477. Exit 47,750

Bonds – Govies: OVERWEIGHT (Target yield 5.75%)

Bonds – Corporates: OVERWEIGHT

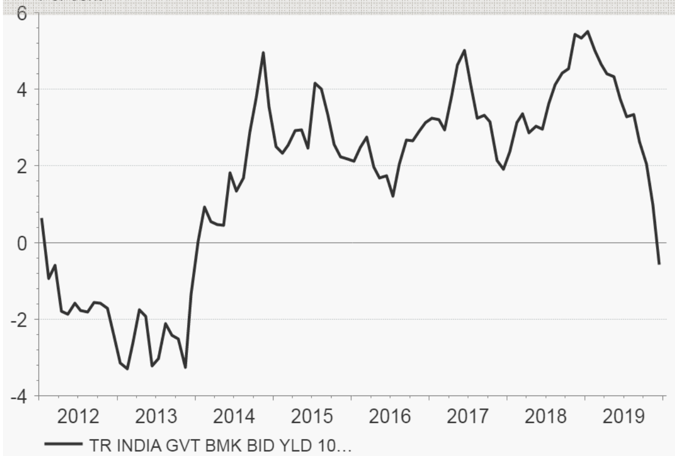
Forex – INR/USD: MARKETWEIGHT (Target 73.1)

PE (ltm) - India
MSCI India



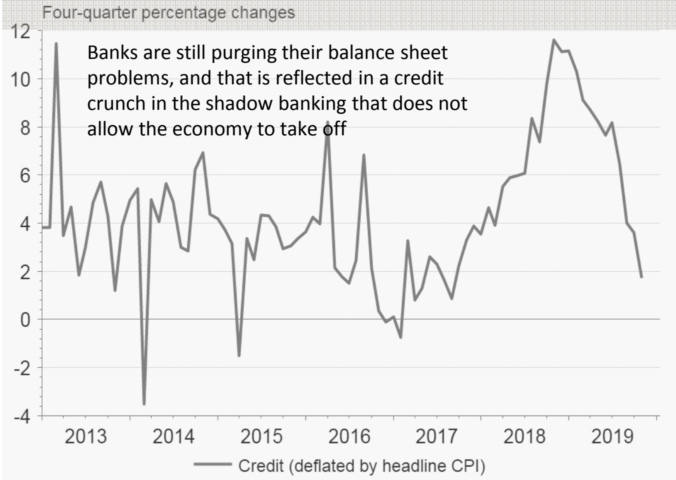
Source: Refinitiv Datastream / ANDBANK

India - 10Y government bond Real Yield
Per cent



Source: Refinitiv Datastream / ANDBANK

India real credit
Four-quarter percentage changes



Source: Refinitiv Datastream / ANDBANK

ISRAEL

Tel Aviv Stock Exchange eyes measures to boost liquidity

Innovation

Israel has fallen one place, from fifth to sixth, in the 2020 Bloomberg Innovation Index. There was also a surprise at the top of the rankings where Germany moved into first place from second place, changing places with South Korea, which had held the top spot for the past five years. In third place is Singapore, which leapt above Israel from sixth place in last year's Innovation Index. In fourth place, unchanged from last year is Switzerland and in fifth place, moving ahead of Israel is Sweden. Finland slipped below Israel from fourth place to seventh place. Israel retained first place in the R&D expenditure subsector, second place for research personnel concentration, fifth for technology company density.

Economy

Israel's 2019 budget deficit came in a high 3.7% of GDP, but its public debt-to-GDP ratio decreased to 60% percent in 2019 (this compares fairly well with 61% in 2018), representing the third consecutive year that this figure is lower than the upper limit of 60% recommended by the Maastricht Treaty. According to the ministry, the decline in the debt-to-GDP ratio in 2019 was due to macroeconomic factors reflected in high real growth rates, as well as market factors, mainly a significant appreciation of the Israeli new shekel against the US dollar and the euro. Meanwhile, Israel is marking its sixth year with almost no Inflation, but house prices continue to rise. Israel's inflation rate for 2019 was 0.6% and analysts expect inflation for 2020 to be around 0.7%-1%, while house prices rose by as much as 5% in 2019. The economic data has been positive in general, but there are increasing concerns that the good figures are mostly due to both expansionary fiscal and monetary policies, and the idea is spreading that with such a low interest rate environment, and the big deficit, Israel doesn't have an arsenal to hand in case of a serious economic slowdown.

Equity Market

The Tel Aviv Stock Exchange (TASE) plans to start targeting retail investors in 2020 to attract ordinary Israelis priced out of the bourse due to high commissions charged by local banks. There is about USD300 billion in Israeli bank accounts and short-term deposits. With 442 traded companies at a market value of $234 billion, the TASE has been struggling with delisting and declining trading volumes. The TLV stock indexes continued their upward trend deep into January 2020. Since our last update (Dec 19), the TLV 125 has risen 3.4% and the TLV 90 5.3%. In addition, the small/medium cap index (TLV SME 60) has outperformed the overall market in what is commonly known as the "January Effect" in which small cap companies show strong results at the start of the year. Real estate companies continued their rally with a +7.6% gain, boosted by low interest rates and eased mortgage conditions. Oil & Gas shares also rose (+3%) while the supply of gas from Israel to Egypt has begun. Tech companies rose 7.9% together with an overall positive trend in tech companies listed on Wall St.

Bond market: Central bank holds interest rate and says no hikes for an extended period

Corporate credit spreads and financing conditions eased considerably in Israel during 2019. The Israeli main investment grade corporate bonds index (Tel-Bond60) is trading at a spread of 1.05% over the CPI-linked government bonds curve and given the late phase of the cycle still represents an attractive investment.

Financial market outlook

Equities – TLV35 Index: MW-UW (Expensive)

Bonds – 10YGov USD: MW-UW

FX – ISL vs USD: MW-UW (ISL is slightly expensive in REER terms)

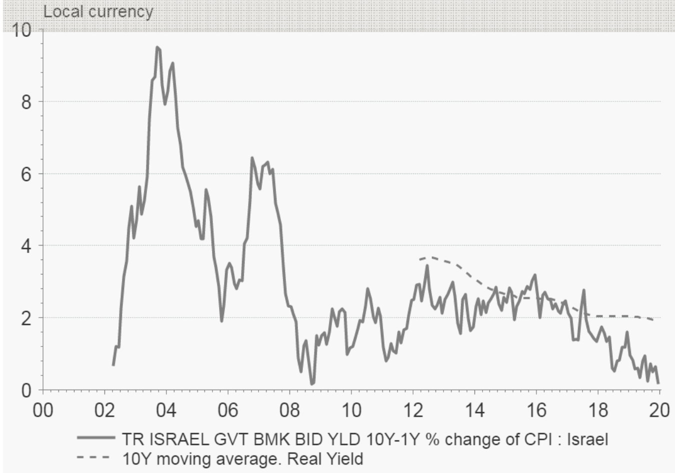
Israel price/earnings, Datastream index

Ratio

Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y

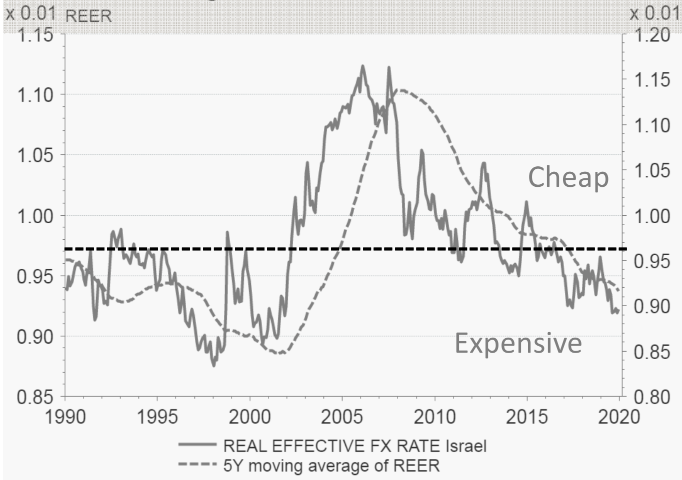
Local currency



Source: Refinitiv Datastream / ANDBANK

USDILS exchange rate

REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

Reform agenda goes ahead. Growth estimates are accelerating

Economics: The beginning of the growth cycle?

The latest Focus report brought a scenario of calmness in terms of long term inflation expectations. Despite the uptick at the end of 2019, the consensus for future horizons didn't deteriorate. The 2020 consensus is around 3.56-3.58%. Regarding GDP forecasts, the figure for 2020 has been improving since the end of 2019 and is now fixed above 2.30% YoY. The impact on the real economy from the recent reform agenda and contained inflation (and easing monetary policy) is starting to be felt, as evidenced by the boost in key sectors such as real estate and a recovery in the extractive industry, which is helping to boost confidence in other retail segments. Other industrial sectors are also expected to experience a moderate boost in 2020 if the fiscal anchor ensures that the historically-low interest rate remains in place, as we expect. The Brazilian Institute of Geography and Statistics (IGBE) released data showing that the economy has grown 0.6% after the approval of the pension reform. This has had an impact on citizens' perceptions, who have expressed a little more confidence in an economic recovery than in previous months. On the negative side, the continued high unemployment rate may bring some social frustration, although we do not see this risk unfolding in 2020. The unemployment rate stands at 11.2%, and although it has been improving since 2017 (when it was 14%), it is still above its 10-year average (close to 9%).

Has Bolsonaro's first year been a success or failure?

After a long and gradual decline, Bolsonaro's poll numbers have stabilized at about 40% approval, mostly due to the slow but continuing improvements in Brazil's economy. Especially encouraging has been Congress' surprising passage of a substantial pension reform, reinforced by modest upticks in growth and employment. Business leaders and foreign investors appear increasingly confident that economic revival is in sight. And although, according to official statistics, homicides and other violent crimes have fallen dramatically this year, there has also been a steep rise in murders by police. Nonetheless, Bolsonaro's hardline approach to crime has the support of many Brazilians, fed up with unbridled violence. Many Brazilians oppose Bolsonaro for his extreme and confrontational agenda on ideological and cultural issues, but these have attracted the loyalty of most of Brazil's evangelicals - some 30% of all Brazilians. Bolsonaro has managed to maintain solid economic ties with his two largest commercial partners, China and the United States. Municipal elections this fall will offer a good measure of Bolsonaro's standing nationally. Polls show Lula (who cannot run for office) as the only serious challenge to Bolsonaro, indicating the frailty of the president's opposition. Despite his many critics and a record of poor judgment and offensive statements, today Bolsonaro stands as a strong contender for re-election in 2022.

Politics: New momentum for additional reforms

In a recent interview, Minister Paulo Guedes guaranteed that the administrative and tax reforms should be sent to Congress by the beginning of February. The willingness to continue supporting the reform agenda prevails in Congress. Nevertheless, the general assessment is that almost everything will be approved by 2021 as the October municipal election is expected to interfere with the schedule. Starting in May, the pace of voting will be significantly reduced.

Financial market outlook

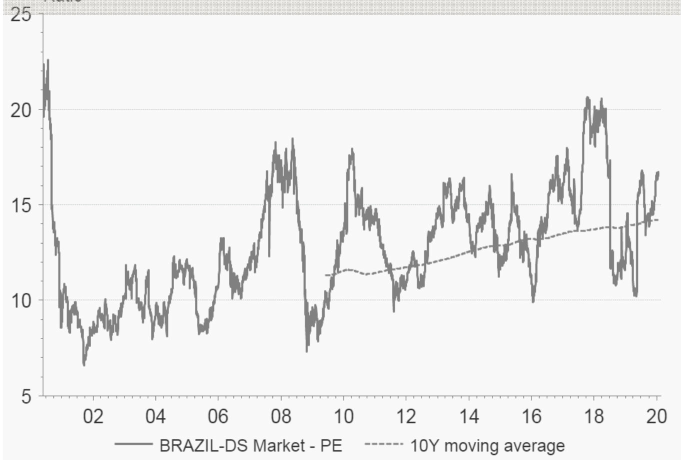
Equities – IBOV: MARKETWEIGHT-OW (Target 116,437 Exit 122,259)

Bonds – Gov. 10y Local: OVERWEIGHT (Target 7.0%. Spread 500)

Bonds – Gov. 10y USD: OVERWEIGHT (Target 4% Spread 200)

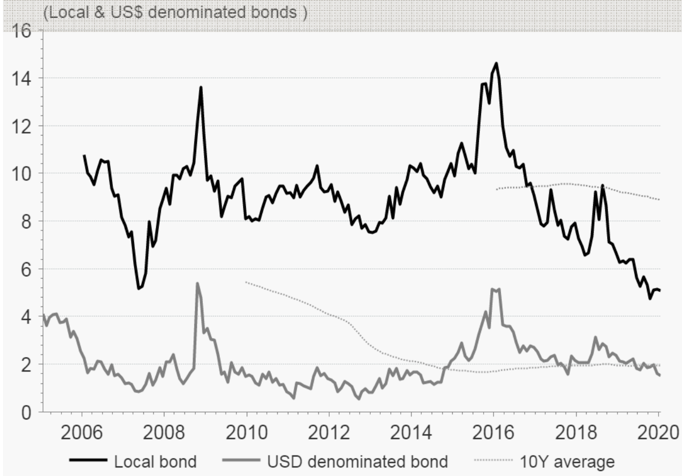
FX – BRL/USD: OVERWEIGHT (Mid-term target 4.10)

Brazil price/earnings, Datastream index
Ratio



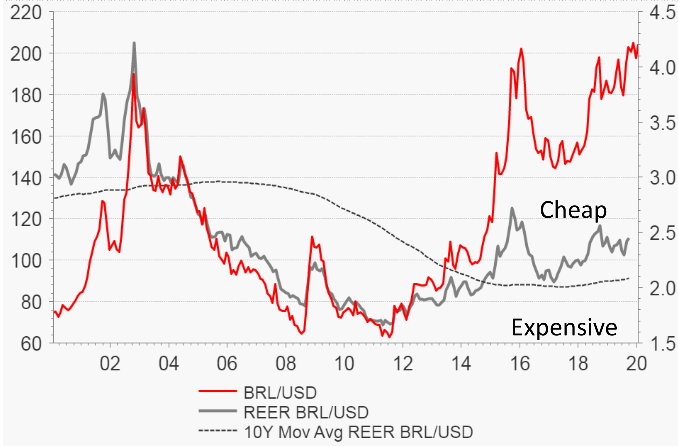
Source: Refinitiv Datastream / ANDBANK

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



Source: Refinitiv Datastream / ANDBANK

BRAZILIAN REAL - REER
vS USD



Source: Refinitiv Datastream / Fathom Consulting

MEXICO

The main risk remains a contagion of Pemex's weak financial position on public finances

AMLO's policies will not involve any economic transformation

Following a reasonable period of time to assess what the AMLO administration will mean for the economy (and markets), we are ready to say that the president will probably not provide the necessary wake-up call that proves capable of transforming and modernizing the economy, rather, the current presidency will represent political-economic mediocrity. Under this new perception, we have dialed back our hopes of seeing a qualitative and quantitative leap in this economy and its assets during this legislature. Recent public finance data continued to show some fiscal restraint, in part due to the typical under-use of budgeted spending during the first year of the legislature, but we have observed a worrying decline in revenue that calls into question the government's estimated figures. Another notable aspect (on the negative side) is that the government used half of a Budget Stabilization Fund (150 billion pesos) to balance revenues in 2019 and 2020. Public policies have continued to be strongly criticized for their lack of technical support. A universal health program implemented by previous administrations has been undone to give way to a new one that has increased the cost of hospital access and treatment and has left vulnerable sectors of the population without medication. Even today, the main questions continue to focus on the measures (or rather the lack of them) that the AMLO government is proposing to encourage private investment, particularly in the energy sector, where it canceled the pending tenders of the last reform.

Economic outlook remains subdued. Central Bank will support

The growth outlook for 2019 continues to be cut pending the final data for the year, standing at -0.3%. The most important ballast for growth remains investment, which in the last report with October data showed an annual decline of 8.7%. Looking ahead to 2020, the median of the main surveys places GDP growth estimates at 1.3%. On the positive side, it should be noted that the Ministry of Finance successfully placed euro and dollar debt issues at the start of the year, which completely covered its 2020 financing program.

The central bank cut the reference rate by 25bp to 7.25%, in line with market expectations. The subsequent statement had a moderate bias, separating itself from the Fed. The outlook for rate cuts in 2020 continue and is expected in the range of 75-100bp by the end of the year.

Equity Market - IPC Equity Index

The ratification of the T-MEC eliminated one of the negative factors for boosting the local stock market, and although the poor outlook for private investment in all sectors of the economy remains the primary risk, we do not rule out that the catalysts for the Mexican market could be positive during 1H20. The main risk continues to be possible contagion from Pemex's weak financial position on public finances and a corresponding reaction from credit rating agencies. Estimated level for the CPI 2020 index: 48,000.

Financial market outlook

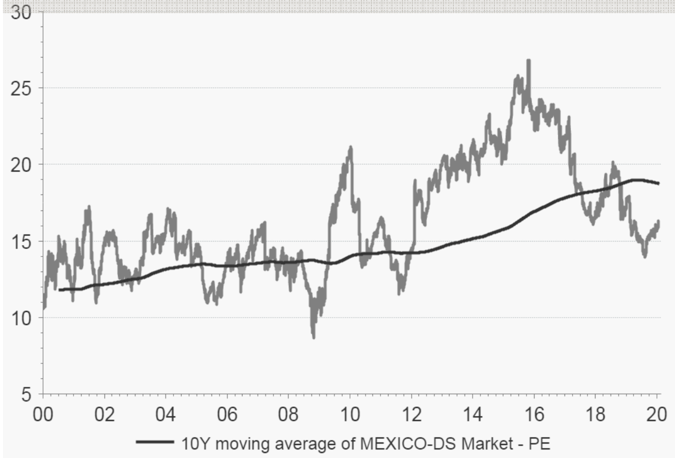
Equities – Mex IPC: MW-OVERWEIGHT. Target 45,800. Exit 48,000

Bonds – Govies Local: OVERWEIGHT (Yield 7%. Spread 500)

MARKETWEIGHT (Yield 3.5%. Spread 150)

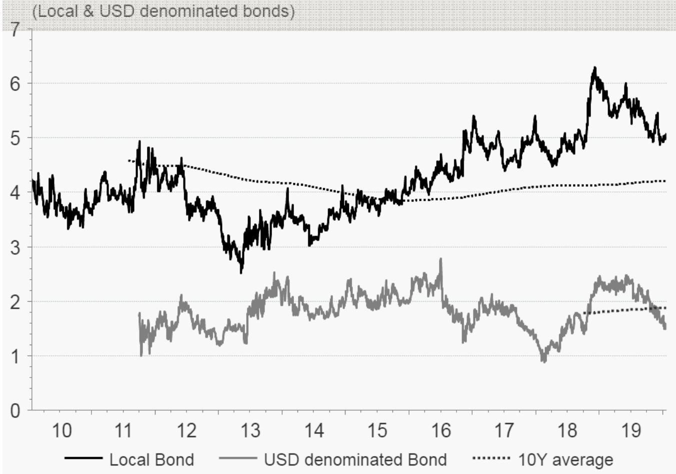
FX – MXN/USD: MW-UNDERWEIGHT (Mid-term target 20.00)

Mexico equities price/earnings ratio
Datastream index



Source: Refinitiv Datastream / ANDBANK

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



Source: Refinitiv Datastream / ANDBANK

MXN/USD Real Effective Exchange Rate
Index

Source: Refinitiv Datastream / ANDBANK

ARGENTINA

New Government: No long term plan, just buying time

Politics and the economy

A little over a month has passed since the new government took office in Argentina. The measures taken are mostly short-term and at the moment we don't see a cohesive economic plan addressing the main structural problems that Argentina faces today (i.e. social security, labor legislation, fiscal discipline). With more taxes (discouraging savings), the cost of capital at prohibitive levels, and no supply side policies in place by the new government, it is hard to see how the economy can enter a healthy path to growth. If debt negotiations are successful we could see an economic recovery (given low capacity utilization, cheaper cost of labor and high REER), although it will prove to be short-lived if economic fundamentals remain unchanged.

"Solidarity law": Main bill of the new government

Intended to tackle the "Economic Emergency", the bill introduces several measures to improve the fiscal situation: i) Pension indexation formula suspension (180 days to determine a new index); ii) Higher Export Duties and Wealth Tax; iii) 30% tax on foreign and tourism USD purchases. Estimates of fiscal savings range from 1.5% to 2% (largely dependent on how the government manages pension increases) leaving 2020 with a similar primary deficit to 2019 (0.4%-0.5% GDP).

An assessment of the bond market

Financial markets in Argentina reacted positively (Govt. bonds +15%), not only because the fiscal package could result in a lower deficit compared to market expectations but also because the central bank transferred US$4.5 bn to the treasury allowing them to maintain sovereign debt performance. Nevertheless, this honeymoon period proved to be short-lived and was interrupted by news that Buenos Aires Province is looking to delay payment (until May) of a bond principal redemption on January 26. No bail-out from the government to the province reduces the moral hazard problem but is putting stress on the Federal Debt Negotiation. The government wants to have a debt deal before March 31st but no formal progress has been reported despite ongoing discussions with creditors. Our base case scenario is still that the government is aiming for: i) Maturity extension (4-5 years); ii) Coupon reduction with step-up (debt interest currently represents 3% of GDP and 17% of government revenues); iii) and a friendly haircut of 20% in order to enhance debt sustainability. It goes without saying that a tougher offer could reduce bondholders' exchange consent, while a more market-friendly offer increases the risk of having to tackle further restructuring down the road. Under this scenario we see some upside to sovereign debt prices, although limited, and with significant downside risks.

2019 posted the highest inflation in 28 years, though 2020 started with a lower than expected reading

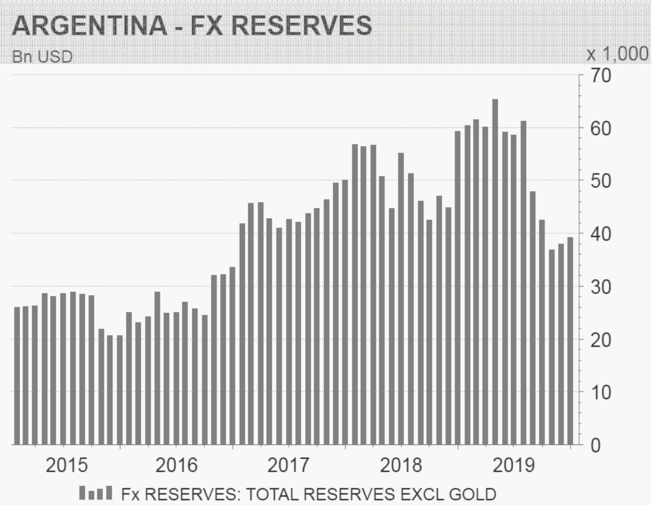
The last CPI reading came in at 3.7% MoM (vs. 4.3% MoM in Nov 19), below market consensus (4.1% MoM), with annual inflation for 2019 closing at 53.8% YoY. We expect a downward trend in 1H20 explained by lower USD-ARS depreciation, the introduction of price controls, and public services tariffs and a fuel freeze. Given the short term nature of these measures, the effects will be limited and inflation could pickup in 2H20. The central bank (BCRA) is taking advantage of the artificial higher money demand after the imposition of restrictive capital controls, by reducing interest rates by 1,300 bps (63% to 50%), aimed at reactivating private credit demand.

Financial market outlook

Bonds – 10YGov USD: MARKETWEIGHT
FX – USD-ARS: UNDERWEIGHT (2020 year-end target 80)

Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Sales growth Andbank Estimate 2020	Sales per Share Andbank 2020	Projected Net Margin Andbank 2020	Projected EPS Andbank 2020	Projected EPS Growth Andbank 2020	Current PE fw EPS 2020	Projected PE ltm EPS 2020	INDEX CURRENT PRICE	2020 Central Point (Fundam range)	2020 E[Perf] to Centr. Point	Recomm	2020 Exit Point
USA S&P 500	4,7%	1.460	11,4%	166	0,9%	19,83	19,50	3.295	3.240	-1,7%	MW	3.402
Europe - Stoxx Europe 600	3,5%	322	8,0%	25,8	-0,5%	16,11	16,20	415	418	0,6%	MW/UW	438
Euro Zone - Euro Stoxx	4,0%	361	7,3%	26,4	4,6%	15,24	16,20	402	427	6,3%	OW	448
Spain IBEX 35	3,0%	8.044	9,1%	732	3,0%	12,85	13,50	9.405	9.882	5,1%	MW/OW	10.376
Mexico IPC GRAL	5,7%	37.369	7,8%	2.926	3,4%	15,43	15,65	45.142	45.792	1,4%	MW/OW	48.081
Brazil BOVESPA	6,0%	73.964	10,2%	7.512	2,9%	15,76	15,50	118.376	116.437	-1,6%	MW/OW	122.259
Japan NIKKEI 225	4,9%	22.310	6,1%	1.360	2,4%	17,52	17,45	23.827	23.732	-0,4%	UW	24.919
China SSE Comp.	7,2%	3.032	9,1%	277	10,2%	10,74	11,58	2.977	3.207	7,7%	MW/OW	3.367
China Shenzhen Comp	7,4%	1.043	9,0%	93	11,8%	18,82	19,37	1.757	1.808	2,9%	MW/OW	1.898
India SENSEX	8,6%	17.928	11,7%	2.095	12,9%	19,65	21,71	41.155	45.477	10,5%	MW/OW	47.750
Vietnam VN Index	7,8%	861	7,6%	65	9,2%	15,25	16,85	991	1.096	10,5%	OW	1.150
MSCI EM ASIA	7,4%	502	8,8%	44	12,5%	12,88	13,52	571	599	4,9%	MW/OW	629

UPWARD REVISION DOWNWARD REVISION *ANDBANK ESTIMATES*

POSITIONING, FLOW & SENTIMENT ANALYSIS

Perspective: No stress in markets
Andbank's Assessment: -2 (in a -7/+7 range)

Aggregate (UW-MW bias): Investors maintained a high exposure to equities with current sentiment indicator levels quite high. Our tactical view is negative; however we consider the readings of our indicators still suggest that there are no significant levels of stress in the market.

Market Positioning (Slight UW bias): Asset allocation in equity is relatively high this month. Similarly the Put-Call ratio also indicates that investors have a very low level of hedging. Additionally, skew in positive territory indicates that some fear of violent downside movement exists. Our reading is Negative.

Flow Analysis (MW bias): Positive, though small flows toward US equities indicate momentum remains, but neutral view in equity markets. Emerging markets had positive flows whilst Europe faced outflows.

Surveys & Sentiment Analysis (UW bias): Extreme positive sentiment from investors amid good performance is also reflecting a kind of complacency within the market: we could see a reversal.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	Ticker Reuters	View 1 month	Principal Support 2020	Principal Resistance 2020	Support 1 month	Resistance 1 month	Target (TA) 2020	@	Return to Target (TA)
INDEXES	Euro Stoxx Index	.STOXXE	Bullish	367,29	406,57	387,63	420,32	443,00	410,41	7,94%
	Euro Stoxx 600	.STOXX	Bullish	361,00	415,18	403,72	Subida Libre	441,75	423,38	4,34%
	Ibex	.IBEX	Lateral bullish	8.229,00	9.665,00	8.903,00	9.665,00	9.665,00	9611,30	0,56%
	S&P	.SPX	Bullish	2.728,00	Subida Libre	3.028,00	Subida Libre	3.567,00	3320,79	7,41%
	Japón	.N225E	Lateral bullish	20.110,00	24.448,00	22.362,92	24.448,00	22.362,00	24031,35	-6,95%
	China	.SZSC	Bullish	1.458,00	1.799,00	1.578,00	1.799,00	2.060,00	1819,61	13,21%
	India	.BSESN	Bullish	36.100,00	Subida Libre	38.934,35	Subida Libre	44.095,00	41323,81	6,71%
	Brasil	.BVSP	Bullish	95.855,30	Subida Libre	106.650,12	Subida Libre	124.767,00	117026,04	6,61%
	México	.MXX	Lateral bullish	36.898,00	46.554,00	41.140,32	46.554,00	46.554,00	45637,32	2,01%
OTHERS	Oil West Texas	WTCLc1	Lateral	50,52	66,60	50,52	66,60	66,60	58,26	14,32%
	Oro	XAU=	Bullish	1.358,00	1.557,00	1.445,18	1.691,00	1.691,00	1557,73	8,56%
	Treasury 10 años USA	US10YT=RR	Lateral	1,3210%	2,3500%	1,5560%	2,0160%	2,3500%	1,7734%	32,51%

Bullish -> Potential > 10% ; Sideways Bullish -> (+5%,+10%); Sideways-> (- 5% , +5%); Sideways bearish-> (-10%,-5%); Bearish -> < -10%

FI **FIXED INCOME - GOVERNMENTS**

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 1.97%. Fair value 3%. Ceiling 3.4%

Swap spread: The swap spread up-ticked to 7bp (from -10p last month). For this spread to normalize at +3bp, with the 10Y swap rate anchored in the 2.0% area (our LT inflation expectation), the 10Y UST yield would have to move towards 1.97%.

Slope: The slope of the US yield curve rose to 24bp (from 17bp last month). With the short end normalizing towards 2% (today at 1.52%), to reach the long-term average slope (of 143bp) the 10Y UST yield would have to move to 3.43%.

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

GER Bund: Floor 0.63%. Fair value 1.22%. Ceiling 2.5%

Swap spread: The swap spread up-ticked to 38bp (from 36bp last month). For the swap spread to normalize at 37bp, with the swap rate anchored in the 1.00% area (today at 0.11%), the Bund yield would have to move towards 0.63% (entry point).

Slope: The slope of the EUR curve fell to 33bp (from 40bp last month). If the short end "normalizes" in the 0% area (today at −0.59%), to reach the 10Y average yield curve slope (122bp) the Bund yield would have to move to 1.22%.

Real yield: A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI mid-term forecast of 1.5%, the Bund yield would have to rise to 2.5% to become a "BUY".

UK Gilt: Floor 1.9%. Fair value 2.4%. Ceiling 2.75%

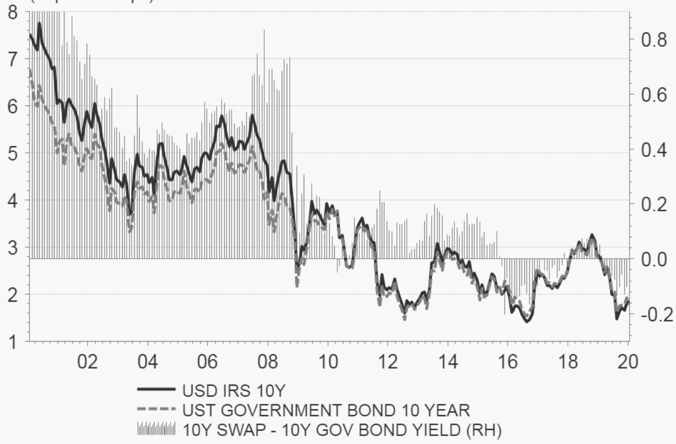
Swap spread: The swap spread fell to 17bp (from 27 last month). For the swap spread to normalize at 10bp, with the swap rate anchored in the 2% area (today at 0.81%), the 10Y UK Gilt would have to shift to 1.9%.

Slope: With a 2Y bond normalized at 1%, to reach the average slope at 1.43%, the 10Y Gilt would have to move to 2.43%.

Real yield: Given our CPI mid-term forecast of 1.75%, the Gilt yield would have to rise to 2.75% to become a "BUY".

SWAP SPREAD USD

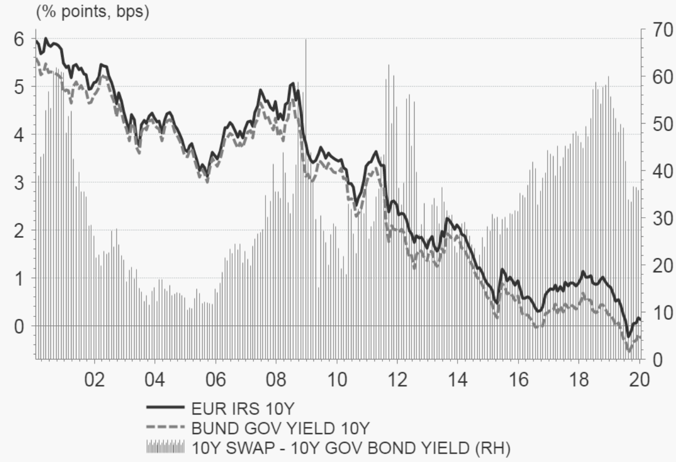
(% points & bps)



Source: Refinitiv Datastream / Fathom Consulting

SWAP SPREAD EUR

(% points, bps)



Source: Refinitiv Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Tactical targets – 10Y yields

Spanish bono: Target yield at 0.50%
Italian bond BTPI: Target yield at 1.0%
Portuguese Gov bond: Target yield at 0.5%
Ireland Gov bond: Target yield at 0.2%
Greece Gov bond: Target yield at 1.50%

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

		10 Year Yield Nominal	CPI (y/y) 3 month Mov Avg	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	6,62%	3,34%	3,29%	-1,00%	5,62%
	India	6,55%	3,95%	2,60%	-0,75%	5,80%
	Philippines	4,58%	1,13%	3,45%	-1,00%	3,58%
	China	2,97%	2,44%	0,53%	0,00%	2,97%
	Malaysia	3,14%	1,27%	1,88%	-0,50%	2,64%
	Thailand	1,29%	0,33%	0,96%	0,00%	1,29%
	Singapore	1,63%	0,48%	1,15%	-0,50%	1,13%
	South Korea	1,60%	-0,15%	1,75%	-0,50%	1,10%
	Taiwan	0,56%	0,42%	0,14%	0,00%	0,56%
EME	Turkey	10,04%	10,94%	-0,90%	1,00%	11,04%
	Russian Fed	6,24%	4,03%	2,21%	-0,75%	5,49%
LATAM	Brazil	6,72%	2,92%	3,80%	-1,00%	5,72%
	Mexico	6,76%	3,09%	3,67%	-1,00%	5,76%
	Colombia	5,73%	3,76%	1,97%	-0,50%	5,23%
	Peru	4,72%	1,92%	2,80%	-0,75%	3,97%

ENERGY – OIL

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

Buy < USD45; Sell >65

Short-term drivers

(Price Negative) – Pullback in bullish bets amid US/Iran de-escalation could continue. The abrupt reversal in oil's upward momentum following last week's sudden de-escalation of tensions between the US and Iran was motivated by the unwinding of bullish wagers on crude and the fact that net bullish positions on Brent were at their highest level since October 2018 for the week ended Jan 7th, while the net bullish position for WTI was at its highest since April. Due to the high level of bets, the pullback could continue.

(Price Negative) – Norway's oil output will increase by 43% between 2019 and 2024 as new fields come on stream and older production facilities are upgraded. The country's offshore field output is expected to rise to 2.02M bpd from current 1.41M barrels over the period, with combined oil and gas output expected to reach close to 2004 record levels. 2020 output is also projected slightly higher (to 1.76M).

(Price Negative) – The threat of a bottleneck in the US that limits the growth of US crude oil sales abroad has dissipated. The Port of Corpus Christi, the 2nd largest exporter of crude oil in the US, has surged to record levels in recent weeks, surpassing hubs such as Houston and Beaumont ports thanks to faster-than-expected infrastructure additions. The port exported a record 1.6M bpd in late December, more than doubling the levels that prevailed in the prior eight months. Analysts had feared a crude bottleneck amid high Permian output but the rush of crude has been absorbed following last year's addition of almost 2M of inbound pipeline capacity and ~5M barrels of storage capacity at Corpus Christi port.

(Price Negative) – Gulf of Mexico still in recovery and production expected to rise: Platts reported that output in the US GoM appears to be springing back to life after years of virtual hibernation from the 2015 industry downturn, underlining that "while production in the Gulf is at an all-time high, experts still see the region in a period of production recovery".

(Price Negative) – Prices could face weakness after Alberta loosens crude production limits. Alberta's loosening of its crude production limits has renewed risks of a price collapse like the one in 2018. Western Canadian Select (heavy oil) discount versus Edmonton Mixed Sweet crude grew to the widest level in more than a year, suggesting Canadian oil is at high risk of a blowout, and that a discount of more than $25 a barrel could force Alberta to step back in and raise mandated cuts. The shift comes after Alberta's government in November loosened output limits imposed at the start of 2019 to counter a glut caused by a lack of pipeline capacity.

(Price Stable) – OPEC+: Russia and UAE still committed to a March cartel meeting. Headlines from TASS (Russian news agency) indicated that the group had begun discussing extending the current deal until June even without the expected March meeting. Saudi Energy Minister bin Salman said at a conference in Dhahran that "the kingdom wants to see sustainable prices and demand growth, and will continue to do all it can to ensure sustainable oil markets".

(Price Positive) – China continues to be a supportive factor for the oil price. 2019 marked the 17th annual increase for China's crude imports, which were up 9.5% YoY and hit a new all-time high. China imported an average of 10.12M bpd for the year, with December arrivals coming in at a rate of ~10.71M bpd (the third-highest monthly level, just down from a record 11.13M bpd in November). The increase in oil imports came amid higher demand from new refineries using up their annual quotas.

(Price Positive) – Libya: Peace talks between the UN-backed PM Sarraj and warlord Khalifa Haftar broke down. Sarraj had demanded Haftar's forces retreat to lines it occupied before its push on the capital Tripoli began nine months ago. It is unclear where the peace process now stands. This conflict situation could once again provoke interruptions in the country's oil production (which is ranked tenth in proven reserves).

Long-term drivers

(Price Negative) – Alternative energies picking up the baton: Conventional producers must bear in mind that the value of their reserves is dictated by the amount of time they can pump before alternative energies render oil obsolete. In order to push back this deadline as far as possible, it is in producers' interests to keep oil prices low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

(Price Negative) – Growing environmental problems will gradually tighten legislation over 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.

(Price Negative) – Are OPEC producers able to structurally fix prices? While it is true the agreement between the Saudis and Russia to strangle the global energy market has worked well in achieving a considerable increase in the price of oil, this has been at the cost of a loss of market share, meaning that OPEC producers are no longer able to easily fix prices without bearing costs. Back in the 1970s and the early 2000s, the exporters cartel agreed to cut output and the approach worked well, as the principal competition was among conventional oil producers (in particular between OPEC and non-OPEC producers). Today's biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil should therefore easily be offset (in theory) by a rapid increase in shale oil production.

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,200/oz. Sell above US$1,300

Negative drivers for Gold

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) rose to US$1,380 (from US$1,316 last month). Therefore, in real terms, gold continues to trade well above its 20-year average of US$932. Given the global deflator (now at 1.12817), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,05.

Gold to Silver (Preference for store of value over productive assets). This ratio fell to 87.36x (from 88.15x last month) and still remains well above its 20-year average of 64.5x, 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$1,149/oz.

Gold to Oil: This ratio up-ticked during the month to 27.5x (from 26.36x last month), still well above its 20-year average of 15.4x. Considering our fundamental long-term target for oil of US$55 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$850 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long rose to 376k (from 325k last month). Short contracts rose to 57k (from 53k). Thus, the net position rose to 319k contracts during the month (from +271k the previous month).

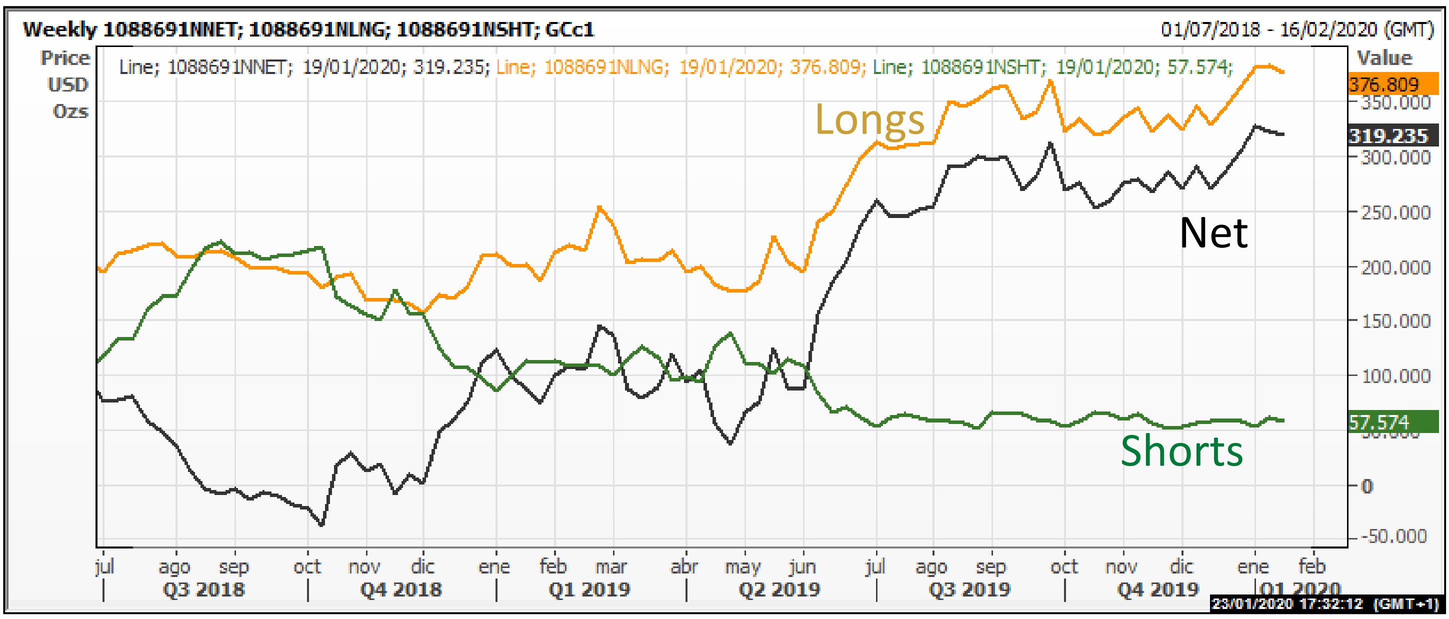
Demonetization in India. Demonetization forced millions of households to use formal banking services for the first time, helping to integrate them into the formal economy. The move will help mobilize billions of dollars in savings that were residing in unproductive physical assets such as gold.

Positive drivers for Gold

Gold to the S&P500: This ratio down-ticked to 0.469x (from 0. 478 last month) but is still well below its LT average of 0.61x. Given our target price for the S&P of US$3,240, the price of gold must approach US$1,976 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 (>US$13trn of face value is yielding negative rates).

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

According to CFTC Fx data, global positioning extended recent trends with shorts further trimmed after the US-China Phase One deal signed and the news of coronavirus transmission in China. During the last month these were the currencies that had the most positive flows (measured by its 3yr Z-score change): EM currencies (positioning shifted from 1.15 to 2.25). GBP (from 0.08 to 1.54). CHF (shorts were cut from -0.30 to a net long of +1.55). BRL (positioning shifted from -1.94 to -0.77). AUD (from -0.88 to -0.38), and the EUR (from -0.91 to -0.73). As a counterpart to all these favorable flows to these currencies, we had a decline in the global positioning in USD (that shifted from +0.63 to -0.33).

EUR-USD: Fundamental year-end 2019 target at 1.10

Futures positions in the US dollar fell last month (to US$2.4bn from US$18.9bn), with a 3-year Z-score at levels growing to -0.33 (vs. 0.63 the previous month). All said, USD positioning consolidated around neutral after six consecutive weeks of rather sharp long-cutting. The benefactors of the rotation from the USD in the last two months were the EM, GBP, CHF, BRL and AUD. As a result of this move, the few net longs in USD are now even far lower than the US$32,1bn seen in the last 12 months, meaning that there is no longer stress in USD positioning, while remains a large space left to reconstruct long natural positions in the reserve currency. The sharp increase in the Z-score in EM positioning suggests that these currencies could be now overbought but also indicates that there are no fears of a global recession. Our **fundamental (long-term) discussion** still reflects our structural bullish view on USD against EUR. Our year-end target remains unchanged at 1.10. Our **technical analysis** within the Investment Committee now indicates a sideways-bearish view for the EUR, with a target of 1.07.

USD-JPY: Target 110; **EUR-JPY**: Target 121

Several aspects suggest that JPY should not appreciate versus USD: (1) The BoJ will probably continue to expand its balance sheet and the money supply, making USD more attractive (or JPY less appealing). 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% there is little prospect that JGB real yields will rise.

GBP-USD: Target 1.32; **EUR-GBP**: Target 0.83

USD-CHF: Target 0.97; **EUR-CHF:** Target 1.07

USD-MXN: Target 20; **EUR-MXN:** Target 22

USD-BRL: Target 4.10; **EUR-BRL:** Target 4.50

USD-ARS: Target 75

USD-INR: Target 73.1

CNY: Target 6.75

RUB: NEGATIVE

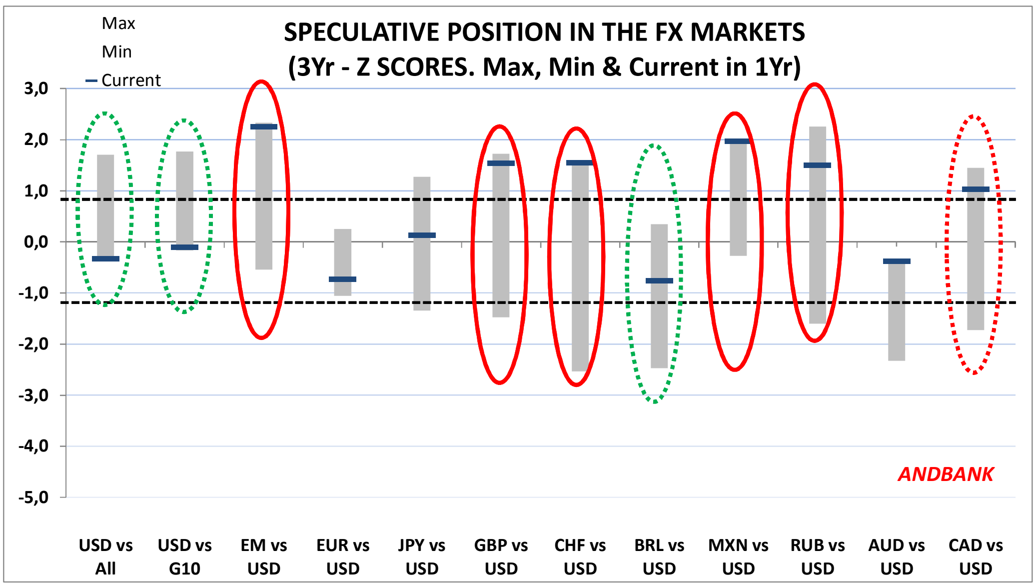
AUD: NEUTRAL-POSITIVE

CAD: NEGATIVE

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	2,42	-10,75	32,1	1,5	20,9	-0,33
USD vs G10	7,64	-9,90	32,7	0,0	22,3	-0,11
EM	5,22	0,85	5,2	-0,2	2,1	2,25
EUR	-6,51	3,60	1,6	-10,4	-6,0	-0,73
JPY	-5,09	-1,25	4,0	-12,8	-5,2	0,13
GBP	2,03	1,33	2,6	-7,8	-4,1	1,54
CHF	0,20	1,43	0,2	-6,0	-2,2	1,55
BRL	-0,51	0,47	0,2	-1,2	-0,5	-0,77
MXN	4,53	0,36	4,5	0,0	2,0	1,97
RUB	1,20	0,02	1,3	-0,2	0,6	1,49
AUD	-1,32	1,87	-1,3	-5,2	-3,4	-0,38
CAD	2,93	2,29	4,1	-5,0	-0,2	1,03

Positive
Neutral-Positive
Neutral-Negative
Negative

ANDBANK



The currencies we technically favor are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fundamental Central Point 2020	Expected Performance to central point 2020
Equity	USA - S&P 500	1,7%	2,0%	3.295	3.240	-1,7%
	Europe - Stoxx Europe 600	-1,1%	1,9%	415	418	0,5%
	Euro Zone - Euro Stoxx	-1,5%	1,5%	402	427	6,3%
	SPAIN - IBEX 35	-3,0%	0,1%	9.405	9.882	5,1%
	MEXICO - MXSE IPC	2,0%	3,7%	45.142	45.792	1,4%
	BRAZIL - BOVESPA	1,6%	2,4%	118.376	116.437	-1,6%
	JAPAN - NIKKEI 225	0,2%	-1,3%	23.827	23.732	-0,4%
	CHINA - SHANGHAI COMPOSITE	-0,9%	-2,4%	2.977	3.207	7,7%
	CHINA - SHENZEN COMPOSITE	3,5%	2,0%	1.757	1.808	2,9%
	INDIA - SENSEX	-1,0%	0,9%	41.155	45.477	10,5%
	VIETNAM - VN Index	2,9%	3,2%	991	1.096	10,5%
	MSCI EM ASIA (in USD)	0,4%	0,8%	571	599	4,9%
Fixed Income Core countries	US Treasury 10 year Govie	2,2%	2,5%	1,62	2,00	-1,5%
	UK 10 year Gilt	1,9%	2,4%	0,52	0,80	-1,8%
	German 10 year BUND	0,9%	1,4%	-0,37	-0,20	-1,7%
	Japanese 10 year Govie	0,3%	0,2%	-0,05	0,00	-0,5%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,8%	1,4%	0,29	0,50	-1,4%
	Italy - 10yr Gov bond	2,7%	2,7%	1,05	1,00	1,4%
	Portugal - 10yr Gov bond	0,8%	1,3%	0,26	0,50	-1,6%
	Ireland - 10yr Gov bond	1,3%	1,6%	-0,12	0,20	-2,6%
	Greece - 10yr Gov bond	2,2%	2,4%	1,12	1,50	-2,0%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,1%	0,0%	45,19	70	-1,4%
	Credit EUR HY-Itraxx Xover	-0,4%	-0,6%	222,50	275	-0,6%
	Credit USD IG - CDX IG	0,1%	0,1%	46,90	50	0,5%
	Credit USD HY - CDX HY	-0,2%	-0,1%	295,14	365	0,8%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	16,1%	16,0%	10,02	10,00	9,5%
	Russia - 10yr Gov bond	0,8%	0,2%	6,24	6,00	7,7%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	3,9%	3,5%	6,62	6,00	11,1%
	India - 10yr Gov bond	0,1%	0,5%	6,55	5,75	12,5%
	Philippines - 10yr Gov bond	-1,1%	-0,9%	4,58	3,60	12,1%
	China - 10yr Gov bond	1,6%	1,5%	2,97	3,25	0,5%
	Malaysia - 10yr Gov bond	1,8%	1,5%	3,14	2,75	6,1%
	Thailand - 10yr Gov bond	1,2%	1,2%	1,29	1,00	3,5%
	Singapore - 10yr Gov bond	0,6%	0,8%	1,63	1,20	5,0%
	South Korea - 10yr Gov bond	0,0%	-0,1%	1,60	1,10	5,4%
	Taiwan - 10yr Gov bond	0,5%	0,5%	0,56	0,70	-0,6%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	1,0%	1,1%	6,76	7,00	4,4%
	Mexico - 10yr Govie (USD)	2,9%	2,7%	3,03	3,50	-1,0%
	Brazil - 10yr Govie (Loc)	1,9%	1,1%	6,72	7,00	4,0%
	Brazil - 10yr Govie (USD)	1,5%	1,6%	4,01	4,00	3,8%
	Argentina - 10yr Govie (USD)	-22,3%	-23,3%	24,32	20,00	57,2%
Commodities	Oil (WTI)	-14,9%	-14,0%	52,5	55,00	4,8%
	GOLD	4,9%	4,4%	1.583,8	1.200	-24,2%
Fx	EURUSD (price of 1 EUR)	-1,4%	-1,7%	1,102	1,100	-0,2%
	GBPUSD (price of 1 GBP)	0,0%	-1,4%	1,31	1,32	1,0%
	EURGBP (price of 1 EUR)	-1,3%	-0,3%	0,84	0,83	-1,1%
	USDCHF (price of 1 USD)	-0,6%	0,1%	0,97	0,97	0,1%
	EURCHF (price of 1 EUR)	-1,9%	-1,5%	1,07	1,07	-0,2%
	USDJPY (price of 1 USD)	-0,5%	0,3%	108,90	110,00	1,0%
	EURJPY (price of 1 EUR)	-1,9%	-1,4%	120,07	121,00	0,8%
	USDMXN (price of 1 USD)	0,6%	0,1%	18,94	20,00	5,6%
	EURMXN (price of 1 EUR)	-0,7%	-1,5%	20,87	22,00	5,4%
	USDBRL (price of 1 USD)	3,4%	4,1%	4,18	4,10	-2,0%
	EURBRL (price of 1 EUR)	2,0%	2,4%	4,61	4,51	-2,2%
	USDARS (price of 1 USD)	0,3%	0,2%	60,00	75,00	25,0%
	USDINR (price of 1 USD)	0,0%	0,1%	71,44	73,10	2,3%
	CNY (price of 1 USD)	-0,8%	-0,4%	6,94	6,75	-2,7%

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

UPWARD REVISION DOWNWARD REVISION

PRINCIPAL CONTRIBUTORS

Together
Everyone
Achieves
More

Eduardo Anton
US: Equity, Bonds & Corporates
+1 305 702 0601

Yair Shani
Israel: Rates, Corporate bonds & Equities
+972 3 6138218

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

Sofiane Benzarti
Luxembourg: Global Flows & positioning
+352 26 19 39 21

Marian Fernández
Europe: Rates, Macro & ECB
+34 639 30 43 61

Carlos Hernández
Global Technical Analysis
+376 873 381

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

Rodrigo Octavio Marques de Almeida
Brazil: Bonds, Equity & Fx
+55 11 3095-7045

Juan Manuel Lissignoli
Uruguay & Argentina: Bonds, FX, Macro & Politics,
+598 2626 2333

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

David Tomas
Spain & Europe: Equity
+34 647 44 10 07

LEGAL DISCLAIMER

All notes and sections in this document have been prepared by the team of financial analysts at ANDBANK. The opinions stated herein are based on a combined assessment of studies and reports drawn up by third parties. These reports contain technical and subjective assessments of data and relevant economic and sociopolitical factors, from which ANDBANK analysts extract, evaluate and summarize the most objective information, agree on a consensual basis and produce reasonable opinions on the questions analyzed herein.

The opinions and estimates contained herein are based on market events and conditions occurring up until the date of the document's publication and cannot therefore be decisive in evaluating events after the document's publication date.

ANDBANK may hold views and opinions on financial assets that may differ partially or totally from the market consensus. The market indices have been selected according to those unique and exclusive criteria that ANDBANK considers to be most suitable.

ANDBANK does not guarantee in any way that the forecasts and facts contained herein will be confirmed and expressly warns that past performance is no guide to future performance, that investments analyzed could be unsuitable for all investors, that investments can vary over time regarding their value and price, and that changes in the interest rate or forex rate are factors which could alter the accuracy of the opinions expressed herein.

In compliance with Andorran Law 17/2019, of February 15, amending Law 8/2013, of May 9, on the organizational requirements and operating conditions of financial system operating entities, investor protection, market abuse and financial guarantee agreements, this document cannot be considered, in any case, an offer or proposal to sell the products or financial assets mentioned in this document, all the information contained herein is indicative and may not be considered as the only relevant factor in the decision to make a specific investment.

There are also additional major factors influencing this decision that are not analyzed in this document, including the investor's risk profile, financial expertise and experience, financial situation, investment time horizon and the liquidity of the investment.

As a consequence, the investor is responsible for seeking and obtaining the appropriate financial advice to help him assess the risks, costs and other characteristics of the investment that he is willing to undertake.

ANDBANK expressly disclaims any liability for the accuracy and completeness of the evaluations mentioned herein or for any mistakes or omissions which might occur during the publishing process of this document. Neither ANDBANK nor the author of this document shall be responsible for any losses that investors may incur, either directly or indirectly, arising from any investment made based on information contained herein.

The information and opinions contained herein are subject to change without notice.