GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review

Andbank Monthly Corporate Review – April 2020

Corporate Review

April 2020

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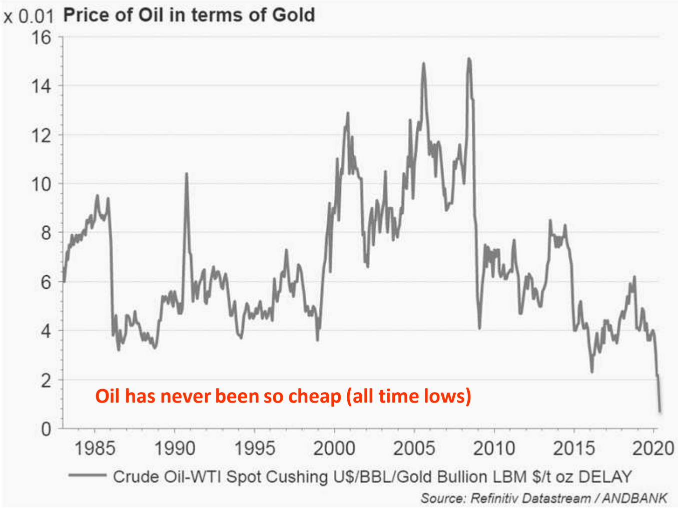
EXECUTIVE SUMMARY

CHART OF THE MONTH



Source: Refinitiv Datastream / ANDBANK

EQUITIES

Index	INDEX CURRENT PRICE	2020 Central Point (Fundam range)	2020 E[Perf] to Centr. Point	Recomm
USA S&P 500	2.585	2.503	-3,2%	UW
Europe - Stoxx Europe 600	310	321	3,7%	MW
Euro Zone - Euro Stoxx	292	312	6,9%	OW
Spain IBEX 35	6.601	7.350	11,3%	OW
Mexico IPC GRAL	34.555	36.081	4,4%	UW
Brazil BOVESPA	73.020	83.739	14,7%	OW
Japan NIKKEI 225	18.065	18.071	0,0%	UW
China SSE Comp.	2.735	2.827	3,4%	MW
China Shenzhen Comp	1.660	1.653	-0,4%	UW
India SENSEX	28.265	29.934	5,9%	OW
Vietnam VN Index	680	723	6,3%	OW
MSCI EM ASIA	463	496	7,3%	OW

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Indices	*Current Price*	*Fundamental Central Point* 2020	Expected Performance to central point 2020
US Treasury 10 year Govie	0,61	2,00	-10,7%
UK 10 year Gilt	0,29	0,80	-3,9%
German 10 year BUND	-0,50	-0,20	-2,8%
Japanese 10 year Govie	0,00	0,00	0,0%
Spain - 10yr Gov bond	0,68	0,50	1,9%
Italy - 10yr Gov bond	1,57	1,00	5,7%
Portugal - 10yr Gov bond	0,82	0,50	3,2%
Ireland - 10yr Gov bond	0,12	0,20	-0,6%
Greece - 10yr Gov bond	1,66	1,50	2,5%
Credit EUR IG-Itraxx Europe	99,38	80	-0,1%
Credit EUR HY-Itraxx Xover	571,58	450	6,5%
Credit USD IG - CDX IG	113,50	100	-2,7%
Credit USD HY - CDX HY	657,81	550	4,3%

FIXED INCOME EMERGING MARKETS (Local Currency)

Indices	*Current Price*	*Fundamental Central Point* 2020	Expected Performance to central point 2020
Turkey - 10yr Gov bond (local)	13,22	13,00	11,7%
Russia - 10yr Gov bond (local)	6,75	6,00	11,1%
Indonesia - 10yr Gov bond (local)	7,83	6,80	14,1%
India - 10yr Gov bond (local)	6,13	7,00	-2,3%
Philippines - 10yr Gov bond (local)	4,99	4,00	11,7%
China - 10yr Gov bond (local)	2,62	2,90	-0,3%
Malaysia - 10yr Gov bond (local)	3,32	2,40	9,9%
Thailand - 10yr Gov bond (local)	1,43	1,00	4,5%
Singapore - 10yr Gov bond (local)	1,22	1,60	-2,1%
Rep. Korea - 10yr G. bond (local)	1,38	1,50	0,1%
Taiwan - 10yr Gov bond (local)	0,43	0,50	-0,3%
Mexico - 10yr Govie (Loc)	7,04	7,00	5,6%
Mexico - 10yr Govie (USD)	4,00	3,50	7,0%
Brazil - 10yr Govie (Loc)	7,64	7,00	10,9%
Brazil - 10yr Govie (USD)	5,17	4,00	13,3%

COMMODITIES

Indices	*Current Price*	*Fundamental Central Point* 2020	Expected Performance to central point 2020
Oil (WTI)	20,5	55,00	168,8%
GOLD	1.590,9	1.200	-24,6%

USA
"Whatever it takes"

Fed announces unlimited QE and sets up several new lending programs

The Federal Reserve on Monday 23rd announced it would purchase an unlimited amount of Treasuries and mortgage-backed securities in order to support the financial market. The Fed said it would buy assets "in the amounts needed" to support smooth market functioning and effective transmission of monetary policy. The Fed had previously set a $700 billion limit for asset purchases. In addition, the Fed announced several new lending programs worth $300 billion to support companies hurt by the shutdown of the US economy. In a statement, the Fed said aggressive efforts must be taken to limit the losses of jobs and income.

Fed cuts rates to zero. Programs AMLF & PDFC reestablished

The Fed cut rates again (-50 bp to 0%) and announced the resumption of the QE program (USD 700bn), with new injections of liquidity and new purchases of commercial paper from corporates. It has also reestablished the Money Market Mutual Fund Liquidity Facility (AMLF) and the Primary Dealer Credit Facility (PDCF), already seen in the 2008-2009 crisis. The Fed also announced the opening of new dollar swap lines to other central banks such as Australia, Brazil, South Korea, Mexico, Singapore and Sweden for amounts up to $60bn, and to Denmark, Norway and New Zealand for amounts up to $30bn each to quickly stop deterioration.

Under the gun, US Senate looks to strike deal on relief package

On Sunday 22nd, the Senate Democrats blocked the $2tn stimulus bill. Just 47 votes were in favor with 60 needed for it to pass. Another vote has been scheduled for 9.45 EST today. Chuck Schumer argued that the "legislation had many, many problems" and that "at the top of the list, it included a large corporate bailout provision, with no protections for workers and virtually no oversight". The plan currently includes $1200 checks sent to individuals ($2,400 for married couples) that would be in the form of a tax rebate, $350 billion for small businesses, $250 billion for unemployment insurance, and currently undisclosed billions in relief to distressed industries like airlines ($58 bn), as well as funding for hospitals to address the influx of patients. Democrats wants to add loan forgiveness if 90% of employees were retained, add buyback restrictions and increase the 2 year limit on increasing executive compensation. The White House was considering the idea of issuing both 25 and 50-year bonds to finance the stimulus package.

Goldman Sachs sees 1% drop in global GDP.

Goldman Sachs said it expected global real gross domestic product to contract by about 1% in 2020, a sharper economic decline than in the year following the 2008 global financial crisis. "The coronacrisis — or more precisely, the response to that crisis — represents a physical (as opposed to financial) constraint on economic activity that is unprecedented in postwar history". The bank sees real GDP in advanced economies contracting "very sharply" in the second quarter, including a 24% saar drop in the US.

US corporate credit spreads

The spreads of Markit high yield and investment grade credit default swap indexes - widely used as a barometer of sentiment in the two respective corporate bond markets – have been resisting as the Fed has been announcing that it would backstop an unprecedented range of credit. Falling spreads on the Markit indexes indicate investor confidence in those markets. The spread on the Markit Investment Grade CDX index dropped to 121 basis points on Monday 23rd, the lowest since March 17. The spread on the equivalent high yield index dropped to 793 basis points

Financial market assessment

Equities – S&P: UW (Target 2,500. Exit point 2,750)

Bonds – Govies: UNDERWEIGHT. (10Y UST Entry point 2%)

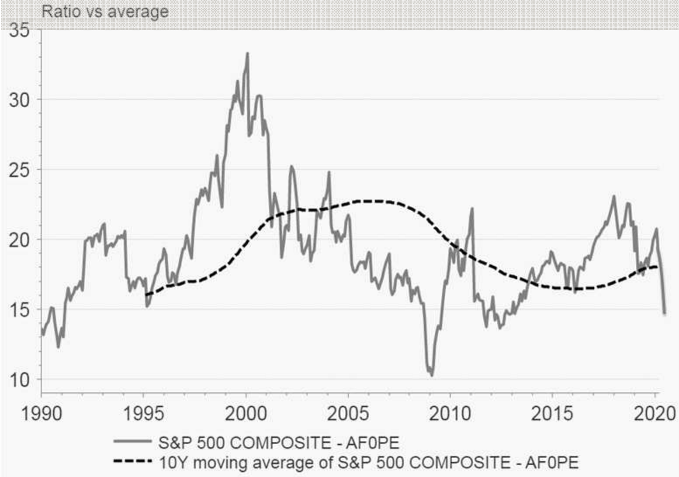
CDX IG: MARKETWEIGHT (Target Spread 100)

CDX HY: MARKETWEIGHT (Target Spread 550)

Forex – DXY index: MARKETWEIGHT

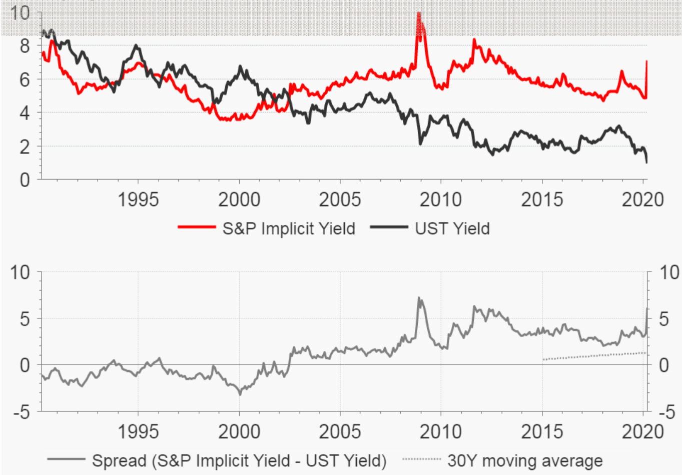
US price-to-earning ratio

Ratio vs average



Source: Refinitiv Datastream / ANDBANK

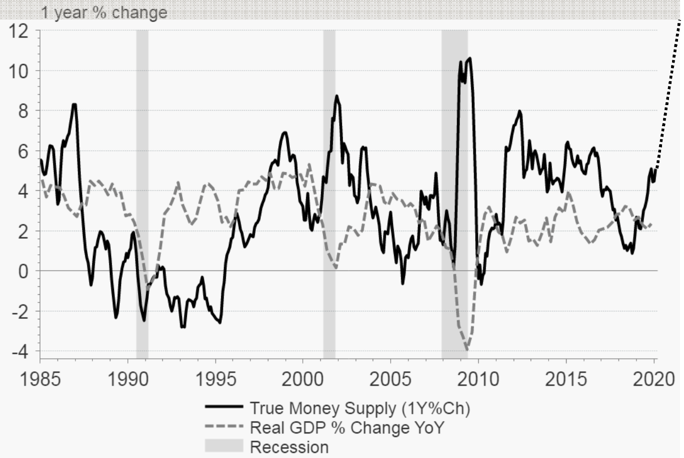
Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

US - True Money Supply vs Real GDP growth

1 year % change



Source: Refinitiv Datastream / ANDBANK

EUROPE
"Whatever is necessary"

Economy

In so far as this is a health crisis, contagion/recoveries remain the key indicators. In this sense, Italy and Spain are tracking badly, with cases more contained in the UK and Germany. Models suggested the peak could be reached in the coming 15-20 days, with around 55k cases in the five big EU economies. Time remains key, as the longer the recession, the more damage to the economy and employment. The first GDP estimates for the Euro area are beginning to be revised and are well below the first estimates made in early March.

Lagarde's "Whatever it takes"

Risk appetite was in the ascendant when the ECB announced a EUR750bn Pandemic Emergency Purchase Programme (PEPP). EGB spreads narrowed aggressively across the board. GGBs led the rally (after being deemed eligible for ECB purchase). The 10y GGB-DBR spread collapsed 153bp to 264bp, while 10y BTPs plunged 73bp to 193.4bp vs. Germany, PGBS -40.2bp to 128bp, SPGBs -38.4bp to 107.2, OATs -16bp to 42.8bp and DSLs -7.3bp to 25.9bp. This spread narrowing could not be enough to calm broad markets, as 10y Bunds ended the session a negligible 4bp higher. The Bund's mild response to the PEPP could be due to the accompanying statement's assertion that purchases will still be conducted according to the capital contribution key, highlighting the resistance of more hawkish members of the Governing Council to any notion of a *de facto* pooling of liabilities. This clear resistance to liability pooling could put the pronounced rally across the EGB spectrum at risk of reversal as inevitably bolder fiscal responses raise market concerns over the creditworthiness of higher-beta sovereigns. All said, many banks still see scope for liability sharing whether it be via the abandonment of the capital contribution key or via joint issuance. In both cases however, pressure will need to build in order to strong-arm politicians elected on a national level to act on a supranational level.

Market pressure is likely to build across all jurisdictions going forward due to the fact that governments are in the process of being forced into nationalizing some of their own corporate sectors. This is due to the fact that even the most aggressive liquidity provisioning will not be effective in the short-to-medium term as long as the virus puts large segments of the population in lockdown. Meanwhile, direct intervention in the corporate sector will go some way to addressing the imminent threat of mass defaults though it does nothing to boost demand.

Corporate bonds

Corporate spreads plunged during March, especially in the high yield space, with levels not seen since 2012, though not as extreme as in 2008. It is essential that this asset class shows signs of stabilization to reassure the wider financial market (and specifically the equity market). We have seen very intense outflows in a liquidity crunch environment and no buyer interest. One of the most feared problems is that "fallen angel" estimates keep growing. The central case is $215bn of fallen angels in 2020 globally. YTD we stand at $32bn. Sectors potentially impacted the most are Energy, Autos and Transport. If this estimate proves correct, it would be a record single year for fallen angels, surpassing the $100bn that fell from HG to HY in 2005. However, the HG bond market is roughly 4.5x times larger than in 2005 ($1.3tr vs $5.7tr) so on a percentage basis it would be lower (3.7% in 2020 vs 7.8% in 2005).

Financial market assessment

Equities – Stoxx Europe: MARKETWEIGHT. Target 321. Exit 353

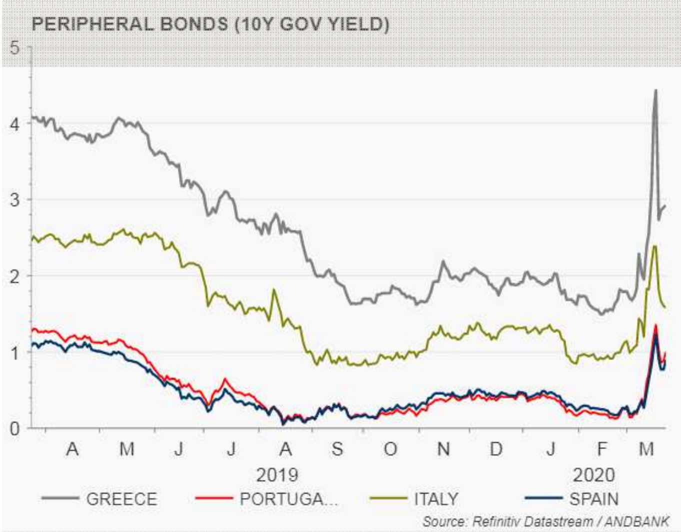
Equities – Euro Stoxx: OVERWEIGHT. Target 312. Exit 344

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

Peripheral – UW SP(0.5%), PO (0.5%), IE (0.2%), GR (1.5%). OW IT (1%)

Credit – Itraxx Europe (IG): UNDERWEIGHT (Target Spread 80)

Credit – Itraxx Europe (HY): MARKETWEIGHT-OW (Target Spread 450)



SPAIN

The second highest country in terms of deaths from the new COVID19 virus

Markets

The main Spanish index kept a positive tone during the last week of March, continuing the rebound of 7% started on Tuesday 24, in line with the main international markets, helped by the $2 trillion stimulus package agreed in the US to cushion the economic damage of the coronavirus pandemic. The expected consensus package between Democrats and Republicans aims to moderate the probable recession in the United States and contribute to the subsequent recovery. The focus will now be on fiscal support measures in the Eurozone, where the European Council must reach an agreement on which instruments to apply, "with an eye towards activating the EU rescue fund (ESM) valued at 410,000 million euros". In a context of volatility, which has wiped more than 20% off the value of the Ibex index so far this month, the banking sector scored quite well during the last part of the month, with Sabadell, BBVA and Bankia being the best performers. Among the large industrial stocks, Inditex, Repsol, IAG and Arcelor Mittal show the highest gains in this late month rally.

Fiscal

The government is launching the Public Guarantee Facility, with a maximum limit of €100 billion, which aims to support Spanish companies and the self-employed, guaranteeing access to the financing needed to maintain activity and employment. The Council of Ministers has approved the details of the first part of the facility, for an amount of €20 billion, 50% of which will be used to guarantee loans to the self-employed and SMEs. The facility, which is retroactive to measures granted since March 18, offers financing to pay wages, invoices or other liquidity needs, including maturities of financial obligations or tax obligations. In the case of the self-employed and SMEs, the guarantee covers 80% of new loans and financing renewals. For the remaining companies, the facility covers 70% of new financing and 60% of recovery operations.

COVID19 outbreak. A brief assessment

Spain overtook China on Wednesday and is now the second highest country in terms of deaths from the new coronavirus. The 3,434 deaths from COVID-19 reached on Wednesday 25th was 27% higher than on Tuesday and is only surpassed by Italy (6,280) and narrowly ahead of China (3,281), the country where the disease originated at the end of last year. With the total number of registered cases approaching 48,000, 20% more than the previous day, the health crisis has overtaken the management of nursing homes and hospitals across the country. Vice President Carmen Calvo, who was admitted this week to the Ruber Clinic in Madrid due to a respiratory infection, tested positive for COVID-19. In the Spanish capital, authorities began carrying out mass detection tests. Some Spanish companies are transforming their assembly lines to manufacture medical products. Spain has been in partial lock-down since March 14 and on Wednesday 25 the Congress of Deputies is expected to extend the state of emergency for another 15 days until April 11. Bars, restaurants and educational centers are closed and you can only go out to buy food, drugs or work. Aside from the devastating impact on health, the lock-down is dealing a severe blow to the Spanish economy, causing thousands of temporary layoffs as commerce, tourism and industry are paralyzed.

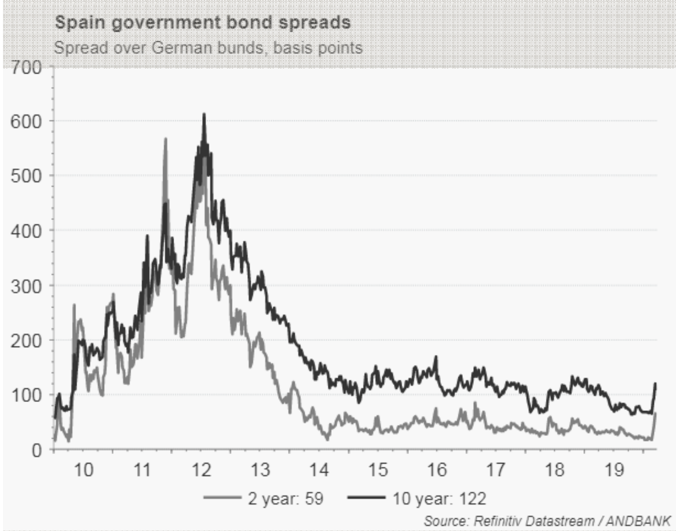
Financial market assessment

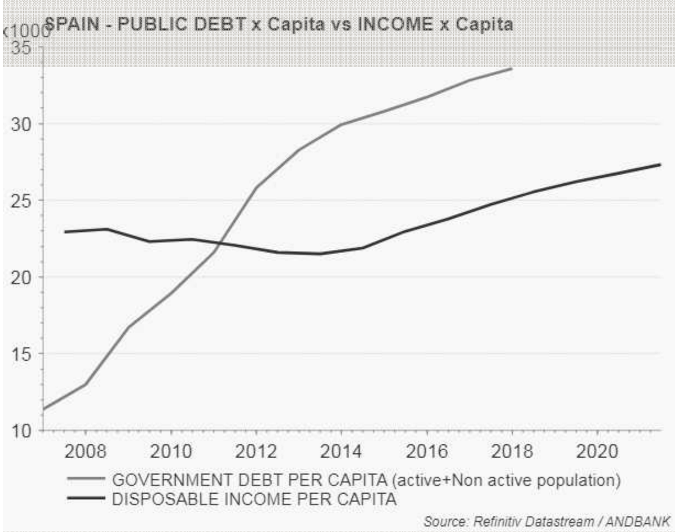
Equities – IBEX: MW-OVERWEIGHT. Target 7,350. Exit point 8,085

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

Credit – Investment grade: UNDERWEIGHT

Credit – High yield: MARKETWEIGHT-OW





ANDBANK Private Bankers

CHINA

Over 95% of larger Chinese firms outside Hubei resume work.

High frequency data

PMIs in China for March rebounded strongly. The PMI Services went from 29.6 to 52.3, while the manufacturing PMI went from 35.7 to 52. The readings are very positive (a recovery towards the 45 zone was expected) and indicative that the Chinese economy is in acceleration mode.. Vice industry minister Xin Guobin told reporters the work resumption rate outside of Hubei province is about 95% for larger firms and 60% for small and medium size firms. Chinese auto manufacturers are operating at less than 40% of capacity, Xin said China will coordinate with other countries to push forward on business resumption even as the pandemic stokes uncertainty about the return to normality. China's auto sales plunged by a record in February and automakers in China are calling on the government to help after industry-wide sales plunged record 79% in February. It should be noted that sales of new energy vehicles contracted for an eighth month in a row, also hurt by a rollback in government subsidies. The China Association of Automobile Manufacturers (CAAM) said auto sales will 'definitely' rebound in March and should return to normal in Q3 this year. Some 90% of factories operated by the 23 companies that manufacture the vast majority of the country's new vehicles had restarted by Wednesday, with 18 automakers being fully up and running. But parts shortages have kept manufacturers from making full use of this capacity.

Stimulus

Following Beijing's request, the Chinese banking sector has beefed up its financial support for small businesses. As of Tuesday noon, China's city commercial banks and private banks have offered credit support of CNY298.3bn ($42.8bn). Meanwhile, the National Development and Reform Commission (NDRC) is ramping up efforts to boost consumption. It announced guidelines to improve consumer market supply. China will reduce import tariffs on consumer goods. The State Tax Administration also unveiled a new guideline to introduce more tax relief. The guideline included the second batch of policies to lower social security and medical insurance fees, as well as the third batch of phased value-added tax cut policies.

The costs. Chinese Real estate struggles

Over 100 builders go bust as virus stresses deepen, following the shakeout in China's property sector, accelerated by the coronavirus epidemic. With lockdowns across the nation entering their third month, and the resulting cash crunch, smaller home builders are being pushed to the brink because they can't get enough money from pre-sales of apartments to cover their costs, forcing some distressed developers to throw in the towel. In the first two months of this year, around 105 real estate firms issued bankruptcy filing statements, after almost 500 collapsed in 2019.

US-China

The Trump administration said on Tuesday it was extending a license allowing US companies to continue doing business with Huawei Technologies until May 15. The US Commerce Department previously extended it until Apr 1. Separately, the Commerce Department sought public comments on whether it should issue future extensions and asked what the impact would be if it stopped.

Reforms on SOEs. Towards a mixed-ownership regime

China may also unveil a three-year action plan for reform of its state-owned enterprises (SOEs), which is expected to be unveiled soon to take the country's SOEs to a new stage. Reforms will be accelerated in Q2 to make up for the lag in Q1 due to the coronavirus outbreak. The reform will focus on mixed-ownership reform and reorganization.

Financial market outlook

Equities – SHANGHAI Idx: MW (Target 2,827. Exit point 3,110)

Equities – SHENZHEN Idx: UW (Target 29,934 Exit point 32,928)

Bonds – Govies: UNDERWEIGHT (Bund target 2,90%)

Forex – CNY/USD: OW (Target 6,90)

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

ANDBANK Private Bankers

MACRO ECONOMY

JAPAN
BoJ and Government working closely to stabilize markets.

Further moves coming:

According to a Bloomberg survey, the BoJ will likely expand its stimulus measures at its meeting next week as it seeks to reassure volatile markets. Although it could show a more aggressive stance on buying assets such as ETFs, it remains unclear whether the BoJ will raise its ¥6T ($58B) ETF-purchasing target. BoJ Governor Haruhiko Kuroda said the central bank was ready to respond with further steps to support the economy. Some 90% of economists expect the BoJ to add stimulus next week. Most of them see the BoJ stepping up asset purchases to stabilize markets. Downgrading economic forecasts: The BoJ is considering downgrading its economic assessment at next week's meeting, and revise its previous view that the economy was on a moderate expanding trend (an expression it has been using since March 2017).

Japanese equity market struggles to consolidate the first signs of stabilization

What could be behind the stabilization? 1) The elevated speculation of coordinated fiscal and monetary stimulus. 2) Also helped by some reports saying the US is planning payroll tax breaks. The BoJ has been actively managing the situation, as shown by February M2 money supply growing at +3.0% YoY vs +2.8% in prior month.

Japan to unveil new measures. PM Abe pressures BoJ to ease ahead of each central bank's meeting for rate reviews. Abe said the government will work closely with the BoJ to stabilize markets, piling pressure on the central bank to ramp up stimulus to fend off risks to the economy. Based on agreements made among G7 and G20 nations, the government will work with the BoJ and authorities in other countries to respond appropriately.

Fiscal support from Japanese Government

Japan approved a ¥1T ($9.6bn) bailout for companies impacted by the new coronavirus arrival as most small businesses limp along on just a month's worth of cash. The latest financial aid measure will extend low to zero-interest loans to small and midsize businesses suffering decreased sales, as well as self-employed individuals in a similar crunch. But the unsecured loans will be disbursed by the Japan Finance Corp, which takes weeks to issue financing after the initial application. Finance Minister Taro Aso said the government will unveil a second package of steps to cope with fallout from the virus, with a focus on financial support for small businesses. Subsidies to parents who must take leave because of closed schools, and beefing up medical facilities, will be among the other steps featuring in the package. Funding will come from the remainder of this fiscal year's budget reserve, worth some ¥270bn ($2.62bn). Aso shrugged off the need to compile a bigger extra budget, saying that the fallout in Japan from the global coronavirus outbreak is not akin to a Lehman Brothers-like crisis.

Domestic investors saw the end of the crisis the week of March 7 and launched to buy foreign assets

During the week that ended March 7, domestic investors were net buyers of ¥157.7bn in foreign equities and net buyers of ¥4,240.3bn in foreign long-term debt (vs ¥489.7bn of net sales in previous week)

High Frequency Data

Good data in Japan: Industrial production grew by + 0.4% m / m, and retail sales grew by 0.6% m / m and + 1.7% y / y (from -0.4%) Orders Construction + 0.7% y / y (from -17%) The Japanese government pursues the idea of implementing incentives for a total of 17% of the POB through the issuance of debt (to be purchased by the BoJ). Q1 MOF BSI large manufacturing index (17.2) vs (7.8) in prior quarter . Non-manufacturing index (6.6) vs (5.3) in prior quarter. All-industry index (10.2) vs (6.2) in prior quarter.

Financial market outlook

Equities – N225: UW. Target 18,071 (Exit 19,878)

Bonds – Govies: UNDERWEIGHT. Target yield 0.00%

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

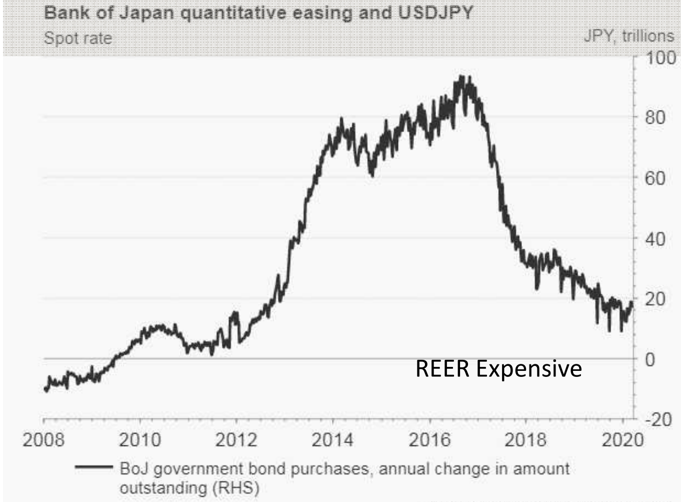
Japan Nikkei 225 price / earnings

Source: Refinitiv Datastream / ANDBANK

JPY-USD

Source: Refinitiv Datastream / ANDBANK

Bank of Japan quantitative easing and USDJPY



Source: Refinitiv Datastream / ANDBANK

INDIA

Indian government likely to agree a stimulus package of more than Rs1.5 trillion

The equity market recovers 14% at the end of March, but still -28% YTD. A quick assessment of the situation

Indian assets strengthened in the last week of March, tracking firm international equities after reports that the US Senate has passed a $2 trillion coronavirus relief package, while a separate report said the Indian government was likely to agree an economic stimulus package of more than Rs1.7 trillion. Foreign Institutional Investors (FIIs) were selling equity shares worth Rs1,893.36 crore lately, but purchases bounced back after news that domestic stimulus was coming. This said, the government's 1.7 trillion rupee ($22.58 billion) relief package for the poor amid a nationwide lockdown failed to impress investors. Two days after India ordered a 21-day nationwide lockdown, Finance Minister Nirmala Sitharaman announced relief for the poor that included direct cash transfers and food security measures. NSEI and S&P BSE Sensex which were up nearly 5% as the finance minister began addressing the media, pulled back soon after as spot markets were also expecting something for corporates, micro, small & medium enterprises and stock markets. If that relief does not come soon then it will be a disappointment. The Sensex climbed 14% in the 24th and 25th sessions as global sentiment improved. In Mumbai, financial stocks performed the strongest, soaring over 30%. Despite the recent gains, the blue-chip index is still down some 30% since the start of this. The outbreak has infected over 600 Indians and killed 10. On Monday 23rd Indian stocks suffered their worst single-day rout in history.

Preferred sectors and sectors to avoid

Traders were seen piling into the banking, telecoms and real estate sectors while selling metal and energy sector stocks. Mid-cap and small-cap indexes were also caught up in the rally, as traders took support from a private report that the government is likely to agree an economic stimulus package of more than Rs 1.7 trillion. The government has also decided to increase the monthly quota of subsidized food grains by 2 kg to 7kg for beneficiaries to ensure sufficient supply during the lockdown.

Economic cost of the lockdown

Traders took note of the Care Ratings' report that if the 21-day national lockdown leads to an 80% production loss, the economy will take a hit of Rs35,000-40,000 crore on a daily basis, shaving off Rs6.3-7.2 trillion cumulatively. It added that Q4 growth may not be negative but could go down to 1.5-2.5%. The economy was slated to grow by 4.7% in Q4.

Banking reforms

In order to improve the capital base within the process to recapitalize the Regional Rural Banks (RRBs), the Cabinet Committee on Economic Affairs (CCEA) has given its approval to provide another year for RRBs to reach the minimum regulatory capital, up to 2020-21, for those banks unable to maintain a minimum Capital to Risk weighted Assets Ratio (CRAR) of 9%. The CCEA also approved the use of Rs670 crore as the central government's share of the RRB Recapitalization Scheme (i.e. 50% of the total recapitalization support of Rs1340 crore), subject to the condition that the release of the central government's share will be contingent upon the release of the proportionate share by the sponsor banks. As per RBI guidelines, the RRBs have to provide 75% of their total credit under PSL (Priority Sector Lending). RRBs are primarily catering to the credit and banking requirements of the agriculture sector and rural areas with a focus on small and marginal farmers and micro/small enterprises and small entrepreneurs in rural areas. With the recapitalization support to augment the CRAR, RRBs should be able to continue their lending to these categories of borrowers under their PSL target, and thus continue to support rural livelihoods.

Financial market outlook

Equities – SENSEX: OVERWEIGHT. Target 30,000. Exit 33,000

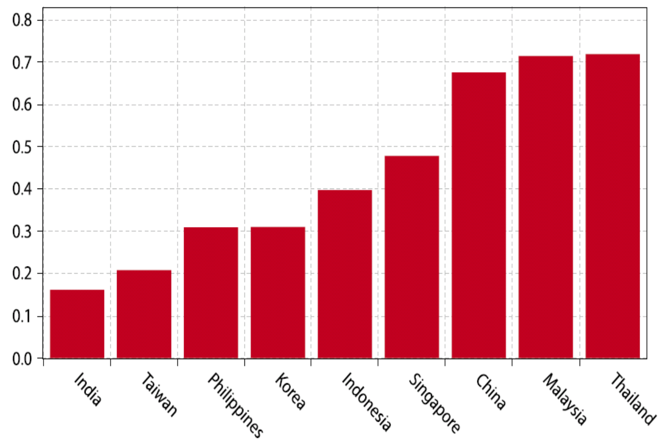
Bonds – Govies: UNDERWEIGHT (Target yield 7%)

Bonds – Corporates: UNDERWEIGHT

Forex – INR/USD: MARKETWEIGHT (Target 74)

The correlation of FX reserves with currency moves signals intervention

Average annual correlation of exchange rate and reserve accumulation over the past five years



PE (ltm) - India

MSCI India

Source: Refinitiv Datastream / ANDBANK

India benchmark government bonds

Yield, per cent

Source: Refinitiv Datastream / ANDBANK

ISRAEL

Israel's market may not escape punishment

Economy & Politics

At the beginning of the month Israel had its third elections, which were still not conclusive to decide who is going to be prime minister. At the moment Israel is trying to contain the spread of the coronavirus by limiting citizens' movements and promoting social distancing. The move to try and stop the spread has seen the economy adapt to the new situation by promoting home-working. In the labor market, we saw a 2.6% decline in the open positions figure. The manufacturing sector also posted a decline in February but by 0.2%. The net external sector deteriorated somewhat in February, with exports adding 15.1B NIS and imports fixed at 19.6B NIS. Israel's CPI for February 20 rose modestly by 0.1% YoY. In the MoM reading, prices went down by 0.1%.

Equity Market

The global spread of the coronavirus also hit the Israeli economy and financial assets. As of March 30, some 3,865 cases had tested positive. Mobility restrictions are creating a 'freeze' or a 'stoppage' in the economy and directly hit the TLV stock market. In the residential real estate business, investors see a shortage of construction workers and difficulties in raw material supplies while in the commercial real estate business we see empty shopping malls. Real estate companies (of all types) have so far been the "driving force" of the TLV equity market and since our last update (Feb 18) are driving the market down. Oil & Gas companies have also underperformed the TLV-125 benchmark index due to the collapse in the oil price to US$30. The Delek Group, the major holding company of various oil reserves, has declined 80% and there are doubts regarding its ability to remain a "going concern". When it comes to the financial sector, after declining 20-30%, Israeli banks are trading at a price-to-book value of around 0.7 (or below). Taking into account the expected decline in profits and the uncertain environment left after the outbreak, this does not seem like exceptionally cheap pricing. The upcoming Passover holiday season, which has traditionally been a significant source of revenues for tourism-related companies, will not take place this year. As a result, cash balances in hotels and airline companies are expected to remain low. Based on this outlook, shares of "Fatal Hotels" have collapsed by 82%, while shares in EL-AL airlines have sunk 34%.

Bond market

Corporate credit spreads jumped to their highest levels since the financial crisis of 2008. The increase in credit spreads in Israel occurred in all sectors, all ratings and all durations. The inflation expectations for the next 2.5 years dropped to negative levels, and to 0.3%-0.4% for the next four years. The liquidity crises in the bond markets also led to a jump in government yields, especially in very long duration bonds. We think at these levels, corporate bonds with an A-AAA rating are a very good investment opportunity and we recommend them as a strong buy.

We believe government bonds are also a great investment option at this level. Both CPI linked government bonds (attractive in absolute yield terms), and non-CPI linked government bonds are also very attractive as they enjoy a very special advantage with respect to other bonds, given the strong financial stability of the Israeli government. All bonds are pricing a significant rate increase, a scenario that we do not contemplate at this moment.

Financial market outlook

Equities – TLV35 Index: MW (Cheap)

Bonds – 10Y Gov USD: MARKETWEIGHT

FX – ISL vs USD: MW

Israel price/earnings, Datastream index
Ratio

Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK YIELD 10Y
Local currency

Source: Refinitiv Datastream / ANDBANK

USDILS exchange rate
Spot rate

Source: Refinitiv Datastream / ANDBANK

BRAZIL

Central Bank gains large arsenal to stabilize the fall in financial market

Central Bank

The president of the Central Bank of Brazil (BCB) announced the approval of the Proposed Amendment to the Constitution (PEC) on Friday 27. The PEC text gives the BCB the power to intervene directly in the market to buy credit portfolios and public or private securities in the domestic market. The BCB may also purchase public securities in international markets. The president is negotiating the text with Congressional leaders to define the scope of the measure. Campos Neto argued that the initiative is very powerful to stabilize credit markets that financial institutions do not reach. "This is a measure that has a wide reach. The balance sheet of the Central Bank is huge, it has more than 1.5 trillion (reais). So this is a very important measure to stabilize credit". “It is a measure that may only be triggered in crisis scenarios, such as the one we are experiencing today. The idea is not that the Central Bank will always have this autonomy”. In a move that injected spirits into global markets this week, the Fed announced historic actions in this regard, including the purchase of corporate bonds and direct financing for companies. Getúlio Vargas Foundation economist, Manoel Pires, believes the measure is right to prevent the fall in financial markets from further contaminating the economy at this time of crisis. The Copom cut the Selic rate by 50bp to 3.75%, a new all time low, as the conditional inflation forecasts continued to reveal a level considerably below the target projections for 2020 and 2021. Copom Committee members expressed concerns “about the continuation of the reform agenda”. Analysts believe that the economic relief measures will only cause temporary deterioration of the fiscal accounts, and that the committee will see potential for further easing. The measures announced so far to cushion the effect of the virus (pre-payment of expenses and postponement of revenues) will have less impact on the year, and the effects will be transitory and accommodated in different ways without interfering with tax rules. The risk would be that the measures will imply permanent spending increases, which would have a major impact on the interest curve.

Politics & Fiscal

On March 18, President Jair Bolsonaro sent a presidential message to the Congress requesting a declaration of a state of public disaster. In practice, the measure exempts the federal government from meeting the primary deficit target of R$ 124.1 billion and suspends personnel expense reduction obligations. The condition, which satisfies the Fiscal Responsibility Law (LRF), also eases expenses for civil servants. The new law comes into effect immediately. The approved text creates a mixed commission, composed of six deputies and six senators, aimed at monitoring expenditure and the measures adopted by the government to fight the virus spread. The commission will have monthly meetings with technical staff from the Ministry of Economy and a bimonthly hearing with Minister Paulo Guedes, to assess the fiscal situation and the budgetary and financial execution of the emergency measures related to COVID-19.

Economics

During the past few weeks, the number of COVID-19 cases has increased exponentially. The pressure on the federal government has therefore increased and it has adopted more decisive measures in relation to the spread of the virus, but also aimed at minimizing the economic impact. The government has been announcing a series of measures to deal with the virus: an increase in spending, decrease in taxes, a request for public calm, etc. GDP growth expectations have been dramatically cut for 2020, from +2% to -2%.

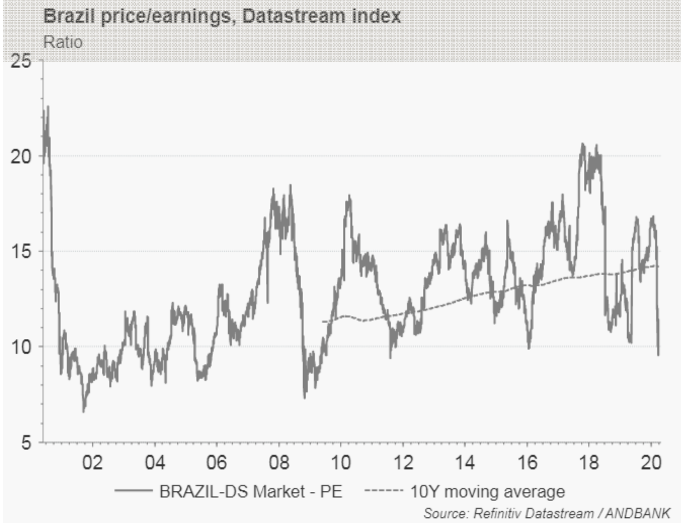
Financial market outlook

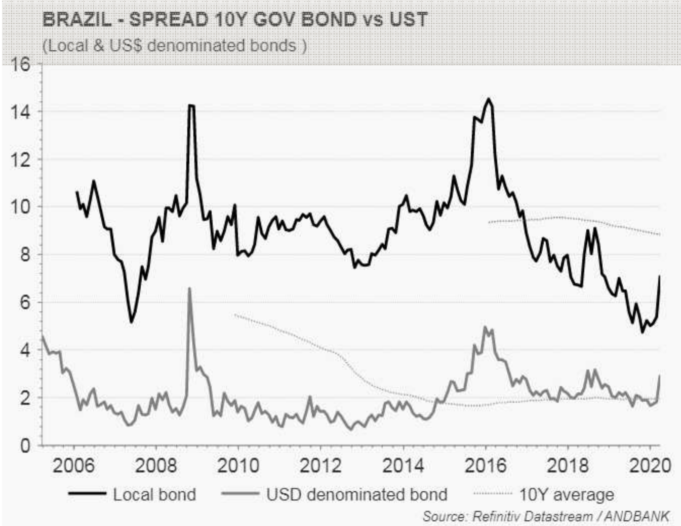
Equities – IBOV: OVERWEIGHT (Target 83,740. Exit 92,113)

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

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

FX – BRL/USD: OVERWEIGHT (Mid-term target 4.75)





MEXICO

Pemex may not prevent further downgrades

Pemex

Pemex (the state-owned oil firm) has announced comprehensive action to stem the financial shock of the oil price collapse, which has seen the price of Mexico's crude drop to just over US$15/barrel. The collapse in global oil prices, caused by a breakdown in agreements between OPEC and Russia regarding production quotas and the impending global downturn, has raised serious concerns about Pemex's already delicate financial situation. According to the government, Pemex will undertake a series of major budgetary adjustments during the coming months in order to avoid a more serious financial deterioration. This will involve saving an estimated US$217m in hiring costs and $27m in administrative costs. However, many of the other measures described by President Andrés Manuel López Obrador appear less concrete. One such claim is that Pemex will be able to make considerable savings as a result of "no corruption" in the company, which is considered highly dubious. Additionally, newly discovered oilfields in recent years are expected to come online during the course of 2020, adding a boost to production, although it is far from certain if this will compensate a drop in output in the event that the pandemic shuts down oil production facilities. One positive factor is the finance ministry's oil-hedging programme, the world's largest such oil deal, which for 2020 managed to obtain a price of US$49/b, more than 2.5 times higher than the current price. However, unlike in previous years, the finance ministry did not disclose the total amount of barrels covered by the hedge and therefore the program's full cost. Should oil prices fail to recover significantly in the coming months, it is possible that the hedge could run out. The hedge does not cover Pemex's budget directly however, and any surplus will have to be provided by the finance ministry. Currently, Pemex's credit is rated as junk by Fitch (one of the three major ratings agencies) although all three have it on negative watch. Following the poor results in its annual report for 2019, it is difficult to see how the firm will manage to avoid further downgrades.

Economy

FY 2019 GDP growth was finally fixed at -0.1%. For 2020, the median of the main surveys places it at 0.7%, well below the government's budget estimate for the year (2%). The most pessimistic forecasts are already in negative terrain for the year.

Mexican Assets

Regarding the Mexican bonds, the spread of Mexican bonds (in local currency and USD denominated) versus the US 10Y Treasury yield rose to 570 and 200 basis points respectively (our estimates were above 500 and 150 basic respectively). The outlook for these assets, given the economic and monetary context, is for a normalization of spreads (narrowing), but it will take some time to reach the levels seen before the outbreak.

In the FX arena, the MXN-USD pair returned to the historical highs that it touched in 2016 with the victory of Donald Trump in the US presidential election. In the short term, given the limited effect of interventions on the currency from local authorities, global volatility will continue to be the main catalyst for movements in the currency.

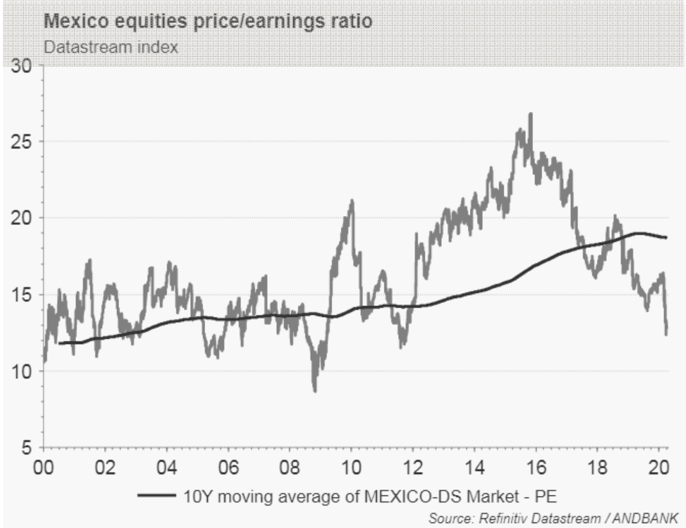
Financial market outlook

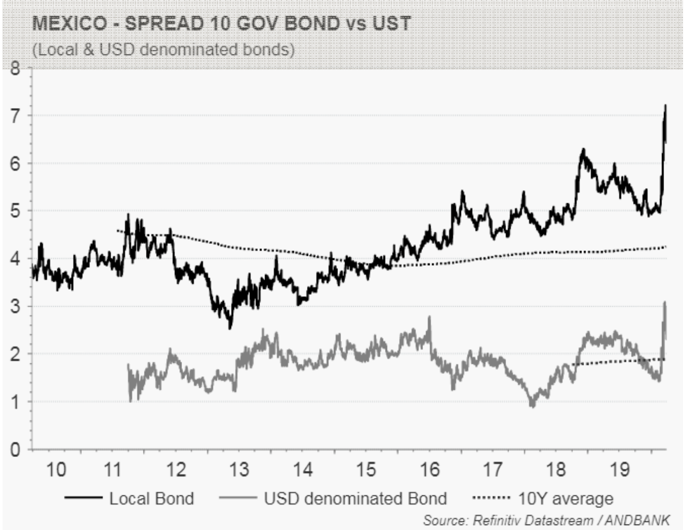
Equities – Mex IPC: UNDERWEIGHT. Target 36,081. Exit 39,700

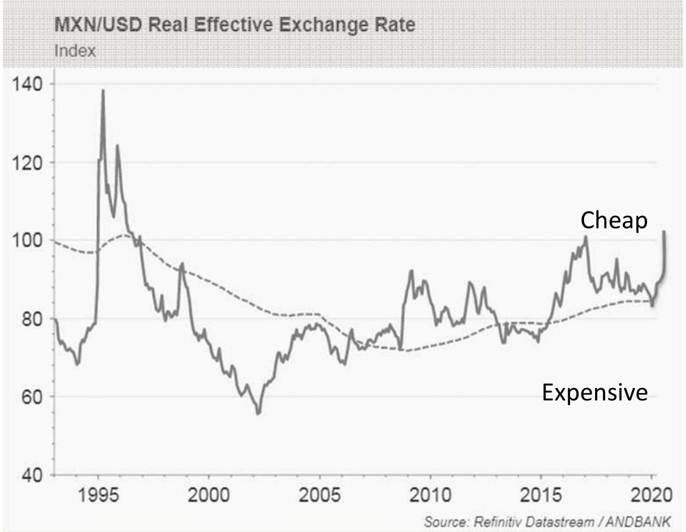
Bonds – Govies Local: MARKETWEIGHT (Yield 7%. Spread 500)

Bonds – Govies Local: MARKETWEIGHT (Yield 3.5%. Spread 150)

FX – MXN/USD: MW-UNDERWEIGHT (Mid-term target 23.00)







ARGENTINA

Argentina will shortly give details of the exchange proposal for its bonds

We had some progress in the debt negotiation process but as expected it is running behind schedule. Argentina appointed Lazard as financial advisor and HSBC & BofA as debt placement agents. The government defined the bonds that will be included in the negotiation (USD 68.8bn), but it does not include foreign currency bonds under Argentinian legislation which are going to be negotiated in a second phase (probably on a case by case basis). Argentina and the IMF announced they would start Article IV consultations, allowing the Fund to inspect Argentina's accounts, as a stepping stone to a possible new program. A week earlier the IMF had stated that "Argentina's debt load is unsustainable and private creditors would need to make a meaningful contribution". With financial markets in turmoil, the sovereign bond curve went from trading around the 40s to now trading in the 20s, increasing the odds of vulture funds building blocking positions. With the probability of a hard default increasing, an opportunity is emerging for the Argentinian government to treat bondholders as fairly as possible. Government signs are not encouraging. Guzman told Reuters that Argentina will need "substantial relief" and that the country does not have the capacity to service debt for a "few years", which suggest an aggressive proposal in our view with prolonged discussions after that. A final offer is expected at the end of March or the first few days of April.

What is going to happen with Vaca Muerta?

With the price of a barrel of oil well below 50 USD and natural gas below 2 USD, the Vaca Muerta story as the next wealth generator seems to be at risk. The Neuquén Governor and hydrocarbons companies are asking for the return of the 50 USD "criollo" barrel. Finally, it seems that Minister Kulfas accepted this possibility of working on a support price for Argentine oil (though it would be nearer US$40/pbl), aimed at maintaining production and jobs.

The lower oil price is already affecting prices of oil-backed bonds (Chubut 26 at 60 and Naquen 28 at 80) and corporate bonds (especially YPF). In his speech before Congress, Fernandez again reiterated that the government is going to issue a project to encourage O&G investment, but again we still have no news at the moment. The government is increasing soybean and oil export duties for large producers from 30% to 33% which will affect farmers' profitability and consequently limit investment and widen the current account deficit in the near future.

CPI going down again; BCRA deeper into negative real rates territory

Despite the sharp depreciation of emerging markets currencies, the BCRA continued its unofficial crawling peg policy (lower short term volatility in the ARS is one of the features of currency controls) with ARS only depreciating 2% against USD. The gap between official (62.89) and Blue Chip Swap FX (87.51) keeps expanding reaching 40%.

February inflation of +2% MoM (vs +2.3% MoM in Jan 20) was below expectations and the lowest in two years. On an annual basis it decelerated to 50.3% (vs 52.9% YoY in Jan 20). 2020 Inflation expectations (measured by the BCRA REM survey) fell from 42.2% (Dec 19) to 40% (Feb 20). The central bank continues to lower rates, by 600 bps since mid February (44% to 38%). The economy is still in recession mode with no signs of bottoming out. Car registrations -28% YoY first two months 2020; Industrial capacity falling to 56.1% similar to 2002 levels; Construction -13.5% YoY in January.

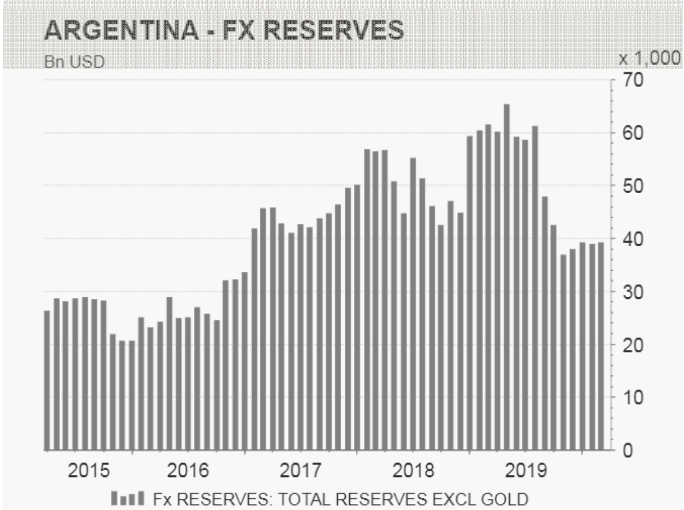
Financial market outlook

Bonds – 10Y Gov USD: NEUTRAL

FX – USD/ARS: NEGATIVE (2020 year-end target 80)

Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv DatastreamThomson Reuters Datastream / ANDBANK

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Projected EPS Andbank 2020	Projected EPS Growth Andbank 2020	Current PE fw EPS 2020	Current PE (EPS 2019)	Projected PE ltm EPS 2020	INDEX CURRENT PRICE	2020 Central Point (Fundam range)	2020 E[Perf] to Centr. Point	Recomm	2020 Exit Point	E[Perf] to Exit point
USA S&P 500	132	-20,0%	19,62	15,70	19,00	2.585	2.503	-3,2%	UW	2.753	6,5%
Europe - Stoxx Europe 600	21	-20,0%	14,95	11,96	15,50	310	321	3,7%	MW	353	14,0%
Euro Zone - Euro Stoxx	20	-20,0%	14,51	11,61	15,50	292	312	6,8%	OW	344	17,5%
Spain IBEX 35	544	-20,0%	12,13	9,29	13,50	6.606	7.350	11,3%	OW	8.085	22,4%
Mexico IPC GRAL	2.405	-15,0%	14,37	12,21	15,00	34.555	36.081	4,4%	UW	39.689	14,9%
Brazil BOVESPA	6.203	-15,0%	11,77	10,01	13,50	73.020	83.739	14,7%	OW	92.113	26,1%
Japan NIKKEI 225	1.063	-20,0%	16,99	13,60	17,00	18.065	18.071	0,0%	UW	19.878	10,0%
China SSE Comp.	226	-10,0%	12,09	10,88	12,50	2.735	2.827	3,4%	MW	3.110	13,7%
China Shenzhen Comp	75	-10,0%	22,09	19,88	22,00	1.660	1.653	-0,4%	UW	1.818	9,5%
India SENSEX	1.669	-10,0%	16,93	15,24	17,93	28.265	29.934	5,9%	OW	32.928	16,5%
Vietnam VN Index	54	-10,0%	12,70	11,43	13,50	680	723	6,3%	OW	795	16,9%
MSCI EM ASIA	35	-10,0%	13,05	11,75	14,00	463	496	7,3%	OW	546	18,0%

POSITIONING, FLOW & SENTIMENT ANALYSIS

Perspective: High stress in markets during March
Andbank's Assessment: +4.5 (in a -7/+7 range)

Aggregate (OW-MW bias): The markets were extremely stressed during March and this could give entry points should confidence be restored. Tactically this is a risk-on bet.

Market Positioning (OW bias): Asset allocation in equity* has diminished strongly, our reading now is positive integrating current market sell off (positive). Conversely, the Put call ratio indicates that investors have a very high level of hedging (positive contrarian). Finally, Skew in neutral territory indicates a fear of a more violent downside movement is normalizing (neutral).

Flow Analysis (OW bias): Positive flows toward US equity indicate a positive momentum in equities. Europe did not benefit from positive flows and is flat. Emerging markets faced outflows on coronavirus.

Surveys & Sentiment Analysis (OW bias): Our reading is purely tactical and as sentiment from investors is almost touching its lowest point (extreme stress) our contrarian reading detects an overreaction and therefore a potential entry point.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	Ticker Reuters	View 1 month	Principal Support	Principal Resistance	Support 1 month	Resistance 1 month	Target (TA) 2020	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	Lateral bearish	194,63	443,29	240,00	320,00	330,00	297,02	11,10%
INDICES	Euro Stoxx 600	.STOXX	Lateral bearish	209,00	415,18	237,56	350,00	330,00	310,90	6,14%
INDICES	Ibex	.IBEX	Lateral bearish	5.266,00	7.500,00	5.266,00	7.000,00	7.500,00	6.777,90	10,65%
INDICES	S&P	.SPX	Lateral bearish	2.346,00	3.393,52	2.346,00	2.940,00	3.000,00	2.541,47	18,04%
INDICES	Japón	.N225E	Lateral bearish	13.188,00	23.000,00	14.865,00	20.946,00	17.000,00	19.084,97	-10,92%
INDICES	China	.SZSC	Lateral	1.458,00	2.000,00	1.552,00	1.945,00	2.060,00	1.657,55	24,28%
INDICES	India	.BSESN	Lateral bearish	22.494,00	35.750,00	25.717,00	35.750,00	29.750,00	28.440,32	4,61%
INDICES	Brasil	.BVSP	Lateral bearish	47.800,00	119.593,00	60.543,00	90.000,00	90.000,00	73.428,78	22,57%
INDICES	México	.MXX	Lateral bearish	30.000,00	45.955,00	31.561,00	44.000,00	37.000,00	33.799,49	9,47%
OTROS	Oil West Texas	WTCLc1	Lateral bearish	10,37	51,00	10,37	35,50	35,50	21,71	63,52%
OTROS	Oro	XAU=	Lateral bearish	1.358,00	1.702,00	1.445,18	1.702,00	1.691,00	1.617,50	4,54%
OTROS	Treasury 10 años USA	US10YT=RR	Lateral bearish	0,1289%	1,3210%	0,3180%	1,3210%	0,8658%	0,6739%	28,49%

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

DEVELOPED MARKETS

Fundamental assessment

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

Swap spread: The swap spread rose to 47bp (from 4bp 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 48bp (from 16bp last month). With the short end normalizing towards 2%, to reach the long-term average slope (of 140bp) the 10Y UST yield would have to move to 3.40%.

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 0.62%. Fair value 1.18%. Ceiling 2.5%

Swap spread: The swap spread rose to 38bp (from 34bp last month). For the swap spread to normalize at 38bp, with the swap rate anchored in the 1.00% area, the Bund yield would have to move towards 0.62% (entry point).

Slope: The slope of the EUR curve rose to 35bp (from 30bp last month). If the short end “normalizes” at 0%, to reach the 10Y average yield curve slope (118bp) the Bund yield would have to move to 1.18%.

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%

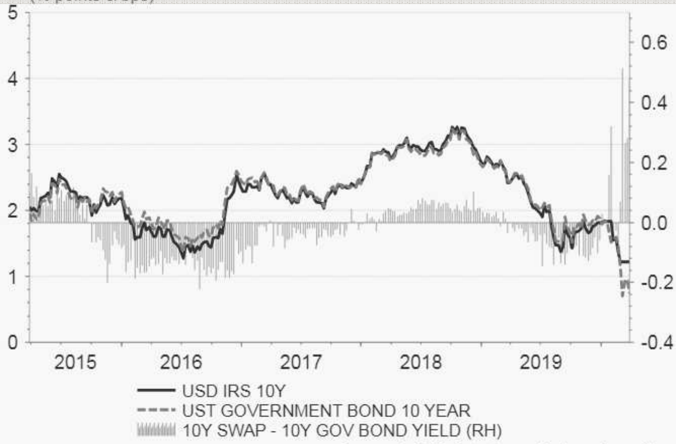
Swap spread: The swap spread rose to 22bp (from 14 last month). For the swap spread to normalize at 10bp, with the swap rate anchored in the 2% area, the 10Y UK Gilt would have to shift to 1.9%.

Slope: With the 2Y bond normalized at 1%, to reach the average slope at 1.40%, the 10Y Gilt would have to move to 2.40%.

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

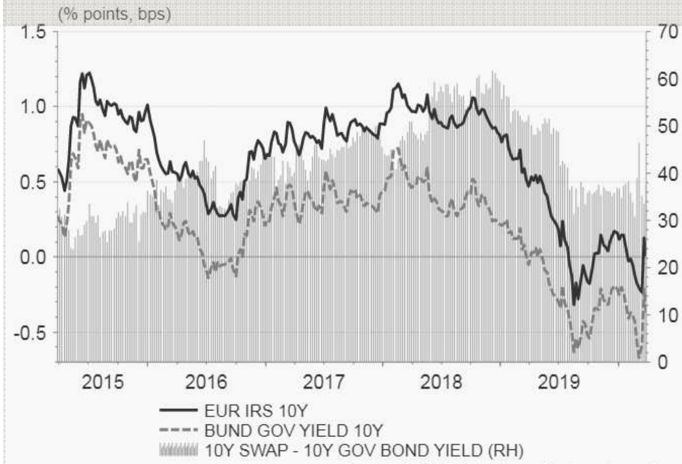
(% points & bps)



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	7,83%	2,97%	4,86%	-1,00%	6,83%
	India	6,13%	6,68%	-0,55%	1,00%	7,13%
	Philippines	4,99%	2,60%	2,39%	-0,75%	4,24%
	China	2,62%	2,44%	0,18%	0,00%	2,62%
	Malaysia	3,32%	1,30%	2,02%	-0,75%	2,57%
	Thailand	1,43%	0,73%	0,71%	0,00%	1,43%
	Singapore	1,22%	0,32%	0,90%	0,00%	1,22%
	South Korea	1,38%	1,04%	0,34%	0,00%	1,38%
	Taiwan	0,43%	-0,26%	0,68%	0,00%	0,43%
EME	Turkey	12,81%	12,37%	0,44%	0,00%	12,81%
	Russian Fed	6,75%	2,30%	4,45%	-1,00%	5,75%
LATAM	Brazil	7,64%	3,92%	3,72%	-1,00%	6,64%
	Mexico	7,04%	3,68%	3,36%	-1,00%	6,04%
	Colombia	7,00%	3,74%	3,26%	-1,00%	6,00%
	Peru	5,23%	1,87%	3,35%	-1,00%	4,23%

ENERGY – OIL

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

Buy < USD45; Sell >65

Short-term drivers

(Price Negative) – Russia and Saudi Arabia continue to show no signs of backing down from their price war. OPEC nations are also not giving support to a request from the group's president for emergency consultations over tanking prices, saying there is no purpose for such a session as the stand-off between Riyadh and Moscow first needs to be resolved .

(Price Negative) – The Kremlin could see a price war as a way to cripple US shale: President Putin asked his advisors whether Russia could withstand a period of low prices, with Rosneft's Igor Sechin arguing lower prices would damage US shale. However, Russia's deputy foreign minister said while the US and Russia are crude rivals, there is no direct link between Russia's exit from the OPEC+ production pact and a desire to harm US shale.

(Price Negative) – Russia's deputy oil minister says there is no point in cutting output further: Russian Deputy Energy Minister, Pavel Sorokin, said in an interview that countries cannot fight a falling demand situation when it is unclear where the bottom of that demand may be. Sorokin noted it is easy to get caught in a circle of cuts as demand continues to fall, adding a 600K bpd output cut would have been challenging for Russia.

(Price Negative) – Russian oil companies have multiple advantages that could keep them pumping as the market sees a flood of cheap Saudi crude, pointing to lower production costs, a flexible tax system, and a free-floating ruble. Low production costs are a function of well-developed field infrastructure, with Rosneft and others spending less than $4/barrel to extract a barrel of oil last year, with perhaps $5/barrel for shipping and $6-8 for capex.

(Price Negative) – Price war may be part of Mohammed Bin Salman consolidating his power: The WSJ reports that in recent days we have seen Saudi Crown Prince Mohammed bin Salman (MBS) not only flood the market with cheap crude, but also crack down on domestic political rivals. The article notes MBS chose a weekend when the world was preoccupied with the coronavirus and faltering markets to assert his standing at home and abroad, flexing the kingdom's market power in a way not seen since the 1973 oil embargo. It adds that some Aramco investors had been concerned pre-IPO that the company would make business decisions on political bases, with recent events lending some credence to that argument.

(Price Positive) – Trump could consider tariffing Saudi crude: Bloomberg reports that some analysts suggest the Trump administration could try to protect US shale drillers by levying tariffs on Saudi crude, noting that shale-industry titan and Trump confidante Harold Hamm is seeking to file a complaint about the Saudis flooding the market with cheap crude. The article notes the US Energy Department has already decried "attempts by state actors to manipulate and shock oil markets", though it adds not all of the energy sector wants the government to intervene.

(Price Positive) – American pipeline operators have asked producers to voluntarily ratchet back their output, signaling a growing glut of crude that is overwhelming storage capacity. The oil market is fast approaching the moment traders have been warning about, when crude supplies overflow storage tanks and pipelines. WTI in the Permian traded at $13.01 on Friday, the lowest since 1999, while Western Canada Select neared $5 a barrel amid the glut. Nevertheless, reduced US shale production could take weeks or months before it translates into a meaningful decline in oil production.

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) fell to US$1,437 (from US$1,448 last month). Therefore, in real terms, gold continues to trade well above its 20-year average of US$943. Given the global deflator (now at 1.1311), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,066.

Gold to Silver (Preference for store of value over productive assets). This ratio rose to 113.01x (from 91.49x last month) and still remains well above its 20-year average of 64.9x, 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$933/oz.

Gold to Oil: This ratio rose during the month to 97.98x (from 33.6x last month), still well above its 20-year average of 15.76x. 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 gold will remain unchanged, the price of gold must approach US$866 for this ratio to remain near its LT average.

Gold to the S&P500: This ratio rose to 0.64x (from 0. 52x last month) and is now above its LT average of 0.61x. Given our target price for the S&P of US$2,700, the price of gold must approach US$1,647 for this ratio to remain near its LT average.

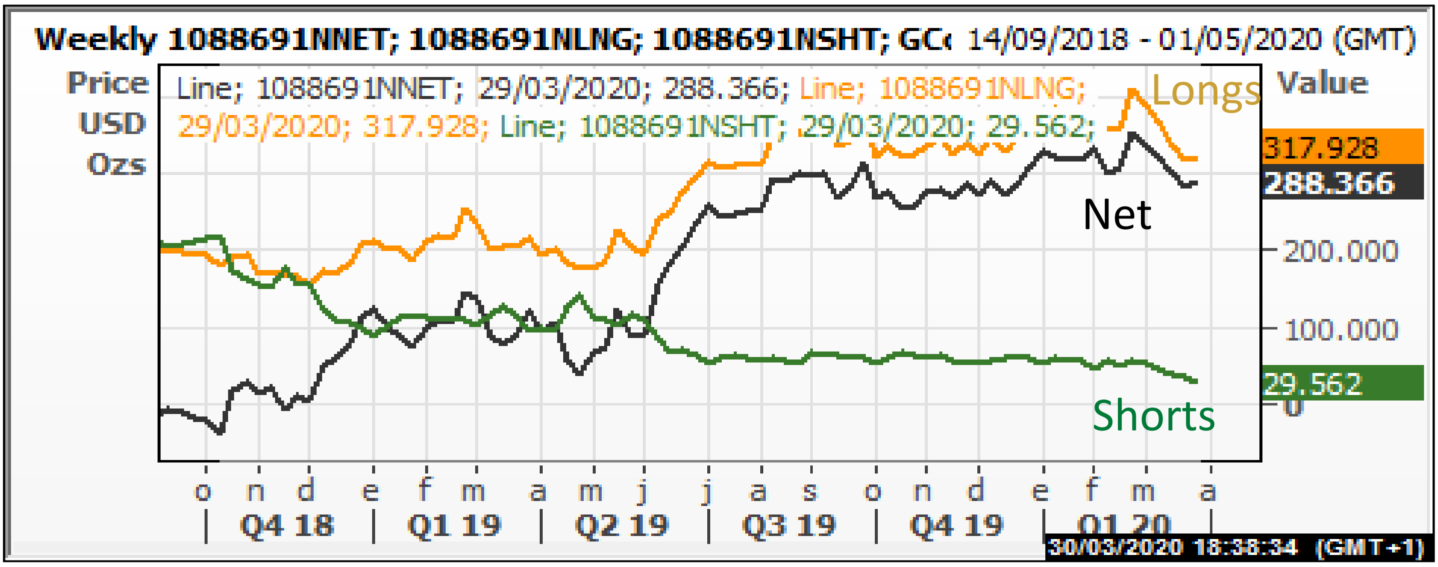
Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long contracts fell to 317k (from 408k last month). Short contracts fell to 24k (from 54k). Thus, the net position rose to 288k contracts during the month (from +353k the previous month).

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

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

EUR-USD: Target 1.10

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

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

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

USD-MXN: Target 23; **EUR-MXN:** Target 25,3

USD-BRL: Target 4.75; **EUR-BRL:** Target 5.23

USD-ARS: Target 80

USD-INR: Target 74

CNY: Target 6.90

RUB: NEGATIVE

AUD: NEUTRAL-POSITIVE

CAD: NEUTRAL

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	18,08	13,80	32,1	1,5	20,7	**0,61**
USD vs G10	22,18	12,74	32,7	0,0	22,2	**0,81**
EM	4,10	-1,06	5,2	-0,2	2,2	**1,46**
EUR	-15,51	-7,40	1,6	-15,5	-6,6	**-1,47**
JPY	-6,40	-2,27	3,8	-12,8	-5,8	**-0,07**
GBP	2,41	0,97	2,6	-7,1	-3,2	**1,56**
CHF	0,08	-0,37	0,6	-6,0	-2,1	**1,38**
BRL	-0,84	-0,28	0,1	-1,2	-0,6	**-1,31**
MXN	3,95	-0,60	4,6	0,0	2,2	**1,53**
RUB	0,99	-0,18	1,2	-0,2	0,6	**0,99**
AUD	-2,90	-1,03	-1,3	-5,2	-3,2	**-0,92**
CAD	1,10	-1,53	4,1	-5,0	-0,1	**0,40**

Positive
Neutral-Positive
Neutral-Negative
Negative

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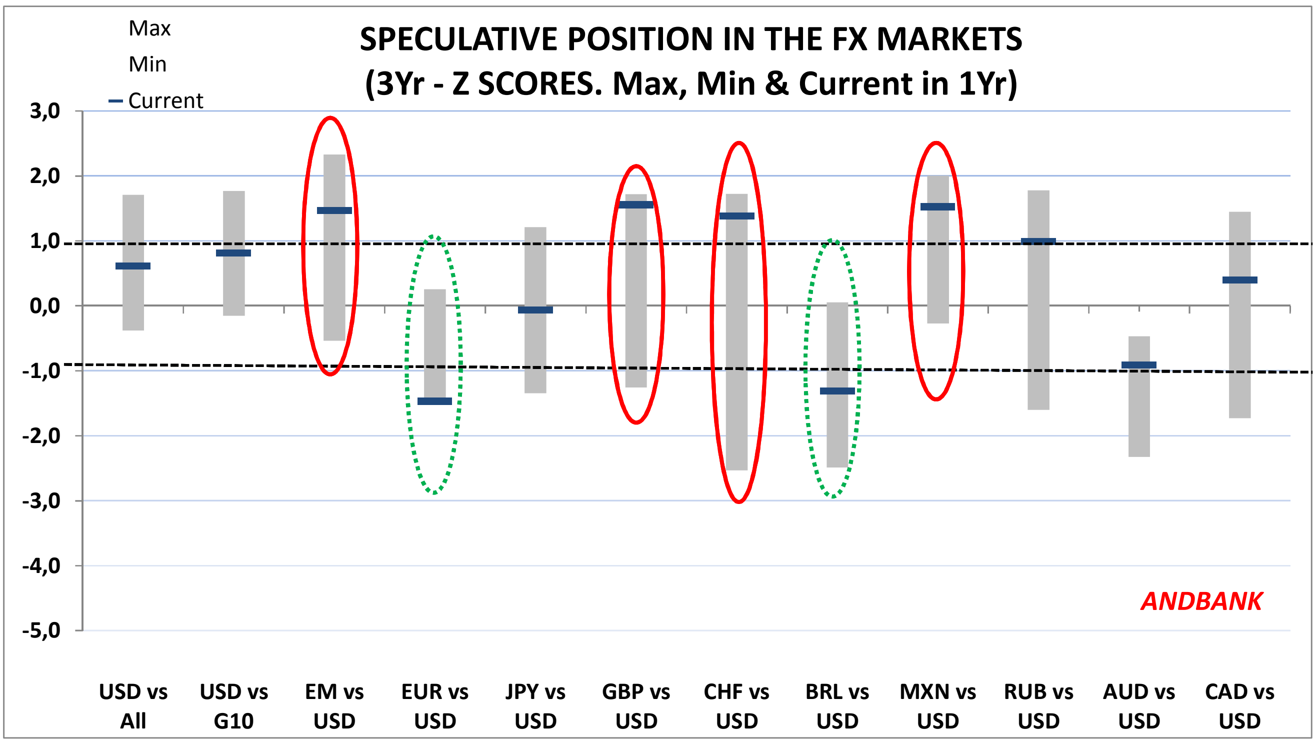

The currencies we technically favor are circled in green

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	-17,4%	-20,0%	2.585	2.503	-3,2%
	Europe - Stoxx Europe 600	-19,8%	-23,0%	310	321	3,7%
	Euro Zone - Euro Stoxx	-21,8%	-24,9%	292	312	6,9%
	SPAIN - IBEX 35	-25,9%	-28,9%	6.602	7.350	11,3%
	MEXICO - MXSE IPC	-20,4%	-20,6%	34.555	36.081	4,4%
	BRAZIL - BOVESPA	-31,9%	-36,9%	73.020	83.739	14,7%
	JAPAN - NIKKEI 225	1,9%	-23,6%	21.507	18.071	-16,0%
	CHINA - SHANGHAI COMPOSITE	-9,2%	-10,3%	2.735	2.827	3,4%
	CHINA - SHENZEN COMPOSITE	-12,4%	-3,6%	1.660	1.653	-0,4%
	INDIA - SENSEX	-26,4%	-28,6%	28.265	29.934	5,9%
	VIETNAM - VN Index	-23,5%	-29,2%	680	723	6,3%
	MSCI EM ASIA (in USD)	-14,5%	-18,3%	463	496	7,3%
Fixed Income Core countries	US Treasury 10 year Govie	3,6%	11,0%	0,61	2,00	-10,7%
	UK 10 year Gilt	0,6%	4,4%	0,29	0,80	-3,9%
	German 10 year BUND	-1,1%	2,5%	-0,51	-0,20	-2,8%
	Japanese 10 year Govie	-1,2%	-0,2%	0,00	0,00	0,0%
Fixed Income Peripheral	Spain - 10yr Gov bond	-4,0%	-1,6%	0,67	0,50	1,8%
	Italy - 10yr Gov bond	-4,3%	-1,1%	1,55	1,00	5,6%
	Portugal - 10yr Gov bond	-5,0%	-3,0%	0,81	0,50	3,1%
	Ireland - 10yr Gov bond	-2,8%	-0,2%	0,12	0,20	-0,6%
	Greece - 10yr Gov bond	-4,1%	-1,7%	1,67	1,50	2,6%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-1,1%	-1,7%	99,38	80	-0,1%
	Credit EUR HY-Itraxx Xover	-8,5%	-10,8%	571,58	450	6,5%
	Credit USD IG - CDX IG	-1,3%	-1,5%	113,50	100	-2,7%
	Credit USD HY - CDX HY	-8,3%	-10,2%	657,81	550	4,3%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-15,0%	-7,5%	13,22	13,00	11,7%
	Russia - 10yr Gov bond (local)	-5,8%	-2,8%	6,75	6,00	11,1%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-9,5%	-4,9%	7,83	6,80	14,1%
	India - 10yr Gov bond (local)	1,2%	5,0%	6,13	7,00	-2,3%
	Philippines - 10yr Gov bond (local)	-6,0%	-3,4%	4,99	4,00	11,7%
	China - 10yr Gov bond (local)	1,0%	4,8%	2,62	2,90	-0,3%
	Malaysia - 10yr Gov bond (local)	-4,4%	0,7%	3,32	2,40	9,9%
	Thailand - 10yr Gov bond (local)	-4,2%	0,3%	1,43	1,00	4,5%
	Singapore - 10yr Gov bond (local)	0,9%	4,4%	1,22	1,60	-2,1%
	Rep. Korea - 10yr G. bond (local)	-1,2%	1,9%	1,38	1,50	0,1%
	Taiwan - 10yr Gov bond (local)	0,2%	1,7%	0,43	0,50	-0,3%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-5,4%	0,1%	7,04	7,00	5,6%
	Mexico - 10yr Govie (USD)	-11,0%	-4,4%	4,00	3,50	7,0%
	Brazil - 10yr Govie (Loc)	-8,4%	-5,0%	7,64	7,00	10,9%
	Brazil - 10yr Govie (USD)	-13,6%	-7,0%	5,17	4,00	13,3%
Commodities	Oil (WTI)	-56,0%	-66,3%	20,6	55,00	167,2%
	GOLD	-2,9%	4,7%	1.588,3	1.200	-24,4%
Fx	EURUSD (price of 1 EUR)	-1,7%	-2,4%	1,094	1,100	0,5%
	GBPUSD (price of 1 GBP)	-3,7%	-6,5%	1,24	1,32	6,5%
	EURGBP (price of 1 EUR)	2,1%	4,4%	0,88	0,83	-5,6%
	USDCHF (price of 1 USD)	0,9%	-0,2%	0,97	0,97	0,5%
	EURCHF (price of 1 EUR)	-0,8%	-2,6%	1,06	1,07	1,0%
	USDJPY (price of 1 USD)	0,0%	-1,0%	107,52	110,00	2,3%
	EURJPY (price of 1 EUR)	-1,7%	-3,4%	117,66	121,00	2,8%
	USDMXN (price of 1 USD)	23,7%	27,7%	24,16	23,00	-4,8%
	EURMXN (price of 1 EUR)	21,6%	24,7%	26,42	25,30	-4,2%
	USDBRL (price of 1 USD)	13,5%	29,5%	5,20	4,75	-8,7%
	EURBRL (price of 1 EUR)	11,6%	26,4%	5,69	5,23	-8,3%
	USDARS (price of 1 USD)	3,1%	7,4%	64,31	80,00	24,4%
	USDINR (price of 1 USD)	2,4%	5,6%	75,31	74,00	-1,7%
	CNY (price of 1 USD)	2,4%	1,9%	7,09	6,90	-2,7%

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

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