ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review – February 2022

Investors in an important segment of the market received an unpleasant call in January

Corporate Review

February 2022

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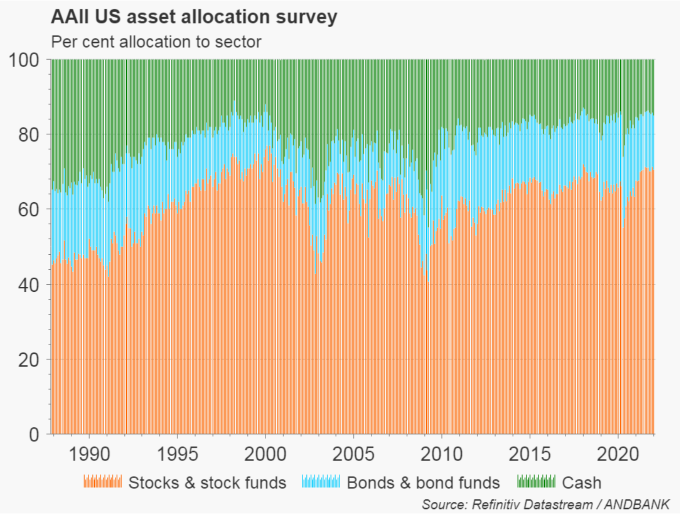
EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point	E[Perf] to Exit point
USA S&P 500	4.484	4.500	0,4%	MW	4.950	10,4%
Europe - Stoxx Europe 600	466	519	11,2%	MW/OW	570	22,4%
Euro Zone - Euro Stoxx	457	502	9,8%	MW/OW	552	20,8%
Spain IBEX 35	8.657	9.510	9,9%	MW/OW	10.461	20,8%
Mexico IPC GRAL	51.255	60.000	17,1%	OW	66.000	28,8%
Brazil BOVESPA	111.996	112.500	0,4%	MW/UW	123.750	10,5%
Japan NIKKEI 225	27.285	33.250	21,9%	OW	36.575	34,1%
China SSE Comp.	3.453	4.172	20,8%	OW	4.589	32,9%
China Shenzhen Comp	2.281	2.928	28,4%	OW	3.221	41,2%
India SENSEX	57.809	63.411	9,7%	MW	69.752	20,7%
Vietnam VN Index	1.501	1.866	24,3%	OW	2.053	36,8%
Taiwán SE Weighted Index	17.967	19.065	6,1%	MW/OW		
MSCI EM ASIA	650	743	14,3%	OW	817	25,7%

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	*Indices*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Fixed Income Core countries	US Treasury 10 year Govie	1,93	2,00	1,4%
	UK 10 year Gilt	1,43	1,50	0,8%
	German 10 year BUND	0,21	0,05	1,5%
	Japanese 10 year Govie	0,21	0,20	0,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	1,05	0,85	2,7%
	Italy - 10yr Gov bond	1,78	1,25	6,0%
	Portugal - 10yr Gov bond	0,98	0,85	2,0%
	Ireland - 10yr Gov bond	0,74	0,50	2,7%
	Greece - 10yr Gov bond	2,29	1,45	9,0%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	63,31	60	0,2%
	Credit EUR HY-Itraxx Xover	307,50	275	3,5%
	Credit USD IG - CDX IG	63,69	70	0,8%
	Credit USD HY - CDX HY	355,72	331	4,6%

FIXED INCOME EMERGING MARKETS

Asset Class	*Indices*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	21,62	20,00	34,6%
	Russia - 10yr Gov bond (local)	9,37	7,50	24,3%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,47	5,10	17,4%
	India - 10yr Gov bond (local)	6,81	6,00	13,3%
	Philippines - 10yr Gov bond (local)	4,90	5,00	4,1%
	China - 10yr Gov bond (local)	2,71	2,40	5,2%
	Malaysia - 10yr Gov bond (local)	3,72	3,10	8,7%
	Thailand - 10yr Gov bond (local)	2,07	1,90	3,4%
	Singapore - 10yr Gov bond (local)	1,85	2,75	-5,3%
	Rep. Korea - 10yr G. bond (local)	2,64	3,40	-3,5%
	Taiwan - 10yr Gov bond (local)	0,69	1,50	-5,8%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	7,62	8,00	4,6%
	Mexico - 10yr Govie (USD)	3,72	3,75	3,5%
	Brazil - 10yr Govie (Loc)	11,15	10,50	16,4%
	Brazil - 10yr Govie (USD)	5,12	5,25	4,1%

COMMODITIES & FX

Asset Class	*Indices*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Commodities	Oil (WTI)	90,9	75,00	-17,5%
	GOLD	1.819,5	1.800	-1,1%
Fx	EURUSD (price of 1 EUR)	1,140	1,12	-1,8%
	GBPUSD (price of 1 GBP)	1,35	1,39	2,8%
	EURGBP (price of 1 EUR)	0,84	0,80	-4,5%
	USDCHF (price of 1 USD)	0,92	0,93	0,8%
	EURCHF (price of 1 EUR)	1,05	1,04	-1,0%
	USDJPY (price of 1 USD)	115,35	116,00	0,6%
	EURJPY (price of 1 EUR)	131,54	129,92	-1,2%
	USDMXN (price of 1 USD)	20,63	21,50	4,2%
	EURMXN (price of 1 EUR)	23,51	24,08	2,4%
	USDBRL (price of 1 USD)	5,26	5,50	4,5%
	EURBRL (price of 1 EUR)	6,00	6,16	2,6%
	USDARS (price of 1 USD)	105,57	175,00	65,8%
	USDINR (price of 1 USD)	74,72	76,00	1,7%
	CNY (price of 1 USD)	6,37	6,35	-0,3%

USA

Fed abrupt policy pivot even though inflation seems to be peaking

Federal Reserve: The U-turn

The release of Federal Reserve minutes of its December meeting was a game changer for market expectations. The Fed not only will wind down purchases of treasuries and MBS at a faster pace (ending it probably in March) but will also start shrinking its balance sheet much sooner than expected. Officials are talking of initiating the quantitative tightening shortly after the monetary authority starts raising rates (maybe in the second half of this year).

Also, Fed chairman Jerome Powell warned that high inflation could harm the labor market recovery and that the time for pandemic stimulus was over. He also added that normalization would happen sooner and faster than the last time (2017-2019). After recent developments, market participants now expect four interest rate hikes in 2022, with analysts expecting the first hike in the March meeting (50 bps surprise to regain credibility not ruled out). If the Fed before seemed to be behind the curve, now the risk is of overshooting and having to hit the brakes at some point (similar to what happened in 2019).

All of the above is the result of inflation that remains at high levels for a longer time than initially expected and a labour market close to or at full employment (unemployment rate at 3.9% and higher wages climbing sharply). CPI rose 7% YoY in December (+6.8% YoY in November), still affected by transitory effects but with greater than expected resilience. The monthly readings allow us to be a little more optimistic since we had a lower reading for the second consecutive month (+0.5% MoM vs +0.8% in November and +0.9% in October). Our view is that we are going to see lower annual figures in the upcoming months.

Politics: Midterm elections ahead

Polls narrowly favor Republicans, supporting historical trend that shows the incumbent party usually loses the midterms. Biden's approval rating has dropped into the low 40s zone, leaving him below Reagan, Clinton and Obama at similar points in their first administrations. A total of 469 seats in the U.S. Congress (34 Senate seats and all 435 House seats) are up for election on November 8, 2022.

Market Momentum

The S&P is experiencing a rebound from the lows of January 24, in a period considered constructive as it has been able to overcome two significant breakout points: the 200-DMA and the psychological 4500. Meanwhile, the daily MACD rose and crossed levels, which often indicates a positive momentum change. Although the performance of the market is (and will continue to be) marked by what is happening in the world of energy, there is a general perception that a significant downward movement below the recent intraday low (4222) is NOT justified. Anything close to that level is seen by investors as a back and forth movement. What is behind the momentum? Undoubtedly, the solidity of the gains of some of the key stocks (leaders), since in the last week there have been results that have made a lot of noise in the market. Most notably, the fundamental trend in tech is generally good, with the tech sector posting the biggest EPS surprise at 8.8% above forecast EPS (well above the +4.7% surprise of the broad S&P 500). 60% of the market capitalization (S&P 500) have already published 4Q21 results, with 78% of companies beating estimates Looking ahead to 2022, margins continue to attract attention, and although these have been revised downwards, the consensus maintains them at a healthy 17% (for operating margins). **A Strategy:** Investors will continue to value corporate results, and that should help. There will be special interest in the US employment report, and the ADP (good barometer of the labor market, and what the Fed can do). Of course, the Fed's policy path, determined by inflation, and energy will continue to be the main driver of the market. It should be said here that we do not expect big changes in the Fed or in inflation this month. On the other hand, we have hopes in a satisfactory development for the geopolitical issue and, therefore, in energy prices (which could go downhill a posteriori). If this happens, the market will probably take it very positively in the second part of the year (or perhaps earlier, depending on its predisposition to anticipate events).

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT

Bonds: Govies UNDERWEIGHT. 10 Y UST Target 2,00

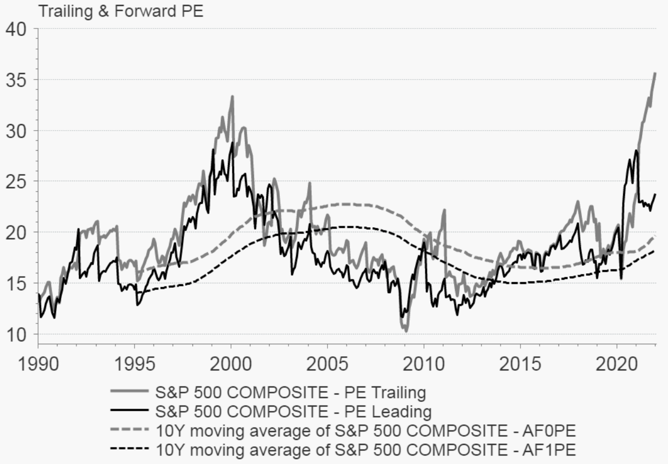
CDX: IG MW-UNDERWEIGHT (Target Spread 70)

CDX: HY MW-OVERWEIGHT (Target Spread 330)

Forex: DXY index FAVORABLE VIEW for the USD

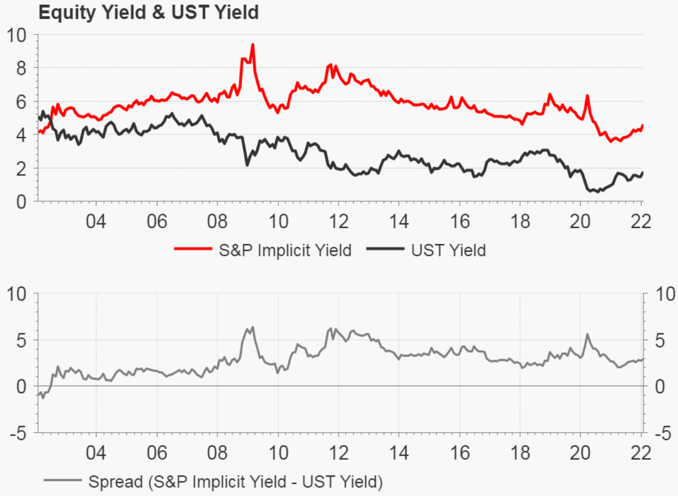
US price-to-earning ratio

Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield



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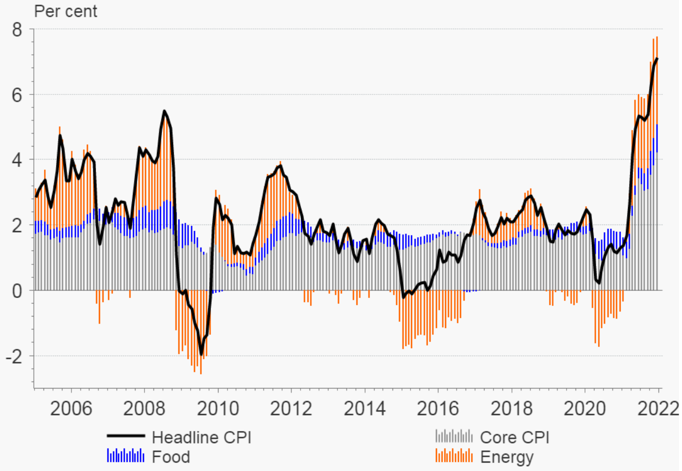
US headline CPI and contributions

Per cent



Source: Refinitiv Datastream / ANDBANK

EUROPE

Despite everything, a good year for economic growth

ECB in 2022: Lagarde abandons mantra on interest rates

At the December meeting of the ECB, both the end of the pandemic emergency purchase program (PEPP) was announced for March 2022 (although reinvestments were extended for another year, until the end of 2024) and the extension of the purchase program of PPP assets (€20bn to €40bn per month from March). Cliff effects have eased somewhat, but ECB support will certainly be less in 2022, with positive but small net issuance. Regarding interest rates, Lagarde abandoned the "mantra" at the last ECB meeting that it was unlikely that rates would rise in 2022. The markets have already advanced more than four rate hikes this year in Europe and plus five in the US. Although a downward trend in inflation in the year continues to be the base scenario, 2022 is still a “pandemic” in terms of prices and in other aspects.

Economic tailwinds and headwinds remain steady

Since December, growth expectations have barely budged. Eurozone GDP estimates hover around 4.25%, perfectly aligned with the latest ECB projections. Activity remains supported by the current savings rate (around 15% of disposable income), the labor market recovery (unemployment rate at 7%), and the expectations of industrial recovery. Though Omicron has widely impacted the European population and led to some mobility restrictions, cases seem to have peaked in the UK and it seems reasonable to expect that the same will happen across Continental Europe in the coming weeks. As for risks, there is still no clear sign of easing of supply bottlenecks (80% of German manufacturers complain about supply shortages), while energy prices keep rising, both issues also impacting inflation.

Inflation surprised again in December, both in reported figures (HCPI: 5%, core inflation 2.6% YoY), and in expectations. The ECB has significantly revised its estimates for 2022 (3.2% YoY vs 1.7% previously). We expect descending inflation as we move along the year but we are also adjusting our forecasts (from 2.2% YoY to 3.3%), with an economy growing above trend and risks tilted to the upside (e.g. energy, green transition, supply chain tensions). On the positive side, second-round effects seem limited so far, with the ECB demanding a sustained acceleration in wages rather than a one-off shift to change its mind regarding rates. In 2022 a pickup in Germany of around 2-2.3% YoY is possible, with large pay settlement in late 2022 being key for 2023.

Italy: the stalemate is broken and Mattarella is re-elected as president

After seven votes, the more than a thousand voters decided that Sergio Mattarella was the figure to continue as president of the nation for a new term. Behind Mattarella was Carlo Nordio with 90 votes, while the current prime minister, and who had aspirations to become president, Mario Draghi received only five votes.

Financial Markets: Govies, Corporate Credit & Equity

Govies: Real money investors have sharply reduced their overweight positions in duration and peripherals over the past weeks. We are sticking to most of our targets but acknowledge the risk regarding the Italian spread, that could move to a range of 120-160 bps vs. the bund

Corporates: Due to fears of accelerating central bank exit programs and persistent upward pressure on IRRs, we have seen issuers frontload (especially senior investment grade) to avoid having to accept and finance at higher rates going forward. In the high yield segment the situation is the opposite, with non financial HY bond issuance (2.4 bn.) dropping 70% compared with last year. We reiterate our recommendation to stay in the short or medium durations (3-5 years), remaining neutral-UW for IG and neutral for HY.

Equity market: We remain constructive for European stocks, supported by macro backdrop and investor sentiment, and stick to our positioning in cyclical sectors (Autos, Banks, Energy) over defensive (Healthcare, Utilities) and growth companies. We also favor large cap over small & mid cap. The main risk that may affect our base case is higher cost pressures (from commodities and supply chain issues) squeezing margins.

The Spanish stock market is favored in our baseline scenario due to the greater weighting of cyclical companies on the IBEX (e.g. Inditex, Amadeus, banks) and we expect overperformance against European peers.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT-OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT-OVERWEIGHT

Equities – Spain’s Ibex: MARKETWEIGHT-OVERWEIGHT

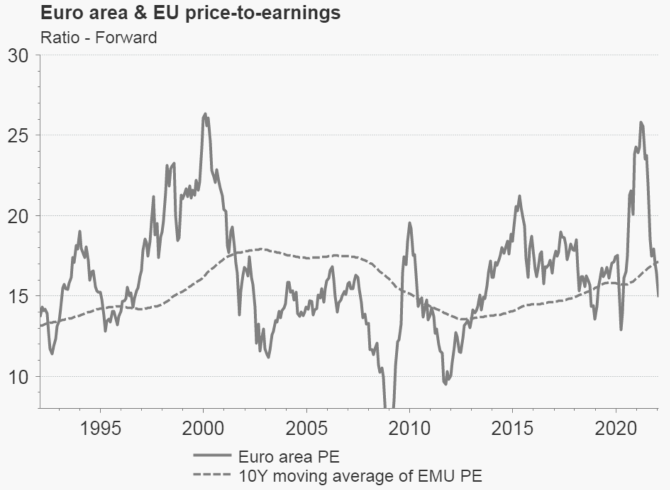
Bonds – Core governments: UNDERWEIGHT (Bund target 0.2%)

Peripheral – OW IT(1.25%) GR(1.45%). MW: IE(0.50%), SP(0.85%). UW PO(0.85%)

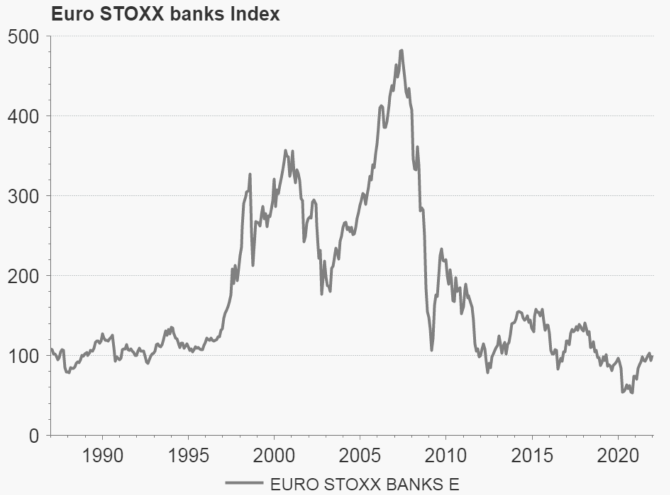
Credit – Itraxx Europe (IG): MARKETWEIGHT-UW (Target Spread 60)

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

FX – EUR/USD Central target 1.12 (Buy USD at 1.14, Sell USD at 1.09)



Source: Refinitiv Datastream / ANDBANK



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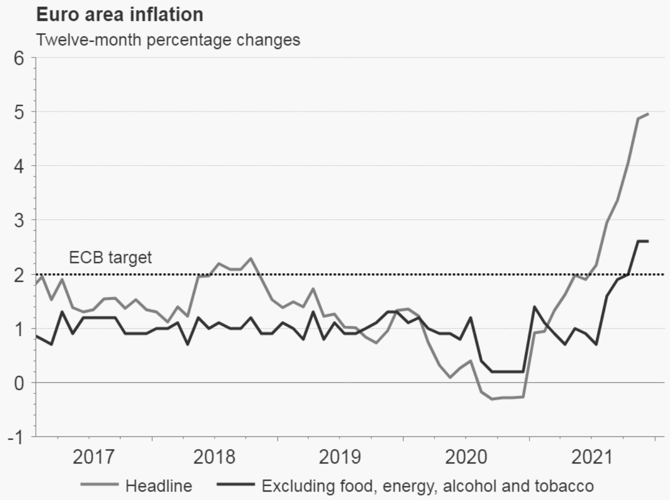

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CHINA

Growth cooled in December, could lead to more stimulative economic policy

4Q GDP slowed sharply y/y, and although they marked an upturn from the bearish dynamic, December data do not point to a vigorous economy, which could pave the way for a more accommodative policy, boosting Chinese assets.

Interannual data for Q4 GDP slowed to +4.0% y/y (vs +4.9% in prior quarter) but still was above the consensus (of +3.6% y/y). On a quarterly basis, 4QGDP data provided a much more positive reading, with a 1.6% q/q gain (also better than consensus of +1.1%) and marking an upturn from the bearish dynamic since the 3Q GDP was a meager +0.2% q/q. But these are data from the 4Q, and they are somewhat outdated in terms of forecasting what is going to happen in terms of monetary and fiscal policy. To know if there is going to be a change in monetary policy that improves the market environment in China, we need to know how the most recent data is coming.

While December industrial production was positive at +4.3% y/y (vs consensus +3.7% and +3.8% in prior month), the pace of fixed asset investment moderated, with a YTD reading of +4.9% vs +5.2% in prior month, and the unemployment rate deteriorated moderately, at 5.1% (vs 5.0% in prior month). Retail sales were the big disappointment, with very little and worrying growth of just +1.7% y/y (vs consensus +3.8% and +3.9% in prior month), marking the softest monthly growth for the year. Drags in retail sales came from autos, food & beverages and apparel. China's oil processing daily volumes were notably lower in December, down 4.7% m/m from November. China crude steel production fell for the first time in six years in 2021 (but this was due in part to the authorities ramping up pressure on high-polluting industries).

PBOC cuts policy rate for first time since Apr-20 in what would be another effective display of a more pro-market stance by the government.

The PBOC lowered the rate on the one-year policy loan by 10bp to 2.85%, the first cut since April-20. It also cut the rate on the seven-day reverse repurchase rate to 2.1%. It also conducted a CNY700B medium-term lending facility (MLF) operation Monday and net injected CNY200B ($31.5B) in open market operations. Economists say the moves suggest China's economy is weak and to try to stabilize it, the government wants to bring about a significant drop in borrowing costs.

Chinese Real Estate crisis: The effects of moderation in the implementation of tough reforms are beginning to be seen.

China's new housing prices fell more slowly in December versus November after marginal easing of financing curbs and property developer promotions helped stabilize demand. Average prices declined 0.2% m/m from a 0.3% m/m fall in November. In y/y terms, prices rose 2.6% from 3.0% y/y in November. Prices improved in 15 of 70 cities.

China's state planner (NDRC) urged local governments to minimize the impact of Covid restrictions over the upcoming Lunar New Year holiday to help consumer spending rebound. Local governments should avoid simplified, "one-size-fits-all" measures.

Financial crackdown almost completed. It could stop being such a negative influence in 2022.

China says clean-up of non-compliant WMPs is "basically complete". Cao Yu, vice chairman of the China Banking and Insurance Regulatory Commission said on Saturday 15th that "China has made progress in cleaning up non-compliant wealth-management products (WMPs)". He said the transitionary period was "basically complete" and that use of trust products for financing had already fallen 80%.

But crackdown in the tech sector may continue as President Xi has called for measures against "unhealthy" development of the digital economy.

In an essay in the ruling Communist Party's publication on Saturday 15th, Xi called for focusing on key areas, including integrated circuits, communications equipment and intelligent hardware. China should "cultivate a number of enterprises with international competitiveness to create world-class digital industry clusters". Xi also called for regulation to prevent "monopolies and disorderly expansion of capital" in China. "In the course of rapid development, China's digital economy has displayed some unhealthy and irregular seeds that pose a threat to national economic and financial security".

Xi's essay follows a plan issued by China's cabinet which aims to increase the sector's share of national GDP by pushing technologies like 6G and big data centers. The plan highlighted the lack of innovation in key areas and weak governance in others.

Market outlook – Recommendations & Targets from fundamental analysis

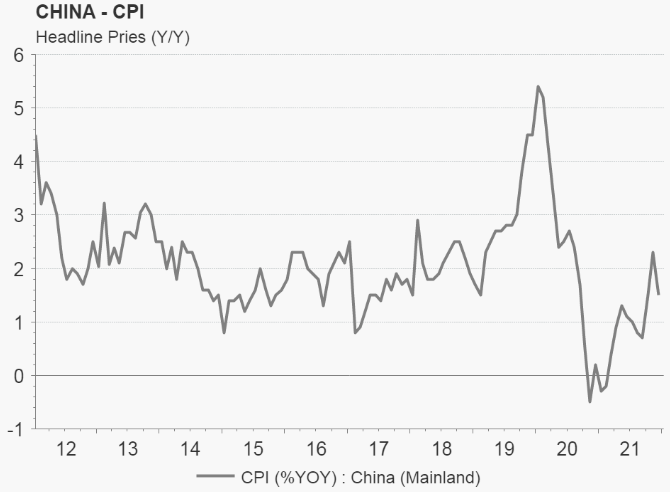
Equities – SHANGHAI Idx: OVERWEIGHT

Equities – SHENZHEN Idx: OVERWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.4%)

Forex – CNY/USD: MW (Target 6.35)

Source: Refinitiv Datastream / ANDBANK



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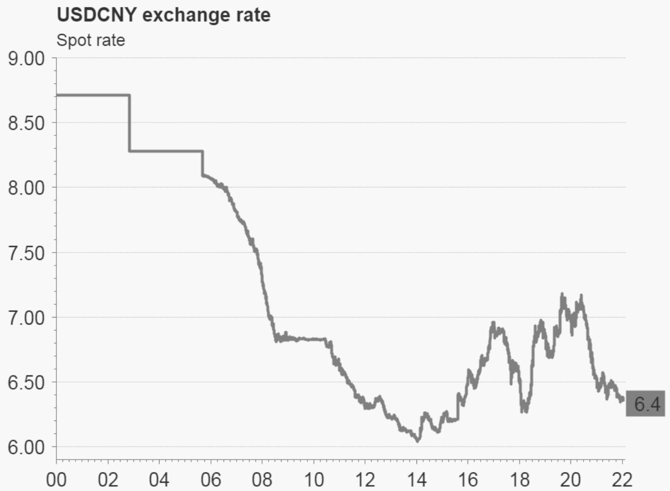


Source: Refinitiv Datastream / ANDBANK

JAPAN

BOJ leaves policy settings unchanged. Debating when can start telegraphing a rate hike

Monetary Policy & Macro conditions: BOJ leaves main policy settings unchanged

The BOJ kept short and long-term rate targets unchanged. Asset purchase settings were also maintained. On other matters, board members voted on a one-year extension to the deadline for loans under the program to stimulate bank lending. The statement repeated guidance that QQE and YCC will continue until inflation reaches the 2% target in a stable manner and reiterated that the bank will closely monitor pandemic effects and will not hesitate to ease further if necessary. Also, BOJ policymakers are debating how soon they can start telegraphing an eventual interest rate hike, which could come even before inflation hits the bank's 2% target, emboldened by broadening price rises and a more hawkish Fed. The story noted that while an actual rate hike is hardly imminent and the BOJ is on course to maintain ultra-loose policy at least for the rest of this year, financial markets may be underestimating its readiness to gradually phase out its once-radical stimulus program.

FY22 growth and inflation forecasts were revised upward. According to the Outlook Report, the BOJ maintained its assessment of current inflation trajectory that core CPI is likely to increase for the time being, though key factors were tweaked. Rising energy prices remains a consistent driver. They now see dissipating effects from prior discounts to mobile phone charges and acknowledged a moderate pass-through of raw material prices. Commodity prices and pass-through to consumers were cited as the main reasons for forecast revisions. The language on the economy took out wording that it remains in a severe situation, reflecting waning pandemic effects. On the risk balance, economic activity still seen skewed to the downside, mainly due to pandemic uncertainties. But the outlook now sees risks to prices as generally balanced in the first adjustment since 2014.

November final industrial production rose to +7.0% m/m vs +1.8% in prior month, November core machinery orders were +3.4% m/m vs consensus +1.3% and +3.8% in prior month. November tertiary sector activity index came in at +0.4% m/m vs consensus +1.0% and +1.9% in prior month.

Fiscal policy: Primary fiscal surplus could come in FY26 under optimistic scenario.

Kyodo cited Cabinet Office estimates that Japan may achieve a primary surplus in FY26 under its most optimistic scenario. This is a year earlier than the previous estimate made in July, as tax revenue is expected to increase as businesses recover from the impact of the coronavirus pandemic. However, the optimistic scenario assumes GDP will continue to grow around 2% in real terms and 3% in nominal terms, the latter having been achieved only once in the past two decades.

COVID. Government eyes quasi-emergency for Tokyo area.

The Japanese government is considering declaring a quasi-state of emergency for Tokyo and three nearby prefectures amid a rapid increase in the number of coronavirus cases in the region. The capital reported more than 4,000 new cases on Sunday with its hospital bed occupancy rate nearing 20%, a benchmark for the metropolitan government to ask the central government to place it under the quasi-state of emergency. The three other prefectures of Saitama, Chiba and Kanagawa have also seen a rise in infections.

Industrial Reform could boost investment in key technologies.

Nikkei reported the government plans to set up a subsidy program to assist companies developing chips, large-capacity batteries and other key materials to ensure a steady supply of strategic products. The government will first identify a list of items that merit subsidies. Rare-earth metals and pharmaceuticals will likely be included. The plan is to have a program up and running during FY23.

Geopolitics: US and Japan to jointly stockpile munitions near Taiwan:

Nikkei reported the US and Japan are discussing stockpiling munitions in each other's defense facilities across Japan, including islands in Taiwan's vicinity, to prepare for contingencies. The issue of joint usage of facilities was discussed in last week's two-plus-two meeting of foreign and defense ministers. A source defined "joint usage" as including the stockpiling of munitions and shared use of runways.

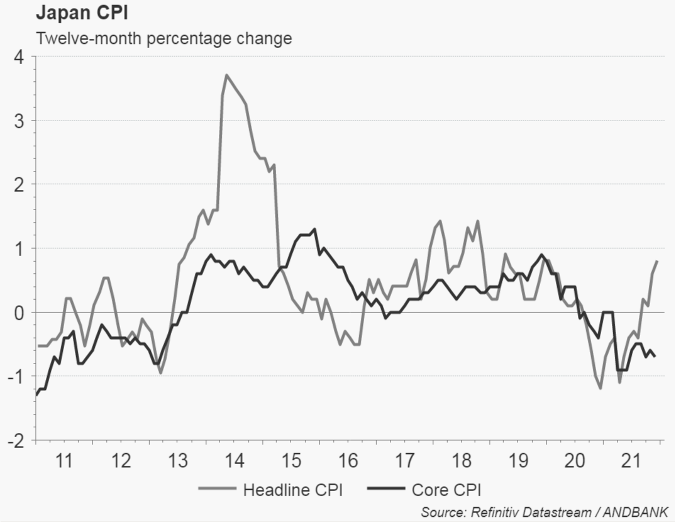
Kyodo also cited a statement released by White House Press Secretary Jen Psaki Sunday that President Joe Biden will hold a virtual meeting this month with Japanese Prime Minister Fumio Kishida as the two countries seek to further deepen their ties amid China's growing assertiveness in the Indo-Pacific region. Biden is looking forward to working with Kishida to advance their "shared vision for a free and open Indo-Pacific" and partnering on new and emerging technologies, including through the Quad (Quadrilateral Security Dialogue).

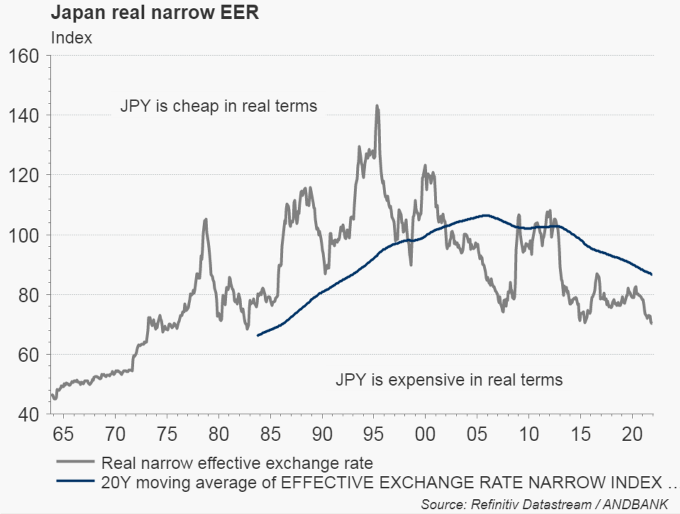
Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 0.20%)

Forex – USD-JPY: MARKETWEIGH. JPY (Mid-term target 116)





INDIA

With no elections in sight, the reform agenda can continue, but the withdrawal of some reforms has increased our doubts

The equity market seems to expect the best version in India. We remain constructive in the long term, but with less intensity.

Indeed, India has outperformed the major indices in both developed and emerging markets. We think there are reasons to expect this good performance can continue: 1) There is a now a much larger base of direct investors than in the past. Specifically, double that at the beginning of 2020. 2) Foreign investment capital has meant an inflow of more than USD24bn, which has been channeled to the domestic equity market. 3) This market is now much less vulnerable to a tapering scenario or any external shock. This is demonstrated by the strong growth in international reserves, from USD300bn 10 years ago to USD560bn today. This important position in RBI reserves gives the country great capacity to defend its currency, and at the same time generate confidence in foreign investors. This relative strength shows signs of being persistent, as suggested by the favorable situation (surplus) of the current account balance. India seems to have sufficient mechanisms to confront a capital exodus with guarantees, unlike in 2013.

The reformist agenda has continuity, but it wouldn't be so wide anymore.

There are no general elections until 2024, so there are no headwinds, in the form of electoral pressure, that impede the continuity of economic reforms. There are certainly elections in some key states and PM Modi's BJP Party is up against strong regional parties in the upcoming elections in Punjab, Uttarakhand and Uttar Pradesh (which elect the largest number of delegates to the national parliament), and given the weakness of the opposition, the government will likely retain power in most of these states, resulting in a continuity of economic policy in the government and the national parliament.

But in a surprising (negative) decision, PM Narendra Modi repealed controversial agricultural reform.

The announcement marks a major U-turn as the government had not taken any initiative to talk to farmers in recent months, and as Mr Modi's ministers have been steadfastly insisting that the laws were good for farmers and there was no question of rolling them back. Farm unions are seeing this as a huge victory. But experts say the upcoming state elections in Punjab and Uttar Pradesh —both have a huge base of farmers— may have forced the decision. Mr Modi said the farm laws were meant to strengthen small farms, "but despite several attempts to explain the benefits to farmers, we have failed, and the government has decided to repeal the three farm laws," The new agricultural laws loosened rules on the sale, pricing and storage of farm produce, rules which according to the protestors have protected India's farmers from the free market for decades". One of the biggest changes that the reform promoted was to allow farmers to sell their produce at market prices directly to private players. Most Indian farmers currently sell most of their produce on government-controlled wholesale markets or mandis at assured floor prices (known as minimum support price or MSP). The laws also allowed private buyers to hoard food like rice, wheat and pulses for future sales, which only government-authorized agents could do earlier. The reforms gave farmers the option of selling outside of this so-called "mandi system". But the protesters said the laws would weaken farmers and allow private players to dictate prices and control their fate. The government argued that it was time to make farming profitable and the new laws were going to achieve that. Opposition parties welcomed the decision, with Congress party leader Rahul Gandhi calling it "a victory against injustice". Some farm leaders and economists who saw merit in the laws have expressed disappointment over their repeal and called this as an "unfortunate" decision driven by political considerations. BJP members said the decision to repeal the laws had nothing to do with the polls and the decision was taken to end the protest. The truth, however, is that the government knows that angry farmers would hurt the BJP's chances of winning crucial elections in some states in 2022. They did not say if there were plans to bring back the laws in another form later

India remains the fastest growing economy among the big economies

The recovery of the Indian economy continues to develop at full speed, showing a variation in GDP in the second quarter of 20% y/y (the highest among large economies). Although it is true that in sequential data (compared to the previous quarter) there has been a contraction, analysts agree that the worst of the pandemic crisis has been left behind. Among the factors that explain the expansion, we have important domestic drivers, such as consumption, which is expanding strongly again, reaching rates not seen since 2017. Even bank credit is expanding again (+7% yoy), which shows confidence in the financial sector on the future performance of the economy. We think the foreign sector will also contribute and provide an important lever for growth, as evidenced by the impressive surge in exports, which in the first nine months of the year grew by 40% (compared to the same period last year).

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: MARKETWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 6.0%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: UNDERWEIGHT (Target 76)

India Datastream index price / earnings

Source: Refinitiv Datastream / ANDBANK

India - 10Y government bond Real Yield

Source: Refinitiv Datastream / ANDBANK

India foreign reserves

Source: Refinitiv Datastream / ANDBANK

ISRAEL

Economy in a “sweet spot”

Economy: positive scenario

The effect of the Omicron variant is being felt throughout the Israeli economy. This is reflected in three high-frequency indicators: i) a 6% fall in the use of credit cards in December; ii) a notable drop in food purchases of 5.5%; iii) more than 60% of manufacturers are reporting severe impairment of production lines due to the record number of infected and quarantined workers.

On the other hand, consumer expectation surveys as well as business trend surveys showed that optimistic sentiment still prevails. Other indicators such as the drop in budget deficit in 2021 to 4.5% of GDP, well below the 6.8% drop the market was expecting (+30% YoY rise in state revenue and a fall in Covid-related expenditures) and another favorable employment report (unemployment rate of 4.1% vs. 4.6% in November) allow us to be upbeat regarding the progress of the economy. We think that the Israeli economy is in a “sweet spot”, not only in comparison to the previous data, but also explained by the increasing activity of the local technology sector (high-tech exports increased +25% in 2021, representing 36% of total exports vs. 34% in 2020) plus the recent approval of major reforms aimed at the reducing cost of living.

Inflation and monetary policy

In addition to the positive indicators discussed above, the low level of inflation as well as low interest rates (that is not expected to change until the end of the year) are other reasons to remain optimistic about the prospects for the economy this year. Prices rose in 2021 by 2.8% (+0.3% MoM in December, pushed by housing +0.8% MoM) putting Israel in the lowest percentile among developed countries. Regarding this year’s inflation, there is a major disconnect between market expectations (breakeven inflation rates) and economists’ forecast. The former expect inflation to rise by nearly 3% in the next 12 months, whereas economists surveyed by the central bank predict 2%. We tend to join the economists’ camp, as we think that most inflationary forces are transitory (yes, we know the term is out of fashion, but we stick to the data). The Bank of Israel believes that the gap is largely due to the inflation risk premium, with participants paying an “insurance” against upward inflations surprises.

Additionally, according to the last interest announcement of the central bank, interest rates are not expected to change until the end of the year, if at all. Raising rates would also strengthen the shekel, already appreciating because of the current account surplus. The relative low level of inflation, coupled with a (still) very accommodative monetary policy and an expected growth rate of over 5% creates the “sweet spot” mentioned before.

Stock market

Stocks opened the year with the same positive trend that persisted last year. Tel Aviv 125 rose by 3.7% from the beginning of the year, led by mid and small caps. The main contributors to the “stormy” start of the year were the same ones that outperformed handsomely last year. Bank stocks rose by 7% (after gaining 70% last year) and real estate shares are up by 6.7%. We think both sectors are fully valued and we expect them to perform no better than the main indices in the coming months. The average book/market ratio of the banks is approximately 20% above their long-term average. The situation of Israeli companies listed on the Nasdaq (mostly technology) is different, with approximately half seeing drops of more than 50% in recent months.

We think that given the healthy state of the average Israeli consumer, retail and services sectors will outperform the market, and medium and small-cap stocks in particular. We expect companies in these sectors to grow significantly this year. A major tailwind for the Israeli market appeared from an unexpected source, MSCI, which announced that it is considering including the Israeli market in its MSCI Europe index. A decision is supposed to be made by the end of February and, if approved, large inflows into the local market are expected. In summary, we are sticking to our long-held positive view (since November ’20) and expect it to keep outperforming most developed markets in 2022.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: MARKETWEIGHT-OVERWEIGHT

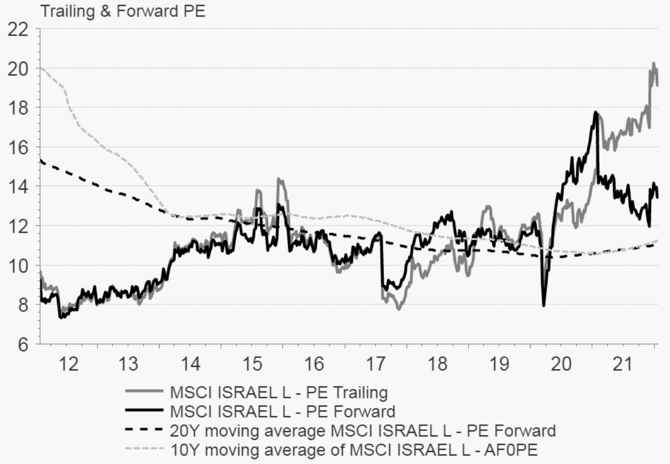
Bonds – Government–10Y Gov: UW-MARKETWEIGHT

Bonds – Corporates: UW-MARKETWEIGHT

FX – ISL vs USD: Expensive in REER

Israel price-to-earning ratio

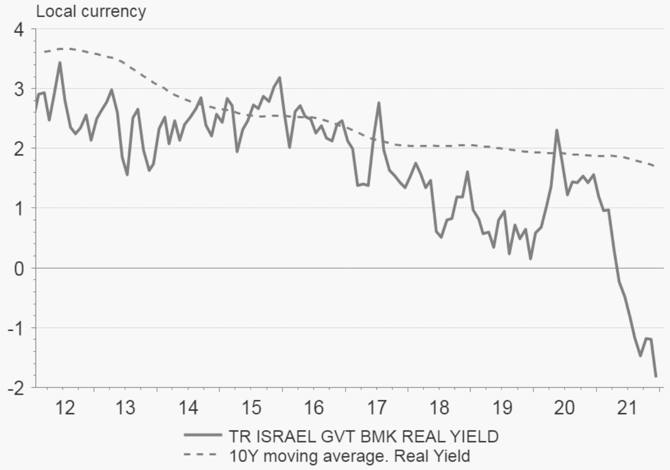
Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y

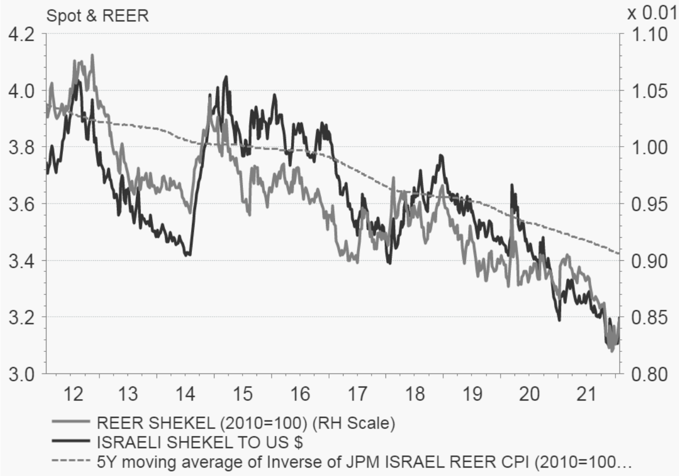
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: Refinitiv Datastream / ANDBANK

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BRAZIL

A rainy summer vacation

Everyone wants a piece of the budget

Being in the southern hemisphere, Brazil's politicians enjoy their summer vacation in January, during a parliament recess that lasts for about 40 days from mid-December to January 31st. During this period, noise is greatly reduced, although this does not mean that the government is not working. This time around, the 2022 budget discussion, which seemed to have been settled at the end of last year, has spawned a big problem for the government. As discussed previously, the debt ceiling rule had to be flexed to allow for a bigger budget for the Auxilio Brasil Program. However, at the eleventh hour, Bolsonaro requested that part of the budget be directed to salary increases for security forces (federal police officers), who are known to strongly support him. However, it backfired, with many other government entities demanding that they also be considered (for instance, customs officials have slowed down import procedures). The estimated total expense with government employees, as of 2019, is around BRL 950 Bn. Even a small raise in salaries would turn out to be a significant drag in an already stretched out budget. Paulo Guedes, the economy minister, has been tasked, by Bolsonaro's own collaborators, with convincing him that no group should be favored in order to avoid another round of fiscal concerns.

End of rate-raising cycle is near

As many countries and regions are entering a tightening period, Brazil is close to the end of its rate-raising cycle. After 725 bps of hikes in 2021, it is expected that the Brazil Central Bank (BCB) will continue to raise rates for two more meetings, finishing the current cycle in March with a base rate of 11.75%. The major reason for such a steep increase is the 10.06% inflation recorded in 2021. The BCB lost control of inflation and had to administer some tough medicine to an already debilitated economy. Even though most market participants' forecasts for 2022 inflation are still bleak, we actually believe that inflation might surprise downward by the middle of the year. It is estimated that it takes about 6 to 9 months for changes in the base rate to permeate to the economy. If that is the case, out of last year's 725 bps, we still have 500 bps to impact the economy over the next 6 months.

On top of that, electricity was one of the biggest contributors, alongside oil prices, to last year's inflation (40% of the headline number). The low expectation of rain for 4Q21 and 1Q22 (rainy season in southwest Brazil) led the government to turn on the very expensive thermo-electrical plants. However, those expectations were misplaced, as both quarters have seen an abundance of rain. We believe that the thermo-electrical plants will be shut down during the 2Q22, which also should help lessen inflation pressures.

Election is coming

Even though it might be a little soon to start making predictions for the coming election, it should be kept in the radar. Elections will be held in October and, thus far, it seems that the second round will be a bout between Bolsonaro and Lula. The chances of a competitive third candidate gaining traction in the polls are, for now, remote. There are a number of important deadlines to be respected. The first one will be March 31st, the last day for those in government to step down from their offices to run as candidates (President and VP are the only ones allowed to continue in office). We believe that after this date we will have a better understanding of who the actual candidates are going to be. However, it's important to highlight that official candidate nominations are only due by the first week of August, so much can happen between now, March and then.

Covid

January marks the first anniversary of the start of the vaccination program. Despite starting later than it could, Brazil's reputation for being a vaccine seeking country has been confirmed. Polls show that more than 90% of the Brazilian population wants to get vaccinated and vaccine statistics show that today almost 70% of the entire Brazilian population has already taken at least two shots. With the basics done, during the third quarter, Brazil started vaccinating teens; in December, the booster shot campaign started; and in January it started vaccinating children 5 to 12, as well. That puts Brazil at the top of the vaccination response worldwide, and could have a positive economic impact in the near future.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT-UNDERWEIGHT

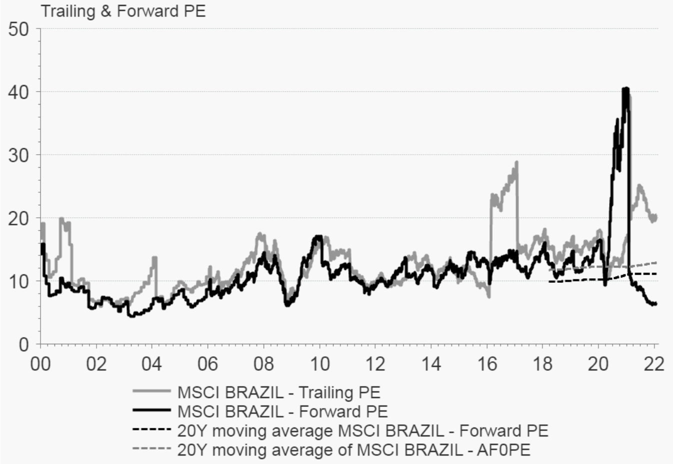
Bonds – Govies Local: OVERWEIGHT (Target yield 10.50%. Spread 850)

Bonds – Govies USD: MARKETWEIGHT (Target yield 5.25%. Spread 325)

FX – BRL/USD: MARKETWEIGHT-OW (Mid-term target 5.50)

Brazil MSCI Index price-to-earning

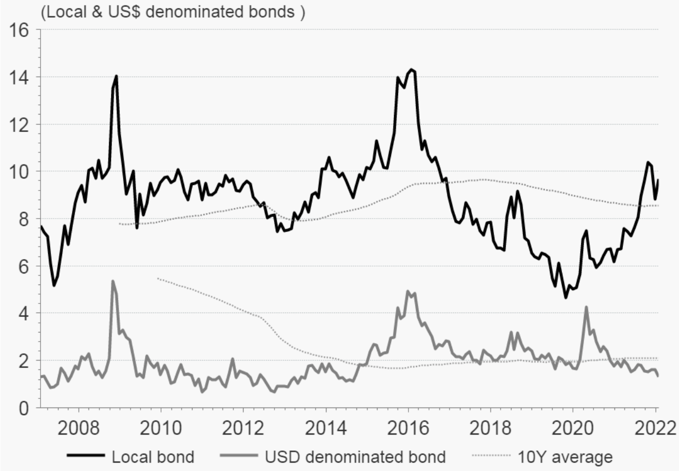
Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

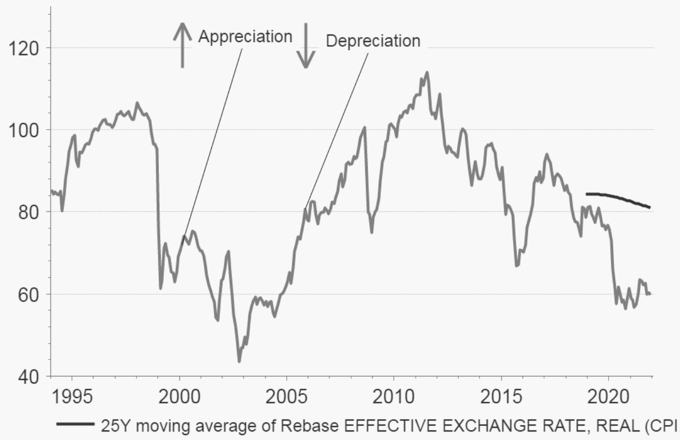
(Local & US$ denominated bonds)



Source: Refinitiv Datastream / ANDBANK

Brazil real broad effective exchange rate

Index, January 2010 = 100



Source: Refinitiv Datastream / ANDBANK

MEXICO

Uncertainty around the Central Bank but Mexican assets seem attractive at current prices

Central Bank

The last meeting of the year of the Central Bank delivered a surprising 50 bps hike in the reference rate, closing the year at 5.50%. The vote was again split (4-1) with the dissident member (pro-government) voting for an increase of only a quarter point. The risks of high inflation and slackening economic growth remain as the main observations of the central bank's monetary policy committee. The outlook for 2022 is uncertain due to the change in the composition of the governing board, which at first glance looks more 'dovish', but we will have to wait until the first meeting of the year (February 10) to see the positioning of the new governor (Victoria Rodriguez Ceja). The forward rates of TIIE (interbank equilibrium rate, which is related to funding) anticipate between 200 and 250 bps increases, reacting to the rate hike scenario for most central banks around the world. On the other hand, analysts expect a 150 bps increases during the year.

Inflation and activity

Inflation expectations are on the rise after reaching 7.4% at the end of 2021. The estimated level for 2022 was increased to a range between 4 and 4.5%, converging to the long-term goal of the central bank (3%) at the end of 2023. Growth prospects have moved lower, between 3 and 3.5%, closer to the long-term average rate. A positive boost is expected from the recovery in the US and exports, but the levels of public and private investment and consumer spending will be a drag on growth. Given the recent wave of the Omicron variant, the state Covid traffic lights were modified again without this having, at the moment, effects on mobility or economic activity. Moody's (A-), S&P (BBB) and Fitch (BBB-) ratified the credit rating of the local sovereign debt. Fitch, which places it one notch above investment grade, upgraded its outlook from negative to stable.

Politics

With the beginning of the year, concerns about political issues are renewed. At the end of 2021, a bill was presented to reform articles 25, 27 and 28 of the Constitution seeking to make CFE (state owned utility company) the center of the electricity industry. If the reform is approved, incentives for current and future investments in the clean energy sector will be eliminated. Today more than 50 projects with a value of more than USD 6 bn are being developed in Mexico. The new bill will not only harm private investment and the rule of law, but also US and Canada could present a State-State lawsuit. Also, annexes to the T-MEC include a list of reservations that details which productive sectors are reserved to the State, and lithium is not on this list (the reform designates the mineral as a strategic natural resource and will not give more concessions for its mining).

Although the probability of its approval is low at this moment, passing the bill will depend on the position of legislators from parties that in past elections opposed the president's party but have moderated their position in some cases. On the other hand, the president is continuing the plan to carry out a consultation for his own impeachment, although the National Electoral Institute (INE) has stated that, due to the recent budgetary cuts, it doesn't have the resources to carry out the referendum.

Financial markets

Equity: On the positive side, a calmer political landscape is expected for next year as no elections will take place in 2022 and the macroeconomic scenario looks stable. Like in other equity markets around the world, the main risk lies in the reversal of expansionary monetary and fiscal policies applied in the last two years. On the domestic side, the approval of the electrical reform or higher than expected noise from the political side could also put pressure on equities. We remain constructive regarding stocks (12-month target price of 59,000 for the MEXBOL)

Fixed Income & FX: We maintain the position of not increasing duration in local fixed income given the prospect of higher reference rates and lower liquidity due to a lower share of foreign investors. For USD debt we think the spread will remain similar to current levels for the rest of the year.

Volatility in the exchange rate has decreased recently and the peso traded in the range of between 20.30 and 20.60 in the last weeks. We have a target of 21.5 for this year, with the peso benefiting the restrictive policy of the central bank.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local: UNDERWEIGHT (Spread 600 bps)

Bonds – Govies USD: UNDERWEIGHT (Spread 175 bps)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 21.5)

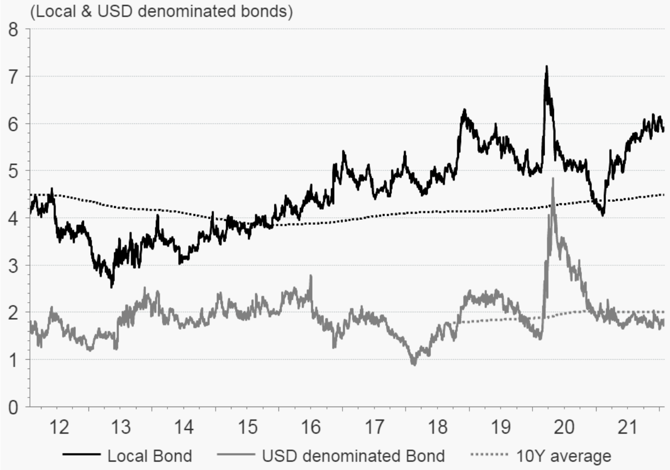
Mexico MSCI Index price-to-earning

Trailing & Forward PE

Source: Refinitiv Datastream / ANDBANK

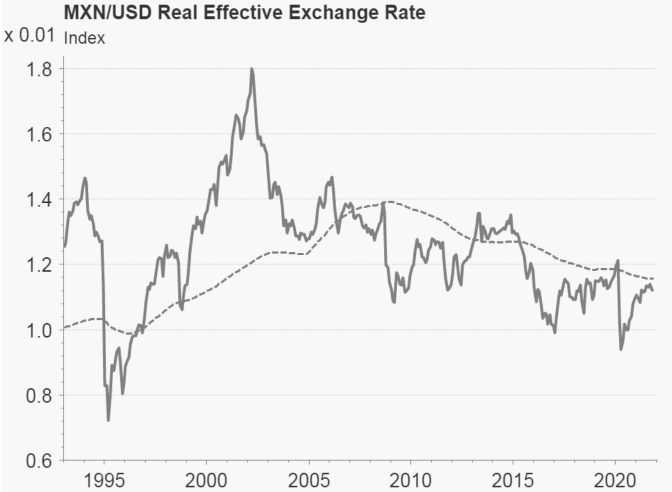
MEXICO - SPREAD 10 GOV BOND vs UST

(Local & USD denominated bonds)



Source: Refinitiv Datastream / ANDBANK

MXN/USD Real Effective Exchange Rate



Source: Refinitiv Datastream / ANDBANK

ANDBANK
Private Bankers

MACRO ECONOMY

ARGENTINA

IMF deal: Understanding is reached

Short term positive. Long term?

After lengthy and tough negotiations Argentina and the International Monetary Fund (IMF) reached an agreement regarding the conditions of the new program between the two parties. The president, Alberto Fernández, announced the news with a recorded message in which he manifested that with the agreement the country can bring order to the present and build a future and that it was reached without including austerity policies. In a press conference following the President announcement, the Minister of Economy, Martin Guzman, provided more details of the content of the new program. The most relevant points are the following: i) gradually shrinking the primary fiscal deficit, to 0.9% of GDP in 2024 from 3% this year, relying mainly on growth to reach the targets; ii) Fiscal goals are accompanied by a gradual reduction of monetary finance to 1% of GDP in 2022, 0.6% in 2023, and null in 2024; iii) Positive real rates are also part of the program, aiming to increase the domestic market financing; iv) Inflation continues to be seen as a multi-causal phenomenon with price agreements having an important role in the anti-inflation program; v) On the external side, official exchange rate devaluation was discarded and the government commits to accumulate 5 bn USD in reserves; vi) Reforms of social security or labor legislation are not included, also excluding the privatization of public companies.

Minutes after the announcement the IMF released an statement for the most part in line with what was expressed by Guzman. The main difference seems to be in the role that the reduction of energy subsidies will play in the fiscal adjustment. While Guzman stressed that there would be no changes in relation to what was announced in terms of tariffs, the IMF affirms that the understanding with Argentina implies the reduction of energy subsidies to adjust public spending. This was also emphasized by the deputy Managing director, Gita Gopinath, through social networks. As it has been so far during the current government, this will lead to discussions within the ruling coalition.

The program will be a Extended Fund Facility (EFF) but with the current agreement only covering the next two and a half years (ten quarterly revisions). Argentina would receive up to 4.5bn USD from the Fund (with disbursements in each of the revisions conditional on the achievement of certain goals) as the new agreement includes the rollover of the remaining maturities of the former agreement and principal payments made by Argentina to date under the previous program. Now the understanding has to be reflected in a final agreement between Argentina and the IMF staff. The following step is the discussion and approval in the Argentinian congress (we don't expect that the opposition will oppose to the deal) and finally from the IMF board.

As expected by market participants the agreement is far from including an ambitious reform program (highlighted as something positive by Guzman), with a government making the minimum policy effort to reach an agreement and avoid a scenario where macro imbalances would deepen, also taking into consideration a less benevolent global financial conditions and the ongoing drought (affecting currency inflows). The signing of the agreement is undoubtedly something positive, but doubts arise about the political strength of the current government to comply with what was promised

Monetary policy: a step in the right direction

A few days before of the deal announcement, the Central bank hiked the benchmark interest rate to 40% (+200 bps), its first raise after 21 months, but still falling short of the positive real rate objective agreed with the IMF. The BCRA also issued a new 180 day LELIQ with a rate of 44% with the goal of increasing duration for remunerated liabilities.

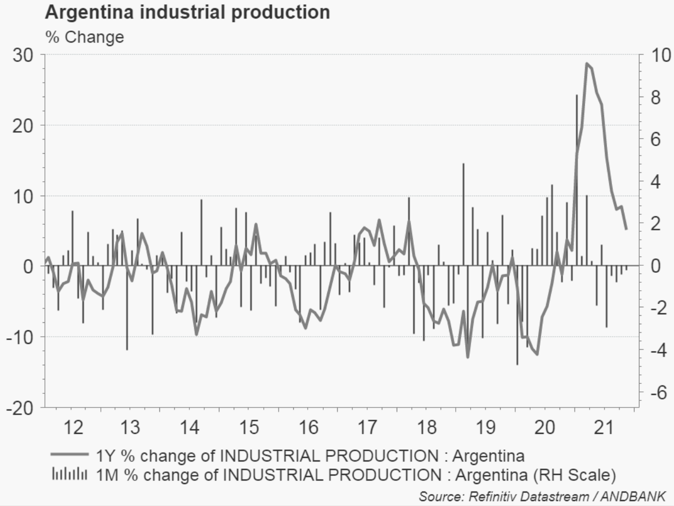
Inflation: No signs of relief

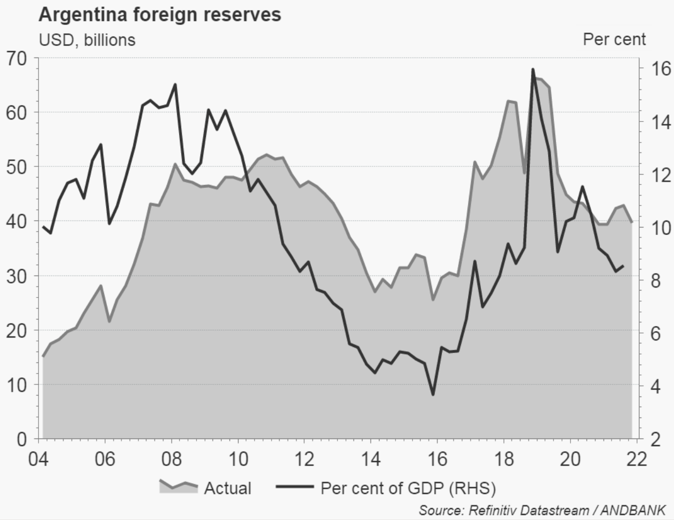
Argentina inflation increased to 3.8% MoM in December (+2.5% MoM in November), above forecasts (+3.4% MoM BCRA REM) and to its highest level in eight months, despite price freezes of approximately 1,400 products in November. The twelve month inflation stood at 50.9% YoY in the month. The core CPI remained elevated at 4.4% MoM (vs +3.3% MoM in November) evidence of strong underlying inflation. 2022 will be challenging, with economists forecasting a 54.8% price increase (BCRA REM survey) driven by higher utility prices and exchange rate adjustments from faster depreciation of the crawling peg. Economic activity expanded +1.7% MoM in November (-0.9% MoM in October) above analysts expectations and +3.7% above the pre-pandemic level (February 2020) although still below November 2017 peak (-4.2%).

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2022 year-end target 200)





GLOBAL EQUITY INDICES
Fundamental assessment

Index	Projected EPS 2022	EPS Growth 2022	PE ltm EPS 2021	E[PE] ltm Year end 2022	Spread PE trailing vs fw	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point	E[Perf] to Exit point
USA S&P 500	225,0	7,7%	21,45	20,00	0,93	4.484	4.500	0,4%	MW	4.950	10,4%
Europe - Stoxx Europe 600	30,5	4,3%	15,93	17,00	1,07	466	519	11,3%	MW/OW	570	22,4%
Euro Zone - Euro Stoxx	29,5	4,3%	16,15	17,00	1,05	457	502	9,8%	MW/OW	552	20,8%
Spain IBEX 35	634,0	1,8%	13,89	15,00	1,08	8.652	9.510	9,9%	MW/OW	10.461	20,9%
Mexico IPC GRAL	4.000,0	10,6%	14,17	15,00	1,06	51.255	60.000	17,1%	OW	66.000	28,8%
Brazil BOVESPA	15.000,0	4,1%	7,77	8,00	1,03	111.996	112.500	0,4%	MW/UW	123.750	10,5%
Japan NIKKEI 225	1.750,0	6,8%	16,65	19,00	1,14	27.285	33.250	21,9%	OW	36.575	34,1%
China SSE Comp.	309,0	13,6%	12,69	13,50	1,06	3.453	4.172	20,8%	OW	4.589	32,9%
China Shenzhen Comp	122,0	25,8%	23,51	24,00	1,02	2.281	2.928	28,4%	OW	3.221	41,2%
India SENSEX	2.757,0	17,6%	24,65	23,00	0,93	57.809	63.411	9,7%	MW	69.752	20,7%
Vietnam VN Index	109,8	27,9%	17,48	17,00	0,97	1.501	1.866	24,3%	OW	2.053	36,8%
Taiwán SE Weighted Index	1.271,0	-2,7%	13,76	15,00	1,09	17.967	19.065	6,1%	MW/OW		
MSCI EM ASIA	49,5	7,7%	14,14	15,00	1,06	650	743	14,3%	OW	817	25,7%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS
Risk Outlook: Andbank's Assessment: 0.5 (in a −7/+7 range)

Aggregate (MW): According to the criteria of flows, sentiment and positioning, we would maintain a neutral position with a favorable bias towards markets with less demanding valuations

Market Positioning (MW): asset allocation remains high in equities. The put-call ratio has normalized somewhat after US market's negative performance. Skew has been constantly high for the last year reflecting the current stretched markets valuations.

Flow Analysis (MW-OW): Interesting flows in US equities, yet we see shifts toward value and defensive stocks. We notice positive flows in China on accommodative central bank expectations.

Surveys & Sentiment Analysis (MW): The recent volatility has brought some nervousness in sentiments, dropping from high to neutral.

ENERGY – OIL

Fundamental view (WTI): Target range USD70-80bbl

Buy < USD70; Sell >USD80

Short-term drivers

(Price Positive) – Yemen's Iran-backed Houthi rebels take responsibility for weekend attack on the UAE: CNBC reports that Yemen's Houthi rebels, which are backed by Iran, have claimed responsibility for fires near UAE storage facilities that may have been caused by drone strikes. The article notes that the UAE has largely withdrawn from the struggle in Yemen though it retains significant influence with Yemeni forces that it has helped arm and train in their struggle against the Houthis.

(Price Positive) – More supply disruptions possible on eastern dissatisfaction: Platts reports that while Libyan crude output has moved back over 1M bpd after recent pipeline maintenance and militia actions, sources suggest that the Libyan National Army group could organize a blockade of eastern oilfields and ports amid a dispute about delayed payments from the central government in Tripoli. The article notes that workers at oil terminals processing near 1M bpd are closely aligned to the LNA and are still waiting for their salaries to be paid by the UN-backed Government of National Unity. It adds that the postponement of nationwide elections (scheduled for 24-Dec) could spark a resurgence of tensions between eastern and western groups.

(Price Positive) – Russia may struggle to hit higher output quotas: Bloomberg reports that Russia is the latest OPEC+ member that may see difficulty in raising output to reach its higher production limits. The article notes that Russia maintained fairly consistent monthly increases during 2021, but by November the country's active, idle, and shut-down wells had largely returned to pre-pandemic levels, and that Russian oil majors have recently not been eager to boost production drilling. It adds that Russian grades have already surged to near-term highs in the booming Asian physical market.

(Price Positive) – Alaskan drillers facing more ESG questions as they seek financing: Platts reports that Alaska is expected to see one of its slowest winter drilling seasons in recent years, with small and large companies finding it more challenging to come by funding as investors press on environmental impacts and issues regarding indigenous peoples. The article notes that the state's industry has been trying to build messaging arguing that its industry has been meeting and exceeding ESG principles for decades, but adds that the industry has also been facing supply chain and Covid-related challenges.

(Price Neutral) – Strong demand in physical oil market underpinning prices: Bloomberg reported that physical oil markets are running hot, with prices for cargoes reaching oil refineries in Asia in two to three months rallying strongly all over the world so far this year. The article said support is driven by an upbeat view around Omicron and demand headwinds of the Winter Olympics and Chinese New Year will all be out of the way when the barrels reach the region. However, some see the outlook as too optimistic, with uncertainty around the virus leading to lockdowns and travel restrictions.

(Price Negative) – China to release crude oil from its strategic stockpiles around Lunar New Year: Reuters reported that China will release crude oil from its strategic stockpiles around the Lunar New Year holidays that start on 1-Feb as part of a plan coordinated by the US and other major consumers to reduce global prices. Sources said that the amount released will depend on price, with a larger amount if oil is above $85 a barrel and a smaller volume if oil stays near $75. China agreed to release reserves after a push by the Biden administration in November after tight supplies drove global oil prices to multi-year highs.

(Price Negative) - China's crude imports up 20% y/y in December, though oil demand situation in China has become less clear in recent weeks. Platts reported that China's crude imports were up 20% y/y to 10.91M bpd in December, driven by independent refiners using up new crude import quotas allocated in November. It was also the second monthly increase after the 39-month low of 8.94M bpd from October. However, Reuters noted China's annual crude imports fell for the first time since 2001. The oil demand situation in China has become less clear in recent weeks, with mobility data showing big declines in a number of regions amid the recent COVID surge (Bloomberg). Platts also reported that independent Chinese refineries are being asked by the government to cut throughput ahead of next month's Winter Olympics to keep emissions under control

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' interest 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 on 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, which 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 view (Gold): Target range USD1,700 – 1,900 /oz

Buy < USD1,700; Sell >USD1,900

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$13tn of face value is yielding negative rates).

Gold is cheap relative to palladium: The Gold/Palladium ratio jumped to 0.959 but is still well below its 20-year average of 1.85x, suggesting that gold is deeply cheap relative to palladium, or palladium is even more expensive than gold.

Neutral drivers for gold

Gold will no longer be the only anti-fragile asset: Gold, like the US Treasury bond, is an anti-fragile asset. Investors should always carry out the exercise of deciding which anti-fragile asset should be kept in their portfolio to protect themselves against instability in financial markets, demand or supply shocks, or a collapse in real rates (due to inflation shocks). The answer will have a lot to do with the perception of which of the two traditional anti-fragile assets (Gold & US Treasuries or other Tier 1 Govies) is likely to perform better in such a disruptive scenario. This, in turn, will depend on the relative supply of each asset. The one with the lower relative supply will be the one that will perform better and will better display its quality as an anti-fragile asset in the face of a shock. In this regard, we must say that until now we saw the supply of UST as unlimited, which favored gold as the quintessential anti-fragile asset. However, we no longer see unlimited supply of UST; instead, after learning the Fed's intentions, we foresee a very limited supply in relation to the strong demand that there may be for UST (typical demand of external central banks in an environment of expansion and economic recovery). That is why the UST can once again dethrone gold as an anti-fragile asset and take command. This is bad news for gold; however, it should be said that the supply of gold will also remain very limited over the next decade

Negative drivers for gold

Gold expensive relative to silver. The Gold/Silver ratio rose to 80,2362? but is still above its 20-year average of 66.65x, suggesting that gold is expensive relative to silver.

Gold to oil: This ratio fell to 20.23, still well above its 20-year average of 18.25x. Considering our fundamental fair value for WTI oil at US$70 and assuming that the functional utility of both commodities will remain unchanged, the price of gold must approach ~US$1,300 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.21069), the price of gold in real terms (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) is US$1,473. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,064.

The three identified threats that could end the gold rally no longer seem too distant. What are those threats? The 1976-80 rally ended when US short rates were jacked up to break inflation, causing a rise in the USD. The 1985-88 rally ended when Germany pulled out of the Plaza Accord deal and US rates started to push up rates (prompting a rise in the US Dollar). In the 2001-11 period (which saw the gold price skyrocket from $300 to $1,800/oz), President George W. Bush's "guns & butter" policies spurred a rise in EMs, which became new gold buyers, but this ended in 2011, when the USD started to strengthen. Therefore, the only four threats to the gold bull market seem to be: 1) Higher nominal rates. 2) Stronger USD. 3) A rise in real rates. 4) A Loss of momentum. The gold bull market usually feeds on its own momentum for quite a while and it seems reasonable to us to sound a small alarm signal that gold has totally lost its momentum. The question is: how real and dangerous are each of these risks for gold right now?

Risk #1. Higher nominal rates (HIGH RISK): Although a few months ago it seemed impossible to think of rate hikes by the monetary authorities, this possibility is gaining ground with each passing day.

Risk #2. Stronger USD (MEDIUM RISK): The US current account balance has been gradually improving, leading to a shortage of dollars and a rise in its price (negative for gold). With a longer-term view, we do not foresee a jump in the US current account balance that will boost the USD dramatically. Rather, the balance (deficit) could remain stable at around 2% of GDP and keep the USD well supported but stable, far from a strong rebound that could end gold's bull market. However, a more determined FED in its exit strategy (Tapering) could cause a certain shortage of the USD, which would have a very negative effect on the price of gold.

Risk #3. Higher real rates (LOW RISK): The only way OECD countries could experience surging real rates (they have collapsed all over the world) would be through inflation rate collapsing or through an aggressive hike in monetary policy rates. Such a deflationary outcome could only be triggered by a permanent collapse in the price of energy, a collapse in real estate, or even a collapse in the Renminbi. There are few signs of such shocks unfolding right now. So the only way for this risk (rise in real rates) to materialize is through an increase in official rates. Something that apparently can only happen in the US. Still, real rates will be in negative territory throughout 2022.

Risk #4 Momentum – (HIGH RISK) Gold bull markets usually feed on their own momentum for quite a while. The price of gold has lost traction and momentum for some time, and with it, a self-reinforcing momentum. A constructive view could be that, perhaps the emerging world could recreate a gold-prone cycle, such as the one experienced in 2001-2011, when it was the new wealth being created in EMs, with a strong affinity for gold, that pushed gold prices higher. If EMs thrive again, led by Asia, this could be a tailwind for gold. But at the moment we do not have a clear opinion about Asia, dragged by a China immersed in a kind of repressive campaign against some of its most productive sectors.

EXCHANGE RATES

Flow analysis & Fundamental targets

Outlook (of the respective currency against the USD) according to the analysis by Altman's Z.

USD vs ROW: NEUTRAL
EM currencies / USD : SLIGHTLY POSITIVE versus USD
EUR/USD: NEUTRAL EUR.
USD/JPY: NEUTRAL JPY.
GBP/USD: NEUTRAL GBP.
USD/CHF: SLIGHTLY NEGATIVE CHF.
USD/BRL: NEUTRAL BRL.
USD/MXN: SLIGHTLY POSITIVE MXN.
RUB: NEUTRAL.
AUD: POSITIVE.
CAD: NEUTRAL.
USD/ARS: NEGATIVE.
USD/INR: NEUTRAL.
CNY: NEUTRAL.

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	3-yr Max (Bn $)	3-yr Min (Bn $)	3-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	10,34	-9,14	32,1	-28,2	5,8	**0,24**
USD vs G10	10,56	-8,91	32,7	-25,4	6,7	**0,22**
EM	0,23	0,23	3,9	-1,2	1,3	**-0,74**
EUR	4,19	4,41	23,4	-8,6	6,8	**-0,27**
JPY	-6,61	0,09	0,6	-15,0	-8,4	**0,43**
GBP	-2,00	1,32	4,3	-6,5	-1,5	**-0,19**
CHF	-1,12	0,18	0,8	-6,0	-2,3	**0,71**
BRL	-0,25	-0,24	0,7	-0,8	-0,1	**-0,34**
MXN	0,02	0,25	3,3	-1,5	1,0	**-0,75**
RUB	0,46	0,22	1,2	-0,3	0,5	**0,03**
AUD	-5,69	0,78	6,1	-6,6	-1,6	**-1,10**
CAD	1,44	2,31	6,1	-5,0	0,2	**0,48**

Positive
Neutral-Positive
Neutral-Negative
Negative

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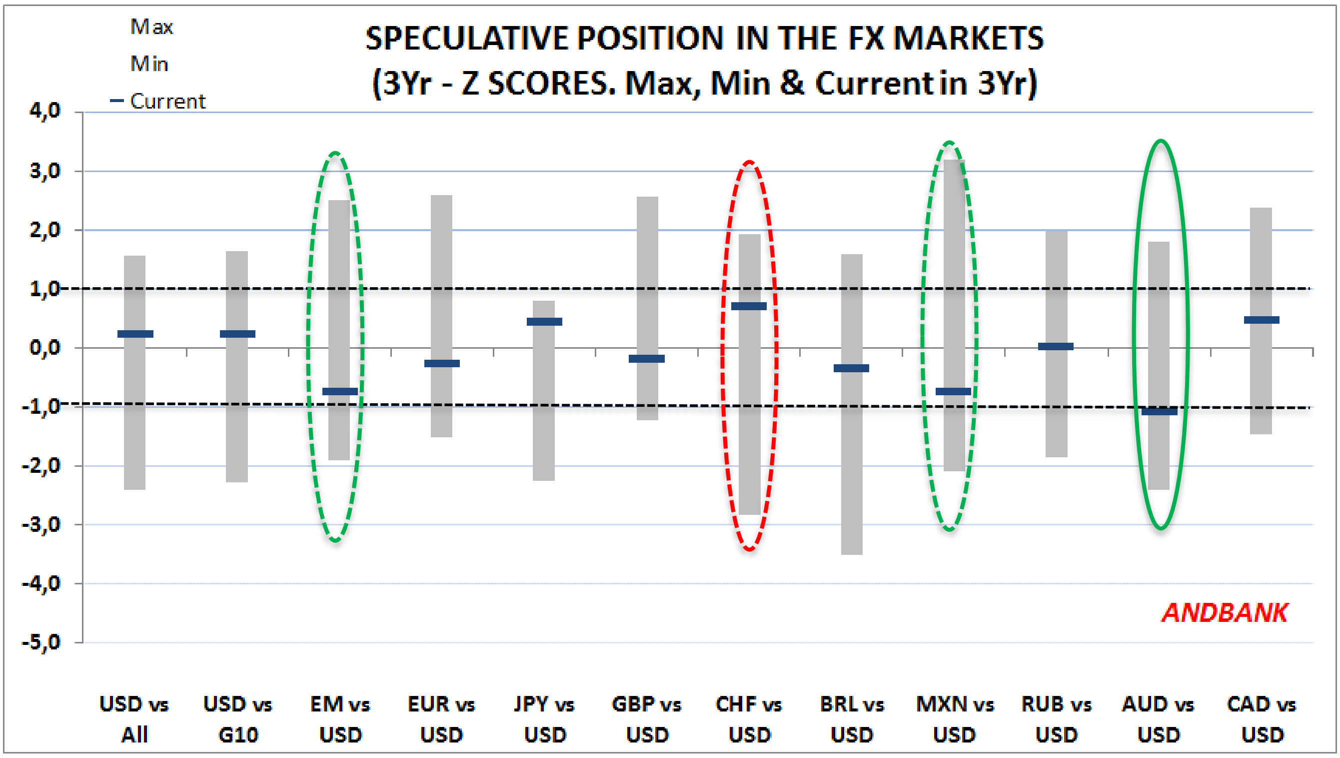

The currencies we technically favor are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Equity	USA - S&P 500	-4,9%	-5,9%	4.484	4.500	0,4%
	Europe - Stoxx Europe 600	-3,6%	-4,5%	466	519	11,3%
	Euro Zone - Euro Stoxx	-3,9%	-4,5%	457	502	9,8%
	SPAIN - IBEX 35	-1,2%	-0,7%	8.653	9.510	9,9%
	MEXICO - MXSE IPC	-3,4%	-3,8%	51.255	60.000	17,1%
	BRAZIL - BOVESPA	7,9%	6,8%	111.996	112.500	0,4%
	JAPAN - NIKKEI 225	-3,3%	-5,2%	27.285	33.250	21,9%
	CHINA - SHANGHAI COMPOSITE	-3,2%	-5,1%	3.453	4.172	20,8%
	CHINA - SHENZEN COMPOSITE	-6,6%	-9,9%	2.281	2.928	28,4%
	INDIA - SENSEX	-4,6%	-0,9%	57.809	63.411	9,7%
	VIETNAM - VN Index	0,6%	0,0%	1.501	1.866	24,3%
	MSCI EM ASIA (in USD)	-3,0%	-2,4%	650	743	14,3%
Fixed Income Core countries	US Treasury 10 year Govie	-1,4%	-3,2%	1,93	2,00	1,4%
	UK 10 year Gilt	-2,0%	-3,6%	1,43	1,50	0,8%
	German 10 year BUND	-2,0%	-3,1%	0,21	0,05	1,5%
	Japanese 10 year Govie	-0,5%	-1,1%	0,21	0,20	0,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	-3,2%	-4,0%	1,05	0,85	2,7%
	Italy - 10yr Gov bond	-3,2%	-4,9%	1,78	1,25	6,0%
	Portugal - 10yr Gov bond	-3,1%	-4,1%	0,98	0,85	2,0%
	Ireland - 10yr Gov bond	-3,2%	-4,1%	0,74	0,50	2,7%
	Greece - 10yr Gov bond	-5,9%	-8,2%	2,29	1,45	9,0%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,4%	-0,4%	63,31	60	0,2%
	Credit EUR HY-Itraxx Xover	-1,5%	-1,8%	307,50	275	3,5%
	Credit USD IG - CDX IG	-0,3%	-0,4%	63,69	70	0,8%
	Credit USD HY - CDX HY	-1,4%	-1,6%	355,72	331	4,6%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	16,3%	13,0%	21,62	20,00	34,6%
	Russia - 10yr Gov bond (local)	-4,9%	-6,9%	9,37	7,50	24,3%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	0,0%	-0,5%	6,47	5,10	17,4%
	India - 10yr Gov bond (local)	-1,5%	-2,2%	6,81	6,00	13,3%
	Philippines - 10yr Gov bond (local)	-0,8%	-1,0%	4,90	5,00	4,1%
	China - 10yr Gov bond (local)	0,8%	0,6%	2,71	2,40	5,2%
	Malaysia - 10yr Gov bond (local)	-0,4%	-0,9%	3,72	3,10	8,7%
	Thailand - 10yr Gov bond (local)	-0,6%	-1,4%	2,07	1,90	3,4%
	Singapore - 10yr Gov bond (local)	-0,2%	-1,5%	1,85	2,75	-5,3%
	Rep. Korea - 10yr G. bond (local)	-1,8%	-3,7%	2,64	3,40	-3,5%
	Taiwan - 10yr Gov bond (local)	0,6%	0,1%	0,69	1,50	-5,8%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	1,9%	0,3%	7,62	8,00	4,6%
	Mexico - 10yr Govie (USD)	-2,4%	-4,3%	3,72	3,75	3,5%
	Brazil - 10yr Govie (Loc)	3,9%	-5,8%	11,15	10,50	16,4%
	Brazil - 10yr Govie (USD)	-0,5%	-3,3%	5,12	5,25	4,1%
Commodities	Oil (WTI)	11,9%	20,8%	90,9	75,00	-17,5%
	GOLD	-0,1%	-0,5%	1.819,5	1.800	-1,1%
Fx	EURUSD (price of 1 EUR)	0,3%	0,3%	1,140	1,12	-1,8%
	GBPUSD (price of 1 GBP)	-0,6%	0,1%	1,35	1,39	2,8%
	EURGBP (price of 1 EUR)	1,0%	0,2%	0,84	0,80	-4,5%
	USDCHF (price of 1 USD)	0,1%	1,2%	0,92	0,93	0,8%
	EURCHF (price of 1 EUR)	0,4%	1,6%	1,05	1,04	-1,0%
	USDJPY (price of 1 USD)	0,1%	0,2%	115,35	116,00	0,6%
	EURJPY (price of 1 EUR)	0,4%	0,5%	131,54	129,92	-1,2%
	USDMXN (price of 1 USD)	1,2%	0,7%	20,63	21,50	4,2%
	EURMXN (price of 1 EUR)	1,6%	1,0%	23,51	24,08	2,4%
	USDBRL (price of 1 USD)	-5,5%	-5,5%	5,26	5,50	4,5%
	EURBRL (price of 1 EUR)	-5,2%	-5,2%	6,00	6,16	2,6%
	USDARS (price of 1 USD)	2,0%	2,8%	105,57	175,00	65,8%
	USDINR (price of 1 USD)	1,3%	0,3%	74,72	76,00	1,7%
	CNY (price of 1 USD)	-0,1%	0,2%	6,37	6,35	-0,3%

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

UPWARD REVISION DOWNWARD REVISION

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