GLOBAL OUTLOOK

# ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review July 2018

# Corporate Review

***July 2018***



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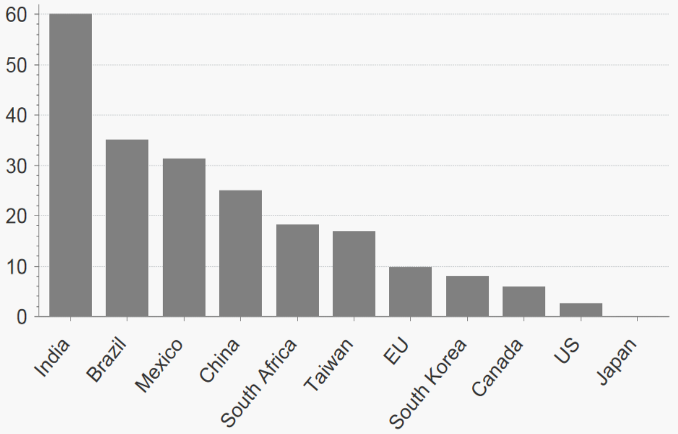
# EXECUTIVE SUMMARY

**Average tariff on motor car imports**

Per cent, 2016

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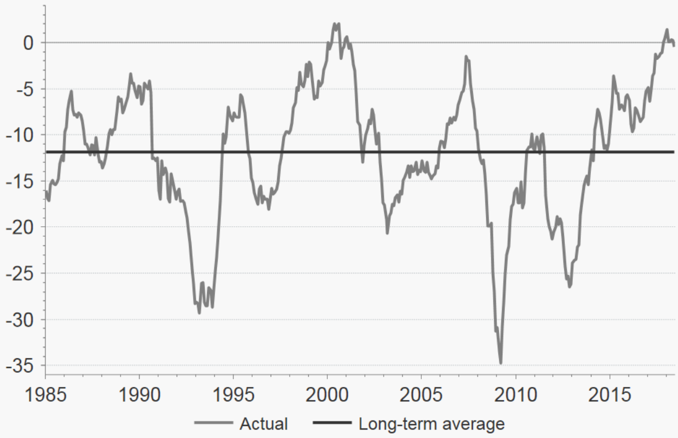
**Euro area consumer confidence**

Balance

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## EQUITIES

The equity markets are in thrall to each new episode in this drama series in which the USA faces off against China. No one can say today whether we will see a violent outbreak of this conflict. What we do know is that there are powerful incentives for both parties (especially for China) to keep the tension under control. If the dispute remains at the level of rhetoric, without escalating rates, equity markets are still on the rise. Our preferred markets are Brazil, broad Europe, and EM Asia. The markets offering fewer potential gains are Japan and the US (which we consider are already at fair value).

## FIXED INCOME

Still negative outlook for long-dated government bonds denominated in EUR, GBP and JPY, and to a lesser extent in USD. We have a fair value target for the 10Y UST yield at 3.20%. A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a "BUY". We would be more concerned about a surge in rates unrelated to the growth and inflation outlook, resulting in an extra yield investors demand for holding long-term bonds.

## CORPORATE CREDIT

The near-term outlook for € credit has weakened, seeing a re-opening of the core/periphery divide as the biggest risk for ratings, with financials, Italian banks and insurance companies being the worst performers. We maintain our defensive strategic stance and tactically we would be careful with financials and peripheral credit. In the USD credit space, spreads widened 7bp in a context in which US High Grade credit fundamentals continue to move in a positive direction, with EBITDA growth outpacing debt growth, helping to stabilize leverage metrics. We keep our neutral stance in IG and HY in USD.

## CURRENCIES

Our preferred currencies are BRL (-2.5 sigmas in 3yr Z score vs the USD), and MXN versus USD and EUR. We also like the CHF and AUD (near -2 sigmas short vs USD). The general positioning of the market today is long in USD, with a value of USD10.4bn, although this figure is still short compared to the +USD51bn USD longs seen in December 2014. Cautious in USD in the short term. Constructive in the long term.

## COMMODITIES

US unofficially requested for OPEC to raise output by 1M bpd. Al-Falih and Novak say output increase "inevitable". In our view, the oil price has crossed the upper part of a fundamental range.

# USA
## Still further upside for the equity market before the cycle ends

**Strong, stable economic outlook**

The US economy accelerated in the second quarter and looks likely to post a solid gain for the first half of the year as a whole. It is very encouraging indeed that the economy has been able to withstand so much political volatility. That resilience is driven by a virtuous cycle in which growth supports the labor market, which supports growth. There are risks to our view, but for now they don't appear grave enough to slow the economy's momentum. While we think that further acceleration from here is unlikely, we expect the economy to continue to perform well.

**Fed will remain on track to raise rates, but gradually**

The Fed raised rates to 1.75% while it also provided a more hawkish guidance, saying that there would be two more rate hikes this year. With the global economy cyclically behind the US, rising inflation is likely to be gradual, which should allow the Fed to continue along its path of gradual rate increases without disrupting the outlook. Core CPI inflation rose to 2.2% yoy from 2.1%.

**Risk factors**

(1) A sharper rate increase could disrupt growth by increasing the cost of rolling over debt for a levered government and certain parts of financial markets. (2) If trade tensions persist, they could impact business investment decisions and thus growth. (3) Financial market tension in several important emerging markets, as well as in Europe, could cause a broader retrenchment of risk appetite.

**Trade restrictions raise risks, but macro impact limited.**

US trade policy has come back into focus as an economic risk. The end of steel and aluminum tariff exemptions for Canada, Mexico, and the EU suggests that even geopolitical allies may not be safe from US trade restrictions. The response by US trade partners has tended towards retaliation rather than conciliation. In our view, the most likely target of broad tariffs continues to be China. We do not expect any noticeable impact in macro data if tariffs remain focused on particular products

**Andbank's market sentiment**

U.S. equities could be now in the latter stages of a cyclical bull market. We still may expect to see further upside for the market before the cycle ends, but this will be on less breadth and will come with higher risk. Earnings have been strong this year, but earnings growth does not appear to have been rewarded with any better relative multiple performance. Regarding the bond market, the drivers of inflation captured by the New York Federal Reserve Underlying Inflation Gauge have firmed lately; this index tends to lead core CPI by 16 months, and points to an inflation reading of more than 3% in 2019 if the critical dynamics of rising energy and healthcare prices do not change. All of these pressures pose serious risks for long-duration bonds. We keep unchanged our fair value for the 10Y UST yield at 3.2%

**Financial markets outlook**

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

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

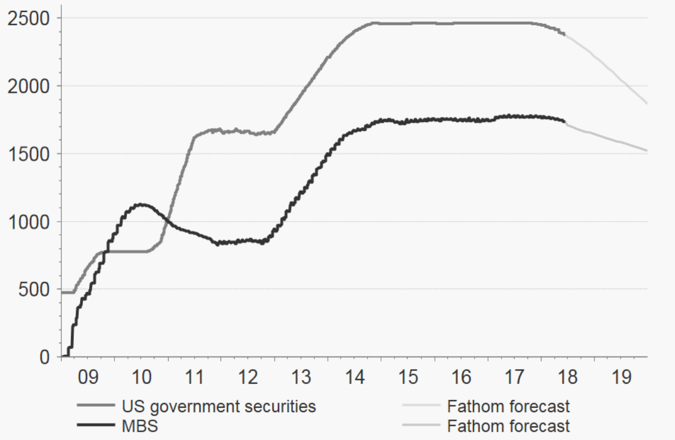
Credit – CDX IG : NEUTRAL (Target Spread 50)

Credit – ICDX HY: NEUTRAL (Target Spread 437)

Forex – CDX index: NEUTRAL

**Federal Reserve assets held outright**

USD, billions

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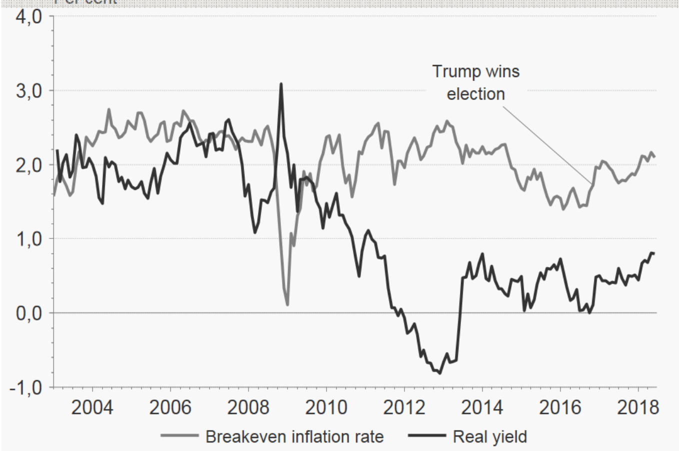
**US ten-year TIPS decomposition**

Per cent

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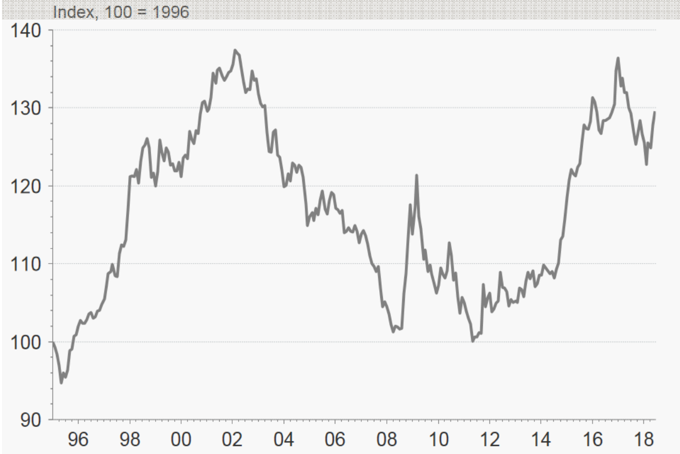
**US broad trade weighted dollar**

Index, 100 = 1996

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# EUROPE
## Dovish Draghi when heading towards QE exit

### ECB

The ECB announced in its June meeting that it will halve its monthly purchases from September till December (to €15 bn). QE would thus end in 2018, though this step is conditional on the evolution of incoming data. Moreover, forward guidance on rates was reinforced unanimously, with rates remaining at current levels till at least the summer of 2019. Details about the reinvestment strategy will come in future meetings. In a nutshell, a cautious stance towards Qexit, with a rate hike "kick-off" slightly biased on the dovish side.

### Political uncertainty remains but economic noise fell

After a bumpy negotiation time, Italy has a brand new Government led by 5 stars and the Northern League, and although this was not the most desirable result, the economic noise has decreased substantially in the last few weeks, since the main Ministers declared their compliance with the EU budget goals and their commitment to the common currency. Meanwhile, uncertainty is rising on the social side, with migration problems at central stage.

### Financial Market environment

After Draghi's "low rates for longer than thought", we update our yield targets. Starting with the 10-year bund, we move to a new fundamental range of 0.4-0.8%. On the peripheral arena, we have seen limited contagion during the Italian turmoil and the redenomination risks priced in the Italian bond seem overdone. Nevertheless, peripheral yields still remain unpredictable. Accordingly, we adjust slightly our peripheral spread targets: Spain 10 years 1.6%; Portugal 10Y 2.2%; Italy 10Y 2.7%. Regarding the corporate debt market, politics in Italy and trade tensions have caused some spread widening. The near-term outlook for € credit has weakened, seeing a re-opening of the core/periphery divide as the biggest risk for ratings, with financials, Italian banks and insurance companies being the worst performers. We maintain our defensive strategic stance and tactically we would be careful with financials and peripheral credit.

In the Equity space, consensus for FY18 EPS for the Stoxx 600 has been revised upwards lately and is now being fixed in the €26.25 area (slightly above our long-held EPS projection of €25.7). Upward revision has been driven by better estimates in the real estate and energy sector in Europe, projecting a more constructive outlook for the European equity market during 2H18. Analysts expect 8.4% growth in EPS for the MSCI Europe, the financial sector being the one that contributes most (36% of total EPS growth in the index). We have left all our projected parameters for the Stoxx 600 Index untouched (Sales growth 5.2%, Net margin at 8.2%, EPS growth 6.6% and PE at 16), resulting in our fundamental target price of 411 for this index, meaning that we still see some value.

### Financial markets outlook

Equities – Stoxx Europe: POSITIVE. Central point 411. Exit 439

Equities - Euro Stoxx: POSITIVE. Central point 413. Exit 454

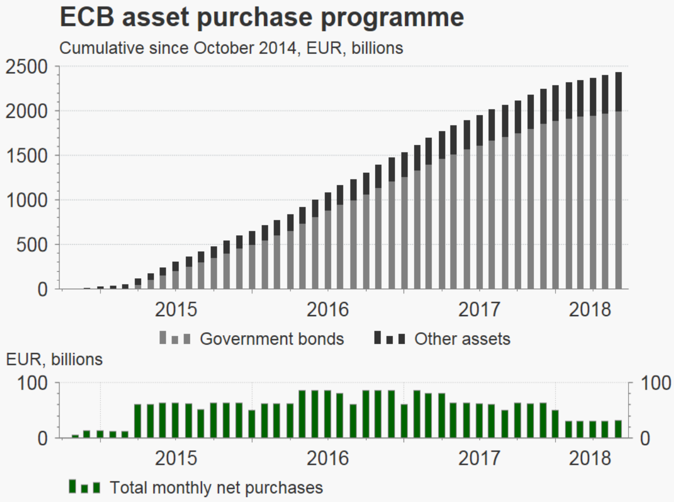
Bonds – Core governments: NEGATIVE (Bund target yield 0.80%)

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

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

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

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

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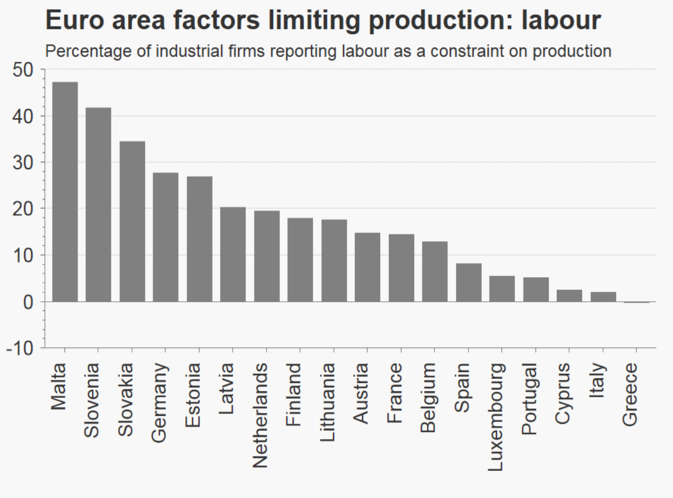


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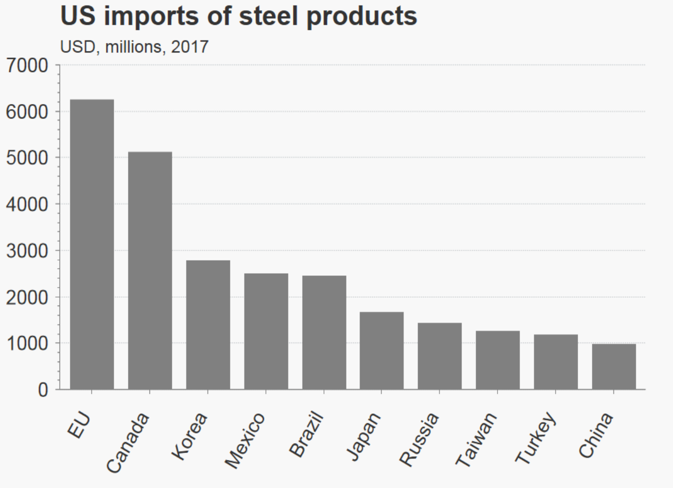


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# SPAIN

## New minority pro-European government, but stable

### Politics

A lot has happened during the last month, changing the political picture. We now have a new government, after a vote of no confidence in Congress. In a matter of days, the ruling party (PP) lost power and its leader, since Rajoy also resigned as party president. As strange as it seems, the new president of the Spanish government (Pedro Sánchez, PSOE) has only 84 candidates out of 350 and will govern with the national budget designed by the previous government, a budget that Sánchez himself rejected. Although the changes seem evident on the surface, in general terms we are still more or less where we were at the beginning of the year, that is, a weak government with an approved national budget that will allow it to stay in power at least for the rest of the year.

**The new pro-European government has sent a clear and strong message: "This is not Italy"**

Pedro Sánchez has appointed some pro-European colleagues: Josep Borrell (former President of the European Parliament) in Foreign Policy, and Nadia Calviño (number 2 of Günther H. Oettinger in the European Commission's budget department) in Economics. In fact, this is the most important message Pedro Sánchez is sending us today: "We have changed the government, but not fiscal or economic policy, and of course we maintain full alignment with the European project".

What has changed is the state of mind of this Government and its approach towards Catalonia and the territorial conflict that had kept the two administrations at odds. A well-known Catalan socialist leader, Meritxell Batet, has been appointed as Minister of Regional Administration. She will be responsible for negotiating a new financing arrangement with the regional governments. We do not expect general elections before the regional and municipal elections next year.

### Growth remains solid

The economy continued on its growth path, more smoothly than in previous years but still in a healthy situation. The Bank of Spain has updated its projections for 2018 GDP growth to 2.7% from the previously expected 2.5%.

Prices are starting to rise, standing at 2.1% (YoY) at the last reading in May. Prices and housing activity continue their recovery. However, two caution flags have emerged this quarter: three consecutive months of poor retail sales and the first signs of a slowdown in employment.

### Market sentiment

We have downgraded slightly our year-end target for the Ibex. Draghi's "low for longer" interest rate scenario will weigh on this "bank-heavy" index. Depressed rates, and thus margins, for a longer period means that banks will suffer from anemic earnings dynamics for longer. We reflect this by adjusting our projected margins downwards to 9%. The new year-end price target is 10,570.

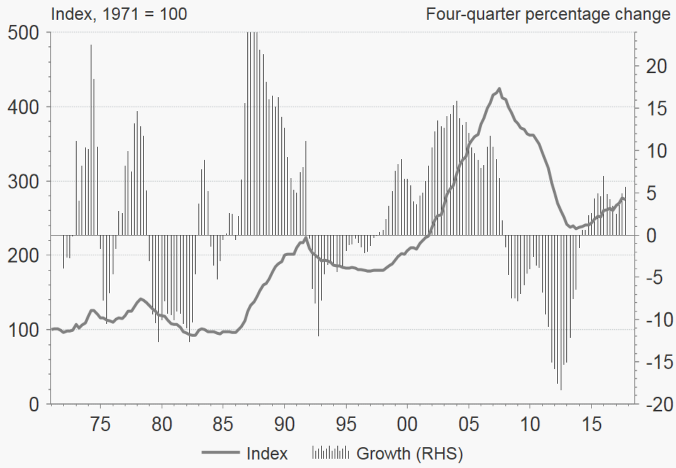
### Financial Market Outlook

Equities – IBEX: POSITIVE. Central point 10.576. Exit point 11,633

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

Credit – Invest. grade: NEGATIVE // High yield: NEUT-NEGATIVE

**Spain real residential property prices**

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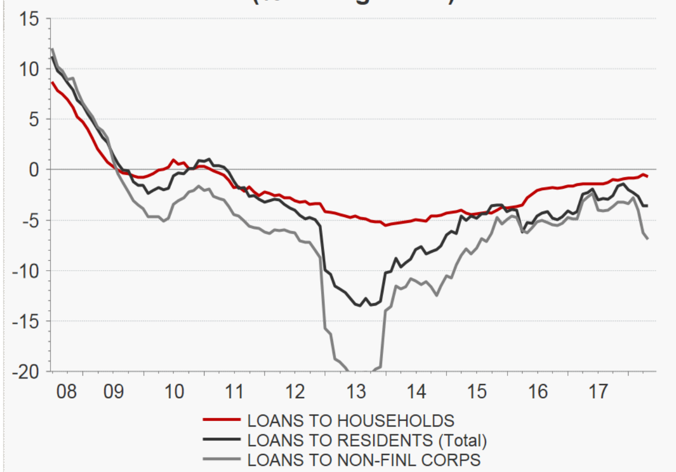
**LOANS - SPAIN (% Change YOY)**

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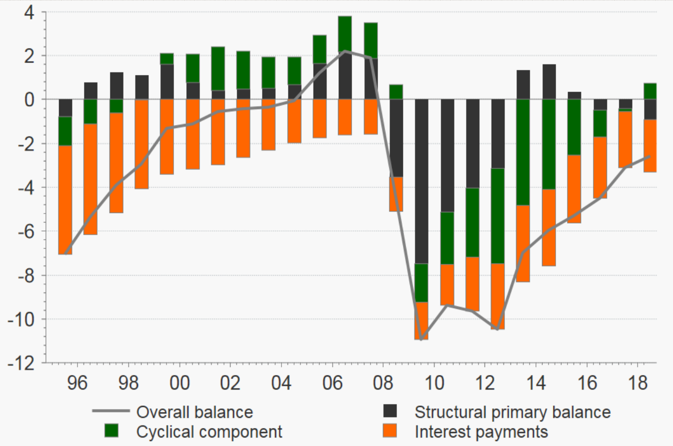
**Spain government budget balance**

Per cent of GDP

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# JAPAN

## Dovish BoJ. Even more dovish than the ECB.

**BOJ leaves policy unchanged. Monetary Policy Outlook**

The BOJ maintained (8-1 vote) the yield curve control policy as expected, leaving short-term rates at minus 0.1% and long-term rates at around 0%. Board members voted unanimously to maintain other asset purchases. The policy statement noted that the core CPI is in the range of 0.5-1.0%, still well below the targeted 2%, although inflation expectations are more or less unchanged.

Economists remain roughly divided over when the Bank of Japan will begin unwinding its massive stimulus program, with one camp forecasting it will be sometime next year and others predicting tapering will not begin until 2020 or later. All agree that inflation will linger well below the central bank's elusive 2% target for some time.

**Macro-data update**

Overall CPI (April) slowed to 0.6% y/y (vs 1.1% y/y in March).
Household spending fell in April -1.3% y/y (from -0.7% in March).
PMI services in May fell to 51 (vs 52.5 previously).
PMI manufacturing in May fell to 52.8 (vs 53.8 previously).
Japan's GDP 1Q revised -0.60% YoY (-0.20% QoQ)

**Economic Outlook: Growth is likely to rebound later this year.**

Japanese companies to ramp up capital spending. A survey of over 1,091 Japanese companies showed capital spending growth is set to grow 16.7% in the current fiscal year to ¥27.9T ($254.7B). The corporate sector is ready to spend more after profits hit a fresh record for the second straight year. Many businesses aim to invest in upgrading aging equipment and boosting productivity. The survey also highlighted large outlays in the materials and electric appliance sector.

**Demographic headwinds persist**

The number of births was a record-low of 946,060 in 2017, despite government subsidies and Prime Minister Shinzo Abe's work-style reforms. The number dropped by more than 30,000 for the first time in 12 years. The steep decline in births is linked to a drop in the population of women in fertile age groups. The growing trend of putting off marriage and parenthood is also at play.

**Corporate: Wage growth likely to reach 3%**

Large firms' summer bonuses reached a record ¥967,386, up 6.71% from a year earlier. Wage growth looks likely to reach the government's 3% target.

The Nikkei reported that Japanese companies, under pressure to offload unprofitable operations, are shutting down or selling off a record number of business units. Listed companies scaled back 68 business segments in the first four months of the year. The figure reached nearly half of the 140 logged for 2017, meaning that the total for all of 2018 may exceed the record set in 1999.

Shares of small Japanese shippers jumped this week after the historic summit between U.S. President Donald Trump and North Korean leader Kim Jong Un sparked hopes of new business ties with the reclusive country.

**Financial markets outlook**

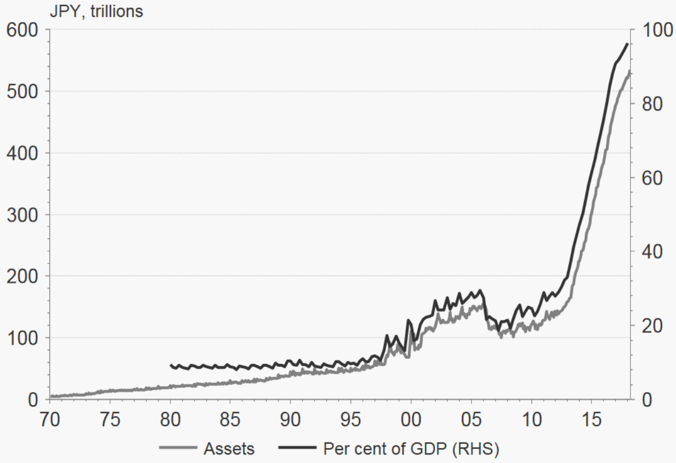
Equities – N225: NEUTRAL. Central point 23,094. Exit 25,400

Bonds – Govies: NEGATIVE. Target yield 0.10%

Forex – USDJPY: NEUTRAL. Mid-term target 111.2

**Bank of Japan assets**

JPY, trillions

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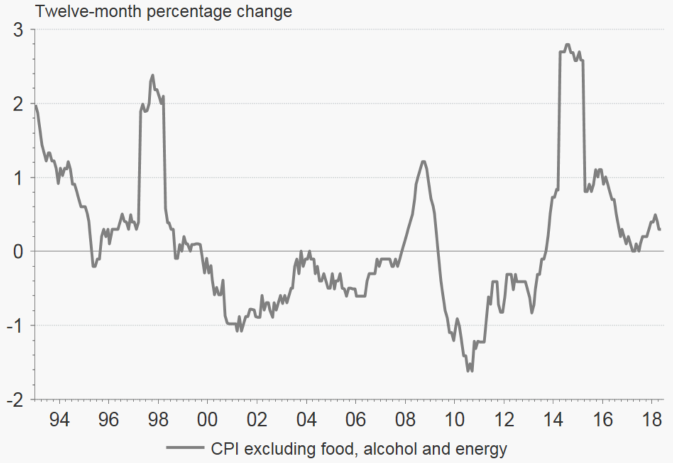
**Japan core CPI**

Twelve-month percentage change

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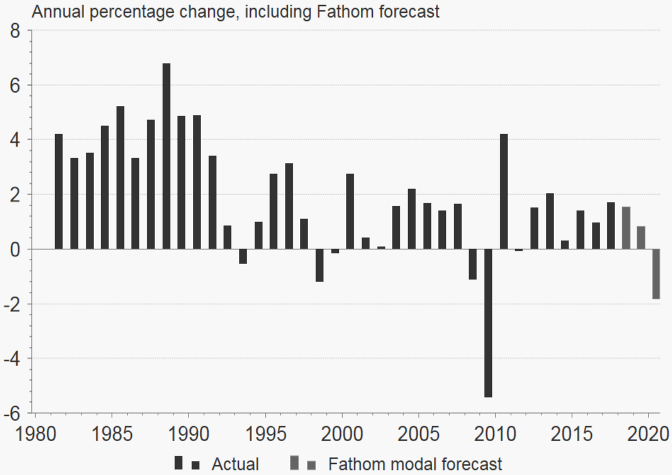
**Japan GDP**

Annual percentage change, including Fathom forecast




*Fuente: Thomson Reuters Datastream / Fathom Consulting*

# CHINA

## China says it does not want US trade frictions to escalate.

**Trade: ZTE saved from brink after deal with US**

Chinese ZTE secured a lifeline from the Trump administration on Thursday after agreeing to pay a $1B fine and overhaul leadership in a deal that will lift a ban on its doing business with US suppliers. ZTE will change its board and management within 30 days, pay a $1B fine and put an additional $400M in escrow. The deal also includes a new 10-year ban that is suspended unless there are future violations. The US Commerce Department decided to ban US component suppliers from selling to the company for seven years, as punishment for ZTE's violation of sanctions on Iran and North Korea. In response to this, Beijing started investigations over memory-chip makers Micron Technology, Samsung Electronics, and SK Hynix. China's Commerce Ministry spokesman Gao Feng said that the country does not want an escalation of trade frictions with the US, and that some specific progress was made in the latest round of talks.

**PBOC: Expansion of MLF collateral eligibility signals an easier policy stance**

The PBOC expanded the eligible collateral requirements for medium-term lending facility (MLF) loans to bonds with AA credit rating, compared to AAA prior. This was a positive response to rising defaults and will significantly increase the amount of available collateral.

**Reforms (financial market opening)**

China starts trial implementation of CDR rules: The China Securities Regulatory Commission (CSRC) released rules on a pilot program for China Depository Receipts (CDR), which enable innovative Chinese companies listed off-shore to trade in the domestic market. According to the report, qualified innovative firms can submit applications for CDR issuance to the CSRC from Thursday 7th June.

**Hard data remains solid**

China's GDP growth will remain at around 6.7-6.8% in Q2, with 2018 growth to finish at about 6.6%. Going forward, downside risk factors for H2 include tighter credit conditions among small businesses, downward pressure on real estate investment, and uncertainties on the outlook for external demand.

Exports +12.6% y/y vs consensus +10.0% and +12.9% in prior month. Imports +26.0% y/y vs consensus +18.7% and +21.5% in prior month. May trade balance $24.9B vs consensus $31.9B and $28.8B in prior month.

May Caixin services PMI 52.9 vs 52.9 in prior month. Composite index 52.3 vs 52.3 in prior month

**Market dynamics**

China's three most popular ETFs in 2018 all track smaller stocks, luring some $3B in net new assets, accounting for nearly 60% of all stock fund inflows in Shanghai or Shenzhen.

**Financial markets outlook**

Equities – SHANGHAI index: POSITIVE (central point 3.102)

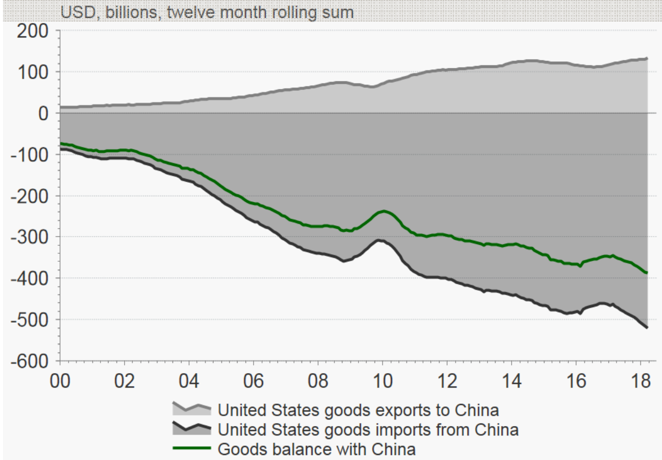
Equities – SHENZHEN Index: POSITIVE (central point 1.762)

Bonds – Govies: POSITIVE (target yield 3.25%)

Forex – CNY/USD: POSITIVE (Fundamental target 6.25)

**A trade war with China, lost long ago**

USD, billions, twelve month rolling sum

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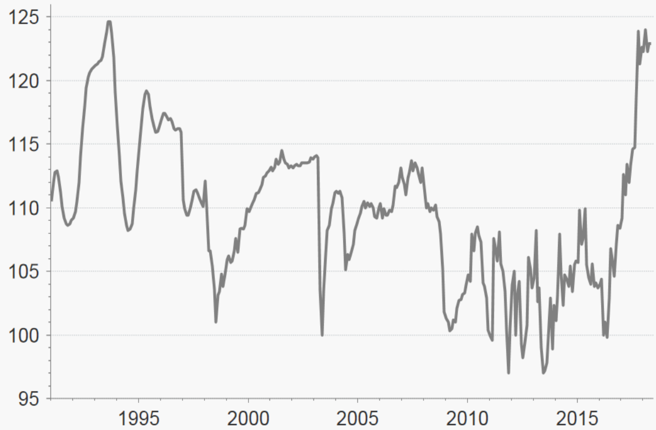
**China NBS consumer confidence index**

Index, 100 = balanced view

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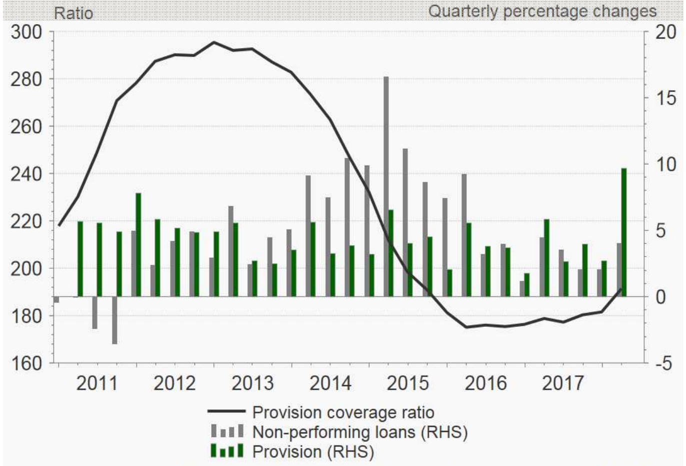
**China commercial banks provision coverage**

Ratio
Quarterly percentage changes

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# INDIA

## Commitment to reform has come at a cost to Modi

**2018 has been a slog for Indian equities so far. Why?**

Despite an economy that remains among the fastest growing in the world, a slew of external and domestic worries have kept market bulls at bay. External headwinds: (1) Crude prices that have risen from US$45 to above US$70 a barrel in just a year could inflict pain on an economy that imports most of the oil it consumes. (2) Dollar strength brought the rupee to a five-year low and this could further impinge on inflation and already hawkish monetary policy. (3) Add to the mix geopolitical risk, with China-US trade tensions threatening to spill over to other parts of Asia. Domestic headwinds: (1) The re-introduction of a long-term capital gains tax has raised the hurdle rate for returns, and (2) fraud at the country's second largest bank have weighed on the market recently.

**We continue to view India as among our favored Asian markets**

Amid the disparity between the macro and political uncertainty and what we're hearing from companies on the ground, we continue to view India as among our favored Asian markets, with a plethora of quality businesses to choose from, coupled with the structural positives of a young population and expanding middle class. The recent market weakness has brought valuations down to levels that are more in line with Asian peers. And if stocks were to fall further, we will buy more of the stocks we like. Over the long term, India still has much to offer.

**Outlook: Reforms set the scene well for economic prospects, but at a political cost to Modi**

Meanwhile, Prime Minister Narendra Modi has been following his reform agenda to the letter. First demonetisation, then GST, followed by digitisation, the bankruptcy act and the land bill. They are being set in place one after another. While some reforms have induced acute short-term pain, they set the scene well for economic prospects over the long run. Take GST, for instance. It widens the tax base, simplifies businesses and cuts red tape. Such commitment to reform has come at a cost to Modi, who is less popular today. In the Karnataka assembly elections, the Bharatiya Janata Party (BJP) with 104 seats emerged as the single largest party in the state but failed to cross the half-way mark of 112 in the 224-member assembly constituency. The Indian National Congress is at the second position with 78 seats while the Janata Dal-Secular (JD-S) became the third party with 38 seats. Both Congress and JD(S) have decided to come together to form a coalition government. Modi is facing key local and state polls ahead of the 2019 general elections. With three more state elections to come this year, pundits are divided over whether Modi would be able to keep his majority in next year's general election or be forced into cobbling together a coalition.

**Reforms: Banking sector**

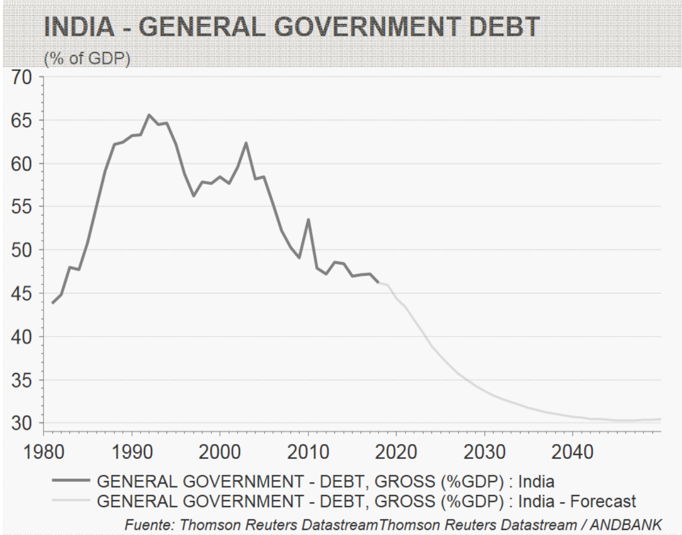
The government would be considering the merger of at least four state-run banks. India's banks saw a further surge in bad loans in the March quarter after the central bank withdrew half a dozen restructuring schemes and tightened other rules.

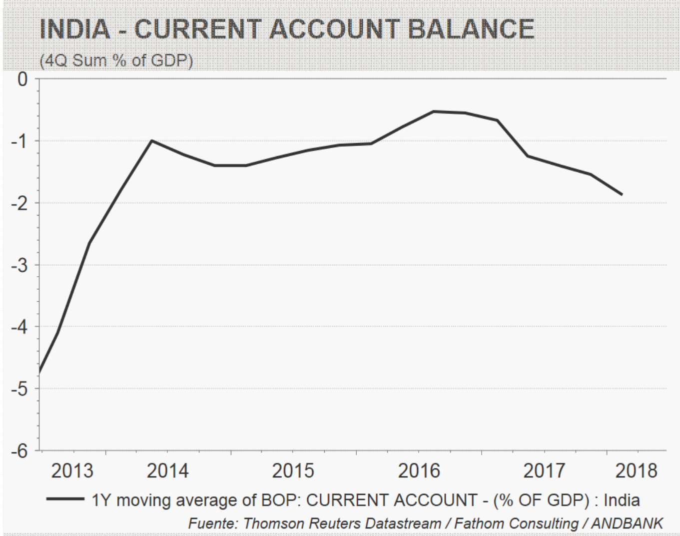
**Financial markets outlook**

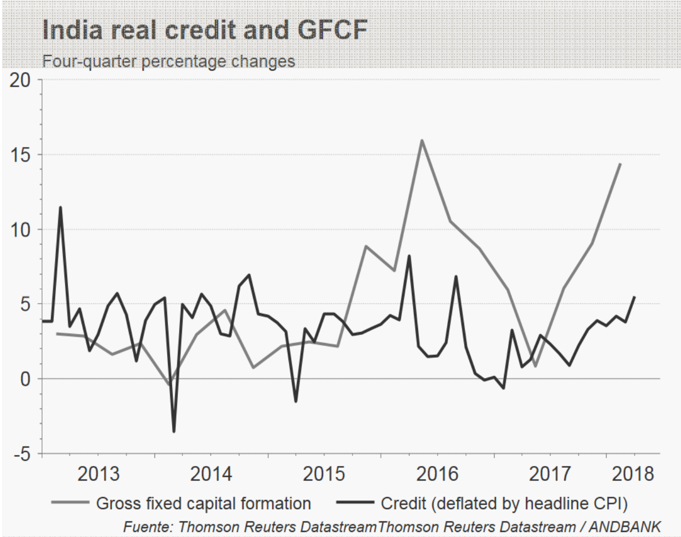
Equities – SENSEX Index: POSITIVE (central point 36,000)

Bonds – Govies: POSITIVE (target yield 6.75%)

Bonds – Corporates: POSITIVE



# MEXICO
## Politics & NAFTA still weigh

### Politics & NAFTA

The INE recently held the last presidential debate on the road to the 2018 elections in July. The latest polls show no relevant change in voting intentions; in fact, the best positioned candidate has improved his lead (AMLO 50% vs. Anaya 28%).

On NAFTA: The chances of an agreement in 2018 have faded, and now the possibility of a "soft" NAFTA will become more complicated as the presidential elections in Mexico approach.

### Economic outlook

1Q18 GDP growth was about 1.13% QoQ (2.33% YoY), with exports continuing to advance before major changes foreseen in NAFTA. Annual CPI move down to 4.51% YoY in May, below analysts' forecasts, thanks to a lower contribution of electric energy and a moderate fall in some agricultural prices. Although the inflation trend has continued to be downward, the latest report shows that non-core inflation has moderated its bias. The medium and long-term perspectives have remained anchored around 3.50%.

### Central Bank & Inflation

The Mexican peso advanced on June 22, marking its best week in more than 11 months, after the local central bank raised the benchmark rate to 7.75% from 7.50%. The Governing Council of Banxico was highlighting some risks for inflation in the near future, such as: External factors, the relative monetary policy with FED, renegotiation of NAFTA and elections. Looking further ahead, Banxico expects downward pressure on prices (official forecasts are for the CPI to close 2018 around 4%-4.5%, approaching the official long-term goal of 3% +/-1% in 2019).

### Market sentiment

***Equities:*** Lack of acceleration in the growth rate, Nafta and elections are risk-off events that will continue to produce some volatility. Much like in FX, it's the best- and worst-case outcomes that matter to equities. We stick with our current central scenario for a NAFTA that should survive, but don't get complacent. Resolution is unlikely before 2019 & execution risks remain. Valuations are moderate (P fw at 16.2x) and our earnings forecasts are realistic (+5.7% in EPS). This leads us to set our fundamental target in the 46,000-53,000 area, with a central target at the 48,400 point. Current consensus for the Mexican equity market is to overweight. Key drivers for the rest of the year will be: (i) LatAm reforms and political developments; (ii) global liquidity evolution and the pace of Fed rates adjustments; and (iii) LatAm GDP growth acceleration.

***Fixed Income:*** We still expect some pressure as a result of the political context and FED's normalization path. Our target is for a yield in the 10Y Mexican bono of 8.00-8.50%. For the USD denominated bonds we think the spreads could remain in the 130-150 bps area and if there's an overshoot, it could go towards 200 bps, with yields remaining close to 4.50% (4.30% current level). If NAFTA disappears, both spreads would be higher, affected by economic expectations and a possible sovereign rate downgrade.

### Financial markets outlook

Equities – Mex IPC: NEUTRAL (Target 48,400). Exit 51,500

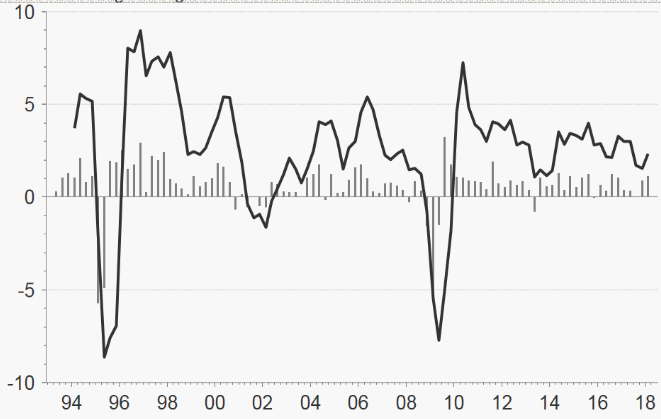
Bonds – Govies Local: NEUTRAL (target spread 500, yield 8.2%)

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

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

**Mexico GDP**

Percentage changes




Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

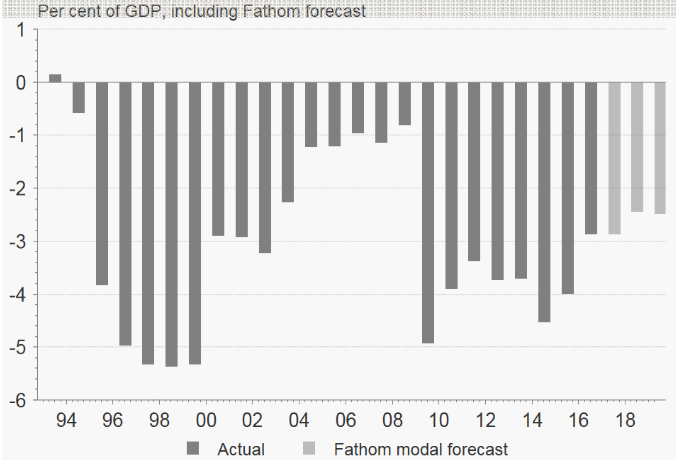
**USDMXN exchange rate**

Spot rate


Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

**Mexico budget balance**

Per cent of GDP, including Fathom forecast




Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

# BRAZIL

## Market adds an important risk premium to Brazil

**Elections: No changes so far, fragmentation persists**

Electoral polls continue to display a scenario of fragmentation and uncertainty. Jair Bolsonaro is somewhat steady, with 20% of the valid votes. The second place is currently being disputed by Marina Silva and Ciro Gomes, whereas Geraldo Alckmin has stalled below 10%. Despite the fact that we are still four months away from the elections, the absence of a strong center-right candidate in the current polls contributes to the stress in the financial markets. The number of candidates is still high, but we believe that it willl be reduced as we approach the election.

**Truckers' strike and a weakened government**

The continued increases in oil prices and the lower margins have put pressure on the truck drivers business, triggering a strike in late May. The central government, weakened by the corruption charges and all-time lows in popularity, responded poorly, giving in to the truckers' demands for lower oil prices and minimum fares. Surprisingly, the general public has supported the truckers' strike, revealing the widespread strong anti-government feeling. The short-term effects on growth are negative, but these tend to be dissipated.

**Monetary policy: Central Bank acts to curb the turmoil**

The latest developments in the Brazilian economy and politics, along with external factors and poor domestic technicals, have contributed to a pronounced spike in both FX and interest rates. The futures curve is now pricing a 200 bps Selic hike in the next five meetings. The Central Bank has acted heavily on the FX market, with swap contract offerings (USD 20 billion), providing a hedge, and has signaled that monetary policy is separated from FX policy.

**Economic activity: Better data lately. Fiscal is improving**

Latest economic data were more positive, some are already incorporating effects from the truckers' strike. The IBC-Br index rose by 0.46% in April, below the median market expectation of 0.60%. Inflation came in slightly stronger in May, at 0.40% m/m (versus a median expectation of 0.30%). Headline numbers have been affected by higher fuel prices. Government revenues, on the other side, surprised positively again, growing 15% y/y in May.

**Market sentiment**

*Stocks:* The economic recovery and lower interest rates should help boost companies' results, but much of the effect has already been priced in by the equity market. We keep our fw PE at 14.5, and our projected EPS at 5,978, resulting in a target price of 84,000). *Bonds:* Long-term public debt dynamics will be dependent on reforms, and thus on elections. In the short term, bond yield will likely remain stable. We believe that the local 10Y bond will be at 9.50%-10% by end of the year. Long-term real interest rates, NTN-B 2026, is currently at 5.75% p.a. (our target for Dec/18: 4.55% p.a.).

FX: Despite political uncertainty, we should see BRL trading at slightly stronger levels, such as BRL 3.40-3.50/USD at year end

**Financial markets**

Equities – IBOVESPA: NEUT-POSIT (Target 84,000). Exit 88.200

Bonds – Gov. Local: POSITIVE (target yield 10%)

Bonds – Gov. USD: POSITIVE (target yield 5.3%. Spread 210bp)

Fx – BRL/USD: POSITIVE (mid-term target 3.50)

**Brazil Bovespa**

Total return index, thousands, LCU

Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

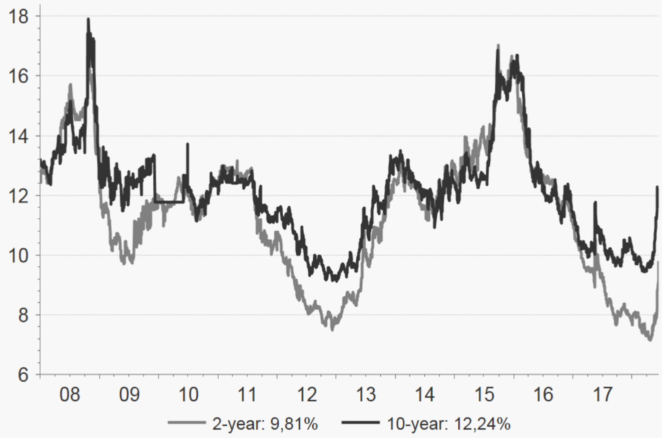
**Brazil price/earnings, Datastream index**

Ratio

Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

**Brazil benchmark government bonds**

Yield, per cent




Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK

# ARGENTINA
## IMF's USD 50bn loan exceeds expectations

### Stand-By Arrangement (SBA) and fiscal commitments

The agreement announced on June 8th for a 36-month IMF SBA amounted to USD 50 b- (11 times Argentina's quota in the IMF and way above the expected USD 30 b-). Another USD 5.65bn were secured in credit lines with the World Bank, IADB and CAF.

### Tighter primary deficit to speed up fiscal consolidation

Tighter primary deficit targets were fixed to speed up fiscal consolidation: -2.7% primary deficit target for 2018, -1.3% for 2019, primary equilibrium for 2020, and 0.5% primary surplus for 2021. Although they may look highly demanding, these targets seem attainable. The primary deficit was considerably reduced again in May. For the month, total revenues were $209,415 million (+33.4% yoy), while primary expenses reached $217,233 million (17.9% yoy). In the first five months of the year, the primary deficit was $49,161 million, decreasing 43.7% yoy. More importantly, at the end of May the primary deficit represents only 14% of the primary deficit target for 2018. With a longer-term view, fiscal savings will mostly come from reductions in capital spending but also from cuts in economic subsidies and lower personnel spending and transfers to provinces.

### Central Bank

The government wants to send a bill to the Congress improving the BCRA's independence, granting officials the authority to set inflation targets and, more importantly, ending both direct and indirect monetary financing of the Treasury. The issuance of two bonds for USD 4bn (ARGTES 20s & 1-year dual-currency) will help the BCRA repay or repurchase LEBACs. Also, the Treasury is committed to improving the BCRA's balance sheet by repurchasing non-transferrable bills, enabling the Central Bank to use the proceeds to again reduce the stock of LEBACs. Meanwhile, banks' global net FX position is reduced to 5% from 10% (to boost offer in spot market), and banks' minimum reserve requirements were raised by a total of 500 bps to 19%.

### Politics

We should expect more political noise in coming months as some factions of the Peronist party will likely continue to play hard ball. Some unions who respond to hardline Peronist parties are calling for a national strike in the next few weeks. The government is in a weak position, and a negative aspect of this weakness is that there is no legislative agenda. Labor reform is unlikely to be discussed in Congress. Macri is still a solid candidate for the 2019 Presidential elections and the divisions within the Peronist party are still notable, with the lack of leadership preventing the opposition from capitalizing on the decline in Macri's image.

### External position

The current account deficit, which is currently around 5% of GDP, should contract by 1p.p. in 2019 (to 4%), as the real exchange rate depreciated significantly, which should encourage a higher exporting dynamism.

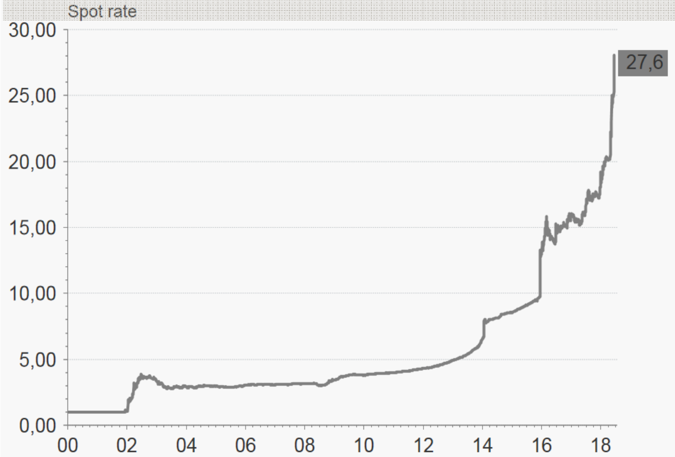
### Financial Market Targets

Bonds – 10YGov USD: POSITIVE. Target yield 6.70%. Target spread 350 (current 528)

Fx –USD-ARS: NEGATIVE (year-end target 28)

**USDARS exchange rate**

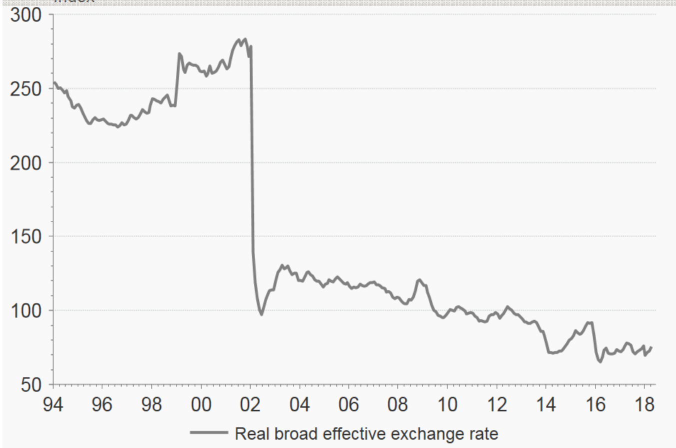
Spot rate




*Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK*

**Argentina real broad EER**

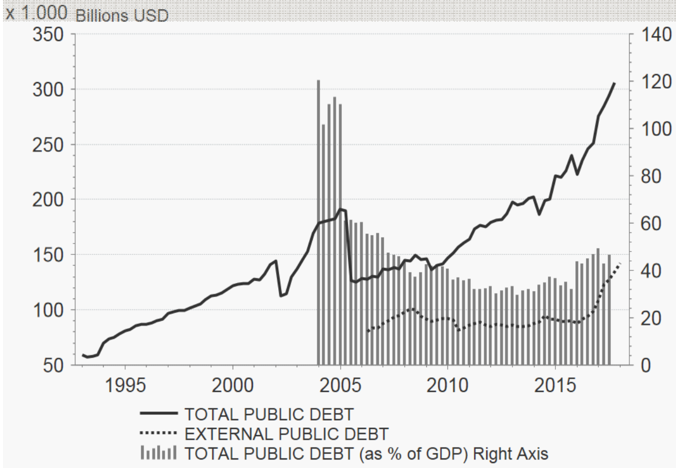
Index




*Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK*

**ARGENTINA - TOTAL & EXTERNAL DEBT**

x 1.000 Billions USD




*Fuente: Thomson Reuters DatastreamThomson Reuters Datastream / ANDBANK*

GLOBAL EQUITY INDICES

## Fundamental assessment

| Index | Andbank's Sales growth 2018 | Sales per Share 2018 | Andbank's Net Margin 2018 | EPS 2018 | EPS Growth 2018 | Current PE with EPS 2017 | Current PE Fw EPS 2018 | PE estimate at Dec 18 EPS 2018 | INDEX CURRENT PRICE | 2018 Central Point Fundam range | 2018 E[Perf] to Centr. Point | 2018 Exit Point |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USA S&P 500 | 5,6% | 1.301 | 12,17% | 158,3 | 18,8% | 20,51 | 17,27 | 17,15 | 2.734 | 2.715 | **-0,7%** | 2.987 |
| Europe - Stoxx Europe 600 | 5,2% | 313 | 8,19% | 25,7 | 6,6% | 15,83 | 14,85 | 16,00 | 381 | 411 | **7,7%** | 439 |
| Euro Zone - Euro Stoxx | 5,2% | 367 | 7,15% | 26,2 | 6,4% | 15,35 | 14,43 | 15,75 | 378 | 413 | **9,2%** | 454 |
| Spain IBEX 35 | 5,0% | 7.834 | 9,00% | 705 | 3,3% | 14,14 | 13,70 | 15,00 | 9.657 | 10.576 | **9,5%** | 11.633 |
| Mexico IPC GRAL | 7,2% | 35.891 | 8,03% | 2.881 | 5,7% | 17,32 | 16,38 | 16,80 | 47.207 | 48.407 | **2,5%** | 51.553 |
| Brazil BOVESPA | 7,2% | 56.514 | 10,26% | 5.798 | 11,6% | 13,95 | 12,51 | 14,50 | 72.508 | 84.064 | **15,9%** | 88.267 |
| Japan NIKKEI 225 | 5,1% | 21.099 | 5,92% | 1.248 | 6,6% | 19,02 | 17,84 | 18,50 | 22.270 | 23.094 | **3,7%** | 25.403 |
| China SSE Comp. | 7,1% | 2.831 | 8,77% | 248 | 7,5% | 12,34 | 11,48 | 12,50 | 2.848 | 3.102 | **8,9%** | 3.412 |
| China Shenzhen Comp | 7,3% | 968 | 8,67% | 84 | 9,3% | 20,95 | 19,16 | 21,00 | 1.608 | 1.762 | **9,6%** | 1.938 |
| India SENSEX | 9,2% | 15.530 | 11,06% | 1.717 | 12,1% | 23,13 | 20,63 | 21,00 | 35.423 | 36.063 | **1,8%** | 39.669 |
| MSCI EM ASIA (MXMS) | 6,8% | 454 | 9,59% | 44 | 8,8% | 13,53 | 12,43 | 14,40 | 541 | 627 | **15,8%** | 690 |

UPWARD REVISION DOWNWARD REVISION

*ANDBANK ESTIMATES*

GLOBAL EQUITY INDICES: RISK-OFF PROBABILITY

## Tactical assessment

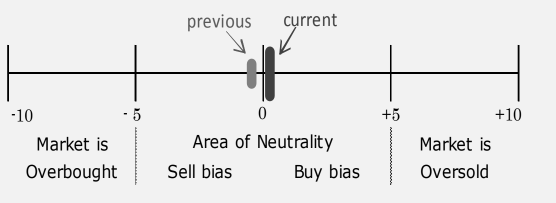
**Andbank GEM Composite Indicator: We remain in an area of neutrality. No imminent risk of a sustained sell-off.**

Our broad index has remained stable close to the zero point area (in a range of -10/+10), settling in an area that suggests that the equity market is no longer overbought and, thus, the risk of a sustained and justified fundamental sell-off is now low.

**Risk Composite Indicator (Breakdown)**

| | Previous Month | Current Month |
|---|---|---|
| Buy signals | 3 | 5 |
| Positive Bias | 2 | 2 |
| Neutral | 9 | 6 |
| Negative Bias | 4 | 5 |
| Sell signals | 3 | 3 |
| **FINAL VALUATION** | **-0,5** | **0,2** |

Risk Composite Indicator




TECHNICAL ANALYSIS

## Trending scenario. Supports & resistances (1 month)

**S&P: SIDEWAYS-BULLISH**
Support at 2,594. Resistance at 2,800.

**STOXX600: SIDEWAYS**
Support at 380. Resistance at 404.

**EURO STOXX600: SIDEWAYS**
Support at 3363. Resistance at 3600

**IBEX: SIDEWAYS**
Support at 9.327. Resistance at 10.400.

**€/$: SIDEWAYS-BULLISH**
Support at 1,14. Resistance at 1,21.

**Oil (WTI): SIDEWAYS-BULLISH**
Supports at 61.8. Resistance at 72,9.

**Gold: SIDEWAYS**
Supports at 1.277. Resistance at 1.365

**US Treasury: SIDEWAYS (price perspective)**
Supports at 2.71%. Resistance at 3.22%.

DEVELOPED MARKETS

# Fundamental assessment

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

**Swap spread:** The swap spread rose to 7.4bps (from +3.1bps last month). For this spread to normalize at +10bps, with the swap rate anchored in the 2.2% area (long-term inflation expectation), the 10Y UST yield would have to move towards 2.1%.

**Slope:** The slope of the US yield curve flattened again during the month and was fixed at 35bps (from 51bps). With the short end normalizing towards 2.25 % (today at 2.5%), to reach the 10Y average slope (of 175bps) the 10Y UST yield would have to move to 4%.

**Real yield**: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a “BUY”.

**GER Bund: Floor 0.80%. Fair value 1.05%. Ceiling 2.4%**

**Swap spread:** The swap spread ticked up to 57bps (from 51bps last month). For the swap spread to normalize at 35bps, with the swap rate anchored in the 1.40% area (today at 0.9%), the Bund yield would have to move towards 1.05% (entry point).

**Slope:** The slope of the EUR curve flattened at 101bps (from 119bps last month). If the short end “normalizes” in the -0.50% area (today at -0.70%), to reach the 10Y average yield curve slope (130bps) the Bund yield would have to move to 0.80%.

**Real yield:** A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI forecast of 1.4%, the Bund yield would have to rise to 2.4% to become a “BUY".

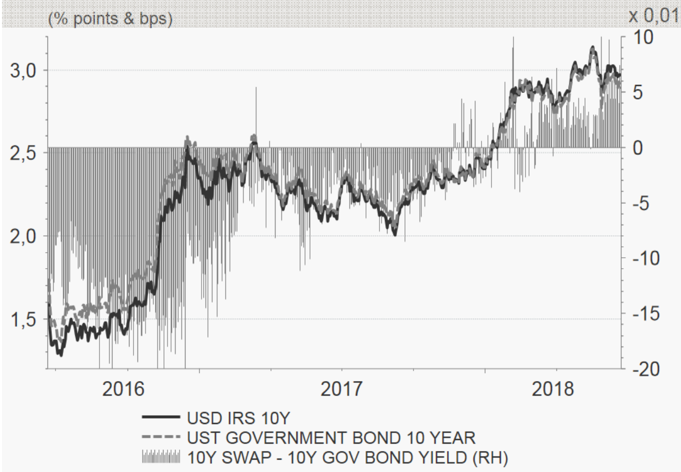
**UK Gilt: Fair value 2.3%. Ceiling 3.6%**

**Swap spread:** The swap spread ticked up to 22bps (from 16bps last month). For the swap spread to normalize at 14bps, with the swap rate anchored in the 2.5% area (today at 1.54%), the 10Y UK Gilt should shift to 2.36%.

**Slope:** With 2Yr normalized at 2%, to reach the average slope at 1.62%, the 10Yr Gilt should move to 3.62%.

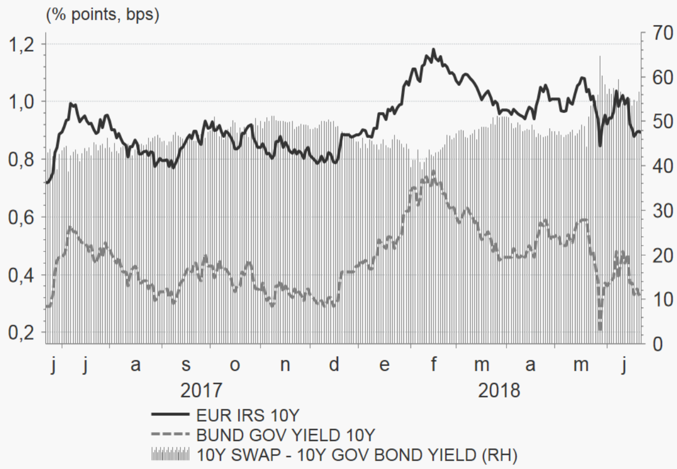
**Real Yield:** A 1% real yield means the 10Y gilt should be at 3.6%.

## SWAP SPREAD USD




*Fuente: Thomson Reuters Datastream / Fathom Consulting*

## SWAP SPREAD EUR




*Fuente: Thomson Reuters Datastream / Fathom Consulting*

EUROPEAN PERIPHERAL BONDS

# Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.60%
Italian bond BTPI: Target yield at 2.70%
Portuguese Gov bond: Target yield at 2.20%
Ireland Gov bond: Target yield at 1.10%
Greece Gov bond: Target yield at 4.50%

EMERGING MARKET BONDS

# Fundamental targets

To date, our rule of thumb for EM bonds has been “buy” when the following two conditions are met: 1) the US Treasury real yield is at or above 1%; and 2) EM bond real yields are 1.5% above the UST real yield.
Assuming that the first condition is met, we should only buy those EM bonds offering a real yield of 2.50% or more.

| | | 10 Year Yield Nominal | CPI (y/y) Last reading | 10 Year Yield Real | Projected change in Yield | Target Yield |
|---|---|---|---|---|---|---|
| EM ASIA | Indonesia | 7,75% | 3,23% | 4,52% | -1,00% | 6,75% |
| | India | 7,90% | 4,91% | 2,99% | -0,75% | 7,15% |
| | Philippines | 6,46% | 4,60% | 1,86% | -0,50% | 5,96% |
| | China | 3,47% | 1,80% | 1,67% | -0,50% | 2,97% |
| | Malaysia | 4,19% | 1,81% | 2,39% | -0,75% | 3,44% |
| | Thailand | 2,55% | 1,54% | 1,01% | -0,50% | 2,05% |
| | Singapore | 2,51% | 0,32% | 2,19% | -0,75% | 1,76% |
| | South Korea | 2,48% | 1,55% | 0,93% | 0,00% | 2,48% |
| | Taiwan | 0,92% | 1,72% | -0,81% | 1,00% | 1,92% |
| EME | Turkey | 16,02% | 12,15% | 3,87% | -1,00% | 15,02% |
| | Russian Fed | 7,67% | 2,40% | 5,27% | -1,00% | 6,67% |
| LATAM | Brazil | 11,69% | 1,76% | 9,93% | -1,00% | 10,69% |
| | Mexico | 7,58% | 4,55% | 3,03% | -1,00% | 6,58% |
| | Colombia | 6,62% | 3,16% | 3,46% | -1,00% | 5,62% |
| | Peru | 5,91% | 0,91% | 5,00% | -1,00% | 4,91% |

ENERGY – OIL: US Crude production over the 10M bpd mark

# Fundamental price for WTI at US$50pb. Sell above US$60. Buy below US$40

### Short-term drivers

***(Price Negative)*** **–US unofficially requested for OPEC to raise output by 1M bpd.** The request was made unofficially to Saudi Arabia and other OPEC producers separately, not as a group. OPEC's answer was that any decision would have to be made collectively and taken after debate. The move came at a time when OPEC countries pumped just 31.9M barrels a day last month, unchanged from April (the lowest output level in a year), in an attempt by the cartel to continue to strangle the energy market in order to defend a high price.

***(Price Negative)*** **– Al-Falih and Novak say output increase "inevitable":** Saudi oil minister Khalid al-Falih, following a meeting with his Russian counterpart Alexander Novak, said that "it's inevitable" that OPEC and its non-cartel allies will agree to a gradual output boost. Russia pledged its support for OPEC's plan to raise production by a nominal 1M bpd, despite the target being lower than Russia's target of ~1.5M. Novak said the production decision came independently of any pressure from US President Trump. The moves would still result in a net 1.5M-1.8M bpd supply cut (from the current pact of lowering output by some ~2.8M bpd, largely due to the collapse in Venezuelan production).

***(Price Negative)*** **– Why now an increase in production?** High prices have put the US, Russia and Saudi Arabia on the same page. The NY Times reports that while it is unusual for the US, Russia and Saudi Arabia to find common policy ground, high oil prices have put these three countries in favor of increasing OPEC/non-OPEC output. The Saudis may have been spooked by crude prices rising too fast, while Russian officials would like to export more to help bolster the economy.

***(Price Negative)*** **– Total positioning in WTI across hedge funds and other large investors shrunk to its lowest level since last July**. In the week ended 29-May, longs fell 10%, while shorts increased 29%, reducing the net long position by 14%. That said, net positions in the derivatives market remain long oil (607k contracts, far above the 10-year average of +300k contracts), suggesting that there is still room for some (downward) normalization in the speculators' positions, which invites us to anticipate additional adjustments in the price of crude oil.

***(Price Negative)*** **– Global demand could dip on expected slowdown of Chinese imports**: A slowdown in Chinese demand could further pressure prices. Outlook for Chinese industrial and transport demand is shaky, as freight traffic and electricity production have fallen since Q3-2017 as a result of the significant supply-side reforms undertaken by Beijing (aimed at cutting excess capacity). If we add a slowdown in Europe, this could cause a decline in global demand for crude.

***(Price Positive)*** **–** Saudi oil minister Al-Falih said that his country would do whatever is necessary to keep the market in balance. Russian Novak said that OPEC and its non-cartel allies are already planning an oil-production deal for 2019 to be signed by the end of this year, based in large part on monitoring the market situation and creating a governing body with "the ability to take measures".

### Long-term drivers

(-) Alternative energies picking up the baton: Producers must bear in mind that the value of their reserves is dictated by the amount of time they can pump before alternative energies render oil obsolete. In order to delay this deadline as long as possible, it is in producers' interests to keep oil prices low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible). The head of the latest consortium pursuing the large-scale production of cellulosic ethanol from farm waste says that the outlook looks promising again. "There are remaining process engineering problems to be fixed, but the technology can be competitive with oil at $70/ barrel."

(-) Growing environmental problems will gradually tighten legislation and production levels: The value of producers' reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulations come in. With growing environmental problems that will likely continue to put big pressure on the market for fossil fuels over the coming decades, Riyadh's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Producers therefore have a powerful incentive to monetize as much of their reserves as soon as possible.

(-) The re-entry of Iran was a game changer, and the influence of this as a long-term driver will depend on the number of countries that will continue to adhere to the 2015 agreement with Iran. For now, experts point out that the US withdrawal from the agreement, and the sanctions regime, may affect some 500bpd of Iranian production. No doubt an aspect that puts some upward pressure on the price, but it remains to be seen if that justifies a sustained upward trend.

(-) Are OPEC producers able to structurally fix prices? Back in the 1970s or the early 2000s, the exporters' cartel agreed to cut output and the approach worked well, as the principal competition was among 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 easily be offset (in theory) by a quick increase in shale oil production. While it is true the agreement between the Saudis and Russia to strangle the global energy market has worked well, 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 fix prices without bearing costs.

(-) Shale producers to raise output considerably at $60 a barrel: The IEA has said that an oil price of $60 would be enough for many US shale companies to restart stalled production.

PRECIOUS METALS - GOLD

# Fundamental price for gold at US$1,100/oz. Sell above US$1,300

## Negative drivers

**Gold in real terms:** In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) fell to US$1,103 (from US$1,120 last month). In real terms, gold continues to trade well above its 20-year average of US$830. Given the global deflator (now at 1.1497), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$954.

**Gold to Silver** (Preference for Store of Value over Productive Assets): This ratio ticked down to 77.34x (from 78.16x last month) and still remains well above its 20-year average of 62.14x, suggesting that gold is expensive (at least in terms of silver). For this ratio to reach its LT average, assuming that silver is well priced, then the gold price should go to US$1,019 oz.

**Gold to Oil:** This ratio increased in the month, to 18.39x (from 17.831x last month), still well above its 20-year average of 15.02x. Considering our fundamental long-term target for oil of US$50pb (our central target) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$751 for this ratio to remain near its LT average.

**Gold to the DJI:** This ratio (inverted) ticked down in the month to 19.36x (from 19.41x last month), still below its LT average of 19.85x. Given our central point (target price) for the DJI of 25,000, the price of gold must approach US$1,259 for this ratio to remain near its LT average.

**Speculative positioning**: CFTC 100oz Active Future non-commercial contracts: Longs are fixed now at 203k (from 237.28k last month). Short contracts were trimmed to 106k (from 109k). The net position increased to +96k during the month (from +92k), suggesting that speculators' appetite for gold has remained fairly stable in the last three months.

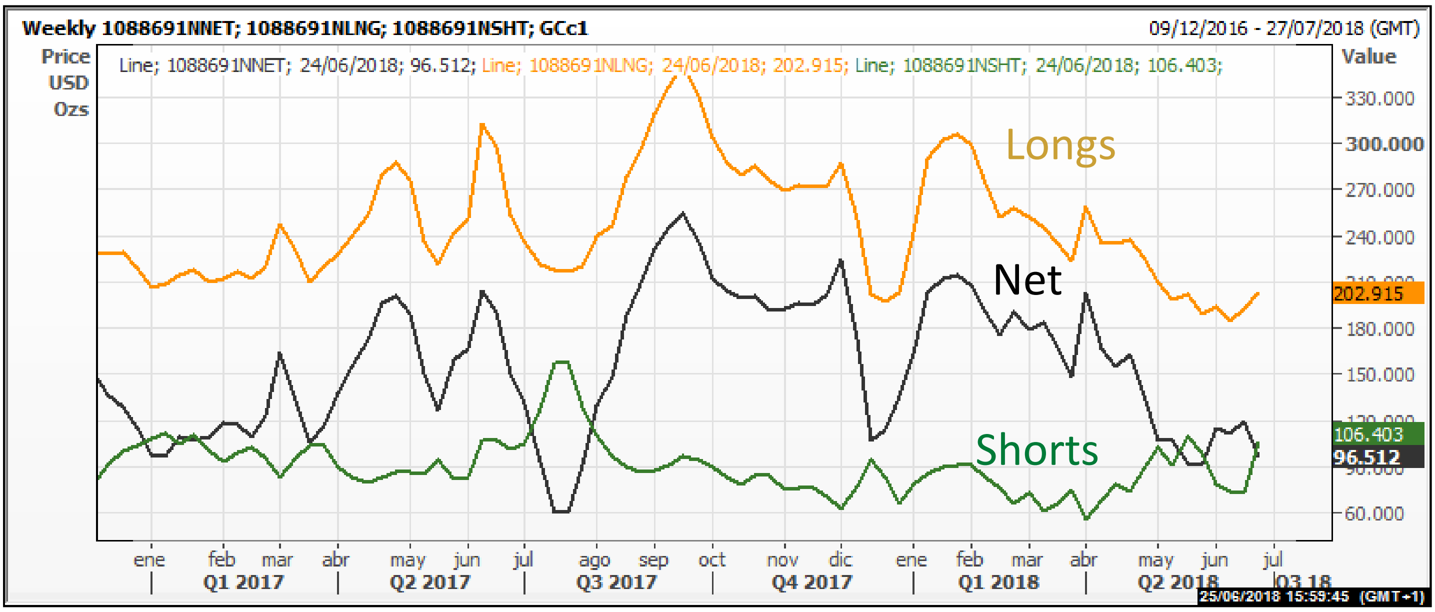
**Financial liberalization in China.** Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

## Positive drivers

**Gold to the S&P500:** This ratio fell to 0.461x (from 0. 472x last month) but is still well below its LT average of 0.593x. Given our target price (central point) for the S&P of $2,715, the price of gold must approach US$1,609 for this ratio to remain near its LT average.

**Negative yields still make gold attractive.** The disadvantage of gold compared to fixed-income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds, although the importance of this factor is diminishing as yields continue to rise.

**Relative share of gold:** The total value of gold in the world is circa US$6.9tn, a fairly small share (3.2%) of the total global cash market (212tn). The daily volume traded on the LBMA and other gold marketplaces is around US$173bn (just 0.08% of the total in the financial markets).



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EXCHANGE RATES

# Fundamental targets

### EUR-USD: Strong resistance at 1.26 // Fundamental mid-term target 1.15

**Flows:** The global positioning in USD has undergone one of the most abrupt changes ever seen (perhaps also due to the relevance of the short positions in USD that were built during 2017). This change has occurred in an environment of central bank meetings and commercial tension between the US and China. The general positioning of the market today is long in USD, with a value of USD10.4bn, which represents a jump of more than $ 17.5bn (the largest change seen in the last 15 years) and the second largest jump in history (after the cut in more than USD19bn seen in October 2006). Though market positioning in USD is positive in absolute terms, this figure is still short compared to the +USD51bn seen in December 2014. The EUR positioning trends in the disaggregated data continue to be mainly driven by a material buildup of leveraged shorts, but asset manager longs in EUR still have not been significantly cut and are still notionally large. **Outlook:** Our **technical analysis** within the Investment Committee indicated three very important things: (1) The EUR/USD continues to face a very strong resistance at 1.26. (2) This resistance level should work well (we therefore believe that the EUR will not cross this resistance). (3) That said, the EUR/USD should be moving back into the longer-term range again; first towards 1.15 and then towards 1.03. Our more **fundamental discussion** sticks with our structural bearish view on the Euro.

**USD-JPY:** Target 111.2; **EUR-JPY**: Target 127.8

Smart Estimates (the forecasters that historically have shown the best results) fix the 2018 target for the USD/JPY at 108 (below our forecast of 111.2). In our view, despite being cheap in REER vs the USD, several aspects suggest that JPY should not appreciate much further: (1) Real yields are lower in JGBs, and with the 10Y JGB controlled at 0% there is little prospect that Japanese real yields will rise; (2) We downplay the tapering option after the BoJ has reiterated that it intends to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unachievable in the short term); (3) Meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (4) The prospect of the Fed shrinking its balance sheet (withdrawing liquidity) makes the USD more attractive (or the JPY less appealing).

**GBP-USD:** Target 1.35; **EUR-GBP**: Target 0.85

**USD-CHF:** Target 0.99; **EUR-CHF:** Target 1.14

**USD-MXN:** Target 19.15; **EUR-MXN:** Target 22

**USD-BRL:** Target 3.5; **EUR-BRL:** Target 4

**USD-ARS:** Target 28

**RUB:** NEUTRAL

**AUD:** POSITIVE

**CAD:** NEUTRAL

**CNY:** Target 6.25. POSITIVE

| Currency | Mkt Value of Net positions in the currency (Bn $) | Change vs last week in the currency (Bn $) | 1-yr Max (Bn $) | 1-yr Min (Bn $) | 1-yr Avg (Bn $) | Current Z-score Z-score 3-yr |
|---|---|---|---|---|---|---|
| USD vs All | 10,38 | 17,48 | 10,4 | -28,2 | -12,4 | **0,25** |
| USD vs G10 | 9,75 | 17,65 | 9,7 | -25,4 | -9,9 | **0,19** |
| EM | -0,64 | 0,17 | 3,9 | -0,8 | 2,5 | **-0,69** |
| EUR | 5,23 | -7,72 | 23,4 | 5,2 | 15,8 | **0,45** |
| JPY | -4,04 | -4,61 | 0,6 | -15,0 | -8,4 | **-0,17** |
| GBP | -1,58 | -2,50 | 4,3 | -4,3 | 0,3 | **0,33** |
| CHF | -4,02 | 0,70 | 0,2 | -5,5 | -1,9 | **-1,91** |
| BRL | -0,75 | 0,02 | 0,7 | -0,8 | 0,0 | **-2,48** |
| MXN | -0,27 | 0,25 | 3,3 | -0,5 | 2,0 | **-0,19** |
| RUB | 0,39 | -0,09 | 1,2 | -0,3 | 0,5 | **-0,09** |
| AUD | -3,18 | -2,03 | 6,1 | -3,2 | 1,8 | **-1,54** |
| CAD | -1,06 | 0,10 | 6,1 | -3,8 | 1,7 | **-0,21** |

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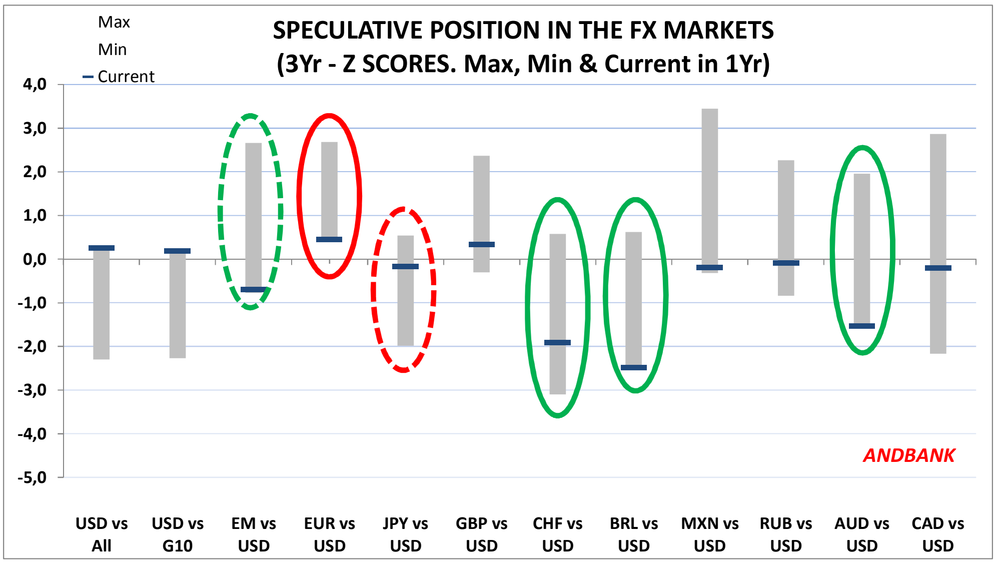


*In green circles, the currencies we technically favor*

## SUMMARY TABLE OF EXPECTED RETURNS



| *Asset Class* | *Indices* | *Performance 1 month* | *Performance YTD* | *Current Price 29/06/2018* | *Central Point (Fundam range)* | *Exp. Perf. To Central Point* |
|---|---|---|---|---|---|---|
| **Equity** | USA - S&P 500 | -0,1% | 1,6% | 2.733 | 2715 | -0,7% |
| | Europe - Stoxx Europe 600 | -1,5% | -3,2% | 381 | 411 | 7,7% |
| | Euro Zone - Euro Stoxx | -1,8% | -3,1% | 378 | 413 | 9,2% |
| | SPAIN - IBEX 35 | 0,3% | -4,5% | 9.659 | 10576 | 9,5% |
| | MEXICO - MXSE IPC | 4,9% | -4,7% | 47.216 | 48407 | 2,5% |
| | BRAZIL - BOVESPA | -6,1% | -6,1% | 72.506 | 84064 | 15,9% |
| | JAPAN - NIKKEI 225 | -0,4% | -2,0% | 22.270 | 23094 | 3,7% |
| | CHINA - SHANGHAI COMPOSITE | -7,4% | -13,9% | 2.848 | 3102 | 8,9% |
| | CHINA - SHENZEN COMPOSITE | -7,9% | -15,4% | 1.608 | 1762 | 9,6% |
| | INDIA - SENSEX | 0,6% | 2,9% | 35.423 | 36063 | 1,8% |
| | MSCI EM ASIA (in USD) | -7,7% | -7,8% | 541 | 627 | 15,8% |
| **Fixed Income Core countries** | US Treasury 10 year Govie | 0,7% | -2,3% | 2,84 | 3,20 | -1,4% |
| | UK 10 year Gilt | 0,1% | -0,1% | 1,27 | 2,00 | -5,2% |
| | German 10 year BUND | 0,6% | 1,2% | 0,30 | **0,80** | -3,9% |
| | Japanese 10 year Govie | 0,1% | 0,1% | 0,03 | 0,10 | -0,6% |
| **Fixed Income Peripheral** | Spain - 10yr Gov bond | 1,0% | 2,6% | 1,31 | **1,60** | -1,7% |
| | Italy - 10yr Gov bond | 0,1% | -4,5% | 2,68 | **2,70** | 1,2% |
| | Portugal - 10yr Gov bond | 1,0% | 1,9% | 1,78 | **2,20** | -2,5% |
| | Ireland - 10yr Gov bond | 1,1% | -0,9% | 0,80 | 1,00 | -1,2% |
| | Greece - 10yr Gov bond | 4,2% | 3,2% | 3,90 | 4,50 | -2,8% |
| **Fixed Income Credit** | Credit EUR IG-Itraxx Europe | -0,1% | -0,7% | 73,70 | 85 | -1,6% |
| | Credit EUR HY-Itraxx Xover | -1,0% | -2,3% | 332,18 | 330 | 0,1% |
| | Credit USD IG - CDX IG | 0,2% | 0,8% | 68,00 | 50 | 1,2% |
| | Credit USD HY - CDX HY | 0,0% | 0,9% | 359,87 | 437 | -0,2% |
| **Fixed Income EM Europe (Loc)** | Turkey - 10yr Gov bond | -12,7% | -31,5% | 16,02 | 13,50 | 36,2% |
| | Russia - 10yr Gov bond | -2,2% | 3,0% | 7,67 | 6,70 | 15,4% |
| **Fixed Income Asia** (Local curncy) | Indonesia - 10yr Gov bond | -5,5% | -8,8% | 7,75 | 6,50 | 17,8% |
| | India - 10yr Gov bond | 0,2% | -1,0% | 7,90 | 6,75 | 17,1% |
| | Philippines - 10yr Gov bond | -2,3% | -8,1% | 6,46 | 5,75 | 12,1% |
| | China - 10yr Gov bond | 1,2% | 4,8% | 3,47 | 3,25 | 5,3% |
| | Malaysia - 10yr Gov bond | 0,1% | -0,3% | 4,19 | 4,00 | 5,7% |
| | Thailand - 10yr Gov bond | 0,3% | -1,1% | 2,55 | 1,85 | 8,2% |
| | Singapore - 10yr Gov bond | 0,4% | -3,2% | 2,51 | 1,57 | 10,0% |
| | South Korea - 10yr Gov bond | 1,4% | 0,4% | 2,48 | 2,00 | 6,3% |
| | Taiwan - 10yr Gov bond | 0,7% | 0,7% | 0,92 | 1,50 | -3,8% |
| **Fixed Income Latam** | Mexico - 10yr Govie (Loc) | 2,9% | 5,2% | 7,53 | **8,20** | 2,2% |
| | Mexico - 10yr Govie (USD) | 0,7% | -4,1% | 4,40 | 4,60 | 2,8% |
| | Brazil - 10yr Govie (Loc) | -2,7% | -6,2% | 11,65 | **10,00** | 24,9% |
| | Brazil - 10yr Govie (USD) | -2,7% | -8,0% | 6,05 | 5,30 | 12,1% |
| | Argentina - 10yr Govie (USD) | -5,9% | -21,2% | 8,79 | **6,70** | 25,5% |
| **Commodities** | Oil (WTI) | 12,8% | 22,8% | 74,2 | 45,00 | -39,4% |
| | GOLD | -3,2% | -3,9% | 1.251,6 | 1.100 | -12,1% |
| **Fx** | EURUSD (price of 1 EUR) | -0,1% | -2,9% | 1,165 | 1,15 | -1,3% |
| | GBPUSD (price of 1 GBP) | -1,3% | -2,5% | 1,32 | 1,35 | 2,5% |
| | EURGBP (price of 1 EUR) | 1,2% | -0,4% | 0,88 | 0,85 | -3,7% |
| | USDCHF (price of 1 USD) | 0,5% | 1,9% | 0,99 | 0,99 | -0,5% |
| | EURCHF (price of 1 EUR) | 0,4% | -1,1% | 1,16 | 1,14 | -1,7% |
| | USDJPY (price of 1 USD) | 1,0% | -1,8% | 110,66 | 111,20 | 0,5% |
| | EURJPY (price of 1 EUR) | 1,0% | -4,6% | 128,92 | 127,88 | -0,8% |
| | USDMXN (price of 1 USD) | -1,5% | 0,0% | 19,64 | **19,15** | -2,5% |
| | EURMXN (price of 1 EUR) | -1,6% | -2,9% | 22,88 | 22,02 | -3,7% |
| | USDBRL (price of 1 USD) | 2,5% | 16,5% | 3,86 | **3,50** | -9,3% |
| | EURBRL (price of 1 EUR) | 2,5% | 13,1% | 4,49 | 4,03 | -10,5% |
| | USDARS (price of 1 USD) | 15,5% | 55,0% | 28,82 | **28,00** | -2,8% |
| | CNY (price of 1 USD) | 3,1% | 1,7% | 6,62 | 6,25 | -5,5% |

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

**UPWARD REVISION** **DOWNWARD REVISION**

ASSET ALLOCATION & RISK TOLERANCE

# Monthly asset & currency allocation proposal

| | Conservative | | Moderate | | Balanced | | Growth | |
|---|---|---|---|---|---|---|---|---|
| **Asset Class** | Strategic (%) | Tactical (%) | Strategic (%) | Tactical (%) | Strategic (%) | Tactical (%) | Strategic (%) | Tactical (%) |
| **Money Market** | **15,0** | **20,1** | **10,0** | **14,6** | **5,0** | **9,6** | **5,0** | **5,5** |
| **Fixed Income Short-Term** | **25,0** | **34,4** | **15,0** | **22,4** | **5,0** | **9,9** | **0,0** | **2,8** |
| **Fixed Income (L.T) OECD** | **30,0** | **19,5** | **20,0** | **13,0** | **15,0** | **9,8** | **5,0** | **3,3** |
| US Gov & Municipals & Agencies | | 13,7 | | 9,1 | | 6,8 | | 2,3 |
| EU Gov & Municipals & Agencies | | 1,0 | | 0,7 | | 0,5 | | 0,2 |
| European Peripheral Risk | | 4,9 | | 3,3 | | 2,4 | | 0,8 |
| **Credit (OECD)** | **20,0** | **16,0** | **20,0** | **16,0** | **15,0** | **12,0** | **5,0** | **4,0** |
| Investment Grade USD | | 8,8 | | 8,8 | | 6,6 | | 2,2 |
| High Yield Grade USD | | 3,2 | | 3,2 | | 2,4 | | 0,8 |
| Investment Grade EUR | | 2,4 | | 2,4 | | 1,8 | | 0,6 |
| High Yield Grade EUR | | 1,6 | | 1,6 | | 1,2 | | 0,4 |
| **Fixed Income Emerging Markets** | **5,0** | **5,0** | **7,5** | **7,5** | **10,0** | **10,0** | **15,0** | **15,0** |
| Latam Sovereign | | 1,3 | | 1,9 | | 2,5 | | 3,8 |
| Latam Credit | | 1,0 | | 1,5 | | 2,0 | | 3,0 |
| Asia Sovereign | | 1,8 | | 2,6 | | 3,5 | | 5,3 |
| Asia Credit | | 1,0 | | 1,5 | | 2,0 | | 3,0 |
| **Equity OECD** | **5,0** | **5,0** | **20,0** | **20,0** | **32,5** | **32,5** | **50,0** | **50,0** |
| US Equity | | 1,5 | | 6,0 | | 9,8 | | 15,0 |
| European Equity | | 2,8 | | 11,0 | | 17,9 | | 27,5 |
| Japan Equity | | 0,8 | | 3,0 | | 4,9 | | 7,5 |
| **Equity Emerging** | **0,0** | **0,0** | **5,0** | **4,5** | **10,0** | **9,0** | **10,0** | **9,0** |
| Asian Equity | | 0,0 | | 2,5 | | 5,0 | | 5,0 |
| Latam Equity | | 0,0 | | 2,0 | | 4,1 | | 4,1 |
| **Commodities** | **0,0** | **0,0** | **2,5** | **2,0** | **5,0** | **4,0** | **5,0** | **4,0** |
| Energy | | 0,0 | | 0,3 | | 0,6 | | 0,6 |
| Minerals & Metals | | 0,0 | | 0,4 | | 0,8 | | 0,8 |
| Precious | | 0,0 | | 0,8 | | 1,6 | | 1,6 |
| Agriculture | | 0,0 | | 0,5 | | 1,0 | | 1,0 |
| **Alternative Investments** | **0,0** | **0,0** | **0,0** | **0,0** | **2,5** | **3,3** | **5,0** | **6,5** |
| REITs | | 0,0 | | 0,0 | | 1,0 | | 2,0 |
| Alt.Energy (wind, solar, etc) | | 0,0 | | 0,0 | | 0,5 | | 1,0 |
| Market Neutral | | 0,0 | | 0,0 | | 1,3 | | 2,6 |
| Volatility | | 0,0 | | 0,0 | | 0,5 | | 1,0 |
| **Currency Exposure (European investor perspective)** | | | | | | | | |
| EUR | | 92,8 | | 86,6 | | 81,2 | | 75,0 |
| USD | | 7,2 | | 13,4 | | 18,8 | | 25,0 |

Strategic and tactical asset allocation are investment strategies that aim to balance risk and reward by apportioning a portfolio's assets according to an individual's risk tolerance, investment horizon, and our own projected performance for each asset class. This recommended asset allocation table has been prepared by Andbank's Asset Allocation Committee (AAC), comprising managers from the portfolio management departments in each of the jurisdictions in which we operate.

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