GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – April 2020

Corporate Review

May 2020

"Take time to deliberate, but when the time for action comes, stop thinking and go in".(NB)

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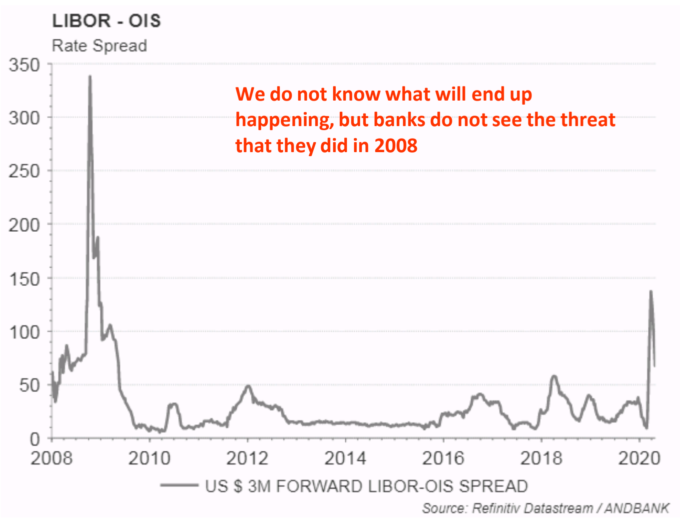
EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

INDEX CURRENT PRICE	2020 Floor Point (Fundam range)	2020 E[Perf] to Floor Point	Recomm	2020 Exit Point
2.897	2.451	-15,4%	UW	2.942
340	313	-8,0%	UW/MW	344
322	303	-5,9%	MW	333
6.922	7.448	7,6%	OW	8.193
36.247	33.067	-8,8%	UW/MW	36.374
80.588	80.784	0,2%	MW/OW	88.862
20.194	18.071	-10,5%	UW	19.878
2.860	2.827	-1,2%	MW	3.110
1.763	1.653	-6,3%	UW	1.818
33.718	31.527	-6,5%	MW	34.679
769	804	4,5%	MW/OW	884
500	496	-0,7%	MW	546

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Indices	*Current Price*	*Fundamental Central Point* 2020	Expected Performance to central point 2020
US Treasury 10 year Govie	0,59	1,40	-6,1%
UK 10 year Gilt	0,23	0,80	-4,4%
German 10 year BUND	-0,60	-0,20	-3,6%
Japanese 10 year Govie	-0,05	0,00	-0,4%
Spain - 10yr Gov bond	0,71	1,00	-1,8%
Italy - 10yr Gov bond	1,74	2,00	-0,9%
Portugal - 10yr Gov bond	0,79	1,15	-2,3%
Ireland - 10yr Gov bond	0,02	0,30	-2,3%
Greece - 10yr Gov bond	2,13	2,30	0,1%
Credit EUR IG-Itraxx Europe	78,83	80	0,3%
Credit EUR HY-Itraxx Xover	481,61	450	4,0%
Credit USD IG - CDX IG	86,60	75	1,4%
Credit USD HY - CDX HY	626,02	768	0,4%

FIXED INCOME EMERGING MARKETS

Indices	*Current Price*	*Fundamental Central Point* 2020	Expected Performance to central point 2020
Turkey - 10yr Gov bond (local)	11,41	13,00	-5,1%
Russia - 10yr Gov bond (local)	6,10	5,70	7,3%
Indonesia - 10yr Gov bond (local)	7,83	6,80	13,5%
India - 10yr Gov bond (local)	6,10	7,00	-3,1%
Philippines - 10yr Gov bond (local)	3,49	3,30	3,8%
China - 10yr Gov bond (local)	2,49	2,50	1,6%
Malaysia - 10yr Gov bond (local)	2,84	2,40	5,5%
Thailand - 10yr Gov bond (local)	1,09	0,70	3,9%
Singapore - 10yr Gov bond (local)	0,86	1,00	-0,5%
Rep. Korea - 10yr G. bond (local)	1,34	1,30	1,3%
Taiwan - 10yr Gov bond (local)	0,46	0,50	-0,1%
Mexico - 10yr Govie (Loc)	6,50	6,90	1,2%
Mexico - 10yr Govie (USD)	4,58	3,40	12,5%
Brazil - 10yr Govie (Loc)	7,48	7,40	5,7%
Brazil - 10yr Govie (USD)	5,63	4,90	9,6%

COMMODITIES

Indices	*Current Price*	*Fundamental Central Point* 2020	Expected Performance to central point 2020
Oil (WTI)	18,3	40,00	118,5%
GOLD	1.696,0	1.600	-5,7%

USA

Only political pressure could prompt a faster reopening

Economic impact

Market estimates show that around 25 million jobs will be lost during the lock-down (22 million initial jobless claims were filed over the last four weeks, which will temporarily push the employment rate to 20%). Looking ahead, some of these lost jobs will be quickly recovered, though estimates suggest that unemployment could remain above 10% until a vaccine is available. If true, household spending will be reduced. As of today, total retail and food services sales tumbled 8.7% in March; needless to say that this was a record decline for the series that dates back to 1967. The sharp drop wasn't limited to consumer spending. On the manufacturing side, a -5.4% drop was recorded in total manufacturing (including mining and utilities). Separately, housing starts and permits both fell noticeably between February and March, although the levels of activity reported for the month weren't especially weak relative to the past several years. April figures will presumably be even worse, just to start a mild recovery in May. The Trump administration's plans to return to work provides guidelines for states to follow in their pursuit of opening America back up for business. It's a multi-phased program with relatively easy milestones to be achieved, while leaving the final decision up to individual states on when and how to get back to normal. In some states (California) there is a chance that activity will pick up in late April but in other areas (New York) restrictions have been extended to the mid-of May, with the risk of seeing extensions ahead. Nevertheless potential political pressure in an election year is a factor to be considered, with protests already mounting in some states and people demanding to return to work. Consumers may be starting to shift from protecting themselves from the virus to worrying about their own jobs and financial health. This may lead to a faster reopening and activity picking up in June-July.

Monetary & Fiscal response

The Federal Reserve cut the funds rate by 150bp in two steps to 0-0.25%; provided soft forward guidance, and will purchase US Treasuries and agency MBS "in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy". It also displayed a large battery of programs: 1) The Commercial Paper Funding Facility (CPFF) to fund a SPV that purchases unsecured and asset-backed commercial paper. 2) The Primary Market Corporate Credit Facility (PMCCF) provides IG firms access to new bond and loan issues. 3) The Secondary Market Corporate Credit Facility (SMCCF) purchases corporate bonds issued by US IG firms and ETFS. 4) The Term Asset-Backed Securities Loan Facility (TALF) supports ABS issues, backed by student loans, auto loans and credit card loans. 5) The Primary Dealer Credit Facility (PDCF) offers credit to primary dealers, which can be collateralized by investment grade debt and equity securities. 6) The Money Market Mutual Fund Liquidity Facility (MMLF). 7) The Main Street Lending Program will facilitate loans through commercial banks for businesses with up to 10K employees or $2.5bn in 2019 revenues. 8) Phase 2 package (worth around 0.75% of GDP) increases fiscal aid to states. 9) The Treasury will delay up to $300bn (1.4% of GDP) in tax payments due April 15 for up to 90 days. 10) Phase 3 package totaling about $2 trillion (9.5% of GDP) became law on March 27, and includes forgivable small business payroll loans and loan guarantees, direct payments to individuals, expanded unemployment insurance, fiscal aid to states and federal spending. 11) Congress passed $484 in additional fiscal stimulus, including $310bn in funding for small business lending program. 12) The Phase 4 package is in preliminary stages. We expect this phase to be worth several hundred billion dollars and focus on fiscal aid to states.

Financial market assessment

Equities – S&P: UNDERWEIGHT (Target 2,451. Exit point 2,942)

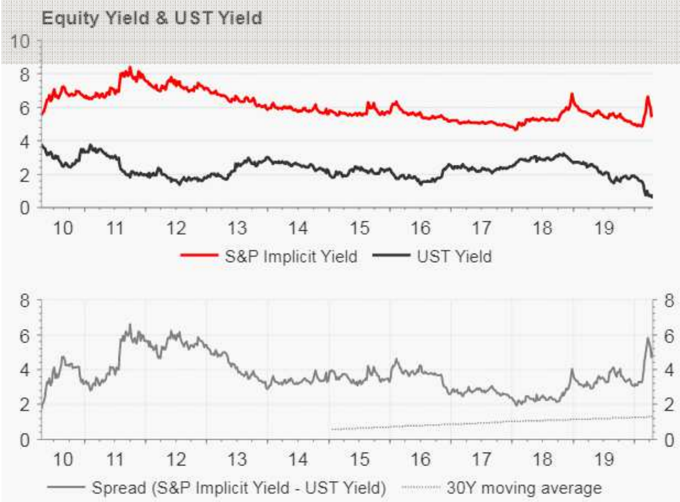
Bonds – Govies: UNDERWEIGHT. (10Y UST Entry point 1.4%)

CDX IG: MARKETWEIGHT (Target Spread 75)

CDX HY: UNDERWEIGHT (Target Spread 768)

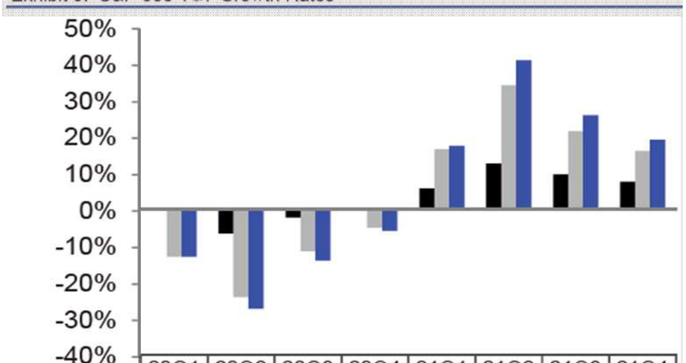
Forex – DXY index: MARKETWEIGHT

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

Exhibit 5. S&P 500 Y/Y Growth Rates



	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Revenue	0.3%	-6.7%	-2.3%	-0.3%	5.6%	12.5%	9.5%	7.4%
Net Income	-13.0%	-24.1%	-11.5%	-5.1%	16.4%	34.0%	21.4%	15.9%
Earnings	-13.0%	-27.3%	-14.1%	-5.9%	17.3%	40.8%	25.7%	19.0%

EUROPE

Gradual and disparate exit strategies

European Equity Market

For the European Stoxx 600 index we expect a drop in profits for the first quarter of around -6% (activity, sales and profits were normal in January and February. The pandemic only affected the second half of March). We believe that the strongest impact will occur in the second quarter, when we expect a drop in profits of around -57% YoY (compared to 2Q19). Losses would be concentrated in April and May, when we estimate YoY declines in EPS of up to 70%. The economy will recover its levels from June onwards, but will not reach its former potential for the rest of the year. We therefore expect EPS growth of -16.7% YoY for 3Q20 and -10% YoY for 4Q20. Altogether, the FY2020 EPS will experience a variation of -22.41%, to stand at 20.17 euros per share. We project a PE multiple of 15.5 to December 2020, which leaves us with a floor for this index at the level of 313 points.

Economy

We expect gradual and different exit strategies starting in May (Germany from the 3rd, France from the 11th...) due to the improvement in pandemic statistics and the growing anxiety among the population. A "V shaped" recovery, which has been our base case scenario, could lose ground if confinement measures remain in place into June or some countries step back from their exit strategies. The intensity of the rebound will be a linear function of how long it takes for governments to lift the restrictions. The longer it takes, the bigger job losses (25% of all jobs could be at risk) and the collateral effects on confidence, both from the consumer and business side. A higher savings rate and private deleveraging usually follow a crisis and should now also be expected. Social distancing restrictions will therefore play a key role, leading to a slower and less uniform recovery. There could be "permanent losses" that are hard to estimate today.

Monetary accommodation. More fiscal integration demanded

Powerful, comprehensive measures (11% of the EZ GDP) and a flexible approach have been the response from the ECB. High scale purchases have already started, clearly biased towards Italy. The will to do more is there should it be necessary. From the fiscal side, some has been done: an average of 2-3% GDP fiscal impulse on a country basis (mainly through job retention schemes). Additional support has also come in the form of ESM credit lines for healthcare support (up to 240 bill.€) a pan-European guarantee fund enabling the EIB to increase its loans to companies with a focus on SMEs (200 bill. €) and an unemployment support program (100 bill.€). As we wait for the details, they seem impressive figures though still behind US´s ones. Latest Eurogroup agreed on the idea of a European Recovery Fund, but no further details were given (amount, financing,…). The European Commission has been tasked to explore alternatives to be presented on the 6th of May. A "temporary, targeted and commensurate" recovery fund, around 1-1,5 bill. euros is expected. Applying for the ESM funds is unpopular in some countries and these arguments allow Southern countries to push for further steps in terms of risk sharing.

Corporate debt

Credit stabilization. We believe it will be difficult to return to the minimum levels seen. The rating agencies have made the highest rating review in 20 years, with the most affected sectors being energy, travel & leisure, durable goods, automotive... and the least affected being electricity/power, telecommunications, technology and health, among others. Default rates are estimated at extreme levels and special care is needed. We would recommend the HY bonds closest to investment grade and the financial sector. We would stretch to subordinated debt and would even look at convertibles (banks are well capitalized with quality assets)

Financial market assessment

Equities – Stoxx Europe: UW/MARKETWEIGHT. Target 313. Exit 344

Equities – Euro Stoxx: MARKETWEIGHT. Target 303. Exit 333

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

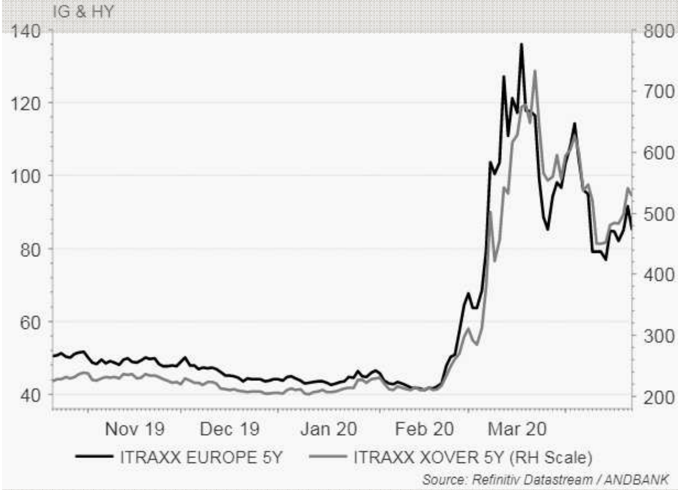
Peripheral – MW SP(1%), IT (2%), PO (1.15%), IE (0.3%), GR (2.5%).

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

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

Euro area & EU price-to-earnings
Ratio - LTM

EUR Corporate Bond Market
IG & HY



PERIPHERAL BONDS (10Y GOV YIELD)

ANDBANK Private Bankers

MACRO ECONOMY

SPAIN

We place Spanish GDP in the least unfavorable band (-7% FY2020)

Economy

Assuming the lack of visibility across practically all factors, we carefully analyze all measures adopted in the fiscal, liquidity and health fields. On the fiscal front, the Spanish government has deployed a battery of spending policies (minimum vital income, temporary lay-off plans), income policies (tax moratorium), automatic stabilizers (unemployment subsidy) and liquidity measures (guarantees, ICO loans) aimed at mitigating the difficult economic situation brought on by mass confinement, even though they introduce new long-term uncertainty regarding the deterioration in the country's fiscal position. We are still waiting to see the type and amount of aid from European institutions. Based on this, we project two main scenarios.

Favorable scenario (60% probability): The Spanish authorities begin to control the health crisis at some point in May. With economic activity starting in June, this will provide some domestic support for tourism which, although will fall by 60% YoY in the summer season, will not lose the entire year. In this scenario, fiscal policies and automatic stabilizers work and business confidence and hiring do not deteriorate irreversibly, since restrictions are lifted around the beginning of June. Demand reacts favorably and allows a good part of the unrealized consumption to recover. This scenario could result in GDP growth for 2020 around -7%, even assuming annual declines of 45% in commerce and tourism, or 50% in the real estate sector.

Negative scenario (40% probability): Confinement lasts until June or July and we do not recover a potential activity rate close to 60% until August, with tourism losing most of the year's revenues (60% or more), bringing the fall in national demand to -13% YoY and gross capital formation of up to -17%. In this scenario, fiscal policies and automatic stabilizers fail to maintain levels of consumer confidence, as business indicators would be seriously damaged causing a perception that a rapid recovery in hiring would almost be impossible. This scenario leaves us with a fall of 12.5% of GDP.

Equity market

In our previous report we tried to set a floor l for the Ibex from a bottom-up approach and managed to fix it between 5,500-6,000 points. We have tried to take a top-down approach this time around to find a floor for the index. Assuming a fall in margins of 300 points compared to 2019, this would leave FY2020 EPS around 434.7 euros. Using a PE ratio of 13.8x would result in a floor level for the Ibex of 6,000. However, in a more balanced scenario, if we assume that the fall in profits for FY2020 finally turns out to be the -22% that we are forecasting for the whole of Europe (feasible since we consider the first of the two scenarios proposed above to be more probable), then EPS would come in near to 551 euros. Using a December PE ratio of 13.5x, would give us a justifiable level of 7,500 for the Ibex index. That is why we are recommending an OW-MW positioning.

COVID19 outbreak. A brief assessment

The evolution of the coronavirus is following a slow but positive dynamic in many European countries, with the first half of May seen as the date for some large countries to relax their containment measures. The health issue prevails and will largely set the tone for the return to normality. Thus, we will see disparate approximations among the countries depending on their health figures and means for monitoring the virus. Today it seems that Spain will not be among that group of countries that are ahead in the reopening of their economies, given that it still has pandemic figures that suggest that the country is not out of danger.

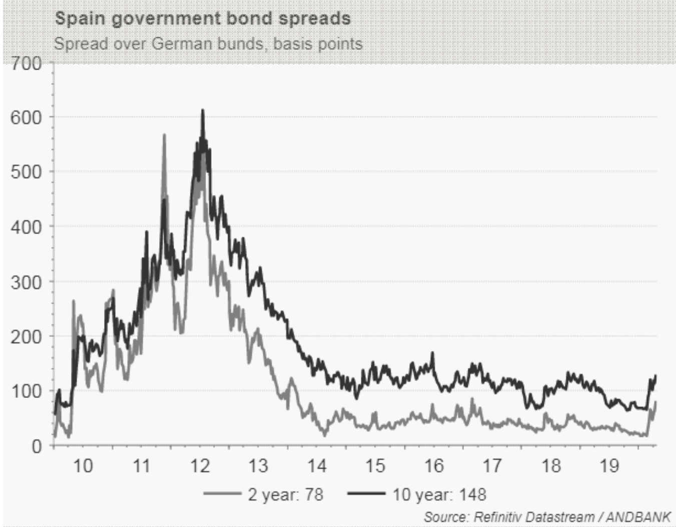
Financial market assessment

Equities – IBEX: MW-OVERWEIGHT. (Target 7,500. Exit point 8,153)

Bonds – Government: MARKETWEIGHT (BONO target yield 1.00%)

Credit – Investment grade: MARKETWEIGHT

Credit – High yield: MARKETWEIGHT



CHINA

1Q GDP shrinks -6.8% YoY but industrial production normalizes at -1.1% YoY

High frequency data

Q1 GDP -6.8% YoY vs consensus -6.5% and +6.0% in prior quarter. **March industrial production** -1.1% YoY vs consensus -7.3% and -13.5% in prior month. Looking at manufacturing subcomponents, we highlight Mining +4.2%, Food +5.7%, Pharma +10.4% and Robotics +12.9%. Fixed asset investment (YTD) -16.1% vs -24.5% in prior month. **Retail sales** -15.8% YoY vs -20.5% in prior month. **Unemployment rate** improves to 5.9% vs 6.2% in prior month. The South China Morning Post noted some studies showing the coronavirus outbreak is severely weakening China's job market, with the number of new positions on offer shrinking by 27% in Q1. Some 23M new job posts on Chinese recruitment site Zhaopin.com were cut. Recruitment ads in China's entertainment and services sector fell by more than 40% from a year earlier, followed by smaller declines in education, sports, information technology and finance. Hubei province GDP shrank 40% in Q1. The SCMP reported Hubei province GDP contracted 39.2% YoY in Q1, by far the largest economic contraction of any of China's 31 provincial-level jurisdictions. The economic damage in the province -a key base for the production of autos and parts- was deep and broad-based, with output in all industrial sectors shrinking. The fall was led by a 60% plunge in automobile production. In services, provincial retail sales dropped 44.9%

PBOC to bolster real economy via targeted RRR cuts and refinancing

The PBOC announced on Thursday that it will continue to channel credit funds into the real economy, especially small businesses, through measures such as targeted reserve requirement ratio (RRR) cuts and refinancing. The central bank noted new yuan-denominated loans hit a record **CNY7.1T ($1T),** while outstanding loans for small and micro firms stood at CNY12.4T at the end of March, **up 23.6% year on year**. The proportion of small business loans out of total credit rose 0.6% on the year to 7.7%. More solid steps are being taken to implement supportive measures for enterprises, including a series of tax cuts which would ease the burden for firms by CNY1.6T ($227.25B). China has already offered CNY3.55T of low-cost capital to financial institutions via reserve requirement ratio cuts, re-lending and re-discount quotas. The PBOC cut the one-year medium-term lending facility (MLF) rate 20bp to 2.95% as it offered CNY100B in new loans. A 50bp cut to banks' reserve ratio also took effect Wednesday 15, releasing about 200 billion yuan of funding.

Coronavirus

Xinhua highlighted China's developing coronavirus treatments, including stem cell treatment and convalescent plasma therapy - both already undergoing clinical trials. Stem cell treatment can increase the cure rate of severe patients by inhibiting lung inflammation and improving the respiratory function of patients. Convalescent plasma therapy has significantly shortened the median length of recipients' stays in ICUs compared to the control group. Clinical trials on four drugs are in progress. China revised its official count of deaths from the coronavirus and added some 1,290 deaths in Wuhan amid sustained skepticism of its epidemic data. The addition brings the nationwide death toll up by nearly 40% to 4,636. The additional deaths were all found in Wuhan and comprised some who died at home.

PBOC ups stake in India's biggest mortgage lender

The PBOC raised its stake in Housing Development Finance Corp., India's largest mortgage company, to a regulatory threshold 1.01% from 0.8%. It is very rare for the central bank to be spotted buying shares of a major foreign private company. HDFC chairman Deepak Parekh told local media that it is common for central banks to buy shares on behalf of sovereign wealth funds, noting HDFC stock is also owned by the Saudi Arabian Monetary Authority.

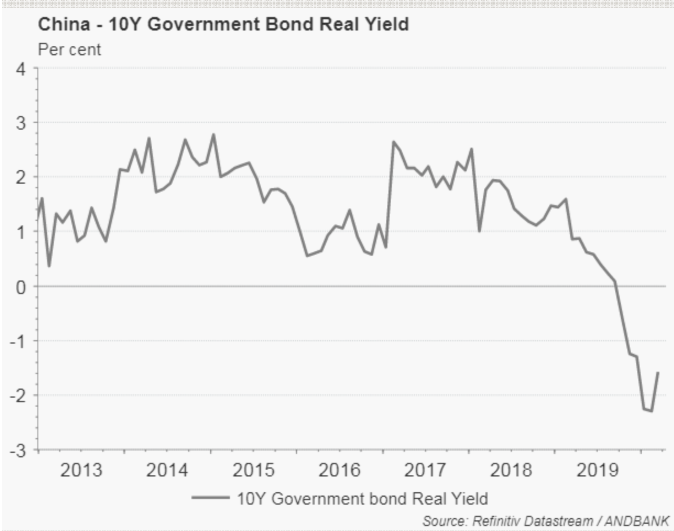
Financial market outlook

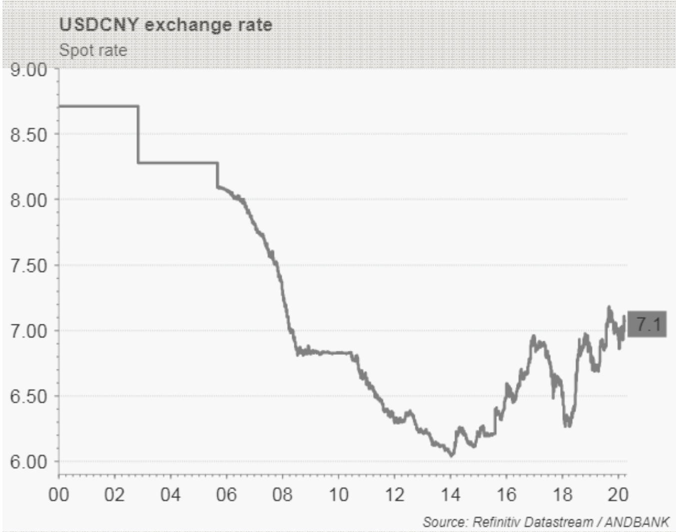
Equities – SHANGHAI Idx: MW (Target 2,827. Exit point 3,110)

Equities – SHENZHEN Idx: UW (Target 1,653. Exit point 1,818)

Bonds – Govies: MARKETWEIGHT (10Y Yield target 2,50%)

Forex – CNY/USD: OW (Target 6,90)





JAPAN

Corporations disappointed by government's $1T stimulus plan

Coronavirus crisis

As of Tuesday 21, Japan reported another 25 deaths caused by the novel coronavirus, its highest tally for a single day. The total death toll now stands at 276. Meanwhile, the number of infections is still rising almost two weeks after a state of emergency was declared for Tokyo, Osaka and some other areas with large urban populations. Japan has confirmed at least 11,137 cases. A figure similar to that in Korea, and well below the 200,000 confirmed cases in Spain. Lockdown will run through May 6. Takara Bio (4974.JP) CEO Koichi Nakao told the Nikkei that the company plans to mass produce coronavirus vaccinations as early as this year. Partnered with bio company AnGes (4563.JP) and Osaka University, the company is to develop the DNA vaccine and will start clinical trials in the summer. Meanwhile, Japan's push to triple its stockpile of anti-flu medicine Avigan for coronavirus treatment has proven a challenge as the lack of a raw ingredient from China forces Fujifilm Holdings to switch to a domestic supplier. As patents for Avigan have expired overseas, China has already begun producing generic versions but just for domestic use. Traffic volume in Japan still falls short of the government's plea for 70% reduction. Traffic in Nagoya and Fukuoka decreased by 40% on Monday 20 despite the government's declaration of a nationwide state of emergency last week. The Japanese government had called for businesses to take measures -such as encouraging working from home- to reduce commuter numbers by 70%. Data showed that the goal is far from being achieved as businesses struggle to implement remote working.

Data & Flows

March exports (11.7%) YoY vs consensus (9.4%) and (1.0%) in prior month. Imports (5.0%) YoY vs consensus (8.7%) and (13.9%) in prior month. Japan's inflow of overseas tourists plunged a record 93% YoY in March. For the full year, economists surveyed predict the number of foreign visitors to Japan will decline between 30% to 80%. The government will downgrade its economic assessment for the second straight month in its April report, adding "deteriorating" to its language for the first time since the Lehman crisis. Economy Watchers Survey index fell to a record low in March. The Reuters Tankan showed Japanese business confidence plunged to fresh decade lows in April. The sentiment index for manufacturers fell to -30 in April from -20 in the previous month, hitting the lowest level since October 2009. Most Japanese corporations were disappointed by the government's $1T stimulus plan. For the week ended April 11, domestic investors were net buyers of ¥450.1B in foreign equities vs ¥568.6B of net purchases in the previous week, but net sellers of ¥201.3B in foreign long-term debt (on top of the ¥1,052.2B of net sales in previous week).

Japan to raise FY20 supplementary budget. Kuroda signals readiness to ease more to G7 peers

Japan will increase the FY20 supplementary budget by ¥8.88T ($82.4B) as a result of the new plan to hand out ¥100,000 ($930) to each individual, which replaced the old scheme to pay ¥300,000 to households experiencing a drop in income. This takes the extra budget to a total ¥25.70T ($240B) and raises the headline fiscal stimulus size to ¥117.10T ($1.09T or 22% of GDP). Abe is urging people to apply online for universal $930 payments to ensure the assistance gets to them quickly, possibly in May.

Meanwhile, Kuroda signals readiness to ease more to G7 peers. Citing a press conference, Bloomberg reported BoJ Governor Haruhiko Kuroda emphasized his intention to ease policy further if necessary to his G7 counterparts on Tuesday as the coronavirus pushes the global economy sharply into reverse. Last week the governor hinted that a major downgrade of the bank's forecasts was likely, saying the virus was having a serious impact on the economy.

Financial market outlook

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

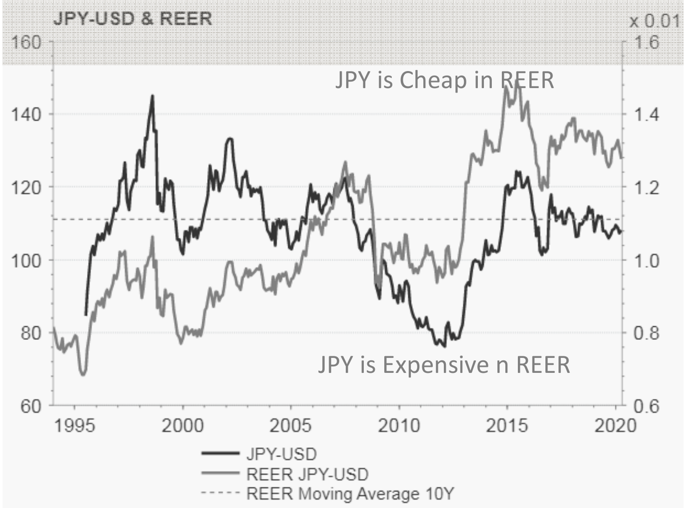
Bonds – Govies: MARKETWEIGHT. (Target yield 0.00%)

Forex – USD-JPY: UNDERWEIGHT. (Mid-term target 110)

Japan Nikkei 225 price / earnings
Ratio

Source: Refinitiv Datastream / ANDBANK

JPY-USD & REER



Source: Refinitiv Datastream / ANDBANK

Japan LIBOR-OIS spread
Basis points

Source: Refinitiv Datastream / ANDBANK

INDIA

How can Covid affect an economy like India?

Lack of medical capacity means a long lockdown is necessary

While youthful demographics mean a smaller share of India's population is at risk, as a low- income nation, India lacks the medical capacity to shield itself from the ravages of Covid-19 (India spends 3.7% of GDP on health care, compared with an average of 12.6% in high income countries – Source WB). One widely cited epidemiological model published by the Washington DC-based Center for Disease Dynamics, Economics & Policy (CDDEP) estimated that the lockdown will help to cap the infected population this summer to 200M, with 1-2M patients needing critical care, and summer deaths around 0.5M (far below the pre-lockdown estimates of 500M infections, 4M critical, and the 1-2M summer deaths). Having said all this, we are convinced that tens of thousands of Indians will die at home, without being mentioned in any statistics, which unfortunately will contribute to "soften" the magnitude of the reality. The number of cases and deaths we should expect will be very high if we want to be realistic. Why? 1) Admittedly, its 1.37Bn citizens went into lockdown for three weeks on March 25, but such social restrictions could prove difficult (if not impossible) to be implemented across much of India. 2) India is a singularly unhealthy nation. It is home to nearly a third of the global population living with chronic respiratory diseases, with nearly 250,000 dying of tuberculosis alone every year, and more than one in ten adults also have cardiovascular disease. 3) Poor living conditions do not help. Homes are often overcrowded and high population density in some areas means an ideal environment for viruses to spread. 4) Intergenerational mixing is common, making it hard for the old to isolate themselves.

One glimmer of hope is that only 8% of Indians are over 60. That is significantly lower than in China and less than half the figure in most developed nations. But that still leaves 110M vulnerable old people in absolute terms. India, along with much of the developing world, will experience the worst of the pandemic just as Europe and the US are emerging from it.

Low effectiveness and lack of competence could eventually take a toll

Lockdown in India is one of the harshest. After Modi's call to "stay home", teams of policemen beat shoppers venturing out to buy groceries. States have been told to seal their borders, and all regular train and bus services are suspended. But government incompetence could undermine the lockdown, as it was put in place without a comprehensive relief package to support the urban poor and has led to chaos and anxiety among the country's 150M migrant workers which, with factories and construction sites closed, many cannot afford to remain in the cities. State governments do not charter buses, so hordes of people have been reduced to walking home for hundreds of miles. Local authorities are supposed to provide quarantine facilities when they arrive, but there are tales of migrants self-isolating outside at the edge of their villages. The exodus could have been prevented by an early announcement of cash transfers, shelter and food. Instead, returning migrants will almost certainly carry the virus into rural area.

Lack of fiscal firepower

The US$23Bn relief package announced last week amounts to less than 1% of GDP. There are very limited measures to keep sinking businesses afloat. New Delhi has focused on palliative efforts, promising to provide free cooking gas, grain and lentils, and making small direct cash payments. The government is constrained by its already weak fiscal position, after missing successive deficit targets (see chart). Instead, it is relying on the central bank to do the heavy lifting. The RBI has cut interest rates to record lows, undertaken massive liquidity injections, and given debtors a three month repayment holiday on all term loans. All said, there is a clear state inability to cushion the economic fallout. All this spells gloomy news for corporate profits and India's economy, which was failing to create enough jobs even before the arrival of Covid-19.

Financial market outlook

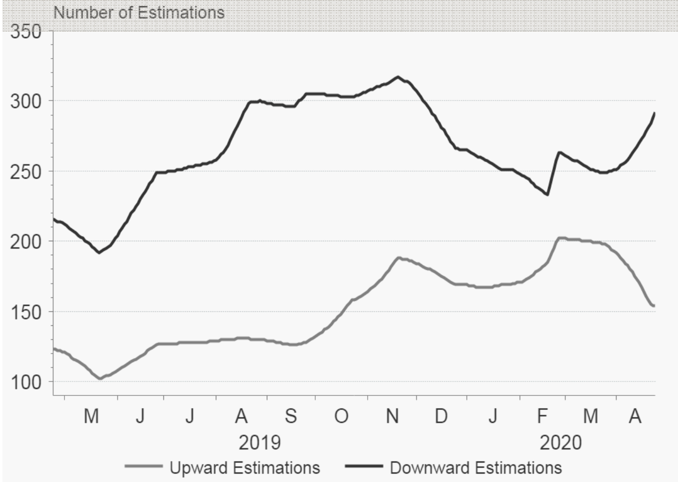
Equities – SENSEX: MARKETWEIGHT. (Target 31,527. Exit 34,679)

Bonds – Govies: UNDERWEIGHT (Target yield 7%)

Bonds – Corporates: UNDERWEIGHT

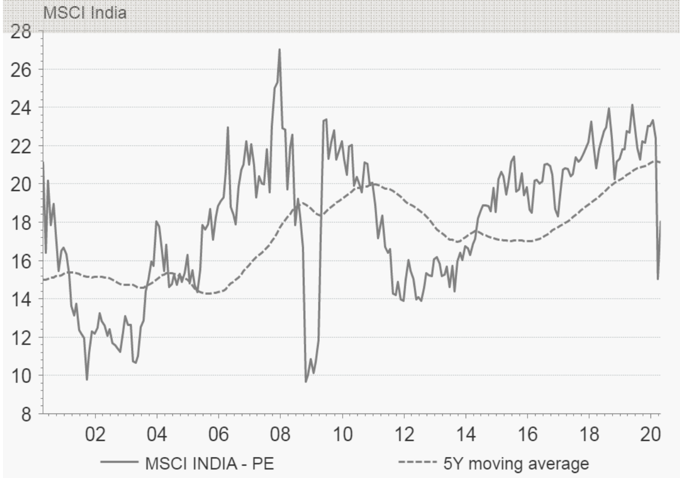
Forex – INR/USD: MARKETWEIGHT (Target 74)

ANALYSTS - ESTIMATIONS (UPWARD VS DOWNWARD)
Number of Estimations



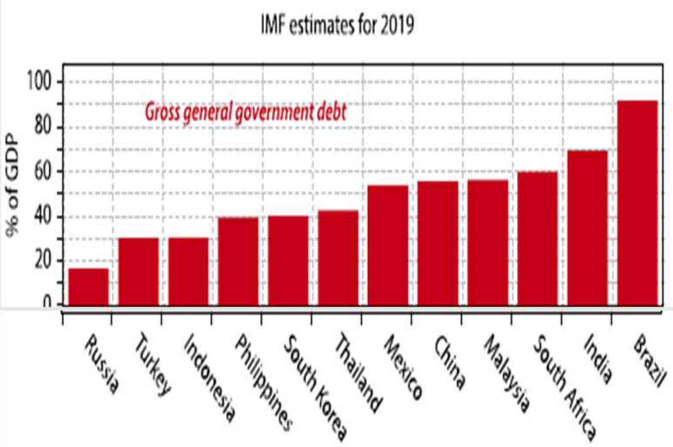
Source: Refinitiv Datastream / ANDBANK

PE (ltm) - India
MSCI India



Source: Refinitiv Datastream / ANDBANK

Among EMs, India's fiscal position is quite stretched



ISRAEL

Agreement to form a unity government is reached

Economy

Israel, like other countries, remains under quarantine, with only 15% of the workforce getting to the office, and the rest, who haven't taken unpaid leave, working from home. Due to the coronavirus, Israel's unemployment surged to around 24%, but the majority are employees who are expected to go back to work as soon as the quarantine is lifted. To ease the coronavirus' effect on business, the Bank of Israel lowered the interest rate to 0.1% and is actively working to keep the necessary amount of liquidity in both the market (via repo operations) and the economy (via small businesses loans). Israel is receiving good reviews around the world on the way the authorities have handled the crisis, and is expected to return to normal relatively fast. Israel's CPI index for February showed a 0.1% increase YoY, which translates into -0.1% MoM.

Politics

Israeli Prime Minister Benjamin Netanyahu and his former rival in the polls, Benny Gantz, announced Monday that they have reached an agreement to form a unity government, to end the longest political crisis in Israel's history, to fully fight the coronavirus pandemic. This agreement will avoid the fourth set of elections in a year and will be formally signed after Independence Day. The agreement contemplates that Netanyahu will maintain the position for 18 months. Gantz, meanwhile, will take on the Defense portfolio during those 18 months, after which he will replace Netanyahu as head of the Israeli executive.

Equity Market

The TLV equity indexes have recovered much of the losses that took place in Feb-March. The TLV-125 reached a low on March 23 and since then recovered 24%. Sectors that outperformed the market were those that suffered the strongest decline in Feb-Mar, such as TLV-Oil & Gas, TLV-Insurance and TLV-Construction. Investors' optimism was grounded in the state's pandemic monitoring (that led to relative success in halting the spread of the epidemic) and the steps taken on the fiscal front (spending policies aimed at supporting struggling businesses). As of today it looks like a further correction depends largely on the success of stopping the spread of the virus.

Bond market

Corporate credit spreads started to return to more normal levels after jumping to their highest levels in March since the financial crisis of 2008. The narrowing in credit spreads in Israel occurred across all sectors, all ratings and all durations. The credit spread in the CPI linked TelBond60 index dropped to 2.1% (from the highest level of 3.5%), but still remains well above pre-crisis spread levels of 1.2%-1.25%. The credit spread in the non-CPI linked TelBond Shikli50 dropped to 3.1% (from the highest level of 6.1%), and also remains well above pre-crisis spread levels of 1.3%-1.5%. The government in Israel authorized a major stimulus program (equivalent to 6.5% of GDP) to assist small businesses and individuals to combat the effects of the lockdown. The Israeli central bank did its part and lowered its interest rate to 0.1% (from 0.25%) and started to buy government bonds in all durations. The central bank also took steps to prevent the weakening of the Shekel. Israeli companies and individuals are relatively less leveraged compared to US and EU companies and individuals. All of the above, along with the low level of infection and deaths from the Covid-19 virus makes us believe the Israeli economy is in a relatively strong position to overcome the breakout.

Financial market outlook

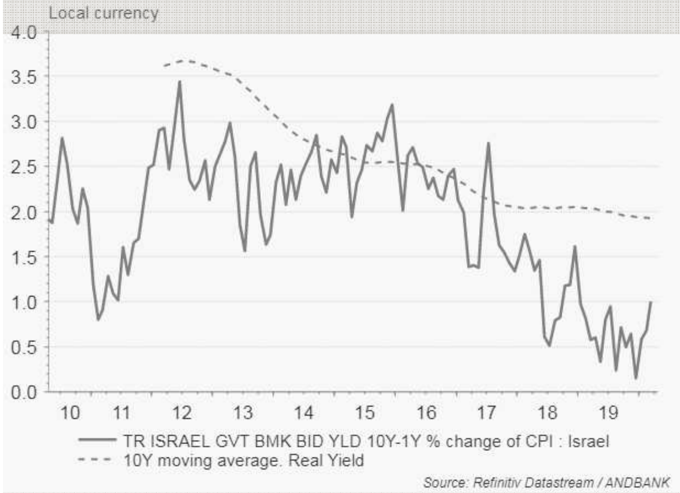
Equities – TLV35 Index: OVERWEIGHT (Cheap)

Bonds – 10Y Gov USD: MARKETWEIGHT

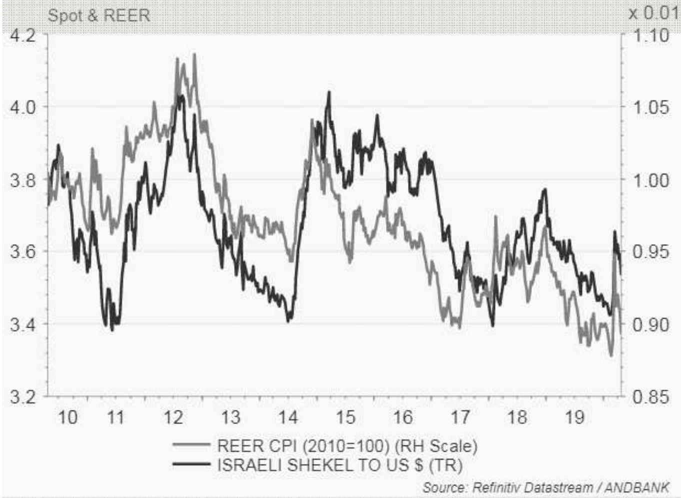
FX – ISL vs USD: UW-MW (Expensive in REER)

Israel price/earnings, Datastream index
Ratio

ISRAEL GOVERNMENT BMK REAL YIELD 10Y
Local currency



Israel Shekel
Spot & REER



BRAZIL

The big challenge is to return to a path of fiscal consolidation

Politics

Political noise reached a new peak in April as Law Minister Sergio Moro, former judge in the CarWash investigations and one of the more popular members of the cabinet, resigned.

The main reason was the dismissal of the head of the Federal Police, which Minister Moro reportedly claimed to be unjustified and politically motivated.

Two other events preceded this move – the dismissal of the Minister of Health and public criticism by the government's economic team of a new economic plan based on infrastructure projects.

The increase in political risk has the potential to undermine Brazil's ability to coherently respond to simultaneous supply and demand shocks.

Brazil's ability to navigate the economic downturn via unconventional policies depends on political stability, policy credibility and that the government will return to its long term fiscal and monetary discipline once the crisis is over.

Economics

The big challenge is to return to a path of fiscal consolidation as fighting COVID-19 could generate a record fiscal deficit of 12% of GDP and a jump in gross debt to 84% of GDP by the end of 2020. However, some help comes from a lower Selic rate, which could reduce some of the interest payment. The Copom is expected to cut the Selic to 3% until the end of the year. Inflation forecasts continue to come in under the target for 2020 and 2021.

On the external sector side, the current account surprised with a USD868M surplus in March, above market consensus (USD-200M), and now totals USD49.7Bn in 12 months (2.8% of GDP), down from USD53.2Bn in February. The trade balance continues to hold up relatively well, with a surplus in 12 months of USD36.9Bn, despite the sharp fall in commodity prices. The real weakness will help to insulate some of the shocks that the economy is facing.

Brazilian assets struggle

Moro's resignation (which could also be related to his goal to run for president in the next election) and rumors of Guedes' resignation have weighed on Brazilian assets. At the moment, we do not believe that the rumors about Guedes' resignation will materialize. The Finance Minister speaks constantly on TV and emphasizes the importance of keeping the reforms on track for two years, saying that this is not the time to weaken the country. With regards to the ongoing political uncertainty, it seems clear that the instability factor is President Bolsonaro and the problem could have economic roots. He is in his second year of office and Guedes' reforms have not yet paid off in the form of growth (the President does not seem to understand that fiscal reforms take a few years to pay off). Bolsonaro, impatient to see results, advocates an increase in spending. But this would go against Guedes' spending containment policies, which is generating tension within the government's economic team and allowing open criticism of the president's claims.

For us, what is happening with the BRL is an overshooting. The BRL is cheap in REER terms, though we understand that political noise could hurt the currency given that the political tensions are far from being resolved. We set the target range in the 5.30-6.00 area. When Covid ends and the economy normalizes, the recovery will be a driving factor that supersedes the political instability.

Financial market outlook

Equities – IBOV: MW/OVERWEIGHT (Target 80,000. Exit 88,862)

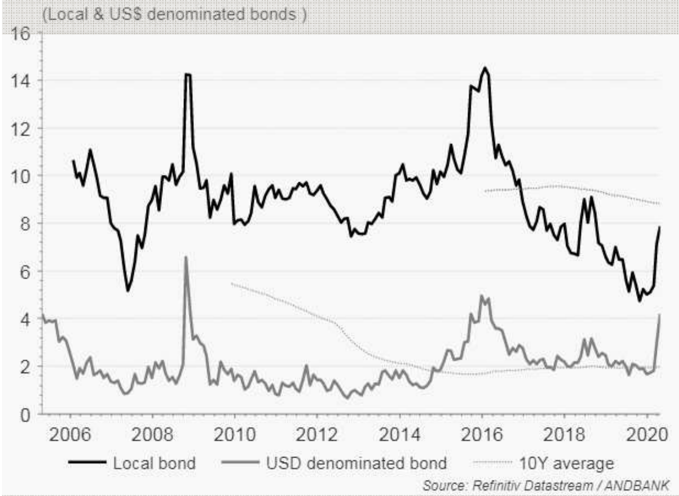
Bonds – Gov. 10y Local: OW (Target 7.4%. Spread 600)

Bonds – Gov. 10y USD: OW (Target 4.9%. Spread 350)

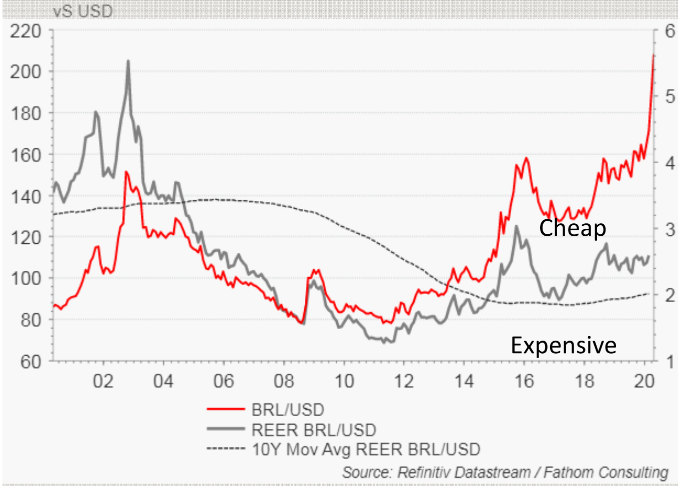
FX – BRL/USD: OVERWEIGHT (Mid-term target range 5.30-6)

Brazil price/earnings, Datastream index
Ratio

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



BRAZILIAN REAL - REER
vS USD



MEXICO

Obstacles to economic recovery persist. Lack of political definition in relation to investment activity.

Economy & Central Bank

The indicators for March already showed the destruction of a greater number of formal jobs than those created in all of 2019. Even more important is that some leading indicators, based on surveys such as consumer confidence, will cease to be published until normal activities are restored. As for inflation, the March CPI showed the downward effect of lower aggregate demand, although the underlying part continues to show persistence above 3.60%.

Banxico cut official interest rates by 100 bp in an off-calendar meeting, putting its benchmark rate at 6.00%. The next meeting is in May and another advance movement between 50 and 100 bp is anticipated. The median in local surveys predicts a level between 5.00 and 5.50 for the end of 2020.

Politics

Cuts were finally made both in the rating of sovereign bonds and Pemex bonds, which lost the investment grade after the Fitch and Moody’s downgrades. Mexico's rating was at BBB- for Fitch, just one notch from losing investment grade. The rating agency emphasized the following points: Persistence of obstacles to economic recovery based on the deterioration of the business climate and the erosion of institutional strength, as well as weakness in public finances, in part due to Pemex.

For Moodys, the reasons ranged from lower growth prospects for the medium term, to the recognition of the financial deterioration of Pemex and the risk derived from the government’s explicit commitment to the oil company, the possible impact derived from public finances, and the weakness in internal politics and low institutional capacity.

Mexico agreed to only cut 100,000 barrels of oil per day with OPEC+. Initially 400,000 were requested and the US would have absorbed the difference.

Mexican Assets

Equities (IPC Index): The risk of Pemex's weak financial position in public finances is beginning to spread to other Mexican assets, compounded by the global effect of the coronavirus, which expels capital from emerging markets, and also by the rapid reaction of credit rating agencies in this regard (and the loss of investment grade). Business uncertainty and the AMLO government's poor definition of pro-investment policies mean that the estimated range for the index in 2020 stood at 30,000-40,000 points with a risk of moving around the lower part of this range.

Fixed Income: Spreads on sovereign bonds in MXN and USD rose to 620 basic and above 250 respectively, at the worst point. The outlook for these assets, given the economic and monetary context, is that these spreads will normalize, taking into account the relative monetary policy, with external central banks coordinating stimulus, and Banxico easing at a much lower pace. Continuity of this trend in Banxico will depend on its flexibility to keep or cut the interest rate. All said, it seems clear that potential future cuts will occur in a smaller proportion than what has been observed so far and could continue being contained if a greater perception of country risk is developed, and the sovereign note deteriorates further. We set a target spread for the MXN sovereign note at 550bp vs. UST (target yield 6.90%). For the USD-denominated sovereign note we set a target level of 200bp (target yield at 3.4%).

Financial market outlook

Equities – Mex IPC: UW/MW. Target 33,067. Exit 36,374

Bonds – Govies Local: UNDERWEIGHT (Yield 6.9%. Spread 550)

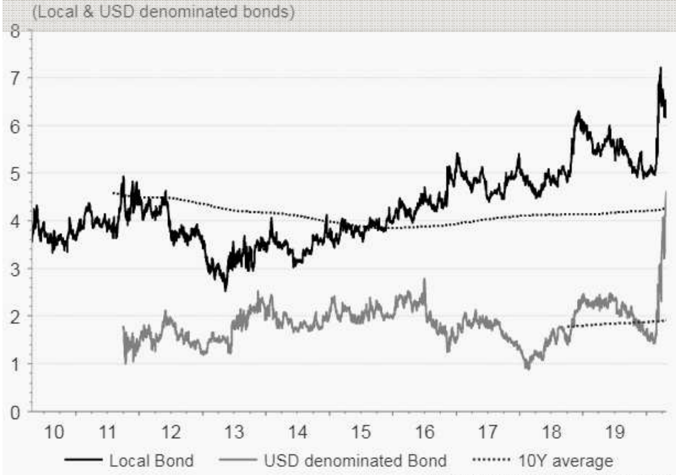
Bonds – Govies USD: OVERWEIGHT (Yield 3.4%. Spread 200)

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

Mexico equities price/earnings ratio
Datastream index

Source: Refinitiv Datastream / ANDBANK

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



Source: Refinitiv Datastream / ANDBANK

Mexico real broad effective exchange rate
Index

Source: Refinitiv Datastream / ANDBANK

ARGENTINA

Debt restructuring: The offer is on the table

The wait is over, Argentina has finally presented the debt exchange offer with the following details: i) Ten new step-up sinking bonds (5 USD and 5 EUR-denominated bonds); ii) Bonds separated into four buckets: short end (21 /22/23), belly (26 to 36), long end (48 through Century) and Exchange bonds (Discounts and Pars). Each bucket is offered a menu of two or three new bonds; iii) 3-yr grace period; iv) Maturities in 2030, 2036, 2039, 2043 and 2047; v) Nominal haircuts between 0% and 12%; vi) 2030 and 2036 bonds will be capped (11.4Bn USD and 20.7Bn USD) with priority for short duration bonds. Bondholders would have around 20 days from the formal launch before the offer closed.

The bondholders response has been negative with three different creditor groups expressing their discontent, including one with big asset managers (Blackrock, Fidelity, Amundi) that report having 25% of post-2016 bonds and 15% of 2005/2010 restructure, and another other with Paul Singer, a former lawyer as adviser, who claims to have a blocking position in 2005/2010 bonds. Guzman previously said that the government had still not reached an "understanding" with bondholders regarding what would be a sustainable arrangement.

For exchange bonds you need consent from the holders of 85% of the amount of all affected series and 66 2/3% of each series. For Globals you need (a) more than 75% of the amount of all series if certain "uniformly applicable" requirements are met; or (b) more than 66 2/3% of the amount of all series, and more than 50% of the amount of each series taken individually.

Ways to improve the offer: i) Accrued interest is recognized; ii) Increase coupons; iii) Capitalization of interest; iv) Include some kind of value recovery instrument such as GDP-Warrants. It is not clear if USD local law bonds (payments suspended by decree) are going to receive a similar offer. The government also asked to postpone for a year the payment of 2.1Bn USD to the Paris Club due in May and also raised the possibility of renegotiating the agreement.

Argentina response to Covid-19: the printing machine is on

IMF forecasting a 5.7% drop in GDP for 2020 (third year in a row). The government is implementing an economic aid package to counter the impact of coronavirus of approx. 12.9 Bn USD (2.9% GDP) and with tax collection dropping in real terms (-10% in March), fiscal deterioration will be dramatic with primary deficit estimates between 4% and 5% of GDP. Given the lack of debt financing, a vast majority of the primary deficit would be monetized, pointing to an acceleration in inflation.

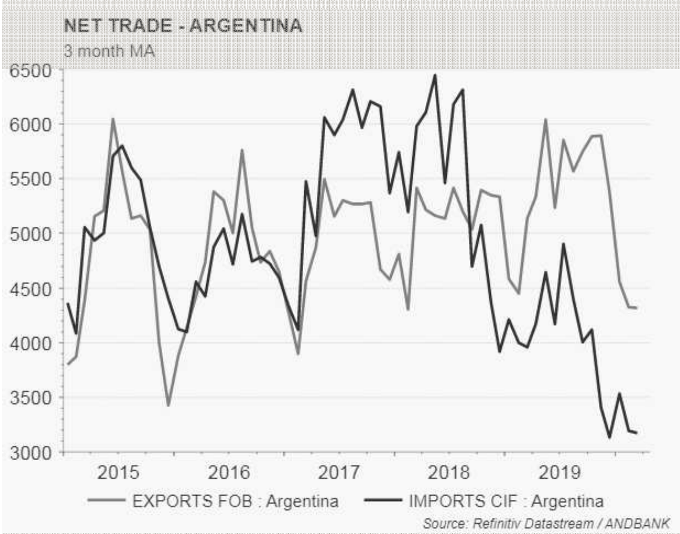
Inflation picking up despite price controls; BCRA pressuring banks

March CPI increased 3.3% MoM (up from 2.0% in February), with the YoY figure decelerating to 48.4% (from 50.3% in Feb). Seasonal prices took the lead at 4.9% MoM, crucially influenced by fruit and vegetable prices, followed by regulated at 3.3% and lastly core at 3.1%. Broken down by components, education jumped the most +17.5% as the academic year begins. With precautionary demand increasing, banks are ceasing to lend given the NPL potential expansion. The central bank is cutting reserve requirements and limits to Leliqs & Repos, releasing liquidity and putting pressure on banks to lend to SMEs (24% subsidized line) but hoarding cash.

Monetary expansion putting pressure on the FX market with the gap between official (65.95) and Blue Chip Swap FX (103.17) reaching almost 60%.

Financial market outlook

Bonds – 10YGov USD: NEUTRAL
FX – USDARS: NEGATIVE (2020 year-end target 80)



EQUITIES

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Projected EPS Andbank 2020	Projected EPS Growth Andbank 2020	Current PE fw EPS 2020	Projected PE ltm EPS 2020	INDEX CURRENT PRICE	2020 Central Point (Fundam range)	2020 E[Perf] to Centr. Point	Recomm	2020 Exit Point	E[Perf] to Exit point
USA S&P 500	129	-21,6%	22,51	19,00	2.904	2.451	-15,6%	UW	2.942	1,3%
Europe - Stoxx Europe 600	20,17	-22,4%	16,86	15,50	340	313	-8,0%	UW/MW	344	1,1%
Euro Zone - Euro Stoxx	19,6	-22,4%	16,48	15,50	322	303	-5,9%	MW	333	3,5%
Spain IBEX 35	551,7	-22,4%	12,55	13,50	6.922	7.448	7,6%	OW	8.193	18,4%
Mexico IPC GRAL	2.320,5	-18,0%	15,63	14,25	36.258	33.067	-8,8%	UW/MW	36.374	0,3%
Brazil BOVESPA	5.984	-18,0%	13,48	13,50	80.675	80.784	0,1%	MW/OW	88.862	10,1%
Japan NIKKEI 225	1.063	-20,0%	19,00	17,00	20.194	18.071	-10,5%	UW	19.878	-1,6%
China SSE Comp.	226	-10,0%	12,65	12,50	2.860	2.827	-1,2%	MW	3.110	8,7%
China Shenzhen Comp	75	-10,0%	23,47	22,00	1.763	1.653	-6,3%	UW	1.818	3,1%
India SENSEX	1.576	-15,0%	21,39	20,00	33.718	31.527	-6,5%	MW	34.679	2,9%
Vietnam VN Index	54	-10,0%	14,36	15,00	769	804	4,5%	MW/OW	884	14,9%
MSCI EM ASIA	35	-10,0%	14,10	14,00	500	496	-0,7%	MW	546	9,2%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS

Perspective: High stress in markets during March
Andbank's Assessment: +4.0 (in a -7/+7 range)

Aggregate (OW-MW bias): The markets remain stressed and our tactical reading is still in a risk-on mode.

Market Positioning (MW bias): Asset allocation in equity is in neutral territory indicating some relief in equity allocation after previous negative figures. The Put-Call ratio also indicates that investors have adopted a neutral stance. Finally, Skew in neutral territory reflects that a fear of a more violent downside movement is still present.

Flow Analysis (OW bias): Positive flows toward US equities indicate a positive momentum in equities. Europe did not benefit from positive flows and is flat (on Covid fears). China has also received positive flows on its management of Covid and recovery prospects.

Surveys & Sentiment Analysis (Strong OW bias): This is the second month that sentiment from investors is at its lowest (extreme stress). Our contrarian reading remains positive.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	Ticker Reuters	View 1 month	Principal Support	Principal Resistance	Support 1 month	Resistance 1 month	Target (TA) 2020	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	lateral	234,00	443,29	253,00	350,00	330,00	306,69	7,60%
INDICES	Euro Stoxx 600	.STOXX	lateral	237,00	433,90	268,00	360,00	360,00	324,92	10,80%
INDICES	Ibex	.IBEX	lateral	5.266,00	8.286,00	5.905,00	7.500,00	7.500,00	6.763,40	10,89%
INDICES	S&P	.SPX	lateral	2.346,00	3.393,52	2.346,00	3.028,00	3.000,00	2.799,55	7,16%
INDICES	Japón	.N225E	lateral	14.865,00	24.448,00	16.356,00	22.362,00	22.362,00	19.897,26	12,39%
INDICES	China	.SZSC	lateral bullish	1.458,00	2.000,00	1.552,00	1.945,00	2.060,00	1.750,28	17,70%
INDICES	India	.BSESN	lateral	24.833,00	42.273,00	25.638,00	35.750,00	35.750,00	31.588,72	13,17%
INDICES	Brasil	.BVSP	lateral	57.600,00	119.593,00	61.690,00	90.000,00	90.000,00	77.811,85	15,66%
INDICES	México	.MXX	Lateral bearish	30.000,00	45.955,00	31.561,00	38.265,00	36.900,00	33.759,75	9,30%
OTROS	Oil West Texas	WTCLc1	Lateral bearish	10,37	51,00	10,37	35,50	10,37	19,90	-47,89%
OTROS	Oro	XAU=	lateral bullish	1.358,00	1.920,00	1.445,18	1.802,00	1.691,00	1.717,68	-1,55%
OTROS	Treasury 10 años USA	US10YT=RR	Lateral bearish	0,1289%	1,3210%	0,3180%	1,3210%	0,8658%	0,6165%	40,44%

Bullish ->+3'5%; Lateral bullish -> (+1'5% , +3'5%); Lateral -> (-1'5, + 1'5%); Lateral bearish -> (-3'5%, -1'5%); Bearish <-3'5%

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 1.97%. Fair value 2.36%. Ceiling 3%

Swap spread: The swap spread rose to 56bp (from 47bp last month). For this spread to normalize at +3bp, with the 10Y swap rate anchored in the 2.0% area (our LT inflation expectation), the 10Y UST yield would have to move towards 1.97%.

Slope: The slope of the US yield curve fell to 43bp (from 48bp last month). With the short-end normalizing towards 1%, to reach the long-term average slope (of 136bp) the 10Y UST yield would have to move to 2.36%.

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

GER Bund: Floor 0.10%. Fair value 1.13%. Ceiling 1.5%

Swap spread: The swap spread fell to 33bp (from 38bp last month). For the swap spread to normalize at 38bp, with the swap rate anchored in the 0.5% area, the Bund yield would have to move towards 0.10% (entry point).

Slope: The slope of the EUR curve fell to 26bp (from 35bp last month). If the short-end normalizes at 0%, to reach the 10Y average yield curve slope (113bp) the Bund yield would have to move to 1.13%.

Real yield: A good entry point in the German Bund would be when the real yield hits 0.5%. Given our CPI mid-term forecast of 1%, the Bund yield would have to rise to 1.5% to become a “BUY”.

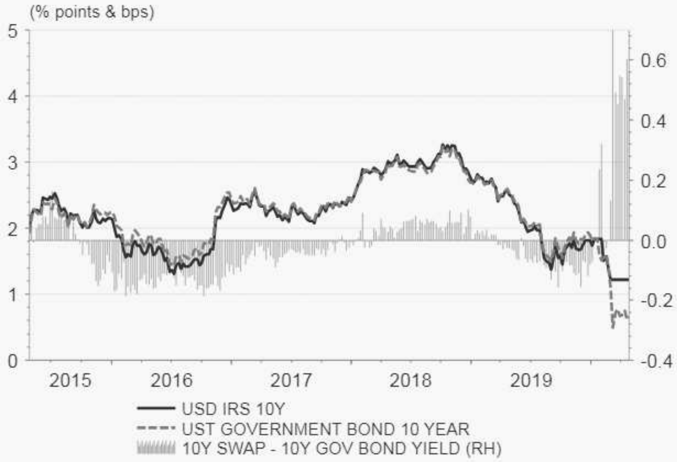
UK Gilt: Floor 1.9%. Fair value 2.4%. Ceiling 2.5%

Swap spread: The swap spread was stable at 22bp (from 21 last month). For the swap spread to normalize at 10bp, with the swap rate anchored in the 2% area, the 10Y UK Gilt would have to shift to 1.9%.

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

Real yield: Given our CPI mid-term forecast of 1.5%, the Gilt yield would have to rise to 2.75% to become a “BUY”.

SWAP SPREAD USD



Source: Refinitiv Datastream / Fathom Consulting

SWAP SPREAD EUR

Source: Refinitiv Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Tactical targets – 10Y yields

Spanish bono: Target yield at 1%
Italian bond BTPI: Target yield at 120%
Portuguese Gov bond: Target yield at 1.5%
Ireland Gov bond: Target yield at 0.3%
Greek Gov bond: Target yield at 2.30%

EMERGING MARKET BONDS

Fundamental targets

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

		10 Year Yield Nominal	CPI (y/y) 3 month Mov Avg	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	7,83%	2,97%	4,86%	-1,00%	6,83%
	India	6,10%	6,36%	-0,26%	1,00%	7,10%
	Philippines	3,49%	2,55%	0,94%	0,00%	3,49%
	China	2,49%	2,44%	0,05%	0,00%	2,49%
	Malaysia	2,84%	0,54%	2,31%	-0,75%	2,09%
	Thailand	1,09%	0,08%	1,01%	-0,50%	0,59%
	Singapore	0,86%	0,14%	0,72%	0,00%	0,86%
	South Korea	1,34%	1,01%	0,33%	0,00%	1,34%
	Taiwan	0,46%	-0,14%	0,60%	0,00%	0,46%
EME	Turkey	11,41%	12,11%	-0,70%	1,00%	12,41%
	Russian Fed	6,10%	2,40%	3,70%	-1,00%	5,10%
LATAM	Brazil	7,48%	3,62%	3,87%	-1,00%	6,48%
	Mexico	6,50%	3,46%	3,04%	-1,00%	5,50%
	Colombia	6,76%	3,80%	2,96%	-0,75%	6,01%
	Peru	5,00%	1,83%	3,17%	-1,00%	4,00%

ENERGY – OIL

Fundamental view (WTI): Target range USD20-40bbl.

Buy < USD20; Sell >40

Short-term drivers

(Price Negative) – Lack of storage remains the overarching concern. Some sell-side analysts estimated total US production shut-ins would have to equate to 1M bpd in May and a further 500K bpd in June to avoid Cushing storage from becoming over 90% full. Global onshore storage was 85% full as of the fourth week of April. Storage problems don't just affect the U.S. The largest private oil storage firm (Royal Vopak NV in Rotterdam) already warns that they are almost at full capacity, and that it is using tanks that were not in use. In Cushing, Oklahoma, space reserves are depleted (some reserved space for lease - there is always someone who wins), while gas producers are considering adapting gas tanks to store crude oil. The Saudis woke up, saying that "we may have to implement the agreement to cut 10M barrels before May 1. After the mistake of agreeing to something insufficient, they committed the even greater mistake of not starting immediately (in an environment that required it). A Saudi official said yesterday in the financial media: "something has to be done about this bloodbath... but it might be a little too late".

(Price Negative) – Russian Energy Minister Alexander Novak said yesterday that oil markets would begin to balance once the OPEC+ deal takes effect on May 1, though he sees no significant rise in prices due to high levels of global storage. Despite the production cut agreement, global oversupply still remains an overhang. OPEC supply in April surged by over 2M bpd to the highest since Dec-18, according to tanker tracker Petro-Logistics.

(Price Negative) – April's oil price declines were due in part to weakness from changes in positioning for USO fund (a big oil ETF), which will sell all of its June contract, which makes up 20% of its portfolio, by the end of Wednesday. It will instead position 30% into the July contract, 15% in August through December contracts, and 10% in June-21. June's contract yesterday finished at a 40% discount to the July contract. The fund's policy shift comes as its broker disclosed that in the future, it would hold significant portions of cash beyond what was historically held in order to satisfy potential margin requirements.

(Price Negative) – Hedge funds and other managers purchased a record amount of WTI on the third week of April. Managers purchased a net 108M barrels of WTI and 23M barrels of Brent in the week ended Apr 21. WTI positions have risen for seven weeks by a total of 190M barrels, with 166M barrels of new long positions and 23M fewer short positions. Long positions outnumber shorts by a 4:1 ratio, up from less than 2:1 in early March.

(Price Negative) –Traders hiring expensive US vessels for offshore storage. Reuters reported that oil traders have started to book Jones Act vessels for foreign voyages or to store refined products. The US Jones Act requires vessels traveling between domestic ports to be owned and operated by domestic crews, and are generally more expensive than other vessels. Foreign-flagged vessels leaving the US have jumped to about $60K per day for medium-range and a record $100K for long-range, compared to medium-range Jones Act tanker rates of about $55-70K per day. Jones Act vessels utilization is currently 100%, and some vessels which had been planned to be scrapped may end up being used as storage.

(Price Negative) – US producers running out of storage space have delivered 1.1M barrels to the Strategic Petroleum Reserve. The inflows follows an Energy Department announcement earlier this month that it would rent around 23M barrels of capacity in the SPR. The DOE said it was negotiating leases with nine producers to deliver in May and June, which can be returned through Mar-21.

(Price Positive) – Aramco begins cuts ahead of OPEC+ start date. Bloomberg reported that Aramco has begun cutting to a level of 8.5M bpd from around 12M, reducing output ahead of the May 1 start date for the OPEC+ cuts. The article noted that Saudi Arabia was the latest OPEC member to cut output ahead of the agreed date, following Kuwait, Algeria and Nigeria. The article noted that OPEC and its allies agreed earlier this month to cut global production by 10%, or 9.7M bpd, though crude prices have continued to slide as worldwide lockdowns wipe out demand.

Long-term drivers

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

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

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

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,600/oz. Buy at $1.400

Positive drivers for gold

Relative qualities of gold as an anti-fragile asset: Gold shares the quality of an anti-fragile asset, along with the risk-free bond of the North American Treasury. As such, investors should always carry out the exercise of deciding which anti-fragile asset should be kept in the portfolio to hedge against economic shocks of demand, supply or inflation shocks. The answer will have a lot to do with the perception of which of the two anti-fragile assets will have better relative performance in the future. In turn, this will depend on the relative supply of both anti-fragile assets. The one with the lowest relative supply will be the one that will experience the best performance, and will best reflect its quality as an anti-fragile asset in the face of a shock. In relation to this, we are very clear that the relative supply of US Treasury bonds will be almost unlimited, while gold will continue to have a very limited supply in the next decade. The low margins of the mining companies, and the mergers (necessary to survive) make us think that the probability of investing in new lows is really very low. This lower relative supply of gold should translate into better performance in relation to the UST.

Negative yields still make gold attractive: The disadvantage of gold compared to fixed income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds (>US$13trn of face value is yielding negative rates).

Gold to the S&P500: This ratio is at 0.60x and is now just at its LT average of 0.61x. Given our target price for the S&P of US$2,900, the price of gold must approach US$1,769 for this ratio to remain near its LT average.

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).

Negative drivers for gold

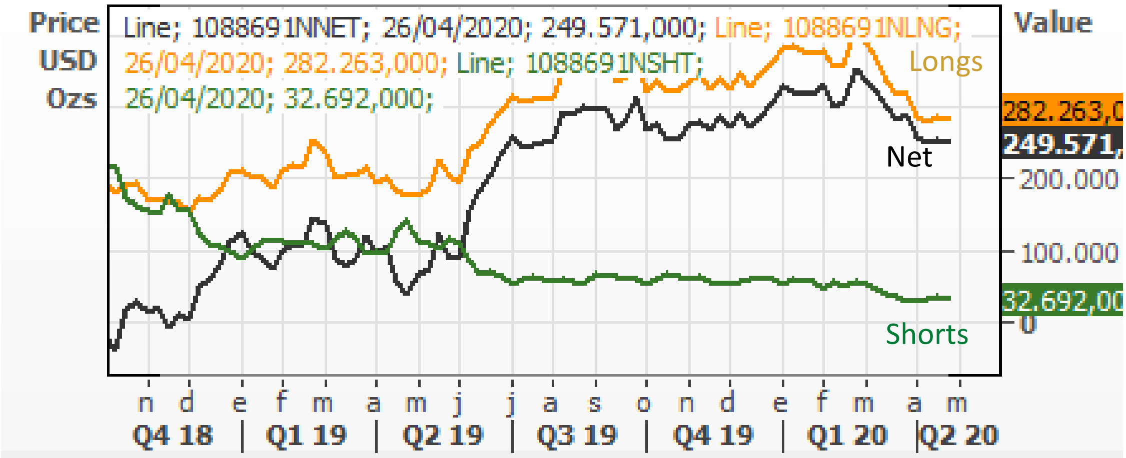
Gold in real terms: In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) fell to US$1,437 (from US$1,448 last month). Therefore, in real terms, gold continues to trade well above its 20-year average of US$943. Given the global deflator (now at 1.1311), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,066.

Gold to Silver (Preference for store of value over productive assets). This ratio is at 112.6 and still remains well above its 20-year average of 65.12x, suggesting that gold is expensive (at least relative to silver). For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$990/oz.

Gold to Oil: This ratio is at 134x, still well above its 20-year average of 16x. Considering our fundamental long-term target for oil of US$40 pb (our central target for the long term) and that the utility of oil relative to gold will remain unchanged, the price of gold must approach US$640 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Long contracts at 282k (from 408k last month). Short contracts at 32.6. Thus, the net position is 249k contracts during the month.

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



EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.10
USD-JPY: Target 110; **EUR-JPY**: Target 121
GBP-USD: Target 1.32; **EUR-GBP**: Target 0.83
USD-CHF: Target 0.97; **EUR-CHF:** Target 1.07
USD-MXN: Target 23; **EUR-MXN:** Target 25,3
USD-BRL: Target 5.30; **EUR-BRL:** Target 5.83
USD-ARS: Target 80
USD-INR: Target 74
CNY: Target 6.90
RUB: NEUTRAL-POSITIVE
AUD: NEUTRAL-POSITIVE
CAD: NEUTRAL-POSITIVE

Positive
Neutral-Positive
Neutral-Negative
Negative

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	-10,65	-3,41	32,1	-10,7	17,8	-1,04
USD vs G10	-10,67	-3,62	32,7	-10,7	19,1	-1,18
EM	-0,01	-0,21	5,2	-0,2	1,9	-1,08
EUR	11,84	7,37	11,9	-15,5	-4,7	0,81
JPY	3,02	-0,81	3,8	-12,8	-5,8	1,69
GBP	-0,11	-1,51	2,8	-6,5	-2,2	0,67
CHF	0,64	-0,32	1,0	-6,0	-1,9	1,61
BRL	-0,18	0,50	0,1	-1,2	-0,5	-0,17
MXN	0,03	-0,71	4,6	0,0	1,9	-0,71
RUB	0,14	0,00	1,2	-0,2	0,6	-1,08
AUD	-2,19	-0,46	-1,3	-5,2	-3,1	-0,71
CAD	-1,68	-1,00	4,1	-5,0	-0,4	-0,52

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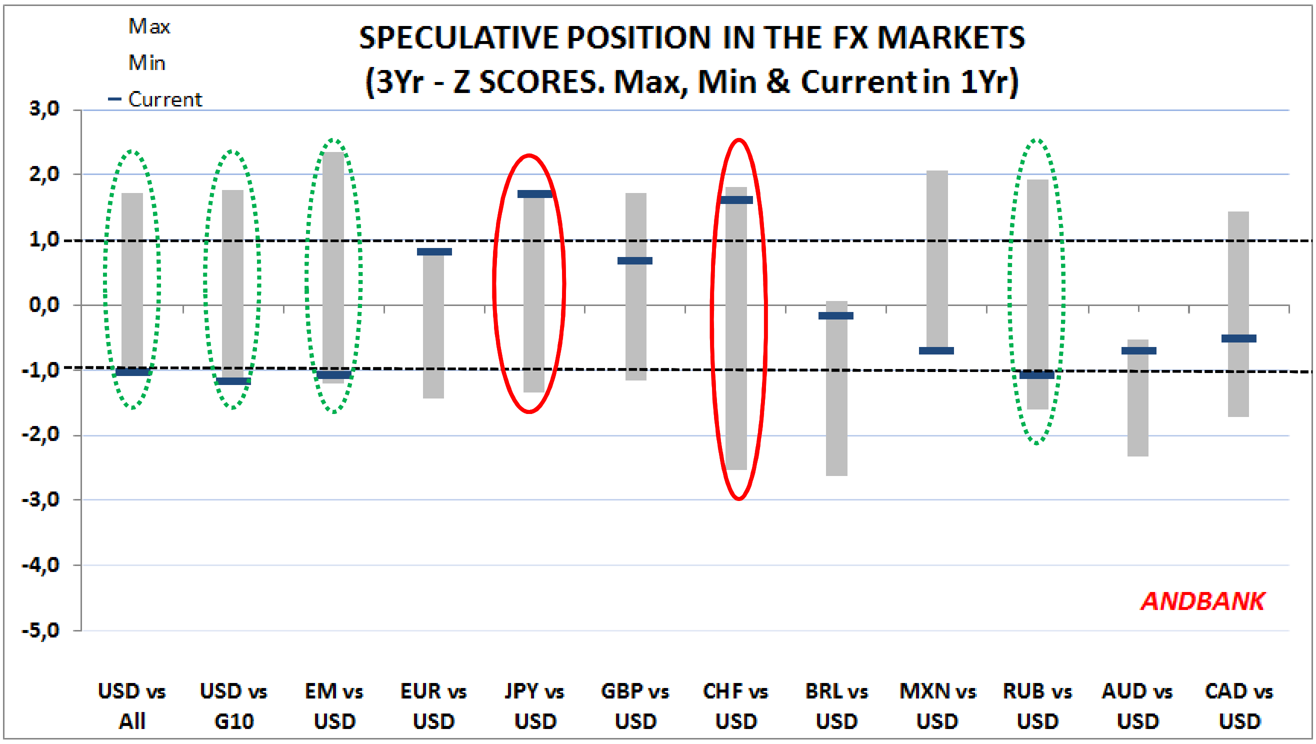

The currencies we technically favor are circled in green

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Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fundamental Central Point 2020	Expected Performance to central point 2020
Equity	USA - S&P 500	12,4%	-9,0%	2.906	2.451	-15,6%
	Europe - Stoxx Europe 600	6,2%	-16,5%	340	313	-8,0%
	Euro Zone - Euro Stoxx	6,3%	-18,7%	322	303	-5,9%
	SPAIN - IBEX 35	2,0%	-26,1%	6.922	7.448	7,6%
	MEXICO - MXSE IPC	4,9%	-15,3%	36.257	33.067	-8,8%
	BRAZIL - BOVESPA	10,6%	-28,1%	80.768	80.784	0,0%
	JAPAN - NIKKEI 225	13,7%	-14,6%	21.507	18.071	-16,0%
	CHINA - SHANGHAI COMPOSITE	4,0%	-6,2%	2.860	2.827	-1,2%
	CHINA - SHENZEN COMPOSITE	5,8%	2,3%	1.763	1.653	-6,3%
	INDIA - SENSEX	14,4%	-18,3%	33.718	31.527	-6,5%
	VIETNAM - VN Index	16,1%	-20,0%	769	804	4,5%
	MSCI EM ASIA (in USD)	8,1%	-11,7%	500	496	-0,7%
Fixed Income Core countries	US Treasury 10 year Govie	0,7%	11,3%	0,59	1,40	-6,1%
	UK 10 year Gilt	1,0%	5,0%	0,23	0,80	-4,4%
	German 10 year BUND	0,9%	3,2%	-0,60	-0,20	-3,6%
	Japanese 10 year Govie	0,4%	0,1%	-0,05	0,00	-0,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,3%	-1,9%	0,71	1,00	-1,8%
	Italy - 10yr Gov bond	-1,9%	-2,5%	1,74	2,00	-0,9%
	Portugal - 10yr Gov bond	0,2%	-2,9%	0,79	1,15	-2,3%
	Ireland - 10yr Gov bond	-0,2%	0,6%	0,02	0,30	-2,3%
	Greece - 10yr Gov bond	-4,4%	-5,3%	2,13	2,30	0,1%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,6%	-1,0%	78,83	80	0,3%
	Credit EUR HY-Itraxx Xover	3,1%	-7,9%	481,61	450	4,0%
	Credit USD IG - CDX IG	1,0%	-0,5%	86,60	75	1,4%
	Credit USD HY - CDX HY	1,6%	-8,8%	626,02	768	0,4%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	12,3%	7,9%	11,41	13,00	-5,1%
	Russia - 10yr Gov bond (local)	5,4%	2,9%	6,10	5,70	7,3%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	0,3%	-4,3%	7,83	6,80	13,5%
	India - 10yr Gov bond (local)	0,7%	5,7%	6,10	7,00	-3,1%
	Philippines - 10yr Gov bond (local)	13,0%	9,0%	3,49	3,30	3,8%
	China - 10yr Gov bond (local)	1,5%	6,1%	2,49	2,50	1,6%
	Malaysia - 10yr Gov bond (local)	4,2%	4,7%	2,84	2,40	5,5%
	Thailand - 10yr Gov bond (local)	2,4%	3,2%	1,09	0,70	3,9%
	Singapore - 10yr Gov bond (local)	3,3%	7,4%	0,86	1,00	-0,5%
	Rep. Korea - 10yr G. bond (local)	0,4%	2,3%	1,34	1,30	1,3%
	Taiwan - 10yr Gov bond (local)	0,0%	1,5%	0,46	0,50	-0,1%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	4,9%	5,0%	6,50	6,90	1,2%
	Mexico - 10yr Govie (USD)	-3,7%	-8,8%	4,58	3,40	12,5%
	Brazil - 10yr Govie (Loc)	1,9%	-3,2%	7,48	7,40	5,7%
	Brazil - 10yr Govie (USD)	-2,9%	-10,3%	5,63	4,90	9,6%
Commodities	Oil (WTI)	-10,6%	-70,0%	18,3	40,00	118,5%
	GOLD	8,0%	11,8%	1.696,0	1.600	-5,7%
Fx	EURUSD (price of 1 EUR)	-0,9%	-2,5%	1,093	1,100	0,6%
	GBPUSD (price of 1 GBP)	1,5%	-5,0%	1,26	1,32	4,8%
	EURGBP (price of 1 EUR)	-2,4%	2,6%	0,87	0,83	-3,9%
	USDCHF (price of 1 USD)	0,7%	-0,1%	0,97	0,97	0,3%
	EURCHF (price of 1 EUR)	-0,3%	-2,6%	1,06	1,07	0,9%
	USDJPY (price of 1 USD)	-0,5%	-1,5%	106,96	110,00	2,8%
	EURJPY (price of 1 EUR)	-1,4%	-4,0%	116,95	121,00	3,5%
	USDMXN (price of 1 USD)	0,8%	26,3%	23,90	23,00	-3,8%
	EURMXN (price of 1 EUR)	0,0%	23,3%	26,13	25,30	-3,2%
	USDBRL (price of 1 USD)	4,0%	34,7%	5,41	5,30	-2,1%
	EURBRL (price of 1 EUR)	3,1%	31,4%	5,92	5,83	-1,5%
	USDARS (price of 1 USD)	4,1%	11,6%	66,83	80,00	19,7%
	USDINR (price of 1 USD)	-0,3%	5,2%	75,08	74,00	-1,4%
	CNY (price of 1 USD)	-0,3%	1,4%	7,06	6,90	-2,3%

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

UPWARD REVISION DOWNWARD REVISION

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Achieves
More

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