GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review – March 2021

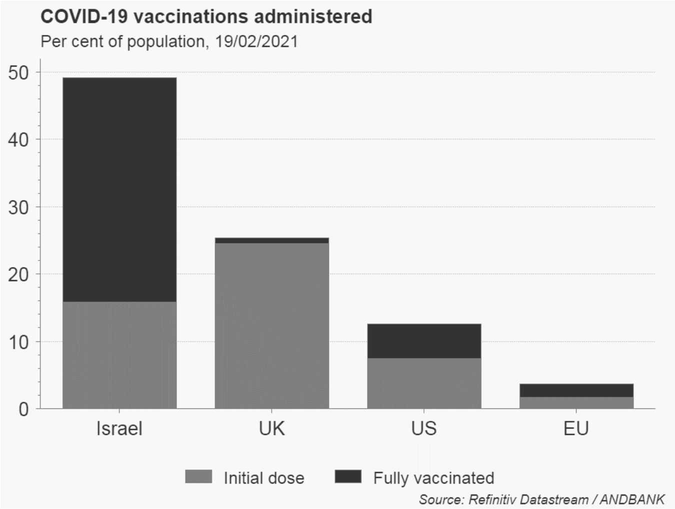
Corporate Review

March 2021

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

EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2021 E[Perf] to Fair Value	Recomm	2021 Exit Point
USA S&P 500	3.880	3.780	-2,6%	MW/OW	4.347
Europe - Stoxx Europe 600	412	437	6,3%	OW	503
Euro Zone - Euro Stoxx	412	425	3,2%	OW	489
Spain IBEX 35	8.355	7.276	-12,9%	UW	8.367
Mexico IPC GRAL	44.980	48.000	6,7%	OW	55.200
Brazil BOVESPA	111.414	112.500	1,0%	MW/OW	129.375
Japan NIKKEI 225	29.664	28.270	-4,7%	UW	32.511
China SSE Comp.	3.551	3.363	-5,3%	UW	3.868
China Shenzhen Comp	2.349	2.367	0,8%	MW/OW	2.722
India SENSEX	49.850	52.500	5,3%	OW	60.375
Vietnam VN Index	1.186	1.377	16,1%	OW	1.584
MSCI EM ASIA	750	706	-5,9%	MW -UW	811

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income Core countries	US Treasury 10 year Govie	1,43	1,50	0,6%
	UK 10 year Gilt	0,75	0,80	0,3%
	German 10 year BUND	-0,34	-0,25	-1,0%
	Japanese 10 year Govie	0,14	0,00	1,3%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,33	0,35	0,1%
	Italy - 10yr Gov bond	0,68	0,50	2,0%
	Portugal - 10yr Gov bond	0,23	0,35	-0,8%
	Ireland - 10yr Gov bond	0,01	0,15	-1,1%
	Greece - 10yr Gov bond	1,02	1,35	-1,8%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	52,34	55	-0,1%
	Credit EUR HY-Itraxx Xover	262,88	250	2,1%
	Credit USD IG - CDX IG	55,80	50	0,8%
	Credit USD HY - CDX HY	310,75	275	3,8%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	12,83	12,04	17,0%
	Russia - 10yr Gov bond (local)	6,73	5,28	17,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,53	5,23	15,8%
	India - 10yr Gov bond (local)	6,20	6,00	6,8%
	Philippines - 10yr Gov bond (local)	3,89	3,02	10,2%
	China - 10yr Gov bond (local)	3,24	2,20	11,1%
	Malaysia - 10yr Gov bond (local)	3,07	1,64	14,0%
	Thailand - 10yr Gov bond (local)	1,58	0,81	7,5%
	Singapore - 10yr Gov bond (local)	1,27	0,93	3,8%
	Rep. Korea - 10yr G. bond (local)	1,85	1,02	8,2%
	Taiwan - 10yr Gov bond (local)	0,29	0,25	0,6%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	6,20	6,00	6,8%
	Mexico - 10yr Govie (USD)	3,14	3,25	1,8%
	Brazil - 10yr Govie (Loc)	8,17	6,75	18,2%
	Brazil - 10yr Govie (USD)	4,18	3,50	9,0%

COMMODITIES & FX

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Commodities	Oil (WTI)	61,6	55,00	-10,7%
	GOLD	1.736,3	1.900	9,4%
Fx	EURUSD (price of 1 EUR)	1,204	1,20	-0,3%
	GBPUSD (price of 1 GBP)	1,39	1,41	1,3%
	EURGBP (price of 1 EUR)	0,86	0,85	-1,6%
	USDCHF (price of 1 USD)	0,91	0,89	-3,0%
	EURCHF (price of 1 EUR)	1,10	1,06	-3,3%
	USDJPY (price of 1 USD)	106,62	103,50	-2,9%
	EURJPY (price of 1 EUR)	128,35	124,20	-3,2%
	USDMXN (price of 1 USD)	20,64	21,00	1,7%
	EURMXN (price of 1 EUR)	24,83	25,20	1,5%
	USDBRL (price of 1 USD)	5,60	5,15	-8,0%
	EURBRL (price of 1 EUR)	6,73	6,18	-8,2%
	USDARS (price of 1 USD)	90,08	140	55,4%
	USDINR (price of 1 USD)	73,51	74,00	0,7%
	CNY (price of 1 USD)	6,47	6,25	-3,3%

USA

The bull market cycle still has legs, although there are signs of exuberance

Fiscal package. Greater than we thought

The House of Representatives narrowly approved President Joe Biden's top priority - his $1.9 trillion coronavirus relief bill- to fight the pandemic and boost the economy early Saturday. The action now moves to the Senate, where Democrats don't expect much if any Republican help, even though polls indicate a majority of Americans - around 70 percent - favor the measure. That means Democratic Vice President Kamala Harris may have to cast a tie-breaking vote in a chamber where Republicans control 50 seats and Democrats and their allies control the other 50. Even this outcome depends on all the Democrats staying united behind the first major bill to come through Congress in the Biden administration.

Exuberance, but drivers are still positive

There are signs of excess both from a macro and micro perspective, whether it's the massive outperformance of small vs large caps, the reflationary expectations that are building, or record low junk bond yields, or whether it's the meme stock frenzy, cryptocurrency enthusiasm or SPAC exuberance. We know what the main drivers are: optimism that vaccines will return activity toward normal in 2H, a now willing-and-able fiscal support system, and a monetary policy regime effectively signaling a desire to see some overheating. Drivers that will remain for some time.

Vaccination is beating the virus expansion rate. And good news for efficacy against the most dangerous strains

On the vaccine front, the percentage of the population that has received a first shot stands at 10.4% in the US (far above 3.0% in Spain, Germany, and France, and 2.6% in Italy). The daily pace of new administered doses (7DMA) has picked up to 1.6-1.7M in the US, which compares very well versus the confirmed 7-day moving average of 102K. New cases, hospitalizations and positive testing rates have continued to fall. Excellent news on the efficacy of vaccines against the most dangerous strains. Novavax shows efficacy of 89.3% against the UK strain, and a reasonable 60% efficacy in preventing the South Africa strain. Sinopharm also presented evidence suggesting lower but still sufficient efficacy against the South African strain. J&J (66% efficacy for the broad strain) and CanSino presented interim efficacy results of 65.7%. AstraZeneca presented evidence of protection against the UK variant but only provides minimal protection against the South Africa strain, prompting South Africa to pause administration of the vaccine. Last but not least, in the South Africa samples of their studies, all five Western vaccines prevented severe symptoms extremely well, with zero hospitalizations or deaths attributed to a post-vaccination coronavirus infection across the nearly 75,000 trial participants (including in South Africa and Brazil).

Omnipresent Fed vigilant to preserve financial stability

Fed chair Powell noted that a sustained strong labor market "can deliver substantial economic and social benefits" while also mentioning that "at present, we are a long way from such labor market conditions". These remarks reinforce the dovish stance that the FOMC has been sending for a while now and we don't think the Committee will raise rates at any point over the next few years. Like Powell, Treasury secretary Yellen believes that the benefits of achieving a strong labor market offset any related budgetary costs and/or inflation risks in the current environment.

Equity market

Earnings are driving the market again, with 381 companies reporting surprise earnings figures almost 20% higher. Looking ahead, estimated earnings growth for Q121 is +21.1% YoY with the consumer discretionary sector showing the highest earnings growth (+75.9%) of any sector, with specialty stores and automotive manufacturing sub-industries posting the highest figures. The financials sector has the second highest estimated earnings growth (+63.6% YoY), with consumer finance and diversified banks leading the way. As a result, we are raising our EPS target (again) for S&P companies from US$175 to $180. Using a reasonable PE multiple of 21x, we are setting a fundamental fair value for the S&P at 3,780 with an exit point at 4,350.

Financial market assessment

Equities – S&P: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (10Y UST Entry point 1.50%)

CDX IG: MARKETWEIGHT-OW (Target Spread 50)

CDX HY: STRONG OVERWEIGHT (Target Spread 275)

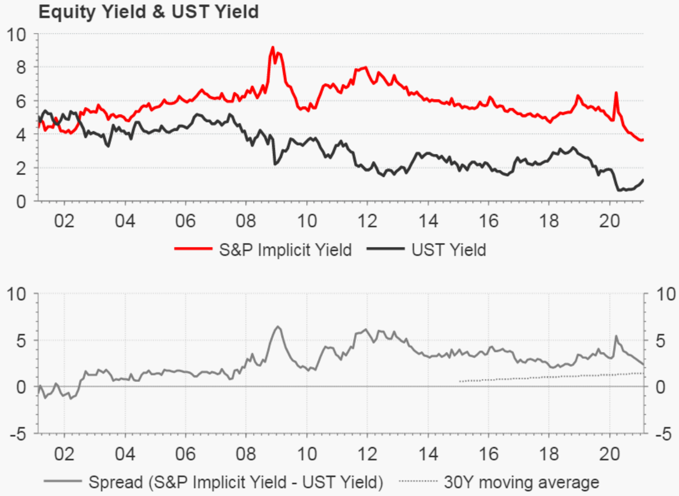
Forex – DXY index: MARKETWEIGHT-OVERWEIGHT

US price-to-earning ratio

Ratio vs average

Source: Refinitiv Datastream / ANDBANK

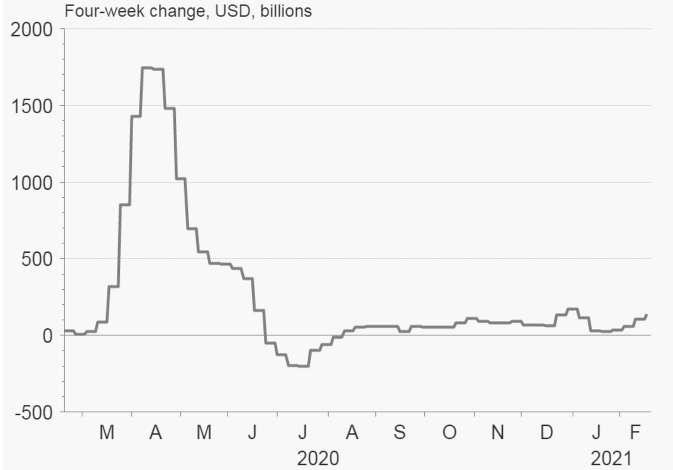
Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

Federal Reserve balance sheet

Four-week change, USD, billions



Source: Refinitiv Datastream / ANDBANK

EUROPE

Is inflation back? Not yet

A slight increase in inflation should not come as a surprise

European GDP growth estimates have been sliding towards 4%, with the European Commission forecasters pointing to the lower band (3.8%). As for the vaccination roll-out, no major changes since last month, with the UK leading and most of the Eurozone members still lagging, but an acceleration is expected once supply bottlenecks are solved.

Inflation numbers in January spiked more than expected, positively surprising in most countries. The recovery trend is likely to continue in the coming months due to base effects and energy components. In Germany, HCIP numbers over 3% YoY are expected during the year. Whether inflation will remain at higher levels, beyond the temporary reasons, is still unclear but inflation estimates could be adjusted upwards: around 1.3% in 2021 for the headline figure (vs 1% previously).

ECB patiently accommodative, resembling the FED

Lagarde and ECB members seem scarcely worried about inflation and are sticking to their mantra about “preserving favorable financing conditions”. The recovery in nominal rates has recently exceeded the improvement in inflation break-evens, so real rates are starting to take over, still at very low levels, but worth monitoring.

Welcome back Draghi!

A political and technocrat government led by the former ECB governor, with a very ample level of consensus and public support, could govern the country until 2022. Italy has made the best choice, avoiding elections, with solid and prestigious names on the economic side and prepared and willing to benefit from the Next Generation Fund. We want to highlight the key role of this fund, which will be highly influential on how European countries grow in the future depending on take up.

European Govies

Having already reached our bund target (-0.4%), it is time to review it again, after recently setting a new target for the US Treasury (to 1.5%), and given the high correlation between them. We see the “next stop” for the bund at around -0.25%. On the “pro” front: As Covid headwinds fade into the summer, and investors become more comfortable that the economic recovery will be sustained, the gap between monetary aggregates, PMIs and yields should narrow, supporting higher yields, and this could happen in the following months as CPI spikes. On the “cons”: 1) ECB most recent purchases have been low, leaving “dry powder” for more QE in the coming months; 2) Inflation pressures are lower in the Eurozone than the US.

Corporate bond market

We expect new bond issuance (both financial and non-financial) will be lower this year than in the last two years. In January, gross issuance has been 20% lower YoY (or -40% YoY net of redemptions).

The ECB will continue to support corporate bonds during 2021 as its purchases during the year (CSPP+PSPP programs) will equate to 20% of the estimated gross non-financial issues.

Bankruptcies are concentrated in sectors linked to the Covid crisis, such as consumption, general services or energy. Moodys has estimated that the default rate in Europe will end up at 3% (although it may experience a specific rebound) .

The best performers in the credit market YTD have been Italian names (after the resolution of the political conflict) as well as names in the financial sector. Debt spreads have continued narrowing YTD. More specifically, investment grade is at pre-pandemic levels (Itraxx at 48bp, therefore unattractive in terms of potential gains, but stable). High yield spreads have also narrowed (Itraxx Xover at 255bps), reflecting this general improvement. We have decided to maintain the target level for the investment grade index (Itraxx IG) at 55 with an UW recommendation, but have revised the target spread for the high yield index (Itraxx Xover) from 300bp to 250bp, maintaining our neutral to constructive stance.

Financial market assessment

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target −0.25%)

Peripheral– OW IT (0.5%). UW: SP (0.35%), PO (0.35%), IE (0.15%), GR (1.35%).

Credit – Itraxx Europe (IG): MARKETWEIGHT-UW (Target Spread 55)

Credit – Itraxx Europe (HY): MARKETWEIGHT-OW (Target Spread 250)

FX – EUR/USD Target 1.20 (Buy USD at 1.23, Sell USD at 1.16)

STOXX 600 - EPS

1Y % Change

Source: Refinitiv Datastream / ANDBANK

€IG benchmark supply to drop in 2021

iBoxx € Corp eligible net and gross issuance forecasts. All numbers rounded to the nearest €5bn

		2020 Forecasts		2021 Forecasts			
		Issuance	Net supply	Issuance	Net supply	% chg. Issuance	% chg. net supply
Non-Financials	Senior	320	210	240	110	-25%	-48%
	Sub	25	20	20	15	-20%	-25%
	Subtotal	345	230	260	125	-25%	-46%
Financials	Senior	170	95	150	65	-12%	-32%
	Sub	25	10	25	5	0%	-50%
	Subtotal	195	105	175	70	-10%	-33%
Total		540	335	435	195	-19%	-42%

Source: Bloomberg, Markit, Commerzbank Research

Euro STOXX banks Index

Source: Refinitiv Datastream / ANDBANK

CHINA

A look at China: Diplomacy, Geopolitics, Corporate sanctions, Covid, Asset Outlook

Diplomacy

The White House reported the first phone call between President Biden and China's President Xi Jinping, in which Biden conveyed concerns about China's "coercive and unfair economic practices" as well as human rights abuses in the Xinjiang region. Biden also expressed misgivings about the country's growing restrictions on political freedoms in Hong Kong and "increasingly assertive actions in the region, including towards Taiwan". The new State Department said it was "deeply disturbed" by reports on the BBC of systematic rape against Muslim women in Uighur internment camps in Xinjiang, adding that there must be serious consequences for the atrocities committed. It said China had committed crimes against humanity and genocide, and called for an independent international investigation. President Biden also gave his first foreign policy speech in which he called out China as the US's most serious competitor, but added it is ready to work with the country when it is in the US's interests to do so. Biden said US will take on any challenges to the country's prosperity, security and democratic values and will confront China's economic abuses and counter Beijing's attack on human rights, intellectual property and global governance.

Geopolitics

Myanmar anti-coup demonstrators rally at Chinese embassy in Yangon. Hundreds of protestors demonstrated at the Chinese embassy in Yangon on Thursday accusing Beijing of backing the military junta in its coup last week. While western governments have been quick to condemn the coup, China has called the takeover a "cabinet reshuffle". Meanwhile, the Canadian Security Intelligence Service director David Vigneault said that China represents a serious strategic threat to Canada, from attempts to steal secrets through to a campaign to intimidate the Chinese community living in Canada. The detailed accusations come three months after China was identified by Canadian authorities as running state-sponsored cybercrime programs. India and China agree to pull back troops from a contested area surrounding a lake in the Himalayas. India's defense minister told his parliament that the two sides had reached an agreement following several rounds of talks between diplomats and military commanders.

Corporate: Trump's plan for TikTok sale to Oracle and Walmart shelved

Biden's Commerce pick says she sees no reason to remove Huawei from blacklist. China's top chipmaker SMIC (981.HK) said the company remains unable to reap the full benefits of pandemic-fueled demand as US restrictions are costing valuable growth opportunities. Meanwhile, the Biden administration has said it is reviewing a proposed ban of WeChat in the US, a day after announcing a similar pause to consider the fate of video app TikTok. He added that officials would provide a status update in 60 days.

Macroeconomics, FX & Debt

Auto sales in China rose 30% YoY in January, the tenth month in a row in which the country has seen a rise. Total new car sales reached 2.5M while new energy vehicles increased by 239% to 179,000 units. China is looking to globalize its digital currency project. SCMP reported on the new joint venture between SWIFT and the PBoC, that Beijing is eying a global digital currency use for the yuan. This is in line with Beijing's attempts to internationalize the currency.

For the first time, foreign investors now own more than 10% (some $310B) of outstanding Chinese government bonds.

Chinese corporate defaults YTD have already reached 33% of 2020's total defaults (and 70% of 2019's) as firms have missed interest or principal payments on $2.7B worth of dollar-denominated notes since the start of the year. The article quoted an analyst saying this figure is likely to increase given limited access to refinancing capital despite numerous rounds of policy easing in 2020.

Covid

CanSino's (6185.HK) one-shot Covid vaccination candidate (currently in final stage testing) has shown an efficacy rate of 65.7% at preventing symptomatic cases, and a 90.1% rate in preventing severe disease. The only other one-shot vaccine (Johnson & Johnson, JNJ), has also shown an efficacy rate of 66%. Chinese regulators approve Sinovac Covid vaccine for use in general public. This is the second approved vaccine following Sinopharm's shot approval.

Financial market outlook

Equities – SHANGHAI Idx: UNDERWEIGHT-MARKETWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT-OVERWEIGHT

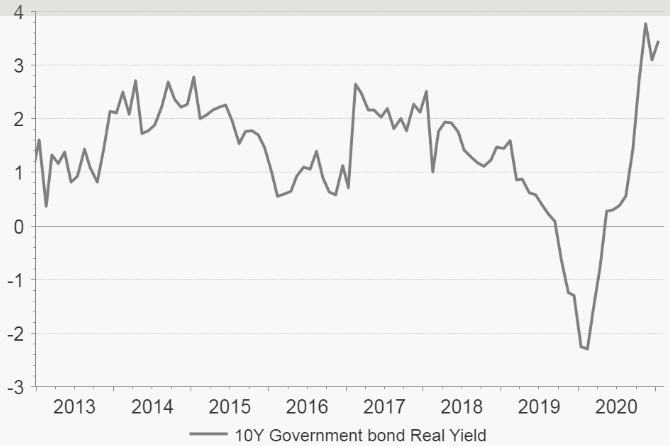
Bonds – Govies: OVERWEIGHT (10Y Yield target 2.20%)

Forex – CNY/USD: OW (Target 6.25)

China Broad, price/earnings, Datastream index
Ratio

Source: Refinitiv Datastream / ANDBANK

China - 10Y Government Bond Real Yield
Per cent



Source: Refinitiv Datastream / ANDBANK

USDCNY exchange rate
Spot rate

Source: Refinitiv Datastream / ANDBANK

JAPAN

BoJ mulls ways to signal ability to cut rates further. "ETF purchases will remain a necessary tool"

BoJ

BoJ officials are considering ways to communicate that the bank has room to cut its interest rate further below zero. With the policy review expected to be announced in March, no conclusions have been reached, but officials see a need to make it clearer that reducing rates is a live option while considering ways to minimize the side effects of such a move.

Board member Toyoaki Nakamura offered his opinion on the BoJ's policy review. He noted that ETF purchases have been effective in eliminating sensitive deflationary mindsets stemming from concerns about stock market instability. Going further, he suggested that the BoJ's purchases "will remain a necessary tool going forward".

Macro doesn't follow and supports BoJ's intentions to continue delving into monetary stimuli

December nominal average wages were -3.2% YoY (vs -2.2% in prior month). Real wages grew at -1.9% YoY versus a revised -1.1% in prior month. In a quick move, the BoJ responded with a M2 money supply of +9.4% YoY vs consensus +9.2% and revised +9.1% in prior month. Bank lending in January was +6.1% YoY.

Japan GDP growth seen slowing in Q420. Reuters consensus poll showed Japan Q4 GDP expected to have expanded at 9.5% QoQ annualized, following 22.9% growth in prior quarter. Commentary was bearish given private consumption headwinds from the state of emergency rolled out in January, stoking fears of another economic slump that could push Japan back into deflation. Exports seen as the main support factor in Q4, helping to cushion relative drag from sharp deceleration in private consumption. Likely capital spending rose moderately.

Corporate

Toyota moves to sell more EVs in US: Toyota Motor (7203.JP) plans to begin selling a pair of battery-powered vehicles in the US this year, revising a wait-and-see approach to electric cars and trucks. On Wednesday Toyota said it will start selling the unnamed EVs and an unspecified plug-in hybrid model, adding to a lineup with several gas-electric hybrids that accounted for almost one-fifth of its total US deliveries last year.

SoftBank Group (9984.JP) will invest $900M in Pacific Biosciences (PACB) via an agreement to buy convertible bonds through subsidiary SB Management. Pacific Biosciences, which produces high-speed genetic sequencing platforms, reported about $91 million in revenue and a net loss of $84 million for 2019. Pacific Biosciences will use the new funding to bring next-generation technology to market. Softbank Group's (9984.JP) announcement took earnings to a record ¥3T, a dramatic turnaround from its biggest loss in history. Profits from the Vision Fund helped SoftBank to offset a loss on its investments in publicly traded stocks, made through its asset management arm, SB Northstar.

Renesas Electronics (6723.JP) CEO, H. Shibata, said at an earnings call that semiconductor supplies are likely to remain tight in H1, suggesting that the bottleneck in computing and auto production will continue. Furthermore, the mooted capacity expansion would take a very long time and he sees no prospects for an impact this year. He reaffirmed the policy to outsource production of high-end products to foundries, with focus on direct manufacturing.

Netflix (NFLX) will raise streaming prices in Japan by up to 13% on Friday. The standard plan will rise to ¥1,490 ($14) per month, ¥170 more than the current level, while the basic plan will be increased to ¥990 from ¥880. The premium plan, which includes 4K Ultra HD, will stay at ¥1,980. With the coronavirus keeping consumers at home more than usual, Netflix added roughly 2M subscribers in Japan over the past year bringing its total to more than 5M.

Covid & Vaccines

On Wednesday, Japan's Prime Minister, Yoshihide Suga, said that the government will begin Covid-19 vaccinations for health workers in mid-February. The government is planning to start the rollout of the Pfizer vaccine as early as Wednesday 17. Suga said "The downward trend in the number of newly infected cases has become more certain". But he also acknowledged that there are still difficulties in securing enough hospital beds for Covid-19 patients.

Tokyo confirmed 276 new coronavirus cases on Monday, marking the lowest daily infections in more than two months under an extended state of emergency in the capital and other areas. This compares with a record 2,447 daily cases reported when the government declared a state of emergency in Tokyo.

Financial market outlook

Equities – N225: UNDERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 0.00%)

Forex – USD-JPY: MARKETWEIGHT (Mid-term target 103.5)

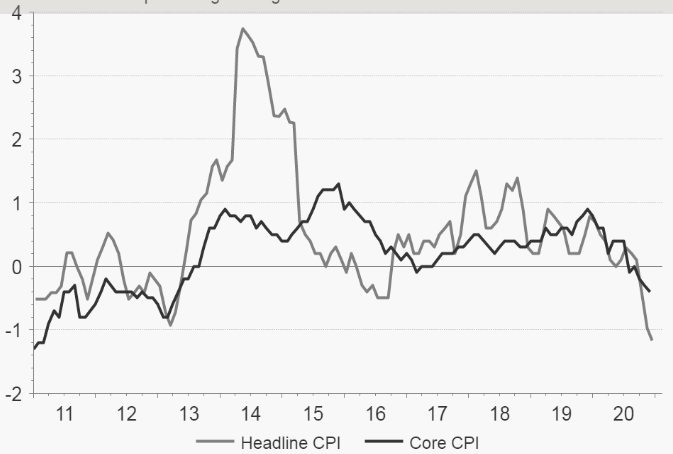
Japan indices of business conditions

Composite indices, 2015 = 100

Source: Refinitiv Datastream / ANDBANK

Japan CPI

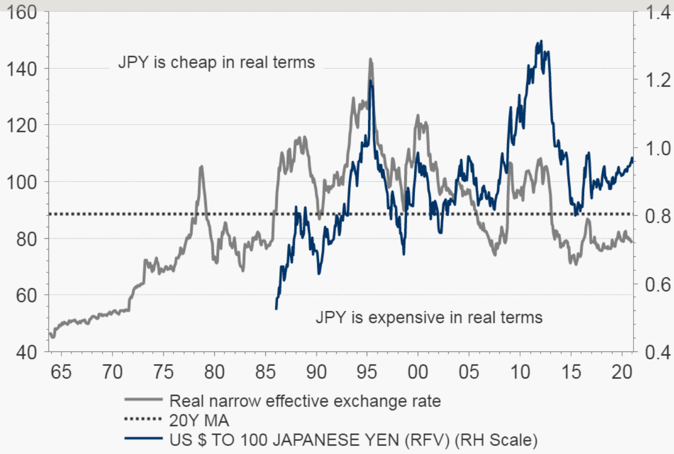
Twelve-month percentage change



Source: Refinitiv Datastream / ANDBANK

Japan real narrow EER

Index



Source: Refinitiv Datastream / ANDBANK

INDIA

Economy recovering faster than expected

India will attempt to spend its way out of economic crisis, with a five-year plan for deficit-fueled growth. Finance minister Nirmala Sitharaman, and PM Modi, are gambling that pumping up GDP will boost revenues, and will eventually put the economy on a sustainable fiscal path. The strategy may work if this public spending stimulates private investment and consumption. Accordingly, capital expenditure for the 2020-21 year is projected to rise by 31% YoY, with the bulk of the spending penciled in for the current quarter. A further boost to investment in 2021-22 will push government capex to 2.5% of GDP (an all time high), focused on infrastructure investment (which will grow +35% YoY) to fund ambitious plans for building roads and urban railways, as well as a big spending increase for the health sector. Ordinary expenditure, by contrast, is set to fall as subsidies (on food) are reined in. The focus is therefore on counter-cyclical stimulus and raising the productive capacity of the economy, with none of the usual political sops for farmers.

On the negative side, the fiscal blowout risks a sovereign rating downgrade, which would have implications for corporate funding and equity investors. Sitharaman pegged the central government's deficit target for 2021-22 at 6.8%, falling to 4.5% in 2025-26, and proposed that India's states be allowed to run deficits of up to 4% of local GDP until 2023-24. This is a very different picture compared to before the pandemic, when policy makers still talked of pushing government deficits below the 3% legal ceiling. However, it is possible that rating agencies may be willing to give the government a pass on its fiscal arithmetic. For one thing, New Delhi has pledged to be more transparent about its borrowing and spending. A large chunk of the 2020-21 fiscal blowout stems from a decision to bring a lot of off-balance sheet shenanigans back onto the government's balance sheet. Moreover, the government appears to be shifting the composition of its spending towards capital expenditure, which if well-managed should deliver productive gains.

Macro: Economy is recovering faster than expected

Growth in the 2020-21 fiscal year (which ends on March 31) is now forecast at -7.7% (compared with previous expectations of a double-digit contraction). Demand for goods has bounced back to normal, but sales for services remain -30% below their pre-pandemic level. Moreover, some 70M migrant workers who have lost their jobs since the onset of the pandemic are still unemployed.

Banking sector: Hard-won progress had been made in recognizing and resolving the problem

The proportion of loans classed as non-performing fell from 11% in 2018 to 8.5% before the pandemic lockdown in March 2020. But since then this percentage could have risen to as much as 13.5%, according to the Reserve Bank of India. The Finance Minister therefore announced plans for an "asset reconstruction company" and an "asset management company" to take bad debts off banks' balance sheets. Banking analysts have long called for just such a "bad bank", sometimes citing China's experience of using special asset managers to deal with its own non-performing loan problem in the early 2000s. More details will be needed for an assessment of the planned bad bank's likely effectiveness, but the few details offered so far do not seem to indicate a game-changing reform. Funding for the bad bank will come from the overstretched banking system, without any capital injection from the government. However, recall that the government's latest recapitalization allocation for public sector banks (less than US$3bn), seems clearly insufficient. Fitch estimates they need anywhere between US$15bn and US$58bn. But Sitharaman also announced plans to sell two public-sector banks as part of the government's wider divestment plan. The aim is both to raise money and to shrink the public sector by reducing the number of its holdings in strategic industries and exiting non-strategic sectors entirely. It would be a genuinely radical move if the government were to sell a large bank – breaking with five decades of state control over the financial system. The government will probably sell two small banks. With the stock market at near-record highs, it now has a better chance of achieving its privatization targets.

Other reforms & financial market's reaction

The government plans to launch a development finance institution to fund infrastructure projects. This is a positive step, as the bank's liabilities are not well suited to finance long-gestation infrastructure projects (infrastructure loans account for a large chunk of banks' current bad debts). The equity market's reaction to budget information was positive. Banks were the best performing stocks, with the Nifty Bank index gaining 8.3% driven by optimism over the bad bank announcement. Unsurprisingly, bondholders were less impressed by the planned fiscal splurge, pushing the yield on 10-year sovereign bonds to more than 6%, its highest in over four months.

Financial market outlook

Equities – SENSEX: OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 6.0%)

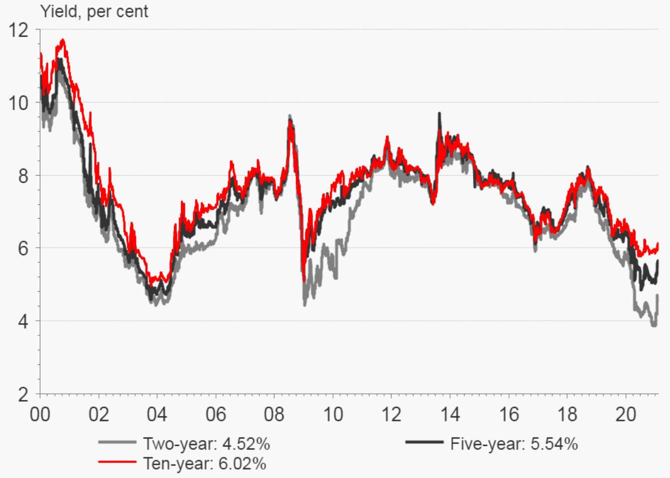
Bonds – Corporates: OW-MARKETWEIGHT

Forex – INR/USD: MARKETWEIGHT (Target 74)

India Datastream index price / earnings

Source: Refinitiv Datastream / ANDBANK

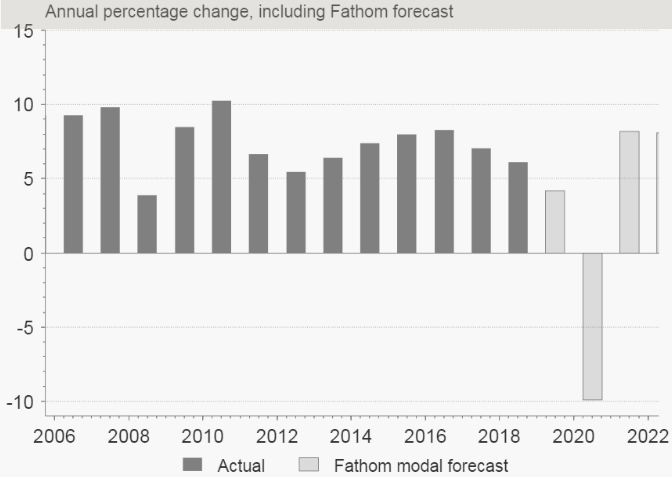
India benchmark government bonds



Source: Refinitiv Datastream / ANDBANK

India GDP

Annual percentage change, including Fathom forecast



Source: Refinitiv Datastream / ANDBANK

ISRAEL

Back to normality

Covid & Economic recovery

Israel has the highest vaccination rate in the world, which has helped to drive down the number of cases sharply in recent days (40-60% depending on group age). As a result, the third lockdown ended in February (after three weeks) and a relaxation of restrictions is expected in the last part of the month, with the government deciding to open most facilities (from gyms to theatres). It is assumed that if Covid cases continue to fall, most of the economy will return to normal by the end of March. This last lockdown has affected the level of economic activity, with credit card usage down sharply from the beginning of the year. Despite that, a recent business survey shows signs of optimism in which respondent companies expressed a brighter outlook for their financial position, and feel more upbeat about the near future. Furthermore, tax receipts exceeded expectations, with the collection in the last six months exceeding 2020. The level of the total debt to equity ratio of public companies barely rose during the pandemic, setting the stage for a quick recovery. Also noteworthy is the high level of activity in the real estate sector, mainly in apartments – not even the pandemic has been able to curb the upward trend in real estate prices. However, unemployment is still very high at over 15%, and is a reason for concern, as the level of permanent unemployment rose from already high levels.

Central bank & its strategy to stop shekel appreciation

The Bank of Israel introduced its plan to buy over 30 billion US dollars during 2021 in order to keep the Shekel stable. The step came after the currency appreciated more than 8% during 2020, causing some damage to exporters' competitiveness. It should be noted that exports account for 50% of Israel's GDP.

The Bank of Israel initially introduced its plan to purchase dollars in 2005 when it was headed by Stanley Fisher. Since then, the bank has purchased over 170 billion dollars but the Shekel kept on appreciating. Existing fundamentals make it highly unlikely that the "new" plan will reverse the trend. Major gas deposits that were discovered a decade ago offer supply capacities widely above Israel's energy needs, saving the country over 7 billion dollars worth of overseas oil purchases, and resulting in a sharp improvement in the external accounts, causing a much lower need for financing and a lower demand for USD (and supporting the Shekel).

In addition, the country's tech sector attracts an enormous amount of investment from overseas, a trend that will likely continue.

Politics

The general election is set for March 23 and the fourth in the last two years. No budget was introduced in Israel during this period due to the political deadlock

Equity & Bond Market review

The major indices in Tel Aviv took a breather last month, although some sectors continued to perform well. Small caps continued their impressive run rising between 3%-6%. The best performers are oil & gas (7%) and biomed is up by over 20%. The level of optimism increased due to the fact that Israel is the most vaccinated country in the world (47% of the population at the time of writing). This has two major consequences. The first is an early return to normality, while the second relates to the reputational gains Israel has made since vaccination has started. Israel currently enjoys very flattering headlines in the international media which puts the country at the forefront for foreign investors. Israel is expected to enjoy increasing levels of FDI in the coming quarters. Major indices rose 8% from the beginning of the year, mainly led by tech (18%) and oil and gas (22%). Banks rose 6%, helped by the Bank of Israel after it approved the reintroduction of dividends. The Israeli stock market looks fairly attractive offering a fair risk-reward ratio. Banks trade at a book/market value of 0.8 on average.

Yields of government bonds followed their peers overseas and rose quite dramatically. The yield on the longest duration bond has risen 20 basis points since the beginning of the year. The inflation expectation for next year rose to over 1%, although it's worth noting that no inflation was recorded in the last seven years. We assume that higher inflation could be a short term phenomenon.

Corporate bonds rose 0.6% YTD, bringing the spread from government bonds to an all time low and trading at a somewhat unattractive level (115bp spread). We think exposure to corporate bonds should be reduced.

Financial market outlook

Equities – TLV35 Index: OVERWEIGHT (Attractive)

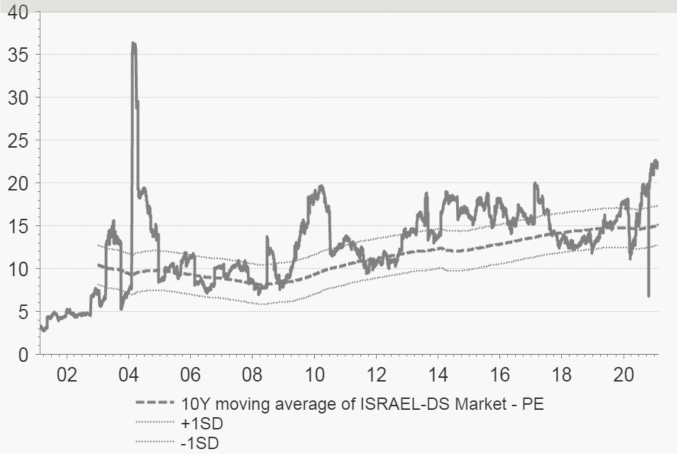
Bonds - Government – 10Y Gov: MARKETWEIGHT-OW (Positive real yield)

Bonds – Corporates: CAUTIOUS (Expensive)

FX – ISL vs USD: Still expensive in REER

Israel price/earnings, Datastream index

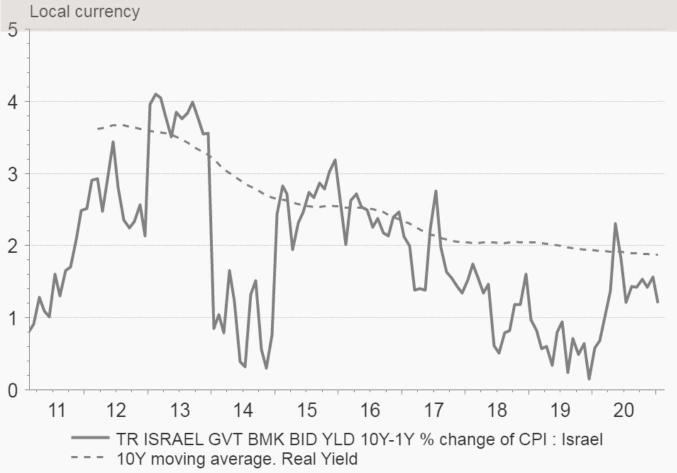
Ratio



Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y

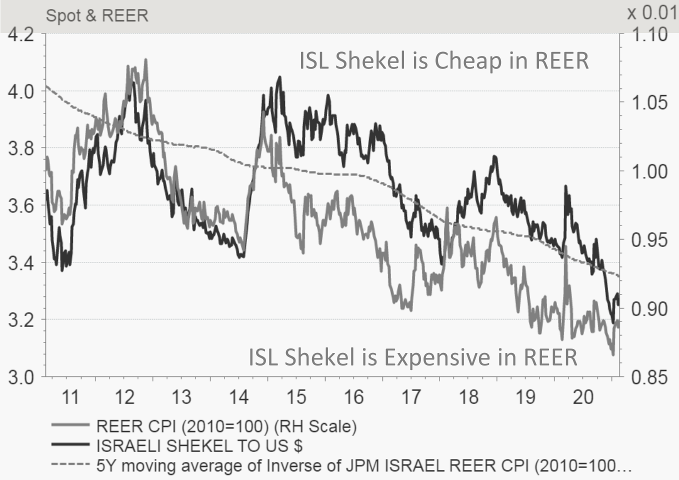
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

Petrobras decision decreases likelihood of privatizations and tax reform

Fiscal. Interventionism vs privatization

Brazil's benchmark Bovespa index tanked almost 6% on Monday as shares of oil major Petrobras plummeted 21% following the ousting of its investor-backed chief executive. After weeks of sparring between CEO Roberto Castello Branco and Brazilian President Jair Bolsonaro about fuel prices, former defense minister and retired army general Joaquim Silva e Luna, who has no oil and gas experience, was appointed to take over. Petrobras has been raising fuel prices lately, which led analysts to downgrade its shares on concerns of possible political interference. The ousting of Castello Branco marks the risk of a broad shakeup of Petrobras' market-friendly (and less politically driven) policies in recent years. The reversal of these types of interference by Bolsonaro early in his administration was a key credit positive for Brazil's assets, and a return to these practices is a clear credit negative.

Banco do Brasil, caught up in a spat with Bolsonaro over branch closures, slumped 10%, while the energy company Eletrobras skidded 7% amid signs of the president's interference in the energy sector.

All said, analysts do not think the most likely scenario will be of further intervention, but they now see less scope for privatizations within the fiscal reform and a cloudier fiscal outlook at the margin.

Uncertainty alone tends to push up risk premia and potentially depreciates BRL further. On the positive side, following a federal tax collection of BRL 166.528 Bn in January, the central government could post a primary fiscal balance of BRL 32.861 Bn and a public sector primary fiscal balance of BRL 44.361 Bn.

Covid

On 19 Feb, Brazil's rolling seven-day average for daily infections subsided to 45.2K (from 45.5K a week before), while the same metric for fatalities receded to 1,039 (from 1,065 a week before, but after posting an all-time high of 1,102 on 14 Feb). Brazil administered a total of 5,756K Covid vaccines (from 4,696K a week before), but the market continues to worry that "corona-voucher" extensions might come before vaccines. Congress now wants to pass a BRL30 Bn new corona-voucher package and is working with the administration on the details.

Central Bank & FX

The House passed the BCB's autonomy bill for Bolsonaro to approve, it sent a new FX framework bill to the Senate, and it moved the Administrative Reform bill to the Constitutional Committee. If a higher CPI inflation forecast already adds bias for the Copom to bring forward the Selic rate hiking process from May to March, the eventual confirmation of a new aid package will add further bias to the March meeting hike. Due to Covid and domestic fiscal uncertainty, some analysts are starting to see a depreciating bias to USD-BRL forecasts, with targets fixed now at 5.00-5.50 by end-2021, and 5.00 by end-2022.

Economic recovery

The monthly GDP proxy now stands at only -1.4% below pre-pandemic levels, having recovered 91% of the fall observed in Mar-Apr20. In 2020, the current estimate for FY2020 of 4.6% GDP growth now seems excessively conservative, given the good pace set in 4Q20 (the monthly GDP proxy came in at 0.6% MoM in Dec, following +0.7% MoM in November). For 2021, the economy should grow by 3.0% as activity started very slowly in 1Q21.

As for the CPI, IPCA monthly inflation slumped to 0.25% MoM in Jan (Dec:1.35% MoM), mostly on the back of the housing group (-0.61pp), as the electricity bills price hike faded out. Analysts still see the slack in the labor market capping price acceleration, but current high levels may persist through inertia. Projections fix the 2021 IPCA at 3.7% (from 3.5% before).

Financial market outlook

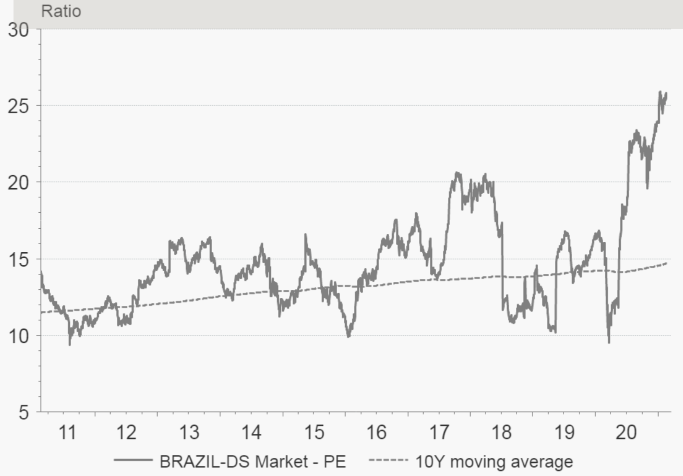
Equities – iBovespa: MARKETWEIGHT-OW

Bonds – Govies Local: MW-OVERWEIGH (Target yield 6.75%. Spread 525)

Bonds – Govies USD: OVERWEIGHT (Target yield 3.5%. Spread 250)

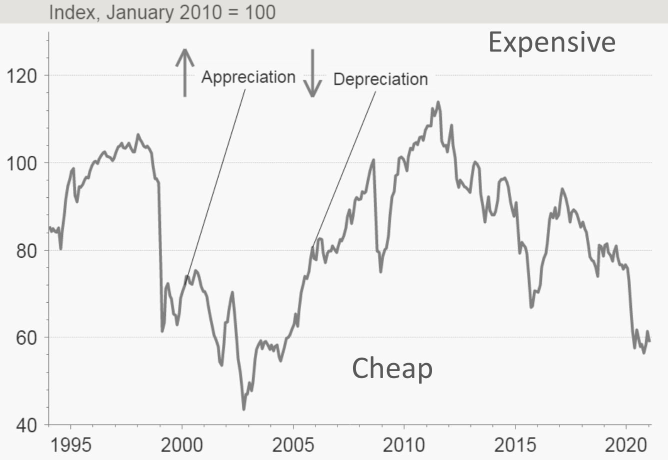
FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.00 – 5.25)

Brazil price/earnings, Datastream index
Ratio



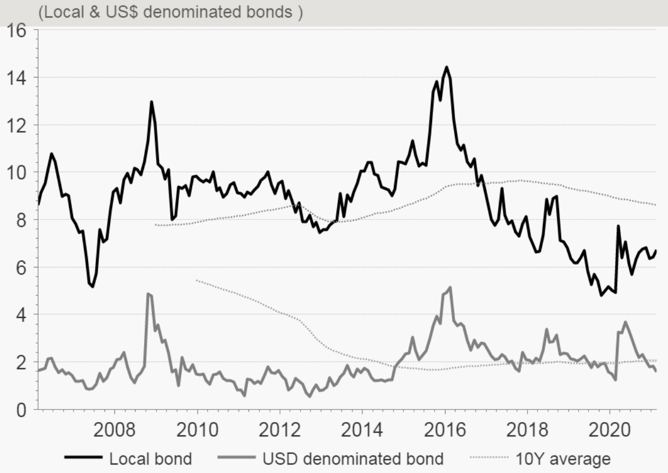
Source: Refinitiv Datastream / ANDBANK

Brazil real broad effective exchange rate
Index, January 2010 = 100



Source: Refinitiv Datastream / ANDBANK

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



Source: Refinitiv Datastream / ANDBANK

MEXICO

We still favor Mexican equities. Bonds are fairly valued. The peso is perceived as overpriced

Central bank and monetary policy

Banxico ended the hiatus in its rate cuts by cutting its reference rate again by 25 basis points to 4%. The decision was surprisingly unanimous with a governing board that now has a majority of members nominated by the current administration and which showed greater flexibility regarding any short-term increase in inflation, similar to the Fed. Major polls have shown an increased outlook for up to two further cuts (at the end of last year only 2 were considered for FY2021). Consequently, the rate could end up at 3.50% in December.

Perhaps one aspect that may limit the ability of the Central Bank to continue cutting rates is that inflation rebounded in January to 3.54% YoY. The increase in prices of non-food goods was notable, which reflects the supply shock of the pandemic in different sectors and the persistence of the underlying part of the indicator.

Fiscal path & economy

In public finances, year-end data showed a primary surplus of 0.1% and a debt level of 52.3%, both with an improving outlook. The Debt/GDP level was well below the most pessimistic scenario, although an increase of 10 percentage points was observed compared to 2019.

However, being candid, it should be noted that the Obrador administration has used up the funds reserved for stabilization (a fund with some 400 Tn pesos, which is now empty). These funds were expected to be rebuilt with the remnants of the central bank, but due to forex movements, the remnants are now going to be much smaller and these funds cannot be restored, making it much harder for the government to be able to repeat the same primary fiscal result. As a result, it will not be so easy to maintain a fiscal balance, especially since the government has committed itself to maintaining a certain level of public sector spending. On the positive side, the highest trade surplus in recent years was recorded at the end of 2020. In September a historical record was reached, thanks to a stronger performance by the industrial sector in the US that drove exports in local manufacturing industry. December also saw a record broken in received remittances ($US40 Bn), a consequence of the US fiscal stimulus reflected in transfers to lower-income families.

A new bill in the electricity sector is now generating uncertainty in the private sector linked to power generation. The new measures could be unconstitutional and even violate treaties of the recently approved T-MEC. The US Chamber of Commerce and the Canadian government have both expressed their disagreement with the bill.

Corporates

The favorable environment that has benefited emerging markets due to the greater global stimulus, advances in vaccination campaigns and even the weakness of the dollar, continues to drive the rally in the Mexican stock market and other local assets. Meanwhile, the economic recovery in the US is expected to stimulate the local manufacturing sector and therefore exports, positively impacting Mexico's GDP and therefore corporate profits. In the short term, better performance is expected in local quarterly reports. The main perceived risks point towards the second part of the year when there will be internal political factors and more information about the performance of the economy and its impact on public finances, in addition to the possible fiscal deterioration of Pemex. Short-term bills once again threaten private investment and are also generating uncertainty. The consensus target price for 2021 is 43,000 – 53,000.

FX: The MXN peso suffered high volatility at the start of 2020 but was favored by the international context and the continuous depreciation of the dollar in the last part of the year, reaching 20 MXN per dollar, although it showed some resistance recently. The outlook for MXN/USD will be defined by a certain degree of weakness in the USD globally, which is widely expected during the first half of the year. Such a scenario could result in a slight appreciation of the MXN peso. Nevertheless, and as with other local assets, the peso could face internal risk factors towards the end of the year. We have modified our previous outlook to a level of 21 at the end of 2021.

Financial market outlook

Equities – Mex IPC: OVERWEIGHT

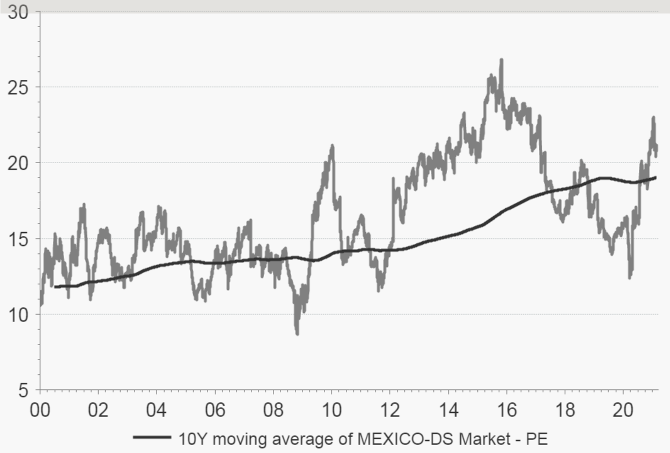
Bonds – Govies Local: MARKETWEIGHT (Target yield 6.00%. Spread 450bp)

Bonds – Govies USD: MARKETWEIGHT (Target yield 3.25%. Spread 175bp)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 21)

Mexico equities price/earnings ratio

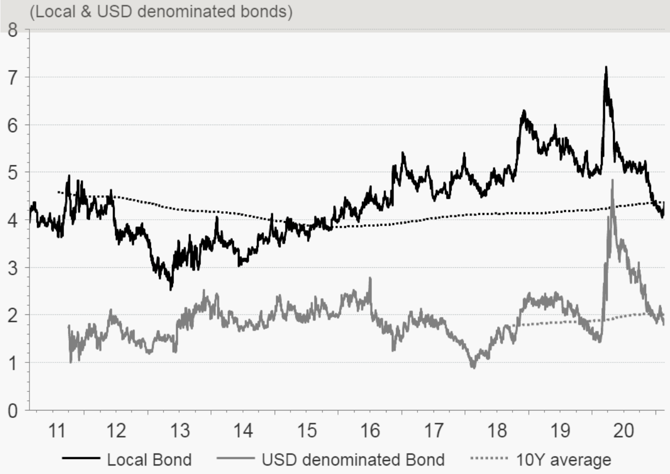
Datastream index



Source: Refinitiv Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

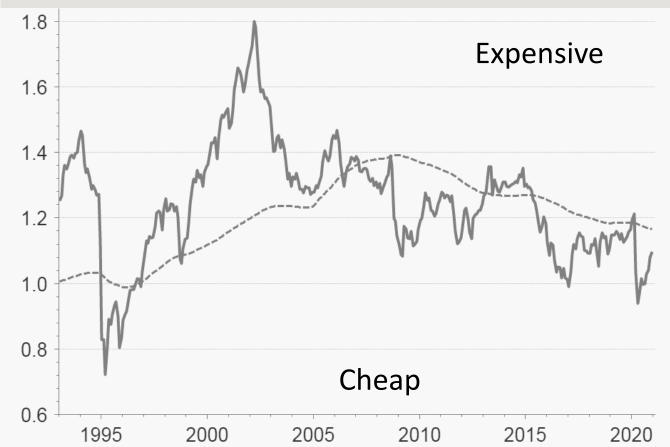
(Local & USD denominated bonds)



Source: Refinitiv Datastream / ANDBANK

MXN/USD Real Effective Exchange Rate

x 0.01 Index



Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

ARGENTINA

IMF: From devil to savior?

President Alberto Fernandez and Economic Minister, Martín Guzman, confirmed that they are seeking an agreement with the IMF before May, in order to be able to face the Paris Club negotiations regarding the maturity of US$2.4 Bn. According to the press, this group of countries would only agree to restructure its debt if Argentina has signed an agreement with the IMF. Argentina wants the IMF to extend the maturity of the credit line for the longest period time allowable by the organization's statutes. IMF Western Hemisphere Department Director, Alejandro Werner, said that May could be an ambitious timeline. At the moment, very little is known about the content of a potential agreement.

As we previously mentioned, our base case scenario is that the new program is not going to be a game changer in terms of expectations, with limited effects on sovereign debt prices and therefore on the cost of private sector funding, limiting the medium term growth potential.

With the elections approaching, the government looks like it will try the usual political response: fiscal expansion plus real exchange appreciation. Guzman signaled that it will reduce the ARS rate of depreciation and promote salary increases in line with the 29% 2021 Budget inflation forecast. This is a dangerous game, as reducing the rate of depreciation could lead to a wider gap between official and parallel FX rates, putting pressure on reserves and inflation expectations.

YPF: rationality prevails

Following the support of the two bondholder committees, YPF managed to exchange almost 60% of the March 2021 bond, its main priority after last year's Central Bank restrictions. YPF announced that BCRA will provide access to USD to repay holdouts. The company also exchanged 1.73 Bn of Old Notes (approximately 29% of total) saving US$600M in interest and capital payments over the next two years.

Buenos Aires: Playing chicken with creditors

The Province of Buenos Aires (Argentina's largest and most populous) decided to extend the acceptance deadline for its offer from January 29 to February 26. The last offer made by the province was in April last year caused the province's creditors to express concern about the "prolonged default" on the bonds and threaten to take legal action if there is a change in Buenos Aires' stance.

Salta province is on the way to become the sixth to restructure its foreign debt after reaching an agreement with an ad-hoc creditors group (which holds approximately 40% of the 2024 bonds).

Inflation running at 55% annualized

The CPI increased 4.0% MoM in January (38.5% YoY), slightly higher than BCRA's survey consensus (3.9%) and the same as the prior month. Meanwhile, core inflation decelerated for the month (3.9% MoM), from 4.9% in December and a 4.3% monthly average in 4Q20. Broken down by CPI category, food prices remain the main driver of high inflation, jumping to 4.8% MoM (vs. 4.4% MoM in December). Inflationary pressures are likely to continue due to the absence of a consistent monetary and fiscal program that tackles fiscal deficit monetization, the main driver of inflation.

Positive signs in industrial production (+4.9% YoY, +3% pre-pandemic levels) and construction activity (+27.4% YoY, +23% pre-pandemic levels) but with VAT tax collection lagging inflation (-1.2% YoY in real terms), the recovery is neither vigorous or widespread.

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2021 year-end target 140)

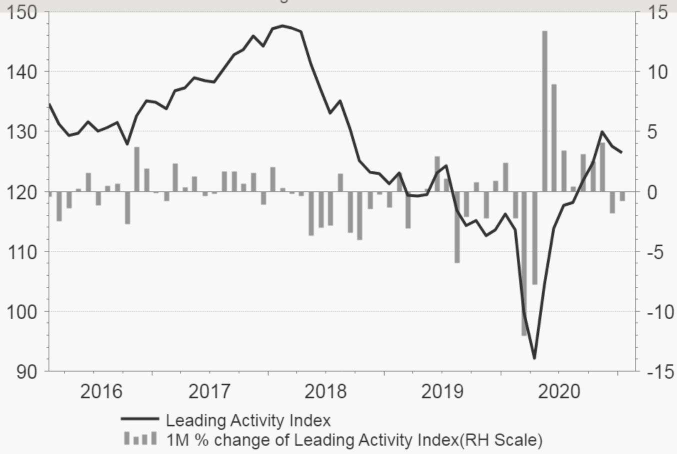
ARGENTINA - ECONOMIC ACTIVITY INDICATOR

% Change YoY

Source: Refinitiv Datastream / ANDBANK

ARGENTINA - LEADING INDICATOR

Index Value and MoM % Change



Source: Refinitiv Datastream / ANDBANK

Argentina foreign reserves

USD, billions Per cent

Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES
Fundamental assessment

Index	Projected EPS 2021	EPS Fw 12 months	EPS Growth 2021	PE EPS nxt 12m	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2021 E[Perf] to Fair Value	Recomm	2021 Exit Point	Max. Risk Premium	E[Perf] to Exit point
USA S&P 500	180,00	181	29,5%	21,00	3.888	3.811	-2,0%	MW/OW	4.383	1,15	12,7%
Europe - Stoxx Europe 600	24,30	24,5	41,0%	18,00	412	441	7,0%	OW	507	1,15	23,1%
Euro Zone - Euro Stoxx	23,60	23,8	46,0%	18,00	412	428	3,9%	OW	493	1,15	19,5%
Spain IBEX 35	428	432	88,5%	17,00	8.371	7.336	-12,4%	UW	8.436	1,15	0,8%
Mexico IPC GRAL	3.200	3.226	96,4%	15,00	45.093	48.395	7,3%	OW	55.654	1,15	23,4%
Brazil BOVESPA	6.250	6.301	206,7%	18,00	111.512	113.425	1,7%	MW/OW	130.438	1,15	17,0%
Japan NIKKEI 225	1.285	1.296	25,4%	22,00	29.664	28.502	-3,9%	UW	32.778	1,15	10,5%
China SSE Comp.	258,70	261	16,8%	13,00	3.551	3.391	-4,5%	UW	3.899	1,15	9,8%
China Shenzhen Comp	107,60	108	23,9%	22,00	2.349	2.387	1,6%	MW/OW	2.745	1,15	16,8%
India SENSEX	2.500	2.521	55,0%	21,00	49.850	52.932	6,2%	OW	60.871	1,15	22,1%
Vietnam VN Index	76,50	77	27,8%	18,00	1.186	1.388	17,0%	OW	1.597	1,15	34,6%
MSCI EM ASIA	44,10	44	24,1%	16,00	750	711	-5,2%	MW -UW	818	1,15	9,1%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS
Risk Outlook: Neutral // Positioning: Slightly cautious

Andbank's Assessment: -2.0 (in a −7/+7 range)

Aggregate (MW bias): Overall flows remain optimistic. Our contrarian reading is to be slightly cautious.

Market Positioning (MW-UW bias): Positioning remained stable month-on-month; asset allocation in equities shows a negative tilt with consistent exposure to the asset class in portfolios. The Put-Call ratio indicates low level of portfolio hedging. Finally, the current level of skew shows that a fear of a violent downside movement is present.

Flow Analysis (OW bias): Net inflows in US equities indicate a positive momentum, reflecting market expectations of massive fiscal spending. Positive flows have also appeared in Europe on hopes of a recovery in "cyclicals".

Surveys & Sentiment Analysis (UW bias): Sentiment from investors is very bullish and the bears level has dropped since the beginning of the month. Crowd composite sentiment is still stretched but a bit lower than its previous reading. We keep a contrarian stance.

TECHNICAL ANALYSIS
Trending Scenario. Supports & Resistances

	Name	Refinitiv Ticker	View 1 month	Principal Support 12M	Principal Resistance 12M	Support 1 month	Resistance 1 month	Target (TA) 12M	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	Lateral bullish	329,29	443,29	380,52	433,16	443,00	417,14	6,20%
	Euro Stoxx 600	.STOXX	Lateral bullish	338,57	433,90	381,63	433,90	441,75	419,47	5,31%
	Ibex	.IBEX	Lateral bullish	5.814,50	9.676,00	8.112,00	8.439,70	8.375,60	8.203,50	2,10%
	S&P	.SPX	Lateral bullish	3.209,00		3.870,00		4.193,00	3.934,83	6,56%
	Japón	.N225E	Lateral bullish	22.948,00	38.957,00	27.629,00	31.086,34	32.817,46	30.467,75	7,71%
	China	.SZSC	Lateral bullish	1.744,00	3.156,96	2.330,17	2.957,00	2.905,00	2.460,54	18,06%
	India	.BSESN	Lateral bullish	35.987,00		44.923,00			52.154,13	
	Brasil	.BVSP	Lateral bullish	90.147,00		106.650,00	125.323,00		119.428,72	
	México	.MXX	Lateral bullish	35.277,00	50.603,00	42.576,00	46.925,06	44.866,00	44.157,49	1,60%
OTROS	Oil West Texas	WTCLc1	Lateral bullish	34,49	66,60	51,50	66,60		60,08	
	Gold	XAU=	Lateral	1.659,00	2.072,49	1.764,29	1.991,91	2.230,00	1.818,51	22,63%
	Treasury 10Y USA	US10YT=RR	Lateral bullish	0,5040%	1,3210%	0,9960%	1,2830%		1,2091%	
	Bund 10Y Germany	DE10YT=RR	Lateral bullish	-0,9090%	-0,1420%	-0,6710%	-0,2570%		-0,3855%	

Bullish -> +3.5%; Lateral bullish -> (+1.5%, +3.5%); Lateral -> (−1.5%, +1.5%); Lateral bearish -> (−3.5%, −1.5%); Bearish <−3.5%

ENERGY – OIL

Fundamental view (WTI): Target range USD55-65bbl

Buy < USD55; Sell >USD65

Short-term drivers

***(Price Negative)* – EIA says shale could rebound with prices above $50 a barrel:** The EIA noted that supply from new wells will exceed declining flows from wells already in service, raising overall crude production starting in 2H21 as higher prices entice drillers to ramp up output. The EIA Short-Term Energy Outlook cut 2021 production to 11.02M bpd, down from the previous 11.1M forecast. However, 2022 US crude output was increased to 11.53M bpd, up from January's estimate of 11.49M.

***(Price Negative)* – Iran pushing more oil onto the market even as US sanctions remain in place:** Iran exported an estimated 800K to 1M bpd of crude and condensate last month, mostly to China, up from a low of 500K in recent months. However, the path to opening up Iran's 2.6M bpd export capacity remains complicated. The US and Iran could reach a framework deal to restore the nuclear deal in the next one to three months, though full sanction removal may not happen until Q4 at the earliest. Analysts see output growing by 1M bpd between February and December, then increasing another 500K bpd by June 2022. The impact on the OPEC+ deal isn't clear as Iran has been exempt from production cuts, but OPEC and its allies could roll back quotas later this year.

***(Price Negative)* – Iran's officials warn of need to maximize capacity, before oil demand disappears:** US sanctions have left Iran lagging its rivals in output capacity and have left the country losing a race against time as the transition to lower carbon energy gathers pace. Some Iranian officials, including oil minister Bijan Zanganeh, have said that Tehran needs to maximize is production rapidly before oil demand disappears and rivals take what's left of the market share. However, while Iran believes it can return to its pre-sanctions output of 3.8M bpd within months, other producers including UAE, Iraq and Saudi Arabia have increased output by 1-2M bpd and have built additional capacity in recent decades while Iran has been unable to significantly increase its output potential.

***(Price Positive)* – Inventories across US continue to decline amid rally in crude prices:** The rapid draining of tanks across the US reflects a diminished incentive to store oil amid a market shift into backwardation. The current market structure has led Gulf Coast terminal operators to offer to lease tanks at less than half the rate at the height of last year's storage boom and underscores the big turnaround in the oil market amid the pandemic rebound. Crude inventories in Cushing fell to the lowest levels in more than six months, while leases in Texas and Louisiana aren't being renewed, a dynamic that some said could happen in Cushing soon.

***(Price Positive)* – Shell says its oil production has already peaked and will start reducing oil production:** The WSJ reported that Royal Dutch Shell said it would start reducing oil production, calling an end to its decades-old strategy of pumping more hydrocarbons and betting instead on a shift to low-carbon power. The company said that its oil production has already peaked and expects output to decline by 1-2% a year, including from asset sales. The company said it would double the amount of electricity it sells and roll out thousands of new electric-vehicle charging points.

***(Price Positive)* – Iraq's Oil Minister says OPEC+ unlikely to change production policy in March:** Iraq's Oil Minister Ihsan Abdul Jabbar said that OPEC+ is unlikely to change its production policy at the March meeting, and that the biggest change will likely come from Saudi Arabia ending unilateral daily cuts of 1M bpd. Jabbar also said that Iraq could continue to deliver on compensation cuts for previous overproduction, saying Iraq would pump 3.6M bpd this month if the Kurdish region complies. That is below the 3.86M quota but comes after Iraq produced 3.8M bpd in January after it said it would cap its production at 3.6M bpd.

***(Price Positive)* – JP Morgan's Kolanovic sees long-term boom in commodities and rising oil prices on green shift:** JPMorgan's analyst Marko Kolanovic said he believes a long-term boom across the commodities complex has already started, particularly in oil. Kolanovic said the rise is driven by factors including Wall Street betting on a strong economic recovery from the pandemic and hedging against inflation. He also wrote that prices may continue to rise as an unintended consequence of the fight against climate change, which he said threatens to constrain the global supply of crude.

Long-term drivers

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

***(Price Negative)* –** Growing environmental problems will gradually tighten legislation 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, which will likely continue to put a lot of pressure on the market for fossil fuels over the coming decades, OPEC's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Producers therefore have a powerful incentive to monetize as much of their reserves as soon as they can.

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

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,800 – US$2,000/oz.

Positive drivers for gold

Gold is not a crowded trade: In spite of a 55% surge over the past two years, this rally has garnered limited headlines, unlike the tech sector. The total market of the precious metal sector is small enough to keep running without hitting the big numbers problems. 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).

The three identified threats that could end the gold rally seem to be distant: The 1976-80 rally ended when US short rates were jacked up to break inflation, causing a rise in the USD. The 1985-88 rally ended when Germany pulled out of the Accord Plaza deal and US rates started to push up rates (prompting a rise in the US Dollar). In the 2001-11 period (which saw the gold price skyrocket from $300 to $1,800/oz), President George W. Bush's "guns & butter" policies spurred a rise in EMs, which became new gold buyers. This ended in 2011, when the USD started to strengthen. Looking at this history, when gold bull markets get going, they usually feed on their own momentum for quite a while, and only end when facing higher nominal rates, a stronger USD or a rise in real rates. Therefore, the only three threats to the unfolding gold bull market seem to be: 1) Higher nominal rates. 2) Stronger USD. 3) A rise in real rates. But how real and dangerous is each of these risks in bringing an abrupt end to the gold rally?

Risk #1. Higher nominal rates (LOW RISK): It is almost impossible to find an OECD central banker even thinking of raising interest rates in his or her lifetime.

Risk #2. Stronger USD (LOW RISK): The US current account balance has been gradually improving, leading to a shortage of dollars and a rise in its price. We do not foresee a jump in this current account balance that will boost the USD again. Rather, the balance (deficit) could remain stable at around 2% of GDP and keep the USD well supported but stable, far from a strong rebound that could end gold's bull market.

Risk #3. A rise in real rates (LOW RISK): So if nominal rates are not going to rise, the only way OECD countries can experience surging real rates is through an already low inflation rate collapsing even more. But how? Such a deflationary outcome could be triggered by a permanent collapse in the price of energy, a collapse in real estate, or even a collapse in the Renminbi. There are few signs of such shocks unfolding permanently. With this in mind, it seems that a surge in real rates is not an immediate threat.

Momentum - Gold bull markets usually feed on their own momentum for quite a while. Our constructive view is that the emerging world will recreate a gold-prone cycle, such as the one experienced in 2001-2011. Gold bull markets can build up over multi-year periods. In the 2001-2011 period, it was the new wealth being created in EMs, with a strong affinity for gold, that pushed gold prices higher. In contrast, in the 2011-2020 decade, most of the world's wealth has been created in campuses on the US-West coast, by people with scant interest in this "relic", and with EM growth having been much more moderate. Despite this, the gold price has ripped higher and is showing strong momentum. Imagine now if EMs thrive again, led by Asia, what a tailwind that would be for gold.

Gold as the new anti-fragile asset: Gold, like the US Treasury bond, is an anti-fragile asset. Investors should always carry out the exercise of deciding which anti-fragile asset should be kept in their portfolio to protect themselves against instability in financial markets, demand or supply shocks, or a collapse in real rates (due to inflation shocks). The answer will have a lot to do with the perception of which of the two traditional anti-fragile assets (Gold & US Treasuries or other Tier 1 Govies) is likely to perform better in the future. This, in turn, will depend on the relative supply of each asset. The one with the lower relative supply will be the one that will perform better and will better display its quality as an anti-fragile asset in the face of a shock. In this respect, we are very clear that the supply of US Treasury bonds will be almost unlimited, whereas the supply of gold will remain very limited over the next decade.

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

Gold is fairly valued relative to silver though it is cheap relative to palladium. The Gold/Silver ratio is at 65.01 and is right at its 20-year average of 66x, suggesting that gold is fairly valued relative to silver. For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$1,817/oz. Meanwhile, the Gold/Palladium ratio is at 0.77, well below its 20-year average of 1.83x, suggesting that gold is cheap relative to palladium, or palladium is even more expensive than gold.

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.14534), the price of gold in real terms (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) is US$1,558. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,004. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,149.

Gold to oil: This ratio is at 29.51, still well above its 16-year average of 17.58x. Considering our fundamental fair value for WTI oil at US$55 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$966 for this ratio to remain near its LT average.

ANDBANK Private Bankers

EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.20 (Buy USD at 1.23, Sell USD at 1.16)
USD-JPY: Target 103.5; **EUR-JPY**: Target 124.2
GBP-USD: Target 1.41; **EUR-GBP**: Target 0.85
USD-CHF: Target 0.89; **EUR-CHF:** Target 1.06
USD-MXN: Target 21; **EUR-MXN:** Target 25.2
USD-BRL: Target 5.15; **EUR-BRL:** Target 6.18
USD-ARS: Target 140
USD-INR: Target 74
CNY: Target 6.25
RUB: NEUTRAL-POSITIVE
AUD: NEUTRAL
CAD: NEUTRAL

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	3-yr Max (Bn $)	3-yr Min (Bn $)	3-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	-29,76	5,56	32,1	-35,3	-4,4	**-1,14**
USD vs G10	-30,08	5,54	32,7	-35,6	-3,5	**-1,23**
EM	-0,32	-0,02	3,9	-0,8	1,3	**-1,17**
EUR	21,18	-3,60	29,3	-8,6	12,2	**0,82**
JPY	4,38	-1,64	6,1	-15,0	-5,5	**1,45**
GBP	1,93	0,76	4,3	-6,5	-1,1	**1,12**
CHF	1,17	-0,15	2,2	-6,0	-1,6	**1,16**
BRL	-0,34	-0,21	0,7	-0,8	-0,2	**-0,39**
MXN	0,04	0,23	3,3	-0,5	1,2	**-1,11**
RUB	-0,02	-0,05	1,2	-0,3	0,3	**-0,88**
AUD	-0,22	-0,59	6,1	-5,2	-0,3	**0,01**
CAD	0,64	-0,17	6,1	-5,0	0,1	**0,19**

Positive
Neutral-Positive
Neutral-Negative
Negative

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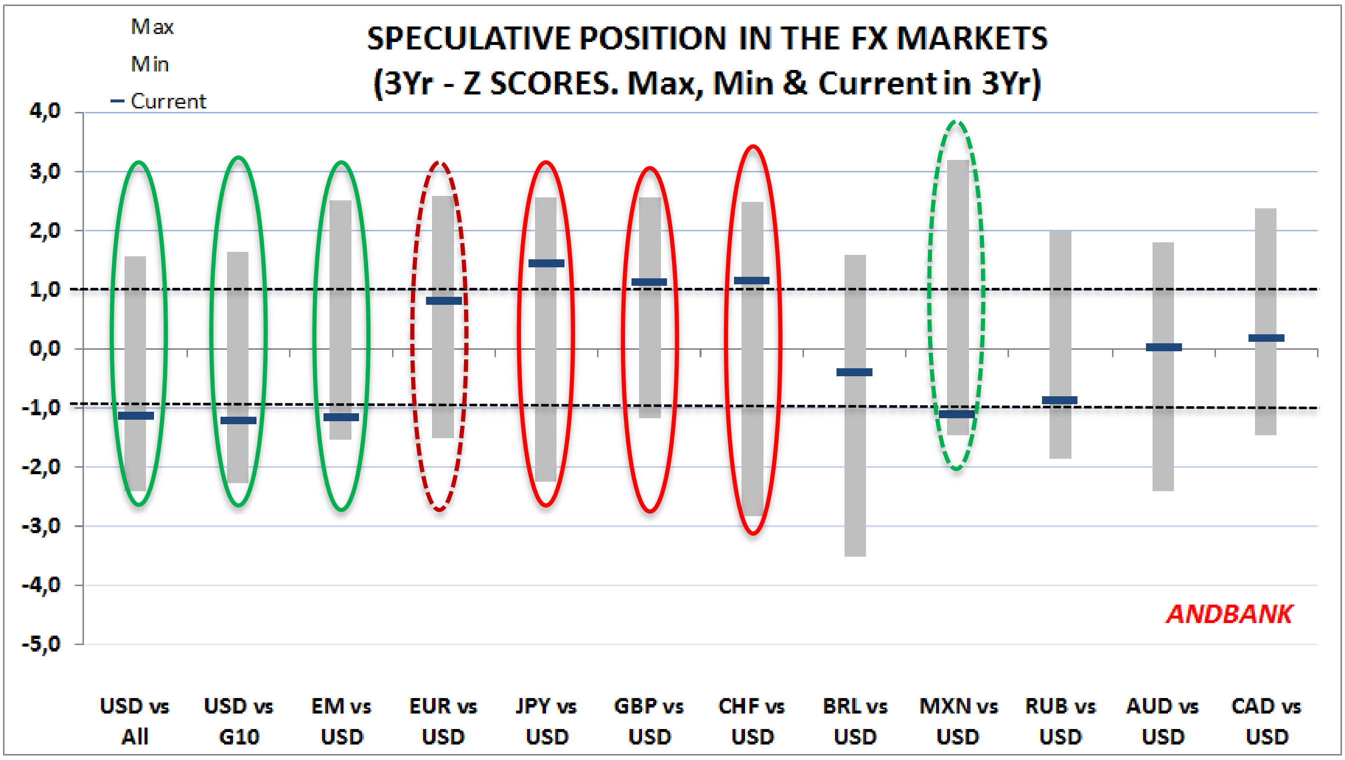

The currencies we technically favor are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance Last month*	*Performance YTD*	*Current Price*	*Fair Value*	**Expected Performance to Fair Value***
Equity	USA - S&P 500	4,7%	1,5%	3.888	3.811	-2,0%
	Europe - Stoxx Europe 600	4,1%	1,5%	412	441	7,0%
	Euro Zone - Euro Stoxx	5,3%	2,0%	412	428	3,9%
	SPAIN - IBEX 35	7,9%	1,9%	8.372	7.336	-12,4%
	MEXICO - MXSE IPC	5,0%	1,2%	45.134	48.395	7,2%
	BRAZIL - BOVESPA	-3,0%	-7,5%	111.579	113.425	1,7%
	JAPAN - NIKKEI 225	7,2%	8,1%	29.664	28.502	-3,9%
	CHINA - SHANGHAI COMPOSITE	2,0%	1,0%	3.551	3.391	-4,5%
	CHINA - SHENZEN COMPOSITE	0,6%	0,9%	2.349	2.387	1,6%
	INDIA - SENSEX	7,7%	2,8%	49.850	52.932	6,2%
	VIETNAM - VN Index	12,3%	5,9%	1.186	1.388	17,0%
	MSCI EM ASIA (in USD)	0,9%	5,2%	750	711	-5,2%
Fixed Income Core countries	US Treasury 10 year Govie	-2,8%	-3,9%	1,43	**1,50**	0,6%
	UK 10 year Gilt	-3,4%	-4,5%	0,75	0,80	0,3%
	German 10 year BUND	-1,5%	-2,1%	-0,34	**-0,25**	-1,0%
	Japanese 10 year Govie	-0,8%	-1,0%	0,14	0,00	1,3%
Fixed Income Peripheral	Spain - 10yr Gov bond	-1,9%	-2,4%	0,33	0,35	0,1%
	Italy - 10yr Gov bond	-0,3%	-1,3%	0,68	**0,50**	2,0%
	Portugal - 10yr Gov bond	-1,6%	-1,9%	0,23	0,35	-0,8%
	Ireland - 10yr Gov bond	-1,8%	-2,7%	0,01	0,15	-1,1%
	Greece - 10yr Gov bond	-2,8%	-3,1%	1,02	1,35	-1,8%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,0%	-0,1%	52,34	55	-0,1%
	Credit EUR HY-Itraxx Xover	0,3%	-0,3%	262,88	**250**	2,1%
	Credit USD IG - CDX IG	0,1%	-0,2%	55,80	50	0,8%
	Credit USD HY - CDX HY	0,5%	-0,1%	310,75	**275**	3,8%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-1,2%	-0,4%	12,83	12,04	17,0%
	Russia - 10yr Gov bond (local)	-3,5%	-5,8%	6,73	5,28	17,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-2,3%	-4,4%	6,53	5,23	15,8%
	India - 10yr Gov bond (local)	-1,6%	-1,6%	6,20	**6,00**	6,8%
	Philippines - 10yr Gov bond (local)	-6,7%	-6,9%	3,89	3,02	10,2%
	China - 10yr Gov bond (local)	-0,4%	-0,2%	3,24	2,20	11,1%
	Malaysia - 10yr Gov bond (local)	-2,8%	-2,9%	3,07	1,64	14,0%
	Thailand - 10yr Gov bond (local)	-3,3%	-3,8%	1,58	0,81	7,5%
	Singapore - 10yr Gov bond (local)	-2,3%	-3,5%	1,27	0,93	3,8%
	Rep. Korea - 10yr G. bond (local)	-1,4%	-1,6%	1,85	1,02	8,2%
	Taiwan - 10yr Gov bond (local)	0,0%	-0,1%	0,29	0,25	0,6%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-7,4%	-6,7%	6,20	**6,00**	6,8%
	Mexico - 10yr Govie (USD)	-1,4%	-3,9%	3,14	3,25	1,8%
	Brazil - 10yr Govie (Loc)	-4,2%	-8,9%	8,17	6,75	18,2%
	Brazil - 10yr Govie (USD)	-2,0%	-5,4%	4,18	3,50	9,0%
Commodities	Oil (WTI)	18,0%	27,0%	61,6	55,00	-10,7%
	GOLD	-5,9%	-8,4%	1.736,3	1.900	9,4%
Fx	EURUSD (price of 1 EUR)	-0,8%	-1,4%	1,204	1,20	-0,3%
	GBPUSD (price of 1 GBP)	1,6%	1,8%	1,39	1,41	1,3%
	EURGBP (price of 1 EUR)	-2,4%	-3,3%	0,86	0,85	-1,6%
	USDCHF (price of 1 USD)	2,7%	3,3%	0,91	0,89	-3,0%
	EURCHF (price of 1 EUR)	1,9%	1,9%	1,10	1,06	-3,3%
	USDJPY (price of 1 USD)	1,9%	3,3%	106,62	103,50	-2,9%
	EURJPY (price of 1 EUR)	1,0%	1,7%	128,35	124,20	-3,2%
	USDMXN (price of 1 USD)	0,3%	3,9%	20,64	21,00	1,7%
	EURMXN (price of 1 EUR)	-0,5%	2,4%	24,83	25,20	1,5%
	USDBRL (price of 1 USD)	2,4%	7,7%	5,60	5,15	-8,0%
	EURBRL (price of 1 EUR)	1,6%	6,2%	6,73	6,18	-8,2%
	USDARS (price of 1 USD)	3,2%	7,1%	90,08	140	55,4%
	USDINR (price of 1 USD)	0,9%	0,6%	73,51	74,00	0,7%
	CNY (price of 1 USD)	0,6%	-0,9%	6,47	6,25	-3,3%

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

UPWARD REVISION DOWNWARD REVISION

PRINCIPAL CONTRIBUTORS

Together
Everyone
Achieves
More

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

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

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

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

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

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

Idan Azoulay
Israel: Rates, Corporate bonds & Equities
+972 3 6138218

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

Carlos Hernández
Global Technical Analysis
+376 873 381

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

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

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