GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review

Andbank Monthly Corporate Review – December 2020

Corporate Review

Strategic Outlook

REVENANT

Looking to 2021.

After a brutal 2020 …
Will we emerge stronger or weaker?

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EXECUTIVE SUMMARY

CHART OF THE YEAR

"What did surprise us is we hadn't really thought through the economic impacts" Melinda Gates

Source: Refinitiv Datastream / ANDBANK

EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2020 E[Perf] to Fair Value	Recomm	2020 Exit Point
USA S&P 500	3.712	3.400	-8,4%	MW	3.910
Europe - Stoxx Europe 600	396	425	7,3%	OW	489
Euro Zone - Euro Stoxx	395	398	1,0%	MW/OW	458
Spain IBEX 35	8.251	7.276	-11,8%	UW	8.367
Mexico IPC GRAL	42.970	41.064	-4,4%	MW	47.224
Brazil BOVESPA	113.525	106.250	-6,4%	MW	122.188
Japan NIKKEI 225	26.818	24.415	-9,0%	UW	28.077
China SSE Comp.	3.372	3.234	-4,1%	UW	3.719
China Shenzhen Comp	2.251	2.367	5,2%	MW/OW	2.722
India SENSEX	46.104	46.467	0,8%	OW	53.437
Vietnam VN Index	1.039	1.033	-0,6%	OW	1.188
MSCI EM ASIA	691	662	-4,3%	MW	761

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value (Next 12 months)
Fixed Income Core countries	US Treasury 10 year Govie	0,95	**1,25**	-1,5%
	UK 10 year Gilt	0,27	0,80	-4,0%
	German 10 year BUND	-0,60	**-0,40**	-2,2%
	Japanese 10 year Govie	0,01	0,00	0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,02	0,20	-1,4%
	Italy - 10yr Gov bond	0,54	0,70	-0,7%
	Portugal - 10yr Gov bond	-0,02	0,20	-1,8%
	Ireland - 10yr Gov bond	-0,31	0,00	-2,8%
	Greece - 10yr Gov bond	0,59	1,20	-4,3%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	46,31	**55**	-0,3%
	Credit EUR HY-Itraxx Xover	239,13	**300**	0,0%
	Credit USD IG - CDX IG	50,90	**50**	0,8%
	Credit USD HY - CDX HY	292,52	**297**	3,0%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value (Next 12 months)
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	12,83	12,04	19,2%
	Russia - 10yr Gov bond (local)	5,79	5,28	9,9%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,17	5,23	13,7%
	India - 10yr Gov bond (local)	5,91	6,87	-1,8%
	Philippines - 10yr Gov bond (local)	3,08	3,02	3,6%
	China - 10yr Gov bond (local)	3,26	**3,25**	3,4%
	Malaysia - 10yr Gov bond (local)	2,74	1,64	11,5%
	Thailand - 10yr Gov bond (local)	1,22	0,81	4,5%
	Singapore - 10yr Gov bond (local)	0,93	0,93	1,0%
	Rep. Korea - 10yr G. bond (local)	1,57	1,02	6,0%
	Taiwan - 10yr Gov bond (local)	0,30	0,25	0,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	5,34	**6,25**	-1,9%
	Mexico - 10yr Govie (USD)	2,78	**3,25**	-1,0%
	Brazil - 10yr Govie (Loc)	7,38	**7,00**	10,4%
	Brazil - 10yr Govie (USD)	3,55	**3,50**	3,9%

COMMODITIES & FX

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value (Next 12 months)
Commodities	Oil (WTI)	46,0	55,00	19,5%
	GOLD	1.851,5	1.900	2,6%
Fx	EURUSD (price of 1 EUR)	1,210	1,20	-0,8%
	GBPUSD (price of 1 GBP)	1,34	1,37	2,1%
	EURGBP (price of 1 EUR)	0,90	0,88	-2,8%
	USDCHF (price of 1 USD)	0,89	0,90	1,2%
	EURCHF (price of 1 EUR)	1,08	1,08	0,4%
	USDJPY (price of 1 USD)	104,20	103,50	-0,7%
	EURJPY (price of 1 EUR)	126,08	124,20	-1,5%
	USDMXN (price of 1 USD)	19,77	**22,00**	11,3%
	EURMXN (price of 1 EUR)	23,90	26,40	10,4%
	USDBRL (price of 1 USD)	5,11	**5,25**	2,8%
	EURBRL (price of 1 EUR)	6,18	6,30	2,0%
	USDARS (price of 1 USD)	82,03	**120**	46,3%
	USDINR (price of 1 USD)	73,69	**74,00**	0,4%
	CNY (price of 1 USD)	6,54	**6,25**	-4,4%

USA

The big rotation. From Covid winners to Covid losers. Has it been completed?

Equity rotation

Two big rotations are taking place (although both movements are probably the same): A rotation from the so-called Covid winners to Covid losers; and a rotation from growth assets to value. The question that every investor and every manager must ask is whether this rotation has already been completed. There are reasons to think that such a rotation has not matured and therefore has a long way to go: 1) Taking a look at the evolution of the winning and losing sectors since the emergence of Covid, you will see that the winners have accumulated a +41% gain since February, over-performing the S&P index by 32% (which accumulated + 9%). On the other hand, the losing sectors still accumulate -17%. There is still a long way to go (~45%) to reach a convergence that places the relative price between losing and winning sectors at levels close to those seen before the pandemic. 2) The answer regarding the longevity of this rotation has to do with the view on interest rates. If you take the view that interest rates on debt instruments will increase, then we must identify (and avoid) those assets most affected by such an increase in rates and invest more intensely in assets that are less affected. From this point of view, two important aspects must be considered. First, growth companies enjoy a prospect of strong EPS in the distant future, which makes them long-duration assets, and thus, highly sensitive to an increase in rates. On the other hand, the "value" assets are those considered cheap in relation to the current profits (as they show low PE multiples), so the value assigned to the growth in profits (and future EPS) is lower, which makes them short-lived assets, and thus little sensitive to a rate increase.

Considering a favorable evolution on the vaccines front (there are 13 projects currently in phase III, 11 projects in phase II and 30 projects in phase I), together with a likely Keynesian macroeconomic matrix adopted by the Biden administration, we will likely see a rise in growth and inflation expectations, pushing long-term interest rates higher. In such an environment, it is preferable to invest in assets less sensitive to rates, and so we believe that value assets may continue to outperform, while growth-style assets could trade sideways. Of course, a strong increase in long-term rates could hit all equity assets (value and growth), but we rule out an aggressive movement in long-term yields and instead we see a very gradual rise allowing additional gains in equities. Why? Expectations for inflation are still sub-par, and a semi-divided government in the US means less upward pressure on yields (relative to what a broad Democratic win -or Blue Wave- would have been). Another important reflection that every fund manager must make in order to position portfolios is whether the economy will return to the "old normal" and to what degree, or if the economy will transition directly to a "new normal". If the first scenario prevails, then it would make sense to position yourself for the rotation towards value. But if the second hypothesis prevails, then it would be possible to position ourselves to overweight the growth style again, although in this case, it would probably be new growth values (as we would speak of a "new normal").

Fiscal boost

President-elect Biden will have to work with a Republican Senate unless Democrats win both of Georgia's runoff elections in early January. We expect the two parties to find agreement on a $1tn fiscal package, some of which could come in December. The package could be distributed in (1) A second round of Paycheck Protection Program loans for some businesses and other business support ($350bn); (2) Aid for state and local governments ($250bn); (3) Expanded unemployment benefits including a $400/week top-up ($175bn); and (4) Funding for public health efforts and other spending ($225bn); (5) Another round of stimulus checks is more of a wildcard. If Democrats do win both Georgia races and secure unified control of government, we would instead expect the total fiscal expansion to eventually reach about $2.5tn.

Pandemic & Vaccines

The FDA looks likely to approve at least one safe and effective vaccine by January, which would be followed by rapid immunizations of high-risk groups and -within a few months- the broader population. Once virus fears are largely out of the way, demand for most high-contact consumer services should quickly rebound to pre-pandemic levels and households are likely to lower their high "forced" saving rates. Housing should continue to benefit from pent-up demand, low mortgage rates, low supply, and a shift in preferences towards single-family homes. Capital spending is also on track for a strong rebound as the ongoing recovery in final demand boosts equipment investment and software investment continues to grow steadily.

Financial market assessment

Equities – S&P: MARKETWEIGHT

Bonds – Govies: UNDERWEIGHT (10Y UST Entry point 1.25%)

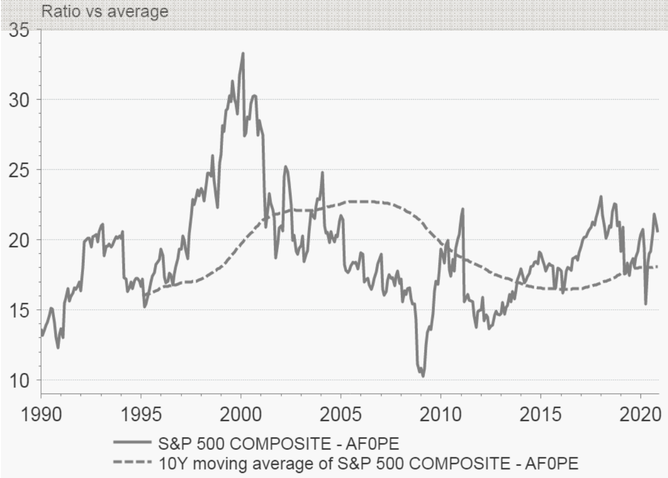
CDX IG: MARKETWEIGHT-OVERWEIGHT (Target Spread 50)

CDX HY: OVERWEIGHT (Target Spread 300)

Forex – DXY index: MARKETWEIGHT

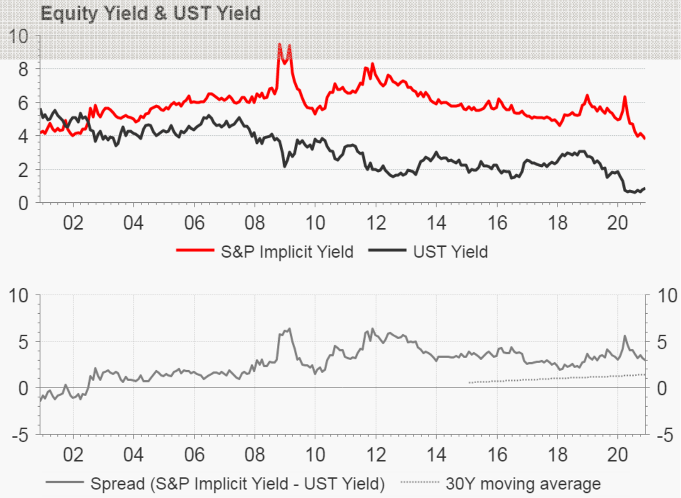
US price-to-earning ratio

Ratio vs average



Source: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield

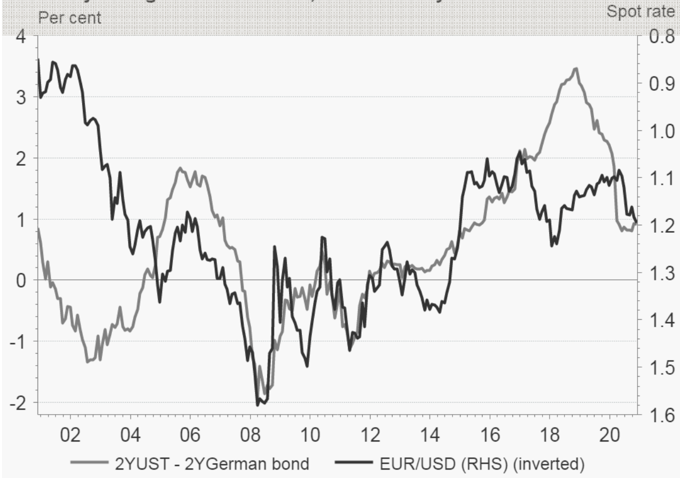


Source: Refinitiv Datastream / ANDBANK

Policy divergence and FX rate, US / Germany

Per cent

Spot rate



Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

EUROPE

Rotation from Covid winners to Covid losers could benefit European equities. EPS recovery

Strong growth into 2021

Following a last quarter of 2020 that would post negative GDP numbers again due to the second coronavirus wave, we approach 2021 with various tailwinds. First, the advances regarding the vaccine are a pivotal issue for any country. A second and idiosyncratic reason, related to the expected implementation of the Next Generation Fund (€750 bn), to be implemented during the coming 4-6 years, could add an average of 0.6% per annum to European GDP. Thirdly, a high level of precautionary savings built up since March. Despite uncertainties surrounding COVID-19 and European fiscal stimulus, we would expect GDP growth around 5% YoY in the Eurozone in 2021, vs. EC estimates (4.2%) in line with consensus figures. Potential risks could come from delays in the vaccine(s) and/or the approval of the European budget/Next Generation Fund (currently blocked by Poland and Hungary), a low take-up of European funds by member states or a non-deal Brexit. Inflation could be on the rise too, backed by the growth momentum, recovery in service prices, average oil prices above 2020 levels and the reversal of the VAT cut in Germany. The HCIP estimate for 2021 would be thus around 1% YoY, slightly above EC numbers (0.9%).

ECB delivering in December 2020, waiting thereafter

An "all inclusive" recalibration is expected at the December meeting, including: an increase in the PEPP envelope (>€4,000 bn), plus an extension of the purchases till the end of 2021, additional TLTROs to support the financial lending channel, and a longer reinvestment period. Rate cuts, though not discarded, seem less likely. ECB monetary stimulus is not expected to fade should the advances on the vaccine move forward swiftly. Central banks would take their time to withdraw their support till recovery is firm both in terms of activity and prices. The ECB would focus on the Strategic Review expected for 2021. No clues at the moment, but a symmetric 2% HCPI goal seems on the cards, while broadening the components to measure inflation. There is some skepticism surrounding the effect of further measures from the ECB, which has proven effective so far when it comes to liquidity/confidence crisis but not so (as many other central banks…) when trying to rekindle inflation.

EU pitches new alliance with US to confront global challenges such as China

The FT reported plans by the EU which is calling for a new transatlantic alliance to address several global challenges. Proposals include an appeal to end Trump-era source tensions, and adoption of joint approaches to antitrust enforcement, cooperation on screening of sensitive foreign investments and collaboration on tackling cyber threats. On China, EU sees scope to cooperate on issues like Chinese investment in innovative EU and US companies, and the potential threat posed by its edge in 5G, but also including the EU's targeting of US tech firms. EU officials said Brussels will begin to discuss how best to improve transatlantic relations, with ambassadors from the 27 EU countries due to consider five policy areas on which they see greater opportunities for cooperation with President-elect Biden. These include fighting the COVID-19 pandemic, boosting the economic recovery, combating climate change, promoting peace and security, and upholding shared values, including a belief in multilateral rules.

Domestic Politics: German elections & Brexit

In 2021 Merkel will leave and Germany will hold general elections (August- September). It seems more of a relevant question for the European leadership, due to the crucial role of Merkel for many years, rather than for German governance, with a wide experience of coalitions. On Brexit, though "accidents do happen", and a no-deal outcome cannot be totally discarded, a light agreement, limited to certain sectors could finally be this year's outcome, with more time in 2021 to advance on the future relationship. Backing a deal: a) the outcome of the US elections, with Biden as President; b) the withdrawal by UK legislators of the controversial articles in the Internal Market Bill… The European Summit (10th-11th December) seems (now) the final deadline.

Domestic Politics: German elections & Brexit

Looking ahead to 2021, our central scenario is one where the vaccine would be effective and available in the first semester, which would allow us to return to the "old normal" from Q3. Yields will remain low and stable (due to the accommodative policy). We estimate a market rotation from Covid winners to Covid losers in an environment of stabilization of credit metrics, balance sheet improvement, earnings recovery (especially in the most cyclical and lagging part such as cars, basic materials, travel & leisure, etc.). Regarding ratings, the worst of the ratings cuts could now be over.

Financial market assessment

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT-OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target −0.40%)

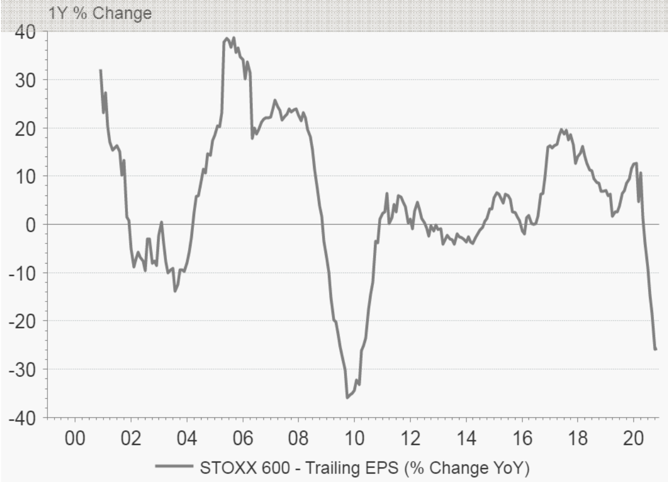
Peripheral – MW: IT (0.7%). UW: SP (0.2%), PO (0.2%), IE (0%), GR (1.2%).

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

Credit – Itraxx Europe (HY): MW-OW (Target Spread 300)

STOXX 600 - EPS

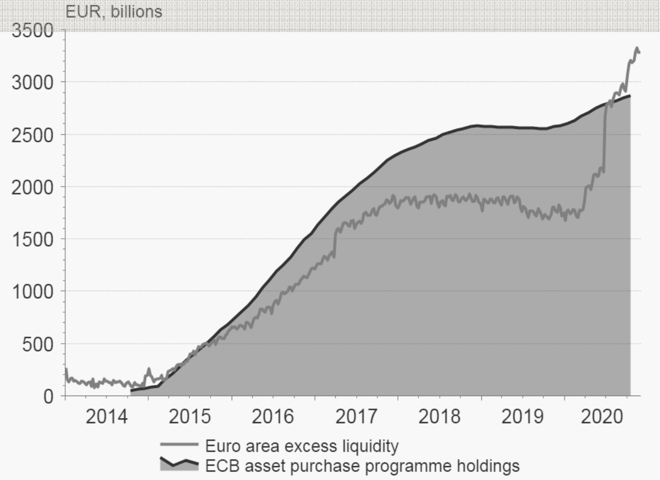
1Y % Change



Source: Refinitiv Datastream / ANDBANK

ECB excess liquidity

EUR, billions



Source: Refinitiv Datastream / ANDBANK

Euro STOXX banks Index

Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

CHINA

Biden administration won't reset China ties. China considers 5% annual GDP growth target for next five years

Diplomacy

US-China: Caixin cited multiple experts with the view that Biden's election win is set to reshape Washington's relationship with China, but is unlikely to bring a total about-face in ongoing tensions. Experts said that while Biden will probably take a steadier, more coherent approach on China than Trump, the president-elect will hardly go easy on Beijing. Biden's stance on China has hardened over the decades, and his victory is unlikely to quickly repair the relationship, which has fundamentally changed over the past four years. Bloomberg highlighted how an emerging view among Chinese manufacturers is that the US will maintain tariffs and trade restrictions on Beijing under a Biden administration. It remains unclear whether Biden will be as aggressive on China as Trump but analysts say it's likely Biden will still pursue a multilateral alliance against China. Meanwhile, the US Treasury Department announced that the US is imposing new sanctions on four more people in its continuing response to China's crackdown on dissent in Hong Kong. The moves are part of the administration's efforts to pressure China over the imposition of a national security law that has led to charges against pro-democracy activists.

Australia-China: Beijing deliberately leaked a document accusing Australia of poisoning relations and warned "if (Australia) makes China the enemy, China will be the enemy". The dossier listed 14 grievances, including Canberra's call for an investigation into coronavirus, and its "spearheading" of efforts to probe China's affairs in Taiwan, Hong Kong and Xinjang.

Delisting of Chinese companies continues and the effects begin to be felt: ByteDance is considering a public listing of Douyin either in Hong Kong or Shanghai. China smartphone shipments fell 14.3% YoY in Q3 and Huawei's market share slipped by 9%. Huawei also faced difficulty procuring semiconductors for smartphones and is now working on plans for a dedicated chip plant in Shanghai enabling it to secure supplies for its core telecom infrastructure business. China has responded by announcing sanctions on defense contractors involved in US arms sales to Taiwan. Companies named were Lockheed Martin, Boeing Defense, Space & Security and Raytheon. ***Trade agreement:*** China still far behind on US purchases under trade deal. China accelerated purchases of US farm products last month, but volumes remained far behind Chinese commitment to buy ~$140B in specific US agricultural, energy and manufactured goods this year under a trade accord signed in January. As of Sep 30, China had purchased only $58.8B.

China's grip over HK tightens and Beijing passes 'patriotism' resolution.

China's top legislative body passed a resolution to make "patriotism" a legal requirement for Hong Kong lawmakers, giving local authorities the power to unseat politicians without having to go through the city's courts. In particular, seats of four lawmakers from the Civic Party could be stripped in the wake of the new resolution after they were barred in July for contesting the elections.

Chinese equity market: A new framework to limit fintechs & boost state-run banks

Alibaba leads sell-off in tech stocks in China in the wake of Beijing's broadest attempt to rein in its most powerful private-sector firms. The WSJ cited Chinese officials who said President Xi personally decided to halt Ant's IPO after he read reports about a speech Jack Ma gave where he criticized the government's tight financial regulations. Amid anger over Ma's speech, regulators toughened directives regulating online micro-lending, paving the way for the Shanghai Stock Exchange to eventually suspend Ant's IPO. Beijing unveiled regulations to root out monopolistic practices in the internet industry, pivoting away from a mostly hands-off approach. New restrictions on finance triggered the shock suspension of Ant Group's IPO. Following the suspension of Ant Group's IPO, the new framework set by the CBIRC is aimed at fintech companies so that they don't change the nature of the financial industry. Regulators will be attentive to the risks and challenges of digitization, and firms should be subject to the same supervision and risk management requirements as banks. Unsurprisingly, the botched Ant IPO has resulted in a boost for state-run banks.

China raising urgency amid corporate defaults. Beijing announces its 5Y Plan

Caixin reported that a series of bond defaults by Chinese SOEs are on the radar of the NDRC and spokesperson Meng Wei called for local governments to step up supervision as recent failures highlighted the risk of rising defaults in China. China's policymakers are close to setting an average annual economic growth target of around 5% for the next five years, at the lower end of ranges previously considered as global risks cloud the outlook. Government think-tanks had previously made recommendations for average annual GDP growth targets of 5-6%.

Financial market outlook

Equities – SHANGHAI Idx: UNDERWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 3.25%)

Forex – CNY/USD: OW (Target 6.25)

China Broad, price/earnings, Datastream index

Ratio

Source: Refinitiv Datastream / ANDBANK

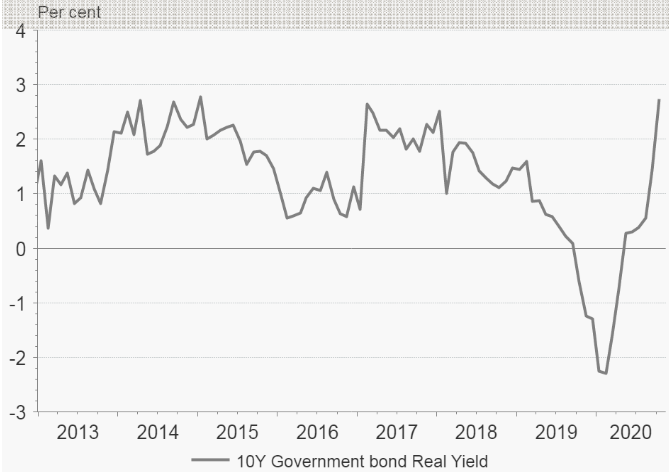
CHINA Shenzhen Index PE Ratio

PE LTM

Source: Refinitiv Datastream / ANDBANK

China - 10Y Government Bond Real Yield

Per cent



Source: Refinitiv Datastream / ANDBANK

JAPAN

ETF purchases will continue in 2021

Corporates: 30% of Japanese companies revise net profit forecasts higher

Nikkei research showed over 30% of listed companies in Japan have revised up net profit forecasts for the FY ending March, compared to 8% that revised down and 60% that kept forecasts the same. Of those that lifted estimates, over 60% were manufacturers. However, services companies such as airlines and railway operators continue to struggle as people work from home and refrain from going out. Companies leveraged to China saw the biggest upgrades.

Japan joins the trend of sanctioning China

Nikkei reported Japan is weighing up a legal foundation to impose sanctions over the treatment of China's Uighur Muslim minority. Moves are underway toward creating a Japanese version of the Magnitsky Act, which allows for sanctions over human rights issues. There are hurdles from likely Chinese pushback.

PM Suga said he hopes to work with US President-elect Joe Biden to further strengthen their countries' security alliance. Suga is likely to stress the importance of cooperating to maintain a "free and open Indo-Pacific" amid China's growing maritime assertiveness.

BoJ's Kuroda: "No plans to tweak its purchases of exchange-traded funds"

BoJ Governor Haruhiko Kuroda said he had no immediate plan to tweak its purchases of exchange-traded funds (ETF) or start selling its ETF holdings. BoJ board member Seiji Adachi said monetary policy can play a bigger role in supporting economic recovery efforts in a Covid-19 era. He noted job losses are accelerating among temporary workers in services industries and warned of a rise in corporate bankruptcies. Adachi added that monetary policy could act as a safety net by providing accommodative financial conditions. Board members noted current easing measures having positive effects and reaffirmed support for keeping them in place. Additionally, the BoJ will exempt regional banks from negative rates if they agree to merge or cut costs in a highly unusual use of monetary policy to reshape the financial sector. Regional banks with approved restructuring plans will be able to earn an extra 0.1% of interest on their deposits at the BoJ, an incentive that could be worth billions of Yen and fits with PM Suga's view that there were too many regional banks in the country, advocating consolidation. Under the new special deposit facility (a three-year measure) the BoJ will pay additional interest of 0.1% on the current accounts of regional banks held at the central bank to those that improve operations through mergers.

Japan's economy likely to rebound sharply in Q3

Bloomberg reported economists expect Japan's GDP to rebound at an annualized rate of 18.9% in Q3, marking the biggest rate of growth since 1968. Economic activity was underpinned by improved trade with US and China, a rebound in the auto industry and a surge in household spending. At the same time, businesses are likely to remain cautious with COVID virus cases surging again in Japan and companies unlikely to ramp up spending amid an uncertain outlook.

October Economy Watchers Survey current conditions index 54.5 vs 49.3 in prior month. Outlook index 49.1 vs 48.3 in prior month. Japan manufacturers less pessimistic in November. The Reuters Tankan manufacturers' sentiment index rose to -13 in November from -26 the previous month. But the index remained in negative territory for a 16th straight month. The service-sector index was also -13, up from -16 in October, with sentiment among wholesalers weighing on broad business confidence. October final services PMI 47.7 vs 46.9 in prior month. Composite PMI 48.0 vs 46.6 in prior month. September nominal average wages (0.9%) YoY vs (1.3%) in prior month. Real wages (1.1%) YoY vs (1.4%) in prior month. September unemployment rate 3.0% vs consensus 3.1% and 3.0% in prior month.

FX: Currency intervened. Don't expect any appreciation

In comments to parliament, Prime Minister Yoshihide Suga vowed to work closely with overseas authorities to keep currency moves stable, signaling his readiness to respond to any Yen spike that threatens to derail the country's fragile economic recovery. Suga's remarks followed those by Bank of Japan Governor Kuroda, who said on Wednesday the central bank will work to help keep currency moves stable.

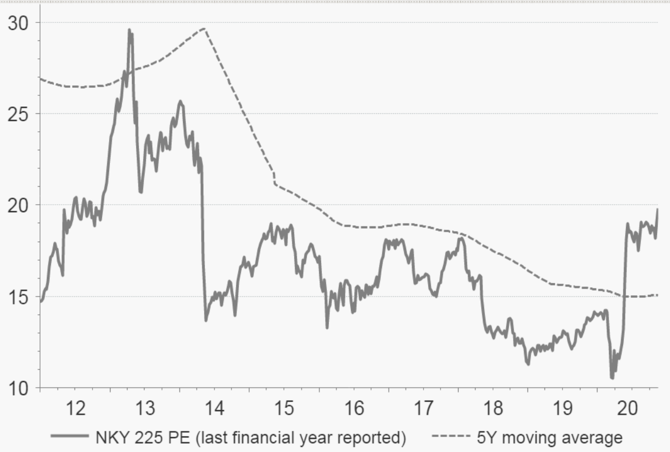
Financial market outlook

Equities – N225: UNDERWEIGHT

Bonds – Govies: MARKETWEIGHT (Target yield 0.00%)

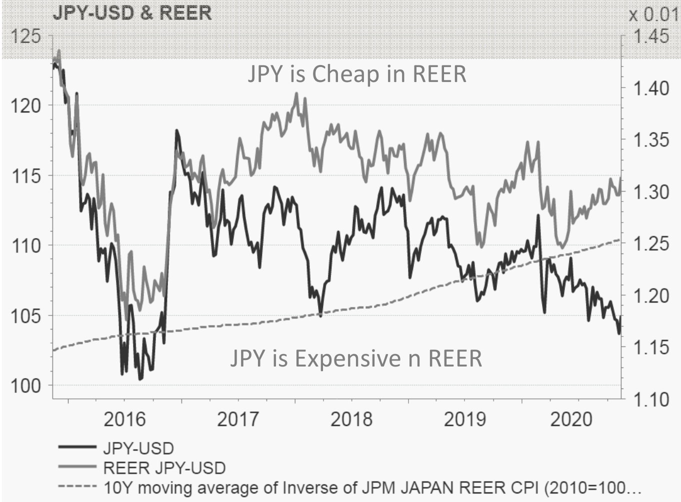
Forex – USD-JPY: MARKETWEIGHT (Mid-term target 103,5)

Japan Nikkei 225 price / earnings
Ratio



Source: Refinitiv Datastream / ANDBANK

JPY-USD & REER



Source: Refinitiv Datastream / ANDBANK

Japan money multiplier
M3 / monetary base

Source: Refinitiv Datastream / ANDBANK

INDIA

Common adversary is bringing Indo-US relationship & cooperation to a level never seen before

The three pacts between US & India — what does it mean for India?

India and the US are set to sign the last foundational agreement, the Basic Exchange and Cooperation Agreement for Geo-Spatial Cooperation (BECA), now officially announced at the end of the third round of 2+2 ministerial dialogue. The two countries are also working on a Maritime information agreement. So far India has inked the Communications Compatibility and Security Agreement (COMCASA); the Logistics Exchange Memorandum of Agreement (LEMOA) and now the BECA, which is to be signed shortly. Experts at C4I (interviewed by Financial Express Online) say that "With the COMCASA, BECA and LEMOA Agreements under the belt, India shall decisively evolve as a serious military power in the Indian Ocean Region (IOR) for decades to come. The recent Indo-China standoff has heralded a new dimension for India in terms of an aggressive military stance, and the common adversary is bringing Indo-US relationship to a level never ever seen before. These primary three pacts have provided the much needed impetus to the dwindling US influence in the Asia Pacific region. India, which shares more than 3,440 km along the border with China (with overlapping territorial claims) now may have a border dispute, triggering more aggression in the IOR region."

The US is well aware of the advantage that India's maritime geography provides for launching its operations against Chinese misadventures, while being able to maintain its resources in a zone of collaborative partners. This is a clear indication of US plans to be highly active in this region, now with probably a sustained presence and these serious Indo-US agreements are not what the new 'aggressive' China will be comfortable with. India may not be able to increase its military resources at short notice to immediately tilt the Indo-China military power balance but, these three major agreements will surely provide a Long Term Perspective Plan which may look totally different from the one reviewed in 2019.

The COMCASA framework for the exchange of encrypted communications between the Indian and US militaries are the way ahead for achieving inter-operability for US-supplied defense equipment, in case the two militaries plan to carry out air, sea or underwater exercises. For a cooperative engagement of any incoming threat or for launching a coordinated air or sea patrol over a large area, Indo-US cooperation now needs to go beyond personnel transfers, and this agreement allows that greater degree of coordination to be achieved. The LEMOA agreement is focused on joint military coordination, enabling both countries to access each other's military facilities for fueling and logistics support so that their units can be effectively operational even after suffering battle damage. Indian boundaries can provide a safe zone for US forces in the region. Access to seeing US military hardware up close operationally will provide the much-needed capability awareness to India," explained a senior officer. Finally, the BECA is all about the exchange of Geospatial Intelligence (GEOINT) information for the military as well as the government. As far as India is concerned, the Indian army's shortcomings in providing accurate data and the slow and error-prone processes were unable to keep pace with technological advances, rendering their database inaccurate and bereft of correction updates. This gap will now be filled by US GEOINT information made available under the aegis of the BECA agreement.

Biden win boosts Asia FX sentiment; bullish bets on rupiah

A Biden administration is expected to take a more measured and multilateral approach, which could clear the way for a recovery in Asia's economies. Biden's presidency may bring a fresh chapter to US foreign policy. The tariff-led trade negotiations and retaliation may be replaced by a more diplomatic and strategic approach to deal with US trade deficits. Sentiment towards the Asian currencies has reversed, with positions now turning bullish. While market participants still hold long positions in the Indian rupee, sentiment towards the currency still remains the weakest in the region despite massive dollar inflows into the country's equities. Government sources last week confirmed that the Reserve Bank of India (RBI) would continue to buy US dollars to prevent rupee appreciation and that authorities were keen to keep the rupee competitive to help provide an export boost. However, the underlying trend is of capital inflows into the country and therefore appreciation of its assets.

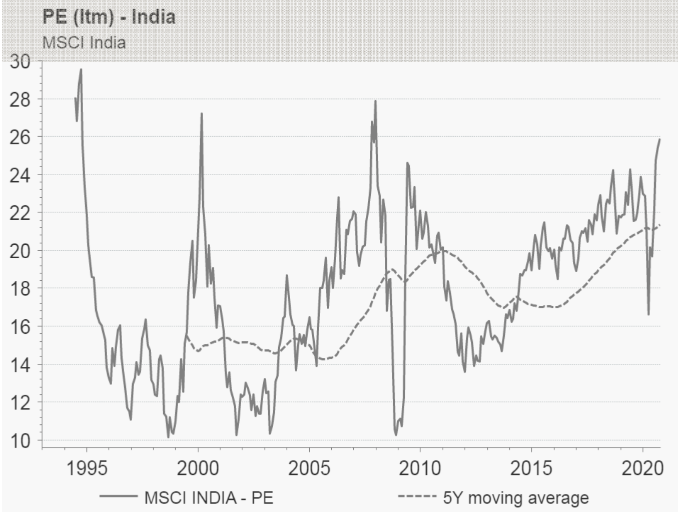
Financial market outlook

Equities – SENSEX: OVERWEIGHT

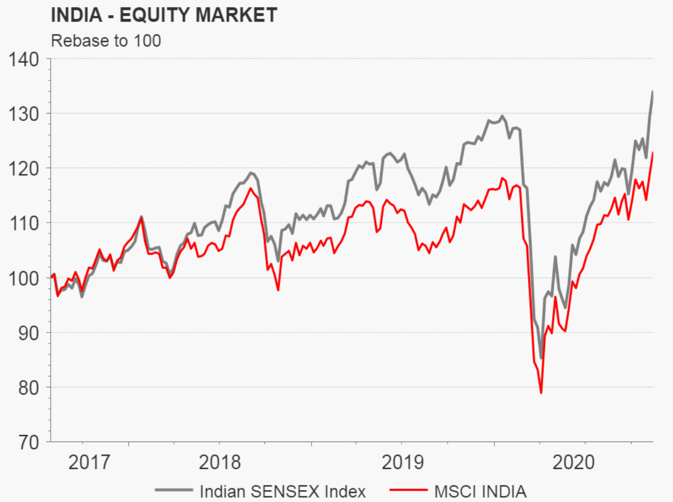
Bonds – Govies: UNDERWEIGHT (Target yield 6.9%)

Bonds – Corporates: MARKETWEIGHT

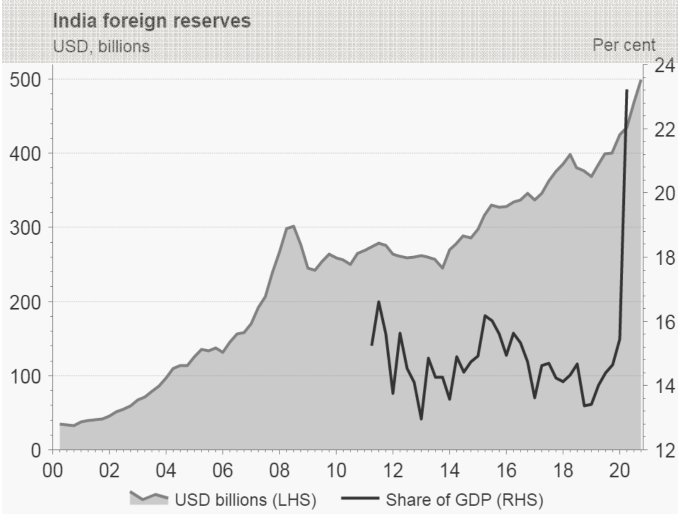
Forex – INR/USD: MARKETWEIGHT (Target 74)



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

ISRAEL

The steep rise in deficit did not cause a rating revision (AA-, A1). Equity & FX are expensive.

Israel's Macro View & Central Bank

In October, Israel's GDP rose by 37.9% QoQ (after a 29.8% contraction in the previous three months), led by the business sector that showed a 43.1% increase, a 42% increase in household consumption and a positive contribution from the net external sector. As for the labor market, the official unemployment rate was 4.9%, but the percentage of workers absent from work due to COVID-19 was 18.2%. The foreign trade balance showed an improvement as exports of goods, excluding diamonds and start-ups, rose 44.6% MoM and the import of goods and services fell by 6%. Even over a 12 month perspective, exports rose by 5.5% and imports went down by 15.9% YoY. The sharp decrease in the number of Covid-19 infections after the government enforced a second nationwide lockdown has given the government the ability to re-open kinder-gardens elementary schools, shops and most economic activity.

The central bank now forecasts an economic contraction of 5-6.5% in 2020, depending on whether the virus is contained and further lockdowns are needed, but forecasts growth of up to 6.5% (upper part of the range) in 2021.

The CPI increased in October by 0.3% MoM, but down 0.8% YoY, and the Bank of Israel is expected to keep short-term interest rates unchanged at 0.1% for a fifth meeting after signaling it was unwilling to lower rates to zero or make them negative. Deputy Governor Andrew Abir said, "There was little reason to push its key rate to zero or below given low borrowing costs for consumers and businesses".

Equity Market View

Israeli stocks continued their impressive performance, extending the positive trend through November. The Tel Aviv 35 (large cap) rose by nearly 4% while the Tel Aviv 90 added 5.3%. The financial sector (banks and insurance companies) led the indices with a rise of 8.8%. It should be noted that despite the impressive return, the banks still trade at an average market value to cap ratio of 0.7. Based on past performance, banks tend to outperform the broad market given current valuations and the current level of discount. The real estate sector was the best performer in the last part of 2020 surging 15.5%. The low interest rate coupled with a diminishing housing inventory were the main drivers of the impressive performance of the sector. The introduction of Pfizer's Corona vaccine contributed to the favorable performance of the commercial property sector, which has suffered significantly since the Corona outbreak. At present, the Israeli stock market is following the footsteps of its global counterparts, meaning that sectors that were hit the most due to the pandemic have outperformed the major indices in recent weeks.

Bond Market & Forex

S&P upheld its outlook for the Israeli economy, keeping its AA- credit rating unchanged. The rating was announced after meetings with Israel's top financial officials. The Israeli representatives assured S&P the increase in the budget deficit to 12% and the rise of the debt-to-GDP ratio to 73% are temporary, stressing that the state of the Israeli economy is still strong. This follows Moody's decision in mid-October to keep Israel's rating unchanged at A1, with a stable outlook.

The credit spread in the CPI linked TelBond60 index narrowed to 1.40% (vs 1.5% in mid-October, 1.67% in July and pre-Covid19 spread levels of 1.2%-1.25%). The credit spread in the non-CPI linked TelBond Shikli50 fell to 1.22% compared to 1.34% in mid-October, 1.71% in mid-July, and compared to pre-Covid-19 spread levels of 1.3%-1.35%.

One issue for the central bank is the Shekel, which stands at 3.31 per dollar - its strongest level since mid-2008. The Bank of Israel will continue to concentrate on foreign exchange purchases to deal with the strong currency, as a further rate cut is unlikely to help weaken the Shekel by much.

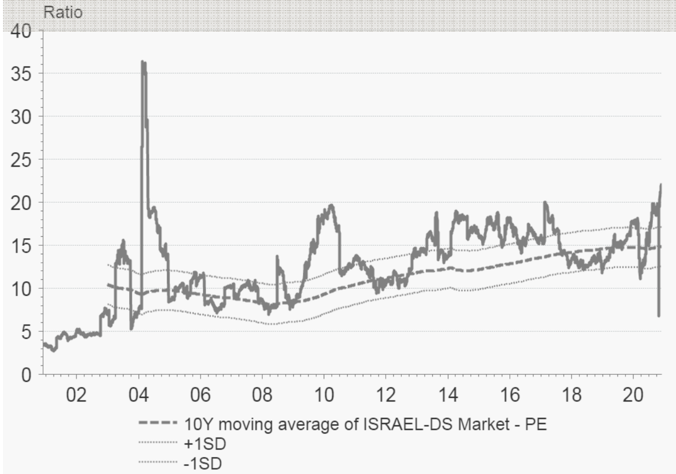
Financial market outlook

Equities – TLV35 Index: UNDERWEIGHT (Expensive)

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

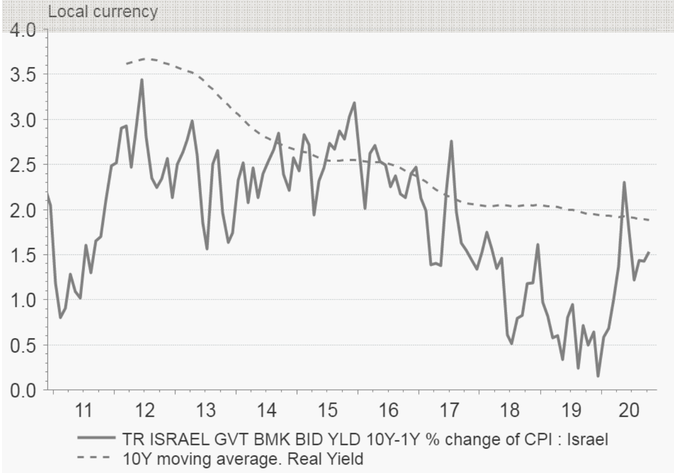
FX – ISL vs USD: UNDERWEIGHT (Expensive in REER)

Israel price/earnings, Datastream index
Ratio



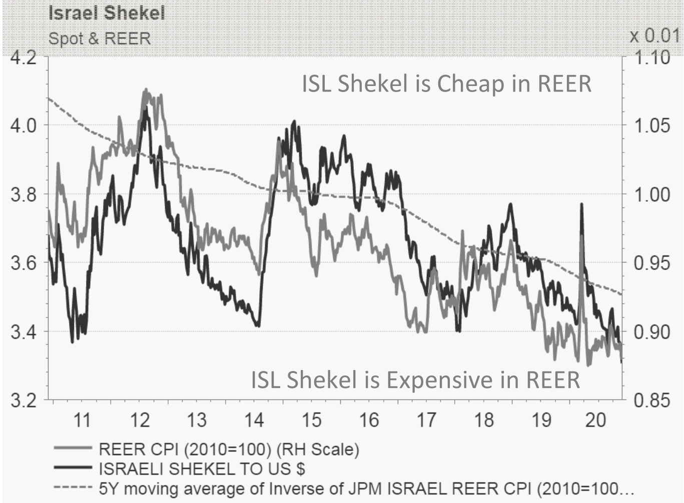
Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel
Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

If the government manages to contain further outlays and the spending cap acts as an anchor, then debt will stabilize

Reforms

Congress has little time to analyze and vote on the pending processes, such as the federal budget for 2021 and the approval of constitutional amendments that allow automatic reduction of expenses. Since the beginning of October, there is a kind of political war between the allies of the Congress president and the supporters of President Bolsonaro. As such, the economic agenda remains stuck at various stages in Congress. Tax reform is at a joint committee stage and the Emergency PEC (which foresees triggering mechanisms to curb mandatory expenditure) is waiting for the report with the Senate Legal Committee. Administrative reform is awaiting an order from the Lower House Chairman to start its procedural passage. Nevertheless, major fiscal endorsements have taken place: BCB Governor Campos Neto said that Brazil should resume fiscal discipline; Minister of the Economy, Paulo Guedes said Brazil will continue pursuing reforms, while speaker Maia said the emergency state will not be extended into 2021 (although the government has already made it clear that federal benefits should be extended in a possible second wave of the virus, adding to fiscal uncertainty). All said, the global risk-on tide led the yield curve to flatten and Brazilian equities to rally. Fiscal uncertainty is still likely to persist and this could cause the USD-BRL to trade at low levels of ~5.5 by the end of 2020, and at 5.25 by end of 2021. Our main concern is thus a fiscal deterioration and the government's lack of an attitude towards approving reforms and the privatization program.

How sustainable is that?

We see the consolidated public sector posting a primary balance of -12% of GDP (vs -0.9% in 2019) and a nominal deficit of -17.6% of GDP (2019: -6.9%). Net debt-to-GDP ratio will be fixed at 70.6% (2019: 55.7%). The enactment of the so-called War (effort) budget separates temporary Covid-19 expenditure from permanent expenditure in 2020. Further outlay pressures have to be contained and the spending cap must be allowed to remain a binding fiscal anchor. If the government manages to do so, the primary fiscal deficit will likely shrink to 3.3% of GDP in 2021 and the net debt-to-GDP ratio will stabilize at high levels (about 71%). The government has recently revived the creation of a permanent social expenditure program called Renda Cidadã, which is expected to be funded by cutting subsidies, but it still poses a risk to fiscal austerity. The government is also facing pressure to raise infrastructure spending.

Politics & Economics

Analysts still seek to outline Brazil's political scenarios after municipal elections, in which centrist governments were elected, anticipating a possible drop in the President's popularity. Left-wing political parties continue to be disjointed and relatively powerless, leading the political struggle to the center-right. A fall in popularity will be associated with economic factors, such as reduced transfers and increasing inflation. The end of the stimuli may therefore coincide with the drop in popularity, bringing more political noise to the forefront.

The BCB's monthly GDP proxy advanced for the fifth consecutive month, by 1.3% MoM. The IBC-Br now stands only -2.5% below pre-pandemic levels, having recovered 83.0% of its decline. On a quarterly basis, Q3-20 activity grew by 9.5% QoQ and the year-on-year reading, which is strongly correlated to official GDP, receded by -3.0% YoY. Sector-wise, September showed more balanced (and sluggish) growth: IP grew by 2.6% MoM and joined the retail sector (+1.2% MoM) in recovering all the lockdown losses, while the service sector managed to narrow the gap to retail, expanding by 1.8% MoM for the month, but still 8.0% below Feb 2020. In light of this last batch of activity data, our Q3-20 GDP growth estimate of 7.6% QoQ (-4.3% YoY) is looking conservative.

Central Bank, Monetary Policy & Inflation

The announcement of more aggressive interventions in the FX market brought the BRL from 5.80 to 5.20 in a matter of weeks. The Copom held the Selic rate at 2.00% as expected. The BCB considered their current monetary stimulus and the use of forward guidance as adequate. Due to short-term temporary inflation shocks and the giant gap between producer price indices and consumer price indices (the IGPM will close the year at 22.86% while the IPCA at 3.45%), together with the fiscal uncertainty, we still see the Copom raising rates in 2021 (perhaps to 3.00% by year end). IPCA CPI inflation reached 0.86% MoM in October, taking the reading to 3.9% YoY, coming close to the BCB's 2020 mid-target (4.0%), although Core CPI continues to be comfortably within the BCB's lower target range (2.5%), demonstrating how wide the negative output gap still is. **The positive current account continues to be a good source of funding**, with the sixth consecutive current account surplus. Although FDI fell below expectations in September, it marked the highest current account balance on record (12 month CA was +1.3% of GDP). FDI is losing steam but still remains the main source of funding (+3.2% of GDP).

Financial market outlook

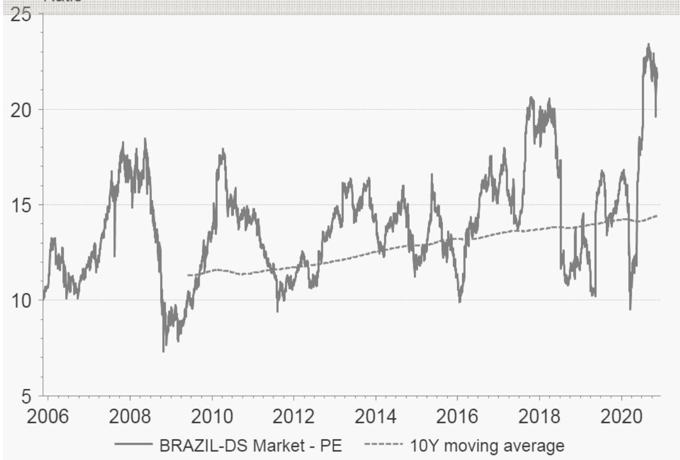
Equities – iBovespa: MARKETWEIGHT

Bonds – Govies Local: OVERWEIGH (Target yield 7%. Spread 575)

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

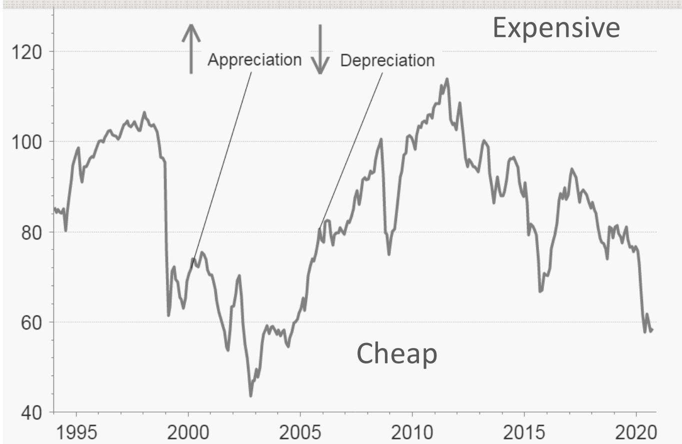
FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.25)

Brazil price/earnings, Datastream index
Ratio



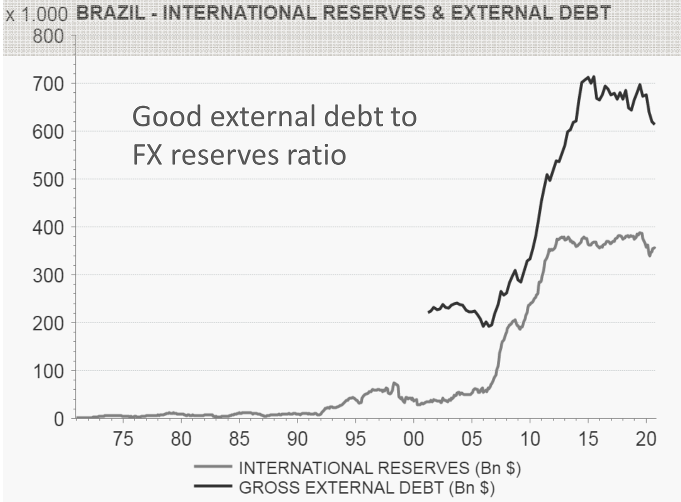
Source: Refinitiv Datastream / ANDBANK

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



Source: Refinitiv Datastream / ANDBANK

x 1.000 **BRAZIL - INTERNATIONAL RESERVES & EXTERNAL DEBT**



Source: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

MEXICO

Unattractive valuations on equity assets. Bonds offer little value

Fiscal Risk & Ratings

The ratings agency Fitch finally maintained the country's rating in the lowest part of the Investment Grade bracket (BBB-), although it is worth mentioning that the agency improved its outlook for this issuer from negative to stable. The forecasts are that Moody's next move will be to cut Mexico's rating (from BBB+ to BBB), in order to align it with S&P's rating for the country (at BBB with a negative outlook), but such a move has yet to take place, and the agency's comments have been somewhat more favorable in recent weeks.

Economy

Economic data continues to show signs of recovery, but it is still very slow. There has been a timid improvement in the estimate of GDP growth for 2020, but the uptick has been only one point (from -10% to -9%). Looking ahead to 2021, the forecast continues to be for anemic growth of only + 2.5%, one of the slowest recoveries compared with the rest of the world, and there are no projections that the rate could accelerate in the coming years, implying that it will take between 5-7 years for the Mexican economy to regain its pre-pandemic GDP level.

The fall in tax revenues in Q3 has slowed compared to Q2. Non-oil revenues have increased, although this was primarily due to the use of non-recurrent revenues, such as funds and trusts whose objective is countercyclical spending to mitigate the fall in tax revenues due to lower growth dynamics. Public spending has continued to grow, but mitigating the fall in income (through the use of non-recurrent revenues) has helped maintain the primary surplus in 2020. The debt-GDP level has reached 54%, although the expectation that it will continue to rise has waned as estimates of a double-digit decline in economic activity for the year have been reduced.

The Ministry of Finance carried out a debt refinancing for USD 6,600 million, the largest amount in the history of the government. It issued a new 10-year bond and another 40-year bond, then exchanged paper maturing between 2023 and 2030 for the new 10-year bond.

Monetary environment. We could have reached the end of the easing cycle. The monetary environment can no longer offer more support.

The central bank (Banxico) decided to pause its rate cut cycle at its November meeting, leaving the official rate at 4.25%. The bank's board showed greater concern about the recent behavior of inflation (October inflation posted an annual rate of 4.09% and prices seem to be consistently above the target range set by the authorities). There is a consensus of an additional cut towards the end of 2020 (to 4%) but November's decision to pause the rate cuts demonstrates what we have been saying for some time: the central bank could have reached the end of the downward cycle in interest rates, so we should not count on new monetary support. Forecasts are for rates to remain unchanged in 2021.

Politics

The 2021 budget has been presented and the primary balance is forecast to be zero. Nevertheless, a deterioration in public finances could occur if the growth estimates that determine public revenues were indeed too optimistic (as it seems) and therefore fall short of the estimate. The former secretary of public security was arrested for ties to drug trafficking.

Polls place public acceptance of President Obrador at a level that has stabilized at a low level of around 50%. His non-existent handling of the pandemic and the question of public security are the main weaknesses in the president's reputation. Unsurprisingly, in the recent state elections held on the weekend of October 18, the PRI party managed to establish itself as the main political force in two states, an unpleasant surprise for the party of President López Obrador.

Mexican Assets: Equities, Bonds & FX

The local economic outlook has improved and this is being reflected in the latest corporate reports. The favorable influence of the global environment is bolstered with high levels of liquidity. The uncertainty over Biden's policy and its effect on growth in the US -and therefore on the recovery in Mexico- will be a relevant factor in 2021. Locally, the possible fiscal deterioration of Pemex is the main risk. Consensus target price 41,000.

Financial market outlook

Equities – Mex IPC: MARKETWEIGHT

Bonds – Govies Local: MARKETWEIGHT-UW (Target yield 6.25%. Spread 500bp)

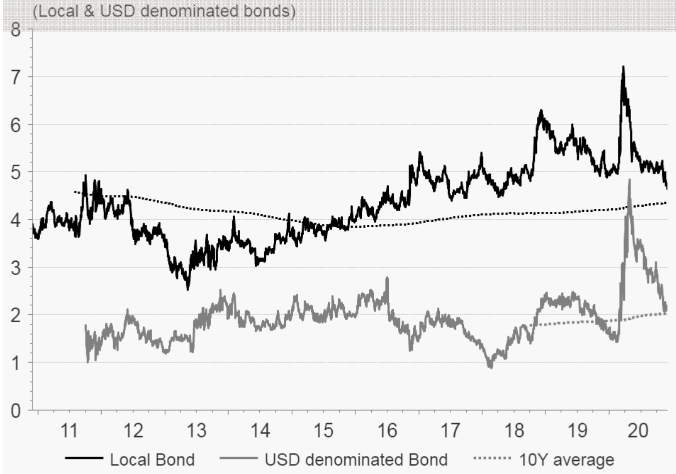
Bonds – Govies USD: MARKETWEIGHT-UW (Target yield 3.25%. Spread 200bp)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 22)

Mexico equities price/earnings ratio
Datastream index

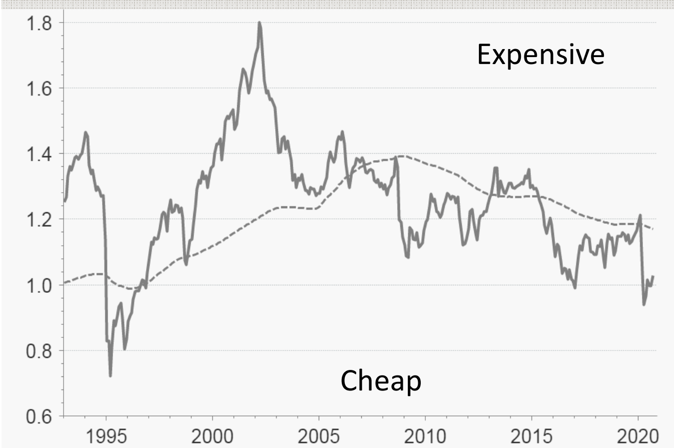
Source: Refinitiv Datastream / ANDBANK

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

ARGENTINA

Inability to finance itself in the market, while still not signaling a plan to improve fiscal metrics

IMF's debt restructuring

Argentina's Economy Minister, Martín Guzmán, said there is no rush to agree with the IMF and has ruled out financial aid from China. Guzmán insisted that austerity -the linchpin of most programs with the IMF- is not the answer to the economy's problems. On the other hand, Guzmán stated that it would be "beneficial" to obtain more financing from other multilateral institutions such as the World Bank and the Inter-American Development Bank, especially to finance public infrastructure projects. Finally, he admitted that the difference between the official exchange rate and Argentina's alternative exchange rates is a problem. We believe that the problem behind the strong depreciation of the peso (and the speed with which Argentines get rid of pesos) has its origin not so much in the lack of dollars, but in the excess of pesos, and this is due to the inability of this government to finance itself in the market (given its unwillingness to deliver a credible plan for fiscal sustainability and control of spending), which forces it to finance itself through the issuance of money from the central bank, which disproportionally increases the amount of pesos in relation to the amount of dollars available. As long as the government fails to understand the fiscal nature of the problem and continues without correctly signaling to investors an improvement of its fiscal metrics and fiscal capabilities, Argentina will continue to see how the financing market remains hermetically closed at a time when any issuer, even minimally serious, gets unlimited funding for free.

The perception is that an agreement with the IMF will imply certain conditions, pushing for a path to medium-term fiscal consolidation and a consistent monetary program, reducing central bank support for the treasury (today the only source of financing), providing the basis for a medium-term macroeconomic program and as a byproduct helping to anchor expectations and stabilize the economy. The press indicated that privately the Minister signaled flexibility to reduce the 2021 primary deficit to the 3.5-4.0% range (budget target is 4.5%). Guzman announced subsidy reductions for the rest of 2020 related to Covid-19 extraordinary expenditure (IFE 4). This year, the primary fiscal deficit could reach 8% of GDP. On the flip side, structural reforms (usually part of an EFF) are not part of the government's agenda and with mid-term elections next year the government will be less prone to walk the path to fiscal austerity. The government's proposal for the new formula to update retirement plans and pensions is aimed at reaching a deal with the IMF by April.

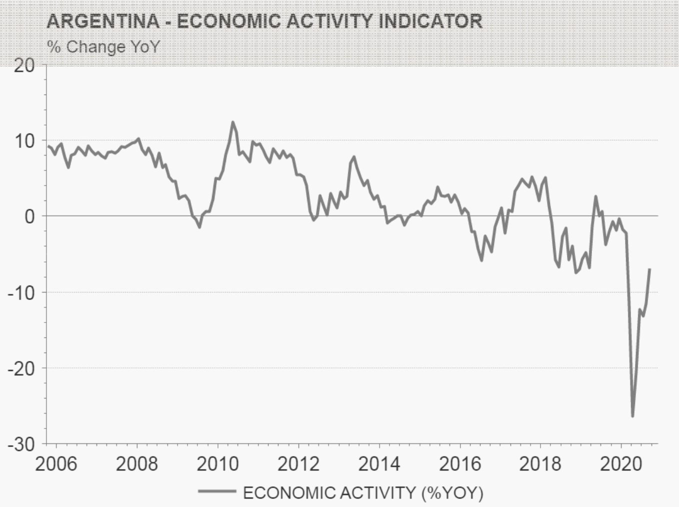
Inflation remains unchanged but could accelerate again

CPI accelerated to 3.8% MoM (37.2% YoY) in October, from the prior month +2.8% MoM, and has consistently followed a rising trend since May despite the fact that almost two thirds of the CPI basket remains either frozen or controlled by the government. For 2021 we expect higher inflation (probably above 50%) for several reasons: i) Utilities bills will be unfrozen; ii) Acceleration in food inflation, as the government has started to unwind price control programs; iii) Monetary issuance financing will remain high. Market expects a 11.6% fall in GDP in 2020, with a 4.5% recovery in 2021. Although activity is recovering from April's lows, data shows a weak recovery in the second half of the year. The widening FX gap is providing importers with incentives to advance payments (they need USD to do so) while exporters are delaying shipments (also delaying the inflow of USD into the country).

For a meaningful recovery in Argentinian asset prices the government needs to agree a credible and consistent IMF program with broad political support. Our view is that negotiations will take time as Guzman will face pressure from the "Kirchnerist" wing of the government, probably leading to a program that will be insufficient to change current market expectations.

Financial market outlook

Bonds – 10YGov USD: NEUTRAL
FX – USD-ARS: NEGATIVE (2021 year-end target 120)



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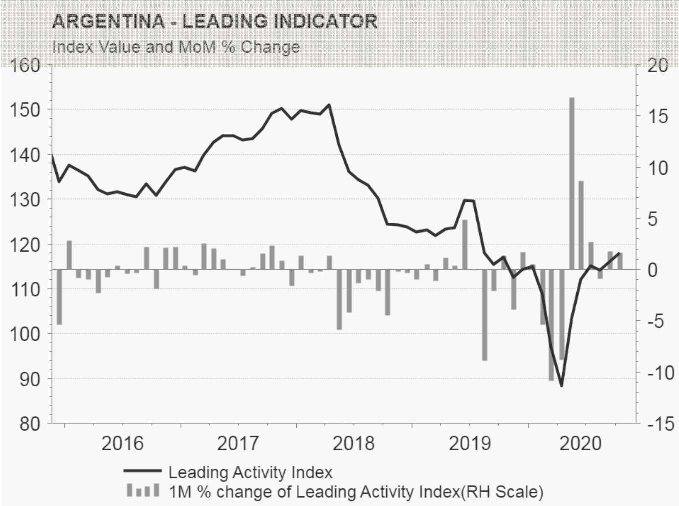

Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Projected EPS 2021	EPS Growth 2021	Projected EPS Growth Andbank 2022	PE EPS nxt 12m	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2020 E[Perf] to Fair Value	Recomm	2020 Exit Point	Max. Risk Premium	E[Perf] to Exit point
USA S&P 500	170,00	22,3%	5,00%	20,00	3.710	3.400	-8,4%	MW	3.910	1,15	5,4%
Europe - Stoxx Europe 600	24,99	41,7%	5,00%	17,00	396	425	7,3%	OW	489	1,15	23,4%
Euro Zone - Euro Stoxx	23,43	48,7%	5,00%	17,00	394	398	1,0%	MW/OW	458	1,15	16,1%
Spain IBEX 35	428	88,5%	5,00%	17,00	8.250	7.276	-11,8%	UW	8.367	1,15	1,4%
Mexico IPC GRAL	2.832	73,8%	5,00%	14,50	43.073	41.064	-4,7%	MW	47.224	1,15	9,6%
Brazil BOVESPA	6.250	206,7%	5,00%	**17,00**	113.620	106.250	-6,5%	MW	122.188	1,15	7,5%
Japan NIKKEI 225	1.285	25,4%	5,00%	19,00	26.818	24.415	-9,0%	UW	28.077	1,15	4,7%
China SSE Comp.	258,70	16,8%	5,00%	12,50	3.372	3.234	-4,1%	UW	3.719	1,15	10,3%
China Shenzhen Comp	107,60	23,9%	5,00%	22,00	2.251	2.367	5,2%	MW/OW	2.722	1,15	20,9%
India SENSEX	2.213	37,2%	5,00%	**21,00**	46.104	46.467	0,8%	OW	53.437	1,15	15,9%
Vietnam VN Index	76,50	27,8%	5,00%	13,50	1.039	1.033	-0,6%	OW	1.188	1,15	14,3%
MSCI EM ASIA	44,10	24,1%	5,00%	15,00	691	662	-4,3%	MW	761	1,15	10,0%

POSITIONING, FLOW & SENTIMENT ANALYSIS

Risk Outlook: Neutral // Positioning: Neutral

Andbank's Assessment: +0.0 (in a −7/+7 range)

Aggregate (MW-UW bias): The aggregate assessment arising from our analysis of asset managers' positioning, flows from speculators and sentiment surveys suggests that the positioning in risky assets should be neutral-underweight.

Market Positioning (MW-UW bias): Asset allocation in equities from global portfolio managers represents a negative tilt towards this asset class, due to the consistently high exposure to the asset class in portfolios. The move from last month has been important enough for us to adjust the figure accordingly (from +0.5 to a 0 score). The Put-Call ratio indicates that investors are still not hedging their portfolios. Skew remains in positive territory, reflecting that a fear of a more violent downside movement is still present.

Flow Analysis (OW bias): Net inflows into US equities indicate a very positive momentum; it is worth mentioning the rotation toward "cyclicals" (financials and energy) and "value" from Nasdaq and growth as a result of the vaccine announcement by Pfizer. Emerging markets follow the lead with flows in Asia directed toward China (also Japan). EU was slightly positive.

Surveys & Sentiment Analysis (MW bias): Sentiment from investors is very bullish on vaccine announcements. Our contrarian reading is negative.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	Ticker Reuters	View 1 month	Principal Support 2020	Principal Resistance 2020	Support 1 month	Resistance 1 month	Target (TA) 2020	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	Lateral bullish	252,89	443,29	329,00	421,41	443,00	381,17	16,22%
	Euro Stoxx 600	.STOXX	Lateral bullish	268,57	433,90	338,57	410,00	441,75	385,18	14,69%
	Ibex	.IBEX	Lateral	5.814,50	10.100,00	6.329,50	8.022,00	8.375,60	7.783,70	7,60%
	S&P	.SPX	Bullish	2.191,86		3.209,45			3.585,15	
	Japón	.N225E	Bullish	16.358,19	24.448,00	22.948,00	27.270,00	27.697,00	25.385,87	9,10%
	China	.SZSC	Lateral bearish	1.691,00	2.333,36	2.122,00	2.333,36	2.441,38	2.268,67	7,61%
	India	.BSESN	Bullish	24.833,00		39.241,00			43.637,98	
	Brasil	.BVSP	Lateral	57.600,00	119.593,00	93.408,00	105.703,62	119.593,10	104.723,00	14,20%
	México	.MXX	Bullish	30.000,00	45.955,00	35.277,54	41.894,75	44.866,00	40.791,81	9,99%
OTROS	Oil West Texas	WTCLc1	Lateral bearish	10,37	51,00	33,68	43,57	50,00	40,07	24,78%
	Gold	XAU=	Lateral bearish	1.659,00	2.072,49	1.848,81	1.991,91	2.230,00	1.888,04	18,11%
	Treasury 10Y USA	US10YT=RR	Lateral	0,1289%	1,3210%	0,6900%	0,9590%	0,8658%	0,8971%	-3,49%
	Bund 10Y Germany	DE10YT=RR	Lateral	-0,9090%	-0,1420%	-0,6710%	-0,3720%		-0,5490%	

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

NEW!! Fundamental view (WTI): Target range USD50-60bbl (from previous 40-50)

Buy < USD50; Sell >USD60

Short-term drivers

(Price Positive) **– Permian drilling rights prices have tumbled. The threat posed by Biden's energy agenda is being felt:** After the US presidential elections, multiple outlets are still debating what a Biden administration might mean for the energy sector. The WSJ suggested that bets against the fossil-fuel industry and favoring renewables will accelerate given Biden's stated policy priorities. This would mean less extraction activity and lower output, which could push the price of crude higher in the short term. It is striking to see how the price of drilling rights across US shale has dropped from ~$17K/acre to ~$5K/acre in recent days. In the Permian Basin, prices averaged about $24K/acre in recent deals, down ~67% from 2018. This large drop in the price of extraction rights may have to do with a situation of low global demand for crude, but is surely related to the threat that Biden's energy agenda poses for producers. The lower prices have sparked a wave of takeovers.

(Price Positive) **– Trump advances plans to auction ANWR drilling rights but Biden wants to protect the US Arctic Refuge:** The Trump administration will begin an effort to get input on what comes to auction in the US Arctic National Wildlife Refuge, although President-elect Biden has pledged to permanently protect the refuge, saying drilling there would be a major disaster, a move that would be complicated by an auctioning of rights. The US Geological Survey estimates the refuge's coastal plain might hold between 4.3 and 11.8B barrels of recoverable crude.

(Price Positive) **– Biden's election could cause headaches for the Dakota Access pipeline:** Biden's victory could cause environmental and legal challenges to the Dakota Access pipeline, which transports ~40% of the Bakken shale's output to Midwest refiners and exporters on the Gulf Coast. The pipeline's controlling owner is fighting to keep the line open, but a judge threw out its permit to run under a South Dakota lake. Barack Obama's administration already blocked that specific permit, which was later granted under Trump. The Biden transition team did not comment on their position but it could take the same stance as the Obama administration on this pipeline. The Bakken was the source of more than ten percent of all US oil production.

(Price Negative) **– Biden's move to sanctions relief could put downward pressure on oil prices:** President-elect Biden's foreign policy moves, including policies around the Iran nuclear deal, could have a big impact on oil prices. A move to sanctions relief on Iran could bring as much as 2M bpd back to the market in the second half of 2021. Nevertheless, while president-elect Biden has said he would prioritize giving Iran a credible path back to diplomacy, such an effort could be complicated. Iran's mid-2021 presidential election could return a more conservative government, and a likely continued GOP control of the US Senate could mean Biden has to offer Republicans some assurances if he wants his nominees confirmed. US sanctions have cut Iran's exports by more than 2.5M bpd since 2018, but oil markets seem to be betting on a late-2021 return of Iranian crude to the market, which is an optimistic timeline.

(Price Positive) **– Output curbs have pushed the global oil market back toward balance:** Commercial inventories have fallen for 15 of the past 16 weeks, signaling an undersupplied market as the result of production cuts by OPEC+, though stocks remain at 31M barrels, or 7%, above the five-year average. However, the weakening demand trend means that oil markets could easily tip back toward over-production if the OPEC+ cuts are eased at the start of the year. Oil inventories have gradually normalized in the US, with inventories declining by a total of 96M barrels over the last 16 weeks.

(Price Positive) **– OPEC and its allies are discussing a delay of the supply boost that was set for January.** OPECs joint ministerial meeting is focused on a three-to-six month postponement given demand pullbacks in areas including Europe. In fact, vaccine progress relieves pressure on OPEC and its allies, though it won't provide a significant boost in demand until 2H-21. The group may run into some resistance from members (including UAE), which has previously argued for complete consensus, and Iraq, whose finances are under stress.

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 may 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).

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.13969), 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$1,658. Therefore, in real terms, gold continues to trade well above its 20-year average of US$988. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,126.

Gold remains expensive relative to silver (preference for store of value over productive assets) though it is cheap relative to palladium. The Gold/Silver ratio is at 76.23 and still remains well above its 20-year average of 65.98x, suggesting that gold is expensive 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$1,636/oz. Meanwhile, the Gold/Palladium ratio is at 0.81, well below its 20-year average of 1.831x, suggesting that gold is cheap relative to palladium, or palladium is even more expensive than gold.

Gold to oil: This ratio is at 45.94, still well above its 16-year average of 17.2x. 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$946 for this ratio to remain near its LT average.

CURRENCIES

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
GBP-USD: Target 1.37; **EUR-GBP**: Target 0.88
USD-CHF: Target 0.90; **EUR-CHF:** Target 1.08
USD-MXN: Target 22; **EUR-MXN:** Target 26,4
USD-BRL: Target 5.25; **EUR-BRL:** Target 6.30
USD-ARS: Target 120
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	-26,65	-2,91	32,1	-34,1	-4,1	**-1,04**
USD vs G10	-26,37	-2,54	32,7	-34,0	-3,1	**-1,11**
EM	0,28	0,38	3,9	-0,8	1,4	**-0,80**
EUR	21,11	0,56	31,3	-8,6	12,1	**0,82**
JPY	5,69	2,33	5,7	-15,0	-5,8	**1,80**
GBP	-0,66	0,25	4,3	-6,5	-1,3	**0,23**
CHF	2,04	-0,01	2,3	-6,0	-1,6	**1,57**
BRL	-0,34	0,15	0,7	-0,8	-0,2	**-0,38**
MXN	0,73	0,15	3,3	-0,5	1,2	**-0.49**
RUB	-0,11	0,07	1,2	-0,3	0,4	**-1,26**
AUD	-0,80	-0,70	6,1	-5,2	-0,3	**-0,17**
CAD	-1,64	-0,07	6,1	-5,0	-0,1	**-0,56**

Positive
Neutral-Positive
Neutral-Negative
Negative

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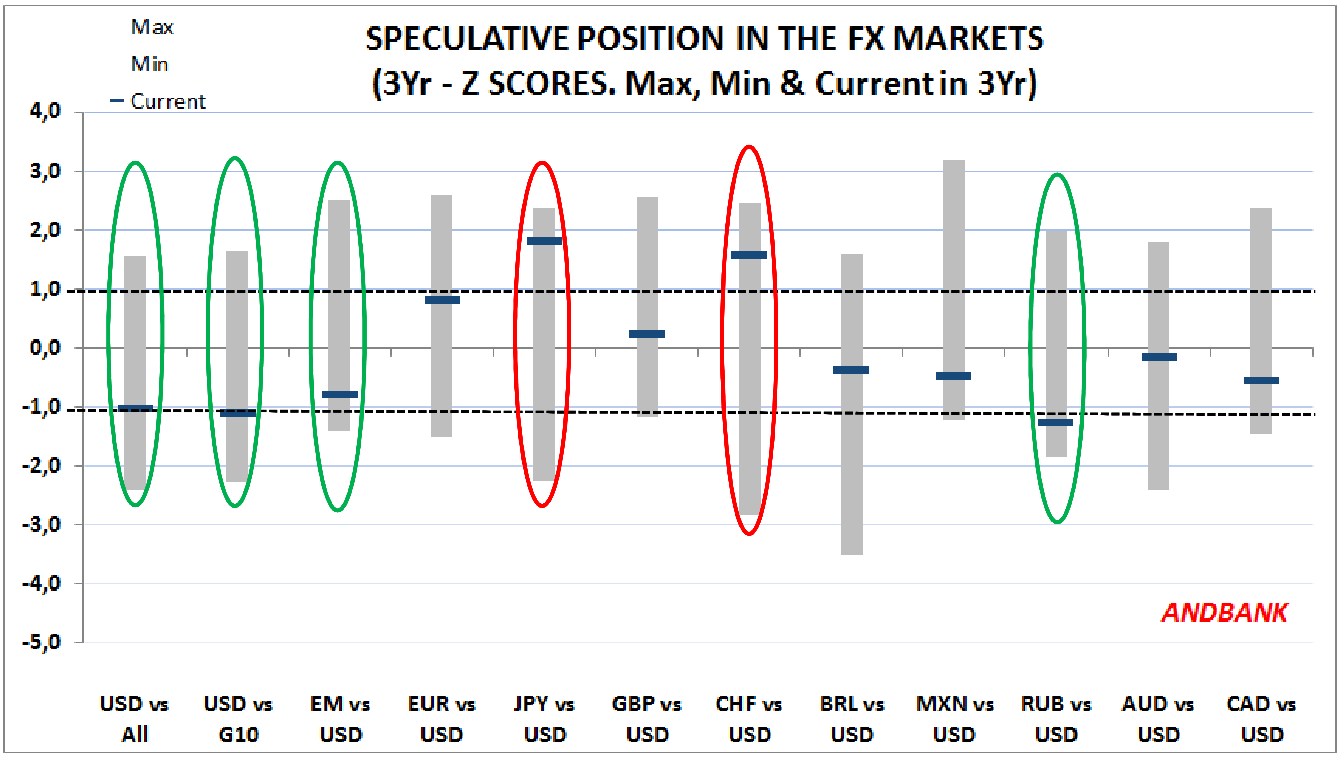

The currencies we technically favor are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance Last month*	*Performance YTD*	*Current Price*	*Fair Value*	**Expected Performance to Fair Value (Next 12 months)**
Equity	USA - S&P 500	4,2%	14,6%	3.701	3.400	-8,1%
	Europe - Stoxx Europe 600	3,8%	-5,3%	395	425	7,4%
	Euro Zone - Euro Stoxx	4,5%	-2,7%	394	398	1,1%
	SPAIN - IBEX 35	10,4%	-13,8%	8.238	7.276	-11,7%
	MEXICO - MXSE IPC	8,1%	-1,0%	42.883	41.064	-4,2%
	BRAZIL - BOVESPA	9,5%	-1,6%	113.318	106.250	-6,2%
	JAPAN - NIKKEI 225	-13,4%	13,4%	21.507	24.415	13,5%
	CHINA - SHANGHAI COMPOSITE	-0,1%	11,8%	3.372	3.234	-4,1%
	CHINA - SHENZEN COMPOSITE	-3,5%	30,6%	2.251	2.367	5,2%
	INDIA - SENSEX	8,2%	10,6%	46.104	46.467	0,8%
	VIETNAM - VN Index	9,2%	7,1%	1.039	1.033	-0,6%
	MSCI EM ASIA (in USD)	4,4%	22,1%	691	662	-4,3%
Fixed Income Core countries	US Treasury 10 year Govie	-0,1%	9,6%	0,95	**1,25**	-1,5%
	UK 10 year Gilt	0,8%	5,2%	0,27	0,80	-4,0%
	German 10 year BUND	0,7%	3,1%	-0,60	**-0,40**	-2,2%
	Japanese 10 year Govie	0,0%	-0,3%	0,01	0,00	0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	1,3%	3,9%	0,02	0,20	-1,4%
	Italy - 10yr Gov bond	1,5%	7,9%	0,54	0,70	-0,7%
	Portugal - 10yr Gov bond	1,3%	3,9%	-0,02	0,20	-1,8%
	Ireland - 10yr Gov bond	0,8%	3,3%	-0,31	0,00	-2,8%
	Greece - 10yr Gov bond	1,8%	7,9%	0,59	1,20	-4,3%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,1%	0,0%	46,31	**55**	-0,3%
	Credit EUR HY-Itraxx Xover	2,1%	0,3%	239,13	**300**	0,0%
	Credit USD IG - CDX IG	0,1%	2,1%	50,90	**50**	0,8%
	Credit USD HY - CDX HY	2,5%	4,1%	292,52	**297**	3,0%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	1,9%	3,9%	12,83	12,04	19,2%
	Russia - 10yr Gov bond (local)	0,6%	9,2%	5,79	5,28	9,9%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	0,7%	13,3%	6,17	5,23	13,7%
	India - 10yr Gov bond (local)	0,2%	11,3%	5,91	6,87	-1,8%
	Philippines - 10yr Gov bond (local)	-0,1%	14,9%	3,08	3,02	3,6%
	China - 10yr Gov bond (local)	0,0%	1,8%	3,26	**3,25**	3,4%
	Malaysia - 10yr Gov bond (local)	-1,3%	7,6%	2,74	1,64	11,5%
	Thailand - 10yr Gov bond (local)	0,4%	3,0%	1,22	0,81	4,5%
	Singapore - 10yr Gov bond (local)	-1,2%	7,9%	0,93	0,93	1,0%
	Rep. Korea - 10yr G. bond (local)	-0,7%	1,4%	1,57	1,02	6,0%
	Taiwan - 10yr Gov bond (local)	-0,3%	3,1%	0,30	0,25	0,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	3,5%	18,4%	5,34	**6,25**	-1,9%
	Mexico - 10yr Govie (USD)	2,4%	7,6%	2,78	**3,25**	-1,0%
	Brazil - 10yr Govie (Loc)	-1,3%	1,7%	7,38	**7,00**	10,4%
	Brazil - 10yr Govie (USD)	2,2%	8,9%	3,55	**3,50**	3,9%
Commodities	Oil (WTI)	14,2%	-24,6%	46,0	55,00	19,5%
	GOLD	-0,6%	22,0%	1.851,5	1.900	2,6%
Fx	EURUSD (price of 1 EUR)	2,4%	7,9%	1,210	1,20	-0,8%
	GBPUSD (price of 1 GBP)	2,0%	1,2%	1,34	1,37	2,1%
	EURGBP (price of 1 EUR)	0,5%	6,6%	0,90	0,88	-2,8%
	USDCHF (price of 1 USD)	-2,7%	-8,2%	0,89	0,90	1,2%
	EURCHF (price of 1 EUR)	-0,3%	-0,9%	1,08	1,08	0,4%
	USDJPY (price of 1 USD)	-1,1%	-4,1%	104,20	103,50	-0,7%
	EURJPY (price of 1 EUR)	1,3%	3,5%	126,08	124,20	-1,5%
	USDMXN (price of 1 USD)	-2,8%	4,4%	19,77	**22,00**	11,3%
	EURMXN (price of 1 EUR)	-0,4%	12,8%	23,90	26,40	10,4%
	USDBRL (price of 1 USD)	-5,2%	27,0%	5,11	**5,25**	2,8%
	EURBRL (price of 1 EUR)	-2,9%	37,1%	6,18	6,30	2,0%
	USDARS (price of 1 USD)	3,6%	37,0%	82,03	**120**	46,3%
	USDINR (price of 1 USD)	-0,5%	3,3%	73,69	**74,00**	0,4%
	CNY (price of 1 USD)	-1,4%	-6,1%	6,54	**6,25**	-4,4%

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

UPWARD REVISION DOWNWARD REVISION

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