ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – October 2021

Corporate Review

October 2021

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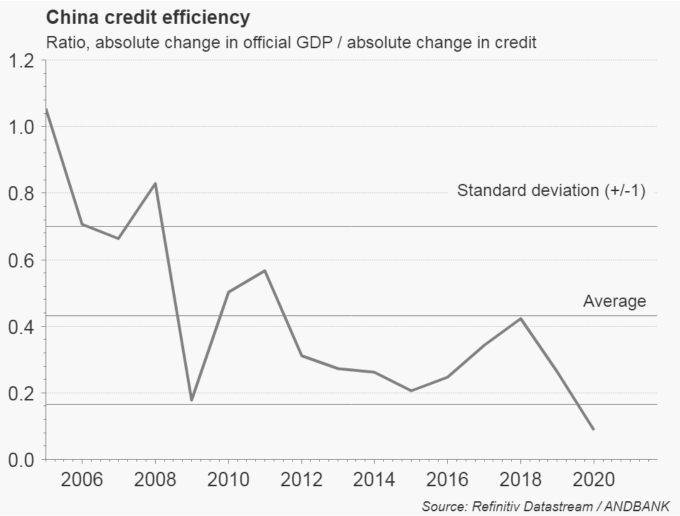
EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Recomm	Exit Point	E[Perf] to Exit point
USA S&P 500	4.443	4.499	1,3%	MW	4.949	11,4%
Europe - Stoxx Europe 600	456	503	10,5%	MW/OW	554	21,5%
Euro Zone - Euro Stoxx	458	501	9,4%	MW/OW	551	20,3%
Spain IBEX 35	8.906	10.550	18,5%	OW	11.605	30,3%
Mexico IPC GRAL	51.599	57.476	11,4%	OW	63.224	22,5%
Brazil BOVESPA	113.583	127.074	11,9%	MW	139.781	23,1%
Japan NIKKEI 225	30.184	30.008	-0,6%	UW	33.009	9,4%
China SSE Comp.	3.602	3.697	2,6%	UW	4.067	12,9%
China Shenzhen Comp	2.402	2.655	10,5%	MW	2.920	21,6%
India SENSEX	59.668	60.898	2,1%	MW/OW	66.988	12,3%
Vietnam VN Index	1.339	1.618	20,8%	MW/OW	1.780	32,9%
MSCI EM ASIA	683	804	17,8%	MW/OW	884	29,6%

ANDBANK ESTIMATES

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	1,53	1,80	-0,6%
	UK 10 year Gilt	1,00	0,80	2,6%
	German 10 year BUND	-0,19	0,00	-1,7%
	Japanese 10 year Govie	0,07	0,25	-1,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,44	0,60	-0,8%
	Italy - 10yr Gov bond	0,85	0,75	1,7%
	Portugal - 10yr Gov bond	0,33	0,60	-1,8%
	Ireland - 10yr Gov bond	0,17	0,40	-1,6%
	Greece - 10yr Gov bond	0,81	1,60	-5,5%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	48,94	55	-0,2%
	Credit EUR HY-Itraxx Xover	242,69	250	1,7%
	Credit USD IG - CDX IG	50,90	68	0,0%
	Credit USD HY - CDX HY	291,90	298	2,7%

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)	17,88	17,00	24,9%
	Russia - 10yr Gov bond (local)	7,29	6,60	12,8%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,25	5,10	15,5%
	India - 10yr Gov bond (local)	6,23	6,00	8,0%
	Philippines - 10yr Gov bond (local)	4,49	4,75	2,4%
	China - 10yr Gov bond (local)	2,87	2,40	6,6%
	Malaysia - 10yr Gov bond (local)	3,43	4,25	-3,1%
	Thailand - 10yr Gov bond (local)	1,80	2,50	-3,8%
	Singapore - 10yr Gov bond (local)	1,56	2,50	-5,9%
	Rep. Korea - 10yr G. bond (local)	2,16	2,90	-3,8%
	Taiwan - 10yr Gov bond (local)	0,42	1,35	-7,1%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	7,24	7,55	4,7%
	Mexico - 10yr Govie (USD)	3,18	3,55	0,3%
	Brazil - 10yr Govie (Loc)	11,06	9,80	21,1%
	Brazil - 10yr Govie (USD)	4,45	4,55	3,6%

COMMODITIES & FX

Asset Class	*Indices*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Commodities	Oil (WTI)	76,3	60,00	-21,3%
	GOLD	1.735,2	1.900	9,5%
Fx	EURUSD (price of 1 EUR)	1,168	1,19	1,9%
	GBPUSD (price of 1 GBP)	1,36	1,42	4,0%
	EURGBP (price of 1 EUR)	0,86	0,84	-2,1%
	USDCHF (price of 1 USD)	0,93	0,93	-0,2%
	EURCHF (price of 1 EUR)	1,08	1,10	1,7%
	USDJPY (price of 1 USD)	111,39	110,37	-0,9%
	EURJPY (price of 1 EUR)	130,11	131,34	0,9%
	USDMXN (price of 1 USD)	20,23	20,50	1,3%
	EURMXN (price of 1 EUR)	23,61	24,40	3,3%
	USDBRL (price of 1 USD)	5,39	5,30	-1,7%
	EURBRL (price of 1 EUR)	6,30	6,31	0,2%
	USDARS (price of 1 USD)	98,43	140,00	42,2%
	USDINR (price of 1 USD)	74,10	74,00	-0,1%
	CNY (price of 1 USD)	6,46	6,35	-1,6%

USA

More clarity from the FED. Proposed timeline fro tapering looks ambitious, in our view.

FED: A clearer schedule was announced

In September, the Fed moved into a more hawkish stance by stating that "it will likely begin reducing its monthly bond purchases as soon as November and would finish it in mid-2022", and that it doesn't expect to start rate increases before ending the tapering of asset purchases. The mid-2022 target of tapering ending seems too ambitious in our view, as we expect a longer time frame for the unwinding of bond purchases. Like any important event, with potentially significant consequences, we must reorder the arguments for or against for the materialization of such event, and we see today a balance of factors for and against, which contributes to the fact that doubts remain high about what may end up happening with the Fed and the Tapering.

There are factors that invite us to think that the Fed will not make any decision that endangers the stability of the market

1) The Fed has indicated it still needs to see further progress toward its employment and inflation goals before implementing the Tapering. 2) The Dallas Fed Index fell 4.4 points m/m to 4.6, missing consensus (11.0) and being lowest print since Jul-20. 3) September Consumer Confidence ticked down in tis last report. 4)Richmond Fed manufacturing index slipped into contraction. 5) August durable-goods orders were up 1.8% m/m, well ahead of consensus for a 0.7% rise but headline gain was driven by big increase in transportation orders. If we consider durable orders ex transportation, it was up just 0.2% against consensus for 0.5% and July's 0.8% rise. 6) Senator Warren voices her opposition to renomination of Powell, considered as "a dangerous man" (she, and perhaps a significant portion of the Democrats in Congress, wants continuity in monetary easing).

The factors that invite us to think about an imminent Tapering have to do with declarations of intent by some state governors of the Fed:

1) St. Louis Fed's Bullard warns containing inflation may require more aggressive steps. 2) New York Fed President John Williams (voter) said tapering bond purchases may be soon warranted, but criteria for a rate hike are still a long way off. Also cautioned post-pandemic rebound is moving along, but will still take time for a full recovery. 3) Evans also said he sees the Fed tapering soon, but the outlook for raising rates is less clear, saying it will be late 2023 before a rate hike is warranted. 4) Fed Governor Brainard (voter) echoed this, saying Delta has pressured employment and that no signal about rates liftoff should be taken from the Fed's decision to taper its asset purchases. 4) Powell, speaking at a European Central Bank event, expressed frustration over persistent supply chain woes which could keep inflation elevated for longer than expected.

Fixed Income

Yields have been notably range-bound this summer and even the economic and inflation data market remains decidedly priced for sub-trend growth over the coming year. We continue to think that the spread of the Delta variant will have a more limited impact on US growth and so remain underweight in government bonds. For credit markets the direction of UST yields should drive the near-term spread trends. Despite the good technicals, the valuation already reflects much of the good news and we remain underweight in investment grade. For High Yield, spreads reached a multi-year low in July, with default volume (9.3bn USD) on track to be the lowest in calendar since 2007 and default rates ticking to 1.14% YTD. We expect the market to continue to absorb the increasing net volume for the rest of the year, as refinance and M&A continue, so we keep our neutral position in the asset class.

Equities: we remain constructive

In the course of 2021, the S&P500 already accumulates +17.22% and the Nasdaq +14.72% (current S&P500 level of 4,357 points). In May, S&P500 Value grew +1.72% and SP&500 Growth +4.18%. Growth is leading again, with +19.10% in performance against +15.04% in Value. We keep our neutral position about sectors and the current level for the exit point again this month

Financial market outlook

Equities: S&P MARKETWEIGHT

Bonds: Govies UNDERWEIGHT 10 Y UST Target 1.80

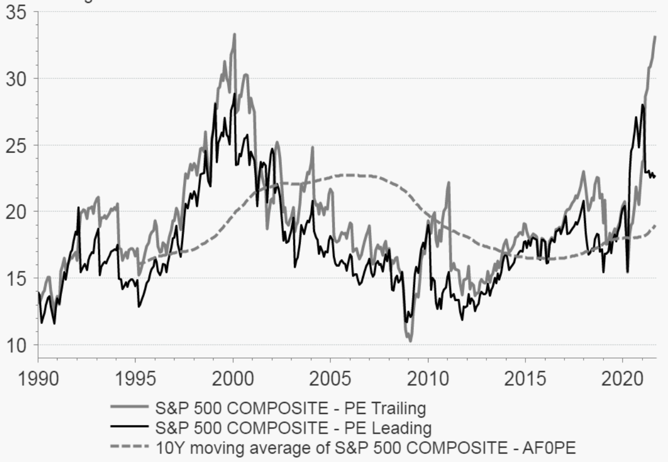
CDX: IG UNDERWEIGHT (Target Spread 68)

CDX: HY MARKETWEIGHT (Target Spread 281)

Forex: DXY index MARKETWEIGHT

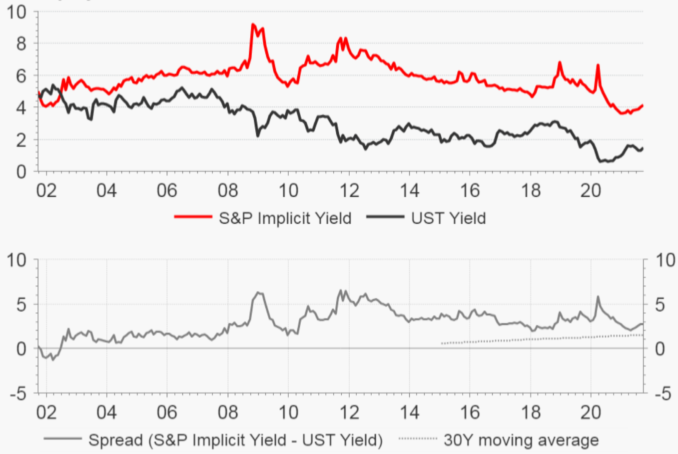
US price-to-earning ratio

Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

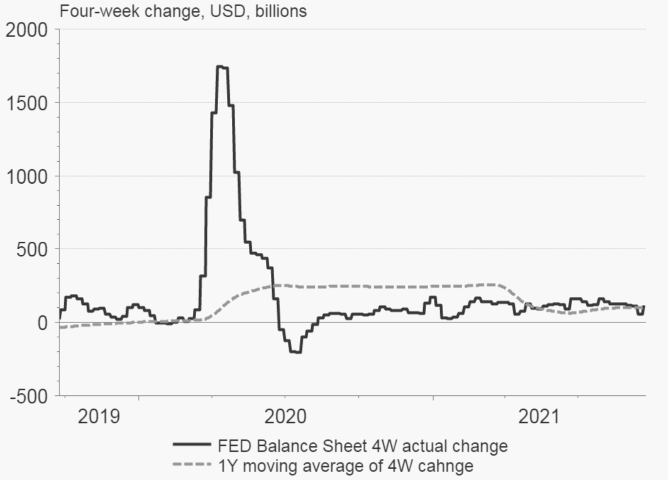
Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

Federal Reserve balance sheet

Four-week change, USD, billions



Source: Refinitiv Datastream / ANDBANK

EUROPE

Recovery continues but risks emerge. No tapering on the horizon

Strong activity momentum but not out of the woods yet

Economy is clearly rebounding, with future speed certainly depending on the evolution of the pandemic. Delta risk has been manageable and vaccination rates are close to 70%. Sentiment surveys remain supportive (both in manufacturing and services), but highest levels could be behind us. Inflation expectations have kept rising during the summer and a surge in inflation is widely expected to continue during the autumn, though it should fade as we move into 2022. Main risks are commodity shortages and supply chain disruptions, with firms passing their cost increases through to consumers.

ECB: after PEPP recalibration (no tapering), see you in December!

No major surprises from last meeting: an improved macro scenario, a “more moderate path of asset purchases”, and PEPP’s end undebated, so far. Both inflation and growth estimates were revised upwards, surpassing consensus views for 2021-2022. The slowdown in 4Q21 purchases was agreed unanimously and, though no exact figures were announced, market expectations point to 60-70 bn/month (from 80 bn €/month). As expected, Lagarde confirmed that it was still early to debate PEPP’s end. Any measures towards a new (or current) program to substitute PEPP will be on the table at the December meeting. An organized transition is key, with the possibility of a future “recovery PEPP” which some participants estimate could be around 500 bn €, lasting 18 months, with a less flexible scheme than the PEPP.

German Elections

Our central scenario is that of a coalition with a predominance of the directives of the Socialists of the SPD and the Greens, aiming at higher public spending. How does this square with the position of the liberal conservatives? Well, we do not know, and it seems difficult, but the FDP liberals already failed in 2017 in their negotiations for a collation, which makes us think that this time they will be more flexible. Therefore, we estimate that there will be a government with a bias towards spending policies, which have been fueling (and will continue to do so) the growth support model in Europe.

SPD confirmed the polls, becoming the most voted party (25.7%), closely followed by CDU/CSU (24.1%), Greens (14.8%) and FDP (11.5%). The far-right AfD (-2 pp to 10.5%) and the Left Party (-4.2 pp to 5%) both suffered significant losses. The most disruptive scenario (SPD-Greens-Left), have missed a majority. Both Scholz and Laschet aim to form a coalition with FDP and Greens, so a traffic light coalition (SPD-Green-FDP) and a Jamaica coalition (CDU/CSU-Green-FDP) are now the two main options. Supporting the first, and most likely option, is Scholz’s victory. In terms of assets’ reaction, the result is unlikely to derail the market’s fundamental case, as both coalition alternatives (centrist coalition options) mean continuity in the post-Merkel era.

Financial Markets: Govies, Corporate Credit & Equity

Govies: Real yields have dived more into negative territory, decoupling from inflation expectations. We expect this divergence to be reduced with higher nominal rates. Stock effects from ECB purchases will weigh on yields during the coming months, limiting the upside for the bund target, which will probably move below 0%.

Corporates: Looking at Chinese company exposure, the share for European benchmarks is almost meaningless. If we adjust the Itraxx spreads for the recent modifications, spreads have narrowed during the summer. We have seen inflows for IG credit for 11 consecutive weeks, while there have been outflows in HY. We maintain our targets for IG and HY credit, with a neutral recommendation for both.

Equity market: The historic Q2 +200% YoY earnings growth has led to rising EPS revisions. Tech and Healthcare reached fresh highs recently. The broader market is now at 15.8x forward PE, but the difference between sectors could bring some contrarian opportunities towards year-end. For instance, cyclical stocks are doing much worse than the market, even though their EPS are improving. In Spain, the weight of the utilities sector in the Ibex 35 index (20%) and the legal uncertainty around them (after the spike in electricity prices) translated into a stock market that lagged its peers again, overshadowing a very good earnings season.

Financial market assessment

Equities – Stoxx Europe: MARKETWEIGHT-OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT-OVERWEIGHT

Equities – Spain’s Ibex: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 0%)

Peripheral – OW IT (0.75%). MW: SP (0.60%), PO (0.60%), IE (0.40%), GR (1.60%).

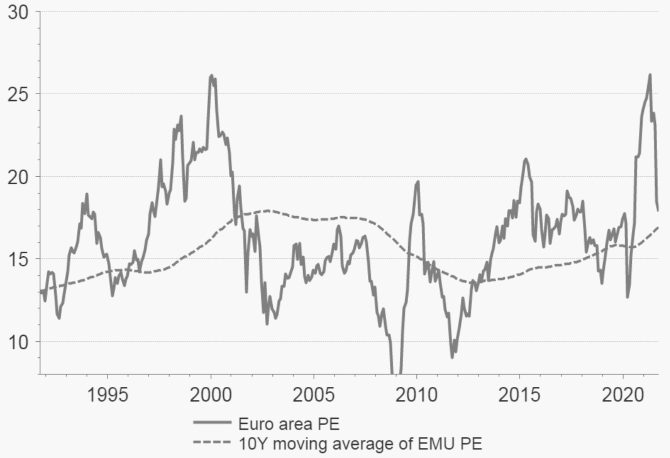
Credit – Itraxx Europe (IG): MARKETWEIGHT (Target Spread 55)

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

FX – EUR/USD Target 1.19 (Buy USD at 1.23, Sell USD at 1.16)

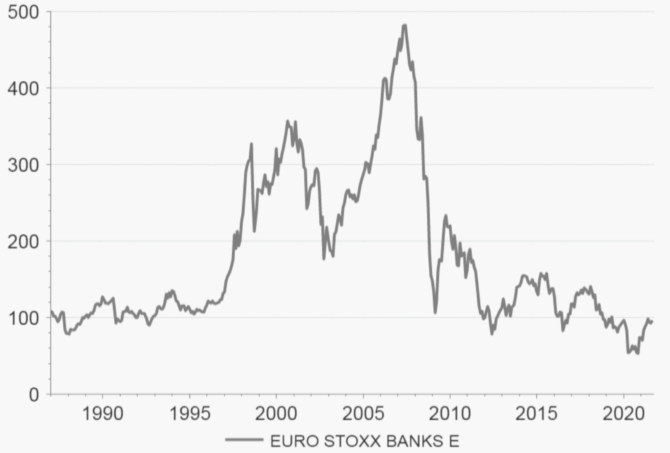
Euro area & EU price-to-earnings

Ratio - Forward



Source: Refinitiv Datastream / ANDBANK

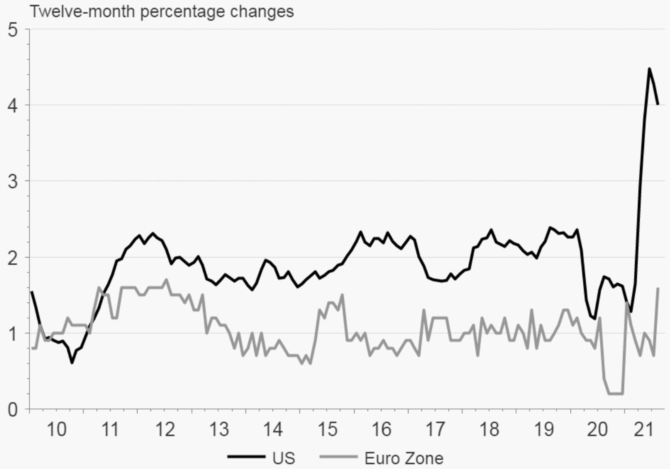
Euro STOXX banks Index



Source: Refinitiv Datastream / ANDBANK

CORE CPI - US vs Euro zone

Twelve-month percentage changes



Source: Refinitiv Datastream / ANDBANK

CHINA

We have lost all hope that China will one day achieve a full democracy and a market economy

The experiment of allowing China to enter the WTI has not had the expected effect.

In 2001, when Western governments approved China's request to join the WTO, they thought that this would cause China to become more closely integrated with the Western economic system and democracy (as did South Korea in the 1980s and Taiwan in the 1990s). After two decades, these hypotheses have not materialized, as China has not evolved into a representative democracy, despite the fact that socialism theoretically puts the rights of the individual at the center of the social contract. Why has China not evolved in the expected direction? More importantly, should we forget the idea that China will ever take the form of a Western society or a market economy? There are deep cultural differences that make individuals' own perspective not coincide. These differences can be manifested, for example, in art, which is the main means of expression of how individuals perceive the environment and how they see themselves. In this regard, consider the difference between Chinese and Western art. In traditional Chinese art, the individual is often depicted as the size of an ant. What mattered was the landscape and the environment in general, and perhaps how people fit into that environment. In contrast, traditional European art always focused primarily on the individual. Even when artists were busy painting and representing movements, landscapes, or social ideas, they did it by imagining individuals.

Could this have political consequences for China in the form of isolation?

Whatever the explanation, hopes that integration into the global economy would lead China towards an economic system based on the rights and freedoms of the individual have been disappointed, and this is already having implications, not only economic, but also political, in the form of a decline in Western political goodwill toward China. The only way to prevent China from suffering international isolation is for the West to approach China's socio-economic standards. Could this happen? Some people claim that this is already happening. At the end of the day, Western leaders have sacrificed the sacrosanct principle of individual rights on the altar of the common good (limitations on movement, or restrictions on economic and commercial action). In our view, these abnormal (and thus temporary) decisions were a response to an abnormal (and thus temporary) situation. Some analysts think that, to know whether the West is approaching China's social and political standards, we only need to answer the following questions: 1) Do western citizens have less freedom of expression than two decades ago? Should they be more careful what they say? 2) Can journalists do their job and monitor the authorities without fear of reprisals? 3) Has the government turned the banks into powerful financial weapons at the service of power? I think the answer is negative in all cases, suggesting that the West has not assimilated to China. Consequently, the rift between China and the West exists and will continue. And with it, the political distancing and, perhaps, isolation.

Chinese tech stocks have been crushed. What next?

Since mid-February, Chinese tech stocks have almost halved in value. And as investors exit their Chinese tech holdings, it would seem they are rushing into the arms of US big tech. In essence, they are selling Alibaba, Tencent and JD.com to buy Amazon, Facebook and Google. Why? Implicit in this shift is a belief that "this government crackdown on thriving businesses couldn't happen in the West." The assumption is that, in China, policy is driven by outcomes, whereas in the West, where the rule of law prevails, policy is driven by process. But what is really behind the government crackdown and the sale of Chinese stocks? Could there be a misunderstanding on the part of investors? In the eyes of many investors, the main driver of the crackdown is government jealousy. Jealous of losing control of political power, authorities do not hesitate to cut off the heads of anyone who threatens to grow too large. Jealousy for the personal success of technology billionaires, which increases social differences and social unrest and forces politicians to act accordingly. There is no doubt that, if these are the reasons behind the crackdown, this would be more than enough argument to forget about Chinese assets forever. However, it could also be that other (more rational) reasons have prompted the government to restrict the activity of certain sectors such as technology: 1) The Chinese technology industry has grown too much in the absence of a regulatory framework, and that growth could become dangerous for society if it led to an irreversible concentration of power. It may be necessary to interrupt the growth until a stable legal framework is in place. 2) The tech sector has started to cannibalize other sectors of the Chinese economy, at a time when many small and medium-sized enterprises were struggling as economic growth slowed, so it could be a reasonable popular move to restrict the activity for big tech platforms. If this is the case, it would still be a populist decision and against progress. I am afraid that the repression is driven by the government's interests, not the people's. For example, fintech is a threat to the banking sector, in which the government has a major stake. In any case, the rights of the individual or individual companies are being sacrificed for the "greater good".

Financial market outlook

Equities – SHANGHAI Idx: UNDERWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.40%)

Forex – CNY/USD: MW (Target 6.35)

CHINA SSE & Shenxhen Index - PE Ratio

PE LTM

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

Strong and favorable inflows from abroad. Post-Kuroda BOJ laying the groundwork for policy normalization.

Strong and favorable inflows from abroad

Foreign traders are buying more Japanese stocks than at any time since Abenomics, after Prime Minister Yoshihide Suga's shock resignation put Japan back in the headlines. A new administration brings the prospects of a spending boost, and foreign investors are back at the table, buying ¥363.6B ($3.3B) of equities on the TSE First Section in the week through 3-Sep. That has put 2021 on course to be the best year for purchases of equities by foreign investors since 2013, when foreign interest surged in former Prime Minister Shinzo Abe's Abenomics program. It would also be the first year of net purchases by foreigners since 2017. Ruling coalition lawmakers said a general election is highly likely to be held in November in the expectation that Yoshihide Suga's successor as LDP president will be appointed 29-Sep and will dissolve the lower house for a general election on either 7-Nov or 14-Nov.

Economy

Japan automakers slash production plans. Production cutbacks totaling 1.05M vehicles were announced by six of Japan's major automakers for this fiscal year. This adds to a similar reduction in the previous year due to the coronavirus pandemic. The primary factor this time is the surge in infections in Southeast Asia, which is a major supply base for in-vehicle semiconductors. Estimations are that global automobile production volume in 2021 will fall to about 80M units, -6% from initial projections.

More companies are increasing non-fixed-term regular employment to cope with upcoming sharp hikes in the minimum wage. More employers are judging it better to shift their labor force to non-fixed-term regular workers, given that it would be more costly for them to employ fixed-term, hourly-paid nonregular staff.

Pandemic-related business defaults surge: a Tokyo Shoko Research report showed coronavirus-induced business failures in Japan rose 49% yoy in August to 121, amid a fourth wave of COVID infections. This took the cumulative total from January to 1,026. Of all the bankrupt businesses, 204, or 20%, were restaurants and bars, which saw revenues plummet due to bans on serving alcohol and restrictions on the movement of people during Japan's on-off state of emergency.

Q2 revised GDP +1.9% q/q annualized vs preliminary +1.3% (consensus was +1.6%). GDP growth q/q was +0.5% vs preliminary +0.3% (consensus was +0.4%)

Central Bank: post-Kuroda BOJ laying the groundwork for policy normalization

A Reuters article cited multiple BOJ sources suggesting the central bank is quietly rolling back Governor Kuroda's radical policies. According to insiders, this unwinding is driven by Deputy Governor Amamiya, considered the top contender to replace Kuroda, whose term ends in 2023. Amamiya and his top lieutenant Shinichi Uchida have worked behind the scenes to make Kuroda's complicated policy framework more manageable and eventually return Japan to more normal interest rate settings, even as the economy struggles with the pandemic.

Nevertheless, current BOJ Governor Kuroda told the Nikkei that monetary easing will continue, even after the Covid-19 pandemic abates, until the 2% inflation target is reached. Kuroda stuck to his baseline scenario of production recovery but noted high uncertainty regarding the impact of infections. He also reiterated his pledge to take additional easing measures without hesitation if necessary.

Covid: Japan to begin phasing out Covid restrictions from October:

Yomiuri reported Japan's government is set to implement gradual easing of mobility restrictions from October, in line with coronavirus vaccination progress. Conditional on the completion of inoculations in hot spots, inter-prefectural travel will be permitted, and event capacity will be increased from the current 5,000 attendees. Restrictions on serving alcohol at serving establishments will be eased. Under the plan, trials would commence in October, presaging broader execution from November.

Geopolitics

Defense Ministry said on Sunday that a submarine believed to be from China was spotted in waters near Japan's southern islands. A submerged vessel was sailing northwest just outside territorial waters near Amami Oshima island, part of Kagoshima prefecture, and a Chinese destroyer was also spotted in the vicinity.

Corporate

SBI Holdings (8473.JP) announced that it plans to increase its stake in Shinsei Bank to 48% through a tender offer, launching an unsolicited bid for the rival lender. SBI already holds a stake of more than 19% in the bank.

Financial market outlook

Equities – N225: UNDERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 0.25%)

Forex – USD-JPY: MARKETWEIGHT-OW (Mid-term target 108)

Japan Nikkei 225 price / earnings

Ratio

Source: Refinitiv Datastream / ANDBANK

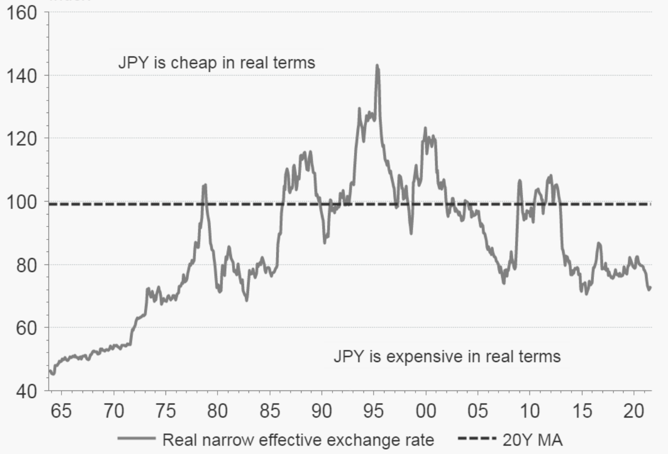
Japan CPI

Twelve-month percentage change

Source: Refinitiv Datastream / ANDBANK

Japan real narrow EER

Index



Source: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

INDIA

An elected autocracy that suits the markets could further boost sentiment, driving valuations higher

India is the fastest-growing economy and growth may continue to be supported

GDP surged 20.1% YoY in 2Q21 (up from1.6% in 1Q21 and 0.5% in 4Q20), but this reflected the base effect of -24.4% growth in 2Q20, ensuring that India remains one of the fastest-growing economies in 2021. GDP is on track to grow at 8-10% in the fiscal year to March 2022, provided there are no further lockdowns. India's vaccine program is ramping up. Nearly 40% of the total population has received at least one dose and most of India's 940mn adults should have received two jabs by year end. If vaccine efficacy holds up, stimulative fiscal and monetary policies will support the recovery.

Domestic politics

India has slipped into "electoral autocracy," and it seems that Indian stock prices are well placed to soar even higher under Modi's autocratic leadership. Surveys on the state of Indian democracy indicated a year ago, however, that many ordinary Indians were ready to embrace a more muscular approach to governance. A majority said they backed a system that would allow a strong leader to make hard decisions without interference from parliament. Support for autocratic rule is thus high in India, and enthusiasm for harder governance is strongest among BJP voters. Accordingly, Modi's BJP majority in both houses of parliament allows him to move quickly (some accuse Modi of cultivating this fertile authoritarian soil). Certainly, Modi's government legislates through parliament, often without debate, thanks to its majority. It recently introduced 28 bills in just 37 days and published a registry of citizens in some states of the northeast, where a third of residents are Muslim, many undocumented. The move was viewed by some as a further step towards stripping undocumented Muslims of their rights. Some journalists accuse Modi's BJP party of promoting Hindu interests only, eroding secularism and verbally attacking liberals. Yet, Modi's government avoids abusing state power directly, making minimal amendments to the law itself. It is very difficult to know how long Modi will be able to stay in power under this autocratic regime, which appears to be to the liking of domestic and international investors, but it seems he could still last a long time. Not only does he still command the BJP's electoral machine, with no genuine contender. His authority at home is buttressed by support from India's partners abroad, especially the USA, who view "the world's largest democracy" as a vital member of the emerging coalition to counterbalance China. This alliance is critical to the Indo-Pacific strategies of the United States and its allies. And here is the reason for this autocratic turn: Modi gains domestic prestige by appearing strong abroad, and this, in turn, helps bolster his autocratic, Hindu-nationalist government.

Best positioned sectors in India

Indian stocks have outperformed, spurred by liquidity from foreign capital flows and accommodative monetary policy. The accelerating vaccine rollout could further boost sentiment, driving valuations higher.

Companies like Reliance Industries, as Jio (Reliance's digital arm), which launched its commercial mobile network in 2016, sold a third of its shares to investors including Facebook and Google, which will help develop its commercial mobile network, leading to an increase in capitalization. Other companies such Adani, an infrastructure and energy company, are also well positioned for the current (and foreseeable) wave of privatization of infrastructures such as airports and ports, especially since bidding requirements have been relaxed. Adani also acquired the right to operate Mumbai's airport. "An alignment with the government's agenda is what creates the greatest value," Adani said last year.

Downside Risks

The big downside risk is an uncertain external environment. As the Federal Reserve tapers its asset purchases, the impact on global liquidity and the US dollar could dent exports, one of India's few growth engines in the pandemic.

The Reserve Bank of India has struggled to contain government borrowing costs, but with markets now penciling in rate hikes despite the RBI's exhortations to the contrary, India's bond markets look vulnerable.

The rupee should stay stable, even if external volatility picks up. The RBI's aggressive interventions to stem appreciation have added to India's stockpile of forex reserves, giving a protective cushion. If capital flows reverse, the rupee is well placed to outperform its emerging market peers

Financial market outlook

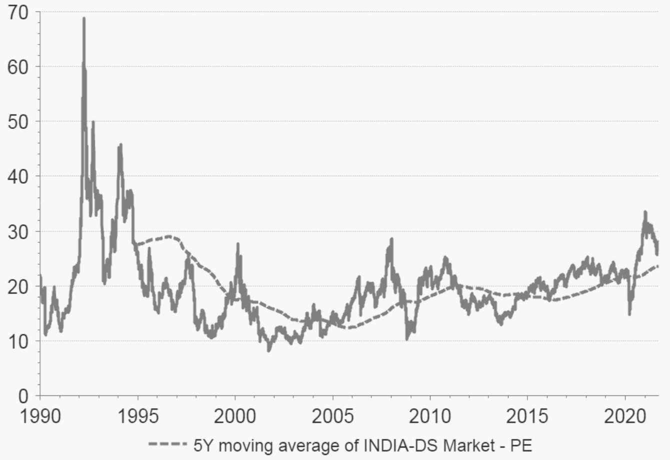
Equities – SENSEX: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 6.0%)

Bonds – Corporates: OW

Forex – INR/USD: MARKETWEIGHT (Target 74)

India Datastream index price / earnings

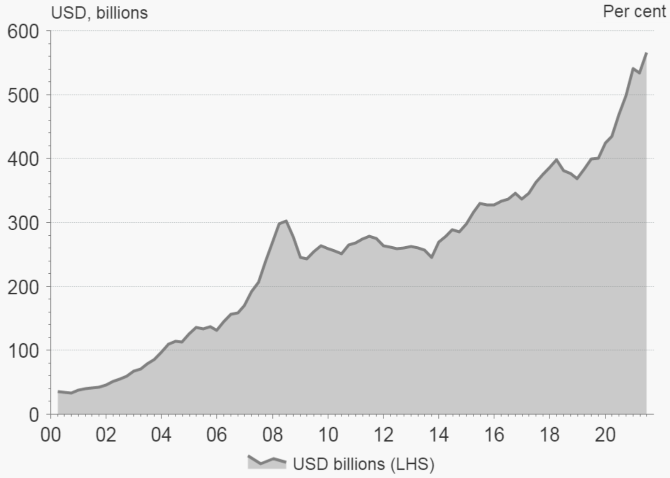


Source: Refinitiv Datastream / ANDBANK

India - 10Y government bond Real Yield

Source: Refinitiv Datastream / ANDBANK

India foreign reserves



Source: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

ISRAEL

New budget focusing on structural issues

Politics & Economy: fighting the fourth wave

Israel is currently dealing with the fourth wave of Covid-19, while being the first country to mass-vaccinate the general population. Most of the country already had two shots and the government hopes the booster shot will allow the economy to get back to normal. Israel will test the effectiveness of the booster shot, as the holidays are coming to an end and public immunity will be tested with the new vaccine in an open economy.

The new government has passed the country's first budget after three and a half years, a major achievement for the new coalition. Meeting economic challenges has at last been made a priority and we believe that important issues such as public transportation, retirement age for women and even foreign relations are likely to be addressed, leaving us optimistic with regard to growth in 2022 and onwards.

GDP for 2Q21 showed a +16.6% increase YoY, with personal consumption as the biggest contributor, with a +39.2% surge after restrictions were lifted during this quarter. The CPI for August showed a +0.3% MoM increase and +2.2% YoY. Most of the gain came from fruit and vegetables and from the tourism and vacation segment. Housing prices kept on rising, posing a threat not only to price stability but also to social stability. We believe the government will have to tackle the housing issues as soon as possible to avoid economic and social disruption in the future.

Fixed Income: very prudent in corporate space

The positive trend in Israeli CPI-linked bonds (both government and corporate bonds) continued during the month, while the long range of the non CPI-linked bond curve moved upward. Credit spreads of IG bonds (both CPI-linked and non CPI-linked) remained at low levels. The current credit spread of the CPI-linked TelBond60 index decreased to 1.21%, compared to 1.24% in late July (1.2%-1.25% pre-Covid), while that of the non-CPI-linked TelBond Shikli50 decreased to 0.98%, compared to 0.93% in late July (1.3%-1.35% pre-Covid). We are still very cautious in the corporate bond market, as "retail money" pours in while underestimating risk, especially in medium and high-risk bonds. The government yield curve remained steep and long-range yields are high compared to curves and yields in OECD countries. We think the Israeli bond market carries a favorable risk-reward relationship and recommend a duration of approximately four years.

Equity: we remain neutral

Israeli stock indices, unlike their counterparts overseas, performed well this month, with the main indices rising between 2.5% and 3%. The financial market was relieved after a fourth lockdown was avoided thanks to a slowdown in the number of new cases, attributed to the high vaccination rate of the third shot. Financial sector stocks displayed the biggest gains, with banks advancing 3.7% and insurance companies rising nearly 6% (completing an amazing run of over 100% in the last year). The market was also positively affected by the budget proposal for 2022 introduced by the Ministry of Finance, the first in over three years. Although we think that after a long time the Israeli economy has finally got an economic leadership, we think a cautious short-term stance should be taken. Investors are currently ignoring trends with a negative potential, such as the speedy rise in real estate prices, which pose a social problem, and also the high level of new Covid 19 cases. The main driver of the Israeli market is the low level of interest rates, as in most parts of the world. We think that a correction is long overdue and therefore consider reducing high beta holdings.

Financial market outlook

Equities – TLV35 Index: MARKETWEIGHT

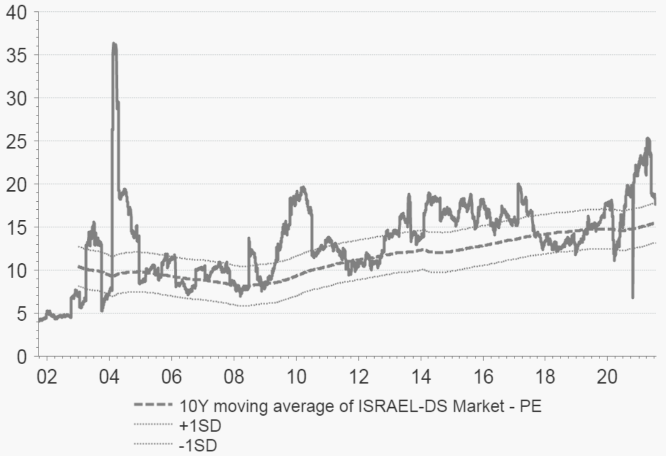
Bonds – Government–10Y Gov: UNDERWERWEIGHT

Bonds – Corporates: MARKETWEIGHT-UNDERWEIGHT (Cautious stance)

FX – ISL vs USD: Expensive in REER

Israel price/earnings, Datastream index

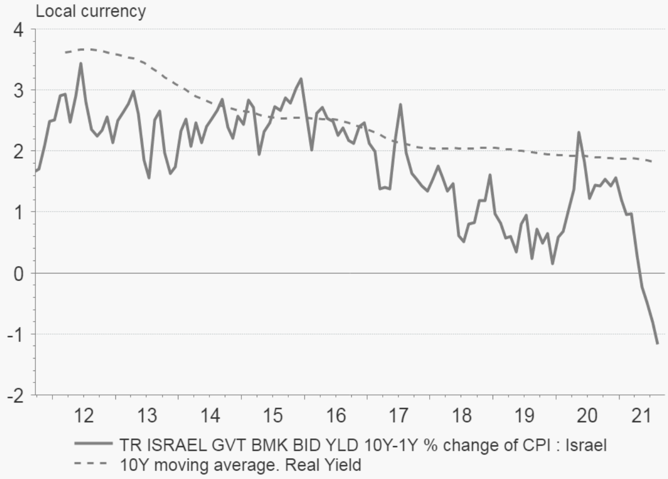
Ratio



Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y

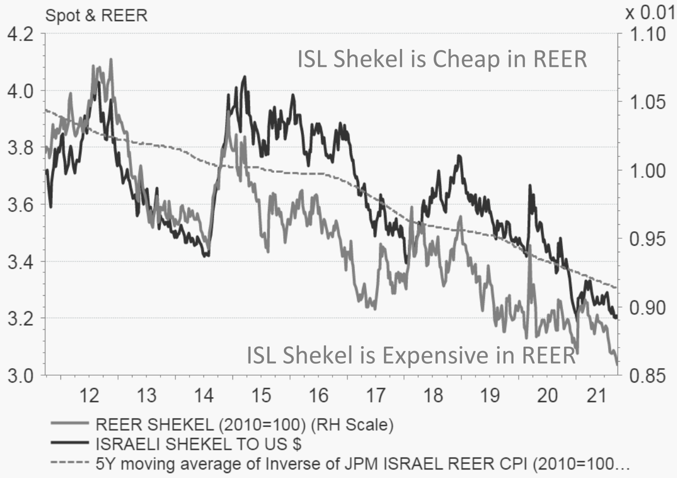
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

A tumultuous winter

Political noise soared this quarter

While the summer was very hot in the northern hemisphere, the winter in Brazil was cold and brought a major increase in political noise. A number of discussions unfolded in the past months, all of which led to an increase in market volatility and a reduction in growth prospects. First, as the COVID Senate investigation continues, discoveries have been made which, although they do not touch President Bolsonaro directly, do involve his closest associates and even his ex-wife. The final report will be issued by the end of September and will contain the committee's recommendations as to what should happen to those involved. There is virtual certainty that the Senate CPI will recommend charges for former government officials and the president's impeachment, which should have low traction with the lower house.

In the midst of the Covid investigation, Bolsonaro continued to repeat accusations of fraud in Brazil's electronic voting system, but without presenting any evidence. He was subpoenaed by Brazil's Supreme Court to present proof of his allegations and was forced to admit that he does not have actual evidence. Analysts believe this is a strategy to be used in the event that Bolsonaro loses re-election next year, very much akin what Trump did in the US.

And last but not least, the Independence Day celebration was used as a stage for a very unusual speech from a sitting president. Bolsonaro used the September 7 parade as a show of how much support he still has, despite the drop in his personal rating and that of his government. According to a letter published two days after the event, Bolsonaro said he was caught in the heat of the moment, when he called a sitting Supreme Court Justice (Alexandre de Moraes) a miscreant and said that his government would no longer adhere to any of the Justice's rulings. That very unusual display of civil disobedience comes after de Moraes initiated an investigation of Bolsonaro's sons involving a fake news outlet that the family is accused of running since the 2018 election. All of these events have raised the level of political noise and created uncertainty about the relationship among the three powers, impacting the prospects for the reform agenda, with consequences for the fiscal situation and growth prospects.

Growth and Inflation Prospects

Given this tumultuous scenario, prospects for Brazil's growth have been diminishing, while inflation expectations have been increasing. The Focus survey conducted by the Brazil Central Bank with more than 100 market participants shows a decline in GDP projections, between the July 30 and September 17 reports, from 5.3% to 5.0% for 2021 and from 2.1% to 1.6% for 2022. On the inflation front, for 2021 expectations moved from 6.8% to 8.3%; and for 2022 from 3.8% to 4.1%. As expected, higher inflation caused the central bank to once again increase the benchmark interest rate, this time to 625 bps (100 bps hike and 425 bps higher compared to the start of 2021). Markets are repricing, as they understand that the level of political noise will limit the government's ability to discuss with Congress any projects that would be positive from a fiscal and/or growth perspective.

Covid Vaccination

On the plus side, Brazil has gained a lot of traction in the vaccination effort, with 68% of its population vaccinated with at least one dose, which puts Brazil in ninth place globally, higher than the US and very close to Israel. Of course, as vaccines have been channeled to providing the first dose, only 38% are fully vaccinated, which puts Brazil in 38th position globally. Nevertheless, the fact that if the current pace is maintained, Brazil will be able to vaccinate all of its population (excluding minors) by the beginning of December is good news.

Financial market outlook

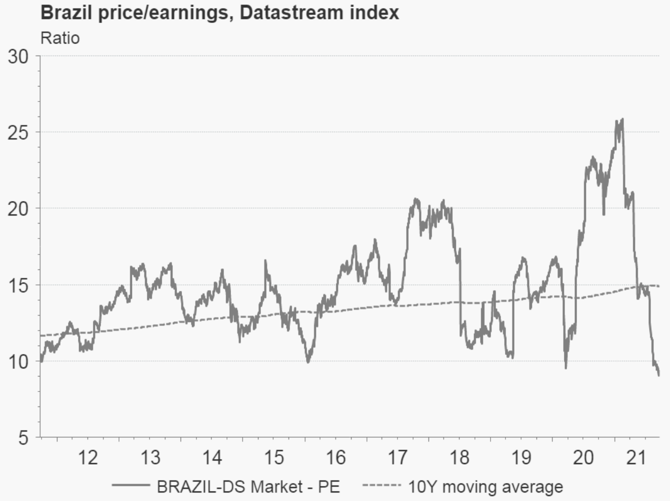
Equities – iBovespa: MARKETWEIGHT

Bonds – Govies Local: MARKETWEIGHT (Target yield 8.80%. Spread 700)

Bonds – Govies USD: UNDERWEIGHT (Target yield 4.55%. Spread 275)

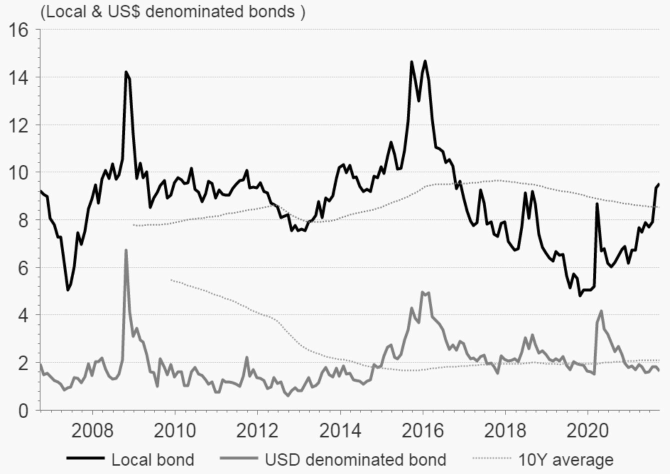
FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.30)

Brazil price/earnings, Datastream index



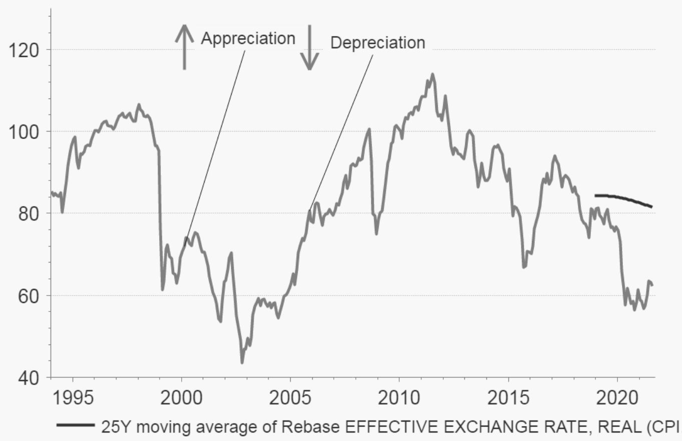
Source: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST



Source: Refinitiv Datastream / ANDBANK

Brazil real broad effective exchange rate



Source: Refinitiv Datastream / ANDBANK

MEXICO

Prudent 2022 Budget and tighter monetary policy helps maintain confidence in this market.

Central Bank: more hikes on the horizon

Banxico decided, in a split decision, to increase the reference rate to 4.50% (25 bps hike), with two more hikes expected for this year, the first at the September meeting (25 bps). The negative view on inflation was reaffirmed for the horizon where the central bank's monetary policy is effective, with the balance of risks for growth also still negative and concerns that current levels of inflation will continue for the remainder of the year.

Economy and Fiscal numbers

The growth prospects for 2021 increased hand in hand with the more optimistic forecasts for economic recovery in the US and as a result of the base effect generated by the fall in GDP in 2020. The prospects for the following years reflect a return to trend growth, much closer to what the average has been in recent years (approximately 2%). Inflation rose to 5.87% YoY in mid-September (5.59% YoY in August), remaining above Banxico's long-term target (3% plus or minus one percentage point) for six months. The pressure continues to come from services and merchandise, part of the core inflation sub-index. The market outlook is that inflation will close 2021 close to 6% YoY.

Politics and Pandemic management

2022 Budget was presented, with Finance Secretary, Ramírez de la O, pointing out that economic recovery will consolidate next year and that three priorities were taken into consideration to build the program: i) Fiscal prudence; ii) Support for social spending; iii) Support for government priority projects. Regarding income tax, two new simplified regimes for individuals and corporations were presented, while for expenditures a real increase of 1.5% YoY is forecasted. According to the budget, the primary balance will be between 0% and 0.4%, with a reduction in the consolidated deficit from 3.3% to 2.9%.

Government will seek to use the IMF's SDR to pay more expensive Pemex debt (20% of GDP today). One month after the IMF's allocation of 12 billion USD in SDR to Mexico, the Treasury bought USD 7 billion of Banxico's international reserves. While the transaction is not necessarily related to the SDR allocation, it occurred after Lopez Obrador said the government would use IMF resources to buy back Pemex debt.

The epidemiological traffic light is no longer a reference for economic policy decision-making. At the moment, a total of 94 MM doses have been administered, with 33.2% of the population fully vaccinated and 48.29% with at least one dose.

Financial Markets. We remain constructive on Equity

<u>**Equity**</u>: Global context continues to favor the stock market, with recovery in the US economy helping the materials sector (Cemex) and consumption-related companies benefited by higher remittances (Walmex, for instance). On the other hand, higher inflation and rate might help financial sector companies.

Fixed Income & FX: Spread between peso and US Treasury bonds increased to 580bps due to a higher increase in the peso curve with respect to dollar, with the rise in rates by Banxico after higher inflation. We expect a similar spread for year-end. For USD bonds, the spread decreased to 164 bps after the US 10Y fell back to the 1.30% level, remaining negative with a 175bps spread target for year-end.

The volatility in the exchange rate has been limited and in recent weeks the peso has traded in a range between 19.85-20. We expect a second semester with a greater effect of the external environment, especially relative monetary policy.

Financial market outlook

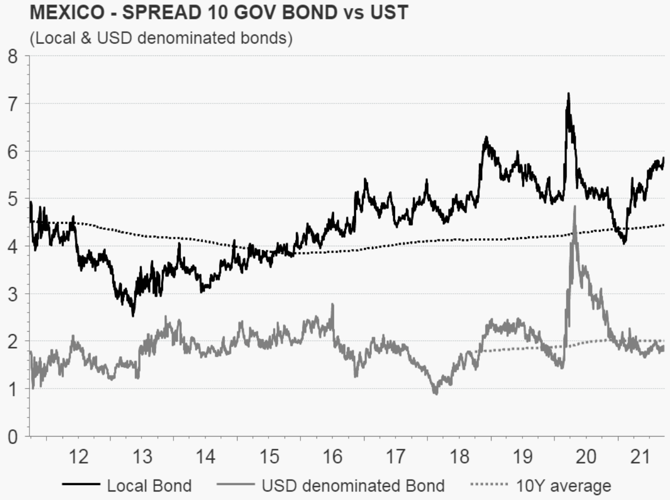
Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local**:** OVERWEIGHT **(**Spread 475bp)

Bonds – Govies USD: UNDERWEIGHT (Spread 175bp)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 20.5)

Source: Refinitiv Datastream / ANDBANK



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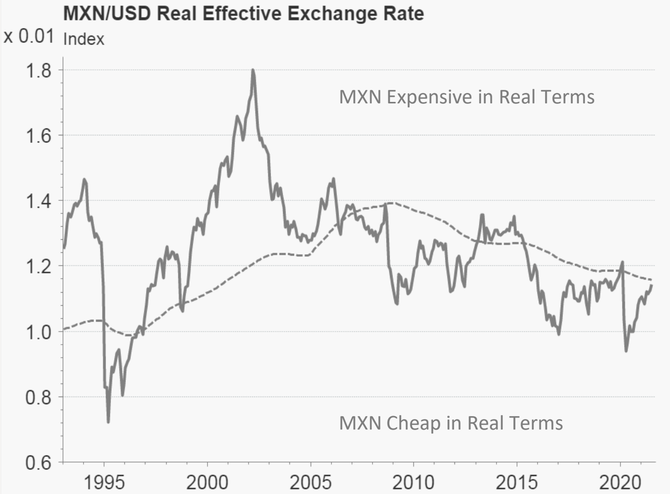


Source: Refinitiv Datastream / ANDBANK

ARGENTINA

Primary elections provoke crisis in government

Although the purpose of the primaries is to choose candidates for each political party, they also serve as a national poll. The results show a strong vote against the Government. At national level, the opposition coalition Juntos por el Cambio (JPC) beat ruling coalition Frente de Todos (FDT) by 9 pp (40% vs 31%). For the Peronists this is 17 pps less than in the 2019 election, while JPC stood at similar levels. Polarization has increased, with both left and right wing candidates doing better than expected and the voting looking more like a protest against the Government than an endorsement of JPC. The turnout was the lowest (67%) since the return to democracy in 1983. In the Senate race, the focus is on a limited number of provinces where seats are in dispute (8 from a total of 24). If the results are repeated in November, the FDT would lose 4 senators and, more importantly, would also lose its majority in the Senate (it would have 35 senators, when 37 are required), forcing it to negotiate with other parties (mainly the provincial ones) to get approval of its bills. The Government also risks losing its simple majority in the Lower House, with FDT having 117 seats, just one more than JPC's 116, according to projections in the press. Losing Buenos Aires Province was probably the biggest upset for the incumbent coalition (38% for JPC and 33.7% for FDT), as the province has historically been a bastion of Peronism and accounts for 35 of the 127 lower house seats at stake.

What can we expect from the November elections? It seems unlikely that the FDT can recover. Increased participation will probably lead to a higher share of votes for JPC if the pattern of the last three elections is repeated. As JPC had competitive primaries in 18 provinces, it could suffer a leakage of votes in November, but the positive momentum will help to mitigate that risk.

Cabinet reshuffle after CFK's harsh letter

After the primary election results, a fierce internal dispute broke out in the ruling coalition. It all started with strong criticism against the President by officials close to Cristina Fernandez de Kirchner, resulting in the unofficial resignation of Kirchnerist ministers. The moment of greatest tension came with the publication of a letter by CFK in which she reminded the President that it was she (and she alone) that proposed him as presidential candidate in 2019 in the conviction that it was best for the country, asking the President to honor that decision. She was also critical of the fiscal austerity implemented by the Government, which in her view has adversely affected economic activity and society and was the main driver of the electoral defeat. The end result was the replacement of several key figures in the Cabinet. Juan Manzur, Tucuman province governor, is the new Chief of Staff, while the former Chief of Staff, Santiago Cafiero, is now Foreign Affairs Minister. Aníbal Fernandez (historical Kirchnerist) has joined the Cabinet as Minister of Security and changes have been made in Agriculture (Julian Dominguez), Education (Jaime Perzyck) and Science & Technology (Daniel Filmus). There have been no changes in the economic team for the moment. The new Cabinet carries more political weight but is also more aligned with CFK.

Positive: Closure of Provincial Debt Restructuring

Buenos Aires Province received creditor support to exchange or replace 97.66% (in two series the percentages for CACs were not reached) of its 7.1 Bn USD debt, ending a 16-month default. La Rioja Province also reached an agreement with its main creditors (63.7% outstanding) and is expected to close its restructuring in the next few days. These were the only two provinces that remained in default.

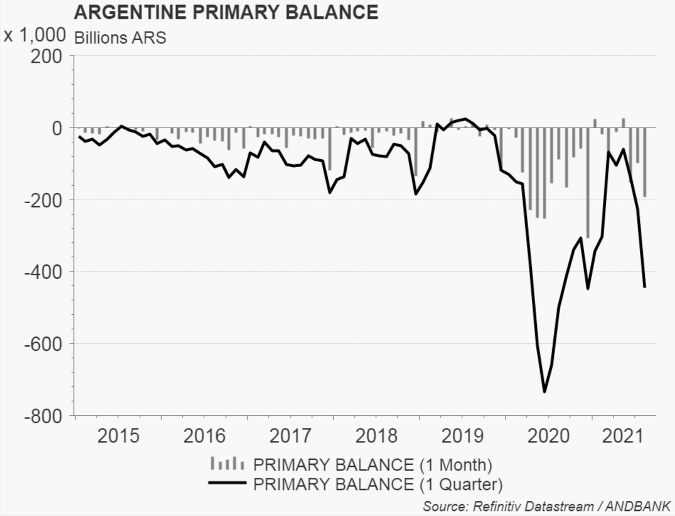
CPI continues decelerating but core still printing higher than headline

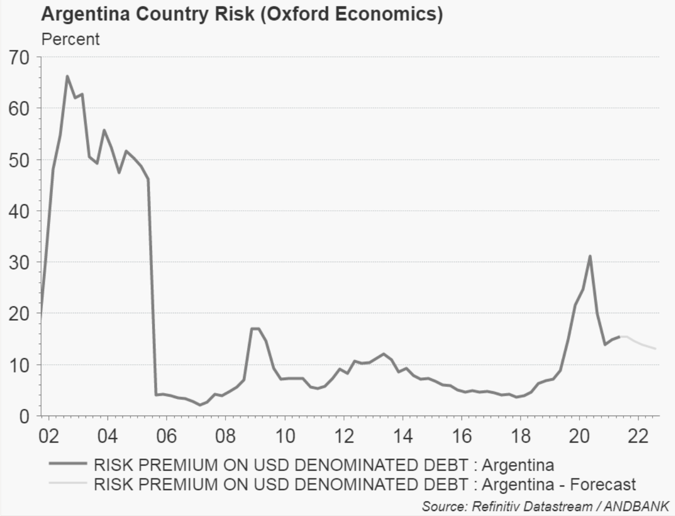
CPI decelerated further, to 2.5% MoM in August (+51.4% YoY), below market expectations (BCRA survey 2.8% MoM) and down from 3% in July. Food prices drove the headline inflation deceleration (1.5% MoM vs 3.4% MoM July). Breaking the figures down by segment, we observe that seasonal and regulated prices (+0.6% MoM & +1.1% MoM) explain the headline decline, as core inflation is still high, at 3.1% Mom, despite lower food prices.

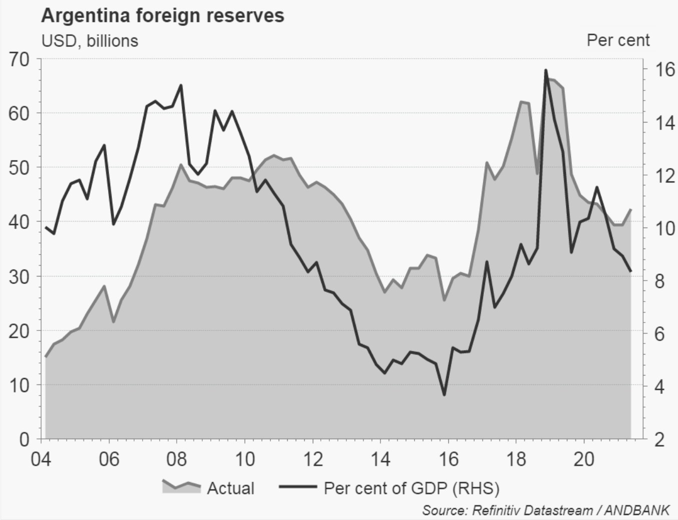
Financial market outlook

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE







GLOBAL EQUITY INDICES

Fundamental assessment

Index	EPS 2020	Projected EPS 2021	Projected EPS 2022	EPS Fw 12 months	Target PE EPS nxt 12m	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Recomm	Exit Point	E[Perf] to Exit point
USA S&P 500	139	188,7	210,0	205	22,00	4.443	4.499	1,3%	MW	4.949	11,4%
Europe - Stoxx Europe 600	17	27,2	28,3	28,0	18,00	455	503	10,5%	MW/OW	554	21,6%
Euro Zone - Euro Stoxx	16	26,9	28,2	27,8	18,00	458	501	9,4%	MW/OW	551	20,3%
Spain IBEX 35	227	500,0	616,0	586	18,00	8.908	10.550	18,4%	OW	11.605	30,3%
Mexico IPC GRAL	1.630	3.400,0	3.815,0	3.708	15,50	51.599	57.476	11,4%	OW	63.224	22,5%
Brazil BOVESPA	2.038	12.175	12.077	12.102	10,50	113.583	127.074	11,9%	MW	139.781	23,1%
Japan NIKKEI 225	1.025	1.468,0	1.618,0	1.579	19,00	30.184	30.008	-0,6%	UW	33.009	9,4%
China SSE Comp.	221	272,0	304,0	296	12,50	3.602	3.697	2,6%	UW	4.067	12,9%
China Shenzhen Comp	87	103,5	123,0	118	22,50	2.402	2.655	10,5%	MW	2.920	21,6%
India SENSEX	1.613	2.500,0	2.699,0	2.648	23,00	59.668	60.898	2,1%	MW/OW	66.988	12,3%
Vietnam VN Index	60	82,4	99,6	95	17,00	1.339	1.618	20,8%	MW/OW	1.780	32,9%
MSCI EM ASIA	36	46,5	51,5	50	16,00	683	804	17,8%	MW/OW	884	29,6%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS

Risk Outlook: Andbank's Assessment: 1 (in a −7/+7 range)

Aggregate (MW-OW): Positioning and Sentiment are neutral. Flows are clearly bullish. We are slightly positive this month.

Market Positioning (MW bias): Asset allocation in equity is high in global portfolios. The Put call ratio indicates lower hedging level of portfolios, with a decrease month on month. Finally, Skew at 150 level reflects that the fear of a violent downside movement remains well present.

Flow Analysis (OW bias): High net inflows in US equity indicate a positive trend in equities. Emerging markets also benefited from positive flows.

Surveys & Sentiment Analysis (MW bias): Sentiment from investors has finally normalized toward a neutral level.

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 bearish	375,63	469,25	437,06	475,48	451,66	462,83	-2,41%
	Euro Stoxx 600	.STOXX	Lateral bearish	338,57		430,03	476,16	486,45	461,84	5,33%
	Ibex	.IBEX	Lateral bearish	7.663,50	9.676,00	8.252,00	9.055,50	9.717,40	8.760,90	10,92%
	S&P	.SPX	Lateral bearish	3.209,00		4.233,00	4.545,85	4.571,26	4.432,99	3,12%
	Japón	.N225E	Lateral bullish	24.448,00	38.957,00	29.128,00	33.344,00	32.817,46	30.500,05	7,60%
	China	.SZSC	Lateral bearish	1.744,00	3.156,96	2.330,85	2.511,97	2.441,00	2.446,05	-0,21%
	India	.BSESN	Lateral bullish	35.987,00		53.290,00			59.015,89	
	Brasil	.BVSP	Lateral bearish	90.147,00		107.319,15	121.974,21		111.439,37	
	México	.MXX	Lateral bearish	35.652,42	50.603,00	50.268,45	53.400,27	52.714,31	51.307,71	2,74%
OTROS	Oil West Texas	WTCLc1	Lateral	34,49	76,90	61,65	76,90	76,90	72,02	6,78%
	Gold	XAU=	Bearish	1.659,00	2.072,49	1.684,37	1.832,40	1.897,13	1.754,16	8,15%
	Treasury 10Y USA	US10YT=RR	Lateral	0,5040%	1,9730%	1,2099%	1,4280%		1,3625%	
	Bund 10Y Germany	DE10YT=RR	Lateral bullish	-0,9090%	-0,1420%	-0,4560%	-0,1420%		-0,2805%	

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 < USD60; Sell >USD70

Short-term drivers

***(Price Negative)* – Temporary factors behind the recent rise in oil price**. Managers build up crude positions following hurricane disruptions. Hedge funds purchased a net 41M barrels across the six most important contracts in the week to 14-Sep, bringing total purchases to 116M barrels over the past three weeks as a result of Hurricane Ida. Last week's buying included a net 27M barrels of WTI and 19M barrels of Brent. Bullishness remains high, but not exceptional, though bearishness has almost disappeared as the number of short positions across the six contracts fell to the lowest since Dec-19.

***(Price Negative)* – Fuel and petrochemical exports booming despite stringent US sanctions:** The US imposition of sanctions on Iran's oil and gas industry in 2018 crippled its crude exports but not sales of fuel and petrochemicals, adding that in 2020 Tehran exported almost $20B worth these products (twice the value of its crude exports). The article notes that these have proven much more difficult to trace and that there are more buyers of refined products than importers configured to process Iranian crude. It adds that this dynamic may leave Iran well placed to expand its sales quickly in Asia and Europe should the US lift its sanctions.

***(Price Negative)* – Stricter oversight of independent refiners in China could lower Chinese import dynamics:** Platts reports that China has been tightening its scrutiny of independent refiners in recent years, with tough measures to crack down on tax irregularities and illegal quota trading forcing some to lower operating rates or even contemplate closures. The article notes that there will likely be some near-term impact on crude import volumes as smaller refiners struggle to survive, but argues that the overall expansion in refining capacity should offset this in the long run.

***(Price Negative)* – Biden's lofty climate goals taking a back seat to political reality:** While the Biden administration made a pledge in April to halve US greenhouse gas emissions by 2030 and thus reduce the fossil energy output, Democrats are already talking about paring back investments in green energy and targets as they insert legislative language into their $3.5T budget reconciliation plan. Should Washington fail to deliver on its commitment by November, when global powers meet at a climate summit in Glasgow, other countries may be reluctant to make their own commitments. While the Biden administration has reengaged with the Paris climate agreement, it has also backed multiple oil and gas infrastructure projects and sped up processing of oil and gas drilling permits.

***(Price Neutral)* – UAE Oil Minister Suhail Al-Mazrouei said today that there is no need for OPEC and its allies to change their current production accord.** Al-Mazrouei stated that the market will remain balanced through Q1-22, with oil hovering around $70 a barrel, if OPEC+ keeps its plans to add 400K bpd of production every month. The group is set to meet 4-Oct to determine output from November.

***(Price Neutral)* –Iraq's oil minister also sees prices hovering around $70 a barrel into Q1 2022**, with the market kept in balance by steady supply increases from OPEC+ and demand continuing to recover from the pandemic. However, he also said that it is too early to say whether OPEC+ will stick to its plan for a 400K bpd increase in crude production for November at its upcoming 4-Oct meeting, as last week the IEA lowered the 2021 oil demand forecast by 110K bpd to 5.2M bpd, though it also raised the 2022 demand forecast to 99.4M bpd (from 96.2M bpd).

***(Price Positive)* –Tehran replaces its lead nuclear negotiator with a critic of the 2015 deal:** Bloomberg reports that Iran has replaced its lead international negotiator Abbas Araghchi with Ali Bagheri Kani, who was a senior nuclear diplomat from 2007-13 during the presidency of hardliner Mahmoud Ahmadinejad, who held unsuccessful nuclear talks with the West. The article notes that it is unclear whether Bagheri Kani will assume Araghchi's role in the nuclear talks that have been taking place in Vienna (but have been put on hold since the election of hardline President Raisi in June) aimed at returning Iran to the 2015 nuclear deal.

***(Price Positive)* –Center-left prevails in Norwegian election, with future of oil industry the big question:** Norway's center-left opposition, as expected, won that country's election yesterday, with Conservative PM Solberg conceding and Labour leader Store expected to become the new prime minister. However, Reuters reports that Store must build a coalition government, most likely negotiating with the Centre and Socialist parties to join him, with oil policy likely to be a critical point of negotiation. The article notes that Store, whose party advocates a gradual transition away from oil production, may need to convince his potential partners to compromise on their aims to restrict exploration.

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 view (Gold): Target range USD1,700 – 1,900 /oz

Buy < USD1,700; Sell >USD1,900

Positive drivers 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 cheap relative to palladium: The Gold/Palladium ratio is at 0.76, well below its 20-year average of 1.84x, suggesting that gold is deeply cheap relative to palladium, or palladium is even more expensive than gold.

Negative drivers for gold

Gold expensive relative to silver. The Gold/Silver ratio is at 77.15 and is above its 20-year average of 66.43x, suggesting that gold 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$1,506/oz.

Gold to oil: This ratio is at 23.15, still well above its 20-year average of 18.09x. Considering our fundamental fair value for WTI oil at US$65 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$1,175 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.17816), 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$1,485. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,035. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,180.

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. Therefore, the only four threats to the gold bull market seem to be: 1) Higher nominal rates. 2) Stronger USD. 3) A rise in real rates. 4) a Loss of momentum. But how real and dangerous is each of these risks in bringing an abrupt end to the gold rally?

Looking at this history and knowing that gold bull market usually feeds on its own momentum for quite a while, and only ends when facing higher nominal rates or a stronger USD or a rise in real rates, it seems reasonable to me to give a small alarm signal that **we could be close to a turn in the trend of gold (down),** since gold has totally lost its momentum, and also because the possibility of an increase in interest rates that becomes more visible with the imminent start of Tapering by the Fed.

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

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

Risk #3. A rise in real rates (LOW RISK): Even if nominal rates rise, the only way OECD countries could experience surging real rates would be through inflation rate collapsing. 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 right now. With this in mind, it seems that a surge in real rates is not an immediate threat.

Risk #4 Momentum – (MEDIUM RISK) Gold bull markets usually feed on their own momentum for quite a while. The price of gold has lost traction and momentum for some time, and with it, a self-reinforcing momentum. A constructive view could be that, perhaps the emerging world could recreate a gold-prone cycle, such as the one experienced in 2001-2011. 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 the US (by people with scant interest in gold), and with EM growth having been much more moderate. If EMs thrive again, led by Asia, this could be a tailwind for gold. But at the moment we do not have a clear opinion about Asia, dragged by a China engrossed in a kind of nihilism existence.

EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.19 (Buy USD at 1.23, Sell USD at 1.16).

USD-JPY: Target 110; **EUR-JPY**: Target 131,3 (Neutral the JPY using Z-Score)

GBP-USD: Target 1.42; **EUR-GBP**: Target 0.84 (Neutral-Negative the GBP using Z-Score)

USD-CHF: Target 0.93; **EUR-CHF:** Target 1.10 (Neutral the CHF using Z-Score)

USD-MXN: Target 20,5; **EUR-MXN:** Target 24,4 (Positive the MXN using Z-Score, but negative using a fundamental approach)

USD-BRL: Target 5.30; **EUR-BRL:** Target 6.31 (Neutral the BRL using Z-Score)

USD-ARS: Target 140

USD-INR: Target 74

CNY: Target 6.35

RUB: NEUTRAL

AUD: POSITIVE

CAD: POSITIVE

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	13,45	5,03	32,1	-28,2	0,8	**0,68**
USD vs G10	13,71	5,18	32,7	-25,4	1,7	**0,68**
EM	0,26	0,16	3,9	-0,8	1,3	**-0,79**
EUR	1,77	-1,85	23,4	-8,6	9,0	**-0,79**
JPY	-6,42	1,19	0,6	-15,0	-8,0	**0,37**
GBP	-0,02	1,42	4,3	-6,5	-0,8	**0,29**
CHF	-1,25	-1,81	1,8	-6,0	-1,9	**0,33**
BRL	0,11	-0,14	0,7	-0,8	-0,1	**0,44**
MXN	-0,47	0,12	3,3	-0,7	1,0	**-1,24**
RUB	0,62	0,18	1,2	-0,3	0,4	**0,68**
AUD	-6,19	-2,08	6,1	-6,2	-0,7	**-1,69**
CAD	-2,18	-2,64	6,1	-5,0	0,6	**-1,00**

Positive
Neutral-Positive
Neutral-Negative
Negative

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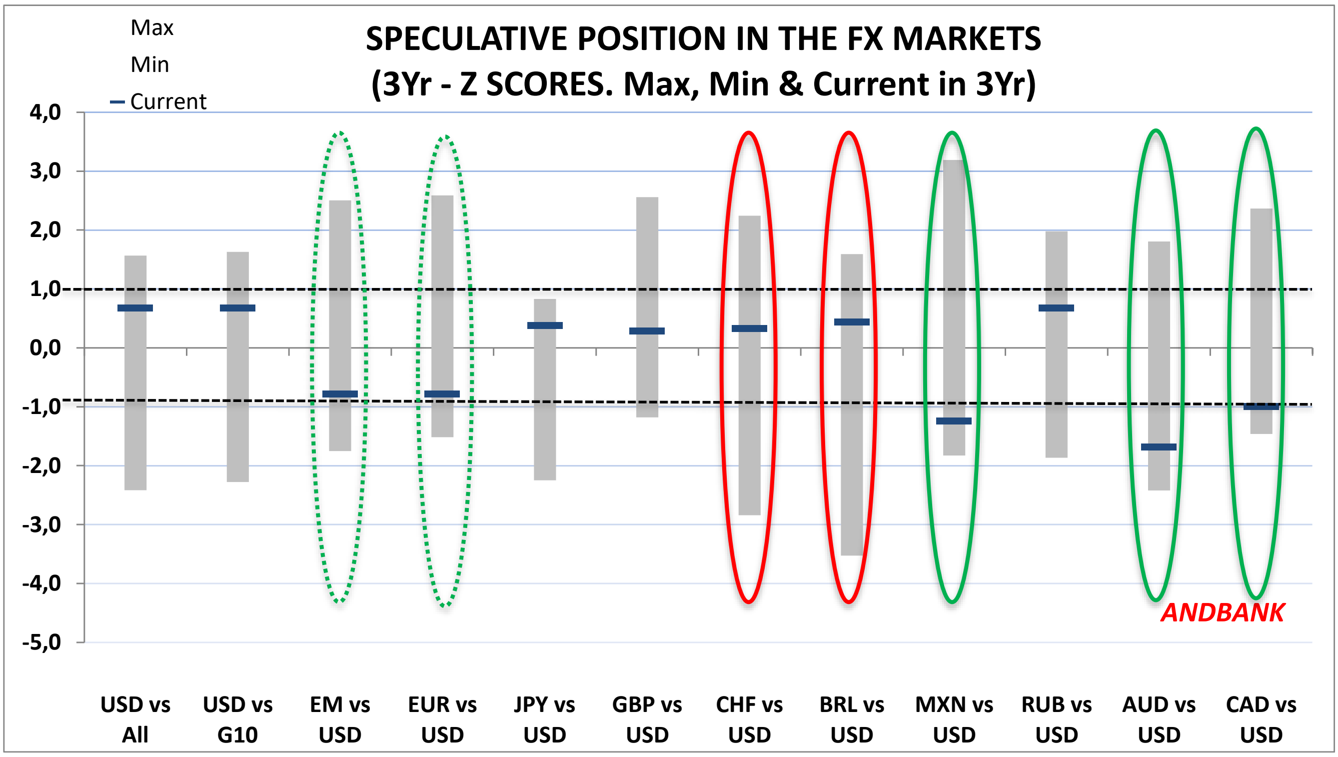

The currencies we technically favor are circled in green

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	-1,9%	18,3%	4.443	4.499	1,3%
	Europe - Stoxx Europe 600	-3,6%	15,9%	456	503	10,5%
	Euro Zone - Euro Stoxx	-2,8%	16,9%	458	501	9,4%
	SPAIN - IBEX 35	0,5%	11,5%	8.911	10.550	18,4%
	MEXICO - MXSE IPC	-1,9%	17,1%	51.599	57.476	11,4%
	BRAZIL - BOVESPA	-5,1%	-4,6%	113.583	127.074	11,9%
	JAPAN - NIKKEI 225	8,6%	10,0%	30.184	30.008	-0,6%
	CHINA - SHANGHAI COMPOSITE	2,1%	3,7%	3.602	3.697	2,6%
	CHINA - SHENZEN COMPOSITE	-1,6%	3,1%	2.402	2.655	10,5%
	INDIA - SENSEX	4,9%	25,8%	59.668	60.898	2,1%
	VIETNAM - VN Index	0,8%	21,3%	1.339	1.618	20,8%
	MSCI EM ASIA (in USD)	-1,1%	-4,3%	683	804	17,8%
Fixed Income Core countries	US Treasury 10 year Govie	-1,9%	-4,2%	1,53	1,80	-0,6%
	UK 10 year Gilt	-3,4%	-6,3%	1,00	0,80	2,6%
	German 10 year BUND	-2,0%	-3,5%	-0,19	**0,00**	-1,7%
	Japanese 10 year Govie	-0,4%	-0,4%	0,07	0,25	-1,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	-1,3%	-3,2%	0,44	0,60	-0,8%
	Italy - 10yr Gov bond	-1,9%	-2,3%	0,85	0,75	1,7%
	Portugal - 10yr Gov bond	-1,5%	-2,7%	0,33	0,60	-1,8%
	Ireland - 10yr Gov bond	-2,1%	-4,2%	0,17	0,40	-1,6%
	Greece - 10yr Gov bond	-1,0%	-1,1%	0,81	1,60	-5,5%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,1%	-0,1%	48,94	55	-0,2%
	Credit EUR HY-Itraxx Xover	-0,3%	1,4%	242,69	250	1,7%
	Credit USD IG - CDX IG	-0,1%	-0,1%	50,90	68	0,0%
	Credit USD HY - CDX HY	-0,3%	1,8%	291,90	298	2,7%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-8,7%	-33,6%	17,88	17,00	24,9%
	Russia - 10yr Gov bond (local)	-1,6%	-6,8%	7,29	6,60	12,8%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-0,6%	1,2%	6,25	**5,10**	15,5%
	India - 10yr Gov bond (local)	0,4%	1,7%	6,23	6,00	8,0%
	Philippines - 10yr Gov bond (local)	-2,6%	-10,0%	4,49	4,75	2,4%
	China - 10yr Gov bond (local)	0,0%	4,6%	2,87	**2,40**	6,6%
	Malaysia - 10yr Gov bond (local)	-1,7%	-4,2%	3,43	4,25	-3,1%
	Thailand - 10yr Gov bond (local)	-2,0%	-4,9%	1,80	2,50	-3,8%
	Singapore - 10yr Gov bond (local)	-1,2%	-5,3%	1,56	2,50	-5,9%
	Rep. Korea - 10yr G. bond (local)	-2,8%	-3,1%	2,16	2,90	-3,8%
	Taiwan - 10yr Gov bond (local)	-0,2%	-1,0%	0,42	1,35	-7,1%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-1,9%	-12,0%	7,24	7,55	4,7%
	Mexico - 10yr Govie (USD)	-1,8%	-2,7%	3,18	3,55	0,3%
	Brazil - 10yr Govie (Loc)	-5,6%	-28,0%	11,06	9,80	21,1%
	Brazil - 10yr Govie (USD)	-2,4%	-5,6%	4,45	4,55	3,6%
Commodities	Oil (WTI)	10,2%	57,2%	76,3	60,00	-21,3%
	GOLD	-4,1%	-8,5%	1.735,2	1.900	9,5%
Fx	EURUSD (price of 1 EUR)	-1,0%	-4,4%	1,168	1,19	1,9%
	GBPUSD (price of 1 GBP)	-1,1%	-0,5%	1,36	1,42	4,0%
	EURGBP (price of 1 EUR)	0,1%	-4,0%	0,86	0,84	-2,1%
	USDCHF (price of 1 USD)	1,2%	4,9%	0,93	0,93	-0,2%
	EURCHF (price of 1 EUR)	0,2%	0,3%	1,08	1,10	1,7%
	USDJPY (price of 1 USD)	1,3%	7,9%	111,39	110,37	-0,9%
	EURJPY (price of 1 EUR)	0,4%	3,1%	130,11	131,34	0,9%
	USDMXN (price of 1 USD)	0,5%	1,8%	20,23	20,50	1,3%
	EURMXN (price of 1 EUR)	-0,5%	-2,6%	23,61	24,40	3,3%
	USDBRL (price of 1 USD)	4,0%	3,8%	5,39	5,30	-1,7%
	EURBRL (price of 1 EUR)	3,0%	-0,7%	6,30	6,31	0,2%
	USDARS (price of 1 USD)	1,0%	17,1%	98,43	140,00	42,2%
	USDINR (price of 1 USD)	1,1%	1,5%	74,10	74,00	-0,1%
	CNY (price of 1 USD)	-0,1%	-1,0%	6,46	6,35	-1,6%

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

UPWARD REVISION   DOWNWARD REVISION

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