ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – August / September 2021

Corporate Review

August / September 2021

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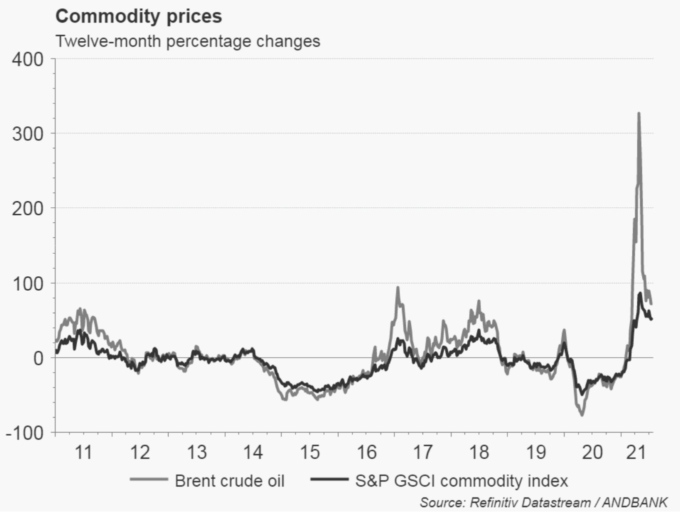
EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Recomm	Exit Point	Max. Risk Premium	E[Perf] to Exit point
USA S&P 500	4.419	4.422	0,1%	MW	4.865	1,10	10,1%
Europe - Stoxx Europe 600	461	467	1,3%	MW/OW	514	1,10	11,4%
Euro Zone - Euro Stoxx	458	465	1,5%	MW/OW	512	1,10	11,7%
Spain IBEX 35	8.683	10.131	16,7%	MW/OW	11.144	1,10	28,3%
Mexico IPC GRAL	51.635	55.061	6,6%	OW	60.567	1,10	17,3%
Brazil BOVESPA	125.675	127.243	1,2%	UW	139.967	1,10	11,4%
Japan NIKKEI 225	27.284	29.540	8,3%	MW/OW	32.493	1,10	19,1%
China SSE Comp.	3.397	3.631	6,9%	MW/UW	3.994	1,10	17,6%
China Shenzhen Comp	2.386	2.582	8,2%	MW	2.841	1,10	19,1%
India SENSEX	52.587	57.531	9,4%	OW	63.284	1,10	20,3%
Vietnam VN Index	1.310	1.570	19,8%	OW	1.727	1,10	31,8%
MSCI EM ASIA	696	791	13,6%	MW/OW	870	1,10	24,9%

ANDBANK ESTIMATES

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Fair Value	Expected Performance to Fair Value*
Fixed Income Core countries	US Treasury 10 year Govie	1,80	-3,2%
	UK 10 year Gilt	0,80	-1,3%
	German 10 year BUND	0,25	-6,0%
	Japanese 10 year Govie	0,25	-1,9%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,85	-4,4%
	Italy - 10yr Gov bond	1,00	-2,4%
	Portugal - 10yr Gov bond	0,85	-5,2%
	Ireland - 10yr Gov bond	0,65	-5,7%
	Greece - 10yr Gov bond	1,85	-9,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	55	-0,4%
	Credit EUR HY-Itraxx Xover	250	1,4%
	Credit USD IG - CDX IG	60	0,3%
	Credit USD HY - CDX HY	300	2,6%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Fair Value	Expected Performance to Fair Value*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	17,00	14,1%
	Russia - 10yr Gov bond (local)	6,60	9,4%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	5,50	12,4%
	India - 10yr Gov bond (local)	6,00	7,8%
	Philippines - 10yr Gov bond (local)	4,75	-3,1%
	China - 10yr Gov bond (local)	2,60	4,7%
	Malaysia - 10yr Gov bond (local)	4,25	-5,6%
	Thailand - 10yr Gov bond (local)	2,50	-6,2%
	Singapore - 10yr Gov bond (local)	2,50	-8,5%
	Rep. Korea - 10yr G. bond (local)	2,90	-7,3%
	Taiwan - 10yr Gov bond (local)	1,35	-7,5%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	6,80	7,4%
	Mexico - 10yr Govie (USD)	3,55	-1,1%
	Brazil - 10yr Govie (Loc)	9,80	5,5%
	Brazil - 10yr Govie (USD)	4,55	-0,1%

COMMODITIES & FX

Asset Class	Indices	Fair Value	Expected Performance to Fair Value*
Commodities	Oil (WTI)	60,00	-18,4%
	GOLD	1.900	3,9%
Fx	EURUSD (price of 1 EUR)	1,19	0,0%
	GBPUSD (price of 1 GBP)	1,41	1,0%
	EURGBP (price of 1 EUR)	0,84	-1,0%
	USDCHF (price of 1 USD)	0,89	-2,1%
	EURCHF (price of 1 EUR)	1,06	-2,0%
	USDJPY (price of 1 USD)	108,00	-1,4%
	EURJPY (price of 1 EUR)	128,52	-1,4%
	USDMXN (price of 1 USD)	21,00	5,7%
	EURMXN (price of 1 EUR)	24,99	5,8%
	USDBRL (price of 1 USD)	5,30	4,3%
	EURBRL (price of 1 EUR)	6,31	4,3%
	USDARS (price of 1 USD)	140,00	45,2%
	USDINR (price of 1 USD)	74,00	-0,5%
	CNY (price of 1 USD)	6,35	-1,6%

USA

The Delta variant and transitory inflation

Covid: Vaccination

The share of population in the US that has been fully vaccinated now stands at 48.6%, while the share of population with at least one dose now stands at 56.1%, both up 3% from last month. The COVID-19 Delta variant should not lead to new lockdowns, and although the 7-day average of daily cases is above 30,000, mortality has significantly declined.

***Bidenomics*: Challenges to a big infrastructure package**

A bipartisan group of senators announced that they reached a preliminary agreement with the White House on a "framework" for physical infrastructure. The deal appears to have come in at USD 559 bn in new spending, smaller than what the bipartisan group had previously discussed. The biggest sticking point remains how to pay for the plan. The main question is what the deal means for the much bigger "reconciliation" package that Democratic leaders are able to pass as the final bill is signed. This will need unanimous support from all 50 Democrats, with moderate Democrats already saying they would like it to be budget neutral. While the Senate Democrats released a USD 3.5 trn spending figure for their reconciliation infrastructure package, our base case remains that the total package (including bipartisan infrastructure spending) would be in the USD 2-2.5 trn range over 8 years.

Data: CPI surprised to the upside

Core CPI blew past consensus expectations of +0.4% MoM, increasing +0.9% MoM. In the 12 months to the end of June, headline was up +5.4% YoY and the core index surged +4.5% YoY. We have both transitory and potentially longer-lasting inflation at play in the last report. Used cars and trucks rose +10.5% MoM (accounting for more than a third of the CPI jump), but seemingly all market commentary on this variable indicates that peak used car price inflation is behind us. Hospitality wages are getting passed through into restaurant prices, which were up +0.7% MoM, the biggest monthly gain since 1981. The Owners Equivalent Rent was up +0.32% MoM. This, like wage inflation, is a bit stickier.

FED: Taper in mind

Federal Reserve Chair Jerome Powell spoke in congress this month and remained firm on his stance that inflation pressures are transitory and that at the moment it is not necessary to make changes to the inflation targets. Powell reiterated that the Fed would announce the process of tapering months before it started in order to warn the market and for people to take the appropriate measures. We estimate that Fed tapering should begin somewhere in the Fourth quarter of this year.

Fixed Income

US Treasuries also reflect overstated growth anxiety, and low real yields suggest the long-end does not currently incorporate much risk of an earlier than expected tapering. The 2s-10s yield curve closed beneath 100bps yesterday for the first time since early February, which is a reasonably big unwinding from the closing peak of 158bps at the end of Q1. We expect bond yields to bounce imminently, as Delta variant fears subside and inflation pressures persist and due to supports from above-trend growth and strong consumer fundamentals. We continue to see High Yield as the only sector with value within fixed income, as upgrades continue to outpace downgrades, while default rates remain below 2%. Remain negative regarding investment grade credit.

Equities: still positive

In the course of 2021 the S&P500 has already accumulated +14.28% and the Nasdaq +10.76%. After the outperformance of Value over Growth at the start of this year, we saw a resurgence of Growth in the last few weeks, returning to the pattern of recent years. From June 1st to July 16th S&P500 Growth advanced 8.1% while S&500 Value recorded a fall of -2.1%. The fear that Covid variants will derail economic resurgence has boosted the price of the companies that benefited the most in 2020 and deterred the recovery trade. The earnings season for the second quarter is underway, with 45 companies presenting results, recording a positive surprise of 22% in Earnings and 5% in Sales.

Financial market assessment

Equities – S&P: MARKETWEIGHT

Bonds – Govies: UNDERWEIGHT (10Y UST. Target 1.80%)

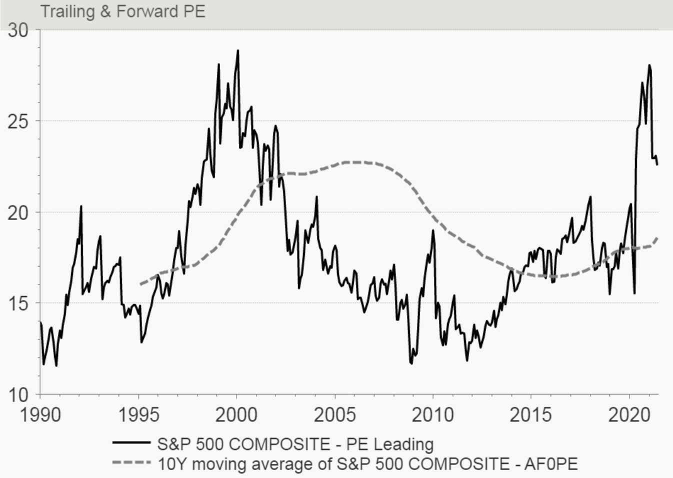
CDX IG: UNDERWEIGHT (Target Spread 115)

CDX HY: MW-OVERWEIGHT (Target Spread 330)

Forex – DXY index: MARKETWEIGHT

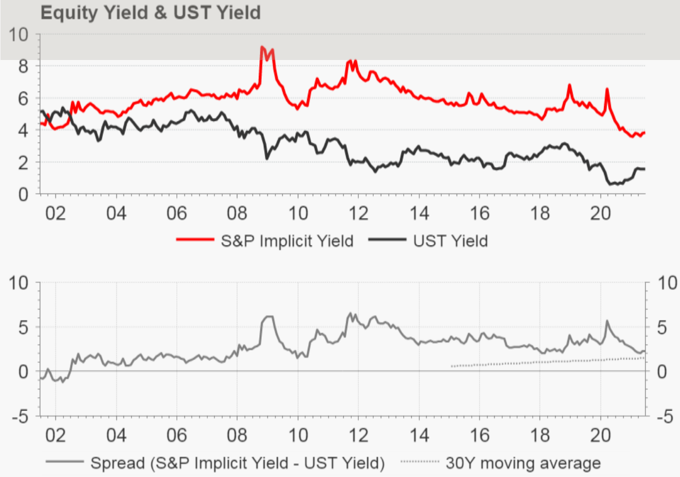
US price-to-earning ratio

Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

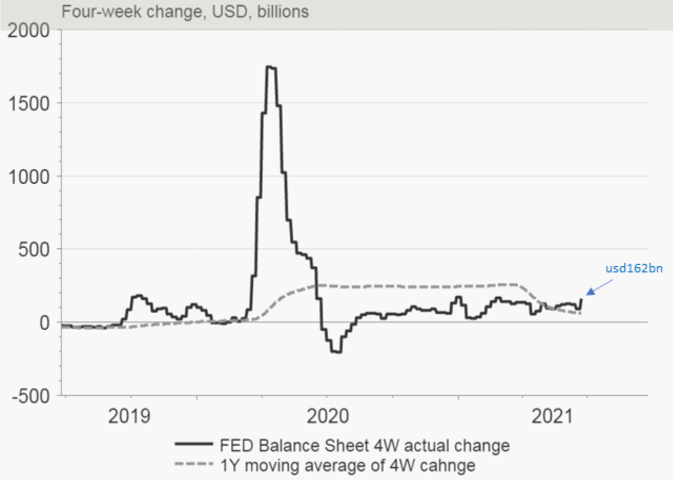
Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

Federal Reserve balance sheet

Four-week change, USD, billions



Source: Refinitiv Datastream / ANDBANK

EUROPE

Dovish ECB helping risky assets

Lower for longer

The ECB completed its strategy review, which includes a new definition of price stability. The traditional inflation goal ("below but close to 2%") gives way to "2% symmetric in the medium term", thus tolerating a transitory inflation overshoot. In its forward guidance the ECB added that it would not hike until it sees inflation reaching its 2% target well ahead of the end of its projection horizon (three years) and durably for the rest of the projection horizon. Last but not least, as a third precondition before raising rates, the ECB would like to be satisfied with the progress seen in underlying inflation. Everything mentioned previously suggests to us that the next rate hike is still several years away.

At the July meeting, Lagarde made it clear that the ECB stance will be more dovish from here on. According to its president, the ECB has learned from the errors of the past and will try to avoid premature tightening. This is a clear defeat for the more hawkish members of the ECB, especially for the Bundesbank. President Jens Weidmann objected to the ECB's new language and said he is worried about the possibility that the low interest rate environment might be extended for too long.

No indications were given around what is going to happen with the PEPP (ending in March 2022), with some media saying that the probability of having a decision in September has dropped considerably. Our base case scenario is that the ECB will extend the PEPP, or else terminate it while simultaneously increasing the APP by a similar amount to the PEPP, remaining accommodative in either scenario.

Delta variant becoming more visible across the continent

In recent weeks we have seen infection levels rising in most European countries. We expect cases to rise across Europe for the remainder of the summer, prompting tightening of social distancing measures as hospitalizations increase (mainly among the unvaccinated, and at lower levels than in previous waves), as in the UK. The Delta variant seems set to weigh on growth, which, added to supply problems in manufacturing and slow growth in China, is likely to reduce Q4 GDP in the Euro area, dampening growth but without bringing it to a standstill. Sentiment remains upbeat, both in manufacturing and on the service front. As for inflation, despite some stabilization in recent numbers, a surge is expected in the coming months (base effect of the VAT decrease in Germany in 2H2020). As of June, almost 90% of companies in the manufacturing sector said that they had to pay more for their inputs, signaling price pressures on the industrial side.

In Germany (elections scheduled for September 26th), recent polls confirm the CDU/CSU leadership and the Greens' loss of momentum. The most likely scenario at this time is the formation of a coalition with a mixture of center-right and center-left parties. German elections are not meant to be a game changer for markets. The French elections in 2022 could be more critical.

Financial Markets: Corporate Credit & Equity

Corporates: The ECB's corporate purchases (under the CSPP program) remain very robust (at a rate of €1.6 bn /week, which would mean €6.4 bn /month, well above the average of €5 bn /month). Given the lack of issues in the primary market, the ECB has been pushed to buy in the secondary market, providing greater support for spreads. We remain neutral for both IG and HY, with a preference for the latter.

Equity market: European stocks regained momentum after the ECB guidance, which we see as a positive for stocks in the near future. Cyclical companies (i.e. autos, energy) are expected to push earnings growth in 2Q, helped by the base effect. The ECB's lifting the cap on shareholder distributions should benefit banking stocks. Concerns around a resurgence of the virus seem to be the biggest risk for market participants.

Financial market assessment

Equities – Stoxx Europe: MARKETWEIGHT-OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT-OVERWEIGHT

Equities – Spain's Ibex: MARKETWEIGHT-OVERWEIGHT

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

Peripheral – UW: IT (1%), SP (0.85%), PO (0.85%), IE (0.65%), GR (1.85%).

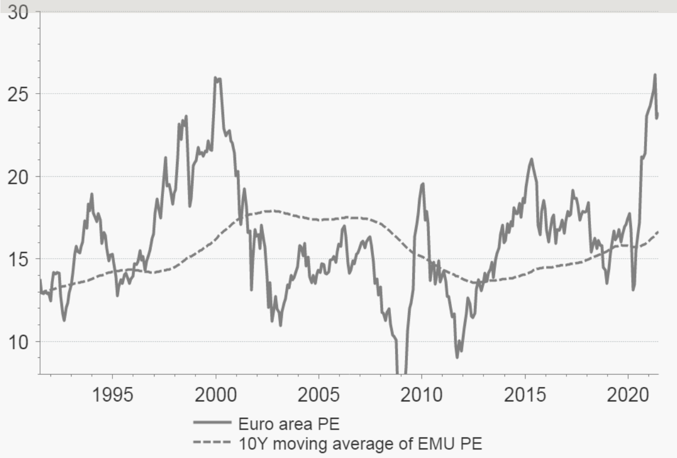
Credit – Itraxx Europe (IG): MARKETWEIGHT-UW (Target Spread 55)

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

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

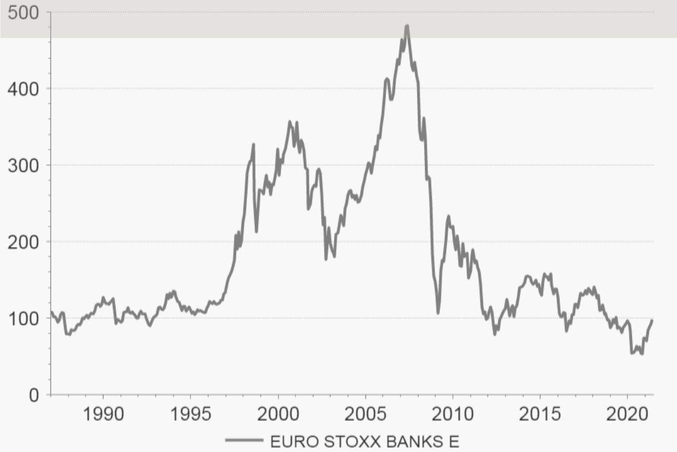
Euro area & EU price-to-earnings

Ratio - LTM



Source: Refinitiv Datastream / ANDBANK

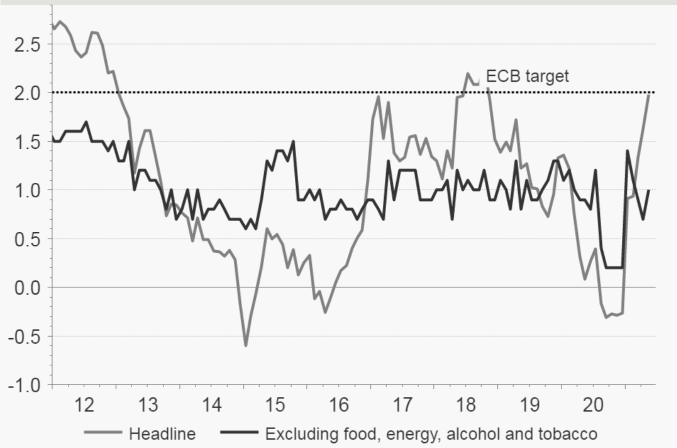
Euro STOXX banks Index



Source: Refinitiv Datastream / ANDBANK

Euro area inflation

Twelve-month percentage changes



Source: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

CHINA

PBOC is wary of adding liquidity. GDP slightly softer. China-West relations more and more tense

PBOC is wary of adding liquidity

The PBOC rolled over just CNY100bn of loans from its one-year medium-term lending facility against CNY400B maturing, in another sign Beijing is wary of adding liquidity following its recent RRR cut. In a statement, the PBOC said it wanted to keep liquidity ample, as many institutions had mid- to long-term cash demands during the tax-paying season. It left borrowing rates unchanged at 2.95%. The bank also injected CNY10B in seven-day reverse repos, offsetting the same amount due.

China Q2 GDP slightly softer than expected but activity data still strong

Q2 GDP expanded 7.9% y/y versus consensus 8.1%. Sequential growth was 1.3% q/q versus an expected 1.2% and Q1 0.6%. Industrial production rose 8.3% y/y versus consensus 7.9% and 8.8% in Q1. Capacity utilization strengthened to 78.4% in the period, up 4 pp on the year despite deceleration over the quarter. Retail sales expanded 12.1% versus consensus 10.8% and 12.4% in Q1. Fixed asset investment was up 12.6% YTD versus consensus 12.0% and prior 15.4%. NBS said it expected the economy to "recover steadily" but sounded a note of caution over external uncertainties and uneven domestic rebound.

Regulations: China plans to exempt HK IPOs from cybersecurity reviews

Beijing will not require companies planning to list in Hong Kong to first seek approval from the country's cybersecurity regulator. The Cyberspace Administration of China will still vet companies to ensure they comply with local laws, but only those slated for listing in third-party countries will undergo a formal review.

China-West Relations

US prepares sanctions on seven Chinese Hong Kong liaison officials over Beijing's crackdown on democracy in Hong Kong. White House warns US companies on risks of operating in Hong Kong, including Beijing's ability to obtain data that companies may store in Hong Kong, or the risk that Beijing could impose sanctions against anyone who enables foreign sanctions to be implemented against Chinese groups or officials. Beijing refuses to allow US Deputy Secretary of State Wendy Sherman to meet counterpart. US and China dialogue remains suspended and US Treasury Secretary Yellen has no plans to resurrect the US-China economic dialogue. The US Senate had passed a bill that bans imports of products from Xinjiang province to punish for what Washington regards as an ongoing genocide in the region.

Japan takes up Taiwan Strait stability for the first time in defense report: Kyodo reported how Japan's annual defense report has mentioned for the first time that the Taiwan Strait is an important factor in regional stability, and that this is being increasingly threatened by Chinese military pressure. The situation around Taiwan is important for Japan and the stability of the international community as a whole.

Philippines defense minister has ordered the country's military to investigate a report by a US-based firm (Simularity, an AI-based satellite image analysis firm) that hundreds of Chinese vessels have been dumping sewage into environmentally and politically sensitive areas of the South China Sea.

Commodities and inflation

China's pork imports to fall 50% as local prices plunge: Bloomberg reported on how China's record demand for overseas pork is set to plunge as local supplies become cheaper than foreign imports. China is the largest importer of pork products and the halving of imports could be large enough to dampen food inflation globally. Chicago hog prices are up 25% this year, while Chinese pork prices have more than halved.

Investors' activity

Prominent US-based Investment Manager (Cathie Wood's Ark Investment Management) has been selling Chinese tech stocks, with one fund, Ark Innovation, seeing the lowest holdings on record of just 1%. Wood was quoted as saying she thought there was a valuation reset taking place that they were likely to stay low. Queue for US IPOs set to shrink following regulatory crackdown: Bloomberg cited its own data to conclude the list of around 70 Hong Kong or mainland-China companies scheduled to go public in New York this year will shrink after Beijing increased its regulatory scrutiny of US listings. Three companies in the past week have postponed plans to list in the US while another large-cap listing by ByteDance has been put on hold.

Financial market outlook

Equities – SHANGHAI Idx: MARKETWEIGHT-UW

Equities – SHENZHEN Idx: MARKETWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.60%)

NEW! Forex – CNY/USD: MW (Target 6.35)

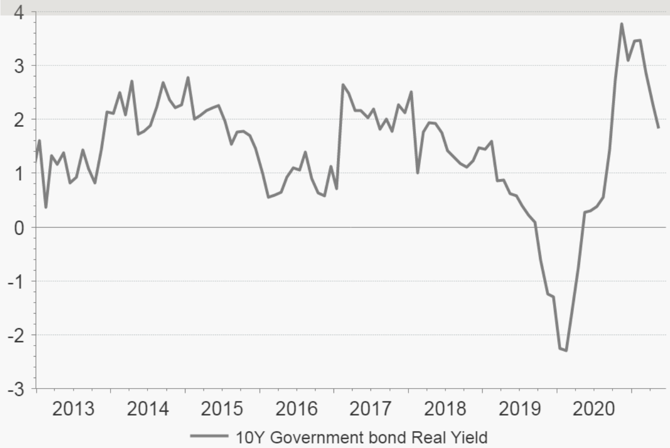
CHINA SSE & Shenxhen Index - PE Ratio

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

BOJ: "Continued pledge to maintain QQE and YCC for as long as necessary"

Macro: CPI

June overall CPI +0.2% YoY vs consensus +0.2% YoY and +0.1% YoY in prior month. Core CPI at just +0.2% YoY (vs consensus +0.2% and +0.1% in prior month).

Covid: Most cities revise vaccine plans amid a supply shortage of vaccines

70% of cities said the amount of doses allocated for July remains less than half the desired amount. Meanwhile, Tokyo coronavirus cases fell (reported 727 cases on Monday 19th), dropping below 1,000. Nevertheless, the seven-day moving average was up 45.4% from the previous week. With the Olympics opening ceremony set to take place, public concern remains high that the games could become a super-spreader event amid the spread of the Delta variant. Japan approves Regeneron COVID antibody cocktail. The health ministry granted emergency approval for the use of an antibody cocktail developed by Regeneron Pharmaceuticals (used to treat former US President Trump when he contracted COVID-19 last year). Health ministry panel approves Moderna vaccine for ages 12-17 to become the second shot available to adolescents in the country after the one developed by Pfizer. The government is expected to provide the Moderna vaccine free of charge to the age group.

Monetary Policy: BOJ leaves key policy rates unchanged again

Policy statement showed vote was 8-1 to leave short and long-term rate unchanged, and unanimous vote on maintaining asset purchases. Guidance also unchanged, with a continued pledge to maintain QQE and YCC for as long as necessary to maintain 2% inflation in a stable manner. "BOJ will not hesitate to take additional easing measures if necessary". Also expects short and long term policy rates to remain at present or lower levels. It also announced interest-free loans for climate change investments until the end of March 2031. Interest rate will be 0% with a term of one year in principle, though rollovers can continue indefinitely while the program lasts. BOJ outlook revisions mixed: FY21 GDP was revised down. Core CPI inflation was revised up for FY21 and FY22. Noted inflation likely to run at ~0% in the short term.

International transactions from domestic investors. Risk appetite is back

Haven demand spurs near-record flows into Japan bonds: JSDA data showing foreign investors purchased a net ¥4.06T ($37B) of JGBs last month, just shy of a record ¥4.42T in December 2018. The story attributed surge in demand to haven trades triggered by the spread of the delta variant. Sumitomo Mitsui DS Asset Management suggested purchases of JGBs may have also increased as foreign funds were underweight on Japanese debt. GPIF copycat fund bucks trend to invest in Chinese debt: Bloomberg reported the Promotion and Mutual Aid Corporation for Private Schools of Japan (PMAC), which provides pension services to private school workers, will consider investing further in Chinese debt when it's added to FTSE Russell's benchmark World Government Bond Index in October. The story noted openness to China exposure contrasts with the GPIF, which has yet to decide if it should invest in Chinese sovereign bonds. Good news then for Chinese bonds, in which we are still constructive.

Corporate

Suzuki to launch its first all-electric vehicle (EV) by FY25. The new EV will be released first in India, to be followed by launches in Japan and Europe. The first EV model will be made available for US$13,700 or less, after government subsidies are taken into account. With Suzuki's entry, all major Japanese automakers are set to enter the EV market. The company also has battery production plans under way. Suzuki is building a battery plant in India with Denso. Toshiba is expected to open a plant in September to produce lithium ion batteries for Suzuki's hybrid cars. **Honda Motor** is prepared to shift to selling only electrified vehicles earlier than planned if the European Union tightens regulations sooner. President and CEO Toshihiro Mibe pledged, after taking office in April, that the company would remove all conventional autos from its global sales mix by 2040. Electrics and fuel cell vehicles will replace them. But the EU now proposes to essentially ban sales of new internal combustion autos by 2035.

Reforms: Energy

Japan looks to have renewable energy generate almost 40% of the country's power in FY30 in the latest version of its electricity mix targets, bringing zero-emissions sources as high as 60% of the total. The changes aim to tackle a major contributor to Japan's greenhouse gas emissions. Tokyo pledged in April to cut greenhouse gas emissions by at least 46% from FY13 levels by FY30.

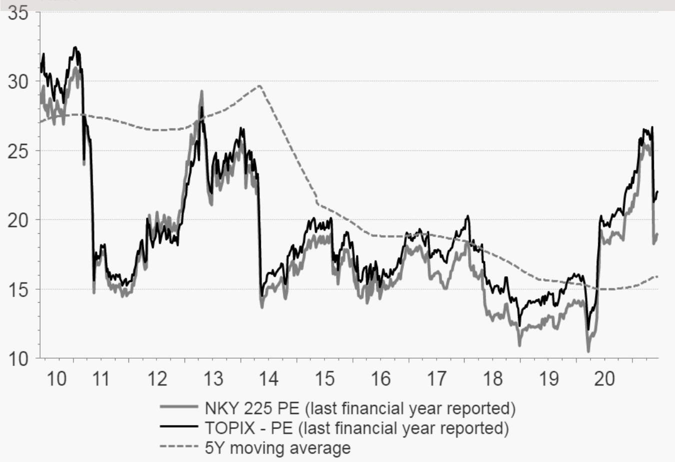
Financial market outlook

Equities – N225: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 0.25%)

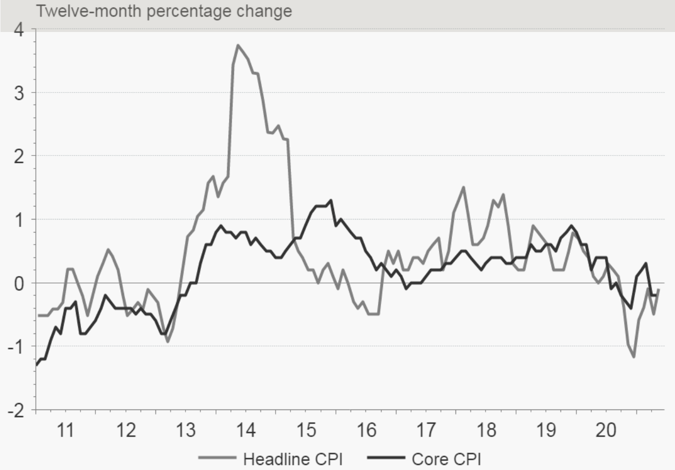
Forex – USD-JPY: MARKETWEIGHT-OW (Mid-term target 108)

Japan Nikkei 225 price / earnings
Ratio



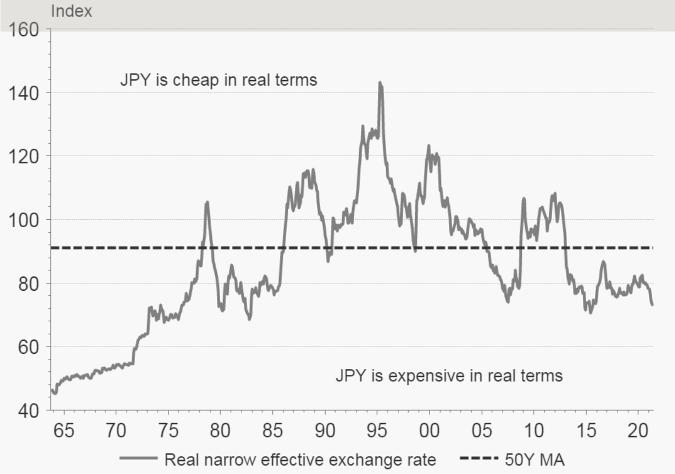
Source: Refinitiv Datastream / ANDBANK

Japan CPI
Twelve-month percentage change



Source: Refinitiv Datastream / ANDBANK

Japan real narrow EER
Index



Source: Refinitiv Datastream / ANDBANK

INDIA

With Covid cases declining and states opening up, the worst of the economic disruption should be over

Macro still shrouded in uncertainty

After positive year-on-year growth in 1Q21 at +1.6%, the second wave of Covid infections that began in late March prompted widespread restrictions through most of 2Q21, halting the recovery. The one silver lining is that, despite being far more deadly, the second wave has been less economically damaging than the first one, and we expect the hit to quarterly growth from the second Covid wave will be less severe than in 2Q20, when a harsh national lockdown caused economic output to crater. Despite this year's lockdowns, the economy will see strong YoY growth in 2Q21, artificially buoyed by the -24% fall in 2Q20. GDP in FY21 came in at -7.3%, not quite as bad as feared.

On the negative side, unemployment has risen sharply amid the latest round of lockdowns. This adds to the structural shock to the labor market—as seen in falling labor force participation rates. With almost 60% of the economy driven by consumption, declining labor participation rates will make it hard, if not impossible, to recover high structural growth rates. The corollary to structurally weak consumption is lackluster investment. The government is ramping up public-sector investment in the hope that it crowds in private-sector spending. Public capital spending is budgeted to rise 30% in the 2022 fiscal year. So far, private investors have not responded, pushing the investment share of GDP down to new lows. The upshot is a vicious cycle of lower consumption inhibiting investment and employment.

Banking sector to free-up balance sheets

The "bad bank" structure is taking shape. Plans to warehouse bad loans worth INR2trn will free-up balance sheets. Neither the existing stock of bad loans nor the prospect of a fresh wave of NPLs is really inhibiting banks from lending anyway. The only real reason for weaking lending is weak demand. The RBI has reintroduced regulatory relief measures that will allow banks to ameliorate some of the pain from restructuring the debts of borrowers. But not all the RBI's actions are working as desired. Despite large liquidity injections and heavy-handed interventions in bond markets—including a program akin to QE—the yield curve remains steep. This reflects market concerns about inflation and a fiscal blowout.

India will be (mostly) immune to external shock

Despite rising oil prices, India's external position remains quite benign. The current account surplus provides a crucial buffer to external shocks, especially ahead of a possible tapering of asset purchases by the US Federal Reserve, although most of the CA surplus is due to the persistent weakness in non-oil imports, reflecting fragile domestic demand. Markets could get nervous about India's wide fiscal deficit—at 6.8% of GDP in FY22—and its implications for debt sustainability, as the the public debt-to-GDP ratio hit 90% in 2021. But India should be insulated from any contagion selling pressures, thanks to Fx reserves approaching US$600bn and a low level of foreign ownership of government bonds (mostly denominated in rupees).

Equity rally propelled by domestic investors. Covid cases subsiding will pave the way for removal of restrictions and recovery will be back on track

Foreign investors have mostly stayed on the sidelines during the recent rally in Indian equities, meaning that the rally was propelled by domestic investors choosing to look through "temporary" weakness caused by the second wave. With Covid cases now subsiding, paving the way for the removal of restrictions, there is a strong incentive for investors to believe that the economic recovery will soon be back on track. But taking a bullish view on Indian equities requires a leap of faith. First, valuations are stretched on an absolute, as well as a relative, basis. This has not put off investors yet, but if the recovery falters, the elastic band will snap. Second, India's Covid vaccination program continues to struggle. Less than 15% of the population has had at least one jab, and the risk of another wave will remain until much higher vaccination levels are achieved.

Outlook for the rupee remains stable

The outlook for India's currency is neither positive nor negative. While the rupee is fairly immune to a global selloff, the RBI will intervene aggressively to maintain its competitiveness in a risk-on environment. Given the recent run-up in commodity prices and India's status as a net commodity importer, the rupee is likely to be outperformed by other emerging market currencies that are more attractively valued.

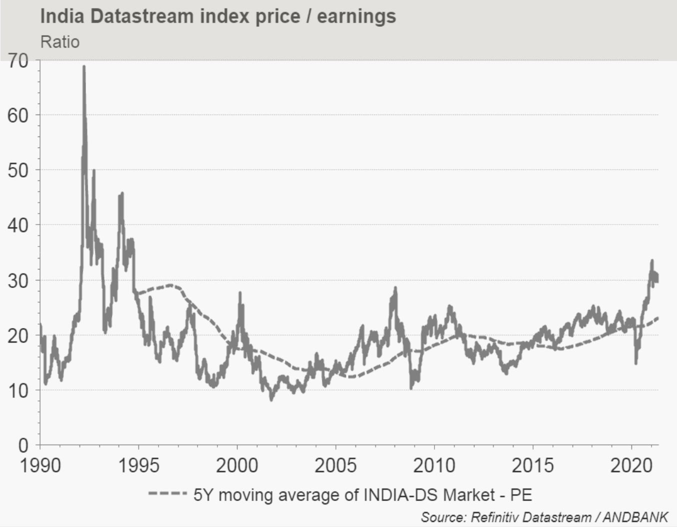
Financial market outlook

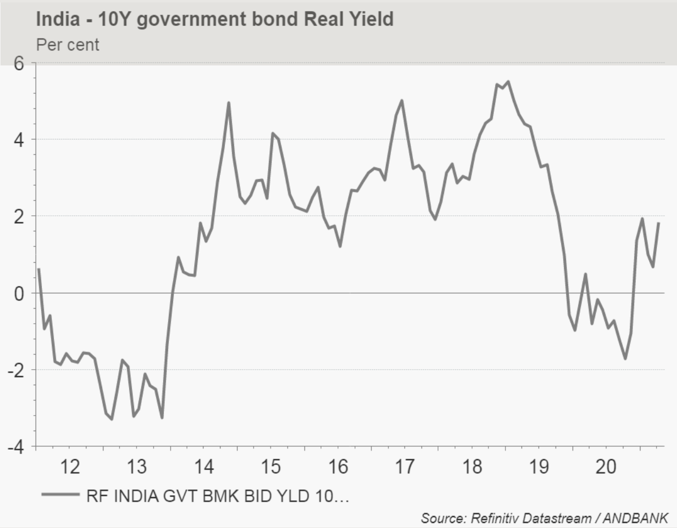
Equities – SENSEX: OVERWEIGHT

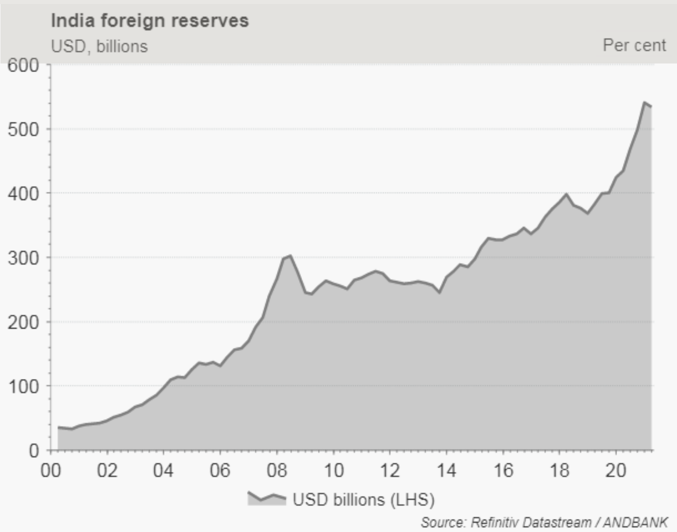
Bonds – Govies: OVERWEIGHT (Target yield 6.0%)

Bonds – Corporates: OW

Forex – INR/USD: MARKETWEIGHT (Target 74)







ISRAEL

New budget will be positive for the economy

Politics & Economy: 2021-2022 to be voted in August

Finance Minister, Avigdor Liberman, said that he will present the 2021-2022 state budget for a cabinet vote in the first week of August (November Congress deadline for approval). Liberman stated that the budget will not raise taxes but will seek growth, with a reduction in regulations, higher infrastructure investment and greater efficiency.

The outbreak of the Delta variant is a risk for the economy but the Central Bank governor, Amir Yaron, expects the recovery to continue (+5.5% GDP growth expected for 2021). Fully vaccinated population share is 60.8%, while 66.4% received at least one dose. June CPI showed an increase of 0.1% MoM (+1,7% YoY). Most of the increase came from a rise in fresh vegetables (+1.4% MoM) and food (+0.8% MoM). We estimate that the rise in inflation is temporary and as production and shipping bottlenecks will be resolved in the coming quarters, inflation will reverse to its long-term trend. Consensus for inflation for the next twelve months among economists is between 1.4%-1.7%. With the ending of the Covid unemployment checks, many people are going back to work and as a result the unemployment rate dropped to 9% from 9.8% in May.

Fixed Income: favouring longer duration

Bank of Israel decided to keep the benchmark rate at 0.1% in July (6-0 voting) for the tenth straight meeting, stating that the low level of interest rates supports continued recovery of economic activity. The positive trend in Israeli bonds (both government and corporate bonds, CPI and non-CPI linked) continued in June and the start of July. The long end of the yield curve was the main beneficiary, following in the footsteps of the US bond market. As mentioned previously, we think that inflationary pressures are of a transitory nature and prices will eventually moderate, resulting in a lower yield curve. We think that yields are still high, given the lower inflation expectations, which leads us to have a constructive stance regarding longer duration government bonds.

The credit spread of investment grade bonds expanded a bit this month (both CPI linked bonds and non-CPI linked bonds), after trading close to the lowest spreads in Israel corporate bond market history last month. We still think that the corporate space is pricey, advising to examine every holding in the corporate bonds portfolio and reduce lower-rating holdings. The current credit spread in the CPI linked TelBond60 index increased to 1.24%, compared with 0.95% in late June and pre-Covid-19 crisis spread levels of 1.2%-1.25%. For non CPI linked TelBond Shikli50 the current spread decreased to 1%, compared to 0.93% late June and pre-Covid-19 spread levels of 1.3%-1.35%.

Equity: neutral position

The Israeli stock market's long run was snapped in recent month, falling by 2.5% at the start of July. All sectors declined, whereas high beta sectors such as Biotech and Oil & Gas suffered heavy losses of 9% and 7.8% respectively. The negative performance is attributed to the resurgence of Covid-19 in Israel, although at a smaller scale than in the past (especially with regard to hospitalizations). The banks index lost nearly 4%, hurt by the flattening of the yield curve and the decline in yields. It must be noted that all of the banks reached their pre-Covid valuations, measured by the book value ratio. Real estate and home builders stocks recorded a minor drop of 1.25% due to the boom in the sector, which is experiencing its best ever period, driven by strong momentum in home/apartment sales. The technology sector outperformed the market, albeit dropping by slightly over 1%, helped by the Nasdaq's new record set recently.

As mentioned in our previous monthly review, we think the Israeli market is fairly valued on an absolute terms basis, although it looks attractively valued relative to its peers overseas. We expect three factors to determine the market's next move: i) The development of the new Covid wave; ii) Quarterly financial results and the forecast issued by companies; ii) Hopefully the new budget that is due to be confirmed by the end of the year, although first drafts should be published shortly. The new government's fragile majority complicates the process, but we still see a high probability of passing the budget.

Financial market outlook

Equities – TLV35 Index: MARKETWEIGHT-OVERWEIGHT

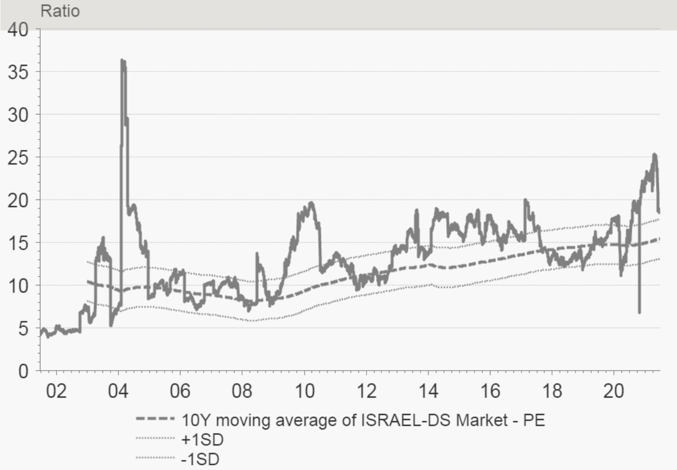
Bonds – Government–10Y Gov: MARKETWEIGHT-UW

Bonds – Corporates: MARKETWEIGHT (Cautious stance)

FX – ISL vs USD: Slightly expensive in REER

Israel price/earnings, Datastream index

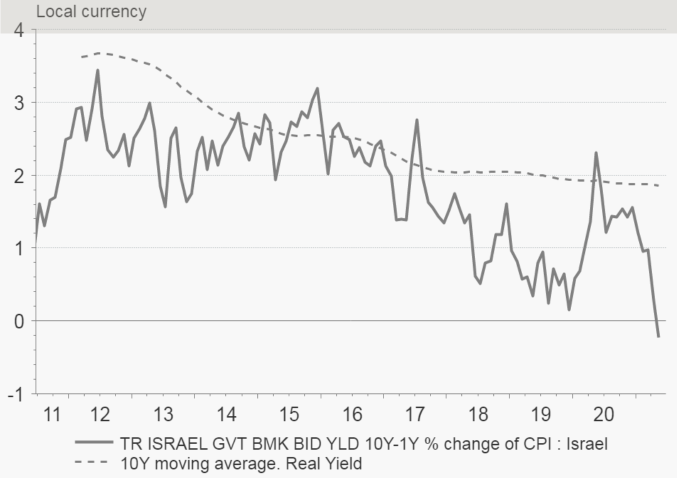
Ratio



Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y

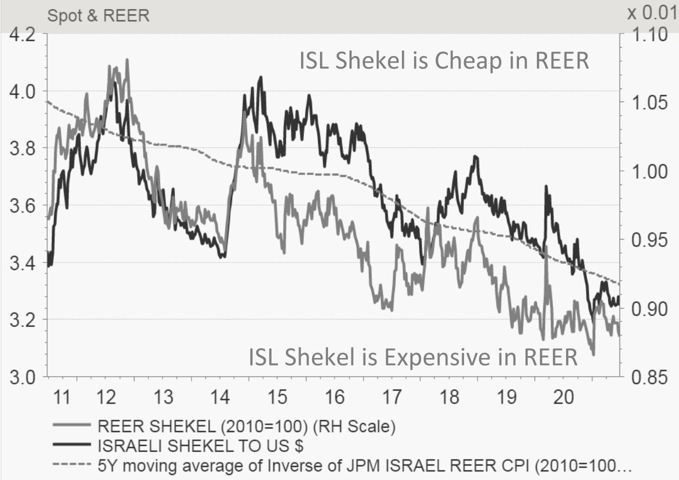
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

Higher Growth, but also higher inflation

We expect a strong second semester for growth

It seems to be a consensus among local analysts that Brazil should grow at least 5.0% in 2021, with a number of renowned economists forecasting GDP over 5.5% for the year. There are a number of factors leading to these situation. Economic activity has slowed less than expected during the second wave of Covid cases in Brazil, as the last GDP reading showed, while the fiscal situation has stabilized thanks to higher than expected growth and inflation.

Vaccination has been gaining some traction in the past two months. Average daily vaccination climbed to 1.3 million doses, which should allow the entire eligible population to be immunized before end of year (16% fully vaccinated and 44.3% with at least one dose). The services sector, hard hit during the pandemic, should see some hefty demand when social distancing restrictions are lifted. International markets are enjoying a double adrenaline shot: cheap money, thanks to fiscal and monetary stimulus, and high percentages of their population vaccinated. That combination should continue to instill optimism into markets, with an increase in risk-taking investments, including into emerging markets such as Brazil.

Inflation might be more resilient than expected

There are also a number of inflationary pressures building up, and the chances of avoiding all of them are looking less likely. First, there is the natural inertia from the current levels, which are already expected to be above the upper limit of the inflation target bands this year (2021 year-end expectation at 6.31% against an upper band of 5.25%). We use the term inertia to describe the situation where contracts readjusted by inflation cause related services and/or products to be adjusted subsequently. Second, the recovery itself is inflationary. As has been documented elsewhere in the globe, as people get vaccinated and social distancing restrictions are lifted, consumers will try to fulfill their pent-up demand for services as fast as they can, which in turn should allow the providers of those services some margin to increase prices. And last but not least, the major drought happening in the Southeast of Brazil may not lead to power shortages, since the country's infrastructure has been upgraded since the last shortage event in 2001, but will definitely lead to an increase in electricity prices (4% weighting in the CPI). Additionally, we are concerned that a secondary effect will be smaller agricultural production for irrigated crops, which could lead to an increase in food prices.

Central bank started to raise rates in March, with three 75 bps hikes YTD (Selic rate 4.25%), after keeping expansionary policy for too long. The market is expecting a 6.75% rate at the end of the year.

Politics: Covid handling investigation

The parliamentary investigation (CPI) led by the Brazil Senate has been extended for another 90 days. The CPI has found indications of bribery involving high-ranking officials from the Health Ministry in the negotiation of 20 million doses of Covaxin from India for USD 15 per dose, a contract totaling USD 300 million. The vaccine producer Bharat Biotech, however, had initially offered the vaccine for USD 1.34 per dose. The very large difference, more than 1000%, has raised the suspicion that intermediaries were either offering, or been asked, for some of this price difference to be side-pocketed.

The extension of the Pandemic investigation will very likely create a bottleneck for Bolsonaro, who is still looking to approve new reforms as a way to regain some lost popularity. There are a number of restrictions in approving specific social distribution programs in election years, so with three of the last five months of the year trapped in the investigation, it is very unlikely that Bolsonaro will be able to move his reform agenda any further this year. The president is preparing a ministerial reshuffle in order to strengthen the government's relationship with Congress, specially the "Centrao" parliamentarians.

Financial market outlook

Equities – iBovespa: UNDERWEIGHT

Bonds – Govies Local: MARKETWEIGHT (Target yield 9.80%. Spread 800)

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

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

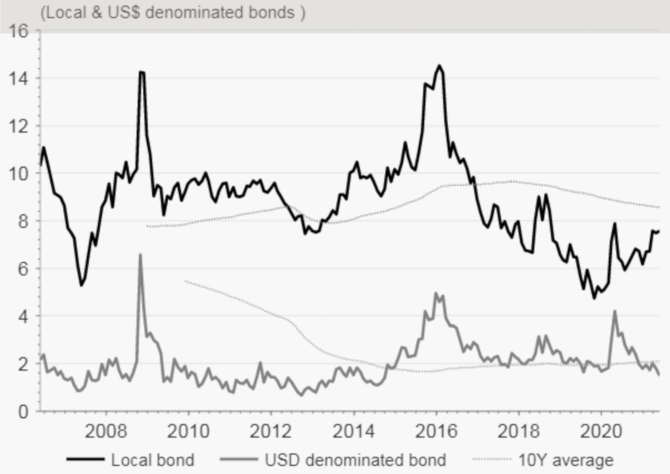
Brazil price/earnings, Datastream index

Ratio

Source: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Source: Refinitiv Datastream / ANDBANK

Brazil real broad effective exchange rate

Index, January 2010 = 100

Source: Refinitiv Datastream / ANDBANK

MEXICO

Constructive scenario for Equity despite still uncertain politics

Central bank: recalibrating expectations after surprise move

Banxico decided, in a surprising (75% of analysts didn't expect rate changes) and divided way (3 vs 2), to increase the reference rate by 25 bps (to 4.25%). In their statement the policymakers talked about higher inflation for the horizon over which monetary policy is effective, with current levels of price increases remaining until the end of the year. We still have four central bank meetings until year end (August, September, November & December) and the market now is expecting two or three more hikes this year, with a year-end median expectation of 5%. The current Secretary of the Treasury will become governor of the central bank next year (once ratified by the senate), with a more dovish positioning, which is why many analysts see a preventive component in the central bank's actions.

Economy and fiscal numbers

Headline inflation stood at 5.84% YoY (+0.53% MoM) in June, above the upper limit of the central bank's long term goal (3% +/- 1%) for the fourth straight month. Core inflation stood at 4.58% YoY (+0.57% MoM), the highest since December 2017, with goods rising +5.81% YoY. Economic activity, consumption and industrial production fell, after showing progress in March and April, mainly due to seasonality, moderating the growth forecast for the rest of the year, which remains above 5%. There have been no significant changes in public finances, with the primary balance remaining at 0% GDP and revenue growth below forecasts. A new tax reform project is expected in September, which will not be ambitious in scope but will be focused on increasing corporate revenues.

Politics and pandemic management

Despite the increase in Covid cases, currently no states remain under lockdown, with activity continuing as normal in 19 out of 32 states (5 states in orange and 8 in yellow). Increases in the levels of hospitalizations in public and private services have been reported, still far from the February levels. Mexico has 17.3% of its population fully vaccinated and 30.3% with at least one dose, slightly above the world average.

A new popular consultation is expected (August 1st) on whether or not several former presidents should be brought to trial for possible illicit acts committed in the past. Results are not binding if participation is not above 40% of the registered citizens, while low turnout is expected, given that the electoral authority doesn't have the budget to deploy a significant network of voting stations across the country. The consultation once again calls into question the rule of law and governance under the López Obrador presidency. A court specialized in Economic Competition ordered the revocation of a definitive suspension of the electricity reform promoted by the President, which is seen by the market as negative for private investment.

Financial markets. Still positive on equities

<u>**Equity**</u>: On the political side, the federal elections yielded a positive result in terms of governance, with the incumbent coalition keeping a simple majority in Congress but losing its qualified majority. International scenario also positive, given the strong US recovery combined with the cyclical nature of the Mexican index. Risks coming from a higher level of interest rates due to higher inflation, noise around September fiscal reform and lower investment as a result of unfriendly policies. Banking will benefit from higher rates, while materials and consumption-related companies are also expected to perform well We set a twelve-month consensus target price of 56,000 points (current level: 50,000).

Fixed Income & FX: For USD-denominated debt, with US 10-year going back to 1.20%, spread increased to 170 bps, close to the average of the last 12M (180bps) but still below our target (175 bps), remaining with a negative view. Local currency debt spreads also increased (560 bps), given higher inflation. Surprising rate hike benefited peso, which has seen its volatility reduced in the last month. We lowered our target level to 20.5

Financial market outlook

Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local**:** OVERWEIGHT **(**Target yield 6.80%. Spread 500bp)

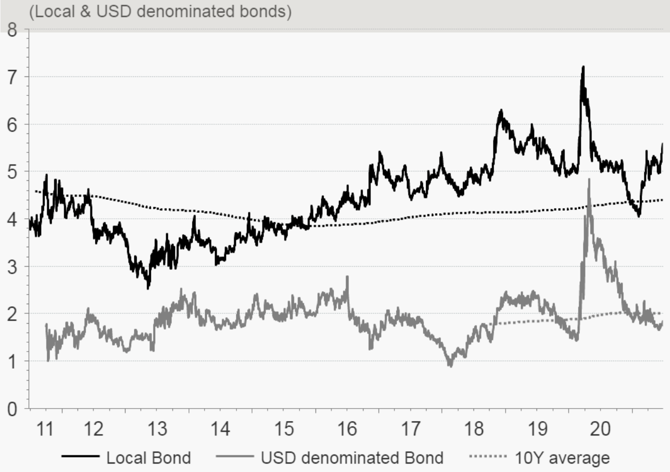
Bonds – Govies USD: UNDERWEIGHT (Target yield 3.55%. Spread 175bp)

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

Mexico equities price/earnings ratio
Datastream index

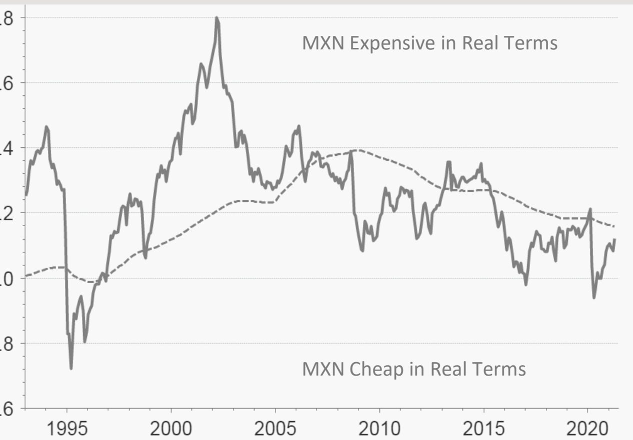
Source: Refinitiv Datastream / ANDBANK

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



Source: Refinitiv Datastream / ANDBANK

MXN/USD Real Effective Exchange Rate
x 0.01 Index



Source: Refinitiv Datastream / ANDBANK

ARGENTINA

IMF and Congress elections, the key drivers

During the G20 summit in Italy, Martin Guzman held meetings with the IMF Director, Kristalina Georgieva, and the US Secretary of the Treasury, Yanet Yellen, the central issue being, as expected, the renegotiation of the agreement with the IMF. An important outcome from the summit is that the G20 supported the Argentine claim on the need for the IMF carry out a review of the surcharge policy applied on its credits

The IMF Mission team released a statement saying that meetings in Italy had helped push forward the talks and that the two sides will continue working together towards a deal. The IMF speaker, Gerry Rice, reaffirmed that Argentina is seeking an Extended Fund Facility (EFF). Guzman added that concrete advances were made in understandings regarding policies for the development of the domestic capital market, tax administration, and the development of foreign exchange-generating sectors. Argentina's representative to the IMF, Sergio Chodos, stated that the sooner a deal is reached the better.

The Paris Club agreement was a positive development, as it sets a deadline (March 2022) and reaffirms the Argentinian government's willingness not to go down the disruptive path, but no clear guidance yet of how the Argentinian government is going to handle the situation. The Argentinian press is talking about "creative" solutions, ranging from a bridge loan from the IMF to a new type of program to be created by the institution or a bilateral loan from Russia to pay IMF 2021-2022 obligations.

The other major focus of attention is the November mid-term legislative elections, with the first relevant date being July 24th, the deadline for drawing up the lists of candidates, before the September 12th primaries. Half of the Chamber of Deputies (127 seats) and one third of Senate seats (15) are up for renewal. *Juntos Por el Cambio* (opposition) and its allies have 60 out of their 115 seats in the Lower House at stake, while the incumbent coalition *Frente de Todos* plus allies risk 50 out of 119. In the Senate, it's 9 and 15, respectively. With the economy in bad shape, the incumbent coalition is expected to perform worse than in the October 2019 presidential elections, but it is too early to predict the magnitude of the fall. The election result could be a catalyst for a recovery of asset prices in Argentina.

Argentina received the largest US vaccine donation so far to a Latin American country, with 3.5 million doses of the Moderna vaccine. Only 11.9% of Argentina's population is fully vaccinated, but 48.6% have received at least one dose.

Buenos Aires: light at the end of the tunnel?

The Province of Buenos Aires (PBA) announced that it has reached an agreement with a group of creditors including GoldenTree Asset Management, the largest holder of PBA bonds. PBA didn't specify the percentage of creditors that have accepted the new terms. The breakthrough came after PBA amended its offer, with terms similar to the creditors' last counterproposal. The biggest hurdle is that some members of the Ad Hoc group are not satisfied with this offer, arguing that there was no dialogue prior to the offer.

On the other hand, the Ad Hoc Group of Bondholders of La Rioja province said in a statement that no consensus was reached onthe restructuring of the province's 9.75% Green Bond maturing in 2025, and the province failed to reply to the Group's second counterproposal and unilaterally terminated discussions. In the meantime the Group will continue to pursue their legal remedies in a NY court.

CPI decelerated further in June and activity declined again in May

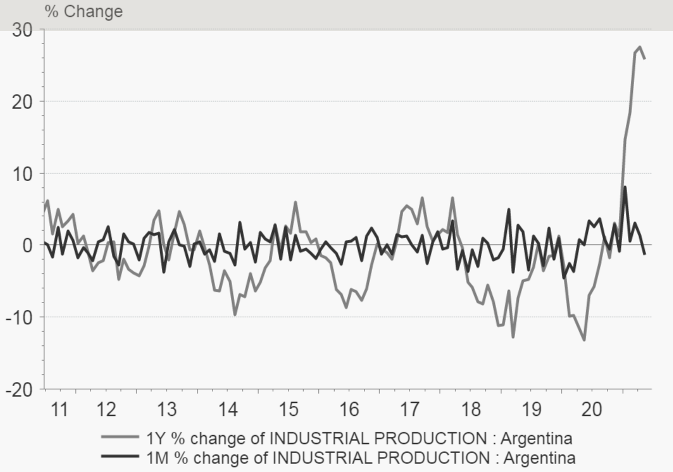
Consumer prices rose +3.2% MoM in June (in line with analyst expectations), slightly down from 3.3% in May, taking 12-month inflation above 50% (+50.2% YoY). Core inflation still high at +3.6% MoM (+54.5% YoY), accelerating +3.5% MoM, evidencing strong underlying inflation pressures. Regulated items rose +3.2% MoM (+35.8% YoY), while seasonal prices increased by +0.5% MoM (+52.2% YoY).

Economic activity in May decreased by -2% MoM (SA) from -0.3% MoM in April amid tighter restrictions on mobility. Compared with the same month of 2019, activity is down 9.2%.

Financial market outlook

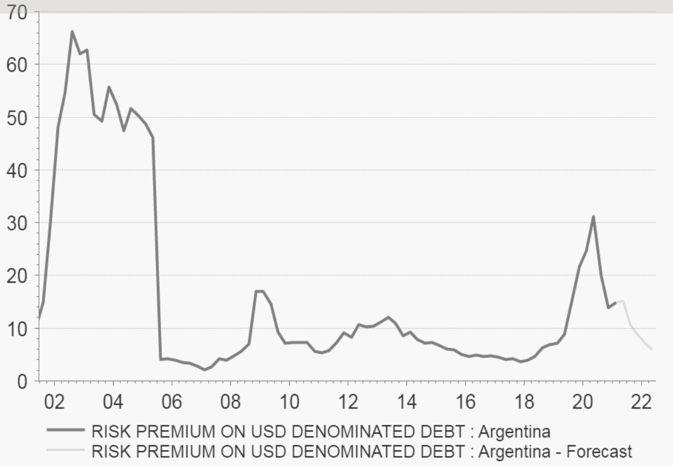
Bonds – 10YGov USD: NEUTRAL
FX – USDARS: NEGATIVE (2021 year-end target 140)

Argentina industrial production



Source: Refinitiv Datastream / ANDBANK

Argentina Country Risk (Oxford Economics)



Source: Refinitiv Datastream / ANDBANK

Argentina foreign reserves

Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES
Fundamental assessment

Index	Projected EPS 2021	Projected EPS 2022	EPS Fw 12 months	EPS Growth 2021	Projected EPS Growth 2022	PE EPS 2021	Target PE EPS nxt 12m	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Recomm	Exit Point	Max. Risk Premium	E[Perf] to Exit point
USA S&P 500	188,7	210,0	201	35,8%	11,29%	23,42	22,00	4.419	4.422	0,1%	MW	4.865	1,10	10,1%
Europe - Stoxx Europe 600	24,9	26,8	26,0	44,4%	7,43%	18,52	18,00	461	467	1,3%	MW/OW	514	1,10	11,5%
Euro Zone - Euro Stoxx	24,4	26,9	25,9	51,1%	10,16%	18,76	18,00	458	465	1,6%	MW/OW	512	1,10	11,8%
Spain IBEX 35	490,0	616,0	563	115,9%	25,71%	17,72	18,00	8.681	10.131	16,7%	MW/OW	11.144	1,10	28,4%
Mexico IPC GRAL	3.350,0	3.700,0	3.552	105,6%	10,45%	15,41	15,50	51.635	55.061	6,6%	OW	60.567	1,10	17,3%
Brazil BOVESPA	12.175	12.077	12.118	497,4%	-0,80%	10,32	10,50	125.675	127.243	1,2%	UW	139.967	1,10	11,4%
Japan NIKKEI 225	1.468,0	1.618,0	1.555	43,2%	10,22%	18,59	19,00	27.284	29.540	8,3%	MW/OW	32.493	1,10	19,1%
China SSE Comp.	272,0	304,0	290	22,9%	11,76%	12,49	12,50	3.397	3.631	6,9%	MW/UW	3.994	1,10	17,6%
China Shenzhen Comp	103,5	123,0	115	19,2%	18,84%	23,05	22,50	2.386	2.582	8,2%	MW	2.841	1,10	19,1%
India SENSEX	2.500,0	2.699,0	2.615	55,0%	7,96%	21,03	22,00	52.587	57.531	9,4%	OW	63.284	1,10	20,3%
Vietnam VN Index	82,4	99,6	92	37,6%	20,89%	15,90	17,00	1.310	1.570	19,8%	OW	1.727	1,10	31,8%
MSCI EM ASIA	46,5	51,5	49	30,9%	10,74%	14,96	16,00	696	791	13,6%	MW/OW	870	1,10	24,9%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS
Risk Outlook: Andbank's Assessment: -0.5 (in a −7/+7 range)

Aggregate (MW): Positioning indicates some stress occurred in the market. However, levels are normalizing. Our overall assessment is in neutral territory with a slightly negative tilt.

Market Positioning (MW-OW bias): Positioning has been stable; asset allocation in equity is at neutral levels in portfolios. The Put call ratio indicates higher hedging level of portfolios, with an increase month on month. Finally, Skew at current level reflects that the fear of a violent downside movement is increasing, after hitting 170 on June 25th (151 now). This fear has been fueled mostly by hawkish comments by some officials.

Flow Analysis (OW bias): Positive net inflows in US equity indicate a sustained trend in equities. China and UK are suffering outflows.

Surveys & Sentiment Analysis (UW bias): Sentiment from investors is unchanged, with high levels. We keep our contrarian view.

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	429,01	469,25	451,66	450,46	0,27%
	Euro Stoxx 600	.STOXX	Lateral bearish	338,57		430,03		486,45	454,74	6,97%
	Ibex	.IBEX	Lateral bearish	7.663,50	9.676,00	8.022,00	8.740,00	9.717,40	8.506,20	14,24%
	S&P	.SPX	Lateral bearish	3.209,00		4.164,00		4.571,26	4.327,16	5,64%
	Japón	.N225E	Lateral	24.448,00	38.957,00	27.385,00	29.685,41	32.817,46	27.652,74	18,68%
	China	.SZSC	Lateral bullish	1.744,00	3.156,96	2.330,85	2.511,97	2.441,00	2.452,32	-0,46%
	India	.BSESN	Lateral bearish	35.987,00		50.375,77			53.140,06	
	Brasil	.BVSP	Lateral bearish	90.147,00		117.630,62	131.190,30		125.960,26	
	México	.MXX	Lateral bearish	35.652,42	50.603,00	48.781,00	51.772,37	52.714,31	50.148,13	5,12%
OTROS	Oil West Texas	WTCLc1	Lateral	34,49	76,90	66,60	76,90	76,90	71,39	7,72%
	Gold	XAU=	Bearish	1.659,00	2.072,49	1.749,20	1.916,40	1.897,13	1.810,89	4,76%
	Treasury 10Y USA	US10YT=RR	Lateral bearish	0,5040%	1,9730%	1,2099%	1,4280%		1,2995%	
	Bund 10Y Germany	DE10YT=RR	Lateral bearish	-0,9090%	-0,1420%	-0,4560%	-0,1420%		-0,3515%	

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

ENERGY – OIL

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

Buy < USD55; Sell >USD65

Short-term drivers

(Price Negative) **– OPEC+ producers agree to raise output by 2M bpd by year-end 2021:** The OPEC+ producer group, which had seen its most recent meeting break down due to a dispute between the UAE and Saudi Arabia, held an unscheduled meeting Sunday at which it agreed to raise overall output by 400K bpd per month, beginning in August, for a total of 2M bpd through the end of the year. The members also agreed to extend the life of the deal out to December 2022 (previously April 2022). In a concession to the UAE, that country will see an increase in its production baseline of 332K bpd (to 3.65M bpd from 3.2M, beginning in May 2022), with the compromise giving similar baseline hikes to Saudi Arabia and Russia (500K bpd each), as well as Iraq and Kuwait (150K bpd each). Recall UAE's disagreement with OPEC+ stemmed from its insistence that its oil production baseline be increased to account for new capacity, arguing that if the broader OPEC+ deal were to be extended, it wants its actual capacity of around 4M bpd to be taken into account, rather than the outdated Oct-18 production reference of 3.168M bpd. The deal will help relieve tight market conditions amid rising demand, though Goldman Sachs notes that this moderate output increase will keep the market in deficit in the months to come and sees upside potential given continued underinvestment in new capacity.

(Price Negative) **– Iran planning first export at new Gulf of Oman terminal:** Platts reports Iran is set to load ~100K bpd in heavy crude at its Jask oil terminal located on the Gulf of Oman, its first export terminal outside the Strait of Hormuz. The facility's loading capacity will be 350K bpd and has been designed as an alternative to the Kharg terminal inside the Strait, with the Jask facility designed to export heavy crude, light crude, and gas condensates.

(Price Negative) **– Democrats' $3.5T budget reconciliation proposal would finance a far-reaching transition to cleaner power**, with payouts to utilities making a fast transition to cleaner fuels as well as a big increase in tax credits for new wind and solar units. The article notes, however, the plan is not yet final and not all Democrats have signaled their support (with the possibility it may further divide moderates and progressives in that caucus). It adds that energy-industry voices have said the proposals may make the US more reliant on foreign sources as US oil and gas become more expensive.

(Price Negative) **– China's imports from the Middle East continued to drop in June:** China's June imports from Saudi Arabia dropped 19% amid a broader import slowdown, with rising global oil prices and shrinking domestic refining margins. Spot premiums for China-focused Russian crude dropped to the lowest since April on waning demand. China's imports from the UAE and Kuwait also fell sharply in the month, arguing it could be a sign of lower imports from Iran (known to sell its crude disguised as product from the UAE).

(Price Negative) **–ADNOC awards contracts with capacity increase to 5M bpd in mind:** Platts reported that Abu Dhabi National Oil Co. has awarded $765M in drilling contracts to help boost its oil production capacity to 5M by 2030. ADNOC is set to spend $122B up to 2025 on growth projects to help increase output by 1M bpd to the 5M bpd target.

(Price Negative) **– China's refineries resuming operations after maintenance may prove to be short-lived.** Run rates at Shandong Independent refineries are expected to fall by around 490K bpd to an average of 1.75M bpd in Q3 due to reduced import quotas and a clampdown on illicit quotas trading. Additionally, Chinese oil demand has also been under scrutiny, with China's crude oil imports down 3% y/y in the first half of the year, the first contraction for the period since 2013, driven by an import quota shortage, refinery maintenance, and higher global prices.

(Price Negative) **– India's June oil imports hit nine-month low in June,** driven by renewed COVID lockdowns, as well as a pullback in refiner purchases amid higher fuel inventories due to low consumption. India's purchases of 3.9M bpd were down around 7% from May, though still 22% higher y/y. India's refiners increased processing in the early months of the year, following an uptick in fuel demand, though that weakened considerably in April and May after the government imposed restrictions amid the country's second COVID wave

(Price Negative) **–US EPA head says Biden will not back down on his climate plans:** EPA chief Michael Regan said yesterday that President Biden would not allow his climate agenda to be derailed by some moderate congressional Democrats. The comments came after Sen. Joe Manchin said it was "very, very disturbing" to find references to eliminating fossil fuels in the text of the bipartisan infrastructure bill.

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 45% 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 could experience surging real rates would be through an already low inflation rate collapsing even more. But how? Such a deflationary outcome could be triggered by a permanent collapse in the price of energy, a collapse in real estate, or even a collapse in the Renminbi. There are few signs of such shocks unfolding permanently. With this in mind, it seems that a surge in real rates is not an immediate threat.

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

Gold as the new anti-fragile asset: Gold, like the US Treasury bond, is an anti-fragile asset. Investors should always carry out the exercise of deciding which anti-fragile asset they should keep 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, though fairly valued relative to silver. The Gold/Silver ratio is at 67.99 and is right at its 20-year average of 66.29x, suggesting that gold is just slightly 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$1,843/oz. Meanwhile, the Gold/Palladium ratio is at 0.60, 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 in real terms: Given the global deflator (now at 1.15768), 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$1,633. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,020. 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.

Gold to oil: This ratio is at 28.29, still well above its 20-year average of 17.83x. Considering our fundamental fair value for WTI oil at US$60 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$1,069 for this ratio to remain near its LT average.

EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.19 (Buy USD at 1.23, Sell USD at 1.16). (Neutral the EUR using Z-Score)

USD-JPY: Target 108; **EUR-JPY**: Target 128.5 (Neutral the JPY using Z-Score)

GBP-USD: Target 1.41; **EUR-GBP**: Target 0.84 (Neutral-Negative the GBP using Z-Score)

USD-CHF: Target 0.89; **EUR-CHF:** Target 1.06 (Negative the CHF using Z-Score)

USD-MXN: Target 21; **EUR-MXN:** Target 25 (Positive the MXN using Z-Score)

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

USD-ARS: Target 140

USD-INR: Target 74

CNY: Target 6.35

RUB: NEUTRAL

AUD: NEUTRAL

CAD: NEGATIVE

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	0,22	13,26	32,1	-30,6	-1,7	**0,10**
USD vs G10	0,19	13,22	32,7	-30,8	-0,8	**0,05**
EM	-0,03	-0,05	3,9	-1,0	1,3	**-0,91**
EUR	6,75	-6,54	23,4	-8,6	10,1	**-0,36**
JPY	-6,34	-0,26	5,3	-15,0	-7,4	**0,21**
GBP	-0,30	-1,86	4,3	-6,5	-0,6	**0,11**
CHF	1,09	-0,76	2,0	-6,0	-1,8	**1,38**
BRL	0,41	0,04	0,7	-0,8	-0,1	**1,30**
MXN	-0,71	0,00	3,3	-0,7	1,1	**-1,51**
RUB	0,26	-0,08	1,2	-0,3	0,4	**-0,28**
AUD	-2,62	-1,29	6,1	-5,2	-0,3	**-0,75**
CAD	1,02	-2,49	6,1	-5,0	0,7	**0,11**

Positive
Neutral-Positive
Neutral-Negative
Negative

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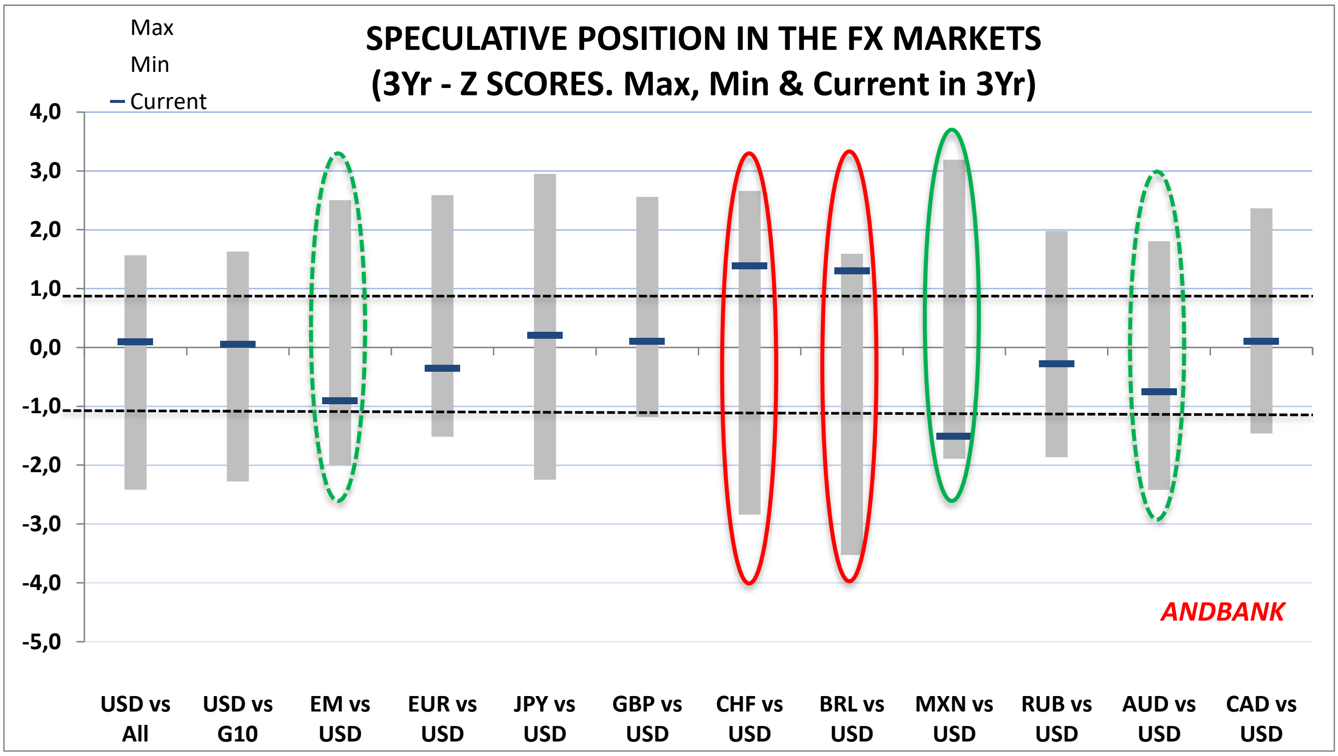

The currencies we technically favor are circled in green

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	2,8%	17,7%	4.419	4.422	0,1%
	Europe - Stoxx Europe 600	2,0%	16,2%	462	467	1,2%
	Euro Zone - Euro Stoxx	1,5%	15,8%	459	465	1,4%
	SPAIN - IBEX 35	-0,9%	8,8%	8.744	10.131	15,9%
	MEXICO - MXSE IPC	2,7%	17,2%	51.635	55.061	6,6%
	BRAZIL - BOVESPA	-0,9%	5,6%	125.675	127.243	1,2%
	JAPAN - NIKKEI 225	-5,2%	-0,6%	27.284	29.540	8,3%
	CHINA - SHANGHAI COMPOSITE	-5,4%	-2,2%	3.397	3.631	6,9%
	CHINA - SHENZEN COMPOSITE	-3,3%	2,4%	2.386	2.582	8,2%
	INDIA - SENSEX	0,7%	10,3%	52.860	57.531	8,8%
	VIETNAM - VN Index	-7,0%	17,2%	1.310	1.570	19,8%
	MSCI EM ASIA (in USD)	-7,2%	-2,4%	696	791	13,6%
Fixed Income Core countries	US Treasury 10 year Govie	1,9%	-2,1%	1,25	1,80	-3,2%
	UK 10 year Gilt	1,2%	-2,9%	0,57	0,80	-1,3%
	German 10 year BUND	1,9%	-1,4%	-0,45	0,25	-6,0%
	Japanese 10 year Govie	0,3%	0,0%	0,01	0,25	-1,9%
Fixed Income Peripheral	Spain - 10yr Gov bond	1,1%	-1,9%	0,27	0,85	-4,4%
	Italy - 10yr Gov bond	1,6%	-0,6%	0,62	1,00	-2,4%
	Portugal - 10yr Gov bond	1,7%	-1,5%	0,18	0,85	-5,2%
	Ireland - 10yr Gov bond	1,6%	-2,3%	-0,06	0,65	-5,7%
	Greece - 10yr Gov bond	1,7%	0,5%	0,60	1,85	-9,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,0%	0,0%	45,31	55	-0,4%
	Credit EUR HY-Itraxx Xover	-0,1%	1,3%	237,25	250	1,4%
	Credit USD IG - CDX IG	0,0%	0,0%	49,03	60	0,3%
	Credit USD HY - CDX HY	-0,2%	1,6%	286,96	300	2,6%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	1,3%	-26,0%	16,68	17,00	14,1%
	Russia - 10yr Gov bond (local)	2,8%	-4,8%	6,91	6,60	9,4%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	2,7%	0,1%	6,27	5,50	12,4%
	India - 10yr Gov bond (local)	-0,8%	0,9%	6,20	**6,00**	7,8%
	Philippines - 10yr Gov bond (local)	1,3%	-5,6%	3,88	4,75	-3,1%
	China - 10yr Gov bond (local)	2,1%	4,3%	2,83	2,60	4,7%
	Malaysia - 10yr Gov bond (local)	1,1%	-2,5%	3,16	4,25	-5,6%
	Thailand - 10yr Gov bond (local)	0,3%	-2,9%	1,53	2,50	-6,2%
	Singapore - 10yr Gov bond (local)	2,3%	-3,2%	1,28	2,50	-8,5%
	Rep. Korea - 10yr G. bond (local)	1,9%	-0,3%	1,77	2,90	-7,3%
	Taiwan - 10yr Gov bond (local)	0,2%	-0,6%	0,37	1,35	-7,5%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	1,0%	-9,9%	6,87	6,80	7,4%
	Mexico - 10yr Govie (USD)	0,6%	-2,0%	3,04	3,55	-1,1%
	Brazil - 10yr Govie (Loc)	-1,0%	-15,2%	9,33	**9,80**	5,5%
	Brazil - 10yr Govie (USD)	0,0%	-2,8%	4,03	4,55	-0,1%
Commodities	Oil (WTI)	0,1%	51,5%	73,5	60,00	-18,4%
	GOLD	3,3%	-3,6%	1.829,0	1.900	3,9%
Fx	EURUSD (price of 1 EUR)	0,4%	-2,6%	1,190	1,19	0,0%
	GBPUSD (price of 1 GBP)	1,0%	2,2%	1,40	1,41	1,0%
	EURGBP (price of 1 EUR)	-0,6%	-4,7%	0,85	0,84	-1,0%
	USDCHF (price of 1 USD)	-2,1%	2,3%	0,91	0,89	-2,1%
	EURCHF (price of 1 EUR)	-1,7%	-0,3%	1,08	1,06	-2,0%
	USDJPY (price of 1 USD)	-1,4%	6,1%	109,51	108,00	-1,4%
	EURJPY (price of 1 EUR)	-1,1%	3,3%	130,32	128,52	-1,4%
	USDMXN (price of 1 USD)	-0,3%	0,0%	19,87	21,00	5,7%
	EURMXN (price of 1 EUR)	0,0%	-2,5%	23,62	24,99	5,8%
	USDBRL (price of 1 USD)	2,3%	-2,2%	5,08	5,30	4,3%
	EURBRL (price of 1 EUR)	2,6%	-4,7%	6,05	6,31	4,3%
	USDARS (price of 1 USD)	0,8%	14,7%	96,45	140,00	45,2%
	USDINR (price of 1 USD)	0,0%	1,8%	74,37	74,00	-0,5%
	CNY (price of 1 USD)	0,0%	-1,1%	6,45	**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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