ANDBANK
Private Bankers

ECONOMY & FINANCIAL MARKETS

Andbank Corporate Review

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2018 Global Strategy Outlook

EXECUTIVE SUMMARY

Global – Deciphering the new role of central bankers. Central Banks could be initiating the gradual dismantling of their vast stimulus instruments, raising the question of whether this could de facto change the rules of the game for financial markets. We do not believe that such a change will materialize in 2018. since we share the view that central bankers will risk over-stimulus versus premature monetary tightening. A return to normal monetary conditions is therefore almost inconceivable in any major economy in 2018. Admittedly, some of the big questions and risks remain: Will excessive leverage be permanently mitigated by low interest rates? Will productivity suffer from the distorting effects of the serious problem of capital misallocation? Will demographic aging hurt asset prices? Will nationalism or protectionism dominate globalization? All these serious risks have one thing in common: none of them can be answered for many years ahead. Furthermore, the predominant market views about such questions will be strongly influenced by what is happening to the world economy in the short term.

MACROECONOMY

The long lags between policy responses (the US launched full-scale stimulus in 2009, Japan in 2013, Europe in 2015 and China in 2016) have caused the national business and profit cycles to be less synchronized today than in previous expansions. This could help moderate the impact of US monetary tightening while creating investment opportunities by encouraging rotation of global profits. The US, Europe, Japan, China, India and most other economies are experiencing fairly strong economic growth without any immediate threats to financial stability.

EQUITIES

In the last two years, market psychology has been blighted by two major fears: a possible breakup of the euro and a crisis in China. Nevertheless, both of these clouds have now lifted and are unlikely to weigh down on global financial markets again, at least for the next few years. The lag between US monetary leadership and the catch-up in other countries has created a divergence in equity performance, but this cyclical gap has now begun to narrow and this trend should continue. Europe, EM Asia and probably Japan could represent better investment opportunities.

FIXED INCOME

The debt markets in Europe and Japan are highly overvalued and offer no value today. For the German Bund yield we set our fair value at 0.90%. And peripheral government yields could raise as much as 30 bps in average. For the US Treasury yield we raise our fair value to 3.0%. When it comes to EM bonds, we expect further reductions in the yields of Latam govies (70bps in average) while we still see a 40 bps drop in Asian government bond yields.

CORPORATE CREDIT

Negative outlook in European credit. We expect a rise in spreads (+25 in IG€ and +-50 in HY€). Mixed outlook in USD corporates (Positive in IG but negative in HY).

CURRENCIES

The EUR is experiencing a good momentum though offers little value at current levels (smart estimates fix 4Q18 target at 1.207). We favor the USD, CHF, GBP AND JPY vs EUR.

COMMODITIES

The expectation of a synchronized cycle has given wings to the oil price. We believe that oil is in the upper part of a fundamental range. Similarly, gold price is expensive in terms of other commodities.

MACROECONOMY

USA
Steady growth. Solid consumer & industrial fundamentals

The Republicans are making reasonable progress on tax reform, although key issues must still be resolved

The administration's goal of passing a bill by year-end could prove too ambitious. Our baseline scenario envisages the bill being passed in the first quarter 2018. On balance, we still expect the final bill to give a short-term boost to incomes and spending, helping to drive up GDP growth to 2.5% next year and prompting the Fed to raise rates more aggressively. Fiscal policy would be broadly more supportive if some combination of the Republicans' proposed corporate and personal income-tax reforms is eventually legislated.

We expect above-trend growth to persist through 2018

Consumer fundamentals remain solid, including a robust job market that will persist in 2018. Industrial production continues its upward momentum with underlying fundamentals in the goods-production sector remaining robust. In light of this, we are maintaining our growth rate projection at around 2.5% for the next year.

Inflation and the Fed

A higher inflation profile is anticipated in 2018. Latest readings show accelerating wage gains to late-cycle dynamics which cannot be underestimated. Perhaps more important, real income growth has been correlated with a pickup in the capital spending and productivity cycles. This leads us to set our inflation target for 2018 at 2.2%, which should support a return to policy tightening. A continuation of the concerted upswing in global growth seen this year is likely to have implications for interest rates across the globe next year. Added to this a potentially ill-timed fiscal package in the US that could boost investment spending, and the risks of an overshoot become apparent. This combination of outcomes along with a domestic economy that is operating without significant labor market slack, will give the Fed room to tighten policy to a greater extent than what markets currently anticipate. Our base case foresees two or three rate hikes in 2018.

US Treasury

We expect that the combined effect of Fed balance sheet runoff and increasing deficits will mean the ratio of UST supply available to buyers with high price elasticity will rise from 54% to about 60% by the end of 2019, taking it to the highest levels since the early 2000s—again pointing towards higher yields. Based on these assumptions, we expect 10Y UST yields to move towards 3% fair value, with a floor of 2.07% and a ceiling of 3.8%. What are the risks to our forecasts? One possibility is that the final form of the tax plan turns out to be far more simulative than we expect. Of course, the flip side is an exogenous shock that derails the global growth story—for example, a sharp escalation of tensions on the Korean peninsula or in the Middle East.

Financial markets

Equities – S&P: NEUTRAL (central point 2713)

Bonds – Govies: NEGATIVE (10Y UST target yield 3.0%)

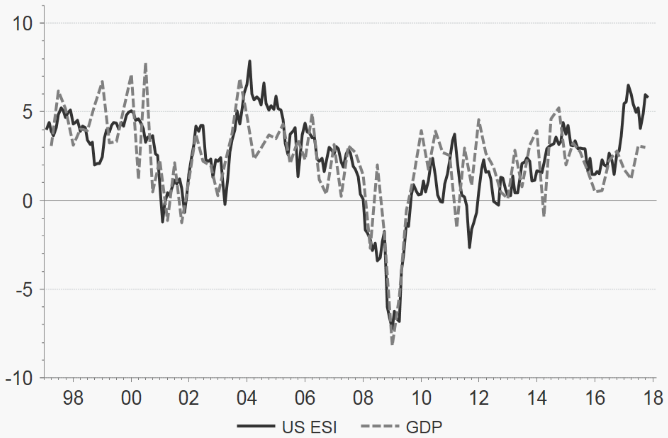
Credit – Invest. grade: POSITIVE

Credit – High yield: NEUTRAL / NEGATIVE

Forex – CDX index: NEUTRAL-POSITIVE

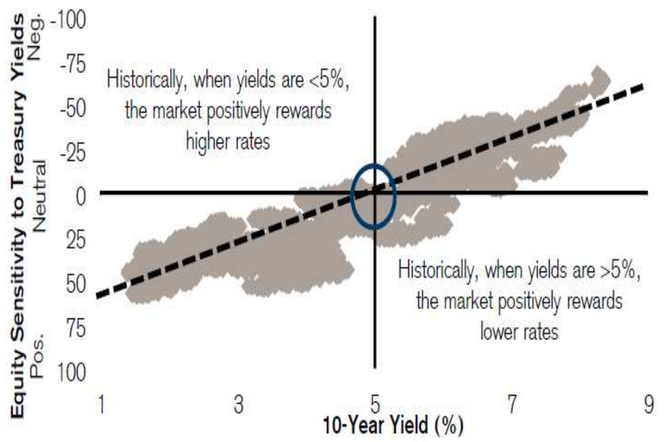
US Economic Sentiment Indicator

Quarterly annualised percentage changes



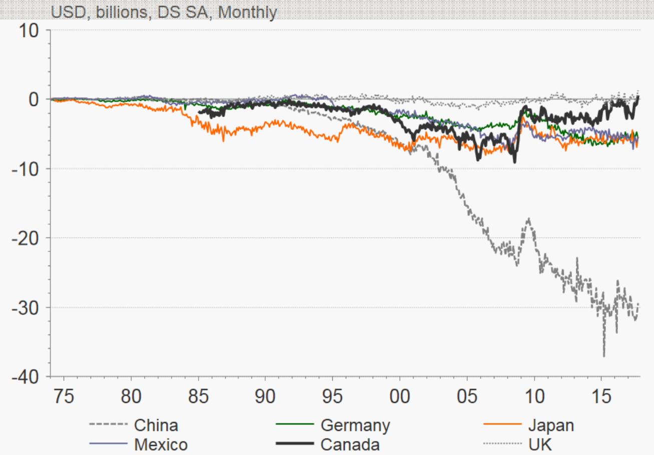
Fuente: Thomson Reuters Datastream / Fathom Consulting

EQUITY SENSITIVITY TO TREASURY YIELDS



US visible trade balances by country

USD, billions, DS SA, Monthly



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPE

2018, another Goldilocks year?

Growth risks remain on the upside; inflation could also surprise as the year advances

A broad-based recovery appears to be on the cards. The inertia of hard data should continue, although surveys might be less positive. CAPEX intentions among eurozone corporates have surged, while the external growth contribution could go down due to a stronger euro. Wages expectations and employment on the rise. Less fiscal drag on both individuals and corporates is projected. Recent European Commission estimates point to a gentle deceleration in real EZ GDP (from 2.3% to 2.1% in 2018). We see room for upwards revisions. Headline CPI figures will start low but should pick up during the year to end 2018 around 1.4% YoY (vs 1.5% 2017e). In the UK, sluggish growth (GDP: 1.3% YoY) and decreasing inflation (2.6% YoY) is envisaged in 2018.

Financial sector

P&Ls are deconstructing. Spanish banks have strong revenues, while German ones are low. French banks have high costs compared to in the Netherlands where they are low. The Italian banking sector is finally catching up with Spain, in terms of both restructuring and recapitalization.

Central Bank

The ECB's recalibration path seems "crystal clear": an open-ended reduction program will start in January and extend over nine months, A rate hike would only take place once tapering has ended, most likely not before mid-2019. Interest coverage for European corporates is also rising gradually as cost of debt has been falling as earnings improve. QE-reinvestments "for an extended period of time" could turn out to be a major driver, suggesting that the current environment could persist at least through 1H18. The asset class may be vulnerable as we near the end of the APP.

Regarding the BoE, the November rate hike has been seen as a "one and only" movement. We see a +25-bp rise in each of the coming two years, which will be highly dependent on the impact of Brexit.

Politics

The Jamaica coalition talks have collapsed. The uncertain situation may generate headwinds for deeper European integration as outlined by Macron, and could slow Brexit negotiations. British business has warned that insufficient clarity by December would require "contingency measures" to be triggered. A no-deal would be the worst scenario.

Italian elections are to be held before May 2018. Polls are inconclusive, but point to the Five Star Movement achieving the most votes. A hung parliament seems more likely; not the best option, either, but fairly common in Italy.

Financial markets

Equities – Stoxx Europe: NEUTRAL (central point 406)

Equities - Euro Stoxx: NEUTRAL (central point 409)

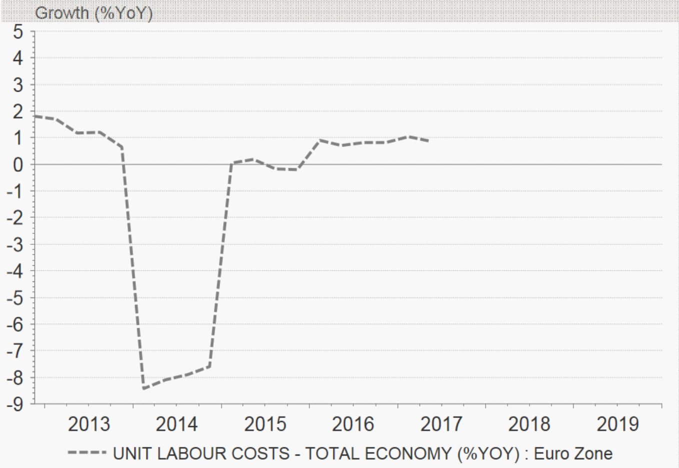
Bonds – Core governments: NEGATIVE (Bund target yield 0.90%)

Bonds – Peripheral : NEGATIVE (SP 1.75%, IT 2.15%, PO 2.15%)

Credit – Invest. grade: NEGATIVE // High yield: NEUTRAL-NEG

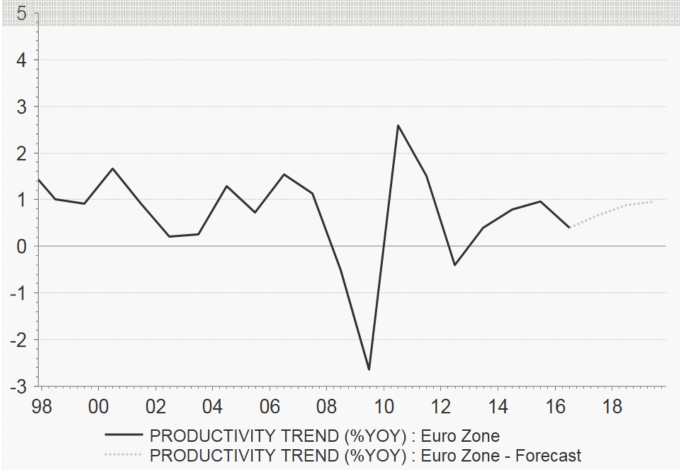
Forex – EUR/USD: Upper band of our target range: 1.10-1.15

EUROZONE - LABOUR COSTS



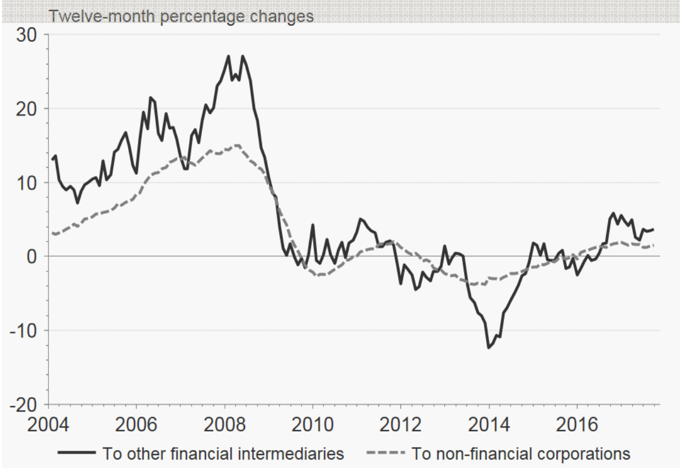
Fuente: Thomson Reuters Datastream / Fathom Consulting

PRODUCTIVITY GROWTH - EUROZONE



Fuente: Thomson Reuters Datastream / Fathom Consulting

Euro area loans



Fuente: Thomson Reuters Datastream / Fathom Consulting

SPAIN
From worse to better?

Policy & fiscal measures

We cannot ignore that the political situation is a bit messy, and this is delaying the much needed fiscal measures or the general budget act. We fear that we will have to wait until at least 1Q18 to see negotiations begin, which means we cannot completely rule out the need to call elections. The Spanish public deficit is expected to decline to 2.2% of GDP in 2018e (from 3.5% in 2017). The public authorities are taking advantage of the increase in tax receipts due to the economic environment and the lower debt burden (due to a repricing of public debt at lower rates as shown by the 10.0% cut in finance costs). Some reduction in expenses related to the automatic stabilizers are also helping to cut deficits. However, with no budget and reforms (as a result of the ongoing political crisis), we have some doubts that the Government can achieve the objectives set by Brussels. All in all, though, we believe that the situation will tend to normalize (at least for some time) after the December 21 elections.

Macro and inflation

We are seeing some weakness in services and tourism until the first quarter of the year, after which we expect some recovery through the end of the year. We envisage a poorer start to the year but then we see the activity improving to maintain a positive growth gap with our neighbors. Our GDP growth estimate is 2.4% and we assume an extra 0.2%-0.3% will be added (to 2.7%) if political risks dissipate.

Spain could create 300-350k new jobs through 2018. In October, workers registered with the Social Security system increased by 94.3k, well ahead of the 5k average increase registered this month historically. We are comfortable estimating an unemployment rate of around 15% at the end of the year.

Spanish assets & financial markets

On the positive side, our top-down analysis left us with estimated nominal sales growth of 4.8% and we see upside potential if the Catalan issue is managed satisfactorily. On the negative side, we see some increase in finance costs (25 to 30 bps) and a slight uptick in labor costs (+1%), only partially offset by productivity growth (+0.6%). This combination of factors will lead to a slight decline in margins (to 9.19%), bringing our estimate for EPS growth to 4.4% (to €743 per share), which is lower than the consensus estimate. That said, and fixing the year-end P/E ratio (with 2018 profits) at 14.50, we forecast a central point for the IBEX index in the range of 10,776, with an exit point at 11,854. Spanish market value ratios are significantly lower than those of its neighbors. With a P/E some 15x lower. If the country's fiscal and political risks are managed well, we can expect some P/E ratio expansion closing the gap with the eurozone index. From a bottom-up perspective, we get the same estimated figure for revenues but a slightly better figure for margins (9.8%). We prefer to stick with the low figure as a cautious stance at this point.

Financial markets

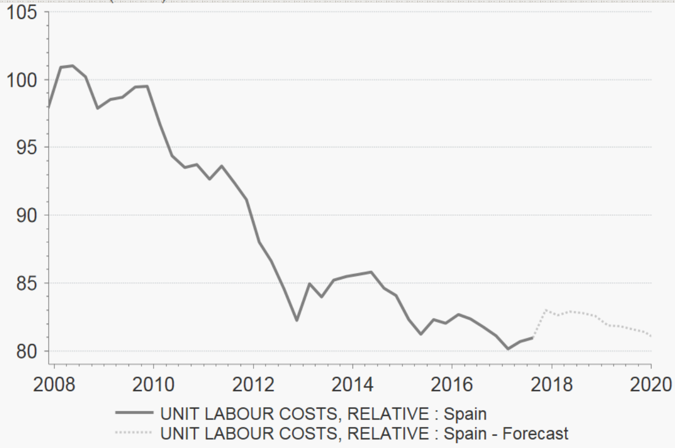
Equities – IBEX Index: POSITIVE (central point 10,776)

Bonds – Governments: NEGATIVE (BONO target yield 1.75%)

Credit – Invest. grade: NEGATIVE // High yield: NEGATIVE

SPAIN - LABOUR COSTS

Growth (%YoY)



Fuente: Thomson Reuters Datastream / Fathom Consulting

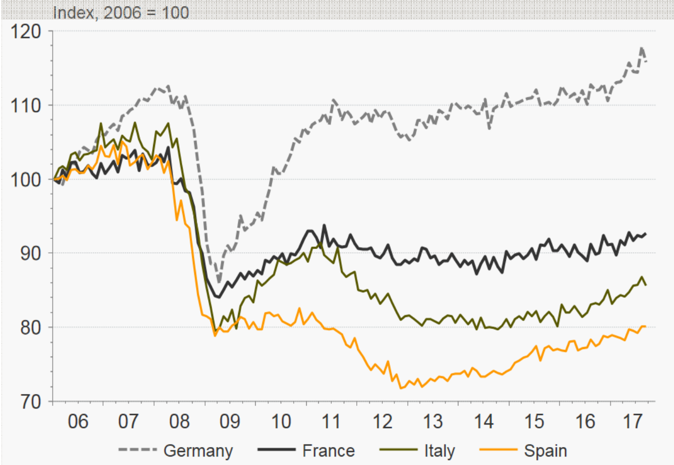
SPAIN - LABOR PRODUCTIVITY GROWTH

Efficiency of labour measured in terms of output per worker

Fuente: Thomson Reuters Datastream / Fathom Consulting

Euro area industrial production

Index, 2006 = 100



Fuente: Thomson Reuters Datastream / Fathom Consulting

JAPAN
Japan seems to be back

Deflationary boom environment continues

Corporate Japan seems to be exiting from a 25 year-old debt deflation spiral, with corporate profits at a record high relative to GDP (3.76%, above the 30-year average of 2.60%), with this rally being more broad based that the prior cycle. Las time around, large-cap firms did well but small enterprises did not. Today's diffusion index of business sentiment for small non-manufacturers shows much better readings. Corporate profits continue to be closely correlated with the real effective exchange rate, and given the fact that the yen is still deeply undervalued, it could rise 10% and still support profits.

Furthermore, Japanese companies have stockpiled US$4tn in cash since 2004, reinvesting only 70% of their profits This means three things: 1) companies have been very skeptical about the future of the economy (hence the very small investment); 2) this lack of accumulated investment means that now the potential growth is lower; and 3) with such large cash reserves built up, if companies want to increase CAPEX, they can simply tap their existing cash with no need to borrow.

Then we have the monetary impulse. With inflation nowhere to be seen, there is little prospect of any change in the government and central bank policy settings. We can therefore expect four more years of the accommodative policy founded on the authorities' belief that their policies are slowly delivering macroeconomic results. Since early 2016, the structural growth rate (measured as the seven-year moving average of private sector GDP growth) has moved decisively into positive territory.

Japan's fiscal consolidation pushed back (more stimulus)

Abe's LDP is now proposing to divert half the proceeds from next year's increase in Japan's sales tax away from paying down government debt and into new spending. This should also invigorate economic activity. Furthermore, global money managers are underweight Japan (6.3% vs an 8.7% weight in the MSCI World).

However, imbalances could be accumulating

Admittedly, all the aforementioned amounts to broadly positive news for equity investors and helps to strengthen the idea that Japan is finally emerging from its long economic ice age. However, we can not forget that the massive monetary intervention brings us dangerously close to a what could be considered as an increasingly "planned economy" mode, and like it or not, this will have unavoidable consequences in the future. The great hoarding of debt assets by the monetary authorities puts this market in a bubble, which probably has contributed to other bubbles forming in other Japanese assets.

The upshot is that as long as the imbalances caused by such large levels of public interference are ignored, Japanese equities could be poised for a deflationary boom period, with solid profit growth and no inflation. Pure plays will outperform (non-financials vs financials) and the yen has room to appreciate without causing pain.

Financial markets

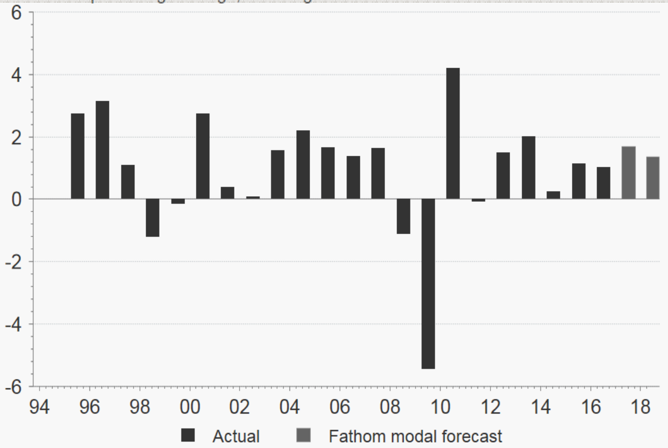
Equities – Nikkei 225: NEUTRAL/POSIT. (central point 23.187)

Bonds – Govies: NEGATIVE (10Y target yield 0.0%)

Forex – USDJPY: Mid-term target 112.5

Japan GDP

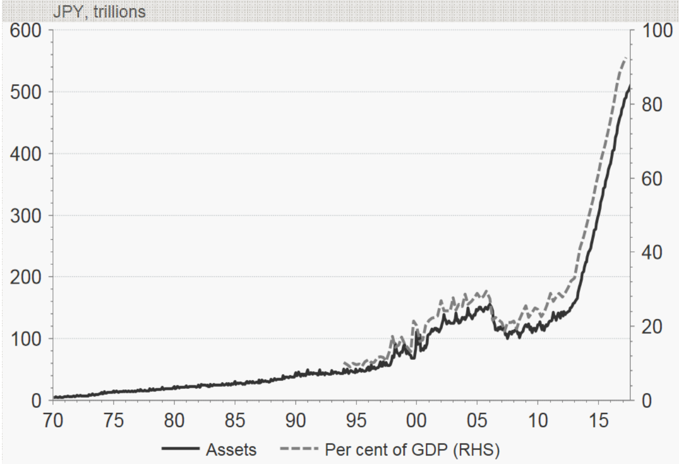
Annual percentage change, including Fathom forecast



Fuente: Thomson Reuters Datastream / Fathom Consulting

Bank of Japan assets

JPY, trillions



Fuente: Thomson Reuters Datastream / Fathom Consulting

JAPAN - LABOUR PRODUCTIVITY GROWTH

Efficiency of labour measured in terms of output per worker

Fuente: Thomson Reuters Datastream / Fathom Consulting

CHINA
A new and multifaceted concept of a national growth strategy

The starting point from which Xi will re-launch his vision. Our long-term outlook

Xi has enjoyed a good track record on: 1) maintaining robust economic growth; 2) pursuing an anti-corruption campaign; 3) retaining firm control over any financial risk–primarily in the banking and housing sectors; 4) easing the debt-service burden on China's highly leveraged corporate sector; and 5) boosting China's global stature. In his opening speech at the Party Congress, Xi promised to deliver the Chinese "a better life", defined not only by material prosperity, but also a clean environment, extensive public services, strong national security and an uplifting culture. These new priorities de-emphasize growth in favor of other aims.

We consider Xi's goals as ambitious, with the pursuit of "national greatness" that is no longer centered around economic growth. In 2015 Xi already set the goal of doubling China's 2010 income by 2020 and build a "moderately prosperous society". Now Xi is treating this 2020 target as already in the bag given his success at stabilizing growth. He now offers his new dual long-term goal, which is achieving "socialist modernization" by 2035, and China becoming the "global leader" by 2049.

Xi Jinping: "China as the global leader by 2049"

According to our calculations, China may surpass the United States in economic size by 2046, if the economy manages to keep what we consider reasonable rates of expansion (average of 5.0% for the period 2018-2022, 4.5% in the period 2023-2027, 4% between 2028-2032, 3.5% in the period 2033-2037, and 2.5% onwards). This could explain why Xi Jinping has created a new framework in which growth rates can be gradually reduced in importance relative to other goals, and he is now pledging to deliver a more multifaceted concept of "national rejuvenation" around four main general themes: technological leadership, expansion of social programs, balanced regional development and national security. No reduction of the 6.5% annual GDP growth target is likely in the near term, because GDP growth will comfortably exceed that figure in 2017. In the long run, the target will come down.

Is that the change market-oriented reformers have demanded for years?

We are used to seeing China through the lens of "reform" because of the efforts of successive Chinese leaders since the late 1970s to dismantle the apparatus of the old planned economy. Xi Jinping believes this task is complete and China has arrived at the type of economy they believe it ought to be. Most goods and services trade at market prices but the state retains considerable discretion to intervene to correct "mispricing". In short, China is a post-reform economy, in which policymakers care less about reforming, and more about delivering stable growth, with state control of key prices and economic levers.

Financial markets

Equities – SHANGHAI index: POSITIVE (central point 3.672)

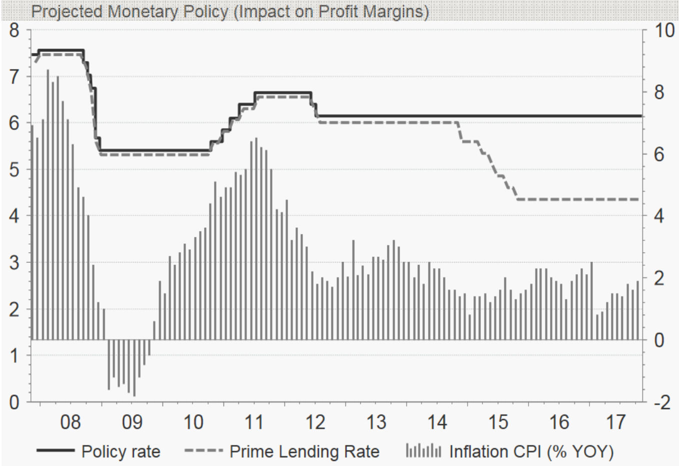
Equities – SHENZHEN Index: POSITIVE (central point 2.181)

Bonds – Govies: POSITIVE (target yield 3.25%)

Forex – CNY/USD: NEUTRAL-POSITIVE (mid-term target 6.40)

OFFICIAL INTEREST RATES & INFLATION

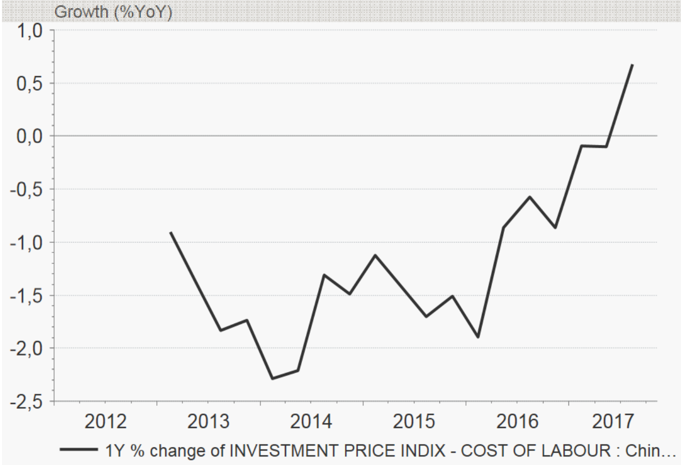
Projected Monetary Policy (Impact on Profit Margins)



Fuente: Thomson Reuters Datastream / Fathom Consulting

CHINA - LABOUR COSTS

Growth (%YoY)



Fuente: Thomson Reuters Datastream / Fathom Consulting

CHINA - LABOUR PRODUCTIVITY GROWTH

Efficiency of labour measured in terms of output per worker

Fuente: Thomson Reuters Datastream / Fathom Consulting

ANDBANK Private Bankers

INDIA

It is beginning to resemble China 10-15 years ago

Jaitley's plan for bank recapitalization: a "good enough" solution. Good for equities

Banks are flush with cash (due to the effect of last year's demonetization initiative and the lasting stagnation in credit observed in recent years), and India's finance minister Arun Jaitley has proposed a US$32bn bank clean-up largely funded by banks using their cash to buy "recapitalization public bonds". The proceeds from the sale of the bonds will be put back into the banks as fresh capital. The outcome is no changes in net public debt, a banking sector that is better capitalized but with longer asset maturities (less liquid), though this does not seem problematic since banks are sitting on large amounts of excess cash. The proposed US$32bn domestically funded "bailout" will not entirely fix the problem (there is a bad debt pile of about US$150bn, meaning that full recapitalization would cost around US$55bn) but this can rightly be considered a "good enough" solution so that credit growth can be boosted from a feeble 7% YoY (banks cannot lend today due to capital adequacy constraints arising from their bad debts) and infrastructure spending can move ahead.

Underlying fiscal situation is worsening, which poses a not so positive scenario for the bond market

India's consolidated deficit stands at 6.5% of GDP (second highest of the major EM), on top of an already significant public debt equivalent to 69% of GDP (second largest in Asia). India's states have been allowed to breach fiscal deficit targets over the last two years due to a program aimed at making them responsible for insolvent power utilities which they oversee. Accordingly, credit rating agencies place India at the lowest rating within the investment grade category (just one notch above junk status).

Outlook: We consider that Jaitley's bank clean-up initiative can succeed in stimulating economic growth enough so that we can witness better fiscal figures and improved debt sustainability dynamics. Though a recapitalized Indian banking sector could initially focus its activity on small and mid cap companies, on balance this looks like a positive move. In fact, a similar approach was used in the early 1990s and worked fairly well. We assume that "recapitalization bonds" are tradable and with coupons linked to market rates so that banks can earn enough income to sustain their capital base.

India is starting to look a little bit like China

The process of urbanization is occurring more slowly in India but parts of its cities are beginning to resemble China's 10-15 years ago. World-class airports in Hyderabad and Bangalore (not just Delhi and Mumbai), nine cities with modern metro systems, with others under construction in seven other cities and 18 planned. India could be on the cusp of a construction boom. It has an urban population that is approaching 500mn and should easily surpass 600mn by 2030.

Financial markets

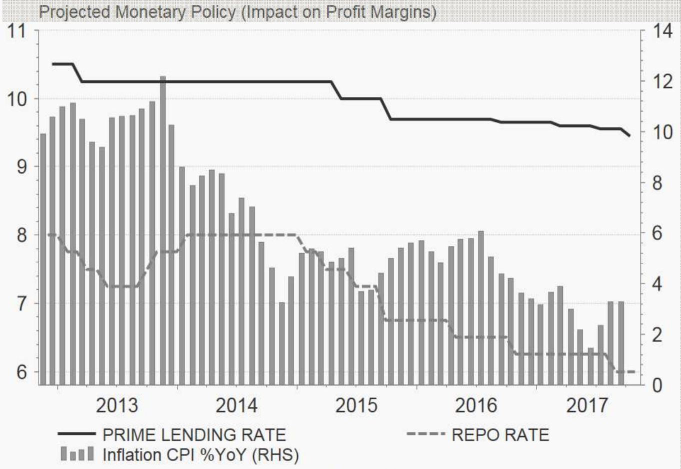
Equities – SENSEX Index: POSITIVE (central point 37,608)

Bonds – Govies: POSITIVE (target yield 5.90%)

Bonds – Corporates: POSITIVE

OFFICIAL INTEREST RATES & INFLATION

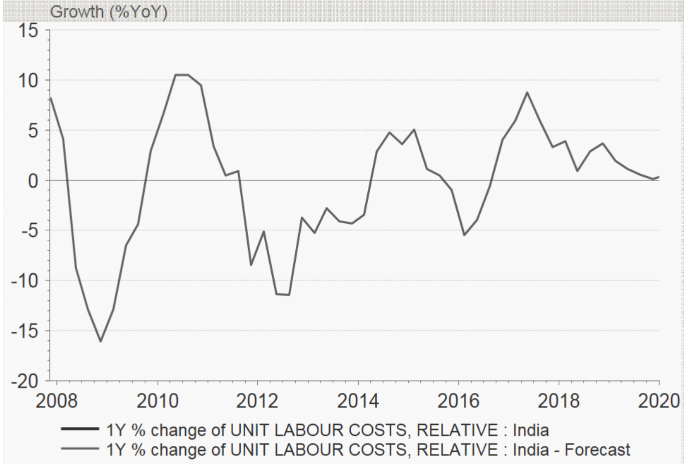
Projected Monetary Policy (Impact on Profit Margins)



Fuente: Thomson Reuters Datastream / Fathom Consulting

INDIA - LABOUR COSTS

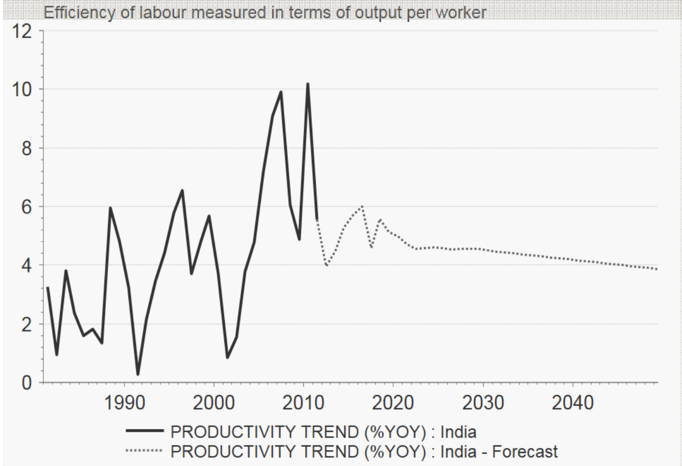
Growth (%YoY)



Fuente: Thomson Reuters Datastream / Fathom Consulting

INDIA - LABOUR PRODUCTIVITY GROWTH

Efficiency of labour measured in terms of output per worker



Fuente: Thomson Reuters Datastream / Fathom Consulting

MEXICO
Intense political activity ahead. Possible turmoil for the MXN?

Projections for growth remain miserable

Projections are for 2.2% GDP growth in 2018 (vs the 2.1% that Mexico will presumably end up growing in 2017). Using high frequency data we see that the economy is still struggling as reflected in the last private consumption reading (and is expected to maintain that path through 2018). The more benign scenario seen in exports in 2017 came partially as a result of trade decisions in an attempt to stave off the negative effects of a potentially harmful environment from NAFTA negotiations. Mexican negotiators are optimist about certain sectors such as small and medium enterprises and e-commerce, but they recognize that the main hurdle is the Trump's administration reluctance to change its objective of reducing its trade deficit and the intention to fix a clause for the treaty to be reviewed every five years. US negotiators want to change the actual rules o -origin establishing the minimum US content of products to be imported.

Tightening in monetary conditions seems to have come to a halt

Admittedly, the central bank appears to have stepped back from hiking rates further, but given the uncertain scenario for prices in the region, many analysts are still betting on an additional rate rise (especially if the Fed also does the same). Looking at 2018, Banxico expects a stabilization in prices, that could be fixed in the 6.00%-6.30% range during most of 1H18. Surprisingly, in its monthly Inflation Report, the central bank suggested that a downward trend in inflation could start in 3Q18 and take prices back to the long-term goal of 3%+/-1% by the end of 2018. Price normalization, NAFTA renegotiation and presidential elections lead us to expect a hiatus in rate decisions.

Politics: Potential turmoil in the MXN?

Lopez Obrador is still leading the polls for the 2018 presidential elections in July, with its main competitor, the ruling party (PRI), being close in the polls. The PRI has not yet named its candidate but is expected to one of the former finance and state ministers. The Mexican currency has been trading in the 19.00-19.40 range. Although it is not the most likely scenario, a NAFTA dilution is still on the table, but for 2017 it seems unlikely that a conclusion will be reached. Negotiations could heat up in the first half of 2018 depending on both the needs of Trump's administration and the appearance of political figures in Mexico who will begin their electoral campaign with the future of NAFTA as part of their program. For 2017, the currency could still close around 18.50-19.00. As for 2018, it will depend on what happens with NAFTA and the presidential election results. In our best scenario, a rate of 18-18.50 could be expected. In a disruptive scenario, on the other hand, if NAFTA negotiations fail, we could witness the MXN reaching January 2017 levels of around 22 once more.

Financial markets

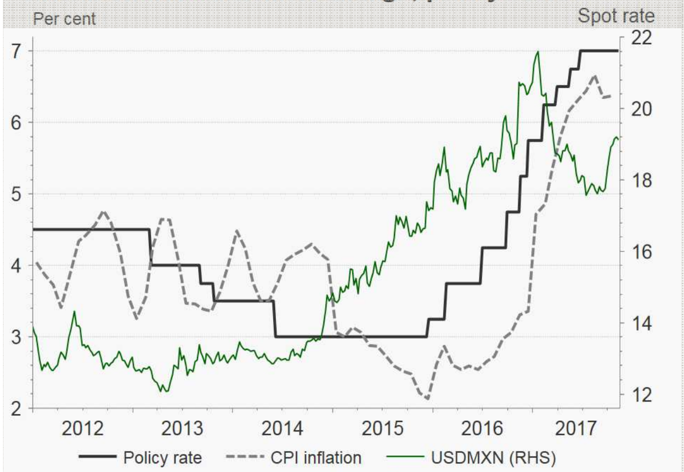
Equities – Mexico IPC: CAUTIOUS (central point 48.983)

Bonds – Govies Local: NEUTRAL (target spread 475, yield 7.75%)

Bonds - Govies USD: NEGATIVE (target spread 180, yield 4.80%)

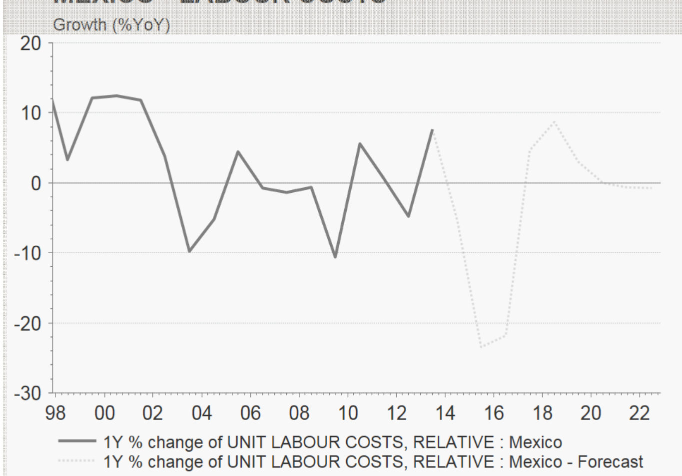
Fx – MXN/USD: NEUTRAL (mid-term target 18.80)

Mexico inflation and exchange, policy rates



Fuente: Thomson Reuters Datastream / Fathom Consulting

MEXICO - LABOUR COSTS



Fuente: Thomson Reuters Datastream / Fathom Consulting

MEXICO - LABOUR PRODUCTIVITY GROWTH

Fuente: Thomson Reuters Datastream / Fathom Consulting

BRAZIL
Economic recovery despite political uncertainty

All eyes on the presidential elections

Brazil will elect its key political leaders after a troubled impeachment of Dilma Rousseff and nomination of her number two, Michel Temer (more market friendly). An intense agenda has been carried out, with important economic reforms helping the economy to come out of a deep recession. In this sense, these elections are likely to be among the most relevant and decisive ones since late 1980's, with the next president potentially moving either towards a continuation of the reform agenda (characterized by fiscal responsibility, less state intervention and modernization of economic relations) or less of a commitment to reforms, showing a willingness to take Brazil back to a certain degree of populism and heterodox policies.

Who are the main candidates and what are their ideas?

Likely names include Lula da Silva, Jair Bolsonaro, Geraldo Alckmin, Joao Doria, Marina Silva and Ciro Gomes. (1) Luiz Inacio Lula da Silva tops the polls, but his legal affairs are an issue and he could be sidelined from the elections. He would likely pursue left-wing and heterodox economic policies. (2) Jair Bolsonaro (second in polls) has gained ground with his right-wing radical stance, although he has moved into more liberal and market-friendly ground. There are doubts about his political ability to garner congressional support and form a coalition. (3) Alckim is an experienced politician and one of the main names from the PSDB: a party in the center. Less impacted by the Car Wash probe, he would likely continue the current economic policies and reform agenda. (4) Doria (PSDB) would also likely push ahead with the current economic policy and reform agenda. (5) Marina Silva represents the center-left, although will likely advocate liberal economic policy.

Macro outlook

The economy is on a path to cyclical recovery. GDP is expected to increase around 2.50% in 2018 but we are more optimistic and fix the GDP growth rate at 3.0%, with inflation under control (around 4.00%) and healthy external accounts. The fiscal side is the variable of biggest concern, The primary deficit has been set at BRL 159bn for next year, repeating the 2017 figure. However, higher than expected GDP growth could drive up tax receipts and primary results. On the monetary side, we see the central bank as having done its job. We expect a stable Selic rate (7%).

Brazilian assets & financial markets

We should expect the so-called "Brazil kit" (long bonds, long equities and long BRL against USD) to deliver lower returns with higher volatility in 2018 since Brazilian assets seem to be fairly priced and the electoral process will bring a lot of uncertainty. However there is a big number of players (Hedge Funds) that are rotating their positions toward the equity market, and this could have continuity. We forecast corporate sales to grow 7,2%, and net margins to be fixed at 10,2% (from 9.9%), with 11,6% EPS growth.

Financial markets

Equities – IBOVESPA: POSITIVE (central point 82,000)

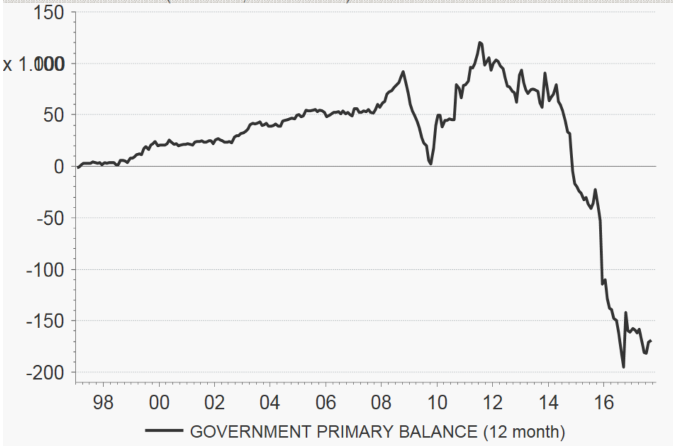
Bonds – Govies Local: POSITIVE (target yield 9.57%)

Bonds - Govies USD: NEUTRAL (target spread 210, yield 5.10%)

Fx – BRL/USD: NEUTRAL (mid-term target 3.20)

BRAZIL - GOVERNMENT PRIMARY BALANCE

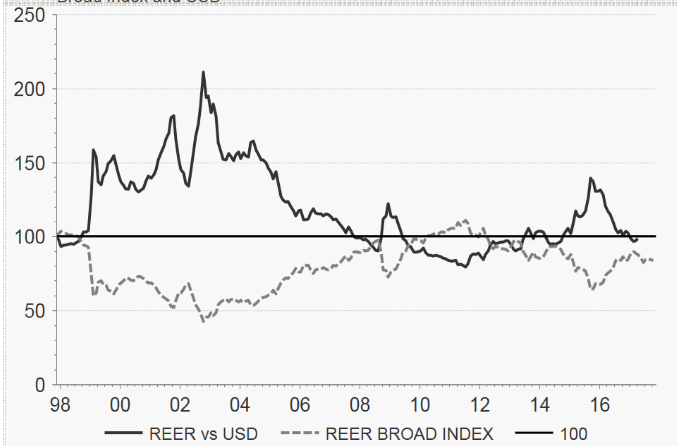
Cumulative (12 month, Billion Reais)



Fuente: Thomson Reuters Datastream / Fathom Consulting

BRAZILIAN REAL - REER

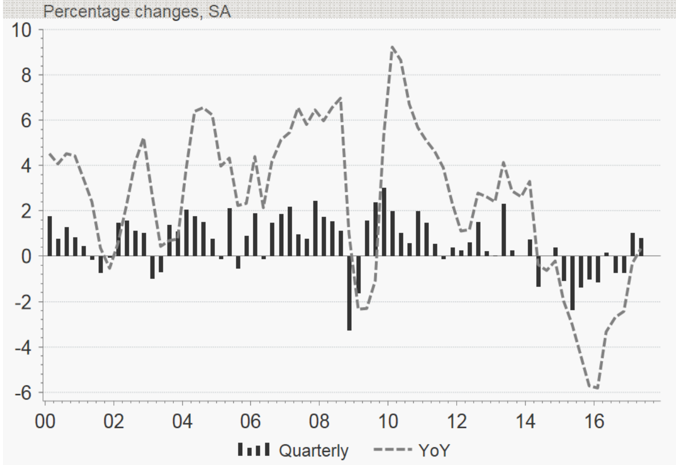
Broad Index and USD



Fuente: Thomson Reuters Datastream / Fathom Consulting

Brazil GDP

Percentage changes, SA



Fuente: Thomson Reuters Datastream / Fathom Consulting

ARGENTINA
2018: time for major reforms?

2018 will be a key year as there will be no elections

The lack of political noise in 2018 gives Macri the possibility to use renewed political capital to move forward with reforms. Macri's government must deliver in the following areas: (1) **Tax reform**: the Government's proposal includes a gradual tax cuts for businesses (corporate income tax from 35 to 25% in 2021) and a reduction in employer contributions. It also proposes slashing by half gross income tax charged at the provincial level (a highly distortive tax as it is charged at every stage of the supply chain), and deductions of tax credits & debits. On the other hand, the tax on luxury products will be raised, while financial income received by individual residents will also be taxed at 5% and 15% depending on the type of instrument. For the Government, this reform will alleviate tax pressure by 1.5% of GDP in five years, to be partially offset by higher growth and lower evasion. (2) **Tax liability law**: the Government has put forward a new law requiring the federal government and provinces to restrict growth in current spending in real terms and restrict expense growth in the last six months of each legislative period, among other measures. (3) **Pension reform**: the Government intends to address this issue by changing methodology to adjust pensions (using future inflation), cut privilege regimes and introduce a voluntary option to extend the retirement age (from 60 to 63 for women and 65 to 70 for men). (4) **Labor reform**: this involves a one-year amnesty for non-registered workers to regularize their situation at no cost, and a reduction in termination benefit costs, reducing the period of prescription for legal action, etc. The goal is to move more workers into the formal sector, decrease litigation, create jobs, increase productivity and improve lifelong learning. (5) **Capital markets reform:** The objective of this reform is to provide tools to facilitate financing for SMEs. The main points are: the creation of mortgage letters and credit invoice, and the right legal conditions for the establishment of closed-end funds with tax relief.

Our assessment on the reforms

We consider that most of the reforms are right in terms of direction but they lack depth (probably due to the fact that the Government still has a minority in parliament). All in all, we believe this set of measures will be positive for the country; however the gradual approach being taken to roll them out poses significant risks if flows to emerging markets tail off. Remember that the Government's strategy is based on taking on external debt to finance current imbalances, boost growth and tackle the fiscal deficit.

Macro & fiscal situation: growth to accelerate to 3.1% in 2018. Poor figures on the fiscal front

Economic growth kept expanding across all sectors, and more interesting is the growth seen in the Manufacturing and Commerce sectors. We raise our target to 2.90% real GDP growth for 2017, and set our 2018 target at 3.1%.We forecast inflation will hit 16% in 2018. Our target is that the Government will meet its 4.2% primary deficit goal for 2017. However, we think it will be difficult to meet the 3.2% primary deficit target for next year. Instead we envisage the primary deficit closing 2018 at 3.5%.

Financial markets

Bonds – 10YGov USD: NEUTRAL (target spread 285, yield 5.85%)

Fx –USD-ARS: NEGATIVE (mid-term target 20)

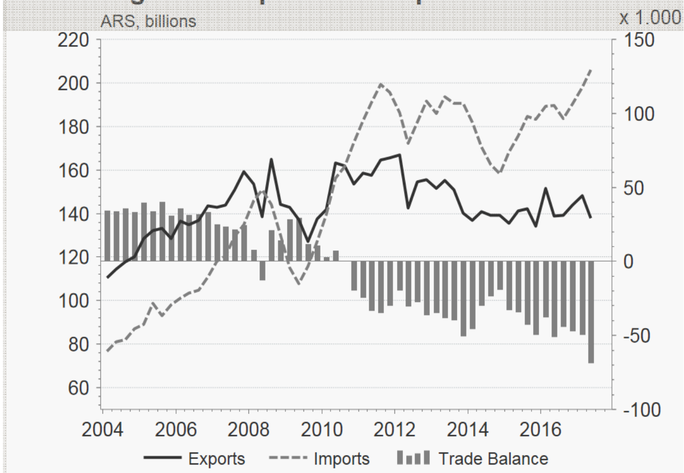
ARGENTINA - LABOUR PRODUCTIVITY GROWTH

Efficiency of labour measured in terms of output per worker

Fuente: Thomson Reuters Datastream / Fathom Consulting

Argentina exports and imports

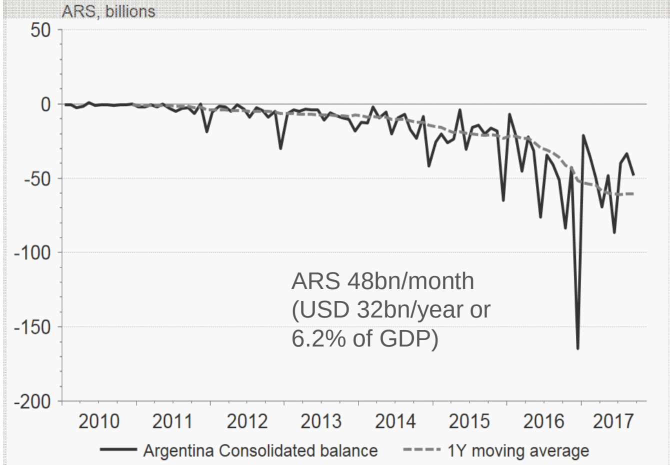
ARS, billions



Fuente: Thomson Reuters Datastream / Fathom Consulting

Argentina public deficit or surplus

ARS, billions



Fuente: Thomson Reuters Datastream / Fathom Consulting

GLOBAL EQUITY INDICES
Fundamental assessment

Index	Sales per Share 2017	Net Margin 2017	Andbank's Sales growth 2018	Andbank's Net Margin 2018	EPS 2018	EPS Growth 2018	Current PE with EPS 2017	PE estimate at Dec 18 EPS 2018	INDEX CURRENT PRICE	2018 Central Point (Fundam range)	2018 E[Perf] to Centr. Point	2017 Entry Point	2018 Exit Point
USA S&P 500	1.232	10,8%	5,3%	10,78%	140	4,9%	19,71	19,40	2.627	2.713	**3,3%**	2.442,1	2.985
Europe - Stoxx Europe 600	298	8,1%	5,2%	8,10%	25,4	5,4%	16,17	16,00	389	406	**4,3%**	377,5	434
Euro Zone - Euro Stoxx	349	7,1%	5,2%	7,08%	26,0	5,4%	15,92	15,75	392	409	**4,3%**	368,2	450
Spain IBEX 35	7.713	9,2%	4,8%	9,19%	743	4,4%	14,34	14,50	10.212	10.776	**5,5%**	9.698,8	11.854
Mexico IPC GRAL	33.496	8,1%	7,2%	8,03%	2.881	5,7%	17,33	17,00	47.229	48.983	**3,7%**	45.798,9	52.167
Brazil BOVESPA	52.724	9,9%	7,2%	10,26%	5.798	11,6%	14,27	14,15	74.140	82.008	**10,6%**	73.807,0	90.208
Japan NIKKEI 225	20.076	5,8%	5,1%	5,92%	1.248	6,6%	19,30	19,00	22.597	23.718	**5,0%**	21.345,9	26.089
China SSE Comp.	2.642	8,7%	7,1%	8,77%	248	7,5%	14,46	14,80	3.338	3.672	**10,0%**	3.305,0	4.039
China Shenzhen Comp	902	8,5%	7,3%	8,67%	84	9,3%	25,00	26,00	1.919	2.181	**13,7%**	1.963,2	2.399
India SENSEX	14.218	10,8%	9,2%	11,06%	1.717	12,1%	21,96	21,90	33.629	37.608	**11,8%**	33.847,6	41.369
MSCI EM ASIA (MXMS)	425	9,4%	6,8%	9,59%	44	8,8%	14,64	14,40	586	627	**7,0%**	564,2	690

UPWARD REVISION DOWNWARD REVISION *ANDBANK ESTIMATES*

GLOBAL EQUITY INDICES: RISK-OFF PROBABILITY
Tactical assessment

Andbank GEM Composite Indictor: We remain in an area of neutrality with a sell bias.
Our broad index has moved from -3.6 last month to -4.5 (in a -10/+10 range), settling in an area that suggests that the market is starting to be clearly overbought. The shift in our index comes after the US equity market peaked again over the last month, propped up by a synchronized worldwide acceleration and overly complacent investors. Proof of this is how macro fund betas remain neutral, option calls demand has decreased and the excess cash level crossed into bearish zone (lowest level since October 2013). We therefore conclude that: a) The market is expensive–we have received sell signals from specific areas of analysis, primarily from the sentiment side, suggesting a dangerous level of complacency, but also from our flows analysis. b) The likelihood of a sudden risk-off has increased over this last period. That said, and according to our own records, there is still room for the market to go deeper into the "overbought" area.

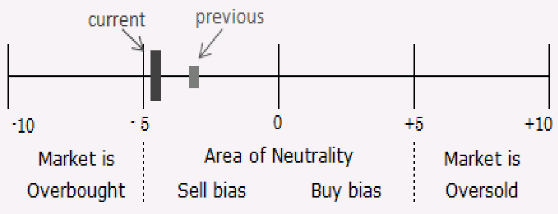
Positioning: Both speculators and macro discretionary hedge funds' rolling equity beta to the S&P500 keep adopting a defensive stance (positive reading) just after the SPX Index reached a new all-time high as 70% of firms beat their sale and earnings forecasts, reflecting the current positive economic backdrop. JP Morgan argued that professional investors prefer to move out of long positions when momentum becomes too strong to avoid buying into a peaking market.

Sentiment: Some sentiment metrics peaked over last month, indicating strong bullishness propped up by good macro data.

Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	3	1
Positive Bias	0	3
Neutral	4	3
Negative Bias	8	5
Sell signals	7	10
FINAL VALUATION	**-3,6**	**-4,5**

Andbank's Global Equity Market Composite Indicator
Assessment of the Stress Level in markets



TECHNICAL ANALISYS
Trending scenario. Supports & resistances

S&P: BULLISH
Supports 1&3 month at 2,489/2,405. Resistance 1&3 month at 2,621.

STOXX600: SIDEWAYS
Supports 1&3 month 366. Resistance 1&3 month at 398/404

IBEX: SIDEWAYS
Supports 1&3 month at 9,724/9,360. Resistance 1&3 month at 10,594/10,758

€/$: BULLISH
Supports 1&3 month at 1.1495/1,1375. Resistance 1&3 month at 1.21/1,24

Oil: BULLISH
Supports 1&3 month at 50.4/49.1. Resistance 1&3 month at 62.6

Gold: BULLISH
Supports 1&3 month at 1,260/1,194. Resistance 1&3 months at 1,357/1,391

US Treasury: BEARISH (price perspective)
Supports 1&3 month at 2.30/2.10. Resist. 1&3 months at 2.52/2.65

DEVELOPED MARKETS
Fundamental assessment

US Treasury: Floor 2.07%. Fair value 3.0%. Ceiling 3.8%
Swap spread: The swap spread rose and was locked in positive territory for the first time since August 2015 to the tune of +3bps (from -4bps last month). For this spread to normalize towards the +13bps area, with our CPI expectations (reflected in the swap rate) anchored in the 2.2% area, the 10Y UST yield would have to move towards 2.07%.

Slope: The slope of the US yield curve flattened again to 66bps (from 75bps). With the short-end normalizing towards 2.0% (today at 1.68%), to reach the 10Y average slope (of 178bps), the 10Y UST yield should move to 3.8%.

Real yield: A good entry point in the 10Y UST would be when real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a "BUY".

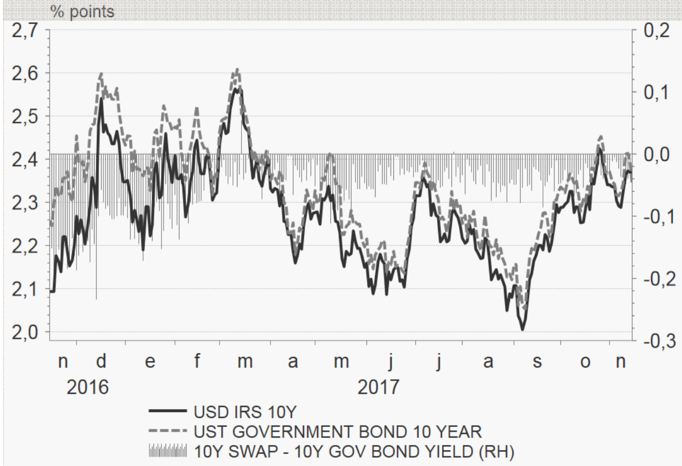
GER Bund: Floor 0.40%. Fair value 0.90%. Ceiling 1.53%
Swap spread: The swap spread upticked to 51bps (from 50bps last month). For the swap spread to normalize towards its long-term average of 35bps, with our long-term CPI expectations (reflected in the swap rate and anchored in the 1.25% area), the Bund yield would have to move towards 0.90% (entry point).

Slope: The slope of the EUR curve flattened to 109bps (from 111bps). If the short end "normalizes" in the -0.50% area (today at -0.75%), to reach the 10Y average yield curve slope (128bps), the Bund yield would have to move to 1.53%.

Real yield: A good entry point in the German Bund would be when real yield hits 1%. Given our CPI forecast of 1.2%, the Bund yield would have to rise to 2.2% to become a "BUY".

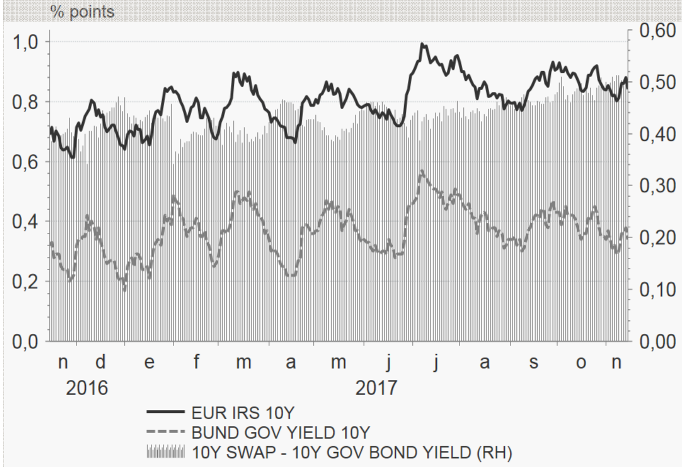
UK Guilt: Floor 1.0%. Fair value 1.40%. Ceiling 2.8%
Swap spread: The swap spread climbed to 51bps (from 50bps).

SWAP SPREAD USD



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS
Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.75%
Italian BOND BTPI: Target yield at 2.15%
Portuguese Gov bond: Target yield at 2.15%
Ireland Gov bond: Target yield at 1.10%
Greece Gov bond: Target yield at 5.40%

EMERGING MARKET BONDS
Fundamental targets

To date, our rule of thumb for EM bonds has been "buy" when the following two conditions are met: 1) the US Treasury real yield is at or above 1%; and 2) EM bond real yields are 1.5% above the UST real yield.
Assuming that the first condition is met, we should only buy those EM bonds offering a real yield equal or higher than 2.50%

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	6,53%	3,58%	2,95%	-0,75%	5,78%
	India	7,06%	3,57%	3,49%	-1,00%	6,06%
	Philippines	4,95%	3,50%	1,45%	-0,50%	4,45%
	China	3,93%	1,90%	2,03%	-0,75%	3,18%
	Malaysia	3,94%	4,29%	-0,36%	1,00%	4,94%
	Thailand	2,35%	0,80%	1,55%	-0,50%	1,85%
	Singapore	2,10%	0,37%	1,74%	-0,50%	1,60%
	South Korea	2,44%	1,77%	0,67%	0,00%	2,44%
	Taiwan	0,99%	-0,35%	1,34%	-0,50%	0,49%
EME	Turkey	12,14%	11,90%	0,24%	0,00%	12,14%
	Russian Fed	7,62%	2,70%	4,92%	-1,00%	6,62%
LATAM	Brazil	10,15%	1,83%	8,32%	-1,00%	9,15%
	Mexico	7,24%	6,41%	0,83%	0,00%	7,24%
	Colombia	6,58%	4,10%	2,48%	-0,75%	5,83%
	Peru	5,56%	2,02%	3,54%	-1,00%	4,56%

ENERGY - OIL

Fundamental price for the WTI at US$45pb. Sell above US$55. Buy below US$35

Short-term drivers

(-) Saudi Arabia's 32-year-old crown prince Mohammed bin Salman, acting as the head of the newly-established anti-corruption commission, caused a dramatic shakeup in Saudi Arabia by ordering the arrest of dozens of princes, billionaires, ministers, and former top officials in what is being billed as an anti-corruption drive. The actions have been presented as part of the crown prince's efforts modernize the economy, but the move has deeply unsettled the oil market. A change is clearly needed if the Saudi regime is to survive in a post-oil world, yet our sources warn us that by openly challenging such powerful interests within the political elite, the crown prince risks fracturing the fragile consensus that has held the Saudi state together for decades. The risk is that by alienating the key constituencies (business, political and religious elite) he could have overplayed his hand. **We believe that this factor, which has driven the price of oil up, is temporary and will tend to dissipate.**

(-) Conflict with Iran: The renewed strength of ties between Saudi Arabia and the US is escalating the antagonism between Riyadh and Tehran (due to the recent deterioration of relations between Washington and Tehran). Indeed, much of the recent jump in oil price seems to have been driven by fears of political conflict in the Middle East rather than by any improvement in sector fundamentals. In particular, Yemeni rebels (Iran's clients) launched a failed ballistic missile attack on Riyadh's international airport on Saturday (Saudi Arabia has been fighting Houthi rebels in Yemen since March 2015). Riyadh regarded the attack on Saturday as an act of war by Iran. Saudi Arabia and Iran (OPEC's first and third largest oil producers) are long-term adversaries but talk of war is an intensification of this rivalry. Indeed much of Saudi Arabia's oil export infrastructure is located on its east coast close to Iran and about 17mn bpd of oil flows through the Straits of Hormuz, which Tehran has previously threatened to block. Nevertheless, for now though, it seems that Saudi Arabia and Iran will continue to fight proxy wars rather than resorting to direct conflict. As such, **we believe that this factor, which has driven the price of oil up, is temporary and will tend to dissipate.**

(-) Hedge funds go all-in on oil and built near-record bullish positions in almost all parts of the petroleum complex. They have amassed a net bullish position in crude and refined products amounting to more than 1bn barrels, with net long position in the five major contracts surging by almost 720mn barrels, now standing just 3mn below the record of 1.02bn set in February.

(+) The FT has recently noted that the oil industry has begun whispering about the prospect for oil to trade up to $70 by the end of the year. BofA analysts said yesterday it was possible Brent could see a cyclical peak of $75 in the near future. Others have said that $70 has become a real possibility, with OPEC's members happy to reap higher short-term revenues after oil's downturn.

(+/-) OPEC production cuts: Saudi Oil Minister Khalid al-Falih said that more work is needed to bring global oil stocks down (in order to raise oil prices). He said that while there is general satisfaction among the 24 OPEC and allied countries cooperating on production cuts, the "mission is not yet complete". Officials from Russia, Saudi Arabia, Uzbekistan, and Kazakhstan said that they are ready to do more work to reduce global stocks. Similar sentiments could have been expressed by leaders from Malaysia, Ecuador, Nigeria, and Libya.

(-) More competitive US oil and gas lending will continue driving down oil prices. Reuters reported a renewed willingness to lend to US oil and gas companies. The volume of credit lines provided to E&P companies so far this year has already surpassed the full-year 2016 figure, although it is a shadow of the 2014-2015 tallies. After increasing for two straight years, spreads on reserve-based loans now average 194 bps to 294 bps over Libor. That is well below recent highs of 270-370 bps reached in Q1 17.

Long-term drivers

(-) Alternative energies picking up the baton: Producers must bear in mind that the value of their reserves is no longer dictated by the price of oil and the quantity of their reserves, but rather by the amount of time for which they can pump before alternative energies render oil obsolete. In order to delay this deadline as long as possible, it is in producers' interests to keep the oil price low as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

(-) Growing environmental problems will gradually tighten legislation and 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. Saudi Arabia has between 60 to 70 years of proven oil reserves at current output, but with growing environmental problems that will likely continue to put big pressure on the market for fossil fuels over the coming decades, Riyadh's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Saudi Arabia (and other producers) therefore has a powerful incentive to monetize as much of its reserves as soon as possible by pumping as much oil as it can (if only to fund the construction of a less oil-dependent economy).

(-) The re-entry of Iran is a game changer equivalent to a structural change in the global energy market.

(-) OPEC producers are no longer able to fix prices: Back in the 1970s or the early 2000s, the exporters' cartel agreed to cut output and the approach worked well since it was easy to defend market share as the principal competition was among oil producers (in particular between OPEC and non-OPEC producers). That is not the case now. Today's biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil will easily be offset by a quick increase in shale oil production, meaning that OPEC producers are no longer able to fix prices.

(-) Shale producers to raise output considerably at $60 a barrel: The IEA has said that an oil price of $60 would be enough for many US shale companies to restart stalled production.

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,000/oz. Sell above US$1,200

Negative drivers

Gold in real terms. In real terms, the gold price (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) up ticked to US$1,132 (from US$1,126 last month). In real terms, gold continues to trade well above its 20-year average of US$810. Given the global deflator (now at 1.1377), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$921.

Gold to Silver (Preference for Store of Value over Productive Assets): This ratio has ticked up to 75.77x (from 75.29x last month) and remains well above its 20-year average of 61.30, suggesting that gold is expensive (at least in terms of silver). For this ratio to reach its LT average, assuming that silver is well priced, then the gold price should go to US$1,042 oz.

Gold to Oil: This ratio fell to 21.87x (from 24.37x last month) still well above its 20-year average of 14.97. Considering our fundamental long-term target for oil of US$45pb (our central target), the price of gold must approach US$673 for this ratio to remain near its LT average.

Gold to the DJI: This ratio (inverted) fell to 18.28x (from 18.38x last month), still below its LT average of 20.14x. Given our NEW central point (target price) for the DJI of 23.5000, the price of gold must approach US$1,166 for this ratio to remain near its LT average.

Speculative positioning: CFTC-CEI 100oz Active Future non-commercial contracts: longs fell to 284k (from 330k). Shorts also fell (though less) to 83.8k (from 94.5k) => Thus, the net position fell to +200k during the month (from +236k), suggesting that gold is relatively expensive.

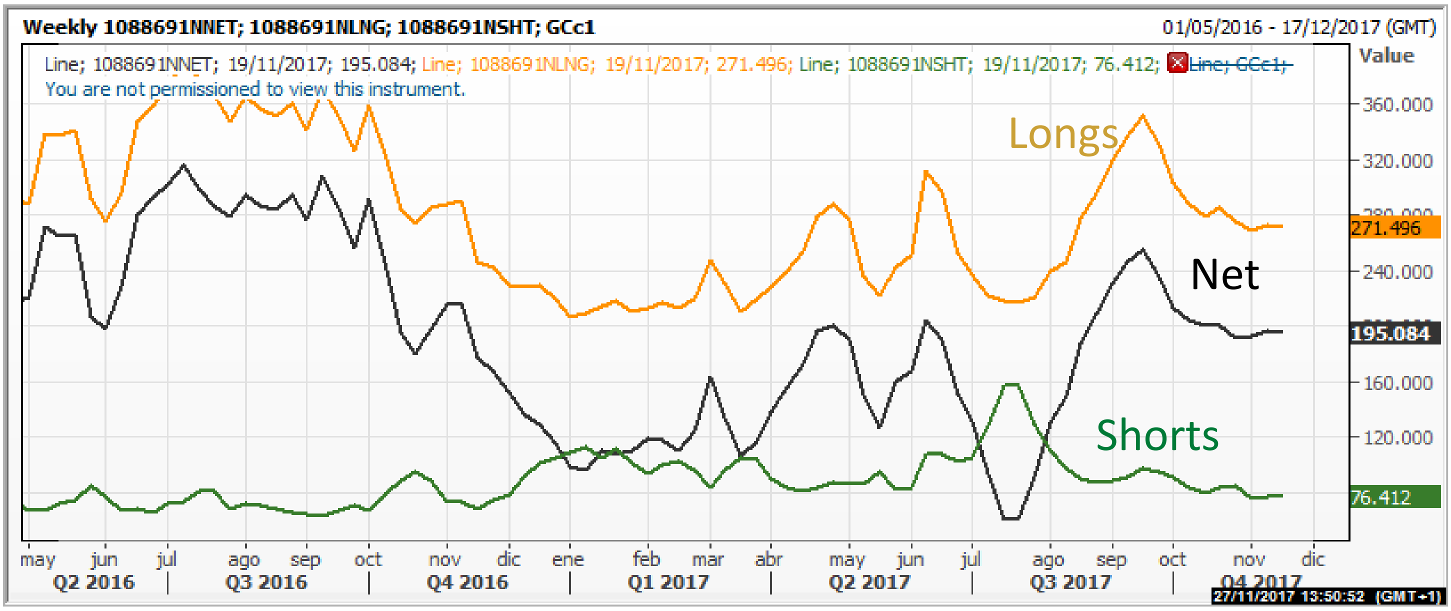
Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio fell to 0.495x (from 0.496x last month), but is still well below its LT average of 0.5873x. Given our target price (central point) for the S&P of $2,713, the price of gold must approach US$1,593 for this ratio to remain near its LT average.

Negative yields still make gold attractive. The disadvantage of gold relative to fixed-income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds, although the importance of this factor is diminishing as yields continue to rise.

Relative share of gold: The total value of gold in the world is circa US$6.9tn, a fairly small share (3.2%) of the total global cash market (212tn). The daily volume traded on the LBMA and other gold marketplaces is around US$173bn (just 0.08% of the total in the financial markets).



EXCHANGE RATES

Fundamental targets

EUR-USD: Fundamental mid-term target 1.15 (in the upper band of the target range 1.10-1.15)

Fundamental Drivers: "We have air in the sails". This is what Jean Claude Junker said in September, after the defeat of populisms in France, what fueled the feeling that the situation of poly-crisis in which Europe was installed (crisis opened on all sides: political, economic, financial, migratory , existential, etc. ...) had finally ended. Indeed, there is now greater confidence in an improved European institutional framework (ECB, EFSF, Banking Union), and admittedly, if this confidence persists it can lead the single currency to reach levels above the 1.20. However, before fixing new and higher objectives for 2018, we prefer to wait and see what happens with the elections in Italy and how the political impasse in Germany is resolved (a key issue for the immediate future of the integrating impulse). With a longer-term view, we know that the equilibrium level for the EURUSD is when it trades near the 1.05 area. Furthermore, if we also take into account the differential in productivity (1.2% yoy in the USA vs 0.9% in Europe), this makes us feel comfortable with the long held view that the EURUSD should return to levels close to parity.

Flows: Observe how the net position in USD rose sharply (from -16.3bn last month to -2.41bn on November 17), coinciding with a strong USD rally. This would demonstrate the importance, and the implications, of an abnormal positioning (measured in terms od sigmas) in the derivatives market. As of today we do not have the net position data but some of our sources (insiders) suggest that important short positions in USD have been rebuilt (which would explain the new fall of the greenback). If true, the net notional in USD Global positioning remains fairly low compared to historical standards (well below its peak of +US$28.7bn net longs seen in September 2016), and probably near a -2 sigma underweight on a three-year z-score basis, which makes the "USD Short" still the most crowded position globally. This figure suggests that USD is now oversold. Meanwhile, EUR positioning remains in a net long position of US$+12.47bn (from US$13bn last month), still far higher compared to the US$-15.9bn net shorts seen last year (see table). This EUR positioning represents a +1,8 sigma overweight on a three-year z-score basis, suggesting that the EUR is overbought compared to historical standards.

USD-JPY: Target 112.5**; EUR-JPY**: Target 129.4

Despite being cheap in REER vs the USD, several aspects suggest that JPY cannot appreciate much further: (1) with political shocks in Europe now allayed, meaning that safehaven flows into Japan are less likely now; (2) real yield is lower in JGBs, and with the 10Y JGB controlled at 0%, there is little prospect that Japanese real yields will rise; (3) the BoJ has reiterated that it intends to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unachievable in the short-term); (4) meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (5) the prospect of the Fed shrinking its balance sheet (withdrawing liquidity) makes USD more attractive (or JPY less appealing).

GBP-USD: Target 1.31; EUR-GBP: Target ~0.90

USD-CHF: Target 0.99; EUR-CHF: Target 1.14

USD-MXN: Target 18.8; EUR-MXN: Target 21.6

USD-BRL: Target 3.20; EUR-BRL: Target 3.68

USD-ARS: Target 18.0

RUB: NEUTRAL

AUD: NEUTRAL-NEGATIVE

CAD: NEGATIVE

CNY: Target 6.40

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last week in the currency (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score Z-score 3-yr
USD vs All	-2,41	3,19	28,7	-21,1	5,2	**-1,06**
USD vs G10	0,16	3,14	28,4	-17,9	6,8	**-1,00**
EM	2,58	-0,05	3,9	-0,7	1,7	**1,60**
EUR	12,47	1,98	14,5	-15,9	2,6	**1,83**
JPY	-14,99	-1,91	1,2	-15,0	-7,5	**-1,98**
GBP	-0,37	-0,48	1,7	-8,4	-3,8	**1,37**
CHF	-3,54	-0,95	0,9	-3,5	-1,3	**-2,05**
BRL	0,29	-0,21	0,8	0,0	0,4	**0,17**
MXN	1,63	0,19	3,3	-1,7	0,8	**1,40**
RUB	0,65	-0,03	0,9	-0,3	0,5	**1,05**
AUD	3,36	-0,59	6,1	-0,3	2,9	**0,95**
CAD	3,72	-0,77	6,1	-7,3	0,1	**1,61**

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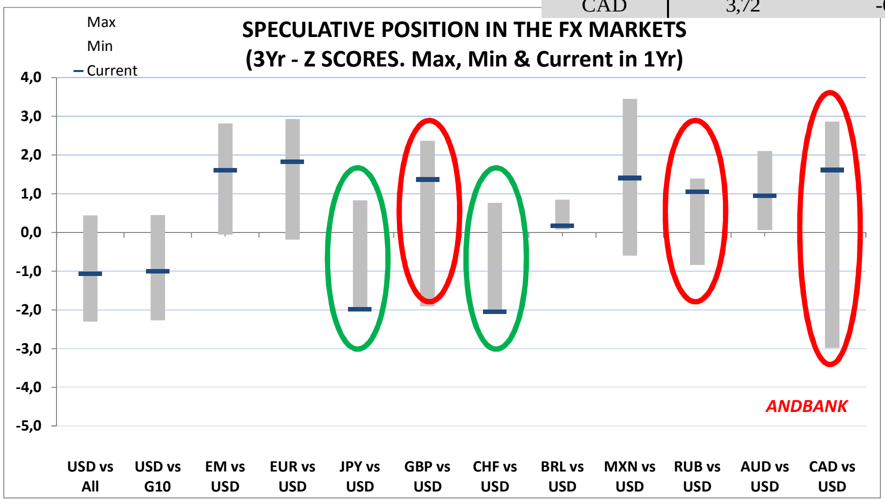

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance MTD*	*Performance YTD*	*Current Price 29/11/2017*	*Central Point (Fundam range)*	*Exp. Perf. To Central Point*
Equity	USA - S&P 500	2,0%	17,3%	2.627	2713	3,3%
	Europe - Stoxx Europe 600	-2,1%	7,1%	389	406	4,3%
	Euro Zone - Euro Stoxx	-1,9%	11,4%	392	409	4,3%
	SPAIN - IBEX 35	-3,6%	8,5%	10.220	10776	5,4%
	MEXICO - MXSE IPC	-2,9%	3,5%	47.229	48983	3,7%
	BRAZIL - BOVESPA	-0,2%	23,1%	74.140	82008	10,6%
	JAPAN - NIKKEI 225	2,7%	18,2%	22.597	23718	5,0%
	CHINA - SHANGHAI COMPOSITE	-1,6%	7,5%	3.338	3672	10,0%
	CHINA - SHENZEN COMPOSITE	-4,2%	-2,5%	1.919	2181	13,7%
	INDIA - SENSEX	1,2%	26,3%	33.637	37608	11,8%
	MSCI EM ASIA	2,5%	39,8%	586	627	7,0%
Fixed Income Core countries	US Treasury 10 year Govie	0,5%	3,1%	2,33	3,00	-2,8%
	UK 10 year Guilt	0,3%	0,5%	1,31	1,40	0,7%
	German 10 year BUND	0,1%	-1,1%	0,36	0,90	-4,0%
	Japanese 10 year Govie	0,3%	0,2%	0,02	0,00	0,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,4%	0,6%	1,45	1,75	-0,8%
	Italy - 10yr Gov bond	0,7%	1,9%	1,77	2,15	-1,1%
	Portugal - 10yr Gov bond	1,3%	17,9%	1,91	2,15	0,2%
	Ireland - 10yr Gov bond	0,2%	2,1%	0,57	1,10	-3,6%
	Greece - 10yr Gov bond	2,7%	19,4%	5,24	5,40	4,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,1%	0,9%	48,73	75	-2,2%
	Credit EUR HY-Itraxx Xover	0,1%	3,9%	232,66	300	-1,5%
	Credit USD IG - CDX IG	0,0%	2,9%	52,34	45	1,0%
	Credit USD HY - CDX HY	0,1%	6,4%	303,70	425	-0,1%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	-5,1%	-0,5%	12,26	13,50	2,3%
	Russia - 10yr Gov bond	0,5%	13,5%	7,58	6,67	14,9%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	2,6%	17,9%	6,50	5,75	12,5%
	India - 10yr Gov bond	-0,5%	1,9%	7,02	5,90	16,0%
	Philippines - 10yr Gov bond	-0,4%	2,7%	4,92	4,50	8,3%
	China - 10yr Gov bond	-0,3%	-4,5%	3,92	3,25	9,3%
	Malaysia - 10yr Gov bond	1,0%	6,0%	3,94	4,90	-3,8%
	Thailand - 10yr Gov bond	0,5%	4,7%	2,27	1,85	5,6%
	Singapore - 10yr Gov bond	0,8%	5,1%	2,10	1,57	6,4%
	South Korea - 10yr Gov bond	0,6%	-0,8%	2,39	2,50	1,5%
	Taiwan - 10yr Gov bond	0,6%	2,7%	0,98	1,00	0,8%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	1,0%	8,2%	7,23	7,75	3,1%
	Mexico - 10yr Govie (usd)	1,4%	9,4%	3,55	4,80	-6,5%
	Brazil - 10yr Govie (Loc)	-1,5%	21,0%	10,12	9,57	14,5%
	Brazil - 10yr Govie (usd)	0,8%	14,2%	4,69	5,10	1,4%
	Argentina - 10yr Govie (usd)	1,8%	17,1%	5,44	5,85	2,2%
Commodities	CRY	2,0%	-0,7%	191,2	180,00	-5,9%
	Oil (WTI)	6,6%	7,5%	57,8	50,00	-13,4%
	GOLD	1,6%	12,5%	1.295,9	1.100	-15,1%
Fx	EURUSD (price of 1 EUR)	1,9%	12,9%	1,187	1,15	-3,1%
	GBPUSD (price of 1 GBP)	77,2%	65,5%	1,34	1,31	-2,1%
	EURGBP (price of 1 EUR)	0,3%	3,8%	0,88	0,88	-0,9%
	USDCHF (price of 1 USD)	-1,1%	-3,4%	0,98	0,99	0,5%
	EURCHF (price of 1 EUR)	0,7%	8,9%	1,17	1,14	-2,6%
	USDJPY (price of 1 USD)	-1,6%	-4,7%	111,41	112,50	1,0%
	EURJPY (price of 1 EUR)	0,3%	7,4%	132,22	129,38	-2,2%
	USDMXN (price of 1 USD)	-3,7%	-10,7%	18,51	18,80	1,6%
	EURMXN (price of 1 EUR)	-2,1%	0,8%	21,96	21,62	-1,6%
	USDBRL (price of 1 USD)	-2,3%	-1,2%	3,21	3,20	-0,4%
	EURBRL (price of 1 EUR)	-0,5%	11,5%	3,81	3,68	-3,5%
	USDARS (price of 1 USD)	-2,0%	9,4%	17,35	20,00	15,3%
	CNY (price of 1 USD)	-0,7%	-5,0%	6,60	6,40	-3,0%

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

STRATEGIC ASSET ALLOCATION & RISK TOLERANCE

Monthly asset & currency allocation proposal

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Money Market	**15,0**	**23,7**	**10,0**	**16,7**	**5,0**	**10,2**	**5,0**	**3,8**
Fixed Income Short-Term	**25,0**	**32,5**	**15,0**	**20,6**	**5,0**	**8,3**	**0,0**	**1,9**
Fixed Income (L.T) OECD	**30,0**	**18,0**	**20,0**	**12,0**	**15,0**	**9,0**	**5,0**	**3,0**
US Gov & Municipals & Agencies		8,1		5,4		4,1		1,4
EU Gov & Municipals & Agencies		2,7		1,8		1,4		0,5
European Peripheral Risk		7,2		4,8		3,6		1,2
Credit (OCDE)	**20,0**	**15,0**	**20,0**	**15,0**	**15,0**	**11,3**	**5,0**	**3,8**
Investment Grade USD		6,0		6,0		4,5		1,5
High Yield Grade USD		3,8		3,8		2,8		0,9
Investment Grade EUR		3,0		3,0		2,3		0,8
High Yield Grade EUR		2,3		2,3		1,7		0,6
Fixed Income Emerging Markets	**5,0**	**5,8**	**7,5**	**8,6**	**10,0**	**11,5**	**15,0**	**17,3**
Latam Sovereign		1,4		2,2		2,9		4,3
Latam Credit		1,2		1,7		2,3		3,5
Asia Sovereign		1,7		2,6		3,5		5,2
Asia Credit		1,4		2,2		2,9		4,3
Equity OECD	**5,0**	**5,0**	**20,0**	**20,0**	**32,5**	**32,5**	**50,0**	**50,0**
US Equity		1,5		6,0		9,8		15,0
European Equity		2,5		10,0		16,3		25,0
Japan Equity		1,0		4,0		6,5		10,0
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,5**	**10,0**	**11,0**	**10,0**	**11,0**
Asian Equity		0,0		3,9		7,7		7,7
Latam Equity		0,0		1,7		3,3		3,3
Commodities	**0,0**	**0,0**	**2,5**	**1,6**	**5,0**	**3,3**	**5,0**	**3,3**
Energy		0,0		0,2		0,5		0,5
Minerals & Metals		0,0		0,4		0,8		0,8
Precious		0,0		0,7		1,3		1,3
Agriculture		0,0		0,3		0,7		0,7
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**3,0**	**5,0**	**6,0**
REITs		0,0		0,0		0,6		1,2
Alt.Energy (wind, solar, etc)		0,0		0,0		0,6		1,2
Market Neutral		0,0		0,0		1,4		2,7
Volatility		0,0		0,0		0,5		0,9

Currency Exposure (European investor perspective)								
EUR		94,0		89,3		84,0		78,3
USD		6,0		10,8		16,0		21,8

The strategic and tactical asset allocation are investment strategies that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's risk tolerance, investment horizon, and our own projected performance for each asset class. This recommended asset allocation table has been prepared by Andbank's Asset Allocation Committee (AAC), comprising managers from the portfolio management departments in each of the jurisdictions in which we operate.

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