

DAILY WIRE

MONDAY, 02 OCTOBER 2017; 09:10 CET

1/11

Equity markets

	Last	Δ1d	YTD
MSCI World	2000.6	0.4%	14.2%
S&P 500	2519.4	0.4%	12.5%
Dow Jones	22405.1	0.1%	13.4%
Nasdaq	6496.0	0.7%	20.7%
Euro Stoxx 50	3594.9	0.9%	9.2%
Dax 30	12828.9	1.0%	11.7%
FTSE 100	7372.8	0.7%	3.2%
CAC 40	5329.8	0.7%	9.6%
SMI	9157.5	0.5%	11.4%
SPI	10447.3	0.5%	16.5%
Nikkei 225	20400.8	0.2%	6.7%
Kospi	2394.5	0.9%	18.2%
Hang Seng	27554.3	0.5%	25.2%
Shanghai Comp	3348.9	0.3%	7.9%
Russia RTS	1135.0	-0.2%	-1.5%
India Sensex 30	31283.7	0.0%	17.5%
Brazil Bovespa	74293.5	1.0%	23.4%

Currencies

	Spot	+3mE	+12mE
EUR/USD	1.18	1.14	1.15
USD/JPY	112.9	114.0	115.0
EUR/GBP	0.88	0.89	0.92
GBP/USD	1.34	1.28	1.25
EUR/CHF	1.14	1.10	1.11
USD/CHF	0.97	0.96	0.97
EUR/SEK	9.60	9.40	9.50
EUR/NOK	9.39	9.27	9.60
USD/CAD	1.25	1.24	1.26
AUD/USD	0.78	0.76	0.74
NZD/USD	0.72	0.69	0.68
USD/BRL	3.16	3.40	3.75
USD/CNY	6.65	6.80	6.90
USD/INR	65.28	67.00	68.00

Commodities

	Last	Δ1d	+12mE
Gold	1280.2	-0.6%	1200.0
Silver	16.7	-1.2%	16.5
Platinum	912.5	-1.3%	975.0
Palladium	936.9	0.4%	800.0
Aluminium	2080.0	-1.3%	1750.0
Copper	6432.3	-0.6%	5600.0
Iron Ore (62% Fe)	62.1	-1.3%	50.0
Crude oil (Brent)	47.5	-0.6%	47.5
Natural gas (US)	3.01	-0.3%	2.80
Corn (cts/bushel)	355.3	0.8%	400
Wheat	4.48	-1.5%	475

Source: Bloomberg Finance L.P., Julius Baer
Data as of: 02/10/2017; 09:09 CET; E=estimate

Signatory of:



MARKET UPDATE

Major US indices all made new highs on Friday, with the S&P up 4.0% in the third quarter, marking eight up quarters in a row. The Federal Reserve's (Fed) favourite measure of inflation, the core personal consumption expenditure index, rose a modest 1.3% year-on-year in August, but the 10-year Treasury yield increased anyway, as Fed Chair Janet Yellen said last week the Fed should not wait until inflation reaches the 2% target, before continuing to raise rates. The media reports that President Donald Trump and Treasury Secretary Steven Mnuchin interviewed Fed Governor Jerome Powell and former Fed Governor Kevin Warsh last week, as potential replacements for Janet Yellen, when her term expires in February. Ms. Yellen is also a candidate, but the betting websites put Mr. Warsh in the lead. A vocal critic of quantitative easing, he is in favour of bank de-regulation (which she is not). In Spain, violence surrounding the Catalonia referendum will make it difficult for the European Union to side with Spain, but if the markets could survive Brexit, they can probably survive this, too.

Mark Shirreff Matthews

TOP STORY

The week ahead: Macro blast before earnings kick-off

Everything is set for the quarterly ritual: the beginning of the quarter is about the most important macro numbers – global purchasing managers' indices today and the US employment report on Friday. This takes centre stage ahead of the earnings season scheduled for next week.

Investors will focus on global business surveys today and US job numbers on Friday before US financials will kick off the Q3 earnings season next week.

Christian Gattiker, CFA, CAIA

Economic events today

09:45	IT PMI Manufacturing	Sep	56.9	56.3
10:00	EZ PMI Manufacturing	Sep	58.2	58.2
10:30	UK PMI Manufacturing	Sep	56.2	56.9
11:00	EZ Unemployment Rate	Aug	9.0%	9.1%
16:00	US ISM Manufacturing	Sep	57.5	58.8

ISM = Institute for Supply Management Index

Latest equity updates

Ipsen: Buy

Price/Target:
EUR112.5/127

- Ipsen is evolving from a European primary care player into a global specialty care business.
- Its key product, Somatuline, is the only therapy approved for non-functioning neuroendocrine tumours.

Santander: Buy

Price/Target: EUR5.9/7

- Given the attractive conditions of the Popular acquisition and the solid EPS recovery outlook, thanks to its superior business diversification into broadly attractive markets, we recommend to subscribe to the rights offering.

Latest publications

Emerging market hard-currency bonds: Focus on high-yielders

- Tight credit spreads but improving fundamentals call for a focus on high-yielding emerging market bonds in hard currency.
- High interest carry should suffice to deliver decent returns.

NEXT GENERATION



Genomics 2.0

- Faster and cheaper gene sequencing enabled gene testing, gene-based therapeutics and gene editing to flourish.
- We favour life science tools and first-mover biotech's adopting genomics based tools.

<http://www.juliusbaer.com/nextgeneration>

Please see the corresponding Research publications for further information.

Central bank policy rate

	Spot	+3mE	+12mE
US Fed Funds	1.25	1.50	1.75
ECB Main Refi. Rate	0.00	0.00	0.10
BoJ Overnight	-0.10	-0.10	-0.10
UK Base Rate	0.25	0.25	0.25
SNB 3m CHF-Libor	-0.75	-0.75	-0.75

10y government bond yields

	Spot	+3mE	+12mE
US 10y T-Notes	2.35	2.35	2.15
Euro 10y Bund	0.48	0.45	0.55
Japan 10y Gov't	0.08	0.05	0.05
UK 10y Gilts	1.37	1.20	1.00
Swiss Conf. 10y	-0.02	-0.05	0.05

Growth (real, % year-on-year)

	2016	2017E	2018E
World	3.1	3.5	3.6
United States	1.5	2.3	2.5
Eurozone	1.8	2.2	1.8
Germany	1.9	1.9	1.6
United Kingdom	1.8	1.4	0.7
Switzerland	1.4	0.8	1.7
Japan	1.0	1.5	1.3
China	6.7	6.6	6.3
India	7.9	7.0	7.5
Brazil	-3.6	0.5	1.5

Inflation (% year-on-year)

	2016	2017E	2018E
World	2.8	3.0	2.9
US	1.3	1.9	1.8
Eurozone	0.2	1.5	1.3
Germany	0.4	1.7	2.2
UK	0.7	2.5	2.0
Switzerland	-0.4	0.5	0.9
Japan	-0.1	0.4	0.2
China	2.1	1.7	1.6
India	4.5	4.0	5.0
Brazil	8.7	4.0	4.5

Source: Bloomberg Finance L.P., Julius Baer
Data as of: 02/10/2017; 08:14 CET; E=estimate

NEXT GENERATION VIDEO

Click image to access video stream
www.juliusbaer.com/futuretalk

EQUITIES**Sony Corporation (Buy, Price/Target: JPY4,186/4,900): Buy the dip**

Sony Corporation's (Sony) shares have been weak since hitting their peak in late July. Consensus has been concerned that its key games business, which has been driving positive sentiment and growth, could register flat numbers or even declines for the second half (H2) of 2017. This is due to the Playstation 4 sales cycle entering its late stage. However, we take a more positive slant in view of its recurrent subscription-based revenue model with a larger installed base of gamers and fully digitised games (download only) that reduce distribution costs. Sony's early Virtual Reality foray also helps in engaging a whole new segment of games.

Sony's shares have done well but we see the recent dip in its share price as an opportunity to buy. We see good technical support around JPY 3,970.

Kelly Chia

Stock of the week**Salesforce.com (Buy, Price/Target: USD93.4 /107.0): Gaining traction with enterprises**

Salesforce.com is the clear market leader and the only fully cloud-based software provider in the customer relationship management (CRM) market. It sees continued growth potential due to the need of enterprises to interact with customers through different channels (i.e. online and social media). Additionally, salesforce.com has grown into e-commerce (Demandware), marketing, human capital and the IT automation segment through various acquisitions. Salesforce.com has now reached a global scale with annual revenues of USD10bn and serves roughly 60% of the Fortune 500 companies with its CRM solution. We expect the company to sustain the strong revenue growth rate of >20% by gaining share in less penetrated markets such as the financial and public sectors and by leveraging its cost base through cross-selling the (acquired) products within its large client base. The company enjoys defensive and stable cash flows supported by a large installed customer base, order backlog and recurring revenues. We do not consider the high multiple of 5.2x price/sales 2019E as worrying since it is a reflection of the high growth rate.

Salesforce.com has reached a size where we expect scale effects to kick in heavily, such as cross-selling opportunities and leveraging the cost base. We therefore consider the current growth rate of >20% as sustainable and would buy the stock.

Michael Studer, PhD

FIXED INCOME**Catalonia: A strong yes for independence from Spain**

According to the Catalan government, 90% of the voters voted in favour of independence from Spain (Hold/Opportunistic), even though the participation rate stood slightly above 40% and the vote was marred by violent episodes leaving more than 700 injured. The Catalan regional government may declare its independence as early as this week. Spain's Prime Minister Rajoy has stated that the referendum is illegal; however, the outcome represents a challenge that cannot be ignored with political parties meeting to discuss the steps ahead. Standard & Poor's affirmed Spain's BBB+ rating with a positive outlook while stating that, if unchecked, regional tensions could weigh on business confidence and weaken Spain's growth prospectus. Market reaction has so far been muted with the spread of Spanish government bonds above German Bunds showing no reaction this morning.

Catalonia is unlikely to be recognised by the international community; however, tensions between the region and the central government are likely to remain. We maintain our Hold/Opportunistic rating for Spain.

Eirini Tsekeridou

Thailand moves towards adopting international standards for its banking system

Last week the Bank of Thailand designated the nation's five largest banks as domestic systemically important banks (D-SIBs), and is set to raise their capital reserve requirements to align with the tougher Basel III international standards. The five D-SIBs – Bangkok Bank (BBK, Buy/Opportunistic), Kasikornbank (KBank, Hold/Opportunistic), Krung Thai Bank, Siam Commercial Bank and Bank of Ayudhya (all not covered) – make up 70.2% of Thailand's (Hold/Opportunistic) banking system's assets, with total assets worth THB12.5trn. The Thai D-SIBs will need to hold additional core capital of 0.5% of risk-weighted assets from January 2019 and 1.0% from January 2020. Under Basel III, the minimum common equity tier 1 (CET1) ratio requirement will rise to 8% by 2020 from the current 7%, and the capital adequacy ratio (CAR) to 12% from 11%. While these figures are significantly higher than Thailand's current requirements (CET1: 5.75%, CAR: 9.75%), the central bank said that the Thai banking system's capitalisation remains strong. The average CET1 ratio and CAR ratio of the five D-SIBs stood at 14.25% and 16.93% respectively as of June 2017. This sentiment was echoed by Fitch, which commented that Thailand's large banks are well-placed for the new capital requirements, with capital ratios comfortably above the 2020 requirements and strong internal capital generation. Fitch added that the next step towards Basel III compliance would be implementing the net stable funding ratio (NSFR), which is targeted for 2018. Given that Thai commercial banks have stable funding and robust liquidity in general, with an average liquidity coverage ratio of 170% as of July 2017, the introduction of NSFR should not be an issue. The indicative z-spread of BBK's USD bonds due September 2022 and KBank's USD bonds due April 2022 have tightened to all-time lows of 81.0 basis points (bps) and 83.3bps respectively as of 29 September 2017.

We agree that Thailand's D-SIBs are well positioned to comply with the more stringent capital requirements. While BBK and KBank continued to see asset quality pressure in H1 2017, their capitalisation and liquidity profiles remain sound, and signs of improvement in the economy have emerged, while rising bond yields will help to support net interest margins.

Magdalene Teo

COMMODITIES

Oil: Price bounce loses momentum

The oil price bounce loses momentum and prices are receding from the highs at almost USD 60 per barrel reached on Wednesday. Tensions remain high in the aftermath of the Kurdish independence vote but the feared escalation has not yet materialised. The situation remains in flux but does not seem to boil over more violently than on previous occasions. We still believe that the odds of a meaningful and lasting oil supply disruption are low. The market's focus is shifting. The latest futures markets positioning data confirms the prevalent bullish mood. Namely for Brent futures, hedge fund positioning has become excessively biased on the long side, which warrants profit-taking risks going forward. Meanwhile, the US rig count shows increased drilling activity after weeks of stalling. While this is unlikely the consequence of the latest oil price surge, it nevertheless fits the expectations that the shale business once again could swiftly respond to higher prices. We see oil's surge as a temporary swing driven by sentiment and geopolitical concerns. Fundamentally, the market is entering a soft patch as the summer driving season wraps up and refineries slow crude oil purchase for maintenance reasons. Today's elevated price levels incentivise US exports in the short term and additional shale production in the medium term. We stick to our cautious view on oil and short position in Brent.

Last week's oil price bounce loses momentum. We stick to our cautious view and see prices falling back into the past months' trading range. Geopolitics is today's dominant bullish wild card but eventually profit-taking risks loom larger, not least as the market enters a seasonal soft patch.

Norbert Rucker

Technical Analysis: Medium-term trends

	Last	Trend	Sup	Res	5d%
S&P500	2519	↗	2380	2544	0.7
Nasdaq100	5979	↗	5480	6200	0.8
DAX 30	12829	↗	11850	12950	1.9
SMI	9157	↗	8750	9350	0.2
EuroStoxx50	3595	↗	3250	3700	1.5
Nikkei 225	20374	↗	18200	20400	-0.1
T-Note Future *	125.06	↗	122.30	132.80	-0.8
Bund Future *	161.01	→	158.50	168.80	-0.1
Dollar Index	93.41	↗	90.80	95.50	0.8
EUR/USD	1.1767	↘	1.1650	1.2150	-0.7
USD/CHF	0.9709	↗	0.9380	0.9800	-0.4
EUR/CHF	1.1424	→	1.1100	1.1550	0.2
USD/JPY	112.85	↗	106.00	115.50	-1.0
WTI crude oil *	51.54	↘	43.00	52.40	-1.3
Gold	1275	↘	1200	1380	-2.8

Equity Recommendations

	Last	Entry	Stop	Since	PnL
Nasdaq100	5979	4077	3760	16 Feb	46.6%
Apple **	154.12	98.84	130.00	18 Feb	57.7%
MSCI US Utilities	1967.7	1956.0	1800	31 May	0.6%
NYSE Biotech	4203.3	3920.0	3600	14 Jul	7.2%

Fixed income, currencies and commodities

	Last	Entry	Stop	Since	PnL
BRL/CHF CRY (long)	243.5	240.4	220.0	28 Jul	1.3%
Silver (Short)	16.60	16.46	19.00	9 Jan	-0.8%
GBP/JPY (long)	150.8	143.8	135.0	2 Dec	4.9%
USD / CHF (Long)	0.9709	0.9973	0.9280	5 Nov	-2.6%
Barclays 7-10y Govt tr	455	451	435	13 Apr	1.0%
Brent oil Dec 17 (Short)	56.58	53.13	62	27 Apr	-6.1%
EUR/USD (Short)	1.1767	1.1758	1.2020	27 Sep	-0.1%

Source: Bloomberg Finance L.P., Julius Baer

Data as of: 02/10/2017; 08:15 CET

* continued contract

** Dividends included in the PnL

**TECHNICAL ANALYSIS
(SHORT-TERM INVESTMENT RECOMMENDATIONS)**

Legal note: Technical analysis may be inconsistent with and reach different conclusions to fundamental analysis.

USD/CAD remain bullish

The USD/CAD tested a major support at 1.20 and started to rebound. Currently we have a medium-term momentum bottom. The next resistance levels are at 1.27 and 1.31. Last week we recommended going long USD/CAD.

The USD/CAD has seen a medium-term momentum bottom, the next resistance levels are at 1.27 and 1.31.

Ali Sahin

USD/CAD - Weekly bar chart



Source: Bloomberg Finance L.P., Julius Baer

Please see information on abbreviations/charts at the end of the document.

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IMPRINT

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APPENDIX

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The analysts hereby certify that views about the companies discussed in this report accurately reflect their personal view about the companies and securities. They further certify that no part of their compensation was, is, or will be directly or indirectly linked to the specific recommendations or views in this report.

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Price information

Unless otherwise stated, the price information reflects the closing price of the previous trading day.

Disclosure

No specific disclosures

Equity research

Frequently used abbreviations

CAGR	Compound annual growth rate	EPS	Earnings per share	P/B	Price-to-book value
DCF	Discounted cash flow	EV	Enterprise value	P/E	Price-to-earnings ratio
EBIT	Earnings before interest and taxes	FCF	Free cash flow	PEG	P/E divided by year-on-year EPS growth
EBITDA	Earnings before interest, taxes, depreciation and amortisation	MV	Market value	ROE	Return on equity
Consensus rating	Consensus rating indicates the analysts' opinions on the security. It shows the number of analysts covering the security and the breakdown between Buy, Hold and Sell ratings.	Consensus target	The consensus target is the average price to which analysts expect the security to rise.	FY	Fiscal year

Equity rating allocation as of 02/10/2017

Buy	30.1%	Hold	66.5%	Reduce	3.4%
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Equity recommendation history

Please refer to the following link for more information on the current and 12-month historical investment recommendations made in relation to equities covered by Julius Baer Research.

www.juliusbaer.com/recommendation-history

Julius Baer does not provide investment banking services to the companies covered by Research.

Rating system for global equity research (stock rating)

Buy	Expected to outperform the regional industry group by at least 5% in the coming 9-12 months, unless otherwise stated.
Hold	Expected to perform in line ($\pm 5\%$) with the regional industry group in the coming 9-12 months, unless otherwise stated.
Reduce	Expected to underperform the regional industry group by at least 5% in the coming 9-12 months, unless otherwise stated.

Frequency of equity rating updates

An update on Buy-rated equities will be provided on a quarterly basis. An update for Hold and Reduce-rated equities will be provided semi-annually or on an ad-hoc basis.

Risk rating system for global equity research (stock rating)

The risk rating (High/Medium/Low) is a measure of a stock's expected volatility and risk of losses in case of negative news flow. This non-quantitative rating is based on criteria such as historical volatility, industry, earnings risk, valuation and balance sheet strength.

Strategy research

Countries, sectors and investment styles are rated "overweight", "neutral" or "underweight". These ratings are based on our expectations for relative performance versus regional and global benchmark indices.

Overweight	Expected to outperform regional or global benchmark indices in the coming 9-12 months, unless otherwise stated.
Neutral	Expected to perform in line with regional or global benchmark indices in the coming 9-12 months, unless otherwise stated.
Underweight	Expected to underperform regional or global benchmark indices in the coming 9-12 months, unless otherwise stated.

Equity investments are divided into three different risk segments. Risk here is defined as the historical five-year volatility based on monthly returns in CHF. Based on the data of all segments considered (developed markets, emerging markets, global sectors, investment styles) the following distinction is made:

Conservative	Investments whose historical volatility is in the bottom quartile of the universe described above.
Medium	Investments whose historical volatility is in the middle two quartiles of the universe described above.
Opportunistic	Investments whose historical volatility is in the top quartile of the universe described above.

Fixed income research**Frequently used abbreviations**

FCF	Free cash flow	CFI	Cash flow from investing	EBIT	Earnings before interest and taxes
CFO	Cash flow from operation	FFO	Funds from operation	EBITDA	Earnings before interest, taxes, depreciation and amortisation
CFF	Cash flow from financing	RCF	Retained cash flow	EM	Emerging Markets

Issuer rating allocation as of 02/10/2017

Buy	50.2%	Hold	47.2%	Sell	2.7%
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Issuer recommendation history

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www.juliusbaer.com/recommendation-history

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Rating system for fixed income research

Buy	Within its risk category, the issuer is highly recommended due to its financial and business condition (strong balance sheet, income statement, cash flow and good position in the industry). Debt instruments of the issuer are regarded as an attractive investment from a risk/return perspective.
Hold	Maintain position based on stable credit fundamentals and/or average expected return characteristics within peer group.
Sell	The rating is changed to Sell, depending on a significant deterioration in the fundamental data of the issuer in relation to the industry peers. The investment is no longer justified from a risk/return perspective for the relevant category.

Frequency of issuer rating updates

An update on each issuer will be provided semi-annually, on a rating change or on an ad-hoc basis.

Fixed income market segment ratings

Attractive	Segments that are expected to yield a return that is above the ten-year historical average.
Neutral	Segments that are expected to yield a return that is in line with the ten-year historical average.
Unattractive	Segments that are expected to yield a return that is below the ten-year historical average.

Risk categories for fixed income research

Conservative	Supranational issuers, top-rated sovereign issuers and bodies that are directly and fully guaranteed by these institutions. These issuers are most likely to preserve their top rating throughout the business cycle.
Quality	Sovereigns and corporate issuers that are very likely to service and repay debt within a five-year credit scenario. They are likely to preserve their investment-grade rating throughout a normal business cycle.
Opportunistic	Issuers that are quite likely to service and repay debt within the five-year credit scenario. Such issuers have an attractive risk/return profile in the current credit scenario but are subject to rating downgrade risk and, thus, might be exchanged periodically.
Speculative	Sub-investment-grade issuers in Europe and the USA as well as local issuers in emerging markets. Issuers are likely to service and repay debt in the current credit scenario. Investors must note that these issuers are subject to a higher downgrade and default frequency and that an active management of these positions is crucial.

Credit rating definition

Credit ratings used in our publications follow the definitions and systematic of Moody's (www.moody.com).

	Moody's	Standard & Poor's	Fitch Ratings	Credit rating definition
Investment-grade	Aaa	AAA	AAA	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
	Aa1	AA+	AA+	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
	Baa2	BBB	BBB	
Baa3	BBB-	BBB-		
Non-investment-grade	Ba1	BB+	BB+	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Obligations rated B are considered speculative and are subject to high credit risk.
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC+	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
	Caa2	CCC	CCC	
	Caa3	CCC-	CCC-	
	Ca	CC	CC	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
		C	C	
C	D	D	Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.	

Technical analysis

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Frequently used abbreviations

C	Closing price	H	High price	L	Low price
ST	Short-term (2-8 weeks)	MT	Medium-term (8-26 weeks)	LT	Long-term (> 26 weeks)
MAV	Moving average				
Bollinger-band	The middle Bollinger band is a 20 day simple moving average, the higher and lower bands are calculated as a 20-day simple moving average plus or minus two standard deviations on a 20-day period.				
Momentum	Momentum is derived from different rate of change calculations based on the underlying instrument.				

RSI	Relative strength index is a leading momentum indicator of prices, showing the strength of a stock by monitoring changes in closing prices in a 9-day period.
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Rating system for global technical analysis (absolute)

Buy	Expected to advance by at least 10% in the coming 3-12 months, unless otherwise stated.
Hold	Expected to perform in line ($\pm 5\%$) in the coming 3-12 months, unless otherwise stated.
Reduce	Expected to decline by at least 10% in the coming 3-12 months, unless otherwise stated.

Rating system for global technical analysis (relative)

Overweight	Expected to outperform its benchmark by at least 5% in the coming 3-12 months, unless otherwise stated.
Neutral	Expected to perform in line ($\pm 5\%$) against its benchmark in the coming 3-12 months, unless otherwise stated.
Underweight	Expected to underperform its benchmark by at least 5% in the coming 3-12 months, unless otherwise stated.

For the history of Technical Analysis equity recommendations over the previous 12 months please view the document at:

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