



Financial
Immunities

Market Insights

June 2018



- The nine-year economic recovery continues as global economy is expected to grow at 3.9% for 2018. The US economy is the engine behind the robust growth as the rest of the world struggle to keep up
- The differences between monetary policies of the US and the rest of the world are getting sharper as the Fed continues to tighten .This could further increase volatility in global financial markets
- Political turmoil from Turkey to Italy and Spain is adding to the burden investors face as they grapple with the end of easy money conditions
- After trade war fears eased due to postponement of tariffs, Trump's revival of a plan to slap tariffs on \$50 billion of Chinese imports has cast the talks between two country's into turmoil
- Higher borrowing costs in the US and USD appreciation expose weaknesses in emerging markets, as big chunk of their debt is denominated in USD
- Oil retreated last month after Saudi Arabia and Russia said they are discussing reviving output



- US real GDP growth in Q1 was revised down to 2.2% from 2.3%. This deceleration in GDP growth was mainly due to weak consumer spending and residential investment. However, it was a strong quarter for business, with investment perhaps getting a boost from this year's corporate tax cut
- Inflation is stabilizing as the core PCE deflator, the fed preferred gauge of inflation, rose 0.2% in April and 1.8% YOY. The Federal Open Market Committee minutes of its last meeting emphasized that a little overshooting is still consistent with their policy, hence the fed in no hurry to accelerate the pace of rate hikes
- The labor market is strong as Nonfarm payroll rose 223K in May while the unemployment rate moves down to a new expansion low of 3.8%. Average hourly earnings was up 0.3% and 2.7% YOY. It seems like available slack in the labor force is disappearing and in turn raising the potential of wage inflation
- The Dollar Index has advanced more than 4 percent through April and May, on track for the best two-month run since November 2016
- Dollar funding costs eased a little bit as rising demand for short-term debt has been fueled by inflation concerns that promoted investors to ETF and money market funds



Financial
Immunities

Core Economic Indicator

USA

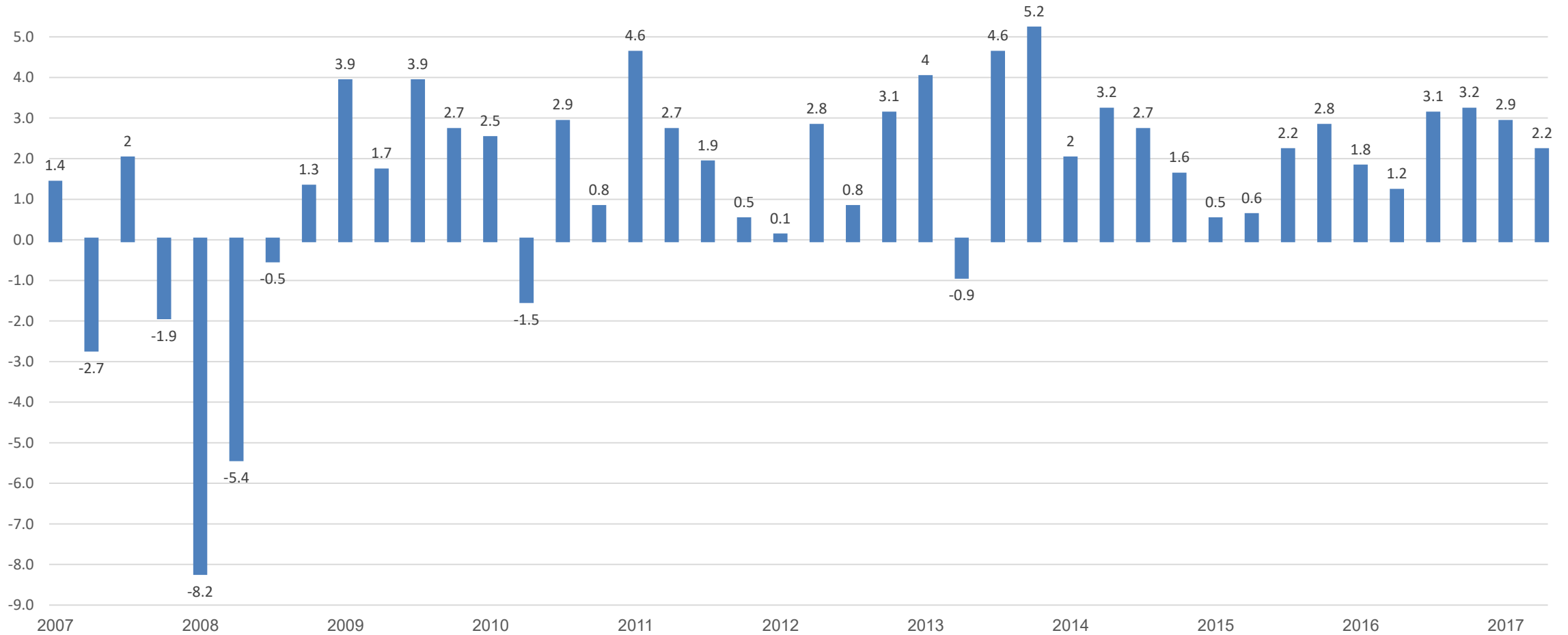
Economic Indicator	Latest Figure	Reference Period
Growth Rate	2.2%	Q1-2018
Unemployment Rate	3.8%	May-2018
Inflation Rate (Core PCE, YoY)	1.8%	April-2018
FED Funds Target Range	1.5%-1.75%	June-2018
10 Year Treasury Yield to Maturity	2.9%	June-2018
Ratio of Current Account Balance to GDP	-2.36%	Q4-2017
Ratio of Public Debt to GDP	103.74%	October-2017



Financial
Immunities

Economic Growth

GDP (Annualized)

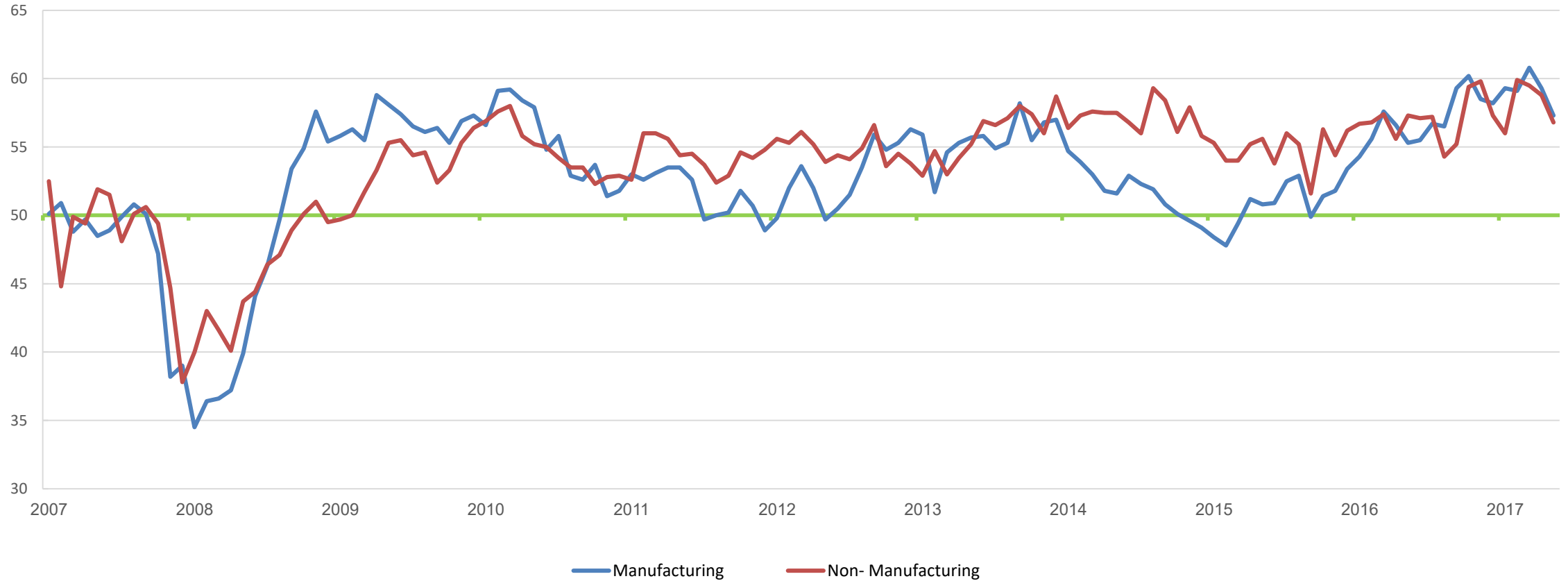




Financial
Immunities

Economic Sentiment

Manufacturing and Non-Manufacturing PMI

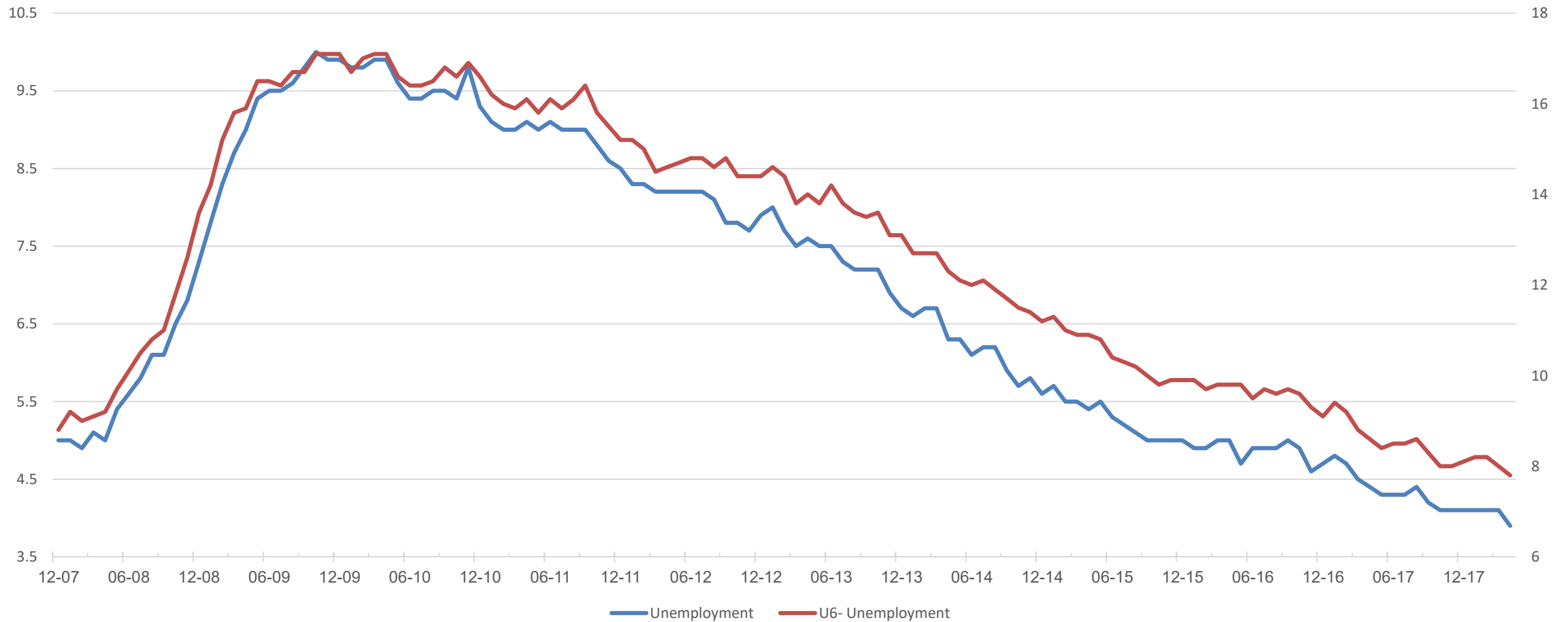




Financial
Immunities

Labor Market

Unemployment Rate (Left) and Under Unemployment Rate (Right)

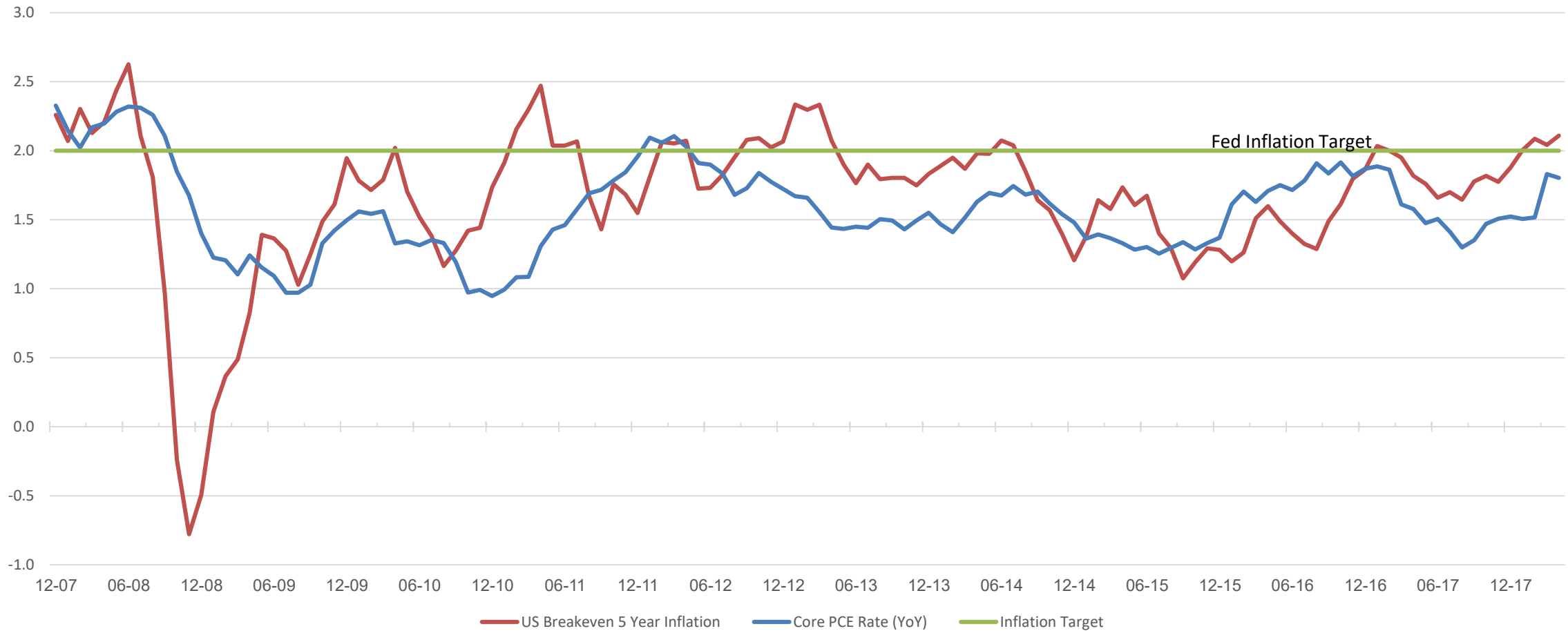




Financial Immunities

Inflation

Core PCE (YoY) and 5Y Inflation Forecast





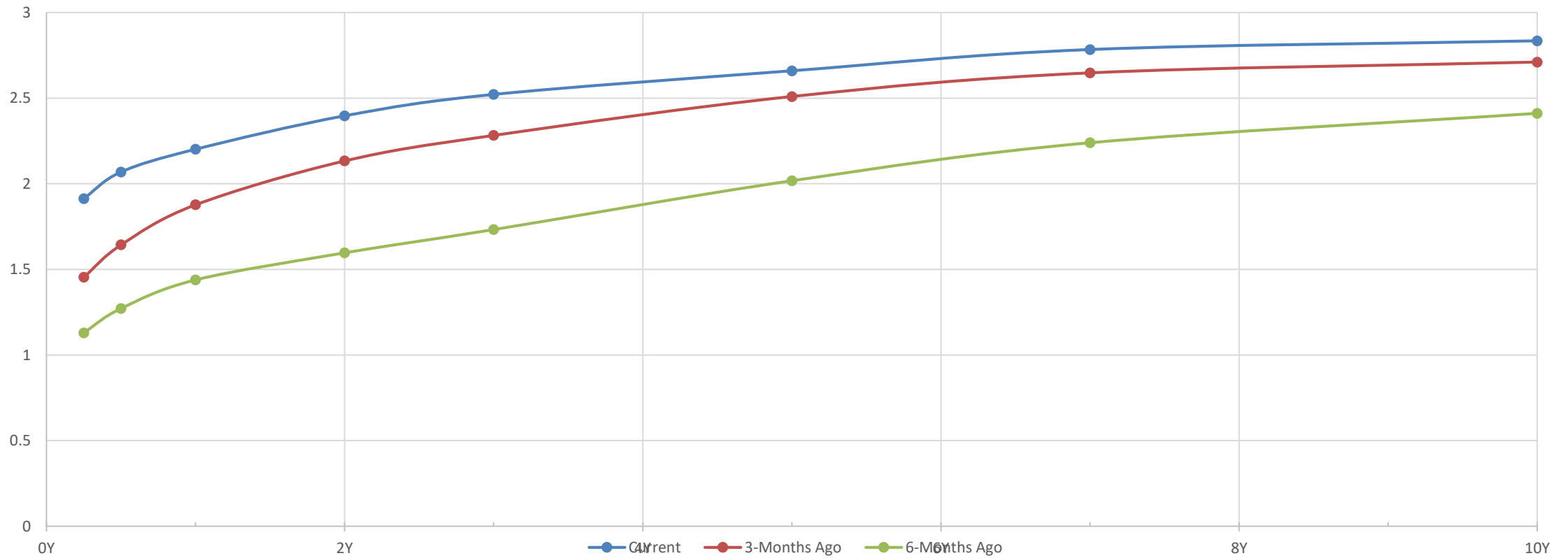
Financial
Immunities

10YR Treasury Yield





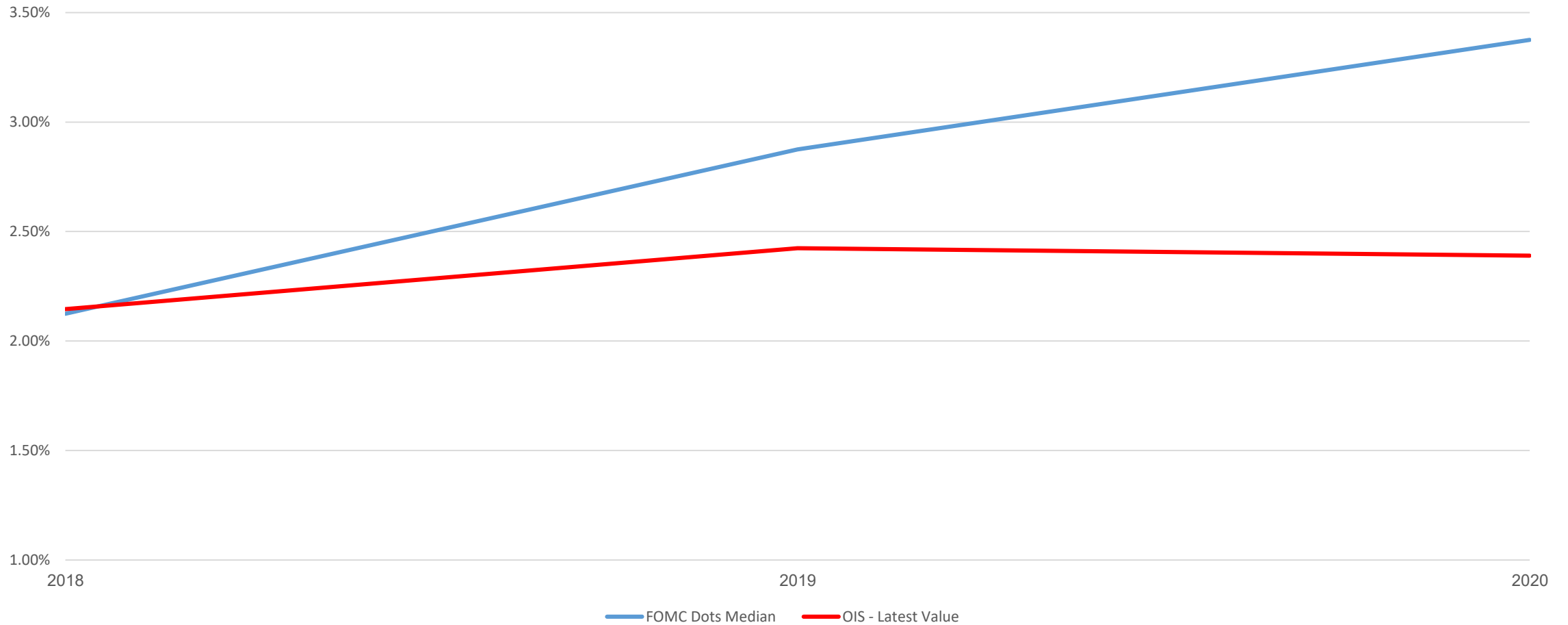
US Treasury Yield Curve





Financial
Immunities

Fed Funds Projection





Financial
Immunities

Probability of a 4th FED Funds Hike in 2018.





Financial
Immunities

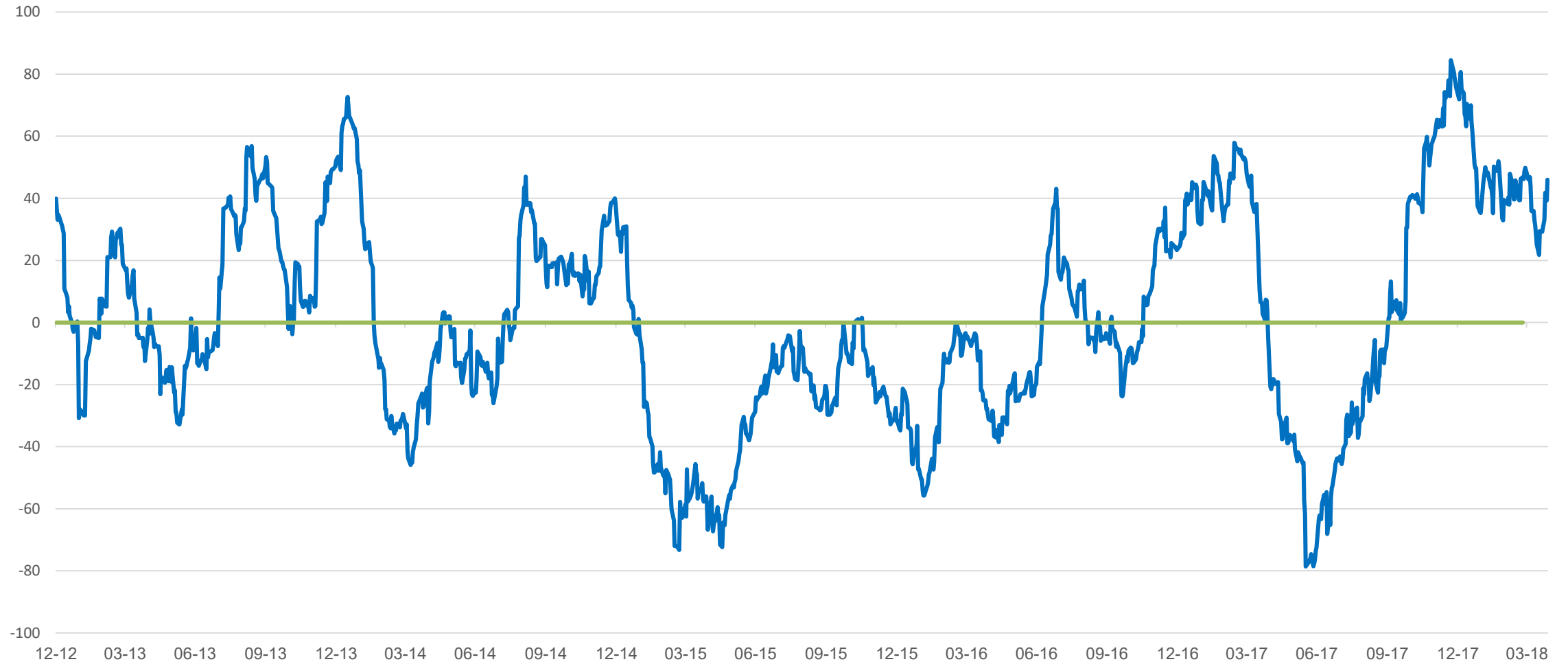
US Dollar Index (DXY)





Financial
Immunities

Citi Economic Surprise





- Economic growth in Europe lost further momentum in the past month. Hopes that the first quarter cooling in GDP would prove short-lived are looking increasingly optimistic
- The Eurozone labor market continues to tighten as unemployment rate fell to 8.5%. Although, there are Signs of some pick-up in wage growth further advances will probably be needed for wages growth to pick up significantly
- Euro-area inflation hit the fastest pace in more than a year at 1.9% YOY. The reading was 0.7% above April reading and much stronger than expected. The core measure rose to 1.1%, also better than anticipated
- Political uncertainty in Italy and Spain revives memories of the debt crisis and sent financial markets into turmoil. The change at the top of the euro region's third and fourth-biggest economies calmed the markets, although the new government in Italy threatens to further challenge the EU on budget rules and immigration
- The central bank is likely to remain quite cautious in its updated economic forecasts at the next policy meeting scheduled June 14. The inflation report may increase the chances of ending the asset purchase program in September but it certainly does not guarantee it



Financial
Immunities

Core Economic Indicator

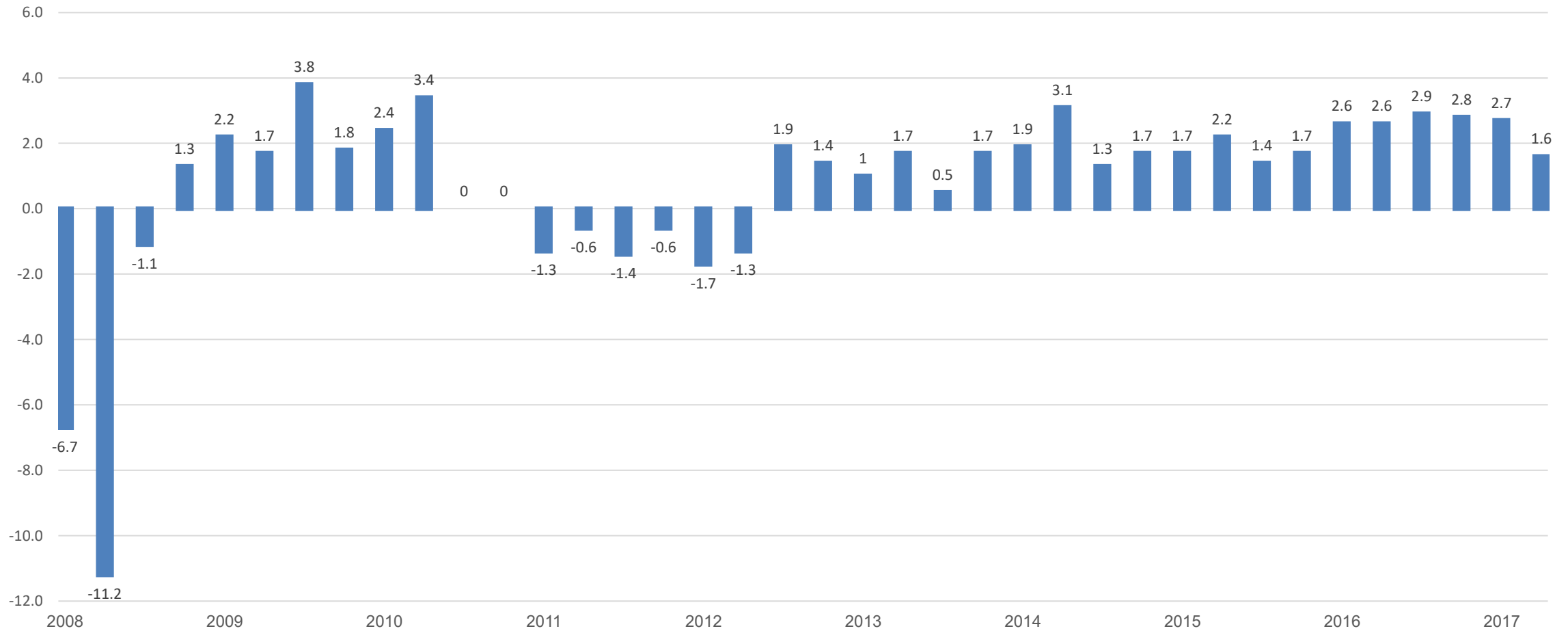
Eurozone

Economic Indicator	Latest Figure	Reference Period
Growth Rate (YoY)	1.6%	Q1-2018
Unemployment Rate	8.5%	April-2018
Inflation Rate (Core, YoY)	1.1%	May-2018
Central Bank deposit rate	0.00%	April-2018
10 Year Government Bond Yield (Germany)	0.38%	June-2018
Ratio of Surplus in Current Account to GDP	3.51%	Q4-2017
Ratio of Public Debt to GDP	86.7%	Q4-2017



Financial
Immunities

Growth (QoQ)

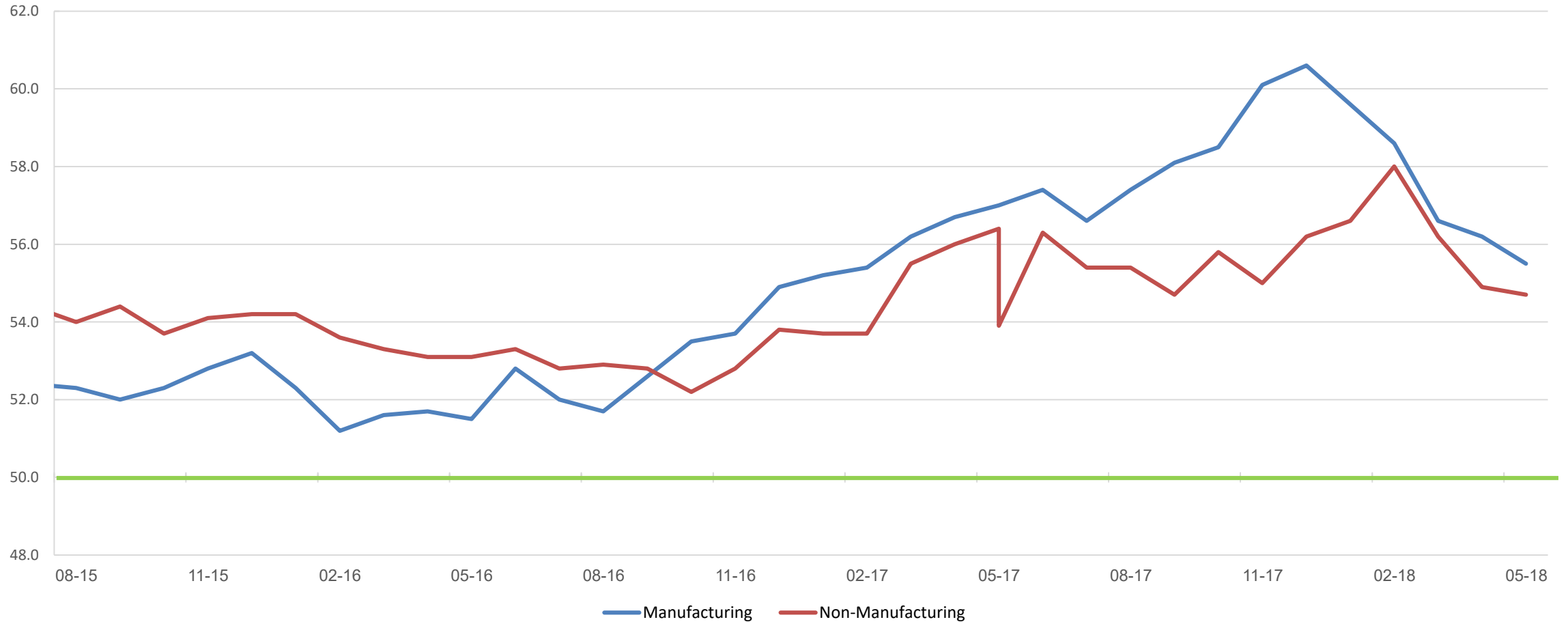




Financial
Immunities

Economic Sentiment

Manufacturing and Non-Manufacturing PMI

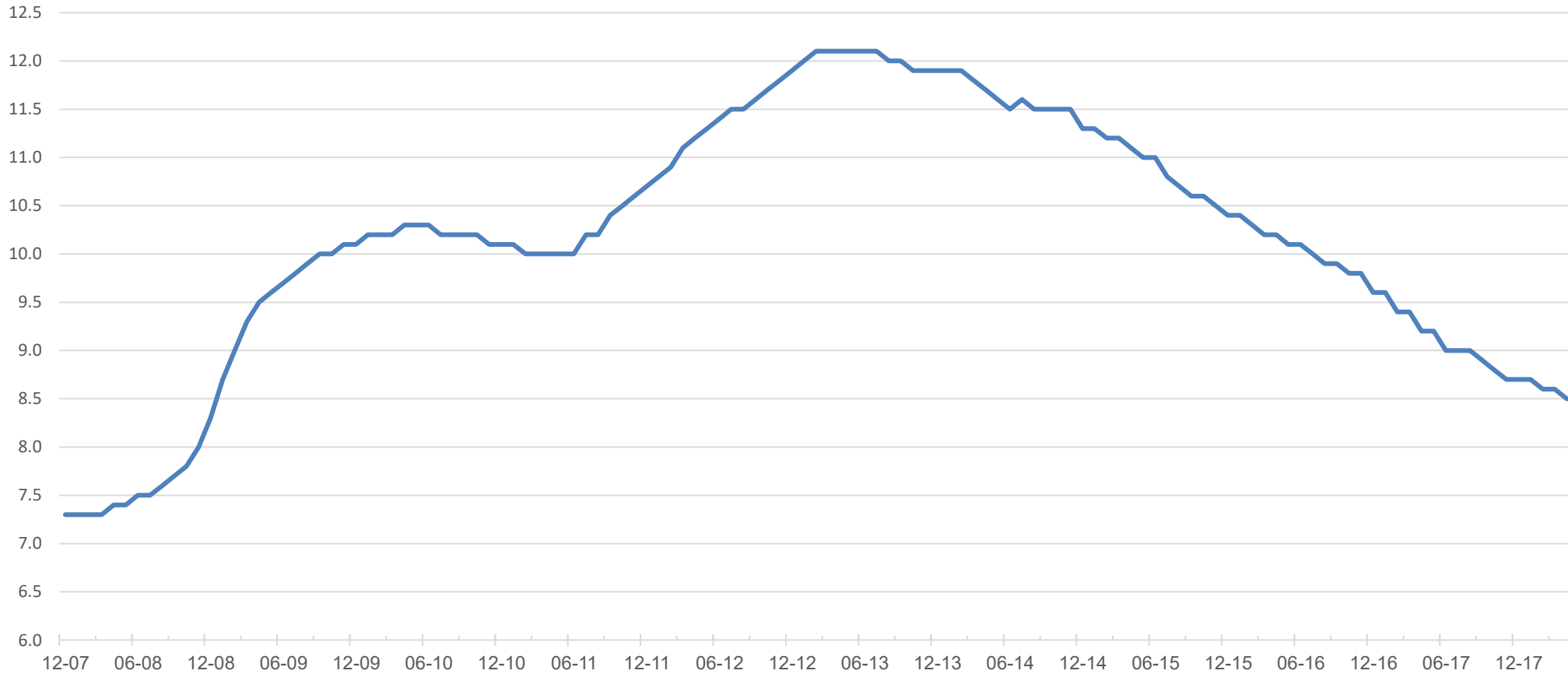




Financial
Immunities

Labor Market

Unemployment Rate

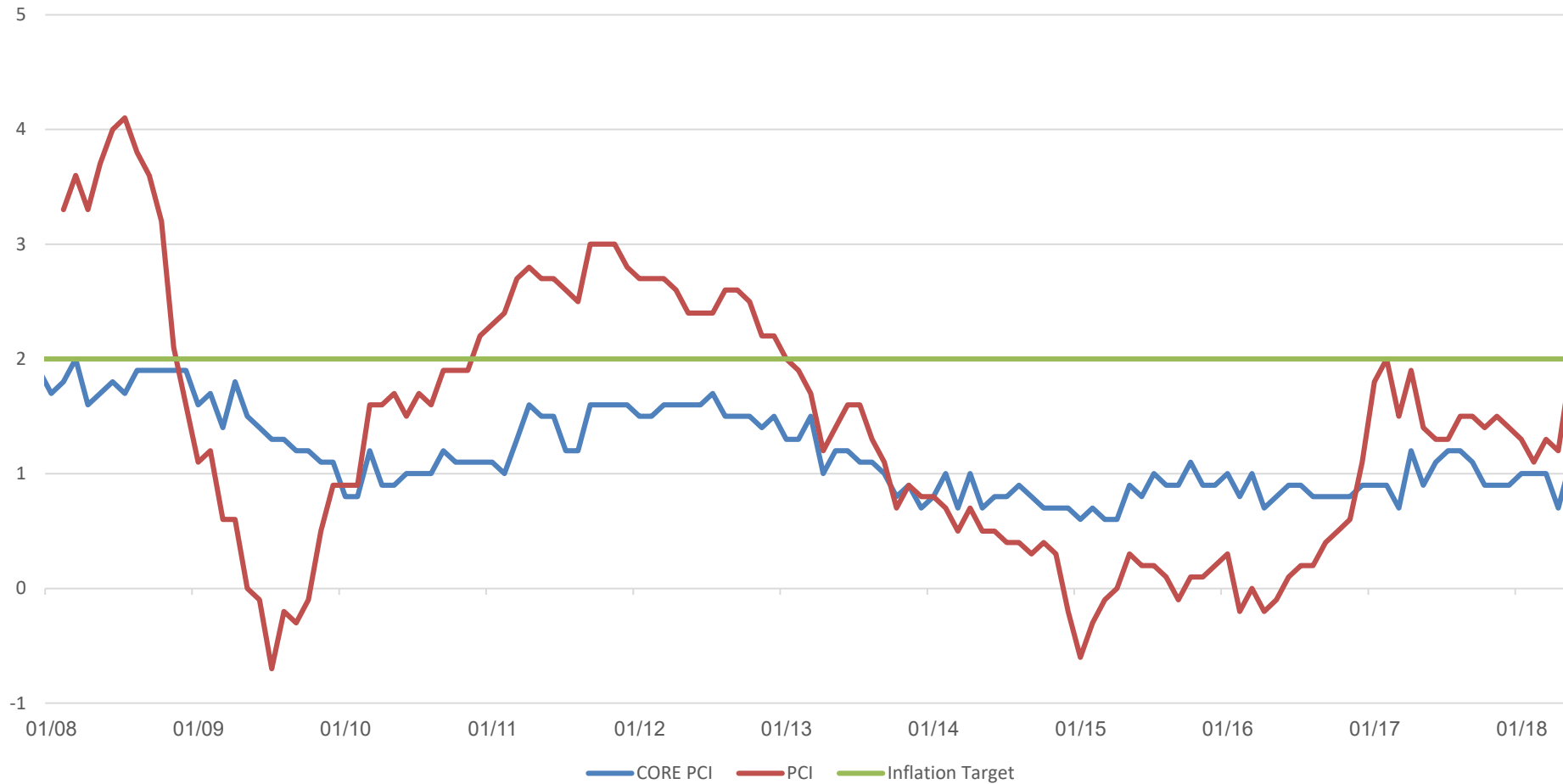




Financial
Immunities

Inflation

CPI and Core CPI (YoY)

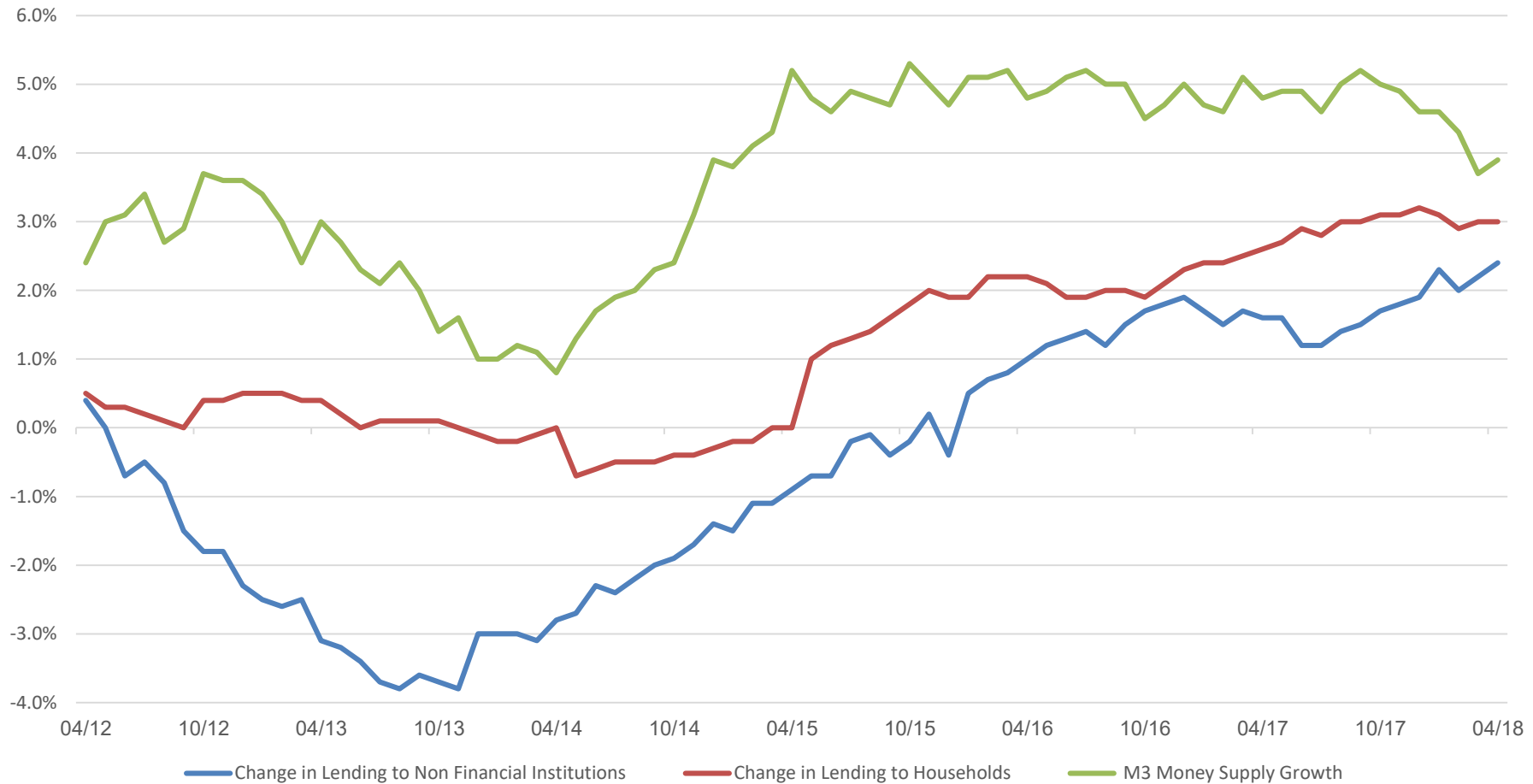




Financial
Immunities

Money Supply and Credit

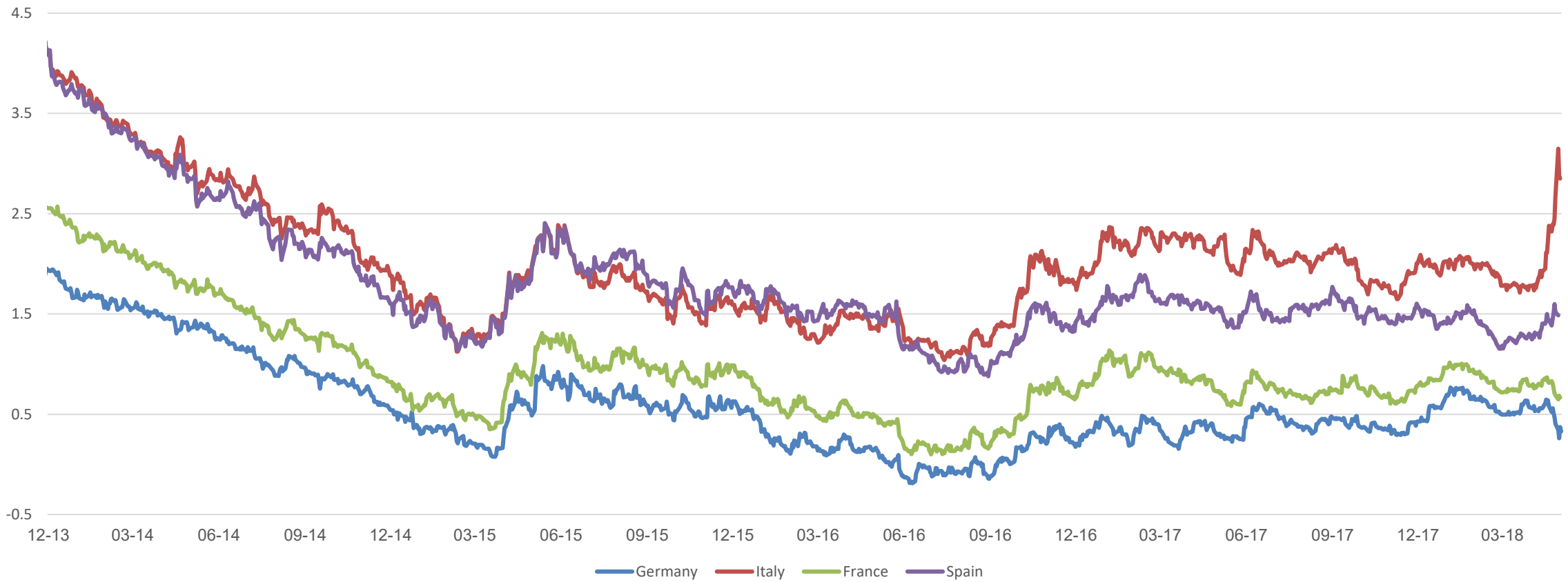
Growth in Money Supply, Loans to Real Sector





Financial
Immunities

10YR Government Bond Yield





Financial
Immunities

Exchange Rate

○ Euro Index (Right) EURUSD (Left) ○





Financial
Immunities

Citi Economic Surprise





Financial
Immunities

Israel

- The economy continues to grow at a rate slightly higher than 4%
- The unemployment rate is at 3.9%, reflecting a slight increase for the first time since last September
- The inflation rate continues to rise, supported by increasing commodity prices and wages, but it is still below the target
- The Monetary Committee decided to leave the interest rate unchanged at 0.1% and it is expected to remain unchanged at least until the beginning of 2019
- The stagnation in housing market continues as house prices fell by 2.7% on the last 6 months
- During the last month, interest rate differential between the USD and ILS continued to widen to 2.7% (close to 1,000 pips)
- The divergence between local and US monetary policy is expected to deepen. This will further extend the interest rates differential and make ILS financial assets less attractive



Financial
Immunities

Core Economic Indicator

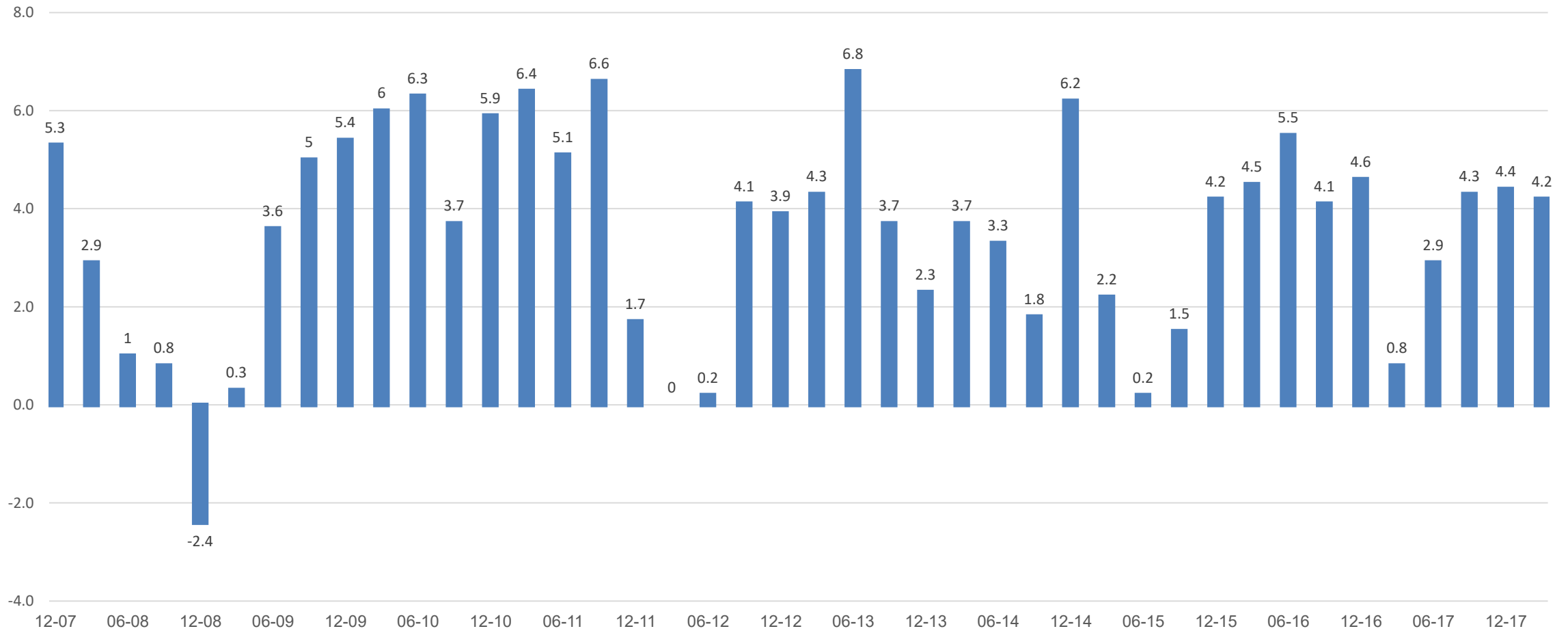
Israel

Economic Indicator	Latest Figure	Reference Period
Growth Rate	4.2%	Q1-2018
Unemployment Rate	3.9%	April-2018
Inflation Rate (YoY)	0.4%	April-2018
Central Bank Interest Rate	0.1%	June-2018
10 Year Government Bond Yield	1.84%	June-2018
Ratio of Surplus in Current Account to GDP	2.94%	Q4-2017
Ratio of Public Debt to GDP	59.5%	Q4-2017



Financial
Immunities

Economic Growth (Annualized)





Financial
Immunities

Labor Market

Unemployment Rate





Financial
Immunities

Inflation

CPI (YoY)





Financial
Immunities

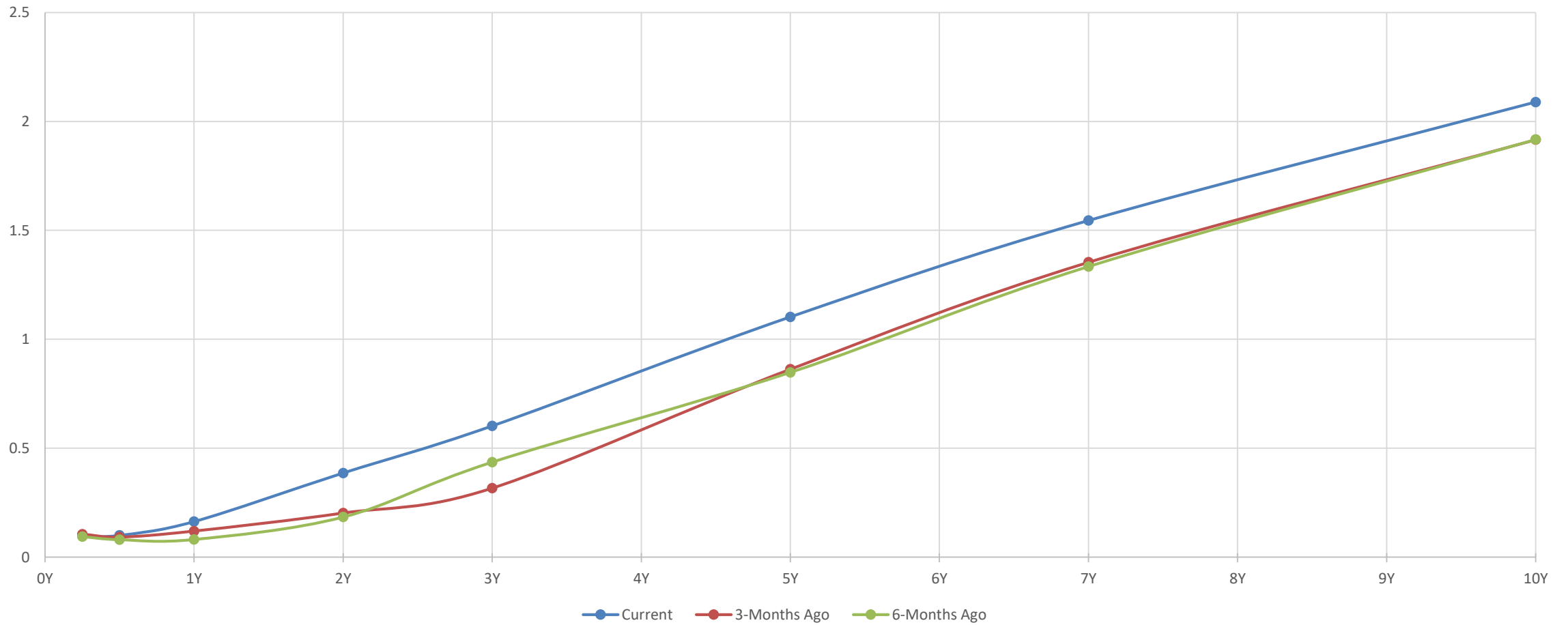
10YR Government Bond Yield





Financial
Immunities

Government Bond Yield Curve

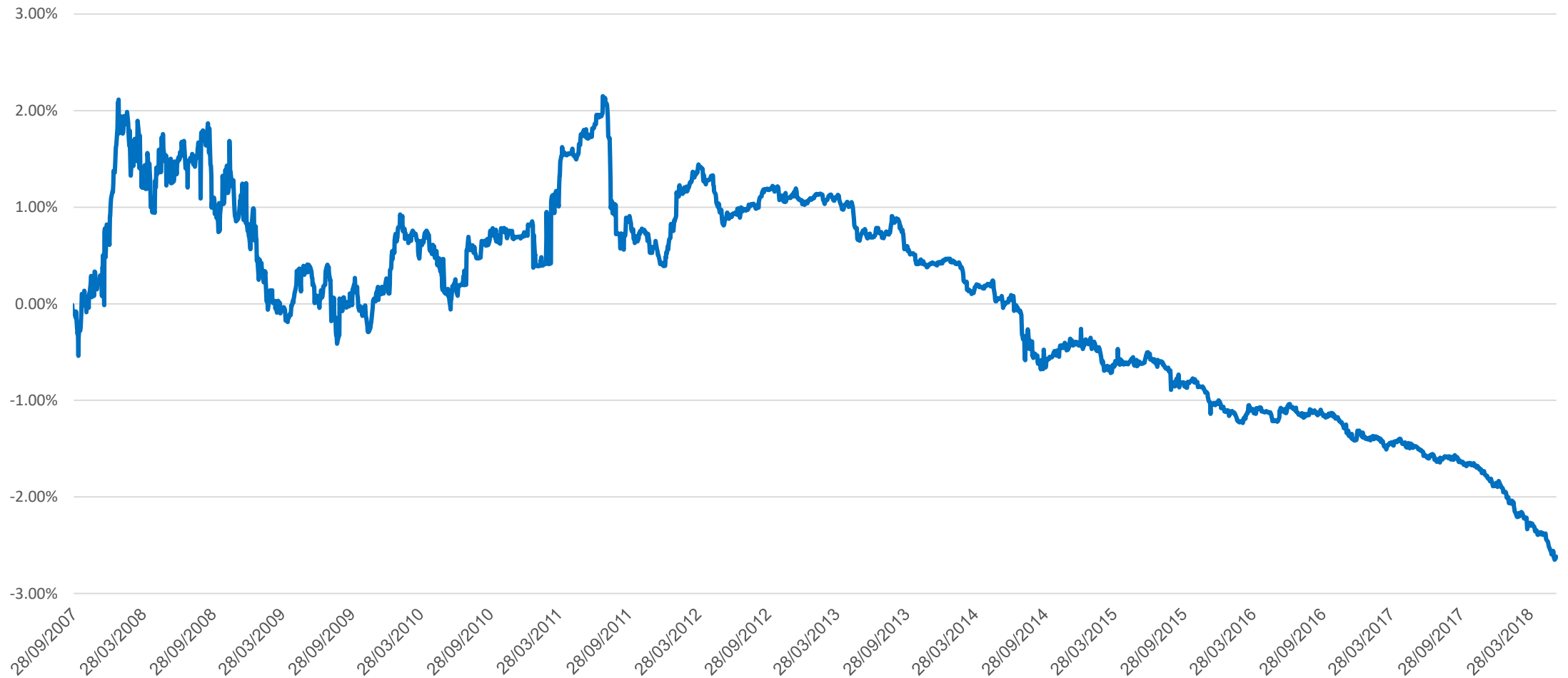




Financial
Immunities

Hedging Costs

USDILS 1YR Forward Premium

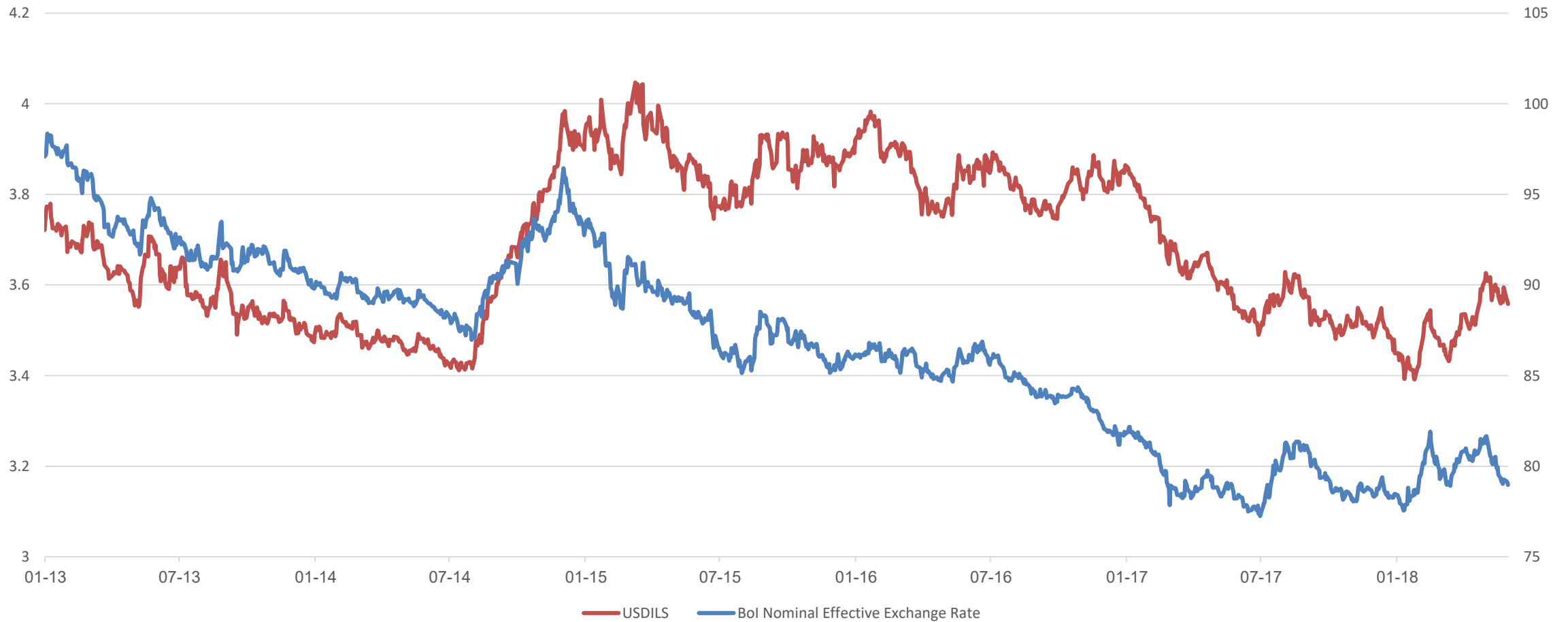




Financial
Immunities

Exchange Rate

USDILS (Left) BOI Nominal Effective Rate (Right)





Financial
Immunities

CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE