



Financial
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Market Insights

February 2019



- Great concerns over global growth due to trade-war uncertainty, “no deal” Brexit possibility, the slowdown in China and the prospect of monetary policies which erode businesses, investors and consumer sentiment
- The IMF downgraded its forecast for the world growth for the second time in three months to 3.5%, the lowest in 3 years. The main reasons for the cut were the weak demand across Europe and the turmoil in financial markets
- Global economy is not positioned well for normalization in monetary policy as debt level doubled from 2007 and credit rating deteriorated
- The time frame to reach a trade deal between China and the US is until March 1st. China’s attempt to lure the US officials by offering to eliminate the trade deficit in 6 years will fall short of solving the dispute because it doesn’t solve issues like intellectual property theft and control on new technologies
- Worse than expected figures in China (the slowest growth since 2009) as uncertainty about the trade-war takes a heavy toll and increases the pressure to achieve a trade deal
- Financial markets are experiencing a sharp correction since last Christmas as investors assume that policy makers will hold their restrictive stance. The high level of uncertainty lying ahead casts a shadow on its ability to continue



- The US economy indicators are mixed: on the one hand, job market continue to tighten and manufacturing gains remain healthy. On the other hand, the housing market is still weak and consumer and investors sentiment erode. The mixed picture is a signal of moderation for the economy facing slowing global growth, uncertainty regarding the trade war and waning effects of the fiscal stimulus
- We are in the tipping point in the balance of world power as the US is becoming a net oil exporter due to soaring US production, driven by the extraction of oil from shale
- The partial federal government shutdown ended temporarily after 35 days. Uncertainty about the ability of lawmakers to reach a permanent deal until February 15. The cost of the shutdown varies between 0.25% to 0.5% of GDP
- Labor market conditions in January were extremely tight. The economy added 304K payrolls and wages rose 3.1% last year. People are pouring back into the work force, hence the unemployment rate rose to 4%
- The FOMC voted unanimously to maintain the target range at 2.25%-2.50%; “In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments appropriate”. In a separate statement, the FED declared its intention to keep ample supply of reserve and adjust its normalization in light of economic and financial development



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Core Economic Indicator

USA

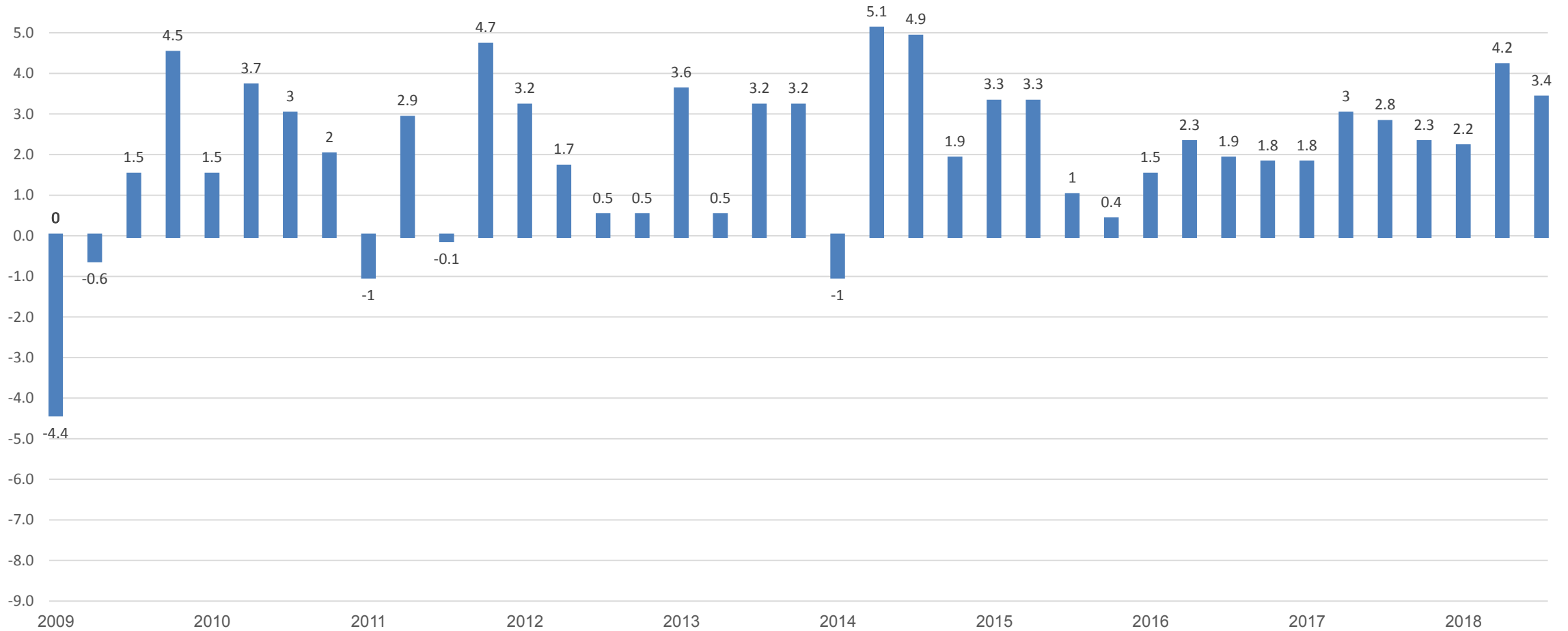
Economic Indicator	Latest Figure	Reference Period
Growth Rate (YoY)	3.4%	Q3-2018
Unemployment Rate	4%	Jan-2019
Inflation Rate (Core, YoY)	1.9%	Nov-2018
Fed Funds Target Range	2.25%-2.50%	Fab-2019
10 Year Treasury	2.68%	Feb-2019
Ratio of Surplus in Current Account to GDP	-2.25%	Q3-2018
Ratio of Public Debt to GDP	104.14%	July-2018



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Economic Growth

GDP (Annualized)

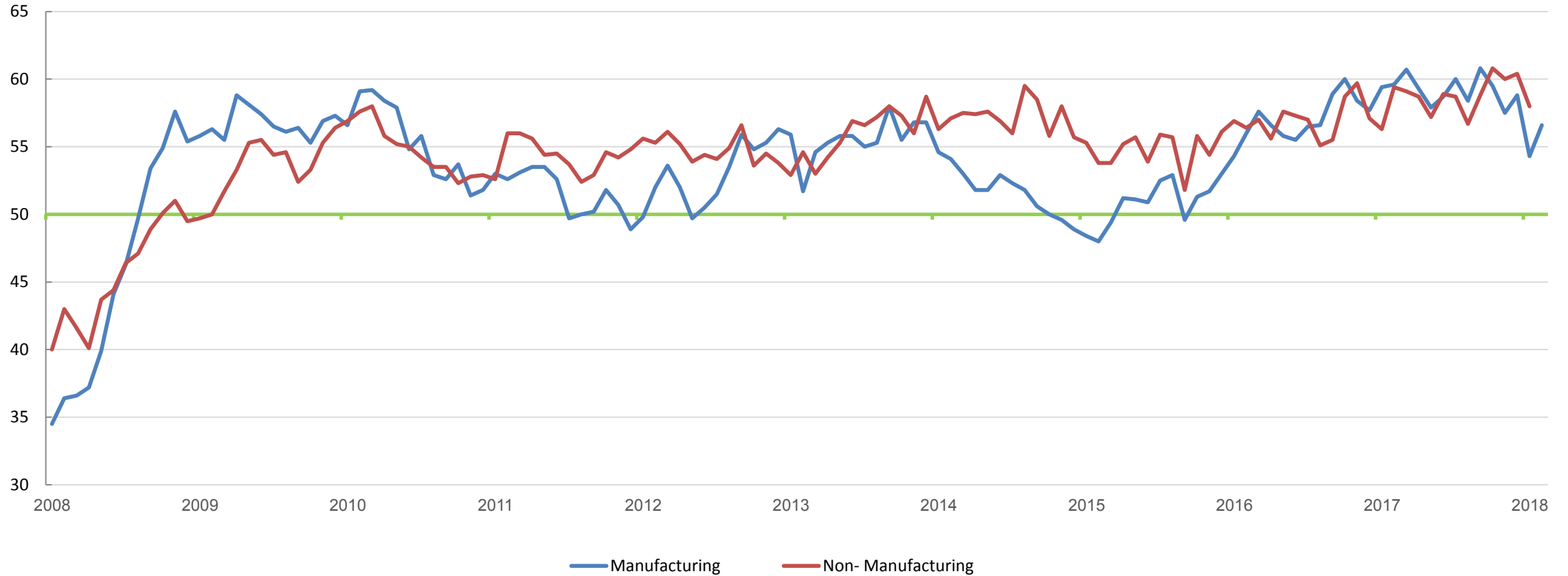




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Economic Sentiment

Manufacturing and Non-Manufacturing ISM

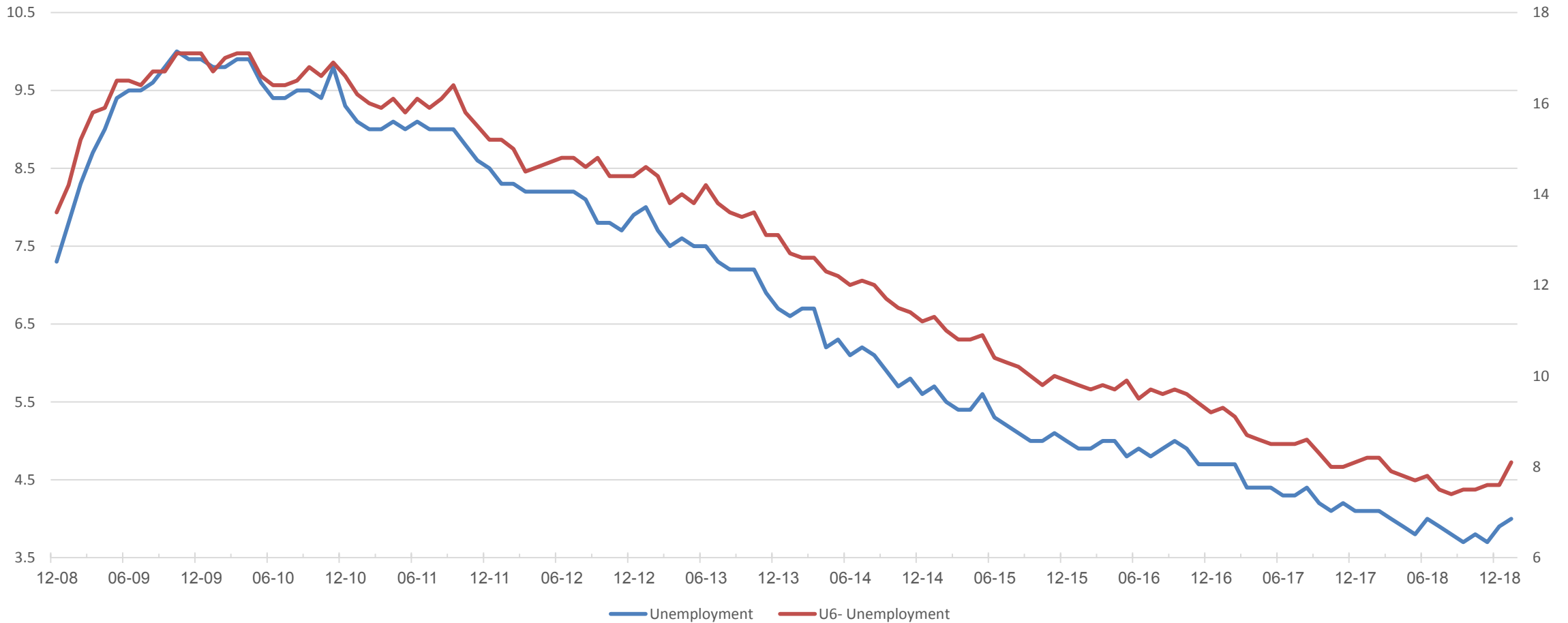




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Labor Market

Unemployment Rate (Left) and Under Unemployment Rate, U6 (Right)

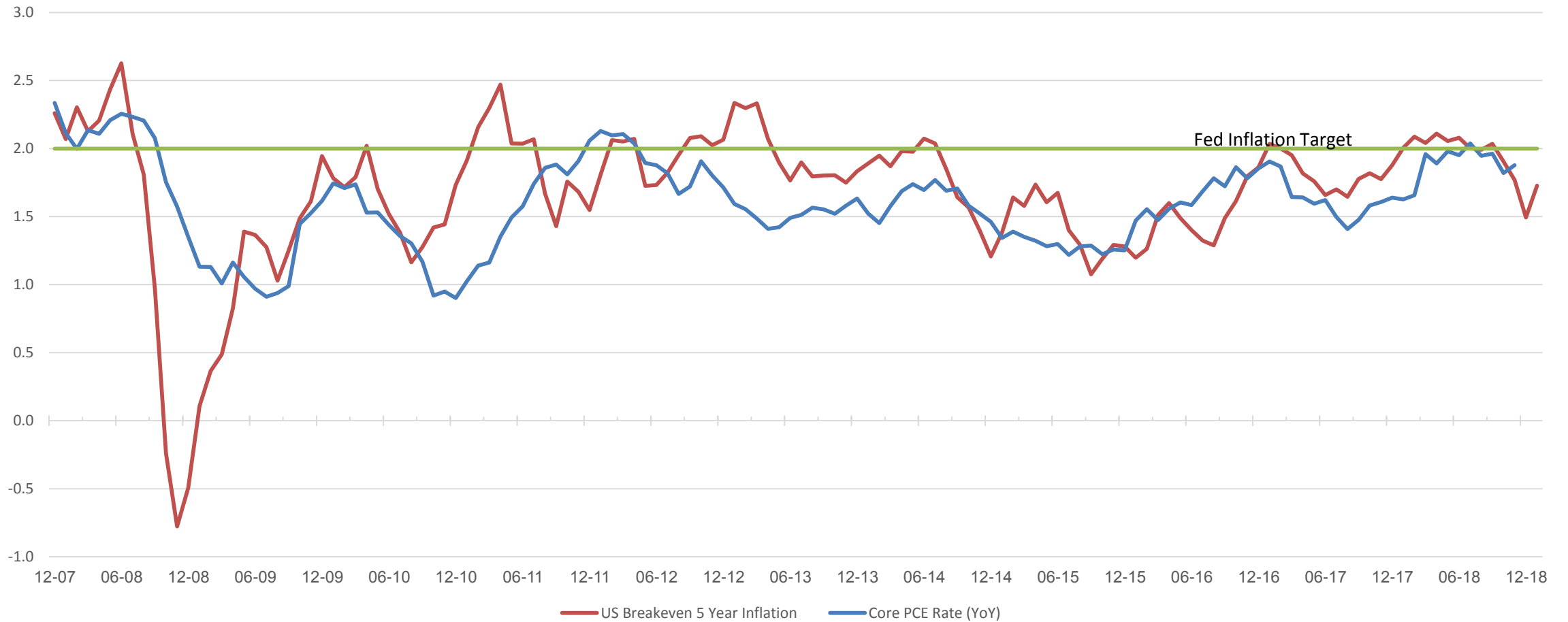




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Inflation

Core PCE (YoY) and 5Y Inflation Forecast





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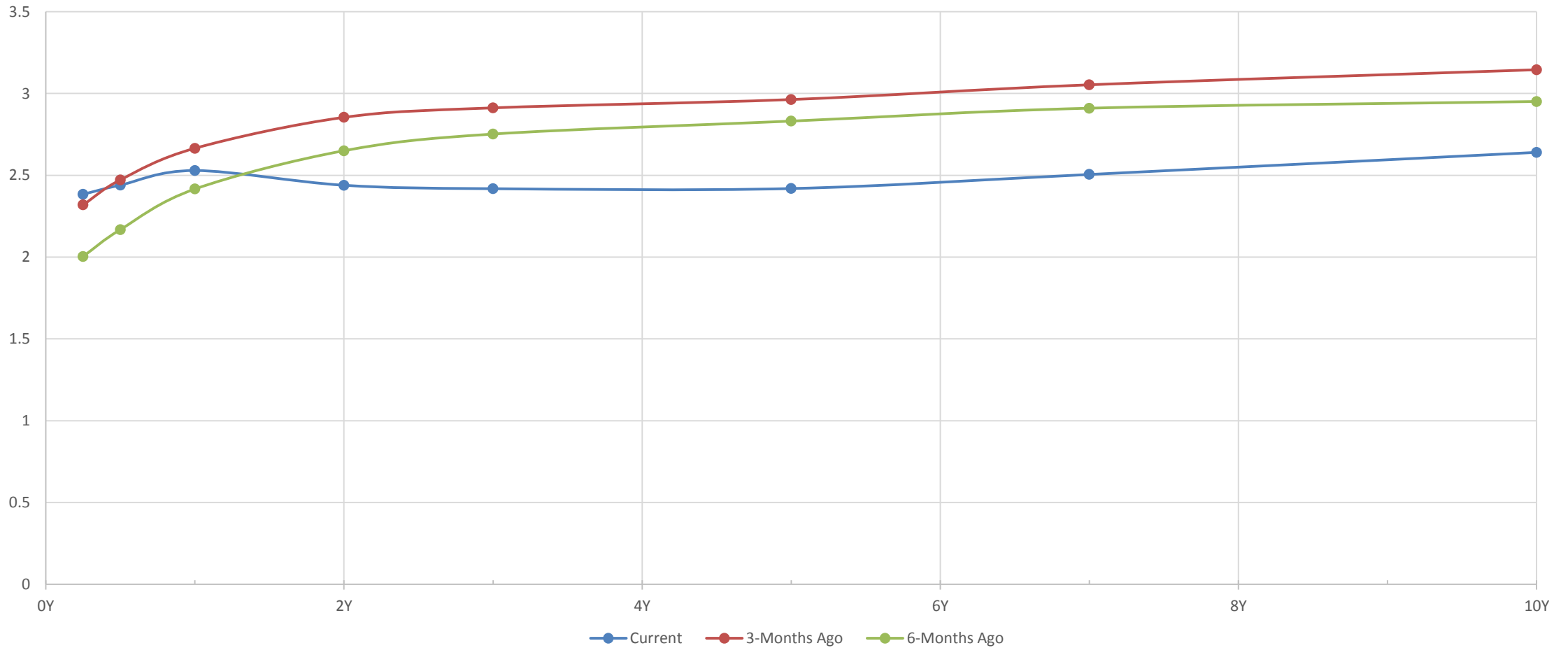
10YR Treasury Yield to Maturity





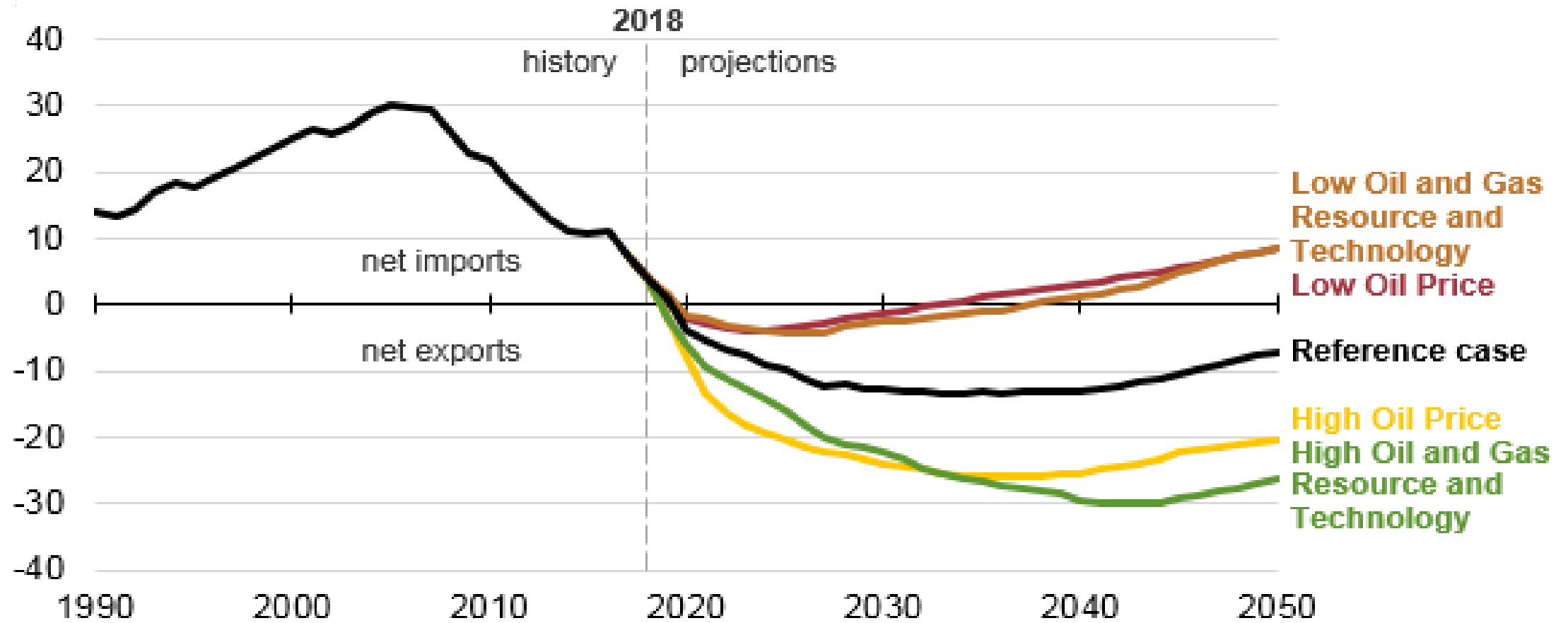
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US Treasury Yield Curve





US Net Energy Trade





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US Dollar Index (DXY)





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Citi Economic Surprise





- As the currency celebrate its 20th birthday, economic indicators signal that the euro region economy continue to struggle and is expected to further slow due to unfavorable development in the global and local economy
- The IMF cuts its forecast for the euro area by 0.3% to 1.6% in 2019. The fund cited great weakness in Germany due to soft local demand and weak production and downgraded its growth by 0.6% to 1.3%
- Populist parties continue to gather political strength ahead of the European parliamentary elections in May, preventing the implementation of critical reforms and integration (such as the banking and financial union, the fiscal union and the job markets reforms) that are necessary for its survival
- Italy, the weakest link of the euro area, fell back into recession; it contracted in Q4 by 0.8% (annual terms) after 0.4% contraction in Q3
- Core inflation edged up 0.1% to 1.1%, as headline inflation decreased by 0.2% to 1.4%. This figures are another part of the economic puzzle presenting the downturn in economic activity
- The ECB kept policy unchanged and reiterated its guidance to leave interest rates unchanged at least through the summer. The bank acknowledge the deterioration of the region growth outlook and the shift downside of the balance of risk, which decrease the probability of a rate hike during 2019



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Core Economic Indicator

Eurozone

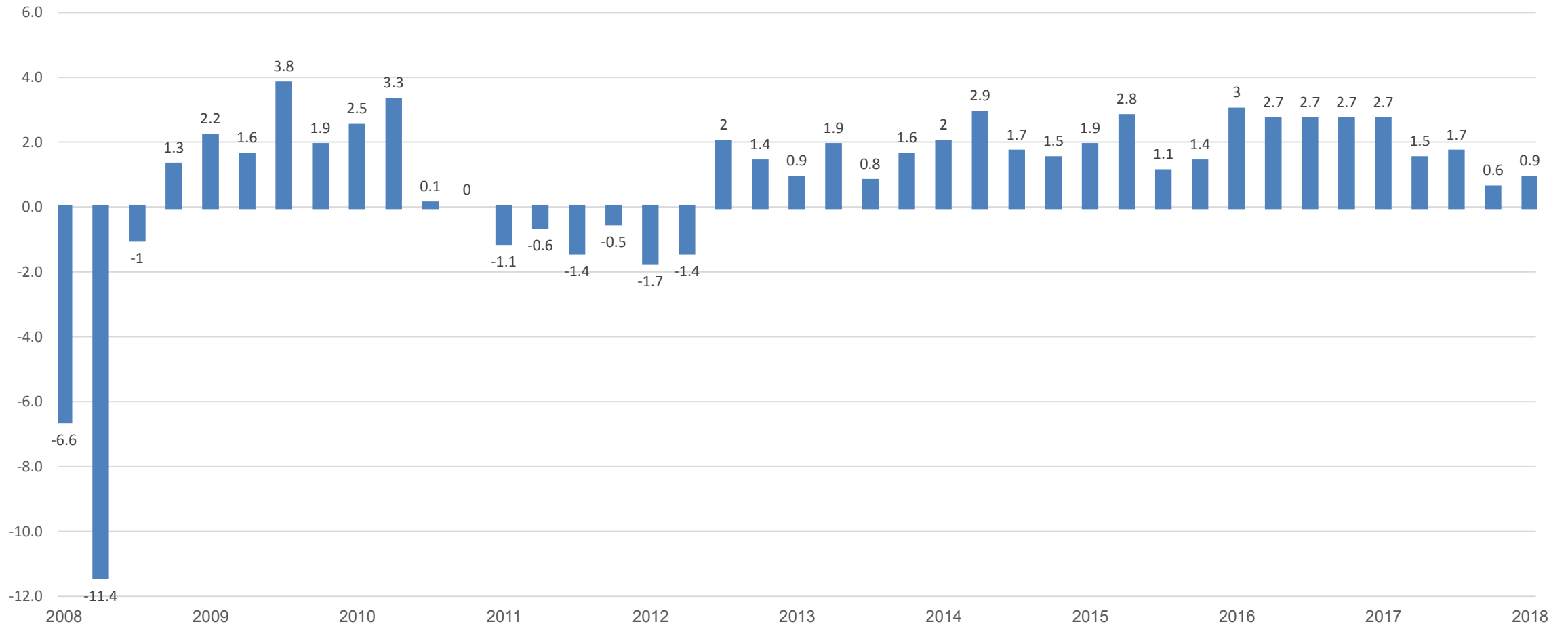
Economic Indicator	Latest Figure	Reference Period
Growth Rate (YoY)	0.9%	Q4-2018
Unemployment Rate	7.9%	Dec-2018
Inflation Rate (Core, YoY)	1.1%	Jan-2019
Central Bank deposit rate	0.00%	Jan-2019
10 Year Government Bond Yield (Germany)	0.16%	Fab-2019
Ratio of Surplus in Current Account to GDP	3.09%	Q3-2018
Ratio of Public Debt to GDP	86.10%	Q3-2018



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Economic Growth

GDP (Annualized)

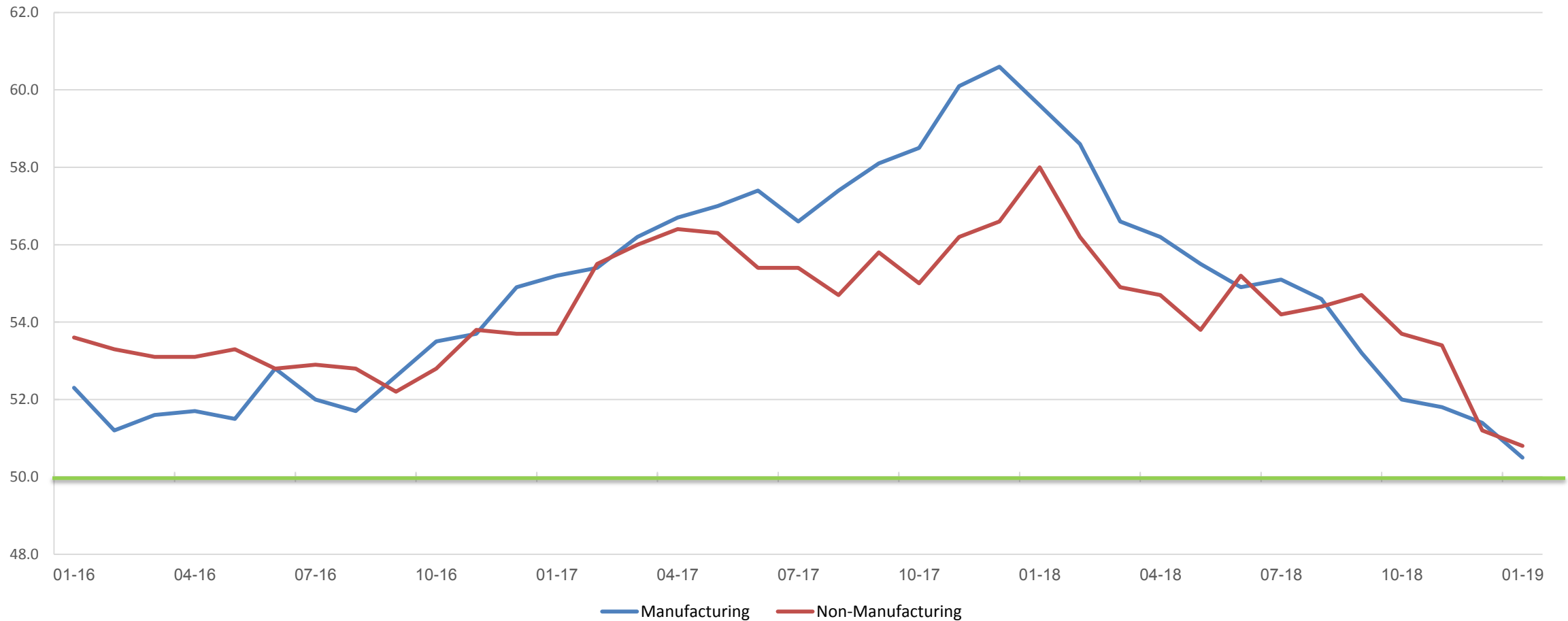




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Economic Sentiment

Manufacturing and Non-Manufacturing PMI

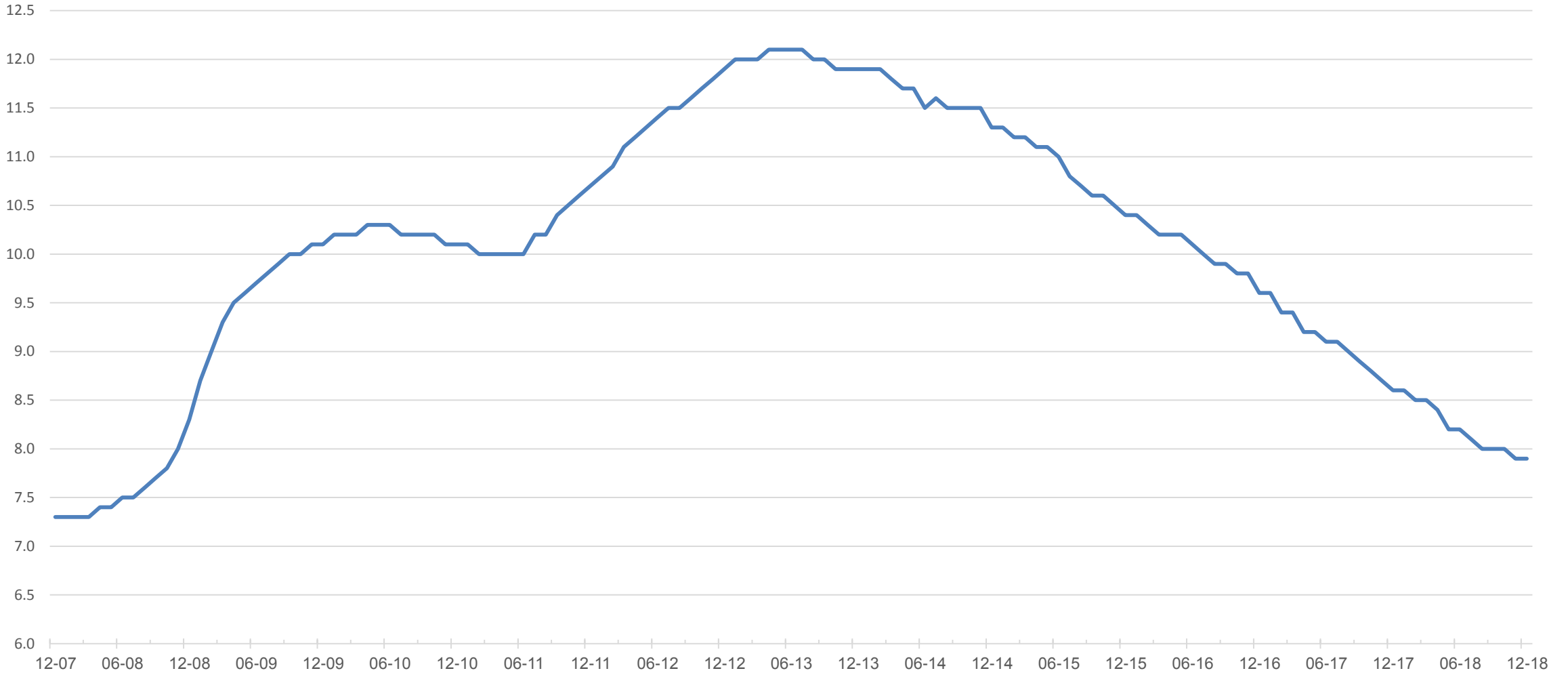




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Labor Market

Unemployment Rate

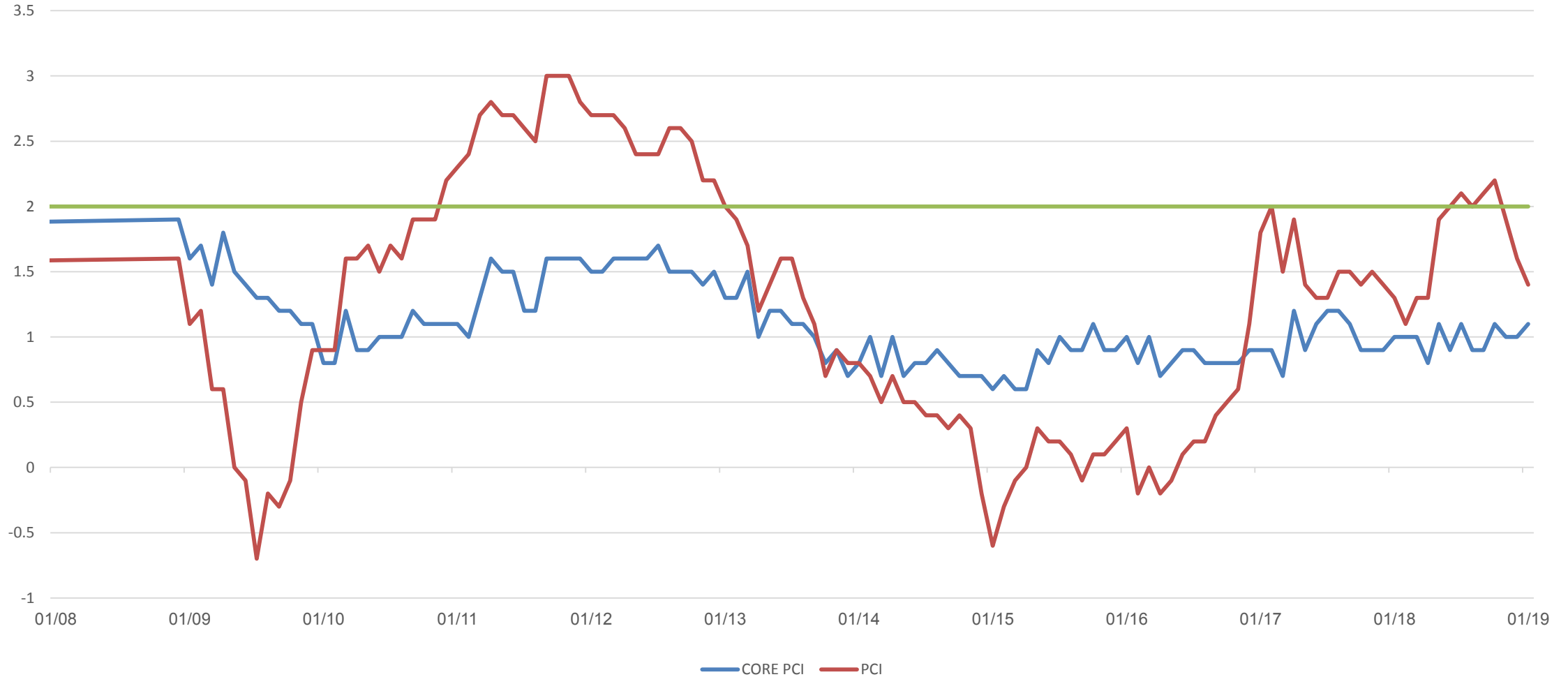




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Inflation

CPI and Core CPI (YoY)

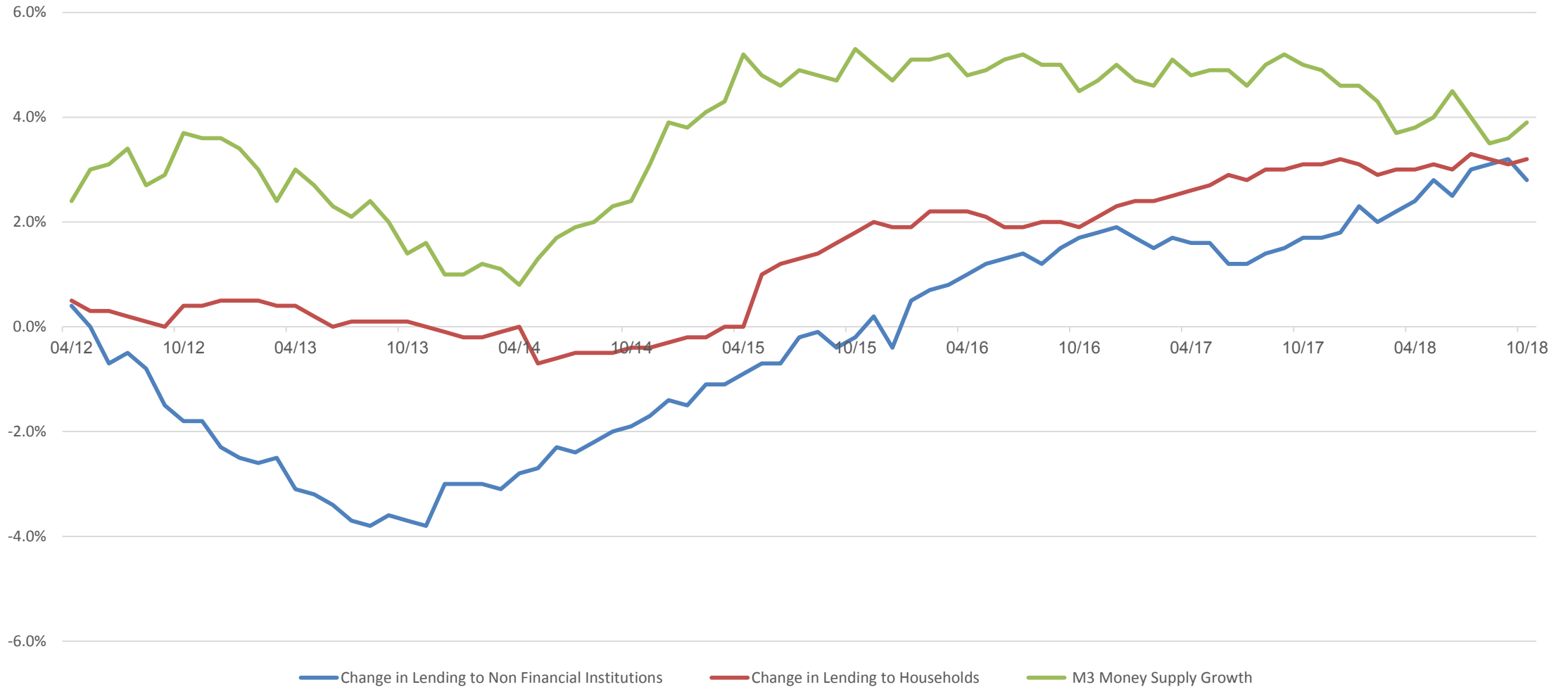




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Money Supply and Credit

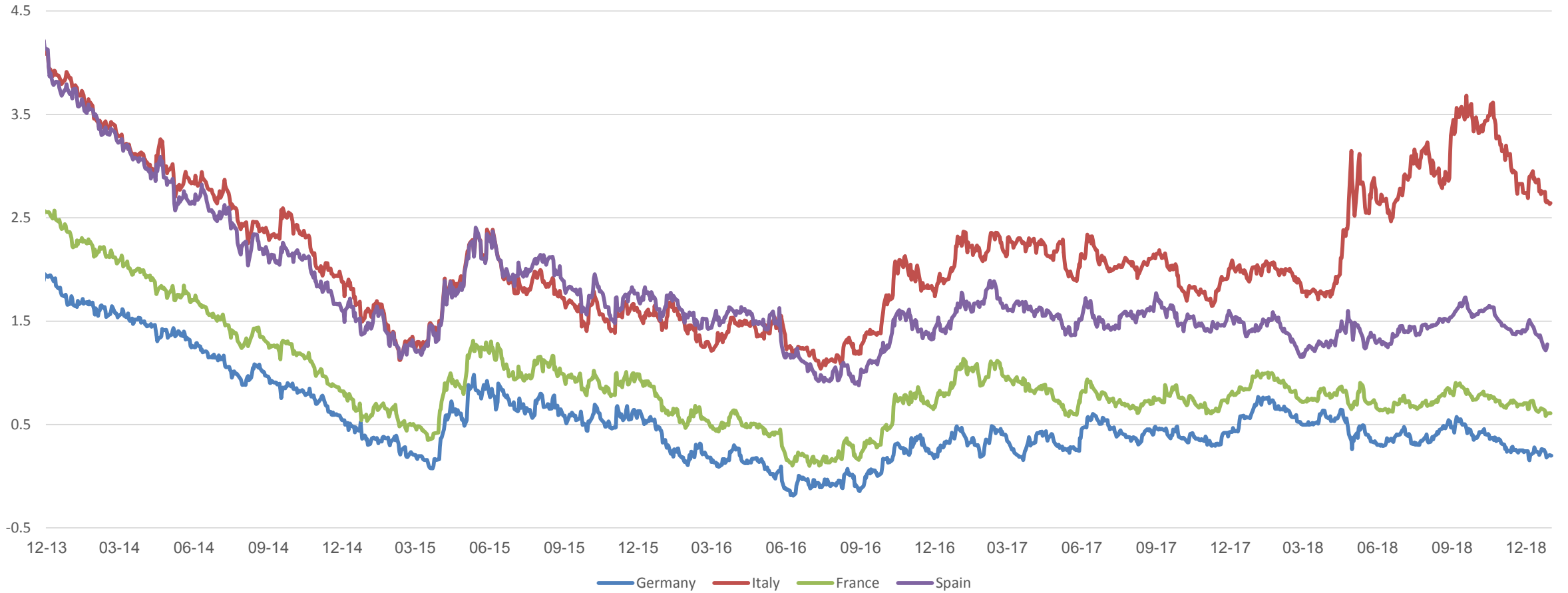
Growth in Money Supply, Loans to Real Sector





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10YR Government Bond Yield

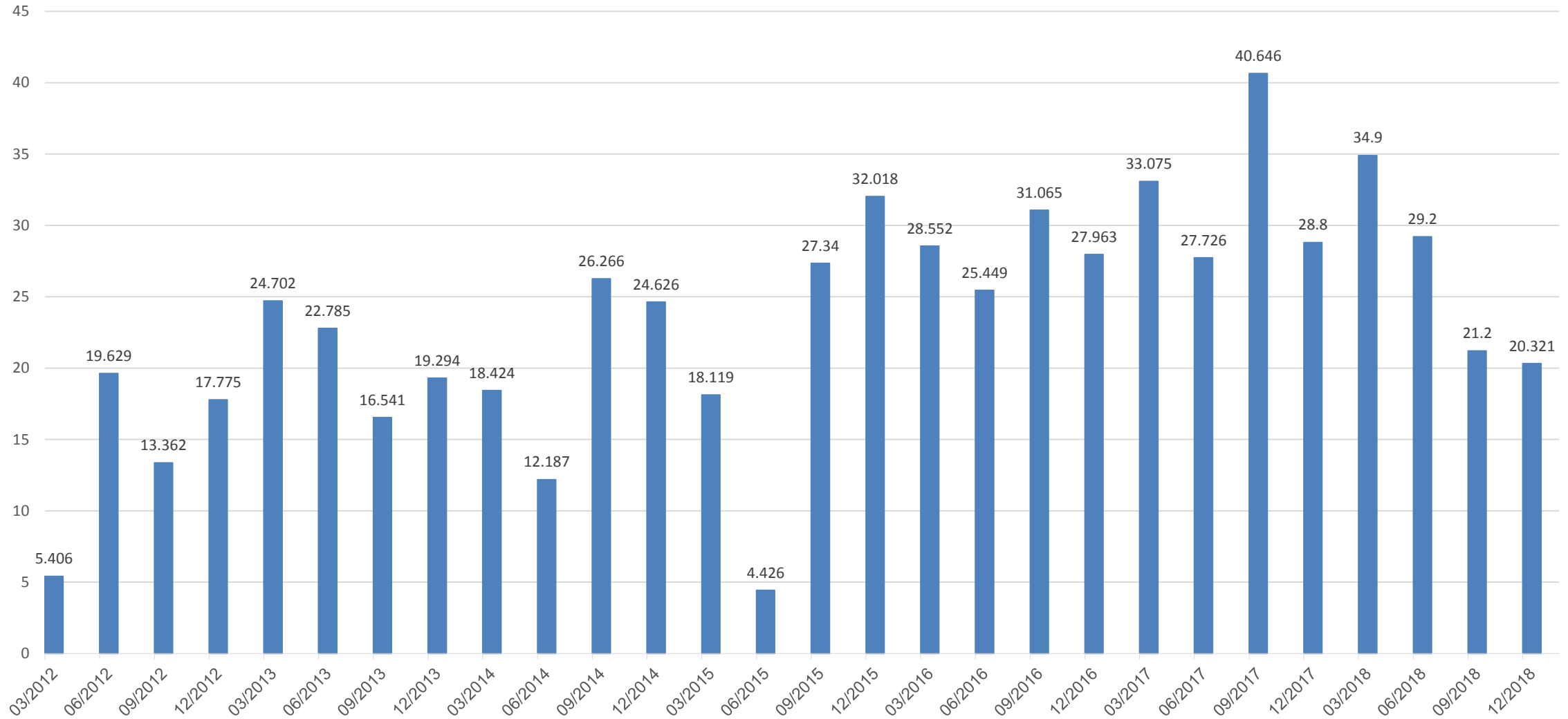




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Current Account Balance

EUR Billion

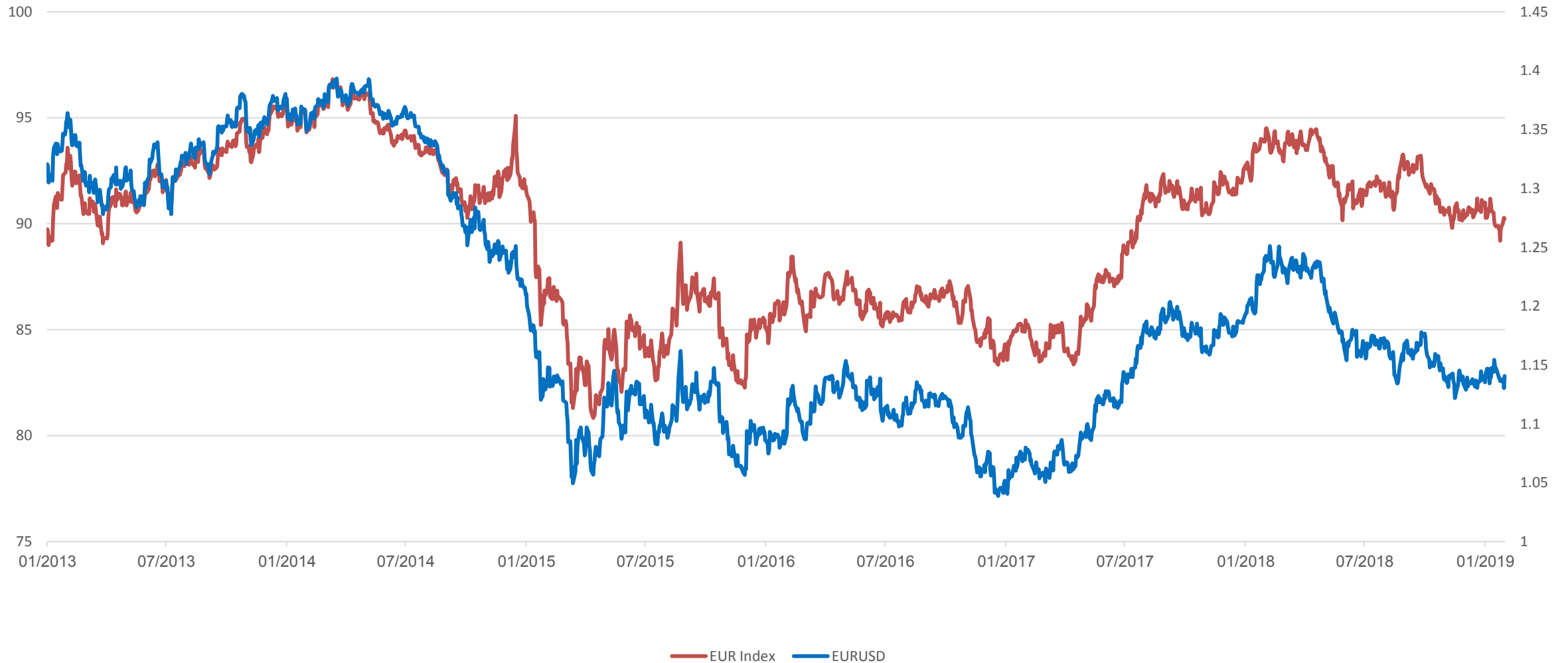




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Exchange Rate

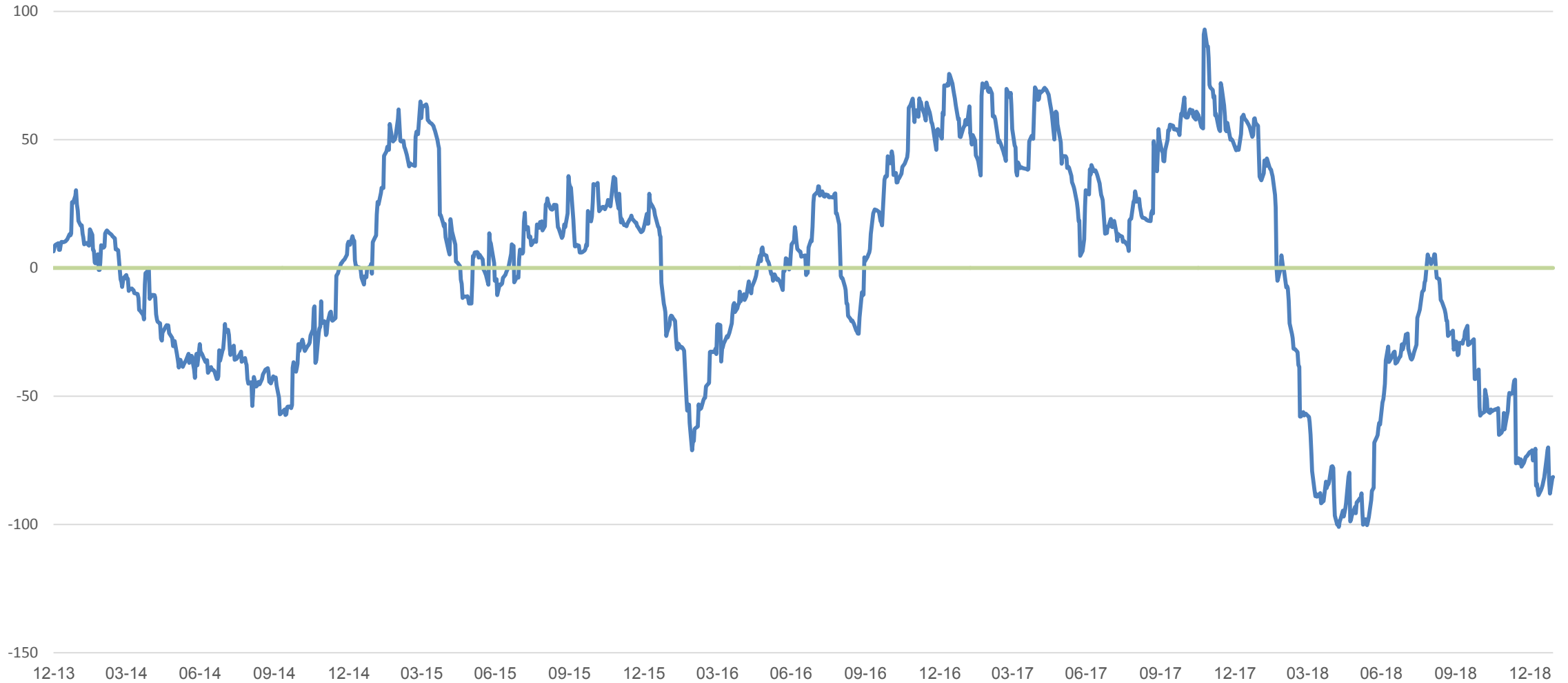
EUR Index (Left) EURUSD (Right)





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Citi Economic Surprise





- GDP grew only by 3.2% in 2018, after increasing by 3.5% in 2017 and by 4% in 2016. The Ministry of Finance lowered its forecast to 3.1%. Signs of weakness in investments and private consumption as well as increasing uncertainty about global growth casts a shadow on the ability of the local economy to realize its potential
- Fiscal deficit in 2018 amounted to 2.9% of GDP due to accounting shifts, and debt-to-GDP increased by 0.7% to 61.2%, the first increase since 2009. 2019 fiscal year is expected to begin with a 10B ILS deficit and the next government will have to take drastic measures in order to reach the fiscal target
- Year end inflation data were on the soft side of the market expectation as headline inflation increased in 2018 by 0.8%, just below the lower end of the inflation target (1%-3%). This is the fifth year in which the BOI misses the target. Looking ahead the decrease in oil prices and the mild growth puts pricing power in question
- The trade deficit increased in 2018 by 71.3%. Signs of weakness in job market as unemployment rate increased to 4.3%. The housing market is still in stagnation as all segments are sitting on the sideline
- BoI is expected to hold its decision to raise once more its benchmark interest rate until inflation will show decisive signs of moving towards the midrange of the inflation target



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Core Economic Indicator

Israel

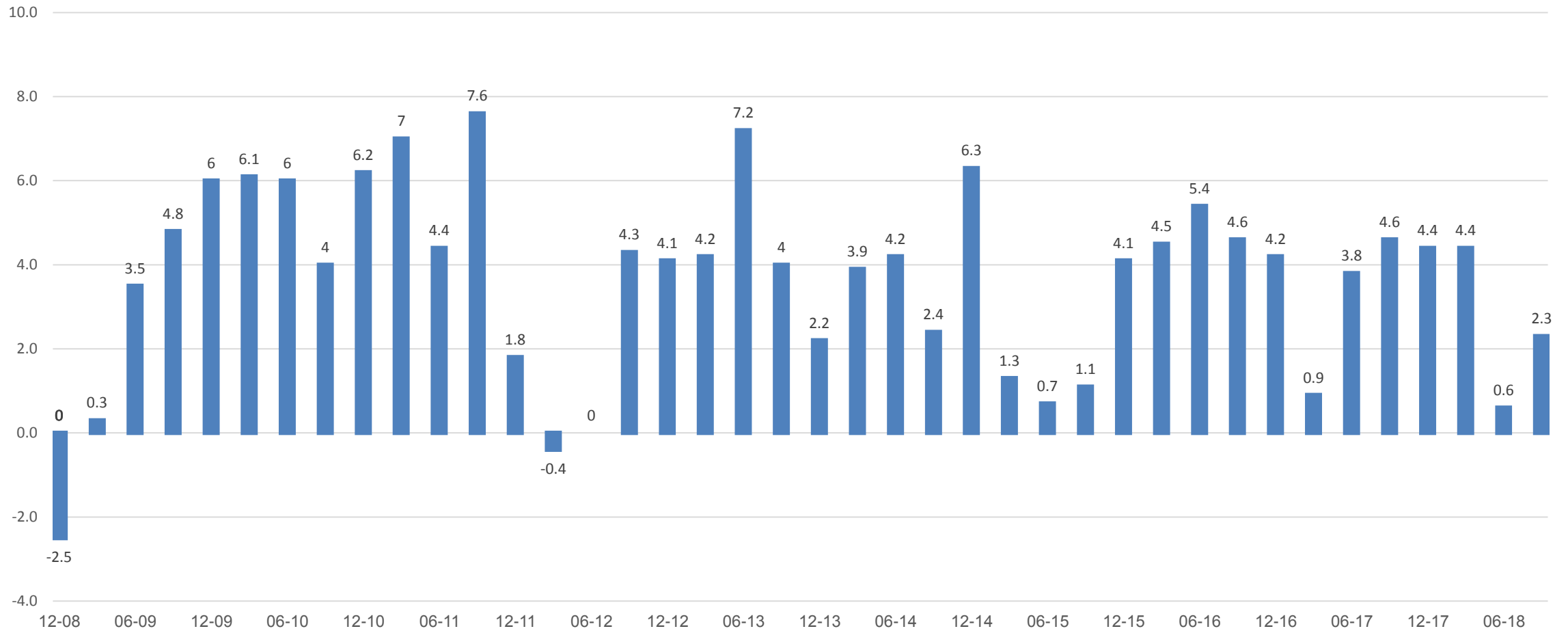
Economic Indicator	Latest Figure	Reference Period
Growth Rate	2.3%	Q3-2018
Unemployment Rate	4.3%	Dec-2018
Inflation Rate (YoY)	0.8%	Dec-2018
Central Bank Interest Rate	0.25%	Fab-2019
10 Year Government Bond Yield	2.09%	Fab-2019
Ratio of Surplus in Current Account to GDP	2.04%	Q3-2018
Ratio of Public Debt to GDP	61%	Q4-2017



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Economic Growth

GDP (Annualized)





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Labor Market

Unemployment Rate





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Inflation

CPI (YoY)





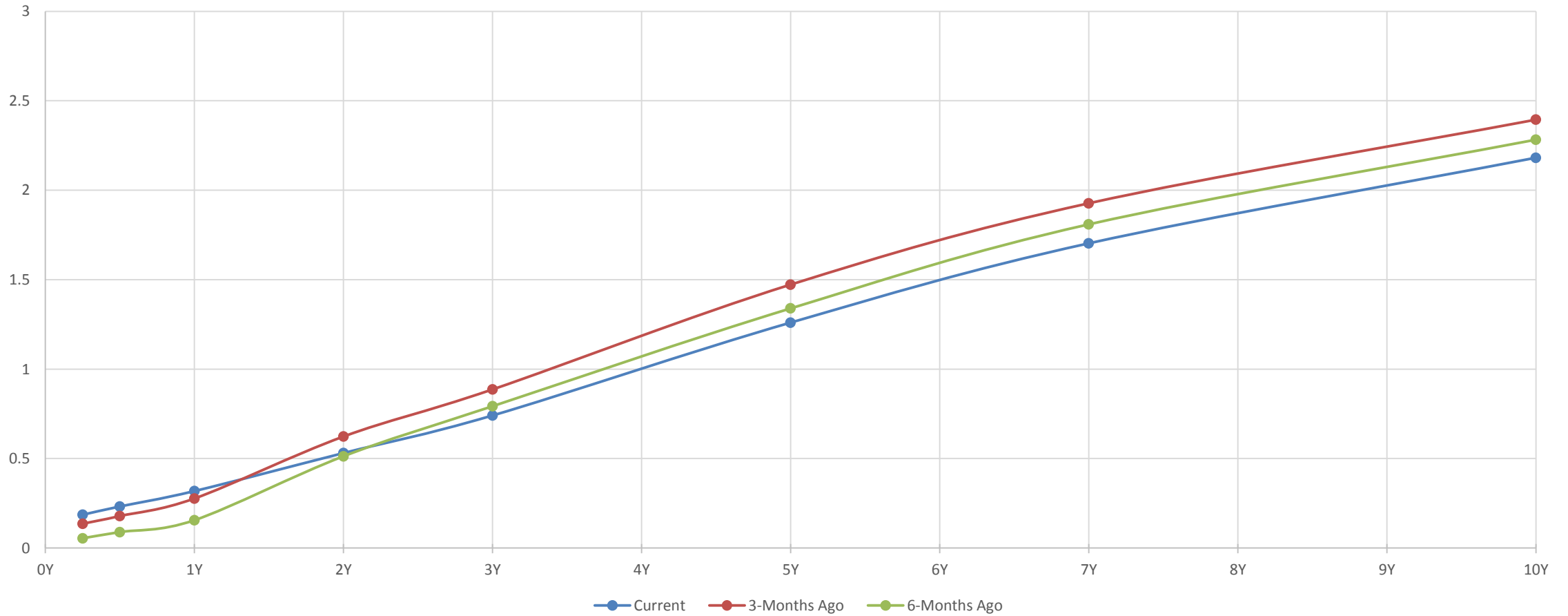
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10YR Government Bond Yield





Government Bond Yield Curve





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Hedging Costs

USDILS 1YR Forward Premium

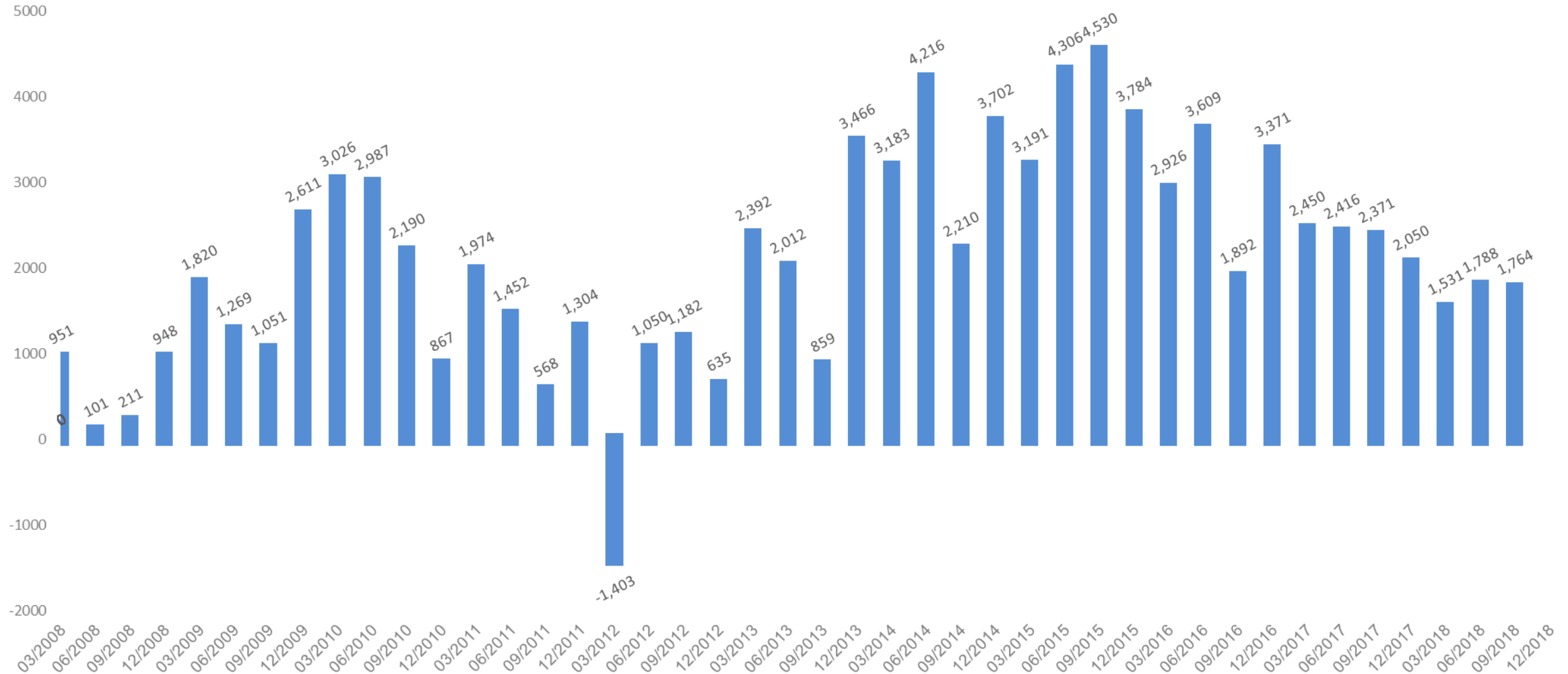




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Current Account Balance

USD Million





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Exchange Rate

USDILS (Left) BoI Nominal Effective Rate (Right)





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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE