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# Market Insights

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**November 2019**



- The IMF has joined the OECD in reducing the global economy's growth forecast for 2019 to just 3% compared with a previous forecast of 3.2%. Synchronized slowdown in major economies in the wake of the trade war is the main reason for the update. Growth in 2019 will be the slowest since 2009, but then it is expected to stabilize and even recover, in light of the monetary easing, possible calm of the trade tensions and if no-deal Brexit is averted
- The IMF recognizes the fact that monetary policy is losing its impact, but says it has lowered long-term interest rates and thus allows many countries to pursue expansionary fiscal policy that is needed at this time
- With regard to the risks arising from ultra accommodative policies, the IMF notes that “while easier financial conditions have supported economic growth and helped contain downside risks to the outlook in the near term, they have also encouraged more financial risk-taking and a further buildup of financial vulnerabilities, putting medium-term growth at risk”
- The Chinese economy continues to weaken as recent results point to 6% growth in the past year, the lowest since the early 90's. Undoubtedly, handling the high burden of debt alongside implementing financial system reforms and dealing with the trade war are weighing down on the Chinese economy
- Economic weakness and political considerations push the world's two largest economies, the US and China, toward a partial trade agreement, whose importance lies in preventing further escalation and reducing uncertainty. The recent run into risk assets in financial markets is a testament to markets' estimates that the tail risks has diminished



- Faced with intense head winds, growth in the world's largest economy remained relatively solid, courtesy of the American consumer, as Q3 GDP grew at a 1.9% annually, better than expected. Private consumption increased by 2.9% and was the main positive factor, while export, inventory and business investments weighed down. The IMF recently cut its US 2019 growth estimates by 0.2% to 2.4% (still a respectable growth), but raised it by the same margin to 2.1% next year
- The housing market is a bright spot in the economy as it regains momentum (first contribution to growth since the end of 2017) helped by the fall in mortgage interest rates and the strong labor market. Mortgage volumes peaked at 14 years, pending US Home sales post biggest annual increase since 2015, and refinancing is booming allowing households to save on monthly repayments, thus directing them to increase consumption which account for 70% of GDP
- Indeed, the US consumers, supported by the strong labor market and the easing monetary conditions, carry the economy and allow it to overcome the adverse impact resulting from the global weakness and the trade war. However, the question remains, how much longer they will be able to meet the huge task. Leading indicators such as consumer sentiment fell lately but still remained elevated, signaling that consumer spending will continue to push the economy despite the weakness in manufacturing
- The emerging strains in short-term US money markets cooled after the FED was forced to engage in monthly purchases of 60\$B T-bills
- The FED decreased interest rates by 0.25% for the third time this year to 1.50%-1.75% in what seems to be the end of a “mid-cycle adjustment”. The FED acted although the case for easing is weak as part of an active preventive policy that was adopted



# Core Economic Indicator

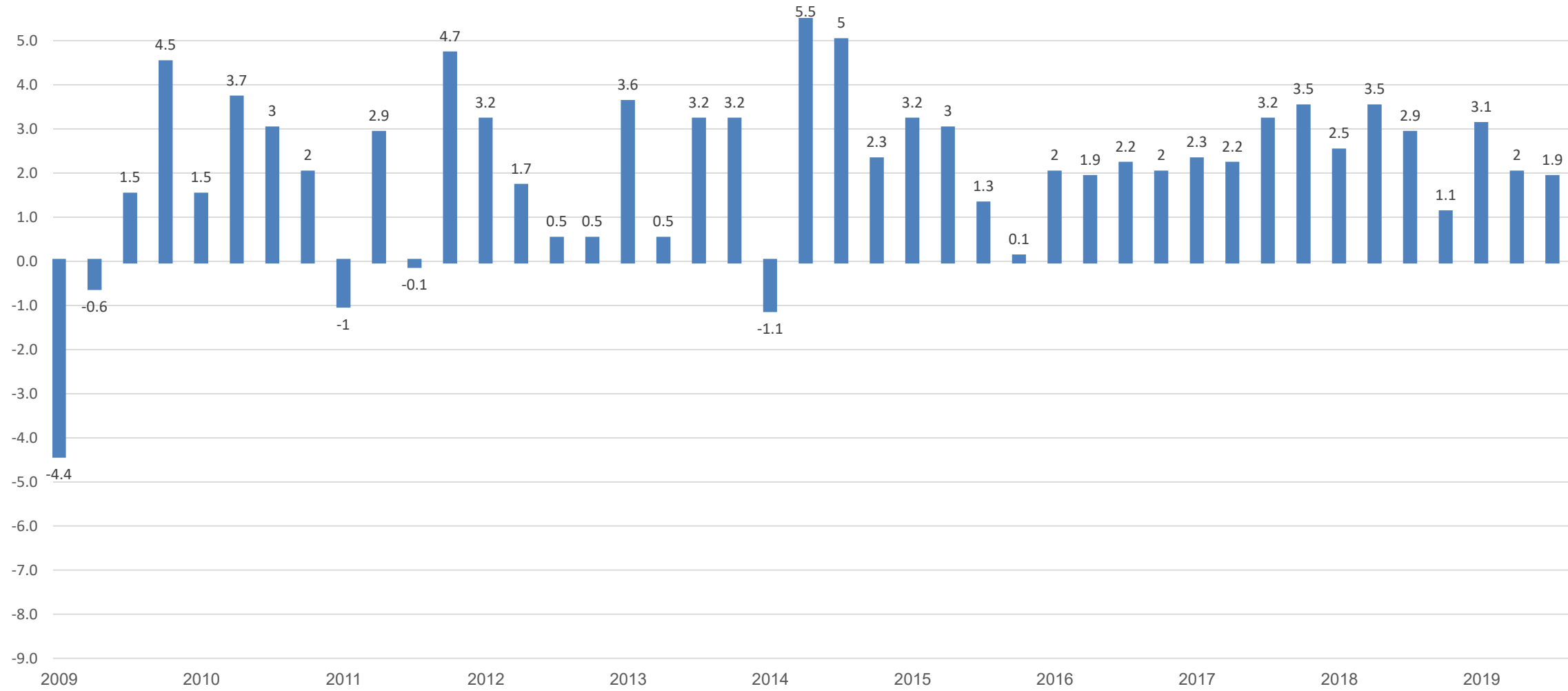
## USA

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	1.9%	Q3-2019
Unemployment Rate	3.6%	October-2019
Inflation Rate (Core PCE, YoY)	1.7%	September-2019
Central Bank Interest Rate	1.5%-1.75%	October-2019
10 Years Yield	1.71%	October-2019
Ratio of Surplus in Current Account to GDP	(2.50%)	Q2-2019
Ratio of Public Debt to GDP	103.20%	April-2019



# Economic Growth

## GDP (Annualized)

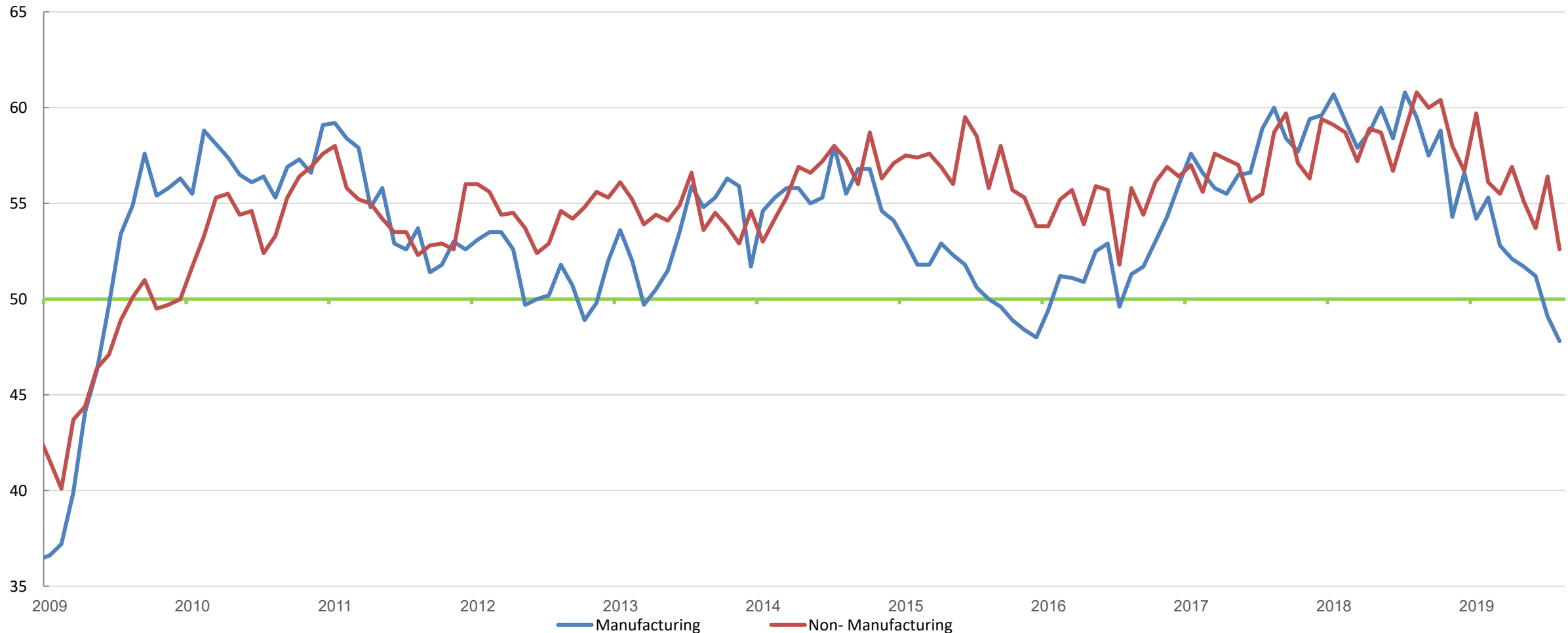




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# Economic Sentiment

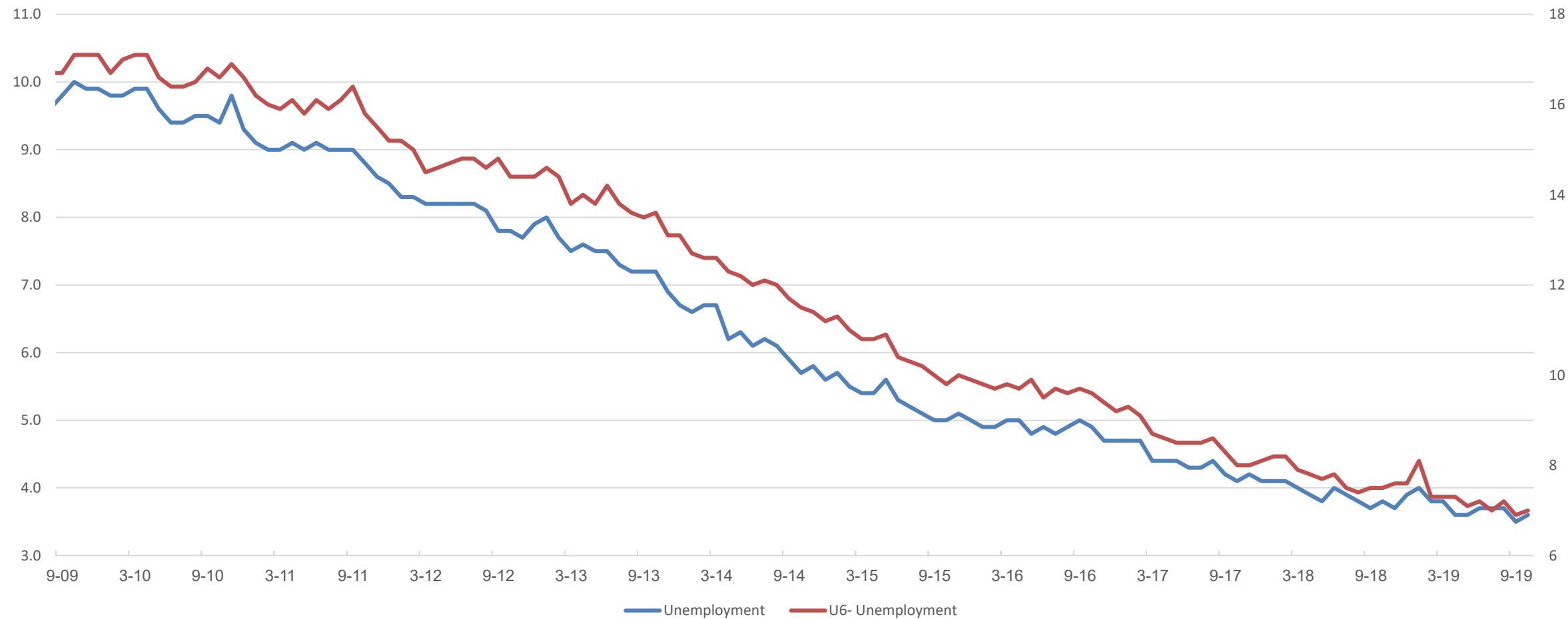
## Manufacturing and Non-Manufacturing ISM





# Labor Market

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

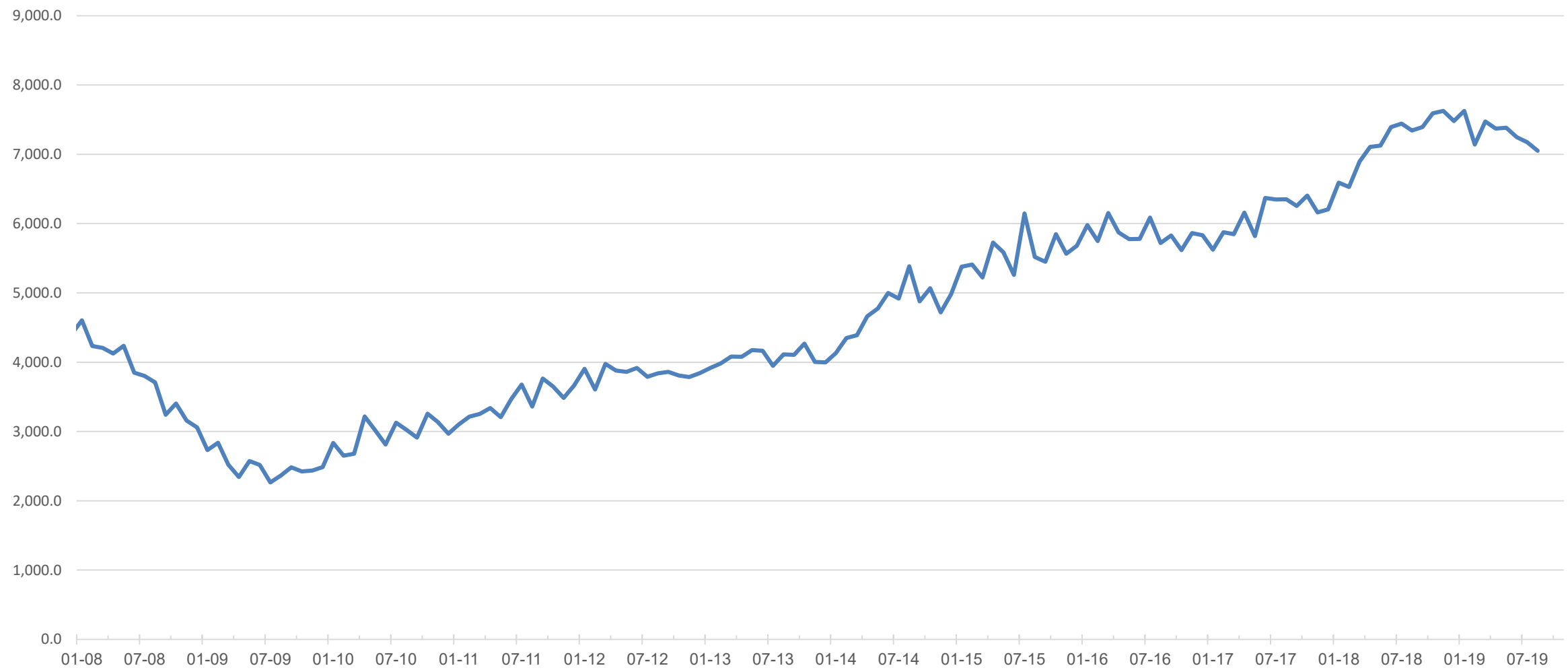






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# Labor Market Job Openings

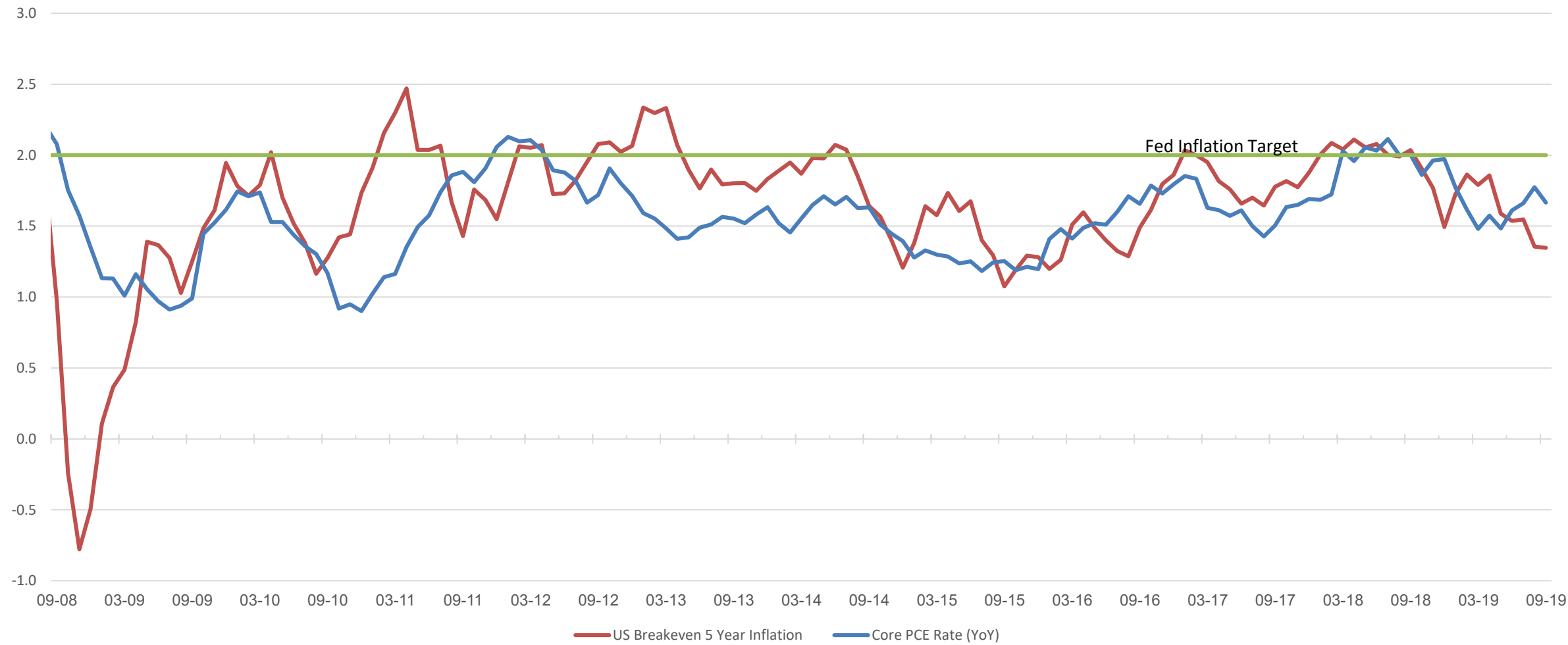






# Inflation

## Core PCE (YoY) and 5Y Inflation Forecast





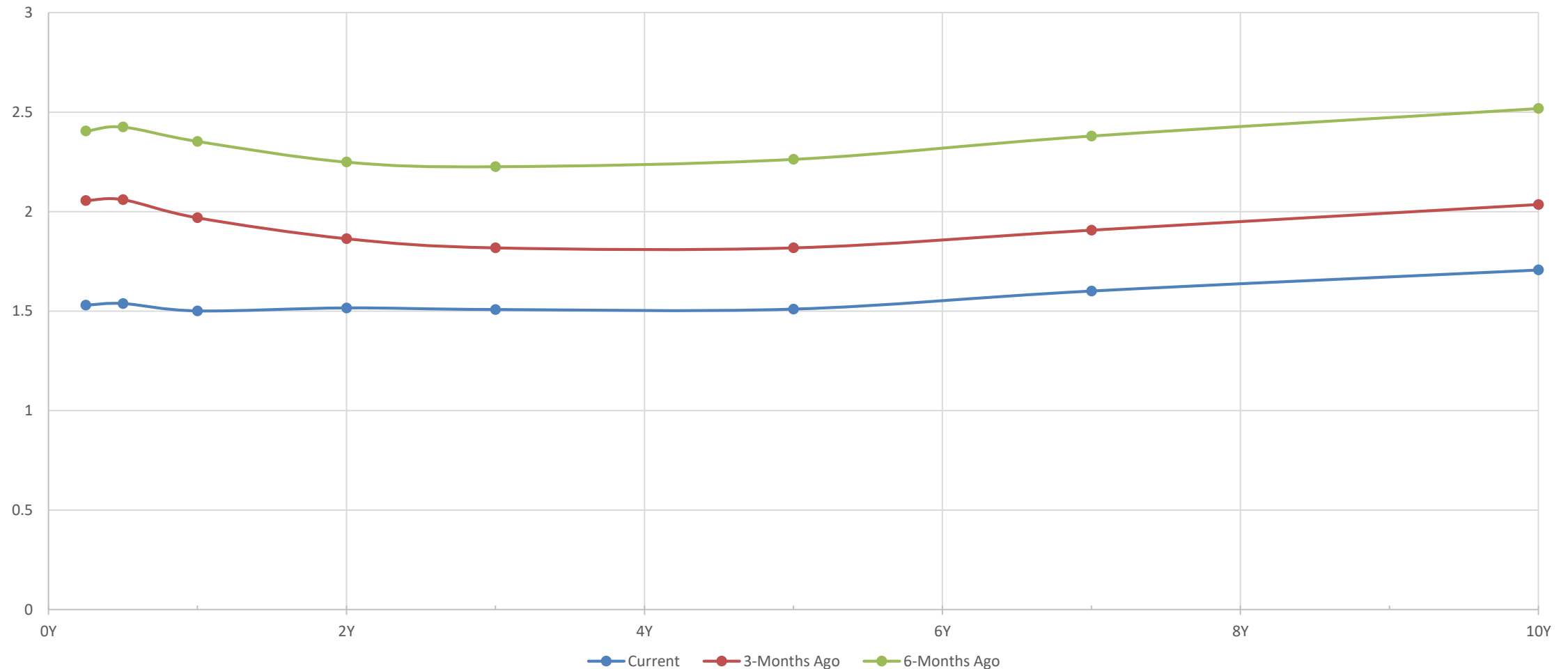
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# 10YR Treasury Yield to Maturity





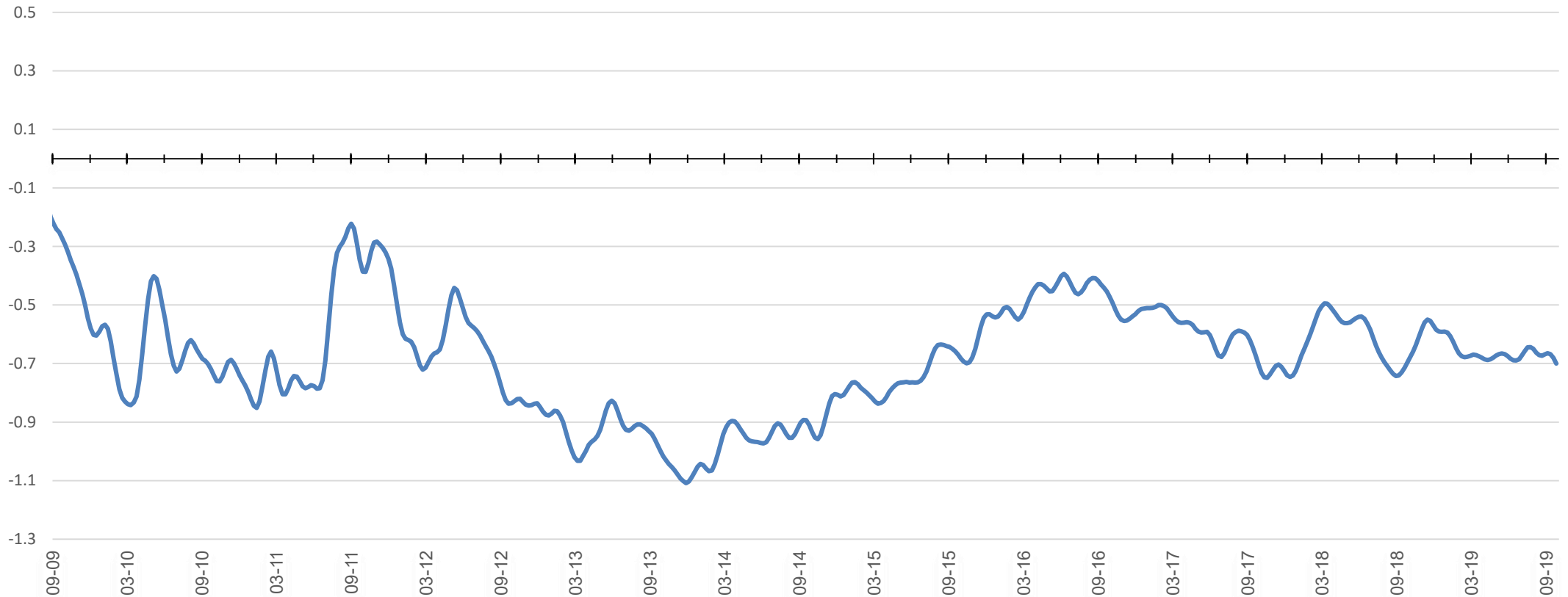
# US Treasury Yield Curve





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# Chicago Feds National Financial Condition Index (NFCI)



The NFCI provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and “shadow” banking systems. Negative values have been historically associated with looser-than-average financial conditions



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# US Dollar Index (DXY)





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# Citi Economic Surprise





- IMF reduced Euro-area growth for 2019 to 1.2% and for 2020 to 1.4%. Estimates for Germany, France, Italy and Spain were all lowered for both years. However, recent results show growth in the Eurozone has stabilized, albeit at a low level, as Q3 GDP rises 0.8%, better than previously expected and similar to Q1 results. YOY growth came in as expected at 1.1%
- After 8 years at office, Mario Draghi stepped down. In 2012 he declared he will do “what ever it takes” to save the Euro and succeeded in doing so by conducting an ultra accommodative monetary policy that pushed interest rates to negative territory and added trillions of Euros in bonds to the bank assets. However, 7 years later, on the brink of renewed recession, dealing with manufacturing slump and a persistently low inflation, the Eurozone economy was left with no real tools to deal with its fundamental problems
- Economic sentiment in the Eurozone continues to slide down at the beginning of the fourth quarter signaling that a turnaround in the economy is not yet in sight. Household and industry sectors were exceptionally weak and regionally, Germany sentiment, which seems to be the weakest link in the Eurozone, provided the weakest outcome. A similar picture is seen in leading indicators such as the PMI, flirting with the 50-point level that separates expansion from contraction
- Headline inflation in October fell to 0.7% YOY, the lowest level since 2016. Core inflation, which is the preferred gauge of the ECB, edged up 0.1% to 1.1%, above market expectation but far below the inflation target of 2%. Since the financial crisis in 2008 and especially after the debt crisis in 2012 inflation is trapped in a narrow range of around 1%, unaffected by the central bank's policy and does not appear likely to break away from this level in the foreseeable future
- The labor market which is the bright spot of the economy is losing steam in the face of the slowing global economy. Unemployment rate remained steady at 7.5%, higher than expected, but still the lowest since 2008. Youth unemployment edged up 0.2% and is already 0.8% higher than a year ago





# Core Economic Indicator

## Eurozone

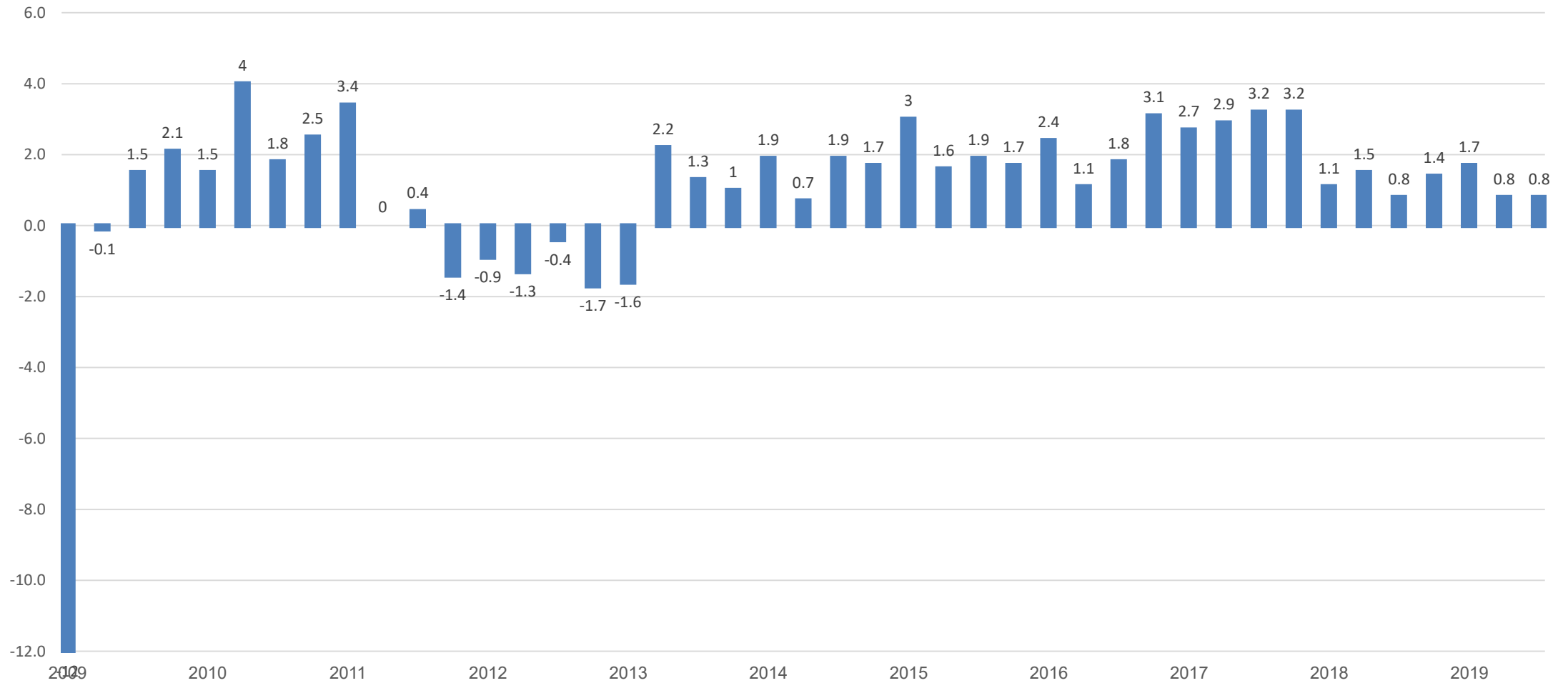
Economic Indicator	Latest Figure	Reference Period
Growth Rate	0.80%	Q3-2019
Unemployment Rate	7.5%	September-2019
Inflation Rate (Core, YoY)	1.1%	October-2019
Central Bank Interest Rate	0.00%	October-2019
10 Years Yield (Germany)	(0.38)	October-2019
Ratio of Surplus in Current Account to GDP	2.68%	Q2-2019
Ratio of Public Debt to GDP	86.40%	Q2-2019



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# Economic Growth

## GDP (Annualized)

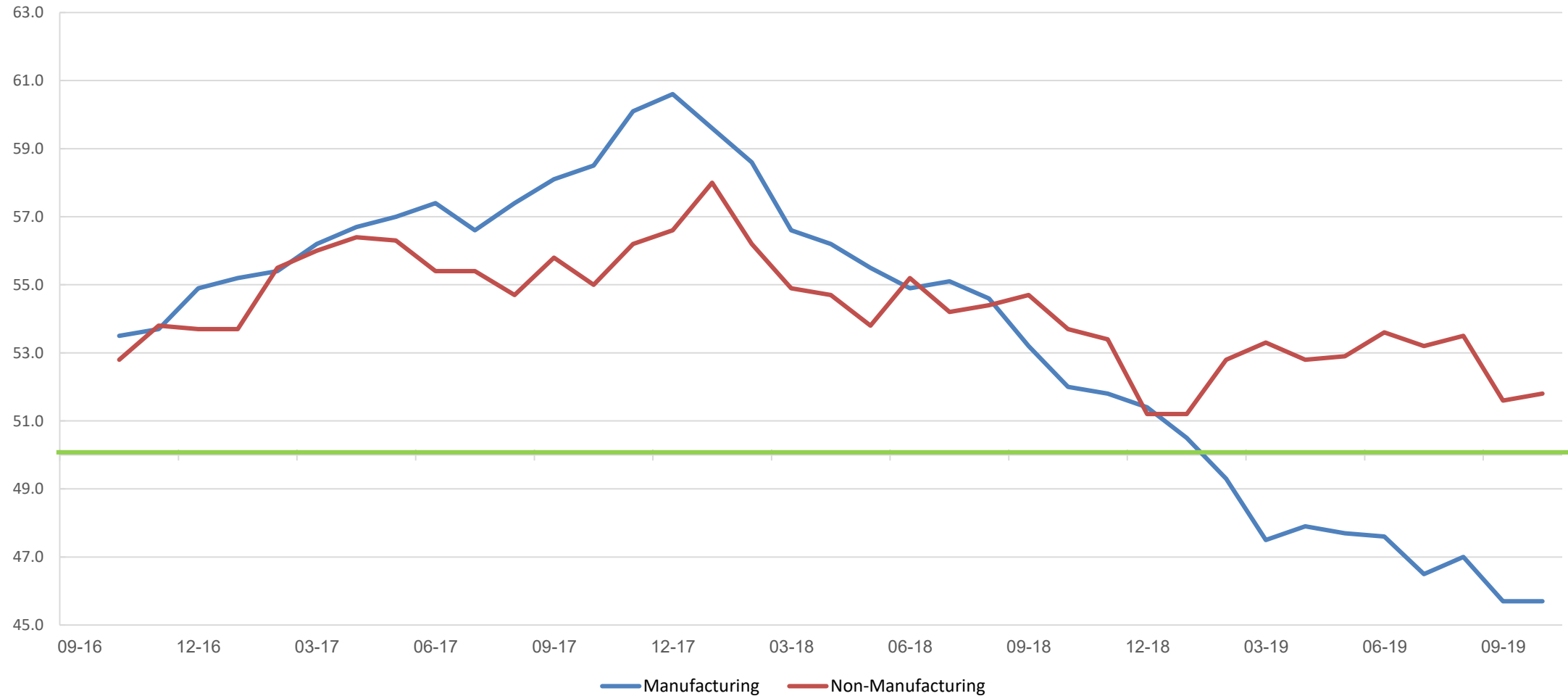




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# Economic Sentiment

## Manufacturing and Non-Manufacturing PMI

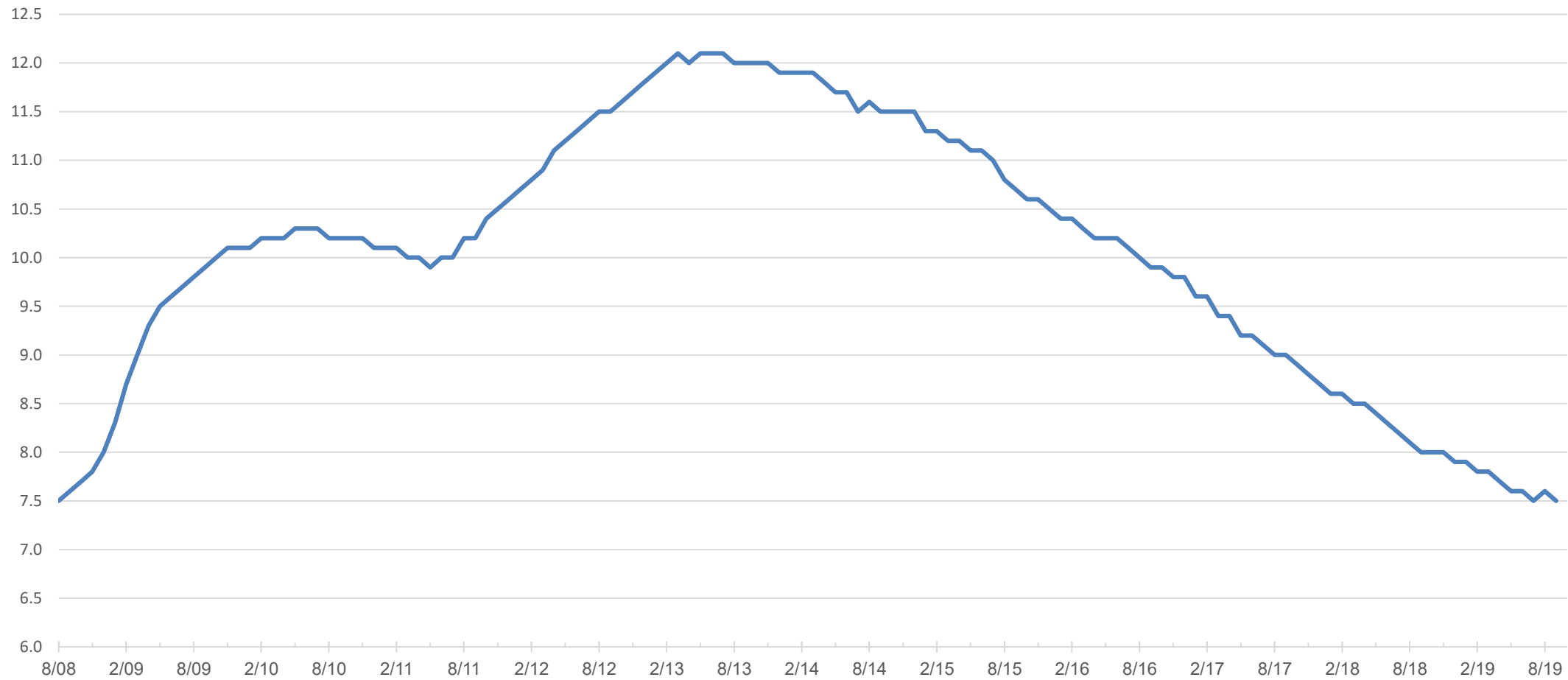




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# Labor Market

## Unemployment Rate





# Inflation

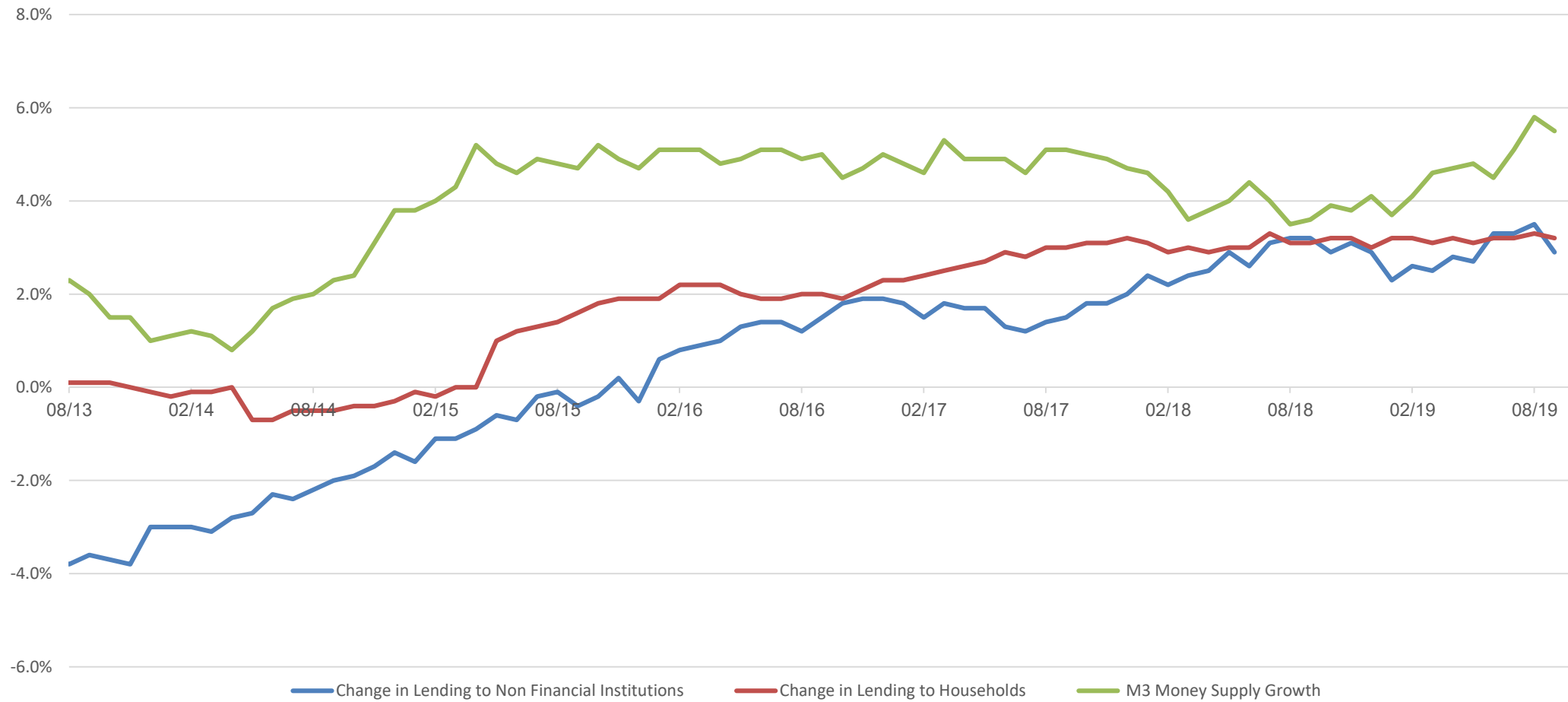
CPI and Core CPI (YoY)





# Money Supply and Credit

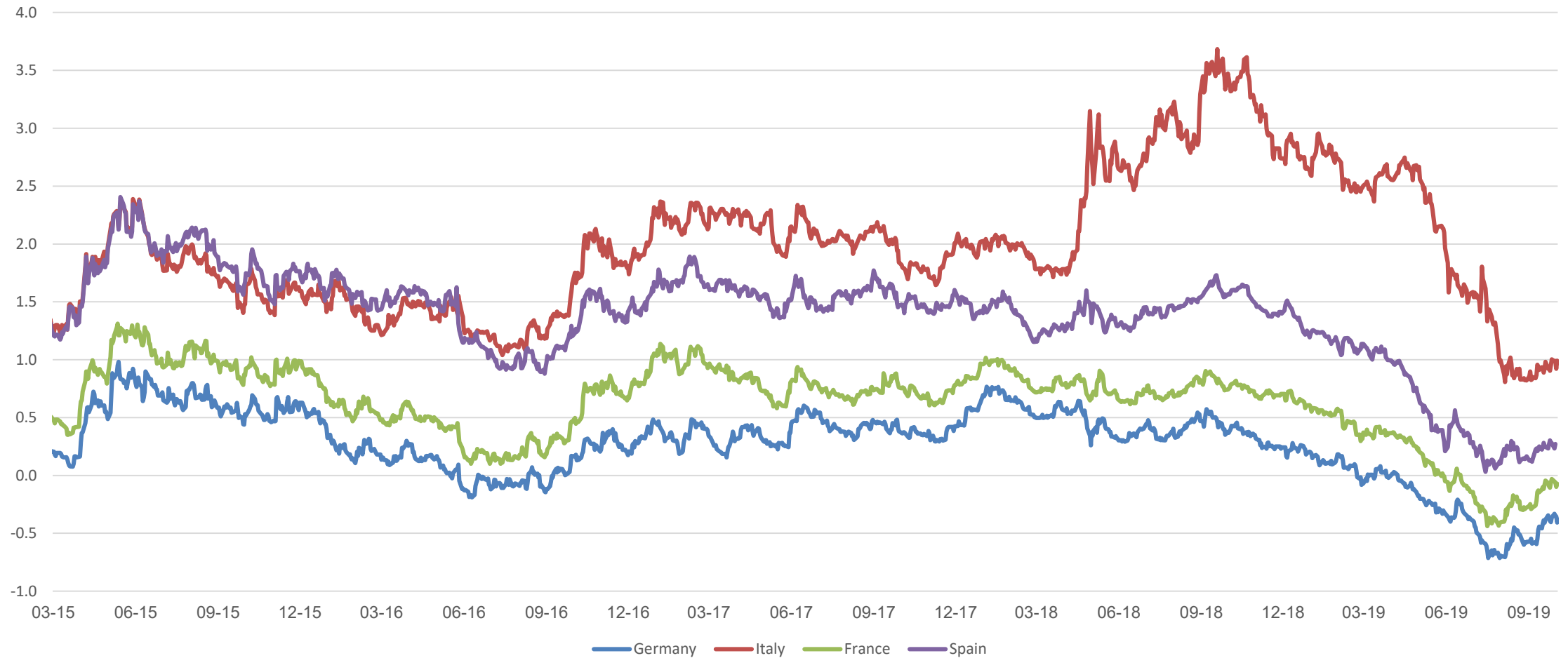
## Growth in Money Supply, Loans to Real Sector





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# 10YR Government Bond Yield



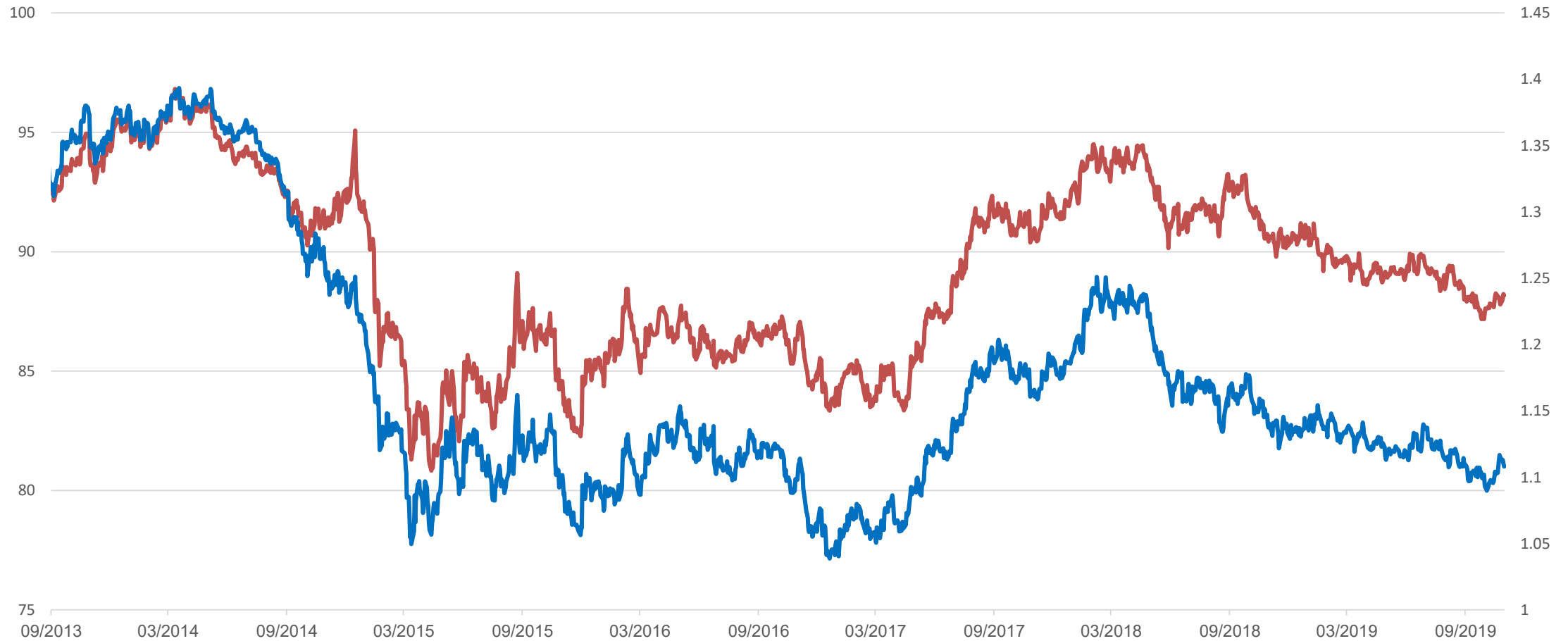




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# Exchange Rate

EUR Index (Left) EURUSD (Right)





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# Citi Economic Surprise





- Weakness in local economic activity, in light of slowing global economy and political uncertainty, as Q2 results were downgraded to 0.6% (annually). Excluding the impact of tax on imported goods, growth in the second quarter was 2.7% after 3% in the first quarter and 3.5% in the third and fourth quarters of 2018
- Signs of weakness mount in the job market as the number and rate of open jobs at Q3 declined to the lowest level since 2016 and the labor force participation rate continued to decline to 63.3%, the lowest in more than 7 years
- As of January 2020, the State of Israel will operate on the basis of the 2019 budget. The actual implication is a 12.6 billion ILS cut, an inability to extend temporary budgets, make changes and promote new projects, precisely when these are needed. Needless to say, the government's ability to reach budget consolidation as quickly as possible is significant in terms of Israel's credit rating
- Adverse change in the geopolitical situation in light of US exit from Syria and its unwillingness to respond to the growing Iranian aggression. The statement made by the Israeli Chief of Staff and the military's budget requirements are evidence of the change
- Deflationary pressures continue to mount after September CPI fell 0.2%, lower than previously expected, and inflation in the past year rose only by 0.3% below the inflation target (1% -3%). Subdued inflation is expected in coming months in what seems to be as a window of opportunity for the BOI to cut interest rates. Since, already in the pervious interest rate decision two out of the five members of the monetary committee supported interest rate reduction it can be assumed that the reduction will already be made in the upcoming decision that will take place on November 25<sup>th</sup> , 2019



# Core Economic Indicator

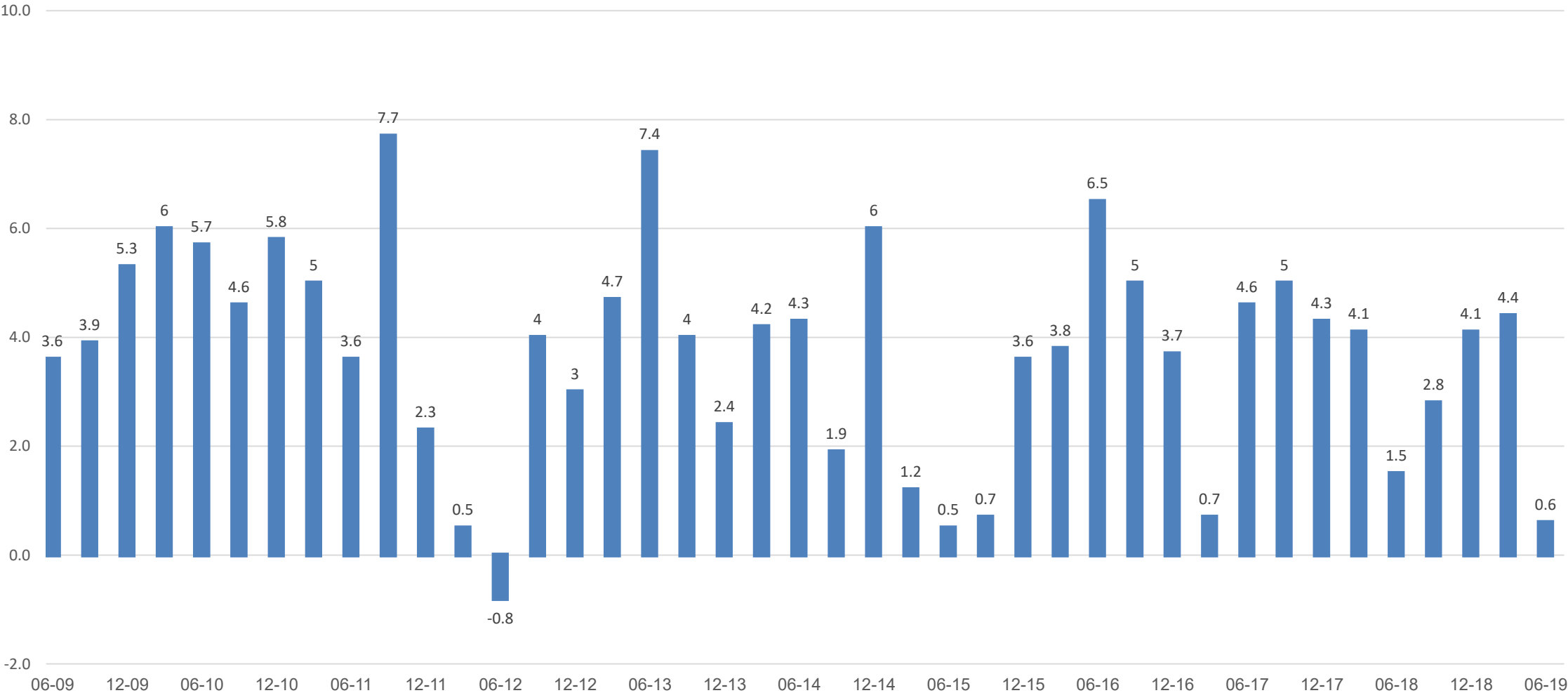
## Israel

Economic Indicator	Latest Figure	Reference Period
Growth Rate	0.60%	Q2-2019
Unemployment Rate	3.7%	September-2019
Inflation Rate (YoY)	0.3%	September-2019
Central Bank Interest Rate	0.25%	October-2019
10 Years Yield	0.87%	October-2019
Ratio of Surplus in Current Account to GDP	3.38%	Q2-2019
Ratio of Public Debt to GDP	61.00%	Q4-2017



# Economic Growth

## GDP (Annualized)





# Labor Market

## Unemployment Rate

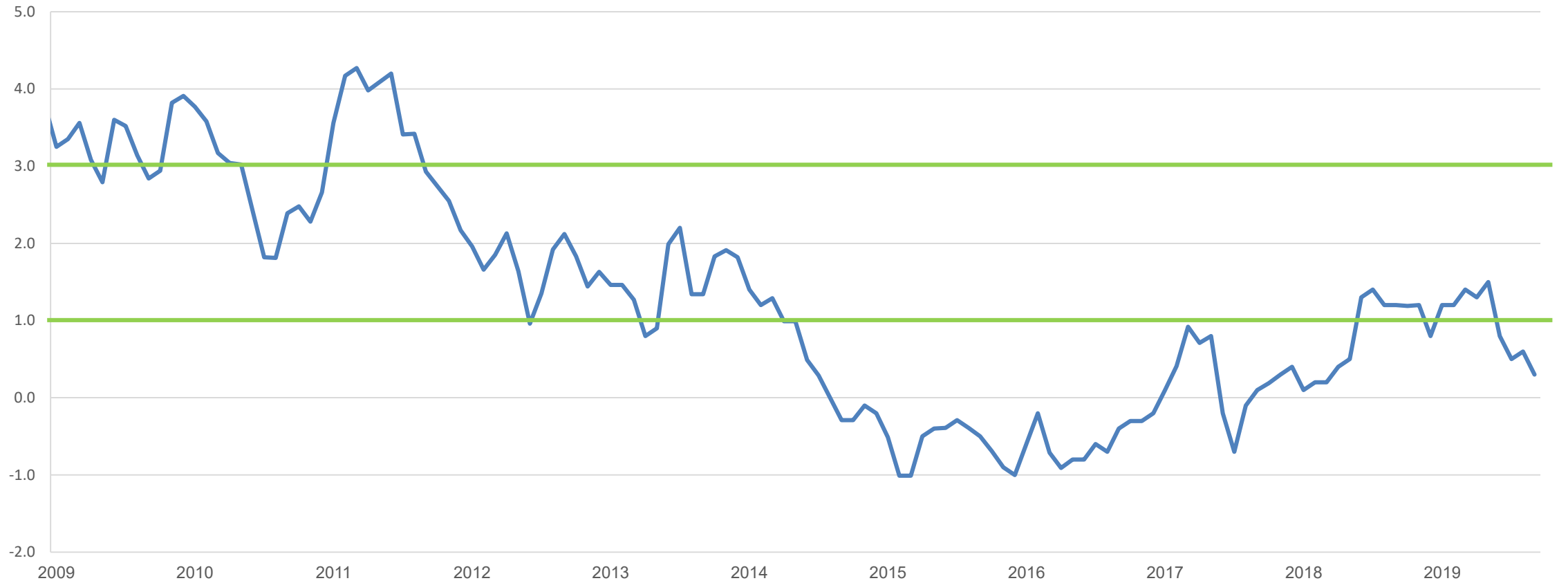




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# Inflation

CPI (YoY)







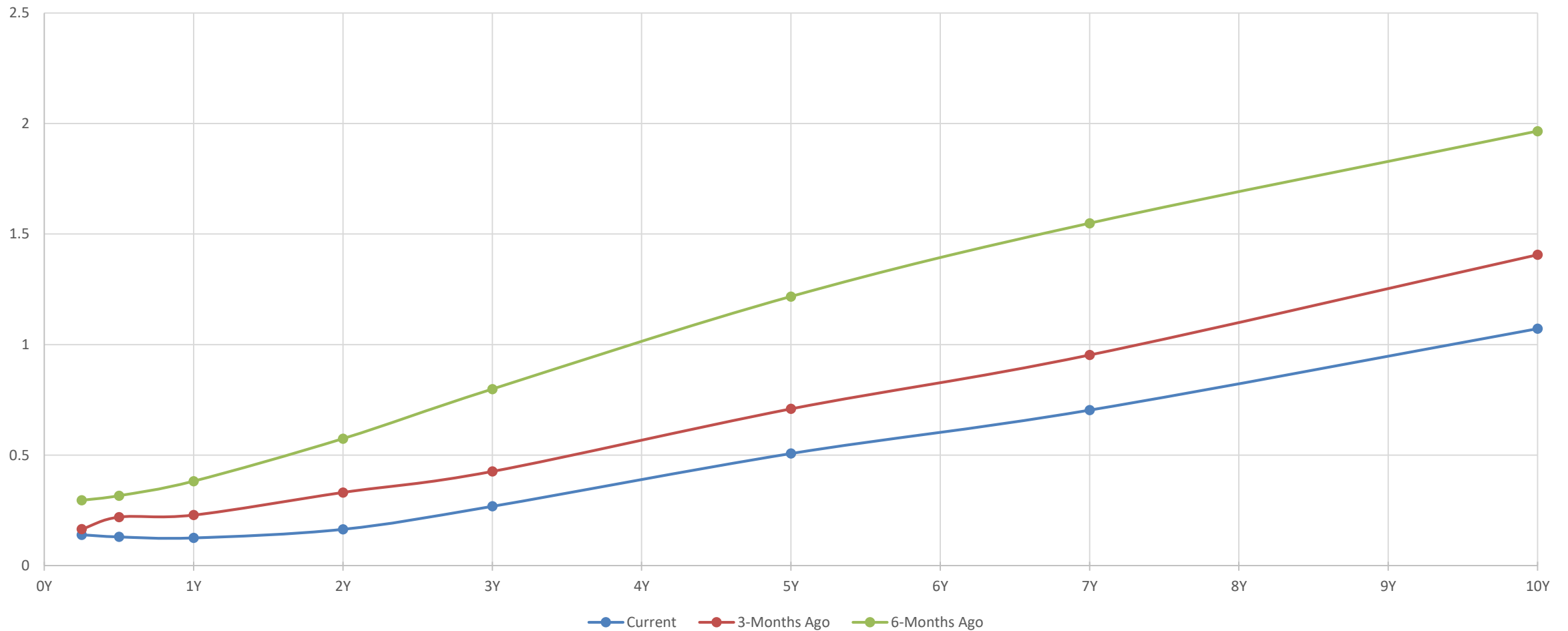
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# 10YR Government Bond Yield





# Government Bond Yield Curve

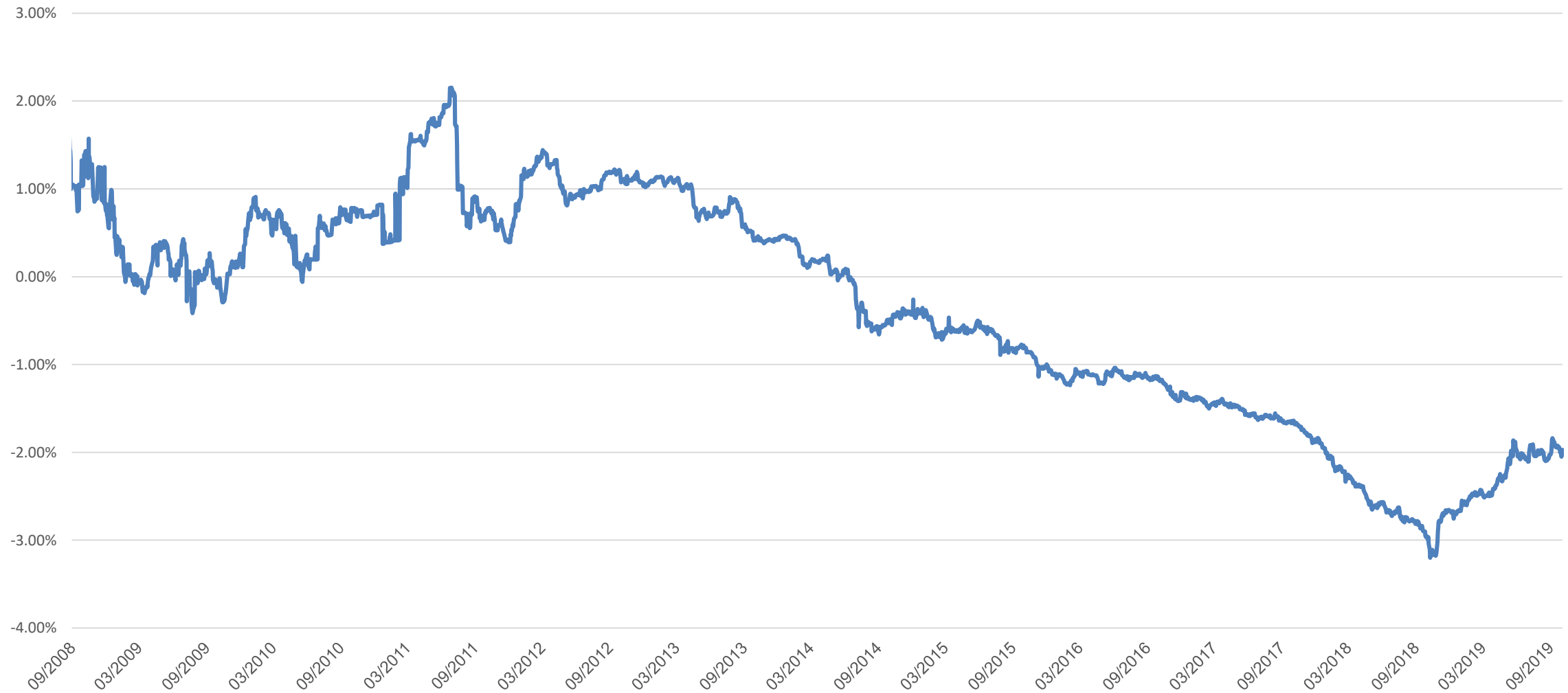




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# Hedging Costs

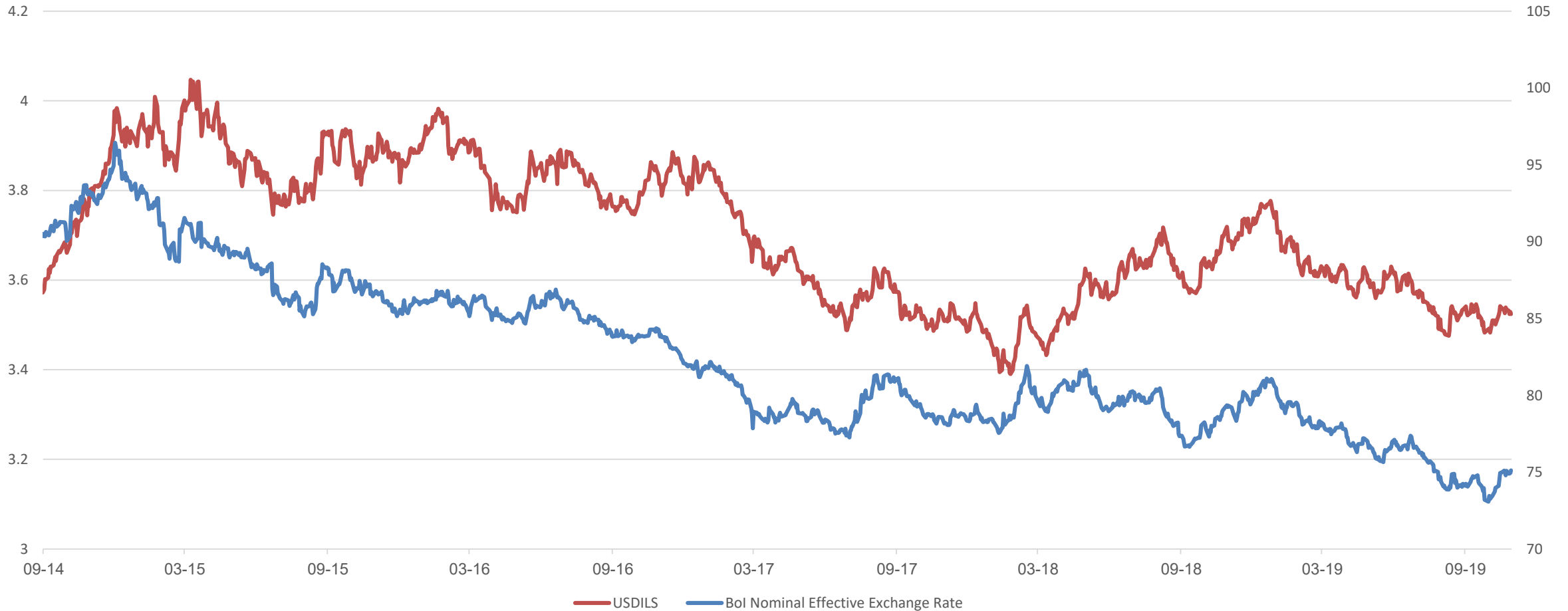
USDILS 1YR Forward Premium





# Exchange Rate

USDILS (Left) BoI Nominal Effective Rate (Right)





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**CONNECTING THE RIGHT DOTS**

**CREATING THE RIGHT PICTURE**