



Financial
Immunities

Market Insights

October 2020



Global Economy

- About 34 million people have been infected and 1 million have died, this is the death toll of the Coronavirus so far. It is now clear that trying to **live alongside the Coronavirus turns out to be a daunting task**
- **The OECD updated its growth forecast from a contraction of 6% to 4.5%** but noted that the recovery would take a long time and that further fiscal and monetary assistance is needed. A large revision was recorded in China (-2.6% to 1.8%), which is expected to be the only economy in the G-20 to grow in 2020, but large revisions were also recorded in the United States (-7.3% to -3.7%) and Europe (-9.1% to -7.9%). **Emerging markets are proving to be a weak link in the global economy**, with their inability to cope with the Coronavirus prompting the OECD to downgrade its growth forecasts. It is worth noting India, which is expected to shrink by 10.2% (-3.7% in June forecast), the worst performance of major economies
- **The race for the development of vaccines, drugs, and rapid test kits continues** and it now appears that **several companies are expected to receive approval from the health authorities as early as the end of 2020 and early 2021**. Impressive progress has been made in the development of rapid test kits, some of which have already been approved
- **The financial markets tumbled last month amid fears of another dangerous morbidity wave**, which will combine the Coronavirus with the flu and will inevitably lead to further restrictions on the global economy
- Meanwhile, **decision-makers around the world continue to pour huge sums of money into markets and economies** with great determination to enable households and businesses to survive the difficult period. Some major central banks have seen a change in attitude towards meeting inflation targets, and ,as a result, future monetary policy is expected to be more accommodative



- **The daily number of Coronavirus cases in the US has steadily risen in the past month** after various countries continued to open up the economy. However, the number is still half the peak recorded in July, when infections reached almost 80K a day. The US account for about 20% of all the world's confirmed cases and deaths. A rate slightly lower than the peak (25%) after the epicenter of the Pandemic has continued to shift towards emerging countries such as India, Brazil and Mexico
- Despite the resurgence in Coronavirus cases, the inability of Congress to reach bipartisan spending bill and the coming election, **it seems like the gradual economic recovery continues, albeit at a slower pace.** Retail and housing activity, have rebounded to pre-pandemic levels, but the labor market still has a long way to go, as jobless claims point to stalling in the recovery. The big concern now is that sustained uptrend in cases will ultimately weigh on consumers and damage their confidence
- The economy recover gradually, but **few sectors still run far below pre-pandemic levels. Restaurants** which improved but remained 43% below pre-pandemic levels, **public transportation** steadied at about half of its norm, **and airline passenger traffic** picked up slightly though remained at a third of its normal levels
- Meanwhile, Fed officials reiterated there's a long way to go for an economic rebound, which will likely require more support, and kept on emphasizing the need for further aid. These messages underscore **the Fed** preemptive approach, which **prefers to pursue an overly accommodative policy, rather than jeopardizing the fragile economic recovery.** In general, it seems that monetary policy according to the Fed is not just a story of price stability and interest rates, but a policy that is responsible for issues that were previously considered political such as inequality, climate and more. The pandemic seems to have reshaped the role of central banks, led by the Fed



- **A new wave of Coronavirus cases due to loosen lockdowns is jeopardizing economic recovery.** EU countries are making every effort to overcome the renewed outbreak without taking drastic measures
- After several positive months, **economic indicators show signs that economic activity took a renewed hit.** While manufacturing activity remained robust as reflected in the manufacturing sector's PMI (53.7 from 51.7), the services sector fell to 47.6 from 51.9, a level that reflects a contraction. On and all, the composite PMI remained above the 50 levels, at 50.1, although this is the lowest level in 3 months, which expresses a stagnation in economic activity
- Meanwhile, the excess liquidity in the Eurozone continues to rise after **the ECB recently completed another round of lending** in which it handed Eurozone banks 174 billion euros, in what is known as TLTROs. This tool of cheap loans at a negative interest rate of 1% for 3 years becomes a key tool of the ECB in its attempt to stimulate economic activity until a vaccine is found, without harming the banking systems. The side effect of the ECB's intervention is an increase in excess liquidity in the bloc to a level of 3 trillion and a decrease in the 3-month Euribor interest rate to a historic low of -0.5%
- While Economic recovery is delayed and the economy is expected to shrink by 8% this year, inflation is negative for the first time in 4 years and the Euro weighs heavily, it is not surprising that **investors expect the ECB to take a preemptive approach and launch a new round of incentives.** This could be reinforced by the words of the ECB's chief economist, who has suggested more must be done to revive inflation even if the worst of the economic crisis has passed



- **Loss of control over the spread of the Coronavirus as a result of poor management led Israel to another full lockdown.** It is difficult to estimate at this stage the economic damage involved in entering a second lockdown, but it is clear that the loss of confidence in the existing leadership and its ability to navigate the country is likely to make it hard to achieve its goals
- **The OECD estimates that Israel is suffering from severe economic shock resulting from the Coronavirus crisis.** The organization estimates that the Israeli economy will experience a contraction of 6% during 2020, before gradually recovering by 2.9% in 2021. The low GDP growth in 2021 is due to the high uncertainty over the virus and the weak global demand. Unemployment rate is expected to remain above pre-crisis levels until the end of 2021
- As of the first half of September, **consumer-confidence has improved slightly, but is still in strong negative territory**, reflecting great pessimism, uncertainty about the personal and general economic situation, and great caution regarding big-ticket buying intentions. **The survey does not reflect the entry into another full lockdown**
- **The expected dramatic increase in the debt-to-GDP ratio to a level of about 80% make Israel's credit rating downgrade inevitable**, and the question is not whether but when the event will occur, and what its impact will be on local financial markets. The Shekel's depreciation against most currencies during September reflects the grave concern among investors and traders
- **The BOI announced that the banking system will allow for a further extension of the bank loan payments program.** To date, **15.8% of the total the banking system's credit portfolio is deferred**, an evidence of the severe distress in which households and businesses are in as a result of the crisis, and the tremendous exposure of the banking systems to the crisis



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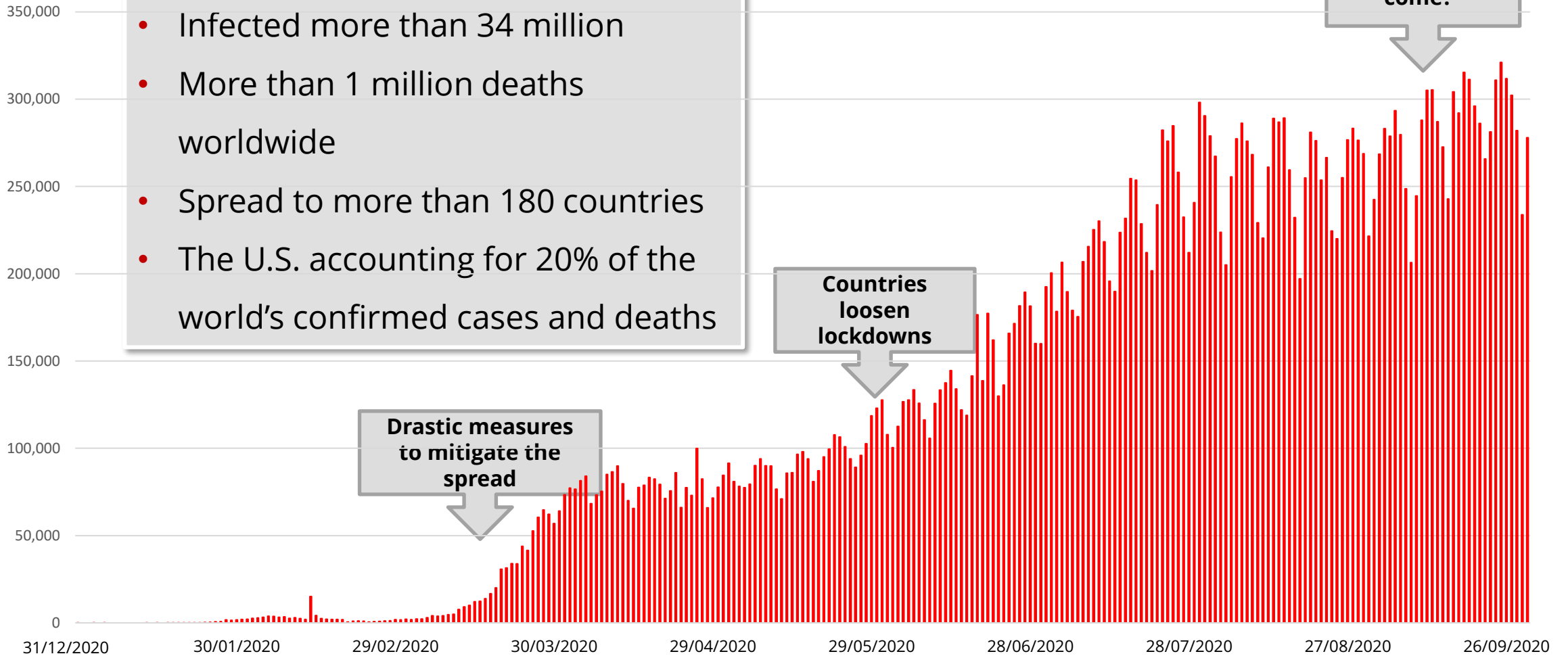
Global Economy



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Coronavirus Meter

Global Cases Added Per Day



- Infected more than 34 million worldwide
- More than 1 million deaths worldwide
- Spread to more than 180 countries
- The U.S. accounting for 20% of the world's confirmed cases and deaths

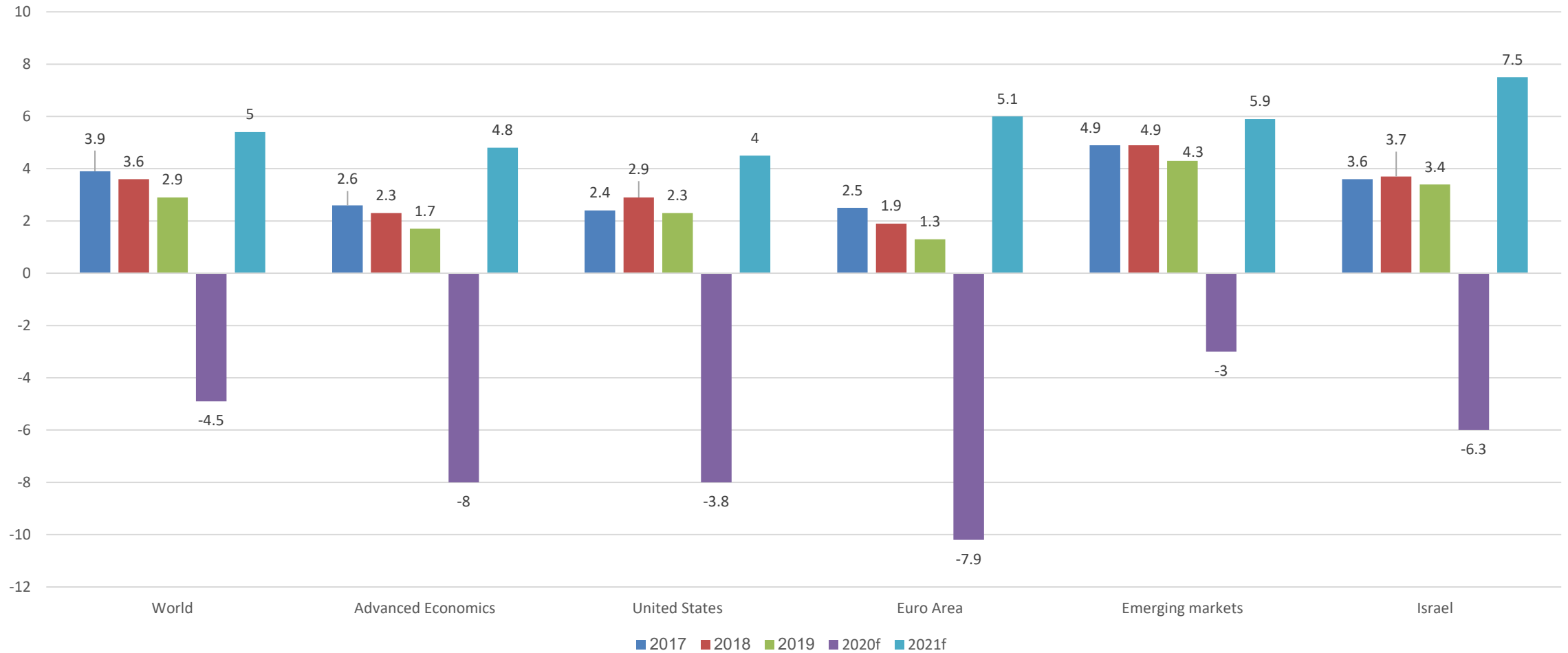


Stimulus Tracker

Country	Monetary Stimulus (\$ bn.)	Fiscal Stimulus (\$ bn.)	% of GDP	Rate Cut
USA	3,438	2,842	28.9%	1.5%
EU	1,720	2,133	16.4%	---
China	221	792	7.2%	0.4%
Japan	1,631	1,125	53.5%	---
UK	669	90	26.9%	0.7%
Australia	40.7	197	20.8%	0.5%
Canada	205	133	19.4%	1.5%
India	50	289	10.6%	1.2%
Israel	20	31	12.7%	0.15%
IMF	---	200	---	---
Global Economy	8,500	11,400	22%	---



GDP Forecast (%)



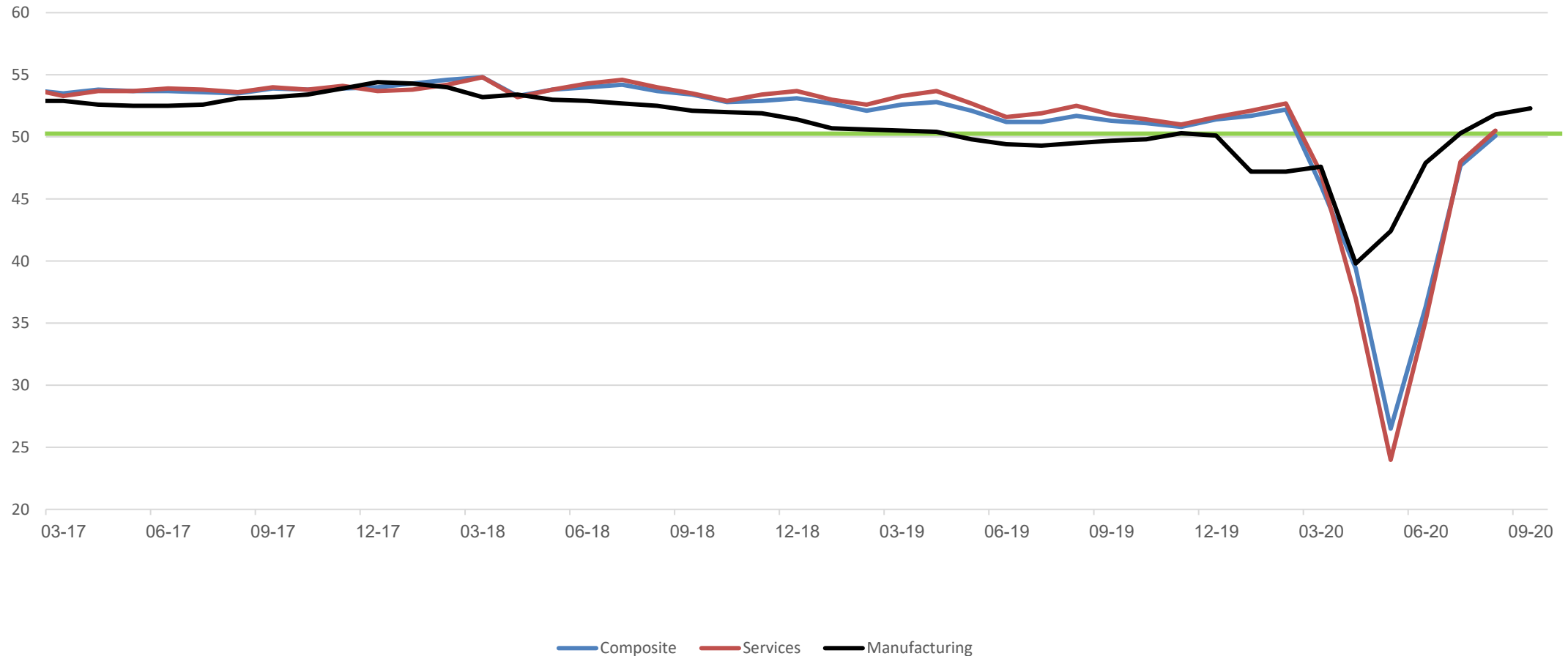
Source : World, USA, Euro Area (OECD - Sep 20), Advanced Economics, Emerging Markets, Israel (IMF - June 20)



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The Economy is No Longer Contracting.....

Global PMI





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US Economy



Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	-31.4%	Q2-2020
Unemployment Rate	7.9%	September -2020
Inflation Rate (Core PCE, YoY)	1.3%	July -2020
Central Bank Interest Rate	0%-0.25%	September -2020
10 Years Yield	0.65%	September -2020
Ratio of Surplus in Current Account to GDP	-2.61%	Q2-2020
Ratio of Public Debt to GDP	107.82%	January- 2020



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Better than Expected Performance

Citi Economic Surprise

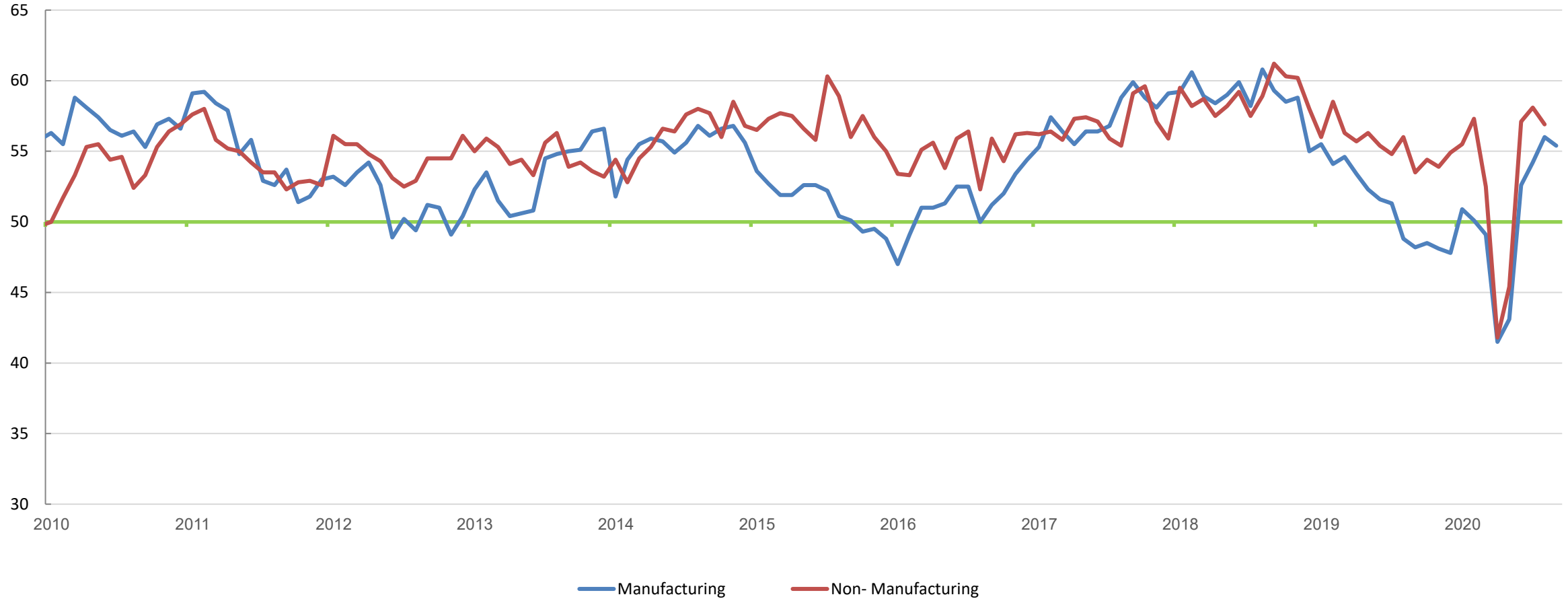




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Sharp Recovery But Further Stimulus is Needed

ISM

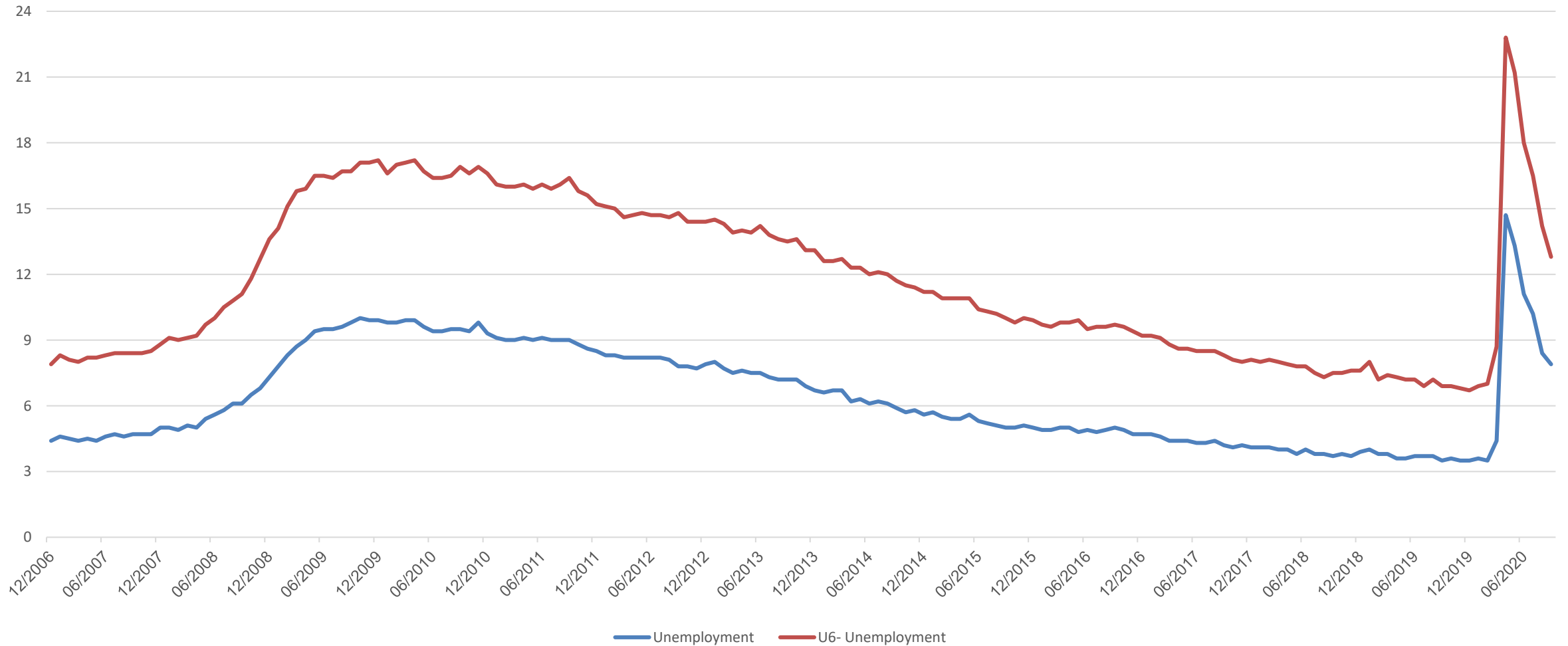




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Long Way to Go for Recovery

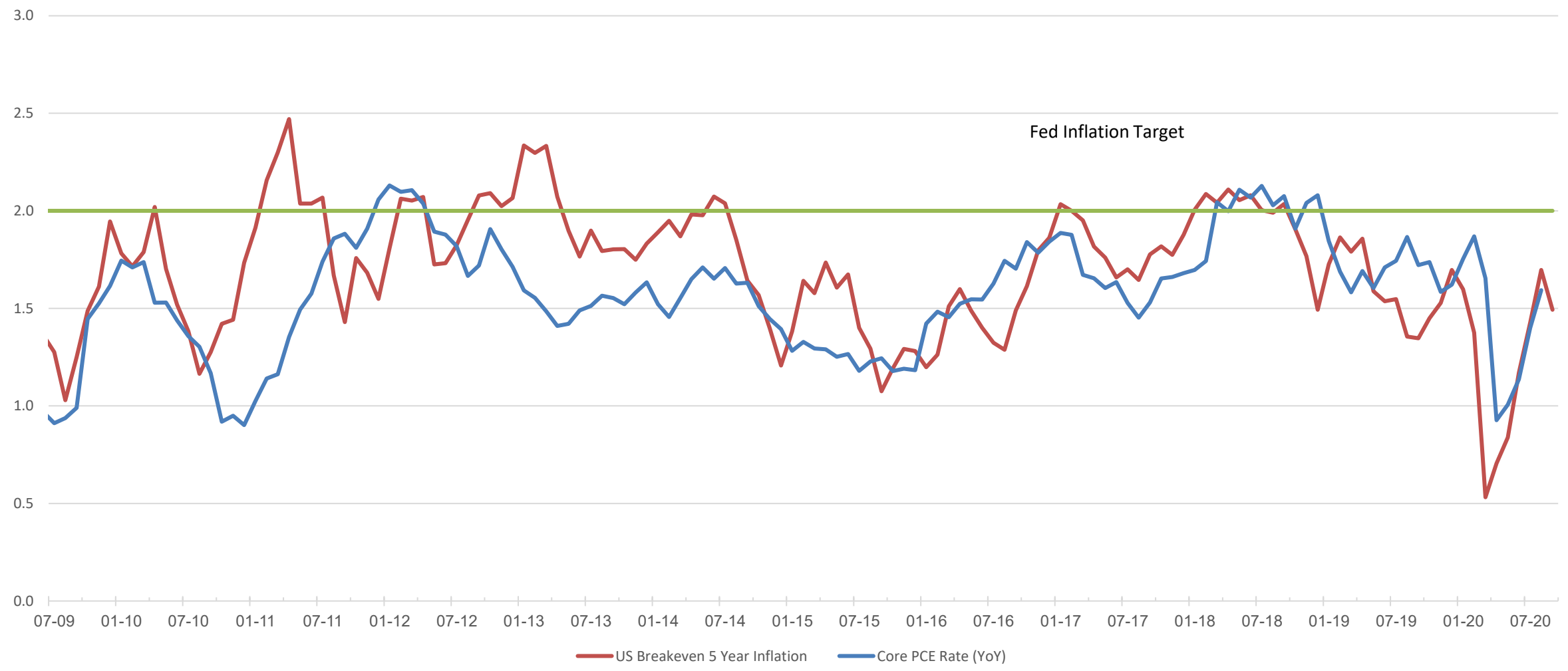
Unemployment Rate





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Price Pressures Still Not Seen





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Yields are Stabilizing at Lowest Levels Ever

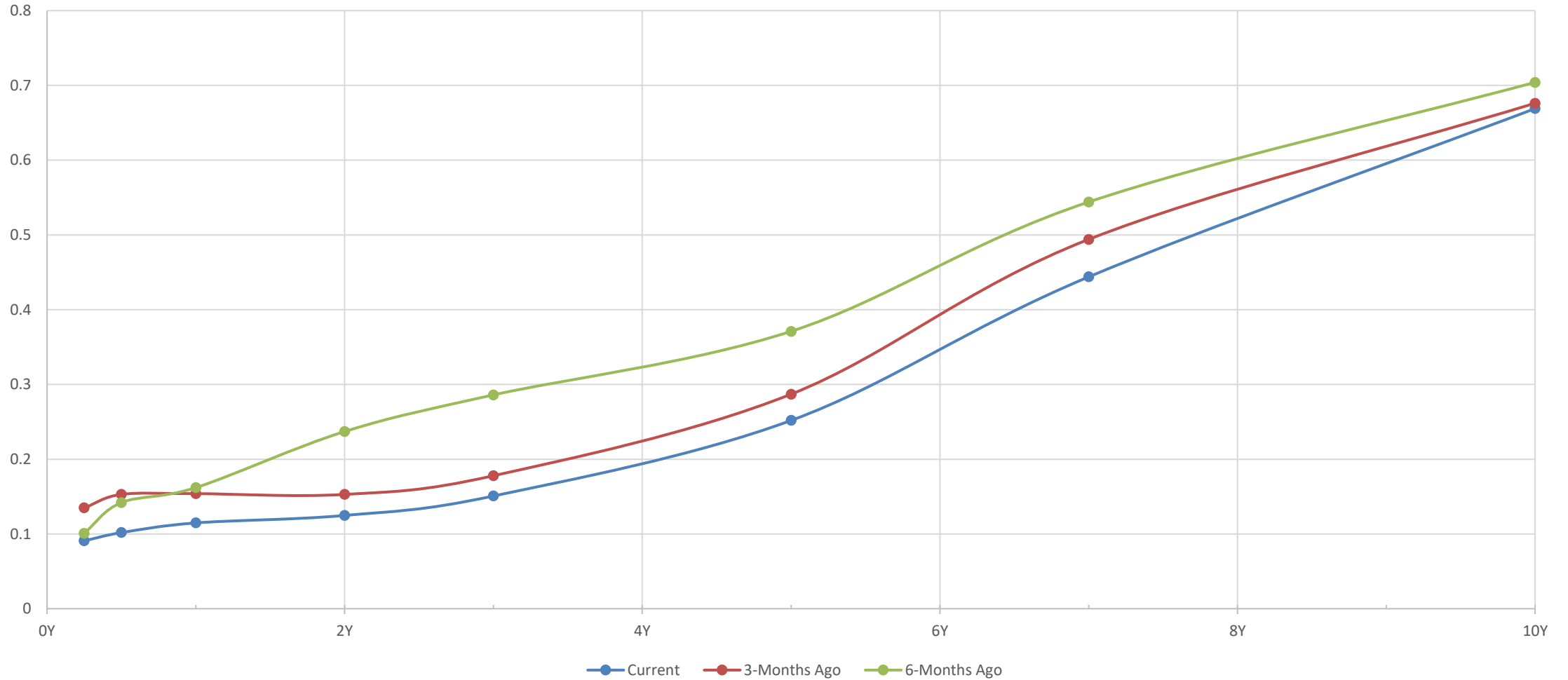
10YR Treasury Yield to Maturity





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US Treasury Yield Curve

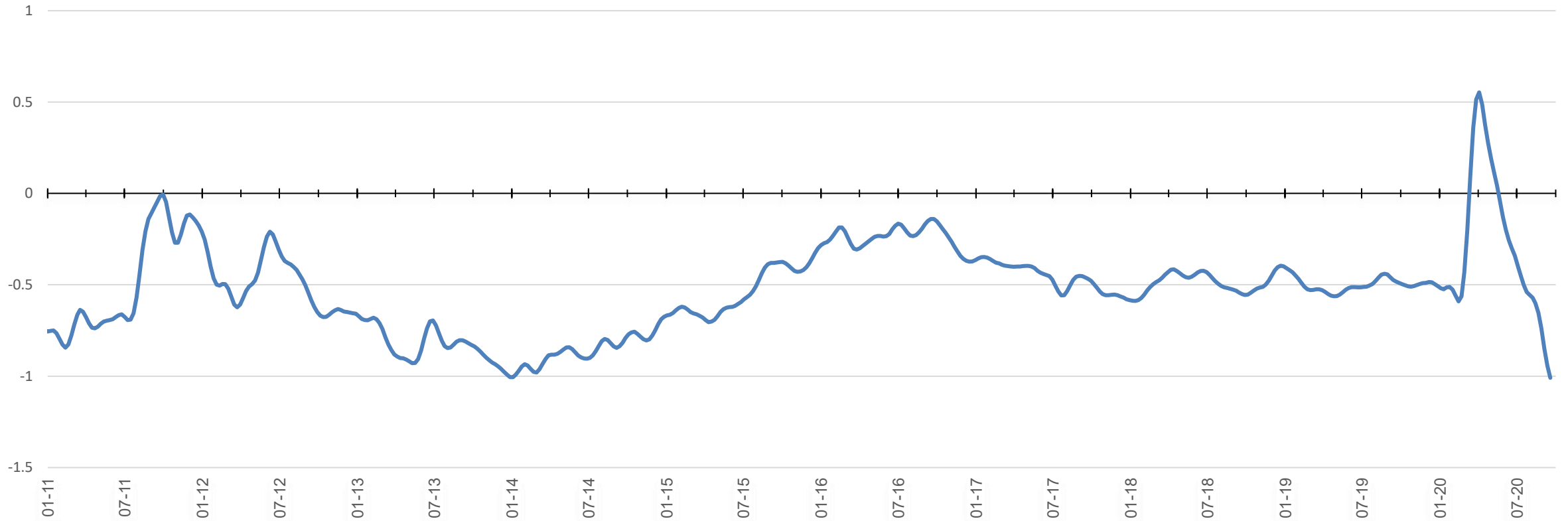




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Endless Liquidity

Chicago Feds National Financial Condition Index (NFCI)



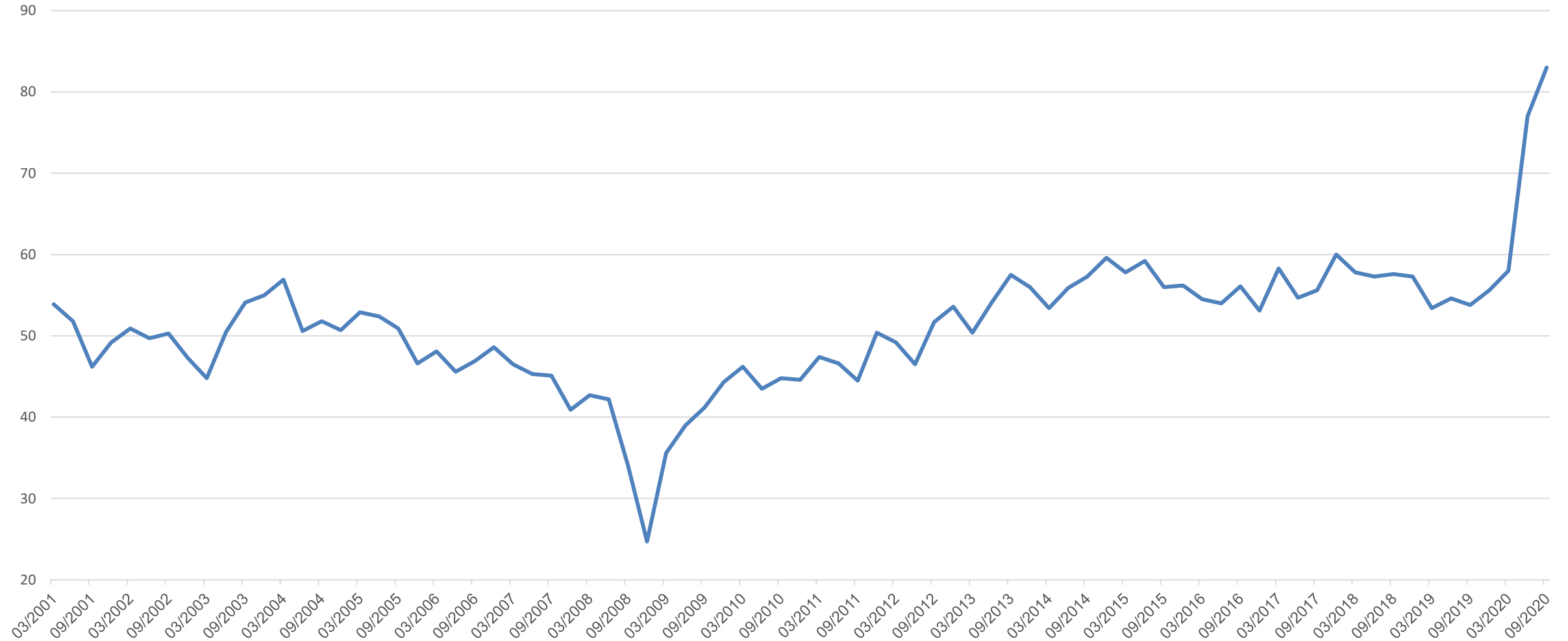
The NFCI provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and “shadow” banking systems. Negative values have been historically associated with looser-than-average financial conditions



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Housing Bonanza

US Housing Market Index (NAHB)





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US Dollar Index (DXY)





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Eurozone Economy



Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	-39.4%	Q2-2020
Unemployment Rate	7.9%	June-2020
Inflation Rate (Core, YoY)	0.4%	August-2020
Central Bank Interest Rate	0.00%	September-2020
10 Years Yield (Germany)	-0.54%	September-2020
Ratio of Surplus in Current Account to GDP	2.39%	Q2-2020
Ratio of Public Debt to GDP	86.30%	Q1-2020



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The Economic Indicators are Less Surprising

Citi Economic Surprise

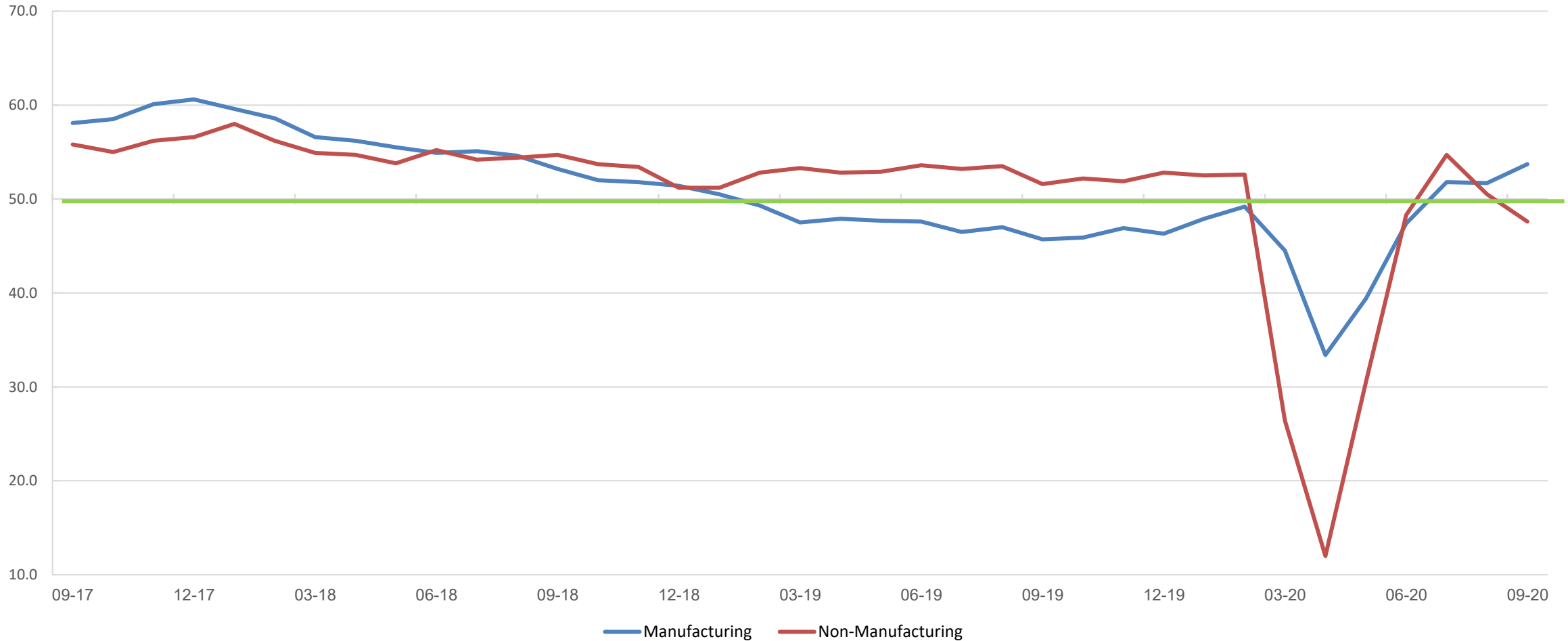




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Stagnation in the Business Sector

Manufacturing and Non-Manufacturing PMI

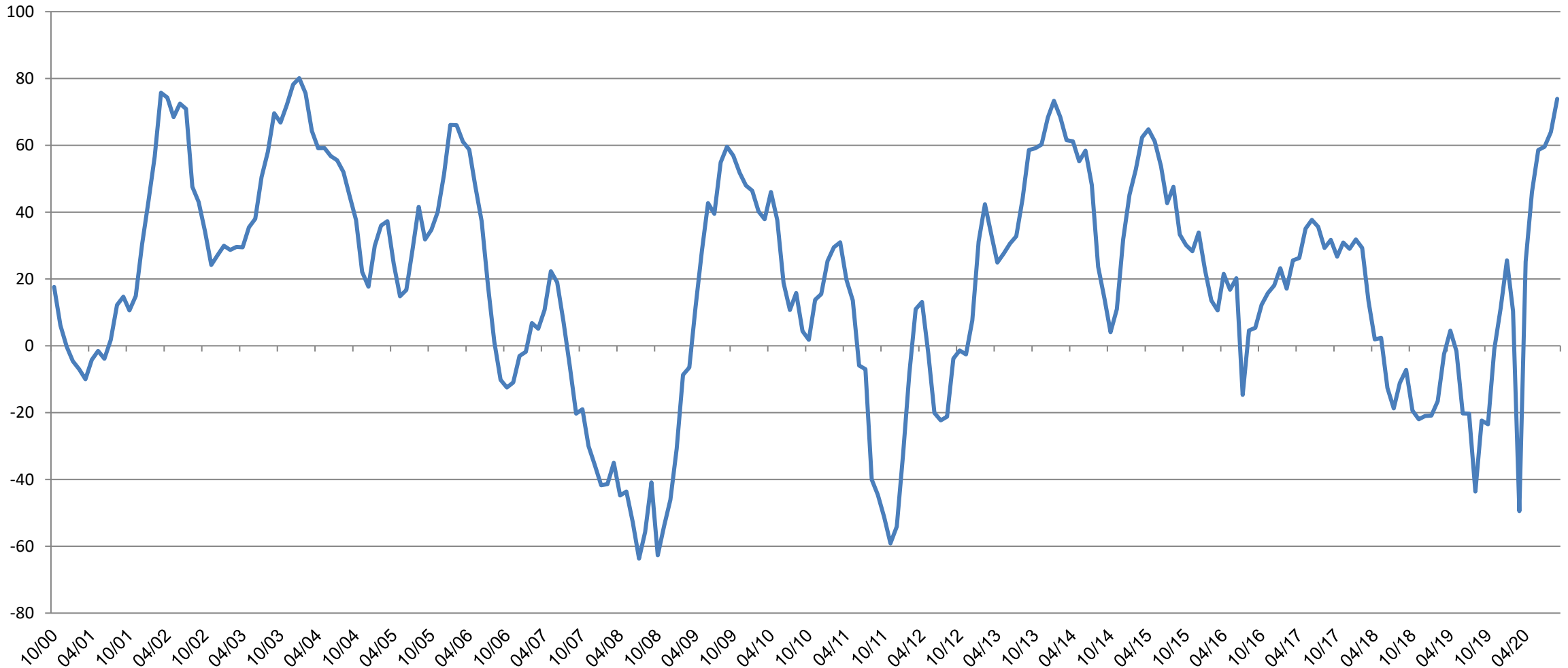




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However, Growth Expectation at 16 Year High

ZEW Eurozone Expectation Economic Growth Index





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Returning to Deflation

CPI and Core CPI (YoY)

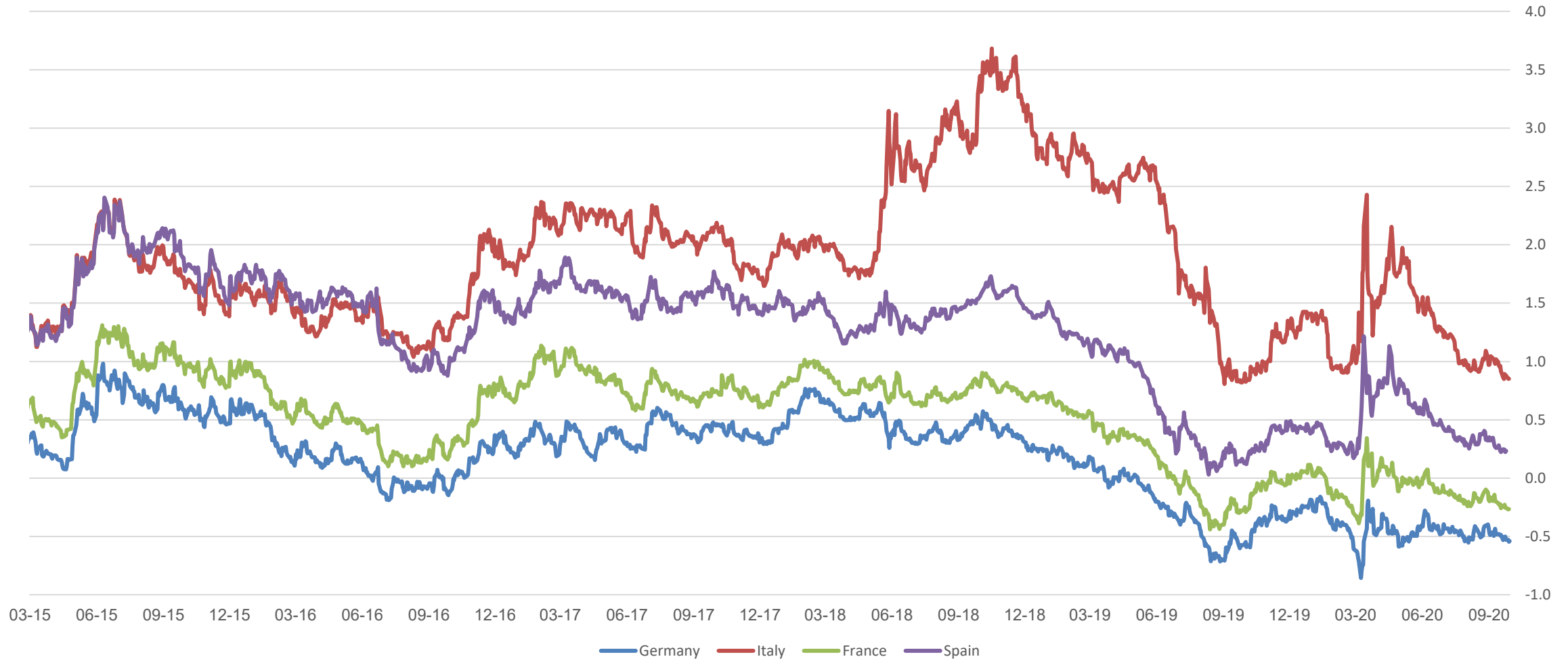




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Fiscal Consolidation = Yield Convergence

10YR Government Bond Yield

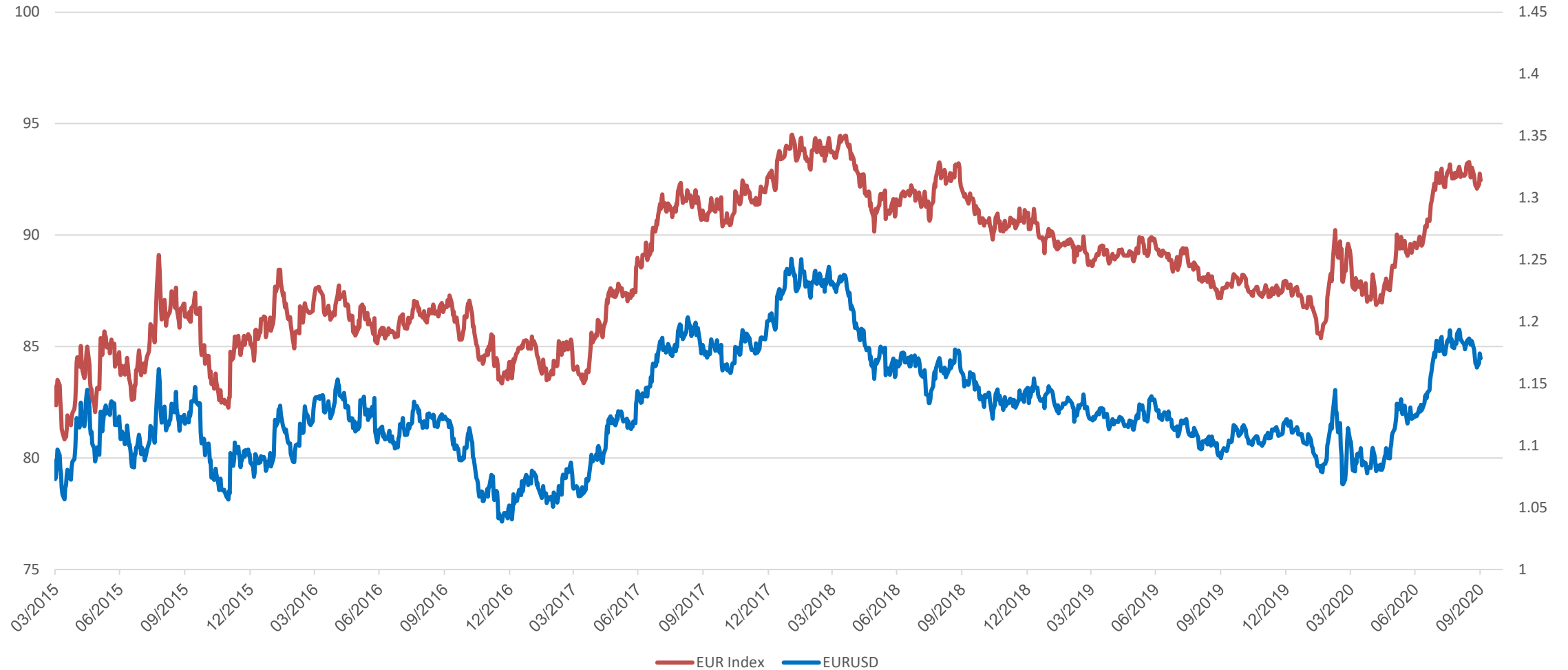




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The Euro Rise Spooked the ECB

EUR Index (Left) EURUSD (Right)





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Israel Economy



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Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	-29%	Q2-2020
Unemployment Rate (pre second lockdown)	11.50%	August-2020
Inflation Rate (YoY)	-0.80%	August-2020
Central Bank Interest Rate	0.10%	September-2020
10 Years Yield	0.70%	September-2020
Ratio of Surplus in Current Account to GDP	3.51%	Q2-2020
Ratio of Public Debt to GDP	61%	Q4-2017

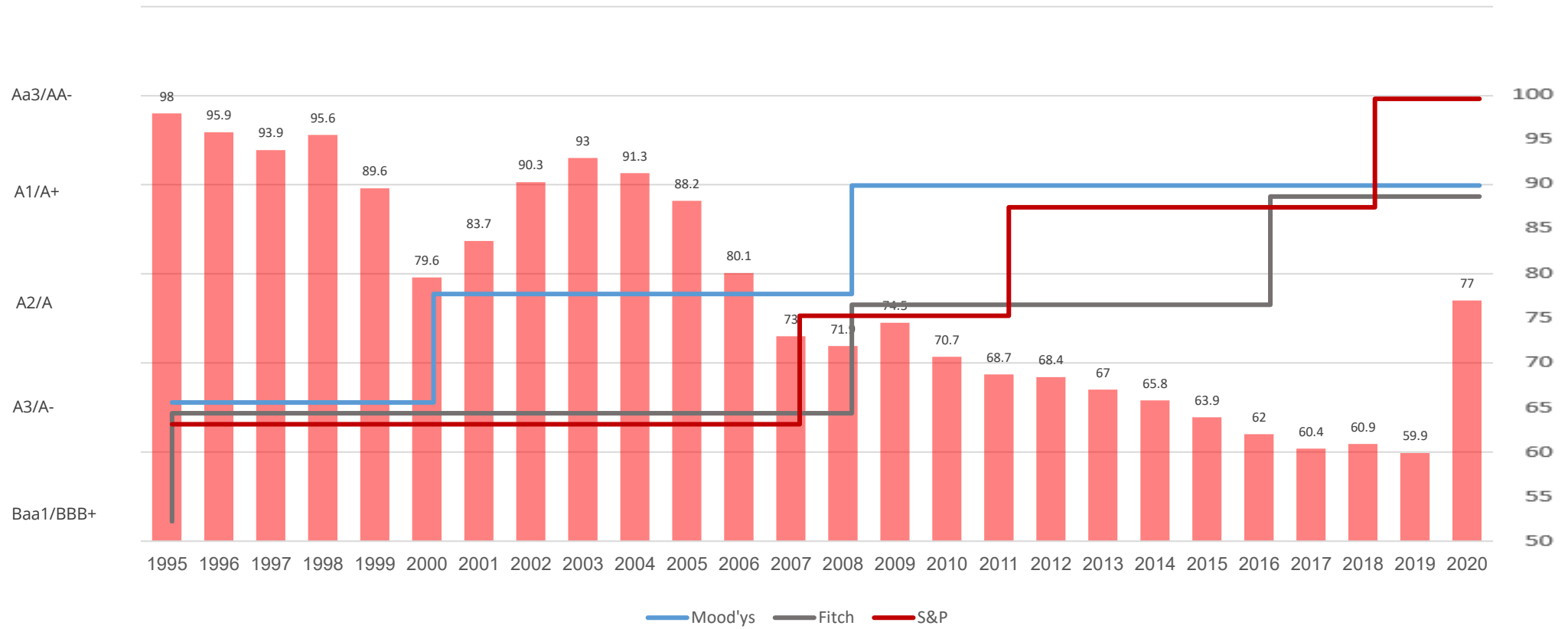


The Credit Rating Downgrade is Inevitable

Israel's Credit Rating (Left) vs Government Debt/GDP (Right)

credit rating

Debt/GDP (%)





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The Deflation is Here to Stay

CPI (YoY)





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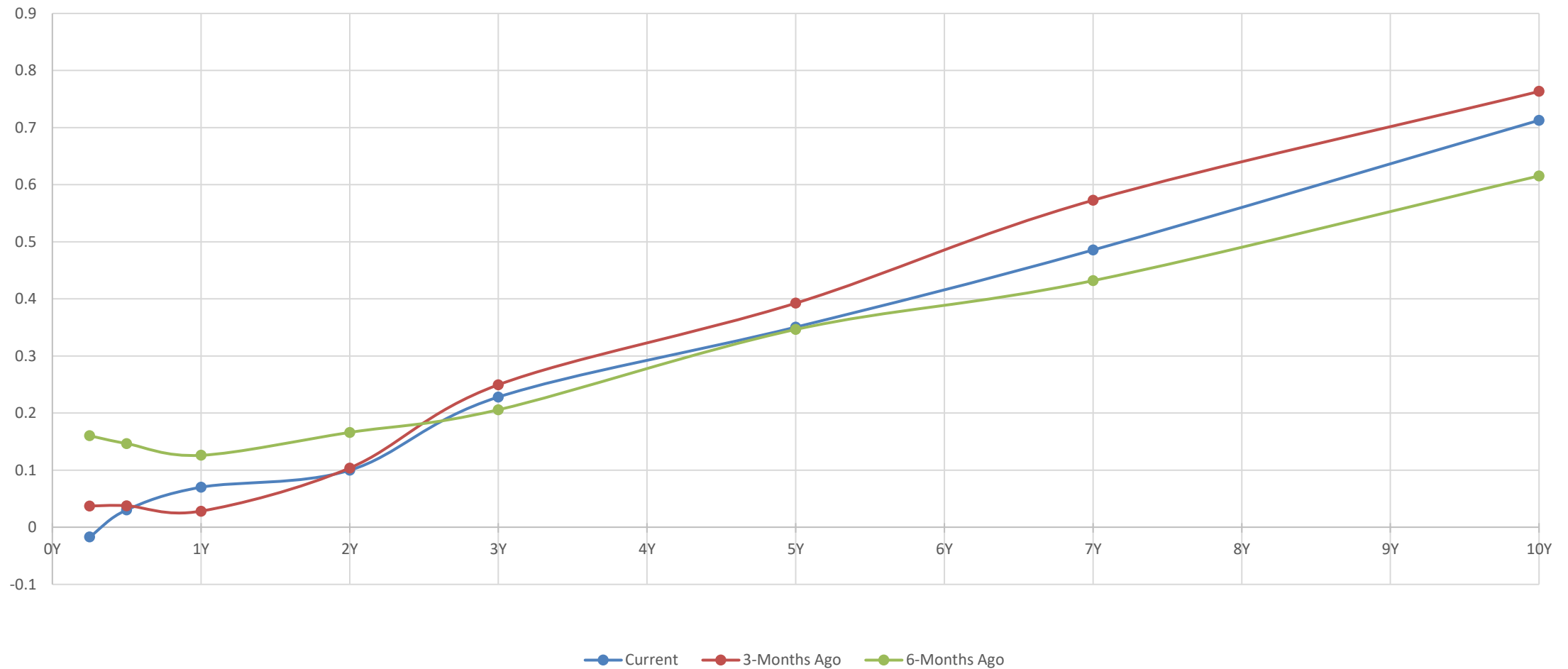
Stabilizing at All Time Low

10YR Government Bond Yield





Government Bond Yield Curve





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Hedging Cost

USDILS 1YR Forward Premium

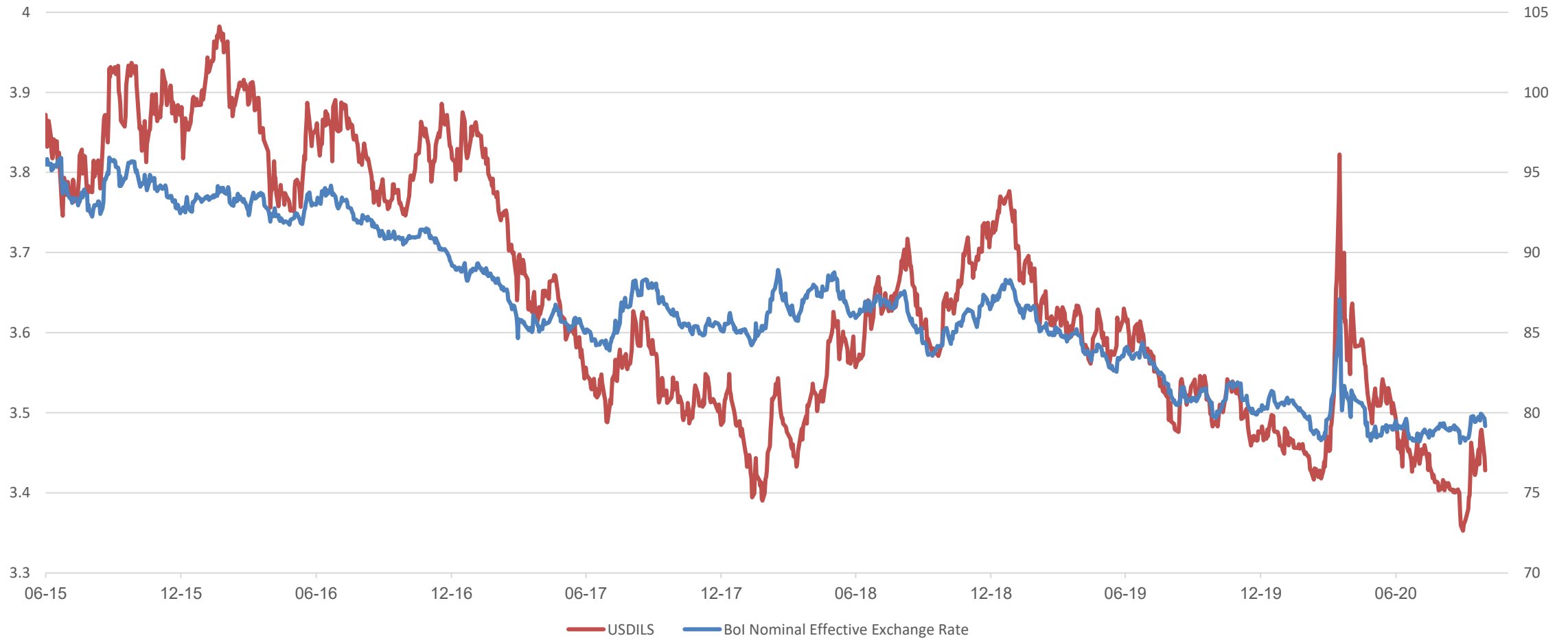




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The Shekel is Close to All Time High

USDILS (Left) BOI Nominal Effective Rate (Right)





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Index Summary

Date	31/08/2020	30/09/2020	Change
USDILS	3.3528	3.4258	2.18%
EURILS	4.0012	4.0176	0.41%
GBPILS	4.485	4.4296	1.24%-
EURUSD	1.1936	1.1721	1.80%-
GBPUSD	1.337	1.292	3.37%-
USDJPY	105.91	105.48	0.41%-
DXY	92.144	93.886	1.89%
USDILS BOI Nominal Effective Rate	78.46736	79.17647	0.90%

Date	31/08/2020	30/09/2020	Change
TA-125	1,423	1,345	5.46%-
S&P 500	3,500	3,363	3.92%-
DAX	12,945	12,761	1.43%-
FTSE	5,964	5,866	1.63%-
HANG SENG	25,177	23,459	6.82%-
NIKKEI 225	23,140	23,185	0.20%
GOLD	1,968	1,886	4.17%-
Crude OIL WTI	42.61	40.22	5.61%-
CRB	451.28	458.82	1.67%



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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE