Financial Immunities

Market Insights

December 2018

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Global Economy

- The global economy is losing momentum and poised to slow in 2019 and 2020 due to the exhaustion of the influence of fiscal policy in the US, the bias towards restrained monetary policies , the trade tensions and the crisis in the EM
- The World Trade Organization (WTO) predicts further deceleration in global trade growth due to trade tensions. After increasing by 4.7% in 2017, the trade growth will slow to 3.9% in 2018 and 3.7% in 2019. The WTO warned that trade conflicts affect business confidence and investment decisions
- Trade tensions are expected to ease temporarily as the US and China declared a truce for 3 months, during which they will try to reach a permanent agreement
- After almost a decade of austerity, the tide is turning as the era of cheap money led by central banks is coming to an end and the center of gravity is drifting towards the fiscal policies
- Leading indicators in China show an ongoing deterioration of business conditions and market sentiment despite recent government actions to support the economy
- Oil prices crashed by 35% amid a huge increase in US oil production to a total output of 15.9M a day, more than Saudi Arabia and Russia. This huge increase has more than offset the expected OPEC cut in oil output and will moderate inflation while helping consumers and businesses to endure a period of slowing economic growth

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United States

- The US economy expanded at a robust pace of 3.5% in Q3. The gain followed a 4.2% in Q2 and was led by a 3.6% increase in consumer spending. Net export was a drag on the economy due to trade conflicts
- Labor market conditions remain tight as the unemployment rate holds at 3.7%, the lowest level in almost 50 years, and earnings climbed 3.1% YOY, the biggest increase since 2009
- Leading economic indicators remain near record highs as small businesses and consumers are still very optimistic and PMI and ISM eased a little bit but are still elevated and point towards a strong growth in Q4
- Overall PCE price index came in exactly on target at 2% and the Core PCE eased a little bit to 1.8%. Rising wages are not yet translating into more widespread price pressures
- In the usual ritual President Trump criticized the Fed once more saying that the central bank is "way off-base with what they're doing”. He also said that he's “not thrilled” with Powell for continuing to raise interest rates. These ongoing attacks from President Trump undermine the Fed’s most important asset, its credibility
- Federal Reserve Chair Jerome Powell said in a speech on the US economy that “interest rates are still low by historical standards and they remain just below the range of estimates of that level that would be neutral for the economy”. This range of estimates of FOMC is 2.5%-3.5%, meaning that the Fed is 1 to 5 hikes from reaching that level

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Core Economic Indicator

USA

Economic Indicator	Latest Figure	Reference Period
Growth Rate (YoY)	3.5%	Q3-2018
Unemployment Rate	3.7%	Oct-2018
Inflation Rate (Core, YoY)	2.0%	Sep-2018
Fed Funds Target Range	2%-2.25%	Nov-2018
10 Year Treasury	3.02%	Nov-2018
Ratio of Surplus in Current Account to GDP	-2.17%	Q2-2018
Ratio of Public Debt to GDP	103.84%	April-2018

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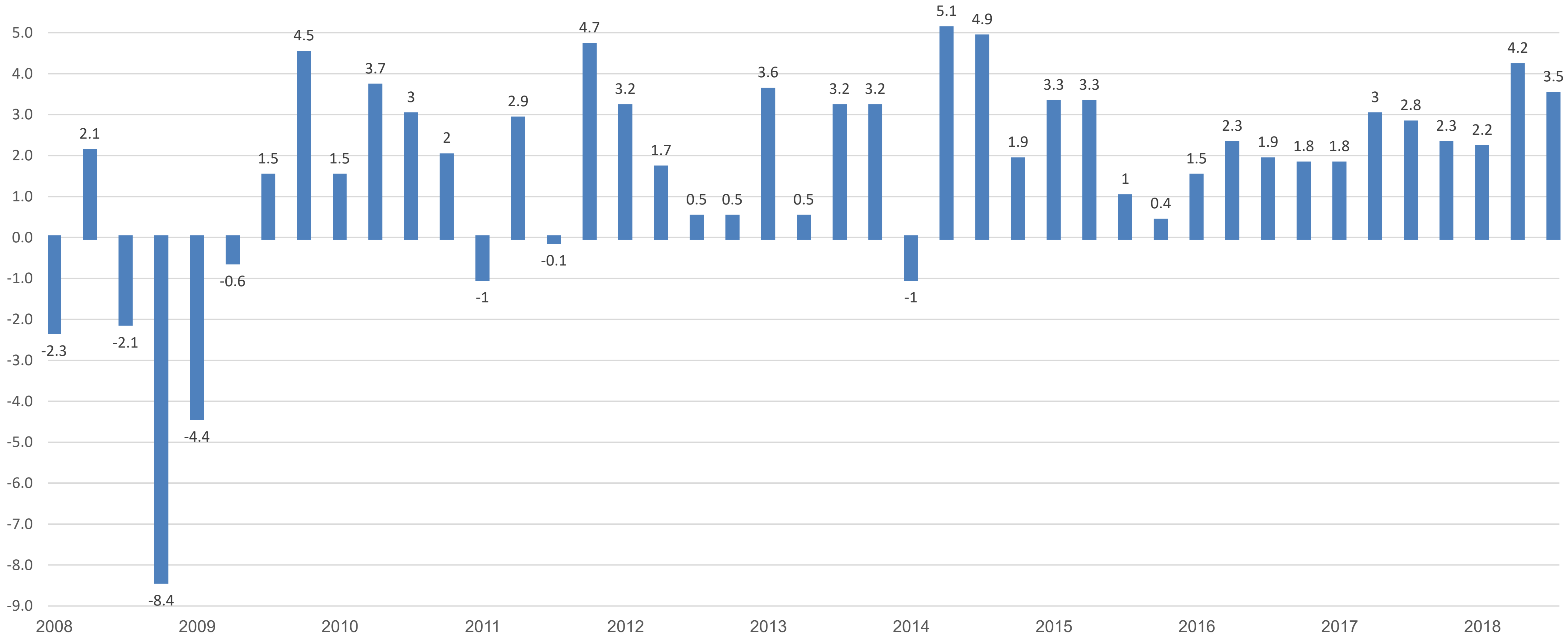
Economic Growth

GDP (Annualized)



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Economic Sentiment

Manufacturing and Non-Manufacturing PMI

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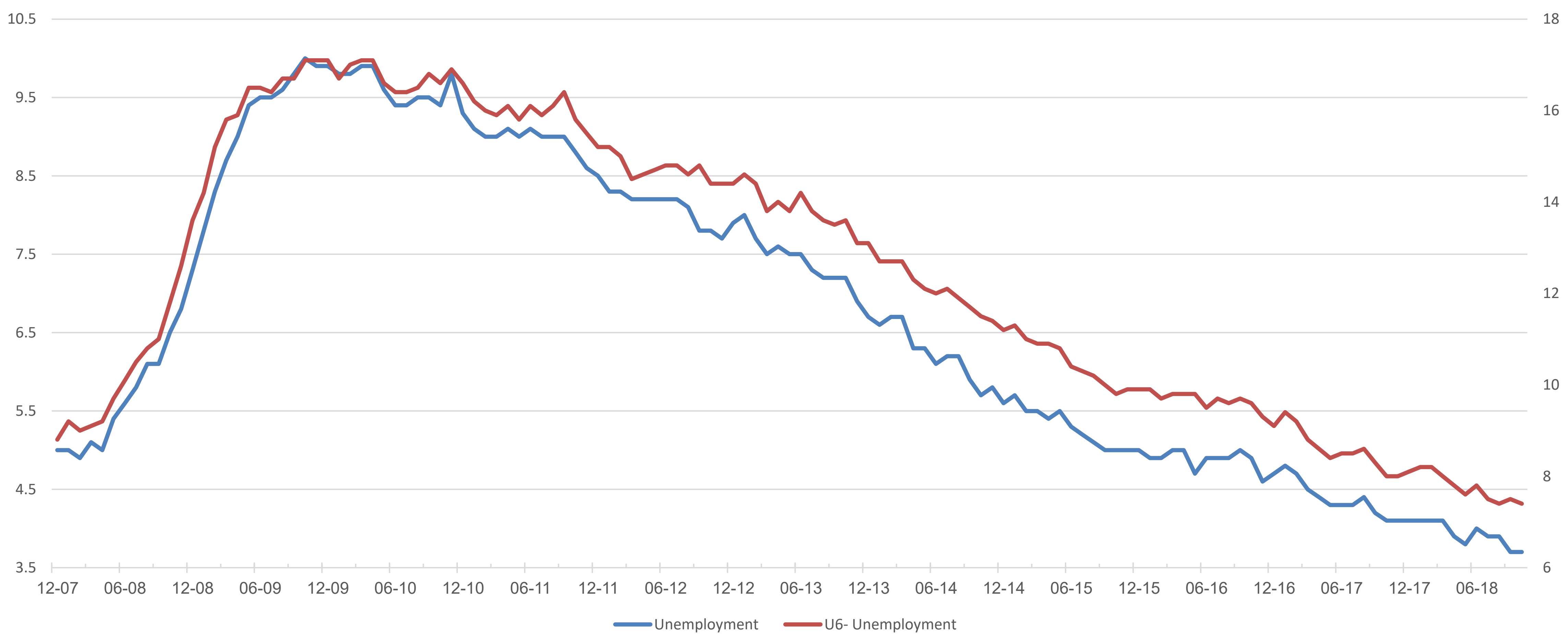
Labor Market

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



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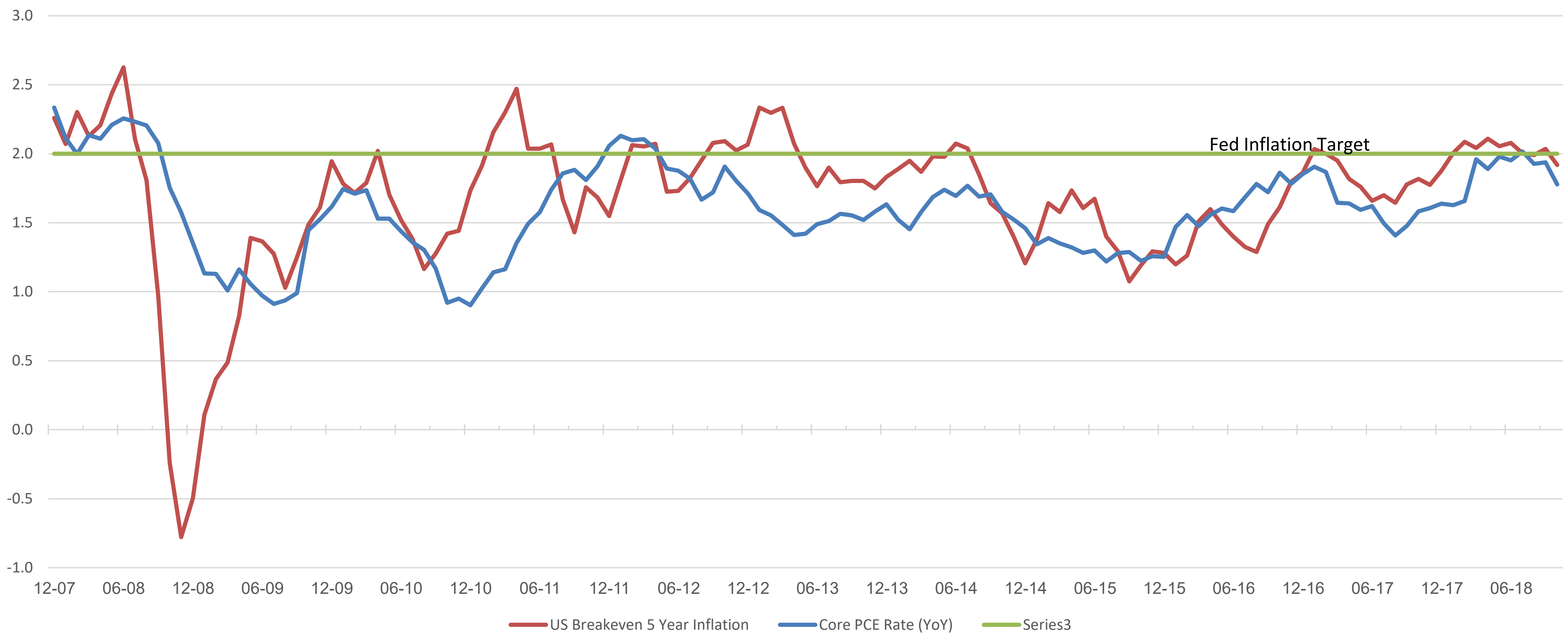
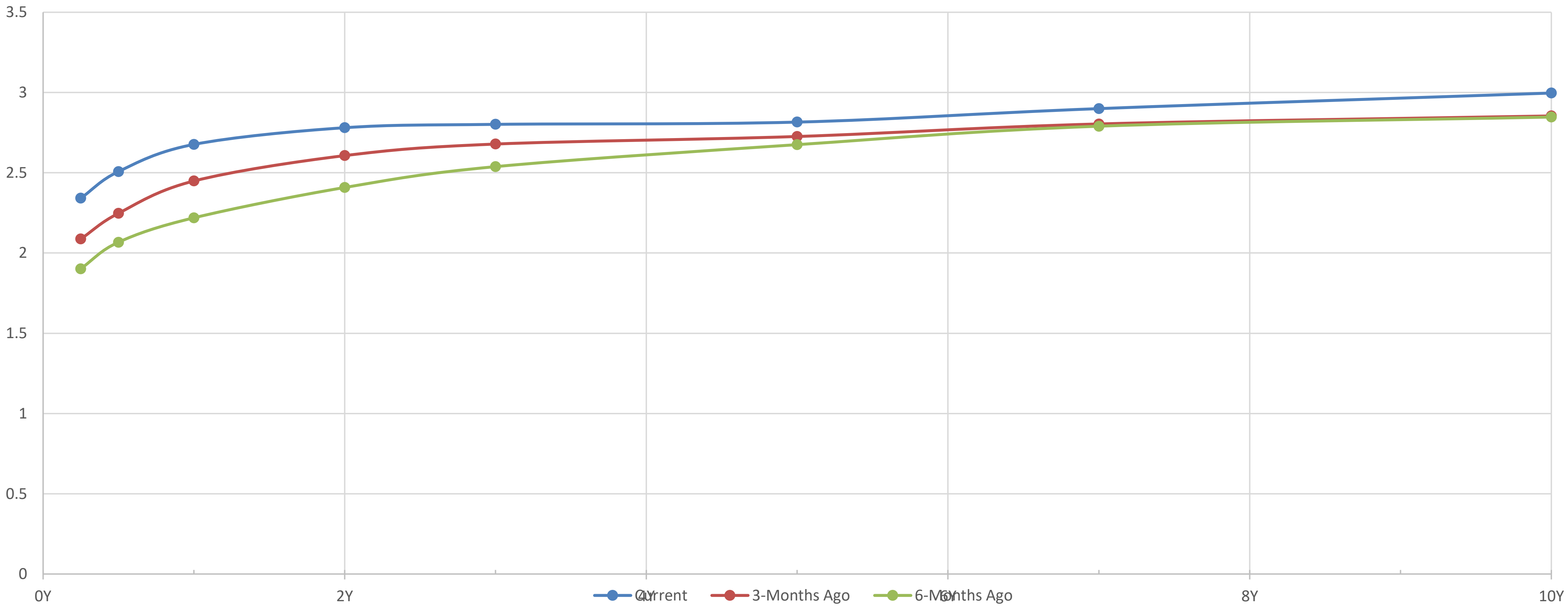
Inflation

Core PCE (YoY) and 5Y Inflation Forecast



10YR Treasury Yield to Maturity

US Treasury Yield Curve



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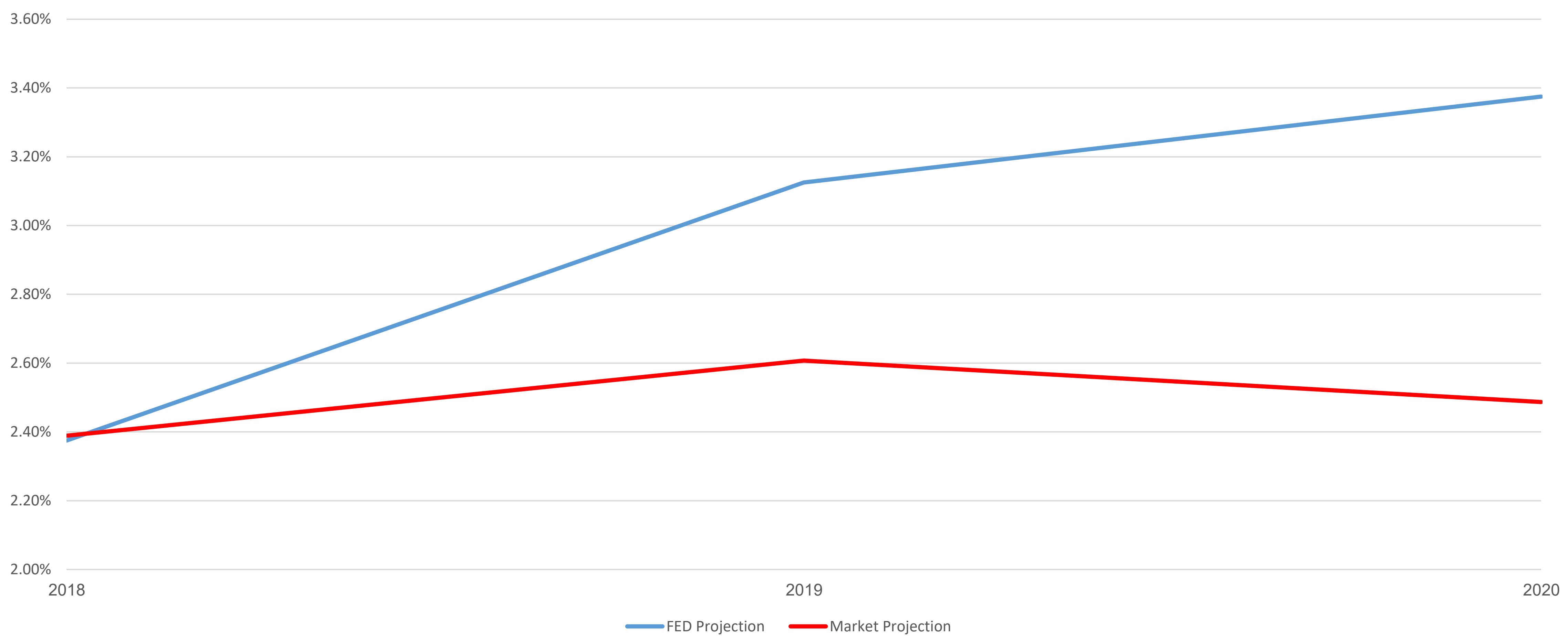
Fed Funds Projection



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US Dollar Index (DXY)

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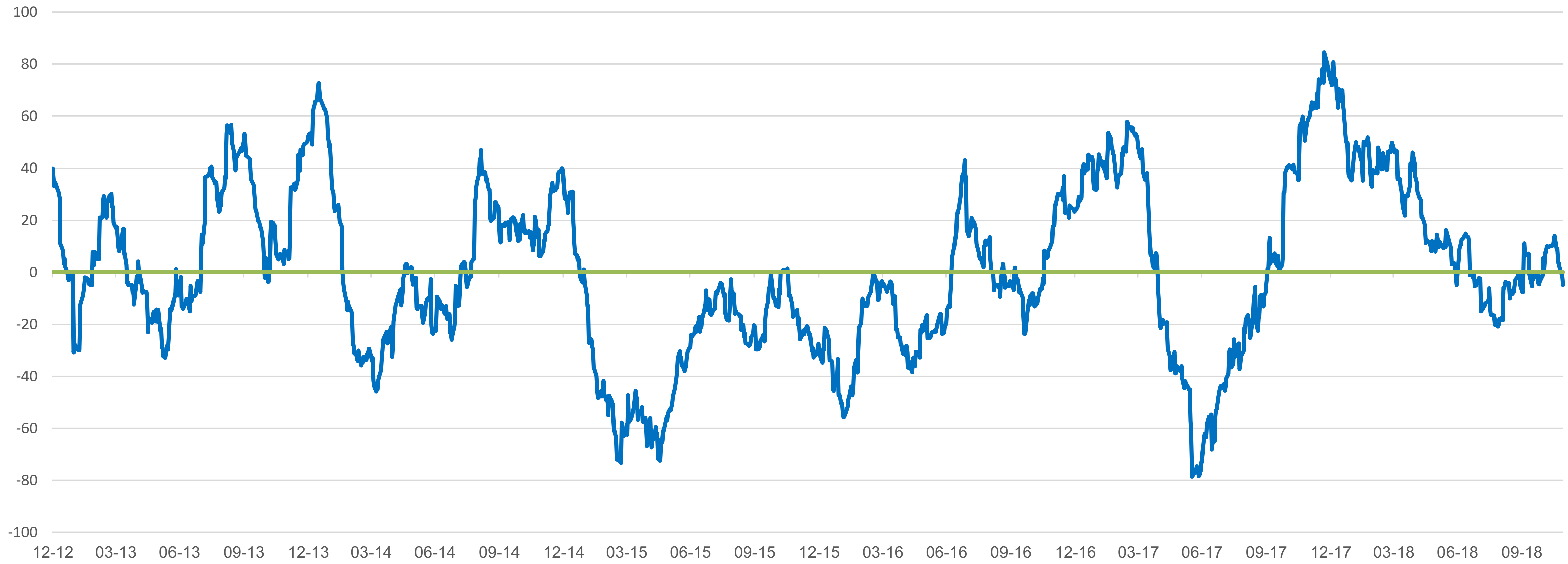
Citi Economic Surprise



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Eurozone

- According to the IMF and the European Commission growth is expected to decelerate in 2018 and 2019. In both cases it is due to the increase in uncertainty and risk internally and externally
- Core inflation increased only by 1%, below market expectation and unemployment remained steady at 8.1%, above market expectation. Both parameters show early signs of cooling
- Despite the loss of momentum the ECB is on track to end its bond buying program in December. Mario Draghi, the ECB president, said that at least some of the slowdown in the euro area may be temporary but emphasized that risks from protectionism, emerging markets and financial volatility remain prominent
- Great uncertainty in the financial markets as the excess liquidity is about to drop while the economy is losing further momentum. In response, it is possible that the ECB will launch new targeted long-term refinancing operations (LTRO) and in time push further any interest rate increases
- After receiving heavy pressure from the EU, the Italian government shows signs of willingness to compromise on the deficit target. Although, it is too early to say whether negotiations will bear fruits, Italian assets rose across the board
- A Brexit vote in parliament is expected on December 11th with uncertainty about the outcome due to a growing dissatisfaction in the conservative party from the May agreement with the EU

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Core Economic Indicator

Eurozone

Economic Indicator	Latest Figure	Reference Period
Growth Rate (YoY)	0.6%	Q3-2018
Unemployment Rate	8.1%	Oct-2018
Inflation Rate (Core, YoY)	1.0%	Nov-2018
Central Bank deposit rate	0.00%	Oct-2018
10 Year Government Bond Yield (Germany)	0.32%	Nov-2018
Ratio of Surplus in Current Account to GDP	3.52%	Q2-2018
Ratio of Public Debt to GDP	86.3%	Q2-2018

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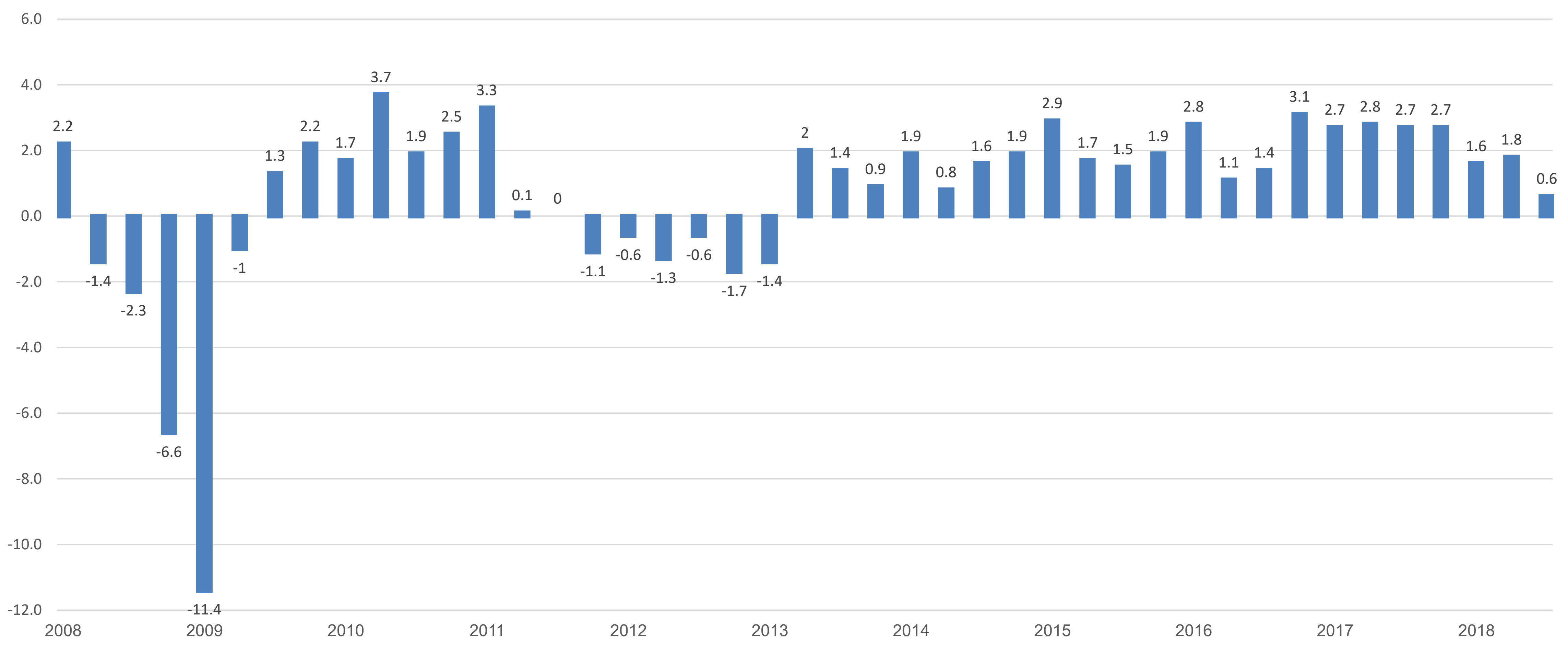
Economic Growth

GDP (Annualized)



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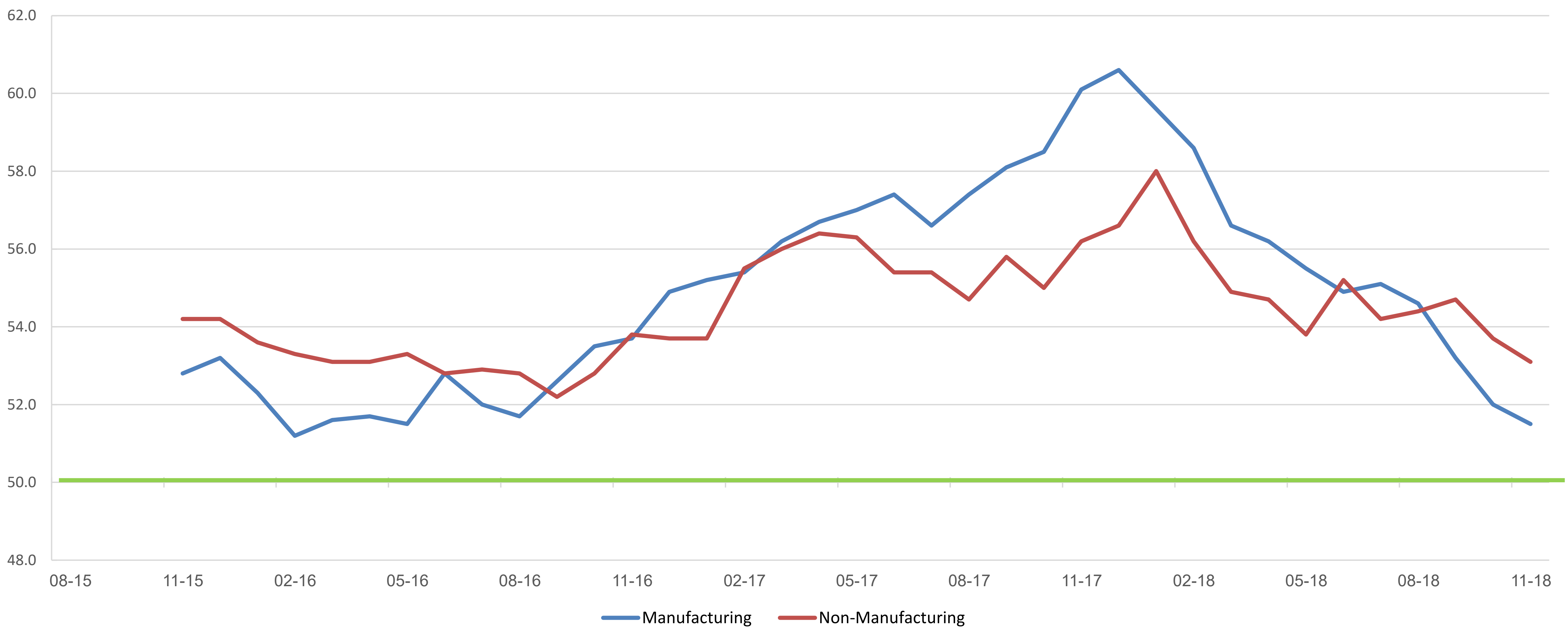
Economic Sentiment

Manufacturing and Non-Manufacturing PMI



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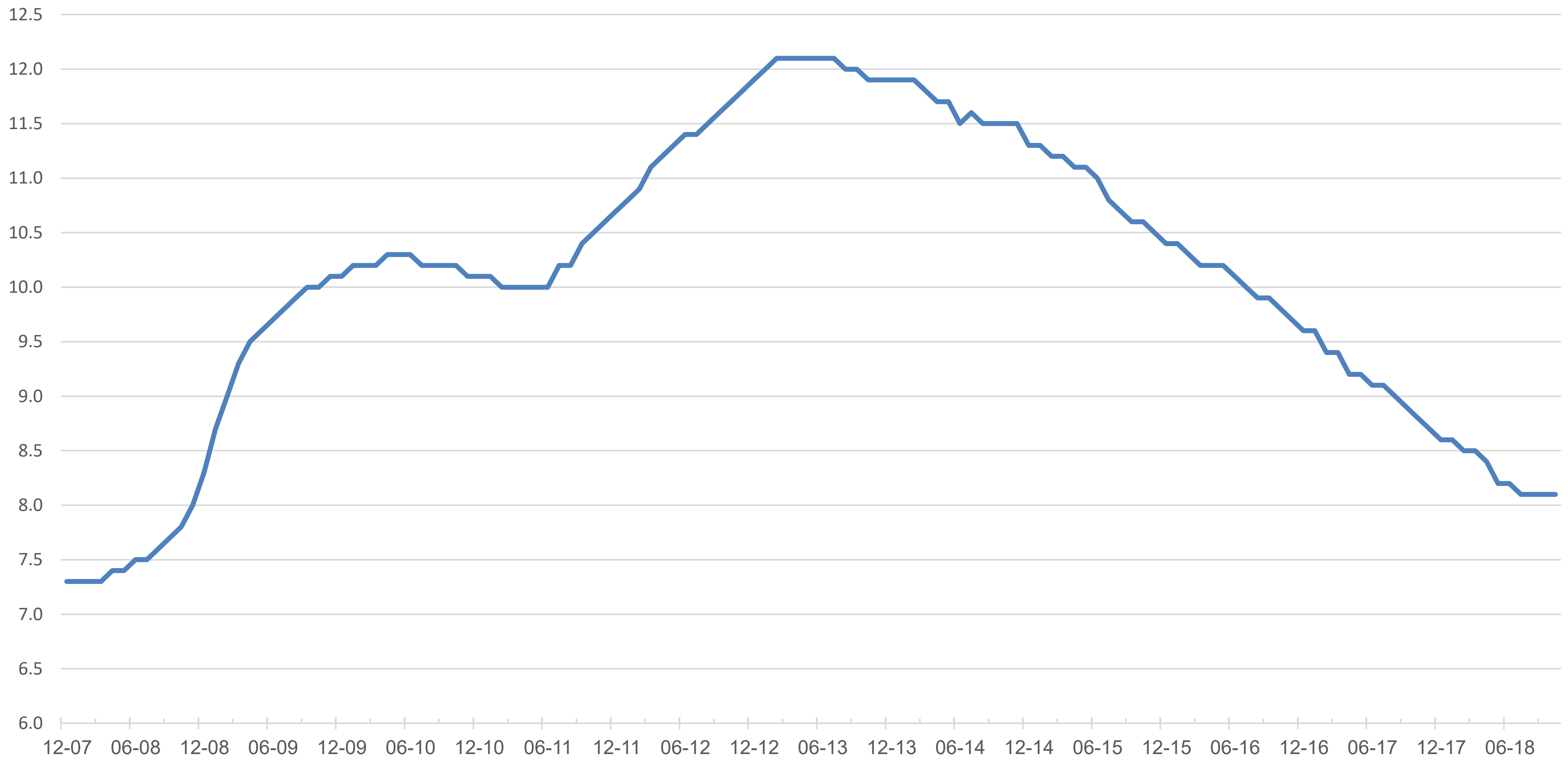
Labor Market

Unemployment Rate



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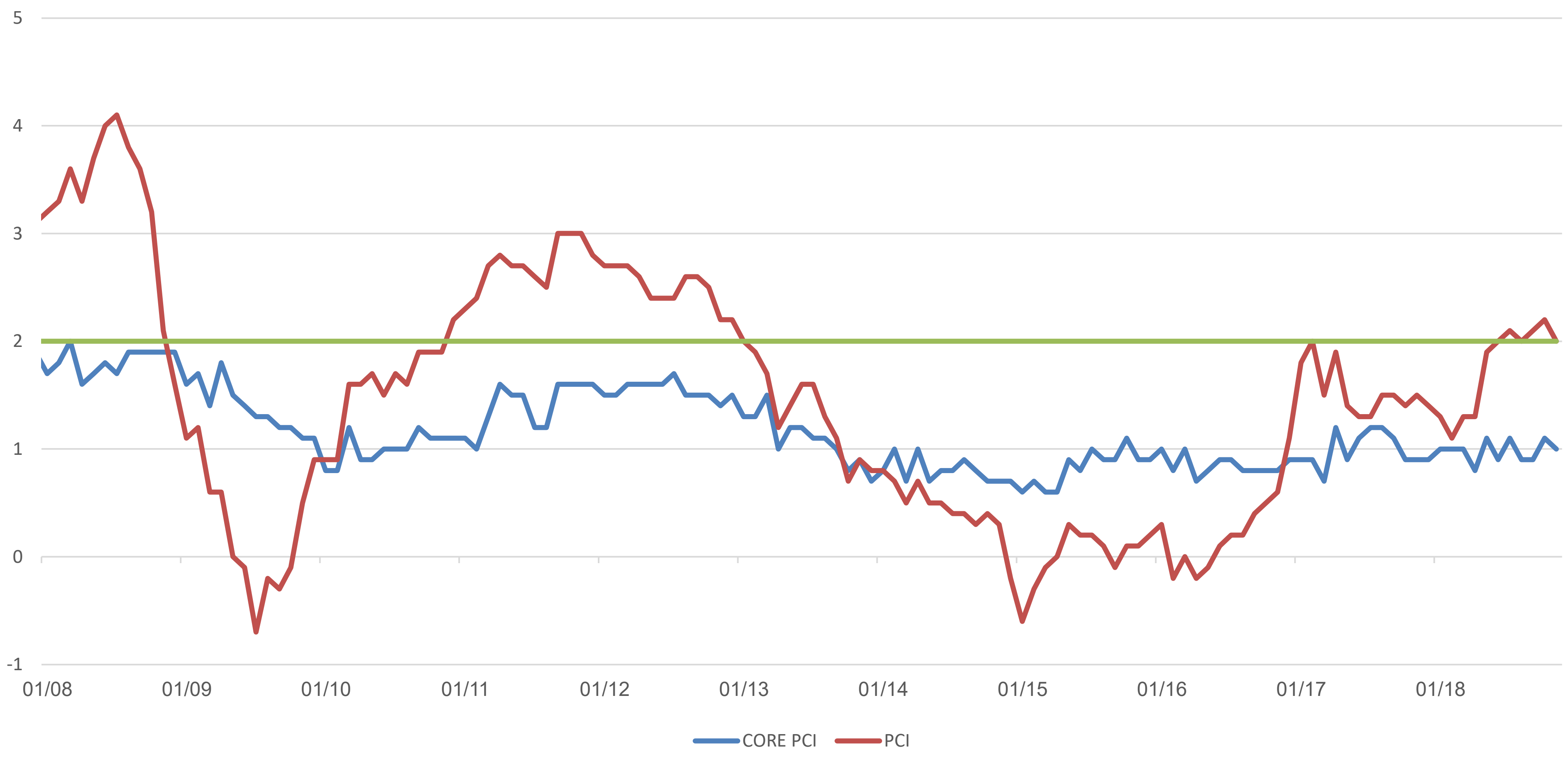
Inflation

CPI and Core CPI (YoY)



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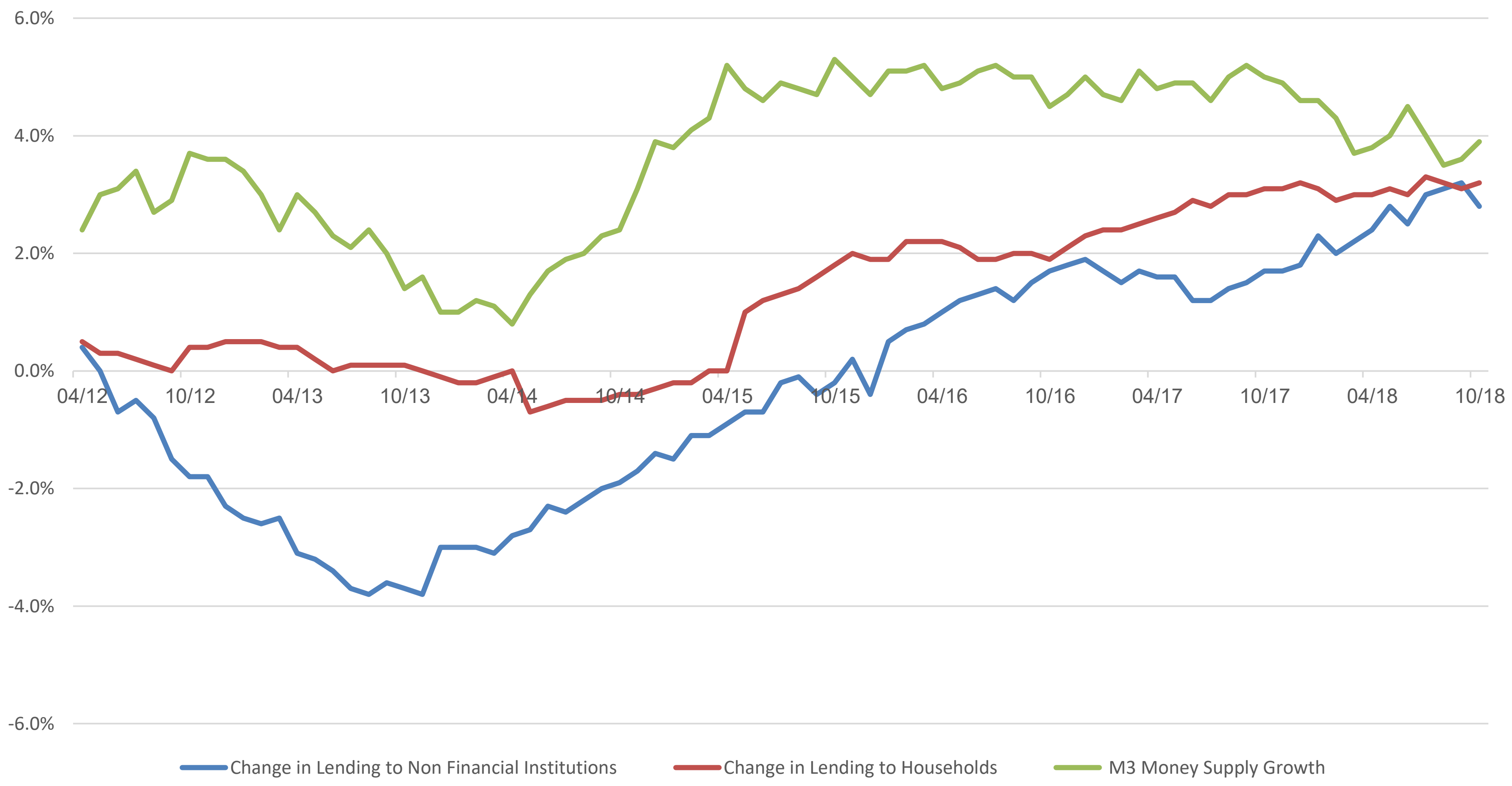
Money Supply and Credit

Growth in Money Supply, Loans to Real Sector



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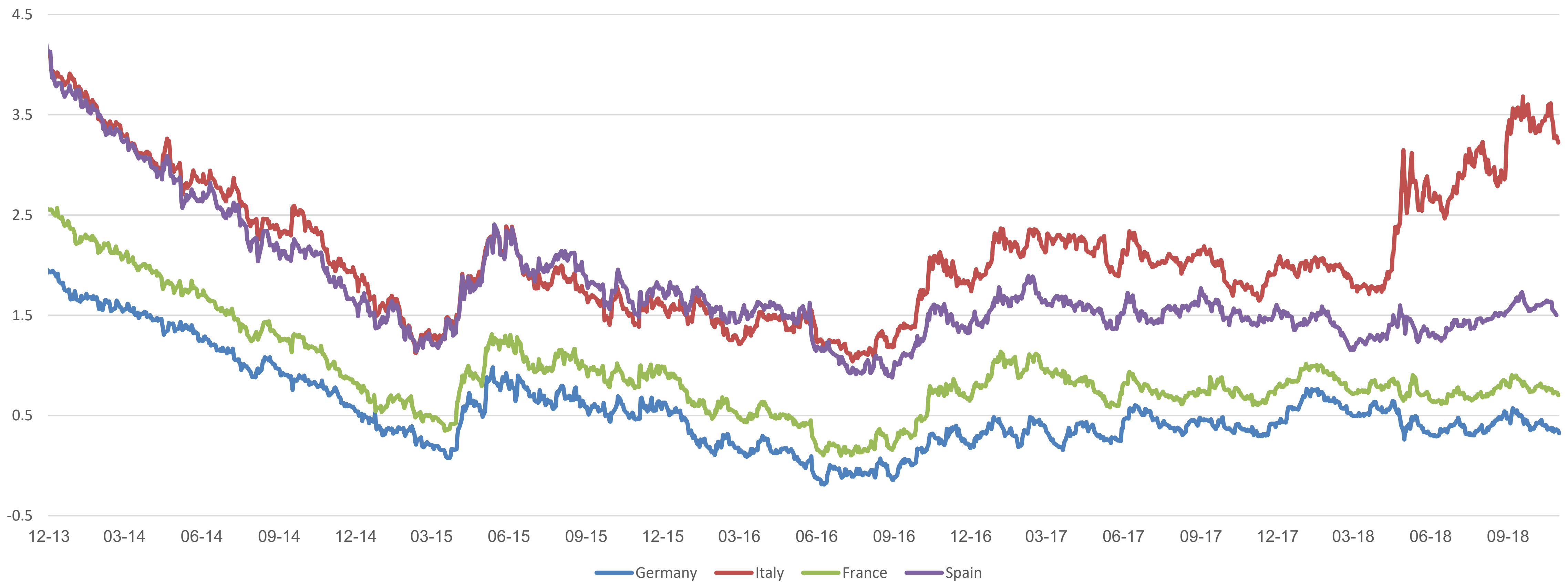
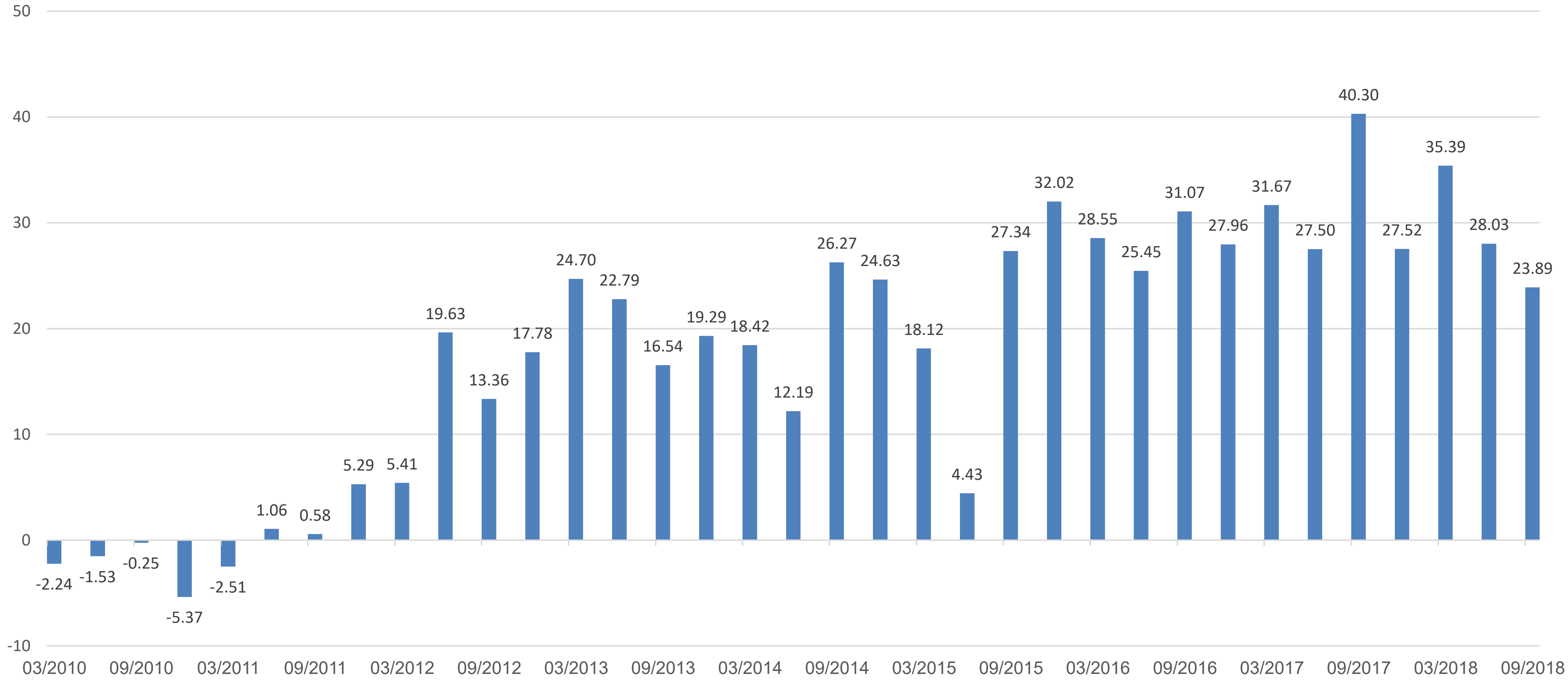
10YR Government Bond Yield



Current Account Balance

EUR Billion



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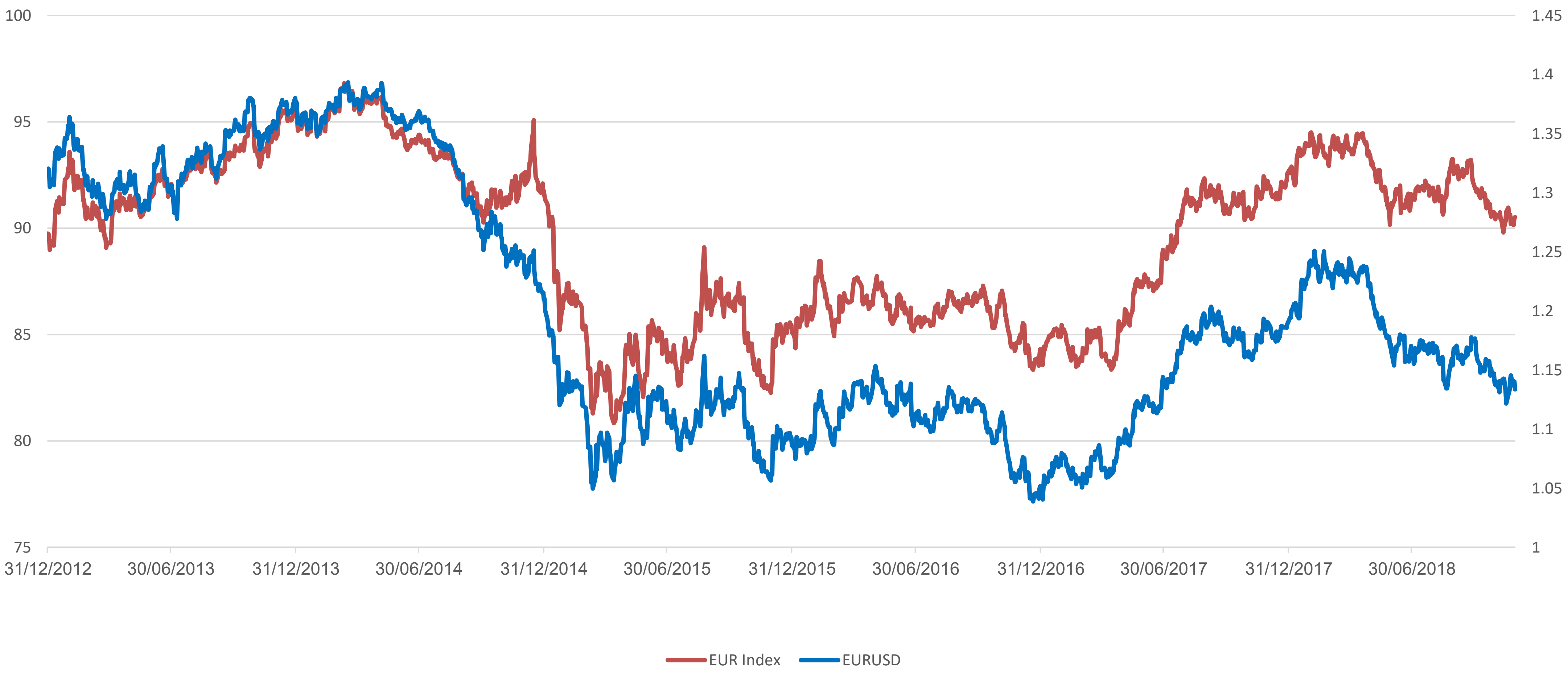
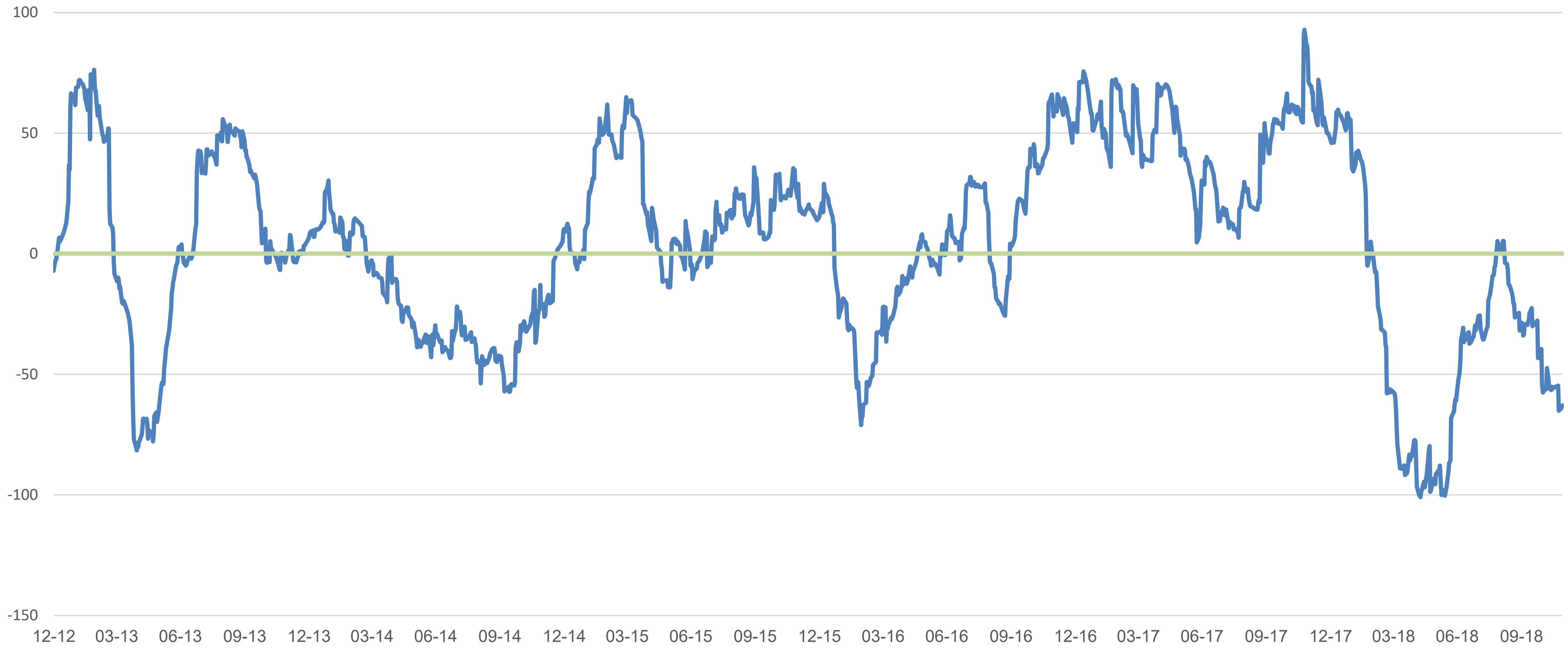
Exchange Rate

EUR Index (Left) EURUSD (Right)



Citi Economic Surprise



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Israel

- The local economy is losing momentum as the Q3 GDP grew only by 2.3% in annual terms, after increasing by 1.2% in Q2, lower than previously expected. The main reasons for the subdued growth was a decrease of 6.5% in investments and a smaller than expected 2.1% increase in consumer expenditure

- Headline inflation is stabilizing just above the lower end of the inflation target (1%-3%) but inflation expectations are slipping below target due to the sharp decrease in oil prices and a growing concern due to a lack of economic momentum

- Fiscal deficit in the twelve months through October increased to 3.6% of GDP above the target of 2.9%. The OECD warned that “the planned budget deficits are high for this stage of the cycle. Steady fiscal consolidation will be needed to reduce public debt relative to GDP and ensure room for maneuver in the next downturn”

- BOI unexpectedly raised its benchmark interest rate by 0.15% to 0.25%. The decision was made due to stabilization of inflation within target range and the BOI believes that the local economy is strong enough to withstand the change in policy. The bank emphasized that further actions will be gradual and cautious

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Core Economic Indicator

Israel

Economic Indicator	Latest Figure	Reference Period
Growth Rate	2.3%	Q3-2018
Unemployment Rate	4.1%	Oct-2018
Inflation Rate (YoY)	1.2%	Oct-2018
Central Bank Interest Rate	0.25%	Nov-2018
10 Year Government Bond Yield	2.35%	Nov-2018
Ratio of Surplus in Current Account to GDP	2.06%	Q2-2018
Ratio of Public Debt to GDP	61%	Q4-2017

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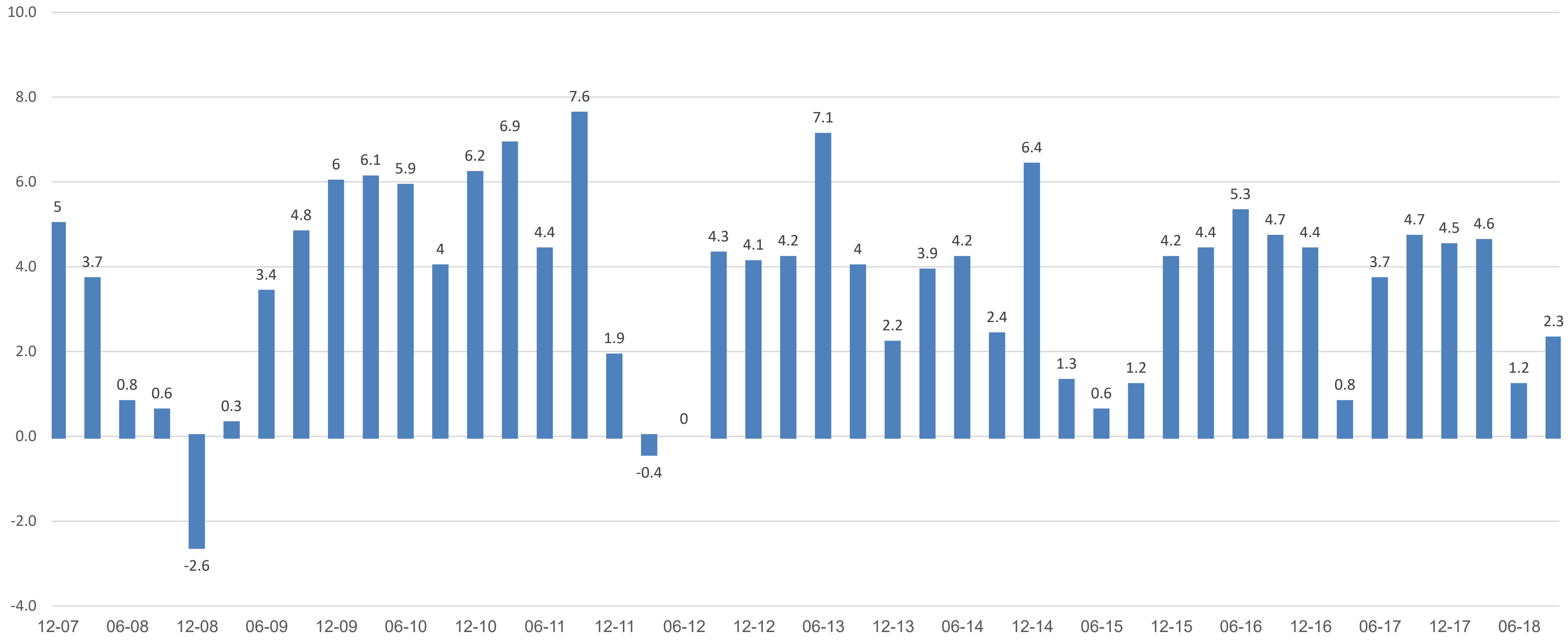
Economic Growth

GDP (Annualized)



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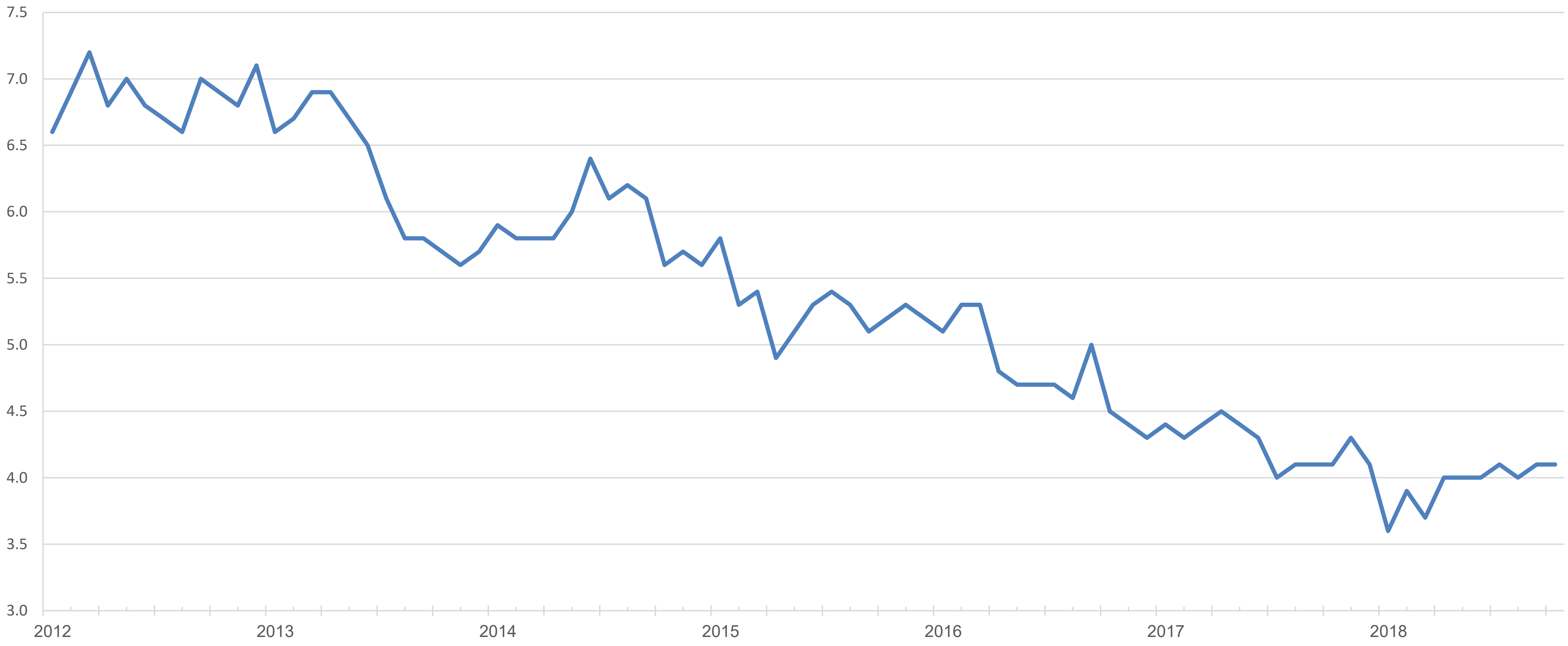
Labor Market

Unemployment Rate



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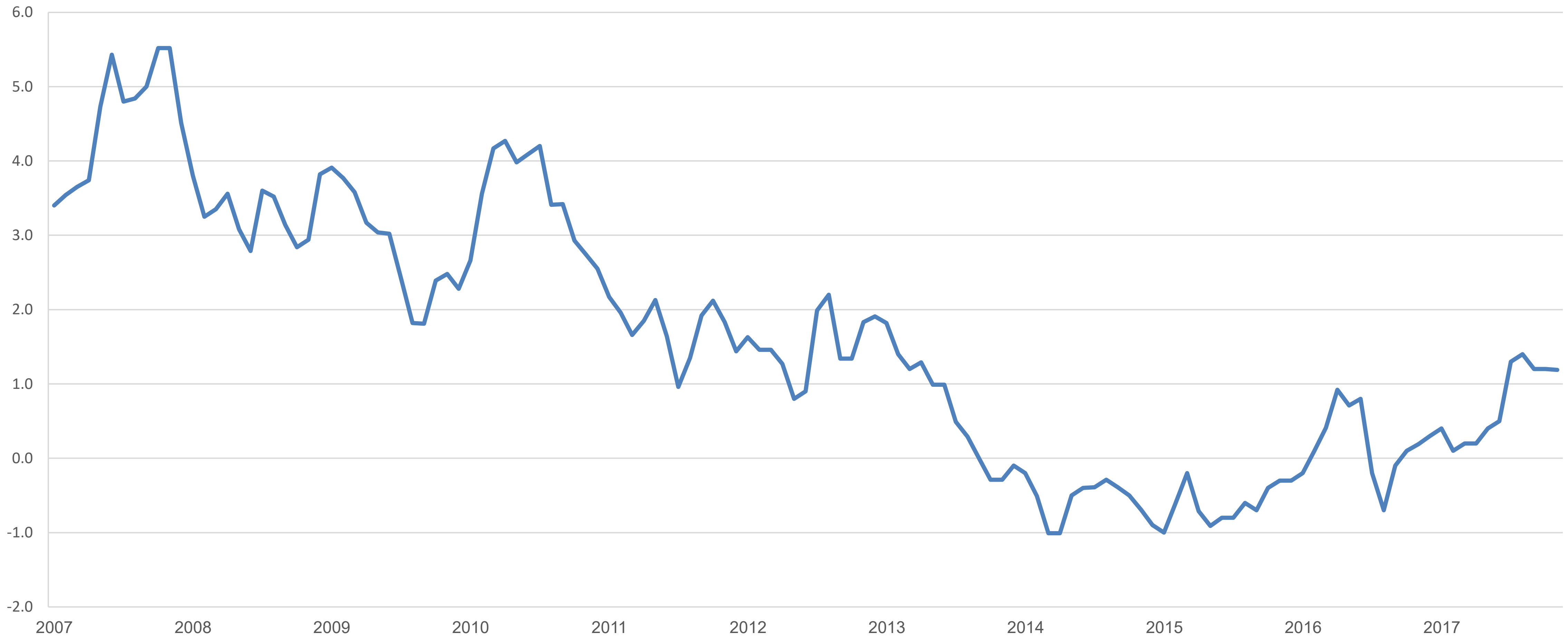
Inflation

CPI (YoY)



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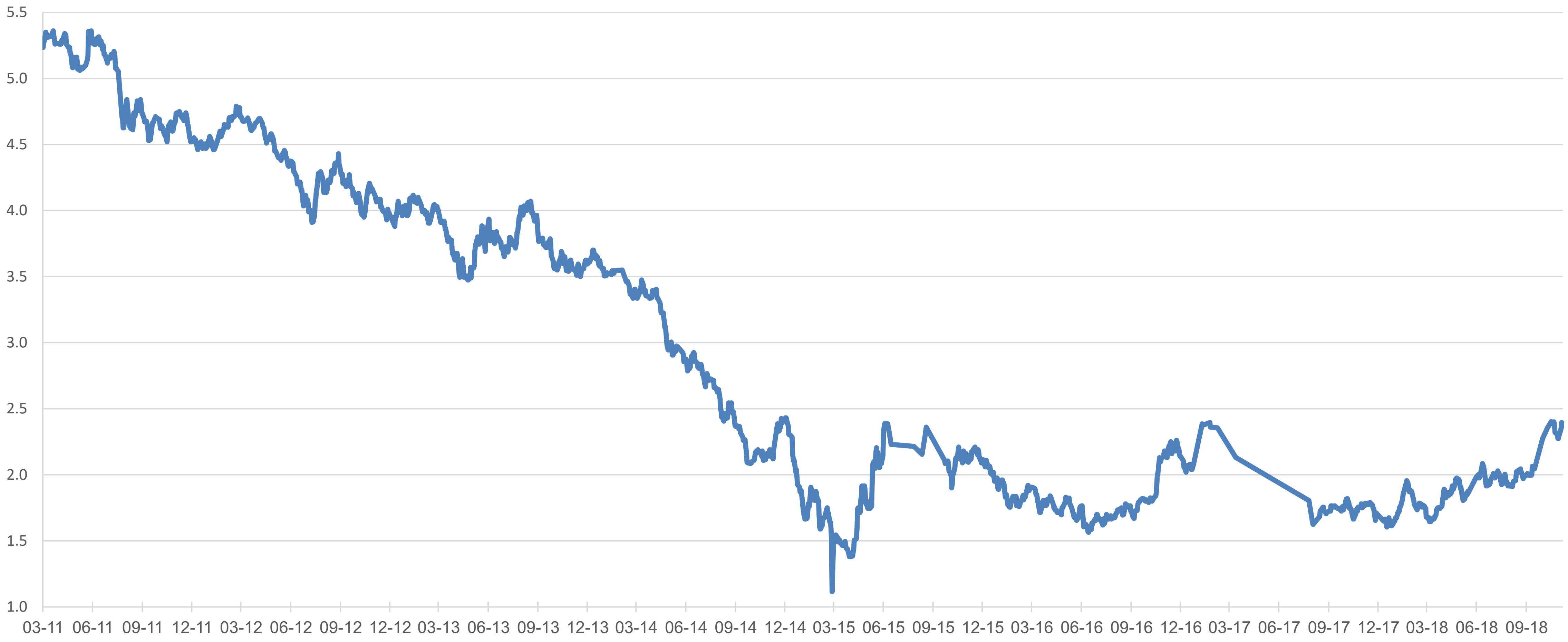
10YR Government Bond Yield



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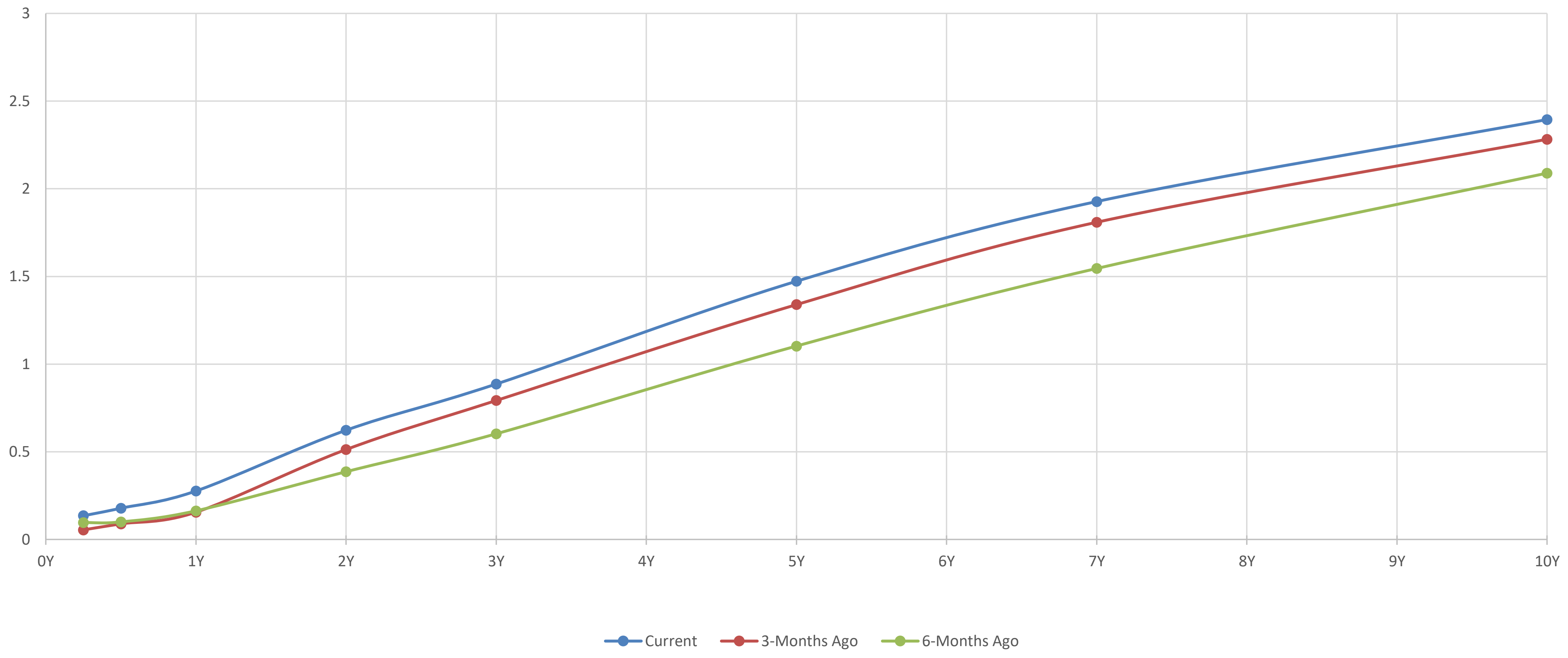
Government Bond Yield Curve



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Hedging Costs

USDILS 1YR Forward Premium

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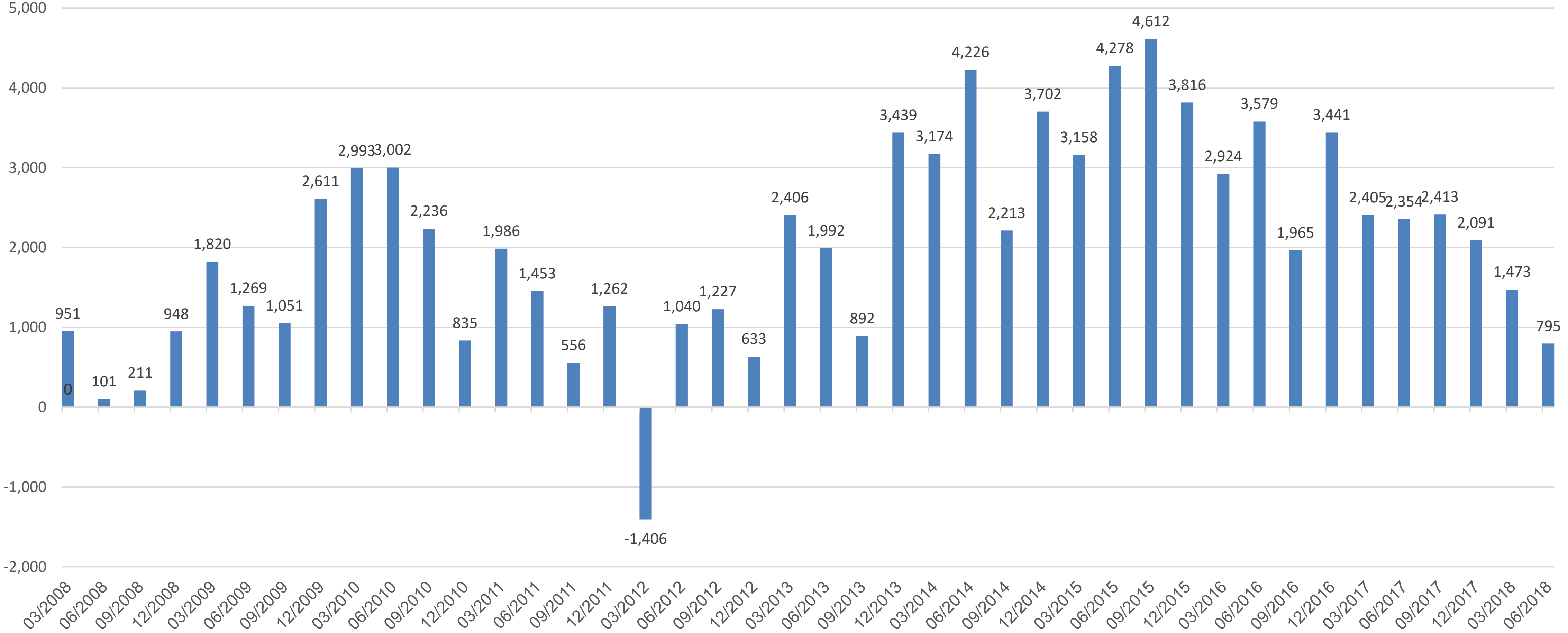
Current Account Balance

USD Million



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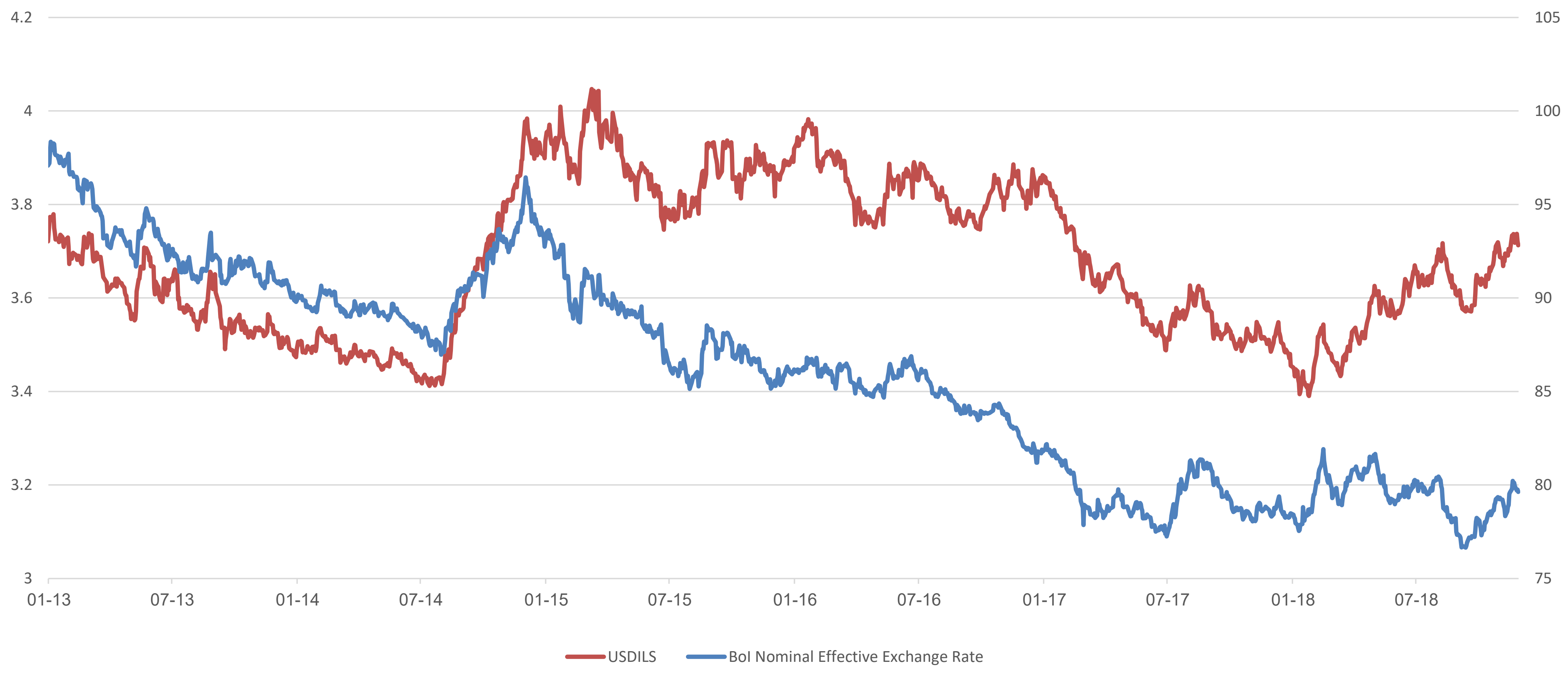
Exchange Rate

USDILS (Left) BoI Nominal Effective Rate (Right)



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