Financial Immunities

Market Insights

March 2019

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Global Economy

- Cautious optimism about global growth as the Fed is patient, Brexit could be delayed and there is an ease at the trade tension front, clearing a bit of the cloudy skies
- Trade tensions eased last month after the Trump administration extended the deadline to raise tariffs on Chinese goods due to progress recorded in the latest round of talks. China's attempt to lure the US by promising to increase purchases of US goods fell short as the US is seeking for "significant structural changes, especially when it comes to issues of intellectual property rights and technology transfers"
- After having their worst month in years this past December, the markets bounced back strongly and volatility decreased markedly after the dovish turn by many of the world's central banks
- Despite the ease in trade tensions and aggressive actions by policy makers, the Chinese economy is still straggling as leading indicators don't show clear signs that China has bottomed out
- Oil supply has tightened as OPEC reduced production but prices have stalled due to renewed concerns about global growth and higher prospect of oil production in the US

United States

- The US economy gained 2.6% (annualized rate) in Q4 2018, higher than previously expected. The solid growth was due to a jump of 6.2% in business investment and an increase of 2.8% in consumption. 2018 appeared to be a very good year with a 3.1% growth, above the Trump administration target of 3%, and the current expansion is expected to be the longest on record

- Growth at the beginning of 2019 is poised to be weak due to government shutdown, trade war, slowing of global growth and fading fiscal policy, however the supportive Fed together with a strong labor market and an improving housing market should provide the right enough support that will enable the economy to fulfill another good year

- The US economy added a monthly average of 234K payrolls in the last 12 months. The shrinking pool of employees makes it more difficult for corporates to find workers with the right skills forcing them to pay ever-higher wages

- The core PCE deflator remained stable at 1.9%, close to the Fed target of 2%. However, the tight labor market and the sharp rise in personal income lay down the right foundation for higher inflation

- Policy makers said they would be “patient” regarding any further rate moves. As a result, market expectation for an interest-rate hike this year diminished dramatically and the probability of a rate cut during 2020 increased. However, solid economic data and easier financial conditions might create another rate hike later this year

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Core Economic Indicator

USA

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	2.6%	Q4-2018
Unemployment Rate	4%	Jan-2019
Inflation Rate (Core, YoY)	1.9%	Dec-2018
Fed Funds Target Range	2.25%-2.50%	March-2019
10 Year Treasury	2.75%	March-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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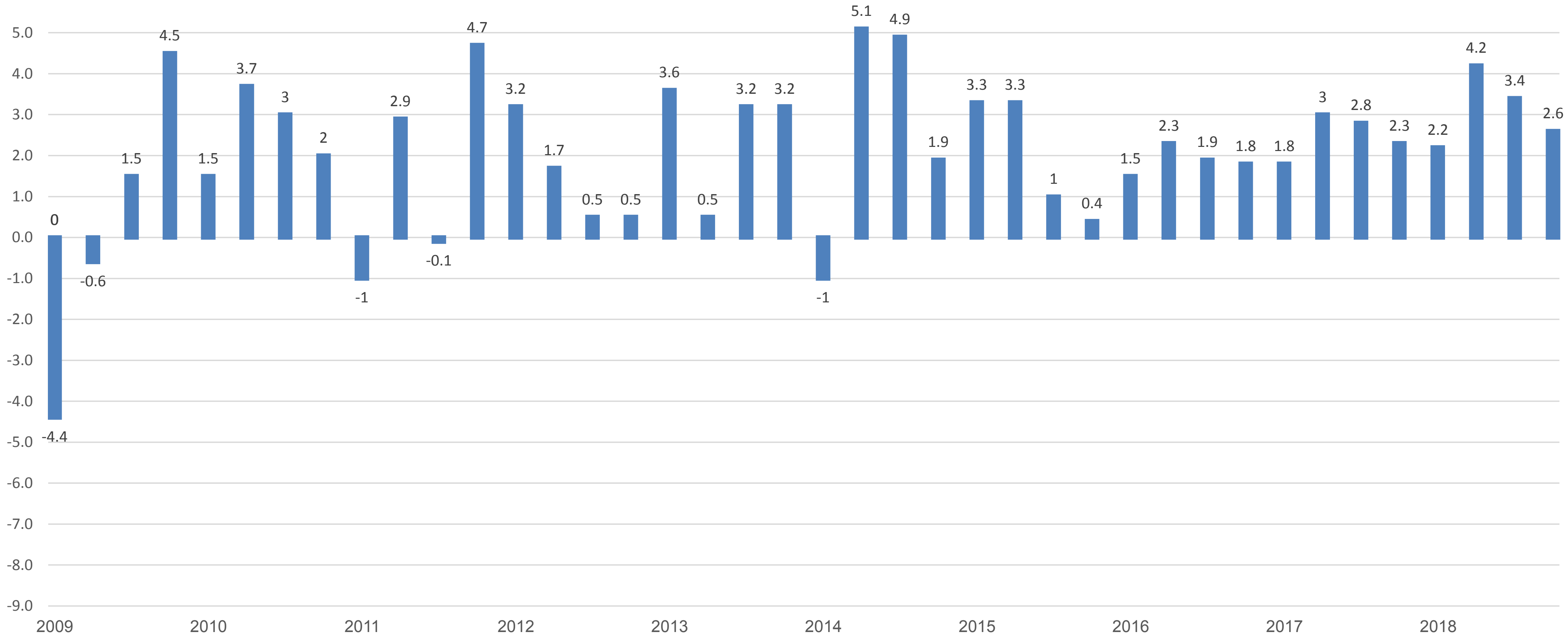
Economic Growth

GDP (Annualized)



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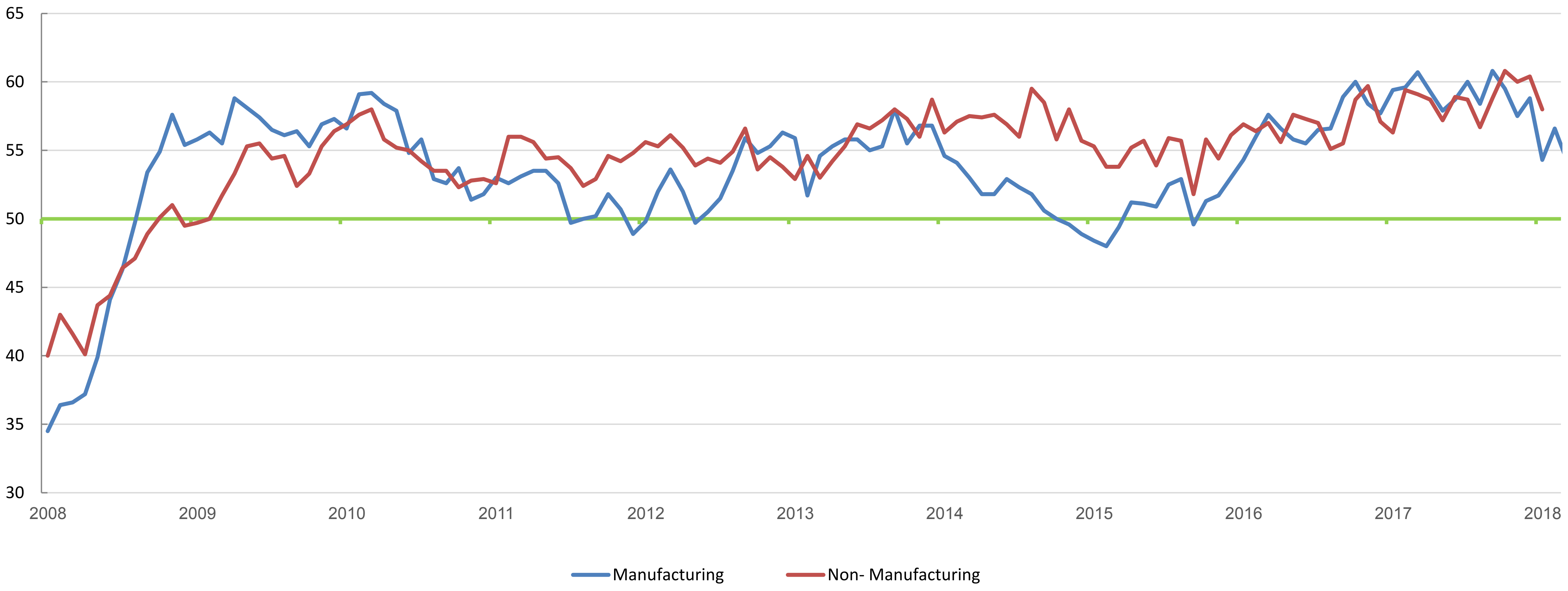
Economic Sentiment

Manufacturing and Non-Manufacturing ISM



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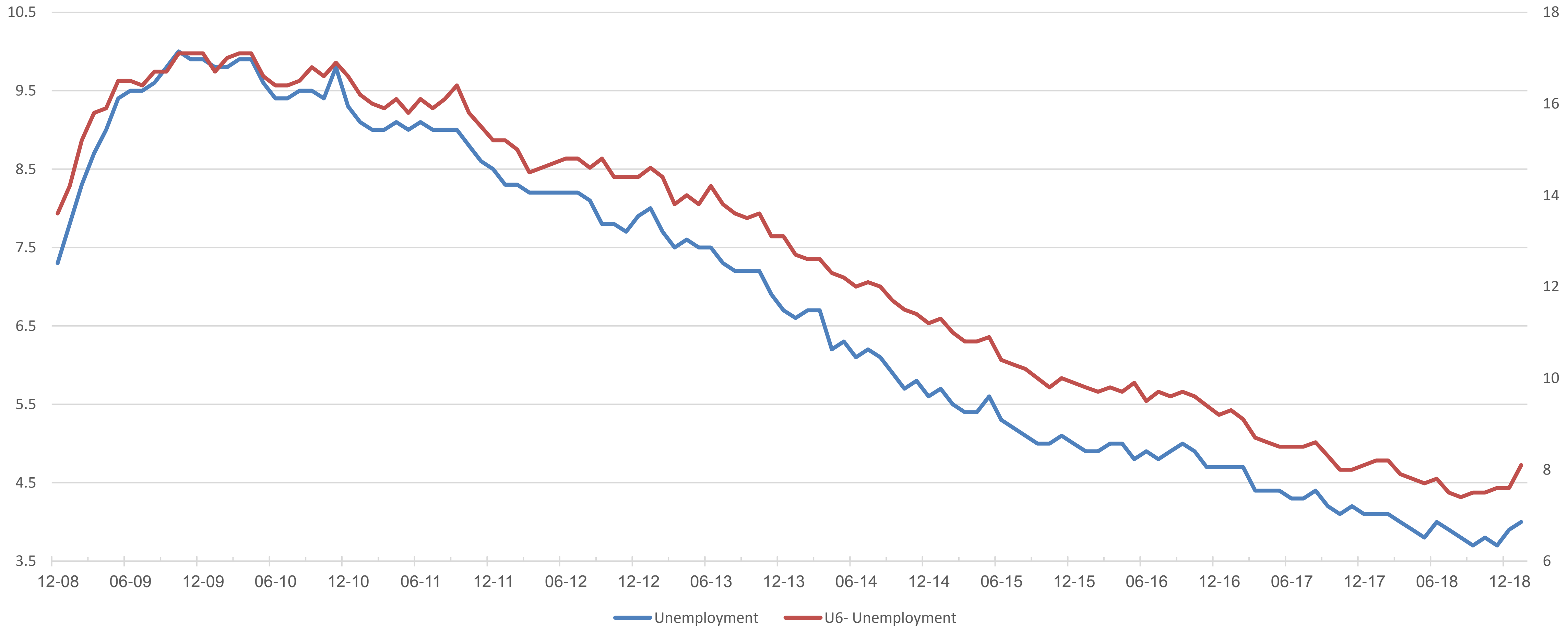
Labor Market

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



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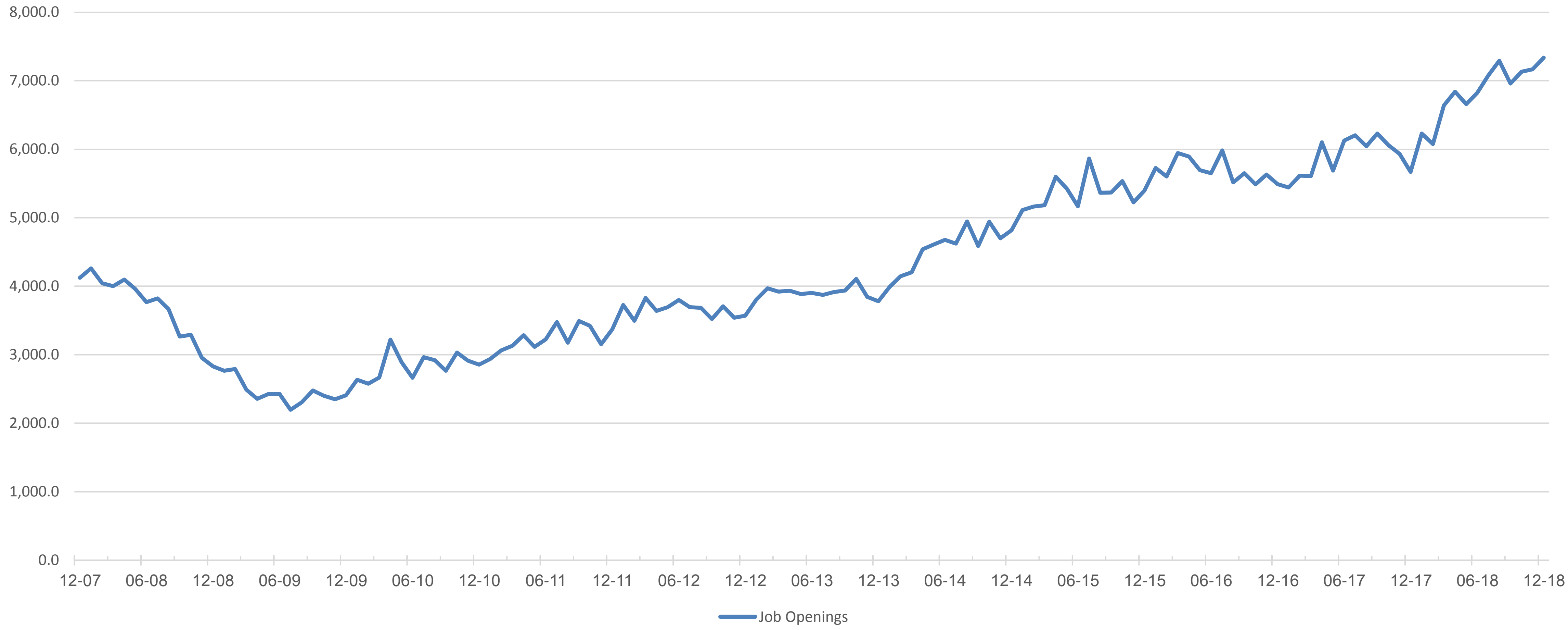
Labor Market

Jolts: Job Openings



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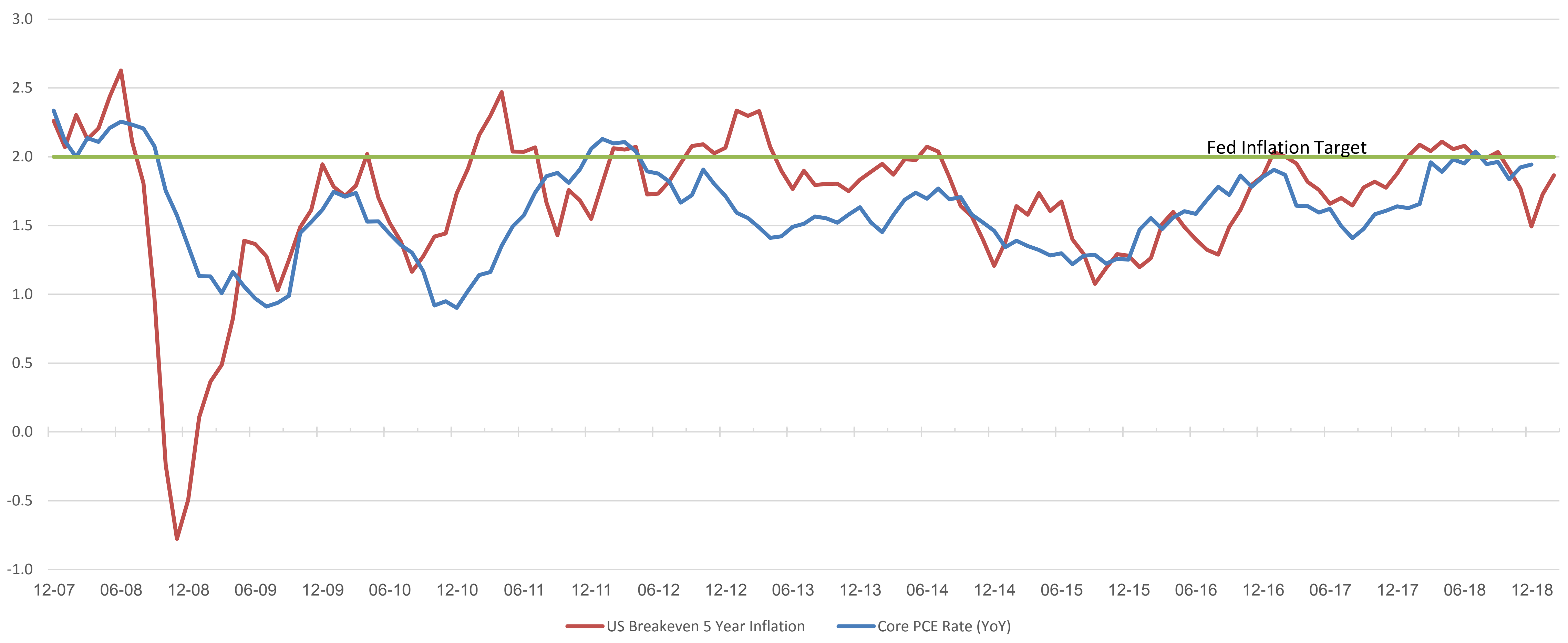
Inflation

Core PCE (YoY) and 5Y Inflation Forecast



10YR Treasury Yield to Maturity

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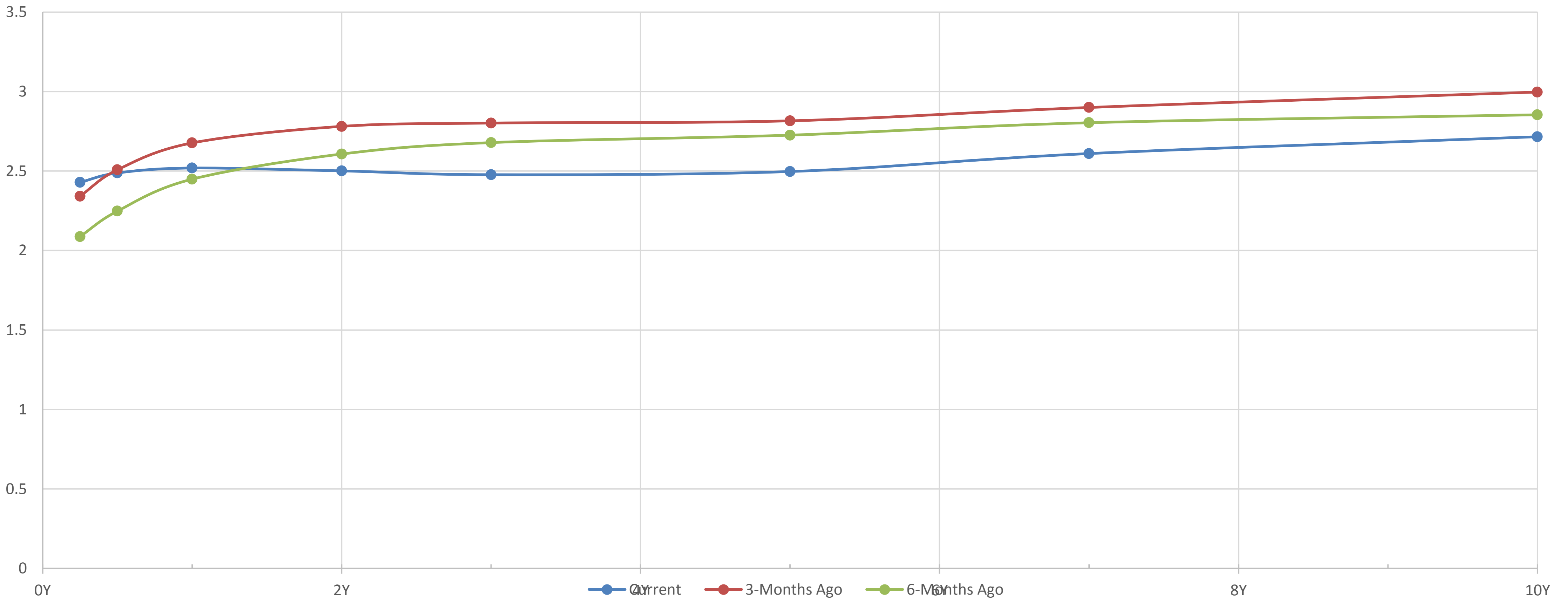
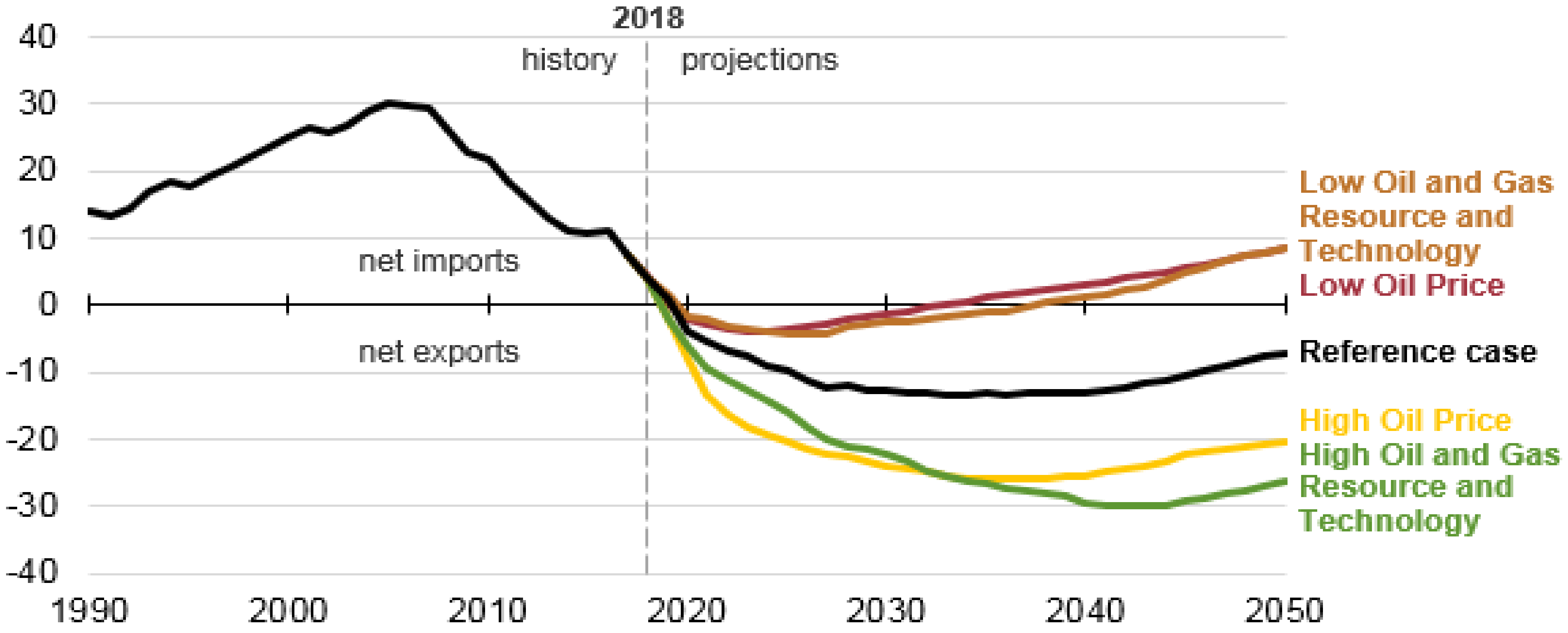
US Treasury Yield Curve



US Net Energy Trade



US Dollar Index (DXY)

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Citi Economic Surprise

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Eurozone

- External risks and uncertainties are weighing down the economic momentum as reflected by the recent recession in Italy, the industrial slump in Germany and the sluggish Eurozone growth of 1.2% (YOY)
- Leading indicator such as PMIs and economic, industrial and consumer sentiment are starting to flatten out at a low level, however they all indicate a continued weak growth in Q1
- The European Commission has slashed growth forecasts for the Euro area's big economies and warned that Brexit and the slowdown in China threaten to make things even worse
- Headline inflation edged 0.1% higher to 1.5%. However, core inflation unexpectedly decreased by 0.1% to 1.1% and remained in a very narrow and low range with no signs of a significant increase anytime soon
- The ECB still considers the downward revisions to the economic outlook as limited and temporary and believes that its current policy provides sufficient support. This optimistic stance relies on the robust conditions in the labor market and the stability in core inflation
- However, the ECB is expected to publish new economic projections during its policy meeting on March 7th. Another downward revision, the third in a row since September, will undoubtedly increase market expectation for a slower path of monetary normalization and is expected to weigh on the EUR
- A rising possibility of a Brexit deadline extension and a higher probability of a second referendum provide support for the pound as the nightmare of a hard Brexit on the 29th of March is starting to fade. However, the uncertainty takes its high toll on the economy as it continues to slow to its weakest pace since 2012

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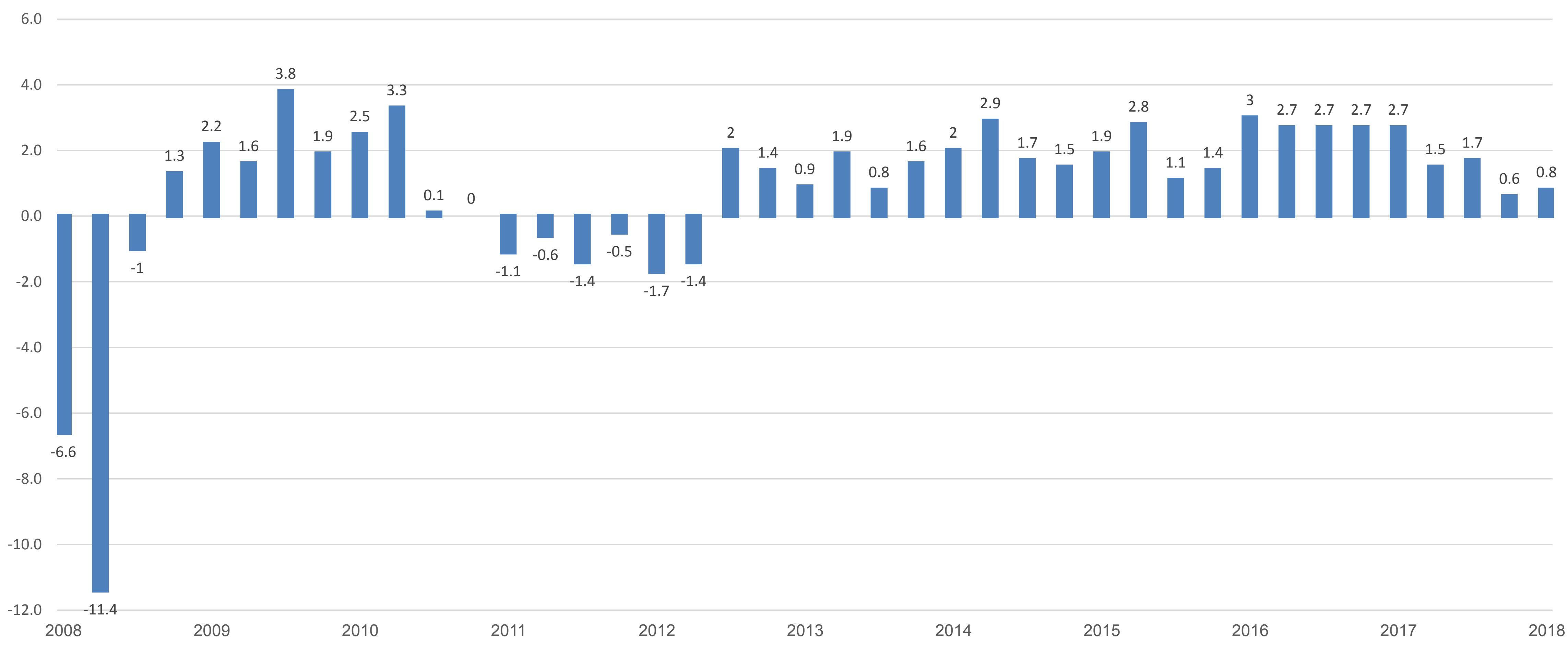
Core Economic Indicator

Eurozone

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	0.8%	Q4-2018
Unemployment Rate	7.8%	Jan-2019
Inflation Rate (Core, YoY)	1.0%	Feb-2019
Central Bank deposit rate	0.00%	Jan-2019
10 Year Government Bond Yield (Germany)	0.18%	March-2019
Ratio of Surplus in Current Account to GDP	3.27%	Q3-2018
Ratio of Public Debt to GDP	86.10%	Q3-2018

Economic Growth

GDP (Annualized)



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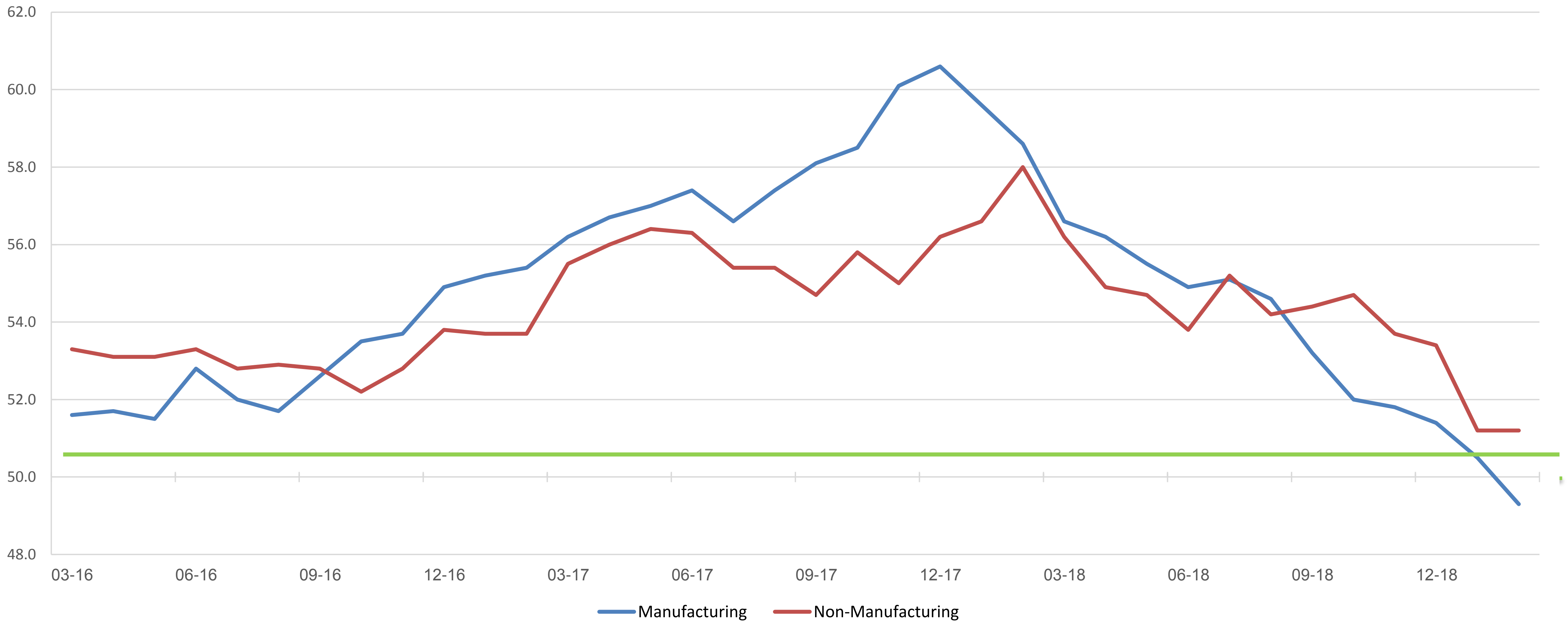
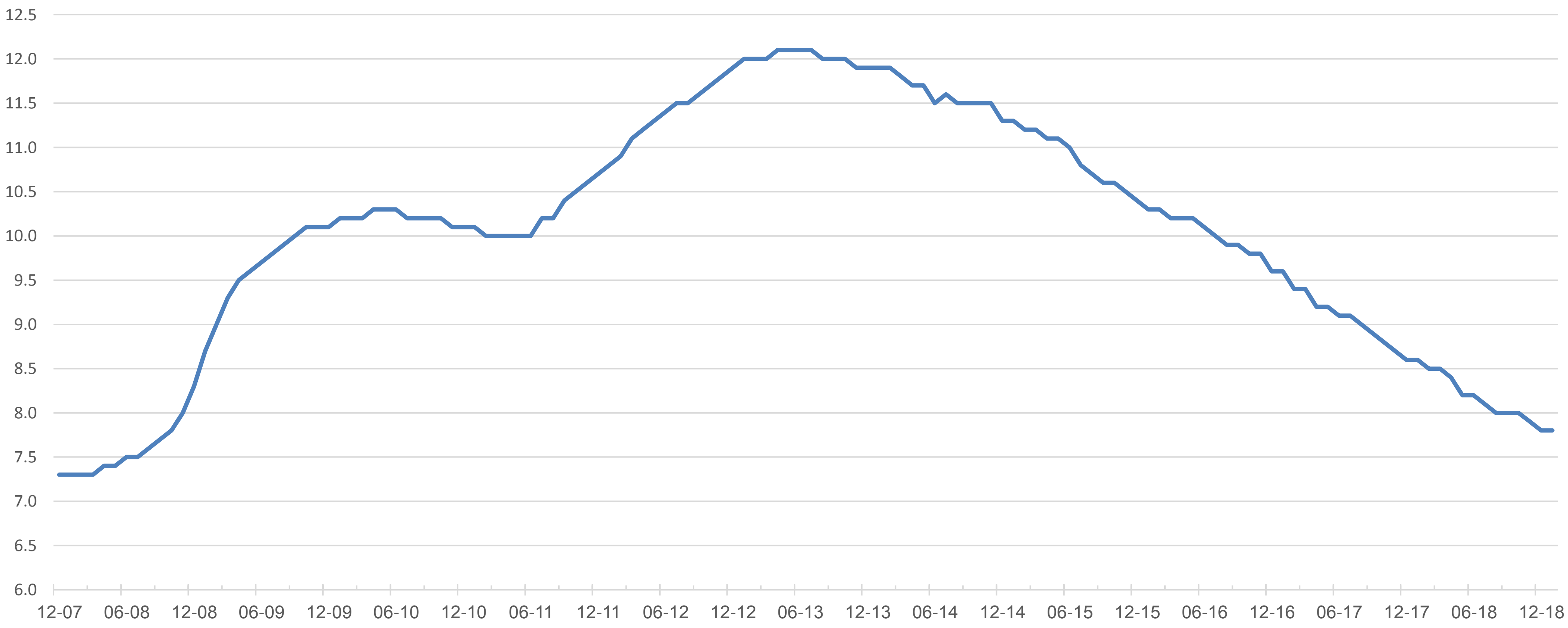
Economic Sentiment

Manufacturing and Non-Manufacturing PMI



Labor Market

Unemployment Rate



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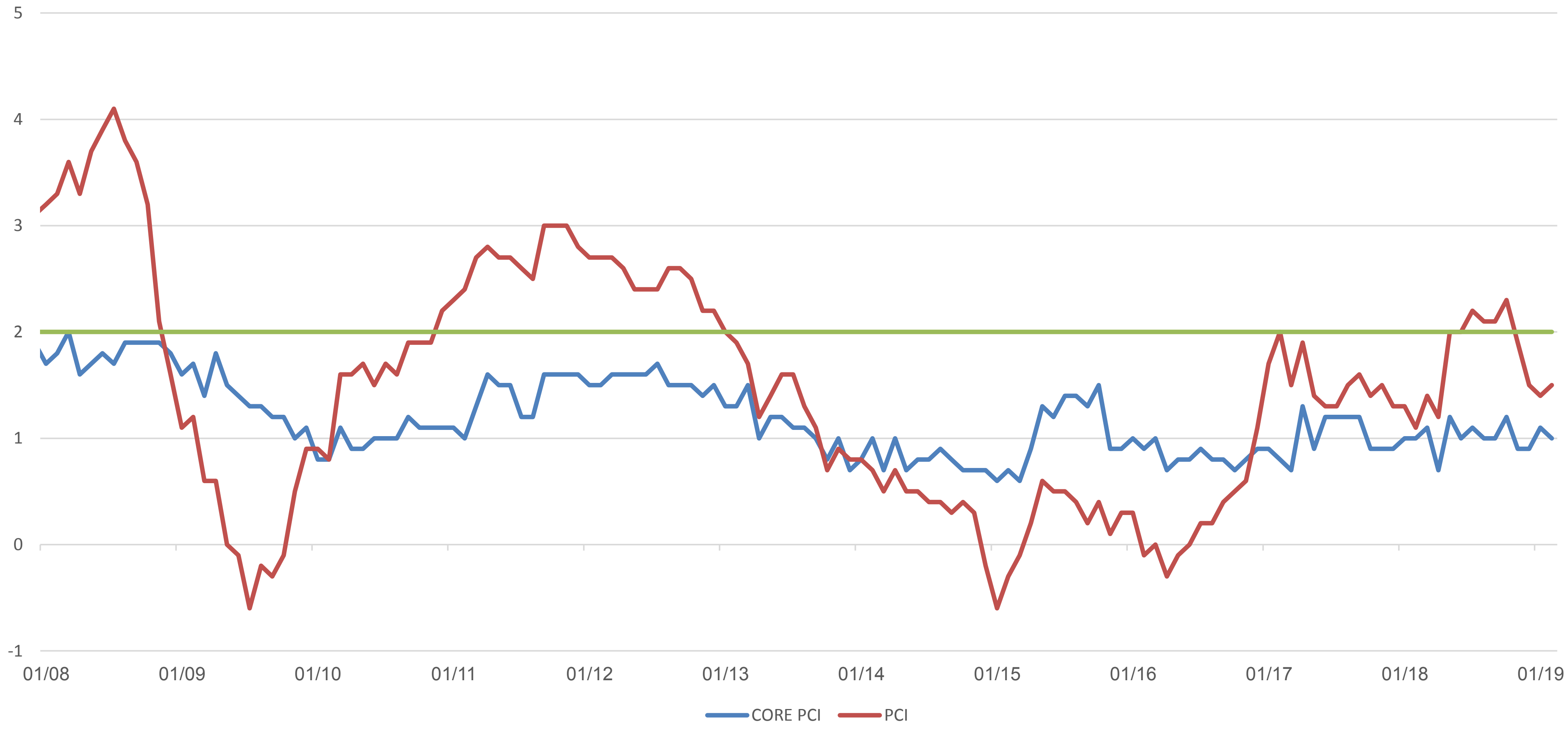
Inflation

CPI and Core CPI (YoY)



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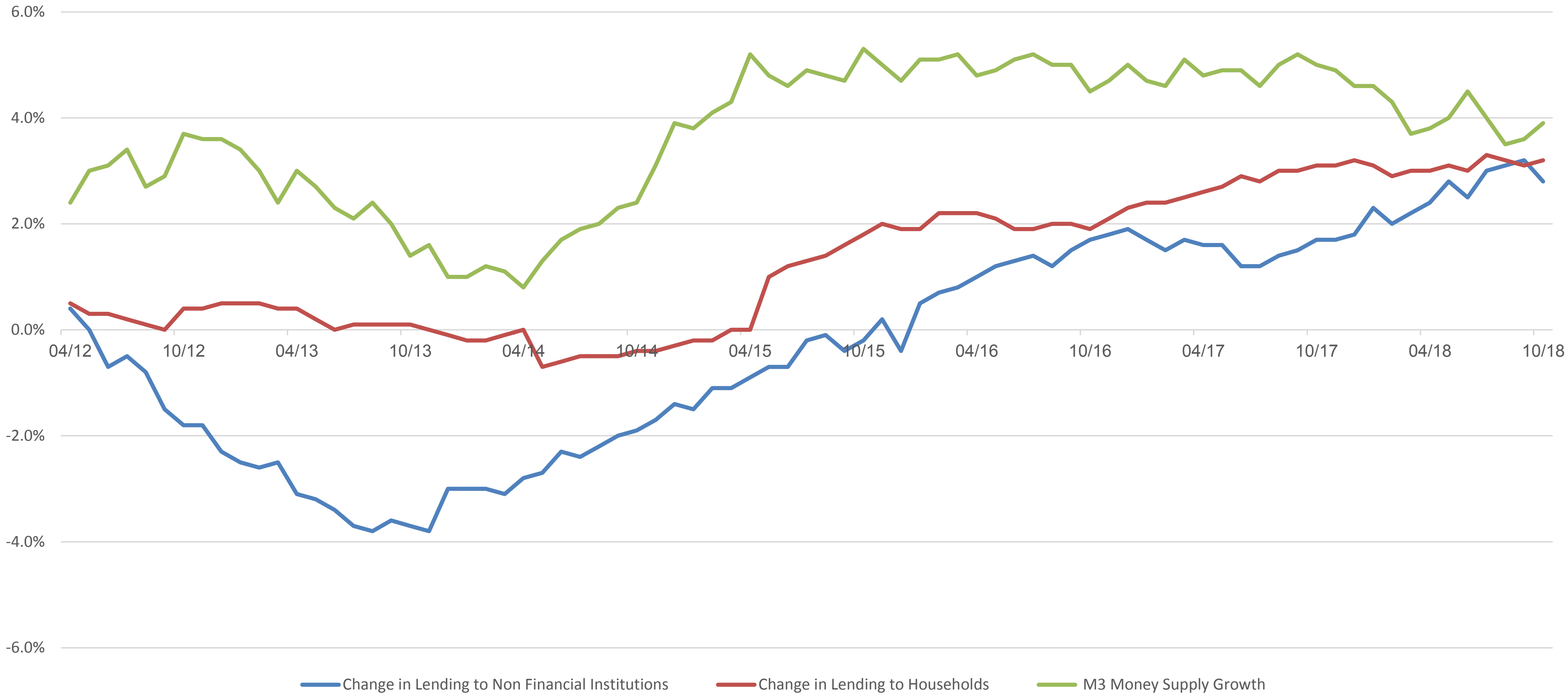
Money Supply and Credit

Growth in Money Supply, Loans to Real Sector



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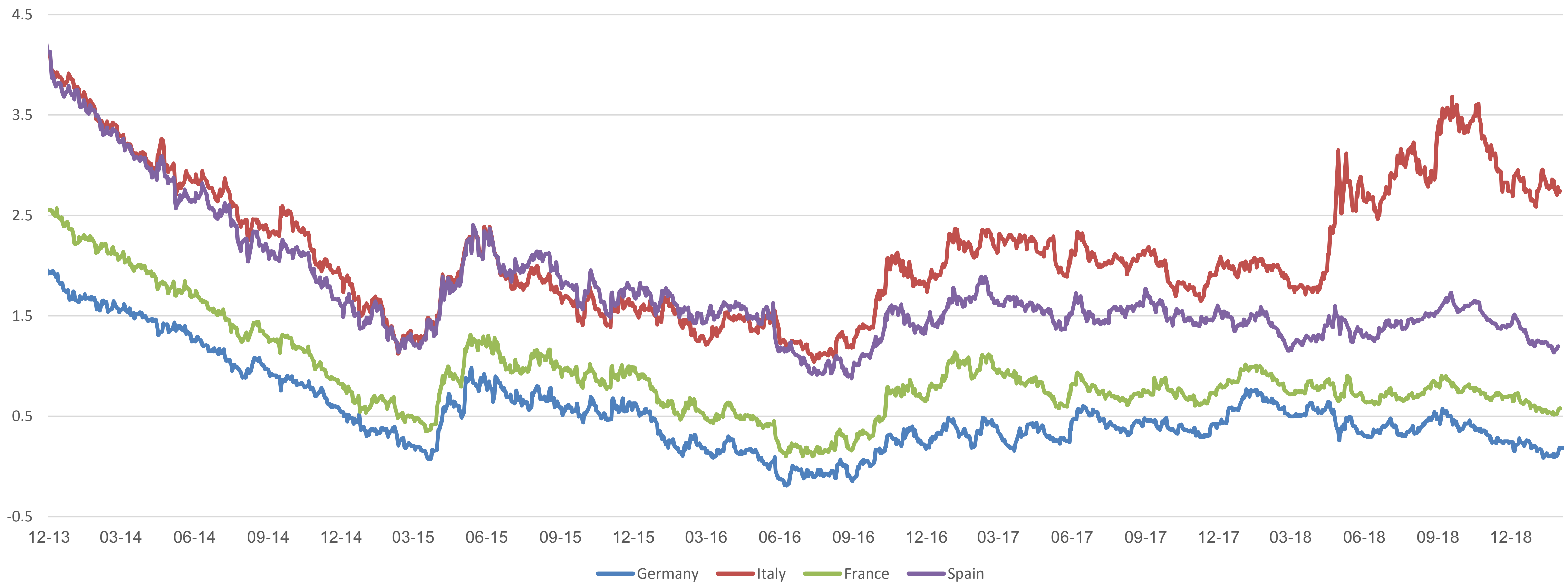
10YR Government Bond Yield



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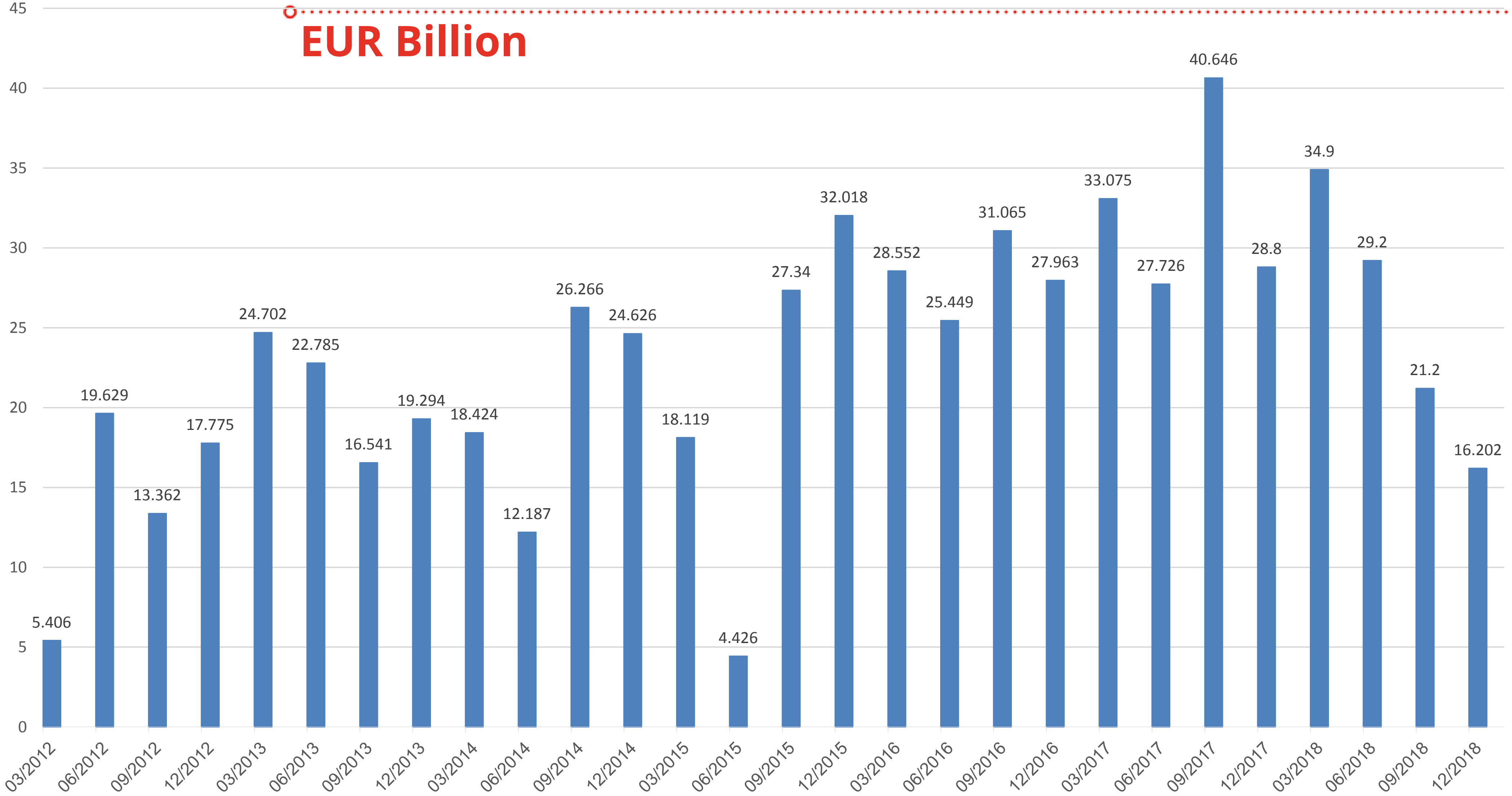
Current Account Balance

EUR Billion



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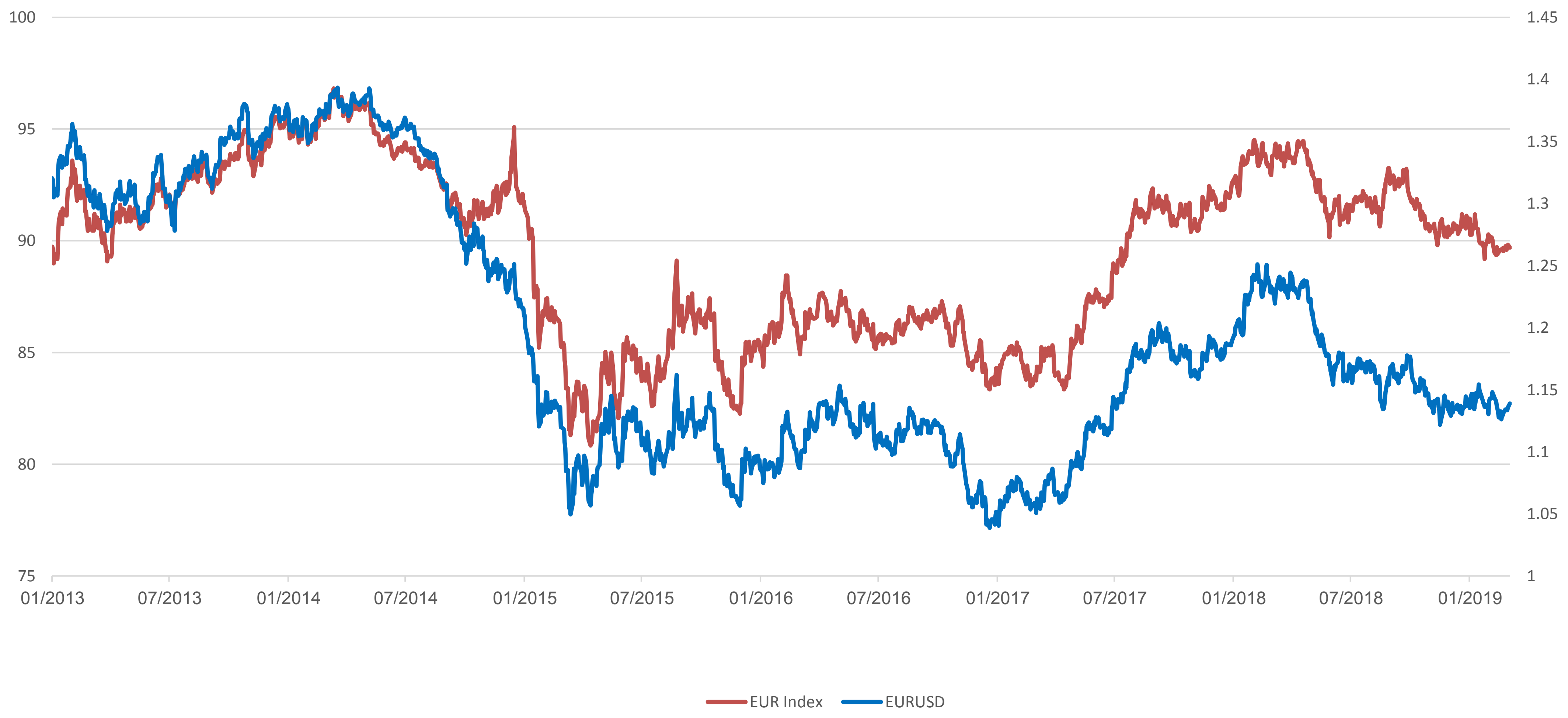
Exchange Rate

EUR Index (Left) EURUSD (Right)



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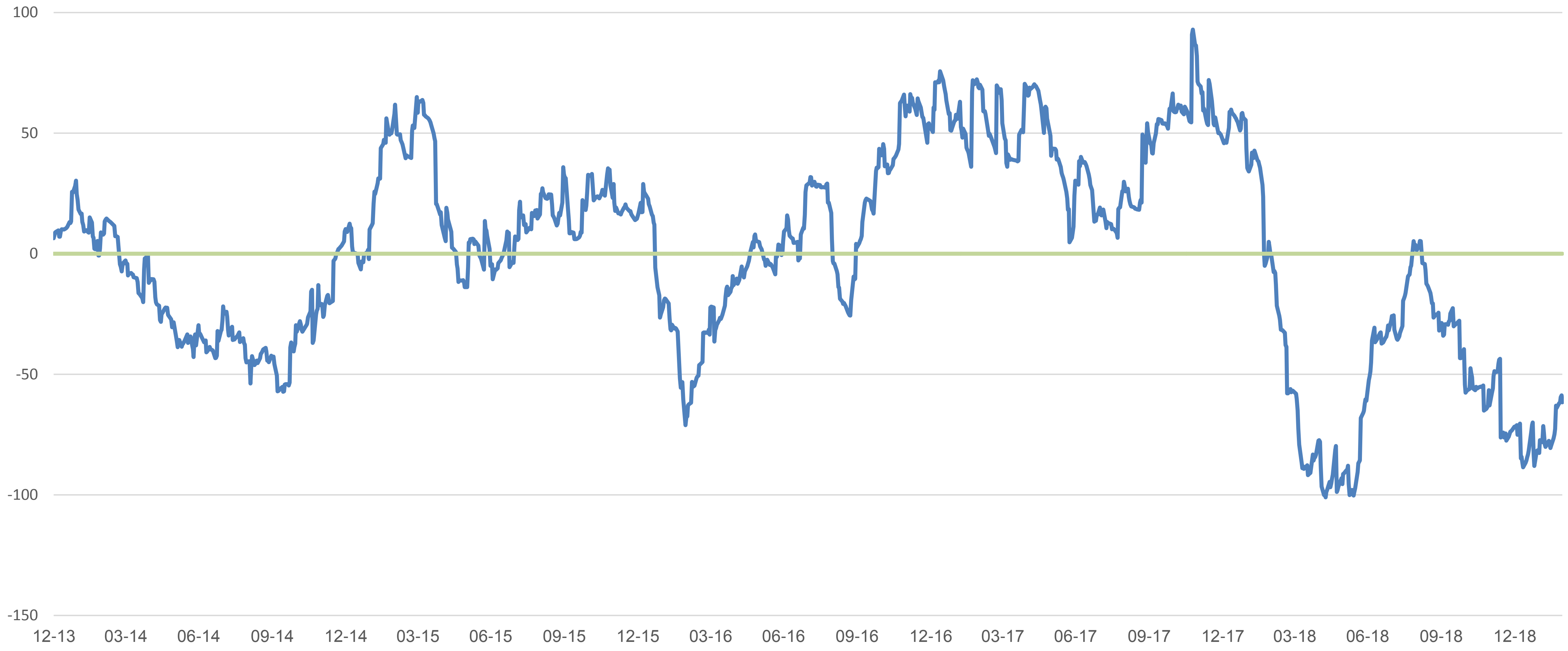
Citi Economic Surprise



Israel

- GDP grew by 3.1% in Q4 2018, after increasing by 2.4% in Q3 and by 0.9% in Q2. The signs of weakness in private consumption, investment and export of goods and services as well as the expected weakness in public consumption will make it difficult for the local economy to realize its potential during 2019
- Inflation is stabilizing in recent months near the lower end of the inflation target (1%-3%) as the headline inflation increased by 1.2% YoY and Core inflation increased by 0.9%. Inflation is expected to stay in this low and tight range in the coming months as the Shekel appreciation and sluggish growth put at risk the ability of prices to increase
- After appreciating considerably during January against all currencies, the Shekel is starting to flatten out. The appreciation was correlated to the narrowing of the interest rate differential from 3.2% to 2.5%. The stabilization of this gap together with the understanding that it's not going to constrict in the coming months, provide a strong headwind that limits the Shekel's ability to appreciate further more
- BoI decided to keep the interest rate stable at 0.25% and declared that future monetary tightening will be gradual and cautious. With low inflation, subdued growth and a dovish stance of many of the world's central banks, it seems like the BoI's next move up will not occur until early 2020
- The increasing political uncertainty might take a heavy toll on the economic activity

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Core Economic Indicator

Israel

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	3.1%	Q4-2018
Unemployment Rate	4.3%	Jan-201
Inflation Rate (YoY)	1.2%	Jan-2019
Central Bank Interest Rate	0.25%	March-2019
10 Year Government Bond Yield	2.03%	March-2019
Ratio of Surplus in Current Account to GDP	2.02%	Q3-2018
Ratio of Public Debt to GDP	61%	Q4-2017

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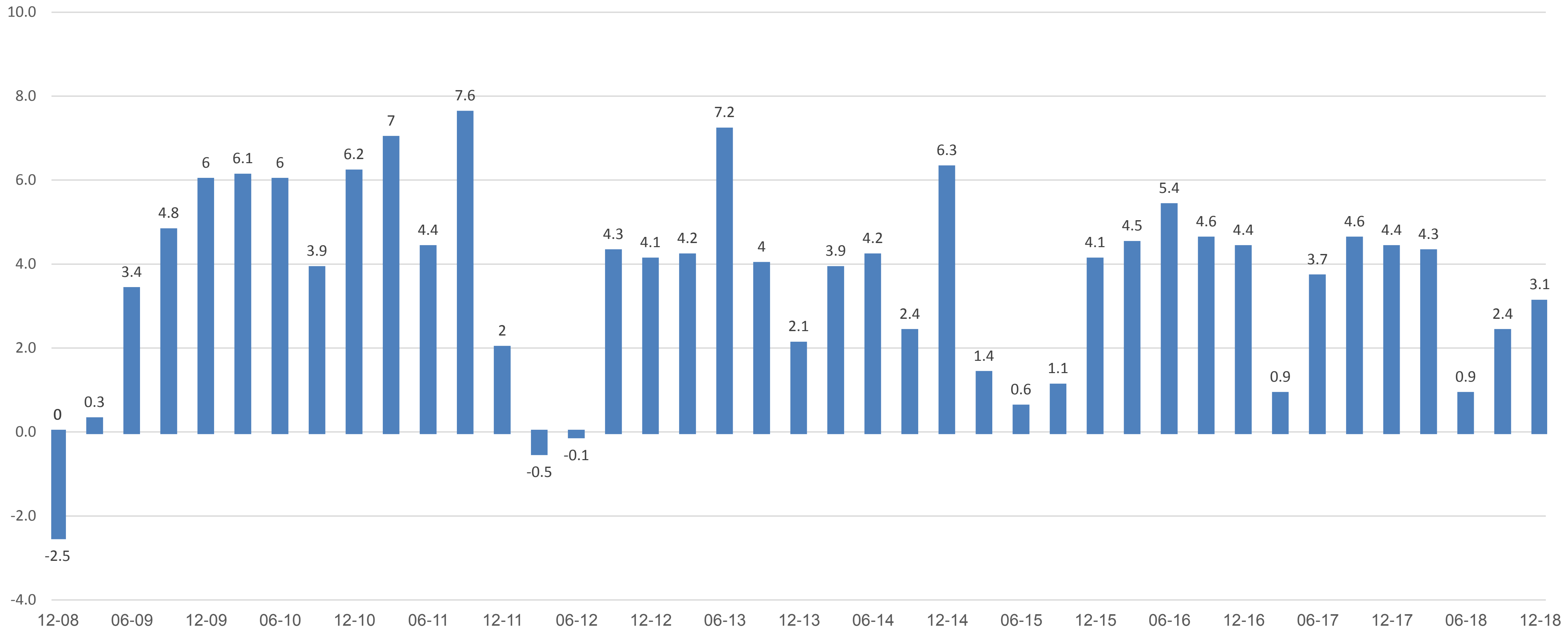
Economic Growth

GDP (Annualized)



Labor Market

Unemployment Rate

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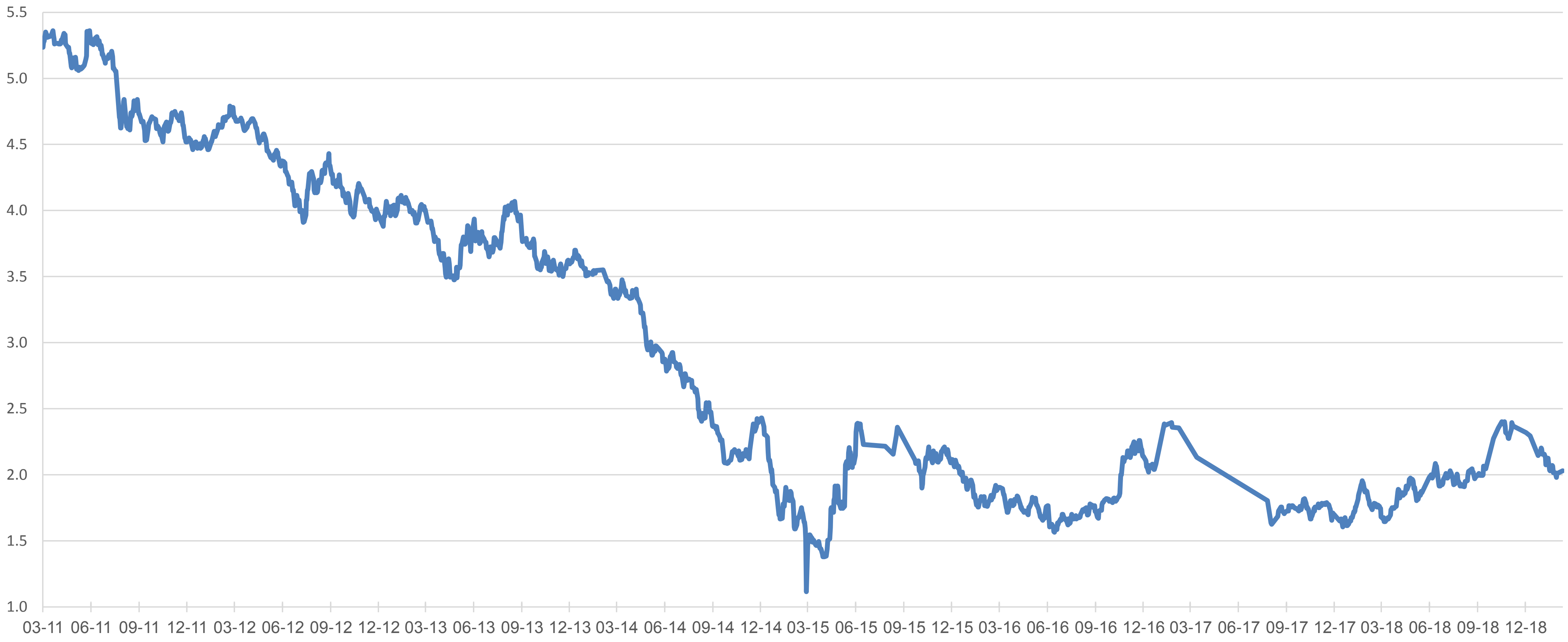
Inflation

CPI (YoY)

10YR Government Bond Yield



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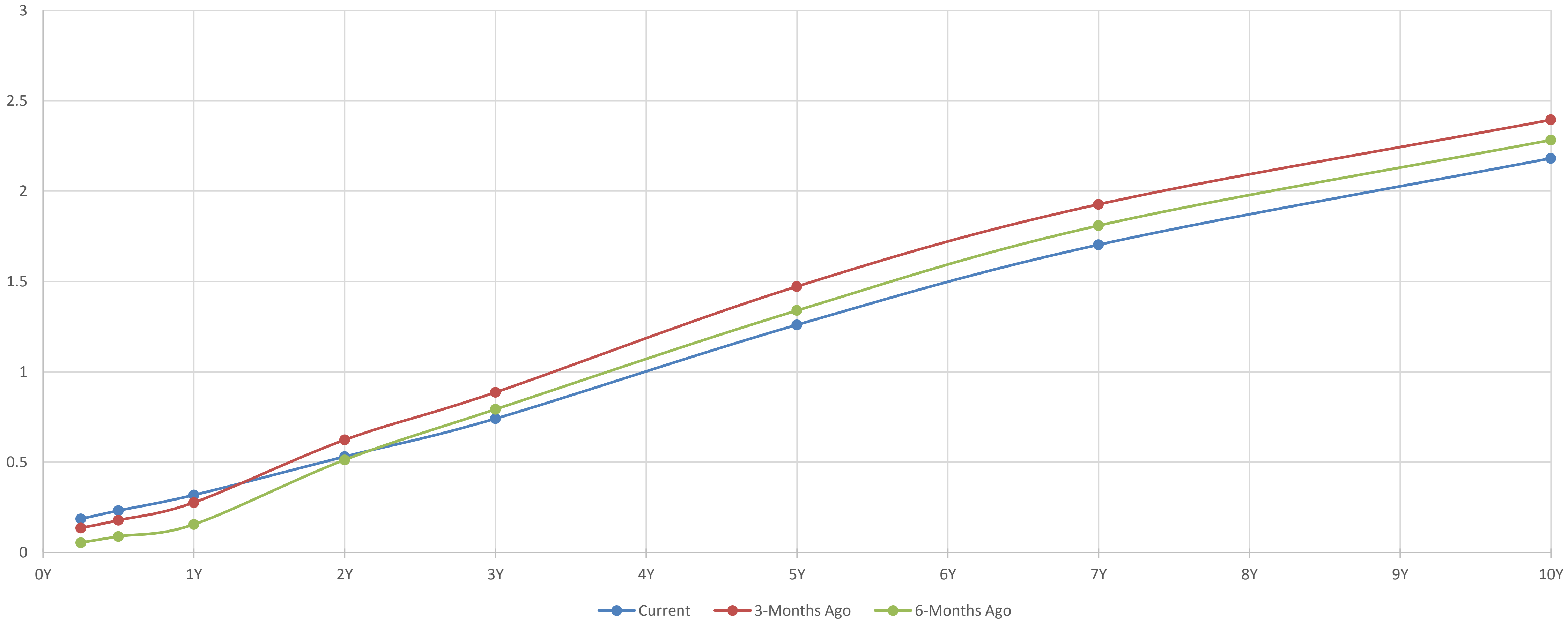
Government Bond Yield Curve



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Hedging Costs

USDILS 1YR Forward Premium

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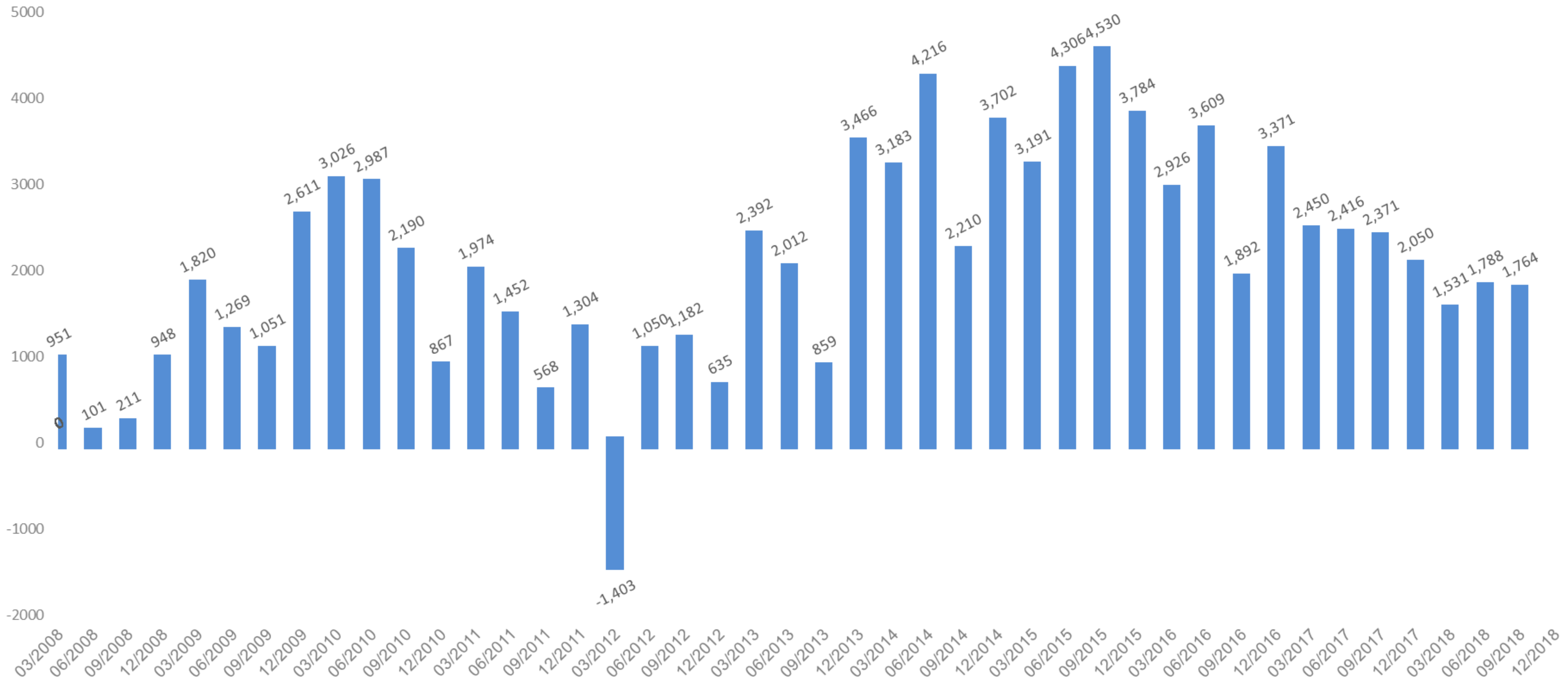
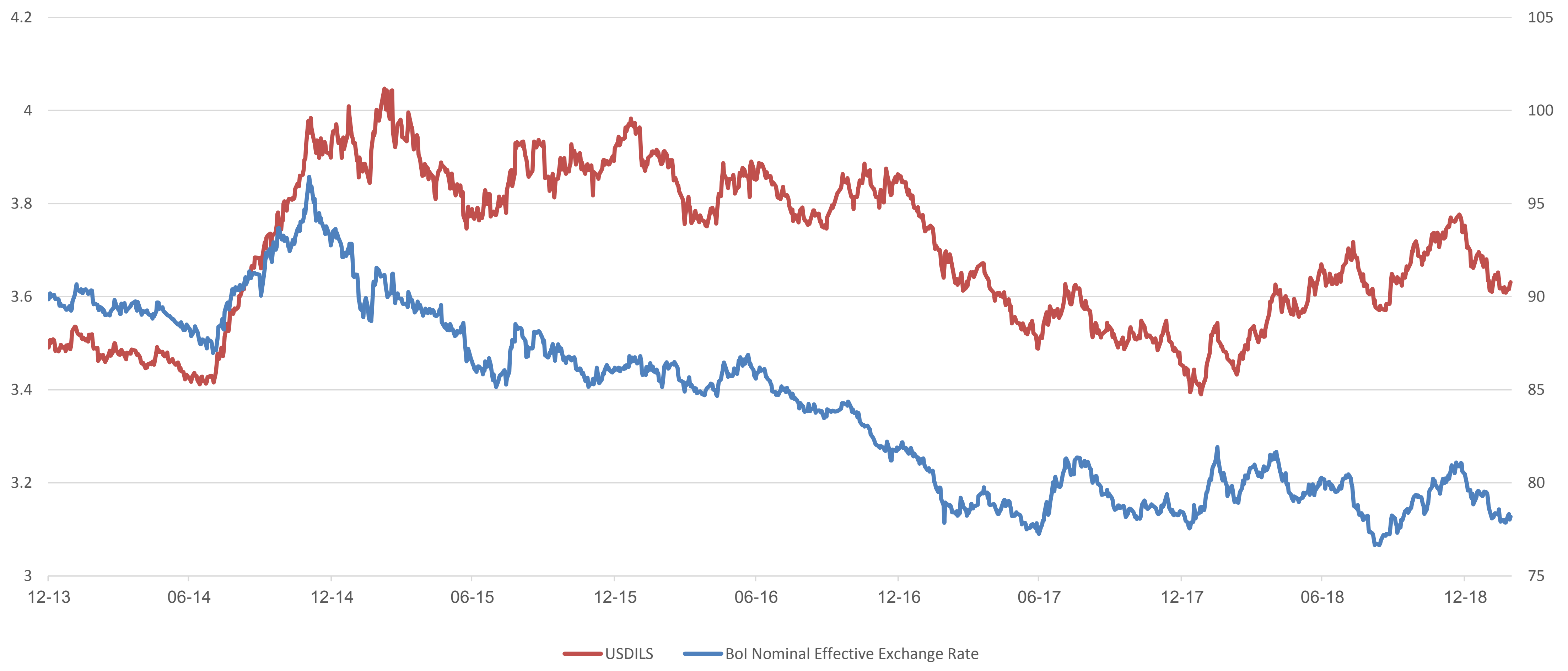
Current Account Balance

USD Million



Exchange Rate

USDILS (Left) BoI Nominal Effective Rate (Right)



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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE

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