Financial Immunities

Market Insights

July 2019

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Global Economy

- World trade organization report shows trade restrictions among G20 continuing at historic high levels adding to the uncertainty surrounding international trade and the world economy
- The unresolved trade conflicts are weighing on future economic activity, especially on China's economy, which continued to weaken as the nation's exporters face 25% tariffs on 250B USD worth of goods. Industrial production growth in China is now in the weakest level since 2002 and investment growth is also dropping
- Supply chains are having a heavy disruption all over the world as tariffs are causing more and more firms to review their global supply chain and production is already diversifying out of China and closer to markets
- After the Trump and Xi meeting in the G20 a truce in their trade war was declared as the two superpowers revive talks. Still, uncertainty about the outcome is high as the last round of talks did not bear the desired fruits
- Inflation expectation have collapsed and the bonds markets project aggressive dovish path of monetary policy, fueling the rally in risk assets, stretching valuations to extreme and breaking loose from economic gravity

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United States

- US economy is slowing down as uncertainties regarding trade tensions weigh on economic activity
- Leading indicators are headed towards slowdown (six months outlook). Federal Reserve regional bank factory surveys adding to signs of waning momentum in manufacturing sector amid heightened trade tensions and PMI’s of the service and manufacturing sectors dropped to a level above but close to 50 (a reading under 50 suggests contraction)
- Trade tension is a major issue for corporate America as global trade destabilize and supply chains are having a big disruption putting at risk America's earning boom
- April and May retail sales numbers were strong but the decline in consumer sentiment lately and the disappointing May job report cast a shadow on the willingness and ability of households to spend further at a high level
- In a speech held on May 25th the Fed chair, Jerome Powell, said that “the risks to the Fed favorite baseline outlook appeared to have grown”. He also said that although the FOMC left rates unchanged, it made significant change in the statement after last meeting by dropping the reference of being “patience” on borrowing costs
- Markets are now pricing 2-3 rate cuts until the end of 2019 (which seems to be an overshoot) amid increasing worries about the trade tensions and growing pressures of president Trump to cut rates

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Core Economic Indicator

USA

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	3.1%	Q1-2019
Unemployment Rate	3.6%	May-2019
Inflation Rate (Core, YoY)	1.6%	May-19
Fed Funds Target Range	2.25%-2.50%	June-2019
10 Year Treasury	2.01%	June-2019
Ratio of Surplus in Current Account to GDP	-2.41%	Q1-2019
Ratio of Public Debt to GDP	105.32%	Oct-2018

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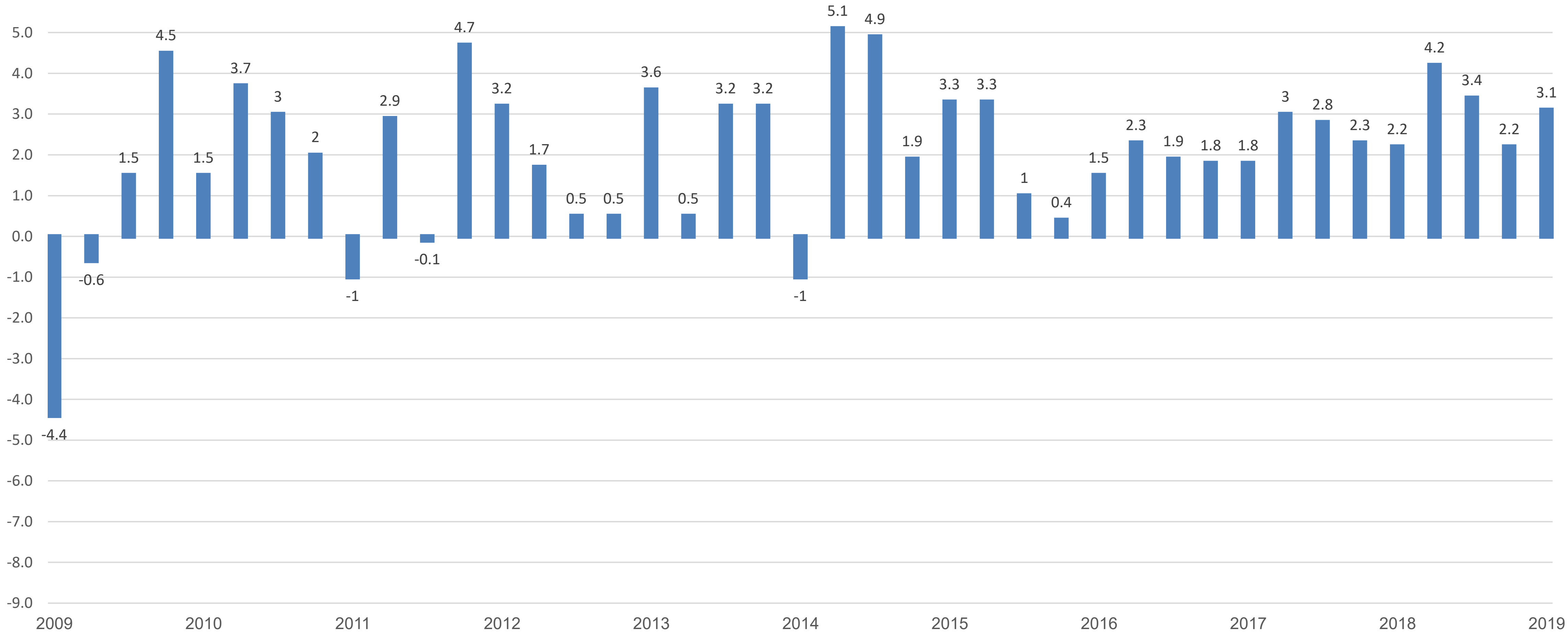
Economic Growth

GDP (Annualized)



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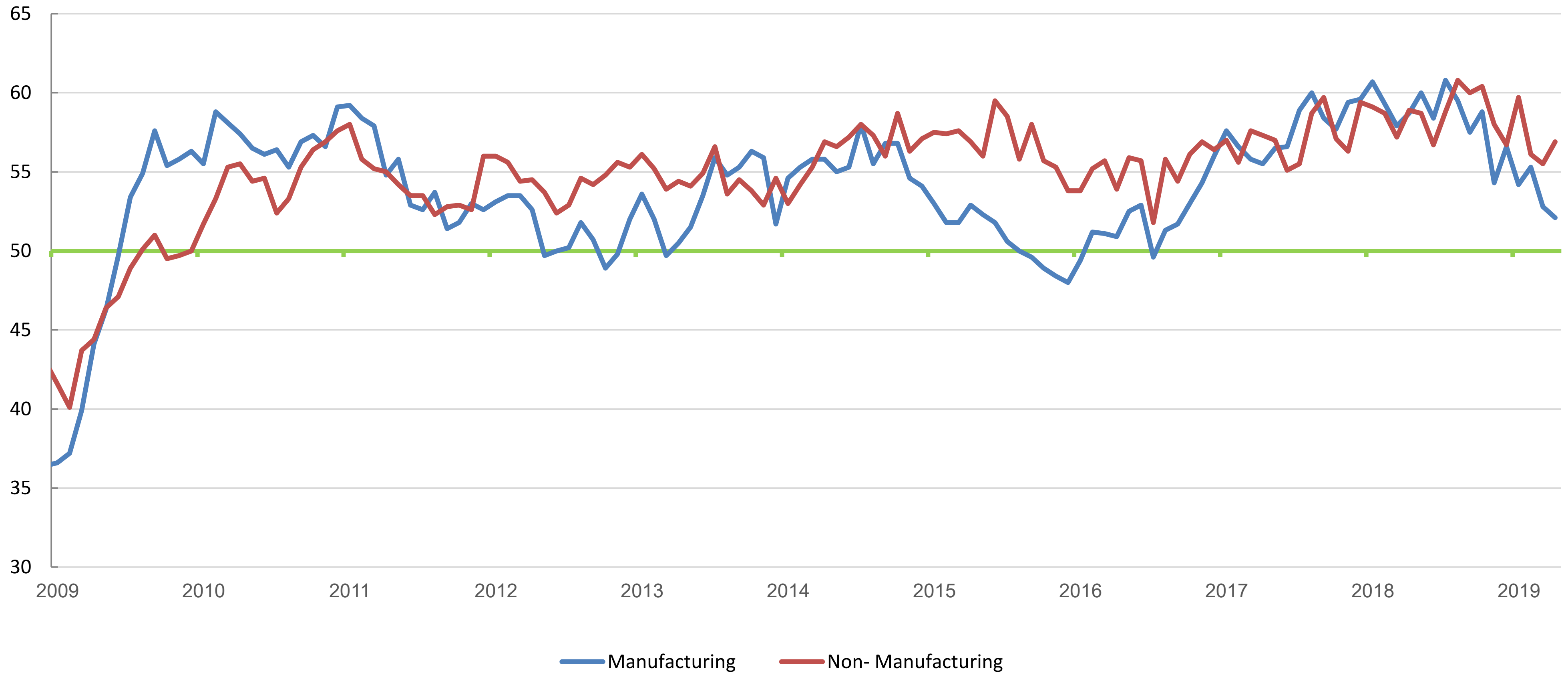
Economic Sentiment

Manufacturing and Non-Manufacturing ISM



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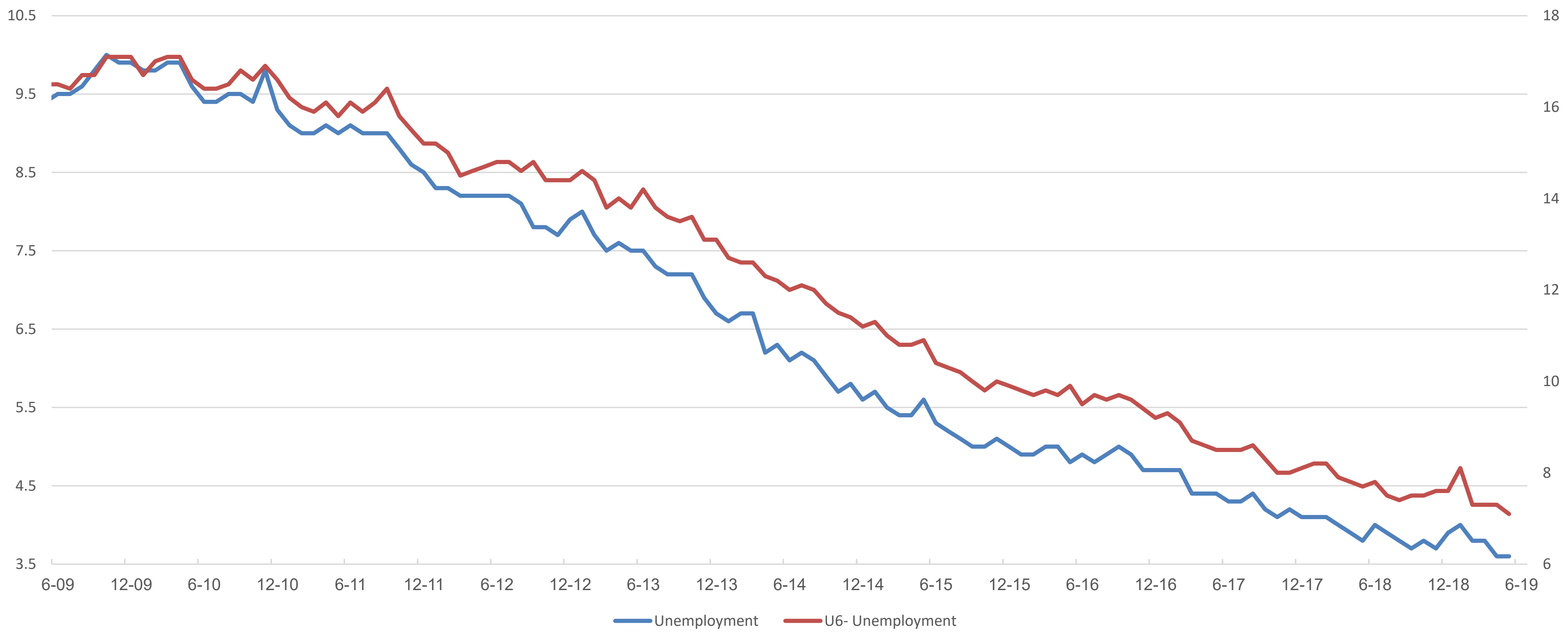
Labor Market

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



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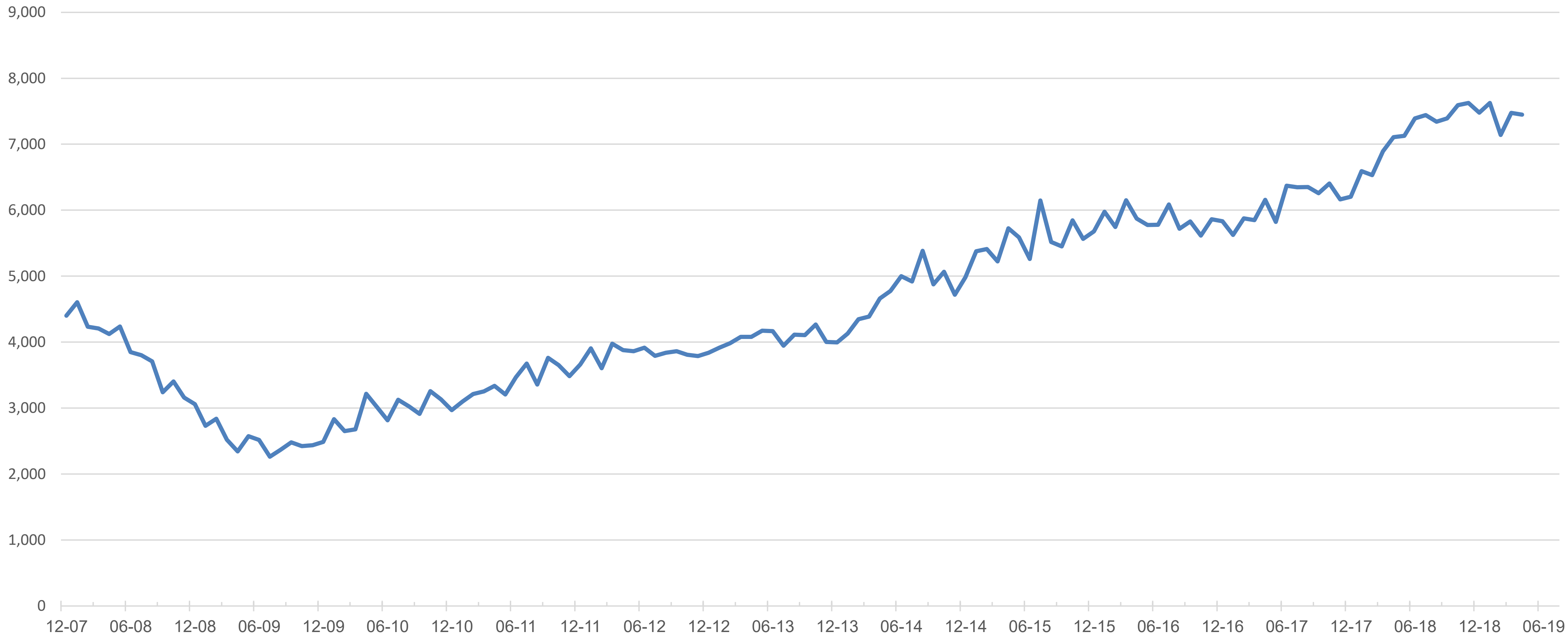
Labor Market

Jolts: Job Openings



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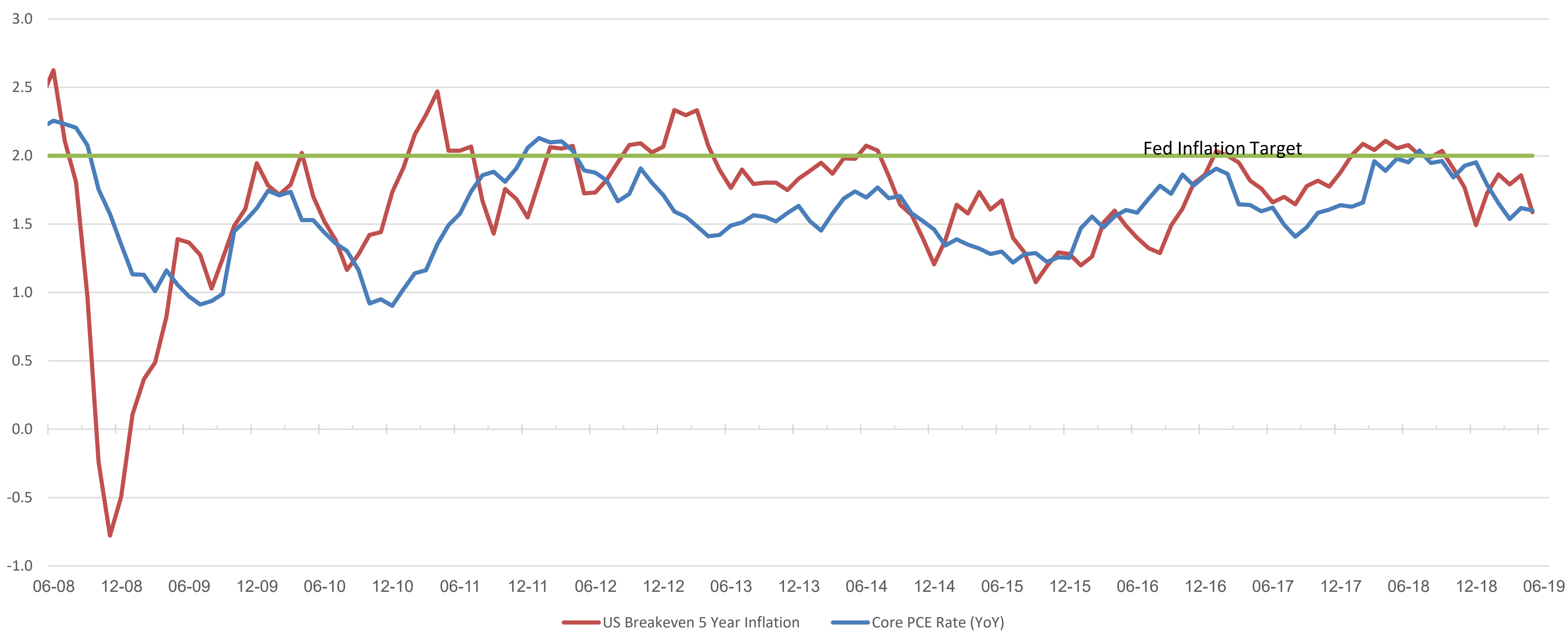
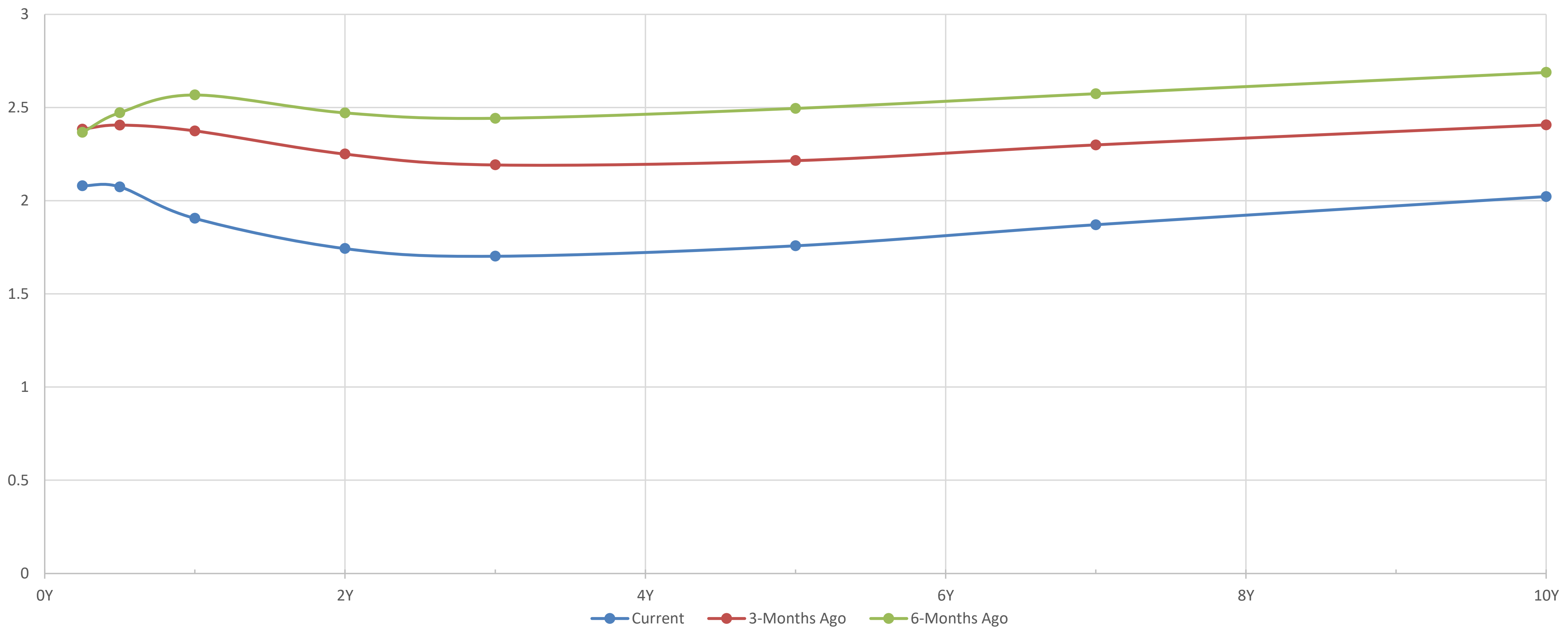
Inflation

Core PCE (YoY) and 5Y Inflation Forecast



10YR Treasury Yield to Maturity

US Treasury Yield Curve



Chicago Feds National Financial (NFCI) Condition Index

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

US Dollar Index (DXY)

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Citi Economic Surprise

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Eurozone

- After stabilizing in Q1, the Eurozone economy finds it hard to keep momentum as the outlook in the trade war front and the Brexit is still challenging and uncertainty is high
- The manufacturing sector is still the weakest link in the economy as the industrial production contracted during April and manufacturing PMI decreased marginally by 0.1 to 47.6, below the 50 threshold, a sign of contraction
- On the other hand, the service sector is improving, as shown by the sector PMI, that increased to 53.4, the highest level in 7 months, an evidence of a still respectable internal demand that goes in line with the robust labor market and accommodative financial conditions
- However, the big question is whether the current monetary policy is enough to support the economy and return inflation back to target of below but close to 2%
- Headline and core inflation were basically flat since the beginning of 2019 but just shy of 2018 average. However, inflation expectation decreased to a record low
- In a speech in front of a forum on central banking, Mario Draghi, the ECB president, said that rate cuts and QE are on the table as he highlighted the on going risks and inflation dynamics as a cause for possible action
- Christine Lagarde is set to swap the helm of the IMF for that of the ECB. Investors will likely bet that as a seasoned crisis-fighter, Lagarde will share Draghi’s taste for aggressive and innovative monetary policy

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Core Economic Indicator

Eurozone

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	1.6%	Q1-2019
Unemployment Rate	7.5%	May-2019
Inflation Rate (Core, YoY)	1.1%	June-2019
Central Bank deposit rate	0.00%	June-2019
10 Year Government Bond Yield (Germany)	-0.33%	June-2019
Ratio of Surplus in Current Account to GDP	2.77%	Q1-2019
Ratio of Public Debt to GDP	85.20%	Q4-2018

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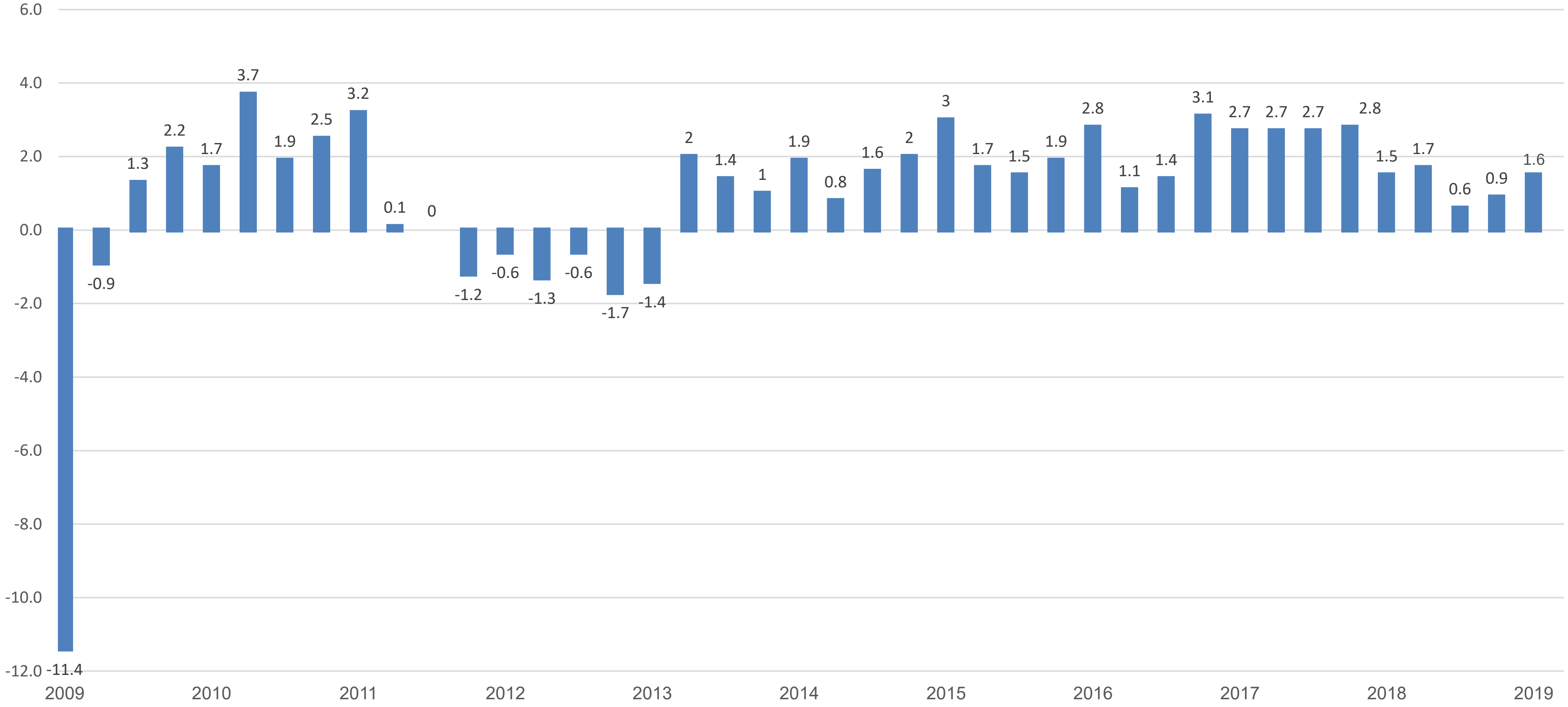
Economic Growth

GDP (Annualized)



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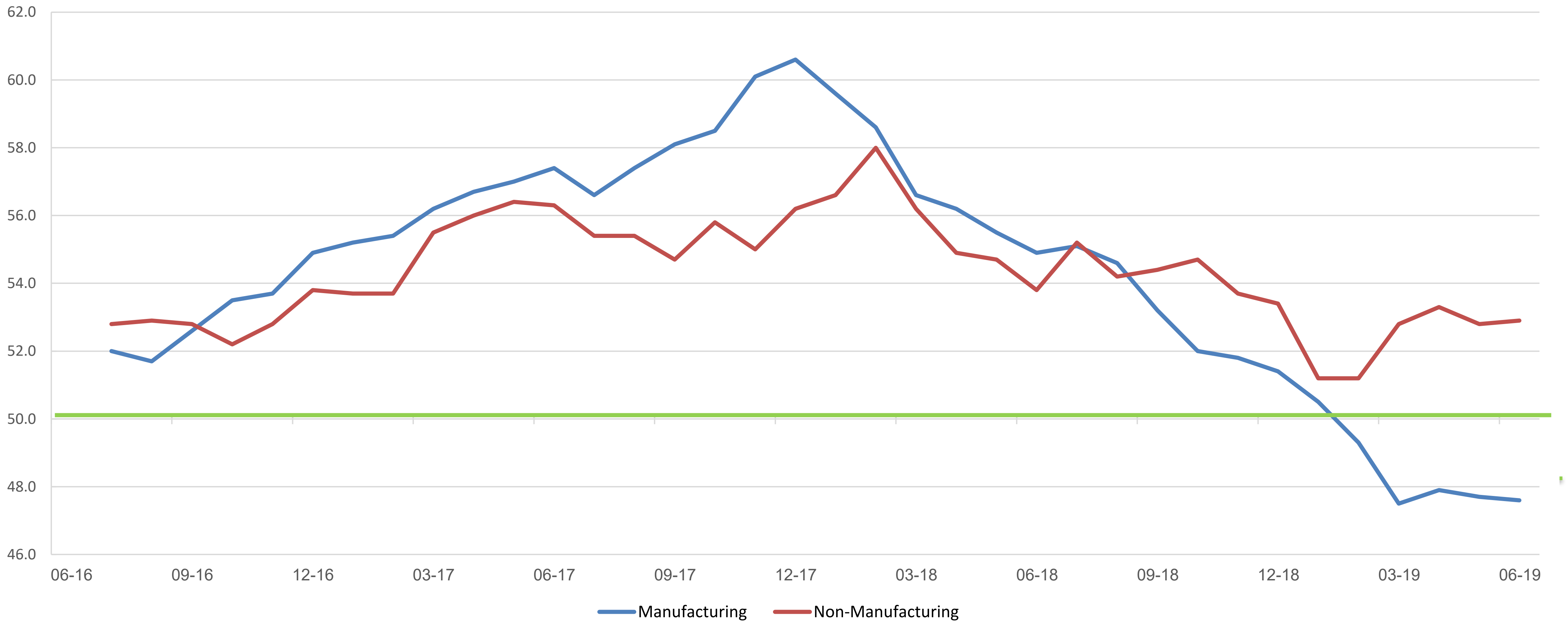
Economic Sentiment

Manufacturing and Non-Manufacturing PMI



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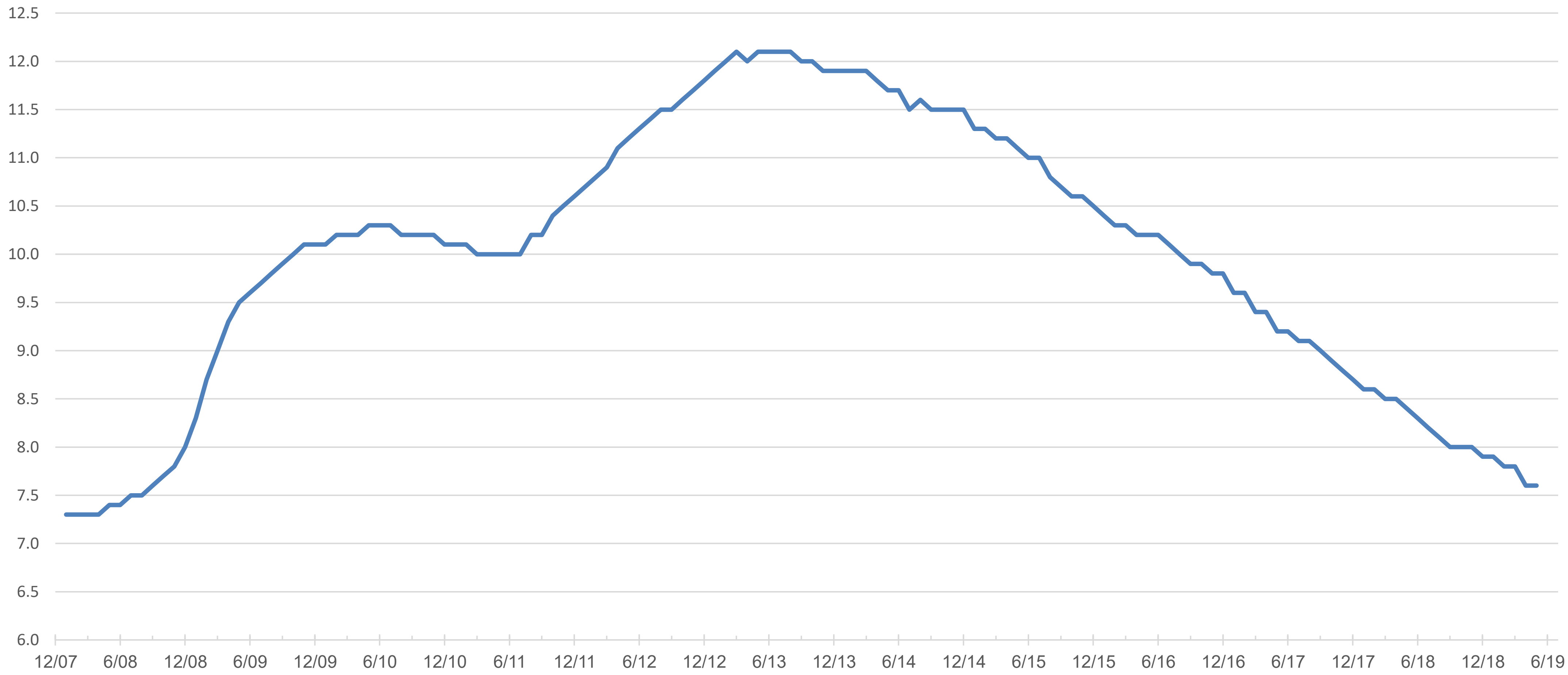
Labor Market

Unemployment Rate



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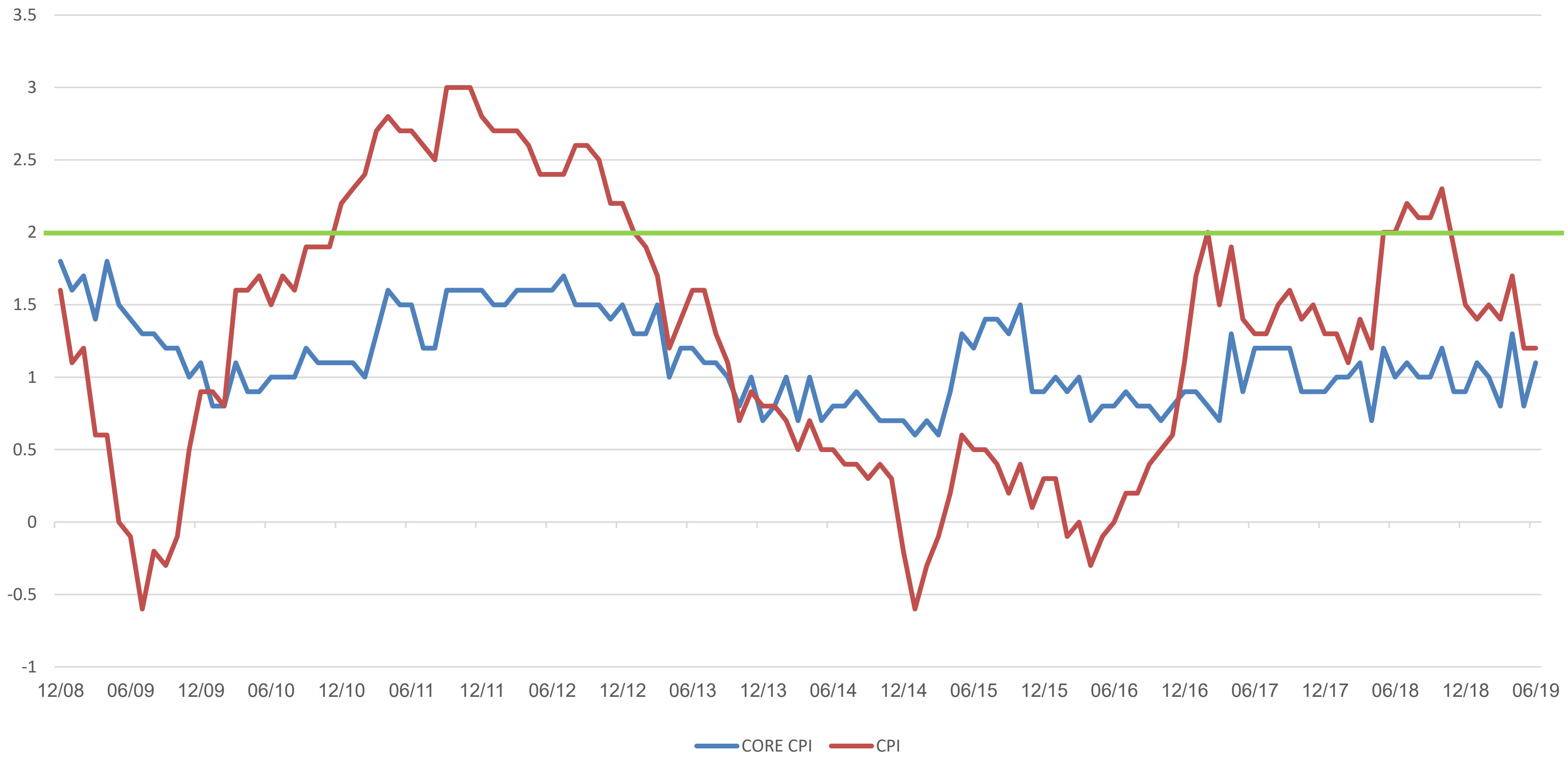
Inflation

CPI and Core CPI (YoY)



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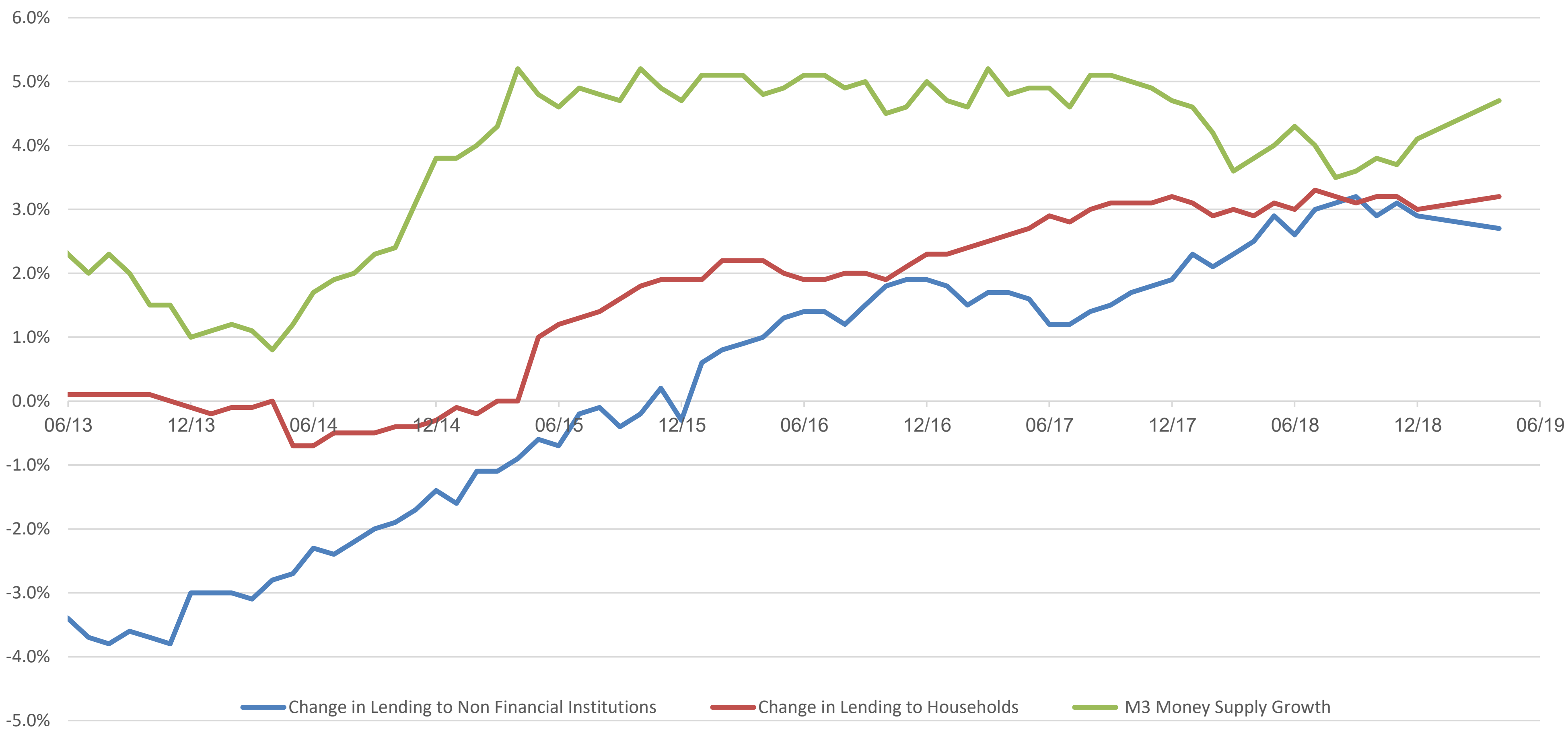
Money Supply and Credit

Growth in Money Supply, Loans to Real Sector



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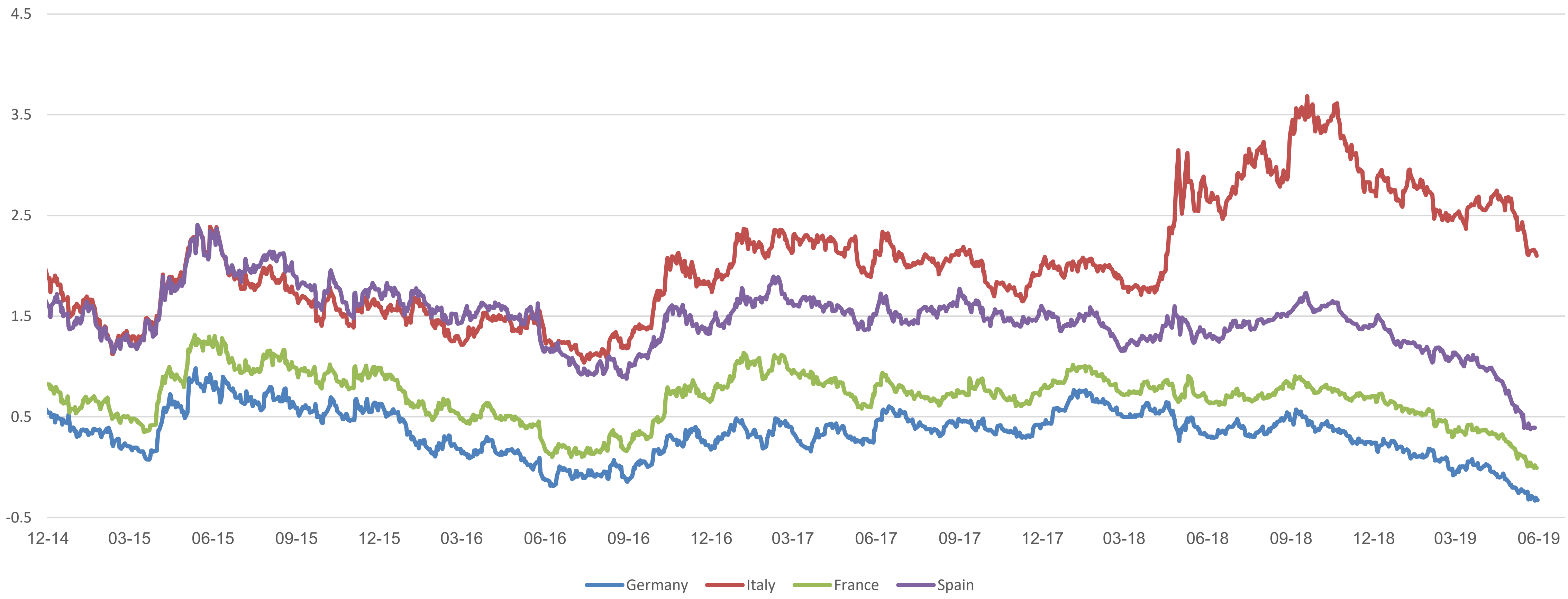
10YR Government Bond Yield



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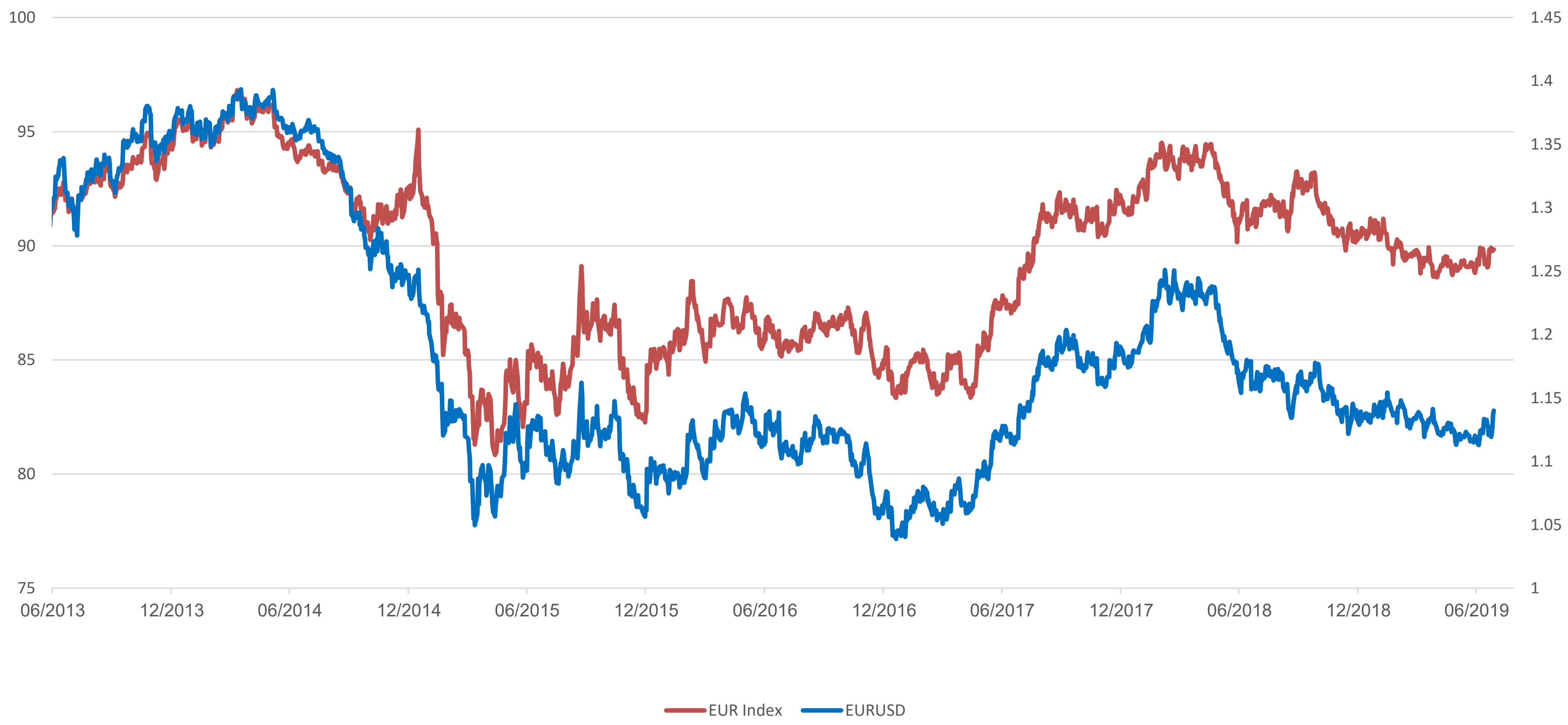
Exchange Rate

EUR Index (Left) EURUSD (Right)



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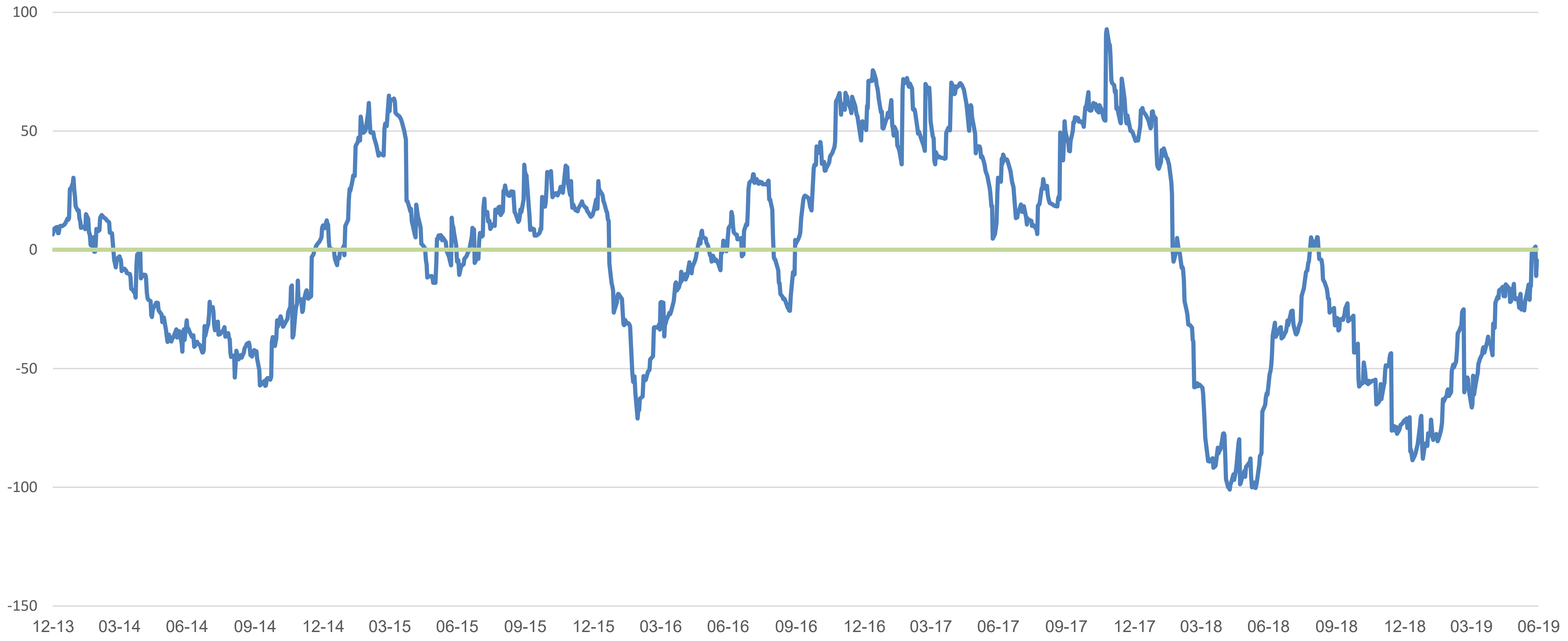
Citi Economic Surprise



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Israel

- Q1 GDP growth was downwardly revised from 5.2% (annualized) to 4.8% as export and privet consumption increased less than previously reported. Q2 GDP growth is expected to decelerate to less than 3% as Q1 growth was greatly affected by a sharp increase in car imports, spurred by a tax change

- The Composite State of the Economy Index is moderating since the beginning of the year. Looking ahead, the slowdown in the global economy as well as the political turmoil are expected to weigh further on the local economy

- Budget deficit increased to 3.8% from GDP, as the structural deficit equals to 4%. Debt to GDP ratio is expected to increase in 2019 for the second year and without drastic measures the deficit in 2020 will rise further

- Unemployment dropped by 0.2% to 3.6% in May amid 0.3% decline in the labor force participation rate. Increasing signs of weakness in the labor market as the percentage of companies that see hiring of employees as a severe limitation for growth is steadily dropping

- Inflation environment shifted since the beginning 2019 to the upside. YOY inflation increased by 1.5%, the highest since the beginning of 2014 but it is expected to remain close to 1% as investors see a slower path of inflation in the future

- The window of opportunity for the BOI to raise interest rates closed amid the global shift towards accommodative monetary policy. The bank is expected to leave interest rate unchanged until at least 2020

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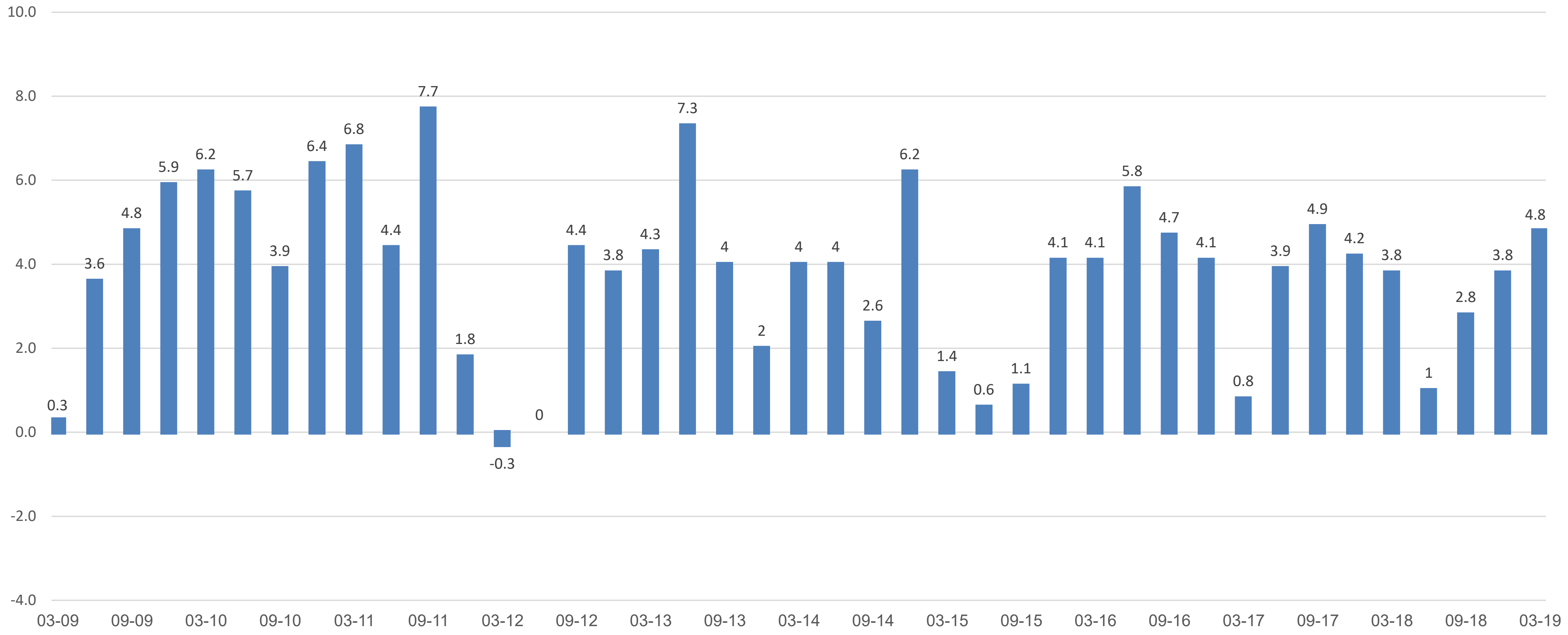
Core Economic Indicator

Israel

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	4.8%	Q1-2019
Unemployment Rate	3.6%	May-2019
Inflation Rate (YoY)	1.5%	May-2019
Central Bank Interest Rate	0.25%	June-2019
10 Year Government Bond Yield	1.58%	June-2019
Ratio of Surplus in Current Account to GDP	3.07%	Q1-2019
Ratio of Public Debt to GDP	61%	Q4-2017

Economic Growth

GDP (Annualized)



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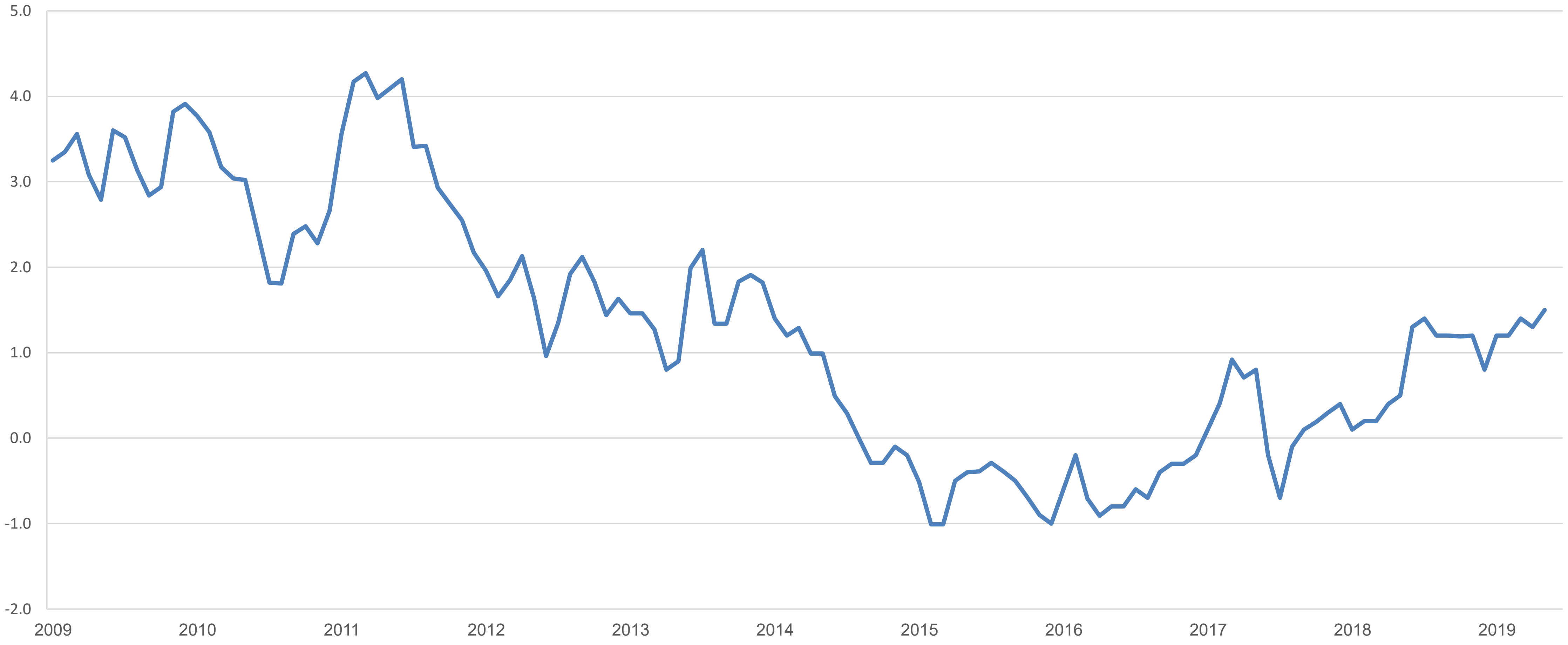
Labor Market

Unemployment Rate

Inflation

CPI (YoY)



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10YR Government Bond Yield

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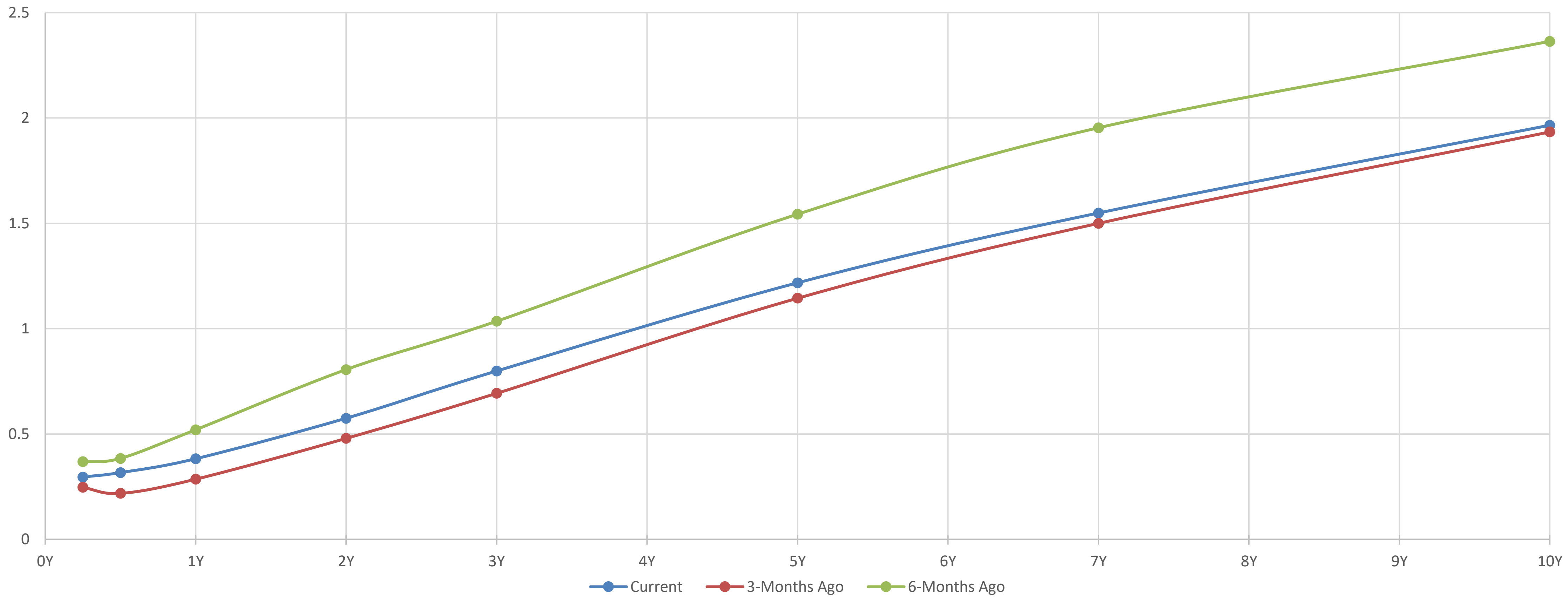
Government Bond Yield Curve



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Hedging Costs

USDILS 1YR Forward Premium

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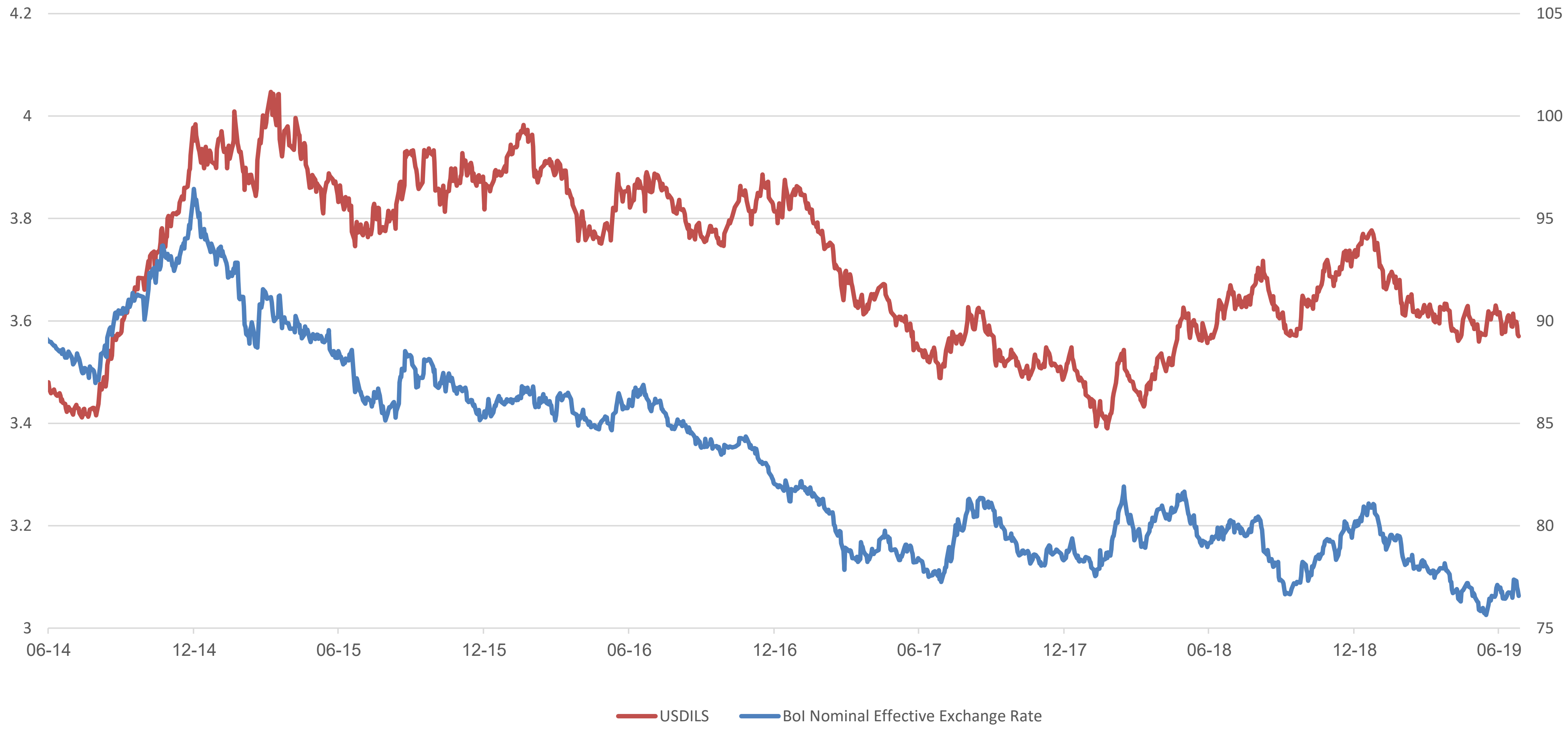
Exchange Rate

USDILS (Left) BoI Nominal Effective Rate (Right)



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