Financial Immunities

Market Insights

November 2018

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Global Economy

- First IMF global growth downgrade since July 2016. Global growth will remain steady over 2018–19 at last year's rate of 3.7% instead of 3.9% in April projection. Escalating trade tensions and stresses in EM where to blame for the reduction

- The divergence in global economy continues as growth in the US buoyed by ultra accommodative fiscal policy while the rest of the world is trying to cope with the consequences of the trade war, rising USD interest rate and strengthening of the USD

- China's economy continued to cool as trade war escalates. YOY growth through September recorded at 6.5%, the slowest pace since 2009. The chine's government and the PBOC are already implementing fiscal and monetary steps in order to stimulate the economy. The pressure on the CNY continues as further measures are taken by the government to halt its depreciation

- Global bonds markets were slammed causing a sell-off in stocks markets after strong US data and rising oil prices created tighter-than-expected monetary trajectory that pushed Treasury yields to cycle-highs

- As the era of cheap money comes to an end, global wave of populism puts central bankers under pressure from their governments to keep the accommodative policy. This phenomena discredit central banks and damage their ability to manage the right policy

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United States

- The US economy expanded by 3.5% in Q3 above market expectation. The gain followed a 4.2% in Q2 and was led by a 4% increase in consumer spending as strong job market and lower taxes propel demand
- The job market remains tight as unemployment rate holds at 3.7%, lowest level since 1969. Average hourly earnings climbed 3.1% from a year earlier, the biggest increase since 2009
- Leading economic indicators is pointing to strong growth going to Q4 and into 2019, although growth may be contained by capacity constrains and tight labor markets. Solid conditions going into year end for the factory sector
- Housing market is the big disappointment of this year economy as rising mortgage rates, now over 5% for 30 year fixed loans, offset the positive effect of the strong gains in the labor market. However, optimism among the nation's home builders picked up this month hinting to a positive momentum in the coming months
- Both the overall PCE price index and the core came in exactly on target, at 2%. Rising wages are not yet translating into more widespread price pressures
- President Trump continued last month the attacks on Fed Chairman saying that “the biggest risk is the Fed” and that the central banker ”almost looks like he’s happy raising interest rates”. This relentless pressure puts the Fed between a rock and a hard place and erodes it’s credibility

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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%	Oct-2018
10 Year Treasury	3.15%	Oct-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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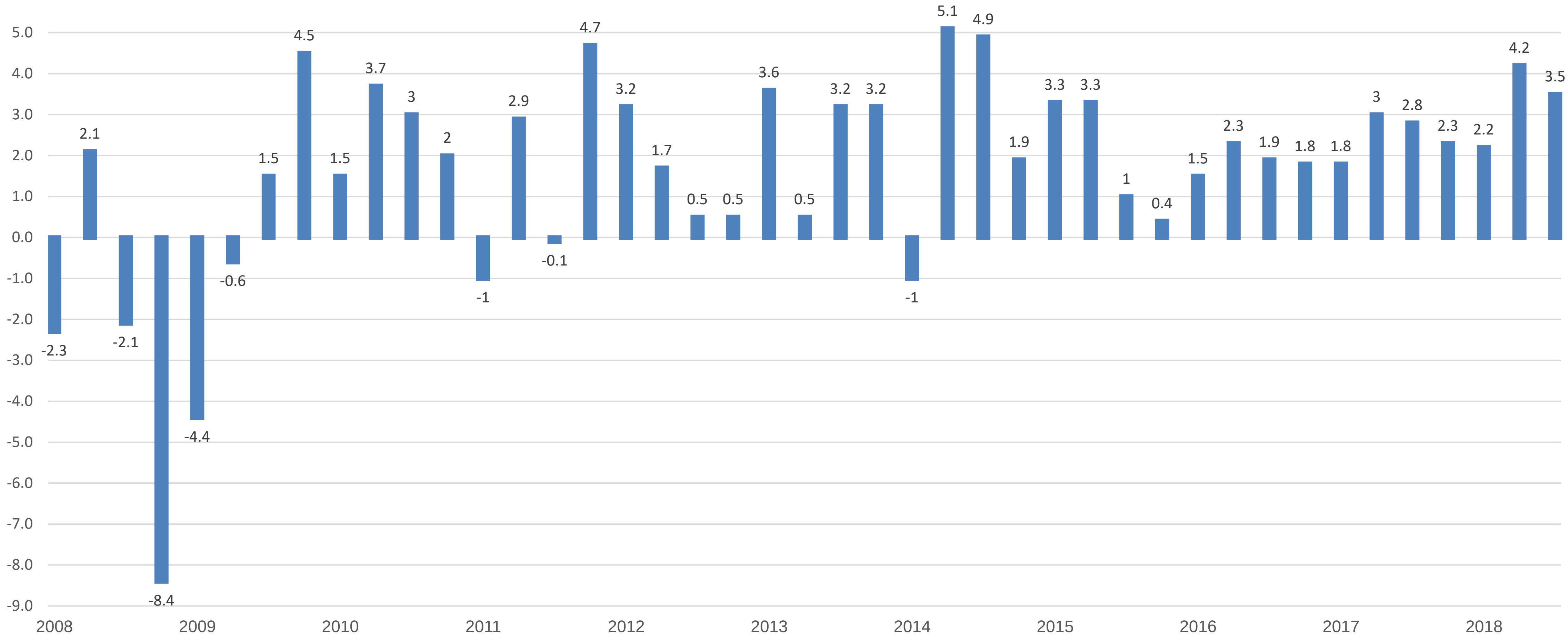
Economic Growth

GDP (Annualized)



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Economic Sentiment

Manufacturing and Non-Manufacturing PMI

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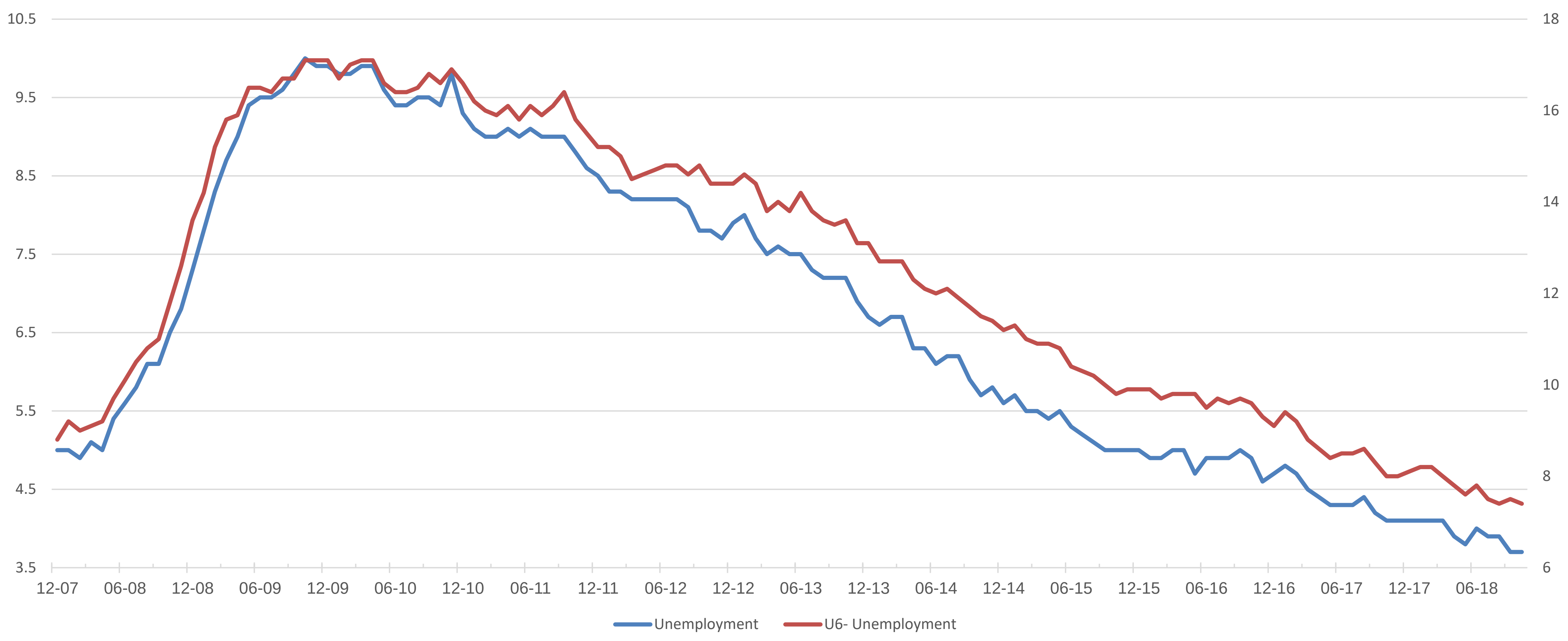
Labor Market

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



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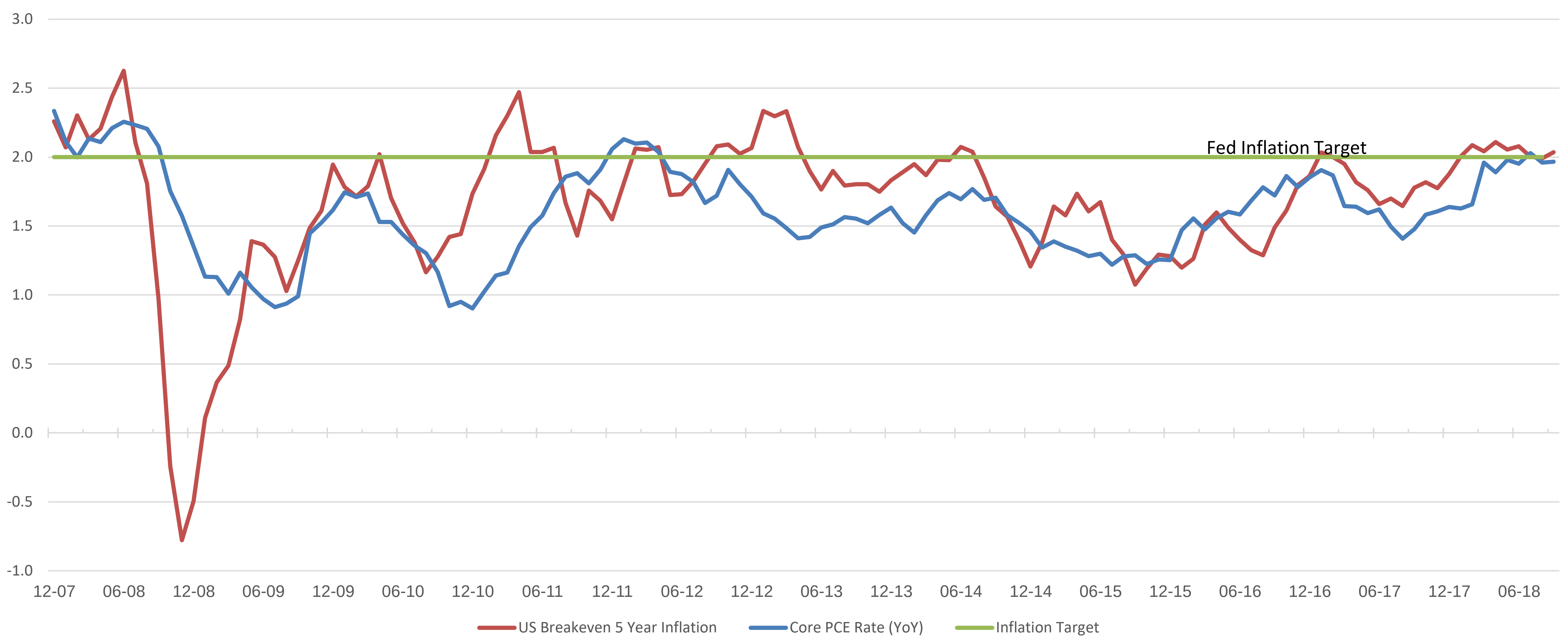
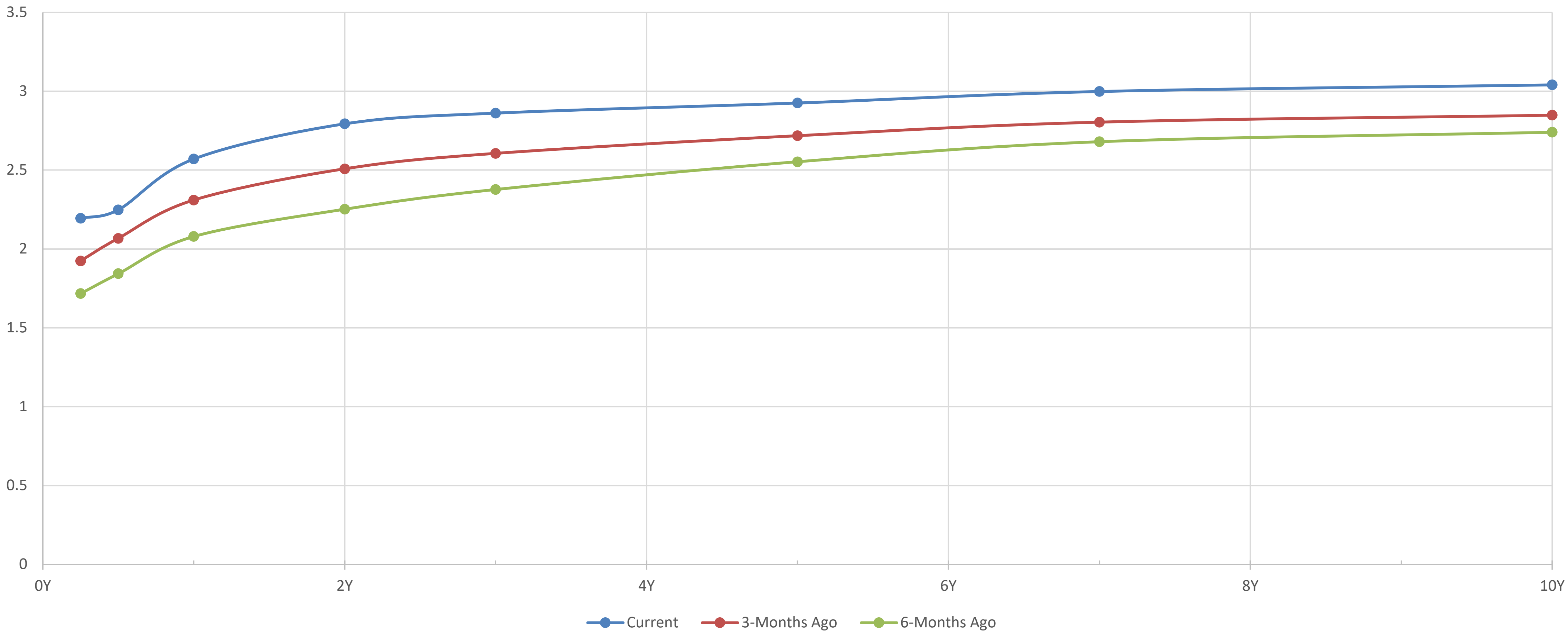
Inflation

Core PCE (YoY) and 5Y Inflation Forecast



10YR Treasury Yield to Maturity

US Treasury Yield Curve



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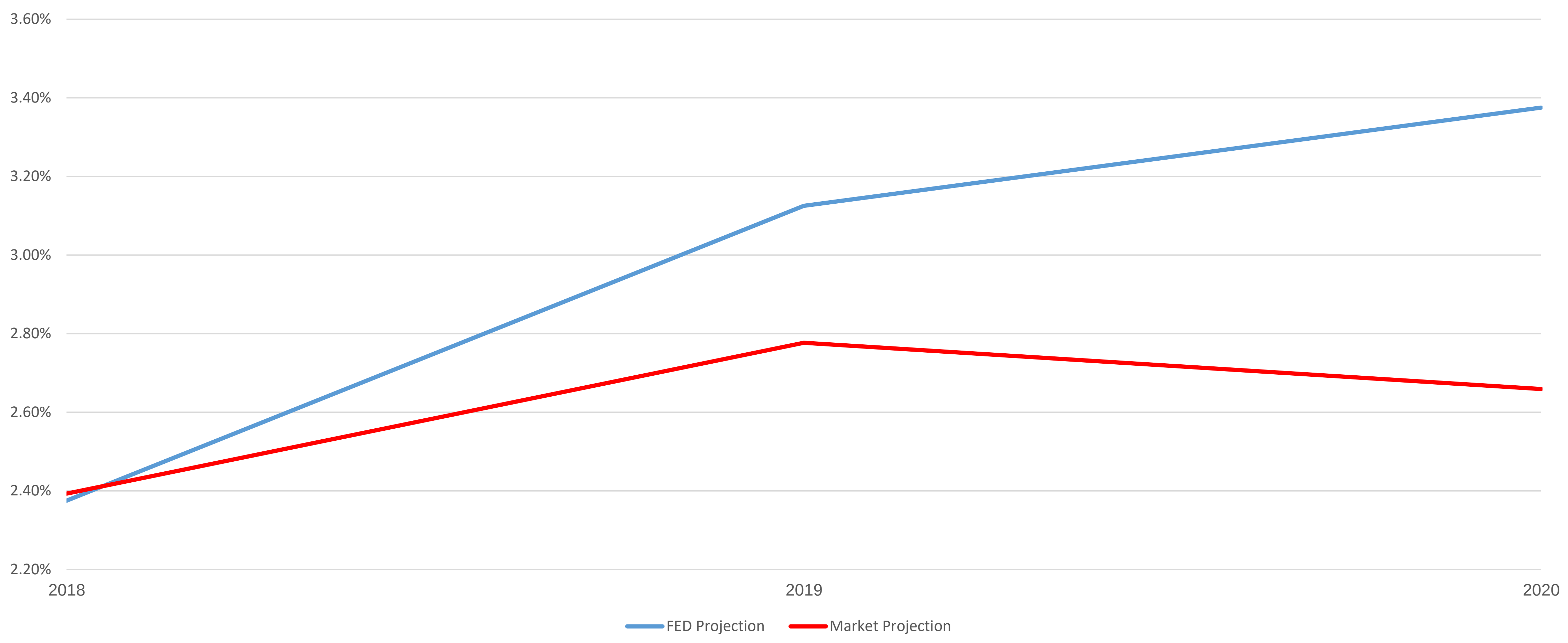
Fed Funds Projection



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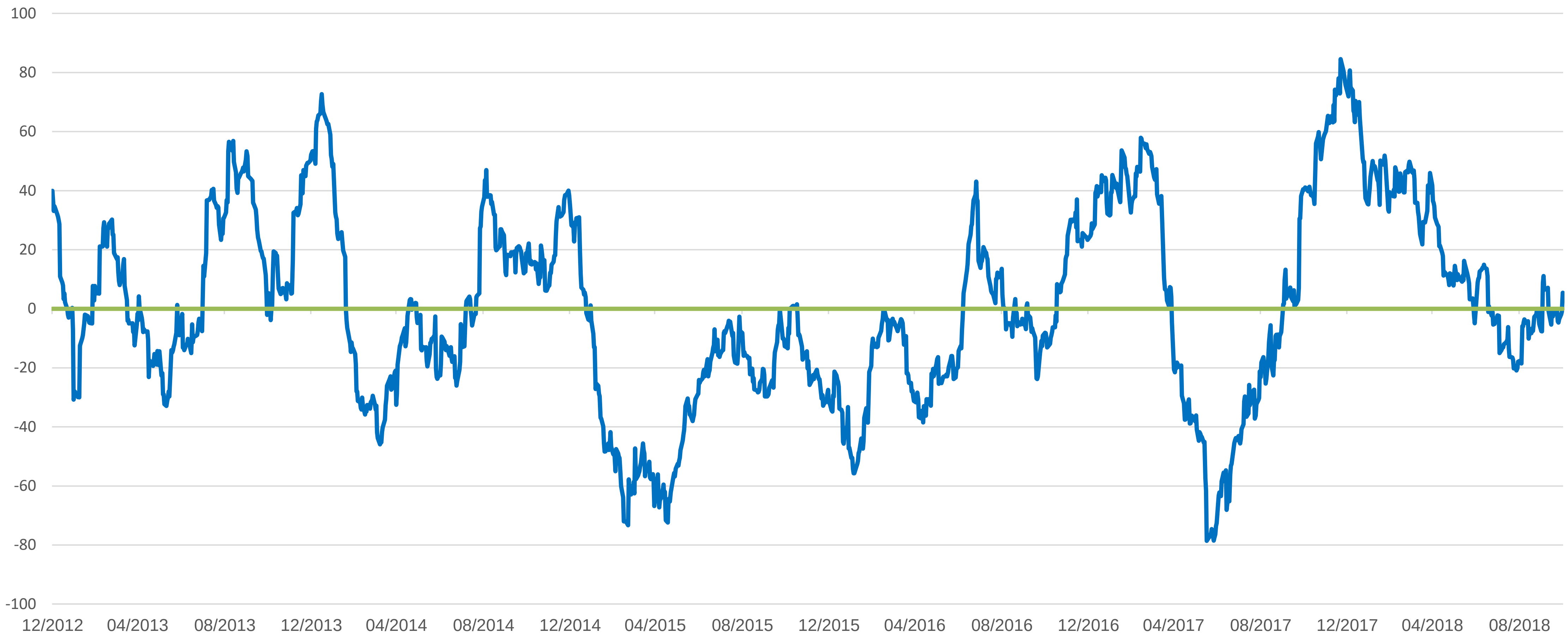
US Dollar Index (DXY)

Citi Economic Surprise



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Eurozone

- Growth in Q3 slowed sharply to 0.6% (annually) as the slowdown in international trade, the crisis in EM and the political uncertainty proved to be a drag on growth. YoY growth decelerated from 2.2% to 1.7%
- The unemployment remained stable at 8.1% in September, a record-low rate since November 2008
- Headline Inflation accelerated in October to 2.2% YoY as the core inflation increased by 1.1%, above market expectation
- Growing tensions and uncertainty cast a shadow on the EUR as Angela Merkel steps down and the influence of the populist parties collies with the old political order represented by the European Commission
- Grave concern about Italy's budget situation as the new populist government targeted budget deficit of 2.4% for next year. In respond Italy's credit rating was downgraded to one level above junk (Baa3) and Italian's bonds plunged, two events that present increasing risks to Italy's fragile financial system
- Despite the poor growth it seems like the ECB is determined to end its bond purchases at the end of the year and raise interest rates in the fall of 2019
- Deadlocked Brexit negotiations as UK and EU officials find it difficult to resolve obstacles and disputes and the focus now is turning to December EU summit. The EUR and GBP could benefit from a Brexit resolution

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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%	Sep-2018
Inflation Rate (Core, YoY)	1.1%	Oct-2018
Central Bank deposit rate	0.00%	Oct-2018
10 Year Government Bond Yield (Germany)	0.39%	Oct-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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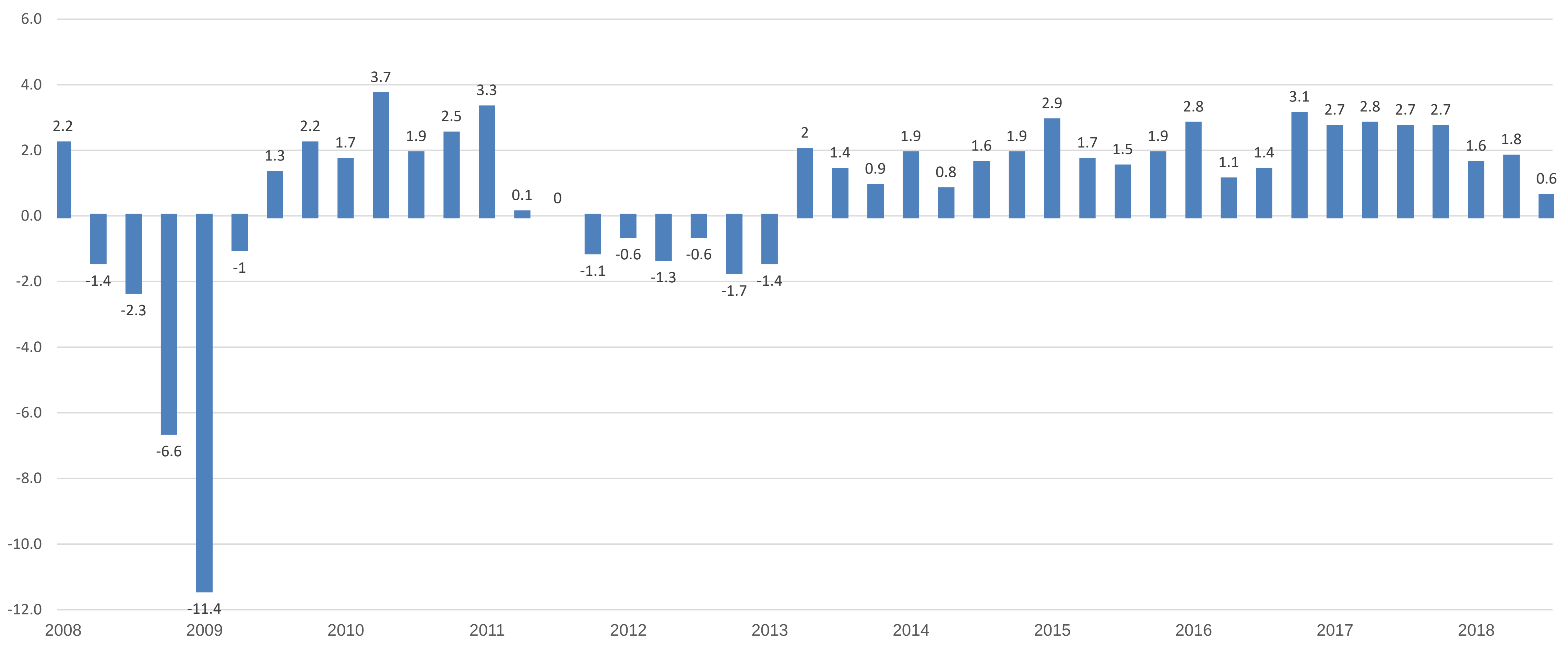
Economic Growth

GDP (Annualized)



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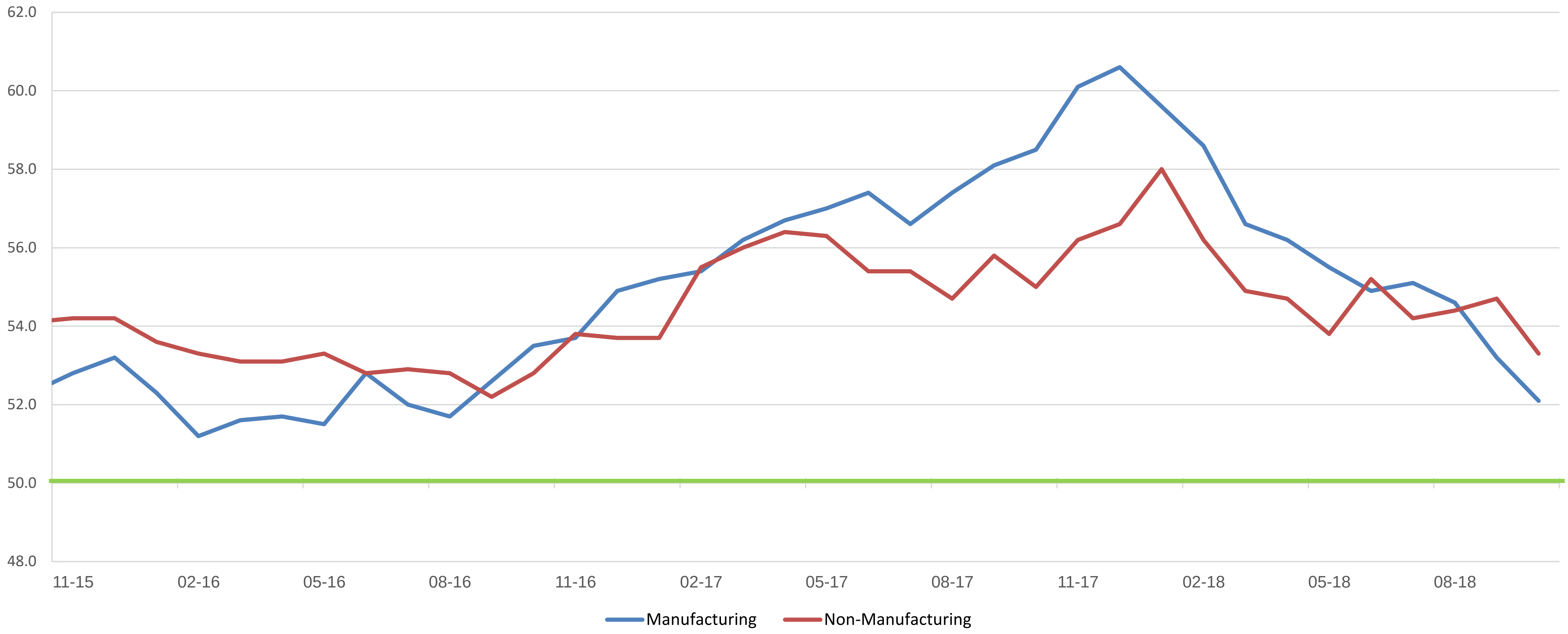
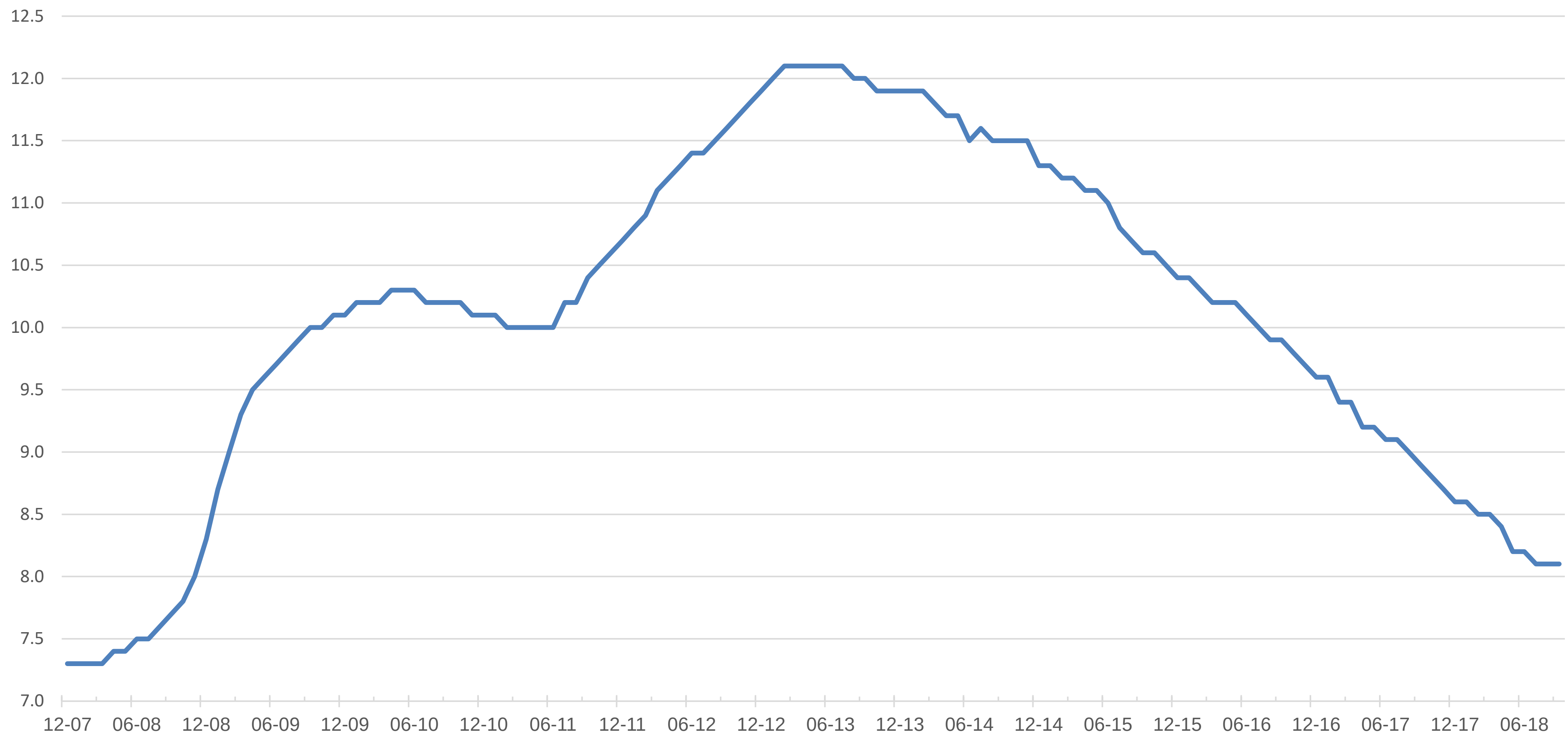
Economic Sentiment

Manufacturing and Non-Manufacturing PMI



Labor Market

Unemployment Rate



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Inflation

CPI and Core CPI (YoY)

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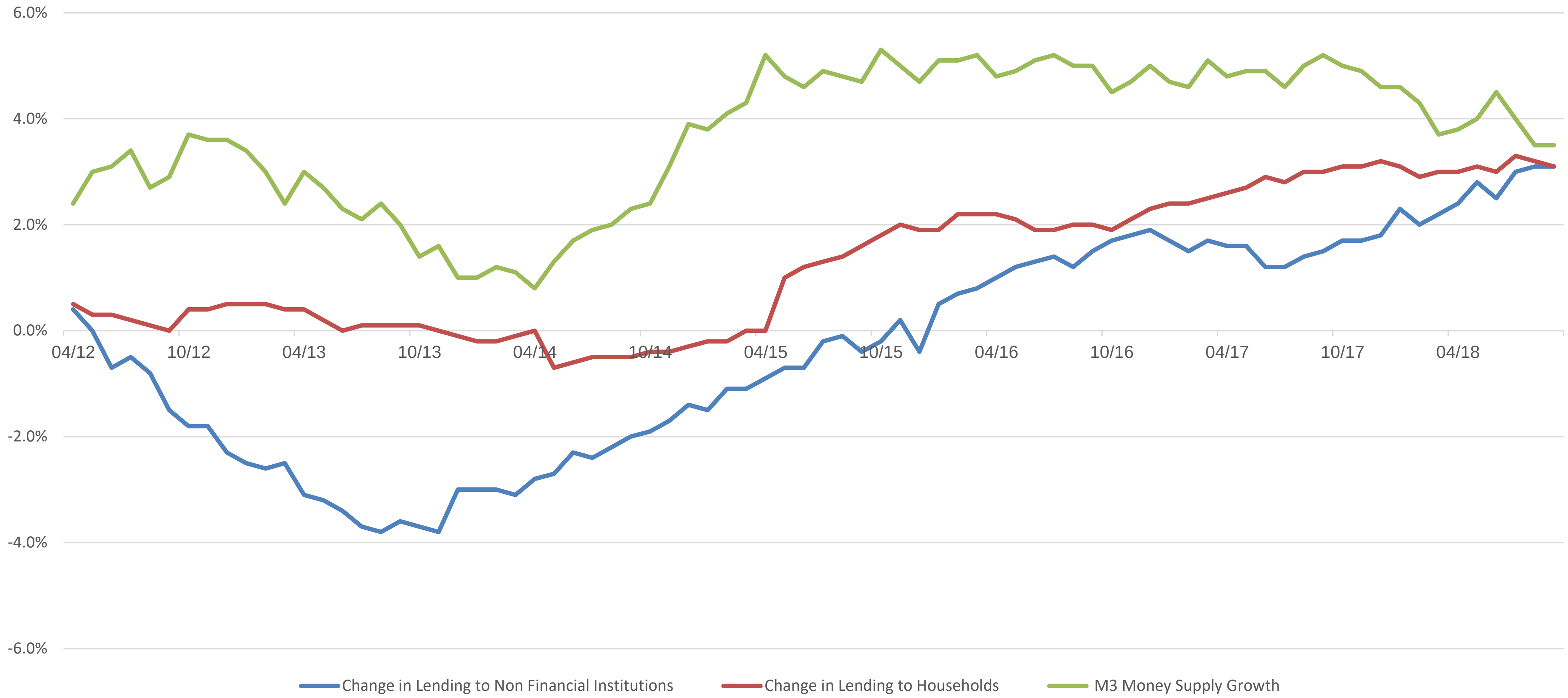
Money Supply and Credit

Growth in Money Supply, Loans to Real Sector



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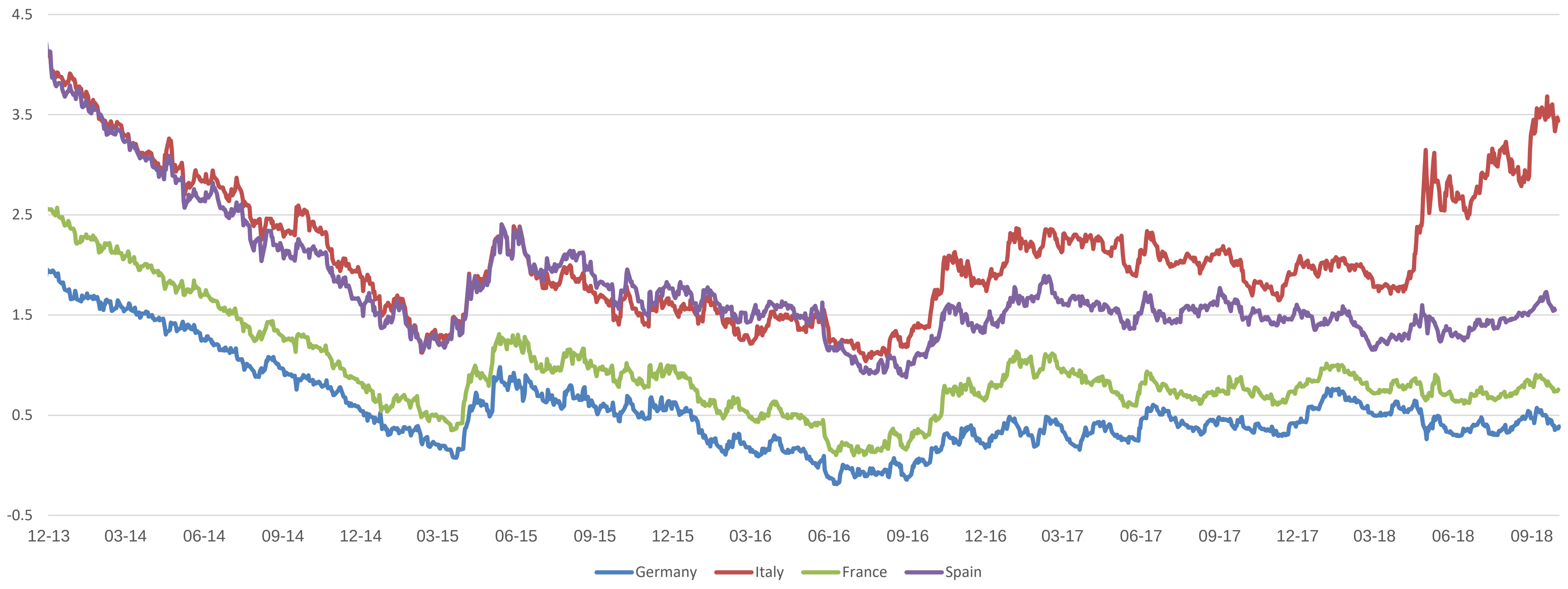
10YR Government Bond Yield



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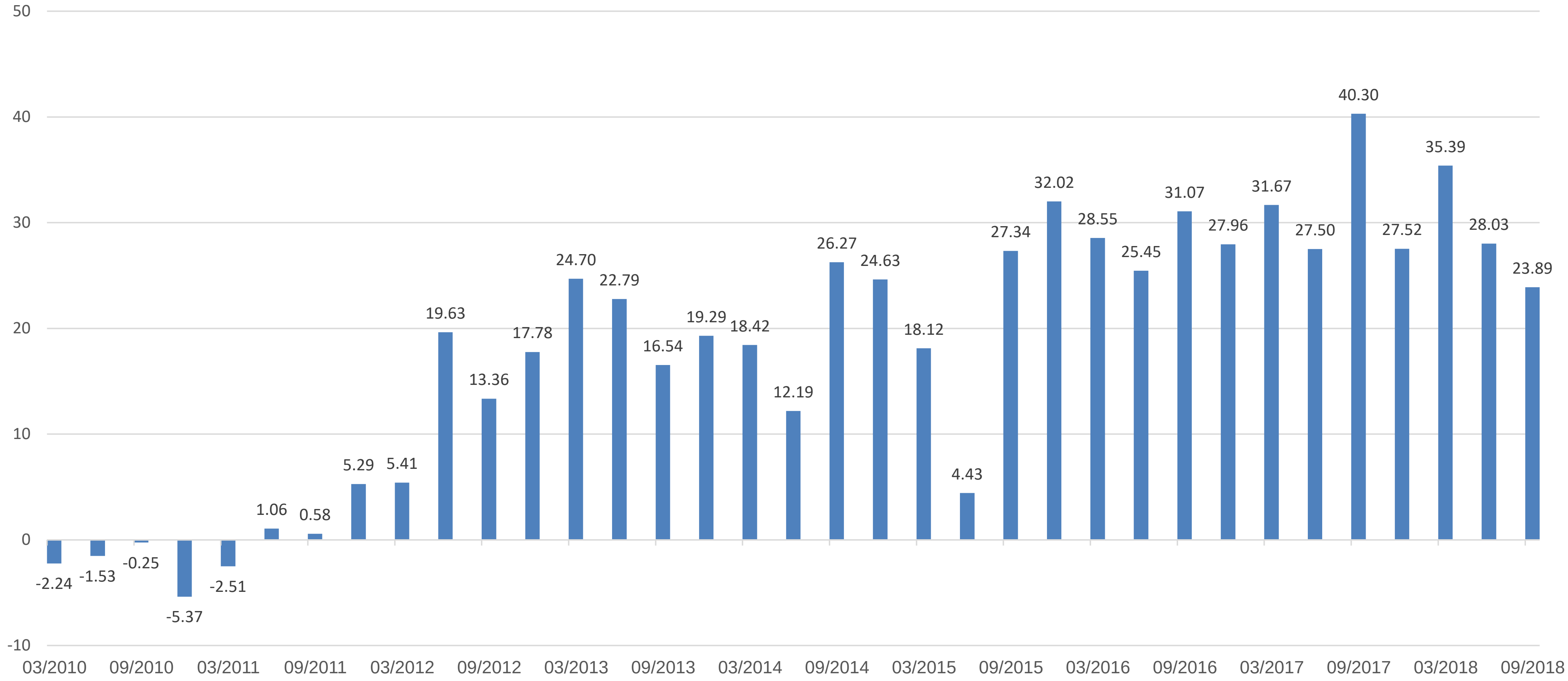
Current Account Balance

EUR Billion



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Exchange Rate

EUR Index (Left) EURUSD (Right)

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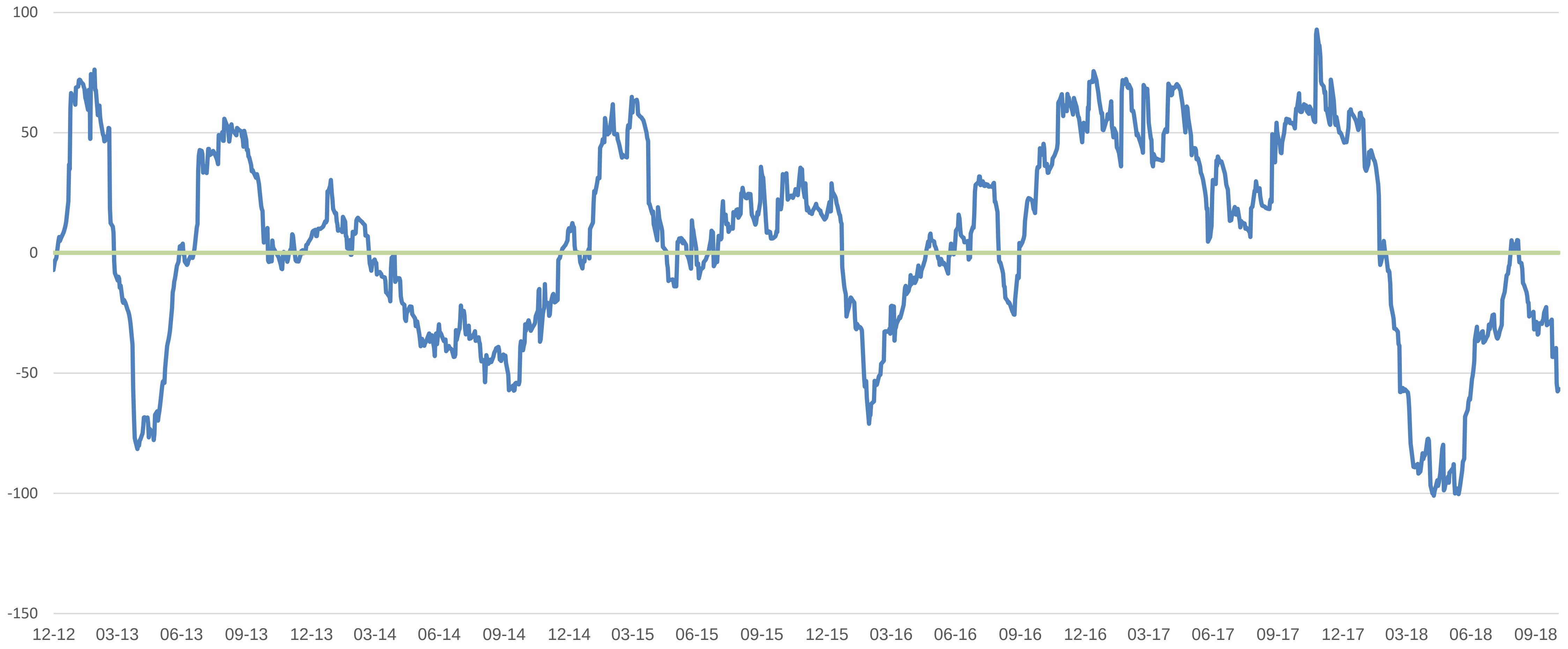
Citi Economic Surprise



Israel

- Q2 GDP grew only by 1.8% in annual terms, after increasing by 5.2% in Q1. BOI estimates that the GDP will grow by 3.7% in 2018 and upgraded its forecast for 2019 by 0.1% to 3.6%
- In the last few months the headline inflation as well as inflation expectation stabilized close to the lower end of the inflation target (1%-3%). The Inflation environment is expected to stay subdued at the coming months and increase again in Q2 2019 leaving BOI enough time until policy change will be needed
- Labor market conditions are tight as unemployment rate stabilized at around 4%, wages increase at a robust pace and job vacancies are elevated
- The deterioration in the balance of payments continues as the trade deficit in the first 9 months of the year summed up to 67.2B ILS a 80.2% increase
- The fiscal stance continues to deteriorate as the deficit in the twelve months through September increased to 3.35% of GDP, the highest in 5 years, due to higher government spending and low tax income growth
- BOI decided to leave policy on hold at its October meeting. The bank estimates that the interest rate will increase by 0.15% in Q1 2019 and another 0.25% in Q3

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Core Economic Indicator

Israel

Economic Indicator	Latest Figure	Reference Period
Growth Rate	1.8%	Q2-2018
Unemployment Rate	4.0%	Sep-2018
Inflation Rate (YoY)	1.2%	Sep-2018
Central Bank Interest Rate	0.1%	Oct-2018
10 Year Government Bond Yield	2.34%	Oct-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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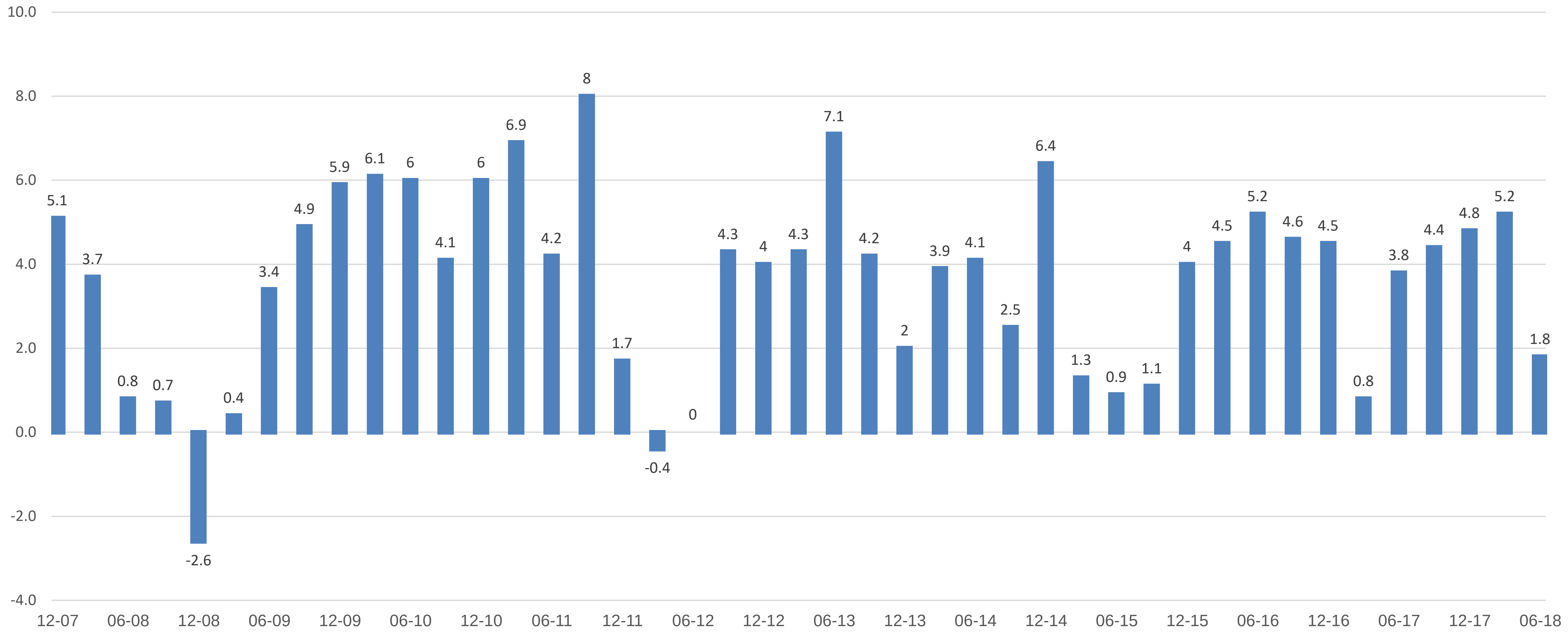
Economic Growth

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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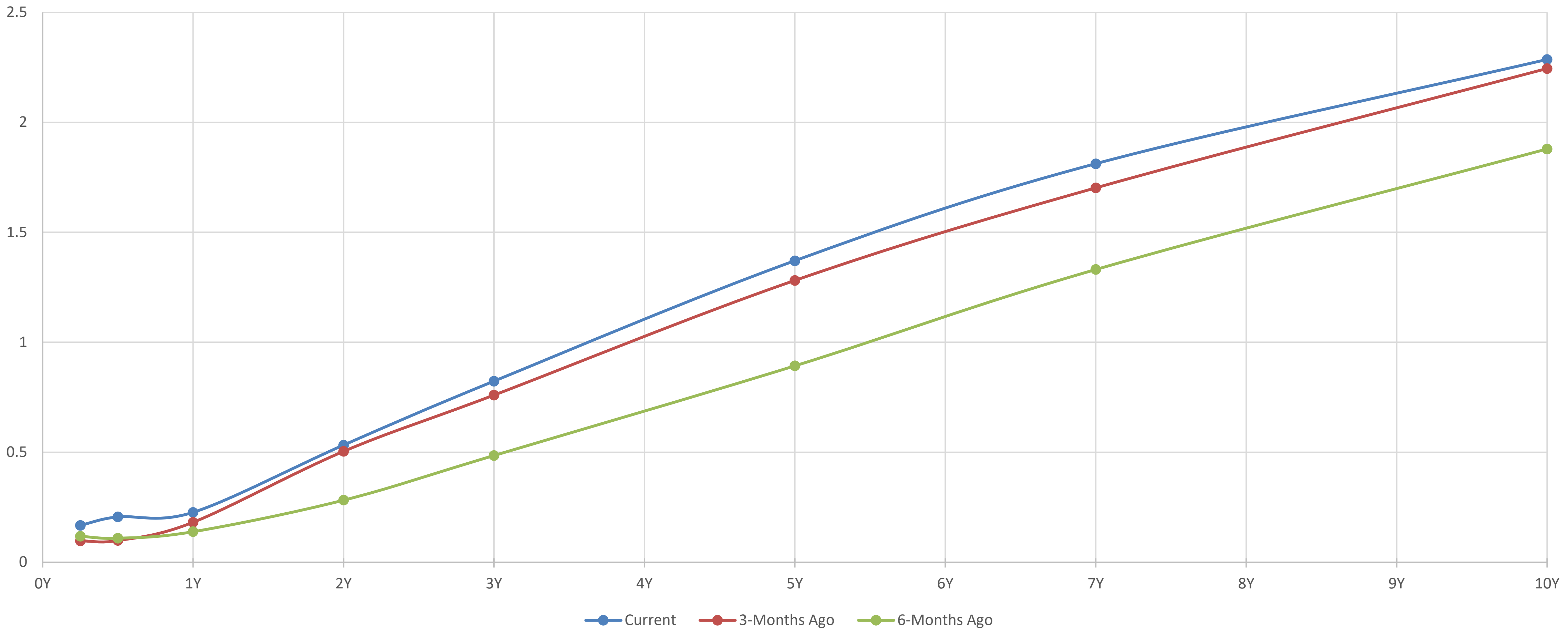
Government Bond Yield Curve



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Hedging Costs

USDILS 1YR Forward Premium

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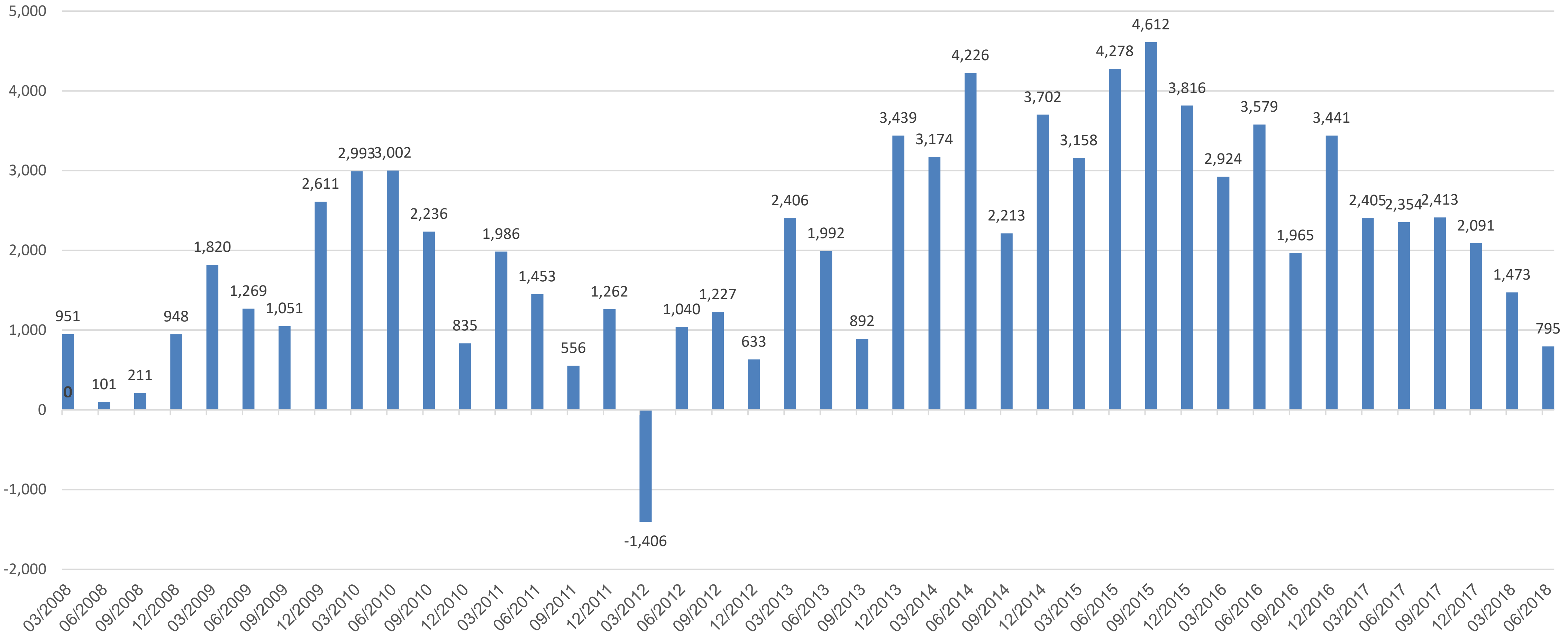
Current Account Balance

USD Million



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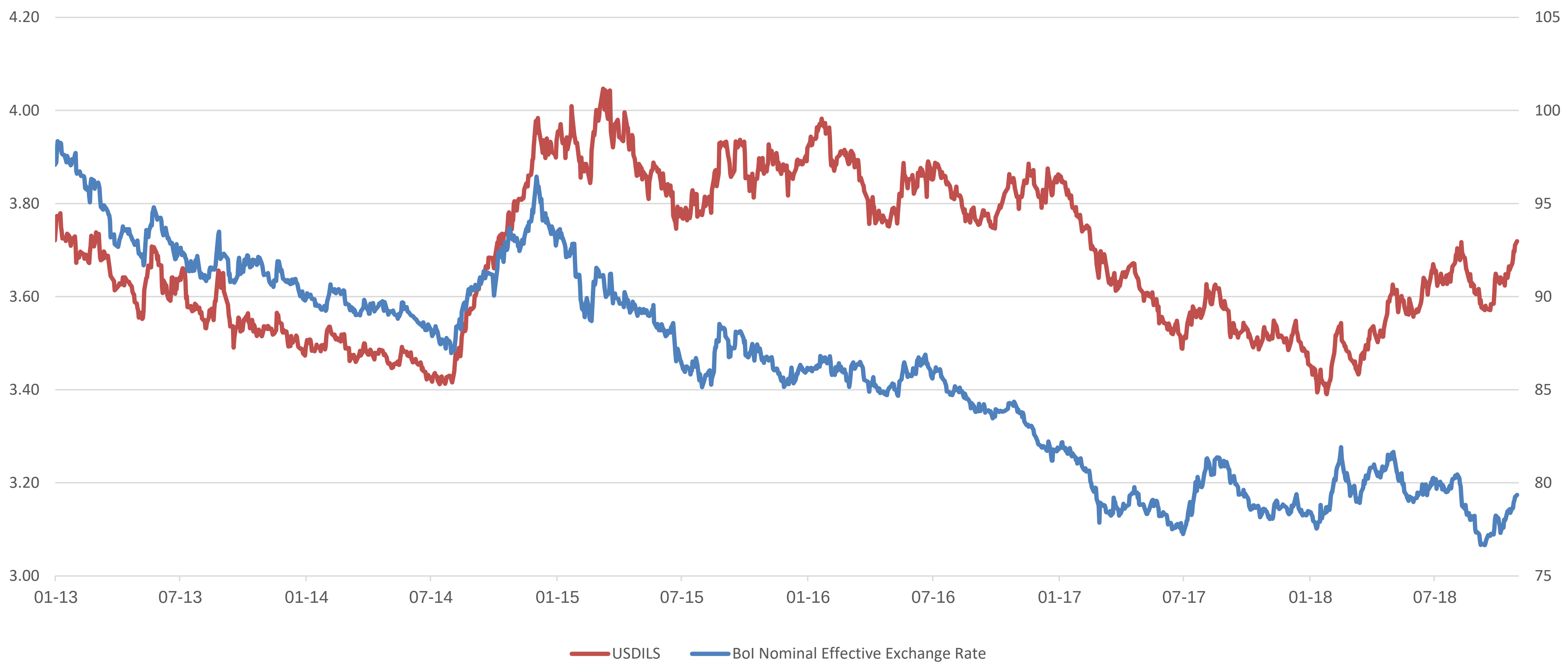
Exchange Rate

USDILS (Left) BoI Nominal Effective Rate (Right)



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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE

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