GLOBAL MARKETS

equiti

THE GLOBAL ECONOMY IN 2019

OPPORTUNITIES & ADVERSITIES

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THE GLOBAL ECONOMY IN 2019; OPPORTUNITIES AND ADVERSITIES

We appreciate that every trader needs a comprehensive overview of the markets in order to identify, and avail from, investment opportunities. This annual report aims to guide traders by providing a wrap-up of the 2018 markets and summing up the aspirations of investors for 2019. The report functions as a compass for traders in 2019 and a reference for the reasons behind price movements on the long run.

At a time when the world is facing critical economic challenges, and bracing for an anticipated crisis, traders find it more difficult than ever to decide the next step. Almost everyone in the world can feel the present economic pressures and general commercial regression; due to the bleak prospects for economic growth and the current tightening monetary policies in the United States – the World's biggest economy – that drew in global liquidity. It is established that liquidity moves towards the high-yield of rising interest rates, high-yield bonds, and the rallying US equities; add to that the protective policies adopted by the US President and his support of US companies.

We also discuss the prices of commodities and precious metals and try to predict their movements. In this report, you will also read about the prospects of Cryptocurrencies as well as about major currencies.

Furthermore, our report covers the details of major world economies, and analyses the shifts and changes in their economic data, as we try to draw a roadmap of possible scenarios for these economies in 2019.

We are hopeful that traders will find the data and analysis in this report useful in terms of identifying possible market movements; taking this summary of the global markets as a guide in developing their own trading strategies. Equiti Group is focused on serving the interests of its clients in everything it does, and the production of this report is no exception.

Wishing you safe and fruitful trading.
Regional Head Market Research & Analysis
Raed Alkhedr

US ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

01

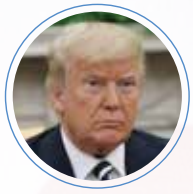
US ECONOMY FACTS ABOUT US

Capital
Washington D.C.

Country Area
9.834M KM²
(Rank 5)

Population
327M
(Rank 21)

Currency
US Dollar



Head of State & Government
Donald Trump

System of Government
Federal Presidential Constitutional Republic

Governor of the Central Bank
Jerome Powell, and his term ends in February 2022

Main Imports
Crude Oil, Electronic Equipment, Automotive, Plastics, Machinery, Motors.

Main Exports
Aircraft, Auto Parts, Computers, Communication Equipment, Industrial Supplies, Automotive, Pharmaceuticals, Agricultural Products, Refined Oil.

GDP

Debt & its ratio to GDP
105.2%

Gross Domestic Product
US $19.39T
(Rank 1)

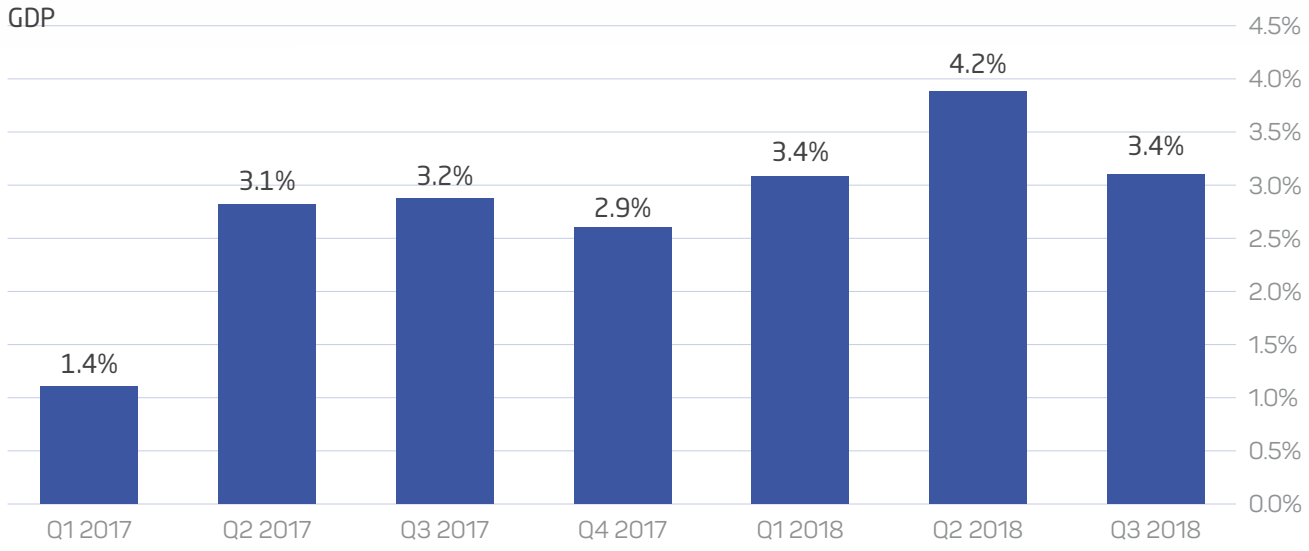
A STRONG START FOR THE US ECONOMY IN 2018

The US economy grew by 3.4% in the first quarter of 2018, compared with 2.9% growth in the last quarter of 2017. The US economy tends to slow down in the first quarter of each year, but this year started with a strong growth, and this comes with a tax cut of up to $ 1.5 trillion, which came into effect early this year.

Fiscal stimulus is part of Trump's measures which they adopt to drive economic growth to meet the target of 3%. However, the economy appears to be slowing in the last quarter of the year – these data delayed until the end of February after it was due on January 31 because of the partial shutdown of the federal government– because of the trade deficit widening, the slowdown in business spending on equipment and the weak housing market.

Also, the slowdown is expected to extend to 2019 as the impact of fiscal stimulus fades and the trade war with China brews. The Congressional Budget Office predicts that Trump's tariffs will limit gross domestic product growth by an average of 0.1 percent each year over the next 10 years if it remains at current levels.

GDP figures from the beginning of 2017 to the third quarter of 2018:



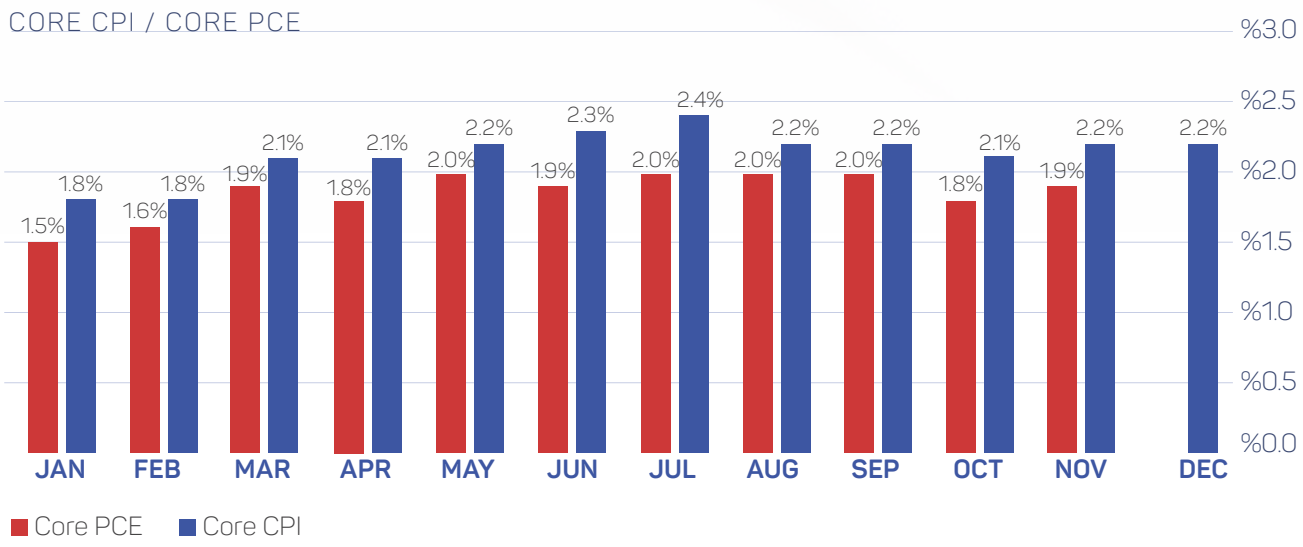
THE FED'S PREFERRED MEASURE OF INFLATION BELOW TARGET

The Fed's preferred inflation gauge hit its highest level since April 2012 in May, with Core Personal Consumption Expenditure Index up by 2% on yearly basis, and fluctuating throughout 2018, but was near to the Fed's target, and in November it rose by 1.9%.

Inflation was weak most of 2017, which was confusing for the markets in light of the low unemployment rates which were supposed to lead to higher wages and prices. It is worth mentioning that inflation has remained below the target of the Fed by 2% since mid-2012.

The core CPI rose by 2.4 percent on yearly basis in July, the biggest rise since July 2008. The index is now higher than the annual average of 1.8 percent in the past 10 years. Inflation is a key factor in determining the Fed's monetary policy.

Inflation figures in the United States during 2018:



THE LABOR MARKET REMAINS THE STRONGEST LINK IN THE ECONOMY

The US economy continued to add jobs during the first half of 2018, as employers added an average of 215,000 jobs a month, exceeding the annual growth rate of 2017, which stood at 182,000 jobs per month. The economy continued to add jobs during the second half, achieving the longest ever employment growth period of 98 consecutive months until December 2018.

The economy added 222,000 jobs in December, while February was the biggest month for adding jobs, with 326,000 jobs, the largest since 2014. Overall, 2018 was the best in terms of job creation since 2015, adding 2.6 million jobs compared to 2.2 Million jobs added in 2017.

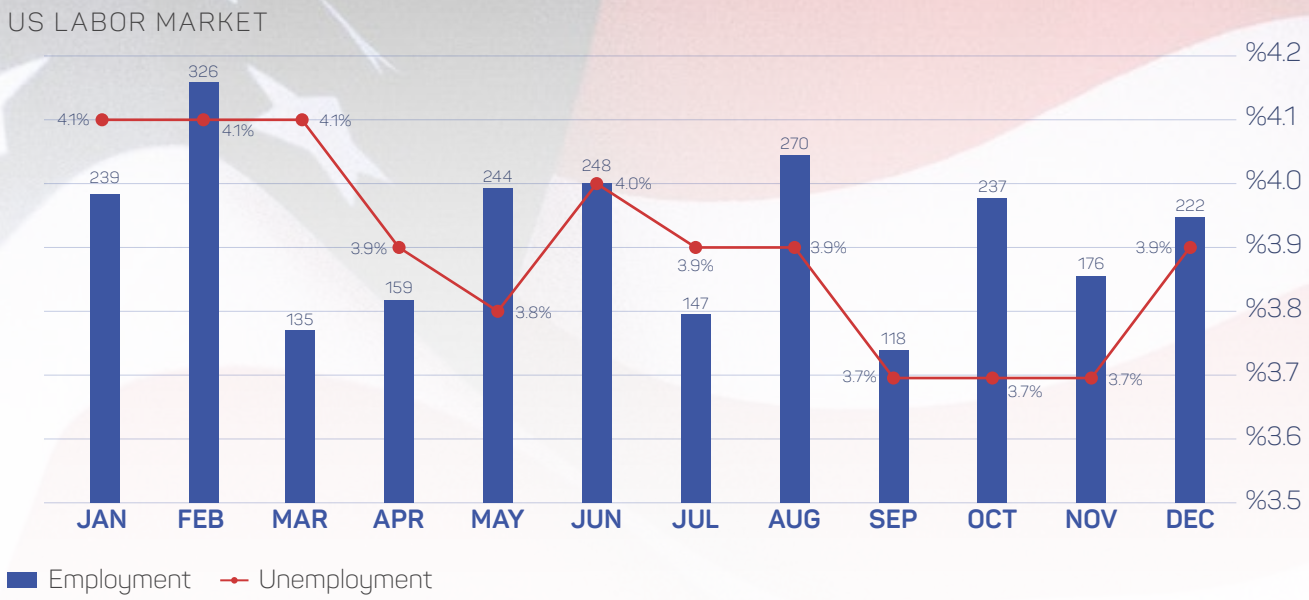
Unemployment was at its lowest level in 49 years, reaching 3.7% in the months from September to November, but in December rose to 3.9%. As jobs continue to be added and unemployment rates fall, the US job market will become the US economy's strongest pillar since the recession ended 9 years ago.

Wages have not risen more than 3% since 2009, but since October to the end of 2018, wages have increased by more than 3%, as average hourly income rose by 3.2% in December, which is the largest since April 2009.

The economy needs to add at least 80,000 jobs per month to maintain current staffing levels. It should be noted that, since 2010, the US economy adds less than 100k jobs a month only once in every 10 months.

THE LABOR MARKET REMAINS THE STRONGEST LINK IN THE ECONOMY

The progress of the US labor market during 2018:



FED STEPPING BACK SLIGHTLY BY THE END OF 2018

The Fed raised interest rates to 1.75% in March at the first meeting chaired by Jerome Powell, then raised it to 2% at the June meeting, followed by 2 hikes in September and December to their highest level since 2008 at 2.50%. These steps were widely expected, and the last hike was the ninth interest rate hike since the Fed's monetary-tightening policy began in December 2015 and the fourth in 2018.

FED STEPPING BACK SLIGHTLY BY THE END OF 2018

In the last meeting of 2018, the Fed cut its expectations for rate hikes in 2019 to twice, raising its forecast for core inflation in 2019 from 1.8 percent to 1.9 percent. Unemployment is expected to fall to 3.6% by the end of 2020. Economic growth would reach 3% in 2018 compared to previous forecasts at 3.1% and to 2.3% in 2019 from 2.5%.

The move comes amid repeated criticism from US President Donald Trump over the Fed's continued rate hikes, saying that this strategy would hinder economic growth he aims to achieve.

WHO WILL WIN THE TUG OF WAR BETWEEN CHINA AND THE UNITED STATES?

In the beginning of March, Trump announced the imposition of tariffs on US imports of steel by 25% and aluminum by 10%; these tariffs were faced with fierce criticism. Trump believes that these tariffs will maintain US jobs and this is contrary to what many economists see as an increase on steel and aluminum users, such as the automotive and oil industries, and that it will destroy many jobs.

China has threatened to limit imports of soybeans from the United States. Trade tensions between the United States and China have rose since Trump took power in 2017. The impact of these tariffs will not be direct, as Canada supplies 16 percent of US steel demand, compared to 2 percent from China, which is the biggest exporter of steel followed by Brazil and South Korea.

The United States is still in conflict with Canada and Mexico to adjust the NAFTA, which Trump has threatened to withdraw from if he does not get what he wants. At present, they are close to signing a new agreement.

WHO WILL WIN THE TUG OF WAR BETWEEN CHINA AND THE UNITED STATES?

On July 6, a trade war, the largest in economic history, began after the United States and China enforced a 25 percent tariff on goods worth 34 billion dollars. Trump added that new tariffs could be applied to another $ 16 billion on Chinese products while he threatened that the value of China's affected goods would reach 550 billion dollars if China retaliated. Customs tariffs were imposed by 25 percent on Chinese goods worth 200 billion dollars, with a threat of further tariffs.

For his part, the Chinese premier said that his country will never start a trade war, but China will take measures to protect its interests. But recently they agreed at the G-20 summit that there would be a 90-day truce, that would end in March, during which a series of talks would be held to find solutions to that crisis.

MID-TERM ELECTIONS ARE THE MOST EXPENSIVE EVER IN THE UNITED STATES

Spending on Congressional mid-term elections in the United States reached $ 5.7 billion, making it the highest cost ever; equaling the amount of money Donald Trump sought to build the border wall but was denied by Democrats, leading to a partial closure of the federal government.

Democrats won control of the House of representative for the first time in eight years - the best electoral performance for the party since 1974 - with 234 seats after Republicans lost 39 seats for Democrats, so the Republicans now have 198 seats in the House of Representatives.

On the other hand, the Republicans managed to maintain their control of the Senate by winning two more seats, bringing the total seats to 53 seats compared to 47 seats for Democrats.

EUROZONE ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

02

EUROZONE ECONOMY
FACTS ABOUT THE EURO AREA

Capital
Brussels

Country Area
2,753M KM²

Population
341 M

Currency
Euro

President of the European Commission
Jean-Claude Juncker

President of the European Council
Donald Tusk

President of the European Parliament
Antonio Tajani

Chairman of the Euro Group
Mario Centeno

System of Government
Monetary Union

Governor of the Central Bank
Mario Draghi and his term expires in November 2019

Main Imports
Machinery, Automotive, Plastic, Crude Oil, Metal, Textiles, Chemicals.

Main Exports
Automotive, Machinery, Aircraft, Pharmaceuticals, Chemicals.

GDP

Debt & its ratio to GDP
86.8%

Gross Domestic Product
$ 13.73 T

THE EUROZONE ECONOMY IS FACING ITS GREATEST CHALLENGE SINCE THE EURO

Only a few years after the Euro area was created, the Euro was introduced as a unified monetary currency for this area on the 1st of January 1999. The eurozone was seriously challenged during the global crisis of 2008 when the economy contracted significantly. Economic recession hit again in the first quarter of 2012 and lasted until the second half of 2013. And now in 2019, there are strong indications that the Euro area is on the brink of an economic recession; this time, it may be the biggest challenge for this economy so far this century.

Brexit is one of the greatest perils of the European economy. Even if Brexit does go smoothly, it will undoubtedly have its effects on the economies of the UK and the EU. The global trade war that erupted in 2018 only adds to the challenges faced by the Euro area, such as the debt crisis of Greece and Italy and the political unrest in France; all hitting the Eurozone's economy in 2019.

The German economy contracted in 2018 while the French economy grew at a very slow pace. Italy slipped into a recession after the economy contracted for the last 2 quarters of 2018. Despite it picking up in the 4th quarter, the growth of Spain's economy remained weak throughout 2018. These 4 countries represent the bulk of the Eurozone's economy – having the biggest share of the Euro area GDP.

The question remains, what will the European Central Bank do to help the economy? During the previous two recessions, the ECB had resorted to lowering interest rates and to Quantitative Easing – that ended in December 2018. The European Central Bank may not be able to support the economy except through unusual stimulus measures this time around, with interest rates already at a historic low.

It is worth noting that the average GDP deficit for the Euro area reached 86.5%, whereas the EU's rules determine that this should not exceed 60%; Italy's reached 131% and several other countries in the area exceeded the 60% level. As we brace for a major economic slowdown in the first half of 2019, political problems may escalate as a result of member states breaking the Union's rules. And as 2019 unfolds, recession in the Euro area may become official; this will pose the biggest economic challenge ever faced by the Eurozone.

THE EUROZONE ECONOMY IS FACING ITS GREATEST CHALLENGE SINCE THE EURO

Economists see that the ECB, which is accustomed to treating the countries in the area as one entity, will be unable to control the economies of member countries individually; some may need stimulus whereas others may be suffering from a debt crisis or high inflation. This will test the ECB to its core as it is a different situation from that it faced during the 2008-2009 global financial crisis; it is also different from what the ECB had to deal with in the 2012-2013 recession. Today's crisis consists of domestic and global issues; global trade war, Brexit, global economic slowdown, and the domestic political tensions in individual member states – all translating into great pressure on the ECB.

THE POLITICAL SITUATION IN THE EURO AREA IS NEVER CALM

After a long period of political uncertainty, due to many elections in the countries of the region, calm was restored after the German parliament agreed in March to re-elect German Chancellor Angela Merkel for a fourth term and the formation of a coalition government in Germany; this in turn helped the Euro rise.

But Italy was the biggest obstacle to stability in the region. Italy has been without a government for three consecutive months as a result of a prolonged political impasse. This caused the difference between Italian government bonds and German bonds to reach levels not seen since 2014, and the Italian stock market collapsed to weigh on the performance of major indices in the whole region.

The situation has calmed recently after the Italian president agreed to form a coalition government led by Giuseppe Conti in a move that ended the possibility of holding new elections in Italy before the end of 2018, as the restructuring of a

THE POLITICAL SITUATION IN THE EURO AREA IS NEVER CALM

new coalition government helps to end the political crisis in the third largest economy in the Euro area.

On the third of October, the Italian government angered the European Union by drafting a budget that would boost public spending rather than reduce it and expected the public deficit to reach 2.4% of GDP, which was rejected by the European Commission.

Italy's public debt reached about 2.3 trillion euros, representing 131% of GDP, the largest rate in the euro area after Greece, more than double of the 60% rate of GDP set by European rules and higher than the average in the euro area which is 86.5%.

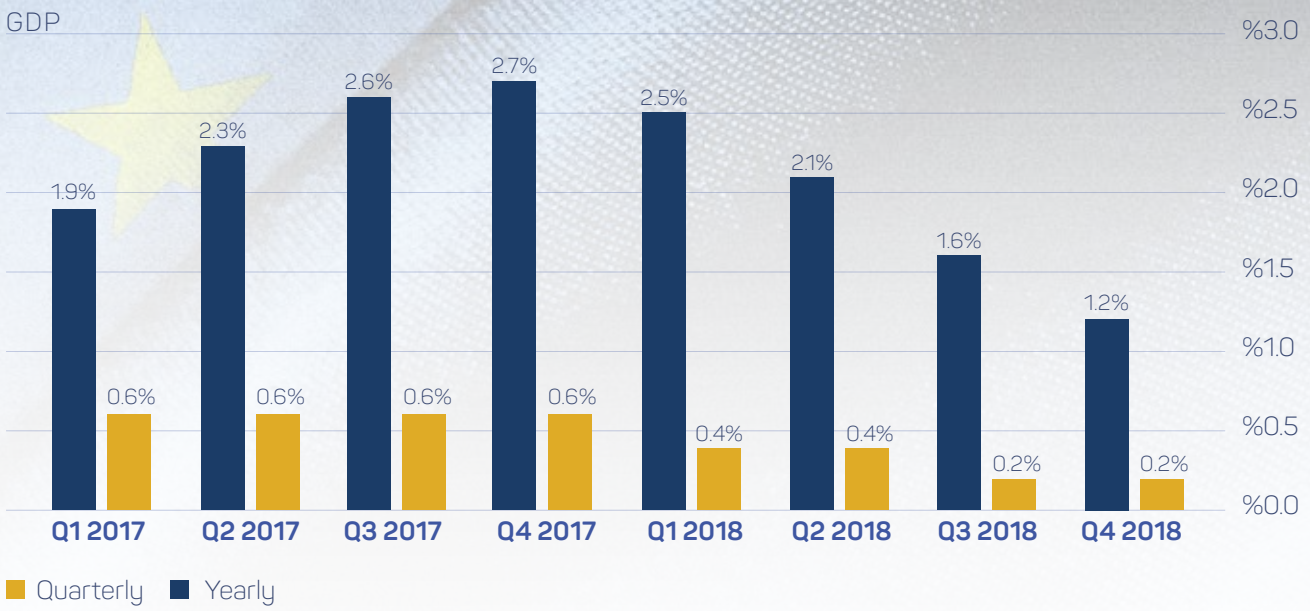
The European Union called on the Italian government to cut spending and reduce the public deficit for debt reduction, and there was tension between the two parties until Italy agreed to backtrack its measures and committed not to add to its debt in 2019.

SLOWDOWN COULD CONTINUE IN 2019

The Eurozone economy in 2017 unexpectedly succeeded in showing remarkable growth, the strongest in 10 years as business activity grew, domestic demand improved, and business confidence improved.

But the pace of economic growth slowed down in 2018, with GDP in the first quarter rising by only by 2.5% on yearly basis and by 0.4% on quarterly basis, but the ECB did not express concern about the slowdown in growth, referring that economic performance is due to temporary factors including bad weather, Easter holidays and others.

SLOWDOWN COULD CONTINUE IN 2019



The economy continued to slow in the following quarters and in the fourth quarter of the year posted a 1.2% growth on yearly basis, the lowest level in 5 years and by 0.2% on quarterly basis, the weakest since the second quarter of 2014. The slowdown is accompanied by growing political tensions and weak external demand for exports from China and the UK.

In 2018 as a whole, the euro area economy grew by 1.8% after growing 2% or more in the last three years, which could push the ECB to lower its growth forecast for 2019 to 1.7%.

THE EUROPEAN CENTRAL BANK ENDED ITS MONETARY STIMULUS PROGRAM AMID CONCERNS ABOUT ECONOMIC GROWTH

The European Central Bank decided in October 2017 to begin reducing the size of the stimulus program starting from January 2018 to 30 billion euros a month, citing the economic recovery in its fifth year, amid the desire of a number of officials to terminate the monetary easing program before the end of 2018.

At the July 2018 meeting, the ECB decided to reduce the size of the program to € 15 billion per month from October to December 2018. At the last 2018 meeting, the ECB formally decided to end its program of € 2.6 trillion by the end of December 2018.

The timeline since the announcement of the quantitative easing program until its end in 2018:

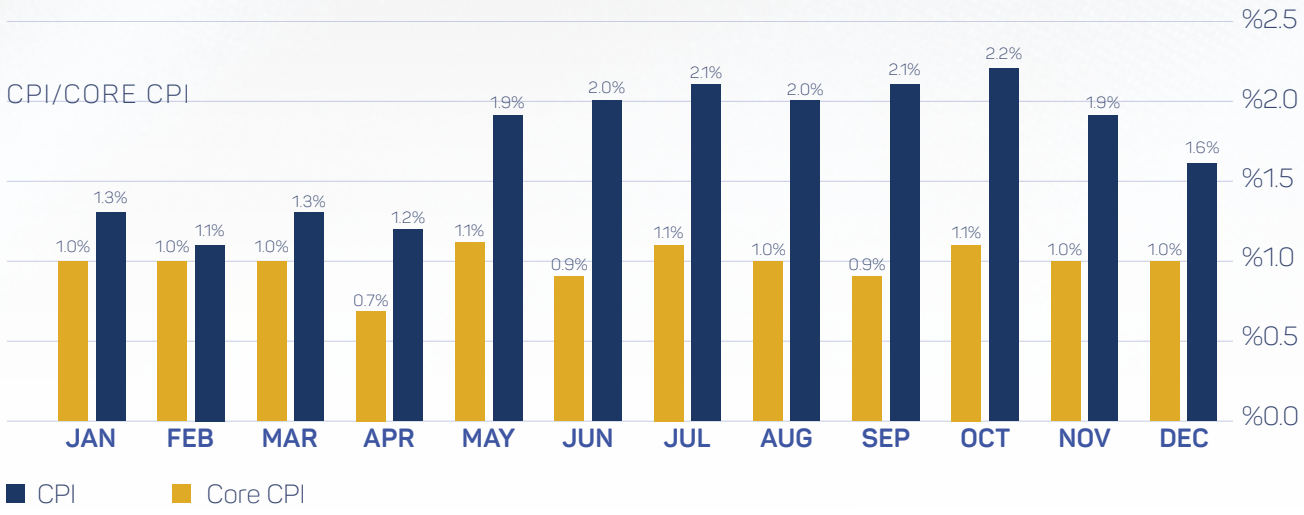
Date	Decision
22 Jan. 2015	ECB launches QE scheme of 60€ billion per month, intended to be carried out until September 2016.
9 March 2015	Activation of the bond-buying program.
3 Dec. 2015	ECB extends QE program until March 2017.
10 March 2016	ECB expands QE purchases to 80€ billion per month effective April 2016.
8 Dec. 2016	ECB extends QE program until December 2017 but tapers bond purchases to 60€ billion starting in April 2017.
26 Oct. 2017	ECB extends QE program until September 2018 but tapers bond purchases to 30€ billion starting in January 2018.
26 July 2018	QE reduced to 15€ billion monthly from Oct. to Dec. 2018.
13 Dec. 2018	QE ended.

INFLATION SLOWDOWN COULD COMPLICATE RATES HIKE

More than three years after the ECB cut interest rates below zero and resorted to the asset purchase program, inflation is gradually returning to its target of 2% to make markets ready to end expansionary policies. The October CPI registered the highest growth in more than six years at 2.2%.

Eurozone inflation slowed in December, moving away from the European Central Bank's target, suggesting there may be no rate hike in 2019, and the consumer price index rose by 1.6 percent in December after rising by 1.9 percent in November.

The slowdown in the last two months of 2018 was due to a sharp slowdown in fuel prices. On the other hand, the core consumer price index remained stable during the last two months of 2018 at 1%.



The ECB said it may keep interest rates at historic lows, at least until next summer, and forecasts indicate that the first interest rate hike may happen in early 2020. Inflation data in December supported the view that interest rates aren't expected to rise in 2019.

The deposit rate is currently set at -0.40% and the ECB promises to keep it at these levels until the end of 2019. Markets expect these levels to reach zero in 2020 and rise slightly thereafter and will likely take years to return to neutral levels. For example, the Federal Reserve raised interest rates for the first time after the financial crisis in late 2015 and the interest rate has not yet reached neutral levels.

BRITISH ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

03

BRITISH ECONOMY FACTS ABOUT UK

Capital
London

Country Area
242,495 KM²
(Rank 80)

Population
65.80M
(Rank 21)

Currency
British Pound

Head of Government
Theresa May

System of Government
Unitary Parliamentary Constitutional Monarchy

Governor of the Central Bank
Mark Carney

Main Imports
Manufactured Goods and Machinery, Fuel, Food.

Main Exports
Manufactured Goods, Fuels, Chemicals, Tobacco.

GDP

Debt & its ratio to GDP
87.4%

Gross Domestic Product
$ 2.936 T
(Rank 7)

DOUBTS STILL HAUNT THE BRITISH ECONOMY

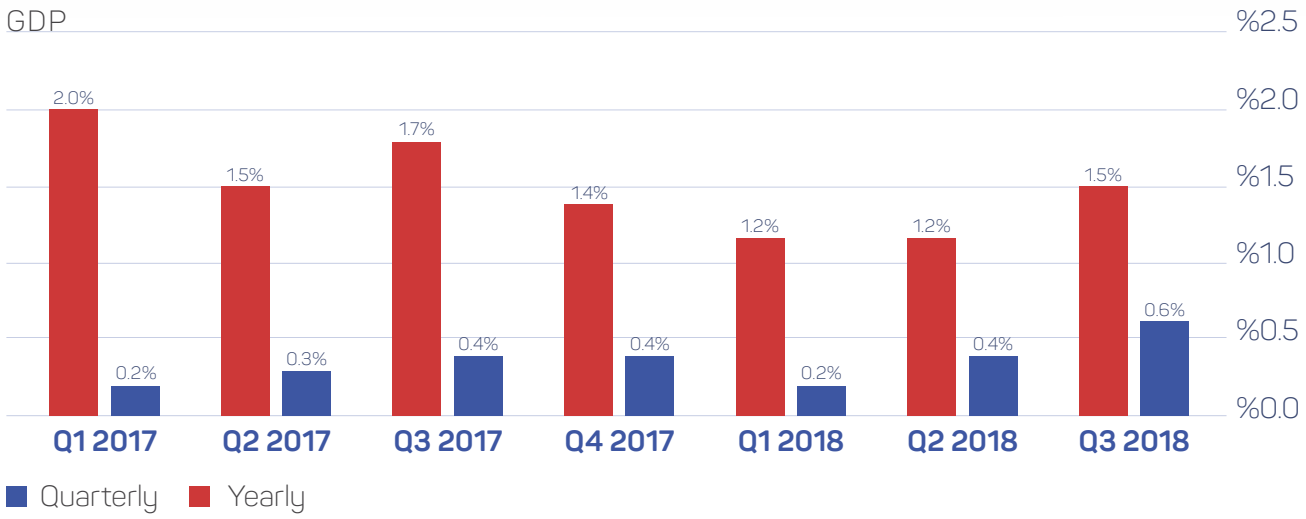
London has retained the title of European "capital of money" for years, but with growing uncertainty about the terms of Prime Minister Theresa May's agreement with the European Union that sets out how to leave the bloc, there have been many warnings about the impact on the British economy.

Britain is experiencing critical moments at the economic level, all the kingdom's crises, and negative predictions of its departure from the European Union, which has not yet been clear, due to opposition in parliament with the prime minister and the Irish side.

The UK economy grew by 0.6% on quarterly basis in the third quarter of 2018, showing a slight recovery compared to the second quarter of the same year, where the economy grew by 0.4%, taking into account that the third quarter may be revised downwards due to significantly adjust of the British trade deficit figures.

Compared to the same period in 2017, the economy grew by 1.5% in the third quarter of 2018, after growing by 1.2% in the second quarter of the same year. The British economy slowed since the Brexit vote in 2016, so United Kingdom came in the last position of the G7 list as annual growth rate slowed down.

The stages of growth of the British economy since the first quarter 2017 to the third quarter of 2018, on a quarterly basis and an annual basis:



FALLING OIL PRICES PUSHED INFLATION TO A TWO-YEAR LOW

Inflation in the UK fell in the last month of 2018 to its lowest level in almost two years as oil prices fell. The consumer price index rose by 2.1% in December from November's 2.3%. Therefore any forecasts that the Bank of England would hike rates in the near future are reduced.

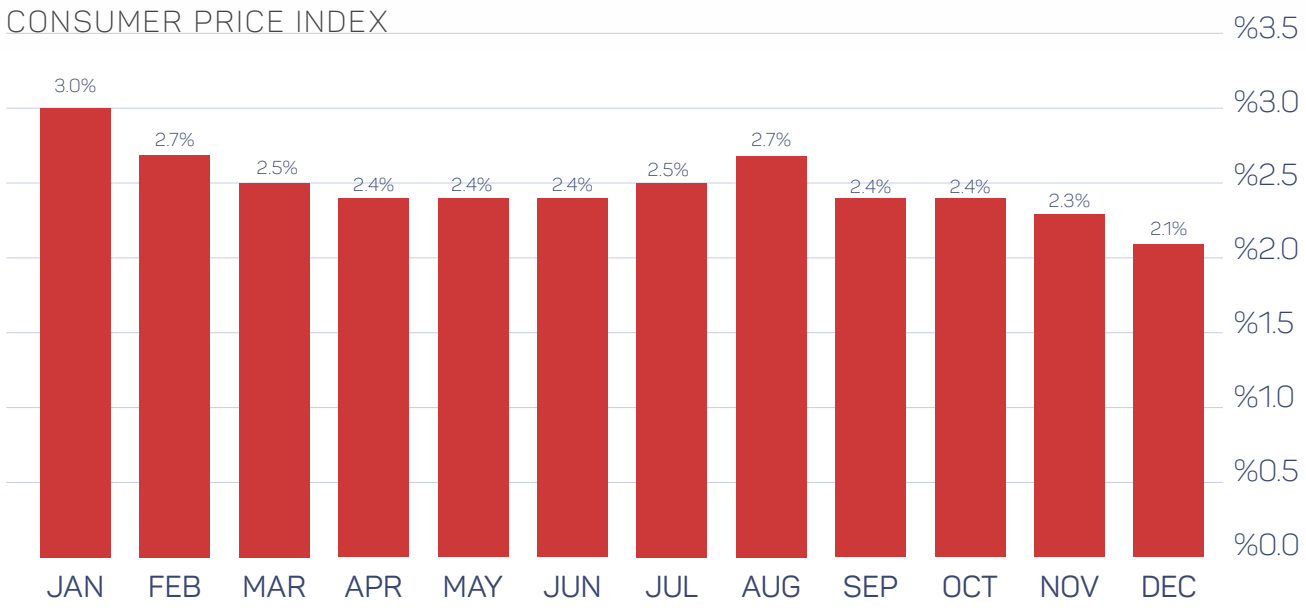
With inflation easing which could ease pressure on consumers who have been hit hard by a sharp price increase since the June 2016 referendum, which could push the Bank of England to delay rate hikes as the UK economy falters.

In July, Britain's inflation rate rose for the first time in 2018, with many British families still under pressure from prices, which are rising at roughly the same pace as salary increases.

Official data also highlight the weakness in the country's real estate market since the 2016 Brexit referendum, with home prices rising at their slowest pace in nearly five years, while prices in London fell by the fastest pace since 2009.

The slowdown in inflation with stabilizing slightly above the Bank of England's target of 2 percent, gave room for more monitoring of developments of Brexit before any rate hikes and as long as inflation remained near those levels, the central bank would slow down before any decision.

How inflation figures are slowing throughout 2018:



WAGES OUTPERFORM INFLATION AT THE END

Wage numbers were the most welcomed by policymakers, with wage growth outpacing expectations and recording the fastest pace of growth since the global financial crisis. Average earnings excluding bonuses rose by 3.3 percent in the year to November, with wages continuing to widen the gap with inflation. Average earnings including bonuses rose by 3.4%.

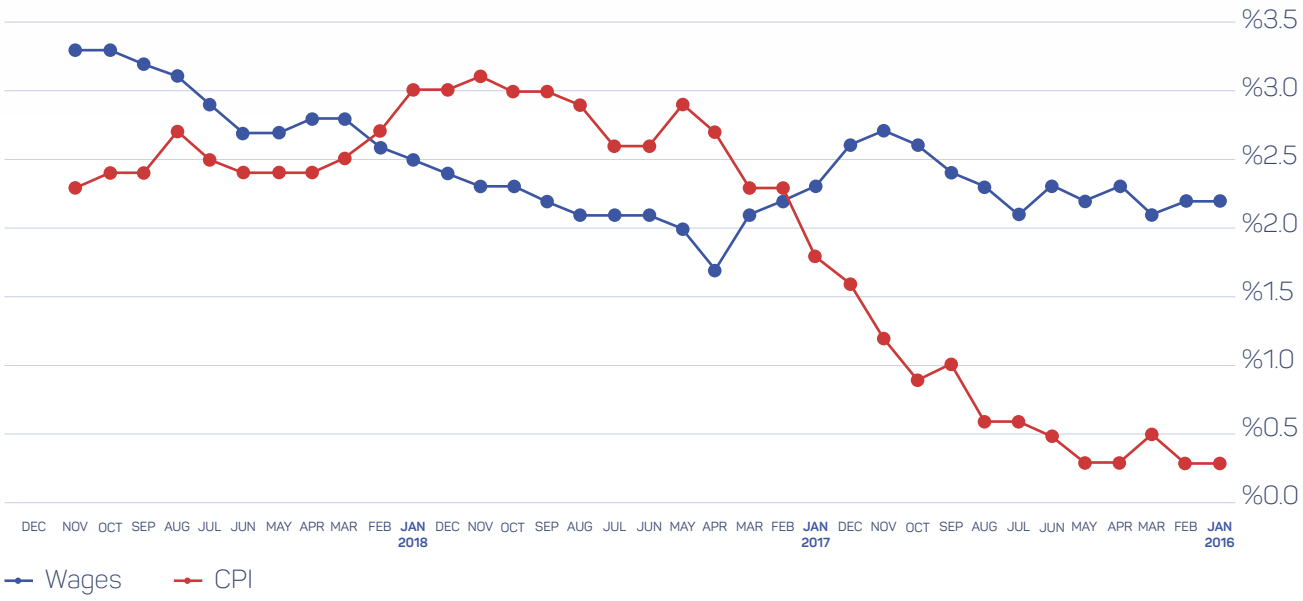
The number of people working at a new record levels has reached 32.54 million, with the number of people working rising and the number of people seeking for jobs at their lowest level in more than 40 years.

Unemployment continued to fall to its lowest levels in decades, falling to 4% in November, the lowest since the mid-1970s. Unemployment has fallen from 5.1% since the beginning of 2016, while wages have risen from 2.1% since then.

The Bank of England is currently expected to raise interest rates only once a year until the end of 2020, yet the central bank may wait until it sees the outcome from the Brexit in March 2019.

The relationship between wages and inflation rates, and when wages return to exceed inflation for the first time in March 2018:

RELATION BETWEEN INFLATION & WAGES SINCE 2016



FEARS AND UNCERTAINTY ARE KEY FACTORS IN THE BANK OF ENGLAND DECISIONS

Concerns about the outlook for the global economy and the implications of rising uncertainty over Brexit were key factors in the Bank of England's decision to keep interest rates unchanged at the last 2018 meeting at 0.75 percent. Based on these fears and repercussions consumer spending was affected, many companies postponed investment plans under uncertainty.

The Bank of England expects the British economy to slow to 0.2% in the last quarter of 2018, and that was lower than from its previous forecast, adding that this slowdown may also continue in the first quarter of 2019. The Bank of England has raised interest rates twice since the global financial crisis - i.e. almost a decade.

BREXIT STAGES: 3 YEARS OF CONTROVERSY

Brexit went through many stages; but its final outcome will be determined by the parliament's vote on the Brexit plan prepared by Theresa May.

The timeline of the Brexit process since the June 2016 referendum:

Date	Events
23 June 2016	UK votes for Brexit by %51.9
July 2016	Theresa May takes office.
August 2016	BoE cuts interest rate to %0.25 for the first time in 7 years.
7 October 2016	The British pound hits its lowest level in 31 years.

BREXIT STAGES: 3 YEARS OF CONTROVERSY

The timeline of the Brexit process since the June 2016 referendum:

Date	Events
November 2016	UK government discusses the public budget.
6 December 2016	EU chief negotiator identifies the negotiation process.
January 2017	PM outlines Brexit plan and its 12 objectives.
February 2017	The government discusses the 12 objectives in more detail.
29 March 2017	Triggering the Article 50.
April 2017	May calls for snap elections.
May 2017	Election campaigns kick off.
8 June 2017	Theresa May loses majority.
19 June 2017	The first round in phase one of EU exit negotiations begin.
July 2017	The Bank of England cuts growth and inflation forecasts.
11 September 2017	Vote for EU withdrawl law after second reading.
9 October 2017	The fifth round in phase one of talks begin.
2 November 2017	BoE raise rates to %0.50
15 December 2017	The European Council endorsed that a "sufficient progress" had been made in the Brexit negotiations to move on to phase two.
March 2018	Taking decisive steps in the agreement about the dates of the transition period and the status of EU citizens.
July 2018	Theresa May announced her plan about trade reltaions after Brexit.
Novemeber 2018	Reaching an agreement approved by government but 4 ministers resigned.

BREXIT STAGES: 3 YEARS OF CONTROVERSY

Date	Events
December 2018	Parliament vote on Brexit deal is postponed.
January 2019	Brexit deal rejected by the parliament and Theresa May announced her plan B.
29 March 2019	UK membership in EU ends and transition period starts.
31 December 2020	Transition period ends and new relation starts with the EU.

CONTINUING LOSSES UNTIL 2030

The Brexit agreement will cost Britain £ 100 billion a year by 2030, according to a study by the National Institute of Economic and Social Studies. The study, conducted at the request of the People's Vote campaign calling for a second referendum, concluded that GDP would decline by about 3.9% annually.

"This will discourage investment in Britain, and eventually lead British workers to be less productive than they were inside the EU" the study said.

By 2030, at the end of Britain's first decade outside the EU, the study expected the following results:

- Total trade between Britain and the EU will drop by about 46%
- GDP per capita will be reduced by about 3% per year, equivalent to an average cost per capita per year at £ 1,090, at today's prices.
- Foreign direct investment will fall by 21%.
- Tax revenue will drop by 1.5-2%, equivalent to 18-23 billion pounds during that period.

BREXIT: INDEPENDENCE AT THE PRICE OF AN ECONOMIC RECESSION

The British people voted years ago on the decision of UK withdrawal from European Union. The UK is due to leave the EU on 29 March 2019. The political tensions are increasing between members of parliament and the government to choose between a deal or no deal exit. This is mainly due to the opposition of several parties to many points in the proposed agreements.

Separation from European neighbors without having an agreement is expected to be devastating to the UK economy. The economy may enter a recession with an impact similar to the 2008-2009 global financial crisis. The Bank of England in his latest statement said that it is expected for Britain to have the lowest economic growth since 2009. The parliament rejected the agreement presented by the British PM. Talks between Theresa May and the EU are on and off, with a state of hesitation regarding the backstop plan, in which the European Union undertakes to avoid hard border between Northern Ireland and the Republic of Ireland.

Even if Britain leaves the European Union with a deal, there would be a deep impact on the UK economy as whole. And indeed, financial firms and service companies have started to leave Britain in fear of being trapped by changes to the freedom of capital movement after Brexit.

Looking at the GDP in 2018, we can see weak growth. Annual GDP growth was at the lowest pace in three years. As for quarterly growth, it looks like it is already recovering in the second half of 2018, but economic data indicate that there is ticking time bomb in the economy, and its results will appear as we reach 2019.

The growth of the UK manufacturing sector fell, and the services sector almost stopped growing at the end of last year, while consumer confidence levels have stabilized in the negative; signaling pessimism throughout 2018. Above all, retail sales shrank six times during 2018. Although unemployment is at a 4% low, but it is considered a lagging indicator of economic change and not a leading indicator. If we look at the employment of young people, we will find that the unemployment rate rose from 10.9% to 11.5% in 2018, and employment growth almost stopped during the second half of 2018, to have a state of unemployment that may begin to appear immediately after Brexit.

BREXIT: INDEPENDENCE AT THE PRICE OF AN ECONOMIC RECESSION

The UK manufacturing sector was in a real recession, and industrial production contracted for three consecutive months in 2018, as the manufacturing sector which also suffered from recession after two consecutive months of contraction. Looking ahead to the UK business sector outlook, we will find that the business confidence index stabilized negative in 2018, and started 2019 with a negative value at -23, indicating significant pessimism.

If we look at the construction sector according to PMI, we will notice that it is very close to contraction and it will even stop growing at the beginning of 2019.

Released economic data suggest the possibility of recession in the UK's economy, but it will not be a temporary one. It could be like what happened in the global financial crisis. What increases the pressure on the British economy is a possible global economic slowdown, and fears of a recession in neighboring superpowers, which are likely to fall victims to contraction this year such as Germany and Italy. The global trade war is another reason to predict the worst for the British economy in 2019.

If the Brexit goes smoothly with a deal, the British economy will be in a recession. Even an exit with a deal will have a direct impact on the economy. But let us hope for a smooth Brexit through an agreement, because without an agreement a deep recession is expected and may last for a long time.

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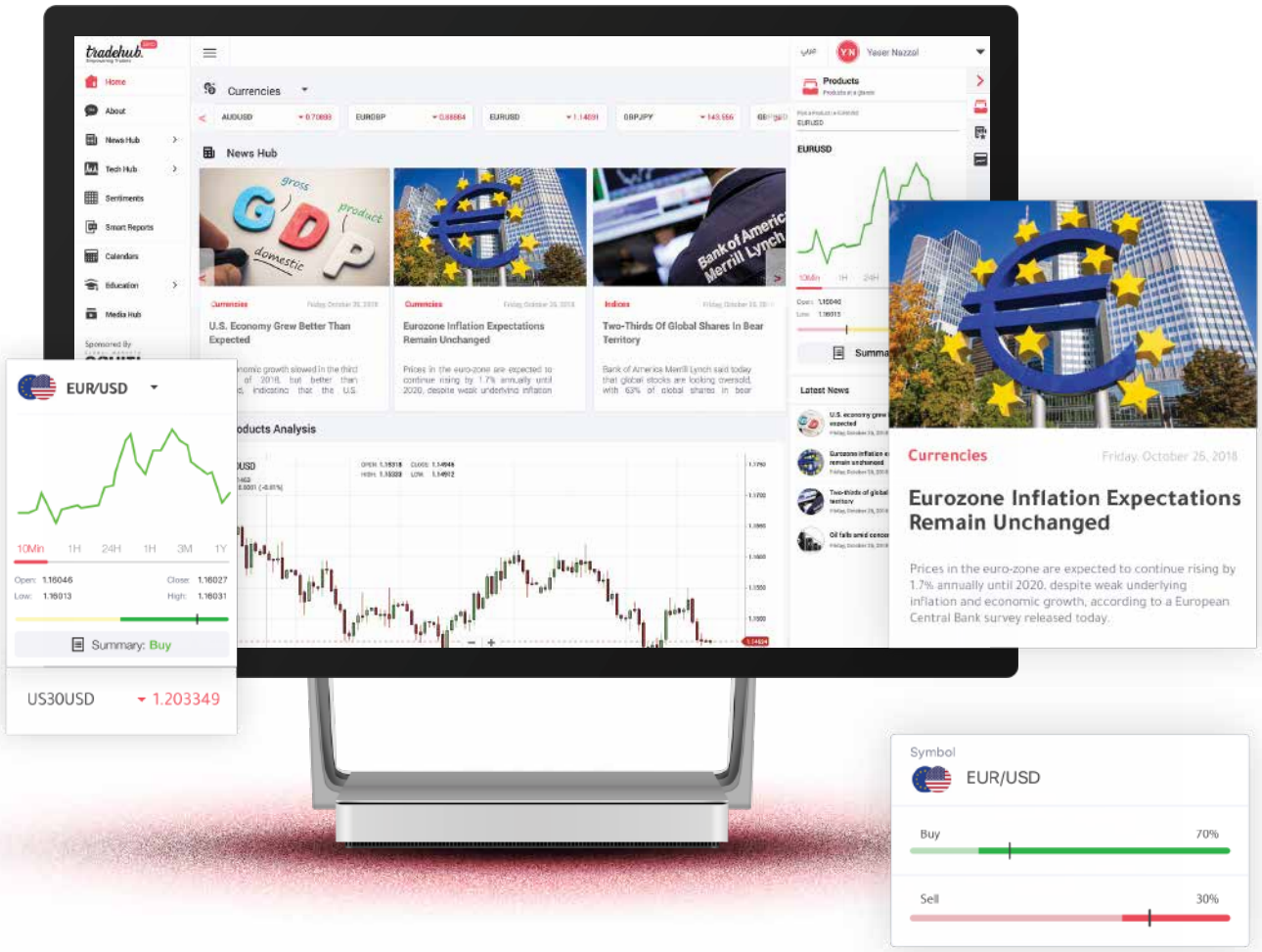

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Losses May Exceed Deposits.

SWISS ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

04

SWISS ECONOMY
FACTS ABOUT SWITZERLAND

Capital
Bern

Country Area
41,285 KM²
(Rank 135)

Population
8.509 M
(Rank 99)

Currency
Swiss Franc

Head of Government
Alain Berset
since 1 Jan 2018 & for a year

System of Government
Parliamentary Republic

Governor of the Central Bank
Thomas Jordan

Main Imports
Machinery & Transport Equipment, Medical & Pharmaceutical Products, Other Chemicals & Manufactured Goods

Main Exports
Chemicals, Watches, Food, Jewelry, Machinery, Pharmaceuticals, Precious Metals, Textiles.

GDP

Debt & its ratio to GDP
29.5%

Gross Domestic Product
$ 709 B
(Rank 19)

THE SWISS ECONOMY MOVING STEADILY DESPITE RISKS

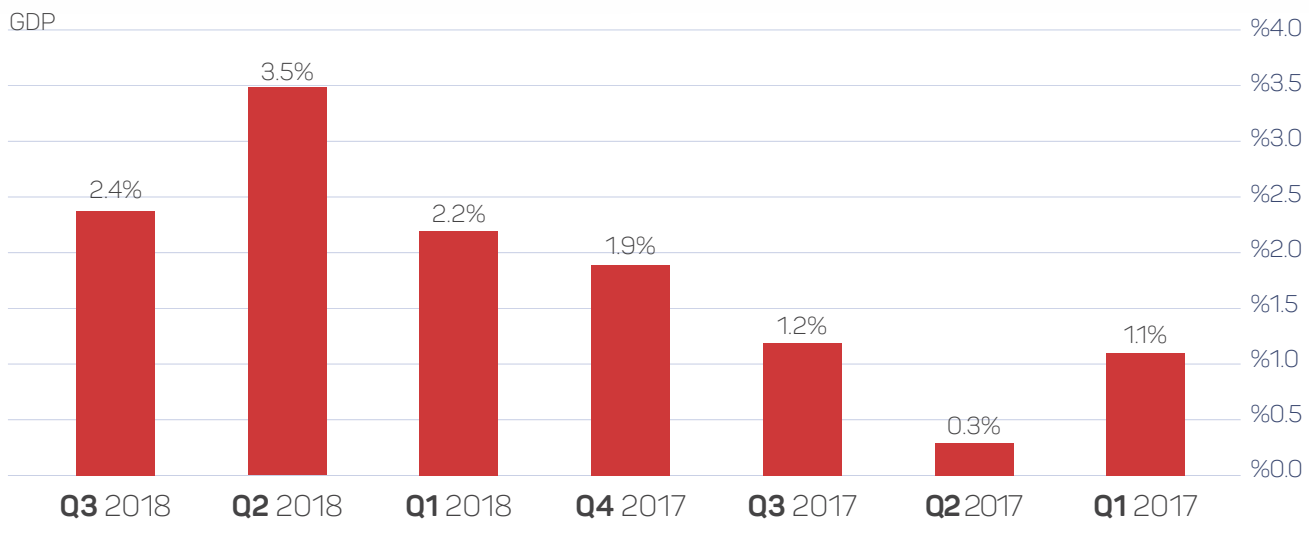
The Swiss economy continued to advance by the end of 2017, boosting its strength in 2018. This prompted the government to announce the end of the "franc shock" that followed the renunciation of the Swiss franc's peg to the euro four years ago. Gross Domestic Product for the first quarter of 2018 rose by 0.6% on quarterly basis and by 2.2% on yearly basis; the Swiss economy grew by 1% in 2017.

In the second quarter of 2018, the Swiss economy grew by 3.5%, its highest growth rate since the last quarter of 2007, but slowed down again in the third quarter to 2.4% as a result of weak domestic consumption and the slowdown of Germany's economy the largest trading partner for Switzerland.

On a quarterly basis, the economy shrank by 0.2% in Q3. Despite this, it has been able to achieve steady and strong growth over the past year and a half. However, it has recently been affected by the economic slowdown in European countries, especially Germany.

Of course, Switzerland is not immune to the global environment, especially to an export-dependent economy in the face of rising global risks. The Swiss government has warned that such risks as Sino-US trade tensions, the political crisis in Italy and Brexit will threaten growth prospects in 2019.

The growth of the Swiss economy since the first quarter of 2017 to the third quarter of 2018:

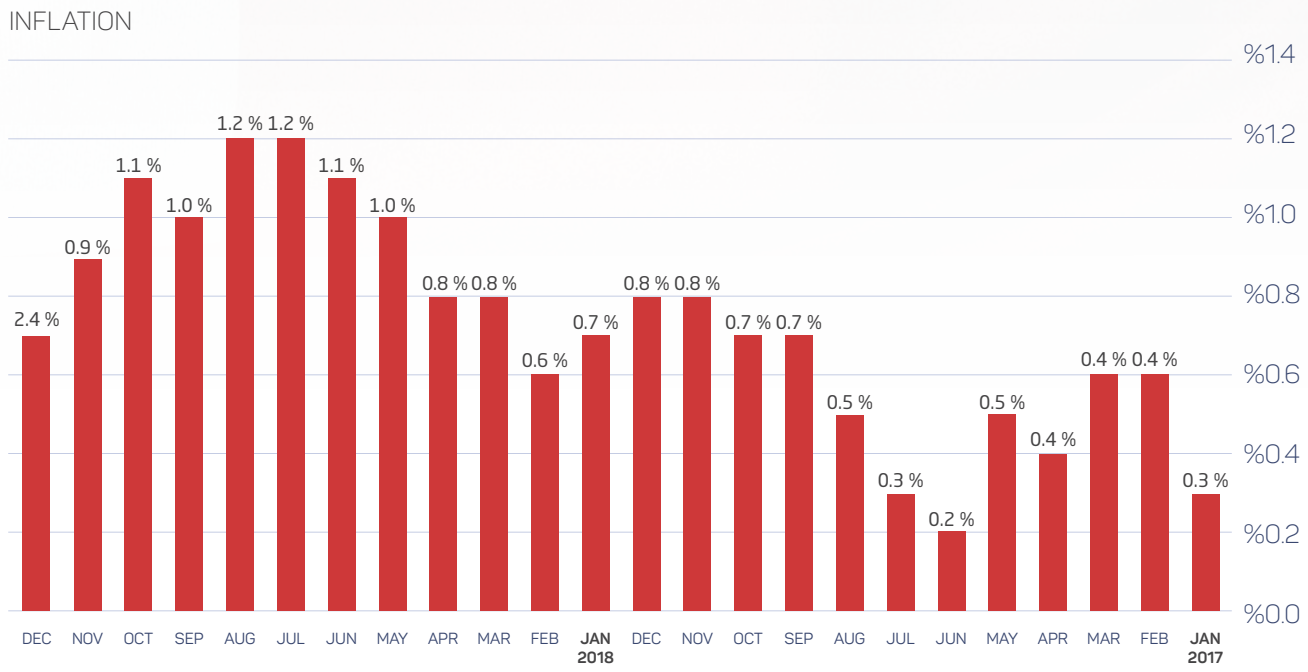


INFLATION HITS ITS HIGHEST LEVEL IN MORE THAN 8 YEARS IN 2018

After a long period of deflation, the CPI rose by 0.3% since January 2017 and continued to rise in 2018 as the year started up by 0.6% on yearly basis to 1.2% in July and August, the highest since April 2010. Even Now inflation is still expected not to reach the Swiss National Bank target before 2020, so there may be no rush to push monetary tightening forward.

As Europe's political risk rises, thus this would boost the strength of the Swiss franc, the central bank will continue to use its current defensive policy. The relative appreciation of the Swiss franc has played a role in rising import prices and has led to a further downward pressure on inflation during the fourth quarter slowing it to 0.7% in December.

The rise in the consumer price index from 2017 to the end of 2018:



INFLATION HITS ITS HIGHEST LEVEL IN MORE THAN 8 YEARS IN 2018

In 2018, the Swiss National Bank decided to keep interest rates unchanged at -0.75% after the Swiss economy gained strong momentum while confirming its intervention in the currency market when necessary to weaken the Swiss franc.

So far, the Swiss National Bank has kept its monetary policy unchanged for more than four years since January 2015 when it decided to unlink the Swiss franc in euros. The Bank noted that interest rates will remain unchanged over the near future and inflation is expected to remain at 2% below 2019 and 2020. SNB lowered its inflation forecast to 0.5% in 2019 from 0.8% and in 2020 to 1% from 1.2%.

SNB Concerns remain of global trade tensions, leading to increased demand for the Swiss franc. National Bank of Switzerland President Thomas Jordan noted that US protectionist policies could hurt the Swiss economy, which is primarily export-dependent.

The Swiss National Bank believes that interest rate hikes should not be rushed despite the European Central Bank's move abandoning the monetary stimulus program launched in 2015. The Swiss National Bank will probably wait for the ECB to see interest rates rise before they can do so, a step could be at end of this year or maybe next year.

CANADIAN ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

05

CANADIAN ECONOMY
FACTS ABOUT CANADA

Head of Government
Justin Trudeau

Capital
Ottawa

Population
37.24 M
(Rank 38)

Country Area
9.985M KM²
(Rank 2)

Currency
Canadian Dollar

System of Government
Federal Parliamentary Constitutional Monarchy

Governor of the Central Bank
Stephen Poloz
term expires in May 2020

Main Imports
Durable Consumer Goods, Auto Parts, Electricity, Machinery, Equipment.

Main Exports
Crude Oil, Natural Gas, Aluminum, Electricity, Automotive & Spare Parts, Industrial Machinery, Aircraft, Communications Equipment, Plastics, Chemicals, Electronics.

GDP

Debt & its ratio to GDP
53.4%

Gross Domestic Product
$ 1.847 T
(2018 estimates) (Rank 10)

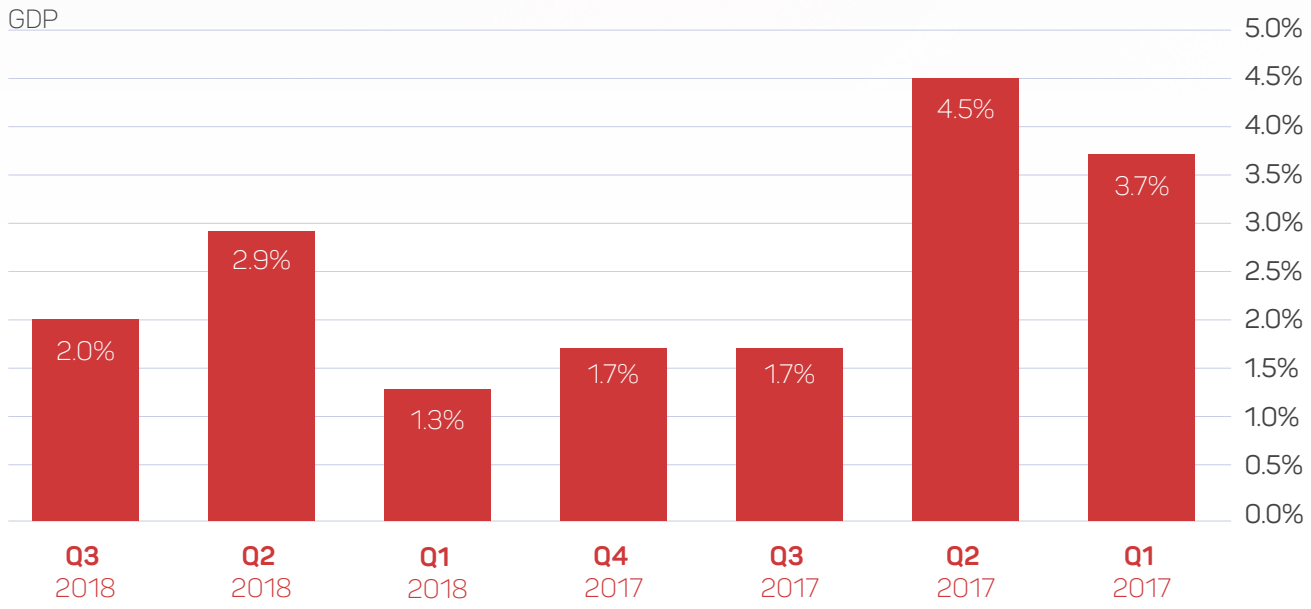
CONSUMER SPENDING SHRANK SENDING THE ECONOMY DOWN IN Q3

October's gross domestic product grew at a faster pace of five-month growth of 0.3 percent to open up good growth in the fourth quarter of 2018; factory production was the main driver of economic growth, up by 0.7 percent.

Although, Canadian economy slowed down in the third quarter, as investment spending as well as consumer spending slowed down, raising questions about the pace of interest rate hikes.

The economy grew at an annual rate of 2% in Q3 compared to the second quarter of the same year as the economy grew by 2.9%, following the 1.3% growth in the first quarter of 2018. The economy is expected to slightly improve during the last quarter of 2018, in light of the decline in oil prices, which is one of the major Canadian exports.

The growth of the Canadian economy since the first quarter of 2017 until the third quarter of 2018:



OIL PRICES DOUBLE CANADA'S TRADE DEFICIT

The trade deficit widened to a seven-month high in November due to the decline in exports driven by the fall in crude oil prices. The trade deficit reached $ 2.1 billion compared with the deficit in October of about $ 900 million.

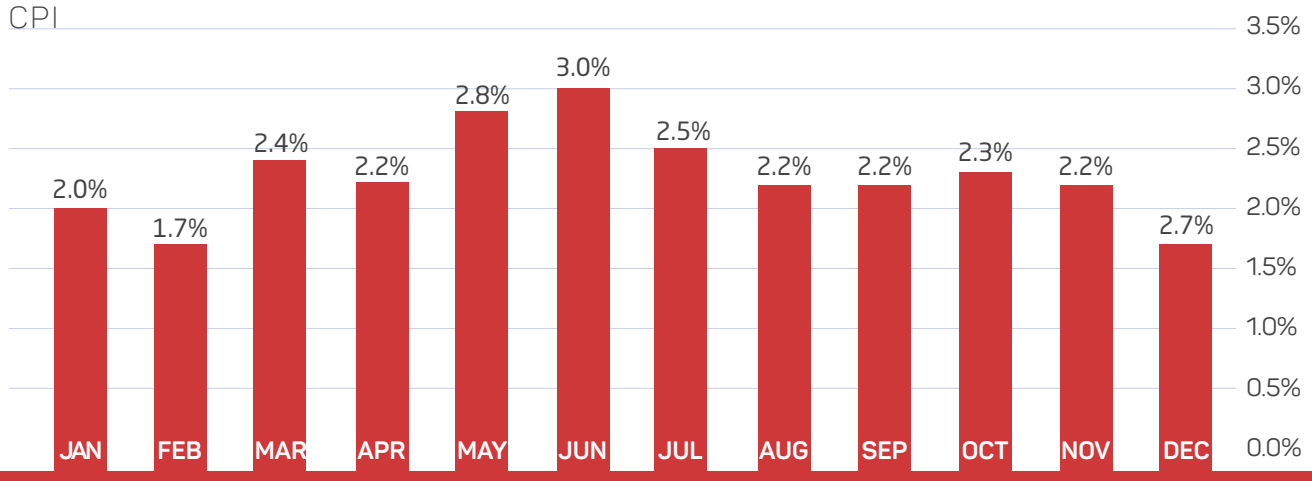
Exports declined for the fourth month in a row, down by 2.9%, which is the longest decline since 2015, with exports falling in eight of the 11 sectors, while imports fell for the third month in a row by 0.5%, with imports fell in seven out of 11 sectors.

INFLATION STABILIZED WITHIN THE TARGET RANGE IN 2018

In 2018, Canada's inflation data fluctuated between high and low. In July, Canada's annual inflation rate rose to 3%, its highest level since September 2011, which is the upper limit of the Bank of Canada target range which ranges between 1% and 3%.

Inflation in November was the lowest in 2018, rising by 1.7%, following a drop of more than 30% for oil prices in October. Canada is a major exporter of oil, which has fallen by more than 45% between October and the end of 2018. Inflation rose by 2% in December, driven by the holiday season again to the targeted range.

Canadian inflation figures for 2018:

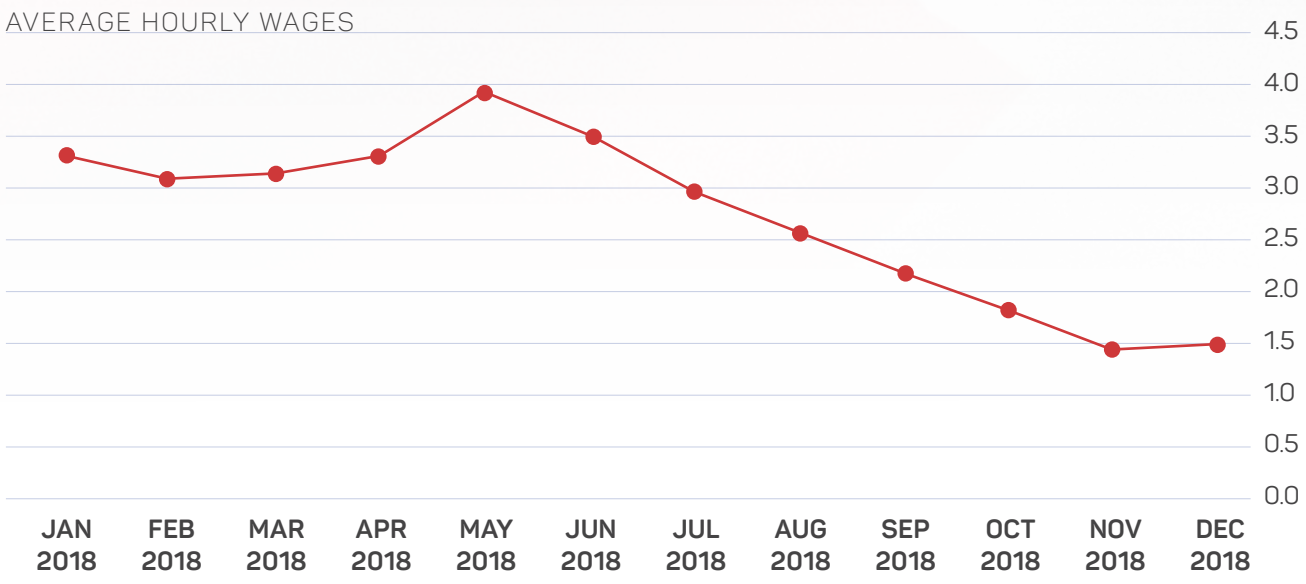


UNEMPLOYMENT TO ITS LOWEST LEVEL IN 43 YEARS

Canada's unemployment rate hit a 43-year low in November and December at 5.6%, after the Canadian economy ended 2018 with 9.3 thousand jobs in December, and adding 94.1 thousand jobs in November, which is the highest since May 2013. Despite improvements in Canada's labor market, wages have shown weakness in most of 2018.

Hourly average wages grew by 1.49% on yearly basis in December, slightly higher than the November reading of 1.46%, but well below their peak in May 2018 when the average wage rose by 3.9%, and since then till November, wages fell for six consecutive months.

The extent of wages decline since mid-2018 until the end:

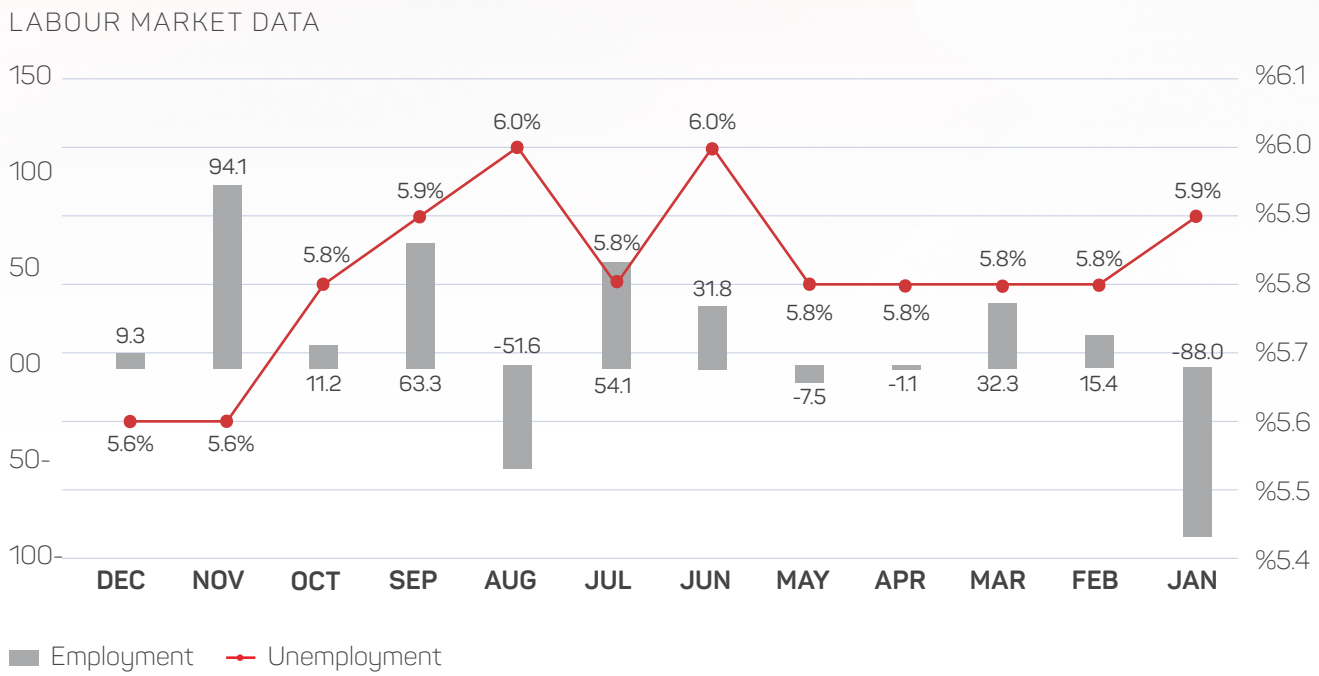


UNEMPLOYMENT TO ITS LOWEST LEVEL IN 43 YEARS

Wage weakness was one of the factors that prompted Bank of Canada to slow down before interest rates hike again towards the end of 2018. BoC monitors wage growth before interest rate decisions to determine the ability of heavily indebted households to afford higher borrowing costs.

Over the course of 2018, the Canadian economy added 163,300 jobs, an increase of 0.9%, which is a slower pace than the growth rate of employment in 2017 by 2.3% and 1.2% in 2016. Most of the jobs added in 2018 were in the services sector with 151k jobs compared to 12.3k jobs in the sector of goods producing industries.

Employment and unemployment figures over 2018:



BANK OF CANADA WILL WAIT FOR THE FED TO RAISE INTEREST RATES

In October, the Bank of Canada raised interest rates to 1.75%, marking the third interest rate hike since early 2018, which is the highest level in 10 years, and the fifth time the bank has raised rates since July 2017, while remaining rates unchanged at the last meeting of 2018 saying "The expansion of the global economy is moderately in line with expectations, but we see signs of an increase in trade disputes that will affect global demand".

BoC noted the significant drop in oil prices and its contributing in the drop in the Canadian oil sector, as most of the oil produced by Canada is extracted from the sand, which is a high-cost oil, and its productivity is therefore greatly reduced with the sharp fall in prices.

Poloz, Governor of BoC noted that the digital turmoil makes it more difficult to read economic data and that what he called an increase in uncertainty may mean that he will raise interest rates even if he does not have to.

The central bank is doing its best to set interest rates in the light of its monthly economic data, aiming to gradually raise rates when economic data indicate that raising them is necessary, but Poloz said that Bank of Canada is acting in a safe manner in a fast-changing world.

The Bank of Canada reduced its economic growth forecast for 2019, with gross domestic product expected to grow by 1.7% from 2.1%. At the moment, the Bank of Canada is on a cautious approach which means they will wait and see data as the headwinds facing the economy.

DISPUTES IGNITE WITH THE UNITED STATES...

In the second quarter of 2018, the United States imposed customs duties on Canadian steel and aluminum imports, and Canadian Foreign Minister Chrystia Freeland said that her country would not "back down" from the response to tariffs imposed by Washington. The Canadian government immediately allocated a $ 1.5 billion aid package to support the country's steel and aluminum industries.

The United States and Canada are among the largest trading partners, with the value of trade and services between them last year reaching about 700 billion US dollars. But trade relations between the two countries have been strained by disputes. The United States is the most important market for Canadian steel and aluminum products, while Canada is the destination for more than half of US steel and aluminum products.

AND A NEW AGREEMENT REPLACES NAFTA

The year 2018 saw tension in the relationship between US President Donald Trump and Canadian Prime Minister Justin Trudeau over Trump's commercial policies. The United States and Canada reached a new trade deal with Mexico to replace the North American Free Trade Agreement (NAFTA).

Although the exact details of the agreement are not disclosed, the new agreement is expected to include basic provisions on the Canadian dairy industry and Canadian car exports to the United States. US farmers will have access to about 3.5 percent of Canada's dairy market. It is also reported that Canada has received some protection for its auto industry against possible US customs duties.

The Canadian-Mexican-American agreement included opening the Canadian dairy market further to the United States and setting a maximum limit for Canadian car exports to the United States. Trump has threatened that he may impose customs duties on cars manufactured in Canada if they do not join the revised agreement.

OIL PRICES AND THEIR IMPACT ON THE CANADIAN ECONOMY

Canada is the fifth largest oil producer in the world, and its consumption is weak. It exports the surplus of its needs, and its oil exports out of its total exports are sufficient to increase the value of its currency and fall in tandem with the rise and fall of oil.

Canada's oil consumption in 1980 was about 1.87 million barrels, and in 2016, about 2.40 million barrels, an increase of 530 thousand barrels only over 36 years.
"The impact of oil prices on Canada is very small as its resources are multiple; it depends mainly on service goods, and differs from other countries that rely entirely on oil, so the oil market won't affect the standard of living of the individual in Canada significantly."

Canada's oil income is a secondary source, indicating that the increase in Canada's oil production is being exported to the world markets. Therefore, Canada's oil will be a strong competitor to the oil of countries whose income and general balance depend on petroleum exports and price volatility, which is directly reflected on the budget deficit of those countries.

CANADIAN TRADE DEFICIT REVEALS AN ECONOMIC PROBLEM THAT WILL THREATEN ECONOMIC GROWTH, AND WILL TAKE SHAPE IN 2019 TO HIT HARD BY 2020

The Canadian economy had seen growth over 2018, most of which showed that the economy was stable despite US tariffs on Canadian goods, as well as the "NAFTA" which guaranteed free trade with the United States and Mexico. But no doubt that looking at the Canadian trade balance will show us an economic situation that has not yet surfaced to appear on GDP.

The gross domestic product (GDP) is one of the primary indicators used to asses a country's economy according to macroeconomic fundamentals. However, GDP is considered a long-overdue Data, and issued for the previous quarter; it even needs a relatively long time to be issued. GDP indicates if the economic performance "was" good or bad during a given period of time. However, there are other economic data showing the future of the economy ahead of indications of the economic situation of GDP

Canada's inflation rates fell from 3% reached in mid-2018 to 2% in December 2018, followed by a widening trade deficit. Canada's trade deficit was not driven by rising imports, rather by lower exports more than imports, due to global trade conditions, specifically with the US, along with lower domestic demand. Imports fell in seven sectors out of 11, and exports also fell in eight sectors out of 11 in Canada. This was due to decrease in average hourly income, and although unemployment rate is at its lowest levels of the century, there is a marked slowdown in employment rate.

CANADIAN TRADE DEFICIT REVEALS AN ECONOMIC PROBLEM THAT WILL THREATEN ECONOMIC GROWTH, AND WILL TAKE SHAPE IN 2019 TO HIT HARD BY 2020

Trade deficit has led us to examine and investigate the underlying causes of the decline in both exports and imports. We found an obvious decline in the pace of employment despite the excellent levels of unemployment, besides, a decline in the average income, which means that the business sector is feeling bad about the future. What is happening internally in the Canadian economy clearly indicates the weakness that began to take shape in 2018, will continue to appear even more in 2019, and will eventually float to the surface in 2020 at the latest.

Oil prices fell significantly in 2018, which also affected the Canadian economy. High oil prices were not enough until late January of 2019 to restore what Canada lost by the drop in prices.

What confirms the problems inherent in the Canadian economy, specifically in the manufacturing sector, is the significant decline in the performance during the last four months of the last year, and the shrinking of industrial production three time during 2018. The growth rate of retail sales fell to 0.5% in November as a result of multiple shrinkage during 2018, and we saw the lowest growth rates since 2015 which confirms the weakness of Canada's domestic economy.

The Bank of Canada raised interest rates three times in 2018; raising the possibility of a negative effect to these hikes on GDP and economic sectors which may last to 2019.

CHINESE ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

06

CHINESE ECONOMY
FACTS ABOUT CHINA

Capital
Beijing

Country Area
9.562M KM²
(Rank 3)

Population
1.404B
(Rank 1)

Currency
Yuan

Prime Minister
Li Kikiang

President of the People's Republic
Xi Jin Ping

System of Government
Republican Socialist

Governor of the Central Bank
Zhou Xiaochuan

Main Imports
Oil, Copper, Iron And Steel, Machinery, Plastics, Medical Equipment, Organic Chemicals.

Main Exports
Rice, Clothing, Electronic Goods, Machinery & Steel.

GDP

Debt & its ratio to GDP
47.6%

Gross Domestic Product
$14.17 T
(Rank 2)

"TRADE WAR" THE MOST IMPORTANT EVENT THROUGHOUT 2018

Over the past period, the US and China trade war has caused market instability, and there have been warnings from many companies that there are serious consequences for growth and consumer prices. Of course, we must not lose sight of the negative consequences of long term conflicts, not only of the two largest economies in the world, but of the entire world.

However, exports rose most of 2018, despite a sharp rise in US tariffs on Chinese imports. This comes at a time when the two sides raised customs duties by up to 25% on tens of billions of dollars of their respective goods in the war which also saw America accuse Beijing of technology theft to put pressure on companies.

In December, calls on both sides to reach an agreement, in the ongoing negotiations that may continue until March 1, cited the deterioration in global conditions. Both are expected to hold a round or two of the trade talks with a plan to end the tariff war. But if that period passes without agreement, Trump's tariff on Chinese imports is set to rise by $200 billion from 10% to 25%.

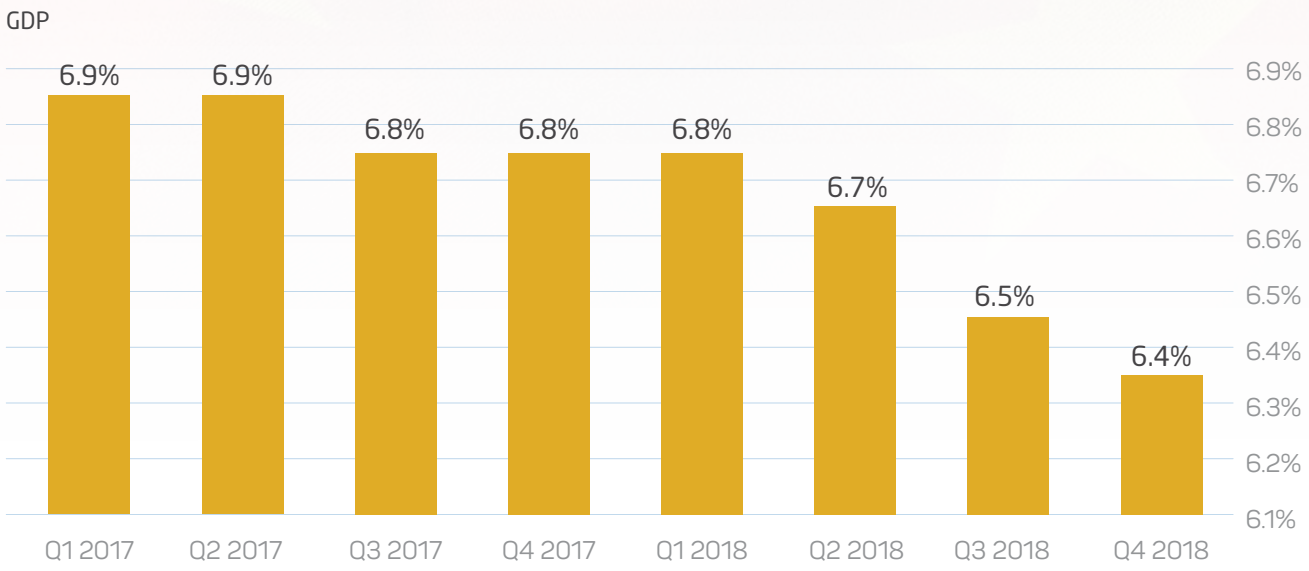
China has agreed to buy more US products, but the US still calls on China to stop technology transfer and electronic interference. In short, the US basically calls for China to reduce its economic ambition to become a global leader in fields such as automobiles and electrical appliances.

Recently, however, the situation became more complex when Trump's administration accused Huawei of stealing technology secrets and violating sanctions against Iran.

THE TRADE WAR CASTS A SHADOW OVER CHINA'S ECONOMIC GROWTH

The world's second largest economy marked a noticeable slowdown in 2018, casting a shadow over the global economy. The main reason for this slowdown was due to the trade war with US that had a significant impact on companies and consumers. The world's appetite for exports has declined, domestic consumer spending, investment, retail and factory activity have declined. The slowdown comes despite government efforts to boost growth through measures ranging from increased spending on infrastructure to tax cuts.

As we see from the following chart, GDP growth has slowed considerably since the beginning of 2017. The GDP started 2017 at 6.8% and continued to fall to 6.4% in the fourth quarter of 2018; the slowest pace since 2009 after the global financial crisis.



China's economy grew by 6.6% throughout 2018; the slowest pace of growth in almost 30 years, specifically since 1990, confirming a slowdown in the world's second largest economy after peaking at 6.8% in 2017 and threatening to hamper global economic growth. So it seems from the data that the trade conflict has negatively affected the Chinese economy compared with the situation in the US, putting pressure on Beijing to reach a deal with Washington to end the trade war.

THE TRADE WAR CASTS A SHADOW OVER CHINA'S ECONOMIC GROWTH

In another disturbing sign for the Chinese economy, foreign direct investment rose only 0.9% last year to $131 billion, after it surged by 7.9% in 2017 despite Beijing's efforts to ease restrictions on foreign investors to attract more capital from abroad.

DEBT IS THE GREATEST THREAT TO FINANCIAL STABILITY

China is trying hard to get rid of the risks associated with its debt in an effort to reach financial stability. Debt reduction could boost financial stability and reduce the size of struggling companies that the government has been trying to get rid of for years. Although China's economy is the world's second largest, it is one of the main candidates for a banking crisis if strict measures are not taken.

The main reason for the increase in debt is the growing dominance of services and consumption, which now constitute the bulk of GDP, and that the manufacturing sector relies heavily on loans, mostly from state-run banks. The government accelerated its campaign to rein in debt because of the trade war, hurting consumer and business confidence. In the past few months, consumer spending, industrial production and investment have reached record levels.

Despite the deterioration in local conditions, policymakers did not dare take new incentive measures; such incentives were used in 2009 with negative outcomes such as looted infrastructure projects and bad debts incurred by businesses and local governments. Stimulus measures will not only eliminate government efforts to reduce risks in the financial system, but will not be effective in stimulating growth.

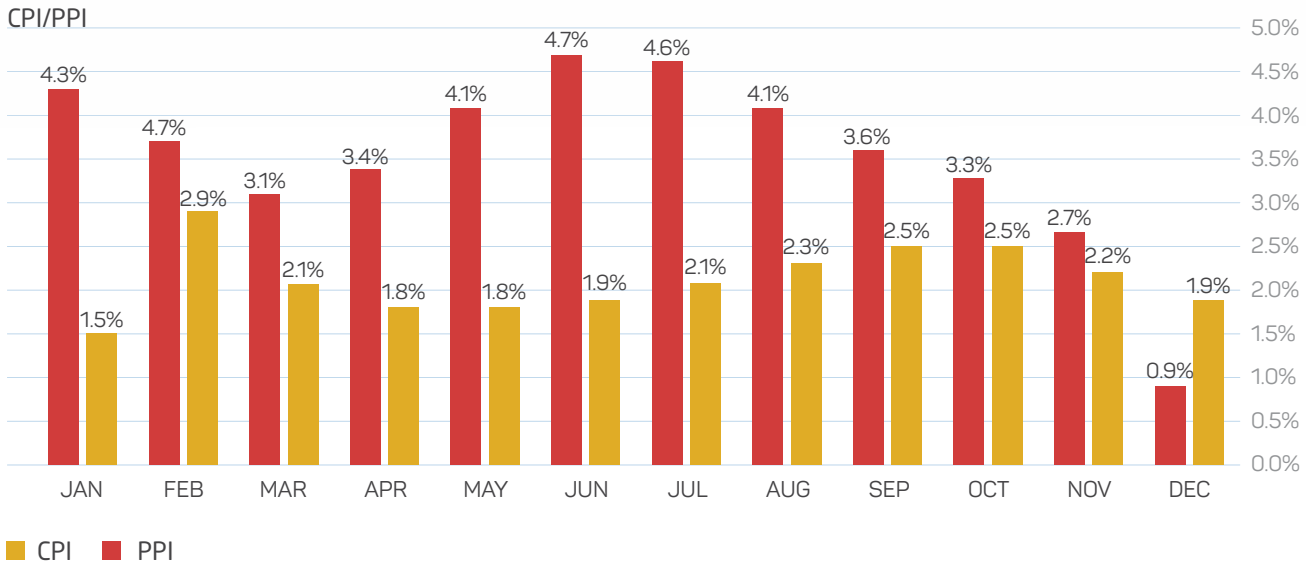
INFLATION LOSES MOMENTUM AND DRIFTS AWAY FROM TARGET LEVELS

Consumer inflation remains steady in 2018 and is expected to maintain its growth at a moderate pace, reducing the pressures facing decision makers. But consumer prices have generally stabilized significantly below the 3% level desired by the government in 2018.

CPI continued to fluctuate throughout the year, ending only at 1.9%, as non-food and fuel prices declined, reflecting weak domestic demand. In the same way, after PPI peaked in June, prices lost momentum again to settle at 0.9% in December. This is the worst growth rate pace in two years, particularly since September 2016, and a strong indicator of a slowdown in economic growth at an alarming rate.

Industrial conditions deteriorated for the first time in more than two years. In the near term, a sharp slowdown in producer prices may also lead to the consequences of global inflationary pressures, as it has been a leading indicator of US export prices and key inflation readings of major developed economies in the past.

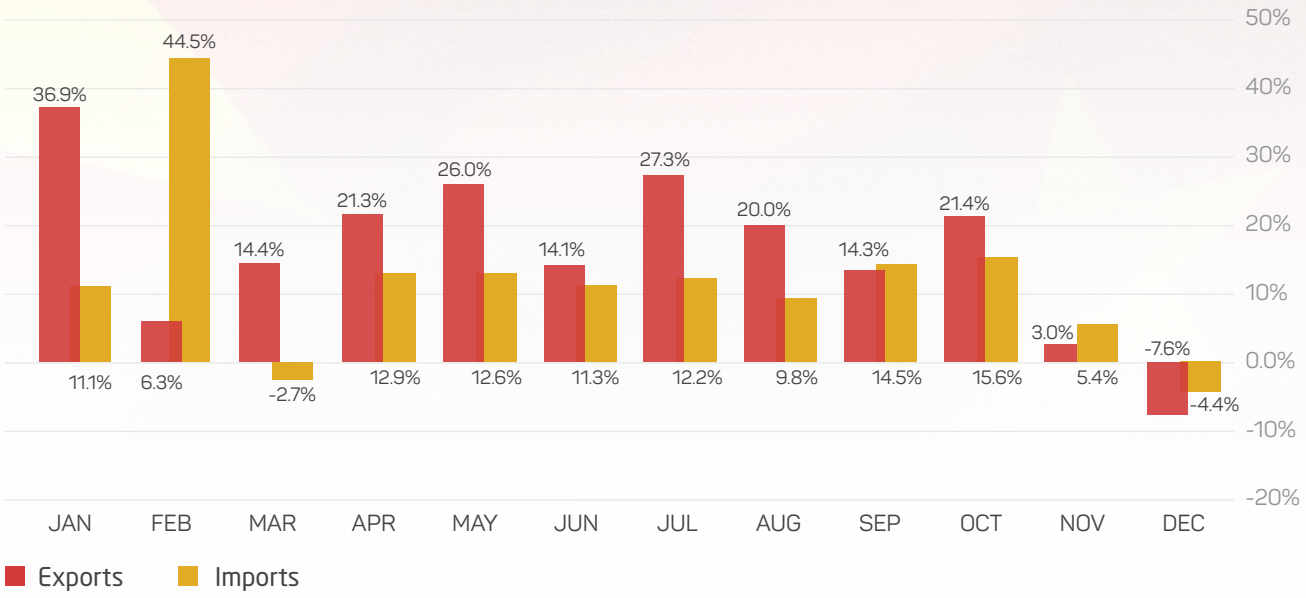
Changes in consumer prices and producers throughout 2018:



TRADE SURPLUS WIDENING WITH THE US DESPITE TRUMP'S EFFORTS

As we see from the next graph, the situation of the export and import sectors deteriorated throughout 2018. After both recorded steady growth at the beginning of the year, they continued to slow down until they recorded a decline at the end of the year. Exports fell by 4.4% in Dec. "the biggest drop in 2 years", reflecting the weak global demand, while imports fell 7.6%, their biggest drop since July 2016, on weak investment and consumption following the government's debt reduction campaign.

Chinese Exports & Imports



Last year, the trade balance surplus with the US jumped by 17.2% to $323 billion, the highest level since 2006, which could prompt US President Donald Trump to insist on reducing this gap and thus fuel the trade conflict with Beijing in the coming period. Some attributed the surge of exports to US because companies have increased shipments recently before US fees become larger and more effective.

THE NEW YEAR WILL BE A GREAT CHALLENGE FOR THE CHINESE ECONOMY

Chinese policymakers have already responded to a slowdown in economic activity and recently announced a reduction in reserve requirements for all Chinese lenders to encourage lending and maintain sufficient liquidity in the Chinese financial system before Lunar New Year celebrations. A financial incentive was also introduced to encourage household consumption and investment in infrastructure.

The first half of 2019 is likely to be equally difficult, and the economy may suffer even more as debt levels rise, with non performing credit reaching 261% of GDP. China's economy is unlikely to see a recovery similar to the expansion of the previous business cycle. GDP data are expected to come in below government expectations.

As for the pace of the government and PBOC in the coming period, with growth slowing as we have indicated recently, policymakers are expected to accelerate and intensify monetary and fiscal easing measures this year in a bid to reduce losses to the economy and businesses.

The government lowered its growth forecast for the Chinese economy in 2018 from 6% to 6.5% after forecasting economic growth of 6.6% in 2018, the slowest pace in 28 years.

THE CHINESE ECONOMY STRUGGLES TO SURVIVE THE TRADE WAR WITH THE UNITED STATES

The United states began to launch economic raids on the world; following the trade war that was started by US president "Trump", after he noticed that China and many countries benefit from the large consumer capacity of the United States, accusing the world of engaging in unfair trade with the United states and thus exploiting America. The trade war began with the United States imposing new tariffs of up to 25% on Chinese goods valued at $267 billion. China has taken retaliatory actions and imposed tariffs on US agricultural and industrial goods.

The two parties reached a truce to give a chance for talks that will be held until the end of March. If the two parties don't reach an agreement by then, the war will flare up again, and both sides will exchange more tariffs on imported goods. China is trying to prove that it is responsive and carrying out structural economic reforms, but the US is seeking to enact "fair" laws.

The two parties have said on several occasions that the US-China talks are in full swing, and there is considerable progress in the negotiations. But at the same time, the declarations are preempted by US demands for more Chinese actions. China also responds in the same context that the negotiations are good, but they want a compromise, not just in favor of the United States.

The risk of a trade war for the Chinese economy lie not only in the exports; in fact, the banking system is suffering from significant repercussions, due to the dependence of industrial and service companies on government loans. China seems to be mired in internal debt, and any economic problem or significant slowdown will trigger a financial crisis that may destroy the economy.

China's GDP growth fell to 6.4% in the worst economic performance since 1990. Hence, the real weakness in the economy began to show and some economic sectors started to slow down while others shrank; foretelling that 2019 will be difficult for China.

China's economy will suffer major trade changes, even if an agreement is reached. The United States cannot reach any agreement with China without performing

THE CHINESE ECONOMY STRUGGLES TO SURVIVE THE TRADE WAR WITH THE UNITED STATES

substantial changes in trade relations, which will damage the Chinese economy. Although it will also affect the United States economy, the focus here will remain on the Chinese economy and signs of weakness in it.

However, not reaching a deal with the US will be even worse for China as the trade war will flare up again. In 2018, it appeared that the US-China trade surplus was in favor of China, but if we look at China's imports, we will see a significant drop in December; indicating that there is also a weakness in consumption of to industrial and service imports, and China's trade surplus this time shows the weakness of the second largest economy in the world.

Let us remember that the trade war may not only affect the trade balance and current cash flows - causing economic slowdown – but it may even threaten China's financial stability, at a time when the economy is burdened with debt; hence, 2019 will be the survival year of the Chinese economy: either it will pass through the crisis peacefully and continue to grow even with a slowdown, or it will fall into a financial crisis that may set it back for decades.

GLOBAL MARKETS

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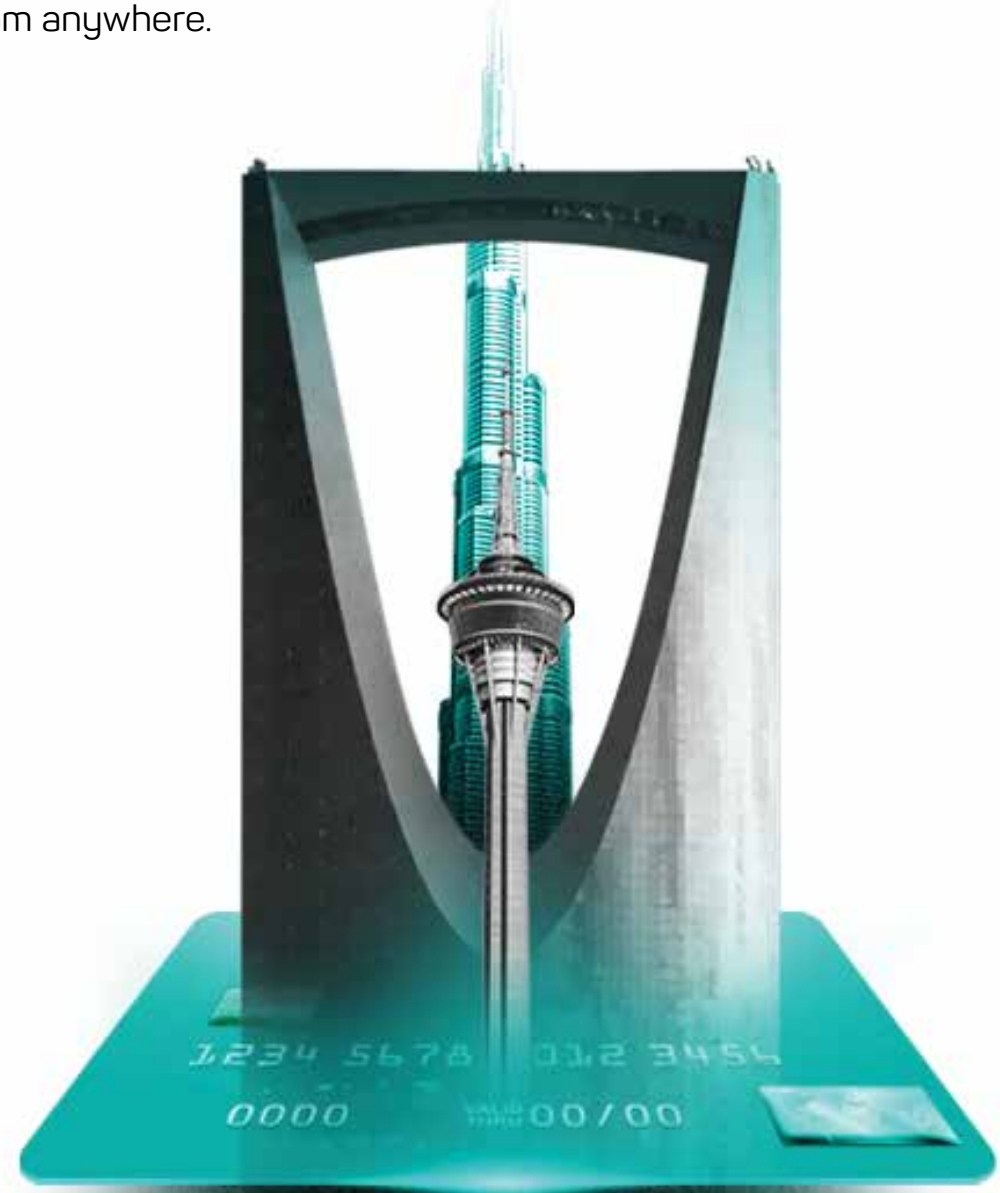

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AUSTRALIAN ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

07

AUSTRALIAN ECONOMY
FACTS ABOUT AUSTRALIA

Capital
Canberra

Country Area
7,692 M KM²
(Rank 6)

Population
25 M
(Rank 55)

Currency
Australian Dollar

Prime Minister
Scott Morrison
Since 24 August 2018

System of Government
Federal Parliamentary Constitutional Monarchy

Governor of the Central Bank
Philippe Lowe since 18 September 2016 & ends his term in September 2023

Main Imports
Crude Oil And Petroleum Products, Electrical & Telecommunications Equipment, Machinery & Transport.

Main Exports
Iron Ore, Raw Materials And Metals, Wool, Food And Living Animals, Fuel, Machinery And Transport Equipment.

GDP

Total debt volume & ratio to GDP
41.2%

Gross Domestic Product
$ 1.500 T
(Rank 13)

POLITICAL DIVISIONS PRODUCE A NEW LEADER BEFORE THE 2019 ELECTIONS

Australia's governing party, the Australian Liberal Party, was divided by differences. Scott Morrison, one of Australia's strict immigration policy engineers, became the sixth prime minister in just 10 years. Morrison won 45 votes to 40 for Peter Dutton, which was a surprise to all.

2019 will be pivotal to determining whether Scott Morrison will remain in power in Australia, where parliamentary elections are expected to take place in May on half of the Senate and in November 2019 on the House of Representatives seats, where Morrison hoped to fulfill the pledge to achieve a budget surplus and build a strong economy that he made in a speech wherein he promised to cut taxes and support farmers.

Morrison and his party will need 76 seats out of 151 in the House of Representatives and 40 out of 76 in the Senate to get the majority. The economy paper will be the one that Morrison will have to work on, as the government is on its way to its first surplus since the global crisis, the budget is expected to be submitted on April 2.

AUSTRALIAN ECONOMY STARTED 2018 WITH STRONG GROWTH BUT SLOWED TOWARDS THE END

After the Australian economy weakened by the end of 2017, it was able to rally momentum again at the beginning of 2018. The economy grew strongly in the first quarter of the year, supported by household consumption, government demand and strong exports.

GDP grew by 1% on a quarterly basis, the fastest pace since 2011, rising by 3.1% on yearly basis, the fastest pace since the second quarter of 2016.

The economy slowed in the third quarter of 2018 sharply as a result of the slowdown in household spending. GDP fell to 0.3 percent on a quarterly basis, the slowest pace since the third quarter of 2016, after growing by 0.9 percent in the second quarter and to 2.8 percent on yearly basis from 3.1% during the second quarter.

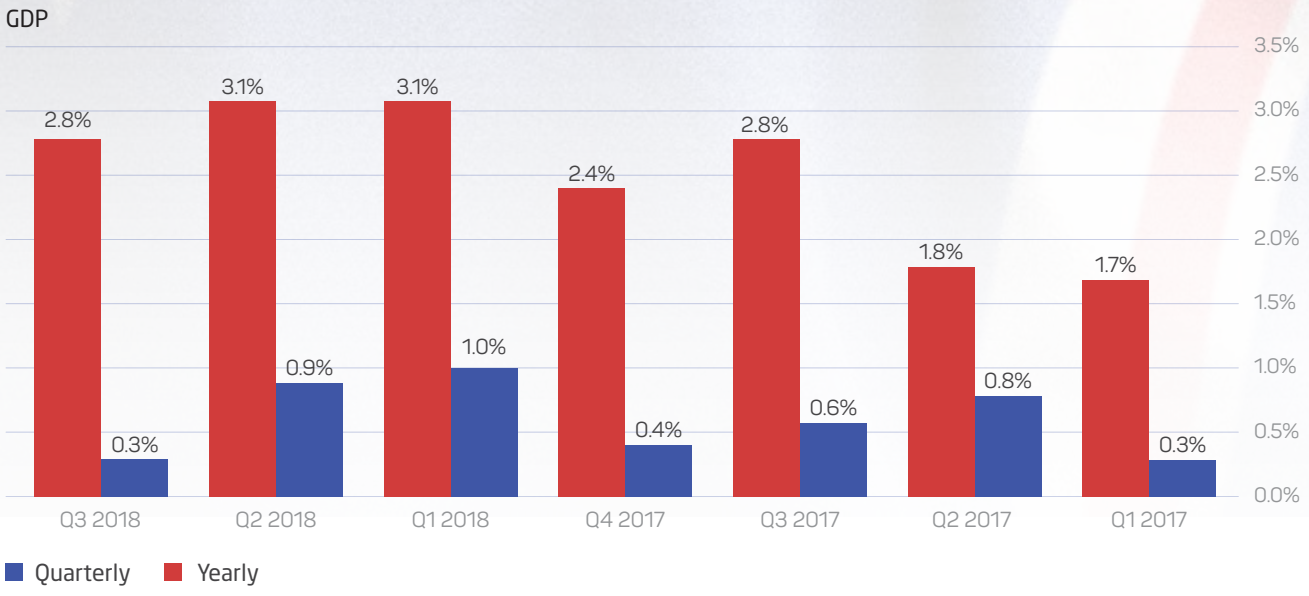
The slowdown in the economy is due to lower home prices, tightening financing conditions, slower wage growth and lower consumer spending.

The data is more ambiguous about the next move for interest rates, so the Reserve Bank of Australia will not be happy with these data, as its forecast of a 3.5% economic growth this year may not materialize.

The Australian economy has outperformed its peers from rich economies in recent years, where it has managed to grow for 28 years without recession.

AUSTRALIAN ECONOMY STARTED 2018 WITH STRONG GROWTH BUT SLOWED TOWARDS THE END

The Australian economy's growth from the beginning of 2017 to the third quarter of 2018:



INFLATION IS STILL BELOW THE TARGET RANGE

Like the challenges facing the Australian economy, inflation is in a significant place in these challenges. Despite the improvement in inflation compared to 2 years ago, core inflation is still below the target range of 2 - 3% for the eleventh month, the longest period ever.

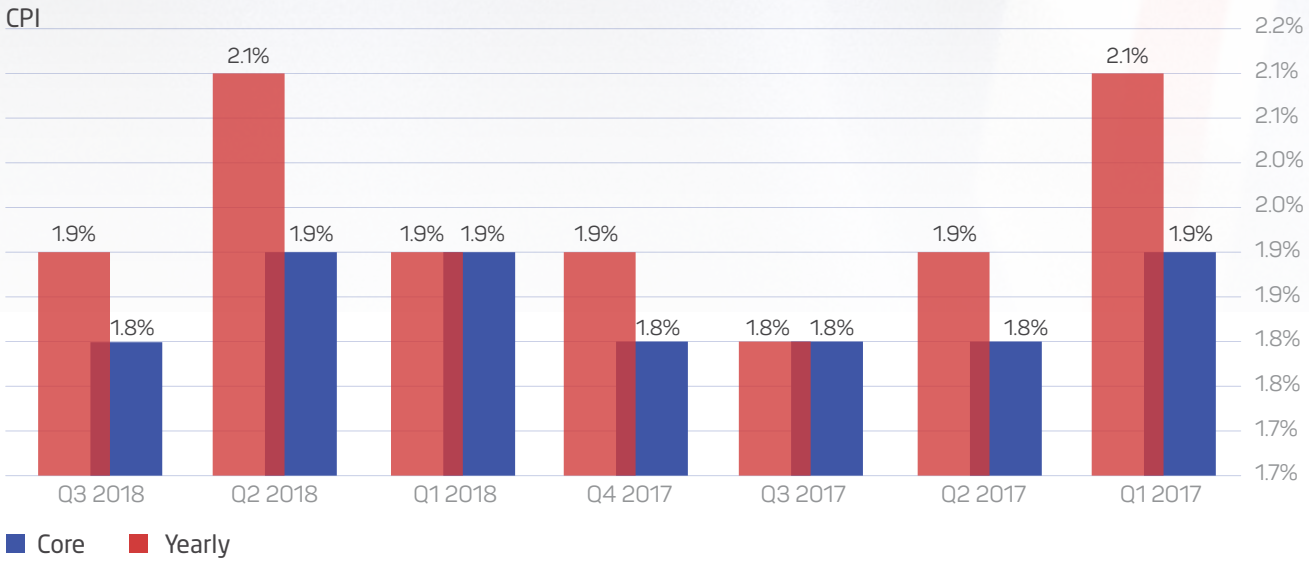
The Consumer Price Index (CPI) rose by 0.4 percent in the first three quarters of 2018 on a quarterly basis and on yearly basis slowed to 1.9 percent in the third

INFLATION IS STILL BELOW THE TARGET RANGE

quarter after rising by 2.1 percent in the second quarter. Core inflation, which is preferred to RBA rose by 1.8% in the third quarter of 2018.

The major headwinds faced consumer prices was tepid growth of wages, which is nearing a historic low even as the Australian labor market booms, and strong retail competition and low rental growth have had an impact on inflation.

The annual inflation figures from the beginning of 2017 to the third quarter of 2018:



AUSTRALIA MONITORS DEVELOPMENTS IN TRADE DISPUTE WITH CAUTION

The trade balance continued to record a trade surplus during the year of 2018 to November, when the trade surplus shrank by 4.4% as imports rose more than exports, recording a surplus of $ 1.93 billion, while the surplus in October was revised down to $ 2.01 billion. The trade balance recorded the third largest trade surplus ever in September by $ 2.94 billion.

Exports rose by 1% to $ 38.45 billion, the largest monthly total historically, while imports rose by 2%.

Australia has been carefully monitoring the trade talks between the United States and China; the Reserve Bank of Australia has described these tensions as material risks to the global economic outlook.

China has reached a record trade volume with Australia in 2018; trade between the two countries has risen by 8.9 percent. Some Australian companies are still concerned about the negative impact of the trade dispute between the two largest economies in the world, while some believe that Sino-Australia cooperation may fill

AUSTRALIA MONITORS DEVELOPMENTS IN TRADE DISPUTE WITH CAUTION

some of the gaps left by the US-China trade conflict. China is the number one export market For Australia.

Trade between China and Australia in 2017 was about $ 129 billion, up by 16 percent from 2016, accounting for about 28 percent of Australia's foreign trade volume.

LABOR MARKET CONTINUES TO THRIVE IN 2018

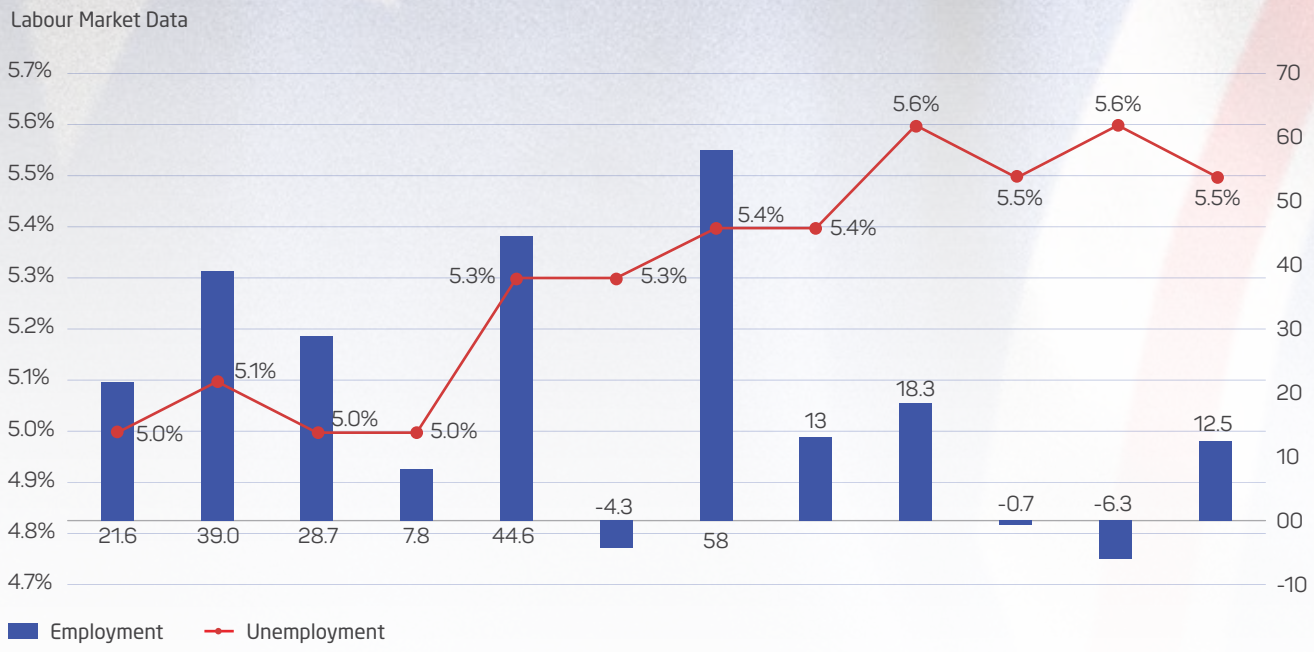
Unemployment continued to decline in 2018 to its lowest level since June 2010, falling to 5% in December. The economy added 21.6 thousand jobs in December, but most of the increase was in part-time jobs, while full-time jobs declined for the second consecutive month.

Over the course of 2018, full-time jobs rose by 162,000 jobs against part-time jobs which rose by 106,000 jobs. The labor market in Australia has been booming recently, with the economy managing to add jobs every month throughout 2017 for the first time since 1978.

The beginning of 2018 saw the longest period of job creation since 1993, as the economy continued to add jobs for 16 consecutive months.

LABOR MARKET CONTINUES TO THRIVE IN 2018

The extent of the decline in unemployment rates from the beginning of 2018 until its end:



RATE HIKES STILL A FAR-FETCHED STEP AND CUTTING RATES IS A POSSIBILITY

In recent years, markets have expected the Australian economy to be one of the fastest growing economies and the Reserve Bank of Australia to be the first central bank to go into monetary tightening. But economic developments have disappointed investors and expectations of rate hikes have fallen for many reasons; inflation stabilizing below the range target levels, the deflation of the retail

RATE HIKES STILL A FAR-FETCHED STEP AND CUTTING RATES IS A POSSIBILITY

sector, and the rise in household debt to record levels, and hence the option of raising interest will increase the burden on households and finally slow wage growth that will continue to put pressure on household spending and house prices and generally hinder recovery.

The Reserve Bank of Australia had expected consumer prices to remain low until the end of 2018 before rising in 2019, but the Bank did not expect core inflation to hit the midpoint of the range by 2020. The Australian Reserve would therefore prefer to continue in a cautious neutral approach and postpone the decision of rates hike for some time, keeping it at historically low of 1.50% since August 2016.

Overall, markets are not pricing any interest rate hike to 1.75% until March 2020, and the Reserve Bank of Australia does not rule out the option of lowering interest rates.

The Reserve Bank of Australia's outlook for growth, inflation and unemployment:

	Year - Ended					
	JUN 2018	DEC 2018	JUN 2019	DEC 2019	JUN 2020	DEC 2020
GDP Growth	3.4	3 1/2	3 1/4	3 1/4	3 1/4	3
(Previous)	(3)	(3 1/4)	(3 1/4)	(3 1/4)	(3)	(3)
Unemployment Rate[b]	5.4	5	5	5	4 3/4	4 3/4
(Previous)	(5.5)	(5 1/2)	(5 1/4)	(5 1/4)	(5 1/4)	5
CPI Inflation	2.1	2	2	2 1/4	2 1/4	2 1/4
(Previous)	(2.1)	(1 3/4)	(2)	(2 1/4)	(2 1/4)	(2 1/4)
Underluing Inflation	1 3/4	1 3/4	2	2 1/4	2 1/4	2 1/4
(Previous)	(2)	(1 3/4)	(2)	(2)	(2 1/4)	(2 1/4)

THE AUSTRALIAN ECONOMY HOLDS UP IN 2018, AND AN ECONOMIC STORM WILL TEST ITS SOLIDITY THIS YEAR

The Australian economy had seen a great start in 2018, as if the economy had left behind all the effects of the 2008-2009 global crisis; the Australian economy was significantly affected at that time. The Australian economy grew strongly during the first quarter, and it seemed as if a new economic phase of growth was taking place with improvements in many countries around the world. Unemployment rates fell to 5% and annual inflation stabilized below 2.00% most of 2018, especially with the tangible improvement in the trade balance and increase in both exports and imports during 2018. Consumer spending recovered in addition to a steady rise in government income and spending.

However, there have been many turns that have had clear impact on growth of the Australian economy. The United States began its trade war with China - "the strong trading ally of Australia" - and North American countries, causing a state of concern and weakness in the international economy. The trade war was mainly against China, which had been accused by the United States of unfair trade practices. Thus, the balance of global trade changed, causing a major slowdown in the Chinese economy and pushing it to have the worst performance since 1990.

The Australian economy is heavily affected by global trade developments, since the Australian economy relies directly on exports. The signs of Chinese economy slowdown made the Australian economic observers see an economic storm looming around. Many did not pay much attention at first, because it looked like a temporary stage that will eventually pass. Nevertheless, as the end of 2018 approached, it turned out that it was not just an economic storm coming as it did in 2010 and 2016, but a hurricane that would extend its impact in 2019.

The political division in Australia during 2018 seemed temporary, but it lasted long enough to determine whether Scott Morrison will remain in power or not. Probably

THE AUSTRALIAN ECONOMY HOLDS UP IN 2018, AND AN ECONOMIC STORM WILL TEST ITS SOLIDITY THIS YEAR

with these global trade conditions and potential political instability in 2019, we will see a year of pressure on the Australian economy that will manifest itself as a decline in GDP growth and deterioration in the trade balance that has recovered in 2018.

The question here is: Will the bad international economic conditions cause an Australian economic slowdown in 2019, or will there be a recession?

In fact, if we return to 2007 & 2008, the Australian economy began to be affected by the global financial crisis in mid-2007, with a decline in GDP. This gives us the impression that the Australian economy shows signs of weakness once there are changes in international trade, even before any impact appears on GDP in many other countries. Consequently, Australian GDP may decline further in the second of half of this year, and the signs of weakness will begin to take a shape at the beginning of the first quarter.

However, the possibilities for Australia to enter a technical recession (contraction in GDP for two consecutive quarters) shouldn't be seen as the only proof of the economic weakness. Instead, the GDP performance and growth should be considered, because the decline in GDP growth for a period of time is considered an economic recession by modern macroeconomic principles, even if we don't see negative values in GDP over the next two quarters as required by the technical recession in the classical economy principles.

NEW ZEALAND ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

08

NEW ZEALAND ECONOMY FACTS ABOUT NEW ZEALAND

Capital
Wellington

Country Area
268K KM²
(Rank 76)

Population
4,936 M
(Rank 127)

Currency
NZ Dollar

Head of Government
Jacinda Ardern
Since 26 October 2017

System of Government
Parliamentary Constitutional Monarchy

Governor of the Central Bank
Adrian Orr, and his term ends in March 2023

Main Imports
Machinery & Equipment, Aircraft & Automobiles, Electronics, Textiles & Plastics.

Main Exports
Dairy Products, Fuel, Machinery And Transport Equipment, Raw Materials & Minerals, Food & Live Animals.

GDP

Debt & its ratio to GDP
29.9%

Gross Domestic Product
US $206 B
(Rank 53)

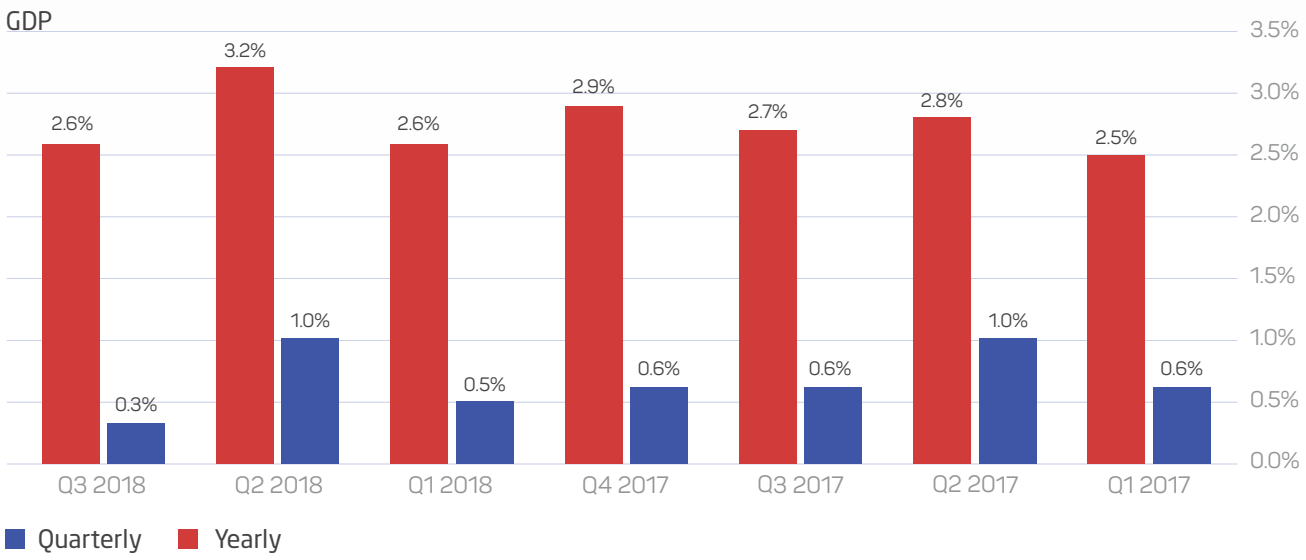
NEW ZEALAND'S ECONOMY IS AT ITS SLOWEST GROWTH PACE IN 5 YEARS

New Zealand economy grew in the third quarter at its slowest pace in five years, mainly due to weak construction activity and food manufacturing, as GDP rose by 0.3% on quarterly basis - the slowest pace since Q4 2013 – compared to growth in the second quarter of the same year by 1%. Also, the annual rate slowed to 2.6% from 3.2%.

New Zealand economy ended 2017 slowed down after three years of growth by more than 3%. The slide in data comes at the time that business confidence declined in the Labor-led coalition under the government of Jacinda Ardern, the prime minister, and trade tensions between the United States and China.

With that data, the downside risks to the New Zealand economy's growth outlook may increase in 2019, and this would be a barrier to the RBNZ and could lose confidence that the economy has the momentum to push inflation towards the midpoint of the target range.

The growth of the New Zealand economy during the first quarter of 2017 to the third quarter of 2018:

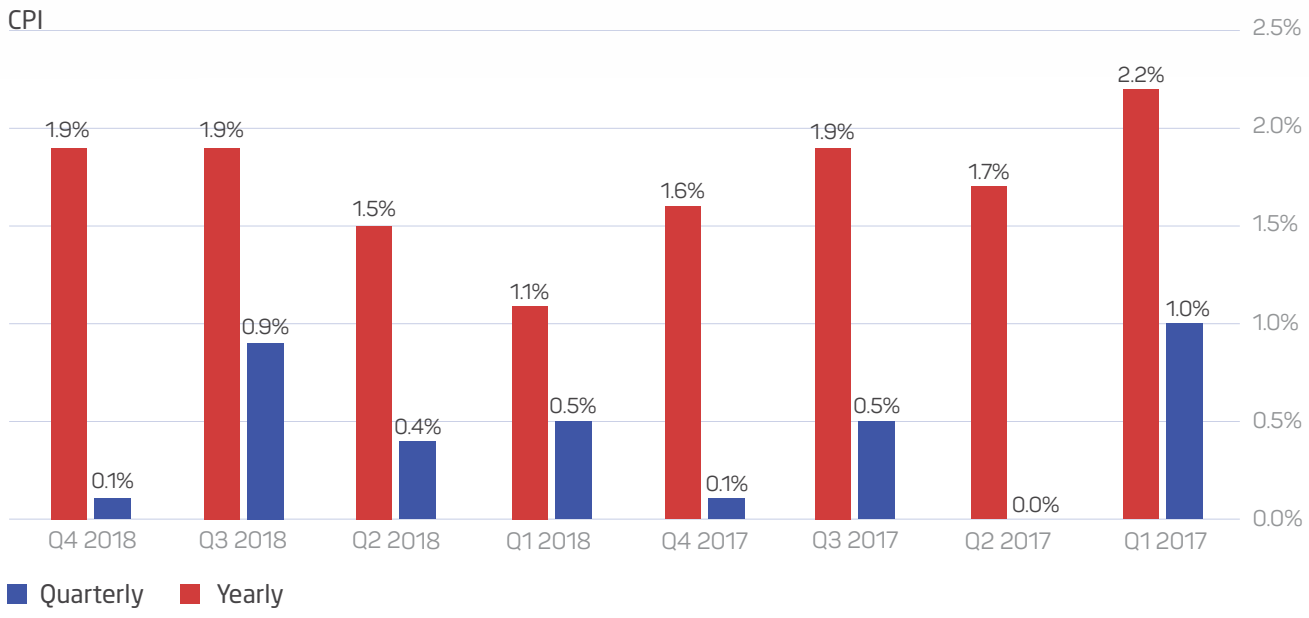


NEW ZEALAND'S ECONOMY IS AT ITS SLOWEST GROWTH PACE IN 5 YEARS

Ardern's government was criticized for her first year in power, with business confidence hit by escalating warnings from growing risks that threats growth. The prime minister raised the minimum wages, curbed immigration and home-building for foreigners, and will introduce the new budget in 2019. Although they were less pessimistic in December, business confidence has fallen since Jacinda Ardran took over as a prime minister.

INFLATION WILL BE A KEY FACTOR IN DETERMINING NEXT RBNZ DECISION

The pace of inflation growth throughout 2018 has helped boost investor optimism and the RBNZ's approach to tracking its peers from other global central banks and starting monetary tightening later in 2019 or at the beginning of next year at the latest.



INFLATION WILL BE A KEY FACTOR IN DETERMINING NEXT RBNZ DECISION

Inflation accelerated over the past year as shown in the chart. 2018 started at 1.1% and continued to rise to stabilize in the third and final quarters at 1.9%, approaching to the middle of bank's targeted range of 2.0% as RBNZ targeting inflation between 1% and 3%. But inflation has slowed in Q4 on quarterly basis to 0.1% on the back of a 1.3% drop in food prices.

The main reason for the accelerated pace of inflation growth is the rise in fuel prices and currency weakness and declining against most of the major currencies, especially against US dollar, despite RBNZ sees that the rise in inflation due to temporary factors and not sustainable in the near term.

The decline in the currency has helped to increase import prices, especially optical and audio equipment, which rose for the first time in two years. Although the bank wants to see inflation heading to the middle of targeted range at 2%, RBNZ wants to make sure that the rising prices are sustained before it hikes interest rates from its historic low of 1.75%.

NEW ZEALAND EXPORTS ON TRACK

New Zealand exports of goods reached $28.6 billion from January to September 2018. The nine months scale puts New Zealand's exports on track to target the government's and the RBNZ's goal of $38.1 billion in exports over the past year. Exports of goods and services account for 27.4% of the country's GDP. Exports to Asian countries account for 53.8%, while 18% go to the surrounding countries, particularly Australia.

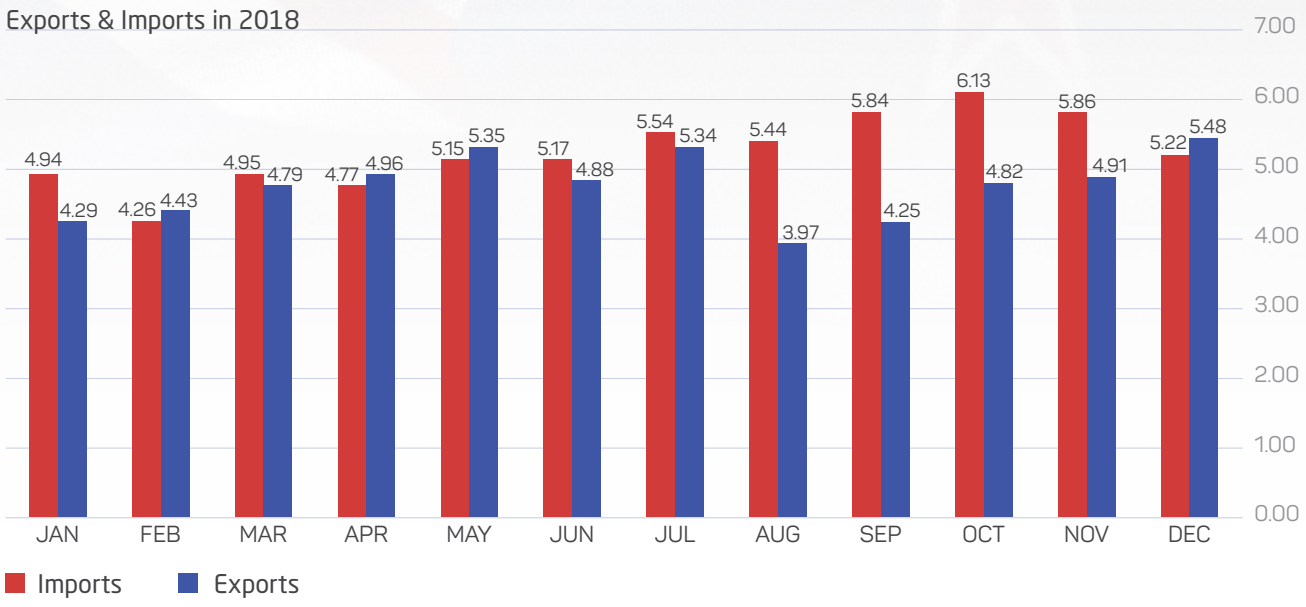
As the world's largest exporter of dairy products, New Zealand benefited greatly from the rise in global dairy prices, leaving market expectations positive for the pace of GDP growth in 2019 as prices continue to rise.

NEW ZEALAND EXPORTS ON TRACK

Dairy sector improved by 3.1% in 2017 and 2018, while aluminum exports rose by $59 million. Overall, exports in November rose by 7.1% on yearly basis, but imports remain at high levels despite recent declines in car and aircraft imports.

The trade balance continued to fluctuate between the surplus and the deficit until the deficit reached $5.4 billion between the end of November 2017 and November 2018. Exports reached $57.5 billion and imports $63.0 billion.

The volume of exports & imports of New Zealand in 2018 in Billions:



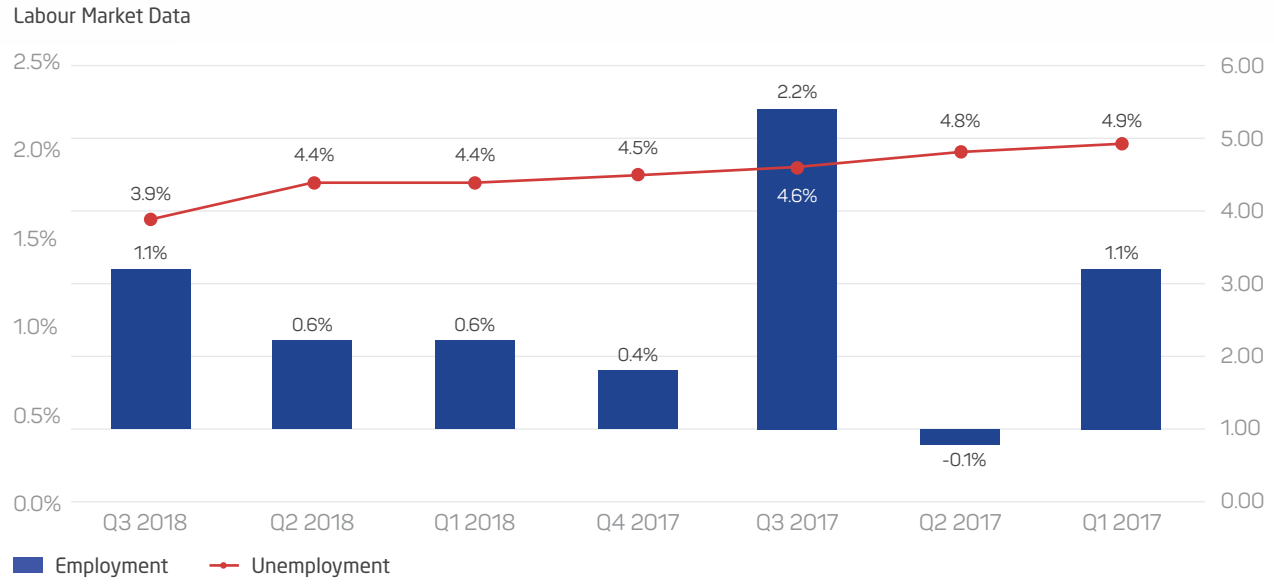
A FLOURISHING LABOR MARKET PUSHES UNEMPLOYMENT TO ITS LOWEST LEVEL IN 10 YEARS

The positive side in the labor market data during the last period is the unemployment rate, which continued to decline; stabilizing near its lowest level in 10 years, specifically before the global financial crisis at 3.9%, down by 0.8% throughout 2018. Even the number of unemployed people fell in the third quarter - compared to the second quarter - by 13 thousand people.

This comes at a time when the rates of participation in the sector reaching the highest level in 30 years at 71.1%. The increase in the number of immigrants has contributed to participation rates and the increase in employment in general; also the policies adopted by the Government to increase the minimum wage have contributed to the overall improvement of the sector as a whole.

As for the employment data, the employment level increased during the third quarter of 2018 by 1.1% compared to the growth rate in the second quarter of the same year by 0.6%. Despite job growth in the New Zealand economy, wage figures are still weak, with wages up by 0.5% in the third quarter and slowed to 1.9% on yearly basis from 2.1% in the second quarter.

The growth rate of employment data and unemployment during 2017 and 2018:



RBNZ WILL WAIT BEFORE ANY DECISION

RBNZ would probably prefer to keep interest rates unchanged at 1.75% for a longer period of time, as it could keep the current monetary policy until the end of 2019, and could start with monetary tightening by the beginning of 2020 at the latest with no strong signs of increased price pressures.

Therefore, the bank will need to make sure that the pace of inflation growth is sustained before it begins to follow other central banks and gradually raise the interest rate, the option to lower rates may be on the table if the global environment deteriorates further in 2019 and growth or inflation indicators shift to lower levels. RBNZ has maintained current rates since November 2016 meeting.

THE TUMBLE OF THE CHINESE GIANT MAY CRUSH THE KIWI ECONOMY

New Zealand's economy has been growing steadily since its last technical recession back in Q3 and Q4 of 2010. The Reserve Bank of New Zealand kept interest rates at a historic low of 1.75% since November 2016. Low interest rates have helped keep the economy steady for most of 2018. However, the economy failed to keep the momentum in the 3rd quarter of 2018 and the GDP dropped to a five-year growth low of 0.3%.

Exports account for 27.4% of the Kiwi GDP, which places New Zealand's economy at risk in view of the global slowdown expected in 2019 and 2020. This, in turn, will hinder the RBNZ from raising interest rates, especially that inflation levels are still below the bank's preferred levels of 2.0% and 3.0%.

THE TUMBLE OF THE CHINESE GIANT MAY CRUSH THE KIWI ECONOMY

New Zealand's economy usually weakens in step with any decline in the growth of any major G20 country. China, however, has the biggest impact on the economy of New Zealand. After the slowdown in the Chinese economy, in quarters 2 and 3 of 2010, the economy of NZ fell into recession in Q3 of the same year. During the crisis of 2008, the NZ economy slipped into recession after the Chinese growth levels dropped for two quarters in a row.

The growth of the Chinese economy dropped in the 4th quarter of 2018 to 6.4%, and this is the worst level since 2008. Throughout 2018, the Chinese economy grew by 6.6%; its worst level since 1990. New Zealand's economy is bracing for a tough year ahead, based on the performance of the Chinese economy. Most of the major economies in the world are in a visible slowdown which will impact economic growth globally and will surely reflect on the Kiwi growth levels.

A record deficit in trade balance was observed in New Zealand this year, especially in September of 2018 when the trade balance marked a NZD1560 million deficit. In total, 6 months of trade balance deficit during 2018.

Imports, on the other hand, started to fall since October 2018, while exports started to rise from August 2018 onward; but will this hold up in 2019? Forecasts predict significant slowdown in Asian economies, including China, and that will pressure the exports of New Zealand which helped improve the GDP last year.

Exports may have saved the day in 2018 but, with the gloomy outlook for the global economy, New Zealand's exports may need saving themselves. The IMF lowered its global growth outlook from 3.7% to 3.5% for 2019 and cited the trade war and its adverse impact on economic growth. The World Bank said global growth may drop to 2.9% in 2019 as a result of trade tensions.

Business trust in New Zealand remained in the pessimist zone throughout 2018, and manufacturing sales shrank in the 3rd quarter of 2018. In the 4th quarter, retail sales stopped growing for the first time since 2015. These could be indications of a weakening Kiwi economy, proving that the Chinese economy will not go down alone next year.

JAPANESE ECONOMY

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

09

JAPANESE ECONOMY
FACTS ABOUT JAPAN

Capital
Tokyo

Country Area
377,973 KM²
(Rank 62)

Population
126,440M
(Rank 11)

Currency
Japanese Yen

Head of State
Emperor Akihito
since 1989 without political authority

Prime Minister
Shinzo Abe
Prime Minister

System of Government
Unitary Parliamentary Constitutional Monarchy

Governor of the Central Bank
Haruhiko Kuroda his term expires in April 2023

Main Imports
Mineral Fuels Including Oil, Clothing, Pharmaceuticals.

Main Exports
Automotive, Auto Parts, Iron & Steel Products, Refined Petroleum.

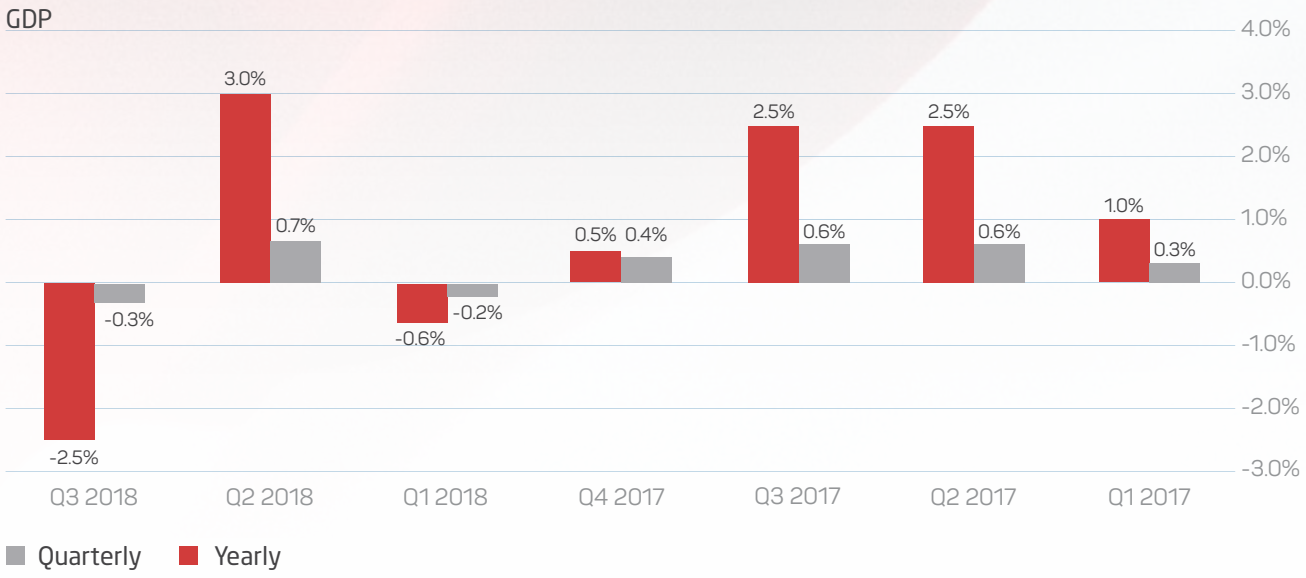
GDP

Debt & its ratio to GDP
198.6%

Gross Domestic Product
US $ 5.071 T
(Rank 3)

MANY OBSTACLES STAND IN THE WAY OF JAPAN'S ECONOMIC RECOVERY

Throughout the past period, Japan has struggled to free itself from the restrictions of shrinkage that have been on the horizon since the 2008 global financial crisis. But the pace of economic growth has been fluctuating so that the Bank of Japan is forced to maintain its current policy unchanged for a longer period of time. The economy witnessed significant growth after that period, but it slowed down noticeably by the end of 2017.



The economy began to slow in 2018 and after recording strong growth during the second quarter of the year, deflationary pressures dominated the economy in the third quarter. GDP fell to its lowest level in more than four years by 2.5%, specifically since the second quarter of 2014, when the economy shrank by 7.3% due to a sales tax hike at this time.

Capital spending was negatively affected by the recent series of natural disasters, as it fell by 2.8%, the biggest decline since the third quarter of 2009. Moreover, private consumption, which accounts for 60% of GDP, fell by 0.1%.

The decline in Japanese exports also played a role in the contraction of the economy, which is worrying as protectionist policies have already begun to affect

MANY OBSTACLES STAND IN THE WAY OF JAPAN'S ECONOMIC RECOVERY

external demand. The biggest reason for deflation was the decline in domestic demand, as strong hurricanes and the Hokkaido earthquake caused factories to shut down and consumption to stop.

The decline in consumption will be temporary, but the biggest concern comes from a 1.8 percent decline in exports on a quarterly basis in the third quarter of 2018, the fastest decline pace in more than three years, with external demand down by 0.1 percent of GDP.

The weakness of the Japanese economy hasn't had only negative repercussions domestically, especially as the export sector was negatively affected by the recent protectionist policies and the ongoing US-China trade conflict, which will be the biggest concern for Japan. The sales tax due for October will be another source of concern with the downside risks it could cause for the Japanese economy, but the economy is likely to resume growth during the last quarter of 2018.

INFLATION IMPROVING BUT STILL FAR FROM BOJ'S TARGET

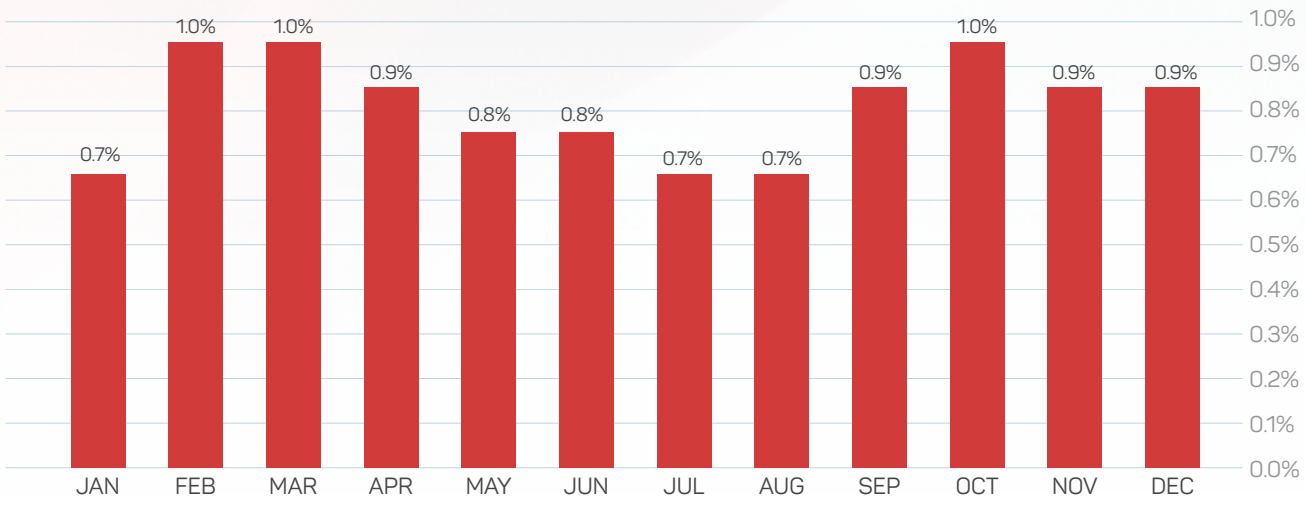
At the time the inflationary growth began to ease investors' fears with continued recovery at a moderate pace towards the Bank of Japan's target of 2 percent, the Dec. data dampened hopes for an economic recovery in the coming period and caused the bank's challenges to grow after five years of intense stimulus, forcing it to maintain its expansionary monetary policy for a longer period of time – falling behind other major economies.

INFLATION IMPROVING BUT STILL FAR FROM BOJ'S TARGET

The national CPI, the main gauge of inflation slowed for the first time since April to 0.7 percent in December. After oil prices were the main backers of inflation in most of 2018, low oil prices now limit any price support, which pushed Bank of Japan to lower inflation expectations.

The rate of growth of inflation throughout 2018, which shows inflation growing at the highest pace in March, October and November by 1.0%, while inflation stabilized at the lowest levels in May, June and December by 0.7%:

National CPI



Inflation was negatively affected by the decline in oil prices in the first place, and even excluding the impact of this decline, there was a weakness that dominated the pace of inflation growth, as it rose by 0.9% in all 2018.

THE POLITICAL SITUATION INCREASES CHALLENGES

Despite persistent attempts by Japanese policymakers to weaken the value of the yen in an effort to boost the export sector, continuing global tensions and the outbreak of a trade war between the two largest countries stand in the way of growth in exports and investments as well as consumer sentiment.

The Upper house elections scheduled for next summer will dominate the thinking of Japan's Prime Minister Shinzo Abe, where the outcome of this election is expected to affect his chances of achieving his ambition to amend the constitution, and many things he wants to solve with less than 3 years remaining in his term. These elections will be his biggest battle of 2019 for Abe, the third longest-serving prime minister in the post-war period.

MARKETS BRACE FOR A SALES TAX HIKE

Perhaps the most serious risk to the Japanese economy this year is the markets factoring in to the expected tax hike in October from 8% to 10%. If that happened, it is expected to affect private consumption to decline by 0.2% over the long term. But the finance minister tried to calm market fears by pledging that high taxes would not hurt the economy because of a drop in household spending. These comments were echoed by BoJ Governor Kuroda, who expects the tax hike to have a limited macroeconomic impact.

However, pressures on household spending are likely to continue as the average wage of the worker is hardly rising. As a result, many institutions expect GDP growth to slow by less than 1% in 2019. The government intends to resort to a stimulus package of 2 trillion Yen to support domestic demand, as it seeks to implement measures to increase tax cuts on new homes and cars.

MARKETS BRACE FOR A SALES TAX HIKE

It seems that the government will try hard to mitigate the negative effects of tax increases through these measures, which contributed to expectations that the impact on the Japanese economy will be reduced. The same happened when consumption tax was raised in 2014, putting the Bank of Japan in a bind and pushing it to resort to stimulus measures that have continued to this day.

BANK OF JAPAN CUTS ITS INFLATION EXPECTATIONS AGAIN

The Bank of Japan faced the weakness of the economy in the past period, and was forced to lower its growth and inflation expectations throughout its meetings last year. The Bank kept its monetary policy unchanged, including the continuation of the government bond purchase program of 80 trillion yen and maintain yields around zero levels. Interest rates were kept at a historic low of -0.10%.

In its January meeting, the BoJ lowered its forecasts for CPI growth in 2018 from 0.9% to 0.8% and in 2019 from 1.6% to 1.1%, and in 2020 from 1.6% to 1.5%. Kuroda, BoJ governor, announced that this decision is due to oil prices declines which maybe tentative before inflation starts to rise again. The central bank raised GDP forecasts for 2019 and 2020 from 0.8% to 0.9% and 1.0% respectively. At the end, the bank said it was optimistic that the CPI will grow towards the 2% target, but it could take longer than expected.

The Bank of Japan's outlook for GDP and inflation in the coming period:

BANK OF JAPAN CUTS ITS INFLATION EXPECTATIONS AGAIN

Y/Y % CHG.

	REAL GDP	CPI (ALL ITEMS LESS FRESH FOOD)	(Reference) Excluding the effects of the consumption tax hike and policies concerning the provision of free education
Fiscal 2018	+0.9 to +1.0 [+0.9]	+0.8 to +0.9 [+0.8]	
Forecasts made in October 2018	+1.3 to +1.5 [+1.4]	+0.9 to +1.0 [+0.9]	
Fiscal 2019	+0.7 to +1.0 [+0.9]	+1.0 to +1.3 [+1.1]	+0.8 to +1.1 [+0.9]
Forecasts made in October 2018	+0.8 to +0.9 [+0.8]	+1.5 to +1.7 [+1.6]	+1.3 to +1.5 [+1.4]
Fiscal 2020	+0.7 to +1.0 [+1.0]	+1.3 to +1.5 [+1.5]	+1.2 to +1.4 [+1.4]
Forecasts made in October 2018	+0.6 to +0.9 [+0.8]	+1.5 to +1.7 [+1.6]	+1.4 to +1.6 [+1.5]

THE CENTRAL BANK OF JAPAN IS IN UNENVIABLE POSITION AGAINST THE COMING RECESSION

Over the past 10 years, the Japanese economy has slipped into recession three times, GDP growth contracted a lot, and Japan experienced natural disasters such as earthquakes and floods. Japan has also undergone political changes that have caused economic weakness and economic challenges that kept the Bank of Japan in a difficult position forcing it to continue stimulating the economy.

As we move forward into 2019, we will be faced again with political and economic tensions that may have pressure on the Japanese economy, most notably the

THE CENTRAL BANK OF JAPAN IS IN UNENVIABLE POSITION AGAINST THE COMING RECESSION

possibility of raising the tax from 8% to 10%. The last time the Japanese economy tested tax increase, growth fell clearly, showing the economy's sensitivity toward raising taxes.

The last tax hike was in 2014 and caused visible contraction to the economy. Back then, the central bank was forced to adopt unusual policies that remain in effect today. As risks close in, what stimulus measures would the central bank be able to produce?

As the world braces for a turbulent 2019; with changes to global trade and real possibilities of a sharp slowdown in China and Asia, Japan will experience challenges equal to those of the 2008-2009 crisis.

The Senate elections expected next summer are also a factor that will impact the constitution and in turn the economy.

The problems of the Japanese economy are not limited to growth. The contraction in inflation is also a present risk as the government and central bank fail to bring inflation to the level of 2.0%. A combination of contraction in economy and inflation are clear indicators of a long-term recession.

On the other hand, a strong Yen exerts a lot of pressure on an export-dependent economy. A strong JPY may also put pressure on inflation and growth as well, putting the Japanese economy in a "Deflation" mode.

Negative interest rates, set by the bank of Japan at -0.1%, may not be enough to salvage the economy this year, and unusual policies may be required to stop the free fall triggered by the global trade war. Will the central bank's stimulus measures be enough? Maybe not. The government should try to improve conditions for both investment and consumption. Instead, the government is trying to curb both by raising taxes. Some may see this as good for inflation, but in the long run it will have an adverse effect even if it raises inflation for a little while.

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Losses May Exceed Deposits.

GOLD PRICES

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

10

GOLD MANAGED TO PARE ITS LOSSES BY THE END OF 2018

Global gold prices fell around 2% throughout 2018, despite expectations that were mostly in favor of gold rising on the back of geopolitical risks and strained relations between the United States and many countries around the world, such as North Korea and China. However, improvement in the performance of the US economy and the Federal Reserve's continued monetary tightening - raising interest rates four times - contributed to increasing demand for the US dollar and that in turn weighed on metals dominated by the USD, especially gold.

Gold rose at the beginning of 2018 to its highest level since August 2016 at $ 1356.80 an ounce as the dollar hit a three-year low following comments by the US Treasury Secretary Stephen Mnuchin who said that he supported a weaker US dollar.

Gold fell to a year low of $ 1160 an ounce in September as economic data supported the Federal Reserve's continued rate hikes, causing gold to record the longest losing streak since January 1997. Gold returned to record its best performance since January 2017 in December.

WILL GOLD RETURN TO SHINE AGAIN IN 2019?

Investors' overall appetite for risk also improved in 2018 on the back of improved stock market performance and higher bond yields dampening demand for safe havens. Gold remains vulnerable to changes in global trade developments between the United States and China regardless of the developments in the Brexit and where the agreement between the UK and the EU will be.

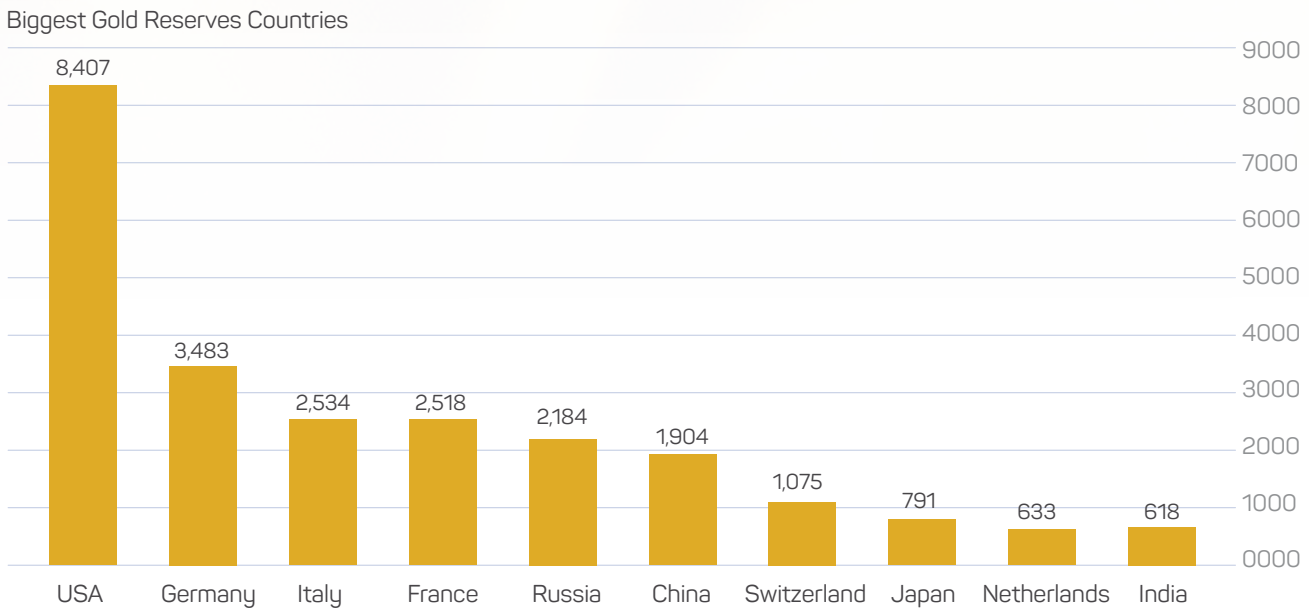
We may see gold rise and return to its brilliance in 2019 due to instability in global financial markets, as well as monetary policy from the Fed and of course the US Dollar. Increased uncertainty and the expansion of protectionist policies could make gold more attractive as a hedging tool in 2019.

WILL GOLD RETURN TO SHINE AGAIN IN 2019?

It should be borne in mind that the thing that may support gold in reducing its losses of 2018 and show recovery in the new year is the start of the US Federal Reserve in the reduction of the continuous rate hikes and the concern about the world's most powerful economy slipping into recession in case of continuing to raise interest rates at that pace.

As structural economic reforms continue in key markets, this will support gold demand. In emerging markets such as India and China, which account for about 70% of the global demand for gold, economic changes are being implemented to boost growth and reach the world.

Countries with the largest reserves of gold in metric tons:



OIL MARKET

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

11

OIL DISAPPOINTS EXPECTATIONS IN 2018 AND SLIDES TO A 1 1/2 YEAR LOW

We mentioned in last year's report that 2018 will be pivotal to crude oil prices, and it was. After all expectations were for prices to go above $ 100 again, prices in the fourth quarter of 2018 fell to a one-and a half year low, with US crude hitting $ 42.36 a barrel, while Brent crude hit $ 49.94.

Oil has hit its worst year since 2015, after a two and a half-year recovery that reached by prices to its highest level in four years, with US crude reaching $ 76.87 and Brent crude at $ 86.71.

The main factor behind the rise in oil during that period was the cut-off production agreement announced by OPEC and its allies for the first time at the end of 2016 and confirmed by the end of 2017 to reach by the levels of reduction to 1.8 million barrels per day.

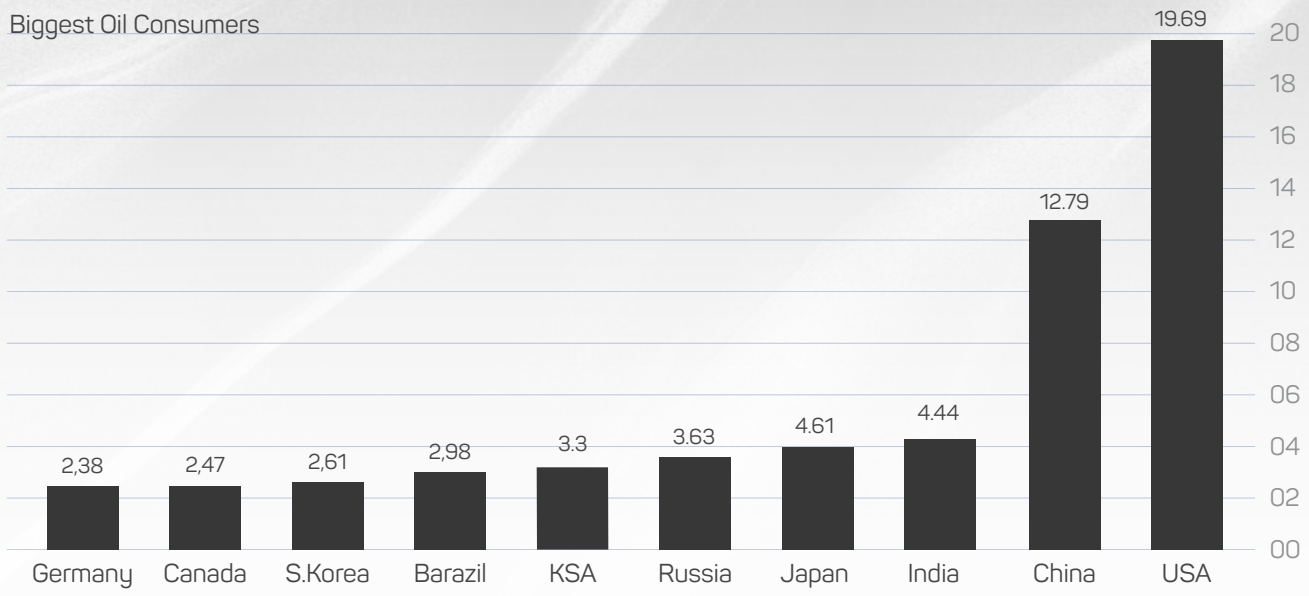
FEARS OF SLOWING WORLD ECONOMY PUSHED OIL DOWN

Oil prices began to decline markedly by the end of October amid signs of a global economic slowdown after some major economies reviewed growth forecasts such as Japan, the world's fourth-largest oil consumer. Meanwhile, the trade dispute between China and the United States threatened global economic growth and has clearly affected investor sentiment.

Although demand for crude oil remains healthy, with China registering more than 10 million barrels of oil imports in November 2018 for the first time.

FEARS OF SLOWING WORLD ECONOMY PUSHED OIL DOWN

Top 10 oil consumers in the world in 2017 according to the US Energy Information Administration, which they account for 60% of world consumption:



US OIL WAS THE BIGGEST WINNER IN 2018

Leading US shale oil producers recorded strong gains in 2018 as oil prices rose to record highs earlier this year. There has been growing speculation that increased shale oil production in the United States will not support oil prices in 2019, especially with the sanctions imposed on Iran and the continued decline in production in Venezuela, which will leave room open for US oil.

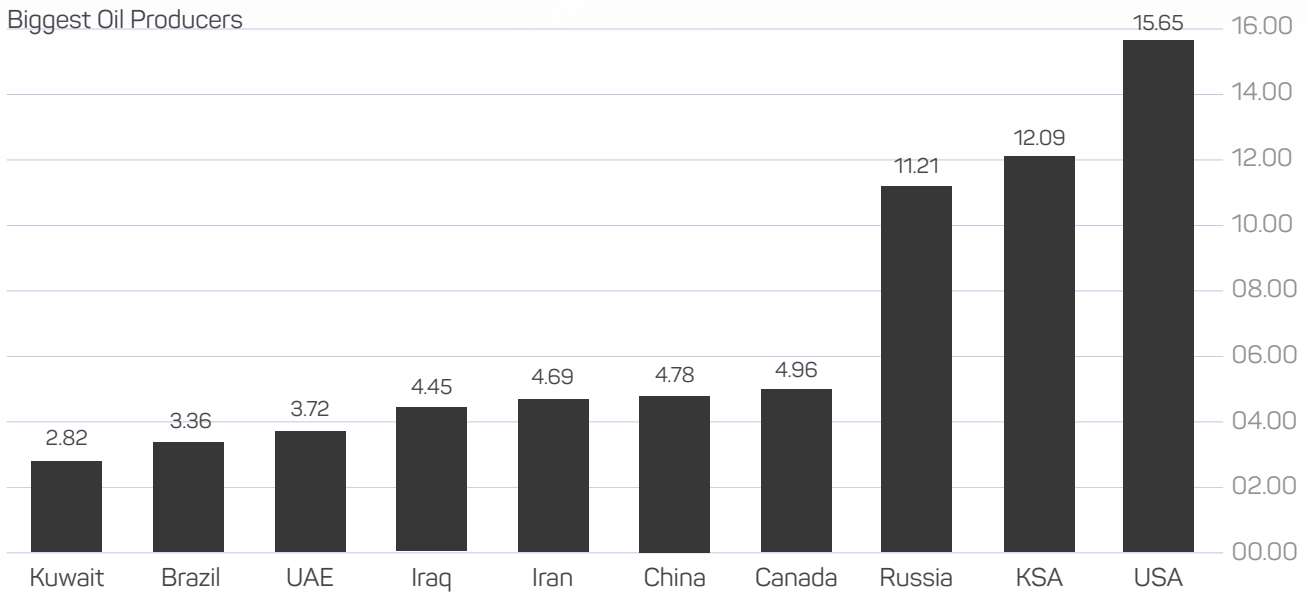
US OIL WAS THE BIGGEST WINNER IN 2018

The increase in US oil production and stockpiles has long been one of the challenges facing the oil markets over the past period. It has threatened efforts and attempts to reduce production led by OPEC with the help of some foreign countries in an effort to reduce the oil supply gap that has hit the markets and caused prices to fall.

The United States topped the list of the largest crude oil producers, surpassing Saudi Arabia and Russia. Domestic production in the United States reached 10 million bpd in 2018 for the first time since the 1970s, thanks to booming shale oil production.

The main reasons why the United States was the world's top oil producer were Saudi Arabia's reduction of production, the United States not being a member of OPEC, and the improved cost of drilling for oil exploration in the Gulf of Mexico.

Top 10 countries in terms of production in 2017 according to the US Energy Information Administration, which accounted for more than 53% of global production:



OPEC ANNOUNCES PRODUCTION CUTS FOR AN ADDITIONAL SIX MONTHS

Oil prices remained highly volatile in 2018, falling by 46% from their value in the past period. Last May, Trump's administration again re-imposed sanctions on Iran, OPEC's third biggest oil producer, raising concerns about the oil supply squeeze in the markets.

In December of 2018, oil-producing countries, including Russia, agreed to cut production levels again in an attempt to control oil supplies despite opposition from US President Donald Trump.

The 15-member OPEC has agreed to cut production by 800,000 barrels a day, while Russia and allied producers will cut production by 400,000 barrels per day and output cut-off levels will reach 1.2 million bpd. This comes at a time when production in Venezuela fell by 40% in two years in addition to Libya, whose production this year dropped to less than half because of the closure of a number of oil ports recently.

Iran, Libya and Venezuela were exempt from the deal, while Nigeria, which was exempted in the previous round of cuts from January 2017, agreed to participate in the current round of cuts.

CRYPTO-CURRENCIES

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

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CRYPTOCURRENCIES

The year 2018 was bad for crypto currencies, especially the Bitcoin, which lost nearly 80% of its value since its December 2017 peak when prices reached 20,000 levels and then started falling gradually to begin at $17,000 in 2018. Sales of the crypto currency continued throughout the year, reaching currently around $3500. On the other hand, the Ethereum fell from $1420 to $114, losing more than 90% of its value.

It should be noted that there are many reasons that led to Bitcoin losing its appeal during the year; most notable were regulatory issues and pressure by central banks. But for the first time, investors are facing substantial taxes on capital gains in 2017, which has led to an increase in currency selling before taxes are due in April. In 2014, the American Internal Revenue Service announced that crypto currencies were considered taxable public property, not currency.

The currency saw enough recovery in the last days of the year to make some people expect 2019 might be the year of recovery for crypto currencies; Bitcoin may trade between 5000 to 8000 dollars during the first half of the year. But the currency may not see strong gains as it did at the end of 2017.

While Bitcoin has become a popular alternative to some paper currencies in some countries, such as Venezuela and Zimbabwe, many developed countries have imposed regulatory restrictions to curb currency trading such as the United States, South Korea, and Japan. These countries are trying to integrate Bitcoin and other digital currencies into their financial systems by creating regulated markets that can operate freely and safely, which may eventually limit the sharp rise of currencies as has been the case previously.

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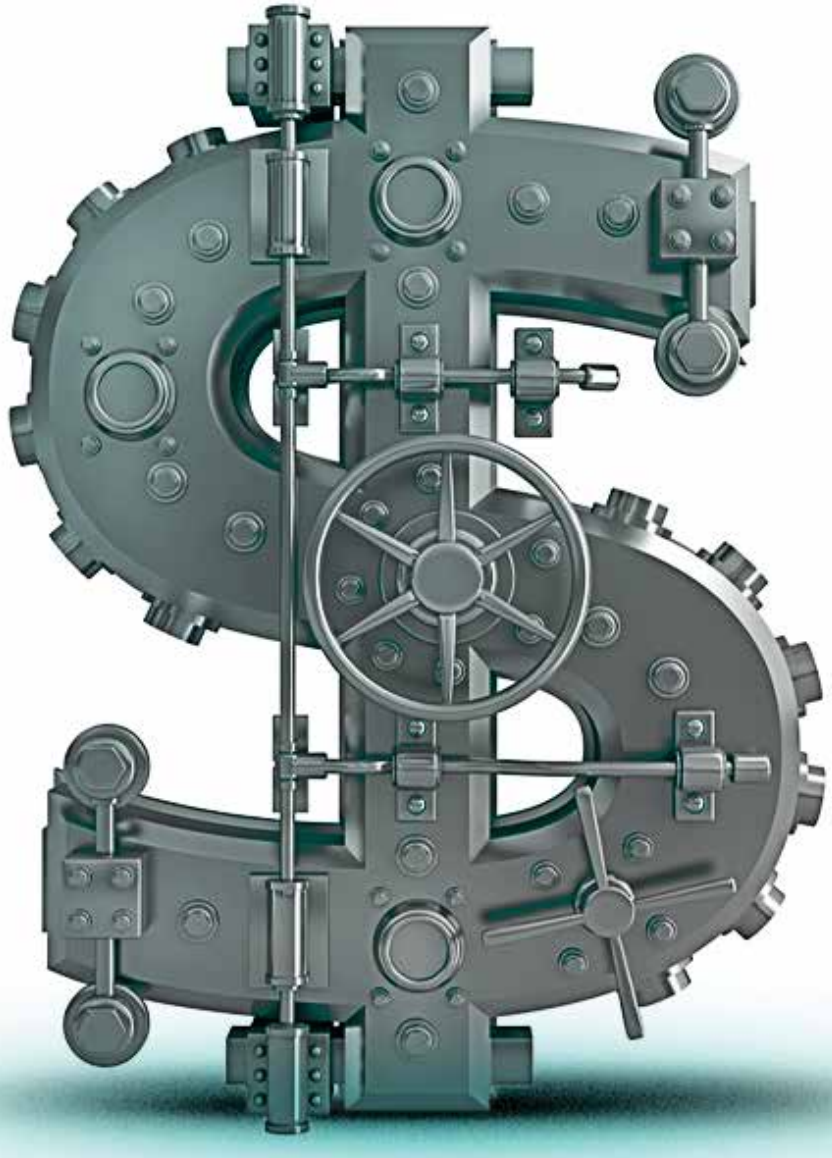

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TECHNICAL ANALYSIS

THE GLOBAL ECONOMY IN 2019
OPPORTUNITIES AND ADVERSITIES

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EURUSD

The year 2018 was negative for the EURUSD after falling from a 4-year high of 1.2555 to a low of 1.1215.

The pair is currently testing an important support area at 1.1285 / 1.1330 levels. The SMA 50 is approaching to cross down the SMA 100. Declining will be confirmed with breaking the support level at 1.1285, targeting 1.1114 and then 1.0838.

On the other hand, stabilizing higher than the support line at 1.1285 would push prices higher, especially with a positive divergence on the MACD indicator, and will be confirmed with breaching 1.1520 and stabilizing above it targeting the 1.18 / 1.20.

Product	Rise Signal	Decline Signal	Summary
EURUSD	Stabilize above 1.1520	Breaking support level at 1.1285	The upside target is 1.1805/1.2098 The downside target is 1.1114/1.0838

GBPUSD

Sterling fell in 2018 from its highest level since the June 2016 referendum on Britain's EU membership at 1.4376, hitting a 20-month low of 1.2406.

The pair rose at the end of 2018 from its lowest levels after stabilizing above the support level 1.2583 and with a positive divergence on the MACD. The pair failed to exceed the levels of SMA 50 and 100 and is currently trading below the resistance level at 1.3295, and with exceeding this level prices may target 1.3838 levels and 1.3957 and then to reach the highest level since June 2016.

The 1.3838 levels may represent a potential reversal point if the pair rises from the current levels, as that will be the point D of a possible bearish Cypher pattern. Failure to exceed 1.33 levels will push prices back down to 1.25/21 levels.

Product	Rise Signal	Decline Signal	Summary
GBPUSD	Stabilize above 1.33	Breaking support level at 1.2583	The upside target is 1.3838/1.3957/1.4356 The downside target is 1.2115/1.1911

USDJPY

USDJPY was able to rebound after retesting a broken downtrend line, at the same time retreating from an uptrend line near 107.60 levels.

The pair is expected to target 111.47 / 114.41, and with stabilizing above these levels the uptrend will be confirmed, so prices could head towards 118/125 levels.

Failure to break above 114 levels and stability in the range of the descending channel may push the pair to test the 107 levels once again and with trading beyond that level we might see USDJPY reaching 104 and then 100 levels.

Product	Rise Signal	Decline Signal	Summary
USDJPY	Stabilize above 114.40	Breaking support level at 104.50	The upside target is 118.65/125.70 The downside target is 100/96.55

USDCHF

The pair has moved in a bullish trend since 2011 and is currently testing a strong resistance area between 1.0037 / 1.0342 within a symmetrical triangle.

The pair is expected to target 1.0342, and breaking above that level would confirm the upside to move towards 1.0905 / 1.1280.

Failure to break above the 1.0342 levels and stability below the psychological barrier 1.000 may push prices to test the uptrend line once again and with its break we might see the USDCHF reaching levels of 0.9200 and then the 0.8690 level.

Product	Rise Signal	Decline Signal	Summary
USDCHF	Stabilize above 1.0342	Breaking uptrend line & stabilizing below 0.9560	The upside target is 1.0905/1.1280/1.17 The downside target is 0.9200/0.8690

USDCAD

USDCAD is currently moving in an ascending channel since late July 2017 and rebounded recently after touching the 50 SMA and stabilizing above the 61.8% Fibonacci retracement level.

With stability above the uptrend line in the channel and stability above the 1.33 level, the pair is expected to target 1.3665 and 1.3795 respectively.

Breaking the uptrend line and stability below the bottom 1.3058, prices would be targeting 1.2785 and 1.2555 respectively.

Product	Rise Signal	Decline Signal	Summary
USDCAD	Stabilize above 1.33	Breaking uptrend line & stabilizing below 1.3058	The upside target is 1.3665/1.3795 The downside target is 1.2785/1.2555

AUDUSD

The price has recently rebounded from a reversal point of a bullish Butterfly pattern from 0.6830 / 0.6910 levels and it is expected to target the bottom at 0.7489 and then 0.76.

With stability above 0.76 levels, the pair is expected to target 0.8136 / 0.8650 levels, and the broken uptrend line of the ascending channel may represent a price resistance line.

A break below 0.7021 might push Aussie to re-test 0.6830 / 0.6910 levels, and breaking those levels will push the pair much lower to visit 0.6280 levels.

Product	Rise Signal	Decline Signal	Summary
AUDUSD	Stabilize above 0.76t	Stabilize below 0.6910/0.6830t	The upside target is 0.8136/0.8650 The downside target is 0.6500/0.6280

NZDUSD

The pair is currently trading below a resistance level at 0.6900 after rebounding from the support at 0.6420.

Exceeding the current resistance level would push prices to test 0.7128 at a strong resistance zone, which represents crosses of a broken uptrend line and a downtrend line; with the breach of this area we might see a strong rising for the pair to reach 0.7400 levels.

Stabilizing below the resistance at 0.6900 might push the pair to re-test 0.6421 and 0.6237 respectively.

Product	Rise Signal	Decline Signal	Summary
NZDUSD	Stabilize above 0.7000	Stabilize below 0.6900	The upside target is 0.7128/0.7400/0.7716 The downside target is 0.6421/0.6237

GOLD

Gold prices are close to retest the broken uptrend line, after stabilizing above SMA 50 & 100 moving averages, and it seems that the next station for the yellow metal likely to be at $ 1367.

Exceeding the strong resistance level at 1367 will open the door to gold prices to reach the levels of 1400/1500. Failure to exceed that level and stability below it could push prices back down to the 1240 level again.

The most negative scenario is that prices to stabilize below $ 1200 levels.

Product	Rise Signal	Decline Signal	Summary
GOLD	Stabilize above 1367	Stabilize below 1367, after retesting the broken uptrend line	The upside target is 1432.80/1530.65 The downside target is 1240/1200

SILVER

Silver prices are moving inside a falling wedge, which is a reversal pattern since it came after a downtrend. It has now surpassed the 50 SMA and stands in front of the important resistance level 16.15, the downtrend line and the 100 SMA.

The upside move would be confirmed after breaking the falling wedge and stabilizing above the moving averages and resistance level at 16.15 and it would target levels of 17 and 18 $ then it would reach the target of the pattern at $20.55. The other scenario will be the failure of prices to exceed the current resistance levels, so we may see silver prices pulled back to levels of $ 13.90 and maybe reach levels of $ 12.

Product	Rise Signal	Decline Signal	Summary
SILVER	Stabilize above 16.15	Failure to breach 16.15 and stabilizing below it	The upside target is 17.37/18.67/20.55 The downside target is 13.89/12.34

US OIL

After hitting the target of the inverted head and shoulders pattern that we referred to it in the 2017 report and recording its highest level in four years, oil prices fell sharply to their lowest level since mid-2017.

The 61.68 resistance level will determine the direction of oil prices in the first months of 2018, with stability below it, we may see prices re-test the strong support level at 41.96, or if the $ 61 levels are breaching we could see prices reach $ 75 levels and maybe even further.

The most negative scenario is to break of the $ 41.96 support level; here we may see prices once again reach the $ 27 levels which were reached in 2015.

Product	Rise Signal	Decline Signal	Summary
US OIL	Stabilize above 61.70	Failure to breach 61.70 and breaking support at 41.96	The upside target is 75.20/80 The downside target is 27.60

DOW JONES

Dow Jones rose in 2018 to an all-time high of 26955, and the current bullish wave is expected to end, and we may see prices correcting to 24,122 and then 23,630 levels, and breaking these levels may push prices to a 2018 low at 21,464.

If the index managed to move above 26,083 / 26,286 we expect prices to continue climbing to 26,000 then 26,900 levels, and we may see new highs in 2019.

Product	Rise Signal	Decline Signal	Summary
DOW JONES	Stabilize above 25,420	Stabilizing below the downtrend line and 24,879	The upside target is 26,083/26,286/26,955 The downside target is 24,122/23,628/21,464

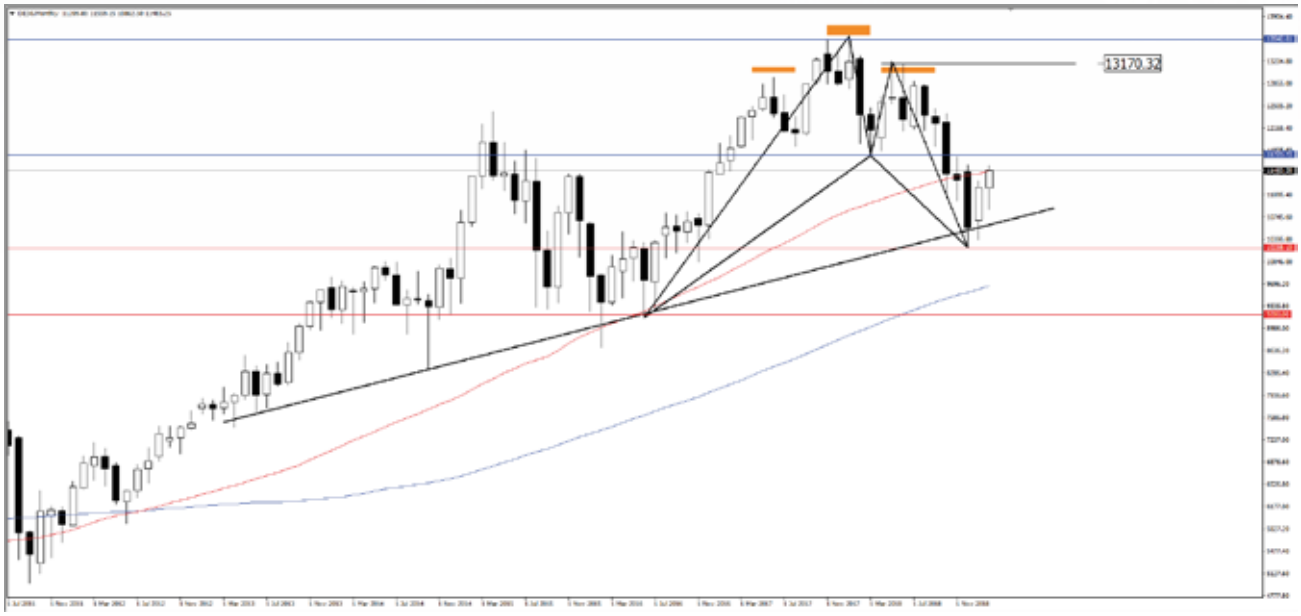
DAX

The DAX at the beginning of 2018 dropped from the all-time high at 13,540 levels after the completion of the head and shoulders pattern, but prices reached at the end of the year to a reversal point, which is the D point of a Bat pattern at 10,947.

Stability above the uptrend line with prices move as expected due to the harmonic pattern will lead prices back to visit the 11,700 levels and then back again to 13,000 levels.

A negative scenario would be presented in breaking the uptrend line and breaking the low of 10,258 to target the 9,200 levels.

Product	Rise Signal	Decline Signal	Summary
DAX	Stabilize above 10,950 and the uptrend line	Breaking the uptrend line and the low of 10,258	The upside target is 11,723/13,170/13,000 The downside target is 9,200



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