



מודפס גם בעברית

Issue No. 99
July 2011

What's in "Investor's Review"

- Israeli Macro Economic Review
- World Macro Economic Review
- "Youth Leading Change"

Select Indices

	Rate	Return in % May	Return in % 2011
TA 100	1,145	-3.37	-6.72
TA 25	1,256	-3.39	-5.54
DOW JONES	12,583	-1.24	8.68
NASDAQ	2,816	-2.18	6.15
NIKKEI 225	9,965	1.26	-3.53

04.07.2011

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INVESTOR'S REVIEW

ESPECIALLY FOR LEUMI UK PRIVATE BANKING CLIENTS

Israeli Macro Economic Review

By: **Sagit Cohen**, Economics Dept. Finance and Economics Division

The July interest rate of the Bank of Israel will remain unchanged at 3.25%

On June 27 the Bank of Israel (BoI) announced its interest rate for July will remain unchanged. The interest rate decision was evidently influenced also by the slowdown in the pace of recovery of the global economy, which has led to downgrades in the growth forecasts of various economies, as well as to expectations for a slowdown in the pace of interest rate hikes also in other economies. The BoI notes concern is growing regarding the worsening debt risk of Europe and the ramifications of this on the Israeli economy. On this regard the BoI adds that despite the fact that the path was paved for additional assistance to Greece, the risks of the bank debt crisis in Europe have strengthened substantially.

The interest rate decision received support from the decline that occurred in market-derived inflation expectations for the coming year. These expectations are currently at 2.9%, which is within the price stability target range of 1-3%. The BoI noted the fall that occurred in inflation excluding the housing component. The decline in inflation expectations was influenced by, among other things, the continuing fall in commodities prices, which is expected to be reflected soon in the consumer price index (CPI). Regarding housing prices, which continue to rise at a double digit annualized rate (15.3%), the BoI explains that the impacts of the interest rate hikes until now, the steps implemented in the mortgage market, and the steps implemented by the Ministry of Finance on real estate taxation, together with the continued increase in the number of construction starts, are all expected to lead to a slowdown in the rate of increase of housing prices throughout the coming year.

In comparison with other developing economies the pace of interest rate hikes by the BoI since the beginning of 2011 has been relatively fast, but the low level of interest rates in the developed world narrows the maneuvering room for interest rate hikes in Israel. If it were not for the low interest rate levels in the developed economies, then it is expected the interest rate level of the BoI would have increased at a faster pace, to a level more appropriate for the positive state of the Israeli economy.

Looking forward, even after the local inflation environment will return to within the price stability target range, the BoI will continue the process of hiking interest rates, as part of the interest rate normalization process mentioned by the central bank in the past. The continuation of interest rate hikes will be emphasized especially in the event of a delay in the moderation in the rise in housing prices. At the same time, there are widespread assumptions that central banks around the world will continue to raise rates; however, the pace of hikes will apparently be moderate against the backdrop of the slowdown in the real economy.

Accordingly, we are of the opinion this trend will influence the pace of interest rate hikes by the BoI in the coming months. It should be added that the OECD and the International Monetary Fund (IMF) believe the weakness in global economic activity is only temporary; therefore, an improvement in global economic activity over time is expected to affect the pace of hikes in the BoI interest rate, which in the coming year is expected to increase at an average pace of 25bps each quarter.

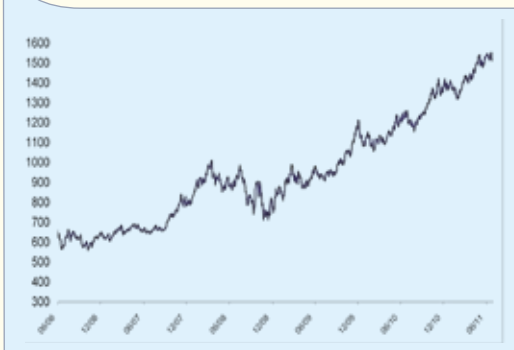
World Macro Economic Review

By: **Liora Caplan**, Capital Market Research Dept, Investment Counseling Division

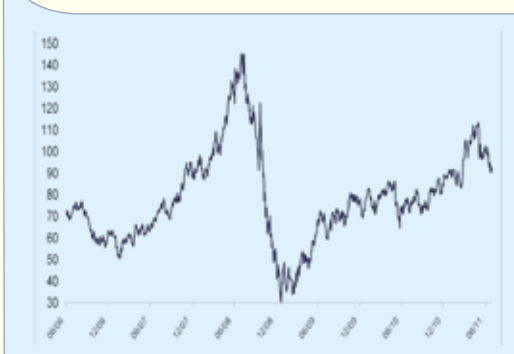
Euro and USD vs. NIS



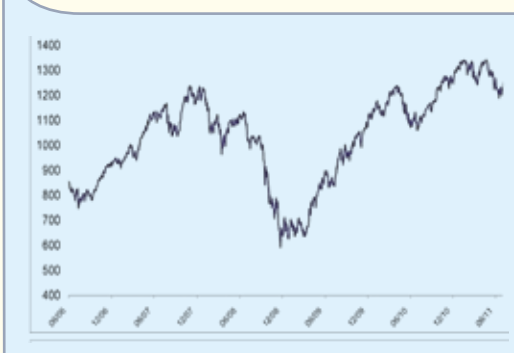
Gold prices (USD)



Oil Prices per barrel (USD)



TA25



June was another month in which financial market sentiment worldwide was largely under the spell of developments in Europe. The month got under way amidst concerns that the IMF would refrain from extending the fifth and final loan payment to Greece in the framework of the bailout package initiated in 2010, which, would have resulted in Greece defaulting on its sovereign debt. The month ended, in contrast, with the go-ahead being given to pay out the loan installment, and the Greek parliament's approval of a plan to implement austerity measures and sale of state assets. European policymakers are currently putting together a new aid plan for Greece, in conjunction with some of the continent's largest banks.

In the U.S., the macroeconomic data last month deepened concerns about a significant slowdown in economic growth—concerns that were reinforced when chairman of the Federal Reserve, Ben Bernanke, expressed disappointment with the pace of U.S. growth, and lowered the Fed's full-year 2011 GDP growth projection from 3.3% to 2.9%. Full-year CPI-measured inflation is expected come in at 1.5% to 1.8%, or about 0.2% higher than the earlier estimate, while unemployment is now seen as ranging from 8.6% to 8.9%—also 0.2% higher than the earlier forecast.

Investors also seemed to believe that the U.S. economy would experience a second-half rebound, absent the first-half drags, which included the natural disaster in Japan, high energy prices, and ravages of the weather. Major stock-market indices recorded gains in June, and in several cases reentered positive territory for the year. Yields rose in the Treasury bond market as investor fears over the U.S. economic outlook were somewhat assuaged. In contrast, yields in Germany's sovereign debt market dipped slightly across the curve, in the wake of even sharper falls when investor angst over issues surrounding Greece was at its height. Globally, corporate bond spreads widened on average compared with sovereign debt maturities.

Key factors likely to impact market trends over the short term include developments revolving around the debt of Portugal, Ireland, Italy, Greece and Spain (the so-called PIIGS), news on the U.S. economy, as well as second quarter corporate financial results and management guidance about full-year prospects. Longer term, the U.S. economy remains on the path of incremental growth, and the U.S. government is slowly pulling back from the financial markets. For the economy to cope with the latter development, the U.S. banking system will need to fill the vacuum and take up its traditional role of fueling economic growth by significantly expanding loan issuance to small- and medium-sized businesses. Two other critical developments to be hoped for are significant improvement in the labor market and real estate sector, which play a key role in American consumers' economic health and their willingness to spend.

In Europe, the EU's economically sound members are expected to experience relatively lackluster growth. However, for the peripheral countries, defaults and the rescheduling of bonds remain high probability events. Bailouts, it's worth recalling, don't truly resolve economic problems, but comprise a short-term fix. The peripheral countries should be working to reduce government spending and increase revenue, while adopting reforms aimed at streamlining their economies. If they fail to adopt such measures or implement them properly, the path to default is liable prove a short one.

“Youth Leading Change”

By: **Inbal Sivan**, Marketing Division

On Friday, July 1st, 2011, The “Youth Leading Change – Aharai (Follow Me)” Association’s closing event took place at Mount Herzl in Jerusalem in the presence of Brigadier General Orna Barbivay. This was the conclusion of another blessed year of activity.

The trainees arrived at the event after a grueling overnight stretcher-bearing march accompanied by Leumi employees. The students were welcomed by Mr. David Brodet, Bank Leumi chairman; Rabbi Yechiel Eckstein, president of the Fellowship Fund; Omer Bar Lev, the association’s chairperson and members of the management committee – Inter alia, Brigadier General (reserve) Yoram Yair, Raya Strauss and Shlomo Tisser, Israeli Parliament member Zevulun Orlev, and more.

Leumi has been accompanying the “Youth Leading Change – Aharai” Association for nine years. The Association was established in 1997 with the aim of nurturing young leaders and developing social involvement amongst the youth from developing towns, absorption centers and boarding schools, who are at the final crossroad of their lives at which their futures can be impacted by education.

The underlying notion of this activity is to instill a sense of success and capability amongst the youths out of belief that each and every one has the ability to conduct a “normal life” as equal citizens in the country, despite their birthplace or environment in which they grew up.

The various projects illustrate to the youths that personal change is possible by taking action for themselves and for the community in which they live. In a society in which an increasing number of citizens do not feel that they belong to the country, the “Follow Me” movement states “We are the country – what we accomplish is what will be.”

The Association operates 170 activity frameworks deployed throughout the country for approx. 4,500 youths.

Students can already join the Aharai movement at the age of 14, as a part of the field and patrol program “Aharai - Patrol”. At the age of 17 they can advance to the “Aharai - IDF” project, which guides them towards significant service in the IDF. Students whom the educational system does not present for matriculation examinations can participate in the “Leumi Aharai – Learning centers”. At the end of the 12th grade, graduates can participate in continuation programs: the “Aharai – Community service” year, the pre-army preparatory course “Gal”, the designated enlistment courses throughout the military service and, afterwards, the “Aharai” graduates receive assistance and escort via the Association’s Graduates’ Organization.

The various educational programs accompany the students from the age of 14 to the age of 25, as they integrate as contributing citizens in the State of Israel.

Awards of appreciation and prizes won by “Youth Leading Change” Association

- In 2009 – The “Knights of Quality Government” award in the field of education and society awarded by the Movement for Quality Government in Israel, in appreciation of the unique contribution to education and society in Israel, by intensifying the involvement of the youth in social activity and nurturing the leaders amongst them.
- In 2010 – The President’s Award for voluntary activity which renders a unique contribution to the state and society in Israel.
- In 2010 – The Minister of Absorption’s Shield, for volunteers who excelled absorbing and integrating new immigrants into Israeli society.
- In 2011 – For his social involvement in the movement, the “Aharai” chairman, Omer Bar Lav, had the privilege of lighting the beacon at a state ceremony at Mount Herzl on Israel’s Independence Day 2011.



Rabbi Yechiel Eckstein, Brigadier General Orna Barbivay , Mr. David Brodet Chairman of Bank Leumi

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