

Weekly Macroeconomic Review

September 8, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.7% in August Minus 0.1% in September
Future cumulative inflation – next 12 CPIs (through July 2010 CPI)		2.6%
Inflation through July 2011 CPI (average annual rate)	2.5%	2.3%
Bank of Israel interest rate, 6 months ahead	1.60% (up 0.85)	1.50%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.37% (up 0.28)	5.37%
Yield on US Treasury 10-Year bond, 6 months ahead	3.65% (up 0.23)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.76 (unchanged)	NIS 3.76 (unchanged)

Israel

State tax revenues totaled ILS 14.5 billion in August. In light of the revenue figures for July and August and the upward revision of the growth forecasts, the tax revenue target for 2010 in the state budget (ILS 183.1 billion) appears to be reasonable, or even slightly conservative.

Given the **Bank of Israel's non-transparent intervention in the foreign-currency market** in August, the monthly report on foreign-currency balances was eye-opening. The BOI reported that during the month of August it bought USD 4.1 billion, and that total foreign-currency balances at the end of August reached USD 56.4 billion. The amount of foreign currency purchased in August was almost double that of the preceding months, despite the transition from daily intervention to occasional intervention. The shekel exchange rate remained almost unchanged overall in August, although volatility during the month was high. The extent of the BOI's intervention in September is unclear, but it seems that massive involvement on the scale of USD 4 billion in a month cannot be sustained for long.

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The minutes of the meeting concerning the BOI's interest-rate decision state that three members of the governing board recommended raising the interest rate by 0.25 percentage points, while one member recommended a 0.5-point hike. This contradicts the prevalent estimates that the BOI deliberated between a 0.25-point increase and no increase.

The number of employee positions of Israeli workers remained almost unchanged in June, and fell by 1 percent in the twelve months ended in June. Average nominal wages for employee positions of Israelis rose by 3 percent in June, following a sharp decrease in May. In the twelve months ended in June, average nominal wages remained almost unchanged, while real wages decreased by 3 percent.

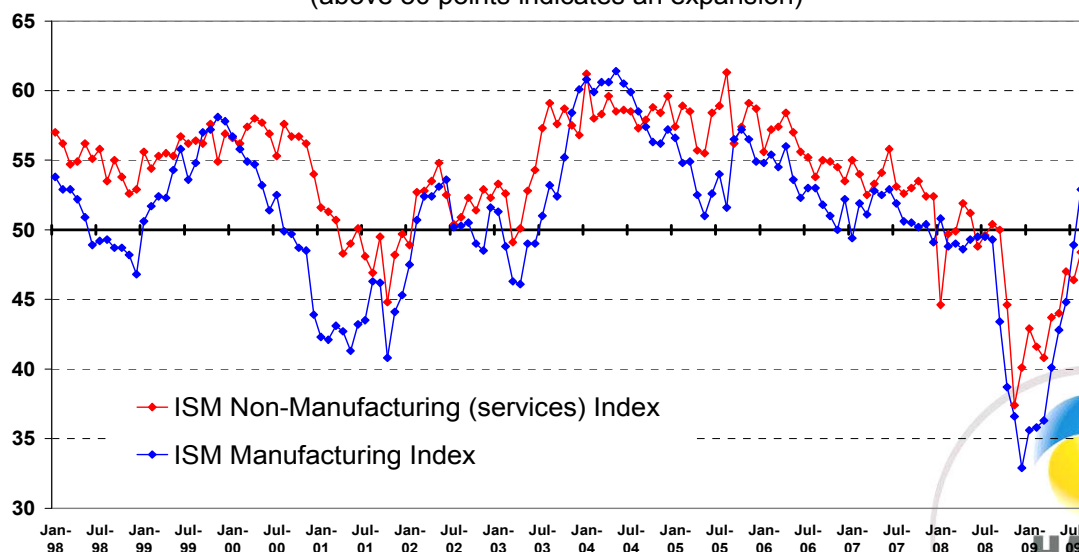
United States

The employment report for August contained no major surprises. The number of employed persons fell by 216,000 (a slightly smaller-than-expected decline), and the unemployment rate rose to a 26-year high of 9.7 percent.

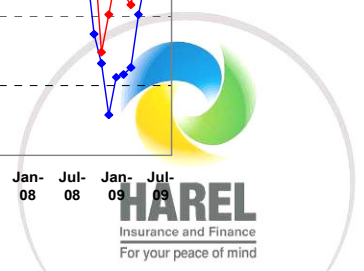
The ISM manufacturing sector index stood at 52.9 points in August, higher than expected. This index was higher than 50 points, indicating expansion of activity, for the first time since June 2008. The ISM service sector index reached 48.4 points compared to 46.4 points in July

The Institute for Supply Management Index

(above 50 points indicates an expansion)



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Euro Zone

The ECB left the interest rate unchanged at 1.0 percent, as expected. ECB President Jean-Claude Trichet said that signs of stabilization in economic activity had multiplied. The sharp correction in economic activity has ended, and the euro-zone economy is now entering a period of stability and moderate recovery.

Unemployment in the euro zone reached 9.5 percent, as expected, in July, compared to 7.5 percent in July 2008.

GDP contracted by 0.1 percent in the second quarter of 2009, or 0.4 percent annualized, similar to the initial estimate.

Important Announcements in the Coming Week

- The interest-rate decision in the UK will be announced on Thursday, September 10.
- Data on Israel's foreign trade will be published on Sunday, September 13.
- Data on the balance of payments for the second quarter of 2009 will be published on Monday, September 14.

This review is posted online at www.harel-finance.co.il/macro in Hebrew
and at www.harel-finance.co.il/macro/ENG in English.

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