

Weekly Macroeconomic Review

February 16, 2010

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		Minus 0.2% in February Minus 0.1% in March
Future cumulative inflation – next 12 CPIs (through January 2011 CPI)		2.1%
Inflation through July 2011 CPI (average annual rate)	2.2%	2.6%
Bank of Israel interest rate, 6 months ahead	1.60% (up 0.35)	1.75%
Fed interest rate, 6 months ahead	0.30% (up 0.05)	0.30%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.14% (up 0.24)	5.14%
Yield on US Treasury 10-Year bond, 6 months ahead	3.95% (up 0.25)	4.25%
Dollar exchange rate, 6 months ahead	NIS 3.75 (unchanged)	NIS 3.75 (unchanged)

Israel

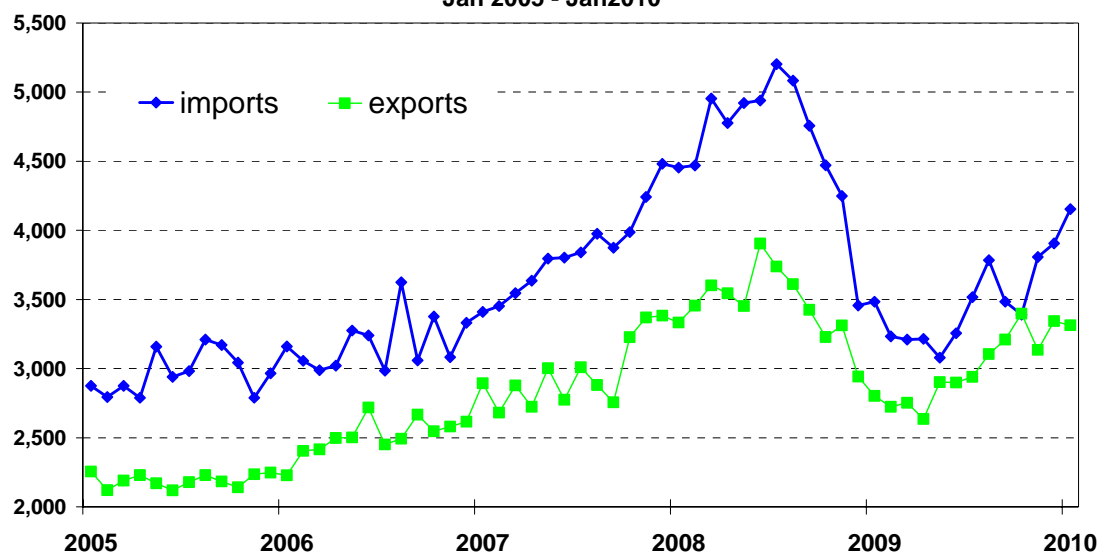
The consumer price index fell steeply, by 0.7 percent, in January; our forecast and the median estimate were at negative 0.3 percent. Inflation in the last twelve months was 3.8 percent.

The lower-than-expected figure mainly stemmed from the fruit and vegetable, home maintenance, and clothing and footwear items, which decreased far more than forecast. The housing item decreased by 0.6 percent, in line with our estimate. This was the second consecutive monthly decline in the housing item, despite the fact that home prices, published with a one-month lag, increased.

Due to the low CPI, the decrease in inflation expectations over the last month, and the disappointing economic data from the US and the euro zone, the **Bank of Israel is not expected to change the interest rate next week.**

Exports of goods (excluding diamonds, ships, and aircraft, in dollar terms) decreased by 1 percent in January and increased by 18 percent in the twelve months ended in January. **Imports of goods** (using the same definition) rose by 6 percent in January, and by 19 percent in the twelve months through January. When imports of energy materials are also excluded, imports of goods increased by 1 percent in January and by 11 percent in the twelve months ended in January.

Exports and Imports of Goods
(US\$ millions per month, excl. diamonds, ships & airplanes)
Jan 2005 - Jan 2010

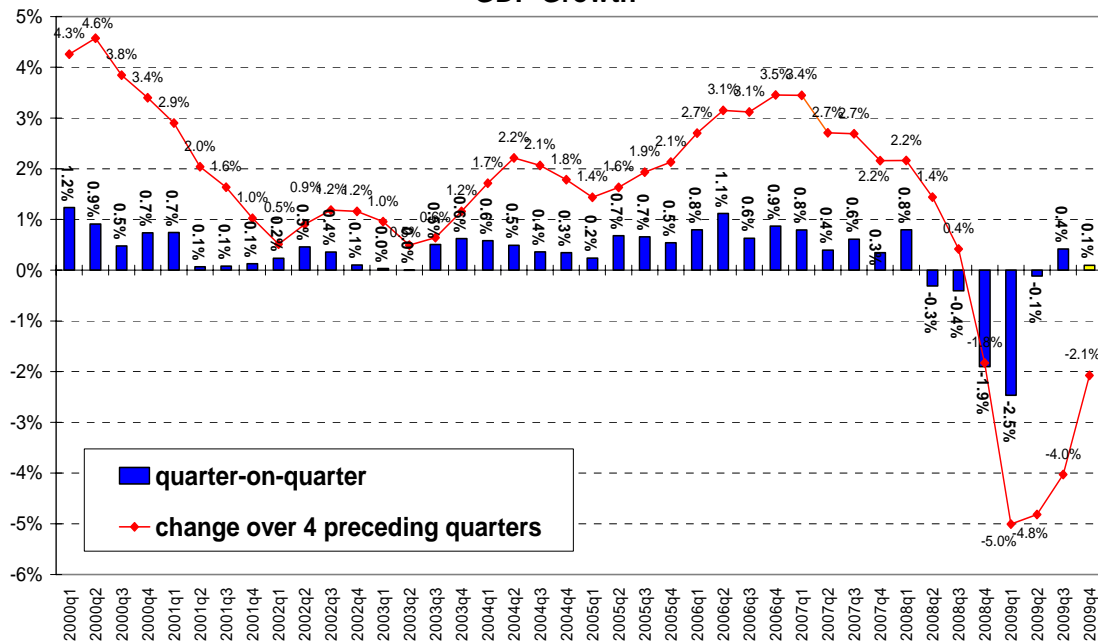


Overall, these figures are disappointing, and indicate relatively slow growth.

Euro zone

Growth in the euro zone in the fourth quarter of 2009 totaled only 0.1 percent (0.4 percent in annualized terms), less than expected. The growth rate in Germany, at zero, was particularly disappointing.

Euro Zone GDP Growth



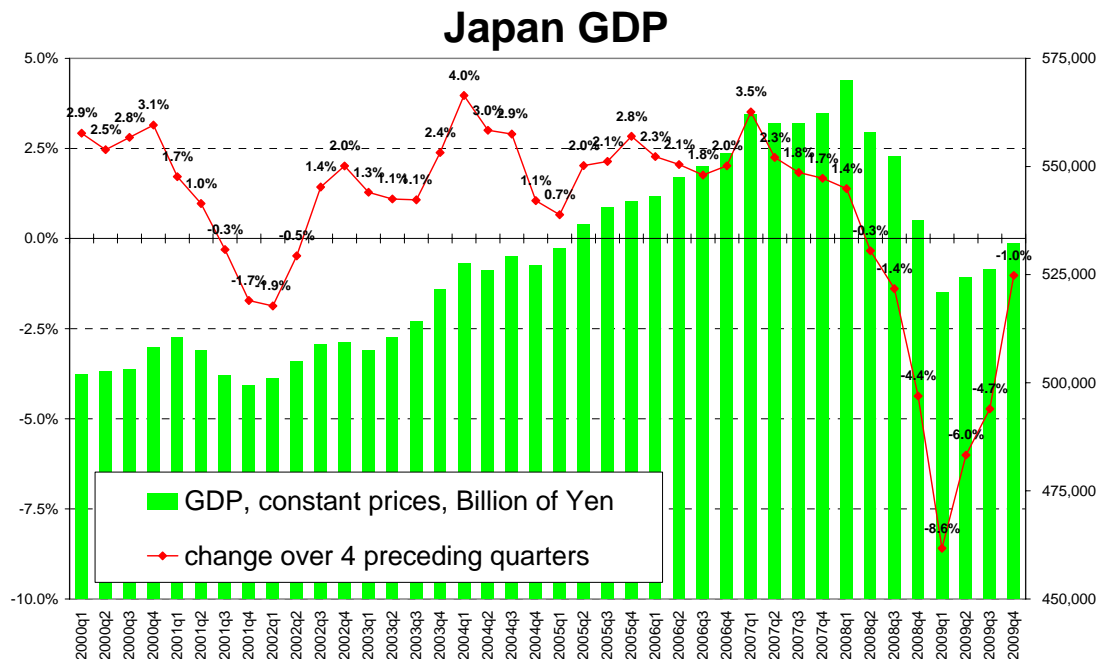
The European Union has declared its consent in principle to aid Greece, but there are no specific plans at this stage. The chosen approach appears to be loans to be granted to Greece by EU countries, especially Germany and France, in return for a commitment to carry out budgetary plans. The plans will be examined by the EU, and possibly by the International Monetary Fund as well.

This plan essentially resembles the plans applied by the IMF in many countries worldwide (including European countries, such as Hungary), but the money will come from countries in Europe rather than the IMF, probably with less strict monitoring of Greek economic policy. Of course, the question remains whether Greece will present and implement a plan that is ambitious enough to earn the other countries' acceptance.

The markets responded to this announcement in moderation. The gap between Greek and German bonds contracted somewhat, and the euro exchange rate remained almost unchanged.

Japan

According to an initial estimate, growth in Japan totaled 1.1 percent in the fourth quarter of 2009 (4.6 percent annualized), higher than expected.



Our forecast of cumulative changes in price indices due to be publish during the coming three months

Forecast change, January 2010 to April 2010

Consumer Prices Index (CPI)	Housing component in the CPI (mainly rent prices)	Prices of Owner-Occupied Dwellings	Price Index of Inputs in Residential Building	Wholesale Price Index of Manufacturing (excl. Fuel)
0.4%	1.7%	5.4%	0.7%	-2.0%

Important Announcements in the Coming Week

- Israel's Central Bureau of Statistics will publish national accounting data for the fourth quarter of 2009 on Tuesday, February 16.
- Data on construction starts and permits will be published in the US on Wednesday, February 17.
- The CBS will publish the industrial production index and the trade and service sectors revenue index on Thursday, February 18.
- The consumer price index will be published in the US on Friday, February 19.
- The Bank of Israel will announce its interest-rate decision on Monday, February 22.

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

and at <http://www.harel-group.com/finance.html> in English.

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