

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in August Minus 0.3% in September
Future cumulative inflation – next 12 CPIs (through July 2011 CPI)	2.8%	3.3%
Bank of Israel interest rate, 6 months ahead	2.10% (up 0.35)	2.50%
Fed interest rate, 6 months ahead	0.25% (unchanged)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	4.52% (up 0.17)	4.90%
Yield on US Treasury 10-Year bond, 6 months ahead	2.74% (up 0.17)	3.60%
Dollar exchange rate, 6 months ahead	NIS 3.81 (up 0.2%)	NIS 3.78 (down 0.9%)

Israel

The **Bank of Israel interest rate** remains unchanged at 1.75 percent. The interest decision was in line with our expectations as well as those of most economists. According to the BOI's announcement, the main reasons for the decision include the following:

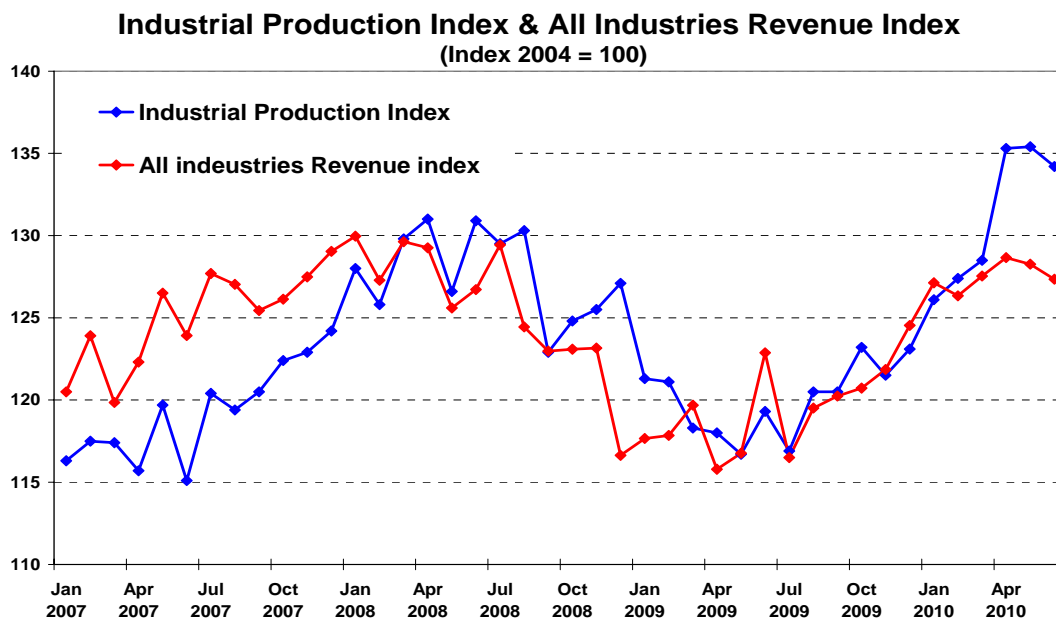
- Inflation expectations, as measured in the capital market and by forecasters, have fallen below the upper limit of the target range.
- There is uncertainty regarding the future growth rate in Israel, especially due to the high level of uncertainty in the global economy.

- Interest rates of the central banks in the leading developed economies are very low, and based on the weak data published recently they can be expected to remain low for quite some time.

In our opinion, possibly the most important factor in the decision was the simple fact that the interest rate was raised last month, and the BOI is interested in a gradual and not excessively rapid process of rate hikes.

The interest-rate announcement also included an update of **forecasts by the research division of the BOI**: Inflation in the next twelve months is expected to reach 2.5 percent, with a gradual increase of the interest rate to about 3 percent within a year. The research division's current forecast for 2010, which calls for 3.7 percent GDP growth, is congruent with slower GDP growth in the third and fourth quarters. **In our opinion**, both inflation and interest rates in one year's time will be slightly higher than these forecasts.

The **industrial production index** fell by 1 percent in June, and rose by 12 percent in the last twelve months. The **revenue index for all sectors of the economy** (excluding diamonds) fell by 1 percent in July and rose by 4 percent in the last twelve months.

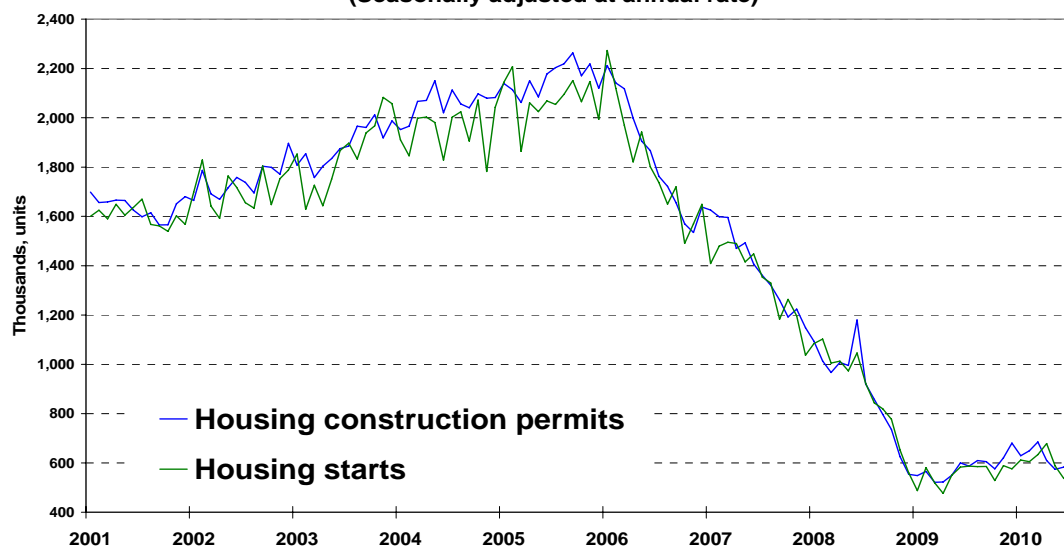


Exports of services, in dollar terms, rose by 5 percent in June and fell by 2 percent in the last twelve months.

United States

Construction starts increased by 2 percent in July while construction permits decreased by 3 percent, below expectations.

US housing permits and housing starts (Seasonally adjusted at annual rate)



Our forecast of cumulative changes in price indices during the coming three months

Forecast change, July 2010 index to October 2010 index

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)
0.1%	2.5%	1.3%	-0.1%	0.6%

Important Announcements in the Coming Week

- Data on sales of existing homes will be published in the United States on Tuesday, August 24.
- Israel's Central Bureau of Statistics will publish data on sales of new homes on Wednesday, August 25.
- An update of the second-quarter growth rate in 2010 and the University of Michigan's consumer confidence index will be published in the United States on Friday, August 27.
- Data on private income and consumption will be published in the United States on Monday, August 30.

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

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