

Weekly Macroeconomic Review

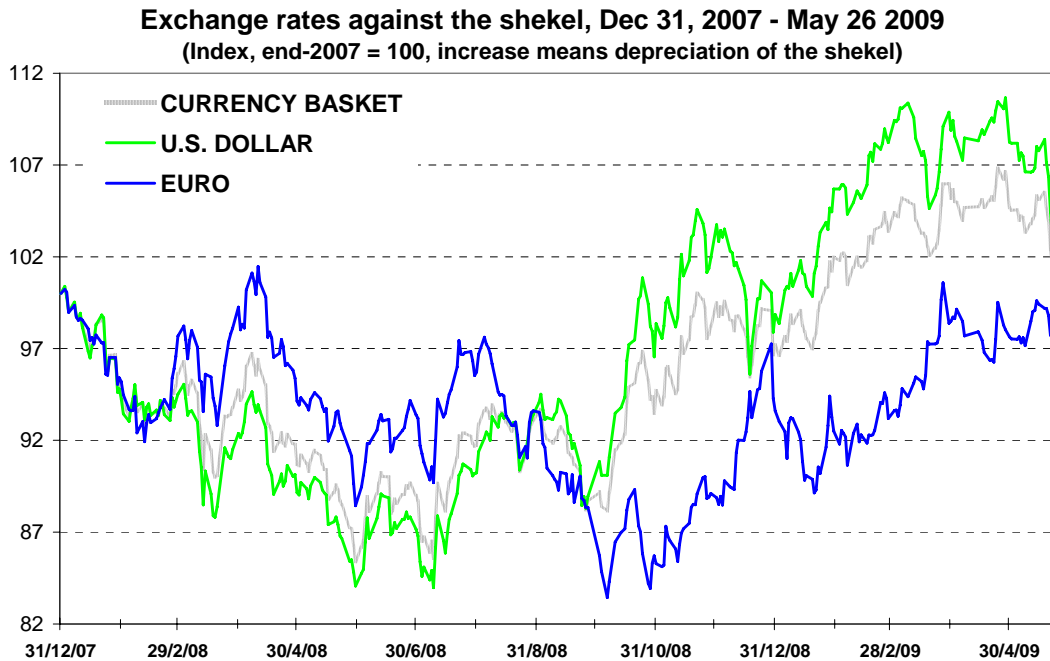
May 26, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.4% in May 0.4% in June
Future cumulative inflation – next 12 CPIs (through April 2010)		2.7%
Inflation through May 2010 CPI (average annual rate)	2.8%	2.9%
Bank of Israel interest rate, 6 months ahead	0.90% (up 0.40)	0.75%
Fed interest rate, 6 months ahead	0.30% (up 0.05)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.85% (up 0.29)	5.75%
Yield on US Treasury 10-Year bond, 6 months ahead	3.62% (up 0.19)	3.75%
Dollar exchange rate, 6 months ahead	NIS 3.98 (unchanged)	NIS 4.09 (up 2.9%)

Israel

The Bank of Israel left the interest rate unchanged at 0.5 percent, in line with our expectation and with most economists' predictions. The BOI said, on an optimistic note: "Data coming from the financial field, and recently from the real arena as well, indicate possible moderation of the negative trend in economic activity. However, renewed growth is not expected until the end of this year. At this stage, the low interest rate along with the other measures applied by the BOI support the return of positive growth to the economy." We therefore estimate that the BOI is not planning further moves towards monetary expansion in the near future.

The shekel strengthened by 3 percent against the currency basket over the last week, by 5 percent against the dollar, and by 1 percent against the euro.



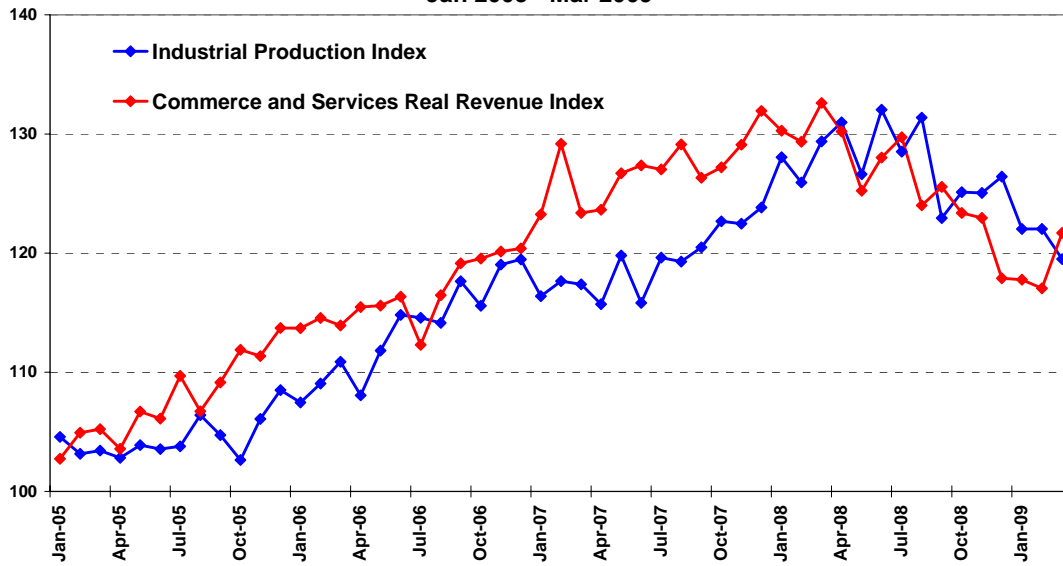
One of the reasons for the shekel's appreciation may be the estimates that the Bank of Israel will soon stop **buying foreign currency**. We believe that this estimate is mistaken. Given the deep recession and the considerable slowdown in exports in recent months, we expect the BOI to continue to purchase foreign currency in the near future, with the aim of weakening the shekel and supporting competition in exports and economic growth. Even if the shekel weakens, the BOI is not likely to stop foreign-currency purchases suddenly, but to gradually reduce the volume of daily purchases while testing market reactions.

The number of **incoming tourists** by air grew by 2 percent in April, but was still 18 percent lower than in April 2008.

The **industrial production index** decreased by 2 percent, and the **trade and service sectors revenue index** increased by 4 percent, in March. Both indices decreased by 8 percent in the twelve months ended in March and by 3 percent in the first quarter of 2009.



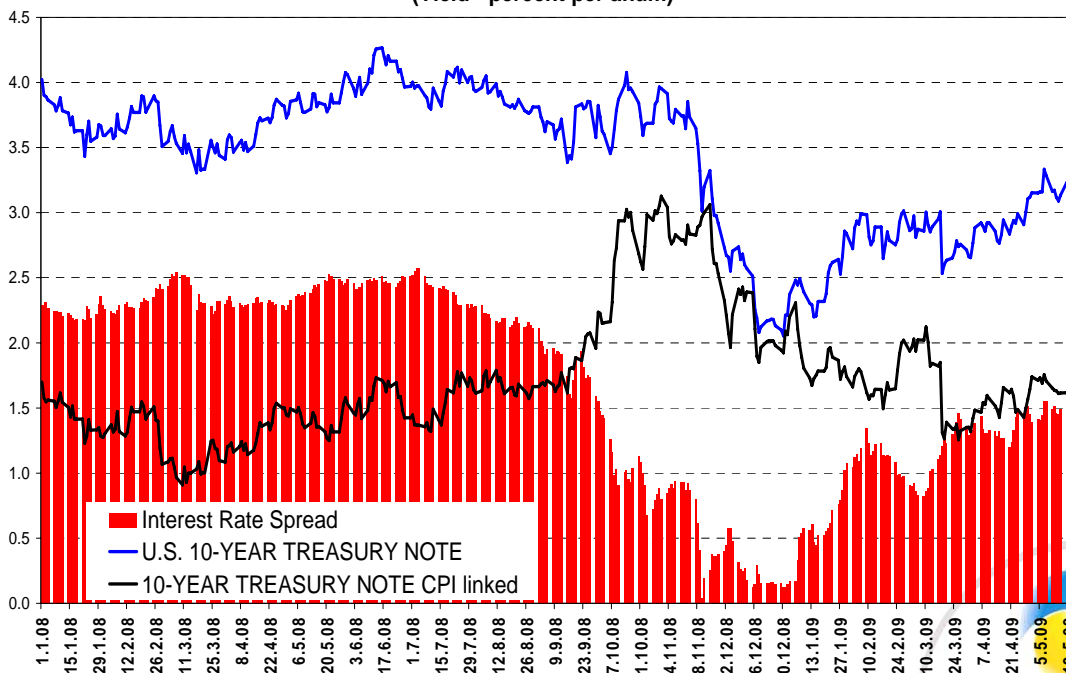
**Industrial Production Index
& Commerce and Services Sectors Revenue Index**
Jan 2005 - Mar 2009



United States

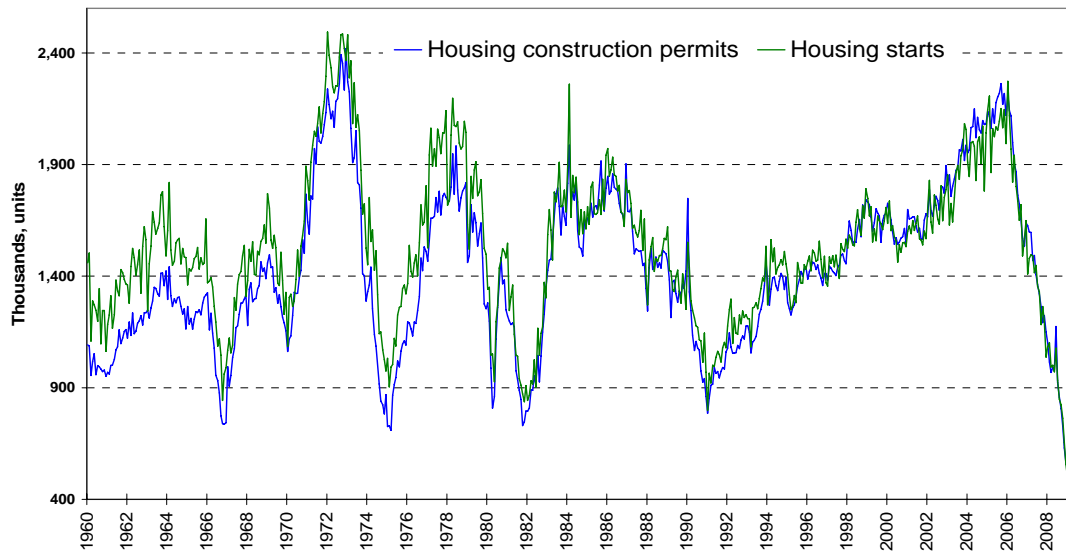
Government bond yields continued to rise, with an increase in inflation expectations.

10-YEAR US BONDS
(Yield - percent per anum)



Construction starts and permits decreased by 13 percent and 3 percent in April, respectively, in sharper-than-expected declines, to the lowest levels of the last fifty years.

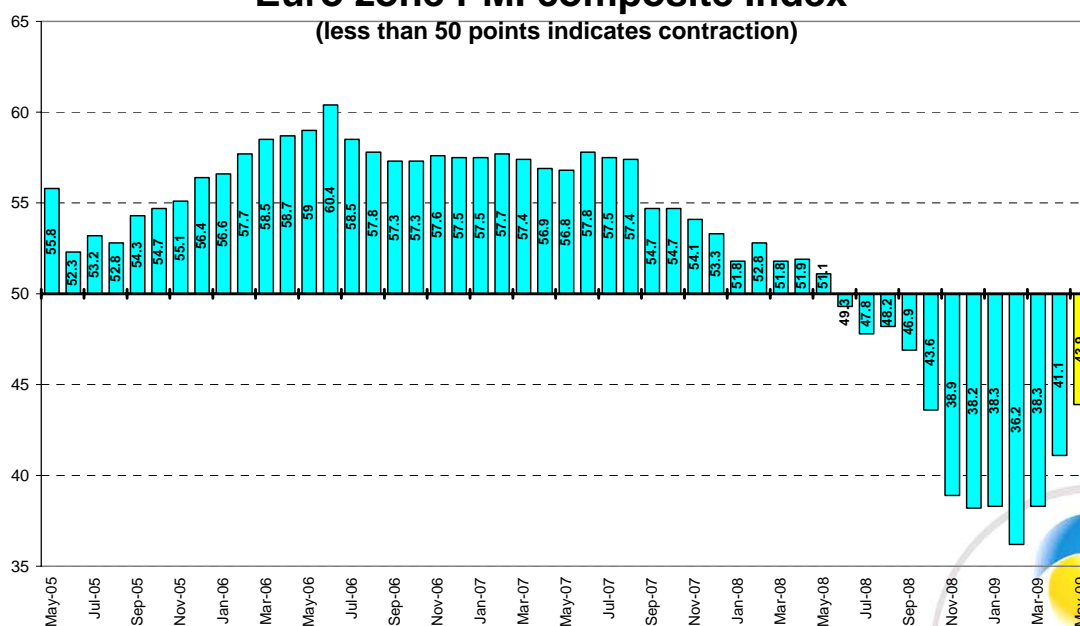
US housing permits and housing starts (Seasonally adjusted at annual rate)



Europe

The euro zone purchasing managers' index reached 43.9 points in May, according to an initial estimate, higher than expected. This figure indicates continued recession, but at weaker intensity.

Euro zone PMI composite Index (less than 50 points indicates contraction)



GDP in the UK contracted by 1.9 percent in the first quarter of 2009 (negative 7.4 percent in annualized terms), similar to the previous estimate. **UK retail sales** grew by a surprising 0.9 percent in April.

Japan

Growth data for the first quarter of 2009 were extremely poor, but slightly above expectations. **GDP** contracted at an annualized rate of 15.2 percent, with sharp declines in exports and investments. This was the worst growth rate in Japan since World War II, and the fourth consecutive quarter of contraction of the economy. Furthermore, the previous quarter's figure was adjusted downward, from negative 12 percent to negative 14.4 percent.

Important Announcements in the Coming Week

- The Case Shiller index of US housing prices will be published on Tuesday, May 26.
- The Central Bureau of Statistics will publish its employment report for the first quarter of 2009 on Wednesday, May 27, including the unemployment rate and data on sales of new homes. Data on sales of existing homes will be published in the United States.
- Data on sales of new homes will be published in the US on Thursday, May 28.
- An estimate of the consumer price index will be published in the euro zone, and an update of the first-quarter growth rate and the University of Michigan's consumer confidence index will be published in the US, on Friday, May 29.
- Data on construction starts and completions in the first quarter of 2009 will be published on Sunday, May 31.
- Data on private income and consumption and the ISM manufacturing sector index will be published in the US on Monday, June 1.

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