

Weekly Macroeconomic Review

July 28, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		1.0% in July 0.6% in August
Future cumulative inflation – next 12 CPIs (through June 2010 CPI)		3.6%
Inflation through July 2011 CPI (average annual rate)	3.2%	3.0%
Bank of Israel interest rate, 6 months ahead	1.60% (up 1.10)	1.00%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.88% (up 0.15)	5.88%
Yield on US Treasury 10-Year bond, 6 months ahead	3.98% (up 0.25)	4.25%
Dollar exchange rate, 6 months ahead	NIS 3.79 (unchanged)	NIS 3.79 (unchanged)

Israel

The Bank of Israel interest rate will remain unchanged at 0.5 percent, as expected. The BOI will end its government-bond purchasing program on August 5, while continuing its daily purchases in the foreign-currency market. The BOI also announced that it does not intend to sell the acquired bonds.

In our opinion, the BOI is likely to announce a reduction of the amount of foreign currency purchased daily in the near future. The BOI is also expected to begin raising the interest rate in one of the coming months, probably before the end of this year. The termination of government-bond purchases was to be expected, although the BOI is attempting to depict it as a success; in our opinion, the government-bond purchases failed to achieve any aims in the short term, but may create severe problems in the area of the political economy (the relationship between the BOI and the government) in the longer term.

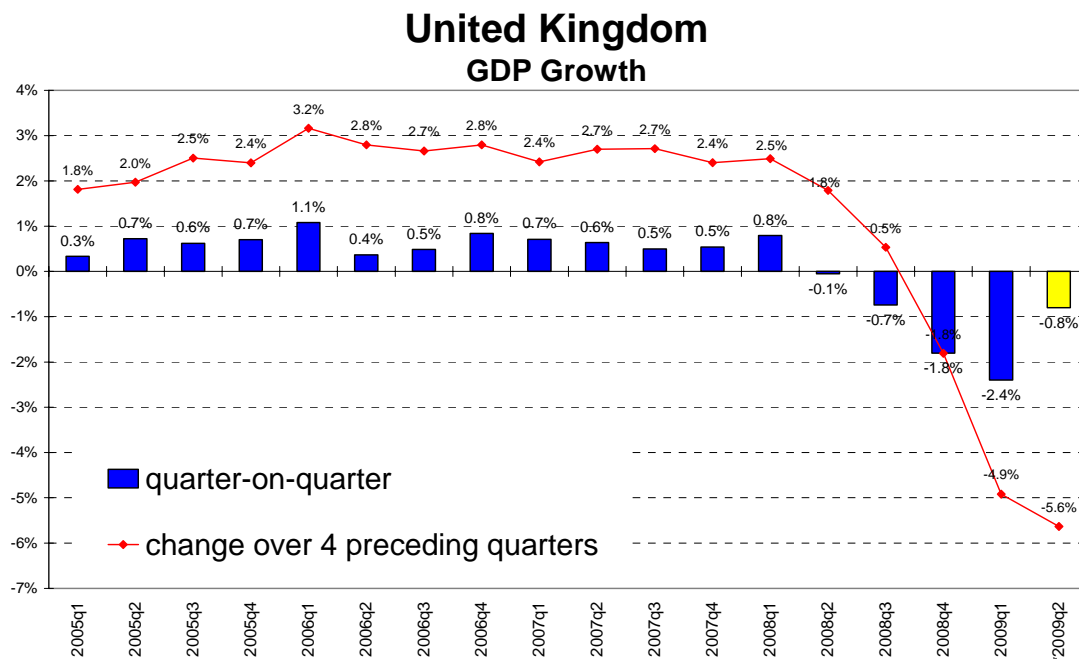
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The BOI's **Companies Survey** for the second quarter of 2009 indicated continued contraction of economic activity (a negative net balance), though at a slower pace compared to the preceding two quarters. Declines in activity were noted in all sectors, with the exception of construction and communications. Initial growth data for the second quarter are scheduled for publication on August 16.

Europe

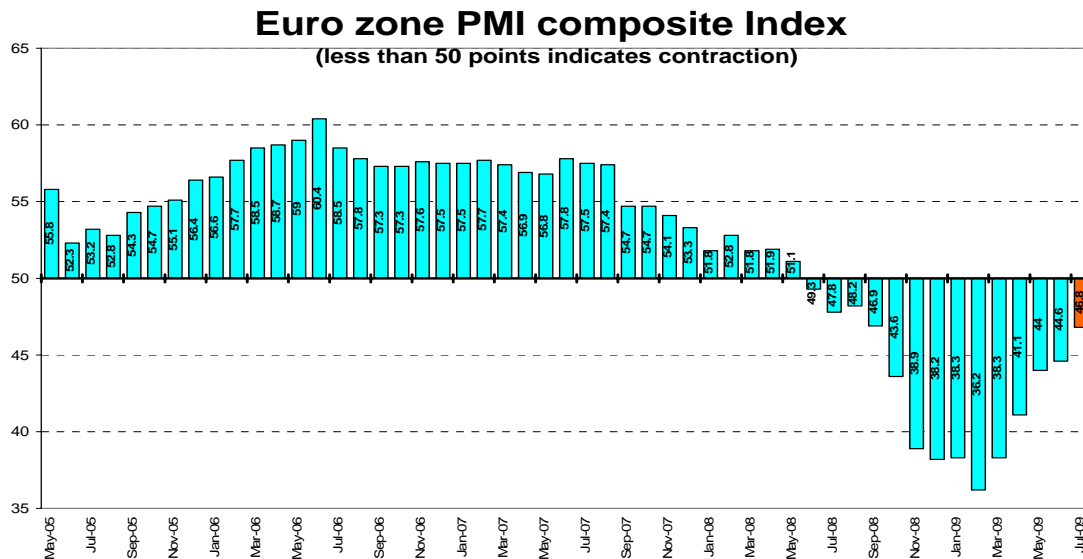
The **UK** economy contracted by 0.8 percent in the second quarter of 2009, or an annualized rate of 3.2 percent, based on an initial estimate, a sharper decline than expected, but less steep than in the previous two quarters. The decrease stemmed from factors including the contraction in industrial output and financial services.



Retail sales in the UK were surprisingly positive, with increases of 1.2 percent in June and 2.9 percent in the twelve months ended in June.



The euro zone purchasing managers' index stood at 46.0 points in July, according to an initial estimate, above expectations. This figure points to continued recession, at weakening intensity.

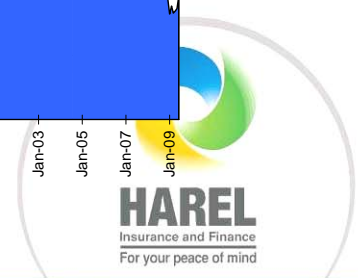
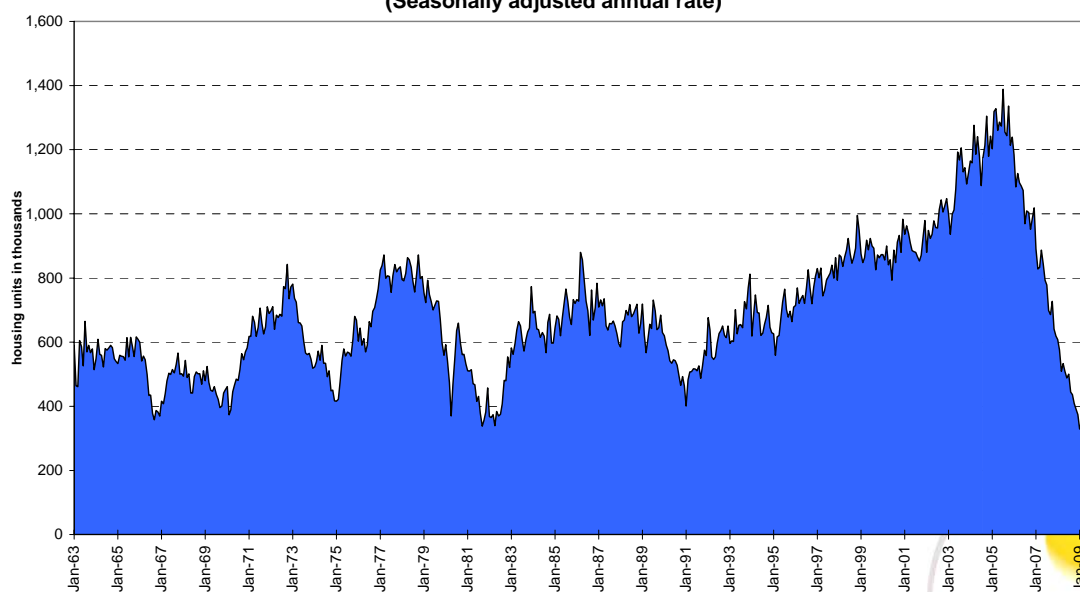


United States

Sales of existing homes increased by 3.6 percent in June, the third consecutive increase, as housing prices climbed to the highest level since last October. Sales of new homes grew by a sharper-than-expected 11 percent in June, although the current level remains the lowest since the early 1980s.

New Family Houses Sold

(Seasonally adjusted annual rate)



The University of Michigan's **consumer confidence index** reached 66 points in July, versus 70.8 points in June, slightly above the earlier estimate.

Important Announcements in the Coming Week

- Israel's Central Bureau of Statistics will publish data on sales of new homes on Wednesday, July 29.
- The initial growth estimate for the second quarter of 2009 will be published in the US, and data on unemployment and the consumer price index will be published in the euro zone, on Friday, July 31.
- The ISM manufacturing sector index will be published in the US on Monday, August 3.

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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