



מודפס גם בעברית

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### What's in "Investor's Review"

- Israeli Macro Economic Review
- World Macro Economic Review
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### Select Indices

	Rate	Return in % May	Return in % 2011
TA 100	1,113	-5.17	-7.39
TA 25	1,223	-5.17	-6.02
DOW JONES	12,290	-1.88	8.57
NASDAQ	2,769	-1.33	6.88
NIKKEI 225	9,555	-1.87	-5.51

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# INVESTOR'S REVIEW

ESPECIALLY FOR LEUMI UK PRIVATE BANKING CLIENTS

## Israeli Macro Economic Review

By: **Sagit Cohen**, Economics Dept. Finance and Economics Division

### The Bank of Israel increases the interest rate for June by 25bps, to 3.25%

On May 23 the Bank of Israel (BoI) announced a 25bps hike to its upcoming June interest rate, to 3.25%. In the BoI's interest rate decision positive growth data on the economy were taken into consideration, including the high level of domestic demand. The BoI noted in its announcement that "First quarter National Accounts data are consistent with a growth rate higher than that in the most recent [BoI] Research Department forecast (of 4.5% GDP growth in 2011)." What this means is that in order to reach a 4.5% growth rate for the current year, in the upcoming three quarters the economy must grow at an annualized rate of only 2.5% (each quarter compared to the preceding quarter).

Furthermore, the BoI noted that "Labor market data indicate a continued expansion, and an approach to full employment." From this it can be learned that while the strength of local demand is important as a growth engine for the economy, the BoI is not interested in having demand overheat, which would add to existing inflationary pressures. The BoI interest rate is substantially below the "normal" interest rate range defined by the central bank in its last annual report as 4-5%, while inflation expectations derived from the capital market stand at 3.2% in May, that is to say above the upper border of the price stability target range of 1-3%. In this situation, the current real interest rate level reflects monetary policy that is still very expansionary, especially in light of the positive state of the economy.

This monetary policy stance still supports growth in local demand, and in particular can be noted the high demand in the housing market and the high level of durable goods consumption, which is effected also by the strength of the shekel. A rapid recovery in the import of consumption goods occurred since the beginning of 2010, and the annualized rate of increase of this index is similar to its level during the boom period prior to the crisis. Looking forward, we estimate the BoI will accelerate the rate of increase in the interest rate, compared to the past. It appears at this stage, in which the economy is approaching full employment and the GDP gap is closing, such a process is appropriate for the current state of the economy.

### The composite state-of-the-economy index for April increased by a moderate rate of 0.2%

The composite state-of-the-economy index for April rose 0.2%, indicating a continued expansion in the economy, albeit at a more moderate rate compared to previous months. Since the fourth quarter of 2009 this index has increased at an average monthly rate of 0.5%.

An analysis of the components of this index shows that the indices on the import of consumption goods and inputs, which have been rising at double-digit annualized rates since 2010, remained unchanged in April. The indices on the export of goods and services, which are characterized by relatively high volatility, fell in April. The index of salaried employment positions (last figure is from February) remained almost unchanged for three straight months and indicates a low level of employee recruitment in the first two months of the year. In summary, the composite state-of-the-economy index indicates a continuation in the expansion of economic activity, and all the components of this index are at high levels compared to what they were at before the crisis. The picture of this situation indicates, among other things, the reduced need for expansionary monetary policy.

# World Macro Economic Review

By: **Liora Caplan**, Capital Market Research Dept, Investment Counseling Division

### Euro and USD vs. NIS



### Gold prices (USD)



### Oil Prices per barrel (USD)



### TA25



Greece's debt problem, and its inability to finance its operations over the short term, were the main factors in May impacting global financial markets and investor sentiment. Once again, macroeconomic data remained of secondary importance compared with the drama unfolding in the euro-zone. That said, the data points that did come out in May only exacerbated the markets' negative sentiment.

Markets in the U.S. tended to focus on the negative numbers released during the month, which reinforced the outlook that the pace of second quarter growth is likely lag consensus estimates. The U.S. is at a critical juncture in its handling of the economic crisis. The administration is set to ease off on the support it's been providing to the economy, which will now have to prove it can stand on its own two feet. One of the criteria critical to achieving that end is the significant ramping up of loans to small- and medium-sized businesses, an area in which progress hasn't been noted to date. The data coming out of the U.S. continue pointing to weakness in the real estate sector, whose current impact on GDP stems from the percentage it represents in the average American's total asset holdings and the consequent spillover effect on consumer spending. Another drag: lackluster job creation, which doesn't herald rapid economic growth in the near term.

In Europe, meanwhile, May saw the continuation of a contentious debate among EU leaders regarding Greece's sovereign debt. No consensus has yet been reached. The main complaints against the Greek government revolve around its failure to comply with terms it took on itself a year ago (foremost amongst them its budgetary targets), when it received a €110 billion bailout package. The current phase of the crisis erupted owing to the failure of the Greek government to get the opposition's support for either its plan to reduce the budget by €6 billion or its program to privatize government assets worth an estimated €50 billion. Jean-Claude Juncker, prime minister of Luxembourg and chairman of the committee of EU finance ministers, added fuel to the fire when he issued an informal declaration that the IMF should consider withholding the transfer of the fifth and final installment of a €12 billion aid package to Greece that was originally put together a year ago. While on the one hand, the announcement placed considerable pressure on EU countries to back additional aid for Athens; on the other, it generated pressures within Greece itself, which won't be able to service its debts over the coming year without additional outside funding.

It's fair to assume that any new agreement will include the stipulation that Greece increase the amount it intends to cut from its budget, and rapidly implement the large-scale privatization of government-held assets. Despite the obstacles that lie ahead and Germany's apparent pressure on Greece to restructure its debt (which, in practice, would represent a default event), it now appears that opposition is growing against the rescheduling of sovereign Greek negotiable bonds.

In the short run, the disagreements surrounding the various bailout plans, as well as concern that the crisis could spread to other EU countries, can be expected to generate continued financial market volatility. Longer term, though, we continue to believe that the U.S. economy remains on an incremental growth track as do the stronger economies of the EU. As to Europe's peripheral countries, the potential of a default event is higher than ever, and in the case of Greece, virtually inevitable, in our judgment. In any case, political considerations, not necessarily economic ones, are likely to play the decisive role in formulating a resolution to the current crisis.

# "In the Black Distance" Exhibition

Selected creations from Lea Nickel and Khen Shish: "In the Black Distance"

By: Inbal Sivan, Marketing Division

In line with its tradition of supporting Israeli art, Leumi is hosting a selection of artwork from the "In the Black Distance" exhibition at Leumi Mani House.

The exhibition "Lea Nickel and Khen Shish: In the Black Distance" exhibited in the Ashdod Art Museum in October 2010, echoed throughout the media and press and attracted many visitors from all over Israel. Now the Ashdod Museum and Leumi are working together to present the exhibition once again. The exhibition's curator is Naomi Aviv.

Lea Nickel (1918-2005) and Khen Shish (born in 1970) - two tempestuous, agile and lively people meet in the arena of art: Lea Nickel was a modernist action painter, whose art was shaped around this artistic movement when it was at its peak in the 1940's and 1950's. Khen Shish is a postmodernist gesture artist, and is ranked amongst this generation's artists who exhibit the most liberated painting in the history of art.

Towards the middle of the 20th Century, action or expressionist art infused new and vital blood into the arteries of the abstract formalistic movement and set the second wave of abstract art into motion. Lea Nickel - winner of the 1995 Israel Prize - was amongst of the formulators of this wave in Israeli abstract art. Nickel's style dared to free itself from the possessions of lyrical abstraction as well as from figurative bewitchment; from the suffocating fetters toward nature, to the model or practice of emerging painting through observation. Similarly to the American Abstract and French Tachisme, Nickel's painting aspires to universalism while expressing a complete world of inter-subjective sensations. Painting for the urges of the self, which is solely an unedited documentation preserving "blunders" and automatic impulsive expressions; an accumulation of the artist's sensations during and after the artistic performance itself; painting that celebrates the perception that discerns the authentic power of nature in the artist, bearing an "event", a picture free of any "subject" and "representation" although emotional, spiritual poetic "content" is not absent.

To present two artists from different generations, one alongside the other, who are active in different emotional drives, is not an obvious choice and in fact, presents a challenge. In order to emphasize the connection between the two artistic bodies, born in different times and under different circumstances of life, the color black was selected as the central motive. The same black on which Matisse was quoted saying - if you are a colorist, this would also gain expression in simple carbon drawing. The joint exhibition invites you to view the affinity between two aesthetic procedures and examine the degree of closeness or distance between the ivory black, that functions as a partner in Nickel's colorism and the carbon, furnace black, acting as a default, a primary and somber property in Shish's almost monochromatic art. The relationship between modernistic expression flowing in Nike's art, and the postmodernist expressionism in Shish's work, overflows between the liberated components of abstraction and representation, reduction and symbol, minimal grazes and poesy.

Nickel and Shish accomplish their art naturally and adorn it with noises, eruptions, rhythmic repetitions, spontaneous

diversions, scenes of appeasement, aspirations, reflection and improvisation. The process itself is the subject of art and the painting is a miracle - To this Lea Nickel and Khen Shish would agree without cynicism or irony.

## The exhibition picture gallery

This exhibition will be open to the public from May 19th, 2011 to August 30th, 2011 at Leumi Mani House, Visitors and Arts Center.

36 Yehuda Halevy St., Tel Aviv, telephone 03-5149492

## Reception times

Sunday through Wednesday: 10:00 - 17:00

Thursday: 10:00 - 21:00

Friday: 10:00 - 14:00

The public is invited

Entrance free of charge



Lea Nickel



Khen Shish



Lea Nickel



Khen Shish



Lea Nickel

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