



מודפס גם בעברית

Private Banking
Issue No. 80
September 2009



"Leumi - The Best Private
Banking in Israel"

(Euromoney Survey, February 2009)

INVESTOR'S REVIEW

ESPECIALLY FOR LEUMI PRIVATE BANKING CLIENTS

Happy New Year
Rosh Hashanah 5770



Israel Macro Economic Review

Eyal Raz, Head of Economics Department, Finance and Economics Division

Second quarter economic growth was positive: 1% in annualized terms

The Israeli economy grew 1.0% in annualized terms in the second quarter of 2009 compared to the first quarter, following a contraction of 3.2% in the first quarter of 2009 compared to the last quarter of 2008. This change in the trend, of which we mentioned in our weekly reviews over recent weeks, is the result of an expansion in private and public consumption, and also a moderate increase in exports. Looking over the long-term (see accompanying graph), it appears the current recession was shorter than that which occurred at the beginning of the decade, despite the severity of the global crisis, both in real activity and in the financial realm.

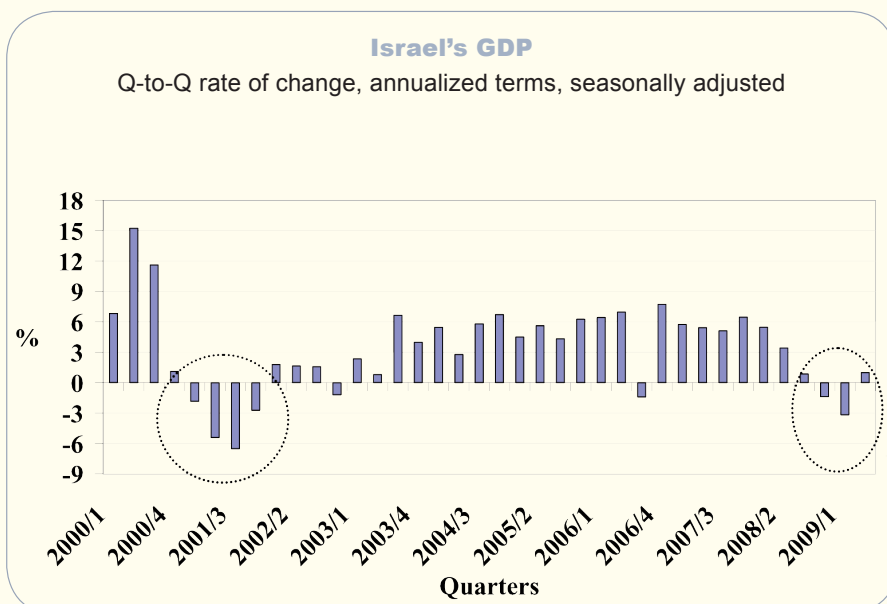
The strong underlying fundamentals of the Israeli economy prior to the global crisis placed Israel in strong contrast to the economic state of the large Western countries, and lessened the damage caused to the local economy. Against the backdrop of these positive data, and in light of the continuing process that began already last month, Bank Leumi has revised upwards its growth forecasts for Israel, and now expects the local economy to remain unchanged in 2009 (0% growth),

while in 2010 the economy is expected to expand by a rate slightly higher than 2%.

The interest rate of the Bank of Israel is increased to 0.75%

On August 24, the Bank of Israel (BoI) announced a 25bps hike to its interest rate for September, to 0.75%. This follows five consecutive months in which the central bank rate stood at 0.5%. A number of important points were emphasized in the BoI's interest rate announcement. Firstly, data on real economic activity indicate, in the BoI's opinion, a cessation to the decline and a turnaround to an upward trend in activity, albeit by a moderate rate. Also, regarding the global economy, it was noted that various economic bodies estimate that global economic activity is stabilizing and that a moderate recovery is expected to begin.

Nonetheless, the BoI estimated that governments and central banks around the world are expected to continue their expansionary policies, and to begin to remove economic support only gradually. In this regard, it is important to pay attention to the fact that even though the nominal rate of the BoI is to



be increased, the real interest rate in the economy (the Bol interest rate minus forecast inflation for the coming year) is today at a low of -2%. This negative real rate is significantly below the average in comparison to previous years, which has ranged around 2-3%. Therefore, monetary policy in Israel remains strongly expansionary.

The Bol's interest rate announcement emphasizes the need to moderate inflation

Regarding the background conditions relating to inflation, the Bol noted that the 1.1% m/m increase in July's consumer price index (CPI) was evident in most components of the index, a trend that began in April. Furthermore, even when neutralizing the price increases stemming from one-time factors (taxation, the hike in water prices), inflation is still close to the upper border of the price stability target range.

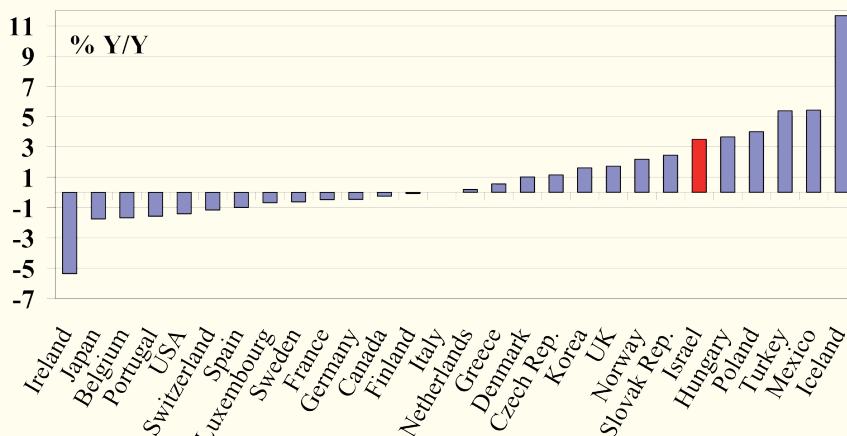
Also, emphasis was placed on the fact that in contrast to the situation in Israel, in leading economies around the world low inflation is expected this year and in the coming year. On this matter, an international comparison of actual inflation (the rate of inflation in the trailing 12-month period) shows that inflation in

Israel is among the highest compared to that seen in OECD countries (see graph), while among almost all Western countries the rate of price increases is lower, and even negative.

Against the backdrop of the conditions mentioned above: inflation higher than that being recorded in the West, a recovery in economic activity that appears early relative to other countries, and a negative real interest rate – the Bol chose to change its policy and to begin the process of raising its interest rate in order to curb inflation. However, the Bol noted that setting the interest rate low (in light of the only moderate hike) represents a continuation of expansionary monetary policy. Looking forward, it appears the process of raising the interest rate will be slow, and only over a period of 1-2 years will the nominal and real interest rates return to levels that were acceptable before the crisis began.

Accelerating the hike in interest rates could possibly take place if it becomes clear that the global and Israeli economies recover faster than expected and as a consequence the need for supportive monetary policy for economic growth declines, in particular in all areas related to Israeli export.

The year-on-year rate of CPI inflation among OECD countries in the 12 months ending in June/July 2009



World Macro Economic Review

Liora Caplan, Capital Markets Research Department, Investment Counseling Division

The economic upheavals of the past year have made it one of the most difficult and at the same time one of the most fascinating periods of past decades. Data published recently supports estimates, now almost unanimous, that the worst is behind us. There is no doubt that the optimism which seems to accompany the commencement of the new Jewish year is justified, in particular when looking back at the global economy of just a few months ago. The consistent improvement in data and evaluations made by prominent figures in the world economy definitely support optimism. Nonetheless, the crisis is still here, alive and kicking. In the past 12 months, 5.74 million jobs were lost in the US alone, and more job losses are expected. For the people dismissed, whether in the US, Israel, or elsewhere, the economic crisis is not a theoretical event ending as indicated by headlines in the press. It is a life changing event which may continue to influence their choices and decisions in the coming years. We can now hope that the recovery process, accompanied by a better understanding of the processes which brought it about, will be based on firmer foundations for the world economy in general and the global financial system in particular.

Macro data published during August continued to reflect a gradual but constant improvement in the US

economy. The real estate sector presented impressive data recording a sharp rise in existing and new home sales, alongside a rise in average home prices. A major surprise was in July's jobs report, which noted a decline in the jobless rate and a much smaller than expected decline in non-farm payrolls. Among less positive data was a further decline in inventories during June. Contracting inventories have had a considerable negative effect on GDP in the past 3 quarters. We expect a turnaround in this trend during the 2nd half of 2009.

The Federal Reserve convened during August and, not surprisingly, decided to leave interest rates at their current low level (0.0%-0.25%). The Fed also announced that the 300 billion \$ plan to purchase Treasury bonds will not be expanded. However, completion of the plan was postponed from September until the end of October to allow the Fed to conduct a gradual cessation, probably in order to minimize the effect on treasury yields and avoid a rise in their levels. In the meantime, it seems that the US treasury is exploiting this window of opportunities by issuing debt vigorously. In August alone debt issuance reached 184 billion \$. It is interesting to note that two Fed members, Jeffrey Lacker and James Bullard, recently said the central bank may not need to buy all of the \$1.25 trillion of mortgage-backed securities as

announced in March. Even if this plan will eventually be carried out in full, their words reflect a deep transformation in the markets.

Stock markets in the US and Europe continued to climb during August and major indices recorded impressive gains. In Asia things were not as rosy after Chinese stock prices dropped when investors suspected a change in monetary policy. Thus, despite official declarations that monetary policy will continue to be loose and growth supportive, there has already been a drop in the amount of new loans in China – one of the major supporters of growth in the Chinese economy this year.

The decline in anxiety levels in the markets during the past few months has led to a considerable rise in bond yields. In the past few weeks it seems that this trend has stopped. US government bonds have been trading in a range, despite the size of recent treasury issuances, investors' rising appetite for risk and signs of an improving economy. The fact that yields have stopped rising is good news for the US central bank which still aims to lower borrowing costs and results from a number of factors. Among them are low inflationary pressures, the understanding that the economy is still not in good shape, recovery will be slow and an interest rate rise is not expected soon.

Euro and USD vs. NIS



Gold prices (USD)



Oil Prices per barrel (USD)



TA25



Selected Indices



	Rate	Return in % August	Return in % from start of 2009
TA 100	884	-0.11	56.67
TA 25	946	-0.48	45.44
DOW JONES	9,496	4.69	8.20
NASDAQ	2,006	1.97	27.20
NIKKEI 225	10,530	4.12	18.86

As of 31.08.2009

Terms Dictionary

Business in Colour

Blue Chip

Large well-established national companies with stable earnings

Pink Sheet

Stocks traded under one US dollar for a period of three months

In the Red

Company in debt

Red Ink

In debt; Like: In the Red

Give Someone the Green Light

Authorization to start a project

In the Black

Company in profits

Black Monday

October 19, 1987 when stock markets around the world crashed.

Black Friday

The Friday after Thanksgiving when retail sales are at their highest.

In Black and White

No room for doubt.

Going Further – Bank Leumi (UK) plc*

Leumi Private Banking

Leumi Private Banking is proud to protect and enhance the wealth of its international clients and their families through a comprehensive range of private banking, investment and trust services.

We welcome new clients.

Banking Services

We offer a full range of banking services in all major currencies, accept deposits for sums of £50,000 and above (or equivalent in other currencies), and provide payment services, cheque books and charge cards.

Investment services

For sums of £250,000 and above (or equivalent in other currencies) we offer both Advisory and Execution Only Services. We can offer investment advice on fund choice and also asset allocation and portfolio valuations in all the major currencies. Invested cash can be held in the currency of your choice.

Wealth Planning Solutions and Fiduciary Services

We structure, establish and administer trusts, private investment companies registered in various locations, and foundations, through our subsidiary in Jersey.

Treasury and Dealing Services

Our Private Banking Relationship Managers, in conjunction with our Dealing Room, are able to offer a full dealing service and provide you with the latest market information. In addition they can offer a range of options, future and derivative strategies for sophisticated investors.

Foreign Exchange Services

We offer immediate competitive pricing in all major currencies, covering spot and forward periods and swaps trades. We offer access to a range of derivative instruments as investments, or for protection against interest, exchange, and equity risk. Our treasury team is positioned to facilitate timely execution.

Lending

We provide lending facilities against portfolios of securities, bank guarantees, UK properties, cash deposit, and on a back-to-back basis (a loan backed by a deposit held in the same or different jurisdiction).

Executive Mortgages

We offer a flexible five-year, interest only mortgage with a multi-currency option intended for UK and expatriate high net worth individuals for the purchase of their residential property in the UK.

*Bank Leumi (UK) plc is authorised and regulated by the Financial Services Authority.

Leumi Private Banking

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Leumi Jersey

Bank Leumi (Jersey) Limited** provides a full range of private banking services for clients who are looking for an offshore location with security, confidentiality and in a stable, reputable environment. We have an experienced team who are able to provide a flexible and focused approach to meeting individual client needs.

Additional services available from our offices in Jersey:

From Bank Leumi (Jersey) Limited Banking for Non-Domiciliaries

We routinely provide accounts where capital and income are segregated. This, combined with our attractive interest rate, should prove to be particularly beneficial to clients who are not UK domiciled but resident there. It may also be attractive in other circumstances.

Offshore Custody

We are able to provide offshore global custody arrangements for trusts, companies and individuals, whose planning include such requirements.

Offshore Executive Mortgages

This product is most applicable for UK residents who are not domiciled for tax purposes in the UK and who have foreign earnings. These clients may purchase residential or investment property in the UK using a Bank Leumi (Jersey) Limited flexible five year, interest only mortgage with a multi-currency option.

From Leumi Overseas Trust Corporation Limited*** Fiduciary Services

The formation and administration of Trusts, Foundations and Companies is at the core of our service. Whether the goal is to provide an orderly transfer of assets to future generations, to maximise returns by investing within a tax-efficient structure, or any other aspect of international planning, we can assist in the establishing and managing the most appropriate holding vehicle.

Family Office Services

The idea of having one overall focal point for many areas of planning and investment is appealing to many clients and we are able to provide this service from one office. As an enhancement, we are able to provide Private Trust Company services, where family members may be closely involved in the trustee decision making – giving an element of control if required.

Wealth Planning Solutions

Working in conjunction with tax advisors, we can provide a wide range of solutions for families or companies looking to efficiently manage and protect assets whilst planning for the future. Wherever there is a requirement for fiduciary services from an experienced team, in a reputable and stable jurisdiction, we will be able to assist.

**Bank Leumi (Jersey) Limited is regulated by the Jersey Financial Services Commission.

For more information phone: 01534 702 525

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