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Bank Leumi (UK) plc

Leumi Connect

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A time of change at Bank Leumi (UK)

| by Eli Katzav, CEO, Bank Leumi (UK) plc

🌐 It is predicted that UK growth for the remainder of 2017 will pick-up pace, but the biggest threat remains the ongoing political uncertainty. It has been more than a year since the Brexit vote, and half a year since the Prime Minister triggered Article 50. Yet, there is no clear view of what the outcome of Brexit will be.

The political uncertainty, together with rising inflation, add to the burdens on the business sector. The Brexit negotiations are undoubtedly complex, but I very much hope that the UK government will stand strong and reach a conclusion on how to

lead on Brexit so that we can move forward, remove political uncertainty, and improve UK productivity. In the meantime, we in the business sector will make whatever projections necessary to enable us to effectively and successfully manage our businesses.

At Bank Leumi (UK) we have undertaken a strategic review to ensure we are heading in the right direction, and to prepare the Bank for future challenges. Following the review, and after careful consideration, we have agreed to implement some changes within the organisation so that it can be managed more efficiently. Firstly, the Bank will no longer be providing

investment management services, and the clients have been notified accordingly; and secondly the activities of our Commercial Finance and Israel Related Finance Desks have been merged to form the International Commercial & Hi-Tech Finance Desk, incorporating our hi-tech banking offering.

Moving forward, we will be focusing on our expertise and core strengths, and we will continue to provide clients with an exceptional level of specialist banking services.

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Commodity Markets and Trends

by Michael Rolfe, Head of Commodity Finance

🌐 **Commodities are currently outperforming equities, as consumer demands grows and the need to move major commodities such as energy, metals and agricultural products from one continent to another continues to be a daily challenge. Bank Leumi (UK) plc's Head of Commodity Finance, Michael Rolfe, explains how the bank works with global and niche commodity traders in the UK and internationally.**



Every day, things are getting faster. It's the nature of the 21st century and the impact of technology. The consequence is that our patience is getting shorter. This applies to business as much as to any other sector. As a result, being able to respond quickly and effectively, and to a specific requirement, can be the difference between success and failure.

From our central London offices, our commodity finance team works with a range of trading companies to provide short-term, transactional self-liquidating finance. We mainly finance in the base metals, steel, energy and agricultural commodity sectors, meeting our clients' individual needs. This approach is consistent across Bank Leumi (UK) as we focus on relationship management and providing tailored solutions.

We track the commodities being financed from origin to final destination, following each transaction

via our bespoke commodity monitoring systems, which allow us to keep a detailed collateral position on an individual client basis. This system, together with our dedicated and professional team, allows us to correctly value the commodities financed which are given as security to the bank. On occasions, we will consider more complex pre-production financing facilities, which necessitate the mitigation of longer term commodity price risk and use of the political / contract frustration insurances.

Brexit has raised the question of whether the UK needs to resume and maintain raw steel production

The geopolitical element is particularly relevant when it comes to the energy market. It's a very simple equation; oil prices could rise if major providers such as Libya and Nigeria are having problems, or unilateral sanctions are imposed on an oil producing nation.

One of the biggest game-changers in the past four years has been the shale revolution in the USA, which has impacted prices and seen the USA move to self-sufficiency. OPEC's decisions over the past years to pump more low cost oil to reduce high cost shale production has not proved to be successful, as the USA continues its drive to remain self-sufficient. Currently, we see an interesting dynamic in the market, with certain energy prices being in backwardation (when the near-term cash price is higher than the forward futures price), meaning that the large oil inventories built up by traders are unwinding.

Looking at the steel market, Brexit has raised the question of whether the UK needs to resume and maintain raw steel production, as there's a possibility that it will become of strategic importance. If we're no longer part of Europe, it may not be possible to source high quality European semi-finished / fabricated products that the UK often uses and requires on a just-in-time basis.

Commodity Markets and Trends

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Renegotiating trade deals with Europe doesn't mean that China (a steady import source for steel to the UK) will not also look to renegotiate trade deals which could be at detriment to the UK. Looking ahead, we may need more production in the UK, but this means discussions on the sourcing of steel making raw materials, and addressing environmental concerns which make the UK a high cost producer.

One of the biggest things that has happened in the agri market is Fairtrade. There has been a realisation by the Westernised World about wanting to know where a product comes from

Base metals such as aluminium, copper, zinc, lead and tin are heavily influenced by China and Asia, who are some of the world's largest base metal producers – accordingly, they are major importers of base metal concentrates. Production cuts in these regions (which are not only major exporters but also strong domestic consumers of their own product) mean that the flow of base metal concentrates slows, causing storage / logistic bottlenecks, which leads to price

volatility. Over the past 12 months, metal prices have been strong, which has led to a level of investment fund activity as base metals are once again an attractive asset class for investors. At Bank Leumi (UK), we have good expertise in financing flows of base metal concentrates, including those sourced from the African copper belt.

Although we don't get involved with precious metals, we have seen demand growth in noble alloys, such as cobalt and indium, with some prices significantly increasing. This is being driven by the demand for batteries in electric-powered cars. When France recently made its announcement about banning petrol and diesel vehicles by 2040, Tesla's share price shot up. They and the other big car manufacturers are beginning to retool with a view on electric cars, and associated metals will be in demand.

The key difference between agri commodities and other commodities is that they're seasonal. Recently, weather conditions in the US – including drought in certain areas – has impacted wheat and soya harvests. With supply dynamics, prices immediately start creeping up, as people consider a potential supply deficit. There's still enough food around the world. One of the biggest things that has

happened in the agri market is Fairtrade. There has been a realisation by the Westernised world about wanting to know where a product comes from, ensuring child labour was not involved, and proper wages and prices have been paid.

People may ask why they should use Bank Leumi's commodity finance team, rather than a larger more recognised commodity bank. Ultimately, we offer similar services to the larger players in the market, but strive to have a better delivery capability because we're small enough and agile enough to have a solutions-driven approach. Nowadays, when you're dealing with one of the large banks, it may take 24-48 hours to complete a transaction or make a payment. With us, we continue to maintain a "same day mentality". For instance, we can often issue a letter of credit within an hour, and are able to make same day USD payments up to 1600 UK time – such a service is often not available elsewhere.

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Politics, Politics, Politics.

by Sarah Ryman, Treasury and Global Markets

On writing this piece six months ago, I highlighted that markets were moving forward with trepidation as political agendas remained unclear. It seems that not much has changed with markets being provided little by way of further clarity on Brexit, popularity of Eurosceptic parties building in both Italy and Germany, chaos surrounding the Catalan Independence Vote and escalating tensions between North Korea and the US.

Whilst the first half of 2017 has seen some of the largest economies pick up more than anticipated, such as the Euro area, Japan and China, it is yet to be seen whether the momentum can be sustained. Global growth is projected to increase to 3.5% this year and 3.7% next year from 3% in 2016. Global manufacturing PMI increased to its 75-month high in August.

UK

The UK economy is expanding more slowly than previously thought whilst the dominant services sector shrank

in July, suggesting a further loss of momentum just as the Bank of England prepares to raise interest rates for the first time in a decade. UK GDP grew at the slowest rate for four years at 1.5% for Q2, year-on-year, and the current account deficit widened. The Prime Minister struggled to strengthen her position following the snap election and was forced to form another coalition.

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Europe

Meanwhile, France's GDP grew to 1.9% in Q2, which is the highest level since 2011, and Germany's general elections saw Angela Merkel also forming a coalition. Concerns around the political environment could hamper prospects of QE tapering in the area which markets were expecting to be announced in the coming months.

US

The probability of a rate hike by the end of 2017 has decreased due to the

impact of the recent hurricanes, although Federal Reserve Governor, Janet Yellen, has reiterated that she supports a continued and gradual rising of US interest rates, stating that it would be imprudent to wait for inflation to reach 2%. The central banks have the continued challenge of balancing inflation and economic growth. Eyes remain on the US as geo-political risk continues to rise following the latest missile tests and North Korea's nuclear program.

Equities

Equities have generally gained despite mixed economic data and political uncertainty. Fiscally expansive policies in the USA and improved corporate earnings in the Eurozone and UK have been supportive. As we move into the final quarter of 2017, one hopes for greater stability as we move into 2018; whatever the weather, Bank Leumi (UK) remains on hand to work with you going forward.

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