



מודפס גם בעברית

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	Rate	Return in % July	Return in % 2010
TA 100	1,030	0.75	-3.36
TA 25	1,119	2.30	-2.31
DOW JONES	10,466	6.03	0.36
NASDAQ	2,225	5.60	-0.64
NIKKEI 225	9,537	-0.35	-9.57

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INVESTOR'S REVIEW

ESPECIALLY FOR LEUMI PRIVATE BANKING CLIENTS

Israeli Macro Economic Review

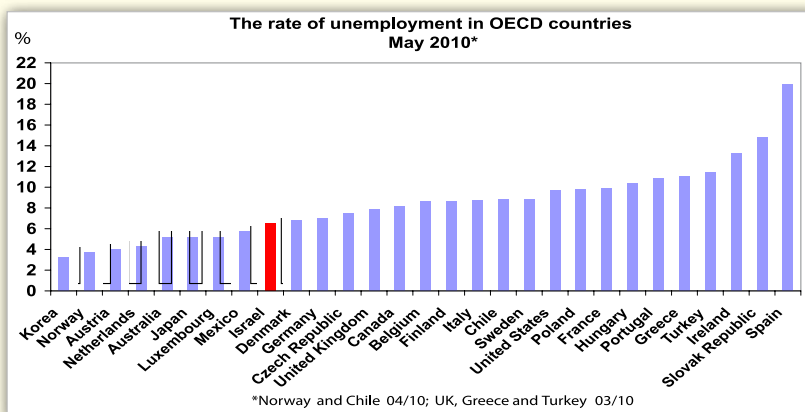
By: **Eyal Raz**, Head of Economics Dept. Finance and Economics Division

The State of the Economy Index points to a deceleration in economic activity growth in 2Q10

The State of the Economy Index, published by the Bank of Israel (BoI), rose 0.1% m/m in June following stability of the index in April and May. This means that the overall increase of the index in 2Q10 was very small compared to previous quarters and reflects slow economic growth during this quarter. The Central Bureau of Statistics (CBS) published a revised estimate of economic growth for 1Q10, according to which GDP grew by 3.4% q/q in annualized terms while the business sector's output rose by 4.4% during this period. Previous CBS estimates were higher, at 3.6% and 4.8% respectively.

It is possible that this data points to a slowdown of growth in 2Q10 with fewer exports of goods leading this development. Moreover, export data by geographic destination point to a stabilization of exports to all three main export destinations: the EU, the US and Japan. Therefore, the recent slowdown in exports seems to be widespread and not centered upon a particular region. Looking ahead, an additional slowdown of exports growth is possible, especially looking towards 2011, during which economic growth rate is expected to decline in most of Israel's trade destinations.

The unemployment rate in Israel is relatively low in comparison to most OECD countries



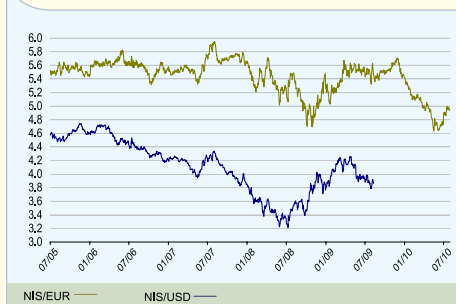
The downward trend of the unemployment rate in Israel continued in May. CBS monthly data show that the unemployment rate has declined to 6.5%, the lowest rate since late 2008, during the peak of the global economic crisis. Such a low unemployment rate may reflect the economy coming close to a state of "full employment". Note that the rate of unemployment tends to lag after the state of the economy and is not a leading indicator.

The quick recovery of the Israeli labor market and the decline of the unemployment rate to a low level, reflect greater flexibility in this market than in the past, along with better opening initial conditions of the Israeli economy during the global financial crisis. As shown in the chart, Israel is positioned well compared to other countries: most OECD countries have a higher unemployment rate than Israel, with an average of 8.6%, with a higher average among the European members of the OECD, of 9.6%.

World Macro Economic Review

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

EUR and USD vs. NIS



TA25



Oil prices per barrel (USD)



Gold prices (USD)



The first month of the second half of 2010 did not impart particularly favorable macro data originating from the US. Most of the data released in July pointed to a trend of sluggishness in economic growth. However, despite the increasing concerns, there is no evidence of the economy returning to a recession. At the same time the second quarter 2010 financial reporting season opened, which in contrast to the macro data was mostly favorable relative to expectations, "fueling" both positive investor and the capital markets.

As mentioned, US macro data reflected weakness in economic growth. The real estate sector continued to demonstrate very poor activity, though while very steep monthly growth was recorded in June home sales, this followed reports of a sales pace which in the previous month reached its lowest level in historic terms. Nevertheless, it is worthwhile noting that most of the data continues to indicate economic expansion. The data that harmed sentiment the most were those relating to the state of the US consumer. The month opened with a particularly lackluster job report. In total 125,000 jobs were shed in the US economy in June whereas the private sector created only 83,000 new jobs. The total number of jobs created by the private sector since the beginning of the year totals 593,000 in an economy that shed 8.5 million jobs in the last two years. Quite unsurprisingly, the US citizen's mood has recently been damaged subsequent to economic concerns and the slow recovery in employment. The downcast atmosphere was reflected, among others, in a fall in the University of Michigan's Consumer Confidence Index, in poor Retail Sales data, and in a sharp contraction in total Consumer Credit during the months of April and May.

At the end of the month, initial assessments on second quarter 2010 US GDP were released. As forecasted, the data reflected sluggishness in all GDP sections relative to the performance in the first quarter of 2010. Private consumption grew by an annualized 1.6% only, considerably below forecasts of a 2.4% pace. Growth in corporate investments and continued growth in inventories were notable in their positive contribution to growth whereas the higher trade deficit detracted 2.8%(!) from quarterly GDP, after total import demonstrated almost 30% growth during the quarter.

Also in the headlines this month was the semi-annual testimony of Ben Bernanke, the US Chairman of the Fed, before the Senate's banking committee. The Chairman's remarks asserting the considerable uncertainty typifying the future of economic growth and the Fed's willingness to return to being involved in markets should the need arise, contributed to increasing investors' concerns. On the other hand, published results of the European banks stress tests contributed to easing the pressure. Out of 81 banks taking the tests, only seven failed. These banks will need to raise a total of 3.5 billion euro versus previous estimates of 38 billion euro or more that would be needed after the aforementioned tests results.

US future pace of growth is highly dependent on the job situation in the economy and in consumer sentiment. So long as the pace of the private sector's adding new jobs will be slow, economic growth is also expected to be sluggish and consequently to have an influence on global growth. In such a case, we may be experiencing repeated growth in the level of concerns regarding the debts of European countries which again will raise question marks regarding the banks' financial strength in the region. While we believe that despite the trend of sluggishness, the US economy will not be returning to a path of recession, we continue to estimate that the global economy is far from successfully overcoming the towering stumbling blocks on the road to recovery.

BABs – Build America Bonds

By: **Itamar Dar**, Capital Market Research Dept. Investment Counseling Division

The American comedian, Will Rogers once said that horses are cleverer than people, because he had never heard of a horse that had gone bankrupt because it backed the wrong person.



Despite the logic in this statement, we recommend gambling on an investment in BABs. While the name is, indeed, reminiscent of a race horse, in this instance reference is to the abbreviation of Build America Bonds, a new investment channel created in the wake of the recent economic recession in the US. While an investment in BABs produces a relatively high yield to maturity, it does have a number of risks in store and, consequently, is not suitable for investors with high risk aversion.

The BABs are a part of the American Recovery and Reinvestment Act, a relatively new law in the US, enacted in February 2009. This law is intended to assist the American economy exit from the deep recession stemming from the credit crisis and the burst of the real estate bubble, which began in the summer of 2007. As a part of the law, the American administration decided on a series of different aid packages for the economy in a diversity of fields at a total cost of \$787 billion. The BABs are bonds issued by US states and cities, which, in contrast to regular government bonds from which American investors enjoy tax exemptions on nominal interest receipts and, consequently, are not attractive for foreign investors (the tax exemption results in American investors being prepared to suffice with fairly low yields), the BABs are likely to provide an interesting investment option for foreign investors.

Pursuant to the law, the various US states must manage a balanced budget and, in contrast to the American administration, they cannot issue debt and use the proceeds to cover their deficits. Similarly to regular municipal bonds, the BABs are intended to aid state and local authorities to finance large projects in the infrastructure, education and health fields

such as road building and constructing schools. By nature, these projects are long-term and, as such, most of the BABs issued have long maturity terms, up to 30 years. Since the issue of the first BABs by Stevens Point, Wisconsin, at the beginning of 2009 for a total sum of \$3.65 million, the new financial instrument has gained momentum. Up to the present, the total volume of BABs issued has reached \$120 billion. The American Bank Wells Fargo has launched an index that calculates the average yield to maturity of BABs.

Currently, the average yield to maturity of BABs is approx. 6%. This yield to maturity is 2.1% higher than 30-year US government bonds and even another 0.25% higher than the average yield to maturity of investment grade US corporate bonds for terms exceeding 15 years. While, *prima facie*, reference is to an attractive yield, it must be remembered that BABs involve two primary risks: Firstly, the long average duration of the bonds and the deficits of many of the states and local authorities that issued them. Secondly, 46 of the 50 states in the US are expected to present deficit budgets in 2011.

As aforementioned, the law does not allow the various states to finance their deficits by issuing debt and, consequently, a decisive majority of the 50 states have already executed sharp and painful budgetary cuts which impacted the education, health, welfare and personal security of the citizens. The deficits can also be handled by increasing revenues through increased taxes. During the current credit crisis more than 30 states raised taxes, some of them substantially.

The heavy deficits of the various states and the fact that future economic growth in the US is expected to be moderate and slow, will continue to burden the states' budgets in the future. However we are convinced that an investment in BABs could be suitable for investors who do not fear risks, under the assumption that the US federal government will continue to aid the various states in the future as well and, as much as possible, make every effort to avoid pushing any particular state into a corner placing it in a near bankrupt situation. This type of situation could have very serious implications for the entire US social and economic situation.

The average Israeli investor is not expected to be perfectly familiar with the economic situation and difficulties of US states or municipalities. An ETF, which currently follows up on a BABs type bonds basket, is available to their disposal. Details are available in the feature ETF section on page 4.

LEUMI'S CHOICE STOCK

Teva Pharmaceutical Industries Ltd.

By: Leumi Partners Research Ltd.

Current Price - \$ 50.0 (3.08.10) | Target Price - \$ 63.90

Recommendation - Outperform

Established in 1901, Teva develops, produces and markets generic drugs, medical products and medical components throughout the world. The company has plants and marketing centers in North America, Europe and Israel. Furthermore, it develops and markets unique drugs such as Copaxone for multiple sclerosis treatment and Azilect for treating Parkinson's disease.

Over recent years, the company has benefitted from both organic growth, mainly in the American market, and growth as a result of its large-scale acquisitions.

The company has the largest accumulation of generic products in the industry, in Q2/10 it had 206 products waiting for FDA approval. The total sales value of these products, in original product terms, exceeds \$107 billion. The company believes that it will obtain 180 days of exclusivity for 62 of these products, which reflects sales worth \$48 billion. The company also has a large product portfolio in the innovative field and numerous investments in R&D companies.

On July 27th, 2010, the company published its Q2/10 results, which once again indicated impressive growth in both the American and European markets (in domestic currency terms). As a result of this strong quarter, the company has increased its 2010 earnings forecast to \$4.5 – 4.6 per share.

It should be noted that, in its earlier assessment, following the launching of a number of significant products, the company specified that H2/10 is expected to be substantially stronger than H1/10.

We believe that, taking currently known data into account, the declines in the company's share price over recent trading days, due to fears of earlier-than-expected damage to company's current banner product, Copaxone, were exaggerated. In any event, the company's strategy program includes an intention to substantially reduce the dependence on Copaxone, which is expected to account for only approx. 6% of its sales in 2015.

We believe that most of the risks facing the company over the next few years are embodied in the share price. Consequently, our recommendation for the company's share is outperform.

ETF Feature

SPDR Capital Build America Bond ETF

By: Itamar Dar, Capital Market Research Dept. Investment Counseling Division

This relatively new ETF, launched in mid-May 2010, manages an asset volume of \$455 million. In a rising trend, the average daily trading volume is \$5.5 million.

The following table presents details on SPDR Capital:

Symbolization:	BABS US Equity
Currency	USD
Management fees	0.35%
Management company	SSGA Funds Management Inc
Dividend distribution frequency	Monthly
Dividend yield forecast for the coming	5.6%
Dividend taxation rate	25%
Number of bonds held by the ETF	46
Average credit rating of the bonds held	AA-
Average yield to maturity in the index	6.1%

The major holdings of the ETFs are in BABS, issued by California (36%), New York (15%), Texas (12%), Illinois (9%), Georgia (6%) and Nevada (4%).

The "Rows of Bodies" Exhibition

By: The Marketing Dept. External Relations & Public Affairs Division

The exhibition, promoted by Leumi as a part of the bank's tradition of supporting Israeli art, explores the relationship between body and location, a concept expressed by generations of artists in the elite echelons of Israeli art.

Exhibition curator - Uri Dassau
Through November 5, 2010 - free of charge
Beit Mani, Leumi's Visitor and Arts Center
36 Yehuda Halevy Street, Tel Aviv
Tel: 03-5149705

Additional information is available on the Leumi website: www.leumi.co.il

LEUMI PRIVATE BANKING CENTERS IN ISRAEL

PRIVATE BANKING FOR ISRAELI RESIDENTS

TEL AVIV
The Millenium Building, 17 Ha'Arbaa St.
Tel: 972-3-623-7300

HAIFA
Dan Panorama Hotel, 107 Ha'Nasi Ave.
Tel: 972-4-835-0333

HERZLIYA
Business Park, 85 Medinat Hayehudim St.
Tel: 972-9-960-9311

JERUSALEM
19 King David St.
Tel: 972-2-620-1887

PRIVATE BANKING FOR FOREIGN RESIDENTS

TEL AVIV
23 Floor Dizengoff Top Tower
55 Dizengoff Street
Tel: 972-3-621-7444

17 Floor Dizengoff Top Tower
55 Dizengoff Street
Tel: 972-3-621-7333

JERUSALEM
19 King David St.
Tel: 972-2-620-1800

www.bankleumi.com

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