



The Domestic Market

January 26th, 2012

Weekly Review of the Israeli Capital Market 22/01/2012-26/01/2012

A Summary of the Recommendations in the Review

Equities	<p>With the beginning of the year, we expect events in Europe to continue capturing the focus of investor attention and that the fierce volatility that has accompanied trading in 2011 will continue. Furthermore, the current pricing soundly reflects the numerous challenges facing companies in the domestic market, primarily with regulatory tightening, difficulties in financing operations and the Israeli consumer's awareness of his own strength. Despite the aforementioned, because the multiplier's level is relatively lower than in the past, the current price level appears to be attractive for long-term investors, who do not fear volatility.</p>
Bonds	<p>We believe that, during the forthcoming year, the government channel will be affected by the Euro Zone's ability to cope with the debt crisis and developments in the corporate channel relating to companies in the domestic market being able to recycle debt and raise credit. On the inflation plane, it would appear that the recent bank rate cut has not increased inflationary pressures substantially and that inflation is expected to remain close to the center of the price stability target, as is reflected from market expectations as well. In view of the aforementioned, we continue to hold a balanced mix between the unindexed and indexed channels.</p> <p>The current general expectation in the market indicates continuing the bank rate lowering trend. Furthermore, domestic demands are expected to support the yields level in the government channel, when taking the anticipated increase in the raising volume into account as well. In view of the aforementioned, we believe that investments in the medium-long average anticipated lifespan in the government channel are preferable.</p> <p><u>Corporate bonds</u> – Lowering the rating and the debt arrangements should continue affecting sentiment in the corporate channel. Consequently, we recommend investing in bonds with an average expected lifespan of up to 3 years, which belong to financially solid companies.</p>
Forex	<p>Over the short term, shekel trading is expected to continue being affected by major events in the global economy. Amongst the events that are expected to have an effect, the current negotiations with the Greek government and macro data in the US can be singled out.</p>

Major Events in the Capital Market during the Past Week

Equities

- ⌚ The Trading week on the TASE featured price declines led by the insurance and communication shares.
- ⌚ The biomed sector also stood out with price declines this week. Inter alia, the declines in the index were affected by a decline of more than 85% in the D Pharm share.

Bonds

- ⌚ This week, government bond trading featured a mixed trend against the background of the surprising bank rate cut.
- ⌚ This week there were moderate corrections in the corporate channel after a number of weeks of hikes. The first buds of a return to issues on the part of companies from the second and third tiers were observed in the primary markets, despite the continuing spread of debt arrangements in the market.

Forex

- ⌚ This week, global forex trading was conducted against the background of the continuing decrease in fear levels in Europe.

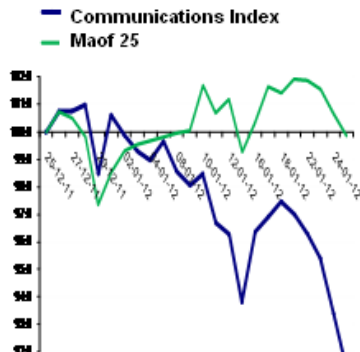
This publication is presented, based solely on public information openly available to the general public. It should not be perceived as a recommendation or an alternative to the reader's own individual considerations or as an offer or invitation to obtain offers or advice, whether generally or by weighing the data and special needs of any reader, to acquire and/or execute investments and/or any activities or transactions whatsoever. Apart from instances where it is specifically mentioned, data has been taken from Megama, Graphit, Bloomberg and other sources. No other examination has been made to verify the information forming the basis to this article. There could be errors in the information and market and other changes are likely to occur. Furthermore there could be substantial discrepancies between the assessments introduced here and actual results. The bank does not undertake to inform readers of the aforementioned changes in any manner whatsoever either in advance or post facto. The bank and/or its subsidiaries and/or its associated companies and/or its controlling interests and/or interested parties, whomever they might be, could have an interest in the information from time to time.



The Domestic Market

Stock Market

Change in TA Communications and Maof Indices over Past Month



The trading week on the TASE featured price declines led by the insurance and communication shares. At a daily average volume of only approx. 0.9 billion (on neutralizing the expiry volume), the decreasing trend in trading volumes continued over the past week, compared with the average of approx. NIS 1 billion since the beginning of the year, and approx. NIS 1.5 billion last year. The standard deviations embodied in

the Maof Index for February are approx. 20%, compared with 28% last month, and reflect optimistic short-term investor expectations. On Thursday, the January Maof Index options expired at a level off 1125.95 points, embodying a hike of approx. 1% on the basis rate. The expiry volume was low at approx. NIS 0.9 billion.

Index	Return in 2008	Return in 2009	Return in 2010	Return in 2011	Return since the Beginning of the Year	Return since the Beginning of the Week
TA 25	-46.2%	74.9%	15.8%	-18.2%	4.1%	0.6%
TA 75	-67.7%	149.8%	15.7%	-25.9%	6.4%	-1.3%
Banks Index	-55.9%	114.0%	6.8%	-34.6%	9.0%	0.5%
Real Estate 15	-79.7%	125.2%	15.4%	-23.2%	5.4%	-0.6%
Yeter 50	-73.0%	147.0%	19.7%	-25.7%	5.9%	-2.4%
Yeter TA	-63.5%	131.3%	26.8%	-27.8%	5.0%	-2.3%
Blue Tech-50				-9.4%	6.5%	-0.1%

Insurance and Communications (still) Attract Attention

As aforementioned, this week, sharp price declines were evident in communications and insurance shares. Communications shares (cellular), which for some time have been under regulatory tightening and which have already suffered prejudiced results, recorded sharp declines against the background of a foreign bank's sell recommendation. We reiterate that, at the end of last week, Cellcom published an earnings warning for its forthcoming results, which is evidence of the expected difficulties facing these companies over the immediate term.

Insurance shares declined in the wake of the proposal raised in the Knesset, this week, to limit the management fees that insurance companies and investment houses collect to 0.7%. The significance of this is that if, thus far, the primary factor that overshadowed the sector's companies' profitability were the declines in the capital market, which affected the nostro portfolios' profitability and their revenues from earnings participation premiums, surely, from now on, the "conservative" component in their earnings deriving from fixed management fees will absorb shocks. Should a reduction in management

This publication is presented, based solely on public information openly available to the general public. It should not be perceived as a recommendation or an alternative to the reader's own individual considerations or as an offer or invitation to obtain offers or advice, whether generally or by weighing the data and special needs of any reader, to acquire and/or execute investments and/or any activities or transactions whatsoever. Apart from instances where it is specifically mentioned, data has been taken from Megama, Graphit, Bloomberg and other sources. No other examination has been made to verify the information forming the basis to this article. There could be errors in the information and market and other changes are likely to occur. Furthermore there could be substantial discrepancies between the assessments introduced here and actual results. The bank does not undertake to inform readers of the aforementioned changes in any manner whatsoever either in advance or post facto. The bank and/or its subsidiaries and/or its associated companies and/or its controlling interests and/or interested parties, whomever they might be, could have an interest in the information from time to time.



The Domestic Market

fees eventuate, this is surely likely to result in substantial damage to the companies' values and, consequently, also the negotiations being conducted for the sale of some of the larger companies in the sector.

In this context, we mention another company, which is interested in minimizing some of its assets, the holding company, IDB Development, which is having difficulty in realizing some of its holdings in Clal Industries. This week, the company reported that, in the negotiations with the Viola Foundation, the possibility of a certain reduction in Clal Industries' value to lower than NIS 3.8 billion was discussed. Further to these reports, it has been published that the company was approached by additional business groups in relation to the possibility of executing a transaction for acquiring the control over certain of Clal Industries' assets, including Mashav.

The Biomed Sector has Attracted Attention

The biomed sector also stood out with price declines this week. Inter alia, the index was affected by declines of more than 85% in the D Pharm share after it had reported that it had received instructions to stop the clinical trial during the third (and final) stage in its banner drug for the treatment of stroke victims. In this context, it should be noted that the biomed sector is characterized by fierce volatility and is traded primarily against the background of developments in its constituent companies and a low coefficient to the macroeconomic developments in the markets. It should also be noted that many companies in the index are "dream companies." I.e. companies that are in the R&D stages and have not yet yielded any revenues whatsoever. For the most part, these companies are characterized by high financial outlays for drug or product development and, consequently, from time to time they require additional raisings, which dilute the value of existing shareholders and which are sometimes executed at lower than market prices.

The development in the D Pharm share demonstrates the huge risk involved in investment in the sector's companies. We emphasize that an investment in the sector is suitable primarily for speculative investors with a higher risk profile, while conservative investors are recommended to hold the sector in a low weight, if at all.

More Agreements in the Energy Sector

In contrast to the aforementioned sectors, the energy sector featured mild price hikes. These were supported by reports from the Tamar partnerships on signing another agreement for supplying 3.3 BCM of natural gas at a price of \$6.3 per mmbtu. We reiterate that recently agreements were signed at prices of \$5-6.3. We believe that these transactions are a reference to the partnerships' abilities to engage in agreements for the sale of gas and raise the economic certainty level of the reservoirs. However, it is important to note that the immense challenge of establishment is still facing the partnerships. Should the partnerships succeed in the establishment stage and commence the gas supply from Tamar, we can expect an additional hike in the values of the companies, which will become companies that sell a real product, similarly to industrial companies. However, in contrast to industrial companies, the energy companies are expected to reach a balance point only after number of years, because of the high capital investments required in the preparation and establishment stages.

This publication is presented, based solely on public information openly available to the general public. It should not be perceived as a recommendation or an alternative to the reader's own individual considerations or as an offer or invitation to obtain offers or advice, whether generally or by weighing the data and special needs of any reader, to acquire and/or execute investments and/or any activities or transactions whatsoever. Apart from instances where it is specifically mentioned, data has been taken from Megama, Graphit, Bloomberg and other sources. No other examination has been made to verify the information forming the basis to this article. There could be errors in the information and market and other changes are likely to occur. Furthermore there could be substantial discrepancies between the assessments introduced here and actual results. The bank does not undertake to inform readers of the aforementioned changes in any manner whatsoever either in advance or post facto. The bank and/or its subsidiaries and/or its associated companies and/or its controlling interests and/or interested parties, whomever they might be, could have an interest in the information from time to time.



The Domestic Market

Predictive Information

With the beginning of the year, we expect events in Europe to continue capturing the focus of investor attention and that the fierce volatility that has accompanied trading in 2011 will continue. Furthermore, the current pricing soundly reflects the numerous challenges facing companies in the domestic market, primarily with regulatory tightening, difficulties in financing operations and the Israeli consumer's awareness of his own strength. Despite the aforementioned, because the multipliers' level is relatively lower than in the past, the current price level appears to be attractive for long-term investors, who do not fear volatility. On taking a sectoral view, we believe that holding the pharmaceutical and energy sector rose above the market weight is recommended

Following are Our Sector Recommendations

Sector	Sector's Weight in Index	The Extent of Exposure to the Sector in Relation to its weight in the Index
Pharmaceutics	20%	High.
Banks	18%	Like its weight in the Index
Technology	10%	Like its weight in the Index
Communications	10%	Low
Chemical without Pharmaceutics	9%	Low
Real Estate	7%	Like its weight in the Index
Energy	7%	High.
Holding	6%	Low
Insurance	3%	Like its weight in the Index
Other	10%	
Total	100%	

The Bonds Market

Following the surprising bank rate cut, this week government bond trading featured a mixed trend. On summarizing the week, the indexed government bond index rose by approx. 0.2%, while the unindexed government bond index remained almost unchanged. This week, inflationary expectations for one year ahead as reflected in the OTC transactions rose from 1.95% last week to 2.05%.

Israel's risk premium (as measured by the 5-year CDS margin declined to approx. 197 basis points, compared with 205 basis points last week. The yields spread between 10-year unindexed government bonds and US government bonds remained stabled at approx.2.6%.

Continuing Demands for the Government Channel

The surprising bank rate cut this week, supported a preference for the indexed channel over the unindexed channel and gained expression in a sharp short-medium-term yields decline in the indexed channel, compared with those in the unindexed channel. Simultaneously, this week there was a sharp rise in the slopes of the unindexed and indexed curve. The the rise in the steepness, despite the bank rate trend, which is expected to be stable and even decrease, is evidence of the level of uncertainty prevailing in the markets and the compensation required for this. It would appear that

This publication is presented, based solely on public information openly available to the general public. It should not be perceived as a recommendation or an alternative to the reader's own individual considerations or as an offer or invitation to obtain offers or advice, whether generally or by weighing the data and special needs of any reader, to acquire and/or execute investments and/or any activities or transactions whatsoever. Apart from instances where it is specifically mentioned, data has been taken from Megama, Graphit, Bloomberg and other sources. No other examination has been made to verify the information forming the basis to this article. There could be errors in the information and market and other changes are likely to occur. Furthermore there could be substantial discrepancies between the assessments introduced here and actual results. The bank does not undertake to inform readers of the aforementioned changes in any manner whatsoever either in advance or post facto. The bank and/or its subsidiaries and/or its associated companies and/or its controlling interests and/or interested parties, whomever they might be, could have an interest in the information from time to time.



The Domestic Market

the uncertainty level is the primary factor motivating the continuing demands for government bonds over recent months, which has led to an ongoing yields' decline in this channel.

Simultaneously, this week, the Ministry of Finance executed a 10.5-year dollar Israeli government bond issue overseas. This is the first issue specified in USD since 2009. High demands of approx. \$5.8 billion were recorded in the tender, while the actual volume issued was only \$1.5 billion. The closing yield was 4.115% and, according to the Treasury, reference is to a lower raising cost than the State of Israel has ever paid in a dollar issue. It should be noted that this yield is consistent with the pricing of bonds in countries with a similar rating to that of the State of Israel.

In view of the aforementioned, it would appear that even under current market conditions, the State of Israel has an alternative for raising debt instead of raising in the domestic market. This fact, alongside high domestic demands, is expected to support the yields' level in the channel even if volumes larger than currently planned are executed as a result of the anticipated declines in the state's revenues. Consequently, we maintain our recommendation to hold a medium-long average anticipated lifespan in the government section of the investments portfolio.

Inflationary Expectations Derived from the Capital Market			
	Current	A Week Ago	A Month Ago
1 Year Ahead	2.12%	1.83%	1.72%
For 3 years	2.27%	2.36%	2.21%
For 10 years	2.63%	2.60%	2.59%

Government Bond Yield Developments				
	Years To Maturity	Current	A Week Ago	A Month Ago
1-year Treasury bill	1	2.43%	2.47%	2.50%
Shahar 2683	5	3.24%	3.26%	3.29%
Indexed Govt. Y20	9	4.23%	4.16%	4.24%
Galil 5472	4	0.61%	0.70%	0.78%
Galil 5903	10	1.97%	1.97%	2.08%

Price Declines in the Corporate Channel

After the corporate channel trading trend had been positive over the past month, this week price declines return to the channel. On summarizing the week, the Tel-Bond 20 Index remained almost unchanged, while the Tel-Bond 40 and Unindexed Tel-Bond Indices declined by approx. 0.15% and 0.25% respectively. The yield spreads required on the Tel-Bond Indices above government bonds has widened, compared with the level at the end of the previous trading week. Thus, the spread required for the Tel-Bond 40 and Unindexed Tel-Bond Indices is approx 2.7% and 1.95% respectively, while the spread for the Tel-Bond 20 Index is approx. 2.6%

Overtures for a Return to the Primary Market

After a relatively long period of a relative freeze in the primary market (excluding the banks sector, in which, over recent months, there have been large volumes of raisings without any difficulties), a number of second and third tier companies have also announced their intention to attempt to raise debt on the primary market. These companies include Discount Investments and the Dori Group etc. In addition to these, Alon Gas (which performed an issue to institutions) and Giron are already in the advanced stages of planning a public issue. The degree of success of the forthcoming issues will serve as an additional indicator as to the risk appetite level prevailing in the

This publication is presented, based solely on public information openly available to the general public. It should not be perceived as a recommendation or an alternative to the reader's own individual considerations or as an offer or invitation to obtain offers or advice, whether generally or by weighing the data and special needs of any reader, to acquire and/or execute investments and/or any activities or transactions whatsoever. Apart from instances where it is specifically mentioned, data has been taken from Megama, Graphit, Bloomberg and other sources. No other examination has been made to verify the information forming the basis to this article. There could be errors in the information and market and other changes are likely to occur. Furthermore there could be substantial discrepancies between the assessments introduced here and actual results. The bank does not undertake to inform readers of the aforementioned changes in any manner whatsoever either in advance or post facto. The bank and/or its subsidiaries and/or its associated companies and/or its controlling interests and/or interested parties, whomever they might be, could have an interest in the information from time to time.



The Domestic Market

market and the chances of the success of companies in recycling debts in the capital market later during the year.

The Development of Yields Spreads from Government Bonds			
	Current	A Week Ago	A Month Ago
Tel-Bond 20	2.58%	2.45%	2.65%
Tel-Bond 40	2.68%	2.60%	2.97%
Unindexed Tel Bond	1.93%	1.81%	1.94%

Indexed Government Bond yields spreads According to Rating			
Expected Lifespan in years	AAA-AA-	A+ - A-	BBB+ - BBB-
0-3	1.01%	3.67%	8.20%
3-6	1.21%	3.10%	8.58%
6-10	1.45%	3.03%	

Predictive Information

We believe that, during the forthcoming year, the government channel will be affected by the Euro Zone's ability to cope with the debt crisis and developments in the corporate channel relating to companies in the domestic market being able to recycle debt and raise credit. On the inflation plane, it would appear that the current bank rate cut has not increased inflationary pressures substantially and that inflation is expected to remain close to the center of the price stability target, as is reflected from market expectations as well. In view of the aforementioned, we continue to hold a balanced mix between the unindexed and indexed channels.

The current general expectation in the market indicates continuing the bank rate lowering trend. Furthermore, domestic demands are expected to support the yields level in the government channel, when taking the anticipated increase in the raising volume into account as well. In view of the aforementioned, we believe that investments in the medium-long average anticipated lifespan in the government channel are preferable.

The indexed channel - We believe that an average expected lifespan of 5-8 years should be maintained in this section of the portfolio.

The unindexed channel - We believe that an average expected lifespan of 4-7 years should be maintained in this section of the portfolio.

Corporate bonds – Lowering the rating and the debt arrangements should continue affecting sentiment in the corporate channel. Consequently, we recommend investing in bonds with an average expected lifespan of up to 3 years, which belong to financially solid companies.

The Forex Market

This week, global forex trading was conducted against the background of the continuing decrease in fear levels in Europe. This gained expression in the euro's strengthening against the dollar and was also evident in these currencies' trading against the shekel. The calmness was recorded against the background of renewed negotiations between the Greek government and private investors relating to the degree of the "cropping" of Greek bonds, as well as against the background of continuing optimism in the equities markets.

Furthermore, as a part of the first fund rate decision of the year, the Fed announced that the US fund rate would remain at its current level between 0% and 0.25% at least until

This publication is presented, based solely on public information openly available to the general public. It should not be perceived as a recommendation or an alternative to the reader's own individual considerations or as an offer or invitation to obtain offers or advice, whether generally or by weighing the data and special needs of any reader, to acquire and/or execute investments and/or any activities or transactions whatsoever. Apart from instances where it is specifically mentioned, data has been taken from Megama, Graphit, Bloomberg and other sources. No other examination has been made to verify the information forming the basis to this article. There could be errors in the information and market and other changes are likely to occur. Furthermore there could be substantial discrepancies between the assessments introduced here and actual results. The bank does not undertake to inform readers of the aforementioned changes in any manner whatsoever either in advance or post facto. The bank and/or its subsidiaries and/or its associated companies and/or its controlling interests and/or interested parties, whomever they might be, could have an interest in the information from time to time.



The Domestic Market

the end of 2014. This came after, until recently, it had limited the time range to H1/2013. This announcement also supported the dollar's global weakening trend.

As aforementioned, trading against the shekel was conducted similarly to global events. Thus, the dollar's exchange rate declined by approx. 0.6%, while the euro strengthened by approximate 0.5% crossing the NIS 4.9 to the euro level. It should be noted that the Bol's surprising decision to cut the bank rate for February by 0.25% to 2.5% had no real effect on trading. Apparently this is in view of assessments that the decision was an early realization of expectations for a future bank rate cut and does not contain any real change in the bank rate trend in the domestic economy.

On Thursday, the representative rates of the currencies was set at approx. NIS 3.764 to the \$ and approx. NIS 4.9466 to the €.

	The return since the beginning of the year	Return over the past week (from 20/01)
Dollar-shekel	-1.5%	-0.5%
Euro-shekel	0.2%	1.0%

Predictive Information

Over the short term, shekel trading is expected to continue being affected by major events in the global economy. Amongst the events that are expected to have an effect, the current negotiations with the Greek government and macro data in the US can be singled out.

Equities: Meital Bar David

Bonds: Ariel Amar and Shai Jerbi

**Yael Brimmer
Capital Market Research Department**

Translated by the Products Marketing Department

This publication is presented, based solely on public information openly available to the general public. It should not be perceived as a recommendation or an alternative to the reader's own individual considerations or as an offer or invitation to obtain offers or advice, whether generally or by weighing the data and special needs of any reader, to acquire and/or execute investments and/or any activities or transactions whatsoever. Apart from instances where it is specifically mentioned, data has been taken from Megama, Graphit, Bloomberg and other sources. No other examination has been made to verify the information forming the basis to this article. There could be errors in the information and market and other changes are likely to occur. Furthermore there could be substantial discrepancies between the assessments introduced here and actual results. The bank does not undertake to inform readers of the aforementioned changes in any manner whatsoever either in advance or post facto. The bank and/or its subsidiaries and/or its associated companies and/or its controlling interests and/or interested parties, whomever they might be, could have an interest in the information from time to time.