Foreign Securities
Weekly Review – February 7, 2010

Major Points

Global Bonds

U.S.A.

- Yields fall attributed to concerns of global countries' potential insolvency such as Greece, Portugal and Spain
- For the time being investors are ignoring the fact that the US also has a large deficit and are willing to be satisfied with low yields

Euro Zone

- Considerable gaps between the various countries. Yields contract in the bonds of established countries while yields rose in the bonds of countries reporting large deficits.
- Despite the high level of yields, an investment is the bonds of Greece, Portugal and Spain is risky and is suitable for investors with an appetite for risk only

Currencies

- On the back of increasing uncertainty in the global economy, the dollar index reflects an average weekly 1.2% appreciation of the US dollar

Fed Contracts

- Erosion continues in the underlying yields of contracts.

Commodities

- Given the strengthening of the dollar, the CRB Index eroded a weekly 2.7% in dollar terms. The price of silver sheds 8.4% from its value. Since the beginning of the year the CRB Index eroded 8.8% in dollar terms

Equities

U.S.A.

- Moderate price declines following a week of volatile trading
- Steep declines in the financial and healthcare sectors, gains in the technology and raw material sectors

Europe

- Prices fall sharply
- Fears regarding the situation in the economies of Greece, Spain and Portugal

Asia-Pacific

- Prices fall in all indexes consistent with the global trend
- Price declines in the technology and raw material sectors

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Macro-Economic Developments

U.S.A.

Personal Income (December)	0.4%	A continuance of the 0.5% growth recorded in the previous month
Private Spending (December)	0.2%	A continuance of the 0.7% growth recorded in the previous month
Core PCE (December)	0.1%	The annualized change in the index rose from: 1.4% to: 1.5%
The ISM Index for the Manufacturing Sector (January)	58.4 points	The highest reading since August 2004
Pending Home Sales (December)	1.0%	The annualized change in the index fell from: 18.9% to: 10.5%
Automobile Sales (January)	10.80 million, annualized	Compared to an annualized pace of 11.23 million automobiles in the previous month
ADP Index Monitoring the Change in the Number of Workers in the Economy (January)	-22,000	Compared to -61,000 in the previous month
ISM Index for the Services Sector (January)	50.5 points	Compared to: 50.1 points in the previous month
Factory Orders (December)	1.0%	A fourth consecutive month of growth in the index
Change in the Number of Payrolls in the Economy (December)	-20,000	Compared to forecasts of an incremental 15,000 payrolls
Unemployment Rate (December)	9.7%	Compared to: 10.0% in the previous month
Change in Consumer Credit	-1.7 billion	An 11th consecutive month of contraction in net credit
This week the following data will be published: Wholesale Inventory and the Trade Deficit for December, January Retail Sales, December Business Inventory and Preliminary Data on the University of Michigan's Consumer Confidence Index for February		

Europe

Euro Zone – ISM Index for the Manufacturing Sector (January)	52.4 points	Compared to 51.6 points in the previous month
Euro Zone – Producers Prices Index (December)	0.1%	The annualized change in the index rose from: -4.4% to: -2.9%
Euro Zone – ISM Index for the Services Sector (January)	52.5 points	Compared to 53.6 points in the previous month
Euro Zone – Retail Sales (December)	0.0%	The annualized change in the index rose from: -2.0% to: -1.6%
Euro Zone – the ECB's Interest Rate Decision	1.00%	No change
Britain – the ISM Index for the Manufacturing Sector (January)	56.7 points	Compared to a 54.6 reading in the previous month
Britain - the ISM Index for the Services	54.5 points	Compared to a 56.8 reading in the previous month

Sector (January		
Britain – the Central Bank's Interest Rate Decision	0.50%	No change
Britain - the Producers Prices Index (January)	0.4%	The annualized change in the index rose from: 3.5% to: 3.8%
This week the following data will be published: In the Euro Zone – Industrial Production in December, Initial Date on the change in fourth quarter 2009 GDP. In Britain – Industrial Production in December and the Rightmove Home Prices Index in February.		

Asia Pacific

China – Purchasing Managers Index for the Manufacturing Sector (January)	55.8 points	Compared to a 56.6 reading in the previous month
India – Export (December)	9.3%, annualized	Compared to 18.2% in the previous month
Australia – Interest Rate Decision	3.25%	No change
This week the following data will be published: In China – Export data and the CPI in January. In India – December Industrial Production. In Australia - the January Jobless Rate.		

Global Government Bonds

US

Yields fell this week in the US government curve. The yields of 2-year, 5 year and 10 year bonds shed 5, 9 and 2 b.p., respectively to 0.76%, 2.23% and 3.57%, respectively. The contraction in yields is based on an additional decrease in investors' risk appetite, given their concerns regarding the financial stability of Greece, and also of Portugal and Spain and the publishing of the January Employment Report.

The first trading days of the week were typified by a tendency to rising yields, supported by the positive economic macro indicators released, such as the growth in private spending and personal income in December and the ISM Index in the Manufacturing Index which pointed to expansion exceeding preliminary expectations in the US economy's manufacturing activity. This week, the US President, Mr. Obama, released his 2011 budget proposal, totaling $3.8 trillion which includes increasing the government deficit to $1.6 trillion, some 10.6% of US GDP. According to economists' expectations, the government's issuances this year are expected to total $2.43 trillion, or 16% growth compared to last year. This week government bond issuances total $81 billion: $40 billion for 3 year bonds, $25 billion for 10 year bonds and the remainder of $16 billion for 30 year bonds. The planned deficit and the ongoing issuances also supported the higher government bond yields.

The contraction in yields in the US curve was mainly recorded in the last two trading days of the week. On Thursday, demand increased for government bonds given the sharp plummets in main equity indexes on the back of developments in the Euro Zone, where concerns are strengthening that economic recovery will take a while given the large budget deficits and difficulties faced by several countries, such as Greece, Portugal and Spain. The January Employment Report was released on the last trading day of the week and the unemployment rate fell to 9.7% after reaching 10.1% in October 2009, a clear trend of improvement. Nevertheless, average economists' forecasts were for a monthly growth in US payrolls. They were disappointed by employers' tendency to prefer paying overtime rather than recruiting new workers. During the month, the economy shed a net 20,000 payrolls. It is worthwhile noting that for the first time in 3 years, growth of 11,000 payrolls was recorded in the US economy's manufacturing sector.

In our opinion, the current yield level is low and we believe that in the near term there will be an upward correction. This may be delayed should there be a change in investors' recent tendency to minimize risk exposure. Concerning the long term we forecast a rise in yields across the US government curve. This will be impacted by the ongoing improvement in macro data and the large issuances. Nonetheless, difficulties continue to prevail in the US economy as well as threats that harm the global financial system. Hence we do not believe there will be a sharp surge in growth to be followed by considerable inflation pressures. Therefore, the ongoing rise in yields is expected to exist in an environment of volatile trading. The yield of US government bonds is currently low and does not incorporate considerable capital gains potential. Hence an investor interested in this investment channel would be wise to remain at the short end of the curve.

Inflation expectations incorporated in CPI-linked bonds (TIPS) are 1.31% for short term ranges (1.32% last week) and 2.26% for long term issues (2.32% to last week). As long as 10 year inflation expectations derived from the capital market are in the range of between 2%-2.5%, we do not have any clear preference between unlinked and index linked bonds. Given the background conditions we do not expect an outburst of inflation in the near term. Nevertheless, for those fearing a scenario of accelerating inflation pressures in the medium term, it would be preferable to have a certain exposure to CPI linked bonds denominated in $. Concerning corporate bonds and due to our forecasts of yields continuing to rise, we prefer bonds of a short duration. The risk premium of investment grade corporate bonds denominated in dollars over government bonds rose this week by 7 b.p. to 188 b.p. We continue to believe there is potential for a further increase in this premium in the coming weeks, albeit this will not be too excessive.

US Government Bonds						ECB bonds				
	Yield			Change in base points		Yield			Change in base points	
Years to maturity	Current	A week ago	A month ago	Weekly	Monthly	Current	A week ago	A month ago	Weekly	Monthly
2	0.76%	0.81%	0.98%	-4.9	-21.3	0.99%	1.12%	1.24%	-12.9	-25.5
5	2.23%	2.32%	2.59%	-9.0	-35.8	2.16%	2.28%	2.39%	-11.5	-22.9
10	3.57%	3.58%	3.83%	-1.9	-26.4	3.12%	3.20%	3.39%	-7.6	-26.5

The Euro Zone

A week of falling yields across the curve. The large deficits of some Euro Zone Countries (Greece, Portugal, Spain) are increasing the demand for the bonds of large and established economies such as Germany. Consequently German bond yields fell across the curve (German bonds serve as the Euro Zone's benchmark). The yield of two year bonds shed 13 base points to 0.99%. The 10-year bond yield shed 8 base points to 3.12%.

The large deficits of several countries in the Euro Zone with small economies which are also called peripheral economies, led by Greece, Portugal and Spain increased concerns of the possible insolvency of one of these countries, resulting in the demand for bonds of large and established countries such as Germany. The result was a varied movement of yields across the curves of the various Euro Zone countries. While countries such as Germany, France and Holland recorded a contraction in yields, in Greece, Portugal and Spain yields continued to skyrocket. In such a state of affairs, Germany's government bonds do not serve as a benchmark for all Euro Zone countries so that the German government's bond curve represents only the stable Euro Zone economies.

The contraction in yields across the German government curve resulted in the yields of two year bonds reaching their lowest level since 1990. As a result this was the fifth consecutive week of contraction in 10 year bond yields. The fall in yields was supported by the disappointing macro data indicating that economic recovery in the Euro Zone is still quite far. December Retail Sales in the Euro Zone remained unchanged. A sharp contraction of -2.6% and -2.3% was recorded in Industrial Production and Factory Orders in Germany in December, respectively.

Given the aforementioned, it is not surprising that the ECB at its meeting last Thursday again decided to keep the interest rate unchanged at 1%. The ECB's President, Jean-Claude Trichet noted that economic recovery in the Euro Zone will not be the same in all countries and that he is convinced of the Greek government's intention to do everything necessary to lower its budget deficit from 12.7% of GDP to 3% of GDP. Furthermore, and in order to slightly dissipate concerns regarding the Euro Zone's economic perspective, Trichet claimed that in general the Euro Zone's economic situation is stable and that the cumulative deficit of the 16 countries is expected to be lower than that of the US and Japan.

In our opinion, the level of yields across the curve of Germany and countries with stable economies such as France and Holland is low and also reflects the rise in investors' level of anxiety. In future, the improvement in macro data is forecasted to continue and the large bond issuances will support a rising trend in yields. Trading is expected to continue to be volatile in the Euro Zone's peripheral countries. The level of yields across the curves of these countries is high however despite this situation an investment in the bonds of these countries is suitable only for investors who are risk prone and also then this will rely on the rich countries in the Euro Zone coming to the rescue of needing countries in times of crisis.

Britain

A week of declining yields across the curve. The yield of two year bonds shed 11 b.p. to 1.15%. The 10-year bond yield shed 3 base points to 3.88%.

The contraction in yields in this country's leading equity indexes and investors' wish to avoid capital losses, directed investments to government bonds, despite concerns of the local government's large deficit and fears that the scenario now enveloping in several Euro Zone countries with large deficits may repeat itself in Britain.

Corporate Bond Yields (Denominated in Dollars and Euros) – Division according to credit rating

Yield to Redemption – General Corporate Bonds

Years to maturity	US - USD	AAA	A	BBB	B	Euro EUR	AAA	A	BBB
2	0.76%	3.03%	1.81%	2.63%	5.39%	0.99%	1.88%	2.30%	2.75%
5	2.23%	3.99%	3.56%	4.41%	7.13%	2.16%	3.04%	3.43%	3.94%
10	3.57%	5.01%	5.17%	5.92%	8.37%	3.12%	3.91%	4.52%	5.12%

The Yield Gap with Government Bonds in Base Points

Years to maturity	US - USD	AAA	A	BBB	B	Euro EUR	AAA	A	BBB
2	0.76%	227	105	187	463	0.99%	89	131	176
5	2.23%	176	133	218	490	2.16%	88	127	178
10	3.57%	144	160	235	480	3.12%	79	140	200

Currencies, Interest Rates and Commodities

Currencies

The **Dollar Index** (DXY) ended the trading week at a 80.44 level (79.46 last week), which reflects the US dollar appreciating 1.2% against the currencies' basket during the surveyed period (Euro, Yen, Pound Sterling, Canadian Dollar, Swedish Krona and the Swiss Franc). Since the beginning of the year the dollar strengthened 3.2% against the currencies' basket. The following currencies were conspicuous in global forex trading against the US dollar during the week: the **Pound Sterling and the Australian Dollar** both depreciated against the US Dollar by 2.2% and 1.8%, respectively. On the other hand, the **Japanese Yen** was the sole currency that appreciated a weekly 1.1% versus the US Dollar.

The following events were in the background of trading last week:

1. **Disappointment from the change in the number of US Non-Farm payrolls.** The January Employment Report pointed to contraction in the number of US Non-Farm payrolls, compared to economists' forecasts of expansion. Despite the decline in the unemployment rate, the employment data kept the vague US job market situation intact, sharpening investors' tendency to minimize risk. This week, the Japanese Yen and the US Dollar profited from this situation.

2. **The Euro continues to lose height.** The Euro has for a fourth consecutive week eroded against the Japanese yen and the US dollar, on the back of concerns that the budget deficits of Greece and other countries such as Portugal and Spain will impede on the Euro Zone's economic recovery. Investors are concerned that the delay in the assistance given to Greece may eventually result in a higher cost of support which may be deemed necessary also for other countries in the Euro Zone. In the meantime, this uncertainty has encouraged investors to minimize their Euro currency positions.

3. **Further erosion in the underlying yields of Fed contracts.** July 2010 contracts incorporate an interest rate level of 0.20% (0.23% last week) at the close of weekly trading. The longer dated contracts incorporate underlying yields reflecting the majority of investors' opinions that the Fed will raise the interest rate for the first time only at the end of the fourth quarter of 2010.

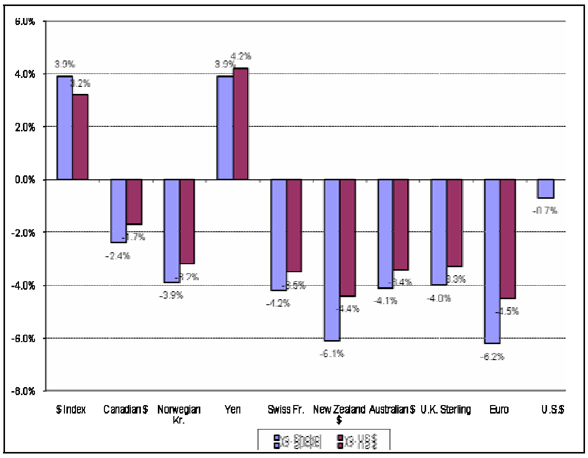
4. **Erosion continues in the rates of commodity currencies.** The currencies of exporting countries suffered from depreciation against the dollar also this week given the persistent erosion in raw material prices and the closing of "carry trade" positions in view of the accelerating uncertainty.

5. **The pound sterling weakens after the Central Bank's interest rate decision**. England's Central Bank kept the interest rate at a low 0.50% level and decided not to increase its bond acquisitions on the open market. After the decision was made public, the pound sterling which at the beginning demonstrated strength, quickly returned to the trend of weakness characterizing the currency in recent weeks. The currency closed the trading week at a low $1.5640/GBP.

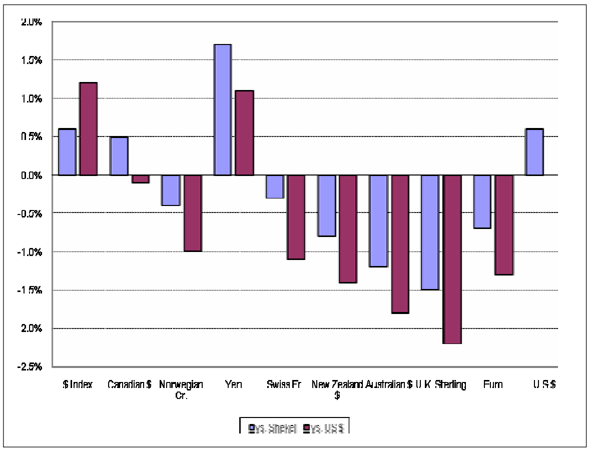
The following is our 7 day forecast for trading ranges: $/Euro 1.3480-1.4050 (Spot: $1.3685, initial resistance: $1.3880, initial support: $1.3580), JPY/$ 87.20 – 92.50 (Spot: JPY 89.25 initial resistance: JPY 90.20, Initial support: JPY 88.80).

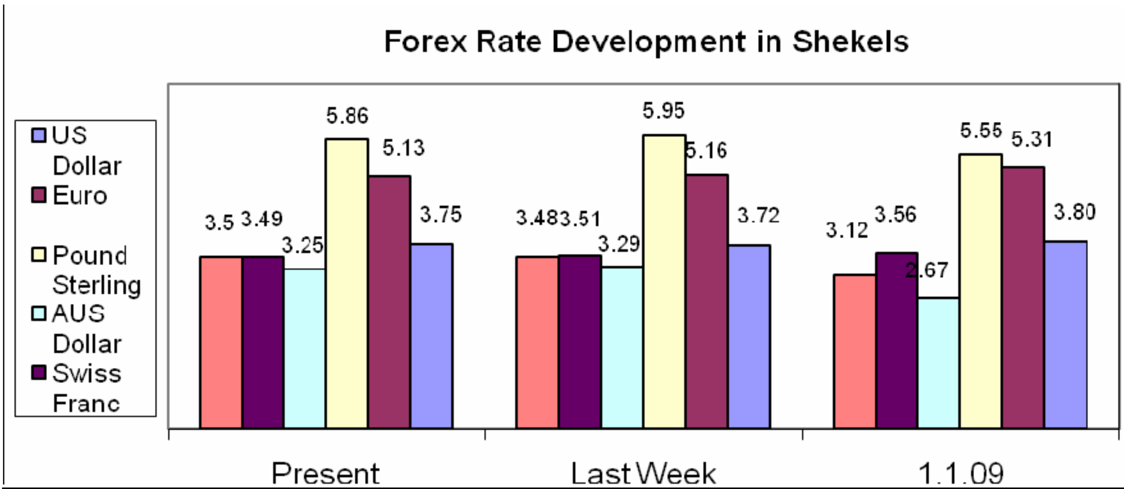
In 2010, the dollar's appreciation may, in our opinion be supported by the following factors: the underrated value of the dollar compared to its purchasing power value estimated at 20% versus the Euro, forecasts of preferential macro data, a possible rise in yields and the ongoing contraction in the U.S. trade deficits given the accelerated competitiveness in the economy given the dollar's weakness in recent months.

Foreign Currency: Performance since the beginning of the year



Foreign Currency: Performance last week



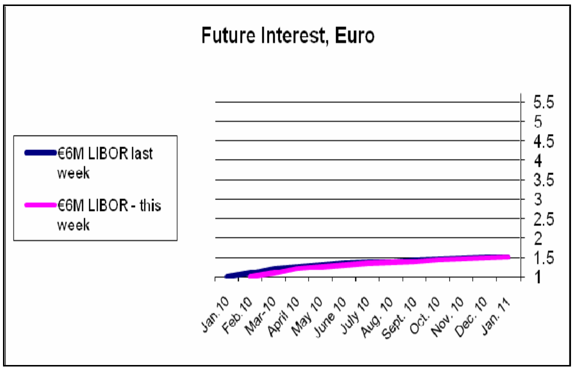


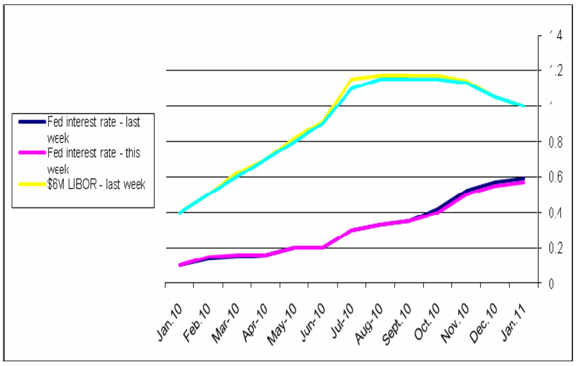
<u>Note</u>: Apart from the U.S. dollar, which is the last known representative rate, the aforementioned foreign-exchange rates were determined based on the closing prices in New York.

In line with the trend in global markets the shekel depreciated a weekly 0.6% against the US dollar. Since the beginning of the year the shekel's appreciation versus the dollar sums up to 0.7%. Trading in options reflects a derived spot rate of approximately NIS 3.7410 per dollar, compared to Friday's representative rate set at NIS 3.7470 per dollar.

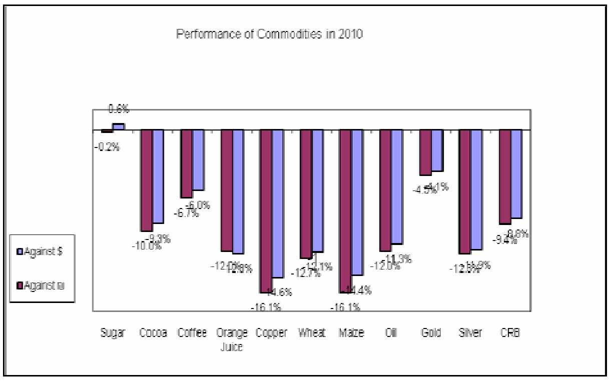
Fed Contracts

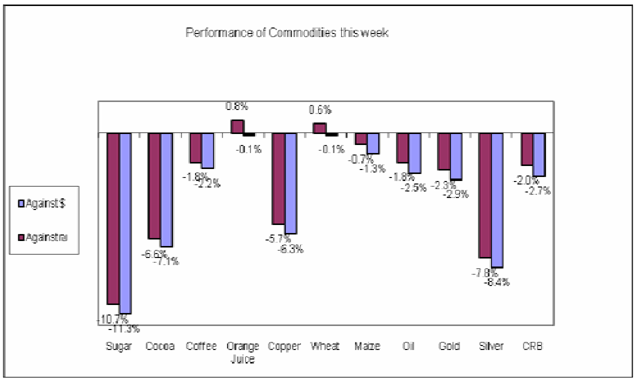
Fed contracts (contracts on the monetary interest in the US) for July 2010 now incorporate a yield of 0.21% (0.23% last week). **The future six-month dollar LIBOR interest rate** for July 2010 is 1.11% (1.13% last week) and the **future interest rate specified in euros** for the same period is 1.44% (1.44% last week). The spot dollar **LIBOR six month interest rate** closed at 0.38500% (0.38438% last week).





Commodities





On the back of the persistent appreciation of the dollar, the **CRB Commodities' Index** that weighs the prices of 19 different raw substances (energy, precious metals, industrial metals and agricultural goods) shed a weekly 2.7% in dollar terms. Since the beginning of the year, the Commodities' Index eroded an average 8.8%, in dollar terms.

The following are the changes in selected components of the index during the surveyed period:
Crude oil: Contract prices for delivery in April 2010 fell 2.5% to $71.5 per barrel.
Copper: Contract prices for delivery in May 2010 plummeted 6.3% closing trading at $2.87 per pound.
Silver contract prices for delivery in May 2010 fell 8.4% to $14.9 per ounce. **Gold** contract prices for delivery in April 2010 eroded 2.9% and closed trading at $1,052.8 per ounce.

In the medium and long term commodity prices will be impacted by the real economy's situation worldwide and also by their usual adverse correlation with the US dollar. An exception is gold, the demand for which is partially attributed to investors seeking haven as the level of uncertainty accelerates and/or inflation expectations intensify and vice versa.

Equities in global markets

USA – moderate price declines in a volatile trading week

Last week was the fourth consecutive week in which equities shed value. While these were relatively moderate, trading was very volatile. During the first two trading days, prices climbed by over 1% following the release of positive macro data, which pointed to considerable expansion in manufacturing and stability in the housing market continuing. During the second part of the week, concerns of insolvency by several countries in the European Union, such as Greece, began sinking also into US investors' consciousness and therefore the awareness that there are still many risks on the road to global economic recovery. As a result indexes responded in sharp price declines. On Thursday the daily decline recorded was the steepest since April 20, 2009.

Summing up the week the S&P500 shed 0.7% from its value, the Dow Jones shed 0.6% and the Nasdaq shed 0.3%.

The reporting season continues to be positive. Thus far 291 companies listed on the S&P Index released their financial results. Out of these companies, 224 companies reported better than expected results compared to analysts' forecasts, a positive surprise rate of 77%.

Declines in the financial, healthcare and infrastructure sectors, gains in the technology and raw materials sectors

Last week, 8 out of the 10 sectors appearing in the S&P500 index, recorded price declines. The most notable declines were recorded by the infrastructure sector which fell 2.1% as well as by the financial and health care sectors which both fell a weekly 1.7%. In contrast, the technology and raw material sectors rose 0.7% and 0.8%, respectively. The healthcare sector which in recent weeks demonstrated strength, this week suffered steep price declines after the giant Pfizer Pharmaceutical Company (-3.8%) reported results that missed economists' expectations and furthermore lowered its profit guidelines for 2010. The US financial sector also suffered from the general global trend, whereby global financial institutions' shares shed value, in view of the accelerated concerns regarding the fiscal problems faced by Greece, Spain and Portugal. Given concerns regarding the development of another credit crisis, sharp declines were recorded in high-leveraged companies, a phenomenon also faced by the infrastructure sector, where debt levels in these companies' balance sheets are high.

The technology sector which in recent weeks demonstrated weakness, this week demonstrated strength after leading companies in the sector such as Cisco, released better than expected results and even raised their profit and revenue guidelines for the coming quarters. The raw materials sector showed the best performance this week despite the steep declines in raw material prices. In our opinion, the strength demonstrated in the sector is a mild correction to the steep declines of this sector's shares in recent weeks.

Notable shares

As to the technology sector, Cisco, the manufacturer of communication networking equipment, recorded price gains of 5.5% after beating both top line and bottom line analysts' forecasts. In addition, Cisco noted during a conference call that the business environment is presently in a trend of improvement.

Monster Worldwide, the largest global operator of employment seeking online services, fell 8.2% after reporting lower than economists' profit forecasts. It also noted during a conference call, that the business environment remains challenging.

The share of Berkshire Hathaway, the holding company owned by Warren Buffet, shed 3.7% after the Standard & Poor's credit rating company lowered the company's credit rating from AAA to AA+ after it acquired the Burlington Northern Railway Company earlier this year.

Europe – steep price declines

Last week's trading was characterized by steep price declines given concerns of the fiscal situation of Greece, Portugal and Spain. For the time being these countries' economies continue to demonstrate weakness so that there are more and more doubts regarding their ability to minimize the deficit levels in their budgets. Summing up the week, the CAC and the DAX shed 4.7% and 3.1%, respectively from their value. The Dow Stoxx 600 Index shed 3.9% and the FTSE100 Index concluded the week shedding 2.6% from its value. Last week all 18 indexes in Western European markets, except for Iceland, shed value. Unsurprisingly the steepest declines were recorded by the equity markets in Greece, Spain and Portugal, shedding 8.3%, 7.7% and 7.3%, respectively. The banking sector in the Dow Stoxx 600 Index led the declines, eroding 6.4%. The Vstoxx Index, whose price is derived from the standard deviation on Dow Stoxx 50 Index's options, rose 14% to its highest level since October, when fears of Dubai's insolvency was at its highest.

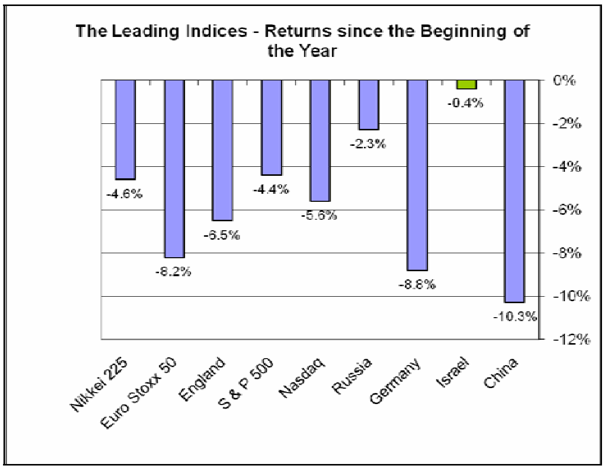
Asia Pacific – sharp price declines in leading indexes

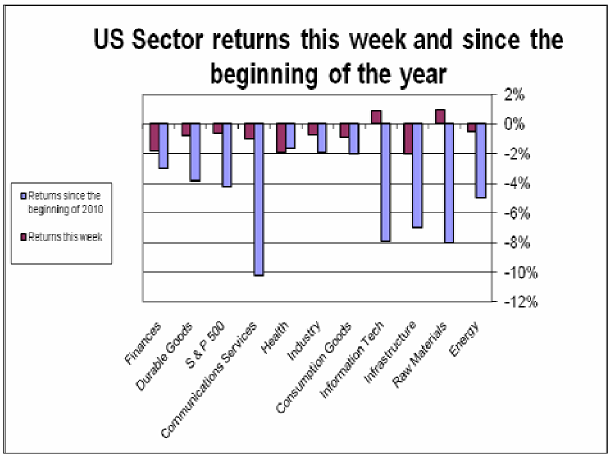
In line with the global trend, indexes in Asia recorded sharp price declines. Summing up the week the Nikkei shed 1.4% from its value, the Asia Pacific MSCI Index recorded a weekly decline of 1.8%. Price plummets were also recorded in the indexes in China. The Chinese CSI300 shed 1.6% during the week while the Hong Kong Hang Sang Index shed 2.3%. Asian markets similar to their US and European counterparts suffer from both fears of the PIGS (Portugal, Ireland, Spain and Greece) countries' financial perspective and the Chinese government's credit restricting policy.

On the corporate front, the share of Japan's leading car manufacturer, Toyota, was conspicuous for the worse shedding 5.5% from its value due to the persistent adverse momentum following last week's announcement of a manufacturing fault discovered in the gas pedals of a number of leading models. The fall in raw material prices adversely affected also several leading mining companies such as BHP Billiton and Rio Tinto, whose shares fell 3.5% and 5%, respectively. Price plummets were also recorded by Toshiba, the largest memory chip manufacturer in Japan. The share fell 13% during the week after the company announced that sales in 2010 will be lower than previously estimated by the company at the beginning of the year.

Going forward

In recent weeks investors are slowly realizing that the global economy is up against difficult challenges. Attesting to investors' nervousness is reflected in the increased volatility of leading indexes, which is also being expressed in the rise in standard deviation indexes, such as VIX and Vstoxx. We believe that the cloud in the form of risks previously mentioned by us will not be disappearing in 2010. Hence there is a high likelihood that volatility in markets will increase. We are reiterating our opinion that the risk of equity investments is considerable. Hence, we recommend building a portfolio with a high level of diversity. Furthermore, we recommend refraining for the time being from an investment in companies whose level of debt in their balance sheets is high.


The Leading Indices - Returns since the Beginning of the Year
0%
-2%
-4%
-6%
-8%
-10%
-12%
-4.6%
-8.2%
-6.5%
-4.4%
-5.6%
-2.3%
-8.8%
-0.4%
-10.3%
Nikkei 225
Euro Stoxx 50
England
S & P 500
Nasdaq
Russia
Germany
Israel
China


US Sector returns this week and since the beginning of the year
Returns since the beginning of 2010
Returns this week
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
Finances
Durable Goods
S & P 500
Communications Services
Health
Industry
Consumption Goods
Information Tech
Infrastructure
Raw Materials
Energy