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Weekly Market Summary

28 December 2008

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Equity Markets

US

S&P500 -1.7% (872.8); NASDAQ -2.18% (1,530.24); DJIA -0.74% (8,515.55)

This week's reports:

- ⇒ **December 23rd** **Q3 GDP** declined by an unrevised 0.5%, the steepest since the aftermath of the 9/11 terrorist attacks.
Q3 Personal Consumption Expenditures declined by 3.8% from Q2's +1.2%.
December's Reuters/University of Michigan Consumer Sentiment Index increased to 60.1 from November's 55.3. The index gained due to unusually steep pre-holiday price discounts.
November's Existing Home Sales fell 8.6% m/m to an annual rate of 4.49 million units (s.a.), a 10.6% drop from a year ago.
November's Median Home Price fell 13.2% y/y, down for a fifth straight month, to \$181.3K. It was the largest drop since the current data series began in 1968 and probably the largest since the Great Depression.
November's Total Inventory of Unsold Homes rose 0.1% to 4.20 million in November, the highest since the 1980s. This translates into 11.2 months of supply, matching the record peak set in April.
November's New Home Sales declined to their lowest level in more than 17 years, falling 2.9% m/m (-35.3% y/y) to an annual rate of 407K (s.a.). This occurred despite an 11.5% annual decline in the median price of a new home, the largest decline since 1970.
- ⇒ **December 24th** **Initial Jobless Claims** for the week ended December 20th rose to a new 26-year high, climbing by 30K to a seasonally adjusted 586K. The four-week moving average for initial claims also rose to a fresh 26-year high, climbing by 13.8K to 558K.
Continuing Unemployment Claims in the week ended December 13th declined by 17K to 4.37 million.
- ⇒ **December 25th** **December's Richmond Fed Manufacturing Index** fell to -55 from November's -38.
November's Durable Goods Orders declined by 1% from October's (upwardly revised) -8.4%.
November's Personal Income fell by 0.2% from October's +0.1%.
November's Personal Spending declined by 0.6% from October's -1%. November was the fifth consecutive month of declines in consumer spending, the longest streak on record since the government began tracking the data in 1959.

- US stocks fell, sending the Dow Jones Industrial Average to a fourth straight weekly retreat, after profit outlooks weakened, home prices plunged and the government confirmed that the



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economy shrank the most since 2001. The S&P 500 extended its 2008 slide to 41%, while the S&P 500 Financials Index's loss this year widened to 59%, the most in its 18-year history.

Canada

S&P/TSX Composite -2.82% (8,310.55)

- Canadian main stock index, which gets about 3/4 of its value from energy, mining and finance shares, has lost 40% in 2008, poised for its worst year.
- **October's GDP** shrank by 0.1% from September's +0.1% as wholesale trade declined and factory production dropped.

Europe

EUROSTOXX50	-2.54%	(2,382.14)
DJSTOXX600	-1.72%	(193.05)
DAX	-1.43%	(4,629.38)
CAC40	-3.40%	(3,116.21)
FTSE100	-1.64%	(4,216.59)

Eurozone

- European stocks fell this week in holiday-shortened trading on signs that the deteriorating global economy is destroying earnings growth. The Dow Jones Stoxx 600 Index extended its 2008 slump to 47%, its biggest annual retreat on record.
- **October's Industrial New Orders** fell by 4.7% percent from September's -3.9%. October's annual fall of 15.1%, mostly due to slump in demand for cars, was the deepest year-on-year fall on record.

UK

- **Q3 GDP** decline was revised downward to 0.6% q/q, its biggest decline in 18 years. Output in production industries fell by 1.4%, while output in the services industry declined by 0.5%.
- The UK economy may shrink by 2.9% in 2009, according to the Center for Economics and Business Research (CEBR), the largest fall in GDP since 1946.



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Japan

NIKKEI225 +1.76% (8,739.52)

- Japanese stocks rose as the government's pledge for subsidies lifted solar power-related manufacturers, while companies announced share buybacks. This week's gain trimmed the Nikkei's plunge this year to 43% percent, still its worst on record.
- **November's Industrial Production (p.)** fell by 8.1% m/m (-16.2% y/y), the biggest drop since at least 1953, as Japanese companies produced less automobiles and other machinery on vanishing demand.
- **November's Jobless Rate** climbed to 3.9% from 3.7% in October.
- **November's Construction Orders** fell by 12.5% y/y from October's +47.2% y/y.
- **November's Nationwide Core CPI** slowed to 1% y/y (from October's 1.9% y/y), as energy costs continued to retreat, underscoring fears that the Japanese economy will return to deflation next year.
- **November's Overall Household Spending** fell by 0.5% y/y from October's -3.8% y/y.
- **November's Retail Sales** declined by 0.9% y/y after October's decline of 0.6% y/y.
- **November's Labor Earnings** fell by 1.9% y/y from October's -0.1% y/y.
- **November's Exports** fell by 26.7% y/y, the most on record, as global demand for cars and electronics collapsed and the yen surged to a 13-year high.

Australia & New Zealand

S&P/ASX200 -0.93% (3,582.20)

NZX 50 +0.48% (2,668.06)

- **Australia's October Leading Indicators** fell by 0.5% from September's -0.3%.
- **New Zealand's Q3 GDP** shrunk by 0.4% (s.a.) from Q2's -0.2%, its biggest contraction in eight years, as consumers spent less, businesses cut investment and weak global markets hit exports.
- **New Zealand's Q4 Westpac Consumer Confidence** declined to 101.3 from Q3's 104.8.



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Emerging Markets

MSCI EM	-5.24%	(551.58)
MSCI Asia Pacific	-2.38%	(87.40)
MSCI China	-8.18%	(39.62)
EM Eastern Europe	-0.75%	(118.06)
Russia's Micex	-0.57%	(608.55)
MSCI EM Latin America (USD)	-3.93%	(2,048.77)
Brazil's Bovespa	-5.79%	(36,864.13)

- Russia's international reserves rose 3.5% last week as gains in the euro versus the dollar bolstered the value of the stockpile. Still, the reserves have fallen by 25% since August.
- The ruble fell to a record low against the euro as Russia's central bank extended six weeks of devaluations to compensate for falling oil prices. The ruble lost 1.6% versus euro this past week. It declined as much as 1.2% against the dollar, capping a 19% drop since early August.
- India's inflation slowed to a nine-month low, giving the central bank room to cut interest rates further to support a faltering economy. Wholesale prices increased 6.61% y/y in the week to Dec. 13, below the central bank's 7% fiscal year-end target, amid lower fuel costs.



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Bond Markets

▪ US

2-yr USTs closed up 14.5bps to 0.88%. 10-yr USTs closed up 1bps to 2.13%.

- Treasuries lost for the first week since October after US sales of a record \$66 billion of two- and five-year notes focused attention on the nation's funding requirements amid a deepening recession. The US, strapped with a swelling budget deficit, needs to finance a bailout of the banking system and an economic stimulus plan that could cost \$850 billion. The Treasury said that it expects to sell between \$1.5 trillion and \$2 trillion in bonds in fiscal 2009.

Europe

2-yr Bunds closed down 8.5bps to 1.75%. 10-yr Bunds closed down 6bps to 2.94%.

- European government bonds climbed as stocks fell and economic data pointed at worsening economic conditions.

UK

2-yr Gilts closed down 12bps to 1.16%. 10-yr Gilts closed down 13bps to 3.05%.

- UK government bonds rose as dismal economic reports strengthened the case for further interest rate cuts from the Bank of England.

Japan

2-yr bonds closed down 2bps to 0.42%. 5-yr bonds closed down 2bps to 0.74%. 10-yr bonds closed down 3bps to 1.21%.

- Japanese government bonds completed a week of gains as reports showed the recession in the world's second-largest economy is deepening.



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Currencies

Currencies	26/12/2008	Weekly %	MTD %	YTD %
USD/NIS	3.87	3.67%	-1.20%	0.70%
EUR/NIS	5.42	2.72%	7.47%	-4.23%
GBP/NIS	5.71	1.40%	-5.40%	-25.99%
CHF/NIS	3.61	5.37%	10.67%	5.42%
JPY/NIS	4.28	1.67%	4.08%	24.70%
AUD/NIS	2.64	2.60%	2.31%	-21.87%
CAD/NIS	3.19	4.52%	0.32%	-18.74%
EUR/USD	1.40	-0.91%	8.77%	-4.90%
GBP/USD	1.47	-2.19%	-4.25%	-26.50%
USD/JPY	0.90	1.97%	-5.07%	-19.25%
AUD/USD	0.68	-1.03%	3.56%	-22.42%
CHF/USD	0.93	1.64%	12.01%	4.69%
CAD/USD	0.82	0.82%	1.54%	-19.31%
NZD/USD	0.58	0.03%	4.73%	-24.98%

Source: Bank of Israel as of 12:30, Friday December 26th, 2008

▪ The JPY:

The yen posted its first weekly decline against the dollar in two months as Japan's inflation slowed and industrial production slumped, adding to bets that the BoJ will pump cash into the economy at a faster pace. Room for cutting borrowing costs further is extremely limited, as the central bank rate is 0.1%, and the bank is expected to concentrate on quantitative measures. Japan's currency depreciated for a third week versus the euro.

Still, Japan's currency gained 28% against the euro and 23% versus the dollar this year as the global recession and \$1 trillion in losses on mortgage-related securities worldwide prompted Japanese investors to sell higher-yielding assets and repatriate overseas earnings. It was on course for a 57% advance against the Australian dollar and a 67% increase versus the British pound.



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Commodities

Crude Oil & Energy

Crude Oil for February closed +11.34% to US\$37.71

- Oil prices rose after the United Arab Emirates said it would reduce output to comply with OPEC's supply curbs. Oil also advanced because the dollar dropped against the euro.

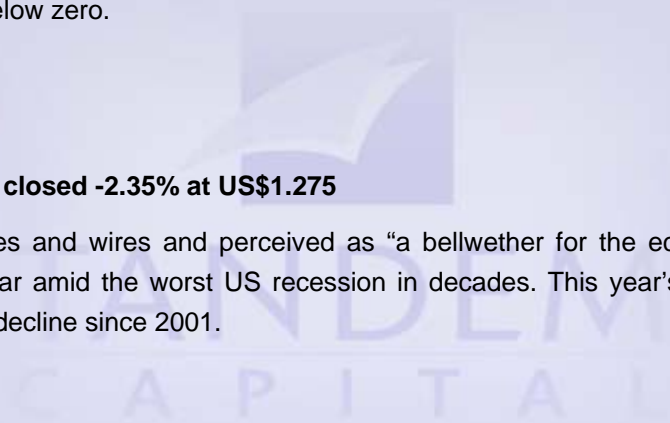
Gold & Metals

Gold for February closed +4.04% to US\$871.2

- Gold prices rose as mounting tensions in the Middle East and South Asia boosted the appeal of the precious metal as a haven.
- Gold, up 4% this year, is the only metal poised for an annual gain. Bullion may attract investors seeking a store of value as the dollar weakens and yields on short-term US Treasury notes fall below zero.

Copper for December closed -2.35% at US\$1.275

- Copper, used in pipes and wires and perceived as "a bellwether for the economy", has plunged 57% this year amid the worst US recession in decades. This year's loss will be copper's first annual decline since 2001.



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