BRING THEM HOME!

bank hapoalim
financial division

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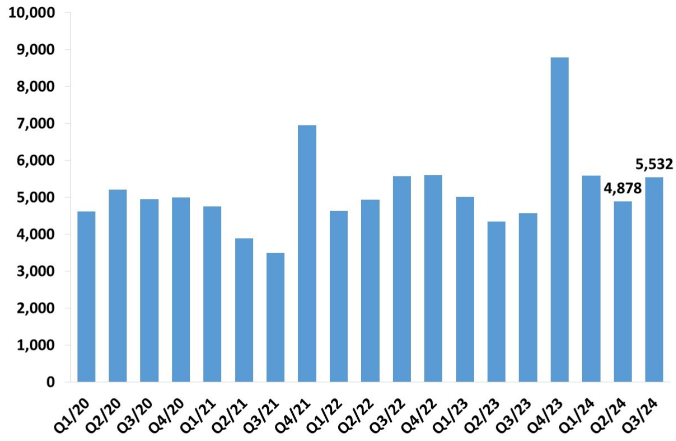
Stock prices influence the Shekel more than Houthis missiles

- **Global stock markets have a much greater impact on the shekel's exchange rate in the short term than most security events.**
- **Despite the ongoing war, Israel's current account surplus of the balance of payments increased compared to the same quarter last year.**
- **However, the shortage of Palestinian workers continues to prolong construction times and widen the gap between building permits and housing starts.**
- **Meanwhile, the yield on 10-year shekel bonds has dipped slightly below that of its U.S. counterpart.**

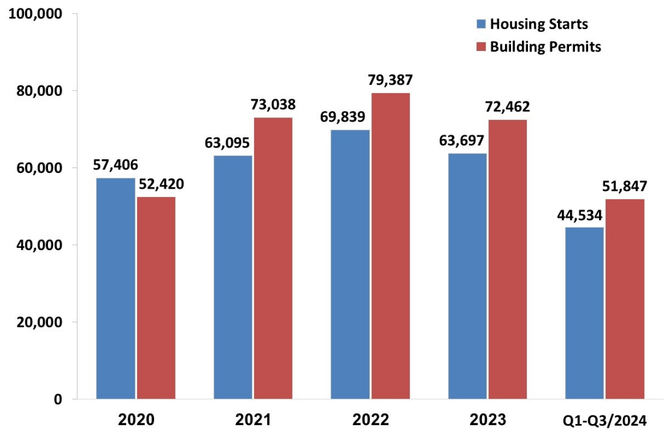
Recently, two missiles fired from Yemen bypassed defense systems and struck central Israel, causing no casualties. Negotiations for a deal for the return of the hostages continue to push for a hopeful resolution. The shekel weakened by 1.1% against a basket of currencies last week, not due to the missile strikes but because of a 2% decline in U.S. stock indices. **Global market trends have a more immediate and significant influence on the shekel than most security incidents**. Israel's surplus of assets over foreign currency liabilities, amounting to $282 billion at the end of the third quarter (in debt instruments). For a substantial impact on the shekel, confidence of Israelis in its economy would need to waver, who hold the vast majority of shekel assets domestically. However, when global markets fall, institutional investors often automatically purchase foreign currency, directly affecting the exchange rate.

The current account surplus, which reached $5.5 billion in the third quarter, remained robust despite the war. **The war did not reduce the surplus in the current account of the balance of payments, and the surplus even increased compared to the corresponding quarter last year**. In terms of savings and investment, this can probably be explained by the fact that the sharp increase in the budget deficit this year was also offset by a decline in investment in the economy, and therefore the CA surplus was maintained. We estimate that we will see a decline in the current account surplus next year, assuming that investment in the economy will increase after the war, while the budget deficit will remain relatively high. In our assessment, the tax increases are expected to reduce private savings as well. In any case, the surplus in the current account is structural and it remains a fundamental feature of Israel's economy.

The war did not reduce the current account surplus
Current Account, S.A, $ million,.
Source: CDS



The gap between residential permits and starts continue to expand
Housing Starts, Building Permits, Source: CDS



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Housing starts rose to 16,400 units in the third quarter, up from 13,600 in the previous quarter, yet completions stagnated at 12,400 units. As a result, active construction projects increased to 178,000 units. **The shortage of Palestinian workers is reflected in the lengthening of the construction time, as well as in the growing gap between the number of building permits and the number of building starts.** The shortage of Palestinian workers remains a significant bottleneck, slowing construction progress and constraining investment in residential development.

Finally, the yield on 10-year shekel bonds fell slightly below that of U.S. bonds. While U.S. yields rose to 4.5%, Israel's 10-year bond yield stood slightly above 4.45%. This inversion signals expectations of a stronger shekel once the war come to an end.

BOI Rate and CPI Forecast			
BOI Rate		CPI	
December 2024	4.50%	Dec 2024	-0.2%
12M Forecast	4.00%	Jan 2025	0.5%
		12M Forecast	2.6%