



# Israel International Government Bonds

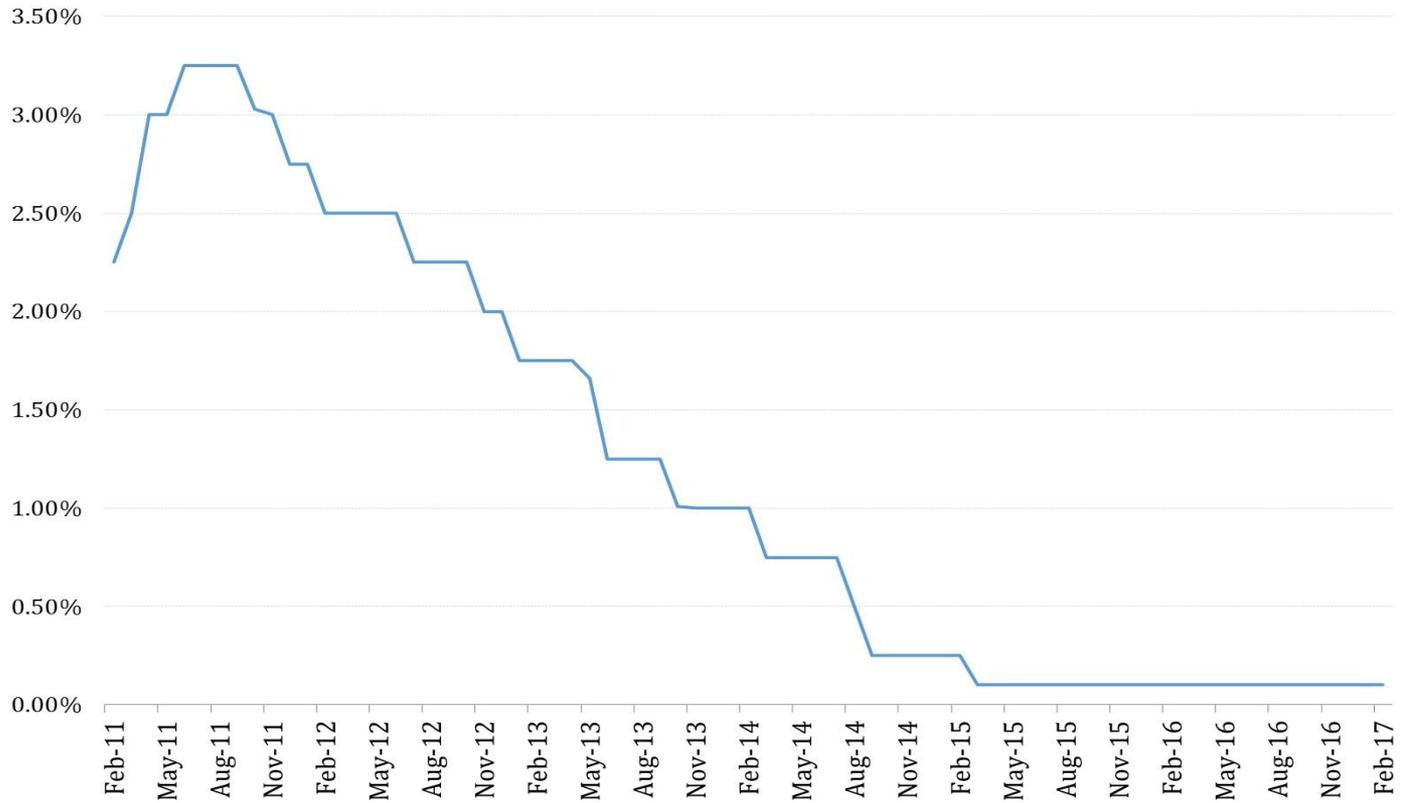
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**June 2017**

# State of Israel

- Population: **8.4 Million**
- Unemployment Rate: **4.2%**
- GDP Growth: **3.5%** (5 year average)
- CPI: **0.4%** (5 year average)
- Budget deficit: **2.1%** of GDP in 2016
- Government Debt/GDP: **64.6%**
- Credit Rating: **A+** (S&P, Moody's, Fitch)

# Bank of Israel Base Rate: 0.1%

Bank of Israel Headline Interest Rate



Source: Bank of Israel

- First rate increase priced by the markets at H2 2018

# Israel Shekel

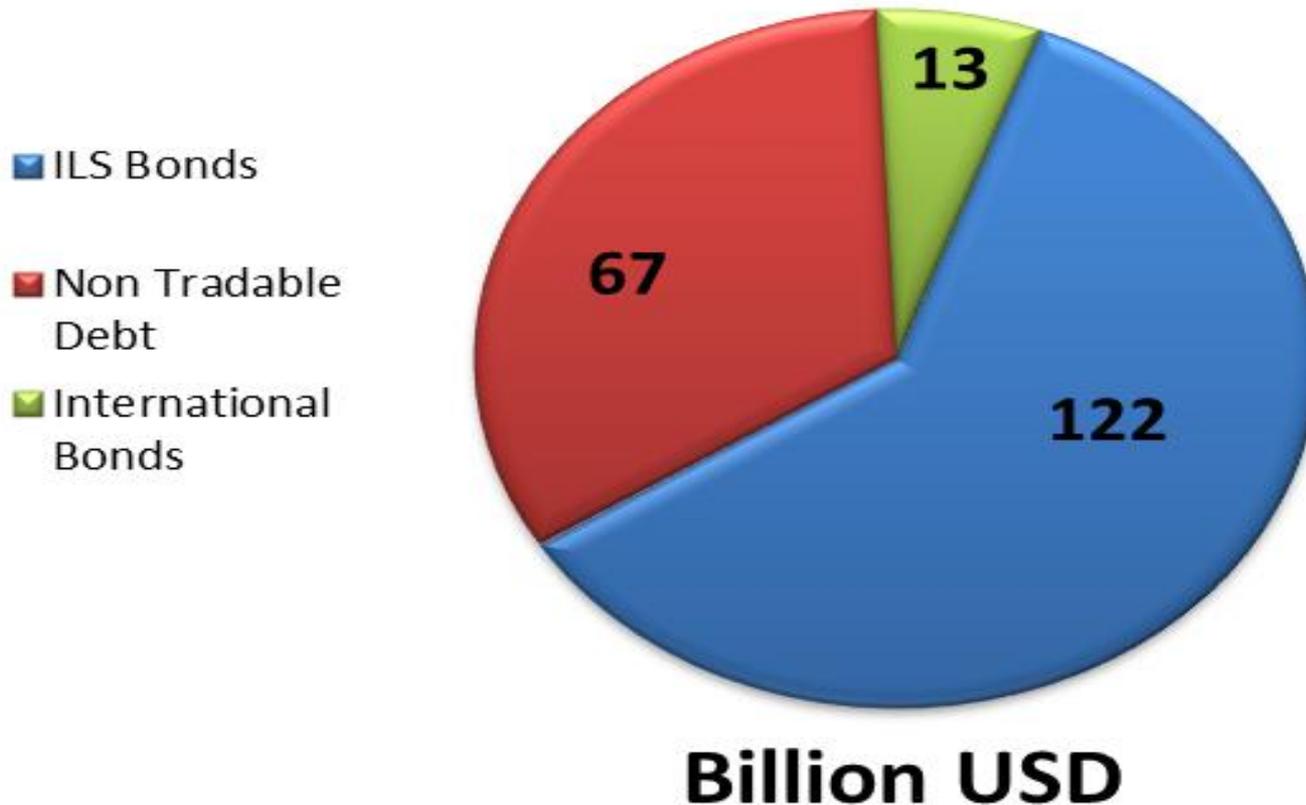
## The ILS against the Currency Basket



- BOI buys on average 800M USD a month, since 2009
- **EUR=4 ILS**

# Government Debt of Israel

Total Government Debt: 202B dollar (end of 2015)



# International Bonds Flow

## Reasons for maintaining an International Bond curve:

1. Rolling matured debt
2. Access to International Market
3. Having a government benchmark makes it easier for local firms to issue their debt to international investors.

## Reasons for high demand from local banks, pension funds and insurance companies:

1. Regulation restrictions
2. Home bias effect
3. Usually trading at premium above local bonds.

90% of issuance goes to foreign investors



Foreign investors sell the bonds to local firms



After 2 year, at least half of the issued amount goes back to local Institutions

# List of Israel International Bonds

| Security              | Outstanding Amount (B) | Currency | Yield | G-Sprd | I-Sprd |
|-----------------------|------------------------|----------|-------|--------|--------|
| ISRAEL 5 1/8 03/26/19 | 1.5                    | USD      | 1.55  | 25.6   | 0.9    |
| ISRAEL 4 5/8 03/18/20 | 1.5                    | EUR      | -0.05 | 56.6   | -2.8   |
| ISRAEL 4 06/30/22     | 1.5                    | USD      | 2.54  | 66.9   | 61     |
| ISRAEL 3.15 06/30/23  | 1                      | USD      | 2.70  | 68.1   | 68     |
| ISRAEL 2 7/8 01/29/24 | 1.5                    | EUR      | 0.80  | 87.1   | 34.8   |
| ISRAEL 2 7/8 03/16/26 | 1                      | USD      | 2.96  | 71.7   | 77.4   |
| ISRAEL 1 1/2 01/18/27 | 1.5                    | EUR      | 1.36  | 97.6   | 57     |
| ISRAEL 7 1/4 12/15/28 | 0.25                   | USD      | 3.53  | 114.9  | 120.5  |
| ISRAEL 6 7/8 10/21/34 | 0.1                    | GBP      | 2.79  | 120.9  | 137.3  |
| ISRAEL 2 3/8 01/18/37 | 0.75                   | EUR      | 2.30  | 140.6  | 93.8   |
| ISRAEL 4 1/2 01/30/43 | 1.7                    | USD      | 4.17  | 132.6  | 165.2  |

# Active players in International Israel bond market:

## International Banks

- Citi Bank
- Goldman Sachs
- Bank of America
- HSBC
- Barclays
- JP Morgan
- Deutsche Bank

## Local Banks

- Mizrahi Tefahot
- Hapoalim
- Leumi

# Advantages

- **Strong credit profile**- competitive economy that has been resilient in the face of repeated economic and political shocks.
- **Portfolio Diversification** - low correlation with most other Sovereign Bonds.
- **Stable Spreads** – low volatility of spreads over relevant benchmarks for the last few years.

# Points to Consider

- **Market Liquidity** - in normal conditions bid/ask spread is around 50 points.
- **Political Situation** – fragmented and unstable political system.
- **Geopolitical Situation** - escalation in the region might affect Government Bond pricing.



**Thank You!**

# Disclosure

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinions and/or any other views or forecasts expressed herein accurately reflect their own personal view(s) that could be different from official banks forecast or view. **Michael Shipunov.**