

Economic View

December 10, 2009

Summary

Macro economic developments

Euro area

By witnessing an economic expansion of 0.4% in the Netherlands, the Dutch recession has formally ended. Prospects for 2010 and 2011 indicate growth of 0.7% and 1.2%, respectively. German exports are slightly rising again, and economic contraction in Great Britain was less than expected. Overall, the economy of all European countries combined totalled an expansion of 0.4%.

United States

Unemployment rates have decreased in November by 0.2% to 10.0%. Job losses were less severe (11,000) than anticipated (125,000) as a result of positive economic sentiment among employers. To help the labour market even more, the US issued a recovery plan that mainly focuses on the small- and medium enterprise sector.

Interest rates

Money market and capital market rates have slightly decreased over the past month. The ECB's depository guarantee of EUR 200 billion will be extended to facilitate middle term credit supply, although rates will be increased to decrease bank dependency. Ben Bernanke, chairman of the FED, has indicated that he will closely monitor inflation and is willing to increase its refinance rate whenever necessary.

Foreign exchange

As a result of an appreciation dollar over the past week, oil prices fell below USD 75 for the first time in two months. The Bank of Japan and the Japanese government announced a stimulus package of JPY 17 trillion to enhance credit supply and stimulate labour conditions to combat deflation. Speculations have arisen that the current fixing of the Chinese Yuan to a basket of foreign currencies will be adjusted.

	Euro area		United States	
	Q2	Q3	Q2	Q3
GDP growth (%YoY)	-4,8	-4,1	-3,8	3,5
Unemployment (%)	9,4	9,7	9,3	10,2
	9-Nov-09	8-Dec-09	9-Nov-09	8-Dec-09
Refinance rate (%)	1,00	1,00	0,25	0,25
10-year swap rate (%)	3,57	3,43	3,63	3,55
EUR/USD	1,50	1,48		

Contact details: Zanders

Tel: +31 (0)35 692 89 89

Fax: +31 (0)35 692 89 99

Email: b.tammens@zanders.eu / j.van.der.heide@zanders.eu

Disclaimer: This monthly publication is based on information available from several international financial and economic sources that Zanders regards as reliable. This publication can be used for informational purposes only. Since the moment of publication, market conditions may have changed. We do not accept any liability for the correctness, exactness, and completeness.

Macro-economic developments

Euro-area

The Netherlands Bureau for Economic Policy Analysis (in Dutch: CPB) announced that the Dutch economic recession ended in the third quarter of 2009: the Dutch economy grew by 0.4% compared to the second quarter of this year. The Dutch Central Bank (DNB) published last week that her most recent estimations have shown that the Dutch economy will have shrunk by 4% in total during 2009. For the coming years, they expect the Dutch economy to grow by 0.7% and 1.2% in 2010 and 2011, respectively. She finds support in her estimations by the economic bureau of the Rabobank, whose calculations indicate an economic growth of 1% during 2010. However, the Dutch Central Bank warned that if the current lack of credit supply (as a result of balance sheet cleansing by the Dutch banking industry) does not improve rapidly, this will most likely severely delay further economic growth during the second half of 2011 and in 2012.

Dutch investigation bureau TNO has declared last week not to expect a structural recovery in the Dutch construction industry. This industry, whose economic cycle traditionally lags that of the general economy, is suffering from excess capacity that resulted from the abundance of credit supply during the past decade. The estimated reduction in construction related activities estimated by TNO total 6.9% for 2009 and 4.3% for 2010.

The German economy continued its economic growth witnessed in the second quarter, by further growing by 0.7% in the third quarter of this year. According to analysts this growth is mainly due to increased stock (+1.5%) because the German trade account was still negative (-0.5%). However, German exports increased by 2.5% in October compared to September; although general German export levels are still about 15% lower than a year ago, expectations are positive.

The British economy still resides in her worst economic recession since the 1950s. Although the economic contraction (-0.3%) was smaller than previously anticipated. Analysts claim this is due to unexpected growth in the British service sector and they expect that Great Britain will face economic growth once more during the fourth quarter.

The economic recession has also ended in the Euro zone as a whole. There was economic growth of 0.4% in the third quarter of this year.

Date	GDP	Gov.	Cons.	Inv.	Imp.	Exp.	Unemp.
2007 Q4	2,1	2,0	1,2	3,1	9,8	7,6	7,3
2008 Q1	2,2	1,6	1,5	2,9	9,5	6,9	7,2
Q2	1,4	2,1	0,5	1,4	12,7	8,2	7,4
Q3	0,4	2,2	0	-0,8	13,1	5,1	7,6
Q4	-1,8	2,4	-0,7	-5,5	-2,3	-4,9	8,0
2009 Q1	-5	2,5	-1,3	-10,9	-20,8	-21,0	9,0
Q2	-4,8	2,4	-0,9	-11,3	-27,3	-23,3	9,4
Q3	-4,1	2,5	-1,1	-10,4	-26,5	-19,2	10,4

Table 1: GDP components (%YoY) + unemployment (%)
Source: Bloomberg (see Appendix for definitions)

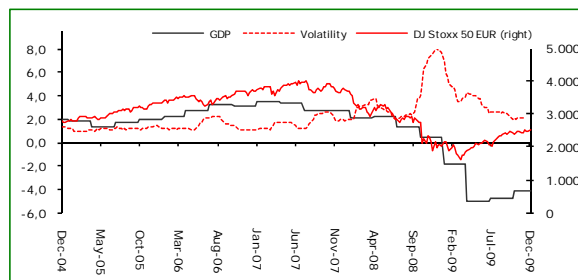


Figure 1: GDP (YoY), DJ Stoxx 50 EUR + volatility. Source: Bloomberg (see appendix for definitions)

United States

The Federal Reserve, the union of central banks in the United States, published her "Beige Book" last week and claims to have witnessed a gradual but firm strengthening of the US economic climate during October and November. However, the national markets for labour and commercial real estate still remain of great concern and severely limit the outlook for considerable economic growth.

The American ministry of Labour declared last week that unemployment rates have fallen by 0.2% to 10.0% in November. The total number of jobs lost (11,000) was also much smaller than was anticipated (125,000). The ministry claims this is due to increased economic sentiment among employers. The ministry indicated to expect an economic growth of 2.5% and 3.5% for 2010 and 2011, respectively.

President Obama announced by means of its recovery plan for the labour market that he intends to reduce unemployment rates in the US principally by stimulating small and medium enterprises in the country. Among others, his recovery plan encompasses investments in the infrastructure and tax reduction; furthermore he indicated to dedicate remaining reserves from the US Troubled Asset Relief Program (TARP) to stimulate banks to increase their credit supply to this sector.

Appendix

Table 1

Gross Domestic Product (GDP) is equal to the sum of private consumption, investment, government spending and trade balance (i.e. export minus import).

All GDP components are calculated on a year-to-year basis. Table 1 is further expanded with statistics about the unemployment rate.

Figure 1

Economic growth should among others be reflected in higher stock levels, while the certainty of the financial markets can be measured by some volatility level. This latest measure is here calculated as a 60-day deviation around the DJ Stoxx 50 EUR average and scaled (i.e. multiplied by 0.1).

Disclaimer: This monthly publication is based on information available from several international financial and economic sources that Zanders regards as reliable. This publication can be used for informational purposes only. Since the moment of publication, market conditions may have changed. We do not accept any liability for the correctness, exactness, and completeness.

Interest rates

Euro-area

The European Central Bank (ECB) decided on December 3 to keep its refinance rate unchanged at 1%. Monetary policy affecting the refinance rate is based on growth of the money supply and macro economic factors such as loan developments, inflation, foreign exchange rates and governmental budgeting. According to the ECB, although the Euro zone has witnessed a slight deflation and decreasing money supplies over the past months, these indicators do not yet require the bank to adjust its primary interest rate.

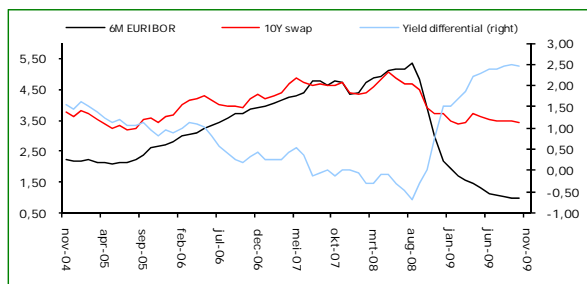


Figure 2: 6M EURIBOR (%), 10Y swap (%) + yield differential (%). Source: Bloomberg (see Appendix for definitions)

The money market rates have remained practically unchanged during the past month. The 3 month Euribor is currently quoted at 0.72% and its 6 month counterpart at 1.00%. The EONIA, the average of one day interbank interest rates, has remained stable at 0.34%. However, it was noted over the past few months that the EONIA rate increased by about 20 basis points once or twice a month and revert back to their average level, which is an indication that money market shortage occasionally still occurs. The capital markets showed fairly similar behaviour: the 5 and 10 year swap rates decreased by 6 and 5 basis points respectively to 2.69% and 3.43% over the past month.

Bank predictions for the 3 month Euribor are significantly lower than current forward curve, while predictions for the 10 year swap rate are slightly higher than their forward counterparts.

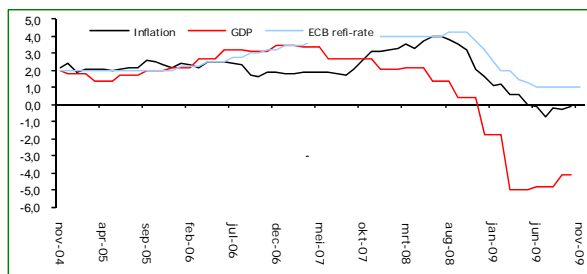


Figure 3: Inflation (YoY), GDP (YoY) + ECB refi-rate (%). Source: Bloomberg (see Appendix for definitions)

3M Euribor	Q1 10	Q2 10	Q3 10	Q4 10
Rabobank (Dec/07/09)	0,88	1,27	1,80	2,06
Deutsche Bank (Dec/07/09)	0,65	1,00	*	2,25
Barclays (Dec/04/09)	0,90	1,03	1,22	1,30
Forward curve (Dec/08/09)	1,18	1,49	1,83	2,15

Table 2: Interest rate forecasts

10Y Swap	Q1 10	Q2 10	Q3 10	Q4 10
Rabobank (Dec/07/09)	3,54	3,70	3,87	4,00
Deutsche Bank (Dec/07/09)*	3,50	3,75	-	4,00
Barclays (Dec/04/09)	3,55	3,70	3,80	3,90
Forward curve (Dec/08/09)	3,57	3,66	3,75	3,82

Table 3: Interest rate forecasts

*10-year Euro benchmark bond yield.

Date	Inflation	M3	rate
2008 Jul	4,00	9,30	4,00
Aug	3,80	8,90	4,25
Sep	3,60	8,70	4,25
Oct	3,20	8,70	4,25
Nov	2,10	7,70	3,75
Dec	1,60	7,50	3,25
2009 Jan	1,10	6,00	2,50
Feb	1,20	5,80	2,00
Mar	0,60	5,10	2,00
Apr	0,60	4,90	1,50
May	0,00	3,80	1,25
Jun	-0,10	3,60	1,00
Jul	-0,70	3,00	1,00
Aug	-0,20	2,60	1,00
Sep	-0,30	1,80	1,00
Oct	-0,10	0,30	1,00
Nov	*	*	1,00

Table 4: Inflation (YoY), M3 (%) + ECB refi-rate (%)

Source: Bloomberg (see Appendix for definitions)

United States

Analysts expect the overnight rate in the United States to remain low until a clear turnaround has been witnessed in the US unemployment rates. However Ben Bernanke, the chairman of the Federal Reserve, has stressed this does not mean that inflation will be able to develop uncontrolled. The Federal Reserve is willing to increase interest rates as soon potential inflation arises, although at the moment no such signs are evident despite analyst forecasts as high as 2.8% on a yearly basis for December. General consensus is that the primary (short) American interest rate will remain unchanged for another 6 months after which it will be increased.

The 3 and 6 month Libor rates have decreased by 2 and 9 basis points to 0.26% and 0.47% respectively. The 5 and 10 year swap rates have decreased slightly more by 19 and 6 basis points to 2.47% and 3.50%, respectively.

Appendix

Figure 2

The slope of interest rate curves (i.e. yield differential) is related to economic growth and should increase when long-term interest trend upwards that may point to an extra motivation for capital investments. The short-term interest rates largely reflect inflation expectations.

Figure 3 and table 4

Nominal interest rates are mainly driven by (expected) inflation; and therefore indirectly by economic growth, monetary policy and energy prices. Inflation and money supply are measured on a year to year basis.

Disclaimer: This monthly publication is based on information available from several international financial and economic sources that Zanders regards as reliable. This publication can be used for informational purposes only. Since the moment of publication, market conditions may have changed. We do not accept any liability for the correctness, exactness, and completeness.

Foreign Exchange

United States

The US dollar has depreciated slightly compared to the euro over the past month and is currently quoted at 1.48 EUR/USD, having moved between a bandwidth of 1.47 EUR/USD and 1.51 EUR/USD. The dollar has strengthened again during the past week compared to the euro, which according to analysts is a result of better than expected developments in the US labour market during November.

Its recent appreciation has also caused the price of oil, which is heavily driven by the exchange rate of the dollar, to fall below its bandwidth of USD 75 and 82 USD per barrel for the first time in two months: the December future for oil is currently quoted at USD 71 per barrel.

When the Federal Reserve will increase its refinancing rate, it will strengthen the dollar and make the frequent carry trades, which generally have a weakening effect on a currency, less profitable and therefore less exercised. Exchange rate expectations vary considerably among the banking industry; where the Bank of America supports the strengthening of the dollar and estimates an exchange rate of 1.24 EUR/USD in 2011, analysts from BNP Paribas actually expected the dollar to depreciate again in 2011 to 1.47 EUR/USD.

EUR/USD	Q1 10	Q2 10	Q3 10	Q4 10	2011
Rabobank (Dec/07/09)	1,50	1,42	1,38	1,33	-
Barclays (Nov/20/09)	1,51	1,49	1,47	1,45	1,40
BNP Paribas (Dec/07/09)	1,48	1,42	1,38	1,40	1,47
Bank of America (Nov/30/09)	1,44	1,38	1,32	1,28	1,24
Forward curve (Dec/08/09)	1,48	1,48	1,48	1,48	1,48

Table 5: EUR/USD forecasts

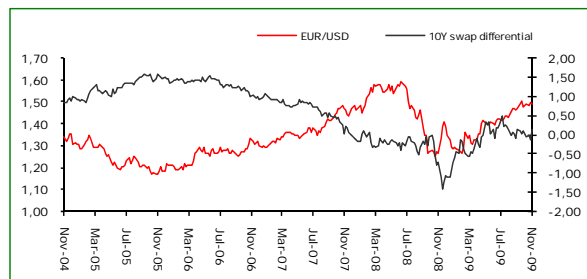


Figure 4: EUR/USD + 10y swap differential (%). Source: Bloomberg (see Appendix for definitions)

Asia

The Japanese yen has appreciated the past month from 133 EUR/JPY to 130 EUR/JPY, having moved between a bandwidth of 129 EUR/JPY and 135 EUR/JPY. Compared to the dollar, the yen reached its high (highest since 14 years) on November 27 when it was quoted at 84.83 USD/JPY.

EUR/JPY	Q1 10	Q2 10	Q3 10	Q4 10	2011
Rabobank (Dec/07/09)	132	130	133	134	-
Barclays (Nov/20/09)	144	143	144	145	141
BNP Paribas (Dec/07/09)	133	138	138	151	173
Bank of America (Nov/30/09)	120	119	117	116	136
Forward curve (Dec/08/09)	132	131	131	131	128

Table 6: EUR/JPY forecasts

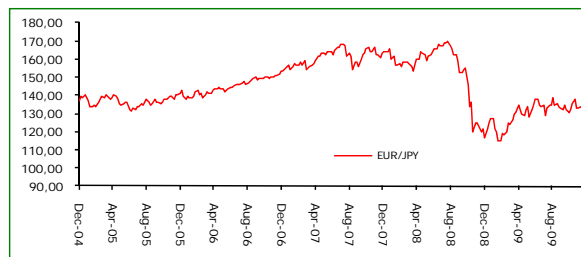


Figure 5: EUR/JPY exchange rate. Source: Bloomberg

The Bank of Japan has started a credit program of JPY 10 trillion to combat deflation and stabilize her appreciating national currency. Analysts consider this program crucial for the Japanese economy, being principally driven by exports. The current Japanese deflation, which amounted to 2.5% (on a yearly basis) in November, is primarily caused by the high (hidden) unemployment, low national consumption levels and the static character of its economy. With this injection of capital the country intends to revive its economy.

The Bank of Japan is aided in its quest by the Japanese government, who revealed this week to have initiated yet another economic stimulus package of little over JPY 7 trillion. Part of these funds will be directed towards improvement of Japanese labour conditions and initiatives that stimulate environment friendly development.

The Chinese Yuan has been in the center of investor attention lately. Speculations have arisen that the Chinese currency, which is currently coupled to a basket of foreign currencies (with a dominant dollar), will become more flexible and repositioned within the next few months. These speculations have mainly been fed by the removal of the sentence "maintaining a stable long term exchange rate" from the Chinese quarterly monetary policy report. During his last visit to China, the president of the United States, Barack Obama, has increased pressure on the Chinese government to render its Yuan more flexible. He stated that this will improve the money- and capital markets worldwide.

Appendix

Figure 4 and 5

Foreign exchange rates are mainly driven by (expected) yield differential and differences in trade balances.

Disclaimer: This monthly publication is based on information available from several international financial and economic sources that Zanders regards as reliable. This publication can be used for informational purposes only. Since the moment of publication, market conditions may have changed. We do not accept any liability for the correctness, exactness, and completeness.