

Economic View

January 11th, 2010

Summary

Macro economic developments

Euro area

The Dutch economy has expanded by 0.5% in comparison with the second quarter of 2009. For the total of 2009, a contraction of 3.7% is expected. The growth of the German economy continued during the last months of 2009, although the expansion was less than previously witnessed during the summer months. Expectations, however, are tempered by less positive news regarding the industrial production, unemployment and aggregate labor in the temporary employment markets.

United States

The US economy shows signs of recovery. However, recovery so far occurs less rapidly than analysts had expected: economic growth during the third quarter amounted to 2.2%, while 3.5% was expected. Likewise, a growth of 9% was expected for the consumer confidence index, which realized a growth of 7%.

Interest rates

Interest rates on the money markets have declined slightly in December. Interest rate predictions indicate an increase of Euribor rates during 2010. These predictions are supported by announcements of various government institutions, which claim that offered liquidity, to stimulate credit supply, will be decreased. This will lead to increased refinance rates. Expectation is that the Euribor rates will increase again to above refinance rate levels during 2010.

Foreign exchange

The exchange rates between the euro, the US dollar and the Japanese yen have showed no spectacular movements. The dollar appreciated against the euro and the Japanese yen depreciated slightly against the euro. Rumors persist that the current fixing of the Chinese yuan will change and that the Chinese currency will appreciate against the dollar.

	Euro area		United States	
	Q3	Q4	Q3	Q4
GDP growth (%YoY)	-4.0	-	-3.8	-
Unemployment (%)	9.8	10*	9.8	10
	8-Dec-09	7-Jan-10	8-Dec-09	7-Jan-10
Refinance rate (%)	1.00	1.00	0.25	0.25
10-year swap rate (%)	3.41	3.53	3.50	3.93
EUR/USD	1.47	1.43		

* Rate of November

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Macro-economic developments

Euro-area

The Dutch Central Bureau for Statistics (CBS) has calculated that the Dutch economy expanded with 0.5% during the third quarter of 2009. For the total of 2009, CBS expects that the Dutch economy has contracted with 3.7% in comparison to 2008. Further investigation by CBS has shown that the Dutch consumer confidence levels have increased in December, compared to November, as result of an improved economic climate. This investigation was supported by news from transaction service provider Equens, which announced that the total number of electronic payments during last Christmas greatly surpassed all records with an all-time high of 11 million on December 24.

This positive news was tempered by another investigation. This showed that the total labor productivity in the temporary employment sector did not increase at all during week 45 to week 48. The total amount of labor hours have resulted over 20% less than they were during the same period in 2008; this is supported by the index of CBS for industrial production, which declined sharply in December compared a month earlier.

The German ministry of Economic Affairs announced that German economic recovery continued in the fourth quarter of 2009, although growth was less than witnessed during last summer, and the ministry expects an economic growth of 1.2% for 2010. Despite these positive expectations, the GfK research institute declared that personal consumption and consumer confidence levels decreased in December compared to November.

According to Eurostat, unemployment levels in the Euro zone increased by 0.5% during the fourth quarter. This is supported by more of Eurostat's calculations, that show a decline in European industrial production by a total of 11.1% during October (YoY).

During 2009, European citizens have saved a considerable higher amount of their income due to economic uncertainty; statistics of the European Central Bank (ECB) have shown that the European savings rate has amounted to 15.4% of total income, significantly higher than the average of 14.1% witnessed during 2008.

Date	GDP	Gov.	Cons.	Inv.	Imp.	Exp.	Unemp.
2007 Q4	2.2	2.0	1.2	3.1	9.8	7.6	7.3
2008 Q1	2.2	1.6	1.6	2.6	9.5	6.9	7.2
Q2	1.4	2.1	0.6	1.1	12.7	8.2	7.4
Q3	0.4	2.1	0	-0.6	13.1	5.1	7.6
Q4	-1.8	2.4	-0.7	-5.8	-2.3	-4.9	8.0
2009 Q1	-5	2.5	-1.3	-11.5	-20.7	-20.9	8.8
Q2	-4.8	2.5	-0.9	-11.7	-27.2	-23.1	9.3
Q3	-4	2.5	-1	-11.4	-26.0	-19.4	9.6
Q4	-	-	-	-	-	-	10

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

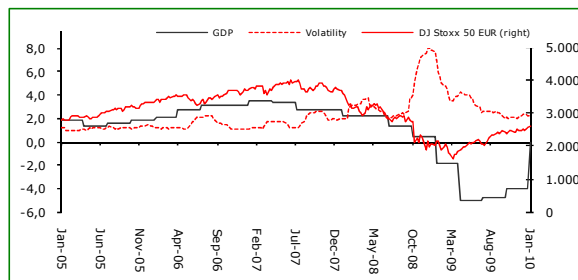


Figure 1: GDP (YoY), DJ Stoxx 50 EUR + volatility. Source: Bloomberg (see appendix for definitions)

United States

The American ministry of Trade has calculated that the American economy expanded by 2.2% during the third quarter. This was far less than the 3.5% that was expected by analysts. Although the demand for durable goods increased by 0.2% in November, it remained less than the 0.4% experts had anticipated.

US research institute Conference Board has announced that the American consumer confidence levels have increased in December compared to November. However, its increase of 7% was less than the 9% that analysts had expected.

The S&P Case Shiller Index, the average of residential price levels of the 20 largest cities in the US, resulted at -7.3% in October. This means that house prices have decreased in total by 7.3% compared to October 2008. However, the quantity of houses sold in the US increased by 7% during November, which was, according to the real estate agencies, largely due to a relatively large amount of new entrants to the residential real estate market. Analysts consider this to be an indication of improving real estate market conditions.

The University of Michigan calculated expected inflation to be 2.5% during the next 12 months, which is less than 2.7% that was previously assumed.

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).

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Interest rates

Euro-area

The refinance rate of the European Central Bank (ECB) has remained unchanged at 1.00%, which was determined at the last board meeting. However, the current short term Euribor rates are less than the ECB refinance rate and, as of such, the ECB intends to reduce its total amount of credit extended to combat the current short term excess liquidity available in the market. Furthermore, the ECB announced to stop extending 1 year loans from now on.

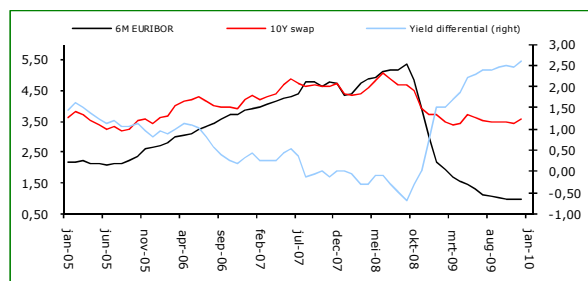


Figure 2: 6M EURIBOR (%), 10Y swap (%) + yield differential (%). Source: Bloomberg (see Appendix for definitions)

The 3 month Euribor rate is currently at an historical low of 0.69%, coming from 2.86% at the beginning of 2009. Because many corporate institutions use short term roll over contracts to provide in their funding needs, total corporate interest payments have declined over the past year, allowing for increased investment activities.

The interest rate predictions, presented in tables 2 and 3, vary between banks. The general consensus for the 3-month Euribor rate is that it will increase considerably over the next year, although opinions differ with respect to the speed of increase. These predictions are in line with announcements by the ECB with respect to its refinance rate and its intentions to limit the total credit supply in the market. There is less agreement on the 10 year swap rate: some banks expect it to increase, where others expect it to decrease. A decrease would be supported by statements of the ECB indicating its desire for a less steeply inclined interest curve, which is reached through increased short term funding costs and decreased long term interest rates. The difference between the 10 year swap rate and 10 year German bond rates amounted to approximately 24 basis points over the past month.

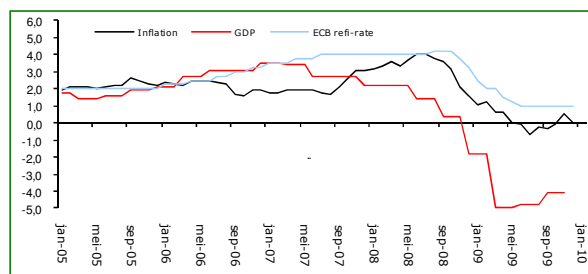


Figure 3: Inflation (YoY), GDP (YoY) + ECB refi-rate (%). Source: Bloomberg (see Appendix for definitions)

3M Euribor	Q1 10	Q2 10	Q3 10	Q4 10
Rabobank (Jan/04/10)	0.88	1.56	1.89	2.20
Deutsche Bank (Jan/06/10)	0.65	1.00	-	2.25
Credit Agricole (Jan/04/10)	0.92	1.32	1.52	1.72
Forward curve (Jan/04/10)	0.87	1.20	1.56	1.91

Table 2: Interest rate forecasts

10Y Swap	Q1 10	Q2 10	Q3 10	Q4 10
Rabobank (Jan/04/10)	3.54	3.70	3.87	4.00
Deutsche Bank (Jan/06/10)*	3.50	3.75	-	4.00
Credit HSBC (Dec/22/09)*	3.30	3.30	3.20	3.10
Forward curve (Jan/04/10)	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	0.50	-0.20	1.00
Dec	*	*	1.00

Table 4: Inflation (YoY), M3 (%) + ECB refi-rate (%) Source: Bloomberg (see Appendix for definitions)

United States

Analysts expect that the Federal Reserve Bank (FED) will have increased its refinance rate by the end of 2010. As does the ECB, the FED intends to slowly decrease its total amount of stimulus credit in the market. As a result, experts expect the yield on 10 year Treasury bills to increase van 3.38% to about 5.50% by the end of 2010.

Where American authorities intend to decrease overall financial stimulus, many economists expect that the British government will delay such measures until more signs of recovery will become evident. As of such, analysts estimate that the Bank of England will keep its refinance rate low for a longer period of time that the FED. The 3-month Libor rate remained practically unchanged at 0.25%. The 6-month Libor decreased by an average of 6 basis points to 0.42%.

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.

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Foreign Exchange

United States

The US Dollar has increased value against the euro during the past month. From December 1 to January 7, the exchange rate appreciated from 1.51 EUR/USD to 1.43 EUR/USD. Most analysts denote the difference in fiscal policy between the US and the Euro zone (with the US fiscal policy being significantly more aggressive) as the main cause for the recent appreciation of the dollar compared to the euro.

Exchange rate predictions, presented in Table..., vary considerably among banks: its range of expectation by the end of 2010 runs from 1.28 EUR/USD to 1.55 EUR/USD. As the interest rate term structure of the Euro zone and the United States is more or less equal, the EUR/USD forward rate, which is based on the interest rate differential between both financial zones, is nearly equal for every maturity.

An appreciation of the Euro is considered a threat for export oriented countries within the European Union like the Netherlands. Increased demand for European goods has partly countered the negative effect on export of the strong Euro during the past year. Appreciation of the euro might lead to increased transfer of production capacity to areas outside of Europe.

EUR/USD	Q1 10	Q2 10	Q3 10	Q4 10	2011
Rabobank (Jan/04/10)	1.44	1.42	1.37	1.33	-
Bank of America (Dec/18/09)	1.44	1.38	1.32	1.28	1.24
JP Morgan (Dec/21/09)	1.55	1.62	1.55	1.50	-
Credit Suisse (Dec/22/09)	1.53	1.54	1.54	1.55	1.48
Forward curve (Jan/07/10)	1.43	1.43	1.43	1.43	1.43

Table 5: EUR/USD forecasts

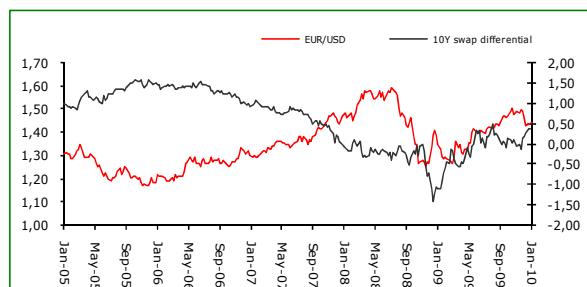


Figure 4: EUR/USD + 10y swap differential (%). Source: Bloomberg (see Appendix for definitions)

Asia

The Japanese yen has depreciated compared to the euro from 130 EUR/JPY to 134 EUR/JPY, moving between exchange rates of 129 EUR/JPY and 134 EUR/JPY. Interestingly, its movement is the opposite of last month. Most banks expect the exchange rate of the Japanese yen to remain fairly constant; only the Bank of America expects the yen to appreciate considerably compared to the euro over the course of 2010, only to revert to its current level by 2011.

EUR/JPY	Q1 10	Q2 10	Q3 10	Q4 10	2011
Rabobank (Jan/04/10)	132	130	133	134	-
Bank of America (Dec/18/09)	120	119	117	116	136
JP Morgan (Dec/21/09)	132	133	132	134	-
Credit Suisse (Dec/22/09)	130	134	137	140	133
Forward curve (Jan/07/10)	133	133	133	133	130

Table 6: EUR/JPY forecasts

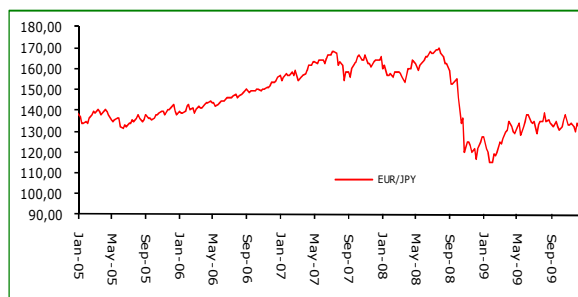


Figure 5: EUR/JPY exchange rate. Source: Bloomberg

The Bank of Japan remains positive with respect to the development of the Japanese economy, although risk of deflation still exists. The ongoing threat of deflation forces the Japanese interest rate to remain low, keeping the yen interesting for carry trades.

Japanese experts claim that the fear of appreciation of the yen discourages the Japanese to do foreign investments. As a result, many invest in domestic deposits instead, driving the savings rate upwards. The high savings rate is currently one of the most important factors affecting the Bank of Japan's refinancing rate, impeding the bank to counter its recent spiral of deflation.

Analysts expect the Chinese economy to witness comparable growth in 2010 as it did in 2009. The expected increase of Chinese Gross Domestic Product amounts to approximately 9% and its inflation is expected to have reached 4% by the end of 2010. Over the past 18 months the Chinese yuan was remained stable at 6.83 USD/CNY, despite huge surpluses on the Chinese current account, large supplies of dollars and foreign pressure to have the yuan appreciate in value. Most analysts expect the yuan will appreciate; however, this has been (an incorrect) analysts' consensus for quite some time.

Appendix

Figure 4 and 5

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

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