

# Economic View

November 2009

## Summary

### Macroeconomic developments

#### **Eurozone**

The European Committee expects the European economy to shrink by 4% in 2009. In 2010 a growth of 0,75% is expected.

#### **United States of America**

The American economy has grown by 3,5% on annual basis, in the third quarter. This means that the United States is officially no longer in state of recession.

### Interest rates

#### **Eurozone**

The European Central Bank maintained the refinance rate at 1%. The money market showed a small downward trend, whereas the capital market showed an upward movement.

#### **United States**

The Federal Reserve Bank did not change their most important interest rate. The money market showed a downward trend whereas the capital market showed an upward trend.

### Foreign Exchange

#### **EUR/USD**

During October the EUR appreciated against the USD. On the 1<sup>st</sup> of November the exchange rate was 1,47 USD per EUR.

#### **EUR/JPY**

During a non-volatile month the JPY depreciated against the EUR. On the 1<sup>st</sup> of November the exchange rate was 133 JPY per EUR.

	Euro area		United States	
	Q2	Q3	Q2	Q3
<b>GDP growth (% YoY)</b>	-4.8	*	-3.8	3.5
<b>Unemployment (%)</b>	9.4	9.7	9.3	10.2
	8-Oct-09	9-Nov-09	8-Oct-09	9-Nov-09
<b>Refinance rate (%)</b>	1.00	1.00	0.25	0.25
<b>10-year swap rate (%)</b>	3.37	3.57	3.31	3.63
<b>EUR/USD</b>	1.48	1.50		

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## Macroeconomic Developments

### General

The Organisation for Economic Co-operation and Development (OECD) shows more and stronger signals that indicate a recovery of the world economy. The OECD index of composite leading indicators increased in September to 100,6 from 99,3 in August. The seven most important OECD countries (G7), with the exception of Japan, show higher leading indicators compared to last year.

The International Monetary Fund (IMF) warns governments of the G20 countries to avoid cutting on public expenditures in the near future. The current recovery of the world economy depends for a large part on increased government expenditure. Due to its dependence on government spending the economic growth is likely to decrease when stimulus plans are reversed.

### Eurozone

In its autumn forecast the European Commission (EC) says it expects economic recovery for the European Union (EU) in the second half of 2010. Nevertheless, the economy of the EU is expected to contract by 4% over 2009, but for 2010 the EC expects an economic growth rate of 0,75%. The EC expects the unemployment rate in the EU to rise to 10,25% in 2010.

The unemployment rate in the EU increased to the highest point in 10 years. Eurostat disclosed that the unemployment rate increased to 9,7% in September. A slight increase compared to August when 9,6% of the workforce was unemployed. According to the calculation methods of Eurostat the unemployment rate in the Netherlands is the lowest in the EU with 3,6%.

New manufacturing orders in the eurozone increased by 2% in August, as compared to July. The figures of Eurostat also reveal that these orders are down by 23,1% on annual basis. The services industry showed an increase in economic activity in October. Compared to September the purchasing managers index of the services industry increased from 50,9 to 52,6. Economic growth is realized when the index number is above 50.

In September the retail sales in the eurozone decreased with 0,7% on a monthly basis. Compared to September 2008 the retail sales decreased with 3,6%.

The economy of the United Kingdom is still in recession. In the third quarter the gross domestic product (GDP) decreased by 0,4%. The current decrease makes it the sixth in a row of quarterly GDP decreases.

Date	GDP	Gov.	Cons.	Inv.	Imp.	Exp.	Unemp.
2007 Q4	2.2	2.0	1.2	3.2	9.8	7.6	7.3
2008 Q1	2.2	1.5	1.5	2.9	9.8	6.8	7.2
Q2	1.5	2.1	0.5	1.2	12.7	8.3	7.4
Q3	0.4	2.2	0	-0.9	13.4	5.2	7.6
Q4	-1.8	2.4	-0.7	-5.5	-2.0	-4.8	8.0
2009 Q1	-4.9	2.6	-1.4	-11.2	-21.0	-21.0	9.0
Q2	-4.8	2.5	-0.9	-11.4	-27.3	-23.5	9.4
Q3	*	*	*	*	-29.0	-18.1	10.4

Table 1: GDP components (%YoY)+unemployment (%)

Source: Bloomberg (see Appendix for definitions)

\*) Data not available yet.

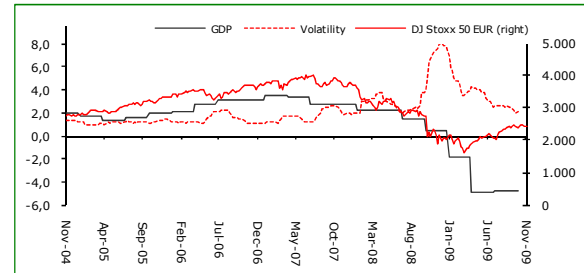


Figure 1: GDP (YoY), DJ Stoxx 50 EUR + volatility

Source: Bloomberg (see Appendix for definitions)

### United States of America

In the third quarter the United States economy has grown by 3,5% compared to the same period in last year. Therefore, the recession, that lasted for over a year, is officially over.

The growth of the US economy is for a large part the result of increasing consumer spending. The third quarter showed an increase of 3,4% in consumer spending. Also, for the first time since 2005, the investments in real estate had positive impact on economic growth. In the third quarter real estate investments increased by 23%.

Both the increase in consumer spending and the higher level of real estate investments are probably for a large part the result of the government stimulus plan. In order to keep future economic growth rates on the level of last quarter the government should continue to stimulate the economy with government expenses.

Despite the positive economic growth rates the unemployment rate increased further in October to 10,2%, the highest level in 26 years. The Department of Labor discloses the US unemployment rates on monthly basis.

### Appendix

**Table 1** Gross Domestic Product (GDP) equals the sum of private consumption, investments, government spending and the trade balance (i.e. export minus import). All GDP components are calculated on a year-to-year basis. Table 1 is 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 last measure is calculated here as a 60-day deviation around the Dow Jones EUR Stoxx 50 scaled average (i.e. multiplied by 0.1)

## Interest Rates

### Eurozone

During its last meeting, on November 5<sup>th</sup>, the European Central Bank (ECB) announced to keep their main interest rate constant at 1%. The marginal lending facility remains at 1,75% and the deposit rate continues at 0,25%.

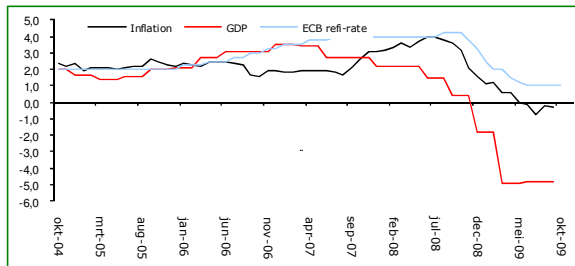


Figure 2: Inflation (YoY), GDP (YoY) + ECB refi-rate (%)  
Source: Bloomberg (see Appendix for definitions)

The ECB use this part of their monetary policy to steer the inflation level. Since prices remained constant during the last month, it was expected that the refinance rate was held constant. The inflation is expected to rise to a level of approximately 1%.

The European money market was not very volatile this month. The 3-months and 6-months Euribor showed a small decrease of, respectively, three and two basepoints to 0,72% and 1%.

The capital market was not very volatile in October either. The 5-years and 10-years swap rates increased with, respectively, four and two basepoints to 2,75% and 3,48%.

The Bank of England (BoE) decided to leave their monetary policy unchanged. The official bank rate paid on commercial paper remains at the 0,5% level. To stimulate the British economy, the BoE increased their asset purchase program to 200 billion GBP.

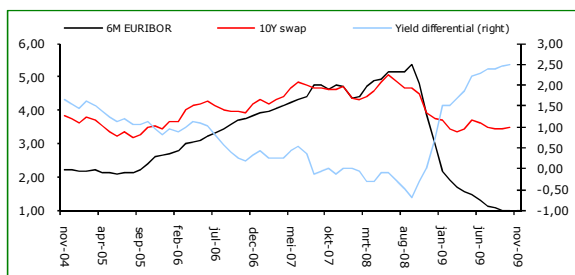


Figure 3: 6M Euribor (%), 10Y swap (%) + yield differential (%). Source: Bloomberg (see Appendix for definitions)

3M Euribor	Q1 10	Q2 10	Q3 10	Q4 10
Rabobank (Nov/09/09)	0.69	0.88	1.27	1.80
Deutsche Bank (Nov/04/09)	0.67	1.00	1.20	1.75
Barclays (Nov/06/09)	0.90	1.03	1.22	1.30
Forward curve (Nov/10/09)	0.78	1.06	1.42	1.79

Table 2: Interest rate forecasts

10Y Swap	Q1 10	Q2 10	Q3 10	Q4 10
Rabobank (Nov/09/09)	3.59	3.69	3.78	3.91
Deutsche Bank (Nov/04/09)*	3.24	3.50	3.50	4.00
Barclays (Nov/06/09)	3.80	3.90	3.95	4.00
Forward curve (Nov/10/09)	3.72	3.83	3.93	4.03

Table 3: Interest rate forecasts

\*10-year Euro benchmark bond yield.

### United States of America

During their last meeting the Federal Reserve Bank (FEB) decided to keep the FED funds rate constant at a level between 0% and 0,25%. In the explanation belonging to this decision, the FED announced that it is very likely that the FED funds rate will remain at this level for the coming months. Main reasons for this decision are the high unemployment rate and the low inflation. The overall opinion of the FED about the economy is better than the last months. The pace of economic recovery is still low but it is increasing.

The 3-months Libor and the 6-months Libor show a similar movement as the money market in Europe, with a decrease one of seven basis points to 0,28% and 0,56% respectively. The capital market shows an upward trend. Both the 5-years and the 10-years swap rates increased by three and thirteen basis points to 2,66% and 3,56% respectively.

Date	Inflation	M3	rate
2008 Jun	4.00	9.70	4.00
Jul	4.00	9.30	4.25
Aug	3.80	8.90	4.25
Sep	3.60	8.70	4.25
Oct	3.20	8.70	3.75
Nov	2.10	7.70	3.25
Dec	1.60	7.50	2.50
2009 Jan	1.10	6.00	2.00
Feb	1.20	5.80	2.00
Mar	0.60	5.10	1.50
Apr	0.60	4.90	1.25
May	0.00	3.80	1.00
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	*	*	1.00

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

### Appendix

**Figure 3** The slope of interest rate curves (i.e. yield differential) is related to economic growth and should increase when long term interest rates trend upwards. This may point to an extra motivation for capital investments. The short term interest rates largely reflect inflation expectations.

**Table 4 & Figure 2** 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.

## Exchange rates

### EUR/USD

On the 1<sup>st</sup> of October the EUR/USD exchange rate was 1,45 USD. During the month of October the value of the EUR increased to 1,47 USD. Within the month the exchange rate increased above the 1,50 USD. In the past nine months the EUR has appreciated by 15% compared to the USD.

The announcement of the FED that the FED funds rate will remain at its low level, has caused the USD to depreciate even further as compared to the EUR. In the first week of November the exchange rate was close to the 1,50 USD.

The IMF states that the pressure on the USD is worrying. This pressure is mainly caused by the so-called carry traders. These traders make use of the low interest rate in the United States to borrow cheap USD and lend it for a higher rate in another currency. Besides that, the conditions on the United States labor market do have a bad influence on the USD. The labor market in the USA remains weak, whereas labor market conditions in Europe show some signs of recovery.

The decisions taken at the last G20 summit have caused the USD to decrease further. The communiqué at the end of this meeting stated that local government should continue to stimulate their economies.

The depreciating USD has a positive influence on the price of gold. This price has increased by 3,7% in October to a level of 1040 USD per troy ounce. In the first week of November the price has risen even further to a level above 1100.

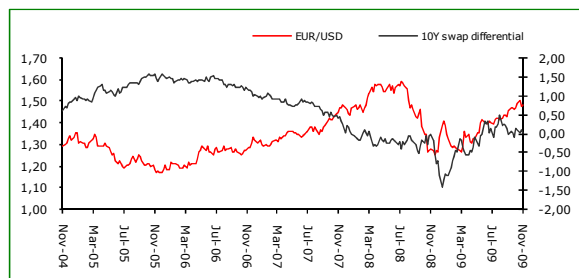


Figure 4: EUR/USD + 10Y Swap differential (%).  
Source: Bloomberg (see Appendix for definitions)

EUR/USD	Q1 10	Q2 10	Q3 10	Q4 10	2011
Rabobank (Nov/09/09)	1.53	1.55	1.49	1.42	-
Barclays (Oct/26/09)	1.51	1.48	1.46	1.44	1.40
BNP Paribas (Oct/30/09)	1.48	1.42	1.38	1.40	1.47
Bank of America (Oct/30/09)	1.36	1.32	1.28	-	-
Forward curve (Nov/10/09)	1.50	1.50	1.50	1.50	1.49

Table 5: EUR/USD forecasts

### EUR/JPY

On the 1<sup>st</sup> of October the EUR/JPY exchange rate was 130 JPY. The exchange rate was reasonable stable during the month. On October 30<sup>th</sup> the EUR/JPY exchange rate was 133 JPY. Since April the EUR/JPY exchange rate stayed between a bandwidth of approximately 125 and 140 JPY. Over the same period last year the JPY appreciated against the USD. The reason for the appreciation of the JPY is the fact that it became cheaper to borrow in USD than in JPY.

Export is an important part of the Japanese economy and therefore the economy does not benefit from an appreciation of the JPY. However, the new Finance Minister of Japan, Hirohisa Fujii, announced not to favor a weak JPY. His position is in line with the plans of the new administration that desires the Japanese economy to be less dependent on export.

Due to the relative strong JPY (when compared to the USD) the deflationary climate of the Japanese economy is strengthened. In October consumer prices decreased by 0,4% on monthly basis. Deflation can lead to a situation in which consumers postpone their expenditures, because prices of goods and services gradually decline. Decreasing consumer spending has a negative effect on economic growth rates.

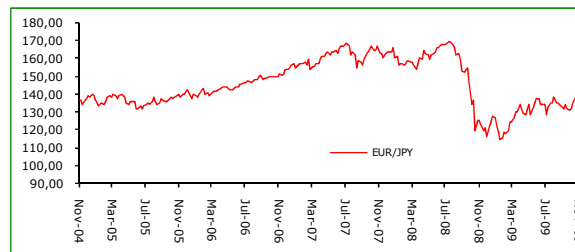


Figure 5: EUR/JPY exchange rate  
Source: Bloomberg (see Appendix for definitions)

EUR/JPY	Q1 10	Q2 10	Q3 10	Q4 10	2011
Rabobank (Nov/09/09)	136	135	130	131	-
Barclays (Oct/26/09)	143	143	145	144	141
BNP Paribas (Oct/30/09)	133	132	134	141	154
Bank of America (Oct/30/09)	136	139	141	-	-
Forward curve (Nov/10/09)	135	134	134	134	131

Table 6: EUR/JPY forecasts

## Appendix

Figure 4 & 5 en Table 5 & 6 Exchange rates are mostly driven by (expected) interest differences and trade balances between countries.