

Economic View

October 2009

Summary

Macroeconomic developments

Eurozone

The Eurozone is expected to come out of the recession this last quarter. Due to several stimulus measures that were implemented by national governments, the consumer expenditures have increased.

United States of America

The unemployment in the United States of America is still increasing. Furthermore, the sales in the retail sector have decreased.

Interest rates

Eurozone

The European Central Bank (ECB) maintained the refinancing rate at 1%. The money market showed a downward trend, whereas the capital market showed a small upward movement.

United States

The Federal Reserve Bank (FED) did not change their most important interest rate. Both the money market and the capital market showed a small downward trend.

Foreign Exchange

EUR/USD

During September the Euro appreciated as compared to the Dollar. On the 1st of October the Euro was 1,46 Dollar.

EUR/JPY

During a volatile month the Yen slightly depreciated as compared to the Euro. On the 1st of October the Euro was 132 Japanese Yen. The depreciation was mainly caused by the low interest rate.

	Euro area		United States	
	Q1	Q2	Q1	Q2
GDP growth (%YoY)	-4.9	-4.8	-3.3	-3.8
Unemployment (%)	9.0	9.4	8.1	9.3
	7-Sep-09	8-Oct-09	7-Sep-09	8-Oct-09
Refinancing rate (%)	1.00	1.00	0.25	0.25
10-year swap rate (%)	3.45	3.37	3.62	3.31
EUR/USD	1.43	1.48		

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Macroeconomic Developments

General

The IMF has predicted that most countries over the globe will face a second significant correction in the housing market. Historically, housing prices have declined stronger in times of crises as it is the case today. The average decline of housing prices in the Netherlands during periods of economic downturn was 25% stronger than the current depreciation. The prices in the United States however have behaved according to historic movements, which indicated there will not be a second correction.

Australia is the first country (of the G20 countries) where the central bank has decided to increase the interest rates since the global economic crisis emerged. The central bank decided to increase the main interest rate with 25 basis points to 3,25%.

Eurozone

The European Central Bank has decided to maintain the refinancing rate at 1%. Despite serious signals that future inflation will move to 3%, the central bank prefers to stimulate economic growth via a low interest rate.

It is expected that the Eurozone has come out of the recession. Stimulus packages as implemented by national governments have boosted consumer expenditures. Furthermore, global economic recovery has increased demand for European export products. This increase in export however is hampered by the current weak status of the Dollar.

According to Euro commissioner of Economic Affairs, Almunia, the growth potential of the European Union has been halved towards 1% due to the current economic crisis. Almunia called for structural reforms by the European member states to improve the growth potential.

Industrial production in Germany has increased with 1,7% over August as compared to July. This growth, which was already visible in the second quarter, has been caused by the stimulus measures that were implemented by the German government. One of the most important measures was the financial incentive for buying new cars. It is expected that this measure will only have a short term effect and that the growing unemployment will put a severe burden on economic recovery.

The British central bank is worried about economic recovery and is considering to expand its stimulus package when economic growth stagnates over November. Industrial production decreased in August and unemployment marked the highest level in 14 years. The central bank decided to maintain the interest rate at the historic low level of 0,5%. Inflation is expected to be well above the inflation target of 2% for the upcoming 2 years.

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	9.4	7.1	7.2
Q2	1.5	2.1	0.5	1.2	11.8	8.6	7.4
Q3	0.4	2.2	0	-0.9	12.9	5.5	7.6
Q4	-1.8	2.4	-0.7	-5.5	-2.1	-4.9	8.0
2009 Q1	-4.9	2.6	-1.4	-11.2	-20.8	-21.3	9.0
Q2	-4.8	2.5	-0.9	-11.4	-26.7	-23.7	9.4
Q3	*	*	*	*	*	*	*

Table 1: GDP components (%YoY)+unemployment (%)
Source: Bloomberg (see Appendix for definitions)
*): Data not available

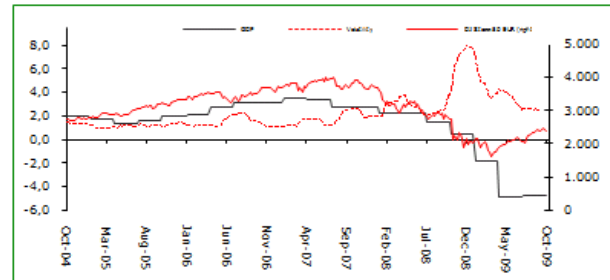


Figure 1: GDP (YoY), DJ Stoxx 50 EUR + volatility
Source: Bloomberg (see Appendix for definitions)

United States of America

During the fiscal year of 2009, that ended on the 30th of September the American government spent 1400 billion Dollar more than it received. Governmental rescue programs, stimulus measures and decreasing tax incomes caused a budget deficit that totals 9,9% of Gross Domestic Product. This figure is enormous if you compare it to the budget deficit of the fiscal year of 2008, which was 'only' 459 billion Dollar.

Sales in the retail market (without car sales) decreased with 4,3%. Unemployment is still growing strong in the United States of America. As of the beginning of 2009 weekly initial jobless claims are approximately 500.000. Currently 9,8% of the American working population is unemployed, which is the highest percentage since 1983.

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 their latest Governing Council meeting on October 8th, the ECB announced that the main refinancing rate will be held constant at 1%. The marginal lending facility remains at 1,75% and the deposit rate continues at 0,25%. It is expected that the economy of the Eurozone economy has come out of the recession over the last three months.

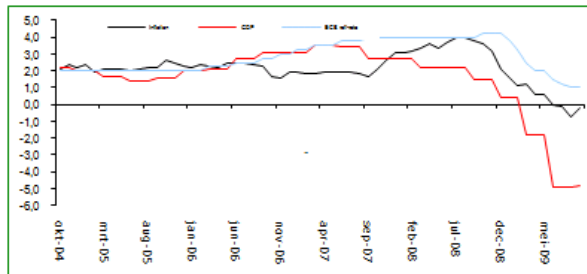


Figure 2: Inflation (YoY), GDP (YoY) + ECB refi-rate (%)
Source: Bloomberg (see Appendix for definitions)

The annual inflation in the Eurozone remains negative at -0,3%. This is far from the target inflation rate of the ECB, which is 2%. The strength of the Euro, compared to the Dollar, makes it unlikely that the ECB will change the monetary policy on short notice. The inflation expectation, measured by the five-year/five-year breakeven rate rose 2,78%, whereas this rate noted 2,54% in the beginning of 2009.

In September the overall trend in the money market moved slightly downward. The 3-months Euribor have decreased seven and six basis points to 0,75% and 1,02% respectively. The EONIA rate showed an opposite movement with a one basis increase to 0,34%, on October 1st.

The capital market did not show strong volatility in September. The 5-year swap rate stayed constant at 2,71% and the 10-year swap rate increased with three basis points to 3,46%.

During the Monetary Policy committee of October 8th, the Bank of England decided to keep the official bank rate paid on commercial bank reserves constant at 0,5%. Just like last month, the committee voted to leave the 175 billion pound asset purchase program unchanged.

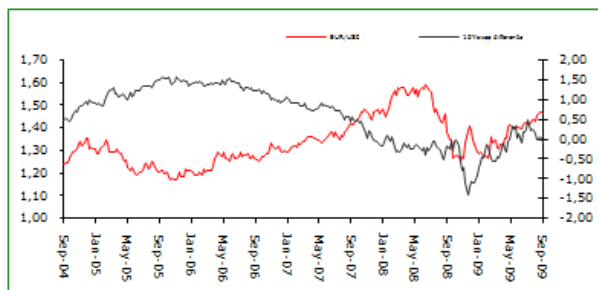


Figure 3: 6M Euribor (%), 10Y swap (%) + yield differential (%)
Source: Bloomberg (see Appendix for definitions)

3M Euribor	Q4 09	Q1 10	Q2 10	Q3 10
Rabobank (Oct/05/09)	0.70	0.81	0.95	1.54
Deutsche Bank (Oct/07/09)	0.69	1.00	1.20	1.75
ING (Oct/7/09)	0.90	1.10	1.25	1.40
Forward curve (Oct/05/09)	0.73	0.76	0.95	1.24

Table 2 :Interest rate forecast 3m Euribor

10Y Swap	Q4 09	Q1 10	Q2 10	Q3 10
Rabobank (Oct/05/09)	3.40	3.60	3.70	3.87
Deutsche Bank (Oct/07/09)	3.14	3.50	3.50	4.00
ING (Oct/07/09)	3.40	3.50	3.60	3.70
Forward curve (Oct/05/09)	3.42	3.49	3.59	3.69

Table 3:Interest rate forecasts 10Y swap

United States of America

During the latest Federal Open Market Committee the FED announced to keep the FED funds rate constant at a level between 0% and 0,25%. Although the market conditions are improving, the Federal Reserve Bank will continue to stimulate economic recovery and aim for price stability. The FED will continue with their plan to buy 1,25 trillion Dollar of agency mortgage backed securities and 200 billion Dollar of agency debt, with the intention to support the mortgage lending and the housing market. These purchases will decrease over time and will be executed before the end of the first quarter in 2010.

The money market in the United States shows the same downward movement as the market in Europe. The 3-months Libor decreased with 5 basis points to 0,29% and the 6-months Libor decreased with 10 basis points to 0,63%. The capital market in the United States also showed a downward trend. The 5-year swap and the 10-year swap declined with six and thirteen basis points to 2,63% and 3,44% respectively.

Date	Inflation	M3	rate
2008 May	3.70	10.20	4.00
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	5.90	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	2.50	1.00
Sep	*	*	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 1st of September the EUR/USD exchange rate was 1,42 Dollar. During the month of September the value of the Euro gradually appreciated to 1,46 Dollar on the 1st of October. The appreciating Euro poses a significant threat for the economic recovery in Europe. Since February 2009 the Euro increased 18% in value compared to the Dollar. This has a negative effect on the European export sales.

The depreciation of the Dollar led to severe criticism on the current power and value of the currency. Critics believe that the decreasing value of the Dollar is intertwined with the worsening position of the United States of America in global (political) markets. Robert Zoellick, president of the World Bank, even stressed that the current status of the Dollar, as being the global currency, is not necessarily a fact of life.

The consequences of the depreciating Dollar were clearly visible in amongst others the sharp increase in the price of Gold.

The current pressure on the Dollar remains strong, because the so-called 'carry traders' use the low interest rate in the United States to borrow cheap Dollars and lend it for a much higher rate in another currency.

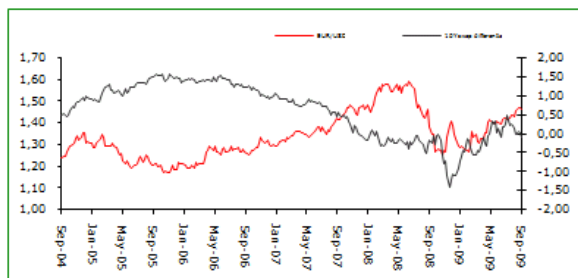


Figure 4: EUR/USD + 10Y Swap differential (%).
Source: Bloomberg (see Appendix for definitions)

EUR/USD	Q4 09	Q1 10	Q2 10	Q3 10	2011
Rabobank (Oct/05/09)	1.43	1.37	1.33	1.31	-
Barclays (Sept/25/09)	1.51	1.49	1.47	1.45	1.40
BNP Paribas (Sept/24/09)	1.54	1.48	1.42	1.40	1.47
Bank of America (Sept/30/09)	1.5	1.42	1.36	1.32	-
Forward curve (Oct/8/09)	1.48	1.47	1.47	1.47	1.47

Table 5: EUR/USD Forecasts

EUR/JPY

On the 1st of September the EUR/JPY exchange rate was 132 Yen. After a volatile month the exchange rate was 130 Yen on the 1st of October. During the year of 2009 the Japanese Yen has been strongly depreciated compared to the Euro and the Dollar. This has been caused by the low interest rate in Japan, which makes borrowing in the Japanese currency inexpensive.

As of September the newly formed government of Japan started. The Democratic Party of Japan will implement a policy that significantly differs from the former government. The focus will shift to the financial support of households instead of the commercial sector. It is expected that this policy will lead to a 1% increase in consumer expenditures in the year of 2010.

With respect to foreign policy the new government will not implement significant changes, since Japan will remain very dependent on its export. The Japanese Central Bank is cautious with respect to economic recovery and is expected to hold onto the current interest rate of 0,1%.

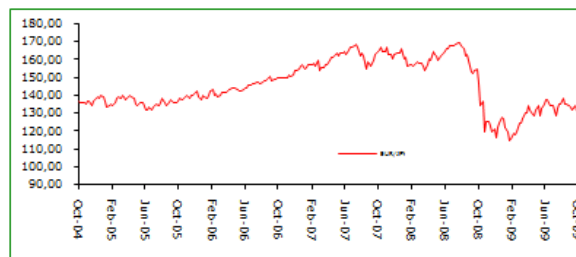


Figure 5: EUR/JPY exchange rate
Source: Bloomberg (see Appendix for definitions)

EUR/JPY	Q4 09	Q1 10	Q2 10	Q3 10	2011
Rabobank (Oct/05/09)	122	117	122	130	-
Barclays (Sept/25/09)	144	143	144	145	141
BNP Paribas (Sept/24/09)	131	133	132	134	154
Bank of America (Sept/30/09)	140	135	136	139	-
Forward curve (Oct/08/09)	131	131	130	130	130

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.