

Economic View

September 2009

Summary

Macroeconomic developments

Eurozone

The Economic expectations of the ECB were better than earlier figures, which was the result of better results in the manufacturing and service sector, and increased consumer expenditures. Economic growth for 2010 is projected at 0,2% whereas economic contraction for 2009 is projected at 4,1%.

United States of America

The recession in the United States is ending. For the first time in 19 months industrial manufacturing showed positive growth. Unemployment however is still increasing and can severely hamper economic recovery.

Interest rates

Eurozone

The ECB did not change its key interest rates. In both the money market and the capital market a small decreasing trend could be observed. Furthermore, these markets have shown very low volatility over the last month.

United States

The American central bank also did not change its key interest rates. Furthermore, volatility in both the money market and the capital market was very low as well.

Foreign Exchange

EUR/USD

During the month of August the Dollar slightly appreciated compared to the Euro. On the 1st of September the Euro was 1,42 Dollar.

EUR/JPY

Especially the national elections in Japan and the expected victory of the opposition caused the Yen to slightly appreciate as compared to the Euro. On the 1st of September the Euro was 132 Japanese Yen.

	Euro area		United States	
	Q1	Q2	Q1	Q2
GDP growth (%YoY)	-4,9	-4,7	-3,3	-3,9
Unemployment (%)	9,0	9,4	8,1	9,3
	6-Aug-09	7-Sep-09	6-Aug-09	7-Sep-09
Refinance rate (%)	1,00	1,00	0,25	0,25
10-year swap rate (%)	3,58	3,46	4,03	3,62
EUR/USD	1,43	1,43		

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Macroeconomic Developments

General

In September Jean Claude Trichet, the president of the ECB, mentioned that the world economy apparently is recovering in a quicker pace than was previously expected. In his opinion the emerging countries show tremendous resilience in their economic growth.

According to the IMF, economic recovery will set in earlier than was previously expected. For 2010 a global economic growth of 2,9% is projected. The year of 2009 however, will show an expected economic contraction of 1,3%.

Eurozone

The ECB expects an 0,2% economic growth in 2010 for the Euro region. Economic contraction over 2009 is now projected at 4,1%. These figures are less negative than earlier projections of economic development in the Euro region. This was mainly caused by the unexpected growth of the German and French economy in the second quarter. Inflation is expected to average 0,4% over 2009 and 1,2% in 2010. European unemployment rose to 9,5% in July, which is the highest number since 1999.

In September the European Central Bank said that the Euro regions' recovery from recession will be difficult and inflation will remain 'subdued'. Therefore the ECB decided to continue its liquidity support to the banking system, which will result in another loan offer at the benchmark rate to the European banks.

Europe's manufacturing and service industries unexpectedly returned to growth in August, suggesting the economy is gaining strength. Retail sales over July however continued to fall with a 1.8% decrease as compared to the year before. Consumer spending in Europe rose for the first time in more than a year, which is partially explained by annual declines of consumer prices for three straight months.

According to a Dutch research institute (Nibud) 40% of the Dutch households is experiencing financial problems. From May 2008 until May 2009 approximately 8% of the Dutch working population lost their job or had been forced to work less.

Housing prices in the UK rose with 0,8% for a second month in August. Due to better affordability and lower interest rates the demand for housing has increased.

Date	GDP	Gov.	Cons.	Inv.	Imp.	Exp.	Unemp.
2007 Q3	2,7	2,2	1,8	4,3	9,0	12,8	7,5
Q4	2,2	1,9	1,2	3,3	9,8	7,6	7,3
2008 Q1	2,2	1,6	1,6	2,8	8,9	7,2	7,2
Q2	1,5	2,3	0,5	1,1	11,2	8,7	7,4
Q3	0,5	2,3	0	-1,0	12,5	5,5	7,6
Q4	-1,7	2,5	-0,7	-5,5	-2,5	-4,9	8,0
2009 Q1	-4,9	2,6	-1,4	-11,0	-20,8	-21,3	9,0
Q2	-4,7	2,2	-0,8	-10,9	-27,0	-24,8	9,4

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

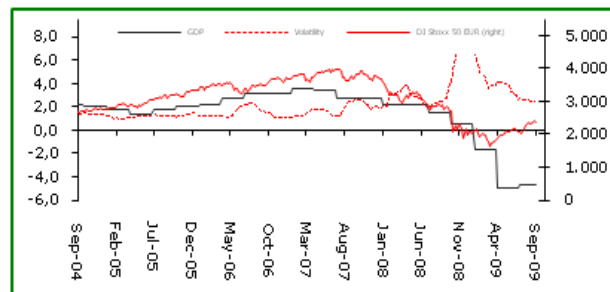


Figure 1: GDP (YoY), DJ Stoxx 50 EUR + volatility
Source: Bloomberg (see Appendix for definitions)

United States of America

Signs in the American economy indicate that the recession is ending. Service industries shrank at a slower pace last month and industrial manufacturing expanded in August for the first time in 19 months, helping the economy out of the downturn.

Unemployment however is still increasing, but the pace is slowing down. Since the recession kicked in (as of December 2007), the American economy has showed 6,7 million job losses. Furthermore, the number of workers that are currently in part time jobs but want a full time employment, continued to increase to a number of 16,8% of the total working population. The total jobless rate increased to 9,7% in August, which is the highest level since 1983. The Federal Reserve Bank expressed doubts about the pace of a likely economic recovery, since rising unemployment will weaken consumer spending.

Two major American Guarantee Funds (FDIC and FHA) are experiencing problems with their buffers due to the large number of banks and homeowners that are having financial problems. Only this year 89 banks filed for bankruptcy, and the number of financial institutions that have reported financial troubles (with a total worth of \$300 billion) increased. Within 14 months the buffer of the FDIC decreased from \$45 billion to only \$10 billion.

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

In their last Governing Council meeting held on August 6th, the ECB decided to leave its key interest rates unchanged. Hence, the marginal lending facility stays at a level of 1,75%, the refinancing rate remains at 1%, and the deposit rate continues at 0,25%.

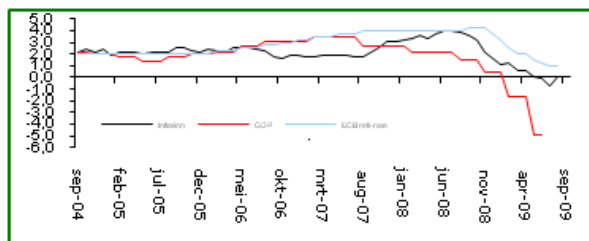


Figure 2: Inflation (YoY), GDP (YoY) + ECB refi-rate (%)
Source: Bloomberg (see Appendix for definitions)

Annual inflation followed its current negative trend. This is mainly concluded from June's growth rates in both M3 and loans to the private sector, falling to 3,5%, and 1,5% respectively. However, the expectations for the last part of 2009 remain unchanged. That is, inflation is expected to become positive on the short term.

The Bank of England decided on its last Monetary Policy Committee on August 6th to maintain the official bank rate paid on commercial bank reserves at 0,5%. Furthermore, the committee voted to continue their asset purchase programme financed by the issuance of central bank reserves and to increase its size from £50 billion to £175 billion.

On September 1st the money market reflected a modest downward trend with respect to August. EONIA was positioned between the deposit rate of 0,25% and the refinancing rate of 1%. More specifically, it started August at 0,346% and closed at 0,334%. During the same period, the 3-months Euribor has decreased 7 basis points from 0,883% to 0,813%. Similarly, the 6-months Euribor has decreased 3 basis points, from 1,137% on August 3rd to 1,107% on September 2nd. This reflects the reaction of the market to monetary policy of easing short term credit conditions. However, unanimous consensus is that money market rates will increase over the midterm.

Capital market rates have moved in a similar direction. The 5- and 10-year Euro swap rates declined by 5 and 7 basis points to 2,79% and 3,48% respectively.

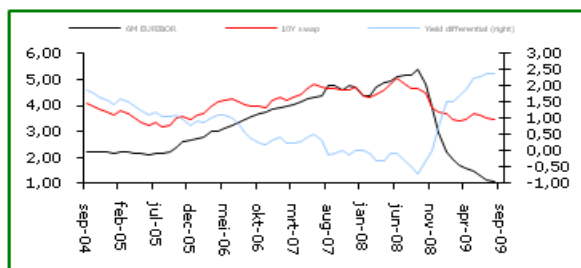


Figure 3: 6M Euribor (%), 10Y swap (%) + yield differential (%)
Source: Bloomberg (see Appendix for definitions)

3M Euribor	Q4 09	Q1 10	Q2 10	Q3 10
Rabobank (Sept/07/09)	0,88	1,15	1,57	1,97
Deutsche Bank (Sept/02/09)	1,00	1,20	1,75	1,75
ING (Aug/15/09)	1,25	1,40	1,45	1,45
Forward curve (Sept/07/09)	0,91	1,21	1,59	1,98

Table 2: Interest rate forecasts

10Y Swap	Q4 09	Q1 10	Q2 10	Q3 10
Rabobank (Sept/07/09)	3,61	3,76	3,95	4,10
Deutsche Bank (Sept/02/09)	3,50	4,00	4,25	4,25
ING (Aug/15/09)	3,50	3,60	3,70	3,80
Forward curve (Sept/07/09)	3,58	3,69	3,78	3,86

Table 3: Interest rate forecasts

*10-year Euro benchmark bond yield.

United States of America

On August 12th the FED reiterated its commitment to deploy all of its available monetary policy tools in order to attain economic recovery and price stability. The FED funds rate remains at a level between 0% and 0,25% and this is not expected to change in the near future. Furthermore, aiming to improve conditions in private credit markets, the FED will purchase up to \$1,25 trillion of agency mortgage backed securities and up to \$200 billion of agency debt by the end of 2009.

Money markets in the USA showed a smaller downward movement as compared to the European money markets. Libor rates for maturities of 3 and 6 months have decreased by approximately 12 and 10 basis points to 0,30% and 0,76% respectively. The 5-year swap increased 3 basis points to 2,84%, and the 10-year swap decreased 2 basis points to 3,68%.

Date	Inflation	M3	rate
2008 Apr	3,30	10,50	4,00
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	3,70	1,00
Jun	-0,10	3,60	1,00
Jul	-0,70	3,00	1,00
Aug	-	-	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

The USD was valued on August 3rd at 1,44 EUR. After that the EUR slightly depreciated to an exchange rate of 1,42 USD/EUR on September 1st. Overall, the last month has been resilient with very low volatility.

The monthly high for the Euro was reached on August 3rd. Probably, market expectations about the ECB's decision of leaving its reference rate unchanged on August 6th anchored the EUR at that level. Following this, the USD started an upward trend against the EUR. This was mainly driven by positive news on the American economy. Industrial production increased 0,5% in July. Specifically, the manufacturing sector expanded in August for the first time in 19 months.

The downward trend of the EUR reached its deepest point on August 17th at a rate of 1,41 USD/EUR. Even though all GDP components, with the exception of Government expenditures, registered negative growth rates in Q2, some green spots seem to start flourishing in the Euro area economy with Germany taking the lead. Therefore, the modest recovery of the EUR by the end of August reflects positive market expectations on the European economy.

Such expectations are reinforced by the ECB's somewhat more positive economic outlook. More specifically, inflation expectations were reported to be anchored to the ECB's aim to keep inflation below but close to 2% in the medium term. Furthermore, positive quarterly growth rates were forecasted for 2010.

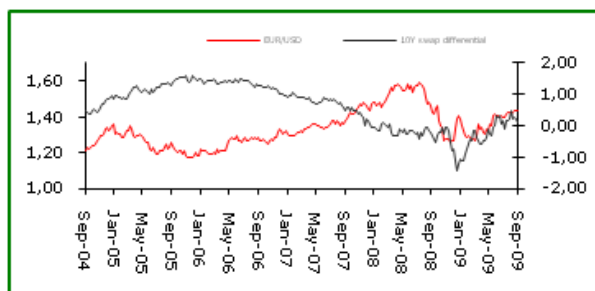


Figure 4: EUR/USD + 10Y Swap differential (%).
Source: Bloomberg (see Appendix for definitions)

EUR/USD	Q4 09	Q1 10	Q2 10	Q3 10	2011
Rabobank (09/07/09)	1,34	1,29	1,32	1,34	-
RBS (08/31/09)	1,32	1,31	1,32	1,37	1,22
BNP Paribas (09/05/2009)	1,35	1,30	1,26	1,28	1,37
Bank of America (09/04/2009)	1,5	1,42	1,36	1,32	-
Forward curve (09/07/09)	1,43	1,43	1,44	1,44	1,44

Table 5: EUR/USD forecasts

EUR/JPY

On the 1st of August the exchange rate for the Japanese Yen amounted to 137 JPY/EUR. In the following month, the Japanese Yen appreciated to a level of 132 JPY/EUR. In contrast to the relatively high volatility observed in July, the Japanese Yen has remained quite stable in August.

The overall appreciating trend of the Japanese Yen against the Euro can be partly explained by several factors. The main factor is the general national election that was held on August 30th. The expectation of a massive victory by the opposition party was reflected in currency markets. After the victory however, the Yen however slightly depreciated as compared to the Euro.

Economic indicators were in line with the current economic context. However, the released actual data was better than expected, and this may also be seen as a cause of the appreciation. In particular, industrial production grew by 1,9%, down from 2,3% in the previous month but more than the 1,4% as was expected by most analysts. In yearly terms, that represents a decline of 22,9% compared to an expected drop of 23,1%. Additionally, retail trade grew by 0,4% compared to pessimistic projections of -0,5%. Again, in yearly terms retail trade only decreased by 2,5% compared to an expected 3,5% decline. On the other hand, a negative trend was observed in the amount or realized new-build houses, which declined by 32,1% against a projected decline of 30,3%.

Without no doubt, the coming policy decisions of the new government in a number of topics ranging from fiscal policy to labour market reform will have a substantial impact on the evolution of the Japanese Yen.

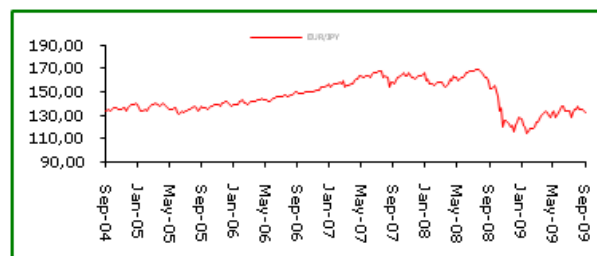


Figure 5: EUR/JPY exchange rate
Source: Bloomberg (see Appendix for definitions)

EUR/JPY	Q4 09	Q1 10	Q2 10	Q3 10	2011
Rabobank (09/07/09)	127	125	133	140	-
RBS (08/31/09)	125	117	119	132	137
BNP Paribas (09/05/2009)	128	124	121	131	134
Bank of America (09/04/2009)	158	156	152	148	-
Forward curve (09/07/09)	133	133	133	133	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.