



Economic View

In Economic View, Zanders integrates the views of various large banks and economic institutions. The information and insights presented form a useful guide for mapping out interest rate and foreign exchange strategies as well as establishing realistic calculation levels to determine internal cost prices. From time to time, Economic View also provides short-term strategies and advice on how to reach well-founded hedging decisions, in which the ratio is predominant. Written by Zanders' consul-

tants, who can count on experiences gained in day-to-day practice, Economic View is a recurring item in Zanders Magazine.

In this issue, we provide an overview of the economic developments in the Eurozone and the US. Naturally, the consequences of the credit crisis are at the forefront.

Economic developments in the Euro area and the US

Start of recovery

During November the first signs of the recovery were noticed and it was announced that the recession in the Netherlands was coming to an end. The economic growth in the third quarter of this year was 0.4% on a quarterly basis. This was the first positive quarterly economic growth figure after three quarters of economic reduction. The American economy has also shown signs of recovery with 3.5% economic growth in the third quarter compared to last year. With these figures, the recession in the USA officially ended after a year.

Despite the positive economic growth figures, the recovery could not be gauged by the unemployment figures. According to Eurostat, the unemployment rate in the Euro area has reached its highest level in ten years. In September, 9.7% of the workforce was unemployed. According to the CBS, unemployment in the Netherlands remained unchanged over the last couple of months, with approximately 387,000 people without work, which translates to 5% of the workforce. The unemployment rate in the USA reached a level of 10.2% as published by the ministry of Labor. This is the highest level in 26 years.

	Eurozone		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
	30-nov-09	31-aug-09	30-nov-09	31-aug-09
Refinance rate (%)	1,00	1,00	0,25	0,25
10-year swap rate (%)	3,43	3,46	3,31	3,61
EUR/USD	1,50	1,43		

Tabel 1: Economic developments in the Euro area and the US

Stimulus measures make the difference

In their economic outlook for November, the Organization for Economic Co-operation and Development (OECD) announced that the recovery of the global economy is mainly due to the stimulus measures. Due to budget deficits caused by these measures, the gross debt of most OECD countries could be larger than their Gross Domestic Product by 2011. According to the OECD removing stimulus measures is imperative but such action has to be carried out gradually to avoid undermining the recovery, and spending cuts or tax increases should not be carried out before 2011. Only once sound macroeconomic balances are restored, healthy growth and low unemployment have taken place, the crisis will have been fully overcome.

Economic Outlook

In the most recent economic outlook of the OECD, the organization is more positive with regard to the economic recovery than it was before. According to the organization, the economic growth in the euro area will reach a level of 0.9% in 2010 and a level of 1.7% in 2011. With regard to the economic growth in the USA, the organization expects a growth of 2.5% in 2010 and 2.8% in 2011. However, it will be many years before the unemployment rate and the gross debt of most OECD countries is back at its level before the crisis.

The economic growth in the Netherlands will be a little lower according to the CPB. The economic growth is projected for 2009 at a level of -4.75%, and for 2010, the CPB expects no economic growth. It should be noticed that these numbers are biased since economic activities due to health care are positive. In fact it is expected that the market sector will reduce in 2009



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by 6.25% and by 0.25% in 2010. In addition, the employment in the market sector will decrease by 2.5% in 2009 and 5.25% in 2010. Not since 1945, has there been such a massive loss in jobs.

Interest rate developments

Refinance rate unchanged

In November the ECB announced that it maintained the refinance rate at 1% which has remained unchanged since May 2009. Interest rate changes are mainly used to control the inflation. Therefore, the decision was as expected, considering the stable price level over last couple of months. It is expected that the inflation will increase to a low, but positive number of 1%. Furthermore, The ECB believes that the economic recovery in the euro area will continue next year. As a result of this the ECB has decided to withdraw its supporting credits.

Federal funds rate unchanged

The FED has also not changed the Federal funds Rate and has announced that the level will not change soon. Currently, the rate is at a level between 0% and 0.25%. According to the FED, the American economy has strengthened, due to increasing consumption and stabilizing investments. However, the recovery is still considered weak.

Trends on the money market and capital market

Analogous to the recovery that started, there was a downward trend on the money market. Both the 3-months and 6-month Euribor have decreased since September. At the end of November the 3-month Euribor reached a level of 0.72%, while the 6-month Euribor reached a level of 0.99%. The capital market was more volatile the last couple of months, with no visible trend. At the end of November, the 10-year swap rate reached a level of 3.43%.

In our monthly Economic View, we present the forecast of several banks with regard to the short term and long term interest rates. The forecasts can be found in the table below.

3M Euribor	Q1 10	Q2 10	Q3 10	Q4 10
Rabobank (30 November 09)	0,88	1,27	1,80	2,06
Deutsche Bank (24 Nov. 09)	1,00	1,20	1,20	1,75
Barclays (6 November 09)	0,90	1,03	1,22	1,30
Forward curve (30 August 09)	0,89	1,13	1,41	1,69

Table 2: Interest rate forecasts

10Y Swap	Q1 10	Q2 10	Q3 10	Q4 10
Rabobank (30 November 09)	3,52	3,70	3,87	4,00
Deutsche Bank (24 Nov. 09)*	3,50	3,50	3,50	4,00
Barclays (6 November 09)	3,80	3,90	3,95	4,00
Forward curve (30 August 09)	3,51	3,61	3,71	3,79

Table 3: Interest forecasts 10Y Swap (%)

* 10-year Euro benchmark bond yield

Will the stimulus measures continue?

In the most recent quarter, the economic recovery started. There is consensus over the fact that the recovery is mainly due to the stimulus measures and as a result the recovery is not very stable. Removing stimulus measures is imperative but such action has to be postponed to avoid undermining the recovery. This is the only way to achieve a stable recovery and a decrease in the unemployment rate. The central banks however warn that the rising budget deficits have to be halted. Economic recovery now comes down to the consumers. The question is what choice the policy makers will make. <



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