

## Fed rate action commentary from Swiss Re chief US economist

10 NOVEMBER 2004, NEW YORK

Following today's announcement that the Federal Reserve Board would raise the target federal funds rate 25 basis points to 2.0 percent, Swiss Re chief economist Kurt Karl said, "The Fed today continued its march, at a measured pace, towards neutral monetary policy by raising the federal funds rate another notch to 2.0 percent. Though there has been some concern about the robustness of economic activity recently, this was dispelled by the strong employment report on Friday. Consistent with our steadfast forecast, the futures market is now pricing in rate hikes in December, February and March.

"As has been our forecast since July, the Fed is projected to raise rates by 25 basis points at each of the next eight FOMC meeting," added Karl. "This could change. Governor Bernanke and Vice Chairman Ferguson have both listed reasons why rate hikes may proceed at a slower pace, leaving the door open to skipping hikes at future FOMC meetings. Nevertheless, given solid growth, the prospects for rising inflation from higher oil prices and the need to reach a more neutral monetary policy stance, the Fed is most likely to continue with 25 basis points per meeting, taking the Fed funds rate to 2.25 percent in December and 4.0 percent by the end of 2005. Three factors – the rising Fed funds rate, an improvement in perceived growth prospects, and modestly increasing core inflation – should boost the yield on the 10-year Treasury note to 4.2-4.7 percent by year-end and to 4.9-5.4 percent by the end of 2005.

"Weak economic activity, despite rising oil prices, will likely postpone any European Central Bank interest rate increases until the second half of 2005," said Karl. "In Japan, the recovery has also lost some momentum, but inflation has not yet returned, so the Bank of Japan is unlikely to tighten monetary policy until the second half of 2005 at the earliest. Given the slowing economy and moderate house price increases, the Bank of England may forego any further rate hikes. However, the odds still lean slightly towards one more hike in the first half of 2005 to 5.0 percent for its key policy rate. The Bank of Canada, is expected to raise rates two more times over their next three meetings, taking its policy rate to 3.0 percent by March 2005 and maintaining a small – but shrinking – gap between its target rate and the US federal funds rate."

### Notes to editors:

Swiss Re is a leading reinsurer and the world's largest life and health reinsurer. The company is global, operating from 70 offices in 30 countries. Since its foundation in 1863, Swiss Re has been in the reinsurance business. Swiss Re has three business groups: Property, Casualty, Life, Health and Financial Services. Swiss Re offers a wide range of traditional reinsurance products and related services, which are complemented by insurance-based corporate finance solutions and supplementary services. Swiss Re is rated "AA" by Standard, Poor's, "Aa1" by Moody's and "A+" by A.M. Best.

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