

Swiss Re



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FOR IMMEDIATE RELEASE

Fed rate action commentary from Swiss Re chief US economist

NEW YORK, June 24, 2009 – After today's decision by the Federal Reserve to maintain the target fed funds rate at zero to 25 basis points, Swiss Re's chief US Economist, Kurt Karl, commented, "As expected, the Fed is maintaining its target policy rate and this will continue until the middle of next year. Quantitative easing will also continue. Though oil prices have risen recently, they remain low compared to a year ago. Hence, year-over-year all items CPI inflation will be negative for most of this year, turning positive only late in 2009. High unemployment and low capacity utilization will keep inflation in check through 2010, so the Fed will not need to act aggressively to control inflation next year."

"The latest data indicate the US economy could be growing as soon as the third quarter of this year, but that growth will be weak at best. Though sharp downturns are usually followed by sharp upturns, this recovery really does appear to be different. In addition to credit remaining tight, employment cuts have been sufficiently severe to stifle consumer spending. Also, interest rates have risen sharply and early, dampening demand for housing. Finally, oil prices have begun to rise, which will erode consumer purchasing power. Our outlook for oil prices is now \$50 to \$60 bbl for most of this year and next, but clearly this may need to be revised upward. Nevertheless, future prospects have improved and real GDP growth has been revised up to a still weak 1.8% next year. Deflation will not be as deep as previously forecast and the yield on the 10-year Treasury note will rise to 4.0% by end-2010, perhaps higher," Karl said.

"The large European contraction in the first quarter was severe and the economy will barely recover next year – real GDP growth will decline by 4% this year and be flat next year. The outlook in the UK is similar, with real GDP growth down 4.1% this year and down 0.1% next year. Japan's economy will contract by about 6% this year – perhaps more – but be growing modestly next year. China's growth is likely to be revised up, if anything, but currently it is still expected to grow by about 7% this year. The rate cutting of the major central banks is now assumed to be over. On monetary policy, the only question concerns the extent and type of quantitative easing, with the US leading the way followed by the UK and Japan and a very reluctant ECB. Expected prospects of an early recovery have lifted government bond yields, but this market anticipation is likely to turn to disappointment when the weakness of the recovery is fully realized. Next year, growth prospects will very likely dominate interest rate movements and yields will rise in the major economies, getting to 4.0% or higher in the UK and Euroland by end-2010," added Karl.

Swiss Reinsurance Company Ltd

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