
Fed rate action commentary from Swiss Re chief US economist

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New York, 16 December 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, “The Fed reiterated that it will be on hold for an extended period, which we estimate to be until late 2010. The Fed should have no trouble in managing the ‘exit’ strategy, assuming there is no political interference with its work.”

“The short-term indicators remain mixed for the US economy. Overall, the economy is still growing however and real GDP is expected to be up by over 2% this quarter. All-items CPI inflation will be close to 2% for the next two years, while core inflation remains closer to 1.5%. Under the baseline forecast, real GDP growth is expected to rise by 2.5% next year and 3.5% in 2011. The yield on the 10-year Treasury note will stay mostly in the 3.3% to 4.0% range through the end of 2010,” Karl said.

“The global economy appears to be gradually strengthening. China and India are growing fairly rapidly, supporting the Asian recovery. So far, the Japanese recovery has been robust, but that is not expected to last. In Europe and the US the recovery is more fragile, but moderate growth has continued in the fourth quarter. Monetary and fiscal policies are still bolstering growth and some countries – notably Japan, and perhaps the US and Germany, are increasing fiscal stimulus. Late next year or early 2011, these expansionary policies are assumed to be restrained in a fairly coordinated manner. Real GDP growth in Euroland, Japan and UK is forecast to be 1 to 1.5% next year and nearly 9% in China. Inflation will rise, but is unlikely to be a problem until 2011 at the earliest. US and European government bond yields will continue to move in tandem. By end-2010, yields on the 10-year government bonds will be 3.8% in the US and Germany, 4.2% in the UK and 1.6% in Japan. Exchange rates will be fairly stable with the US dollar only appreciating marginally by end-2010,” added Karl.

Notes to editors

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