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

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**Contacts:**

Corporate Communications, New York  
Telephone +1 212 317 5663

Media Relations, Zurich  
Telephone +41 43 285 7171

Corporate Communications, London  
Telephone +44 20 7933 3445

Corporate Communications, Asia  
Telephone +852 2582 3660

Swiss Reinsurance Company Ltd  
Mythenquai 50/60  
P.O. Box  
CH-8022 Zurich

Telephone +41 43 285 2121  
Fax +41 43 285 2999  
[www.swissre.com](http://www.swissre.com)

New York, 23 June 2010 – 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, "Increased market volatility and uncertainty on the economic outlook may cause the Fed to delay raising rates until well into next year. Inflation remains moderate and core inflation is falling, so the Fed can afford to delay the tightening of monetary policy."

"Though the US economy is on track for a moderate expansion this year, Europe's recovery is less certain. In the US, the manufacturing sector is particularly strong, with industrial production rising nearly 1% in each of that past three months. Consumers are also spending – vehicle sales are up 18.0%, while overall retail sales are up 6.9%. Real GDP growth is expected to be 3.4% this year and 3.8% in 2011. The yield on the 10-year Treasury note is expected to rise next year to about 4.7% by end-2011. The downside risks in the US are lower than last month, about 10%, but have increased to 20% for Europe," Karl said.

"The outlook for Europe has been clouded by fears of a disorderly default on Greek government bonds, a break-up of the euro, bank stress from European sovereign debt, and the impacts from simultaneous fiscal tightening in Europe. Hence, real GDP growth in Euroland is expected to be only 1.1%. The UK will be a little stronger, 1.3%. Asia continues to boom, with the outlook in China of about 10% growth this year and 9% next year, while Japan is projected to post 2.0% and 1.5% growth for this year and next. Government bond yields will mostly be in a trading range this year of 3.0% to 4.0% in the US; 2.6% to 3.6% in Germany; and 3.4% to 4.4% in the UK. The UK is expected to lead on monetary tightening late this year, but that could be delayed if the Greek situation does not improve," added Karl.

### Notes to editors

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