Fed rate action commentary from Swiss Re chief US economist

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

New York, 16 March 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, "The Fed reiterated that it will be on hold for an extended period, which we estimate to be until early 2011. Inflation risks are low and employment growth is stagnant, so there is no hurry to tighten monetary policy."

"In the US, a moderate expansion is underway. All items CPI inflation will be about 2% this year and next, but core inflation will be lower. Real GDP growth is expected to be 3.1% this year and 3.7% in 2011. This forecast will keep the yield on the 10-year Treasury note in a trading range this year, mostly between 3.5% and 4.0%. Next year, yields will rise along with the expected Fed tightening," Karl said.

"The expansions in Europe and Japan remain fairly weak, but China is booming and has begun a series of policy measures to moderate growth. Real GDP growth in Euroland, the UK and Japan is forecast to be 1.3% this year in all three economies. Government bond yields in Europe will mostly be in a trading range in 2010, with - for example - the German10-year government bond yields between 3.1% and 3.5%, because the data will be mixed and the monetary authorities are on hold. The major central banks are expected to launch a coordinated monetary tightening late this year/early next year with the ECB leading the way. By year-end, the government bond yields will be about 3.5% in Germany, 3.7% in France and higher in the UK at 4.4% due to inflation concerns. In Japan, yields on the 10-year government bond will remain low, ending the year at 1.4%. The dollar is expected to stay fairly steady against the euro, the pound and the yen. At mid-year, the Chinese authorities are projected to begin a very modest appreciation of the renminbi," added Karl.

Notes to editors

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