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FOR IMMEDIATE RELEASE

Fed rate action commentary from Swiss Re US senior economist

NEW YORK, August 5, 2008 – After today's decision by the Federal Reserve to hold the target fed funds rate at 2.0%, Swiss Re's senior US Economist, Arun Raha, commented, "The Fed is caught between fears of inflation and financial market uncertainty. It cannot ease any further because that would be inflationary, but tightening at this time would be premature. Economic activity is expected to weaken in the second half of the year and bank balance sheets remain fragile – so tightening would only aggravate the downturn. Moreover, wage pressures remain benign and oil prices have eased from their peaks. The Fed is likely to be on hold until next year when growth picks up. Currently, there is substantial monetary easing in the pipeline, which should boost economic activity by early next year."

"The economy's outlook remains very tentative, despite the positive second quarter. Financial markets are still stressed, we have had seven consecutive months of job losses, housing starts and car sales are at recessionary levels, factory orders excluding defense remain weak, and the outlook for consumer spending after the rebate checks have been spent, is none too bright. We expect a weak second half this year with the possibility of a negative fourth quarter," Raha said.

"Globally, inflation concerns now mostly outweigh worries about slowing growth. In Euroland, inflation is expected to average 3.7% this year – above the European Central Bank's 2.0% target. In the U.K., inflation is forecast to be 3.6%, also above target. The ECB raised rates by 25 basis points and will likely be on hold until next year when rate cuts are expected, and the Bank of England as well as the Bank of Canada have halted their easing for now. Japan is holding off on a possible rate hike because of growing concerns over slowing economic growth. Inflation is not yet a concern in Japan, as core inflation is close to zero. The US dollar is expected to strengthen modestly against the euro, the British pound, and the Canadian dollar over the next 18 months, but continue to depreciate against Asian currencies. China continues to maintain robust economic growth but headline inflation has accelerated to 7.9% in the first half and will remain a major concern for the rest of the year. Recent difficulties facing Chinese exports hint that the pace of yuan appreciation could moderate going forward." added Raha.

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