Media information

Swiss Re

Fed forecasts should help calm markets in 2012, predicts Swiss Re Chief Economist, Kurt Karl

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New York, 13 March 2012 – 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 Economist, Kurt Karl, commented: "The Fed's Operation Twist, coupled with ongoing forward looking statements, appears to be successfully keeping the yield on the 10-year note near 2%."

Karl added: "The US economy is growing at a modest pace, but this could be derailed if oil prices spike. The mild recessions in the Euro area and the UK continue. Employment growth and low interest rates in the US are fueling strong vehicle sales and construction of multi-family homes, while the low rates are also helping business investment. In the Euro area, fiscal tightening, weak sentiment, and tightening credit standards continue to constrain consumer and business demand. Recent indicators in Europe are mixed, but still imply a mild recession. The Euro debt crisis, Operation Twist, and the Fed's statement about keeping the Fed funds rate low into late 2014 has bolstered demand for long-term Treasuries. Yields on the 10-year Treasury note are forecast to be 2% to 2.5% by end-2012 and close to 3% by end-2013."

He continued: "The Greek bond Private Sector Involvement is affecting markets, but the restructuring appears very likely to be successful, though it is also likely to trigger a default event. Thus, some bond holders who have covered their position may recoup a part of their losses, while the protection sellers receive a part of the haircut. In Spain, the key recent event is Rajoy's pushback on Spain's deficit target. It is unclear what this will mean for deficit targets going forward, but hopefully some greater flexibility will allow time for the structural reforms to improve growth. Japan's economy continues to recover from the tsumani, so will support the global economy this year with real GDP growth of 2.2%. Along with many Asian economies, the Bank of Japan has loosened monetary policy recently. China has also shifted to an easier policy, but its recent announcement of lower expected growth this year was a signal that it was not going to be easing excessively. Our growth outlook remains unchanged at 8.5%, a percentage point lower than the target rate announced which in past years has consistently undershot actual growth."

Notes to editors

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