

### Chief Economist: Rate Cuts Likely by Federal Reserve, ECB

**April 25, 2008 (OWINGS MILLS, MD) – Following a series of dramatic interest rate cuts, the U.S. Federal Reserve will start to end its “easing cycle” over the next two meetings. Meanwhile, the rate cuts are highlighting a critical difference between monetary policy in the United States and Europe.**

Euler Hermes ACI Chief Economist Dan North provided the following commentary and analysis regarding the Federal Reserve, the European Central Bank, and the weakening dollar:

“The Federal Reserve will most likely cut the Federal Funds interest rate next week by 25 basis points to 2.0% in response to the mounting evidence that the economy has been in recession since the beginning of the year. Since the previous two cuts in the Fed Funds rate were 75 bps and 125 bps, this smaller cut might be intended to signal to financial markets and policymakers that the Fed’s easing cycle is nearing an end. This signal will likely be reinforced with somewhat stronger language justifying concerns over inflationary pressures, inflationary expectations, and soaring food and energy prices. Indeed, the Fed will probably make its final 25bps cut at its subsequent meeting in June.

Next week’s move will highlight a critical difference between the Federal Reserve and the European Central Bank (ECB). The Fed sees modest core inflation and a faltering U.S. economy, and so cuts the Fed Funds rates to 2% or less. The ECB sees increasing headline inflation (which includes food and energy) and a euro economy holding on for now, and leaves its benchmark rate unchanged at 4%. The growing gap between these rates is thought to be the main cause of a strengthening euro and a weakening U.S. dollar. And the weak U.S. dollar in turn is now the world’s scapegoat for soaring food and energy prices. So if it’s true that high food and energy prices are caused by a weaker dollar, which in turn is caused by a growing interest rate gap, and the Fed is about to make the gap wider, then it will be in the hands of the ECB to close the gap by lowering its rates, thus strengthening the dollar and bringing food and energy prices down.

This is a very uncomfortable situation for the ECB. The Bank’s primary focus is on getting headline inflation of 3.6% down towards the 2% comfort zone, thus precluding an interest rate cut. However, if the weak dollar is wreaking havoc in the euro zone in terms of soaring commodities prices and faltering exports, and the euro zone economy starts to slip into recession, then the ECB would have to consider lowering rates. This dilemma is clearly showing through as different members of the ECB have been making conflicting statements about monetary policy. One probable scenario is that the ECB will be forced to cut rates later this year, and at the first signal that the interest rate gap will start to narrow, the dollar could make a sharp rebound from its significantly undervalued position. An accompanying drop in commodities prices however is likely to be a disappointment since speculation may be a larger driver of soaring food and energy prices than a weak U.S. dollar.”

###

# Press Release



**Euler Hermes ACI** is North America's oldest and largest provider of trade credit insurance and accounts receivable management solutions and is the US subsidiary of the Euler Hermes Group. Headquartered in Owings Mills, MD, the company protects and insures more than \$150 billion in US trade transactions annually. Additionally, Euler Hermes ACI provides a suite of receivables management services that includes commercial third party collections, receivables management outsourcing, and international collections. For more information, visit [www.eulerhermes.us](http://www.eulerhermes.us).

**Euler Hermes** is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 6,000 employees in 51 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and posted a consolidated turnover of 2.1 billion euros in 2007.

Euler Hermes, subsidiary of AGF and a member of the Allianz group, is listed on Euronext Paris. The group and its principal credit insurance subsidiaries are rated AA- by Standard & Poor's.

## Press Contact:

**Rick Ostopowicz**, Euler Hermes ACI Assistant Vice President, Public Relations/Communications

Phone: (410) 753-0652

Email: [rick.ostopowicz@eulerhermes.com](mailto:rick.ostopowicz@eulerhermes.com)

### **These assessments are, as always, subject to the disclaimer provided below.**

Cautionary Note Regarding Forward-Looking Statements: Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The Group assumes no obligation to update any forward-looking information contained herein.