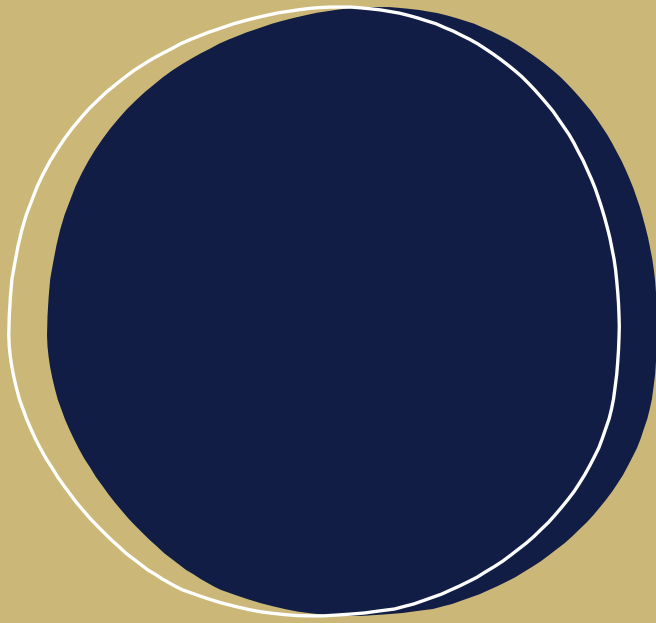


News from the financial markets

No benchmark rate changes before 2011

January 28, 2010





No benchmark rate changes before 2011

Jörg Zeuner, Chief Economist, und Oliver Schlumpf, Investment Strategist

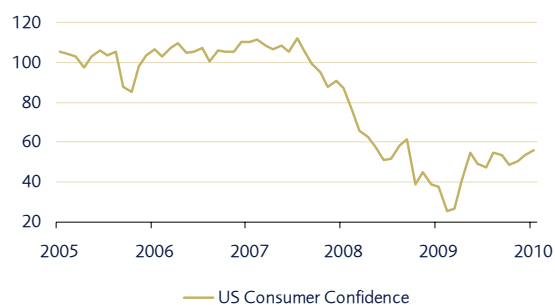
Yesterday, the Fed concluded its first meeting for the new year. As expected, the US central bank intends to maintain its zero-interest-rate policy for "an extended period". Consequently, the window of opportunity for rate hikes in 2010 has already closed.

We expect to see no new rate moves in the US, euro zone, Great Britain or Japan for the remainder of the year. Any go-it-alone attempt on the part of the Swiss National Bank is likely to take place – if at all – only late in the game.

Equally spoken, the strategy of "quantitative easing" will be wound down further. The Fed is now going on the assumption that America's economy is back on the growth path.

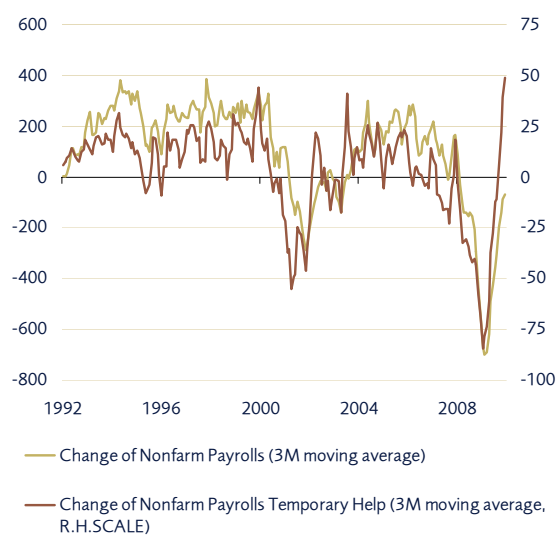
For several reasons, we expect that the Fed will not raise rates this year, especially since there are no clear signs (yet) of a significant pickup in consumer sentiment. Granted, the recent gradual rise in consumer confidence would tend to suggest a faster pace of growth in personal spending than is currently assumed by the market, and the increase in hours worked is pointing toward an imminent turnaround in the US labor market. Thus America could indeed be good for a few positive surprises this year. Nonetheless, at its current reading of 56 points, consumer confidence is still restrained.

US consumer confidence is rising only reluctantly



Sources: VP Bank, Bloomberg

The number of hours worked has already increased sharply



Sources: VP Bank, Bloomberg

Reason 1: China is tightening its monetary policy

China's economy grew by roughly 9% in 2009, mainly in response to expansive lending practices. The total outstanding credit volume of Chinese banks this past December stood almost 32% higher than the comparable prior-year reading. Because exports are recovering again rapidly, Chinese leaders no longer consider it necessary to continue with such an aggressive economic stimulus policy in the months to come. Thus in mid-January, the central bank decided to increase the minimum reserve requirements for commercial banks and limit the granting of new loans. As a result, the global economy is losing impulses from Chinese importers. This in turn heightens the pressure on the central banks of the major industrialized countries to keep on supporting their domestic economies.

Chinese bank lending



Sources: VP Bank, Bloomberg

Reason 2: The upcoming US elections

The Democrats' bitter defeat in Massachusetts two weeks ago changes the political game plan for the current mid-term election year. The Democrats have lost their "super majority" in the Senate, a development that promises a hotly contested election battle as November approaches. During the course of that round of mud-slinging, the Fed will attach great value to its neutrality and not move to increase rates through this coming autumn.

In its statement yesterday, the Fed stuck with the wording that interest rates would remain at their current level for "an extended period". A change to this phraseology would be a prerequisite for an orderly transition to monetary tightening. At present, the least desire of the central bank is to sow uncertainty in the financial markets. Chicago Fed president Charles Evans went so far as to

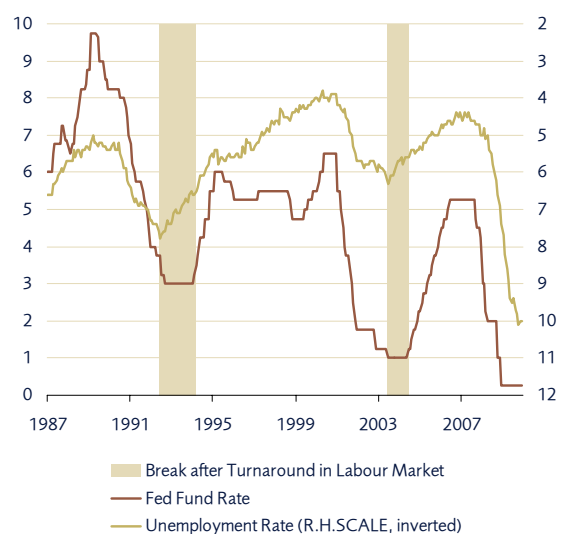
confirm this by stating that, following any change to the wording, three to four FOMC meetings should pass before the Fed funds rate is actually hiked. Accordingly, given the mid-term elections in November, the FOMC meeting in March would presumably be the last opportunity to prepare the market for an interest rate increase in September. That being said, a hike resulting from the last meeting before and the first meeting after the elections strikes us as being highly improbable.

Reason 3: Waiting for the labor market

A turnaround in the labor market appears to be in the making. Despite a modest increase in the number of unemployed workers in December, the situation has eased significantly in the States. America's unemployment rate is digging in its heels at 10%, thus the zenith has most likely been reached.

However, in previous cycles the Fed has normally waited quite some time (12 months or more) following a turnaround in the labor market before changing course in its monetary policy. Thus we consider it unlikely that there will be any alteration to the wording of the March statement.

Trend reversal in the labor market is a prerequisite



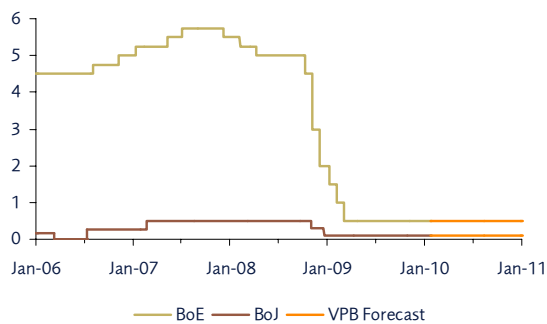
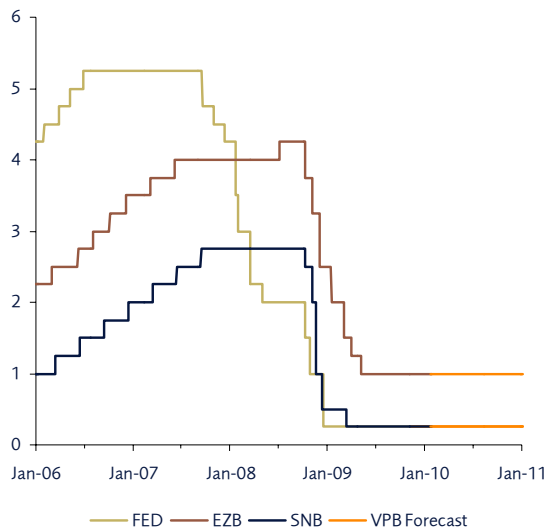
Sources: VP Bank, Bloomberg

Reason 4: Still no threat of inflation

Although the Fed funds rate has hovered in the vicinity of zero for more than a year now, lending to the private sector is still on the decline. The bump in the inflation rate to 2.7% in December is solely attributable to the energy-related price pressure that has been underway since last spring. Inflation will continue to rise before that base effect disappears from the calculation, at which point the inflation rate will quickly drop back below the 2% level. Although capacity utilization is starting to recover again, the reading still lies far short of its long-term average and

therefore continues to exert a deflationary influence. Thus as long as inflation expectations remain moderate, there is no reason to hike the benchmark rate any time soon. The market sees it the same way: the probability of a rate hike occurring before June has fallen from 31% last month to a current level of 13%, as reflected in interest rate futures.

VP Bank benchmark rate estimates



Sources: VP Bank, Bloomberg

Also pointing toward only a distant interest rate move is the newly emerging discussion about changing the benchmark from the discount rate (which is essentially a "penalty interest" that brings the amount charged to commercial banks for the extraordinary supply of liquidity up to the level of going money market rates) to the reserve rate (which, as the interest earned on banks' unused liquidity deposited with the Fed, forms the basis for money market rates). If this change to the system actually does have merit, the Fed will most likely take its time before introducing the new approach.

The bottom line:

Due to the prevailing circumstances, we have adjusted our benchmark interest rate forecasts for 2010. We are now assuming that the major central banks will not initiate a new rate-hike cycle before 2011.

This change to our interest rate assessment has no influence on our macro outlook. However, we expect to see quite positive economic data coming from the USA.

In particular, we are standing by our foreign currency estimates for the coming three months.

For the short term, we anticipate a sideways movement in the franc, euro and US dollar.

Further down the road, we are looking for the dollar and franc to strengthen against EUR. The Bank of Japan can be expected to ease its monetary policy significantly during the course of the year, thus we would not be surprised at all to see the yen start to weaken already now.

The equity markets are likely to benefit from the low level of interest rates. Owing to the indebtedness issue, yield curves should remain extremely steep for the foreseeable future.

The VP Bank Group

Verwaltungs- und Privat-Bank Aktiengesellschaft is a bank domiciled in Liechtenstein and is subject to the Liechtenstein Financial Market Authority (FMA), Heiligkreuz 8, PO Box 684, LI-9490 Vaduz, www.fma-li.li.

Verwaltungs- und Privat-Bank Aktiengesellschaft

Aeulestrasse 6 - LI-9490 Vaduz - Liechtenstein

Tel +423 235 66 55 - Fax +423 235 65 00

info@vpbank.com - www.vpbank.com - VAT No. 51.263 - Reg. No. FL-0001.007.080

VP Bank (Schweiz) AG

Bahnhofstrasse 3

P.O. Box 2993

CH-8022 Zurich

Switzerland

Tel +41 44 226 24 24

Fax +41 44 226 25 24

info.ch@vpbank.com

IFOS Internationale Fonds Service Aktiengesellschaft

Aeulestrasse 6

LI-9490 Vaduz

Liechtenstein

Tel +423 235 67 67

Fax +423 235 67 77

ifos@vpbank.com

IGT Intergestions Trust reg.

Aeulestrasse 6

LI-9490 Vaduz

Liechtenstein

Tel +423 233 11 51

Fax +423 233 22 24

igt@vpbank.com

VP Bank (Luxembourg) S.A.

Avenue de la Liberté 26

LU-1930 Luxembourg

Luxembourg

Tel +352 404 770-1

Fax +352 481 117

info.lu@vpbank.com

VPB Finance S.A.

Avenue de la Liberté 26

LU-1930 Luxembourg

Luxembourg

Tel +352 404 777 383

Fax +352 404 777 389

info.lu@vpbank.com

VP Bank and Trust Company (BVI) Limited

3076 Sir Francis Drake's Highway

Road Town, Tortola

VG-British Virgin Islands

Tel +1 284 494 11 00

Fax +1 284 494 11 99

info.bvi@vpbank.com

VP Vermögensverwaltung GmbH

Theatinerstrasse 12

DE-80333 Munich

Germany

Tel +49 89 21 11 38-0

Fax +49 89 21 11 38-99

info@vpvv.de, www.vpvv.de

Verwaltungs- und Privat-Bank Aktiengesellschaft Hong Kong Representative Office

Suites 1002-1003

Two Exchange Square

8 Connaught Place

Central - Hong Kong

Tel +852 3628 99 99

Fax +852 3628 99 11

info.hk@vpbank.com

VP Wealth Management (Hong Kong) Ltd.

Suites 1002-1003

Two Exchange Square

8 Connaught Place

Central - Hong Kong

Tel +852 3628 99 00

Fax +852 3628 99 55

info.hkwm@vpbank.com

VP Bank (Singapore) Ltd.

9 Raffles Place

#42-01 Republic Plaza

Singapore 048619

Tel +65 6305 0050

Fax +65 6305 0051

info.sg@vpbank.com

VP Bank (Switzerland) Ltd. Moscow Representative Office

World Trade Center

Entrance 7, 5th Floor, Office 511

12 Krasnopresnenskaya Emb.

RU-123610 Moscow

Russian Federation

Tel +7 495 967 00 95

Fax +7 495 967 00 98

info.ru@vpbank.com

VP Wealth Management (Middle East) Ltd.

Dubai International Financial Centre

The Gate Village

Building no 5

4th Floor, Unit 8

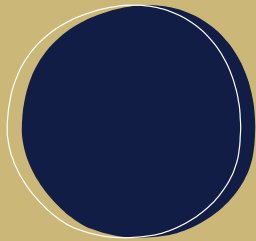
Dubai

United Arab Emirates

Tel +971 4 425 9250

Fax +971 4 425 9240

info.ae@vpbank.com



Disclaimer

This publication was prepared by our employees using information sources, which we consider to be reliable. This publication is solely for your information. Although we exercise the greatest possible care in preparing this document, we cannot provide any guarantee or assurance regarding the completeness, topicality or accuracy of the presentation's contents.

In particular, the information and details contained herein shall neither constitute an offer nor represent an invitation to submit an offer or a public advertisement inviting transactions or other business activities with the products and/or services described.

With regard to the risks, which must be considered in connection with any investments in products and/or the use of services included in this publication, we would refer you to the respective risk declarations, such as the brochure entitled "Risks in Securities Trading" issued by the Liechtenstein Bankers' Association, and recommend that you seek advice from a specialist client adviser. We expressly disclaim any liability for damages or losses claimed on the basis of the product and/or service information contained in this publication.

The contents of this publication are protected by copyright. Any use of the publication, except for personal use, requires our prior consent.

© VP Bank Group