19 February 2010

Press Release

Allianz Global Investors Comments on the US Federal Reserve Bank's (Fed) discount rate increase

Neil Dwane, Chief Investment Officer of RCM Europe, a company of Allianz Global Investors, comments on the US Federal Reserve Bank's (Fed) actions in the US to increase the discount rate and implications of a less aggressive monetary policy:

"So far in 2010, the markets have been worrying about the removal of stimuli from economies and financial markets around the world either by design or by force. This last point, in terms of "force", refers of course to the difficulties which we have seen emerging in the economies of the PIIGS (Portugal, Italy, Ireland Greece and Spain), together with the Vietnamese devaluation. In terms of removal of stimuli by "design", this is represented by the end or rather easing of quantitative easing (QE) policies in the United Kingdom (UK) and European Union (EU)."

"After much forewarning last week, the Chairman, Ben Bernanke of the US Federal Reserve has started to act on his warnings, though a little earlier than many had expected."

"Taken alone as one individual step, this discount rate increase is really just one very small piece of the financial infrastructure. It reflects broad acknowledgement that the US banks no longer require funding "for nearly free" from the Federal Reserve, since the balance outstanding has fallen from 110 billion US Dollar (USD) to nearly 10 billion, and given also that cash reserves within the banks are now over 10% of assets. The clear conclusion can be reached that they can now lend to each other as before, without the Fed in-between. I would add that they are now strong enough to do so after generally making record profits and paying out record bonuses."

"Thus, this latest move should be seen as a sign that policy makers believe what the national politicians are saying, that is, "we're well on the road to recovery and returning to normal". However, taking a closer look reveals that recent economic data remains patchy at best and reflects the fiscal interventions of 2009."

"It seems a challenge to really believe that we are "well" on the way to a sustainable economic recovery, particularly as recent UK and US data show worrying stagflationary trends, with higher inflation and falling unemployment again."

"Add to this the removal of further monetary stimuli, coming at a time when the growth of money in most economies is collapsing, and bank lending is also falling as deleveraging occurs. The internal charging mechanisms of this discount rate change would not make money any easier to access for consumers nor corporates."

"However, even if we take the Fed at its word that there will be no economic impact of this change, (and are we to expect another rise soon?), the markets may well read this at a more emotional level. This could be seen as the first clear sign that policy is changing, and that the liquidity supporting the markets is being withdrawn in a transparent manner, thus making all financial markets stand alone on their own fundamentals. This may well, at the margin, lessen in the short term the hunt for risk and yield as liquidity falls, but it could, very much, be complicated by the fears and concerns over sovereign risk and debt levels, which were already driving the changing risk preferences within the market."

"This action does not, in our view, change or bring forward the date on which interest rates will actually rise, (not in 2010). It may, however, continue to encourage the USD to strengthen further, which may well help Japan and the EU. But this could be at the expense of the US and its satellite countries with their currencies tied to it, including China and most of Asia."

"If economies around the world weaken during the next few months as the monetary tightening affects market levels and banks' abilities to lend or increase lending, then Central Banks may be forced to re-enter QE type policies. But by this time, they may be viewed more negatively and even seen as harmful by markets, as drivers of inflation, as government spending and financing remains out of control in many countries."

"As Chief Executive Officer and President of Federal Reserve Bank of Dallas, Richard W. Fisher said; "When fiscal policy gets out of whack, monetary authorities face pressure to monetise the debt, a cardinal sin in my mind "*, and he has already bought 1.5 trillion dollars worth of Treasuries."

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* - Source Reuters 20th April 2007

About Allianz Global Investors[1]

Allianz Global Investors AG (AllianzGI), a member of the Allianz Group, is a management holding company for a network of investment specialists in the most important institutional and retail markets around the world. Through PIMCO, RCM, Oppenheimer Capital, NFJ, Nicholas-Applegate and several other specialist firms, AllianzGI offers its clients a broad variety of investment competencies, covering all equity and fixed income investment styles as well as balanced products and alternative investments. With EUR 1,126 billion in assets under management (AUM), AllianzGI ranks among the top investment

1 All data as at 30 September 2009.

management companies worldwide. Through its network of approximately 5,000 employees around the globe, including more than 1,000 investment professionals, AllianzGI is able to leverage local expertise and market knowledge to its clients all over the world.

Founded in 1890 and headquartered in Munich, Germany, Allianz Group is one of the world's largest asset managers with AUM of EUR 1,300 billion and a financial strength rating of AA by Standard & Poor's.

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