GENERAL INVESTMENT CLIMATE

The Economy

With the return to - albeit modest – economic growth over the past quarter, the deepest worldwide recession since World War Two officially came to an end, without culminating into the feared elongated economic depression.

The past months, more and more signs of a gradual recovery of the world economy became apparent, building on strong economic growth in Asia and a stabilization or modest growth elsewhere. The recovery is being led by a rebound in manufacturing, a turn in the inventory cycle, stabilizing retail sales and housing markets, and returning consumer confidence.

Due to the improved prospects, commodity prices have staged a comeback and world trade is beginning to pick up again.

Incisive action by governments and central banks in most developed countries but also in the emerging economies has certainly contributed to the earlier than expected economic recovery.

The crucial question here is whether this recovery is sustainable or just a temporary phenomenon. In this respect, breaking the deflationary spiral will be crucial.

There are no reasons for being too optimistic, as the economic activity is still at a much lower level than before the crisis. It remains to be seen whether the extinguishing of the economic relaunch programs will be compensated by higher private investments and consumer spending. The export should benefit from the upsurging emerging economies. According to the IMF, China is expected to grow by 8.5% this year and even 9% in 2010. Countries like South Korea and Taiwan should show growth of 3-4% next year.

The IMF also raised its growth expectations for the Eurozone; this year its economy would shrink 4.2%, in 2010 a modest growth of 0.3% is expected. Europe is facing several big challenges. Unemployment rose to 9.6% in August, the highest level in a decade. About five million jobs disappeared in one year time. Rising unemployment is weighing on consumption, whilst more stringent credit conditions are limiting private investments. To make matters worse, it will take years before the public finances recover from the mayhem caused by the financial crisis.

The United States are also recovering faster than expected. In 2010, the GDP is expected to grow by 1.5%, after shrinking 2.7% this year.

The financial sector is showing further signs of stabilization worldwide. The IMF has recently lowered its estimation of the costs of the global financial crisis for the period 2007-2010 from 4,000 to 3,600 billion dollars. Banks account for the largest part of the bill, i.e. 2,800 billion dollars. Almost half of these losses have already been taken. Nevertheless, the IMF calls on the governments not to rewind the enormous support to the sector before there is more certainty about the strength and the sustainability of the economic recovery.

At the G20 Pittsburgh summit at the end of September, an agreement was reached to make the G20 the permanent consultation organ for the governance of the global economy, and to give large emerging countries such as China, India and Brazil a greater say in the international financial institutions.

Oil prices fluctuated around $70 during the past quarter, still considerably less than during the same period last year. Accordingly, energy prices still put strong downward pressure on inflation, which now has turned negative for four successive months in the Eurozone.

Money markets and exchange rates

The ECB and the Federal Reserve both left their basic interest rates unchanged, at 1% and 0-0.25% respectively. It is widely expected that interest rates will be kept at these extremely low levels for some time to come, in order to support the economic recovery.
Recently (for the second time this year), the ECB offered the banks of the Eurozone an unlimited amount of capital, i.e. credits with a duration of one year, against a fixed interest rate of one percent. At normal auctions, credits have a duration of maximum three months, and only a limited amount of capital is available to the banks, whereby those banks who offer the highest interest rate get the credit. The banks showed strikingly less interest than in June, when there were also nearly twice as much banks attracted. This seems to indicate that the suspicion between banks is ebbing away, and that the interbank markets are starting to function normally again.
On the interbank markets, the European 3-month interbank rate declined further, to the exceptionally low level of 0.75%. The long-term rate in Europe also fell back somewhat, towards 3.5%.
On the exchange markets, the dollar gradually slid further against the euro, to reach its lowest point of the year, at 1.4791, near the end of September.
The British pound weakened quite strongly from mid August onwards, towards 1.09 euro. The euro slightly lost ground against the Japanese yen, to 131 JPY.

Stock Markets

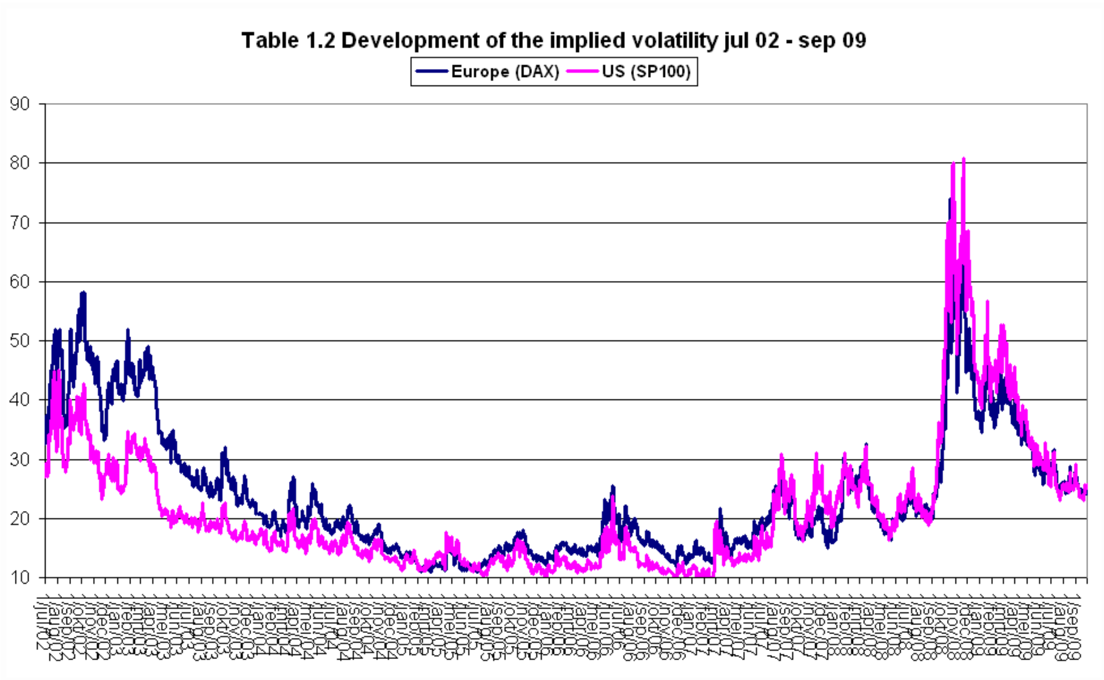
Table 1.1 - General

	30/sep/09	30/jun/09 - 3 mth	31/mrt/09 - 6 mth	31/dec/08 - 9 mth	30/sep/08 - 12 mth
AEX	311,35	22,24%	43,49%	26,60%	-6,06%
BEL20	2485,62	22,39%	42,14%	30,23%	-6,98%
DAX	5675,16	18,02%	38,93%	17,98%	-2,67%
EU50	2872,63	19,61%	38,70%	17,36%	-5,45%
DJ	9712,28	14,98%	27,64%	10,66%	-10,49%
SP500	1057,08	14,98%	32,49%	17,03%	-9,37%
Nasdaq	2122,42	15,66%	38,85%	34,58%	1,46%
EUR/USD	1,4638	4,31%	10,46%	4,76%	3,87%
EUR 3 months	0,7530	-0,3460	-0,7570	-2,1390	-4,5240
EUR 10 year	3,5110	-0,2880	-0,2270	-0,0350	-0,8340

In the third quarter, the stock markets swiftly continued their recovery, with gains of 20% and more. Not even September, historically the weakest month for stock markets, could bring the upward trend to a halt. The stock markets finished the quarter near the highs of the year. Most markets have now gained more than 50% since the March low. As such, the losses on an annual have almost been wiped out; the Nasdaq is in fact already in positive terrain year-over-year.
The extreme governmental rescue plans, exceptionally low interest rates and incisive cost cutting have caused an upswing of the economy en corporate profits.
The midcap indices performed even better, with quarterly gains of circa 30% for the MDAX and the AMX. Of the small-cap indexes, the SDAX rose 20%, but the ASCX couldn’t quite keep up the pace, gaining “only” 11%.

Implied volatility

As the uncertainty at the financial markets ebbed away further, volatility stabilized during the past months, at a quite normal level of around 25%.



Long-term development

The AEX continued its positive evolution during the third quarter. Compared to the low point at the beginning of March, the index already gained 56%. The AEX now stands 27% higher than at the start of the year.