ABN·AMRO

Press Release

London, 13 September 2004

Bond yields have peaked, global economy set to slow as US continues rate rises, says ABN AMRO

Following modest upside in the coming months, bond yields are set to fall and yield curves flatten in 2005 as global economic growth slows, according to research by ABN AMRO.

The report, titled *Bond Yields Have Peaked* and jointly authored by ABN AMRO's Rates, Economics and FX strategy teams, predicts the current global economic slowdown will not be strong enough to prevent the US Federal Reserve from tightening policy. September and November are expected to bring consecutive 25 bps rate rises, rising to a peak of 3.25% by next summer.

And while the slowing of the US economy is not expected to become more pronounced until 2005, 10-year US Treasury notes have most likely peaked, suggesting the bond market will remain volatile going into next year but within 2004 ranges.

"Recent economic evidence suggests that bond yields have already posted their cycle peak. However, the rally since mid-June has coincided with a severe trend of weaker than expected data. While this trend is unlikely to continue, as shown by last week's US Payrolls data, we find it difficult to see 10-year yields in the US and European Union passing the highs of June 2004," said Robert Lind, ABN AMRO's top ranked Chief European Economist*.

In 2005, bond markets will endure a synchronised slowdown in global economic growth as the US, UK and China tighten monetary policy, while Japan and Europe suffer from weak export growth and a decrease in domestic demand. The price of oil is expected to stabilise and then average USD 36/bbl and is not expected to be a major factor in the slowdown.

Graham McDevitt, Global Head of Rates Strategy at ABN AMRO, identifies two key themes that will influence bond yields next year:

- The US Federal Reserve will continue to normalise policy, bringing rates in-line with growth
- The US will under-perform historical growth averages in 2005

"Both these factors suggest that the USD yield curve will experience bull flattening in 2005. As global bond markets continue to operate with a high correlation to USD yields, a forthcoming slowdown in the US economy points to further downside for bond yields," he said.

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ABN AMRO’s Global Head of FX Strategy, Tony Norfield, also sees rooms for the US dollar to strengthen against European and most other major currencies in the coming months.

“Our analysis suggests that the US dollar has been oversold relative to the underlying investment flows into and out of the US. An additional factor that has weakened the dollar, that of high degrees of hedging dollar risk by investors, also looks likely to subside as the Fed hikes rates,” he said.

(ABN AMRO’s pan-European economic research was ranked no.1 by Extel in 2004 and 2003)

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Notes to Editors:

Netherlands-based ABN AMRO is a leading international bank with total assets of EUR 632.8 bln (as at 30 June 2004). It has over 3,000 branches in more than 60 countries and territories, and has a staff of about 110,000 full-time equivalents worldwide. ABN AMRO is listed on the Euronext, London and New York stock exchanges.

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