Exchange Rate Outlook

21st April 2009

- USD slips on Fed's QE plans but remains safe haven choice
- Euro still vulnerable on outlook for eurozone economy
- Sterling cautiously recovers ground on hope for UK economy
- Yen stays on back foot as focus remains on domestic economy

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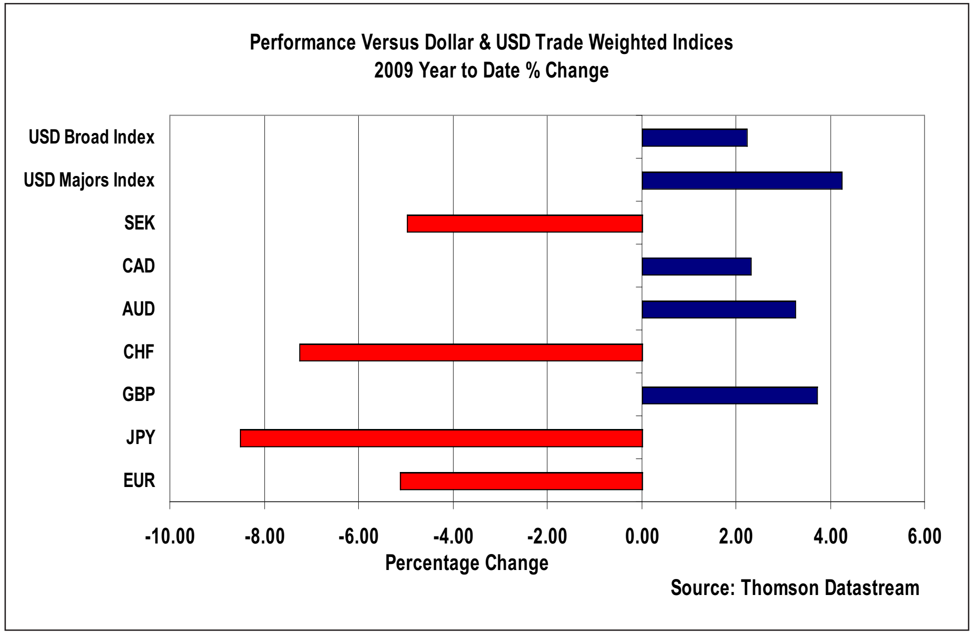
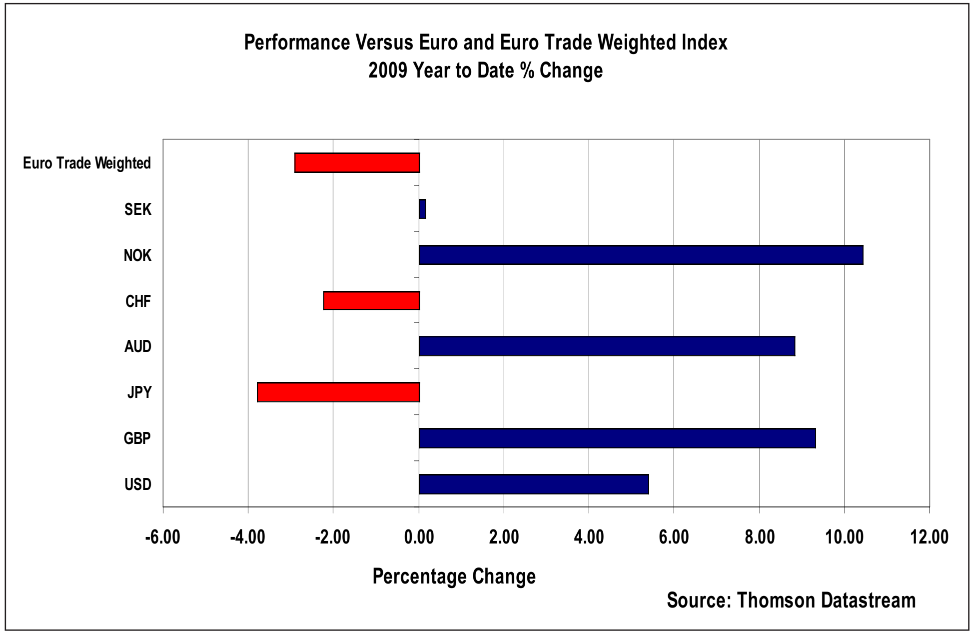
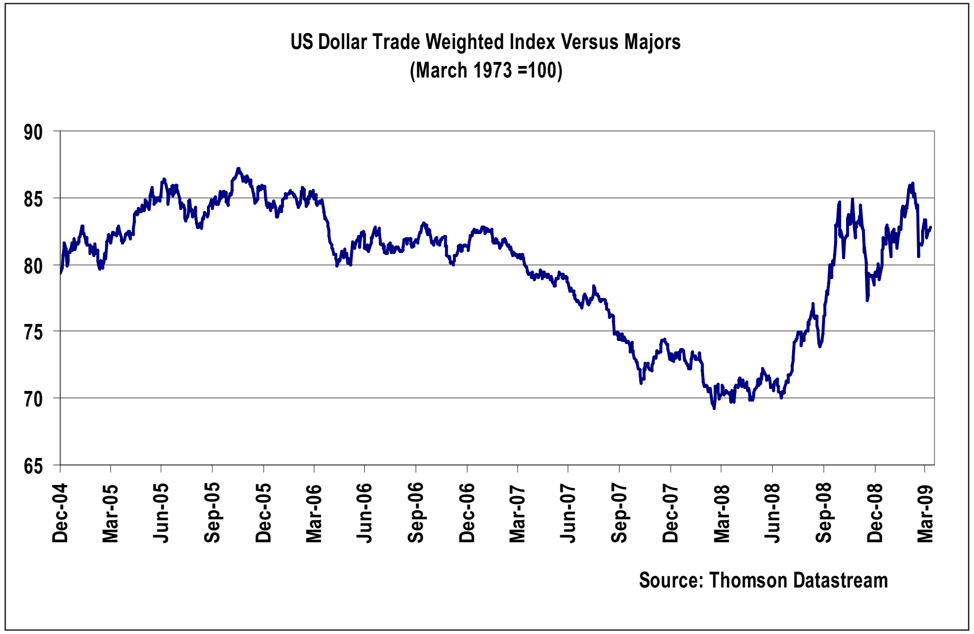
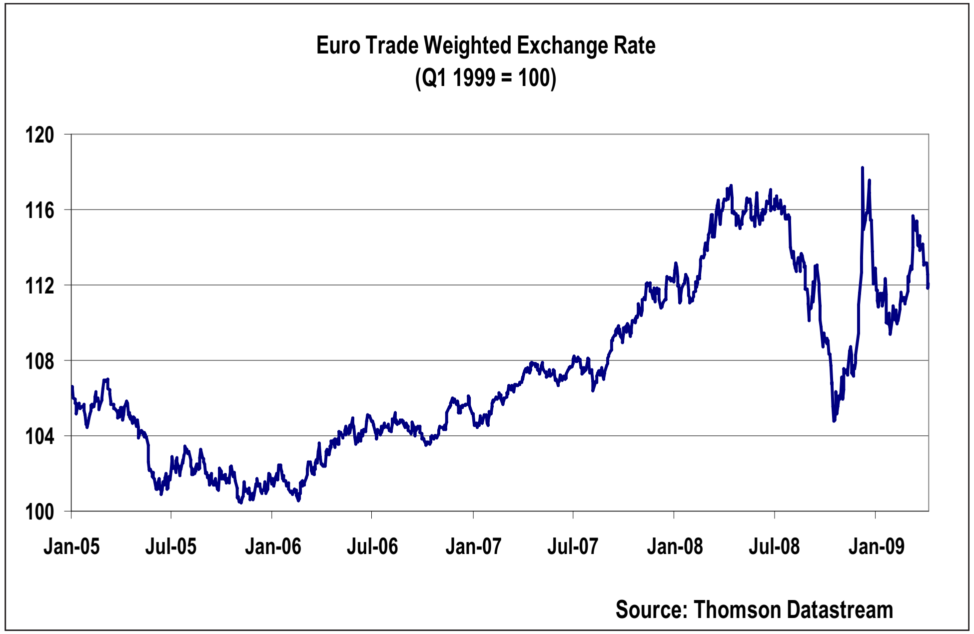
Key Currency Trends









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Summary of Exchange Rate Forecasts

Euro Versus	Current	Q2-2009	Q3-2009	Q4-2009	Q1-2010
USD	1.299	1.28-1.35	1.28-1.35	1.30-1.35	1.30-1.35
GBP	0.888	0.87-0.92	0.85-0.89	0.82-0.87	0.82-0.87
JPY	128.68	123-133	128-138	130-140	135-140
PLN	4.36	4.42	4.13	4.00	4.00
HUF	297.75	290	285	280	275
NOK	8.77	8.80	8.70	8.60	8.60
SEK	11.07	10.95	10.90	10.50	10.30
US Dollar Versus					
JPY	99.08	95-102	98-105	100-107	100-107
GBP	1.463	1.43-1.52	1.45-1.55	1.50-1.60	1.50-1.60
CHF	1.17	1.17	1.17	1.19	1.19
CAD	1.22	1.20	1.22	1.25	1.25
AUD	0.71	0.72	0.74	0.75	0.78
NZD	0.56	0.57	0.59	0.62	0.65
CNY	6.83	6.82	6.80	6.75	6.73
Sterling Versus (mid point of expected trading range)					
JPY	145	145	153	162	162
CAD	1.79	1.76	1.84	1.96	1.96
AUD	2.05	2.04	2.04	2.09	2.01
NZD	2.59	2.58	2.56	2.53	2.41

Interest Rate Outlook

Central banks across the world have cut official interest rates aggressively to help ease the crisis that has gripped the world's financial system and counter what is now a very deep global recession. Meanwhile, deflation risks are rising, with inflation heading towards zero in many countries. With money and credit markets still malfunctioning and a very weak global economy, we are heading for a prolonged period of very low official interest rates.

Fed Rates Cut To Close On 0%

With inflation falling sharply and a deepening recession, the Fed cut US interest rates effectively to zero per cent in December, adopting a 0 - 0.25% target range for the Fed funds rate. With the Fed becoming increasingly concerned about the prospect of deflationary forces becoming entrenched and given the very weak economic conditions, the current exceptionally low level of the Fed funds rate is likely to remain in place for a considerable time.

With official rates now close to zero, the Fed's focus has shifted to open market operations and other measures, including the purchase of Treasuries and mortgage securities, to help stimulate the economy and the functioning of financial markets.

ECB To Reduce Rates To 1%

The ECB cut interest rates by 0.25% to 1.25% at its April policy meeting, bringing the total reduction in official rates in the eurozone to 3.00% since October. An official rate of 1.25% represents an historical low for the eurozone, with rates troughing at 2% in the previous easing cycle in 2003-2005.

A further reduction of 0.25% seems likely by the summer, taking rates to a new low of 1%. This could represent the trough for the ECB, with some council members indicating that they do not want rates to fall as low as 0%. However, this does not rule out the introduction of other liquidity boosting measures, or money market rates going below 1%.

UK Rates Cut To 0.50%

The Bank of England cut its key interest rate by 0.50% to 0.50% at its March meeting, bringing to 4.50% the cumulative reduction in the bank rate since October last year. 0.50% represents the lowest ever level for official rates since the central bank was founded in 1694.

With official rates now at ultra low levels the focus, as in the States, has switched to quantitative easing measures. In this regard, the BoE has begun a programme of asset purchases, which includes private sector assets, but is mainly concentrated in buying gilts.

US Interest Rate Forecasts (to end quarter)

	Fed Funds	3 Mth	1 Year	2 Year *	5 Year *
Current	0.125	1.11	1.91	1.45	2.33
June '09	0.125	1.10	1.90	1.40	2.30
Sept '09	0.125	1.00	1.80	1.35	2.25
Dec '09	0.125	0.95	1.70	1.30	2.20

** Swap Forecasts Beyond 1 Year*

Eurozone Interest Rate Forecasts (to end quarter)

	Refi Rate	3 Mth	1 Year	2 Year *	5 Year *
Current	1.25	1.41	1.77	1.92	2.78
June '09	1.00	1.30	1.50	1.85	2.70
Sept '09	1.00	1.20	1.60	1.80	2.65
Dec '09	1.00	1.10	1.50	1.75	2.60

** Swap Forecasts Beyond 1 Year*

UK Interest Rate Forecasts (to end quarter)

	Repo Rate	3 Mth	1 Year	2 Year *	5 Year *
Current	0.50	1.52	1.98	2.18	3.16
June '09	0.50	1.45	1.90	2.05	3.00
Sept '09	0.50	1.30	1.80	2.00	2.90
Dec '09	0.50	1.20	1.70	2.00	2.80

** Swap Forecasts Beyond 1 Year*

US Dollar

The dollar fell sharply versus other majors immediately following the Federal Reserves' announcement on 19th March that it was to extend its quantitative easing activities to include the purchase of up to $300 billion of Treasuries, while also increasing its purchases of mortgage backed securities. This is the first time since the 1960's that the central bank has bought Treasuries and the move represents a major expansion of its open market operations. Funded by boosting the money supply, quantitative easing is broadly considered to be currency negative, given that it risks stimulating inflation over the longer term. The dollar's sell off gained momentum as support at key levels gave way versus other majors, including the euro.

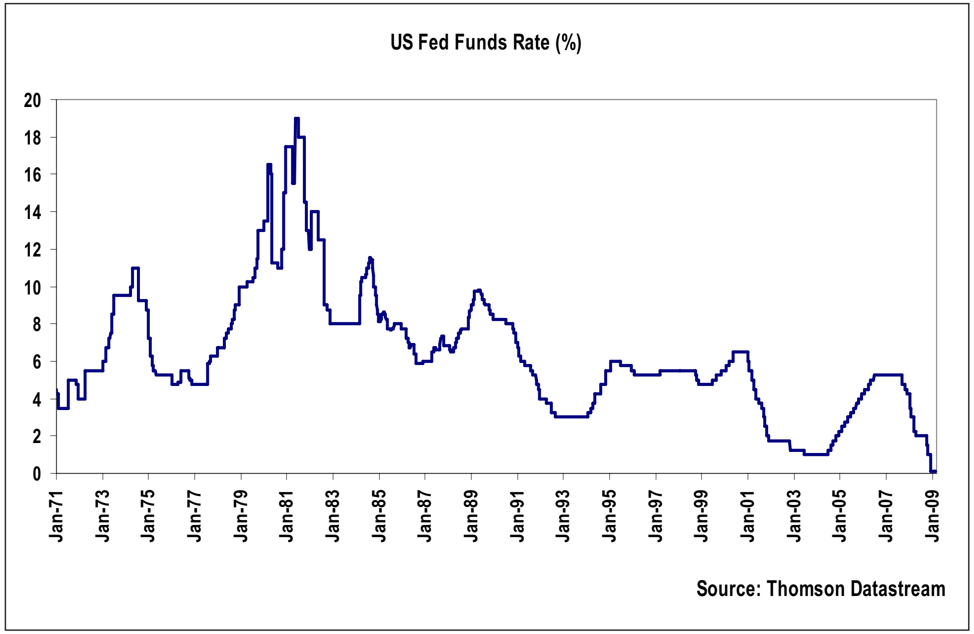
However, the dollar quickly regained its composure as traders surmised that the aggressive action of the Fed would result in the US recession being less severe and protracted than elsewhere. The US administration is already talking about "green shoots" of recovery, with a number of leading indicators showing signs of bottoming out, albeit at very low levels.

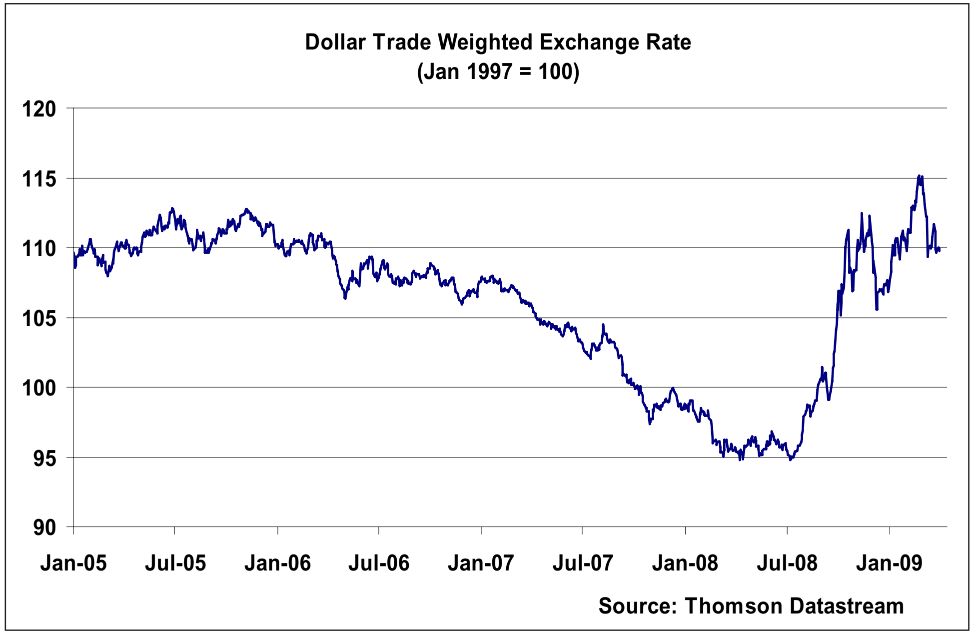
Meanwhile, although the Fed was ahead of the curve in terms of taking official rates to ultra low levels, interest rate spreads versus the US continue to narrow as central bank rates in other economies moves towards zero. Furthermore, the dollar is also likely to continue to remain the main safe haven of choice. This is despite the fact that the perception of global risk does appear to be diminishing, as reflected in the performance of global equities over recent weeks.

At the same time, however, a sustained US dollar rally is unlikely over the medium term. Indeed, as the year unfolds, the dollar could come under renewed downward pressure if risk aversion eases further and markets focus on the longer term implications of the sharp rise in the US budget deficit and the potential impact of the Fed's quantitative easing policy.

Key Forecasts

		Q2-2009	Q3-2009	Q4-2009	Q1-2010
US$/EUR	1.298	1.28-1.35	1.28-1.35	1.30-1.35	1.30-1.35
US$/GBP	1.463	1.43-1.52	1.45-1.55	1.50-1.60	1.50-1.60
YEN/US$	99.091	95-102	98-105	100-107	100-107
CHF/US$	1.168	1.17	1.17	1.19	1.19





Euro

Over the past month the euro has gained 2.5% versus the dollar and 3% versus the yen, though these moves largely related to US developments rather than an improvement in eurozone fundamentals. Thus, despite the bounce higher on the Fed's extension of its quantitative easing activities, some pick up in risk appetite and a smaller than expected rate cut at the April ECB meeting, sentiment towards the euro remains undermined by the prospect of a deep and long lasting recession in the eurozone.

With economic activity in the eurozone continuing to contract and given the increasing evidence of deflationary pressures, as well as continued pressure in credit markets, a move to 1% rates by the ECB is still anticipated. Over time, we may also see the introduction of other measures aimed at boosting financial market liquidity, with the central bank's vice President commenting recently that its was considering the purchase of corporate bonds. Country risk also remains a negative factor for the euro, as well as concerns about the eurozone's exposure to Eastern European banks and companies that may go into default.

However, while there are downside risks, we expect plenty of two way activity in the USD/EUR rate within a $1.28-1.35 range over the coming weeks, with investor appetite for risk as well as transatlantic economic news setting the tone. Over the longer term, we still see scope for a modest euro bounce if global economic conditions and financial markets stabilise, with the scale of fiscal stimulus in the US also becoming a potential negative for the dollar.

The euro hit lifetime highs of Stg0.9803p versus sterling in late 2008. Increasing evidence that the eurozone, like the UK, is facing huge economic challenges has since taken it well off this level, with a low of Stg0.8640 seen in early February. While sterling's recovery was halted by the BoE's decision to engage in quantitative easing, upside for the euro appears increasingly limited at Stg0.92p.

Key Forecasts

		Q2-2009	Q3-2009	Q4-2009	Q1-2010
US$/EUR	1.299	1.28-1.35	1.28-1.35	1.30-1.35	1.30-1.35
GBP/EUR	0.888	0.87-0.92	0.85-0.89	0.82-0.87	0.82-0.87
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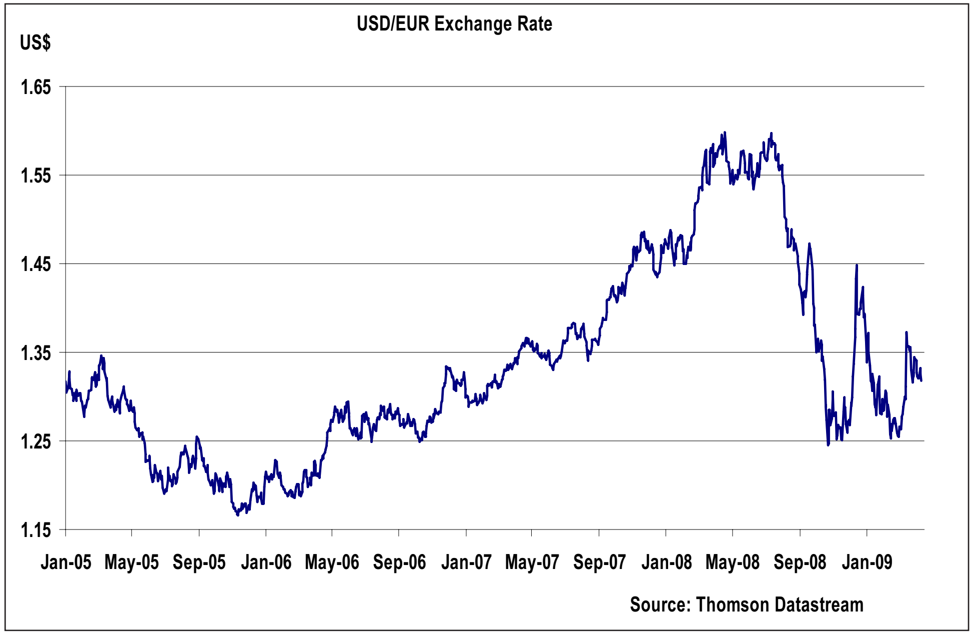
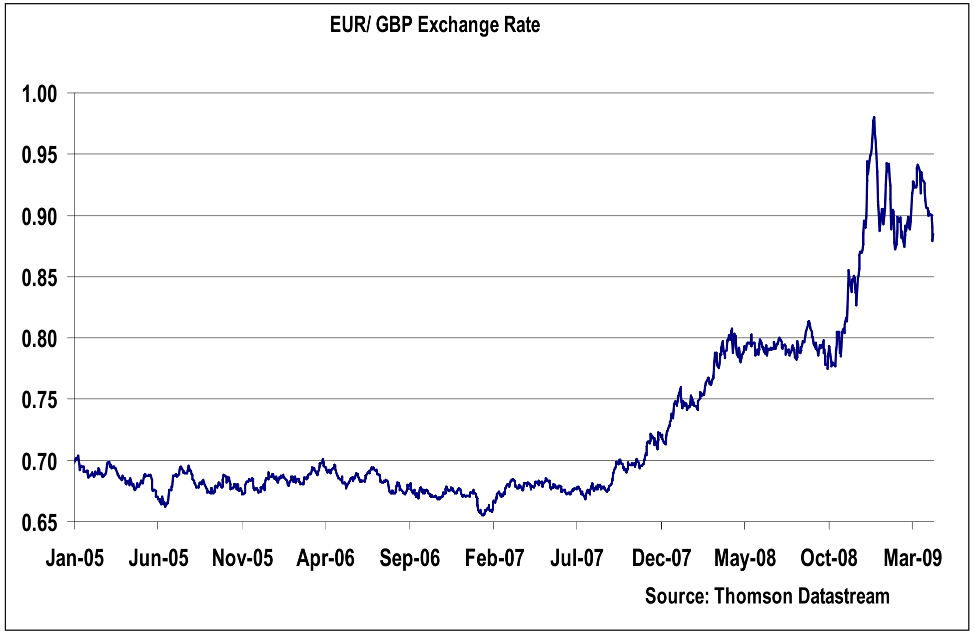




Sterling

Hit by the prospect of the worst UK recession in decades, historically low interest rates, a crisis in the financial and banking system, as well as a sharp unwinding of carry trade positions and a growing UK external imbalances, sterling fell sharply versus other majors last year. Indeed, although off its lows, it is still down a respective 14%, 27% and 29% versus the euro, dollar and yen compared to where it was trading this time last year.

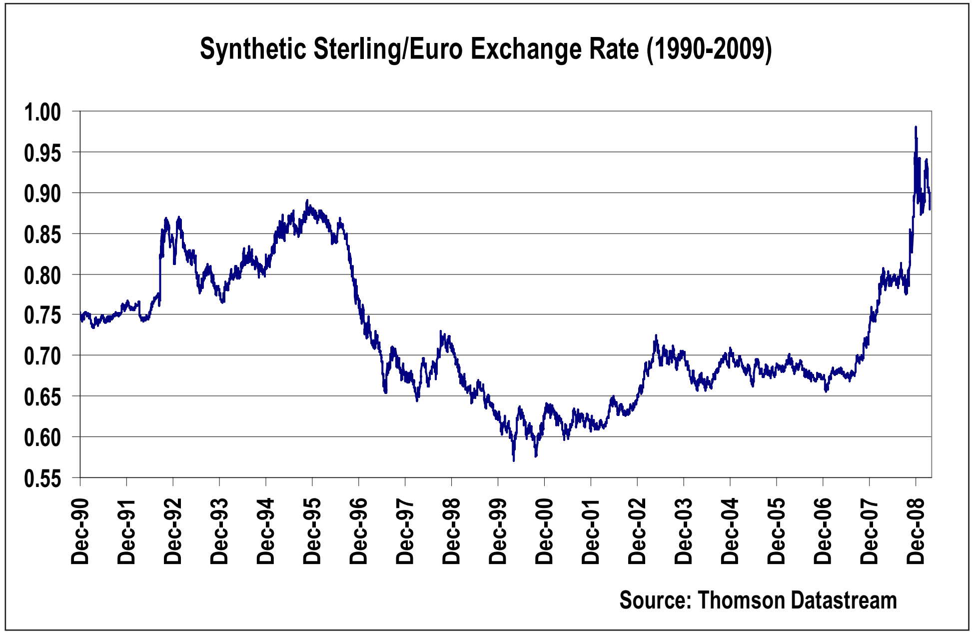
However, after a period of intense selling that saw lifetime lows of Stg0.9803 versus the euro in late 2008, more recent times have seen a distinct improvement in sterling sentiment. Indeed, despite the decision by the Bank of England to cut UK interest rates to a new historical low of 0.50% in March, as well as announce a move to engage in quantitative easing measures, sterling has, year to date, appreciated by about 9% versus the euro as concerns about the eurozone economy weigh on the single currency.

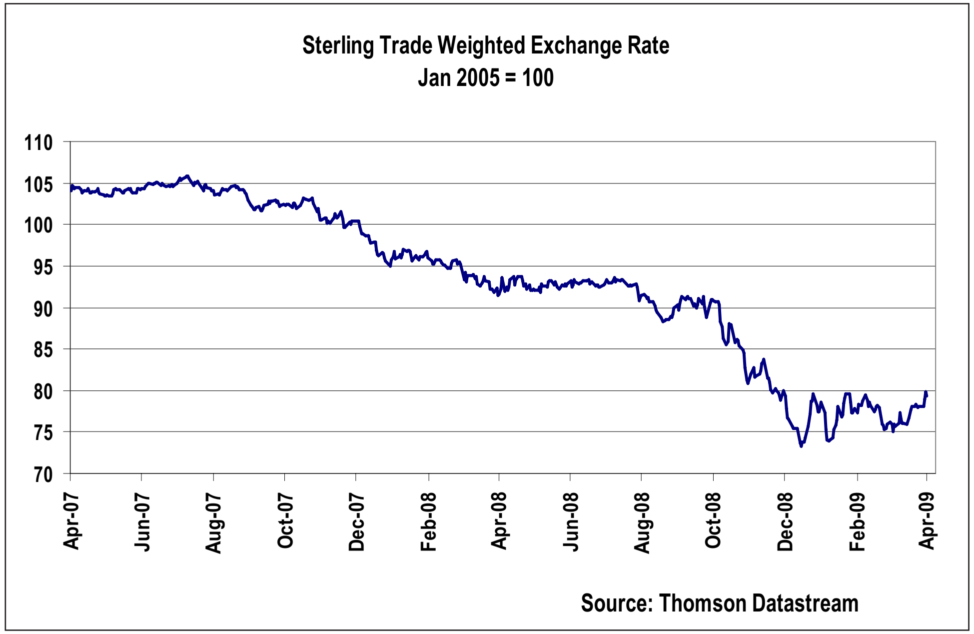
In terms of the GBP/EUR rate, we anticipate a Stg0.87-0.92p range for the short to medium term. However, given the poor outlook for the eurozone as well as the likelihood of a further rate cut from the ECB, excessive bad news continues to be priced into sterling/euro. Thus, over the longer term we anticipate a move to more "fair value" levels as the impact of comprehensive UK policy action starts to feed through, allowing sterling to move back to around Stg0.85p or higher against the euro in H2-2009.

Meanwhile, in terms of the USD/GBP rate, sterling is now trading well off the 25 year lows of $1.3502 seen in late January. Though downside risks remain, including a potential negative reaction to the Chancellor's forthcoming Budget, strong support appears to be forming at $1.45 as markets become more positively disposed towards "risk-sensitive" currencies. We see activity being largely concentrated in a $1.43-1.52 trading range over the coming weeks. Providing the UK economy does indeed stabilise and risk appetite continues to improve, sterling should recover further ground over the course of the year, moving back into a $1.50-1.60 trading range by end 2009.

Key Forecasts

		Q2-2009	Q3-2009	Q4-2009	Q1-2010
GBP/EUR	0.888	0.87-0.92	0.85-0.89	0.82-0.87	0.82-0.87
US$/GBP	1.463	1.43-1.52	1.45-1.55	1.50-1.60	1.50-1.60
YEN/GBP	144.95	145	153	162	162
CAD/GBP	1.786	1.76	1.84	1.96	1.96





Japanese Yen

In an environment of global deleveraging and heightened risk aversion, the yen appreciated markedly over the course of 2008 and in early 2009. Indeed, it proved to be one of the best performing currencies of last year as its appreciated rapidly on the back of a reversal of risky carry trade position and a flight to safe haven assets. Its perceived safe haven status was boosted by the fact that Japan has a relatively healthy banking sector. Furthermore, Japan's current account surplus also made the yen an attractive investment choice in the then volatile and uncertain environment.

However, sentiment toward the yen has since soured as markets turn their attention to the fragile state of the Japanese economy. Dragged down by a sizeable negative contribution from net trade, the economy contracted at an annualised rate of 12% in Q4-2008, over twice the rate of contraction seen in the US. The export driven economy has been hard hit by the downturn in global demand, as well as the overvalued position of the yen. Against this background, Japan's healthy current account surplus has vanished, with recent current account data showing the first deficit for 13 years.

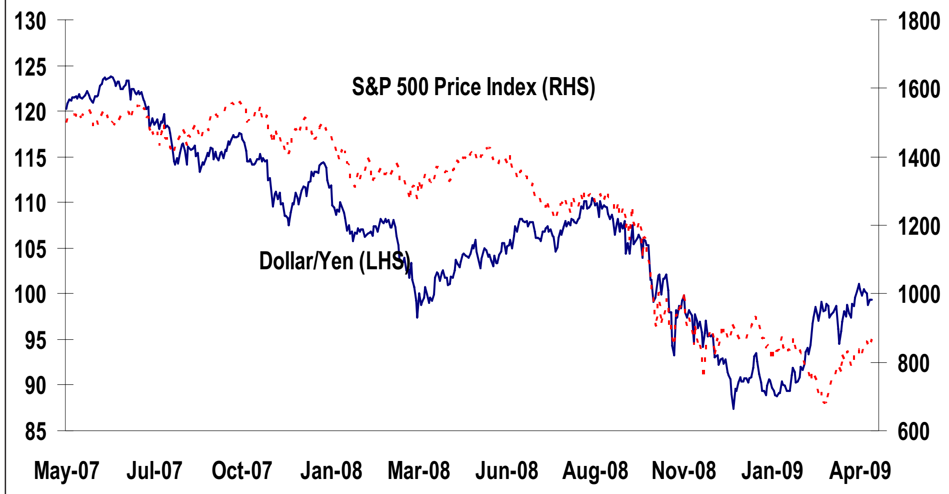
Thus, from lows of Y87.15 seen in late January, the dollar has firmly held a Y94-100 range over recent weeks, despite a pick up in market sentiment. Even if market sentiment improves further, any yen rebound is likely to be limited given the poor fundamental outlook for the economy. Meanwhile, the euro also continues to trade well off its lows. We anticipate a Y125-135 range for now, though the euro's own upside could be limited given the weak outlook for the eurozone economy.

Over the longer term, we expect the yen to retreat further from its current overvalued positions versus other majors, as reflected in our forecasts. The outlook for Japan is bleak indeed, with official interest rates now back near zero, the economy deep in recession, with business and consumer confidence at low levels and the marked appreciation in the yen continuing to hit export demand.

Key Forecasts

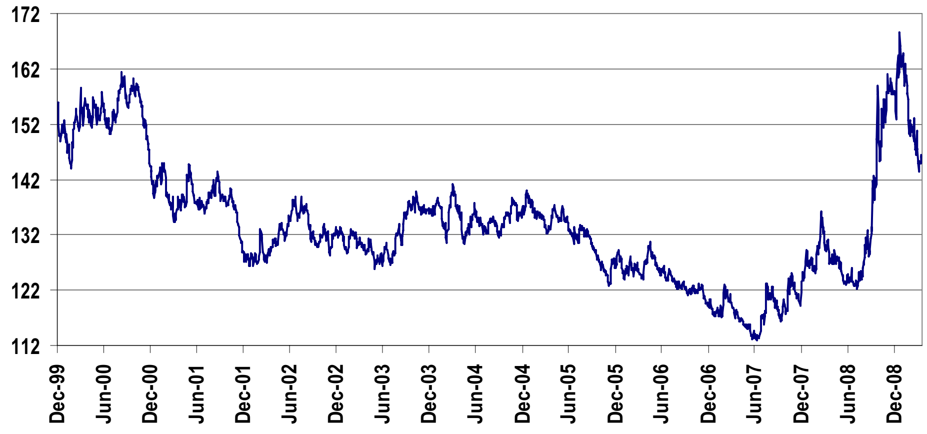
		Q2-2009	Q3-2009	Q4-2009	Q1-2010
YEN/US$	99.09	95-102	98-105	100-107	100-107
YEN/EUR	128.66	123-133	128-138	130-140	135-140
YEN/GBP	144.95	145	153	162	162

Dollar/ Yen Exchange Rate and US S&P 500 Stock Index



Source: Thomson Datastream

Japanese Trade Weighted Index
Jan 1990 = 100



Source: Thomson Datastream

Key Events/Diary

Week 1 (20th -24th April)

April 21st	UK	Consumer Prices (March)
April 22nd	UK	Unemployment Report (March)
	UK	Minutes of MPC Meeting (8/9 April)
	UK	Budget 2009/2010
April 23rd	Eurozone	Flash Markit Manf and Services PMIs (April)
	US	Existing Home Sales (March)
April 24th	Germany	Ifo Survey (April)
	UK	Q1 GDP - First Estimate
	UK	Retail Sales (March)
	US	New Home Sales (March)

Week 2 (27th April - 1 May)

April 28th	US	Consumer Confidence (April)
April 29th	Eurozone	EU Business & Consumer Confidence (April)
	Eurozone	M3 Money Supply (February)
	US	Q1 GDP - First Estimate
	US	FOMC Policy Announcement

Week 2 (27th April - 1 May)Contd/....

April 30th	Eurozone	HICP Flash Estimate (April)
	US	Personal Income and Consumption (March)
May 1	US/UK	Manufacturing ISM/Markit PMI (April)

Week 3 (4th - 8th May)

May 4th	IRL/UK	Market Holiday
	Eurozone	Manufacturing Markit PMI (April)
May 5th	US	Services ISM (April)
May 6th	UK/Eurozone	Services Markit PMIs (April)
May 7th	UK	Bank of England Policy Announcement
	Eurozone	ECB Policy Announcement & Press Conference
May 8th	US	Non-Farm Payrolls (April)

Week 4 (11th - 15th May)

May 13th	UK	Bank of England Quartertly Inflation Report
	US	Retail Sales (April)
May 14th	US	Producer Prices (April)
	Eurozone	Q1 GDP - First Estimate

All forecasts prepared by AIB's ERU. *Current (at time of writing) interest rates and exchange rates quoted in this document are sourced from Reuters. The information in the Key Events/Diary is from publicly available sources.* *Charts based on daily closing rates as provided by Thomson Datastream.*

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