Morning Comment

Tuesday 11th November 2008 07.45am GMT

E-Mail: LetUsKnow@aib.ie : Internet: http://www.fxcentre.com

AIB Global Treasury Services

Impact of China's Fiscal Support Fades Fast

Risk aversion picked up once again overnight as the impact of the announcement of fiscal stimulus from China and an increased rescue plan for AIG faded, leaving the dollar and yen higher against other majors. While the policy measures are welcomed, they are not going to avert a global economic slowdown at this stage, leaving investors looking once again to safe haven assets. Risk aversion should ensure that the dollar and yen remain bullish versus European majors, with the euro quickly retreating from yesterday's high of $1.2927 as stocks came under pressure on growing concerns about consumer durable companies like GM as well as financials. This morning's release of the Greman ZEW index for October could put the euro under further pressure if the index disappoints and fails to consolidate after last month's sharp fall.

Sterling meanwhile, continues to meet with strong upside resistance on concerns about the outlook for the UK. Fresh news overnight added to the case for lower interest rates, with the BRC reporting that sales fell for the fifth straight month in October, with like for like sales down by their biggest amount for more than four years. Meanwhile, the latest RICS survey showed the fall in house prices easing somewhat in the three months to October, but home sales hit their lowest level in 30 years. The agency said that the general lack of mortgage finance remains a major problem for the market. Other data due for release today include trade and the DCLG house price report for September, both of which contain downside risks for sterling. On equity markets, European stocks are expected to start lower following a retreat by US and Asian indices overnight.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	**1**	**3**	**6**	**12**
USD	1.54	2.24	2.62	2.79
JPY	0.81	0.89	0.97	1.11
EUR	4.02	4.41	4.48	4.53
GBP	3.98	4.42	4.52	4.54

LONG TERM INTEREST RATES		
Term	**EURO (Annual)**	**GBP**
2 Years	3.45	3.57
3 Years	3.57	3.79
4 Years	3.68	4.00
5 Years	3.76	4.11

Euro S/Term interest rates Actual /360 : L/Term Actual Bond Basis

Today's Opening Rates (Mid-Rate)

USD/EUR	1.2736	NOK/EUR	8.6838
GBP/EUR	0.815	CHF/EUR	1.5008
USD/GBP	1.5619	AUD/EUR	1.9063
JPY/USD	97.8	NZD/EUR	2.178
JPY/EUR	124.55	HKD/EUR	9.8679
SEK/EUR	9.9911	CAD/EUR	1.5212
DKK/EUR	7.4455	EUR/GBP	1.2265

Indices			**Dow**	8870.54	-76.06
FTSE	4403.92	38.96	**ISEQ**	2853.45	26.71
Nikkei	8711.99	-191.49	**Nasdaq**	1616.74	-63.93

Sharp Fall in UK Input Prices

% change	M/M	Y/Y
Input Prices	-5.6	13.8
Core* Input Prices	-2.4	14.5
Output Prices	-1.0	6.8
Core Output Prices	-0.5	4.9

As the correction in commodity prices continues to feed through, producer prices in the UK fell much more sharply than anticipated in October, further good news on the inflation front for the MPC as its seeks to lower UK interest rates. Input prices fell 5.6% on the month, bringing the year-on-year rate down to 13.8% from 24.0% previously. Markets had been anticipating a drop of 2.5%, and the drop was the largest in the history of the series.

There was also a sharp fall in output prices, with producer forced to cut prices as demand eases. Prices were down 1% on the month, compared to forecasts for a 0.5% drop, pushing the annual growth rate to 6.8% from 8.5% previously.

* Excludes volatile items like food, oil, tobacco and alcohol