



Swings in Sentiment Drive Forex Markets

Currencies remain volatile with activity continuing to be driven by swings in sentiment. The euro bounced higher versus the dollar yesterday, boosted by a better than expected German ZEW business sentiment index for November. Gains evaporated later in the day, however, as the focus turned once again to the gloomy outlook for the eurozone economy with two week lows seen at \$1.2484. Risk aversion did pick up a little overnight, in line with a positive close on stock market, offering some fresh relief for the euro. However, activity was confined to relatively tight ranges with the dollar continuing to have the upper hand. The yen also remains in favour as investors appetite for risky assets remains poor.

Sterling also saw two week lows versus the dollar yesterday but has since recovered from that \$1.5350 level. In the absence of any other key events, the UK currency will be in the spotlight this morning with the Bank of England's Quarterly Inflation report due for release. We expect a gloomy report (as compared with the last one in August) with downward revisions expected for both growth and inflation forecasts. The report should give markets some indications of how low UK rates are likely to go and a dovish tone will weigh further on sterling. Markets are currently anticipating that rates will at 2.0% by end Q1. Also due for release this morning is the unemployment report for October, which is expected to show further softening in labour market conditions.

Oil prices slipped back near a 20-month low of below \$59 per barrel as poor corporate earnings highlighted the likely impact from the global economic slowdown on energy demands from companies and consumers.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	1.48	2.18	2.55	2.71
JPY	0.81	0.90	0.96	1.10
EUR	3.95	4.34	4.40	4.46
GBP	3.92	4.38	4.48	4.50

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	3.44	3.57
3 Years	3.57	3.83
4 Years	3.68	3.99
5 Years	3.78	4.11

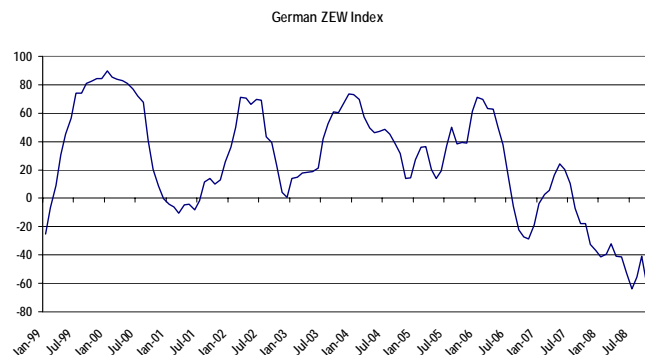
Euro S/Term interest rates Actual /360 : L/Term Actual Bond Basis

Today's Opening Rates (Mid-Rate)

USD/EUR	1.2624	NOK/EUR	8.7294
GBP/EUR	0.816	CHF/EUR	1.4927
USD/GBP	1.547	AUD/EUR	1.8955
JPY/USD	98.07	NZD/EUR	2.177
JPY/EUR	123.82	HKD/EUR	9.7853
SEK/EUR	10.048	CAD/EUR	1.5121
DKK/EUR	7.4426	EUR/GBP	1.2255

Indices		Dow	8693.96	-170.36	
FTSE	4246.69	-157.23	ISEQ	2810.68	-42.77
Nikkei	8965.29	369.44	Nasdaq	1580.9	-17.69

Surprise Bounce in ZEW..... But Outlook Still Gloomy



Source: Thomson Datastream

The leading German ZEW index (a survey of financial market analysts) recovered by more than expected in November, providing a lift to the euro. The index rose 9.5 points to 53.5, much better than the consensus forecast for a rise to 58.0 from 63.0 in October. The government's financial rescue package as well as the about turn in the ECB's thinking helped sentiment levels improve. However, the index remains well below its long term average of +27 and the slight improvement will do little to offset the gloomy outlook for the eurozone's largest economy. Indeed, one cannot rule out the prospect of further falls in the months ahead with financial market conditions remaining very difficult.

