

Morning Comment

Thursday 13th November 2008 07.33am GMT

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

AIB Global Treasury Services



Another Bad Day for Sterling as \$1.48 Beckons

Sterling has fallen over 5 cents on yesterday's opening level versus the US dollar, hit hard by the release of a dovish inflation report from the Bank of England, which has reinforced the market view that UK interest rates have a lot further to fall. A weak labour market report for October did not help either, with the claimant count now just a whisker away from the 1 million mark, a level not seen since 2001. Support at \$1.50 easily gave way late yesterday afternoon, with a session low of \$1.4834 seen before some buyers stepped in. Meanwhile, versus the euro, fresh historical lows were seen at Stg0.8411, again with key supports providing little resistance. Although there was some consolidation in early morning trade, further selling is anticipated in the days ahead against a background of the likelihood of more soft UK data and growing speculation that the BoE could cut interest rates by a 1.0% at its December policy meeting.

The euro is also weaker against the dollar this morning, with a poor provisional German GDP report for Q3 adding to its bearish tone versus the US currency. Growth contracted by a larger than expected 0.5%, pushing the eurozone's largest economy further into recession. Apart from sterling, the other big story overnight was the admission by the RBA that it stepped in to buy the AUD, with the story hitting the yen. There is increasing talk that that Japan could resume currency intervention for the first time in nearly five years if the dollar breaks the Y90 level. Three year lows of Y94.49 were seen overnight, a reminder of the buoyancy of the yen at the moment. With risk aversion set to remain high the yen could keep on strengthening, which is not good news for Japan's exporters, who are already struggling.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	1.41	2.13	2.53	2.68
JPY	0.81	0.90	0.97	1.10
EUR	3.91	4.29	4.35	4.41
GBP	3.82	4.31	4.41	4.45

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	3.34	3.43
3 Years	3.48	3.66
4 Years	3.59	3.84
5 Years	3.71	3.96

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.2428	NOK/EUR	8.8948
GBP/EUR	0.8356	CHF/EUR	1.4782
USD/GBP	1.4877	AUD/EUR	1.9352
JPY/USD	95.61	NZD/EUR	2.218
JPY/EUR	118.86	HKD/EUR	9.629
SEK/EUR	10.134	CAD/EUR	1.5368
DKK/EUR	7.446	EUR/GBP	1.1963

Indices		Dow	8282.66	-401.86	
FTSE	4182.02	-64.67	ISEQ	2730.61	-79.97
Nikkei	8694.91	-155.99	Nasdaq	1499.21	-55.96

BoE Says It Will Let Rates Go As Low as Needs Be

The Bank of England delivered a very dovish Quarterly Inflation Report yesterday, reinforcing the market's view that the UK interest rates are set to fall to very low levels. As anticipated forecasts for both growth and inflation were revised downwards.

The forecast for the CPI (based on the market's expectation that rates will fall to just below 3%) indicated a fall to around 1% (1% below the target) over the two year policy horizon. Growth, meanwhile, in year-on-year terms is forecast to fall to a trough of about 2%. There has been a pretty big policy response so far, which the Bank felt was justified but it is prepared to ease policy again and will cut the Bank Rate to whatever level is necessary.

The fall of sterling over the past year was not surprising and the depreciation in the currency should be a considerable stimulus. Further depreciation is possible but the central bank would not wish to see it fall particularly sharply.

King gave his support for potential fiscal stimulus, saying that such a move was perfectly reasonable, as long as it was done in the context of the need for a medium term plan to repair the public finances.



This publication is for information purposes only and is not an invitation to deal. The information is believed to be reliable but is not guaranteed.

Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission.

Allied Irish Banks p.l.c. is regulated by the Financial Regulator and is also regulated by the Financial Services Authority for the conduct of UK Business.