Morning Comment

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

AIB Global Treasury Services

Risk Aversion Dominates

Risk aversion is keeping the dollar and yen in pole position on forex markets, with recessionary fears intensifying in line with growing concerns over the US auto industry. Fading hopes for a rescue package from Washington weighed, as gains by the safe haven pair were fuelled by a further sell off in stocks, with US indices seeing losses of up to 5% and the Nikkei finishing its trading session off almost 7%. With investors focusing on a slumping real economy and weak earnings, European stocks are predicted to fall again today.

Last night's release of the minutes from the Fed's October meeting added to the bleak global economic view. Markets continue to expect further policy easing in December, as the central bank said that data in the run-up to its next meeting would show significant weakness. Fed futures are pricing in a rate cut of at least 0.50% when the Fed next meets on 16 December. Today's US data should reaffirm the negative tone, with weekly jobless claims and the Philly Fed index, a key gauge of the manufacturing sector, both expected to be weak.

Meanwhile, despite the Bank of England's minutes of its last meeting (see feature box) revealing that the MPC had considered cutting rates by 2.0% earlier this month before unanimously voting for a 1.50%, sterling held up reasonably well versus the dollar and euro only dipped to $1.4930 before recovering sharply to an intra day high of $1.5248. However, a weak Wall St saw risk aversion bringing sellers back into the market, pushing the UK currency back towards $1.49. A weak CBI industrial orders survey for November did not help the mood, with today's retail sales report for October also likely to weigh.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	**1**	**3**	**6**	**12**
USD	1.41	2.17	2.58	2.76
JPY	0.81	0.91	0.98	1.12
EUR	3.68	4.12	4.17	4.22
GBP	3.51	4.10	4.20	4.25

LONG TERM INTEREST RATES		
Term	**EURO (Annual)**	**GBP**
2 Years	3.22	3.35
3 Years	3.34	3.58
4 Years	3.50	3.80
5 Years	3.61	3.90

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.2517	NOK/EUR	8.861
GBP/EUR	0.8376	CHF/EUR	1.5153
USD/GBP	1.4935	AUD/EUR	1.9726
JPY/USD	95.26	NZD/EUR	2.318
JPY/EUR	119.26	HKD/EUR	9.7009
SEK/EUR	10.2368	CAD/EUR	1.5725
DKK/EUR	7.4512	EUR/GBP	1.1926

Indices			**Dow**	7997.28	-423.41
FTSE	4005.68	-202.87	**ISEQ**	2416.22	-32.44
Nikkei	8149.77	-36.13	**Nasdaq**	1386.42	-92.71

MPC Minutes Point to Further UK Rate Cuts

The minutes of the 5th - 6th November MPC meeting hint at further aggressive UK rate cuts in the months ahead. All nine members of the Bank of England's policy committee voted at the meeting to cut rates by 1.50%, given the downside risks to inflation and the deteriorating outlook for the economy.

Moreover the minutes reveal that an even larger 2.0% rate cut was discussed. It was agreed that the forecasts prepared for the Quarterly Inflation Report, published last week, suggested that rates might need to come down further, possibly in excess of 2.0%, in order to meet the Bank's inflation target over a medium term horizon.

However, the Committee refrained from making a larger than 1.5% rate cut in order not to surprise the market too much and it was wary of the upside potential for inflation that would arise from too sharp a fall in sterling following an even larger rate move. It also wanted to assess the impact of recent action to restore stability in the banking sector and to leave room for further interest rate cuts as the economy continued to weaken. Moreover, the MPC wants to see what government measures to boost the economy are contained in next week's pre-Budget report.

All in all, though the message of the minutes was clear - further rate cuts are on the way.