



Attention Turns to US Payrolls Release

The ECB cut interest rates by 0.75% yesterday, which was in line with expectations. It also indicated that further easing is in the pipeline, revising down its growth and inflation forecasts for next year (see feature box). The euro rallied after the announcement but ran into resistance versus the dollar late in the day on covering of short positions ahead of today's key events. The focus is clearly on the US with the all important non-farm payrolls report for November due for release at 1.30pm this afternoon. Markets are expecting a drop of -340,000 (which would be the largest drop so far in this downturn), with the risks to the downside following the weak ADP employment report earlier in the week. The unemployment rate meanwhile, is forecast to rise to 6.7%. The reaction of stock markets to the employment numbers should set the tone for currencies going into the weekend, with a weak report hitting risk appetite.

Amid continuing evidence of a sharp downturn in the pace of growth in the US, the Bank of England cut its key interest rate by a further 1% yesterday, leaving official rates at, their lowest level since November 1951. Markets are now predicting that rates could go as low as 1%. Interest rates in the UK have never been below the 2% level since the Bank of England was founded in 1694. Sterling had already hit a fresh record low of Stg0.8695 versus the euro ahead of the announcement and saw some relief buying immediately afterwards. However, selling quickly resumed, particularly versus the euro, which saw another fresh lifetime high of Stg0.8725 overnight. Cable tested lows of \$1.4471 before rebounding. Meanwhile, Sweden cut interest rates by a larger than expected 1.75% yesterday.

Geraldine Concagh, AIB Global Treasury

Today's Opening Rates (Mid-Rate)

USD/EUR	1.2787	NOK/EUR	9.1352
GBP/EUR	0.8705	CHF/EUR	1.5314
USD/GBP	1.4681	AUD/EUR	1.9775
JPY/USD	92.32	NZD/EUR	2.395
JPY/EUR	118.06	HKD/EUR	9.9099
SEK/EUR	10.567	CAD/EUR	1.6316
DKK/EUR	7.4485	EUR/GBP	1.148

Indices		Dow	8376.24	-210.83	
FTSE	4163.61	-6.35	ISEQ	2502.48	22.92
Nikkei	7975.05	-105.96	Nasdaq	1445.56	-20.21

ECB to Cut Eurozone Rates to 1.50%

The European Central Bank cut rates by 0.75% to 2.5% today. There has been a sea-change in ECB thinking since the summer, brought about by an abatement of inflationary pressures as oil prices collapsed, and the sharp weakening of activity with the eurozone now in the grip of a severe recession. The changed economic outlook is very evident in the latest quarterly economic forecasts published yesterday by the ECB. In September, the ECB was forecasting that the eurozone economy would grow by 1.2% in 2009. Now it is forecasting -0.5%, with a range of -1 to zero per cent. It is also forecasting that growth will be sluggish in 2010 at 1%. It has also made a big reduction to its inflation forecast.

With interbank rates still very high relative to official interest rates, it is quite clear that further significant policy easing is required. Official rates need to be cut to very low levels to help bring down interbank rates, as has happened in the US. Otherwise, the easing of monetary policy is going to be much less effective. There is a strong case for cutting ECB rates to 1.5% if not lower in 2009. We see two further 0.5% cuts in the months ahead, taking ECB rates down to 1.5% by the spring.

For full details of our view on eurozone interest rates see the latest ECB Watch under "Topic of the Day" on www.fxcentre.com

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	1.88	2.19	2.52	2.65
JPY	0.94	0.95	1.04	1.14
EUR	3.34	3.67	3.71	3.78
GBP	3.10	3.72	3.85	3.94

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	3.01	2.98
3 Years	3.10	3.20
4 Years	3.22	3.34
5 Years	3.31	3.44

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



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.