

## Dollar Recovers as Europe in Spotlight

With stock markets in a consolidative mood after recent gains risk appetite has eased a little, offering the dollar the opportunity to make up some of the losses seen over recent days. Optimism about US plans to remove bad debts from bank's balance sheets seems to have already started to wane again prompting investors to resume safe haven bets.

After hitting two and a half month highs of \$1.3739 versus the dollar late last week, the euro fell all the way back to \$1.3433 yesterday with selling seen following the announcement from S&P was cutting Lithuania's sovereign rating and the news from the Czech Republic (which is currently midway through its 6-month EU Presidency) that it has lost a parliamentary confidence vote. Talk of further cuts in eurozone interest rates is also weighing on sentiment, with ECB members commenting that the central bank has not used up all its "room for maneuver". Data released yesterday showed that economic activity in the region remains very weak, despite the modest improvement in the headline PMI surveys. The yen has also climbed versus the euro, getting some respite from multi month lows seen earlier in the week.

Sterling, meanwhile, rose to a six month high of \$1.4778 after UK data showed the annual rate of inflation rose to 3.2% in February compared to forecasts for a fall to 2.6%. It has since conceded some ground but given that it has outperformed the euro there has been a further retreat in the STG/EUR rate to below the Stg0.92p level. Today sees the release of the UK CBI distributive trades survey which will be closely watched for the latest news on high street activity.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.52	1.23	1.77	2.03
JPY	0.48	0.61	0.78	0.94
EUR	1.17	1.56	1.71	1.86
GBP	1.09	1.72	1.94	2.12

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.97	2.25
3 Years	2.32	2.63
4 Years	2.60	2.90
5 Years	2.84	3.14

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

### Today's Opening Rates (Mid-Rate)

USD/EUR	1.3468	NOK/EUR	8.62
GBP/EUR	0.9196	CHF/EUR	1.5235
USD/GBP	1.4641	AUD/EUR	1.936
JPY/USD	97.5	NZD/EUR	2.413
JPY/EUR	131.35	HKD/EUR	10.438
SEK/EUR	10.9648	CAD/EUR	1.6585
DKK/EUR	7.4492	EUR/GBP	1.0868

Indices		Dow	7659.97	-113.50	
FTSE	3911.46	-41.35	ISEQ	2138.83	-24.58
Nikkei	8499.69	153.62	Nasdaq	1516.52	-19.16

### UK CPI Surprises on Upside

	Feb	Jan
<b>CPI</b>		
Month-on-Month	0.9	-0.7
Year-on-Year	3.2	3.0
<b>Core CPI (ex energy, food, alcohol &amp; tobacco)</b>		
Month-on-Month	0.7	-0.8
Year-on-Year	1.6	1.3
<b>RPI</b>		
Month-on-Month	0.6	-1.3
Year-on-Year	Unch	0.1

The year-on-year inflation rate in the UK actually rose to 3.2% in February, compared to expectations for a fall to 2.6%, meaning that the downward spiral in UK prices is nothing like as severe as what we are seeing elsewhere in Europe, including Ireland. This requires the Bank of England to write to the Chancellor to explain why the CPI was more than one percent above target. BoE Governor Mervyn King said that the increase may be a temporary move due to sterling weakness. He believed that the CPI was likely to renew its sharp fall in the coming months due to lower energy prices and weak demand given that the economy is in recession. Indeed, the CPI could fall into negative territory before year end.

