



## Yen Falls Back After Sharp Rally

Risk sentiment remains the dominant theme. Yesterday saw the yen gain some 2% against both the dollar and the euro as markets fretted about global economic prospects and that recovery optimism had been overdone. The yen, though, has fallen back from these highs with Japanese investors bargain hunting in foreign currencies and with the view that the global economy is not as bad as the risk aversion underlying the sharp appreciation of the yen implies. Indeed, overnight, the IMF has said that it sees a slow recovery in the world economy, upgrading somewhat its growth forecasts for 2010.

Swings in risk sentiment are also driving moves in euro-dollar. However, risk aversion losses by the single currency yesterday were limited by the better than expected German industrial production data (see feature box) and as traders await the communiqué from the G8 meeting and with the US reporting season looming.

Risk sentiment looks set to dominate trading again today with both the euro and sterling regaining some ground against the dollar overnight as risk aversion ebbs. The calendar is yet again shy of economic releases.

Sterling had yesterday hit a one month low against the dollar. This was despite the news before the session from Nationwide of an improvement in consumer sentiment with Tuesday's weak manufacturing data continuing to depress sentiment and risk aversion trades dominating. Halifax data showing a slight fall in house prices in June had little impact.

The BoE ends its two day meeting today. No change in rates is expected and focus will be on whether the MPC extends its QE activities. We suspect not at this point, given that its target of asset purchases of £125 billion is unlikely to be met until the end of August.

**Jenny Pollock, AIB Global Treasury**

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.30	0.53	1.01	1.49
JPY	0.23	0.44	0.68	0.86
EUR	0.66	1.03	1.25	1.44
GBP	0.62	1.08	1.31	1.61

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.67	2.04
3 Years	2.13	2.71
4 Years	2.49	3.19
5 Years	2.77	3.47

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

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

USD/EUR	1.3934	NOK/EUR	9.085
GBP/EUR	0.8641	CHF/EUR	1.5142
USD/GBP	1.6122	AUD/EUR	1.7812
JPY/USD	93.18	NZD/EUR	2.216
JPY/EUR	129.82	HKD/EUR	10.7984
SEK/EUR	11.038	CAD/EUR	1.6188
DKK/EUR	7.447	EUR/GBP	1.1569

Indices		Dow	8178.41	21.39	
FTSE	4140.23	-46.77	ISEQ	2661.39	12.72
Nikkei	9548.81	-65.83	Nasdaq	1747.17	-8.83

### Strong Rise in German Industrial Output

May's industrial production data for Germany turned out to be much stronger than had been expected, following on from Tuesday's good manufacturing orders data and bolstering hopes that Europe's largest economy may be starting to recover from the worst of its deep recession.

Figures released yesterday showed that industrial output rose by 3.7% in the month of May compared to expectations for a much more modest 0.5% increase. Not only did the May increase more than reverse the 2.6% fall in April (revised from an earlier reported 1.9% drop) it was the strongest monthly gain since August 1993. While there were marked falls in energy and construction output in May these were more than offset by a 5.1% increase in manufacturing with, notably, a 8.3% rise in capital goods.

In contrast, however, Japanese core machinery orders (which exclude volatile orders for ships and electric power companies) fell by a worse than forecast 3.0% in May. Expectations had been for a 2% rise. The May decline was the third consecutive fall in orders (following on a 5.4% drop in April and 1.3% in March) and brought orders to their lowest level on record. Core machinery orders are seen as a good gauge of future business investment, suggesting that capital spending in Japan will take a long time to recovery. While manufacturing orders are showing signs of bottoming out, non-manufacturing orders were particularly weak, reflecting concerns over Japanese domestic demand.



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