



All Eyes on Central Banks

The dollar has largely maintained its gains against the euro and sterling, seen in the wake of last Friday's better than expected US non-farm payrolls numbers. Yesterday saw no new factors to drive the dollar as markets await this evening's crucial policy statement from the Federal Reserve. There is speculation that the Fed will adopt a more optimistic tone about recovery prospects, particularly following last week's better than anticipated labour market data. The Fed, though, is likely to want to quash speculation about an early tightening in monetary policy.

Reaction to the FOMC statement may help to confirm whether or not there has indeed been a shift in market sentiment away from seeing the dollar as a safe haven currency towards economic prospects as the currency's main driver. However, while the dollar may be decoupling from risk sentiment the yen continues to benefit from an increase in risk aversion. It made broad gains yesterday and overnight with stock markets under pressure on caution ahead of this evening's Fed statement.

Sterling, meanwhile, maintains a weaker tone on nervousness ahead of today's BoE Quarterly Inflation report, failing to take any support from the positive pre-opening survey data on the housing market and retail sales from RICS and the BRC, respectively. Markets are expecting a dovish tone to today's Inflation Report as explanation for the MPC's decision last week to extend its QE measures by an unexpected £50 billion. Labour market data to be released ahead of this could well add to pressures on sterling with another rise expected in the level of unemployment.

Jenny Pollock, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.27	0.45	0.89	1.51
JPY	0.21	0.40	0.63	0.83
EUR	0.52	0.88	1.13	1.35
GBP	0.57	0.83	1.05	1.36

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.95	2.20
3 Years	2.39	2.92
4 Years	2.71	3.38
5 Years	2.94	3.65

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.4122	NOK/EUR	8.8146
GBP/EUR	0.8588	CHF/EUR	1.5293
USD/GBP	1.6443	AUD/EUR	1.7209
JPY/USD	95.46	NZD/EUR	2.133
JPY/EUR	134.83	HKD/EUR	10.9462
SEK/EUR	10.3765	CAD/EUR	1.5596
DKK/EUR	7.4448	EUR/GBP	1.164

Indices		Dow	
FTSE	4722.20 -9.36	9337.95	-30.46
Nikkei	10514.74 -6.36	2866.6	-14.13
		1992.24	0.80

More Positive Signs for UK Economy But Dovish Inflation Report Likely

Yesterday's RICS survey showed sentiment in the housing market in July at its highest level for nearly two years with prices being underpinned by lack of supply. Meanwhile, retail sales rose again (by 1.8% YoY) in July according to the British Retail Consortium.

However, both RICS and the BRC surveys had some notes of caution about the outlook with RICS warning that house prices could come under pressure again if more people put their homes on the market and financing conditions and the economy don't improve. Meanwhile, the BRC warned that falling big-ticket item sales indicate that consumers remain uncertain about the economic outlook and nervous about rising unemployment.

Indeed, despite recent data showing that the worst of the recession could be over, today's Quarterly Inflation Report from the BoE is likely to again be relatively dovish. (The May report showed only a slow return to growth and inflation below target in two years.) The MPC would have had the August report's forecasts available to it when it decided last week to increase the amount of QE by an unexpected £50m. Following this announcement a weak report is generally expected.

It will be crucial for sterling, with markets looking, in particular, at: any revisions to the growth forecasts; whether inflation is still forecast below target in two years; and for any hints of further expansion of QE.

