



Volatile Yen Trading

The yen has had a volatile few sessions, driven very much by swings in risk sentiment. While the euro-dollar was trapped within a relatively narrow range to the euro, the yen appreciated against the US and eurozone currencies after the release yesterday of data showing a rise in the number of new jobless claimants in the US which stoked concerns about the US economic recovery. Dollar and euro losses were then, in part, reversed following the more encouraging news from the Philadelphia Fed of stronger than expected manufacturing activity in the region and with the Dow Jones putting in another good performance.

The yen, though, surged again overnight to hit a one month high to the dollar. Risk aversion was heightened by some profit taking in Asian stock markets and caution, in particular, about Chinese stocks following reports about Chinese measures to tighten bank's capital rules. However, with Chinese shares bouncing back from an early sell off, the yen is off its highs.

Initial focus today will be on the eurozone with the release of the flash August PMIs. While these are expected to show further recovery, it is anticipated that they will remain below the key 50 level, leaving them still in recession territory. The other release of note today is the existing home sales number from the US. A speech by Bernanke, the first such for some time, will also be closely followed.

Sterling, meanwhile, was broadly weaker yesterday as the poor public finance data outweighed better than expected retail sales numbers (see feature box). Data showing a fall in lending to business also weighed. With no UK data today to provide fresh direction, negative sentiment towards the currency may continue.

Jenny Pollock, AIB Global Treasury

Today's Opening Rates (Mid-Rate)

USD/EUR	1.4234	NOK/EUR	8.6032
GBP/EUR	0.865	CHF/EUR	1.5144
USD/GBP	1.6456	AUD/EUR	1.7215
JPY/USD	93.73	NZD/EUR	2.108
JPY/EUR	133.44	HKD/EUR	11.0334
SEK/EUR	10.213	CAD/EUR	1.5518
DKK/EUR	7.4434	EUR/GBP	1.1556

Indices		Dow	9350.05	71.50
FTSE	4756.58	66.91	ISEQ	2944.57
Nikkei	10254.53	-65.97	Nasdaq	1989.22
				21.65

UK Retail Sales Hold Up... But Public Finances a Concern

Official data show that UK retail sales are holding up remarkably well. The volume of sales rose by a greater than expected 0.4% in July after the impressive (upwardly revised) 1.3% increase in June. Sales rose by 3.3% y-o-y in July, the strongest increase since May 2008.

Particularly encouraging is the fact that the sales growth in July was driven by discretionary spending, notably on furniture and electrical goods reflecting the modest upturn in housing market activity. The extent that retailers have had to discount to achieve sales, however, is illustrated by a fall in the sales deflator, which, at -0.7%, is at its lowest level since December.

While the retail sales figures are good news in the near term, looking ahead, a number of factors threaten the outlook for consumer spending. One of these is still rising unemployment. The other is the poor state of the public finances. Yesterday's borrowing figures for July highlight the need for tax hikes or spending cuts in the next few years.

The public sector borrowed £8.0bn in July, far more than the expected £0.5bn as a result of, in particular, a large decline in corporate tax receipts (-38% y-o-y) plus higher welfare costs.

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.27	0.41	0.81	1.38
JPY	0.20	0.39	0.61	0.82
EUR	0.50	0.85	1.11	1.33
GBP	0.55	0.73	0.94	1.25

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.80	2.00
3 Years	2.23	2.72
4 Years	2.53	3.19
5 Years	2.78	3.49

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



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