



Dollar on the Defensive

The dollar hit yearly lows of \$1.4535 versus the euro yesterday, as it was sold against a background of rising stocks and commodity prices. Investor sentiment was lifted once again by growing expectations for a global economic recovery, with gold rising above \$1,000 an ounce, while oil prices surged above the \$70 per barrel level. Better than expected economic data from Germany and the UK added to a generally positive tone. Renewed concerns about the dollar's status as the number one world reserve currency also weighed on the USD, which came under pressure versus other majors including sterling and the yen.

Cable saw highs of \$1.6587, its best level in two weeks, as data showed UK industrial production increasing by 0.9% in July, its fastest rate of growth for a year and a half. Meanwhile, the Nationwide's survey of consumer confidence released overnight saw sentiment at a 15 month high, driven by expectations of a global economic recovery. Modest gains were also seen versus the euro as the case for a UK recovery continues to build.

Some dollar respite was seen overnight as global stock markets consolidated on recent gains. However, the US currency is expected to remain under pressure for now as the global economy continues to claw its way out of recession. There is fresh talk of a move to \$1.50 by the euro, though this may be a move too far for the ECB and the eurozone economy as it struggles to get back on its feet. The US and eurozone calendars are light on any top tier economic data again today but markets will be paying close attention to this evening's release of Fed's Beige Book as well as a policy announcement from the Reserve Bank of New Zealand.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.25	0.30	0.70	1.28
JPY	0.18	0.37	0.58	0.81
EUR	0.46	0.79	1.06	1.27
GBP	0.52	0.65	0.86	1.18

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.66	1.91
3 Years	2.11	2.62
4 Years	2.45	3.05
5 Years	2.72	3.32

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.4506	NOK/EUR	8.5855
GBP/EUR	0.8764	CHF/EUR	1.5168
USD/GBP	1.655	AUD/EUR	1.6839
JPY/USD	92.43	NZD/EUR	2.080
JPY/EUR	134.11	HKD/EUR	11.2434
SEK/EUR	10.1981	CAD/EUR	1.5617
DKK/EUR	7.4432	EUR/GBP	1.1407

Indices		Dow	9441.27	95.91	
FTSE	4933.18	81.48	ISEQ	3066.61	30.64
Nikkei	10353.51	32.38	Nasdaq	2018.78	31.80

Strong Auto Production Fuels Jump in UK Manufacturing Output

UK manufacturing production rose by 0.9% in July, its biggest monthly rise since January 2008. Expectations had been for a much more modest 0.3% increase in production in the month.

One of the main reasons for the increase was a 10.4% rise in motor vehicle production, an indication of the boost to the sector from the car scrappage scheme. The manufacturing sector is also probably benefiting from the weakness of sterling which is helping competitiveness as well as from a pick-up in demand in overseas markets.

Overall industrial production, which includes output from the energy sector, rose by 0.5% on the month. Again this was far stronger than the anticipated 0.2% monthly increase and follows a strong 0.6% rise in output in June.

These data add to the growing evidence that the UK economy will return to a positive growth in Q3. Even if industrial production were to remain unchanged in August and September, the strength of the July figures mean that the sector would record growth of around 0.8% in the third quarter, adding some 0.2% to overall GDP growth. Furthermore, business surveys, such as the CIPS/PMI survey, point to further monthly gains by the manufacturing sector.



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