



Dollar Hits New 2009 Lows Versus Euro

The dollar fell to yearly lows versus a basket of currencies in early morning trade, remaining under pressure as more confident investors continued to move to riskier assets such as stocks, commodities and higher yielding currencies on further signs of a global economic recovery. Optimism was fuelled by a stronger than expected US retail sales report for August, which showed sales growing 2.7% over the month, their fastest rate in three and a half years, as well as a surge in September's Empire State Index and supportive comments from the Fed's Bernanke.

The euro pushed towards the \$1.47 level, hitting a fresh 2009 high, with its next target seen at \$1.4720. The dollar even remained on the backfoot against the similarly low-yielding yen as low US yields fuelled speculation the US currency was quickly becoming the preferred funding currency for carry trades. Comments from Japan's incoming Finance Minister that a strong currency has its merits for the economy also weighed on the USD.

Sterling, however, struggled to make any further headway versus the USD, currently trading well off the highs of \$1.6685 seen earlier in the week after being hit by dovish comments from the Bank of England's King as he delivered testimony before parliament. Fuelling speculation of further extraordinary measures in order to meet its inflation objectives over the medium term, King said that the MPC was looking at the merits of reducing the interest rate it pays on commercial banks reserves, thus providing a disincentive for financial institutions to hoard cash. The comments also pushed sterling lower versus the euro, which is trading back above the Stg0.89p level.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.24	0.29	0.68	1.26
JPY	0.18	0.35	0.56	0.80
EUR	0.45	0.77	1.04	1.26
GBP	0.51	0.61	0.82	1.15

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.66	1.82
3 Years	2.13	2.52
4 Years	2.47	2.96
5 Years	2.74	3.25

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.4687	NOK/EUR	8.6004
GBP/EUR	0.8919	CHF/EUR	1.5165
USD/GBP	1.6465	AUD/EUR	1.6941
JPY/USD	90.57	NZD/EUR	2.073
JPY/EUR	133.06	HKD/EUR	11.3829
SEK/EUR	10.176	CAD/EUR	1.5728
DKK/EUR	7.4422	EUR/GBP	1.1208

Indices		Dow	9626.80	28.72	
FTSE	5018.85	7.38	ISEQ	3273.62	13.69
Nikkei	10255.73	-186.26	Nasdaq	2091.78	25.63

UK CPI Proves Higher than Expected Again in August

	Aug	July
CPI		
Month-on-Month	0.4	unch
Year-on-Year	1.6	1.8
Core CPI		
Month-on-Month	0.6	unch
Year-on-Year	1.8	1.8
RPI		
Month-on-Month	0.5	unch
Year-on-Year	-1.3	-1.4

UK inflation fell to its lowest level in over three years in August but the rate of decline in the annual CPI still disappointed markets. The annual rate fell to 1.6%, down from 1.8% in July and June. However, markets had been expecting a drop to 1.4%. Inflation in the UK has proved to be stickier than in other eurozone countries, including Ireland, with the relative weakness in sterling having some impact. However, despite the "stickiness" of the UK CPI, the MPC is still projecting a below target inflation rate over its two year policy horizon. Thus, with downside risks remaining on the growth front and inflation projected to be below target over the next two years, any tightening of monetary policy, either through a rise in official interest rates or the reversal of QE activities, looks to be some way off.

