Morning Comment

Thursday, 24th September 2009 07.27am GMT

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AIB Global Treasury Services

Dollar Higher in Volatile Trading

The dollar firmed slightly in a subdued European session yesterday as caution ahead of the FOMC statement saw a weaker tone to US stock prices. The US currency initially hit a new one year low to euro in the immediate aftermath of the Fed announcement as stocks reacted positively to the Fed's commitment to low interest rates and somewhat more optimistic view of the economy (see Feature Box). The dollar then bounced higher as stocks turned lower on profit taking with the Fed also saying that it would slow the purchase of mortgage debt to extend the programme's life until the end of March, which was interpreted as a possible first step towards the removal of its monetary stimulus.

While there was nothing in the Fed statement to fundamentally change the dollar's recent weaker tone, profit taking from recent over extended risk positions may continue to provide near term support to the US currency. Focus today will also be on the September German Ifo index along with US weekly jobless numbers and existing home sales data.

Sterling meanwhile took support yesterday from the fact that the Bank of England minutes showed a unanimous vote to keep the asset purchase programme at £175bn in contrast to the August meeting at which some members had voted for an increase in the bank's quantitative easing measures. The minutes again indicate that UK interest rates will remain at low levels for some time while the door has been left open for an extension of the asset purchase programme. While failing to hold all of its gains against the euro, sterling is trading back close to the Stg90p level.

Jenny Pollock, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	**1**	**3**	**6**	**12**
USD	0.25	0.29	0.66	1.26
JPY	0.18	0.35	0.55	0.80
EUR	0.45	0.75	1.03	1.25
GBP	0.50	0.56	0.76	1.10

LONG TERM INTEREST RATES		
Term	**EURO (Annual)**	**GBP**
2 Years	1.67	1.92
3 Years	2.13	2.63
4 Years	2.48	3.13
5 Years	2.75	3.39

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.4737	NOK/EUR	8.551
GBP/EUR	0.9008	CHF/EUR	1.5132
USD/GBP	1.6364	AUD/EUR	1.6856
JPY/USD	90.78	NZD/EUR	2.041
JPY/EUR	133.78	HKD/EUR	11.4208
SEK/EUR	10.1131	CAD/EUR	1.5823
DKK/EUR	7.4421	EUR/GBP	1.1099

Indices			**Dow**	9748.55	-82.08
FTSE	5139.37	-3.23	**ISEQ**	3404.36	18.82
Nikkei	10379.21	70.55	**Nasdaq**	2131.42	-21.01

US Federal Reserve Sees Economy Picking Up

As it concluded its two-day policy meeting yesterday, the US Federal Reserve elected to leave US monetary policy on hold, a move that was in line with market expectations. It also showed little sign of a move towards exiting from its accommodative policy stance for some time as risk remains for the economy.

In terms of its statement the Fed said that data suggests that economic activity has picked up following its severe downturn. Meanwhile, conditions in financial markets have improved further and activity in the housing sector has increased. Household spending seems to be stabilizing, but is likely to be constrained by ongoing job losses, sluggish income growth, lower housing wealth and tight credit. Businesses are still cutting back on fixed investment and staffing, though at a slower pace; they continue to make progress in bringing inventory stocks into better alignment with sales. Fiscal and monetary stimulus and market forces will support a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability. At the same time, with substantial resource slack likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time. In these circumstances, the Federal Reserve will continue to employ a wide range of tools to promote economic recovery and to preserve price stability, including leaving the Fed funds rate at 0 to 0.25%.