

Morning Comment

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AIB Global Treasury Services



Dollar Maintains Weak Tone

The dollar maintains its weak tone going into the weekend with the euro holding above the \$1.50 level following an overnight high of \$1.5060. Sentiment continues to be supported by gains in stocks, with the Dow closing up following better earnings reports from 5 listed companies. The dollar also remained under pressure as comments from the Chicago Fed President, Charles Evans, supported the markets view that US interest rates will remain low for a long time. According to Evans, the central bank's main focus right now is keeping the economic recovery on track and it is thus not in any rush to pull back its extensive support. The focus will turn to Europe this morning with the release of the eurozone flash PMIs for October scheduled, as well as the German Ifo for the same month. The data will be important in terms of setting the tone for the day, with markets looking for further signs of a confirmation of a return to growth in the eurozone.

Early morning trade saw sterling rise to its highest level in a month versus the USD, while also holding firm against the euro. Markets are anxiously awaiting this morning's release of the first look at UK GDP numbers for Q3, which are expected to show a return to growth after 5 consecutive quarters of contraction. Already supported by a growing view that the BoE may not extend its QE activities in November (though yesterday's comments from BoE deputy governor, Paul Tucker, have cast some fresh doubt on this), sterling could extend its gains versus the USD and EUR if the GDP number is good. A weak number, however, is likely to prompt a hasty retreat by the GBP. Markets are anticipating a 0.2% increase over the quarter, following a 0.6% contraction in the previous three month period.

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| SHORT TERM INTEREST RATES | | | | |
|---------------------------|------|------|------|------|
| Months | 1 | 3 | 6 | 12 |
| USD | 0.24 | 0.28 | 0.58 | 1.23 |
| JPY | 0.16 | 0.33 | 0.53 | 0.76 |
| EUR | 0.43 | 0.73 | 1.02 | 1.25 |
| GBP | 0.51 | 0.60 | 0.80 | 1.17 |

| LONG TERM INTEREST RATES | | |
|--------------------------|------------------|------|
| Term | EURO (Annual) | GBP |
| 2 Years | 1.89 | 2.03 |
| 3 Years | 2.31 | 2.69 |
| 4 Years | 2.62 | 3.09 |
| 5 Years | 2.86 | 3.38 |

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

Today's Opening Rates (Mid-Rate)

| | | | |
|---------|---------|---------|---------|
| USD/EUR | 1.4992 | NOK/EUR | 8.3105 |
| GBP/EUR | 0.9016 | CHF/EUR | 1.5106 |
| USD/GBP | 1.6623 | AUD/EUR | 1.6188 |
| JPY/USD | 91.86 | NZD/EUR | 1.987 |
| JPY/EUR | 137.7 | HKD/EUR | 11.6205 |
| SEK/EUR | 10.2345 | CAD/EUR | 1.5764 |
| DKK/EUR | 7.4433 | EUR/GBP | 1.1085 |

| Indices | | Dow | 10081.3 | 135.13 |
|---------|----------|--------|---------|---------|
| FTSE | 5207.36 | -50.49 | ISEQ | 3181.77 |
| Nikkei | 10251.09 | 41.00 | Nasdaq | 2165.29 |
| | | | | 18.57 |

UK Retail Official Retail Sales Data Dissapoint

Disappointing UK official retail sales figures for September contributed to pressures on sterling yesterday. Sales volumes were flat on the month for the second month in a row. This was weaker than the 0.5% growth that had been expected following the earlier reported CBI and BRC surveys for the month. Sales in September were 2.4% higher than year earlier levels (up from +2.2% yoy in August) which was again weaker than forecasts, which had been for growth of 2.8% yoy.

While consumer confidence has improved (helped by signs of recovery in the housing market, stronger stock prices and slowdown in the pace of deterioration in the labour market) this is not apparently, as yet, being translated into high street sales with employment concerns still inhibiting consumer demand. Markets will now be looking to see whether there is any pick-up in consumer spending in the closing months of the year.

Sales for Q3 as a whole were up 0.9% with the benefit of the carry over effect from strong June sales, compared to +0.8% in Q2. The retail sector should thus make a small positive contribution to an overall very modest improvement in overall GDP growth in Q3 that is expected to be revealed in today's data.



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