

## US GDP Data Boosts Risk Appetite

Risk appetite improved again yesterday, on the back of better than expected US Q3 GDP data (see feature box) which eased some of the concerns about the strength of the global economy and saw the US Dow Jones index record a gain of over 2% on the day. With the euro retaining its role as a proxy for risk sentiment, the single currency rose against the yen and the dollar, against which it now trading back above the \$1.48 level.

However, with US growth in Q3 boosted by government incentives, doubts remain about the sustainability of the global recovery leaving majors drifting sideways overnight after the initial surge in risk appetite trades.

Crucial now is whether global growth can maintain its recovery as the impact of stimulus packages wanes. This will increase the focus on lead indicators of Q4 activity and confidence such as today's October US Chicago PMI and final Michigan consumer sentiment reading.

Sterling, meanwhile, benefited from yesterday's improved risk appetite and as traders unwound some of the short positions in the currency entered into following last week's very disappointing UK GDP data. However, while sterling has retained gains against the broadly weaker dollar it failed to hold yesterday's six week high against the euro of Stg£0.8912. However, there appears to be some early morning support from Nationwide's report of the sixth consecutive monthly increase in UK house prices to give the first annual rise since March 2008. The main domestic focus for sterling, however, remains whether or not the BoE will vote to extend its QE programme when it meets next week.

**Jenny Pollock, AIB Global Treasury**

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.24	0.28	0.56	1.20
JPY	0.16	0.33	0.53	0.75
EUR	0.43	0.72	1.00	1.24
GBP	0.51	0.59	0.80	1.17

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.85	1.96
3 Years	2.29	2.62
4 Years	2.60	3.04
5 Years	2.84	3.31

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

### Today's Opening Rates (Mid-Rate)

USD/EUR	1.4821	NOK/EUR	8.3835
GBP/EUR	0.895	CHF/EUR	1.5098
USD/GBP	1.6556	AUD/EUR	1.6247
JPY/USD	91.17	NZD/EUR	2.034
JPY/EUR	135.16	HKD/EUR	11.4865
SEK/EUR	10.384	CAD/EUR	1.5851
DKK/EUR	7.443	EUR/GBP	1.1168

Indices		Dow	9962.58	199.67
FTSE	5137.72	57.30	ISEQ	2937.12
Nikkei	10006.84	-50.47	Nasdaq	2097.55
				20.51

### US Economy Rebounds In Q3 Boosted by Stimulus Package

The advance estimate of US GDP for Q3 indicates that the economy grew at an annualised rate of 3.5% in the quarter, above consensus forecasts of +3.3%. This represents the first quarter of positive growth since the third quarter of 2007 and marks a strong rebound from the 0.7% contraction registered in Q2 this year.

Consumer spending and home building performed strongly in Q3, fuelled by the government stimulus package. Helped by the "cash for clunkers" scheme, consumer spending on motor vehicles and parts was up by an annualised +56.4%, compared to -6.3% in Q2. Meanwhile, residential investment (+23.4%) recorded its first quarterly increase since Q4 2005, boosted by the \$8,000 tax credit for first-time buyers. However, the auto discount programme ended in August. Meanwhile, the home tax credit is due to expire in November, though Congress is looking at an extension. There are thus significant concerns about the strength of the recovery as the impact of the stimulus measures wanes. Indeed, stripping out the auto sector, growth in Q3 would have been a much more modest +1.9%.

Meanwhile, business investment remained weak in Q3 (-2.5%) while a slower rate of inventory liquidation also added to GDP growth. Thus, while, stronger than had been anticipated, these data are unlikely to result in any significant change in Fed thinking and we still expect US official rates to remain on hold for some considerable time yet.



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