



Currencies on Hold Ahead of US Payrolls

The euro traded higher versus the USD as markets reacted to yesterday's relatively more positive comments at the ECB's press conference. Although the central bank is showing no signs of moving towards increasing official interest rates, there were references to plan to withdraw extra liquidity measures in a timely manner. \$1.49, however, continues to be a tough hurdle for the euro as markets await today's release of the US non-farm payrolls report for October. With traders in a cautious mood, overnight activity was described as generally subdued. Expectations are for a fall of 175,000 in the payroll, compared to a drop of 263,000 in September, with the unemployment rate predicted to rise to 9.9%. Sentiment is generally positive ahead of the release though (as reflected in higher Asian stocks overnight) on talk that the data could surprise positively. A good number could see the euro push towards the \$1.50 level going into the weekend but a rise in unemployment to 10% would hit risk appetite.

Sterling held up well versus the dollar and euro in the face of the Bank of England's decision to leave interest rates on hold but expand its QE programme by Stg25bln to Stg200bln. In fact, the GBP jumped to a two week high versus the USD following the decision as some in the market place had predicted a bigger increase of up to Stg50bln. A better than expected UK industrial production report for September also helped sentiment, as did a general sell-off in the USD. The euro meanwhile, fell as low as Stg0.8931p before settling back to trade around the Stg0.895p level. With the exception of the PPI report for October, there are no UK data due for release today with the focus clearly on the afternoon's US non-farm payrolls report.

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SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.24	0.28	0.55	1.17
JPY	0.16	0.32	0.53	0.75
EUR	0.43	0.72	1.00	1.24
GBP	0.51	0.60	0.82	1.19

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.83	2.07
3 Years	2.28	2.76
4 Years	2.60	3.20
5 Years	1.83	2.07

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.487	NOK/EUR	8.437
GBP/EUR	0.8952	CHF/EUR	1.5115
USD/GBP	1.6604	AUD/EUR	1.6269
JPY/USD	90.54	NZD/EUR	2.054
JPY/EUR	134.63	HKD/EUR	11.5239
SEK/EUR	10.3844	CAD/EUR	1.5816
DKK/EUR	7.4416	EUR/GBP	1.1163

Indices		Dow	9802.14	34.84	
FTSE	5107.89	70.68	ISEQ	2923.82	114.05
Nikkei	9803.50	59.03	Nasdaq	2055.52	-12.04

ECB to Leave Rates on Hold For Some Time

As expected, the European Central Bank left its refi rate unchanged at 1% again yesterday, having reduced this key official interest rate by a total of 3.25% between October 2008 and May this year. The ECB also left its overnight deposit rate unchanged at 0.25%. A further cut in interest rates is most unlikely, with leading economic indicators picking up in the eurozone and elsewhere. Indeed, it is likely that the eurozone economy returned to growth in the last quarter. Thus, the 1% level is expected to be the trough for the refi rate in this cycle.

However, the ECB is not in any hurry to tighten monetary policy. While the recession has proved very deep, the recovery in activity is expected to be at a gradual pace, leaving the economy with a large amount of spare capacity for a prolonged period. Thus, price pressures are expected to remain very subdued. The weak growth of monetary indicators also points to continuing low inflation rates. The ECB statement noted that uncertainty about the recovery remains high as a number of the supporting factors are of a temporary nature. It adds that the economy is likely to be affected over the medium term by the process of ongoing balance sheet adjustment. For full details of our latest view on ECB monetary policy see our "ECB Watch" report under "Other Economic Research" on our website, www.fxcentre.com.

