



Euro Slips as Risk Appetite Falters

The euro was strong across the board yesterday, reversing losses suffered earlier in the week, with the USD/EUR rate almost breaching the \$1.50 level. Rather than euro positive news, it was more negative factors hitting other currencies that boosted the euro, particularly in regard to interest rate expectations. The Federal Reserve Bank of St. Louis President, James Bullard, said yesterday that the central bank could keep key short-term fed funds rates at near-zero until early 2012. However, the EUR went on to give up some of its gains overnight as the dollar and yen spiked higher in response to a fall in risk appetite. Equity markets closed down on the day, with some traders reporting that risk momentum was easing a little as the year end approaches and positions are trimmed. Risk associated currencies like the Aussie and New Zealand dollars also fell back versus the USD and yen, though key support levels remained in tact.

The minutes of the MPC meeting in the UK showed the BoE leaving the door open to further policy easing, with rate tightening nowhere in sight. Thus, sterling gave up some of its recent gains against the euro as the dovish tone to the publication weighed. Meanwhile, very weak housing data in the US, following Tuesday's weak manufacturing figures, drove home the point that Fed rate hikes are a long way off. The main data releases today are retail sales figures in the UK, which are expected to be reasonably good, and the latest PSNCR report which should highlight the poor state of the public finances. This afternoon also sees the release of some second-order US data which should point to a continuing recovery in activity. In particular, markets will be looking to leading indicators for October as well as this month's Philly Fed index for direction.

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SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.24	0.27	0.50	1.06
JPY	0.16	0.31	0.51	0.73
EUR	0.43	0.72	0.99	1.22
GBP	0.51	0.61	0.83	1.20

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.69	1.82
3 Years	2.13	2.48
4 Years	2.46	2.92
5 Years	2.73	3.20

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.492	NOK/EUR	8.3814
GBP/EUR	0.8926	CHF/EUR	1.5114
USD/GBP	1.6711	AUD/EUR	1.6138
JPY/USD	88.91	NZD/EUR	2.026
JPY/EUR	132.71	HKD/EUR	11.5639
SEK/EUR	10.2557	CAD/EUR	1.5771
DKK/EUR	7.4405	EUR/GBP	1.1194

Indices		Dow	10437.4	32.65	
FTSE	5345.93	-36.74	ISEQ	2899.81	-57.54
Nikkei	9723.23	-104.65	Nasdaq	2203.78	13.66

Three-Way Split on MPC Over QE

According to the minutes of the November MPC meeting, there was a three way split on what to do in regard to quantitative easing. The majority decision was to increase bond purchases by a further £25 billion to £200 billion. However, an external member, David Miles, voted for a bigger increase of £40 billion. The BoE Chief Economist, though, voted for no change.

Furthermore, the MPC discussed cutting the rate of interest on bank reserves. Overall, the minutes show that the bank has left the door open to do further policy easing. Note though, that, the MPC indicated it would not consider the matter again until February when the BoE does its next set of economic forecasts.

By that stage, it should be clear that the UK economy has emerged from recession, with many indicators pointing to a resumption of growth in the final quarter of this year. Q4 2009 GDP data will be published at end January. Thus, the MPC may decide not to extend its QE programme any further in these circumstances.

What is clear is that any monetary tightening is a long way off, with downside risks to inflation from large amounts of spare capacity and sharp fiscal tightening. The MPC sees inflation at comfortably below 2% in two years time although it will rise temporarily in the near term on a reversal of the cut in VAT.



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