



## Currencies in Tight Ranges Ahead of Payrolls

The euro looks set to finish the week well above the \$1.50 level, buoyed by a general improvement in market sentiment as fears about the Dubai debt situation wane as well as an upgrade in the ECB's outlook for the eurozone. After its meeting yesterday, the ECB outlined plans to gradually withdraw its emergency liquidity support to the market. It also upgraded its growth forecasts for the coming two years, with the relatively upbeat tone of the post meeting press conference pushing the euro to a 16 month high of \$1.5140. At the same time, however, ECB head Jean Claude Trichet went out of his way to point out to markets that the withdrawal of liquidity support should not be seen as any kind of signal on official rates. Thus, the euro has pulled back from its highs this morning.

Market attention has now shifted to this afternoon's November non-farm payrolls report. With many players taking to the sidelines ahead of the key release, major currencies are expected to stick to narrow ranges over the first half of the day at least. The data are expected to show a further easing in the rate of job losses, as well as a stabilisation in the unemployment rate at its 26 year high of 10.2%. Comments from the Fed's Bernanke at yesterday's Congressional hearing showed no indication of a change in policy stance at the US central bank. A disappointing dip in the UK's services PMI survey for November weighed on sterling yesterday, with the data highlighting the fragility of economic recovery. The comments from the ECB that it plans to gradually withdraw its emergency liquidity support to the market also weighed. In contrast, the Bank of England has indicated in recent communication that it remains open to the prospect of providing further support to the economy.

**Geraldine Concagh, AIB Global Treasury**

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.23	0.26	0.49	1.03
JPY	0.17	0.29	0.49	0.70
EUR	0.48	0.72	1.00	1.24
GBP	0.51	0.61	0.84	1.23

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.77	1.73
3 Years	2.15	2.34
4 Years	2.44	2.75
5 Years	2.68	3.02

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

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

USD/EUR	1.5079	NOK/EUR	8.4575
GBP/EUR	0.9086	CHF/EUR	1.5066
USD/GBP	1.659	AUD/EUR	1.6274
JPY/USD	88.16	NZD/EUR	2.081
JPY/EUR	132.96	HKD/EUR	11.6876
SEK/EUR	10.351	CAD/EUR	1.5893
DKK/EUR	7.4414	EUR/GBP	1.1

Indices		Dow	10366.1	-89.48	
FTSE	5313.00	-14.39	ISEQ	2918.23	31.03
Nikkei	5313.00	-14.39	Nasdaq	2173.14	-17.28

### ECB Rates on Hold but Liquidity Support Scaled Down

At its policy meeting today, the ECB again left its refi rate unchanged at 1%. This is a historically low level for the refi rate, which troughed at 2% in the previous cycle in 2003-2005. The ECB also left its overnight deposit rate unchanged at 0.25%. The 1% level is expected to be the trough for the refi rate in this cycle, now that the economy has emerged from recession.

However, the ECB is not in any hurry to tighten policy. The recession has proved very deep and the recovery is expected to be a moderate one as a number of the current supporting factors are of a temporary nature, 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.

However, given improved conditions on financial markets, the ECB is starting the gradual process of withdrawing its non-standard liquidity support measures. Mr Trichet confirmed that the ECB would not be extending its twelve month LTRO past December. Furthermore, the December LTRO would move from the current 1% fixed rate to a variable rate tender. While this move surprised the market, Trichet was at pains to point out that this was not a policy signal. For full details of our view on the ECB meeting and press conference see our "latest topic" on [www.fxcentre.com](http://www.fxcentre.com).



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