



Spike in Risk Aversion Supports Yen

Following yesterday's move back through the \$1.36 level trading in dollar/euro was seen as relatively thin overnight with little to provide fresh direction. Both the euro and the dollar fell back against the yen, however, as stronger than expected Chinese CPI data for February fuelled talk of further credit tightening from the central bank there, with some predicting that an interest rate hike could come as early as April. This caused a spike in risk aversion, with both the EUR and USD sold versus the safe haven yen as a result. The yen is also finding support as the Japanese fiscal year end approaches, though upside momentum could be limited by talk that the Bank of Japan may extend monetary support to the economy. Today's economic calendar is again light of top tier data, which could see majors sticking to familiar territory. Markets though will pay some attention to the latest US weekly jobless claims numbers and to the scale of the US trade deficit for January.

Sterling remains under pressure versus other majors as markets continue to focus on the challenges facing the UK. The currency suffered from yesterday's news of an unexpected fall in UK manufacturing output in January, which just added to the recent stream of disappointing economic news and reflected once again the fact that real economic data is failing to keep up with the scale of optimism seen in survey evidence. Political uncertainties also continue to weigh on the currency as markets contemplate the prospect of a hung parliament and the negative consequences this would have, in particular as regards the urgent need to tackle the UK public finances. Comments from the UK's PM Gordon Brown the UK recovery was still weak are also like to weigh. There are no UK data of note due for release today.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.23	0.26	0.39	0.86
JPY	0.16	0.25	0.45	0.68
EUR	0.41	0.65	0.96	1.22
GBP	0.54	0.64	0.87	1.31

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.57	1.63
3 Years	1.91	2.18
4 Years	2.21	2.62
5 Years	2.49	2.96

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.362	NOK/EUR	8.017
GBP/EUR	0.9106	CHF/EUR	1.4605
USD/GBP	1.4955	AUD/EUR	1.4891
JPY/USD	90.38	NZD/EUR	1.949
JPY/EUR	123.12	HKD/EUR	10.5684
SEK/EUR	9.7284	CAD/EUR	1.3983
DKK/EUR	7.4408	EUR/GBP	1.0976

Indices		Dow	10567.33	7.20	
FTSE	5640.57	38.27	ISEQ	3008.7	25.31
Nikkei	10627.99	8.07	Nasdaq	2358.95	18.00

Unexpected Fall in UK Industrial Production Dents Recovery Hopes

News yesterday of an unexpected fall in UK industrial production in January has dented hopes about the pace of overall UK economic recovery.

The manufacturing sector declined by 0.9% in the month, reversing all of December's gains and well below forecasts for a 0.3% increase in output in the month. This poor January performance, no doubt, is in part a reflection of the bad weather conditions in the month. It may also have been that some manufacturers had hastened production in earlier months in order to have stock on the shelves ahead of January's VAT rate hike.

Overall production by the industrial fell by a more modest 0.4% with the help of solid gains in energy extraction and supply. The data, though, still disappointed expectations of a 0.3% gain in the month.

Continued strong survey data, such as the manufacturing PMI, gives hope of a rebound in manufacturing production in February. However, the weakness of the January numbers gives little encouragement that the recovery in the manufacturing sector or indeed the wider economy is gaining momentum. Indeed, following the release of these figures the NIESR estimate GDP growth in the three months to February at 0.3% which is slightly less than the estimated growth of +0.4% for the three months to January.



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