



Dollar Strengthens on Cautious Bernanke

The euro fell back versus the dollar over much of yesterday, with losses deepening after Fed Chairman Ben Bernanke expressed concern about the outlook for the US economy but stopped short of hinting that further policy easing could be in the pipeline near term. Speaking before the Senate, Bernanke said that the economy faces "unusually uncertain" prospects and the Fed was ready to take further steps to bolster growth if required. However, the lack of detail on what type of measures could be used or indeed whether or not they were actually needed left traders unsure as to the policy outlook. Indeed, the uncertainty created by the remarks saw investors move out of riskier assets into the perceived safety of the USD itself. Falling back towards the \$1.27 level, the euro is also on edge ahead of tomorrow's relapse of European bank stress test results, though the publications could actually lend support to the EUR if they help to clear up some of the concerns out the banking industry. Meanwhile, the USD is hovering close to seven month lows versus the Japanese yen on safe haven plays.

This morning sees the release of the eurozone flash PMIs for July, as well as consumer confidence data for the same month. The indices are all expected to show a slight fall, indicative of a moderation in the growth outlook. This could weigh on the euro. The minutes of the July Bank of England policy meeting suggested a weaker outlook for the UK economy. The news knocked sterling back versus the dollar, with cable slipping to daily lows close to the \$1.51 level. It has since regained some ground, though the weaker growth outlook could weigh going forward. Versus the euro, there was some selling, though trading was confined to a relatively tight range over the day, with sterling holding much of the gains seen since the beginning of the week.

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Today's Opening Rates (Mid-Rate)

USD/EUR	1.2756	NOK/EUR	7.9992
GBP/EUR	0.8413	CHF/EUR	1.3388
USD/GBP	1.516	AUD/EUR	1.4556
JPY/USD	86.38	NZD/EUR	1.789
JPY/EUR	110.2	HKD/EUR	9.9176
SEK/EUR	9.4472	CAD/EUR	1.3377
DKK/EUR	7.4517	EUR/GBP	1.1883

Indices		Dow	10120.53	-105.49	
FTSE	5214.64	75.18	ISEQ	2873.11	53.77
Nikkei	9404.07	33.22	Nasdaq	2187.33	-48.80

BoE Minutes Show Mixed Views on the Economy

The minutes of the July Bank of England policy meeting showed that the monetary policy committee voted 7-1 again last month to leave interest rates on hold at 0.50%, the historically low level that has prevailed for well over a year now. It also voted to leave the stock of asset purchases (or quantitative easing) unchanged at £200 billion. Andrew Sentance again voted for a rate hike, reflecting his view that economic conditions had improved over the past twelve months and inflation risks had shifted to the upside.

However, the minutes show that Sentance appears to have little support from his MPC colleagues, with the committee actually considering arguments in favour of a modest easing in the stance of monetary policy. The softening in the medium term outlook for GDP growth that has emerged over recent months would put further downward pressure on inflation over the central bank's forecast horizon. A further modest monetary stimulus would act to offset this softening in demand and make it more likely that the inflation target would be met in the medium term. The MPC did also discuss the arguments in favour of a modest tightening in monetary policy but the general tone of the minutes suggest that at the very least interest rates will remain on hold at exceptionally low levels for a prolonged period.

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.33	0.51	0.70	1.09
JPY	0.16	0.24	0.44	0.67
EUR	0.63	0.88	1.13	1.40
GBP	0.57	0.74	1.02	1.46

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.34	1.39
3 Years	1.57	1.73
4 Years	1.81	2.08
5 Years	2.05	2.38

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

