



Euro on Edge Ahead of Banking Reports

The euro has recovered from yesterday's early morning sell off versus the USD which saw it fall all the way back to \$1.2740, before better than expected eurozone data and strong US corporate earnings helped to push it back to the \$1.29 level. Both the manufacturing and services eurozone flash PMI's for July accelerated, compared to expectations for a fall back, though some felt that the move upwards may just be a temporary boost as a result of the recent World Cup. Meanwhile, eurozone industrial orders rose at their fastest annual pace in 10 years in May, again ahead of expectations. This morning sees the release of the July German Ifo survey, which is expected to drop back a little, reflecting the impact of the government's fiscal austerity plans on business expectations, though yesterday's numbers suggest scope for an upside surprise.

While the euro is looking firmer this morning, the \$1.30 level continues to allude it, with many traders nervous of pushing the single currency higher ahead of today's release of the European bank stress test results. Markets are generally hoping the results will give the financial system a clean bill of health, easing concerns about the outlook for the region. However, the outcome is still uncertain and indeed sentiment has already been dented by this morning's news that several of Spain's savings banks have failed the test. Sterling got a lift from yesterday's better than expected UK retail sales report for June, which indicated that consumer spending should make a strong contribution to Q2 GDP. The first estimate of growth in the three months to June is due for release this morning, and is expected to show an expansion of 0.6% over the period. This should give the first positive year-on-year growth rate of the current recovery.

Geraldine Concagh, AIB Global Treasury

Today's Opening Rates (Mid-Rate)

USD/EUR	1.2872	NOK/EUR	7.9515
GBP/EUR	0.8418	CHF/EUR	1.3452
USD/GBP	1.5288	AUD/EUR	1.4425
JPY/USD	87.14	NZD/EUR	1.776
JPY/EUR	112.17	HKD/EUR	10.0048
SEK/EUR	9.3986	CAD/EUR	1.3379
DKK/EUR	7.4519	EUR/GBP	1.1873

Indices		Dow	10322.30	200.49	
FTSE	5313.81	99.17	ISEQ	2937.59	62.16
Nikkei	9216.28	-125.24	Nasdaq	2245.89	29.85

UK Retail Sales Better than Expected

% Change	June	May
Monthly Change	0.7	0.8
Yearly Change	1.3	1.7
3 Mth/ 3 Mth	1.7	0.7
3 Mth/ 3 Mth year ago	1.2	1.1

UK retail sales for June released yesterday came in better than expected, with High Street activity boosted by good weather, early summer sales and a rush to buy the latest electronic equipment ahead of the World Cup. Sales volumes were up 0.7% on the month, leaving them 1.3% higher in year on year terms. Core sales, that is sales excluding fuel, were up 1% on the month, the biggest jump in almost a year apart from February's snow-related rebound.

On the basis of the June numbers, sales were up 1.7% in Q2, compared to a drop of 2.5% in the previous quarter. This suggests that even if spending off the High Street (i.e. services related spending) was still weak over the three months to June, strong retail activity should see consumer spending make a strong positive contribution to overall GDP for the period. However, with fiscal tightening coming down the line it is questionable as to whether this strong rate of spending will continue.

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.33	0.50	0.70	1.08
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	1.47

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.34	1.36
3 Years	1.59	1.73
4 Years	1.85	2.08
5 Years	2.09	2.41

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

