



US GDP Data Under The Spotlight

The euro finally managed to breach the \$1.3050 level yesterday, to hit a 12 week high against the dollar of \$1.3106. In addition to the ongoing negative sentiment towards the dollar from the recent string of weak US economic data, there were reports of month end selling of the US currency. Meanwhile, a jump in eurozone economic sentiment to a 28 month high plus a fall in German unemployment supported the positive euro tone.

Overnight comments from the Fed's Bullard about increased risks of deflation and the possible need for further QE measures have added to the pressures on the dollar. It hit an eight month low to the yen overnight, hit also by selling by Japanese exporters. While the dollar has edged off its lows, sentiment remains against the US currency as markets await today's important advance reading of Q2 GDP. This is attracting considerable attention given concerns about the fragility of the US recovery. Annualised growth of 2.5% is expected for the quarter, which is considerably lower than had been forecast some weeks ago.

Sterling has also maintained its recent positive trend against the dollar continuing to take support from recent stronger than expected UK economic numbers. Yesterday it hit a fresh 5 month high against the broadly weaker dollar, though slightly lower against the strong euro. While most UK data have been good, yesterday again saw evidence of renewed weakness in the UK housing market. Mortgage approvals came in below expectations on top of the earlier news from Nationwide of a monthly decline in house prices. Meanwhile, news overnight shows a slump in consumer confidence to an 11 month low in the wake of the June budget leaving sterling again with a slightly weak tone against the euro.

Jenny Pollock, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.31	0.47	0.68	1.05
JPY	0.16	0.24	0.44	0.67
EUR	0.64	0.90	1.15	1.42
GBP	0.57	0.74	1.03	1.48

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.46	1.43
3 Years	1.69	1.81
4 Years	1.94	2.18
5 Years	2.17	2.48

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.3071	NOK/EUR	7.952
GBP/EUR	0.8371	CHF/EUR	1.3626
USD/GBP	1.561	AUD/EUR	1.4519
JPY/USD	86.5	NZD/EUR	1.808
JPY/EUR	113.09	HKD/EUR	10.1524
SEK/EUR	9.451	CAD/EUR	1.3537
DKK/EUR	7.451	EUR/GBP	1.194

Indices		Dow	10467.16	-31.78	
FTSE	5313.95	-5.73	ISEQ	2910.75	-0.77
Nikkei	9653.51	138.80	Nasdaq	2251.69	-27.38

Economic Sentiment in Eurozone Improves

The European Commission's Economic Sentiment Index (ESI) released yesterday showed an unexpected improvement in July, with the headline index increasing to 101.3 from June's (slightly upwardly revised) 99.0. A July reading of 99.0 had been anticipated.

The positive start to the third quarter is another indicator that the eurozone continues to recover from the deep recession and these data are line with last week's gains recorded by the flash readings of the eurozone PMIs.

The gains by the ESI were largely driven by the industrial sector. Here sentiment improved to -4 from -6 as the sector continued to benefit from recovering global demand. Respondents mostly reported substantial improvements in their order books though they remain cautious on their production expectations.

Just as encouraging were an increase in services sentiment from +4 to +6 and in consumer moral from -17 to -14.

The data, though, also highlight the differences within the single currency area. The overall improvement was driven by a strong pick up in sentiment in Germany, where the headline index rose to 110.1 in July from June's 106.1. While there were more modest gains for France and Italy also, the index for Spain fell.

