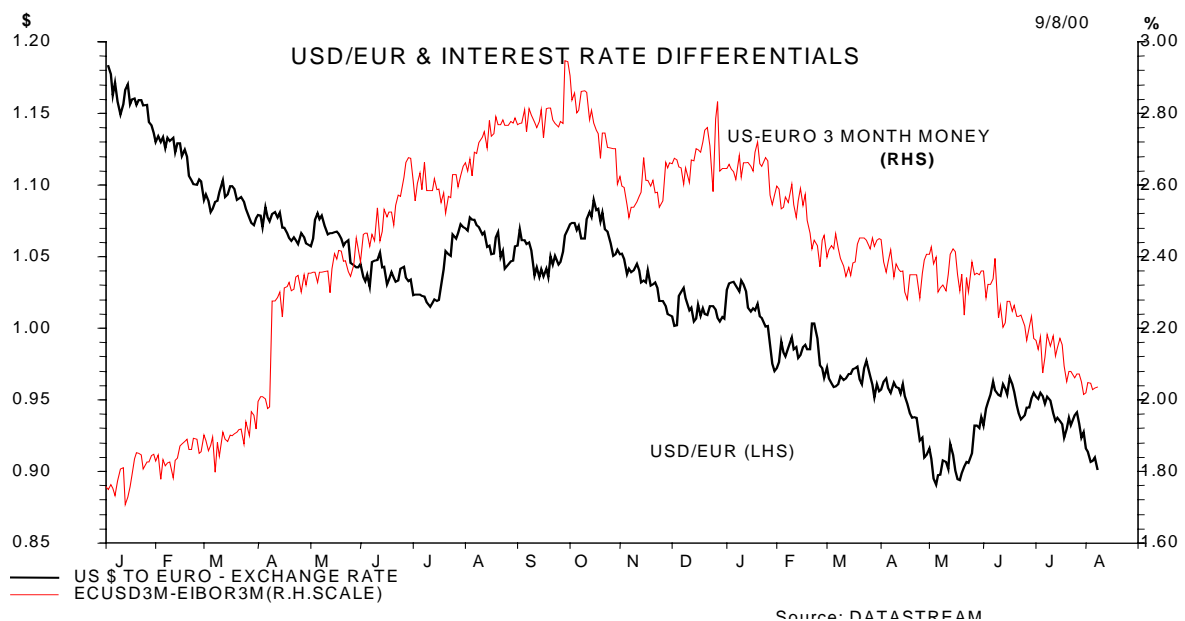


EURO SUFFERS RENEWED WEAKNESS

The euro has suffered renewed weakness as it risks revisiting its previous lows of \$0.8845 reached on 4 May. With thin market conditions likely to persist over most of the next month, fx movements are likely to be exaggerated. Longer term, however, we still see reasons for a recovery in the euro.



The chart above shows how interest rate differentials are moving in a direction more supportive of the euro. However, the gap currently stands at 2 percentage points in favour of the US dollar. If, as is becoming more likely, the FED is on hold and the ECB has further to go (by another 0.5% in 2000 and about 0.75% in 2001), the gap will narrow further in the period ahead. GDP growth differentials should also narrow. None of these factors argue for a significant recovery in the euro, however. A watershed change in sentiment towards the euro is still some way off.

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