AIB Global Treasury
Economic Research

FIXED INCOME MONTHLY MONITOR

JUNE/JULY 2005

BONDS BENEFIT FROM MORE BENIGN RATE VIEW

Bond yields have risen somewhat recently but still remain at exceptionally low levels following the remarkable rally in the last three months. This rally was driven by a marked change in the markets view to a much more benign outlook for interest rates. In the US, the market scaled back its end year expectation for the Fed funds rate by 50bps to 3.75%. In Europe, the market now believes that the next move in UK and eurozone rates could be down rather than up.

In the past fortnight, though, the Fed has been reminding markets that it still has a fair bit more tightening to do. Meanwhile, central bankers in Europe have been indicating that they are likely to stay on hold in the near term. Thus, bond yields have backed up somewhat.

We continue to believe that changes in interest rate expectations are the prime driver of short term movements in bond markets rather than other factors such as pension fund demand, excess savings or central bank purchases. Economic data are the key factor driving interest rate expectations. The decline in leading indicators of activity and a weakening of growth in Q2, especially in the manufacturing sector, have been the catalysts for the more benign interest rate outlook and strong bond rally.

Near term, these more favourable influences may remain in play. Leading indicators point to continuing weakness in the manufacturing sector, while the renewed rise in oil prices may dampen confidence again in the US and weaken sentiment further in Europe. Thus, in the short term, yields may stay close to recent lows.

Later in the year, though, we expect industrial activity to pick up as the inventory correction in the US runs its course and Europe benefits from recent currency weakness. The decline in long term rates over the past year should also help underpin economic activity. The Fed could surprise the markets with greater than expected policy tightening, while rate cut hopes in Europe may fade. Bond yields should rise in these circumstances. We see ten year yields rising to around 4.6% in the US and UK, 3.5% in the eurozone and 1.5% in Japan by year end.

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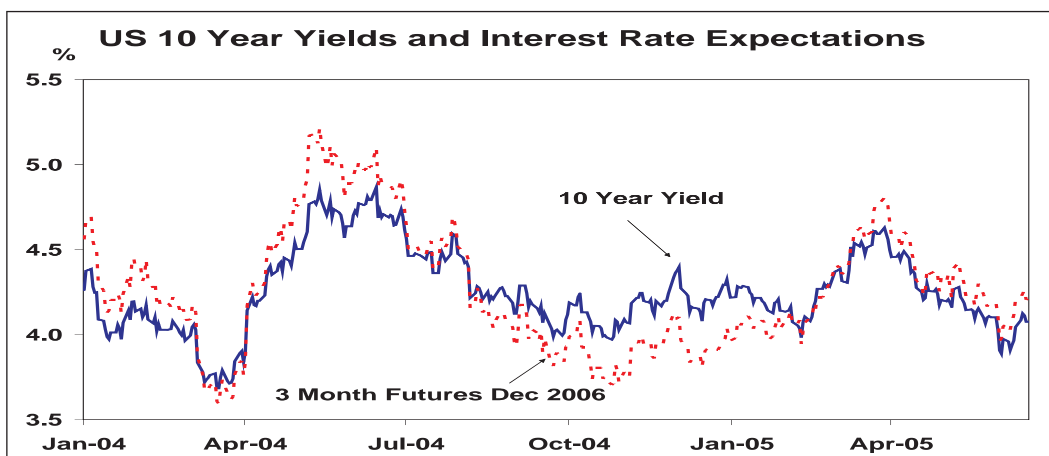


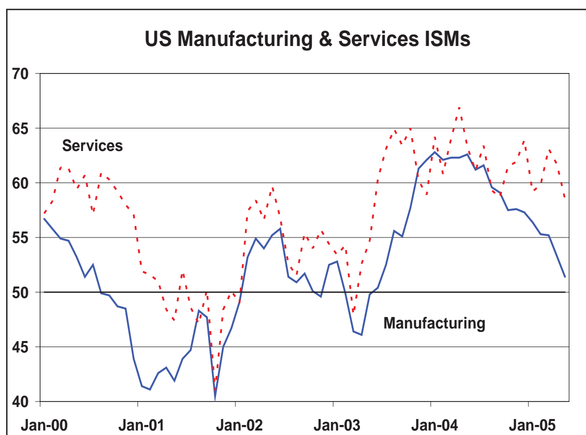
THE US

KEY ISSUES

- ***Growth Outlook:*** The upswing in the economy continues, although activity indicators in the manufacturing sector have softened. GDP growth is likely to be close to trend in 2005, at around 3.5%.
- ***Monetary Policy:*** Fed likely to persist with moderate 25bps rate hikes as it moves to a less acommodatory stance on monetary policy. Fed funds to hit 3.75% by end year and rise further in 2006.
- ***Bond Market:*** Volatile trading in Treasuries year to date. We expect yields to rise in the second half of the year as the Fed continues to tighten policy.

STEADY GROWTH

- GDP rose by 3.5% annualised in Q1. This is close to the GDP growth rates of 4% and 3.8% recorded in the final two quarters of 2004. This is an impressive growth figure for Q1 as activity softened considerably in March, due to the early Easter, poor weather and sharply higher oil prices.
- Growth, though, picked up again in April with notable rebounds in retail sales, housing starts, exports and employment. GDP should post another solid rise in Q2, although it may be depressed somewhat by a slowdown in inventory accumulation.
- There are concerns about the weakening of some leading indicators of activity. The ISM for manufacturing has fallen steadily over the past year. Recent regional manufacturing surveys have also shown signs of weakness. The slowdown in manufacturing appears to be due to an inventory correction. Activity in the sector should pick up later in the year as inventories are depleted. Indeed, manufacturing output rose strongly in May.
- Meanwhile, the recent recovery in consumer confidence augurs well for the economy. The labour market also continues to improve with solid jobs growth, relatively low jobless claims and a decline in the unemployment rate to 5.1%. A buoyant housing market is also helping to underpin consumer spending.
- Overall, most sectors of the economy continue to register solid growth. With monetary conditions, helped by the decline in long term rates, still quite accommodatory, our view remains that GDP growth will average close to 3.5% in 2005 and 2006.



US Macro Forecasts

	2004	2005	2006
GDP Growth	4.4	3.5	3.5
CPI Rate	2.7	2.8	2.5
Unemployment Rate	5.5	5.1	4.9
Federal Budget Bal. *(1)*	-3.5	-2.9	-2.7
BOP *(1)*	-5.7	-6.2	-6.0

(1) % of GDP

RISE IN INFLATIONARY PRESSURES

- High oil prices have kept headline CPI inflation at around 3% since October. The core CPI rate accelerated from 1.1% at end 2003 to 2.2% at end 2004. It was still running at 2.2% in May 2005. The core PCE deflator has been stable at around 1.6-1.7% yoy since last autumn, having accelerated in the first half of 2004.

- The continuing low level of core PCE inflation is impressive given that high commodity prices, the surge in energy prices, rebounding car prices, slowing productivity and a pick up in unit labour costs are all contributing to a disimprovement in the general inflation environment. The core PPI rate has also picked up significantly in the past eighteen months.

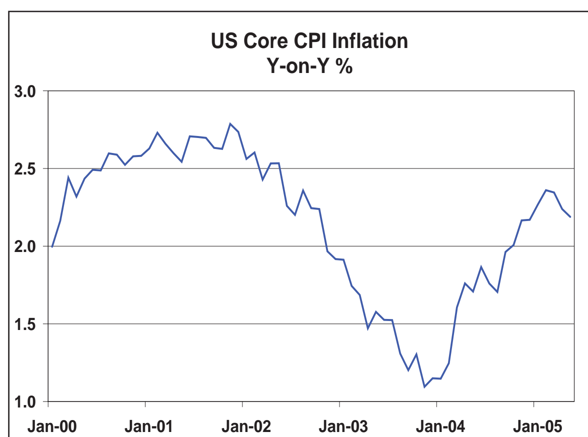
- Despite the increasing price pressures, inflation should be fairly well behaved in 2005. GDP growth is expected to be around trend levels. Strong profits mean that corporates should be able to absorb higher input and unit labour costs. Nevertheless, reflecting the pick up in inflationary pressures, especially for goods, the rate of core PCE inflation could rise to 2% in 2005.

STEADY RATE TIGHTENING PATH

- As expected, the Fed hiked rates by 25bps at an eighth consecutive FOMC meeting in May, taking the funds rate up to 3%. Fed officials continue to highlight that policy is still accommodatory. Greenspan recently reiterated that the policy accommodation can continue to be removed at a pace that is likely to be measured.

- It has been noticeable that the Fed has not been swayed by the recent volatility of data. It remains of the view that the US economy is on a sustained solid growth path. Furthermore, while price pressures have picked up, it believes that longer-term inflation expectations remain well contained. Thus, the Fed has not been deflected from its steady rate tightening path.

- Given Greenspan's recent comments, we expect 25bps rate hikes at the next two FOMC meetings, which would take the funds rate to 3.5% by August. Thereafter, the Fed could slow the pace of tightening as it gets close to a neutral policy stance. Thus, we expect one 25bps rise in rates in Q4 2005. Hence, we see the Fed funds rate at 3.75% by end year. We look for rates to rise above the 4% level in 2006, given the tightening labour market conditions and strength of housing activity.



US Interest Rate Forecasts

	21 June	Sept '05	Dec '05	Dec '06
Fed Funds	3.0	3.5	3.75	4.25
1 Month	3.2	3.6	3.8	4.3
3 Month	3.4	3.7	3.9	4.4
1 Year	3.8	4.1	4.3	4.6

TREASURY YIELDS TO RISE

- Ten year Treasuries have generally traded in a 3.8-4.8% range since the middle of 2003. Yields on longer dated bonds, on the other hand, have fallen in the past year. The benchmark long bond yield currently stands at 4.4%, down from 5.5% a year ago. Yields at the shorter end of the curve, by contrast, have been under upward pressure since early 2004. Two year yields currently stand at 3.7%, well up from 1.5% in early 2004. Thus, the yield curve has flattened considerably.

- The market rallied strongly over the past three months, on signs of a slowdown in economic activity and a flight to quality out of equities and corporate bonds. Fears of a shift to 50bps rate hikes, which caused yields to spike higher in February and March, also abated. The market is now discounting a Fed funds rate of 3.75% by end 2005 compared to 4.25% earlier in the year.

- More recently, there have been signs that the rally in bonds has run out of steam. Ten year yields, which declined from 4.7% in March to under 3.9% in early June, have since risen to 4.1%. Two year yields have also risen by 25bps since early June. Stability has returned to financial markets with equites gaining ground and corporate bond spreads narrowing in again. Interest rate futures have also declined somwhat, with the Fed indicating that it has more tightening to do.

- We expect some improvement in the leading indicators of manufacturing activity towards the end of the summer. Consumer confidence has already started to improve, with spending holding firm. Meanwhile, labour market conditions remain good, as evidenced by the continuing low level of jobless claims.

- Market expectations that the Fed funds rate will top out at 4% in 2006/07 may well have to be revised upwards if growth remains robust. Bond yields are likely to rise from their current low levels in these circumstances. We would point out that real yields are also exceptionally low, even when measured against core CPI inflation. These are likely to rise once corporate bond issuance picks up again.

- Near term, though, yields are likely to remain low as weakness in manufacturing and an inventory correction dampens growth. Later in the year, as activity picks up, ten year yields should rise to the top half of the 3.8-4.8% range that they have occupied since mid-2003. The long bond yield could rise to around 4.7% by end year, while two year yields should climb above 4%. We look for a continued flattening of the yield curve in 2006, as the Fed tightens policy further.

US Bond Yield Forecasts

	21 June	Sept '05	Dec '05	Dec '06
2 Year	3.7	4.0	4.2	4.5
5 Year	3.9	4.2	4.4	4.6
10 Year	4.1	4.4	4.6	4.7
30 Year	4.4	4.6	4.7	4.8

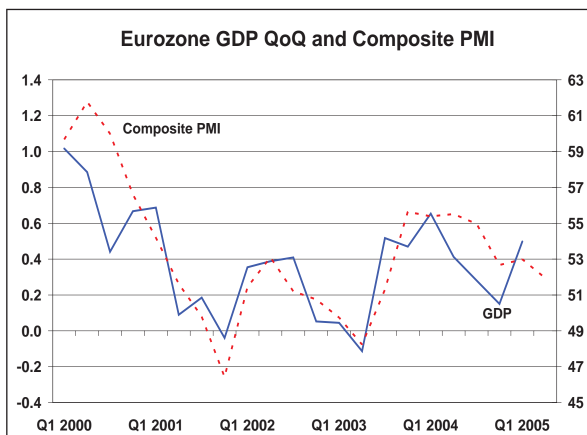
THE EUROZONE

KEY ISSUES

- ***Economic Prospects***: After a brief upward blip at the start of the year, the eurozone economy has weakened again. GDP growth now seems likely to average just 1.3% in 2005.
- ***Monetary Policy:*** With activity weakening and inflation declining, the ECB has turned neutral on rates. A rate cut is no longer being ruled out, although the ECB still seems more likely to remain on hold.
- ***Bond Market:*** Bond yields have fallen to historic lows and could remain near these levels in the short term. Yields could rise later in the year in line with Treasuries, if an ECB rate cut does not materialise.

WEAK ECONOMY

- There was an upward blip in economic activity around the turn of the year that saw eurozone GDP growth pick up to 0.5% in Q1 2005 from 0.2% and 0.3% in the final two quarters of 2004. Industrial production posted two consecutive monthly increases of 0.3% in December and January. Meanwhile, retail spending picked up in Germany and France at the start of the year.
- However, the detailed Q1 GDP data show that growth in domestic demand stalled in the quarter. Consumer spending slowed, while government spending and, in particular, fixed investment, contracted. Exports rose by just 0.2%. GDP growth was virtually all due to a fall of 1.1% in imports in the quarter. These are not very encouraging data and do not show any underlying pick up in economic activity.
- Indeed, there has been a marked weakening in leading indicators of activity since February, both at a eurozone and national level. This suggests that GDP growth will fall back again in Q2. The marked decline in indicators such as the manufacturing PMI and EU Commission sentiment indices is very worrying, as is the slump in business confidence in the main eurozone economies.
- Growth may pick up somewhat in H2 2005 given the recent fall in the euro and decline in long term interest rates. Expectations of a rise in official interest rates have also abated. Even if activity strengthens in the second half of the year, GDP growth is likely to average just 1.3% in 2005. We expect GDP growth of around 1.8% in 2006. Thus, the unemployment rate can be expected to remain high at close to 9%.



Eurozone Macro Forecasts

	2004	2005	2006
GDP Growth	2.0	1.3	1.8
HICP Rate	2.1	2.0	1.8
Unemployment Rate	8.9	8.9	8.9
Budget Bal *(1)*	-2.7	-2.5	-2.3
BOP *(1)*	0.5	0.4	0.3

(1) % of GDP

CORE INFLATION RATE FALLS TO AROUND 1.5%

- High oil prices have kept the headline HICP rate at around 2% since April 2004. The HICP rate averaged 2.1% in 2004, the same rate as in 2003. The HICP rate eased to 1.9% in May 2005.

- Meanwhile, the core HICP rate, which excludes energy and unprocessed foods, proved very sticky up to end 2004. Indirect tax hikes and increases in public service charges added considerably to inflation last year. However, these are now dropping out of the annual rate. As a result, core inflation is decelerating, falling to around 1.5% in recent months from 2.1% at end 2004.

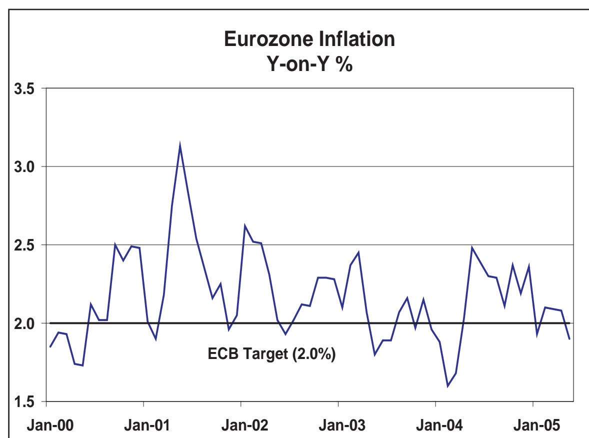
- Inflationary pressures look well contained in the eurozone. This is not surprising given the weakness of domestic demand and subdued wage growth. The headline HICP rate, though, may stay at 2% or above in H2 2005, given the continuing high level of oil prices and sharp fall of the euro against the dollar.

ECB NOW NEUTRAL ON POLICY

- The ECB has maintained the refi rate at 2% since June 2003. The risk of an early rate hike has vanished, with the economy losing momentum in recent months and little threat to price stability. Indeed, any change in policy over the balance of the year is now likely to be a rate cut.

- The ECB, though, is reluctant to cut rates further given that they are already pitched at historically low levels. Furthermore, monetary aggregates continue to show accelerating growth, which the ECB says may entail upside risks to price stability over the medium term. Other upside inflation risks also exist, according to the ECB, implying a need for ongoing vigilance with regard to price stability.

- Thus, in our view, we would need to see inflation fall well below 2%, or the economy weaken further, before the ECB would ease policy. This is not our benchmark scenario. High oil prices and the decline in the euro are likely to keep inflation at or above 2% in H2 2005. Thus, we think that the ECB will probably remain on hold over the balance of the year. Indeed, ECB President Trichet has said interest rates are appropriate and he is not preparing markets for either a rate cut or hike. We do not expect to see policy tightened until H2 2006 at the earliest, given the fragility of the economy and very subdued wage and core CPI inflationary pressures.



Eurozone Interest Rate Forecasts

	21 June	Sept '05	Dec '05	Dec '06
Refi	2.0	2.0	2.0	2.5
1 Month	2.1	2.1	2.1	2.6
3 Month	2.1	2.1	2.1	2.7
1 Year	2.1	2.1	2.2	3.0

YIELDS HIT HISTORIC LOWS

- Ten year eurozone yields have declined sharply since mid-2004, falling from 4.4% to historic lows of 3.1% as the economy slowed and expectations of ECB tightening gave way to the possibility of rate cuts. Meanwhile, thirty year yields fell from 5% to 3.6%, while two year yields declined more modestly from 2.7% to 2.0%.

- The eurozone market has decoupled to some extent from the US. The ten year US-eurozone yield spread has widened from +10bps to +90bps since September. Nevertheless, Treasuries have generally set the direction for eurozone bonds to date in 2005, unlike in the final quarter of 2004. Indeed, eurozone yields have moved higher in the past fortnight in line with Treasuries.

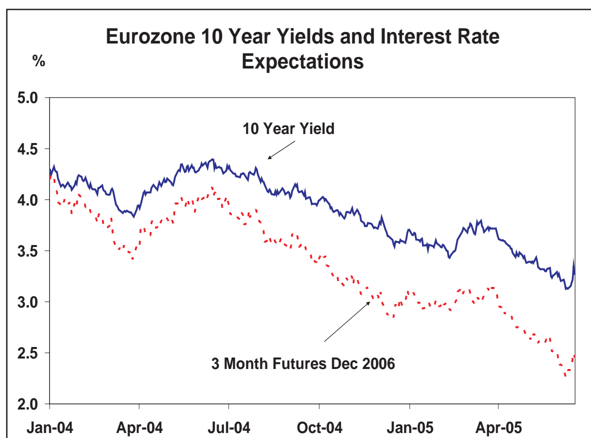
- We expect global bond yields to remain low in the near term on further weak data, especially in the manufacturing sector. The eurozone market is likely to continue to take its cue from US bonds. Ten year yields could trade in a 3.1-3.3% range near term.

- Later in the year, the eurozone bond market could come under pressure, if Treasuries start to lose ground and the eurozone economy regains some momentum, causing rate cut hopes to evapourate. However, we do not expect a major sell-off by eurozone bonds, given the fragility of the economic recovery and the likelihood that any monetary tightening will not commence until H2 2006 at the earliest. We look for ten year yields of around 3.5% by year end.

CORPORATE BOND MARKET STABILISES

- After a very strong performance, which saw the average pick-up offered by euro investment grade paper over government bonds contract from 184bps to 38bps between October 2002 and March 2005, the corporate bond market endured a severe correction in the spring. The average spread more than doubled to around 80bps. Concerns about slowing economic growth and corporate earnings damaged sentiment, while the ratings downgrades to the two main US auto companies was a major blow for the market.

- The market has recovered over the past month, though, with spreads narrowing in again. The average spread is back into 41bps over governments, although 23bps of the move reflects the removal of GM and Ford from the index at the start of June.



Eurozone Bond Yield Forecasts

	21 June	Sept '05	Dec '05	Dec '06
2 Year	2.1	2.2	2.4	3.1
5 Year	2.5	2.6	2.8	3.4
10 Year	3.2	3.3	3.5	3.9
30 Year	3.8	3.9	4.0	4.2

THE UK

KEY ISSUES

Growth Outlook: Growth dipped below trend in Q1 2005 and appears to have remained subdued in Q2. However, the economy may regain momentum and return to close to trend growth later in the year.

BoE Policy: We expect interest rates to remain on hold, pending further insights into the consumer sector. The market, though, is discounting a rate cut.

High Yielding Gilts: Even though the gilt market has rallied strongly, high UK interest rates are still weighing on the market, resulting in a continuing generous yield pick up over eurozone bonds.

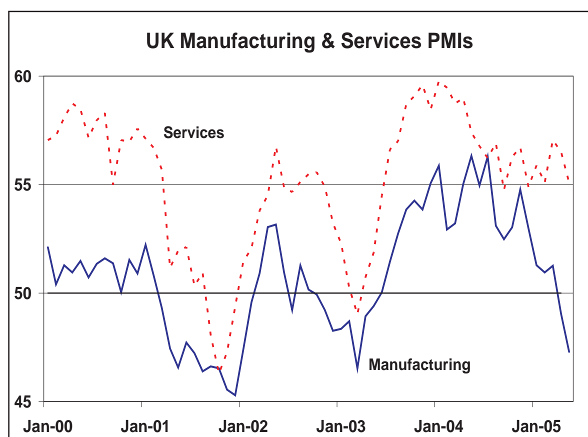
GROWTH SLOWS BELOW TREND

- The UK economy grew below trend in Q1, with GDP rising by 0.5% compared with 0.7% in Q4 2004. The downturn partly reflects weak consumer demand, which has been impacted by a marked fall-off in housing activity. Retail sales volumes were up just 0.1% in Q1 2005, compared to Q4 2004 levels. Sales have remained relatively weak, increasing by a modest 0.3% in April/May on Q1 levels.

- While growth in the rest of the services sector was strong in Q1, the PMI for services has fallen back in the past two months after a large rise in March. Furthermore, the manufacturing sector, which contracted by 0.7% in Q1, remains weak. Output rose in April, but was still 0.4% down on Q1 levels. The manufacturing PMI dropped below the 50 level in April for the first time since June 2003 and fell further in May.

- Weak housing activity may continue to restrain consumer spending in the coming months. However, mortgage approvals have picked-up from their end 2004 low, and in April were at their highest for eight months. This points towards a pick up in housing transactions and retail spending later in the year. Hence, provided the services sector continues to perform relatively strongly, growth may then return close to trend. For 2005 as a whole, we expect GDP to rise by around 2.4% compared to 3.1% in 2004. Growth should remain close to trend in 2006.

- The CPI rate has picked up sharply from its September 2004 low of 1.1% and has been at 1.9% for the past three months. This in part reflects higher energy prices but there are also indications of retailers passing on the rise in factory gate prices. With a tight labour market, rising input costs and increased public sector charges, inflation is likely to move up further, rising above its 2% target, over the balance of 2005.



UK Macro Forecasts

	2004	2005	2006
GDP Growth	3.1	2.4	2.5
CPI Rate	1.3	1.9	1.8
Unemployment Rate	4.8	4.7	4.7
Budget Bal. *(1)*	-3.0	-2.8	-2.5
BOP *(1)*	-2.2	-2.1	-1.8

(1) % of GDP

MARKETS EXPECT RATE CUT

- Against a background of slower output growth, a cooling house market, a dip in consumer spending and inflation below target, the MPC has left rates on hold at 4.75% for the past ten months. With increasing signs of a weakening in consumer demand, and indications of a further downturn in house prices, the market is now discounting a rate cut in the UK.

- We believe that much depends on the strength of consumer demand. If consumer spending picks up in tandem with some recovery in housing market activity later in the year, rate cut hopes will evaporate. Indeed, another rate hike is still possible given the tight labour market and rise in inflation. If, on the other hand, consumer demand and the manufacturing and housing sectors remain depressed, then the next move in rates is indeed likely to be downwards.

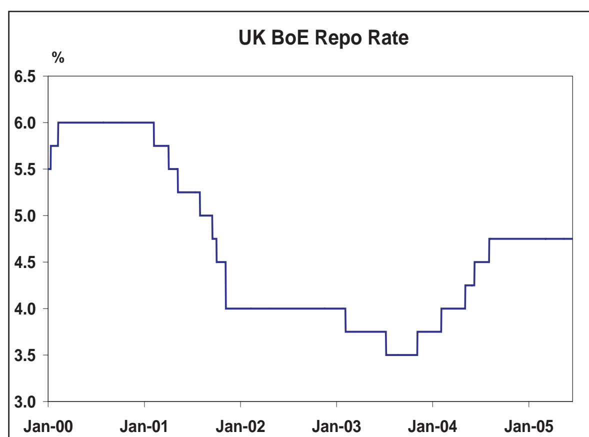
- Overall, we retain our view that rates could well remain on hold for some time, pending further insights into the consumer sector in particular. Furthermore, the direction of the next move in rates is not quite as certain as the market believes.

GILT-BUND SPREAD REMAINS WIDE

- Gilt yields fell sharply over the three months to early June, in line with the global trend and as the market moved to discount a cut in UK rates. Yields have since risen off their lows, in line with the global trend and as prospects for an early rate cut receded. Further, the relatively high level of official UK interest rates continues to weigh on the gilt market. Ten year gilt yields are trading 115bps above bunds and 35bps over Treasuries.

- The ten year gilt-bund spread is likely to remain very wide given the relatively high level of UK rates and with the ECB unlikely to begin tightening policy until late next year. Gilts, though, should outperform US Treasuries in the coming months, with the Fed expected to remain on a rate tightening path over the balance of 2005.

- Gilts are very vulnerable to any deterioration in interest rate sentiment given that the whole market is trading some 35-45bps below the current repo rate. In absolute terms, we expect a modest rise in gilt yields over the rest of the year on a general uptrend in global bond yields and with UK rates likely to stay on hold. Overall, the curve is likely to remain relatively flat, with yields ending 2005 at around the 4.5-4.6% level.



UK Interest Rate and Bond Forecasts

	21 June	Sept '05	Dec '05	Dec '06
Repo Rate	4.75	4.75	4.75	4.75
2 Year	4.3	4.4	4.5	4.6
5 Year	4.3	4.4	4.5	4.6
10 Year	4.4	4.5	4.6	4.7
30 Year	4.3	4.4	4.5	4.6

JAPAN

KEY ISSUES

Growth Rebounds: The Japanese economy rebounded strongly in Q1 after three quarters of virtual stagnation. Too soon yet to call all clear on economy, but a modest expansion is likely going forward.

Easing In Deflation: Deflationary pressures are easing. However, consumer prices are being depressed by once-off factors, and thus deflation in the core CPI rate is expected to persist until 2006.

JGB Market: Ten year JGB yields are likely to move up from current low levels, should the economic expansion continue, deflationary pressures abate and global bond yields rise.

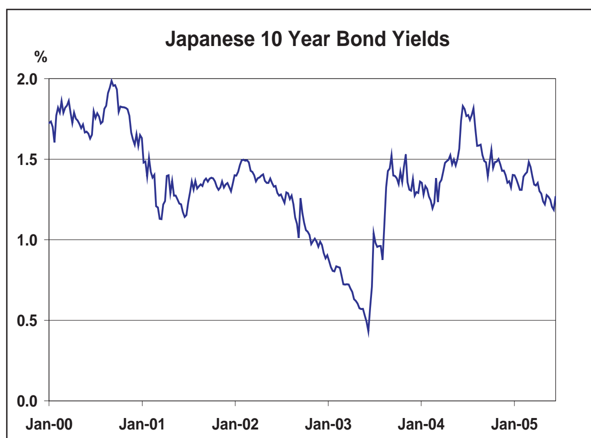
ECONOMY PICKS UP

- The Japanese economy bounced back strongly in Q1 2005. Revised data show GDP growth of 4.9% annualised in the quarter, following three quarters of virtual stagnation. Encouragingly, the pick-up in activity in Q1 this year was entirely due to domestic factors. Household spending rose by 4.6% with private capital spending up 9.9%. Meanwhile, net trade took 0.4% off annualised growth, with exports showing their first decline for four years.

- However, its remains to be seen whether Japan is in the throes of a domestic economic recovery. Obviously, growth will not be sustained at Q1 levels, which benefited from a bounce back from a Q4 2004 outturn depressed by once-off factors. Further, any downturn in demand from the US or China, Japan's main export markets, would take a toll on the economy. We expect a modest pace of growth over the balance of the year. GDP growth of 1.7% is forecast for 2005, with growth of 2% expected in 2006. GDP grew by 2.6% in 2004. These are all above trend growth rates for Japan.

- The BoJ is expected to leave its quantitative easing measures and zero interest rate policy in place until at least 2006. While deflationary pressures are easing, once off factors are still depressing consumer prices, which are expected to continue to decline during 2005.

- A somewhat more positive outlook on the Japanese economy has seen 10 year yields climb to around 1.3%, from lows around 1.2% in early June. Assuming that the economy continues to recover, albeit at a somewhat less hectic pace, that deflationary pressures ease further and international bond yields move higher, JGB yields could rise to around 1.5% by end 2005.



Japanese Forecasts

	2004	2005	2006
GDP Growth	2.6	1.7	2.0
CPI Rate	-0.2	-0.3	0.1
ODR (1)	0.1	0.1	0.25
5 Year Yield (1)	0.6	0.7	1.3
10 Year Yield (1)	1.4	1.5	1.9

(1) end year

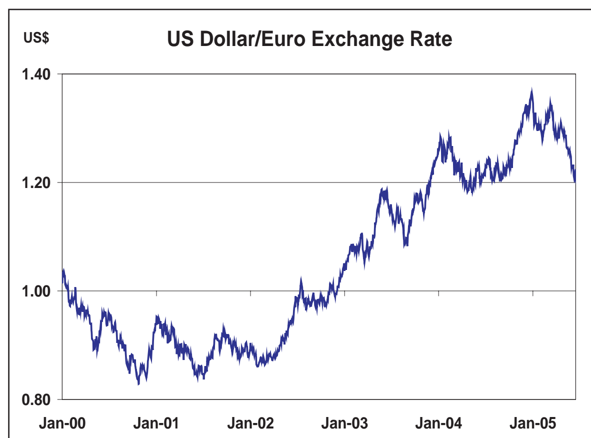
THE CURRENCY MARKETS

KEY ISSUES

- ***Dollar Recovery Continues:*** Expectations of further US rate hikes have provided a significant boost for the dollar, which has reached nine month highs versus the euro and sterling.
- ***US Fundamentals Improve:*** With some signs of improvement in US structural imbalances, the dollar looks well underpinned for now. It is likely to trade around the $1.20 level against the euro near term.
- ***Sterling Gains Against Weak Euro:*** Although cable has lost considerable ground, sterling has made significant gains against the weakening euro year to date.

DOLLAR GAINS FURTHER GROUND

- Year to date, the US dollar has risen by some 11% against the euro and 6% versus sterling and the yen. As well as evidence that the US economy continues to grow at a solid pace, dollar sentiment has also been bolstered by some indications that the US structural imbalances may be improving.
- Expectations that the US economy will continue to register a better growth performance than the other major economies and that US interest rates will rise further, should help underpin the dollar over the coming months.
- The euro, meanwhile, remains vulnerable to further negative news on the eurozone economy and the risk that the ECB may cut rates in H2 2005. The current political uncertainty in the EU is also weighing on the euro. Thus, over the coming months, we could see dollar/euro trade in a $1.18-1.24 range.
- Cable has obviously been impacted by the recovery in the dollar, as well as weaker UK economic data and resulting speculation of a cut in UK rates. Given the current outlook for UK interest rates and the dollar, cable could fall somewhat further. Against the euro, though, sterling has appreciated by over 5% year to date, and could rise further towards the 66p level in the near term.
- Longer term, the very large US external imbalances could trigger another bout of dollar weakness. This could coincide with expectations that the Fed is nearing the end of its rate hiking process or, indeed, signs of a pick up in activity in the European economy.



Forex Forecasts *

	21 June	Sept '05	Dec '05	Dec '06
US$/EUR	1.22	1.20	1.23	1.25
STG/EUR	0.67	0.67	0.68	0.69
YEN/EUR	133	132	133	134
US$/STG	1.83	1.80	1.81	1.81
YEN/US$	109	110	108	107

** Mid-point of expected trading range*

AIB

FINANCIAL MARKET FORECASTS

INTEREST RATE FORECASTS (%, END MONTH)

	21 June	Sept '05	Dec '05	Mar '06	Jun '06
US Fed Funds	3.0	3.5	3.75	4.0	4.25
Euro Refi Rate	2.0	2.0	2.0	2.0	2.0
UK Repo Rate	4.75	4.75	4.75	4.75	4.75
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (%, END MONTH)

		21 June	Sept '05	Dec '05	Mar '06	Jun '06
US	2 Year	3.7	4.0	4.2	4.4	4.5
(s.a.)	5 Year	3.9	4.2	4.4	4.5	4.6
	10 Year	4.1	4.4	4.6	4.7	4.7
	30 Year	4.4	4.6	4.7	4.8	4.8
Euro	2 Year	2.1	2.2	2.4	2.5	2.6
(ann)	5 Year	2.5	2.6	2.8	2.9	3.0
	10 Year	3.2	3.3	3.5	3.6	3.7
	30 Year	3.8	3.9	4.0	4.1	4.1
UK	2 Year	4.3	4.4	4.5	4.6	4.6
(s.a.)	5 Year	4.3	4.4	4.5	4.6	4.6
	10 Year	4.4	4.5	4.6	4.7	4.7
	30 Year	4.3	4.4	4.5	4.6	4.6
Jap	2 Year	0.1	0.1	0.1	0.2	0.3
	5 Year	0.5	0.6	0.7	0.8	0.9
	10 Year	1.3	1.4	1.5	1.6	1.7
	30 Year	2.3	2.4	2.5	2.6	2.7
Euro	Bund-Swap	10	10	10	11	12
Spreads	Gov-Corp	41	40	40	40	40
(bps)						

EXCHANGE RATE FORECASTS (END MONTH)*

	21 June	Sept '05	Dec '05	Mar '06	June '06
US$/EUR	1.22	1.20	1.23	1.23	1.24
STG/EUR	0.67	0.67	0.68	0.68	0.68
YEN/EUR	133	132	133	133	133
US$/STG	1.83	1.80	1.81	1.81	1.81
YEN/US$	109	110	108	108	108

** Mid-point of expected trading range*

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