AIB Global Treasury
Economic Research

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YIELDS TO RISE ON STRONGER DATA

While strong demand from pension funds and central banks, high global savings and low corporate issuance may be partly responsible for the low yields on bonds, we believe that the principal factor is the continuing low level of official interest rates.

Furthermore, in our view, changes in expectations about official interest rates are the prime driver of short term movements in bond markets. Yields rose in Q1 2005 as strong global growth saw a hardening of interest rate expectations. In Q2, yields fell as economic activity softened and markets scaled back rate hike expectations and, indeed, started to discount rate cuts in Europe. In the past month, yields have risen again on improving economic data and a firming of interest rate expectations, apart from the UK where the BoE looks set to ease policy.

We expect bond markets to remain under pressure over the balance of the year as global economic activity strengthens and interest rate sentiment continues to deteriorate. We are heartened by the recent improvement in leading indicators of activity, especially the PMIs for manufacturing. It would seem that the inventory correction, which depressed output in the sector this spring, is nearing an end, which augurs well for output growth in H2 2005.

We think that oil prices may prove more stable in H2 2005, given the high levels of inventories. The decline in long term interest rates over the past year and rising asset prices should also help underpin activity. Thus, we expect three further rate hikes in the US this year, taking the Fed funds rate to 4%, with further rate tightening likely in 2006. We also expect the markets to start anticipating policy tightening during 2006 in Europe and Japan as well.

Inflation remains very well behaved so aggressive policy tightening is unlikely, which should help to contain the rise in long term yields and allow curves to flatten further. We see two year US yields rising to 4.3% by end year, with ten year yields reaching 4.6%. In Europe, ten year eurozone yields should move up to around 3.5%, with ten year gilt yields edging higher to 4.5%. Ten year JGB yields are likely to move back up to around 1.5% by end 2005. Yields could continue to move higher in the first half of 2006, especially on short-dated bonds.

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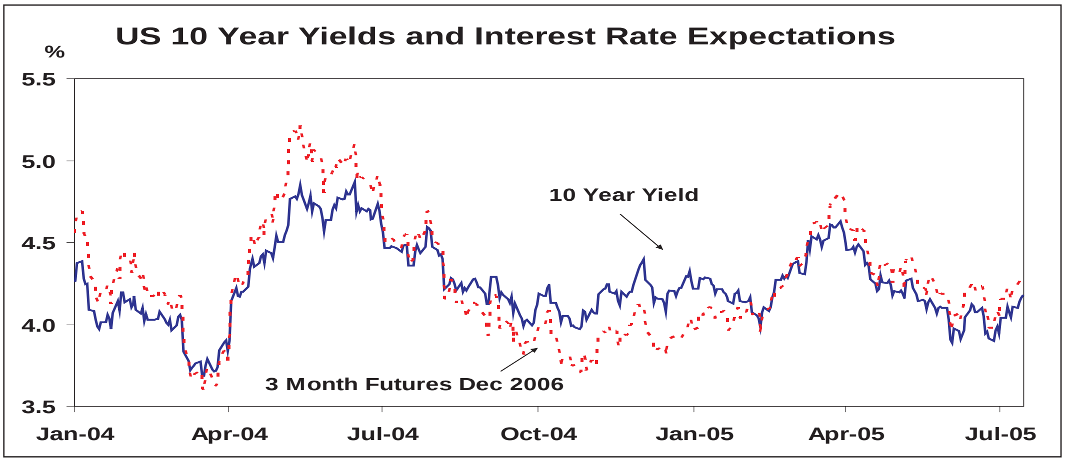


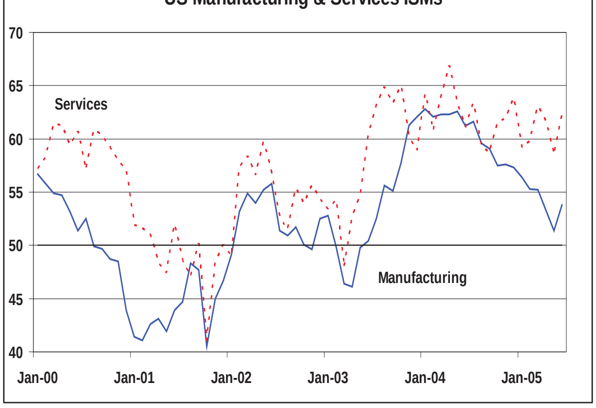
THE US

KEY ISSUES

- ***Growth Outlook:*** The economy continues to grow at a solid pace, despite the rise in oil prices. GDP growth is likely to average 3.7% this year, comfortably above trend.
- ***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 4% by end year and rise further in 2006.
- ***Bond Market:*** Volatile trading in Treasuries year to date. We expect yields to rise over the balance of the year as the Fed continues to tighten policy.

SOLID GROWTH

- GDP rose by 3.8% annualised in Q1. This was in line with the GDP growth rates of 4.0% and 3.8% recorded in the final two quarters of 2004. This was an impressive growth figure for Q1 as activity softened considerably in March, due to the early Easter, poor weather and sharply higher oil prices. Exports, though, performed well.
- GDP should have registered another solid rise in Q2, Expectations are that it may have risen by around 3.5% annualised, helped by improving net trade, even though growth may be depressed somewhat by a slowdown in inventory accumulation.
- Encouragingly, some key indicators have picked up in June, pointing to a strengthening of growth in Q3. The ISM indices rose in particular, most notably for manufacturing, suggesting that the inventory correction in that sector may be at an end. Consumer confidence also rose strongly in the past two months, with consumer spending rising sharply in June as well.
- Manufacturing output rebounded in the past two months, the housing market remains strong, while the trade deficit appears to have stabilised. Overall, virtually all sectors of the economy appear to be performing well. We expect that the economy will register solid growth of around 3.7% in 2005 and 3.6% 2006.
- The labour market also continues to improve with solid jobs growth, relatively low jobless claims and a decline in the unemployment rate to 5%. Aggregate hours worked per week are now rising by 2.5% yoy, providing a major fillip to personal income growth. Productivity growth, though, has slowed considerably.



US Macro Forecasts

	2004	2005	2006
GDP Growth	4.4	3.7	3.6
CPI Rate	2.7	2.8	2.5
Unemployment Rate	5.5	5.1	4.8
Federal Budget Bal. *(1)*	-3.5	-2.7	-2.6
BOP *(1)*	-5.7	-6.2	-6.0

(1) % of GDP

SUBDUED CORE INFLATION

- The headline CPI rate eased from 3.5% to 2.5% between April and June. The core CPI rate accelerated from 1.1% at end 2003 to 2.4% in March 2005. It has since eased to 2% by June. Meanwhile, the core PCE deflator has been stable in a 1.5-1.7% yoy range for over a year now, having accelerated in the first quarter of 2004.

- The continuing low level of core PCE inflation and recent fall in the core CPI rate is impressive given that high commodity prices, the surge in energy prices, a rising PPI, rebounding car prices, slowing productivity and a pick up in unit labour costs are all contributing to a disimprovement in the general inflation environment.

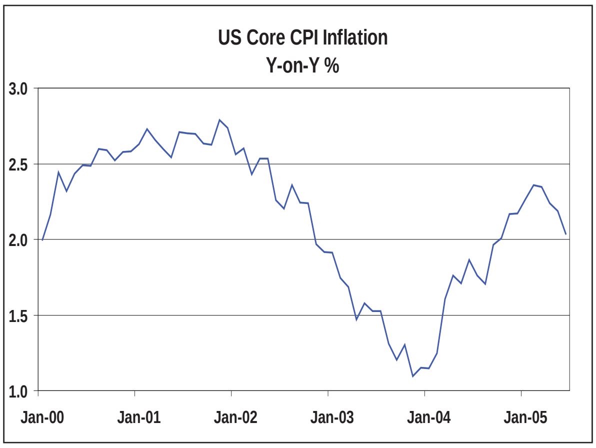
- Despite the increasing price pressures, inflation should stay fairly well behaved. GDP growth is not expected to be overly robust. Strong profits mean that corporates should be able to absorb higher input and unit labour costs. Nevertheless, reflecting the pick up in inflationary pressures, especially for goods, the rate of core PCE inflation could rise to 2% by end 2005 with core CPI inflation picking up again towards 2.5%.

FED STAYS ON TIGHTENING PATH

- As expected, the Fed hiked rates by 25bps at a ninth consecutive FOMC meeting in June, taking the funds rate up to 3.25%. The Fed's view is that the US economy is on a sustained solid growth path. However, while price pressures have picked up, it believes that longer-term inflation expectations remain well contained. Thus, the Fed has been able to tighten policy at a measured pace, in small 25bps steps.

- In his recent appearance before Congress, Greenspan was relatively optimistic on growth prospects and, while inflation remains contained, he noted that the slack in labour and product markets continues to decline. Overall, there was little in his testimony to suggest that the Fed is nearing the end of policy tightening.

- Given Greenspan's recent comments, we expect 25bps rate hikes at the next three FOMC meetings, which would push the funds rate to 4% by November. We think that rates may rise somewhat further in 2006 given the tightening labour market conditions, strength of housing activity, continuing above trend growth and rising unit labour costs. We see the Fed funds rate rising by a further 50bps to 4.5% during next year.



US Interest Rate Forecasts

	21 July	Sept '05	Dec '05	Dec '06
Fed Funds	3.25	3.75	4.0	4.5
1 Month	3.4	3.8	4.1	4.5
3 Month	3.6	3.9	4.2	4.6
1 Year	4.0	4.3	4.4	4.7

BOND CONUNDRUM EXPLAINED

- 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 generally fallen, declining from 5.5% a year ago to a recent low of 4.2%. Yields at the shorter end of the curve, by contrast, have risen. Two year yields currently stand at 3.9%, well up from 1.5% in early 2004. Thus, the yield curve has flattened considerably.

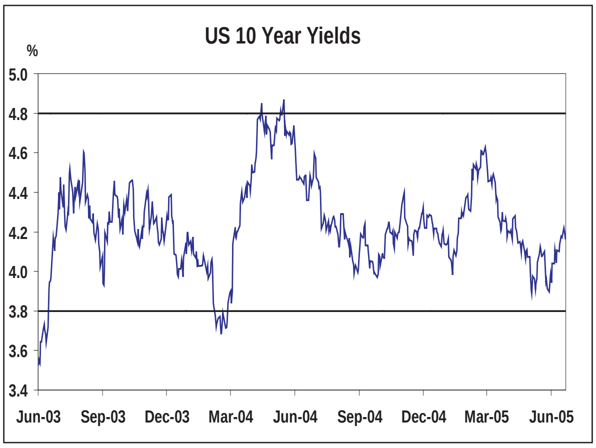
- The market rallied strongly in Q2 on signs of a slowdown in economic activity and a flight to quality out of equities and corporate bonds. Fears of a shift to 50bps rate hikes, which had caused yields to spike higher in February and March, also abated. More recently, though, yields have started to rise again as economic data have firmed and with no end in sight to Fed rate hikes.

- Our analysis shows that changes in interest rate expectations are the prime driver of movements in ten year US yields rather than factors such as pension fund demand, excess savings or central bank purchases. Markets have scaled back their expectations on the extent of Fed tightening over the past year as rates have been increased in just small steps. Markets now expect the Fed funds rate to peak at just above 4%, compared to close on 5% a year ago. This, in our view, explains the conundrum of declining long term yields in the face of Fed policy tightening.

- There was a hardening of interest rate expectations in Q1 2005 and a consequent rise in bond yields. This trend was reversed in Q2. More recently, interest rate expectations have firmed again causing yields to rise once more. Economic data have been the key factor driving the changes in interest rate expectations in 2005.

- Current market expectations are that the Fed funds will rise to 4% by end year, with little further rate tightening in 2006. These expectations may have to be revised upwards if growth remains robust and inflationary pressures continue to build, via a tightening labour market, slower productivity growth and increasing unit labour costs. Bond yields are likely to rise in these circumstances.

- Bond yields are also likely to come under upward pressure once corporate bond issuance picks up from its subdued levels of recent years. Treasuries have also reacted negatively to the revaluation of the Chinese yuan. Overall, we expect two year yields to climb well above 4% by end 2005 with ten year yields rising to 4.6% and the long bond yield hitting 4.75%. Next year we expect to see a very flat curve as short-term yields rise somewhat further on Fed tightening.



US Bond Yield Forecasts

	21 July	Sept '05	Dec '05	Dec '06
2 Year	3.9	4.1	4.3	4.6
5 Year	4.0	4.2	4.4	4.6
10 Year	4.2	4.4	4.6	4.7
30 Year	4.4	4.6	4.7	4.8

THE EUROZONE

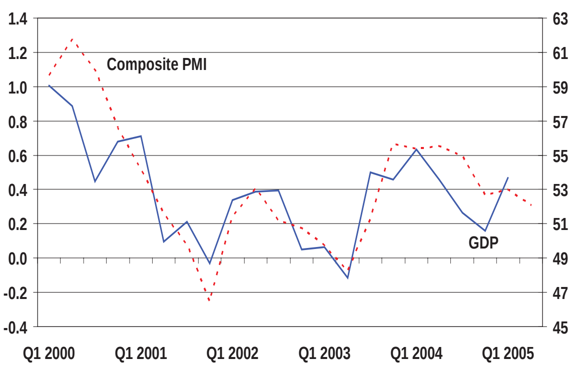
KEY ISSUES

- ***Economic Prospects*****:** After a brief upward blip at the start of the year, the eurozone economy weakened again in Q2. GDP growth now seems likely to average just 1.3% in 2005.
- ***Monetary Policy:*** With activity weakening and core inflation declining, the ECB has turned neutral on rates. We do not expect any change in rates in H2 2005.
- ***Bond Market:*** Bond yields fell to historic lows in June but have since edged higher. Yields could continue to rise in line with Treasuries, but a major sell-off is unlikely in H2 2005.

WEAK ECONOMY

- Eurozone GDP growth picked up to 0.5% in Q1 2005 from 0.2% and 0.3% in the final two quarters of 2004. 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.
- There has been a marked weakening in leading indicators of activity since February, both at a eurozone and national level. 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. This suggests that GDP growth fell back again in Q2.
- 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. There was also a pick up in leading activity indicators in June, although they remain at low levels. Nonetheless, this suggests that growth could show a modest improvement in Q3.
- Even if activity strengthens in the second half of the year, GDP growth is likely to average just 1.3% in 2005. The economy should perform better next year given the favourable monetary conditions, strong corporate balance sheets, rising house prices and good global growth prospects. We expect GDP growth of around 1.8% in 2006. This would represent a return close to trend growth but nothing more. Thus, the unemployment rate can be expected to remain high at close to 9%.

Eurozone GDP QoQ and Composite PMI



Eurozone Macro Forecasts

	2004	2005	2006
GDP Growth	2.0	1.3	1.8
HICP Rate	2.1	2.1	1.9
Unemployment Rate	8.9	8.9	8.9
Budget Bal *(1)*	-2.7	-2.5	-2.3
BOP *(1)*	0.6	0.4	0.3

(1) % of GDP

HICP RATE STUCK ABOVE 2%

- 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, but picked up to 2.1% again in June.

- 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 has decelerated, falling to around 1.5% in recent months from 2.1% at end 2004.

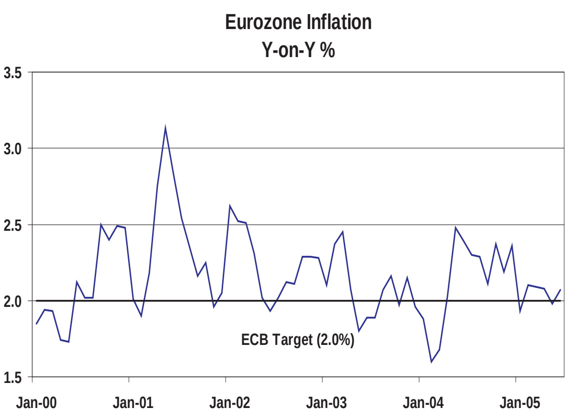
- Inflationary pressures look well contained in the eurozone. This is not surprising given the weakness of domestic demand and subdued wage growth. The headline HICP rate, though, may stay at 2% or above in H2 2005, given the continuing high level of oil prices and sharp fall of the euro against the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

ECB 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, if there is a change in policy over the balance of the year, it is 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. Hence, we think that the ECB will 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 July	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	2.2	2.3	3.0

YIELDS UP FROM HISTORIC LOWS

- Ten year eurozone yields have declined sharply since mid-2004, falling from 4.4% to historic lows of 3.1% in June 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 almost +100bps 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 month in line with Treasuries and as hopes of an ECB rate cut faded. The eurozone market is likely to continue to take its cue from US bonds. Thus, over the balance of the year, eurozone bond yields could rise further if Treasuries lose more ground and the eurozone economy also regains some momentum.

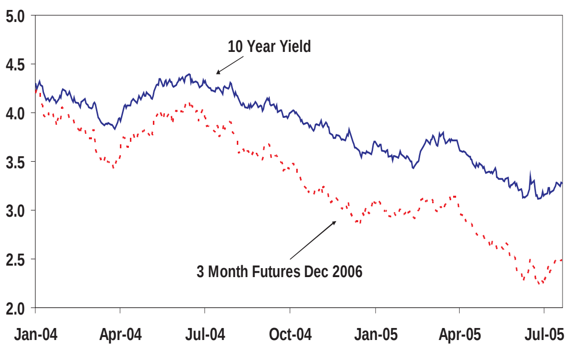
- However, we do not expect a major sell-off by eurozone bonds, given the fragility of the economic recovery and the likelihood that any monetary tightening will not commence until H2 2006 at the earliest. We look for ten year yields to remain close to 3.3% in the near term, rising to around 3.5% by year end.

CORPORATE BOND SPREADS TIGHTEN AGAIN

- The average pick-up offered by euro investment grade paper over government bonds contracted from 184bps to 38bps between October 2002 and March 2005. The corporate bond market then 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, though, has recovered over the past two months. The average spread over government bonds has hit new lows of 36bps, although half of the recent contraction reflects the removal of GM and Ford from the index at the start of June. In our view, spreads are again looking overly tight. BBB spreads are less than 60bps over governments, which is hardly adequate given the much higher risk and inferior liquidity of these bonds. However, the tight spreads may be sustained in H2 2005.

Eurozone 10 Year Yields and Interest Rate Expectations



Eurozone Bond Yield Forecasts

	21 July	Sept '05	Dec '05	Dec '06
2 Year	2.2	2.3	2.5	3.1
5 Year	2.7	2.8	2.9	3.4
10 Year	3.3	3.4	3.5	3.9
30 Year	3.8	3.9	4.0	4.2

THE UK

KEY ISSUES

Growth Outlook: Revised data show that GDP growth has been below trend for the past year. Activity is unlikely to pick up until later in the year.

BoE Policy: We expect interest rates to be cut by at least 50bps over the balance of the year, given the weakness of economic activity.

High Yielding Gilts: The gilt market has rallied strongly. However, high UK interest rates are resulting in a continuing generous yield pick up over eurozone bonds.

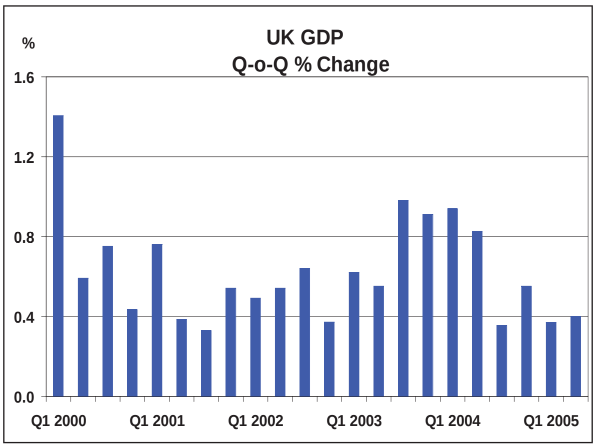
BELOW TREND GROWTH

- The 2005 Blue Book dataset of national accounts published at end June contained downward revisions to GDP growth for all four quarters to Q1 2005. As a result, the annual rate of GDP growth to Q1 2005 was revised down from 2.7% to 2.1%. The revised data show that the UK economy has been growing below trend since mid-2004.

- The revised GDP figures show that the economy grew by 0.4% in Q1 2005. Domestic demand was quite weak, rising by just 0.2%, with household expenditure and investment increasing by 0.1% and 0.3%, respectively. Exports fell by 0.9% but a 1.2% decline in imports meant net trade made a positive contribution of 0.2% to growth.

- Activity has remained subdued in Q2, especially manufacturing. Unemployment also edged upwards. The terrorist attacks in London are likely to dent consumer confidence and spending in Q3. However, with interest rates set to decline, sterling weakening and leading indicators of housing and, to a lesser extent, manufacturing activity improving, growth should pick up in Q4. Nevertheless, GDP growth this year now looks set to average around 1.7%, the weakest since the early 1990s.

- The CPI rate has picked up sharply from its September 2004 low of 1.1%, reaching 2% in June. This in part reflects higher energy prices but there are also indications of retailers passing on the rise in factory gate prices. With sterling weakening, sharply rising input costs and increased public sector charges, inflation is likely to rise above its 2% target over the balance of the year.



UK Macro Forecasts

	2004	2005	2006
GDP Growth	3.2	1.7	2.4
CPI Rate	1.3	1.9	1.8
Unemployment Rate	4.8	4.8	4.7
Budget Bal. *(1)*	-3.0	-3.1	-3.1
BOP *(1)*	-2.0	-1.8	-1.6

(1) % of GDP

RATES TO BE CUT IN H2 2005

- Recent revisions to national accounts data have resulted in a marked downward revision to UK growth over the past year. The rise in GDP in Q1 this year was revised down from 2.7% to 2.1% year-on-year. Activity remained weak in Q2, with GDP growth at just 1.7% year-on-year and growth is likely to remain subdued in Q3. The UK economy may now grow by just 1.7% in 2005.

- This is well below trend and would be the weakest growth rate in any year since the recession in the early 1990s. With the housing market having weakened considerably also, unemployment beginning to edge upwards, and inflation close to target, it suggests that the Bank of England will ease policy in H2 2005.

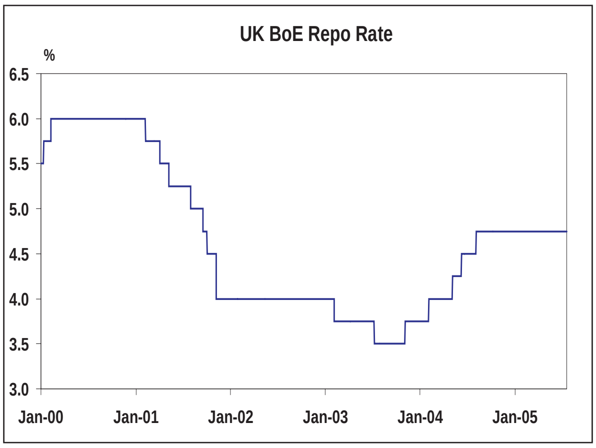
- We look for the MPC to sanction a 25bps rate cut in August. A further 25bps rate cut is possible in September or October as the impact of the London bombings begins to show up in economic data. Rates could also be cut by a further 25bps in November, if there still aren't any signs of a pick up in activity. We do expect the UK economy to recover before year end, suggesting that policy will be put on hold in early 2006.

GILT-BUND SPREAD REMAINS WIDE

- Gilt yields fell sharply over the course of Q2, in line with the global trend and as the market moved to discount cuts in UK rates. Yields have since risen off their lows, in line with the global trend, even though the first rate cut is expected in August. Meantime, the relatively high level of official UK interest rates continues to impact on the gilt market. Ten year gilt yields are trading 110bps above bunds.

- Although UK rates are set to be cut, 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 and the BoE set to ease policy.

- 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 cuts now well priced in. The curve is likely to steepen somewhat, with rate cuts underpinning the very short-end of the market, but longer dated yields edging upwards in line with the global trend.



UK Interest Rate and Bond Forecasts

	21 July	Sept '05	Dec '05	Dec '06
Repo Rate	4.75	4.50	4.25	4.25
2 Year	4.1	4.1	4.2	4.3
5 Year	4.2	4.3	4.4	4.5
10 Year	4.3	4.4	4.5	4.6
30 Year	4.3	4.4	4.5	4.5

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 continue to ease. However, consumer prices are still being depressed by once-off factors, and thus deflation in the core CPI rate is expected to persist in H2 2005.

Low JGB Yields: 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.

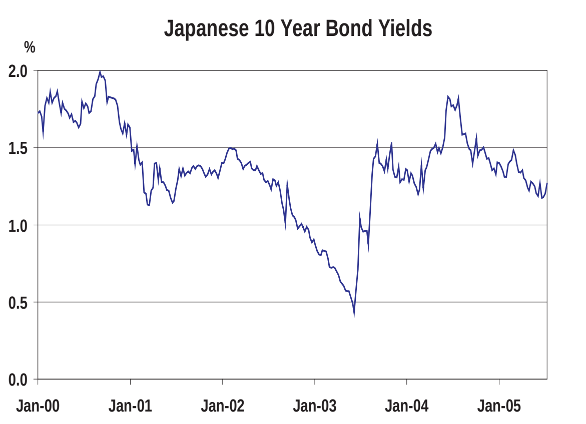
MIXED SIGNALS ON ECONOMY

- The Japanese economy bounced back strongly in Q1 2005. GDP grew by 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. Indeed, net trade took 0.4% off annualised growth, with exports showing their first decline for four years. It remains to be seen, though, whether Japan is in the throes of a domestic economic recovery.

- Recently, there have been mixed signals on the economy. Notably there was a bigger than expected rise in the June Tankan index. However, exports to China continue to decline, while machinery orders in May were weak. In any event, growth can not be sustained at Q1 levels, which benefited from a bounce back from a Q4 2004 outturn depressed by once-off factors. We expect that the domestic sector can continue to compensate for weaker exports leading to 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.

- The BoJ is expected to leave its quantitative easing measures and zero interest rate policy in place until at least 2006. There are continuing signs that deflationary pressures are easing. However, once off factors are still depressing consumer prices, which are expected to continue to decline during H2 2005.

- Having dipped below 1.2% at end June on technical factors, 10 year JGB yields have reverted back towards the top of a 1.2-1.3% trading range. 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

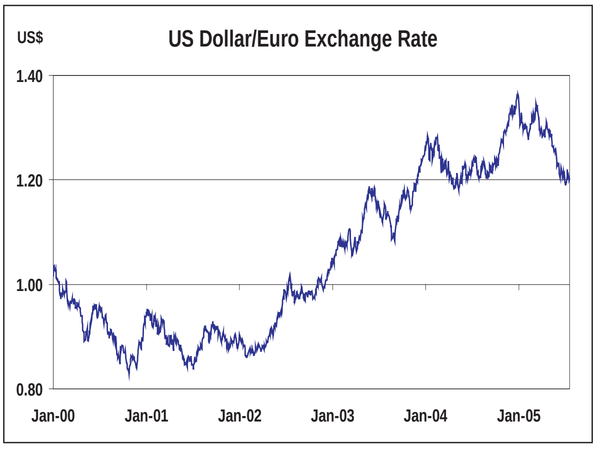
THE CURRENCY MARKETS

KEY ISSUES

- ***Dollar Remains Strong:*** Year to date the dollar is up some 12% against the euro as ongoing evidence of solid US economic growth and continued action from the Fed underpin sentiment.
- ***Euro To Stay Weak Near-Term:*** We expect the euro to stay weak near-term, as markets focus on the outlook for US interest rates. However, longer-term there is scope for a modest recovery.
- ***Sterling To Remain Weak Versus Euro:*** Sterling has come under sharp downward pressure against both the dollar and euro as markets price in UK interest rates cuts.

DOLLAR GAINS FURTHER GROUND

- Even though the modest revaluation of the Chinese yuan is currently dominating headlines, prospects for monetary policy continue to be a major driving force for forex markets, The ECB's insistence that it will not cut interest rate has allowed the euro steady against the dollar. The US currency, however, retains the upper hand with US interest rates expected to be increased to 4.0% by year end.
- As well as interest rate differentials, the dollar is being supported by growing evidence that the US structural imbalances (fiscal and trade imbalances) are improving plus temporary capital inflows associated with the Homeland Investment Act. Thus, we expect the dollar to remain strong over the summer months.
- The market is currently looking for Fed funds to peak at 4.00% by year end and, as such, dollar support from rising rates could well fade over Q4. There are some signs, however, that the market is beginning to discount a further 0.25% hike in 2006, but sentiment is moving in this direction in Europe also.
- The improvement in the current account deficit could also prove to be temporary. Thus, we still see some scope for a modest rebound in the euro back towards $1.25 over the second half of the year and into 2006.
- There has been a marked deterioration in sterling sentiment. Data released over recent times, as well as the terrorist attacks on 7 and 21 July, have further cemented expectations that the Bank of England will have little option but to ease monetary policy. We expect further weakness in the weeks ahead as the UK moves to cut rates, with a rise through Stg0.70p likely in sterling/euro.



Forex Forecasts *

	21 July	Sept '05	Dec '05	Dec '06
US$/EUR	1.22	1.20	1.23	1.25
STG/EUR	0.69	0.70	0.69	0.69
YEN/EUR	136	134	133	134
US$/STG	1.76	1.73	1.77	1.80
YEN/US$	112	112	108	107

** Mid-point of expected trading range*

FINANCIAL MARKET FORECASTS

INTEREST RATE FORECASTS (%, END MONTH)

	21 July	Sept '05	Dec '05	Mar '06	Jun '06
US Fed Funds	3.25	3.75	4.0	4.25	4.5
Euro Refi Rate	2.0	2.0	2.0	2.0	2.0
UK Repo Rate	4.75	4.5	4.25	4.25	4.25
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (%, END MONTH)

		21 July	Sept '05	Dec '05	Mar '06	Jun '06
US	2 Year	3.9	4.1	4.3	4.5	4.6
(s.a.)	5 Year	4.0	4.2	4.4	4.5	4.6
	10 Year	4.2	4.4	4.6	4.7	4.7
	30 Year	4.4	4.6	4.7	4.8	4.8
Euro	2 Year	2.2	2.3	2.5	2.6	2.7
(ann)	5 Year	2.7	2.8	2.9	3.0	3.1
	10 Year	3.3	3.4	3.5	3.6	3.7
	30 Year	3.8	3.9	4.0	4.0	4.1
UK	2 Year	4.1	4.1	4.2	4.3	4.3
(s.a.)	5 Year	4.2	4.3	4.4	4.5	4.5
	10 Year	4.3	4.4	4.5	4.6	4.6
	30 Year	4.3	4.4	4.5	4.5	4.5
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	36	38	40	40	40
(bps)						

EXCHANGE RATE FORECASTS (END MONTH)*

	21 July	Sept '05	Dec '05	Mar '06	June '06
US$/EUR	1.20	1.20	1.23	1.23	1.24
STG/EUR	0.69	0.70	0.69	0.69	0.69
YEN/EUR	136	134	133	133	133
US$/STG	1.76	1.73	1.77	1.78	1.79
YEN/US$	112	112	108	108	108

** Mid-point of expected trading range*

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