

FIXED INCOME MONTHLY MONITOR

JULY/AUGUST 2004

BEAR MARKET NOT OVER YET

Trading has been very volatile in bond markets year to date, in particular US Treasuries, with both pronounced rallies and sell-offs. We think that this could remain the case in the months ahead as investors try to come to grips with the competing forces at work in the markets. On the positive side, yield curves are steep, the three main central banks continue to pursue very accommodatory monetary policies, while most funds seem to be short duration.

Furthermore, there are signs that the upturn in the global economy may be peaking with persistently high oil prices acting to dampen growth somewhat and measures being taken to slow the Chinese economy. On the other hand, the global upturn has become well entrenched and broad based and it is far from certain that activity will slow significantly. Underlying inflationary pressures are also rising as strengthening demand erodes spare capacity.

As usual, the US Treasury market has been in the cockpit, setting the direction for most other bond markets. US yields have fallen significantly in recent weeks, on signs of a slowdown in growth during Q2 and expectations that Fed rates will rise at just a gradual pace. We expect that the economy will pick up momentum again during the second half of the year as the factors depressing activity in Q2 abate, in particular sharply rising oil prices. Leading indicators such as the ISM indices, also point to strong growth ahead.

In these circumstances, employment should grow robustly in H2 2004. We also expect to see a continuation of the build up of inflationary pressures with the annual core CPI and PCE deflator rates accelerating to above 2%. Thus, while the Fed is likely to deliver another modest 0.25% rate hike in August, it could turn more aggressive on policy tightening post the November elections. We see the Fed funds rate ending the year at 2.25%, with further rate hikes likely in 2005.

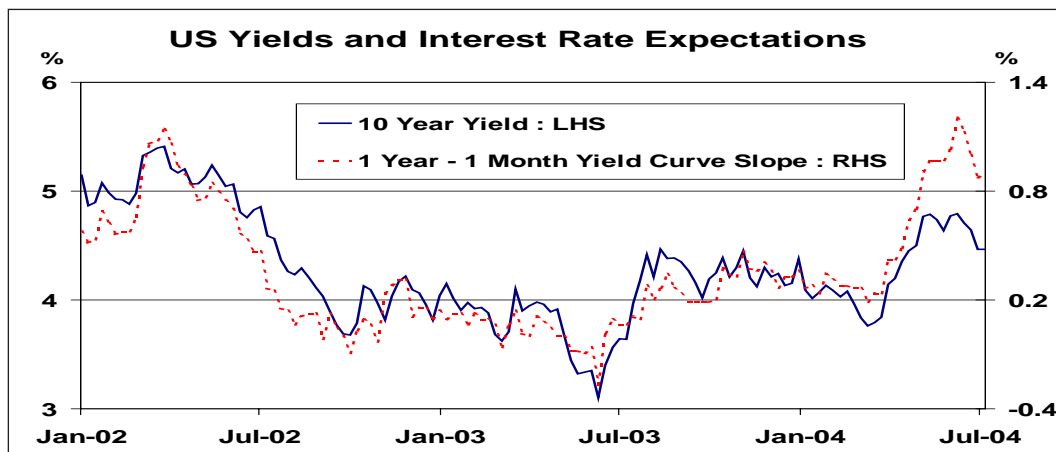
John Beggs
Chief
Economist

Thus, while the US bond market may be supported by sluggish data and technical factors in the short term, we expect upward pressure to re-emerge on yields through the autumn and winter, with ten year Treasury yields rising to 5% by end year. Other markets can be expected to follow suit, with bund yields climbing to 4.6% by end 2004.

Oliver Mangan
Chief Bond
Economist

Geraldine Concagh
Senior
Economist

Jenny Pollock
Senior
Economist



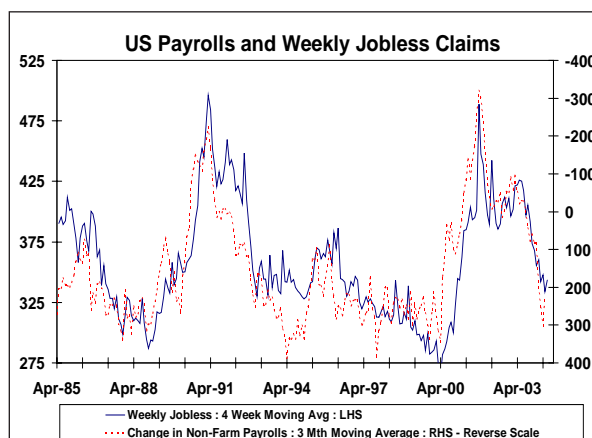
THE US

KEY ISSUES

- **Pace Of Recovery:** GDP growth seems to have slowed to a 3.0-3.5% range in Q2 but should pick up pace again in H2 2004. Leading indications still pointing to strong growth.
- **Monetary Policy:** Fed likely to persist with moderately paced rate hikes for now, but could turn more aggressive later in the year on inflation concerns.
- **Bond Market:** Volatile performance year to date. We expect a renewed uptrend in yields as core inflation rates climb further, with ten year Treasury yields hitting 5% by end year.

ECONOMY HITS SOFT SPOT

- The US economy has hit a soft spot, with consumer spending and job growth weakening on the back of rises in energy costs, cessation of tax refunds and higher market interest rates. Data for June have been particularly weak. Auto sales fell sharply, store sales were flat, jobless claims increased and the rise in payrolls moderated considerably. Overall, GDP growth in Q2 could slow to around 3.5% from a downwardly revised 3.9% in Q1.
- Nonetheless, strong growth in manufacturing output and residential construction activity continued in April and May. Forward looking indicators of activity such as the ISM and Philly Fed surveys point to continuing strong growth in the industrial sector of the economy during the second half of the year.
- More broadly speaking, GDP growth should reaccelerate back to the 4% level or above in H2 2004 as the factors which depressed spending activity in the second quarter abate. Long term interest rates have fallen over the past couple of months while oil prices have also declined from their Q2 highs. Tax refunds in Q1 also boosted householders' spending in that quarter relative to Q2.
- Despite robust employment gains, GDP growth in the first half of 2004 was on a lower trajectory that we originally had envisaged. Thus, we are scaling back our 2004 GDP forecast from 4.7% to 4.5%. We still look for GDP growth of 3.7% in 2005. Meanwhile, the balance of payments deficit has continued to worsen this year with a record current account shortfall in Q1 and a further widening of the trade deficit in April. The current account deficit could rise to 5.2% of GDP in 2004.



US Macro Forecasts			
	2003	2004	2005
GDP Growth	3.1	4.5	3.7
CPI Rate	2.3	2.6	2.3
Unemployment Rate	6.0	5.5	5.2
Federal Budget Bal. (1)	-3.5	-3.8	-3.3
BOP (1)	-4.8	-5.2	-5.0

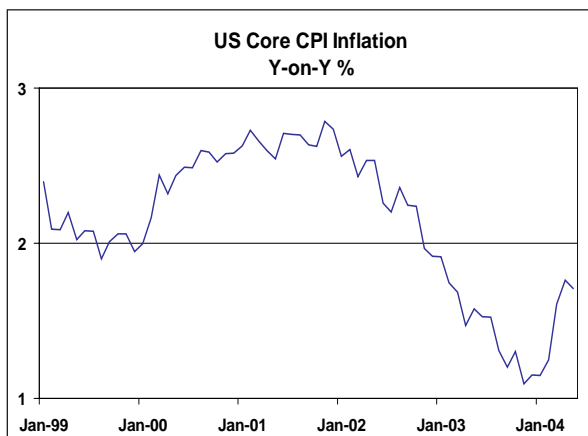
(1) % of GDP

INFLATION ON THE RISE

- While the growth in employment in June of 112,000 disappointed, the rise in payrolls in Q2 as a whole still averaged 224,000 per month, up from 198,000 in Q1 and 60,000 in Q4 2003. The level of jobless claims and the employment components of the ISM surveys are consistent with continued strong growth in employment. We expect payroll growth to continue to average more than 200,000 per month in H2 2004 with the unemployment rate edging lower from its H1 2004 level of 5.6%.
- Inflationary pressures picked up considerably more than expected in the first half of the year. This was partly due to higher energy and food prices. High oil prices in particular were a key factor in the acceleration of the headline CPI rate to 3.1% in May from 1.7% earlier in the year. However, core inflation indicators have also been trending higher this year and are much more difficult to explain away.
- The core CPI rate rose at an annualised rate of 2.9% in the first five months of 2004, with the year-on-year rate climbing to 1.7% in May from 1.1% last December. Meanwhile, the core PCE deflator rose at an annualised rate of 2.0% in Q1 and could exceed this rate in Q2. The annual rate doubled from 0.8% to 1.6% yoy between December and May. With productivity slowing and unit labour costs rising, the core CPI and PCE year-on-year rates seem likely to breach 2% in H2 2004.

FED STARTS TO HIKE RATES

- As expected, the Fed hiked rates by 0.25% at end June, the first increase in four years, bringing the funds rate to 1.25%. In the accompanying statement, the Fed indicated that policy accommodation can be removed at a pace that is likely to be measured. However, the Fed also warned that it will respond to changes in economic prospects as needed to maintain price stability. With growth moderating in Q2, another 0.25% rate hike seems likely at the August FOMC meeting. Policy may then be put on hold until after the Presidential elections in early November.
- We expect the economy to regain momentum in H2 2004 while the annual core CPI and PCE deflator rates are likely to rise above 2%. Hence, we look for the Fed to accelerate the rate tightening process before year end, especially as the stance of monetary policy is still exceptionally accommodative. Thus, we expect the Fed to hike rates by a total of 75bps at the FOMC meetings in November and December, bringing the funds rate to 2.25% by end 2004.

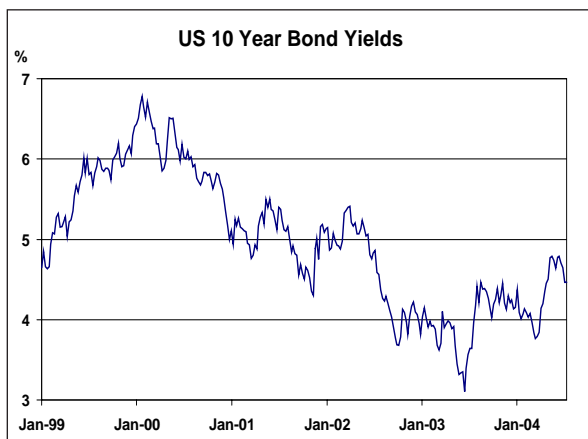


US Interest Rate Forecasts				
	14 July	Sept '04	Dec '04	Dec '05
Fed Funds	1.25	1.5	2.25	3.75
1 month	1.4	1.6	2.4	3.8
3 month	1.6	1.8	2.5	3.9
1 Year	2.3	2.5	3.1	4.3

- Further monetary tightening is likely in 2005 with the economy expected to continue registering strong growth and policy still accommodative at end 2004. The financial markets are discounting a Fed funds rate of 3.5% by end 2005. This would still represent an accommodative stance so policy could be tightened by more than this if growth remains robust at close to 4% and core inflation stays above the 2% level next year.

VOLATILE TREASURIES

- It has proved a volatile year so far for the Treasury market. Ten year yields fell by 50bps in the opening quarter on weak payroll data. With payrolls then rising strongly in the Spring, ten year yields rose by 120bps to 4.9%. In the past two months, yields have fallen again by 40bps to under 4.5% as the economic upturn lost momentum and the Fed indicated that monetary policy accommodation was likely to be withdrawn at just a moderate pace.
- There is little doubt that the steepness of the yield curve and the fact that most investors were well short duration have also contributed to the recent rally. Indeed, in our last Fixed Income Monthly Monitor published at the end of May, we suggested that funds which were short duration should move closer to their benchmark as the risks to the market had become more finely balanced.
- Following the recent setback, we think that the risks to the bond market have once again become weighted on the downside. We are particularly concerned that not enough attention is being paid by investors to the pick up in underlying inflationary pressures. With productivity growth now weakening and unit labour costs rising, we do not expect the rise in core inflationary readings to reverse anytime soon, with the annual core CPI and PCE deflator rates likely to breach 2% in H2 2004.
- Hence, we think the Fed will have to turn more aggressive on monetary tightening before year-end, especially if the economy and employment growth pick up momentum again also. Thus, we look for two year yields to rise to 3.5% by end 2004 with ten year yields climbing to 5%, with most of the back up in yields occurring in the final quarter of the year.
- We also look for the curve to flatten by end year as the Fed turns more aggressive on policy. Our forecasts imply that two year yields will rise by some 100bps and ten year yields by 50bps from their current levels by end 2004.



US Bond Yield Forecasts				
	14 July	Sept '04	Dec '04	Dec '05
2 Year	2.5	2.9	3.5	4.3
5 Year	3.6	3.9	4.3	4.8
10 Year	4.5	4.7	5.0	5.3
30 Year	5.2	5.4	5.6	5.7

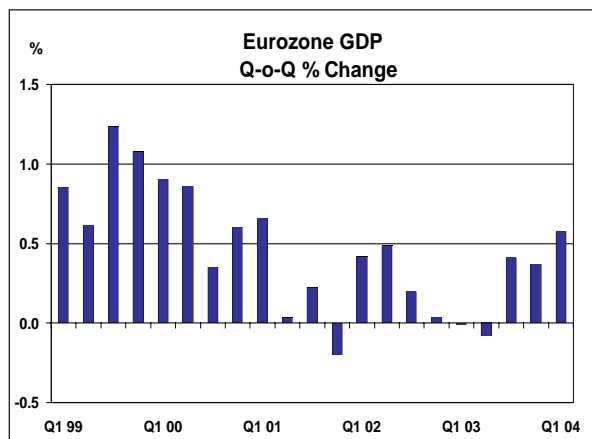
THE EUROZONE

KEY ISSUES

- **Economic Recovery:** Although the recovery in activity picked up pace in H1 2004, it appears overly reliant on external demand and thus is not yet self sustaining.
- **Monetary Policy:** The recent pick up in inflation and growth has seen the market start to discount a rate hike by end year. However, we think policy will remain on hold until 2005.
- **Bond Market:** US Treasuries remain a major influence. Eurozone yields likely to rise in sympathy with the US trend over balance of year, but the market should outperform Treasuries.

MODERATE RECOVERY IN ACTIVITY

- The recovery in the eurozone economy gained pace in the opening quarter of the year with GDP rising by 0.6%, up from the 0.4% rate recorded in the final two quarters of 2003. An improvement in net external trade with exports rising by 1.7% in the quarter was the main factor. There was also an unexpected pick up in consumer spending, which rose by 0.6% after its very weak performance in 2003.
- Growth in overall domestic demand remained sluggish, though, at just 0.2% in the quarter, reflecting contractions in government spending and fixed investment. Overall, then, the recovery in the eurozone economy remained heavily dependent on the stronger global economy with little sign yet of a sustained upswing in domestic demand.
- The data published for Q2 point to a continuation of the modest, export led, economic recovery. The EU Commission is forecasting GDP growth of around 0.5% for Q2. The PMI for manufacturing rose further in Q2, pointing to continued solid growth in industrial output. The PMI for services weakened slightly but remained above 55, consistent with good growth in this sector.
- We do not envisage much acceleration in the pace of economic recovery in H2 2004. Sluggish income growth, the rise in inflation, weak consumer confidence, high unemployment and uncertainties about reforms are all likely to continue acting as restraints on domestic demand. On the other hand, the better external environment, low interest rates and improved business sentiment should help sustain the upswing in activity. Overall, we look for GDP growth to average 1.9% in 2004, rising to 2.5% next year.



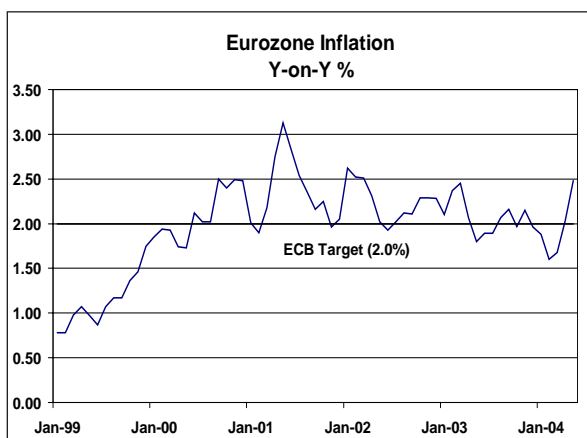
Eurozone Macro Forecasts			
	2003	2004	2005
GDP Growth	0.5	1.9	2.5
CPI Rate	2.1	2.1	1.9
Unemployment Rate	8.9	9.0	8.9
Budget Bal (1)	-2.7	-2.7	-2.6
BOP (1)	0.4	0.6	0.7
(1) % of GDP			

INFLATION BACK ABOVE 2%

- The HICP rate picked up sharply in Q2, rising to 2.5% in May, before edging down to 2.4% in June. This is well above the recent low of 1.6% recorded in February. The sharp jump in oil prices this spring, as well as a basis effect on energy prices related to the war in Iraq, are primarily responsible for the acceleration in inflation.
- Core inflation has also edged higher to 2.1% in recent months from 1.9% at the turn of the year. This is disappointing given the strength of the euro, weakness of domestic demand and high unemployment. Core inflation is proving unexpectedly sticky, showing a marked reluctance to decelerate below 2% in this cycle.
- The continuing high level of oil prices means that the HICP rate is likely to be sustained in a 2.0-2.5% range over the balance of 2004, and average 2.1% or above for the year as a whole. It should edge down below 2% in 2005 assuming oil prices do not rise further and in the absence of any significant second round effects from the sharp rise in energy costs.

ECB TO STAY ON HOLD IN H2 2004

- The pick up in inflation and growth saw hopes of a rate cut this year evaporate in Q2. Instead, the ECB has turned more hawkish in its commentary, warning about the dangers of second round effects from higher energy costs and highlighting the need to watch the trend in inflation expectations. It has emphasised that it remains vigilant with regard to all developments that could pose a risk to price stability.
- Nonetheless, it is difficult to see the ECB starting to tighten monetary policy anytime soon. The upturn in activity remains modest, there is considerable spare capacity in the economy, while the euro is now a strong currency. Wage increases also remain relatively subdued. Indeed, Bundesbank President, Axel Weber, has said that the ECB is not aiming for a rate change in the foreseeable future. ECB President Trichet's most recent comment was that the ECB had good reasons to keep rates unchanged at its July meeting.
- The financial markets are discounting a rate hike by end year. However, in our view, the ECB will not start hiking rates until 2005 when the economic recovery should have moved on to a firmer footing. We see the refi rate at 3% by the end of next year, up from 2% at end 2004, with the first increase likely next spring.



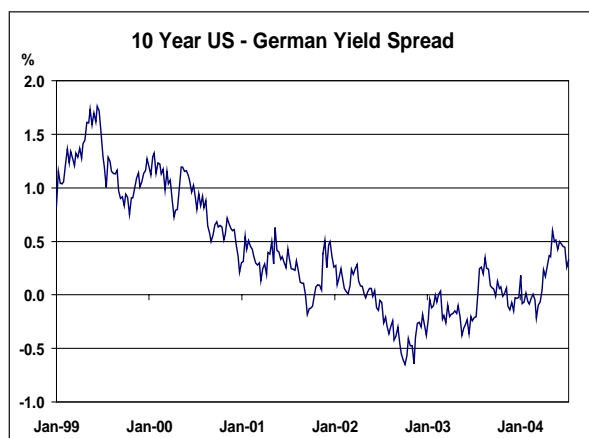
	14 July	Sept '04	Dec '04	Dec '05
Refi	2.0	2.0	2.0	3.0
1 Month	2.1	2.1	2.1	3.1
3 Month	2.1	2.1	2.2	3.2
1 Year	2.3	2.4	2.6	3.7

EUROZONE YIELDS TO RISE

- Eurozone bond yields declined in Q1 and then rose in Q2, before declining again recently, very much mirroring the trend in US Treasuries. The market has outperformed Treasuries, though, year to date. Ten year eurozone yields are back to their levels at the start of the year, helped by the gains in recent weeks.
- The domestic environment has not been that favourable for eurozone bonds this year. Hopes of a further easing of ECB rates have evaporated. Inflation has risen again, picking up to around 2.5%. There is little sign of any improvement in budget deficits in the eurozone. Meanwhile, there has been a reasonable pick up in economic activity in 2004.
- If we are correct in our view that Treasury yields will rise over the balance of the year, then the eurozone bond market can be expected to follow suit. The rise in eurozone yields, though, should prove to be less pronounced than in the US, especially at the short end of the curve, given our view that policy tightening is not likely in the eurozone until 2005. Two year eurozone yields, which are currently trading at around level spreads to Treasuries, could move to 50bps below US levels.
- At the longer end, ten year eurozone yields are trading around 30bps through US Treasuries. This spread may widen out towards 50bps over the balance of the year. Overall, ten year eurozone yields could rise to 4.6% by end 2004, up from 4.25% at present.

TIGHT CORPORATE BOND SPREADS

- After a strong performance in 2003, the average pick-up offered by investment grade paper over government bonds contracted by a further 10bps to around 53bps in H1 2004. A meagre supply of new issues, improving corporate balance sheets and continuing low short term rates all supported the spread tightening.
- Spreads are now at exceptionally low levels making it difficult for them to narrow further. However, given the limited supply of new debt, improving company balance sheets and the continuing low interest rate environment in the eurozone, spreads seem likely to remain tight in the coming months. They could widen somewhat later in the year if the Fed turns more aggressive on policy tightening and in anticipation of ECB rate hikes over the course of 2005.



	14 July	Sept '04	Dec '04	Dec '05
2 Year	2.6	2.8	3.0	3.8
5 Year	3.5	3.7	3.9	4.5
10 Year	4.2	4.4	4.6	5.0
30 Year	4.9	5.1	5.3	5.5

THE UK

KEY ISSUES

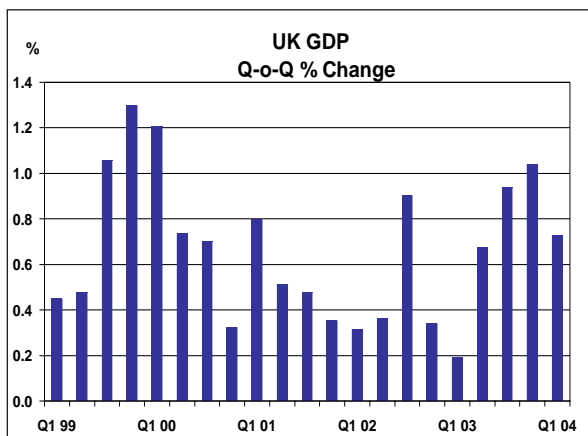
Strong Economic Growth: A pick up in manufacturing output is likely to push GDP growth in 2004 up to 3.5%, further eroding the limited spare capacity in the economy.

BoE Rate Hikes: Further rate hikes can be expected from the BoE with the economy growing well above trend. Repo rate could hit 5.25% by end year.

High Yielding Gilts: High and rising UK interest rates are weighing on gilts, resulting in a generous yield pick up over US and eurozone bonds. Spreads over eurozone bonds are likely to remain wide in H2 2004.

ABOVE TREND GROWTH

- There was a moderation in the pace of UK economic activity in Q1 2004 with GDP rising by 0.7%, down from the buoyant 0.9% growth rate recorded in the final quarter of 2003. The slower growth rate partly reflected a 0.5% fall in manufacturing output in the quarter, with production declining in many sectors.
- Manufacturing output has picked up strongly in Q2, rising by 0.8% in April and 0.5% in May. This is in line with the robust survey data for the sector. Consumer demand remains the main driving force of the economy with retail sales volumes rising by 1.7% in the three months to May and CBI survey data pointing to buoyant sales in June.
- With exports also picking up in Q2 and investment and government spending continuing to grow strongly, the UK economy is now firing on all cylinders. Overall, GDP may have risen by 1% in Q2. Modest falls in June PMI readings suggest that growth may moderate slightly in Q3 but still remain above trend. We look for GDP growth to average 3.5% in 2004, easing to 3% in 2005.
- The pick up in growth is reflected in a tightening of labour market conditions with the unemployment rate down to 4.8%. Average earnings growth has also risen to around 4.5%. Meanwhile, core output price inflation has picked up while the CPI rate has accelerated to 1.6%. House price inflation, while moderating in the past month, remains high. Not surprisingly, then, the Bank of England has become concerned about rising inflation pressures in the economy.



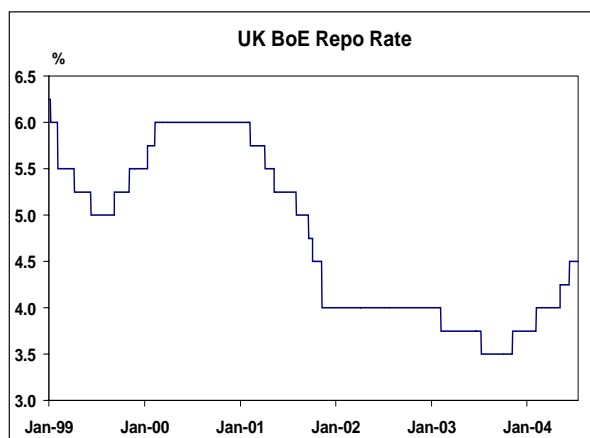
UK Macro Forecasts			
	2003	2004	2005
GDP Growth	2.2	3.5	3.0
CPI Rate	1.4	1.5	1.8
Unemployment Rate	5.1	4.7	4.5
Budget Bal. (1)	-3.0	-3.0	-2.8
BOP (1)	-1.9	-2.1	-2.2
(1) % of GDP			

FURTHER RATE HIKES EXPECTED

- Thus, the Bank of England raised rates by 0.25% in both May and June, bringing the repo rate to 4.5%. This represented an acceleration of the pace of tightening from the 0.25% rate hikes in Q4 2003 and Q1 2004.
- The BoE statement accompanying the June rate hike, noted that output growth has been at or above trend and business surveys suggest growth will remain strong. With a small and diminishing margin of spare capacity, the BoE expects inflationary pressures to continue building. Subsequent comments by MPC member indicate that the continued sharp rise in house prices has also been a key factor in recent rate hike decisions.
- There have been some signs of a moderation in house prices and credit growth in the past month. However, manufacturing activity picked up considerable momentum in Q2, pushing GDP growth well above trend. Thus, further policy tightening looks inevitable over the balance of the year, given the limited spare capacity in the economy.
- We look for the BoE to hike rates by another 25bps in August. Rates look set to rise by a further 25-50bps in the final quarter of the year, bringing the refi rate to 5.0-5.25% by end 2004. Rates could peak at around 5.5% in 2005 assuming that there is a marked moderation in house price inflation and growth falls back close to trend.

GILT YIELD SPREADS TO REMAIN WIDE

- The relatively high level of official UK interest rates and prospects of further rate increases continue to weigh on the gilt market. Ten year gilt yields are some 90bps above bunds and 60bps over Treasuries. Gilts remain vulnerable to any further deterioration in interest rate sentiment in the UK, given the flatness of the yield curve.
- We think that the ten year gilt-bund spread is unlikely to narrow significantly until the ECB starts hiking rates, which is not expected to happen until early 2005. The heavy volume of gilt issuance, which is running at around £50bn per annum, is another unfavourable factor for the gilt market as well. Meanwhile, gilt yields can be expected to rise over the remainder of the year on BoE policy tightening and an uptrend in US and eurozone bond yields. We look for ten year gilt yields of 5.5% by end 2004.



	14 July	Sept '04	Dec '04	Dec '05
Repo Rate	4.5	4.75	5.25	5.5
2 Year	5.0	5.2	5.5	5.6
5 Year	5.1	5.3	5.5	5.6
10 Year	5.1	5.3	5.5	5.5
30 Year	4.8	4.9	5.1	5.1

JAPAN

KEY ISSUES

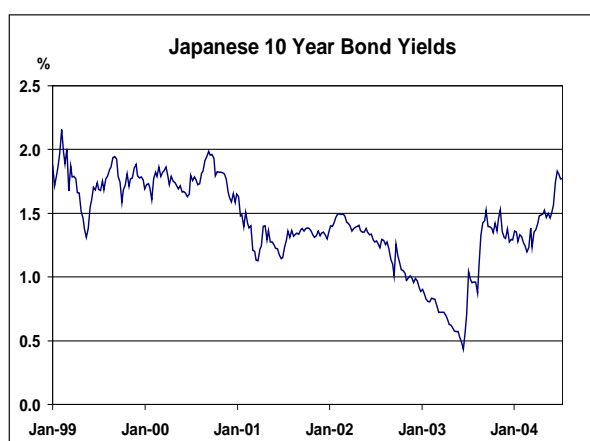
Strong Growth: The robust economic growth of Q1 appears to be continuing. While the export sector continues to drive economic expansion, the pick-up in activity has spread across the economy.

Some Easing In Deflation: There are signs that deflationary pressures are easing. However, deflation in the core CPI rate is expected to persist throughout 2004 and into 2005.

Rising Yields: The strengthening of economic activity is impacting on JGBs . Yields could rise further given strong economic growth, easing of deflationary pressures, and negative international trend.

ROBUST GROWTH

- There are increasing signs of a sustained Japanese economic upturn. While exports remain strong, particularly to China, growth is now broadly based. The uptrend in production remains intact. Furthermore, the recently released June tankan survey showed not only significantly improved sentiment amongst large manufacturers but also positive sentiment by small manufacturers for the first time in a decade.
- Meanwhile, a gradual improvement is being seen in employment, which is helping to boost consumer confidence and with it consumption growth. Furthermore, core machinery orders data point to a continuing uptrend in capital spending.
- The pace of overall economic growth is expected to moderate over the balance of the year from the 1.5% QoQ rate of increase in GDP recorded in Q1, especially as efforts are being made to slow the Chinese economy. Nevertheless, we expect GDP to rise by over 4% in 2004, after growth of 2.5% in 2003.
- The BoJ, though, is expected to leave its quantitative easing measures and zero interest rate policy in place for some time. While deflationary pressures are easing, the core CPI rate is still expected to decline moderately throughout this year.
- Ten year JGB yields have picked up from 1.2% to around 1.75% this year reflecting the stronger economic conditions and negative international trend. As the economic upswing continues, deflationary pressures ease and international bond yields move higher, JGB yields may rise yet further. Ten year yields could approach the 2% level by end year.



Japanese Forecasts			
	2003	2004	2005
GDP Growth	2.5	4.1	2.0
CPI Rate	-0.2	-0.2	0.0
ODR (1)	0.1	0.1	0.1
5 Year Yield (1)	0.5	1.0	1.5
10 Year Yield (1)	1.3	2.0	2.3
<i>(1) end year</i>			

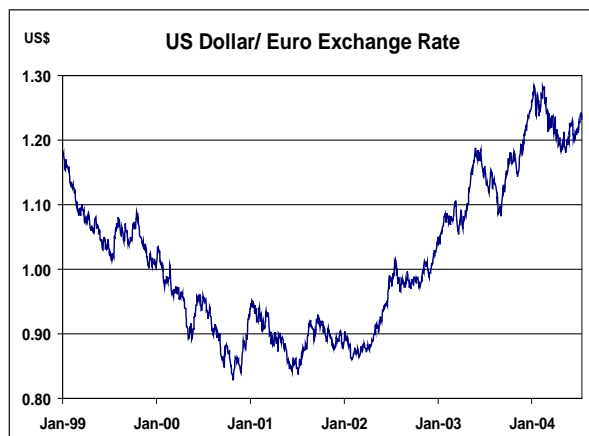
THE CURRENCY MARKETS

KEY ISSUES

- **Dollar On The Back Foot:** The dollar is being pressured by the slow pace of US rate hikes and the high and rising US external deficit.
- **Euro Helped By Eurozone Economy:** The euro has been helped by the signs of recovery in the economy and market expectations that ECB rates could rise by end year.
- **Sterling In Strong Position:** The UK's sound economic performance, coupled with the widening interest rate gap, has benefited sterling. This should continue in H2 2004.

DOLLAR REMAINS THE CENTRE OF ATTENTION

- The only guaranteed way of bringing the wide US trade and current account deficits down to more sustainable levels is by means of a significant fall in the value of the dollar. As a result, we continue to be cautious about the outlook for the dollar, despite its decline since early 2002, and notwithstanding the strong US economic performance of the past year.
- In the short term, the outlook for the dollar will be determined by the strength of economic data and policy actions of the Fed. A key dollar support against the euro of \$1.2350 gave way earlier this month on weaker than expected data and indications that Fed tightening would be slow paced. Thus, the dollar could trade in a \$1.22 - \$1.26 range in the weeks ahead. The dollar could be boosted later in the year as US growth picks up momentum again and the Fed turns more aggressive on policy tightening. Thus, dollar-euro could move back into a \$1.18-\$1.23 range in the autumn. A major dollar rebound, though, seems unlikely.
- As we are generally cautious about the dollar, we see sterling staying strong against the US dollar in a \$1.80-1.90 range over the medium term. The UK economy is clearly outperforming the eurozone and the interest rate differential is widening in favour of sterling. These factors should strengthen sterling against the euro. However, repeated moves by sterling to sustain a break below £0.66 have failed. Fresh attempts to move in this direction are likely in H2 2004.
- We see scope for the yen to appreciate against the dollar given the strength of the upturn in the Japanese economy. The dollar-yen rate is forecast to move towards Y105 over the balance of the year and to trade in a Y100-105 range in 2005.



Forex Forecasts *			
	14 July	Sept '04	Dec '04
US\$/EUR	1.24	1.23	1.21
STG/EUR	0.67	0.66	0.66
YEN/EUR	135	133	128
US\$/STG	1.86	1.86	1.84
YEN/US\$	109	107	106

* Mid-point of expected trading range

FINANCIAL MARKET FORECASTS



INTEREST RATE FORECASTS (% , END MONTH)

	14 July	Sept '04	Dec '04	Mar '05	Jun 05
US Fed Funds	1.25	1.5	2.25	2.75	3.25
Euro Refi Rate	2.0	2.0	2.0	2.25	2.50
UK Repo Rate	4.5	4.75	5.25	5.5	5.5
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (% , END MONTH)

	14 July	Sept '04	Dec '04	Mar '05	June 05
US 2 Year	2.5	2.9	3.5	3.8	4.0
(s.a.) 5 Year	3.6	3.9	4.3	4.5	4.7
10 Year	4.5	4.7	5.0	5.2	5.3
30 Year	5.2	5.4	5.6	5.7	5.7
Euro 2 Year	2.6	2.8	3.0	3.3	3.6
(ann) 5 Year	3.5	3.7	3.9	4.2	4.4
10 Year	4.2	4.4	4.6	4.8	5.0
30 Year	4.9	5.1	5.3	5.4	5.5
UK 2 Year	5.0	5.2	5.5	5.6	5.6
(s.a.) 5 Year	5.1	5.3	5.5	5.6	5.6
10 Year	5.1	5.3	5.5	5.5	5.5
30 Year	4.8	4.9	5.1	5.1	5.1
Jap 2 Year	0.2	0.3	0.3	0.4	0.5
5 Year	0.8	0.9	1.0	1.1	1.2
10 Year	1.8	1.9	2.0	2.1	2.2
30 Year	2.8	2.9	3.0	3.1	3.2
Euro Bund-Swap	11	12	15	18	20
Spreads Corp - Gov	54	55	60	65	70
(bps)					

EXCHANGE RATE FORECASTS (END MONTH)*

	14 July	Sept '04	Dec '04	Mar '05	June '05
US\$/EUR	1.24	1.23	1.21	1.20	1.20
STG/EUR	0.67	0.66	0.66	0.67	0.67
YEN/EUR	135	133	128	126	125
US\$/STG	1.86	1.86	1.84	1.80	1.80
YEN/US\$	109	107	106	105	104

* Mid-point of expected trading range

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