AIB Global Treasury
Economic Research

FIXED INCOME MONTHLY MONITOR

SEPTEMBER 2004

UNCERTAIN OUTLOOK

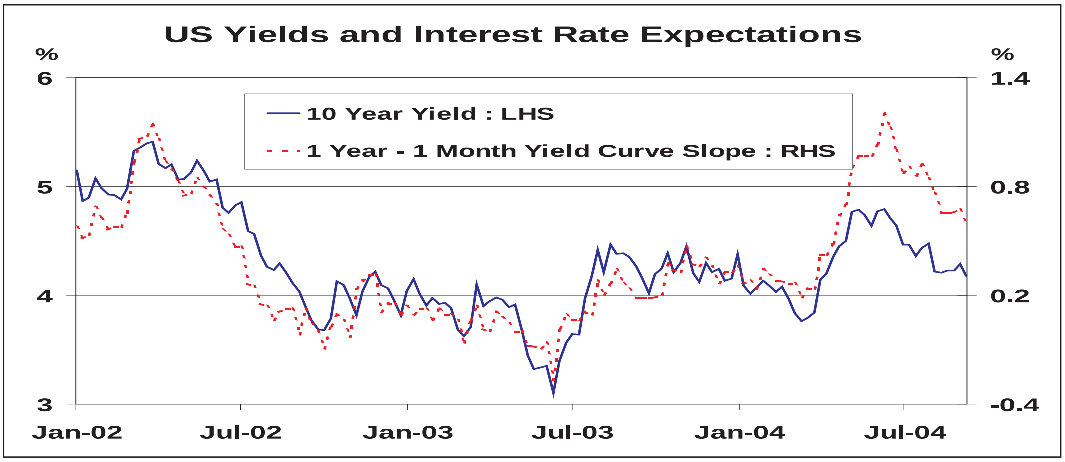
Bond markets staged a strong rebound over the summer on accumulating evidence of a slowdown in the pace of global economic growth. A sharp rise in oil prices has been one of the factors behind the deceleration in economic activity. Many central banks, though, have been busy hiking interest rates as they seek to withdraw some of the considerable monetary stimulus that has been injected into the world economy in recent years.

They have not been deflected from this path by weakening activity. Central banks believe that the economic slowdown will prove a temporary occurrence and activity will soon pick up again. This month's G10 meeting of central banks concluded that the global economic recovery is still very much on track. Markets, though, appear less convinced, with bond yields falling and expectations of rate hikes being scaled back.

The economic outlook is indeed uncertain. However, with oil prices well below their recent highs, global monetary conditions still stimulatory and signs of a pick up in wage growth, employment and consumer spending in the US, we are prepared to give the benefit of the doubt to global growth for now. We are worried, though, by the fact that so many leading indicators are pointing to a continued slowdown in activity over the balance of the year. Thus, economic data need careful watching over the coming months, especially consumer spending.

The short ends of bond markets have not discounted a lot of policy tightening. Thus, they are quite vulnerable if central banks stick to their present tightening path. Yield curves remain relatively steep, offering some protection to longer dated bonds. However, this part of the curve is also sensitive to any deterioration in interest rate expectations. Our best guess is that there will be a modest rise in yields in Q4 2004 on signs of a pick up in global economic activity.

The economic outlook for 2005 is also quite uncertain. The trend in oil prices will be important. Our best guess is that global growth will be solid enough in 2005, but not overly strong. Central banks can be expected to withdraw some more of the monetary stimulus, but at a slow pace. In these circumstances, we expect a further moderate rise in bond yields next year.



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THE US

KEY ISSUES

- ***Growth Prospects:*** Economic activity slowed in Q2. Growth seems to picking up again as predicted by the Fed, but the outlook for the economy remains uncertain.

- ***Monetary Policy:*** Fed likely to persist with moderately paced rate hikes as it moves to a less acommodatory stance on interest rates.

- ***Bond Market:*** Good rally by bond market over the summer as the pace of economic growth slowed. Further progress may be difficult with the Fed tightening policy and signs of stronger growth.

SLOWER GROWTH

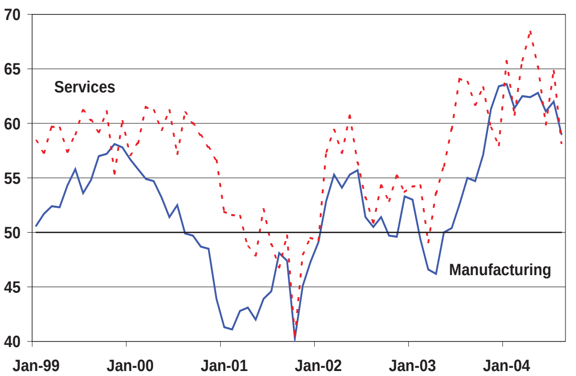
- The pace of economic activity has slowed in the US since earlier in the year with consumer spending weakening in particular, and a marked fall-off in the pace of payrolls growth. Consumer spending rose by just 1.6% in Q2 as job growth slowed, tax cuts and rebates came to an end, and oil prices rose sharply denting real spending power.

- Payrolls growth has averaged just above 100,000 in the past three months, well down on the levels recorded earlier in the year. However, other labour market indicators remain firm. The jobless claims numbers have been relatively stable in recent months. Meanwhile, the household survey shows strong employment gains over the summer, with the unemployment rate dipping further to 5.4%. Thus, payrolls may be overstating the weakness of the labour market somewhat, possibly due to some pronounced negative seasonal adjustment factors this summer.

- However, there is no denying that the pace of economic growth has slowed since Q1. GDP growth in Q2 amounted to just 2.8%, down from 4.5% in Q1. Apart from the slowdown in consumer spending, a marked deterioration in the trade balance was the other main factor weighing on Q2 growth; it depressed GDP growth by 1.3% in the quarter as imports surged.

- There are signs of a pick up in the pace of activity in Q3. Consumer spending has strengthened since June, growth in manufacturing output remains robust while payroll growth picked up in August after two weak months. However, leading indicators, such as the ISM indices, as well as consumer confidence, fell in August, so the outlook for the economy remains uncertain.

US Manufacturing & Services ISMs



US Macro Forecasts

	2003	2004	2005
GDP Growth	3.1	4.3	3.5
CPI Rate	2.3	2.6	2.3
Unemployment Rate	6.0	5.5	5.2
Federal Budget Bal. *(1)*	-3.5	-3.6	-3.0
BOP *(1)*	-4.8	-5.4	-5.2

(1) % of GDP

- Nonetheless, GDP growth of 3.5% is likely in Q3, and growth could pick up to 4% in Q4. Wage growth is accelerating, which is helping boost household spending. Oil prices are also well below their recent highs. Longer term interest rates also fell sharply over the summer which should help activity. For the year as a whole, we expect GDP growth to average 4.3%.

- We look for GDP growth to average 3.5% in 2005. The combination of monetary tightening, absence of a fiscal stimulus, stretched consumer balance sheets, high oil prices and weaker global growth suggests that the US economy may be able to manage little more than trend growth next year. Job growth should be reasonable but is unlikely to be sufficient to produce a further marked fall in the unemployment rate.

MODERATE RISE IN CORE INFLATION

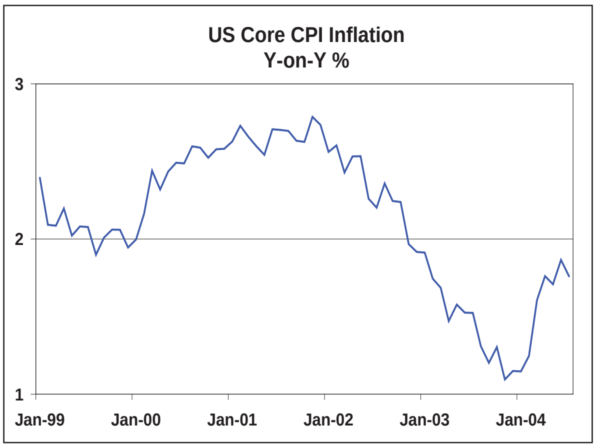
- Rising oil prices have pushed CPI inflation above 3% in recent months. The core inflation rate picked up in the earlier part of the year but has been stable at 1.8% yoy in recent months. The core PCE index has also been stable at 1.5% yoy since April, having accelerated in the opening quarter of the year. Both core indices have registered gains of just 0.1% in recent months, easing concerns about rising inflationary pressures.

- Nevertheless, rising commodity prices, the second round effects of surging energy prices, accelerating wage costs and a pick up in unit labour costs all point to rising inflationary risks. We would not be surprised if the core CPI rate rose above 2% over the balance of the year.

- With growth decelerating to around trend levels, inflation should be relatively well behaved in 2005. Headline inflation should also fall if oil prices stabilise next year. We see inflation averaging around 2.3% in 2005.

FED STAYS ON TIGHTENING PATH

- As expected, the Fed hiked rates by 25bps at the FOMC meetings at end-June and mid-August, taking the funds rate up to 1.5%. Fed officials have indicated on a number of occasions that policy is still very accommodatory. They have stressed that the Fed is raising rates, not because it feels that growth is too fast, but rather because the economy no longer needs the same level of monetary stimulus.



US Interest Rate Forecasts

	15 Sept	Dec '04	June '05	Dec '05
Fed Funds	1.5	2.0	2.5	3.0
I month	1.7	2.1	2.6	3.1
3 month	1.9	2.3	2.7	3.2
1 Year	2.4	2.8	3.2	3.5

- The Fed has not been deflected from its tightening course by the recent weakness of data. Fed officials have said that the soft patch should prove short lived and activity will soon pick up pace again. Another 25bps rate hike is on the cards this month. We expect rates to be increased by a further 25bps in the final quarter of the year. Indeed, two 25bps hikes in Q4 is also a possibility.

- Fed funds at 2% or thereabouts would still represent a very accommodatory policy stance. Thus, further policy tightening is likely in 2005 if, as we expect, the economy continues to register solid growth and core CPI inflation rises above the 2% level. We see the Fed funds rate rising to 3% next year.

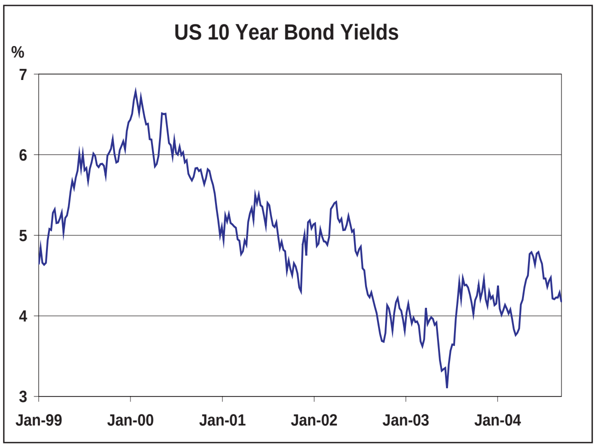
TREASURIES RECOVER GROUND

- It is proving a volatile year for the Treasury market. Ten year yields fell by 50bps in the opening quarter on weak payrolls data. With payrolls then rising strongly in the spring, ten year yields rose by 120bps to 4.9%. Over the summer, though, ten year yields fell by 80bps to 4.1% as the economy slowed and job growth moderated. To date in September, yields have gyrated on conflicting economic signals.

- The bond market could well range trade in the short term. Treasuries continue to be supported by sluggish economic data. However, Fed tightening and the continuing optimism of Fed officials on the economic outlook makes it difficult for bonds to make much further progress despite a relatively steep yield curve. Thus, ten year Treasury yields could trade in a 4.0-4.3% range in the weeks ahead, until a clearer direction emerges on the economy.

- We expect the economy to regain some momentum in the final quarter of the year, assuming that oil prices do not move higher again. Wage growth is picking up which, combined with rising employment, should result in a strengthening of consumer spending. The prospects also remain favourable for continued strong growth in business investment. The Fed is also likely to hike rates further in Q4. Thus, bond yields seem likely to move somewhat higher. We look for ten year yields to rise to 4.5% by end 2004.

- With the Fed expected to tighten policy further in 2005, and steady economic growth forecast, bond yields seem likely to move higher next year. The rise in yields should not be that pronounced, though, given the steepness of the yield curve and with further moderate Fed tightening already discounted by the market. Thus, ten year yields may rise close to 5% by end 2005.



US Bond Yield Forecasts

	15 Sept	Dec '04	June '05	Dec '05
2 Year	2.5	2.9	3.3	3.7
5 Year	3.4	3.7	4.0	4.3
10 Year	4.2	4.5	4.7	4.9
30 Year	5.0	5.2	5.4	5.5

THE EUROZONE

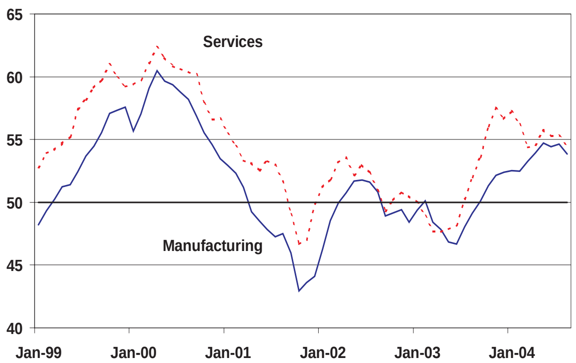
KEY ISSUES

- ***Economic* Recovery:** The pick up in activity has been heavily reliant on external demand to date. Hence, the pace of recovery is proving moderate, with little sign yet of strengthening domestic demand.
- ***Monetary Policy:*** The pick up in inflation and growth has seen the market start to discount a rate hike by end year. The ECB has also turned more hawkish in its commentary recently.
- ***Bond Market:*** Bond yields, especially in the ten year area, have been largely range bound to date in 2004. This could persist over the balance of the year.

MODERATE RECOVERY CONTINUES

- The moderate recovery in the eurozone economy continued in opening half of the year with GDP rising by 0.6% in Q1 and 0.5% in Q2, up slightly on the 0.4% and 0.5% rates recorded in the final two quarters of 2003. An improvement in net external trade, with exports up by 8.1% year-on-year in Q2 2004, has been the main factor behind the recovery in GDP since mid-2003.
- Growth in domestic demand remained very sluggish at just 0.2% in Q1 and 0.1% in Q2 2004. Investment contracted in H1 2004, growth in government spending has been moderate while, after rising by 0.6% in Q1, growth in consumer spending slowed to 0.3% in Q2. 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 to date for Q3 point to a continuation of a moderately paced economic recovery. Activity indicators were strong in July with big jumps in manufacturing output and retail sales in Germany. The PMIs for eurozone manufacturing and services weakened in August but remained consistent with reasonable growth in the economy. The EU Commission is forecasting GDP growth of around 0.5% in Q3, and again in Q4, in line with Q2 growth.
- We do not expect an acceleration in the pace of economic recovery in H2 2004 either. Sluggish income growth, the rise in oil prices, high unemployment and somewhat weaker external demand make it difficult for the recovery to gather momentum. Overall, we look for GDP to rise by 1.9% in 2004 and 2.1% in 2005.

Eurozone Manufacturing & Services PMI's



Eurozone Macro Forecasts

	2003	2004	2005
GDP Growth	0.5	1.9	2.1
CPI Rate	2.1	2.1	1.9
Unemployment Rate	8.9	9.0	8.9
Budget Bal *(1)*	-2.7	-2.7	-2.5
BOP *(1)*	0.4	0.6	0.7

(1) % of GDP

INFLATION RISES ABOVE 2%

- The HICP rate has picked up since earlier in the year, rising to a high of 2.5% in May, before edging down to 2.4% in June and 2.3% in July and August. This is well above the recent low of 1.6% recorded in February. The sharp jump in oil prices, as well as a basis effect on energy prices relating 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.

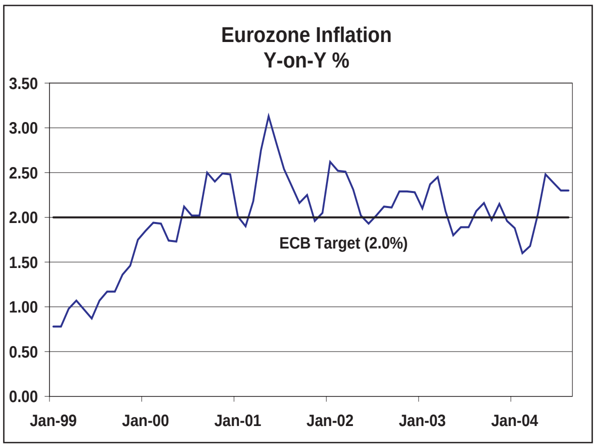
- The continuing high level of oil prices means that the HICP rate is likely to be sustained in a 2.0-2.5% range over the balance of 2004, and average 2.1% for the year as a whole. It should edge down below 2% in 2005 if oil prices stabilise.

ECB TURNS INCREASINGLY HAWKISH

- The ECB has maintained the refi rate at 2% since June 2003. However the ECB has turned hawkish recently in its commentary, warning about the dangers of second round effects from higher energy costs and highlighting the inflation risks posed by excess liquidity. It has emphasised that it remains vigilant with regard to all developments that could pose a risk to price stability.

- The grounds for policy tightening, though, look weak. 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. The upturn in global activity has also lost some momentum over the summer, growth in domestic demand has been virtually non-existent year-to-date, while the eurozone PMIs fell in August.

- We are sticking with our forecast that the ECB will not tighten policy until 2005. However, we cannot ignore the fact that the ECB has turned more hawkish in its commentary. If this hawkish tone is maintained, then a rate hike before end year, probably in December, would become an increasing likelihood. However, our analysis points to just a modest tightening of policy over the next 12-15 months. We see the refi rate at 2.75% by end 2005, regardless of when the tightening process begins.



Eurozone Interest Rate Forecasts

	15 Sept	Dec '04	June '05	Dec '05
Refi	2.0	2.0	2.5	2.75
1 Month	2.1	2.1	2.6	2.8
3 Month	2.1	2.2	2.7	2.9
1 Year	2.3	2.6	3.1	3.3

EUROZONE YIELDS RANGE BOUND

- Eurozone bond yields declined in Q1 and then rose in Q2, before declining again over the summer, very much mirroring the trend in US Treasuries. That said, the eurozone bond market has been confined to a relatively narrow trading range in 2004. Ten year bund yields have largely moved between 3.9-4.4% year to date with two year yields confined to a 2.0-2.8% trading range.

- The domestic environment has not been that favourable for eurozone bonds this year. Hopes of a further easing of ECB rates have evaporated. The market has started to discount policy tightening by end year. Inflation has risen back above 2%. 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. Nevertheless, ten year yields are currently below their levels at the start of the year.

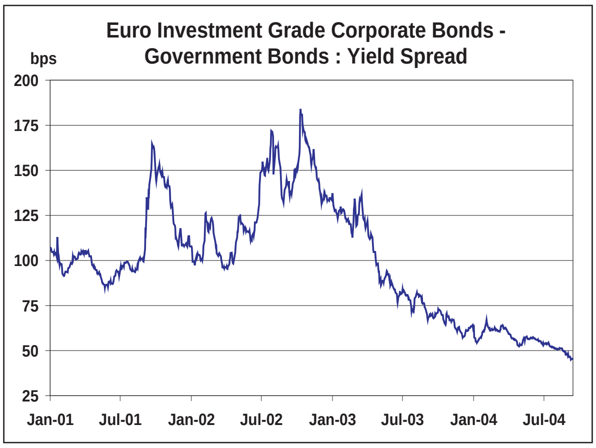
- If we are correct in our view that Treasury yields will edge higher later in the year, then the eurozone bond market can be expected to follow suit, especially if the ECB also hikes rates. Two year yields could rise to 3%, while we see ten year yields finishing the year at close to 4.4%, the top of their 2004 trading range.

- Turning to 2005, the combination of policy tightening by the ECB and expected uptrend in US Treasury yields would see eurozone bond yields rise also, especially at the short end of the curve. We look for two year yields to rise to 3.7%, with ten year yields climbing at a more moderate pace to 4.8% in 2005.

CORPORATE BOND SPREADS TIGHTEN EVEN FURTHER

- After a strong performance in 2003, the average pick-up offered by investment grade paper over government bonds has contracted by a further 17bps to 45bps to date in 2004. A meagre supply of new issues, improving corporate balance sheets, continuing low short term rates and technical factors related to the hedging of structured credit deals have driven the recent spread tightening.

- Spreads are now at exceptionally low levels and may not be attractive enough for many real-money accounts. Thus, spreads could widen once the technical factors related to hedging, that have driven the recent spread tightening, abate. However, given the limited supply of new debt, improving company balance sheets and the low interest rate environment, spread widening should prove modest.



Eurozone Bond Yield Forecasts

	15 Sept	Dec '04	June '05	Dec '05
2 Year	2.6	3.0	3.4	3.7
5 Year	3.4	3.8	4.1	4.3
10 Year	4.1	4.4	4.6	4.8
30 Year	4.7	4.9	5.1	5.2

THE UK

KEY ISSUES

Signs Of Slower Growth: Signs of a broad based slowdown in activity since mid-year, as rate tightening begins to impact, but economy should still register good growth in 2005.

BoE Policy: Further rate hikes called into doubt with economy slowing and inflation very low, but too soon to signal the all clear. We expect rates to rise a bit further.

High Yielding Gilts: High UK interest rates are weighing on gilts, resulting in a generous yield pick up over US and eurozone bonds. Spreads should start to narrow on policy tightening elsewhere.

ECONOMY SLOWS IN Q3

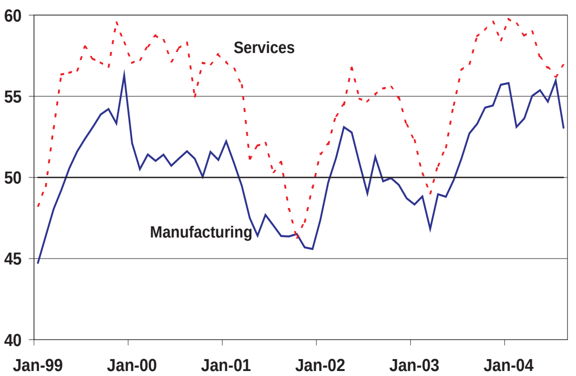
- There has been a moderation in the pace of UK economic activity since mid-year, following the very strong growth of the previous twelve months that took the rise in GDP to 3.7% year-on-year in Q2 2004. By Q2, all sectors of the economy were growing strongly, even manufacturing and exports.

- Recent months, though, have seen signs of a weakening in activity. Manufacturing output fell in June and July with the PMI for manufacturing also falling sharply in August. Retail sales also weakened in July and August while the housing market has cooled, with both loan approvals and prices declining this summer. Consumer confidence has also taken a dive.

- It would appear that BoE rate hikes, high oil prices and the general global slowdown are impacting on UK growth. There are signs of strength still in the services sector but overall GDP growth looks to have peaked. The fundamentals of the economy, though, remain strong. We look for trend growth or slightly above in the coming quarters with GDP rising by 3.4% in 2004 and 3.0% in 2005.

- The strong growth of the past year is reflected in a tightening of labour market conditions with the unemployment rate falling to 4.7%. Average earnings growth has also picked up this year. Meanwhile, core output price inflation has accelerated sharply, with the annual rate rising to 2.1% in August, its highest level since 1996. CPI inflation, though, remains well behaved, falling below 1.5% yoy recently, comfortably below the BoE's 2% target.

UK Manufacturing & Services PMIs



UK Macro Forecasts

	2003	2004	2005
GDP Growth	2.2	3.4	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

UK RATES TO RISE SOMEWHAT FURTHER

- The Bank of England has raised rates by 1.25% since last November, bringing the repo rate to 4.75%. The last rate hike was in August with the MPC leaving policy on hold in September.

- There has been considerable speculation that the moderation in economic activity since mid-year and slowing house price inflation imply that monetary policy will not need to be tightened any further. However, in our view, it is premature to call the top in the interest rate cycle, although rates are probably near their peak.

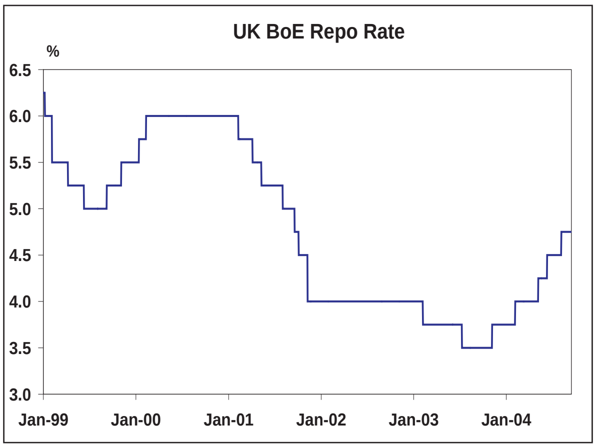
- While activity has slowed, we still expect solid GDP growth in the coming quarters in an economy with little spare capacity. Sterling has also fallen significantly since the start of August, resulting in an easing of monetary conditions and boosting the likely profile of inflation. Core PPI output price inflation has picked up strongly in recent months, while wage growth is accelerating. A shortage of housing stock also suggests that the uptrend in house prices will resume before too long.

- These factors point to a further modest tightening of monetary policy. We would not be surprised if rates were hiked by 25bps by end year with a further 25bps increase implemented in H1 2005. This would bring the repo rate to 5.25%, which is probably close to a neutral policy stance.

GILT YIELD SPREADS TO NARROW

- The relatively high level of official UK interest rates continues to weigh on the gilt market. Ten year gilt yields are more than 90bps above bunds and almost 80bps over Treasuries. Gilts remain vulnerable to any renewed deterioration in interest rate sentiment in the UK, given the flatness of the yield curve.

- We think, though, that the gilt market may soon start to outperform against bunds and Treasuries with UK rates nearing a peak, the Fed beginning to tighten policy and the ECB likely to start hiking rates around the turn of the year. However, official UK rates are set to remain well above rates elsewhere, which will curtail the degree of outperformance of gilts. The ten year gilt-bund spread could narrow to around 60bps next year from over 90bps at present. In absolute terms, we expect a modest rise in UK yields over the coming year with the yield curve remaining very flat.



UK Interest Rate and Bond Forecasts

	15 Sept	Dec '04	June '05	Dec '05
Repo Rate	4.75	5.0	5.25	5.25
2 Year	4.8	5.0	5.2	5.3
5 Year	4.9	5.1	5.3	5.4
10 Year	4.9	5.1	5.3	5.4
30 Year	4.6	4.8	4.9	5.0

JAPAN

KEY ISSUES

Slower Growth: The pace of economic growth has decelerated from the unsustainable levels at the beginning of 2004 and late 2003. A moderate pace of expansion is likely going forward.

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

Yields Off Highs: The weaker pace of economic activity plus positive international trend has impacted on JGBs. However, yields could rise again provided economic expansion is maintained.

MORE MODERATE GROWTH

- Japanese economic growth has slowed considerably from the unsustainable high levels at the beginning of this year and late 2003. The latest data show that GDP grew by 1.3% annualised in Q2 2004, compared to 6.4% in Q1 and 7.6% in Q4 2003.

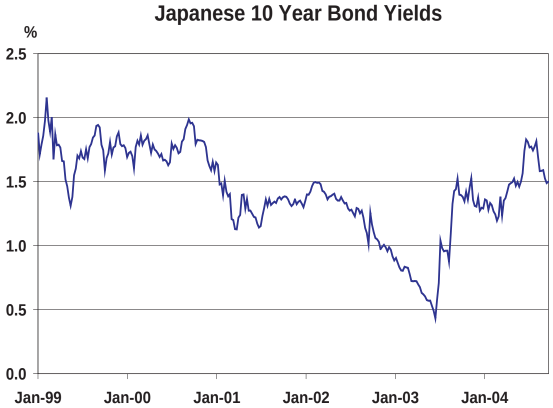
- The weakness of the Q2 data in part reflects a fall in public capital investment which was down 7.0% quarter on quarter. However, the slowdown in the pace of economic recovery may well continue. Data for July have been mixed. Notably, exports fell by 0.3%, industrial output was flat while machinery orders, a key lead indicator of capital spending, fell sharply in the month. However, against this, consumer sentiment is improving, despite a pick up in unemployment.

- While at this stage the economic recovery appears to be in tact, the overall pace of economic growth is likely to proceed at a more moderate pace. This is especially so given the efforts to slow the Chinese economy. However, given the strength at the end of 2003 and beginning of this year, we expect GDP to rise by around 4% in 2004, after growth of 2.5% in 2003. Growth could slow to around 2% in 2005.

- The BoJ 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 slightly over the balance of 2004 and into 2005.

- Ten year JGB yields have fallen back to around 1.5% from the summer highs of 1.8-1.9%, reflecting the weaker economic conditions and positive international trend. Assuming that the economic upswing continues, deflationary pressures ease further and international bond yields move higher, JGB yields could rise back to around the 1.7% level by end year.

Japanese 10 Year Bond Yields



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	0.8	1.2
10 Year Yield (1)	1.3	1.7	2.1

(1) end year

THE CURRENCY MARKETS

KEY ISSUES

- ***Dollar On Negative Watch:*** The dollar is expected to trade within recent narrow ranges ahead of the Presidential election in November, but could weaken thereafter.
- ***Euro Benefits From Dollar Doubts****:* Euro the beneficiary of concerns about the US dollar and a faltering sterling. It could make further gains against the dollar in Q4.
- ***Sterling Weakens:*** The UK currency has lost ground as the market begins to see an end to BOE rate tightening with growth slowing down, but further downside should be limited.

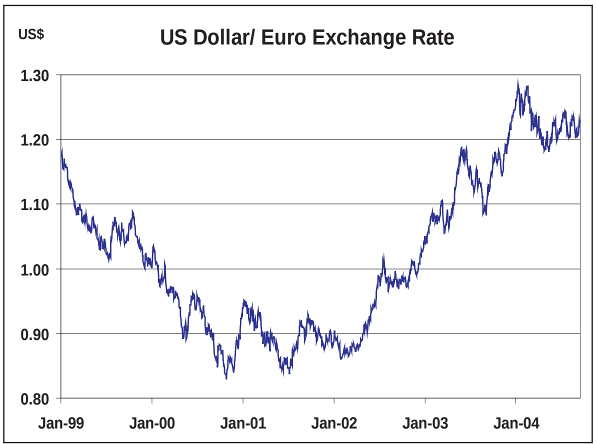
DOLLAR REMAINS IN THE DOLDRUMS

- Although the dollar has held up well recently, it remains dogged by a number of interrelated concerns. First, there is concern about the short to medium term strength of the economic upturn. A second concern is that the Fed may not hike official rates as fast as had been expected. Third, the current account deficit reached $166 billion in Q2'04 up from $147 billion in Q1 '04. These are unsustainably high deficits and, as Janet Yellen, the President of the San Francisco Fed, has said, the dollar would have to play its part in correcting them.

- We expect that the EUR/USD rate will stay within its $1.20 - 1.25 trading range in the near term. The post Presidential election period from early November to the end of the year is the time when the current range could be tested in a more decisive way. Clearly, the outlook for the dollar could be heavily influenced by the outcome of that election. Post the Presidential election period, EUR/USD could well trade in a $1.24-1.29 range, especially if President Bush is re-elected.

- The dollar has one main support and that is the absence of an attractive alternative. Euro area economic growth is overly dependent on exports and the pace of global activity is slowing. The ECB has no desire to see a significant rise in the value of the euro. The ECB could be expected, therefore, to limit the euro's potential rise against the dollar near the $1.30 level, through verbal intervention.

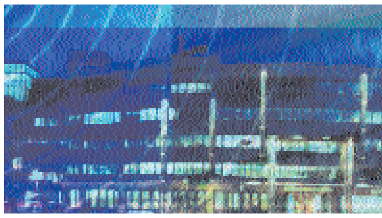
- Sterling has lost considerable ground in the past two months. The main driver here is the perception that UK official interest rates have either peaked or are close to their peak. We do not expect sterling to weaken much more, as some further modest rate hikes are likely in the UK. Indeed, cable could rise on dollar weakness.



Forex Forecasts *

	15 Sept	Dec'04	June 05	Dec '05
US$/EUR	1.22	1.27	1.24	1.21
STG/EUR	0.68	0.68	0.67	0.67
YEN/EUR	134	136	133	128
US$/STG	1.78	1.87	1.85	1.81
YEN/US$	110	109	107	106

** Mid-point of expected trading range*



FINANCIAL MARKET FORECASTS

INTEREST RATE FORECASTS (%, END MONTH)

	15 Sept	Dec '04	Mar '05	June '05	Dec 05
US Fed Funds	1.50	2.0	2.25	2.50	3.00
Euro Refi Rate	2.0	2.0	2.25	2.50	2.75
UK Repo Rate	4.75	5.0	5.0	5.25	5.25
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (%, END MONTH)

		15 Sept	Dec '04	Mar '05	June '05	Dec '05
US	2 Year	2.5	2.9	3.1	3.3	3.7
(s.a.)	5 Year	3.4	3.7	3.8	4.0	4.3
	10 Year	4.2	4.5	4.6	4.7	4.9
	30 Year	5.0	5.2	5.3	5.4	5.5
Euro	2 Year	2.6	3.0	3.2	3.4	3.7
(ann)	5 Year	3.4	3.8	4.0	4.1	4.3
	10 Year	4.1	4.4	4.5	4.6	4.8
	30 Year	4.7	4.9	5.0	5.1	5.2
UK	2 Year	4.8	5.0	5.1	5.2	5.3
(s.a.)	5 Year	4.9	5.1	5.2	5.3	5.4
	10 Year	4.9	5.1	5.2	5.3	5.4
	30 Year	4.6	4.8	4.8	4.9	5.0
Jap	2 Year	0.1	0.2	0.3	0.4	0.5
	5 Year	0.6	0.8	0.9	1.0	1.2
	10 Year	1.5	1.7	1.8	1.9	2.1
	30 Year	2.4	2.6	2.7	2.8	3.0
Euro	Bund-Swap	11	13	15	18	20
Spreads	Corp - Gov	45	55	60	65	70
(bps)						

EXCHANGE RATE FORECASTS (END MONTH)*

	15 Sept	Dec '04	Mar '05	June '05	Dec '05
US$/EUR	1.22	1.27	1.25	1.24	1.21
STG/EUR	0.68	0.68	0.68	0.67	0.67
YEN/EUR	134	136	135	133	128
US$/STG	1.78	1.87	1.85	1.85	1.81
YEN/US$	110	109	108	107	106

** Mid-point of expected trading range*

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