



FIXED INCOME MONTHLY MONITOR

FEBRUARY 2004

HOLDING UP

The US bond market has performed well recently, helped by the continuing very low level of official interest rates. Our view remains that payroll growth will strengthen in the coming months as the economy continues to grow robustly. We expect that this will trigger Fed tightening in H2 2004 of the order of 125bps, well above consensus forecasts. Hence, we see ten year US yields rising from 4% at present to 5% by end 2004. Other bond markets can be expected to follow suit.

Asian central banks, most notably the Bank of Japan, have become major players in the Treasury market. This is the result of their large scale forex interventions in support of the dollar. The proceeds are being recycled into the Treasury market. Foreign investors, mainly official agencies, bought almost \$280bn net of US Treasuries last year. They snapped up \$25bn or almost 45% of the Treasury notes issued at last week's quarterly auctions.

There is considerable debate about the impact on yields of these large scale purchases by official foreign investors. Alan Greenspan argues it is limited, given that the bulk of purchases are concentrated in short dated securities. Others agree, arguing that, with a large current account deficit, dollars will be recycled one way or another into US assets, often bonds.

We are not so sanguine. Foreign investors took out almost half of this month's five and ten year auctions, so their activities are not confined to short dated paper. The investment preferences of private sector institutions are also considerably different to that of official agencies, especially in regard to risk. Indeed, there seems to be a reluctance amongst institutional investors to hold Treasuries at current yield levels. Most are underweight.

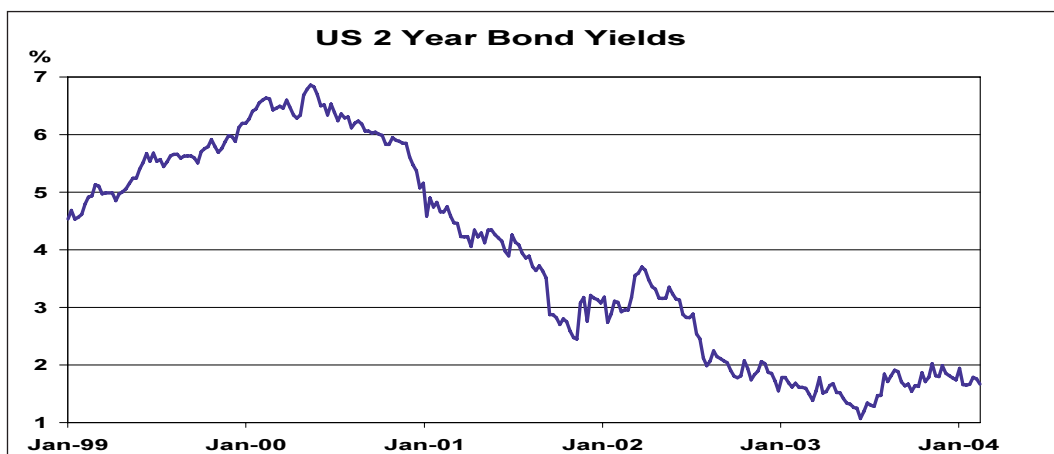
Thus, it seems to us that US yield levels would be higher in the absence of the enormous purchases of Treasuries by foreign central banks, especially given the rapidly rising budget deficit and associated increase in the supply of government paper. There seems, though, little likelihood of central bank buying abating in the near term. Ultimately, though, it is economic data and the actions of the Fed that set the direction of the market. As already indicated, we see yields rising and the curve flattening as the Fed tightens policy later this year.

John Beggs
Chief
Economist

Oliver Mangan
Chief Bond
Economist

Geraldine Concagh
Senior
Economist

Jenny Pollock
Senior
Economist



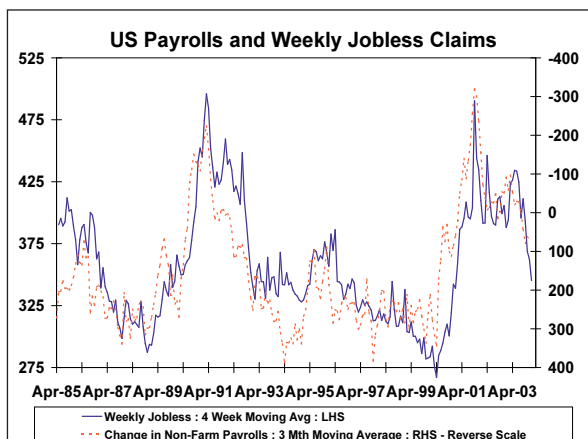
THE US

KEY ISSUES

- **Employment Growth:** All indicators are showing a pick up in employment. The growth in payrolls, though, has been sluggish up to now but should improve in the coming months.
- **Fed Policy:** Fed policy remains on hold but rate hikes are likely in H2 2004 as the economy continues to grow above trend and the labour market tightens.
- **Range Bound Bonds:** Bonds to remain range bound in the near term but yields should eventually move higher as the Fed begins tightening policy later this year.

ABOVE TREND GROWTH

- GDP expanded by 4% in the final quarter of 2003, following the 8.2% growth rate recorded in Q3 2003. Housing and business investment continued to grow very strongly in the quarter, while growth in consumer spending remained solid. Exports picked up strongly. Overall, GDP rose by 3.1% in 2003 up from 2.2% in 2002.
- Leading indicators such as the PMI surveys point to continuing robust economic growth. There are very powerful stimulants at work in the US economy including exceptionally low interest rates, an expansionary fiscal policy, weakening dollar and an improving global economy. On top of this, there has been a marked improvement in corporate profitability which is fuelling business investment.
- Hence, growth is likely to be well above trend in 2004, with GDP rising by some 4.8%. Continued solid growth is expected in consumer and government spending. Business investment is likely to grow robustly, while a strong rise in exports is anticipated. Unlike in 2003, stockbuilding is expected to make a significant contribution to growth this year.
- The labour market is also recovering. Employment is picking up, although the growth in payrolls, while improving, is still not that robust. Jobless claims have fallen sharply. There has been a significant fall in unemployment. The unemployment rate declined to 5.6% in January, which compares to a peak of 6.3% last June. Leading labour market indicators point to a strengthening of employment growth in the coming months while the downtrend in the unemployment rate should remain intact.



US Macro Forecasts

	2003	2004	2005
GDP Growth	3.1	4.8	4.0
CPI Rate	2.3	1.6	1.7
Unemployment Rate	6.0	5.4	4.7
Federal Budget Bal. (1)	-3.5	-4.3	-3.7
BOP (1)	-5.0	-4.8	-4.6

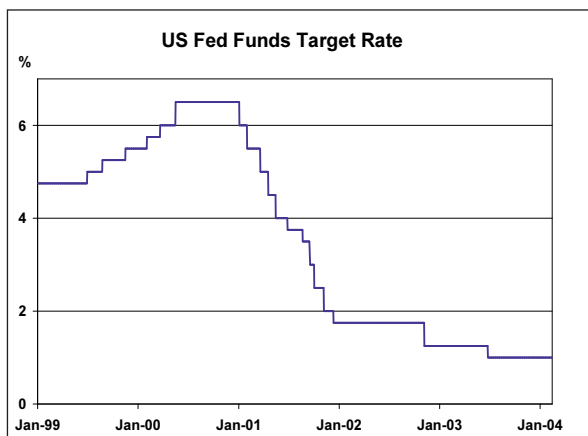
(1) % of GDP

DISINFLATIONARY PRESSURES SHOULD EASE

- The annual core CPI rate fell to 1.1% in December, while growth in average hourly earnings has declined to 2%. Inflation tends to lag the economic cycle so the continued decline in the core CPI rate is not surprising. The best news on inflation, though, may be behind us. The core CPI rate seems likely to accelerate modestly in early 2004 given the very subdued price rises in the corresponding period of 2003. Wage inflation should also pick up this year as the jobs market improves.
- There has also been a marked rise in commodity and crude goods prices in the past year while the decline of the dollar is beginning to impact on import prices. Overall, then, disinflationary pressures should soon abate. However, the combination of strong productivity growth and excess capacity should ensure that inflation remains low in 2004.

FED TO HIKE RATES IN H2 2004

- The Fed has eased policy sharply since end 2000, with the funds rate being cut from 6.5% to 1%. There was only one rate cut of 50bps in 2002 and just a 25bps cut in rates in 2003. Thus, to all intents and purposes, an exceptionally low interest rate regime has been in place in the US since end 2001.
- At the January FOMC meeting, the Fed dropped the commitment to keep monetary policy accommodative for a considerable period. Instead, it indicated that, with inflation quite low and resource use slack, it can be patient in removing its policy accommodation. Greenspan reinforced this message in his recent testimony to Congress. He indicated that the Fed is in no hurry to tighten policy given, in particular, the sluggishness of payroll growth.
- Labour market data will have a crucial influence on monetary policy this year. If, as we expect, employment growth picks up in the months ahead, expectations of Fed tightening in the summer will grow, pushing money market rates higher. The first rate hike, probably 25bps, could occur at the August FOMC meeting.
- Markets are discounting some 50bps of policy tightening in 2004. It should be remembered, though, that the current level of the funds rate is exceptionally low. Even in real terms, short term rates are negative in what is a booming economy. Allowing for an underlying inflation rate of 1.5% and a long term average of around 3% for the real Fed funds rate, official rates are a long way from being neutral.

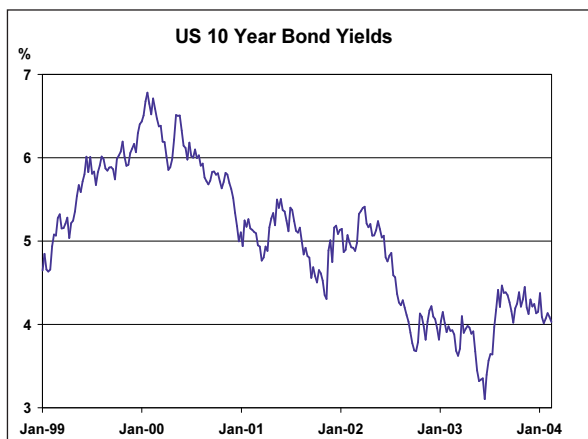


	17 Feb	Jun '04	Dec '04	Dec '05
Fed Funds	1.0	1.0	2.25	4.0
1 month	1.1	1.1	2.4	4.1
3 month	1.1	1.3	2.6	4.2
1 Year	1.3	1.8	3.1	4.4

- Given the current exceptional looseness of monetary policy and with the economy growing above trend, the unemployment rate moving steadily downwards and payrolls expected to strengthen, we believe that the Fed will tighten policy by more than the market expects in 2004. The Fed funds rate could be hiked by 125bps in H2 2004, bringing it to 2.25% by end year.

BOND YIELDS TO RISE

- While economic data have been robust in recent months, the modest growth in payrolls and indications from the Fed that policy can remain accommodative have helped underpin the Treasury market. Substantial forex intervention related demand for Treasuries from Asian central banks has supported the market also. Thus, the bond market has held up quite well, trading in narrow ranges in recent times.
- Ten year Treasury yields have generally been confined to a 3.95-4.25% range during the past month with two year yields moving in a 1.6-1.9% band. The market could well remain rangebound in the coming weeks with Fed tightening still a considerable time off while economic data are likely to stay strong.
- GDP growth is expected to remain robust in 2004 with inflation staying quite subdued. A modest 50bps of policy tightening is envisaged by the market in H2 2004. This would most likely see the curve flatten, but with little movement in longer dated yields which have already discounted such an event. Two year yields, though, would rise from 1.7% at present, possibly to close on 2.5% by end year.
- On the other hand, should the Fed tighten policy more aggressively, as we expect, then the curve is likely to both flatten and shift upwards. We expect that yields will move higher from Q2 onwards in response to improving employment data and an increasing likelihood of rate hikes this summer. If the funds rate is raised to our forecast end year level of 2.25%, then two year yields are likely to climb to 3.3% and ten year yields to 5% by end 2004.
- Other factors could pressure the market in 2004, in particular the deterioration in the budget deficit or developments in the forex market. Asian central banks have been significant buyers of US Treasuries, as they recycle the proceeds of large scale forex intervention in support of the dollar. However, these purchases could wane if the countries involved allow their currencies to appreciate against the dollar, or indeed the dollar rebounds, thereby putting upward pressure on bond yields.



US Bond Yield Forecasts				
	17 Feb	Jun '04	Dec '04	Dec '05
2 Year	1.7	2.3	3.3	4.5
5 Year	3.0	3.5	4.2	5.0
10 Year	4.0	4.5	5.0	5.3
30 Year	4.9	5.3	5.5	5.6

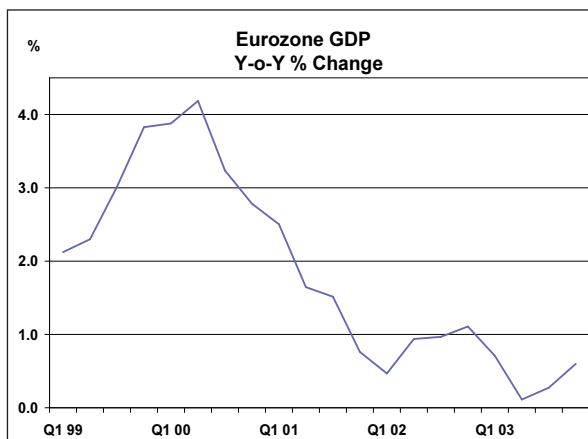
THE EUROZONE

KEY ISSUES

- **Economic Upswing:** The modest upswing in activity in H2 2003 was largely export led and needs to encompass domestic demand for a return to trend growth or above.
- **ECB Policy:** ECB is unlikely to be in any rush to hike rates given the prospects of subdued inflation and moderate growth in 2004, as well as the strength of the euro.
- **Bond Market:** US Treasuries to remain a major influence on the market. Eurozone bonds, though, should outperform the US, especially at the short end of the curve.

MODEST ECONOMIC UPSWING

- GDP rose by 0.3% in Q4 2003 following growth of 0.4% in the third quarter, pointing to just a modest recovery in the eurozone economy. The pick up in growth in H2 2003 was largely export led, driven by the improved global economic environment. The latest survey indicators, most notably PMI data on manufacturing and services, point to a continuation of the upswing in 2004.
- Domestic demand is expected to make a greater contribution to growth in 2004, helped in particular by a pick up in investment spending. The improvement in corporate balance sheets, recovering stock market, low interest rates and strengthening demand should all help boost business investment. Meanwhile, rising employment and lower inflation should boost consumer spending.
- The appreciation of the euro and a less accommodatory stance of fiscal policy could act as constraints on the pace of recovery. Nevertheless, given the strengthening of external demand, continuing low interest rates and the uptrend in leading indicators of activity, GDP growth should pick up momentum over the course of 2004. We look for GDP to grow by 1.8% this year, up from 0.4% in 2003.
- Eurozone inflation averaged more than 2% in 2003 for the fourth consecutive year. Although rises in food and oil prices were partly responsible, core inflation has also proved quite sticky. The headline HICP rate has been running at 2% for the last two months. The lagged effects of euro strength combined with better behaved oil and food prices should see inflation fall to 1.7 - 1.8% during 2004.



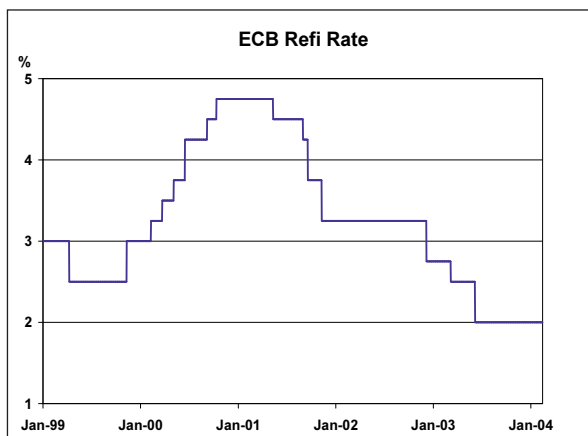
Eurozone Macro Forecasts			
	2003	2004	2005
GDP Growth	0.4	1.8	2.5
CPI Rate	2.1	1.7	1.8
Unemployment Rate	8.8	8.8	8.6
Budget Bal (1)	-2.8	-2.7	-2.5
BOP (1)	0.4	0.6	0.7
(1) % of GDP			

NO ECB RATE HIKE UNTIL YEAR END

- The ECB cut rates by 75bps in H1 2003 taking the refi rate down to 2%. A pick-up in economic activity and the continuing stickiness of inflation saw the ECB leave policy on hold during the second half of last year.
- The latest policy statement from the ECB suggests that interest rates will remain unchanged for a considerable period of time. Inflation is expected to decelerate below the 2% ceiling during 2004. Although economic activity is expected to pick-up pace, it may be late in the year before growth moves above trend. Meanwhile, the euro has appreciated sharply since the summer.
- Given this economic outlook and the strengthening of the euro, the ECB is likely to stay on hold for most of this year. Hence, we do not see much change in money market rates in the eurozone in the coming months. The money market curve, however, is likely to steepen from the summer onwards.
- The ECB has said that it will monitor developments that might impact on the outlook for price stability, in particular strong monetary growth and trends in inflationary expectations. Inflation has proved stickier than expected and could rise back to 2% or above in 2005 as the output gap starts to close. Thus, the ECB may tighten policy late in 2004. Hence, we are forecasting a 25bps rate hike towards end year.

BOND YIELDS TO MOVE HIGHER

- Ten year eurozone bond yields remained range bound in the past month, generally trading in a narrow 4.00-4.25% corridor as they continued to track US Treasuries. The market may well remain range bound in the short term. Further out, should US Treasury yields move higher in Q2, as we expect, eurozone yields are likely to follow suit. The steepness of the curve offers the market some protection with the ECB expected to stay on hold for most of 2004.
- Eurozone bonds should outperform Treasuries in 2004, especially at the short end, as US rates rise from their current exceptionally low level of 1%. We could see the complete erosion of the 60bps pick-up currently offered by two year eurozone bonds over Treasuries. At the longer end, ten year US yields should move above eurozone levels as the Fed begins tightening policy. We see ten year eurozone yields finishing the year at just under 5%.



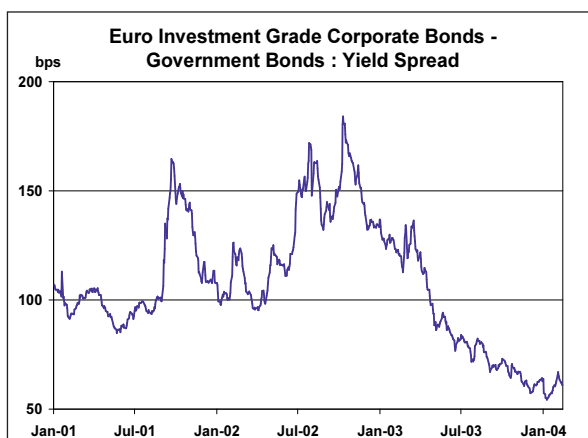
	17 Feb	Jun '04	Dec '04	Dec '05
Refi	2.0	2.0	2.25	3.25
1 Month	2.1	2.1	2.4	3.4
3 Month	2.1	2.1	2.5	3.5
1 Year	2.2	2.5	3.0	3.8

EUROZONE SPREADS WIDEN SOMEWHAT

- The last couple of years saw a marked tightening of yield spreads in the eurozone government bond market. In particular, the yield pick-up in the ten year area offered by countries like Ireland, Spain and Finland vis-a-vis Germany fell from 30bps to close on zero. This reflected the deterioration of the public finances in France and Germany, and a sharp narrowing of swap spreads.
- The past month has seen a slight widening of yield spreads in the government bond market, partly due to somewhat wider swap spreads. Swap spreads could widen a bit further if the ECB hikes rates later in the year. Meanwhile, the budgetary situation in France and Germany should improve as their economies strengthen.
- Thus, it may be difficult for government yield spreads to return to their recent lows. However, bond markets like Ireland and Spain should remain well underpinned by the strong state of their public finances and limited supply of new issuance.

CORPORATE BOND RALLY RUNS OUT OF STEAM

- After their strong performance in 2003, eurozone corporate bonds have underperformed in the past month. The average pick-up offered by investment grade paper over government bonds widened from 55bps to 65bps. The move was not a surprise as credit spreads had fallen to historically low levels.
- Furthermore, credit quality is still very fragile. At end 2003, S&P had 27% of non-financial European corporations on a negative rating outlook compared with 7% assigned a positive outlook. The experience of Parmalat also served as a reminder to investors that corporate bonds carry a significantly higher risk than sovereign issues.
- A marked underperformance by eurozone corporate bonds, though, seems unlikely in the coming months given the limited supply of new debt, improving company balance sheets and the continuing low interest rate environment. Indeed, recent days have seen some renewed contraction in spreads over government paper. Nevertheless, we would still be cautious on the eurozone corporate bond market. Spreads are relatively tight and could widen again later in the year if the Fed and ECB start to hike rates.



	17 Feb	Jun '04	Dec '04	Dec '05
2 Year	2.3	2.7	3.3	4.0
5 Year	3.3	3.7	4.2	4.6
10 Year	4.1	4.5	4.9	5.2
30 Year	4.9	5.2	5.4	5.5

THE UK

KEY ISSUES:

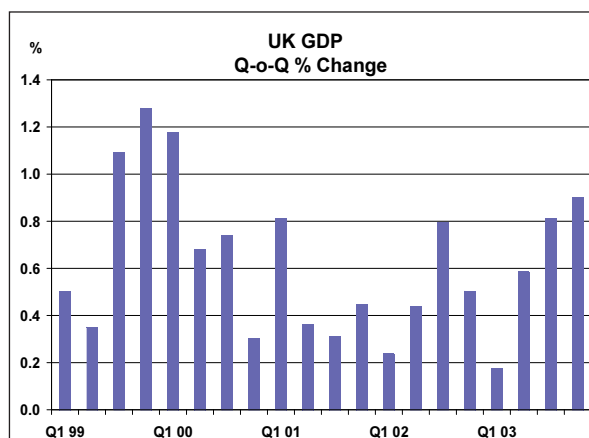
Little Spare Capacity: Recent data highlight above trend growth in an economy with already little spare capacity.

Monetary Tightening: Inflation is running well below the new 2% CPI target but the MPC is still expected to tighten policy further in 2004.

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. These spreads are likely to remain wide in the months ahead.

CONTINUING ROBUST GROWTH

- Preliminary Q4 2003 GDP data indicate that there was considerable momentum in the economy going into 2004 with growth of 0.9% on the quarter, well above trend rates. Data in recent weeks have shown continuing robust economic activity. Growth is likely to remain above trend throughout 2004.
- Household spending, which has been one of the main supports of activity, should remain relatively robust. However, growth in government spending, the other main organ of growth in recent years, is set to slow. Against this, while the manufacturing sector continues to disappoint, output has stabilised and leading indicators point to a pick-up in output in the months ahead. There has already been a noticeable rebound in exports as the global recovery gains momentum.
- Furthermore, stockbuilding should add to output this year while business investment is expected to pick-up given the improvement in corporate profitability. Overall, we look for GDP to rise by 3.0% in 2004, up from 2.1% growth in 2003. This will further erode spare capacity with the unemployment rate already below 5%.
- Thus, although the CPI rate at 1.3% is running well below the target level of 2%, inflation is expected to pick-up towards its target rate in the year ahead. The Bank of England believes that in two years time the CPI rate will be around the 2% level and still rising. The Bank of England can be expected to keep a close eye on wage developments in particular, and on the housing market, where price inflation shows little sign of any significant cooling.



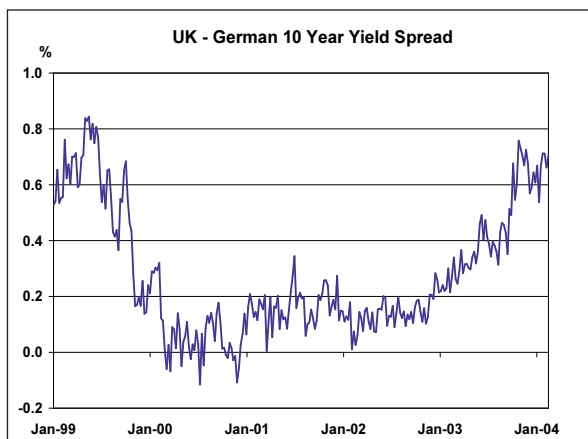
UK Macro Forecasts			
	2003	2004	2005
GDP Growth	2.1	3.0	2.8
CPI Rate	1.4	1.6	1.9
Unemployment Rate	5.1	4.7	4.5
Budget Bal. (1)	-3.2	-3.0	-2.8
BOP (1)	-2.0	-2.5	-2.5
(1) % of GDP			

BOE HIKES RATES BY A FURTHER 0.25%

- The Bank of England raised rates by 0.25% in early February, bringing the repo rate to 4.0%. This was the second such increase in the past three months. The MPC cited the continued strength of economic activity and, in particular, of the housing market and consumer debt levels as reasons for its decision.
- Policy is likely to be tightened further over the course of the year. Above trend economic growth in the context of limited spare capacity, a booming housing market and very strong growth in household borrowing, all point to further rate hikes, despite the low CPI rate, especially if the manufacturing sector at last begins to recover.
- The Bank of England will want to keep growth from rising too far above potential, thereby risking a build up of inflationary pressures. Furthermore, we think that the housing market will remain strong in 2004, given the tight supply situation and improving economic environment. Thus, although inflation should remain below target, we see the Bank of England hiking rates to 4.75% by end 2004. It is quite possible that the next move will be a hike of 0.25% at the May MPC meeting.

GILT YIELDS TO REMAIN HIGH

- The relatively high level of official UK interest rates continues to weigh on the gilt market. As the UK yield curve is relatively flat, any change in interest rate expectations tends to have quite a pronounced effect on longer dated gilt yields. Indeed, the ten year gilt-bund spread widened by some 15bps in recent weeks as the market moved to price in the February rate hike.
- The market is currently pricing in a further 50bps increase in rates over the course of the year. Our view is that rates could rise by up to 75bps. Gilts remain vulnerable to any deterioration in interest rate sentiment in the UK, especially as the ECB is likely to be slow to tighten policy.
- The supply situation is not that favourable either, with a large volume of gilt issuance on the cards for 2004. Hence, we think that the ten year gilt-bund spread will remain quite wide in the near term. Despite the generous yield pick-up available, spreads are unlikely to narrow significantly until the ECB starts hiking rates, probably towards year end. Thus, the ten year gilt-bund spread is likely to remain in a 60-75bps range in the coming months.



	17 Feb	Jun '04	Dec '04	Dec '05
Repo Rate	4.0	4.25	4.75	5.25
2 Year	4.4	4.8	5.1	5.5
5 Year	4.6	5.0	5.3	5.5
10 Year	4.7	5.1	5.4	5.5
30 Year	4.6	5.0	5.2	5.3

JAPAN

KEY ISSUES

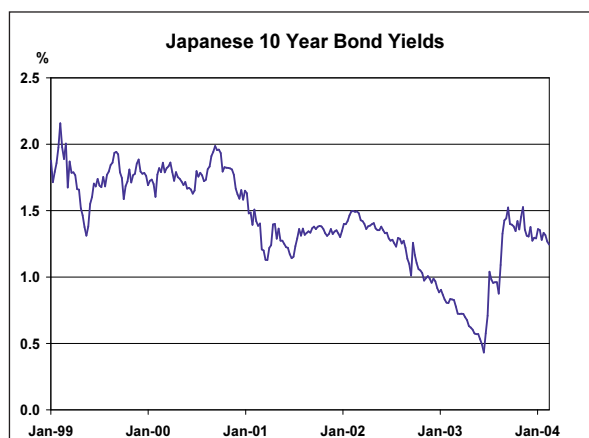
Solid Economic Recovery: Leading indicators point to a continuation of the economic upswing, led by rising export demand and improving trend in corporate sector.

Deflation: While downward pressure on prices is easing, especially consumer prices, deflation is expected to persist throughout 2004.

Low Bond Yields: Despite little chance of a rate hike, JGB yields could rise given the prospect of a continuing recovery in economic activity and easing of deflationary pressures.

ECONOMIC UPSWING CONTINUES

- Latest trends in leading indicators point to a continuation of the upswing in Japanese economic activity. Growth has been driven primarily by a rebound in business investment and rising exports. Exports are expected to continue growing strongly, especially to Asia and the eurozone. While the rising yen is a concern, its impact on exports is likely to be muted by the strength of the recovery in global demand.
- Meanwhile, business investment looks set to continue rising, albeit at a more moderate pace than in 2003, helped by a recovery in profits. Household consumption remains subdued but should be supported by improving labour market conditions and rising real disposable income. We expect GDP to rise by 2.2% in 2004, the same growth rate as in 2003.
- The BoJ continues to emphasise that it will not reverse its quantitative easing policy or raise rates until inflation has turned positive for a sustained period of time. While core CPI was flat year-on-year in December, this was partly due to temporary factors. Indeed, the core CPI rate is expected to decline moderately again this year. This suggests that the BoJ will not alter its zero interest rate policy until well into 2005 at the earliest.
- Ten year JGB yields are trading towards the bottom of the 1.2-1.5% range, which has been in place since mid 2003, supported by the BoJ's zero interest rate policy. However, with the economic upswing expected to continue, long dated bond yields may edge higher, especially if, as expected, global bond yields also move upwards in the coming months. Hence, we look for ten year JGB yields to rise close to 1.5%, the top of the current range, by mid year and move above that level in H2 2004.



Japanese Forecasts			
	2003	2004	2005
GDP Growth	2.2	2.2	2.0
CPI Rate	-0.2	-0.2	-0.2
ODR (1)	0.1	0.1	0.1
5 Year Yield (1)	0.5	0.7	1.1
10 Year Yield (1)	1.3	1.7	2.0
<i>(1) end year</i>			

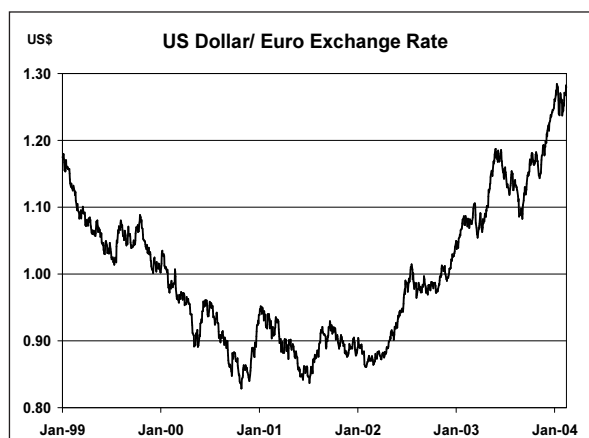
THE CURRENCY MARKETS

KEY ISSUES

- **G7 Fail To Turn Dollar:** Dollar weakness returns as G7 statement lacks any real substance, Fed policy also weighs.
- **But Euro Upside Pressure Has Moderated:** Barrage of comments from eurozone officials has left the market more cautious on the euro, but \$1.30 is still a target.
- **High Yields In Vogue:** Sterling is benefiting from higher UK interest rates versus the dollar, outperforming the euro in its rebound.

DOLLAR STAYS UNDER PRESSURE

- Dollar/euro has been in a corrective phase since early January, after having weakened against the euro from \$1.13 in mid September to \$1.29, a move of some 13%. Though it has remained volatile, activity has been predominately confined to a \$1.23-1.29 range. Fundamental imbalances in the US, as well as ultra low Fed interest rates, though, continue to weigh on dollar sentiment.
- Concerns that any further marked euro appreciation could be met with extended criticism or indeed direct intervention from the ECB have seen a reluctance to test the \$1.30 level. We still, though, see the risk of a move to a \$1.30-1.35 range. However, this may represent the extent of the euro's upside capacity.
- Moving beyond the near-term, by mid-year markets should be anticipating an imminent move by the Fed to tighten US monetary policy. This should lend some support to the dollar, leaving scope for a euro correction back to \$1.20. However, given the ongoing concerns about the twin deficits in the US, a dollar recovery may not be sustained over the second half of the year.
- After correcting all the way back to \$1.78 in mid-January, sterling is retesting 11 year highs of \$1.89 and is positioning itself for a move to a \$1.90-1.95 range. Cable, though, should have eased back to around \$1.82 by mid year on a general dollar recovery as expectations mount of Fed tightening. In the near term, the sterling/euro rate could remain under pressure, trading below the Stg0.68p level. As cable eases back, however, there should be scope for the euro to move back up to a Stg0.69-0.71p range in H2 2004. *(Please see our Exchange Rate Monthly publication on our website aibonds.com for a more detailed analysis of currency markets.)*



Forex Forecasts			
	17 Feb	June '04	Dec '04
US\$/EUR	1.27	1.24	1.28
STG/EUR	0.68	0.68	0.70
YEN/EUR	134	130	133
US\$/STG	1.88	1.82	1.83
YEN/US\$	105	105	102

FINANCIAL MARKET FORECASTS (2004)



INTEREST RATE FORECASTS (% , END MONTH)

	17 Feb	March	June	Sept	Dec
US Fed Funds	1.0	1.0	1.0	1.5	2.25
Euro Refi Rate	2.0	2.0	2.0	2.0	2.25
UK Repo Rate	4.0	4.0	4.25	4.5	4.75
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (% , END MONTH)

	17 Feb	March	June	Sept	Dec
US 2 Year	1.7	1.9	2.3	2.8	3.3
(s.a.) 5 Year	3.0	3.2	3.5	3.9	4.2
10 Year	4.0	4.2	4.5	4.8	5.0
30 Year	4.9	5.1	5.3	5.4	5.5
Euro 2 Year	2.3	2.5	2.7	3.0	3.3
(ann) 5 Year	3.3	3.5	3.7	3.9	4.2
10 Year	4.1	4.3	4.5	4.7	4.9
30 Year	4.9	5.1	5.2	5.3	5.4
UK 2 Year	4.4	4.6	4.8	5.0	5.2
(s.a.) 5 Year	4.6	4.8	5.0	5.2	5.3
10 Year	4.7	4.9	5.1	5.3	5.4
30 Year	4.6	4.8	5.0	5.1	5.2
Jap 2 Year	0.1	0.1	0.1	0.1	0.1
5 Year	0.5	0.5	0.6	0.6	0.7
10 Year	1.3	1.4	1.5	1.6	1.7
30 Year	2.0	2.1	2.2	2.3	2.4
Euro Bund-Swap	14	14	14	17	20
Spreads Corp - Gov	62	60	62	65	70
(bps)					

EXCHANGE RATE FORECASTS (END MONTH)

	17 Feb	March	June	Sept	Dec
US\$/EUR	1.27	1.27	1.24	1.25	1.28
STG/EUR	0.68	0.67	0.68	0.69	0.70
YEN/EUR	134	134	130	130	133
US\$/STG	1.88	1.89	1.82	1.81	1.83
YEN/US\$	105	105	105	104	104

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