



FIXED INCOME MONTHLY MONITOR

MARCH 2004

THE WAITING GAME

Bond yields fell sharply in the aftermath of the very disappointing February US employment report. The rally had a capitulatory feel to it with many investors being forced to make painful adjustments to underweight positions. Expectations for the first Fed rate hike have now been pushed out until near year end, given the inability of the recovery in the US economy to create many jobs. Meanwhile, the ECB is now expected to leave policy on hold until 2005.

Technically, bond markets look well underpinned at present; investors may still be short duration, yield curves remain steep, official rates are likely to remain very low until 2005 and safe haven flows have returned after recent terrorist attacks. From a fundamental point of view, though, US payrolls remain the critical factor. We expect a strong rise in March payrolls which is likely to cap bond market gains. Thus, we see ten year US yields trading in a 3.6-3.9% range over the next couple of months.

A sustained pick up in jobs growth is essential for the Fed to hike rates. Given the continued strength of leading economic and labour market indicators, likely slowdown in productivity growth and very high level of corporate profits, we still expect employment growth to pick up in the US over the course of this year, despite the disappointingly weak data of recent months.

The unexpected weakness of recent payroll data implies that the Fed is unlikely to start hiking rates this summer as we had previously forecast. Instead, it may now wait until after the Presidential election in early November, even if payrolls strengthen well before then. Thus, rate hikes now seem unlikely until the FOMC meetings in November and December. Hence, we have revised down our end year forecast for the Fed funds rate from 2.25% to 1.75%.

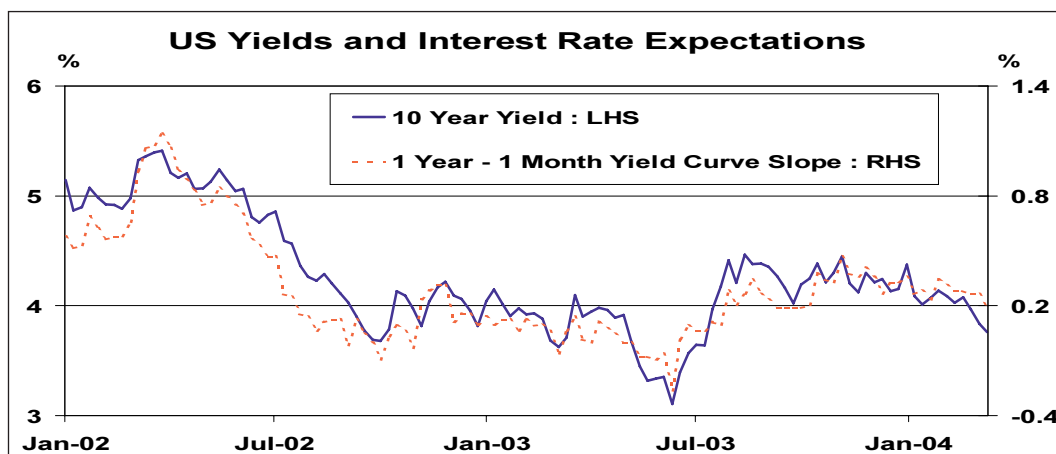
John Beggs
Chief
Economist

Bond markets, though, will start discounting such tightening well before it happens, if payrolls do indeed strengthen over the course of the year. Bonds, then, may hold on to their recent gains and range trade in the short term. However, we expect upward pressure on yields to re-emerge as the year progresses, driven by an improving trend in payrolls and consequent steepening of the money market curve as rate hike expectations grow. Thus, we look for ten year US yields to rise to 4.4% by end Q3 and 4.8% by end year.

Oliver Mangan
Chief Bond
Economist

Geraldine Concagh
Senior
Economist

Jenny Pollock
Senior
Economist



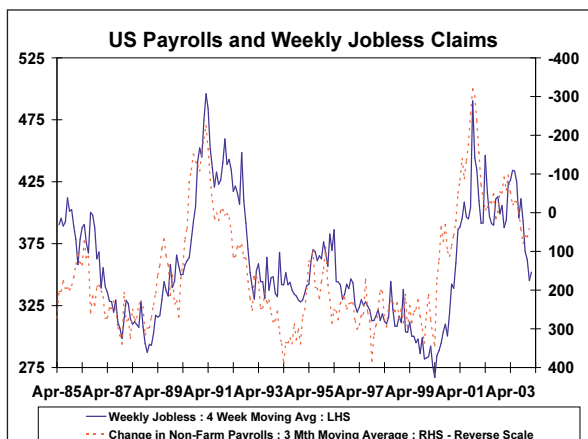
THE US

KEY ISSUES

- **Jobless Recovery:** Job growth has been unexpectedly sluggish in recent months and needs to pick up strength to help sustain the recovery in activity.
- **Monetary Policy:** US rates could remain on hold until after the Presidential election in early November given that payrolls have been slow to improve.
- **Bond Rally:** Weak payrolls data have wrong footed underweight bond investors who have been forced to extend duration, triggering a sharp fall in yields.

WEAK EMPLOYMENT GROWTH

- Employment growth remains very sluggish with non-farm payrolls coming in well below expectations in recent months. Payrolls started to rise in September 2003. However, they have yet to register an increase of more than 100,000 in any one month, averaging gains of just 60,000 per month since September. This is surprisingly weak given the strength of economic growth in recent quarters.
- These sluggish employment gains are at odds with jobless claims data and the employment components of ISM surveys, which point to much larger increases in job numbers. However, companies seem quite reluctant to hire. As a result, the marked decline in the labour force participation rate continues, with labour force growth now running at just 0.4% yoy. This has helped trigger a fall in the unemployment rate to 5.6% in early 2004 from a peak of 6.3% in mid 2003.
- A pick up in employment growth is required if the economic recovery is to prove self sustaining. Economic growth should be underpinned in the coming months by tax cuts and rebates. The impact of these tax concessions will fade, though, in H2 2004, pointing to the need for bigger job gains by then to sustain the recovery.
- Given the very high corporate profit levels, an expected slowdown in productivity growth and the strength of leading economic and labour market indicators, we expect job growth to pick up over the course of this year. Indeed, March could see quite a significant rise in payrolls of 150,000 - 200,000, following the end of a major strike in California and given that bad weather depressed February payrolls somewhat. However, given the weakness of recent data, it may be the second half of the year before payroll gains are sustained at this level.



US Macro Forecasts

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

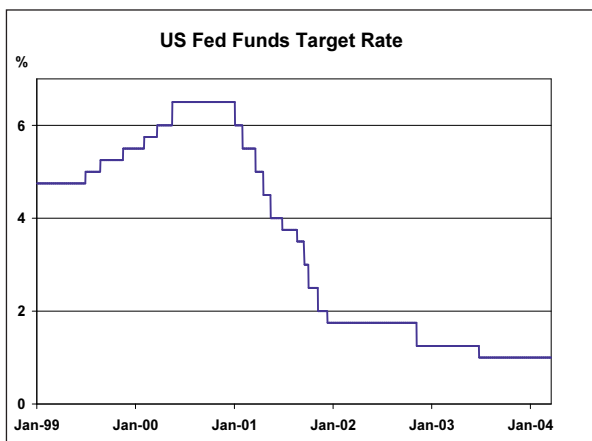
(1) % of GDP

GROWTH AND INFLATION PROSPECTS REMAIN FAVOURABLE

- Leading indicators continue to point to robust economic growth this year, policy remains stimulatory and the external environment is favourable. Furthermore, corporate profits are running at high levels which should fuel strong growth in business investment, inventory rebuilding and, eventually, a pick up in job hiring.
- However, given the weakness of employment growth, the rise in oil prices and the fact that activity has not been quite as robust as expected in Q1, partly due to poor weather, we are scaling back our 2004 GDP growth forecast slightly from 4.8% to 4.6%. GDP growth is forecast at 3.7% in 2005. These are above trend growth rates but they are dependent on improving job numbers.
- Despite high oil prices, rising commodity prices and a depreciating dollar, the outlook for US inflation remains very favourable, Growth in average hourly earnings has fallen to 1.8% yoy in the latest three month period. Combined with strong productivity growth, this is causing unit labour costs to decline. Not surprisingly, then, the core CPI rate has been running at 1.1% yoy since November.
- However, the disinflation trend evident in 2002 and 2003 may be coming to an end. Average hourly earnings posted monthly gains of 0.3% and 0.2% in January and February, respectively. The year-on-year rate should accelerate over the course of the year as the labour market improves. The annual core CPI rate seems likely to accelerate modestly in the months ahead also, reflecting a negative basis effect. Overall, though, the combination of excess capacity and productivity gains should ensure that inflation will remain well behaved this year, despite rising energy costs.

FED TO SIT TIGHT UNTIL AFTER ELECTION

- At the March FOMC meeting, the Fed again indicated that, with inflation quite low and resource use slack, it can be patient in removing its policy accommodation. This point has been made by Greenspan on several occasions, most notably in his testimonies to Congress. He has indicated, in particular, that the Fed is in no hurry to tighten policy given the sluggishness of payroll growth.
- With payroll growth remaining unexpectedly weak in recent months, our expectation that the Fed would hike rates in the summer is unlikely to be realised. Even if payrolls start improving soon, the Fed may be reluctant to begin tightening policy just ahead of the Presidential election in early November.

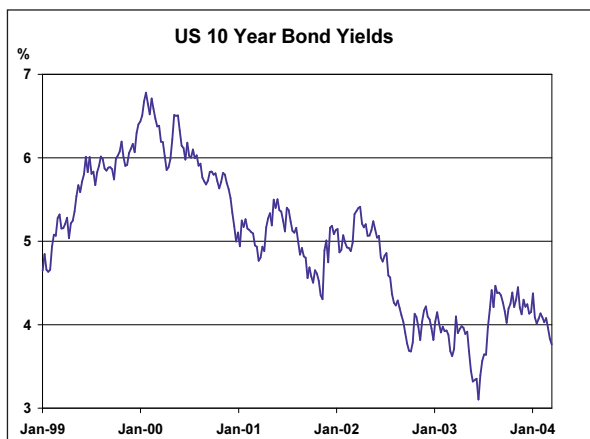


	18 Mar	Jun '04	Dec '04	Dec '05
Fed Funds	1.0	1.0	1.75	3.5
1 month	1.1	1.1	1.9	3.7
3 month	1.1	1.1	2.1	3.8
1 Year	1.3	1.4	2.8	4.2

- There are two FOMC meetings between the Presidential election and the end of 2004, so rates could still be hiked before the year is out. The key remains the strength of employment growth. As already indicated, we expect the pace of job growth to strengthen considerably over the course of the year. Hence, we look for the Fed to hike rates by 75bps in the closing two months of 2004, with further rate increases coming in 2005.

BONDS SUCCUMB TO WEAK PAYROLLS DATA

- Bond yields fell sharply in the aftermath of the very disappointing February payrolls report. This was the fourth consecutive month that payrolls came in well below expectations. Investors finally lost patience with the inability of the recovery to create jobs. This has pushed out the timeframe for Fed tightening. The rally in bonds has had a capitulatory feel to it with many investors being forced to make painful adjustments to underweight positions.
- Technically, the market looks to be well underpinned at present. Investors may still be short duration, the yield curve looks set to remain very steep, while mortgage companies may be forced to extend their portfolio duration to hedge against rising prepayment risk following the recent sharp fall in yields. On top of this, further heavy intervention by the Bank of Japan in support of the dollar means that it will continue to be a major buyer of US Treasuries for some time yet. Financial market jitters about further terrorist attacks should also help Treasuries.
- Obviously, from a fundamental point of view, employment data remain crucial. We expect a strong March payrolls report which should cap bond gains. Thus, ten year yields could trade in a 3.6-3.9% range over the next couple of months.
- We cannot emphasise enough the importance of payrolls data for the market. If strong job gains in March prove a once-off occurrence and payrolls remain weak in 2004, it is likely to cause further declines in yields right along the curve, as fears grow about the sustainability of the economic recovery.
- On the other hand, if payrolls strengthen over the course of the year, as we expect, then this is likely to trigger a bear market in bonds. Thus, we see ten year yields rising to 4.4% by the end of Q3 as payrolls pick up strength, with subsequent Fed tightening pushing yields up to 4.8% by end year. A continued economic recovery accompanied by solid employment growth should see ten year yields rise above 5% in 2005.



US Bond Yield Forecasts				
	18 Mar	Jun '04	Dec '04	Dec '05
2 Year	1.5	1.7	3.0	4.5
5 Year	2.7	2.9	4.0	5.0
10 Year	3.7	3.9	4.8	5.3
30 Year	4.7	4.9	5.3	5.5

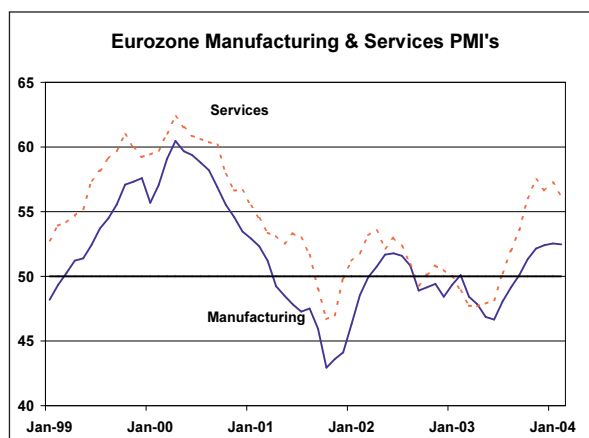
THE EUROZONE

KEY ISSUES

- **Economic Growth:** The slow upswing in activity which commenced in H2 2003, has not gained much momentum in early 2004, with little sign yet of a strengthening of consumer spending.
- **Monetary Policy:** The ECB is unlikely to hike rates in 2004 given the prospects of subdued inflation and moderate growth, as well as the strength of the euro.
- **Bond Market:** US Treasuries remain a major influence on the eurozone bond market. Eurozone bonds, though, should outperform US Treasuries if a bear market returns during the year.

SLUGGISH GROWTH

- The eurozone economy started to recover in the second half of last year with GDP rising by 0.4% and 0.3% in Q3 and Q4 2003, respectively. Surging exports were responsible for the pick-up in growth in Q3. Continued strong growth in government spending and a rebound in investment underpinned the rise in GDP in Q4. Notably, growth in consumer spending remained very weak in H2 2003.
- The EU Commission is forecasting that GDP will rise by between 0.3% and 0.7% in Q1 2004. The data released to date suggest that growth is likely to be at the lower end of this range. The PMI for manufacturing showed no improvement in the first two months of the year. Meanwhile, the February services PMI declined to its lowest level since October. The pick up in eurozone consumer and business confidence has also stalled in recent months.
- There have been some bright spots, however, most notably strong German January retail sales, manufacturing and export data. Overall, though, the data suggest that the recovery in the eurozone economy remained subdued in Q1 with GDP likely to rise by around 0.4%. The strength of the euro, uncertainties about reforms, depressed consumer confidence, sluggish income growth and low productivity gains are all acting as constraints on the pace of recovery.
- Nonetheless, continuing low interest rates, strengthening external demand, declining inflation and improving corporate balance sheets should help the economy to pick up momentum over the course of this year. However, we are scaling back our GDP forecast for 2004 to 1.6% from 1.8%, following the subdued start to the year.



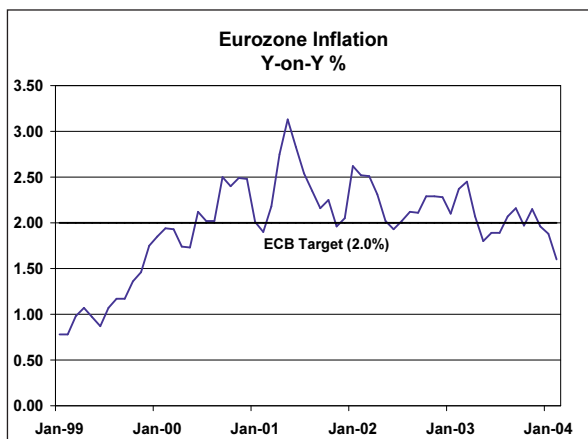
Eurozone Macro Forecasts			
	2003	2004	2005
GDP Growth	0.4	1.6	2.4
CPI Rate	2.1	1.7	1.8
Unemployment Rate	8.8	8.8	8.6
Budget Bal (1)	-2.7	-2.6	-2.5
BOP (1)	0.4	0.6	0.7
(1) % of GDP			

INFLATION DROPS BELOW 2%

- The HICP rate has fallen sharply in recent months, declining to 1.6% in February from a recent high of 2.2% in November. It could fall further in March. However, the core HICP rate has remained quite stable at close to 2% in recent months. The decline in inflation largely reflects a basis effect as the sharp jump in energy prices in early 2003, in the run up to the war in Iraq, drops out of the annual rate. However, the positive impact will unwind in April and May when the base effects reverse, as oil prices fell sharply in the aftermath of the war in Iraq.
- Hence, the HICP rate can be expected to rise again in Q2 2004. Continuing high oil prices are also likely to act against a sustained deceleration in inflation during 2004. Overall, though, inflation should be well behaved this year. The lagged effects of euro strength should see core inflation edge down from 2% over the course of the year. Hence, headline eurozone inflation should average less than 2% in 2004 for the first time since 1999.

BUT ECB TO STAY ON HOLD

- Given the outlook for growth and inflation, as well as the strengthening of the euro, the ECB is likely to stay on hold for all of 2004. The ECB has dismissed calls from politicians for a further policy easing, arguing that interest rates are already at exceptionally low levels and conditions are in place for a continued gradual strengthening of economic activity.
- Euribor futures contracts are in agreement with our assessment that there will be no change in eurozone rates this year. If there is a move, especially in the near term, it is likely to be a rate cut, triggered by signs that the recovery in activity has lost momentum or by a fresh surge in the euro that threatens the upswing in activity. There have been no indications from the ECB, though, that it is leaning in the direction of renewed policy easing.
- Indeed, 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. Core inflation has proved stickier than expected and could edge above 2% again in 2005 as the output gap starts to close. Thus, the ECB can be expected to tighten policy next year when the economy has returned to a more stable growth path.



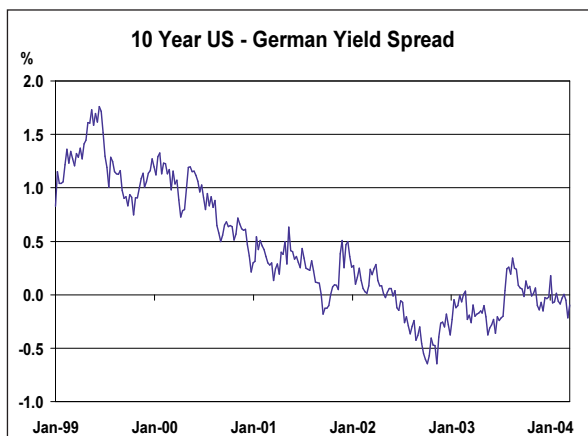
	18 Mar	Jun '04	Dec '04	Dec '05
Refi	2.0	2.0	2.0	3.0
1 Month	2.1	2.1	2.1	3.2
3 Month	2.1	2.1	2.2	3.4
1 Year	2.1	2.2	2.5	3.7

EUROZONE BONDS TRACK TREASURIES

- Eurozone bond yields have been in decline since early December. Two year yields have fallen from 2.8% to 2.1%, while ten year yields declined from 4.5% to 3.9%. This very much mirrors the trend in Treasuries, which continue to set the direction for eurozone bonds, most notably in the aftermath of the weak February US employment report. The decline in yields mainly reflects the fading expectations of rate hikes by the ECB and Fed during 2004.
- In the near term, eurozone bonds should remain well underpinned, helped by supportive domestic factors, safe haven inflows after recent terrorist attacks, as well as a likely positive tone to US Treasuries. Short-dated paper, though, probably needs an ECB rate cut to justify a further fall in yields, which are just above the current level of the refi rate. Ten year eurozone bonds are likely to range trade in line with US Treasuries over the next couple of months.
- If we are correct in our view that Treasury yields will eventually rise again as the US jobs market improves, then eurozone yields can be expected to follow suit, as they did during the setback in the US bond market last summer. The rise in eurozone yields, though, should prove less pronounced than in the US, especially with the ECB unlikely to hike rates before the Fed. Thus, while in the short term ten year eurozone yields may remain below 4%, we expect that they will have risen to 4.3% by end Q3 and 4.7% by end Q4 2004.

CORPORATE BOND RALLY RUNS OUT OF STEAM

- After their strong performance in 2003, the rally in eurozone corporate bonds ran out of steam in Q1 2004. The average pick-up offered by investment grade paper over government bonds has widened from 55bps at the start of the year to a 60-65bps range in the past couple of months. The move was not a surprise as credit spreads had fallen to historically low levels.
- Furthermore, credit quality remains 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. 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 2004 given the limited supply of new debt, improving company balance sheets and the continuing low interest rate environment.



	18 Mar	Jun '04	Dec '04	Dec '05
2 Year	2.1	2.3	2.9	4.0
5 Year	3.1	3.2	3.9	4.6
10 Year	3.9	4.0	4.7	5.2
30 Year	4.7	4.8	5.3	5.5

THE UK

KEY ISSUES

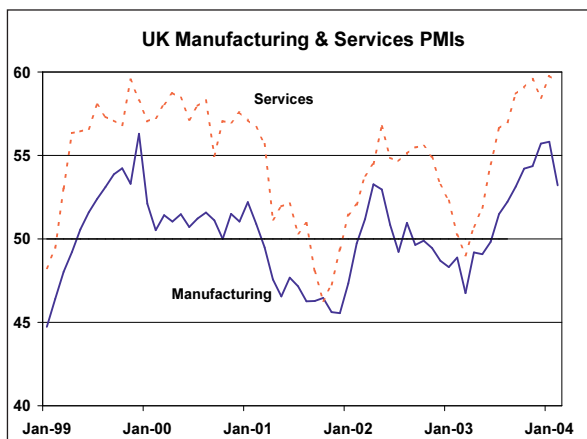
Strong Economic Growth: While the manufacturing sector remains sluggish, recent data show little sign of any slowdown in overall activity in an economy already growing above trend and with little spare capacity.

BoE Tightening: While inflation is running well below the new 2% CPI target, the MPC is still expected to tighten policy further in 2004. Indeed, a rate hike in April could well be on the cards.

Underperforming 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.

LITTLE SIGN OF SLOWDOWN

- The latest data indicate little slowdown in the pace of UK economic activity. There was already considerable momentum in the economy going into 2004 with GDP growth of 0.9% on the quarter in Q4 2003, well above trend.
- The economy, though, is not yet firing on all cylinders. External trade data show declining exports in January while manufacturing output remained sluggish in the month. There are indications, however, that UK manufacturing may soon pick-up momentum. The CBI reports that factory order books in February were at the best level in three years. The PMI for manufacturing, although declining, remained well above 50 in February. UK engineering companies report stronger activity also.
- Meanwhile, retail spending has regained momentum in recent months. Furthermore, the PMI for services has stabilised at exceptionally high levels. The housing market also remains very buoyant. In addition, stockbuilding and a pick-up in business investment should boost growth this year. The recent UK budget did little to dampen the strongly growing economy. Overall, we look for GDP to rise by 3.2% in 2004, up from 2.3% in 2003. This will further erode spare capacity with the unemployment rate already below 5%.
- While the CPI rate at 1.3% remains well below its target level of 2%, other inflation indicators are disimproving. The household consumption deflator accelerated from 1.2% to 1.8% year-on-year between Q1 and Q4 2003. Core PPI output price inflation has also picked up. Meanwhile, house price inflation, a major concern for the BoE, accelerated in the opening two months of 2004. Furthermore, both the CPI rate and underlying earnings growth are expected to accelerate this year.



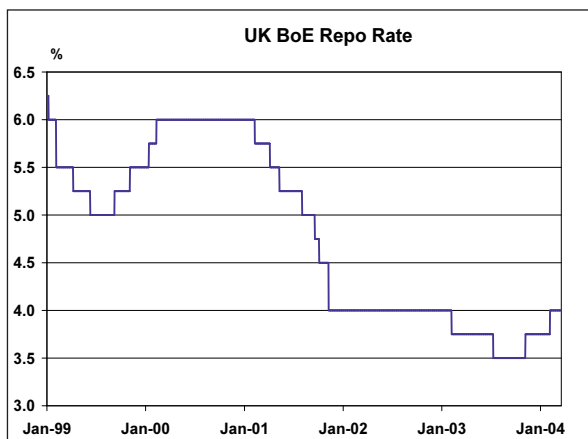
UK Macro Forecasts			
	2003	2004	2005
GDP Growth	2.3	3.2	2.8
CPI Rate	1.4	1.6	1.9
Unemployment Rate	5.1	4.7	4.5
Budget Bal. (1)	-3.0	-3.0	-2.8
BOP (1)	-2.0	-2.5	-2.5
(1) % of GDP			

RATES TO BE HIKED FURTHER

- The Bank of England raised rates by 0.25% in early February, bringing the repo rate to 4.0%. The minutes of the February MPC meeting indicate that the decision to hike rates was consistent with the policy of gradual and cautious moves set out when rates were first raised last November. 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 to raise rates.
- Monetary policy, though, remains quite accommodatory with the repo rate still well below the rate of nominal GDP growth of 5.5%. Thus, we will be watching for any rebound by the sluggish manufacturing and export sectors which could prompt a quick move by the MPC towards a more neutral policy stance. In the meantime, we retain our forecast that rates will be raised gradually, via 25bps hikes in each of the three remaining quarters of the year, pushing the repo rate to 4.75% by end year.
- The minutes of the March MPC meeting were quite hawkish. The MPC identified several arguments for hiking rates including upside risks to consumption and the continued strength of house prices and household borrowings. The latest data on the domestic economy remain strong. Thus, a rate hike in April could well be on the cards.

GILT YIELDS TO REMAIN HIGH

- The relatively high level of official UK interest rates and prospect of further rate increases continues to weigh on the gilt market. Ten year gilts are offering a pick up of 80bps and 95bps, respectively, over bunds and US Treasuries.
- The UK market is currently pricing in a further 50bps increase in rates over the remainder of the year. Our view is that rates could rise by 75bps. Gilts remain vulnerable to any deterioration in interest rate sentiment in the UK, especially given the flatness of the yield curve.
- The supply situation is not that favourable either. The volume of gilt issuance will be close to £50bn again this year. Overall, we think that the ten year gilt-bund spread will remain quite wide in 2004. Spreads are unlikely to narrow significantly until the ECB starts hiking rates, which is not expected to happen until 2005. Thus, the ten year gilt-bund spread is likely to remain close to 80bps over the balance of the year.



	18 Mar	Jun '04	Dec '04	Dec '05
Repo Rate	4.0	4.25	4.75	5.25
2 Year	4.3	4.5	5.0	5.3
5 Year	4.5	4.6	5.2	5.4
10 Year	4.6	4.7	5.3	5.5
30 Year	4.5	4.6	5.1	5.3

JAPAN

KEY ISSUES

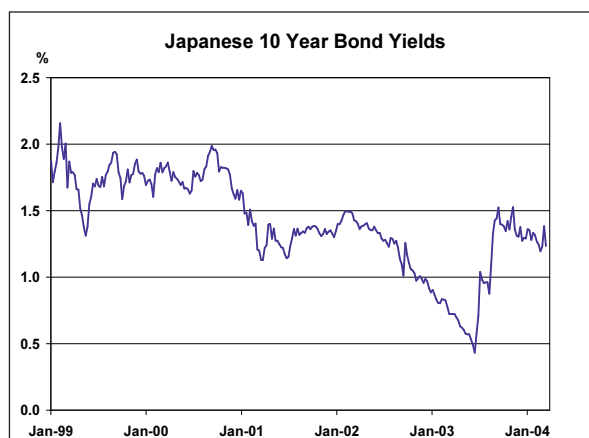
Economic Upswing Continues: While the pace of growth may well moderate after the strong rise in GDP in Q4 2003, leading indicators point to a continuation of the economic upswing.

Persistent Deflation: The downward pressure on prices may be easing, especially consumer prices, but deflation is expected to persist throughout 2004.

Low Bond Yields: JGBs are being supported by continuing very low interest rates. Yields could rise, though, given the prospect of a continuing solid economic recovery and easing of deflationary pressures.

UPTURN IN ECONOMIC ACTIVITY CONTINUING

- Leading indicators point to a continuation of the upswing in Japanese economic activity. Exports grew strongly in January and are expected to remain firm, especially those to Asia. While the strength of the yen is a concern, its impact on exports is likely to be muted by the pace of the recovery in global demand. Meanwhile, there are indications of some improvement in household spending. Consumption should be supported by improving labour market conditions and rising real incomes.
- The pace of overall economic growth, however, can be expected to moderate significantly from the 6.3% annualised rate recorded in Q4 last year. Core machinery orders, a lead indicator of capital spending, fell back in January following a very strong Q4 2003, though the underlying trend in business investment looks set to continue rising. Overall, we expect GDP to rise by 2.5% in 2004, after growth of 2.7% in 2003.
- Despite the pick-up in economic activity, the BoJ is expected to leave its quantitative easing measures and zero interest rate policy in place for some considerable time given the persistence of deflationary pressures. While core CPI was down just 0.1% year-on-year in January, this partly reflects temporary factors, and the rate is expected to decline moderately again this year.
- The very low interest environment continues to support Japanese bonds. While 10 year JGB yields spiked up above 1.45% in early March, they have since drifted back to around 1.3%. However, as the market becomes more convinced about the sustainability of the economic upswing and as deflationary pressures ease, yields may edge higher again. They could move close to 1.5%, the top of the current 1.2-1.5% range, over the summer months, and rise above that level by end year.



Japanese Forecasts			
	2003	2004	2005
GDP Growth	2.7	2.5	2.0
CPI Rate	-0.2	-0.2	-0.2
ODR (1)	0.1	0.1	0.1
5 Year Yield (1)	0.5	0.6	1.1
10 Year Yield (1)	1.3	1.6	2.0
<i>(1) end year</i>			

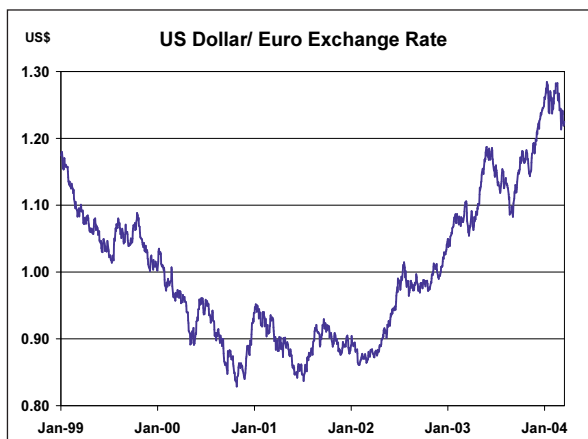
THE CURRENCY MARKETS

KEY ISSUES

- **Euro's Rally Falters:** Euro fails to hold \$1.29 level. Upward momentum appears to be fading as markets speculate about interest rate cuts in Europe.
- **BoJ Intervention:** Confusion abounds over the intervention policy of the BoJ as speculation mounts that it may be losing some of its appetite to hold down the yen.
- **Volatile Sterling:** Sterling has fallen back against both the dollar and euro but should still find support in expectations of higher UK rates.

MARKETS TO REMAIN EXTREMELY VOLATILE

- In exceptionally volatile trading conditions, sentiment has swung against the euro since dollar/euro hit a life time low of \$1.2935 hit on 18 February. Indeed, we may have seen the peak of the euro at \$1.29. Dollar/euro is likely to remain volatile, with wide trading ranges. Verbal intervention from Europe and speculation of a eurozone rate cut could limit any renewed euro appreciation to around \$1.26. Heightened geopolitical fears after the recent terrorist attacks in Europe could also impact.
- On the other hand, any near term solid improvement on US payrolls numbers could see \$1.20 come under threat. By H2 2004 speculation about higher US interest rates should lend support to the dollar, leaving scope for a euro correction towards \$1.15. However, US fiscal imbalances and the political environment could limit a dollar rebound, as could any scaling back of BoJ intervention.
- There has been much volatility in the yen exchange rate as confusion abounds over the intervention policy of the BoJ. The yen has rebounded strongly in recent days having weakened earlier in the month on heavy selling by the BoJ. The more optimistic outlook for the Japanese economy could exert pressure on the yen in the second half of the year, pushing it to around Y105 against the dollar.
- Sterling has also been very volatile, largely reflecting swings in sentiment about UK and eurozone interest rates prospects. In the near term, sterling should be supported by higher UK rates. Later in the year, sterling's interest rate premium could wane, giving scope for the euro to move back to a Stg0.68 - 0.70p range. *(Please see our Exchange Rate Monthly publication on our website aibonds.com for a more detailed analysis of currency markets.)*



Forex Forecasts *			
	18 March	June '04	Dec '04
US\$/EUR	1.23	1.23	1.20
STG/EUR	0.67	0.67	0.68
YEN/EUR	133	133	127
US\$/STG	1.83	1.83	1.76
YEN/US\$	108	108	105

* Mid-point of expected trading range



FINANCIAL MARKET FORECASTS

INTEREST RATE FORECASTS (% , END MONTH)

	18 Mar	June '04	Sept '04	Dec '04	Mar '05
US Fed Funds	1.0	1.0	1.0	1.75	2.25
Euro Refi Rate	2.0	2.0	2.0	2.0	2.25
UK Repo Rate	4.0	4.25	4.5	4.75	5.0
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (% , END MONTH)

	18 Mar	June '04	Sept '04	Dec '04	Mar '05
US 2 Year	1.5	1.7	2.3	3.0	3.3
(s.a.) 5 Year	2.7	2.9	3.5	4.0	4.2
10 Year	3.7	3.9	4.4	4.8	5.0
30 Year	4.7	4.9	5.1	5.3	5.5
Euro 2 Year	2.1	2.3	2.6	2.9	3.2
(ann) 5 Year	3.1	3.2	3.5	3.9	4.1
10 Year	3.9	4.0	4.3	4.7	4.9
30 Year	4.7	4.8	5.1	5.3	5.4
UK 2 Year	4.3	4.5	4.8	5.0	5.2
(s.a.) 5 Year	4.5	4.6	4.9	5.2	5.3
10 Year	4.6	4.7	5.0	5.3	5.4
30 Year	4.5	4.6	4.8	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	2.1	2.1	2.2	2.3	2.4
Euro Bund-Swap	14	14	15	17	20
Spreads Corp - Gov	62	62	65	70	75
(bps)					

EXCHANGE RATE FORECASTS (END MONTH)*

	18 March	June '04	Sept '04	Dec '04	Mar '05
US\$/EUR	1.23	1.23	1.23	1.20	1.20
STG/EUR	0.67	0.67	0.675	0.68	0.69
YEN/EUR	133	133	132	127	127
US\$/STG	1.83	1.83	1.82	1.76	1.74
YEN/US\$	108	108	107	105	105

* Mid-point of expected trading range

The publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expression of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. Allied Irish Banks p.l.c. is regulated by the Irish Financial Services Regulatory Authority.