

FIXED INCOME MONTHLY MONITOR

JANUARY 2004

US EMPLOYMENT DATA MOVE CENTRE STAGE

Bond markets have range traded since the end of last summer, albeit with a more positive tone in recent weeks. While US economic growth proved to be robust in H2 2003, payrolls growth remained very sluggish. Furthermore, indications from the three main central banks, most notably the Fed, that policy can remain accommodative has also helped to underpin bond markets. On top of this, there has been considerable forex intervention related buying of Treasuries by Asian central banks.

The magnitude of expected Fed tightening has recently been scaled back significantly in the absence of evidence of payrolls growth. US labour market data are likely to prove a key influence on Fed policy and thus global bond markets in 2004. The trend in leading US employment indicators, such as jobless claims and the employment components of ISM surveys, points to a marked strengthening of payrolls growth in the coming months.

Indeed, a large jump in employment was reported in monthly household surveys during the final quarter of last year, even though this was not evident in payrolls data. The likelihood that the US economy will grow by close to 5% this year is another factor suggesting that payrolls should soon begin to show significant increases. Nevertheless, the market is now discounting just a 50-75bps rise in the Fed funds rate, from its current 1% level, by end 2004.

In our view, the Fed will tighten rates by more than the market expects given the current exceptional looseness of monetary policy and with the economy expected to grow well above trend, thereby generating jobs and eroding spare capacity. While we have scaled back our expectations for Fed tightening, we are still forecasting a well above consensus level of 2.25% for the Fed funds rate by end year.

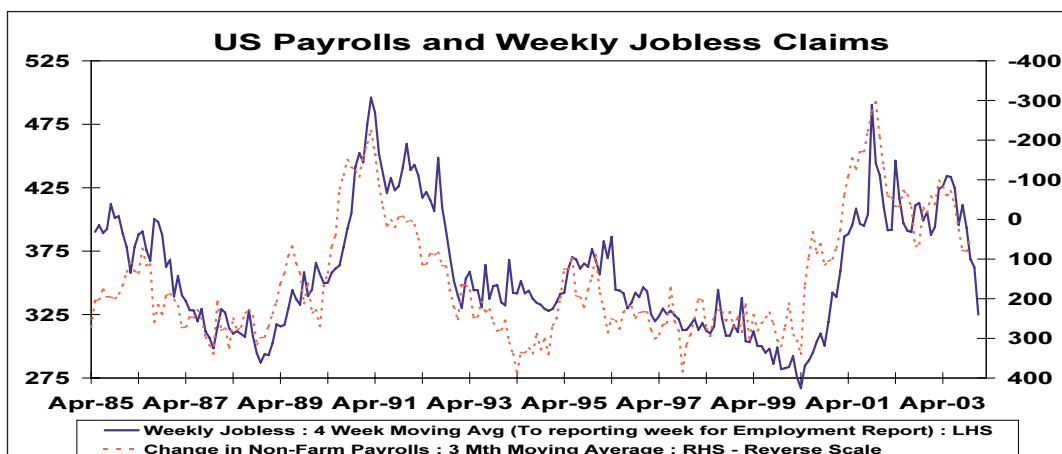
Thus, we look for US bond yields to rise and the curve to flatten in 2004. We see two year Treasury yields rising to 3% and ten year yields hitting 5% by end year. In the euro area, we expect the ECB to stay on hold until near the end of the year when policy could start to be tightened. Ten year eurozone yields, though, are likely to track Treasury yields higher, finishing the year at close to 5%. *(Please see our detailed forecast tables on the last page).*

John Beggs
Chief Economist

Oliver Mangan
Chief Bond Economist

Geraldine Concagh
Senior Economist

Jenny Pollock
Senior Economist



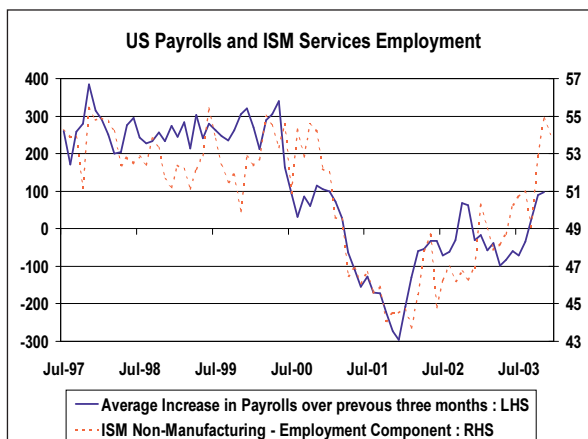
THE US

KEY ISSUES

- **Strength Of Labour Market:** Most indicators, apart from payrolls, point to a strengthening of employment growth. Payrolls, though, should improve in the coming months.
- **Monetary Stance:** Fed on hold for now but rate hikes seem likely in H2 2004 as the economy continues to grow above trend and the labour market tightens.
- **Steep Yield Curve:** We look for bond yields to rise in response to Fed tightening during 2004 with the yield curve also flattening.

ECONOMY GROWING STRONGLY

- The upswing in the US economy which commenced in late 2001 moved on to a more robust footing during 2003. In particular, there has been a marked upturn in investment, both business and residential. Exports have also started to recover. Growth in consumer and government spending has remained strong. Thus, the upswing has become better balanced as well as more robust. GDP growth in 2003 is now put at around 3%.
- 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 catalysts for growth remain very much the same as in 2003, i.e. the very stimulatory stance of monetary policy, expansionary fiscal policy, weakening dollar and improving global economy. Combined with the big improvement in corporate balance sheets, this should ensure that the upswing in activity remains robust.
- While the household survey showed a big jump in employment in Q4 2003, payroll growth remained very sluggish. Leading indicators of employment, such as jobless claims and the employment components of ISM surveys, point to strong gains in payrolls in the coming months. Thus, we expect to see unambiguous evidence of robust employment growth in 2004. The decline in the unemployment rate thus looks set to continue, having fallen from 6.3% to 5.7% in H2 2003.



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	-4.0
BOP (1)	-5.0	-4.8	-4.7

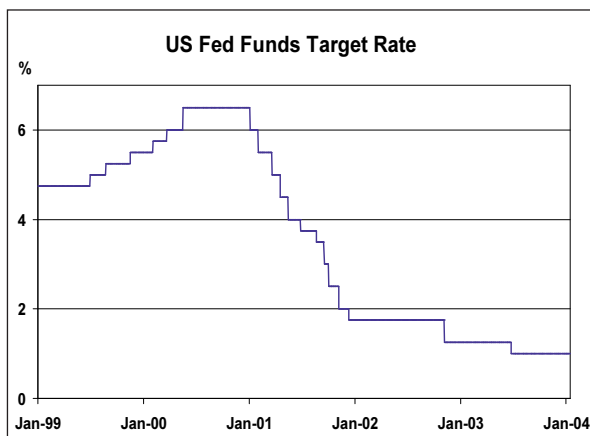
(1) % of GDP

DISINFLATIONARY PRESSURES TO EASE

- The core annual CPI rate fell to 1.1% in December, while growth in average hourly earnings declined to 2%. Inflation tends to lag the economic cycle so the continued decline in core inflation is not surprising. The best news on core 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 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 well behaved in 2004.

FED TO TIGHTEN POLICY IN 2004

- The Fed eased policy sharply over the course of 2001 and 2002, with the funds rate being cut from 6.5% to 1.25%. There was only one rate cut in 2003, a modest 25bps reduction around mid-year. Thus, to all intents and purposes, the current exceptionally low interest rate regime has been in place since November 2002.
- At its last meeting in early December, the Fed moved to a largely neutral policy stance. However, the FOMC statement reiterated that, with inflation quite low and resource use slack, policy accommodation could be maintained for a considerable period, despite expectations of continuing strong economic growth.
- A key factor in keeping the Fed on hold is the sluggishness of the labour market. There is conflicting evidence, though, from the household and establishment surveys, about the strength of employment growth. If the downtrend in unemployment evident in H2 2003 is sustained and payrolls start to show more robust growth, as we expect, then Fed tightening seems likely by mid 2004.
- Markets are discounting some 50-75bps 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.

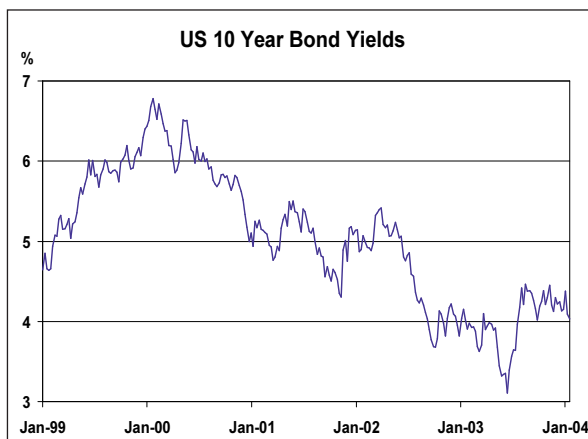


	19 Jan	Jun '04	Dec '04	Dec '05
Fed Funds	1.0	1.0-1.25	2.25	4.0
1 month	1.1	1.3	2.4	4.1
3 month	1.1	1.5	2.6	4.2
1 Year	1.3	1.8	3.1	4.4

- Given the current exceptional looseness of monetary policy, with the economy growing above trend, the unemployment rate moving steadily downwards and given our view that payrolls will show a significant rise this year, we believe that the Fed will tighten policy by more than the market expects in 2004. The funds rate could be hiked to 2.25% by end year, with the first rate rise likely in the summer.

YIELD CURVE TO FLATTEN

- US Treasuries have range traded since the summer sell-off. Ten year yields have been largely confined to a 4.0 - 4.5% range and two year yields have generally moved in a 1.6 - 2.1% range since August. While economic data tended to be robust in H2 2003, sluggish payrolls figures and indications from the Fed that policy can remain accommodative have helped underpin the bond market, especially in recent weeks, with ten year yields dipping below 4% on occasions. Substantial forex intervention related demand for Treasuries from Asian central banks has been supporting the market also.
- Growth is expected to remain relatively robust in 2004 with inflation staying quite subdued. A crucial factor impacting on bonds this year is likely to be the labour market, payrolls growth in particular, as this is expected to have a major bearing on Fed policy. A modest tightening of policy by 50-75bps is envisaged by the market. 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, could be expected to rise to around 2.5%.
- 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 yields will start moving upwards in the coming months in response to improving employment data. If the funds rate is hiked to our forecast 2.25% level, then two year yields are likely to climb to 3% and ten year yields to 5% by end year.
- Other factors could pressure the market in 2004, in particular the rising Federal budget deficit or developments in the forex market. Some Asian central banks have been significant buyers of US Treasuries, as they invest 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. This would result in less forex intervention and thus a fall in the demand for Treasuries.



US Bond Yield Forecasts				
	19 Jan	Jun '04	Dec '04	Dec '05
2 Year	1.6	2.2	3.0	4.5
5 Year	3.0	3.6	4.3	5.0
10 Year	4.0	4.5	5.0	5.3
30 Year	4.9	5.3	5.5	5.6

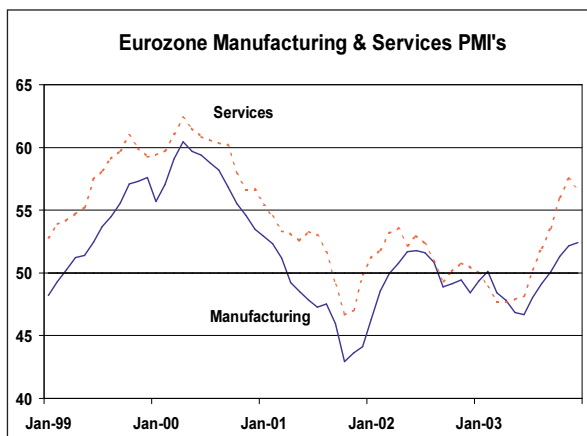
THE EUROZONE

KEY ISSUES

- **State Of Domestic Demand:** The upswing in activity in H2 2003 has been export led and needs to encompass domestic demand to confirm a return to trend growth or above.
- **Monetary 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:** Trend in US Treasuries is likely to remain key influence on eurozone bonds with little sign of decoupling last year, despite a clear divergence in economic performance.

ECONOMY TO STRENGTHEN IN 2004

- The recovery in activity which commenced in Q3 2003 has been export led, driven by the improved global economic environment. Indeed, a breakdown of Q3 GDP data showed that domestic spending contracted for the second consecutive quarter. GDP rose by 0.4% in the third quarter. A broadly similar rise is estimated to have occurred in Q4 2003.
- 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, consumer spending should strengthen on the back of a pick-up in employment and lower inflation. Tax cuts are also being implemented in some countries.
- 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 pick up in momentum of the economy since mid-2003, a favourable external environment and continued uptrend in leading indicators of activity, GDP growth could average close to 2% in 2004, with above trend growth possible in the second half of the year. We see GDP growth averaging 2.5% in 2005.
- 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 is also quite sticky. The lagged effects of euro strength combined with better behaved oil and food prices should see inflation fall to 1.7 - 1.8% in 2004.



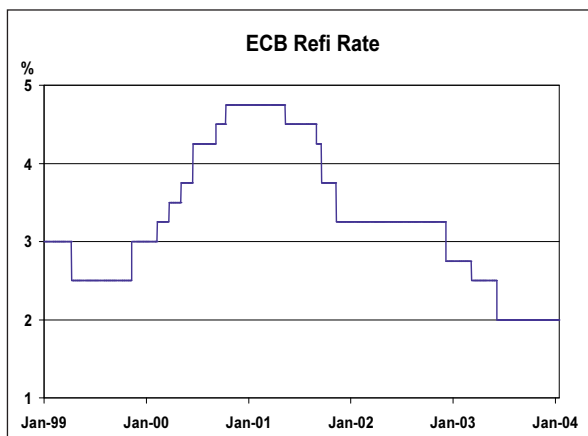
Eurozone Macro Forecasts			
	2003	2004	2005
GDP Growth	0.5	2.0	2.5
CPI Rate	2.1	1.7	1.8
Unemployment Rate	8.8	8.8	8.6
Budget Bal (1)	-2.8	-2.7	-2.5
BOP (1)	0.4	0.6	0.7
(1) % of GDP			

NO ECB RATE HIKE UNTIL Q4 2004

- The ECB cut rates by another 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 may 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 in 2004, it may be later 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. Indeed the rise in bond yields since mid-2003, combined with the marked appreciation of the euro, imply that there already has been a marked tightening of monetary conditions in the eurozone.
- Nevertheless, the ECB has said that it will monitor developments that might impact on the outlook for price stability, in particular strong monetary growth and a recent rise 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, we would not be surprised if the ECB tightens policy late in 2004. We look for the refi rate to be hiked to 2.25% - 2.5% in Q4 2004.

BOND YIELDS TO MOVE HIGHER

- Eurozone bonds continue to take their cue largely from the US. The ten year Treasury-bund spread has been generally confined to a +/-30bps range in the past year. The steepness of the curve offers the market some protection with the ECB expected to stay on hold for most of 2004. Nevertheless, should US Treasury yields move higher in the coming months, as we expect, eurozone yields are likely to follow suit.
- Eurozone bonds, though, should outperform Treasuries, especially at the short end, as US rates rise from their current exceptionally low level of 1%. Thus, we expect to see a narrowing of the current 75bps pick-up 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%.



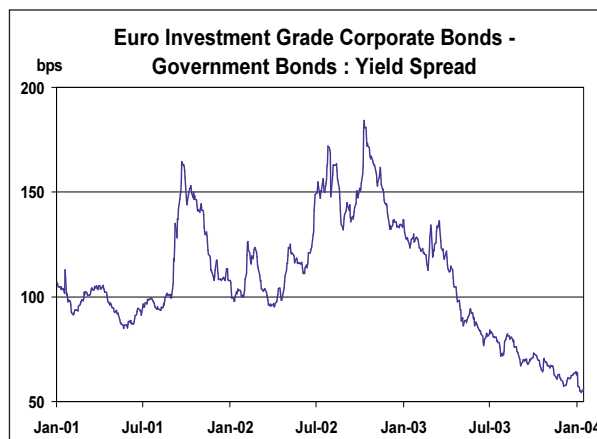
Eurozone Interest Rate Forecasts				
	19 Jan	Jun '04	Dec '04	Dec '05
Refi	2.0	2.0	2.25-2.5	3.5
1 Month	2.1	2.1	2.6	3.6
3 Month	2.1	2.1	2.7	3.7
1 Year	2.2	2.5	3.0	3.9

TIGHT EUROZONE SPREADS

- The last couple of years have seen 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 and France has fallen from 30bps to virtually zero. This reflects the deterioration of the public finances in France and Germany, and the sharp decline in the bund-swap spread to around 10bps.
- Looking to 2004, it is difficult to see ten year bonds in markets like Ireland and Spain trading through core countries. Thus, the best that these markets are likely to do this year is to continue trading at around level spreads to bunds and OATs. There is some risk, though, that ten year spreads may widen out a little. Swap spreads could ease somewhat if the ECB hikes rates later in the year. Meanwhile, the budgetary situation in France and Germany should improve as their economies strengthen. However, any underperformance by markets like Ireland and Spain should be small given their limited supply of new bonds.

CORPORATE BOND RUN TO END

- It is going to be difficult for eurozone corporate bonds to continue their outperformance against government bonds in the year ahead. Yield spreads over government paper are now at historically low levels. Single 'A' rated corporate bond yields, for example, are just 40bps above government paper, while BBB spreads have narrowed to under 80bps. These pick-ups are much narrower than the corresponding spreads offered by US corporates over Treasuries.
- A marked underperformance by eurozone corporate bonds, though, seems unlikely given the limited supply of new debt, improving company balance sheets and the continuing low interest rate environment. Nevertheless, we would be very wary of the eurozone corporate bond market at the current tight spreads.
- Credit quality is still very fragile. S&P have 27% of non-financial European corporations on a negative rating outlook compared with 7% assigned a positive outlook. The experience of Parmalat shows that corporate bonds carry a significantly higher risk than sovereign issues. In our view, this is no longer being reflected in the pricing of euro area corporate bonds.



	19 Jan	Jun '04	Dec '04	Dec '05
2 Year	2.4	2.8	3.4	4.2
5 Year	3.4	3.8	4.3	4.8
10 Year	4.2	4.5	4.9	5.2
30 Year	4.9	5.2	5.4	5.5

THE UK

KEY ISSUES:

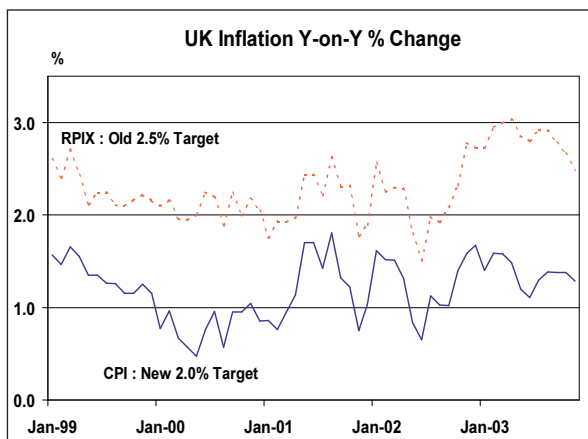
Limited Spare Capacity: The economic downturn has proved very mild, resulting in little spare capacity as above trend growth beckons in 2004.

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

High Gilt Yields: Gilts to continue to offer a generous yield pick up over US and eurozone bonds because of relatively high and rising UK short term rates.

ABOVE TREND GROWTH

- The UK economy has performed relatively well during the global downturn of the past three years. GDP growth has averaged close to 2%, not too far below trend. As a result, the unemployment rate has been stable at close to 5%, implying little spare capacity in the economy.
- Strong growth in household consumption and government spending have been the main supports to activity. Business investment and exports, though, have performed poorly in recent years. There was a noticeable strengthening of activity over the course of last year. Growth picked up to trend in Q2 and moved above trend in H2 2003. Recent months have seen signs of a pick up in exports and stabilisation of output in the manufacturing sector.
- Leading indicators point to a further strengthening of activity in 2004 as the manufacturing sector recovers, boosted by a rise in exports. Stockbuilding should also add to output this year. Business investment is expected to pick-up given the improvement in corporate profitability. Household consumption is likely to remain robust but the growth in government spending is set to slow. Overall, we look for GDP to rise by 2.8% in 2004.
- Inflation measures in the UK vary widely. The CPI rate at 1.3%, is running well below its target level of 2%. However, the RPIX rate was above its 2.5% target rate for most of 2003, largely because of the very high inflation in the housing sector. With growth moving above trend and little spare capacity, one would expect the CPI rate to pick up towards 2% in the year ahead. The Bank of England can also be expected to keep a very close eye on wage developments.



UK Macro Forecasts			
	2003	2004	2005
GDP Growth	2.3	2.8	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

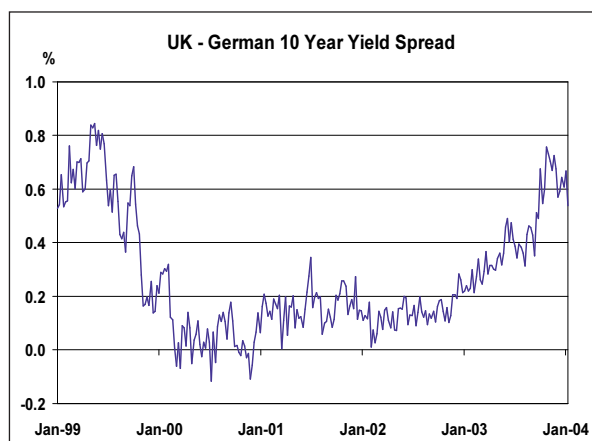
(1) % of GDP

FURTHER BOE RATE HIKES LIKELY

- The Bank of England is likely to tighten policy further in 2004, having already increased rates by 25bps to 3.75% in November. 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 rate hikes in 2004, despite the low CPI rate. The February MPC meeting is seen as a possible date for the next rate hike.
- 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 by 75-100bps in 2004.

GILT YIELDS TO REMAIN HIGH

- Gilts had a poor year in 2003, underperforming Treasuries and eurozone government bonds. The ten year gilt-bund spread blew out to a high of 80bps at one stage from a 20-30bps range earlier in the year. The relatively high level of official UK interest rates has been the main factor weighing on the gilt market.
- The UK yield curve is relatively flat, unlike other markets. Thus, 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 actually tightened by 20bps late in 2003 as the market scaled back its expectations of UK rate hikes. The spread now stands at around 60bps.
- Gilts could be vulnerable to any renewed deterioration in interest rate sentiment in the UK during 2004. As already indicated, we think that the BoE could hike rates by more than the market expects. On the other hand, the ECB is likely to be slow to tighten policy in the coming year.
- 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 during 2004, finding it difficult to fall below 50bps until the ECB starts hiking rates, probably near year end.



UK Interest Rate and Bond Forecasts				
	19 Jan	Jun '04	Dec '04	Dec '05
Repo Rate	3.75	4.0	4.5	5.25
2 Year	4.4	4.7	5.0	5.3
5 Year	4.6	4.9	5.2	5.4
10 Year	4.7	5.0	5.3	5.5
30 Year	4.7	5.0	5.2	5.3

JAPAN

KEY ISSUES

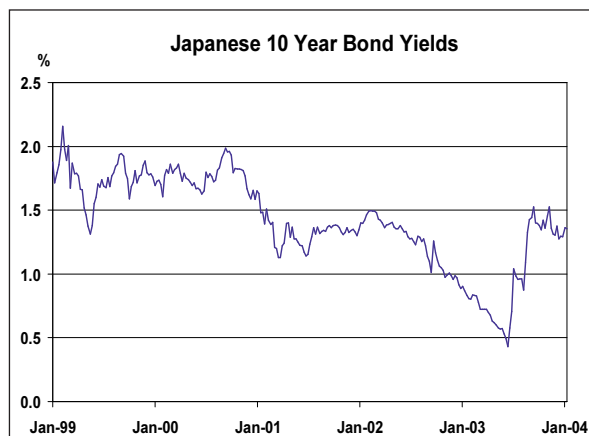
Sustainability Of The Recovery: Upturn is likely to be sustained in 2004 by rising export demand and improving trend in corporate sector.

Deflation: Downward pressure on prices is easing, especially consumer prices, but deflation is expected to persist in 2004.

The JGB Market: Little chance of a rate hike but curve could steepen on continuing recovery in activity and easing of deflationary pressures.

A REAL RECOVERY

- GDP has risen for seven consecutive quarters, driven primarily by a rebound in business investment and rising exports. GDP growth in 2003 is now expected to average 2.1%. Leading indicators of activity such as the Tankan Survey and machinery orders point to a continuation of the upswing in activity in 2004.
- Exports are expected to continue growing strongly, especially to Asia, although the rising yen is a concern. Helped by a recovery in profits, business investment looks set to continue rising, albeit at a more moderate pace than in 2003. Household consumption should be underpinned by improving labour market conditions and rising real disposable income. We expect GDP to rise by 2.0% in 2004.
- 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. The deflationary pressures on the CPI eased in 2003 but this was partly due to temporary factors. Thus, the CPI is expected to decline moderately again this year. This suggests that the BoJ will not alter its zero interest rate policy in 2004.
- Ten year JGB yields dipped to a record low of 0.43% in June 2003 before rising sharply to trade in a 1.2-1.5% range in H2 2003. A continuation of the BoJ zero interest rate policy should provide a strong anchor for the market in 2004. Nonetheless, should the economic upswing continue, and underlying deflationary pressures ease further, then long dated bond yields may edge higher, especially if global bond yields also move upwards in the coming year. Hence, we look for ten year JGB yields to rise above 1.5% over the course of 2004.



Japanese Forecasts			
	2003	2004	2005
GDP Growth	2.1	2.0	2.0
CPI Rate	-0.2	-0.2	-0.2
ODR (1)	0.1	0.1	0.1
5 Year Yield (1)	0.5	0.8	1.1
10 Year Yield (1)	1.3	1.7	2.0
<i>(1) end year</i>			

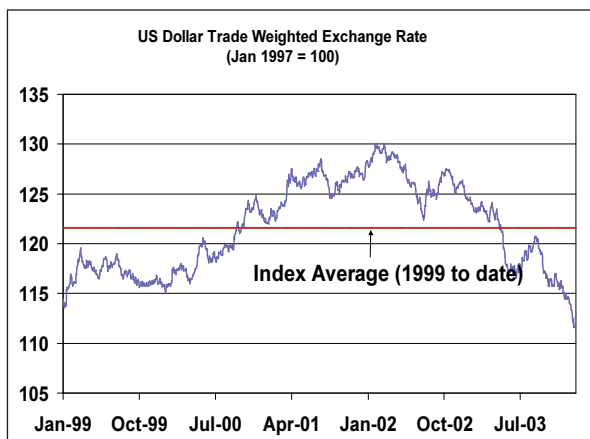
THE CURRENCY MARKETS

KEY ISSUES

- **Dollar Weakness To Dominate:** Downside pressure on the dollar to stay in place, with US interest rates remaining at very low levels and the current account deficit a major worry.
- **Euro Could Retest \$1.30:** While recent comments from European officials have dampened enthusiasm for a stronger euro, the market is likely to retest the \$1.30 level in the months ahead.
- **Higher Rates Support Sterling:** Sterling is benefiting from expectations of rising interest rates in the UK, which are already at relatively high levels.

DOLLAR TO REMAIN WEAK

- The US dollar has fallen by 14% on a broad trade weighted basis but by 45% against the euro over the past two years. In addition to a protracted period of historically low US interest rates, the dollar has been dogged by concerns over the magnitude of the US current account deficit which hit 5% of GDP in 2003. Comments by US officials have done nothing to support the dollar either.
- The dollar has fallen a long way in recent months. Not surprisingly, then, it has staged a modest technical recovery in recent days. The dollar's recovery, though, is likely to be limited given the gaping current account deficit and with US rates expected to remain below the levels in the eurozone and Anglo Saxon countries in 2004. Thus, a correction back to \$1.20 against the euro may be the best that the dollar can achieve, before weakening again.
- With Asian countries persisting with forex intervention and quasi fixed exchange rate regimes against the US currency, the euro and Anglo-Saxon currencies look set to continue to bear the brunt of the dollar's decline. Thus, we would not be surprised to see the US\$/euro rate moving back up towards the \$1.30 level again in the coming months, with cable rising towards \$1.90.
- Sterling has strengthened against the dollar but has been range bound against the euro since last spring. Relatively high and rising UK rates have helped underpin sterling against the euro. We expect this trend to continue in 2004 with the Stg/euro rate confined to a tight Stg0.68-0.71p range for much of the year. *(Please see our Exchange Rate Monthly publication on our website aibonds.com for a more detailed analysis of currency markets.)*



Forex Forecasts

	19 Jan	June '04	Dec '04
US\$/EUR	1.24	1.24	1.28
STG/EUR	0.69	0.70	0.70
YEN/EUR	133	130	130
US\$/STG	1.79	1.77	1.82
YEN/US\$	107	105	102



FINANCIAL MARKET FORECASTS (2004)



INTEREST RATE FORECASTS (% , END MONTH)

	19 Jan	March	June	Sept	Dec
US Fed Funds	1.0	1.0	1.0-1.25	1.75	2.25
Euro Refi Rate	2.0	2.0	2.0	2.0	2.25-2.50
UK Repo Rate	3.75	4.0	4.0	4.25	4.50
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (% , END MONTH)

	19 Jan	March	June	Sept	Dec
US 2 Year	1.6	1.9	2.2	2.6	3.0
(s.a.) 5 Year	3.0	3.3	3.6	4.0	4.3
10 Year	4.0	4.3	4.5	4.8	5.0
30 Year	4.9	5.1	5.3	5.4	5.5
Euro 2 Year	2.4	2.6	2.8	3.1	3.4
(ann) 5 Year	3.4	3.6	3.8	4.0	4.3
10 Year	4.2	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	4.7	4.9	5.0
(s.a.) 5 Year	4.6	4.8	4.9	5.1	5.2
10 Year	4.7	4.8	5.0	5.2	5.3
30 Year	4.7	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	0.7	0.8
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	12	12	12	14	18
Spreads Corp - Gov	57	55	55	60	65
(bps)					

EXCHANGE RATE FORECASTS (END MONTH)

	19 Jan	March	June	Sept	Dec
US\$/EUR	1.24	1.25	1.24	1.25	1.28
STG/EUR	0.69	0.69	0.70	0.70	0.70
YEN/EUR	133	131	130	130	130
US\$/STG	1.79	1.81	1.77	1.79	1.83
YEN/US\$	107	105	105	104	102

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