AIB Global Treasury
Economic Research

FIXED INCOME MONTHLY MONITOR

APRIL 2004

FED TO MOVE ONTO TIGHTENING PATH

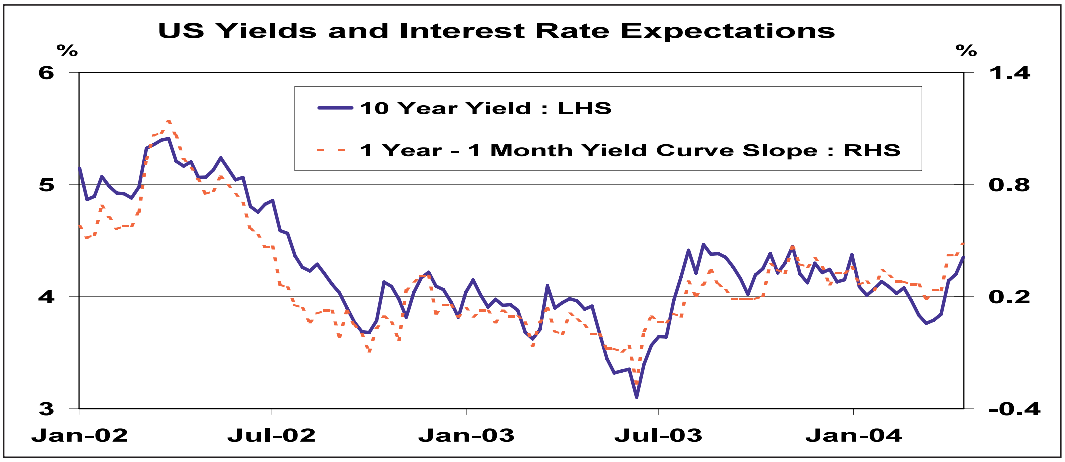
In our March publication, we revised down our end year forecast for the Fed funds rate from 2.25% to 1.75% given the unexpected weakness of payrolls in the opening two months of the year. Other US economic data were also not quite as buoyant as we had anticipated. However, most economic figures published for March, in particular employment, have proved exceptionally strong. Furthermore, there have been significant upward revisions to key economic data for January and February, notably non-farm payrolls and retail sales figures.

Thus, we are restoring our end year forecast of 2.25% for the Fed funds rate. As well as the rise of over 500,000 in non-farm payrolls and GDP growth of around 5% in Q1, the marked pick up in core consumer prices in the opening quarter of the year points to Fed tightening in the not too distant future. We expect the Fed to begin raising rates in August.

Our bearish medium term view on bond markets has been validated by developments in the past month. Ten year US yields have climbed from 3.7% to close on 4.5% in recent weeks. While not as pronounced as in the US, there have also been marked rises in yield levels in the eurozone, UK and Japan in the past month.

There is strong support for the US Treasury market at ten year yield levels of 4.5-4.6%, which may hold in the near term. However, as the Fed tightens policy in H2 2004, ten year US yields are likely to breach this support, climbing to 5% by end year. We see two year US yields rising to 3.3% by end 2004 from 2.1% at present. This points to some flattening of the current very steep Treasury yield curve over the balance of the year.

The rise in bond yields in the euro area should continue to be less pronounced than in the US. While we expect the ECB to hold rates at 2% over the balance of the year, a further easing of monetary policy cannot be ruled out, given the sluggishness of the upswing in economic activity. Certainly any tightening of policy seems unlikely until well into 2005. Nevertheless, US Treasuries continue to exert a major influence on eurozone bonds. Hence, we see ten year yields in the euro area rising from 4.15% at present to 4.6% by end year.



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THE US

KEY ISSUES

- ***Strong Data:*** The so called jobless recovery has given way to a marked increase in employment year to date, with continuing strong economic growth.
- ***Monetary Policy:*** Robust growth, strong employment gains and rising inflation point to significant Fed tightening from the summer onwards.
- ***Bonds Slide:*** The March rally proved short-lived, with yields rising sharply in April and likely to climb even higher as the Fed tightens.

PAYROLLS PICK UP STRENGTH

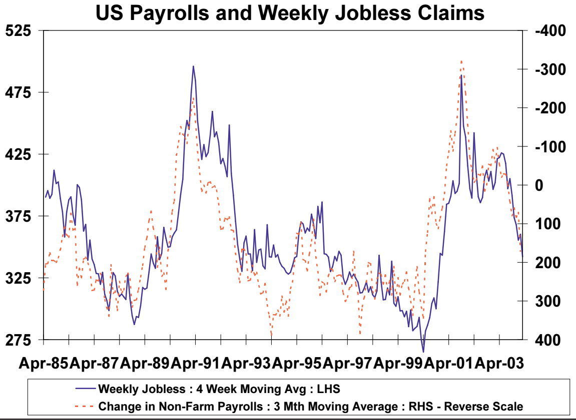
- By far the most important economic release published to date this year for the US economy was the March employment report. Not only did it show an increase of over 300,000 in non-farm payrolls but it also contained significant upward revisions to the payroll figures for January and February. As a result, non-farm payrolls are now estimated to have increased by over 500,000 in Q1 2004, quashing fears that this is a jobless recovery.

- Payroll data have thus moved into line with virtually every other labour market indicator which have been pointing to a marked pick up in employment for some time. We would highlight, in particular, the sharp fall in jobless claims, the rise in the employment components of ISM surveys and the decline in the unemployment rate since last summer.

- Given the strength of leading economic and labour market indicators, an expected slowdown in productivity growth, and very high corporate profit levels, we expect jobs growth to remain strong over the balance of the year. The forecast by the Bush administration that employment would grow by 2 million in the US this year no longer looks that far fetched.

- The pace of economic activity remained robust in the opening quarter of the year. GDP growth is estimated at around 5%. Consumer spending continues to show solid growth, boosted by tax cuts and rising employment. Manufacturing output has picked up considerable strength. Meanwhile, business investment continues to recover, inventories are being rebuilt, while exports are rising.

US Payrolls and Weekly Jobless Claims



US Macro Forecasts

	2003	2004	2005
GDP Growth	3.1	4.7	3.7
CPI Rate	2.3	2.0	2.0
Unemployment Rate	6.0	5.5	5.0
Federal Budget Bal. *(1)*	-3.5	-4.1	-3.7
BOP *(1)*	-5.0	-4.8	-4.6

(1) % of GDP

INFLATION ON THE RISE

- Leading indicators of activity point to a continuation of robust economic growth. While the impact of tax cuts will abate in H2 2004, the overall stance of macro-economic policy will remain stimulatory. The favourable external economic environment should boost exports. High corporate profit levels should fuel continued strong growth in business investment. Rising employment should sustain solid growth in consumer spending.

- While the pace of activity is expected to slow somewhat in H2 2004, GDP growth for the year looks set to exceed 4.5%. This would be the strongest US growth rate in twenty years. We look for GDP growth of 3.7% in 2005.

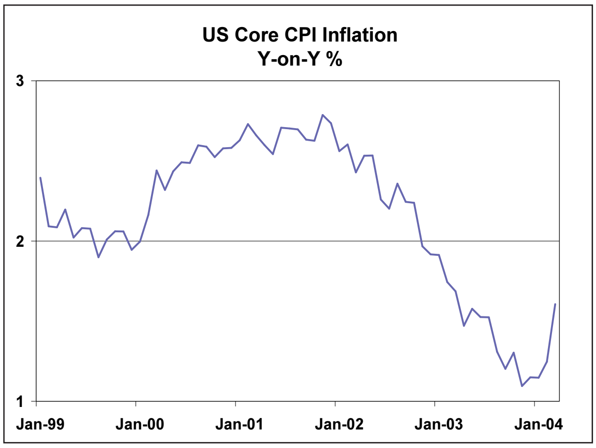
- The strong growth of the economy and employment in early 2004 has coincided with a pick up in underlying inflation. The core CPI rate had decelerated to 1.1% yoy at end 2003. However, in the opening quarter of 2004, the core CPI rate rose at an annualised rate of 3.2%, with the yoy rate climbing to 1.6%. Meanwhile, growth in average hourly earnings fell to 1.8% yoy at the end of last year. However, average hourly earnings growth accelerated to an annualised rate of 3.5% in Q1 2004.

- The high level of oil prices, rising commodity prices, depreciation of the dollar and accelerating growth in domestic spending and wages have resulted in a less favourable inflation outlook. However, the combination of excess capacity and large productivity gains suggests that the rise in inflation should prove to be modest enough. Nevertheless, the annual core CPI rate could pick up to a 2.0-2.5% range during 2004.

FED TO HIKE RATES THIS SUMMER

- Chairman Alan Greenspan's testimony to Congress this week signalled that the Fed is no longer worried about deflation and believes that the economic recovery is now on a firm footing. The Fed is likely to move to a neutral bias at the May FOMC meeting.

- With output and employment likely to continue growing robustly, against a backdrop where inflation is turning upwards, albeit from a very low base, comments from Fed officials in the next couple of months can be expected to prepare the markets for eventual monetary tightening. We would not be surprised if the Fed moved to a tightening bias by mid year, paving the way for rate hikes to begin in Q3 2004.



US Interest Rate Forecasts

	21 Apr	Jun '04	Dec '04	Dec '05
Fed Funds	1.0	1.0	2.25	3.5
I month	1.1	1.1	2.4	3.7
3 month	1.1	1.3	2.5	3.8
1 Year	1.7	2.0	3.0	4.2

- We expect that the Fed will start hiking rates at the August FOMC meeting. The first move is likely to be a 25bps increase with more hikes to follow before year end. By end 2004, we expect that the Fed funds rate may have risen to 2.25% from 1% at present. Further policy tightening can be expected in 2005, given that policy would still be quite accommodatory at our forecast end year level for the Fed funds rate.

YIELD CURVE TO FLATTEN

- After the big bond rally in March, bond yields have risen sharply to date in April, on the back of the very strong economic statistics, in particular, labour market and retail sales figures, as well as poor CPI data. Ten year yields have risen close to 4.5% from 3.7% in March. Thus, they have returned to the 4.0-4.5% range they occupied between August 2003 and February 2004. It's a similar story for short-dated Treasuries, with two year yields climbing to 2.1% from 1.6% in recent weeks.

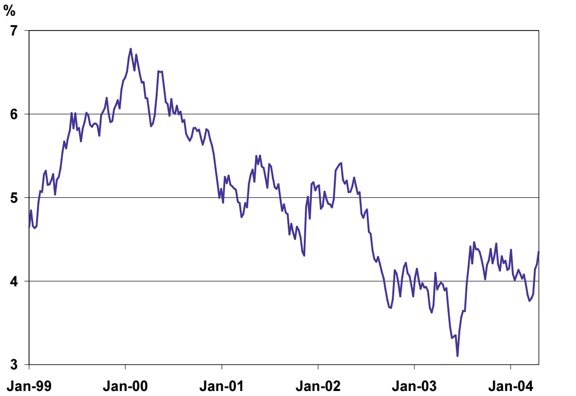
- The back up in yields in April is in line with our fundamentally bearish view on bond markets. We expect the market to remain under pressure over the balance of the year in the face of continuing strong economic data, rising inflation and a shift to monetary tightening by the Fed. The rebound by the US dollar also means that Asian central banks will scale back their large, currency intervention related, purchases of US Treasuries.

- Ten year Treasury yields failed to rise above the 4.5-4.6% level during the major bond market sell off last year. This support level may hold in the short term. Survey evidence suggests that the market is short duration, geopolitical tensions are rising again, and US equities have a tired look about them. The yield curve is also very steep, with 350bps separating the Fed funds rate and ten year yields.

- However, we think that these supports will give way over the summer as the Fed moves to tighten policy in response to continuing strong data. The likelihood of continued monetary tightening in 2005, as well as sizeable bond issuance to fund the large Federal budget deficit, will also weigh on the market. By end year, we expect ten year US yields to have risen to around 5%.

- There is likely to be an even more pronounced rise in short dated yields. The market is discounting a rise in the Fed funds rate to 2% by end year. We think that it could end the year higher at 2.25%. Hence, we expect two year yields to rise sharply, climbing to around 3.3% from 2.1% at present. Thus, we look for some flattening of the steep bond yield curve over the balance of the year.

US 10 Year Bond Yields



US Bond Yield Forecasts

	21 Apr	Jun '04	Dec '04	Dec '05
2 Year	2.1	2.5	3.3	4.2
5 Year	3.5	3.7	4.2	4.8
10 Year	4.4	4.6	5.0	5.3
30 Year	5.2	5.4	5.6	5.7

THE EUROZONE

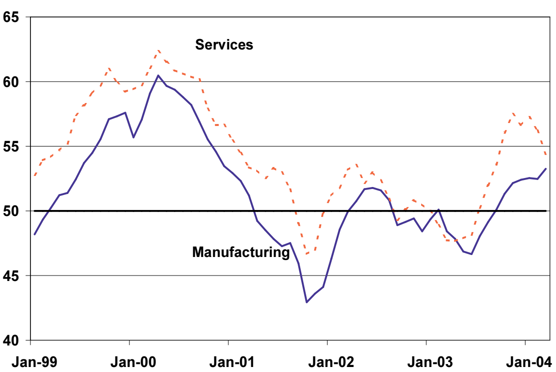
KEY ISSUES

- ***Weak Growth:*** The modest 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 Council seems to be split over whether to cut rates further to help stimulate activity. While easing remains a possibility, we look for the ECB to stay on hold.
- ***Bond Market:*** US Treasuries remain a major influence on the eurozone bond market. Eurozone yields, though, should continue to rise less rapidly than US yields, especially at the short end

WEAK RECOVERY

- The eurozone economy began a modest recovery in the second half of last year, with GDP rising by 0.4% and 0.3% in Q3 and Q4 2003, respectively. The pick up in activity was export led, driven by strengthening global demand. Notably, though, growth in consumer spending remained very weak. However, the recovery, was expected to gain momentum and become more broadly based in 2004.
- These expectations have been disappointed up to now. The data released for Q1 2004 show that growth remains subdued. The PMI for manufacturing showed only a small improvement in the first three months of the year. Meanwhile, the PMI for services declined in March to its lowest level since September. The pick up in eurozone consumer and business confidence has also stalled in recent months. Meanwhile, industrial output has also weakened since the start of the year.
- Overall, GDP seems likely to have risen by around 0.3% in Q1. The EU Commission is forecasting that GDP growth will remain anaemic in Q2 at 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, low inflation and improving corporate balance sheets should help the economy to pick up momentum in the second half of the year. However, GDP growth in 2004 is unlikely to average more than 1.5%, following the subdued start to the year, still well below trend.

Eurozone Manufacturing & Services PMI's



Eurozone Macro Forecasts

	2003	2004	2005
GDP Growth	0.4	1.5	2.3
CPI Rate	2.1	1.9	1.8
Unemployment Rate	8.8	8.8	8.6
Budget Bal *(1)*	-2.7	-2.7	-2.6
BOP *(1)*	0.4	0.6	0.7

(1) % of GDP

INFLATION REACCELERATES

- The HICP rate fell sharply over the winter, declining to 1.6% in February from a recent high of 2.2% in November. However, the core HICP rate has remained quite stable at close to 2%. The decline in inflation largely reflected a basis effect as the sharp jump in energy prices in early 2003, in the run up to the war in Iraq, dropped out of the annual rate.

- The HICP rate edged up to 1.7% in March and will climb further in April and May on a reversal of base effects, as oil prices fell sharply in these months last year, in the aftermath of the war in Iraq. Hence, the HICP rate can be expected to rise to around 2% in Q2 2004.

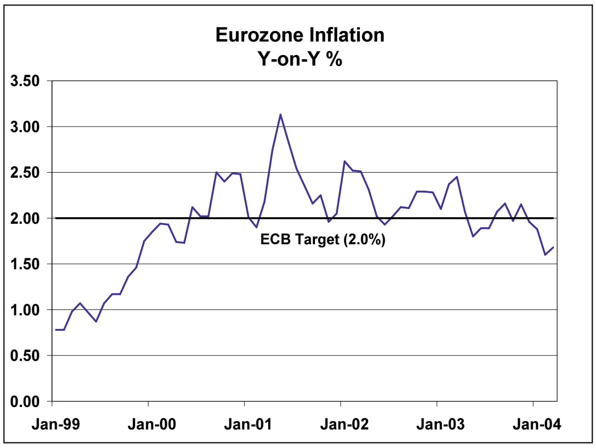
- Continuing high oil prices are acting against a sustained deceleration in inflation during 2004. The lagged effects of euro strength should see core inflation edge down below 2% over the course of the year. However, core inflation is proving remarkably sticky. Nonetheless, eurozone inflation could average less than 2% in 2004 for the first time since 1999.

ECB IN A DITHER

- There have been conflicting signals coming from the ECB about the need for a further easing of monetary policy. This may be due to divided views on the ECB council over the matter. The compromise solution seems to be to wait for more data, with Trichet hinting that rates could be cut if economic activity remains weak. However, the market, which had been pricing in a rate cut, now looks for policy to stay on hold for the rest of the year.

- In our view, there is both the need and the scope to ease monetary policy further in the eurozone to provide a boost to economic activity. A rate cut could yet be delivered before mid-year if the GDP report for Q1 and economic indicators for Q2 prove particularly weak.

- However, with the HICP rate expected to pick up again to 2% in the next couple of months, the global upswing gaining momentum and moving on to a more sustainable footing, and the euro losing ground, the window of opportunity for a rate cut is beginning to close. Hence, we are sticking to our forecast of unchanged ECB rates in 2004. We do not envisage any tightening of ECB policy until well into 2005, given the sluggishness of the economic recovery to date.



Eurozone Interest Rate Forecasts

	21 Apr	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	2.1	3.4
1 Year	2.2	2.2	2.5	3.7

EUROZONE BONDS UNDER PRESSURE

- Eurozone bond yields declined in Q1, very much mirroring the trend in US Treasuries. However, the failure of the ECB to deliver a rate cut at its April meeting, combined with robust US economic data which saw Treasury yields spike higher, has put the eurozone bond market under considerable pressure in recent weeks. Even though there has been a marked outperformance vis-a-vis US Treasuries, eurozone yields have risen by 30-40bps all along the curve in April.

- If we are correct in our view that Treasury yields will rise further this year, then the eurozone bond market can be expected to remain under pressure. The rise in eurozone yields, though, should continue to prove to be less pronounced than in the US, especially with an ECB rate cut still a possibility, and policy tightening not expected in the eurozone until well into 2005.

- There should be scope for the short end of the eurozone market, in particular, to outperform the US in these circumstances. Indeed, yields could fall in this part of the curve if the ECB actually eases policy further. In any event, we see two year US yields rising above eurozone levels this summer.

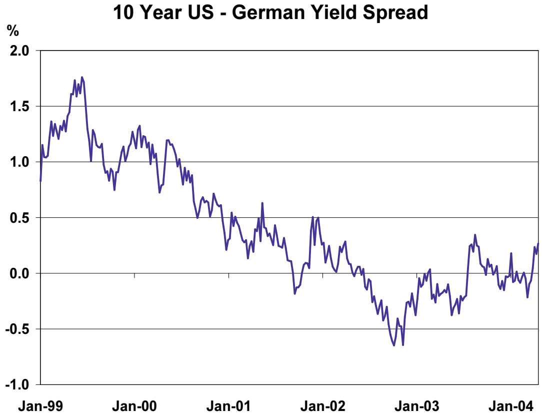
- At the longer end, meanwhile, eurozone yields will rise as Treasuries weaken. Ten year eurozone yields are already trading 30bps through US Treasuries. This spread may widen further over the balance of the year. Nevertheless, ten year eurozone yields could still hit 4.6% by end 2004, up from 4.15% at present.

CORPORATE BOND SPREADS REMAIN TIGHT

- 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, though, has remained tight, in a narrow 55-65bps range since the start of the year, The strengthening US economy, but continuing low interest rates, has helped to underpin the market at the current tight spread levels.

- Despite the historically low level of current spreads, a marked underperformance by eurozone corporate bonds seems unlikely in the months ahead given the limited supply of new debt, improving company balance sheets and the continuing low interest rate environment in the eurozone. However, Fed rate hikes could unsettle the market later in the year, causing spreads to widen somewhat by end 2004.

10 Year US - German Yield Spread



Eurozone Bond Yield Forecasts

	21 Apr	Jun '04	Dec '04	Dec '05
2 Year	2.4	2.5	3.0	3.8
5 Year	3.4	3.5	3.9	4.5
10 Year	4.2	4.3	4.6	5.0
30 Year	4.9	5.0	5.3	5.5

THE UK

KEY ISSUES

Strong Economic Growth: While the manufacturing sector remains sluggish, recent data show little sign of any significant slowdown in overall activity in an economy 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. A 25bps rate hike in May has been discounted by markets.

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.

GROWTH REMAINS STRONG

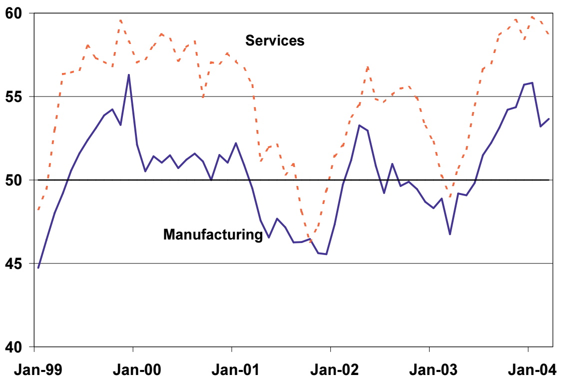
- It would appear that there was only a slight slowdown in the pace of UK economic activity in Q1 2004 from the buoyant 0.9% growth rate recorded in the final quarter of 2003. As yet, though, consumer demand remains the main driving force of growth with the industrial sector continuing to disappoint.

- However, while manufacturing output was flat in January and fell sharply and unexpectedly in February, this is somewhat at odds with the latest BCC survey. This shows that the manufacturing sector expanded strongly in Q1 2004. Also, the manufacturing PMI edged higher in March and has now been above the 50 level for nine consecutive months. 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.

- Overall, the household sector remains the engine of the recovery in the UK. In addition, stockbuilding and a pick-up in business investment should boost growth this year. 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 has fallen to 1.1%, 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 has remained very strong in the opening quarter of 2004. Earnings growth has also accelerated in recent months, boosted in particular by large bonus payments in the financial sector.

UK Manufacturing & Services PMIs



UK Macro Forecasts

	2003	2004	2005
GDP Growth	2.2	3.2	2.8
CPI Rate	1.4	1.4	1.8
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

NEXT BOE HIKE EXPECTED IN MAY

- The Bank of England left rates on hold in March and April having raised them by 0.25% in February, bringing the repo rate to 4.0%. The minutes of the February MPC meeting indicated 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 CPI rate is running well below target, so aggressive monetary tightening is not warranted.

- A rate hike in May is widely expected as it would be in line with the timing of the previous two rate hikes, which coincided with the BoE's quarterly inflation report. The minutes of the last two MPC meetings in March and April also points to a further gradual tightening of monetary policy. They referred, in particular, to the continued strength of activity in an economy with little spare capacity. Sterling has also lost some ground in the past month while the housing market remains strong.

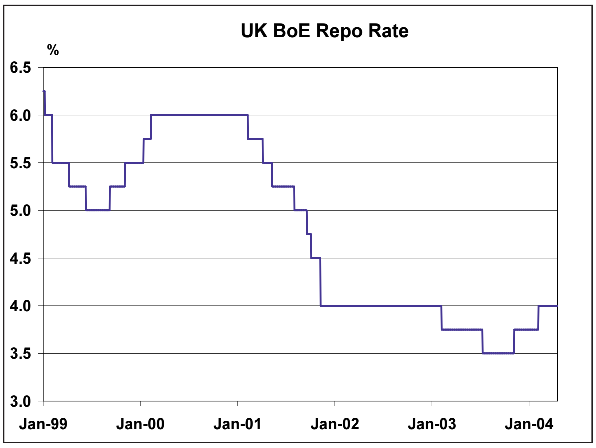
- Overall, monetary policy remains quite accommodatory with the repo rate still well below the rate of nominal GDP growth of 5.5% Thus, we retain our forecast that rates will be raised by 25bps hikes in each of the three remaining quarters of the year. This would bring the repo rate to 4.75% by end year.

GILT YIELD SPREADS TO REMAIN WIDE

- Gilt yields have risen in recent weeks in line with the trend in global bond markets. Meanwhile, the relatively high level of official UK interest rates and prospects of further rate increases continue to weigh on the gilt market. Ten year gilt yields are some 85bps over bunds.

- Having previously been more optimistic, the UK market has moved into line with our view and is now pricing in a further 75bps increase in rates over the remainder of the year. Gilts, though, remain vulnerable to any further deterioration in interest rate sentiment in the UK, 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 wide over the balance of this year.



UK Interest Rate and Bond Forecasts

	21 Apr	Jun '04	Dec '04	Dec '05
Repo Rate	4.0	4.25	4.75	5.25
2 Year	4.6	4.8	5.2	5.4
5 Year	4.8	5.0	5.4	5.5
10 Year	5.0	5.1	5.4	5.5
30 Year	4.8	4.9	5.1	5.2

JAPAN

KEY ISSUES

Solid Economic Upswing: While the export sector continues to drive economic expansion, the pick-up in activity appears to be spreading across the economy.

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

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

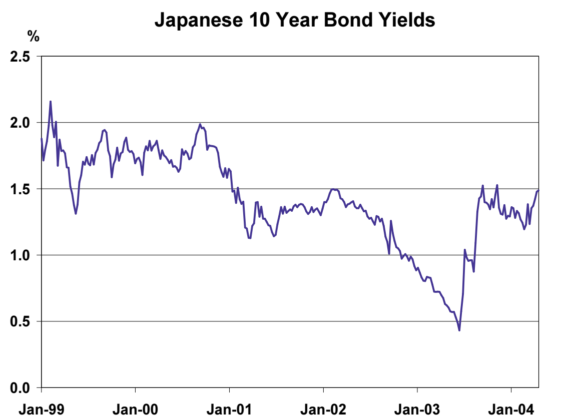
ECONOMIC UPTURN BECOMING MORE BROADLY BASED

- The latest indicators point to a sustained upswing in Japanese economic activity. There was another strong export performance Q1 2004, fuelled by buoyant demand from China, in particular. The March Tankan survey showed business sentiment the strongest for seven years. Encouragingly, the improvement in business conditions would appear to be spreading across industry. Consumer spending also appears to be picking up momentum, with business investment growing strongly as the recovery becomes broadly based.

- The pace of overall economic growth can be expected to moderate significantly, though, from the 6.3% annualised rate recorded in Q4 last year. Nevertheless, we expect GDP to rise by 3.0% in 2004, after growth of 2.7% in 2003. However, a recent moderation in the strength of core machinery orders, a lead indicator of capital spending, sounds a note of caution.

- 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. Deflationary pressures would appear to be easing slightly, with wholesale prices rising in March for the fourth consecutive month. However, the core CPI rate is still expected to decline moderately again this year.

- While the very low interest environment continues to provide support to Japanese bonds, 10 year JGB yields have picked up from 1.2% to around 1.5% reflecting the stronger economic conditions and negative international trend. As the economic upswing continues, deflationary pressures ease and international bond yields move higher, JGB yields may rise yet further. Ten year yields could move well above the 1.5% level over the summer months, hitting 1.8% by end year.



Japanese Forecasts

	2003	2004	2005
GDP Growth	2.7	3.0	2.2
CPI Rate	-0.2	-0.2	-0.1
ODR (1)	0.1	0.1	0.1
5 Year Yield (1)	0.5	1.0	1.5
10 Year Yield (1)	1.3	1.8	2.2

(1) end year

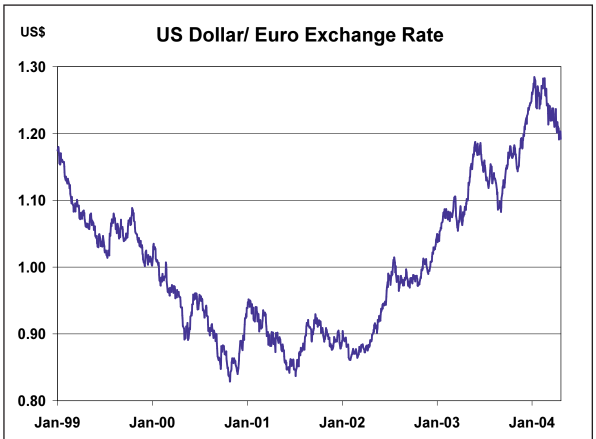
THE CURRENCY MARKETS

KEY ISSUES

- ***Dollar Rallies:*** Stronger economic data have fuelled expectations of Fed rate hikes in H2 2004, helping the dollar to regain some ground.
- ***Euro Falters: S***luggish economic data and hints of a possible ECB rate cut weigh on the euro, which has fallen below $1.20.
- ***Sterling Slips:*** Sterling has fallen back against the strong dollar, but positive interest rate differentials should help underpin the UK currency against the euro.

MARKETS TO REMAIN VOLATILE

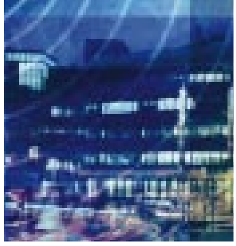
- The recent performance of the US dollar, where it has pushed the euro back below the $1.20 level, has raised expectations that the US currency may be about to make a more sustained comeback. Though market conditions will remain volatile, the dollar should have more upside potential, particularly if upcoming data are supportive, pushing the Fed into monetary tightening.
- However, in light of the dollar's more fundamental problems, in particular a large current account deficit, and the possibility that the growth in the US economy could peak around mid-year, we are reluctant to call the euro much below the $1.15 level on any sustained basis over the balance of 2004.
- As we envisage that the dollar can make further gains in the near term, cable is likely to continue trading below the $1.80 level in the coming months. However, there could be some renewed dollar weakness towards the end of the year which would push cable back up to a $1.80-$1.85 range, with dollar-euro finishing 2004 at around $1.20.
- Factors such as the weaker euro area economy relative to the much healthier UK economy and the positive interest rate gap in sterling's favour should underpin the sterling-euro rate. It could trade in a Stg0.66-0.67p range in the short term before moving higher to a Stg0.64-0.66p range later in the year.
- The increasing signs of Japanese economic recovery should eventually allow the yen to make further gain on the dollar. We expect the dollar to trade within a Y105-Y110 range over the next few months. Beyond that we see scope for yen appreciation to a Y102-Y107 range against the dollar.



Forex Forecasts *

	21 April	June '04	Dec '04
US$/EUR	1.18	1.17	1.20
STG/EUR	0.67	0.66	0.65
YEN/EUR	130	128	126
US$/STG	1.77	1.78	1.84
YEN/US$	109	109	105

** Mid-point of expected trading range*



FINANCIAL MARKET FORECASTS

INTEREST RATE FORECASTS (%, END MONTH)

	21 Apr	June '04	Sept '04	Dec '04	Mar '05
US Fed Funds	1.0	1.0	1.5	2.25	2.75
Euro Refi Rate	2.0	2.0	2.0	2.0	2.0
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)

		21 Apr	June '04	Sept '04	Dec '04	Mar '05
US	2 Year	2.1	2.5	2.9	3.3	3.7
(s.a.)	5 Year	3.5	3.7	4.0	4.2	4.4
	10 Year	4.4	4.6	4.8	5.0	5.2
	30 Year	5.2	5.4	5.5	5.6	5.7
Euro	2 Year	2.4	2.5	2.7	3.0	3.3
(ann)	5 Year	3.4	3.5	3.7	3.9	4.1
	10 Year	4.2	4.3	4.4	4.6	4.8
	30 Year	4.9	5.0	5.1	5.3	5.4
UK	2 Year	4.6	4.8	5.0	5.2	5.4
(s.a.)	5 Year	4.8	5.0	5.2	5.4	5.5
	10 Year	5.0	5.1	5.2	5.4	5.5
	30 Year	4.8	4.9	5.0	5.1	5.2
Jap	2 Year	0.2	0.2	0.3	0.3	0.4
	5 Year	0.7	0.8	0.9	1.0	1.1
	10 Year	1.5	1.6	1.7	1.8	1.9
	30 Year	2.5	2.6	2.7	2.8	2.9
Euro	Bund-Swap	14	15	16	18	20
Spreads	Corp - Gov	56	58	62	65	70
(bps)						

EXCHANGE RATE FORECASTS (END MONTH)*

	21 Apr	June '04	Sept '04	Dec '04	Mar '05
US$/EUR	1.18	1.17	1.18	1.20	1.20
STG/EUR	0.67	0.66	0.66	0.65	0.66
YEN/EUR	130	128	127	126	126
US$/STG	1.77	1.78	1.79	1.84	1.82
YEN/US$	109	109	107	105	105

** Mid-point of expected trading range*

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