

FIXED INCOME MONTHLY MONITOR

APRIL/MAY 2005

BONDS BOUNCE BACK AGAIN

Bond markets have been very volatile this year as sentiment ebbs and flows in relation to the prospects for economic growth, inflation and monetary tightening. Market movements have been most pronounced in the US, where the market has rallied, sold off and rallied again year to date. That said, ten year US yields have remained well within the trading range of 3.8-4.8% evident since mid-2003.

The US economy has hit a soft spot this spring, as high oil prices impact on activity. The slowdown has fuelled a strong rally in bonds over the past month, which could persist in the short term. However, growth should pick up again over the summer, helped by lower oil prices, declining longer term interest rates and with policy still accommodative. Thus, we expect the Fed to continue to steadily tighten policy, with rates reaching 3.75% by year end.

The Treasury market is very vulnerable to any signs of renewed economic strength, as it would cement expectations of rates rising to 4% over the next year. Thus, we look for bond yields to back up again. We expect that in H2 2005, ten years yields will trade more and more towards to top end of their 3.8-4.8% trading range of the past two years, with long bond yields rising to around 5%. Two year yields should climb well above 4%.

In the eurozone, growth continues to disappoint. We don't believe that the ECB will be in a position to hike rates until year end at the earliest. Even then, a rate hike is likely to require a pick up in activity in H2 2005. Any monetary tightening is likely to prove very modest given the fragility of the economic recovery. Thus, rates should remain relatively low in 2006.

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Eurozone bond yields could fall further in the near term given the weakness of activity and rally in US bonds, with a possibility that ten year yields could set new historic lows below 3.4%. Further out, though, should the Treasury market suffer a setback over the summer months, eurozone yields are likely to rise again, especially if there are signs of some improvement in the eurozone economy. Any setback for the market is likely to be modest, however, given the limited scope for monetary tightening. We don't see ten year yields rising above 3.8% in 2005.

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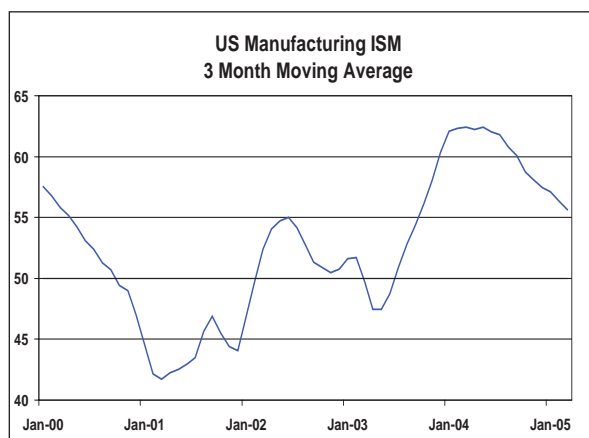
THE US

KEY ISSUES

- **Growth Outlook:** Upswing in economic activity has moderated recently, partly due to high oil prices. However, growth is still likely to be close to trend in 2005, with GDP rising by around 3.5%.
- **Monetary Policy:** Fed likely to persist with moderate 25bps rate hikes as it moves to a less accommodative stance on monetary policy. Fed funds to hit 3.75% by end year.
- **Bond Market:** Volatile trading in Treasuries year to date. We expect this pattern to continue with the current market rally likely to be followed by another setback over the summer.

SLOWER GROWTH

- The upswing in the US economy has remained intact despite high oil prices, weakening productivity growth, and a slowdown in the pace of global activity. GDP rose by 4% in Q3 and 3.8% in Q4 2004. However, growth may have slowed towards 3% in Q1 2005, as high oil prices dampened activity.
- The economy started 2005 on a positive note with solid increases in manufacturing output, housing starts and core retail sales in January and February. Consumer confidence picked up, while there were distinct signs of improving labour market conditions, especially falling jobless claims and stronger payrolls.
- However, the trade deficit continued to widen in January and February, with little change in exports but imports still surging ahead. Furthermore, activity softened in March, possibly due to a combination of bad weather and high oil prices. Confidence declined, growth in payrolls fell back, while retail sales, manufacturing output and housing starts all slowed considerably.
- Activity is likely to be weak in April also. However, with oil prices now in marked decline, long term interest rates falling sharply, and policy still accommodative, activity should pick up momentum again over the summer.
- Leading indicators, such as the ISM indices, have been pointing to a softening in activity so the slowdown is not altogether surprising, especially given the spike in oil prices in Q1. Our long standing forecast has been that GDP growth would average 3.5% this year, down from 4.4% in 2004. We retain this forecast and look for growth of around 3.5% in 2006 also.



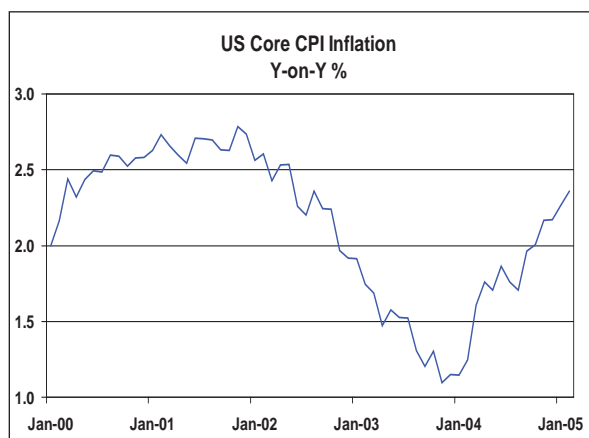
US Macro Forecasts			
	2004	2005	2006
GDP Growth	4.4	3.5	3.5
CPI Rate	2.7	2.7	2.5
Unemployment Rate	5.5	5.1	4.8
Federal Budget Bal. (1)	-3.5	-3.2	-3.0
BOP (1)	-5.7	-6.2	-6.0
(1) % of GDP			

RISE IN INFLATIONARY PRESSURES

- High oil prices have kept headline CPI inflation at 3% or above since October. The core CPI rate accelerated from 1.1% at end 2003 to 2.2% at end 2004 and 2.3% by end Q1 2005. However, the core PCE deflator has been stable at around 1.6% yoy since last summer, having accelerated in the opening months of 2004.
- The continuing low level of core PCE inflation is impressive given that high commodity prices, the surge in energy prices, rebounding car prices, slowing productivity and a pick up in unit labour costs are all contributing to a disimprovement in the general inflation environment. The core PPI also rose sharply in 2004.
- Despite the increasing price pressures, inflation should be fairly well behaved in 2005. GDP growth is expected to be around trend levels. Wage costs remain subdued. Strong profits mean that corporates should be able to absorb higher input costs. Headline inflation should fall if oil prices stabilise. Nevertheless, reflecting the pick up in inflationary pressures, especially for goods, the rate of core PCE inflation could rise to 2% in 2005.

STEADY RATE TIGHTENING PATH

- As expected, the Fed hiked rates by 25bps at a seventh consecutive FOMC meeting in March, taking the funds rate up to 2.75%. Fed officials continue to highlight that policy is still accommodatory. However, they have also reiterated their view that the policy accommodation can continue to be removed at a pace that is likely to be measured.
- There had been some speculation in the market that the Fed would soon shift to more aggressive 50bps hikes. However, core PCE inflation is likely to remain relatively subdued, employment growth is modest while economic growth has slowed. Thus, we do not expect a move to 50bps rate hikes. Neither do we expect an early pause in policy tightening, given the Fed's concerns about rising inflationary risks.
- Instead, we see 25bps rate hikes at the next two FOMC meetings, which would take the funds rate to 3.25% by mid-year. Thereafter, the Fed could slow the pace of tightening as it gets closer to a neutral policy stance. We expect a 25bps rise in rates in both Q3 and Q4 2005. Thus, we see the Fed funds rate at 3.75% by end year. We look for rates to rise somewhat further to 4.25% by end 2006.



US Interest Rate Forecasts				
	20 April	June '05	Dec '05	Dec '06
Fed Funds	2.75	3.25	3.75	4.25
1 Month	2.9	3.3	3.8	4.3
3 Month	3.1	3.4	3.9	4.4
1 Year	3.7	3.9	4.3	4.6

VOLATILE TREASURIES

- Ten year Treasuries have generally traded in a 3.8-4.8% range since the middle of 2003. They have, nevertheless, been quite volatile in recent months, trading in a 4.0-4.7% range since the start of the year, with big swings in market sentiment. Yields on longer dated bonds, on the other hand, have fallen in the past year. The benchmark long bond yield currently stands at 4.55%, down from 5.5% a year ago.
- Yields at the shorter end of the curve, by contrast, have been under upward pressure since early 2004. Two year yields currently stand at 3.5%, below their recent peak of 3.9%, but well up from 1.5% a year ago. Thus, the yield curve has flattened considerably in response to Fed tightening and the strong performance of longer dated bonds.
- The market has rallied strongly over the past month on the slowdown in the pace of US economic activity in March and a flight to quality out of equities. Fears of a shift to 50bps rate hikes, which caused yields to spike higher in February and March, have also abated. Ten year yields have fallen to 4.2%, down from their recent peak of around 4.7%. The weakness in economic activity is likely to extend into April so bonds should remain well supported in the short term.
- Oil prices, though, have fallen back in recent weeks, which will translate into lower gasoline prices from May onwards. Longer term interest rates have also fallen sharply, while policy remains accommodative. Thus, we look for the pace of economic activity to pick up again over the summer months. Treasuries are very vulnerable to any such signs of a renewed pick up in growth, as it would cement rate hike expectations.
- Thus, if growth picks up again and the Fed continues to tighten policy, bond yields are likely to come under renewed upward pressure. We would also point out that real yields are exceptionally low, even when measured against core CPI inflation. These are likely to rise once corporate bond issuance picks up again.
- Thus, we do not see an early end to the volatility that has characterised the Treasury market year to date. Yields could move even lower in the short term before moving upwards again in the summer. Hence, in the second half of the year, we would expect ten year yields to trade more and more towards the top end of the 3.8-4.8% range that they have occupied since mid-2003. The long bond yield could rise to around 5% by end year, while two year yields should climb to well above 4%.



US Bond Yield Forecasts				
	20 April	June '05	Dec '05	Dec '06
2 Year	3.5	3.8	4.3	4.6
5 Year	3.8	4.1	4.5	4.8
10 Year	4.2	4.4	4.8	5.0
30 Year	4.6	4.7	5.0	5.1

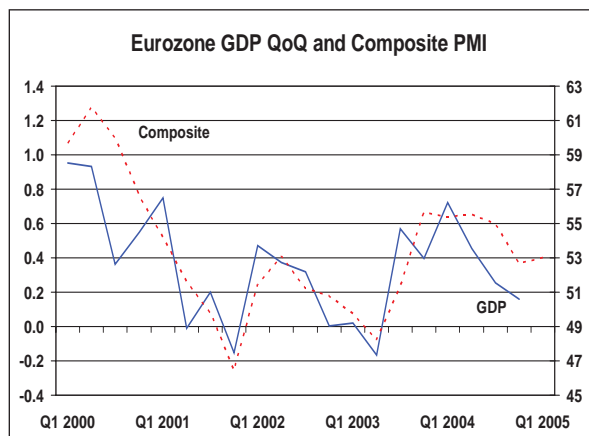
THE EUROZONE

KEY ISSUES

- **Economic Prospects:** The recovery in activity has lost considerable momentum since mid-2004. GDP growth now seems likely to average less than 1.5% in 2005.
- **Monetary Policy:** The ECB remains on hold. If activity picks up in H2 2005, the refi rate could be hiked by 25bps to 2.25% towards the end of the year, to help contain growth in monetary aggregates.
- **Bond Market:** Bond yields are close to historic lows and could decline further in short term, before rising with Treasuries later in the year.

WEAK ECONOMY

- The eurozone economy grew by just 0.3% and 0.2% in Q3 and Q4 2004, respectively. This represented a marked slowdown from the growth rates of 0.7% and 0.5% recorded in the first two quarters of last year. The main cause of the slowdown was a deterioration in the external trade position as exports slowed but import growth remained robust.
- There was an upward blip in economic activity around the turn of the year that could see eurozone GDP growth pick up to 0.4% in Q1 2005. Industrial production posted two consecutive monthly increases of 0.3% in December and January. Meanwhile, consumer spending strengthened in Germany and France in the first two months of the year.
- However, there has been a marked weakening in leading indicators of activity in February and March, both at a eurozone and national level. This suggests that GDP growth will fall back again in Q2. The marked decline in indicators such as the PMI and EU Commission sentiment indices is very worrying, as is the slump in business confidence in the main eurozone economies. Meanwhile, continuing weak income growth is acting to prevent any sustained rise in consumer spending.
- What is also particularly worrying is that the weakness in activity, which was previously largely confined to Germany and Italy, now seems to be spreading to the other major economy, France. Even if activity strengthens in the second half of the year, GDP growth seems likely to average less than 1.5% in the eurozone. We expect GDP growth of around 1.8% in 2006. Thus, the unemployment rate can be expected to remain high at close to 9%.



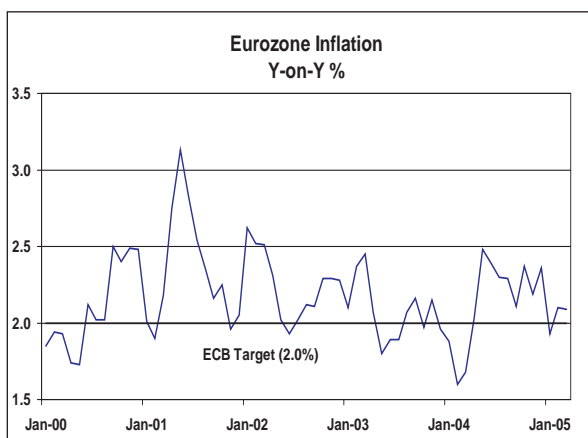
Eurozone Macro Forecasts			
	2004	2005	2006
GDP Growth	2.0	1.4	1.8
HICP Rate	2.1	1.9	1.7
Unemployment Rate	8.9	8.9	8.9
Budget Bal (1)	-2.7	-2.5	-2.3
BOP (1)	0.5	0.4	0.3
(1) % of GDP			

INFLATION TO FALL BELOW 2%

- High oil prices have kept the headline HICP rate above 2% since last May. The HICP rate averaged 2.1% in 2004, the same rate as in 2003. The HICP rate was still running at 2.1% in March 2005.
- Meanwhile, the core HICP rate, which excludes energy and unprocessed foods, proved very sticky up to end 2004. Indirect tax hikes and increases in public service charges added considerably to inflation last year. However, these are not dropping out of the annual rate. As a result, core inflation is now decelerating, falling to 1.6% in the past two months from 2.1% at end 2004.
- Inflationary pressures look well contained in the eurozone. This is not surprising given the weakness of domestic demand, subdued wage growth and strength of the euro. The headline HICP rate should average less than 2% in 2005, assuming that oil prices stabilise around current levels of \$50 per barrel.

ECB VERY MUCH ON HOLD

- The ECB has maintained the refi rate at 2% since June 2003. The risk of an early rate hike has all but vanished. The upturn in activity has lost momentum since mid-2004, while there is considerable spare capacity in the economy. Wage increases remain very subdued. Meanwhile, the euro has strengthened. Furthermore, core inflation has fallen well below 2% and we do not see any major second round price effects emanating from the rise in oil prices.
- However, the ECB does see a risk of inflationary pressures arising from monetary developments. The ECB believes that excess liquidity combined with strong credit growth may become a source of unsustainable price pressures in property markets in some countries, and could pose upside risks to price stability over the medium to longer term. It is also concerned about high oil prices.
- This is the main reason for the ECB's continued vigilance on medium term risks to inflation. Thus, it has ruled out the possibility of a cut in rates. Indeed, should the economy pick up some momentum in H2 2005, the ECB could raise rates towards year end to counteract the perceived threat to price stability from the strong growth in monetary aggregates. Hence, we have allowed for a 25bps increase in the refi rate by year end in our forecasts.



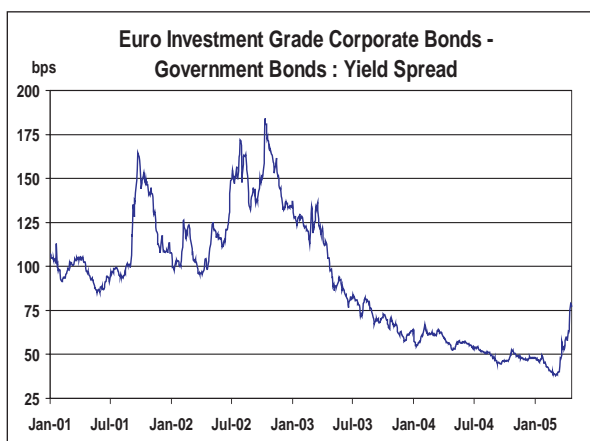
	20 April	June '05	Dec '05	Dec '06
Refi	2.0	2.0	2.25	2.75
1 Month	2.1	2.1	2.4	2.9
3 Month	2.1	2.1	2.5	3.0
1 Year	2.2	2.3	3.0	3.5

LOW EUROZONE BOND YIELDS

- Ten year eurozone yields have declined sharply since mid-2004, falling from 4.4% to 3.5%, as the economy slowed and expectations of ECB tightening were pushed back until late 2005. Meanwhile, thirty year yields fell from 5% to around 4%, while two year yields declined more modestly from 2.7% to 2.3%.
- The eurozone market has decoupled to some extent from the US, with eurozone yields at times declining when yields on US bonds were rising. The ten year US-eurozone yield spread has widened from +10bps to +85bps since September.
- Ten year eurozone yields are now very close to their historic lows of just above 3.4%. We would not be surprised to see this level breached in the weeks ahead, given the current rally in US Treasuries and the ongoing weak performance of the eurozone economy. We cannot see the ECB tightening policy until near the end of the year at the earliest, and even then any policy tightening should prove modest.
- Over the summer, the eurozone market could come under some pressure, if Treasuries start to lose ground again and activity regains some momentum, increasing fears that the ECB may tighten policy somewhat. However, we do not expect a major sell-off by eurozone bonds, given the fragility of the economic recovery and likelihood that any monetary tightening will prove to be very modest. Hence, we do not envisage ten year yields rising above 3.8% in 2005.

CORPORATE BOND SPREADS WIDEN SHARPLY

- After a very strong performance, which saw the average pick-up offered by investment grade paper over government bonds contract from 184bps to 38bps between October 2002 and March 2005, the corporate bond market has endured a severe correction. The average spread has more than doubled to around 75bps. Concerns about slowing economic growth and corporate earnings have damaged sentiment, with the problems besetting the US auto sector a major worry.
- However, the market had also become considerably overbought. Spreads had tightened in too much with investors no longer being adequately compensated for the higher risk and poorer liquidity of corporate bonds. There have been signs of the market stabilising in recent days, but it remains vulnerable to further bad corporate news, especially from the auto sector. Despite some market gains this week, we cannot see spreads returning to anywhere near their recent lows.



	20 April	June '05	Dec '05	Dec '06
2 Year	2.3	2.4	3.0	3.4
5 Year	2.8	2.9	3.4	3.7
10 Year	3.4	3.5	3.8	4.0
30 Year	4.0	4.1	4.3	4.5

THE UK

KEY ISSUES

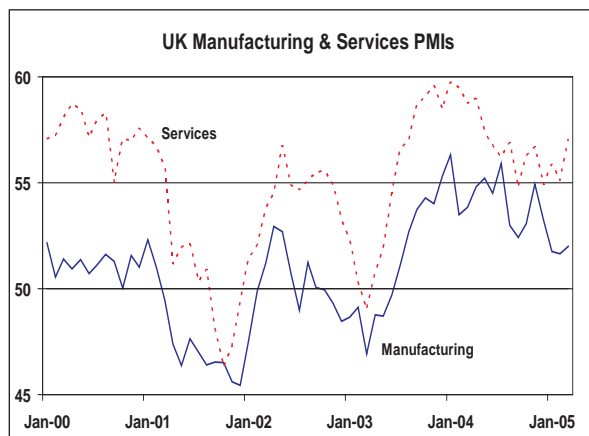
Growth Outlook: While growth appears to have dipped back below trend in Q1 2005, it should regain momentum and grow at around trend levels over the balance of 2005.

BoE Policy: With inflation rising sharply, a tight labour market and little spare capacity, a further increase in interest rates in the next couple of months is likely.

High Yielding Gilts: High UK interest rates are weighing on gilts, resulting in a generous yield pick up over US and eurozone bonds. Spreads over eurozone bonds are likely to remain wide over the balance of 2005.

ECONOMY TO REGAIN MOMENTUM

- Growth in the UK economy appears to have dipped below trend again. GDP growth of around 0.5-0.6% is likely for Q1 2005, down from 0.7% in Q4 2004. The slight downturn reflects some slowdown in consumer demand. Retail sales volumes were up just 0.3% in Q1 2005, compared to Q4 2004 levels. However, growth in the rest of the services sector has been strong. Indeed, the PMI for services rose strongly in March, lifted by growing new business activity.
- Meanwhile, the manufacturing sector has weakened again. Output fell in February for the first time in six months. The manufacturing PMI, though, edged higher again in March, after two monthly declines, hinting that sector could soon pick up again.
- Overall, though, the prospects for the economy remain favourable. Corporate balance sheets are in excellent shape, the household savings ratio is at a three year high, real personal disposable income growth and consumer confidence remains solid while government spending is set to continue rising strongly. Furthermore, global demand remains firm. However, weaker housing market activity may continue to restrain consumer spending in Q2 2005. Nevertheless, we look for the economy to regain momentum and, for 2005 as a whole, we expect GDP to rise by around 2.7% compared to 3.1% in 2004. Growth should remain close to trend in 2006.
- The CPI rate has picked up sharply to 1.9% in March from a low of 1.1% in September 2004, only in part reflecting higher energy prices. There are indications of retailers passing on the rise in factory gate prices. With a tight labour market and in the absence of a sharp decline in oil prices, inflation is likely to move up further, above its 2% target, over the balance of 2005.



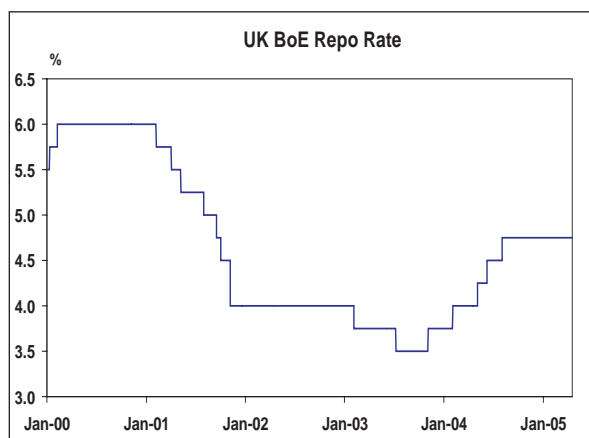
UK Macro Forecasts			
	2004	2005	2006
GDP Growth	3.1	2.7	2.6
CPI Rate	1.3	1.9	1.8
Unemployment Rate	4.8	4.5	4.5
Budget Bal. (1)	-3.0	-2.8	-2.5
BOP (1)	-2.2	-2.1	-1.8
(1) % of GDP			

RATES LIKELY TO RISE FURTHER

- The Bank of England raised rates by 1.25% between November 2003 and August 2004, bringing the repo rate to 4.75%. With slower output growth, a cooling house market and inflation below target, the MPC has left rates on hold for the past eight months.
- However, the recent sharp pick-up in consumer price inflation has increased the chances that rates will be hiked again in the coming months. Furthermore, producer prices remain firm, while wage growth accelerated sharply in the three months to February, albeit largely due to bonus payments. Meanwhile, the risk of a housing collapse is receding with house prices stabilising in recent months.
- The latest MPC minutes show that two members again voted for a rate hike at the April MPC meeting. Our inclination is that the MPC could hike rates by 0.25% to 5% at its June meeting, in the aftermath of the publication of the May inflation report. GDP is expected to rise by 2.7% in 2005 in an economy with little spare capacity. Should retail spending rebound strongly later in the year, there could be a risk of a further rate hike. However, on balance, we look for rates to end the year at 5%.

GILT-BUND SPREADS TO REMAIN WIDE

- The relatively high level of official UK interest rates continues to weigh on the gilt market. Ten year gilt yields are 120bps above bunds and 40bps over Treasuries. Gilts remain vulnerable to a rise in UK interest rates given that the whole market is trading well below the current repo rate.
- The ten year gilt-bund spread is likely to remain very wide given the continued risk of a further hike in UK rates and with the ECB unlikely to begin tightening policy until end 2005 at the earliest. Gilts, though, should outperform US Treasuries in the coming months, with the Fed expected to remain on a steady rate tightening path over the course of 2005.
- In absolute terms, we expect a modest rise in gilt yields over the rest of the year on further BoE policy tightening and a general uptrend in global bond yields. Overall, though, the curve is likely to remain relatively flat, with yields out to the ten year maturity ending 2005 at just below the 5% level.



	20 April	June '05	Dec '05	Dec '06
Repo Rate	4.75	5.0	5.0	5.0
2 Year	4.6	4.7	4.9	5.0
5 Year	4.6	4.7	4.9	5.0
10 Year	4.6	4.8	4.9	5.0
30 Year	4.5	4.6	4.7	4.7

JAPAN

KEY ISSUES

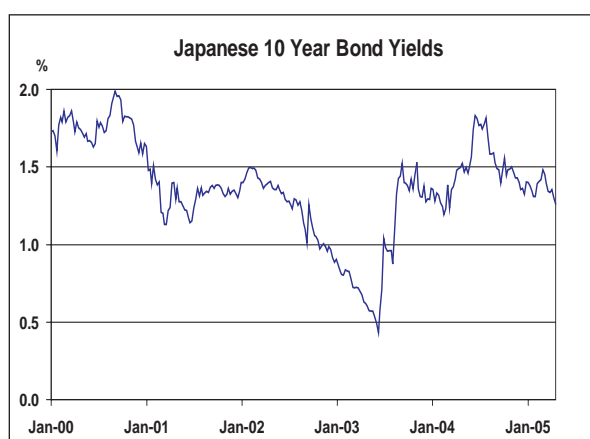
Weak Growth: The Japanese economy edged back out of a technical recession in Q4 2004. GDP growth remains sluggish but should regain some momentum over the second half of 2005.

Easing In Deflation: Deflationary pressures are easing. However, consumer prices are being suppressed by once-off factors, and thus deflation in the core CPI rate is expected to persist for most of 2005.

JGB Market: Ten year JGB yields have hit thirteen month lows. Yields could rise, though, later in 2005, should the economic expansion gain momentum and deflationary pressures ease further.

ACTIVITY STILL WEAK

- The Japanese economy edged back out of a technical recession in Q4 last year. GDP grew by 0.5% annualised, having contracted by 1.0% and 1.1% in Q2 and Q3 respectively. However, for 2004 as a whole, GDP growth of 2.6% was recorded due to very high rates of growth in Q4 2003 and Q1 2004, of 3.5% and 6.0% annualised, respectively. The sluggish performance since then is due in large part to a slowdown in export growth which, along with an inventory adjustment in IT related sectors, pushed the manufacturing sector into recession.
- The latest Tankan report showed a deterioration in sentiment among manufacturers in Q1 2005, suggesting that growth remains weak. Furthermore, the index of leading indicators fell below 50 in February. The manufacturing PMI, though, picked up to its highest level in five months in March, while machinery orders data point to increased capital spending. Overall, GDP growth should strengthen as the year progresses and average 0.7% in 2005. It could pick up to around 1.8% in 2006.
- The BoJ is expected to leave its quantitative easing measures and zero interest rate policy in place until 2006. While deflationary pressures are easing, once off factors are still depressing the core CPI rate. Thus, it is expected to continue to decline slightly until towards end 2005. The BoJ is unlikely to start tightening policy until prices are on a firm uptrend.
- Sluggish economic growth has seen ten year JGB yields drop to 13 months lows of 1.25%. However, assuming that growth picks up, deflationary pressures ease further and international bond yields move higher, JGB yields could rise to around 1.6% by end 2005, the top of their recent trading range.



Japanese Forecasts			
	2004	2005	2006
GDP Growth	2.6	0.7	1.8
CPI Rate	-0.2	-0.1	0.1
ODR (1)	0.1	0.1	0.25
5 Year Yield (1)	0.6	0.8	1.4
10 Year Yield (1)	1.4	1.6	2.0
<i>(1) end year</i>			

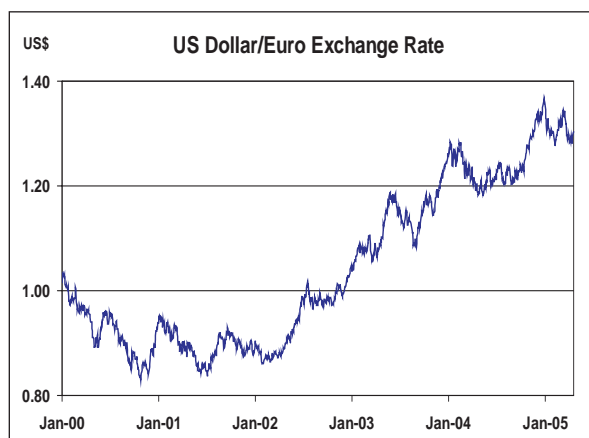
THE CURRENCY MARKETS

KEY ISSUES

- **Dollar Recovery Hits Resistance:** The dollar has strengthened against the euro year to date, but \$1.27 has proved a major resistance level, especially with the US economy now slowing.
- **US Fundamentals Remains Unchanged:** The current account deficit continues to deteriorate. Thus, we remain bearish on the dollar for the remainder of the year.
- **Data Weigh On Yen:** The yen has been hit by concerns about the economy and tensions with China. However, we see scope for a yen rebound if the economy picks up over the coming months.

DOLLAR RECOVERY STALLS

- The dollar has recovered some ground year to date, helped by expectations of more aggressive action from the Federal Reserve. With yield spreads moving in the dollar's favour, it has risen against both the euro and yen to date in 2005.
- Recent data from the futures market show a marked rise in the number of traders going short the euro and yen. Furthermore, official data show large net capital inflows into the US in the first two months of the year, supporting the dollar.
- More recently, however, the dollar has come under some downward pressure on indications that the US economy has cooled of late. It has also been unable to breach \$1.27 against the euro, and has moved back to trade to around the \$1.30 level.
- We are still concerned about US structural imbalances, with the current account deficit continuing to deteriorate. Thus, we remain dollar bearish for 2005 and believe that any rallies to around the \$1.28 level represent selling opportunities.
- Disappointing Japanese data and concerns about frictions with China have weighed on the yen. However, we see scope for renewed yen appreciation over the summer as the outlook for the Japanese economy improves and concerns about US structural imbalances resurface.
- With sterling outperforming the euro of late, the sterling/euro rate has tested the Stg0.68p level. However, sterling could struggle to hold this level once UK rates rise. Thus, we see scope for a move back towards Stg0.70p over the medium term.



Forex Forecasts *				
	20 April	June '05	Dec '05	Dec '06
US\$/EUR	1.30	1.35	1.33	1.25
STG/EUR	0.68	0.70	0.69	0.69
YEN/EUR	139	137	134	134
US\$/STG	1.91	1.93	1.92	1.81
YEN/US\$	107	102	101	107

* Mid-point of expected trading range



INTEREST RATE FORECASTS (% , END MONTH)

	20 April	June '05	Sept '05	Dec '05	Mar '06
US Fed Funds	2.75	3.25	3.5	3.75	4.0
Euro Refi Rate	2.0	2.0	2.0	2.25	2.5
UK Repo Rate	4.75	5.0	5.0	5.0	5.0
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (% , END MONTH)

	20 April	June '05	Sept '05	Dec '05	Mar '06
US 2 Year	3.5	3.8	4.1	4.3	4.5
(s.a.) 5 Year	3.8	4.1	4.3	4.5	4.7
10 Year	4.2	4.4	4.6	4.8	4.9
30 Year	4.6	4.7	4.9	5.0	5.1
Euro 2 Year	2.3	2.4	2.7	3.0	3.2
(ann) 5 Year	2.8	2.9	3.2	3.4	3.5
10 Year	3.4	3.5	3.7	3.8	3.9
30 Year	4.0	4.1	4.2	4.3	4.4
UK 2 Year	4.6	4.7	4.8	4.9	5.0
(s.a.) 5 Year	4.6	4.7	4.8	4.9	5.0
10 Year	4.6	4.8	4.8	4.9	5.0
30 Year	4.5	4.6	4.7	4.7	4.8
Jap 2 Year	0.1	0.1	0.1	0.2	0.3
5 Year	0.5	0.6	0.7	0.8	0.9
10 Year	1.3	1.4	1.5	1.6	1.7
30 Year	2.3	2.4	2.5	2.6	2.7
Euro Bund-Swap	12	13	14	15	18
Spreads Corp	75	80	80	85	85
(bps)					

EXCHANGE RATE FORECASTS (END MONTH)*

	20 April	June '05	Sept '05	Dec '05	Mar '06
US\$/EUR	1.30	1.35	1.34	1.33	1.32
STG/EUR	0.68	0.70	0.70	0.69	0.69
YEN/EUR	139	137	136	134	134
US\$/STG	1.91	1.93	1.92	1.92	1.91
YEN/US\$	107	102	102	101	102

* Mid-point of expected trading range

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