AIB Global Treasury
Economic Research

FIXED INCOME MONTHLY MONITOR

JANUARY/FEBRUARY 2005

BULLET PROOF BONDS

Bonds have carried forward the impressive form evident over the second half of 2004 into the New Year. Although most participants in the bond market remain fundamentally bearish, there is little sign of any upward pressure on yields, except at the short end of the US curve. Indeed, yields on longer dated bonds have moved down since the start of 2005.

Certainly, technical factors continue to support the market. Investors still appear to be engaged in curve flattening trades and Asian central banks continue to be major buyers of Treasuries. The fact that bond investors are also generally short the market is another considerable hurdle to higher yields.

Nonetheless, there are good grounds for being cautious on bonds. Yields in the eurozone are close to historic lows, while, in the UK, gilt yields are well through the level of official interest rates. The level of real long-term yields is exceptionally low. This is, no doubt, partly attributable to the exceptionally low level of official interest rates. However, rates are being steadily increased in the US and policy could start to be tightened in the eurozone later in the year, while a further rate hike cannot be ruled out in the UK.

Meanwhile, there are signs that the slowdown in the pace of global activity over the course of 2004 may be coming to an end. Recent data suggest that the deceleration in the pace of recovery in the eurozone may be bottoming out, and activity could pick up some momentum again. Recent US data have been encouraging with signs of further strength in manufacturing and housing, continued buoyancy in consumer spending and a marked pick up in confidence.

The Fed is sounding increasingly confident about the economic prospects for the coming year. As Fed policy moves back closer to neutral, leveraged positions will become much less attractive. We cannot see the Treasury market absorbing a further 125bps of policy tightening, without some upward pressure being exerted on long dated yields. The ECB may also hike rates later in 2005 to dampen excess liquidity and accelerating credit growth. It could prove to be a long drawn out process, but it seems to us that bond yields are likely to grind higher in 2005, with ten year US and eurozone yields rising to 4.8% and 4.2%, respectively.

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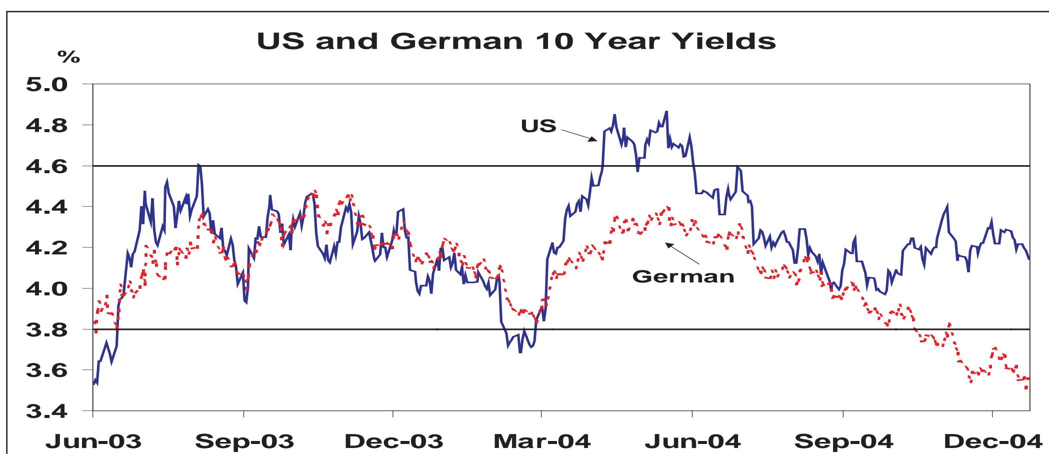


THE US

KEY ISSUES

- ***Growth Prospects:*** Upswing in economic activity expected to continue in 2005, with GDP growth likely to be close to trend in the coming quarters.

- ***Monetary Policy:*** Fed likely to persist with steadily paced, moderate rate hikes as it moves to a less acommodatory stance on monetary policy.

- ***Bond Market:*** Rally by ten year Treasuries in H2 2004 has run out of steam. Further progress made difficult by Fed policy tightening. Yields seem likely to rise in 2005.

RECOVERY REMAINS INTACT

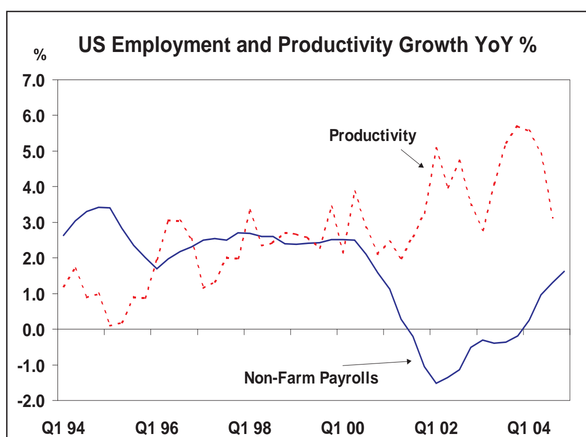
- The upswing in the US economy remains very much intact, despite higher oil prices and a slowdown in the pace of global activity in the second half of 2004. GDP rose by 4% in Q3 and an estimated 3.5% in Q4 2004. For the year as a whole, GDP growth is put at 4.4%, the strongest rate since 1999.

- The economy finished the year on a strong note with big increases in industrial production and retail sales in December. Consumer confidence also rose strongly in the month. Leading indicators point to continuing strength in activity in the early part of 2005, with solid rises in the ISM indices, in particular, towards end 2004.

- Encouragingly also, employment growth picked up strength in Q4, having slowed during the summer months. The monthly rise in non-farm payrolls averaged over 200,000 in Q4. As a result, the unemployment rate, helped also by the weak growth of the labour force, has dipped to 5.4%.

- The combination of monetary tightening, absence of fiscal stimulus, stretched consumer balance sheets, high oil prices, weaker global growth, slowing productivity and less inventory rebuilding suggests that in 2005, the US economy will not match the 4.4% rise in GDP recorded last year. Instead, we look for GDP growth to average 3.5% in 2005.

- However, the balance of risks to this forecast are on the upside, chiefly because productivity growth could remain strong. Indeed, the minutes of the December FOMC meeting show the Fed quite upbeat on the prospects for the economy in 2005, especially in relation to consumer spending and investment.



US Macro Forecasts

	2003	2004	2005
GDP Growth	3.1	4.4	3.5
CPI Rate	2.3	2.6	2.5
Unemployment Rate	6.0	5.5	5.3
Federal Budget Bal. *(1)*	-3.5	-3.6	-3.0
BOP *(1)*	-4.8	-5.7	-6.0

(1) % of GDP

CORE CPI INFLATION RISES ABOVE 2%

- Rising oil prices pushed headline CPI inflation well above 3% in Q4 2004. The core CPI inflation rate picked up from 1.1% to 1.9% in the first half of last year, before stabilising over the summer. It then rose to 2.2% in November and December. However, the core PCE deflator has been stable at around 1.5% yoy since early summer, having accelerated in the opening quarter of last year.

- 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.

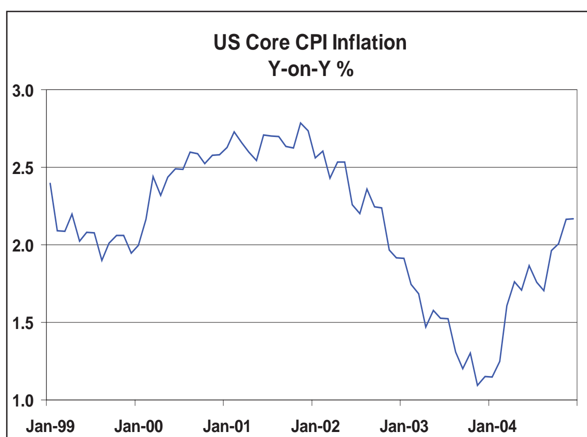
- Despite these increasing price pressures, inflation should be fairly well behaved in 2005. GDP growth is expected to be around trend levels. Strong profits mean that corporates should be able to absorb higher costs. Headline inflation should fall if oil prices stabilise this year. Nevertheless, reflecting the pick up in inflationary pressures, especially for goods, the core CPI rate could climb to 2.5% during 2005, with the rate of core PCE inflation rising towards 2%.

FED STAYING ON TIGHTENING PATH

- As expected, the Fed hiked rates by 25bps at a fifth successive FOMC meeting in December, taking the funds rate up to 2.25%. Fed officials have indicated on a number of occasions that policy is still very accommodatory. They have stressed that the Fed is raising rates, not because it feels that growth is too fast, but rather because the economy no longer needs the same level of monetary stimulus.

- The minutes of the FOMC meeting in December showed the Fed has quite an upbeat outlook on the economy. It also felt that real rates remain below the level needed to keep inflation stable. Indeed, some members felt that low rates may be resulting in excessive risk taking in some markets.

- There has been nothing in recent Fed comments that points to a change in the current policy of hiking rates by 25bps at each FOMC meeting. Hence, we see 25bps rate hikes at the next three FOMC meetings, which would take the refi rate to 3% by May. Thereafter, the Fed may slow the pace of tightening as it gets closer to a neutral policy stance. We see the Fed funds rate at 3.5% by end 2005.



US Interest Rate Forecasts

	24 Jan	Mar '05	June '05	Dec '05
Fed Funds	2.25	2.75	3.0	3.5
1 Month	2.5	2.9	3.1	3.6
3 Month	2.6	3.0	3.2	3.7
1 Year	3.2	3.5	3.7	4.0

RESILIENT LONGER-DATED TREASURIES

- Despite some gyrations, ten year Treasuries remain within well defined trading ranges. Since the middle of 2003, ten year yields have traded in a 3.8-4.6% range, with the exception of the brief upward spike in yields to 4.9% in Q2 2004. This was followed by a strong summer rally that saw ten year yields fall to 4%, despite the Fed starting to hike rates. Ten year yields have generally traded in a 4.0-4.4% range over the past six months. Yields on thirty year Treasuries, though, have continued to decline over the winter.

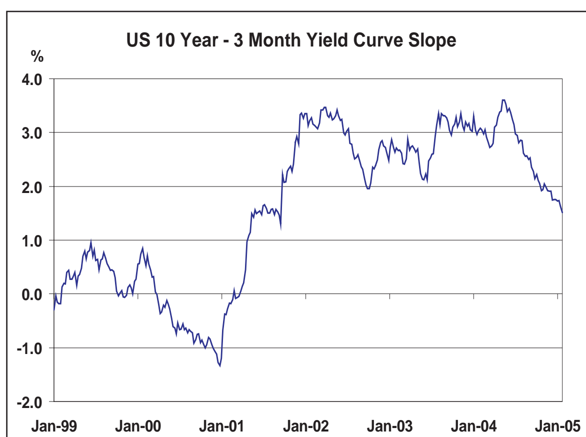
- Why has the long end of the Treasury market performed so well since mid-2004, despite significant Fed tightening. First, the large jump in oil prices and slowdown in the pace of economic activity saw a scaling back of rate hike expectations in relation to 2005. Second, curve flattening trades and an unwinding of short positions have supported longer dated bonds. Third, low corporate bond issuance and large scale purchases of Treasuries by Asian central banks also helped underpin the market.

- Yields at the shorter end of the curve, by contrast, have been under considerable upward pressure since early 2004. Two year yields currently stand at 3.2%, up from 1.5% a year ago. Thus, the yield curve has flattened considerably in response to Fed tightening, and the resilient performance of longer dated bonds.

- We are forecasting trend growth or slightly above for the economy this year and a further rise in core inflation, with the Fed continuing to withdraw its monetary stimulus. Treasury yields should rise in these circumstances. However, we are wary of being overly negative on longer dated Treasuries given their resilient performance in recent months. They may continue to be supported by a steep yield curve, low corporate bond issuance and significant Asian central bank purchases in 2005.

- Nevertheless, if our expectations that the Fed will hike rates to 3.5% in 2005 proves correct, then bond yields are likely to rise right along the curve. Leveraged positions will become much less attractive in these circumstances. Real yields are also very low, especially when measured against headline inflation rates, and are likely to rise once corporate bond issuance picks up again.

- Overall, we look for ten year Treasury yields to make a decisive break out from their 4.0-4.4% trading range of the past six months, rising to around 4.8% by the end of the year. Two year yields should rise more steeply to over 4% on further Fed tightening, with the yield curve continuing to flatten as a result.



US Bond Yield Forecasts

	24 Jan	Mar '05	June '05	Dec '05
2 Year	3.2	3.4	3.7	4.1
5 Year	3.7	3.9	4.1	4.4
10 Year	4.2	4.4	4.6	4.8
30 Year	4.7	4.8	4.9	5.1

THE EUROZONE

KEY ISSUES

- ***Economic* Slowdown:** The recovery in activity lost momentum in H2 2004. The economy is expected to register sub-trend growth again in 2005.
- ***Monetary Policy:*** ECB to remain on hold until late 2005. The refi rate could rise by up to 50bps to 2.50% towards the end of the year to help contain growth in monetary aggregates.
- ***Bond Market:*** Bond yields declined in the eurozone in 2004. The market looks well underpinned for now but yields could move higher during the year, especially if the ECB tightens policy.

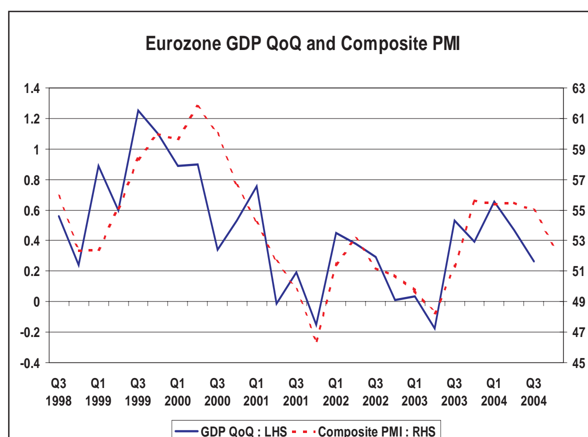
SLUGGISH ECONOMY

- The eurozone economy grew by just 0.3% in Q3 2004. This was the slowest rate of expansion for more than a year and followed growth of 0.5% and 0.7% in the two previous quarters. The key driver of the slowdown was a deterioration in the external trade position as imports surged in the quarter. Consumer spending also remained weak, rising by just 0.1% for a second successive quarter.

- The European Commission estimates that growth may have picked up to 0.4% in Q4 2004, but this is still below trend. The industrial sector remained weak in particular, with output falling in October and November. The French economy did bounce back, though, in Q4 as consumer spending rose strongly.

- Leading indicators suggest that the pace of eurozone growth may pick up some further momentum in the opening quarter of this year. The PMI for manufacturing rose in December for the first time in five months. An improving trend was also evident in the German ZEW and Ifo surveys. However, it is too early to conclude that the economy is moving on to a firm growth path. The composite PMI is still at levels consistent with sub-trend economic growth.

- There are favourable growth factors present in the eurozone economy. Short term rates remain very low, longer term rates declined in H2 2004, global growth is expected to be reasonably strong this year, while oil prices have eased. However, confidence is low while the strong euro will weigh on exports. Hence, we expect just moderate growth this year with the rise in GDP likely to remain below 2%. This would mean that growth in the eurozone would be below trend for a fifth consecutive year.



Eurozone Macro Forecasts

	2003	2004	2005
GDP Growth	0.5	1.8	1.8
HICP Rate	2.1	2.1	1.8
Unemployment Rate	8.9	8.9	8.9
Budget Bal *(1)*	-2.7	-2.7	-2.5
BOP *(1)*	0.4	0.6	0.7

(1) % of GDP

INFLATION SHOULD FALL BELOW 2% IN 2005

- Rising oil prices have kept the headline HICP rate above 2% since May. The HICP rate rose to 2.4% in December and averaged 2.1% in 2004. Meanwhile, the core HICP rate, which excludes energy and unprocessed foods, is proving very sticky, showing a marked reluctance to decelerate below 2% in this cycle.

- This stickiness of core inflation is surprising given the weakness of domestic demand, subdued wage growth and strength of the euro. However, indirect tax hikes and increases in public service charges have added considerably to inflation. If one excludes alcohol, tobacco, health, as well as energy, (16% of the total index), then HICP inflation is running at just 1.2%.

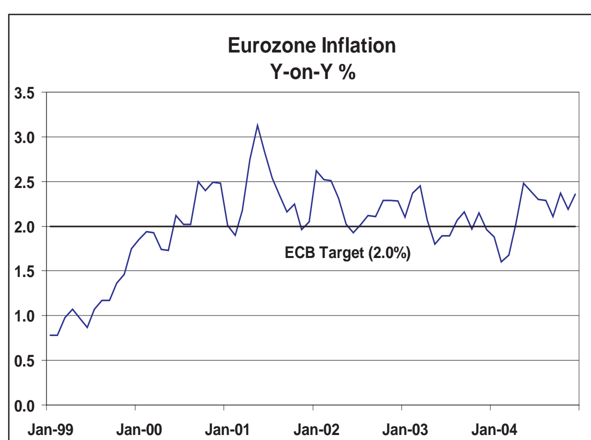
- Inflation should average less than 2% in 2005, assuming that oil prices are reasonably stable and given the strength of the euro and weakness of domestic demand. Indeed, inflation could fall well below 2%, depending on the behaviour of oil prices and extent of hikes in indirect tax and administrative charges this year.

ECB TO REMAIN ON HOLD UNTIL LATE 2005

- The ECB has maintained the refi rate at 2% since June 2003. The grounds for any early policy tightening look weak. 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, we do not see any major second round price effects emanating from the rise in oil prices, given the weakness of the labour market and domestic demand.

- However, the ECB does see a risk of inflationary pressures arising from monetary developments. The ECB believes that excess liquidity combined with accelerating 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.

- This is the main reason for the ECB's stated vigilance on medium term risks to inflation. Comments by ECB officials in recent months hint at a bias towards tightening policy. We do not see the ECB hiking rates anytime soon. However, we feel that the ECB could raise rates later in the year to counteract the perceived threat to price stability from the strong growth in monetary aggregates. Our end year forecast for the refi rate is 2.5%.



Eurozone Interest Rate Forecasts

	24 Jan	Mar '05	June '05	Dec '05
Refi	2.0	2.0	2.0	2.5
1 Month	2.1	2.1	2.1	2.6
3 Month	2.1	2.1	2.1	2.7
1 Year	2.3	2.3	2.5	3.2

LOW EUROZONE BOND YIELDS

- Ten year eurozone yields have been in decline since mid-2004, falling from 4.4% to close on 3.5% as the pace of economic growth slowed, the euro rallied and expectations of ECB tightening were pushed back until late 2005. Two year eurozone bonds have also rallied since mid-2004, although to a lesser extent than in the ten year area, with yields falling from 2.7% to around 2.4%. Thus, the curve has flattened considerably.

- The eurozone market has also decoupled from US Treasuries in recent months with eurozone yields continuing to fall even though US yields have edged higher. The ten year US-eurozone yield spread has widened from +10bps to +70bps since the end of September.

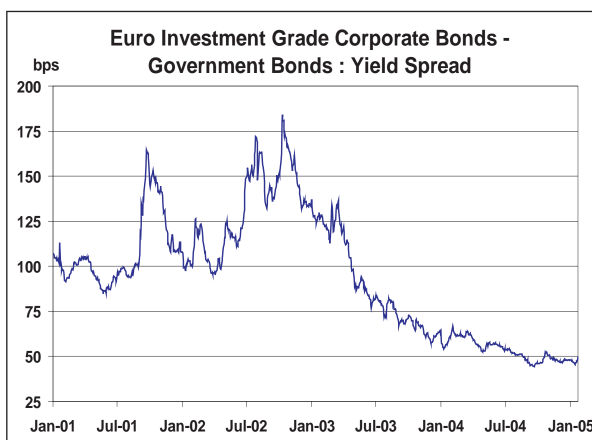
- The market looks well underpinned at present with neither the recent weakening of the euro or some improvement in economic data putting upward pressure on yields. A large amount of new supply was also quite easily absorbed this month. Eurozone bonds, though, look very rich. Yields are close to historic lows and are at exceptionally low levels in real terms. Short-dated yields are not far above official interest rates. Meanwhile, further out the curve, bond yields are below the dividend yield on many well rated European stocks.

- Not surprisingly, then, with the eurozone bond market looking overstretched, we expect that yields will move upwards this year in response to higher US yields and on growing expectations that the ECB will start hiking rates by end 2005. We look for two year yields to hit 3.3% by end year with ten year yields rising to 4.2%.

TIGHT CORPORATE BOND SPREADS

- After a strong performance in 2003, the average pick-up offered by investment grade paper over government bonds contracted further in 2004, hitting a low of 45bps in September. A meagre supply of new issues, improving corporate balance sheets, continuing low short term rates and technical factors related to the hedging of structured credit deals underpinned the continued spread tightening last year.

- Spreads have generally traded in a 45-50bps range in recent months. Spreads are likely to remain around these levels for most of 2005 given the limited supply of new debt, low interest rates, and declining default rates. They could widen out somewhat, though, later in the year if the ECB starts to hike rates.



Eurozone Bond Yield Forecasts

	24 Jan	Mar '05	June '05	Dec '05
2 Year	2.4	2.5	2.6	3.3
5 Year	2.9	3.0	3.1	3.7
10 Year	3.5	3.6	3.7	4.2
30 Year	4.1	4.2	4.3	4.5

THE UK

KEY ISSUES

Growth Outlook: Growth should pick-up momentum over the course of 2005 after the marked slowdown in activity in H2 2004.

BoE Policy: The timing and direction of the next move in rates is in some doubt. With activity likely to pick up again, in an economy with little spare capacity, rates may still rise a bit further later in 2005.

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 in 2005.

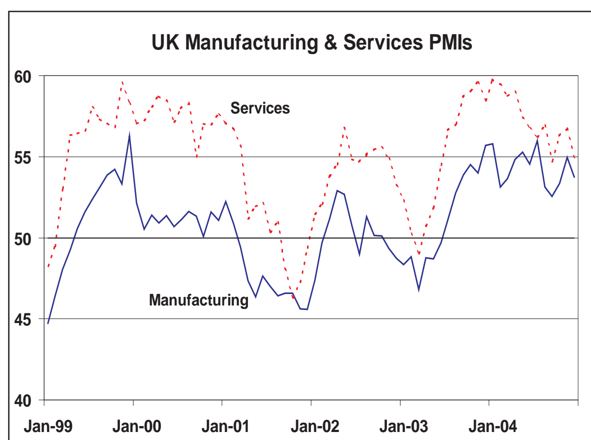
ECONOMY HITS SOFT PATCH

- There was a slowdown in the pace of UK economic activity in H2 2004, following the very strong growth of the previous twelve months that took the rise in GDP to 3.7% year-on-year in Q2 2004. GDP growth in Q3 slowed to just 0.5% from 0.9% in Q2. This slowdown in activity can be attributed to BoE rate hikes, high oil prices and slower global growth.

- Consumer demand slowed in Q4 with retail sales volumes up by just 0.3% in the quarter. However, consumer confidence picked up in December for the third consecutive month. Meanwhile, industrial output fell by 1.3% in the three months to November, while the PMI for manufacturing fell back in December after its pick up in October/November. Thus, growth is unlikely to have strengthened in Q4 2004. We look for an increase of 3% in GDP for 2004 as a whole.

- Financial conditions, though, have eased considerably in recent months. Corporate balance sheets are in excellent shape, the household savings ratio is at a three year high, real personal disposable income growth is strong and government spending is set to continue rising strongly. Oil prices are also off their highs Thus, while weakening housing market activity may continue to depress consumer spending in H1 2005, we expect GDP growth to pick up to trend or slightly above in H2 as housing, consumer spending and manufacturing regain momentum. For 2005 as a whole, we expect GDP to rise by around 2.5%.

- The CPI rate rose to 1.6% in December, up from a low of 1.1% in September. Inflationary pressures are increasing with rising factory gate prices and a tight labour market. Though price discounting may see the CPI rate drop back in January, inflation is likely to move up towards its 2% target over the course of 2005.



UK Macro Forecasts

	2003	2004	2005
GDP Growth	2.2	3.0	2.5
CPI Rate	1.4	1.3	1.7
Unemployment Rate	5.1	4.7	4.5
Budget Bal. *(1)*	-3.0	-3.1	-3.1
BOP *(1)*	-1.9	-2.1	-2.3

(1) % of GDP

RATES MAY STILL RISE FURTHER IN 2005

- The Bank of England raised rates by 1.25% between November 2003 and August 2004, bringing the repo rate to 4.75%. With output falling below trend in H2 2004, a cooling house market and inflation well below target, the MPC has left rates on hold for the past five months. Short sterling is not discounting any change in rates in the next couple of years.

- The direction of the next move in rates is in some doubt. Our inclination is that growth will be close to trend this year, with GDP rising by 2.5% in an economy with little spare capacity. Furthermore, the housing market could well regain momentum over 2005, given expectations that interest rates have peaked. Sterling's trade weighted index also remains well below its early August level, resulting in an easing of monetary conditions and boosting the likely profile of inflation. Accelerating wage growth could also pose an inflation risk.

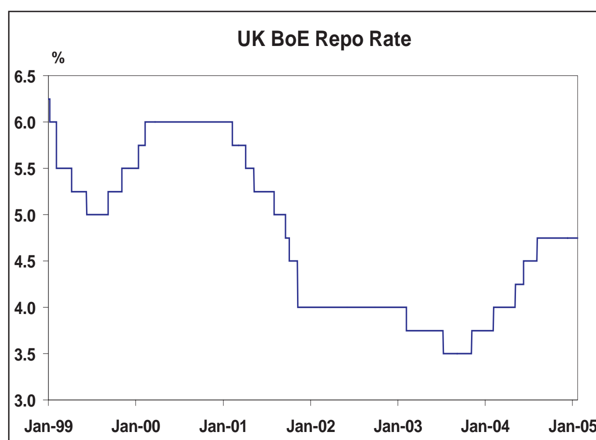
- These factors suggest that there may yet be a further modest tightening of monetary policy. However, this is unlikely to occur until later in the year given the weakening of activity in the second half of 2004. Indeed, the BoE Governor gave the impression last week that the MPC is not inclined to alter monetary policy in either direction anytime soon.

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 110bps above bunds and 40bps over Treasuries. Gilts remain vulnerable to any renewed deterioration in interest rate sentiment in the UK, given that the whole market is trading between 15-30bps through the repo rate.

- In the absence of a UK rate cut this year, and with the ECB unlikely to start hiking rates until the the end of 2005, the ten year gilt-bund spread is likely to remain very wide. Gilts, though, should outperform US Treasuries in the coming months, with the Fed expected to remain on a tightening path over the course of 2005.

- In absolute terms, we expect a modest rise in ten year gilt yields over the coming year, with a somewhat more pronounced rise in short-dated yields should there be further policy tightening. Overall, though, the curve is likely to remain relatively flat.



UK Interest Rate and Bond Forecasts

	24 Jan	Mar '05	June '05	Dec '05
Repo Rate	4.75	4.75	4.75	5.0
2 Year	4.5	4.6	4.8	5.0
5 Year	4.5	4.6	4.8	5.0
10 Year	4.6	4.7	4.8	5.0
30 Year	4.5	4.5	4.6	4.7

JAPAN

KEY ISSUES

Weak Growth: The pace of economic growth has decelerated sharply from the unsustainable levels at the beginning of 2004 and late 2003. Moderate growth is likely going forward.

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.

JGBs Rally: JGB yields are likely to maintain recent gains near term. However, yields could rise again over the course of 2005, should the economic expansion continue and deflationary pressures ease further.

SHARP SLOWDOWN

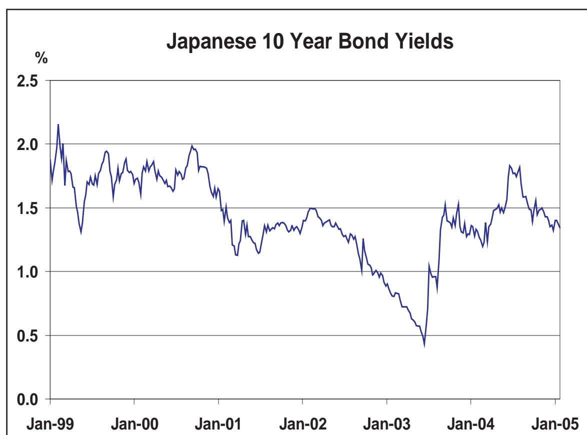
- Economic growth has slowed sharply from the unsustainable high levels of 6.8% in Q1 2004 and 3.8% in Q4 2003. GDP grew by just 0.2% annualised in Q3 2004, following a decline of 0.6% in Q2, thus barely avoiding a technical recession. GDP growth remained sluggish in Q4 last year as high oil prices, weaker global activity and the strong yen all impacted negatively on Japanese growth.

- Export growth, which had been a major driver of growth, has weakened. Industrial production has been further depressed by IT related inventory adjustments. The December manufacturing PMI fell to just above the key 50 level, its weakest performance since June 2003. Nevertheless, GDP rose by around 3% in 2004.

- GDP growth is expected to regain momentum over the course of 2005 as global economies expand and the inventory adjustment unwinds. Machinery orders data point to increased capital spending. GDP growth could average 1.4% in 2005.

- The BoJ is expected to leave its quantitative easing measures and zero interest rate policy in place this year. 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.

- Ten year JGB yields are trading in a 1.3 - 1.5% range, well down from last summer's highs of 1.8-1.9%, reflecting the weaker economic conditions and positive international trend. JGB yields are likely to stay within recent ranges in early 2005. However, assuming that growth picks up momentum again, deflationary pressures ease further and international bond yields move higher, JGB yields could rise to around 1.8% by end 2005.



Japanese Forecasts

	2003	2004	2005
GDP Growth	1.3	3.0	1.4
CPI Rate	-0.2	-0.2	-0.1
ODR (1)	0.1	0.1	0.1
5 Year Yield (1)	0.5	0.6	1.0
10 Year Yield (1)	1.3	1.4	1.8

(1) end year

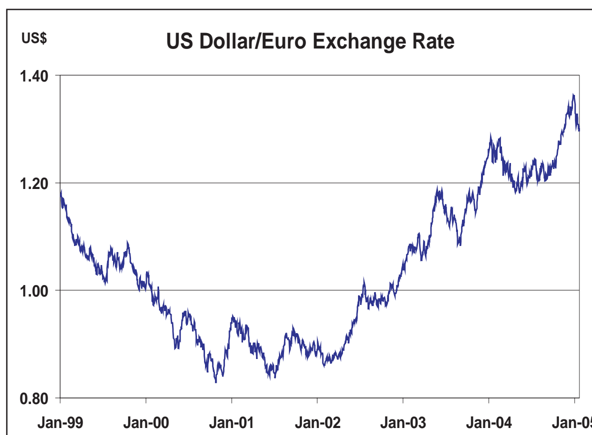
THE CURRENCY MARKETS

KEY ISSUES

- ***USD To Remain Under Pressure:*** Given the enormous US current account deficit, the dollar is expected to come under further pressure in 2005, despite the fact that US interest rates are on the rise.
- ***Sterling Tracking The Euro:*** Sterling has been quite volatile in recent times but is likely to remain within well defined trading ranges against the euro in 2005.
- ***Japanese Authorities Tolerate Stronger Yen:*** Despite yen/dollar being at five year highs, the BoJ has not intervened since last March. This suggests that a move to Y100 or lower could be tolerated.

DOLLAR TO FACE RENEWED DOWNSIDE PRESSURE IN 2005

- The dollar has started 2005 on a relatively strong note, recovering sharply from December's low versus the euro, prompting the question as to whether or not it has entered a corrective phase. We believe that it has not. Given the structural problems being faced by the US economy, the dollar still faces downside risks.
- Our central view is that the dollar/euro exchange rate will average $1.36 over 2005, which implies a weaker rate for much of the year than where the dollar is currently trading. The trading range for 2005 could be as wide as $1.25-1.45. However, for the most part we would expect activity to be confined to a $1.30-1.40 range.
- There are a number of issues that will be crucial for the dollar over the course of 2005. These include the performance of the US economy and balance of payments, and the outlook for US interest rates. The February G7 meeting will also be important with much of the focus on Asian currency regimes.
- Over the short term, we expect sterling/euro to trade in a Stg0.69-71p range, though any strong UK numbers have the potential to push it below the Stg0.69p level from time to time. Towards year end, we see potential for sterling to move towards Stg0.68p as higher UK rates provide support. Our average sterling/euro rate for 2005 is Stg0.71p, compared to stg0.68p in 2004.
- The Bank of Japan has not intervened since March 2004, suggesting that it may be willing to tolerate a move by the yen to Y100 versus the dollar and possibly beyond in 2005. Much will depend on the performance of the Japanese economy and what steps, if any, are taken by the Chinese authorities towards revaluing its currency. We expect yen/dollar to average Y100 over 2005, with yen/euro averaging Y135.



Forex Forecasts *

	24 Jan	Mar '05	June '05	Dec '05
US$/EUR	1.31	1.34	1.38	1.35
STG/EUR	0.70	0.71	0.70	0.69
YEN/EUR	135	136	136	135
US$/STG	1.88	1.88	1.96	1.95
YEN/US$	103	102	99	100

** Mid-point of expected trading range*

AIB

FINANCIAL MARKET FORECASTS

INTEREST RATE FORECASTS (%, END MONTH)

	24 Jan	Mar '05	June '05	Sept '05	Dec '05
US Fed Funds	2.25	2.75	3.00	3.25	3.50
Euro Refi Rate	2.00	2.00	2.00	2.00	2.50
UK Repo Rate	4.75	4.75	4.75	5.00	5.00
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (%, END MONTH)

		24 Jan	Mar '05	June '05	Sept '05	Dec '05
US	2 Year	3.2	3.4	3.7	3.9	4.1
(s.a.)	5 Year	3.7	3.9	4.1	4.3	4.4
	10 Year	4.2	4.4	4.6	4.7	4.8
	30 Year	4.7	4.8	4.9	5.0	5.1
Euro	2 Year	2.4	2.5	2.6	2.9	3.3
(ann)	5 Year	2.9	3.0	3.1	3.4	3.7
	10 Year	3.5	3.6	3.7	3.9	4.2
	30 Year	4.1	4.2	4.3	4.4	4.5
UK	2 Year	4.5	4.6	4.8	5.0	5.0
(s.a.)	5 Year	4.5	4.6	4.8	4.9	5.0
	10 Year	4.6	4.7	4.8	4.9	5.0
	30 Year	4.4	4.5	4.6	4.7	4.7
Jap	2 Year	0.1	0.1	0.2	0.3	0.4
	5 Year	0.6	0.7	0.8	0.9	1.0
	10 Year	1.4	1.5	1.6	1.7	1.8
	30 Year	2.4	2.5	2.6	2.7	2.8
Euro	Bund-Swap	7	8	10	12	15
Spreads	Corp - Gov	47	48	50	55	60
(bps)						

EXCHANGE RATE FORECASTS (END MONTH)*

	24 Jan	Mar '05	June '05	Sept '05	Dec '05
US$/EUR	1.31	1.34	1.38	1.36	1.35
STG/EUR	0.70	0.71	0.70	0.70	0.69
YEN/EUR	135	136	136	136	135
US$/STG	1.88	1.88	1.96	1.95	1.95
YEN/US$	103	102	99	100	100

** Mid-point of expected trading range*

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