AIB Global Treasury
Economic Research

FIXED INCOME MONTHLY MONITOR

MAY/JUNE 2005

TESTING TIMES

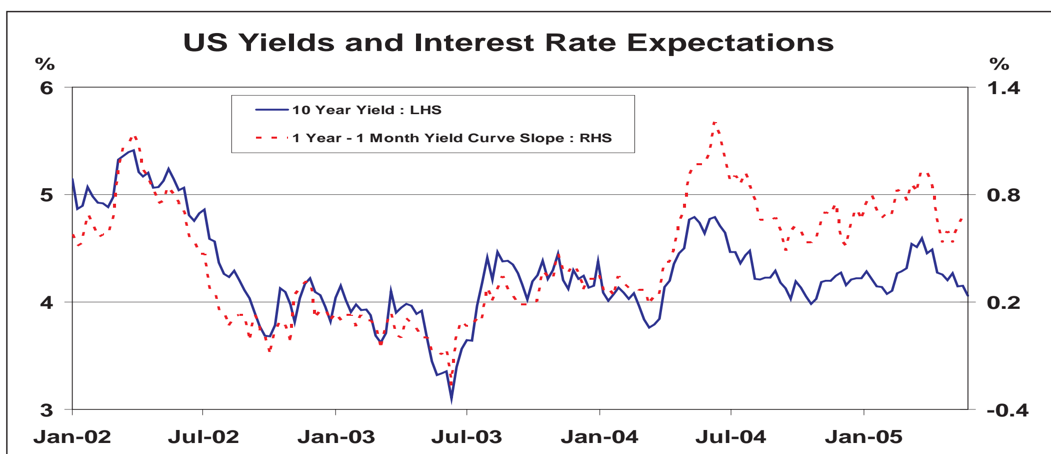
Government bond markets have rallied strongly over the past two months. However, ten year US and Japanese yields are facing major resistance levels at around 4% and 1.2%, respectively. Meanwhile, eurozone yields have declined to historic lows, while UK gilts are trading well below official rates. Thus, it would not be surprising if bonds find it increasingly difficult to make further headway from here.

A variety of factors have driven bond yields lower over the past two months. These include a weakening of economic growth, the marked decline in leading indicators of activity, short covering and a flight to quality as concerns grew about possible heavy losses by hedge funds following the recent marked widening of corporate spreads. These factors also resulted in a marked softening of expectations in regard to the future path of official interest rates.

We expect the pace of global economic activity to pick up again over the summer months, following the recent sharp drop in oil prices, decline in bond yields and as inventory levels are reduced. Manufacturing activity has slowed in particular in recent months, possibly due to a build up of inventories earlier this year. Manufacturing, though, has declined in importance in western countries, which are now predominately service sector economies.

Markets will probably focus on leading indicators of activity, such as PMIs and business and consumer sentiment surveys, in the coming months to gauge the likely strength of economic growth in H2 2005. If, as we expect, leading indicators do improve over the summer, then bond markets can be expected to come under pressure. The fact that equity markets have shown signs of recovery recently, with corporate bonds also stabilising, strengthens our belief that bond yields are likely to rise over the balance of the year.

Solid US growth would keep the Fed on a rate tightening path with the funds rate likely to reach 4% by early next year. In these circumstances, we would expect that ten year Treasury yields will move up towards the top end of the 3.8 - 4.8% range that they have occupied since mid-2003. European and Japanese bond yields are also likely to rise in these circumstances, albeit more moderately than in the US.



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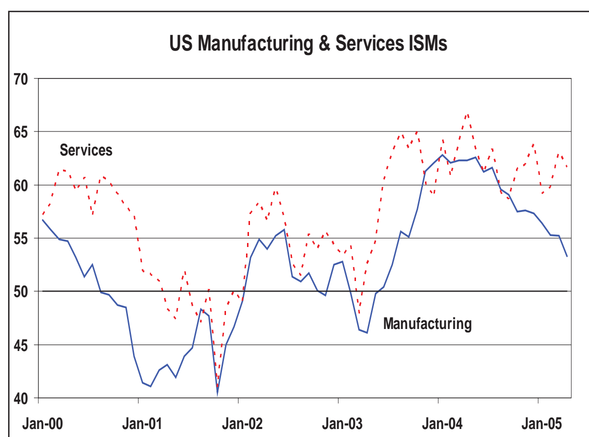
THE US

KEY ISSUES

- ***Growth Outlook:*** The upswing in economic activity continues, although some leading indicators have weakened. GDP growth is likely to be close to trend in 2005, at around 3.5%.
- ***Monetary Policy:*** Fed likely to persist with moderate 25bps rate hikes as it moves to a less acommodatory 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 this summer.

GROWTH CONCERNS

- Initial estimates put GDP growth at 3.1% annualised in the opening quarter of the year. However, this is expected to be revised up to around 3.5% on the marked narrowing of the trade deficit in March. This would be close to the GDP growth rates of 4% and 3.8% recorded in the final two quarters of 2004.
- This is an impressive growth figure for Q1 as activity softened considerably in March, due to the early Easter, poor weather and sharply higher oil prices. Growth, though, picked up again in April with notable rebounds in retail sales, housing starts and employment. Thus, GDP should post another solid rise in Q2, although it may be depressed somewhat by a slowdown in inventory accumulation.
- Concerns, though, remain about the prospects for the economy, especially manufacturing. The ISM for manufacturing has fallen steadily over the past year. Recent regional manufacturing surveys have also shown signs of weakness. Consumer confidence has also declined in recent months, weighed down by high oil prices and sluggish stock markets.
- However, employment growth has strengthened recently, with non-farm payrolls averaging gains of 240,000 in the last three months. Oil prices have also fallen by almost 20% since early April, which should result in lower gasoline prices over the summer. Long term interest rates have also declined in recent months, which should support housing activity in particular.
- Thus, while manufacturing may be going through a soft patch, the rest of the economy is expected to continue growing solidly. Our view remains that GDP growth will be of the order of 3.5% in 2005 and 2006.



US Macro Forecasts

	2004	2005	2006
GDP Growth	4.4	3.5	3.5
CPI Rate	2.7	2.8	2.5
Unemployment Rate	5.5	5.1	4.9
Federal Budget Bal. *(1)*	-3.5	-3.0	-2.8
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% in Q1 2005. However, the core PCE deflator has been stable at around 1.6-1.7% yoy since last autumn, having accelerated in the first half 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 rate has also picked up significantly in the past eighteen months.

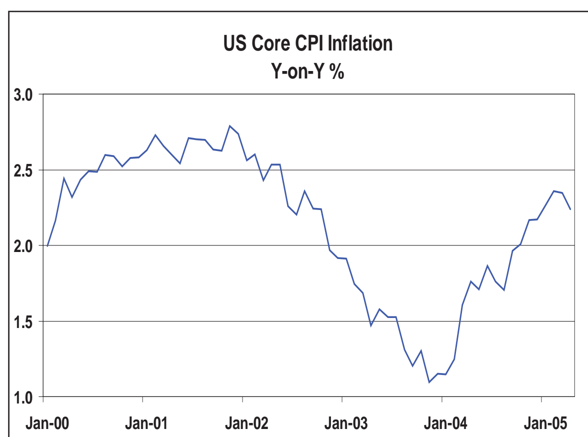
- Despite the increasing price pressures, inflation should be fairly well behaved in 2005. GDP growth is expected to be around trend levels. Wage costs remain subdued. Strong profits mean that corporates should be able to absorb higher input costs. Headline inflation should also ease following the recent decline in oil prices. 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 an eighth consecutive FOMC meeting in May, taking the funds rate up to 3%. 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.

- It has been noticeable that the Fed has not been swayed by the recent volatility of data. It has reiterated its view that the US economy is on a sustained solid growth path. Furthermore, while price pressures have picked up, it believes that longer-term inflation expectations remained well contained. Thus, the Fed has not been deflected from its steady rate tightening path, and has indicated that further policy tightening is on the cards.

- Hence, we expect 25bps rate hikes at the next two FOMC meetings, which would take the funds rate to 3.5% by August. Thereafter, the Fed could slow the pace of tightening as it gets close to a neutral policy stance. We expect one 25bps rise in rates in 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% in 2006.



US Interest Rate Forecasts

	24 May	Sept '05	Dec '05	Dec '06
Fed Funds	3.0	3.5	3.75	4.25
1 Month	3.1	3.6	3.8	4.3
3 Month	3.2	3.7	3.9	4.4
1 Year	3.7	4.0	4.2	4.6

TREASURY RALLY NEARING STRONG RESISTANCE LEVEL

- 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 4.35%, 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 3.6%, 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 two months on a slowdown in economic activity in March and a flight to quality out of equities and corporate bonds. 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 close on 4%, a major resistance level for the market The rebound in activity in April has not damaged bonds, which have been supported instead by the continuing weakness of leading indicators of growth and worries about possible heavy losses by hedge funds.

- Oil prices, though, have fallen back in recent weeks, which is translating into lower gasoline prices. Longer term interest rates have also fallen sharply, while policy remains accommodative. The jobs market has also improved this spring. Thus, we expect leading indicators and sentiment indices to improve over the summer, with economic growth remaining solid in H2 2005.

- If growth remains robust and the Fed continues to tighten policy, bond yields are likely to come under upward pressure. We would point out that real yields are also exceptionally low, even when measured against core CPI inflation. These are likely to rise once corporate bond issuance picks up again.

- There are also signs of stability returning to financial markets with equities gaining ground and the corporate bond market settling down again. Thus, over the balance of the year, we look for ten year yields to move up 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 4.8% by end year, while two year yields should climb above 4%.

US Bond Yield Forecasts

	24 May	Sept '05	Dec '05	Dec '06
2 Year	3.6	4.0	4.2	4.6
5 Year	3.8	4.2	4.4	4.7
10 Year	4.0	4.4	4.6	4.8
30 Year	4.4	4.7	4.8	4.9

THE EUROZONE

KEY ISSUES

- ***Economic Prospects***: After a brief upward blip at the start of the year, the eurozone economy has weakened again. GDP growth now seems likely to average around 1.3% in 2005.
- ***Monetary Policy:*** The ECB remains on hold. With activity weakening again, the ECB may not be in a position to tighten policy until 2006, despite its concerns about risks to price stability.
- ***Bond Market:*** Bond yields have fallen to historic lows and could remain around these levels in the short term, before rising with Treasuries later in the year.

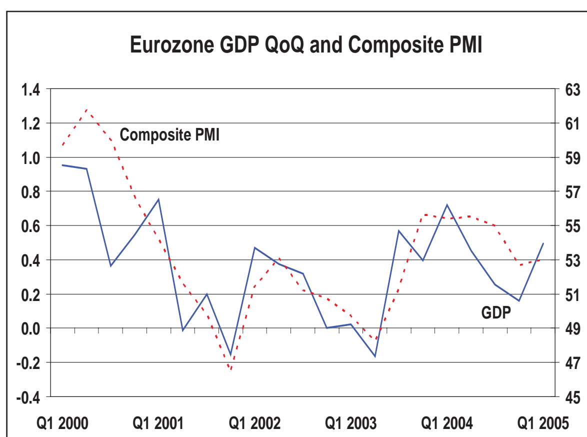
ECONOMY WEAKENS YET AGAIN

- There was an upward blip in economic activity around the turn of the year that saw eurozone GDP growth pick up to 0.5% in Q1 2005 from 0.2% and 0.3% in the final two quarters of 2004. Industrial production posted two consecutive monthly increases of 0.3% in December and January. Meanwhile, retail spending strengthened in Germany and France early in the year. Destocking, though, may have depressed growth in domestic demand.

- A marked improvement in net trade saw German GDP rise by 1% in the quarter. Growth in Spanish Q1 GDP was also strong at 0.9%. This is in contrast to Italy, where GDP shrank by 0.4%. Meanwhile, a disimprovement in net trade depressed French GDP, which rose by just 0.2% in the quarter. Overall, then, it was a very mixed picture across the eurozone in Q1.

- There has been a marked weakening in leading indicators of activity since February, 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. Industrial production fell sharply in the eurozone in February and March and seems likely to be very weak in Q2.

- Meanwhile, continuing weak income growth is acting to prevent any sustained rise in consumer spending. Even if activity strengthens again in the second half of the year, GDP growth seems set to average less than 1.5% in 2005. 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	1.3	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 April 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 now dropping out of the annual rate As a result, core inflation is decelerating, falling to 1.4% by April from 2.1% at end 2004.

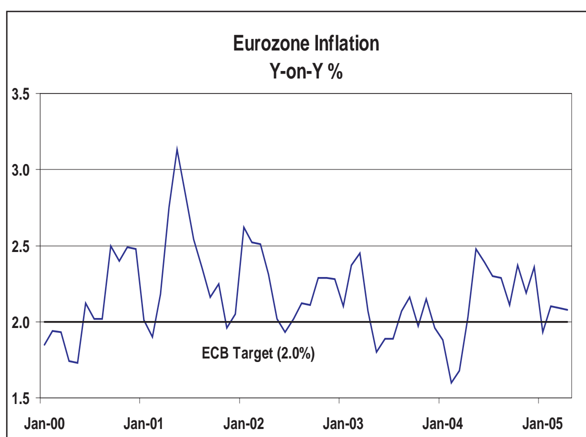
- Inflationary pressures look well contained in the eurozone. This is not surprising given the weakness of domestic demand, subdued wage growth and strength of the euro. With oil prices declining to under $50 per barrel, the headline HICP rate should soon start to fall. It should average less than 2% in 2005.

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, with the economy losing momentum again in recent months. In our view, there is little threat to price stability. There is considerable spare capacity in the economy. Wage increases remain very subdued. 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 the strong growth of monetary aggregates. The ECB believes that excess liquidity combined with strong credit growth and rapidly rising property prices in some countries, could pose upside risks to price stability over the medium to longer term.

- This is the main reason for the ECB's continued vigilance on medium term risks to inflation. It is, though, also concerned about high oil prices. Thus, it has ruled out the possibility of a cut in rates to counteract the recent slowdown in activity. While we no longer expect a rate hike in 2005, the ECB could raise rates in early 2006 to counteract the perceived threat to price stability from the strong growth in monetary aggregates, should the economy pick up momentum again over the balance of this year.



Eurozone Interest Rate Forecasts

	24 May	Sept '05	Dec '05	Dec '06
Refi	2.0	2.0	2.0	2.75
1 Month	2.1	2.1	2.1	2.8
3 Month	2.1	2.1	2.2	2.9
1 Year	2.2	2.3	2.5	3.3

YIELDS HIT HISTORIC LOWS

- Ten year eurozone yields have declined sharply since mid-2004, falling from 4.4% to historic lows below 3.3%, as the economy slowed and expectations of ECB tightening were pushed back into 2006. Meanwhile, thirty year yields have fallen from 5% to 3.8%, while two year yields declined more modestly from 2.7% to 2.2%.

- The eurozone market has decoupled to some extent from the US. The ten year US-eurozone yield spread has widened from +10bps to +85bps since September. Nevertheless, Treasuries have been setting the general direction for eurozone bonds to date in 2005, unlike in the final quarter of 2004.

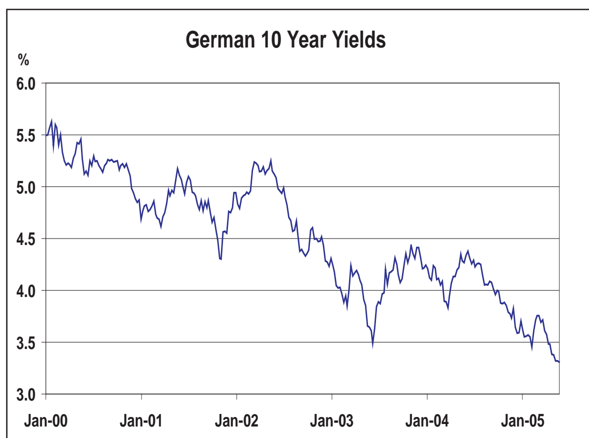
- Ten year eurozone yields have fallen to historic lows at around 3.3%. They may trade around this level in the near term, given the rally in US Treasuries and the ongoing weak performance of the eurozone economy. Furthermore, we do not see the ECB hiking rates until next year.

- Later in the summer, though, the eurozone market could come under some pressure, if Treasuries start to lose ground again and the economy regains some momentum. However, we do not expect a major sell-off by eurozone bonds, given the fragility of the economic recovery and the likelihood that any monetary tightening will not commence before 2006.

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 in the past two months. The average spread more than doubled to around 80bps. Concerns about slowing economic growth and corporate earnings have damaged sentiment, while the ratings downgrades to the two main US auto companies was a major blow for the market.

- 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. The market remains vulnerable to further bad corporate news. However, with signs of renewed strength in the equity market, the worst may be over for corporate bonds, and, indeed, spreads have narrowed somewhat in recent days.



Eurozone Bond Yield Forecasts

	24 May	Sept '05	Dec '05	Dec '06
2 Year	2.2	2.4	2.6	3.3
5 Year	2.7	2.9	3.1	3.6
10 Year	3.3	3.5	3.7	4.0
30 Year	3.8	4.0	4.2	4.4

THE UK

KEY ISSUES

Growth Outlook: Growth dipped below trend in Q1 2005 and may remain so in Q2. However, it should regain momentum and grow at around trend levels over H2 2005.

BoE Policy: Interest rates look set to remain on hold for some time with growing uncertainty about the timing and direction of the next move.

High Yielding Gilts: Even though the gilt market has rallied strongly, high UK interest rates are still weighing on the market, resulting in a continuing generous yield pick up over US and eurozone bonds.

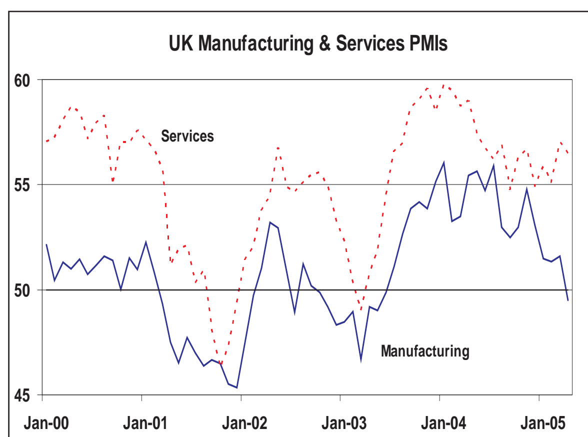
GROWTH SLOWS BELOW TREND

- The UK economy grew below trend in Q1, with GDP rising by 0.5% compared with 0.7% in Q4 2004. The downturn partly reflects weak consumer demand, which has been impacted by a marked fall-off in housing activity. Retail sales volumes were up just 0.2% in Q1 2005, compared to Q4 2004 levels. Sales, though, recovered somewhat in April, rising by 0.5%. Business investment declined in the quarter, with exports also contracting, so final demand was very weak.

- Meanwhile, growth in the rest of the services sector remains strong, with the sector as a whole growing by 0.8% in Q1. The PMI for services only fell back slightly in April after a strong rise in March. However, the manufacturing sector has weakened again. Output fell by 0.7% in Q1 from Q4 2004 levels. Furthermore, the manufacturing PMI dropped below the 50 level in April for the first time since June 2003.

- Weaker housing market activity may continue to restrain consumer spending in Q2 2005. However, mortgage approvals have started to edge up again, which would point to a pick up in housing transactions and retail spending in the second half of the year. Hence, growth may return to trend, with the services sector expected to continue performing strongly. For 2005 as a whole, we expect GDP to rise by around 2.5% 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 and April 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, rising input costs and increased public sector charges, inflation is likely to move up further, rising above its 2% target, over the balance of 2005.



UK Macro Forecasts

	2004	2005	2006
GDP Growth	3.1	2.5	2.5
CPI Rate	1.3	1.9	1.8
Unemployment Rate	4.8	4.7	4.7
Budget Bal. *(1)*	-3.0	-2.8	-2.5
BOP *(1)*	-2.2	-2.1	-1.8

(1) % of GDP

INCREASING UNCERTAINTY OVER NEXT RATE MOVE

- 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, a dip in consumer spending and inflation below target, the MPC has left rates on hold for the past nine months.

- Rates seem set to remain on hold for some time, with the timing and direction of the next move in rates increasingly uncertain. Much depends on the strength of consumer demand. If consumer spending picks up in tandem with some recovery in housing market activity then another rate hike is still possible, especially given, the recent sharp pick-up in consumer price inflation along with firm producer prices. Furthermore, despite some recent slight easing in conditions, the labour market remains relatively tight.

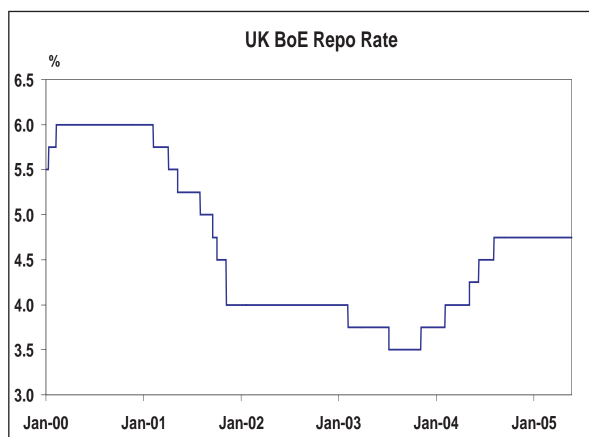
- However, the MPC currently see the risks to its growth forecasts as being to the downside with inflation risks broadly balanced. Thus, if, on the other hand, consumer demand and the manufacturing sector remain depressed then the next move in rates could be downwards. Therefore, we see rates remaining on hold for some time, until we get further insights into the consumer sector in particular.

GILT-BUND SPREAD REMAINS WIDE

- Gilt yields have fallen sharply over the past two months in line with the global trend and as the market has moved to discount a cut in UK rates. Nevertheless, the relatively high level of official UK interest rates continues to weigh on the gilt market. Ten year gilt yields are trading 105bps above bunds and 30bps over Treasuries.

- The ten year gilt-bund spread is likely to remain very wide given the relatively high level of UK rates, some lingering risk of a rate hike and with the ECB unlikely to begin tightening policy until next year. Gilts, though, should outperform US Treasuries in the coming months, with the Fed expected to remain on a rate tightening path over the balance of 2005.

- Gilts are very vulnerable to any deterioration in interest rate sentiment given that the whole market is trading almost 50bps below the current repo rate. In absolute terms, we expect a modest rise in gilt yields over the rest of the year on a general uptrend in global bond yields and with UK rates likely to stay on hold. Overall, the curve is likely to remain relatively flat, with yields ending 2005 at around the 4.6% level.



UK Interest Rate and Bond Forecasts

	24 May	Sept '05	Dec '05	Dec '06
Repo Rate	4.75	4.75	4.75	4.75
2 Year	4.3	4.5	4.6	4.7
5 Year	4.3	4.5	4.6	4.7
10 Year	4.3	4.5	4.6	4.7
30 Year	4.3	4.5	4.6	4.6

JAPAN

KEY ISSUES

Growth Rebounds: The Japanese economy rebounded strongly in Q1 after three quarters of virtual stagnation. Too soon yet to call all clear on economy, but a modest expansion is likely going forward.

Easing In Deflation: Deflationary pressures are easing. However, consumer prices are being depressed by once-off factors, and thus deflation in the core CPI rate is expected to persist until 2006.

JGB Market: Ten year JGB yields have edged up from early May lows. Yields could rise further, should the economic expansion continue, deflationary pressures abate and global bond yields rise.

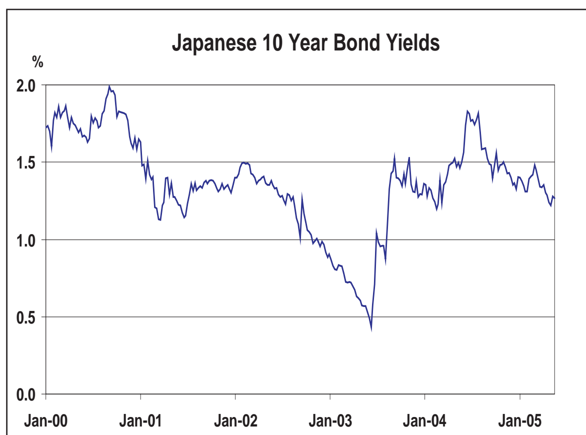
Q1 ECONOMIC REBOUND

- The Japanese economy bounced back strongly in Q1 2005, growing by 5.3% annualised after three quarters of virtual stagnation. Encouragingly, the pick-up in activity in Q1 this year was entirely due to domestic factors. Household spending rose by 4.7% with private capital spending up 8.2%. Meanwhile, net trade took 0.3% off annualised growth, with exports showing their first decline for four years.

- However, its remains to be seen whether Japan is in the throes of a domestic economic recovery. The Q1 performance is unlikely to be sustained, especially as it in part reflected inventory accumulation, while machinery orders data point to a slowdown in capital expenditure. Meanwhile, any downturn in demand from the US or China, Japan's main export markets, would also take a toll on the economy. Assuming a more modest pace of activity over the balance of the year, GDP growth of 1.7% is forecast for 2005, with growth of 2% expected in 2006. GDP grew by 2.6% in 2004. These are all above trend growth rates for Japan.

- The BoJ is expected to leave its quantitative easing measures and zero interest rate policy in place until at least 2006. While deflationary pressures are easing, once off factors are still depressing consumer prices, which are expected to continue to decline during 2005.

- Despite strong GDP growth in Q1 ten year JGB yields have fallen to close on 1.2%, the bottom of their trading range since Q3 2003. Assuming that the economy continues to recover, albeit at a somewhat less hectic pace, that 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	1.7	2.0
CPI Rate	-0.2	-0.3	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

(1) end year

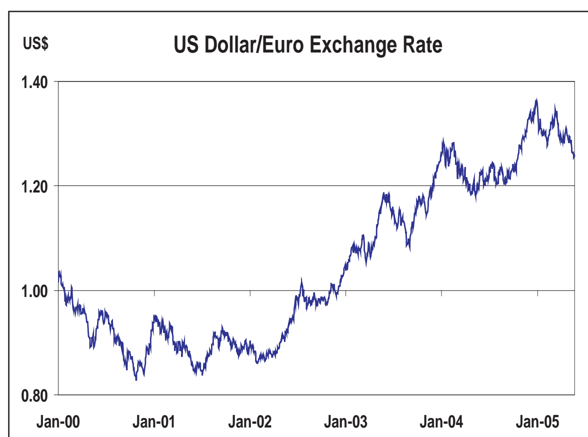
THE CURRENCY MARKETS

KEY ISSUES

- ***Dollar Recovery Gains Momentum:*** Renewed optimism regarding the US economy has provided a significant boost for the dollar, which has reached six month highs versus the euro and sterling.
- ***US Fundamentals Seem to Improve:*** With some signs of improvement in US structural imbalances, dollar sentiment looks set to remain bullish for now, keeping the euro well off the $1.30 level.
- ***Sterling Hit By Cooling Economy:*** Sterling has come under strong selling pressure as the UK economy cools and the market changes its mind on the outlook for official interest rates.

DOLLAR RECOVERY GAINS MOMENTUM

- Year to date the US dollar has risen by some 8% against the euro and 5% versus sterling and the yen. As well as evidence that the US economy continues to grow at a solid pace, dollar sentiment has also been bolstered by suggestions that the US structural imbalances could be improving. Indeed, recent gains have prompted speculation that, after three years of decline, the dollar has turned the corner.
- The consensus view that the US economy will achieve a better performance than the other major economies and that US interest rates will continue to rise should provide underlying support for the dollar over the coming months.
- The euro, meanwhile, is vulnerable to any negative news on the eurozone economy and a growing conviction that the ECB won't raise interest rates until 2006. The French and Dutch constitutional referendums also present downside risks. Thus, over the coming months, we could see dollar/euro trade in a $1.22-1.27 range.
- However, despite recent data, there is little evidence of any significant long-term change in the US structural imbalances. Support from monetary policy could also fade once the Fed appears to be coming to the end of its tightening cycle. Thus, we see some scope for a rebound in the euro later in the year.
- Sterling has come under pressure recently in response to weaker UK economic data. It has also been impacted by the recovery in the dollar. Given the current outlook for UK interest rates and the dollar, cable looks set to remain under pressure. With regard to sterling/euro, much will depend on the performance of dollar/euro. However, with the market now talking about UK rate cuts rather than hikes, euro downside looks well protected at the Stg0.68p level.



Forex Forecasts *

	24 May	Sept '05	Dec '05	Dec '06
US$/EUR	1.26	1.26	1.28	1.25
STG/EUR	0.69	0.69	0.70	0.69
YEN/EUR	135	133	134	134
US$/STG	1.83	1.82	1.83	1.81
YEN/US$	107	106	105	107

** Mid-point of expected trading range*

AIB

FINANCIAL MARKET FORECASTS

INTEREST RATE FORECASTS (%, END MONTH)

	24 May	June '05	Sept '05	Dec '05	Mar '06
US Fed Funds	3.0	3.25	3.5	3.75	4.0
Euro Refi Rate	2.0	2.0	2.0	2.0	2.25
UK Repo Rate	4.75	4.75	4.75	4.75	4.75
Japan ODR	0.1	0.1	0.1	0.1	0.1

BOND YIELD FORECASTS (%, END MONTH)

		24 May	June '05	Sept '05	Dec '05	Mar '06
US	2 Year	3.6	3.7	4.0	4.2	4.4
(s.a.)	5 Year	3.8	3.9	4.2	4.4	4.6
	10 Year	4.0	4.1	4.4	4.6	4.7
	30 Year	4.4	4.5	4.7	4.8	4.8
Euro	2 Year	2.2	2.3	2.4	2.6	2.9
(ann)	5 Year	2.7	2.8	2.9	3.1	3.3
	10 Year	3.3	3.4	3.5	3.7	3.8
	30 Year	3.8	3.9	4.0	4.2	4.3
UK	2 Year	4.3	4.4	4.5	4.6	4.7
(s.a.)	5 Year	4.3	4.4	4.5	4.6	4.7
	10 Year	4.3	4.4	4.5	4.6	4.7
	30 Year	4.3	4.4	4.5	4.6	4.6
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	13	13	14	15	18
Spreads	Gov-Corp	73	70	70	73	75
(bps)						

EXCHANGE RATE FORECASTS (END MONTH)*

	24 May	June '05	Sept '05	Dec '05	Mar '06
US$/EUR	1.26	1.25	1.26	1.28	1.28
STG/EUR	0.69	0.69	0.69	0.70	0.70
YEN/EUR	135	133	133	134	134
US$/STG	1.83	1.80	1.82	1.83	1.83
YEN/US$	107	107	106	105	105

** Mid-point of expected trading range*

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