



Exchange Rate Outlook *18th June 2009*

- **USD safe haven status eroded as global economy stabilises**
- **But euro rally meets resistance at \$1.45**
- **Sterling recovery continues as UK economic outlook improves**
- **Market appetite for risk still main driving force for yen**

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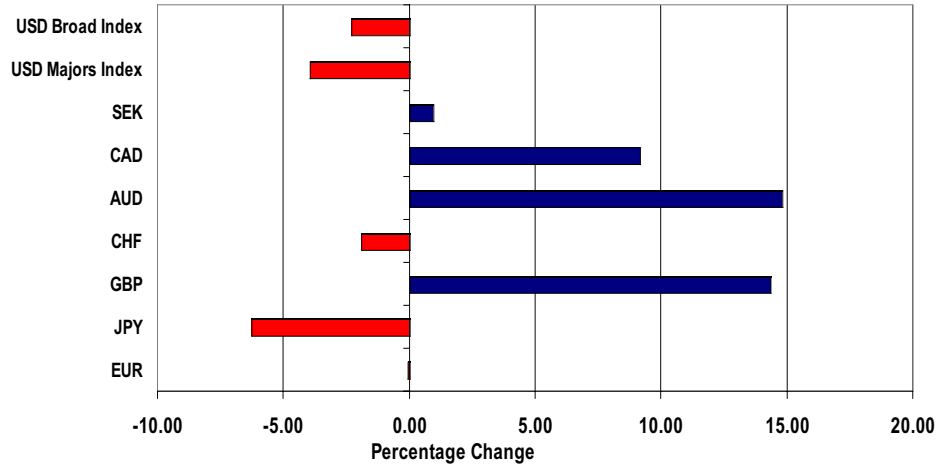
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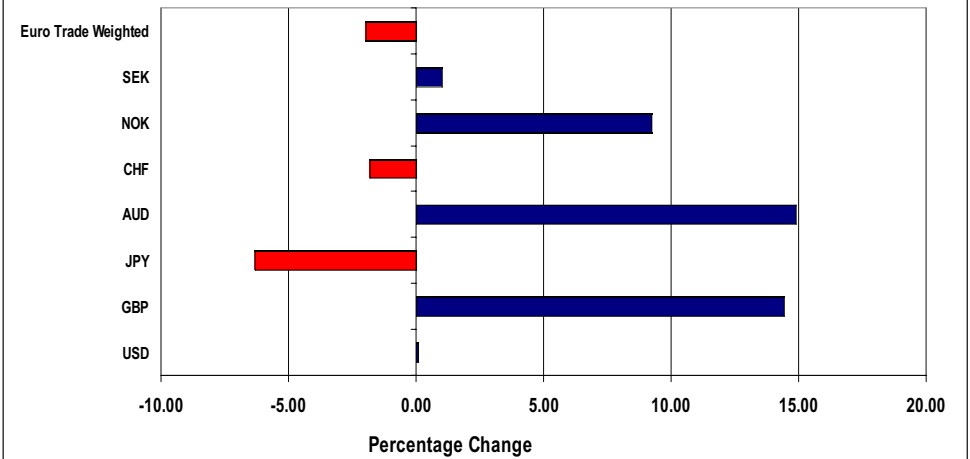
Key Currency Trends

Performance Versus Dollar & USD Trade Weighted Indices
2009 Year to Date % Change



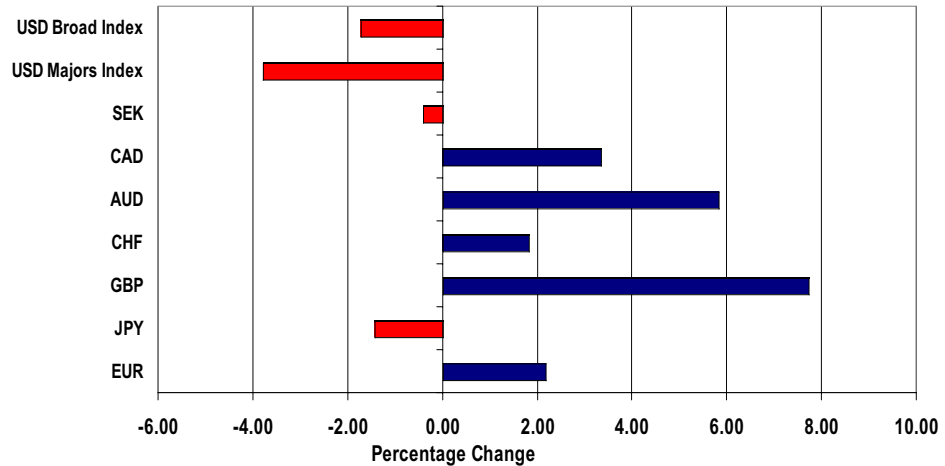
Source: Thomson Datastream

Performance Versus Euro and Euro Trade Weighted Index
2009 Year to Date % Change



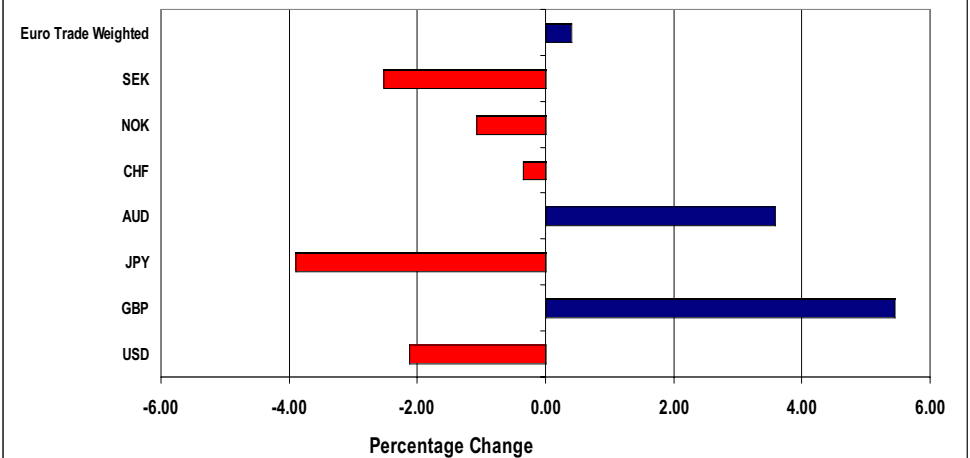
Source: Thomson Datastream

Performance Versus Dollar & USD Trade Weighted Indices
% Change In Past Month



Source: Thomson Datastream

Performance Versus Euro and Euro Trade Weighted Index
% Change in Past Month



Source: Thomson Datastream

Summary of Exchange Rate Forecasts

	Current	Q2-2009	Q3-2009	Q4-2009	Q1-2010
Euro Versus					
USD	1.392	1.37-1.43	1.35-1.42	1.32-1.37	1.30-1.35
GBP	0.856	0.83-0.87	0.80-0.85	0.80-0.85	0.78-0.83
JPY	133.37	128-138	130-140	130-140	135-145
PLN	4.54	4.45	4.30	4.10	4.00
HUF	283.35	280	280	275	275
NOK	8.88	8.90	8.80	8.70	8.70
SEK	11.01	10.60	10.50	10.20	9.90
US Dollar Versus					
JPY	95.78	93-99	95-100	100-105	103-110
GBP	1.626	1.60-1.70	1.62-1.72	1.60-1.65	1.58-1.65
CHF	1.08	1.10	1.09	1.09	1.08
CAD	1.13	1.13	1.13	1.10	1.10
AUD	0.79	0.79	0.80	0.78	0.78
NZD	0.63	0.63	0.64	0.62	0.62
CNY	6.84	6.82	6.80	6.75	6.73
Sterling Versus (mid point of expected trading range)					
JPY	156	158	164	167	175
CAD	1.85	1.86	1.90	1.79	1.81
AUD	2.05	2.08	2.10	2.09	2.11
NZD	2.57	2.61	2.62	2.63	2.65

Interest Rate Outlook

Central banks across the world have cut official rates aggressively to help ease the crisis that has gripped the world's financial system and counter the very deep global recession. Meanwhile, deflation risks have risen, with inflation close to, or below, zero in many countries. Given the tightened credit conditions, very weak global economy, rapidly rising unemployment and subdued inflation, we are heading for a prolonged period of very low official interest rates. Thus, in our view, recent speculation that rates may start to rise around year end is way wide of the mark.

Fed Rates To Stay Close On 0% For Long Period

With inflation falling sharply and a deep recession, the Fed cut US interest rates effectively to zero per cent last December, adopting a 0 - 0.25% target range for the Fed funds rate. As official rates are close to zero, the Fed's focus in 2009 has shifted to quantitative easing measures, in particular substantial purchases of Treasuries and mortgage securities, to help stimulate the economy and the functioning of financial markets.

Given the very weak economic conditions, with the unemployment rate set to soon breach 10%, as well as very subdued inflation, the current exceptionally low level of the Fed funds rate can be expected to remain in place well into 2010 at least.

ECB Reduces Rates To 1%

The ECB cut interest rates by 0.25% to 1.0% at its May policy meeting, bringing the total reduction in official rates in the eurozone to 3.25% since last October. An official rate of 1.0% represents an historical low for the eurozone. The ECB has also announced that starting next month, it intends to buy €60 billion of covered bonds as part of its credit easing strategy.

ECB President Trichet said after both the May and June meetings that the ECB has not decided that rates could not go any lower. However, with leading economic indicators picking up in the eurozone and oil prices rising sharply in recent months, the 1% level may well represent the trough for the refi rate in this cycle unless the economy remains mired in deep recession.

UK Pursues Quantitative Easing

The Bank of England cut its key interest rate by 0.50% to 0.50% at its March meeting. As official rates are now at ultra low levels, the focus has switched to quantitative easing measures. In this regard, the BoE is now well advanced in terms of its programme of asset purchases, which is mainly concentrated in buying gilts. It announced after its May meeting that it was increasing the size of its asset purchases by £50 billion to £125 billion. With inflation expected to move below 2% and stay there, UK monetary policy is set to remain very accommodative well into 2010.

US Interest Rate Forecasts (to end quarter)

	Fed Funds	3 Mth	1 Year	2 Year *	5 Year *
Current	0.125	0.61	1.69	1.55	2.99
June '09	0.125	0.60	1.60	1.50	2.90
Sept '09	0.125	0.60	1.60	1.50	2.90
Dec '09	0.125	0.70	1.70	1.65	3.10

* Swap Forecasts Beyond 1 Year

Eurozone Interest Rate Forecasts (to end quarter)

	Refi Rate	3 Mth	1 Year	2 Year *	5 Year *
Current	1.00	1.24	1.63	1.93	2.97
June '09	1.00	1.25	1.60	1.85	2.90
Sept '09	1.00	1.25	1.60	1.85	2.90
Dec '09	1.00	1.30	1.70	2.00	3.00

* Swap Forecasts Beyond 1 Year

UK Interest Rate Forecasts (to end quarter)

	Repo Rate	3 Mth	1 Year	2 Year *	5 Year *
Current	0.50	1.25	1.75	2.31	3.64
June '09	0.50	1.25	1.75	2.30	3.60
Sept '09	0.50	1.30	1.80	2.40	3.60
Dec '09	0.50	1.30	1.80	2.40	3.70

* Swap Forecasts Beyond 1 Year

US Dollar

Stock market activity and investor appetite for risk continue to be the main driving forces in terms of forex flows and against this background the US dollar remains volatile versus other majors. Although off recent lows versus the euro, downside risks remain, reflecting the general pick up in global risk appetite as investors focus on the increasing evidence from leading indicators of "green shoots of recovery". Higher oil prices are also weighing on the US dollar.

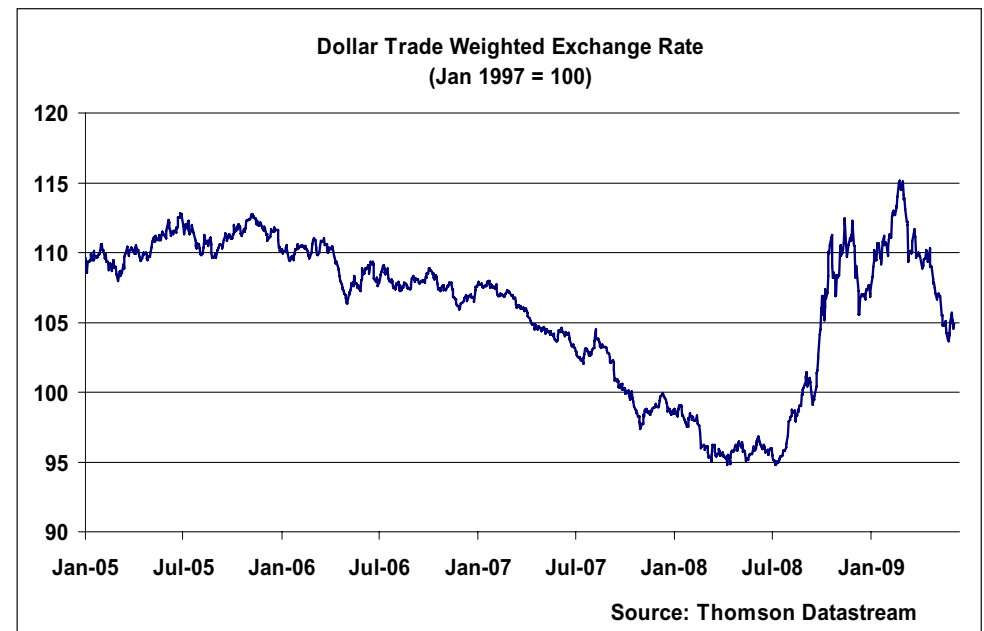
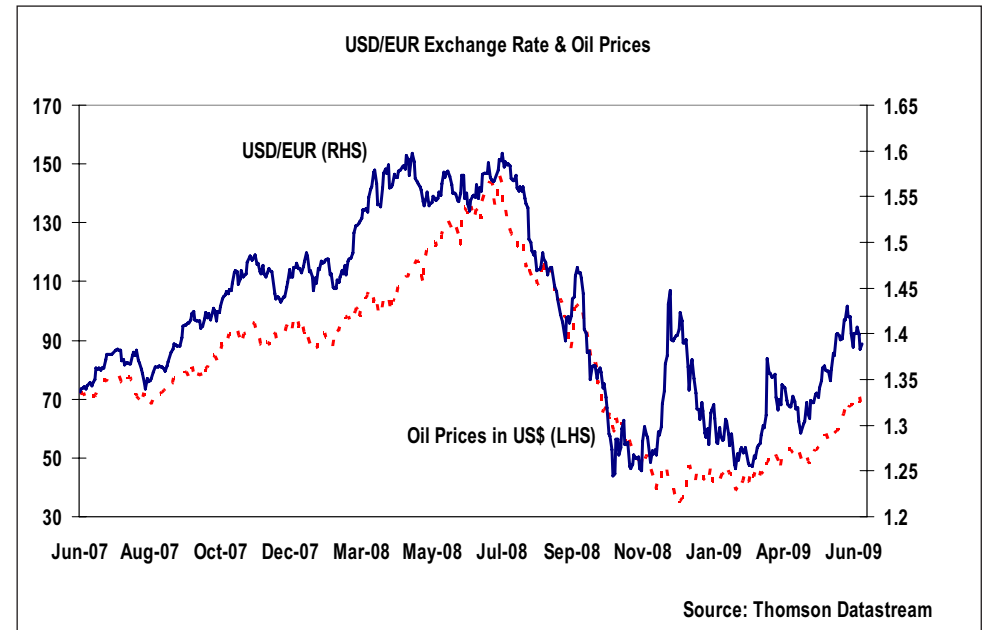
As well as growing optimism that the worst could be over for the financial sector and the world economy, the dollar is also being undermined by the extensive (and potentially inflation generating) quantitative easing activities undertaken by the Federal Reserve. In March, the FOMC announced that, in addition to large scale purchases of mortgage backed securities, it also planned to buy up to \$300 billion of Treasuries. This is the first time since the 1960's that the central bank has bought Treasuries and the move represents a major expansion of its open market operations.

The improved sentiment environment could well see the dollar trade with a negative bias over the coming weeks, particularly versus risk sensitive currencies like the euro and sterling as well as commodity driven currencies like the AUD. However, stock markets remain fragile and the any dollar sell offs could be quickly unwound if sentiment were to be derailed by any renewed pick up in risk aversion.

Furthermore, while the perception that global risk is diminishing is negative for the dollar currently, over the longer term we see little prospect for a marked depreciation in the US currency from current levels, particularly versus the euro. The US economy is well advanced in terms of the recessionary cycle, with the dollar likely to benefit from any build up of speculation of a tightening in monetary policy over the medium term. Meanwhile, the US balance of payments position, driven by the marked narrowing in the trade deficit, is also likely to be less dollar negative going forward.

Key Forecasts

		Q2-2009	Q3-2009	Q4-2009	Q1-2010
US\$/EUR	1.393	1.37-1.43	1.35-1.42	1.32-1.37	1.30-1.35
US\$/GBP	1.626	1.60-1.70	1.62-1.72	1.60-1.65	1.58-1.65
YEN/US\$	95.777	93-99	95-100	100-105	103-110
CHF/US\$	1.079	1.10	1.09	1.09	1.08



Euro

The euro has been on a gradual uptrend versus the US dollar over recent months, with sentiment underpinned by the prospects of an improvement in global economic conditions and evidence of increasing stability in financial markets rather than any real turnaround in terms of eurozone fundamentals. The dollar's position versus the euro has also been undermined by the extensive quantitative easing activities of the US central bank relative to those of the ECB.

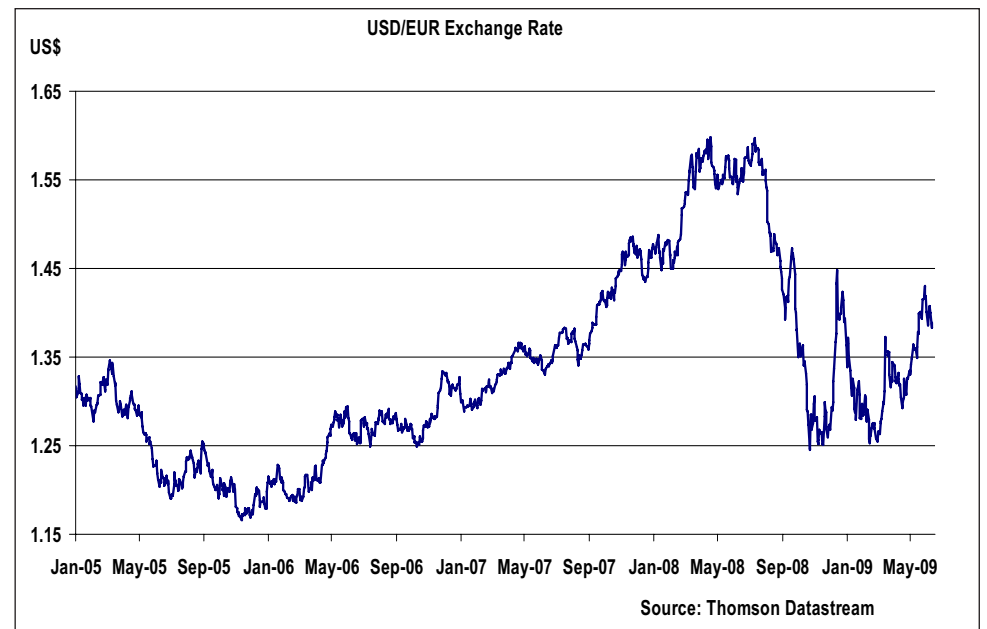
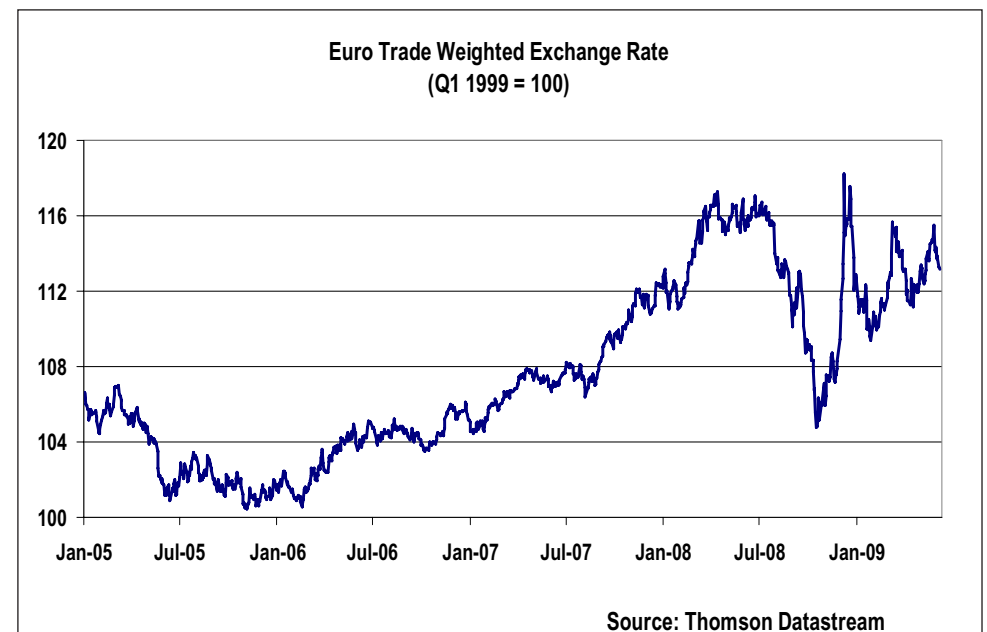
Although the ECB recently announced its intention to purchase up to €60 billion of euro denominated covered bonds, this sum equates to just 0.6% of eurozone GDP while the Fed plans to buy up assets equalling 12% of US GDP. However, the euro's rally appears to have run out of steam ahead of the \$1.45 level as markets focus once again on the outlook for the eurozone. Data releases increasingly suggest that the eurozone will lag behind both the US and the UK in terms of the recovery cycle.

As well as lingering concerns about the eurozone economy, currently overshadowing sentiment are worries about country risk (given the marked deterioration in public finance positions), the banking sector's exposure to Eastern Europe as well as the prospect that the ECB could yet have to extend its level of support to the economy. The dollar has also taken some comfort from comments from the G8 that its status as the world's number one reserve currency is unlikely to change in the near future.

At the same time, we expect the euro to remain relatively firm versus the dollar over the near term and anticipate a \$1.37-1.43 trading range over the summer. The euro hit lifetime highs of Stg0.9803p versus sterling in late 2008. Increasing evidence that the eurozone is facing huge economic challenges, and indeed, is likely to lag the UK in terms of any recovery has since taken it well off this level, with a yearly low of Stg0.8463 seen in mid June. Further appreciation by sterling is anticipated over the medium term as its recovery from oversold levels looks set to continue.

Key Forecasts

		Q2-2009	Q3-2009	Q4-2009	Q1-2010
US\$/EUR	1.393	1.37-1.43	1.35-1.42	1.32-1.37	1.30-1.35
GBP/EUR	0.856	0.83-0.87	0.80-0.85	0.80-0.85	0.78-0.83
YEN/EUR	133.37	128-138	130-140	130-140	135-145
PLN/EUR	4.540	4.45	4.30	4.10	4.00



Sterling

As one of the currencies worst hit by the global financial crisis, sterling suffered a marked depreciation last year, falling to lifetime lows versus the euro and multi year lows versus the USD and yen. Of late, however, the pound has been enjoying a rather impressive run versus other majors, with a series of yearly highs seen versus the USD, as well as a marked turnaround against the euro and yen.

Year to date dollar/sterling is up over 14%, while sterling has gained a respective 13% and 22.0% versus the euro and yen over the same period. The fact that the recent threat to PM Gordon Brown's political authority had only a limited negative impact suggests that sterling's recovery is well established and could have further to run.

Currently a risk sensitive currency, sterling has benefited from the general rise in investor appetite as the backdrop for the global economy improves and more particularly from increasing signs that the UK is pulling out of its worst downturn for decades. On the basis of recent survey and activity data, markets are anticipating a return to positive growth in Q3, which if it proves to be the case, would be a dramatic turnaround for an economy that contracted by nearly 2% in the first three months of the year.

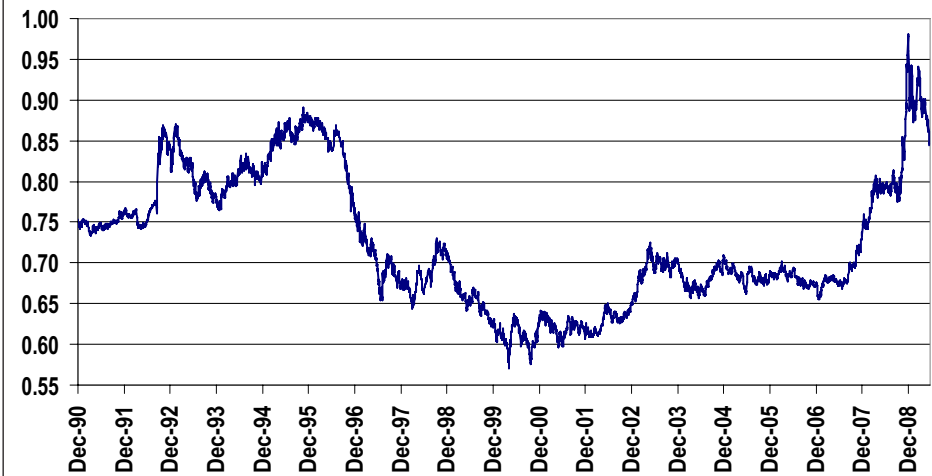
Furthermore, the disproportionate risks associated with the UK financial sector also appear to be easing, as reflected in a general pick-up in the demand for UK assets. Finally, data on speculative forex positions, which are still showing relatively high sterling short positions, also suggest that the currency has further to go.

That is not to say that sterling is now a one way bet versus the dollar and euro. Risks remain, particularly in relation to the political situation and the outlook for the public finances. Furthermore, while we anticipate further appreciation over the medium term, volatility is likely to remain high, as reflected in our trading ranges. At the same time, however, any near-term pull backs in sterling could prove good buying opportunities.

Key Forecasts

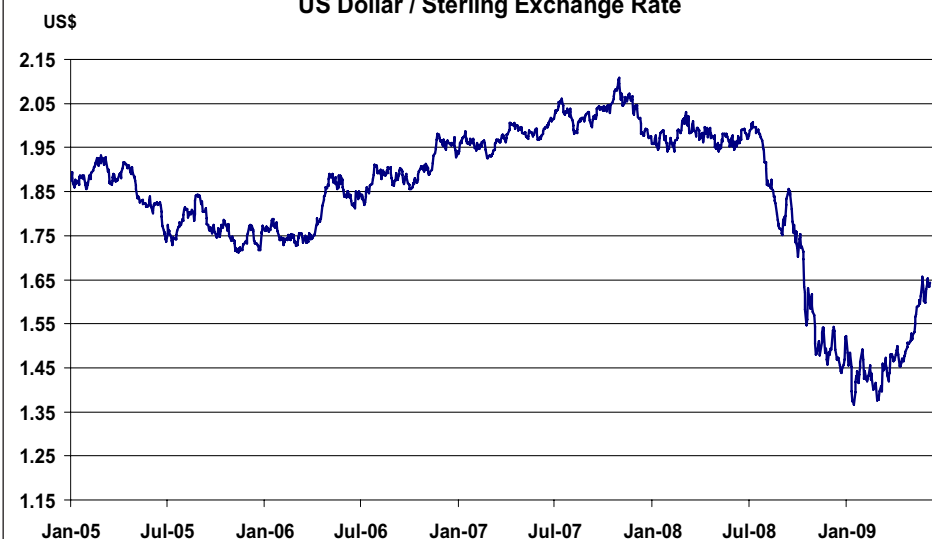
		Q2-2009	Q3-2009	Q4-2009	Q1-2010
GBP/EUR	0.856	0.83-0.87	0.80-0.85	0.80-0.85	0.78-0.83
US\$/GBP	1.626	1.60-1.70	1.62-1.72	1.60-1.65	1.58-1.65
YEN/GBP	155.74	158	164	167	175
CAD/GBP	1.845	1.86	1.90	1.79	1.81

Synthetic Sterling/Euro Exchange Rate (1990-2009)



Source: Thomson Datastream

US Dollar / Sterling Exchange Rate



Source: Thomson Datastream

Japanese Yen

In an environment of global deleveraging and heightened risk aversion, the yen appreciated markedly over 2008 and early 2009. It appreciated rapidly on the back of a reversal of carry trade positions and a flight to safe haven assets. Its perceived safe haven status was boosted by Japan's relatively healthy banking sector. Furthermore, Japan's current account surplus also made the yen an attractive investment choice in the then volatile and uncertain environment.

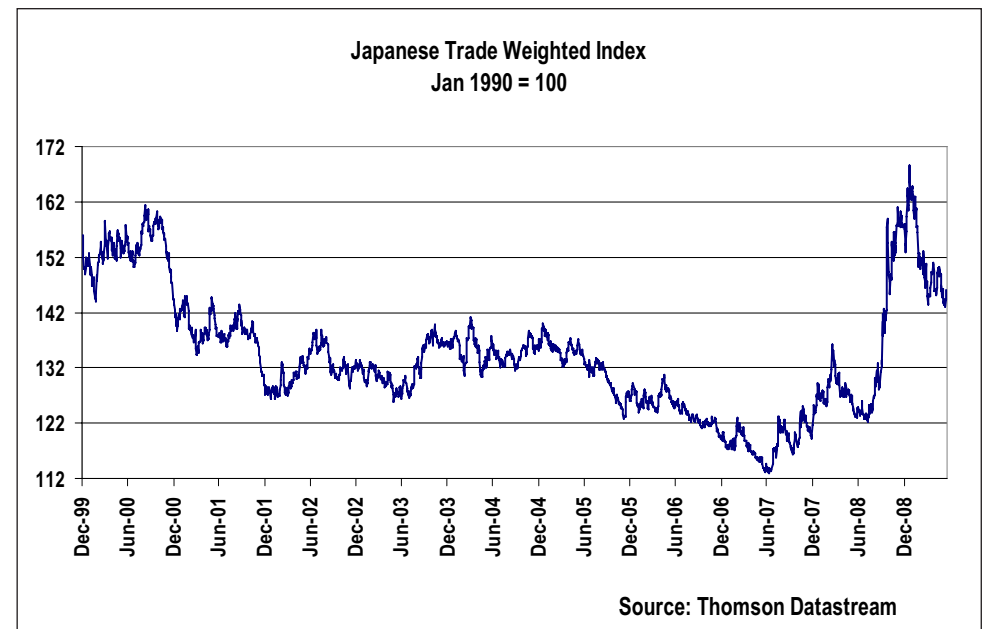
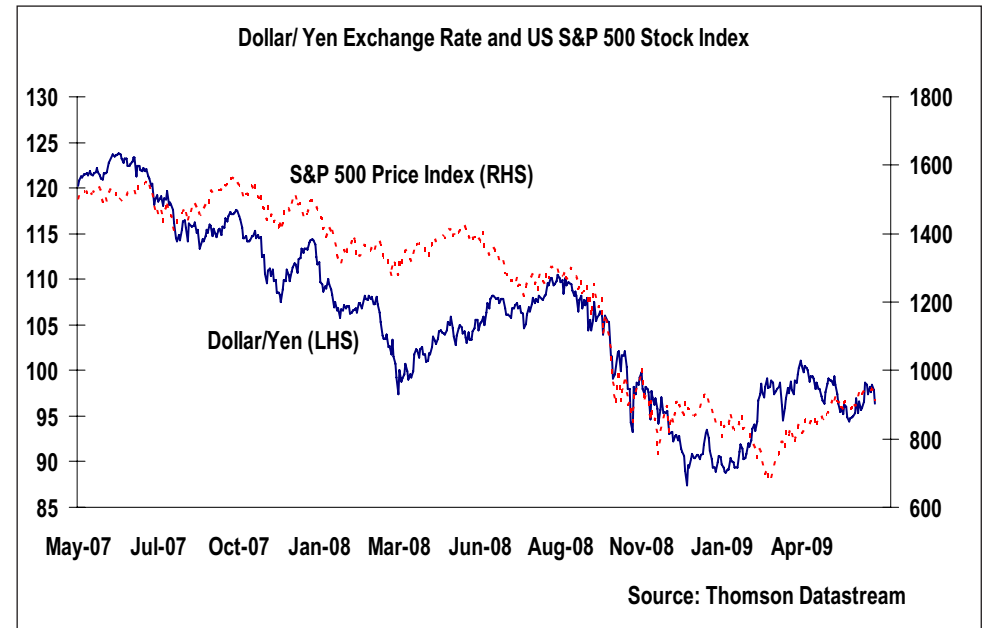
The yen has since reversed direction, with sentiment undermined by the fact that Japan has been more severely hit by the global downturn than any other industrialised nation. After contracting by 3.6% in Q4-2008, the economy shrank by another 3.8% in Q1, an annualised rate of 14.8% and more than twice the pace of contraction in the US. Japan's healthy current account surplus has vanished and external imbalances are now a negative for the currency. The yen has also been hit by the pick up in investor appetite as the outlook for the global economy stabilises.

From lows of Y87.15 seen in late January, the dollar has firmly held a Y94-100 range versus the yen over recent months, despite much volatility and a generally weaker US currency. Even if the USD were to slip further versus other majors, any yen rebound is likely to be limited given the poor fundamental outlook for the economy and talk of intervention to protect the traded sector. Meanwhile, the euro also continues to trade well off its lows. We anticipate a Y128-138 range for now, though the euro's own upside could be limited given the weak eurozone outlook.

Over the longer term, we expect the yen to retreat further versus other majors, as reflected in our forecasts. This is despite the fact that leading indicators suggest that the economy could rebound strongly in the second half of the year as global demand starts to pick up again. Interest rates look set to remain at 0.1% for some time, with the BoJ also likely to continue with QE activities for the foreseeable future.

Key Forecasts

		Q2-2009	Q3-2009	Q4-2009	Q1-2010
YEN/US\$	95.78	93-99	95-100	100-105	103-110
YEN/EUR	133.38	128-138	130-140	130-140	135-145
YEN/GBP	155.78	158	164	167	175



Key Events/Diary

Week 1 (15th - 19th June)

June 16th	UK	CPI (May)
	Eurozone	German ZEW Index (June)
	US	Industrial Production and Capacity Utilisation (May)
	US	PPI (May)
June 17th	UK	Unemployment (May)
	US	CPI (May)
June 18th	UK	Retail Sales (May)
	US	Philly Fed Activity Index (June)

Week 2 (22nd - 26th June)

June 23	Eurozone	Markit Flash Manuf & Services PMIs (June)
	US	Existing Home Sales (May)
June 24	US	Durable Goods (May)
	US	New Home Sales (May)
	US	FOMC Policy Announcement
June 25	US	GDP Q1 - Final Estimate
	US	Personal Income & Consumption (May)

Week 3 (29th June - 3rd July)

June 29	Eurozone	EC Business and Consumer Confidence (May)
	UK	Bank Consumer Lending (May)
June 30th	UK	GDP Q1 - Final Estimate
	Eurozone	Flash HICP (June)
	US	Consumer Confidence (June)
July 1	E-zone/UK/US	Markit Manufacturing PMIs/ISM (June)
	US	ADP Employment Report (June)
July 2	Eurozone	ECB Policy Announcement and Press Conference
	US	Non-Farm Payrolls (June)
	Eurozone	Unemployment (May)
July 3	E-zone/UK	Markit Services PMIs (June)

Week 4 (6th - 10th July)

July 6	US	Services ISM (June)
July 8	Eurozone	GDP Q1 - Final Estimate
July 9	UK	BoE Policy Announcement
July 10	US	Trade Balance (May)

All forecasts prepared by AIB's ERU.

Current (at time of writing) interest rates and exchange rates quoted in this document are sourced from Reuters.
The information in the Key Events/Diary is from publicly available sources.

Charts based on daily closing rates as provided by Thomson Datastream.

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