Exchange Rate Outlook

24th November 2009

- **Sentiment continues to be against the dollar**
- **But $1.50 proves a tough hurdle for the euro**
- **Sterling recovers as risk appetite improves**
- **Yen continues to benefit from weakened dollar position**

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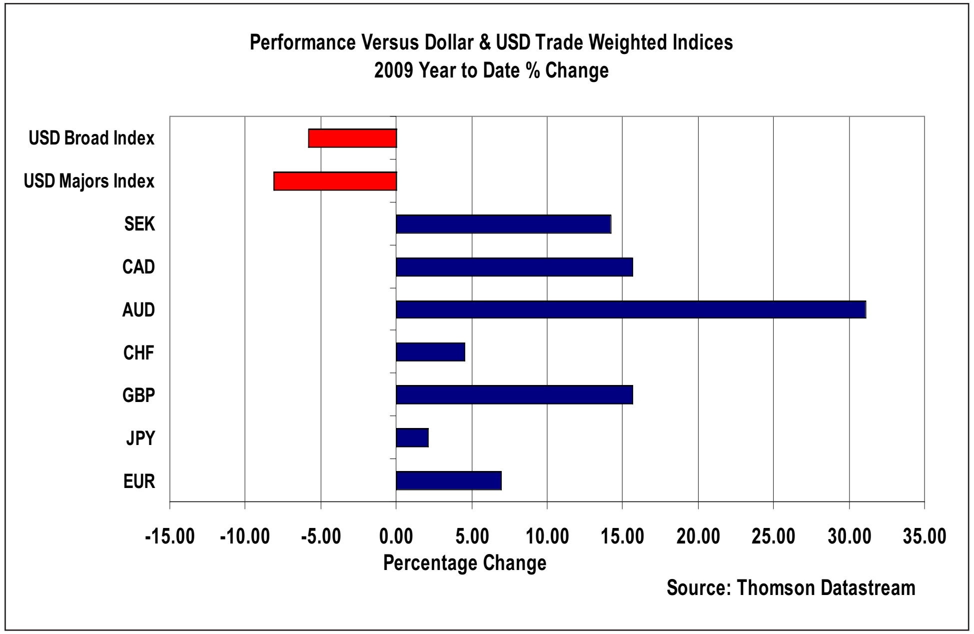
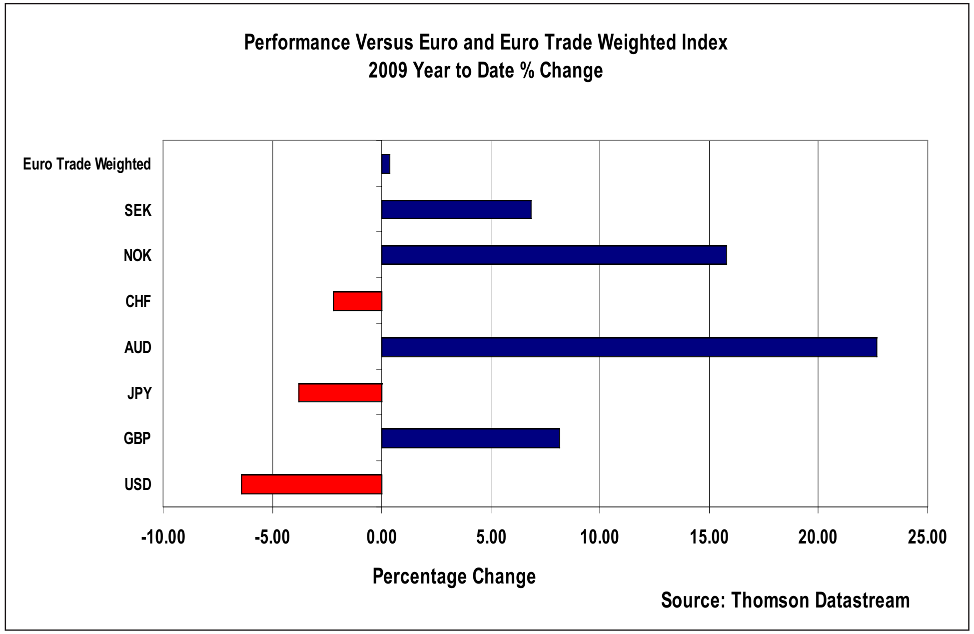
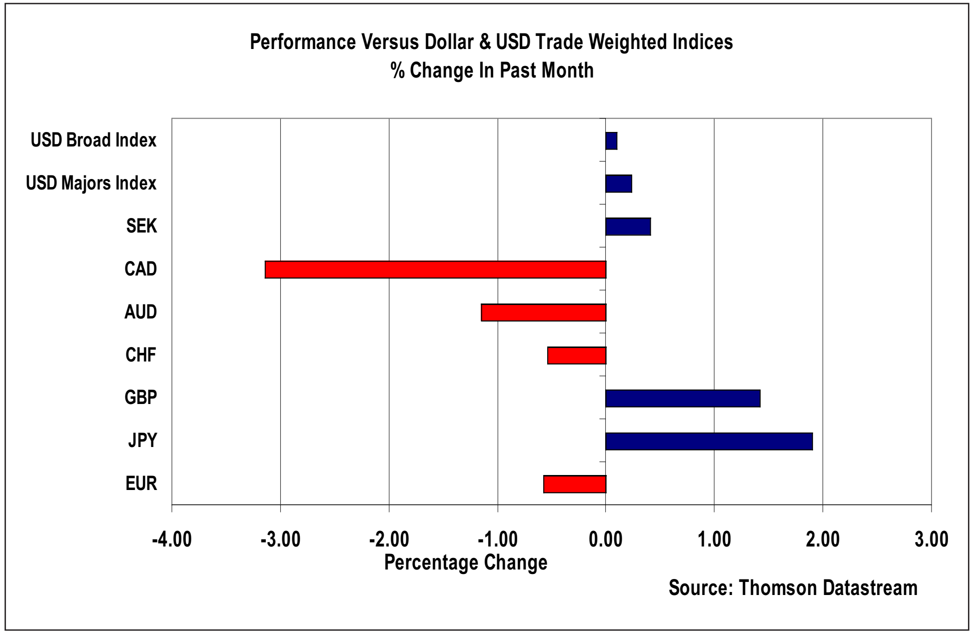
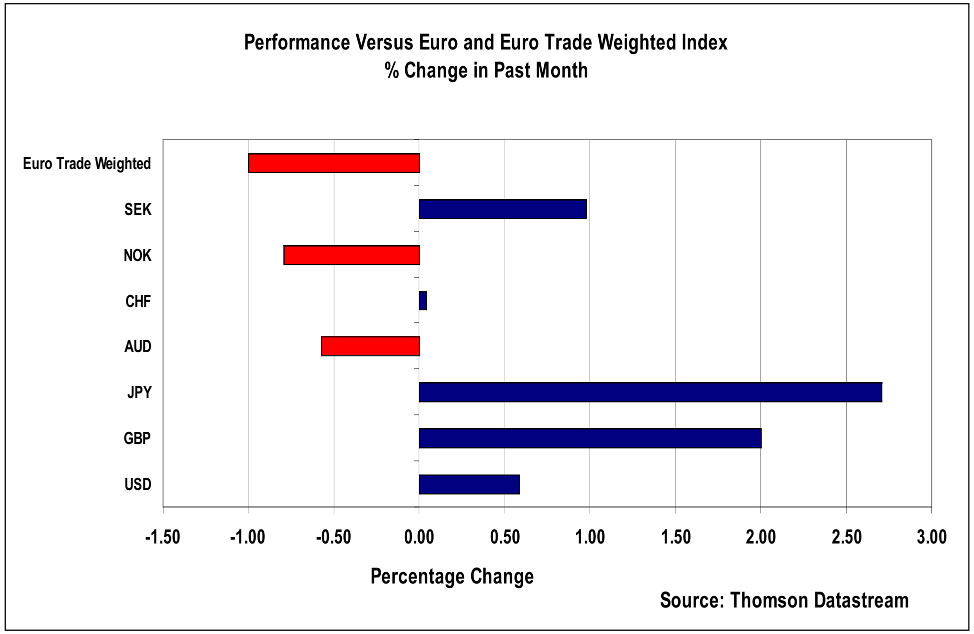
Key Currency Trends









Summary of Exchange Rate Forecasts

("Spot" Forecasts Represent Mid-Point of Expected Trading Range)

Euro Versus	Current	Q4-2009	Q1-2010	Q2-2010	Q3-2010
USD	1.487	1.46-1.52	1.45-1.50	1.43-1.48	1.40-1.45
GBP	0.899	0.88-0.92	0.88-0.92	0.87-0.91	0.85-0.89
JPY	132.13	127-137	132-142	132-142	135-145
PLN	4.15	4.10	3.95	3.90	3.90
HUF	268.61	265	270	273	275
NOK	8.41	8.35	8.30	8.10	8.10
SEK	10.32	10.15	10.00	9.90	9.80
AUD	1.63	1.62	1.62	1.62	1.60
NZD	2.05	2.01	1.99	1.99	1.98
US Dollar Versus					
JPY	88.86	86-92	92-97	95-100	95-100
GBP	1.655	1.63-1.68	1.62-1.67	1.58-1.68	1.58-1.68
CHF	1.02	1.02	1.05	1.06	1.07
CAD	1.07	1.05	1.07	1.07	1.07
AUD	0.91	0.92	0.91	0.90	0.89
NZD	0.73	0.74	0.74	0.73	0.72
CNY	6.83	6.82	6.80	6.80	6.80
Sterling Versus					
JPY	147	147	152	154	160
CAD	1.77	1.74	1.75	1.75	1.75
AUD	1.81	1.80	1.80	1.82	1.84
NZD	2.28	2.24	2.21	2.24	2.27

Interest Rate Outlook

Central banks across the world cut official rates aggressively to help ease the crisis that gripped the world's financial system and counter what has proved a very deep global recession. Meanwhile, inflation has fallen close to, or below, zero in many countries. Given the continuing tight credit conditions, high and rising unemployment, uncertainty about the strength and durability of the current pick up in activity as well as subdued inflation, we believe that the current very low official interest rates environment will last for a considerable time. While some smaller economies have raised rates, we do not see the four main central banks hiking until late 2010 or even 2011.

Fed Rates To Stay Close On 0% For A Long Time

With inflation falling sharply and the economy in 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. The Fed pursued quantitative easing measures this year, in particular substantial purchases of Treasuries and mortgage securities, to help stimulate the economy and aid financial markets.

With the unemployment rate having breached 10% and the US economic recovery likely to prove fragile, as well as very subdued inflation, the current exceptionally low level of the Fed funds rate can be expected to remain in place until late 2010 or even into 2011.

ECB Refi Rate Very Much On Hold At 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 the previous October. An official rate of 1.0% represents an historical low for the eurozone but it is expected to be the trough in this cycle.

The ECB is not in any hurry to hike rates even though the economy is now out of recession. It has repeatedly said that the refi rate is at an appropriate level. We do not expect that the ECB will consider raising the refi rate until H2 2010, with inflation expected to remain very low, unemployment at high levels and rising, and given the considerable doubts about the sustainability of the economic upswing.

UK Extends Quantitative Easing

The Bank of England cut its key lending rate to 0.50% in March. As official rates are now at ultra low levels, the focus has switched to quantitative easing measures. In this regard, the BoE announced after its November meeting that it was increasing the size of its asset purchases by a further £25 billion to £200 billion. With inflation forecast to remain below 2%, unemployment high and rising, and the economic recovery likely to prove anemic, policy is set to remain very accommodative well into next year. We do not see any rate hikes before late 2010.

US Interest Rate Forecasts (to end quarter)

	Fed Funds	3 Mth	1 Year	2 Year *	5 Year *
Current	0.125	0.26	1.02	1.04	2.46
Dec '09	0.125	0.30	1.10	1.10	2.50
Mar '10	0.125	0.40	1.20	1.25	2.65
Jun '10	0.125	0.50	1.30	1.40	2.80

** 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	0.68	1.22	1.75	2.74
Dec '09	1.00	0.75	1.30	1.80	2.80
Mar '10	1.00	0.80	1.40	1.90	2.90
Jun '10	1.00	1.00	1.60	2.10	3.10

** 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	0.61	1.21	1.74	3.11
Dec '09	0.50	0.60	1.20	1.75	3.10
Mar '10	0.50	0.75	1.30	1.90	3.30
Jun '10	0.50	0.90	1.50	2.10	3.50

** Swap Forecasts Beyond 1 Year*

US Dollar

The dollar remains on the defensive versus other majors as investors show a preference for riskier assets over the safe haven currency. Indeed, the USD saw fresh yearly lows versus the euro once again this month on the back of the general improvement in risk appetite. Losses have also been seen versus the JPY as talk of reserve currency diversification, in addition to higher oil prices and commodities generally, also weigh on the USD. Even sterling, which remains vulnerable on concerns about the UK economy is back trading around the $1.65/1.66 level.

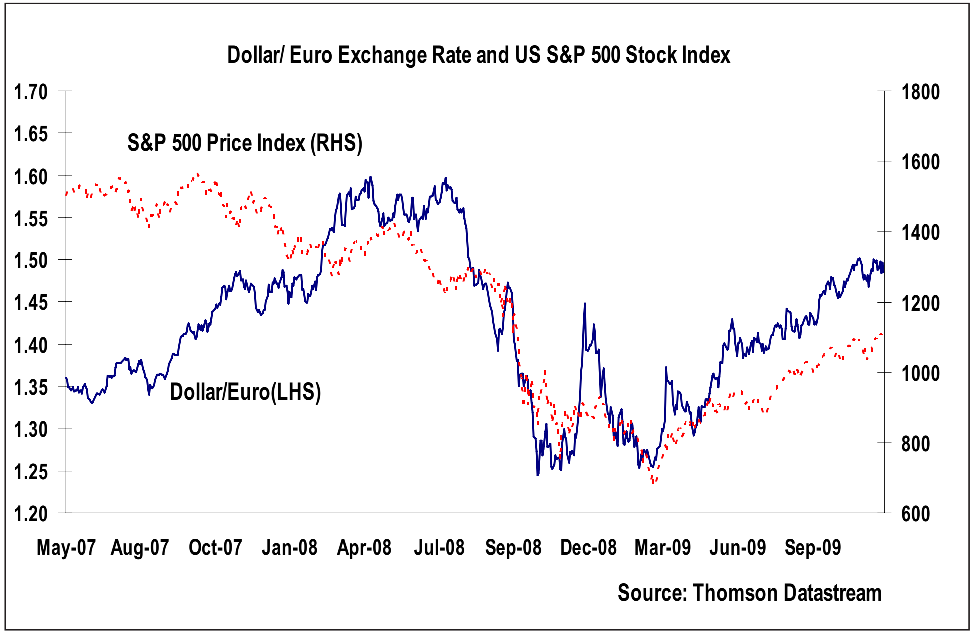
As well as a pick up in risk appetite, the dollar is also being undermined by the ultra accommodative stance of US monetary policy. In its most recent statement, the Fed remained guarded in terms of its outlook for the US, reiterating its intention of keeping interest rates low for an "extended period". With data in all developed economies pointing to improved conditions, the timing of global monetary policy tightening has become an increasingly important factor for forex markets. Expectations for the Fed relative to other central banks are currently dollar negative.

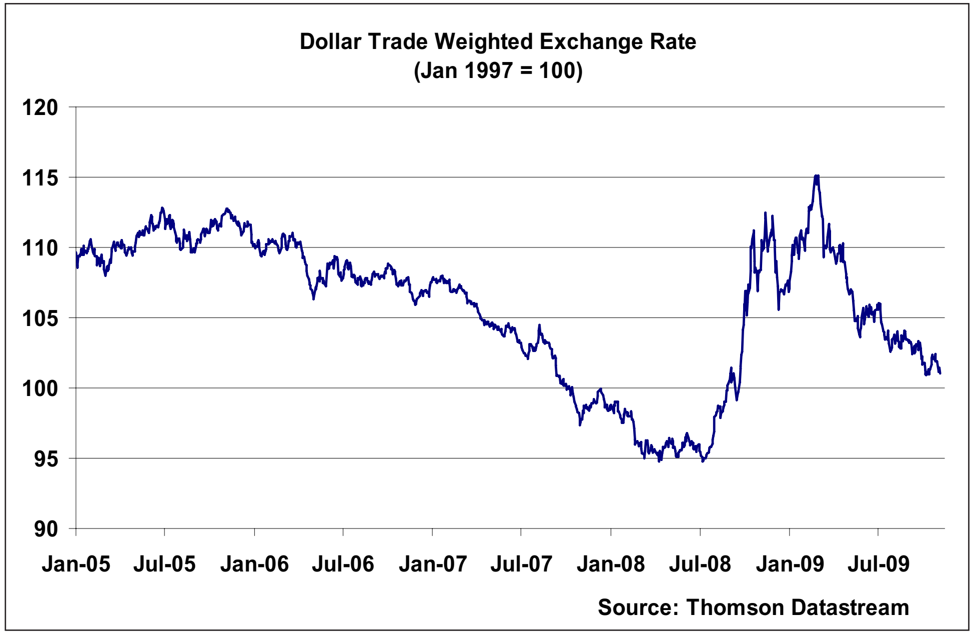
Market sentiment, as well as the increasing focus on interest rate differentials, could keep the dollar on the back foot over the coming months, not only versus other majors like the euro and yen, but also against currencies like the AUD. Even if current forex trends were undermined by a renewed pick up in risk aversion (as seen in forex moves over recent days) or dollar supportive rhetoric from global central bankers, the increasing search for yield in a more confident global marketplace is likely to continue to weigh on the dollar.

Longer term, we still see scope for a modest recovery in the dollar. The US economy is well advanced in terms of the business cycle and the dollar should eventually benefit from any build up of speculation of a tightening in US monetary policy. Meanwhile, the rebalancing in terms of global demand suggests that the US balance of payments position is also likely to be less dollar negative going forward.

Key Forecasts

		Q4-2009	Q1-2010	Q2-2010	Q3-2010
US$/EUR	1.487	1.46-1.52	1.45-1.50	1.43-1.48	1.40-1.45
US$/GBP	1.655	1.63-1.68	1.62-1.67	1.58-1.68	1.58-1.68
YEN/US$	88.838	86-92	92-97	95-100	95-100
CHF/US$	1.017	1.02	1.05	1.06	1.07





Euro

The euro remains in an uptrend versus the dollar, as sentiment continues to be underpinned by the general improvement in risk appetite. This improvement in sentiment is diverting resources away from the safe haven dollar towards more risk sensitive and relatively higher yielding currencies like the EUR. As well as that, further evidence of a recovery in the eurozone economy, including Q3's positive GDP numbers, is also lending support to the euro.

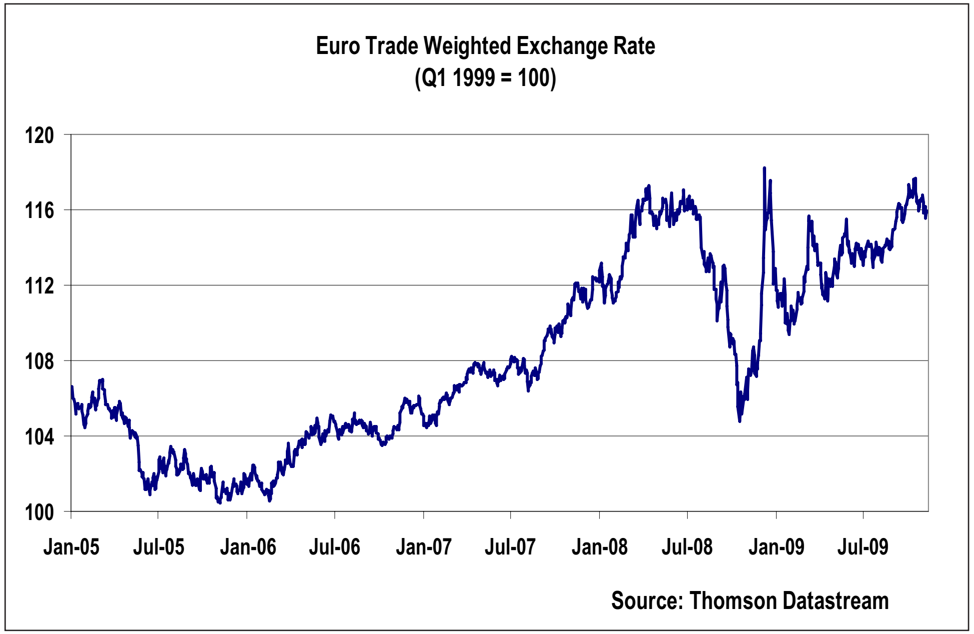
The USD's position versus the euro is also being undermined by expectations that the Fed will be behind the ECB in terms of increasing interest rates from emergency levels. Generally positive risk sentiment, as well as interest rate expectations, should keep the euro firm versus the dollar near term and we anticipate a $1.46-1.52 trading range to year end. Upside momentum beyond the $1.50 level, however, could prove difficult as markets bear in mind recent remarks from the ECB suggesting that the central bank is keen to prevent a marked rise in the euro.

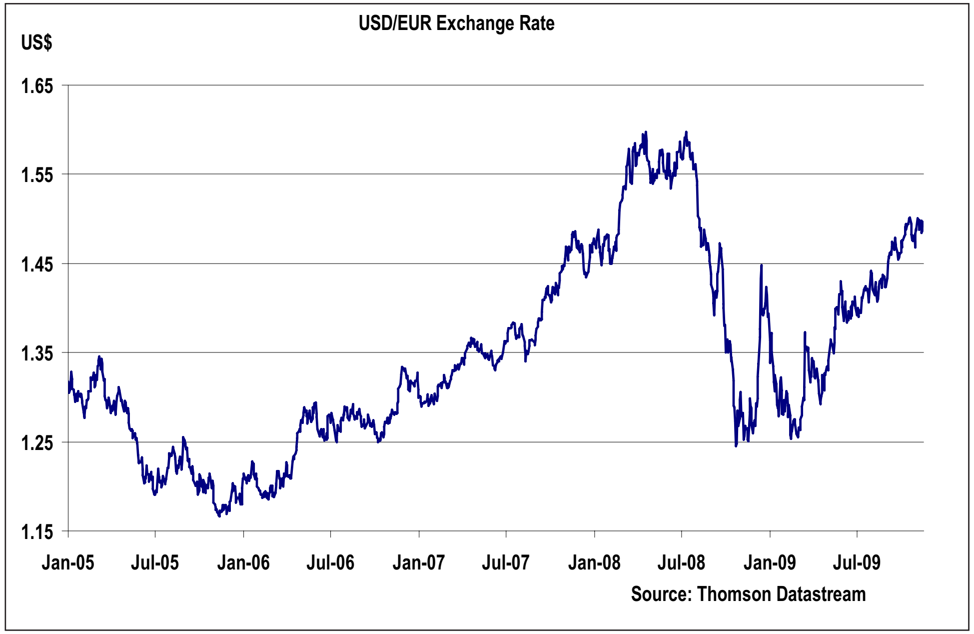
Over the longer term, we continue to see scope for a modest recovery in the dollar as the improvement in the US economy and expectations of an eventual move by the Fed towards normalising interest rates provide some support. However, even in this environment, upside potential for the US currency looks to be limited and a relatively weak dollar could well continue to be the trend for forex markets going into 2010.

Just last month the euro was trading around the Stg0.93/94p versus sterling following the GBP's sell off on the back of disappointing UK data, an anticipation of a further extension of the BoE's quantitative easing activities and undermining comments from the BoE's King. Sterling has since recovered to trade back around the Stg0.90p, finding some relief in the MPC's announcement that it was extending its QE by just Stg25bln, as well as the general improvement in risk appetite. However, sterling remains vulnerable and we expect the GBP/EUR rate to trade in a Stg0.88-0.92p range to year end.

Key Forecasts

		Q4-2009	Q1-2010	Q2-2010	Q3-2010
US$/EUR	1.487	1.46-1.52	1.45-1.50	1.43-1.48	1.40-1.45
GBP/EUR	0.899	0.88-0.92	0.88-0.92	0.87-0.91	0.85-0.89
YEN/EUR	132.12	127-137	132-142	132-142	135-145
PLN/EUR	4.151	4.10	3.95	3.90	3.90





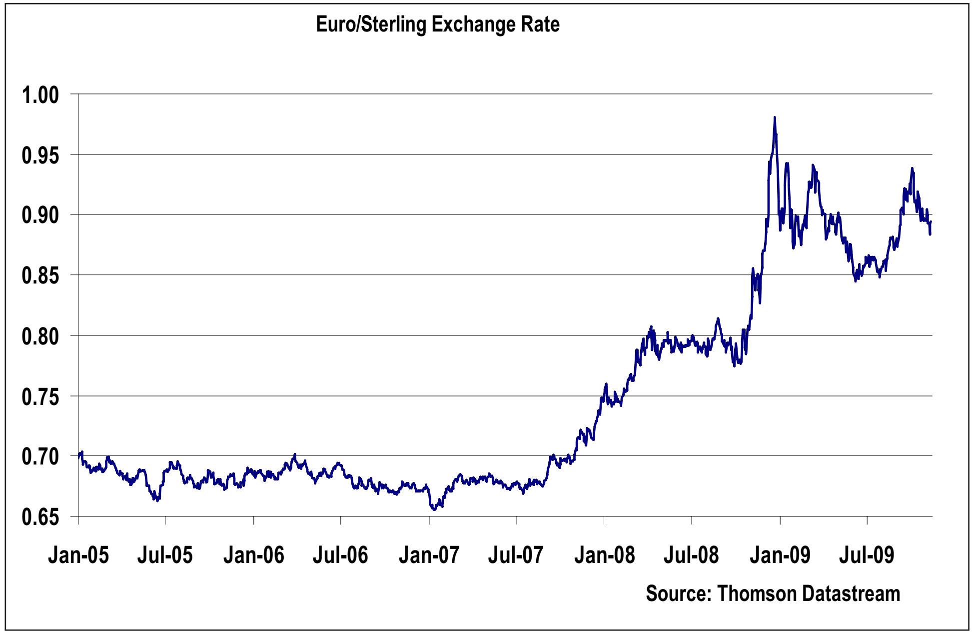
Sterling

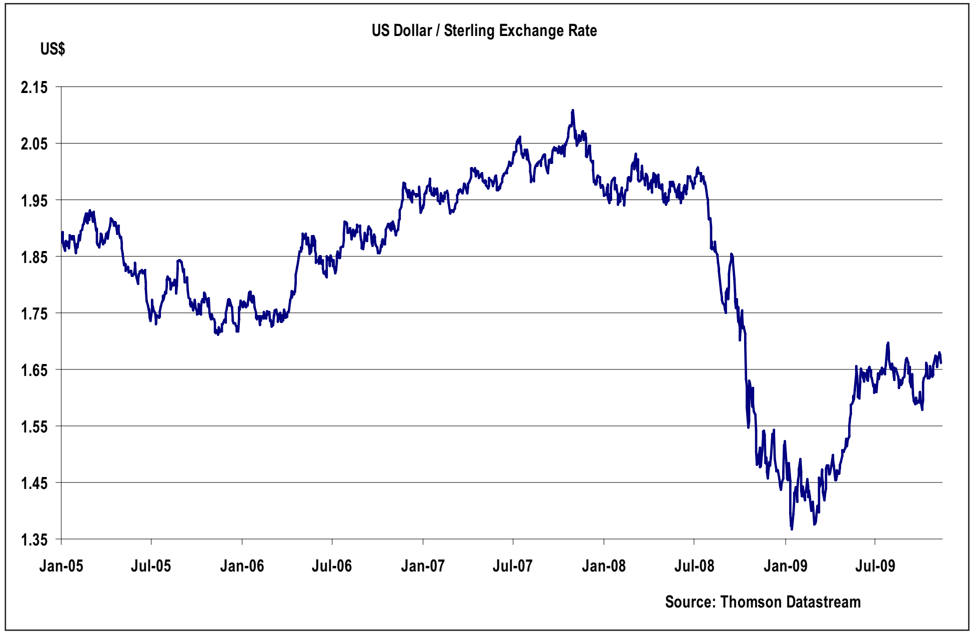
As one of the currencies worst hit by the global financial crisis, sterling suffered a marked depreciation last year, falling to lifetime lows versus the euro and multi year lows versus the USD and yen. It went on to recover considerable ground to mid 2009, with a series of yearly highs seen versus the USD over June, as well as a marked recovery against the euro and yen. However, sterling's recovery stalled as traders took a more cautious view with regard to the underlying prospects for the UK economy, which is clearly lagging the US and the eurozone in terms of the recovery cycle.

Investors are also negative on sterling in relation to the ultra accommodative stance of the BoE, which voted to extend its QE activities by a further Stg25bln to Stg200bln at its November meeting. The central bank has also indicated on a number of occasions that it is comfortable with the 20% depreciation seen in sterling's trade weighted index over the past two years, viewing the improvement in competitiveness as an important part of the policy mix required for economic recovery. As well as that, there are serious (and growing) concerns about the UK public finances.

Having said all that, sterling has staged an impressive bounce back versus the dollar and euro over recent weeks. This recovery, which has driven the GBP/EUR rate back to the Stg0.90p level, while cable is trading around $1.65, appears to be largely a technical one resulting from an improvement in general risk appetite as nothing regarding the fundamental outlook for the UK has changed.

This leaves sterling vulnerable to fresh selling before year end, particularly versus the euro with resistance currently in place at Stg0.88p. The minutes of the November MPC meeting show that the BoE is open to the idea of additional stimulus, having discussed the idea of cutting the rate of interest on bank reserves. The MPC, however, indicated it would not consider extending policy again until February when the central bank does its next set of economic forecasts, leaving sterling open to volatility ahead of this.





Key Forecasts

		Q4-2009	Q1-2010	Q2-2010	Q3-2010
GBP/EUR	0.898	0.88-0.92	0.88-0.92	0.87-0.91	0.85-0.89
US$/GBP	1.655	1.63-1.68	1.62-1.67	1.58-1.68	1.58-1.68
YEN/GBP	147.05	147	152	154	160
CAD/GBP	1.766	1.74	1.75	1.75	1.75

Japanese Yen

In an environment of global deleveraging and heightened risk aversion, the yen appreciated markedly over 2008 and early 2009 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.

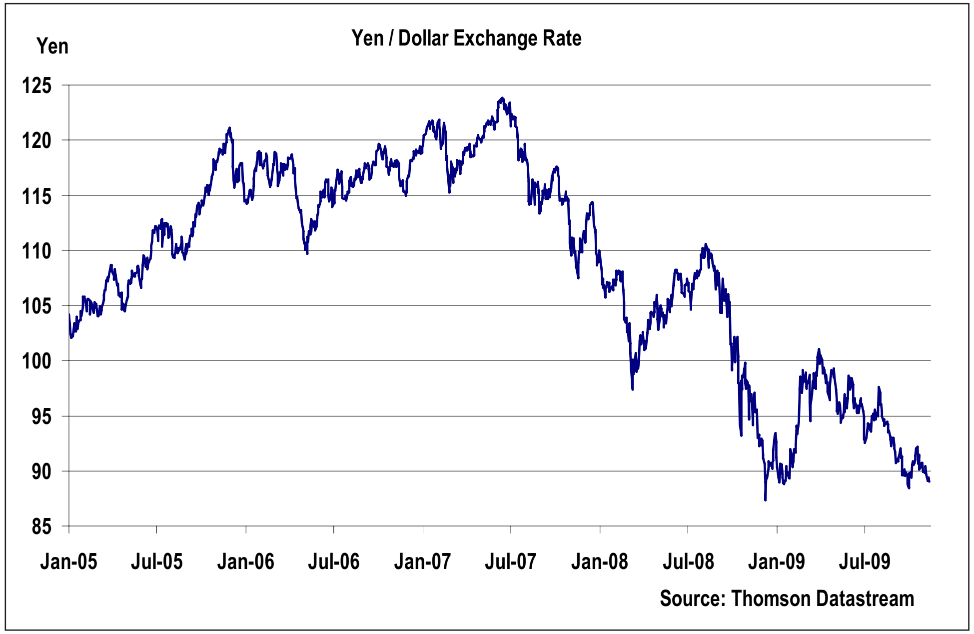
The yen then reversed direction, with sentiment undermined by the fact that Japan was more severely hit by the global downturn than any other industrialised nation. As a result of a sharp fall off in world trade, its healthy current account surplus vanished and external imbalances were no longer a supporting factor for the currency. As the year progressed, the yen was also hit by a pick up in investor risk appetite as the outlook for the global economy started to stabilise.

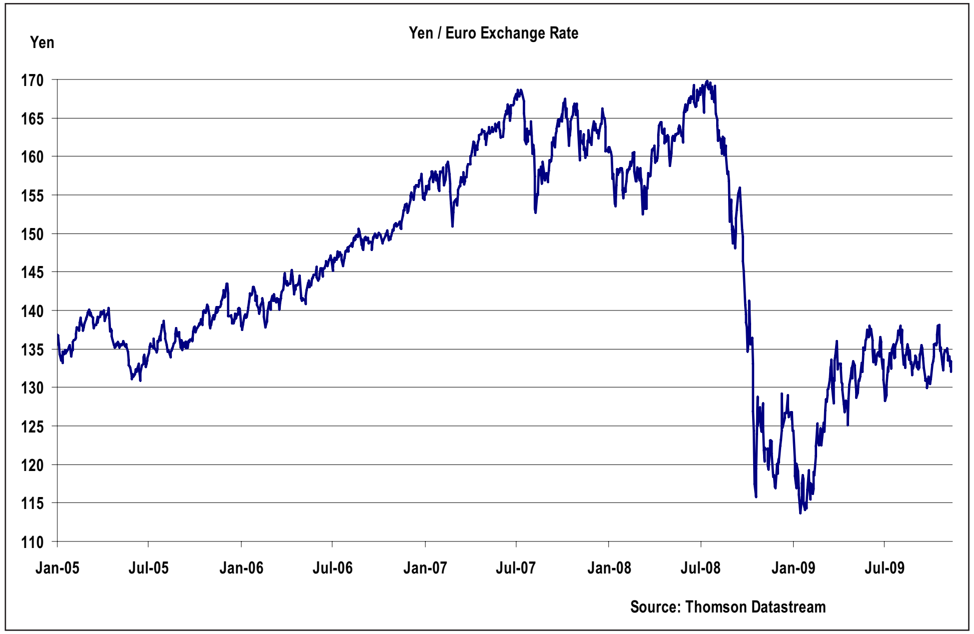
While year to date, the euro is well up on its earlier lows versus the yen, trading has been confined to very tight ranges over the past quarter. Strong resistance is seen at the Y137 level, as the yen itself is supported b the general sell-off in the dollar, as well as confirmation of a return to growth in the Japanese economy. Thus, we anticipate a Y127-137 trading range to year end.

Meanwhile, versus the dollar, from highs of Y87.15 seen in late January, the yen moved lower to hold a tight range centred on Y95 over much of the summer months. It has since broken into higher ground as the US currency has come under fresh downward pressure. With Y88 under renewed pressure, the expectation is that the USD will slip further near term, though marked yen appreciation is unlikely given talk of intervention from the Bank of Japan. The currency is already viewed as overvalued versus the USD, a cause for concern, as with domestic demand still weak, the Japanese economy is heavily reliant on the traded sector to lift it further out of recession.

Key Forecasts

		Q4-2009	Q1-2010	Q2-2010	Q3-2010
YEN/US$	88.86	86-92	92-97	95-100	95-100
YEN/EUR	132.13	127-137	132-142	132-142	135-145
YEN/GBP	147.04	147	152	154	160





Australian Dollar/ New Zealand Dollar

The AUD and NZD came under strong selling pressure during the height of the global financial crisis, with projections for a weak global economy hitting the commodity driven currencies. A sharp reversal of carry trade plays on the back of a move to safe haven assets also impacted negatively. Both the AUD and NZD carried significant interest rate premiums going into the crisis, with official interest rates at a respective 7.25% and 8.25% at mid 2008. However, rates were subsequently slashed to historically low levels of 3.0% and 2.5%.

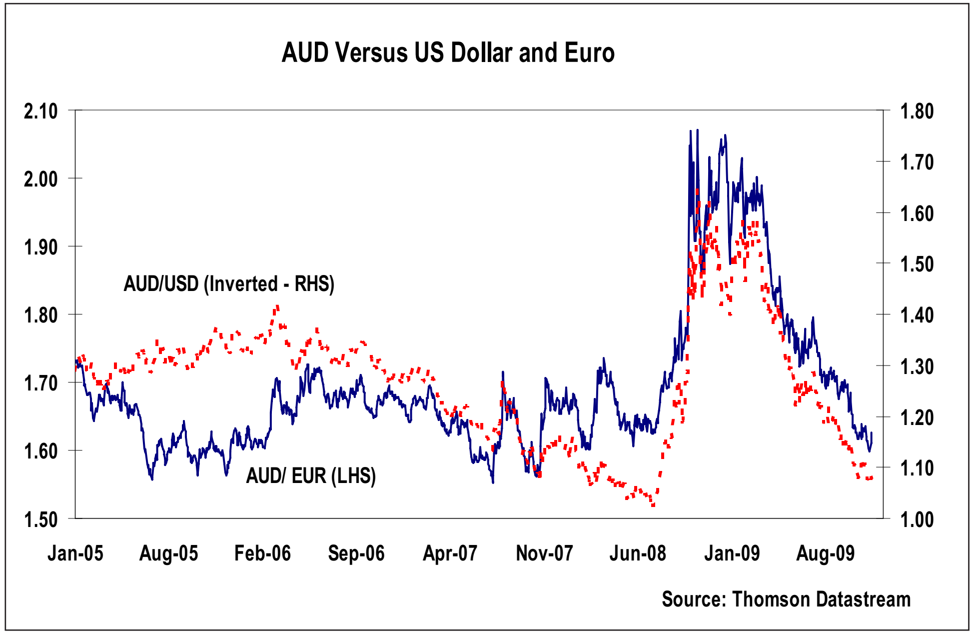
As the worst of the global economic news proves to be behind us, commodity prices have trended upwards, as has investor appetite for riskier currencies like the AUD and NZD. Furthermore, Australia proved to be one of a handful of economies that avoided recession, in large part due to the successful implementation of a fiscal stimulus measures. New Zealand did fall into recession but indicators show that the economy is moving into a recovery cycle.

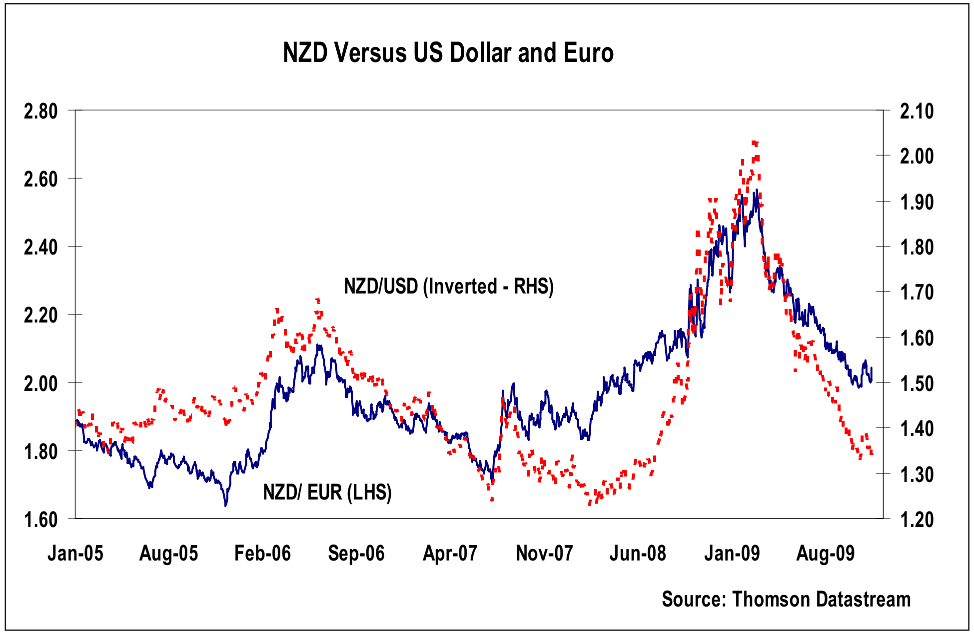
The pair's recovery was further cemented by the announcement from the Reserve Bank of Australia on 6th October that, in response to a better than anticipated domestic economic outturn, it was raising interest rates by 0.25% to 3.25%, making it one of the first developed economies to reverse the emergency monetary policy action delivered during the financial crisis. Rates were increased by a further 0.25% in November.

Near-term, the AUD and NZD look set to continue trending upwards, particularly versus the USD. Sentiment will be underpinned by a number of factors, not least of which is the positive correlation between the currencies and the improving global economic cycle. Widening interest rate spreads should also be supportive, with markets pricing in further tightening from the RBA early next year. Although New Zealand is behind in terms of its economic performance, the earlier than anticipated rate hike from the RBA has affirmed market expectations for a rate hike by the RBNZ by the middle of next year.

Key Forecasts

		Q4-2009	Q1-2010	Q2-2010	Q3-2010
AUD/USD	0.914	0.92	0.91	0.90	0.89
NZD/USD	0.727	0.74	0.74	0.73	0.72
AUD/EUR	1.63	1.62	1.62	1.62	1.60
NZD/EUR	2.047	2.01	1.99	1.99	1.98





Key Events/Diary

Week 1 (23rd - 27th November)

Nov 23th	US	Existing Home Sales (October)
	Eurozone	**Flash Manufact & Services PMIs (November)**
Nov 24th	Germany	Ifo Business Survey (November)
	US	**Q3 GDP - 2nd Estimate**
	US	Consumer Confidence (November)
Nov 25th	**UK**	**Q3 GDP - 2nd Estimate**
	US	Personal Income and Spending (October)
	US	New Home Sales (October)
Nov 27th	Eurozone	EC Sentiment & Activity Surveys (November)

Week 2 (30th November - 4th December)

Dec 1st	**US/UK/E-zone**	**Markit Manufacturing PMIs/ISM (November)**
Dec 2nd	US	ADP Employment Report (November)
	US	Fed Beige Book
Dec 3rd	**Eurozone**	**ECB Policy Announcement & Press Conference**
	US/UK/E-zone	**Markit Services PMIs/ISM (November)**
Dec 4th	**US**	**Non-Farm Payrolls (November)**

Week 3 (7th - 11 December)

Dec 8th	UK	Industrial Production (October)
Dec 9th	Japan	Q3 GDP - 2nd Estimate
	UK	**Pre-Budget Report 2010**
	Ireland	**Budget 2010**
Dec 10th	**UK**	**BoE Policy Announcement**
		Unemployment Report (November)
Dec 11th	UK	Producer Prices (November)
	US	Retail Sales (November)
		Michigan Sentiment Survey (December)

Week 4 (14th - 18th December)

Dec 14th	Japan	Tankan Survey (Q4)
Dec 15th	UK	Consumer Prices (November)
	US	Industrial Production (November)
Dec 16th	US	Consumer Prices (November)
	US	Current Account (Q3)
	US	**Fed Policy Announcement**

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. Charts based on daily closing rates as provided by Thomson Datastream. The information in the Key Events/Diary is from publicly available sources.

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