



Exchange Rate Outlook

20th April 2010

- **Dollar benefits from market uncertainty**
- **Sovereign risk continues to weigh on euro**
- **Sterling volatile on pre election uncertainty**
- **Market sentiment continues to drive the yen**

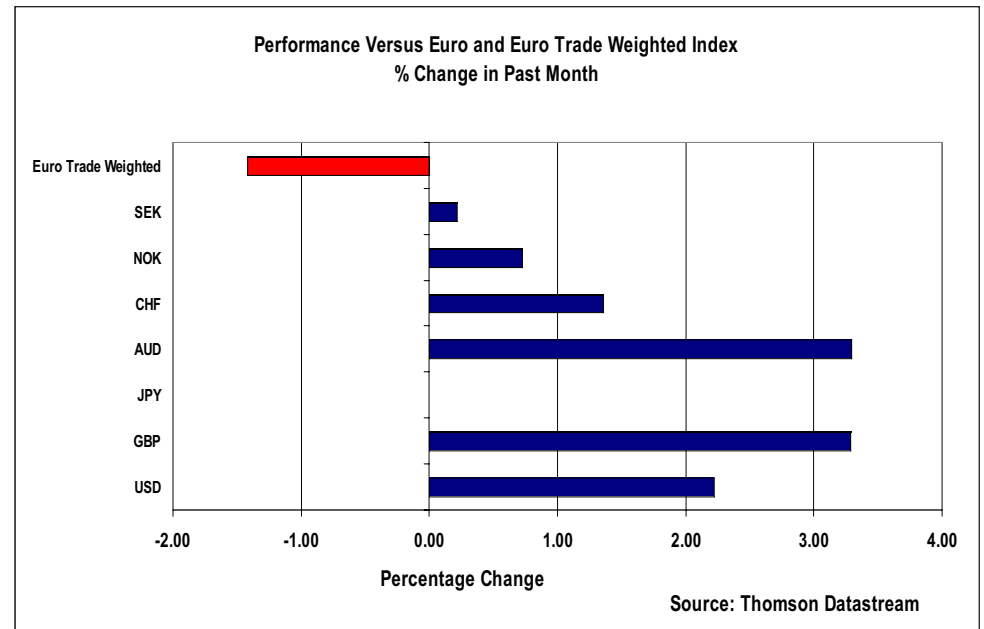
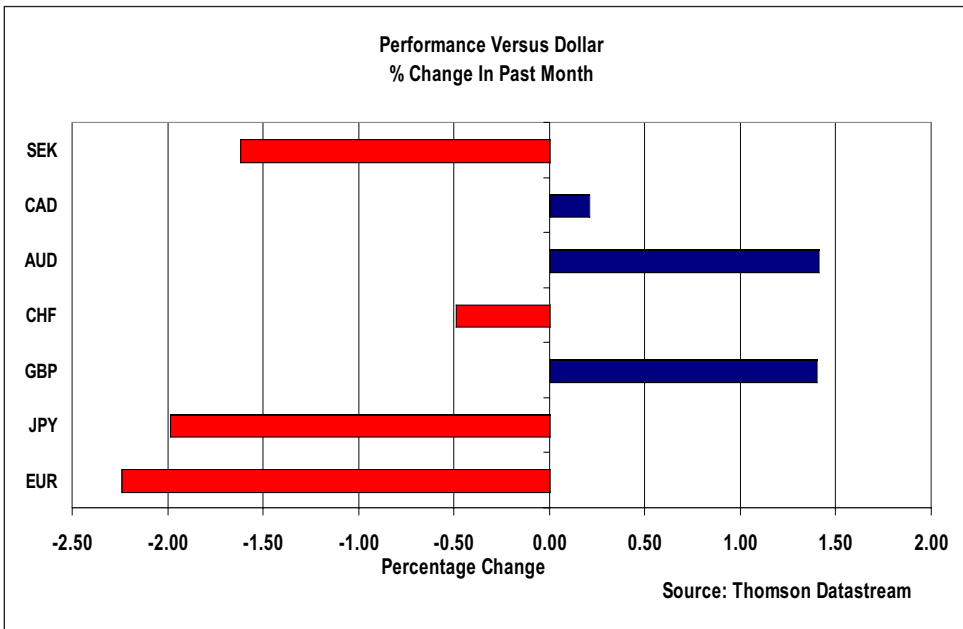
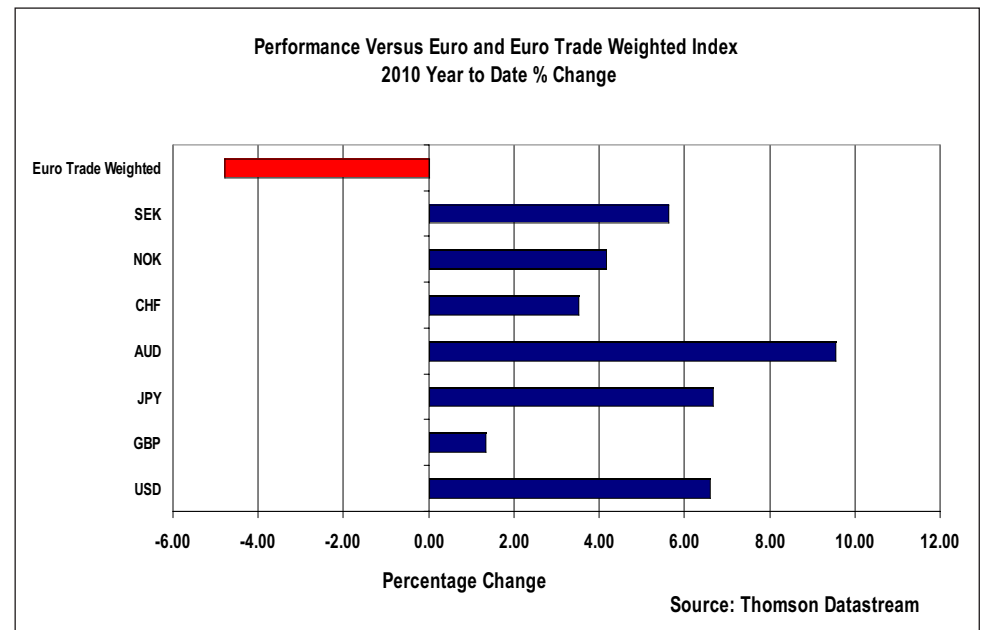
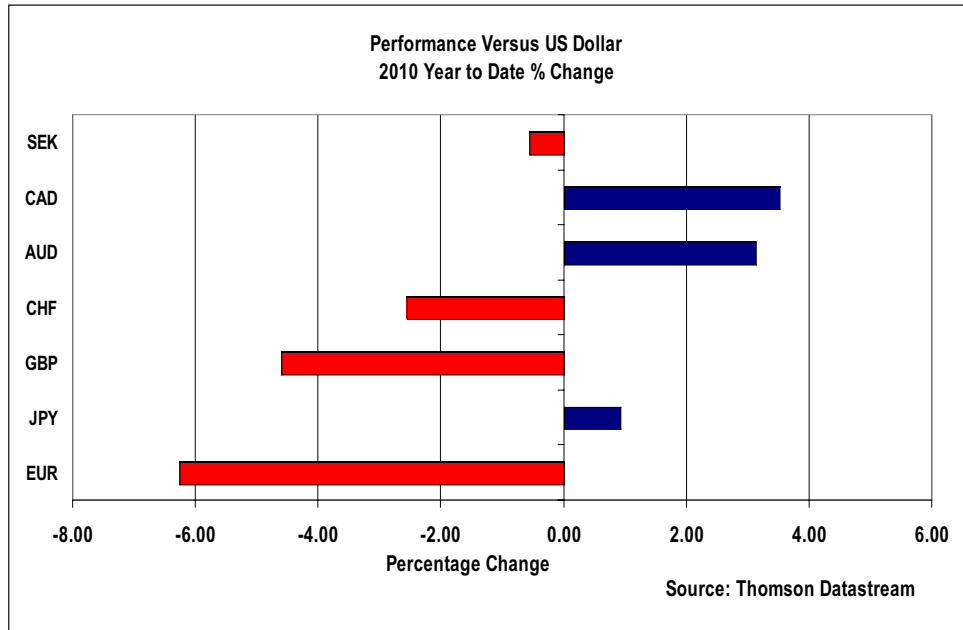
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Key Currency Trends



Summary of Exchange Rate Forecasts

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

| | Current | Q2-2010 | Q3-2010 | Q4-2010 | Q1-2011 |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| Euro Versus | | | | | |
| USD | 1.344 | 1.33-1.38 | 1.34-1.39 | 1.35-1.40 | 1.37-1.42 |
| GBP | 0.883 | 0.87-0.91 | 0.85-0.90 | 0.85-0.90 | 0.83-0.88 |
| JPY | 123.43 | 120-130 | 123-133 | 130-140 | 135-145 |
| PLN | 3.90 | 3.83 | 3.78 | 3.73 | 3.70 |
| HUF | 265.05 | 262 | 262 | 260 | 260 |
| NOK | 8.00 | 8.00 | 7.90 | 7.80 | 7.70 |
| SEK | 9.72 | 9.60 | 9.50 | 9.45 | 9.40 |
| AUD | 1.47 | 1.49 | 1.52 | 1.54 | 1.59 |
| NZD | 1.90 | 1.94 | 2.01 | 2.02 | 2.08 |
| US Dollar Versus | | | | | |
| JPY | 91.85 | 90-95 | 92-97 | 95-100 | 98-103 |
| GBP | 1.523 | 1.50-1.60 | 1.55-1.65 | 1.55-1.65 | 1.58-1.68 |
| CHF | 1.07 | 1.06 | 1.07 | 1.07 | 1.09 |
| CAD | 1.02 | 1.00 | 1.03 | 1.05 | 1.07 |
| AUD | 0.92 | 0.91 | 0.90 | 0.89 | 0.88 |
| NZD | 0.71 | 0.70 | 0.68 | 0.68 | 0.67 |
| CNY | 6.83 | 6.82 | 6.81 | 6.80 | 6.79 |
| Sterling Versus | | | | | |
| JPY | 140 | 141 | 147 | 153 | 164 |
| CAD | 1.55 | 1.52 | 1.61 | 1.65 | 1.75 |
| AUD | 1.66 | 1.67 | 1.73 | 1.77 | 1.85 |
| NZD | 2.16 | 2.17 | 2.29 | 2.31 | 2.44 |

Interest Rate Outlook

During the height of the global financial crisis, central banks across the world cut official rates to exceptionally low levels to help counter what proved to be a very deep global recession. Meanwhile, inflation fell close to, or below, zero in many countries. Given the continuing tight credit conditions, high 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 rate environment will last for a considerable time. While some smaller economies have started tightening policy, we do not see the four main central banks hiking rates until early 2011.

Fed Funds 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 in December 2008, adopting a 0 - 0.25% target range for the Fed funds rate. It also pursued quantitative easing measures last year, conducting substantial purchases of Treasuries and mortgage securities, to help stimulate the economy and aid financial markets. The US is now out of recession. However, with the unemployment rate having reached 10% and the current pace of US economic growth unlikely to be sustained, as well as very subdued inflation, we expect that the exceptionally low level of the Fed funds rate will remain in place until early 2011.

ECB Refi Rate Very Much On Hold At 1%

The ECB cut interest rates by 0.25% to 1.0% at its May 2009 policy meeting, bringing the total reduction in official rates in the eurozone to 3.25% since October 2008. This official rate of 1.0% represents an historical low for the eurozone but is seen as the trough in this cycle now that the economy has emerged from recession.

At the same time, however, the ECB is not in any hurry to hike rates and 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 early 2011 at the earliest, with inflation expected to remain very low, unemployment at high levels, and given the marked weakness of the economic upswing.

UK Rates Set to Remain Low Over 2010

The BoE cut UK interest rates to an historically low level of 0.50% in March 2009, while also employing quantitative easing measures. At its February policy meeting it called a halt to its QE programme but has left the door open to further gilt purchases should they be required down the line. With UK inflation forecast to be below 2% over the medium term, unemployment high, and the economic recovery likely to prove anemic, policy is set to remain very accommodative well into next year. We do not anticipate any hikes in official rates until Q1 2011 at the earliest.

US Interest Rate Forecasts (to end quarter)

| | Fed Funds | 3 Mth | 1 Year | 2 Year * | 5 Year * |
|-----------------|-----------|-------|--------|----------|----------|
| Current | 0.125 | 0.31 | 0.94 | 1.09 | 2.60 |
| Jun '10 | 0.125 | 0.35 | 1.00 | 1.25 | 2.70 |
| Sept '10 | 0.125 | 0.50 | 1.20 | 1.40 | 2.80 |
| Dec '10 | 0.125 | 0.70 | 1.40 | 1.60 | 3.00 |

* 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 | 0.58 | 1.19 | 1.42 | 2.36 |
| Jun '10 | 1.00 | 0.70 | 1.30 | 1.60 | 2.50 |
| Sept '10 | 1.00 | 0.80 | 1.40 | 1.70 | 2.65 |
| Dec '10 | 1.00 | 1.00 | 1.60 | 1.90 | 2.80 |

* 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 | 0.65 | 1.33 | 1.54 | 2.87 |
| Jun '10 | 0.50 | 0.75 | 1.45 | 1.75 | 3.05 |
| Sept '10 | 0.50 | 0.90 | 1.60 | 1.90 | 3.20 |
| Dec '10 | 0.50 | 1.10 | 1.80 | 2.10 | 3.40 |

* Swap Forecasts Beyond 1 Year

US Dollar

Volatility on foreign exchange markets has been high over recent weeks and indeed could rise even further in the near term as the issue of global sovereign risk continues to dominate. Changing market sentiment with regard to the pace of recovery in the world economy and the likely timing of any moves by the main central banks to increase official interest rates from their current very low levels is also adding to the uncertain environment.

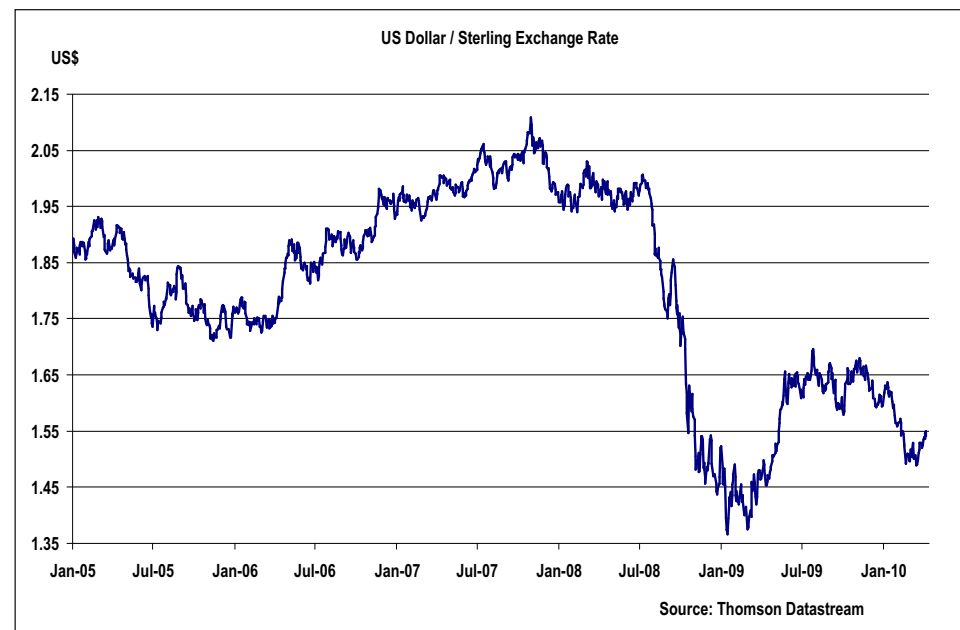
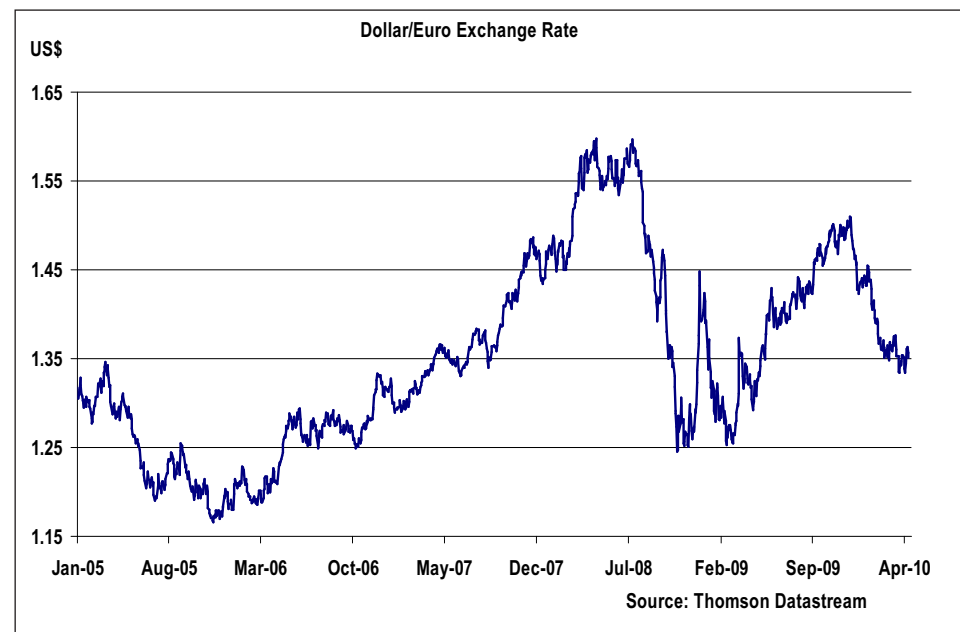
Traditionally a safe haven currency, the dollar is benefiting from this volatility, particularly versus the euro. The US public finances are hardly in great shape either following the level of fiscal support that has been provided to the economy but most of the focus right now in terms of sovereign risk is on the eurozone and, in particular, Greece. The news of a €45 bln stand-by facility from other eurozone members and the IMF has failed to provide any real support for the euro and downrisks remain, at least in the short to medium term.

The dollar is also taking support from encouraging US economic data, which has heightened speculation that the Federal Reserve would start tightening monetary policy before the year is out. However, while the economic outlook in the US has certainly improved, there has been little indication from the Fed that it is about to start moving towards a hike in the Fed funds rate anytime soon. Thus, the scope for any further dollar rally on the back of the interest rate story looks limited for now.

Indeed, the USD could see gains further eroded over the medium term. Although now out of recession, the US economy still faces significant headwinds with the current pace of recovery unlikely to be sustained over the second half of the year. We are of the view that it is likely to be early 2011 before the Fed starts to tightening policy, something that is likely to weigh on the dollar. At the same time, though, the scope for any marked euro recovery should also be restricted by the ongoing evidence of a weak eurozone economic performance, a dovish ECB and sovereign associated risk.

Key Forecasts

| | | Q2-2010 | Q3-2010 | Q4-2010 | Q1-2011 |
|----------|--------|-----------|-----------|-----------|-----------|
| US\$/EUR | 1.344 | 1.33-1.38 | 1.34-1.39 | 1.35-1.40 | 1.37-1.42 |
| US\$/GBP | 1.522 | 1.50-1.60 | 1.55-1.65 | 1.55-1.65 | 1.58-1.68 |
| YEN/US\$ | 91.866 | 90-95 | 92-97 | 95-100 | 98-103 |
| CHF/US\$ | 1.068 | 1.06 | 1.07 | 1.07 | 1.09 |



Euro

Weighed down by concerns about eurozone sovereign risk, the euro has fallen by over 5% versus the dollar since the beginning of the year. The recent announcement that Greece will be able to access funding of up to €45bln from the IMF and other eurozone member countries provided only minimal relief for the single currency, with much uncertainty remaining about broader fiscal policy issues.

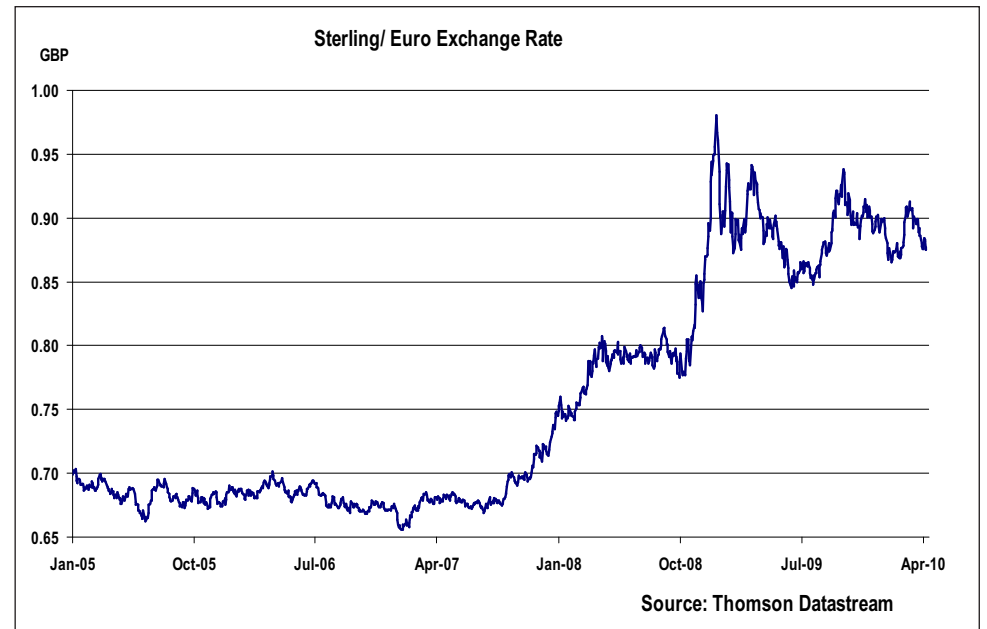
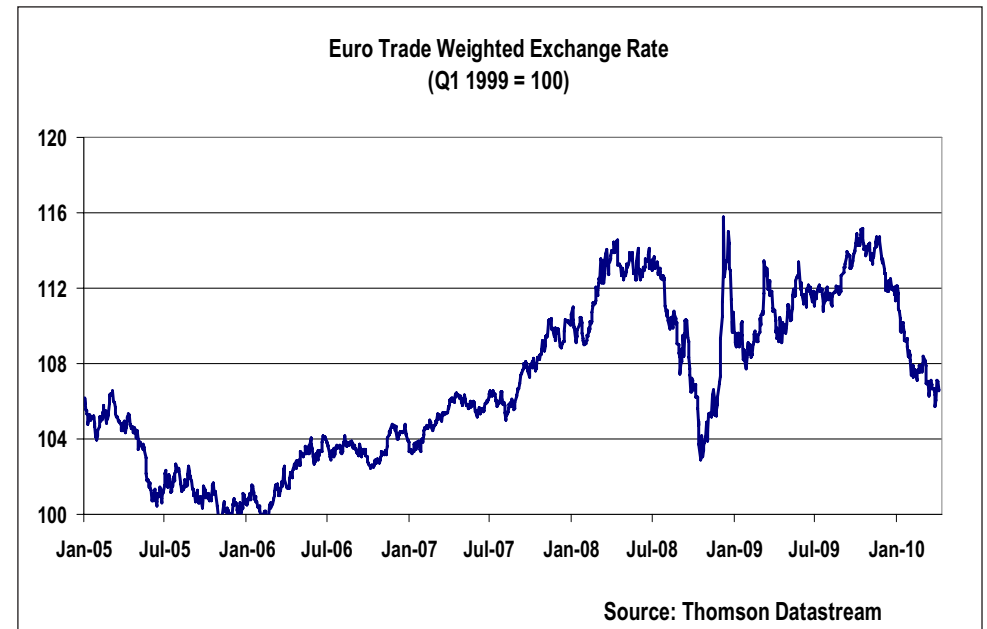
The increasing focus on growth differentials is also weighing on the euro, with the US economy set to outperform the eurozone, at least in the first half of the year. The recession in the eurozone officially ended in Q3 but the recovery stalled in Q4. With the upturn moderate and uneven, the European Central Bank does not appear to have any plans to start hiking eurozone interest rates anytime soon.

Although still a relatively strong currency, the euro looks set to remain on the backfoot versus the dollar over the coming months, if relative growth prospects and sovereign issues remain against it. The dollar is also likely to benefit from any upside surprises in terms of US data or talk of Fed tightening. However, as reflected in our forecasts, any fresh dollar strength is likely to be limited by the prospect of a sub trend US economic performance in the second half of the year and the likelihood that the Fed will also be slow in terms of reversing its accommodative policy stance. Thus, we anticipate a \$1.33-1.39 trading range over the coming weeks.

Sterling saw highs of Stg0.859p versus the euro in late January but it failed to hold these levels as market attention turned to pre-election uncertainty in the UK, the poor prospects for the UK economy as indicated by recent data and the dire state of the public finances. These concerns about the UK saw the euro trade as high as Stg0.9148p in early March. While now off these levels, there seems little prospect of any marked rebound in sterling versus the euro over the coming months, at least until the UK general election is out of the way.

Key Forecasts

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| GBP/EUR | 0.883 | 0.87-0.91 | 0.85-0.90 | 0.85-0.90 | 0.83-0.88 |
| YEN/EUR | 123.45 | 120-130 | 123-133 | 130-140 | 135-145 |
| PLN/EUR | 3.903 | 3.83 | 3.78 | 3.73 | 3.70 |



Sterling

Over the past month sterling has recovered some ground versus the dollar and euro. The dollar/sterling rate has broken through the \$1.55 level to trade well away from its early March low of \$1.4784. Meanwhile, the sterling/euro rate has recovered from lows of Stg0.9148p to trade around the Stg0.88p level as concerns over eurozone sovereign risk weigh on the EUR.

Sentiment has been lifted to some extent by a run of better than expected UK data which have helped allay fears that the economy may have slipped back into recession in Q1, causing traders to pull back on excessively short GBP positions. Predictions of a hung parliament following next month's General Election are weighing to less of an extent with such an outcome largely priced in at this stage. However, as one of the major currencies worst impacted by the global financial crisis (its trade weighted index is currently trading about 25% below where it was before the crisis began in 2007), sterling essentially remains on the back foot versus the dollar and euro.

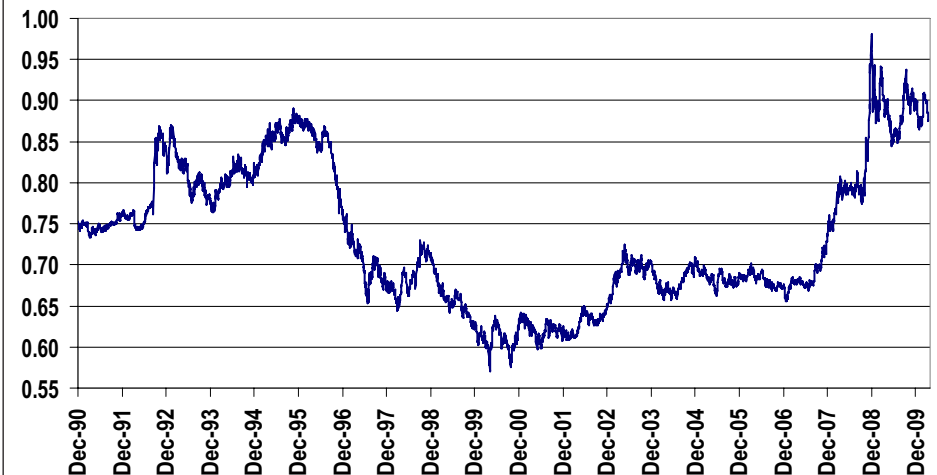
We expect the dollar/sterling rate to remain in a \$1.50-1.60 range for now, with the GBP likely to be hostage to the results of opinion polls and any commentary from the political parties as the outcome is still far from certain. Even if the general election does not result in a hung parliament the new government faces a tough task in terms of reducing the UK's budget deficit, which is one of the highest in the EU. Upside versus the euro is also seen as limited.

Notwithstanding the return to growth by the economy in Q4, the UK still faces significant headwinds, including high unemployment and the prospect of fiscal tightening once the election is out of the way, as well as the likelihood of a muted upturn in some of the UK's main export markets. This anemic pace of recovery should leave the economy with a considerable degree of spare capacity, supporting our view that the Bank of England will leave interest rates at their ultra low levels for some time to come.

Key Forecasts

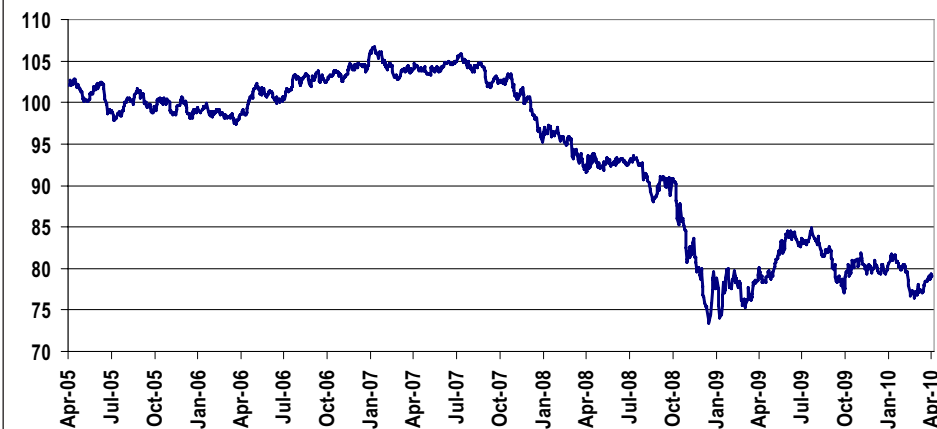
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| YEN/GBP | 139.87 | 141 | 147 | 153 | 164 |
| CAD/GBP | 1.548 | 1.52 | 1.61 | 1.65 | 1.75 |

Synthetic Sterling/Euro Exchange Rate (1990-2009)



Source: Thomson Datastream

Sterling Trade Weighted Exchange Rate Jan 2005 = 100



Source: Thomson Datastream

Japanese Yen

In an environment of global deleveraging and heightened risk aversion, the yen appreciated markedly during the height of the global financial crisis. The JPY is still benefiting from swings in market sentiment (i.e. rallying in line with any spike in risk aversion) but 2010 could well signal an end to the recent period of yen overvaluation. Many in the market place expect it to resume its status as the carry trade currency of choice given relative growth and interest rate predictions.

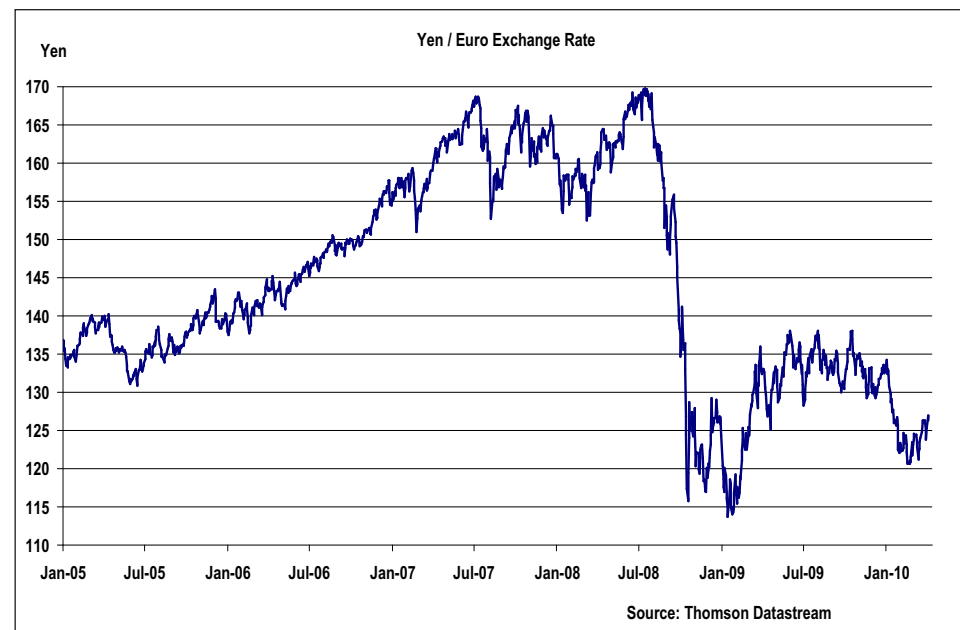
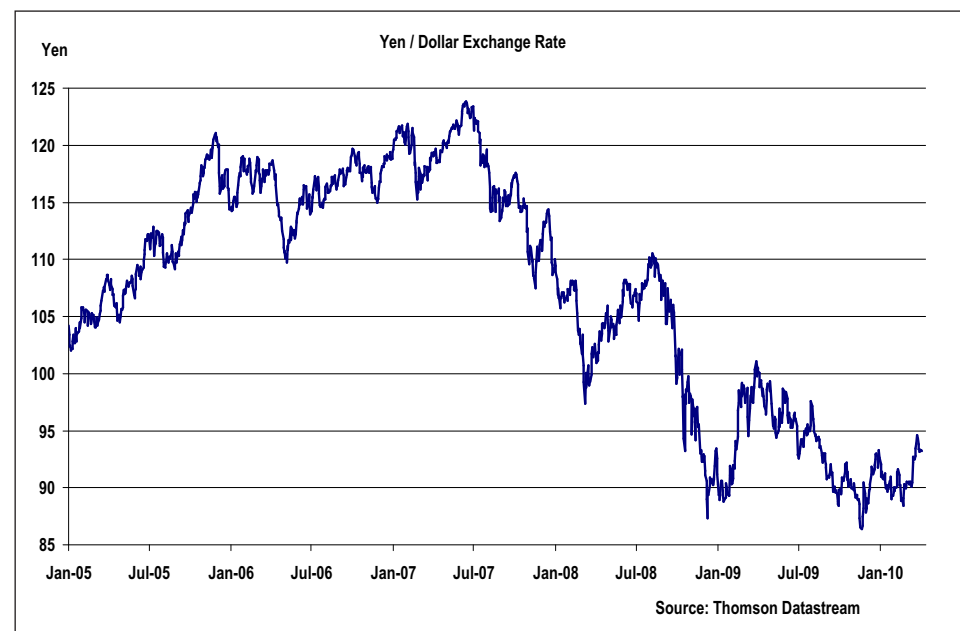
General dollar weakness saw the dollar/yen rate hit a 14 year low of Y84.8 in late November last year. However, the USD has since recovered some ground on the back of an improving outlook for the US economy and talk of a tightening in US monetary policy. There are also a number of domestic factors that are likely to weigh on the JPY and which could drive it lower versus the USD over the course of the year. The current Japanese regime favours a weaker currency given its impact on the export driven economy, with vague reference made to intervention if necessary.

Furthermore, the Bank of Japan have extended quantitative easing activities on two occasions since December, which is in contrast to other major central banks who remain accommodative in terms of official rates but have begun the process of gradually withdrawing non-conventional monetary support measures for the markets. Meanwhile, disappointing Japanese economic data indicate a weak economic performance for 2010, with GDP growth expected to be around 1% compared to 2% in the US.

While the dollar is expected to gain ground over the year, the euro could well struggle to make much headway versus the yen, particularly in the short to medium term as markets continue to focus on the depth of the eurozone's fiscal problems. Recent lows of sub Y120 remain within the euro's sights and we continue to anticipate a Y120-130 trading range for the coming months as markets await a full resolution to the eurozone's fiscal problems.

Key Forecasts

| | | Q2-2010 | Q3-2010 | Q4-2010 | Q1-2011 |
|-----------------|--------|---------|---------|---------|---------|
| YEN/US\$ | 91.85 | 90-95 | 92-97 | 95-100 | 98-103 |
| YEN/EUR | 123.45 | 120-130 | 123-133 | 130-140 | 135-145 |
| YEN/GBP | 139.87 | 141 | 147 | 153 | 164 |



Australian Dollar/ New Zealand Dollar

The AUD and NZD came under strong selling pressure during the height of the global financial crisis. However, the pair bounced back strongly last year in line with a pick up in global risk appetite. Sentiment was also underpinned by rising commodity prices and, particularly in the case of the AUD, a resilient economic performance. Australia proved to be one of a handful of economies that avoided recession, in large part due to the successful implementation of fiscal stimulus measures.

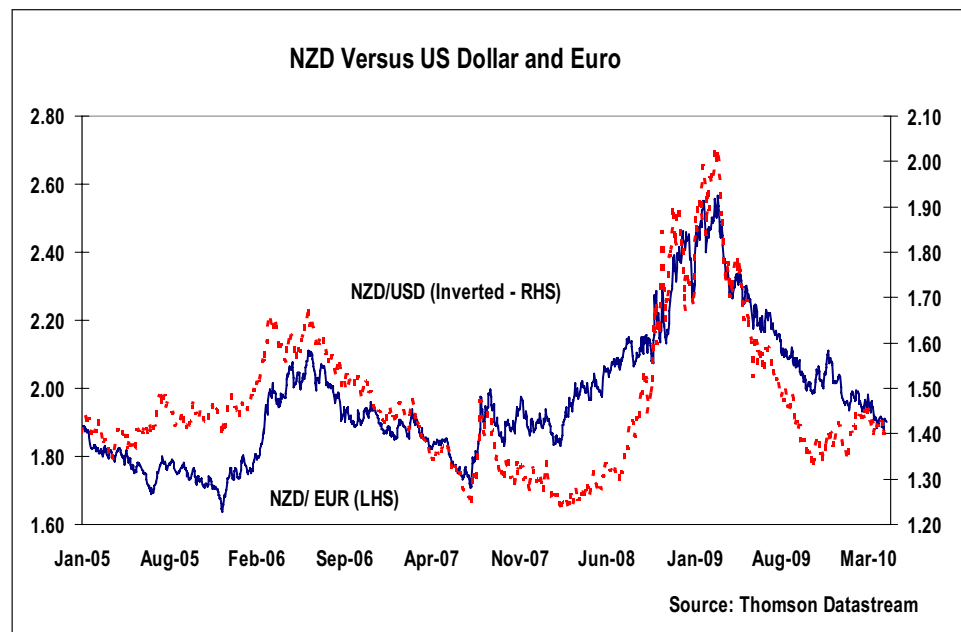
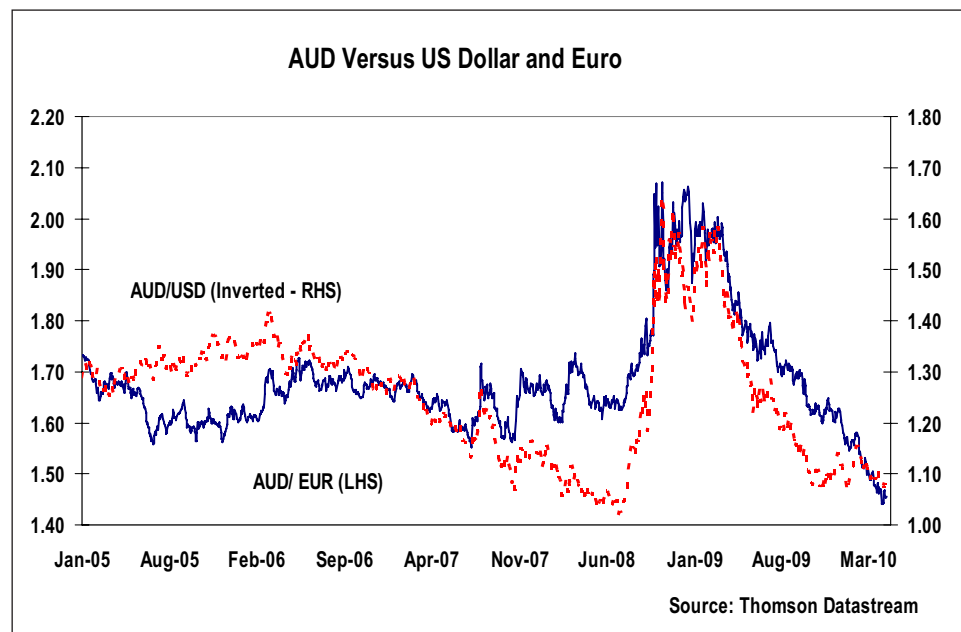
The pair's recovery was further cemented by October's announcement from the Reserve Bank of Australia that, in response to the better than anticipated domestic economic outturn, it was raising interest rates by 0.25% to 3.25%, making it one of the first developed economies to reverse emergency monetary policy action. Rates were increased by a further 0.25% in November and December, opening up a considerable rate differential with other majors.

The opening months of this year saw some fall back from the highs of late 2009, reflecting a fresh spike in risk aversion on concerns that monetary policy tightening in Asia could derail economic recovery in the region. The AUD was also sold following the surprise decision by the Reserve Bank of Australia to leave rates on hold in January. In doing so, it cited the potentially negative impact of higher mortgage rates at home, as well as tighter policy in China and concerns over sovereign debt abroad.

The pair have since regained ground and fundamentals suggest that the AUD and NZD will remain relatively strong versus other majors over the coming months, underpinned by the positive correlation between them and the improving global economic cycle. Widening interest rate spreads should also continue to be supportive. After its New Year pause, the RBA resumed its tightening cycle in February, with rates now at 4.25%, while the Reserve Bank of New Zealand has indicated that it will start hiking official rates around mid year.

Key Forecasts

| | | Q2-2010 | Q3-2010 | Q4-2010 | Q1-2011 |
|----------------|-------|---------|---------|---------|---------|
| AUD/USD | 0.917 | 0.91 | 0.90 | 0.89 | 0.88 |
| NZD/USD | 0.706 | 0.70 | 0.68 | 0.68 | 0.67 |
| AUD/EUR | 1.47 | 1.49 | 1.52 | 1.54 | 1.59 |
| NZD/EUR | 1.905 | 1.94 | 2.01 | 2.02 | 2.08 |



Key Events/Diary

Week 1 (19th - 23rd April)

| | | |
|----------|-----------|-------------------------------------|
| Apr 19th | US | Leading Indicators (March) |
| Apr 20th | UK | Consumer Prices (March) |
| | Eurozone | German ZEW Index (April) |
| Apr 21st | UK | Minutes of April MPC Meeting |
| | UK | Unemployment (March) |
| Apr 22nd | Eurozone | Flash PMIs (April) |
| | US | Producer Prices (March) |
| Apr 23rd | Eurozone | German Ifo Index (April) |
| | UK | Q1 GDP (First Estimate) |

Week 2 (26th - 30th April)

| | | |
|----------|-----------|---|
| Apr 27th | US | Consumer Confidence (April) |
| Apr 28th | US | FOMC Rate Announcement |
| Apr 29th | Eurozone | EC Business and Sentiment Surveys (April) |
| Apr 30th | Eurozone | Flash HICP (April) |
| Apr 30th | US | Q1 GDP (First Estimate) |
| | US | Chicago PMI (April) |
| | Japan | BoJ Rate Announcement |

Week 3 (3rd - 7th May)

| | | |
|---------|------------------------|--|
| May 3rd | UK/Ireland | Market Holiday |
| | US/Eurozone | Manufacturing ISM/ PMI (April) |
| | US | Personal Income and Spending (March) |
| May 4th | UK | Manufacturing PMI (April) |
| May 5th | US/UK/ Eurozone | Services ISM/ PMIs (April) |
| | US | ADP Employment Report (April) |
| May 6th | UK | General Election |
| | Eurozone | ECB Announcement & Press Conference |
| May 7th | US | Non-Farm Payrolls (April) |

Week 4 (10th - 14th May)

| | | |
|----------|-----------------|--|
| May 10th | UK | BoE Rate Announcement |
| May 12th | UK | BoE Quarterly Inflation Report |
| | Eurozone | Q1 GDP (Flash Estimate) |
| | US | External Trade Report (March) |
| May 14th | US | Retail Sales (March) |
| | US | Industrial Prod & Capacity Utilisation (April) |
| May 16th | US | Michigan Sentiment Survey (Prel - 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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