



Markets Hold Breath Ahead of Payrolls

Currencies have traded in tight ranges over the past 24 hours or so as market participants take to the sidelines ahead of this afternoon's release of the key US non-farm payrolls report for August. With risk appetite supported by some encouraging data over recent days (including yesterday's better than expected US pending home sales and weekly jobless claims) the euro and high yielding currencies are holding onto gains versus the dollar and yen seen earlier in the week ahead of the release, though sentiment remains fragile.

Starting the day within striking distance of this week's high of \$1.2855, \$1.287 is seen as the next target for the euro versus the USD, though much will depend on the tone of this afternoon's labour market data. Consensus forecasts are showing a drop of 100,000 in the payroll, as the layoff of temporary census workers continues, with the unemployment rate projected to tick up marginally to 9.6% from 9.5%. Anything worse than this could weigh heavily on sentiment, which would not favour the euro.

Also of interest today will be the services PMI and ISM surveys from Europe and the US as investors continue to look for signs of a slowing in the global economy. There was little reaction from forex markets to yesterday's ECB policy announcement and press conference. The central bank was a little more upbeat in terms of its economic assessment, revising upwards its GDP growth projections for this year and next, though it must be noted that this was done from a very low starting point. However, Mr Trichet indicated once again that the ECB is not considering raising rates any time soon. Sterling, along with other currencies, is expected to consolidate in narrow ranges ahead of today's key data.

Geraldine Concagh, AIB Global Treasury

SHORT TERM INTEREST RATES				
Months	1	3	6	12
USD	0.26	0.29	0.50	0.84
JPY	0.15	0.23	0.44	0.67
EUR	0.62	0.88	1.13	1.41
GBP	0.57	0.73	1.03	1.47

LONG TERM INTEREST RATES		
Term	EURO (Annual)	GBP
2 Years	1.30	1.26
3 Years	1.47	1.55
4 Years	1.65	1.84
5 Years	1.85	2.11

Euro S/Term interest rates Actual /360 : L/Term Actual Bond Basis

Today's Opening Rates (Mid-Rate)

USD/EUR	1.282	NOK/EUR	7.8752
GBP/EUR	0.831	CHF/EUR	1.299
USD/GBP	1.5424	AUD/EUR	1.4126
JPY/USD	84.26	NZD/EUR	1.794
JPY/EUR	108.01	HKD/EUR	9.9625
SEK/EUR	9.2952	CAD/EUR	1.3503
DKK/EUR	7.4445	EUR/GBP	1.2028

Indices		Dow	10320.10	50.02	
FTSE	5371.04	4.63	ISEQ	2744.97	-12.98
Nikkei	9069.62	93.70	Nasdaq	2200.01	21.02

ECB on Hold Despite Q2 Pick UP in Growth

At its policy meeting today, the European Central Bank again left its refi rate unchanged at 1%, where it has been pitched since May 2009. The ECB continued to give the strong impression that rates will not be increased any time soon. Mr Trichet today noted that economic data for Q2 and Q3 have been stronger than anticipated. However, despite the fact that recent data have surprised on the upside, with Q2 GDP growing by 1%, the ECB still expects that economic growth will be moderate with uncertainty still prevailing in the period ahead, suggesting that interest rates will remain low.

Furthermore, price pressures are expected to remain very subdued over the medium term given the large amount of spare capacity in the economy - the jobless rate has been stuck at 10% since March. The weak growth of monetary indicators also points to continuing low inflation rates - the annual rate of core HICP inflation stands at just 1%. Not surprisingly, then, the ECB is not in any hurry to raise interest rates, despite the pick in growth since the spring. The latest ECB staff quarterly economic forecasts were published today. The eurozone economy is now expected to expand by 1.6% in 2010 and 1.7% in 2011, compared to 1.0% for 2010 and 1.2% for 2011 in the June ECB forecasts. Inflation is expected to average 1.6% in 2010 and 1.7% in 2011, below the key 2% level.

