



Weekly Market Brief

AIB Global Treasury Services

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What's Ahead: Focus on BoE Policy Meeting

The main focus in the UK will be the Bank of England's policy meeting, which takes place over Wednesday and Thursday. As the economy continues to gather momentum, base rates are expected to remain on hold. Q2 GDP data has been revised upwards from 0.3% to 0.6% and indications are that growth in Q3 could now be well above trend.

While there seems little chance of a hike in October, the MPC is likely to discuss the merits of raising rates. It is increasingly likely that the BoE will be the first major central bank to tighten monetary policy. The market has priced in some tightening before the year-end, though a rate hike may not emerge until well into Q1 of next year.

In terms of economic data, there is little to focus on apart from industrial production for August, which should show some recovery, in line with recent survey evidence. The manufacturing PMI rose to 52.2 in August, its highest level since May 2002, indicating that the sector is benefiting from the pick-up in global demand.

Sterling is expected to stay bullish against the dollar, which continues to be undermined by concerns about the outlook for the economy and the recent comments from the G7. Friday's US non-farm payrolls report, however, could leave room for some dollar correction.

On the domestic front, sterling should also be underpinned by any hints that UK rates are on the way up. Against the euro, it is likely to continue to stick to a narrow trading range.

Outside UK: Little Data on the US, Dollar to Stay in Spotlight.

There is little to capture attention in the US this week, with a light data schedule including import and producer prices, which are expected to confirm that inflationary pressures remain subdued. Friday's current account data for August could be important for the dollar, with the trade gap expected to widen further. After last week's surprisingly strong non-farm payrolls report, markets will also be paying close attention to weekly jobless claims. Equities should also feature highly as the Q3 reporting season gears up.

There is also a light data schedule in the eurozone. German and French IP data for August are due but it is questionable as to whether real data will show the impact of improved sentiment just yet. Manufacturing orders in Germany for the same month however, are forecast to show a strong rise,

Foreign Exchange Forward Rates Page 1 of 2

Currency Pairs	Current Spot	3 Mth	6 Mth	12 Mth
GBP/EUR	1.4335	1.428	1.422	1.408
USD/EUR	1.1650	1.162	1.158	1.152
JPY/EUR	128.85	128.15	127.40	125.97
SEK/EUR	8.9935	9.0085	9.0235	9.0385
USD/GBP	1.6670	1.6565	1.645	1.633
JPY/USD	110.65	110.30	109.95	109.20

GBP Interest Rates

Term	Current
1 Week	3.25
1 Mth	3.56
3 Mth	3.64
6 Mth	3.79
12 Mth	4.07
2 Year	4.40
3 Year	4.60
5 Year	4.77

GBP FRA Prices

Term	Current P.A.
3x6	4.00
6x12	4.375
9x12	4.47
12x18	4.75
12x24	4.90
6x18	4.62
9x21	4.79
3x9	4.15

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which is positive for production data going forward. German unemployment is forecast to rise marginally in September, while no surprises are expected in CPI data from Germany and France. Revised eurozone Q2 GDP should confirm a 0.1% contraction in activity over the period. The eurozone economy did not grow at all in the first six months of the year but surveys are suggesting that a mild recovery is in prospect for H2.

Monday's press conference following the German-French Economic Council (attended by Trichet and Welteke) could bring some interesting comments. Trichet is due to take over the role of President of the European Central Bank on 1 November.

In Japan the leading indicator index is expected to slip in August, suggesting that the recovery may have lost some steam. The underlying trend however, should remain supportive of the yen.

On forex markets, last week's better than expected non-farm payrolls report should lend some support to the dollar but sentiment looks set to remain fragile with developments in dollar/yen continuing to dominate market movements. A breakout below Y110 is looking increasingly likely for the yen, while the euro could still be headed for a test of this year's high at \$1.1930.

The Reserve Bank of Australia and Sweden's Riskbank meet next week to discuss monetary policy. Both are expected to leave interest rates on hold.

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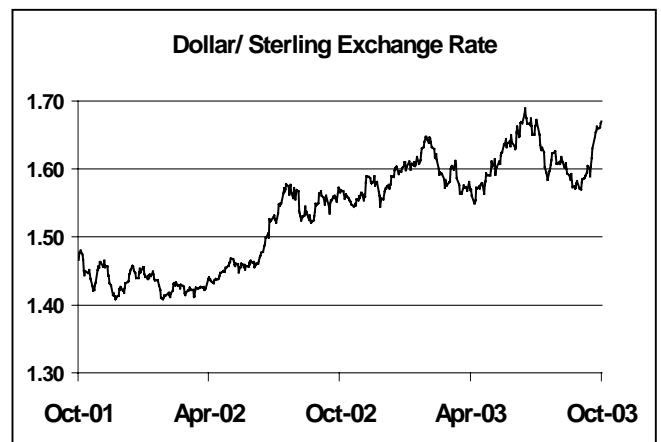
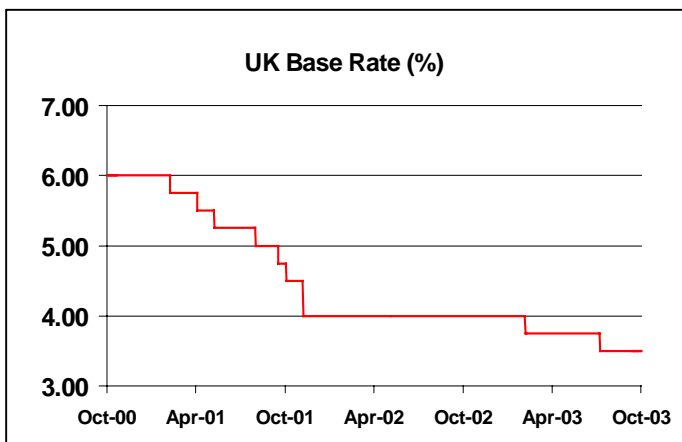
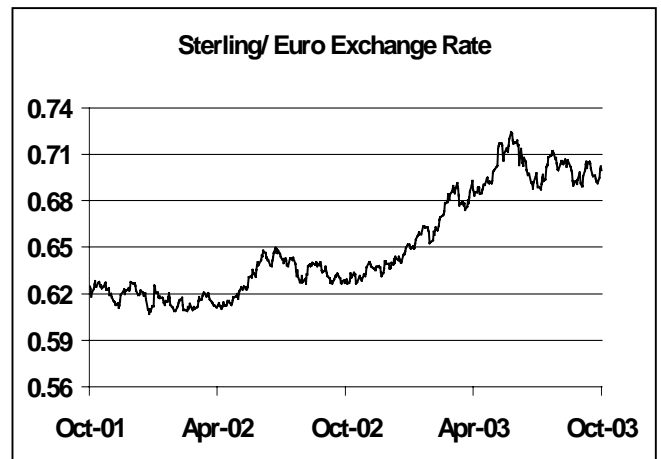
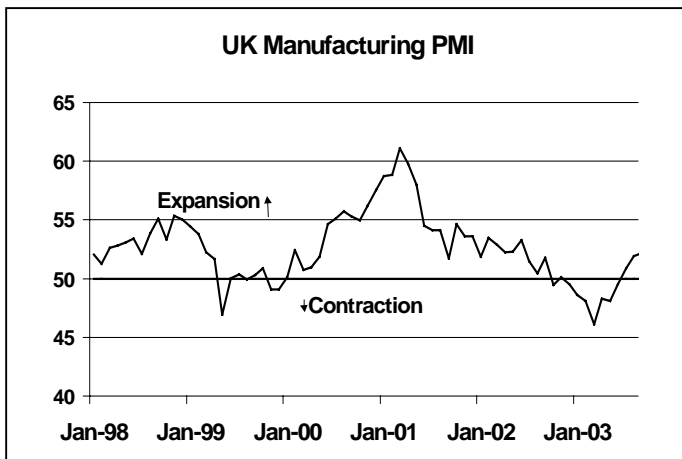
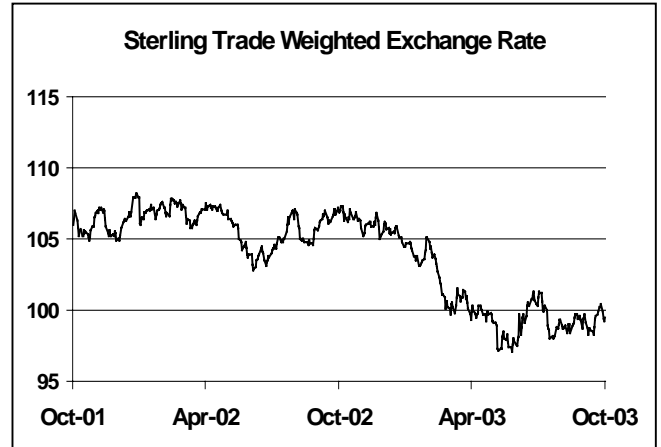
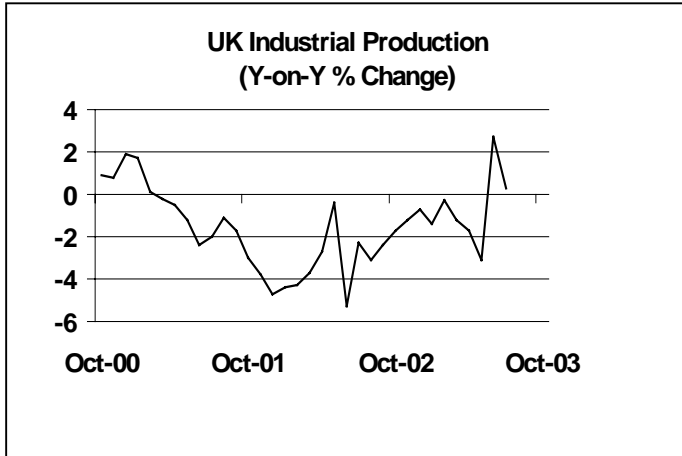
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