Morning Comment

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AIB Global Treasury Services

Euro Hit By Fresh Banking Concerns

After starting the week pushing towards the $1.30 level, the euro fell sharply versus the dollar overnight as a resurfacing of worries about the eurozone's banking pushed investors to sell the single currency. Fears were triggered by a report in the Wall Street Journal questioning the viability of European Banks and with this likely to be the focus for today in the absence of any major data releases this leaves the euro vulnerable. A policy statement from the Reserve Bank of Australia also weighed on risk appetite, with the Bank highlighting the strength of the domestic economy but the "somewhat uncertain" outlook for the global economy. The Bank of Japan left interest rates on hold overnight but said it will take action when necessary. The yen showed little reaction, generally firming overnight on safe haven flows.

Sterling saw 6-week lows of Stg0.8390p versus the euro yesterday, hit by reports of heavy selling by a UK clearing bank and a revival of concerns over the strength of the UK's economic recovery and the possibility of fresh support from the BoE. The central bank meets this week and is not expected to make any policy changes. However, recent communication would suggest that it stands ready to act again if needs be. Last week's round of data, in particular the PMI's, proved to be very disappointing, prompting talk that the central bank may have to step in again. Sterling managed to claw back ground overnight as the euro retreated on fresh concerns about the eurozone's banking sector but could be vulnerable to fresh selling. The overnight news from the BRC that UK retail sales accelerated last month could also have provided a boost for the GBP. Versus the dollar meanwhile, the overnight spike in risk aversion is helping to keep cable below the $1.54 level.

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SHORT TERM INTEREST RATES				
Months	**1**	**3**	**6**	**12**
USD	0.26	0.29	0.49	0.83
JPY	0.15	0.23	0.44	0.67
EUR	0.62	0.88	1.13	1.41
GBP	0.57	0.73	1.02	1.46

LONG TERM INTEREST RATES		
Term	**EURO (Annual)**	**GBP**
2 Years	1.32	1.28
3 Years	1.49	1.55
4 Years	1.68	1.84
5 Years	1.87	2.11

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

Today's Opening Rates (Mid-Rate)

USD/EUR	1.2793	NOK/EUR	7.8697
GBP/EUR	0.8322	CHF/EUR	1.2935
USD/GBP	1.5371	AUD/EUR	1.4015
JPY/USD	84.02	NZD/EUR	1.770
JPY/EUR	107.52	HKD/EUR	9.9377
SEK/EUR	9.2995	CAD/EUR	1.3268
DKK/EUR	7.4455	EUR/GBP	1.2009

Indices			Dow	10447.93	126.01
FTSE	5439.19	11.04	**ISEQ**	2807.11	7.21
Nikkei	9199.99	16.54	**Nasdaq**	2233.75	5.79

Trichet Singles Out Germany For Praise

Data released yesterday showed that investor morale in the eurozone dipped in September, underpinning the sharp rise that was seen last month. Weaker current conditions were the main reason for the drop with this sub component of the index edging off 2-year highs. Meanwhile, the expectations component of the index improved for the second time in a row. The data will most likely add to talk of a slowing in the eurozone rate of recovery in the second half of the year. The data followed remarks from the ECB's Trichet in a media interview he did over the weekend that he doesn't expect a double dip recession in the eurozone.

The individual country performance is expected to be mixed with Germany likely to continue to outpace other economies. The eurozone's largest member state expanded by 2.2% in Q2, well up on the eurozone average growth rate of 1.0% Indeed, Trichet was glowing in his praise of the German economy saying that its economic model can be a model for its European neighbours. Trichet says the strong performance of Germany's economy is a reward for its efforts. Its success is due to the moderation of unit costs, a slower rise in salaries than elsewhere, and progress made on productivity.