

# AIB Customer Treasury Services

## Interest Rate Hedging Update - July 2015

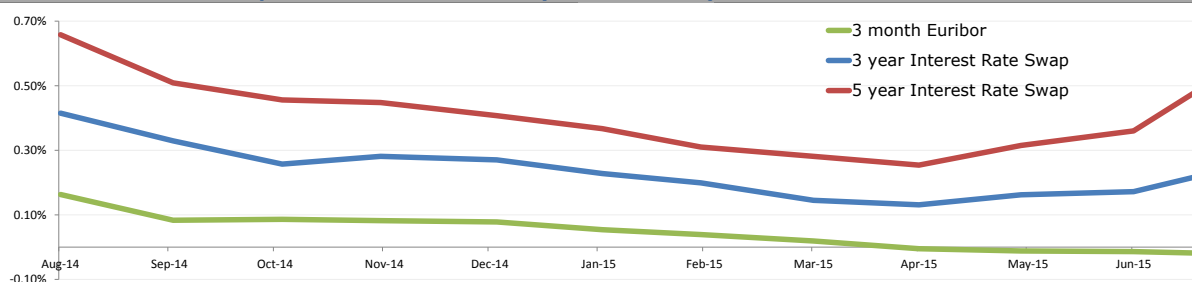


July's meeting of the ECB Governing Council was in line with market expectations for no changes to monetary policy. Thus, purchases under its QE programme will continue to run at a rate of €60 billion per month until at least September 2016. The Governing Council statement emphasised its willingness to act further if any "factors were to lead to an unwarranted tightening of monetary policy or if the outlook for price stability were to materially change". ECB President Mario Draghi stated that the Central Bank would "respond to such a situation by using all the instruments available within its mandate". So, it is clear that the ECB retains an easing bias and is prepared to take additional action if required to meet its price stability objective. In terms of its assessment of the macro backdrop, the ECB has taken encouragement from the fact that the downside risks for the Eurozone's economic outlook have "generally been contained" as a result of its monetary policy decisions. It expects the economic recovery to "broaden further" and a "gradual increase" in inflation over the coming years.

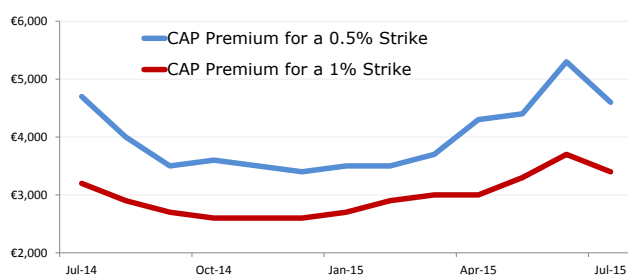
Not surprisingly, 'Greece' dominated the question and answers section of the press conference, with all but a handful of questions being about the country. President Draghi announced that the Governing Council had "completely and fully" accommodated a request from the Bank of Greece regarding Emergency Liquidity Assistance (ELA) to Greek banks. ELA is to be increased by €900m, bringing the total to just under €90bn, while there was no change to collateral requirements. The President justified the decision to increase ELA by noting that "several positive" things had happened, including the Greek parliamentary vote. However, he stated that it is "hard to predict" when the situation with Greek banks would return to a more 'normal' situation, emphasising that the decision regarding capital controls is the responsibility of the Greek government. Meanwhile, in terms of this week's payment of €3.5bn due to the ECB from Greece, President Draghi expressed confidence that this obligation would be met. Indeed, he commented that the evidence and information (incl. the approval of a bridge financing package) at his disposal indicates that the ECB payment will be honoured today. Meantime, on the issue of 'debt sustainability', the President said that "its uncontroversial that debt relief is necessary". But, he made the point that the key factor is what type of debt relief is most suitable within the ECB's legal framework. Overall then, the ECB meeting provided few surprises. The ECB is satisfied that its recent monetary policy decisions are contributing to its medium term objective of returning inflation "towards levels below, but close to, 2%".

With the risk of deflation abating the era of low fixed rates may be nearing an end, if you would like to discuss in more detail, why not talk to your treasury relationship manager.

### >> Euro Interest Rate Swap / Fixed Rate Loan Curve (Last 12 Months)



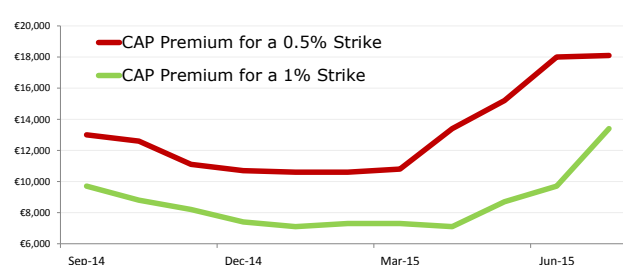
### >> Euro 3y Cap Premium for a €1m nominal amount



Cost to buy a 3Y CAP based on a nominal amount of EUR1,000,000

Premium 0.5%	€ 4,600
Premium 1%	€ 3,400

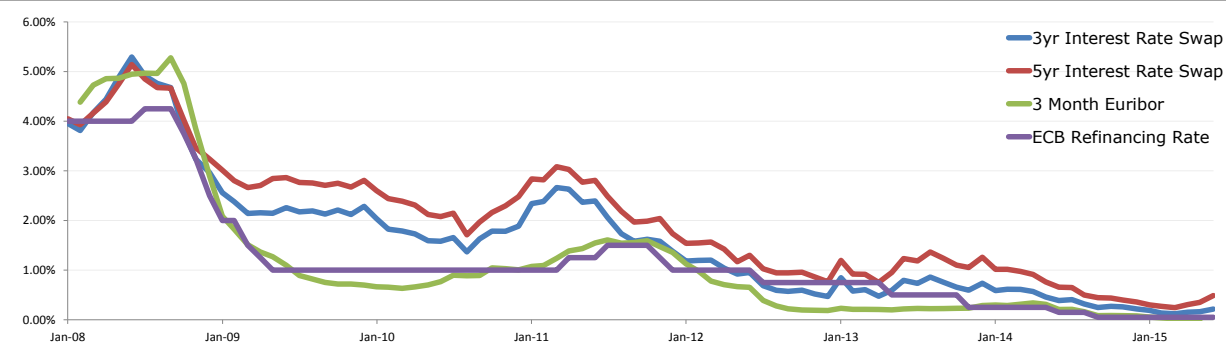
### >> 5 Euro 5y Cap Premium for a €1m nominal amount



Cost to buy a 5Y CAP based on a nominal amount of EUR1,000,000

Premium 0.5%	€ 18,100
Premium 1%	€ 12,000

### >> Euro Long Term Interest Rate History



All rates quoted are indicative market rates

### >> Contact Details

AIB Corporate Treasury Phone 01 7724004

### >> Eurozone Central Bank Rate (%) Actual/Forecast

Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
0.05	0.05	0.05	0.05	0.05	0.05

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