

HIGHLIGHTS

- **The dollar sold off vs. JPY and EUR, with weak US equities helping to keep negative dollar sentiment alive. EUR/USD unable to breach the 1.5900 high, but expect more attempts. Dollar selling picked up ahead of the weekend G7, suggesting others agree with us that nothing of substance is likely emerge from the meeting. More important is the signal ECB sends while keeping rates steady. High yielders fell out of favor after gains earlier in the week. Biggest winners against the buck on the day were CHF, JPY, NOK, and EUR while biggest losers were ZAR, CAD, AUD, and NZD. JPY and CHF firmer as risk appetite fell, but dollar/yen still likely to have another go at the 103 level in the coming days. Meanwhile, EUR/GBP hit our .8000 target, as sterling underperformed for the fourth straight day. Further gains are likely, as the BOE is tipped to cut rates 25 bps today even as the ECB looks set to extend its steady rate policy into Q3. Brazil inflation higher than expected, and cements a 25 bp rate hike next week. Oil hit a new high of \$112, so all eyes will be on the informal OPEC meeting in Rome April 20-22.**
- **US equity markets ended down on the day. Oil-related stocks outperformed after DOE reported drop in US stockpiles, while financials underperformed as top tier US house reported that Level 3 (mark to model prices) assets rose in Q1 to \$96.4 bln, more than other firms considered more vulnerable. Asian ADRs fell during the N. American session, pointing to a weak start for the region today. Nikkei futures suggest a lower open for Japan stocks, and yen strength should hurt exporter stocks.**
- **US bonds were up, with the 2-year yield down 11 bp and the 10-year down 8 bp. European bonds were mixed, with 10-year yields up 1 bp in UK, down 2 bp in France, and down 2 bp in Germany. Despite pessimism on US economy, market decreased Fed easing expectations, fully pricing in a 25 bp Fed cut in April and a 40% chance (vs. 46% yesterday) of a 50 bp move.**

CURRENCY MARKETS

Nikkei reports that around 10 of the top global financial institutions have been invited to meeting with the G7 finance ministers and central bankers this weekend in Washington DC. The report indicates that this meeting will be held just after the regular G7 meeting and may include major US and European fund managers as well. Ostensibly the reason for the meeting is for officials to gauge the level of cooperation that can be counted on in the event of a further worsening of the credit crisis. The Nikkei account suggests that the discussions are expected to include providing of credit lines for "liquidity-strapped" institutions. Don't look for a statement from the meeting, but it is likely to prove difficult to keep much of a secret as there simply are too many people there for someone not to say something to someone. The credit crisis is a much more salient issue for policy makers than the US dollar. Many seem to believe if the former can be "fixed" the latter will stabilize.

Iceland's central bank meets today and a rate hike to follow up last month's emergency move to 15% still seems likely. Inflation is more exceeds the central banks target by roughly three-fold and the recent rebound in the currency is showing signs of tiring. Prime Minister Haarde appears to be telling every one and any one that the country is fine and the markets are wrong and that the pressure on Iceland is coming from "unscrupulous dealers". Currency crises are littered with officials blaming the price action on speculators. Back in the early 1990s, for example, a senior French official noted that during the French Revolution, speculators faced beheadings. Seemingly inexplicable or unwanted price action, was in other times blamed on the gnomes of Zurich. Perhaps the recent Economist story illustrates that pressure on Iceland is not simply coming from short-term speculators. It noted that the Norwegian petroleum fund had taken a short position in Icelandic bonds and when this came to official attentions, it caused a bit of a diplomatic stir. How could they do that? It is not very neighborly. The position was apparently unwound. One noteworthy comment by Haarde is that Iceland is considering bolstering reserves ostensibly to get in line with the dramatic increase in foreign liabilities of the banks. While arguably a noble idea, it seems next to impossible to do as the foreign liabilities are some multiple of the country's GDP. The euro has pulled back from a high of ISK128 on March 19 and a secondary high on March 31 of almost ISK124.50 to hit a low of ISK112.19 earlier today. Over the past three days the momentum has slowed and a move now back above ISK114.00-50 would suggest a euro low is in place. A recovery of the euro is likely to coincide with renewed pressure on the credit default swaps.

Mexico inflation outlook has deteriorated, and undermines the view that the Banco de Mexico is likely to cut rates in Q2. We do think easing will be seen this year, but timeframe will be pushed out if inflation remains above target. March headline CPI rose 4.3% y/y vs. 3.7% y/y in February, while core CPI rose 4.3% y/y vs. 4.1% y/y, a new cycle high, and PPI rose 5.4% y/y vs. 5.1% y/y previously. Headline CPI rate was the highest since October 2006, and is back above the central bank's 2-4% target for the first time since August 2007. Last month, the central bank kept rates steady at 7.5%, as expected, and the last move was a 25 bps surprise hike back in October 2007. Earlier this week, Governor Ortiz said that the central bank was "not satisfied with existing inflation levels." Obviously, he must have had a sneak peek at the inflation data. Still, with downside growth risks coming from the US, we think it would be hard for the bank to justify a rate hike this year. If push comes to shove and the Mexican economy slows sharply, we think that the central bank will have no choice but to cut rates. Before the data, market was looking for 25 bps of easing in Q2 and 25 bps in H2. Central bank next meets April 18. Firmer peso will help the outlook for inflation. If the Fed cuts rates further this month, Banco de Mexico can stand pat and allow the interest rate differential to move farther in favor of the peso. Despite the slowing US economy, Mexico export growth remains strong so far in 2008, as does IP and GDP growth. Our FX model identifies Mexico as having neutral underlying fundamentals. However, USD/MXN has sustained much technical damage during the last several weeks. By breaking below the 2007 low of 10.64 last week, we identified the 10.4240-1.4250 area (2006 lows) and then 10.40 (2005 low) as the next potential targets over the course of Q2. As long as the economy holds up, the central bank can put off rate cuts and this would help the peso over the course of Q2.

UPCOMING ECONOMIC RELEASES

BOE, ECB, Korea, Singapore, Iceland, South Africa, Chile, and Peru central banks hold policy meetings. Japan Feb machine orders and current account out, followed by Singapore advance Q1 GDP and Australia Mar jobs. Norway Mar CPI out, followed by UK Feb trade, Turkey Feb current account, and Canada Feb trade. For US, Feb trade and weekly jobless claims out. Fed's Bernanke speaks, followed by Treasury's Paulson and Solomon and World Bank's Zoelick.

RATES AND RANGES -- at 16:00 ET/21:00 GMT

FROM NY OPEN			INTRADAY RANGES	
MAJORS	16:00/20:00	% Change	LOW	HIGH
EUR/USD	1.5823	0.7%	1.5684	1.5865
USD/JPY	101.81	-0.8%	101.50	102.83
USD/CHF	1.0016	-1.2%	0.9975	1.0169
GBP/USD	1.9756	0.3%	1.9652	1.9792
EUR/JPY	161.07	-0.1%	160.61	161.48
EUR/GBP	0.8009	0.4%	0.7967	0.8024
EUR/CHF	1.5848	-0.5%	1.5820	1.5956

COMMODITY CURRENCIES	% Change	LOW	HIGH	
AUD/USD	0.9277	-0.5%	0.9262	0.9322
NZD/USD	0.7963	-0.4%	0.7933	0.8006
USD/ZAR	7.8679	1.2%	7.7141	7.8810
USD/CAD	1.0189	0.5%	1.0127	1.0219

FROM NY OPEN			INTRADAY RANGES	
OTHER ASIA	16:00/20:00	% Change	LOW	HIGH
USD/TWD	30.46	-0.2%	30.46	30.56
USD/PHP	41.70	0.7%	41.51	41.83
USD/THB	31.76	0.0%	31.70	31.83
USD/IDR	9210	0.1%	9195	9224
USD/MYR	3.1785	-0.3%	3.1733	3.1916
USD/SGD	1.3768	-0.1%	1.3762	1.3819

FROM NY OPEN		% Change	INTRADAY RANGES	
LATIN AMERICA & NON EU EUROPE			LOW	HIGH
USD/MEX	10.5672	0.0%	10.5400	10.5775
USD/BRL	1.6880	-0.4%	1.6835	1.6996
EUR/CZK	25.13	0.2%	25.03	25.22
EUR/PLN	3.4545	-0.1%	3.4496	3.4626
EUR/HUF	254.36	0.3%	253.11	254.48

MONEY MARKETS (3 MTHS)	LEVEL	SPREAD
U.S.	2.85%	---
Euro	4.66%	181bp
Japan	0.85%	-200bp
U.K.	5.89%	304bp
Canada	3.66%	81bp
Australia	7.85%	500bp
New Zealand	9.13%	628bp
Switzerland	2.84%	-1bp

BENCHMARK EQUITY INDICES				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
MSCI - World*	375	-0.5%	-1.9%	-1.9%
MSCI - Europe*	556	0.1%	-0.5%	-0.5%
MSCI - EAFE	2098	-0.5%	-4.0%	-4.0%
MSCI - Asia Pacific	143	-1.0%	-2.8%	-2.8%
MSCI - Emerging Mkts	1149	-0.4%	20.1%	20.1%

AMERICAS EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
Dow Jones Industrials	12527	-0.4%	-0.3%	-0.3%
S&P 500 Index	1354	-0.8%	-6.2%	-6.2%
Nasdaq Composite	2322	-1.1%	-6.0%	-6.0%
Canada Toronto TSE	13742	0.1%	1.9%	15.3%
Mexico Bolsa Index	31428	-0.9%	6.1%	10.2%
Brazil Bovespa Index	63458	-1.7%	35.4%	62.4%

EUROPEAN EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
Eurotop (FTSE)	2748	-0.7%	-13.5%	2.5%
FTSE Index	5984	-0.1%	-6.5%	-5.8%
German DAX Index	6721	-0.7%	-5.3%	12.2%
French CAC 40 Index	4875	-0.8%	-15.1%	0.6%
Italy MIB30	34139	-0.1%	-19.4%	-4.5%
Swiss MP Index	7403	-2.2%	-18.6%	-0.4%

COMMODITY MARKETS	Level	Previous	Change
NYMEX crude (near future)	\$110.75	\$108.50	\$2.25
Gold (near future)	\$933.60	\$914.00	\$19.60

BOND MARKETS	Level	Previous	Change
US 2-yr Note	1.77%	1.87%	-0.10%
US 10-yr Note	3.48%	3.56%	-0.08%
US 30-yr Bond	4.32%	4.38%	-0.05%
German 10-yr Bund	4.01%	4.02%	-0.02%
UK 10-yr Gilt	4.51%	4.50%	0.01%
Canada 10-yr Bond	3.56%	3.62%	-0.06%

MARKET INDICATORS	Level	Previous	Change
VIX Index	22.94	22.36	0.58
EMBI+ Sov. Spread (prior close)	282bp		

Source: Bloomberg. *These are the 'All Country' World & 'All Country' Europe indices, which cover developed and emerging markets for the respective regions.

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