

HIGHLIGHTS

- After the post-G7 buying spree in Asia, the dollar then sold off as Europe and North American markets greeted the G7 statement with skepticism (as we do). EUR/USD was unable to make a new high, but renewed dollar weakness saw French Fin Min Lagarde do some jawboning (see below) on Monday. EUR, CHF, and GBP filled post-G7 gaps, and so we think bearish dollar sentiment remains intact. Still, dollar bears must be getting a little frustrated at the lack of recent progress. However, perceived lack of conviction from G7 should see further tests of the EUR/USD high in the coming days. High yielders fell out of favor, as the biggest losers against the buck on the day were ISK, ZAR, CLP, TRY, and NZD. Dollar/yen likely to remain in 100-103 range for now, while the yen was largely softer on the crosses.
- US equity markets ended down modestly on the day. Financial stocks underperformed after US bank reported worse than expected Q1 loss and plan to boost capital with \$7 bln share offering as well as a dividend cut. With other financials reporting this week, US equities are likely to remain vulnerable short-term. Oil-related stocks outperformed on higher oil prices. Asian ADRs fell during North American trading, pointing to a weak start for regional stocks today. Nikkei futures are pointing to a flat open for Japan equities today. Brazil stocks underperformed despite Petrobras revising up estimates of reserves in Carioca oil field to 33 bln barrels, which would be third-largest field in the world.
- US bonds are down on the day, with the 2-year yield up 1 bp and the 10-year yield up 4 bp. European bonds were mixed, with 10-year yields up 2 bp in UK and unchanged in both France and Germany. The market decreased Fed easing expectations, fully pricing in a 25 bp Fed cut in April and a 40% chance (vs. 46% Friday) of a 50 bp move.

CURRENCY MARKETS

French Finance Minister claims that investors have not fully understood the message the G7 sent in its recent statement. Immediately after the release of the statement she said she hoped it would help the dollar to recover. It is true the wording of the statement was altered. However, given the dramatic change in the financial and economic climate, some kind of change was needed. However, a change in the wording is one thing, but to intimate that markets misunderstand the significance is a different story. And of course Lagarde, in her NY briefing today, did not specify exactly what she meant that the markets are misunderstanding. The reason she didn't isn't because she is keeping her cards close to her vest. Rather, she is confined by the G7 statement itself and the apparent lack of consensus for more explicit wording or specific commitment for action. If there was an agreement in the G7 that the dollar's sell-off had gone too far, there are ways to signal that as it has done in the past, such as calling for a reversal. There was no mention of the dollar per se. Last week, in his press conference, ECB President Trichet cited the euro-sterling cross. Not even this was cited by the G7. The bottom line is Lagarde is spinning the G7 statement as the Sarkozy government wishes, but her remarks have not been echoed by any one else there. And often in these types of situations, it is the losing side that takes their case to the media. In what reportedly was a heated and protracted debate the French failed not only to convince the US, but even its European allies to have stronger wording. With little recourse, she now takes her case to the press and hopes that jawboning will do what the G7 failed to do.

US retail sales data came in slightly strong than expected. Headline retail sales rose 0.2% (vs. an expected flat reading) and the Feb number was revised to down 0.4% (from down 0.6%), but details were soft. Higher gas prices (up 0.6%) contributed to the 1.1% rise in sales at gasoline stations (vs. 0.5% in Feb). Additionally, the measure used by the government to calculate GDP - ex-autos, gas, and building materials - rose 0.2% from a flat reading in Feb. Sales at stores open at least a year fell 0.5%. The market already knows the consumer pulled back in the first quarter, and attention remains focused instead on equity markets and the aftermath of the G7 statement.

Turkey Economy Minister Simsek said that it will soon meet the structural reforms required to conclude its current IMF program. If true, it would lead to the completion of the current 3-year standby program (expiring May 2008) and would lead to the release of \$3.6 bln in funds. Simsek added that Turkey is discussing a new monitoring program that does not involve new lending, which is typical of a country trying to graduate from IMF aid programs. USD/TRY earlier this month broke an important level at 1.3220 (62% retrace of the 2007-2008 drop in USD/TRY) and targets the August 2007 high of 1.43. On a longer-term basis, 1.3830 and 1.4560 are the 38% and 50% retracements, respectively, of the bigger drop in USD/TRY from a peak of 1.7650 in June 2006 to the January 2008 low of 1.148. We remain negative on TRY. The central bank meets April 18, and we see no move, as inflation remains stubbornly high and TRY is under pressure. According to central bank surveys, market expects steady rates over the next three months and 75 bps of easing over the next twelve months. Policy rate of 15.25% is quite high, but high rates have not helped ISK, ZAR, or HUF much recently. Current account gap continues to widen, and countries that need external financing are likely to suffer this year due to ongoing credit market turmoil.

The US dollar has been carving out a bottom against the euro and we believe it is also beginning to carve out a bottom against AUD and NZD after bottoming against CAD and GBP late last year. Data from both Antipodean countries have deteriorated in recent weeks despite high commodity prices. The positive terms of trade shock and relatively high interest rates are no longer enough to support the currencies in this risk averse environment. Tight credit conditions have also impacted New Zealand, with both the consumer and business sectors softening and growth expected to slow to around 2.1% in 2008 and enabling the RBNZ to begin an easing cycle by late 2008/early 2009. Australia is also exhibiting signs it is beginning to react to tight credit conditions, but Q1 inflation is likely to remain elevated and so odds of an RBA rate cut in 2008 are much lower than in New Zealand. A break of the 0.9180/90 area (which corresponds to both a 50% retracement of AUD April rally and the 5 day moving average) opens a move back toward 0.9000. NZD has already fallen back below the 5 and 20 day moving averages and is close to the 100 day moving average (0.7845) and to the 50% retracement of this year's rally (0.7800). Looking at AUD/NZD, the cross has already gained 3% since bottoming in late March and is likely to correct back to 1.1580, providing a new level to buy the cross.

UPCOMING ECONOMIC RELEASES

New Zealand Q1 CPI out, followed by RBA minutes and Gov Stevens speech. Singapore Feb retail sales, Russia Mar IP, UK Mar CPI, ZEW Apr Germany and Eurozone sentiment, Brazil Feb retail sales, and Poland, Israel Mar CPI out. For US, Mar PPI import prices, Apr Empire manufacturing index, and Feb TIC data out. Fed's Braunstein speaks.

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 | 1.5826 | 0.1% | 1.5672 | 1.5886 |
| USD/JPY | 101.11 | 0.1% | 100.31 | 101.52 |
| USD/CHF | 0.9992 | -0.2% | 0.9928 | 1.0077 |
| GBP/USD | 1.9781 | 0.5% | 1.9654 | 1.9894 |
| EUR/JPY | 160.00 | 0.2% | 158.26 | 160.07 |
| EUR/GBP | 0.8001 | -0.4% | 0.7963 | 0.8010 |
| EUR/CHF | 1.5812 | -0.1% | 1.5763 | 1.5849 |

| COMMODITY CURRENCIES | % Change | LOW | HIGH | |
|----------------------|----------|-------|--------|--------|
| AUD/USD | 0.9266 | -0.2% | 0.9206 | 0.9268 |
| NZD/USD | 0.7907 | -0.3% | 0.7855 | 0.7923 |
| USD/ZAR | 7.8660 | 0.6% | 7.7760 | 7.8904 |
| USD/CAD | 1.0185 | -0.5% | 1.0177 | 1.0274 |

| FROM NY OPEN | | | INTRADAY RANGES | |
|--------------|-------------|----------|-----------------|--------|
| OTHER ASIA | 16:00/20:00 | % Change | LOW | HIGH |
| USD/TWD | 30.32 | 0.1% | 30.29 | 30.42 |
| USD/PHP | 41.66 | 0.3% | 41.22 | 41.81 |
| USD/THB | 31.60 | 0.1% | 31.51 | 31.70 |
| USD/IDR | 9188 | -0.1% | 9180 | 9226 |
| USD/MYR | 3.1585 | 0.2% | 3.1518 | 3.1650 |
| USD/SGD | 1.3582 | 0.1% | 1.3565 | 1.3628 |

| FROM NY OPEN | | % Change | INTRADAY RANGES | |
|-------------------------------|---------|----------|-----------------|---------|
| LATIN AMERICA & NON EU EUROPE | | | LOW | HIGH |
| USD/MEX | 10.4694 | -0.5% | 10.4653 | 10.5553 |
| USD/BRL | 1.6903 | 0.0% | 1.6763 | 1.6969 |
| EUR/CZK | 24.74 | -0.9% | 24.20 | 24.97 |
| EUR/PLN | 3.4059 | -0.8% | 3.4015 | 3.4406 |
| EUR/HUF | 251.61 | -0.3% | 251.20 | 252.85 |

| MONEY MARKETS (3 MTHS) | LEVEL | SPREAD |
|------------------------|-------|--------|
| U.S. | 2.85% | --- |
| Euro | 4.72% | 187bp |
| Japan | 0.85% | -200bp |
| U.K. | 5.89% | 304bp |
| Canada | 3.66% | 81bp |
| Australia | 7.88% | 503bp |
| New Zealand | 9.20% | 635bp |
| Switzerland | 2.83% | -2bp |

| BENCHMARK EQUITY INDICES | | | | |
|--------------------------|-------|---------|-------|------------|
| INDEX | LEVEL | 1 - DAY | Y/Y | Y/Y (US\$) |
| MSCI - World* | 368 | -0.8% | -4.5% | -4.5% |
| MSCI - Europe* | 543 | -0.6% | -4.8% | -4.8% |
| MSCI - EAFE | 2061 | -1.2% | -6.6% | -6.6% |
| MSCI - Asia Pacific | 142 | -2.3% | -2.7% | -2.7% |
| MSCI - Emerging Mkts | 1145 | -1.3% | 18.2% | 18.2% |

| AMERICAS EQUITY MARKETS | | | | |
|-------------------------|-------|---------|-------|------------|
| INDEX | LEVEL | 1 - DAY | Y/Y | Y/Y (US\$) |
| Dow Jones Industrials | 12302 | -0.2% | -2.5% | -2.5% |
| S&P 500 Index | 1328 | -0.3% | -8.6% | -8.6% |
| Nasdaq Composite | 2276 | -0.6% | -8.7% | -8.7% |
| Canada Toronto TSE | 13739 | 0.4% | 1.2% | 12.4% |
| Mexico Bolsa Index | 31192 | -0.4% | 4.8% | 10.1% |
| Brazil Bovespa Index | 62153 | -0.7% | 29.7% | 55.9% |

| EUROPEAN EQUITY MARKETS | | | | |
|-------------------------|-------|---------|--------|------------|
| INDEX | LEVEL | 1 - DAY | Y/Y | Y/Y (US\$) |
| Eurotop (FTSE) | 2671 | -0.8% | -16.8% | -2.7% |
| FTSE Index | 5832 | -1.1% | -9.8% | -10.3% |
| German DAX Index | 6554 | -0.7% | -9.1% | 6.3% |
| French CAC 40 Index | 4766 | -0.7% | -17.7% | -3.7% |
| Italy MIB30 | 33275 | -1.2% | -22.5% | -9.4% |
| Swiss MP Index | 7140 | -1.6% | -22.2% | -5.5% |

| COMMODITY MARKETS | Level | Previous | Change |
|---------------------------|----------|----------|--------|
| NYMEX crude (near future) | \$111.90 | \$110.14 | \$1.76 |
| Gold (near future) | \$925.40 | \$923.60 | \$1.80 |

| BOND MARKETS | Level | Previous | Change |
|-------------------|-------|----------|--------|
| US 2-yr Note | 1.76% | 1.74% | 0.02% |
| US 10-yr Note | 3.51% | 3.47% | 0.04% |
| US 30-yr Bond | 4.35% | 4.30% | 0.05% |
| German 10-yr Bund | 3.91% | 3.91% | 0.00% |
| UK 10-yr Gilt | 4.43% | 4.41% | 0.02% |
| Canada 10-yr Bond | 3.56% | 3.55% | 0.01% |

| MARKET INDICATORS | Level | Previous | Change |
|---------------------------------|-------|----------|--------|
| VIX Index | 23.82 | 23.46 | 0.36 |
| EMBI+ Sov. Spread (prior close) | 288bp | | |

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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