HIGHLIGHTS

- **Dollar hung on to its recent gains in narrow rangebound trading, and is poised to strengthen further on an improved technical picture as we move towards year-end. 1.4350 is key level, break of which targets 1.4160 and then 1.3970. Narrower US current account gap for Q3 did not have much impact on trading, but at the margin it is dollar positive. Sterling leading the move, with cable set to retest the Aug low of 1.9650 after breaking 62% retrace of big Aug-Nov rally. Yen firmed on the crosses, while dollar/yen remained largely steady. High yielders bore the brunt of the losses against the yen, as increasing recession fears for the US helped cut risk appetite. Big losers on the day vs. JPY were NZD, BRL, SEK, NOK, and ZAR. US Treasury said it will release its semiannual FX report this Wednesday, but we do not expect the report to identify anyone as a currency manipulator. NAHB sentiment remained at record low in December. Hungary left rates unchanged, as expected.**
- **US equities remained under pressure as US recession fears rose. Tech sector underperformed on concerns that chip prices are vulnerable, while oil and energy-related shares also underperformed as WTI oil prices sunk to $90 on US recession fears. With US equities ending lower, Asian ADRs were down 3.3% on the day, so regional Asian equities are likely to open sharply lower. Outlook for the Nikkei is negative due to a combination of the strong yen on the crosses and weak US equities.**
- **US bond prices rose as safe haven buying picked up and equities posted losses. The US 10 yield fell 9 bps, while the 2-year yield fell 12 bps. Despite firm Nov US data, market expectations are still centered on further Fed easing (25 bps fully priced in for January). European 10-year yields also fell, with UK down 3 bps, France down 2 bps, and Germany down 2 bps.**

CURRENCY MARKETS

The October TIC data was stronger than expected and it came on the heels of a smaller than expected Q3 current account report. Net inflow into the US financial assets was $97.8 bln vs. a revised $32.8 bln outflow in Sept (initially reported at -$14.7 bln). The inflow into long-term assets was $114 bln more than twice what the consensus had expected. The Sept inflow was revised to $15.4 bln from $26.4 bln. The Sept report was revised to show weaker flows, which in turn contributes to the bounce back in Oct. Equity purchases were the strongest in five months. Foreigners bought a net $30.2 bln of US shares in Oct up from $2.6 bln in Sept. They bought $23.1 bln of corporate bonds. Of particular interest, Chinese investors pared their Tsy holdings by $8.6 bln, continuing a recent trend, while the Japanese bought $9.8 bln, reversing a recent trend. UK holdings rose $30.5 bln. OPEC increased their Tsy holdings by $4.6 bln. Two caveats that should be kept in mind. First, that the sales of Treasuries does not in itself mean the sale of dollars as in many cases the diversification out of Treasuries has meant an increase in agency debt or corporate debt. Second, the TIC data does not include direct investment and as the current account data showed, direct investment inflows surged by nearly 75% in Q3. US real assets are cheap in foreign currency terms and more direct investment inflows into the US would not be surprising as foreign companies step up their production and sourcing in the US as they respond to competitive pressures.

A group representing investors failed to resolve the problems in the Canadian commercial paper market that prompted a standstill agreement since August. The failure to resolve the situation means that the standstill agreement was extended until late January. The Canadian commercial paper market value was around C$35 bln, of which 1/3 (C$13.2 bln) was asset-backed commercial paper. BOC Governor Dodge warned that the impact is larger than this notional amount and suggested that leveraging could mean the overall impact is 8-10 times larger. Investors and banks seemed to be edging toward a three-prong strategy, based on the assets involved. The first part may be for about C$3 bln that will be earmarked for commercial paper backed by traditional unleveraged assets. Another C$3 bln will be for commercial paper supported by US subprime assets. The largest component is the hybrid which has a combination of leveraged and non-leveraged assets, which accounts for as much as C$27 bln. It is not clear the magnitude of the hit that investors will eventually take. Bloomberg reports suggest that some firms have offered to buy the debt at 50-60 cents on the dollar. Many investors appear to believe time is on their side and that if they can "just hold on" the market conditions ease, the assets are worth more. Since early Nov as official Canadian rhetoric about the strength of the C$ and speculation of a rate cut began building, the Canadian dollar has sold off. The US dollar has risen from C$0.9060 to a C$1.0249 high before the weekend. Daily momentum studies warn that this the first leg of the C$ correction may be over and that a greenback pullback toward C$1.00 is likely before better support for the US dollar is found.

There is talk in the market that the Ministry of Finance and Economics is further liberalizing KRW trading. We have a call into the Bank of Korea here in New York, but have not yet received any confirmation. The main point is that Korea will reportedly drop the “real demand” requirement for purchases of KRW by foreign investors on their so-called exclusive investment cash account. That means that foreign investors would now be allowed to purchase KRW freely without any underlying securities purchase transactions. We will provide more details as they become available, but clearly, this would be a positive development for the development of Korea’s asset and capital markets. Any relaxation of FX restrictions will only help to increase investor interest in Korea.

Poland wages jumped 12% y/y in November vs. 11% y/y in October, and was the highest rate since August 2000. Back then, inflation was running at 10.7% y/y and the policy rate was a whopping 19%. Latest inflation reading was 3.7% y/y in November vs. the 1.5-3.5% target range, but any way you look at it, the current policy rate of 5% (last hiked in November) remains too low and the central bank is behind the curve. Unemployment is at a record low 11.3% in October, so wage pressures are likely to remain an issue in 2008. We think the central bank should hike rates again in December, but note that during this current tightening cycle, it has not yet hiked two straight months. Either way, we look for more tightening in 2008, and the bank may have to hike rates by 25 bps every other month in H1 to take the rate to 5.75% by mid-2008. Near-term, however, PLN remains vulnerable to broadbased dollar strength, and could move as high as 2.6030 against the dollar.

UPCOMING ECONOMIC RELEASES

Japan Nov department store sales come out, followed by UK and Canada Nov CPI. HK Nov unemployment, US Nov housing starts and building permits are due out. Treasury’s Paulson speaks, Fed Governors hold open meeting on mortgage rules.

CURRENCYVIEW

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	**1.4394**	-0.3%	1.4331	1.4453
USD/JPY	**112.95**	-0.3%	112.84	113.49
USD/CHF	**1.1490**	-0.3%	1.1489	1.1575
GBP/USD	**2.0202**	0.1%	2.0102	2.0226
EUR/JPY	**162.57**	-0.5%	162.36	163.55
EUR/GBP	**0.7125**	-0.4%	0.7114	0.7157
EUR/CHF	**1.6538**	-0.6%	1.6536	1.6656

COMMODITY CURRENCIES		% Change	LOW	HIGH
AUD/USD	**0.8566**	-0.5%	0.8559	0.8650
NZD/USD	**0.7548**	-1.4%	0.7525	0.7695
USD/ZAR	**6.9326**	0.7%	6.8518	6.9520
USD/CAD	**1.0060**	-1.1%	1.0029	1.0227

FROM NY OPEN			INTRADAY RANGES	
OTHER ASIA	16:00/20:00	% Change	LOW	HIGH
USD/TWD	**32.49**	0.3%	32.40	32.49
USD/PHP	**41.63**	1.5%	41.20	41.70
USD/THB	**30.33**	1.1%	30.13	30.63
USD/IDR	**9410**	0.6%	9297	9418
USD/MYR	**3.3443**	0.4%	3.3265	3.3500
USD/SGD	**1.4612**	0.7%	1.4493	1.4641

FROM NY OPEN		% Change	INTRADAY RANGES	
LATIN AMERICA & NON EU EUROPE			LOW	HIGH
USD/MEX	**10.8743**	0.5%	10.8220	10.8744
USD/BRL	**1.8150**	1.0%	1.7967	1.8215
EUR/CZK	**26.42**	0.0%	26.28	26.46
EUR/PLN	**3.6296**	0.4%	3.6011	3.6303
EUR/HUF	**255.18**	0.4%	253.13	255.39

MONEY MARKETS (3 MTHS)	LEVEL	SPREAD
U.S.	5.11%	---
Euro	4.91%	-20bp
Japan	0.90%	-421bp
U.K.	6.40%	129bp
Canada	4.93%	-18bp
Australia	7.25%	214bp
New Zealand	9.10%	399bp
Switzerland	2.65%	-246bp

BENCHMARK EQUITY INDICES				
INDEX	LEVEL	1 - DAY	YTD	YTD (US$)
MSCI - World*	393	-1.9%	6.9%	6.9%
MSCI - Europe*	579	-1.9%	8.9%	8.9%
MSCI - EAFE	2193	-2.3%	5.7%	5.7%
MSCI - Asia Pacific	152	-2.9%	8.4%	8.4%
MSCI - Emerging Mkts	1184	-3.3%	29.7%	29.7%

AMERICAS EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	YTD	YTD (US$)
Dow Jones Industrials	13166	-1.3%	5.6%	5.6%
S&P 500 Index	1446	-1.5%	2.0%	2.0%
Nasdaq Composite	2574	-2.3%	6.6%	6.6%
Canada Toronto TSE	13390	-2.1%	3.7%	20.2%
Mexico Bolsa Index	29054	-3.1%	9.9%	9.3%
Brazil Bovespa Index	59828	-4.2%	34.5%	58.3%

EUROPEAN EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	YTD	YTD(US$)
Eurotop (FTSE)	3139	-1.6%	1.5%	10.7%
FTSE Index	6278	-1.9%	0.9%	4.1%
German DAX Index	7825	-1.5%	18.6%	29.4%
French CAC 40 Index	5515	-1.6%	-0.5%	8.5%
Italy MIB30	38529	-1.6%	-7.3%	1.1%
Swiss MP Index	8545	-1.5%	-2.7%	3.2%

COMMODITY MARKETS	Level	Previous	Change
NYMEX crude (near future)	$90.68	$91.27	-$0.59
Gold (near future)	$794.80	$793.30	$1.50

BOND MARKETS	Level	Previous	Change
US 2-yr Note	3.18%	3.31%	-0.13%
US 10-yr Note	4.15%	4.23%	-0.09%
US 30-yr Bond	4.59%	4.66%	-0.07%
German 10-yr Bund	4.29%	4.31%	-0.02%
UK 10-yr Gilt	4.76%	4.79%	-0.04%
Canada 10-yr Bond	4.06%	4.14%	-0.08%

MARKET INDICATORS	Level	Previous	Change
VIX Index	24.83	23.27	1.56
EMBI+ Sov. Spread (prior close)	222bp		

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