

HIGHLIGHTS

- **Dollar and US equities both rallied big the day after the post-FOMC sell off. We still have Apr US jobs data today to look forward to, but we still like USD stronger. Recall that ADP reported a better than expected 10k gain in Apr private sector jobs, so there is a risk that we see a decent number jobs today, which would be dollar-supportive. Technicals still point to continued dollar gains. CHF and JPY may lead the next leg down; besides their 5- and 20-day moving averages crossing, CHF and JPY both nearing their 100-day moving averages. For EUR, the 5- and 20-day have crossed but 100-day still far off. The euro saw support at \$1.5420. Against the yen, the dollar is trading in a JPY103.50-JPY104.90 range. Given the risk appetite that's creeping back into the market, we like an upside break in dollar/yen of 105.22, which targets 107.45. The biggest losers against the buck on the day were CHF, NOK, SEK, CAD, and EUR. US auto sales weak in Apr. Commodity currencies hurt by falling commodity prices again.**
- **US equity markets ended down modestly on the day, disappointing given the pre-FOMC rally seen. Financials outperformed on news that Middle East SWF may boost stakes in big US houses, while oil-related stocks underperformed as oil prices fell and big US oil company reported lower than expected profits. Asian ADRs rose during North American trading, pointing to a good start for regional stocks today, while Nikkei futures point to a higher open for Japan equities.**
- **US bonds were down on the day, with the 2-year yield up 11 bp and the 10-year yield up 4 bp. European bonds were up, with 10-year yields down 5 bp in UK, down 1 bp in France, and down 1 bp in Germany. After FOMC, market now pricing in small odds of another cut this year. Prior to FOMC, rate was seen bottoming at 2%.**

CURRENCY MARKETS

US data releases are not detracting from the outlook for an extended Fed pause and a stagnant (but not a sharply contracting US economy) in Q2. That is a positive for the US dollar. US ISM manufacturing index was better than expected in April but remained below the 50/50 boom/bust level for the third consecutive month. (The index was 48.6 vs. an expected 48.0 and unchanged from March.) Meanwhile, construction spending in Mar fell at a faster than expected pace, down 1.1% (0.7% fall exp). Details of the ISM data were generally weak as well with inventories rising (suggesting further softness in May and June as inventories are allowed to be drawn down) and employment continued to soften. Still, the index is consistent with growth rather than contraction in the overall economy. Indeed, the export sector remains firm with new orders up (to 57.5 from 56.5). On the inflation front, prices paid continued to rise to 84.5 (from 83.5). The data are consistent with a Fed pause and have had no impact on the US dollar. Personal income data were slightly lower than expected, up 0.3% (0.4% exp) while personal spending was slightly higher than expected, rising 0.4% (0.2% exp) as households spent more on medical costs and utilities while reducing demand for autos and other durables. The data are unlikely to lead to a major revision in the outlook for Q1 or Q2 GDP. Expectations prior to the release of Q1 GDP data were for an 0.1% q/q increase in Q2 according to a Bloomberg survey. Inflation moderated with the PCE deflator rising 3.2% (as exp) vs. 3.4% in Feb while the core PCE rose unexpectedly to 2.1%/y/y (vs. 2.0% in Feb) and is now above the Fed's unofficial target range of 1-2%. Weekly jobless claims rose 380K (365K exp) after an unexpectedly low reading in the prior week (342K). The data bring the four week moving average to 364K, still above the 52 week average of 333K. The data won't change the outlook for April jobs numbers, where payrolls are expected down 75K.

Bank of Korea meets May 7, and the last move was a 25 bps hike to 5.0% in August 2007. CPI rose 4.1% y/y in April vs. 3.9% y/y in March, while core CPI rose 3.5% y/y vs. 3.3% y/y in March. Market is looking for 50 bps of easing this year, but with inflation above the 2.5-3.5% target, easing is unlikely to be seen for now. KRW has been the worst performer in Asia year-to-date, falling -6.8% vs. USD, while the current account has been in deficit for four straight months and is likely to post a deficit for all of 2008. Our FX model identifies Korea as having weak underlying fundamentals, and so we think the won is likely to continue underperforming. Near-term target for USD/KRW is a retest of the 2008 high at 1031.8.

Bank of Thailand meets May 21, and its last move was a 25 bps cut to 3.25% in July 2007. Market is now looking for 25 bps (vs. 50 bp last month) of easing this year, but rising price pressures will prevent any easing for now. CPI inflation accelerated to 6.2% y/y in April from 5.3% y/y in March, while core inflation accelerated to 2.1% y/y from 1.7% y/y. While core inflation is still within the 0-3.5% target range, the steady rise as well as stronger growth in the economy recently should keep the central bank on hold for now. THB has been the second worst performer in Asia year-to-date, down -5.9% vs. USD. Trade and current account surpluses are narrowing noticeably, as import demand has shot up along with the stronger economy. While our FX model identifies THB as having strong underlying fundamentals, we think they are deteriorating modestly. We target a move for USD/THB to the 2008 high of 32.585 in Q2 and then to the August 2007 high of 33.85 over the course of H2. However, Thai fundamentals are still pretty solid so move is likely to be slow and steady.

Philippines inflation is expected to accelerate to 6.9% y/y in April from 6.4% y/y in March, and would be the highest rate since May 2006. Data will come out next week. The inflation target range is 3-5% for this year and 2.5-4.5% in 2009, and the central bank warned today that the 2008 target is "clouded with risks." The central bank next meets June 5, and it last cut rates in January by 25 bps to 5.0%. Market is looking for 50 bp of easing by year-end, but we think this is unlikely. Besides rising inflation, the economy remains strong, with GDP up 7.4% y/y in Q4, same as in Q3, for a full year rate of 7.3% vs. 5.5% in 2006. The economy will undoubtedly slow in 2008, but we think recent inflation data will prevent the bank from cutting rates further. Strong remittances from overseas workers continue to underpin the current account surplus, but underlying fundamentals are amongst the weakest in the region. PHP has underperformed in Asia, falling -2.4% year-to-date vs. the dollar. Near-term target is 42.918, the 38% retracement of the big 2007-2008 fall in USD/PHP. 50% level comes in at 43.75, which we could see in H2.

UPCOMING ECONOMIC RELEASES

MOF weekly Japan investment flows out. Australia and German Mar retail sales out, followed by Indonesia Mar trade and Apr CPI. Turkey Apr CPI and Brazil Apr trade out. For US, Apr jobs report and Mar factory orders out. Fed Governors hold open meeting on consumer regulations, while Treasury's Levey 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	1.5456	-1.1%	1.5431	1.5644
USD/JPY	104.37	0.4%	103.55	104.59
USD/CHF	1.0494	1.4%	1.0336	1.0509
GBP/USD	1.9749	-0.6%	1.9714	1.9911
EUR/JPY	161.32	-0.6%	160.62	162.46
EUR/GBP	0.7827	-0.5%	0.7802	0.7878
EUR/CHF	1.6220	0.4%	1.6160	1.6227

COMMODITY CURRENCIES	% Change	LOW	HIGH	
AUD/USD	0.9343	-1.0%	0.9307	0.9444
NZD/USD	0.7779	-0.6%	0.7741	0.7841
USD/ZAR	7.6123	0.7%	7.5263	7.6563
USD/CAD	1.0192	1.1%	1.0063	1.0236

FROM NY OPEN			INTRADAY RANGES	
OTHER ASIA	16:00/20:00	% Change	LOW	HIGH
USD/TWD	30.50	0.1%	30.45	30.52
USD/PHP	42.27	0.2%	42.17	42.27
USD/THB	31.73	0.1%	31.53	31.76
USD/IDR	9230	0.1%	9200	9241
USD/MYR	3.1578	0.1%	3.1578	3.1605
USD/SGD	1.3613	0.4%	1.3553	1.3621

FROM NY OPEN		% Change	INTRADAY RANGES	
LATIN AMERICA & NON EU EUROPE			LOW	HIGH
USD/MEX	10.4978	0.1%	10.4755	10.5115
USD/BRL	1.6626	0.0%	1.6622	1.6665
EUR/CZK	25.32	0.3%	25.20	25.39
EUR/PLN	3.4618	0.3%	3.4393	3.4662
EUR/HUF	252.21	-0.1%	251.95	253.62

MONEY MARKETS (3 MTHS)	LEVEL	SPREAD
U.S.	2.90%	---
Euro	4.84%	194bp
Japan	0.86%	-204bp
U.K.	5.80%	290bp
Canada	3.44%	54bp
Australia	7.84%	494bp
New Zealand	9.00%	610bp
Switzerland	2.71%	-19bp

BENCHMARK EQUITY INDICES				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
MSCI - World*	385	0.4%	-1.5%	-1.5%
MSCI - Europe*	556	-0.6%	-3.8%	-3.8%
MSCI - EAFE	2127	-0.6%	-4.4%	-4.4%
MSCI - Asia Pacific	149	-0.4%	2.8%	2.8%
MSCI - Emerging Mkts	1193	0.1%	23.1%	23.1%

AMERICAS EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
Dow Jones Industrials	13010	1.5%	-1.0%	-1.0%
S&P 500 Index	1409	1.7%	-5.2%	-5.2%
Nasdaq Composite	2481	2.8%	-2.0%	-2.0%
Canada Toronto TSE	14053	0.8%	4.8%	14.3%
Mexico Bolsa Index	30281	0.0%	4.4%	8.8%
Brazil Bovespa Index	67868	6.3%	38.6%	69.6%

EUROPEAN EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
Eurotop (FTSE)	2810	0.1%	-13.3%	-1.5%
FTSE Index	6087	0.0%	-5.2%	-6.3%
German DAX Index	6949	0.9%	-6.2%	6.6%
French CAC 40 Index	4997	0.4%	-16.2%	-4.8%
Italy MIB30	34540	0.4%	-20.7%	-9.9%
Swiss MP Index	7529	0.9%	-20.1%	-7.6%

COMMODITY MARKETS	Level	Previous	Change
NYMEX crude (near future)	\$112.27	\$113.46	-\$1.19
Gold (near future)	\$853.20	\$865.10	-\$11.90

BOND MARKETS	Level	Previous	Change
US 2-yr Note	2.36%	2.25%	0.10%
US 10-yr Note	3.76%	3.73%	0.03%
US 30-yr Bond	4.49%	4.47%	0.03%
German 10-yr Bund	4.12%	4.14%	-0.02%
UK 10-yr Gilt	4.62%	4.67%	-0.05%
Canada 10-yr Bond	3.57%	3.59%	-0.02%

MARKET INDICATORS	Level	Previous	Change
VIX Index	18.98	20.79	-1.81
EMBI+ Sov. Spread (prior close)	264bp		

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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