

HIGHLIGHTS

- Dollar was largely range bound, but maintained a firm tone and held on to its recent gains. The buck was helped by higher US equities, and this was despite higher oil prices. The better than expected ADP jobs report may have helped, as did the Fed's extension of the emergency liquidity programs (see below). Swiss franc weakness continues to lead the euro, as it has almost fully retraced its June-July rally vs. USD even as EUR/USD is only just testing the 62% retracement. Sterling continues to outperform, as it is just testing the 50% retracement of the same June-July period at 1.9780. As a result, GBP/EUR fell while CHF/EUR rose. Given the deterioration in the UK economy, we see sterling playing catch-up in the days ahead. Dollar/yen was dragged higher by rising US equity markets, but was again unable to break convincingly above 108. Biggest winners against the dollar on the day were TRY, INR, NOK, PHP, and BRL while biggest losers were CLP, AUD, NZD, KRW, and CZK. Poland central bank left rates unchanged, as expected. Mexico central bank raised inflation forecasts, suggests more tightening ahead. Brazil wholesale inflation continues to rise, pointing to more rate hikes ahead too and helped USD/BRL make new lows.
- US equity markets ended up for the second straight day even as financials underperformed. Oil-related stocks outperformed as oil prices rose after an unexpected fall in weekly US gas stockpiles. Asian ADRs rose in N. 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, with the 2-year yield and the 10-year yield both up 1 bp. European bonds were up, though, with 10-year yields down 5 bp in UK, down 5 bp in France, and down 6 bp in Germany. Fed funds futures market decreased expectations for Fed tightening, with odds of Sep hike falling to 43% from 56% previously.

CURRENCY MARKETS

ADP private sector employment rose unexpectedly (+9K vs. an expected -60K in July). While the data do not usually provide a clear read on Friday's BLS jobs numbers, the ADP data is likely to garner more attention today after the June ADP estimate. That June estimate was one of the closest of the year for private sector non-farm payroll data but that degree of accuracy is not reliable. ADP data have generally outperformed private sector non-farm payrolls data. Government jobs are also included in non-farm payrolls and have been increasing at an average of 27K per month. Still, jobs data have generally lagged behind a pickup in the economy and other recent data have been upbeat. Q2 GDP growth is likely to come in at least double the Q1 08 pace of 1.0%, a dollar positive.

The stronger than expected ADP estimate helped the buck. The directional bias has been reinforced by news that the Federal Reserve will extend its two emergency lending programs until the end of next January (shortly after the next president is sworn in?). More than that, it will also initiate an auction for options on as much as \$50 bln of Term Securities Lending Facility on top of the existing \$200 bln program. It will also start selling 84-day loans to commercial banks. Related, but separately, the ECB and SNB are extending their own operations to provide liquidity and will include 84-day funds. The Fed will increase the swap lines with the ECB to \$55 bln from \$50 bln. The extension and fine tuning of the Fed's newly created facilities should not be understood as an effort to make them a permanent feature of the Fed's arsenal. Instead, the Fed was clear that these facilities PDCF and TSLF are temporary and will end when it judges the emergency has passed. Fed officials have hinted that such moves were likely and so the move is not that surprising, even if the precise timing is. Along with some other observers, like Greenspan, we have suggested the TED spread as a useful metric. This is the difference between T-bill yields and Eurodollar deposit yields. That spread, prior to the crisis was around 25 bp. It peaked in March near 200 and now is a little below 105 bp. Yet rather than (as Bloomberg reporters suggest) being the difference between what the government and corporations can borrow at, it is more useful to think of it as the risk premium of banks, where eurodollar deposits are kept, over US T-bills, which remain the risk-free asset.

Currency Market Rundown - EUR: Hit a session low of \$1.5522. The selling pressure has eased and a bout of short-covering and bottom-pickers pushed it a half cent or so higher. The positive USD technical tone, though can be retained and the price action largely corrective in nature provided that the \$1.5670 area more or less holds. That said, the initial target of the correction comes in near \$1.5620. **GBP:** Sterling dropped to \$1.9745 before bouncing back. The \$1.9820 area is containing upticks for the moment, but potential seems to extend toward \$1.9870-\$1.9910. **CHF:** The dollar reached CHF1.0523 and is finding support near CHF1.0460. There is scope for additional near-term slippage toward CHF1.0440 and CHF1.0380. **JPY:** Amid talk of exporter sales, toshin funds (international funds) and uridashi bond related yen sales have helped cap the dollar just ahead of the JPY108.40-60 band of resistance. A break of JPY107.75 could be a preliminary indication that the market is giving up for now. The release of a relatively strong US Q2 GDP today is going to offer stark contrast with the recessionary talk and readings coming from Europe and Japan. Nevertheless, a decline in US non-farm payrolls that will likely be announced on Friday does not negate the still impressive resilience of the US economy. Note that Q2 growth, which may be something on the magnitude of twice the growth as in Q1, took place despite falling employment. In the short-run, this can persist. The answer to the conundrum is productivity.

Turkey's Supreme Court has rejected the proposed ban on the ruling AKP, falling short of the needed 7 votes by only 1 vote. While we expect further political tensions ahead, it would appear that the AKP will survive as is for the time being, as the next election does not have to be called until 2012. While the ruling is a big defeat for the secularists, it's ironic that the mildly Islamic AKP has been the best thing to happen for the economy and so investors can look forward to a continuation of orthodox policies. The only thing that concerns us is that the AKP may feel emboldened to continue introducing elements of Islam into the Turkish mainstream. However, the fact that the AKP survived by a razor-thin margin may keep the AKP a bit more cautious. USD/TRY is likely to test the January low of 1.149 in the coming weeks. A key level to keep an eye on is 1.10, which happens to be the 62% retrace of the big 2001-2003 TRY devaluation. Latest World Bank PPP estimate for USD/TRY is 1.01. While the exchange rate could conceivably overshoot PPP to become overvalued, we do not think it is likely anytime soon. The only EM currency that is overvalued to PPP is Israel, which is arguably further economically developed than Turkey is.

UPCOMING ECONOMIC RELEASES

Australia Jun trade and retail sales out, followed by Korea Jun IP, UK Jul house prices and GfK confidence, Thai Jun trade, current account, and IP, Norway and Germany Jul unemployment, HK Jun retail sales, eurozone Jul CPI, South Africa Jun trade and PPI, Canada May GDP, Chile Jun IP, and Turkey Jun trade. For US, Q2 advance GDP and ECI, weekly jobless claims, and Chicago PMI out. Romania central bank holds policy meeting, Brazil's releases minutes from Jul meeting. Treasury's Paulson 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	1.5577	-0.1%	1.5523	1.5617
USD/JPY	108.08	0.0%	107.71	108.34
USD/CHF	1.0482	0.1%	1.0441	1.0522
GBP/USD	1.9818	0.2%	1.9746	1.9844
EUR/JPY	168.36	-0.1%	167.96	168.64
EUR/GBP	0.7860	-0.2%	0.7852	0.7879
EUR/CHF	1.6327	0.1%	1.6286	1.6337

COMMODITY CURRENCIES	% Change	LOW	HIGH	
AUD/USD	0.9436	-1.0%	0.9412	0.9529
NZD/USD	0.7339	-0.8%	0.7316	0.7402
USD/ZAR	7.3943	0.5%	7.3517	7.4272
USD/CAD	1.0229	-0.1%	1.0220	1.0271

FROM NY OPEN			INTRADAY RANGES	
OTHER ASIA	16:00/20:00	% Change	LOW	HIGH
USD/TWD	30.51	0.1%	30.47	30.55
USD/PHP	44.15	-0.5%	44.08	44.31
USD/THB	33.50	0.0%	33.23	33.72
USD/IDR	9123	-0.1%	9116	9131
USD/MYR	3.2623	0.0%	3.2608	3.2660
USD/SGD	1.3677	-0.1%	1.3665	1.3709

FROM NY OPEN		% Change	INTRADAY RANGES	
LATIN AMERICA & NON EU EUROPE			LOW	HIGH
USD/MEX	10.0278	-0.2%	10.0240	10.0588
USD/BRL	1.5615	-0.3%	1.5600	1.5695
EUR/CZK	23.82	0.4%	23.64	24.00
EUR/PLN	3.2070	-0.2%	3.2054	3.2328
EUR/HUF	230.70	0.3%	229.83	231.83

MONEY MARKETS (3 MTHS)	LEVEL	SPREAD
U.S.	2.88%	---
Euro	4.93%	205bp
Japan	0.84%	-204bp
U.K.	5.76%	288bp
Canada	3.25%	37bp
Australia	7.69%	481bp
New Zealand	8.43%	555bp
Switzerland	2.72%	-16bp

BENCHMARK EQUITY INDICES				
INDEX	LEVEL	1 - DAY	YTD	YTD (US\$)
MSCI - World*	348	1.7%	-13.8%	-13.8%
MSCI - Europe*	493	1.6%	-17.0%	-17.0%
MSCI - EAFE	1899	1.4%	-15.7%	-15.7%
MSCI - Asia Pacific	132	1.5%	-16.3%	-16.3%
MSCI - Emerging Mkts	1038	2.2%	-16.7%	-16.7%

AMERICAS EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	YTD	YTD (US\$)
Dow Jones Industrials	11584	1.6%	-12.7%	-12.7%
S&P 500 Index	1284	1.7%	-12.5%	-12.5%
Nasdaq Composite	2330	0.4%	-12.2%	-12.2%
Canada Toronto TSE	13671	2.5%	-1.2%	-3.5%
Mexico Bolsa Index	27521	0.7%	-6.8%	1.3%
Brazil Bovespa Index	59858	3.1%	-6.3%	6.8%

EUROPEAN EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	YTD	YTD(US\$)
Eurotop (FTSE)	2495	1.6%	-21.2%	-15.9%
FTSE Index	5421	1.9%	-16.0%	-16.2%
German DAX Index	6460	1.0%	-19.9%	-14.5%
French CAC 40 Index	4401	1.9%	-21.6%	-16.3%
Italy MIB30	29310	0.5%	-24.6%	-19.5%
Swiss MP Index	7109	1.7%	-16.2%	-9.4%

COMMODITY MARKETS	Level	Previous	Change
NYMEX crude (near future)	\$127.04	\$122.19	\$4.85
Gold (near future)	\$907.60	\$916.50	-\$8.90

BOND MARKETS	Level	Previous	Change
US 2-yr Note	2.62%	2.62%	0.00%
US 10-yr Note	4.04%	4.04%	0.00%
US 30-yr Bond	4.64%	4.62%	0.02%
German 10-yr Bund	4.42%	4.48%	-0.06%
UK 10-yr Gilt	4.85%	4.90%	-0.05%
Canada 10-yr Bond	3.82%	3.79%	0.03%

MARKET INDICATORS	Level	Previous	Change
VIX Index	21.28	22.03	-0.75
EMBI+ Sov. Spread (prior close)	281bp		

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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