

HIGHLIGHTS

- **Dollar sold off ahead of the weak US data (see below), with EUR making new highs on talk of options-related selling. However, dollar reversed course right after the data, helped by Trichet comments that the US strong dollar policy is "very important." Yen was mostly firmer on the crosses, while USD/JPY made new lows for the current cycle and appears on track to test the 2004/2005 lows around 101.70-80. We do not see much risk of BOJ intervention at this point, with USD/JPY fall seen as part of generalized dollar weakness. While further gains for the euro towards 1.55 likely, we believe the buck has already bottomed against GBP and CAD. Sterling underperformed again, leading EUR/GBP to make new highs for the cycle and nearing .7700. Best performers on the day vs. USD were BRL, NZD, NOK, AUD, and ZAR. Commodity currencies firmed as commodity prices remain elevated and some risk appetite returned. Gold approaching \$1000, copper making new highs. Weak Canada GDP (see below) should help put a floor on USD/CAD near-term, we see move back above parity. US Feb auto sales came in weak.**
- **US equities virtually unchanged on the day, but financials underperformed due to ongoing concerns about the credit crisis. Oil-related stocks outperformed on higher oil prices, with OPEC officials ruling out an output increase at this week's meeting despite record prices. Inflation-adjusted oil prices made new record high, eclipsing the high set in 1980. Not surprisingly, Asian ADRs were down in N. American trading, pointing to a weak start for Asian regional stocks today. Nikkei futures are pointing to modestly higher Japan stocks, though the stronger yen should hurt Japan exporter shares.**
- **US yield curve steepened, with 2-year yield up 1 bp and the 10-year yield up 4 bp as recession fears and Fed easing expectations remain alive. European 10-year yields were down, with UK down 2 bp, France down 1 bp, and Germany down 3 bp. Fed funds futures market fell despite weak US data, but is still pricing in 75 bps easing in March and close to a 1.75% Fed funds rate in H2. Market will be looking for more clues from Fed officials today, we expect dovish stance to continue for now.**

CURRENCY MARKETS

Regulatory changes to the Thai FX market announced last Friday came into effect, and the bottom line is that onshore and offshore rates have converged again after diverging back when capital controls were first introduced. The controls announced last year kept the baht weaker onshore vs. offshore over the past year, and the announced changes led the offshore rate to adjust (weaken) to equal the onshore rate today. THB offshore is the worst performer in Asia year-to-date, but we note that the fundamentals remain quite good. Indeed, price pressures are rising and will likely prevent the BOT from cutting rates in the coming months, as some analysts predict. CPI rose a higher than expected 5.4% y/y in February vs. 4.3% y/y in January, and was the highest since June 2006. Core CPI rose 1.5% y/y, the highest since January 2007. GDP rose 5.7% y/y in Q4 vs. 4.8% y/y in Q3, and monthly data suggest that the momentum is carrying over into 2008. The political situation remains unsettled, but that has not prevented the economy from staging a decent recovery this past year. We do think that the Thai authorities, like the rest of Asia, prefer a slightly firmer currency to help alleviate price pressures. Recall that the controls were first announced to help prevent baht strength, so dropping them early does seem to suggest a greater willingness now to accept a strong baht. Next BOT policy meeting is April 9, but given rising risks to the economy, we think rates will be kept on hold for now. Exports account for 60% of GDP, with the US holding the largest share at 15%. Still, we note that Thai equities are the best performer in Asia, up 4.6% year-to-date in dollar terms and largely reflects the improving economy. Trade, current account, and BOP surpluses continue, while real activity is picking up (though this pickup is due in large part to a low basis of comparison) and exports remain strong. Near-term, the unified THB is likely to remain under pressure, with charts pointing to a retest of this year's 32.60 high for USD/THB. Longer-term, we think the baht will be supported by good fundamentals, and look for USD/THB to move back towards the 29.25-50 lows for 2008 over the course of Q2.

The US ISM manufacturing index fell below the 50/50 boom/bust line for the second time in three months (to 48.3 vs. 48.0 exp) while construction spending contracted by the most in over a year (down 1.7%) and the Dec data were revised down (to -1.3% from -1.1%). The data join a string of soft US economic releases including last week's Chicago manufacturing index and durable goods. Today's data suggest there is no sign of a recovery in the construction or manufacturing sector. In fact, details showed that weakness was not only in residential spending (down 2.9%) but has clearly spread to the non-residential sector (down 0.8% after a 0.5% drop in Dec.) as banks tighten credit. Details of the Feb ISM also raise concerns about a manufacturing recession as the index slipped to its lowest level in four years and below the 50/50 boom/bust level. The data reinforces fears of recession and continued Fed rate cuts while the ECB is likely to continue to focus on inflation risks. US jobs data this week are unlikely boost confidence in the US economy. Jobs numbers are expected at up only 25K. That would be the second lowest reading in a year after the 17K fall in Jan. Euro pullbacks should be short and shallow. Euro support is at \$1.5180. Against the yen, dollar resistance is around JPY103.60/65.

Canadian GDP contracted for the first time since Sept 2006 and by much more than expected. Dec GDP fell 0.7% (the market expected a contraction of 0.2%), with much of the contraction due to slowing exports. This is a clear example of the spillover effect from the sharply slowing US economy and indications are that this spillover will intensify in Q1 given the weak US data. This boosts the likelihood that the Bank of Canada will cut rates 50bp at tomorrow's meeting instead of 25bp. Three quarters of economists surveyed by Bloomberg had predicted a 50bp cut prior to the data's release. The data also support our view that the Bank of Canada will leave the door open to further cuts. It reinforces our view that the Canadian dollar has already peaked against the US dollar. In fact, we believe that this move below parity is overdone. The US dollar is bumping up against the 38.2% retracement of the Feb CAD rally at 0.99 and a break targets 0.9950 and then parity.

UPCOMING ECONOMIC RELEASES

Australia Jan retail sales and Q4 current account will be followed by RBA meeting. Korea Jan IP out, followed by eurozone Q4 GDP. Singapore Feb PMI out, followed by Iceland Q4 current account. BOC holds policy meeting. For US, no economic data is scheduled for release, but Fed's Bernanke, Mishkin, and Fisher all speak.

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	1.5208	0.2%	1.5158	1.5274
USD/JPY	103.22	-0.5%	102.62	103.71
USD/CHF	1.0414	0.1%	1.0310	1.0458
GBP/USD	1.9849	-0.2%	1.9810	1.9938
EUR/JPY	156.98	-0.3%	155.95	157.74
EUR/GBP	0.7662	0.4%	0.7632	0.7678
EUR/CHF	1.5839	0.2%	1.5702	1.5863

COMMODITY CURRENCIES	% Change	LOW	HIGH	
AUD/USD	0.9401	1.0%	0.9279	0.9422
NZD/USD	0.8065	1.0%	0.7926	0.8078
USD/ZAR	7.7607	-0.9%	7.7530	8.0018
USD/CAD	0.9887	0.1%	0.9828	0.9934

FROM NY OPEN			INTRADAY RANGES	
OTHER ASIA	16:00/20:00	% Change	LOW	HIGH
USD/TWD	31.10	0.6%	30.89	31.10
USD/PHP	40.74	0.7%	40.45	40.78
USD/THB	31.63	1.2%	30.73	31.76
USD/IDR	9105	0.0%	9065	9130
USD/MYR	3.1980	-0.1%	3.1940	3.2083
USD/SGD	1.3918	-0.3%	1.3897	1.3979

FROM NY OPEN		% Change	INTRADAY RANGES	
LATIN AMERICA & NON EU EUROPE			LOW	HIGH
USD/MEX	10.6964	-0.1%	10.6942	10.7382
USD/BRL	1.6694	-1.3%	1.6665	1.6977
EUR/CZK	24.92	-0.7%	24.86	25.15
EUR/PLN	3.5170	-0.3%	3.5153	3.5451
EUR/HUF	263.05	-0.6%	262.31	266.93

MONEY MARKETS (3 MTHS)	LEVEL	SPREAD
U.S.	2.94%	---
Euro	4.36%	143bp
Japan	0.91%	-203bp
U.K.	5.71%	278bp
Canada	3.75%	82bp
Australia	7.93%	499bp
New Zealand	8.93%	599bp
Switzerland	2.69%	-25bp

BENCHMARK EQUITY INDICES				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
MSCI - World*	367	-1.0%	0.9%	0.9%
MSCI - Europe*	532	-1.2%	1.8%	1.8%
MSCI - EAFE	2032	-1.9%	-2.1%	-2.1%
MSCI - Asia Pacific	143	-3.3%	-0.1%	-0.1%
MSCI - Emerging Mkts	1147	-1.7%	30.7%	30.7%

AMERICAS EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
Dow Jones Industrials	12259	-0.1%	1.2%	1.2%
S&P 500 Index	1331	0.1%	-4.0%	-4.0%
Nasdaq Composite	2259	-0.6%	-4.6%	-4.6%
Canada Toronto TSE	13544	-0.3%	5.3%	25.8%
Mexico Bolsa Index	29511	2.0%	12.1%	17.3%
Brazil Bovespa Index	64518	1.6%	52.3%	94.7%

EUROPEAN EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
Eurotop (FTSE)	2721	-1.3%	-10.3%	4.2%
FTSE Index	5819	-1.1%	-4.9%	-1.7%
German DAX Index	6690	-0.9%	1.3%	17.7%
French CAC 40 Index	4743	-1.0%	-12.6%	1.6%
Italy MIB30	33687	-1.2%	-16.9%	-3.4%
Swiss MP Index	7404	-1.7%	-15.9%	-1.4%

COMMODITY MARKETS	Level	Previous	Change
NYMEX crude (near future)	\$102.21	\$101.84	\$0.37
Gold (near future)	\$986.10	\$975.00	\$11.10

BOND MARKETS	Level	Previous	Change
US 2-yr Note	1.63%	1.62%	0.02%
US 10-yr Note	3.55%	3.51%	0.05%
US 30-yr Bond	4.44%	4.40%	0.04%
German 10-yr Bund	3.86%	3.89%	-0.03%
UK 10-yr Gilt	4.45%	4.47%	-0.02%
Canada 10-yr Bond	3.62%	3.64%	-0.02%

MARKET INDICATORS	Level	Previous	Change
VIX Index	26.45	26.54	-0.09
EMBI+ Sov. Spread (prior close)	291bp		

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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