

HIGHLIGHTS

- **Dollar remained in recent trading ranges, as market hesitant to make a big move ahead of US jobs data Fri.** ADP report today and weekly initial claims Thursday could give some clues to Friday report. Yen and CHF mostly firmer on the crosses, and USD/JPY still appears on track to test the 2004/2005 lows around 101.70-80. While further gains for the euro towards 1.55 likely, we believe the buck has already bottomed against GBP and CAD. Sterling underperformed again, keeping EUR/GBP on track for a move towards .7700. With risk appetite falling, the worst performers on the day vs. USD were ZAR, AUD, NZD, BRL, and CAD. Commodity currencies weaker as commodity prices fell after setting new records yesterday. Dovish BOC statement and 50 bp cut (see below) should boost USD/CAD near-term, we see move back above parity soon.
- **US equities down on the day but ended off the lows, as financials underperformed in part due to negative analysts comments on large US bank and Middle Eastern SWF saying the same bank needed more capital.** Bernanke urged more banks to write down bad debt. Oil-related stocks underperformed on lower oil, even though OPEC unlikely to hike output at this week's meeting despite record prices. Asian ADRs were down in N. American trading, pointing to a weak start for Asian regional stocks today. Nikkei futures are pointing to lower Japan stocks, and the stronger yen should hurt Japan exporter shares.
- **US yield curve steepened, with 2-year yield up 2 bp and the 10-year yield up 7 bp as Fed easing expectations remain alive.** European 10-year yields were down, though, with UK down 4 bp, France down 2 bp, and Germany down 5 bp. Fed funds futures market is still pricing in 75 bps easing in March and is starting to think about a sub-1.75% Fed funds rate in Q4.

CURRENCY MARKETS

The Bank of Canada cut rates 50bp to 3.5%. Slightly more than half of the economists surveyed had expected 50bp instead of 25bp. The Bank of Canada's new Governor, Carney also signaled another cut adopting a more aggressive stance than his predecessor at the Governor's first monetary policy meeting. (Dodge had advocated a measured and incremental approach.) The statement as well as recent data (Dec GDP contracted due largely to exports) will boost the risk of another cut at the next meeting on April 22. The magnitude of the expected Fed cuts, increases the possibility of a 50bp BOC cut in April rather than a 25bp. The next tip will come on March 13 when Carney holds a press conference. The US dollar is pushing through yesterday's highs with our initial target at par (close to the 20 day moving average.) A close above the 100 day moving average at CAD0.9916 supports our view that the US dollar is likely to extend its gains beyond par, with the next objective around CAD1.0120.

Singapore February PMI was slightly better than expected and remains just above the 50 boom/bust line. While it suggests that the manufacturing sector continues to expand, Singapore is undoubtedly vulnerable right now. Headline PMI fell to 50.3 from 50.5 in January, new orders rose to 50.8 from 50.4, and new export orders eased to 50.4 from 50.7. Production fell to 50.3 from 51.0, while the electronics sector subcomponent rose to 51.2 from 50.8. IP rose 6.9% y/y in January after contracting y/y in both November and December, but the February PMI does not imply much of a rebound ahead yet for IP or exports. Given Singapore's position as a regional bellwether, markets will remain concerned about Asia, especially after Singapore GDP contracted -4.8% seasonally adjusted q/q in Q4. Policy-makers in the region are unlikely to tighten policy in H1 as a result, but may rely on stronger currencies to help limit rising inflation pressures. Despite weaker data out of Singapore, SGD is still making new highs this past month and is now stronger than it was before the Asian crisis. As we noted last month, we look for test of the 1.3835 all-time low vs. USD from 1995. We think that the MAS still has a bias to tighten policy given inflation spiked to 6.6% y/y in January. MAS tightened policy in October 2007 by steepening the slope of the trading band for the trade-weighted SGD, and we think similar measures are possible later in 2008. However, given the risks to the Singapore economy, the MAS is likely to remain on hold for now until the state of the US economy becomes clearer. There is no obvious target after 1.3835, but we note there is a downward sloping channel in place since 2005 whose bottom comes in around 1.3385 currently. Obviously, that is a long ways off from current levels around 1.3890. However, given good Singapore fundamentals (current account surpluses, potential for tighter monetary policy), we believe the conditions remain supportive for continued SGD strength over the medium-term.

Brazil central bank meeting finishes today, and market expects no change to the 11.25% policy rate. With all this talk about decoupling, we'd have to point to Brazil as the EM that's best positioned to weather a US recession. Retail sales were strong in December, up 9.0% y/y vs. 10.4% y/y in November. Price pressures are rising, with IPCA inflation at 4.56% y/y in January vs. 4.46% y/y in December, the highest since April 2006, and minutes from the January meeting were pretty hawkish. Latest weekly central bank survey shows that market is still expecting no easing this year and 75 bps easing in 2009. There has been increasing talk that the central bank will hike rates this year, but we think this is too aggressive. For now, our base case is that rates are steady in H1, which will help underpin the real even as the current account surplus narrows (12-month total went negative in January for the first time since May 2003). FDI inflows remain strong, though, so Brazil does not have any external financing issues yet. Despite the strong real, export growth remains robust due to rising global prices for Brazil's exports. The US is Brazil's main export market, holding an 18% share of the total. However, we note that exports account for less than 15% of GDP, and so while strong exports have helped growth at the margin, it's really domestic activity that is driving the current recovery. If the Fed cuts 75 bps in March, the interest differential (now 825 bps) would widen to 900 bp and will certainly help underpin the currency. Near-term targets for USD/BRL are this year's low of 1.6620 followed by 1.6550 (down channel dating back to 2005) and then 1.6430 (a 1999 low). BRL support seen around 1.6980 (February highs) and then 1.73 (38% retrace of Jan-Feb BRL rally) and 1.751 (50%). While BRL is weakening today along with the other high yielders and commodity currencies, strong fundamentals should set Brazil apart from riskier high yielding currencies such as HUF, ZAR, or TRY, whose fundamentals are clearly weaker than Brazil's.

UPCOMING ECONOMIC RELEASES

Japan Q4 capital spending out, followed by Korea Jan IP and Australia Q4 GDP, then RBA Asst Gvs Edey and DeBelle speeches. Taiwan and Chile Feb CPI out, followed by eurozone Jan retail sales and Brazil Jan IP. Brazil central bank holds policy meeting. For US, weekly mortgage applications followed by weekly jobless claims, ADP Feb jobs report, Jan factory orders, Feb ISM non-manuf survey, and Fed Beige book. Treasury's Paulson, McCormick, Fed's Alvarez, Pinalto, Rosengren 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	1.5211	0.0%	1.5174	1.5249
USD/JPY	103.33	-0.2%	102.66	103.59
USD/CHF	1.0380	-0.4%	1.0337	1.0432
GBP/USD	1.9864	0.1%	1.9814	1.9891
EUR/JPY	157.18	-0.1%	156.12	157.40
EUR/GBP	0.7658	-0.1%	0.7638	0.7675
EUR/CHF	1.5788	-0.4%	1.5741	1.5850

COMMODITY CURRENCIES	% Change	LOW	HIGH
AUD/USD	0.9277 -1.3%	0.9219	0.9408
NZD/USD	0.8013 -0.7%	0.7959	0.8079
USD/ZAR	7.8968 1.7%	7.7320	7.9523
USD/CAD	0.9952 0.5%	0.9855	0.9978

FROM NY OPEN			INTRADAY RANGES	
OTHER ASIA	16:00/20:00	% Change	LOW	HIGH
USD/TWD	30.93	-0.5%	30.85	31.10
USD/PHP	40.55	-0.5%	40.41	40.75
USD/THB	31.53	-0.3%	31.49	31.74
USD/IDR	9090	-0.2%	9080	9110
USD/MYR	3.1850	-0.4%	3.1840	3.1985
USD/SGD	1.3886	-0.2%	1.3882	1.3925

FROM NY OPEN		% Change	INTRADAY RANGES	
LATIN AMERICA & NON EU EUROPE			LOW	HIGH
USD/MEX	10.7225	0.3%	10.6807	10.7297
USD/BRL	1.6772	0.4%	1.6641	1.6893
EUR/CZK	24.90	-0.1%	24.83	25.01
EUR/PLN	3.5285	0.4%	3.5138	3.5405
EUR/HUF	264.24	0.6%	262.06	265.42

MONEY MARKETS (3 MTHS)	LEVEL	SPREAD
U.S.	2.93%	---
Euro	4.36%	143bp
Japan	0.91%	-202bp
U.K.	5.74%	281bp
Canada	3.66%	73bp
Australia	7.91%	498bp
New Zealand	8.95%	602bp
Switzerland	2.72%	-21bp

BENCHMARK EQUITY INDICES				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
MSCI - World*	364	-0.7%	0.1%	0.1%
MSCI - Europe*	525	-1.2%	0.5%	0.5%
MSCI - EAFE	2014	-0.9%	-3.0%	-3.0%
MSCI - Asia Pacific	142	-0.4%	-0.4%	-0.4%
MSCI - Emerging Mkts	1136	-0.8%	29.4%	29.4%

AMERICAS EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
Dow Jones Industrials	12215	-0.4%	0.8%	0.8%
S&P 500 Index	1327	-0.3%	-4.4%	-4.4%
Nasdaq Composite	2260	0.1%	-4.5%	-4.5%
Canada Toronto TSE	13474	-0.5%	4.7%	24.3%
Mexico Bolsa Index	29283	-0.8%	11.3%	16.1%
Brazil Bovespa Index	63601	-1.4%	50.1%	91.0%

EUROPEAN EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	Y/Y	Y/Y (US\$)
Eurotop (FTSE)	2682	-1.5%	-11.6%	2.7%
FTSE Index	5768	-0.9%	-5.7%	-2.5%
German DAX Index	6545	-2.2%	-0.9%	15.2%
French CAC 40 Index	4676	-1.4%	-13.8%	0.2%
Italy MIB30	33165	-1.5%	-18.2%	-4.9%
Swiss MP Index	7276	-1.7%	-17.3%	-2.8%

COMMODITY MARKETS	Level	Previous	Change
NYMEX crude (near future)	\$99.96	\$102.45	-\$2.49
Gold (near future)	\$964.30	\$984.20	-\$19.90

BOND MARKETS	Level	Previous	Change
US 2-yr Note	1.65%	1.63%	0.02%
US 10-yr Note	3.62%	3.55%	0.07%
US 30-yr Bond	4.51%	4.43%	0.08%
German 10-yr Bund	3.81%	3.86%	-0.05%
UK 10-yr Gilt	4.41%	4.45%	-0.04%
Canada 10-yr Bond	3.63%	3.62%	0.01%

MARKET INDICATORS	Level	Previous	Change
VIX Index	25.68	26.28	-0.60
EMBI+ Sov. Spread (prior close)	294bp		

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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