

August 21, 2008

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Spot Level	BBH Outlook* 1wk 1mo		Driving Forces	Capital Market Trends
<b>United States</b>	↓	↑	<ul style="list-style-type: none"> <li>The US is beginning a reversal of its rally from mid-July to mid-August after spending a week forming a top.</li> <li>Momentum and technical traders will drive the move as they reduce long dollar positions established over the past month.</li> <li>The shape and magnitude of the correction will help confirm (or refute) the dollar's early Aug break higher. Price adjustment taking place in both currency and commodity markets.</li> <li>Data to point to deterioration in the overseas economic outlook (PMIs, Q2 GDP breakdowns.) US data mixed: Q2 GDP to be revised up, Aug survey data to firm, durables, housing soft.</li> </ul>	<p><b>Mkts:</b> CRB index has already begun a reversal after meeting a technical objective this past week. Despite ongoing GSE concerns, US bourses continue to outperform many European, Asian and Latin bourses on the year.</p>
<b>Euro</b> 1.4870	↑	↓	<ul style="list-style-type: none"> <li>Euro to correct higher after meeting its 1<sup>st</sup> technical objective (around \$1.4600) after the \$1.5285-\$1.5300 break.</li> <li>EUR resistance at \$1.4960/00. IMM speculators went well short of euros as the currency fell from \$1.57 to \$1.5000 and are likely to limit losses before the euro reaches 1.5000.</li> <li>Next resistance level is \$1.5200/20; (close to 38.2% retracement of the mid-July to mid-Aug euro slump), 200 day moving average.</li> <li>A break back above \$1.5285-\$1.5300 would call into question the significance of the euro's July-Aug fall.</li> </ul>	<p><b>Mkts:</b> The OIS market may further reduce expectations of an ECB rate cut as commodity prices firm and despite soft euro zone data. 30bp of rate cuts over the next year are currently priced in, down from 39bp a week ago.</p>
<b>Yen</b> 108.60	↔	↑	<ul style="list-style-type: none"> <li>Yen strength has come from unwinding of cross positions rather than risk aversion. Speculative short US\$ positions against yen are small. Support at JPY108.00 and then JPY107.20.</li> </ul>	<p><b>Mkts:</b> Japanese and foreign investors were net sellers of yen in Aug16 wk</p>
<b>Sterling</b> 1.8750	↑	↓	<ul style="list-style-type: none"> <li>Sterling reversing after two weeks of losses. Momentum and technical traders to drive move as net short sterling positions on IMM – shortest in a decade – are trimmed.</li> <li>Retracement objective at \$1.9140 and then \$1.9330 (38.2% and 50% retracement of sterling fall from mid-July.)</li> </ul>	<p><b>Mkts:</b> OIS still pricing in almost 75bp of cuts in next 12 mths. UK fundamentals to remain weak</p>
<b>Swiss franc</b> 1.0870	↓	↑	<ul style="list-style-type: none"> <li>CHF recouping recent losses vs. US\$, outperforming the euro...</li> <li>Support at CHF1.0650 (38.2% retracement of July/Aug rally) and 200 day m/a and then CHF1.0530</li> </ul>	<p><b>Mkts:</b> No data to provide direction. OIS mkt to continue expecting cut</p>
<b>Australian dollar</b> 0.8885	↑	↓	<ul style="list-style-type: none"> <li>AUD to trade through the 38.2% retracement of its July/Aug tumble (0.9070) toward 200 day m/a (currently 0.9184.) Break of 50% retracement (0.9220) would call recent move into question</li> </ul>	<p><b>Mkts:</b> Little shift in rate cut expectations (106bp) as data soften, RBA dovish.</p>
<b>New Zealand dollar</b> 0.7190	↑	↓	<ul style="list-style-type: none"> <li>NZD to continue to reverse recent losses trading above 38.2% retracement of Jul/Aug move (0.7180). Next objective 0.7290.</li> <li>Move is technical. Fundamentals remain weak.</li> </ul>	<p><b>Mkts:</b> No shift in rate cut outlook this wk (150bp).</p>
<b>Canadian dollar</b> 1.0455	↔	↑	<ul style="list-style-type: none"> <li>US\$ has already begun a reversal, giving up 38.8% (\$C1.0440) of Jul/Aug move. Next major support at C\$1.0350.</li> <li>Fundamentals to continue to point to steady rates but focus will be on tone of David Dodge speech.</li> </ul>	<p><b>Mkts:</b> scaled back rate cut expectations by 6bp in week to 32bp. (Fed expectations up 18bp)</p>
<b>Swedish krona</b> 6.2950	↓	↑	<ul style="list-style-type: none"> <li>Economic data (retail sales, household lending, consumer confidence) to support steady policy Sept 4). But dollar undergoing technical correction with support at SEK6.2160 and then SEK6.159.</li> </ul>	<p><b>Mkts:</b> pricing in almost 25bp hikes on firm data, hawkish central bank comments.</p>
<b>Norwegian krone</b> 5.3280	↓	↑	<ul style="list-style-type: none"> <li>NOK to follow euro higher against US on technical correction and even if economic data (jobs, retails) soften.</li> <li>US\$ to fall to 5.2750. Next support at \$5.2250.</li> </ul>	<p><b>Mkts:</b> Data supports Norges Bk rate hike expectations.</p>

\* Directional arrows reflect the expected trends in the base currency for each currency pair.

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