

February 28, 2008

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Spot Level	BBH Outlook*		Driving Forces	Capital Market Trends
	1wk	1mo		
Dollar Index 73.07	↓	↓	<ul style="list-style-type: none"> US dollar to remain under pressure against the euro and the yen. Data to continue to reinforce concerns about a possible Q1 recession with risk jobs numbers fall for second consecutive month and retail sales remain subdued after the soft auto sales. Concerns about the financial markets will also continue to weigh on the dollar amidst ongoing string of bond auction and ongoing concerns about Ambac's ability to raise cash. 	<u>Markets:</u> Markets remain stressed with credit default spreads at year's high and amidst reports of several hundred bond auction failures in the week.
Euro 1.5347	↑	↑	<ul style="list-style-type: none"> Euro to continue to strengthen with pullbacks remaining shallow. ECB maintains neutral stance, remains focused on inflation temper concerns about growth. Data to support this view with CPI remaining elevated and economic data steady to firm ECB's Trichet does not take a step up the intervention ladder a positive for the euro. 	<u>Yields:</u> Euribor futures continue to move the timing of an ECB cut further out in H2.
Yen 105.30	↓	↓	<ul style="list-style-type: none"> Yen to break dollar lows around JPY102.60 opening another 1% move.. No policy change expected at BOJ Governor Fukui's last meeting. Fukui steps down Mar 19. BOJ may face a political vacume. Govt has already stretched rule in which it gives Parliament 10 days to choose a new Governor. 	<u>Markets:</u> Nikkei down over 5% on the week hovering just above year's lows. ..
Sterling 1.9900	↑	↑	<ul style="list-style-type: none"> Sterling breaks up out of this year's range, rising above \$2.00. Further gains now likely as US dollar softens. UK data to be mixed with soft housing and tight credit conditions offset by firm PPI data. 	<u>Yields:</u> Short sterling futures suggest market continues to see limited chance of a Q2 cut
Swiss franc 1.0510	↓	↓	<ul style="list-style-type: none"> CHF to continue to benefit as momentum carries US dollar lower Data support view SNB to leave rates on hold in mid March. 	<u>Yields:</u> Futures mkt pars back risk of cut in Q2...
Australian dollar 0.9313	↔	↔	<ul style="list-style-type: none"> Positive AUD news has been priced with the currency now one of the top performers on the year. Yields still elevated but economic data beginning to disappoint. RBA has signaled policy is now on hold and limiting AUD gains. 	<u>Yields</u> Aussie bonds outperform US bonds this week after RBA hiked but signaled neutral policy
New Zealand dollar 0.8000	↔	↔	<ul style="list-style-type: none"> Kiwi to lag the euro as the dollar falls further. Data continues to point to a softening in the economy and RBNZ has signaled it will remain on hold into 2009. 	<u>Yields</u> Mkt sees some risk of a rate cut late in 2008.
Canadian dollar 0.9840	↑	↑	<ul style="list-style-type: none"> Canadian data to continue to point to downside risks to growth reinforcing expectations of a 50bp cut in April. US dollar losses to provide buying opportunities with support around CAD0.9810 	<u>Mkts:</u> .BA futures suggest market sees risk of 50bp cut by June
Swedish krona 6.1030	↔	↔	<ul style="list-style-type: none"> SEK can't keep pace with the euro held back by soft economic data and the Riksbank's steady policy. Inflation data unlikely to change outlook for Riksbank.. 	<u>Mkts:</u> Mkt sees some risk of a Riksbank cut late in 2008..
Norwegian krone 5.1730	↓	↓	<ul style="list-style-type: none"> NOK's recent outperformance against the euro beginning to slow. Norges Bank likely to leave rates unchanged at 5.25% Mar 13, maintain slightly hawkish stance 	<u>Mkts:</u> Norse oil investment at 20 yr high. If realized, will boost 2008 GDP.
Iceland krona 66.90	↑	↑	<ul style="list-style-type: none"> Moody's cut Iceland's outlook on banks to negative ISK to weaken back toward 68.00 as data disappoint 	<u>Yields:</u> Elevated Feb infl damping rate cut exp..

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

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