

HIGHLIGHTS

- **The US dollar is lower on the day against the major currencies with very limited dollar buying after the FOMC rate cut (50 bp to 1% as expected) fact. Indeed, monetary policy is not a key driver in the market with many central banks likely to follow the Fed with another ease next week. Nor is there a strong reason for risk aversion to dissipate. Money market conditions have improved but markets are not back to normal with officials continuing to take steps to ease dollar funding - today the Fed extended credit lines to Brazil, Mexico, South Korea and Singapore to ease dollar funding conditions. Timing rather than a shift in outlook, may be the factor behind the dollar's slide. Market participants have been unwound long-term short dollar positions, some possibly with the aim of completing the year's business ahead of month end. Indeed, there is a risk of a further euro bear market bounce. A euro break above \$1.3050 would suggest a more prolonged correction toward \$1.3220 and then \$1.3500.**
- **US equity markets had another wild day although the size of the market swings were relatively small compared to Tuesday. The S&P 500 closed down over 1.1%, giving up all the day's gains in the final minutes of trading and after rallying over 3% earlier in the afternoon. Asian ADRs fell in tandem with the US equity markets suggesting Asian equity markets may open on a soft footing.**
- **The US Treasury yield curve steepened further (12bp) as shorter-term yields fell after the Fed statement boosted expectations of another Fed cut by year-end. Norway cut rates 50bp to 4.75% as expected while Poland left rates unchanged at 6% and Brazil is expected to leave policy unchanged at 13.75% today. China unexpectedly announced a 27bp rate cut to 6.66% at the NY open.**

CURRENCY MARKETS

The Federal Reserve delivered the largely anticipated 50 bp rate cut in the Fed funds rate to 1.0%. Its assessment was clearly more negative of the real economy--and in particular the outlook for household and business spending--while at the same time, the Fed sees less risk of inflation. It is also worth noting that the Fed's statement recognized the global nature of the crisis (without calling it a crisis) and noted the implication for exports. The Federal Reserve also seemed to suggest that even with today's rate cut, downside risks to the economy remain, and this suggests a Dec rate cut cannot be ruled out. Indeed, should the upcoming series of data be as weak as we expect, pointing to Q4 GDP of a negative 2% or more, with increasingly sharp job losses, a Dec rate cut (25 bp) should be the base case.

The Central Bank of Brazil will likely leave rates unchanged today at 13.75%. After the central bank hiked rates over the past six months, the consensus expected a pause today. There is good reason to expect the central bank to stand pat. Every indication from the macro-economy is pointing to a marked slow down. Commodity prices are down sharply. Its major trading partners are either experiencing a recession (G10) or experiencing a slowdown of some magnitude (China). Business sentiment is declining briskly. The stock market has lost nearly 40% over the past couple of months. The Brazilian real has lost nearly a quarter of its value against the dollar in the same time. The rub is that price pressures remain elevated. Some measures of prices have ticked up in the past month and the decline in the currency also exerts some upward pressure on inflation measures. The key IPCA measure rose to 6.25% in Sept from 6.17% in Aug. The mid-point of the central bank's target is 4.5%. It is likely because of this that 16 of the 46 economists polled by Bloomberg expect a hike today. There is another reason why the central bank could surprise the consensus. Part of the pressure on the BRL has come from Brazilian corporates themselves who previously borrowed dollars generously to lend back home profitably--a carry trade. As the US dollar became a better bid and commodity prices came off the boil, export earnings slowed, and emerging markets fell out of favor. Brazilian corporates were forced to unwind the carry trade and buy back the dollar. Local papers citing the clearer for over-the-counter derivatives report that these in effect short dollar contracts have been reduced by \$34 bln between Sept 30 and Oct 24. It still leaves about \$60 bln of such derivative contracts open. A small rate hike today would 1) deepen the anti-inflation credentials of the central bank and have little real impact on the economy and 2) in the context of other central banks cutting this week and next, a hike today might help push the currency up and ease the pain of unwinding these derivatives. That said, on balance, we think the Brazilian central bank will opt for the more cautionary stance and stand pat. There has been talk in recent days that the US Treasury is working on a plan to more directly stabilize the residential real estate market. In this multi-dimensional crisis, the argument for stabilizing the housing market is not simply as desirable in terms of equity (fairness), but because, the housing market is the key to the valuation of the high leveraged products built on residential mortgage backed assets.

There has been talk in recent days that the US Treasury is working on a plan to more directly stabilize the residential real estate market. In this multi-dimensional crisis, the argument for stabilizing the housing market is not simply as desirable in terms of equity (fairness), but because, the housing market is the key to the valuation of the highly leveraged products built on residential mortgage backed assets. News reports confirm such talk and provide some possible details. Working with the FDIC, the US Treasury apparently is contemplating a program that seeks to prevent foreclosures on something in the magnitude of 3 mln mortgages. Since they are toxic, we might as well talk about the street value (size of the program) projected at \$500-\$600 bln, a bit less than TARP. One of the issues that make such work-outs difficult is the originate-distribute model. That is because the loans were made, then sold, packaged, resold, and repackaged and it is not clear who the owner is for individual mortgages. Another issue is that maybe, just maybe, for forces that might just be beyond the ken of most policy makers, housing prices still need to fall. A mortgage guarantee program might prevent this from happening and could create unintended and undesirable reverberations. The details of the program have yet to be announced. It is premature to draw hard and fast conclusions. How the program is structured is important. However, it does underscore the resolve of the US government, including the Federal Reserve (central bank independence might not be all that significant in a crisis) to do whatever it can to ease the financial crisis.

UPCOMING ECONOMIC RELEASES

Japanese weekly portfolio flow data are due. In Australia, RBA Deputy Gov Battellion is likely to reinforce expectations of another 50bp rate cut at next week's RBA meeting. Private sector Australian credit is due along with NZ confidence data. German unemployment and UK Nationwide house prices are released along with Spanish retail sales and French and South African PPI. US Q3 GDP and consumption along with Canadian output prices are due. The Fed's Kroszner and Yellen 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	1.2939	2.0%	1.2627	1.2991
USD/JPY	97.46	-0.6%	96.09	99.70
USD/CHF	1.1314	-2.4%	1.1259	1.1597
GBP/USD	1.6376	3.0%	1.5879	1.6475
EUR/JPY	126.08	1.4%	121.40	127.31
EUR/GBP	0.7902	-0.9%	0.7837	0.8005
EUR/CHF	1.4635	-0.5%	1.4558	1.4778

OTHER CURRENCIES		% Change	LOW	HIGH
AUD/USD	0.6719	4.8%	0.6339	0.6798
NZD/USD	0.5884	4.3%	0.5641	0.5940
USD/ZAR	9.8350	-4.4%	9.7000	10.4438
USD/CAD	1.2269	-3.6%	1.2127	1.2870

FROM NY OPEN			INTRADAY RANGES	
OTHER ASIA	16:00/20:00	% Change	LOW	HIGH
USD/TWD	33.29	-0.6%	33.24	33.36
USD/PHP	49.21	0.2%	48.62	49.43
USD/THB	34.88	0.0%	34.78	34.98
USD/IDR	10800	-1.8%	10380	11300
USD/MYR	3.5775	-0.1%	3.5425	3.5866
USD/SGD	1.4888	0.1%	1.4848	1.5045

FROM NY OPEN		% Change	INTRADAY RANGES	
LATIN AMERICA & OTHER EUROPE			LOW	HIGH
USD/MEX	12.9019	-1.1%	12.7620	13.1110
USD/BRL	2.1335	-0.6%	#N/A N/A	#N/A N/A
EUR/CZK	23.80	-1.7%	23.73	24.30
EUR/PLN	3.5514	-3.5%	3.5451	3.7047
EUR/HUF	256.90	-1.4%	254.38	262.09

MONEY MARKETS (3 MTHS)	LEVEL	LEVEL	Change
U.S.	4.08%	4.18%	10bp
Euro	4.83%	4.90%	8bp
Japan	1.25%	0.93%	-32bp
U.K.	6.05%	6.05%	0bp
Canada	2.75%	2.75%	0bp
Australia	6.55%	6.63%	8bp
New Zealand	7.88%	7.78%	-10bp
Switzerland	3.22%	2.77%	-45bp

BENCHMARK EQUITY INDICES				
INDEX	LEVEL	1 - DAY	YTD	YTD (US\$)
MSCI - World*	227	3.6%	-43.7%	-43.7%
MSCI - Europe*	303	11.2%	-48.9%	-48.9%
MSCI - EAFE	1205	8.6%	-46.5%	-46.5%
MSCI - Asia Pacific	81	3.8%	-48.8%	-48.8%
MSCI - Emerging Mkts	512	4.9%	-58.9%	-58.9%

AMERICAS EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	YTD	YTD (US\$)
Dow Jones Industrials	8991	-0.8%	-32.2%	-32.2%
S&P 500 Index	930	-1.1%	-36.7%	-36.7%
Nasdaq Composite	1657	0.5%	-37.5%	-37.5%
Canada Toronto TSE	9470	3.5%	-31.5%	-44.3%
Mexico Bolsa Index	19522	4.8%	-33.9%	-44.2%
Brazil Bovespa Index	35166	5.3%	-45.0%	-54.1%

EUROPEAN EQUITY MARKETS				
INDEX	LEVEL	1 - DAY	YTD	YTD(US\$)
Eurotop (FTSE)	1950	7.3%	-38.4%	-45.4%
FTSE Index	4243	8.1%	-34.3%	-45.8%
German DAX Index	4809	-0.3%	-40.4%	-47.1%
French CAC 40 Index	3403	9.2%	-39.4%	-46.2%

OTHER MARKETS	Level	Previous	Change
NYMEX crude (near future)	\$68.78	\$62.73	\$6.05
Gold (near future)	\$752.80	\$739.30	\$13.50
VIX Index	69.03	66.96	2.07
EMBI+ Sov. Spread (prior close)	782bp		

BOND MARKETS	Level	Previous	Change
US 2-yr Note	1.54%	1.57%	-0.03%
US 10-yr Note	3.83%	3.83%	0.00%
US 30-yr Bond	4.23%	4.19%	0.03%
German 10-yr Bund	3.79%	3.75%	0.03%
UK 10-yr Gilt	4.40%	4.39%	0.01%
Canada 10-yr Bond	3.74%	3.69%	0.05%

POLICY ANALYSIS MARKET ODDS	LEVEL	PREV	Change
Obama will win Presidency**	85.4	86.7	-2.4
McCain will win Presidency**	14.6	12.5	2.1
A member drops euro by end-2010**	33.0	31.0	2.0

Source: Bloomberg. * 'All Country' World & 'All Country' Europe indices covering developed and emerging markets for the respective regions. ** Source: www.intrade.com

Brown Brothers Harriman & Co. (the "Bank") prepares the Foreign Exchange Daily as a compilation of industry sources and market information. Information contained in this newsletter may not have been independently verified and information reported is inherently subject to change. This information is not offered as financial, investment, tax or legal advice nor should it be construed as a recommendation to invest or not to invest in any country or to undertake any specific position or transaction in any currency. This information may not be suitable for all investors depending on their financial sophistication and investment objectives. The services of an appropriate professional should be sought in connection with such matters. The Bank does not make any representation or warranty as to the accuracy or completeness of the information provided. Accordingly, the Bank shall not be liable for any inaccurate or incomplete information. The report has been prepared for use by the intended recipients(s) only. BBH & Co.'s partners and employees may now own securities in the subject of this report and/or may make purchases or sales while this report is in circulation. Any dissemination, distribution or copy of this communication without prior approval from BBH is prohibited.