

September 29, 2008

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USD/JPY Falls as Congress Rejects Financial-Recue Plan

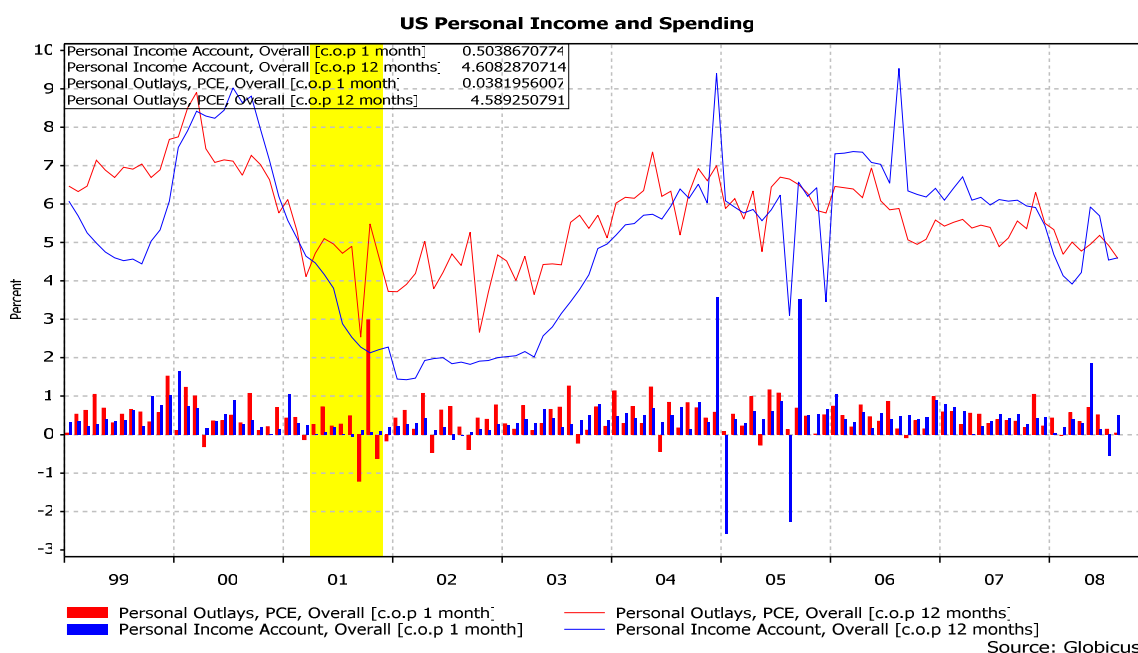
- The dollar fell against the yen as the House of Representatives rejected the \$700 billion rescue bill of the financial sector, while unprecedented interventions saw five US and European banks rescued or nationalized. The USD/JPY extended overnight losses as US stocks had its biggest fall since 1987. The forces of deleveraging are overwhelming banks, Congress and the markets as the credit crunch deepens. Increased risk aversion is not only helping the yen but also the dollar in a flight to safety. Sterling plummeted as Britain's Bradford & Bingley mortgage bank was nationalized on Sunday; later, the pound pared some losses on the surprised vote in Congress. The Australian and Canadian dollars fell as the chance of a worldwide recession increased and commodity prices plunged.
- The EUR/USD fell as European governments bailed out financial institutions and the European Commission revealed business confidence in the eurozone dropped to the lowest since November 2001. The pair hit support at 1.43 before recovering some of the losses on the US news. There are resistance in the 1.49-area and support in the 1.43-area.



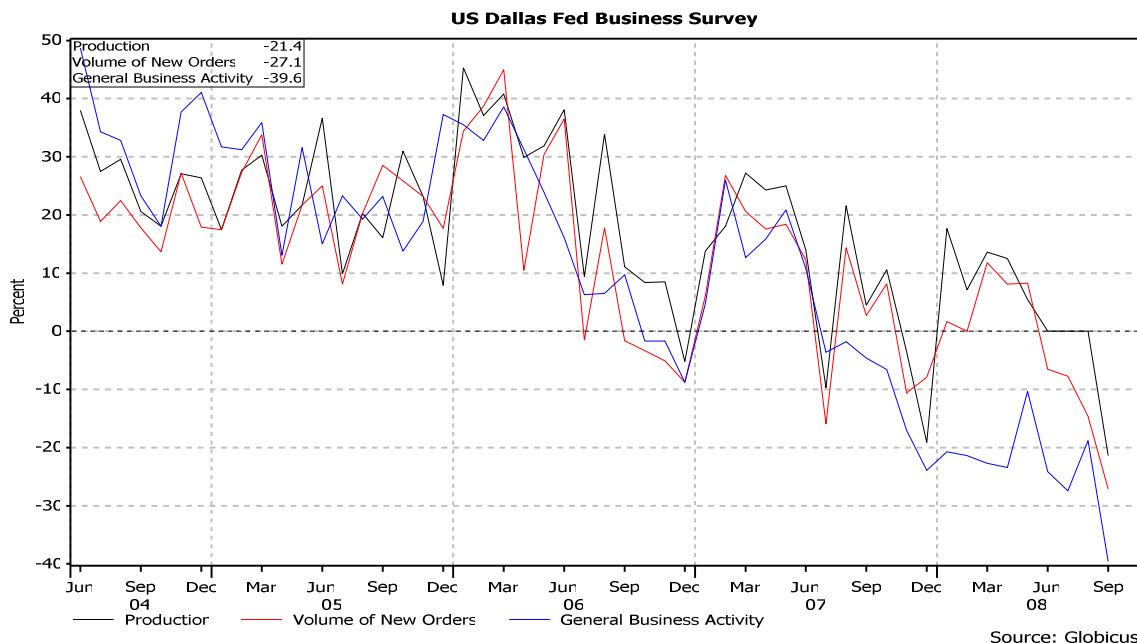
Financial and Economic News and Comments

US & Canada

- US personal income increased a more-than-expected 0.5% m/m in August after falling 0.6% m/m in July, while personal spending was unchanged m/m in August after increasing 0.1% m/m in July, data from the Commerce Department showed. Personal income and personal spending were both up 4.6% y/y. Disposable personal income was down 0.9% m/m in August but up 4.8% y/y. The decline in August was due to the end of the recent round of federal tax rebates, which boosted disposable income earlier this year. Pre-tax wages and salaries increased 0.4% m/m in August. The overall PCE deflator (consumer inflation) was unchanged m/m in August but up 4.5% y/y. The core PCE deflator, which excludes food and energy, increased 0.2% m/m in August, up 2.6% y/y, the largest one-year gain since 1995. After adjusting for inflation, real consumption was unchanged m/m in August. Including downward revisions to June/July, real consumption was up only 0.1% y/y, the smallest gain since 1991. Today's weak consumption data signal the US the economy will weaken sharply for the rest of the year.



- The Dallas Fed manufacturing production index plunged to -21.4 in September from 0.0 in August, while the general business activity index dropped to -39.6 from August's -18.8. "Most indicators of current production and general business conditions recorded their lowest readings since the survey's inception in 2004," the Dallas Fed said. The prices received index fell to 8.7 in September from 21.6 in August, while the prices paid index declined to 27.2 from 51.5. The new orders index fell to -27.1 from -14.6. The employment index dipped to -8.8 from -6.9. Overall, the figures indicate Texas manufacturing weakened further in September with the labor market weakening and price pressures moderating.



- The House of Representatives voted to reject the \$700 billion financial-rescue plan. The vote against the measure was 228 to 205. The plan's advocates vowed to bring the rescue package up for consideration again soon. Treasury Secretary Henry Paulson will use "all the tools at our disposal" to protect financial markets after the House of Representatives rejected the plan, his spokeswoman said.
- Citigroup agreed to acquire Wachovia's banking operations for \$2.1 billion in stock and will assume another \$53 billion in Wachovia debt. Federal banking regulators pushed the deal by agreeing to share a portion of future losses that Wachovia's failing mortgage portfolio could generate. "The FDIC has agreed to provide loss protection in connection with approximately \$312 billion of mortgage-related and other Wachovia assets," Citigroup said in a statement.

Europe

- European confidence in the economic outlook fell to the lowest since the slump in the wake of the Sept. 11 terrorist attacks. The executive and consumer sentiment index fell to 87.7 in September from 88.5 in August, the European Commission said. That is the lowest since 86.6 in November 2001.
- European retail sales declined for a fourth month in September on the worsening credit crunch and higher inflation. The Bloomberg purchasing managers index for the euro area declined to 46.2 in September from 47.7 in August. A reading below 50 indicates contraction.
- UK mortgage approvals fell to 32,000 in August, the lowest since at least 1999, from 33,000 in July, the Bank of England said. The value of those loans fell to £143 million (\$258 million), the lowest since April 1993.

Asia-Pacific

- Japan's retail sales slowed in August increasing 0.7% y/y as higher prices discouraged consumer spending, following a revised 2.0% y/y increase in July, the Trade Ministry said.

FX Strategy Update

	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
Primary Trend	Negative	Neutral	Negative	Neutral	Negative	Neutral	Neutral
Secondary Trend	Negative	Negative	Negative	Positive	Positive	Negative	Neutral
Outlook	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Action	None	Sell	None	None	None	None	None
Current	1.4419	104.05	1.8074	1.0892	1.0415	0.8024	150.01
Original Position	N/A	109.45	N/A	N/A	N/A	N/A	N/A
Objective	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Stop	N/A	109.25	N/A	N/A	N/A	N/A	N/A
Support	1.4300	104.00	1.8000	1.0600	1.0300	0.8000	148.00
	1.4000	101.00	1.7500	1.0300	1.0100	0.7800	144.00
Resistance	1.4900	108.00	1.8700	1.1000	1.0500	0.8500	157.00
	1.5500	110.50	1.9400	1.1400	1.0800	0.9000	160.00

Tuesday's Economic Calendar

Time (EDT)	Region	Data	Period	Change	Our Forecast	Market Forecast	Previous
1:00	Japan	Small business confidence	Sep				41.4
1:00	Japan	Housing starts	Aug	y/y		49.8%	19.0%
1:00	Japan	Annualized housing starts	Aug			1.092M	1.144M
1:00	Japan	Construction orders	Aug	y/y			42.3%
4:00	Germany	Unemployment rate	Sep			7.6	7.6
4:00	Germany	Unemployment change	Sep			-15K	-40K
4:30	UK	Current account balance	Q2			-10.2B	-8.4B
4:30	UK	GDP	Q2	q/q		0.0%	0.3%
4:30	UK	GDP	Q2	y/y		1.4%	2.3%
5:00	EMU	CPI (flash estimate)	Sep	m/m		0.2%	-0.1%
8:30	Canada	GDP	Jul	m/m		0.1%	0.1%
8:30	Canada	Industrial product prices	Aug	m/m		-0.5%	0.4%
8:30	Canada	Raw materials prices	Aug	m/m		-3.0%	1.4%
9:00	US	S&P/Case Shiller home price index	Jul				167.7
9:00	US	S&P/CS composite-20	Jul	y/y		-16.0%	-15.9%
9:45	US	Chicago PMI	Sep			54.0	57.9
10:00	US	Conference Board consumer confidence	Sep			55.0	56.9
19:30	Australia	AiG performance of manufacturing index	Sep				47
19:50	Japan	Tankan large manufacturers index	Q3			-2	5
19:50	Japan	Tankan large manufacturers outlook	Q3			-3	4
19:50	Japan	Tankan non-manufacturing index	Q3			5	10
19:50	Japan	Tankan non-manufacturing	Q3			2	8

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Time (EDT)	Region	Data	Period	Change	Our Forecast	Market Forecast	Previous
19:50	Japan	outlook Tankan large all industry capex	Q3			2.5%	2.4%

Notes: N/A=not applicable/not available, ar=annual rate, sa=seasonally adjusted, nsa=non-seasonally adjusted, 3 mons=3 months, m/m=month-on-month, q/q=quarter-on-quarter, y/y=year-on-year, m=million, b=billion, t=trillion, unch=unchanged, r=revised, p=preliminary, f=final

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New York, September 29, 2008, 5:20 PM