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BRAZIL BULLETIN INTERVIEW: Luiz Henrique Didier, Partner in the Didier-Levy Foreign Exchange Brokerage: "It's a floating rate, but it's a dirty float." Brazil's foreign exchange problem is simple, but seemingly intractable—a strong Brazilian Real helps control inflation by making imports cheap but, at the same time, it undermines exports and makes manufactured products uncompetitive even in the domestic market. Fortunately, the problem may not persist indefinitely. Higher global interest rates, and domestic spending cuts, should help bring greater equilibrium to the foreign exchange market, at least in the long term. An ideal foreign exchange rate, according to currency specialist Luiz Henrique Didier, would be about R$1.80 to the dollar. Excerpts follow from a recent interview with Didier:

- On Central Bank presence in the foreign exchange market: "The truth is it's a floating rate, but it's a dirty float. The Central Bank is ever present in the market. The government is not trying to set a target rate, but it is trying to dampen volatility. It's easier to do that today than it was in the past because of the Central Bank's $300 billion in foreign reserves."
- On Brazil's foreign exchange market: "Brazil's foreign exchange market is small and that makes it easy to influence. Five or six big banks control 70% of the market. What we need to do is to modernize the market by opening it up. The Brazilian government could help in this effort by making the Real internationally convertible. Today, it's a semi-convertible currency. You can exchange it for local currency almost anywhere in South America and in some European countries. We would like to make it deliverable everywhere."
- On trends for the foreign exchange market: "Sooner or later, the U.S. will begin to raise interest rates. When that happens, a significant volume of foreign investment flows will head in the direction of the U.S., undermining the Real. A level of about R$1.80 to the dollar would represent a good equilibrium point. At that level, we could underpin exports without provoking inflation."
- On macroeconomic policy and the Real: "The world is awash in liquidity. People need to invest. With interest rates sky high in Brazil and political risk at reasonable levels, it's inevitable that we will attract investments. The government has promised spending cuts for 2011. These could help to cut inflation and inhibit further interest rate hikes. That would help us to avoid continued unwanted currency appreciation."
- On Brazil's future as a financial center: "Some of us in the market would like to see São Paulo, Brazil become a regional financial center by 2017 or 2018. We are trying to convince the government to help us in the enterprise. Stay tuned."

Primary budget surplus exceeds goal for first time in two years. Primary budget surplus figures, released last week by the Central Bank, showed a 12-month surplus of R$121.8 billion, equal to 3.23% of gross domestic product. It was the first time in nearly two years for the 12-month surplus to surpass the government's annual goal, which is 3.1% of GDP for the 2011 calendar year. The March monthly surplus was a hefty R$13.6 billion, showing the first effects of budget cuts put into effect in February. Solid tax revenues also helped. The first-quarter surplus was R$39.3 billion. "In the first quarter of the year, we rolled up approximately one third of the surplus we'll need for 2011," said Central Bank spokesman Tulio Maciel.

March current account deficit rises on heavy imports, travel. Brazil posted a March current account deficit of $5.67 billion, up from $5.02 billion for the same month a year ago, the Central Bank reported last week. The current account deficit rose on heavy imports of consumer and capital goods as well as a burgeoning travel deficit. Brazilians spent $1.02 billion more overseas in March than foreign tourists spent in Brazil. March direct foreign investment, however, continued strong at $6.79 billion, more than covering the current account gap. Foreign direct investment was only $2.08 billion in March of 2010. Brazil's 12-month current account deficit continued high at the equivalent of 2.33% of gross domestic product. The foreign debt rose in March to $279 billion from $257 billion at the end of 2010 as Brazilian companies continued to issue bonds on overseas markets, taking advantage of unusually low international interest rates and a positive outlook for the Brazilian economy.

Banco do Brasil buys small U.S. bank, plans major expansion. Government-run Banco do Brasil last week announced the purchase of small, Florida-based Eurobank for $6 million. Banco do Brasil executives said the purchase was made in order to obtain a foothold in the U.S. retail banking industry. Eurobank has only three branches and 1,300 clients. However, Banco do Brasil will invest $25 million over the next three years in an will focus on states with large Brazilian populations, such as Florida, Massachusetts and New Jersey. An estimated 1.5 million Brazilians live in the U.S.

Investment News: Brazilian **primary and secondary share offers** this year will reach $55 billion, according to BMFBovespa Chairman Edemir Pinto. That figure would be equal to the 2007 record and would be nearly double the 2010 total of $29 billion. Renewed interest in share offers comes at a time of sustainable, long-term growth for the Brazilian economy, Pinto said last week. He said share offers in areas of infrastructure and retail are likely to be favored. *** Japan's **Mitsubishi** last week announced investments in Brazilian operations of R$1 billion over a period of four years. The company's goal is to double motor vehicle output from the present 50,000 to100,000 by 2014. The company's main assembly line is in Goias state.

Company News: Honda became the second Japanese company in as many weeks to suspend assembly line operations because of a lack of parts from home. **Honda** suspended its Brazilian assembly lines for 10 days. Parts deliveries are delayed because of effects of the Japanese earthquake. Last week, Toyota suspended assembly lines for three days.

Indicators: Brazilian **energy consumption** continued a solid rise in the first quarter of 2011, expanding 4.8% to 107,231 gigawatt/hours, the government-run Energy Research Corp. (EPE) said last week. Residential use was the leader, up 5.3%, with industrial use lagging at 4.5%. *** Brazilian **demand for aluminum** is likely to rise 13.2% in 2011 on heavy demand for infrastructure projects, the Brazilian Aluminum Association (Abal) said last week. Demand in 2010 was already a hefty 1.298 million metric tons, up 29% from 2009. *** **Lending volume** continued its steep climb in March, rising 1% from February and 20.7% from March of 2010, the Central Bank said last week. Private lending hit R$1.146 trillion in March, while lending by public institutions reached R$607 billion. Average interest rates, however, rose to 39% from 38.1% as of February. The increase reflected monetary tightening by the Central Bank. Arrears increased from 5.8% in February to 5.9% in March. *** **Supermarket sales** rose 9.8% in March from February, the Brazilian Supermarket Association (Abras) said last week. But the growth was due to mainly to a small base of comparison in February. March sales were up only 1.9% from March of 2010, meaning that expansion of the market may have reached a point of diminishing returns. First quarter sales were up a modest 2.8% from the first quarter of 2010.

Other News: Fixed investment in Brazil's wind energy industry reached R$25 billion in 2010, up from virtually zero in 2005, the **Brazilian Wind Energy Association** said in a report last week. Wind energy capacity reached 931 megawatts at the end of last year, up from zero in 2005. But wind energy still accounted for only 0.8% of national energy generation, the report said. *** The **National Energy Council** last week announced the next auction of oil and gas concessions for September 14. Domestic and foreign bidders are welcome. Many are expected to form consortiums. The government will auction 174 blocks, including 87 offshore. However, none of the blocks is located in the rich pre-salt region offshore. *** The Brazilian Trade and Development Ministry last week tightened **rules governing imports in anti-dumping cases.** Under the new rules, importers will no longer be able to obtain automated licenses for imported goods under investigation for alleged dumping. Instead, importers will be obliged to obtain manual licenses for such imports, a procedure that can delay shipments by up to 60 days. A ministry spokesman said the new rules will allow for easier monitoring of anti-dumping cases and will avoid "massive imports" of goods under investigation.

Brazilian Calendar for Week of May 2:

- **Monday, May 2 -** Trade and Development Ministry release of monthly foreign trade figures, Brasília
- **Tuesday, May 3** - Seventh Brazilian Supply Chain Conference, Centro Empresarial, São Paulo
- **Friday, May 6** - National Motor Vehicle Manufacturers Association (Anfavea) release of monthly production, sales and export figures, São Paulo

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R$1.58 = $1.00

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