



UBS Investment Research

The Brazilian Real and the Swiss Franc

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External Sector

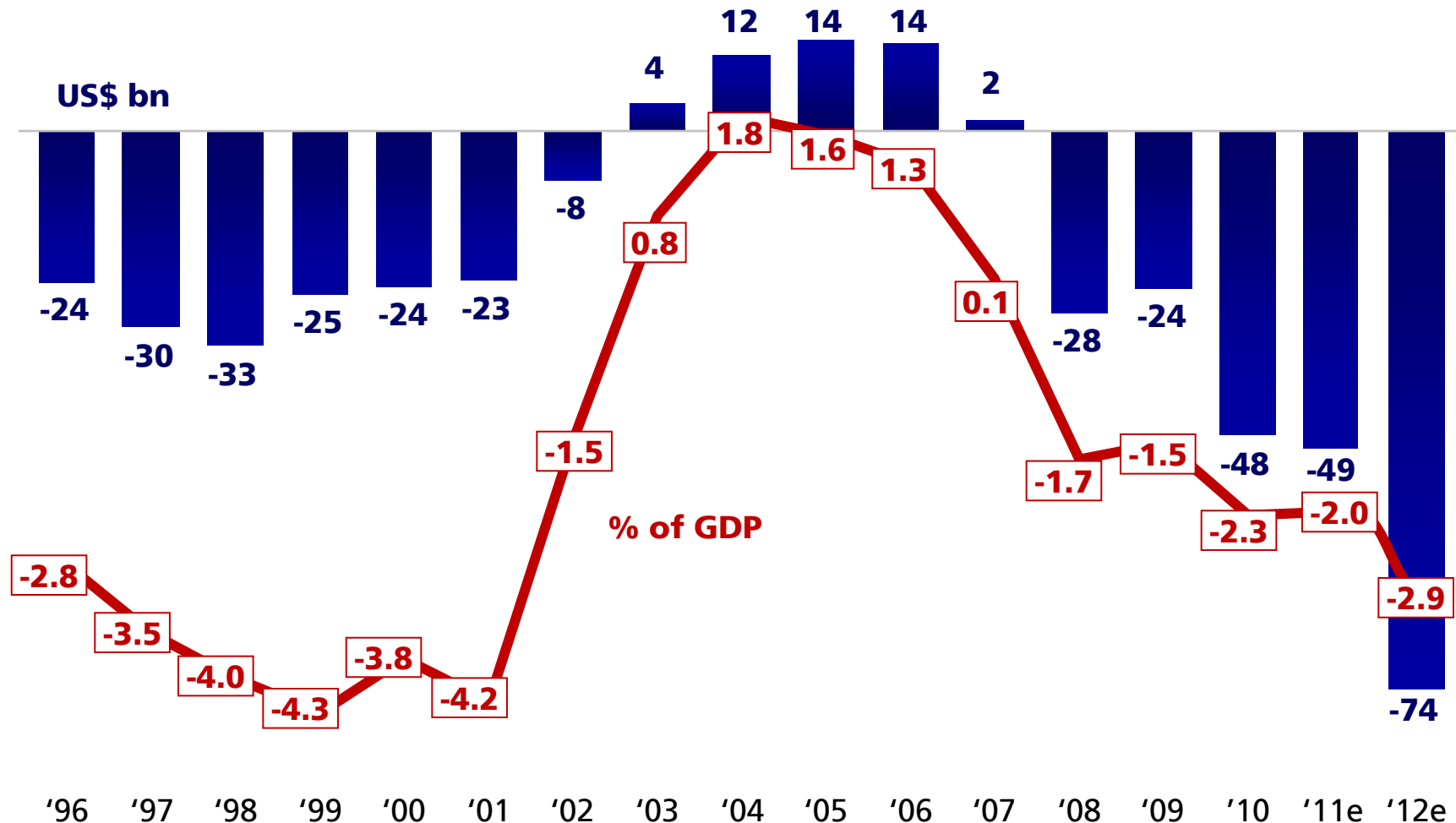
Brazil Economic Outlook



Still manageable current account deficits

- Lower commodity prices, weak global growth and accelerating domestic demand may increase the current account deficit in 2012.

Current Account Balance



Trade surplus was higher-than-expected in 2011 due to export prices

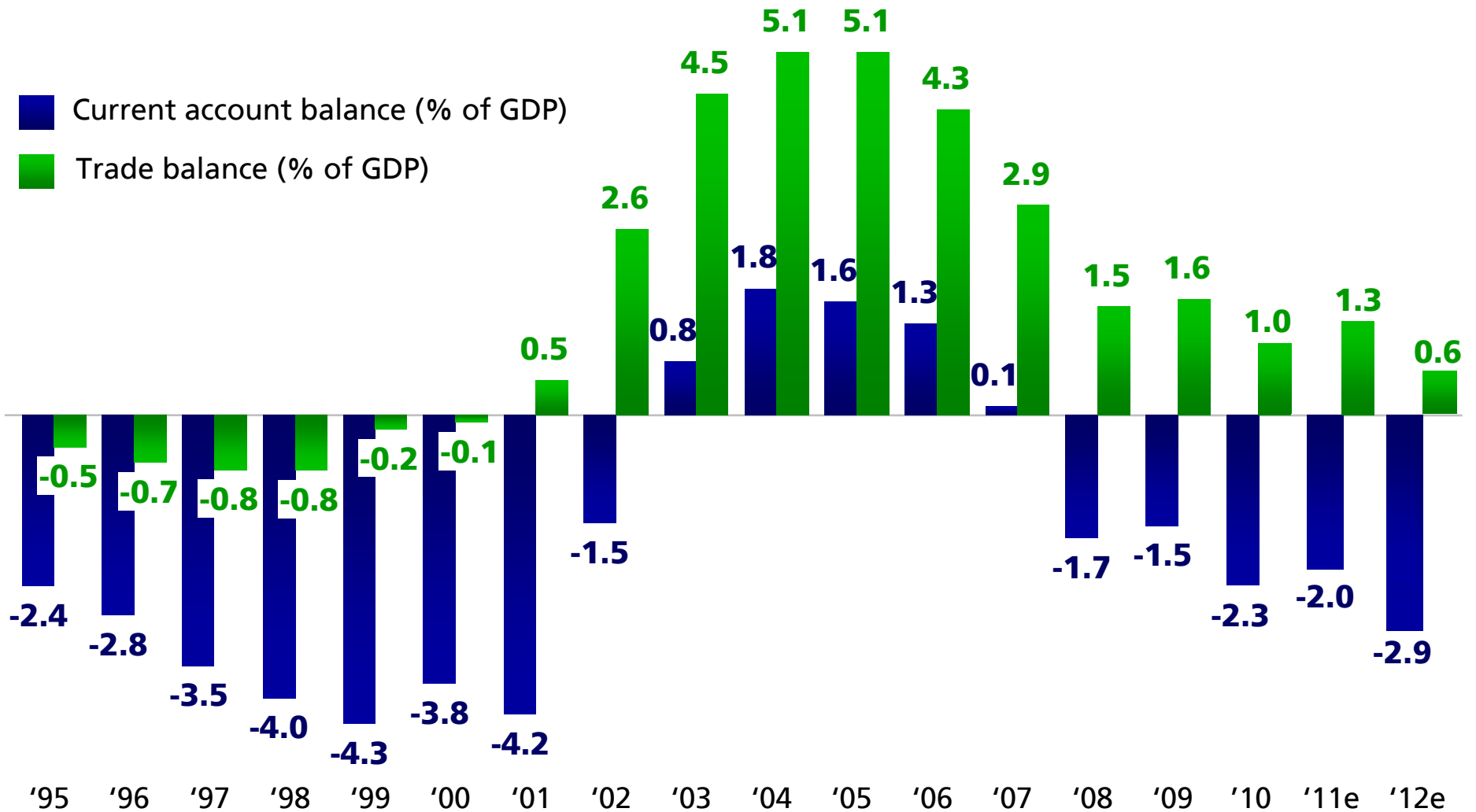
- In 2010, Brazil had a surplus of around US\$ 50bn in soft commodities, almost US\$ 30bn in Minerals and metals and close to zero in oil & derivatives.

Uses and Sources (US\$ bn)

	2009	2010	YTD Annualized	2011e	2012e
USES	54.4	-81.2	-89.8	-79.1	-104.7
Current account	-24.3	-47.4	-50.7	-48.5	-73.7
Trade balance	25.3	20.2	30.0	29.9	16.4
Exports	153.0	201.9	250.1	256.0	255.4
Imports	-127.7	181.7	-220.1	226.0	239.0
Services and income	-52.9	-70.4	-83.6	-81.4	-93.4
Net interest	-9.1	-9.7	-8.5	-7.1	-6.6
Profits and dividends	-25.2	-30.4	-38.5	-37.5	-42.6
International travel	-5.6	-10.5	-14.7	-14.9	-18.5
Others	-13.0	-19.8	-21.9	-14.5	-16.3
Unilateral transfers	3.3	2.8	3.0	2.9	3.2
Amortizations (medium and long terms)	-30.1	-33.8	-39.1	-30.6	-31.0

Trade surplus around 1% of GDP in 2011/12

Current account and trade balance



Exports more associated with commodities

- The share of commodities in exports reached 70% in 2010 from around 50% in early 2000. Highlight to iron ore.
- The share of commodities in imports was 36% last year.

Brazilian Exports (Last 12 months - %)

Main Product Groups	2007	2008	2009	2010	Aug-11
Crude oil and oil products	10.0	11.6	9.8	11.3	12.1
Vehicles and parts	14.9	13.7	10.6	10.8	10.1
Iron ore, aluminum ore and others	7.5	9.5	9.4	15.3	17.2
Soybean and soybean products	7.1	9.1	11.3	8.5	8.9
Meat	6.9	7.2	7.5	6.6	6.0
Chemical industry products	6.8	6.2	7.1	6.7	6.0
Metallurgical Products (eg: steel)	10.0	9.8	7.3	6.4	7.0
Sugar and Ethanol	4.1	4.0	6.4	6.8	6.5

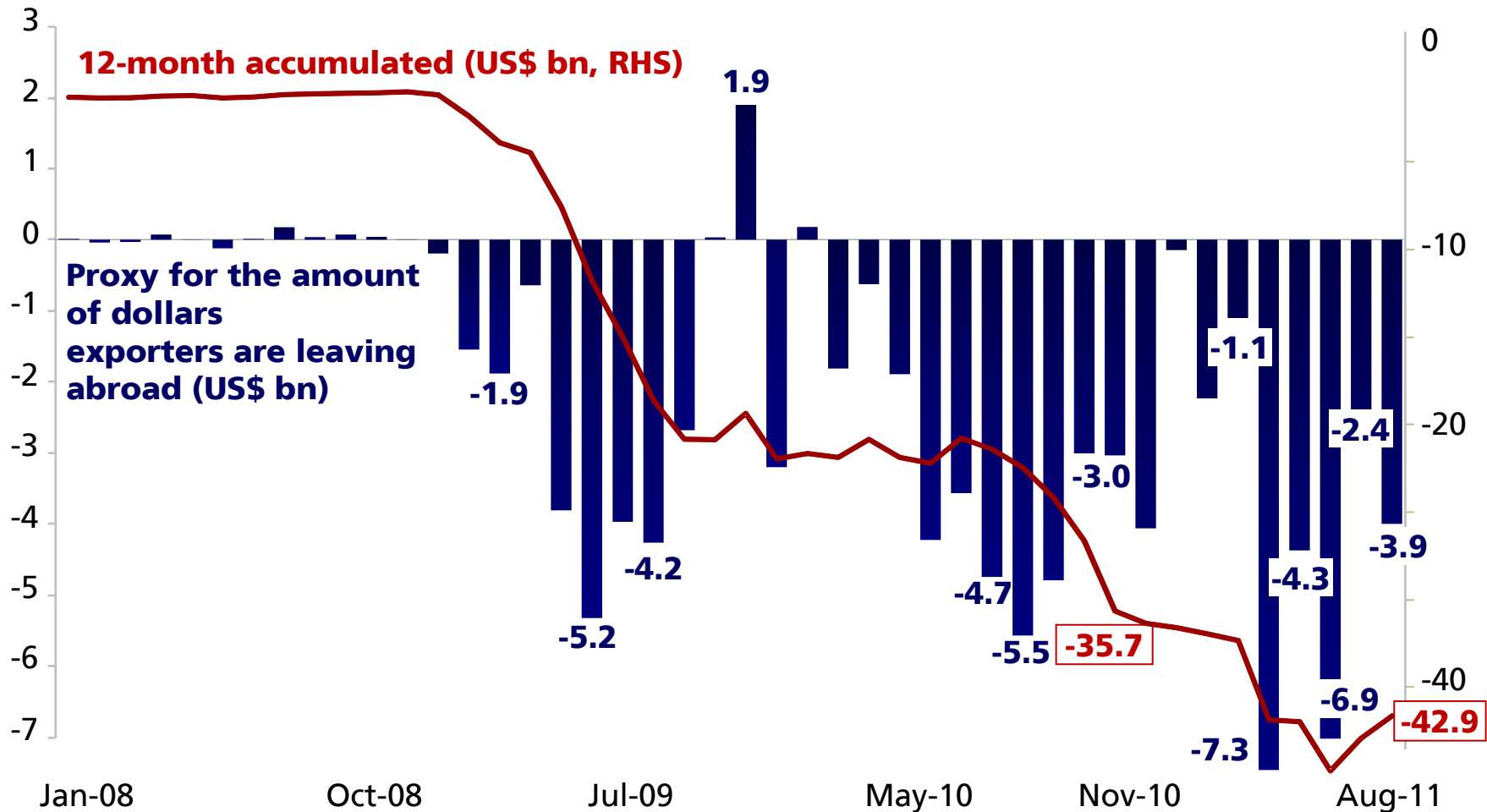
Increasing exports to China and decreasing to the US

Brazilian Exports by the main destinies (% of Total Exports in 12-month)

Destination	2007	2008	2009	2010	Aug-11	Weight of the four main products
European Union	25.2	23.4	22.3	21.4	21.2	31%
China	6.7	8.3	13.2	15.2	16.5	85%
United States	15.8	14.0	10.2	9.6	9.6	37%
Argentina	9.0	8.9	8.4	9.2	9.1	36%

Increasing exports but also more dollars left abroad

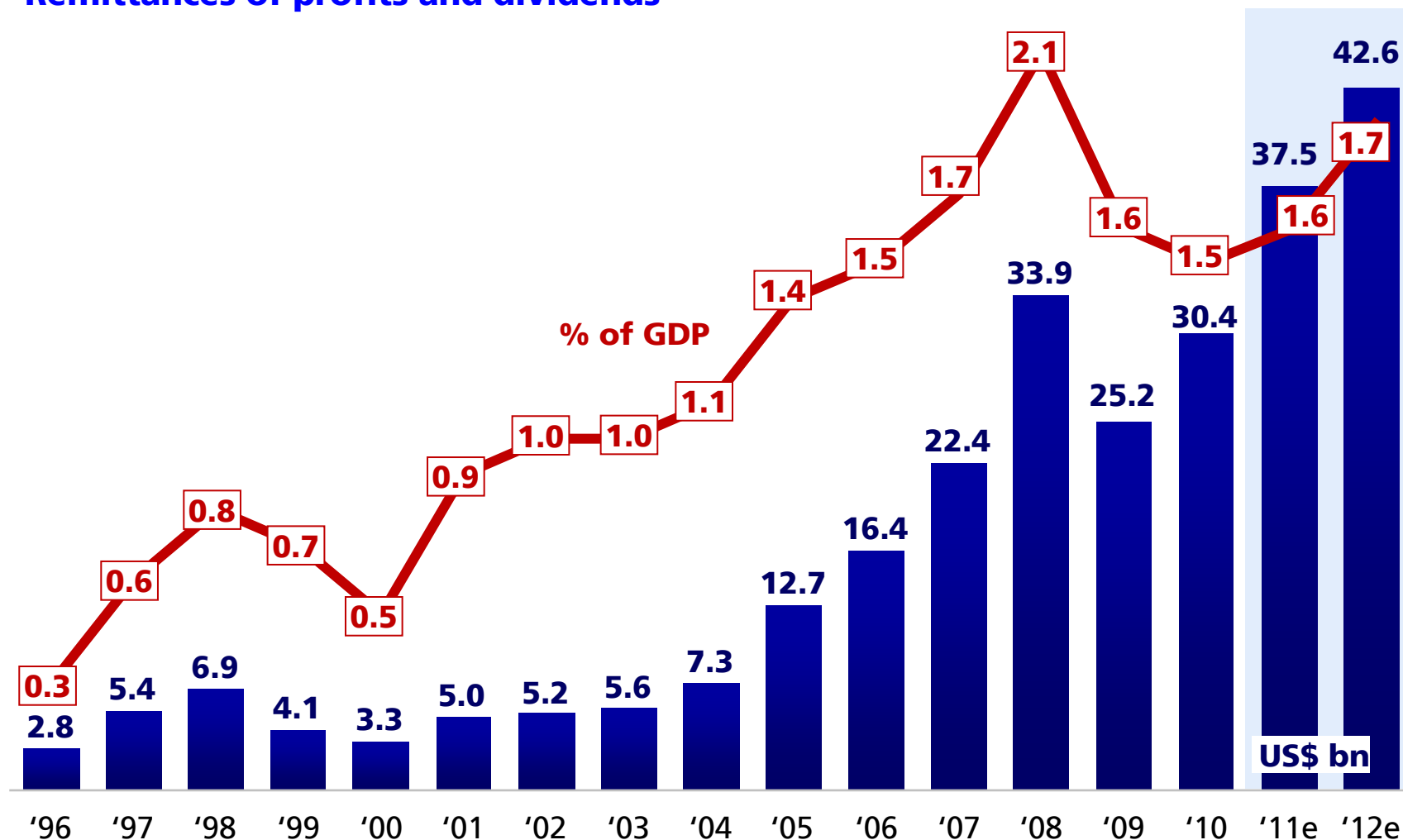
- Since early 2008, exporters have been able to leave up to 100% of their revenues abroad.



Increasing remittances of profits and dividends in dollar terms

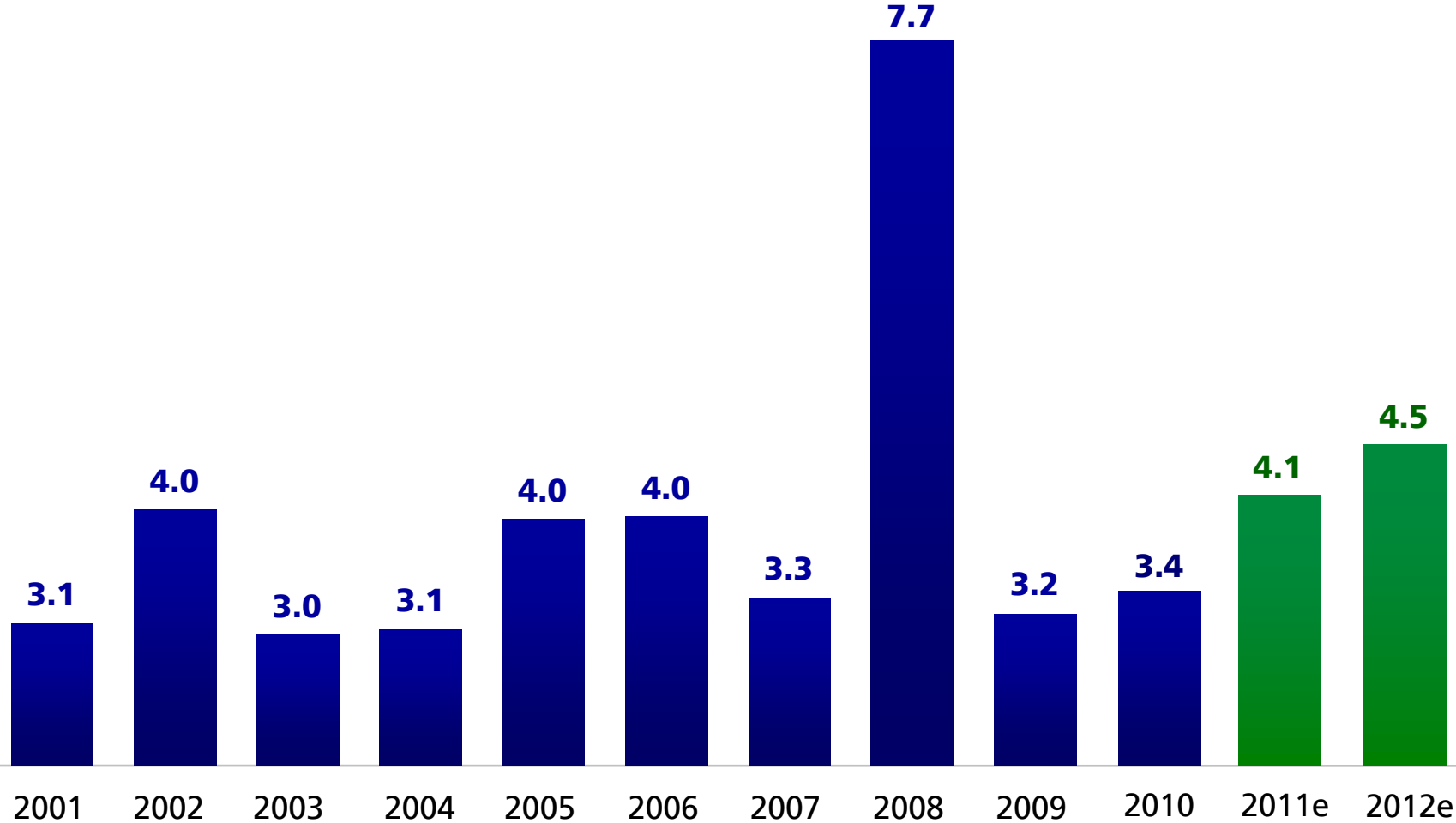
- Remittances of profits and dividends are very sensitive to the global scenario. In 2008, just after Lehman's bankruptcy, remittances increased fast, mainly due to a fly to quality environment and the global credit squeeze.

Remittances of profits and dividends



Higher-than-average remittances in 2011/12

Remittances of Profits and Dividends / (FDI + equities) - %



Dollar inflows are enough to continue increasing reserves

Uses and Sources (US\$ bn)

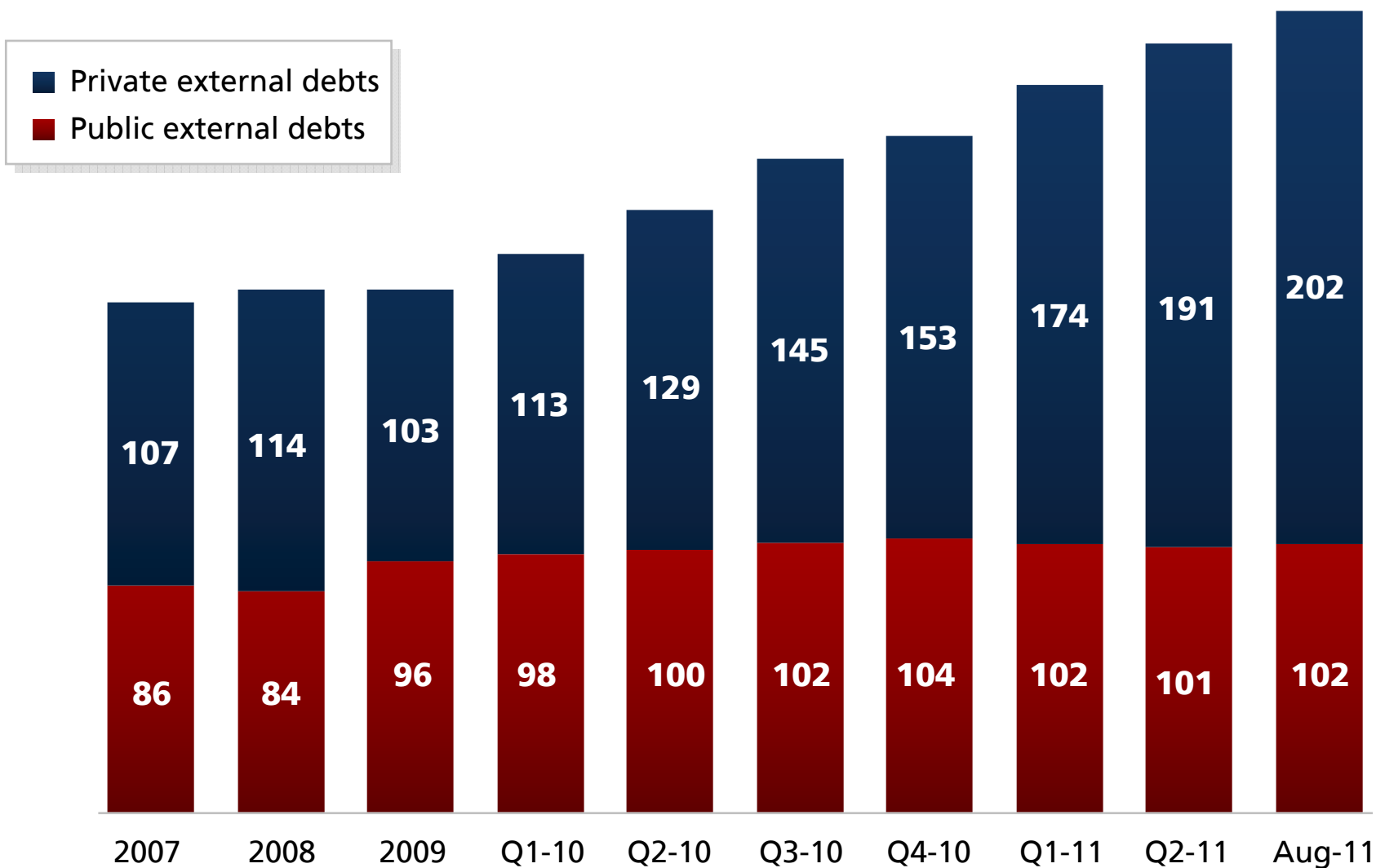
	2009	2010	YTD Annualized	2011e	2012e
SOURCES	54.4	81.2	89.8	79.1	104.7
Capital account	1.1	1.1	1.4	1.0	1.0
Foreign direct investments	25.9	48.4	66.1	60.0	60.0
Portfolio investments	47.1	52.3	6.7	8.0	23.0
Stocks	37.1	37.7	6.9	6.0	20.0
Fixed income (md and lg terms)	10.1	14.6	-0.2	2.0	3.0
Disbursements (medium and long terms)*	35.8	62.6	97.5	80.0	70.0
Brazilian assets abroad	-15.8	-58.7	-26.1	-21.0	-15.0
Short term and others**	6.9	24.8	27.8	25.0	20.0
International reserves	238.6	288.6	353.4	362.5	416.8

* include bonus, notes, commercial papers + loans + supplier credit

** include investments in short term FI instruments, short term trade finance and short term loans

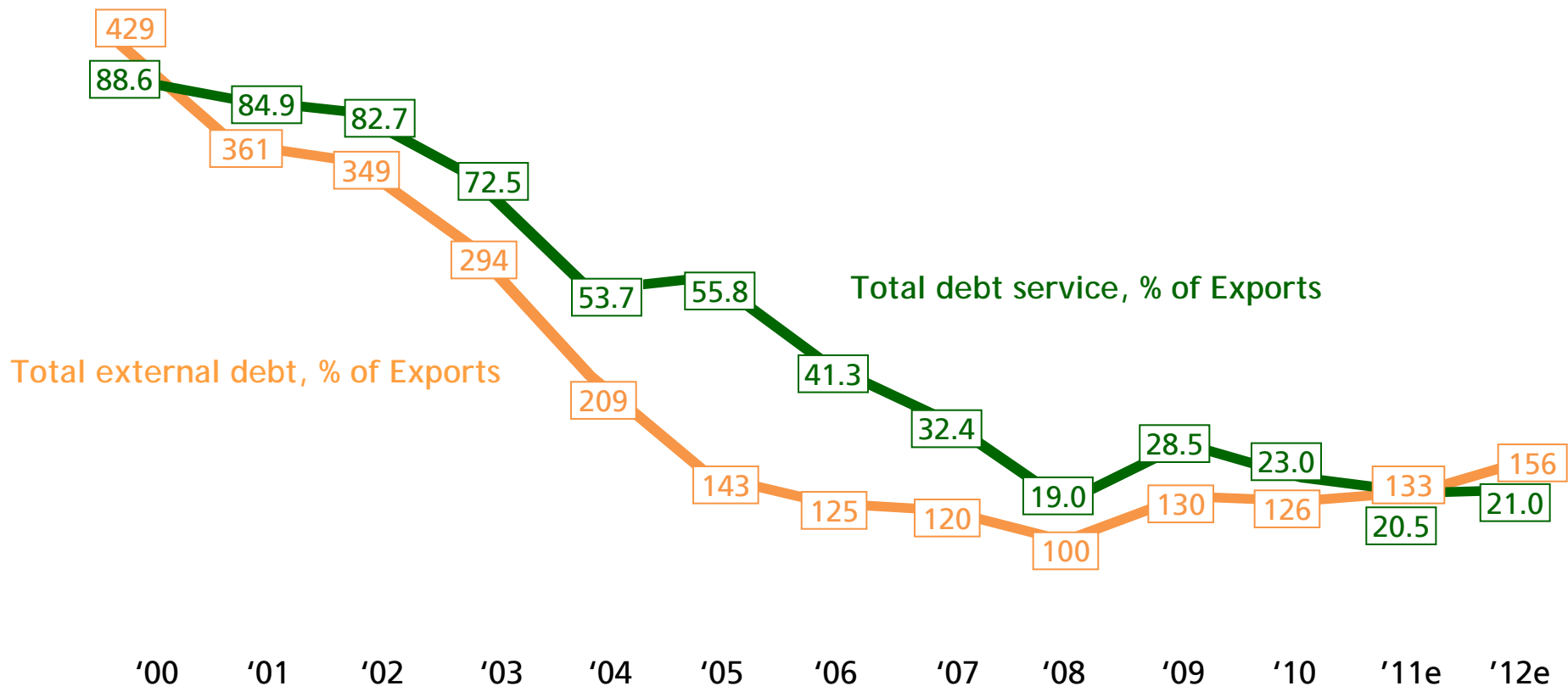
External debt issuances as one of the main sources of dollar inflows

Stock of external debt (US\$ bn)



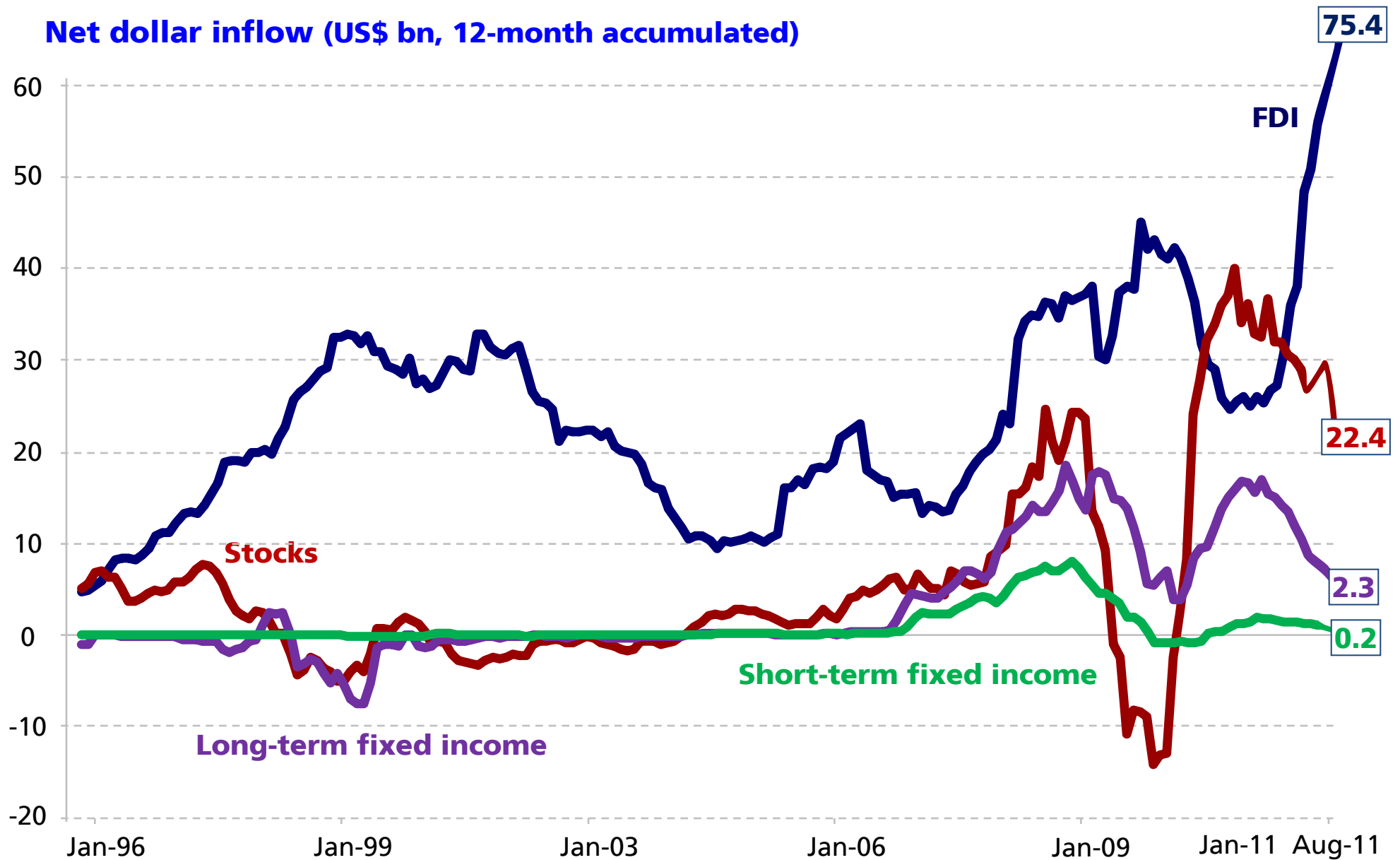
Long term debt issuances have not affected much the debt service ratio

External debt and debt service to exports ratio (%)



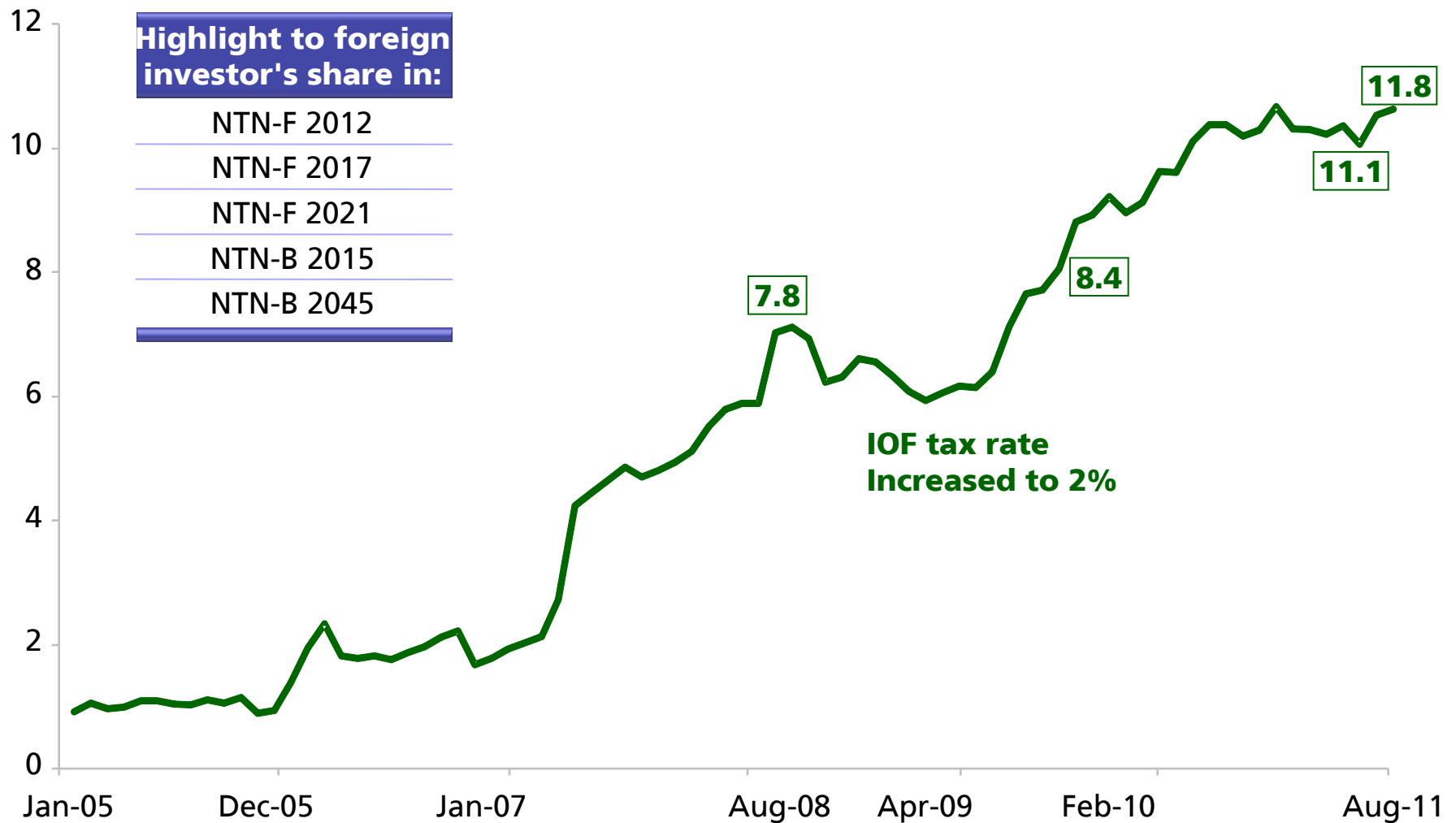
Foreign Direct Investment has also been a major source of dollars

Net dollar inflow (US\$ bn, 12-month accumulated)



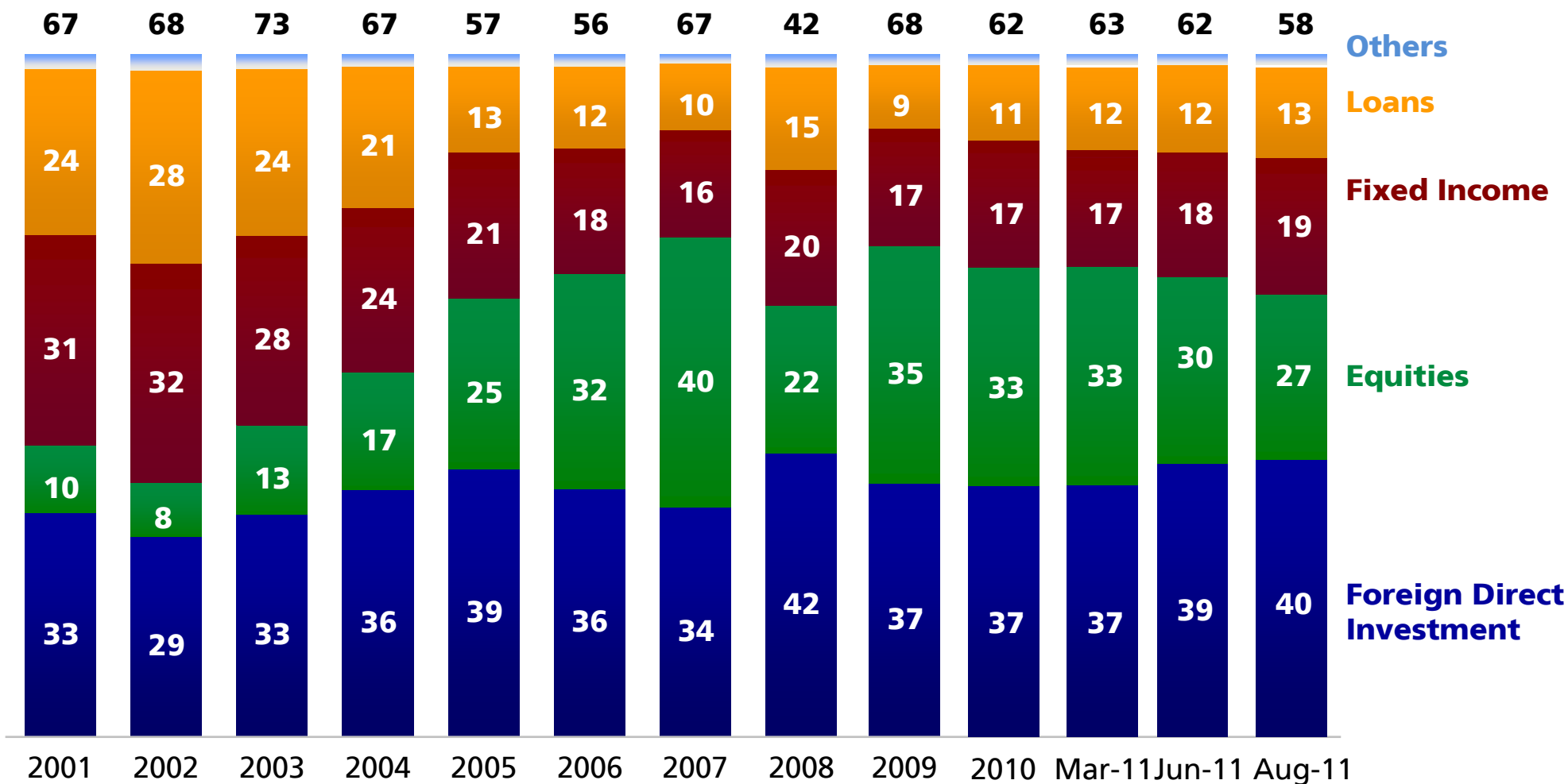
Increasing foreign investments in long term public debt

Share of foreign investors in Brazil's public debt (%)



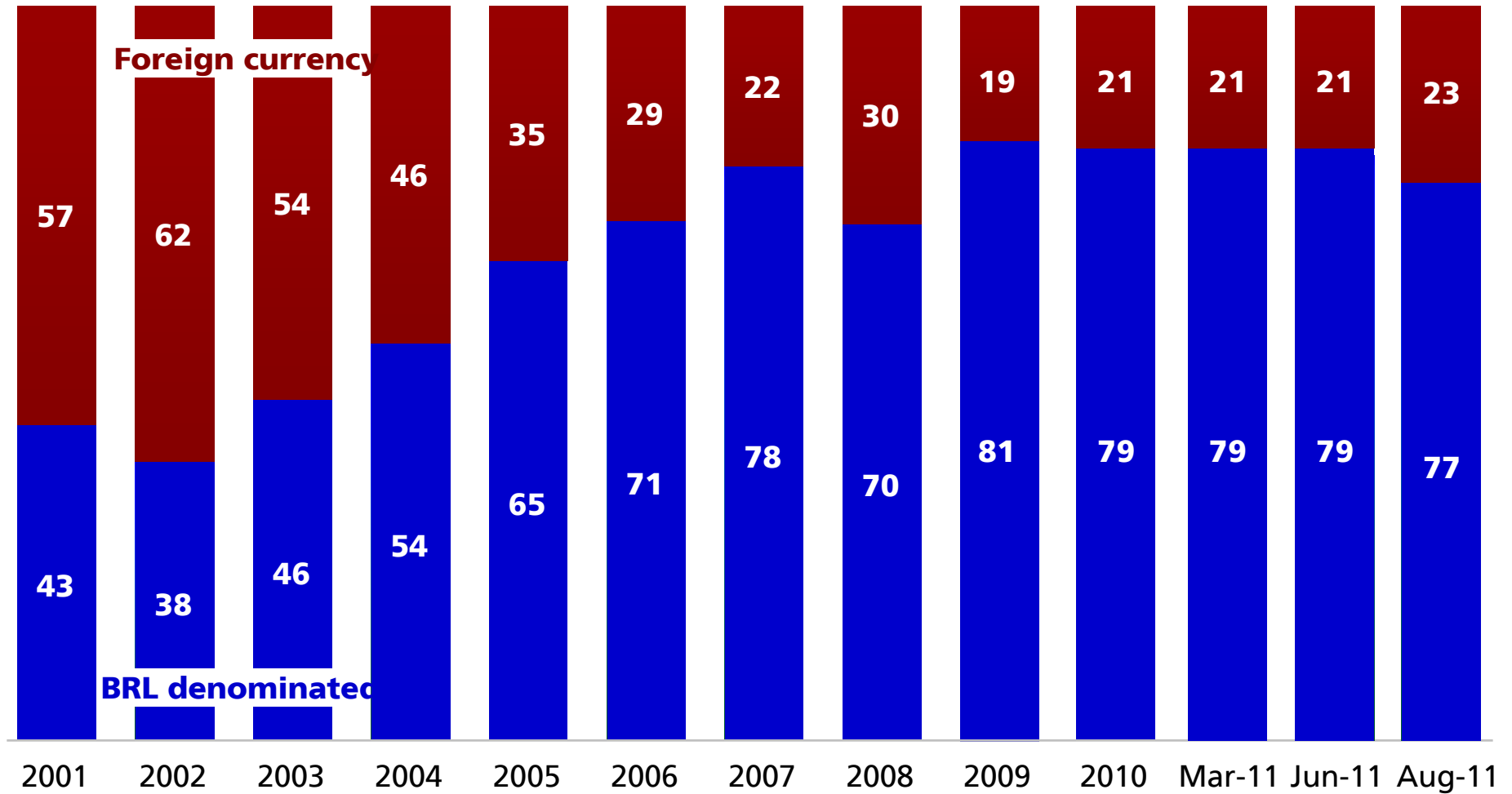
Foreign investments still concentrated on equities

Breakdown of external liabilities (%)



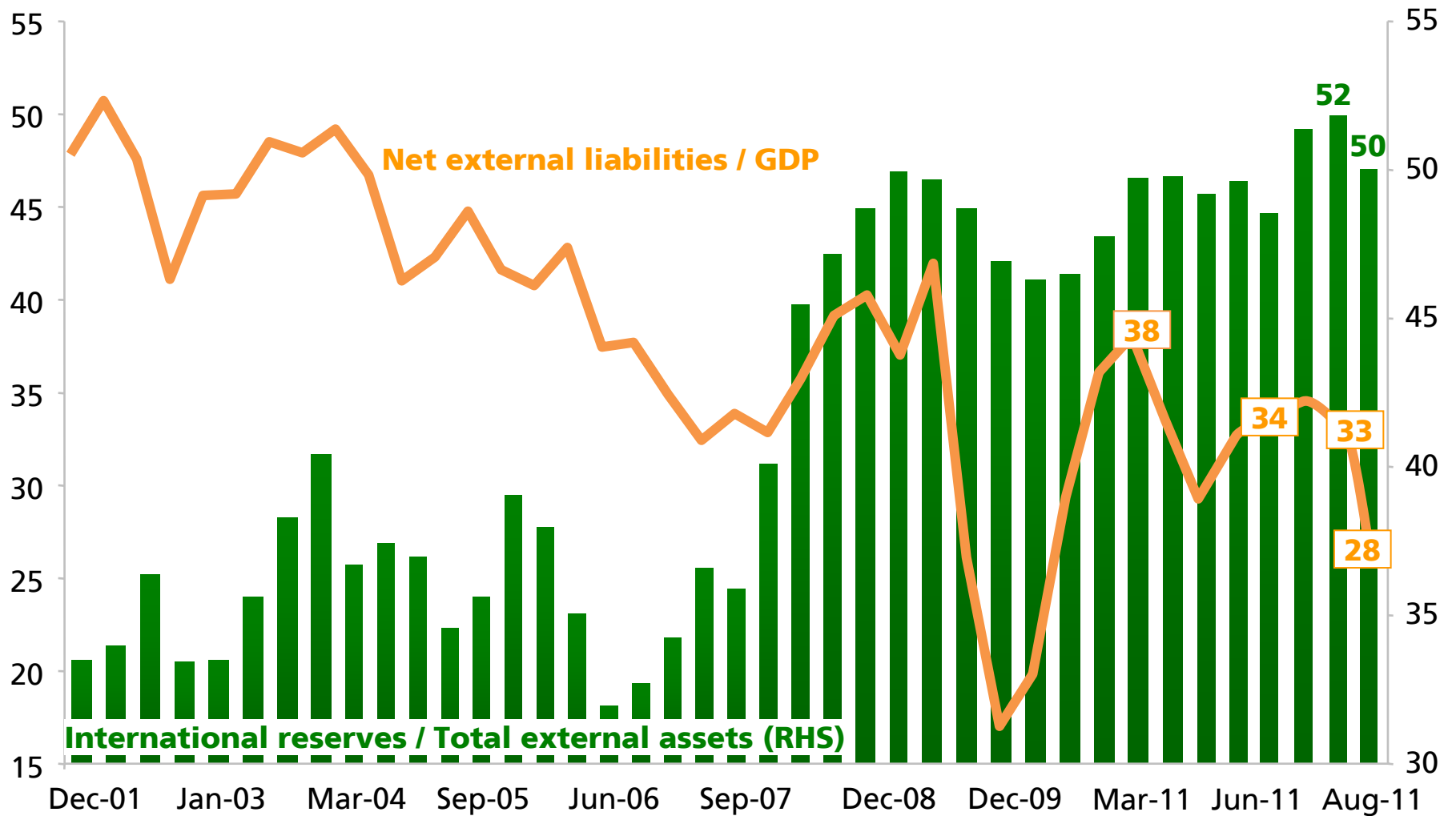
Foreign investors more exposed to BRL

Breakdown of external liabilities by currency exposure (%)



Liquid external assets and lower external liabilities

Net external liabilities, total external assets and International reserves (%)

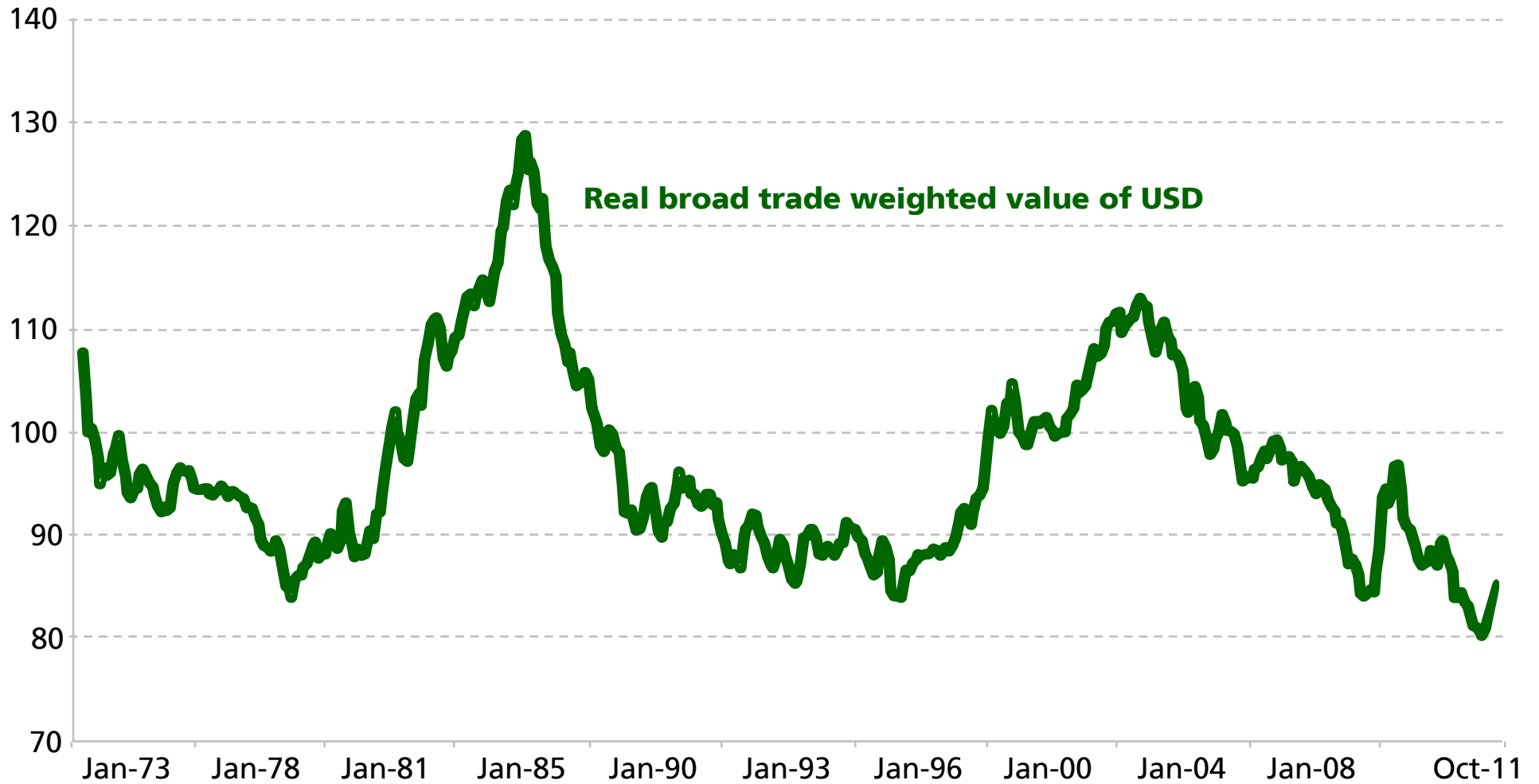


The Brazilian Real

Brazil Economic Outlook

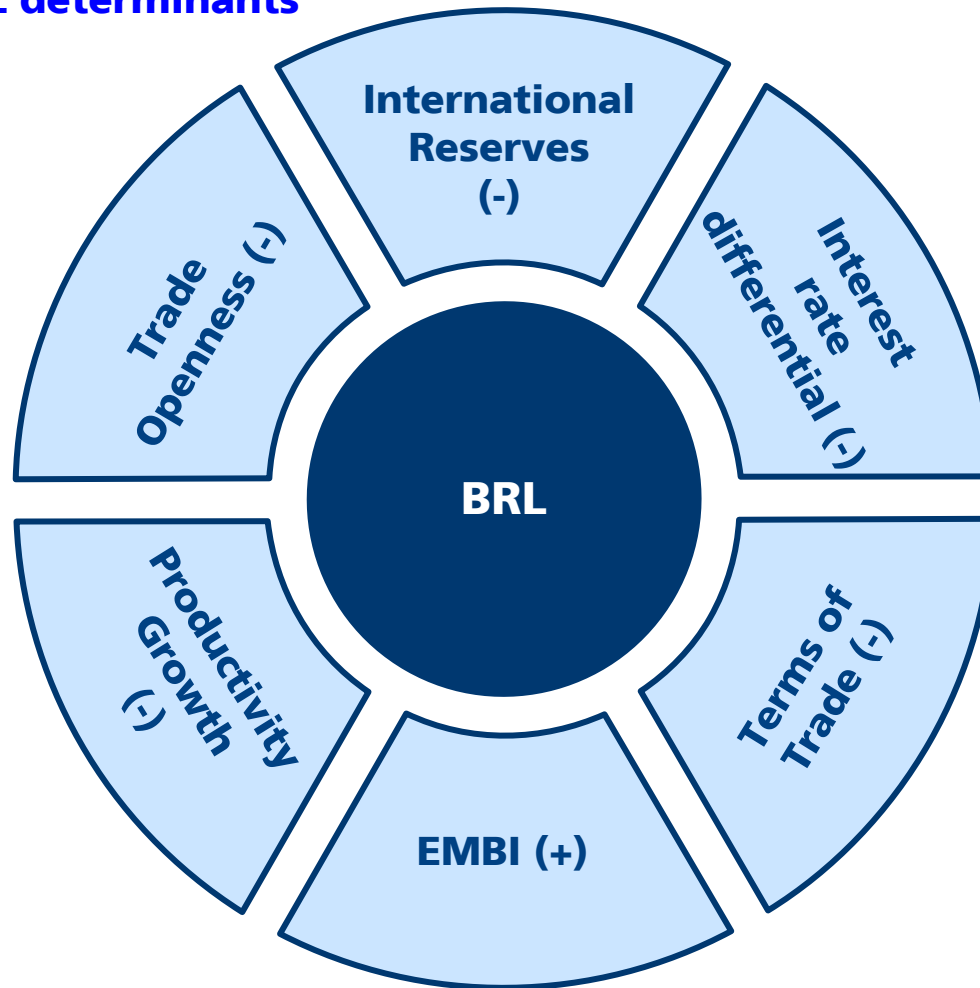


USD in a depreciating trend sometimes interrupted by fly to quality

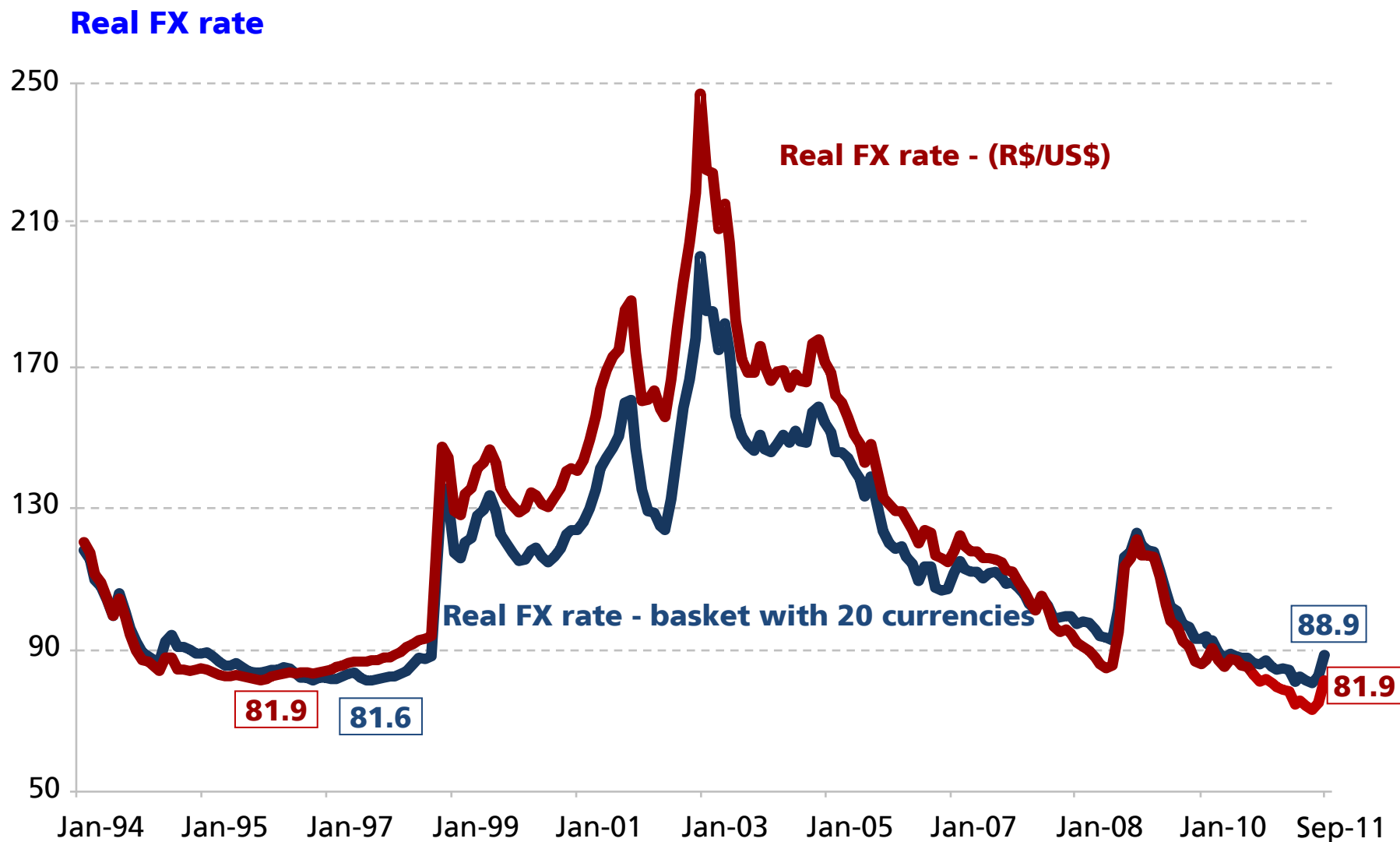


Fundamentals favor BRL appreciation

Long term BRL determinants

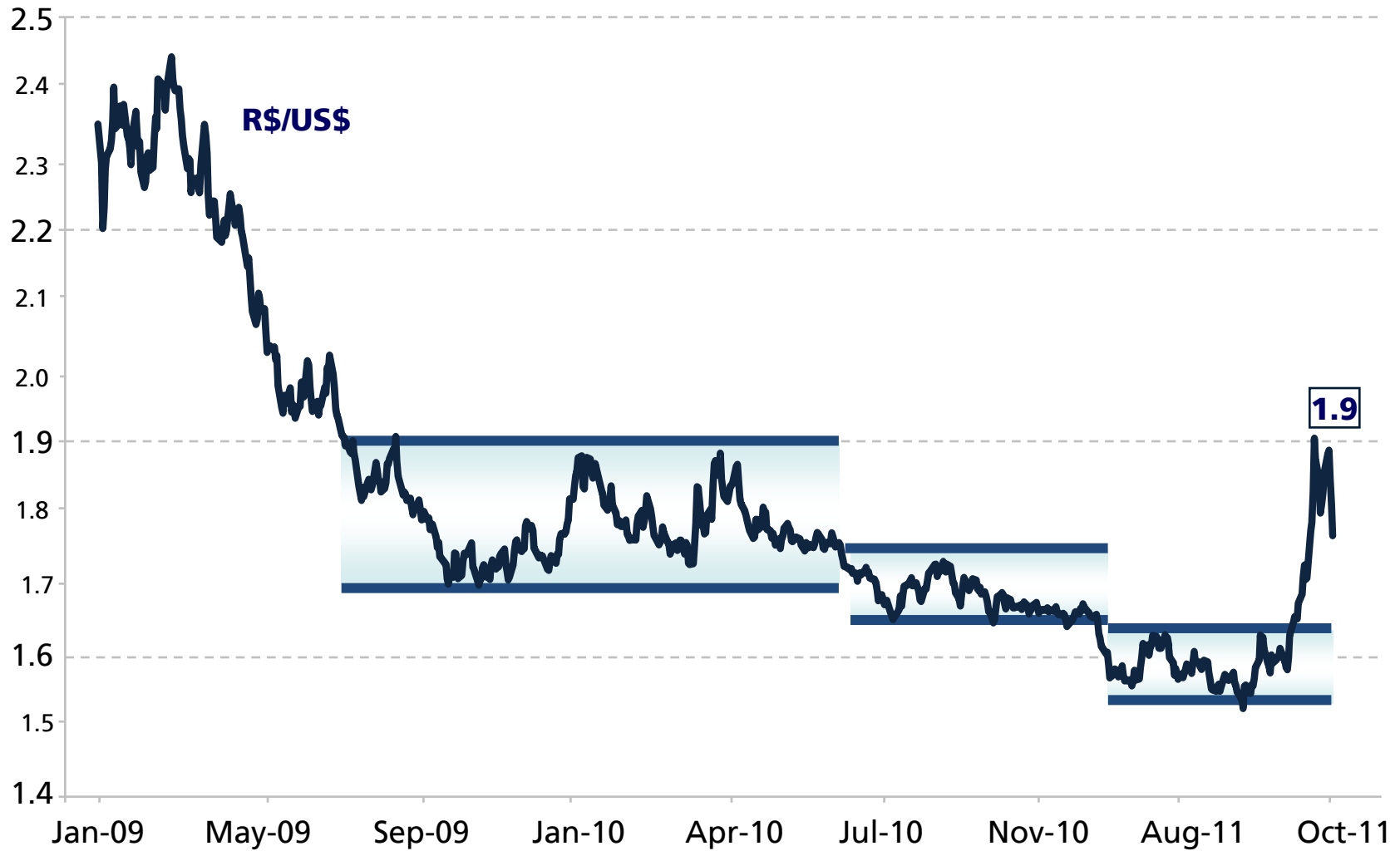


BRL is already appreciated in real terms, especially versus USD



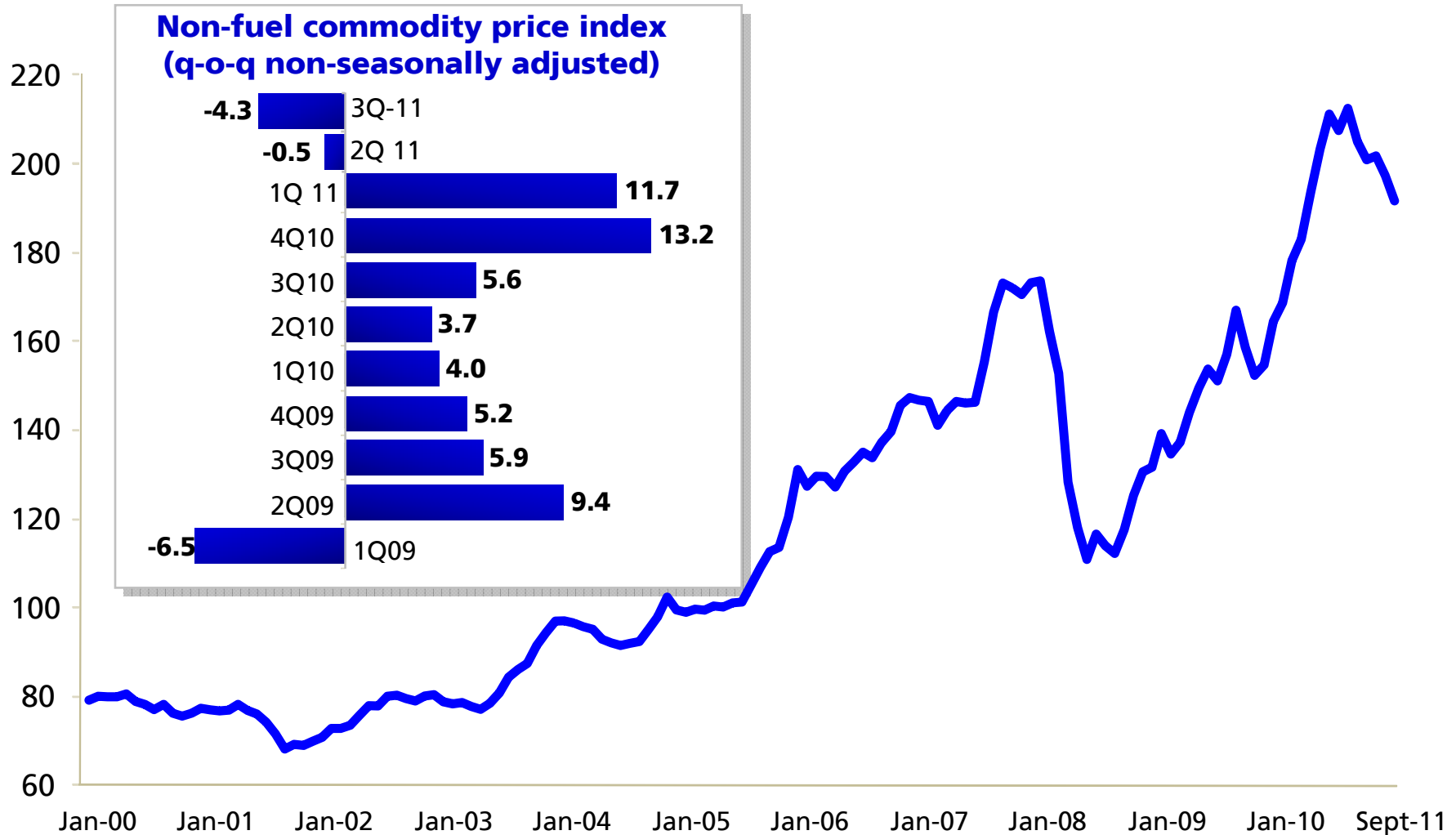
BRL may resume its appreciation trend when global tail risks fade away

R\$/US\$



BRL path dependent on commodity prices

Non-Fuel Commodities Index (%)

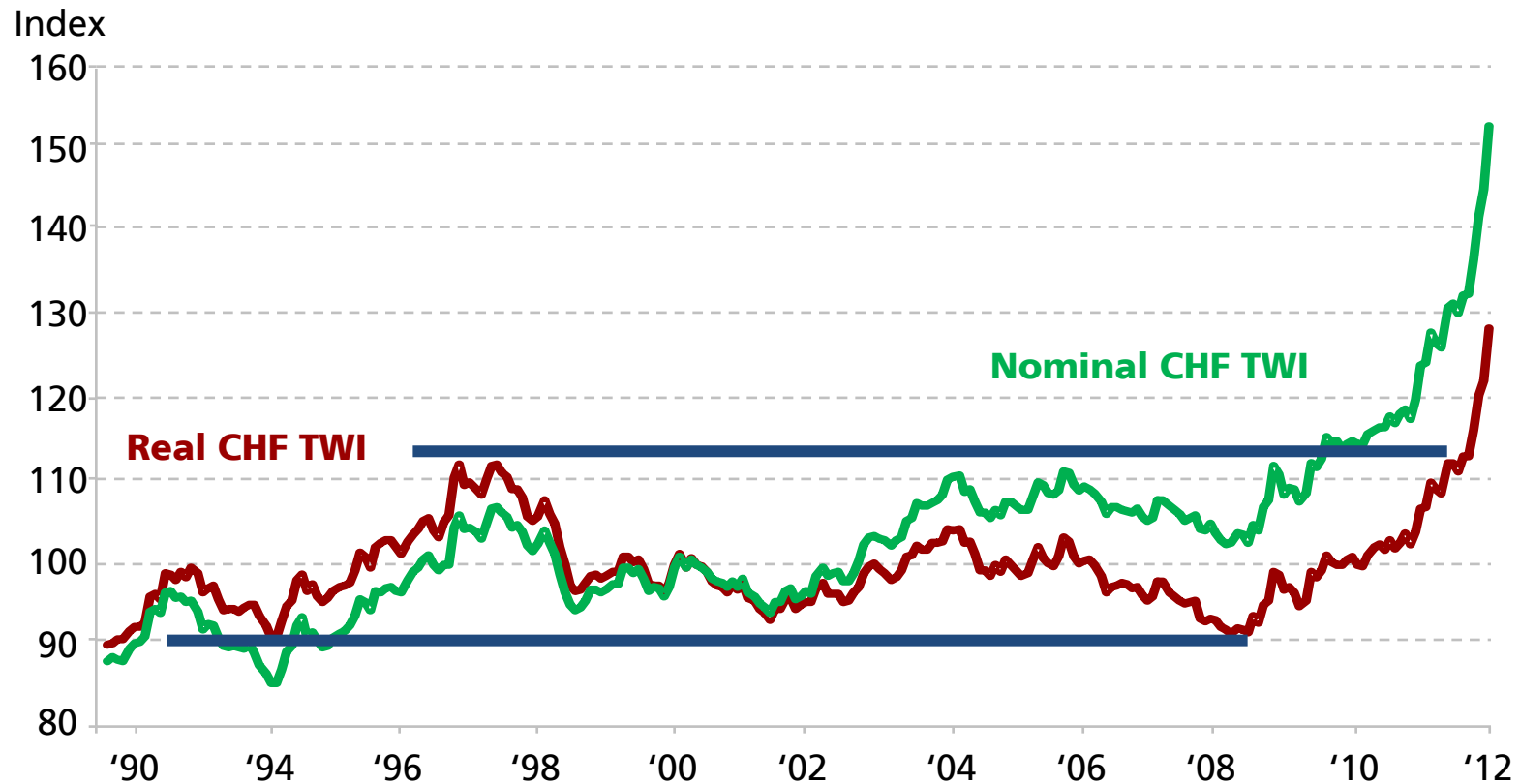


The Swiss Franc



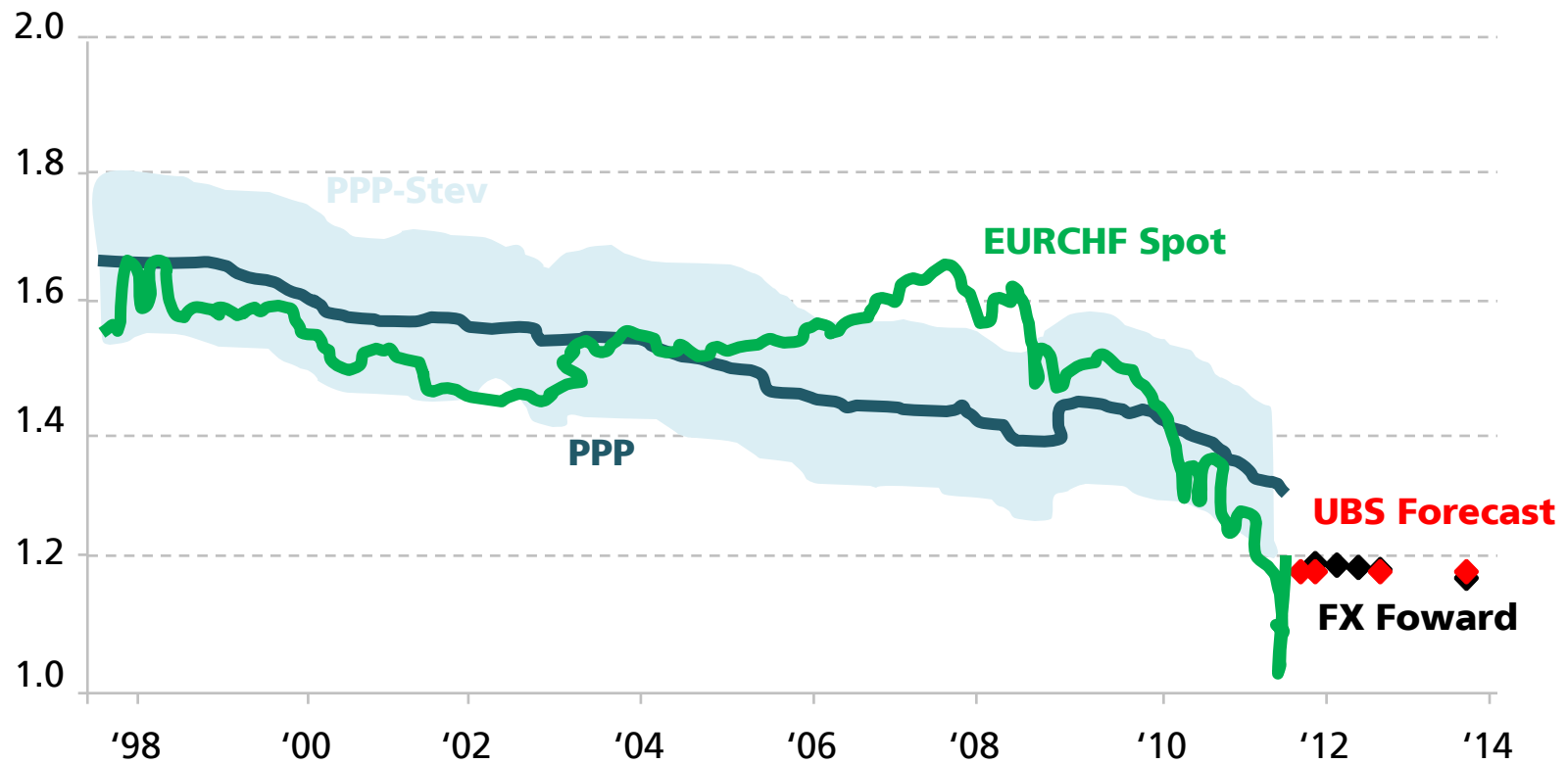
The Swiss Franc (CHF) has been in a clear appreciation trend

Nominal and Real CHF – trade weighted index



CHF depreciated recently versus EUR ...

Swiss Franc versus Euro (PPP)



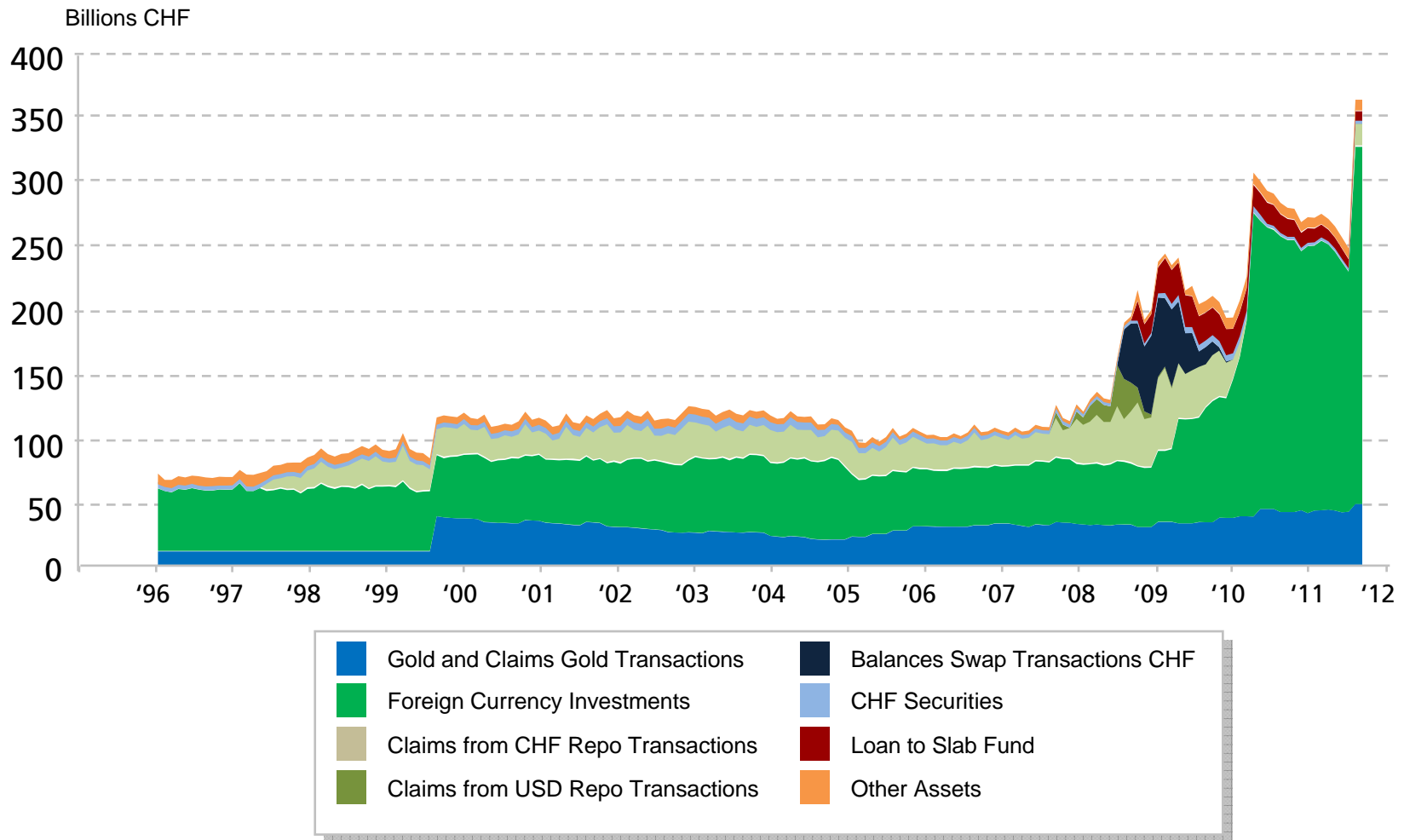
... but may remain flat going forward

Swiss Franc versus Euro, spot price and UBS forecasts (PPP)

EURCHF			
SPOT	1.20	12/Oct/11	
			Difference to Spot
PPP	1.32	Aug/11	8.55%
Forecasts	1.20	Nov/11	-1.10%
	1.20	Jan/11	-1.10%
	1.20	Oct/12	-1.10%
	1.20	Oct/13	-1.10%

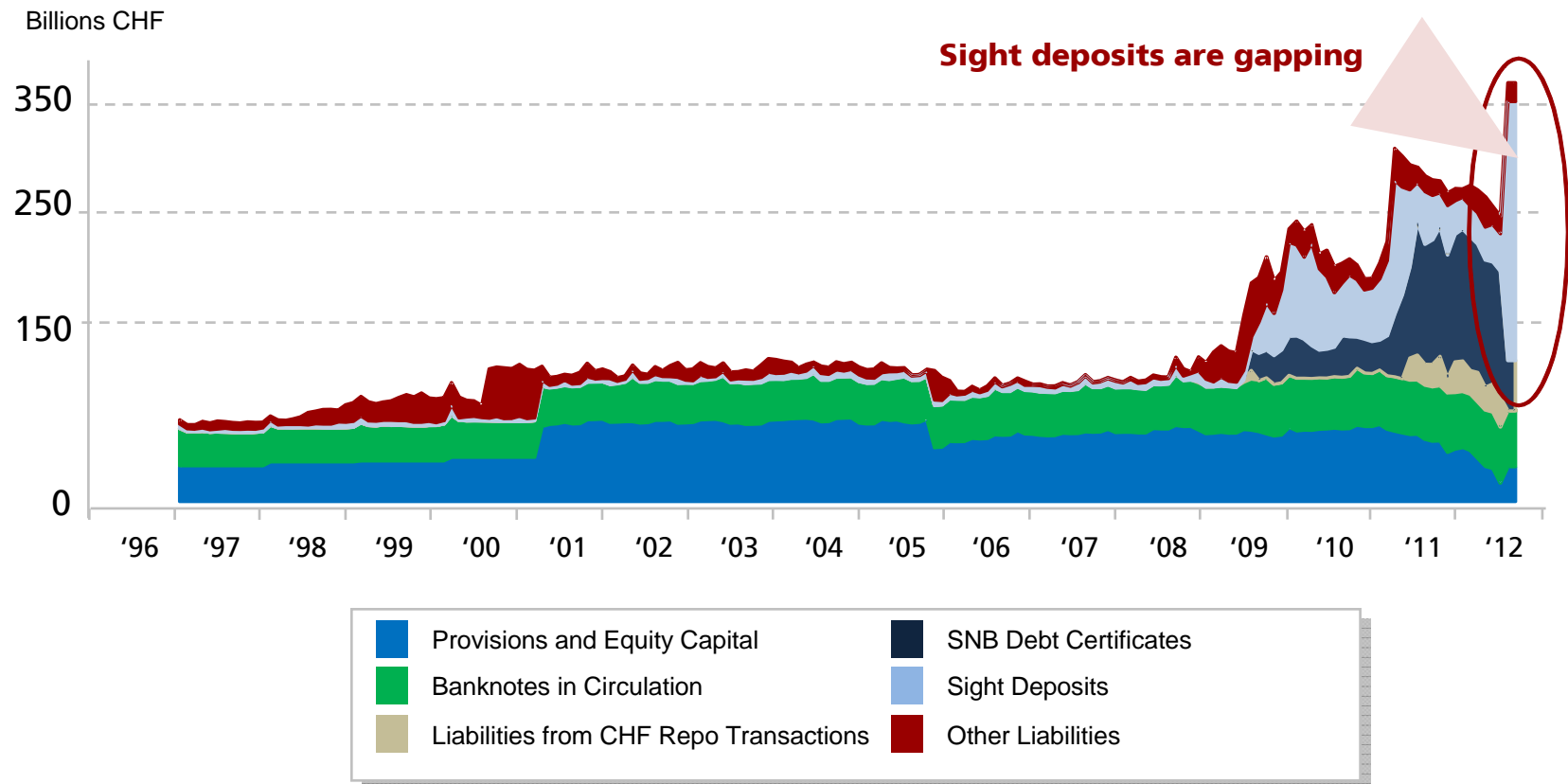
New Government intervention measures launched in August 2011...

SNB Balance Sheet - Asset



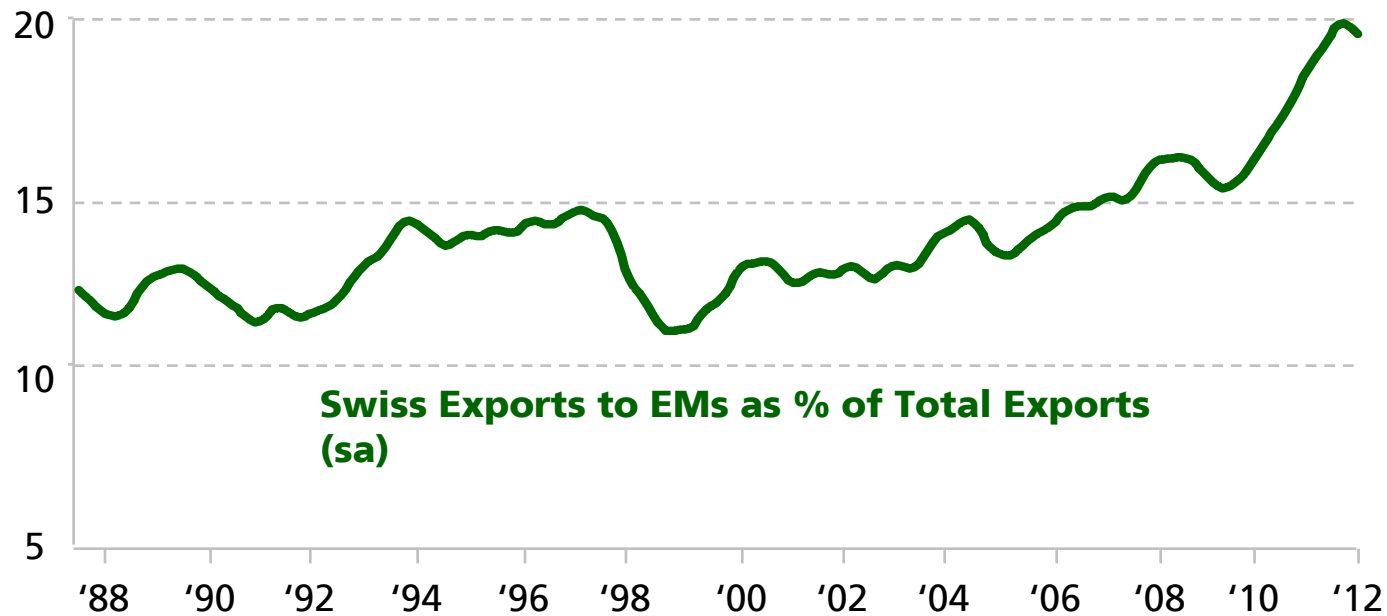
... may have helped curb CHF appreciation

SNB Balance Sheet - Liability



Increasing importance of EM to Suisse exports

Swiss Nominal Exports to EM in % of Total Exports



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