Brazil Real Jumps as Credit Suisse Joins Nomura Forecasting Gain
2013-07-15 22:00:16.395 GMT

By Blake Schmidt and Marisa Castellani

July 15 (Bloomberg) -- The real rallied the most among major emerging markets as Credit Suisse Group AG and Nomura Holdings Inc. forecast the Brazilian currency will strengthen from almost a four-year low.

Credit Suisse boosted its three-month target for the real to 2.20 per dollar from 2.30 and said it will rally to 2.15 in
12 months, citing central bank intervention, interest-rate increases to contain inflation and reduced concern that China's economy is slowing. Nomura said the currency would "at least"
return to 2.20 in coming weeks.

The real appreciated 2.1 percent to 2.2201 per dollar, the biggest gain on a closing basis since June 2012. It touched
2.2803 on July 10, the weakest level since April 2009. Swap rates on contracts maturing in January 2016 decreased 17 basis points, or 0.17 percentage point, to 10.30 percent, the lowest level since June 14.

"Today Brazil and other emerging-market currencies became attractive again," Daniel Cunha, chief economist at XP Investimentos, said by phpone from Rio de Janeiro.

Nomura strategist Tony Volpon in New York wrote that the firm forecasts that the real will trade at 2.20 by year-end and
2.30 by the end of 2014.

The central bank last sold currency swap contracts on July 10, the 13th day of intervention since May 31 to stem the real's decline. Central bank president Alexandre Tombini said last month that policy makers are working to contain inflation that may stem from a decline in the currency.

Brazil's Inflation

Policy makers raised the target lending rate by a half- percentage point to 8.50 percent on July 10 in the third increase this year. They raised the benchmark by a quarter- percentage point in April and 50 basis points in May.

"Based on the assumption of an improving external backdrop and/or the central bank preventing a weakening above 2.30 USD/BRL, we are turning fundamentally positive," Bernd Berg, an emerging-market strategist at Credit Suisse in Zurich, wrote in an e-mailed research note to clients.

Inflation in Brazil accelerated to a 20-month high of 6.70 percent in June, exceeding the 6.50 percent upper level of the central bank's target range.

Swap rates fell today as analysts cut their outlook for Brazil's economic expansion, spurring speculation that the central bank will limit increases in borrowing costs. They extended their decline as the currency strengthened.

Economists reduced their 2013 growth forecast to 2.31 percent from 2.34 percent a week earlier, according to the median of about 100 estimates in a central bank survey published today. They lowered their outlook for inflation to 5.80 percent from 5.81 percent.

'Another Reduction'

"The real's gain is positive for inflation and is supporting swap rates," Luciano Rostagno, a strategist at WestLB do Brasil SA, said in a phone interview from Sao Paulo.
"And there was yet another reduction in GDP projections."

Last week, the central bank eliminated capital requirements that increased costs for banks to bring funds into the country from foreign-currency loans made to their subsidiaries abroad.

The move added to government efforts to slow a decline in the real prompted by concern the U.S. may unwind stimulus.

China's statistics agency reported that the economy of Brazil's biggest trading partner expanded 7.5 percent in the second quarter from a year earlier, meeting the median forecast of analysts surveyed by Bloomberg and slowing from 7.7 percent.

U.S. retail sales rose 0.4 percent last month, following a 0.5 percent increase in May that was less than previously estimated, the Commerce Department reported today in Washington.

The median forecast of 82 economists surveyed by Bloomberg was for a 0.8 percent advance.

Fed Chairman Ben S. Bernanke said last week that the U.S. needs "highly accommodative monetary policy for the foreseeable future." He said on June 19 that the U.S. central bank may begin to slow its $85 billion in monthly bond purchases this year and end them in 2014 if economic growth meets policy makers' goals.

For Related News and Information:
Top Brazil News: TOP BZ <GO>
Most-Read News on Brazil: MNI BRAZIL <GO> Bloomberg News in Portuguese: NH PBN <GO> Top Latin American News: TOPL <GO>

--With assistance from Josue Leonel and Gabrielle Coppola in Sao Paulo. Editors: Dennis Fitzgerald, Bradley Keoun

To contact the reporters on this story:
Blake Schmidt in Sao Paulo at +55-11-3017-4809 or bschmidt16@bloomberg.net; Marisa Castellani in Sao Paulo at +55-11-3048-4605 or mcastellani7@bloomberg.net

To contact the editor responsible for this story:
David Papadopoulos at +1-212-617-5105 or papadopoulos@bloomberg.net