



BNP PARIBAS
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Weekly Brazilian Markets

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Despite thin liquidity in markets in the last days of the year, the **Bovespa index posted its biggest gain in three weeks** as a better than expected US data increased the optimism on American economic recovery. It also lifted commodities prices thus boosting the outlook for Brazilian producers.

In Brazil, despite uncertainties of global outlook, slowing domestic growth and additional inflation relief from 2012 rebalance of IPCA (inflation index), **the Brazilian Central Bank revised up its inflation projections in its quarterly inflation report.**

In another volatile week, **Brazilian currency (Real) depreciated against USD and EUR.** Year-to-date, Real accumulates losses of -10% versus USD and -8% versus Euro. Regarding Fixed Income market, the yield curve steeped last week and Brazilian government bonds index (IMA-G) remained almost flat, posting -0.01% return.

Equity market had a strong performance in all sectors except Real Estate, which was the only one with negative result. **Utilities and Materials were the highlights** with a performance of +4.55% and 4.28% respectively.

● Key sectors and companies' news:

- **VALE (Mining):** According to Reuters, Vale and Australia's Aquila Resources reached an agreement to jointly develop the Eagle Downs coal mine in Australia.
- **Magazine Luiza (Retail):** disregards new acquisitions in 2012, once it will focus on integration and maturation process of the acquired chains - Maia and Baú.

Brazilian Equity Indices	Week	MTD	YTD	12m
Bovespa Index - Ibovespa	2,86%	1,45%	-16,74%	-15,75%
<i>Mid-Large Cap Index - MLCX</i>	3,27%	2,92%	-9,04%	-7,98%
<i>Small Cap Index - SMLL</i>	-1,40%	-0,01%	-17,29%	-15,07%
<i>Corporate Governance Stock Index - IGC</i>	2,58%	2,44%	-11,87%	-11,06%
<i>Dividend Index - IDIV</i>	2,99%	5,22%	13,62%	14,73%
<i>Corporate Sustainability Index - ISE</i>	3,58%	4,28%	-2,69%	-2,36%

Brazilian Sector Indices	Week	MTD	YTD	12m
<i>Telecommunication Sector Index - ITEL</i>	3,02%	6,23%	16,82%	17,20%
<i>Electric Power Index - IEE</i>	3,63%	9,46%	19,71%	21,31%
<i>Industrial Sector Index - INDX</i>	1,82%	2,84%	-11,67%	-11,34%
<i>Consumption Index - ICON</i>	0,86%	3,71%	1,21%	1,81%
<i>Real Estate Index - IMOB</i>	-3,71%	-5,59%	-27,80%	-25,11%
<i>Financial Index - IFNC</i>	3,92%	4,94%	-6,68%	-5,29%
<i>Basic Materials Index - IMAT</i>	4,28%	2,23%	-27,57%	-28,12%
<i>Public Utilities Index - UTIL</i>	4,65%	10,01%	22,91%	24,35%

Fixed Income and FX	Week	MTD	YTD	12m
BRL / USD	-0,35%	-2,66%	-10,66%	-8,93%
BRL / EURO	-0,48%	0,28%	-8,31%	-8,48%
BRL / JPY	0,11%	-2,03%	-13,99%	-14,28%
One-day Interbank Deposit Rate - CDI	0,21%	0,70%	11,37%	11,63%
<i>Government bonds - IMA Geral</i>	-0,01%	0,16%	13,31%	13,74%

Note: performance is stated in BRL

Source: Bloomberg, BNP Paribas Asset Management Brasil

On inflation, changes in basket composition for IPCA, scheduled to be implemented in January 2012, continue to decrease in 2012 IPCA inflation forecasts, according to CB's weekly survey. On activity side, growth forecasts continue to be revised down once again and real GDP growth moved 5 bps down to 2.92% in 2011. Despite of Brazilian economic growth showed deceleration, labor and credit market development should boost domestic demand. On monetary policy, we will see in 1st half 2012 more rate cuts from the current 11.0% mark, but the strong labor market plus the hawkish speech from the Brazilian CB on Inflation Report led the curve to steep last week.

YOU MAY NOT KNOW...

The Brazilian government cut tax on foreign investments in the country (IOF). The IOF for foreign investment in equities and corporate bonds (debentures) issued to finance infrastructure projects were cut to ZERO, from 2% and 6% respectively.



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