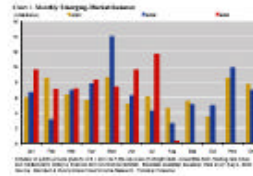




Emerging Markets Weekly



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Brazilian Economy Set For An Upgrade

Brazil, the largest Latin American country and the biggest debtor among emerging market economies is potentially in line for a ratings upgrade soon from Moody's Investment Services. Standing at Ba3, which is three levels below investment grade, Brazil has seen its financial vulnerabilities lessen considerably and its economic prospects improve over the past year. Ebbing inflationary risks and falling borrowing costs are key factors currently paving the way for a sovereign credit ratings upgrade by Moody's.

On 18 August 2006, Brazil managed to surpass the benchmark of US\$70 billion in foreign reserves, the highest record since 1998, and well up from around US\$55 billion a year earlier. Reserve accumulation partly reflects a strong trade performance and partly aggressive purchases of US dollars by the Brazilian Central Bank to protect the real from strengthening uncontrollably against the US dollar. The real reached a five-year high during the past couple months and has registered a 48% appreciation since May 2004, inciting concerns among exporters that Brazilian products are becoming more expensive and less competitive on international markets. Fortunately the evidence so far suggests otherwise; by July 2006 Brazil's trade surplus reached a record US\$5.64 billion.

In response to Brazil's enormous inflow of foreign portfolio investment over the past eighteen months, President Lula's administration has been buying back external and dollar denominated domestic debt. This has allowed Brazil to facilitate an early repayment of its US\$15.6 billion debt owed to the International Monetary Fund thereby cutting interest payments. Overall, Brazilian total foreign debt has favorably declined from US\$200 billion in December 2003 to US\$143 billion in May 2006. Furthermore, the nation's net debt, excluding international reserves dipped to an equivalent 50.3% of GDP in June 2006 in comparison to 56% of GDP in 2004. Consequently, Brazil is becoming less vulnerable to volatilities of emerging market investments as its foreign debt stock has been declining over the past three years.

Brazil's annualized inflationary risks remained unchanged at a seven-year low of 4.0% at end-July 2006, which presently stands substantially below the Brazilian Central Bank target of 4.5% for 2006. As a result of tamer inflationary expectations, monetary policy decision-makers have cut the interest rate, the selic, at all nine policy meetings since August 2005, currently leaving the selic at a twenty-year low of 14.75%.

Looking at the big picture, the Brazilian economy is showing signs of sustainability, however there is room for speculation as the October 2006 elections approach. At present, the government's fiscal gap widened to almost 3.4% of GDP over a twelve month period ended June 2006, compared to a record low of 2.5% of GDP in April 2005. Curbing the tendency to engage in pre-election spending is critical to fiscal management.

Thanks to excessive global liquidity tightening and drastic improvements in economic fundamentals, Brazil has instilled confidence it is long-term investment risks since 2005 even though economic growth has slowed. Looking ahead, once Brazil can contain its political risks and maintain fiscal prudence, then this will help realize a credit rating upgrade.

FINANCIAL & ECONOMIC INDICATORS

As at 24th August 2006

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	116.54	115.98
Euro	1.28	1.28
Jamaica	66.08	65.06
Guyana	200.7	200.70

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	72.36	70.06
Natural Gas (US\$/mmbtu)	7.22	6.73
Gold (US\$/Troy Ounce)	621.24	614.00

Eurobond Indices (Returns, % YTD as of 24-August-06)

Lehman Brothers Global Aggregate Index	1.33
JP Morgan EMBI+	-18.41
CMMB Eurobond Index	-5.29

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Month</u>
United States	5.25	5.25
Euro Zone	3.00	3.00
Japan	0.26	0.25
Brazil	14.69	14.75
Trinidad	7.50	7.50
Jamaica	12.45	12.45
Barbados	4.75	4.75

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	4.96	4.96
US 10-Yr Treasury	4.81	4.87
3-month UK Libor	4.97	4.97
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	14.30	14.30
TT 90-day T-Bill	6.24	6.24
Jamaica 90-day T-Bill	12.29	12.24
Barbados 90-day T-Bill	5.20	5.20

Sources: Bloomberg, CMMB Research Centre, CMMB Risk Department, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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