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RISE OF THE DOLLAR

Who would've thought just a few months ago that the US dollar exchange rate would go above R\$2.00? The conviction regarding control over this exchange rate hovered mainly on the desks of banks, brokerage firms and normal people. Hooray, they said: *the Brazilian Real is one of the few strong currencies in the world!*

What you saw were happy importers, not so happy exporters, consumers with higher purchasing power and Brazilian tourists invading Miami for purchases! Attitudes and results that reinforced even more the feeling of the Real's currency strength in relation to the US dollar.

But the real world is like the real economy: while some lose, others win. In Brazil's case, the sector that lost the most due to a strong Real (R\$) was the processing industry, due to competitiveness conditions pegged to the notorious Brazil Cost. In this relationship, the winners were consumers and government.

In the case of consumers, the victory came in the form of higher purchasing power; and for the government, the gains were due to higher tax revenues from sales to consumers. However, the laws of nature prove that nothing is eternal.

And reality showed Brazil that the "cheap dollar tale" came with an expiration date.

More conscientious economists had this perception. However, all they needed to do was come to the conclusion and admit that the future would come and put things back in their right places in the market. Some signs from the financial market could be useful for analysis purposes:

First. China's growth at around 10% a year seemed like an eternal blessing, but ended up shrinking to around 7% in 2012, which caused perplexity in the financial markets. Since Brazil is pegged to the Mandarin

country, any negative sign is immediately reflected in the exchange rate. And this is what happened;

Second. The US economy surprisingly came out of the doldrums and began growing again. The monetary stimuli based on injecting dollars in the domestic market stimulated Gross Domestic Product (GDP) growth and, with this, the market understands that the government will reduce a part of its stimuli. A less elastic policy attracts dollars invested in other economies, including Brazil, pressuring the dollar's rise worldwide;

Third. The US\$5.392 billion negative balance from January to May 2013 in the trade balance in relation to a US\$6.261 billion surplus for the same period last year, caused surprise in the Brazilian market, putting the sustainability of external accounts in check. The market indicates that the government will need to obtain funding in the increasingly robust external market, as well as facilitate the entry of speculative capital (the IOF reduction down to zero on fixed income and equity investments is the main sign).

Therefore, these three points analyzed explain a major portion for this trend in the US dollar's rise. Additionally, far from the R\$/US\$1.53 exchange rate negotiated on July 26, 2011, forecasts by some economists put the dollar in the R\$/US\$2.20 - R\$/US\$2.30 range. As such, it is good that we get used to more exchange rate volatility and increases in the prices of imported goods.

Still not very conclusive, another important element in the exchange rate is the election horizon. Thinking about her reelection, President Dilma Roussef may utilize creative economic-policy instruments to hold parity with the Brazilian Real. But, with the explicit mistrust of markets surfacing, the remedy may have an opposite effect and, despite the Central Banks actions, a US dollar exchange rate below R\$/US\$2.00 is something of the past. ■