Exchange Rate Outlook

• US Dollar
  – Most likely scenario: weaken over 3-6 months, then recover with GDP
  – Alt-1: continued weakening due to worries about inflation
  – Alt-2: holds at current levels if fiscal stimulus wanes worldwide
XR Outlook (Cont.)

- Euro: Fall to USD 1.3 as European recovery lags US and interest rates fail to rise with those of US
- Yen: Initially stay between 94 and 99/USD, then fall to JPY 110 as carry trade returns
- GBP: Need for prolonged support of UK economy will lead to weakening against USD in 4Q09 and 1H10
Trade Finance

• The Availability of Trade Finance Dried up Last Year
  – The cost of what funding was available rose, in some cases as much as 50%
  – No credit was available for riskier buyers
Brazil: Trade Credit X Merchandise Imports
(6-month mov. avg., US$MM)
Brazil - Interest Rates on Trade Credit
(% per Year, devaluation expectation removed, Source: BCB)

- Export Finance
- Onlending

Oct-08  Nov-08  Dec-08  Jan-09  Feb-09  Mar-09  Apr-09
Trade Is Coming Back…and Trade Finance Will Follow