

Allocation Brazil

Increasing Risks Might Harm Markets

Political tension and increasing international commodity prices

We have seen the rise of commodities prices as a risk of inflation, which ultimately would pose a risk to interest rates. Rising inflation, pushed by costs that would then cause interest rate increases, is unwanted while economic activity does not pick up. Additionally, tensions in North African countries have sent oil prices up as well, which reinforces the scenario of an increase in costs.

The tension in North African countries is likely to be the dominant international event during March. Following the movement started in Egypt, which led to the fall of a long established dictatorship, other countries, with similar political structures, have started having protests, with unpredictable outcomes.

In China, the celebrations of the local New Year halted release of economic data. However, from the data so far released, we see unchanged risks and believe the country suffers from the increase in commodities prices, as does the rest of the world.

Apart from these political and commodities problems, indicators continue to point to an improving economic activity for the US and Europe, although still at a slow pace.

Local risks still relate to inflation

If the political tension does not deteriorate much further, we believe that local problems in Brazil will dominate the mood of investors. The main local ST risks we see are the still unknown extent of the inflation surge and the efficiency of the measures taken.

After the initial optimism at the beginning of the year, we continue to see a deterioration of expectations, which should continue until the wave of price increases comes under control. Additional to these price increases, the minimum wage, an additional important price, is about to be formally indexed. The approval of this year's minimum wage comes together with a formula for automatic future adjustments, which formalizes a hitherto informal methodology. With this measure, the government reinforces the need to control other sources of inflation. These include other possible budget costs, the increase in interest rates, credit expansion, etc.

The Government has attempted to control inflation through a reduction of economic activity. The risk here is that the measures may cause an excessive economic slowdown and, for instance, bringing GDP growth below 4% this year (while current expectations are of a GDP around 4.5%).

With this scenario, we have changed our portfolio to make it more defensive, more linked to inflation-adjusted revenue companies and less dependent on companies related to credit and GDP growth. We have included HRT with a weight of 5%, and increased Eletropaulo's weight (to 10 from 5%). We have also reduced the weight of MRV (to 5% from 10%) and withdrawn Hering.

Suggested Portfolio – March/11

LONG/OVERWEIGHT

Stock	Ticker	Traded Vol.*	Weight %
Bradesco	BBDC4	163.8	10%
Eletropaulo	ELPL4	19.7	10%
HRT	HRT3	65.2	5%
Lojas Americanas	LAME4	38.3	5%
Lojas Renner	LREN3	62.2	5%
MRV	MRVE3	78.3	5%
PDG Realty	PDGR3	106.8	5%
Petrobras	PETR4	640.7	20%
Telesp	TLPP4	4.5	10%
Tiete	GETI4	10.7	10%
Vale	VALE5	668.6	15%
Total	-	-	100%

Source: Banif Research

*Average trading volume (R\$ mn) in the past 90 days

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"LONG"/Overweight – Suggested Portfolio

Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Bradesco	BBDC4	32.00	36.3	24.7	10.3%	16.9%

Catalyst: The company's 4Q10 results continued the positive trend reported during the rest of FY10. ROE remained high at 22% (nearly flat throughout the year) and insurance continued to contribute significantly to the bottom line (around 20%). We believe in a continued high spread between the basic interest rate and rates passed through to clients. Additionally, the hikes in the Selic interest rate foreseen for the next few months reinforce our choice of a representative in the banking industry.

Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Eletropaulo	ELPL4	32.10	34.5	26.2	18.6%	9.0%

Catalyst: Our core call for electric utilities continues being for generation companies not affected by concession renewal. Despite this, we continue to suggest Eletropaulo this month because of the short-term opportunity presented by dividends. We estimate a dividend payout of R\$500 mn for 2H10 results and a dividend yield of 9%. Risk: the third tariff review should reduce tariffs from July 2011.

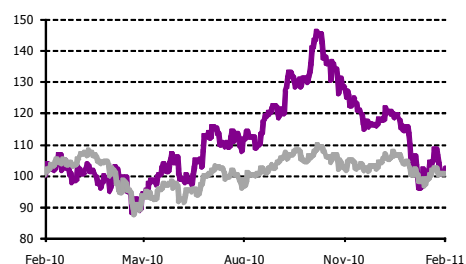
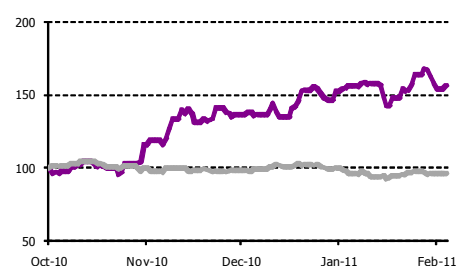
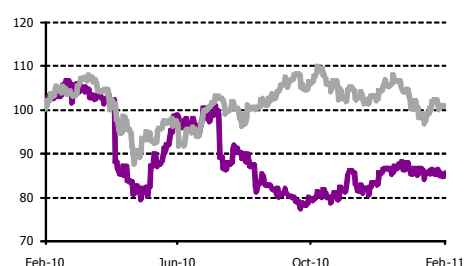
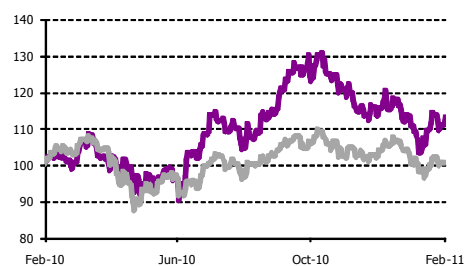
Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
HRT	H RTP3	1,874.99	1,989.9	1,105.0	-	-

Catalyst The company's share has a price well below its main peers from an EV/barrel perspective, despite the recent rally since the IPO at the end of 2010. Additionally, we believe that the company's business plan is credible and presents many positive ST catalysts. Moreover, we believe that the recent non-cash merger with UNX makes perfect sense and dovetails with the company's long-term goals. The company arranged the deal with favorable price conditions, despite the initial negative view from the market.

Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Lojas Americanas	LAME4	13.40	19.2	11.1	-13.2%	3.7%

Catalyst We expect Lojas Americanas to continue the positive trend of 3Q10 and to post good 4Q results. The company has presented significant improvements in operational margins and a reduction in working capital needs, which boosts growth in earnings. It has also been reporting a solid SSS growth in 2010, despite 2009's strong comparison base and its accelerated organic expansion. Lojas Americanas opened 70 stores during 2010 (35 in 4Q10 alone), which is at the top range of its guidance and keeps the company on track to open 330 additional stores in the 2011-13 period and fulfill its guidance. Moreover, positive factors such as i) a low average sales ticket; ii) a broad assortment of products; iii) penetration in all social classes and iv) nationwide presence, place the company in a good position compared to other retailers, even in a tighter scenario of credit scarcity and interest rate increases. Risks: strong competition for its subsidiary B2W in the e-commerce sector and a P/E multiple higher than the sector average.

Stock x IBOV



“LONG”/Overweight – Suggested Portfolio

Company	Ticker	Current Price	52 - week		Performance	
			High	Low	YTD	12M
Lojas Renner	LREN3	51.00	67.3	36.8	33.7%	34.6%

Catalyst: Lojas Renner 4Q10 results confirmed expectations by repeating the good performance of 3Q. Sales growth returned to higher levels, with SSS up 10.0% YoY in 4Q10 and 10.3% YoY in FY2010, above market expectations. The increase in cotton prices in 4Q10 did not affect gross margins, which remained at the same good level of the previous quarters. Consumer finance services also continued to contribute positively, with an outstanding reduction in bad debt, which helped sustain the consolidated EBITDA margin. Furthermore, supported by new smaller formats, Renner has an ambitious expansion plan to open 30 stores in 2011 (20 compact) and 160 stores in the next five years (100 compact), more than doubling its current 134 stores. Finally, another good growth opportunity comes from the e-commerce platform, which in 4Q started to include apparel, accessories and footwear in addition to the existing mix of underwear, wristwatches and fragrances. Risks: execution risks related to the new compact store format and margin compression from the pre-operating expenses of new stores.

Company	Ticker	Current Price	52 - week		Performance	
			High	Low	YTD	12M
MRV	MRVE3	13.21	18.5	9.6	-3.8%	3.6%

Catalyst: At the beginning of January, MRV announced an all-time high level of launches and contracted sales for 4Q10, sending stock prices up. However, since the second half of the month, investors started selling due to increasing fears that inflation is out of control and interest rates (Selic) will have to go up further than expected while, at the same time, banks would restrain loans. Both factors tend to affect the real estate business, although less than investors anticipate. Real estate stocks, including MRVE3, went down in what we believe was an overreaction. Therefore, we maintain MRV3 in our suggested portfolio since we expect the release of 4Q10 financials in March and investors should react positively to its high level of profit.

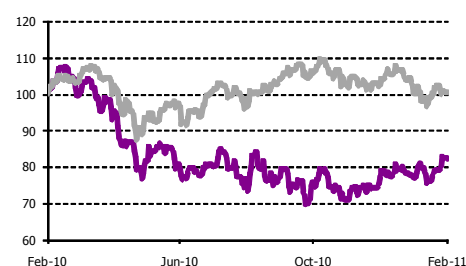
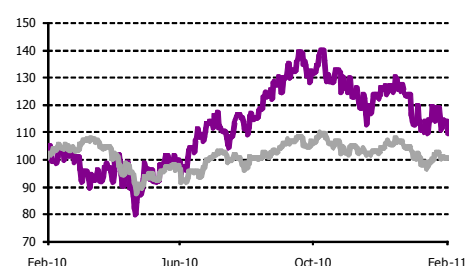
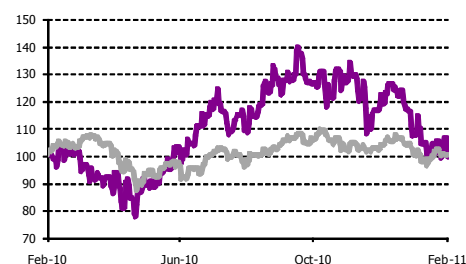
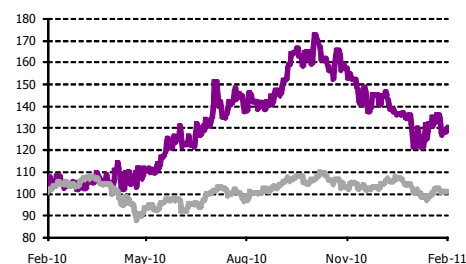
Company	Ticker	Current Price	52 - week		Performance	
			High	Low	YTD	12M
PDG Realty	PDGR3	9.09	11.4	6.2	6.2%	13.9%

Catalyst: In the beginning of January, PDG announced it had reached net contracted sales and launches for 4Q10 in line with guidance, triggering its stock to increase 5%. However, since the second half of the month, investors started selling due to increasing fears that inflation is out of control and interest rates (Selic) would have to rise further than expected while, at the same time, banks would restrain loans. Both factors tend to affect the real estate business, although to a lesser extent than investors anticipate. Real estate stocks, including PDGR3, went down in what we believe was an overreaction. Therefore, we maintain PDGR3 in our suggested portfolio, since the company should present another strong year of launches and sales.

Company	Ticker	Current Price	52 - week		Performance	
			High	Low	YTD	12M
Petrobras	PETR4	28.58	36.2	23.6	-19.3%	-14.5%

Catalyst: The increase in oil prices, the company's release of sequential good news in the recent past and the good prospects for the near future are likely to continue to influence the company's shares positively. We believe that good views on the company's growth prospects, which remain far above those of its peers, are likely to prevail over the negative views on the company's management and investment decisions. We expect oil production and refining capacity to increase substantially, with a growing domestic market for its products. Risk: political noise regarding the change in top management.

Stock x IBOV



“LONG”/Overweight – Suggested Portfolio

Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Telesp	TLPP4	40.80	43.0	31.5	5.2%	15.2%

Catalyst: We believe the news flow on the VIVO/Telesp merger could boost TLPP4. In our view, there is a very attractive potential gain between the companies not yet priced in. Telesp's shares continue to trade at attractive multiples and high upside potential to our fair value. Risk: the merger conditions could hurt minorities.

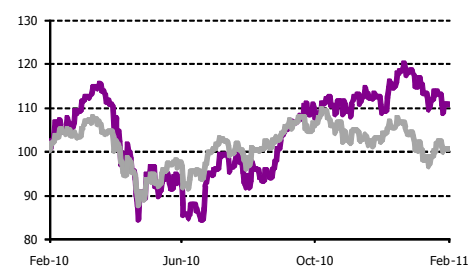
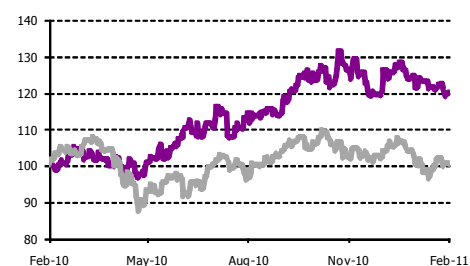
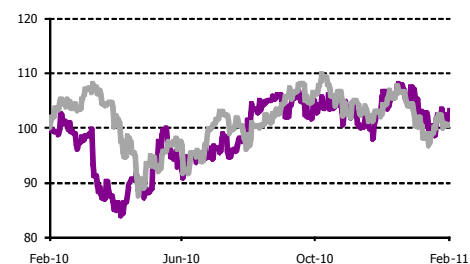
Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Tiete	GETI4	23.00	25.0	16.8	27.3%	34.0%

Catalyst: We maintain Tiete in our portfolio because we expect it to continue paying good dividends over the next few years, due to its premium contract to sell most of its energy to Eletropaulo. Additionally, we believe that generators should continue to present better performance than distributors in coming years. Risk: in the long-term, the company will need to sell energy through regular auctions held by the government, which could mean lower prices than those obtained for their current contract with Eletropaulo, which ends in 2015.

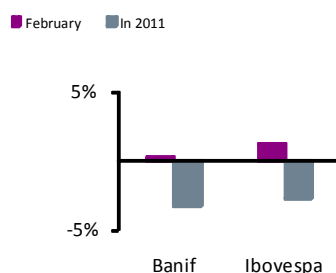
Company	Ticker	Current	52 - week		Performance	
		Price	High	Low	YTD	12M
Vale	VALE5	49.60	53.7	36.6	20.6%	14.5%

Catalyst: We continue to have a positive view on Vale and the iron ore market, especially after release of 4Q10 results. Operating outlook remains strong, as iron ore fundamentals are still in place, with strong volumes and prices. Contract prices for 1Q11 increased 8% from 4Q10 and 20%QoQ for 2Q11. This will reflect on future results. The recent rise in the spot price has reflected both a tight iron ore market, as demand continues to increase, and the recent disruption in the metallurgical coal market. Vale's ore is in heavy demand, not only because of quality but also because High-grade material reduces coal consumption and, therefore costs, for steel mills. Vale's on-ferrous operations have also started to reflect positive fundamentals on the balance sheet, accounting for 20% of revenues. Sales volumes increased 50% QoQ for Nickel and 49% QoQ for copper, as the company ramps up production after the end of the strikes. This will allow Vale to take advantage of price increases. Risks: 1) Global economic slowdown; 2) increase in freight rates; 3) appreciation of the Real and 4) noise relating to a possible change in Vale's CEO.

Stock x IBOV

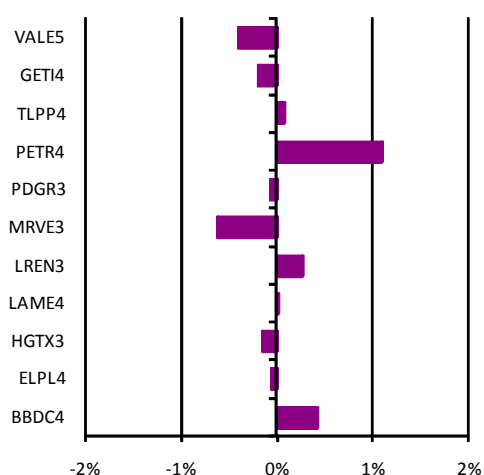


Banif (LONG) x Ibovespa



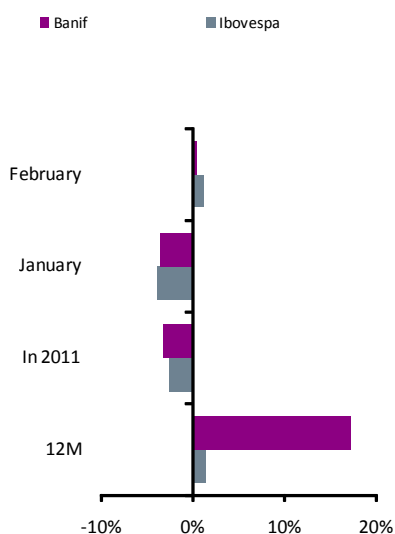
Source: Economática

Weighted performance in February/11



Source: Economática. Weighted performance of the stocks from the recommended portfolio

Banif x Ibovespa Evolution



<u>2009</u>	Banif	IBOV	Banif - Ibov
May-09	9.64%	12.49%	-2.86%
Jun-09	-5.95%	-3.26%	-2.70%
Jul-09	8.03%	6.41%	1.61%
Aug-09	5.72%	3.15%	2.57%
Sept-09	9.75%	8.90%	0.85%
Oct-09	0.57%	0.05%	0.52%
Nov-09	8.83%	8.93%	-0.10%
Dec-09	1.05%	1.87%	-0.82%
<u>2010</u>	Banif	IBOV	Banif - Ibov
Jan-10	-2.57%	-4.65%	2.08%
Feb-10	1.53%	1.68%	-0.15%
Mar-10	4.30%	5.82%	-1.52%
Apr-10	-3.37%	-4.04%	0.67%
May-10	-3.18%	-6.64%	3.46%
Jun-10	-0.25%	-3.35%	3.10%
Jul-10	12.13%	10.80%	1.33%
Aug-10	0.42%	-3.51%	3.93%
Sept-10	7.01%	6.58%	0.43%
Oct-10	3.67%	1.79%	1.88%
Nov-10	-1.26%	-4.20%	2.94%
Dec-10	0.88%	2.36%	-1.48%
<u>2011</u>	Banif	IBOV	Banif - Ibov
Jan-11	-3.62%	-3.94%	0.32%
Feb-11	0.35%	1.22%	-0.87%
In 2011	-3.28%	-2.77%	-0.51%
12M	17.14%	1.33%	15.81%
18M	40.66%	18.78%	21.88%

Source: Economática and Banif - Research

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