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Dollar Climbs Back to R\$2

The dollar on Wednesday continued its rapid recovery over the last week, again propelled by global fears generated by the US subprime mortgage crisis.

The US currency charged back over the R\$2 mark, firming 2.27% to close at R\$2.03, its highest level since May 4. For the second straight day, the Central Bank did not purchase dollars on the spot market.

But despite the continued turmoil on the exchange market, the Central Bank released results Wednesday showing that Brazil is continuing to register net dollar inflows in significant volume. Through the first eight days of August, the exchange market registered net inflows of US\$3.376 billion. By contrast, the result for the same period in 2006 was a net outflow of US\$107 million.

Thus far in 2007, capital flows are positive by US\$66.59 billion, more than double the total of US\$25.5 billion for the same period last year. August's positive numbers are coming from the trade side which registered net inflows of US\$3.5 billion through August 8 versus outflows of US\$201 million in financial operations.

On the stock market, share prices again tumbled, following the lead of Wall Street. The Bovespa index experienced its fifth straight day of losses, declining 3.19%, falling to 49,229 points, its lowest level since April 27. Since last Thursday, the index has fallen 10.78% and in one month the Bovespa's gain for the year has plunged from 30% to 10.8%.

Stock market volume on Wednesday set an all-time record, totaling R\$18.4 billion (US\$9 billion) out of which R\$5.2 billion (US\$2.5 billion) resulted from the expiration of index futures. Brazil's country risk premium continued to increase, rising 2.54% to 202 basis points.

The continued decline of share prices has been accompanied by a reduction in foreign investments. As of August 10, the month's balance of foreign investments was negative by R\$1.595 billion (US\$785 million).

President Lula said Wednesday that the US crisis will not have a major impact on Brazil but there are already signs that Brazilian firms are reacting to the crisis. Several companies have suspended planned foreign issues because of the turmoil and exporters are rushing to close export contracts to take advantage of the firming of the dollar.

Lower House Panel Approves Extension of CPMF

The government backed extension of the tax on financial transactions (CPMF) passed its first legislative hurdle on Wednesday.

The lower house constitution and justice committee, dominated by pro-government congressmen, approved the extension of the unpopular tax to 2011. The

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FINANCIAL INDICATORS



Interest Rates (%)

CDs	0.85 (monthly)
DI	11.25 (annual)
Selic	11.50 (annual)
Hot Money	3.4 (monthly)

Exchange Rates (R\$ per US\$)

Average Rate (sell)	Variation Day (%)	Month (%)	Year (%)	
Commercial	2.0043	1.18	6.75	-6.25
Black	2.0900	0	0	-12.18

Stock Markets (% movement)

	Day	Week	Month	Year	Volume
São Paulo	-3.19	-6.3	-9	10.8	R\$18,404 m.

Capital Flow (cumulative for month in US\$ million, commercial exchange)

Date	Financial Inflows	Financial Outflows	Exports	Imports	Total
July 31	33,779	27,684	15,025	9,531	11,588

Level of Reserves (in terms of international liquidity, US\$ million)

As of	Total	Variation from previous day
August 14	159,348	308

measure now goes to a lower house special committee which must approve it before it goes to the floor of the Chamber.

The constitution and justice committee actually declared constitutional seven versions of the measure including that of the government which extends the tax without changes. Among the other versions are some that would reduce the tax and force the government to share its revenues with state and local governments.

Semester Retail Sales Strongest Since 2001

Nationwide retail sales increased for the sixth consecutive month in June, according to the government's statistics bureau, IBGE.

Sales volume rose 0.4% from May and a strong 11.8% versus June 2006. In the first semester, sales increased 9.9% compared with the same period last year, the largest such increase since IBGE began collecting these statistics in 2001.

All retail categories registered increases in June compared with the same month last year. Sales of semi-durable goods jumped 16.6%, durable goods climbed 16.2% and non-durable sales were up 8.5%.

The performance of non-durable goods "reflected the public's growing purchasing power...as well as increased demand for imported products," said IBGE in a note.

Analysts predicted that the strong growth of retail sales in June coupled with the month's large expansion in industrial production will likely convince the Central Bank to reduce the level of Selic rate cuts at its September meeting. After two half-point cuts, the financial market is now expecting a quarter-point reduction.

Government Defends Right To Fire Directors of Regulatory Agencies

In congressional debate on Brazil's regulatory agencies, government officials

Wednesday defended changes in current legislation that would permit the removal of agency directors.

Currently, directors have job stability during their term in office, a situation that has come under government and congressional scrutiny because of criticism of the actions of the National Civil Aviation Agency (Anac) during the air transportation crisis.

Communications Minister Hélio Costa suggested that Congress establish rules similar to those covering the Justice Ministry's anti-trust agency, Cade. Members of Cade can be removed at the request of the president but only with the approval of the Senate.

Other persons speaking during the debate also defended the right to remove agency directors at any time but several stressed that the criteria for such decisions must be carefully defined to avoid political pressures on the agencies.

Congress Approves Amnesty for Congressmen Who Switched Parties

What was supposed to be a political reform project turned into an amnesty for 40 members of Congress on Wednesday.

The lower house approved a bill whose original intention was to increase party loyalty by placing restrictions on the constant switching of parties that has become a tradition of Brazilian politics. But instead, Congress used the vote to protect members from a decision taken by the Supreme Electoral Court which ruled that 40 congressmen who switched parties after last year's elections be expelled from Congress.

According to the approved text, no congressman can be punished for changing parties up to September 30 of this year, which effectively protects the 40 congressmen condemned by the electoral court. The author of the text, Congressman Luciano Castro, is the congressional leader of the PR Party, the party that has gained the most from this year's switching. The PR elected 23 congressmen last October but today has 41.

The bill also states that starting after next year's municipal elections, members of Congress can only change parties up to September of the year before elections. It, however, establishes several exceptions to this rule such as when a new party is created or when a congressman can prove he has been the object of political persecution within his party.

Supreme Court Justice Marco Aurélio de Mello reacted angrily to the approved text, which now goes to the Senate. He charged that Congress cannot legislate over the cases of the 40 congressmen already condemned by the electoral court.

"This is a step backwards. They are trying to correct a situation already declared illegal by the (electoral court)," Mello said.

Record Profit for BNDES Means More Loans

The government's National Economic and Social Development Bank (BNDES) announced a record first semester profit of R\$4.4 billion (US\$2.1 billion), 34% more than the bank's profit for the same period in 2006.

Because of the result, BNDES president Luciano Coutinho said the bank will increase its loan target this year from R\$61 billion (US\$30 billion) to R\$65 billion (US\$32 billion).

In the first seven months of the year, BNDES loan disbursements totaled R\$31.2 billion (US\$15.3 billion), 38% more than for the same period last year. Loan approvals surged 59% to R\$48.8 billion (US\$24 billion).

Loan approvals for infrastructure projects soared by 144.9% to R\$24.3 billion (US\$11.9 billion), influenced by the government's Accelerated Growth Program (PAC).

Resurfacing of Cumbica Runway To Begin Next Week

Defense Minister Nelson Jobim said Wednesday that work on the resurfacing of the main runway at São Paulo's Cumbica International Airport will begin next Monday and is scheduled to be concluded by the end of November.

The project was originally scheduled to get underway at the end of the year but was moved up because of the decision to shift flights away from São Paulo's Congonhas Airport to Cumbica. The Cumbica runway is 22 years old and already is marked with small cracks. Airport officials expressed concern that with the extra traffic now being directed to the airport, the runway's condition would deteriorate rapidly.

Jobim said that Cumbica would not shut down during the resurfacing but when necessary, flights would use the airport's secondary runway. The minister also said that the grooving of Congonhas' main runway would be completed on September 6. The cutting of lengthy grooves in the runway will help drain water on rainy days. Cumbica's runway becomes extremely slippery when wet and this may have been one of the causes of the July 17 crash of a TAM Airlines Airbus which killed 199 persons.