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Real Bottoms as Goldman Sachs Says Slump Is Over (Update1)
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(Updates prices.)

By Ye Xie and Alexander Ragir

Feb. 2 (Bloomberg) -- Options traders are dropping their bearish bets against the Brazilian real at the fastest pace since April as Goldman Sachs Group Inc. says the currency's biggest slump in 15 months is over because growth is picking up.

The currency will rally as much as 6 percent against the dollar by March 31, recovering most of its January tumble, the median estimate in a Bloomberg survey of 19 analysts shows.

Goldman Sachs, which called the real the world's most "overvalued" currency as recently as December as it completed a 33 percent annual gain, and Bank of America Corp. said yesterday it's time to start purchasing again.

"A little bit of a sell-off here makes it a more attractive buy," said Collin Crownover, the head of currency management in London at State Street Global Advisors Inc., the world's second-largest money manager for institutions overseeing $1.74 trillion. Crownover said he plans to add to bets that the real will rise against its Latin American peers.

The real's 7.9 percent drop against the dollar in January, the most among major currencies, left it 7 percent weaker than the median estimate in Bloomberg's survey. That's the widest gap since March, when the currency began a four-month advance. The premium on put options that grant the right to sell the real in a month over calls to buy it fell to 2.9 percentage points yesterday, the lowest level since April, from 6.7 percentage points on Nov 3.

The currency gained 0.1 percent to 1.8461 per U.S. dollar at 8:49 a.m. New York time, from 1.8482 yesterday.

China Lending

The currency sank 3.7 percent last week, capping its worst month since October 2008, after China, the biggest buyer of Brazilian exports, curbed bank lending to slow the economy and contain inflation.

Charlotte, North Carolina-based Bank of America advised clients yesterday to buy the real versus the dollar after saying last week that investors should close bets the Brazilian currency would fall against the Mexican peso. New York-based Goldman Sachs, the world's most profitable securities firm, told clients to buy the real versus the dollar, targeting an advance to 1.75.

Accelerating Growth

Both firms said accelerating growth in Brazil's $1.6 trillion economy, the biggest in Latin America, makes the currency attractive. Gross domestic product will expand 4.8 percent this year, compared with 2.7 percent in the U.S., according to the median forecast in Bloomberg surveys. That estimate tops the median for the other six Latin American economies where Bloomberg conducts growth surveys.

Jonathan Clark, who helps oversee about $8 billion in assets as a vice chairman at New York-based hedge fund FX Concepts Inc., says the real has more room to fall as the central bank purchases dollars and a tax on foreign investors reduces demand for the currency.

President Luiz Inacio Lula da Silva imposed a 2 percent tax on foreigners' purchases of stocks and bonds on Oct. 19 to brake the currency's gain. Finance Minister Guido Mantega said that day the government implemented the tax to discourage "short- term speculation" while helping shore up exporters' sales.

The average daily net capital inflow to Brazil declined to $1 million in January, the smallest amount since March 2009, from $695 million in October, according to central bank data through Jan. 22.

Calls yesterday to a Finance Ministry spokeswoman seeking comment on the real weren't returned.

Squeezed Profit

Empresa Brasileira de Aeronautica SA, the world's fourth- largest aircraft maker, and Sao Paulo-based BRF Brasil Foods SA, Brazil's biggest food producer, said they were squeezed by the real's surge last year. Embraer, based in Sao Jose Dos Campos, posted a third-quarter profit of 32 U.S. cents per American depositary share, below the 47 cent average in a Bloomberg survey. Brasil Foods had third-quarter net income of 211 million reais, below the 294 million real average forecast, as export volumes fell 13 percent.

Both companies trailed the Bovespa index's 83 percent rally last year. Embraer rose 8 percent and Brasil Foods advanced 53 percent. Interview requests with the companies' chief executive officers were declined yesterday.

Slowing Exports

Slowing exports helped send Brazil's current account deficit, the broadest measure of a country's trade in goods and services, to $5.9 billion in December, the biggest gap since the central bank began collecting the data in 1947, from $3.1 billion a year earlier.

The central bank has purchased dollars in the foreign- exchange market since March to stem the real's advance. The bank's foreign reserves jumped $39 billion, or 19 percent, in the past year, more than all other countries in the Americas with reserves of at least $10 billion.

Banco Central do Brasil, led by President Henrique Meirelles, purchased $1.6 billion in the first three weeks of January after buying $3.4 billion in December, according to the latest central bank data.

"You've got a central bank engineering a weaker currency, and you've got a currency clearly overvalued, which hurts its competitiveness," said Clark. "This is a good time to sell, not to buy."

Clark said he's built "significant" positions at FX Concepts over the past two weeks against the real on concern the growing current account gap is making the currency vulnerable to a sudden withdrawal of foreign capital.

January Drop

The January plunge left the real weaker than all but two of the 19 forecasts in Bloomberg’s survey for March 31. Paris-based BNP Paribas SA, the most accurate forecaster of the real’s world-beating rally last year, reaffirmed last week its 1.75 per dollar prediction for March 31, in line with the median estimate.

The median estimate shows economists are predicting a 6 percent gain by the end of the first quarter. Two months ago, they saw a 1.8 percent drop by March 31.

“Enough is enough,” Tony Volpon, a New York-based Latin America strategist at Nomura Holdings Inc., said in a note to clients on Jan. 26 after the real slid beyond 1.84 for the first time since September. He recommended investors buy the real, targeting a rally to 1.71.

Bank of America reiterated its forecast for the real to trade at 1.78 by March 31 and called the rout “excessive” because quickening growth will lure foreign capital.

Foreign direct investment will jump 73 percent to $45 billion, matching the record in 2008, as the country builds houses, roads and stadiums for the 2014 World Cup soccer games and 2016 Olympics, according to the central bank.

Rate Increases

“The fundamental story is good,” said Achim Walde, head of currencies at Oppenheim KAG in Frankfurt, where he helps oversee 3 billion euros ($4.3 billion). “There’s no reason to believe a new trend is under the way for the real to go lower.”

The currency will rise to 1.6 this year, Walde forecasts.

Accelerating economic growth is fueling interest-rate increase speculation. The median year-end forecast for the benchmark overnight lending rate has jumped to 11.25 percent from 9.25 percent in early September, according to a central bank survey of about 100 financial institutions released yesterday. By comparison, there’s a 90 percent chance the U.S. Federal Reserve will keep its benchmark rate below 1 percent, according to interest-rate futures.

Investors in Japan, where the benchmark rate is 0.1 percent, are snapping up Brazilian assets. Japanese holdings of investment trusts denominated in Brazil’s currency surged more than threefold to 1.82 trillion yen ($20.1 billion) at the end of December from a year earlier, accounting for 6.4 percent of all foreign-currency investment trusts, according to Japan’s Investment Trusts Association.

“The high yields you are attaining from such a growing and strong economy are very attractive,” said Ken Dickson, an investment manager at Edinburgh-based Standard Life Investments, which oversees 122 billion pounds ($194.4 billion). He said he’s buying the currency versus the Chilean peso. “We still like the real.”

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