

The logo for Planner NJ, featuring the word "planner" in a lowercase, sans-serif font, followed by a stylized "NJ" monogram in a bold, serif font. The entire logo is white and set against a blue background.

planner NJ

Planner Redwood Asset Management

MONTHLY COMMENTARY

SEPTEMBER 2014

Monthly Commentary / SEPTEMBER 2014

Agenda

- Introduction
- Economic Activity
- Fiscal Policy
- International Environment
- Interest Rates
- Foreign Exchange
- Stock Market



This message has information which is only indicative and should not, therefore, be interpreted as a text, accompanying report, study or analysis on specific asset values or specific assets, which could help or influence investors in the investment decision-making process. The information, opinions, estimates and projections refer to current data and are subject to change without due notice due to alterations in market conditions. Investments or purchases of bonds and stocks involve risks, possibly implying, depending on each case, on the total loss of capital invested, or even on the need to inject further resources. The information expressed in this document is obtained from sources considered secure. However, despite being adopted in its entirety, it should not be considered as such. Altogether, it has not been independently confirmed and no guarantee, expressed or implied, is given on accuracy. Although having taken all precautions to ensure the information here contained is not false or misleading, Planner Redwood Asset Management does not take responsibility for its accuracy or completeness. The writer is not a Stock Analyst, nor is this report an Analysis Report, as defined by instruction nr 483 of the Securities Commission (CVM). The reproduction of this message is prohibited without the express authorization of Planner Redwood Asset Management.



Introduction

The presidential race dictated the tone of (almost) everything in Brazil this September ... Including the financial market.

The final stretch of the election shook the markets, leaving even the most seasoned veterans stunned. The change in relative prices in interests, foreign exchange or stock exchange is a reflection of the sharp polarization of expectations: Dilma or any other of the two candidates (Marina or Aecio). Given the alternation between Rousseff and Marina as frontrunner, there was intense volatility given the perception of distinct implementation of economic models by each candidate.

In fact, the entire macroeconomic scenario will be based on the definition of the winner of the election, and, on that basis, the financial market is defining its strategies. In this regard, one cannot attribute the current volatility exclusively to typical exaggerated movements of the financial market, but also to a rational expectation component, to the effect that the handling of economic policy may not change (there is an alternative scenario to this "consensus"), thus consolidating the trajectory of the leading economic indicators and their fundamentals. In fact, the performance of the Brazilian economy as a whole, confidence indices, levels of investment and savings and, last but not least, the short-sightedness of those responsible for current economic policy pegged to the contempt towards financial market signs corroborate this "consensus". Disregarding investors' opinion is at least a reckless attitude.

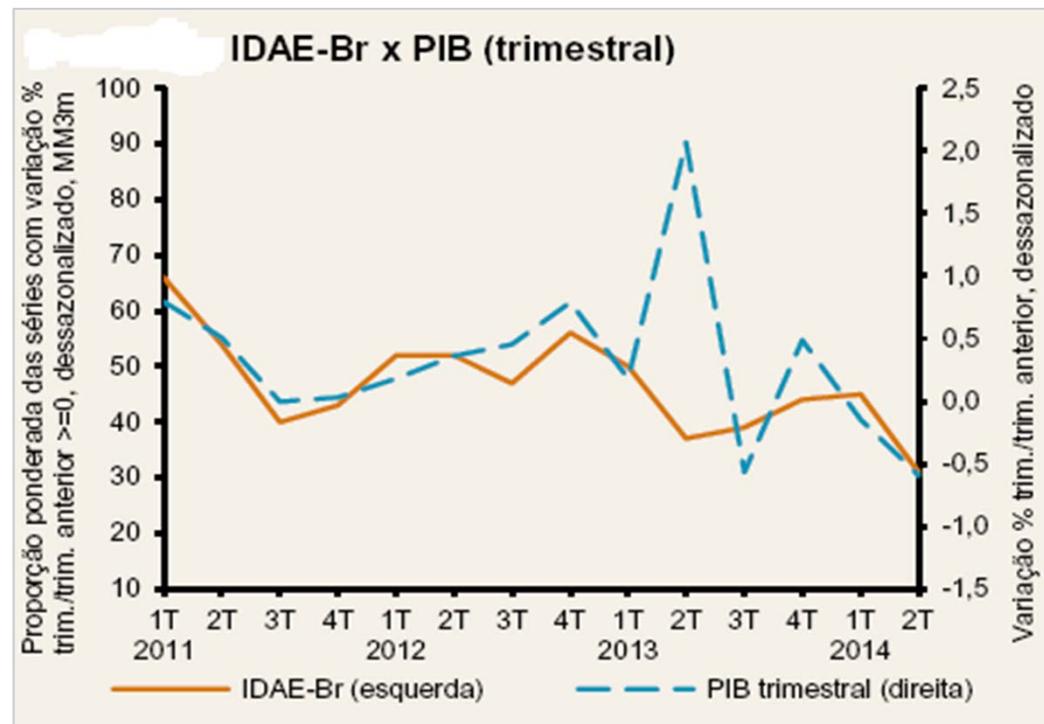
On the international political scene, while the tensions in the Ukraine declined, now the war against ISIS (Islamic State in Iraq and Syria) has intensified, with support from several countries. This conflict, different from the Ukraine debacle, seems to have a much greater longevity.... the decision to withdraw American troops does not seem to have been a good strategy, because the rebels regrouped, and now, the retreat has become more difficult. On the economy side, the United States continues to grow rapidly, while in the Eurozone difficulties expand, putting the ECB in an increasingly delicate situation. In Asia, the assessment of China's current situation (shrinking growth rate, inflation, etc.) is the most important issue.

Faced with all this movement and agitation of internal and external markets, US Treasuries ended the month at 2.51%. The S&P changed -1.55%, NIKKEI closed at 4.86%, DAX at 0.04%, and FTSE at 2.16%. In Brazil, the Bovespa index closed the month at -11.70% and IbrX at -11.25%. The DIF15 Maximum was 10.97% and DIF17, 12.35%. NTN-B 2050 ended the month at 6.16%, and the dollar was priced R\$ 2.4510.

Economic Activity

The Central Bank of Brazil's staff just created the Brazilian Economic Activity Diffusion Indicator. Very nice!

In fact, the Central Bank's technical team has very qualified people. In this sense, this new indicator is added to other existing ones, intending to offer (additional) relevant information about the activity level of the Brazilian economy as a whole. In the words of the Central Bank itself in its latest Inflation Report ... "essentially, the Brazilian Economic Activity Diffusion (IDEA-Br) indicator is built based on weighting procedures through optimization of time series. Roughly speaking, one can say that the IDEA-Br generates the economic series percentage, related to the activity level ... "[...]" from analysis of a large set of economic indicators from the labor and credit markets, and manufacturing, international, services and trade, 39 series have been chosen. The monthly publication contains relevant information about the activity level of the Brazilian economy as a whole. "Great! The chart below contains the result of the analysis:



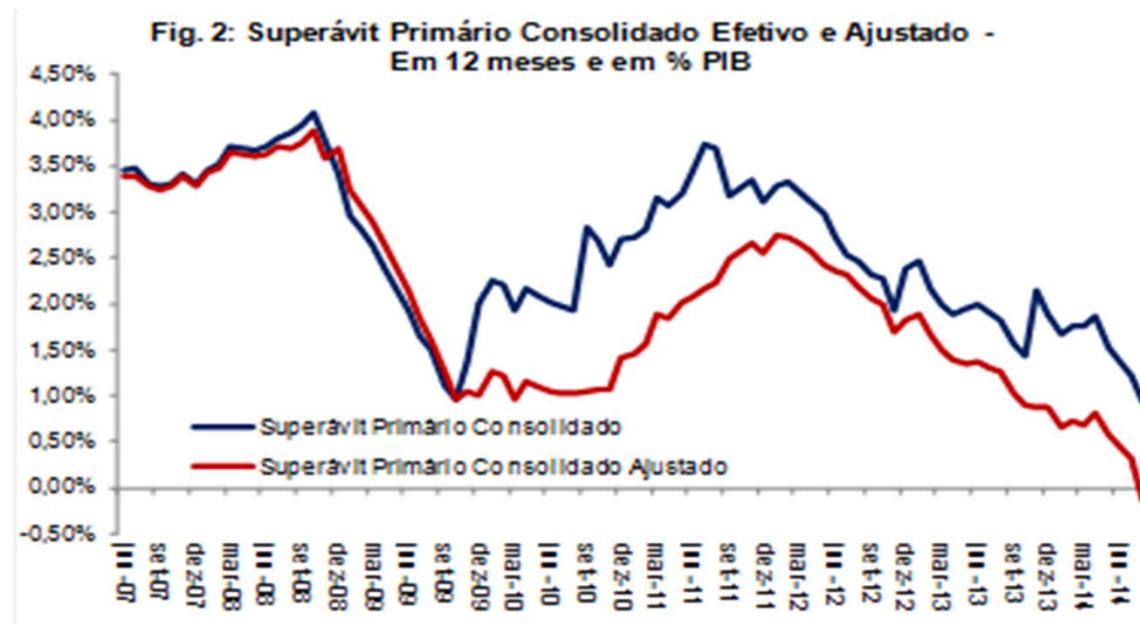
Quality information is available, the interpretation is not difficult ... any doubt where we're going?

Fiscal Policy

Making any projection for the fiscal surplus this year is difficult, that is, if there is any surplus ...

The primary public sector result in August was a deficit of R\$ 14.46 billion, which translates into the following (i) deficit of R\$ 11.95 billion (central government), (ii) R\$ 2.34 billion deficit (regional governments) and (iii) the state - owned companies deficit of R\$ 173 million. In 12 months, and YTD the situation does not improve, the surplus continues to drop from 0.9% and 0.30% of GDP, respectively ... Honestly, for us, there is no surprise.

But the saga does not end there ... oh no, there is more: if we adjust the consolidated results removing extraordinary income and expenses and dividends paid by the BNDES (the calculation is an approximation and does not capture the entire effect of other "creative accounting" adjustments), with the release of August's data, the twelve-month points to a deficit of 0.14% of GDP.



What now Mrs. President?

International Environment

If the American economy data showed some slowdown in recent weeks (fall of PMI and construction investments), this hardly affects the long-term trend and the year's performance will be very good. It is a fact that this volatility can impact not only the FED's decision making process (unchanged for now), but also leads to a more cautious investor stance. For our scenario nothing changes, and we expect a FED policy change (monetary tightening) already the 1st semester of 2015 (possibly late in the 1st or early 2nd quarter of 2015). The most important will be fine tuning the timing of this change, then the direction and intensity (the last two - especially direction - well identified).

In the Eurozone, the annual inflation rate reached its lowest level since October 2009, which brings out strong speculation about new economic incentives and stimulus measures. Added to this the Eurozone PMI fell in September compared to August, indicating that the region has lost growth momentum relative to the beginning of the year. In a very particularly way the performance of the block was hampered by its largest economy, Germany, whose PMI is now at 49.9 - that is, below 50 indicating contraction. Moreover, the PMIs of France and Italy have advanced.

In Asia, Japan's PMI also declined, and China did not improve matters repeating the result from the previous month, staying at 51.1 in September. This data, and especially China's, the second largest economy in the world, raise expectations and fears that the country may be in a stronger decelerating trend than previously thought, which means there is additional reasons for caution in all financial markets.

Politically, the conflict with the ISIS group began in earnest, and protests are taking place in Hong Kong. Neither has the potential to influence and impact at this time, any global economic redirection - which will possibly be localized and limited. However, in this sector, it is always good to be very careful... unpredictability and hidden factors always surprise.

Interest Rates

Some variables "explain" the behavior of interest this month, in this order:

- Elections
- Foreign Exchange
- International Scenario
- Brazilian Economic Policy

The above statement seems simple and obvious (even useless, given the completeness of variables), but it is not. Rather than listing the variables, it is important to know and identify their level of importance, their interrelationships (impacts on time and intensity) and dynamic correlations. For the short term, especially when the latter becomes less important, the forecast models lose a lot of their explanation power. The obvious is no longer that obvious.

The vertices of the future yield curve maturing from January 2017 had increased premia throughout the month. There was a more intense movement in the long part of the curve (vertices from 2017), a reflection of the first variable that indicates continuity of the current government, and the failure to submit a new plan and the economic team, which the financial market prices properly.

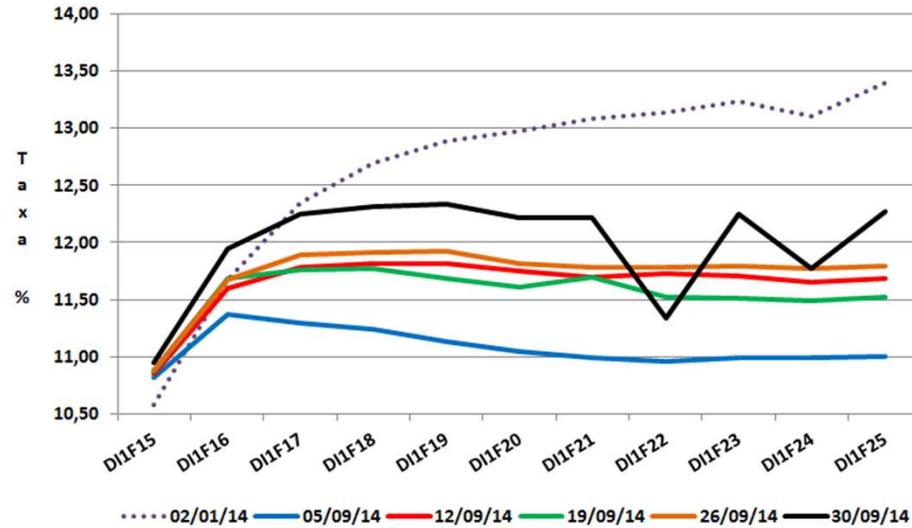
The Central Bank, in line with our outlook, confirms our envisioned scenarios with its posture: it simply observes. It calmly observes, and possibly will continue to do so until the definition of the first variable.

An independent and actually autonomous Central Bank certainly would not act like that. But the agenda of the real Central Bank, as guardian of the currency and compliant of the guidelines given to it, is not to discuss ... and worse yet, it does not want to discuss.

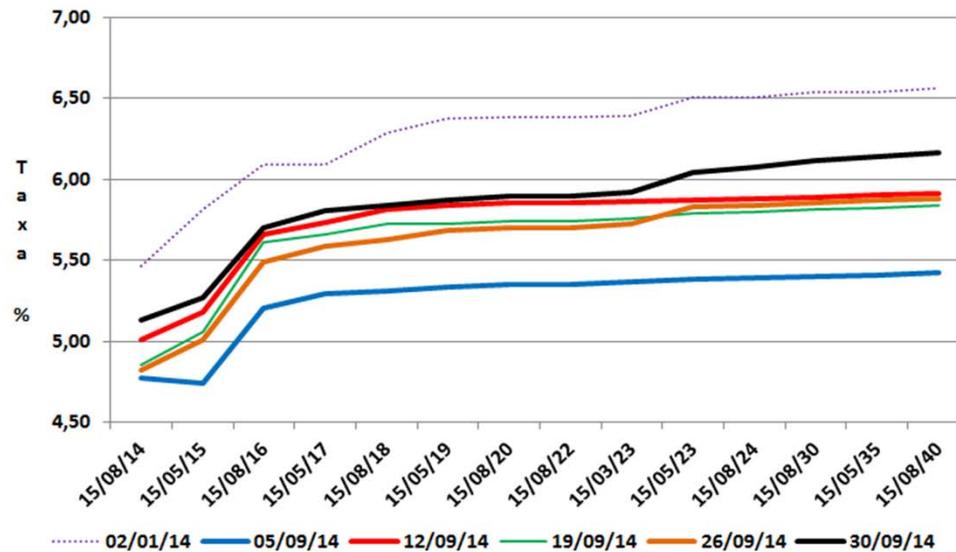
It is difficult to accelerate the pace of change ...change hurts ... it requires courage, but above all knowledge and intelligence. Meanwhile, we continue evaluating the Central Bank's inertia x ineptitude ratio.

Interest Rates

Yield and Coupons Curves (NTN-Bs)



The 2022 and 2024 vertices that show the discontinuity of the curve on 09/30/2014 are not very relevant due to the reduced liquidity.



Foreign Exchange

The dollar at R\$ 2.50 at this point is a true exaggeration, no matter what happens.

There is no question that there is a combination of factors that lead to pressure on the value of the American currency, starting with the election speculation and risk aversion abroad concerning an eventual monetary tightening by the FED. Also, there is no doubt that an exchange rate of R\$ 2.50 to the dollar would not be absurd, if the current Brazilian economic policy continues... but the current price seems unreasonable, even with the assumption that the financial market "anticipates" facts ... in fact the financial market also often exaggerates, and this seems to be case now. In our scenarios, under any circumstances, at this time, the price of the dollar will drop.

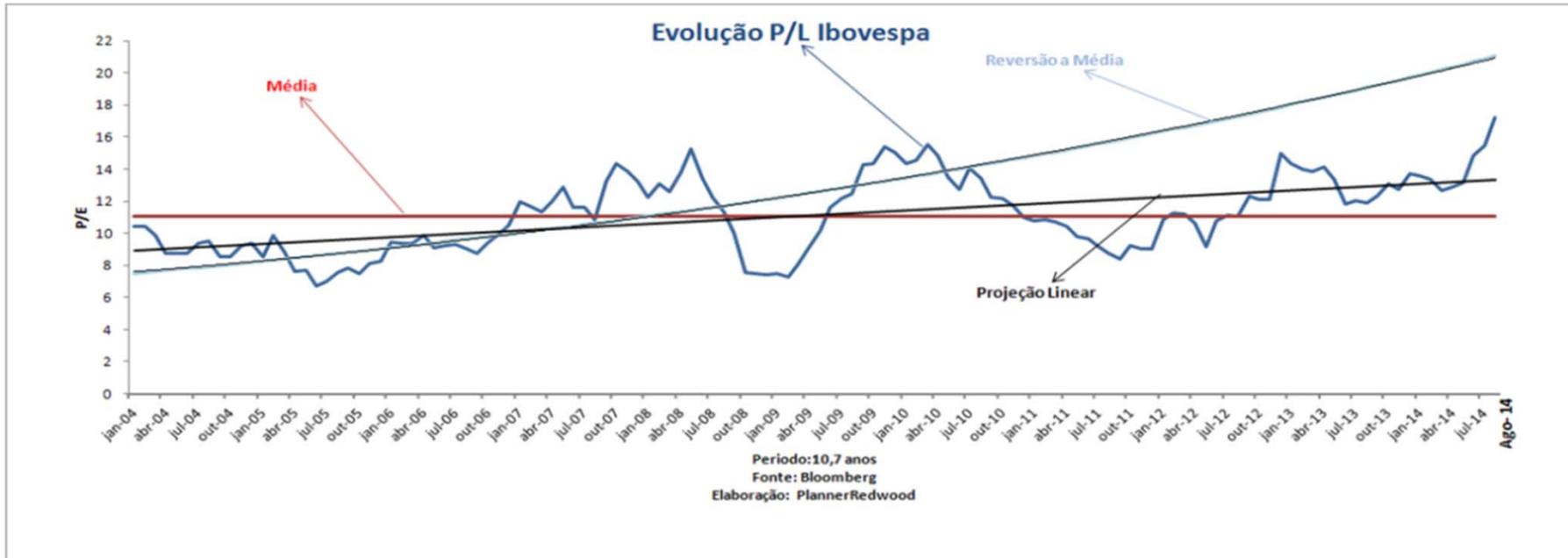
Whatever the reason, the fact is that there is a troublesome volatility which has not been possible to control (yet), in spite of the Central Bank's participation in the market. But the Central Bank already shows signs that it will continue its intervention policy, rolling rate swaps...The pace? Daily. The number of contracts? Variable.

The Central Bank knows well the destructive power of overshooting the dollar by itself, even more so in such a fragile time, with inflation near the target ceiling, decreased economic activity, reduced confidence index, public accounts in tatters and a challenging political moment. At this point, not even manufacturing (industry sector) would benefit from a higher rate in light of our current scenario(there is a current that advocates that a more depreciated foreign exchange favors competition with foreign products here and out there ... As if the exchange rate alone had the power to solve the Brazilian competitiveness problem!). The positive effects, although existing, tend to lag (import substitution and access to foreign markets are sometimes slow and difficult).

Let us consider the positive side: we are living now "only" through a moment of stress ... let us take advantage of the situation to learn when "the real thing" does come, with rising interest rates and other FED monetary tightening attitudes. In such a scenario the situation will be worrisome!

Stock Market

Last month the stock market reached 61,000 points, and this month was the real "Black September". It fell in 16 of the 22 trading days! It closed at 54,115 points (-11.7%). Thus, for the long term, in a fundamental analysis, the Bovespa index has the following up and down possibilities:



| Projeções para IBOV em relação a | | Up/Downside | 29/8/2014 |
|----------------------------------|--------|-------------|-----------|
| Preço Justo em 29/8/2014 | | | 61.288 |
| Projeção Linear: | 48.142 | | -21,5% |
| Projeção Média Histórica: | 39.469 | | -35,60% |
| Reversão à Média: | 70.296 | | 14,7% |

Under the principle of Mean Reversion (upside), we need a more conducive environment in all aspects (especially less government interventionism), and other alternatives (downside), for continuity and intensification of the current economic picture.



Monthly Commentary

SEPTEMBER 2014

3900, Brigadeiro Faria Lima Avenue, 10^o floor

CEP 04538-132 São Paulo – SP

Tel. +55-11-2172.2600

Fax. +55-11- 3078.7264

redwood@planner.com.br

www.planner.com.br