



BANCO CENTRAL DO BRASIL

Global Rise in Commodity Prices and the US Slowdown: Issues and Challenges in Monetary Policy

Carlos Hamilton Araújo
Banco Central do Brasil

Lima, June 2008

I: Impact of rising commodity prices

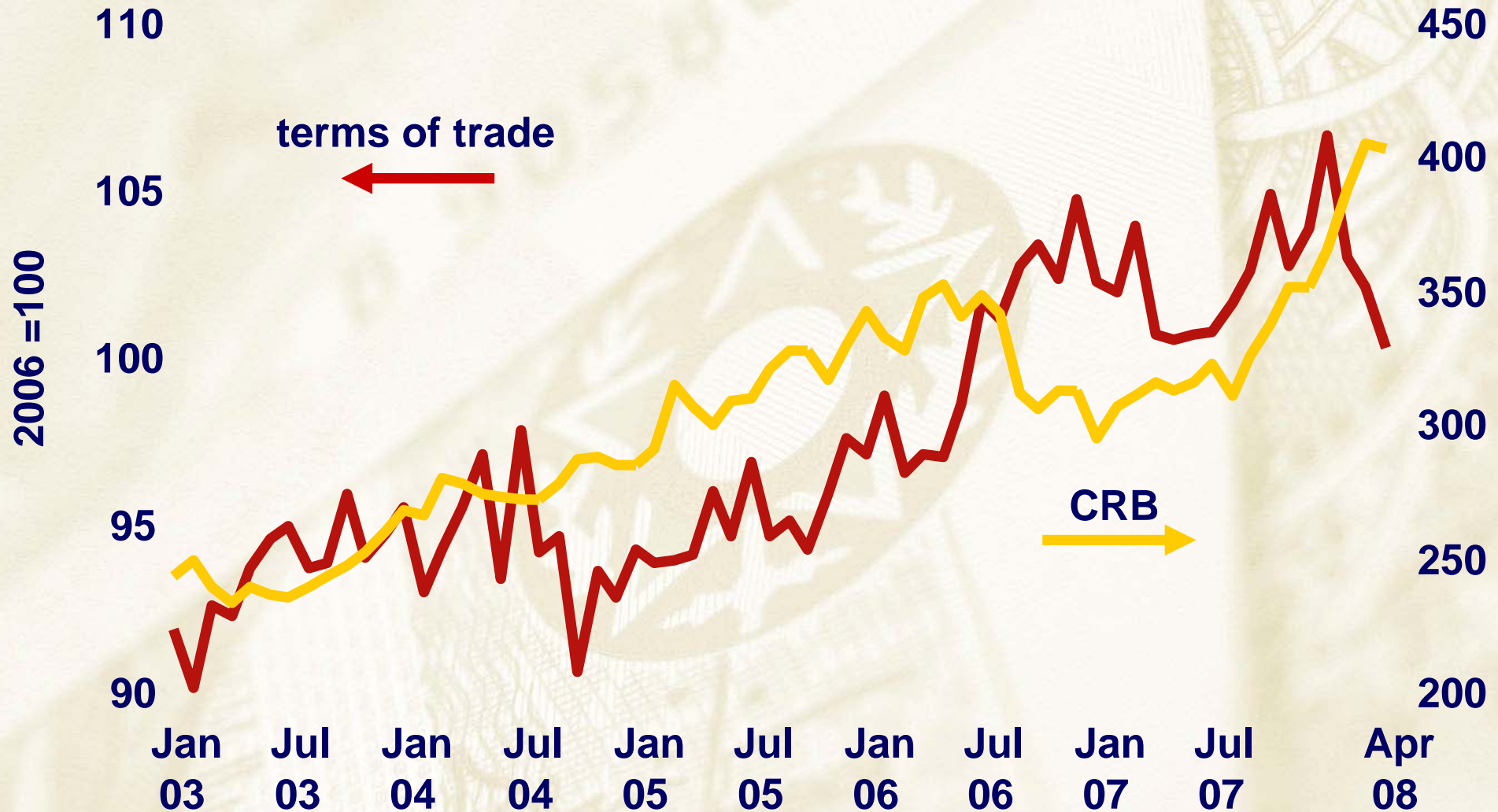
Benign Effects

Negative Effects

The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous

- **Benign effects**
 - **Better terms of trade and enhanced trade performance**
 - **Increased capital inflows**
 - **Better solvency and sovereign ratings**
 - **Buoyant asset prices**

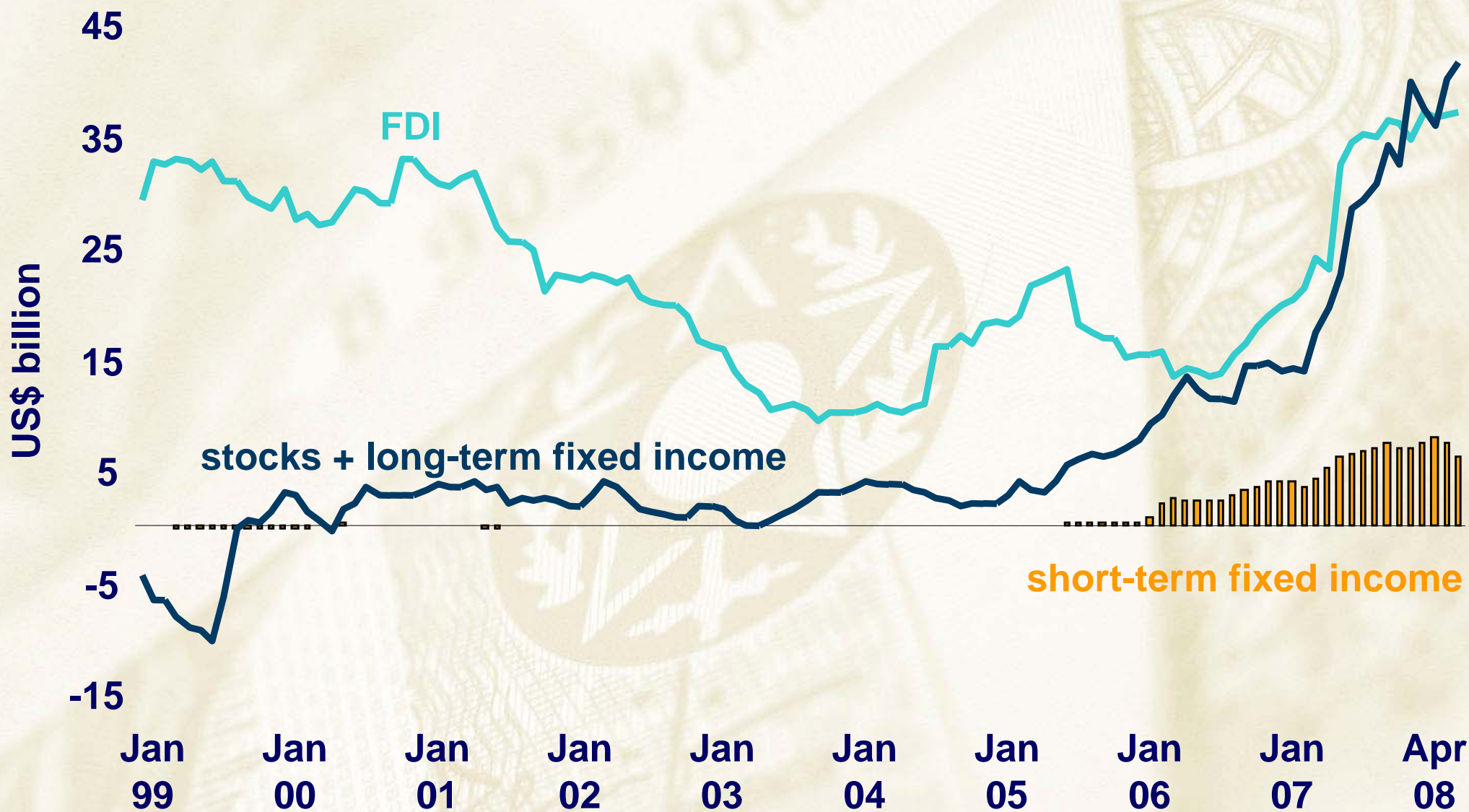
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: CRB Index and Brazilian Terms of Trade



The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Enhanced Ability to Import

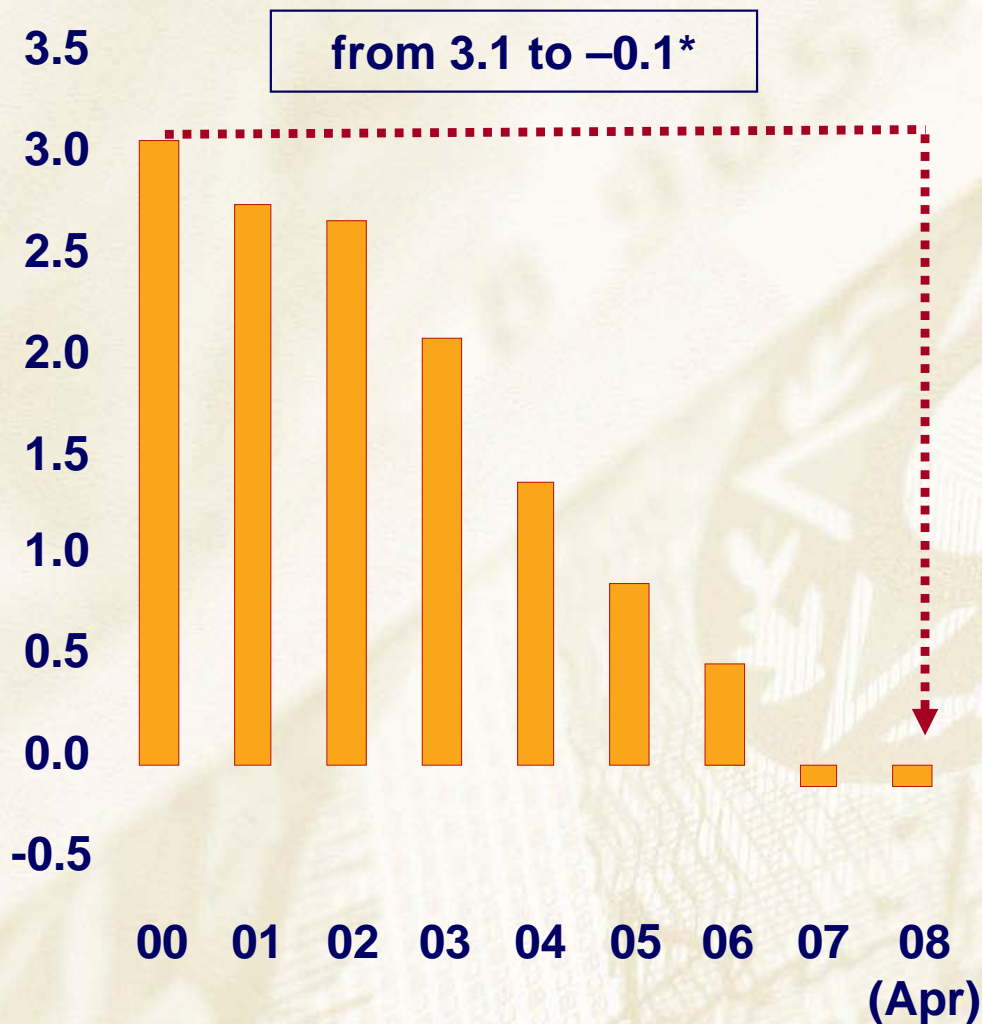


The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Increasing Capital Inflows

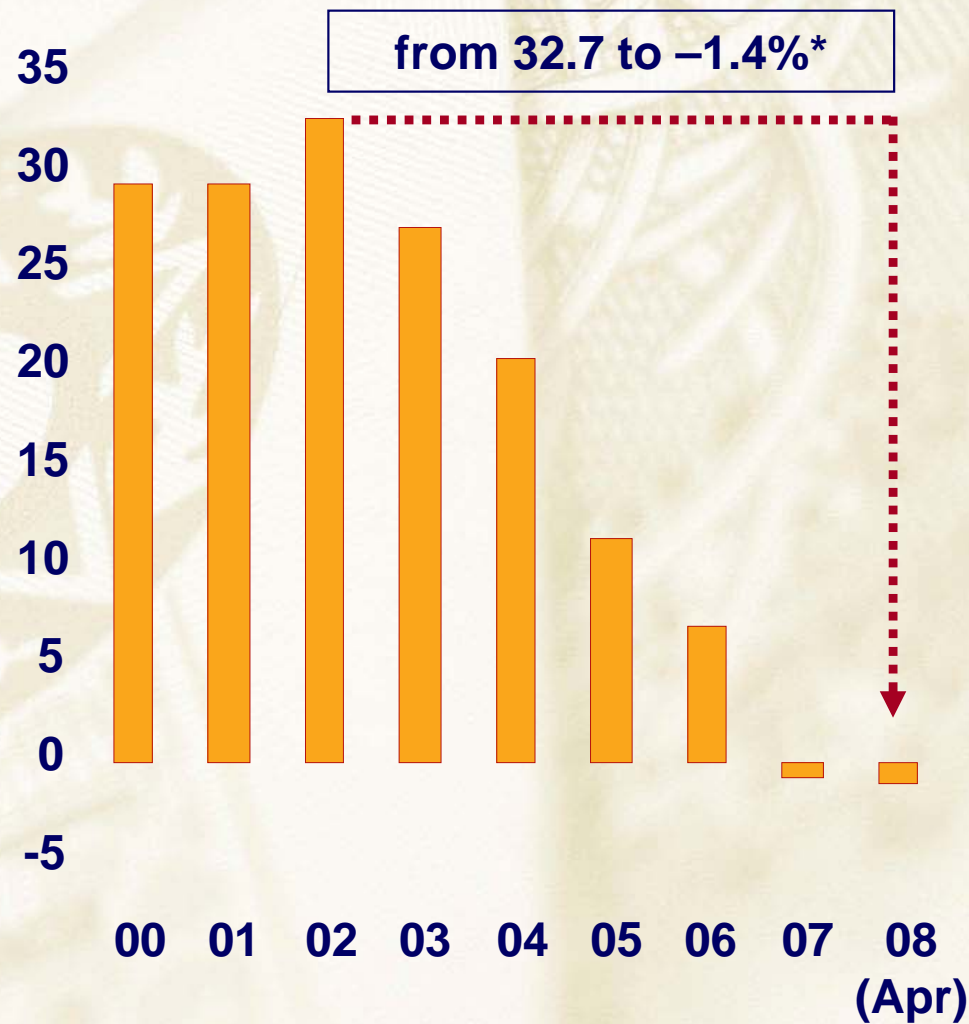


The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Better Solvency Indicators

net external debt/exports

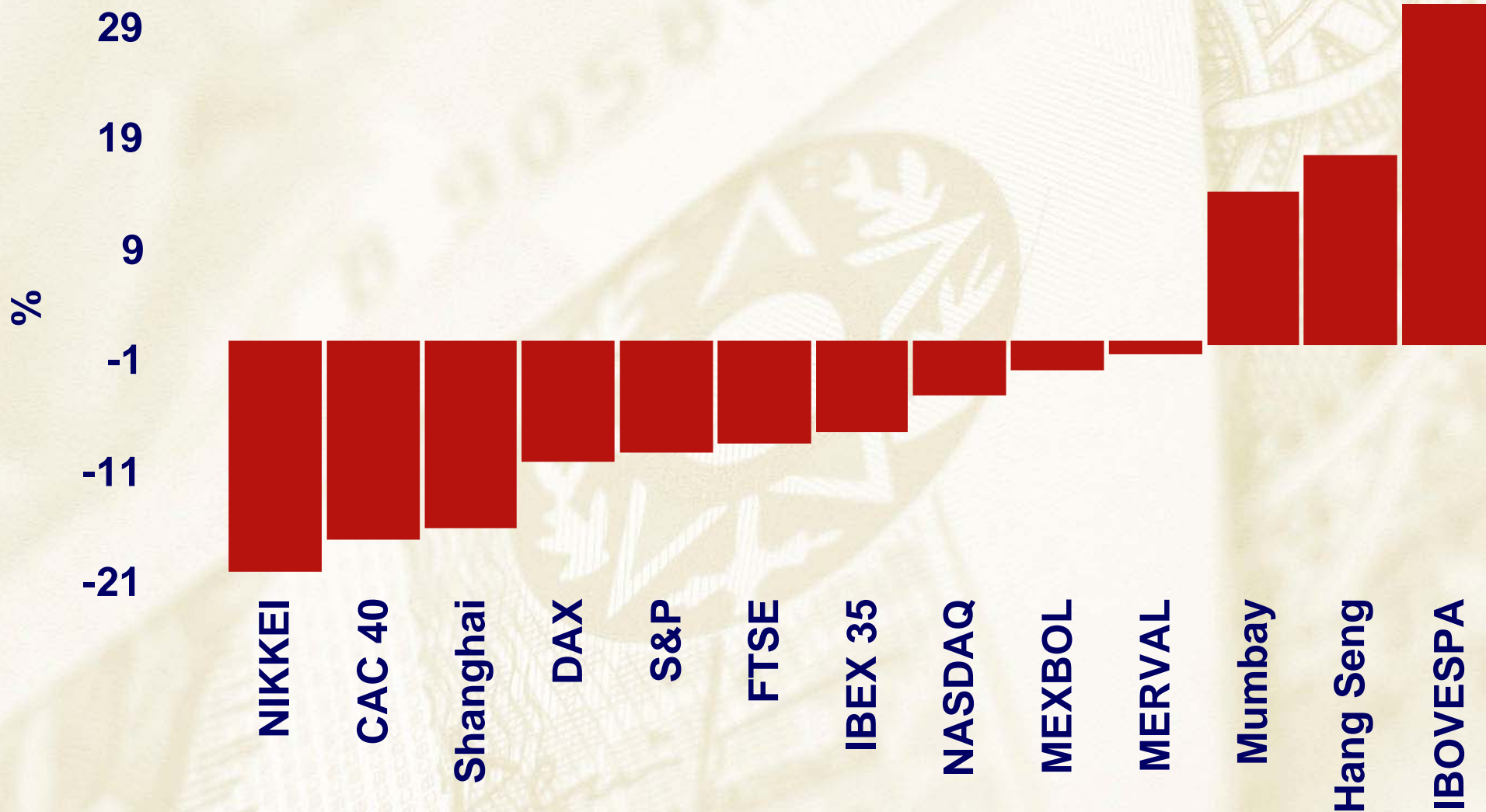


net external debt/GDP



The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Buoyant Asset Prices

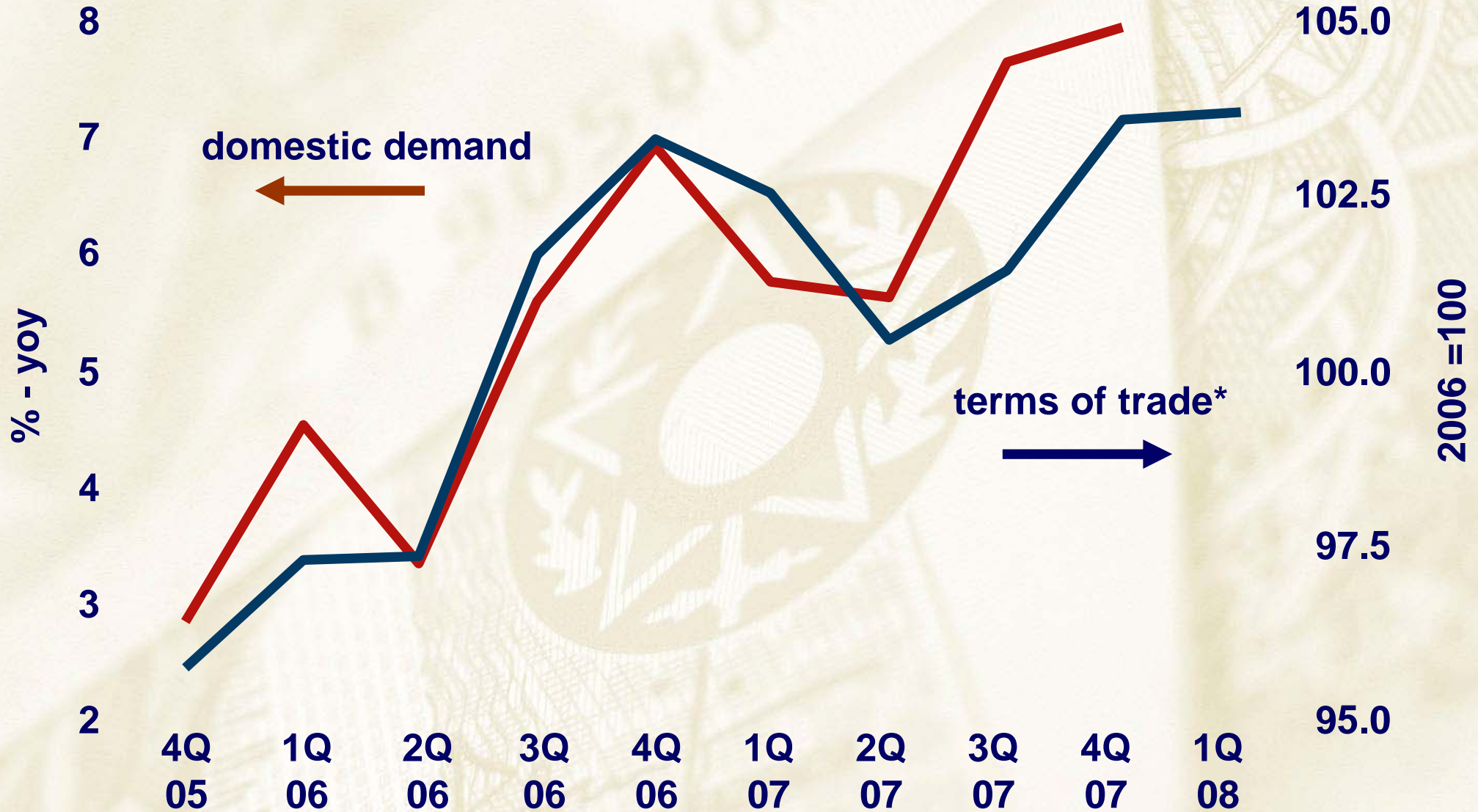
Index Change 6/14/07 – 6/3/08



The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous

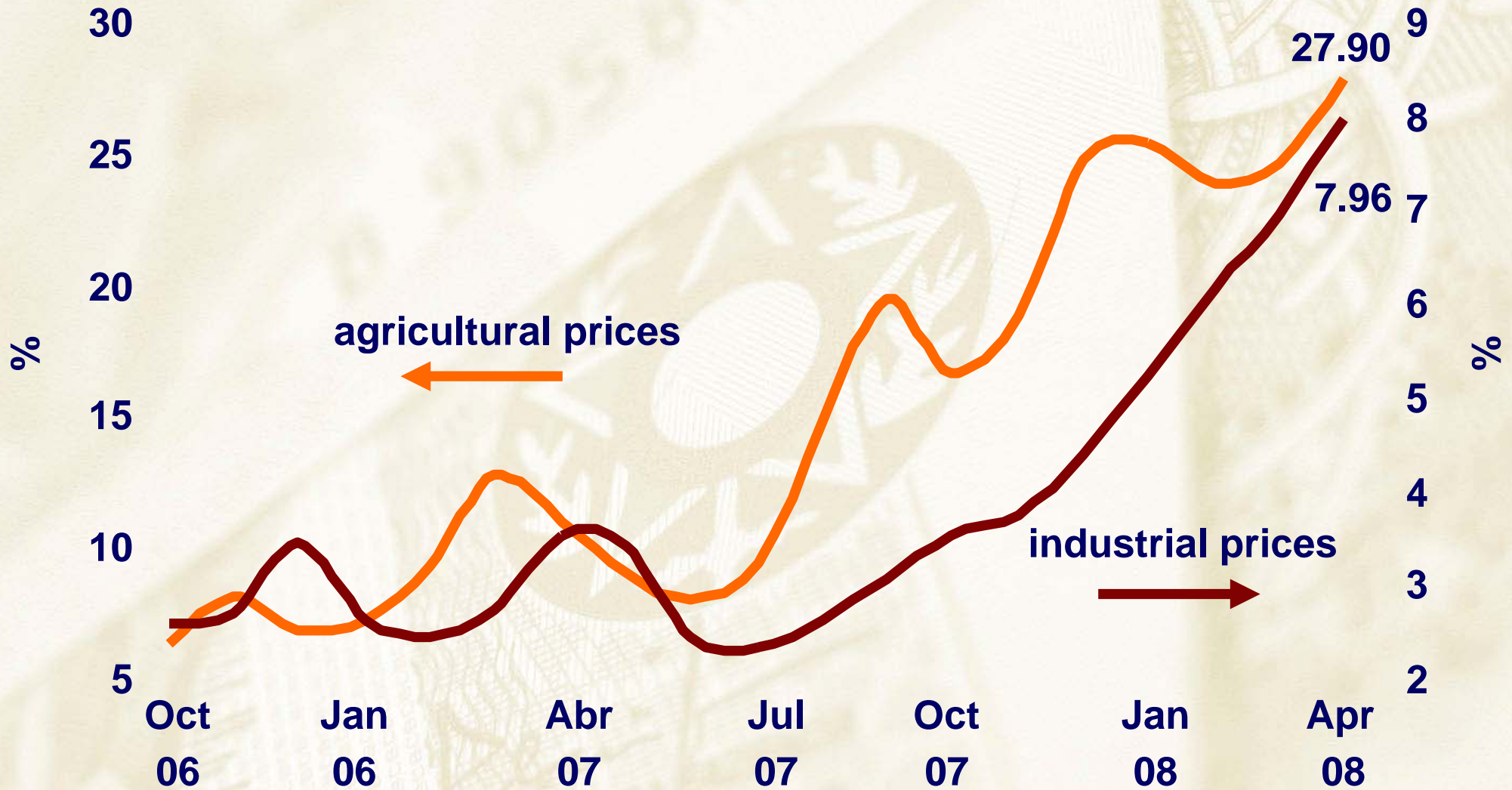
- **Negative effects**
 - **Income effect adding to demand pressure**
 - **Rising costs of inputs**
 - **Increase in consumer prices**
 - **Robust domestic demand leading to a worsening current account balance**
 - **Rising inflation expectations**

The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Terms of Trade Income Effect

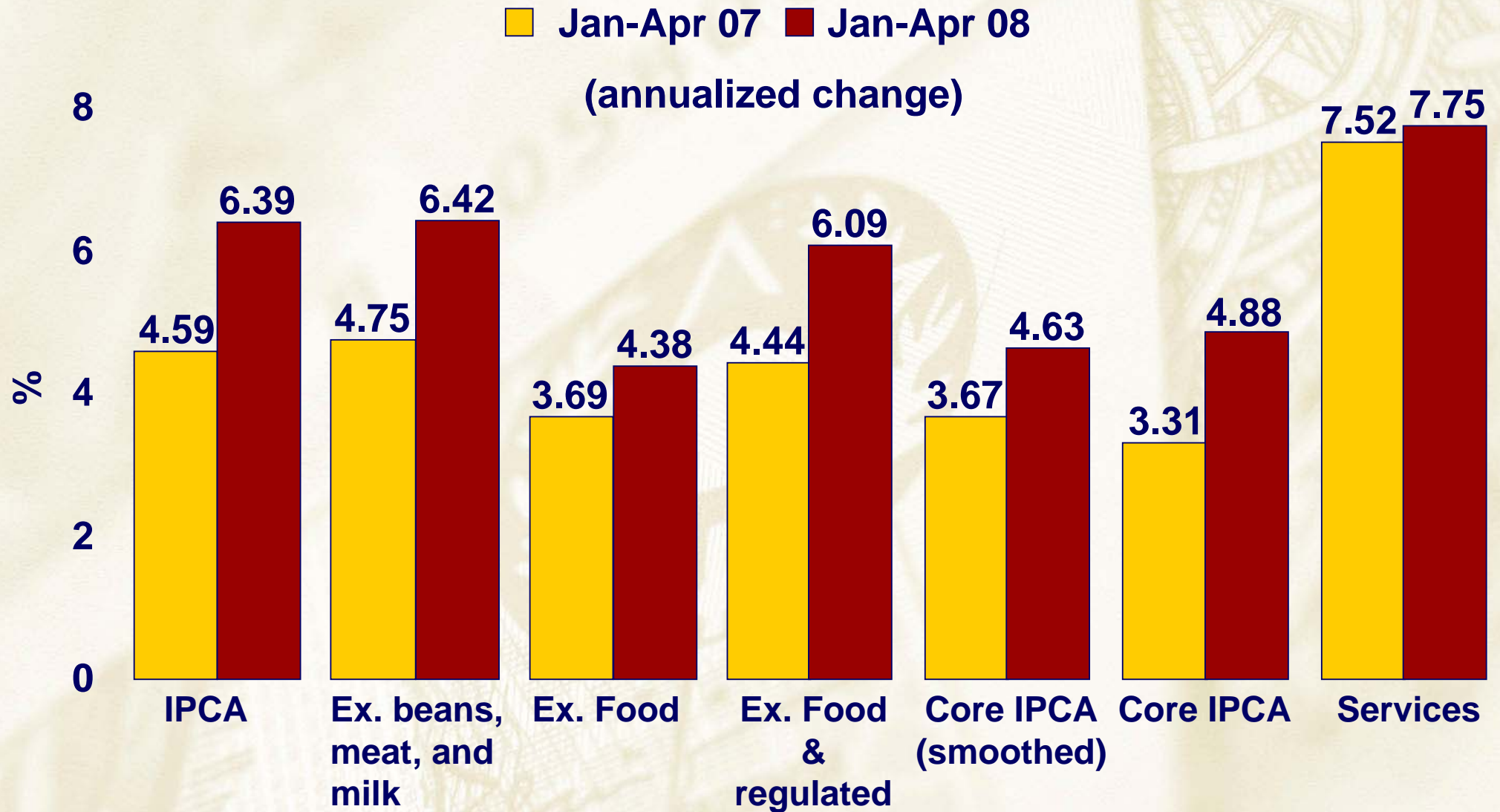


The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Rising Wholesale Prices

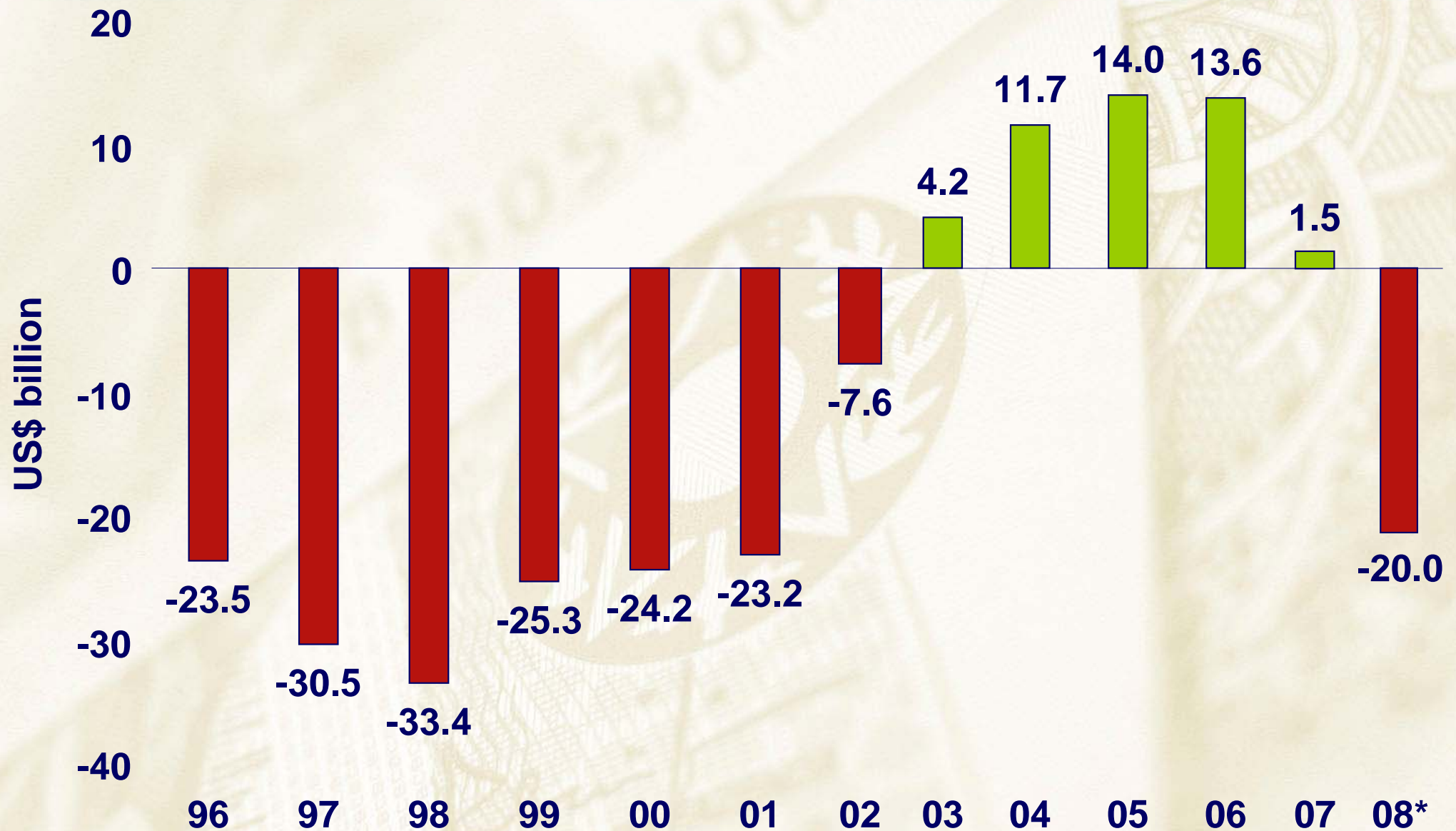
accumulated in 12 months



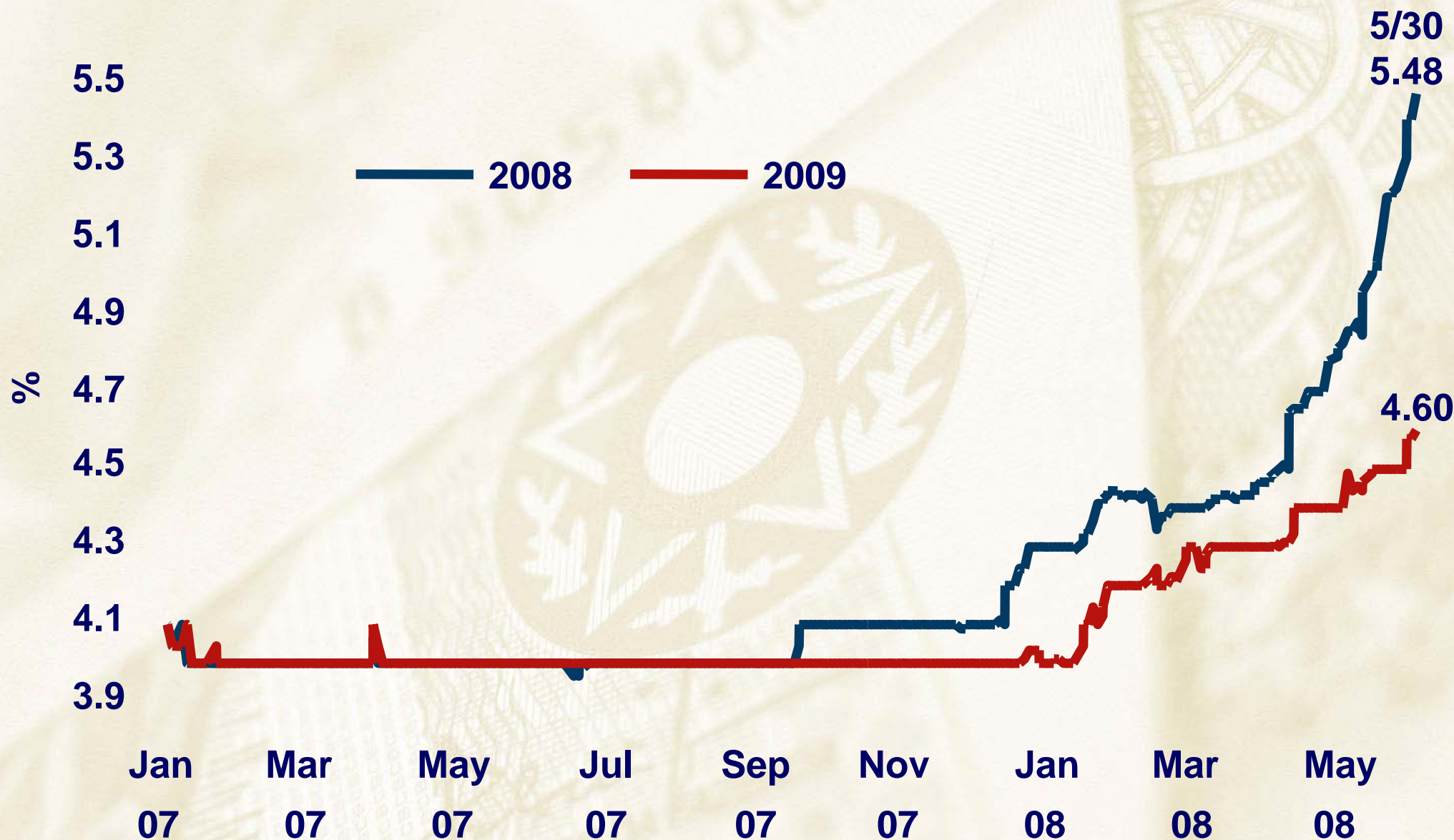
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Rising Foodstuff Prices



The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Worsening Current Account



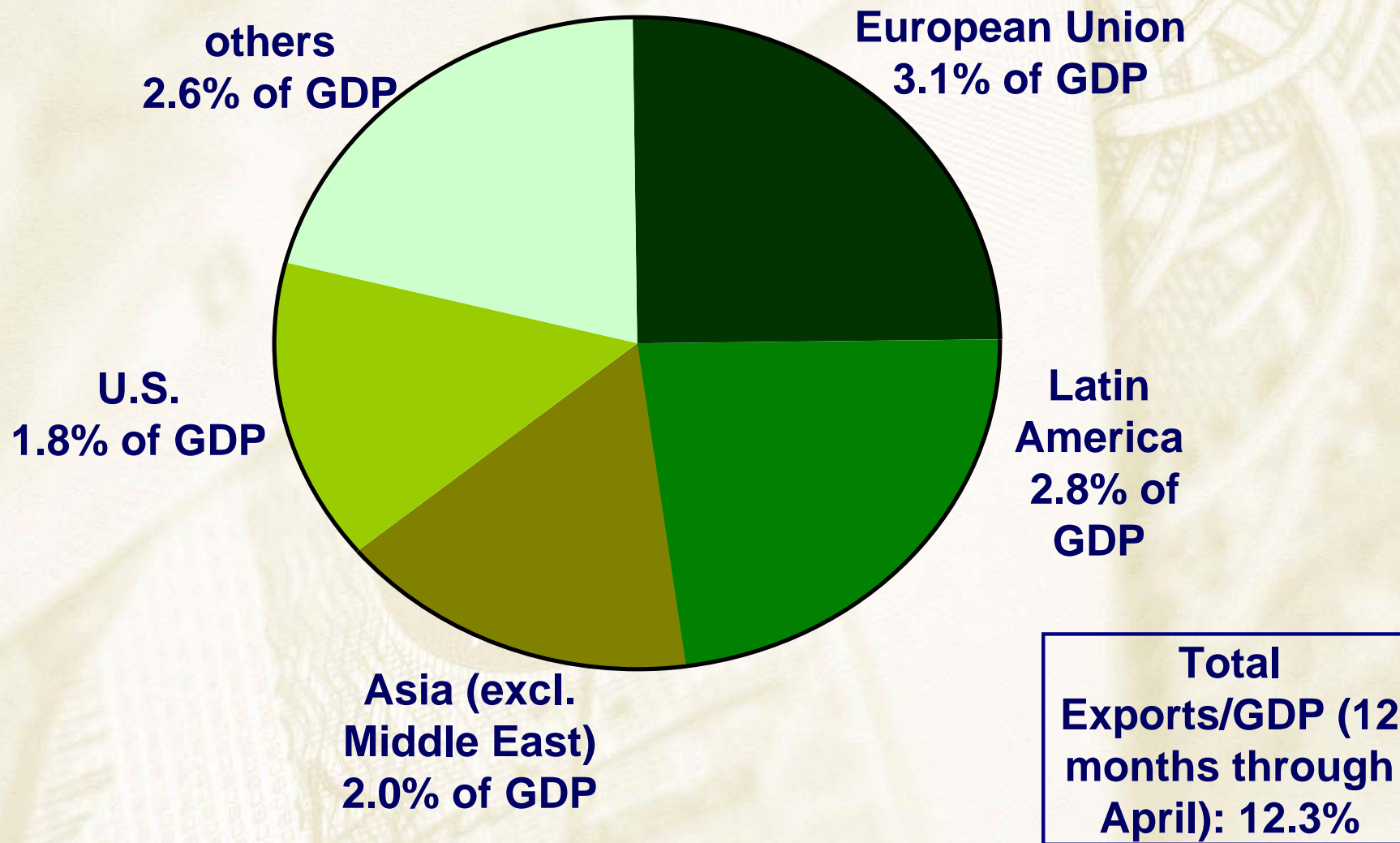
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Deterioration of Inflation Expectations (Target = 4.5%)



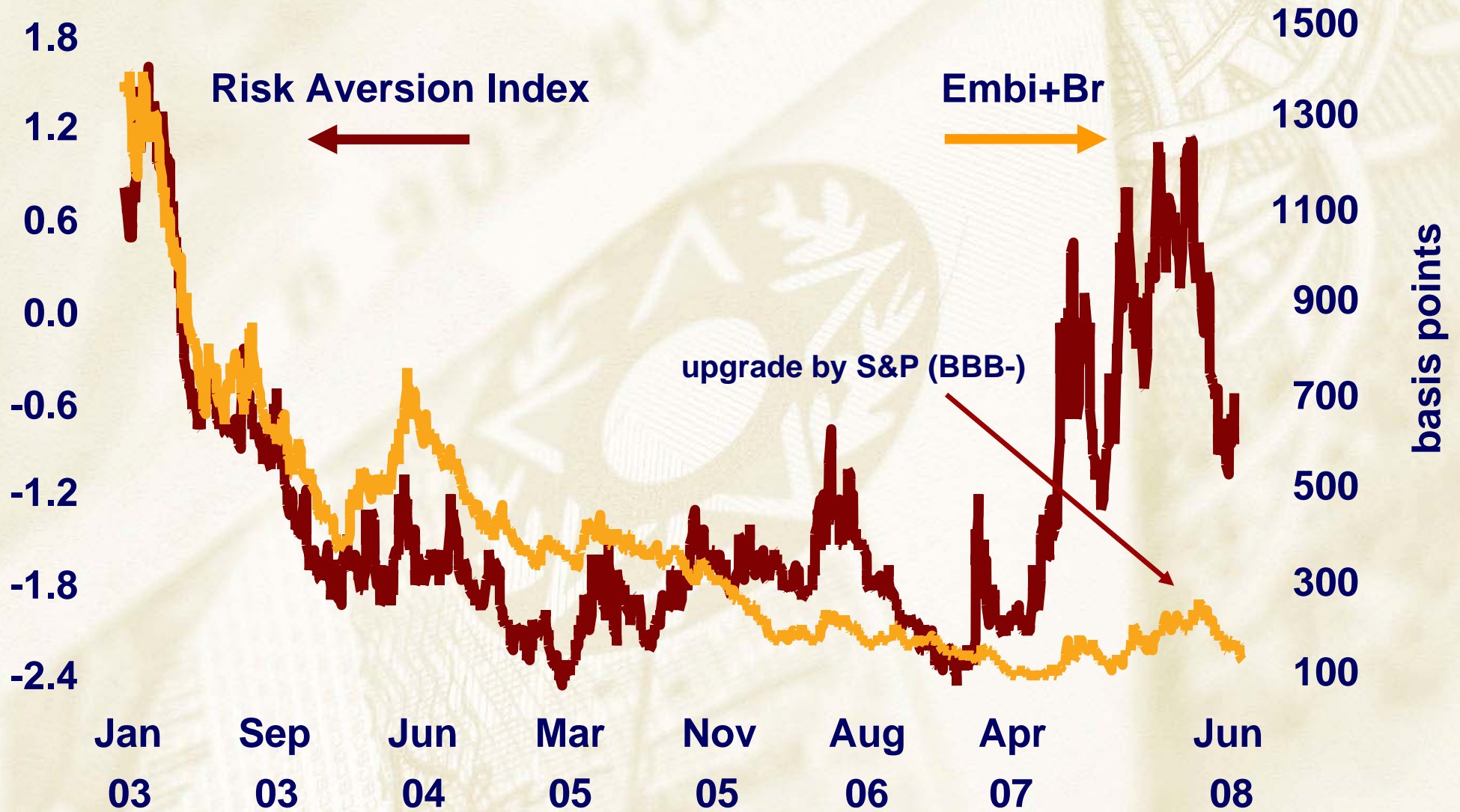


II: Transmission of US slowdown

destination of Brazilian exports accumulated in 12 months through April



Transmission of US Slowdown: Risk Aversion

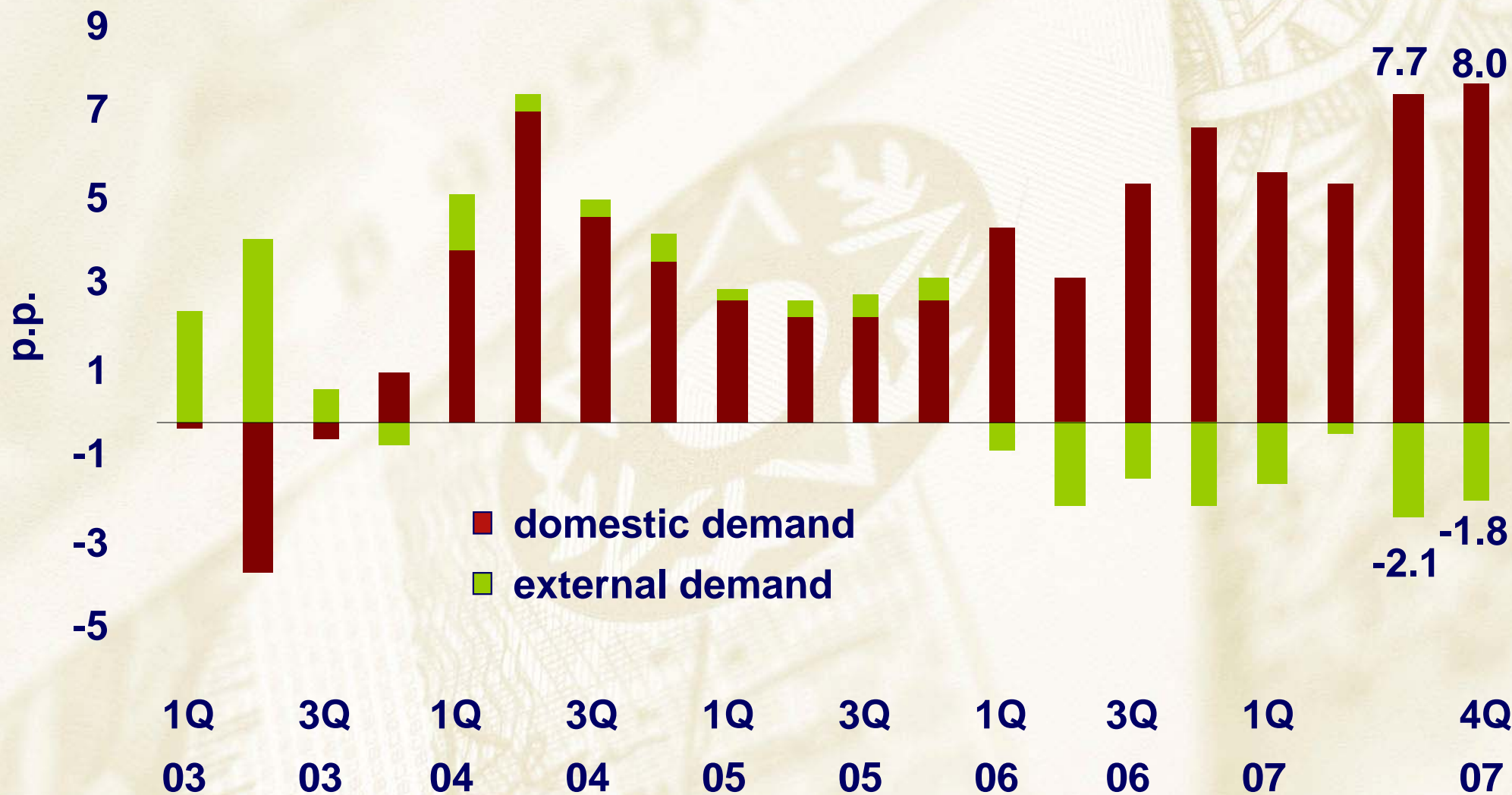




III: Tensions and trade-offs

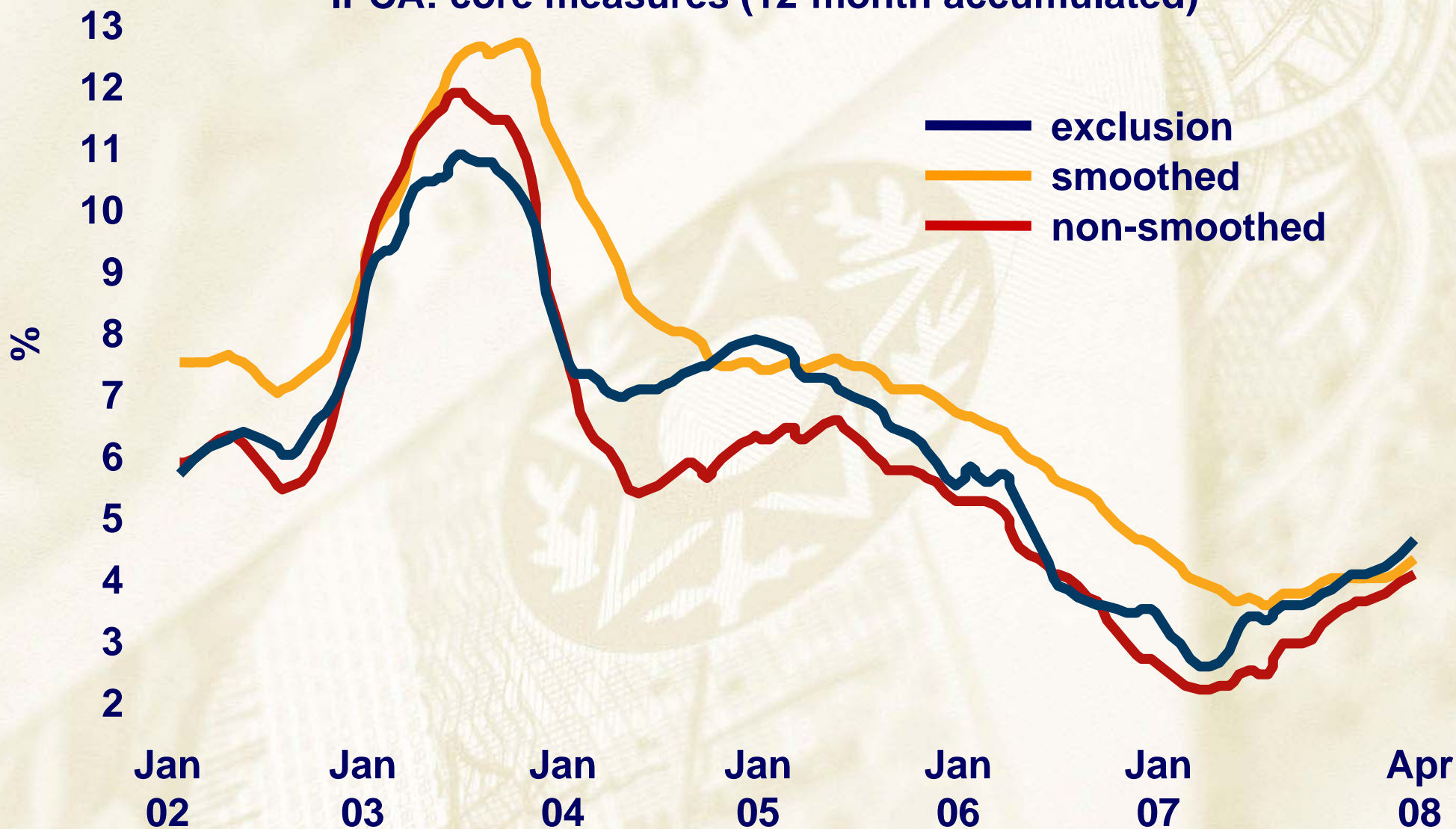
Behavior of Domestic Demand: Domestic vs. External Demand

compared to same quarter of previous year

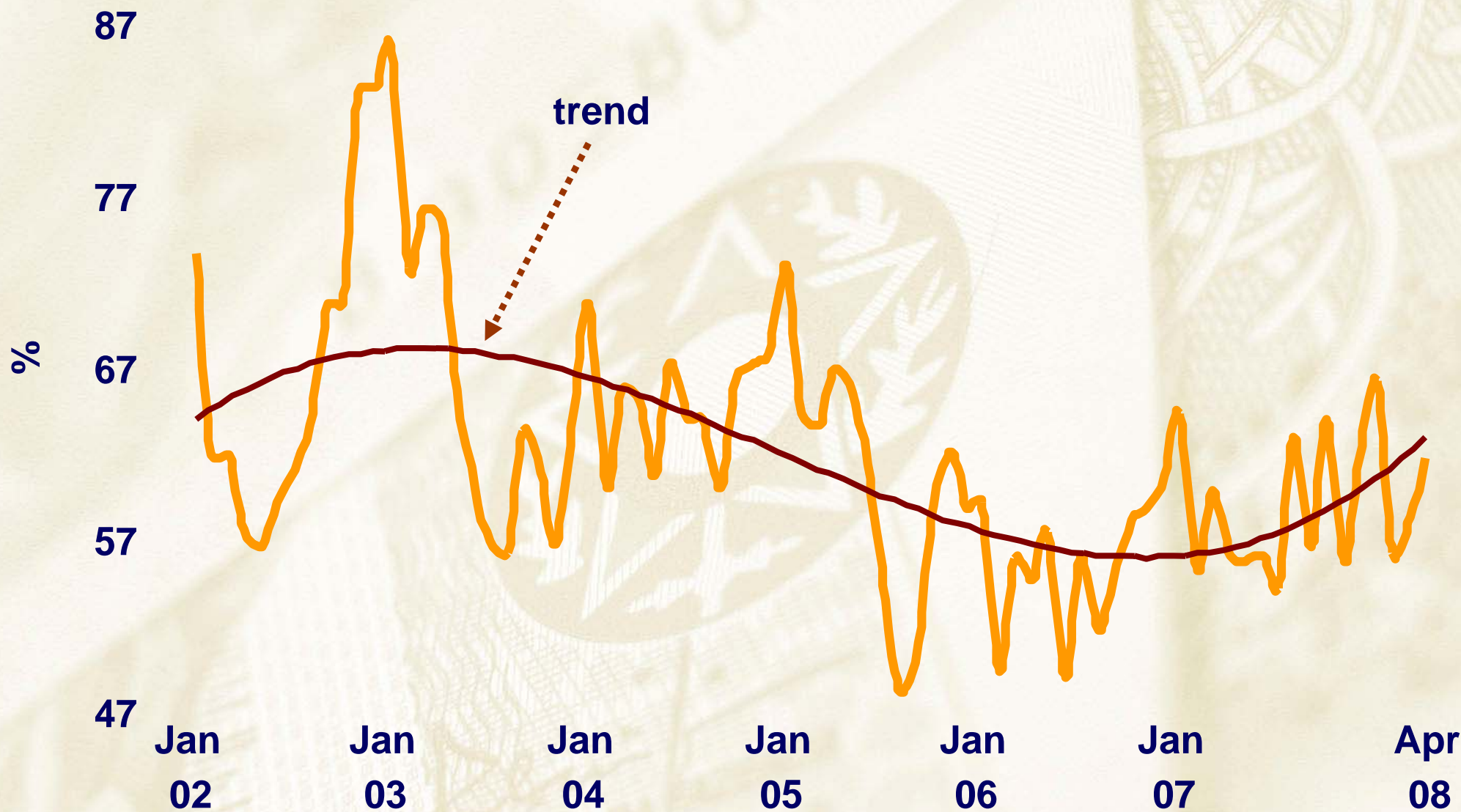


Monetary Policy Response: Risk has been Increasing

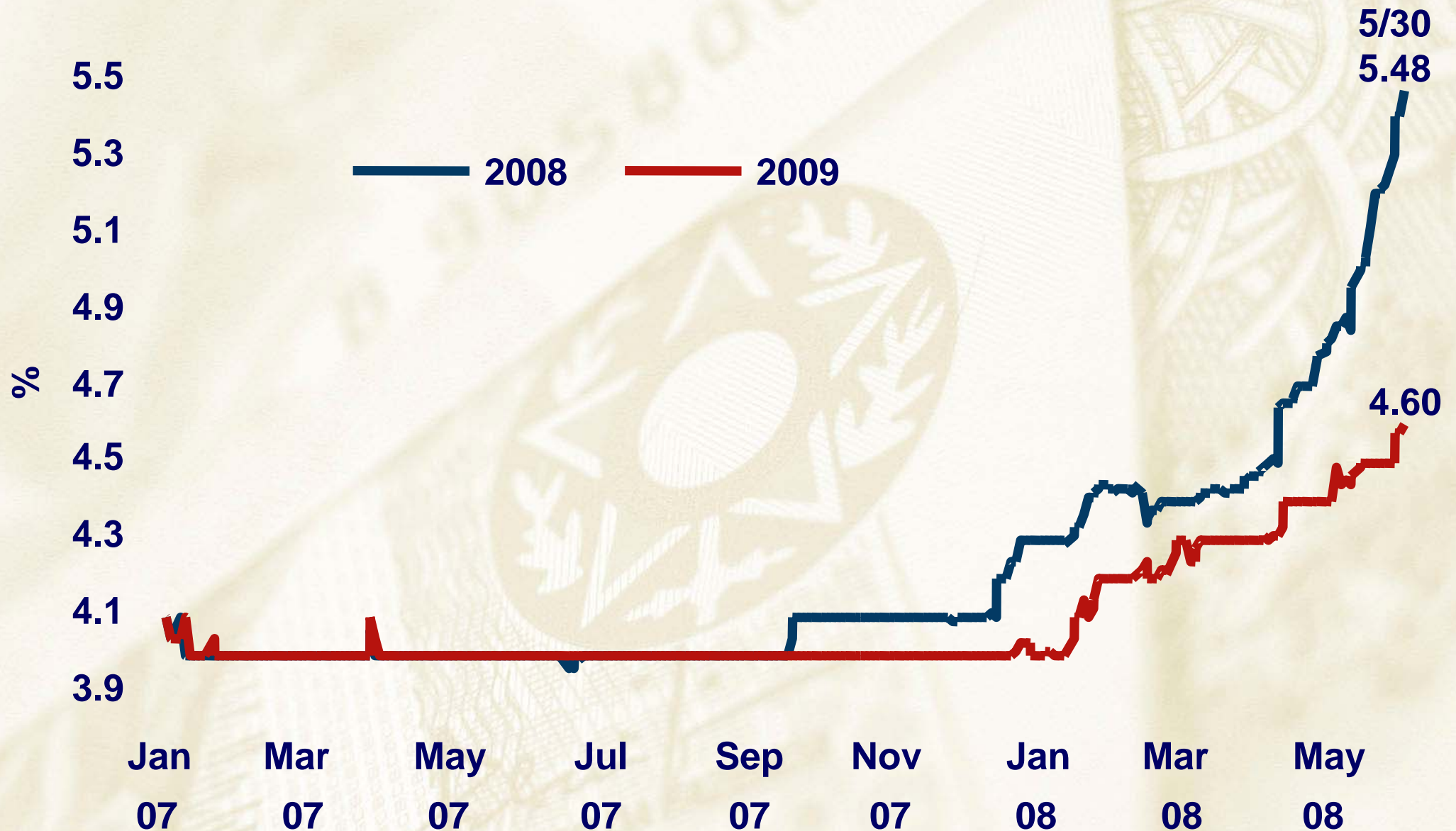
IPCA: core measures (12-month accumulated)



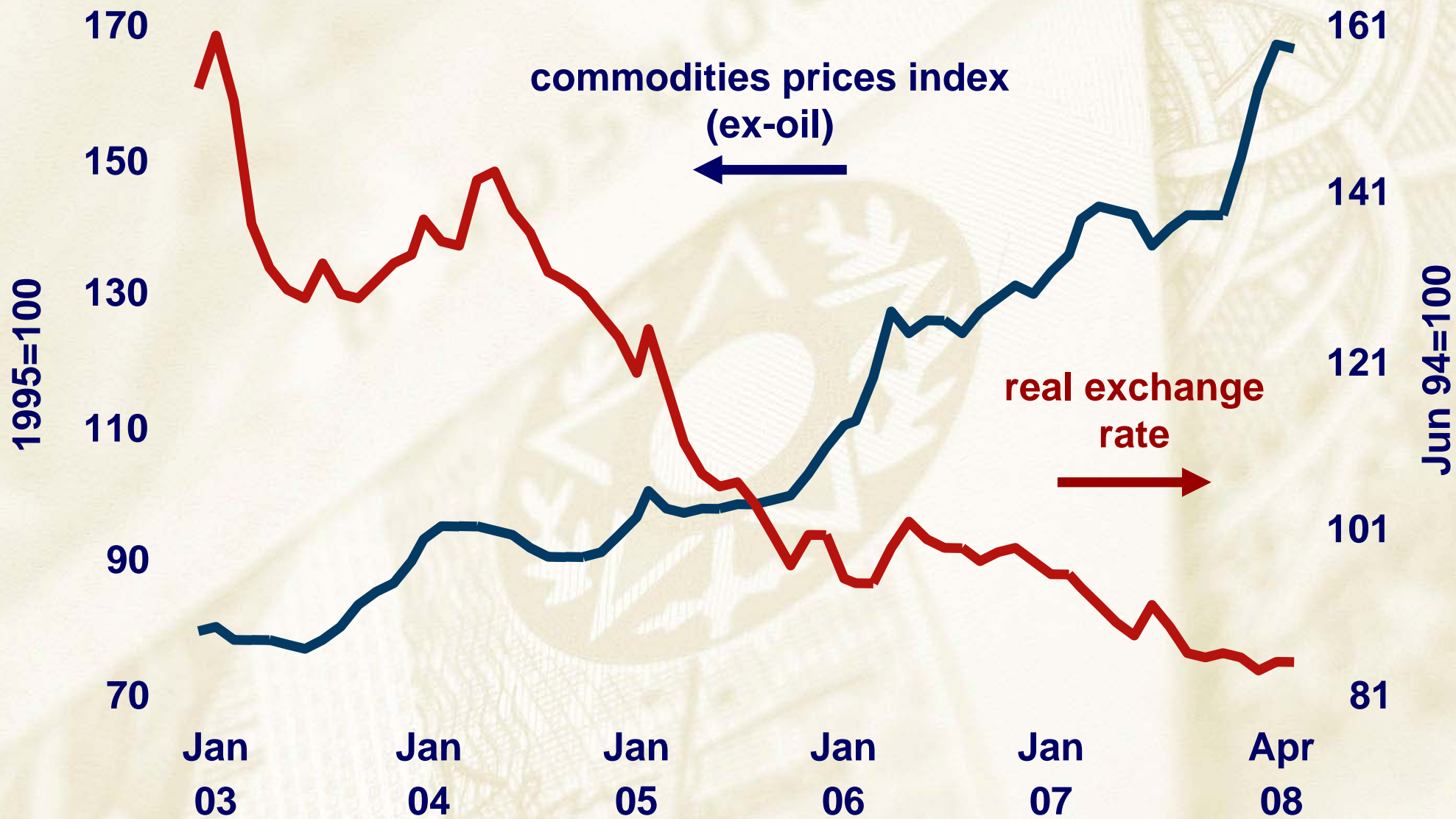
Monetary Policy Response: Inflation Becoming More Widespread



The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Deterioration of Inflation Expectations (Target = 4.5%)

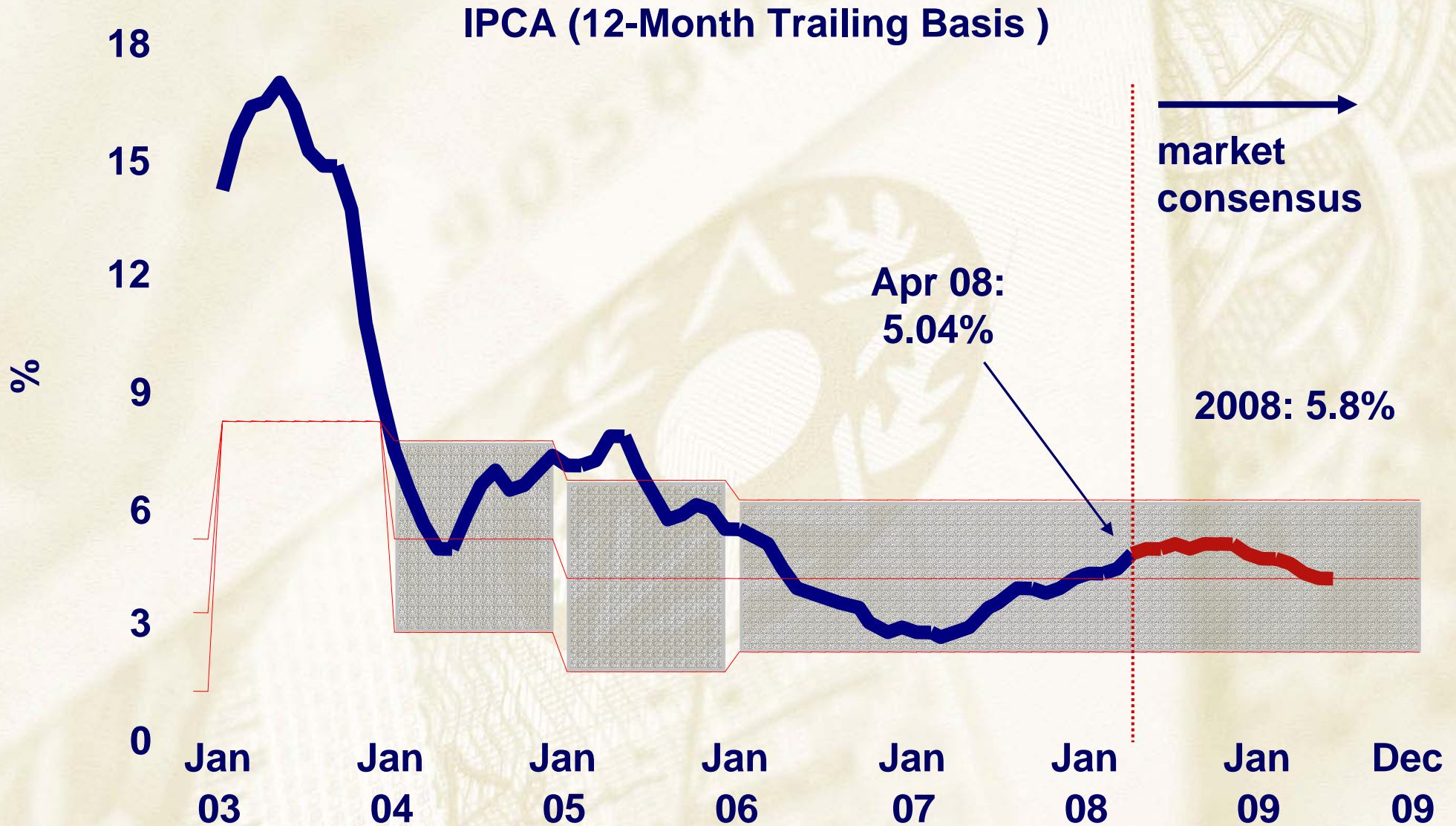


Effects of Low World Real Rates: Commodity Prices and Currency Appreciation

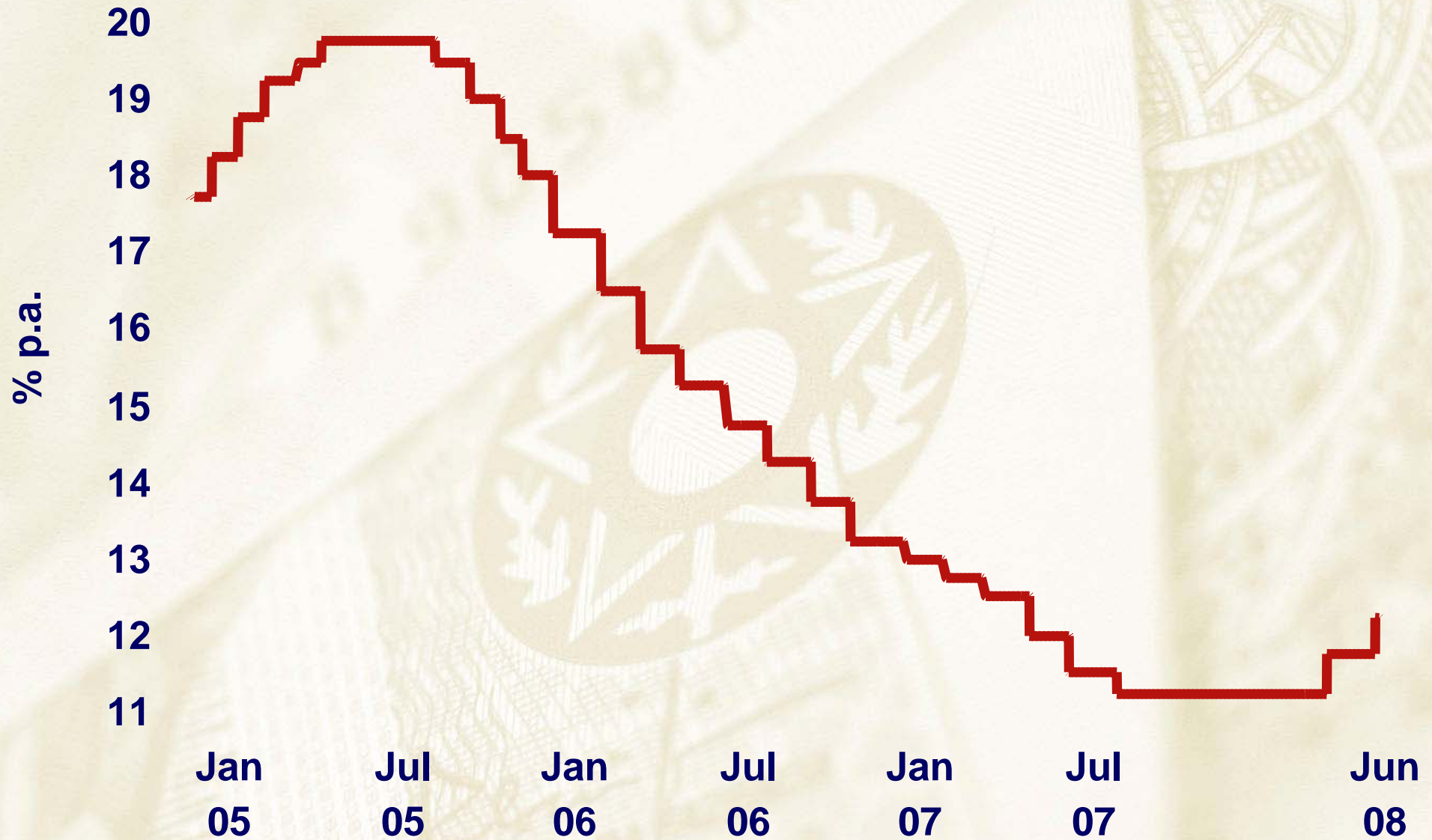


IV: Monetary Policy Reaction

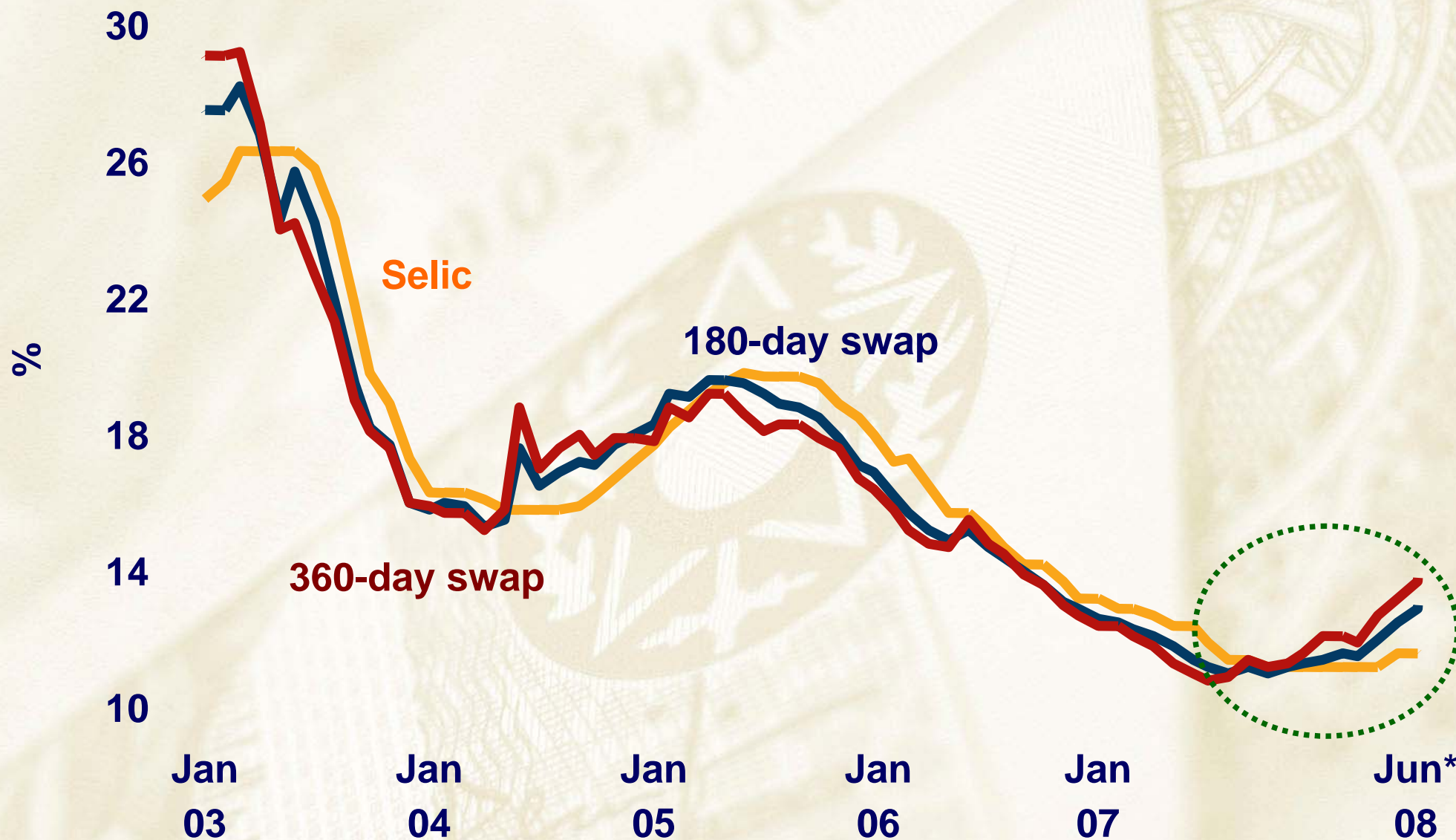
Monetary Policy Response: Goal is to Ensure Convergence of IPCA Inflation to Target Path



Monetary Policy Response



Monetary Policy Response: Partly Anticipated by Markets



Monetary Policy Response: Inflation Expectations Deterioration Still Limited

					%
	2008	2009	2010	2011	2012
Median					
April 11	4.66	4.40	4.20	4.09	4.00
May 30	5.48	4.60	4.50	4.30	4.00
Average					
April 11	4.66	4.34	4.19	4.18	4.13
May 30	5.46	4.58	4.32	4.23	4.15



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