BANCO CENTRAL DO BRASIL

Minutes of the 102nd Meeting of the Monetary Policy Committee (Copom)

Date: November 16th, from 4:20PM to 6:55PM, and November 17th, from 4:30PM to 8:05PM
Place: BCB's Headquarters meeting rooms - 8th floor on November 16th and 20th floor on November 17th – Brasília – DF

In attendance:
Members of the Committee
Henrique de Campos Meirelles – Governor
Afonso Sant'Anna Bevilaqua
Alexandre Schwartsman
Antônio Gustavo Matos do Vale
Eduardo Henrique de Mello Motta Loyo
João Antônio Fleury Teixeira
Paulo Sérgio Cavalheiro
Rodrigo Telles da Rocha Azevedo
Sérgio Darcy da Silva Alves

Department Heads (present on November 16th)
Altamir Lopes – Economic Department
Daso Maranhão Coimbra – International Reserves Operations Department
José Pedro Ramos Fachada Martins da Silva – Investor Relations Group
Luiz Fernando Maciel – Department of Banking Operations and Payments System
Marcelo Kfoury Muinhos – Research Department (also present on November 17th)
Sérgio Goldenstein – Open Market Operations Department

Other participants (present on November 16th)
Flavio Pinheiro de Melo – Advisor to the Board
Hélio Mori – Advisor to the Board
João Batista do Nascimento Magalhães – Special Advisor to the Governor
Jocimar Nastari – Press Secretary
Katherine Hennings – Advisor to the Board

The members of the Monetary Policy Committee analyzed the recent performance of and prospects for the Brazilian and international economies under the monetary policy framework, which is designed to comply with the inflation targets established by the government.

Recent Evolution of Inflation

1. Wholesale and consumer inflation accelerated in October, but the upward move was mitigated by the positive shock over food prices, whose effects tend to vanish in the last two months of the year. The disparity between the recent rises in industrial prices in the wholesale and in the retail level has persisted.

2. The Broad National Consumer Price Index (IPCA) rose 0.44% in October, up from 0.33% in September, accumulating increases of 5.95% in the year and 6.87% in twelve months. Fuel prices in general and fuel-alcohol prices in particular were the main contributors to the IPCA acceleration. Other regulated prices, such as air tickets and health insurance plans, contributed to the IPCA result. The impact of these increases was only partially offset by the ongoing decline of fresh food prices.

3. The General Price Index (IGP-DI) increased 0.53% in October, compared to 0.48% in September, totaling a 10.65% change in the year. Among the IGP-DI components, the Consumer Price Index –

Brazil (IPC-Br) increased 0.10%, after relative stability in September. It should be highlighted that the lesser change of the IPC-Br, compared to the IPCA, is partially justified by the greater weight of fresh food in the former. The National Index of Civil Construction (INCC) rose 1.19%, compared to 0.58% in September, driven by the increase of steel product prices. Finally, the Wholesale Price Index (IPA-DI) fell to 0.61% from 0.65% in September, accumulating 13.00% in the year. In the last twelve months, the IGP-DI and the IPA-DI accumulated changes of 11.85% and 14.35%, respectively.

4. In October, market prices in the IPCA increased 0.29% (0.22% in September), accounting for 0.21 p.p. of the IPCA change. Regulated prices increased 0.80% (0.59% in September), accounting for the remaining 0.23 p.p. change of the index, of which 0.11 p.p. were due to fuel prices. Fuel-alcohol prices increased 5.31%, while gasoline prices rose 1.45% as a result of the 2.3% increase in refineries prices in October and the upsurge in blended alcohol prices. Tradable goods prices increased 0.42%, with the major pressures stemming from beef, clothing, and new and used vehicles – reflecting, to some extent, the increase in the prices of certain inputs, particularly steel. Non-tradable prices increased 0.13%, supported by a 7.20% drop in fresh food prices.

5. The IPA-DI deceleration in October was triggered by agriculture prices, which fell 2.73% (-0.64% in September). The prices of eggs, rice, vegetables, fruit, soy, beef, milk and corn contributed to this fall. In contrast, wholesale industrial prices accelerated in October, averaging 1.83% (1.13% in September). Price increases were more intense among intermediary goods and mineral raw materials, especially iron ore, steel and by-products, fuel, plastic, plastic products, paints and lacquers.

6. Wholesale industrial prices (excluding fuel) accumulated a 5.2% rise in the quarter ending in October. In the same period, IPCA industrial prices (excluding fuel) registered a 1.4% increase.

7. In October, the IPCA core inflation excluding household food items and regulated prices recorded a 0.55% rise (0.41% in September), accumulating 7.70% in twelve months. The core under the smoothed trimmed-mean method reached 0.60% (0.56% in September), totaling 7.51% in twelve months. Without the smoothing procedure for pre-selected items, the trimmed-mean core increased to 0.55% from 0.38% in September, accumulating 5.98% in twelve months.

8. The IPC-Br core inflation, calculated by the Fundação Getúlio Vargas (FGV) under the symmetric trimmed-mean method, stood at 0.43% in October, compared to 0.38% in September, totaling 5.80% in twelve months.

9. Inflation should accelerate further in November, as a consequence of, among other factors, the second installment of the readjustment in fixed-line telephone services determined by the Supreme Judicial Court and the increases in fuel-alcohol prices and urban bus tariffs in Belo Horizonte. The favorable contribution of fresh food prices to inflation may be smaller in November than in October.

Assessment of Inflation Trends

10. The inflation shocks and their impacts were reassessed according to new available information. The scenario considered in the simulations assumed the following hypotheses:

    a. For 2004, the Copom's projection for the increase of gasoline prices was maintained at 9.5%, while the projection for the increase of bottled gas prices remained almost unchanged, increasing to 5.0% from 4.9% in the October Copom meeting;

    b. The projection for the readjustment of household electricity prices was reduced to 10.2% from 11.5% in the October Copom meeting. The projection for the readjustment of fixed telephone tariffs was increased to 14.8% from 14.0%;

c. In regard to all regulated prices, with a total weight of 29.1% in the October IPCA, the Copom projects an average price increase of 9.0% in 2004, up 0.5 p.p. compared to the projection in the last meeting;

d. The projection for the readjustment of all regulated prices for 2005, following the model of endogenous determination, which takes into account seasonal components, the exchange rate, market prices inflation and the IGP-DI change, was slightly increased to 7.2% from 6.9% in the previous Copom meeting;

e. The projection for the 6-month spread over the Over-Selic rate, following the specification of a Vector Autoregressive model based on the Over-Selic and the swap rates on the eve of the Copom meeting, decreases from 101 basis points in the fourth quarter of 2004 to 62 basis points in the last quarter of 2005.

11. It is assumed that the consolidated public sector primary surplus target of 4.5% of the GDP for 2004 and 4.25% for the following two years will be achieved. The related assumptions considered in the previous Copom meeting were maintained.

12. Considering the benchmark scenario, including the maintenance of the Over-Selic rate at 16.75% p.a. and of the exchange rate at the level prevailing on the eve of the Copom meeting (R$/US$2.75), the IPCA inflation rate was projected above the 5.5% central target for 2004 and above the 5.1% objective for 2005. Considering alternatively the market scenario, which takes into account the consensus Over-Selic rate and exchange rate as surveyed by the BCB's Investor Relations Group (Gerin) on the eve of the Copom meeting, inflation is also projected above the central target for 2004 and above the objective for 2005.

Monetary Policy Decision

13. Inflation measured by the IPCA accelerated to 0.44% in October from 0.33% in September. This acceleration occurred despite the fall in food prices for the second consecutive month. Excluding food, market prices inflation increased to 0.54% in October from 0.42% in September. Regulated prices were pressured by fuel prices, especially fuel-alcohol.

14. The IGP-DI accelerated slightly in October to 0.53% from 0.48% in September, while the IPA-DI decelerated, in the same period, to 0.61% from 0.65%. The acceleration of the industrial-IPA practically offset the fall of the agriculture-IPA. In the year to October, the industrial-IPA accumulated a 17.52% change. Wholesale intermediary goods prices increased 2.62% in October and 23.8% in the year. The Copom will continue to monitor the potential transmission of wholesale inflation to consumer inflation in the coming months. The intensity of the pass-through will basically depend on future demand conditions and on the market inflation expectations.

15. According to the three methodologies used by the Copom, IPCA core inflation increased in October. The upsurge was more significant for the core excluding food and regulated prices and for the core under the non-smoothed trimmed mean, which had decelerated in September. As stressed in the October Copom minutes, the September core results did not reflect the reversion in the underlying inflation trend but the persisting volatility in these measures. The smoothed trimmed-mean core has remained in the range from 0.55% to 0.60% since April. Therefore, the cores have persisted in levels incompatible with the inflation targets.

16. Industrial output, measured by the Brazilian Institute of Geography and Statistics (IBGE), was flat in September in seasonally adjusted terms, after six consecutive months of growth, which had not occurred since 1994. The September industrial results, in fact, were better than anticipated by the leading and coincident indicators. Between January and September, industrial output grew 9.0% compared to the same period of 2003.

17. Leading and coincident indicators anticipate a decrease in industrial output in October (seasonally adjusted). However, this specific outcome does not indicate that industrial output is reverting the growth trend, as isolated positive performances do not indisputably indicate acceleration in the growth rhythm. After the uninterrupted growth from March to August, some accommodation is expected because industrial activity is volatile, with short-term oscillations around the growth trend. Methods aimed at diminishing this volatility, such as the three-month moving average of the seasonally adjusted series, show a continuous output expansion since February, although at lower positive rates in recent months.

18. In addition to converging to a more moderate growth pace, growth dynamics have continued to disseminate. In the recent past, the relative importance of the industries more sensitive to income has increased, disregard of the activities more sensitive to credit, which leaded the initial stages of the recovery process.

19. The activity rebound in the last five quarters has continued to positively affect the labor market. According to IBGE data, the unemployment rate decreased to 10.9% in September from 11.4% in August, sustaining the downward trend initiated in April. From January to September, urban employment and real wages increased 3.0% and 1.8%, respectively. Formal employment measured by the Ministry of Labor and Employment increased 0.5% in September and 4.6% in the year, representing the creation of 1,666,188 jobs. Industry was responsible for the highest share of job creation, with net hirings expanding more than 100% in comparison to last year. Data from the National Industry Confederation (CNI) confirm this trend, indicating a continuous growth of industrial employment since December. The CNI also showed that real wages in manufacturing continued to grow in September, sustaining the trend initiated in March 2003.

20. The IBGE's retail survey showed stable sales in September (data seasonally adjusted by the BCB). In the year to September, sales and nominal revenues increased 9.32% and 12.06%, respectively. Furniture and electrical appliances, and vehicles and motorcycles continued to lead the retail expansion, supported by credit conditions. However, similarly to what has happened to industry, less credit-sensitive segments, such as clothing, and super and hypermarkets, have gained momentum. Consumer confidence measured by the Federação do Comércio do Estado de São Paulo (Fecomercio-SP) continued to improve in November, a trend initiated in August.

21. Considering the activity expansion since the second half of 2003, a critical concern of the Copom is the performance of aggregate supply. Capacity utilization measured by the FGV grew to 86.3% in October, compared to 84.5% in July, reaching a historical high since the beginning of the quarterly survey in 1990. Construction material posted the fastest increase, reaching 85.8% from 80.5% in July. Final consumer goods and intermediate goods, which had already been at high capacity levels, experienced additional increases, while capital goods slightly decreased. Among industrial sectors, mechanics, electrical and communications materials and food products not only increased capacity utilization levels throughout the year, but also reached historical highs. In contrast, CNI monthly data indicated a slight decrease in capacity utilization in September, in seasonally adjusted terms, after having peaked in August.

22. The domestic absorption of capital goods decreased 0.6% in September, driven by the 2.5% drop in the domestic production of capital goods (seasonally adjusted data). This result does not indicate a limit or reversion in the fixed capital investment recovery trend, since the monthly series is highly volatile - in August, for example, a 2.0% expansion was registered. In the year, the absorption of capital goods grew 16.2%, mainly led by the 25.7% expansion in the domestic production of capital goods. As stressed in past Copom minutes, fixed capital investment is highly correlated with capacity utilization and, notwithstanding the longer lag, with the sovereign risk. The recent trend of these leading indicators suggests that there is room for fixed capital investment to expand in the coming months, beyond the expansion already registered in the national accounts up to the second quarter of 2004.

23. Exports have continued to expand vigorously, accumulating a 31.1% rise in the year to October. Manufactured products, which represent about 56% of total exports, expanded by 23.8% in volume terms in the year to September, compared to the same period of 2003. Imports increased by 27.3% in the year to October, fuelled by the recovery in domestic demand. Raw materials and durable consumer goods led the imports expansion, growing by 22.9% and 24.6%, respectively. In the twelve-month period to October, the trade surplus totaled US$32.6 billion, resulting in a current account surplus of US$10.8 billion (approximately 1.95% of the GDP).

24. The international scenario has settled down since the last Copom meeting, mainly reflecting subdued oil prices, which contributed to the reduction in the Brazilian country risk and to the BRL appreciation against the dollar. However, the sustainability of this benign scenario will depend on new data regarding the performance of the OECD economies, especially the US, and the evolution of international crude oil prices. International capital markets expect the Federal Reserve to continue the gradual tightening, although recent activity and inflation data are inconclusive about the current economic trend and, as a consequence, the future monetary stance.

25. After historical records in October, crude oil prices have fallen. However, the spot and futures oil prices persist at higher levels than, for instance, those prevailing on the eve of the September Copom meeting. Expectations about oil prices, currently centered on the magnitude and continuity of the recent decrease in prices, remain uncertain. Nevertheless, this trend validates the Copom forecasting scenario, where high oil prices were treated more as a latent risk and not as a baseline hypothesis.

26. The Copom projection of a 9.5% readjustment of gasoline prices in 2004 did not change, despite the recent increase in fuel-alcohol prices. For 2005, the Committee has continued to work with aggregate projections for regulated prices, generated by an endogenous determination model. A preliminary disaggregate analysis confirms, in general terms, the model's aggregate projection, assuming domestic gasoline prices maintain their historical correlation with international oil prices.

27. The median of IPCA expectations for 2004 slightly increased to 7.19%, from 7.16% on the eve of the October Copom meeting. Despite the BRL appreciation, the recent fall of important commodities prices and the monetary tightening, 2005 inflation expectations continued to deteriorate, standing at 5.90%, up from 5.81% in October.

28. The Copom inflation projections for 2004 were unaltered, but the risk that the IPCA surpasses the 8% upper limit of the tolerance interval has diminished. For 2005, the inflation projections in both the benchmark and the market scenarios have decreased, compared to the October's estimates. In the benchmark scenario, which assumes unchanged Over-Selic and exchange rates at 16.75% p.a. and at R$/US$2,80, respectively, the BRL appreciation and the upward move in the yield curve more than counterbalance the worsening of inflation expectations and the projected increase in regulated prices. Nevertheless, the estimated IPCA remains above the 5.1% inflation objective. The projections based on the market scenario, which incorporate the consensus Over-Selic and exchange rates on the eve of the Copom meeting, stand above the projections on the benchmark scenario, due to the expected depreciation of the exchange rate throughout the projection horizon.

29. Since the October Copom meeting, the decline in international oil prices, the BRL appreciation and evidence of activity deceleration have materialized. These factors have not yet been able to substantially alter the future inflation prospects, despite the recent change in the monetary stance. For this reason, the Copom decided to maintain the rise of the Over-Selic rate, as to ensure the convergence of the inflation rate to the targets path.

30. This adjustment in the Over-Selic rate will prevent more drastic adjustments in the future, in order to disinflate the economy, which could seriously damage the growth cycle. Furthermore, the sustainability of the economic rebound initiated in 2003 depends on the convergence of inflation to the target path, supporting the components of domestic demand more dependent on labor income.

In other words, the monetary policy adjustment process aims at reducing output volatility and at providing long-term sustainability to economic growth.

31. Considering the reasons stated above, the Copom unanimously decided to increase the Over-Selic rate target to 17.25%, with no bias.

32. As mentioned in the October Copom Minutes, the Committee emphasizes that the maintenance of the monetary adjustment in the magnitude and in the pace initially designed, requires that the risk factors do not exacerbate. Among other aspects, it is important for the recent scenario of international oil prices not to deteriorate and for the rigidity of inflation expectations to reverse. If the Copom assesses an enhanced risk of inflation deviating from the target path, it will be prepared to alter the pace and the magnitude of the monetary adjustment process initiated in September.

33. At the closing of the meeting, it was announced that the Copom would meet again on December 14, for technical presentations, and on the following day to discuss the monetary policy decision, as established in Communiqué 11,516, of October 15, 2003.

SUMMARY OF DATA ANALYZED BY THE COPOM

Economic Activity

34. According to the IBGE's retail survey, which encompasses all the states of the country, sales were stable in September in seasonally adjusted terms.

35. Retail sales expanded 9.3% in the year to September, compared to the same period of 2003. Against September 2003, sales grew 8.9%, encompassing 25 out of the 27 states of the country.

36. The São Paulo Trade Association (ACSP) registered a 1.1% fall in credit retail sales in October, while the Usecheque system consultations increased 3.9%, compared to the previous month. In the year to October, the same indicators rose by 6.5% and 1.0%, respectively.

37. The Fecomercio-SP consumer sentiment survey showed that the Consumer Confidence Index (ICC) increased by 2.2% in November to 145.6 points (range 0 to 200). This increase was due to a 3% increase in future expectations by consumers (IEC) and an improvement of 0.4% in the current economic situation (ICEA).

38. Regarding fixed capital investment, the domestic absorption of capital goods decreased by 0.6% in September, compared to August, considering seasonally adjusted data. This decrease was a result of the 2.5% reduction in domestic output and the increases of 2.1% in exports and of 4.3% in imports of capital goods. Despite the increase of 47.7% in the exports of capital goods, the domestic absorption of capital goods grew 16.2% in the year to September, due to the 25.7% rise in domestic production and to the 11.6% increase in imports.

39. Construction indicators were stable in September, after six consecutive months of expansion. The production of inputs for construction fell 0.3% month-on-month, but grew 6.3% in the year to September.

40. Industrial output, measured by the IBGE, remained stable in September, in seasonally adjusted terms, after growing from March to August. In the third quarter, industrial output grew 2.6% (quarter-on-quarter), and 10.5% compared to the same quarter of 2003.

41. According to the IBGE's industrial survey, production expanded in 12 industrial activities in September and contracted in another 11 activities. Among the use categories, semi and non-durable goods led the performance of industry.

42. In the year to September, industrial output grew 9.0%, when compared to the same period of 2003. Output expanded in all use categories and in all the 27 industrial activities surveyed, except the pharmaceutical industry. Capital goods and intermediary goods output grew 25.7% and 7.4%, respectively, favored by the increase in exports and in fixed capital investment. The production of durable goods increased 25% and of semi and non-durable goods grew 3.9% in the same period, reflecting the gradual recovery of the components of domestic demand dependent on labor income.

43. In September, the CNI recorded a 2% decline in real industrial sales and a 0.1% decline in industrial worked hours, compared to August, considering seasonally adjusted data. Compared to the same month of 2003, real sales and worked hours increased by 15.6% and by 7.3%, respectively. The average level of industrial capacity utilization reached 82.9% in September, with a 0.4 p.p. decrease in relation to August. In the first three quarters of the year, capacity utilization expanded by 3% compared to 2003.

44. Leading indicators (packaging paper shipments, steel output, tolls in highways and cars production) suggest a reduction in industrial output in October. Despite the October negative performance, those leading indicators have grown notably in the year, reaching record highs.

Labor Market

45. Formal employment increased by 0.5% month-on-month in September, seasonally adjusted, and by 6.2% compared to September 2003, according to the Ministry of Labor and Employment. In the first three quarters of the year, there was a 4.6% expansion in formal employment, with the creation of 1,666,188 jobs. Job creation was led by manufacturing, followed by construction and services. Data have also continued to indicate that employment has increased at a higher pace outside large metropolitan areas.

46. The unemployment rate, measured by the IBGE in the six main metropolitan areas of the country, fell to 10.9% in September, down from 11.4% in the previous month. The fall in the unemployment rate reflected the effects of the activity rebound on the labor market. The number of employed workers increased by 1% in September, above the 0.5% increase of the working force.

47. Average real earnings totaled R$910.10 in September, a 1.9% increase compared to the previous month. Average earnings grew by 9.1% and by 3.2% in nominal and real terms, respectively, compared to September 2003, when deflated by the National Consumer Price Index (INPC).

48. In September, employed workers and real wages in industry increased by 0.8% and by 0.9%, respectively, month-on-month, according to seasonally adjusted data from CNI. In the first nine months of the year, employed workers and real wages increased by 2.4% and by 8.5%, respectively, compared to the same period of 2003.

Credit and Delinquency Rates

49. Non-earmarked credit operations increased by 2% in October. Corporate credit with domestic funding expanded by 3.4%. In twelve months, this segment grew by 27.4%, driven by more intense economic activity. Corporate credit with external funding fell by 0.5% in October, as a result of the BRL appreciation and of the amortization of debts. However, these operations grew by 10.4% in the year to October. Credit operations with individuals increased 1.9% in October and 25.8% in the last twelve months as a result of the higher volume of personal credit operations.

50. The average interest rate on non-earmarked credit increased by 0.5 p.p. in October, reaching 45.6% p.a. This increase was a result of the 0.7 p.p. rise in the average corporate rate, which stood at 31.1% p.a. The average rate for individuals remained stable in the period at 63.2% p.a.

51. The default rate measured by the ACSP fell to 4.1% in October from 4.4% in September. In the year to October, the average default rate recorded a 10.6% decline when compared to the same period of 2003.

External Environment

52. The price of oil reached an historic high on October 22, when the WTI and the Brent stood at US$56.17 and US$51.92, respectively. Since then, oil prices have declined, posing less risks to global economic growth. The stock exchanges reacted favorably to the fall in oil prices.

53. The US current account deficit has continued to influence the dollar depreciation, and the US$/Euro exchange rate reached a new historic high above 1.30. The dollar depreciation has been mainly absorbed by the euro, since Asian central banks continued to intervene in the exchange market, aiming at maintaining the competitiveness of their currencies.

54. In mid-June, the volatility of the 2- and 10-year treasuries diminished, as it became more clear the Federal Reserve strategy of gradual tightening. Since then, Treasury yields have been driven by new economic indicators and geopolitical developments in Iraq. The purchase of U.S. securities by Asian central banks has helped to smooth the movements in the yield curve.

55. The third quarter GDP data confirmed the U.S. economic expansion. In Japan, GDP growth decelerated to 0.3% in the last quarter, with the deflation risk still evident in the GDP deflator. In the Euro-area, growth decelerated to 1.2% in annualized terms in the third quarter.

56. The Federal Reserve increased the Fed funds target to 2% in the November FOMC meeting, confirming the strategy of moderate adjustments. The producer price index recorded a 4.4% annual rise in October, pressured by oil prices. However, core inflation stood below 2%. In the Euro-area and in the UK, short-term interest rates stood at 2% and 4.75%, respectively.

Foreign Trade and Balance of Payments

57. In October, for the sixth consecutive month, the Brazilian trade balance posted a US$3 billion surplus, accumulating US$28.1 billion in the year and US$32.6 billion in twelve months. Exports and imports increased by 34.4% and by 33.4%, respectively, compared to the October 2003 daily averages. Total external trade reached US$14.7 billion in October, accumulating US$130.1 billion in the year to October and US$151.1 billion in twelve months. In the first two weeks of November (nine working days), the trade surplus reached US$1.2 billion, with exports and imports growing by 41.0% and 33.7%, respectively, compared to November 2003 daily averages.

58. Brazilian exports totaled US$8.8 billion in October. Manufactured, primary and semi-manufactured goods exports totaled US$5.3 billion, US$2.3 billion and US$1.1 billion, respectively. Besides the increase in volumes, important export products, such as steel products, oil, gasoline, pork, coffee, sugar, cotton and tobacco have registered price increases. Imports reached the highest level in the year, totaling US$5.8 billion in the month, with increases in all categories.

59. At the end of October, international reserves stood at US$49.4 billion, while adjusted net reserves stood at US$22.2 billion (IMF concept).

Money Market and Open Market Operations

60. After the October Copom meeting, futures interest rates for maturities up to one year increased, while rates for longer maturities decreased. The longer end of the yield curve was influenced by the fall of oil prices, the decline in country risk, the BRL appreciation, operations in the derivatives market and expectations that monetary policy will enable a quicker convergence of the inflation rate to the target path. Between October 20 and November 17, the 1-month, 6-month and 1-year interest rates increased by 0.71 p.p., 0.49 p.p. and 0.20 p.p., respectively, while the 2-year and the 3-year rates decreased by 0.12 p.p. and 0.26 p.p. In the same period, the real interest rate measured by the ratio between the one-year nominal interest rate and the 12-month-ahead inflation expectations reached 10.8%.

61. Due to the low demand for FX hedge, the BCB did not carry out auctions to rollover US$656 million in Fx-linked securities and swaps maturing on November 10, similarly to what occurred in the two previous months. As a consequence, the net redemption of Fx-linked securities and swaps in the year to November totals US$28.2 billion, including paid interest.

62. Between the October and November Copom meetings, the National Treasury carried out four selling auctions and two buying auctions of LTNs, totaling a net placement of R$9.7 billion. Still regarding LTNs, the National Treasury substituted the maturities of October 2005 and July 2006 for July 2005 and January 2006. The National Treasury also carried out two NTN-Fs auctions maturing in January 2008, totaling R$169 million, and six LFTs auctions maturing in 2005, 2006 and 2007. The net sales of LFTs totaled R$9.8 billion. In the same period, there was buying auction and one selling auction for NTN-Bs and NTN-Cs, which amounted to R$363 million in net terms.

63. In its open market operations, the BCB carried out a new operation two times, aimed at reducing the liquidity at the beginning of 2005. This operation consisted in a selling auction of LTNs maturing in April 2005 linked to a buying auction of LTNs maturing in January 2005. The operation totaled R$4.0 billion. In addition, the BCB maintained the weekly post-fixed repo operations (4-week tenure) and the fixed repo operations (3-month), as well as its daily liquidity management operations (two-working-day tenure). The BCB also carried out 17 repos in the period, fifteen of which were overnight borrowings, one with a two-working-day tenure and another with an overnight lending. In the period, the excess liquidity drained from the market with operations shorter than 30 days averaged R$30.1 billion, and with 3-month-tenure operations averaged R$41.5 billion.

64. In October, the net securitized domestic public debt grew 0.7%. Due to the net redemption of Fx instruments, the dollar-linked share decreased to 11.2% in October from 12.3% in September.