International economy

4

In the March-May period, the trajectory of the world economy, although confirming the outlook anticipated in the previous Inflation Report of a continued process of severe reduction in output and employment with negative consequences on the performance of world GDP, has shown signs that economic policies undertaken in anti-cyclical reaction to the intensification of the crisis in international financial markets had begun to show favorable results.

In this sense, important indicators showed a reversal of the recent trajectory, registering growth in the prices of commodities and the indices of stock markets in several countries. Regarding the pace of economic activity, although GDP growth of major developed economies produces sharp downturns in the first quarter, more recent results suggest that the pace of contraction in the activity of the global economy would deteriorate. This movement can be observed in the USA, where there are indications of stabilization in the housing market, household consumption and advances in the adjustment of the inventory cycle.

In this scenario, where the prospects for a recovery in the stock market and in specific segments of the financial market coexist with an environment of a continuity of credit restrictions, weak consumption and reductions in inflation rates, the stance of the central banks of major developed and emerging economies continued favoring the adoption of measures providing for the continuity of the expansionary character of monetary policy, in many cases by non-conventional instruments that should be of temporary use.

4.1 Economic activity

Reflecting the lagged effects of reduced household wealth, the conditions still restricting access to credit, the continued increase in unemployment and reduction of final demand for goods and services, the downturn in major economies remained severe in early 2009. This recession framework

Table 4.1 – Major developed countries
GDP components and other indicators

% rate anualised

	2007		2008				2009
	III	IV	I	II	III	IV	I
GDP							
United States	4.8	-0.2	0.9	2.8	-0.5	-6.3	-5.7
Euro Area	2.5	1.6	2.8	-1.0	-1.4	-6.8	-9.7
United Kingdon	2.4	3.6	1.6	-0.4	-2.8	-6.2	-7.4
Japan	0.8	1.8	3.4	-3.5	-2.5	-14.4	-15.2
Household consumption							
United States	2.0	1.0	0.9	1.2	-3.8	-4.3	1.5
Euro Area	1.9	1.1	0.2	-1.2	0.2	-1.6	-1.9
United Kingdon	4.9	2.0	3.2	-1.5	-0.9	-4.1	-4.7
Japan	-1.0	0.6	5.8	-3.9	0.5	-3.2	-4.3
Non-residencial investment							
United States	8.7	3.4	2.4	2.5	-1.7	-21.7	-36.9
Euro Area[1/]	3.8	3.9	4.3	-5.2	-3.8	-16.1	-15.7
United Kingdon[1/]	1.2	14.3	-12.9	-2.3	-10.8	-5.4	-14.2
Japan	2.4	5.0	6.8	-11.2	-16.4	-24.2	-35.5
Residencial investment							
United States	-20.6	-27.0	-25.1	-13.3	-16.0	-22.8	-38.7
Euro Area[2/]	-0.4	3.6	-8.0	-6.5	-6.5	-15.2	-2.0
United Kingdon	-4.3	-4.3	-14.2	-10.6	-17.8	-17.8	nd
Japan	-31.0	-36.8	20.7	-7.7	13.2	23.7	-20.0
Exports of goods and services							
United States	23.0	4.4	5.1	12.3	3.0	-23.6	-28.7
Euro Area	7.1	2.9	6.5	-1.2	-2.3	-25.9	-28.8
United Kingdon	8.8	0.6	3.5	-6.0	0.8	-14.9	-22.1
Japan	11.3	7.8	9.8	-3.2	4.0	-47.1	-70.1
Imports of goods and services							
United States	3.0	-2.3	-0.8	-7.3	-3.5	-17.5	-34.1
Euro Area	8.5	-0.3	4.9	-3.2	4.3	-18.9	-25.7
United Kingdon	20.2	1.3	-0.9	-5.6	-0.6	-21.5	-21.5
Japan	-2.4	1.5	10.1	-15.7	6.3	13.1	-47.7
Manufacturing output							
United States	2.4	-	-1.2	-5.4	-9.2	-18.1	-21.9
Euro Area	2.0	3.9	6.9	-7.3	-11.2	-23.4	-27.9
United Kingdon	-1.8	2.8	-1.4	-4.6	-6.8	-16.7	-19.4
Japan	6.8	3.6	1.1	-4.8	-12.3	-38.0	-63.3
Unemployment rate[3/]							
United States	4.7	4.9	5.1	5.6	6.2	7.2	8.5
Euro Area	7.3	7.3	7.3	7.5	7.7	8.2	8.9
United Kingdon	5.3	5.2	5.2	5.4	5.8	6.3	7.1
Japan	4.0	3.7	3.8	4.1	4.0	4.3	4.8

Source: BEA, Cabinet Office, Eurostat

1/ Includes residencial and public investment expenditures.

2/ Total construction expediture.

3/ End of the quarter rate.

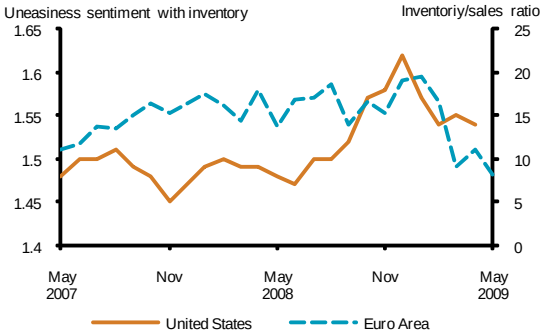
translated, in particular, into an acceleration observed in the annualized contractions of the rates of investment, which reached a level above 35% in the U.S. and Japan in the quarter ended March, compared to December quarter end.

The investment performance was consistent both with the formation of expectations associated with the intensification of international crisis and with the environment to reduce the level of capacity utilization and profits. In this scenario, although the pace of the downturn experienced by the U.S. economy presented some slowing in the quarter ended in March, the country's GDP recorded a drop of 5.7% annualized in the quarter, while those for Japan, the countries of the Euro Area and the United Kingdom presented their retractions of 15.2%, 9.7% and 7.4%, all higher than those indicated in the last quarter of 2008.

The relatively more favorable performance of the U.S. GDP reflected an annualized growth of 1.5% recorded by household consumption in the period – the first positive result in the last three quarters, a growth consistent with the impact on disposable income derived from tax reduction on income, wage increases for civil servants, social security transfers and government income programs implemented since January. The monthly analysis, although revealing a decrease of these expenditures in March and April, stayed above the level in December 2008. Contrasting with the development observed in the U.S., household spending in other developed economies, showed stronger annualized contraction in the quarter ending in March than in that ended in December last year.

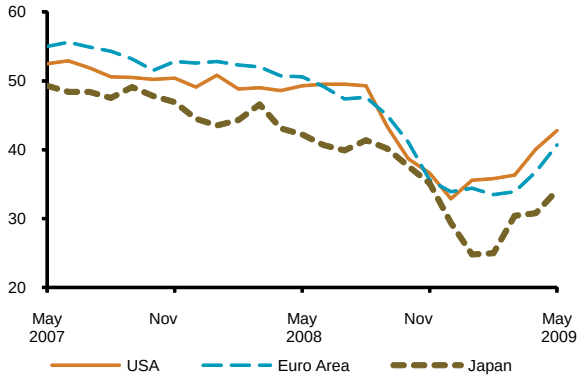
The falloff in demand in the economies of the G-3 and the United Kingdom contributed to the deterioration of the current international trade in these countries and other world economies. Real exports of major developed economies recorded decreases of more than 22% annualized in the quarter ended March, compared to December, always above the level reported in the December quarter. In the Euro Area, the downturn in external sales reached 28.8%, while the drop in imports reached 25.7%. Considering the same comparison basis, the decreases in imports observed in the U.S. and Japan surpassed those recorded by its exports and provided acceleration in the quarter, provided in the U.S., a positive contribution of 2.2 percentage points to an annualized growth of GDP in the quarter ended in March. The rate of decline of foreign purchases in the UK remained stable in the quarters concerned.

Figure 4.1 – Retail sector – Inventory indicators
USA and Euro Area



Source: European Commition

Figure 4.2 – Manufacuring PMI
Largest developed economies



Stock indicators suggest that the major developed economies showed progress in the adjustment of supply to demand conditions. In this sense, the process of reducing retail inventories made significant progress in the U.S. and, since February, in the Euro Area – the main consumer markets worldwide. Within industry, however, despite the sharp drop experienced by the sector in the first quarter, the adequacy of stocks had shown to be limited up to March, when indicators of business sentiment started to incorporate the possibility of recovery in orders and, therefore, adjustment of inventories. The trajectory of the inventory level in the first three months of the year resulted in important contributions to the annualized real GDP growth in the UK and the U.S., both of -2.3 percentage points, and the Euro Area and Japan, both -1 percentage point in the quarter ended in March.

The annualized growth rate of China's GDP, has been slowing down since the third quarter of 2007, and reached 6.1% in the quarter ended in March, showing a more pronounced impact of the slowdown in the growth of household consumption and the recurrent decline in exports, in relation to the momentum provided by the investments foreseen in the plan of government fiscal stimulus and by the continued easing of monetary policy. It should be noted that tax incentives for purchase of cars and household items in a scenario of sharp increase in urban unemployment, have mitigated the slowdown in retail sales in the first quarter and, more recently, has supported the recovery of growth rates in this demand component. Looking at the supply side, industry-related indicators showed recovery of the sector – which represents about 40% of the Chinese GDP – from February, with positive repercussions on exports of South Korea and Taiwan – which are important suppliers of intermediate goods for the Chinese industry.

The resumption of exports to China has not avoided, however, a downward trend in foreign sales in these countries, with negative impacts on their products. In Korea, the economic stimulus package introduced by the government provided relative growth of gross fixed capital formation and a recovery of household consumption, expressed in the stability recorded by the Korean GDP in the first quarter of 2009. In Taiwan, the intensification of the reduction in GFCF was a determinant for the acceleration in the rate of annualized contraction of GDP, which stood at 10.2% in the quarter ended in March, compared to an 8.6% decresase in that ended in December.

Table 4.2 – Emerging economies
GDP components and other indicators

% rate [(Q)/(Q-4)]

	2007		2008				2009
	III	IV	I	II	III	IV	I
GDP							
South Korea[1/]	5.4	5.2	4.4	1.7	1.0	-18.8	0.2
China	13.0	12.0	10.6	10.1	9.0	6.8	6.1
India	8.8	9.4	9.0	8.2	7.8	4.8	4.1
Taiwan	7.0	6.4	6.2	4.6	-1.0	-8.6	-10.2
Household consumption							
South Korea[1/]	3.7	1.6	4.5	-0.7	-0.1	-17.8	1.9
China[2/]	12.0	12.9	13.2	13.4	15.8	15.7	14.8
India	7.5	8.9	5.7	4.5	2.1	2.3	2.7
Taiwan	3.1	1.6	2.1	0.5	-2.1	-1.7	-1.4
Non-residencial investment							
South Korea[1/]	-4.3	13.1	-6.4	0.4	0.2	-23.6	0.7
China	25.8	22.3	20.3	20.1	20.2	23.8	38.8
India	16.0	14.1	9.3	9.2	12.5	5.1	6.4
Taiwan	3.8	-0.8	3.7	-8.0	-11.8	-22.6	-33.8
Exports of goods and services							
South Korea[1/]	7.0	28.9	-0.1	11.3	-1.6	-31.2	-15.6
China	24.8	18.3	17.2	17.1	18.3	4.4	-10.8
India	-4.8	6.1	12.6	25.6	24.3	7.1	-0.8
Taiwan	11.6	12.9	12.7	9.9	-0.6	-19.2	-27.2
Imports of goods and services							
South Korea[1/]	2.2	24.2	-3.0	12.3	4.3	-45.8	-30.4
China	21.2	22.1	15.6	17.1	10.6	-2.1	-3.8
India	-3.6	6.7	27.2	27.4	35.3	21.7	-5.7
Taiwan	7.3	5.8	9.6	0.2	-2.6	-21.4	-30.9
Manufacturing output							
South Korea[1/]	11.3	16.1	7.3	0.3	-8.1	-56.9	-11.4
China	18.2	17.5	16.3	15.9	12.9	6.4	5.5
India	8.7	8.3	7.0	5.3	4.7	0.8	- 0.9
Taiwan	9.8	13.5	12.6	7.1	0.5	-23.4	-32.4
Unemployment rate[3/]							
South Korea[1/]	3.2	3.1	3.1	3.2	3.2	3.3	
China[4/]	4.0	4.0	4.0	4.0	4.0	nd	
India	nd	nd	nd	nd	nd	nd	
Taiwan	4.0	3.9	3.9	3.9	4.3	5.0	

Source: Thomson Financial
1/ QoQ annual rate.
2/ Retail sales growth rate.
3/ End of the quarter rate.
4/ Urban unemployment.

4.2 Monetary policy and inflation

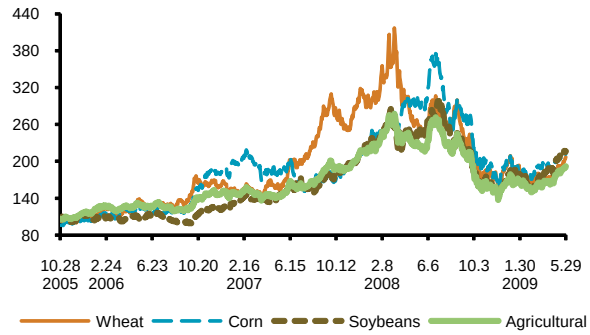
The impact of the global recession on the prices of agricultural commodities and energy, particularly oil, was decisive for maintaining the downward trend of prices, expressed during the quarter ended in May, in deflation in the U.S., Japan, Sweden, Switzerland and China, and disinflation in the United Kingdom, Canada, Euro Area, the Philippines, Russia and Chile.

In this scenario, central banks in the U.S., Switzerland and Japan, attentive to the possibility of the occurrence of a more lasting deflationary process and liquidity needs of financial systems expanded the accommodative stance of their monetary policy, including the injection of new resources. Similarly, aiming to stimulate aggregate demand and reduce the unemployment rate, the central banks of other mature economies as well as emerging economies, except China, have intensified the policy of reducing basic interest rates, registering since early March, cuts of 350 b.p in Chile as well as 225 bp in Mexico, Peru and Turkey.

The cumulative twelve–month variation of the Consumer Price Index (CPI) in the U.S. reached -0.75% in April, the lowest rate since March 1955, with an emphasis on decreases of 25.2% and 13.4% observed in energy and transportation items. The prospects for short and medium term related to the development of the indicator, in an environment of reduced Nuci, increased the supply of labor, deflation of 3.74% in the prices received by producers in the twelve–month period ending in April, and reductions in the prices of imported goods and services, incorporating the continuity of the deflation process recorded earlier this year. In this scenario, the Federal Reserve (Fed) kept the limits of the fluctuation band from the target for the Fed Funds rate unchanged at 0% and 0.25%.

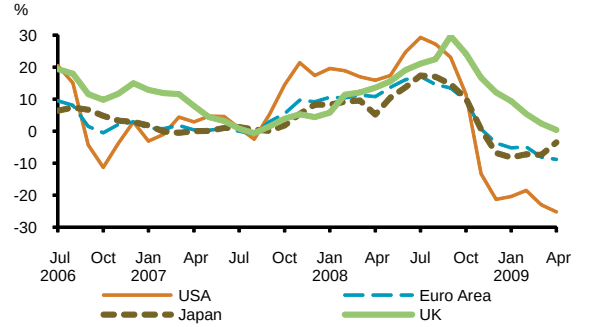
Aiming to promote conditions of credit, reducing stress in financial markets and facilitating the recovery of the pace of economic activity, the Fed began making direct purchases of long-term Treasury, a move that could total US$300 billion, and intensive liquidity assistance programs. Thus, in addition to continuing to purchase assets under the Term Asset-Backed Securities Loan Facility (TALF), the Fed included commercial mortgage-backed securities (CMBS), including the legacy CMBS (bonds issued before the beginning of this year), and bonds backed by insurance premium finance loans on the list of collateral accepted by the program. With the same objective, the monetary

Figure 4.3 – Agricultural Index
12.31.2004 = 100



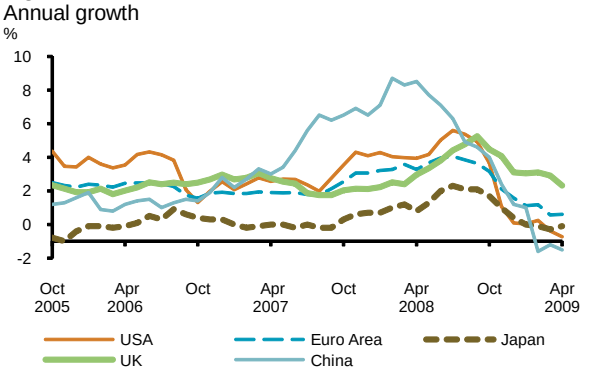
Source: Thomson

Figure 4.4 – Energy inflation
Annual growth
%



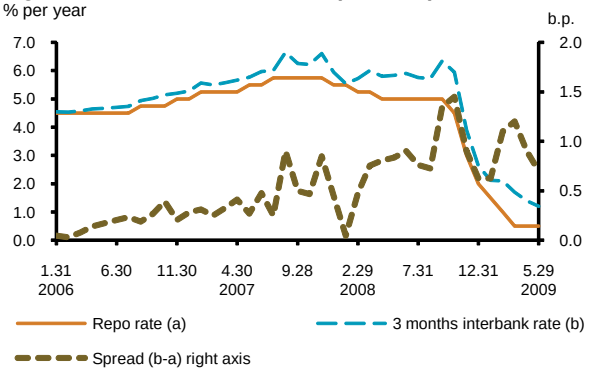
Source: Thomson

Figure 4.5 – Consumer inflation
Annual growth
%



Source: BLS, Eurostat, Bloomberg and ONS

Figure 4.6 – UK: Interbank and repo rate spread
% per year



Source: Thomson

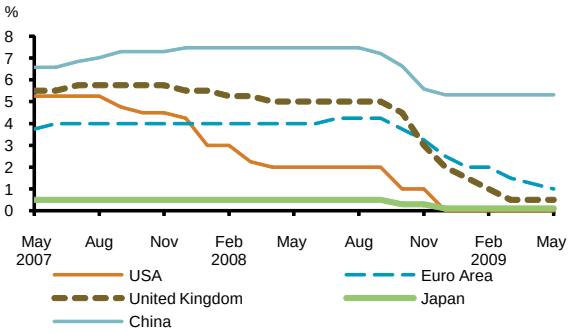
authority extended for up to five the term of these loans Additionally, to provide the market with foreign currency liquidity, the Fed announced, together with the central banks of England, Japan, Switzerland and the European Union, the establishment of currency swap lines of, respectively, £30 billion, ¥10 trillion, CHF40 billion and €80 billion, running until October 30, 2009.

The 12-month cumulative variation of the index of consumer prices in the UK, impacted by an increase of 7% observed in food prices, reached 2.3% in April, standing, despite the recessionary environment and the disinflationary process in progress in the country, at a higher level than that recorded in similar indicators of major mature economies. The Bank of England (BoE), given the expectation that in the medium term, inflation could fall below the target of 2%, maintained the basic interest rate unchanged at 0.5%, the lowest rate charged in the entire history of the institution. In the financial market, despite the reduction in the spread between interest rates in the interbank and repo rate, the BoE has intensified the policy of increasing the money supply and credit by increasing, by £50 billion, the purchases of government and corporate bonds, raising the program's goal to £125 billion.

In the Euro Area, the 12-month variation in the price index reached 0.6% in March and April, the lowest rate on record, pointing to changes relating to food and energy reached in the order of 1.54% and -8.7% in March, up 6.73% and 29.3% respectively in July 2008, before the intensification of the crisis in financial markets. In an environment of inflation below the 2% target and economic activity at a level significantly below potential, the European Central Bank (ECB) increased the policy of basic interest rate cuts, setting it at 1% in May, a historically low level. Additionally, the monetary authority announced it will expand the new long-term liquidity through the purchase of covered bonds denominated in euro and issued in the Euro Area, in an amount up to € 60 billion, and that from July, will include the European Investment Bank as counterparty in monetary policy operations.

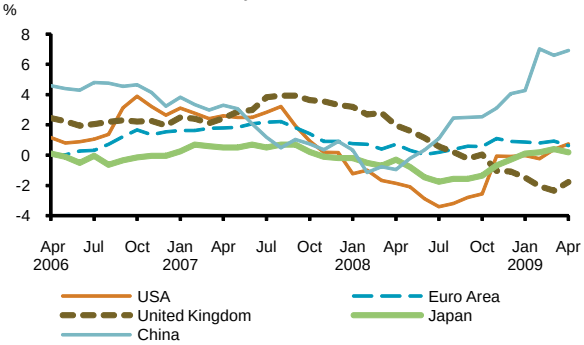
In Japan, after four consecutive quarters of economic contraction, the annual change in the consumer price index recorded its third negative result in a row, reaching 0.1% in April. In this scenario, the Bank of Japan (BoJ) continued the process of quantitative easing of monetary policy through the direct purchase of commercial paper and government bonds (JGBs), expanded the range of collateral accepted in its loans, and announced that it will accept bonds issued by the U.S., UK, Germany and France governments as eligible collateral for financing operations.

Figure 4.7 – Official interest rates
Annual rates



Source: Fed, ECB, BoJ, Bank of England and The People`s Bank of China

Figure 4.8 – Real interest rates
Annual rates – Deflated by CPI



Source: Fed, BCE, BoJ, BoE, BPC, BLS, Eurostat, ONS e Bloomberg.

Table 4.3 – Bank writedowns & credit losses x capital raised

US$ billion

	Accumulated since 2007		Accumulated since 1.1.09[1/]	
	Writedowns & credit losses	Capital raised	Writedowns & credit losses	Capital raised
Worldwide	1 481.4	1 234.0	151.6	297.6
Banks	1 052.0	998.3	104.4	194.9
Insurers	243.4	128.1	14.4	31.6
GSEs [2/]	152.8	107.5	32.8	71.1
Americas	957.6	720.7	104.1	195.4
Banks	583.0	497.0	58.7	95.5
Insurers	206.9	115.4	12.6	28.8
GSEs [2/]	152.8	107.5	32.8	71.1
Europe	462.7	440.4	41.1	81.5
Banks	427.6	427.7	39.2	78.7
Insurers	35.1	12.8	1.8	2.8
Asia	44.3	74.4	6.6	21.0
Banks	42.8	74.4	0.0	21.0
Insurers	1.5	-	-	-

Source: Bloomberg
1/ Updated on May 28th, 2009.
2/ Government Sponsored Enterprises – Fannie Mae and Freddie Mac.

In China, the annual change in the consumer price index, trending downward since February 2008 when it reached 8.7%, stood at -1.5% in April, the third consecutive negative result, with an emphasis on reductions recorded in the prices of food and energy. In this context, and considering that the recent slowdown in economic activity in the country, pointing out the performance of domestic demand, it was proven not to be as intense as in other economies, the People's Bank of China (PBC) has kept basic interest rates unchanged at 5.31% per year, and reserve requirements, at 14.5%. Additionally, in order to strengthen the position of the renminbi between convertible currencies, the PBC has authorized its use in international commercial contracts and currency swaps set up to trade with South Korea, Hong Kong, Malaysia, Indonesia, Belarus and Argentina.

4.3 International financial markets

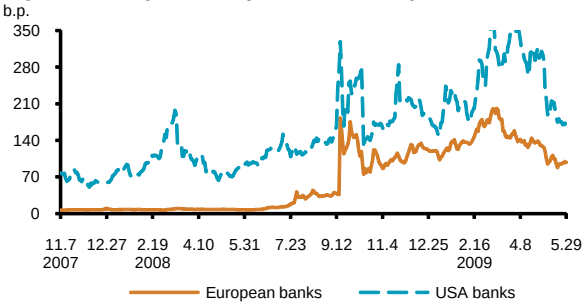
Since the beginning of 2007,[1] banks, securities firms, insurers and government-sponsored enterprises (GSE) have accumulated losses and writedowns of US$1.48 trillion, compared to absorption of US$1.23 trillion in new capital. It is noteworthy that these flows represented in the order of US$365 billion and US$281 billion for the quarter ended in May.

The average premiums of Credit default swap (CDS), which measure the cost of insurance against defaults, reversed an upward trend observed until the last Inflation Report. The indicators relating to five major U.S. banks and five major European banks, selected from the viewpoint of total assets, dropped from 245 basis points and 169 bp, respectively, at the end of February to 172 bp and 99 bp at the end of May.

Increased confidence in the U.S. banking industry reflected both the interruption of the trend of quarterly losses by major U.S. banks, the disclosure of the results of stress tests conducted by the Supervisory Capital Assessment Program (SCAP), which involved the 19 largest financial institutions in the country and revealed that its need for additional capital to face the most adverse macroeconomic scenario reaches US$75 billion, less than initially projected. Additionally, some major banks have announced preparations to repay the loans charged under the Troubled Asset Relief Program (TARP).

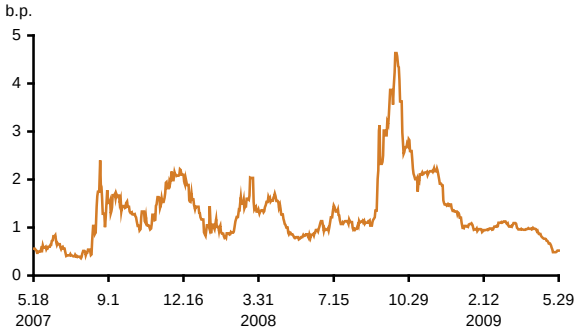
1/ Data provided by Bloomberg on 5/28/2009.

Figure 4.9 – 5 year CDS premiums of major banks[1/]



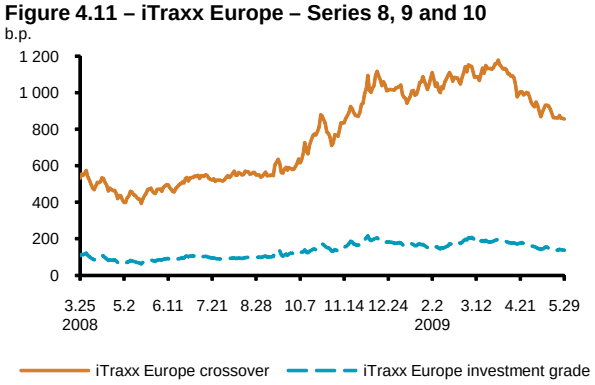
Source: Thomson
1/ Aritmethic average of 5-year CDS premiums for major European and USA banks. Since it's not a random sample, it may not reflect the behavior of the financial system as a whole.

Figure 4.10 – TED Spread



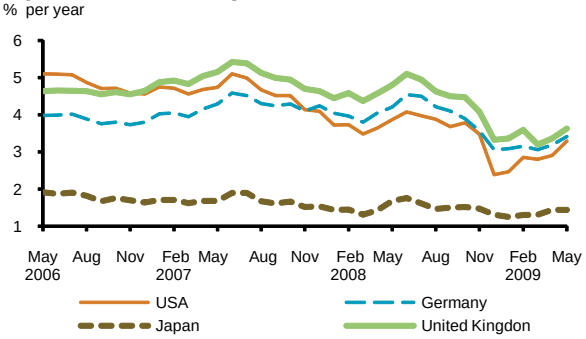
Source: Bloomberg

Figure 4.11 – iTraxx Europe – Series 8, 9 and 10



Source: Thomson

Figure 4.12 – Yield on government bonds[1/]



Source: Bloomberg
1/ Monthly average of nominal yields on 10-year bonds, up to February 27, 2009.

Reflecting the effects of expansionary policy implemented by the Fed and aid programs to the banking system of the U.S. government, liquidity conditions in the financial system registered a significant improvement in recent months. Accordingly, the TED spread – the difference between the three-month Treasury Bill rate, short-term risk free, and the same term LIBOR rate, short-term risk – fell from 101 basis points on Feb. 27 to 52 bp at the end of May, reaching its lowest level since August 2007.

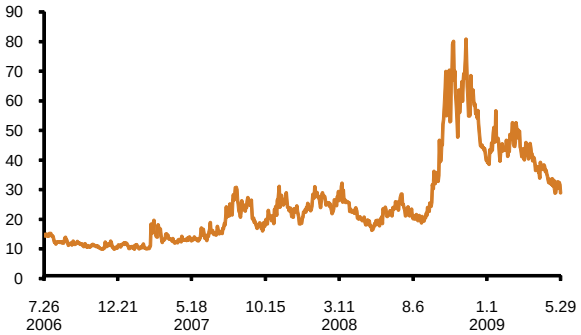
In Europe, the iTraxx Crossover, which represents the premium required to guarantee loans from European companies considered high risk, and iTraxx IG, which represents the premium required for companies classified as investment grade, reached, in order, 857 basis points and 139 bp at the end of May, recording decreases of 225 bp and 42 bp towards the end of February and reaching the lowest level of the year.

The yields of long-term paper of the major mature economies, highlighting increasing concerns about the sustainability of their fiscal accounts and some reversal of the movement of flight for quality coupled with the slowdown in the deterioration of macroeconomic conditions, recorded an increase between the late February and May. Accordingly, the income of ten year paper in Germany, USA, Japan and the UK had respective highs of 48 bp, 45 bp, 21 bp and 12 bp in the period, standing, in order, at 3.59%, 3.46%, 1.49% and 3.75% at the end of May.

The Chicago Board Options Exchange Volatility Index (VIX) which measures the implied volatility of short-term from Standard and Poor's (S&P500) fell 46.4 points at the end of February to 28.9 points at the end of May, compared to 31.7 points in mid-September 2008. The average index in 2007, before the worsening of the crisis in financial markets, reached 17.5 points.

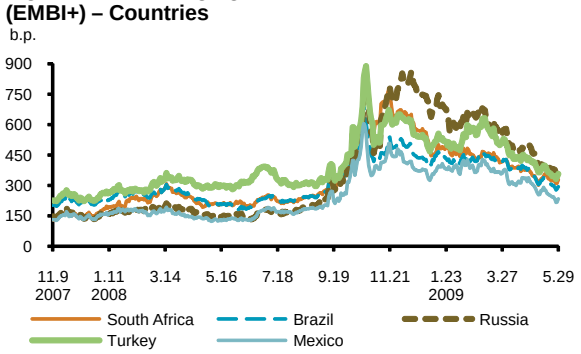
The Emerging Market Bond Index Plus (Embi +), an indicator of risk associated with emerging markets, reached 459 basis points at the end of May, compared to 639 basis points on February 27. This reduction reflected decreases reported in the indicators for Russia of 261 bp; Turkey, 194 bp; Mexico, 138 bp; and Brazil, 127 bp, revealing both the reduction of risk aversion and the recovery of commodity prices, increasing US$250 billion to US$750 billion of resources available on the Flexible Credit Line (FCL) of the IMF for countries to maintain sound macroeconomic policies. The increase in resources mentioned reduces the likelihood of sovereign default events that could

Figure 4.13 – VIX



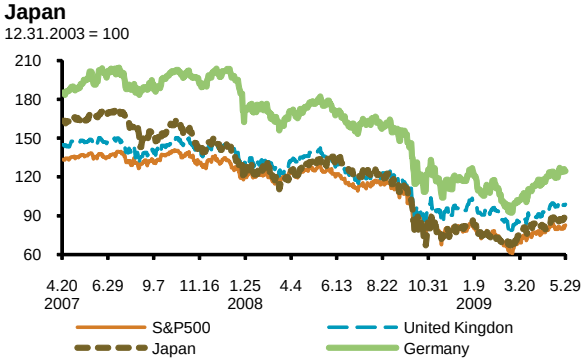
Source: Thomson

Figure 4.14 – Emerging Markets Bond Index Plus (EMBI+) – Countries



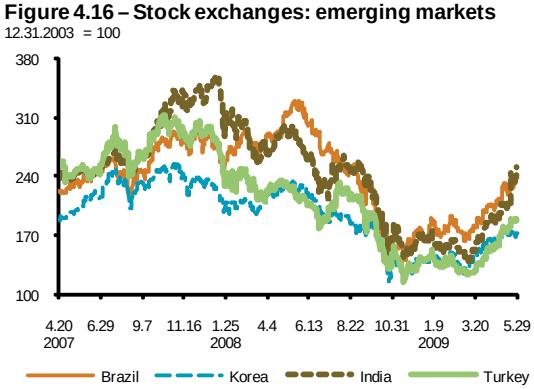
Source: Bloomberg

Figure 4.15 – Stock exchanges: USA, Europe and Japan



Source: Bloomberg

Figure 4.16 – Stock exchanges: emerging markets



Source: Bloomberg

replenish the financial crisis and restrict capital flows to emerging markets.

The improvement in liquidity conditions, the reduction in risk aversion and the recent results of the banking system boosted equity markets around the world. Accordingly, the DAX of Germany, the Japanese Nikkei, S& P500 in the US and FTSE 100 in the UK recorded respective increases of 28.5%, 25.8%, 25% and 15.3% between late February and late May, totaling, in order, variations of 2.7%, 7.5%, 1.8% and -0.4% in the year.

Stock markets in emerging economies, benefiting from a recovery in commodity prices, showed equally good performance in the quarter ended in May. The Kospi index in South Korea; Ibovespa in Brazil; XU100 in Turkey, and Sensex in India, recorded respective increases of 31.3%, 39.3%, 45.7% and 64.5% in the quarter, accumulating gains of 24.1%, 41.7%, 30.3% and 51.6% in the year, respectively.

In contrast to the trend in the last inflation report, the dollar recorded, in May quarter end the dollar registered a depreciation trend versus the currencies of major developed economies and emerging markets. The value of U.S. currency fell against the yen, 2.3%, the euro, 10.5% and the pound sterling, 11.6%. Additionally the dollar was reduced by 8%, 9.8%, 13.8% and 17.4% against the Indian rupee, the Turkish lira, the Russian ruble and the Brazilian real, respectively.

4.4 Commodities

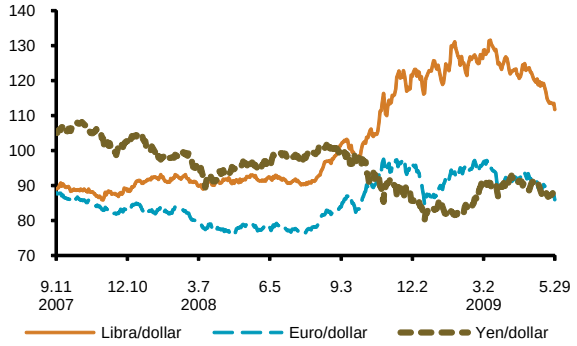
Showing an improvement in expectations about the performance of economic activity, the depreciation of the dollar[2] and the resumption of imports from China,[3] the international prices of commodities saw, according to the Commodity Research Bureau Index (CRB), an average increase of 16.2% between the end of February and May, reaching 24.8% at a level below the maximum value indicated on July 2, 2008. Considering the average of the quarters ended in May 2009 and last year, the reduction of the CRB reached 28.3%.

According to the S&P GSCI from Standard & Poor's in conjunction with Goldman Sachs, the increase registered in commodity prices between late February and late May

2/ Between February 27 and May 29, the U.S. currency had devalued by 10% against a basket of six currencies (Euro, Yen, Pound, Canadian Dollar, Swedish Krona and Swiss Franc), thus favoring a search of protection through commodity futures contracts.

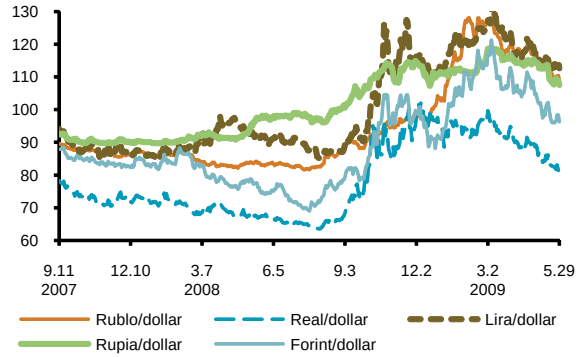
3/ Chinese imports of aluminum, soybeans, copper and iron ore posted respective increases of 173.5%, 60.9%, 54.7% and 33.6% in the March-April period, when compared to the same period of 2008.

Figure 4.17 – Dollar exchange rates
6.1. 2005 = 100



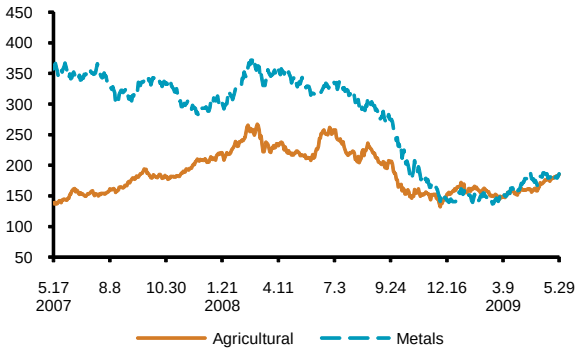
Source: Bloomberg

Figure 4.18 – Emerging markets currencies
6.1 2005 = 100



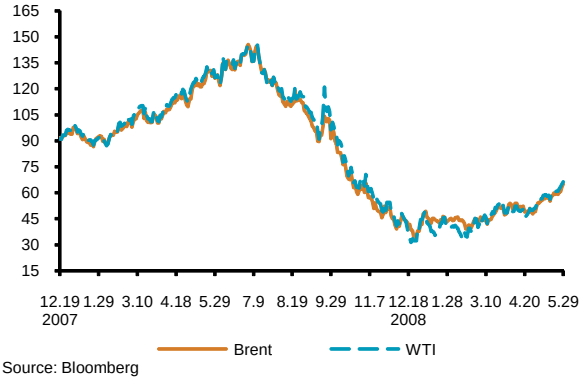
Source: Bloomberg

Figure 4.19 – Commodity price index
Jan/2003 = 100



Source: S&P GSCI

Figure 4.20 – Oil – pot market
US$ per barrel



Source: Bloomberg

totaled 31.8%, reflecting increases noted in the sectors of agricultural commodities of 23,5%, energy of 39%, and metallic of 28.8%. According to the London Metal Exchange (LME), there were widespread increases in prices of major commodity metals during this period, emphasized by changes relating to Zinc of 39.8%, nickel of 39.7 %, aluminum of 7.5% and copper of 40.7%.

Besides an expansion of Chinese imports, the increase seen in the prices of agricultural commodities between late February and late May showed a reduction of grain production in Latin America due to the drought that severely damaged Argentine production, and delayed planting of the 2009/2010 crop in the US, also affected by bad weather. The first futures contracts for delivery recorded widespread increases in prices of major agricultural commodities during this period, with emphasis on wheat of 24.8%, corn of 24.4%, and soybeans of 35.4% traded on the Chicago Board of Trade, and coffee at 25.5% and 15.7% for sugar traded on the Intercontinental Exchange in New York. The price of sugar since December 2008, affected by crop failure in India, recorded, the highest level of the last thirty-four months on May 26.

4.4.1 Petroleum

The international prices of WTI and Brent oil barrels rose 48.1% and 44.7% respectively between late February and late May, when it reached (in the same order) US$66.31. And US$64.98, staying at a level similar to that observed in the second half of October 2008. This development was associated with improvements in prospects for the global economic scenario, the depreciation of the dollar and pressures coming from the Chinese demand.

According to the Department of Energy (DOE), the average price per barrel of West Texas Intermediate (WTI) is expected to register relative stability in the second half of the year at about US$66. The DOE also projects an annual fall of 2.5% in the world supply of crude oil, with emphasis on a prediction of an 8.4% reduction in the production from the Organization of Petroleum Exporting Countries (OPEC). Additionally, an annual decline of 2.1% is projected for world oil consumption, highlighting a decline of 4.2% estimated in the countries of the Organisation for Economic Co-operation and Development (OECD).

4.5 Conclusion

The adequate coordination of measures of monetary and fiscal stimulus implemented in the major mature and emerging economies have resulted in improvements in indicators related to consumer and business confidence, with positive repercussions, in the margin, on the evolution of the indicators of the real sector.

Although uncertainty persists regarding the foundations of the world economy, the main financial market indicators showed a benign trajectory for the quarter ended in May, with emphasis on the impact of reduced risk aversion on asset prices and interest rates to final borrower's credit. It is worth mentioning also, the positive outlook for a relatively lax international credit conditions for a possible resumption of global economic activity.

However, in this framework of conditioning factors for the effective stabilization of the world economic activity, remain outstanding a successful completion of the inventory adjustment cycle and a consolidation of the support consumption process, especially in major developed economies.