International economy

4

The recent evolution of global economic activity has corroborated the outlook, as highlighted in previous editions of the Inflation Report, of the different paces of the recovery process in major mature economies. In fact, the recovery, supported by the greater dynamism of domestic demand and by the normalization of the labor market, has occurred with less intensity in the Euro Area, which has been negatively impacted by the worsening fiscal conditions in some economies, particularly in Greece.

Tensions in the international financial markets intensified in May due to concerns over sovereign debt of European countries, negatively impacting the indexes of major stock exchanges and commodity prices. Thus, the perception of risk increased, as evinced, for example, in the volatility of foreign exchange markets in general, particularly in those of European economies.

4.1 Economic activity

The four largest developed economies, reflecting the unequal recovery of their respective domestic demands, especially in household consumption and business investments, registered distinct growth rates in the first quarter of the year. The annualized rates of GDP growth in Japan and the United States of America (USA) amounted, in that order, 5.0% and 3% in the quarter, while those relative to the United Kingdom and the Euro Area reached 1.2% and 0.8%, respectively.

In the U.S., in a scenario of stabilization of real disposable income and a reduction in personal savings, household consumption registered an annualized increase of 3.5% in the quarter ended in March. Considering the same basis of comparison, the gradual exhaustion of the effects of incentives towards the purchase of cars combined with the harsh winter have contributed to the marked contraction of 0.4% in household consumption in the Euro Area. At

Table 4.1 – Major developed countries

GDP components and other indicators

% rate anualised

	2008			2009				2010
	II	III	IV	I	II	III	IV	I
GDP								
United States	1.5	-2.7	-5.4	-6.4	-0.7	2.2	5.6	3.0
Euro Area	-1.4	-1.9	-7.4	-9.6	-0.4	1.6	0.5	0.8
United Kingdom	-0.4	-3.7	-7.0	-10.0	-2.7	-1.2	2.0	1.2
Japan	-4.0	-4.3	-9.6	-15.8	6.9	0.4	4.6	5.0
Household consumption								
United States	0.1	-3.5	-3.1	0.6	-0.9	2.8	1.6	3.5
Euro Area	-1.7	-0.1	-2.4	-2.5	0.3	-0.7	0.8	-0.4
United Kingdom	-1.0	-1.2	-4.5	-6.2	-3.4	0.0	1.5	0.1
Japan	-6.6	-0.5	-3.4	-4.6	4.0	2.6	2.8	1.3
Non-residencial investment								
United States	1.4	-6.1	-19.5	-39.2	-9.6	-5.9	5.3	3.1
Euro Area[1/]	-5.6	-4.8	-15.2	-19.0	-6.7	-3.9	-5.2	-4.3
United Kingdom[1/]	1.0	-13.7	-9.4	-26.3	-25.9	11.8	-10.3	6.3
Japan	-3.3	-13.5	-24.9	-34.0	-14.1	-7.9	5.1	4.2
Residencial investment								
United States	-15.8	-15.9	-23.2	-38.2	-23.3	18.9	3.8	-10.7
Euro Area[2/]	-8.0	-6.3	-7.9	-5.1	-4.1	-5.0	-4.7	n.d.
United Kingdom	-17.6	-24.5	-23.4	-27.8	-19.4	9.6	-19.3	n.d.
Japan	-0.8	18.8	12.6	-25.5	-33.8	-26.2	-10.4	1.6
Exports of goods and services								
United States	12.1	-3.6	-19.5	-29.9	-4.1	17.8	22.8	7.2
Euro Area	-1.9	-4.6	-26.1	-29.5	-4.3	11.6	7.2	10.4
United Kingdom	1.2	-2.2	-16.8	-25.7	-6.8	2.4	16.0	0.2
Japan	-4.3	-1.9	-45.8	-68.0	46.8	39.1	25.2	30.5
Imports of goods and services								
United States	-5.0	-2.2	-16.7	-36.4	-14.7	21.3	15.8	10.4
Euro Area	-4.2	0.3	-17.6	-28.7	-10.2	11.5	5.0	17.1
United Kingdom	-3.0	-4.5	-22.1	-23.6	-11.1	4.9	20.0	5.7
Japan	-10.0	11.6	2.0	-54.8	-14.0	24.2	6.3	9.6
Government expenditures								
United States	3.6	4.8	1.2	-2.6	6.7	2.6	-1.3	-1.9
Euro Area[3/]	3.2	1.9	3.4	2.9	2.9	2.7	-0.2	2.6
United Kingdom[3/]	4.1	4.4	4.7	1.7	0.4	7.9	5.0	n.d.
Japan	-7.2	-0.5	4.0	5.2	5.6	-0.4	1.5	0.5
Manufacturing output								
United States	-5.4	-9.2	-18.2	-21.9	-8.9	8.4	5.6	6.2
Euro Area	-9.8	-13.0	-21.0	-27.4	-10.9	3.7	9.1	17.2
United Kingdom	-6.0	-8.8	-19.7	-19.8	-1.2	-1.1	3.8	5.3
Japan	-7.4	-11.6	-37.3	-57.1	21.8	24.8	25.6	32.9
Unemployment rate[4/]								
United States	5.5	6.2	7.4	8.6	9.5	9.8	10.0	9.7
Euro Area	7.5	7.7	8.2	9.1	9.4	9.8	9.9	10.0
United Kingdom	5.4	5.9	6.4	7.1	7.8	7.8	7.8	8.0
Japan	5.4	5.9	6.4	7.1	5.3	5.3	5.2	8.0

Sources: BEA, Cabinet Office and Eurostat

1/ Includes residencial and public investment expenditures.

2/ Total construction expeditures.

3/ Consumption expenditures exclusive

4/ End-of-quarter rate.

the same time, demand in Japan, showing the stimulus for automobiles and durable goods acquisition, registered an expansion of 1.3%, and in the United Kingdom it was marked by stability.

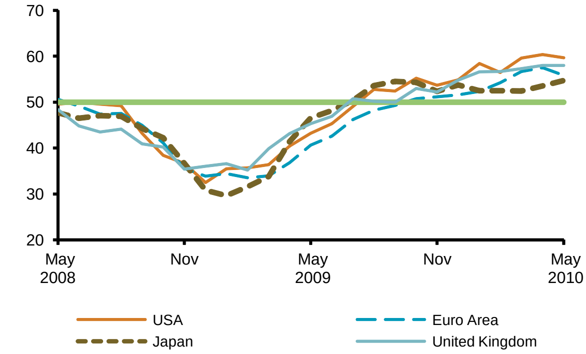
Business investments, following the recovery that began in the December 2009 quarter, showed quarterly annualized increases of 4.2% in Japan and 3.1% in the USA, while residential investments experienced respective variations of 1.6%, the first expansion since the last quarter of 2008, and -10.7%. It is noteworthy that this decline resulted in large part, the impact of the termination of tax incentives offered by the U.S, government for first home purchases. Gross fixed capital formation recorded an annualized increase of 6.3% in the UK and a 4.3% contraction in the Euro Area, the eighth consecutive decline in this type of comparison.

The net external demand exerted a contribution of 2.7 p.p. to the annualized growth of Japanese GDP in the first quarter of the year, contrasting with the negative impacts of 2.2 p.p., 1.3 p.p. and 0.7 p.p. highlighted in the Euro Area, the UK, and the USA. Exports of goods and services in a scenario of recovery of global demand and depletion of the adjustment process in stocks, registered, in the first quarter of the year, annualized growth in Japan, 30.5%; in the Euro Area, 10.4%; and the USA, 7.2%, while in the UK, highlighting the lower dynamism of the Euro Area's economy, they remained stable. Imports from the Euro Area, partly reflecting the reduced stock levels in the region, had an annualized increase of 17.1% in the quarter, while Japan and the USA, reflecting the recovery in domestic demand of these countries, increased 10.4% and 9.6% in the order. Foreign UK purchases increased 5.7% in the period.

The contribution of stock variation to the annualized GDP growth in the quarter ended in March of 2010 reached 3.4 p.p. in the Euro Area, 1.6 p.p. in the US, 1.5 p.p. in the UK, and 0.8 p.p. in Japan. This performance, combined with the expansion of exports and, in the US and Japan, also the positive evolution of household consumption, boosted growth in manufacturing output, which recorded in the quarter, annualized rates of 32.9% in Japan, 17.2% in the Euro Area, 6.2% in the US, and 5.3% in the UK.

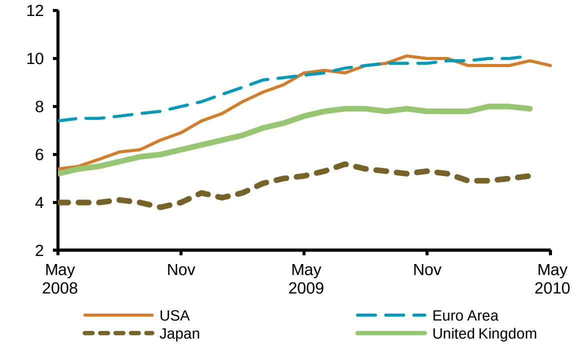
It is important to stress that in the Euro Area, despite the uncertainties surrounding the unfolding fiscal crisis affecting several countries in the region, recent developments of the PMI relative to manufacturing activity suggests the continuing recovery of the sector. Incidentally, in May, the indicators for the US, UK, Euro Area, and Japan stood at,

Figure 4.1 – Manufacturing PMI
Largest developed economies



Source: Bloomberg

Figure 4.2 – Unemployment rate evolution
Largest developed economies



Source: Bloomberg

Table 4.2 – China
GDP components and other indicators

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

	2008			2009				2010
	II	III	IV	I	II	III	IV	I
GDP	10.1	9.0	6.8	6.2	7.9	9.1	10.7	11.9
Retail sales	13.4	17.1	17.6	15.7	16.8	16.8	15.7	21.1
Vehicles sales[1/]	15.4	-1.9	-8.2	3.6	31.6	73.8	85.7	72.5
Gross Fixed Capital Formation	20.1	20.2	25.3	38.8	50.1	47.4	29.9	22.8
Exports of Goods	17.3	18.5	4.4	-10.9	-9.1	-5.5	13.9	30.2
Imports of Goods	17.1	10.6	-2.4	-3.8	18.1	28.7	25.9	19.2
Industrial production	15.9	12.9	6.4	5.6	9.0	12.4	18.0	19.6
Unemployment rate[2/]	4.0	4.0	4.2	4.3	4.3	4.3	4.3	4.2

Source: Thomson
1/ Includes sales to enteprises.
2/ Urban unemployment rate at the end of the quarter.

in order 59.7, 58, 55.8, and 54.7, all of them at levels higher than the dividing level 50[7].

The resumption of economic activity led to favorable developments in the labor market in the US. In the first quarter of this year, 261,000 urban jobs were generated, the first positive result since the quarter that ended in December 2007[8], followed by the creation of 721 thousand jobs registered in the two–month period ending in May, of which 477 thousand were of a temporary nature, for the census of 2010. In the Euro Area, 89 thousand jobs were eliminated in the first quarter of 2010, compared to respective extinctions of 643 thousand and 278 thousand jobs in the quarters ending in September and December of 2009.

In the US, the unemployment rate reached 9.7% in May, compared to 10% in December, while in April, those regarding Japan, the Euro Area, and the United Kingdom remained in that order in 5.1 %, 10.1%, and 7.9%, registering respective variations of -0.1 p.p., 0.2 p.p., and 0.1 p.p. compared to rates at the end of 2009.

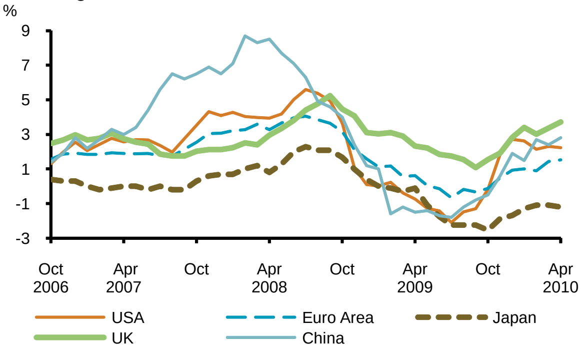
In China, the annualized GDP growth rate reached 11.9% in the first quarter of this year, the highest since the second 2007 quarter, emphasizing the contribution of domestic consumption and exports, in an environment of slowing growth in the gross fixed capital formation. The performance of consumption was stimulated by the recovery of the labor market and the maintenance of government incentives for the acquisition of consumer durables, which favored respective increases of 19.6%, 21.1%, and 72.5% recorded in the period, in industrial production, retail, and vehicle sales. Chinese exports grew 30.2% in the quarter ending in March, compared to the same period in 2009, while imports increased 19.2%, benefiting growth in economic activity in Southeast Asian countries, in Japan, and in raw material exporting countries.

4.2 Monetary policy and inflation

The pace of economic recovery did not reflect significant changes in inflationary expectations in the major mature economies, therefore carrying on the accommodative nature of monetary policies adopted by the respective monetary authorities. In the most important emerging economies, where the resumption of activity was faster and more

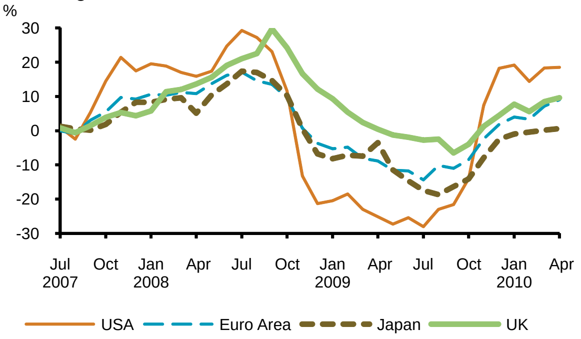
7/ PMIs for the Euro Area, UK, and Japan are provided by Markit; for the USA, by the Institute for Supply Management (ISM).
8/ In the quarters that ended between December of 2007 and 2009, 8.4 million jobs were eliminated in the USA.

Figure 4.3 – Consumer inflation
Annual growth



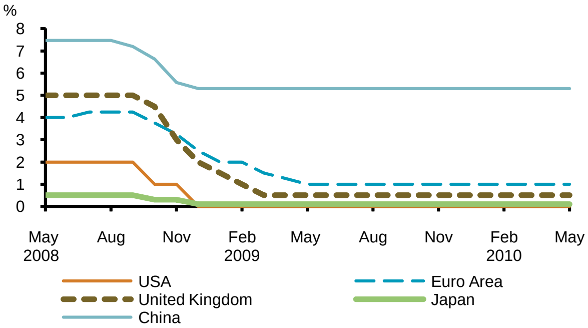
Sources: BLS, Eurostat, Bloomberg and ONS

Figure 4.4 – Energy inflation
Annual growth



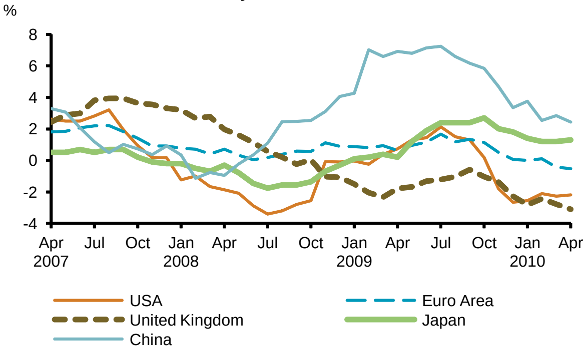
Source: Thomson

Figure 4.5 – Official interest rates
Annual rates



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

Figure 4.6 – Real interest rates
Annual rates – deflated by CPI



Sources: Fed, BCE, BoJ, BoE, BPC, BLS, Eurostat, ONS and Bloomberg

intense, the emergence of inflationary pressures reinforces the expectation of change in the monetary policy stance.

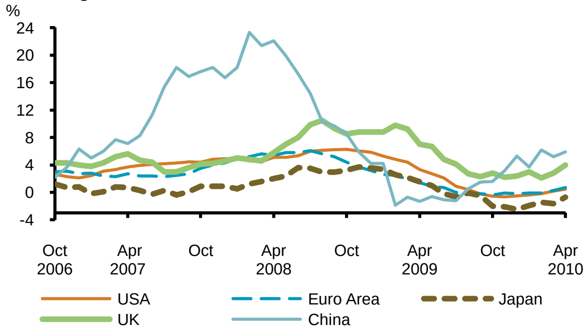
In the USA, the IPC cumulative variation over twelve months fell from 2.6% in January to 2.2% in April. Excluding energy and food items, which had respective increases of 18.5% and 0.5% in April, the accumulated twelve-month variation of the core CPI amounted to 0.9% in April, the lowest level since 1966, and certainly contributed to the Federal Reserve (Fed) maintaining, in April, its limits to the target fluctuation band for *Fed funds* at 0% and 0.25%. In a scenario of aggravated financial markets tensions in May, the Fed reinstated currency swap lines effective until January 2011 with the central banks of England, Canada, Japan, Switzerland, and the Euro Area, which had been closed last February.

In the UK, despite the high idleness of production factors, the IPC variation accumulated in twelve months, in an upward trend since September of 2009, amounted to 3.7% in April, its highest value in the last seventeen months. The core index posted annual growth of 3.1%, a level observed since the beginning of the year and significantly higher than reported throughout the decade. The Bank of England (BoE), considering that the main determinants of inflation underway in the country's economy – changes in commodity prices, depreciation of the pound, and rise in value-added tax – constitute transient elements and that inflationary expectations remain anchored, maintained the basic interest rate at 0.5% p.y. at the May meeting.

In the Euro Area, the cumulative CPI variance in twelve months amounted to 1.5% in April, the highest level since December of 2008, while that regarding its core reached 0.8%, the lowest level since the series has begun. In this scenario, the European Central Bank (ECB) decided to maintain the basic interest rate at 1% p.a. at its May meeting. Additionally, in May, the ECB suspended the minimum rating limit for the acceptance of Greek sovereign debt bonds, as collateral for refinancing operations and announced the start of purchases – which will be sterilized through auctions of term deposits – of public and private securities issued in countries that use the common currency (Securities Markets Program).

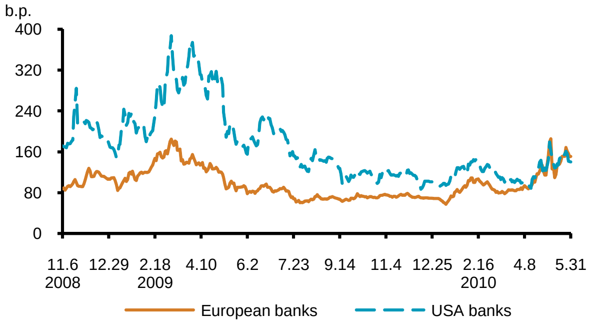
In Japan, the annual variation in IPC was negative for the fifteenth consecutive month, and reached -1.2% in April, with food prices falling 0.7%. The Bank of Japan (BoJ), after announcing in mid-March the duplication to ¥20 trillion of resources offered to the financial system through three-month term operations, at the fixed rate of 0.1%, maintained at its May meeting, the basic rate at 0.1% p.a.

Figure 4.7 – Food inflation[1/]
Annual growth



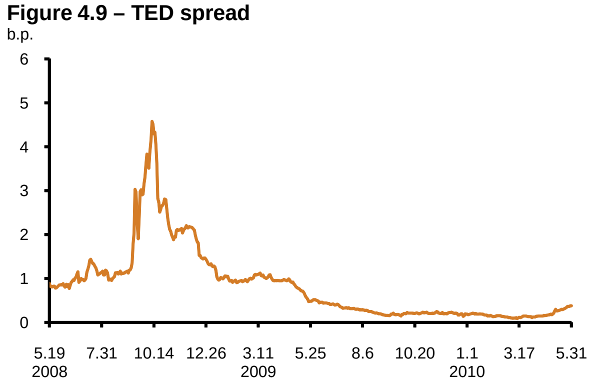
Source: Thomson
1/ For Euro Area and United Kingdom, data includes alcohol & tobacco.

Figure 4.8 – 5-year CDS premiums of major banks[1/]



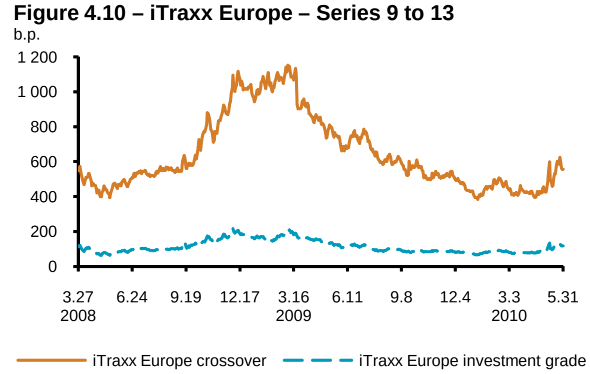
Source: Thomson
1/ Aritmethic average of 5-year CDS premiums for major European and USA banks. Since it's not a random sample, it may not reflect the behavior of the financial system as a whole.

Figure 4.9 – TED spread



Source: Thomson

Figure 4.10 – iTraxx Europe – Series 9 to 13



Source: Thomson

In China, the annual inflation rates for consumers and producers hit respective levels of 2.8% and 6.8% in April, the highest levels since, October and September 2008. In this scenario, although inflation expectations continued growing and bank credit remained high, the People's Bank of China (PBC) maintained the basic interest rate in May at 5.31% p.a. for the seventeenth consecutive month. The monetary authority, however, turned to make quantitative restrictions aiming at curbing liquidity and cut back prices increases of real estate assets. Accordingly, in April, the PBC sold securities with maturities of three years and in May, increased for the third time in 2010, the reserve requirements over demand deposits, fixed at 17% for large banks and 15% for smaller institutions.

4.3 International financial markets

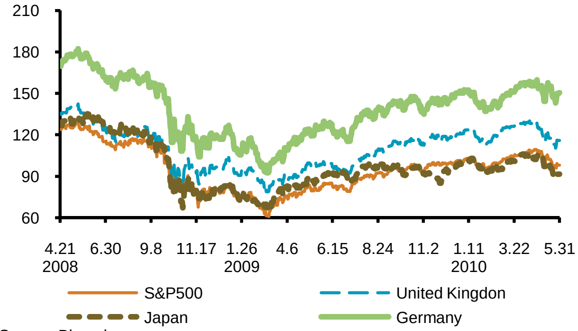
Uncertainties arising from the fiscal deterioration observed particularly in Greece, Spain, and Portugal, led to rising risk aversion in financial markets during the quarter that ended in May. In this scenario, increased volatility in stock markets, in the sovereign risk of European countries, and in the demand for low-risk government bonds, along with the euro depreciation were registered.

The escalation of sovereign risk and regulatory uncertainties were reflected in the evolution of risk premiums implicit in contracts for Credit Default Swaps (CDS) of the banking sector, particularly in Europe. The average premium for the five largest American banks, selected by the criterion of market capitalization, rose 6 basis points in the quarter ending in May, and reached 140 b.p. at the end of the period, while for the five largest in European banks, selected by the same criterion; it grew 53 b.p. and reached 151 b.p. It should be noted that the trajectory of the risk premiums associated with European banks showed the largest exposure of the region's banking sector, especially French and German banks, to markets with higher sovereign default risk. Additionally, the German ban on short selling shares of German financial firms as well as sovereign CDS from countries in the Euro Area, in mid-May, fueled fears about the continent's banking system.

The environment of greater risk aversion has resulted in the reduction of liquidity in the North American interbank market. The TED Spread – the difference between the 3-month Treasury Bill, considered a short-term risk-free

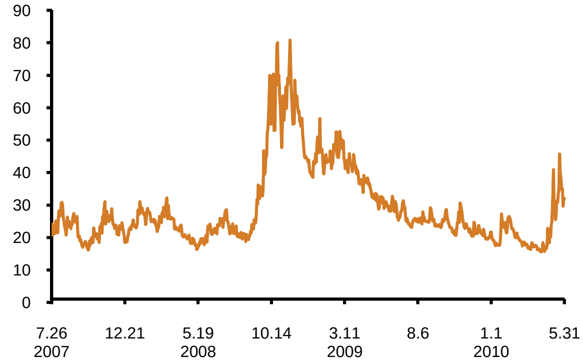
Figure 4.11 – Stock exchanges: USA, Europe and Japan

12.31.2003 = 100



Source: Bloomberg

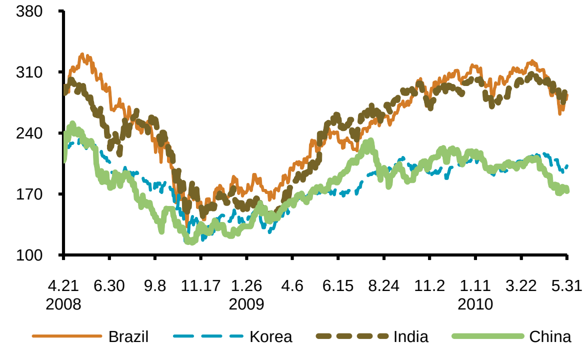
Figure 4.12 – VIX



Source: Thomson

Figure 4.13 – Stock exchanges: emerging markets

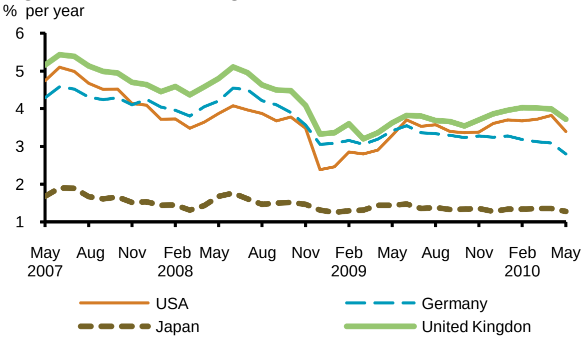
12.31.2003 = 100



Source: Bloomberg

Figure 4.14 – Yield on government bonds[1/]

% per year



Source: Bloomberg

1/ Monthly average of nominal yields on 10-year bonds, up to May 31, 2010.

rate, and the libor in dollar of the same term – reversed the narrowing trend observed in the past three Inflation Reports and reached 37 b.p. at the end of May, compared to 12 b.p. basis points at the end of February. It is worth mentioning that the new level is below those observed prior to September 2008.

Similarly, business financing conditions, especially those considered to be of greater risk, have become more restrictive. The iTraxx Crossover, which represents the risk premium required to guarantee loans to European companies considered high risk, reached 459 b.p. at the end of May, rising by 58 b.p. in relation to the end of February. The iTraxx IG, which represents the premium required for European companies considered to be investment grade, reached 113 b.p. at the end of May, moving up 29 b.p. in the period.

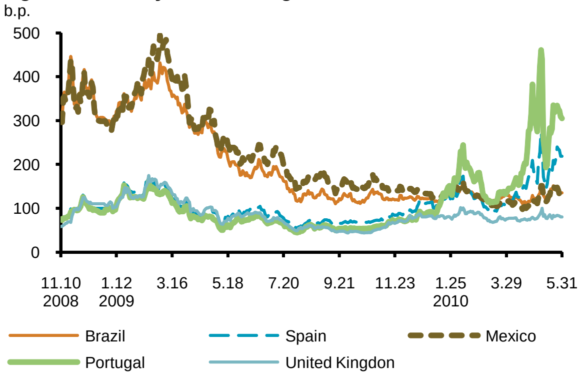
Growing uncertainties ascribed, in addition, losses on major stock exchanges. The Nikkei index of Japan; Financial Times Securities Exchange Index (FTSE 100), of the United Kingdom; and Standard and Poor's 500 (S&P 500), of the US., posted respective drops of 3.5%, 3.1%, and 1.4% for the quarter ended in May, compared with the appreciation of 6.5% recorded on the Deutscher Aktienindex (DAX), of Germany. Considering only May, when the uncertainties about the evolution of the fiscal crisis in Europe deepened, the mentioned indicators declined, in sequence, 11.7%, 6.6%, 8.2%, and 2.8%.

The Chicago Board Options Exchange Volatility Index (VIX) – which measures the short-term implied volatility of the S&P 500 and which is an important indicator of risk aversion – hit 45.8 points on May 20, compared to 19.5 points at the end of February, the highest value in 14 months, but fell to 32 points at the end of the month.

Stock markets in emerging economies, despite the stronger economic recovery observed in these countries, registered losses in May. The Shanghai Composite index, of China; Sensex, of India; Kospi of South Korea; and Bovespa of Brazil, retreated, in order, 9.7%, 3.5%, 5.7%, and 6.6% in the month, and accumulated respected variations of -15.1%, 3.1%, 2.9% and -5.1% in the quarter ended in May.

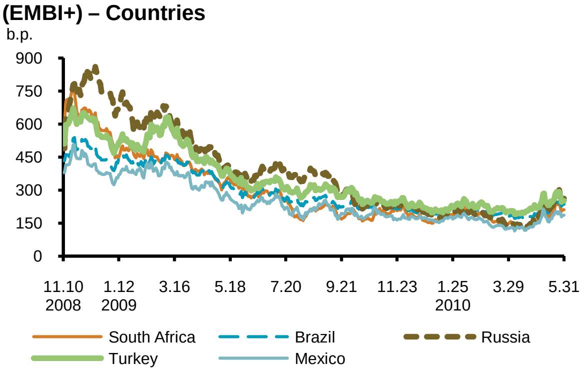
Increased demand for better rated sovereign bonds resulted in a trajectory of average annual income of ten-year securities from the UK, USA, Germany, and Japan, which fell, in order, by 4%, 3.72%, 3.13%, and 1.35% in March, to 3.20%, 2.93%, 2.42% and 1.1% in May.

Figure 4.15 – 5-year sovereign CDS



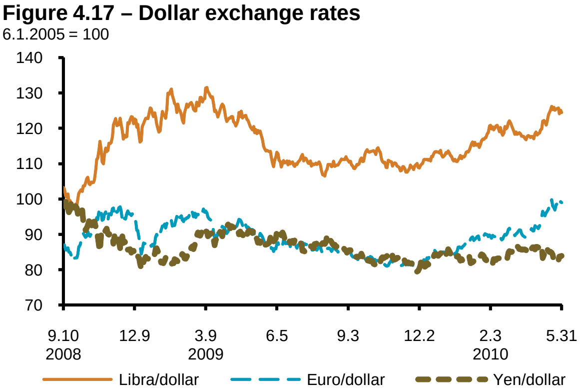
Source: Thomson

Figure 4.16 – Emerging Markets Bond Index Plus (EMBI+) – Countries



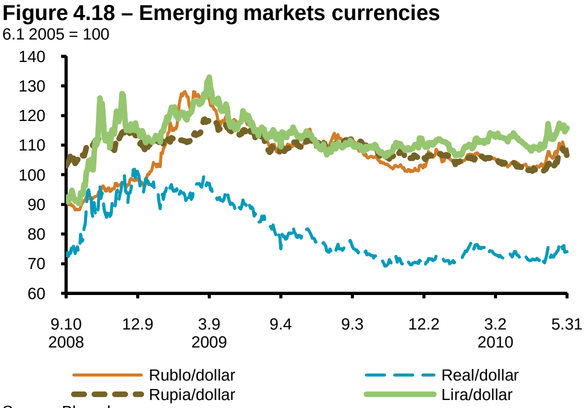
Source: Bloomberg

Figure 4.17 – Dollar exchange rates



Source: Bloomberg

Figure 4.18 – Emerging markets currencies



Source: Bloomberg

Sovereign risk premiums in Greece, Portugal, and Spain, as measured by their 5-year CDS, rose in order, by 364 b.p., 164 b.p., and 130 b.p. at the end of February to 941 b.p., 461 b.p., and 275 b.p., on May 6 – the highest values of their respective series. At the end of the month, reflecting the favorable expectations regarding the effects of assistance measures by the European Union (EU) and the International Monetary Fund (IMF) to Greece[9], among other initiatives, the mentioned indicators fell to 663 b.p., 305 b.p., and 219 b.p., respectively.

The increase in risk aversion impacted, in addition, the demand for lower quality assets. The sovereign risk indicator, Emerging Markets Bonds Index Plus (Embi+) reached 317 b.p. at the end of May, compared with 292 b.p. at the end of February, highlighting that the indices regarding Russia, Mexico, Brazil, and Turkey registered respective increases of 61 b.p., 21 b.p., 20 b.p., and 11 p.b. in the period.

The deterioration of expectations concerning the fiscal situation and the sustainability of economic growth in the Euro Area intensified the process of depreciation of the single European currency in relation to the US dollar, which experienced respective variations of 10.8% and 4.8% in relation to the euro and pound sterling, in the quarter ended in May. In an environment of lower inclination to risk and reduced capital flows to emerging markets, over the same period the dollar also appreciated against the Russian ruble, 3.2%; the Turkish lira 1.8%, the Brazilian real, 0 7%, and the Indian rupee, 0.6%.

4.4 Commodities

The Commodity Research Bureau (CRB) index, after registering a 4.1% appreciation in the March-April period, in an environment of stronger global economic recovery than originally expected, especially in China – an important consumer of commodities, and the US, fell 0.6% in the quarter ended in May. The reversal in the index behavior reflected unfavorable expectations regarding the fiscal sustainability of some European countries, the effects of possible regulatory changes in the financial systems of developed countries, and the measures adopted in China to reduce liquidity in that country. When considering quarterly averages, the CRB registered, for the quarter ended in May,

9/ The European Union and the IMF agreed to a total aid package to Greece of €110 billion over the next three years, with the first disbursement on May 19, in the value of €14.5 billion. Additionally, with the approval on May 10 of the European Stabilization Mechanism, the EU will have resources of about €500 billion, reaching € 750 billion with an additional contribution of funds from the IMF. Also highlighted is the beginning of the purchases by the ECB and other central banks in the region of sovereign bonds issued by EU countries with the objective of increasing liquidity in the financial markets in the region.

respective increases of 3.5% and 31.3% for the quarters ending in February 2010 and May 2009.

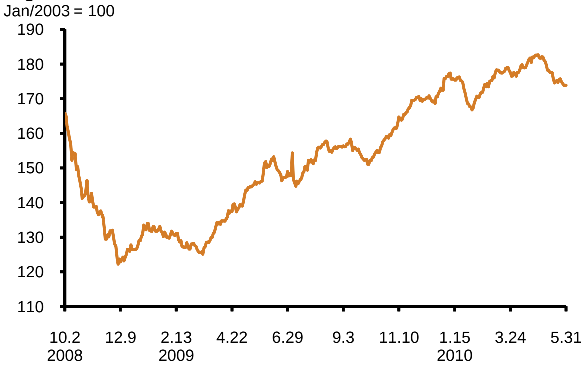
According to the Goldman Sachs Commodity Index (GSCI), by Standard & Poor's (S&P) together with Goldman Sachs, commodity prices fell on average 5.7% in the quarter ended in May, compared to the one that ended in February, a result of the marked shrinkage in segments of agricultural, 12.3%; energy, 5.7%; and metal, 4.7% commodities.

The reduction in prices of agricultural commodities reflected both a level above the originally forecast for crops in South America, as well as favorable prospects for the recovery of world sugar production, after two seasons hampered by bad weather in India. Considering future contracts for first delivery, quarterly reductions were registered in the prices of wheat, 9.6%; corn, 5%; and soybean, 1.4%, negotiated on the Chicago Board of Trade (CBT); and of sugar, 41.2%, traded on the New York Intercontinental Exchange (ICE). The contract for coffee, also traded on the ICE, reported 4% appreciation in the period, showing reduced levels of world stock and prospects of crop failure yields in important exporting countries.

The recent decline in prices of metal commodities, even in a scenario of relative recovery in global demand and reductions in inventories, led to the prospect that the reduction of liquidity in China and fiscal issues in Europe constitute restrictions to consolidating a global economic recovery, with adverse developments on the demand in this product segment. According to the London Metal Exchange (LME) quarterly decreases in May were registered in the prices of lead, 14.8%; zinc, 12.3%; aluminum, 4.2%; and copper 3.6 %, in contrast to the elevations observed in respect to tin, 4.7%; and nickel 0.9%.

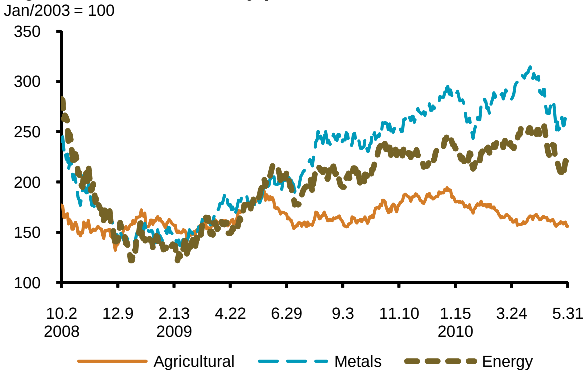
As of the beginning of April, when the readjustment of the price of iron ore – reflecting in large measure, the strong Chinese demand driven by investments in infrastructure, construction, and production of durable goods – reached about 100% in relation to that in 2009, the world's biggest mining companies have adopted new pricing system for that commodity, replacing annual negotiations for quarterly reviews[10]. According to the Metal Bulletin, the price of iron ore, after accumulating an increase of 21.3% in April, up to the 22nd day, began to show depreciation, closing May at a level lower than the 5.4% reported at the end of March. This reversal reflected in part the impact of measures taken

Figure 4.19 – CRB index



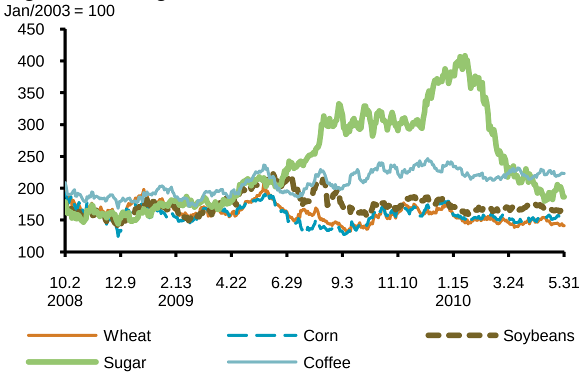
Source: Commodity Research Bureau

Figure 4.20 – Commodity price index



Source: S&P GSCI

Figure 4.21 – Agricultural commodities



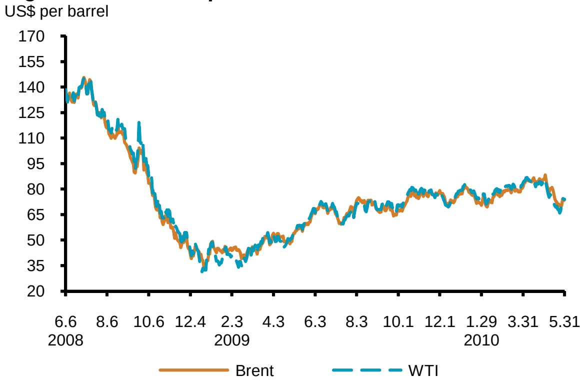
Sources: NYB-ICE and Chicago Board of Trade

10/ Under the new methodology, in every quarter, prices for iron ore will be determined by the average spot price in the three months preceding the final month of the quarter in question.

by the Chinese government to curb the housing boom[11], which tends to affect construction and therefore demand for the commodity.

4.4.1 Petroleum

Figure 4.22 – Oil – Spot market



Source: Bloomberg

Average barrel prices of WTI and Brent petroleum rose from US$76.30 and US$74.31 respectively, in February, to US$73.72 and US$76.53, in May. May report of the US Department of Energy (DOE), incorporating the perspectives of more consistent world economic recovery, considers that the average price for a WTI barrel is expected to reach US$84.00 by the end of the second half of this year and US$87.00 at the close of 2011.

4.5 Conclusion

Recent developments in the global economy have been characterized by a disparate pace of recovery in major developed countries. The process of recovery in these economies becomes clearer in a scenario of strengthening their respective domestic demands, as indicated by growth of consumer spending and investment, and in the recovery of the labor market. The worsening fiscal conditions in European countries and the increased risk aversion in international financial markets are, however, restrictive elements to the process mentioned.

The recent drop in oil prices, the idleness of production factors, the return of stress in the financial markets, and maintenance of the indices of core inflation at historically low levels suggest that the G-3 central banks will continue to maintain an accommodative stance and will continue to promote, if and when necessary, liquidity adjustments in their markets.

The major emerging economies maintained the pace of economic activity more intensely than those in mature economies. It is noteworthy that although the increased risk aversion recently verified can somehow contain the net inflow of foreign capital to these economies, with likely repercussions on their respective exchange rates, stock exchanges, and sovereign risk indicators, the perception regarding the continuity of their growth should stimulate incoming capital flows.

11/ Measures to reduce liquidity and impose restrictions on the purchase of properties in large cities.