4 International economy

Table 4.1 – Major developed countries

GDP components and other indicators

Anualised % rate

	2009				2010			
	I	II	III	IV	I	II	III	IV
GDP								
United States	-4.9	-0.7	1.6	5.0	3.7	1.7	2.6	2.8
Euro Area	-9.5	-0.6	1.6	0.7	1.6	4.0	1.4	1.1
United Kingdom	-8.6	-3.2	-1.1	1.9	1.3	4.2	2.8	-2.3
Japan	-20.0	10.7	-1.9	7.2	6.1	2.1	3.3	-1.3
Household consumption								
United States	-0.5	-1.6	2.0	0.9	1.9	2.2	2.4	4.1
Euro Area	-2.1	0.1	-0.8	1.0	1.4	0.7	0.6	1.7
United Kingdom	-5.4	-2.8	0.1	3.9	-0.1	1.9	0.2	-0.4
Japan[1/]	-7.4	5.2	0.4	3.9	2.1	-0.1	3.6	-3.2
Non-residencial investment								
United States	-35.2	-7.5	-1.7	-1.4	7.8	17.2	10.0	5.3
Euro Area[2/]	-19.4	-8.9	-4.7	-4.1	-0.6	8.6	-0.6	-2.4
United Kingdom	-31.1	-33.9	-14.3	-10.9	36.1	1.4	17.2	-9.5
Japan	-23.5	-18.2	-8.3	6.3	2.7	12.0	5.6	2.0
Residencial investment								
United States	-36.2	-19.7	10.6	-0.8	-12.3	25.6	-27.3	2.8
Euro Area[3/]	-3.0	-6.6	-6.8	-6.5	-6.1	3.1	-4.0	-6.5
United Kingdom	-44.0	-17.2	6.8	-10.6	5.9	33.8	16.9	nd
Japan	-23.6	-30.4	-27.9	-15.0	6.5	-1.3	7.5	12.3
Exports of goods and services								
United States	-27.8	-1.0	12.2	24.4	11.4	9.1	6.7	9.6
Euro Area	-30.6	-4.2	10.9	8.4	11.8	18.9	9.1	7.5
United Kingdom	-25.5	-6.9	3.5	15.5	-3.1	13.0	6.9	9.4
Japan	-68.4	45.1	40.1	28.1	29.3	22.9	6.3	-3.0
Imports of goods and services								
United States	-35.3	-10.6	21.9	4.9	11.2	33.5	16.8	-12.4
Euro Area	-24.8	-10.8	7.2	3.9	14.5	17.7	5.7	4.4
United Kingdom	-25.8	-8.8	4.4	17.7	9.2	7.8	6.7	12.3
Japan	-49.4	-19.7	24.0	4.1	12.7	16.8	12.0	-0.5
Government expenditures								
United States	-3.0	6.2	1.6	-1.4	-1.6	3.9	3.9	-1.5
Euro Area[4/]	2.8	2.4	2.0	-0.1	-0.1	0.7	1.6	0.5
United Kingdom	-3.1	0.6	-0.7	1.8	2.0	1.2	-1.3	2.8
Japan	5.8	11.2	2.7	4.6	-2.0	1.0	-0.3	-2.6
Manufacturing output								
United States	-21.0	-9.3	10.4	7.1	6.2	9.4	4.3	4.0
Euro Area	-31.6	-7.1	6.9	6.2	13.0	9.9	3.0	8.8
United Kingdom	-20.4	-0.9	-3.0	4.1	5.4	6.2	3.6	4.6
Japan	-59.5	29.4	22.8	26.1	30.9	6.1	-6.7	-6.4
Unemployment rate[5/]								
United States	8.6	9.5	9.8	9.9	9.7	9.5	9.6	9.4
Euro Area	9.1	9.5	9.8	9.9	9.9	10.0	10.0	10.0
United Kingdom	7.1	7.8	7.9	7.8	8.0	7.8	7.7	7.9
Japan	4.8	5.3	5.3	5.2	5.0	5.3	5.0	4.9

Sources: BEA, Thomson, Cabinet Office, Eurostat and own calculation.

1/ Private consumption.

2/ Includes residencial and public investment expenditures.

3/ Total construction expediture.

4/ Consumption expenditures exclusive.

5/ End of the quarter rate.

The global economy moves toward its recovery, registering improvements in the United States of America (USA) labor market, activity growth in the Euro Area, especially in Germany, and soundness of the Chinese internal demand, where the government has intensified liquidity restriction measures in order to to avoid increasing inflationary risks. This perspective is shared by the other emerging economies of Southeast Asia and Latin America, regions where the rise of commodities prices and product gap closure, among other factors, have been reflected as a rise in consumer prices indices. However, it is important to consider that the intensity of the global recovery is conditioned to the normalization of the US and Euro Area credit conditions and to impacts of the increasing geopolitical conflicts in Northern of Africa and the Middle East.

4.1 Economic activity

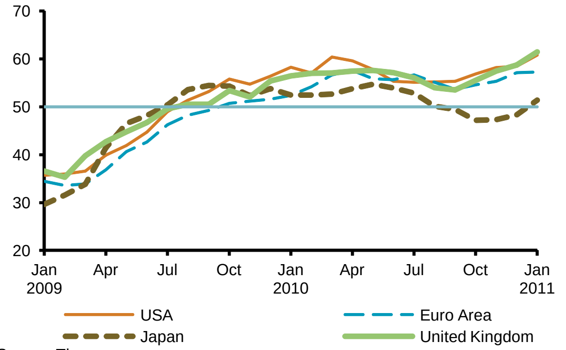
The U.S. and the Euro area GDPs annual growth reached 2.8% and 1.1%, respectively, in the quarter ended December, noticing that the expansion registered in the U.S. reflected, especially, a reduction in imports and a rise in private consumption. On the other hand, there were respective falloffs of 1.3% and 2.3% in Japan's and United Kingdom's GDPs, results derived from the exhaustion of incentives to the acquisition of consumer goods and of the international trade deceleration in Japan; and due to the severity of United Kingdom's winter in December.

The annual growth rate of household consumption increased for the fourth consecutive time in the U.S., reaching 4.1% in the final quarter of 2010, while the real available income went up 1.4% and the families' savings dropped 0.4 p.p., reaching 5.4% of the personal disposable income. In addition, the families' consumption registered annualized quarterly variations of -3.2% in Japan, 1.7% in the Euro area and -0.4% in the United Kingdom.

In the same period, business investments, despite being in deceleration for the second consecutive quarter, went up 5.3% in the U.S. and 2.0% in Japan, following the variations registered in the Euro area, -2.4%, and in United Kingdom, -9.5%. Property investments increased 12.3% in Japan and 2.8% in the U.S.

The external sector contributed 3.4 p.p. for U.S. annualized GDP variation in the quarter ended December, following the respective impacts of 1.2 p.p. and -0.4 p.p. registered in the Euro area and in Japan. Goods and services imports registered annual variation of -12.4% in the U.S., 4.4% in the Euro area, -0.5% in Japan and 12.3% in United Kingdom. Goods and services exportations of U.S., United Kingdom and Euro area presented respective rises of 9.6%, 9.4% and 7.5% within the period, while Japan's external sales dropped 3.0%.

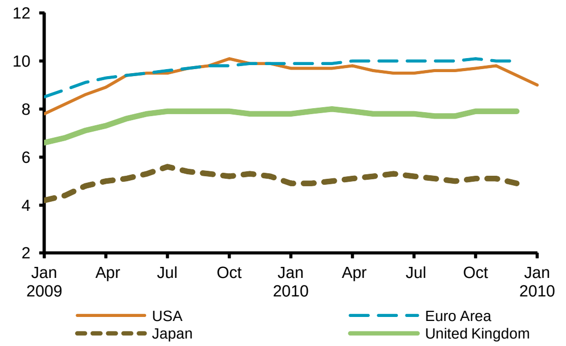
Figure 4.1 – Manufacuring PMI
Largest developed economies



Source: Thomson

United States' annualized growth rate of manufacturing output reached 4% in the quarter ended December, against 4.3% in that ended September, while Euro area and United Kingdom rates were, respectively, 8.8% and 4.6%, increasing 5.8 p.p. and 1.0 p.p. within the period. Japan's manufacturing output registered respective declines of 6.4% and 6.7% in the quarters mentioned. It must be pointed out that the PMI[7] regarding the manufacturing activity suggests the acceleration of the activity in the United States and the Euro area, respectively since August and October 2010, and growth in Japan since this year's January. In February, this indicator reached 61.4 p.p. in the U.S., 59.0 in the Euro Area, 52.9 in Japan and 61.5 in the United Kingdom, whereas the latter represented the highest value of the series for that country.

Figure 4.2 – Unemployment rate growth
Largest developed economies



Source: Bloomberg

The United State's labor market registered the generation of 457 thousand jobs in the private sector in the quarter ended February, against 380 thousand in that ended November. Within this context, in which the unemployment rate dropped to 8.9% in February, the consumer sentiment index reached 77.5 p.p. in February, the highest level of the last three years. Within the Euro area, the economic activity recovery favored the creation of 209 thousand jobs in the quarter ended December, against the loss of 29 thousand in that ended September, and the unemployment rate remained around 9.9% in January, the lowest level in 13 months. The unemployment rates in Japan and United Kingdom reached 4.9% and 7.9%, respectively, in January and December.

7/ The PMI referring to the Euro Area, the United Kingdom and Japan are calculated by Markit and that of USA, by the Institute for Supply Management (ISM).

Table 4.2 – China

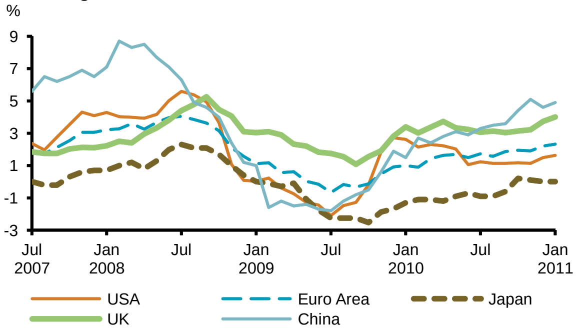
GDP components and other indicators

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

	2009				2010			
	I	II	III	IV	I	II	III	IV
GDP	6.5	7.9	9.1	10.7	11.9	10.3	9.6	9.8
Retail sales	21.6	22.7	23.2	19.6	15.4	15.2	15.0	14.0
Vehicles sales[1/]	3.6	31.6	73.8	85.7	72.5	29.0	16.0	23.2
Investment in Fixed Assets (total)	30.3	41.2	38.2	25.8	23.2	20.5	18.3	16.8
Exports of Goods[2/]	-19.8	-23.5	-20.4	0.1	28.7	40.9	32.2	24.9
Imports of Goods[2/]	-31.0	-20.3	-11.7	22.8	65.1	43.6	27.1	29.4
Industrial production	5.1	9.0	12.3	17.9	19.6	16.0	13.5	13.3
Unemployment rate[2/]	4.3	4.3	4.3	4.3	4.2	4.2	4.1	4.1

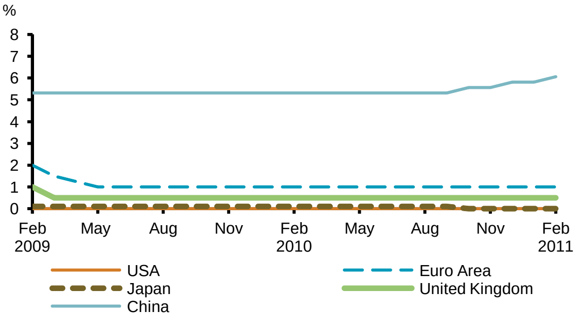
Sources: Bloomberg, Thomson and own calculation.
1/ Includes sales to enteprises.
2/ variations calculated in US$ current prices.
3/ Urban unemployment rate at the end of the quarter.

Figure 4.3 – Consumer inflation
Annual growth



Sources: BLS, Eurostat, Bloomberg and ONS

Figure 4.4 – Official interest rates
Annual rates



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

In China, despite the governmental efforts to restrict credit, moderate the pace of growth and intensify the fight against inflation, the GDP annual growth rate reached 9.8% in the quarter ended December, against 9.6% in that ended September. December's result reflected, especially, the expressive performances of retail sales, 14%, and of investments in fixed assets, 16.8%.

4.2 Monetary policy and inflation

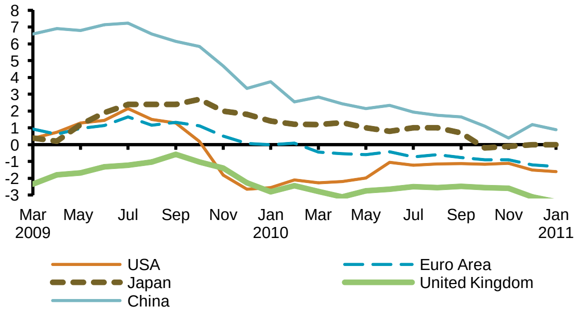
The rise of commodity prices, which intensified in the fourth quarter, has been putting considerable pressure on general prices indices, especially in emerging economies, with consequences on the level of respective basic interest rates. On the other hand, within the G3 economies, where the pace of activity is below the potential and unemployment rates remain high, the authorities kept the accommodative stance of the monetary policy.

The IPC's annual variation in the U.S., after ranging between 1.1% and 1.2% from June to November 2010, reached 1.6% in January. This growth has been related especially to the impact of petroleum prices rise on the annual variation of the energy price index, which amounted to 7.3% within the period. Despite this upward trend of high, the IPC center annual variation reached 0.95%, result compatible with the commodities prices rise transfer restrictions for the final consumer, within modest recovery environment of the economic activity and high unemployment rates.

Facing this scenario, and aiming to contain deflation risks, the Fed maintained unaltered, until February, the quantitative easing program II and the limits of the fluctuation band of the goal for the Fed funds, in 0% and 0.25%. In addition, in means of December, in response to the aggravation of the fiscal tensions in the peripheral economies of the Euro area, the Fed announced, in coordination with the central banks of England (BoE), Japan (BoJ), Europe (ECB), Canada (BoC) and Switzerland (BNS), the extension, until August 1 2011, of the validity of currency swap lines between the respective central banks.

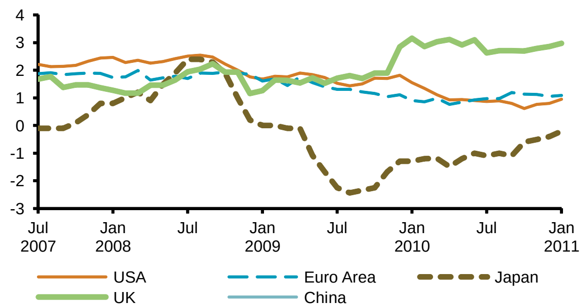
In Japan, there was an interruption in the deflation, measured by IPC variation, which registered zero variation in the annual index in January for the second consecutive month, against negative variation in the early nine months of 2010. This movement evinced the impact of energy and food price

Figure 4.5 – Real interest rates
Annual rates



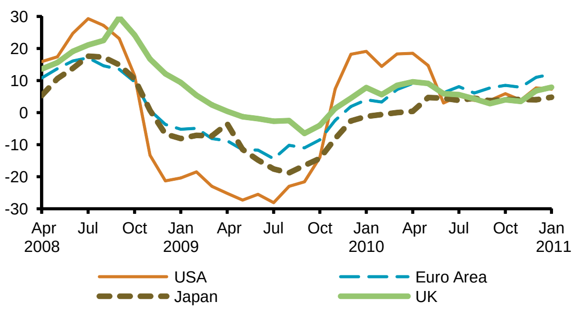
Sources: Fed, BCE, BoJ, BoE, BPC, BLS, Eurostat, ONS and Bloomberg

Figure 4.6 – Core consumer inflation
Annual growth



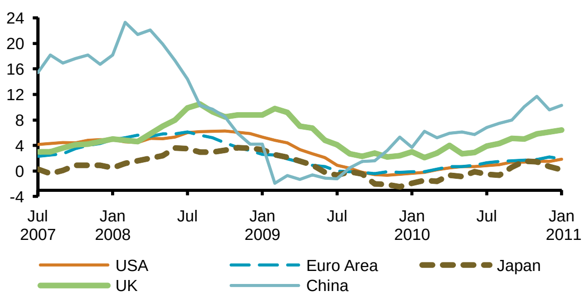
Sources: BLS, Eurostat, Bloomberg and ONS

Figure 4.7 – Energy inflation
Annual growth



Source: Thomson

Figure 4.8 – Food inflation[1/]
Annual growth



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

rises, respectively, from 4.8% to 0.2% in January. However, the fragile internal demand and the wide product gap did not benefit possible effects of second order, in a way that the measures of the core by exclusion of perishables and energy present negative variation since March 2009. Within this environment, the BoJ kept, on February, the fluctuation band for reference interest rate, an overnight call rate, within the range from 0.1% to 0%, bringing about real interests at zero level.

In the Euro Area the annual IPC variation amounted to 2.3% in January, which was above ECB's goal and the biggest increase since November 2008, with emphasis on the impact of the 12% annual rise in energy prices. Nevertheless, the inflation core annual variation, conditioned by the level of installed capacity's use, reached 1.1% in January and remains between 0.9% and 1.2% since March 2010. Despite the scenario that encloses a rise of inflationary risks, the ECB kept on February the basic interest rate at 1% per year. Moreover, due to fiscal difficulties faced by countries in this region, in coordination with the Fed, the ECB extended the unrestricted line of euro/dollar swap and announced, with the BoE, the creation of a temporary line of euro/pound swap of £10 billion.

In the United Kingdom, the annual consumer price variation remains above the long-term goal since January 2010, coming to 4.0% in January 2011, the highest variation since November 2008. Although the perspective for the behavior of prices in the short-term is for higher prices – in January, the annual variation in energy and food prices closed at 7.9% and 6.4%, respectively, and that related to the core, 3% – the BoE kept, on February, the asset-purchasing program unaltered, at £200 billion, and the basic interest rate, at 0.5% p.y.

In China, where the domestic demand remains strong and the real estate market accelerated, the annual IPC variation reached 4.9% in January, with emphasis on the rise of 10.3% in food prices. In response to the inflationary process and the behavior of prices of real estate assets, the government has increased the measures of credit and liquidity restriction, as well as limited the access to property acquisition.

Thus, in December, the People's Bank of China (PBC) announced the extension, for three months, of the temporary increase in the reserve requirement rate applied to six banks in October and, in February, introduced a new tax rise for the entire banking system. In January, aiming at curbing prices in the real estate market, the PBC expanded from 50% to 60% the initial installment for the acquisition of the second residential property and introduced more severe fiscal restrictions on its resale. On February, repeating the measures taken in January, the BPC increased once again the basic interest rate, keeping it at 6.06% per year, the highest level since October 2008.

4.3 International financial markets

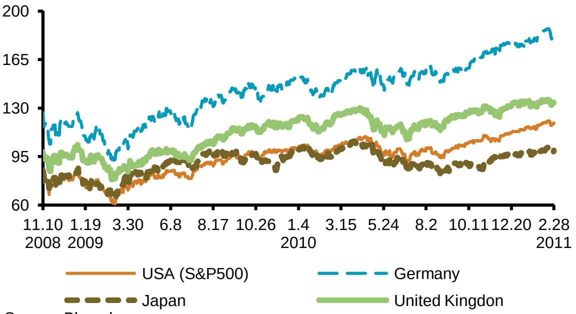
The increased optimism regarding the sustained recovery of the North American economy favored the continuity, in the quarter ended February, of the financial assets prices rise initiated in August 2010. This movement registered a relative reversal since mid-February, due to the aggravation of the geopolitical conflicts in the Middle East and North of Africa.

Standard and Poor's 500 (S&P 500) indices, of U.S.; Nikkei, of Japan; *Deutscher Aktienindex* (DAX), of Germany; and Financial Times Securities Exchange Index (FTSE 100), of the United Kingdom, accumulated respective gains of 12.4%, 8.7% and 6.9% in the quarter ended February, emphasizing that, except for the Japanese market, the stock exchanges of the more developed markets reached, in January, the highest quotation since August 29, 2008, period immediately prior to the collapse of the investment bank Lehman Brothers.

Within this scenario, the Chicago Board Options Exchange Volatility Index (VIX), which measures the short term implicit volatility of S&P 500 index, reached 15.5 p.p. on December 22, 2010, lowest daily close since July 2007. Despite of fears about the fiscal situation of European countries and the crisis in the Middle East has contributed to the indicator to account for 18.5 p.p. at the end of February, its average, evincing significant reduction of risk aversion, reached 17.3 p.p. in the quarter ended February, against 21 points in that ended November 2010.

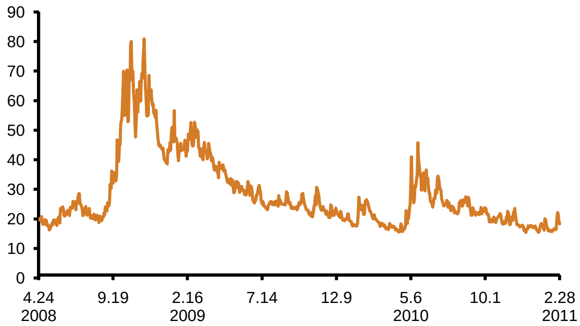
Most stock markets of the major emerging economies registered losses in the quarter ended February, a result consistent with the rise of the inflationary risks and with the withdrawal of the fiscal and monetary incentives adopted during the financial crisis. In addition, the rise of inflation expectations and/or the improvement in growth expectations of the mature economies provoked a rise of the respective long term interest rates, increasing the investments opportunity costs in portfolio investments in the emerging markets. In fact, the annual yield of ten-year securities of the mature economies kept the rising trajectory of began

Figure 4.9 – Stock exchanges: USA, Europe and Japan
12.31.2003 = 100



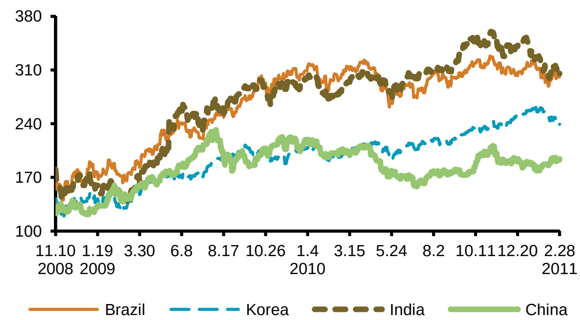
Source: Bloomberg

Figure 4.10 – VIX



Source: Thomson

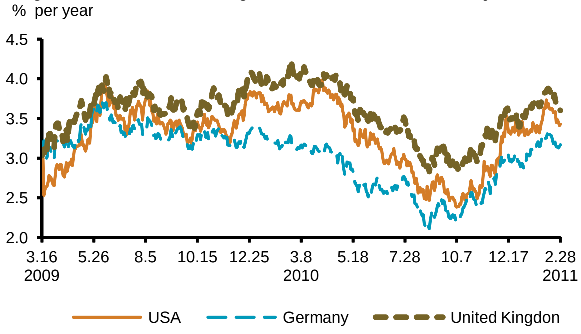
Figure 4.11 – Stock exchanges: Emerging markets
12.31.2003 = 100



Source: Bloomberg

in the previous quarter. The Germany, the U.S. and United Kingdom securities presented, in this order, annual yields of 3.17%, 3.43% and 3.60% at the end of February. The indices Shanghai Composite, of China; Ibovespa, of Brazil; Istanbul Stock Exchange National 100 Index (XU100), of Turkey; and Bombay Stock Exchange Sensitive Index (Sensex), of India registered respective variations of 3.0%, -0.5%,-6.2% and -8.7% during the period.

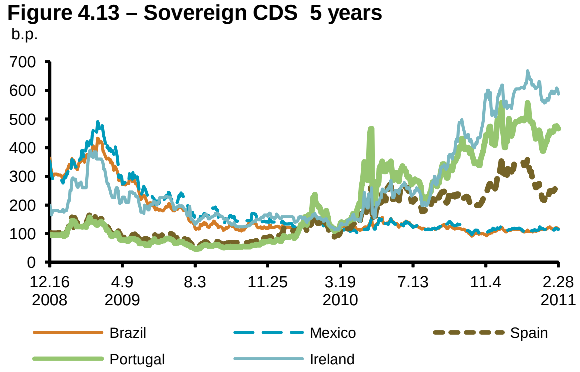
Figure 4.12 – Yield on government bonds – 10 years



Source: Bloomberg

Europe's sovereign debt markets reflected the suspicions regarding the solvency of some economies in the region and the effectiveness of the European Stability Mechanism (ESM), which will replace the European Financial Stability Facility as of June 2013.Thus, the sovereign risk awards, measured through the Credit Default Swaps (CDS), of Ireland, Portugal and Spain after reaching, on January 10, 2011, historical maximums of 667 b.p., 557 b.p. and 361 b.p., closed February at 587 b.p., 467 b.p. and 252 b.p., respectively. The Emerging Markets Bonds Index Plus (Embi+) indicator of sovereign risk continues not very sensitive to events in Europe, dropping 6 b.p., to 272 b.p., in the quarter ended February.

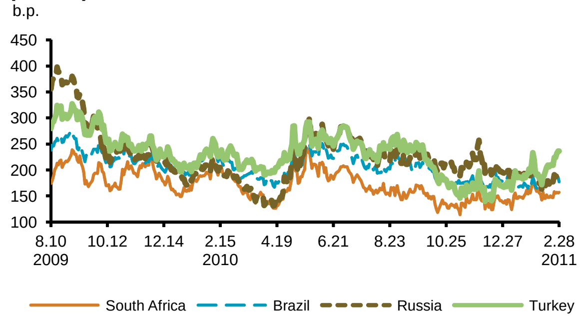
Figure 4.13 – Sovereign CDS 5 years



Source: Thomson

The events in the debt market have affected the European interbank market performance. Therefore, the spread between Euribor (3 months) and European Overnight Index Swap (EONIA) rates, which reflects the risk of default in the interbank market, after reaching 45 b.p., on December 22 of last year, the highest value since July 2009, dropped to 25 b.p. at the end of February. In the U.S., the quarterly growth of the spread between Libor (3m) and Overnight Index Swap (OIS) rates registered lower volatility, expressed in the 6 b.p. variation registered by the indicator within the period.

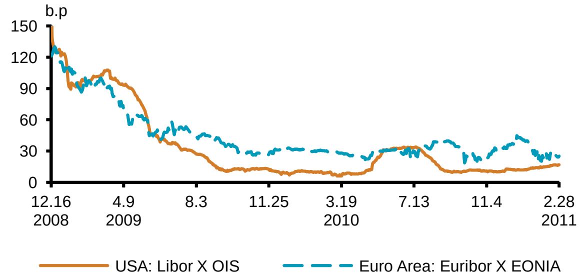
Figure 4.14 – Emerging Markets Bond Index Plus (EMBI+) – Countries



Source: Bloomberg

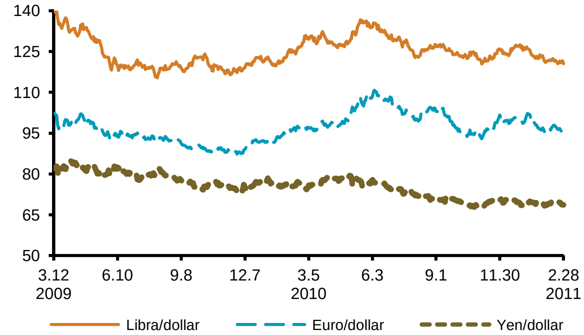
The U.S. dollar, reflecting the ongoing interest rate differential between the Federal Reserve (Fed) rate and those from the other central banks, in the quarter ended February registered a decrease in relation to the Euro, 6.0%; to the pound, 4.3%; and to the Yen, 2.3%. Regarding the emerging economies, the quotation of U.S.'s currency decreased when compared to the Russian ruble, 8.3%; to the real, 2.9%; to the South African rand, 1.9%; to the Indian rupee, 1.3%; and to the Chinese yuan, 1.4%.

Figure 4.15 – Spread interbank rate[1/]



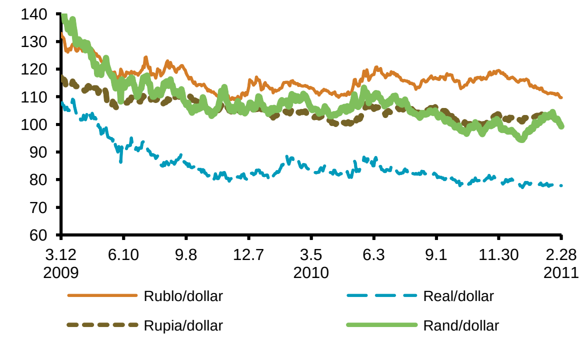
Source: Bloomberg
1/ OIS (Overnight Indexed Swap) and EONIA (European Overnight Indexed Swap) are interest rates swap transaction, where one party agrees to receive/pay a fixed rate to another party, against paying/receiving a floating rated.

Figure 4.16 – Dollar exchange rates
1.1.2007 = 100



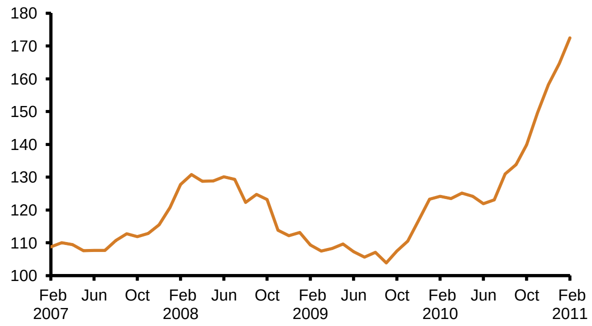
Source: Bloomberg

Figure 4.17 – Emerging markets currencies
1.1 2007 = 100



Source: Bloomberg

Figure 4.18 – Brazil Commodity Index (IC-Br)
Dec/2005 = 100 (monthly average – R$)



Source: BCB

4.4 Commodities

Interpreting the scenario of high international liquidity, optimism regarding growth in the main world economies and deteriorating supply of important agricultural products, international commodity prices remained high throughout the quarter ended February. This movement was identified by the Commodities Index – Brazil (IC-Br), calculated by the Central Bank of Brazil, which, considering monthly averages, went up 15.3% on February, when compared to November 2010, registering increases in the segments of farm commodities, 19.3%; metallic, 11.3%; and energy, 8.8%. The indicator presented the eighth consecutive monthly growth within the month, appreciating 41.4% since June 2010, with emphasis on the 60.2% rise in farm commodities.

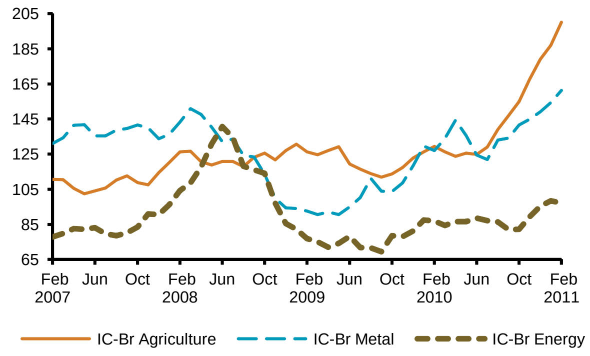
The quarterly evolution of the index related to farm commodities continued reflecting the outcome of the La Nina[8] phenomenon on the supply of this sector, within a context of strong expansion in consumption .in the emerging economies. Considering S&P and Goldman Sachs indices, there have been registered, in the period, average increases, in dollar terms, in the average prices of cotton, 40.9%; coffee, 26.3%; corn, 24%; wheat, 21.6%; soy, 11.6%; and sugar, 4.2%. It must be emphasized that in a situation of strong Asian demand, climatic adversities in important exporting regions and reduced global stocks, the average prices of cotton increased 143.9% from July 2010 to February 2011.

The behavior of metallic commodity prices was influenced, within the quarter, by the favorable performance of the global industrial activity, by expectations of a mismatch between supply and demand throughout 2011 and by supply restrictions related to the interruption of copper production in Chile and nickel in Canada. In this scenario, According to S&P and Goldman Sachs indices, there have been rises, in dollar terms, in the average monthly prices of nickel, 24.1%; copper, 16.9%; zinc, 8.1%; lead, 7.8%; and aluminum, 7.8%.

The average monthly price of iron ore of 63.5% content, evincing the strong demand of Chinese steel mills and the supply restrictions in the main exporters of this commodity, increased 17.1% in the Chinese spot market, in the quarter ended February 2011, according to the Metal Bulletin. Considering quarterly averages, the iron ore price increased 17.3% in the period ended February, when compared to that

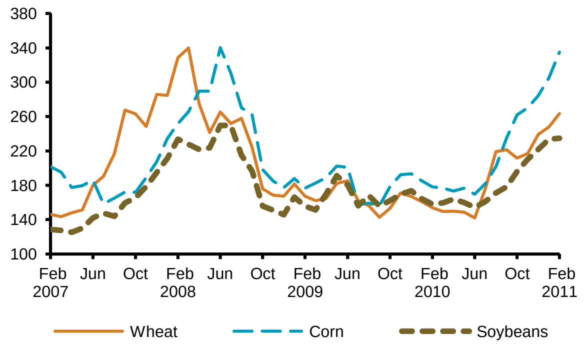
8/ According to the World Meteorology Organization, La Niña's influence on the climate in important producing regions must persist until the end of April or beginning of May, decreasing its strength progressively throughout this period.

Figure 4.19 – IC-Br segments
Dec/2005 = 100 (monthly average – R$)



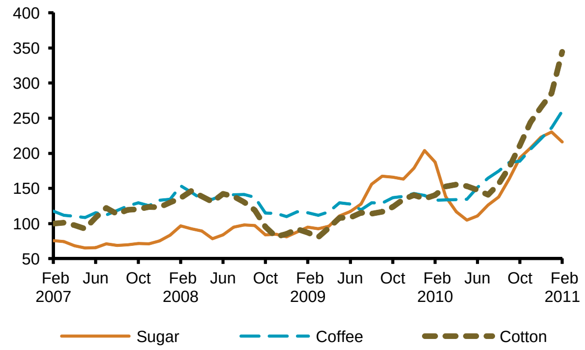
Source: BCB

Figure 4.20 – Commodities: wheat, corn and soybeans
Dec/2005 = 100 (monthly average – US$)



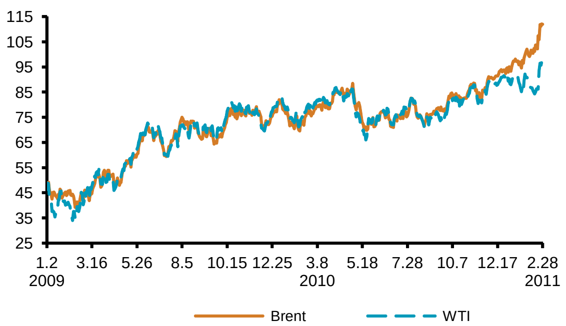
Source: S&P GSCI

Figure 4.21 – Commodities: sugar, coffee and cotton
Dec/2005 = 100 (monthly average – US$)



Source: S&P GSCI

Figure 4.22 – Oil – Spot market
US$ per barrel



Source: Bloomberg

ended November 2010, emphasizing that this percentage will be reference for the readjustment in the contractual value of the commodity in the second quarter of 2011.

The average quotation of Brent and WTI barrels of oil increased, respectively, from US$85.67 and US$84.24, in November 2010, to US$103.96 and US$89.53, on February 2011, evolution related to the winter harshnessin the Northern hemisphere and to the geopolitical conflicts in the North of Africa and the Middle East. It must be emphasized that the Brent barrel quotation reached US$111.94 at the end of February, registering monthly rise of 12.2%.

4.5 Conclusion

The ongoing divergences in the pace of growth enhanced the polarization in the central banks'performance of the emerging economies and of the G3, where, despite the improving signals of the activity, the product gap continues open and the unemployment rates high, thus contributing for the extension of the monetary easing period. In emerging economies, due to inflationary pressures arising from commodities price increases, especially agricultural and petroleum, and to a situation of more intense use of production factors, the withdrawal of monetary stimuli was heightened and, in some cases, the process of monetary crunch is already advanced.

It was observed, until mid-February, an increase in capital flows rise to the stock exchanges of more mature markets, which in the outset presented a better performance than the stocks of emerging markets.

Geopolitical tensions in the North of Africa and in the Middle East and the fiscal case in certain countries within Euro area represent risks for the strengthening of the global economic growth. In addition, the persistence of the oil barrel price above US$100 and a possible increase in fiscal restrictions in Europe, among other factors, increase the uncertainties in the financial markets and also may add to a frail recovery of the global economic growth.