



BANCO CENTRAL DO BRASIL

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

**Carlos Hamilton Araújo
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Lima, June 2008

I: Impact of rising commodity prices

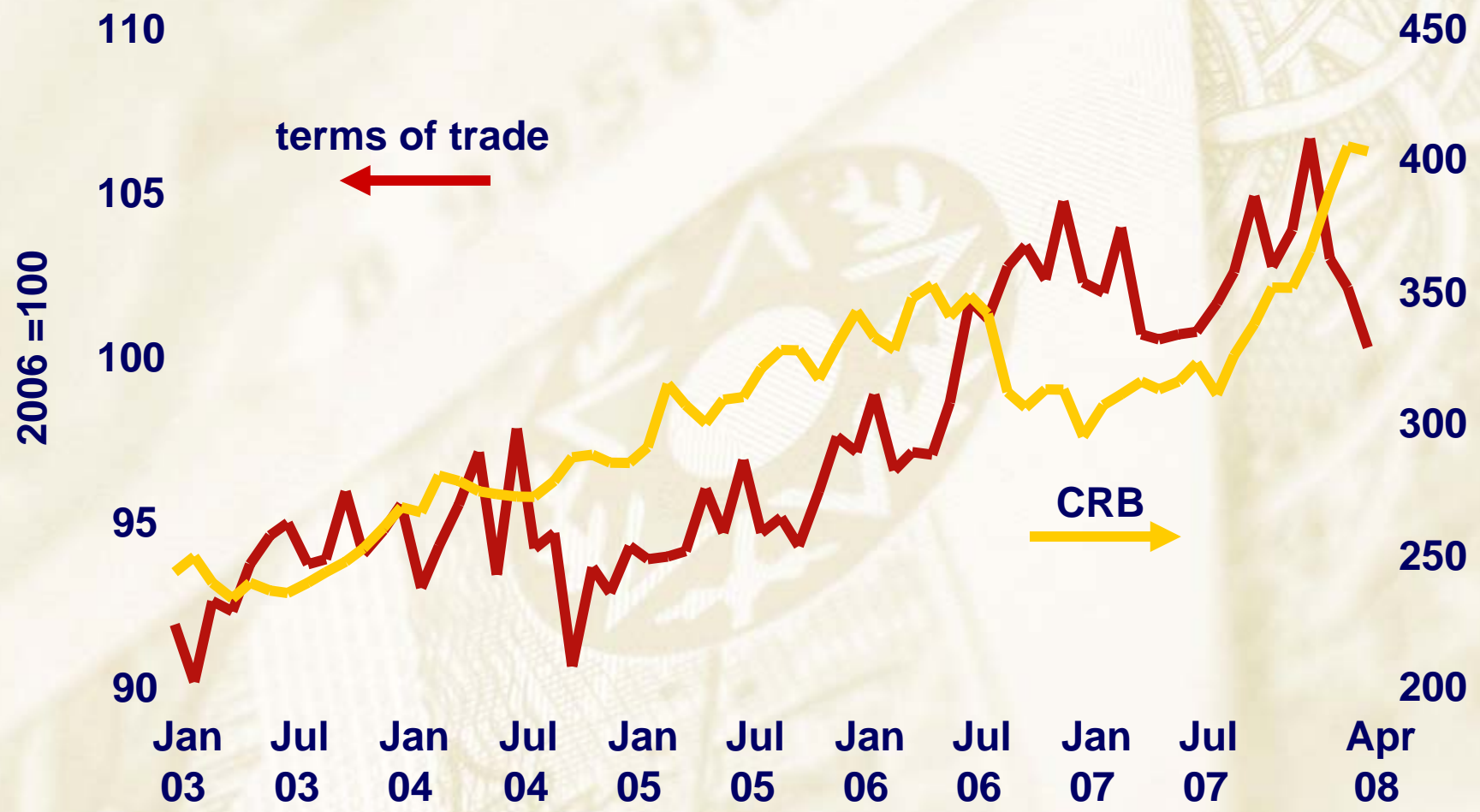
Benign Effects

Negative Effects

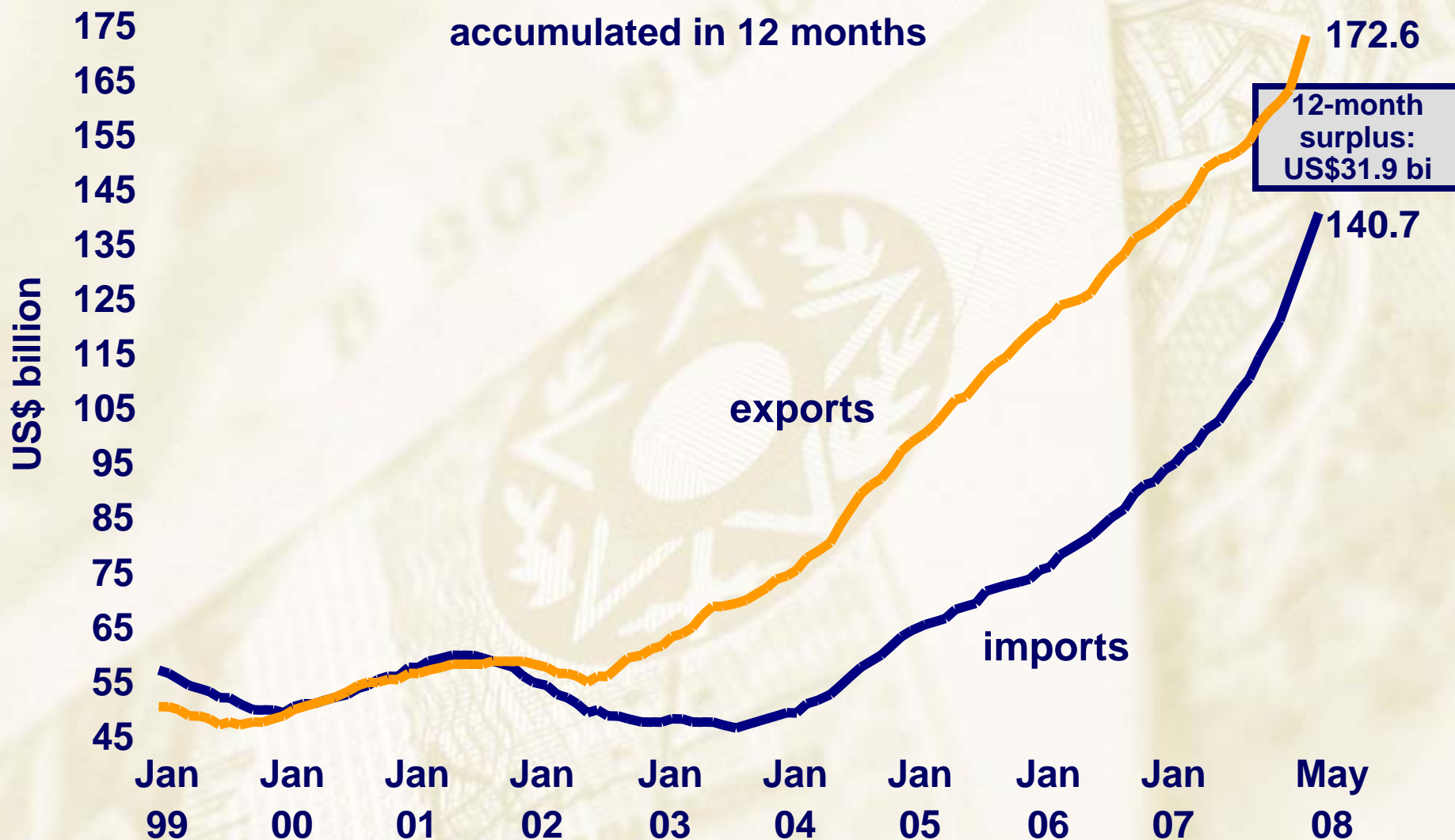
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous

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

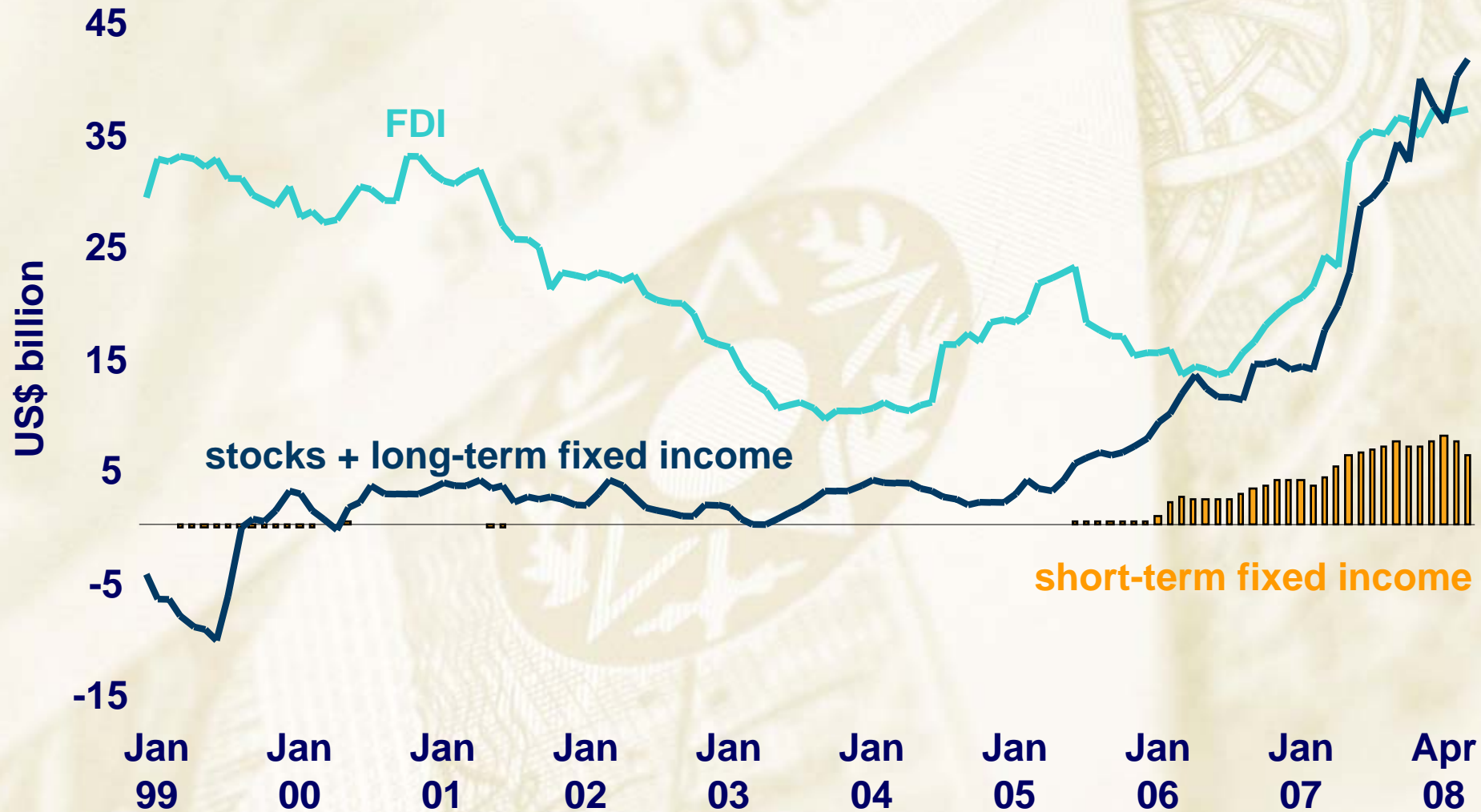
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: CRB Index and Brazilian Terms of Trade



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



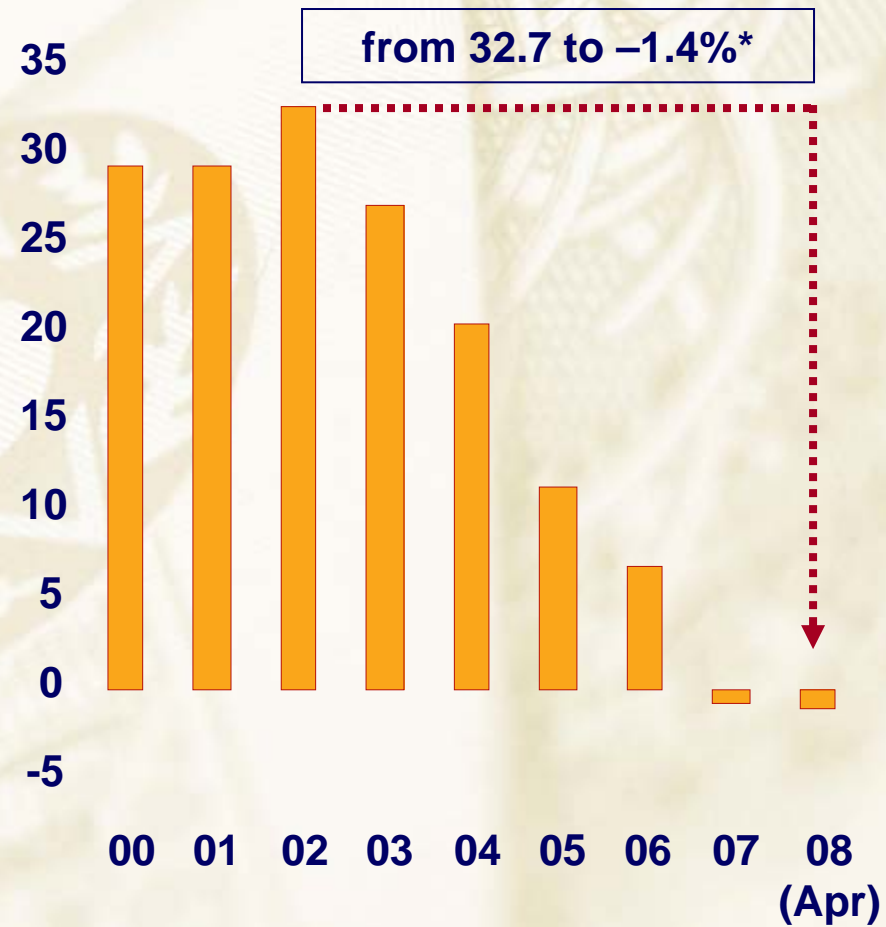
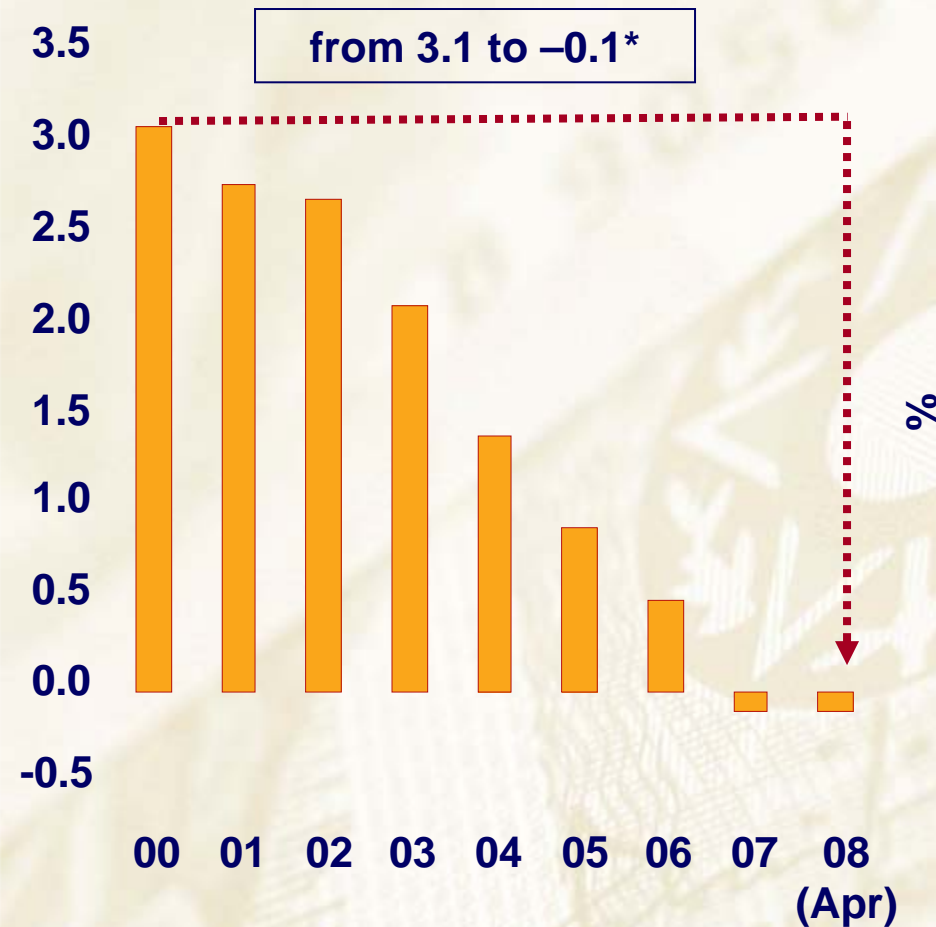
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Increasing Capital Inflows



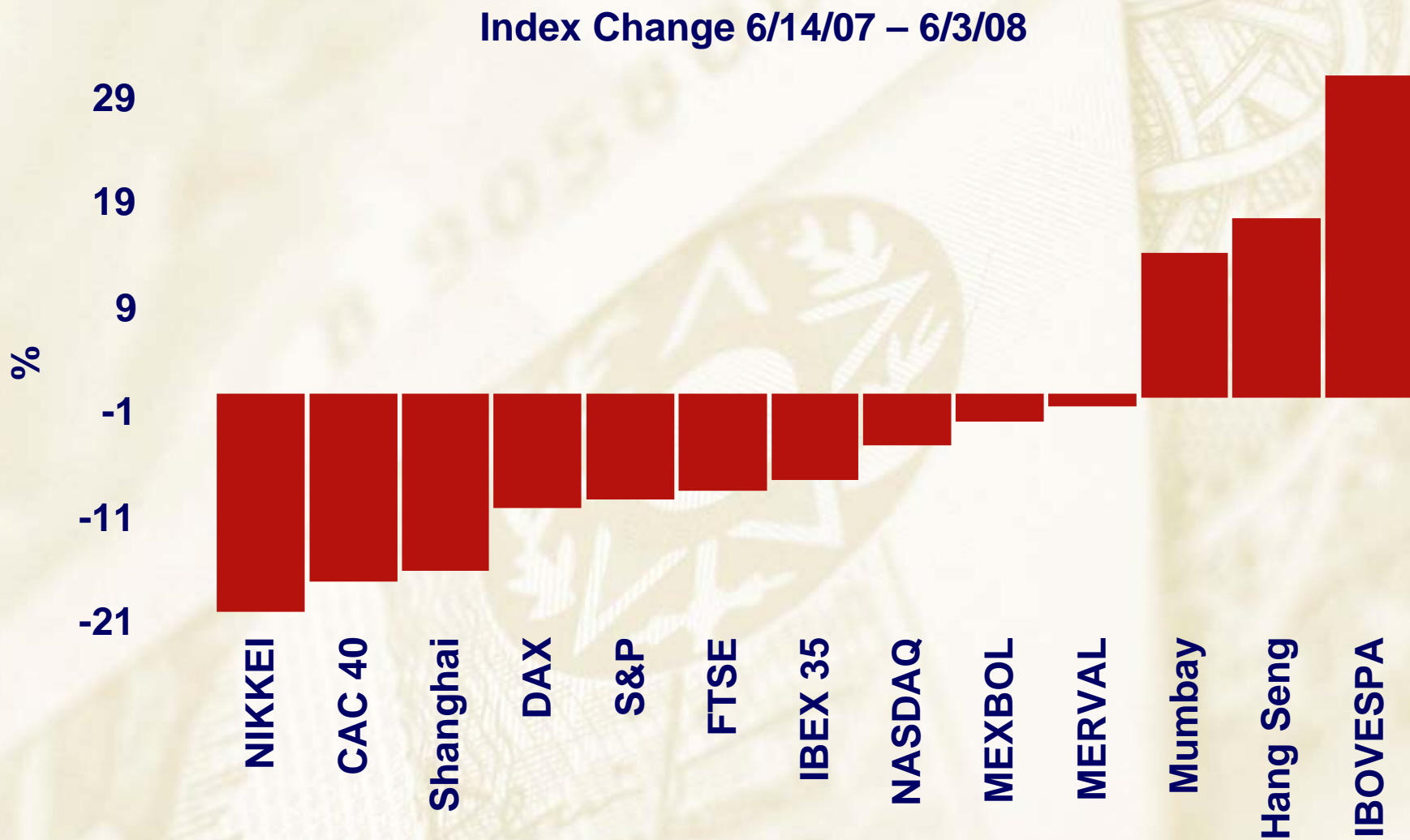
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Better Solvency Indicators

net external debt/exports

net external debt/GDP



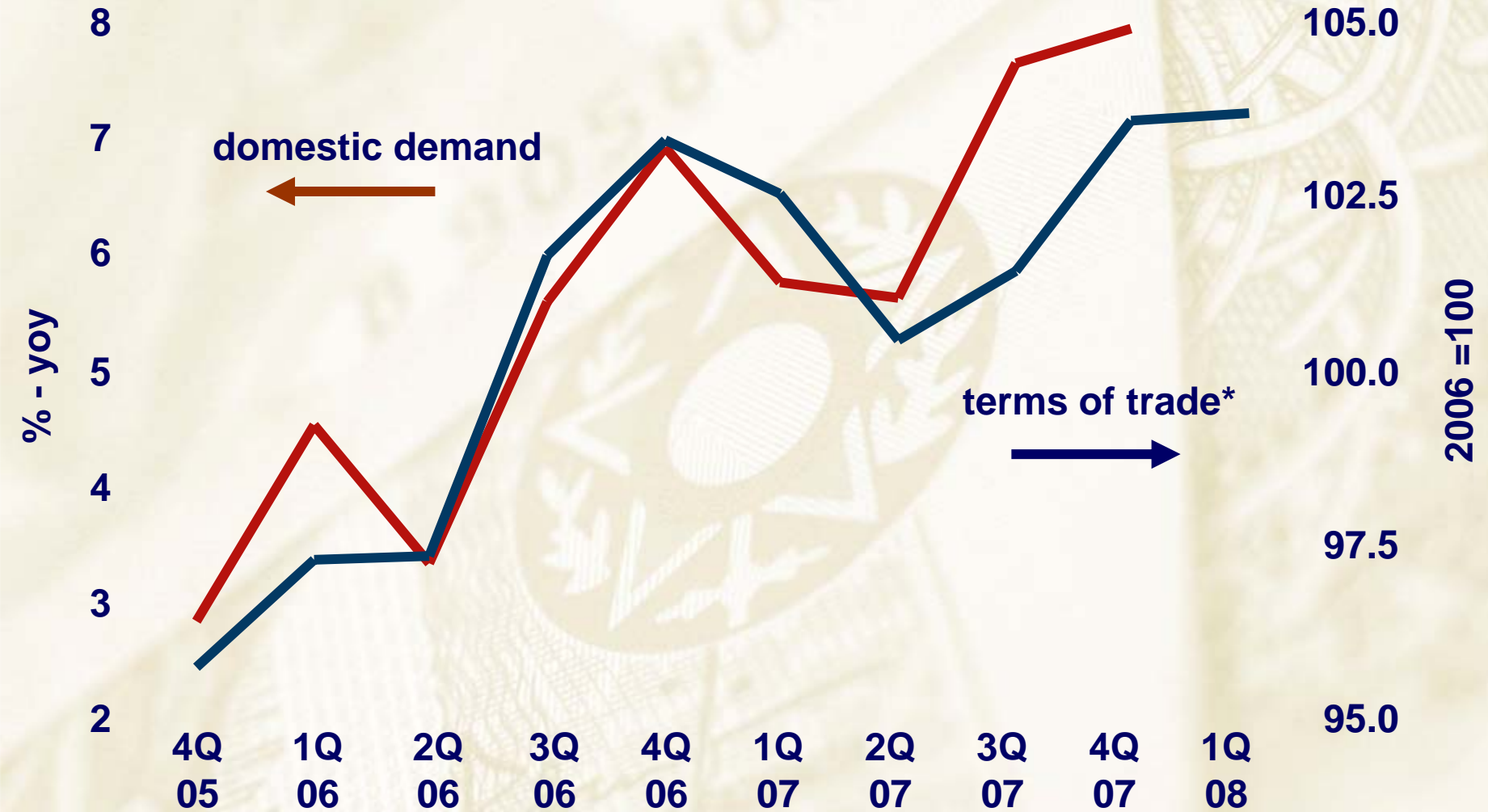
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Buoyant Asset Prices



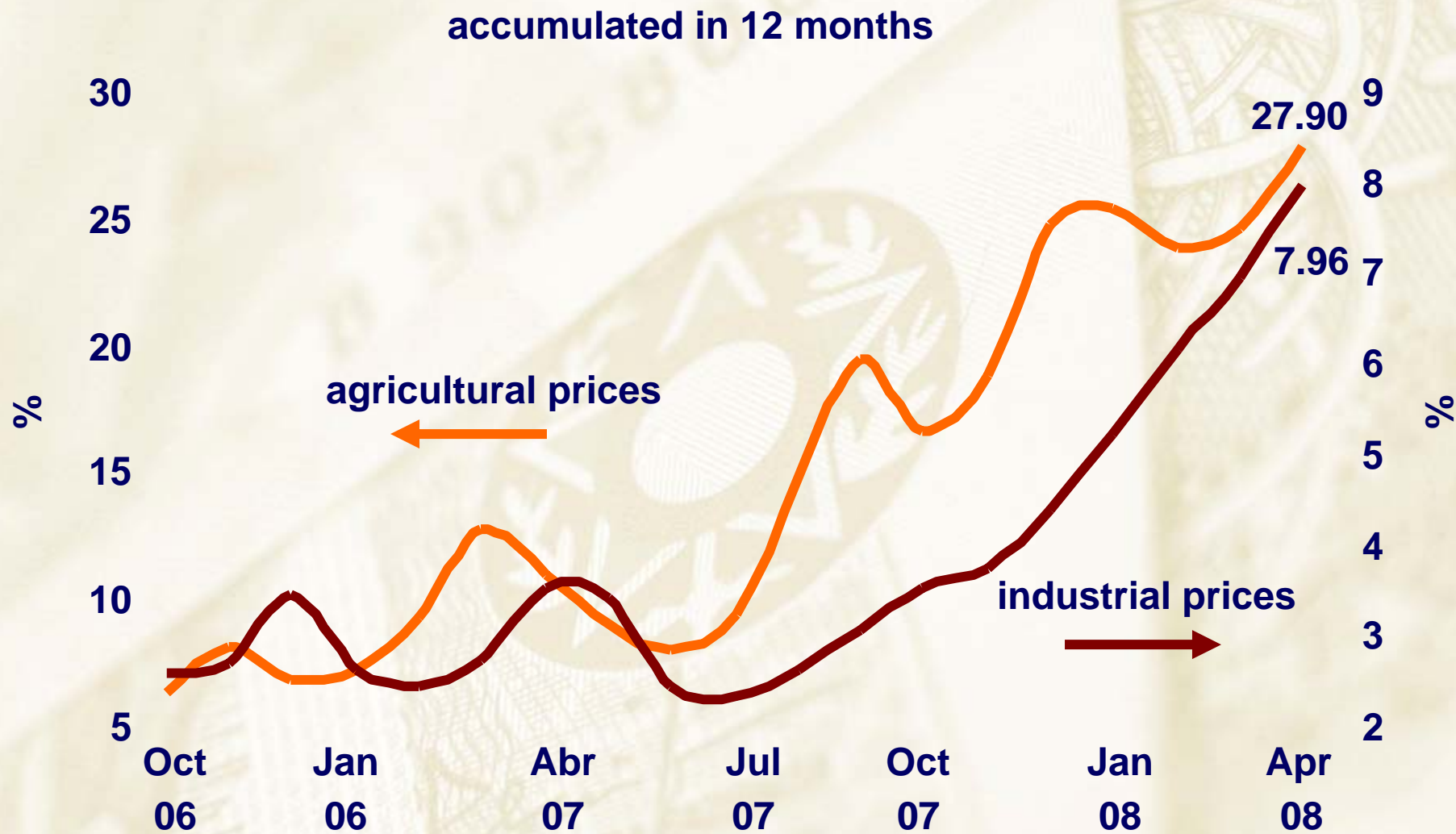
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous

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

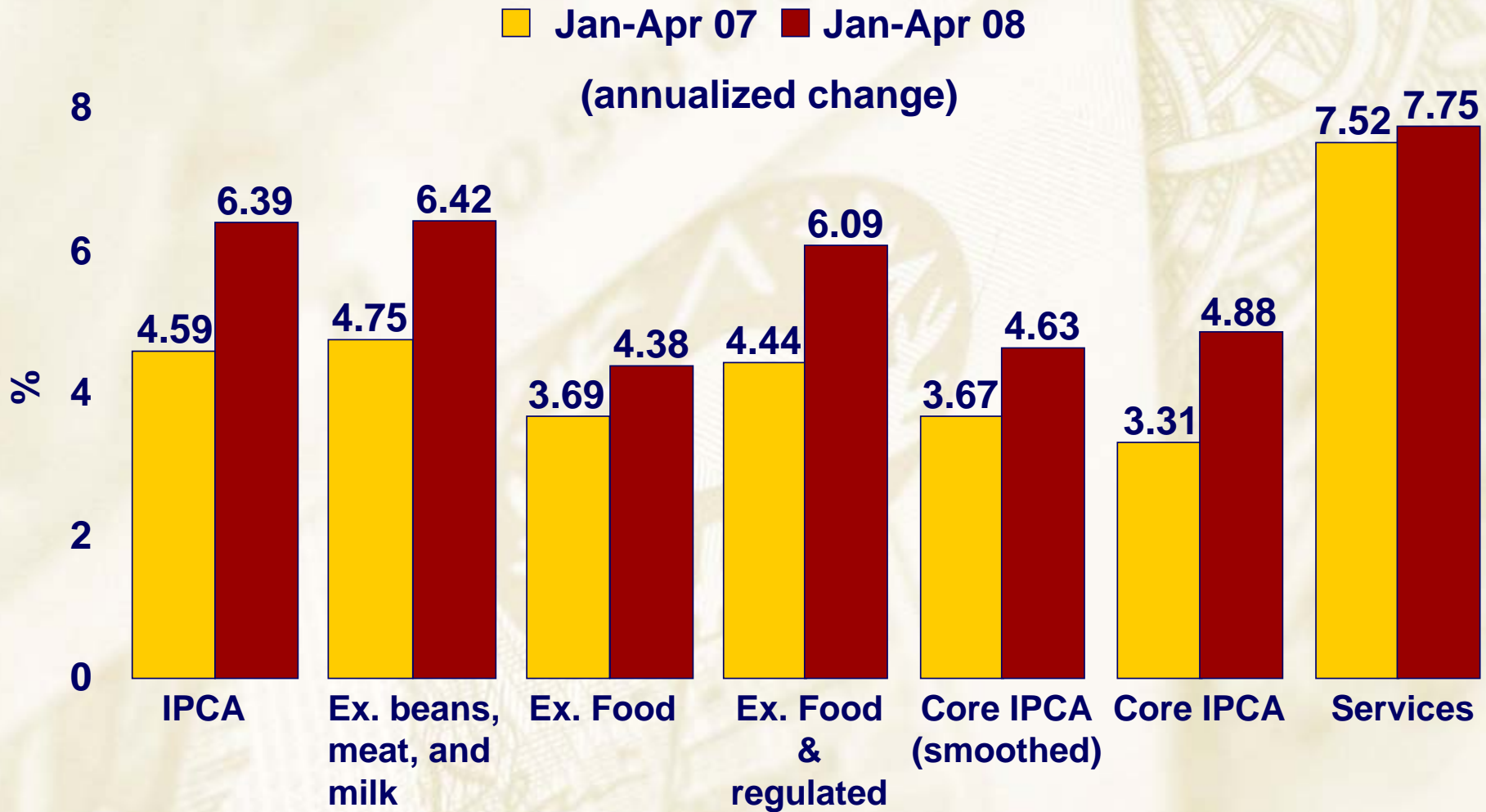
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Terms of Trade Income Effect



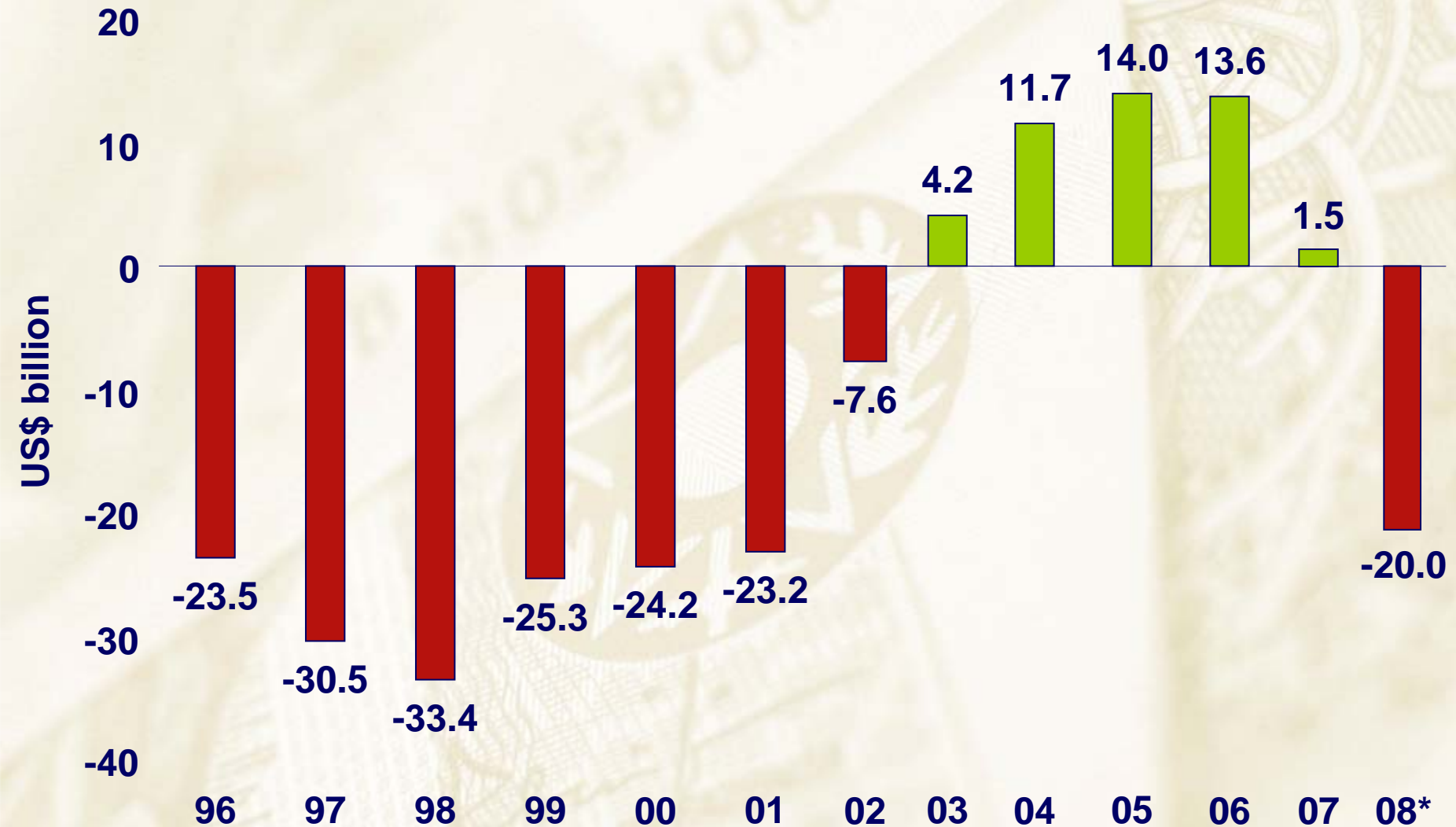
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Rising Wholesale Prices



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



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



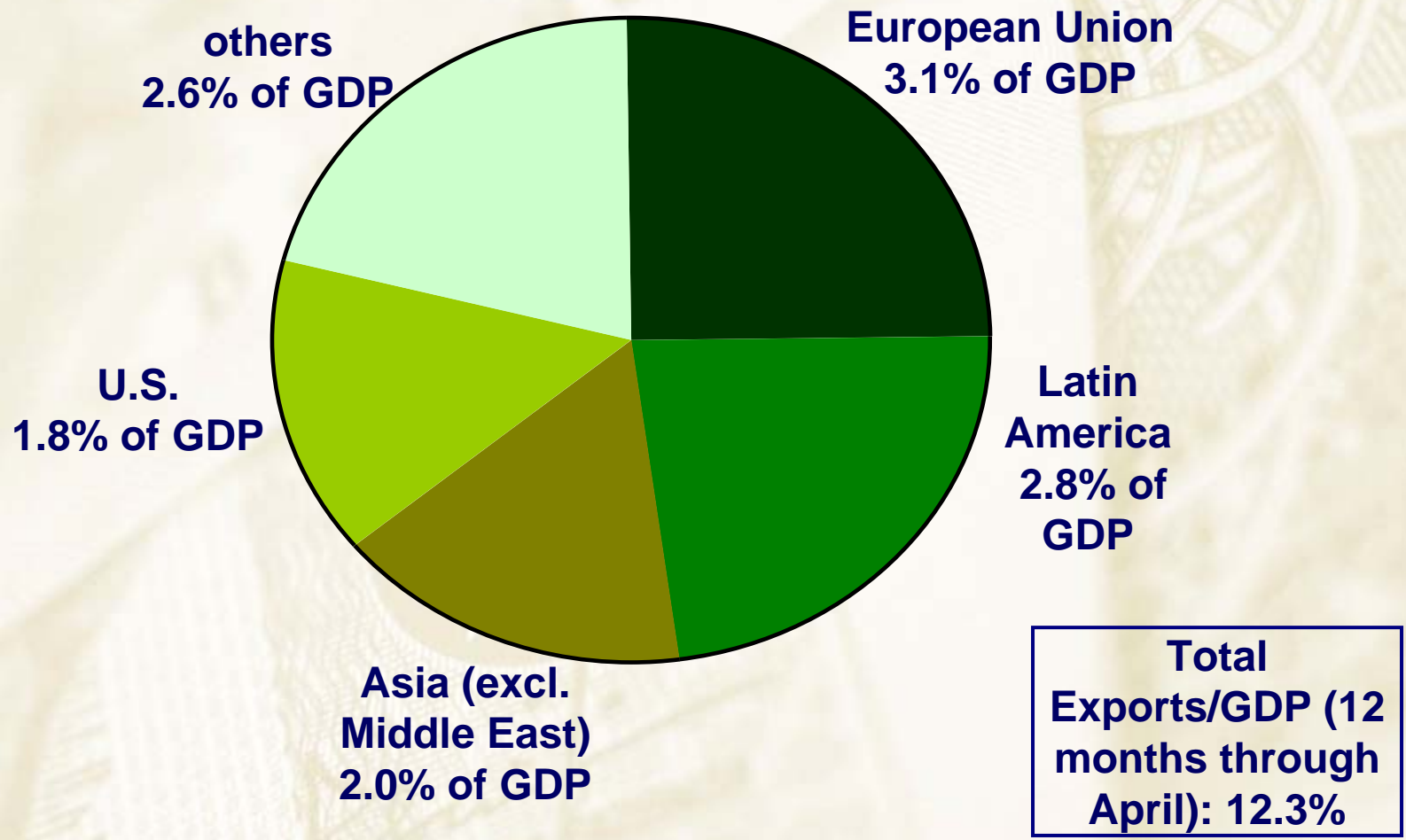
The Impact of Rising Commodity Prices on Brazilian Inflation has been Ambiguous: Deterioration of Inflation Expectations (Target = 4.5%)



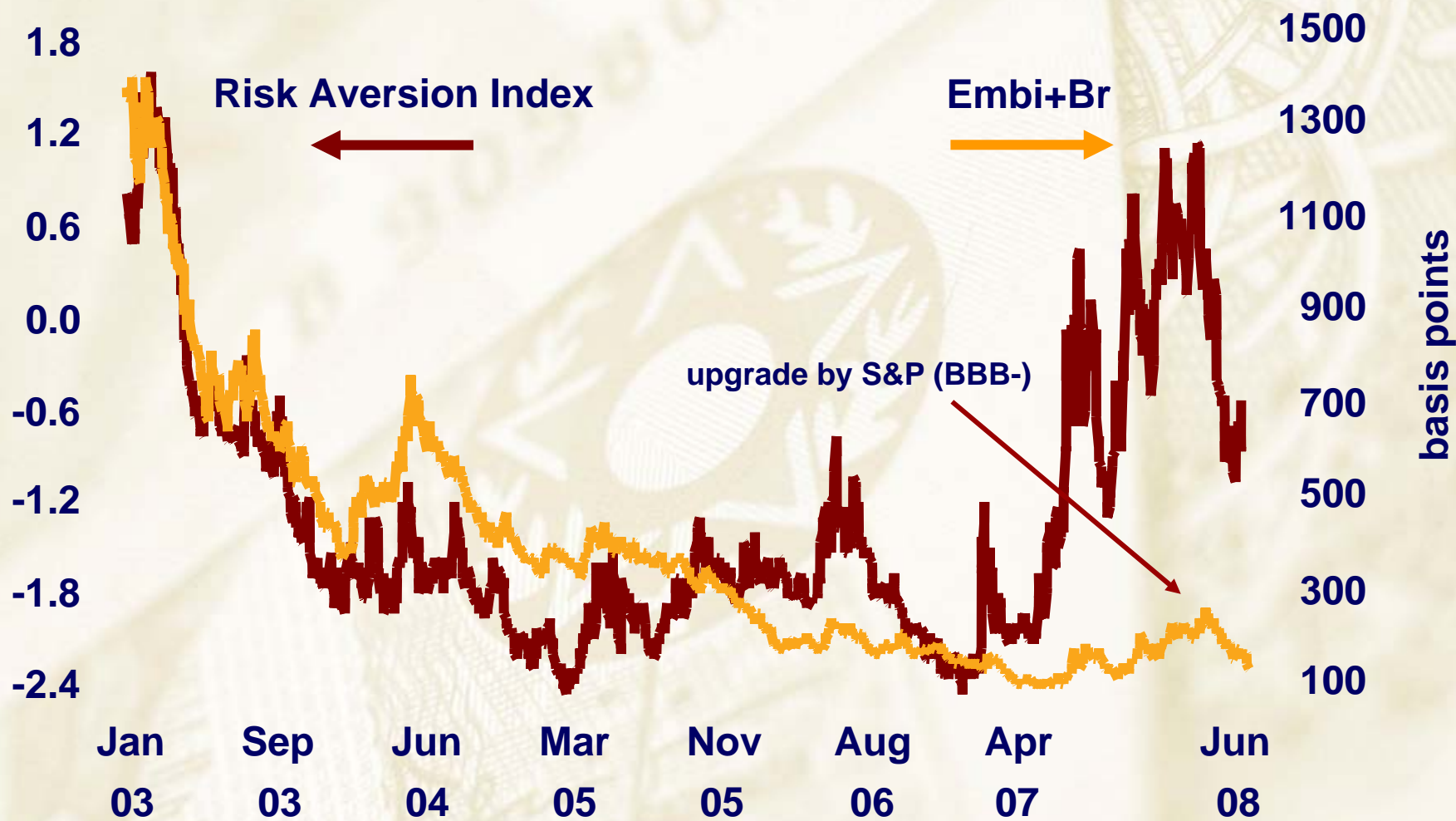


II: Transmission of US slowdown

destination of Brazilian exports accumulated in 12 months through April



Transmission of US Slowdown: Risk Aversion

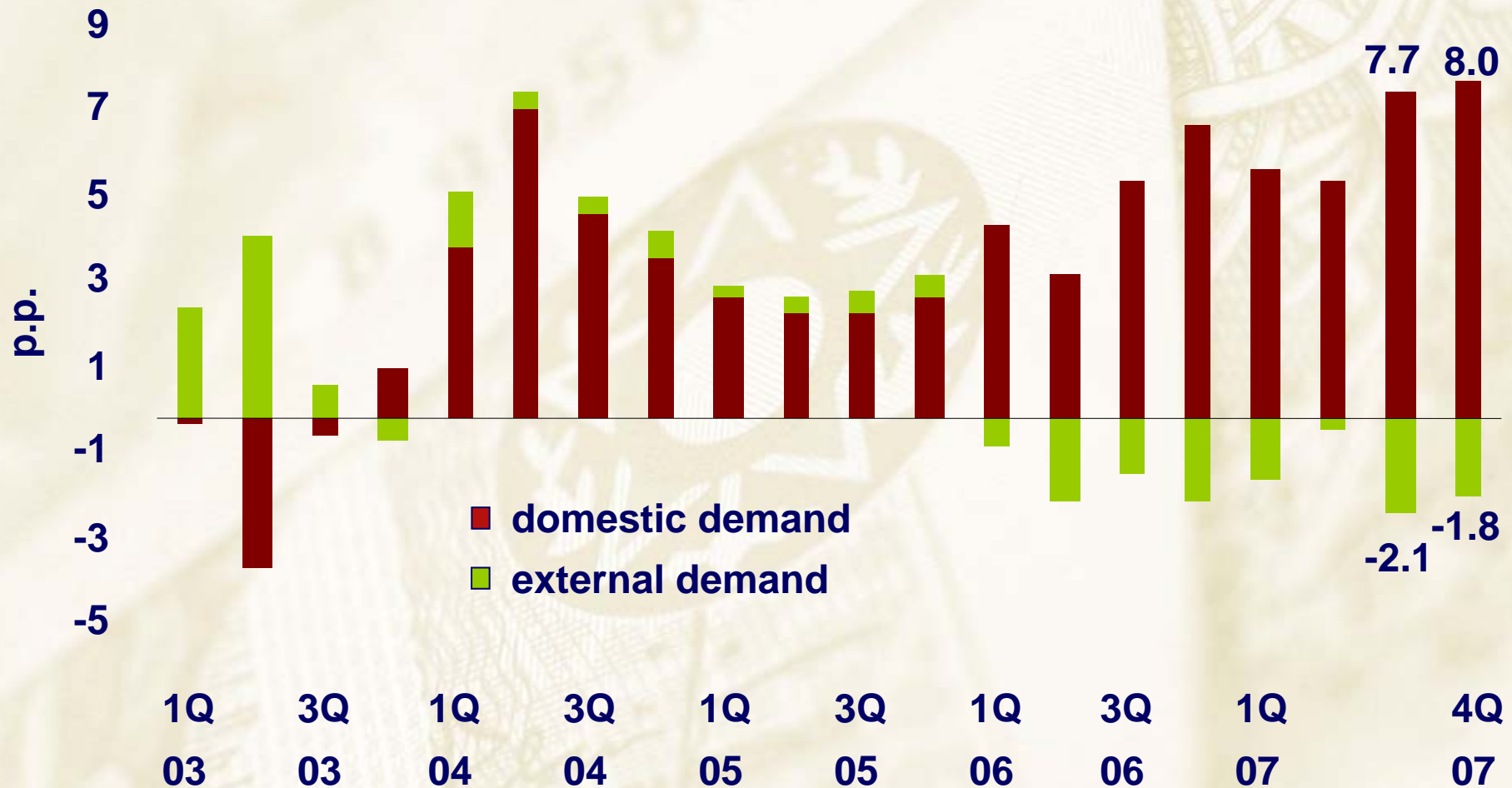


The background of the slide is a close-up, slightly blurred image of a Brazilian 100 Real banknote. The note is light yellow and features intricate security patterns and the central emblem of the Central Bank of Brazil. The text 'III: Tensions and trade-offs' is overlaid in a bold, dark blue font in the center of the image.

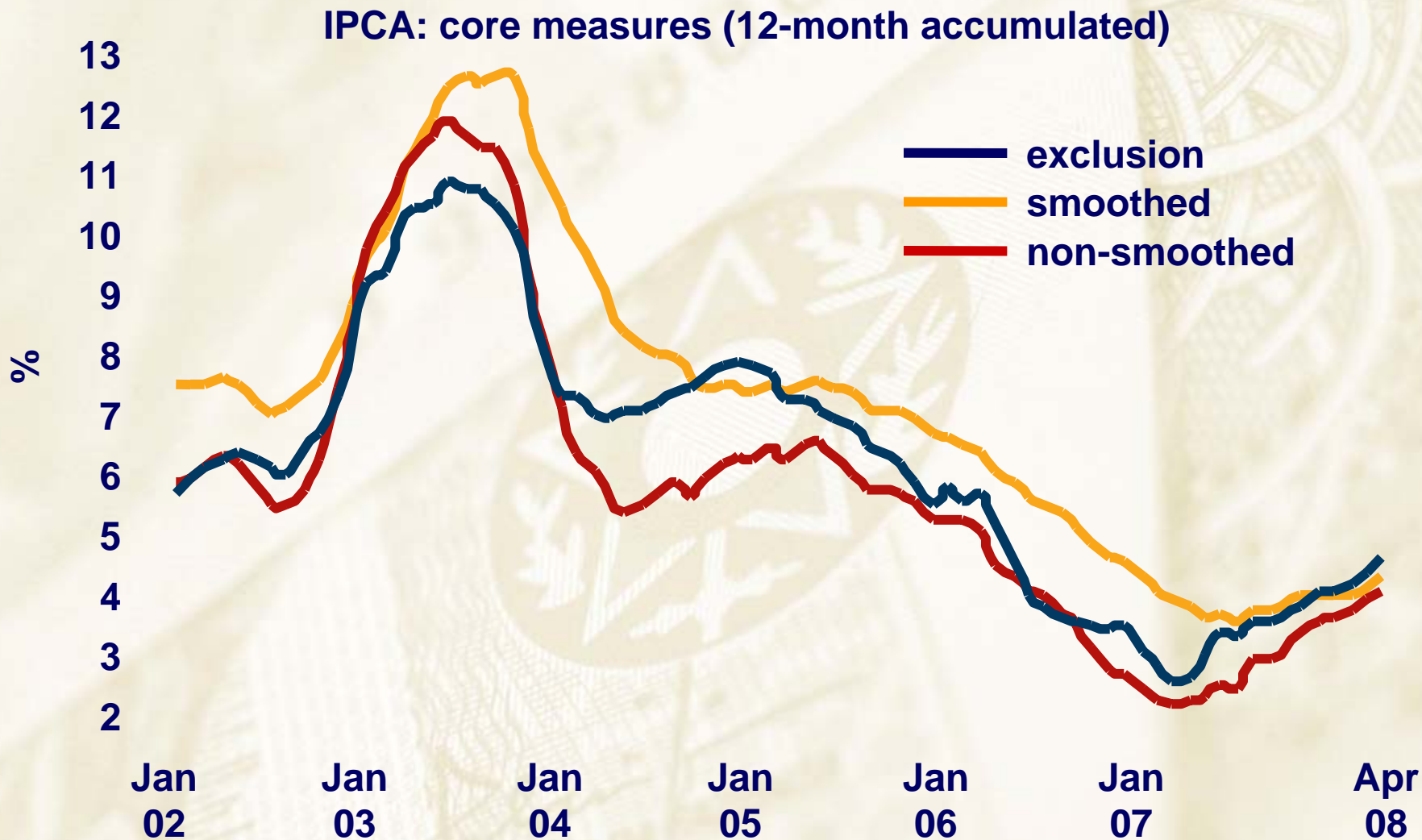
III: Tensions and trade-offs

Behavior of Domestic Demand: Domestic vs. External Demand

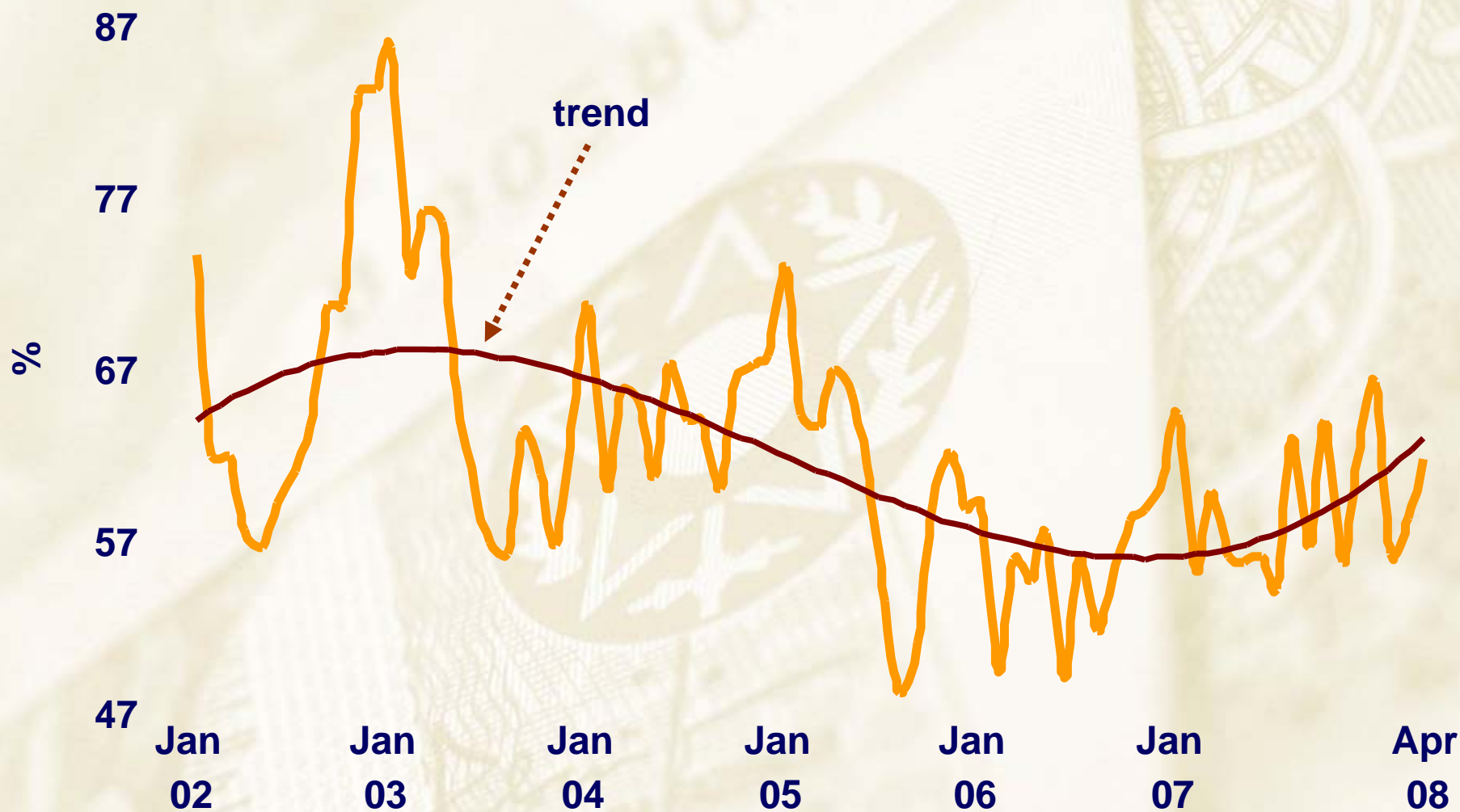
compared to same quarter of previous year



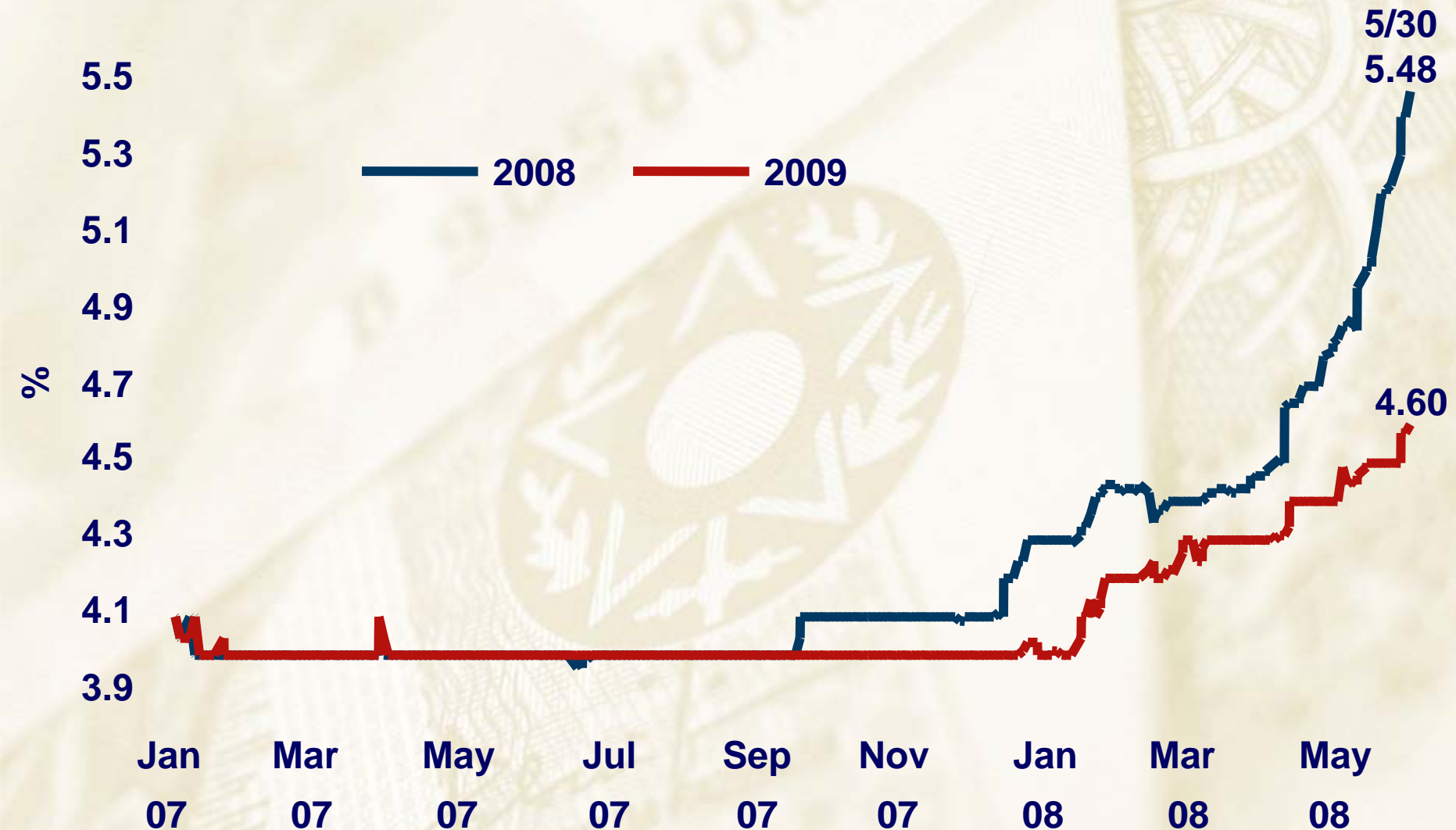
Monetary Policy Response: Risk has been Increasing



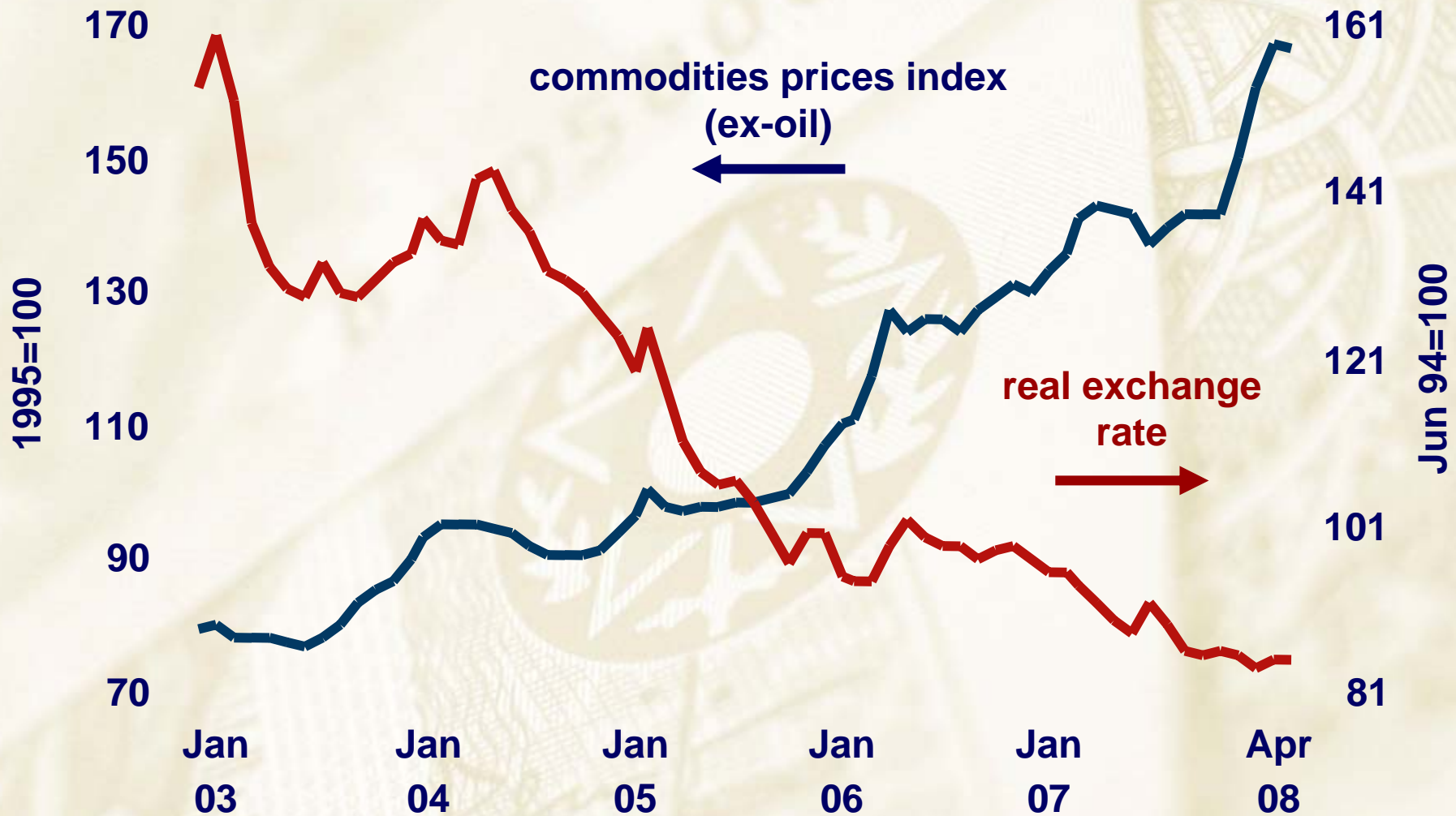
Monetary Policy Response: Inflation Becoming More Widespread



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

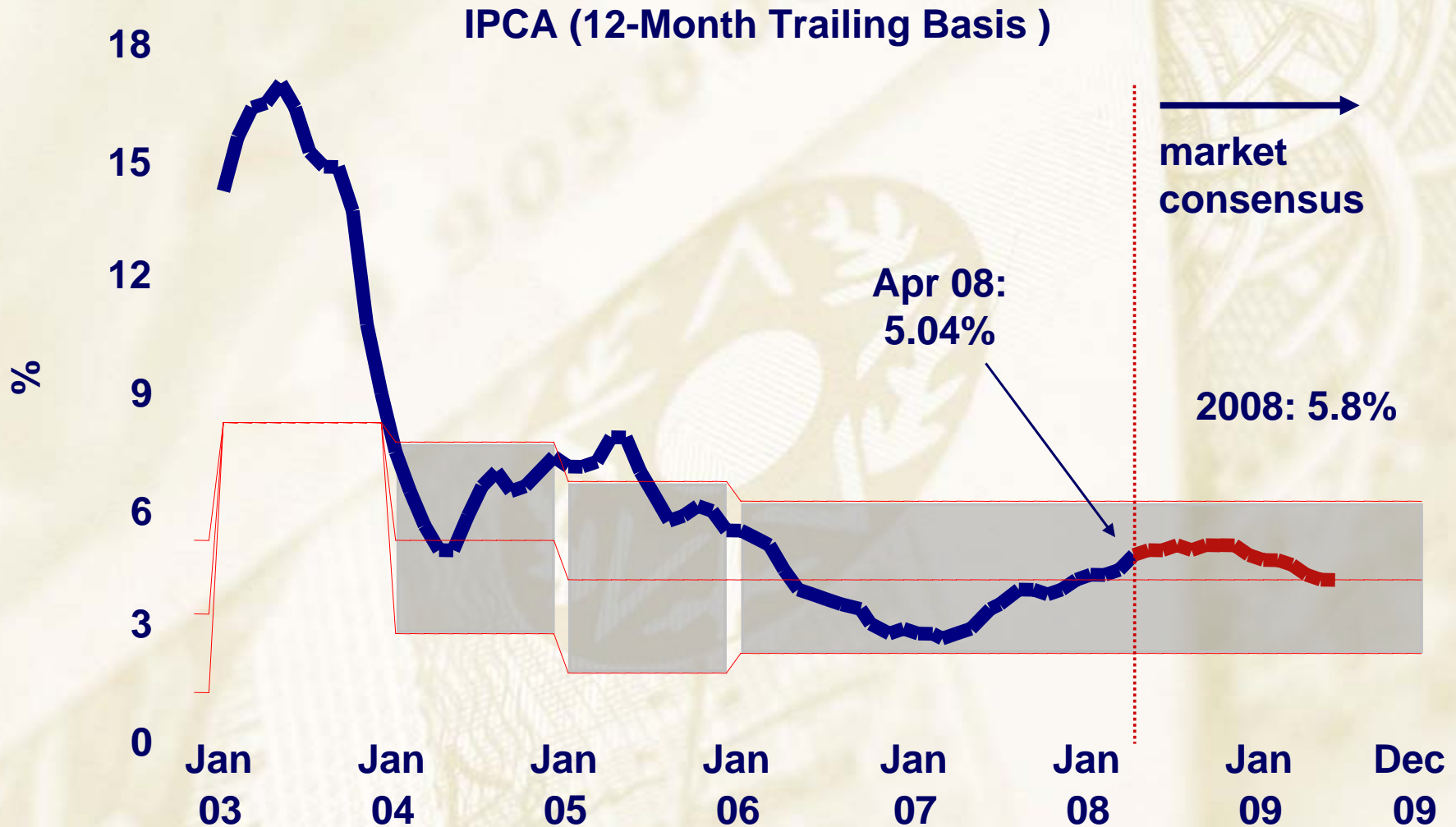


Effects of Low World Real Rates: Commodity Prices and Currency Appreciation

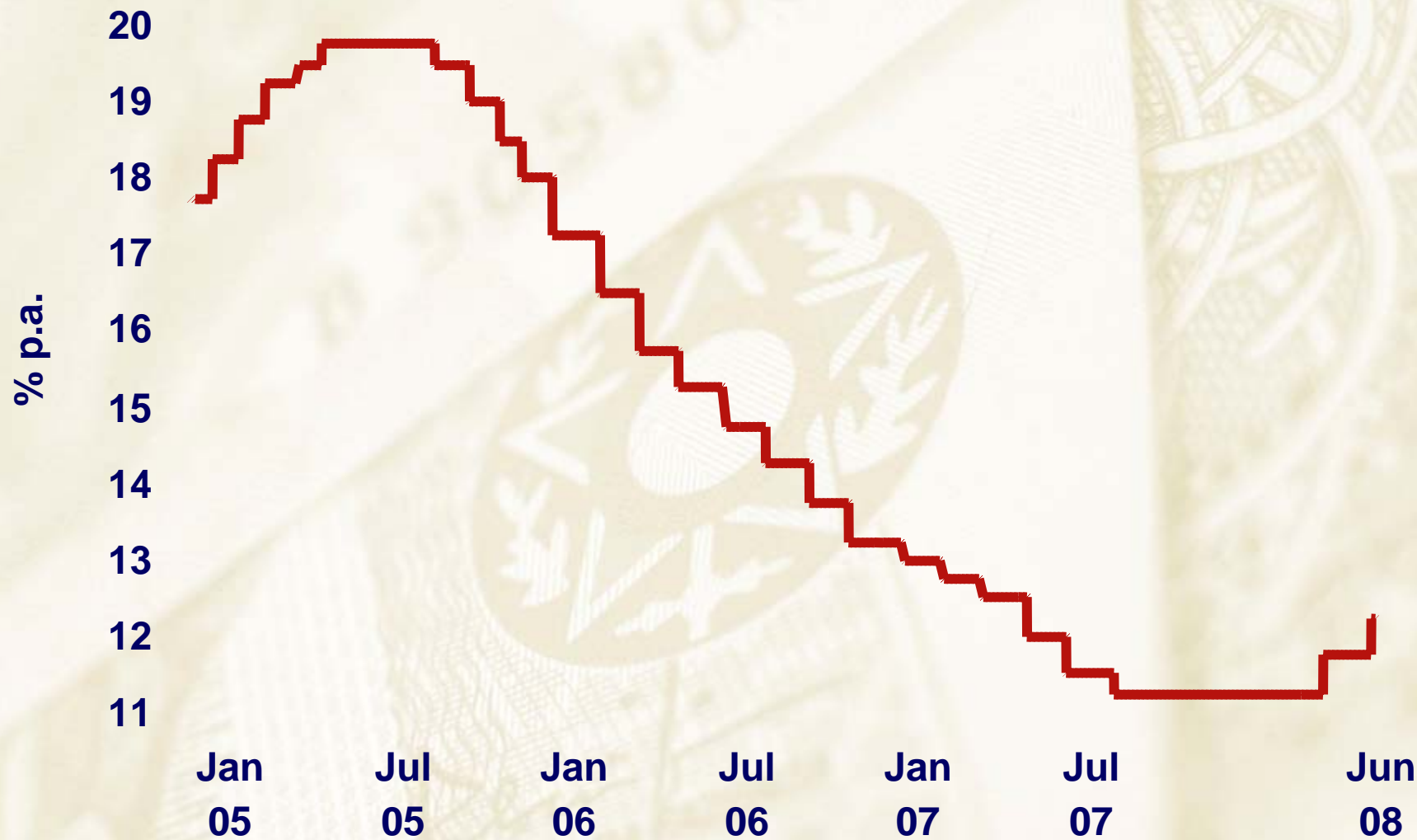


IV: Monetary Policy Reaction

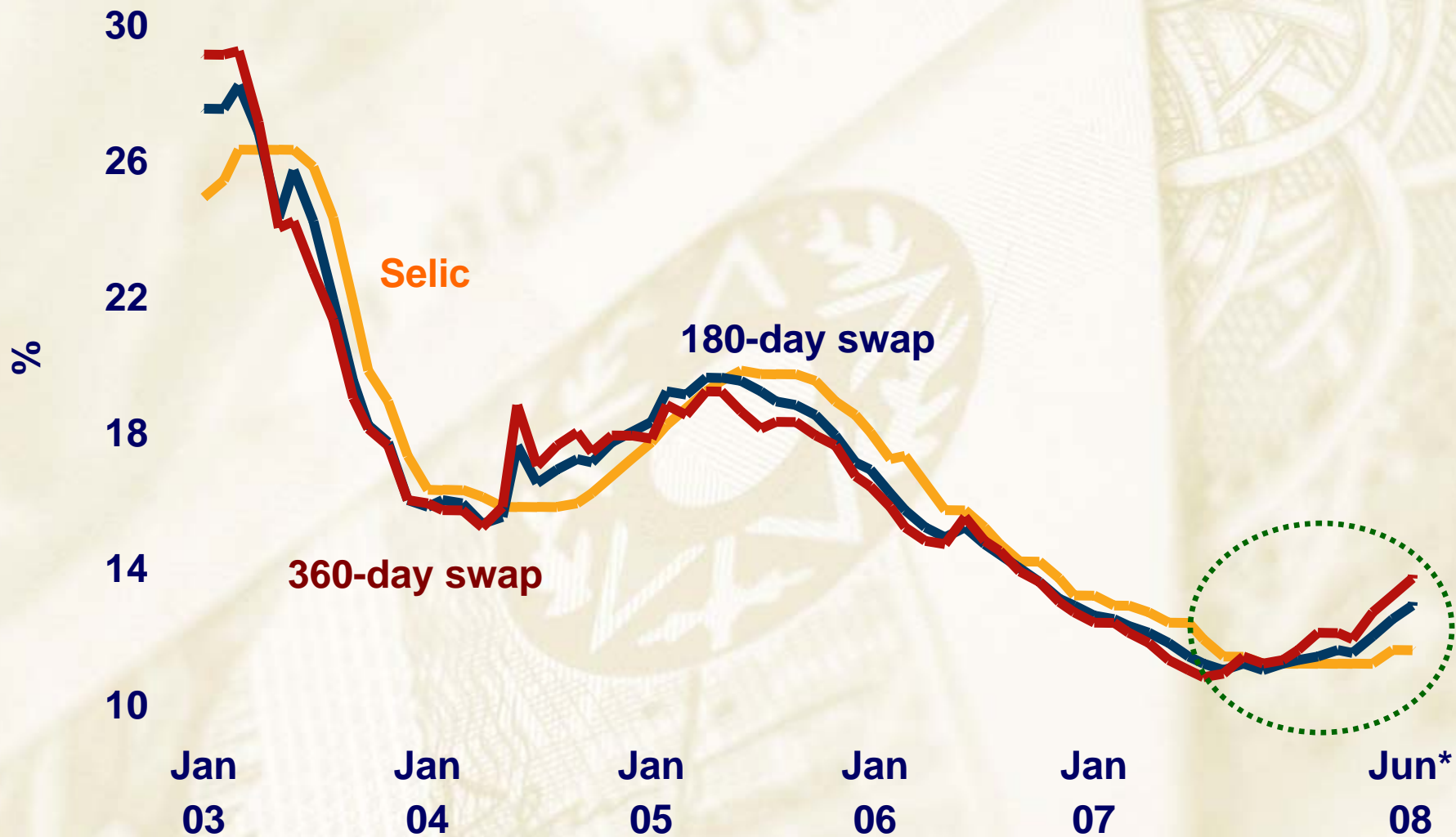
Monetary Policy Response: Goal is to Ensure Convergence of IPCA Inflation to Target Path



Monetary Policy Response



Monetary Policy Response: Partly Anticipated by Markets



Monetary Policy Response: Inflation Expectations Deterioration Still Limited

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



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