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FEELING OF APPREHENSION IN THE BRAZILIAN MARKET

Changes in the United States and Japan economic policies imposed challenges to emerging economies and showed that they are not immune, as thought before. In the place of certainties, we now have doubts. And this has generated a climate of apprehension in markets.

In Brazil, particularly, exchange rate and foreign trade conditions deteriorated at an impressive speed. The average dollar went from R\$/US\$ 2.03 in January to R\$/US\$ 2.34 in June of this year; the trade balance for the first eight months of 2013 amounted to US\$ 3.764 billion, an astounding and unsustainable deficit in the long-term.

But what are the real reasons for this change in stability climate? The answer with greatest explanation-force resides in the solid economic recovery of the United States and its consequences on monetary and commercial policies. US GDP growth, at rates close to 3%, directly implies in the labor market recovery, with a sensitive reduction in unemployment and a direct relationship over consumption.

At the care of the Federal Reserve, monitoring is being done *in loco*, since the main concern resides in prices which, stimulated by demand, could go off track, due to the enormous monetary stimuli and, in practice, the first instrument for guiding inflation would be an increase in Fed Funds Rate (FFR).

In view of this format, the price of money in the global market is adjusting to interest rates in the

United States with reflexes in other economies, particularly, those that are more exposed to debts in dollar and have a deranged trade balance.

In Brazil, government indebtedness in dollar dropped significantly over the last 10 years. However, private indebtedness remained and with a significant participation. The debt composition in US dollar on the part of companies is probably the main problem of the Brazilian market when talking about volatility of the US currency. However, there is another factor contributing to the feeling of apprehension in the Brazilian market: the change in foreign investor humor regarding what was promised and not fulfilled in Brazil by the government and some executives.

A more historical vision of the exchange-rate market showed a scenario of minimum margin practices in US dollar quotations since 2010.

This is worrisome in terms of future economic impacts, for having maintained in the market a feeling that everything is under control by Brazil's Central Bank, which demonstrated limited response capability to resolve recent economic demands.

As such, we are inserted in a new global economic configuration that is being shaped based on the pillars of recovery by central countries and lower economic growth on the part of emerging countries. The result, which is still being built, indicates that global competition will intensify, investments will be more speculative and competitiveness will be the key to future growth. ■