

Brazil: Mega-events, mega country!



Microscope

Rio, in a metropolitan area with 12 million people, centered its bid on using sports as a catalyst for social integration, celebration and transformation of the city, the region and the country. According to Bloomberg, the city promised “impeccable games” that will improve the city’s infrastructure, security and environment, and generate 50,000 temporary jobs and 15,000 permanent ones. As a result, we can see sustainable growth in coming years. Meanwhile, there is a discussion about what economic policy will look like in January 2011 when the next government takes office. The current government previously aimed at containing inflation in coming quarters. Now, after the victory over the Games’ hosting, expected jump in infrastructure activities means there may be low pressure to hike rates. On the investment perspective, with the Olympics, there is certainly an optimistic sentiment push that can boost the market PE. The diagram¹ indicates there is usually gain in benchmark in the year prior to the games among the most recent seven Olympics hosts. **Note 1:** Please consult your financial advisor for further information. 

Brazilian stocks stole the limelight last week after Rio de Janeiro was awarded the 2016 Summer Olympic Games. The Bovespa climbed 1.2% to 61,171.99 on Friday. The real, the best-performing emerging-market currency against the dollar this year, rose 0.3% to 1.7820. Rio, which is hosting the World Soccer Cup in 2014, beat Madrid, Chicago and Tokyo to become the first city in South America to host the Summer games. As a matter of fact, winning the bid, after having the rights to host to 2014 World Soccer Cup, will definitely increase the chances of more investments to Brazil. Brazil plans \$11 billion of investments as host, more than any other of the bidding cities. With the upcoming infrastructure improvement, there is going to be a significant boost to growth. Bloomberg quoted studies by a Sao Paulo business school for the Ministry of Sports as saying that the Olympic Games will help

sustain Brazil’s economic growth by injecting \$51.1 billion into Latin America’s largest economy through 2027 and add 120,000 jobs annually through 2016. Brazil’s victory also comes after Moody’s Investors Service boosted the nation’s rating to Baa3, the lowest investment-grade, on September 22, one year after the global credit crisis. The Bovespa has gained 63% this year, compared with a 19% rise in the MSCI World Index of 23 developed countries. The outperformance is mainly attributed to its resilient rebound in economy. Since the outbreak of the financial tsunami, the central bank has aggressively cut rates to boost economic growth. Brazil’s \$1.6 trillion economy emerged from a recession in the second quarter. GDP expanded 1.9% in the April-through-June period from the previous quarter. The central bank halted seven

months of rate cuts in September on signs the economy is recovering faster than expected. The major risk now is inflation. It may rise above the 4.5 percent mid-point of the government’s target in the first quarter of 2011, according to policy makers said in their Sept. 25 inflation report. Brazil’s stock market had a third straight month of international inflows in September on signs the economy is recovering. Foreign investors bought 4.04 billion reais (\$2.3 billion) more in equities than they sold last month, the biggest inflow since adding a record 6.1 billion reais to holdings in May. That brought the total amount of inflows this year to more than 17 billion reais, according to Bloomberg. International investors purchased 39.26 billion reais of stocks in September and sold 35.22 billion reais. 

MARKET BRIEFING


YTD % (local curr)

US DJ	9,487 (8.1%)
Nasdaq	2,048 (29.9%)
Euro Stoxx 50	2,760 (12.6%)
HSI	20,375 (41.6%)
Japan NK225	9,731 (9.8%)
China Shanghai Composite	2,779 (52.6%)
Singapore	2,604 (47.9%)
India BSE30	17,134 (77.6%)
Brazil BOVESPA	61,171 (62.9%)
Aus All Ord	4,606 (25.9%)
US-10yr Bond	Yield 3.22%


As at 02/10/09

Insight: “Hyperinflation”

Hyperinflation is very high inflation, a condition in which prices increase rapidly as a currency loses its value. Hyperinflation is largely a twentieth-century phenomenon, like hyperinflation occurred in Germany after World War I. The German price index from November 1923 to August 1924—just fifteen months—grew by 322% per month. Usually, hyperinflations are caused by extremely rapid growth in money supply, especially the supply of paper money. They occur when the monetary and fiscal authorities of a nation regularly issue large quantities of money to pay for a large stream of government

expenditures. Hyperinflation effectively wipes out the purchasing power of private and public savings, distorts the economy in favor of extreme consumption and hoarding of real assets, causes cash to flee the country, and makes the afflicted area anathema to investment. Theoretically, inflation is a form of tax in which the government gains at the expense of those who hold money while its value is declining. The public tries to spend money it receives quickly in order to avoid the inflation tax. The government responds to higher inflation with even higher rates of money issue. When will hyperinflations end? Certainly, it should take time. However, it could be quicker when governments make a credible commitment to halting the rapid growth in the stock of money and the public restores confidence in paper money. 

A-Z Financial Tools

Negative yield curve happens when the yield on a short-term security is higher than the yield on a long-term security, partially because there is concern over upcoming economic slowdown. Since central bank may cut interest rate later to boost economy, investors usually prefer long-term bond to short term one to lock in the yield. 



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