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The Brazilian Monetary Policy Committee (Copom) of the Central Bank unanimously decided to raise Brazil's benchmark interest rate, the Selic, from 12.25% to 12.50% per year. It was the fifth consecutive increase this year and has raised the Selic to the highest level since January 2009.

In a note at the end of last night's meeting, differently from all its recent notes, Copom did not mention the existence of a "prolonged horizon" for further increases. And that has led some, but not all, market observers to believe that maybe the series of interest rate increases is at an end.

The decision had been anticipated by the market and is geared to combat high inflation, which is running at a six-year high, 6.75% above the government's upper target of 6.5%.

Traders who correctly predicted the decision are split on whether policy makers will raise rates again next month. Yields on interest rate futures rose across the board, on increased optimism on outcome of the Euro-zone debt crisis.

Brazil's policymakers went into their meeting just hours after data showed inflation slowed sharply in the month to mid-July.

The Central bank Monetary Policy Committee, Copom, statement was noticeably shorter than that in the bank's previous meeting, saying only that the bank evaluated "the outlook and the balance of risks for inflation."

That was in contrast to recent statements, including the June release in which the bank reiterated the need for a "prolonged" tightening cycle as part of its strategy.

Brazilian policymakers are trying to balance above-target inflation and the need to sustain economic growth.

The government is also gauging the effects of monetary policy on the currency, as higher interest rates will likely also feed a currency rally that has taken the Real near 12-year highs, which is a worry for exports.

Other emerging markets have faced the same dilemma. Some, such as economic powerhouses India and China, have tightened interest rates, as well.

In contrast, some developed markets, such as the United States, still have near-zero interest rates in a bid to boost economic expansion.

Brazil's benchmark IPCA price index rose 0.1% in the month to mid-July, less than expected and easing from 0.23% in the month to mid-June, data showed on Wednesday.

Nevertheless, the IPCA rose 6.75% in the 12 months to mid-July -- above the central bank target ceiling of 6.5%, first pierced in April this year.

Central bank president Alexander Tombini has repeatedly cited the "complexity" of the global economy as a reason why policy makers need to proceed with caution.

The Real rose to its strongest level since 1999 this month and has registered a 48% advance against the US dollar since the end of 2008.

Limited Port Capacity

Meanwhile the pace of cruise expansion in Brazil is expected to encounter a sharp slowdown in

the 2011-2012 season after having grown 20% annually over the past ten years and reaching a level of 800,000 tourists annually.

The estimated expansion in the supply of beds is only 1.6%. The main reason is the infrastructure deficiencies of Brazilian ports, which have no more room for receiving large vessels. Given this scenario, it will mark the first time a cruise season will have fewer vessels than the last: 17 instead of 20.

Brazilian industry executives say that the trend, if port infrastructure remains unchanged, is for the industry to rearrange its size, because it may have grown far more than ports capacity.

"The sector's growth will slow down. There is insufficient investment in ports. The system is at the limit," says the president of the Association of Maritime Cruises (Abremar), Ricardo Amaral, also Royal Caribbean CEO in Brazil.

However Brazil's Ports Secretariat reported that it is well aware of maritime demand growth. "The Ports Secretariat (SEP) is building six terminals for the World Cup 2014 which demand an investment of 740 million Real (about 460 million US dollars). All projects are going to be leased out in due time and they will all be finished by 2013."

Italy's MSC Cruises is planning a 34% drop in the number of beds this coming season as well as in overall sales, although the percentage was not released. Adrian Ursilli head of MSC marketing said the company will be operating one vessel less, a reduction of 70.000 beds this season which will be transferred to operations in the Arab Emirates.

"Last year we transported 300.000 South American tourists of which 250.000 Brazilian. This coming season the number will drop to 200.000", estimated Ursilli. However he also pointed out that MSC, Abremar, Brazil Ministry of Tourism have been jointly working together with other government offices to find a solution to the port bottlenecks.

Royal Caribbean is also bringing a cruise vessel less this season to the South Atlantic. It will be operating with two vessels but estimates a growth of 30% in the number of tourists since it has extended the season 20 days, which means the number of calls will increase from 44 last season, to 51 in 2011/2012.

"With less supply, there's an overall natural tendency for cruise trips prices to increase, even more if the bookings are made at last moment", points out Amaral, head of Caribbean Brazil, "prices could go up as much as 20%".

Amaral revealed that according to a recent survey from the Getúlio Vargas Foundation (FGV) 70% of cruise passengers are what he described as "first time mariners", meaning tourists that have been attracted by the so called thematic cruises.

This refers to cruises that present singers, television actors, football players and even different styles of music such as ‘heavy metal' Amaral estimates that anywhere from 10% to 20% of cruises in a season are thematic. The total number of calls for the 2011/2012 season is estimated in 386.

The FGV survey also revealed that the 2010/11 season had an economic impact for the Brazilian tourist industry equivalent to 900 million US dollars, which includes expenditure by tourists, crew members and services to vessels.

More specifically on ports' capacity, Santos which is the most commonly used by cruise vessels, can only receive one vessel at a time at the passengers' terminal. However the Companhia Docas from the State of Sao Paulo reported that the expansion plan for the World Cup 2014 includes increasing docking capacity to six vessels. The budget earmarked for the works totals the equivalent of 200 million dollars.

Rio do Janeiro, on the other hand, can currently receive up to seven vessels simultaneously and it is planned to expand docking capacity by 73%, at a cost of another US$ 200 million approximately.

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