

It's Up to Investors to Avoid Bubble in Bullish Brazilian Market

Contributed by Newsroom
Thursday, 05 November 2009

In an interview in London with Bloomberg Television, Brazil's Central Bank president admitted that foreign investors might create an asset bubble in Brazil. "In terms of asset bubbles, stock market etcetera, I think that might happen, but evidently it's up to investors not to get too exuberant," Meirelles said.

Anyhow Meirelles said it's unlikely the country will experience "the most dangerous" form of bubble - a credit-driven one. "We have very strong prudential regulations in Brazil and I don't think that's going to happen."

Brazilian Finance Minister Guido Mantega last month imposed a 2% tax on foreign purchases of equities and fixed income securities in a bid to fend off speculators. Brazil's currency and Brazilian stocks have had world-beating rallies this year.

The Bovespa Stock Index has gained almost 130% in dollar terms this year, including a 2% climb Wednesday to 63,910.51. The Real has gained 35% this year and strengthened 1.4% Wednesday trading at 1.7207 per dollar, its highest in 14 months.

Meanwhile Brazil's top economic policy adviser, Nelson Barbosa told reporters in New York the Real needs to weaken as much as 19% against the dollar for sustainable economic growth.

A "neutral currency" exchange rate of 2.10 to 2.13 per US dollar would be best for growth, Secretary of Economic Policy Barbosa told reporters at an event in New York organized by the Brazilian-American Chamber of Commerce.

Statements from Meirelles and Barbosa, accompany investor concerns Brazil may adopt extra measures to curb the real appreciation.

However he stressed that the real level varies according to commodity prices and is not a target for the government, which remains committed to a floating exchange-rate regime.

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