

Food, fuel and froth

SAO PAULO

The biggest emerging market, sort of

BRAZIL, or at least the tiny part of it that reads the financial pages, has become used to breaking records lately. In February the central bank announced that the country was a net creditor with the rest of the world for the first time, thanks to a whopping \$190 billion of reserves. Then Citigroup put out a research note highlighting the rise of the Bovespa, Brazil's stockmarket, to the number one spot on MSCI'S emerging-markets index, which has a wide following.

This does not quite mean that Brazil is the biggest stockmarket outside the rich world, as some news reports suggested. The MSCI index only includes shares that can be bought and sold by foreigners and are traded frequently. The market value of Brazil's stockmarket is still dwarfed by the markets in China. But most fund managers who invest in emerging markets measure themselves against the MSCI index, so the increase in the country's weighting does matter.

Brazil has been propelled to the top spot by the Bovespa's performance, but more importantly by China's recent slide. Since mid-October 2007, China's stockmarkets are down by about 20% in dollar terms. Over the same period the Bovespa is up by almost 5%-

What explains this resilience? The main reason is the continued surge in the price of oil and other commodities. Anyone who buys the index in Brazil has a big exposure to these two asset classes—Petrobras, the state-controlled oil company, and Vale, a global mining company, together account for just over 30% of the Bovespa's total market value. Other agricultural producers also carry a lot of weight. This bias towards commodities makes the Bovespa rather more like Australia's All Ordinaries index than like stockmarkets in India or China.



Rocks and shares

There are some signs that foreign investors have cut their exposure to Brazil recently, perhaps to meet funding requirements elsewhere. And it looks unlikely that this year will see another flourish of IPOs, 80% of which were hoovered up by foreign capital last year. Some will see this as just deserts. In the Citigroup note that publicised the Bovespa's coronation, Geoffrey Dennis wrote that the market was "overbought, expensive and overdue a pause". Sao Paulo's financial folk will believe it when they see it.