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## The Return Of Goldylocks

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Market Data*	Mar, 16th
Selic	16.54%
CDI (closing)	16.49%
DI Jan/07	15.00%
USD/BRL (closing)	2.12
IBOVESPA (1 day change)	0.61%
NASDAQ (1 day change)	0.09%
DOW JONES (1 day change)	-0.08%
Embi	199
Embi BR	232
UST 10 year	4.73
euro/usd	1.20
yen/usd	117.605

\* Closing of last business day

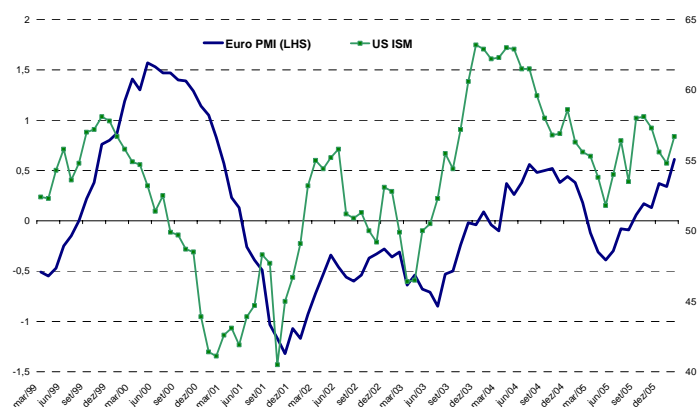
Key Events	Estimate	Actual
<b>Mar, 14th</b>		
<b>USA</b>		
Current Account Balance (4Q)	-\$218 BN	-\$225 BN
Advance Retail Sales (FEB)	-0.80%	-1.30%
<b>Mar, 15th</b>		
<b>USA</b>		
Fed's Beige Book	-	-
<b>Brazil</b>		
IGP10 (Mar)	-0,05%*	-0,03%
<b>Mar, 16th</b>		
<b>USA</b>		
Consumer Price Index (MoM) (FEB)	0.1%	0.1%
Philadelphia Fed (MAR)	13.4	
<b>Mar, 17th</b>		
U. of Michigan Confidence (MAR)	88	
Industrial Production (FEB) (MoM)	0.80%	

\*Unibanco Estimate

As we speak, market is pricing in the return of the best scenario of all: high growth around the globe with the absence of inflationary pressures. After a few days of jitters (particularly at the beginning of last week), when markets overreacted to the possibility that global monetary tightening would limit growth, US indicators unveiled a picture of an economy that continues growing with muted inflation. Market players shrugged off the bearishness and reincorporated a positive mood. While we think that this sweet combination of good growth and low inflation is highly likely, which would in fact consolidate an optimistic scenario for Emerging Markets, one cannot disregard the fact that global market will experience an increase in volatility.

Real activity is strengthening in the most important countries of the world. Japan's growth resurged from the ashes (GDP increased by 2.4% yoy in 2005, from 0% registered in 2004), while Eurozone economies appear to have finally gained some dynamism. Meanwhile US continue to growth at high rates. Current indicators are pointing to a more evenly distributed growth this time, which is positive news for international trade perspectives and also EMKT countries.

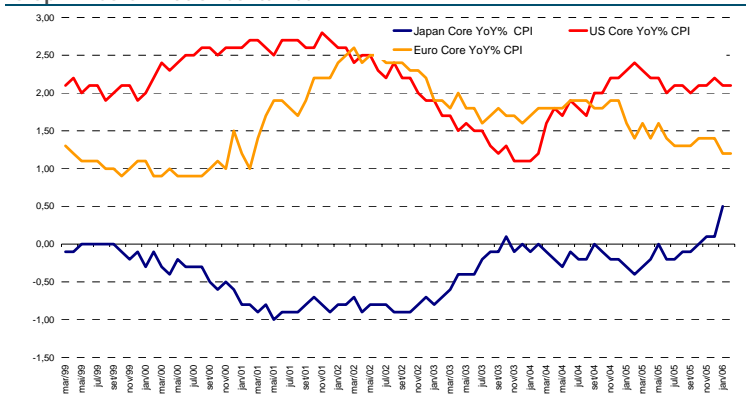
**Graph 1: Growth is back on track: Business confidence indicators**



Source: UBB, Bloomberg

While growth is making a comeback, inflation remains quite silent, falling between the Central Banker's comfort zone which allows monetary authorities to slowly adjust their target rates to neutral levels, without the need for stronger actions, ruling out the probability of rapid decrease of global liquidity.

**Graph 2: Core inflation contained**



Source: UBB, Bloomberg

As the upbeat tone dominates market sentiment, we believe that higher volatility cannot be underestimated. Uncertainties in the monetary front such as the lack of understanding the Fed's new modus operandi and what exactly the BOJ meant by announcing the "end of deflation fighting" policy could increase the data dependency of market moves. Moreover, stretched valuations (especially in Emerging Markets) has the power to boost the effect of any data surprises, especially negative ones coming from the inflation side. Nonetheless we believe that the rally in risky assets should continue, as long as inflation remains low and growth trending up.



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