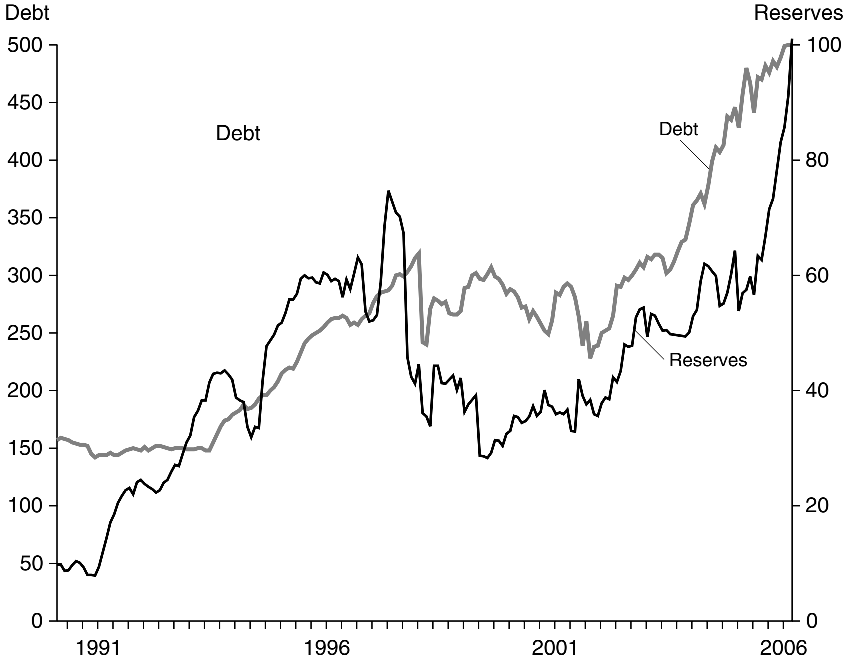
Brazil Still Carrion for the Carry Trade

The public debt of Argentina's neighbor, Brazil, when converted to dollars, has grown at an annual rate of more than 20% over the past four-plus years. It stood at $228 billion in September 2002, and had risen to $499 billion by the end of December 2006. The Brazilian government pays the *highest interest rate in the world* on its public debt—13%.

Brazil: Public Debt and Reserves

($ Billions)



Source: Brazil Central Bank.

During this same time interval, the Brazilian Central Bank's dollar reserves nearly tripled, from $37.6 billion in August 2002, to $101.1 billion in February 2007—an annual rate of increase of 25%. In other words, the government was pumping out huge volumes of debt at 13% interest which is being bought up by international hedge funds and other speculators, in exchange for dollars that just sit as Central Bank reserves, which are deposited back in Wall Street and other banks, earning perhaps 5% interest. The 8% margin is pure speculative usury to the benefit of the hedge funds . . . and pure looting of the Brazilian nation and people.

This is precisely the kind of looting that drove Argentina into its breakdown crisis at the end of 2001. Brazil's apparent "survival" under this system, has been sustained solely by the continued influx of speculative capital, fed by the international carry trade which is now unwinding.—*Dennis Small*