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THE RELATIONSHIP BETWEEN THE SUPPLY SHOCKS CAUSED BY COMMODITY PRICES AND BRAZIL'S MONETARY POLICY

Summary: this article examines the changes in price level in Brazil which caused the supply shocks in different markets of the country. The main trends of Brazil's monetary policy are studied. The influence of the state monetary policy on the commodity prices in the country is revealed.

Key words: supply shocks, commodity prices, monetary policy, inflation

ОТНОШЕНИЯ МЕЖДУ ШОКАМИ ПОСТАВКИ, ВЫЗВАННЫМИ ТОВАРНЫМИ ЦЕНАМИ И ДЕНЕЖНО-КРЕДИТНОЙ ПОЛИТИКОЙ БРАЗИЛИИ

Аннотация: эта статья исследует уровень изменений цен в Бразилии, которая вызвала шоки поставки на различных рынках страны. Главные тенденции денежно-кредитной политики Бразилии изучены. Влияние государственной денежно-кредитной политики на товарных ценах в стране показано.

Ключевые слова: поставляйте шоки, товарные цены, денежно-кредитную политику, инфляцию

In the last four decades, the volatility of commodity prices generated turbulence in the global economy, affecting importing and exporting countries in opposite and vigorous ways. Nonetheless, the attention of the literature to the topic seemed to be proportional to price growth, declining in relatively tranquil periods and rising when the commodities prices were back at high levels. The huge variations of the last decade generated a renewed interest in the topic [2].

In the 1970s, the popular view was that commodity prices were defined as a result of evolution in the relevant commodity market, playing an important role in the stagflation of that decade. However, this idea has been strongly challenged. An increase in the expected inflation rate due, for example, to an increase in money supply, causes agents to shift from money to commodities, provoking a rise in prices. Therefore, increases in the price of oil and other commodities could be the result of an exceedingly expansionary policy, rather than an exogenous inflationary supply shock [1].

Before evaluating this connection, it is important to observe the trend of commodity prices, and also the price index which measures the brazilian inflation.

Analyzing inflation reports since its first publication, you can see that the Brazilian monetary policy keeps its focus on aggregate demand of the economy.

In almost all reports published to the recent period, you can find statements reinforcing the idea that the supply shocks, such as agricultural, are transient where it is noted that the effects of supply shocks are temporary, they dissipate quickly and little change expectations. Thus, the increase in the price level caused by the rise in food prices, are behaved / incorporated by the interval according to the inflation targets. Thus, it is observed that only the side effects of supply shocks are targets of monetary policy, which ultimately act to prevent them from spreading [3].

It is also important to point out that the reaction of the Brazilian Central Bank before a supply shock is similar to the central banks of other countries that also use the Inflation Targeting System. Tachibana (2013) shows in their analysis that in the case of Australia, Canada, New Zealand, Sweden and the United Kingdom after the adoption of the Scheme of Goals, the central banks now have answers accommodative before supply shocks, contrary to what was given in the previous period to the scheme. However, it is important to remember that the countries analyzed by Tachibana (2013) do not show significant signs of indexation in the economy, so the effects of supply shocks are probably not passed to the rest of the economy at the same intensity as in the brazilian case, where the financial index in Brazil has not been eliminat. One of the possible reasons explaining the control of inflation on the demand side, and no control of the primary effects of supply shocks, may be the fact that combat these primary effects is very costly in terms of activity level. This is because policy makers have to deal with the trade off between stabilize output or inflation. So, it ends up following the prescription of not responding to primary effects of supply shocks [4].

It is important to mention here that to get away from such a trade off many countries end up using as a measure of price levels, core inflation, because, many believe that core inflation is a good measure, as excludes fluctuations in the prices of energy and food, which are considered transient movements, since they are caused by temporary and specific shocks. However, there are who argue that core inflation is not a concept well understood among the general population, so it does not feel quiet when the authorities say that one should not worry about the high prices of food and energy [1].

According to Central Bank the effects of changes in commodity prices on the price level of the economy dissipate over a few months, such a statement is justified by the Central Bank through the calculations, it which is made the exclusion of partial effects and total variation of the IPCA variation in commodity index.

But at the same time, the authorities recognize that inflation is influenced by supply shocks: "The recent trajectory of the indicator confirms the view that there was a significant contribution in recent months, the rise in commodity prices to the acceleration of IPCA". Thus, it can make harder the convergence of inflation to the center of the set target and it can be seen particularly in recent reports [2].

Another fact that confirms the great importance of supply shocks is the inclusion of the decomposition of the IPCA. For the first time in the March 2011 report, then passing the IPCA to be decomposed in the exchange rate, inertia associated with the portion of inflation that exceeded the cumulative goal from the last quarter of last year, the difference between the agents' inflation expectations and the goal, supply shock, price inflation, excluding the effects of the previous four items and inflation of prices administered by contracts and monitored, removing the effects of the first two items. In this report are cited data on the percentage of Brazilian inflation explained by the component "supply shock", with such higher percentage than 25% for 2004, 2007, 2008 and 2010, whereas in 2008 this percentage reached 47.6% [4] .

In the June 2011 report, the monetary authorities express their knowledge of the continued rise in commodity prices from 2002, and credited this trajectory to supply constraints, the depreciation of the dollar and especially the significant increase in global demand, the result of increasing consumption of food by the major emerging economies, and the use of grain for the production of biofuels. In addiction to this, the large investments in infrastructure and construction, allied with the expansion of the production of durable consumer goods in the major emerging economies, and thus contributing to higher prices of metal and energy commodities. Incidentally, it is interesting to point out that such explanations are the same as various subject experts use, but on the other hand, Frankel and Rose (2009) style popular in order not to provide a good explanation for the movement of commodity prices, as discussed earlier in this work [3].

You can see, in conclusion, the importance and prominence that commodity prices gained on reports over the years, which is a direct reflection of the relevance of increasing these prices have taken to the Brazilian economy. So much, that this process led the Central Bank to the creation of the IC-Br, an indicator with a weighting structure developed in order to measure the impact of changes in commodity prices on inflation to the Brazilian consumer.

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