World Cup thrashing can launch a market rally — or a protest

José Maria Marin, president of the Brazilian Football Confederation, quietly walked out of the Mineraio stadium in Belo Horizonte. He had been somewhat more loquacious in the days before the World Cup started, leaving reporters pondering over an ominous comment: “if Brazil loses, we will all go to hell.”

Brazil has lost and in the most horrifically spectacular way; nobody could have imagined such a resounding defeat as the Germans scored seven goals during an agonizing match for the home supporters. Now, in the post match reckoning, Brazilians are reflecting on more than the match itself. ‘Futbol’, or soccer as Brazilians call it, is far more than a sport in Brazil. It may be a cliché’, but soccer and the national team, known as ‘La Seleção’, is akin to a religion in the fervor it generates among most Brazilians. The sheer extent of the loss will have the country wanting to wake up from the World Cup hangover and focus on other issues, which will inevitably fall on the USD 11 billion spent to host the event and massive social disparity — even if Brazil has made huge progress in this area in the past decades. The main concern for the markets is whether or not the protests over the World Cup spending will intensify as a result of the La Seleção’s loss. Bloomberg has warned that Brazil’s loss was so extraordinary that it has threatened to overturn common sense.

For starters, the ever more unpopular President Dilma Rousseff has her political fate sealed and has few chances of being re-elected. In this context and rather paradoxically, this bodes well for Brazil’s investors, who have blamed Rousseff for Brazil’s economic stagnation in the past four years. She may not run for re-election next fall. The proverbial ‘markets’ consider the high potential for changes in political leadership as a bullish development. But, the kind of protests that are expected over the next few weeks, if not months, may cause excessive instability and cancel out any gains. The World Cup loss has come as an existential and psychological blow for most Brazilians. They will associate it with other problems in the country of the kind expressed as “our economy has broken down, there is no growth and we don’t even have a decent national team to drag about.”

Brazil’s stock market performed very well in the past decade, registering record numbers of IPO’s, reflecting a dynamic economy and social progress, especially under the leadership of Rousseff’s predecessor, Luiz Inacio Lula. Since Rousseff took power in 2011, growth slowed to an average annual rate of 2%, the lowest rate since the resignation of Fernando Collor, in the early nineties after the corruption scandals. Her policies to stimulate growth have not had any impact while inflation has risen to over 6.5% in the weeks just preceding the arrival of many thousands of tourists for the World Cup. Yesterday’s defeat, more than anything else is likely to exacerbate those strong feelings of opposition and protest that accompanied the approach to the World Cup and that seemed dormant during the past few weeks. Brazil is best known for soccer; despite its many offerings from music to literature to technology (it has the world’s fourth largest aerospace industry). Therefore, the ejection from its very own World Cup is “nothing less than a national humiliation,” according to Tony Volpon, a noted analyst at Nomura Securities. Two years ago, Volpon had already launched warning signs during an interview with the *Financial Times* that “despite still strong labor markets, it seems that a credit-to-GDP ratio of around 50% with these types of credit costs is all the Brazilian consumers can bear. The days of heady credit market expansion seem over….The “Lula model” of growth, one based on the rapid expansion of consumption and credit as reactions to the Asianled commodity boom, has reached its limit.”

Brazilians will now ponder – especially the many poor – will focus on inequalities and the fact that the World Cup has cost USD$ 11 billion to organize in a country where more than seven million people live with little more than a dollar a day. According to the latest polls, Rousseff’s popularity had already dropped to around 38% when Brazil’s Seleção was still looking forward to the final match in Rio de Janeiro. Should she drop out of elections, as expected, the markets will rally and Alberto Bernal of Bulltick Capital Markets (a securities firm with deep insight into Latin America), possibly pushing a 25% rally in the stock market. In contrast, however, an excessive instability linked to the protest movements could negate the beneficial effect of the bitter defeat. Ultimately, of course, if Rousseff loses or decides not to run, it won’t be because of a soccer loss; there was widespread discontent over the World Cup spending and rising prices before the tournament began. A World Cup win would have distracted the population, softening their anger. Now, Brazilians can start focusing on inflation, the economy, slower growth and the risk of stagflation and their anger will make them sharper and less forgiving.