Brazil Is Back to a Bull Market: Stocks Up 33% This Year

Contributed by Alexandre Rocha
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The capital market in Brazil is attracting great attention of investors of other emerging nations, especially from Asia and the Middle East. This according to the chief business development officer at BM&FBovespa, Paulo Oliveira. BM&FBovespa controls the Commodities & Futures Exchange (BM&F) and the São Paulo Stock Exchange (Bovespa).

"There is a great potential for growth of investment in Asia and the Middle East in relative terms," said Oliveira. "And the stock market is getting ready to supply this demand," he added.

To attract further funds to Brazil, the BM&FBovespa and other organizations connected to capital markets should return to the Best Initiative of activities abroad, starting by Asia. "The program should be structured as a series of road shows and should go to cities to sell products, not just the country," said Oliveira. In his evaluation, the image of the country has already been promoted abroad.

In recent months foreign investors have returned to the Brazilian market and helped the São Paulo stock market to be among those with the greatest appreciation at the moment. Just to give an idea, the net inflow of foreign funds into the Bovespa in May was 6.08 billion (US$ 3.04 billion), a monthly record. The Ibovespa, the institution's main index, had appreciation of almost 33% from January to now.

Most funds, however, come from developed countries, like the United States, and European nations. With the resistance of the Brazilian economy to the crisis, however, it has also become very attractive to capital from developing nations.

With the worsening of the crisis, in mid 2008, there was an outflow of foreign capital from the Brazilian market, which caused the Ibovespa to drop strongly, contrasting with the great appreciation that had been accumulated in recent years.

According to Oliveira, the strong reduction was caused by the outflow of money from foreign investors concerned with covering losses in other markets that were more affected by the crisis. The problem was not Brazil, but the need of international funds of having money in the till.

According to the vice president of the Brazilian Association of Capital Market Analysts and Professionals (Apimec), Ricardo Tadeu Martins, as a result of this movement, many had cash available, invested in papers with little or no income, like bonds of the government of the United States.

This excess liquidity has caused the funds to return to seeking alternatives for more profitable investment in emerging nations. In this respect, Brazil was benefited by having resisted the crisis, be it in the macro economical point of view, be it in the financial market point of view or in the point of view of companies as a whole.

"The size of the Brazilian market is also a differential when compared to other emerging markets," said Oliveira. "Brazil has been placed in great prominence with regard to the crisis," said Martins. "Due to the size of companies, the sectors they operate in and the liquidity, the tendency is for the market to continue like this," he added.

Although it is early to say that foreign capital has returned to stay, to Martins some of the indices point in that direction. Among them is the index of shares of companies with market capitalization of up to 2 billion reais (US$ 1 billion), the "small cap," which appreciated more than the other Bovespa indices.

"They are papers that are traded less, of lower liquidity and that take longer to generate return," said the Apimec director. According to him, the investment is common to investors who hope for results "in a broader horizon."

Apart from that, he added expectations regarding exchange rates of the Brazilian real against the dollar, the result of a greater inflow of funds into the country than outflow.

Other factors are the demand for commodities in Asia, especially China, which helps appreciate large Brazilian companies that operate in areas like mining, oil, ironworks and agribusiness and the excessive depreciation of shares of companies in some sectors in the second half of 2008, which are now gaining body, as is the case with companies in civil construction.

"The capital is strongly seeking shares that were depreciated in 2008," he pointed out.

Despite the Bovespa bear market last week, analysts believe that in the long run the tendency is for stabilization. "Investors ask whether the effects of the crisis have been digested. It is normal to expect volatility at this moment, but the tendency is for normalization," said Oliveira.

In the evaluation of the BM&FBovespa, a possible outflow of foreign capital from Brazil should be due to the fear of risk, as the market in Brazil does not lose to "the competition" in terms of competitiveness.

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