

Lula's Defeat in Congress Should Delay Brazil's Reforms

Contributed by Jeremy Simon
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Latin American shares again turned to the upside, following weakness in the previous session due to profit taking. In a reversal of the prior day's movement, Brazilian and Mexican equities rose, while Argentine shares declined.

Brazil's benchmark Bovespa Index firmed 78.23 points, or 0.29%, while Mexico's benchmark Bolsa Index advanced 130.95 points, or 0.97%. Argentina's Merval Index fell 23.97 points, or 1.58%.

Brazil's market solidified, lifted by a rush of foreign fund buying that helped reverse earlier weakness. Foreign funds used the downward start to trading to acquire more blue chip stocks as part of an ongoing attempt to create stronger Brazilian portfolios, traders indicated.

Initially, Brazilian equities tumbled after the administration of President Luiz Inacio Lula da Silva suffered a major loss in an election for a key congressional post.

The Chamber of Deputies unexpectedly elected Congressman Severino Cavalcanti as its new speaker, handing a defeat to the administration's hand-picked candidate, Congressman Luiz Eduardo Greenhalgh.

Political-risk analysts said the congressional setback could delay passage of strategic business-friendly reforms this year, including bills granting more independence to the central bank, cutting welfare costs for employers and streamlining the tax system.

Shares of Petrobras declined, despite the state-run oil major's announcement that its average domestic oil output rose slightly in January as it connected two new oil wells to already existing offshore oil rigs.

Additionally, local newspaper Valor Econômico reported that Petrobras is negotiating to purchase São Paulo state natural gas distributor Gas Brasileiro from Italian oil and gas firm Eni SpA.

In earnings news, meatpacker Sadia acknowledged that its 2004 calendar year net earnings slipped.

Elsewhere, Mexican issues recovered from a strong bout of profit taking on Monday, but failed to set another record close. Although the market's key IPC index looked headed for what would have been its eighth record high on nine sessions based on afternoon momentum, it finished just below Friday's historical closing level.

Housing shares paced the advance, with Homex scheduled to report fourth-quarter profits after the close.

Cement giant Cemex indicated that the proposed US\$ 5.8 billion acquisition of the U.K.'s RMC Group had gained all necessary regulatory approvals and would likely be completed March 1st.

Retailer Soriana posted net earnings that climbed to 1.15 billion pesos last quarter from 688.8 million pesos in the year-earlier period. In response, a major investment house hiked its price target on Soriana to 55 pesos from 41 pesos, while maintaining a "buy" rating on the stock.

Another influential bank raised its target on Soriana to 44 pesos from 37 "to reflect the significant strides achieved by Soriana in terms of profitability improvements in 2004." The stock rose.

Meanwhile, Argentine shares dropped, concluding an eight-session winning streak as investors prepared for the final

weeks of the country's debt swap and considered this week's options contract expiration.

The benchmark Merval Index had rallied 10.7% over the prior eight sessions, setting a new record in peso terms with each close, amid optimism regarding a 70%-plus acceptance rate for the country's US\$ 103 billion debt restructuring.

Investors view a successful sovereign workout opening long-closed doors to global capital markets for both the country and the private sector.

Still, the Argentine market's focus this week is moving towards a quarterly expiration of options contracts. With numerous stocks trading above strike prices for call options, analysts believe selling pressure will increase as investors divest shares to seek liquidity to fulfill call option contracts.

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