Brazil Drags Latin America Up

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Latin American markets rose, led by a surge in Brazilian equities to a record closing high. Yesterday evening, the Brazilian central bank's monetary policy committee raised interest rates to an annual 18.75% from 18.25%. That 50 basis point increase was a relief to some investors who had expected a rise of 75 basis points.

Brazil's benchmark Bovespa Index leapt 706.83 points, or 2.68%, while Mexico's benchmark Bolsa Index slipped 48.73 points, or 0.36%. Argentina's Merval Index jumped 23.02 points, or 1.53%.

Brazilian issues leapt to an all-time closing high, driven by heavy investment inflows from foreign funds. Traders noted that foreign investors were pouring money into Brazilian stocks as they continue to assemble strong Brazilian portfolios, particularly in blue chips.

Foreign funds are drawn to Brazil's economic growth potential for the current year, which should be paced by consumer spending.

Underscoring Brazil's economic strength, the Brazilian Census Bureau said December retail sales rose 11.43% from the corresponding month in 2003, adjusted for inflation. That result marked the thirteenth straight monthly year-over-year rise amid Brazil's surging economy. For all of 2004, inflation-adjusted retail sales gained 9.25% from 2003.

Separately, the Fipe consumer price index for São Paulo increased 0.49% in the four weeks ended February 15, slowing from the 0.52% in the four weeks ended February 7. Still, the latest reading was near the high end of estimates, which ranged from 0.40% to 0.50%.

In earnings news, Unibanco reported that its net earnings totaled 375 million reais in the fourth quarter, compared with 291 million reais in the prior year, partially due to cost reductions derived from an ongoing restructuring of operations. Brazil's third-largest private bank added that full year 2004 net earnings climbed to 1.283 billion reais from 1.052 billion reais in 2003.

Steel slab exporter CST displayed a fourth-quarter profit that jumped to 500 million reais, versus 357.5 million reais in the third quarter and 142 million reais in the year-earlier period.

CST noted that sales surged on advancing steel prices. Analysts had projected earnings of 455 million reais to 509 million reais, with an average outlook for 471 million reais. CST shares rocketed higher.

Elsewhere, Mexican equities declined, pressured by weakness in shares of TV Azteca. Late yesterday, the Mexican broadcaster stated that its fourth- quarter net profits fell 23% from the year-ago period amid higher costs, while sales rose a modest 1%.

In response, a major brokerage cut the firm's shares to "sell" from "neutral," explaining TV Azteca's "fundamentals are deteriorating."

In other research notes, that same major brokerage downgraded Mexican retailer and financial services firm Grupo Elektra to a "sell" from a "neutral" rating, based on high levels of depreciation and amortization.

Shares of airport operator Asur soared higher, after the company posted encouraging double-digit growth in passenger traffic during the fourth quarter.

Asur's chief financial officer stated that activity at its busy Cancun airport is so brisk that it will likely push construction of a second runway there forward by several years.

Separately, Argentine stocks climbed in record volume, defying forecasts of heavy selling on an options-expiry day, providing further indication of the increasing optimism in the market.

Argentina's stock exchange extended the trading session by 20 minutes following technical difficulties late in the day, stemming from the robust volume.

On the research front, an influential analyst issued a "strong buy"

Thomson Financial Corporate Group
www.thomsonfinancial.com

PRNewswire

rating on Telecom Argentina, sending that stock leaping.

Preliminary results indicated that Argentine industrial production decelerated slightly in January to a rise of 7.1% from a year ago and 0.4% on the month. Analysts' consensus outlook had been for an 8.0% increase on the year.