Lula's Lack of Leadership Leads Brazil's Market Down

Contributed by Jeremy Simon
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Brazilian and Latin American markets slumped, alongside a lower close for U.S. shares. In the U.S., consumer confidence was reported to have totaled 102.4 in March, down from a revised 104.4 in February, and below the expected fall to 103.7. The decline stemmed from concerns over jobs and higher gasoline prices.

Brazil's benchmark Bovespa Index slid 415.24 points, or 1.58%, while Mexico' s benchmark Bolsa Index tanked 247.11 points, or 1.93%. Argentina's Merval Index edged down 0.22 points, or 0.02%.

Brazilian equities tumbled, reversing prior strength, on news government leaders in congress have withdrawn a controversial administration tax bill. Analysts interpreted the move as another sign of the administration' s inability to control an increasingly balky congress.

Earlier today, the Central Bank published its quarterly inflation report, predicting a decline in 12-month inflation for the period through the first quarter of 2006 to 5.0%.

Additionally, the report forecast a further weakening in inflation to 3.8% for the 2006 calendar year. Inflation is currently running at about 7.4% annually. The news supported analysts who believe the recent cycle of monetary tightening may be nearing its end.

Also, the Fipe research center's inflation rate for São Paulo rose 0.53% in the four weeks through March 23, at the low end of estimates for 0.53% to 0.62%.

The Fipe rate included a one-time increase in São Paulo bus fares, with the overall rate projected to decline beginning in April. Consumer inflation accelerated 0.38% in the four weeks to March 15.

Turning to corporate news, Petrobras said it plans to invest US$ 1.01 billion to revamp one of its refineries in southeastern Brazil and build a petrochemicals complex next to it by 2010.

Brazilian steel issues fell, after the world's largest steelmaker, Arcelor SA, said demand for flat-rolled steel has declined 14% in the European Union. Market watchers explained that the announcement spurred fears lower growth will cut into demand for commodities.

Elsewhere, Mexican receipts succumbed to selling pressure, as investors cashed out of corporations that have displayed impressive growth in recent months.

Traders commented that most of the selling was done by foreign investors who appeared to be seeking profits on their Mexican stocks and taking the money elsewhere.

Domestically, the National Statistics Agency said the February unemployment rate was 3.93%, little changed from 3.92% a year before.

Mexican banking concern Grupo Financiero Inbursa SA announced that it intends to pay a dividend of 0.30 pesos a share. The proposal, approved yesterday by the board of directors, will be submitted to shareholders at the annual meeting in April.

Shares of copper mining firm Grupo Mexico were active. Yesterday, the company completed a reorganization of assets that left Grupo Mexico with a 75% stake in the No. 2 copper producer by volume on the New York Stock Exchange.

The plan came through after shareholders of the company's Peruvian unit, Southern Peru Copper Corp., voted in favor of the planned merger of SPCC and Grupo Mexico's Mexican mining division Minera Mexico.

Meanwhile, Argentina's market ended basically flat on low volume, with declines limited by expectations that a U.S. federal judge will lift a freeze on defaulted Argentine government bonds.

U.S. District Judge Thomas Griesa was scheduled to hold a hearing for NML Capital, which had requested that the courts freeze US$ 7 billion in defaulted bonds involved in Argentina's US$ 103 billion debt swap.

By the close of trading, there had been no new developments. Investors remain concerned that the new legal challenge could delay the planned April 1 settlement date for the restructuring.

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