

Brazil's Falling Industrial Production Dampens Market

Contributed by Linda Shea
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Latin American markets followed a similar pattern to yesterday, as Brazil and Mexico slumped, while Argentina added modest gains. Brazil's movement was shadowed by a disappointing fall in February's industrial production.

Meanwhile, fears of political instability continued to pressure Mexican issues ahead of tomorrow's key congressional vote on whether to strip Mexico City's mayor of political immunity.

Brazil's benchmark Bovespa Index tumbled 343.39 points, or 1.32%, while Mexico's benchmark Bolsa Index erased 129.83 points, or 1.06%. Argentina's Merval Index advanced 12.02 points, or 0.85%.

Brazilian equities turned lower, following earlier strength, after the release of a disappointing economic report. Industrial production declined 1.2% in February, compared with the prior month.

The IBGE said the decline was likely due to Carnival, which sees a halt in production at factories while most workers have time off. Also, an unexpected shutdown of certain oil refineries for maintenance work contributed to the slowdown.

Meanwhile, the World Bank estimated that economic growth in Latin America will slow, following a stellar 5.7% growth rate last year. Growth is expected to drop to about 4.3% in 2005 and 3.7% in 2006. Culprits behind potential slowing growth include stabilizing commodity prices, rising interest rates and inflationary pressures.

Turning to corporate reports, Brazil's state-run oil firm Petrobras SA signed a contract with Sevan Marine ASA, a Norwegian offshore technology company, to charter a flexible-use oil platform that will produce approximately 20,000 barrels of crude a day.

Elsewhere, aircraft manufacturer Embraer announced that it will propose investments of 910.1 million reais for 2005 at its shareholders' meeting on April 18.

Meanwhile, Mexican shares continued their descent amid political turmoil. The full house of Congress is set to vote tomorrow on whether to take away political immunity from Mexico City Mayor Andres Manuel Lopez Obrador.

The move would allow him to face charges that he disregarded a court order to halt construction of an access road on expropriated land, and could ultimately bar him from running for president in 2006.

The mayor is aiming to attract a million protestors ahead of the impeachment vote tomorrow, and traders are also concerned about potential mass demonstrations if the popular mayor is banned from elections.

Turning to research, a major investment house upgraded baked goods maker Grupo Bimbo SA to "buy" from "neutral," after recent declines in the firm's stock price. The brokerage said the declines were "exaggerated" and "cannot be explained by company-specific developments."

Another investment bank downgraded Mexican conglomerate Alfa SA to "hold" from "buy." Yesterday, Alfa said that it would delay completing steel unit Hylsamex SA's spin-off, as several firms are interested in purchasing the unit.

Separately, Argentine shares continued their move upward. In the latest news regarding the country's debt restructuring, the Argentine Supreme Court rejected a claim from bondholders looking to have their original holdings repaid in U.S. dollars.

The expected move both upholds the "pesification" of those obligations and the government's decision to include those securities in its debt restructuring.

Meanwhile, litigation in U.S. courts postponed Argentina's issuing of about US\$ 35 billion in new bonds and US\$ 690 million in interest payments. Further clarity on the situation is not expected until the end of April.

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