Deflation News Not Enough to Boost Market in Brazil

Contributed by Linda Shea
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Latin American markets mostly receded, as Brazil's decline overshadowed Mexico's modest gain. U.S. markets also weakened, despite a stronger-than-expected GDP reading for the first quarter and a dip in oil prices to below US$ 58 a barrel.

Traders are awaiting tomorrow's conclusion of the U.S. Federal Open Market Committee meeting. Meanwhile, Argentine issues tanked, as the country's recent capital controls extended its reach.

Brazil's benchmark Bovespa Index fell 134.68 points, or 0.53%, while Mexico's benchmark Bolsa Index advanced 27.07 points, or 0.20%. Argentina's Merval Index tumbled 45.09 points, or 3.18%.

Topping U.S. economic headlines, gross domestic product rose at an upwardly revised 3.8% annual rate in the first quarter, matching the 3.8% rate in the fourth quarter.

First-quarter growth was previously estimated at 3.5%. Economists had expected a smaller upward revision to 3.7%.

Brazilian shares turned lower, following two consecutive days of gains. Stocks were initially bid higher as oil prices continued their retreat.

However, investors remained cautious ahead of the outcome of the U.S. FOMC meeting on interest rates, due for release tomorrow at 2:15 PM EDT.

Economists widely expect a further quarter-point hike in interest rates, but are more interested in the accompanying statement that should give some indication as to the future direction of rates.

Turning to local economic reports, the Getúlio Vargas Foundation reported that the General Price Index, or IGP-M, showed a second-consecutive month of deflation. Wholesale prices declined in June, while consumer prices decelerated.

Meanwhile, in corporate reports, U.S.-based J.P. Morgan Chase's chief executive officer said in an interview with Valor Econômico that the major bank intends to create a joint venture or acquire a Brazilian bank in order to enter the domestic retail market.

Mexican issues were a positive standout in Latin America. Vitro's A shares surged, following recent weakness. Also, Cemex's CPO shares jumped amid its two-for-one stock split, which took effect today.

Congress approved legislation that will reduce state oil monopoly Pemex's taxes by up to 25 billion pesos in 2006. The changes will result in more money for exploration and production. Elsewhere, TV Azteca's shareholders approved the merger of Servicios Deportivos TV into TV Azteca.

Argentine shares tanked on the session, as concerns mount that the country's new accord with the International Monetary Fund may take longer than expected. Some investors were betting that negotiations would begin shortly after last month's wrap up of the debt restructuring. Today, IMF Managing Director Rodrigo de Rato said that he expects talks to commence with Argentina after an IMF board meeting next month.

Also pressuring Argentine issues was the announcement of a further addition to the country's capital controls. The Economy Ministry said that its recent measure that placed a one year 30% lock-up on incoming foreign capital flows will now also apply to residents that bring in more than US$2 million a month.

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