

Higher Interests in US Lower Brazilian Shares

Contributed by Linda Shea
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Latin American markets returned early gains, following U.S. markets lower, after a U.S. Federal Reserve statement signaled no near-term end to its rate-tightening cycle.

As expected, the U.S. Federal Open Market Committee lifted interest rates. Higher U.S. rates can detract investors from emerging markets. Brazilian, Mexican and Argentine shares all posted declines.

Brazil's benchmark Bovespa Index declined 75.15 points, or 0.30%, while Mexico's benchmark Bolsa Index negated 64.01 points, or 0.47%. Argentina's Merval Index fell 7.14 points, or 0.52%.

Brazilian issues reversed their earlier positive course and turned lower following the U.S. FOMC statement. Both domestic and U.S. economic data was in focus today, as well as the re-emergence of local political strife.

As expected, the U.S. Federal Open Market Committee lifted interest rates by another 25 basis points to 3.25%. The Federal Reserve also said that current rates remain "accommodative," and it kept the "measured pace" language when referring to future rate hikes.

Closer to home, Brazil's central bank raised its inflation forecast for 2005 to 5.8% from 5.5%, but lowered its 2006 target to 3.7% from 3.8%. Pressures from higher fuel prices and public utility rates caused the hike in the 2005 forecast.

The central bank also reduced its 2005 gross domestic product growth forecast to 3.4% from its prior 4.0% target. Brazilian Central Bank President Henrique Meirelles said that this year's economic growth is not very strong and will not repeat its robust 2004 performance.

On the political front, Congressman Roberto Jefferson said in an interview with daily newspaper Folha de S. Paulo that high-ranking executives at electric power utility Furnas Centrais Elétricas were involved in the current political bribery schemes. As a result of the accusations, federal prosecutors said they would investigate the matter.

Turning to corporate reports, Aneel, Brazil's electric power regulator, endorsed a 2.25% average annual price adjustment for Electropaulo. That firm rallied in response.

Mexican receipts also receded, alongside U.S. market declines. The National Statistics Institute, or Inegi, reported that mining production declined 3.8% in April compared to a year earlier, led by receding silver and copper production.

Conglomerate Desc sold its automotive lifters firm Moretsana SA to U.S.-based Eaton Corp. for US \$8 million. The Mexican firm intends to use the sale's proceeds to invest in fixed assets and other businesses.

Meanwhile, satellite operator SatMex filed for bankruptcy under Mexican law. The firm said the filing is "a necessary step in the negotiations to restructure SatMex's debt obligations. In May, certain creditors filed an involuntary bankruptcy lawsuit in New York against the firm.

Argentine issues declined further today, following a steep sell-off during yesterday's session after the government announced additional capital controls.

In economic reports, the National Statistics Institute, or Indec, said that May's trade surplus reached US \$1.188 billion, down from US \$1.6 billion a year ago. Higher imports contributed to the narrower trade gap.

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