

Market Goes Up While Brazil Follows Probe on Vote-Buying Scheme

Contributed by Linda Shea
Monday, 01 August 2005

Brazilian and Latin American markets powered higher, while investors ignored mixed market movement in the U.S. Mexico recorded its second-straight record high today, as investors continued to enter the domestic market amid a strong earnings season.

Meanwhile, Brazilian stocks turned around late in the session and posted gains. Argentina also followed the broader region into the black, as investors are optimistic regarding the country's impending earnings season.

Brazil's benchmark Bovespa Index jumped 255.71 points, or 0.98%, while Mexico's benchmark Bolsa Index rose 172.84 points, or 1.20%. Argentina's Merval Index advanced 15.12 points, or 1.00%.

Brazilian issues turned around late in the session, following earlier weakness, as investors await the latest round of testimony related to the cash-for-votes scandal. Today, Simone Reis de Vasconcelos, the chief financial officer of a public relations firm that is supposedly linked to the scandal, testified before federal police.

De Vasconcelos' lawyers said she has evidence that links up to 52 members of Congress to allegedly accepting bribes from leaders of the governing Workers' Party.

Tomorrow, former chief-of-staff José Dirceu is set to provide testimony before a congressional committee. Also, Congressman Valdemar Costa Neto became the first member of Congress to resign in connection to the scandal, after he admitted errors in campaign financing.

On the corporate front, electric power utility Cemig said that its second-quarter net profit leapt to 487 million reais, up 87% from the corresponding period a year earlier. Net revenues edged up 3.4% to 4.26 billion reais from 4.12 billion reais last year, while operating profit rallied 63% to 1.39 billion reais.

Turning to research news, a major investment bank upgraded Banco Bradesco to "outperform" from "peer perform," primarily due to strong net interest margin expansion and operating efficiency gains.

State-run oil firm Petrobras postponed its 10-year strategic plan announcement to August 12 from today, as shareholders require more details about the plan.

The Ministry of Development, Industry and Foreign Trade announced that Brazil posted a US\$ 5.01 billion trade surplus last month, reaching a record. The trade surplus for the year to date is US\$ 24.68 billion.

Meanwhile, in the central bank's weekly survey of economists, analysts forecast 2005 inflation of 5.54%, down slightly from last week's target of 5.55%. Meanwhile, economists' target for the year-end Selic reference rate was unchanged from last week at 17.88%.

Mexican issues continued to power higher. The Finance Ministry estimates that the economy grew approximately 4.0% in the second quarter, compared to the corresponding period a year ago. Gross Domestic Product was helped by the Easter holiday landing in the first quarter of the year.

Meanwhile, a major investment bank downgraded Empresas ICA to "underperform" from "peer perform" and lowered its 2005 earnings forecast by a penny to US\$ 0.11 per American Depositary Receipt.

The bank said part of the reasoning behind the bearish note is that the engineering and construction firm's valuation is

unattractive when compared to its peers and its backlog is disappointing. Empresas ICA shares receded.

Argentine stocks bounded higher on the day, as investors wait for the country's earnings season to begin in earnest. There were no significant economic or corporate reports out to direct trading activity.

Elsewhere in Latin America, Venezuela's CANTV slumped on the day, following the Supreme Court's ruling against the telecommunications firm last week on a pension dispute with employees. The firm also posted lower-than-expected second-quarter earnings last week.

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