

All-Time High for Brazil Stocks Amid Lower Inflation Hopes

Contributed by Paul Davee
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Latin American markets were mixed, with Brazilian stocks hitting another record high on upbeat trade data and hopes that Brazil's central bank will cut interest rates further. Meanwhile, Mexican shares slumped, as investors cashed in some of the market's recent gains.

Brazil's benchmark Bovespa Index jumped 272.34 points, or 0.86%, while Mexico's benchmark Bolsa Index fell 69.06 points, or 0.43%. Argentina's Merval Index climbed 36.50 points, or 2.15%.

Brazilian stocks advanced, extending Friday's gains, amid continued optimism about interest rates after Brazil's central bank last week lowered its 2005 and 2006 inflation forecasts and suggested that more rate cuts are forthcoming.

Lending additional support, the commerce ministry said today that Brazil posted a trade surplus of US\$ 4.33 billion in September amid continued strong exports. In August, Brazil posted a trade surplus of US\$ 3.67 billion.

Among individual shares, Embratel said late Friday that it had decided to buy the entire 37.11% stake of Net Serviços de Comunicação SA currently owned by its parent company, Mexico's Telmex. Embratel will issue 230.4 million new shares to pay Telmex. With the deal, some analysts expected Telmex to consolidate its Brazilian assets under the Embratel umbrella.

In research, an investment bank downgraded Banco do Brasil to "peer perform" from "outperform," citing valuation. The investment bank also raised its 2005 and 2006 price targets for Banco do Brasil, Bradesco, Itaú and Unibanco, citing expectations of stronger exchange rates for the Brazilian real in 2005 and 2006.

Meanwhile, an investment bank downgraded Brazilian electric utilities Tractebel Energia and Centrais Elétricas de Santa Catarina SA to "peer perform" from "outperform" after shares in both of the companies rose more than 30% in September. "In both cases, the downgrades reflect strong recent share price appreciation," the bank said.

Elsewhere, Mexican shares dipped, as investors locked in some profits after the market finished the third quarter Friday with a record high. Shares were undermined by weakness in the US. Dow amid heightened worries about further U.S. interest rate hikes after data showed an unexpected rise in U.S. manufacturing activity. The ISM manufacturing index climbed to 59.4% in September from 53.6% in August. Economists had forecast a decline to 52.1%.

Among the movers, media conglomerate Televisa was active after saying Friday that it has reached an agreement with electoral authorities to publish its political advertising contracts when campaigns formally begin in January for next July's presidential elections.

Argentine issues climbed, resuming a recent rally after a bout of profit taking on Friday. News services reported that shares were buoyed by the election over the weekend of a gubernatorial candidate in Corrientes province who is allied with President Nestor Kirchner. It was the first election of the campaign season. Key congressional elections are scheduled for the end of October.

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