

## U.S. Sneezes and Brazilian Stocks Plummet

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Brazil and Latin America's stocks tumbled, in line with the U.S. market, amid concerns about higher U.S. inflation and interest rates and a slowdown of the world's biggest economy. Continued profit taking also weighed on the region's shares.

Brazil's benchmark Bovespa Index plunged 1120.31 points, or 3.58%, while Mexico's benchmark Bolsa Index sank 213.06 points, or 1.34%. Argentina's Merval Index tumbled 39.88 points, or 2.36%.

Fueling concerns about higher interest rates in the U.S., Federal Reserve Bank of Philadelphia President Anthony Santomero said late yesterday that the U.S. central bank likely will raise interest rates further in a bid to contain inflationary pressure.

He is the latest in a string of Fed officials to make hawkish comments in recent days. Meanwhile, gloomy U.S. service sector data fueled concerns about an economic slowdown and higher inflation.

The Institute for Supply Management's nonmanufacturing index fell to 53.3 from 65.0 in August. This is the lowest level since April 2003. The drop was sharper than expected. Economists were looking for the index to slip to 60.3. New orders fell to 56.6 from 65.8. The price index rose to a record 81.4 from 67.1.

Brazilian shares were further pressured by continued profit taking following a recent rally on optimism about the domestic economy.

In corporate news, Banco Bradesco announced late yesterday that it could see a 22% to 25% jump in credit portfolios this year and a larger increase in 2006 due to an expanding economy and improving credit evaluation techniques.

On the economic front, São Paulo's Fipe research institute said its consumer price index rose 0.44% in September, compared with a fall of 0.20% in August. The pick up in consumer price inflation was attributed to higher transportation costs.

However, Fipe economists characterized the figures as benign and said the central bank will still likely be inclined to cut interest rates later this month.

Elsewhere, Mexican shares were also pressured by profit taking following a string of record high closes. In the news, a major investment bank initiated coverage on Empresas ICA with a "buy" rating. The broker said the construction firm has underperformed the local stock exchange, and the current price level is a good entry point.

In other developments, Mexico's three Gulf coast crude oil loading ports reopened today after being closed yesterday due to Hurricane Stan.

Separately, Petroleos Mexicanos said it has "deferred" some production because of a drop in demand after recent hurricanes forced the closure of some U.S. refineries.

Meanwhile, domestic inflation concerns added pressure to Argentine shares. The national statistics agency, Indec, said today that the consumer price index rose 1.2% from the prior month and surged 10.3% from September 2005. For the first nine months of the year, the CPI climbed 8.9%.

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