Inflation Fears Stir Bearish Feelings in Brazil

Contributed by Paul Davee
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Latin American stocks were mixed, with Brazilian shares slipping after a central bank survey showed economists raised their local inflation forecasts. Meanwhile, Mexican issues edged up amid some encouraging corporate news.

Brazil's Bovespa Index dropped 62.90 points, or 0.17%. Mexico's benchmark Bolsa Index added 100.88 points, or 0.55%, while Argentina's Merval Index shed 2.90 points, or 0.17%.

Brazilian stocks dipped amid worries about rising inflation amid lofty global oil prices. The Brazilian central bank's weekly market survey showed that economists and analysts raised their forecasts for 2006 year-end inflation as measured by the IPCA index to 4.61% from estimates in the previous survey of 4.58%.

The central bank's target for 2006 inflation is 4.5%, but a tolerance band allows maximum inflation of 6.5%. Survey respondents also lowered their GDP growth forecasts for 2005 to 2.3% from 2.4%. For 2006, they left their outlook unchanged at 3.5%.

Helping to limit the Bovespa's losses, oil prices reversed some of their recent strong gains. Some investors have feared that the recent resurgence in oil prices will fuel inflation at home and abroad, resulting in higher global interest rates.

High interest rates in developed countries such as the U.S. tend to draw funds away from emerging markets like Brazil.

On the corporate front, steel maker Companhia Siderúrgica Nacional (CSN) was in focus following news of an explosion at its main steel mill in Rio de Janeiro state. The blast furnace has been shut down due to some equipment damage. The company said it is investigating the matter.

Meanwhile, the president of steelmaker Arcelor Brasil said in a local newspaper report that Brazil's steel industry in 2006 should return to the record production levels reached in 2004.

"For Brasil, if gross domestic product grows 3.5%, we see a good possibility of recovery, because 2005 was a down year. We should return to the level of 2004," he said.

In research, a major investment bank started coverage of Internet service provider UOL with a "reduce 2" rating, saying, "the business model looks difficult, with slow growth, tough competition and soft revenues."

Also, an investment bank upgraded tobacco firm Souza Cruz SA to "buy" from "neutral," saying fourth-quarter results will likely improve on higher cigarette volumes and the modest real depreciation.

Elsewhere, Mexican shares gained ground following a recent bout of profit taking after a rally at the start of the year. Investors largely shrugged off downbeat economic news.

The National Statistics Institute reported that Mexican retail sales fell 2.9% in November from October in non-annualized, seasonally adjusted terms. Sales climbed 1.4% from a year earlier, missing analyst expectations for a rise of 4.1%.

In corporate developments, Mexican wireless telecom firm Grupo Iusacell said it has reached an agreement in principle with a majority of its creditors to restructure US$ 766 million in debt.

Meanwhile, miner Penoles said it reached a wage agreement with workers at its lead and zinc mines in northern Mexico, thereby averting a strike.

In research, a major investment bank raised its price target on Grupo Financiero Inbursa to US$ 2.27 from US$ 2.17, citing an improved peso forecast. Also, another bank started coverage of telecom firm Axtel at "buy."

Argentine issues eased lower amid a dearth of market news. Helping to limit losses in the Merval, Tenaris extended recent gains on continued high oil prices and last week's broker upgrade.

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