

## Low Inflation and High Surplus Give Brazilian Market a Boost

Contributed by Paul Davee  
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Latin American stocks were mixed, with Brazilian stocks climbing on data showing local inflation at the low end of expectations. Meanwhile, Mexican shares were dragged down by investor caution ahead of tomorrow's interest-rate decision in the U.S.

Brazil's Bovespa Index gained 419.82 points, or 1.11%. Mexico's benchmark Bolsa Index dropped 107.26 points, or 0.57%, while Argentina's Merval Index leapt 31.72 points, or 1.82%.

Brazilian stocks advanced, as investors cheered benign inflation data. The Brazilian General Price index (IGP-M) rose 0.92% in January, at the low end of analyst forecasts between 0.9% and 1.02%.

The report helped to ease recent inflation concerns and boosted hopes the Brazilian central bank will extend its cycle of cutting interest rates. The bank has lowered rates at five consecutive meetings to 17.25% from a high in August of 19.75%.

Adding to investors' interest-rate optimism, a central bank survey of economists showed expectations for 2006 year-end inflation, as measured by the official IPCA index, declined to 4.60% from 4.61%.

Meanwhile, shares were also supported by data showing that the government beat its primary budget surplus goal of 4.25% of gross domestic product for 2005, reaching 4.84% of GDP. In addition, Brazil posted an US\$ 817 million trade surplus in the fourth week of January.

In corporate news, the board of Arcelor Brasil's parent company, Arcelor, recommended that shareholders reject an unsolicited takeover offer from Dutch-based steel giant Mittal Steel. Steel shares have gained recently on expectations of consolidation in the sector.

An investment bank cut its price target for Brasil Telecom Participações to US\$ 48 from US\$ 50, saying it expects slower growth for the company.

In other research, a major bank reduced its model portfolio's exposure to Brazilian equities, and increased its allocations to Chile. The firm also went "slightly underweight" on Petrobras and sold its holdings of Embratel Participações.

"Just like we started the year advising clients to buy on dips, we think the early 2006 rally offers an opportunity to take profits and trim some exposure. Latin American markets have moved a lot very quickly," the bank said.

On an up note, another investment bank upgraded steelmaker Usinas Siderúrgicas de Minas Gerais to "buy" from "neutral," citing improved sector fundamentals and inexpensive multiples.

Elsewhere, Mexican shares dipped, as investors took a cautious stance ahead of the U.S. Federal Open Market Committee's meeting tomorrow. The committee is widely expected to announce a quarter-point hike in interest rates; however, it remains to be seen whether it will continue its rate-hike path at its March meeting under new Federal Reserve Chairman Ben Bernanke.

Hopes that the U.S. monetary tightening cycle is close to ending have lent support to Mexican shares in recent months.

Closer to home, a major brokerage raised its EBITDA and stock price estimates for Mexican cement giant Cemex, citing "an outlook for greater resilience in key developed markets."

Argentine issues jumped, extending Friday's gains, on continued strength in steel stocks. The sector has benefited from Mittal Steel's surprise bid last week for Luxembourg's Arcelor, which fueled expectations of further consolidation in the global steel industry.

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