Brazilian Stocks Close Upbeat for Carnaval Recess

Contributed by Paul Davee
Friday, 24 February 2006

Latin American stocks were mixed, with Brazilian shares climbing on tame local inflation data that boosted hopes for continued monetary easing.

Meanwhile, Mexican issues dipped, as a plunge in U.S. durable goods orders and a surge in oil prices raised concerns about the economic health of Mexico's northern neighbor and biggest trading partner.

Reports of a failed terrorist attack in Saudi Arabia pushed oil prices higher. Of note, Brazil's market will be closed Monday and Tuesday and limited to half a day of trading Wednesday, due to the Brazilian Carnaval holiday.

Brazil's Bovespa Index rose 204.91, or 0.53%. Mexico's benchmark Bolsa Index fell 16.83 points, or 0.09%, while Argentina's Merval Index gained 12.52 points, or 0.73%.

Brazilian stocks advanced, ahead of the long holiday weekend, as a host of economic reports supported expectations for further interest-rate cuts.

In a sign of easing inflation, the Getúlio Vargas Foundation reported that the Brazilian General Price Index (IGP-M) rose just 0.01% in February, a sharp deceleration from January's rise of 0.92%.

In addition, the Fipe research foundation said its São Paulo consumer price index fell 0.08% in the four weeks ended February 23, compared with an increase of 0.01% in the four weeks ended February 15.

The deceleration in both the São Paulo CPI and IGP-M index fueled hopes the central bank might accelerate the pace of its interest-rate cutting cycle. In January, the bank lowered its Selic rate for the fifth straight month to 17.25%.

Among other data, gross domestic product rose 1.4% in the fourth quarter from a year earlier, below expectations for growth of 1.8%. GDP rose 0.8% in the fourth quarter from the third quarter.

For the full year of 2005, GDP grew by 2.3%, less than half of the 4.9% rate in the previous year, but in line with forecasts.

Meanwhile, the central bank said Brazil's government posted a January primary budget surplus of 3.07 billion reais, reversing a December deficit of 5.1 billion reais.

The 12-month surplus was 85.2 billion reais, equal to 4.37% of gross domestic product. The January result puts Brazil on target to meet its 2006 goal of a primary budget surplus equal to at least 4.25% of GDP.

On the corporate front, wireless telecom operator Telesp Celular Participações SA posted a fourth-quarter net loss of 318 million reais, wider than the year-earlier loss of 235 million reais and market expectations for a deficit between 189 million reais and 237 million reais. Results were hurt by a slowdown in the client base and continued high costs.

In other news, a major investment bank raised its price target for brewing giant Companhia de Bebidas das Americas (AmBev) to US$ 50 from US$ 45.

"Over the coming quarters, we look for strong Brazilian industry growth, market share increases, further vertical integration, improvements in overall mix, better pricing dynamics in soft drinks, more favorable hedging, and further improvements," the bank said. Yesterday, AmBev posted a 51.7% jump in fourth-quarter net profit compared with a year earlier.

Elsewhere, Mexico's bolsa pulled back slightly due to profit-taking, following recent impressive gains. Like the U.S. market, shares were little changed. Economic news was plentiful. U.S. durable goods orders plunged in January.

Closer to home, the Bank of Mexico reduced its overnight rate to 7.50% from 7.75%, marking the seventh-straight time it has eased rates. The bank also indicated that it sees limited room for further easing in the coming months.

The Bank of Mexico also reported a current account deficit of US$ 5.71 billion in 2005, down from US$ 7.18 billion the year before, the smallest deficit since 1996. The deficit for the fourth quarter narrowed to US$ 2.68 billion from US$ 4.65 billion last year.

Elsewhere, the National Statistics Institute, or Inegi, said that economic activity rose 2.4% in December from the year-earlier period. The IGAE indicator showed a 3.8% rise in services year-over-year and a 2.7% gain in industrial production. Agricultural output tumbled 6.3% in December.

On the earnings front, soft-drink bottling firm Coca-Cola Femsa said that fourth-quarter sales jumped 2.9% year-over-year to 13.11 billion pesos, while operating profit advanced 4.5% to 2.45 billion pesos. Net profit arrived at 1.53 billion pesos, down 1.7% from a year ago due to a one-time tax benefit in 2004. Sales edged up 2.8% to 492.6 million unit cases.

Elsewhere, media conglomerate Grupo Televisa SA said that its 2005 net profit surged 37% to 6.13 billion pesos from 2004. Fourth-quarter earnings advanced to 2.52 billion pesos, above analyst expectations. For the year, sales grew 8% from 2004 to 32.48 billion pesos, while fourth-quarter sales rose 11% to 9.65 billion pesos. Looking ahead, the firm expects high single-digit sales growth in 2006.

In other corporate reports, airport operator Grupo Aeroportuario del Pacifico SA surged on its debut on the Mexican and New York stock exchanges. The Mexican government sold 414.7 million shares for a total of US$ 870 million.

Argentina bounced back from recent weakness, bolstered by heavyweights Tenaris, Petrobras Energia Participaciones and Telecom Argentina. Investors are looking forward to Tenaris's financial results, which are due out next week.

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