Better Credit Rating for Brazil Gives Bulls a Boost

Contributed by Paul Davee
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Latin American stocks advanced strongly, with Brazilian shares getting a boost from an upgrade to the country's sovereign long-term debt rating and improved hopes for continued monetary easing.

Also participating the region's rally, Mexican shares climbed on bargain hunting, while positive local economic data lifted Argentina's equity market.

Brazil's Bovespa Index jumped 567.48 points, or 1.47%. Mexico's benchmark Bolsa Index surged 352.42 points, or 1.88%, while Argentina's Merval Index rallied 27.82 points, or 1.62%.

Brazilian stocks posted solid gains in an abbreviated session following the Carnaval holiday, as investors were cheered by news that Standard & Poor's Ratings Services upgraded Brazil's long-term sovereign credit ratings to BB from BB-, citing "the continued and marked improvement in Brazil's external debt indicators." S&P's outlook for Brazil is stable.

Adding to upbeat sentiment, analysts and economists polled in the Brazilian Central Bank's most recent weekly survey reduced their forecasts for year-end 2006 inflation and predicted the central bank will quicken the pace of interest-rate cuts.

Analysts, on average, cut their forecast for 2006 inflation as measured by the official IPCA consumer price index, to 4.59% from last week's 4.64%. The central bank's full-year inflation target is 4.5%, with a tolerance band that allows maximum inflation of 6.5%.

In 2005, inflation was 5.69%. Given tame inflation so far this year, analysts' latest forecast for the year-end Selic interest rate declined to 14.50% from the previous week's forecast of 14.75%.

In corporate news, paper and pulp company Aracruz said it has launched an initiative to repurchase bonds coming due in 2011 and 2012. Separately, the company said it is also preparing to issue new 10-year bonds in international markets. Aracruz said the repurchase is aimed at reducing "the total of higher-coupon yield bonds" within its overall debt profile.

Elsewhere, Mexican shares rallied on the day, rebounding sharply from three-straight down sessions, alongside solid gains in the U.S. Volume was boosted by a series of trades in cement firm Moctezuma's shares.

In other cement-related news, Mexico and the U.S. are set to ratify on March 6 an agreement that will end their cement trade dispute. Part of the deal includes domestic firms being able to ship up to three million metric tons of cement a year to the U.S. for three years for US$ 3 per metric ton in duties, down sharply from the current US$ 26.28.

Elsewhere, members of the National Mining and Metal Workers Union called an indefinite work stoppage at all 130 union chapters nationwide. The move comes amid a challenge to the union's current leadership. Grupo Mexico SA was among those firms affected by the strike.

Meanwhile, Argentine issues took part in the broader regional rally today. Economic reports were a focus, and investors were looking forward to steel pipemaker Tenaris' results, due out after today's close of trading.

In economic headlines, the national statistics agency, or Indec, said that the domestic unemployment rate tumbled to 10.1% in the fourth quarter from 11.1% in the third quarter. The most recent rate marked a two percentage point decline from a year ago when the rate was at 12.1%.

In other economic reports, Argentina posted an US$ 837 million trade surplus in January, slightly narrower than the US$ 872 million surplus posted a year ago. Exports rose 14% to US$ 3.2 billion in January from US$ 2.8 billion in the year-earlier period. Imports, meanwhile, grew at a faster 22% rate to US$ 2.3 billion from US$ 1.9 billion last year.

On the earnings front, Banco Macro Bansud said that its fourth-quarter net profit leapt 67% to 75 million pesos from 45 million pesos a year ago. For 2005, net profit rose to 263 million pesos from 192 million pesos in 2004.

Elsewhere, textile manufacturer Alpargatas SAIC said late yesterday that it signed a deal with the government to freeze prices on seven different lines of shoes for one year.

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