

## Interest Rate Cut Doesn't Cheer Up Brazilian Investors

Contributed by Paul Davee  
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Latin American and, in particular, Brazilian stocks fell again this Thursday, March 9, as ongoing concerns over rising U.S. Treasury yields overshadowed a move by Brazil's central bank to cut local interest rates.

Brazil's Bovespa Index dropped 976.81 points, or 2.62%. Mexico's benchmark Bolsa Index fell 88.25 points, or 0.48%, while Argentina's Merval Index lost 11.30 points, or 0.64%.

Brazilian stocks tumbled, extending a recent sell-off, amid continued concerns about the recent rise in U.S. Treasury yields, which has been widely viewed as reflecting expectations of further U.S. interest-rate hikes to contain inflation.

Higher U.S. rates tend to divert investment flows away from emerging markets like Brazil and into U.S. fixed-income investments.

The Bovespa was initially higher today, however, as investors were cheered by news that Brazil's central bank late yesterday cut the base Selic interest rate by 75 basis points to 16.5%, as expected. It was the sixth consecutive reduction aimed at fueling economic activity.

Also, in its accompanying statement, the bank omitted previous warnings about possible inflationary pressures. Further adding to hopes for deeper cuts at the April meeting, three of the nine central bank directors voted yesterday for a cut equal to a full percentage point.

Reinforcing hopes the central bank has more room to cut rates, the IBGE reported that Brazil's industrial production fell 1.3% in January from December. Industrial output rose 3.2% in January from the same month a year ago.

On the corporate front, Brazil's biggest telecom carrier Telemar said its fourth-quarter net profit rose to 416 million reais from 293 million reais a year earlier, helped by an expansion of the company's mobile and broadband services.

Technology group Totvs SA debuted on the Bovespa today. The company raised 400 million reais from the sale of a total of 12.5 million common shares, priced at 32.00 reais per share.

Elsewhere, Mexico was unable to hold on to early market gains, and instead opted to follow its recent losing trend. Emerging markets in general have been under pressure recently, as concerns have been brewing regarding rising U.S. interest rates and the potential subsequent impact on global liquidity.

In major economic news, the Bank of Mexico said that the Consumer Price Index rose 0.15% in February, growing at a slower pace as energy and agricultural prices eased. The latest result brought the annual rate of inflation down to 3.75% from 3.94% at the end of January.

Also, the Finance Ministry reported that Mexico's total exports rose 35.9% in January from a year ago to US\$ 19.21 billion, while imports advanced 22.9% to US\$ 18.76 billion. The trade surplus was upwardly revised in January to US\$ 444 million from US\$ 398 million.

Argentina followed the broad regional trend and finished in the red, while volume was low. Telecom Argentina, which is scheduled to announce financial results tonight, advanced on word it is moving forward with rate re-negotiations with the government.

On the economic front, Di Tella University said that consumer confidence leapt 6.5% in March from last month and advanced 2.5% from a year ago. The most recent result brought the consumer confidence indicator up to an all-time high of 59.9 points.

Turning to airlines, APLA and APTA, or unions representing pilots and mechanics, respectively, launched a 24-hour strike against Aerolineas Argentinas after the firm rejected the workers salary proposals.

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