

Opposition Plans to Impeach Lula Do Not Disturb Brazil Stocks

Contributed by Paul Davee
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Latin American stocks extended Wednesday's (March 29) gains, with Brazilian shares getting a boost from improved hopes for an acceleration of the Brazilian central bank's monetary easing cycle.

Brazil's Bovespa Index rose 285.19 points, or 0.76%. Mexico's benchmark Bolsa Index climbed 81.66 points, or 0.43%, while Argentina's Merval Index added 6.18 points, or 0.34%.

Brazilian stocks climbed, as investors grew more hopeful for a deeper cut in local interest rates in April. Boosting optimism about interest rates, Brazil's central bank said in its quarterly inflation report this Thursday, March 30, that Brazil will likely end 2006 well within the government's inflation target for the year of 4.5%.

Brazil's IPCA consumer price inflation should end 2006 at 3.7% and accelerate through the end of 2007 to 3.9%, the bank said. The monetary authority also maintained its forecast for Brazil's 2006 economic growth at 4%.

Adding to positive sentiment, the Getúlio Vargas Foundation reported that the Brazilian General Price Index (IGP-M) dropped 0.23% in March, compared with a rise of 0.01% in February.

In other economic news, Brazil's gross domestic product in nominal terms in the fourth quarter of 2005 rose to 521.855 billion reais from 497.356 billion reais in the third quarter, the government's statistics institute IBGE said.

Helping to ease concerns about the future of Brazil's economic policies, newly-appointed Finance Minister Guido Mantega said that the government will meet ambitious fiscal austerity goals in 2006 under the guidance of a new economic team.

Brazil's government has targeted a primary budget surplus in 2006 equal to 4.25% of gross domestic product. "We will meet the goals with the utmost rigor," Mantega said.

In related news, Mantega announced two key appointments to the government's economic team. Government economists Bernard Appy and Carlos Kawall were named to the posts of deputy minister as treasury secretary, respectively. Mantega said he will announce more key appointments next week.

In other developments, Social Democracy Party Congressman Rafael Guerra said a group of Brazilian lawmakers, known as the Pro-Congress Movement and affiliated with opposition parties, will file a petition next week calling for the impeachment of President Luiz Inacio Lula da Silva.

The move is based on Lula's alleged participation in breaking the confidentiality of bank records of a congressional witness that testified against former Finance Minister Antonio Palocci earlier this month.

Mexican shares continued to rebound today following weakness earlier this week. Meanwhile, U.S. markets turned mostly lower today. U.S. fourth-quarter GDP was revised higher to 1.7% from 1.6%, in line with targets, and compared with growth of 4.1% in the prior quarter. Closer to home, mining firms advanced on stronger copper prices.

Workers continued to strike at Grupo Mexico's La Caridad copper mine for the seventh day. Yesterday, the Labor Ministry rejected the National Mining and Metal Workers Union's ratification of leader Napoleon Gomez Urrutia. The ministry said that the union's extraordinary general convention held earlier this month did not meet attendance and other requirements within the union's own statutes.

A major investment bank upgraded homebuilder Urbi to "buy" from "hold," while lifting price targets for several other developers in the sector. The broker cited the builders' more aggressive expansion plans over the next few years as part of the reason for its bullish research note.

Argentina also headed higher today; although, investor enthusiasm was more muted compared to the broader regional markets. A price hike for gas received mixed reactions.

Enargas, the country's natural gas regulator, has authorized gas distributors to lift rates for industrial and commercial users by 20%, on average. The move should help normalize prices within the gas market. In economic news, the national statistics agency Indec said that Argentina posted a US \$706 million trade surplus in February, slightly less than the US \$734 million surplus posted a year ago. In January, the surplus arrived at US \$837 million.

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