Heating US Economy Gives Brazilian Market the Chills

Contributed by Paul Davee
Friday, 07 April 2006

Latin American stocks retreated, as stronger-than-expected U.S. jobs data stoked concerns about a continued rise in U.S. interest rates. Brazilian and Mexican shares were further pressured by profit taking following recent gains.

Brazil's Bovespa Index dropped 358.55 points, or 0.91%. Mexico's benchmark Bolsa Index tumbled 397.35 points, or 2.00%, while Argentina's Merval Index fell 13.00 points, or 0.71%.

Brazilian stocks dropped on heightened concerns about rising U.S. interest rates following the release of stronger-than-expected U.S. employment data that sent U.S. Treasury yields higher.

U.S. non-farm payrolls jumped by 211,000 in March, exceeding expectations for a rise of 200,000. Also, the unemployment rate fell unexpectedly to 4.7%, the lowest level since July 2001.

The data suggested the economy may be gaining steam, fueling concerns the Federal Reserve will continue to raise interest rates to contain inflation. Higher U.S. rates tend to divert investment flows away from emerging markets like Brazil.

Closer to home, Brazil's official IPCA consumer inflation rate accelerated to 0.43% in March from 0.41% in February amid higher fuel prices, the IBGE Census Bureau reported. Still, the rate came in below forecasts of 0.46%. The monthly rate was slightly lower

In corporate news, paper and pulp producer Aracruz reported a first- quarter net profit of 347.9 million reais, up 73% from 200.8 million reais in the first quarter of 2005.

Meanwhile, a major investment bank initiated coverage of Brazil's largest telecom carrier Telemar with an "equalweight" rating. "This year's transition to lower tariff hikes, combined with near-zero line growth and declining local traffic, produces a flattish top line in real terms," the bank said.

Mexican shares fell sharply, alongside U.S. market declines and amid profit-taking, as the key IPC Index reached consecutive record highs earlier this week. U.S. inflation concerns were reignited by a strong March employment report.

In economic headlines, the Bank of Mexico said that the consumer price index advanced 0.13% in March, lowering annual inflation to 3.41% from 3.75% in February.

The most recent result was mostly in line with analyst expectations. Core inflation, which excludes some fresh produce, energy and education, leapt 0.44% in March, lifting the annual rate to 3.04% from a record low of 2.90% in February.

Turning to corporate reports, a major investment bank lowered its rating on bottler Coke Femsa to "neutral" from "buy," on a valuation call.

Elsewhere, Standard & Poor's lifted Cemex's credit rating into investment- grade territory due to the "successful integration" of the RMC Group of the U.K.

Argentina followed the broader indices into the red today. Similar to Mexican shares, some profit taking is at work, after the Merval Index reached a record level this past Wednesday.

Spanish-Argentine firm Repsol-YPF declared a force-majeure on natural gas deliveries to power firms in Chile due to reduced output from pipeline damage in Bolivia. Repsol said that domestic demand first needed to be met. Separately, the firm signed a deal with the Nigerian government to build a liquefied natural gas plant in Nigeria.

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