

Brazilian Market High on Low Inflation Expectations

Contributed by Paul Davee
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Latin American stocks posted robust gains, with Brazilian shares getting a boost from a local telecom giant's share restructuring plan and optimism about inflation and interest rates.

Meanwhile, Mexico's bolsa climbed on expectations for positive first-quarter earnings.

Brazil's Bovespa Index rose 380.35 points, or 1.00%. Mexico's benchmark Bolsa Index gained 282.59 points, or 1.46%, while Argentina's Merval Index leapt 48.36 points, or 2.61%.

Brazilian stocks gained ground, as investors were cheered by news that fixed line telecom titan Tele Norte Leste Participações (Telemar) plans to decentralize its share structure and migrate shares to Brazil's investor-friendly Novo Mercado.

The company said that as part of the share restructuring, current holders of the controlling block of voting shares in the company will sell their shares to the market, in a move that will help ensure widespread ownership by the general public and effectively decentralize control of the company. All of Telemar's shares will be converted into common shares.

Lending additional support to the market, economists and analysts polled in the Brazilian central bank's latest weekly market survey reduced their 2006 inflation forecasts for the third consecutive week, bolstering hopes that the bank will extend its run of interest-rate cuts at its meeting on Wednesday.

Analysts reduced their forecast for year-end 2006 IPCA inflation to 4.43% from 4.47% last week. Meanwhile, they maintained their year-end 2006 forecast for the benchmark Selic interest rate at 14%. The bank is widely expected to lower rates by 75 basis points at its meeting Wednesday.

In other news, steelmaker CSN was in focus after local news services reported that the company's shareholders will discuss the possible acquisition of can maker Prada at an April 28 meeting.

Meanwhile, oil giant Petrobras said its petrochemicals unit, Petroquisa, and Citiene, a local textile company, will invest about US\$ 490 million to build a new petrochemical factory in Pernambuco state in the Brazilian northeast.

In broker action, a major firm raised its 12-month price target for the shares of paper and pulp producer Aracruz to US\$ 69 from US\$ 52.60, citing "an improved outlook for pulp prices."

Elsewhere, Mexican shares jumped amid optimism about the first-quarter earnings season, which mostly takes place this week and next.

Reporting Monday, April 17, Banamex, a unit of Citigroup, said its first-quarter net profit rose to US\$ 444 million from US\$ 373 million last year, helped by strong consumer loan growth. Revenues grew 19% to US\$ 1.37 billion.

On the political front, a poll published today by El Universal newspaper showed that the leading candidate in Mexico's presidential race, Andres Manuel Lopez Obrador of the left-wing Democratic Revolutionary Party, narrowed his lead to 38% of preferences among probable voters in early April, down from 42% in March.

Felipe Calderon of the ruling National Action Party rose to 34% from 32% in March, and Roberto Madrazo of the Institutional Revolutionary Party rose to 25% from 24%.

Argentine issues rallied, following the rest of the region's move higher. In economic data, Argentine consumer confidence sank 9.75% to 54.02 in April from a record 59.9 the previous month in Torcuato Di Tella University's survey of consumers. Confidence had surged 6.5% in March.

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