

## Fed Hints of Interest Pause Give Brazilian Market a Boost

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Latin American issues extended, and handily outpaced, yesterday's gains, as the U.S. Federal Reserve raised interest rates by 25 basis points, in line with expectations. Even more encouraging to Latin American shares was a hint of a pause to come.

Brazil's Bovespa Index rallied 1652.02 points, or 4.74%. Mexico's benchmark Bolsa surged 806.50 points, or 4.46%, while Argentina's Merval Index jumped 57.39 points, or 3.52%.

Brazilian issues rallied today, building momentum following an expected move on interest rates by the U.S. Fed. Interest rates were lifted by 25 basis points to 5.25%, and indications were given that the rate-tightening cycle could be nearing an end.

Closer to home, Brazil's National Monetary Council set the country's IPCA consumer price inflation for 2008 at 4.5%, while reaffirming the same target for 2006 and 2007.

Meanwhile, the São Paulo Federation of Industries, or Fiesp, announced that industrial production in São Paulo advanced a seasonally adjusted 2.7% in May from April. The latest reading surged 9.3% compared to the year-ago period.

In corporate reports, Aracruz is planning to expand its pulp output at an existing unit based in Rio Grande do Sul from the current 430,000 metric tons per year to 1.3 million metric tons by 2015. The paper and pulp firm said it may invest as much as US\$ 1.3 billion in the project.

The Brazilian Securities and Exchange Commission suspended trading of steelmaker Arcelor Brasil's shares due to the potential impact the merger of its parent firm, Arcelor, with Mittal Steel may have on the firm.

Mexican shares rallied on the session, following yesterday's more muted gains. Investors managed to brush aside their anticipation for the presidential election results this Sunday. Positive investor sentiment regarding a potential pause in U.S. rate hikes lent support to global markets today.

Select corporate reports also supported the local market. A major investment bank upgraded Homex to "buy" from "neutral," as the brokerage believes the firm will continue to perform well regardless of Sunday's outcome.

Argentine stocks also took part in the broad market rally today. President Nestor Kirchner said that the country posted a record trade surplus of US\$ 4.125 billion in May.

In corporate news, a major investment bank lifted its rating on fixed-line provider Telecom Argentina to "peer perform" from "underperform." The brokerage also increased the firm's earnings estimates for 2006 and 2007.

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