

Inflation Drops and Brazilian Investors Take Their Money

Contributed by Linda Shea
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Brazilian issues turned lower on profit-taking, following Thursday's, July 6, collective rise. Investors focused on employment data from the U.S. and inflation data for Brazil. Meanwhile, investor focus is starting to shift to earnings, with the season kicking off next week in the U.S.

Brazil's Bovespa Index declined 431.15 points, or 1.18%. Mexico's benchmark Bolsa tumbled 218.02 points, or 1.09%, while Argentina's Merval Index slipped 9.74 points, or 0.57%.

Brazilian shares declined amid economic and corporate reports. There was some U.S. interest rate anxiety that stemmed from the U.S. employment report for June in which investors focused on a rise in hourly earnings. Closer to home, investors cheered a tame inflation report.

Corporate earnings are starting to trickle in, marking the start of earnings season. Paper and pulp giant Aracruz said that its second-quarter net profit fell sharply to 230.1 million reais from 492.9 million reais a year ago.

The firm said the decline was due to the appreciation of the real against the greenback. Despite the decline, the most recent result landed above analyst expectations. Revenue rose 10% to 881.8 million reais from 803.5 million reais last year.

In economic news, the Census Bureau, or IBGE, said that the IPCA consumer price index declined a larger-than-expected 0.21% in June from May on lower fuel prices. The most recent result brings the IPCA inflation rate for the 12 months through June's end to 4.03%, down from the 4.23% seen at the end of May.

Turning to brokerage notes, a major investment bank initiated coverage on toll road operators CCR and OHL Brasil at "buy" as it expects the firms will benefit from increases spending on transportation infrastructure.

Meanwhile, Mexico turned lower today, giving back some of the gains incurred on news conservative candidate Felipe Calderon won the official recount for the Mexican presidency. Still, due to the close margin between Calderon and rival Andrés Manuel Lopez Obrador, investors are concerned that Lopez Obrador may not give up without a fight.

The central bank said that Mexico's Consumer Price Index advanced 0.09% in June, which lifted the annual inflation rate up to 3.18% from 3% at May's end.

In deal reports, U.S.-based Dana Corp. bought out Desc SA de CV's stake in their joint Mexican auto-part manufacturing venture for US\$ 19.5 million and its portion of the firms' joint transmission and aftermarket gasket operations.

Argentina also moved lower on the day. The country had its own employment data to contend with. The Argentine Ministry of Labor said that its employment index rose 0.4% in May from the prior month. The index is up 8.2% from May last year.

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