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Bovespa Jumps as Central Bank Signals Rate Rises to End Soon
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By Alexander Cuadros and Alexander Ragir

July 22 (Bloomberg) -- Brazil's Bovespa stock index gained for a fourth day, led by homebuilders and retailers, after the central bank signaled it may stop raising interest rates soon after unexpectedly slowing the pace of increases.

Rossi Residencial SA and Lojas Americanas SA climbed more than 2 percent. Vale SA, the world's largest iron-ore producer, advanced as metals prices climbed. Natura Cosméticos SA, Brazil's largest cosmetics maker, rallied after saying second-quarter profit beat analysts' estimates.

The Bovespa index increased 1.5 percent to 65,427.23 at 9:26 a.m. New York time, the highest level since May 10. All 65 companies on the index advanced. The real strengthened 0.4 percent to 1.7730 per dollar.

"A smaller tightening cycle is clearly a positive environment," said Roni Lacerda, who helps manage 2.4 billion reais (\$1.3 billion) at Mercatto Gestao de Recursos in Rio de Janeiro. "This will benefit retailers, homebuilders and logistics companies, and any others that are affected by the domestic economy. You don't have that environment that penalizes companies with more leverage and those in credit-sensitive sectors."

The bank's board, led by Henrique Meirelles, increased the benchmark Selic rate half a point to 10.75 percent yesterday. The move, which was anticipated by traders in the interest-rate futures market, surprised 48 of 51 analysts surveyed by Bloomberg. They predicted another 0.75-percentage-point increase, the same as at the bank's two previous meetings.

Slowing Economy

Latin America's biggest economy shows signs of slowing, after expanding 9 percent in the first quarter, the fastest pace in 15 years. Consumer prices fell 0.09 percent in the month through mid-July, the first drop in four years, the statistics agency said this week. Policy makers said in a statement accompanying the decision that inflationary risks have eased.

Brazilian unemployment fell more than forecast in June, the national statistics agency said today. The jobless rate declined to 7 percent last month, lower than the 7.3 percent median estimate in a Bloomberg survey of 34 economists.

Rossi Residencial advanced 2.4 percent to 14.99 reais. Lojas Americanas SA climbed 2.7 percent to 13.71 reais.

Vale rallied 1.9 percent to 41.92 reais. The Bloomberg Base Metals 3-Month Price Commodity Index increased 2 percent and copper rose for a fourth day in New York and London as the dollar slumped, equities climbed and growth in European manufacturing and services industries beat estimates.

Natura Climbs

Natura Cosméticos advanced 2.8 percent to 41.12 reais after saying second-quarter profit increased by 14 percent as consumer demand grows. Net income rose to 191.5 million reais (\$108 million), the company said in a regulatory filing. Earnings surpassed the average estimate of 184.4 million reais in a Bloomberg survey of eight analysts. Sales rose 24 percent to 1.28 billion reais.

Tele Norte Leste Participações SA climbed 1.4 percent to 28.39 reais. El Economista reported that the phone company known as Oi would welcome having Portugal Telecom SGPS SA as one of its shareholders, citing Alex Zornig, Oi's head of investor relations. Portuguese Prime Minister Jose Socrates is in talks with Brazilian President Luiz Inacio Lula da Silva over a share swap between Portugal Telecom and Oi that would allow the companies to have minority holdings in each other, the newspaper said.

The Bovespa index trades for 11.8 times analysts' 2010 earnings estimates, compared with 11.6 times for the MSCI Emerging Markets Index of 21 developing nations' stocks and 15.3 times for Mexico's IPC index, according to weekly data compiled by Bloomberg. The Bovespa trades at 13.4 times the reported profits of its companies after fetching 25.5 times in November, the most in almost six years, weekly data show.

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