

Brazil's stocks jump, real rallies on Fed rate cut

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(Updates to close)

SAO PAULO, Jan 22 (Reuters) - Brazil's main stock index had its biggest one-day jump in 10 months and the currency rallied nearly 2 percent on Tuesday after a surprise U.S. rate cut boosted the appeal of high-yield emerging market securities.

The Bovespa index [.BVSP](#) of the Sao Paulo Stock Exchange rose 4.45 percent to 56,097.18 points, the biggest rise since a 4.95 percent gain on March 6, 2007. The index tumbled 6.6 percent on Monday.

Trading volume on Tuesday reached 8.1 billion reais, the highest this year.

The U.S. Federal Reserve slashed benchmark interest rates by a hefty three-quarters of a percentage point in a surprise move to try to avert a recession. The cut took the key federal funds rate, which governs overnight lending between banks, down to 3.5 percent, the lowest level since September 2005.

Brazil's currency, the real [<BRL=>BRBY](#), gained to 1.793 per U.S. dollar after a 2.5 percent tumble on Monday.

The lower U.S. benchmark rate boosted the appeal of fixed-income securities in Brazil, where lending rates are at 11.25 percent. The country may see some dollar inflow from carry-trade investors, who borrow in currencies with low funding costs such as the Japanese yen to buy high-yield assets denominated in currencies such as the real.

"There will be some room (for arbitrage investments), but there won't be that flood of dollars that we had in the past," said Marcelo Voss, chief economist at the Liquidez brokerage.

Interest-rate futures [<0#DIJ:>](#) were mostly lower on the BM&F commodities and futures exchange in Sao Paulo, reflecting improved investor sentiment after the Fed cut.

On the stock market, state-controlled oil company Petrobras ([PETR4.SA: Quote, Profile, Research](#)), Brazil's most actively traded stock, surged 9.76 percent to 72.96 reais. The company said late Monday it struck a big deposit of gas and condensate in the offshore Santos basin that could be as large as last year's giant Tupi oil find. The company's shares had dropped 7.42 percent on Monday as crude oil prices fell.

Vale ([VALE5.SA: Quote, Profile, Research](#)), the iron ore miner formerly known as CVRD, rose 4.09 percent to 43.25 reais, after an 11.3 percent tumble on Monday when it confirmed talks to buy rival Xstrata. The company said on Tuesday its management had approved a proposal to pay out \$2.5 billion in dividends this year, a 33 percent increase over the amount it paid in 2007.

Steelmaker CSN ([CSNA3.SA: Quote, Profile, Research](#)) jumped 10.42 percent to 144.00 reais. The company's shareholders passed on Tuesday a 3-for-1 stock split that had already been approved by the CSN's board in December. CSN has said the split aims to lure more individual investor by making the shares more affordable. (Reporting by Elzio Barreto and Silvio Cascione; Editing by Leslie Adler)

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