Looking Ahead ➔ What to watch for?

- **4th July** -- New car sales June, _____ units (___% YoY), in 1st semester (___% YoY)
- **4th July** -- IBGE industrial production for May ➔ ___% MoM & ___% YoY
- **4th July** -- US Independence Day [national holiday]
- **6th July** -- FGV to announce IGP-DI for June ➔ ___%
- **6th July** -- STF Judge Dias Toffoli to speak at W. Wilson Center in DC
- **7th July** -- IBGE to release IPCA inflation data for June ➔ ___ %
- **7th July** -- Canada Day
- **9th July** -- State Holiday in SP – [“Commemorate” defeat in the 1932 Revolution]
- **9th July** -- Argentine Independence Day
- **11th July** -- IBGE – Industrial employment in May ➔ ___% MoM.
- **11th July** -- IBGE ➔ Industrial Production in May
- **13th July** -- Central Bank to release its IBC-Br for May ➔ ___% MoM & ___% YoY
- **14th July** -- *Lava Jato* Judge Sérgio Moro to speak at W. Wilson Center in DC
- **15th July** -- *Lava Jato* Judge Sérgio Moro to speak at Council of the Americas in DC
- **16th July** -- IBGE – Retail sales in May ➔ +0.% MoM
- **18th July** -- *Caged* data ➔ _____ new jobs created in June
- **19-20 July** -- 200th Meeting of Copom ➔ Selic rate
- **22nd July** -- June tax collections R$ ____ billion, ___% YoY
- **22nd July** -- CNI ➔ Industrial Employment in June, __ points vs. __ points in May
1 - POLITICS

1.1 – Corruption Investigations

1.1.1 – Lava Jato

Federal prosecutors affirm that they have discovered that Sen. Renan Calheiros (PMDB-AL) received a corruption bribe paid overseas. Based on the plea bargaining by PMDB operator Fernando Soares (Fernando Baiano), prosecutors investigated the bribe resulting in the sale of the Argentine firm Electroingenaria by Petrobras in 2007 for US$ 54 million. This bribe was divided between Senators Renan Calheiros (PMDB-AL) and Jader Barbalho (PMDB-PA) plus Dep. Anibal Gomes (PMDB-CE). Calheiros already has eight investigations opened by the Lava Jato investigation.

Plea Bargaining (delação premiada) is a recent phenomenon in Brazil – signed into law by Pres. Dilma Rousseff in 2013. This mechanism negotiated between prosecutors and those accused (and already sentenced to prison terms) and if accepted by the presiding judge could reduce the prison terms of those accused (convicted). However – the plea bargaining testimony can not be only a verbal statement, but rather must be backed up by concrete evidence and documents. This “evidence” gathered via plea bargaining testimony is then used to discover crimes practiced by others and might result in the accusation/conviction of the latter. There are several bills before Congress to limit the impact of plea bargaining.

Portugal extradition – Answering an extradition request from Brazil, on Wednesday, 29th June, the Tribunal de Relação in Lisbon decided in favor of the extradition of Raul Schmidt Felippe Junior to Brazil. According to Portuguese prosecutors, the alleged crimes committed by Raul Schmidt were committed before he acquired Portuguese citizenship on 14th December 2011.

Raul Schmidt is accused of “operating” deposits of bribes from the Petrobras scandal into the Swiss bank accounts of former Petrobras directors – Renato Duque, Jorge Zelada and Nestor Ceveró. However, the Portuguese court imposed some “restrictions” → 1) Schmidt can not be tried in Brazil for crimes not listed in the extradition request; and 2) he can not be tried for crimes committed after he became a Portuguese citizen. Before moving to Lisbon, Schmidt lived in London. He was considered a “fugitive from justice” between July 2015 and his arrest in Lisbon on 21st March 2016. His arrest was a joint operation of the Brazilian Federal Police and Portuguese authorities.

A new phase of the Lava Jato investigation – nicknamed Sépsis was carried out by the Federal Police on Friday, 1st July with one arrest warrant (for money changer Lúcio Bolonha Funaro, linked to Eduardo Cunha) and 19 “search-and-seize” warrants in São Paulo, Brasília, Rio de Janeiro and Pernambuco. The “targets” were Henrique Constantino, the CEO of GOL Airlines, Joseley Batista (JBS/Friboi), and Eldorado Cellulose. The offices of lobbyist Milton Lyra [Miltinho] in Brasília were also a target of the “S&S” operation. Lyra was cited in several plea bargaining testimonies as an “operator” for Renan Calheiros at the Postalis (postal workers) pension fund.

This phase of the investigation was provoked by the plea bargaining testimony of Fábio Cleto (former Vice-President of the CEF) and Nelson Mello (former director of the Grupo Hypermarcas).
The “problem” is the accusation of bribe payments to “liberate” FI-FGTS funds for these firms via debentures.

1.1.2 – Operation Boca Livre

On 26th June, the Federal Police unleashed Operation Boca Livre (Free Lunch) in Rio, Brasília and SP and arrested 14 persons accused of operation fraudulent “cultural projects” via the Lei Rouanet at the Ministry of Culture for nearly 20 years – some R$ 180 million were ripped off.


1.1.3 – Operation Custo Brasil

On Wednesday morning, 29th June, STF Judge Antonio Dias Toffoli determined the release of former Dilma Minister Paulo Bernardo Silva from the Federal Police lockup in SP. Toffoli alleged that there is no risk of his “disappearance” or flight, nor of “interference” in the investigations (witness tampering/obstruction of justice) to justify his imprisonment. As a result, the federal judge in SP who commanded Operation Custo Brasil – Paulo Bueno de Azevedo – ordered the release of six other accused who were arrested. Retaliation or Frustration??

The federal prosecutors involved in this case were “perplexed” because Toffoli skipped over other levels of the federal judiciary to make this decision and did not consult with the PGR. Judge Azevedo declared that he had not “usurped” the prerogatives of the STF because Paulo Bernardo does not have Foro Previlegiado like his Senator wife. He also said that the Senate apartment where they live does not have Foro Previlegiado – only the person of Sen. Gleisi Hoffmann (PT-PR). But, Toffoli did not rule in favor of the request by Paulo Bernardo’s lawyers that this case be transferred to the STF.

However – Judge Azevedo decided that Paulo Bernardo had to deliver his passport, not travel out of Brazil, report to a federal court every 15 days and wear a GPS ankle bracelet.

1.1.4 – Operation Saqueador

On 30th June, the Federal Police in Rio carried out Operation Saqueador with court arrest warrants and arrested Carlos Augusto Ramos [Carlinhos Cachoeira], Fernando Cavendish (CEO of Delta Construction Co., and Adir Assad (already convicted by Lava Jato. Twenty other persons were investigated. The accusations include money laundering, corruption/bribes and conspiracy.

Carlinhos Cachoeira was arrested in 2013 and was the subject of a CPI – with two Federal Police operations – Vegas and Monte Carlo. Among other things, he was accused of operating slot machines and other gambling operations in Goiás, and of trying to bribe one of Lula’s officials in 2003. All the materials gathered by this CPI were turned over to the Federal Police and Prosecutors. What led the federal Police to Cachoeira and Cavendish again was the pela bargaining testimony by
executives of Andrade Gutierrez. Former Governor Sérgio Cabral Filho (PMDB-RJ) is accused of taking a 5% kick back from the re-construction of the Maracanã stadium in Rio for the 2014 World Cup soccer games.

These investigations discovered that Delta has siphoned off some R$370 million from the construction projects for the 2007 Pan American Games held in Rio de Janeiro.

1.1.5 – Operation Tabela Periódico

On 30th June, the Federal Police and Federal Prosecutors in the state of Goiás carried out Operation Periodic Table – the second phase of Operation O Recebedor – against corruption in construction contracts for federal railways – that had the participation of 37 construction firms coordinated by Valec. This involved the construction of part of the North-South railway and the East-West railroad. Allegedly, some R$ 630 million was ripped off from these contracts.

1.2 – Operation Anti-Lava Jato

Some observers think that this decision by Senate President Renan Calheiros (PMDB-AL) was the result of “conversations” he had with suspended president Dilma Rousseff a few days ago. On 30th June, Renan announced that he had pulled a proposal (bill) out of the files in Congress (form 2009) that could control/regulate “the abuse of authority” by government agencies in Brazil – notably Federal Police, Federal Prosecutors and Judges. The “target”? Obviously to hamper the Lava Jato investigations as well as other similar anti-corruption investigations all over Brazil. Renan himself has 9 accusations before the Supreme Court. Recently, Renan attacked the initiatives of PGR Rodrigo Janot. Even more “symptomatic”, Renan named Sen. Romero Jucá (PMDB-RR) as President of a special Senate committee created to examine this proposal – which had been rejected by the Chamber. However, comparing 2009 with 2016, the “urgency” is much more acute in 2016 because it is estimated that some 300 deputies and some 45 senators are accused of some type of crime, and the ramifications of the Lava Jato investigations are “unknown”. See Items 1.1.1 to 1.1.5 above!!

1.3 – Eduardo Cunha

On Wednesday, 29th June, suspended Chamber President Eduardo Cunha (PMDB-RJ) admitted that via an “accord” he might resign his post as Chamber President – IF interim President Michel Temer is able to “unify” the DEM and PSDB in a strategy to elect his successor to the Chamber Presidency – a name of his (Cunha’s) choice. Apparently, he would “unify” the so-called “Centrão” as partner in this “deal”.

This was the main topic during Cunha’s encounter with Temer last Sunday, 26th June. Cunha’s strategy is to: 1) Negotiate a “bargain” at the CCJ where if he resigns the Chamber Presidency he would not be cassado (save his mandate); and 2) A negotiated choice of his successor would “save” Temer from direct involvement in the succession process.
1.4 – **Bolsa Família**

On 29\textsuperscript{th} June, interim President Michel Temer delivered a surprise decision regarding the “Family Stipend” program – the same day that IBGE released the PNAD unemployment data – See Item 5. He announced that these stipends would be increased by +12.5\% on average as of 18\textsuperscript{th} July. For those families in “extreme poverty”, the monthly stipend will increase the limit of family income R$ 77,00 ➔ R$ 85,00 per person, and for those considered “poor” the increase will be R$ 154,00 ➔ R$ 170,00.

On Wednesday evening, 29\textsuperscript{th} June, SBT's prime time national news program, reporter Kennedy Alencar conducted a long interview with suspended President Dilma Rousseff. He asked her to comment on interim President Michel Temer's decision to increase the value of the monthly stipend in the **Bolsa Família** in that she had not approved any increases in two years. She was quite indignant and outraged and told Alencar that Temer was committing acts of “fiscal irresponsibility”. See ➔ [http://www1.folha.uol.com.br/poder/2016/06/1787396-dilma-foi-ironica-em-critica-a-temer-sobre-bolsa-familia-diz-equips.shtml](http://www1.folha.uol.com.br/poder/2016/06/1787396-dilma-foi-ironica-em-critica-a-temer-sobre-bolsa-familia-diz-equips.shtml)

1.5 - **Impeachment**

The schedule/chronogram of the Special Impeachment Committee in the Senate reserved 6\textsuperscript{th} July for suspended President Dilma Rousseff to make her own personal defense against impeachment. However, on 30\textsuperscript{th} June, she announced that she would not appear at the Senate to make her own personal defense.


**Special auditors’ report** – A group of three special senate staff auditors were designated to conduct a review of the accusations against suspended Pres. Dilma Rousseff regarding violations of the Fiscal Responsibility Law – the main accusation in the impeachment request brief. They reported that, yes, she had violated the law by issuing MPs with expenditures increased without consulting Congress – but, no, they could not find evidence that she was directly involved in the so-called **pedaladas fiscais**.

However, Alves affirmed that this conclusion did not exempt Dilma from responsibility in the **pedaladas** and did not rule out “omission” by Pres. Dilma because it “happened on her watch”. Also, that she did not exercise “oversight” to verify what her subordinates were doing. But, this evaluation should be made by the Senators and not the auditors.


**Jornada da Democracia** – On 29\textsuperscript{th} June, two women who were also tortured at the COI-Dodi In SP together with Dilma – Guimor Lopes and Celeste Martins – launched an internet site to request contributions to pay for Dilma’s trips all over Brazil to defend her self against impeachment. The Temer government had prohibited her to use any FAB flights except to her home in Porto Alegre, RS. BUT a federal judge in Porto Alegre determined that she could use FAB flights if the cost was
reimbursed. She ascertained that the costs of FAB flights were much more expensive than commercial flights and so decided to use the latter. However, the national PT refused to pay for these trips and so contributions were solicited.

http://dilma.com.br/

CIDH – The OAS Secretary-General, Luiz Almagro Lemes (Uruguayan), who visited Pres. Dilma prior to the final impeachment vote by the Chamber of Deputies and questioned the “constitutionality” and “legal uncertainties” of Brazil’s impeachment process, returned to Washington and asked the CIDH-Inter American Human Rights Court to evaluate this case. On 30th June, the CIDH issued a unanimous opinion not to decide this case – because any such decision/evaluation might impact the political process in Brazil, and any such evaluation should only be made after the impeachment process is concluded. The CIDH affirmed that it is not the Court’s role/task to resolve conflicts, but rather to interpret international human rights norms.

1.6 – STF orders reopening of Celso Daniel murder

On 30th June, STF Judge Luiz Fux authorized the reopening of the case of the murder of Santo André, SP Mayor Celso Daniel in January 2002. Thus, state prosecutors in SP will now reopen the process against José Dirceu. These prosecutors want to know if Dirceu participated (organized) the scheme of corruption that extracted “side payments” (bribes) from bus companies and money laundering in Santo André. This case was interrupted in 2006 by then STF Judge Eros Gros who decided that the testimony of Celso Daniel’s brother João Francisco Daniel was “invalid”. João Francisco had testified that Celso Daniel’s ex-wife, Miriam Belchior had told him that the bus companies with contracts in Santo André paid bribes that went to the PT. He also affirmed that he had heard Gilberto Carvalho (who later became Lula’s Secretary-General) that he had delivered R$ 1.6 million to José Dirceu (then the National president of the PT).

On 30th June, STF Judge Luiz Fux (who inherited this case) decided that it is based on other information rather than that by Celso Daniel’s brother and thus reopened the case. Detail: The widow, Miriam Belchior, occupied second echelon posts in the Lula government and was Planning Minister in Dilma’s first term.


1.7 – New Ibope poll

On 1st July, Ibope released the results of a poll conducted for the CNI on 24-27 June among 2,002 voters in 141 municípios with 2 p.p. margin of error. This poll described the evaluation of The Temer Government and of Temer’s personal performance at President.
The Temer Government

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<th>Percentage</th>
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<tr>
<td>Regular</td>
<td>36%</td>
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<tr>
<td>Bad/Terrible</td>
<td>39%</td>
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<td>DK/NR</td>
<td>13%</td>
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Performance of Temer as President

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<th>Evaluation</th>
<th>Percentage</th>
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<tr>
<td>Disapprove</td>
<td>53%</td>
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<tr>
<td>DK/NR</td>
<td>16%</td>
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In March, *Ibope* found that 10% evaluated Dilma’s government “Good/Excellent” and 69% said “Bad/Terrible”.

By region, the approval of the Temer government was worse in the Northeast (11%) and better in the North/Center-West (16%), while the Southeast (13%) and the South (12%) were in between.


1.8 – “Freedom of the Press”

On 1st July, Judge Rosa Weber suspended the “orchestrated action” by judges and prosecutors in Paraná against the *Gazeta do Povo* newspaper in Curitiba. **What happened?** This newspaper published a story listing the salaries and “perks” of Paraná state judges and prosecutors – information from public sources “transparently” available to the public anyway. The judges and prosecutors were “offended” and began an orchestrated movement of court suits against the newspaper and its reporters. The sequence of legal actions [subpoenas] obliged the “accused” to travel from one corner of this large state to another that had accumulated 9,000 Km of punitive travel. This temporary injunction suspended this attempt to curtail freedom of the press in Paraná. This case was considered highly “irregular” by many jurists because these judges were deliberating a case involving them selves.


2 – FOREIGN RELATIONS & TRADE

2.1 – June trade balance

MDIC did not release this data on 1st July.

3 - REFORMS

Nothing this week.
4 – PRIVATIZATION & REGULATION

4.1 - Eletrobras

The interim Temer government is considering the privatization of 174 SPEs-Sociedades de Propósito Específico that were constituted over the years in support of the construction of hydro electric and thermo-electric installations and other projects. This privatization might yield some R$ 20 billion that would help ease the R$ 34 billion Eletrobras deficit.

4.2 – Civil Aviation

On 29th June, Congress approved the MP that would have opened ownership of airlines operating in Brazil to 100% -- but conditioned on interim President Temer vetoing this percentage. Another MP will be issued for this sector.

5 - ECONOMICS

5.1 – May public accounts

Public Debt – Between April and May, Brazil’s public debt increased by +2.82% to R$ 2.88 trillion. Foreign Debt was up by +3.94% to R$ 134.7 billion.

Primary Deficit ➔ -R$ 18.1 billion

Nominal Deficit ➔ -R$ 60.6 billion

Public Deficit ➔ The 12-month accumulation is now -R$ 150.5 billion, or 2.51% of GSP.

Current Account ➔ In May 2016, Brazil posted a current account surplus of US$ 1.2 billion. This was the best monthly result since August 2007 (US$ 1.233 billion. In May 2015, Brazil posted a deficit of -US$ 3.4 billion. In 2016, the accumulated deficit is now -US$ 5.966 billion and the 12-month accumulation is -US$ 29.5 billion. On 24th June, the Central Bank modified its current account estimate for 2016, from -US$ 15 billion to -US$ 10 billion. The main reason for this improvement is the decline in Brazil’s imports.

Overseas spending by Brazilians declined in 2016 ➔ Between January and May 2016, Brazilian tourists spent US$ 5.2 billion versus US$ 8.3 billion in the same period in 2015 - a reduction of 3.7.3%. There was a “blip” in March ➔ US$1.291 billion. In January-May 2016, foreign tourists spend US$ 2.8 billion in Brazil.

FDI ➔ In May 2016, Foreign Direct Investment totaled US$ 6.1 billion. The 12-month accumulation is now US$ 79.4 billion (4.57%of GDP). The Central Bank now estimates that in 2016 Brazil should receive US$ 70 billion in FDI.
5.2 – *Caged* – 72,615 jobs lost in May

On 24th June, the Ministry of Labor released its *Caged* data for May ➔ 72,615 jobs were lost. The worse sector was “Services” that lost 36,960 jobs. In 2016, a total of 448,100 jobs were lost – the largest number for this five-month period since 2002. The 12-month accumulation is now 1,781,906 jobs lost.

5.3 – FGV – Consumer Confidence Index

On 27th June, Ibre-FGV released data for its ICC-Consumer Confidence Index for June ➔ 71.3 points, up 3.4 points from May. This was the highest ICC since 73.2 points posted in June 2015. According to Viviane Seda Bittencourt, Ibre research coordinator, this improvement in the ICC was in large part due to consumer “expectations” regarding the impeachment of Pres. Dilma Rousseff.

5.4 – PNAD Unemployment

On 29th June, IBGE released the unemployment data from its PNAD national survey for the March-April-May period ➔ 11.2%, up from 10.2% in the December-January-February period. In the period ending in May 2016, PNAD found 22.97 million self-employed persons, but this number decreased -1.3% MoM. This indicates that in spite of increasing unemployment, the self-employed sector seems to be “saturated”.

5.5 – IBGE – Industrial Production “Stable”

On 1st July, IBGE released data for Brazil’s Industrial Production in the month of May ➔ 0.0% MoM and -7.8% YoY. The “Month-on-Month” data showed three consecutive months without losses ➔ March (+1.4%), April (+0.1%) and May (0.0%) – for the first time since mid-2012. By sector there were some “positive” signs ➔ consumer durables were up by +5.6% MoM, capital goods were up by +1.5% MoM, food products were up by +7.0% MoM and the auto sector production was up by +4.8% MoM.

5.6 – June Inflation

On 29th June, the FGV released data for the IGP-M in June ➔ +1.69% with +12.21% accumulated in 12 months.