Looking Ahead ➔ What to watch for?

- 25th July -- UNDP, HDI-Human Development Index ➔ Brazil ranked ___
- 25th July -- IBGE to release PME unemployment data for June
- 28th July -- Pedro Pablo Kuczynsk (PPK) – inauguration as President of Peru
- 29th July -- June public accounts
- 29th July -- FGV to announce July IGP-M ➔ % versus % in June
- 31st July -- Congressional Recess ends [“officially”]
- 31st July -- Rival groups, Pro- & Anti-Dilma plan street demonstrations in SP
- 1st Aug. -- Congress begins 2nd semester sessions
- 1st Aug. -- Executive Branch transmits detailed 2017 Budget (LOA) to Congress
- 1st Aug. -- July trade balance ➔ US$ ____ billion vs. US$ ____ billion in June
- 3rd Aug. -- IBGE ➔ June Industrial Production data ➔ % MoM & ___% YoY
- 3rd Aug. -- Anfavea, July auto sales ➔ _____units, vs. _____ units in July 2015
- 5th Aug. -- Celebration, Opening of 2016 Olympic Games in Rio de Janeiro
- 5th Aug. -- FGV to release IGP-DI inflation for July ➔ +0.% versus +0.% in June
- 8th Aug. -- IBGE to announce July IPCA ➔ +0% versus +0.% in July 2015
- 8th Aug. -- IBGE to announce June Industrial Production ➔ ±0.% MoM & +% YoY
- 9-14 Aug. -- World Social Forum to meet in Montreal, Canada
- 15th Aug. -- IBGE to release June retail sales data ➔ -0.% MoM
- 15th Aug. -- Central Bank, June IBC-Br ➔ % MoM & % YoY
1 - POLITICS

1.1 – Federal Police arrest ten who plotted Olympic Game violence

*Operation Hashtag* -- On Thursday, 21st July, the Federal Police arrested ten persons in 7 states involved in articulating a plot to acquire weapons and plan terrorist attacks during the 2016 Olympic Games in Rio. This Federal Police action was announced by the Minister of Justice Alexandre de Moraes. This group had been articulating its strategy via “social networks” – WhatsApp and Telegram. Apparently, Federal Police “Cyber Police” agents had infiltrated this group. Only when their strategy entered the “concrete actions” phase did a judge in Curitiba issue the arrest warrants. Reportedly, two other “plotters” were not arrested and are still “at large”. It is suspected that these two with arrest warrants were able to avoid capture by the Federal Police and escaped over the border into Paraguay with Mato Grosso do Sul. On 22nd July, Justice Minister Alexandre de Moraes traveled to Paraguay in an effort to secure their capture and extradition back to Brazil.

This group was described as “amateur” and not well coordinated and not “directly” linked to ISIS (Islamic State) but they rejoiced over the actions of “lone wolves” in Orlando, Florida and Nice, France. Several had pledged loyalty to ISIS. This group called itself *Ansar al-Khilfah Brazil*. See [http://www.cnn.com/2016/07/21/americas/brazil-olympic-terror-arrests/index.html](http://www.cnn.com/2016/07/21/americas/brazil-olympic-terror-arrests/index.html)


Also on 21st July, the *O Estado de São Paulo* published an article (based on analyses by the SITE Intelligence Group) to the effect that ISIS had created a Telegram app in Portuguese that provided “suggestions” as to how to plan terrorist actions during the Olympic Games: 1) Use the “porous” Brazilian border with Paraguay to obtain arms; 2) During the Games, visas, entrance and travel to Brazil are relatively easy; 3) Use *favelas* (urban hillside slums) in Rio as operational “bases”; 4) Plan attacks on the delegations from France, the UK the US and Israel; and 5) Described “methods” to be uses – traffic “accidents”; poisoning and drones with small explosives. See [http://esportes.estadao.com.br/noticias/jogos-olimpicos,estado-islamico-sugere-formas-de-terror-nos-jogos,10000064105](http://esportes.estadao.com.br/noticias/jogos-olimpicos,estado-islamico-sugere-formas-de-terror-nos-jogos,10000064105)

1.2 – New *Datafolha* national poll

*Datafolha* conducted this poll among 2,792 voters on 14-15 July in 171 *municípios* with a two-point margin of error.
The Interim Temer Government

<table>
<thead>
<tr>
<th>Evaluation of Temer Gov’t.</th>
<th>17-18 March</th>
<th>7-8 April</th>
<th>14-15 July</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good/Excellent</td>
<td>16%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Regular</td>
<td>35%</td>
<td>33%</td>
<td>42%</td>
</tr>
<tr>
<td>Bad/Terrible</td>
<td>35%</td>
<td>38%</td>
<td>31%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>15%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Do you know the name of the current President?

- Michel Temer: 65%
- Other: 2%
- DK/NR: 33%

What would be better for the country?

- Temer Continue: 50%
- Dilma Return: 32%
- None of Above: 4%
- New Elections: 3%
- Undecided: 11%

The evaluation of the “Temer Government” is somewhat complicated, because he only formally became interim President on 12th May. However, in this July poll, Temer’s evaluation improved slightly – “Bad/Terrible” declined 7 points (38%➔31%) and “Regular” improved 9 points (33%➔42%), although his “Good/Excellent” rating decreased by 2 points (16%➔14%).

On the other hand, 50% said it would be better for the country if Temer continued as President and 32% said “Dilma should return”. Regarding impeachment, 58% favored Dilma’s impeachment, and 35% were against her impeachment.

Michel Temer’s “name recognition” level was quite high ➔ 65%.

Voter Expectations

Index of Confidence – *Datafolha* constructed this Index regarding voters’ expectations for the economy and perspectives for the country.

In December 2014 (right after Dilma’s reelection in October 2014), this index was 121, but declined to 76 in March 2015 and 80 in November 2015, only to rebound to 87 in February 2016 (after impeachment proceedings had begun) and 98 in July 2016 (interim Temer government).
Expectations regarding Brazil’s Economic Situation

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Will Improve</td>
<td>14%</td>
<td>19%</td>
<td>23%</td>
<td>28%</td>
<td>38%</td>
</tr>
<tr>
<td>Will Get Worse</td>
<td>58%</td>
<td>53%</td>
<td>52%</td>
<td>44%</td>
<td>30%</td>
</tr>
<tr>
<td>Stay the Same</td>
<td>25%</td>
<td>25%</td>
<td>22%</td>
<td>25%</td>
<td>27%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>

What is Brazil’s main problem today?

- Corruption: 32%
- Health: 17%
- Unemployment: 16%
- Violence: 6%
- Education: 6%
- Other: 18%
- DK: 2%


Simulation for 2018 Elections – First Round

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>(1) Mar→July</th>
<th>(2) Mar→July</th>
<th>(3) Mar→July</th>
<th>(4) Mar→July</th>
<th>Rejection July</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula (PT)</td>
<td>17%→22%</td>
<td>17%→23%</td>
<td>17%→23%</td>
<td>17%→22%</td>
<td>46%</td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td>21%→17%</td>
<td>23%→18%</td>
<td>24%→17%</td>
<td>17%→14%</td>
<td>17%</td>
</tr>
<tr>
<td>Aécio (PSDB)</td>
<td>19%→14%</td>
<td>- -</td>
<td>- -</td>
<td>14%→10%</td>
<td>29%</td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
<td>- -</td>
<td>11%→8%</td>
<td>- -</td>
<td>?? → 4%</td>
<td>16%</td>
</tr>
<tr>
<td>Serra (PSDB)</td>
<td>- -</td>
<td>- -</td>
<td>13%→11%</td>
<td>6%→5%</td>
<td>19%</td>
</tr>
<tr>
<td>Bolsonaro (PP)</td>
<td>6%→7%</td>
<td>6%→8%</td>
<td>7%→7%</td>
<td>6%→6%</td>
<td>19%</td>
</tr>
<tr>
<td>C. Gomes (PDT)</td>
<td>6%→5%</td>
<td>7%→6%</td>
<td>7%→6%</td>
<td>?? → 4%</td>
<td>13%</td>
</tr>
<tr>
<td>Temer (PMDB)</td>
<td>6%→5%</td>
<td>6%→6%</td>
<td>7%→6%</td>
<td>?? → 4%</td>
<td>29%</td>
</tr>
<tr>
<td>S. Moro (None)</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
<td>8%→8%</td>
<td>9%</td>
</tr>
<tr>
<td>L. Genro (PSOL)</td>
<td>?? → 2%</td>
<td>?? → 2%</td>
<td>?? → 2%</td>
<td>?? → 2%</td>
<td>12%</td>
</tr>
<tr>
<td>Caiado (DEM)</td>
<td>?? → 1%</td>
<td>?? → 2%</td>
<td>?? → 2%</td>
<td>?? → 1%</td>
<td>10%</td>
</tr>
<tr>
<td>E. Jorge (PV)</td>
<td>?? → 1%</td>
<td>?? → 1%</td>
<td>?? → 1%</td>
<td>?? → 1%</td>
<td>10%</td>
</tr>
</tbody>
</table>

In these FIVE first round simulations, former President Lula was more or less tied with Marina Silva in March, but in the July poll he was clearly in first place. Among the “three tucano scenarios”, Sen. Aécio Neves (14%) polled slightly better than Sen. José Serra (11%) and Gov. Geraldo Alckmin.
In scenario (4), *Datafolha* included Judge Sérgio Moro who polled 8%, better than Serra and Alckmin.

Lula had the highest rejection rate (46%) followed by A. Neves and M. Temer with 29% each.

**Simulation for 2018 Elections – Second Round**

*Datafolha* conducted seven second round simulations with Lula, Marina and the three *tucanos*.

**Candidates**

<table>
<thead>
<tr>
<th></th>
<th>32%</th>
<th>36%</th>
<th>35%</th>
<th>36%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marina</td>
<td>44%</td>
<td>46%</td>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td>Aécio</td>
<td>38%</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serra</td>
<td>40%</td>
<td>30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alckmin</td>
<td>38%</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sen. Aécio Neves and Gov. Geraldo Alckmin would be in a “technical tie” with Lula (within the margin of error), but Sen. José Serra would narrowly defeat Lula (outside the margin of error). The Rede candidate, Marina Silva would defeat Lula (44%-to-32%) and defeat all three *tucano* candidates.

With the “dispersion” of candidates in the first round simulations, Lula led in all four scenarios. However, his very high rejection level apparently worked against him in the second round simulations.


**1.3 – Lava Jato**

*Lava Jato* investigations revealed that the Engevix (one of the construction firms involved in the Petrobras corruption scandal paid R$2.5 million to the law firm of Erenice Guerra (Guerra & Advogados Associados). Remember: Erenice Guerra was number two under Dilma Rousseff at the Casa Civil until April 2010 when Dilma stepped down to run for President and Guerra became Chief of the Casa Civil – until September when she was accused of operating a “lobby operation” within the Lula government.

In the plea bargaining testimony by Andrade Gutierrez executives she was accused of negotiating a 1% bribe payment extracted from the contracts to build the Belo Monte hydro power dam (that was divided between the PT and PMDB) in April 2010.

**Jucá Again ➝** On 19th July *Lava Jato* prosecutors accused Sen. Romero Jucá (PMDB-RR) – Temer’s former Planning Minister – of receiving R$ 30 million in illicit bribe funds From Odebrecht, Andrade Gutierrez, Mendes Junior and OAS between 2010 and 2012 – via “intermediation” of a consulting firm ➝ Itatiba Assessoria, Consultoria e Intermediação
In their final arguments, prosecutors requested that cattle farmer and businessman José Carlos Bumlai be convicted and sentenced for money laundering, fraud and corruption regarding a R$ 12 million “false” loan he received from the Banco Schalin in 2004 that was later passed on to the PT. In “return”, the Banco Schalin received a US$ 1.2 billion contract to operate an offshore drilling platform. The prosecutors also requested that Bumlai return R$ 535 million to the federal treasury.

**Detail:** Bumlai is/was a very close friend of then Pres. Lula.

**Sete Brasil** – In his testimony before *Lava Jato* judge Sérgio Moro, former Sete Brasil director João Carlos Ferraz confirmed that the 0.9% bribe extracted from shipyards Jurong, Keppel Fels and Atlântico Sul was divided among the PT ( João Vaccari Neto), Renato Duque, Perdo Barusco and Eduardo Musa.

**Eduardo Cunha** – Apparently, the Chamber of Deputies will vote on the possible *cassação* of Dep. Eduardo Cunha (PMDB-RJ) in the second week in August. On 19th July, a federal judge in SP ordered Cunha’s son, Felipe Dytz da Cunha to surrender his “diplomatic passport” because he can not be considered a “dependent” of the deputy – because he is 24 years old and has his own businesses/income. This weekend (23-24 July), supposedly Cunha will move out of the official residence for the Chamber President and will occupy one of the functional apartments designated for federal deputies. He was given until 6th August to vacate the official residence.

**João Santana** – On 21st July, Dilma’s 2010 and 2014 campaign marketing specialists – João Santana and Monica Moura – continued their plea bargaining with Judge Sérgio Moro. He asked them about their payments for the 2010 campaign and they said that the R$ 10 million had been “over due”. Finally, in 2013, then PT National Treasurer told them that he had arranged a Petrobras supplier to pay them “off the books” [caixa dois] in ten payments. Zwi Skornicki, who represented the Asian ship builder Keppel Fels, made nine payments (US$ 4.5 million). Zwi affirmed in his own plea bargaining that he did not make the final US$ 500,000.00 deposit in Santana’s “secret” Swiss bank account because the *Lava Jato* investigation was “getting too hot”. Judge Moro questioned Monica Moura as to why she had not mentioned these off shore payments in her original testimony, and she replied that she did not want to complicate even more Dilma’s impeachment process. After they were arrested in February 2016, they had testified that these off shore payments were for election campaigns they had worked on in other countries. In February 2016, they were working on the reelection campaign of the President of the Dominican Republic.

On 22nd July, suspended president Dilma Rousseff affirmed that she never authorized this *Caixa Dois* payment to Santana and his wife.


### 1.4 – Impeachment

On Monday, 18th July, suspended president Dilma Rousseff addressed a gathering of some 500 students, staff and professors the UFABC plus labor union militants and compared the recent attempted *golpe* attempt in Turkey with the “*golpe*” she is suffering in Brazil. She described the events in Turkey as a “typical golpe militar” (a military coup) and that in Brazil she is the victim of a
parliamentary *golpe* — perpetrated by Congress. She affirmed that those in favor of impeachment affirm that this is not a golpe because there are no tanks or troops in the streets.

She also attacked the proposal to put a “cap” on federal expenditures saying that this would produce a “per capita” reduction of expenditures in the health and education sectors.

**1.5 – Losses by Petros pension fund**

As is the case with most of the pension funds of Brazil’s state enterprises – Previ (BB), Funcef (CEF), Eletros (Eletrobras), Centros (Central Bank), *Petros* (the pension fund for Petrobras workers) has posted a deficit of R$ 23 billion as of 31-Dec-2015 – with R$ 16 billion in 2015 alone.


**1.6 – New Tourism Minister?**

Due to heavy pressures from Senate President Renan Calheiros (PMDB-AL) interim President Michel Temer is considering the appointment of Dep. Marx Beltrão (PMDB-AL) to be the new Minister of Tourism – after Henrique Eduardo Alves (PMDB-RN) resigned due to corruption allegations. The PMDB-MG had sought this appointment but was more or less placated with the direction of Furnas that was returned to the PMDB-MG. **However** – Beltrão fits well into the profile of other corrupt politicians appointed by Temer to his cabinet. When Beltrão was Mayor of Coruípe, Alagoas, Beltrão was accused of issuing false payment receipts for social security payments for municipal employees and this case is being deliberated at the STF, because he was elected federal deputy in 2014.

**1.7 – Municipal Accounts**

Of Brazil’s 5,570 *municípios*, only 2,740 (49%) have filed their DCA (Declaration of Annual Accounts) for 2015. Within the norms of the LRF-Fiscal Responsibility Law (2000), those cities and towns that have not filed their DCAs might not receive voluntary transfers from the federal government. **Remember:** Nearly one-half of Brazil’s *municípios* are not able (or willing) to collect any local taxes and their expenditures are totally dependent on these transfers. Those towns and cities that did not deliver their DCAs are also prohibited (denied) access to credit operations.

**1.8 – Municipal elections**

Brazil will hold elections for Mayor and City Councils in 5,570 *municípios* in October 2016. The chronogram/calendar began on 20th July when the TSE permitted political parties to hold municipal level conventions to select their respective candidates. On 20th July, the TSE announced the spending limits for candidates for Mayor and city council – depending on the size of the city/town. In São Paulo, for example, the upward limit for Mayor (on the first round) is R$ 45 million.

The first round will be held on 2nd October and the second round runoff elections will be on 30th October – in cities with more than 200,000 voters where no candidate achieved an absolute
majority of the valid vote. In 2012, second round elections were held in 11 state capital cities and 33 other larger cities.

5th July – Intra-party propaganda for the selection of candidates.

20th July – Municipal party conventions can be held to select candidates

15th Aug. – The last day for parties and coalitions to register their candidates.

26th Aug. – Free election TV/radio propaganda time begins

13th Sept. – Last day for parties to switch/change/replace candidates

15th Sept. – Elections courts release campaign finance reports (receipts & expenditures)

17th Sept. – No candidate can be arrested, except in flagrante (caught in the act)

22nd Sept. – Last day for voter to request a second copy of his/her voter ID card

29th Sept. – Last day for paid election propaganda in print media and the Internet

1st Oct. – Last day for election propaganda via loud speakers and posters

2nd Oct. – First round election

15th Oct. – Free election TV/radio propaganda time begins

27th Oct. – Last day for political rallies

28th Oct. – Last day for free election TV/radio propaganda time. Last day for debates.

29th Oct. – Last day for paid election propaganda via loud speakers and posters.

30th Oct. – Second round election.

1.9 – Mais Médicos

“More Doctors” – Is a federal program providing medical doctors for more remote municípios that was initiated by Pres. Dilma Rousseff during her first term. Currently, 4,058 (73%) of Brazil’s municípios are served by 18,240 doctors from this program – 11,429 Cubans, 5,274 Brazilians and 1,537 others. Of these towns, 2,500 had no doctors and are now served by this program The Cubans are part of an international agreement via PAHO-Pan American Health Organization whereby part of the R$ 10,000,00 remuneration of these doctors is returned to the Cuban Government. Part of the Cuban doctors will be replaced in November 2016.
The new Health Minister Ricardo de Barros affirmed that the participation by these Cuban doctors is “temporary” but gave no indication of any cutoff date. He said that the remuneration of these doctors should be funded by the local municipal governments, but in many towns the Mayor’s salary is only R$ 3.000,00 or R$ 4.000,00 and that these doctors (the non-Cubans) currently receive R$ 10.000,00 (per month). Barros also said that ideally over time the Cuban doctors should be replaced by Brazilian doctors.

2 – FOREIGN RELATIONS & TRADE

2.1 – Brazil’s “Terms of Trade” improved

According to data released by Funcex-Fundação Centro de Estudos de Comércio Exterior on 22nd July, Brazil’s Terms of Trade (difference between exports and imports) posted +7.0% QonQ and +1.1% YoY in the 2nd Q/2016. This improvement was due to higher prices for Brazil’s main exports – after a decline of -21% over the past five years.

2.2 – STN completed a US$ 1.5 billion bond issue on NYSE

On 21st July, the National Treasury completed a Global 40 bond issue on the NYSE – due in 2047, with interest payments at 5.875%. Reportedly, the demand for these bonds reached US$ 6 billion. The last such issue of Global 2045 bonds paid 5.131%. The higher rate in 2016 was attributed to Brazil’s downgrade to “junk bond” status by the risk agencies. Apparently, this bond issue was done “to test the waters” on the NYSE for future bond issues later this year.

2.3 – Venezuela – in very bad shape

As desperate Venezuelans cross the borders with Colombia and Brazil (Roraima), Brazilian firms await some US$ 3 billion payments for services rendered and exports to Brazil’s northern neighbor – and inflation should approach 1000% in 2016.

2.4 – Diplomat Eduardo Sabóia – reparations

Brazilian diplomat Eduardo Sabóia, who when he was acting ambassador in La Paz, Bolivia, saved the life of Bolivian Senator Roger Molina by driving him overland to Corumbá, MS in 2013, was “punished” by the Dilma government and then Foreign Minister Antonio Patriota. The latter was eventually “kicked upstairs” to become Brazil’s ambassador to the UN and recently “promoted” to become Brazil’s ambassador in Rome.

Senator Roger Molina had spent 456 days in confined exile inside the Brazilian Embassy in La Paz when Sabóia decided to “save him” by driving him to Brazil. Now, in mid-July 2016, after being requisitioned to work with Senator Ricardo Ferraço (PSDB-ES) on the Senate Foreign Relations, finally he was granted “access” to the “track” that should lead to him being promoted to Ambassador – within the “new strategy” imposed by Temer’s Foreign Minister José Serra – and has at long last been vindicated.
3 - REFORMS

3.1 – Social Security Reform

One of the main “reforms” on the agenda of the interim Temer government, proposed by Finance Minister Henrique Meirelles, is the private social security system (INSS) – in order to reduce/control this rapidly expanding deficit. This is one of the “wait-and-see” items that domestic and foreign investors are monitoring to determine if and when to increase their investments with new innovations in Brazil. After suspended Pres. Dilma Rousseff in finally impeached (by the end of August), in September the Temer government will deliver a formal reform proposal to Congress and will have to negotiate the latter with the labor union centrals that are against the imposition of a minimum retirement age.

In 2015, the social security deficit was R$ 86 billion (1.5% of GDP) – the Funrual retirement for rural workers posted a R$ 91 billion deficit while the urban INSS workers posted a surplus of R$ 5.1 billion. In 2015, the average age of retirement was 54.9. Worldwide, only Ecuador, Iran and Iraq have no minimum age for retirement. It is predicted that in 2016 the INSS deficit should reach 2.7% of GDP).

In the same Datafolha poll cited in Item 1.1, voters were asked their opinions regarding the proposed social security reform that would increase the minimum retirement age to 65 – for both men and women. This poll showed that 43% of the sample was against fixing any minimum retirement age and only 11% said that Brazilians retire too early (too young).

Currently, INSS workers can retire after 35 years of contribution (and 30 years for women). For those who have not completed the minimum time of contribution can retire at age 60.

Want more? In 2016, the federal government will face a deficit of R$ 68.8 billion to cover the pensions of retired federal employees. However – if all the public employees decide to retire in 2017 (at full salary) the deficit would jump up to R$ 1.24 trillion. In 2007, Congress put a “cap” on retirement pensions of federal employees who entered the system in 2009, but they can enroll in a supplementary private pension fund and the government would match their payments. All the others (who were “grandfathered in” to the system are still able to retire with a pension equivalent to their last (full) salary.)
4 – PRIVATIZATION & REGULATION

4.1 – TCU – 74% of electricity distributors present “financial risk”

On 19th July, the TCU issued a “worrisome” report/analysis/audit that of the 31 largest electricity distribution firms in Brazil, 23 (74%) are in unsustainable financial situations – and should not have distributed profits and dividends that worsened their financial status. The TCU affirmed that these distributors are not complying with their investment plans, the quality of their services has worsened, and that this situation has produced “problems” for many clients. This firms distributed R$ 3.4 billion dividends from non-existent profits in 2014.

4.2 – Cemig to sell stake in Light?

Cemig [the MG state electricity company] is contemplating selling its 25% stake in Light [the private electricity distribution company that serves greater Rio. Cemig also has a 26.06% share in Parati [the investment arm of Light]. Reportedly, three firms are interesting in acquiring Cemig’s share in Light Equatorial (Brazilian), Enel (Italian) and State Grid (Chinese).

4.3 – Previ to sell its stake in CPFL Energia

Reportedly, the Banco do Brasil pension fund (Previ) is considering selling its 29.4% share in the SP electricity utility CPFL Energia to State Grid Corporation – the largest electric utility company.

5 - ECONOMICS

5.1 – Federal Tax Evasion

The Finance Ministry released data on the largest tax evasions (persons and firms) a total of over R$ one trillion. The largest tax evasion by persons is Ladose Denis de Abreu Durate (R$ 6.9 billion followed by his brothers Luiz Lian de Abreu Durate and Luce Cleto de Abreu Durate R$ 6.6 billion each). Ladose is one of the directors of FIESP. Their firm – Duagro SA (vegetable oils) is also on the list (R$ 6.8 billion). They were involved in Banestado and the Mensalão scandals. Under pressure from his peers, Laodse de Abreu Duarte resigned his post as Director of Fiesp on 20th July.

See http://politica.estadao.com.br/noticias/geral,divida-de-diretor-da-fiesp-com-a-uniao-e-de-r-6-9-bi,10000063476

5.2 – Public investments increase

According to data compiled by the NGO Contas Abertas, in the first semester of 2016, public investments were up by 8.3% compared with the same period in 2015. In first semester 2016 the federal government invested R$ 20.8 billion versus R$ 19.2 billion in 1st semester 2015. Gil Castelo Branco, coordinator of Contas Abertas affirmed that this period in 2016 included the final 4.5 months of the Dilma Rousseff government and that this investment “push” was being promoted by her then
Finance Minister Nelson Barbosa. **However**, this increase was slightly less than the inflation posted for the 2015-2016 period.

### 5.3 – Positive signs

In June, the ICI-Index of Industrial Confidence, compiled by the FGV-Rio was up to 83.4 – the highest level since February 2015. In 2016, the increase in the production of capital goods was up by +9%. According to Tendências, the acquisition of capital goods was up by +8.4% MoM in March and by +1.9% MoM in April.

The FBCF- *Formação Bruta de Capital Fixo* (Net Formation of Fixed Capital) declined by -26% since the 4th Q/2013 – but in 2nd Q/2016 posted +0.5% of GDP.

### 5.4 – Good news? [From the IMF]

On 19th July, the IMF revised its projections for Brazil’s GDP ➔ -3.8% in 2015, -3.8% ➔ -3.3% in 2016 and 0.0% ➔ +0.5 in 2017. **However**, the IIF-Institute of International Finance was more positive ➔ +1.5 in 2017. IIF sees the possibility of the Selic basic interest rate to be reduced to 10% in 2017.

### 5.5 – Copom maintained Selic

Early Wednesday evening (20th July) – after financial markets had closed, Copom announced that it had decided [for the eighth consecutive meeting] to maintain the Selic basic interest rate at 14.25% -- in a unanimous decision – the first Copom meeting under the command of the New Central Bank President Ilan Goldfajn – plus new directors who were also recently confirmed by the Senate.

Although the interim Temer government would like to see a reduction of the Selic rate in order to hasten Brazil’s recovery from the current “economic crisis” and stimulate more economic growth, the President’s office affirmed that “the Central Bank has full autonomy to set the Selic rate”.

In a short press release on 20th July, the Central Bank indicated that the Selic rate would be reduced **when** the economic austerity adjustments are adopted more rapidly and inflation declines more consistently. The next Copom meetings will be on 5-6 September and 18-19 October. Probably, the much needed (and expected) fiscal adjustments will not have been approved by early September (shortly after the Senate finally impeaches suspended president Dilma Rousseff) but most probably in time for the October Copom meeting. ➔ Stay tuned!!!

### 5.6 – July Inflation

The second weekly preview of the IGP-M for July was released by the FGV on 19th July showed a deceleration from +0.55% in the first weekly preview to +0.39% in the second week. The “full” IGP-M for July should be released on 29th July.

The IPCA-15 was announced on Thursday, 21st July ➔ +0.54%, up from the June IPCA-15 (+0.40%) but less that the +0.59% posted in July 2015. This was an opposite trend that that seen
above (IGP-M). Economists surveyed by Bloomberg News predicted the IPCA-15 at +0.45%. The 12-month accumulation of the IPCA-15 is now 8.93%. The July IPCA-15 was pressured by increases in food prices – especially rice and beans – the Brazilian staple.