Brazil Focus –
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Weekly Report
Aug. 6-12 2016
Looking Ahead ➔ What to watch for?

• 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
• 19th Aug. -- IBGE to release IPCA-15 inflation data ➔ % versus % in July
• 22nd Aug. -- Caged data for July ➔ jobs lost
• 22nd Aug. -- IBGE to announce July PME unemployment
• 22nd Aug. -- SRF to announce July tax revenues ➔ R$ billion,
• 25th Aug. -- IBGE, PNAD unemployment data, 2nd Q/2016
• 29th Aug. -- July public accounts
• 29th Aug. -- FGV to announce August IGP-M inflation data ➔ % versus % in July
• 29th Aug. -- IBGE to announce Brazil’s GDP for 2nd Q/2016 ➔ % QonQ
• 29th Aug. -- Min. Planning Ministry ➔ minimum wage as of 1st January
• 29th Aug. -- FGV to announce August IGP-M inflation data ➔ % versus % in July
• 31st Aug. -- IBGE to announce July industrial production $\Rightarrow$ % MoM & +% YoY
• 1st Sept. -- Trade result for August $\Rightarrow$ US$ billion
• 1st Sept. -- August new car sales units $\Rightarrow$ % MoM & % YoY
• 1-2 Sept. -- 21st “Foro de São Paulo”
• 2nd Sept. -- August new car sales units $\Rightarrow$ % MoM & % YoY
• 5th Sept. -- Brazil ranked ___ on WEF “Global Competitiveness Index”
• 5th Sept. -- IBGE to post August IPCA $\Rightarrow$ %; 12-month accumulation at %

1 - POLITICS

1.1 – Senate voted to “pronounce” [indict] Dilma

At 9:00 a.m. Tuesday, 9th August, the Senate initiated a long session to deliberate and vote on the “pronouncement” [indictment] of suspended president Dilma Rousseff. Each of the Senators who signed up to speak had up to ten minutes to present his/her position. In accordance with the 1988 Constitution, this session was presided over by the Supreme Court President, Judge Ricardo Lewandowski. In fact, the full Senate deliberated on the report – drafted by Sen. Antonio Anastasia (PSDB-MG) – that had been approved by the Special Senate Impeachment Committee on 5th August by a 14-to 5 vote.

Judge Lewandowski presided over this important Senate session with great aplomb and rejected all the attempts by the pro-Dilma Senators to postpone the session until Thursday (divide the session into two parts, as well as vote separately on the five accusations against suspended president Dilma. Finally, before the open nominal vote was taken (via an electronic vote) the accusation (Prof. Miguel Reale Junior) and the defense (José Eduardo Cardozo) each had 30 minutes to make their cases. Several anti-Dilma parties shortened the session by reducing the number of senators who spoke. For example, the PSDB has eleven senators, but only its National President Sen. Aécio Neves (MG) spoke in name of his party. Lewandowski finally called for the vote around 2 a.m. The result was 59 in favor of pronouncing Dilma and 21 against – with one senator not voting – Renan Calheiros (PMDB-AL) – the Senate President. The breakdown by party is as follows:

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<thead>
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<th>Party (N)</th>
<th>In Favor</th>
<th>Against</th>
<th>Not Voting</th>
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<tr>
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<td>16</td>
<td>2</td>
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<tr>
<td>PTB (3)</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>PDT (3)</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>
At the end of this issue, please find an Annex with the nominal vote of the Senators, by Party and State.

Who were the FOUR Senators who switched positions since the 12th May vote?

1) João Alberto Souza (PMDB-MA) – Part of the “Sarney Group”, had voted in favor of Dilma in May.
2) Pedro Chaves (PSC-MS) – He is a suplente in August, but was not a Senator in May.
3) Jader Barbalho (PMDB-PA) – He was absent at the May vote. His son was a Dilma cabinet minister.
4) Eduardo Braga (PMDB-AM) – He was absent at the May vote. He was a Dilma cabinet minister.

Want more? On 10th August, a group of PT deputies decided to submit an appeal against Dilma’s impeachment to the Inter-American Human Rights Council (HQ in San José, Costa Rica). This Council is part of the OAS. This appeal is just for public relations “show” and would have impact on the impeachment process in the Senate.

1.2 – The PT’s dilemma in 2016

The PT is already facing TWO dilemmas in 2016: suspended president Dilma’s impeachment and the Lava Jato investigation. However, the party will face a much worse [“survival”] dilemma in October 2016: the municipal elections.

Ever since 2000, every four years, the PT has elected more and more mayors and city council members on a steady increase: 2000 (187), 2004 (411), 2008 (548) and 2012 (655).

However, in 2016 it is possible that the PT might elect less than half the number of Mayors elected in 2012. Some analysts say less than 300. In the 26 state capital cities, the PT has a chance to elect only one Mayor – Marcus Alexandre in Rio Branco, AC. The PT launched candidates in 20
candidates in 2016 **versus** 17 in 2012. In 2008, the PT elected mayors in six state capitals but only four in 2012.

In the 2015 municipal elections, the PT launched only 1,135 candidates for Mayor – 35.5% less than the 1,759 candidates fielded in 2012. This is the smallest number of candidates since 1,077 candidates were launched in 1996. The number of PT candidates in creased in only one state – Piauí – 49 candidates in 2012 and 70 in 2016.

In 2012, the PT ran 84 candidates for mayor in cites with more than 150,000 voters, but in 2016 only 70. In 2012, the PT elected 72 mayors in São Paulo, but 37 of the latter were “lost” [switched to other parties. Many of these “switchers” are running for reelection with other parties.


Which parties will fill this “gap” left by the PT in the 2016 municipal elections? In spite of the involvement of many of its members, the PMDB expects to elect more Mayors in 2016 than in 2012 and launched a total of 2,500 candidates. The “center” PSD party that was founded in 2011 and recruited many experienced politicians was the “big surprise” in 2012 when it elected 400 Mayors. In 2016, this party expects to elect even more mayors. The two main opposition parties to the Dilma government – PSDB and DEM also hope to increase the number of mayors elected in 2016. The PSol and the PPS also expect to increase the number of mayors elected in 2016. Two other “center parties” – PP and PR – also have high expectations.

### 1.3 – STF absolved Russomanno

On 9th August, the first group at the STF absolved Celso Russomanno (PRB-SP) – on a 3-to-2 decision -- and this allowed him to continue his campaign for Mayor of SP. The judges who voted for his acquittal were Dias Toffoli, Gilmar Mendes and Celso de Melo. Voting for his conviction were Carmen Lúcia and Teori Zavascki.

He was accused of using his quota of Chamber of Deputies staff to pay the salary of Sandra de Jesus, the manager of his TV production firm between 1997 and 2001. A federal court in SP had convicted him of embezzling federal funds for private use in February 2014. However, he was elected federal deputy in October that year and so this case was transferred to the STF because of his new **foro privilegiado** [special forum] allotted federal deputies. Had the STF convicted him, Russomanno would have been declared ineligible – because of the **Ficha Limpa** Law – and removed from the race for Mayor of SP. In the last **Datafolha** poll, Russomanno (PRB) led with 25%, followed by Marta Suplicy (PMDB) with 16%, Luiza Erundina (PSol) with 10%, incumbent Mayor Fernando Haddad (PT) with 8% and João Doria (PSDB) with 6%. With less than two months until the first round vote on 2nd October, apparently the “hot” contest to get into the 2nd round runoff election on 30th October will be between two former SP Mayors – Marta Suplicy and Luiza Erundina. In 2012, Russomanno led in the polls until the last two weeks when he was surpassed by Fernando Haddad (PT) and José Serra (PSDB) – who competed in the second round.

### 1.4 – Lava Jato
**Operation Irmandade** -- This “Operation Brotherhood” was launched by the Federal Police on 10th August against a “conspiracy group” involved in the corruption scheme inside Eletronuclear regarding the construction contract for the Angra III nuclear power plant. Judge Marcelo Bretas of the seventh federal criminal circuit court in Rio issued an arrest warrant (plus “search & seize”) for Samir Assad, the brother of Adir Assad arrested in a previous Federal Police Operation. Both brothers are “money changers” involved in this corruption scheme. They are accused of “laundering” R$ 176 million.

**Bumlai** – On 11th August, Judge Sérgio Moro determined that José Carlos Bumlai (Lula’s “close friend”) return to prison in Curitiba from his house arrest condition in SP. Apparently, Bumlai’s health as recovered sufficiently for him to return to prison as of 23rd August.

1.4.1 – Eduardo Cunha

Many deputies anxiously await the Chamber vote regarding the cassação of suspended Dep. Eduardo Cunha (PMDB-RJ) – that many thought would occur in August. However, after consulting party leaders, Chamber President Rodrigo Maia (DEM-RJ) set this vote for Monday, 12th September – after the Senate vote for the impeachment of suspended president Dilma Rousseff (in late August). But, Cunha’s allies now predict that this vote would only occur in November, after the October municipal elections.

**Problems**?? Because 12th September is a Monday, traditionally there would be a very low quorum in the Chamber. Also – that same afternoon, STF Judge Carmen Lúcia will be sworn in as the new President of the Supreme Court and “many deputies” probably will attend this event.

⇒ Stay tuned!!

1.5 – Embraer ⇒ accused of corruption/bribe payments

On 10th August, courts in the Dominican Republic detained the former Defense Minister Rafael Peña Antonio and three other persons (including a retired general and a retired Air Force Coronel. Also accused were two “businessmen” – Daniel Aquino Hernández and his son Daniel Aquino Méndez, who used off shores to receive these “bribes” accused of receiving a US$ 3.5 million “bribe” to favor the acquisition of a squadron of Super-Tucano jet prop fighter planes in 2008. This investigation was (is) commanded by PEPCA-Special Prosecutor to Combat Administrative Corruption.

1.6 – Succession at the STF

Presidents of Brazil’s Supreme Court have two-year terms on rotation by seniority. The next in line is Judge Carmen Lúcia (from MG) who will become the second woman at STF president in September. She was “formally designated” by her colleagues on 10th August and was asked how she should be addressed ⇒ *A Presidente* or *A Presidenta*???. She replied that in accordance with the Portuguese language she learned since she was a child the nomenclature should be “*A Presidente*”.
2 – FOREIGN RELATIONS & TRADE

2.1 – Post-Brexit

According to survey conducted by EPFR Global, since the end of June (when the UK voted to exit the EU) more than US$ 2 billion “migrated” investment funds in debt bonds and shares in Brazil and some US$ 1.1 billion to fixed income funds.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Anatel –President resigned

On 10th August, the President of Anatel, João Rezende, tendered his resignation (as of 29th August) “for personal reasons”. It was rumored that he will pursue graduate studies but this was not confirmed. He was in command of the telecom regulatory agency since 2011. His mandate as member of the Anatel council runs until 4th November 2018. Reportedly, the Temer government (Minister of Science, Technology, Innovation and Communications, Gilberto Kassab (PSD-SP) has decided to send the name of Juarez Quadros to the Senate for confirmation. Quadros was Communications minister in the second FHC government.

5 - ECONOMICS

5.1 – July Inflation

On 10th August, IBGE announced the July IPCA ➔ +0.52% up from +0.35% in June. This result was higher than the prediction by economists surveyed by Bloomberg News (+0.45%) The 12-month accumulation is now at +8.74%, down from the “peak” at +10.71% in January 2016. The IPCA in January was also at “peak” (+1.27%). The main factor in this increase in July was food prices, up by +1.12%.

5.2 – June retail sales increase very slightly

On 9th August, IBGE released its data for retail sales in June ➔ +0.1% MoM. In the first semester of 2016, the accumulated increase was +7.0% and +6.7% for the 12-month period. This was the highest increase since IBGE began this data set in 2001. These results seem to indicate a return to more-or-less “normal” retail sales and an upswing in Brazil’s economy.
5.3 – Services Sector declined

In contrast to the retail sales data above, the services sector declined in June ➔ -0.5% MoM & -3.4% YoY – less than the -6.1% YoY posted in May. The first six months in 2016 posted a decline of -4.9% and -8.3% over the past 12 months. This indicates that family incomes have not recovered – the largest consumers of services. These indicators point to a GDP decline in the 2nd Q/2016.

5.4 – Industrial Production increased in June

On 10th August, IBGE released its data for Industrial Production for the month of June that increased in 9 of the 14 areas surveyed ➔ +1.1% MoM nationwide but -9.1% for the first semester vs. the second semester 2015. The state of Rio was up by +5.7%, followed by Santa Catarina (+5.4%). São Paulo declined by -3.1% YoY.

5.5 – IBC-Br increased in June

Following the “trends” observed in Items 5.4 & 5.2 (but not in Item 5.3), on 12th August the Central Bank released its “proxy” for Brazil’s GDP in June. The IBC-Br [Economic Activity Index] posted +0.23% MoM ➔ after -0.45% in May. This was the best IBC-Br result since December 2014. The median estimate by analysts surveyed by Bloomberg News was +0.20%. Because of this result, Andre Perfeito, Chief Economist at the SP-based brokerage CCTVM said that he was revising his estimate for 2nd Q/2016 GDP up to +0.6%. However, the IBC-Br for this 2nd Q/2016 posted -0.53%. The 12-month accumulation of the IBC-Br is now -5.60%. Economists and financial analysts surveyed by the Central Bank in its 8th August Boletim Focus expected a -3.23% retraction in 2016 and a -1.1% retraction in 2017.

Detail ➔ IBGE should announce Brazil’s GDP for 2nd Q/2016 on Monday, 29th August.

5.6 – BB profits decline

In 2nd Q/2016, profits accrued by the Banco do Brasil declined by -40.7% YoY to R$ 1.8 billion from R$ 3.04 billion in 1st Q/2015. This was due to an increase in defaults, provisioning against defaults and a decline in BB’s credits.

BNDES ➔ posted a loss in 2nd Q/2016 ➔ -R$ 2.174 billion versus profits of +R$ 3.515 billion in 1st Q/2015 – the first such loss since 2003. This loss was due in large part to larger provisioning against defaults and reductions in profit margins and credit ratings for many firms with BNDES loans.

CEF ➔ On 12th August, the Caixa Econômica Federal announced that its 2nd Q/2016 profits were R$ 1.6 billion, down by -16.8% from 2nd Q/2015. In the first semester 2016, CEF profits were R$ 2.4 billion.
ANNEX – Breakdown of Senate Vote by Party & State

<table>
<thead>
<tr>
<th>59 Senators voted to</th>
<th>21 Senators in</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Pronounce” Dilma</td>
<td>Favor of Dilma</td>
</tr>
</tbody>
</table>

**PMDB (16)**
- Darío Berger (SC)
- *Edison Lobão* (MA)
- *Eduardo Braga* (AM)
- Eunício Oliveria (CE)
- *Garibaldi Alves* (RN)
- Hélio José (DF)
- Jader Barbalho (PA)
- João Alberto Souza (MA)
- José Maranhão (PB)
- *Marta Suplicy* (SP)
- Raimundo Lira (PB)
- Romero Jucá (RR)
- Rose de Freitas (ES)
- Simone Tebet (MS)
- Valdir Raupp (RO)
- Waldemir Moka (MS)

**PT (10)**
- Angela Portela (RR)
- Fátima Bezerra (RN)
- *Gleisi Hoffmann* (PR)
- Humberto Costa (PE)
- Jorge Viana (AC)
- José Pimentel (CE)
- Lindbergh Farias (RJ)
- Paulo Paim (RS)
- Paulo Rocha (PA)
- Regina Sousa (PI)

**PMDB (2)**
- *Kátia Abreu* (TO)
- Roberto Requião (PR)

**PSDB (11)**
- Aécio Neves (MG)
- Aloysio Ferreira (SP)
- Antonio Anastasia (MG)
- Ataídes Oliveira (TO)
- Cássio C. Lima (PB)
- Dalírio Berber (SC)
- Flexa Ribeiro (PA)
- José Aníbal (SP)
- Paulo Bauer (SC)
- Ricardo Ferrão (ES)

**PTB (2)**
- *Armando Monteiro* (PE)
- Elmano Férrer (PI)

**PSB (2)**
- João Capiberibe (AP)
- Lídice da Mata (BA)

**PP (1)**
Tasso Jereissati (CE)  Roberto Muniz (BA)

**PP (6)**
Ana Amélia (RS)
Benedito de Lira (AL)
Ciro Nogueira (PI)
Gladson Cameli (AC)
Ivo Cassol (RO)
Wilder Morais (GO)

**PSD (1)**
Otto Alencar (BA)

**PDT (1)**
Telmário Mota (RR)

**PSB (5)**
Ant. Carlos Valadares (SE)
*Fernando B. Coelho (PE)
Lúcia Vânia (GO)
Roberto Rocha (MA)
Romário (RJ)

**PCdoB (1)**
Vanessa Grazziotin (AM)

**Rede (1)**
Randolfe Rodrigues (AP)

**DEM (4)**
Davi Alcolumbre (AP)
José Agripino (RN)
Ricardo Franco (SE)
Ronaldo Caiado (GO)

**PR (4)**
Cidinho Santos (MT)
Magno Malta (SE)
Vincentinho Alves (TO)
Wellington Fagundes (MT)

**PSD (3)**
José Medeiros (MT)
Omar Aziz (AM)
Sérgio Petecão (AC)

**PDT (2)**
Acir Gurgacz (RO)
Lasier Martins (RS)

**PSC (2)**
Eduardo Amorim (SE)
Pedro Chaves (MS)
PTB (1)
Zeze Perrella (MG)

PV (1)
Alvaro Dias (PR)

PPS (1)
Cristovam Buarque (DF)

PRB (1)
Eduardo Lopes (RJ)

PTC (1)
Fernando Collor (AL)

No Party
Reguffe (DF)

* Former Dilma Caiet Minister