Brazil Focus –
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Weekly Report
Aug. 27-Sept. 2 2016

Looking Ahead ➔ What to watch for?

- 4th Sept. – Mass demonstration to be organized in Brasília – “Farewell Dilma”
- 4-5 Sept. – G-20 heads of state to meet in Peking, China
- 5th Sept. – Brazil ranked ___ on WEF “Global Competitiveness Index”
- 5th Sept. – IBGE to post August IPCA ➔ %; 12-month accumulation at %
- 5th Sept. – Labor Day (National Holiday in US)
- 7th Sept. – Independence Day [National Holiday, Brazil]
- 7-8 Sept. – 20th Annual CAF Conference – Willard Hotel, Washington, DC
- 8th Sept. – FGV to post August IGP-DI ➔
- 12th Sept. – IBGE to release industrial employment data for July ➔ % MoM
- 12th Sept. – Caged data for August ➔ jobs lost
- 14th Sept. – IBGE to announce retail sales data for July, % MoM
- 14th Sept. – Central Bank ➔ IBC-Br (index of economic activity) for July, % MoM
- 14th Sept. – IBGE to release PNAD unemployment data
• **19th Sept.** -- IBGE to post IPCA-15 ➔ +% vs +% in August

• **19th Sept.** -- State Holiday in Rio Grande do Sul [Farroupilha Day]

• **19-22 Sept.** -- Pres. Temer to attend the 70th UN General Assembly session

• **23rd Sept.** -- SRF to announce tax collections in August ➔ R$ billion, +% YoY

• **26th Sept.** --IBGE to announce August unemployment ➔ %

• **29th Sept.** -- Public Accounts data for August

1 - POLITICS

1.1 – Impeachment concluded

The final phase of the impeachment of suspended President Dilma Rousseff began on Thursday, 25th August. The pro-Impeachment Senators limited their witnesses to only two in order to “speed up” the process, while the Anti-Impeachment group summoned six witnesses. However, one of the latter was withdrawn when Sen. Ronaldo Caiado (DEM-GO) produced a document showing that this “witness” had recently been hired by Senator Gleisi Hoffmann (PT-PR).

The presentations and cross-examination of these witnesses lasted 15 hours, on Thursday, 12 hours on Friday and most of Saturday. Thus, Sunday, 28th August, was a “down day” with no activities in the Senate.

However, things were livened up somewhat on Monday, when suspended president Dilma Rousseff took the stand in her own personal defense at 9:30 a.m. After she spoke for 45 minutes, the cross examination by Senators began. After one-hour lunch and dinner breaks of more or less one hour each, the final questioning ended at 11:00 p.m.

The pro-Impeachment Senators were frustrated because systematically Dilma responded the same things to all their questioning. She used the term “golpe” several times and was harshly questioned about this – because impeachment is part of Brazil’s 1988 Constitution and the 2016 impeachment has been guided closely by the Supreme Court. She replied that the process certainly was legitimate (from the Constitution) – but that if she were to be finally impeached having not committed any “crime of responsibility” – that should be classified as a “golpe”.

The PSDB floor leader, Sen. Cássio Cunha Lima (PSDB-PB) affirmed that using the term “golpe” against the Senate and against the STF President Ricardo Lewandowski should be considered another crime of responsibility”.

Former President Lula and some 21 other “special Dilma invitees” observed the Senate proceedings from the mezzanine – including popular singer Chico Buarque.

On **Tuesday, 30th August**, the session began at 10:27 a.m. and the accusation (Miguel Reale Jr. and Janaína Paschoal) and defense (José Eduardo Cardoso) addressed the Senate. After the presentation by Janaína Paschoal, the PT floor leader in the Chamber, José Guimarães (PT-CE),
shouted that “she is a golpista”. Sen. Aloysio Nunes Ferreira (PSDB-SP) requested that Judge Lewandowski ask the Senate legislative police remove Guimarães from the floor of the Senate. Sen. Vanessa Grazziotin (PCdoB-AM) affirmed that the Senate statues allow a deputy to remain on the Senate floor. With that, Lewandowski suspended the session for five minutes. After the lunch recess, 66 Senators had signed up to address their colleagues for up to ten minutes each to declare their vote. After returning from the supper recess the Senators continued speaking until 02:30 a.m. on Wednesday.

1.1.1 – Dilma impeached; BUT not gone for good?

On Wednesday morning, 31st August, the final procedures leading up to the electronic open ballot began. However, to everyone’s surprise, STF President Ricardo Lewandowski who was presiding over the final impeachment proceedings, accepted a Questão de Ordem [a procedural question] raised by Sen. Vanessa Grazziotin (PCdoB-AM) that divided the voting by the Senators into TWO PARTS ➔ 1) the vote on Dilma’s impeachment; and 2) to decide whether she should be deprived of her political rights for eight years.

For most observers and analysts, Lewandowski’s unilateral (individual) decision was totally unconstitutional – because the two questions are united in the 1988 Constitution ➔ impeachment automatically means that the president has his/her political rights suspended for eight years plus the remainder of the mandate in question. In Dilma’s case ➔ 8 + 2 = 10 years.

After that decision, the electronic voting proceeded and impeachment was approved by a 61-to-20; seven votes above the two-thirds majority (54 votes) required by the 1988 Constitution.

This time, Senate President Renan Calheiros (PMDB-AL) cast his vote (he had abstained on the three previous Senate votes) and voted in favor of the impeachment of Dilma Vanna Rousseff.

HOWEVER ➔ On the second vote regarding the suspension of Pres. Dilma’s political rights, the vote was 42-to-36 with 3 abstentions – 12 votes short of the 54 votes necessary to suspend Pres. Dilma’s political rights for 8 years.

Apparently, an informal “accord” was struck by the PMDB with the PT in an effort to “soften” the PT’s opposition to the Temer government after impeachment. Of the PMDB Senators who voted in favor of impeachment, 9 voted not to suspend Dilma’s political rights (including Renan Calheiros) and two abstained. From 61 to 42 ➔ this meant that in addition to the 11 PMDB Senators who “switched” their votes, 8 Senators from other parties also “switched”. Thus, this so-called “accord” probably involved some other parties as well. Some predicted that this Senate decision should favor Dep. Eduardo Cunha (PMDB-RJ) in the Chamber and work against his cassação (expulsion). Probably, Cunha’s allies in the Chamber will try to divide his impeachment vote so that he would not lose his political rights for 8 years.

Three presidents in ONE day ➔ On Wednesday, 31st August, Brazil had three presidents: 1) In the morning, Dilma Rousseff was still President; 2) After she was impeached, interim President
Michel Temer was sworn in as permanent President before Congress at 3:20 p.m.; and 3) Shortly thereafter, in the late afternoon, Temer began his trip to China for the G-20 meeting, and Chamber President Rodrigo Maia (DEM-RJ) became acting President (in Temer’s absence).

**International Reactions** The US said that it continued to recognize the Temer government as legitimate – as did, Uruguay, Argentina, Peru, Colombia and Mexico. But, Venezuela Bolivia and Ecuador announced that they would withdraw (recall) their ambassadors from Brasília and not recognize the new, permanent Temer government. Nicaragua and Cuba were silent. The new Spanish political party Podemos declared that it would request the EU to suspend economic and political relations with Brazil because of the anti-democratic impeachment process and that the EU continue negotiating a free trade agreement with Mercosul, without the participation of Brazil.

**“The Day After”** Dilma’s lawyer, José Eduardo Cardozo filed several requests at the STF to annul the impeachment deliberations by the Senate. Likewise, several anti-Dilma Senators filed requests at the STF to annul the division of the impeachment vote as “unconstitutional”. Several STF ministers criticized this “arrangement”. Judge Gilmar Mendes called this action “bizarre”. So it is possible that the STF might overturn the division of the impeachment vote in the Senate – but probably only after 12th September, when the two-year term of Ricardo Lewandowski expires and the new STF president (Judge Carmen Lúcia) takes over.

**Moody’s Reacted** – Moody’s Investors Service was the first risk agency to react to the impeachment of PRES. Dilma Rousseff – saying that the removal of Dilma Rousseff removes some of the uncertainty regarding Brazil’s economic situation, BUT that this is not enough. Thus, Moody’s adopted a “wait-and-see” perspective, saying that the Temer government must now quickly approve the fiscal adjustment measures aimed at putting Brazil’s accounts in order and especially approve the much needed social security reform. Moody’s and S&P downgraded Brazil in February 2016 and Fitch in May 2016. All three risk agencies maintained a “Negative Perspective” for Brazil.

**Bye-Bye Dilma** – Reportedly, the PT and allied “social movements” commanded by the Frente Brasil Popular plan a massive farewell demonstration adjacent to the Alvorada Palace next Sunday, 4th September, and a caravan to escort Dilma to the Brasília airport for her flight (her last on a FAB jet) to Porto Alegre where she will reside in her apartment in the neighborhood called Tristeza. However, the press reports that soon Dilma will move to Rio and occupy an apartment her mother has there. She wants to become very “aggressive” in her political engagement and Rio there is a very active corps of foreign correspondents. ✴️ Stay tuned!!

**Wither PT?** This is a burning question with several alternatives: 1) A “Ficha Limpa” group within the PT might take command and “re-found” the party, perhaps with another name, another “flag” with a different program; 2) If these “discontents” are unable to “re-found” the party, they might switch to other parties on the Center-Left; or 3) Nothing, the PT remains as it always has been.

### 1.2 – SRF suspended tax exemption of Instituto Lula

On Monday, 29th August – the same day as Dilma’s “Swan Song” speech to the Senate, the SRF (Federal Income Service) announced that it had suspended the tax exempt status for the Instituto Lula from 2011 through 2014 – the former president’s promotion “foundation” in SP. Lula’s foundation
might have to pay some R$ 12 million in back taxes – unless it can appeal to CARF and win a favorable decision!!

2 – FOREIGN RELATIONS & TRADE

2.1 – August trade surplus

On 1st September, MDIC released the foreign trade data for the month of August ➔ a surplus of +US$ 4.140 billion – with exports of US$ 16.989 billion and imports of US$ 12.849 billion. In the January-August period, the accumulated trade surplus is now US$ 32.4 billion – the largest result since 1989 – with exports totaling US$ 123.5 billion and imports of US$ 91.2 billion. MDIC now estimates that the 2016 surplus should surpass US$ 50 billion. In the first 8 months in 2016, China was the number one destination for Brazil’s exports with US$ 27.501 billion in 2016. However, in 2016 China dropped to 2nd place regarding Brazil’s exports, down -33.2% from US$ 22.8 billion in 2015 to US$ 15.4 billion in 2016. The US has now returned to the number one destination of Brazilian exports.

2.2 – G-20 meeting in China

The meeting of the G-20 leaders is scheduled to meet in China on 4-5 September. Interim President Michel Temer expected to be sworn in as Brazil’s permanent President on 1st September and embark shortly thereafter. However, as a “Plan B” (the impeachment process might be “delayed”), Agriculture Minister Blairo Maggi embarked for China on 30th August, in order to represent Brazil at a preliminary meeting of business leaders in Shanghai (before Temer arrives). Temer arrived in Shanghai “just in time” for the closing ceremony of the business leaders.

Temer’s flight to China took some 27 hours, with three refueling stops – Cape Verde, Prague, and Astana (Kazakhstan). Temer’s entourage included: Senate President Renan Calheiros and cabinet ministers José Serra (Foreign Relations), Henrique Meirelles (Finance), Blairo Maggi (Agriculture), and Mauricio Quintella (Transportation). Also included in Temer’s entourage were – Senator Ataides Oliveira (PSDB-TO) and Deputies Altineu Côrtes (PMDB-RJ), Beto Mansur (PRB-SP), Fábio Ramalho (PMDB-MG), and Pauderney Avelino (DEM-AM).

When Pres. Temer left Brazil, Chamber President Rodrigo Maia (DEM-RJ) – the next in line in presidential succession – became interim President.

Photo: Beto Barata/PR
After this “pit stop” in Shanghai, Pres. Temer and his entourage flew on to Hangzhou for the G-20 Meeting. There, Temer met with Chinese President Xi Jinping and on Saturday, 3rd September, Temer and his entourage will meet with the WTO Director-General Roberto Azevedo. The G-20 encounter will take place on 4-5 September. A meeting of the leaders of the BRICS (Brazil, Russia, India, China and South Africa) will probably occur on 5th September.

Brazil expects to stimulate some R$ 10 billion in new Chinese investments in Brazil.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – State Grid acquires share of CPFL

On 2nd September, the Chinese electricity giant State Grid announced that it had acquired the share of CPFL (23%) held by the Camargo Corrêa construction company for R$ 6 billion. Camargo Corrêa was impacted very negatively by the Lava Jato investigations and is selling some of its assets in an attempt to recover its “cash flow”.

5 - ECONOMICS

5.1 – GDP – 2nd Q/2016

On Wednesday, 31st August, IBGE released the GDP data for the second quarter 2016 ➔ a retraction of -0.6% and -3.8% YoY.

5.2 – August Inflation
On 30th August, FGV released its IGP-M for the month of August ➔ +0.15% vs. +0.18% in July. The 12-month accumulation is now +11.49% with +6.25% accumulated in 2016. The breakdown by IGP-M components is as follows:

<table>
<thead>
<tr>
<th>IGP-M Components</th>
<th>July</th>
<th>August</th>
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</thead>
<tbody>
<tr>
<td>IPA (Producer Prices)</td>
<td>-0.01%</td>
<td>+0.04%</td>
</tr>
<tr>
<td>IPC (Consumer Prices)</td>
<td>+0.29%</td>
<td>+0.40%</td>
</tr>
<tr>
<td>INCC (Construction Costs)</td>
<td>+1.09%</td>
<td>+0.26%</td>
</tr>
<tr>
<td>IGP-M</td>
<td>+0.18%</td>
<td>+0.15%</td>
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</tbody>
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5.3 - Unemployment

On 30th August, IBGE released its continuous PNAD unemployment data for the May-June-July period ➔ up +0.04 p.p. since the trimester ending in June 11.6% unemployed. The average salary was R$ 1.985,00 down -0.6% from R$ 1.997,00 in the previous period.

5.4 – July Public Accounts

The Central Government posted a deficit of R$18.6 billion in July, R$ 51.1 billion for the January-July period and R$ 163.3 billion for the 12-month period. Remember: Recently, Congress authorized a R$ 170.5 billion deficit for 2016.

The INSS deficit in July was R$ 12.2 billion, +92% YoY. Federal tax revenues were down by -7.3% YoY in July.

Bovespa announced on 2nd September that the flux of foreign capital on the stock exchange was negative in August ➔ -US$ 2.25 billion.

5.5 – Industrial Production

On 2nd September, IBGE released its data for industrial production in July ➔ +0.1% MoM (but -6.6% YoY), after +1.3% in June. This was the fifth consecutive month with positive results — totaling +3.7% — but still a long way from regaining the levels of industrial production before the economic crisis began. As of July, the 12-month accumulation was -9.6% as compared to the previous 12-month period.

5.5.1 – Auto sales in August

In August, auto sales were down by -11.26% YoY, but up +1.37% MoM. According to Fenabrave, 189,901 units were sold in August — this was the fourth consecutive increase MoM. In the first 8 months of 2016, 1,348,000 units were sold (-23.09% versus the same period in 2015).
5.6 – Bank workers’ strike

On 1st September, Brazil’s bank workers’ labor unions decided to begin a total national strike as of 6th September for an undetermined period – until the banks come to an agreement or the TST intervenes to settle this strike. Banks should be open for business on Monday, 5th September.

5.7 - Copom

Copom met on 30-31 August and maintained the basic Selic rate constant at 14.24%. – since July 2015.