Looking Ahead ➔ What to watch for?

- 12th Sept. -- Chamber to vote cassação de dep. Eduardo Cunha, 7:00 p.m.
- 12th Sept. -- IBGE to release industrial employment data for July ➔ % MoM
- 12th Sept. -- Caged data for August ➔ jobs lost
- 13th Sept. -- Brazilian Ambassador Sérgio Amaral to speak at Wilson Center, 10:00 a.m.
- 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 [Farronpilha Day]
- 19-22 Sept. -- Pres. Temer to attend the 70th UN General Assembly session
- 21st Sept. -- Americas Society to host lunch with Pres. Temer, St. Regis Hotel, noon
- 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
• 29th Sept. -- FGV to post September IGP-M % versus % in August
• 30th Sept. -- August Industrial Growth % MoM & % YoY
• 2nd Oct. -- Municipal elections in Brazil (First Round)
• 3rd Oct. -- Trade Surplus for September US$ billion
• 3rd Oct. -- Auto production in September, units sold
• 7th Oct. -- NY Brazil-Am. C of C, Brazil Economic Conference, Washington, DC
• 7th Oct. -- IBGE to post IPCA for September

1 - POLITICS

1.1 - Impeachment

The two Senators who added their pro-impeachment votes to lift the total from 59 to 61 for the final impeachment vote on 31st August were – Renan Calheiros (PMDB-AL) who had abstained on the previous vote, and Telmário Mota (PDT-RR) who voted anti-impeachment previously.

On 6th September, Dilma Rousseff vacated the Palácio do Alvorada and flew to Porto Alegre, RS. Reportedly, she will reside in her mother’s apartment in Ipanema (Rio) and will write a book.

On 8th September, STF Judge Teori Zavascki rejected the appeal by Dilma Rousseff’s lawyer to annul the impeachment process. Now her lawyer, José Eduardo Cardozo will appeal to the full Supreme Court.

1.2 – Lava Jato – Two Years

On 28th August, the Lava Jato investigation “celebrated” two years of activities. So far no politicians have been tried and convicted and only two (so far) have been formally accused (out of 54 deputies and senators denounced by the PGR), but 106 persons have been convicted and sentenced to prison terms.


1.3 – Marcela Temer ➔ “Criança Feliz”

Traditionally in Brazil, the First Lady (when there is one) had directed certain “social programs” – the LBV, for example, in times past. Now that Michel Temer became permanent President (after the impeachment of Dilma Rousseff), Brazil’s First Lady, Marcela Temer, will direct a new social program – Criança Feliz [Happy Children] that will target children up to age 4 within the Bolsa Família [Family Stipend] program – some 4 million children. Marcela Temer, 33, has a Law degree.

1.4 – Anti-Temer protests
On 7th September (Brazil’s Independence Day), Michel Temer participated at his first formal ceremony as permanent President – presiding over the parade in Brasilia. Later that same day, he flew to Rio to “open” the Paralympics Games in Rio (at the Maracanã Stadium. In Brasilia, there was a considerable contingent of “Fora Temer” protestors who were kept at a distance by police. Some 15 other cities also had protest demonstrations.

Moreira Franco, Director of the Concessions Program, affirmed that “most of the protesters were EBC employees” whose Director is threatened by sacking. EBC is a government corporation charged with producing daily communications and runs the TV Brasil and the Radio Nacional. Just before she was suspended on 12th May, Dilma Rousseff appointed Ricardo Melo as the new EBC President who has maintained an “anti- Temer and pro-Dilma” line. Temer tried to sack him, but he obtained an injunction from the STF. However, on 8th September, the STF annulled this injunction and now Melo probably be sacked. EBC was “loaded up” with PT militants in staff positions (temporary appointees) who also will be sacked in a “cost reduction” policy. São Paulo also had anti-Temer demonstrations on 7th September and some 100,000 demonstrated in SP on Sunday, 4th September while Temer was still in China.

1.5 – AGU Chief sacked, Temer appoints woman

On 9th September, Pres. Michel Temer appointed the first woman to his cabinet Grace Maria Fernandes de Mendonça who replaced Fábio Medina Osório at the AGU (Federal General Counsel). Grace is a career AGU employee and had been the Secretary-General of the contentious, pending lawsuits at the AGU since 2003 and frequently argued on behalf of the AGU at the STF.

1.6 – Operation Greenfield

On Monday, 5th September, the Federal Police carried out Operation Greenfield to investigate how several state enterprise pension funds have been “ripped off” since 2003 using “bad” investment practices – especially Previ (Banco do Brasil), Funcef (Caixa Econômica Federal), Petros (Petrobras) and Postalis (Post Office). Five of seven arrest warrants were concluded – two warrants were impossible because the two Batista brothers (Joesley and Wesley) who control the JBS meat packers were overseas. 28 other warrants were for “coercive testimony”. The Batista brothers were suspended from their activities with JBS.

The targets of this investigation were FIPs (investment funds of nine firms) that were purchased by these pension funds at exorbitant prices that depleted these funds. Also, several of the administrators of these pension funds were later hired by these firms – and are suspected of receiving bribes from these firms. Court orders impounded R$ 8 billion in an effort to replenish the pension funds that were “ripped off”. Some say that this scandal might be even worse than the Petrobras corruption/bribe scandal – and might reach some R$ 50 billion. The PT controlled the appointments to the Previ, Funcef and Petros pension funds and the PMDB appointed its militants to the Postalis fund. Some persons were “repeats” from the Lava Jato investigation – like Leo Pinheiro of OAS – that sole FIP’s to these pension funds.

1.7 – Dep. Eduardo Cunha
On 5th May, the Supreme Court removed (suspended) Dep. Eduardo Cunha (PMDB-RJ) from the Presidency of the Chamber of Deputies and also suspended his mandate as federal deputy. He eventually resigned his post as Chamber President on 7th July and Dep. Rodrigo Maia (DEM-RJ) was elected to replace him.

After a long process with many delays provoked by Cunha’s lawyers, the Chamber Ethics Committee finally reported out in favor of his cassação and now Maia scheduled the full Chamber vote for 7:00 p.m. on Monday, 12th September – a Monday when quorums are usually VERY low in the Chamber. But now, in the “fury” of municipal election campaigns it is very difficult to mobilize deputies for sessions of the Chamber in Brasilia. Nine parties guarantee that their 238 deputies will be present and voting against Cunha. The key and largest party – PMDB – with 66 deputies is a big question mark. Cunha’s supporters will probably make use of the many delaying and obstruction possibilities in the Chamber’s bylaws to avoid, postpone or sideline this vote. One possibility is the approval of a resolution reducing Cunha’s “penalty” from cassação (loss of political rights for 8 years) to a possible six-month suspension. ➔ Stay tuned!!!!

2 – FOREIGN RELATIONS & TRADE

2.1 – New US Ambassador to Brazil confirmed by Senate

On 8th September, the US Senate finally confirmed (on a 92-0 vote) US career diplomat Peter Michael McKinley to be the new US Ambassador to Brazil. Seven weeks ago, McKinley received unanimous approval by the Senate Foreign Relations Committee but his nomination was blocked by Sen. Ted Cruz (R-TX). For unknown reasons, on 6th September Cruz removed his objection and McKinley’s nomination finally went to a full Senate vote.

Photo: US State Dept.

Amb. Peter McKinley with Secretary of State John Kerry during the latter’s visit to Afghanistan.

Peter McKinley was born in Venezuela in 1954 and grew up in Brazil, Mexico, Spain and the US. He completed his BA and Ph.D. in the UK and his Oxford doctoral dissertation on the colonial history of Venezuela was published by Cambridge Univ. Press. He joined the US Foreign Service in 1982 and served in Bolivia, the UK, Mozambique, Uganda and Belgium until 2001. Then he became Deputy Assistant Secretary of State for Refugees, Population and Migration and later DCM to the EU
in Brussels. After serving as US Ambassador to Colombia and Peru, in 2014 he became US Ambassador to Afghanistan. McKinley and his wife Fatima Salces Arce have three children.

2.2 – G-20 Hangzhou Summit

President Michel Temer had several encounters during the G-20 meeting in Shanghai and Hangzhou ➔ Yang Xiong (Mayor of Shanghai), Xi Jinping (President of China), Mariano Rajoy (Spanish PM), Matteo Renzi (Italian PM), and Roberto Azevedo (WTO Director-General).

Pres. Michel Temer proposed to Chinese leaders that the two countries “recalibrate” their bilateral trade flows. So far in 2016, Chinese exports to Brazil are down -34.2% YoY – US$ 17.5 billion versus US$ 11.5 billion. The main reason is the economic recession in Brazil – family consumption (cell phones & computers) has declined as well as infrastructure investments (capital goods).

Eleven accords were negotiated, including ➔ US$ 1 billion credit for Petrobras via the Chinese Eximbank; the sale of 50 Embraer airplanes to Chinese firms and government; State Grid acquired a controlling share of CPFL for US$ 9 billion; the installation of a US$ 3 billion steel factory in Bacabeira, MA; and the creation of a US$ 1 billion fund by the Chinese firms Pengin and Haltong for the storage of Brazilian grain production.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week

5 - ECONOMICS

5.1 – 2017 budget proposal

The federal government has proposed to readjust federal income tax brackets upward by +5% in the 2017 budget proposal – in spite of the inflation “estimate” of 7.34% for 2016 and 5.14% for 2017. The primary deficit target was set at -R$ 139 billion and the minimum wage will increase from R$ 880,00 to R$ 945,80 (+7.48%) on 1st January 2017.

Revenues are projected at R$ 1.177 trillion (17.26% of GDP) and expenditures at R$ 1.316 trillion (19.3% of GDP). Federal concessions should yield some $ 24 billion.

In spite of the “cap” of expenditures in the 2017 budget, the funds allocated to the areas of Health and Education are above this limitation.
5.2 – August IPCA

On 9th September, IBGE announced the IPCA for the month of August ➔ +0.44%, down from +0.52% in July. This result was the highest for the Month of August since 2007 (+0.47%). In August 2015, the IPCA posted +0.22%. In 2016, the IPCA accumulated +5.42% and +8.97% for the 12-month period. In 2015, the IPCA accumulation was +10.67%.

5.3 – Industrial Production

On 9th September, IBGE released its data for IP in July ➔ +0.1% with increases in 6 of the 14 states surveyed. The largest increases were: PE (+3.9%), PR (+2.6%), and ES (+2.3%). The largest declines were: BA (-11.2%), SC (-3.1%) and RS (-2.8%).

July marked the fifth consecutive month with increases in Brazil’s IP (+3.7%). However, this “spurt” was not enough to account for past declines and the 12-month accumulation now stands at -9.6%.