Looking Ahead ➔ What to watch for?

- 7-8 Oct. -- Fall meetings of IMF and World Bank – Washington, DC
- 10th Oct. -- FGV to post September IGP-DI ➔ +% versus +0.% in August
- 12th Oct. -- National Religious Holiday [Our Lady of Aparecida, national saint]
- 12th Oct. -- Columbus Day [observed in US] – federal holiday
- 12th Oct. -- Thanksgiving Day [Canada]
- 12th Oct. -- Day of the Race [Holiday in Mexico]
- 14th Oct. -- IBGE - unemployment in September, %
- 14th Oct. -- Maria Moors Cabot prizes to be announced at Columbia University
- 15-16 Oct. – BRICS encounter in China, Pres. Temer should attend
- 16th Oct. -- Daylight Savings Time begins in Brazil ➔ 2-hour time difference NYC/Brasília
- 17th Oct. -- IBGE: August retail sales ➔ +0.% MoM & +% YoY
- 17th Oct. -- Labor Ministry, *Caged* September data, jobs lost
1 - POLITICS

1.1 – New CNI-Ibope poll

On 4th October, Ibope released a new poll conducted for the CNI on 20-25 September among 2,002 voters in 143 municípios that evaluated the Michel Temer government.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>June</th>
<th>Sept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good/Excellent</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Regular</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td>Bad/Terrible</td>
<td>39%</td>
<td>39%</td>
</tr>
<tr>
<td>NS/NR</td>
<td>13%</td>
<td>12%</td>
</tr>
</tbody>
</table>

The September poll showed a very slight improvement. In June, 25% said that that Temer was worse than Dilma but in September this proportion increased 25%→31%. On the other hand, those who thought that Temer was better than Dilma increased 23%→24%. Those who said that Temer was better were from the South and those with incomes above five minimum wages, while those who said Dilma was better were from the Northeast and those with up to one minimum wage.

The last Ibope poll conducted in March before Dilma was suspended in May evaluated then President Dilma with 10% “Good/Excellent” and 69% “Bad/Terrible”.

1.2 – More Election Results

On 4th October, the Folha de São Paulo published summary data for the 2nd October first round municipal elections. Comparing the 2012 & 2016 elections, in 2016 47% of the Mayors were reelected (55% in 2012) – (those who ran for reelection). In 2012, 11.9% of the mayors elected were women versus 1.16% in 2016. In 2016, 29% of those elected were considered Afro-Brazilians (this data was not available for 2012). On 30th October, 50 municípios will hold run off elections.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PMDB</td>
<td>1017</td>
<td>1029</td>
<td>+1.18%</td>
<td>187</td>
<td>14</td>
</tr>
<tr>
<td>PSDB</td>
<td>701</td>
<td>793</td>
<td>+13.12%</td>
<td>176</td>
<td>19</td>
</tr>
<tr>
<td>PSD</td>
<td>497</td>
<td>539</td>
<td>+8.45%</td>
<td>121</td>
<td>7</td>
</tr>
<tr>
<td>PP</td>
<td>473</td>
<td>496</td>
<td>+4.86%</td>
<td>81</td>
<td>2</td>
</tr>
</tbody>
</table>
Bolsa Família apparently did not “help” the PT in the 2016 municipal elections as it did in 2012. Taking the 500 municípios with the largest proportion families included in this income transfer program, in 2012 the PT received 11.20% of the votes versus only 8.40% in 2016. The PMDB declined less 2012→2016 (16.20%→15.60%) as did the PSDB (11.20%→9.40%).

**Results by City Size** – The PMDB and the PSDB had strong performances in the first round elections for mayor discriminated by the size of cities, while the PT elected more mayors in the *grotões*. In his 1982 election as governor of Minas Gerais, Tancredo Neves (PMDB) coined the phrase – “The PDS polled more votes in the *grotões* – small towns and villages.”

<table>
<thead>
<tr>
<th>Party</th>
<th>Large*</th>
<th>Medium#</th>
<th>Small@</th>
<th>Tiny&amp;</th>
</tr>
</thead>
<tbody>
<tr>
<td>PMDB</td>
<td>7</td>
<td>53</td>
<td>352</td>
<td>617</td>
</tr>
<tr>
<td>PSDB</td>
<td>14</td>
<td>70</td>
<td>301</td>
<td>408</td>
</tr>
<tr>
<td>PT</td>
<td>1</td>
<td>13</td>
<td>96</td>
<td>147</td>
</tr>
<tr>
<td>PSD</td>
<td>2</td>
<td>26</td>
<td>215</td>
<td>294</td>
</tr>
<tr>
<td>PSB</td>
<td>1</td>
<td>35</td>
<td>181</td>
<td>197</td>
</tr>
<tr>
<td>PP</td>
<td>2</td>
<td>23</td>
<td>153</td>
<td>319</td>
</tr>
<tr>
<td>PDT</td>
<td>1</td>
<td>22</td>
<td>143</td>
<td>168</td>
</tr>
<tr>
<td>PR</td>
<td>1</td>
<td>10</td>
<td>118</td>
<td>166</td>
</tr>
<tr>
<td>DEM</td>
<td>3</td>
<td>18</td>
<td>100</td>
<td>144</td>
</tr>
<tr>
<td>PHS</td>
<td>1</td>
<td>??</td>
<td>??</td>
<td>??</td>
</tr>
<tr>
<td>PSC</td>
<td>1</td>
<td>??</td>
<td>??</td>
<td>??</td>
</tr>
<tr>
<td>PV</td>
<td>1</td>
<td>7</td>
<td>??</td>
<td>64</td>
</tr>
<tr>
<td>PTB</td>
<td>0</td>
<td>23</td>
<td>82</td>
<td>157</td>
</tr>
<tr>
<td>PPS</td>
<td>0</td>
<td>8</td>
<td>48</td>
<td>55</td>
</tr>
<tr>
<td>PCdoB</td>
<td>0</td>
<td>??</td>
<td>43</td>
<td>??</td>
</tr>
<tr>
<td>PRB</td>
<td>0</td>
<td>7</td>
<td>42</td>
<td>55</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td><strong>TOTAL</strong></td>
<td><strong>92</strong></td>
<td><strong>351</strong></td>
<td><strong>2081</strong></td>
</tr>
<tr>
<td><strong>Electorate$</strong></td>
<td>54.4</td>
<td>31.3</td>
<td>42.5</td>
<td>15.9</td>
</tr>
</tbody>
</table>

* - Total Elected  # - Elected on 1st round

*Source: Folha de São Paulo, 4 October 2016, Eleições, p. 6.*
Recife – In the first round election in Recife, the incumbent Mayor Geraldo Júlio (PSB) came very close to an outright victory (49.3%) versus 23.76% for former Mayor João Paulo (PT). For the second round, the PSDB (18.6%) and the DEM (5.4%) will join forces in support of the PSB candidate in an “anti-PT alliance”.

Rio de Janeiro – The first poll for the second round in Rio (Datafolha) was released on 6th October and showed Marcelo Crivella (PRB) in the lead (44%-to-27%) versus Marcelo Freixo (PSOL).

Belo Horizonte – Also on 6th October, Paraná Pesquisas released its 2nd round poll in Belo Horizonte versus João Leite (PSDB) in the lead (47.1%-to-33.3%) versus Alexandre Kalil (PHS).

Goiânia – On 7th October, Paraná Pesquisas released its second round poll for Goiânia. Former Mayor and ex-Governor Iris Rezende had 46.5% and Vanderlan with 37.4%.

Governors were only able to elect two mayors of their capital cities – Gov. Geraldo Alckmin (PSDB-SP) and Gov. Tião Viana (PT-AC). The governors of Rio Grande do Sul (PMDB), Pernambuco (PSB), Alagoas (PMDB), Pará (PSDB), and Mato Grosso do Sul (PSDB) will have a chance to elect their candidates for mayor in the second round run off election.

Federal Deputies – In 2016, 81 federal deputies ran for mayor or Vice-Mayor and 10 were elected on the first round and another 16 will dispute the second round run off elections. In 2012, 87 federal deputies ran for mayor and 25 were elected.

Abstention – nationwide was 17.60% in 2016 but some large cities had much larger rates, for example Rio de Janeiro (24.28%), Porto Alegre (22.51%), São Paulo (21.84%) and Belo Horizonte (21.66%). The state capitals with the lowest abstention rates were Manaus (8.59%), Vitória (10.76%), Recife (11.31%) and João Pessoa (11.37%).

Women – candidates were elected to 11.8% of Brazil’s municípios on the first round in 2016 versus 11.8% in 2012, 9.4% in 2008 and 7.4% in 2004. As in previous elections, larger proportions of women were elected in the Northeast and North versus Rio Grande do Norte (28%), Roraima (27%), Alagoas (21%), Amapá (20%), Maranhão (19%) and Tocantins (18%). The states with the lowest proportions were Espírito Santo (5%), Rio Grande so Sul (6%), Minas Gerais (7%), Paraná (7%), and Santa Catarina (8%).

1.2.1 – Performance by small parties

Some members of the Rede (new party founded by Marina Silva) left the party after its dismal performance in the municipal elections of 820 candidates for mayor, only 5 candidates were elected.
**PSOL** founded back in 2004 (as a splinter from the PT) did a bit better – one mayor elected in 2012 and two in 2016 – Marcelo Freixo is in the 2nd round run off in Rio de Janeiro. Another new party founded in 2015 – **PEN** elected 14 mayors in 2016.

Two other “new” parties that did not participate in the 2012 municipal elections fared well → **SD** elected 62 mayors and **PROS** elected 53. The **PCdoB**, a small ideological party went from 51 mayors elected in 2012 to 80 in 2016. This traditional PT ally did not suffer the same negative fate at the Workers’ Party.

The **PHS** did quite well (16→36) as +125% increase from 2012, as did the **PSL** (23→30) +30.4% and the **PTN** (12→30) +150%.

### 1.3 – Lava Jato

On 3rd October, federal prosecutors denounced Sen. **Fernando Bezerra Coelho (PSB-PE)** for having received R$ 41.5 million bribe payments from OAS, Queiroz Galvão and Camargo Corrêa regarding contracts with Petrobras for the construction of the Abreu Lima refinery in Pernambuco (as yet unfinished). Allegedly, some of these funds were channeled into the presidential campaign of Eduardo Campos (PSB-PE) – who died in a plane crash in August 2014.

Also on 30th October, the PGR requested that the STF open an investigation against Dep. Zeca Direceu (PT-PR) – the son of José Direceu – Lula’s former Chief of Staff (Casa Civil) who was convicted in the Mensalão scandal and again in the Lava Jato investigation and is serving a long prison term in Curitiba. Zeca is accused of having received bribes from contracts by the construction firms under investigation with Petrobras.

**Lula indicted [again]** – On 5th October, the Federal Police indicted Lula – accused of benefiting Taiguara Rodrigues, a nephew of his first wife – Maria de Lourdes da Silva. They were married in May 1969. Lourdes died giving birth in June 1971 due to bad quality, negligent hospital care because she had contracted hepatitis during her pregnancy. The child also died. Maria de Lourdes was born in Montes Claros, MG in 1949 and her family migrated to SP in 1952.

Taiguara organized an engineering firm – Exergia Brasil – that was sub-contracted by Odebrecht for a construction project in Angola. The Federal Police affirm that Lula intervened to “liberate” a loan to sustain this Angola project (and received a “counter part” bribe for “services rendered”. Exergia received R$ 31 million between 2009 and 2015. The Federal Police discovered that Exergia did not have any technical capacity to assume this project in Angola and eventually Odebrecht rescinded this contract and assumed this project. The Federal Police claim that Exergia was contracted by Odebrecht in order to “camouflage” these bribe payments.

In an effort to “save Lula”, some PT leaders are contemplating his election as the new national President of the PT.

**Fernando Henrique Cardoso** – The Federal Police have installed an investigation regarding the emergency construction of gas turbine electricity generators in 1999-2001. This is the first time that the Lava Jato investigation has targeted the government of FH Cardoso (1995-2002). This
investigation stemmed from the plea bargaining testimony of former Petrobras director Nestor Ceveró who received US$ 700,000.00 in bribe payments by Alstom/GE and NRG that were contracted without any bidding process due to the emergency caused by the blackouts in 2000. Ceveró also affirmed that three other former Petrobras directors were involved in addition to the then Director for Gas & Energy Delcindo do Amaral (then a PSDB member) who received US$ 10 million. The plea bargaining testimony by Fernando Baiano affirmed that FHC’s son Paulo Henrique Cardoso quickly constituted PSR, a firm linked to TermoRio during this emergency blackout episode. PHC also was involved with WWP in association with Odebrecht in the Braskem petrochemical firm.


Branislav Kontic – a former staffer with Antonio Palocci who was arrested together with the latter last week in Operation Omertá had his arrest converted to “permanent” by Judge Sérgio Moro on Friday, 30th September. The day after, 1st October, Brant tried to commit suicide in his cell by swallowing some 40 pills. As a result, Moro transferred him from the Federal Police lockup in Curitiba to the Medical-penal complex in Pinhais adjacent to Curitiba.

On 6th October, STF Judge Teori Zavascki decided to divide the 66 politicians accused in the Lava Jato investigation into four distinct groups ➔ those from the PT (12), the PP (30), PMDB-Chamber (15) and PMDB-Senate (9). Also, he included Lula and Eduardo Cunha in the principal investigations.

1.4 – Gov. Fernando Pimentel – Operation Acrônimo

Gov. Fernando Pimentel ((PT-MG) has been under federal police investigation for some time regarding decisions he made while MDIC cabinet minister under Pres. Dilma Rousseff’s first term (2011-2014) that resulted in “side payments” that were used to finance his campaign for governor in 2014. Cases involving governors are conducted/deliberated by the STJ and the report by Judge Herman Benjamin was in favor of opening a penal code investigation that would have resulted in the suspension of Pimentel’s mandate as governor. However, Benjamin’s report was rejected by the swing vote of Judge Luis Felipe Salomão who argued that the MG state legislature must approve this case by a two-thirds majority. Salomão argued that in similar cases the respective state legislatures had to concur with these actions. BUT – the MG state constitution is amiss and does not have any reference to such a “concurrence” by the state legislature. Apparently, Pimentel has been “saved by the gong” because he has a 55-deputy majority (out of 77) in the state legislature (AL-MG).

1.5 – New Minister of Tourism

On 5th October, Pres. Temer held a swearing in ceremony for his new Minister of Tourism – Dep. Marx Beltrão (PMDB-AL). This appointment was harshly criticized by the press because Beltrão has a corruption case being deliberated at the STF. He is accused of manipulating INSS payments for employees of the municipal government of Coruripe, AL when he was Mayor (2005-2012).

This cabinet post had been “vacant” since June 2016 when former deputy Henrique Eduardo Alves (PMDB-RN) was forced to resign after the plea bargaining testimony by former Transpetro President Sérgio Machado (PMDB-CE) implicated Alves in the Petrobras corruption scandal. Pres. Temer termed the accusations against Beltrão as “insignificant” because he was not involved in the
Lava Jato investigation. The press questioned why Temer had taken four months to replace Alves. Apparently, Beltrão’s appointment was pushed and promoted by Senate President Renan Calheiros (PMDB-AL) who in turn publically denied any efforts on Beltrão’s behalf. Thus, the “promotion” of Beltrão became an “effort by the PMDB delegation in the Chamber.


1.6 – PT ➞ attempts at reorganization

Many PT leaders affirm that their party must urgently change its strategy – reject the self-image as the hegemonic party of the Left in Brazil and work out an alliance with other parties on the Left (PCdoB, PSOL, etc.). Also the party needs to totally renovate/replace its national directorate and devise a new party platform and political strategy – perhaps expel all the ficha sujas who are accused of corruption in favor of the party’s ficha limpas. These leaders argue that the party suffered a humiliating defeat in the first round municipal elections in October 2016 because the PT lost contact with its traditional base and has been the main object of accusations/investigations/convictions in the Lava Jato that has been highlighted by the media. Also, they feel that the long impeachment process for Dilma Rousseff was very detrimental for the party.

On 5th October, former governor of Rio Grande do Sul and Lula’s Justice Minister, Tarso Genro, affirmed that Lula as national PT President is not a good idea – “Lula is a leader much larger than the PT and has to remain ‘free’ to act accordingly. PT leaders complained that Pres. Temer had coined the phrase “We must get Brazil out of the Red and into the Blue” – referring to the terrible fiscal deficit he inherited from Pres. Dilma.

However, the PT National Executive Committee meeting in Brasília on 5th October decided “not to decide anything” – that it is still too early to make any major modifications that should be made by the Sixth National PT Congress that should meet in March or April 2017, instead on in the second semester.

Some affirm that Lula will travel to Fortaleza to campaign for incumbent Mayor Roberto Claudio (PDT) who is supported by the Ciro Gomes family. Ciro joined the PDT to become this party’s pre-candidate for President in 2018. Thus, Lula’s candidacy in 2018 becomes “non-viable” – his alternative might be to force the PT into an alliance with the PDT in support of Ciro Gomes.

1.7 – Marcela’s debut

On Wednesday, 5th October, First Lady Marcela Temer, 33, made her public debut – when she launched her own new federal program ➞ Criança Feliz [Happy Children] – a program for children of Bolsa Família families up to age three, complete with medical, psychological and pedagogical assistance. The budget allocation for the end of 2016 is R$ 30 million and R$ 300 million for 2017.
Marcela Temer presents the "Criança Feliz" program

Most politicians praised Marcela’s presentation that concentrated on the problems of infancy and maternity. Also they said that her delivery was quite poised and well organized.

1.8 – STF maintains prison after 2nd level court conviction

On 5th October, on a 6-to-5 decision, the STF voted to maintain its position in February 2016 (on a 7-to-4 vote) that the accused would go directly to jail after his/her conviction was maintained by a 2nd level federal or state court. Brazil’s judicial system is such that allows almost an infinite number of appeals and recourses so that if the accused is rich and has top lawyers his/her final imprisonment might take 20 or 25 years. The Brazilian bar association (OAB) and the PEN political party filed this suit at the Supreme Court – because the earlier decision had begun to reduce (substantially) lawyers fees to defend clients for some 20 or 25 years. The “traditional” Brazilian concept is that the accused are to be considered innocent until the last court resort has been exhausted ➔ transito em julgado at the Supreme Court. In reality, Brazil’s Supreme Court is in truth a court of last resort and receives some 300,000 case per year – much different than the US Supreme Court (a constitutional court) and decides to hear some 40 or 50 cases per year and for the rest the decision of the lower court is maintained. Lava Jato prosecutors think that with this decision the number of plea bargaining testimonies might now increase.

The previous 7-to-4 decision became a 6-to-5 final decision because Judge Dias Toffoli switched his vote. Reportedly, this decision will affect 3,460 persons who have already been convicted by second level courts.


1.9 – TCU rejected Dilma’s accounts [again]

On 5th October, the TCU voted unanimously to reject the public accounts of Pres. Dilma for the year 2015. Remember: Previously, the TCU had rejected Dilma’s 2014 accounts but so far Congress has taken no action to pass judgment on this TCU decision. The TCU fined former Finance Minister Guido Mantega and former STN Arno Augustin R$ 54,000,00 each and they were declared ineligible to occupy and public function for 8 years. Several Dilma cabinet ministers were also fined –
Nelson Barbosa (Finance), Teresa Campelo (Development), Manoel Dias (Labor) and Gilberto Occhi (Cities) – plus Alexandre Tombini (Central Bank President) and Túlio Maciel (Central Bank Director) were fined R$ 25,000.00. Also, the former presidents of the CEF (Jorge Hereda), the Banco do Brasil (Aldemir Bendine) and the BNDES (Luciano Coutinho) were fined R$ 30,000.00 each.

1.10 – Ulysses Guimarães – 100 years

October 6 marked the 100th birthday of Deputy Ulysses Guimarães (PMDB-SP). He was nicknamed “Dr. Constituinte” because he presided over the National Constituent Assembly (1987-1988) that drafted Brazil’s new 1988 Constitution (from scratch) and was fundamental in guiding some difficult solutions and compromises. He went on to become the PMDB presidential candidate in 1989 but placed 7th with 4.43% of the valid vote. He was reelected federal deputy in 1990 but died in a helicopter crash in the ocean off the north coast of the state of São Paulo on 12th October 1992.

Ulysses was born in Rio Claro, SP on 6th October 1916 and completed his Law degree at USP. During the Vargas dictatorship [Estado Novo], in 1940 he was elected First Vice-President of UNE-National Student Union. In 1945, he joined the PSD party and was elected SP state deputy in 1947 and federal deputy in 1950. He was reelected in 1954 and in 1955 married Ida de Almeida – Dona Mora – a widow with two children. In March 1956, Ulysses Guimarães was elected President of the Chamber of Deputies

In 1958, Ulysses ran for reelection as Chamber President but was defeated by Ranieri Mazzilli (also from SP) of the conservative wing of the PSD, but was reelected deputy in October. In 1961, after the resignation of President Jânio Quadros in August, when Vice-President João Goulart (PTB-RS) assumed the Presidency under a parliamentary system, in September Prime Minister Tancredo Neves (PSD-MG) appointed Ulysses to be Minister of Industry & Commerce. He “stepped down” in June 1962 in order to run for reelection as federal deputy.

In 1964, Ulysses Guimarães and most of the PSD were in favor of the military coup that removed Pres. João Goulart (PTB-RS), but later joined the Opposition to the military regime. With the new two-party system imposed by the military regime, Ulysses joined the opposition party (MDB) in 1966 and was elected its national Vice-President and was reelected deputy. In 1970, he was reelected deputy for the sixth time. In 1971, he became PMDB national President and was successful in mediating an “understanding” between the “Autênticos” and the “Moderados” in the Opposition party that had been reduced to only 7 senators and 87 deputies.

In 1973, he became the MDB “token” opposition candidate in the indirect election for President against the military regime candidate Gen. Ernesto Geisel (ARENA). The following year, the MDB was quite successful and elected 16 of the 21 senators and 165 federal deputies (out of 364). In 1978, the MDB launched the presidential candidacy of Gen (rt) Euler Bentes Monteiro but Gen. João Batista Figueiredo was elected. At the end of 1979, in order to weaken the MDB, the military government “induced” Congress to abolish the two parties and permit the organization of new parties in 1980. The ARENA became PDS, the MDB became PMDB and four other parties were organized → PT, PTB, PP and PDT. The “new” PMDB was reduced to half the size of the MDB.

Photo: Editora Abril
In 1982, the military government permitted direct elections for governor and the PMDB elected 9 and the PDT one (Brizola in the state of Rio de Janeiro). When the PEC for “Eleições Diretas Já” was defeated in April 1984, Ulysses deferred his presidential ambitions for the indirect electoral college election in January 1985 to then PMDB Governor of Minas Gerais Tancredo Neves. Neves and his running mate, Sen. José Sarney (PMDB-MA) defeated the PDS candidate Paulo Maluf by a 480-to-180 vote on 15th January 1985. On 1st February 1985, Ulysses Guimarães was elected President of the Chamber of Deputies. With the death of Neves on 21st April 1985, Sarney became President. However, when Pres. Sarney travelled overseas, Ulysses Guimarães became interim President (19 times).

In 1986, Brazil elected the ANC-National Constituent Assembly and state governors. The PMDB elected all governors but one (SE) and an absolute majority in the ANC (303 out of 559). Ulysses was reelected federal deputy (tenth mandate) with 590,873 votes; surpassed only by Luiz Ignácio Lula da Silva (PT-SP) who received 652,763 votes. Ulysses Guimarães was elected President of the Chamber and President of the ANC.

In June 1988, shortly before the new Constitution was promulgated (5th October 1989), the PMDB suffered a “split” and many deputies and senators left the party to found the PSDB – including Senators Fernando H. Cardoso and Mário Covas plus former SP governor Franco Monteiro. In November 1989, Ulysses was the PMDB presidential candidate and placed seventh and in 1990 he was reelected federal deputy for the eleventh time.

In 1991, the PMDB vetoed Ulysses for President of the Chamber in favor of Ibsen Pinheiro (PMDB-RS) and SP Governor Orestes Quércia (PMDB-SP) was elected national PMDB president – after 20 years of Ulysses Guimarães at the helm (1971-1991). In mid-1992, Ulysses led the efforts at the STF to assure that the Chamber impeachment vote of then Pres. Fernando Collor would be an “open vote” (on 29th September) and 13 days later he and Severo Gomes (and their wives) died in a helicopter crash during a flight from Angra dos Reis, RJ and SP. Ulysses body was never recovered.
2 – FOREIGN RELATIONS & TRADE

2.1 – September Trade Surplus

On 3rd October, MDIC released Brazil’s foreign trade data for September – a +US$ 3.8 billion surplus – the largest surplus for September since 2006 posted +US$ 4.5 billion surplus. Thus, the nine-month surplus in 2016 is now US$36.2 billion – the largest on record since this data series began in 1989. MDIC expects the trade surplus to close out 2016 between US$ 45 billion and US$ 50 billion. The largest surplus on record was US$ 46.5 billion in 2006.

In September, exports totaled US$ 15.79 billion (-2.2% YoY but +1.8% MoM). Imports were US$ 11.99 billion (-9.2% YoY but +2.2% MoM). The continuing decrease in imports is a sign that the Brazilian economy is improving. For the January-September period, Brazil exported US$139.4 billion (-4.6% YoY) while imports were US$ 103.2 billion (-23-9% YoY).

2.2 – Magnesita – RHI merger

On 5th October, the shareholders of the Brazilian firm Magnesita (GP and Rhône) and the Austrian “giant” RHI announced a merger to create the global leader in market for refractory ceramic materials used in steel mills, etc. This new refractory company will be called RHI Magnesita and will be registered in the Netherlands and listed on the London stock market.

See ➔ http://www.rhiag.com/internet_en/investor_relations_en/97882/05.10.16_RHI_Magnesita_2.html?jsessionid=881C1CA33F03A67D832C492ECE3F4BC


See ➔ http://uk.reuters.com/article/uk-magnesita-refrat-m-a-rhi-idUKKCN1260PM

3 - REFORMS

3.1 – Petrobras priority removed from pre-salt

On 5th October, the Chamber of Deputies on a 292-to-101 vote approved the law proposed by Sen. José Serra (PSDB-SP) that removed the obligatory 30% priority investment by Petrobras in all exploration of the pre-salt petroleum deposits. Next week, the amendments will be considered and then go to the final sanction by Pres. Temer. This measure had already been approved by the Senate back in February 2016.

This vote had considerable “contestation” by members of the Petroleum Workers’ Union (FUP) who were shouting “entreguitas” and “golpistas” from the galleries and several opposition deputies dressed in orange petrol workers’ uniforms. Those who supported the measure shouted back “ladraões” [thieves, remembering the Petrobras corruption scandal]. The PT, PCdoB, PDT, PSOL and Rede tried regimental tactics to delay the vote – but to no avail.
Petroleum firms have advised the Temer government that with these new rules they are ready to increase investments and place bids in the next concessions auction in 2017. Specialists estimate that new investments should increase form US$ 20 billion to US$ 50 billion. Firjan predicts that by 2030 some US$ 420 billion will be invested. This would be very good news for the state of RJ that saw its revenues from off shore royalties reduced that produced the desperate fiscal deficit.

See ➔ http://oglobo.globo.com/economia/mudancas-no-pre-sal-devem-destravar-investimentos-atrair-novas-empresas-20244147

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4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Industrial Production declined in August

On 4th October, IBGE released data for Industrial Production in August ➔ -3.8% MoM and -5.2% YoY. In 20016, the decline accumulated -8.2%. Specialists surveyed by Bloomberg News estimated declines of -3.2% MoM.

The worse declines were in the food sector ➔ -8% MoM and the auto sector ➔ -10.4%. The largest increase was in the pharmaceuticals sector ➔ +8.3% MoM that counterbalanced a -7.3% MoM decline in July.

5.1.1 – Auto sales down in September

On 5th October, Fenabrave announced that in September 160,000 units were sold, down by -13% MoM and 20.1% YoY. One of the reasons for this decline was the bank workers’ strike the whole month of September that made auto loans very difficult to obtain. The bank workers’ strike ended on 6th October (See Item 5.5).

5.2 – World Bank questions Brazil

On 3rd October, the World Bank raised a very crucial question regarding Brazil ➔ that the lack of “fiscal discipline” might threaten the reduction of poverty in Brazil (and other emerging economies). Between 2004 and 2014, the segment of Brazil’s population that lived on US$ 1.90 per day declined from 11% to 3.7%. In spite of this poverty reduction, according to the WB income inequality is still
“large” ➔ the 40% poorest part of the population have only 12% of the country’s income while the 20% richest segment detains 56% of national income.

5.3 – Investments decline in August

On 5th October, IPEA released data showing that investments had declined by -2.8% in August, after a similar decline in July. IPEA economists affirmed that this situation should improve only after Congress approves the fiscal reforms.

5.4 – Insufficient transmission lines

Some 700 new projects for electricity generation are blocked (non-viable) because Brasil does not have enough transmission line capacity to transport new energy generation – according to ONS-Operator of the National Electricity System. These restrictions affect mainly the states of Bahia, Rio Grande do Norte and Rio Grande do Sul. In RN & BA, the capacity for wind and solar generation is large and already 30% of the electricity consumer in the Northeast comes from wind farms. The “threat” is that in 2017, 2018 and 2019 Brazil’s economy will be “re-activated” that will create increased demand for electricity and Brazil might be faced with blackouts as happened in 2001.

5.5 – Bank workers’ strike ends

On 6th October, the 30-day bank workers’ strike ended and most bank offices opened on Friday, 7th October. Febraban’s final offer of an 8% salary increase plus a one-shot R$ 3.500.00 bonus was accepted by the bank workers’ labor union. Profit sharing items were also included.

5.6 – Chamber committee approved PEC (cap on expenditures)

After nearly 8 hours of discussions and debate on 6th October, the Chamber special committee approved PEC 241 that would put a “cap” on federal expenditures that could be increased only by the IPCA inflation rate from the previous year on a 23-to-7 vote. In 2017, Health and Education would be exempted. All amendments presented by the Opposition were defeated. The first round vote by the full Chamber should be next Monday, 10th October.

5.7 – September Inflation

On 7th October, IBGE released its data for the IPCA ➔ +0.08%, the lowest IPCA rate for September in 18 years (1998 ➔ -0.22%). This was a significant decline from the +0.44% posted in August. The IPCA accumulated +5.51% in the first 9 months in 2016 and +8.48% in 12-months. In 2015, the official inflation rate was +10.67%. The analysts surveyed by the Central Bank’s Focus weekly bulletin on 3rd October predicted the IPCA at +7.23% for 2016.

This IPCA decline enhances predictions that Copom will begin reducing the Selic rate at its next meeting on 18-19 October.

➔ Stay tuned!!!!