Weekly Report
Oct. 29-Nov. 4 2016

Looking Ahead ➔ What to watch for?

- **6th Nov.** -- Daylight Savings Time ends in the US ➔ 3-hour time difference NYC/Brasília
- **7th Nov.** -- IBGE to post IPCA data for October ➔ +0.%
- **7th Nov.** -- “Challenges of Brazil’s Election System”, 10:00, Woodrow Wilson Center ➔ Presenters: STF Judges Gilmar Mendes & Teori Zavascki
- **8th Nov.** -- Election Day in the US
- **9th Nov.** -- STF to decide constitutionality of “outsourced” labor contracts
- **10-11 Nov.** -- PT National Directorate to meet in Brasília
- **11th Nov.** -- Remembrance Day (in UK & Canada); Veterans’ Day (in US)
- **11th Nov.** -- IBGE to post Industrial Employment data for September ➔ % MoM
- **14th Nov.** -- IBGE to post Retail Sales data for September, +0.% MoM & +% YoY
- **14th Nov.** -- IBGE to post full PNAD report for 2015
1 - POLITICS

1.1 – A “modest” house in Punta del Este

Over Brazil’s second round election weekend, the weekly news magazine *IstoÉ* published a cover story regarding a “mansion” in the Uruguayan resort city of Punta del Este that allegedly was acquired by a Brazilian businessman to serve as a residence for ex-President Lula. Brazil’s Federal Police investigated began investigating this case in August and has a *modus operandi* similar to the Dacha in Atibaia, SP and the triplex apartment in Guarujá, SP. The estimated value of this residence is US$ 2 million and registered in the name of Alexandre Grendene Bertelle – one of the owners of the Grendene shoe manufacturers.

Bertelle also owns the Conrad Hotel and Casino in Punta del Este as well as several large houses (mansions). During Lula’s government, Alexandre Grendene received R$ 3 billion in subsidized loans from BNDES and contributed to the private sector funding of the film *Lula, o Filho do Brasil* directed by Fábio Barreto.


**Remember:** Previously, *Brazil Focus* reported that Lula’s son, Luis Claudio Lula da Silva, had moved to Uruguay to “work” with a first division soccer team *(Juventud de Las Piedras)*. Reportedly,
Odebrecht channeled kickback/bribes to Luis Claudio’s firm Touchdown Promotions e Eventos Esportivos via deposits in overseas bank accounts – consistent with the plea bargaining testimony by Alexandrino Alencar.

See ➔ http://istoe.com.br/delacao-que-levou-o-cacula-de-lula-ao-uruguai/

1.2 – Municipal Elections

The “election battle” did not end with the second round on 30th October. The election courts still have to decide the “legal situation” [sub-judice] of candidates elected mayor in 146 towns and cities – before the final date for them to receive their “credentials” allowing them to take office on 1st January 2017.

1.2.1 – Federal Deputies elected in 2016

In 2016, 81 federal deputies ran for Mayor or Vice-Mayor and 18 were elected – 14 as Mayor and 4 as Vice-Mayor. On 1st January 2017, they will be replaced by their respective suplentes (alternates) who are next on the proportional representation list from the 2014 elections. Within these respective party coalitions, the next on the list might be from a party different from the deputy being replaced. Most of the federal deputies elected Mayor/Vice-Mayor will only resign their seats in the Chamber on 1st January 2017 – because they want to remain in the Chamber to defend their amendments in the 2017 budget proposal.

PMDB ➔ will lose two seats, 67➔65;
PSDB ➔ will also lose two seats 49➔47;
PT ➔ will lose one seat 58➔57;
PP ➔ will gain one seat 48➔49;
PR ➔ will gain one seat 42➔43;
PSD ➔ will gain two seats 36➔38;
PSB ➔ will gain one seat 31➔32;
DEM ➔ will gain one seat 25➔26;
PDT ➔ will gain one seat 19➔20;
PTB ➔ will gain one seat 18➔19;
PDDC ➔ will gain one seat 11➔12;
PPS ➔ will gain one seat 8➔9;
PSDC ➔ will gain one seat 0➔1.


1.2.2 – “Occupy PT”

In 2012, the PT elected 638 Mayors but in 2016 elected only 254. Of the 384 mayors “lost” by the PT – which parties “occupied” this space left by the PT? The answer ➔ 25 parties!!! The PT retained 109 of these towns and cites and won in another 145 municípios. As might be expected, the
PMDB (108) and the PSDB (95) “occupied” the majority of these cities. The other parties that also “occupied” cities “lost” by the PT were:

<table>
<thead>
<tr>
<th>Party</th>
<th>Ran for Reelection</th>
<th>Were Reelected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nanicos</td>
<td>59</td>
<td>PR</td>
</tr>
<tr>
<td>PP</td>
<td>51</td>
<td>PTB</td>
</tr>
<tr>
<td>PSD</td>
<td>45</td>
<td>PSC</td>
</tr>
<tr>
<td>PDT</td>
<td>35</td>
<td>PRB</td>
</tr>
<tr>
<td>DEM</td>
<td>35</td>
<td>SD</td>
</tr>
<tr>
<td>PSB</td>
<td>29</td>
<td>Undefined</td>
</tr>
</tbody>
</table>


1.2.3 - Reelection

In 2008, 76.9% of Mayor who could have run for reelection actually became candidates and this proportion declined slightly in 2012 (73.2%) and even more in 2016 (68.6%). Of the 2,945 Mayors who ran for reelection in 2016, 1,385 were actually reelected (47%). The question is then – which parties had higher proportions of reelection?

<table>
<thead>
<tr>
<th>Party</th>
<th>Ran for Reelection</th>
<th>Were Reelected</th>
<th>% Reelected</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSDB</td>
<td>431</td>
<td>229</td>
<td>53.1%</td>
</tr>
<tr>
<td>PSB</td>
<td>250</td>
<td>127</td>
<td>50.8%</td>
</tr>
<tr>
<td>PR</td>
<td>132</td>
<td>67</td>
<td>50.8%</td>
</tr>
<tr>
<td>PMDB</td>
<td>525</td>
<td>251</td>
<td>47.8%</td>
</tr>
<tr>
<td>PP</td>
<td>220</td>
<td>104</td>
<td>47.3%</td>
</tr>
<tr>
<td>PDT</td>
<td>188</td>
<td>88</td>
<td>46.8%</td>
</tr>
<tr>
<td>PSD</td>
<td>336</td>
<td>157</td>
<td>46.7%</td>
</tr>
<tr>
<td>PTB</td>
<td>138</td>
<td>64</td>
<td>46.4%</td>
</tr>
<tr>
<td>DEM</td>
<td>115</td>
<td>51</td>
<td>44.3%</td>
</tr>
<tr>
<td>PT</td>
<td>262</td>
<td>97</td>
<td>37.0%</td>
</tr>
</tbody>
</table>


See ➔ http://arte.folha.uol.com.br/graficos/gb6rc/ ?

Three parties had reelection rates over 50% (PSDB, PSB and PR). Six other parties had rates in the “mid-40s” and the PT had 37%. The PSD participated in municipal elections for the first time in 2012 and surprisingly elected 501 Mayors – the fourth largest number after the PMDB, PSDB and PT. Thus, in principle, ALL 501 mayors elected by the PSD in 2012 could have run for reelection, but only 336 became candidates. Of the latter, 157 (46.7%) were reelected.

A large part of the decision of a mayor to run for reelection depended on his/her perception of popular support/approval of their first term, and especially the perspectives for a second term.
1.3 – Lava Jato

On 31st October, Petrobras canceled its contract regarding the last off shore drilling rig operated by Schahin ➔ Vitória 10.000. Petrobras had already canceled five of its six contracts with Schahin which is one of the many firms involved in the Lava Jato investigation. With this action by Petrobras, Schahin will have increased difficulties in negotiating its financial recovery with its main creditor banks ➔ Mizuho, HSBC, Itau Unibanco and Santander.

Switzerland – Swiss prosecutors are on the offensive against Odebrecht. New plea bargaining testimony by Odebrecht executives has led to a new series of accusations by Swiss banks to MROS-Money Laundering Reporting Office. Last week a group of Swiss prosecutors and specialists were in Curitiba in meetings with the Lava Jato investigation team. The main objective is to discover who (which Swiss bank accounts) received bribe payments from Odebrecht sources. Reportedly, 1,000 bank accounts have been blocked in Switzerland with US$ 800 million in deposits.

See ➔ http://politica.estadao.com.br/noticias/geral,suica-faz-ofensiva-contra-odebrecht,10000086329

1.4 – STF deliberated “fate” of Renan Calheiros

On 3rd May (after the Chamber had approved the impeachment of Pres. Dilma), the STF suspended Dep. Eduardo Cunha (PMDB-RJ) from his post as President of the Lower House and also suspended his mandate as Federal Deputy. The “concept” used was that a person in the line of presidential succession who is accused (reu) in a case being deliberated at the STF should be suspended. At that time, Cunha was next in line to occupy the Presidency after then President Dilma Rousseff and Vice-President Michel Temer.

On 3rd November, answering a request from the Rede (party of Marina Silva) based on the same “concept” – that Senate President Renan Calheiros (PMDB-AL) is next in line of presidential succession after Chamber President Rodrigo Maia (DEM-RJ) and because Renan has some 12 cases before the STF should be suspended (as was the case of Cunha).

After 8 STF judges had voted (6 in favor of such a suspension – a majority), Judge Dias Toffoli pediu vistas (asked to study the case further) and the deliberation was postponed. Renan will be replaced by another senator as President of the Upper House on 1st February – hopefully another senator who does not have any accusations pending at the STF.

1.5 – PEC against Foro Previlegiado

Next week, on 9th November, Sen. Randolfe Rodrigues (Rede-AP) will read his (favorable) report regarding PEC 10/2013 that would abolish the so-called Foro Previlegiado that requires that Senators, Federal Deputies and Cabinet Ministers only be tried for penal crimes by the STF, instead of first level federal courts. Reportedly, this report will be voted on by the full CCJ the following week (16th November). If approved, this PEC would alter Articles 102, 105, 108 and 125 of the 1988 Constitution.
2 – FOREIGN RELATIONS & TRADE

2.1 – October Trade Surplus

The October trade surplus was US$ 2.346 billion and the ten-month accumulation in 2016 was US$ 38.527 billion – the largest surplus since 2006 (US$ 38.16 billion. In October 2016, exports totaled US$ 13.721 billion and imports were US$ 11.375 billion. The main reason for this surplus was a decline in imports ➔ down by -23.1% YoY in 2016, while exports declined only -5.1%. The prediction is that 2016 should have a trade surplus of US$ 48 billion. MDIC estimates the 2016 trade surplus at between US$ 45 billion and US$ 50 billion.

2.2 – Pres Temer met with Guterres & Sousa

In preparation for the XI Conference of the Community of Portuguese Speaking Nations (CPLP) in Brasília, on Monday, 31st October, Pres Michel Temer met with the UN Secretary-General elect Antonio Guterres and the President of Portugal Marcelo Rebelo de Sousa.

Temer explained the recent reforms being adopted in 2016 and planned for 2017. Pres. Sousa explained that in Portugal the days lost during strikes are not paid, but rather deduced fro the striking workers’ paychecks.

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 – ECONOMICS

5.1 – September public accounts

Primary Deficit ➔ September posted a primary deficit of -R$ 26.643 billion. The accumulated deficit in 2016 is now R$ 85.5 billion. The 12-month accumulation is now -R$ 188.32 billion. The Temer government “target” for 2016 is -R$ 170.5 – for the federal government.

Nominal Result ➔ In September, the nominal result was a deficit of -R$ 67.1 billion and -R$ 576.82 billion in the first nine months in 2016 (9.42% of GDP).
Public Debt ➞ Brazil’s public debt increased from R$ 2.63 trillion (43.3% of GDP) in August to R$ 2.69 billion (44.1% of GDP) in September.

5.2 – Industrial production

On 1 November, IBGE announced that industrial production had increased by +0.5% MoM (but -4.8% YoY) in September. Similar positive results were posted in March (+1.4%) and June (+1.6%). However, IP retracted by -5.5% in 3rd Q/2016 as compared with 3rd Q/2015. In the first nine months of 2016, the retraction was -7.8% and -8.8% for the 12-month period.

These results led MB Associados chief economist Sérgio Vale to revise his prediction for the 3rd Q/2016 GDP downward, from -0.1% to -0.9% and -3.1% ➞ -3.5% for 2016. IBGE should announce the GDP for 3rd Q/2016 on 30th November.