Brazil Focus –
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Weekly Report
Feb. 25-Mar. 3 2017

Looking Ahead ➔ What to watch for?

- 7th Mar.  -- IBGE ➔ GDP in 4th Q/2016 ➔
- 7th Mar.  -- IPU - ranked Brazil ___ on “Women in Parliament”
- 8th Mar.  -- FGV to post IGP-DI for February ➔ + %, versus + % in January
- 8th Mar.  – Ministers Osmar Serraglio & Aloysio Nunes to be sworn in
- 8th Mar.  -- International Women’s Day – 106th Anniversary
- 9th Mar.  -- IBGE -- IPCA data for February ➔ + % vs. + % in January
- 9th Mar.  -- Central Bank – FX flow in February ➔ -US$ billion
- 10th Mar. -- IBGE to announce retail sales in January ➔ - % MoM & - % YoY
- 12th Mar. – US to go on daylight-savings time
  ➔ returned to 1-hour time difference NYC/Brasilia
- 13th Mar. -- January INSS deficit ➔ -R$ billion
• 14th Mar. -- UNDP to release 2016 HDI-Human Development Index – Brazil ranked
• 14th Mar. -- Central Bank, IBC-Br for January ➔ -0.% MoM & - % YoY
• 15th Mar. -- IBGE to release PNAD unemployment data for 2016 ➔ %
• 16th Mar. -- IGP-10 ➔ + % versus + % in February
• 21st Mar. -- World Bank to release 2017 LPI-Logistics Performance Index
• 22nd Mar. -- Caged data for February, jobs lost (net)
• 23rd Mar. -- IBGE to release the IPCA-15 ➔ + %, versus + % in February
• 23rd Mar. -- IBGE to release PME unemployment data for February ➔ %
• 24th Mar. -- SRF ➔ February tax revenues R$ billion, - % YoY
• 24th Mar. -- PMDB to celebrate its 51st anniversary, MDB founded 24th March 1966
• 24th Mar. -- IBGE to release PNAD unemployment data for Nov-Dec-Jan ➔ %

1 - POLITICS

1.1 – Pres. Temer’s PMDB “quartet”

When Pres. Temer began his interim government on 12th May 2016, he recruited a “quartet” of PMDB “ stalwarts” to assist in maintaining governability – Sen. Romero Jucá (RR), Wellington Moreira Franco (RJ), Geddel Vieira Lima (BA) and Eliseu Padilha (RS). The first to be “ discarded” was Romero Jucá (Minister of Planning) before the end of May 2016 due to new corruption accusations. The next was Geddel Lima (Secretary of Government) because of pressures on the then Minister of Culture in November 2016. Moreira Franco was appointed by Temer to be Secretary of Private-Public Initiatives (with no ministerial status) – but in January 2017, Temer named him to be Secretary-General of the Presidency (ministerial status) in order to provide him with foro privilegiado because he has 34 accusations stemming from the Lava Jato investigations (soon to be denounced by the PGR). Finally, Eliseu Padilha who occupies the all-powerful Casa Civil post is accused of negotiating a large Caixa Dois “contribution” to the PMDB by Odebrecht in 2014. Padilha is recovering from prostate surgery (on 27th February) in Porto Alegre and it is possible that he will not return to the Casa Civil post.

The non-return of Padilha means that Pres. Temer himself will have to assume the political articulations in order to approve the Social Security Reform in the Chamber.

1.2 – Lava Jato

On 1st March, Judge John D. Bates (Washington, DC) ordered Braskem (the petrochemical branch of Odebrecht) to pay US$ 325 million within a collaboration agreement. This payment was divided in two parts ➔ US$ 65 million “up front” in March 2017 and US$ 260 million by 28th January 2018. Judge Bates validated the agreement between Braskem and the US Dept. of Justice and the SEC that had been signed in December 2016. He also obliged Braskem to maintain an “independent monitor” during 3 years to verify if the items in the compliance agreement are being implemented.
2 – FOREIGN RELATIONS & TRADE

2.1 – Temer appointed Sen. Aloysio Nunes to head Itamaraty

On Thursday, 2nd March, Pres. Temer’s spokesperson, Alexandre Parola, announced that the President had appointed Senator Aloysio Nunes Ferreira (PSDB-SP) to replace José Serra (PSDB-SP) as Foreign Minister. He will be sworn in on 7th March together with the new Minister of Justice – Dep. Osmar Serraglio (PMDB-PR).

In order to avoid possible “embarrassment” in Aloysio Nunes refused Temer’s invitation (as happened with the invitation for Carlos Velloso to be Justice Minister), the President first sent an “emissary” to sound out Sen. Nunes. After a positive response, Nunes met with Temer the morning of 2nd March before the “official” announcement was made.

Sen. Nunes Ferreira’s first suplente (alternate) is Airton Sandoval (PMDB-SP). In 2010, his inclusion on the slate as Aloysio’s alternate was via a PSDB-PMDB agreement after former Governor (and Senator) Orestes Quércia withdrew his candidacy for Senator because of health reason (cancer). Sandoval had served four terms in the Chamber of Deputies.

This appointment was for political reasons: 1) Maintain the PSDB in this cabinet position; and 2) Secure the PMDB in the presidential coalition to vote in favor to the critical/important reforms – Social Security and Labor Legislation.

Lava Jato ➔ Nunes was cited in the plea bargaining testimony by Ricardo Pessoa (UTC). Pessoa affirmed that he had channeled R$ 500.000,00 to his senatorial campaign in 2010 ➔ R$ 300.000,00 as Caixa Um (official campaign contribution and R$ 200.000,00 as Caixa Dois (off the books contribution). In 2014, Nunes was the Vice-Pres. running mate with Sen. Aécio Neves. If Aloysio Nunes wants to be reelected in the October 2018 elections, he would have to “step down” from the Foreign Minister post in early April 2018.

Sen. Aloysio Nunes Ferreira was President of the Senate Foreign Relations Committee (2015-2016) and has been a very close friend and colleague of José Serra for many years.
Aloysio Nunes Ferreira Filho was born in São José do Rio Preto, SP in April 1945. He began his political militancy at the USP Law School in 1963 and joined the PCB. He received his Law Degree in 1968. After the 1964 military intervention, he left the PCB and joined the ALN-Aliança Libertadora Nacional under the command of Carlos Marighella and Joaquim Câmara Ferreira (Toledo). Aloysio’s guerrilla codename was Mateus and he served as the “wheelman” (driver) for several ALN initiatives – train robbery in August 1968 and an armored car robbery in October 1968.

Because Nunes had already been convicted under the National Security Law to a prison term the ALN decided to send him to Paris on a false passport. He joined the French Communist Party in 1971 and considered going to Cuba for military training but the pregnancy of his wife persuaded him to remain in Paris.

With the general amnesty in August 1979, Nunes returned to Brazil and he joined the PMDB and was elected state deputy in 1982 and 1986. In 1990, he was elected Vice-Governor (Gov. Luiz Antonio Fleury Filho). In 1992, he was defeated in the election for Mayor of SP when the two main candidates were Paulo Maluf (elected) and Sen. Eduardo Suplicy.

In 1994, he was elected federal deputy and joined the PSDB in 1997. During the Cardoso government, Nunes was Secretary- General of the Presidency and Minister of Justice. During the mandates of José Serra and Gilberto Kassab as Mayor of SP (2005-2008), Nunes was a municipal secretary, and was Casa Civil chief under Gov. José Serra (2007-2010). In 2010, he was elected Senator from SP.

Aloysio Nunes said that he would try to enhance the relationship between Mercosul and the Pacific Alliance (Mexico, Colombia, Chile Peru and Costa Rica).


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http://brasil.elpais.com/brasil/2017/03/02/politica/1488482020_675478.html

http://oglobo.globo.com/brasil/no-itamaraty-aloysio-nunes-quer-pauta-economica-21005487


2.2 – February Trade Surplus

On 2nd March, MDIC released Brazil’s trade data for February ➔ a US$ 4.560 billion surplus, the best result for February since his data series began. Exports totaled US$ 15.472 billion (+22.4% YoY) and imports were US$ 10.912 billion (+11.8%). The YoY increase in imports reflected two factors – 1) A more favorable FX rate than in February 2016; and 2) Increased imports of intermediary capital goods for industrial production plus parts and components (a forecast for increased economic growth). The trade surplus in 2017 (January and February) is now US$ 7.285 billion – nearly double the US$ 3.958 billion for the same period in 2016. Exports to China were up by +78% and by +18.4% to Argentina.
2.3 – Use of Alcântara missile base

The Brazilian industrial sector is pressuring the Temer government to finalize the agreement that would allow the US to use the Alcântara base in Maranhão to launch satellites. In 2016, such launches yielded US$ 2.5 billion to the “host” nations.

2.4 – Roberto Azevedo reelected at WTO

Brazilian Ambassador Roberto Azevedo was reelected Director-General of the WTO on 28th February – at a moment when the US if threatening to distance itself from the organization. The Financial Times reported that the US is seeking alternatives (other than the WTO) to resolve its trade disputes – because the Trump government sees the WTO as having an “excessive bureaucracy” and acting contrary to US interests. Azevedo demurred regarding the US position vis-à-vis the WTO, saying that his US contact (Chief of the USTR) has yet to be confirmed.

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Petrobras sold US$ 2.2 billion in assets

On 1st March, Petrobras affirmed that on 28th February it had sold part of its exploration rights in Blocks BM-S-11 and BM S-9in the Iara oil field to the French Total for US$ 2.225 billion (US$ 1.675 in cash and the remaining US$ 400 million in a line of credit.

5.2 – Auto sales decline in February

On 1st March, Fenabrave announced that in February 135,663 vehicles (cars, light commercial vehicles trucks and buses had been sold versus 146,804 in February 2016 (-7.6% YoY). In January 2017, 147,208 units were sold (-7.8% MoM).

Once again, the Chevrolet Onix topped the list of largest selling models – followed by Hyundai HB20, Ford Ka, VW Gol and Renault Sandero.

5.3 – Caged – jobs lost in January
The new year 2017 began with 40,864 jobs lost according to *Caged* data released on 3rd March. This was the 22nd consecutive month with negative results. The last month with positive results was March 2015 when 19,200 new jobs were created. However, the January 2017 result was “better” than January 2016 when 99,694 jobs were lost.

In 2016, 1.32 million jobs were lost, “better” than the 1.54 million jobs lost in 2015. Economists predict that with the liberation of inactive FGTS funds and the reduction of the Selic rate the economy should improve and more new jobs should be created.