Brazil Focus –
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Weekly Report
April 22-May 5 2017

Looking Ahead ➔ What to watch for?

- 7th May – Second round Presidential election in France
- 8th May -- Central Bank to announce FX flow of US$ billion in April
- 8th May -- IBGE to post IPCA for April ➔ +0.% versus +0.% in March
- 8th May -- Fenabrave ➔ auto units produced in April, - % MoM & - % YoY
- 8th May -- FGV: April IGP-DI ➔ +0.% versus +0.% in March
- 9th May -- The 47th Annual Washington Conference on Americas, Washington, DC
- 9th May -- IBGE to announce unemployment in March ➔ %
- 10th May – New date for Lula’s interrogation by Judge Moro in Curitiba
- 11th May -- IBGE, retail sales for March, -0.% MoM & - % YoY
- 12th May -- IBGE, Services Sector data for March - % YoY & - % in 1st Q/2017
- 15th May -- Central Bank, IBC-Br for March ➔ 0.% MoM & 1st Q/2017
- 13th May -- Brazilian Abolition Day (1888) – not honored by Afro-Brazilians
- 15th May -- WEF, HCI-Human Capital Index to be released
- 16th May -- IGP-10 ➔ +0.%, versus +0.% in April
- 18th May -- SRF ➔ tax collections of R$ billion in April, - % YoY
- 19th May -- IBGE/PNAD, 1st Q/2017 unemployment ➔ %
- 22nd May -- IBGE: IPCA-15 ➔ +0.% versus +0.% in April
- 23rd May -- FGV-Ibre, Brazil’s GDP data in 1st Q/2017 (estimate)
- 25th May -- Caged data ➔ jobs lost in April
- 26th May -- Corpus Christi – national religious holiday
- 27th May -- Friday “enforcado” – informal holiday

1 - POLITICS

1.1 – New Datafolha Poll

On Sunday, 30th April the Folha de Sao Paulo published the latest Datafolha poll that was conducted on 26-27 April among 2,781 voters in 172 municípios with a 2-point margin of error. The previous Datafolha poll was conducted on 7-8 December 2016.

FIRST ROUND SIMULATIONS:

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>(1)</th>
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<th>(5)</th>
<th>(6)</th>
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<td>30%</td>
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<td>14%</td>
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<td>14%</td>
<td>16%</td>
<td>11%</td>
<td>23%</td>
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<tr>
<td>Marina (Rede)</td>
<td>14%</td>
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<td>16%</td>
<td>20%</td>
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<td>3%</td>
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<td>E. Jorge (PV)</td>
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<td>J. Barbosa (None)</td>
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<td>L. Huck (Sem)</td>
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This poll shows some important simulation (1) changes from December 2016: 1) Lula increased 25%➔30%; 2) Dep. Jair Bolsonaro (PSC-RJ) increased 9%➔15%; 3) Marina Silva decreased slightly, 15%➔14%; 4) Aécio Neves (PSDB) declined 11%➔8%; and 4) Ciro Gomes
(PDT) was stable at 5%. Different from the December 2016 poll, Sen. José Serra (PSDB-SP) was not included in the April 2017 poll.

This poll shows the “crisis” of the tucanos (PSDB) where pre-candidates Neves (MG) and Alckmin (SP) have declined due to accusations against them in the Lava Jato investigation, plus the train/subway cartel accusations in SP. The current mayor of SP, João Doria (with “clean” court records ➔ Ficha Limpa), who defeated the PT on the first round in October 2016, appears to be best PSDB pre-candidate.

In this April poll, Datafolha including several “undeclared” candidates with no party linkage ➔ Judge Sérgio Moro, Joaquim Barbosa (ex-STF) and Luciano Huck (TV Globo).

Among the “declared” pre-candidates, Lula had the highest rejection rate (45%) and João Doria (PSDB) the lowest (16%).

### SECOND ROUND SIMULATIONS:

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<td>43%</td>
<td>38%</td>
<td>40%</td>
<td>43%</td>
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<tr>
<td>Aécio (PSDB)</td>
<td>27%</td>
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<td>- -</td>
<td>21%</td>
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<tr>
<td>Alckmin (PSDB)</td>
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<td>Marina (Rede)</td>
<td>- -</td>
<td>41%</td>
<td>- -</td>
<td>- -</td>
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<td>42%</td>
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<td>- -</td>
<td>31%</td>
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<td>Doria (PSDB)</td>
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<td>32%</td>
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<th>Candidate/Party</th>
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<tr>
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<td>Aécio (PSDB)</td>
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<td>Alckmin (PSDB)</td>
<td>22%</td>
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<td>28%</td>
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<tr>
<td>Bolsonaro (PSC)</td>
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<tr>
<td>Doria (PSDB)</td>
<td>- -</td>
<td>24%</td>
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<td>29%</td>
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<tr>
<td>Ciro (PDT)</td>
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<td>24%</td>
<td>36%</td>
<td>34%</td>
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These 2nd round runoff simulations show that Marina Silva (Rede) would defeat Lula by 3 p.p., and Sérgio Moro could also defeat Lula by 2 p.p. ➔ both within the margin of error for this poll. Doria with 32% (vs. Lula) would do better than Aécio (27%) and Alckmin (29%).

1.2 – Lula’s interrogation postponed
Attending the considerations by the Federal Police, Federal Judge Sérgio Moro postponed his interrogation of Lula from 3rd May to 10th May. The Federal Police need more time to organize the “security” for this event in Curitiba – because 3rd May is right after the 28th April national general strike 1st May Labor Day popular mobilizations in Brazil.

1.3 – Lava Jato

On 4th May, the Federal Police launched Operation Asfixia – the 40th phase of the Lava Jato investigation and carried out 16 search-and-seize warrants, two for preventative arrest, two for temporary arrest and five for coercive testimony – in Rio, São Paulo and Minas Gerais. The arrests included Márcio de Almeida Ferreira, Marivaldo do Rozário Escalhone, Paulo Roberto Gomes Fernandes and a person identified as Joelma.

The target of this investigation was some R$ 48 million that had been “repatriated” from the Bahamas under the guise of real estate sales. These funds were obtained via bribes paid to former Petrobras managers. This operation had continued through 2016 (very recent). The total bribes involved some R$ 100 million. These “managers” were with the Petrobras Oil & Gas sector. The financial operators of this scheme are also being investigated.

The recent Datafolha poll showed that 45% of those interviewed felt that corruption in Brazil will diminish after the Lava Jato investigation is completed, while 44% said “continue the same” and 7% said corruption will increase. Regarding the cabinet ministers accused of corruption, 82% said that Pres. Temer should replace them.

1.3.1 – Case at TSE

The TSE has been taking testimony from Lava Jato plea bargaining witnesses regarding the illicit finance of the Dilma-Temer presidential slate in 2014.

On 24th April, Monica Moura (partner and wife of João Santana, who ran the 2014 and 2010 PT presidential and 2012 municipal campaigns) gave testimony at the TSE. She affirmed categorically that then Pres. Dilma Rousseff in some 5 hours by TV hookup from the TRE-BA that the Caixa Dois payments for their marketing duties were decided in a meeting with Pres. Dilma in her Planalto Palace office with the presence of then Finance Minister Guido Mantega who would take of the details. Moura revealed that the marketing in 2014 had a total cost of R$ 105 million – R$ 70 million legally reported to the TSE and R$ 35 million via Caixa Dois (off the books financing).

Dilma’s e-mails: In her plea bargaining, Monica Moura (wife and partner of João Santana, Dilma’s election marketing team) affirmed that she and Pres. Dilma had a special e-mail communication scheme Using “drafts” rather than complete e-mails) that she and Marcelo Odebrecht used to communicate with Dilma. Moura affirmed that Dilma advised them that the Lava Jato investigation was “getting close” to them. As a result, the Lava Jato task force is now investigating whether then Pres. Dilma used the e-mail system at the Alvorada Palace and/or the Planalto Palace to operate this e-mail scheme.

1.3.2 – Leo Pinheiro
On 20th April, Leo Pinheiro, the former CEO of the OAS construction firm (and a “dear friend” of Lula, gave another segment of plea bargaining testimony before Judge Sérgio Moro in Curitiba (where Pinheiro is under temporary arrest). He explained that OAS had paid Lula US$ 1 million for five speeches at OAS organized events. He also explained in detail the “facts” related to Lula’s alleged ownership of the triplex apartment in Guarujá, SP. He explained that the renovation and “improvements” of this triplex were very expensive and came from contract overpricing on the Abreu e Lima refinery (Pernambuco) via Petrobras (illicit funds). He also explained that the triplex was placed in Lula’s name, but after the Lava Jato investigations began this property was “reverted” to OAS and Lula’s ordered him to destroy all the documentation (which apparently he did not do).

Want more? ➔ Persons close to the plea bargaining by Leo Pinheiro and other OAS executives affirm that for the first time judges will be accused ➔ two judges on the STJ, Benedito Gonçalves and Humberto Martins – for “services rendered” (decisions that favored OAS). Martins’ son Eduardo Felipe received the “bribe” for his father – he has a law office in Brasília and argues cases before the STJ. The “relationship” between Leo Pinheiro and Benedito Gonçalves had already been investigated by the CNJ-External Control for the Judiciary.


1.3.3 – The Colour of Corruption

This week an internet site – “The Colour of Corruption” – was organized as a tool for Brazilians to track the dirty records of all politicians to ascertain who is corrupt (with court cases filed against them) and who is “clean”. This new “tool” is described in an article published by The Guardian by Dom Phillips and Jonathan Watts.

See ➔ https://www.theguardian.com/world/2017/apr/27/brazil-fightback-corruption-colour-plug-in

1.3.4 – Eike Batista

Once one of Brazil’s richest entrepreneurs, Eike Batista’s enterprises went bankrupt and he returned to Brazil (from the US) to answer corruption charges regarding bribes paid to secure contracts with the Rio de Janeiro and federal governments. His arrest was ordered by 7th circuit Federal Judge Marcelo Bretas in Rio de Janeiro and he was sent to the Bangu prison in January 2017 – awaiting his decision to begin plea bargaining. However, on Friday, 28th April, STF Judge Gilmar Mendes issued a habeas corpus ordering Batista’s release that occurred on Sunday, 30th April. BUT Federal Judge Marcelo Bretas determined the “conditions” for Batista’s house arrest ➔ within five days he would have to deposit R$ 52 million in bail or return to jail. This was an effort to ascertain where Eike Batista has his financial assets “hidden”. Also, Judge Bretas determined that Batista could not resume the administration of his businesses, only receive relatives and his lawyers, have no contacts with other persons under investigation, deliver his Brazilian and German passports to the judge, and open secrecy on his telephones. His lawyers affirmed that Eike Batista has “no available assets” to post bail.

1.3.5 – STF granted habeas corpus for José Dirceu
On Tuesday, 2nd May, on a close 3-to-2 vote, the second working group of the STF granted *habeas corpus* for José Dirceu, the most “notorious” PT militant convicted and imprisoned in Curitiba by Judge Sérgio Moro in the *Lava Jato* investigation. **Remember:** Dirceu had already been convicted and sent to prison by the STF in the *Mensalão* case – but was a repeat offender in the Petrobras corruption/bribery scandal. The three STF judges who voted in favor of Dirceu were Gilmar Mendes, Dias Toffoli and Ricardo Lewandowski. However, Judge Sérgio Moro decided that Dirceu would have to wear an electronic GPS anklebracelet and have his house arrest (in Brasília under severe vigilance – no contacts with other persons accused by the *Lava Jato* investigation, no travel outside of Brasília, and regular contacts with courts in Brasilia).

It is possible that other figures under arrest in Curitiba — Antonio Palocci and Eduardo Cunha - - for example, might also request *habeas corpus* at the STF and thus avoid plea bargaining. It is also possible that the PGR might press for the full Supreme Court to review this decision to release Dirceu. It is possible that the other 6 STF judges might revoke this decision.

Also, the Temer Government fears that now the PGR might retaliate against the one-third of Temer’s cabinet already accused at the STF.

This “conflict” involving the STF, the 4th TRF, the PGR, the federal prosecutors in Curitiba, first level judges in Curitiba, SP, RJ and Brasília, plus the Federal Police is considered “very grave” and might have a very negative impact on the whole *Lava Jato* investigation.

Others feel that this decision to release Dirceu was not targeting Antonio Palocci, but rather impinging on the direct interrogation of Lula by Judge Sérgio Moro scheduled for next Wednesday, 10th May.

Palocci was indeed contemplating a massive plea bargain and had hired lawyers with experience in other plea bargaining episodes. **However,** after the STF released José Dirceu, Palocci dispensed with these lawyers – apparently in hopes that the STF would grant his *habeas corpus* request. For this reason, Judge Fachin decided to “bypass” the STF second working group and take Palocci’s request directly to the full STF. ➔ Stay tuned!!!

Currently, the *Lava Jato* investigation has 20 accused/convicted by Judge Sérgio Moro under arrest in Curitiba awaiting a second level court decision by the TRF-4 in Porto Alegre (including João Vaccari Neto, Marcelo Odebrecht, Eduardo Cunha and Antonio Palocci. The case of José Dirceu was opened at the TRF-4 on 29th August 2016 and is being analyzed by Judge João Pedro Gebran Neto. Reportedly, this TRF-4 judge is nearly almost to present his report to the full TRF-4. If Dirceu’s conviction is upheld by the TRF-4, he would have to return to prison. So far, the TRF-4 has received 18 appeals for convictions by Judge Sérgio Moro and four were deliberated in 2016 and the regional court promises another nine in 2017. However, some of these appeals worsened the situation of those convicted ➔ Nestor Cerveró had been sentenced to 12 years in prison, but the TRF-4 increased his sentence to 27 years. Fernando Baiano had his 16-year sentence increased to 26 years.

**Want More?** ➔ Reportedly, STF Judge Edson Fachin is not willing to “risk” any more *habeas corpus* appeals to the second working group where his “colleagues” decided to release José Dirceu. He has already decided to deny the *habeas corpus* request and has sent it to the full STF (bypassing the second working group) for a decision.
Want Still More? ➔ On 4th May, Paraná Pesquisas released a poll with 67.8% of the 2,555 interviewed against the release of José Dirceu buy the STF, 26.2% were favorable and 6% had “no opinion”.

➔ Stay tuned!!!

1.3.6 – Swiss Courts

Swiss penal court is investigating suspected bribes paid via contracts for the Abreu e Lima refinery (Pernambuco) and the Pasadena refinery (Texas). Reportedly some US$ 50 million was “discovered”.

1.4 – MG First Lady indicted

On 24th April, the Federal Police indicted Carolina Pimentel, wife of MG Governor Fernando Pimentel (PT) – within its Operation Acrônimo that began in May 2015. Also indicted were Marco Antonio Teixeira (Casa Civil Chief), Helvécio Magalhães (state Planning Secretary), Antonio Maciel (ex-President of Caoa, Elon Gomes (President of the Grupo Aliança), and Vitor Nicolato (marketing specialist linked to Benedito de Oliveira, Benê, a close dear friend of Gov. Pimentel.

This alleged “scandal” began during Dilma’s first term (2011-2014) when Pimentel was her cabinet minister (MDIC) when he approved several “deals” that favored Caoa and other business interests in return to Caixa Dois contributions to his 2014 campaign for governor. Benedito de Oliveira had already done detailed plea bargaining testimony.

Carolina Pimentel is accused of using her business in Brasília in order to launder these illicit funds. Parte inferior do formulário

However, on 3rd May, the STF decided that governors can be tried/prosecuted/convicted by the STJ without authorization of the respective state legislature. This means that Pimentel will be soon tried by the STJ and other governors may also be tried directly by the STJ. BUT the STF ruled that the suspension of the governor from office during the STJ trial is not “automatic” when the case is accepted for trial by the STJ, but the STJ can decide this point case by case. Detail: Eleven other governors have cases under deliberation at the STJ ➔ SP, RJ, PR, ES, GO, MA, SC, TO, AL, RN and AC.
1.5 – Adriana Anselmo, Leblon ➔ Bangu

On Wednesday, 26th April, the TRF-1 (Regional Federal Court in Rio) reversed its decision to remit Adriana Ancelmo (the wife of former RJ governor Sérgio Cabral) to house arrest (at her apartment in Leblon) and remove her from prison in Bangu ➔ and sent her back to prison. The TRF-1 responded to the request by federal prosecutor Silviana Batini who affirmed that she might destroy evidence and try to hide assets.

1.6 – Carlos Chagas dead at age 79

Considered the “Dean” of Journalism” in Brasilia, Brazilian journalist, commentator and professor Carlos Chagas died of an aneurism of the aorta on 26th April. He was born in Três Pontas, MG in May 1937 and completed his law degree at PUC-Rio. While still a law student he decided on a journalism career in 1959 at O Globo in Rio. In 1966, he became the press spokesperson for Gov. Negrão de Lima (PSD ➔ MDB who was elected in the October 1965 direct elections). In 1967, he became the press spokesperson for Pres. General Arthur Costa e Silva, until the latter suffered a stroke of some sort in August 1969 and was replaced by a military junta. Chagas returned to journalism and his series of articles was later published as 113 Diárias de Angústia. In the 1970s, he was the chief of the office of the O Estado de São Paulo in Brasilia and became a professor in the Communications Dept. at the University of Brasília. Chagas also was part of the team that installed the Manchete TV branch in Brasília in 1983. After the demise of this network in 1999, Chagas switched to the CNT branch in Brasília where he had a weekly program – Jogo do Poder.

In addition to 113 Diárias de Angústia, Chagas also published O Brasil sem Retoque (1808-1964); Carlos Castelo Branco: O Jornalista do Brasil; A Guerra das Estrelas; Revolução no Planalto; and Resistir é Preciso.

On 28th February 2004, Carlos Chagas “broke” a story of what became the Mensalão one year later (in 2005) that caused the demise (cassação) of Pres. Lula’s all-powerful Casa Civil Chief, José Dirceu.

Carlos Chagas had two daughters: 1) Helena Chagas, who was Pres. Dilma’s communication chief (2011-2014) – the same function as her father with Pres. Costa e Silva -- and a reporter with O Globo. She also was a permanent staffer at the Brazilian Senate in the area of political communication, as well as the TV Brasil, SBT, and was press coordinator for Dilma Rousseff’s presidential campaign in 2010; and 2) Claudia Maria Chagas, who was a staff advisor to Carlos Mário Velloso at the TFR and STF, and in 2003 became National Secretary of Justice at the Justice Ministry in 2003 (under Márcio Thomaz Bastos) and then a member of the CNMP-External Control Council for public prosecutors in 2009. She also was Director-General of the MPDFT training school in Brasilia.
1.6 – Protests ➔ 28th April & 1st May

These protests against the Reforms (Labor Legislation and Social Security) were large, especially in Rio and SP – with some violence perpetrated by the so-called Black Blocs and organized crime groups (PCC & Comando Vermelho). Several buses were burned in Rio and due to a lack of funds to hire more police (PMs), the Justice Ministry agreed to send a contingent of the National Security Force to Rio to reinforce public safety/security there.

1.7 – TSE removed Amazonas governor

On Thursday, 4th May, the TSE voted 5-to-2 to remove (cassar) the governor and vice-governor of Amazonas – José Melo (PROS) and Henrique de Oliveira (SD) – confirming the decision by the TRE-AM. They were accused of buying votes in their October 2014 elections. With the removal of Melo and Oliveira, the President of the state legislature, Dep. David Almeida (PSD) will assume the governorship until new direct elections will be organized by the TRE-AM, probably within 90 days. This case could have repercussions with other state governors under deliberation by the TSE.

1.7.1 – Paraiba, next in line??

The PGR claims that it has enough evidence to request the removal (cassação) of Gov. Ricardo Coutinho (PSB) for abusive use of the state administration during his reelection campaign in 2014. The TRE-PB (the majority of judges appointed by Coutinho) absolved him, but the PGR is now appealing to the TSE.

2 – FOREIGN RELATIONS & TRADE

2.1 – Encounter – Pres. Temer and Spanish PM Rajoy

Spanish Prime Minister Mariano Rajoy had a quick encounter with Brazilian President Michel Temer pm Monday 24th April. Rajoy was en route to SP to participate the Brazil-Spain Forum. After SP, Rajoy also visited Uruguay – in an effort aimed at accelerating the EU-Mercosul free trade agreement.

2.2 – April Trade Surplus

On Tuesday, 2nd May, MDIC released the data for Brazil’s Trade Surplus for the month of April ➔ US$ 6.969 billion – the largest April result since this data series began in 1989. In April 2016, the trade surplus was US$ 4.86 billion. Exports totaled US$ 17.686 billion and imports were US$ 10.717 billion. The accumulated January-April trade surplus is US$ 21.38 billion versus US$ 13.25 billion for the same period in 2016.
This increased trade surplus is not related to the quantity of exports (up only +0.3%), but rather the prices of exports (up by +22.1%).

Analysts predict that the 2017 trade surplus will reach US$ 53.15 billion. MDIC predicts a surplus of US$ 55 billion. The Central Bank’s prediction is US$ 51 billion.

2.3 – Lula’s French submarine “deal”

During his second term, Lula (contrary to the Brazilian Navy’s opinion) decided to buy FIVE French Scorpène class submarines – considered to be “second rate” as compared to the German submarines that the Brazilian Navy favored and were already using.

Without any tendering, Odebrecht was “selected” to “implement” this initiative together with the French DNSC. This acquisition cost R$ 31 billion with R$ 3.3 billion profits for Odebrecht. One Odebrecht official testified that this operation involved R$ 17 million in bribes for the PT. Apparently, “Almirante Braga” [retired Navy Captain Carlos Henrique Ferreira Braga] was involved in this “scheme”.


2.4 – Paraguay assault ➔ US$ 40 million

In the early (wec) hours of Monday, 24th April, a group of some 30 thieves attacked an armored car garage (Prosegur) in Ciudad del Este, Paraguay with powerful explosives that blew open this garage. Earlier that evening, this same group set some 13 vehicles afire to distract the Paraguay police. This possibly was the larges robbery in the history of Paraguay and allegedly had members of Brazil’s powerful organized crime group (PCC) involved with some Paraguayan colleagues. In the initial confrontation with the local Paraguayan police, one officer was killed and four injured. The police discovered that this gang used drones to survey the planned attack site. This gang was sophisticated to the extent that it had a number of armored vehicles as well as boats to cross the river between Paraguay and Brazil.


http://g1.globo.com/mundo/noticia/assaltantes-de-transportadora-de-valores-no-paraguai-sao-brasileiros-diz-ministro.shtml


2.5 – Venezuela to withdraw from the OAS

As the OAS nears the convocation of a general assembly to censure the government of Pres. Nicolas Maduro, Venezuela has warned that it will formally withdraw from the OAS because the US has induced the OAS member states to intervene in Venezuela’s internal affairs. **Remember:** Recently, Mercosul suspended Venezuela because it had not complied with the organizations statutes.

2.6 – Paraguay desisted its reelection amendment

This week, Paraguay decided to end the deliberation of a constitutional amendment to allow one immediate reelection of presidents. This measure was hastily approved by the Senate, but severe and violent protests attacked the Congress building and this convinced Paraguayan leaders to end this process.

3 – REFORMS

3.1 – Social Security Reform

In an effort to mobilize support for the approval of this reform (PEC) – first in the Chamber Special Committee and then the full Chamber (308 votes needed) – Pres. Temer met with Chamber government bloc leaders, cabinet ministers and his close advisors at the Jaburu Palace for three hours on Sunday, 23rd April. The idea was to “map” those deputies pro-, against and undecided *vis-à-vis* this reform in order to work diligently to persuade deputies in favor to the modifications already applied to the original proposal in the report drafted by reporter Dep. Arthur Maia (PPS-BA). The committee vote scheduled for 27th April was postponed because of the “hangover” from the Labor legislation reform vote the day before and because of the looming threat of a massive national strike planned for the following day - Friday, 28th April.

**However,** on Wednesday, 3rd May, the Chamber Special Committee approved the “final” version of this reform by a 23-to-14 vote. Now, this proposed reform will go the full Chamber for additional discussion and vote. **BUT** the session of this special Chamber committee was invaded by irate penitentiary guards who were not included in a reduced age retirement category like federal police, etc. – with considerable violence. The day before, the same militant group invaded the Ministry of Justice. Probably, this nasty action at the Chamber will enhance the number of deputies who will vote in favor of this reform proposal. The Committee will finish its report on 9th May.

In the recent *Datafolha* poll (See Item 1.1), 71% were against the social security reform (60% against the 40-year minimum contribution and 27% against the minimum age for men (65).
3.2 – Labor Legislation Reform

After the regime of urgency was approved for this measure by the Chamber, it was put to a vote by the full Chamber on Wednesday, 26th April. In an effort to block this vote, the PCdoB filed an injunction request at the STF that was denied.

This vote was seen as a “preview” for the vote on the Social Security Reform later (perhaps in May or June) – where a minimum of 308 votes will be necessary for the approval of this PEC.

This Labor Legislation reform was approved by 296 votes (12 less than would be necessary for the social security PEC. The government cabinet ministers, leaders and Pres. Temer’s key staff fell short of the “magic” 308 in this trial run. The government support bloc in the Chamber counts 382 deputies, but 82 (22.5%) voted against the Labor Legislation Reform. Of the 473 deputies present and voting, 177 voted “No” and 296 voted “Yes” – with 39 absent. The PSB was divided (14-to-16) in spite of this party having “closed the question” against this reform. The PDT reaction was swift and violent. The PDT national President Carlos Lupi summarily (ad referendum) expelled Dep. Carlos Eduardo Cadoca (PE) who had “dared” to vote in favor of this reform. Some called this a “betrayal”, and now the government leaders must re-double their mobilization efforts in the next weeks. The blog “Congresso em Foco” listed this nominal vote, by party and by state. Immediately after this crucial vote, the Temer government met to begin deciding how to “treat” these dissident deputies.


This Labor Legislation Reform Package must now be approved by the Senate – that is presumed to be forthcoming shortly. However, PMDB floor leader Renan Calheiros has vowed total opposition to this reform in the Senate. PMDB floor leader, Sen. Renan Calheiros (PMDB-AL) has kept his promise to oppose the Temer government’s reforms and maneuvered so that this labor legislation reform (already approved by the Chamber) will now have to be deliberated by three committees in the Senate. Reportedly, a considerable group of PMDB senators are very upset by Calheiros machinations and want to remove him as PMDB floor leader. These PMDB Senators also complain that Calheiros’ articulations and manipulations have impeded the installation of the Joint Budget Committee ➜ Stay tuned!!

In the recent Datafolha poll (See Item 1.1), 58% affirmed that the majority of workers would lose their basic rights.


3.3 – Abuse of Authority

On 26th April, after several controversial points were removed the proposal reported by Sen. Roberto Requião (PMDB-PR) that would punish “Abuse of Authority” by judges, prosecutors, police,
etc. was approved by the Senate CCJ. The CCJ vote was unanimous. This Senate committee is “loaded” with senators who are accused by the PGR and some of whom are even considered réus at the Supreme Court.

3.3.1 – Senate President “fainted”

Shortly after this senate vote on Wednesday evening, 26th April, Senate President Eunício Oliveira) PMDB-CE) suffered a “fainting spell” and was rushed to the Santa Lúcia Hospital in Brasília and admitted to the ICU. Later, his doctors could not confirm that he had suffered a “stroke” according to the tests they had administered.

3.4 – Fiscal recovery for bankrupt states

On 25th April, the Temer government suffered a defeat on the final votes regarding the financial recovery of bankrupt states. The Chamber defeated on of the counterpart measures that would have obliged these states to increase the pension fund contribution of the employees of these states from 11% to 14%. Now these counterpart measures will have to be imposed (negotiated) by the finance Ministry.

3.5 – Senate CCJ approved end of Foro Privilegiado

On Wednesday, 26th April, the Senate CCJ approved a PEC that would remove the application of the Foro Privilegiado for senators, deputies, governors, cabinet ministers and other authorities regarding “common crimes” (including murder) and corruption. This was a first round vote on this PEC.

In spite of this Senate decision, STF President Cármen Lúcia affirmed that the date for the Supreme Court to decide regarding the Foro Privilegiado was maintained for 31st May.

4 – PRIVATIZATION & REGULATION

4.1 – Auction transmission line concessions

On 24th April, ANEEL promoted a concessions auction for 35 different electricity transmission lines; four had no bids, 31 concessions were acquired (for a total of R$ 12.7 billion) – some with quite high over-price, +34.47% on average. Several foreign groups acquired these concessions – Cteep (Colombia), Elektro (Spain), EDP (Portugal), and Sterlite Power Grid (India). The largest overprice bid was 58.86%, and the lowest was 4.9%.


4.2 – HNA-Changi bought Odebrecht’s share in Galeão
On Monday evening, 24th April, the Secretary-General of the Temer presidency, Wellington Moreira Franco (former SAC secretary), announced that Odebrecht had sold its share in the privatized Galeão Airport concession to the Chinese group HNA-Changi. This group became known in Brazil last year when it invested US$ 450 million in Brazil’s Azul airline. Apparently, this transaction will help the Galeão concession group pay its concession installments in arrears – and avoid government intervention in this concession.

4.2.1 – Odebrecht sold environment division

In an effort to resolve its tight cash flow problems, on 25th April Odebrecht sold its environment division to the Canadian Brookfield for R$ 2.9 billion.

4.3 – Chamber approved MP for concessions

On 2nd May, the Chamber approved MP 752/2016 that established rules for extension (renewal) of transportation concessions in exchange for new investments. On 4th May, the Senate approved this MP by a 48-to-19 vote.

4.4 – Pre-Salt Auctions in October

The government had considered having TWO auctions, in September and November, but has now decided to hold ONE concession auction on 27th October – to coincide with the Brazilian edition of the OTC-Offshore Technology Conference. These auctions will be a “test” for the new model proposed by the Temer government to remove the obligatory participation of Petrobras in these exploration activities. These will be the first such pre-salt auctions since 2013 when sites in the Libra field yielded R$ 15 billion.


5 - ECONOMICS

5.1 – Public Debt

On 24th April, the STN announced that the stock of Brazil’s public debt had increased by +3.17% from R$ 3.134 trillion in February to R$ 3.234 trillion in March. This included domestic and foreign debt. The average due dates decreased from 4.63 years to 4.54 years. The share of this debt in the hands of foreign investors declined from 13.66% to 13.26%. In February, this share was R$ 412.56 billion.

5.2 – Federal Revenues in March
On 26th April, the SRF reported that federal revenues in March were R$ 98.99 billion (+7.2% MoM and -1.16% YoY). Federal revenues totaled R$ 328.74 billions in 1st Q/2017 (+0.08% YoY). In February 2017, revenues were R$ 92.35 billion.

In March, Brazil posted a positive current account result == +US$ 1.4 billion. This was the best March result since 2005 (+US$1.72 billion). However, 1st Q/2017 posted a current account deficit of -US$ 4.62 billion.

FDI – Foreign Direct Investments in March totaled US$7.11 billion and US$ 23.94 billion in 1st Q/2017. The 12-month accumulation of FDI is now at US$ 85.939 billion (4.62% of GDP).

Foreign Travel expenditures by Brazilian tourists increased to US$ 880.2 million in March due to an improving economy and a more favorable exchange rate. In 1st Q72017, the total was US$ 2.8 billion, more than double the amount posted in 1st Q/2016. In March 2017, the US$ floated around R$ 3.16, but in March 2016 the FX rate was R$ 3.55.

In 2016, the fiscal deficit was -R$ 154.2 billion (the largest in 20 years) and -R$ 115 billion in 2015. The 2017 “target” is a fiscal deficit of -R$ 139 billion. However, analysts with financial institutions estimate that this deficit might reach -R$ 149.64 billion in 2017

5.3 – March Public Accounts

On 27th April, the STN released data for the primary deficit for the central government: R$ 11.061 billion – the worst result for March since 1997. The 1st Q/2017 result was R$ 18.297 billion, also the worst result since 1997.

5.4 - SELIC

On 26th April, STN – Ana Paula Vescovi – affirmed that the recent decision to reduce the TJLP (Long Term Interest Rate) from 7.5% to 7.0% per year will provoke a reduction in the basic Selic rate of between 0.5 and 1.0 p.p.

5.5 – IGP-M negative in April

On 27th April, the FGV released its data for the IGP-M in March, -1.10%, from +0.01% in March. Wholesale prices showed the strongest decline. This inflation index is used to index rent readjustments in Brazil.

<table>
<thead>
<tr>
<th>IGP-M Components</th>
<th>March</th>
<th>April</th>
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<tbody>
<tr>
<td>IPA (Producer Prices)</td>
<td>-0.17%</td>
<td>-1.77%</td>
</tr>
<tr>
<td>IPC (Consumer Prices)</td>
<td>+0.38%</td>
<td>-0.33%</td>
</tr>
<tr>
<td>INCC (Construction Costs)</td>
<td>+0.36%</td>
<td>-0.08%</td>
</tr>
<tr>
<td>IGP-M</td>
<td>+0.01%</td>
<td>-1.10%</td>
</tr>
</tbody>
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5.6 - Unemployment
On 28th April, IBGE released its continuous PNAD survey employment data for the January-March period ➔ 14.2 million unemployed (13.7%). This was a large increase from the 12.0% unemployed in 4th Q/2016 and 10.9% in 1st Q/2016. Average income was R$ 2.110 considered more or less “stable” by IBGE (discounting inflation) **versus** R$ 2.059 in 1st Q/2016.

**5.7 – Supermarket sales declined**

On 2nd May, Abras- Brazilian Association of Supermarkets released data showing that sales had declined by -1.5% (YoY) in 2016. The exception was São Paulo where sales increased by +1.1%. Abras attributed this decline to increased unemployment in 2016.

**5.8 – Better economic perspectives**

Several indicators show that Brazil’s economy should show definite signs of improvement in 1st Q/2017 ➔ grain harvest (+2.4%), CNI confidence by industry (+5.5%), Anfavea auto production (+1.7%) and production of cardboard packing boxes (+3.8%)

**5.8.1 – “The Economy should Improve”**

For the first time since 2014, the recent *Datafolha* poll had a slight majority (35%) who thought that “Brazil's economy should improve”, where as 31% said “get worse”, and another 31% said “stay the same”.

**5.8.2 – Economic predictions**

Several economic indicators for Brazil’s GDP in 1st Q/2017 are positive: 1) the Central Bank’s IBC-BR (+1.3%); 2) PMS-Monthly Survey of Services Sector (+0.7%); and 3) Projection by Central Bank *Focus* (+0.43%). The government’s projection is +0.7%. IBGE should release the official GDP data for 1st Q/2017 on 1st June. In March, the number of domestic airline passengers was up by +3.6%. However, Finance Minister Henrique Meirelles cautioned that the GDP result for the 2nd Q/2017 might be negative.


**5.9 – Industrial Production declined in March**

On 3rd May, IBGE released its IP data for March ➔ -1.8% MoM but +1.1% YoY. The largest MoM decline was in consumer durables (-8.5%) and the smallest decline was in semi- and non-durables (-1.8%). The 1st Q/2017 had an increase of +0.6% with a 12-month accumulation of -3.8%. This positive result in 1st Q/2017 was the first in eleven quarters.

**5.10 – Auto production**
According to Anfavea, Brazil produced 191,069 units in April (+11.4% YoY but -18.8% MoM). The January-April accumulation was 801,600 units (+20.9% YoY). In April, 156,894 units were sold (-3.7% YoY). In this same four-month period, Brazil extorted 232,192 units (+64.2% YoY).