Looking Ahead ➔ What to watch for?

- **12th June** – PSDB should decide whether to leave Temer support coalition
- **12th June** – St. Anthony’s Day – St. Valentine’s Day in Brazil
- **14th June** – IBGE, April retail sales data +0.% MoM but - % YoY
- **15th June** – *Corpus Christie* – national religious holiday
- **16th June** – Friday “feriado enforcado” – informal holiday
- **18th June** – IBGE, April retail sales data +0.% MoM but - % YoY
- **18th June** – *Caged* data ➔ jobs lost in April
- **18th June** – Central Bank to release IBC-Br for April ➔
- **18th June** – IGP-10 ➔ + % *versus* + % in May
- **18th June** – SRF, May tax revenues ➔ R$ billion
- **18th June** – Former President FH Cardoso celebrates 86th birthday
- **21st June** – FGV – income inequality for 4th Q/2016
- **21st June** – IBGE to release IPCA-15 ➔
- **21st June** – UNCTAD – Brazil’s FDI in 2016
- **23rd June** – IBGE-PNAD unemployment in March-April-May ➔ %
- **23rd June** – SRF - May federal revenues R$ billion, -% YoY
- **23rd June** – *Caged* - jobs in May
- **26-30 June** – 15th FLIP ➔ International Literary Festival in Paraty, RJ
- **27 June** – June IGP-M ➔ +% ➔ +% for 12-month period
- **27th June** – IBGE: April retail sales ➔ +0.% MoM but -% YoY
- **27-28 June** – Copom meeting
1 - POLITICS

1.1 – Rocha Loures arrested in Brasília

On Friday evening, 2nd June, STF Judge Edson Fachin issued an arrest warrant for former federal deputy Rodrigo Rocha Loures that was carried out in by the Federal Police in Brasília early Saturday morning. Remember: Rocha Loures served as a very close staffer to Michel Temer ever since he was first elected Vice-President in 2010. When Temer, appointed Dep. Osmar Serraglio (PMDB-PR) to be Minister of Justice, Loures was the PMDB-PR first alternate (suplente) and thus became a federal deputy for a short time until Serraglio was replaced and returned to his seat as deputy.

During the taped conversation between Pres. Temer and Joesley Batista, Temer affirmed that Rocha Loures would “help” Batista resolve his “problems”. As a result, Rocha Loures was enlisted by Batista to transmit (carry) a suitcase stuffed with R$ 500,000.00. This operation was shriveled by the Federal Police and a video recording was made of this “transfer”. When Rocha Loures lost his “cover” as federal deputy, the PGR asked the STF for an arrest warrant.

Rocha Loures was placed under arrest at the Federal Police lockup in Brasília and eventually transferred to the Papuda Prison in Brasília. If he decides to do plea bargaining testimony, the prosecutors and Federal Police have a long list of questions that would have a VERY negative impact on Pres. Temer and his attempts to remain in office.

On 7th June, the Federal Police had scheduled a “questioning” session with Rocha Loures, but his lawyers asked for more time to study the case and it was postponed. Thus, he was transferred to the Papuda Prison in Brasília. His lawyers requested that he be given “humane treatment” and that his hair no be shaved off.

Mother refuses to testify ✷ In its efforts to gather evidence and testimony regarding the investigation of Pres. Temer at the STF, the Federal Police summoned several “witnesses” to give testimony – including Vera Lilia Santos da Rocha Loures, mother of Rodrigo Rocha Loures. Her lawyers have requested that the STF cancel this testimony. This appears to be one more move to pressure Rodrigo Rocha Loures to conclude his plea bargaining testimony.

1.2 – Federal Police submitted 82 questions to Temer

As part of the investigation of Pres. Michel Temer at the STF, the Federal Police delivered a questionnaire with 82 questions to the President’s office at 4:30 p.m. on 5th June for him to answer within 24 hours. These questions did not involve the audio tape that was clandestinely recorded by Joesley Batista of his conversation with the president but rather other facts (points) under investigation at the STF. Temer has the constitutional right to remain silent and not respond.

This put the President in a “Catch 22” situation ➔ 1) If (and how) he responds might have a negative impact; or 2) If he chooses not to respond, this might imply “guilt” and the impact might be even worse.

Many of these questions deal with “shady deals” operated by Temer dating since the 1990s, and some question his relations with his former aid Rodrigo Rocha Loures, his Chief of Staff Eliseu Padilha, Geddel de Lima, Lúcio Funaro, Henrique Eduardo Alves, etc.

Alves was arrested by the Federal Police on 6th June, accused of some R$ 77 million in corruption/kickbacks from OAS in the construction of the 2014 World Cup Soccer stadium in Natal (his home state of Rio Grande do Norte). This arrest was perceived by Temer’s inner circle as a “tightening of the fence” [or noose] around Temer. When Alves was PMDB floor leader in the Chamber he began promoting the career of a very junior PMDB deputy – Eduardo Cunha – against the recommendations of other PMDB leaders, such as Geddel Vieira Lima. When Alves was finally elected Chamber President in 2013-2014), Cunha became PMDB floor leader and then was elected Chamber President in February 2015, after Alves unsuccessfully ran for Governor of Rio Grande do Norte in October 2014. Cunha, in turn, introduced Joesley Batista into this PMDB “inner circle”. Reportedly, Swiss prosecutors (at the request of their Brazilian colleagues) had been investigating the bank accounts the Alves had in Bern – and Swiss authorities blocked this accounts. However, it is possible that before these accounts were blocked, Alves was able to transfer most of his funds to Uruguay and Dubai.

The “Catch 22” trap involves Lúcio Funaro who was the main “operator” for the PMDB in diverse corruption schemes for many years. Reportedly, he is right now doing plea bargaining with the Lava Jato task force in Curitiba and his testimony should become public in a few days. IF Temer’s answers are much different from this testimony, the impact will be VERY BAD for Temer, and more parties will leave his support coalition in Congress, making approval of the much needed reforms nearly impossible.

A 6:30 p.m. on Tuesday, 6th June (two hours after the “deadline” specified by the Federal Police), STF Judge Edson Fachin responded to Temer’s request for more time, and extended this deadline until 5:00 p.m. on Friday, 9th June.

Temer did not answer any of the 82 questions posed by the Federal Police. Instead, th sent a request to the STF that this inquest be closed and the 82 questions “be filed away”. He said that he is the object of “abuse and aggressions”. So, the President embarked on the “Catch 22” pathway.

1.3 – TSE absolved 2014 Dilma-Temer slate

On Tuesday, 6h June, at 7:00 p.m., the TSE began its first session to deliberate the case against the 2014 Dilma-Temer slate in the 2014 election – accused of the use of “excessive economic and political power” ➔ campaign contributions from “illicit sources”, both Caixa Um and Caixa Dois.

This investigation added evidence and testimony from the plea bargaining by the Odebrecht executives and the slate’s marketing specialists in the 2014 campaign.

On 6th June, the reporter, Judge Herman Benjamin (from the STJ) read a synopsis of his report and then the lawyers representing Dilma Rousseff and Michel Temer presented their arguments, as well
as the accusation lawyer representing the candidate who lost this election – Aécio Neves (PSDB) and had filed the complaint (accusation) in late 2014. Finally, the election court prosecutor presented his arguments. Before this session ended, the seven TSE judges rejected FOUR preliminary points raised by the defense (of the Dilma-Temer slate).

On Wednesday, 7th June, this session continued as of 9:00 a.m. with the rejection of the last three preliminary points raised by the defense lawyers.

On 8th June, a 3-to-3 tie vote (that would be broken by the pro-Temer vote by Gilmar Mendes) began to appear regarding the crucial preliminary question of whether evidence gathered after this case began deliberation at the TSE in late 2014 could be used (the plea bargaining testimony by the Odebrecht executives and the marketing specialists João Santana and his wife Monica Moura regarding the use of “illicit funds” to finance the 2014 campaign. The anti-Temer judges were Herman Benjamin, Luiz Fux and Rosa Weber and the pro-Temer judges were Napoleão Nunes Maia, Admar Gonzaga and Tarcísio Vieira.

On of the main Lava Jato prosecutors, Carlos Fernando dos Santos Lima said that unfortunately “the majority of the TSE judges have intentional blindness”.

“A Cartoon by Chico – O Globo

“Hold on, we will be right back.”

As predicted, shortly before 8 p.m. on Friday evening, the TSE vote was tied at 3-to-3 and the TSE President Gilmar Mendes broke the tie and the 4-to-3 vote absolved the Dilma-Temer slate.

1.4 – Federal Deputy arrested at BSB airport

As he arrived in Brasília on 6th June, Federal Deputy Celso Jacob (PMDB-RJ) was arrested by the Federal Police as he deplaned. His arrest warrant had been issued by STF Judge Edson Fachin after he had been convicted to 7 months and 2 weeks in prison by the STF three weeks ago. He had been
accused of corruption when he was Mayor of Três Rios, RJ in 2003-2004. He gained protection by the
*Foro Previlegiado* when he was elected federal deputy, but finally he was convicted by the STF.

### 1.5 – Pres. Temer – More Problems

In his plea bargaining, Joesley Batista testified that the flight records of his private jet plane (PR-JBS) showed that then Vice-President Michel Temer and family had used this plane twice to fly from SP to the Comandatuba beach resort in Bahia in 2011. Temer had tried maintain the version that he had had “very few” contacts with Batista. On 6th June, Temer affirmed that his trips to the Bahia beach resort had been via an “official” FAB plane. **However,** on 7th June (probably after FAB communicated that it had no records of such flights), Temer admitted that he and his family had indeed flown to Comandatuba in a “private plane” – **but** he did not know that the plane belonged to Joesley Batista. Temer also said that he did not pay for this flight. On 8th June, Temer told a group of PMDB politicians that Wagner Rossi (PMDB-SP) had requested the JBS jet plane for him to use for the flight to Comandatuba. **Very strange!** The press photo of this plane clearly showed that its “prefix” was PR-JBS!! (Maybe it was a night flight and Temer could not read the prefix?)

**A Cartoon by Sponhiz**

![Cartoon](image)

**The Temer Family on “FlyBoi”**

In addition to the “favorable” decision at the TSE (*Item 1.3*), Temer has the possibility of some very complicated consequences from future plea bargaining by Rocha Loures (*Item 1.1*) and by Henrique Eduardo Alves (*Item 1.6*). **Also** – Temer is at risk *vis-à-vis* the future plea bargaining testimony of Antonio Palocci, PM-SP Col. (rt) João Baptista Lima Filho, Renato Duque, Eduardo Cunha and Lúcio Funaro plus the penal investigation at the STF.

### 1.6 – Ex-deputy and former Temer cabinet minister arrested

On 6th June, Henrique Eduardo Alves was arrested by the Federal Police in Natal, RN. He was first elected federal deputy by the MDB in 1970 (at age 21) and served 11 terms (44 years) until 2014 when he ran for governor of Rio Grande do Norte and was defeated. He had been President of the Chamber (2013-2014) and previously had been the PMDB floor leader. He promoted a “junior” PMDB-RJ deputy, Eduardo Cunha to be his vice-leader and then PMDB floor leader (2013-2014) and then Cunha’s election as Chamber President in February 2015.
Alves then became Pres. Dilma’s Minister of Tourism in 2015 and was the first PMDB cabinet minister to resign from Dilma’s cabinet in March 2016 – the first “signal” that the PMDB was about to leave the Dilma political coalition. After Pres. Dilma was suspended in May 2016, then Vice-President Michel Temer assumed the Presidency and Alves returned to the Ministry of Tourism. BUT after former President of Transpétro, Sérgio Machado, affirmed that he had transferred R$ 1.5 million to Alves, he resigned from Temer’s cabinet. Federal prosecutors affirm that illicit funds from Odebrecht were channeled to Alves’ 2014 campaign for governor via the campaign account of Michel Temer.

This time, Alves was accused of a “rip off” of R$ 77 million as part of an over-invoicing scheme for the construction of the Natal Soccer stadium for the 2014 World Cup games – in the plea bargaining testimony by OAS and Odebrecht executives (who built this stadium). Swiss authorities provided documentation showing that Alves and Eduardo Cunha had a joint bank account but that most of the funds deposited were transferred out of the Swiss bank before the account was “frozen”.

The Alves family was part of the Rio Grande do Norte traditional political elite since Henrique Eduardo Alves’ grandfather, Manuel Alves, became Mayor of Angicos in the 1930s. Henrique’s father, Aluísio Alves, founded the UDN-RN in 1945 and was elected the youngest federal deputy in the 1946 Constituent Assembly (age 24) reelected federal deputy (1950, 1954 and 1958). After a conflict with the UDN leader and governor (Dinarte Mariz), Alves joined the PSD and was elected governor (1961-1966) and joined the military government party (ARENA) in 1966. His conflict with Dinarte Mariz cost him his political rights and he was cassado by the military government in February 1969 (AI-5).

In 1970, Aluísio Alves was able to elect his son as MDB federal deputy. In 1979, Aluísio Alves regained his political rights and joined the PP in 1980 and then the PMDB in 1982 and ran for governor of RN, but was defeated by the PDS candidate, José Agrípino Maia. The Alves and Maia families had been political rivals in RN ever since 1946.

With the end of the military regime in March 1985, Pres José Sarney appointed Aluísio to be Minister of Administration. In 1990, he was elected federal deputy and served as Minister of National Integration under Pres. Itamar Franco. Aluísio Alves died in 2006.

1.7 – Lava Jato

Federal prosecutors in Paraná accused former Petrobras manager Márcio de Almeida Ferreira of “laundering” Petrobras bribes he pocketed via the “repatriation” of undeclared funds (R$ 48 million) back to Brazil from the Bahamas. He had declared that these were “proceeds” from real estate sales. The total that Ferreira and his partners had siphoned off from Petrobras was R$ 150 million via bribes from Galvão Engenharia, Mendes Junior, Carioca Engenharia and Andrade Gutierrez – as revealed via plea bargaining testimony by executives of the latter firms.

1.8 – Operation against JBS

On 9th June, the Federal Police carried out Operation Aquiles Heel with three search-and-seize warrants issued by the 6th Federal Circuit Judge in SP investigating FX and Bovespa “manipulations” by J&F. These documents seized will assist the CVM in its investigation that J&F (JBS) used “insider information” when a large number of its JBS shares were sold and a large volume of
US dollars were acquired in the futures market just before the JBS plea bargaining testimony was released. As a result of this operation, JBS stocks were down by **-4.0%** on the Bovespa.

**2 – FOREIGN RELATIONS & TRADE**

**2.1 – Recent strategic analyses**

Two recent studies have been released that critically analyze Brazil’s “strategies” (or the lack thereof).

**2.1.1 – SAE released study**

Recently, the SAE-Secretariat for Strategic Studies released a 28-page study about Brazil’s international “strategy” that was quite “critical” of Brazil’s “lost chances” and strategic mistakes in recent years. *“Brazil – A Nation in Search of a Grand Strategy”.*

See ➔ [https://online.flipbook.com/view/266383](https://online.flipbook.com/view/266383)

**2.1.2 – Cebri also released study**

CEBRI-Center for the Study of Brazil’s International Relations and KAS-Konrad Adenauer Foundation recently published a multi-author study ➔ *Desafios da Política Externa Brasileira (Challenges of Brazil’s Foreign Policy).*

See ➔ [https://mail.google.com/mail/u/0/?tab=wm#sent/15c881e0abaa1406?projector=1](https://mail.google.com/mail/u/0/?tab=wm#sent/15c881e0abaa1406?projector=1)

**2.2 – Embraer at the Paris Air Show**

Embraer will have a very active participation in the 52nd International Le Bourget Air Show in Paris on 19-25 June in Paris. This biannual event is the air show world wide. In 2015, Embraer received 103 orders totaling US$ 35 billion. In 2017, the Embraer “star” will be the KC-390 twin-engine jet cargo plane and Embraer hopes to announce the first sale to a foreign country. The first planes should be ready for delivery in 2018. The Brazilian government has already ordered 28 units for a total of R$ 7.2 billion.

Embraer has received “intentions” for orders of 32 units from Argentina, Chile, Colombia, the Czech Republic and Portugal. Canada and New Zealand also showed interest. Embraer hopes to sell its new E2-190 and E2-195 models to customers in Asia.
3 – REFORMS

3.1 – Labor Legislation (in the Senate)

In a show of political “normalcy” (during the TSE deliberations) – on Tuesday, 6th June, the Senate CAE-Economic Affairs Committee approved the Chamber version of this reform (reported by Sen. Ricardo Ferraço (PSDB-ES) by a 14-to-11 vote – considered a “close vote”. This reform must now be deliberated by to TWO other Senate committees -- CAS (Social Affairs) and CCJ (Constitution & Justice) before going to a floor vote by the full Senate. Because the four modifications proposed by Senator Ferraço were approved by the CAE, if these changes are maintained by the CAS and CCJ, this reform will be returned to the Chamber. Under heavy pressure from the Opposition, the government bloc senators were forced to postpone the 8th June meeting of the CAS to deliberate this reform until next week. Now, the probable “target” is for the full Senate to vote on this reform on 28th June.


4 – PRIVATIZATION & REGULATION

4.1 – Norwegian operator to acquire Nextel

NII Holdings and the Scandinavian AINMT announced on 6th June that its Norwegian tele operator Ice would invest US$ 200 million in the Brazilian operator Nextel to acquire a 60% share of the Brazilian firm. According to Bradesco BBI, this acquisition will help Nextel but not resolve its liquidity problems that might need an additional injection of capital. BBI also observed that this is “bad news” for the three other larger tele operators in Brazil, Vivo, TIM and Claro that had been gaining market share at the expense of Nextel. Reportedly, in 2016, Nextel had a debt of US$ 758 million.

4.2 – Neoenergia to acquire Elektro

On 8th June, Neoenergia announced that it would incorporate Elektro Holding (Spanish Iberdrola Energia) and the Spanish group would become the majority stake holder (52.45%) in this new firm and Neoenergia would have 39%. Previ and the BB Banco de Investimentos would hold 38.2% and 9.35%, respectively. Really, this “incorporation” should be called a “merger”. This new group will become Brazil’s largest electricity distributor.

Neoenergia operates in generation, transmission and distribution of electricity in Bahia, Pernambuco and Rio Grande do Norte. Elektro distribute electricity in São Paulo and Mato Grosso do Sul. This deal must be approved by Aneel and CADE.

4.3 – Airports to be privatized and Infraero extinct

On 7th June, the Temer government decided to auction of concessions for the remaining airports in Brazil administered by Infraero – in six blocs. This means that each bloc would have a “choice” airport (like Santos Dumont in Rio, or Congonhas in SP) but each bloc would also include smaller and interior airports. The government wants to announce this scheme at the Le Bourget Air
Show in Paris on 19-25 June (**See Item 2.2**). After these concession auctions, Infraero (that still administers part of Brazil’s airports) would **finally** be extinct and some 1,900 of its employees (control towers) would be transferred to FAB, and the rest (some 9,000 employees) would be offered PDV. This state enterprise has always been a sinecure for retired FAB officers to continue in a second job. The government expects R$ 43 billion in the end of Infraero.


### 4.4 – Copel plans stock offering

On 7th June, Copel (the Paraná state-owner electricity company) announced its intention to launch an offering of shares of some R$ 4 billion. In September 2016, the PR state legislature (AL-PR) authorized this share offering that should be used to reduce Copel’s short term debt (R$ 2.7 billion)

---

### 5 - ECONOMICS

#### 5.1 – Auto Production

According to Anfavea, in May, Brazil produced 237,100 units (+25.1% MoM and +33.8% YoY). May was the best month in the history of Brazil’s auto industry for exports ➚ 73,400 units. The January-May accumulation (307,500) was also an all time record. These exports contributed to a +34.8% increase in May’s auto production (YoY) and a +23.4% increase for January-May (YoY)

#### 5.2 – Savings Accounts

The balance for Brazil’s savings accounts was positive for the month of May ➚ deposits exceeded withdrawals by +R$ 292 million. However, the accumulated result in 2017 remained negative ➚ -R$ 18.38 billion. This May result was positive because on 30-31 May had R$ 4.525 billion deposits from salaries paid those two days.

#### 5.3 – “Shrinkage” of JBS

The largest meat packer operation world wide, JBS -- the Batista brothers and others executives who recently did massive plea bargaining testimony that accused a large number of Brazilian politicians – is trying to deal with a huge accumulated debt ➚ some R$ 48 billion. In an effort to balance its books, JBS has begun liquidating (selling off) part of its assets. The first group of assets was its operations in the Mercosul zone – in Argentina, Uruguay and Paraguay. These operations were sold to a JBS competitor ➚ Minerva for US$ 300 million (R$ 1 billion). As a result of its recent “corruption exposure” in Brazil, the plans to launch an IPO in the US became non-viable. Market analysts predict that JBS will not have to sell off a number of its other plants – especially among the 47 in the US.

In Brazil, JBS is battling against the SRF regarding its social security (INSS) debts of R$ 2.4 billion. The largest INSS debtor is VARIG (already bankrupt and disappeared) with R$ 3.9 billion. **Also**, this case of JBS debts with INSS will now be a “target” of the Senate Social Security CPI.
Want more? On 7th June, Petrobras canceled the contract for the supply of natural gas to Âmbar (a J&F firm) that operates the Mário Covas gas turbine electricity generating unit in Cuiabá, MT – alleging violation of the anti-corruption clause in this contract. Âmbar pays US$ 6.07 per MMBtu but wanted to access the price Petrobras pays Bolivia for this natural gas ➔ US$ 4.29 per MMBtu. The CEF has also canceled its contracts with JBS & J&F.

A Chinese Initiative – Reportedly, a strong rival of the JBS group – the Chinese WH Group – that owns Smithfield Foods, the world’s largest pork processor, is looking to expand in the beef and chicken sectors in the US and Europe. Thus, WH has its eye on the assets that JBS is about to sell.

5.4 – FDI continues “strong”

Central Bank data showed that in March 2017, FDI had increased to 18.6% of all investments in Brazil, up from 11.5% in December 2014 and a “low point” of 8.4% in December 2009 (one year after the Wall St. “blowout” in late 2008). In 2016, Brazil received 3.4% of the world’s FDI (according to UNCTAD). So far in 2017, Brazil is the sixth largest (9%) destination for FDI and was seventh in 2016. Brazil received US$ 64 billion FDI in 2015 and US$ 59 billion in 2016.

On 7th June, during its annual ministerial meeting in Paris, the OECD affirmed that “political uncertainty” has increased “significant risks” for Brazil’s economic growth. Brazil’s Finance Minister Henrique Meirelles was present as an “observer” at this meeting and dismissed these prognostics by the OECD. Remember: Recently, Brazil signaled that it will formally request to become a permanent member of this Organization. This subject will be considered by this 35-member organization in July 2017. In Paris, Meirelles told the press that the OECD is contemplating opening an office in Brazil.

5.5 – Petrobras considering an IPO for BR distribuidora

Reportedly, Petrobras is studying the possible launch of an IPO for its largest asset ➔ BR Distribuidora as a way around the decision by the TCU in January 2017 that suspended Petrobras’ plans for the sale of US$ 21 billion in assets.

5.6 – May inflation

On 7th June, the FGV released its data for the IGP-DI in May ➔ -0.51% versus -1.24% in April. This was the third consecutive month where the IGP-DI posted deflation. The 2017 accumulation is now -1.63% and +1.07% for the 12-month period.

<table>
<thead>
<tr>
<th>IGP-DI Components</th>
<th>April</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPA (Producer Prices)</td>
<td>-1.96%</td>
<td>-1.10%</td>
</tr>
<tr>
<td>IPC (Consumer Prices)</td>
<td>+0.12%</td>
<td>+0.52%</td>
</tr>
<tr>
<td>INCC (Construction Costs)</td>
<td>-0.02%</td>
<td>+0.63%</td>
</tr>
<tr>
<td>IGP-DI</td>
<td>-1.24%</td>
<td>-0.51%</td>
</tr>
</tbody>
</table>
5.7 – IPCA increased in May

On 9th May, IBGE released the data for the May IPCA \( \Rightarrow +0.31\% \) MoM, up from +0.14\% in April – but this was the lowest May result since 2007 (+0.28\%). The accumulated IPCA in 2017 is now +1.42\% versus +4.05\% for the same period in 2016. This was the best January-May resulted since 2000 (+1.41\%). The 12-month accumulation is now +3.60\% -- below the central inflation “target” of +4.50\%.

5.8 – Natura to acquire Body Shop

On Friday, 9th June, the Brazilian Natura announced that it had made an offer of 1 billion euros for the former British cosmetics firm The Body Shop – now owned by the French L’Oreal. This deal must be approved by French workers and by the Brazilian anti-trust unit CADE. In Brazil, The Body Shop has 133 stores.