Brazil Focus –
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Weekly Report
June 24-30 2017

Looking Ahead ➔ What to watch for?

- 1st July -- Canada Day (150 years of Independence)
- 3rd July -- Trade balance for June ➔ US$ billion & 1st semester ➔ US$ billion
- 3rd July – US federal offices will be closed making a four-day holiday weekend
- 4th July -- US Independence Day [national holiday]
- 4th July -- New car sales June, units (+ % MoM), in 1st semester (- % YoY)
- 5th July -- IBGE industrial production for May ➔
- 6th July -- FGV to announce IGP-DI for June ➔ + %; + % in 2017 & + % 12-month
- 7th July -- IBGE to release IPCA inflation data for June ➔+0 % versus +0. % in May
- 7-8 July – G-20 Summit in Hamburg, Germany
- 9th July -- State Holiday in SP – [“Commemorate” defeat in the 1932 Revolution]
- 9th July -- Argentine Independence Day
- 12th July -- IBGE – Retail sales in May ➔ - % MoM & - % YoY
- 13th July -- Services Sector in May - % MoM & - % YoY
- 14th July -- Central Bank to release its IBC-Br for May ➔ - % MoM & - % YoY
• 14th July – Congressional recess should begin
• 21st July -- IBGE to release July ICPA-15 inflation data ➔ +0.0% versus +0.0% in June
• 22nd July -- SRF ➔ June tax collections in June R$ billion, versus R$ billion in May
• 27th July -- Caged data ➔ net jobs lost in June
• 31st July -- June public accounts
• 31st July -- FGV to announce July IGP-M ➔ +0.0% versus + % in June
• 31st July -- IBGE, PNAD unemployment at % in 2nd Q/2016
• 31st July -- Congressional Recess ends [“officially”]

1 - POLITICS

1.1 – New Datafolha poll

On Saturday, 24th June (just as Pres. Temer returned from Norway), the Folha de São Paulo published the latest Datafolha poll that had been conducted on 21-22 June among 2,771 voters with a two-point margin of error. The last poll had been conducted on 26-27 April 2017. Subsequently, the FSP published more data from this poll on 25-26 June.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Temer Gov't.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good/Excellent</td>
<td>14%</td>
<td>10%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Regular</td>
<td>42%</td>
<td>34%</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>Bad/Terrible</td>
<td>31%</td>
<td>51%</td>
<td>61%</td>
<td>69%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>13%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
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</table>

The evaluation of the Temer government has gone “down hill” in a steady decline since the first poll in July 2016 – and now stands at only 7%.

This was the lowest rating in 28 years – since the Sarney government polled 5% approval in September 1989 – when inflation was running near 100% per month!! Below are the “ups and downs” of the worse evaluations of Brazil’s presidents since 1989:

<table>
<thead>
<tr>
<th>Sarney</th>
<th>Collor</th>
<th>Lula-1</th>
<th>28%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collor</td>
<td>9%</td>
<td>Lula-2</td>
<td>48%</td>
</tr>
<tr>
<td>Itamar</td>
<td>12%</td>
<td>Dilma-1</td>
<td>40%</td>
</tr>
<tr>
<td>FHC-1</td>
<td>30%</td>
<td>Dilma-2</td>
<td>8%</td>
</tr>
<tr>
<td>FHC-2</td>
<td>13%</td>
<td>Temer</td>
<td>7%</td>
</tr>
</tbody>
</table>

Asked “How do you feel about being a Brazilian”, 50% said “More proud than Ashamed”, 47% said “More Ashamed than Proud”, and 2% were DK/NR.

Asked “”What is Brazil’s worst problem,” – the responses were:


<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Corruption</td>
<td>22%</td>
</tr>
<tr>
<td>Health</td>
<td>22%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>17%</td>
</tr>
<tr>
<td>Education</td>
<td>11%</td>
</tr>
<tr>
<td>Violence</td>
<td>8%</td>
</tr>
<tr>
<td>The Economy</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>14%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>3%</td>
</tr>
</tbody>
</table>

Three hypotheses were posed to this sample of voters:

1) “Temer should resign” ➔ 76%
2) “Congress should begin Impeachment proceedings” ➔ 81%
3) “If Temer is ousted, how about direct elections?” ➔ 83%

Finally, voters were asked “What would be better for the nation?”

“Temer should leave office now” ➔ 65%
“Better Temer remain in office” ➔ 30%
DK/NR ➔ 4%

This poll posed several simulations for the first and second round elections for October 2018. *Datafolha* discarded Sen. Aécio Neves (PSDB-MG) and used Gov. Geraldo Alckmin (SP) and Mayor João Doria (SP) as the *tucano* pre-candidates in these simulations. In addition to Lula, a second PT pre-candidate was included ➔ former SP mayor Fernando Haddad.

**First Round, April ➔ June 2017**

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>April</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula (PT)</td>
<td>31%</td>
<td>30%</td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Bolsonaro (PSC)</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>J.Doria (PSDB)</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>C.Gomes (PDT)</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>L.Genro (PSol)</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>E.Jorge (PV)</td>
<td>- -</td>
<td>2%</td>
</tr>
<tr>
<td>R.Caiado (DEM)</td>
<td>- -</td>
<td>2%</td>
</tr>
<tr>
<td>Blank/Null</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>DK/NR</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

**June 2017 Simulations**

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>Barbosa Alckmin</th>
<th>Barbosa Doria</th>
<th>Moro Alckmin</th>
<th>Without PT</th>
<th>Without Lava Jato</th>
<th>Alckmin Haddad</th>
<th>Rejection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula (PT)</td>
<td>30%</td>
<td>29%</td>
<td>29%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>46%</td>
</tr>
<tr>
<td>Haddad (PT)</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
<td>3%</td>
<td>28%</td>
</tr>
</tbody>
</table>
In the over time April→June comparison, Marina Silva (Rede) declined one point and Jair Bolsonaro (PSC) picked up two points into a tie at 15%.

In addition to the April→June over time comparison, SIX other first round simulations were conducted and included two names (from the judiciary) who are now currently pre-candidates and have no party affiliation → former STF President Joaquim Barbosa and Federal Judge Sérgio Moro who is conducting the Lava Jato in Curitiba.

Among the two tucanos, João Doria (9%) polled slightly better than Geraldo Alckmin (8%). Former president Lula led his three simulations with 30% and 29%) and Haddad polled only 3% in his simulation.

In the first three simulations versus Lula Marina and Bolsonaro were more or less tied for the second slot, but in the other three simulations Marina surpassed Bolsonaro by between 6 and 9 points.

**Eight Second Round Simulations**

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula (PT)</td>
<td>45%</td>
<td>45%</td>
<td>40%</td>
<td>45%</td>
<td></td>
<td></td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
<td>32%</td>
<td></td>
<td></td>
<td></td>
<td>34%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>J. Doria (PSDB)</td>
<td></td>
<td>34%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td></td>
<td></td>
<td>40%</td>
<td></td>
<td></td>
<td>49%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bolsonaro (PSC)</td>
<td></td>
<td></td>
<td></td>
<td>32%</td>
<td></td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Gomes (PDT)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>31%</td>
<td>34%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S. Moro (Sem)</td>
<td></td>
<td></td>
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<td></td>
<td>44%</td>
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In the eight second round simulations Lula would be defeated by Judge Sérgio Moro and be tied with Marina (at 40%).

1.2 – Lava Jato

On Monday morning, 26th June, Judge Sérgio Moro issued sentenced Antonio Palocci to 12 years in prison. Eleven others were also sentenced:

Marcelo Odebrecht, former Odebrecht CEO → 12 years,
João Santana, campaign marketing for Dilma ➔ 7 years,
Monica Moura, Sanatana’s wife ➔ 7 years,
João Vaccari Neto, former PT treasurer ➔ 6 years,
Renato Duque, ex-Petrobras manager ➔ 5 years,
Eduardo Costa Musa, ex-President of Sete Brasil ➔ 5 years,
José Carlos Ferraz, ex-Petrobras manager ➔ 6 years,
Hilberto Mascaranhas, ex-Executive, Odebrecht ➔ 7 anos,
Fernando Migliacco, ex-Executive, Odebrecht ➔ 7 years,
Luiz Eduardo Soares, ex-Executive, Odebrecht ➔ 7 years, and
Olívio Rodrigues Jr., money changer ➔ 7 years.

The nine months that Palocci has been under “preventative” arrest in Curitiba will be subtracted from his sentence. He had “threatened” to do plea bargaining testimony but so far has not begun this process. His lawyers said that they would not appeal his sentence. Palocci was also obliged to pay a fine of R$ 1.02 million and Judge Moro confiscated from Palocci’s accounts and firms. He is accused in another case before Judge Moro. Except for Vaccari Neto, the others sentenced had already done plea bargaining testimony.

Two other accused were absolved by Judge Moro ➔ Palocci’s staff assistant, Branislav Konic and Odebrecht executive Rogério Santos Araújo.

1.3 – PRG versus Pres. Temer

While Brazil “waited on bated breath” for the PRG’s brief to the STF denouncing Pres. Temer for corruption, etc. – on Monday afternoon PGR Rodrigo Janot sent a brief to the STF reinforcing his previous request that former deputy Rodrigo de Rocha Loures remain under preventative arrest at the Federal Police in Brasília. In this brief, the PGR affirmed that “without doubt, Pres. Temer practiced corruption”. This was sort of a preview of his brief denouncing Temer sent to the STF on late Monday evening, 26th June. Before proceeding with this investigation and deliberation, the STF needs approval by two-thirds of the Chamber to continue this process. Thus, the STF transmitted this case to the Chamber to this end.

Wisely [or nastily] the PGR sliced these accusations into three separate denunciations ➔ 1) Corruption; 2) Obstruction of Justice; and 3) Conspiracy [Formação de Quadrilha]. The first denunciation was transmitted on 26th June, and the second will be sent to the STF in a few days (or weeks). Finally, the third denunciation will be transmitted. Thus, it is expected that Janot will wait until the Chamber has advanced its deliberations of this first denunciation and then in August will transmit the second denunciation. Finally, before he leaves office in mid-September, he will deliver the third denunciation. Thus, the deputies will not be able to “bundle” all three denunciations into one package.

On Tuesday, 27th June, Pres. Temer quickly assembled some of his supporters in Congress to serve as a supportive audience for his formal video statement contesting the denunciation of the President delivered to the STF the day before. Temer “hinted” that the PGR “ulterior motives” behind his action filing this denunciation and insinuated that Janot had received “bribes” [side payments]. However, the deputies mobilized for this event were mostly of the group considered “lower clerics”.
WANT MORE?? Reportedly, the PGR is preparing a new investigation request to send to the STF – that Rodrigo Richa Loures and Temer conspired to favor a shipping company at the Port of Santos via MP to favor this firm in return for $$$$ (financial advantages).

Each of these denunciations will be transmitted by the STF to the Chamber separately and each must be deliberated and analyzed by the Chamber CCJ that will produce a report to the full Chamber for a final roll call nominal vote. A two-thirds vote of the full Chamber (342) is necessary to permit the STF to continue this investigation. The “CCJ battle” is already ongoing with each government support party removing its “doubtful” members and replacing them with deputies who would vote in favor of Temer. However, many deputies have their eyes (and ears) turned to their home state voters who might be mobilized against Temer. The “bottom line” for any deputy is “will this help or hinder my reelection in 2018?”

On Wednesday, 28th June, STF Judge Edson Fachin sent this denunciation directly to the Chamber without any “deliberation” at the Supreme Court.

1.3.1 – Janot “retaliates”?

Many analysts affirmed that the PGR had retaliated vis-a-vis the very harsh presentation by Pres. Temer rebutting the denunciation delivered to the STF. On 27th June, the Chief Federal Prosecutor sent a request to the STF asking that the recently approved legislation permitting outsourced labor at all levels in Brazil’s private sector be declared unconstitutional.

terceirizacao.shtml/


1.4 – “Drug Bust” in MT➔GO

This episode on Sunday, 25th June, was not what you would call a “regular drug bust”. Operation Ostium is a coordinated action among FAB, the Federal Police and state public security forces to combat drug trafficking near Brazil’s western borders (Paraguay and Bolivia).

On Sunday, 25th June, a “suspect” flight by a light twin-engine Piper Aztec plane (manufactured in 1970) took off from a landing strip at the Itamarati Norte farm in the município of Campo Novo do Parecis, MT. This farm is part of the Amaggi Group (the family of Agriculture Minister Senator Blairo Maggi (PP-MT). This plane’s flight plan had Santo Antonio Leverger, MT was its destination. However, when a FAB A-29 Super Tucano plane intercepted this plane it was flying due east and not south. The FAB pilot radioed the plane’s pilot and ordered him to land at the airport in Aragarças, GO. The “suspect” pilot made an approach to this airport, but at the last minute swooped upward and continued flying east. The FAB pilot continued in pursuit and fired one warning shot close to the “suspect” plane. With that, this plane landed in a field near Jussara, GO and the FAB pilot radioed for a PM-GO helicopter to the scene. By the time it landed, the pilot and co-pilot had escaped but left this “suspect” plane with 634 kg of cocaine aboard.
Finally, on Monday, the Federal Police captured the pilot and co-pilot who were taken to the Federal Police HQ in Goiânia. In custody, the pilot changed the “story” of this flight. He affirmed that they had taken off from Bolivia and were bound for São Paulo where this cocaine would be sent to the US and/or Europe. Apparently, they did not use the landing strip on the farm owned by the Blairo Maggi family.

1.5 – Corruption at TCU and TCEs

In Brazil, the external control function is exercised by accounting courts ➔ TCU (Federal) and TCEs (state level). An absolute majority of the members of these courts are staffed by political appointees, many of whom already had “problems” before they were chosen. The TCU has four members under investigation. The 27 TCEs have 14 members suspended, and another 25 under investigation – the worst are Rio (6) and MT (5).

1.6 – ANPR selected a three-name list

On 27th June, the ANPR-National Association of [Federal] Public Prosecutors voted to compose a three-name list to submit to Pres. Temer who will select one name to send to the Senate for confirmation.

Eight federal prosecutors were candidates and the top three selected were:

- **Nicolao Dino** – 621 votes
- **Raquel Dodge** – 587 votes
- **Mário Bonsaglia** – 564 votes

![Nicolao Dino, Raquel Dodge & Mario Bonsaglia](image)

The other five candidates were:

- **Ela Wiecko** – 424 votes
- **Carlos Frederico Santos** – 221 votes
- **Eitel Santiago B. Pereira** – 120 votes
Sandra Cureu – 88 votes
Franklin Rodrigues Costa – 85 votes

Ever since 2003, the president has always selected the top name on this list to submit for Senate confirmation. During the FHC period, the president appointed a prosecutor with no support from his peers – Geraldo Brindeiro – who was a first cousin of the then Vice-President, Marco Maciel.

Soon after he received the result of this “election” from the ANPR, on 28th June, Pres. Temer selected Raquel Dodge and sent her name to the Senate for confirmation. Next week, the Senate CCJ should hold a public hearing where she will be cross examined and the full Senate might confirm her appointment that same day. If confirmed by the Senate, Raquel Dodge will be the first woman to head the PGR. She would replace the current PGR Rodrigo Janot on 17th September. Dodge’s confirmation hearing at the Senate CCJ is scheduled for 12th July. This means that she might be confirmed by the full Senate that same day or on 13th July – before the congressional recess begins on 14th July. The reporter on this confirmation will be Sen. Roberto Rocha (PSB-PA).

Dodge is considered an adversary of Rodrigo Janot while Dino is considered anti-Temer and an ally of Janot. He was the prosecutor at the TSE arguing in favor of the cancelation [cassação] of the Dilma-Temer slate in the 2014 election. His brother, Flávio Dino, was elected the PCdoB governor of Maranhão in 2014, defeating the Sarney family.

Want more?? As of September 2017 three important institutions will be commanded by women ➔ Carmen Lúcia (STF), Laurita Vaz (STJ) and Raquel Dodge (PRG).

Separation of Powers?? The “day before” Pres. Temer shoes Raquel Dodge to be the new PGR, STF Judge Gilmar Mendes hosted a dinner party for Pres. Temer, Moreira Franco and Eliseu Padilha. Officially, this agenda for this event was “political reform”, but reportedly the main subject was the appointment of Raquel dodge to be the new PGR. This event was not listed on Pres. Temer’s official agenda.

1.7 – The case of Senator Aécio Neves

A request that the Senate Ethic Council examine the case of Sen. Aécio Neves (PSDB-MG) regarding his alleged “lack of decorum” vis-à-vis his “relationship” with JBS Chief Joesley Batista [a payment [bribe] of R$ 2 million for “services rendered” in support of JBS’s interests was summarily rejected by this Council’s President Sen. João Alberto Souza (PMDB-MA) – closely linked to the Sarney family in Maranhão - alleging “a lack of proof” (evidence). On 27th June, Opposition senator Randolphe Rodrigues (Rede-AP) organized a petition requesting a formal meeting of the Ethics Council to determine whether an investigation of Neves should be installed. This petition was signed by five members of this Council – Lasier Martins (PSD-RS), José Pimentel (PT-CPE), Antonio Carlos Valadares (PSB-SE), João Capiberibe (PSB-AP) and Pedro Chaves (PSC-MS), as well as three suplentes of this Council – Regina Sousa (PT-PI), Angela Portela (PDT-RR) and Vanessa Grazziotin (PCdoB-AM).

Immediately after this petition was protocolled in the Senate, the staff of Sen. Carlos Alberto announced that he had been admitted to the HFA-Armed Forces Hospital to install a pacemaker. It is
probable that the Vice-President of this Council, Sen. Pedro Chaves (PSC-MS will convoke an Ethics Council meeting before the July recess begins.

1.7.1 – Marco Aurélio restored Neves’ Mandate

The PGR had renewed his request to the STF that Sen. Aécio Neves (PSDB-MG) be arrested. Judge Edson Fachin refused this case and passed it on to another judge by lottery and it went to Judge Merlo Aurélio Mello. On Friday, 30th June, the STF had a special closing session (before the judicial recess) and Mello announced that he had denied the prison warrant AND had restored Neves’ Senate mandate.

1.8 – STF to investigate Sen. Edison Lobão

On 27th June, STF Judge Luis Roberto Barroso authorized yet another investigation of Sen. Edison Lobão (PMDN-MA) – this time accusations of crimes against Brazil’s financial system, money laundering and influence traffic. Barroso also authorized the breaking of Lobão’s bank, fiscal and telephone records. It is alleged that when Lobão was Minister of Mines & Energy that he was a “secret partner” in the Diamond Mountain Capital Group that ripped off funds from the Petrobras employees’ retirement fund ➔ Petros.

1.9 – João Vaccari Neto absolved by the TRF-4

On 27th June, the 4th Regional Federal Court in Porto Alegre decided on a 2-to-1 decision to absolve former PT national treasurer João Vaccari Neto for his corruption conviction by Lava Jato Judge Sérgio Moro. However, none of the others convicted together with Vaccari Neto were absolved, and the prison term for Renato Duque was increased from 20 to 43 years.

![João Vaccari Neto & Renato Duque](image)

Vaccari and the others were charged with intermediating R$ 4.26 million in bribes from the Petrobras corruption/bribe operation via a contract with the Interpar Consortium.

However, João Vaccari Neto has been convicted in several other cases by Judge Sérgio Moro and is accused in other cases being prepared by the Lava Jato task force.

1.10 – Social Security deficit
The government estimates that the social security deficit will reach R$ 184 billion in 2017 and R$ 202 billion in 2018. This is more than that allocated for investments or public health.

1.11 – TCU - subsidies/exemptions ➔ R$ 378 billion in 2016

Part of the TCU’s evaluation of Brazil’s public accounts for the year 2016 dealt with the concession of subsidies, tax exemptions and “incentives”. This text, elaborated by TCU Minister Bruno Dantas, that in 2016, Presidents Rousseff and Temer conceded (allowed) R$ 377.8 billion in such tax incentives – more than the acknowledged budget deficit for that year.

Apparently, the TCU will approve these 2016 accounts [with reservations] and transmit same to Congress for final approval.

1.12 – Senator Renan Calheiros

On 28th June, Sen. Renan Calheiros (PMDB) addressed the Senate to announce that he was resigning his post as PMDB floor leader. This was just prior to a meeting of the PMDB Senate delegation to decide to replace Calheiros as floor leader – convoked by Sen. Romero Jucá – the national PMDB president. In his long series of Opposition tactics contrary to the policies promoted by the Temer government, his final replacement was eminent.

Calheiros affirmed that he did not want to “serve as a marionette”. He added that he “does not hate Pres. Temer, but can’t tolerate his cowardly action that is destroying the CLT”. This active opposition posture was a vain attempt to promote his reelection in 2018 as well as that of his son for Governor. Public opinion polls in Alagoas show that neither would be reelected. Whether the Temer government will remove (sack) all the persons that Calheiros indicated for “choice” federal jobs is an open question.

Senator Jucá is articulating a replacement for Calheiros.

1.13 – Deputy Celso Jacob – “Only in Brazil”

In June 2016, Dep. Celso Jacob (PMDB-RJ) was convicted of corruption (when he was Mayor of Três Rios, RJ by the First Group of STF judges and sentenced to 7 years and 2 months in prison (semi-aberto). Under this prison regime, he would be required to spend nights in prison but could be free to “work” during the day. His appeals ended in May 2017 and he was arrested in early June. His lawyers argued that he could continue to serve his term as federal deputy during the day and sleep each night in prison. Federal judge Valter André de Lima Bueno Araújo of the prison sentence execution in Brasília consulted the Chamber of Deputies and ascertained that the electronic registry of attendance of deputies could be accessed by the judge to verify his presence in Chamber sessions and thus authorized this regime for Jacob.

1.14 – CMO approved 2018 LDO

On 28th June, in a “symbolic vote” the CMO-Joint Budget Committee approved the LDO-Basic Budget Proposal for 2018. The projection for the 2018 fiscal deficit is now R$ 129 billion. The final
formal vote on the LDO should be on 10th July, and should be approved by a joint session of Congress on, Friday, 14th July – just before the congressional recess begins.

2 – FOREIGN RELATIONS & TRADE

2.1 – G-20 in Hamburg

Pres. Michel Temer was scheduled to attend the G-20 meeting in Hamburg, Germany on 7-8 July that would include a luncheon date with German PM Angela Merkel on Thursday, 6th July. However, Temer’s “political team” is pushing him to cancel this trip in order to remain in Brasília to defend himself against the onslaught by the PGR. On the other hand, the “economic team” is trying to convince Temer to maintain this trip on his agenda. However, on 28th June, it was decided that due to the political “turmoil” in Brazil, Temer will not attend the G-20 Summit next wee.

2.2 – Federal Police stop issuing passports

On 28th June, the Federal Police announced that he the issuance of passports was suspended – for lack of funds. The 2017 Federal Police budget suffered a 40% linear reduction (as did the rest of the federal agencies) and the budget for passports was exhausted. Now, the Temer government will send an urgent appropriation message to Congress to approve a budget supplement for this sector until the end of 2017.

3 – REFORMS

3.1 – Labor Legislation Reform

The Labor Legislation Reform was deliberated by the Senate CCJ on 27th June. This was the last of three Senate committees to deliberate this reform that should be voted on by the full Senate next week (4 or 5 July). To this end, yet another general strike of workers was called for Friday, 30th June but CUT and other labor union centrals. On Wednesday, 28th June, after more than 12 hours of discussion, the Senate CCJ approved this reform by a 16-to-9 vote. The general prediction was for a 16-to-10 vote. The full Senate should approve this measure next week, perhaps in the second week in July – just before the congressional recess begins on 14th July. Apparently, Pres. Temer has agreed to “revise” some of the items in this reform via Medida Provisória.

4 – PRIVATIZATION & REGULATION

4.1 – Chinese State Power acquired part of Santo Antonio hydro

On 27th June, it was announced that the Chinese State Power Investment Overseas (SPIC) acquired the 22.4% share held by Cemig in the Santo Antonio hydro installation (3,568 MW) in Rondônia. The total value of this hydro installation is estimated at R$ 9 billion.
4.2 – Cade rejects Estácio – Kroton merger

On 28\textsuperscript{th} June, Cade-Brazil’s anti-trust, pro-competition unit rejected the merger of two educational giants in Brazil – Estácio de Sá and Kroton. This decision marked the arrival of the new Cade president, Alexandre Barreto. Some thought that with Barreto in command that this merger would be approved. The new Cade president cast the last vote (against the merger) together with his four colleagues.

This merger would have created a “giant” in the education sector – 1.4 million students, R$ 30 billion and a 19\% market share. The reporter on this case, Cristiane Alckmin suggested several “conditions” to be imposed to “facilitate” this merger and promote more competition, but these were rejected by the majority. Several years ago, Cade approved the acquisition of Anhanguera by Kroton with several conditions, and not all of the latter were met.

5 - ECONOMICS

5.1 – Public Accounts

\textbf{Federal Debt} – On 26\textsuperscript{th} June, the STN announced that at the end of May Brazil’s federal debt had increased +0.26\% to R$ 3.253 trillion. In May alone, the STN paid R$ 28.26 billion interest payments on this debt. The External Federal Public Debt increased by +1.31\% to R$ 128.87 billion. In May, foreign ownership of STN bonds declined from 13.63\% to 13.42\% to R$ 419.94 billion.

\textbf{Current Account} – On 27\textsuperscript{th} June, the Central Bank released the data for Current Account in May \(\Rightarrow\) a surplus of +US$2.884 billion. This was the third straight month with a current account surplus. This surplus in May was the largest for that month since 1995. In May 2016, Brazil’s current account posted a surplus of US$ 1.186 billion.

\textbf{Primary Deficit} – The Central Government posted the worst fiscal deficit since 1997 \(\Rightarrow\) -R$ 29.4 billion. One of the problems was that federal revenues were down in May by -0.6\% YoY, while expenditures were up by +12.7\%. The 12-month accumulation is now a deficit of -R$ 167.6 billion (2.59\% of GDP). \textbf{Remember}: The deficit target for 2017 is -R$ 139 billion. This means that in order to meet this fiscal target, new taxes (or increases of current taxes) would be in order.

The full primary deficit (central government, state enterprises & state-local governments) was R$ 30.7 billion. This was the worst result since 2001. The 12-month accumulation is now R$ 157.7 billion (2.47\% of GDP). The “target” for 2017 was fixed at R$ 143.1 billion.

\textbf{FDI} – In May, Brazil attracted US$ 2.926 billion in FDI.

5.2 - Unemployment
On 30\textsuperscript{th} June, IBGE announced the unemployment rate for March-April-May quarter \(\Rightarrow\) 13.3\% or 13.8 million unemployed. IBGE considered this “stable” compared with the previous quarter (13.56\%).

5.3 – June Inflation

On 29\textsuperscript{th} June, the FGV released its “rents inflation index (IGP-M) for June \(\Rightarrow\) deflation of -0.67\%. The 12-month accumulation is now -0.78\% and in 2017 -1.95\%. This June result marks a decline in the deflation rate – the May IGP-M posted -0.93\%. In June 2016 the 12-month accumulation was +12.21\%.