Looking Ahead ➔ What to watch for?

- 7th Oct. – RS, SC & PR to hold informal “independence” plebiscite
- 9th Oct. -- Columbus Day [observed in US] – federal holiday
- 9th Oct. -- Thanksgiving Holiday in Canada
- 10th Oct. -- FGV to post September IGP-DI ➔ +% versus +0.% in August
- 10th Oct. -- Maria Moors Cabot prize ceremony, Columbia University, New York, NY
- 11th Oct. – STF will decide case of Sen. Aécio Neves (PSDB-MG)
- 12th Oct. -- National Religious Holiday [Our Lady of Aparecida, national saint]
- 12th Oct. -- Day of the Race [Holiday in Mexico]
- 12th Oct. -- Fall meetings of IMF & World Bank Group – Washington, DC
- 15th Oct. -- Daylight Savings Time begins in Brazil ➔ 2-hour time difference NYC/Brasília
- 16th Oct. -- IBGE - unemployment in September, % ➔ versus % in August
- 17th Oct. -- IBGE: August retail sales ➔ +0.% MoM & +% YoY
- 17th Oct. -- Labor Ministry, Caged September data, new jobs, +% YoY
- 17th Oct. -- Central Bank to release its IBC-Br for August ➔ +0.%
- 17th Oct. -- FGV to post IGP-10 ➔ +% versus +% in September
- 21st Oct. -- SRF ➔ federal tax collections R$ billion in September (+% YoY)
- 24-25 Oct. -- Copom meeting, Selic rate ➔
- 27th Oct. -- Former President Lula ➔ 72th birthday
- 28th Oct. -- IFC & World Bank to publish “Doing Business”, Brazil ranked ___
- 28th Oct. -- Public Servants’ Day – Optional federal holiday
1 - POLITICS

1.1 – New *Datafolha* Poll

The most recent *Datafolha* poll was conducted on 27-28 September among 2,772 voters in 195 municípios with a two-point margin of error. The results were published in the *Folha de São Paulo* on Sunday, 1st October. The previous *Datafolha* poll was conducted on 21-22 June.

**EIGHT First Round Simulations**

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>(1)</th>
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<th>(3)</th>
<th>Rejection</th>
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<td>Bolsonaro (PSC)</td>
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<td>17%</td>
<td>18%</td>
<td>33%</td>
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<tr>
<td>Marina (Rede)</td>
<td>14%</td>
<td>13%</td>
<td>23%</td>
<td>26%</td>
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<td>4%</td>
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<td>10%</td>
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<td>2%</td>
<td>2%</td>
<td>25%</td>
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<tr>
<td>Alencar (PSoL)</td>
<td>1%</td>
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</tr>
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<td>Amoêdo (Novo)</td>
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<td>1%</td>
<td>23%</td>
</tr>
<tr>
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<td>16%</td>
<td>26%</td>
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<tr>
<td>DK/NR</td>
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<td>2%</td>
<td>3%</td>
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<tr>
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<td>17%</td>
<td>15%</td>
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<tr>
<td>Doria (PSDB)</td>
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<td>-</td>
<td>7%</td>
<td>6%</td>
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<tr>
<td>Alckmin (PSDB)</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
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<tr>
<td>C. Gomes (PDT)</td>
<td>10%</td>
<td>9%</td>
<td>9%</td>
<td>7%</td>
<td></td>
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<tr>
<td>A. Dias (Podemos)</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
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<tr>
<td>Meirelles (PSD)</td>
<td>2%</td>
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<tr>
<td>Alencar (PSoL)</td>
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<td></td>
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<tr>
<td>Amoêdo (Novo)</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Haddad (PT)</td>
<td>-</td>
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<td>2%</td>
<td>2%</td>
<td>29%</td>
</tr>
<tr>
<td>Barbosa (None)</td>
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<td>-</td>
<td>-</td>
<td>5%</td>
<td>21%</td>
</tr>
<tr>
<td>S. Moro (None)</td>
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<td>-</td>
<td>-</td>
<td>9%</td>
<td>25%</td>
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<tr>
<td>R. Maia (DEM)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1%</td>
<td>30%</td>
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<tr>
<td>Blank/Null</td>
<td>26%</td>
<td>25%</td>
<td>24%</td>
<td>20%</td>
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</tr>
<tr>
<td>DK/NR</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
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</tbody>
</table>
Datafolha conducted three simulations with Lula as candidate – alternating the two PSDB pre-candidates, the Governor of SP Geraldo Alckmin and the Mayor of SP João Doria. Each polled 8% in these two simulations. In the third Lula simulation, Ciro Gomes (PDT) polled only 4%.

The other five simulations (without Lula), the Blank/Null voters jumped from 15%-16% to 24%-25%. Thus, it is difficult to ascertain who those voters who selected Lula in September 2017 would vote for in October 2018 – because those extra 10% Blank-Nulls most probably had selected Lula in the first three simulations.

However, simulation (3) gives us some idea → Bolsonaro picked up only one point, but Marina Silva picked up ten points (13%→23%) while Ciro Gomes gained 6 points (4%→10%) and Doria increased by two points (8%→10%).

In simulation (7), two “outsiders” were included → Judge Sérgio Moro (9%) and former STF President Joaquim Barbosa (5%). Judge Moro was ranked third behind Marina (17%) and Bolsonaro (15%).

This time, Datafolha did not Sen. Aécio Neves (PSDB) who currently has his mandate suspended by the STF. Apparently, his possible candidacy is non-viable.

### NINE Second Round Simulations

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>46%</th>
<th>48%</th>
<th>44%</th>
<th>47%</th>
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<td>Lula (PT)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Alckmin (PSDB)</td>
<td>32%</td>
<td>-</td>
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<td>-</td>
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</tr>
<tr>
<td>Doria (PSDB)</td>
<td>-</td>
<td>32%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td>-</td>
<td>-</td>
<td>36%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bolsonaro (PSC)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>33%</td>
<td>-</td>
</tr>
<tr>
<td>S. Moro (None)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>42%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th></th>
<th></th>
<th>47%</th>
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<td>-</td>
</tr>
<tr>
<td>Bolsonaro (PSC)</td>
<td>-</td>
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<td>29%</td>
<td>-</td>
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<td>Alckmin (PSDB)</td>
<td>37%</td>
<td>-</td>
<td>-</td>
<td>44%</td>
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<tr>
<td>Doria (PSDB)</td>
<td>-</td>
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<td>C. Gomes (PDT)</td>
<td>29%</td>
<td>32%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Haddad (PT)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17%</td>
</tr>
</tbody>
</table>

Datafolha included Lula in five second simulations and he would win all of the latter. Marina Silva (Rede) would poll 36% versus 44% for Lula, and Judge Moro was in a technical tie with Lula (44% versus 42%). In the other four 2nd sound simulations without Lula, Marina Silva would defeat Bolsonaro (47%-to-29%). At this point, with the strong possibility that Lula will become ineligible, this could be a probable second round contest in October 2018.
**Belief in Democracy** has declined since the high point in December 2014 (66%) to 62% in July 2016 and 56% in September 2017. Those who responded that a dictatorship might be better increased from 12% in 2014 to 14% in 2016 and 17% in 2017.

**Preferred Candidate Profiles** This sample was asked the importance of certain aspects involved in their choice of candidates in October 2018:

- Not involved in any corruption: 87%
- Has administrative experience: 79%
- Political experience well known: 65%
- Has private sector experience: 59%
- Is religious: 33%
- Is a “new comer” to politics: 31%
- Has military background: 24%

**Evaluation of the Temer Government** Reached the lowest point in history (5% positive):

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<tr>
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</thead>
<tbody>
<tr>
<td>Good/Excellent</td>
<td>14%</td>
<td>10%</td>
<td>9%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Regular</td>
<td>42%</td>
<td>34%</td>
<td>28%</td>
<td>23%</td>
<td>20%</td>
</tr>
<tr>
<td>Bad/Terrible</td>
<td>31%</td>
<td>51%</td>
<td>61%</td>
<td>69%</td>
<td>73%</td>
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<tr>
<td>DK/NR</td>
<td>13%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
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</tr>
</tbody>
</table>

Temer’s approval rating was worse that that of Dilma Rousseff before her impeachment (8%), and equaled that of Sarney in 1989 when inflation was running at 100% per month. However, in June 2017, 30% said that Temer should remain to finish his mandate compared with 37% in September 2017.

1.2 – Sen. Aécio Neves “in limbo”

In May, STF Judge Edson Fachin suspended Aécio Neves Senate mandate but later he was reinstated. Last week, the STF first working group again suspended his mandate and imposed a night time restriction for him not to leave home. This created “tension” between these tow Powers – Senate and Supreme Court, and a number of senators tried to force the Senate to “revoke” this STF decision. Neves’ lawyers tried to get the STF to designate another judge to report this case, but this was denied on 3rd October. STF President Cármen Lúcia set 11th October for a full Supreme Court decision on this case, but senators forced a vote on this case also on 3rd October 50 said “wait and see” and 21 voted “decide now”. Thus, for the time being no “head on collision” of the Senate with the STF. Neves is currently suspended from the Presidency of the PSDB and a majority of PSDB deputies want him removed permanently and the election of a new national party President. **Conclusion** Aécio Neves’ political career seems to have ended.

⇒ *Stay tuned!!!*
1.3 – States’ fiscal crises

1.3.1 -Rio Grande do Sul

In an effort to reduce its fiscal deficit, on 4th October, the Government of Rio Grande do Sul announced on 4th October that it will sell 49% of its shares in the state-owned bank ➔ Banrisul. BUT the state government will retain a 51% majority control of the bank. In 2016, Rio Grande do Sul had a R$ 104 million fiscal deficit. It is possible that this operation might yield R$ 3 billion but might not be sufficient to fulfill the requirements for a fiscal bailout by the Finance Ministry.

1.3.2 – Rio de Janeiro

Finally, on 5th October, the TRT in Rio annulled the injunction that prohibited the sale of Cedae – the state water and sewerage firm. This sale is/was the last condition for the Ministry of Finance to resolve the state’s fiscal crisis.

1.4 – STF judicialization of Ficha Limpa Law

On 4th October, the STF – on a close 6-to-5 vote – decided that the Ficha Limpa Law that was approved by Congress in June 2010 could be applied retroactively. This means that persons convicted by a 2nd level court before June 2010 will be considered ineligible to run for office. The STF judges reached a 5-to-5 tie that was broken by the vote of STF President Judge Cármen Lúcia.


1.5 – COB President arrested in Rio

As a consequence of the Federal Police Operation Unfair Play, the President of COB-Brazilian Olympic Committee, Carlos Arthur Nuzman (age 75) was arrested in Rio on Thursday, 5th October. Nuzman’s “right hand man”, Leonardo Gryner was also arrested. These arrest warrants were issued by Federal Judge Marcelo Bretas. They are accused of paying bribes to influence the decision of the IOC-International Olympic Committee to secure the 2016 Olympic Games for the City of Rio de Janeiro. The Federal Police discovered that Nuzman’s assets doubled before the Rio-16 games and the IOC stated that it would “take some actions” vis-à-vis Nuzman. The Federal Police are also investigating the role of André Gustavo Richer who was COB President between 1990 and 1995. Switzerland affirmed that it will freeze all assets held by Nuzman – including 16 bars of gold.

On Friday, 6th October, the IOC suspended Nuzman and the COB from the international body, but Brazil’s athletes were not affected.


1.6 – Independence for Southern Brazil??

To a certain extent inspired by the independence plebiscite for Catalan independence from Spain (held on Sunday, 1st October), the three southern Brazilian states will hold an informal plebiscite on Saturday, 7th October regarding the possible independence of this region. Voting will be held in 900 of the region’s 1,191 towns and cities. Another independence plebiscite might be held in Scotland that does not want to leave the EU. Apathy will be a big problem for this “plebiscite”.

Rio Grande do Sul had three civil wars in attempts to become an independent nation – the República Piratini – two in the 19th century and one in the 1920s. The state of São Paulo launched a civil war against the Getúlio Vargas Government in 1932, was defeated by federal troops.

Celso Deucher, the leader of “The South is my Country” movement affirms that the South contributes four times (in federal taxes) than it receives in federal services and suffers from under representation in the Brazilian lower house of Congress. He argues that this unjust situation out weighs the legal impediments → the 1988 Constitution prohibits succession. Apparently, different from the Catalan case (where the Spanish central government used considerable police violence in an attempt to block that plebiscite, the Brazilian government will not attempt to impede this informal plebiscite.

The wealth of the southern region is not what it used to be. Although real wages are above the national average, the South now ranks third among the five regions in terms of per capita income. Currently, Rio Grande do Sul is in a desperate fiscal crisis (See Item 1.3) and thus if this region became independent, Santa Catarina and Paraná would have to “absorb” this situation. Also, this new independent nation would have to negotiate its entry into Mercosul and trade relations with Brazil, the EU, the US, Japan, China, etc.

See→ https://www.bloomberg.com/news/articles/2017-10-04/catalan-vote-inspires-brazil-s-southern-separatist-movement

1.7 – Chamber deliberates 2nd denunciation of Temer

As previously reported, just before he left office, then PGR Rodrigo Janot, delivered a second denunciation of Pres. Temer to the STF that in turn transmitted same to the Chamber to decide whether the Supreme Court should proceed (or not) to judge this accusation.

As in the first denunciation, the conflict centered on the Chamber CCJ where a reported designated by the CCJ President would prepare a report to be voted on by the full CCJ. In the first denunciation, the designated reporter was Dep. Sérgio Zveiter (PMDB-RJ) who reported in favor of the continuation of this case at the STF, but this was not sustained by the full Chamber.
In this second case, the CCJ President, Dep. Rodrigo Pacheco (PMDB-MG) designated Dep. Bonifácio Andrade (PSDB-MG) to be the reporter (reportedly indicated by Pres. Temer). However, the PSDB delegation in the Chamber rebelled and asked Andrade to refuse the task of reporter. He refused, and so the PSDB tried to remove him from the CCJ, but the PSC removed one of its deputies from the CCJ and designated Andrade as its representative on the CCJ – a highly irregular move. Andrade is a long-time veteran in the Chamber – in his tenth consecutive mandate. The CCJ should vote on Andrade’s report on 17th October. A possible full Chamber vote might occur on 25th October.

2 – FOREIGN RELATIONS & TRADE

2.1 – September Trade Surplus

On Monday, 2nd September, MDIC announced the September trade surplus of US$ 5.178 billion – the largest September result since this series began in 1989. Exports totaled US$ 18.666 billion and imports of US$ 13.488 billion. In the first 9 months of 2017, the accumulated trade surplus is now US$ 53.283 billion. MDIC predicts that the 2017 total should surpass US$ 60 billion. The trade surplus in 2016 was US$ 47.7 billion.

2.2 – Cesare Battisti tried to escape to Bolivia

In the 29th September edition [last week] edition, Brazil Focus reported:

“The Italian government has again requested that Brazil approve the extradition of Italian terrorist Cesare Battisti who was convicted of several political motivated murders. His extradition was blocked by Lula’s then Justice Minister Tarso Genro (PT-RS). Reportedly, Temer’s Justice Minister Torquato Jardim and his Foreign Minister Aloysio Nunes Ferreira are favorable to this extradition.”

Apparently, Battisti (age 62) “saw the handwriting on the wall” and in anticipation of his eminent arrest tried to flee Brazil. On 4th October, Battisti was “detained” as he tried to enter Bolivia in Corumbá, MS. He was detained at the Federal Police installations in Corumbá. He had parked his car near the border crossing and attempted to cross the border on foot. According to the Federal Police, he did not declare that he was carrying more than R$ 10,000,00 [nearly R$ 23,000,00 -- US$ 6,000.00 and 1,300 Euros] and for this reason was detained.

In Italy, Battisti was convicted for the murder of four persons in the 1970s when he was an active member of PAC-Armed Proletarians for Communism (a branch of the Red Brigades) and sentenced to life in prison in 1993. He escaped to France in 2004 and when the French government was about to revoke his refugee status, he ended up in Brazil in 2007 where his extradition was requested by the Italian government. The special commission at the Ministry of Justice recommended his extradition in 2009 and the STF authorized his extradition but the final decision was in the hands of then Pres. Lula. BUT at the suggestion of then Minister of Justice, Tarso Genro (a proto-Communist), Lula rejected his extradition on his last day in office (31st December 2010). Battisti was thus released from prison and lives in SP, where he married a Brazilian and has a Brazilian child. Under Brazilian law, if you have a Brazilian wife and child, you can’t be extradited.
On 5th October, Italian Foreign Minister Angelino Alfano tweeted that Italy was working together with the Brazilian government to secure the extradition of Battisti and that he had already met with Brazilian Ambassador Antonio Bernardini to discuss this question.

This was the case of one of those convicted in “the Great Train Robbery” in the UK (1963) – Ronald Biggs. He escaped and after a “world tour” ended up in Brazil (Rio de Janeiro) where he married a Brazilian and fathered a child who became a child TV star. With his extradition denied, UK agents captured him and attempted to fly him back to London on a private jet plane but when this plane landed to refuel in Barbados he was released by a local court order and return to Rio. Israeli agents were more successful in kidnapping Adolf Eichmann in Argentina and flying him back to Israel to stand trial.

There is a hypothesis that Battisti “wanted to be arrested” so that he would have a lengthy trial and a small jail term. The rationale here is that during this process he could not be extradited.

The BIG difference is that Biggs was not convicted of murder; whereas Battisti was convicted as a terrorist who had committed four murders. The difference between Eichmann and Battisti is between holocaust genocide and four murders. In the early 1960s, probably Argentina would not have allowed to the extradition of Eichmann.

Battisti’s lawyers had already filed a habeas corpus request at the STF to impede his possible extradition and this was distributed to Judge Luiz Fux.


On Thursday, 5th October, via a teleconference from Corumbá with federal judge Odilon de Oliveira in Campo Grande. The judge determined the prison sin die of Battisti because he had attempted to flee to Bolivia that violated his refugee status in Brazil – in addition to violating the rule of a maximum amount of cash on leaving Brazil. Reportedly, Battisti will lose his refugee status and could be vulnerable to immediate extradition to Italy/

➔ Stay tuned!!

2.3 – Barack Obama in SP

On his second visit to Brazil (the first was as President in 2011), former US President Barack Obama was the main star participant at the Global Citizen Forum in São Paulo on Thursday, 5th October. This event was promoted by Valor Econômico, Grupo Globo and Banco Santander.

Among other participants at this event ➔ Martin Wolf (Financial Times) and Prof. Robert Solomon (NYU). Obama had an active conversation with Ronaldo, former Brazilian soccer star. BUT Obama’s security detail impeded former PT senator and current SP city council member, Eduardo Suplicy from having direct contact with Obama. Suplicy wanted to personally deliver to Obama his “obsession” – a plan for a universal minimum cash transfers to all people.
After this event, the Obama Foundation organized an encounter of Obama with 11 young
Brazilian leaders (ages 23-36).

On Friday, 6th October, Obama traveled to Argentina in order to participate in a “Green
Economy” event in Cordoba. Later, he had an encounter with Pres. Mauricio Macri on Saturday, 7th
October. In March 2016, then Pres. Obama, his wife Michelle and their daughters visited Argentina
and they visited Bariloche together with Macri, his wife Juliana Awada and their daughter.

https://www.nytimes.com/2017/10/05/world/americas/obama-speech-brazil.html

https://www.washingtonpost.com/world/the_americas/obama-calls-north-korea-a-real-threat-at-forum-in-
brazil/2017/10/05/90287a04-a9f9-11e7-9a98-07140d2ed02_story.html?utm_term=.10137e72c55a

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http://www1.folha.uol.com.br/mundo/2017/10/1924831-na-argentina-obama-encontra-macri-e-tem-agenda-politica-
carregada.shtml

2.4 – Statoil ➔ Ceará

For the first time, a large foreign petrol firm will invest in solar energy in Brazil. On 4th
October, the Norwegian Statoil announced that it would invest R$ 78 million in a solar energy
installation in Quixeré, CE that should begin operations in 2018. This installation will generate 162
MW of electricity sufficient to supply 160,000 homes.

3 – REFORMS

3.1 – Political Reform

The final deadline for approval of any political reform (changes in election and party rules for
the 2018 elections) must be published in the daily record before Saturday, 7th October (one year prior to
the 2018 election. Pf the many proposals presented in the Chamber and Senate, so far only two have
been finally approved 1) A “threshold” barrier for small/micro parties as of the 2018 elections – those parties that did not achieve 1.5% of the valid vote for federal deputies in at least 9 states will not have access to the party fund or the free party propaganda time in radio/TV. 2) Party coalitions for proportional elections (deputies and city councils) would be prohibited as of 2020. However, parties would be able to form “party federations” that, different from coalitions, would have to remain together until the next election (four years) and no deputy in a federation would switch parties.

3.2 – Foro Previilegiado

This artifice protects deputies, senators and cabinet ministers from being accused/judged by first level federal and state courts – they can only be judged by the Supreme Court. The STF is not a penal court and thus takes several (many) years to complete such a case.

The Senate has already approved a PEC that removes this absurd “protection” (almost immunity) for these officials and now the Chamber CCJ is deliberating this PEC. If approved by the CCJ a special committee with be established to prepare a report to the full Chamber regarding this PEC.

4 – PRIVATIZATION & REGULATION

4.1 – Petrobras??

On Tuesday, 3rd October, Ibovespa was up by +3.23% and surpassed 76,000 points after the Minister of Mines & Energy, Fernando Coelho Filho, stated (on Monday) that the privatization of Petrobras “might occur in the future” – without mentioning any “timetable” (dates, etc.). FUP (Petrobras Workers Labor Union) president João Antonio de Moraes said “This is a crazy idea – it was defeated in the past four elections”.

4.1.2 – BR Distribuidora

According to an interview by Petrobras CEO Pedro Parente with the Financial Times, Brazil’s largest privatization ever is being prepared – the sale of 49% of BR Distribuidora, the arm of Petrobras that deals with retail petrol sales (gas stations) – to take advantage of favorable market conditions. Parente said that that this IPO might occur in 4th Q/2017 and that the market value should be between R$ 30 billion and R$ 40 billion. Parente told the FT “We always have to be prepared so that if the market grins at us, we can go over there and give it a kiss”. He said that the articles of association of BR Distribuidora have been rewritten with plans to list the company on Brazil’s Novo Mercado – a segment of the market reserved for corporations with higher governance standards. Currently, Petrobras’ debt is estimated at US$ 89 billion. Petrobras is aiming for about US$ 21 billion in asset sales in 2017 and another US$ 13.7 billion in 2018.

See https://www.ft.com/content/4a7b66f2-a377-11e7-b797-b61809486fe2
4.2 – Intervention ➔ Postalis

On Wednesday, 4th October, Previc-National Unit for Complementary Pension Funds decreed a 180-day intervention into the Postal Workers pension fund (Postalis). This is one of the state enterprise pension funds that were ripped off badly by malicious administrators appointed by Lula and Dilma. Five former Postalis directors had all their assets frozen by the TCU that investigated this fraud/crime. The “new” Postalis administrators have now been removed by this Previc decree.

4.3 - Eletrobras

The government has indicated that the basic proposal for the privatization of Eletrobras will be sent to Congress “in October”.

4.4 - Viracopos

In 2012, during the Dilma Rousseff government, the Viracopos airport in Campinas, SP was acquired in a concession auction by a consortium of UTC, Triufo and Egis (French), with the participation of Infraero for R$ 3.8 billion (+160% over the minimum price). UTC was involved in the *Lava Jato* bribe scandal and became technically bankrupt. Infraero had financial difficulties and the other partners (Triunfo and Egis) were unable to make the concession payments alone. Thus, for the first time in the series of airport privatizations/concessions, the Viracopos consortium returned the concession to ANAC in July 2017 and ANAC had been contemplating a new concession auction.

The concession for the Galeão airport in Rio had a concession “re-organization” when Odebrecht TransPort sold its participation to the Chinese HNA in 2016.

Between 2011 and 2014, the annual flux of passengers at the St. Petersburg airport increased from 9.6 million to 14.3 million. In Brazil, because of the severe recession, between 2015 and 2016, the annual flux of passengers has decreased ➔ Viracopos, 10.32 million ➔ 9.32 million; Guarulhos, 38.99 million ➔ 36.60 million; and Galeão, 16.94 million ➔ 16.10 million.

However, a Russian group ➔ VTB Capital has proposed the direct acquisition of the Viracopos concession without a new auction. VTB currently participates in the NCG consortium that administers the St. Petersburg airport together with the German Fraport and the Greek Horizon Air Investment. ANAC has signed a memorandum of understanding with VTB, but the mechanism/procedures for this operation have yet to be defined by ANAC.

5 - ECONOMICS

5.1 – Industrial Production

According to IBGE, industrial production was down by -0.8% (MoM) in August – but +4.0% YoY.
5.1.1 - Automobiles

According to Fenabrave, auto sales in September totaled 199,227 (+24.5% YoY). The total in 2017 was 1.62 million units. *Tendência Consultoria* predicts that sales in 2017 should reach 2.27 million units (+11.1% YoY). In August 2017, 216,000 units were sold.

Anfavea reported that in September auto production was up by +39.1% YoY and down by -9.2% MoM, because September has 3 less working days than August. This increased production was in part due to increased exports.

5.1.2 – Construction materials

According to Anamaco, wholesale sales of construction materials were up by +7.0%

5.1.3 – Supermarket sales

According to Abas, supermarket sales were up by +0.25% YoY in August, but down by -1.91% YoY. For the first 8 months in 2017, sales were up by +0.67% YoY.

5.2 – STN ➔ New bond issue

On 3rd October, the STN organized the sale of some US$ 3 billion in 2018 Globals with a spread on 235 base points above US Treasury bonds and a return of 4.675% to investors (better than that for 2026 Globals (5.00%). This operation had technical support from BBA, Banco Santander and Deutsche Bank.

5.3 – BNDES transfers to STN

Last week, BNDES transferred (back) to the STN R$ 33 billion and should complete this total sum of R$ 50 billion (the final R$17 billion in November. This “anticipation” is part of the extra/special revenues that are being used to reduce the fiscal deficit in 2017. The TCU indicated that BNDES should return (transfer) R$ 180 billion back to the STN.

5.4 – Consumer default declined in September

On 5th October, Boa Vista SCPC released data showing that the level of consumer default had declined by -7.1% MoM and -12.1% YoY in September. This decline is the result of the economic crisis (recession) that inhibited consumer buying. Boa Vista affirmed that “Maintaining the perspective of a small increase in the economy and average incomes, lower interest rates and inflation under control, a sustained return of demand for consumer credit is expected”.

5.5 – Retail sales up in September

According to Serasa Experian, commercial activities (retail sales) were up by +1.0% Mom and +3.4% YoY. This is yet another indicator that Brazil’s economy is beginning to recover.
5.6 – September inflation

On 6th October, IBGE released its data for the September IPCA ➔ +0.16%. The accumulated 9-month result in 2017 is now +1.78% and +2.54% for the 12-month period. There are expectations that the IPCA in 2017 will be below the lower limit of the target (+4.5%) with the lower limit set at +2.5%. The increases in the price of gasoline (+2.52%) were the main force pushing the IPCA upward in September.