Looking Ahead ➔ What to watch for?

- **24-25 Oct.** -- Copom meeting, Selic rate ➔
- **25th Oct.** – Full Chamber to vote on 2nd denunciation of Pres. Temer
- **27th Oct.** -- Former President Lula ➔ 72th birthday
- **27th Oct.** -- IFC & World Bank to publish “Doing Business”, Brazil ranked ___
- **27th Oct.** -- FGV to post October IGP-M ➔ +0.% versus +% in September
- **28th Oct.** -- Public Servants’ Day – Optional federal holiday in Brazil
- **31st Oct.** -- Halloween
- **31st Oct.** -- Public Accounts data for September
- **1st Nov.** -- Trade balance for October ➔ US$
- **2nd Nov.** -- National Religious Holiday [Day of the Dead]
- **3rd Nov.** -- IBGE to report September Industrial Production ➔ +0.%
- **3rd Nov.** -- New car sales October ➔ units, % MoM
- **5th Nov.** -- Daylight Savings Time ends in the US ➔ 3-hour time difference NYC/Brasilia
- **7th Nov.** – IBGE to post IPCA data for October ➔ +0.%
- **7th Nov.** -- Election Day in the US
- **7-8 Nov.** -- Copom meeting, Selic Rate ➔
- **11th Nov.** -- Remembrance Day (in UK & Canada); Veterans’ Day (in US)
- **14th Nov.** -- IBGE to post Industrial Employment data for September ➔ % MoM
- **14th Nov.** -- IBGE to post Retail Sales data for September, +0.% MoM & +% YoY
1 - POLITICS

1.1 – Sen. Aécio Neves judged by Senate peers

After the 6-to-5 vote by the STF on 11th October that affirmed that actions against Aécio Neves should be “reviewed” by the Senate, the Upper House scheduled the vote on the “Neves Case” for Tuesday afternoon, 17th October whether to maintain the suspension of Neves’ Senate mandate (or not). A federal judge in Brasília ordered the Neves vote to by an “open, roll call vote”. This was reinforced by an injunction issued by STF Judge Alexandre de Moraes.

This proved to be a “very hot issue” in the Senate. The PT delegation, that had criticized the STF action against Neves, decided to vote against him. PSDB floor leader, Sen. Paulo Bauer (SC), suffered a “coronary problem” and was hospitalized in Brasília. Sen. Romero Jucá was hospitalized in SP recovering from diverticulitis. Sen. Ronaldo Caiado (DEM-GO) was in Goiânia recovering from a collar bone injury after falling of a mule at his farm. The PT Governor of Bahia, Rui Costa “liberated” his State Secretary of Education, Sen. Walter Pinheiro (No Party)) to return to Brasília to temporarily resume his mandate to vote against Neves. Several Senators addressed the Senate to declare their votes against and in favor of Neves.

There was concern that an “empty Senate” (few Senators present) might cause the postponement of this session.

However, Senate President Eunício Oliveira (PMDB-CE) maintained the vote (with 70 senators present and voting) that rejected the STF decision to suspend Neves’ mandate 44-to-26 – with 10 absent. To restore Neves’ mandate, 41 votes were needed. Reportedly, Pres. Temer got personally involved in coordinating the vote in favor of Neves. Thus, the concern regarding a “low quorum” was not confirmed. Two senators did not vote Eunício Oliveira (Senate President) and Aécio Neves (whose mandate had been suspended. Eight senators were on official missions overseas – 3 to the Arab Emirates and 5 to Russia. The ninth absence was Rise de Freitas (PMDB-ES) who claimed she could not find a flight from Vitória to Brasília on Tuesday morning.

The PMDB, PSDB, PP, PR, PRB, PROS and PTC oriented their senators to vote “No” (in favor of Neves. The PT, PSB, Pode, PDT, PSC and Rede mobilized their senators to vote “Yes” (against Neves). The DEM and PSD told their senators to vote their individual conscience.

The PSDB voted in block for Neves – all of the ten present and voting. The PMDB had two against Neves – Sen. Kátia Abreu (TO) and Roberto Requião (PR) plus one absent for a total of 18 pro-Neves. The DEM, PP and PR had one vote each against Neves. All the 17 senators accused in the Lava Jato investigations voted in favor of Neves.

See https://g1.globo.com/politica/noticia/senado-derruba-afastamento-de-aecio.shtml
### Breakdown of Senate vote by Party

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### Compiled from:
[https://g1.globo.com/politica/noticia/veja-como-votou-cada-senador-na-sessao-que-derrubou-afastamento-de-aecio.ghtml](https://g1.globo.com/politica/noticia/veja-como-votou-cada-senador-na-sessao-que-derrubou-afastamento-de-aecio.ghtml)

It is not certain whether the PSDB deputies will “return the favor” to the PMDB during the vote on the second denunciation of Pres. Temer in the Chamber. Also, it seems that a majority of the PSDB does not want Senator Aécio Neves to reassume the party’s national presidency – except for those who do not want to see Sen. Tasso Jereissatti (PSDB-CE) strengthened in PSDB leadership. Tasso has been the interim PSDB acting President since Neves took leave from this position.

Within 40 days, the PSDB will hold a national convention to elect a new president and executive committee. However, there are indications that before this date, Sen. Aécio Neves will formally resign the presidency of the PSDB.

### 1.2 – Police operation against Dep. Lúcio V. Lima

On Monday, 16th October, the Federal Police executed search-and-seize warrants against Dep. Lúcio Vieira Lima (PMDB-BA) – the brother of Geddel Vieira Lima arrested and imprisoned because of corruption accusations and the “discovery” of R$ 51 million in “cash” at an apartment in Salvador,
BA. The federal police visited the deputy’s office at the Chamber of Deputies, his official apartment in Brasília in addition to his apartment and offices in Salvador.

The owner of the apartment in Salvador, Sílvio da Silveira, told police that he had lent this apartment to the Vieira brothers to store their father’s articles and documents after his death in 2016. The police discovered the fingerprints of Geddel and his “associate” Gustavo Ferraz on the plastic wrappers of some of this “cash”. They also encountered fingerprints of brother Lúcio and his staffer Job Ribeiro Brandão. However, Gustavo Ferraz was arrested but not Job Brandão. Also, in the apartment where the police encountered the R$ 51 million in cash, a receipt related to Marinalva de Jesus, a staffer in Deputy Lúcio’s office at the Chamber.

However – STF Judge Edson Fachin ordered that Job Brandão be placed under house arrest.

1.3 – Slave labor in Brazil – “What’s that?”

Pres. Temer is desperately attempting to mobilize votes in the Chamber to defeat the (second) attempt to bring him to judgment at the STF (denouncement by the PGR) – and has “passed out ‘goodies’ to many deputies. The last “goodie” was to meet the demands by the Bloco Ruralista [Rural Caucus] in the Chamber – the largest block in the lower House (some 200 deputies). The “demand” was to alter the inspection process (criteria, etc.) for discovering forced “slave labor” on farms in Brazil. To this effect, the Labor Minister, Ronaldo Nogueira, signed a decree (portaria) on 16th October, but the inspection division at the Ministry of Labor says that this simple decree does not overturn the relevant legislation (the national Penal Code).

This measure puts new restrictions on the efforts by inspectors to locate and punish “slave labor” imposed by farmers, and the inclusion (and publication) of the “dirty list” of farmers (and farm organizations)” that have been identified as using slave labor.

For example ➔ 1) The Labor Ministry inspectors can only label conditions as “slave labor” if the liberty of the workers to come and go is restricted, via armed guards and retained documents of these rural laborers; 2) Infractions can only be officially registered IF a local police officer is present to witness the “conditions” (em flagrante); 3) Only the Minister of Labor can decide the inclusion of a farmer on the “dirty list” and only the Minister can authorize the publication of this list.


The new PGR Raquel Dodge met with the Labor Minister and told him that “his” decree violated the 1988 Constitution and the penal code and she “suggested” that he repeal this order. Former President F.H. Cardoso called this a “disaster” that harkened back to Brazil’s age of slavery (prior to 1888). Former Ambassador Rubens Ricupero affirmed that this decree might create difficulties [non-tariff barriers] for certain farmers to export their products (produced with “slave labor”).
**Detail:** Because of “fiscal crisis” budget reductions, the Temer government reduced anti-slave labor inspections by the Ministry of Labor. In 2016 there were 117 inspections, but so far in 2017 only 49 such operations were carried out.

1.4 – Second denunciation of Temer in the Chamber

Finally, on Wednesday, 18th October, after 9 hours of debates the Chamber CCJ voted out the report submitted by Dep. Bonifácio de Andrada (PSDB-MG). This report was approved by a 39-to-26 with on abstaining (the CCJ President). The two-vote difference from the CCJ vote on the first denunciation (41-to-24) came from the PSB. In the first denunciation, two of the four PSB deputies voted in favor of Temer. **BUT** the new PSB floor leader, Dep. Júlio Delgado (PSB-MG) – who substituted Dep. Tereza Cristina -- removed these two deputies from the CCJ and replaced them with anti-Temer deputies. Thus, all four PSB deputies voted against Temer on 18th October, while the other CCJ deputies maintained their positions from the first denunciation. In spite of the Temer and PMDB articulations that helped “save” the mandate of Sen. Aécio Neves (PSDB-MG) in the 17th October vote, **five** of the eight PSDB deputies on the CCJ voted against Temer. Now, this case goes to a final vote by the full Chamber on Wednesday, 25th October. Probably, the PSDB will be even more divided than it was on the vote for the first denunciation of Pres. Temer.

1.5 – **Lava Jato**

**TRF-4 Absolved Three** -- On 19th October, the TRF-4 absolved three accused by the *Lava Jato* investigation but absolved by Judge Sérgio Moro, but the MPF appealed this case to the regional court in Porto Alegre ➔ Gim Argello Junior (son of former Senator Gim Argello), Paulo Roxo (former DF Secretary of Finance), and Dilson Cerqueira.

**Gim Argello** – Former Senator Gim Argello (PTB-DF) was convicted and sentenced to 19 years in prison by Judge Sérgio Moro. Apparently, it is possible that the TRF-4 might reduce this sentence to 9 years.

**Luiz Carlos Moreira** – On 20th October, Judge Sérgio issued an arrest warrant for Moreira (a former Petrobras manager of the international sector of Petrobras) after convicting/sentencing him to a 12-year jail term. Moreira and other Petrobras managers were accused to operating in “collusion” to benefit Odebrecht in contracts with Brazil’s giant Pertol state enterprise. Moreira was also accused of receiving a bribe related to the “corrupt” acquisition of the Pasadena refinery in Texas.

**Jorge Luz** – On 19th October, Judge Sérgio Moro convicted/sentenced an operator of the PMDB, Jorge Luz to 13 years in prison. His son, Bruno Luz was sentenced to a 6-year term.

**Nuzman** – On 19th October the sixth STJ working group decided to release (under certain conditions) the former COB President – Carlos Arthur Nuzman.

**Demarco Epifânio** – On 19th October, former Petrobras manager, Demarco Jorge Epifânio informed Judge Sérgio Moro that he has not been able to transfer his bribe funds (US$ 188,000.00) from his Panamá bank account back to Brazil because no Brazilian bank accepted this operation. Moro then ordered the CEF to finalize this operation.
**Claudio Genu** – former national PP treasurer -- had his sentence increased by the TRF-4 to 9 years and 4 months.

**Dilma Rousseff** – Judge Sérgio Moro set the testimony of ex-President Dilma Rousseff for 27th October. She is a witness in favor of Aldemir Bendine.

**1.6 – Mega operation against pedophiles**

On 20th October, the Federal Police launched a mega operation against pedophiles in Brazil. With the assistance of the US Embassy, in 24 states and the DF, 108 arrest warrants and 178 search-and-seize warrants were carried out. This was considered one of the largest operations of this type worldwide and involved 1,100 police.

**2 – FOREIGN RELATIONS & TRADE**

Nothing this week.

**3 – REFORMS**

Nothing this week.

**4 – PRIVATIZATION & REGULATION**

4.1 - Congonhas

Seen above in Item 1.3, Pres. Temer is bargaining important public policy decisions/positions in order to mobilize more votes in his favor in the Chamber of Deputies deliberation of the 2nd PGR denunciation scheduled for a final vote next week – 25th October.

**First** – Temer (and his Labor Minister bargaining with the 200+ Rural Block in the Chamber to dilute the investigations of slave labor conditions on farms in Brazil. **Now** – apparently, a second bargain has been struck with Valdemar da Costa Neto (PR-SP) to remove the Congonhas (downtown SP airport) from the list of privatizations in 2018. Although convicted in the Mensalão corruption scandal, Valdemar still has very strong influence over the PR delegation in the Chamber (37 deputies) who should be important to sustain Temer in the 25th October vote.

**Pampulha ➔** Reportedly, this downtown Belo Horizonte airport is also on the “wish list” of the PR. After the new BH airport (Confins) was opened, Pampulha became a regional airport with no connections to any other state capitals. The PR wants Pampulha re-opened for such connection flights.
The question remains – what other public policy/positions will be bargained by Temer before the 25th October vote??

5 - ECONOMICS

5.1 – Services sector declined in August

On 17th October, IBGE released data for the services sector in August ➔ a -1.0% MoM and -2.4% YoY. In July, this sector suffered a decline of -0.8% MoM. This August decline was due in large part to price increases for rents and food. This was the worst August result in five years.

5.2 – Increase in federal revenues

On 19th October, the SRF released data for federal revenue collections in September ➔ R$ 105.5 billion ➔ +8.6% YoY. This was the second consecutive month with such a positive result. Refis “collected R$ 10.9 billion, and the September “parcel” was R$ 3.4 billion. Between January and September 2017, federal revenues were R$ 9.68 billion (+2.4% YoY). The SRF cited increased employment that produced a +5.87% social security contributions and a +10% increase in personal income tax revenues.

5.3 – Investments increase in August

According to IPEA, after 13 consecutive months of decline, investments were up by +0.8% YoY in August. So far in 2017, investments declined by -2.3% compared with the same period in 2016. The sale of machines and equipment (+1.8% MoM0 while civil construction was down -2.3% MoM and -4.5% YoY.

5.4 – IBC-Br declined in August

On 18th October, the Central Bank released data for its Index of Economic Activity (IBC-Br) for the month of August ➔ -0.38%, after increases of +0.46% in June and +0.41% in July. The IBC-Br accumulates +0.42% and +1.08% for the 12-month period. The data from three indexes used by the Central Bank had already produced negative results for August ➔ PIM-Monthly Industrial Production (-0.8%), PMS-Monthly Services Survey (-1.0%) and PMC-Monthly Retail Survey (-0.5%).

5.5 – October Inflation

On 18th October, FGV released its IGP-10 ➔ +0.49%, up from +0.39% in September. Fuels and commodity price increased pressured this index upward in this period (11th September ➔ 10th October).
5.6 – Wind energy in Brazil

On 18th October, ONS-Operator of the National Electric System released data showing that 9.9% of Brazil’s electrical energy is produced by “wind farms” – a totally renewable energy source. However, this ONS data showed that 51.6% of the electricity consumed in the Northeast region comes from “wind farms”. Wind flows in the Northeast region are very constant (24 hours per day) – very different from the situation in Germany and Denmark that have extensive “wind farms”. The existence of many “wind farms” in the Northeast region is currently very strategic due to the very low capacity of the reservoirs of the region’s hydro electric installations.

5.7 – Caged – 34,400 new jobs created in September

On Thursday, 19th October, the Ministry of Labor released the Caged employment data for September ➔ 34,400 net new jobs were created. This was the sixth consecutive positive result in 2017 and the best September result since 2014 when 123,800 new jobs were created. The result in 2017 is positive – 208,900 jobs created, but the 12-month accumulation is still negative ➔ 466,600 jobs lost.

In September, the industrial sector created 25,700 new jobs and followed by the retail sector, 15,000 new jobs created. In 2016, 2,001,000 jobs were – the worst result in 40 years.