Looking Ahead ➔ What to watch for?

- 28th Oct. -- Public Servants’ Day (Saturday) – Optional federal holiday in Brazil ➔ Transferred to Friday, 3rd November
- 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. -- Public Servants’ Day [Friday], transferred from 28th October
- 3rd Nov. -- New car sales October ➔ units, % MoM
- 5th Nov. -- Daylight Savings Time ends in the US ➔ 3-hour time difference NYC/Brasília
- 7th Nov. -- IBGE to post IPCA data for October ➔ +0.%
- 7th Nov. -- Election Day in the US
- 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
- 14th Nov. -- IBGE to post full PNAD report for 2016
- 15th Nov. -- National Holiday [Republic Day]
- 17th Nov. -- Central Bank to post IBC-Br for 3rd Q/2017, % QonQ
- 17th Nov. -- SRF to announce October federal revenues
- 17-19 Nov. -- APEC summit meeting in Arequipa, Peru
1 - POLITICS

1.1 – Chamber vote on Temer denunciation

The Chamber of Deputies voted on the 2nd denunciation of Pres. Temer on Wednesday, 25th October.

Temer Hospitalized ➔ On Wednesday afternoon, around 1:00 p.m., before the Chamber achieved the quorum of 342 deputies present, Pres. Temer was stricken with abdominal pains and hospitalized at the Armed Forces Hospital in Brasília. The initial diagnosis was that his urethra was blocked, probably due to a gall stone. However, the final diagnosis was that Pres. Temer suffers from HPB-Hepato-Pancreato-Billary. In older males, the prostrate gland enlarges in a benign situation that obstructs the passage of urine. Apparently, Pres. Temer will sooner or later have to undergo prostrate surgery (perhaps by laser surgery) to alleviate this condition.

On 27th October, Friday evening, Pres. Temer flew to SP and entered the Sírio-Libanês hospital for treatment of his “condition”.

The final vote produced 12 less votes favorable to Temer than in August (the first PGR denunciations). Also, the number of deputies absent increased from August, 19 ➔ 25.

<table>
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<th>Results</th>
<th>August</th>
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<td>Pro-Temer</td>
<td>263</td>
<td>251</td>
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<tr>
<td>Anti-Temer</td>
<td>227</td>
<td>233</td>
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<tr>
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<tr>
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<tr>
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</tr>
<tr>
<td>Total</td>
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https://g1.globo.com/politica/noticia/votacao-denuncia-temer-camara.shtml
https://g1.globo.com/politica/noticia/segunda-denuncia-contra-temer.shtml

The PMDB was quite cohesive pro-Temer, 51-to-6, while the PSDB was anti-Temer (20-to-23) – in spite of the effort by Temer and “his” PMDB to “save” Senator Aécio Neves. As reported by Brazil Focus, the “informal” leader of the PR, Vladimir Costa Neto extracted the promise by Temer not to privatize the Congonhas (downtown SP) airport, the 37 PR deputies were divided (26-to-10). The PSD was also divided (20-to-18) as was (11-to-22). The PT was solid anti-Temer (57 votes) as was the PCdoB (11 votes anti Temer). Reportedly, the Temer government plans to “punish” the deputies from the pro-Temer parties who voted against the President.

The COST of the two votes by federal deputies regarding the PGR denunciations of Pres. Temer was estimated by the O Estado de São Paulo at R$ 32.1 billion – including all the “benefits” disbursed by Pres. Temer to “convince” deputies to vote against these denunciations.
This vote indicates that Pres. Temer probably will become a “lame duck” in the last 14 months of his mandate. Apparently, Chamber President Rodrigo Maia (DEM-RJ) will now take the lead to try to approve the social security reform before the end of this legislative session in December.

Chamber President Dep. Rodrigo Maia (DEM-RJ) affirmed that Pres. Temer should urgently re-organize his support coalition in Congress via cabinet reform. However, the Temer government replied that “cabinet reform” only in March, when some ministers will “step down” to run for office in the October 2018 elections.

Apparently, Temer will begin “punishment” for those deputies from government coalition parties that voted against him lose their federal appointees. Most betrayals came from PSD and PSDB deputies.

1.2 – Lava Jato

Sérgio Cabral was transferred to the maximum security federal prison in Campo Grande, MS. This transfer was determined by Federal Judge Marcelo Bretas in Rio because during the most recent testimony before Bretas, Cabral insulted the judge’s family and because of constant visits by Cabral’s family members the judge ascertained that Cabral was “furthering” the corrupt activities of his family and associates. From Campo Grande this will be nearly impossible.

1.3 – Yellow Fever in SP

Last week, the death a wild monkey found in the Horto Florestal park was diagnosed as having been due to yellow fever. As a result, these parks were closed to visitors and some 2.5 million persons in adjacent areas are being vaccinated.

1.4 – Federal holiday transferred

By the order of the STF President, Cármen Lúcia, the “optional” federal holiday (Public Servants’ Day) scheduled for 28th October – a Saturday – was transferred to Friday, 3rd November. The poor public employees were to have their “holiday” on a Saturday in 2017 – but now they will get a nice long, four day holiday, because Thursday, 2nd November is already a federal holiday (The Day of the Dead – Finados).

2 – FOREIGN RELATIONS & TRADE

Nothing this week.
3 – REFORMS

3.1 – Slave Labor

After the Minister of Labor signed a *portaria* “regulating” the actions of Ministry inspectors seeking to discover slave labor conditions in farming activities, the public (and international) outcry was very loud. This instruction was enacted in order to “ placate” [serve the interests] of the Rural Caucus in Congress (with more than 200 deputies) to secure their votes in favor of Pres. Temer in the vote regarding the second PGR denunciation of Pres. Temer and two of his ministers (Moreira Franco and Eliseu Padilha) ➔ as described by *Brazil Focus.*

On 24th October, STF Judge Rosa Weber issued an injunction suspending this *portaria* – one day before the Chamber vote. Also, she ordered the government to publish the current *dirty list* of all slave labor violations in Brazil.

4 – PRIVATIZATION & REGULATION

4.1 - Airports

As reported earlier, the privatization of Brazilian airports and the reactivation of one airport became “chips on Pres. Temer’s political table” to win a favorable vote in the Chamber on 25th October ➔ See Item 1.1. In return for the vote of its 37 deputies, the “informal” head of the PR, former deputy Waldemar Costa Neto demanded that Congonhas (downtown SP) airport be removed from the list of airports to be privatized AND that the former downtown airport in Belo Horizonte (Pampulha) be “reactivated”. When the new, modern BH airport (Confins) was inaugurated – including some international flights – the Pampulha airport was “deactivated” [receiving only small planes to/from regional destinations. Costa Neto demanded that Pampulha be reactivated to receive flight from other state capitals. Costa Neto has many political allies that he was able to appoint to Infraero that would lose their jobs with the Congonhas privatization and some of his Infraero appointees would be transferred to the “upgraded” Pampulha airport. Reportedly, ANAC has already received requests for 77 different flights out of Pampulha.

The President of the airport division of CCR, Ricardo Bisordi, affirmed that CCR would go to court to impede the re-activation of the Pampulha airport. **WHY?** Because CCR is the major firm in the consortium that acquired the privatized Confins airport.

Without Congonhas, the government plans to privatize 13 airports. Four of these 13 airports are more attractive to private groups ➔ Recife, Vitória, Araçajú and Maceió. The other airports on this list are ➔ Cuiabá [Varzea Grande], João Pessoa Juazeiro do Norte, Sinop, Campina Grande, Rondonópolis, Alta Floresta and Barra do Garças. The idea is to organize three blocks of these nine airports ➔ Northeast, Mato Grosso and Maceió and Vitória. The other attraction for investors is that no longer will the new concession holders be obliged to accept a 49% participation of Infraero. [This is what provoked the ire of Costa Neto.]
4.2 – Pre-Salt

After the Chamber vote the alleviated Pres. Temer on 25th October, Chamber President Dep. Rodrigo Maia (DEM-RJ) affirmed that he would accelerate the vote to eliminate the obligatory co-participation by Petrobras (partilha) in exploration contracts in the pre-salt areas – that was imposed by the Lula government. The Libra area is until now the only area under this regime where the Brazilian government has the right to 41.65% of all petroleum produced there.

This ANP auction for eight pre-salt exploration blocks with the participation of 16 firms (14 were multi-nationals). The government projects R$ 100 billion in new investments and the creation of 500,000 new jobs.

On 27th October, ANP conducted an auction for pre-salt exploration blocks. A technical study by the Chamber affirmed that under the current rules this might produce some R$ 7 billion for the federal government, but under the regime of concessions, this might reach R$ 40 billion.

However ➔ On Thursday evening, 26th October, federal judge Ricardo de Sales in Manaus issued an injunction suspending this auction in response to a suit filed by the PT. The rhetoric by the Temer government and the Brazilian press is that this interest and demand by especially foreign petroleum firms is very strong because the very nationalistic rules imposed by the PT (Lula and Dilma) – the “partnership” model that obliged Petrobras to participate in ALL exploration contracts – was not “interesting” for private firms. Also, the PT took Petrobras to the brink of bankruptcy via the giant corruption scheme imposed on Brazil’s giant petrol monopoly and thus Petrobras had no cash available to enter into such partnerships. The model was modified via a MP to be based on the “concession” model and thus attracted 16 large international firms.

Early Friday morning, 27th October (the same day that ANP had scheduled this auction); the AGU appealed the decision by Judge Sales to the TRF-1 in Brasília. ANP said that this auction was all organized with the bidders assembled and that the concessions bidding process could begin as late as 5:00 p.m.
AGU was able to annul the federal judge’s injunction at the TRF-1 and the auction began three hours late in Rio de Janeiro. Two of the eight areas offered in this concession auction had no takers. Thus, ANP received R$ 6.15 billion (instead of the projected R$ 7.7 billion.

The second round auction winning bids were:
1) Gato do Mato area, Santos basin → Shell (80%) & Total (20%)
2) Sapinhoá area, Santos basin → Petrobras (45%), Repsol Sinopec (25%) & Shell (30%)
3) Cacarja North area, Santos basin → Statoil (40%), Exxon (40%) & Petrogal (20%)
4) Tataruga Verde, Campos basin → no bidders

The third round auction winning bids were:
1) Peroba area, Santos basin → Petrobras (40%), BP (40%) & CNODOC (20%)
2) Alto de Cabo Frio Central area, Campos basin → Petrobras (50%) & BP (50%)
3) Alto do Cabo Frio Oeste, Campos basin → Shell (55%), QPI (25%) & CNOC (20%)
4) Pau Brasil area, Santos basin → no bidders

5 - ECONOMICS

5.1 – Copom

Copom met on 24-25 October to decide yet another reduction in the basic Selic rate → 7.5%, reduced from 8.25%. The accompanying note suggested that the reduction of the Selic at the last 2017 Copom Meeting (5-6 December) would be “less”. The markets are predicting a 50 bps reduction to 7.0%.

For one year (between July 2015 and July 2016, Copom maintained the Selic rate at 14.25%. In October 2012 the Selic rate was 7.25%.

5.2 – September Public Accounts

Federal Revenues → R$ 89.8 billion (+8.3% YoY

Federal Public Debt – up +0.79% from R$ 3.404 trillion to R$ 3.430 trillion

Federal Deficit: R$ 172.8 billion in August → R$ 169.9 billion in September

5.3 – BNDES → STN

Reportedly, on 26th October, the Ministries of Finance and Planning authorized the transfer of R$ 50 billion from the BNDES to the STN.
5.4 – Electrolux acquired Dako & Continental

On 23rd October, Electrolux (Sweden) acquired the brands Dako and Continental (factories in Campinas and Hortolândia) from Mabe (Mexican) for R$ 70 million. Mabe went bankrupt and this sale will help this Mexican firm resolve its debts with its 1,900 former Brazilian employees (R$ 79 million). Mabe went into bankruptcy in Brazil in February 2016.