Looking Ahead ➤ What to watch for?

- 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
- 17th-19 Nov. -- APEC summit meeting in Arequipa, Peru
- 19th Nov. -- Chile – First round presidential election
- 20th Nov. -- Zumbi Day – Afro-Brazilian Consciousness Day [holiday in some cities]
- 21st Nov. -- Labor Ministry to release Caged data, new jobs created in October
- 21st Nov. -- IBGE to post IPCA-15
- 21st Nov. -- IBGE to post PME unemployment data for October
- 23rd Nov. -- OECD Education Ratings, Brazil ranked ___ among ___ nations
- 23-24 Nov. -- Thanksgiving Day, holiday observed in the US
- 28th Nov. -- FGV to post November IGP-M ➤
- 29th Nov. -- Public Account data for October
- 30th Nov. -- IBGE to release GDP data for 3rd Q /2017
1 - POLITICS

1.1 – 2018 Elections – Mayors who might run

According to press analyses, at least ten mayors of state capitals elected in 2016 might run for office in 2018 → Senator, Governor or even President. This was quite common in the 1945-1964 period and after 1985. In 1990, five mayors ran, four in 2002 and six in 2010. However, no Mayors “stepped down” to run in 1998 or 2014. In Brazil, it is traditional to consider state capital city Mayors as potential candidates for governor or senator, because they get constant coverage by state level newspapers and TV news shows – especially if they have good approval ratings by polling organizations. Some of the ten listed below were first elected in 2012 and reelected in 2016. It is possible that by early April (the election law time limit) some additional Mayors might also step down.

Before 1964, two politicians were successful in the Mayor→Governor→President sequence → Juscelino Kubitschek and Jânio Quadros. Of the 26 current state governors, six were previously elected mayor of the state capital city → Amazonino Mendes (PDT-AM); Simão Jatene (PSDB-PA); Ricardo Coutinho (PSB-PB); Beto Richa (PSDB-PR); Jackson Barreto (PMDB-SE); and Paulo Hartung (PMDB-ES). Another three current governors had been elected mayor of large cities in their respective states before becoming governor → Confúcio Moura (PMDB-RO); José Sartori (PMDB-RS); and Reinaldo Azambuja (PMDB-MS).

Mayors who might “step down” in 2018

<table>
<thead>
<tr>
<th>Mayor/Party</th>
<th>State</th>
<th>Capital</th>
<th>Run for??</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zenaldo Coutinho (PSDB)</td>
<td>Belém</td>
<td>Governor</td>
<td></td>
</tr>
<tr>
<td>Teresa Surita (PMDB)</td>
<td>Boa Vista</td>
<td>Governor</td>
<td></td>
</tr>
<tr>
<td>Luciano Cartaxo (PSD)</td>
<td>João Pessoa</td>
<td>Governor</td>
<td></td>
</tr>
<tr>
<td>Rui Palmeira (PSDB)</td>
<td>Maceió</td>
<td>Governor</td>
<td></td>
</tr>
<tr>
<td>Arthur Virgílio (PSDB)</td>
<td>Manaus</td>
<td>Governor Senator or President</td>
<td></td>
</tr>
<tr>
<td>Carlos Eduardo (PDT)</td>
<td>Natal</td>
<td>Governor or Senator</td>
<td></td>
</tr>
<tr>
<td>Carlos Amanstha (PT)</td>
<td>Palmas</td>
<td>Governor or Senator</td>
<td></td>
</tr>
<tr>
<td>Marcus Alexandre (PT)</td>
<td>Rio Branco</td>
<td>Governor</td>
<td></td>
</tr>
<tr>
<td>ACM Neto (DEM)</td>
<td>Salvador</td>
<td>Governor</td>
<td></td>
</tr>
<tr>
<td>João Dória (PSDB)</td>
<td>São Paulo</td>
<td>Governor or President</td>
<td></td>
</tr>
</tbody>
</table>

1.2 – PSDB, “To be, or not to be” [government]

The PSDB has scheduled its 14th National Party Convention for Saturday, 9th December (with 395 delegates). The Temer government expects that the party with exit the Temer support coalition in a very noisy fashion. Thus, Temer plans to anticipate this by replacing the PSDB cabinet ministers before the PSDB party convention – probably the week of 4th December, if not before. The PSDB only has some 20 deputies who consistently vote in favor of the Temer government in the Chamber.

The PSDB occupies four cabinet positions – considered “choice” [strategic importance] – plus some second echelon positions – such as Luizlinda Valois at the Human Rights post. The other
parties, especially those in the so-called “Centrão”, are anxiously waiting to get their hot little hands of these key cabinet positions, and the 2nd, 3rd, 4th & 5th echelon positions (perhaps up to 1,000) within each of these ministries. If the Centrão parties are “placated” by the distribution of these federal appointments, perhaps this might consolidate these parties’ support for the Social Security Reform in Congress.

The loss of these federal jobs before the 2018 elections should weaken the PSDB’s performance in the October 2018 elections. However, because the Temer government has such a low approval rating, many feel that the PSDB exit might actually enhance its chances in 2018.

Remember ➔ Cabinet ministers who decide to run for office in the 2018 elections will be obliged to “step down” for office in early April. It is estimated that some 18 cabinet ministers will indeed “step down”.

### 1.2.1 – Sen. Aécio Neves [& Temer] implode PSDB

Exactly one month before the PSDB national convention scheduled for 9th December, the National Party President – Senator Aécio Neves (MG) -- who had taken a leave of absence after severe corruption accusations -- decided to reassume the PSDB presidency – thus dislodging the interim president – Senator Tasso Jereissati (CE). The day before, Tasso had declared his candidacy for the PSDB Presidency at the 9th December national party convention. Aécio then asked Tasso to resign, but he refused – thus provoking Neves’ action on 9th November – with very strong rhetoric ➔ 1) A strong stance against corruption; 2) The PSDB should recognize its “errors”; and 3) The PSDB should elaborate “rules of compliance” for its members. These three points hit Neves very hard. However, Neves then decided to indicate Alberto Goldman (SP) to become interim party president until the 9th December convention.

This is yet another “chapter” in the duel between the two PSDB factions ➔ 1) The group that wants to leave the Temer support coalition (led by Tasso); and 2) The group that wants to continue in the Temer support coalition (led by Neves). Detail: Pres. Temer helped get Aécio “off the hook” *vis-à-vis* his corruption accusations at the STF AND the Temer's PMDB voted to allow Aécio to be reinstated in the Senate. Thus, Aécio Neves is debt to Pres. Temer – who wants to destroy the PSDB and strengthen the PMDB for the 2018 elections. The anti-Tasso candidate (supported by Aécio and Temer) is Goiás governor Marconi Perillo.

Foreign Minister Aloysio Ferreira Nunes (PSDB-SP) said that the PSDB is in “hysteria” mode and that if this “implosion” continues it will promote the election of Lula in 2018. Without Lula, the election of Bolsonaro might be promoted.

If Perillo is elected on 9th December, expect that the defeated group (Tasso) should “migrate” to another party for the 2018 elections – exactly within Temer’s “playbook”. Some consider this action by Aécio Neves as a “golpe” – a direct attack against tucano elder statesman, Fernando Henrique Cardoso. ➔ Stay tuned!!!
1.3 – New Federal Police Director appointed

On 8th November, Justice Minister Torquato Jardim announced the appointment of Fernando Segóvia to be the new Director-General of the Federal Police, and this appointment was duly published in the Daily Record [Diário Oficial] the day after 9th November. Segóvia’s name had been on a three-name list that had circulated in Brasília previously.

Segóvia replaces Leandro Daniello who had been Director-General since 2011 (appointed by Pres. Dilma Rousseff) when José Eduardo Cardozo was Justice Minister. Daniello had “discretely” communicated his wish to leave this post.

Segóvia (age 48) holds a Law degree from the University of Brasília and has been in the Federal Police for 22 years. He was regional director in the state of Maranhão and served “police attaché” with the Brazilian Embassy in South Africa. His main area in the Federal Police has been “intelligence” – especially on Brazil’s frontier borders. He is reported to have “strong” political “connections” Eliseu Padilha, Gilmar Mendes, José Sarney, Romero Jucá, Augusto Nardes (TCU), etc. . ..

Apparently, Segóvia was the choice of Temer’s Casa Civil Chief, Eliseu Padilha. The choice of Justice Minister Torquato Jardim, Rogério Galloro (Daniello’s number two) did not make it (surpass the political “full court press” in favor of Segóvia. Pres. Temer had already decided in favor of Segóvia, but was awaiting a “weak moment” for Torquato to appoint Segóvia. That “moment” occurred when Torquato affirmed that organized crime controlled the PM-RJ. Luiz Pontel was the third name on the list of possible Directors-General. Also, Temer was waiting for the Chamber to finalize the vote on the PGR’s second denunciation of him, Padilha and Moreira Franco. However, the press quickly discovered that “version” that Torquato Jardim had favored Galloro was “fake news”. Jardim was part of the Segóvia scheme all along.

Apparently, the “last straw” [for the PMDB] was when the Federal Police broke open the “bunker” in Salvador where Geddel Vieira Lima had “stashed” R$ 51 million for future “campaign finance”. The PMDB was extremely “nervous” in mid-2016 as the Federal Police (and the Lava Jato investigation were “closing in on the PMDB – after investigating and convicting a large number of PT operators AND it became the prime task of Pres. Temer to try to “reel in” this investigation (PGR and Federal Police) and take the heat off the PMDB.

Remember ➔ The Federal Police organized a diagram of the “PMDB political corruption gang” – with Pres. Temer at the center of this design.

Immediately, Segóvia showed why he was appointed. On 9th November, he replaced the Federal Police Superintendent in Paraná, Rosalvo Franco, with José Alberto Iegas who had denounced an illegal wire tap that had been “placed” in the cell of money changer Alberto Yousseff. Franco is considered one of the “pillars” of the Lava Jato investigation. Apparently, Segóvia “hit the ground running” with a general plan that he will use to “renovate” the Federal Police structure.

Part of the “new structure” has been revealed by the press: 1) Sandro Avelar will be Segóvia’s “number two”. He is a career civil police officer in Brasília and was Secretary for Public Security under the PT/PMDB “team” (Agnelo Queiroz & Filippeli) and (unsuccessfully ran for PMDB federal
deputy); 2) Eugenio Ricca is the Secretary for Transparency under PMDB Governor Paulo Hartung in ES and will become the Federal Police Director Against Organized Crime; and 3) Claudio Ferreira Gomes will be Director for Intelligence; previously, he was Corregedor-Geral (and Segóvia was his Vice. ➔ Stay tuned!!

1.4 – Another “Letter to the Brazilian People”

In June 2002, PT presidential candidate Lula released his “Letter to the Brazilian People” in an attempt to explain that if elected his government would not seek “radical solutions” to the nation’s problems. This was part of his campaign to portray the PT candidate as “Lulinha, Paz e Amor” -- “Lula, Peace and Love” ➔ a “move to the political center”. He had also recruited a conservative business leader as his Vice-President – Senator José Alencar (PL-MG).

Taking a page from this “Lula 2002 Playbook”, 2018 presidential hopeful, Dep. Jair Bolsonaro (PSC-RJ) released his own “Communiqué to Citizens of Brazil” on 8th November where he described his discussions with a group professors and intellectuals. Bolsonaro affirmed that “none of the latter defends heterodox ideas or are sympathetic to authoritarian regimes”. Apparently, IPEA economist Dr. Adolfo Schisida is a key person in this advisory group that is being mobilized by Bolsonaro’s son – Federal Deputy Eduardo Bolsonaro (PSC-RJ).


2 – FOREIGN RELATIONS & TRADE

Nothing this week.

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 - Eletrobras

As part of the privatization of Eletrobras, the government plans an auction for the Tucuruí hydro power installation in the state of Pará that should yield some R$ 15 billion.
Eletrobras stipulated that the sale price of the six electricity distributors in the North-Northeast regions would be R$ 50,000,00 == Ceron (Rondônia), Eletroacre (Acre), Amazonas Energia (Amazonas), Boa Vista (Roraima), Ceal (Alagoas), and Cepisa (Piauí). The cost of maintaining these firms was R$ 6.6 billion in 2016. The 2016 profits were R$ 3.5 billion, BUT the net debt was R$ 23.4 billion.

The privatization model was approved by the PPI Council on 8th November and the winners of each auction would offer the lowest consumer electricity rate. The “winners” would have to disburse up front R$ 2.4 billion and then invest R$5.4 billion.

4.2 – Pampulha Airport

The concession holder of the Confins airport in Belo Horizonte, BH Airport, filed a suit at the STJ against the reopening of the downtown Pampulha airport for interstate flights. Confins was privatized in 2014 → 49% remained with Infraero and 51% with the CCR -- Zurich Airport consortium. When Confins was opened in 2005, all the interstate flights were transferred from Pampulha to Confins. However, Pampulha remains under total control of Infraero.

The Problem → Pampulha is 8 km from the Center of BH, while Confins is 38 Km distant. Pampulha has a very short runway usable only for smaller jets (like the Boeing 737) and the pilots have to approach the runway over the Pampulha artificial lake at a very low altitude and then over the lake’s dam to then descend to the Pampulha runway → considered potentially dangerous approach by most pilots.

The decision to reopen the Pampulha airport was made by Pres. Temer when faced by the demand by former deputy Waldemar Costa Neto (the “informal” chief of the PR party) to guarantee the support of the PR’s 37 deputies in favor of Temer in the Chamber vote on the second PGR denunciation of the President. Why this demand? Because Costa Neto has achieved a large number of political appointments within Infraero and wants to enhance this political perk at the Pampulha airport. Remember: Costa Neto was accused and convicted of corruption both in the Mensalão and the Petrobras corruption/bribe scheme (Lava Jato).

5 - ECONOMICS

5.1 – Investments “begin” to increase

Over the past four years the rate of investments in Brazil declined from 21.1% of GDP to 15.5% of GDP. In June → July → August 2017, there was a gradual but consistent increase of investments MoM and the rate in the January-August 2017 was +0.8% above the rate for the same period in 2016.
5.2 – Chinese increase investments in Brazil

As of October 2017, Chinese firms invested US$ 10.84 billion in 17 acquisitions according to the Dealogic consulting firm versus 6 acquisitions in 2016. The projection for 2018 is even more Chinese investments in Brazil.

5.3 – Savings accounts lost R$ 2 billion in October

On 7th November, the Central Bank announced that savings accounts had net withdrawals of R$ 2.007 billion. With this result, the result for the January-October period was negative -R$6.164 billion.

5.4 – Auto production up in October

On 7th November, Anfavea announced that Brazil had produced 248,900 autos in October (+42.2% YoY). In the January-October period, 2,327 million autos had been manufactured, +28.5% compared with the same period in 2016.

5.5 – October inflation

On 10th November, IBGE released data for its October IPCA +0.42%, up from +0.16% posted in September. Thus, the 10-month accumulation in 2017 is now +2.21% -- the lowest accumulation since 1998. The 12-month accumulation is +2.70%, slightly higher than the +2.54% for the same period in 2016. The October result was slightly higher than the then highest point in 2017 +0.38% in January 2017. In October, the largest price increases were electricity and cooking gas. In general, food prices decreased in October.

5.6 – Grain production should decline

After a “bumper crop” of grains in the 2016/2017 (238 million tons) season that helped boost Brazil’s GDP in 1st Q/2017, Conab and IBGE project that the production for the 2017/2018 season will decline (223 million tons mostly due to adverse climatic conditions.