Looking Ahead ➔ What to watch for?

- 17-19 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
- 23rd Nov. -- STF to deliberate Foro Previlegiado & Habeas Corpus for Palocci
- 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
- 1st Dec. -- World Anti-AIDS day
- 4th Dec. -- Trade Balance data for November
- 4th Dec. -- Fenabrace ➔ November auto sales
- 5th Dec. -- IBGE to announce Industrial Production for October
- 5-6 Dec. -- Copom meeting (the last in 2017)
- 8th Dec. -- IBGE to post IPCA data for November ➔
- 9th Dec. -- PSDB to hold its national party convention to elect new president
- 14th Dec. -- Ex-Pres. Dilma Rousseff ➔ 69th birthday
- 14th Dec. -- IBGE to announce services sector data in October
1 - POLITICS

1.1 – Markets looking at Bolsonaro

The Sunday edition (12th November) of the Folha de São Paulo ran a headline Mercado flert com agenda reformista de Bolsonaro – Após guinada liberal no discurso, pré candidato é visto como alternativa a Lula

This FSP analysis affirms that some investor groups are looking favorably toward the pre-candidacy of Dep. Jair Bolsonaro (PSC-RJ) vis-à-vis Lula in 2018 because (they perceive) if elected the deputy would cause less disruption of markets than Lula. Compared with Lula’s “market friendly” first term (2003-2007), investors fear that if elected in 2018, a new Lula government would be detrimental for Brazil’s economy.

They are impressed with Bolsonaro’s “liberal” turn in favor of more privatizations and reforms. Apparently, he plans a trip to Europe and Asia in February 2018 to meet with investors and a second trip to the USA in March. However, political scientist Carlos Melo at Insper affirms that these investors favorable to Bolsonaro are “fooling themselves”. Bolsonaro “knows nothing about the economy and has adopted a ‘liberal line’ as a strategy to reduce the resistance of the economic establishment against him. His DNA does not have economic liberalism”. Melo added “Both Lula and Bolsonaro are interventionists”.


1.2 – Guido Mantega

Early Sunday morning, 12th November, Eliane Berge the wife of former Finance Minister Guido Mantega died of colon cancer at the Albert Einstein Hospital in São Paulo at age 56. She had battling her cancer over a long period. In September 2016, Judge Sérgio Moro canceled an arrest warrant for Mantega as part of the Lava Jato investigation because he was about to enter the hospital to accompany his wife’s surgery. Ms. Berger was a psychiatrist. They were married 22 years and had a son, Marco, age 17.

Photo: Gregg Salibian/Folhapress

Guido Mantega & Eliane Berger
In addition to Eliane, Mantega had relationships with a *carioca* Franceschina Vilardo (two children) and PanAm flight attendant Lavinia Hungria Cardim (one daughter). The latter, Marina Mantega, became a well known “model” and posed for several magazines.

http://revistaepoca.globo.com/tempo/noticia/2012/01/o-planeta-guido.html


**1.3 – PSDB vis-à-vis the Temer government**

Last week, *Brazil Focus* reported that Sen. Aécio Neves (PSDB-MG) reassumed the PSDB national presidency (thus dislodging Sen. Tasso Jereissati (PSDB-CE) as interim president and named former Vice-Governor of SP, Alberto Goldman to replace Jereissati. Apparently, Neves acted on direct orders from Pres. Temer who is interested in removing the PSDB from his government and in the process trying to destroy this party. Most observers feel that Temer sack his PSDB cabinet ministers and all the 1,000 *tucanos* who occupy secondary posts in his government before the national PSDB convention scheduled for 9\textsuperscript{th} December.

Temer plans to redistribute these posts to the parties in the so-called *Centrão* in order to guarantee their votes in favor of the Social Security Reform (308 deputies needed in the Chamber). Temer wants to sack these *tucanos* before their 9\textsuperscript{th} December national convention that probably will decide to exit the Temer government – so that he (the President) would take this initiative rather than the PSDB.

To this end, on Monday, 13\textsuperscript{th} November, after participating is several events together with Pres. Temer, at the end of the day the Minister for Cities, Dep. Bruno Araujo (PSDB-PE) submitted his letter of resignation to the President – saying that he could not continue given that his party was severely divided *vis-à-vis* the Temer government. The news of Araujo’s resignation pushed the Bovespa up 500 points (+0.43%). According the weekly news magazine – *Época* – one of the main reasons that Dep. Bruno Araujo decided to resign was that the approval rating for Temer in his home state of Pernambuco is even worse than the 4% nationwide.

The PSDB has three other ministers in Temer’s cabinet – Foreign Minister Sen. Aloysio Ferreira Nunes (SP), Secretary of Government Antonio Imbassahy (BA), and retired Bahia state Supreme Court judge Luislinda Velois.

Quickly, Paraná Pesquisas ran a survey where 70.5% of the sample approved the PSDB exit from the Temer government.

The PP immediately demanded the Cities Ministry – that has a large budget and many lower echelon jobs to pass out. The Foreign Minister is the most obstinate in not wanting to leave his post.

⇒ Stay tuned!!!
1.3.1 – Cabinet Reform

Reportedly, Pres. Temer has decided to precipitate his cabinet reform from late March 2018 to November 2016 and replace 17 ministers (including those from the PSDB). These ministers plan to run for election in October 2018 and would have to “step down” from their respective executive positions according to Brazil’s election legislation. Thus, Temer will have more “political goods to pass out to the “Centrão” parties to facilitate the approval of the Social Security Reform in the Chamber of Deputies. He might even convocate a Special Session of Congress in January to finalize this reform.

Reportedly, on 17th November, the national PP president, Sen. Ciro Nogueira (PI) has indicated the name of Dep. Alexandre Baldy (GO) to occupy the Ministry for Cities. However, the PMDB has also demanded this ministry – but might have to be content with the Secretariat of Government

1.4 – Federal Police Operations

In spite of the recent appointment of the new Federal Police chief (with the blessings of PMDB leaders) whose alleged “mission” was supposed to be “take the heat off the PMDB (Pres. Temer’s party), on 14th November the Federal Police carried out two operations against PMDB leaders in Rio de Janeiro and Mato Grosso do Sul.

1.4.1 – Operation Cadeia Velha

On Tuesday, 14th November, the Federal Police carried out *Operation Cadeia Velha* (The “Old Jail”) in Rio de Janeiro against a corruption gang based in and organized by the Presidency of the RJ state legislature (AL-RJ). In the 19th century, the building that now houses the AL-RJ was used as a jail – thus the “Old Jail” reference – very appropriate. Court ordered arrest warrants were issued against Felipe Picciani (son of AL-RJ president Jorge Picciani and brother of Pres. Temer’s Sports Minister Dep. Leonardo Picciani); the “King of Rio bus companies”, Jacob Barata; the former president of Fetranspor, Lélis Teixeira; and six other persons. Barata was arrested by Judge Bretas twice but each time was granted a *habeas corpus* by STF judge Gilmar Mendes – as previously reported by *Brazil Focus*.

The arrest warrants four three state deputies were deliberated by the TRF-2 on 16th November (after the 15th November holiday).
Three state deputies were taken to the Federal Police HQ in Rio for “coercive testimony” – AL-RJ president Dep. Jorge Picciani, Dep. Paulo Melo (former AL-RJ president), and government floor leader Dep. Edson Albertassi – all PMDB. **Detail:** Albertassi had been nominated to serve on the TCE-RJ by Gov. Luiz Fernando Pezão (PMDB) but because of this Federal Police operation he declined this nomination. His nomination caused this Federal Police operation. Gov. Pezão affirmed that he appointed Albertassi “because there were no accusations against him at that time”. Apparently, Pezão had no knowledge of the federal prosecutors’ accusation that Albertassi had “been on the take” – receiving a monthly R$ 60,000,00 bribe from the bus companies. Probably this is one of the reasons that the RJ chief prosecutor refused to defend Dep. Albertassi.

In truth, the appointment of Albertassi was contested in court, and Pezão fired his chief prosecutor Leonardo Espíndola because he refused to defend Albertassi against these accusations. The reason that Pezão insists in appointing Albertassi is to maintain his foro previlegiado.

Federal prosecutors affirmed that the Picciani family practiced “outsourcing” of money laundering.

This group operated a “collusion scheme” between the Legislative and Executive branches with the complicity of the TCE-RJ (state accounting court) to “distribute some R$ 138 billion in bribes.

On Thursday, 16th November, the TRF-2 quickly decided in favor of the arrest warrants and suspension of the mandates of the three PMDB state deputies – Jorge Picciani (AL-RJ President), Paulo Melo and Edson Albertassi – as requested by federal prosecutors and Judge Bretas. **However,** the AL-RJ will seek to use the “precedent” set by the STF in the case of Sen. Aécio Neves (PSDB-MG) to decide to accept these arrests, or not. ➔ Stay tuned.

Apparently, this **Operation Cadeia Velha** might end the 20-year domination of Rio de Janeiro by the PMDB. The AL-RJ met in an emergency session on Friday, 17th November to deliberate the release of the three state deputies imprisoned on the order of the TRF-2. The CCJ quickly released an opinion (parecer) in favor of their release and the end of the suspension of their mandates. Then, the full AL-RJ deliberated this report.

**1.4.2 – Operation Lama Asfáltica**

Also on 14th November, in the 5th phase of **Operation Lama Asfáltica** (Asphalt Mud), the Federal Police in Campo Grande, MS arrested former governor André Puccinelli (PMDB) and his son Junior accused of operating a corruption/bribe system that involved some R$ 235 million. The arrest of Puccinelli and his son was the result of plea bargaining testimony by cattle farmer Ivalildo da Cunha Miranda. Prosecutors affirm that Puccinelli received cash in backpacks. **However,** both father and son were granted a habeas corpus by judge Paulo Fontes on the TRF-3 in SP.

**1.5 - Zelotes**

This “operation” is investigating the “purchase” of decisions by favorable decisions regarding back taxes accusations at CARF and of MPs to favor certain sectors. On 13th November, the Banco Santander Director for “Tax Planning”, Reginaldo Antonio Ribeiro and three others were accused of
“buying” (paying bribes) to achieve “leniency” in a case where Santander was accused of owing R$ 83 million in back taxes.

1.5.1 – Lula and Luleco

On 16th November, it was revealed that federal prosecutors had requested the judicial blockage of R$ 24 million of the assets of Lula and his son Luiz Claudio Lula da Silva – R$ 21.5 million (Lula) and R$ 2.5 million (Luiz Claudio). This is part of the Zelotes investigation and involves the issue and approval of MP 627/2013 that favored certain auto manufacturers. This request by the MPF is being deliberated by Federal Judge Vallisney de Souza Oliveira in Brasília.

1.6 – North-South Railroad

The 1,575 Km North-South railway construction began in 1987 (30 years ago) – one of the “pet projects” of then Pres. José Sarney (PMDB-MA).— and is yet unfinished. On 14th November, the CGU affirmed that R$ 108 million in “over invoicing” had been detected. This railroad links Açailândia, MA with Anápolis, GO and so far has consumed R$ 11.7 billion. Thus, the over-invoicing detected by the CGU is probably “underestimated”.


1.7 – Brazilian holidays in 2018

Exceptionally, Brazilians will have more holidays in 2018 than usual – including Fridays and Mondays when the holiday falls on a Thursday or Tuesday – 15 days. This calendar does not include state and municipal holidays. In the city of SP, for example, the anniversary of the city (25th January) falls on a Thursday, and the Afro-Brazilian Consciousness Day (20th November) falls on a Tuesday.

1st January (New Year’s Day) – Monday
12-13 February (Carnaval) – Monday & Tuesday
14th February Ash Wednesday – Holiday in the Morning
30th March – Good Friday - Friday
21st April (Tiradentes) - Saturday
30th April & 1st May (Labor Day) – Monday & Tuesday
7th September (Independence Day) - Friday
12th October (Our Lady of Aparecida) – Friday
28th October (Public Servants Day) – Sunday (might be moved to Friday, 26th Oct.)
2nd November (Day of the Dead) – Friday
15-16 November (Republic Day) – Thursday & Friday
24-25 December (Christmas) – Monday & Tuesday

1.8 – Chamber pays pensions for cassados

The Chamber of Deputies has a pension plan for deputies who “retire” or who “don’t return” (not re-elected) – proportionate to their years of service. Now, the Chamber has decided to provide

See ➔ [http://politica.estadao.com.br/noticias/geral,camara-paga-a-cassados-ate-r-23-mil-de-aposentadoria,70002086117](http://politica.estadao.com.br/noticias/geral,camara-paga-a-cassados-ate-r-23-mil-de-aposentadoria,70002086117)

## 2 – FOREIGN RELATIONS & TRADE

### 2.1 – Venezuelan Default

On 13th November, Standard & Poor’s reduced Venezuela’s risk evaluation to “D” ➔ default because several debt obligations were not paid on time. However, Venezuela quickly renegotiated its US$ 3.15 billion debt with Russia.

As a result, Brazil’s Finance Ministry advised the Paris Club that Venezuela had not paid US$ 262.5 million in outstanding debt. **However,** the total debt with Brazil is some US$ 5 billion.

If PDVSA goes into default it might lose control of Citgo – a US petroleum firm – that has refineries in Texas, Louisiana and Illinois and 5,600 retail gas stations in many states. Citgo was founded in 1910 as Cities Service and currently accounts for 4% of refining in the US. In 1986, PDVSA acquired shares in Southland Corp. that controlled Citgo as well as 7 Eleven markets. In 1990, PDVSA acquired full control. In 2015, PDVSA tried to sell Citgo but there were no takers.

Because of PDVSA’s debt with Russia, it is possible that Russia might take control of Citgo.

### 2.2 – COP 25

During the final sessions of COP 23 (the UN Conference on Climate in Bonn), Brazilian Environment Minister Dep. Sarney Filho (PV-MA) announced that Brazil presented a proposal to host COP 25 in 2019. He remembered Brazil’s “tradition” by hosting RIO 92 and RIO+20.

## 3 – REFORMS

### 3.1 – Labor Legislation Reform

On 11th November, the new rules in the Labor Legislation Reform went into effect. However, the approval of this reform involved a “promise” by the Temer government that certain adjustments” would be made by *Medida Provisória*. But Chamber President Rodrigo Maia (DEM-RJ) said that he would reject a MP to this end and that these adjustments would have to be made via a normal legislative proposal. At the same time, Senate President Eunício Oliveira (PMDB-CE) affirmed that Temer had “promised” the Senate that these modifications would be made via MP.
Given this impasse, on 14th November, Pres. Temer issued a MP with these adjustments.

→ Stay tuned!!

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Caoa acquired 50% of Chery

On 11th November, Caoa announced that it had acquired 50% of the Chinese auto manufacturer in Brazil – Chery do Brasil – for US$ 60 million. Chery installed its factory in Jacareí, SP in 2011 with an initial investment of US$ 530 million and produces the Celer model (hatch & sedan) and the mini-compact (QQ). Caoa has a factory in Anápolis, GO where it produces Hyundai models (ix35 & Tucson). The new firm will be CAOA Chery. Over the next 5 years, US$ 2 billion investments are planned. Caoa Chery plan to produce a SUV (Tiggo 2) and Arrizo 5. It is possible that Hyundai might gradually disengage production with Caoa.

This should be the chance for the Chinese auto maker to penetrate the Brazilian market more effectively. Chery never was able to sell enough cars to cover its production costs. Also, all Chinese cars failed the “crash tests” in Brazil very badly. In 2017, Chery has only 20 dealers in Brazil, while Caoa has 150. Nissan, for example, took many years of aggressive sales tactics to reach a 4% market share. So far in 2017, Chery sold only 3,000 units (0.17% market share).

5.2 – Petrobras

On Tuesday, 14th November, Bovespa was down by -2.28% to 70,826 points. The main reason was that Petrobras stocks were down by -7.0% -- after Petrobras announced profits of only R$ 266 million in the 3rd Q/2017 – much less (only 10%) than markets had projected (+R$ 3.56 billion).

Want More?? On 14th November, the TCU (federal accounting court) announced that Petrobras has “lost” US$ 12.5 billion in the construction of the petrochemical complex in Rio (Comperj). According to the TCU, US$ 9.8 billion of these losses were attributed to “bad management” of this project.

Still more?? Three of Brazil’s largest state pension funds – Previ (Banco do Brasil), Petros (Petrobras), and Funcef (Caixa Económica Federal) have a group of other investment funds and other investors in “arbitration” seeking restitution of funds invested in Petrobras that produced severe losses due to the corruption/bribe scheme perpetrated by Petrobras directors, the cartel of construction firms and certain political parties. This arbitration will be deliberated by B3 at Bovespa. Petros, for example, estimates that it lost between R$ 4 billion and R$ 7 billion.
5.3 – PNAD – 3rd Q unemployment data

On 17th November, IBGE released its PNAD employment data for the 3rd Q/2017. The rate of “underemployed” (not fully employed, less than 40 hours per week) was 23.9% versus 23.8% in 2nd Q/2017 and 21.2% in 3rd Q/2016. In the end of October, IBGE had announced that the unemployment rate for 3rd Q/2017 was 12.4% (13 million unemployed).

5.3.1 – Racial “gap”

IBGE discovered that 63.7% of the unemployed are either Blacks (pretos) or mixed blood (pardos) and 14.6% of the unemployed are white (brancos). This “gap” also is present among those employed – the average salary for whites is R$ 2,757,00 but R$ 1,531,00 for pretos and pardos.