Weekly Report
Dec. 9-15 2017

Looking Ahead ➔ What to watch for?

- 17th Dec. – Second round Presidential election in Chile
- 17th-18th Dec. -- Mercosur Summit to meet in Brasilia
- 18th Dec. -- IBGE to announce retail sales for October
- 18th Dec. -- Central Bank to announce October IBC-Br
- 18th Dec. -- IBGE to announce PME unemployment data for October
- 18th or 20th – Chamber should vote PEC Social Security Reform
- 20th Dec. -- Joint Session of Congress should approve 2018 annual budget (LOA)
- 21st Dec. -- IBGE to announce IPCA-15
- 21st Dec. -- Labor Ministry – Caged data, new jobs created in November
- 21st Dec. -- Deadline for Congress to adjourn
- 25th Dec. -- Christmas Day [national holiday]
- 29th Dec. -- FGV to post December IGP-M
- 29th Dec. -- Public Account data for November
- 29th Dec. -- FGV to post December IGP-M ➔
• 31st Dec. — Deadline for Congress to approve 2018 detailed budget [LOA]
• 1st Jan. — New Years Day – National Holiday
• 1st Jan. — New minimum wage of R$ 945,80 goes into effect
• 2nd Jan. — December and 2016 trade surplus data
• 3rd Jan. — Auto sales, December & 2017
• 5th Jan. — Savings accounts negative results for 2017 ➔
• 5th Jan. — Central Bank, 2017 negative FX flows ➔ billion
• 5th Jan. — FGV to announce IGP-DI for December ➔ +% and % for 2017

1 - POLITICS

1.1 – General Mourão sacked

In a “repeat performance,” Army General Antonio Hamilton Mourão spoke out again against Pres. Michel Temer on 7th December at the invitation of the Ternuma Group (Terrorismo Nunca Mais) at the Army Club in Brasília ➔ “Without any doubt, we are reliving the famous ‘Sarneyization’. Our current President [Michel Temer] goes bumping along, seeking a political balance via a balção de negócios [buying support from politicians] – trying to survive until the end of his term”.

Back in September, Gen. Mourão, then Army Secretary for Economy and Finances affirmed that “the Army High Command understands that a ‘military intervention’ might be adopted if the Judiciary is not able to solve the ‘political problem’ [corruption]”. However, Army Commandant Gen. Eduardo Villas Boas took no disciplinary action.

In October 2015, Gen. Mourão was the Commandant of the Southern Army Command spoke “out of turn” and was relieved of his command and transferred to a bureaucratic job in Brasília by the Army Commandant Gen. Eduardo Villas Boas.

This time – in December 2017, Gen. Villas Boas reacted and sacked Gen. Mourão from his bureaucratic position and he became “a monitor of the corridors” in the Army building.

Defense Minister Raul Jungmann contemplated placing Mourão under arrest but decided that this would “make him a martyr and enhance the possibility that he would become a candidate for office in 2018. BUT – Gen. Mourão was warned that if he spoke out again he would be arrested.

1.1.1 – FAB Coronel arrested

On 11th December, FAB Coronel Mauro Rogério (part of the Air Force High Command was placed under arrest for 4 days by the FAB Commandant Nivaldo Rossato because he posted videos affirming that Brazil needed a “civic intervention” in support of the statements by Gen. Mourão. Col. Rogério leads a group of officials called the “Movimento Brasil Futuro”.

1.2 – Pres. Temer hospitalized (again)
On 13th December, Pres. Temer was admitted to the Sírio-Libanês hospital in São Paulo for a checkup on his previous coronary procedures and to reduce the obstruction of his urinary duct. As a result, he will have to use a duct with a urine collector strapped to his leg for three weeks. He was released from hospital on Friday, 15th January and returned to Brasilia in time to swear in the new Minister of Government Affairs – Dep. Carlos Marum (PMDB-MS).

1.3 – 24th January 2018 ➔ Lula’s “D-Day”

This week, the TRF-4 (Regional Federal Court in Porto Alegre) surprised everyone buy announcing that it would review the conviction of Lula by Federal Judge Sérgio Moro on 24th January 2018. Most analysts predicted that this deliberation might occur in April, May or June 2018. If this second level court confirms Lula’s conviction, under the 2010 Ficha Limpa Law, Lula would be declared ineligible to run for office for eight years – and might be sent to prison (while on appeal). In effect, his pre-candidacy would be canceled by the TSE – subject to appeals. BUT with this early decision by the TRF-4, all appeals should be exhausted before the final registry of candidates in early August. THUS, some more pragmatic PT leaders are discretely considering a possible “Plan B”.

From his house arrest, master PT militant José Dirceu called on all PT supporters to march on Porto Alegre that week in January 2018 to pressure the TRF-4 in favor of Lula.

Apparently, the PT “Plan B” (with Lula eliminated as candidate in 2018 – but not placed under arrest) would be for the ex-President criss-cross Brazil trying to elect very large delegations to the Chamber and Senate – replacing the PMDB as the largest party in Congress. Most certainly, MISSION IMPOSSIBLE – In 2016, the PT elected less than half the mayors it elected in 2012. This reduced municipal base will mean that the in 2018, the PT should elect half of the deputies it elected in 2014 ➔ perhaps some 30 deputies. The Senate is even worse, because many PT Senators up for reelection are accused of corruption.

1.4 – DEM might replace its national President

On 12th December, the STF decided to begin an investigation of Sen. Agripino Maia (DEMRN) regarding a kickback corruption scheme whereby the OAS construction firm passed on bribes regarding the construction of the Arena das Dunas (soccer stadium in Natal) used in the 2014 World Cup playoffs in Brazil. Now the DEM is considering whether Senator Maia should be temporarily replaced during this investigation. The DEM national convention, scheduled for 14th December was postponed until 6th February.

1.5 – PGR attacked Moreira Franco

On 15th December, PGR Raquel Dodge filed a suit at the STF requesting that Wellington Moreira Franco (PMDB-RJ), be divested from his “ministerial” position as Secretary of Temer’s Presidency – because the MP that turned this position into cabinet rank was illegal. She alleged that Temer wanted to proportion Moreira Franco this cabinet position to provide “cover” from the foro previlegiado to avoid his prosecution by a first level federal court – just as then Pres. Dilma did in 2016 – by attempting to appoint Lula to be her Chefe da Casa Civil. Temer turned this position into cabinet
rank by a MP—Medida Provisória—but this measure was not approved by Congress and lost its validity, so he issued a replica of this MP. The PGR affirmed that this replication was unconstitutional.

2 – FOREIGN RELATIONS & TRADE

2.1 – Temer’s Asia trip postponed

On 14\textsuperscript{th} December, the President’s office announced that his trip to Southeast Asia on 5-13 January 2018 was postponed—on the recommendation of his doctors. Itamaraty will articulate new dates. \textit{See Item 1.2.}

3 – REFORMS

3.1 – Social Security Reform

On 13\textsuperscript{th} December, the PMDB/Government floor leader in the Senate, Sen. Romero Jucá (PMDB-RR) affirmed that the Social Security Reform vote in the Chamber would be postponed until February 2018. This caught the Temer government by surprise, as well as government coalition leaders in the Chamber and especially the Chamber resident Dep. Rodrigo Maia (DEM-RJ)—because the latter plan to begin discussions of the new proposal by reporter Dep. Arthur Maia (PPS-BA) on 14\textsuperscript{th} December and attempt a first round vote on 19\textsuperscript{th} or 20\textsuperscript{th} December. They are holding back on voting out the 2018 budget proposal (LOA) until after this first round vote on the Social Security Reform. However, this did not happen as planned and Congress approved the LOA on Wednesday evening, 13\textsuperscript{th} December. Thus, the “prediction” by Senator Jucá proved correct and on Thursday, 14\textsuperscript{th} December, Chamber President Dep. Rodrigo Maia (DEM-RJ) acknowledged that there would not be any vote on this Reform next week, but only as of 19\textsuperscript{th} February 2018—1) After the Carnaval recess AND 2) After Lula’s case is deliberated by the TRF-4 in Porto Alegre on 24\textsuperscript{th} January (See Item 1.3). In practice, this means that this vote will be postponed until 2019.

Financial markets did not wait for more “detailed explanations” and the Bovespa was down by -1.22\% and the US$ FX rate declined by -0.36\% to R$ 3,317. IF this vote is postponed until February 2018, this reform will not be approved and have to await another attempt in 2019.

On 13\textsuperscript{th} December, the new PSDB National Executive Committee voted to “close the question” that would oblige all PSDB deputies to vote in favor of the Social Security Reform. But this action had no effect.

Social Security Reform is being hotly debated in the Argentine and Mexican congresses.

3.1.1 – Consequences
On 14th December, Fitch and Moody’s announced that due to the impact of the non-approval of the Social Security Reform and its awkward political process that this risk evaluation agency probably will have to downgrade Brazil yet another notch. This would impact on Brazil’s credit rating and make borrowing more expensive in 2018 – especially if this Reform is put off until 2019.

This episode (lack of governability) points clearly to the fact that Temer has become a premature “lame duck” President.

4 – PRIVATIZATION & REGULATION

4.1 – BR Distribuidora

On 13th December, Petrobras launched the first phase of its IPO on the SP stock market for investors to buy into BR Distribuidora – R$ 5 billion (28.75%) of the total offering. Investors bought in at the minimum value (R$ 15,00 per share).

BR Distribuidora is the largest retail gas station distributor, but Shell (Ipiranga & Raizen) has a larger profit margin. This IPO is part of the Petrobras plan to raise US$ 21 billion through 2018 via asset sales.

5 - ECONOMICS

5.1 – Retail Sales declined in October

On 13th December, IBGE released its data for retail sales in October ➔ -0.9% MoM. This was the largest such decline since March 2017. This unexpected decline should “temper” projections of the “recovery” of Brazil’s economy in 2017 – and put even heavier pressures on the Chamber to approve the Social Security Reform in December. Analysts affirmed that many consumers decided not to buy things in October and await the “sales” during “Black Friday” in November.

5.2 – IGP-10 ➔ Deflation

On 14th December, the FGV released its last IGP-10 in 2017. The accumulated result in 2017 was deflation of -0.42%, the worst reflation since 2009 ➔ -1.68%.

5.3 – 50 million Brazilians below the “poverty line”

On 15th December, IBGE released a study that showed that some 50 million Brazilians (25.4% of the population) live below the “poverty line” – family incomes of less than R$387.07 per month, or US$ 5.50 per day. This data is part of IBGE’s SIS 2017 (Synthesis of Social Indicators). The region with the worst indicator was the Northeast (43.5%) while the South has the best situation (12.3%). Worse yet, among children under age 14, 42% live below this “poverty line”.
5.4 – Seven municípios concentrate 25% of GDP

On 15th December, IBGE released its data for concentration of Brazil’s GDP. The city of São Paulo alone, accounts for 10.9%, followed by Rio de Janeiro, Brasília, Belo Horizonte, Curitiba, Manaus and Porto Alegre concentrate a total of 24.9% of Brazil’s GDP in 2015 – with only 14.3% of Brazil’s population.