**Brazil Focus –**

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**Weekly Report**

**Feb. 3-9 2018**

**Looking Ahead ➔ What to watch for?**

- **12-13 Feb.** — Carnaval (national holiday)
- **14th Feb.** — Ash Wednesday (holiday in the morning)
- **15th Feb.** — IBGE, Retail Sales in 2017 ➔ % YoY
- **15th Feb.** — FGV to announce IGP-10 ➔ +0.%
- **16th Feb.** — Central Bank to announce IBC-Br for December ➔ % [% in 2017]
- **18th Feb.** — End of daylight savings time in Brazil ➔ two-hour difference between NYC and Brasilia
- **19th Feb.** — Presidents’ Day – Holiday observed in the US
- **20th Feb.** — Lula to testify before federal judge in Brasilia ➔ Zelotes
- **23rd Feb.** — IBGE to release PNAD data for 4th Q/2017 ➔ % unemployed
- **23rd Feb.** — Index of Economic Freedom Heritage Foundation,
- **23rd Feb.** — 2018 Strategic Planning Meeting, Brazil-US Business Council, Washington
- **23rd Feb.** — FGV to release its IGP-M ➔ +0.%
- **26th Feb.** — IBGE: IPCA-15 ➔ +0. % *versus* +0.% in January
• 28th Feb. -- January Public Accounts
• 28th Feb. – Possible 1st round vote on Pension Reform at Chamber of Deputies
• 1st March -- Fenabrave, auto units sold in February (% YoY)
• 1st March -- Trade Surplus for February 2018 ➔ US$ billion
• 2nd March -- January INSS deficit ➔ -R$ billion
• 4th March -- El Salvador – general elections
• 5th March -- Caged data ➔ jobs created in January
• 6th March -- Central Bank to announce savings accounts data for January

Observation: Next week is Carnaval in Brazil. Thus, the next issue of Brazil Focus will be sent on 23rd February.

1 - POLITICS

1.1 – The Case of Cristiane Brasil

On Saturday, 3rd February, the OESP revealed that federal prosecutors in Rio are investigating the links between Cristiane Brasil and drug traffickers in Rio, especially the election finance and voter mobilization in favor of her then brother-in-law, in certain neighborhoods – notably the Cavalcanti area. This was just another BIG nail in her coffin – her (and her father’s) quest to be sworn in as the new Labor Minister. She was not a candidate in 2010, but mobilized the campaign for state deputy of her then brother-in-law Marcus Vinícius.

However, in 2012, she was elected to the Rio city council with some 30,000. In 2013, she occupied a position in the city government and according to a report by O Globo based on an audio, she harassed the workers in her city unit to work hard to deliver her even more votes (as least 70,000) to be elected federal deputy – or their jobs would be in jeopardy. This audio was aired by TV Globo’s Sunday evening program Fantástico and repeated by several other TV news program on Monday, 5th February.

See ➔ https://oglobo.globo.com/brasil/audio-mostra-coacao-de-cristiane-brasil-funcionarios-em-campanha-de-2014-1-22364791

Apparently, the PTB has accepted the fact that Dep. Cristiane Brasil (PTB-RJ) will not be able to become Labor Minister because her swearing in has been blocked by the courts. Reportedly, the PTB delegation in the Chamber has selected Dep. Alex Caniziani (PR) to be her replacement and that he would maintain the current interim minister, Helton Yomura, as number two (Executive Secretary of the Labor Ministry). Yomura is a close friend of Cristiane Brasil. Cristiane’s father, Roberto Jefferson, the PTB national President, affirmed that Caniziani is an “excellent name”. Detail: Jefferson wants the Labor Ministry “at his disposition” to channel programs, funds, etc. into São Paulo where he will run for PTB federal deputy.

1.2 – Lava Jato
Raul Schmidt had been declared a “fugitive from Justice” by Portuguese police but on 3rd February he was discovered in a town about one hour distant from Lisbon. Now, his extradition process should be finalized.

However – although he was born in Brazil, Schmidt’s grandparents were born in Portugal and so when the Brazilian police and Interpol issued a warrant for him, he quickly left London for Portugal and applied for Portuguese citizenship. He was naturalized, but then applied for “original citizenship” – the equivalent of a “natural born” Portuguese citizen, in order to try to escape extradition.

Now, his Brazilian lawyer, Kakay, will try to avoid his extradition.

Lula – There is considerable speculation (and versions) regarding Lula’s destiny after the TRF-4 finalizes its process that confirmed Lula’s convictions and an increase of his jail sentence (to 12 years and one month) – probably in mid-March after all Lula’s defense lawyers embargos declaratórios have been resolved by the TRF-4.

The main question is will the TRF-4 determine the immediate arrest and imprisonment of Lula and what might be his tactics to avoid this. First, now that Lula’s passport was returned by the TRF-1, he is free to travel overseas and so he might anticipate the TRF-4 arrest warrant and travel overseas to seek asylum in a country that does not have an extradition agreement with Brazil – but this would remove him from Brazil and impede his participation in the 2018 election campaign. Second, another speculation scenario has Lula seeking asylum in a “friendly” embassy in Brasília (Ecuador or Bolivia) – a la the Wikileaks founder Julian Assange in the Ecuadorian Embassy in London. This way, Lula would have daily TV coverage (from within the Embassy grounds) and although not able to travel to campaign in the 27 states, he could be involved in the 2018 campaign. It is not clear whether; holed up within an Embassy, Lula could still be a candidate for President – a very “strange” situation.

These two scenarios assume that Lula could anticipate at TRF-4 arrest warrant and travel out of Brazil (or seek asylum in an Embassy in Brasília) before he is grabbed by the Federal Police.

Sepúlveda Pertence joined Lula’s legal team. On 6th February, it was announced that former STF president José Paulo Sepúlveda Pertence had been added to Lula’s team of defense lawyers. Detail: Pertence is from Minas Gerais and is a second cousin of current STF President Cármen Lúcia. Want more? In 1982, in the late military regime, Pertence defended Lula at the STM. However, it now has become clear that they are not cousins after all. Reportedly, Pertence has already made an “appeal” to STF Judge Edson Fachin to grant Lula a habeas corpus to avoid his imprisonment.

Still More?? The chief of staff of Judge Luiz Fux (the new President of the TSE) is married to the son of Sepúlveda Pertence.

Dilma Rousseff – There has been some press speculation that former President Dilma Rousseff (elected in 2010 and in 2014, and then impeached in 2016) might be chosen as Lula’s “stand in”, Plan B replacement. However, these speculations do not consider that Dilma was elected to two consecutive terms, and could not be a candidate for a third consecutive term as President. Oh well . . .

Dep. João Rodrigues (PSD-SC) was sentenced to 5 years and 3 months in prison by the TRF-4 and on 6th February the STF ordered his immediate arrest. He was on “vacation” in Orlando, FL and
instead to returning to Brazil, attempted to fly to Paraguay, but his entry was refused, because the Brazilian Federal Police had placed his name on the Interpol list, so he was not allowed to embark to Paraguay. So instead he flew to SP. Thus, on 8th February, the Federal Police arrested him as he disembarked at Guarulhos international airport in SP. Rodrigues attempted to enter Paraguay, because his crime would have expired on 11th February. He was transferred to Porto Alegre where the TRF-4 will administer his prison confinement. He is the fourth federal deputy to be placed under arrest while serving in the Chamber. His lawyers have petitioned the TRF-4 to authorize Rodrigues’ transfer to the Papuda prison in Brasilia so that he can be at the Chamber of Deputies during the cay and back to prison at night.

Sérgio Côrtes – was released from prison in Rio by STF Judge Gilmar Mendes on 7th February to house arrest. Côrtes was RJ State Secretary of Health under then Gov. Sérgio Cabral and was imprisoned in April 2017 by federal judge Marcelo Bretas after he was arrested by the Federal Police Operation Fratura Exposta [Exposed Bone Fracture]. He was accused of corruption in overpricing of surgical bone replacements.

Luiz Eduardo de Oliveira e Silva – The brother of José Dirceu was taken into custody by the Federal Police in Ribeirão Preto, SP on 9th February. His conviction was confirmed by the TRF-4 and his prison term increased to 10 years and 6 months. The Federal Police transferred Luiz Eduardo to Penitentiary II in Tremembé, SP.

Antonio Palocci has requested to do further plea bargaining testimony in an effort to reduce his prison term. TRF-4 Judge Gebran Neto will conduct this plea bargaining process, with hopes that Palocci will detail his corrupt operations as the conduit of bribes from Odebrecht and other Lava Jato firms to the PT and its militants.

Petrobras (2009) – The Federal Police claim that the sale of the Triunfo petrochemical installation in 2009 by Petrobras to Braskem (Odebrecht) in 2009 involved a loss between R$ 144,4 million and R$ 191,2 million. Petrobras held a 84.4% share of Triunfo via its subsidiary Petroquisa (located in Rio Grande do Sul) in partnership with Petroplastic (Gorentzvaig family). In 2008, Petrobras received an offer from Petroplastic of R$ 355 million to acquire Triunfo. However, Petrobras decided to sell its share to Braskem for R$ 250 million.


1.3 – Carnaval – Temer➡️Rio

Pres. Temer decided that he would spend the Carnaval holiday (10-14 February) in Rio – but not watching the samba schools parade along the Marques de Sapucaí – but at the Restinga de Marambaia, in an area that is part of a Navy reserve. Detail: Temer will have 65 persons in his entourage. However, these persons are not “special invited guests”, but rather service employees. The First Lady alone will have 20 such employees. FAB will use TWO planes to transport this entourage.

However – The Chief of the Casa Civil, Eliseu Padilha, affirmed on 7th February that the entourage had been reduced from 60 to 40.
1.4 – Transition at TSE

On Monday, 5th February, STF Judge Luiz Fux assumed the presidency of the TSE from Judge Gilmar Mendes. However, Fux’s term at the TSE ends on 15th August 2018 when Judge Rosa Weber will take over the TSE presidency. Thus, Fux will preside over the first stages of the 2018 election campaign, and Weber the final stages. Fux announced that he would combat the use of “fake news” during the 2018 campaign. He also affirmed that fichas sujas (persons with dirty court records) would not be allowed to become candidates in 2018.

2 – FOREIGN RELATIONS & TRADE

2.1 – Government to transfer Venezuelan refugees

On 8th February, Justice Minister Torquato Jardim, Defense Minister Raul Jungmann and Gen. Sérgio Etchigoyen traveled to Boa Vista, Roraima to articulate the transfer of most of the 40,000 Venezuelan refugees (some 10% of the population of Boa Vista) to other states in South Central Brazil. Many of these refugees hold college degrees and could easily work as teachers or in technical activities – given the chance. This does not mean that the border will be closed and that the “flood” of these refugees will continue to pour into Roraima.

3 – REFORMS

3.1 – Social Security Reform

On 7th February, Dep. Arthur Maia (PPS-BA) presented a further “watered down” version of the Social Security Reform. Quite pragmatically he said – “WE modify the proposal, if the modifications bring in more favorable votes”. The government flood leader in the Chamber Dep. Aguinaldo Ribeiro (PP-PB) affirmed that the first round vote had been postponed for one week – to 28th February.

Thursday evening, 8th February, Pres. Temer received Valdemar Costa Neto) President of the PR at the Presidential residence (Jaburu Palace) in Brasília. This encounter was not listed on Temer’s official agenda. The official version of this encounter was that they discussed succession at the Transportation Ministry, in that the current minister is PR and will step down in March to stand for reelection. Costa Neto is interested in maintaining one of his PR militants at this ministry. However, the maintenance of the PR delegation in the Chamber as a cohesive block to vote in favor of the Social Security Reform probably was also on their agenda.

4 – PRIVATIZATION & REGULATION
4.1 - Eletrobras

After the STF annulled several first-level federal court injunctions that suspended the privatization of Eletrobras, now it is the TCU’s turn. The Federal Accounting Court is preparing an audit to determine whether the minimum privatization value (R$ 12 billion) is not far below the adequate value of this large state enterprise.


On Thursday, 8th February, a group of MST militants invaded the Eletrobras building in Brasilia in protest against its privatization.

4.2 - Petrobras

4.2.1 – Petrobras ➔ Pasadena Refinery

On 6th February, Petrobras announced that it had opened a procedure to sell the polemic refinery in Pasadena, TX. Petrobras bought this refinery in 2006 with the idea to “penetrate” the US petroleum market – but became one to the most questioned Petrobras operations. The Belgian firm Astra Oil had paid US$ 42.5 million for this refinery, and Petrobras acquired a 50% share for US$ 360 million but in 2006, bought Astra’s remaining share for a total of US$ 1.2 billion (including the US$ 360 million). This “deal” is being investigated by the FBI, SEC and DoJ. This refinery has a refining capacity of 110,000 barrels per day. In 2016, this refinery was accused of violating the limits of air and soil pollution.

The TCU calculated that Petrobras “lost” US$ 792 million in this transaction.


4.2.2 – New Petrobras refinery in Rio

On 7th February, Petrobras CEO, Pedro Parente, told reporters that Petrobras would construct a new petroleum refinery in the State of Rio de Janeiro. He said that a “partner” would be selected in about three months to participate in this “joint venture”. This would be the first time that Petrobras has build/operated a refinery in a “partnership” with a private firm.

Also – Petrobras plans to open six of its refineries to minority participation by private firms.

5 - ECONOMICS

5.1 - Copom

Copom held its first meeting in 2018 on 6-7 February. On Wednesday evening, 7th February, Copom announced that it had reduced the basic Selic rate by 25 bp from 7.00% to 6.75%. This is the lowest rate since the late 1950s (1957). The very low inflation rate (See Item 5.3.2) suggests that
Copom might further reduce the Selic rate at its next meeting – especially if the Chamber approves the Social Security Reform of a first round vote on 28th February.

5.2 – January auto sales

In January 2018, auto sales increased – 181,300 units versus 147,200 units in January 2017. In January 2018, 216,800 units were produced (174,100 in Jan/17). In January 2018, 47,000 units were exported (38,000 in Jan/17).

5.2 – Broadcom ➔ Qualcomm

Reportedly, Broadcom (Singapore) has increased its offer to acquire Qualcomm to US$ 146 billion for the American chip manufacturer. The Qualcomm administrative council should meet on 6th March to decide regarding this offer. Qualcomm shares are currently less than the market expects despite some “problems” vis-à-vis Apple and NXT, and is poised to dominate the 5G technology ahead of Intel.

On 5th February, Qualcomm announced a joint venture with USI (South Korea) – a subsidiary of AES -- with investments of US$ 200 million over five years to install a factory in Campinas to design and produce components for smartphones and internet equipment. This installation should begin production in 2020.

5.3 – January Inflation

5.3.1 - IGP-DI

On 5th February, FGV announced that its IGP-DI had declined from +0.74% in December to +0.58% in January. Lower prices of iron ore and agriculture products were the main caused of this decline.

5.3.2 - IPCA

On 8th February, IBGE released its IPCA for January ➔ +0.29% -- the lowest IPCA rate for January since the Real Plan (1994). The 12-month accumulation is now at +2.86%, the lowest since 2007 (+2.99%).

See ➔ https://g1.globo.com/economia/noticia/inflacao-oficial-fica-em-029-em-janeiro-diz-ibge.ghtml

5.4 – Maria Silvia becomes CEO of Goldman Sachs Brazil

On 6th February, Goldman Sachs announced that Maria Silvia Bastos Marques had been named the CEO of this important US bank in Brazil. She had been president of BNDES (2016-2017), Finance
Secretary for the city of Rio and President of the Rio 2016 Olympic Committee. She also was President of the CSN and the Brazilian Steel Inst.

5.5 – 2017/2018 harvest might be “bumper”

The 2016/2017 agricultural production was a record breaker, especially grains and contributed to boosting Brazil’s GDP in 2017 ➔ +1.0% in 1st Q/2017. Now it appears that the 2017/2018 harvest might also be a bumper harvest, perhaps even larger than the 114.1 million tons of grains in 2016/2017. A harvest of 111.9 million tons is predicted.

5.6 – Petroleum royalties increase

In 2014 petroleum royalties were R$ 49.1 billion, but declined to R$ 33 billion in 2015 and R$ 24.4 billion in 2016. In 2017, these royalties increased to R$ 36.6 billion and are expected to increase to R$ 51.5 billion in 2018. This possibility is very good news for the fiscal deficit crisis.

5.7 – Retail Sales increased in 2017

On 9th February, IBGE released data for retail sales in 2017 ➔ +2.0% (YoY) – in spite of a -1.5% decline November ➔ December. In 2015, retail sales declined by -4.3% YoY and -6.2% in 2016. Thus, this increase in 2017 did not compensate for the 2015 and 2016 losses.