Weekly Report
May 26-June 1 2018

Looking Ahead ➔ What to watch for?

- 3rd June -- Friday “feriado enforcado” – informal holiday
- 4th June -- Trade Surplus for May ➔ US$ billion
- 4th June -- IPU-Inter Parliamentary Union ranking “Women in Parliament”
- 4th June -- Fenabrave – auto sales units in May, % MoM & % YoY
- 4th June -- Investments % of GDP in 1st Q/2018
- 4th June -- IBGE to release IP data for April ➔ +0.% MoM but -% YoY
- 5th June -- Anfavea to announce auto production in May (% MoM & % YoY)
- 7th June -- Savings Accounts – result in May ➔ R$ million
- 7th June -- FGV to announce IGP-DI for May, % %, versus % in April
- 8th June -- IBGE to announce May IPCA ➔ +0.% versus +0.% in April
- 12th June -- St. Anthony’s Day – St. Valentine’s Day in Brazil
- 13th June -- IBGE, April retail sales data +0.% MoM & % YoY
14th June -- IBGE ➔ Retail Sales +% YoY & +% MoM in April (FGTS disbursements)

14th June – Bastille Day – National Holiday in France

14th June -- SRF, May tax revenues ➔ % YoY

14th June -- Central Bank – FX flows in 2017 ➔ US$ billion

14th June -- FGV ➔ IGP-M, 0.% versus % in May

14 June-15 July -- World Soccer Cup Playoffs – Russia

16th June -- Central Bank to post its IBC-Br for April ➔ +0.% MoM & +0.% YoY

18th June -- Former President FH Cardoso to celebrate 87th birthday

1 - POLITICS

1.1 – Pedro Parente resigned

On Friday morning, 1st June, Pedro Parente resigned his post as President of Petrobras. This resignation had been expected after heavy pressures to modify Petrobras’ policy of frequent changes (increases) in refinery prices of diesel and gasoline – that were pegged to the international price of crude oil and the US dollar FX rate. Also, Parente recently became the chair of the BRF administrative council and it is now expected that he will become the CEO of BRF.

Parente was well known as the “master trouble shooter” in the Cardoso government (1995-2002) and was appointed to the Petrobras post by Pres. Temer in an effort to reverse the near destruction of Brazil’s state-owned petrol enterprise. Parente had accomplished considerable success in this task.

On Thursday, 31st May, Parente met with Finance Minister Eduardo Guardia in São Paulo and on Friday morning arrived in Brasília where he personally delivered his resignation letter to Pres. Temer – who “reluctantly” accepted his exit from Petrobras.


Quick reaction ➔ Shortly after the resignation of Pedro Parente, Petrobras shares on Bovespa declined by -21%. Petrobras ADRs on the NYSE also declined, by -13.5%.

1.2 – Truckers’ strike/protest continues to cripple Brazil

In spite of the 12 points of the agreement” signed by representatives of the autonomous truckers associations and the Temer government last week, the roadblocks continued. Thus, on Sunday, 27th May, Pres. Temer signed three MPs that went into effect immediately:

1) Reduced the price of diesel fuel by R$ 0.46 for a 60 day period;
2) All toll roads in Brazil would reduce tolls for empty trucks (with a raised axel); and
3) Conab will no longer use its bidding process and allocate 30% of transportation contracts to cooperatives of autonomous truckers.
Bovespa (Brazilian stock market) was down by -4.49% on Monday, 28th May. In one week, Petrobras lost R$ 115 billion in market value, R$ 375.2 billion ➔ R$ 242 billion.

State and federal government intelligence reports affirm that leadership in many of the blockades has political infiltrators who are forcing the truckers to continue the strike and road blocks in spite of the agreements reached by the truckers and the government. It was reported that in Maranhão, the police arrested seven such infiltrators”.

**BRT in Rio** – On 29th May, the Chief of Staff of the Rio municipal government, Paulo Messina, affirmed that part of the route of the BRT express bus service has been taken over by organized crime drug traffickers. He said that five of these bus stops in the Western part of the city have become sale points for drugs, and asked the security forces to “liberate” these bus stops.

**In Bauru, SP** diesel and gasoline were arriving regularly by train, **BUT** on 28th May, an engine with 10 tank cars was derailed (but not the tank cars). The railway concession holder (Rumo) discovered that someone had removed the spikes that fasten the rains to the ties, thus provoking the derailment.

**GDP & IPCA** ➔ Probably, in May and June Brazil’s GDP will decline (as measured by the Central Bank’s IPC-Br and the official IPCA inflation index will increase. For example, 45% of Brazil’s industries are idle for lack of parts and components, and 70 chickens have died for lack of feed. 
**Also,** federal tax collections probably will decline for lack of [taxable] economic activity. Producers in Brasília destroyed 500,000 eggs for lack of transportation to supermarkets. Retail sales in Brazil declined by R$ 3.1 billion during the first 9 day of the truckers’ strike.

On 30th May, the Rio state legislature (AL-RJ) reduced the ICMS (state sales tax) on diesel fuel from 16% to 12%. This was the first state to make this reduction. Thirteen other states affirmed that their fiscal situation is very delicate and could not make this reduction.

As of 31st May, the Federal Highway Police (PRF) announced that there were no more road blocks in any state. **However,** one death occurred in Rondônia when militants threw rocks as the cab of a truck trying to breach the blockade. One rock broke through the truck’s windshield and hit the head of the driver, killing him.

The Corpus Christi weekend saw thousands of cancelations of flights and hotel reservations.

A rough estimate of economic losses is around R$ 40 billion

**1.2.1 – FUP called three day strike**

On 28th May, FUP-Petrobras Workers Union called a 3-day strike as of 30th May – on the heels of the truckers’ strike and including the Corpus Christi holiday. **However,** at the request of the AGU, the TST decided that this strike was illegal and placed a R$ 2 million fine per day on FUP. Quickly, FUP rescinded the strike call and normality prevailed.

**1.3 – Children of “notables” candidates in 2018**
The 2018 campaign is replete with nine sons and daughters of political “notables” who will be first time candidates for public office – mostly for federal deputy:

**Alagoas**
Fernando James (PTC), federal deputy, son of Sen. Fernando Collor

**Bahia**
Otto Alencar Filho (PSD), federal deputy, son of ex-governor Otto Alencar.

**Ceará**
Rodrigo Oliveira (MDB), son of Senate President Eunício Oliveira
Mosiah Torgan (DSM), federal deputy, son of Vice-Mayor of Fortaleza Moroni Torgan

**Paraná**
Marcello Richa (PSDB), state deputy, son of ex-Gov. Beto Richa & grandson of José Richa

**Pernambuco**
João campos (PSB) federal deputy, son of ex-Gov. Eduardo Campos (died in 2014)
Antonio Coelho (DEM), state deputy, son of Sen. Fernando Bezerra Coelho

**Rio de Janeiro**
Marcelo Crivela Filho (PRB), federal deputy, son of Rio Mayor Marcelo Crivela
Danielle Dytz (MDB), daughter of ex-deputy Eduardo Cunha (in jail in Curitiba)

⇒ Stay tuned – More of these “children candidates might still appear.

1.4 – *Ibope* poll in São Paulo

*Ibope* conducted an election poll in the state of São Paulo on 24-27 May among 1,008 voters with a margin of error of 3 p.p. and a confidence level of 95%. This is the first poll conducted after the truckers’ strike began on 21st May. This poll had simulations for President, Governor and Senator. The results were released in the evening of 28th May. This poll was commissioned by *Band TV*. The April poll was released on 24th April.

<table>
<thead>
<tr>
<th>President</th>
<th>April</th>
<th>May</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>(A)</td>
<td>(B)</td>
</tr>
<tr>
<td>Lula (PT)</td>
<td>20%</td>
<td>23%</td>
<td>-</td>
</tr>
<tr>
<td>Haddad (PT)</td>
<td>-</td>
<td>-</td>
<td>3%</td>
</tr>
<tr>
<td>J. Wagner (PT)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bolsonaro (PSL)</td>
<td>14%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
<td>14%</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td>9%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>C. Gomes (PDT)</td>
<td>4%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>A. Dias (Podemos)</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Blank/Null</td>
<td>18%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>
Between the April and May polls, Lula (already in jail) gained 3 points. Bolsonaro was up by 5, Alckmin declined by one point, Marina was steady and Ciro Gomes lost one point. In the (B) simulation (without Lula), Fernando Haddad polled only 3%, Bolsonaro was steady at 19%, Alckmin and Marina increased by 2, Ciro Gomes down by one point and Alvaro Dias steady at 2%.

Reportedly, four time governor of SP, Geraldo Alckmin, was very apprehensive about this new *Ibope* poll – with good reason while he was down by one p.p., Bolsonaro gained another five points into a 6-point lead over Alckmin. Many observers felt that in early June, the PSDB will decide that Alckmin should run for Senator and be replaced by João Doria as the party’s pre-presidential candidate.

<table>
<thead>
<tr>
<th>Governor</th>
<th>April</th>
<th>May</th>
<th>Rejection</th>
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<tbody>
<tr>
<td><strong>First Round</strong></td>
<td></td>
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</tr>
<tr>
<td>J. Doria (PSDB)</td>
<td>24%</td>
<td>22%</td>
<td>33%  35%</td>
</tr>
<tr>
<td>P. Skaf (MDB)</td>
<td>19%</td>
<td>15%</td>
<td>32%  34%</td>
</tr>
<tr>
<td>L. Marinho (PT)</td>
<td>4%</td>
<td>4%</td>
<td>20%</td>
</tr>
<tr>
<td>M. França (PSB)</td>
<td>3%</td>
<td>3%</td>
<td>17%  16%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Blank/Null</td>
<td>37%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>DK/NR</td>
<td>11%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

Between the April and May polls, Doria declined by 2 p.p. and Skaf was down by 4 points, while their rejection levels increased by 2 points.

<table>
<thead>
<tr>
<th>Governor</th>
<th>(A)</th>
<th>(B)</th>
<th>(C)</th>
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</thead>
<tbody>
<tr>
<td><strong>Second Round</strong></td>
<td></td>
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</tbody>
</table>
| J. Doria (PSDB) | 32%  | 37%  | 35%  |-
| P. Skaf (MDB)   | 30%  | -    | -    |-
| L. Marinho (PT) | -    | 21%  | -    |-
| M. França (PSB) | -    | -    | 22%  |-

The second round simulation showed that João Doria would defeat all the other candidates.

<table>
<thead>
<tr>
<th>Senator (TWO seats)</th>
<th>April</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>E. Suplicy (PT)</td>
<td>32%</td>
<td>30%</td>
</tr>
<tr>
<td>JL Datena (DEM)</td>
<td>33%</td>
<td>26%</td>
</tr>
<tr>
<td>M. Suplicy (MDB)</td>
<td>25%</td>
<td>18%</td>
</tr>
<tr>
<td>M. Feliciano (Podemos)</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Nunes Ferreira (PSDB)</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>M. Covas Neto (Podemos)</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Major Olimpio (PSL)</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>J. Aníbal (PSDB)</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>R. Tripoli (PSDB)</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>D. Cara (PSoL)</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>J. Andreoni (PRTB)</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>
This simulation showed that Eduardo Suplicy (PT) and José Luiz Datena (DEM) would probably be elected. Since the April poll, Suplicy declined two points and Datena was down by 7 points. Eduardo Suplicy was elected to the Senate in 1990 and reelected in 1998 and 2006, but was defeated for reelection by José Serra (PSDB) in 2014. In 2016, he was elected to the SP city council. José Luiz Datena has a very popular daily (afternoon) TV program in São Paulo.

However, if the PSDB decides to replace Geraldo Alckmin as its presidential candidate with João Doria, and launch Alckmin as its candidate for the Senate, this would “shake up” this election campaign considerable.

1.5 – TSE ➔ Candidate prohibitions

On 29th May, the TSE deliberated regarding the possibility of someone convicted by a second level court (Lula) or considered a réu -- investigated by the STF (Bolsonaro) -- could become a candidate in the 2018 elections. The decision was “not to decide”.

1.6 – Lava Jato

1.6.1 – Operation Registro Espúrio

On Wednesday, the Federal Police carried out Operation Registro Espúrio [Operation Spurious Registry] against three federal deputies and searched their offices in Brasília ➔ Dep. Paulinho da Força (SD-SP), Dep. Jovair Arantes (PTB-GO0 and Wilson Filho (PTB-PB) – regarding fraudulent registry of labor unions at the Ministry of Labor. Also included in this investigation were Senators Dalirio Beber (PSDB) and Cidinho Santos (PR). The Federal Police requested arrest warrants against the deputies, but STF Judge Edson Fachin only issued the “search-and-seize” warrants. Other targets of this operation were Leonardo José Arantes (Exec. Secretary at the Labor Ministry) and Rogerio Papalardo Arantes (Budget Director at Incra) – nephews of Dep. Jovair Arantes. All together, Fachin issued 64 “search-and-seize”, 8 permanent arrest, and 15 temporary arrest warrants. Reportedly, these two nephews charged R$ 4 million for the registry of a factious labor union – that would then have access to a quota of the obligatory labor union tax.

One of those arrested was João Alberto Graça, the “right-hand-man” of PDT President Carlos Lupi and also of former Labor Minister Manoel Dias. Also arrested was the chief of staff of Dep. Paulinho da Força (SD-SP) – Marcelo de Lima Cavalcanti. The police also seized his cell phone.

This Federal Police Operation was a severe blow to the PTB commanded by former deputy Roberto Jefferson. Although the main “target” was the Ministry of Labor, this operation also hit Embratur, Incra and INSS.
1.6.2 – TRF-4 maintained convictions

On 30th May, the TRF-4 in Porto Alegre decided to maintain the convictions of José Carlos Bumlai, Salim and Milton Schahin, Nestor Ceveró, João Vaccari Neto and Fernando Falcão Soares.

1.6.3 – Paulo Preto

Former Dersa-SP Director, Paulo Vieira de Souza (Paulo Preto) was imprisoned (for a 2nd time) on Thursday morning, 30th May on order of a federal judge in SP. His daughter was also arrested. He was first imprisoned on 6th April but was released by a Habeas Corpus issued by STF Judge Gilmar Mendes on 11th May that also released his daughter. This second arrest was based on apparent attempts at “witness tampering” – but Gilmar Mendes said he saw no evidence of this practice. Paulo Preto is accused of being the principal financial “operator” for the PSDB with regards bribes collected from highway construction contracts in SP.

2 – FOREIGN RELATIONS & TRADE

2.1 – May trade surplus

On Friday afternoon, 1st June, MDIC announced the trade data for the month of May ➔ +US$ 5.891 billion. Exports totaled US$ 19.241 billion (+1.9% YoY) and imports were US$ 13.260 billion (+14.5% YoY). The truckers’ strike/protest impacted this result ➔ in the 4th week in May, the surplus declined to US$745 million and in the 5th week to US$ 548 million. The accumulated trade surplus in 2018 is now US$26.155 billion. MDIC predicts that the 2018 total should surpass US$ 50 billion.

2.2 – Colombia

2.2.1 – First Round Presidential Election

Colombia held its first round Presidential election on Sunday, 27th May with 19.6 million valid votes. The results were as follows:

<table>
<thead>
<tr>
<th>Candidate</th>
<th>Party</th>
<th>Votes</th>
<th>%</th>
<th>Political Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iván Duque</td>
<td>Centro Democrático</td>
<td>7,569,693</td>
<td>39.14</td>
<td>Right</td>
</tr>
<tr>
<td>Gustavo Petro</td>
<td>Coalición Petro Presidents</td>
<td>4,851,254</td>
<td>25.08</td>
<td>Left</td>
</tr>
<tr>
<td>Sérgio Fajardo</td>
<td>Coalizion Colombia</td>
<td>4,589,695</td>
<td>23.73</td>
<td>Center-Left</td>
</tr>
<tr>
<td>Germán Varas Lleras</td>
<td>Melhores</td>
<td>1,407,840</td>
<td>7.28</td>
<td>Right</td>
</tr>
<tr>
<td>Humberto de la Calle</td>
<td>Partido Liberal</td>
<td>399,180</td>
<td>2.06</td>
<td>Liberal</td>
</tr>
<tr>
<td>Jorge Trujillo</td>
<td>Todos Somos Colombia</td>
<td>75,614</td>
<td>0.39</td>
<td>Pastor</td>
</tr>
</tbody>
</table>

Thus, Duque and Petro will dispute the second round runoff election on 17th June

2.2.2 – Colombia joined NATO
On 24th May, Colombia’s President Juan Manuel Santos announced that Colombia had been accepted as the first Latin American nation to join NATO – currently with 29 members. This announcement came just hours after the OECD announced that it had accepted Colombia as a full member.

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Eletropaulo ➔ Enel

On 30th May, the Italian Enel offered the highest bid for shares of Eletropaulo (R$ 45.22 per share) and thus defeated its rival Neoenergia, controlled by the Spanish Iberdrola (R$ 39.53). This concession will be finalized on Monday, 4th June, via OPA-Public Share Offering – and be accepted by Eletropaulo share holders.

5 - ECONOMICS

5.1 – 1st Q/2018 GDP ➔ 0.4%

On Wednesday, 30th May, IBGE released Brazil’s GDP data for 1st Q/2018 ➔ +0.4%. Growth in 1st Q/2017 was +1.1% due mostly to record production in the agro sector and large grain exports. In the following quarters in 2017, GDP growth tapered off, +0.6%, +0.3% and +0.2% -- so to a certain extent the result for 1st Q/2018 was an “improvement”.

Details ➔ 1) The agro sector grew by +1.4%; 2) The services sector advanced only +0.1%; 3) Consumption by families was up by +0.5%; 4) Investments increased by +0.6%; 5) Consumption by government declined by -0.4%; 6) Civil Construction was down by -0.6%; 7) Industrial Production was down by -0.4%. The 2018 economy is more or less on a par with 2011. The strike/protest by truck drivers should impact Brazil’s 2nd Q/2018 GDP, as well as the final GDP for 2018.

Analysts surveyed by O Globo predicted this GDP result between +0.1% and +0.5%.

5.2 – April Unemployment

On 29th May, IBGE released its PNAD data for the February-April period ➔ 12.9%, down from 13.6% posted in the same period in 2017. PNAD found 13.4 million unemployed.

5.3 – April Public Accounts

**Primary Surplus** ➔ +R$ 2.9 billion
- Central Gov’t. ➔ +R$ 5.36 billion surplus
- States & cities ➔ R$ 2.468 billion deficit
- State enterprises ➔ +R$ 26 million surplus
  - January-April 2018 ➔ +R$ 7.291 billion surplus

**Nominal Deficit** ➔ -R$ 26.751 billion deficit

**Social Security (INSS) Deficit** ➔ -R$ 12.160 billion (+1.4% YoY)
  ➔ January-April, -R$ 62.213 billion (+17.7% YoY)

**Public Debt** ➔ R$ 3.658 billion (+0.61% MoM)

5.4 – May Inflation

On 29th May, FGV released data for its IGP-M ➔ +1.38%. The 2018 accumulation is now +3.45% and +4.26% in 12-months. This inflation index is used to readjust rents in Brazil.