Brazil Focus –
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Weekly Report
June 23-29 2018

Looking Ahead ➔ What to watch for?

- 14 June-15 July -- World Soccer Cup Playoffs – Russia
- 1st July -- Canada Day ➔ 151 years of independence
- 1st July -- Mexico – General elections
- 2nd July – World Cup Soccer playoffs – Brazil vs. Mexico, 10 am NY time
- 2nd July -- Trade balance for June ➔ US$ billion & 1st semester ➔ US$ billion
- 4th July -- New car sales June, units (% MoM & % YoY),
- 4th July -- US Independence Day [national holiday]
- 4th July -- IBGE industrial production for May ➔ +0.0 MoM & +% YoY
- 6th July -- FGV --- IGP-DI for June ➔ % MoM; % in 2018 & % 12-months
- 9th July -- IBGE to release IPCA data for June ➔ % versus % in May
- 9th July -- State Holiday in SP – [“Commemorate” defeat in the 1932 Revolution]
- 9th July -- Argentine Independence Day
- 12th July -- IBGE – Retail sales in May ➔ 0.0 MoM & +% YoY
- 12th July -- IBGE to release Industrial Production data for May ➔
• 12th July -- FGV to announce first July preview of its IGP-M ➔ 0.%
• 13th July -- IBGE ➔ Services Sector in May +0.%
• 14th July -- Bastille Day – National Holiday in France
• 16th July -- Central Bank to release its IBC-Br for May ➔ -0.% MoM & + % YoY
• 16th July – Trump-Putin Summit in Helsinki, Finland (after the Soccer World Cup)
• 17th July -- Bastille Day – National Holiday in France
• 16th July – Trump-Putin Summit in Helsinki, Finland (after the Soccer World Cup)
• 17th July -- Caged data for June ➔ new jobs created
• 20th July -- IGBE to release its IPCA-15 ➔ 0.%
• 20th July -- SRF to announce federal tax collections for June ➔ R$ billion (+0.% YoY)

1 - POLITICS

1.1 – STF freed José Dirceu

Early Tuesday afternoon, the 2nd working group at the STF released José Dirceu from his confinement in the Brasília Papuda prison. As before, the same three STF judges (out of the five on the 2nd working group) – Gilmar Mendes, Ricardo Lewandowski and Antonio Dias Toffoli voted against this Lava Jato decision. The reporter, Judge Edson Fachin, was defeated.

This decision raised the possibility that this same group of three judges might vote to release Lula – in prison in Curitiba since 7th April. For this decision, the reporter (Judge Edson Fachin) sent the latest request by Lula’s lawyers for an habeas corpus to the full 11-judge Supreme Court for deliberation.

1.2 – Lava Jato

1.2.1 – Antonio Palocci

After the STF authorized the Federal Police to do plea bargaining with the accused (as reported last week in Brazil Focus), on Friday 2nd June the TRF-4 ratified the plea bargaining testimony of Antonio Palocci that had been taken by the Federal Police several weeks ago – after federal prosecutors had rejected this testimony taken by the Federal Police. At that time, this testimony was nicknamed “The End of the World”. Federal Judge Sérgio Moro had already convicted Palocci and sentenced him to 12 years, two months and 20 days in prison.

1.2.2 – Marcello Miller

The PGR was able to indict Marcello Miller, Joesley Batista and Francisco de Assis for corruption regarding the Lava Jato Investigation on 25th June with federal judge Francisco Codevilla Pinheiro Filho of the 215th circuit in Brasília. The PGR had requested this with the judge on 15th June. Miller was “serving two masters”. While he still was a federal prosecutor (number two under the PGR) dealing with the Lava Jato investigation, he was hired by a Rio law firm Trench Rossi Watanabe to “assist” Joesley Batista & colleagues prepare their plea bargaining testimony -- a tremendous conflict of interest. The Federal Police accuse Miller of receiving R$ 700.000,00 for his “services rendered”.
1.2.3 – Pres. Temer

The Federal Police requested yet another 60 days to conclude the investigation of Pres. Temer’s role in the of the Santos sea port firms that had their concessions extended for 70 years via a degree signed by Temer. STF Judge Luís Roberto Barroso will deliberate this request.

1.3 – Waldir Pires dead at age 91

Francisco Waldir Pires de Souza died of pneumonia in Salvador, Bahia on Friday, 22nd June. He was born in Acajutiba, BA in October 1926. He was very active in student politics during his Law course in Bahia and then went into politics. He was state secretary for management under PSD Gov. Luís Régis Pacheco Pereira (1951-1955). He was elected state deputy (1954) and federal deputy 1958. In 1962, he was narrowly defeated (margin of 3%) by Lomanto Junior (UDN). Pires then became a Law professor at the University of Brasília and in 1963, then Pres. João Goulart named him Consultor-Geral da República. In August 1961, he supported then Vice-President João Goulart (PTB) to succeed Pres. Jânio Quadros who resigned from the presidency. As a result, he was cassado by the military regime (AI-1) in April 1964.

He sought political refuge first in Uruguay. He escaped to Montevideo in a single-engine plane arranged by Dep. Rubens Paiva. In 1966, he moved to France, where he became a Law professor at the University of Djon and later (in 1968) at the Latin American Studies Institute at the University of Paris. Pires returned to Brazil in 1970 (before the general amnesty approved by Congress in 1979) and worked as a lawyer for several private firms.

In 1980, he participated in the founding of the PMDB and ran for Senator from Bahia in 1982, but was defeated by Luiz Vianna Filho (PDS). In January 1985, he was selected by President-elect Tancredo Neves to be Social Security Minister and maintained by President José Sarney. He was elected PMDB governor of Bahia in 1986 and interrupted the long period of dominance by ACM (Antonio Carlos Magalhães).

In 1989, in the first direct elections for President since 1960, Gov. Waldir Pires competed for the PMDB presidential nomination against Dep. Ulysses Guimarães. Pires received 272 votes versus 302 for Ulysses. As a result, Ulysses invited him to become his running mate and he resigned the governorship after some two years in office. This ticket fared poorly in the 15th November direct presidential election and placed seventh – in spite of the PMDB having 22 governors and a majority in Congress.

In 1990, Pires returned to Congress elected federal deputy by the PDT. After a falling out with the PDT, he joined the PSDB and ran for the Senate in 1994. However, he lost this election by some 3,000 votes to a protégé of ACM – Waldeck Ornelas. In 1998, Pires was again elected Federal Deputy. Because of FHC’s alliance with the PFL, Waldir Pires joined the PT, but was defeated for the Senate in 2002. In 2003, Pres. Lula appointed Pires to be his CGU-Controladoria-Geral da União. In March, Lula appointed Pires to be Defense Minister. However, he resigned from the Defense Ministry (July 2007) after two terrible air accidents ➩ GOL flight 1907 in September 2006 (in the Amazon jungle) and TAM flight 3054 at the Congonhas airport in SP. Ironically, he resigned the Defense Ministry the
same week that his arch-rival, ACM, died in Bahia. In 2012, Waldir Pires was elected to the Salvador city council – his last public office.


1.4 – Military pre-candidates in 2018

According to a survey by the O Globo newspaper, in the 2018 elections there could be 429 military pre-candidates ➔ 185 from the Armed Forces, 576 state PMs (state police forces), 50 federal police officers, 158 state civil police and 40 inspectors from the PRF-Federal Highwasy police. However, this does not mean that they will actually become “official” candidates. This will occur in the national and state party conventions between 20th July and 5th August.

1.5 – New Ibope poll

This poll was conducted for the CNI on 21-24 June among 2,000 voters in 128 municípios with a two-point margin of error and released on 28th June.

See ➔ https://mail.google.com/mail/u/0/#inbox/16446f031d268f76?projector=1&messagePartId=0.1

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>With Lula</th>
<th>Without Lula</th>
<th>Spontaneous</th>
<th>Rejection</th>
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<tr>
<td>Lula (PT)</td>
<td>33%</td>
<td>- -</td>
<td>21%</td>
<td>31%</td>
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<tr>
<td>Haddad (PT)</td>
<td>- -</td>
<td>2%</td>
<td>- -</td>
<td>12%</td>
</tr>
<tr>
<td>Bolsonaro (PSL)</td>
<td>15%</td>
<td>17%</td>
<td>11%</td>
<td>32%</td>
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<tr>
<td>M. Silva (Rede)</td>
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<td>13%</td>
<td>2%</td>
<td>18%</td>
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<tr>
<td>C. Gomes (PDT)</td>
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<td>8%</td>
<td>2%</td>
<td>18%</td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
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<td>6%</td>
<td>1%</td>
<td>22%</td>
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<tr>
<td>A. Dias (Podemos)</td>
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<td>3%</td>
<td>1%</td>
<td>9%</td>
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<tr>
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<td>1%</td>
<td>1%</td>
<td>8%</td>
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<tr>
<td>M. D’Ávila (PCdoB)</td>
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<td>1%</td>
<td>1%</td>
<td>9%</td>
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<tr>
<td>F. Collor (PTC)</td>
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<td>2%</td>
<td>1%</td>
<td>32%</td>
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<td>F. Rocha (PRB)</td>
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<td>1%</td>
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<td>9%</td>
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<td>L. Fidelix (PRTB)</td>
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<td>1%</td>
<td>1%</td>
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<tr>
<td>J. Goulart (PPL)</td>
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<td>1%</td>
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<td>9%</td>
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<tr>
<td>R. Maia (DEM)</td>
<td>- -</td>
<td>1%</td>
<td>1%</td>
<td>13%</td>
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<tr>
<td>G. Boulos (PSoL)</td>
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<td>1%</td>
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<tr>
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<td>1%</td>
<td>12%</td>
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<tr>
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<td>33%</td>
<td>31%</td>
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<td>Dk/NR</td>
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<td>8%</td>
<td>28%</td>
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Four other pre-candidates had less than 1% -- Aldo Rebelo (SDD), Paulo Rabello de Castro (PSC), Guilherme Afifi Domingos (PSD) and Valéria Monteiro (PMN). Fernando Collor (PTC) resigned his pre-candidacy, but this was after this poll was conducted; so his name is listed above.

Rejection ➔ Lula, Bolsonaro and Collor have the highest rejection rates. Geraldo Alckmin had 22% while Marina Silva and Ciro Gomes were tied at 18%. The PT’s “Plan B” (Fernando Haddad) had a much lower rejection rate than Lula.

Regarding the simulation without Lula (most probable), 100 days before the first round election, 41% of the voters in this sample had no candidate selected.

1.6 – Carlesse elected governor of Tocantins

On Sunday, 24th June, the state of Tocantins held a second round runoff election for Governor. The incumbent Governor of Tocantins, Mauro Carlesse (PHS) was elected with 75% of the valid vote to complete the term until 31st December 2018. However, he could run for a full mandate (reelection) in the October 2018 elections. He defeated Senator Vincentinho Alves (PR). Carlesse will be official sworn in on 9th July.

This special election was called because the TRE-TO ➔ TSE removed the governor elected in 2014, Marcelo Miranda (MDB) and his Vice Cláudia Lelis (PV) because of illegal campaign finance in 2014. As a result, Carlesse became interim governor in March 2018 because he was next in line as President of the State Legislature (AL-TO).

However, voter disinterest or alienation was very high. This second round had 355,032 ascertaining (34.9%) while Carlesse received 358,000 votes. Also, 23.46% voted null and 2.59% cast blank ballots.

1.7 – PSDB ➔ 30 years

On Sunday, 14th June, the PSDB marked its 30th anniversary. Founded on 24th June 1988, near the end of the ANC-National Constituent Assembly, the “social democrats” had postponed their “break out” to form their new political party so as to maintain one of their major leaders, Sen. Mário Covas (elected by the PMSB in 1986) as the floor leader of the majority in the ANC. A majority of the tucanos came from the PMDB, but some left other parties. The reason that these politicians wanted to form this new party was to have enough time to organize their candidates for the municipal elections in November 1988. The following year, Senator Mário Covas became the PSDB presidential candidate.


http://www.psdb.org.br/acompanhe/noticias/partido-celebra-fundacao-com-legado-de-conquistas-sociais-e-fortalecimento-economico/
As of 1994, Brazil’s presidential elections became polarized between the PSDB and the PT. Apparently, in 2018, this polarization will no longer exist.

2 – FOREIGN RELATIONS & TRADE

2.1 – Mike Pence visited Brazil

US Vice-President Mike Pence arrived in Brasília on Tuesday, 26th June, and met with President Michel Temer at noon. Also present at this meeting were ministers of Foreign Relations (Aloysio Nunes), MDIC Marcos Jorge), Casa Civil (Eliseu Padilha) and GSI (Sérgio Etchegoyen). After this encounter, Pence attended a luncheon in his honor at Itamaraty. This was the first visit of a high level member of the US government during the Temer presidency.
They discussed the “problem” of Brazilian parents separated from their children after entering the US via the Mexico border crossing. Also, the question of tariff quotas for Brazilian exports of steel and aluminum was on the agenda as was an agreement for the US to use the rocket launching base in Alcântara, Maranhão. Other aspects of bilateral military cooperation were discussed. Pence pushed Brazil to increase its pressures on Venezuela regarding human rights and return to democracy.

After the luncheon, Pence met with the US Embassy staff. Early Wednesday morning, Pence flew to Manaus where he visited the Santa Catarina de Sena reception House that receives Venezuelan refugees transferred from Boa Vista, Roraima. Pence then flew to Ecuador – before Brazil’s World Soccer Cup game against Serbia (at 2:00 p.m. Manaus time.

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Auction for transmission lines

On 28th June, Aneel conducted an auction for 2,600 Km of transmission lines in 16 states. This auction conducted by Aneel at the B3 in SP was scheduled to begin at 9:00 a.m., but because one of the firms involved had been disqualified achieved a court injunction to suspend the auction, the process only began at 4:00 p.m. after this injunction had been quashed by a higher court.

The “big winner” was an Indian firm – Sterlite Power Grid – that won bids on 6 of the 20 lots of transmission lines and will invest R$ 3.64 billion. 47 groups participated in this auction.

4.2 – STF prohibits privatizations

On Wednesday, 27th June (while Brazil was playing its third World Cup game against Serbia), STF judge Ricardo Lewandowski issued an injunction against any further privatizations of (federal, state
and municipal) state-owned enterprises in Brazil. His “rationale” was that these privatizations need (require) approval of the respective legislature.

This is what is called “judicialization of politics” – where courts assume the powers of the legislature and approve (legislate) certain important questions.

This action by Lewandowski was timed to come at the end of the judicial calendar (recess in July). Therefore, the full Supreme Court will only be able to deliberate this injunction in August – it the STF president puts this on the agenda. Certainly, the AGU and PGR will request “urgency” by the full STF to deliberate this question.

However, Planning minister, Fernando Antonio Ribeiro Soares, affirmed that this injunction does not affect the auction of electricity distribution firms in six states planned for 26th July. On 29th June, Eletrobras decided to postpone this auction and consult its shareholders regarding a new data for this auction – perhaps in December 2018.

For what reason did Lewandowski issue this injunction? Reportedly, the reason was the near finalization of the “partnership” being negotiated by Embraer and Boeing. However, Embraer is now a private firm that will close a merger with Boeing and leave the defense industry segment of Embraer out of the merger with Boeing. Embraer is no longer a state enterprise since 1990. Remember: Lewandowski is originally from the city of São Bernardo do Campo, SP where the HQ of Embraer is located

👉 Stay tuned!!!!

5 - ECONOMICS

5.1 – May Public Accounts

Current Account ➔ US$ 729 million (-73.5% YoY)
- Because of the truckers’ strike/protest in late May.

Primary Surplus ➔ R$ 6.224 billion
- Central Government ➔ -R$ 11.120 billion
- Regional Governments ➔ + R$ 2.229 billion
- State Enterprises ➔ +R$ 699 million

Federal Tax Collections ➔ R$ 106 billion (+5.68% YoY)
- Jan-May collections were R$ 603.4 billion (+7.81illion YoY

5.2 – IBGE ➔ Unemployment in May

On Friday, 29th June, IBGE released its unemployment data for March-April-May quarter ➔ 12.7% (13.2 million unemployed). In the previous quarter, 12.5% were unemployed. However, this level of unemployment was less than the 13.3% posted in the same quarter (March-April-May 2017) ➔
-3.9% YoY. However, “informal employment” increased (temporary, self-employed and work with a formally signed work contract). This PNAD survey conducted by IBGE via a nation-wide sample is more accurate than the Caged data produced by the Ministry of Labor. Caged only considers “employed” those workers with a formal signed work contract (*carteira de trabalho*).

### 5.3 – GDP 2018 projections

This week, two institutions reduced their projections for Brazil’s GDP in 2018. The Central Bank now projects +1.6% and IPEA projects +1.7%. These reductions were mostly due to very slow economic recovery and the impact of the truckers’ strike/protest.