Brazil Focus –
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Weekly Report
June 29-July 6
2018

Looking Ahead ➔ What to watch for?

- 14 June-15 July -- World Soccer Cup Playoffs – Russia
- 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. % 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
- 15-17 July – Foro de São Paulo to meet in Havana, Cuba
- 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)
1 - POLITICS

1.1 – New *DataPoder360* poll

This DataPoder360 poll was conducted this telephone (fixed and cell) poll on 25-29 June among 5,500 voters in 229 *municípios* with a two-point margin of error. The previous poll was in May.

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>May</th>
<th>June</th>
<th>Candidate/Party</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolsonaro (PSL)</td>
<td>25%</td>
<td>21%</td>
<td>Bolsonaro (PSL)</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>C. Gomes (PDT)</td>
<td>12%</td>
<td>13%</td>
<td>C. Gomes (PDT)</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
<td>7%</td>
<td>8%</td>
<td>Alckmin (PSDB)</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>M. Silva (Rede)</td>
<td>6%</td>
<td>7%</td>
<td>M. Silva (Rede)</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>F. Haddad (PT)</td>
<td>8%</td>
<td>6%</td>
<td>F. Haddad (PT)</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>A. Dias (Pode)</td>
<td>6%</td>
<td>5%</td>
<td>A. Dias (Pode)</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Null Blank</td>
<td>28%</td>
<td>31%</td>
<td>M. D’Ávila (PCe)</td>
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<td>2%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>8%</td>
<td>9%</td>
<td>F. Collor (PTC)</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>H. Meirelles (MDB)</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>R. Maia (DEM)</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>F. Rocha (PRB)</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>*Others (4)</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Null/Blank</td>
<td>27%</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>DK/NR</td>
<td>12%</td>
<td>13%</td>
</tr>
</tbody>
</table>

* - G. Afif (PSD), G. Boulos (PSOl), J. Amoedo (Novo), P. De Castro (PSC).

In these June simulations, João Doria (as a substitute for Geraldo Alckmin) was not included. In the May poll, Doria posted 6%.

In these two simulations (above), Jair Bolsonaro leads the poll with Ciro Gomes a distant second place. Alckmin, Marina, Haddad and Dias are more or less tied in third rank (with the margin of error). Fernando Haddad was listed as the PT alternative candidate.
In this June poll, Lula posted 35% and rejected by 62%. When asked who would be their alternate choice if Lula was not a candidate, the responses in May→June were:

<table>
<thead>
<tr>
<th>Alternate Choice</th>
<th>May→June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ciro Gomes (PDT)</td>
<td>27% → 26%</td>
</tr>
<tr>
<td>Fernando Haddad (PT)</td>
<td>14% → 20%</td>
</tr>
<tr>
<td>Jaques Wagner (PT)</td>
<td>6% → 5%</td>
</tr>
<tr>
<td>Marina Silva (Rede)</td>
<td>15% → 7%</td>
</tr>
<tr>
<td>No One</td>
<td>38% → 41%</td>
</tr>
</tbody>
</table>

In this “alternative choice” simulation, Fernando Haddad increased from 14% to 20%, nearly rivaling Ciro Gomes as the alternate for Lula voters. In part, this due to Lula including Haddad as his main contact for the organization of his “campaign”. This, Haddad has had more media exposure.

### 1.2 – Lava Jato

**Eike Batista** – was convicted on corruption charges by Federal Judge Marcelo Bretas in Rio and sentenced to 30 years in prison because of a US$ 16.6 million bribe paid to then Gov. Sérgio Cabral (MDB) in 2010. He also sentenced Cabral to an additional 22 year prison term.

**José Dirceu** – was relieved of his prison term by TSF Judge Dias Toffoli while his appeal is still pending. Many thought that Toffoli should have excused himself from this case in that in 2003-2005 Dirceu was Toffoli’s “boss” at the Casa Civil before he was appointed to the AGU and then STF by Lula. As a result, Judge Sérgio Moro determined that Dirceu should wear an electronic/GPS ankle bracelet during his “free time”. Rapidly (without any action by Dirceu’s defense), Toffoli affirmed that Moro had “violated” the STF determination and ordered that Dirceu not be obliged to wear the ankle bracelet.

**However,** Judge Moro “returned the ball to Judge Toffoli’s court” – saying that the use of the ankle bracelet followed the determination by the same STF second working group (where Toffoli is a member).

**Operation Fratura Exposta** [Exposed (bone) fracture] – In a new phase of this operation in Rio (nicknamed Operation Ressonância), the Federal Police carried out 65 warrants – 13 preventative prison, 9 temporary prison (5 days) and 43 search-and-seize – in Rio, São Paulo, Paraíba, Minas Gerais and Brasilia. This operation targeted a corrupt scheme of the importation of excessive orthopedic devices for the federal orthopedic hospital in Rio – INTO-Instituto. Nacional de Traumatologia e Ortopedia. Those arrested were the former Rio State health Secretary Sérgio Cortes, “businessman” Miguel Iskin, and his “partner” Gustavo Estellita Cavalcanti Pessoa. These three were arrested in the first phase of this operation but were released by STF Judge Gilmar Mendes.

Several warrants were issued against some “big fish” → 1) Drauio Speranzini Jr., former Director of Phillips Healthcare Medical Systems and current CEO of General Electric for Latin America (arrested); 2) Júlio Cezar Alvarez, former president of the American firm Stryler (arrested); 3) Albert Holzhacker, former President of Dixtal (arrested); 4) Emano Marchetti Moraes, former
executive of Dräger (fugitive); 5) Frederik Knudsen, manager at Johnson & Johnson Medical Devices Brasil; and 6) a Maquet manager. Reportedly, Speranzini affirmed that there was a “scheme” that operated in Rio.


**Operation Registro Espírito** – This Operation began in May and investigates the “sale” of official recognition of new labor unions at the Ministry of Labor. In early 2018, Dep. Cristiane Brasil (PTB-RJ) was indicated (to Pres. Temer) by her father, Roberto Jefferson, the current national PTB President, to be Labor Minister. Her appointment became very “complicated” when it was discovered that she had several contested cases in Rio labor courts regarding complaints by her former employees. In the interim, Helton Yomura was appointed.

On 5th July (the day after the **Operation Ressonância** described above), the Federal Police conducted three temporary arrest warrants and 10 search-and-seize warrants in Brasília and Rio. The main “targets” were Yomura (who was suspended by STF Judge Edson Fachin (who resigned later in the day) and Dep. Nelson Marquezelli (PTB-SP). One of Marquezelli’s staff advisors, Jonas Antunes was arrested and the Federal Police found R$ 95,000,00 in cash at his apartment in Brasília. R$ 5,000,00 case was found in Marquezelli’s office at the Chamber of Deputies. Later in the day, Pres. Temer named Casa Civil Chief Eliseu Padilha to by the interim Labor Minister.

**Want more?** Based on documents “discovered” in these search-and-seize operations, the Federal Police suspect that Temer’s current Minister of the Secretariat of Government, Dep. Carlos Marum (MDB-MS) was involved with the criminal organization at the Ministry of Labor that was “selling” official recognition of labor unions. This “leak” provoked the anger of Marum who affirmed that he would file a criminal complaint against the Federal Police and the PRG. **Detail:** The Federal Police had requested a search-and-seize operation against Marum but this was denied by STF Judge Edson Fachin.


**1.3 – Number of Brazilian overseas voters increased**

Data from the TSE indicate that since 2014, in 2018 the number of overseas Brazilian registered to vote has increased by +41% from 354,184 to 500,729. By country of residence, the breakdown for the ten largest contingents is as follows:
Brazilians leaving overseas must register at the nearest Brazilian consulate and their voter documentation id thus transferred to the consulate. These voters can only vote for president.


2 – FOREIGN RELATIONS & TRADE

2.1 – Embraer and Boeing reach agreement

On 5th July, Embraer and Boeing finally reached an agreement for their merger into a new firm that will have 80% participation of Boeing. The area of executive jets (25%) and defense (13%) were excluded. Reportedly, Boeing will pay US$ 3.8 billion to acquire 80% of the joint venture – less than previous projections. For this reason, Embraer shares on Bovespa declined somewhat (-14.29%) on 5th July. This pre-agreement was accelerated because both Embraer and Boeing want to finalize this agreement as soon as possible ➔ before the end of the Michel Temer government. It is estimated that the deliberations by the Temer government might take up to 100 days. Part of the US$ 3.8 billion will be invested in Embraer projects and part will be distributed among its share holders. The latter are quite pulverized ➔ Oppenheimer (12.29%), Previ (6.71%), Baillie Gifford (6.46%), BNDESPar (5.37%) and Other (69.16%).

When Embraer was privatized in 1994, the Brazilian government retained a so-called “golden share” that gives the government certain veto power over Embraer decisions. Embraer is the fourth largest airplane manufacturer world wide, after Boeing, AirBus and its main rival Bombardier. In reality, this agreement with Boeing is strategically very important vis-à-vis its competition in the area of mid-sized jet passenger planes -- Embraer’s E195-E2 that can seat between 120 and 146 passengers) – because of the recent joint venture between AirBus and Bombardier. The Boeing 737-800 is larger than the E195-E2 and can seat between 162 and 189 passengers.

It is not clear what will happen to the Embraer factories in the US and China.


https://brasil.elpais.com/brasil/2018/07/05/economia/1530793995_556842.html
2.2 – Foreign Trade Surplus

On late Tuesday afternoon, 3rd July, finally MDIC released the trade surplus data for June (because of Brazil’s World Cup Soccer game on Monday, most federal workers took the day off). The surplus was +US$ 5.882 billion. With 21 work days, June posted exports of US$ 20.202 billion (+2.2% YoY) and imports of US$ 14.320 billion (+13.7%). The first semester 2018 posted exports of US$ 113.834 billion and imports of US$ 83.779 billion ➔ an accumulated trade surplus of US$ 30.055 billion, -17% compared to the same period in 2017.

2.3 – AMLO elected President of Mexico

One day before its World Cup Soccer game against Brazil, Mexico held general elections on Sunday, 1st July. Former Mayor of Mexico City, Andrés Manuel López Obrador (AMLO) had run for President twice before and organized his new party MORENA-Movimento de Regeneración Nacional for the 2018 elections. He received a surprising absolute majority of the votes (53%), defeating Ricardo Anaya (PAN-PRD) - 23% and Antonio Meade (PRI) – 15%.

Some 89 million voters went to the polls to elect 8 state Governors, Mayors plus local and federal deputies – 18,000 positions in all. US President Donald Trump congratulated López Obrador and said that he looked forward to working together with AMLO. Canadian PM Justin Trudeau and Brazilian President Michel Temer also sent congratulatory messages.

López Obrador is the first Leftist president to be elected in Mexico. He will become Mexican President on 1st December 2018.

Even more surprising was that AMLO’s coalition elected majorities in both houses of the Mexican congress. This was the first time since 1996 that a president achieved such a result.

2.4 – Foro de São Paulo will have conservative counterpoint

The Foro de São Paulo was first organized as a gathering of Leftist politicians, parties and organizations from Latin America and later on from other regions. The Brazilian organize was Unicamp professor Marco Aurélio Garcia, the PT Secretary for International Affairs who later became Lula and Dilma’s Secretary for International Affairs. The Foro first met in São Paulo in 1990. In 2017, the Foro met in Nicaragua and will reconvene in Havana, Cuba on 16-17 July 2018.

In 2018, the supporters of pre-candidate Dep. Jair Bolsonaro (PSL) are organizing a counterpoint to the Foro de São Paulo ➔ the “Cúpula Conservadora das Américas” [The
Conservative Summit of the Americas] that will meet in Foz do Iguaçu, Paraná on 28th July. Some 3,000 persons are expected to attend this event. The current Minister of Labor in Chile, Nicolás Díaz plans to attend and self-exiled Brazilian “philosopher” Olavo de Carvalho will participate “online” from his exile in Virginia (USA). These debates supposedly will produce “Right Wing Platforms” (economy, security, culture and politics) that will be incorporated into Bolsonaro’s campaign. Members of Bolsonaro’s campaign advisors – Economist Paulo Guedes and General Augusto Heleno will participate.

2.5 – Petrobras versus Vantage Drilling International

On 2nd July, Petrobras lost its case against Vantage Drilling International in an international arbitration court ➔ US$ 622 million. This contract was signed in 2009 but was unilaterally canceled by Petrobras in 2015, alleging involvement of Vantage in the Lava Jato investigation. However, Vantage considered this decision “unjust” and took this case to the arbitration court.

This contract was for the leasing of the Titanium Explorer drilling platform. The Lava Jato investigation discovered that the Chinese executive, Nobu Su, so of the largest share holder in Vantage, had paid a US$ 31 million bribe to three Petrobras executives – Jorge Zelada, Eduardo Musa and Hamylton Padilha.

2.6 – IACHR condemned Brazil

On 4th July, the Inter-American Court of Human Rights (HQ in San José, Costa Rica) condemned Brazil for the death of Vladimir Herzog in October 1975 because this case was never investigated nor the guilty brought to trial. This was during Brazil’s military regime at the time when President General Ernesto Geisel was attempting to curb human rights violations. At the time, Herzog was journalist at the state of SP TV Cultura. He was summoned to give testimony at the Doi-Codi and he voluntarily presented himself. He was “detained” and later it was “discovered” that he had hanged himself in his cell – according to a military-controlled morgue doctor. The press questioned the “circumstances” of this alleged “suicide” – Herzog’s bruised body and the lack of distance from the floor of the cell. Of course, now thorough investigation was undertaken and those responsible were not brought to trial.

The IACHR determined that this episode was clearly a “crime against humanity”. In 1992, a new investigation was opened by but was inconclusive because of the General Amnesty Law approved by Congress in August 1979. However, in 2007, the Herzog family presented a new request for an investigation at the MPF but this was not concluded because of time prescription. The MRE affirmed that “Brazil accepts the jurisdiction and legitimacy of the IACHR and will examine the sentence and the reparations determined by the Court”.

Reportedly, then Pres. Geisel severely reprimanded the Army commandant in SP by saying “any repetition will be severely punished”. In 1976, a labor leader in SP, Manoel Fiel Filho, died in similar circumstances in the same DOI-COI. Geisel kept his word and removed the Army commandant in SP and transferred several of his subordinates (deemed “responsible”) to postings in the Amazon region. This case was not investigated either.
2.7 - Brazilian children imprisoned in the US

On 5th July, Brazilian Foreign Minister Aloysio Nunes Ferreira arrived in Chicago to investigate the case of the 55 Brazilian children who were separated from the parents who illegally entered the US and are imprisoned in various cities in the US. Brazilian Human Rights Minister, Gustavo Rocha traveled together with the Foreign Minister. That same day, the two ministers visited the installation of the Heartland Alliance where several Brazilian children are detained. Many of these children are detained at installations within the Chicago consulate jurisdiction. On 6 & 7 July, they met with consular officials from Chicago, Atlanta, Boston, Hartford, Houston, Los Angeles, San Francisco, Miami, New York, Mexico City, Vancouver, Toronto and Montreal – in addition to the Brazilian ambassadors to the US, Canada and Mexico.


3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Glencore acquired Alesat

On 29th June, the Swiss petrol distribution firm, Glencore, announced that it had acquired 78% of the shares of the Brazilian retail petroleum distributor – Alesat. This was the first such acquisition by a foreign firm since the end of 1999 when the Argentine YPF (now Repsol) and the Italian Agip entered Brazil’s retail sector. In 2017, ANP data show that Ale had 1,500 retail petrol stations and was responsible for 4.3% of sales in this sector.

4.2 – Petrobras reacts vis-à-vis Judge Lewandowski

In lieu of the injunction issued by STF Judge Ricardo Lewandowski last week that obliged any privatizations of state enterprises to first be approved by Congress, on 2nd July, Petrobras suspended its plans to privatize some of its refineries, its fertilizer production and its natural gas transportation (TAG). After the Judicial recess period is over, in August, it is quite possible that the full STF might overturn Lewandowski’s injunction.

5 - ECONOMICS

5.1 – June Inflation
On Friday, 6th July (before the Brazil-Belgium game), IBGE released its IPCA data for June ➔ +1.26%. This was the highest IPCA for May since 1995 (+2.26%). The accumulation in 2018 is now +2.6% and +4.39% for the 12-month period. In 1st semester/2018, the IPCA was +1.18%. This was the first time that the IPCA surpassed +1.0% since January 2016 (+1.27%). In May 2017, the IPCA posted negative ➔ -0.23%. Apparently, the IPCA in June was impacted by the effects of the 11-day truckers’ strike/protest in the end of May.

See ➔ https://g1.globo.com/economia/educacao-financeira/noticia/inflacao-oficial-fica-em-126-em-junho.ghtml

5.2 – Auto sales in June

On 29th June, Anfavea announced that 187,500 auto units had been sold in June. In May, 201,000 units were sold. According to Anfavea, during the truckers’ strike/protest in the end of May, some 60,000 to 70,000 units were not produced because the assembly lines were idle for lack of parts and components. As a result, Fenabrave reduced its projections of market expansion in 2018 from +15.3% to +10%.

5.3 – May Industrial Production declined

On 4th July, IBGE released its industrial production for the month of ➔ -10.9% MoM. In April, the result was positive ➔ +0.8% MoM. This was the worse monthly result since December 2008, after the Wall Street “blowout” (-11.2%). However, this May result was “better” than the average prediction of analysts interviewed by Bloomberg News ➔ -13.2%. This very negative May result was impacted by the 11-day truckers’ strike/protest at the end of May – when many industries were forced to suspend operations due to a lack of parts/components when supply was cut off by the strike.

This result has provoked new projections for Brazil’s GDP in 2018 ➔ below 1.0%.


5.4 – Bye-bye Brazil

The “exit” of foreign funds invested in Brazil’s stock market totaled R$ 9.9 billion in the first semester of 2018. This was the largest volume since this data series began in 2004. Analysts cited three main reasons for this “exit” ➔ 1) Brazil’s political “uncertainty”; 2) Increases in the basic interest rate in the US; and 3) The trade war between Washington and Peking. In the first semester of 2008, this “exit” was R$ 6.6 billion.


5.5 – Chinese to finish Comperj refinery

On 4th July, it was announced that CNPC-Chinese National Petroleum Corporation will join in a joint participation with Petrobras to complete the Comperj refinery in Rio. Reportedly, some US$ 14 billion have already been invested and CNPC will invest an additional US$ 4 billion. CNPC will also
acquire participation in petrol exploration in the Marlim fields in the Campos Basin. This is the first foreign participation in a refinery since 2001. Once in full operation, Comperj should generate some 10,000 jobs. In 1st Q/2018, another Chinese firm Shandong Kerui Petroleum won a bidding process and was contracted to construct the UPGN-Natural Gas Processing Unit within Comperj that will use natural gas produced in the pre-salt fields in the Santos Basin.


5.5.1 – TCU revised rules

On 4th July, the TCU reversed its previous decision and decided that its “new rules” for privatizations and concessions will only take effect as of January 2019. This decision will allow a mega-auction of pre-salt areas scheduled for 29th November that might yield up to US$ 100 billion. Also, on 4th July, the Chamber of Deputies removed another obstacle for this mega-auction.