Weekly Report
July 21-27 2018

Looking Ahead ➔ What to watch for?

- **25-29 July** -- 15th FLIP ➔ International Literary Festival in Paraty, RJ
- **30th July** -- June public accounts
- **31st July** -- FGV to announce July IGP-M ➔ +0.% versus + % in June
- **31st July** -- IBGE, PNAD unemployment at % in 2nd Q/2018
- **31st July** -- Congressional Recess ends [“officially”]
- **31 July-1 Aug.** -- Copom meeting
- **31 July-3 Aug.** -- XI ABCP-Brazilian Pol. Sci. Assn. to meet in Curitiba, PR
- **1st Aug.** -- Congress begins 2nd semester sessions
- **1st Aug.** -- Executive Branch to transmit detailed 2019 Budget (LOA) to Congress
- **1st Aug.** -- July trade balance ➔ US$ billion
- **1st Aug.** -- July Auto Sales units, +% MoM, but down - % YoY
- **7th Aug.** -- FGV to release IGP-DI for July ➔ +0.% versus +% in June
- **9th Aug.** -- IBGE to release June retail sales data ➔ +% MoM
- **9th Aug.** -- IBGE ➔ June, Services Sector data -0.% MoM & -% YoY
- 10th Aug. -- IBGE to announce July IPCA ➔ +0.\% \textit{versus} +0.\% in July 2017
- 10th Aug. -- IBGE - Industrial Production in June ➔ +% MoM
- 14th Aug. -- Central Bank, to release June IBC-Br ➔ +0.\% MoM & -0.\% in 2\textsuperscript{nd} Q/2017
- 15th Aug. -- Limit for registry of candidates at TSE & TREs
- 16th Aug. -- Candidates and parties can begin election campaign
- 17th Aug. -- IBGE ➔ PNAD unemployment at %
- 19th Aug. -- CNI Industrial Employment in July ➔
- 19th Aug. -- Federal Revenues in July ➔ R\$ \text{ billion} (- \% YoY)

1 - POLITICS

1.1 – New Election Polls

This week \textbf{TWO} election polls were conducted ➔ Ideia Big Data and Vox Populi

1.1.1- Ideia Big Data Poll

This poll was conducted for the \textit{Veja} weekly magazine at a cost of R\$ 120,043,00 – among 2,036 voters in 134 \textit{municipios} on 20-23 July with a 2.67 point margin of error. The results were released on Friday, 27\textsuperscript{th} July.

\textbf{First Round}

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>With Lula</th>
<th>Without Lula</th>
<th>Spontaneous</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula (PT)</td>
<td>29%</td>
<td>- -</td>
<td>17%</td>
</tr>
<tr>
<td>Haddad (PT)</td>
<td>- -</td>
<td>3%</td>
<td>- -</td>
</tr>
<tr>
<td>Bolsonaro (PSL)</td>
<td>17%</td>
<td>19%</td>
<td>14%</td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td>10%</td>
<td>13%</td>
<td>1%</td>
</tr>
<tr>
<td>C. Gomes (PDT)</td>
<td>8%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
<td>7%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>A. Dias (Pode)</td>
<td>5%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>M. D’Ávila (PCdoB)</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H. Meirelles (MDB)</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J. Amoedo (Novo)</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blank/Null/None</td>
<td>23%</td>
<td>21%</td>
<td></td>
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<tr>
<td>DK/NR</td>
<td>16%</td>
<td>43%</td>
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\textbf{Second Round}

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula (PT)</td>
<td>37%</td>
<td>33%</td>
<td>31%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bolsonaro (PSL)</td>
<td>30%</td>
<td></td>
<td>28%</td>
<td>25%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td>24%</td>
<td>30%</td>
<td></td>
<td></td>
<td></td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>C. Gomes (PDT)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
<td>18%</td>
<td></td>
<td></td>
<td>25%</td>
<td>26%</td>
<td>20%</td>
<td></td>
</tr>
</tbody>
</table>
With the **First Round** simulations, the *spontaneous* response had Bolsonaro only three points behind Lula ⇒ 17% vs. 14%, but with 64% undecided. In the *stimulated* response with **Lula**, the “prisoner” posted 29% vs. 17% for Bolsonaro and 10% for Marina Silva. In the second *stimulated* response with **Haddad** replacing **Lula**, Bolsonaro led with 19% followed by Marina with 13%, Ciro Gomes with 8% and Alckmin with 7%. – with 39% undecided. These results would indicate that a second round would pit Jair Bolsonaro against Marina Silva. In the first three simulations, Lula would defeat Bolsonaro, Alckmin and Marina.

**However,** in the fourth **second round** simulation, Marina would best Bolsonaro 30%-to-28% and in the sixth simulation, Alckmin would also narrowly defeat Bolsonaro 26%-to-25%. In the eighth simulation, Bolsonaro would narrowly defeat Ciro Gomes 27%-to-25% -- all three results within the margin of error.

This poll was taken before the “impact” of the alliance of Geraldo Alckmin with the five “Centrão” parties on the electorate.

### 1.1.2 – **Vox Populi** Poll

On 26th July, **Vox Populi** (HQ in Belo Horizonte) released a presidential poll that was conducted on 18-20 July among 2,000 voters in 121 **municípios** with a 2.2 point margin of error. This poll was conducted before the Centrão formalized its support for Geraldo Alckmin. This poll was conducted for CUT-Central Única dos Trabalhadores – Brazil’s largest labor union central.

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>Spontaneous</th>
<th>Stimulated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula (PT)</td>
<td>37%</td>
<td>41%</td>
</tr>
<tr>
<td>Bolsonaro (PSL)</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>C. Gomes (PDT)</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Meirelles (MDB)</td>
<td>2%</td>
<td>-</td>
</tr>
<tr>
<td>M. D’Ávila (PCdoB)</td>
<td>- -</td>
<td>1%</td>
</tr>
<tr>
<td>J. Barbosa (PSB)</td>
<td>1%</td>
<td>- -</td>
</tr>
<tr>
<td>S. Moro</td>
<td>1%</td>
<td>- -</td>
</tr>
</tbody>
</table>

### Table Notes:
- **Null/Blank/None**
- **DK/NR**
A. Neves (PSDB) 1%  -  -
E. Jorge 1%  -  -
A. Dias (Pode) 1% 1%
Others 3% 2%
Blank/Null 18% 18%
DK/NR 18% 12%

This poll is “suspect” for two reasons: 1) it was sponsored by CUT; and 2) The results favor Lula – quite different than the results of other recent polls – Datafolha, Ibope, MDA, etc. Different from these other polls, Vox Populi did not conduct a second simulation with Fernando Haddad as the PT candidate.

The results were highlighted by Carta Capital and Brasil 247 – both very “sympathetic” vis-à-vis the PT and Lula.

1.2 – New Labor Minister – 24 violations

After the PTB national president, former deputy Roberto Jefferson, tried to have his daughter Dep. Cristiane Brasil (PTB-RJ) appointed Labor Minister by Pres. Temer, her name was rejected by the STF because the press discovered that she had TWO cases in the labor courts in Rio regarding complaints by her former drivers. Instead, the PTB then named Helton Yomura but he was discarded on 5th July because the Federal Police discovered massive corruption (kickbacks, etc.) in the process of registration of new labor unions. Pres. Temer then named Caio Luiz de Almeida de Mello to be Labor Minister. He had been a judge on the Regional Labor Court (TRT) in Belo Horizonte.

However, the press has now discovered that Mello had many more labor law violations that Dep. Cristiane Brasil – 24 labor law violations between 2005 and 2013 (with rural workers) on his coffee farm in Conceição do Rio Verde, MG


1.3 – 2018 Election

1.3.1 – Congress ➔ reelection

In 2018, a record number of incumbent federal deputies (424) and senators (33) will seek reelection – 15% more than in 2014. However, 8 senators and 23 deputies said they were undecided and might (or might not) seek reelection. The oldest deputy seeking reelection is Vicente Arruda (PR-CE) ➔ 89 years old. Eight other deputies over age 80 are also seeking reelection.

The turnover in the Chamber might reach 60% in 2018 because of the large number of current deputies who have accusations against them – not just Lava Jato corruption crimes but other (different) crimes as well. A number of senators also have accusations. There is a movement among the electorate “not to vote for any incumbent politician; only “new”, clear slate candidates.
The Senate has two seats up for election this year that should increase the turnover plus several senators are running for governor. Several senators have perceived that their reelection is next to impossible in 2018 and have decided to run for federal deputy instead. The best example is the current PT national president, Sen. Gleisi Hoffmann (PT-PR) who has decided to run for federal deputy. Thus, the turnover in the Upper House might be quite large as well.


1.3.2 – Party Conventions

Several political parties had their national party conventions since 5th July to choose their presidential candidates – but were unable to present their running mates – candidates for Vice-President.

**PDT** – Convention held on 20th July and nominated Ciro Gomes as its presidential candidate. But no coalition partners were designated and no Vice-President running mate was indicated.

**PSC** – Had its convention on 20th July and chose Paulo Rabello de Castro as its presidential candidate, but with no coalition partners or Vice-President running candidate.

**PSTU** – Held its convention on 20th July selected Vera Lúcia as its Presidential candidate and Hertz Dias as her running mate. The PSTU will not enter any coalitions.

**PSol** – Had its convention on 21st July and selected Guilherme Boulos (leader of the MTST in São Paulo) as its presidential candidate and Brazilian Indian Sônia Guajajara as his running mate. Also a coalition with the PCB was approved.

**PSL** – Held its convention on 22nd July and selected Dep. Jair Bolsonaro (RJ) as its presidential candidate but no coalition partners were designated nor any running mate.


1.3.3 - Presidential Pre-Candidates

Several pre-candidates have withdrawn their names from the pre-campaign.

Chamber President Rodrigo Maia (DEM-RJ) withdrew his pre-candidacy because the DEM joined the “Centrão” in support of the PSDB pre-candidate Geraldo Alckmin.

Long time leader of the PCdoB, Aldo Rebelo, joined the PSB last ear in hopes of becoming its Presidential candidate, but when it became clear that this would not come to pass, he joined the SD (Solidariedade) earlier this year and became its pre-candidate. On 26th July, he withdrew his candidacy...
because the SD joined the Centrão group in support of Geraldo Alckmin. Rebelo is cited as a possible running mate for Alckmin.

1.3.4 – Pre-Candidates for Governor

On 26th the TJ-RJ (Rio State Supreme Court) ordered the inclusion of PRP pre-candidate for RJ governor Anthony Garotinho included in the list of “those convicted for acts of administrative impropriety and for an act that implies ineligibility. Garotinho is accused of siphoning off R$ 234 million in public funds from the State Public Health Secretariat in 2005-2006 when his wife was RJ governor. The TJ-RJ suspended his political rights for 8 years. Probably, Garotinho will be considered a ficha suja and his candidacy will be rejected by the TSE.

1.3.5 – Young voters increase

The 1988 Constitution extended the right to vote (non-obligatory) to 16 and 17 year-olds. According to IBGE data, in 2014 the TSE found that 23.9% of this age group had registered to vote, but in 2018 29.5% (1.9 million) had registered to vote – 250,000 more than in 2014.

This is very interesting because survey research shows that a large majority of the electorate is very alienated against the “political class” – declaring that “they all are corrupt” and many vowed not to vote for any candidates in 2018, and perhaps vote Null or Blank or abstain. Thus this trend of increased voter registration by 16 and 17 year-olds, seems to run contrary to the sentiments of the electorate in general.

1.4 – PT militants deface STF

Screaming “Lula Livre” (Free Lula) a group of PT militants threw bright red paint on the steps and entrance to the Supreme Court building in Brasília – in an effort to denigrate the high court and call attention to Lula as a “political prisoner”. STF security agents affirmed that they have pictures of those militants and the license plate numbers on the cars they used – so that their identification and arrest should not be difficult. The Federal Police are investigating this episode.

Photo: Dida Sampaio/ Estado

STF workers remove red paint dumped by pro-Lula militants
1.5 - Zelotes

On 26th July, the Federal Police carried out the 10th phase of Operation Zelotes with warrants issued by Federal Judge Vallisney de Oliveira of the 10th Circuit Court in Brasilia. These search-and-seize warrants were executed in Brasília, SP, Rio, Rio Grande do Sul and Pernambuco. This phase is investigating eight persons involved in fraud at CARF favoring the Paranapanema steel industry in SP. Noted economist Roberto Gianetti da Fonseca is accused of using his consulting firm for a false R$ 8 million consulting contract with Paranapanema whereby he pocketed R$ 2.3 million and the rest passed on to law firms to be distributed to CARF members to “alleviate” a delinquent back tax case against Paranapanema (a R$ 650 million fine was cancelled). As a result, Gianetti resigned his economic policy role in the presidential campaign of Geraldo Alckmin (PSDB).

1.6 – Lava Jato

SBM Leniency agreement was reached with SBM (Dutch drilling platform firm) and Petrobras with the assistance of AGU and CGU. This agreement involved the reimbursement of R$ 549 million to Petrobras within 90 days. With this agreement, SBM is now free to participate in bidding for Petrobras contracts.

1.7 – MBL-Movimento Brasil Livre

On 25th July, FaceBook removed 196 pages and 87 profiles produced by the MBL because they were an infraction of Facebook’s rules of use.

MBL (Movement for a Free Brazil) is a conservative group of younger people that is partially financed by Flávio Rocha, the owner of the retail store chain – Riachuelo – who was a pre-candidate for President. MBL gained visibility in 2013 during the “Free Bus Fare” movement in SP that evolved into an anti-Dilma movement.

On 26th July, the MBL organized a protest demonstration in front FaceBook’s office in SP.

2 – FOREIGN RELATIONS & TRADE

2.1 – Brazilian medical student killed in Managua

The conflicts/protests against the government of Pres. Daniel Ortega in Nicaragua have been quite “fierce” in recent weeks. Some 450 persons have bee killed and over 2,000 injured. On Monday, 23rd July, a Brazilian medical student at the Managua American University (UAM), Raynéia Gabrielle Lima, was murdered when her car was hit by machine gun fire around 11:00 p.m. local time as she was returning home from hospital duty attending those injured in this conflict. UAM Rector, Ernesto Medina affirmed that the attacked had been perpetrated by local “pro-Ortega “militia”. Her boyfriend was in another car behind that of Raynéia and took her to a local hospital where she died two hours later due to a large caliber bullet would in her chest.
On Tuesday, the Brazilian Foreign Office summoned the Nicaraguan ambassador, Lorena Martinez, to “give explanations” regarding this episode. Also, Brazil’s ambassador to Nicaragua, Luís Cláudio Villafañe, was recalled to Brasília. In response, Nicaragua recalled its ambassador on 27th July. Also on 27th July, the Managua police affirmed that they had captured the person responsible for the machine gun fire that killed Raynéia.

Raynéia had nearly completed her six-year residence in Managua and was about to return to her home in Pernambuco

2.2 – Mercosul – Pacific Alliance summit in Mexico

On 23rd July, Pres. Temer transmitted the presidency to STF President Cármen Lúcia (the next in line for presidential succession after the Presidents of the Chamber and Senate, who traveled overseas so as not to occupy the Presidency and thus become ineligible for the 2018 elections). She occupied the Presidency during Temer’s trip to Mexico for the encounter of heads of state of the Mercosul and Pacific Alliance and his trip to South Africa for the BRICS encounter. During this period, the STF Vice-President, Judge Dias Toffoli, assumed the command of the Supreme Court.

This conclave met at Puerto Vallarta, Mexico, and was somewhat “weak” in attendance. Representing Mercosul, only the presidents of Brazil and Uruguay. Argentine President Mauricio Macri stayed home to deal with “domestic unrest”, and Paraguayan President Horacio Cartes did not attend because he is a very “lame duck” (his successor, Mario Abdo Benitez, will take over on 15th August.

The Pacific Alliance (Mexico, Colombia, Peru and Chile) also has two “lame ducks” ➔ Colombian President Juan Manoel Santos will be succeeded by Iván Duque on 7th August, and the host, Mexican President Enrique Peña Nieto will be succeeded by AMLO-Andrés Manuel López Obrador in December.


These eight nations comprise about 90% of Latin America’s GDP with 470 million population. The main objectives of this conclave were to increase trade among these 8 countries and contemplate how to deal with the trade/tariff restrictions imposed by the US Trump Government.

2.3 – 10th BRICS met in South Africa

Pres. Temer left the Mercosul-Pacific Alliance in Mexico late Tuesday, 24th July and returned to Brasília, where his plane refueled and then continued the journey to Johannesburg, South Africa for the Tenth BRICS Summit that began on 26th July. Chinese President Xi Jinping criticized the “trade war” initiated by US President Trump, saying that the world now must choose between “cooperation and conflict”.

Pres. Temer had a one-on-one meeting with his Chinese counterpart in an effort to eliminate the tariffs levied on Brazilian exports of sugar and frozen chicken. Temer also had a meeting with the South African President. On 27th July, in his formal address to the Summit, Temer reinforced the installation of a branch of the NBD (BRICS Bank) in São Paulo. The five BRICS presidents met with
the three special invitees – Argentina, Jamaica and Turkey. Also present were 19 other African countries.

Pres. Temer was accompanied by five cabinet ministers (Agriculture, Transports, MDIC, Finance and Foreign Relations).

On Friday, 27th July, Temer left Johannesburg early and returned to Brazil so that Senate President Eunício Oliveira could also return to Brazil in time to participate in the Ceará state MDB convention in Fortaleza. In his place, Foreign Minister Aloysio Nunes Ferreira represented Brazil in the final sessions of the BRICS Summit.

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – First Eletrobras state electric sold at auction

On 26th July, the first of six Eletrobras state electric distributors was sold at auction on Bovespa. The Piauí electricity distributor Cepisa was acquired by the only bidder – Equatorial – for R$ 100,000,00, with the promise to invest R$ 700 million in Cepisa. For the concession, Equatorial will pay the government R$ 95 million.

Equatorial Energia is a holding that controls Cemar (Maranhão) e Celpa (Pará) and has a large share in the thermoelectric Geranorte. This firm has several large share holders – Blackrock,
Opportunity and Squadra Investimentos with 69.7% divided among administrators and minor shareholders as of November 2018.

Aneel affirmed that with this privatization, Cepisa electric bills to consumers should be reduced by some 8.5%.

The government plans to hold the privatization auction of four other state distributors on 30th August ➤ Amazonas Distribuidora de Energia, Boa Vista Energia, Centrais Elétricas de Rondônia & Companhia de Electricidade o Acre. The sixth distributor – Ceal-Companhia Energética de Alagoas is suspended by the courts.

See ➤ https://g1.globo.com/economia/noticia/2018/07/26/equatorial-compra-a-companhia-de-energia-do-piaui.ghtml

5 - ECONOMICS

5.1 – Federal Revenues increased in June

On 24th July, the SRF announced that in June federal revenues totaled R$ 110.8 billion (+2.01% YoY). The accumulation in the first semester was R$ 714.2 billion (+6.8% YoY). Both results were the best since 2015. Because of the 11-day truckers’ strike/protest at the end of May, the IPI (Tax on Industrial Products) was down by -14.28% YoY (-R$ 2.8 billion).

5.2 – June Public Accounts

Current Account ➤ +US$ 435 million SURPLUS
- First semester 2018 ➤ -US$ 3.568 billion
- First semester 2017 ➤ +US$ 584 million

Primary Deficit (1st Semester) ➤ -R$ 32.87 billion
- Primary deficit June (public sector) ➤ -R$ 16.42 billion (-20.7% YoY)

Public Debt ➤ R$ 3.75 trillion (+1.0% MoM)

FDI ➤ US$ 6.533 billion
- First semester 2018 ➤ US$ 29.878 billion
- First semester 2017 ➤ US$ 36.221 billion

Brazilian Tourist Spending ➤ US$ 1.4 billion (-1.5% YoY)
- First semester 2018 ➤ US$ 9.5 billion (+8.7% YoY)