Looking Ahead ➔ What to watch for?

- 18th Jan. -- EIU to release its 2015 “Democracy Index”
- 18th Jan. -- Martin Luther King Day observed [National Holiday in US]
- 20th Jan. -- City Holiday in Rio de Janeiro [St. Sebastian]
- 19-20 Jan. -- 196th (first in 2016) meeting of Copom ➔ Selic rate
- 20-23 Jan. -- World Economic Forum met in Davos-Klosters, Switzerland
- 22nd Jan. -- IBGE to release its IPCA-15 ➔
- 22nd Jan. -- Caged – _____ new jobs created in 2015
- 25th Jan. -- 461st Anniversary of São Paulo (city holiday)
- 27th Jan. -- CNI: Industrial activity December ➔
- 27th Jan. -- ABAS ➔ Growth of supermarket sales in 2015 –
- 29th Jan. -- IBGE ➔ December unemployment ___%; average of ___% in 2015
• 29th Jan. -- UNCTAD to announce rankings on world FDI in 2015
• 29th Jan. -- FGV: January IGP-M ➔ +___%
• 29th Jan. -- Public Account data for December 2015
• 29th Jan. -- IBGE to announce its IPP for December ➔ ___% MoM
• 29th Jan. -- Social Security (INSS) deficit in 2015 ➔ -R$ ____ billion

1 - POLITICS

1.1 – New parties modify Chamber configuration

With the new political parties sanctioned by the TSE in 2nd semester 2015, the configuration of parties in the Chamber has been modified. The new Rede now has five deputies, and the new PMB has 21 deputies.

Those who switched to the new PMB-Partido da Mulher Brasileira were:

PT     - 3
PV      - 3
PTB     - 2
Pros    - 2
PDT     - 2
PRP     - 3
PSDC    - 2
PMN     - 2
PTC     - 1
PMDB    - 1
SD      - 1 (Currently on leave of absence)

1.2 – The “Battle for the PMDB”

The running battle for control/division/domination of the PMDB delegation in the Chamber and especially regarding the upcoming national PMDB national convention (probably in March) has been “hot and [very] heavy” since mid-December when the impeachment “battle” began. The PMDB is the largest party in Congress and is the key “swing” party in any impeachment in the Chamber. Also – the PMDB supposedly is the “most interested” party regarding the eventual impeachment of Pres. Dilma because if she is impeached, Vice-President Michel Temer (PMDB-SP) would become President ➔ the only chance this party would have to get its hands of the Presidency.

First, there was the “battle” to replace the PMDB floor leader in the Chamber – Dep. Leonardo Picciani (PMDB-RJ) – considered “pro-Dilma” – with Dep. Leonardo Quintão (PMDB-MG) –
considered anti-Dilma. This “replacement” lasted only one week because the PMDB Chamber
delegation was “manipulated” in order to restore Picciani to this post.

Now the Dilma government is bent on dividing the MG delegation in the Chamber – the
second largest after SP) – to thwart any possible PMDB-MG rival candidate for the party leadership in
the party caucus to be held when the Chamber reconvenes the holiday recess (on 1st February).

To this end, Dilma intends to appoint a PMDB-MG deputy as Minister for Civil Aviation to
replace Eliseu Padilha (PMDB-RS) who resigned in December to reinforce the Temer forces. However,
before she appoints the PMDB-MG deputy (Mauro Lopes), Dilma wants a clear definition
from the PMDB-MG deputies that they are: 1) against her impeachment and 2) will not present an
alternative candidate against Picciani in February.

Also, the Dilma government is distributing lots of “pork barrel” appropriations and
appointments to “favorable” PMDB-MG deputies, and threatening to remove all “pork barrel” already
distributed to “disloyal” PMDB-MG deputies.

Also, Dilma is trying to extract agreement from Temer that he accepts the appointment of
Lopes in that, this post – occupied previously by Moreira Franco (PMDB-RJ) and Padilha – considered
strong Temer allies.

Reportedly, on Monday, 18th January, the PMDB-MG deputies will meet to decide this question.

⇒ Stay tuned!!

1.2.1 – PMDB senator switched party

On 15th January, Sen. Ricardo Ferraço (PMDB-ES) announced that he was leaving the PMDB
because disagreed with the continuation of the PMDB-PT alliance. Apparently, he has yet to decide to
which party he will migrate. The national president of the PSDB, Sen. Aécio Neves (MG) formally
invited his Senate colleague to join the PSDB. Ferraço was elected PMDB senator in 2010. Previously,
he had been a member of the PSDB, PTB and PPS.

1.3 – Lava Jato

It is now clear why Sen. Delcídio do Amaral (PT-MS) and BTG banker André Esteves were
working so diligently to extricate Nestor Ceveró from the Federal Police detention center in Curitiba
and “whisk” him into Paraguay and from there fly him to Spain on a private jet – to avoid his plea
bargaining testimony in the Lava Jato investigation.

Details from this testimony have now appeared in the press and show that ⇒ 1) In September
2013, Pres. Dilma was directly involved in the negotiations with Sen. Fernando Collor (PTB-AL) for
the indication/appointment of senior employees at BR Distribuidora; 2) Sen. President Renan
Calheiros (PT-AL) had “complained” about the “delays” regarding his share of the bribes accumulated
from the cartel of firms bidding on Petrobras contracts and threatened to remove Ceveró; 3) In 2009,
then President Lula had “reinforced” the importance of the access by Fernando Collor to the BR
Distribuidora to guarantee his support of the Dilma coalition in Congress; 4) Lula “promoted” Ceveró
to be Petrobras Director for International Affairs as a “reward” for his “assistance” in operating the corruption scheme involving the Grupo Schain and Lula’s “close friend” José Carlos Bumlai; 5) While President, Lula had “indicated” the Walter Torre construction firm to build a R$ 1.2 billion office building for Petrobras (115,000 square meters) to house some 10,000 of its workers – instead of renting similar space at a much lower cost; and 6) PT-SP deputy Gilmar Tatro was also cited as receiving Petrobras bribes.

The PGR affirmed that Collor maintained a “band of thieves” within the BR Distribuidora including his close personal friend (who was a member of his cabinet) – Pedro Paulo Leoni.

Dilma & Andrade Gutierrez – The Época weekly news magazine revealed documents that show that before her reelection, in March 2013, that Pres. Dilma interceded to modify the BNDES concession rules in favor of the large construction firm Andrade Gutierrez that allowed AG to be selected to build a power dam in Mozambique (US$320 million) and in turn AG “contributed R$ 20 million to the PT for her reelection campaign. This is the type of campaign contribution of “illicit funds” obtained by the Petrobras cartel that the TSE is currently investigating. On 14th January, STF President Ricardo Lewandowski denied a habeas corpus for two AG executives imprisoned in the Lava Jato operation – Otávio Marques de Azevedo and Élton Negrão de Azevedo Jr.

Deputy Vander Loubert – On 17th December 2015, the PGR filed a brief at the STF requesting that the mandate of Dep. Vander Loubert (PT-MS) be canceled (cassado). The PGR alleged that Loubert participated in the corruption scheme installed at Petrobras Distribuidora and received bribes totaling R$ 1.028 million. Also, the PGR requested that Loubert’s relatives and Pedro Paulo Leoni be included in this case and that their assets by sequestered in the total of R$ 5.14 million.
1.4 – Mudslide tragedy in Mariana, MG

On 5th November, the dam that secured the Samarco Fundão deposit of iron ore refining residue near Mariana, MG broke open and released a tremendous mudslide tsunami that traveled down the Rio Doce river into the Atlantic Ocean and polluted the river (fauna & flora) and water supply systems in many towns and cities along the way killing 17 persons – and has now polluted the beach areas south (in Espírito Santo and North as far as the beaches in southern Bahia.

On 13th January, the Federal Police indicted Samarco President Ricardo Vescovi de Aragão and six other persons for environmental crimes. In addition, the joint owners of Samarco – Vale and the Anglo-Australian firm BHP along with the Vogbr consulting firm were also indicted.

Samarco had been dragging its feet [procrastinating] and not meting the court-ordered deadline to present its plan for compensation/restitution for the victims and a strategy for cleanup of the devastated area.

Vescovi was bit arrested because he had obtained a preventative habeas corpus to that effect.

1.5 – Juca Ferreira ➔ Salvador

On 14th January, Minister of Culture, Juca Ferreira, announced his intention to become the PT pre-candidate for Mayor of Salvador in 2016. If he becomes the PT candidate, he would have to step down from his cabinet post in early April.

The PT has other pre-candidates ➔ Gilmar Santiago (city council in Salvador), federal deputy Valmir Assunção and Senator Walter Pinheiro. However, Pinheiro is somewhat alienated with the PT and is cited as possible “switcher” out of the PT.

Incumbent ACM Neto is rated a “favorite” for reelection. The PT governor Rui Costa has a strategy to “stimulate” candidates from other parties – federal deputy Alice Portugal (PCdoB), Sen. Lídice da Mata (PSB) and state deputy Pastor Isidoro (Pros).

Juca Ferreira was a member of the city council in Salvador (1993-1996 & 2000-2003). He became the number two at the Ministry of Culture under Gilberto Gil and returned as Minister in 2015. He became the first member of Dilma’s cabinet to declare his candidacy for Mayor in 2016.

1.6 – SD to take impeachment to TV ad

SD-Solidariedade (led by Deputy Paulo Pereira da Silva (SP) – Paulinho da Força – will concentrate its first 2016 TV party propaganda organized by the TSE on 18th February – after the recess of Congress ends – on the impeachment of Dilma. This 10-minute “free” propaganda segment will
examine her involvement with the over-invoiced purchase of the oil refinery in Pasadena, TX by Petrobras and other parts of the Lava Jato investigation. One week later, on 25th February the PT will have its “free” TV propaganda segment.

Stay tuned!!

1.7 – Pelé undergoes hip surgery

Brazil “King” of soccer – Pelé (age 75) under went hip surgery in early December and was hospitalized 3-7 December at the Hospital for Special Surgery in New York City. This surgery was necessary to correct the displacement of a hip prosthesis that has been done in November 2012 – that was aggravated by a fibrosis.

2 – FOREIGN RELATIONS & TRADE

2.1 – French-Algerian Professor at UFRJ

Last week it was revealed by the weekly news magazine Época that French Algerian physics professor Adlène Hicheur (39), who was hired as a senior research professor at UFRJ with a CNPq fellowship since 2013 had been arrested and imprisoned in 2009 convicted and sentenced to five years in prison by French courts in 2012 due to his terrorism links to Al-Qaeda.


Education Minister Aloysio Mercadante affirmed that the granting of an “academic” visa to Hicheur and the granting of his CNPq scholarship at UFRJ was a “mistake” because no background check was made using French databases. Reportedly, the Brazilian Federal Police are investigating this case.


2.2 – Brazil lost A380 “battle” to Mexico

Brazil has been contemplating (and procrastinating) an authorization for several airlines to establish regular flights of the Airbus 380 plane to Brazil. Several tests were made at the Guarulhos International Airport in SP that indicated that this airport could receive this large passenger plane.

However, Brazil lost out to Mexico that authorized the regular operation of the A380. On 12th January, Air France began the first regular flight of the A380 to Latin America – Paris ➔ Mexico City.

In 2015, Emirates Airlines flew the first A380 flight Dubai ➔ SP but continued this flight using a Boeing 777-300.
3 - REFORMS

3.1 – Readjustments ➔ “Minha Casa, Minha Vida”

According to CEF President, Miriam Belchior, no readjustments (increases) in the monthly mortgage payments by those contemplated by the Minha Casa, Minha Vida (low income housing program) since 2009. Thus, Ms. Belchior affirmed on 13th January that some readjustments are necessary. Over these past seven years, inflation was considerable, but the mortgage payments were not increased – as were those for other CEF housing loans ➔ pure populism. The question is whether (and what) increases will be made on the “old” loans. Apparently, Phase 3 of this program that will begin in April 2016 will have higher interest rates and higher limits of family income and the sale value of these houses. Thus, this new phase would not include the “poorest” segment of the population.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – November Retail Sales – worst since 2003

Yet another sign of Brazil’s recession ➔ depression. On 13th January, IBGE released data for retail sales in the month of November 2015 ➔ +1.5% MoM and -7.8% YoY. In October, the increase was +0.6%, ending eight straight months of MoM declines. However – the November decline YoY was the worst since -11.4% YoY was posted in March 2003. The January-November decline in retail sales was -4.0% YoY and -3.5% for the 12-month period. Reasons? According to IBGE economists, the main causes for this decline in retail sales in 2015 are – 1) tighter credit restrictions; 2) declining incomes; 3) higher inflation; and 4) a general lack of consumer confidence. This positive “blip” in November is attributed to pre-holiday sales.

5.2 – IBC-Br down by -3.9% in 2015

On 15th January, the Central Bank released its IBC-Br economic activity index for the month of November ➔ -0.52%. This was the ninth straight month of decline in this index. Thus, the January-November accumulation stands at -3.88%, with the December index (available in mid-February) to close out the 2015 result. The 12-month accumulation is now at -3.63%. If the December result is similar to November, the 2015 IBC-Br will top -4.00%, perhaps around -4.35%. The IBC-Br is considered a “proxy” for Brazil’s GDP. The 2015 GDP data should be released by IBGE in late March.

5.3 - Petrobras
2016 does not bode positively for Petrobras. Brazil’s nearly destroyed petrol giant has slashed its investment strategy from US$130 billion to US$ 98.4 billion (through 2019) and is contemplating selling its US$ 1.4 billion stake (36%) in the petrochemical producer Braskem SA. Petrobras has designated Bradesco Bank as its financial advisor and has begun to promote this acquisition among foreign investors. This initiative is part of Petrobras’ efforts to complete its “target” to sell US$ 15.1 billion in assets in 2016 – a key part of its plan to reduce its debt as the international price of oil hit US$ 30.00 per barrel – the lowest in 12 years.

A study completed by the SPE-Secretariat for Economic Policy at the Finance Ministry concluded that every investment reduction of R$ 1 billion by Petrobras implies a R$ 2 billion reduction in Brazil GDP through 2019. The impact of the cuts Petrobras has announced so far in 2016 would impact some R$ 260 billion on GDP.

On 15th January, Petrobras decided to cancel a R$ 3 billion bond issue (debentures) approved in May 2015 and informed the CVM that the reason for this cancelation was “unfavorable market conditions”. With a debt of US$ 130 billion, Petrobras has been downgraded to “junk” bond status by all risk agencies. In a report issued on 15th January, UBS affirmed that Petrobras must at least achieve one-half of its disinvestment target of R$ 14.4 billion in 2016 in order to reach an adequate fiscal position.

5.4 – World Economic Forum

On the eve of its annual meeting in Davos (as of 20th January), the WEF issued an alert (analysis) that “Brazil should no longer be considered an emerging nation” – because it has ceased to “emerge”. Pres. Dilma canceled her participation, in lieu of Brazil’s crises and the threat of impeachment. Brazil’s delegation to the Davos meeting will be headed by the Finance Minister Nelson Barbosa, Mines & Energy Minister Eduardo Braga and BNDES President Luciano Coutinho.

The presidents of Mexico, Colombia, Argentina and Peru are scheduled to attend.

According to WEF chief economist, Jennifer Blanke, “Brazil will have to get back to basics – reduce its bureaucracy, end corruption ‘opportunities’, and make Brazil more attractive, and construct new ideas about its economy”.

The Lava Jato investigation created a very “tight skirt” for the WEF because Marcelo Odebrecht and André Esteves were considered important young economic world leaders. See ➔ http://economia.estadao.com.br/noticias/geral,lava-jato-vira-saia-justa-para-o-forum-economico-mundial,1820933

5.5 - Embraer

On 14th January, Embraer released its balance sheet ➔ in 4th Q/2015 33 planes were delivered and 221 planes in 2015, the best result in five years. For 2016, Embraer has US$ 22.5 billion in “firm” orders for 513 planes – including an additional 19 E-175 jets within a CPA-Capacity Purchase Agreement with Delta Airlines
5.6 – IBGE – Service sector declined in November

On 14th January, IBGE released data from November that showed that volumes in services sector had declined by -6.3% YoY. In the January-November 2015 period, the decline was -3.4%.

5.7 – Unemployment

IBGE released data from its national PNAD survey for unemployment between August and October 2015 and found 9.1 million (9.0%) unemployed versus 6.6 million (6.6%) for the same period in 2014. ➔ an increase of +38.3% (2.8 million persons) seeking employment. The conscious PNAD survey visited a sample of 211,344 homes in 3,500 municípios.

On the other hand, IBGE found that the contingent of domestic workers had increased by +3.6% comparing the two periods to 6.147 million but the average monthly income of these workers was down by -2.4% to R$ 742,00.

5.8 – GE sold appliance sector to Qingdao Haier

On 15th January GE announced that it had sold its appliance sector to the Chinese firm Qingdao Haier for US$5.4 billion. This transaction includes GE’s appliance division in Brazil and a 48.4% share of GE Appliances in Mabe that has maintained a supplier contract with GE for 28 years.

This agreement occurred several weeks after the offer by the Swedish Electrolux offer of US$ 3.3 billion that had been opposed by the US anti-trust agency. In 2014, GE Appliances posted US$5.9 billion in gross earnings with US$ 400 million profits (before interest payments).