Brazil Focus –
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Weekly Report –
Oct. 31-Nov. 6 2015

Looking Ahead ➔ What to watch for?

- **11th Nov.** -- Holiday – Remembrance Day (UK & Canada); Veterans’ Day (US)
- **12th Nov.** -- IBGE to post Industrial Employment data for September ➔
- **12th Nov.** – Bill Clinton to address CNI’s National Industrial Encounter
- **13th Nov.** -- IBGE to post Retail Sales data for September, +0.9% MoM & +% YoY
- **13th Nov.** -- Central Bank to post IBC-Br for 3rd Q/2013, % QoQ
- **15th Nov.** – Brazilian National Holiday [Republic Day]
- **15th Nov.** – Municipal elections in Paraguay
- **15-18 Nov.** -- APEC summit meeting in Manila
- **17th Nov.** – PMDB National Congress in Brasília
- **20th Nov.** -- Zumbi Day – Afro-Brazilian Consciousness Day [holiday in some cities]
- **20th Nov.** -- Labor Ministry – *Caged* data, new jobs created in October
- **20th Nov.** -- IBGE to post unemployment data for October
22nd Nov. – Second round runoff election (balotaje) in Argentina
24-25 Nov. -- 195th Meeting (last in 2015) of Copom Selic rate
27th Nov. -- FGV to post November IGP-M
30th Nov. -- Public Account data for October
30th Nov. -- IBGE to release GDP data for 3rd Q /2015
1st Dec. -- World Anti-AIDS day
1st Dec. -- Trade Balance data for November
6th Dec. -- Venezuela to hold legislative elections

1 - POLITICS

1.1 – Election poll – city of SP

Datafolha conducted a poll focusing on the election for Mayor of SP in October 2016 on 28-29 October among 1,092 voters with a 3-point margin of error.

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>A</th>
<th>B</th>
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<tbody>
<tr>
<td>Russomanno (PRB)</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>M. Suplicy (PMDB)</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Datena (PP)</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Haddad (PT)</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>M. Feliciano (PSC)</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Dória Jr. (PSDB)</td>
<td>3%</td>
<td>-</td>
</tr>
<tr>
<td>Matarazzo (PSDB)</td>
<td>-</td>
<td>4%</td>
</tr>
<tr>
<td>Blank/Null</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Two scenarios were run as stimulated responses – with two PSDB possible candidates, João Dória Junior and André Matarazzo. In the spontaneous response, the current mayor seeking reelection, Fernando Haddad (PT) polled 7%, followed by Celso Russomanno (PRB) with 4% and Marta Suplicy (PT) with 2%.

Russomanno polled first rank with 34% in both scenarios with Marta Suplicy (PT), José Luiz Datena (PP) and Fernando Haddad tied for second place.

Russomanno has daily exposure on a TV Record “live action” news program that in part accounts for his showing in this poll. In the 2012 municipal election, he ran first until the last two weeks of the first round campaign when he was surpassed by José Serra (PSDB) and Fernando Haddad (PT) who disputed the second round runoff election that was won by Haddad.
Russomanno polled 39% among voters with a high school education. Marta Suplicy’s best showing was 19% among voters in the lowest income bracket. Haddad’s best performance was 22% among voters in the highest income bracket. Datena’s best support (17%) came from voters in the 45-59 age group.

Because Senator Marta Suplicy recently switched parties (from the PT to the PMDB), Datafolha ran a simulation between Suplicy and Haddad among voters with “PT affinities” – she topped the Mayor 31% vs. 19%. Another simulation was run for the two tucano candidates where Matarazzo topped Dória Junior by 15% vs. 9%. Dória Junior is a journalist and recent PSDB “convert”, whereas Matarazzo is an “old time” tucano.

Detail: ALL parties involved in the SP municipal elections will have to confirm their candidates for Mayor in municipal conventions between 10-30 June 2016 and register their candidates before 5th July.

1.2 – Lava Jato

On Tuesday, 3rd November, Judge Sérgio Moro sentenced three Mendes Junior executives to jail terms, including Sérgio Cunha Mendes (19 years) the descendent of the founder. Also, five OAS executives were sentenced, including the President, Léo Pinheiro (16 years). In addition, three Camargo Corrêa executives were sentenced, including the President Dalton Avancini (15 years) – but this sentence was “relaxed” because of his plea bargaining testimony.


Want more? Judge Moro ordered 13 luxury items acquired via corruption/bribes by the accused to go to auction on 4th November estimated to be worth some R$ 9 million. The most expensive item was the 37.23% share in a Salvador held by doleiro Alberto Yousseff worth R$ 3.9 million and yacht (pleasure boat) owned by former Petrobras director Paulo Roberto Costa valued at R$ 3 million.

1.3 – General Antonio Mourão “sacked”

On 29th October, Defense Minister Aldo Rebelo (PCdoB-SP) relieved General Antonio Mourão of his command of the Southern Military region (HQ in Santa Maria, RS) and transferred him to a bureaucratic job in Brasília – instead of a forced retirement into the reserve. Why? What happened?

On 17th September, in a speech in Porto Alegre, RS, Mourão affirmed that the eventual impeachment of Pres. Dilma would only mean “removing incompetence, bad management and corruption”. He added that “the majority of today’s politicians lack any intellectual attributes or ideologies and just present [sell] great illusions”. This speech was only made public by the Zero Hora newspaper in Porto Alegre on 19th October.
If this were not enough, on 26th October, a general (under Mourão’s command) – Gen. José Carlos Cardoso (the third Army Division) – promoted a special event in posthumous homage of the memory of Coronel Carlos Alberto Brilhante Ustra (who had died on 15th October). Brilhante Ustra was the commander of the DOI-Codi in SP, the main prison and torture center of the Brazilian military regime (where Pres. Dilma was imprisoned and tortured). Ustra was cross-examined by the National Truth Commission and convicted in SP courts (but under appeal).

Before making his decision, Reblo cleared this action with Pres. Dilma as a “test” of his authority over the Armed Forces. This was one of very few acts that unified political opinions from the Right to the Left during the ongoing political crisis. Senator Aloysio Nunes (PSDB-SP) – himself an anti-military government militant said in support of the general’s sacking – “I was shocked by his affirmations. This is not the behavior one expects of the Armed Forces in a democratic nation”. Roberto Freire, National President of the PPS also defended Reblo’s action – “I defend impeachment via the 1988 Constitution. A military officer should not get involved in politics, neither in favor of against”.

See ➔ http://tribunadainternet.com.br/o-general-na-geladeira/

1.4 – Chamber Ethics Council ➔ Eduardo Cunha

The Chamber Ethics Council began procedures regarding the request to expel (cassação) of the President of the Chamber of Deputies Eduardo Cunha (PMDB-RJ) for lack of “parliamentary decorum” – because in the first semester he testified before a CPI and denied that he had any overseas bank accounts. Several Lava Jato plea bargaining testimonies revealed that he had received US$ 5 million from the Petrobras corruption/bribe scheme in Swiss bank accounts. Recently, Swiss authorities released data and documents regarding these accounts – in his name and others in the name of his wife and daughter.

Last week, the President of the Chamber Ethics Council, Dep. José Carlos de Araujo (PSD-SP), conducted a random selection of a three-name list from which he could choose to be the reporter on this case (excluding PMDB deputies) ➔ José Geraldo (PT-PA), Vinicius Gurgel (PR-AP) and Fausto Pinato (PRB-SP). On 5th November, Araujo announced that he had chosen Pinato. Reportedly, the fact that Pinato is a lawyer was important for Araujo’s decision. Within ten days, the Council will receive Pinato’s preliminary report and then vote whether (or not) to continue (open) a formal investigation.

Of the three-name list, Pinato (a first term deputy) is considered the most “friendly” vis-à-vis Eduardo Cunha. His PRB is closely associated with the IURD evangelical church (Read: Edir Macedo). Remember: Eduardo Cunha is a very conservative evangelical. Also, in the PRB, Pinato is a very close ally of Dep. Celso Russomanno who is the leading pre-candidate for Mayor of São Paulo. (See Item 1.1) Want more? Of the 70 deputies elected from the state of SP, Pinato received the smallest number of votes ➔ 22,097 votes in October 2014.
Want more? The Brazilian press discovered that Pinato has a case installed against him by the PGR at the STF involving “witness tampering” where in SP he pressured certain witnesses to give false testimony.

The final decision regarding Cunha must be submitted to the full Chamber 90 days after the beginning (3rd November) of the process in the Ethics Council ➔ 3rd February, two days after the Chamber reconvenes on 1st February 2016. However, the “fate” of Cunha will be determined by the Ethics Council on 24th November when this body decides whether (or not) to install a formal process against Cunha – based on the report submitted by Dep. Fausto Pinato.

Apparently, Cunha’s defense will be that he did not lie to the Petrobras CPI when he affirmed that he did not have any personal bank accounts overseas. The data sent by the Swiss prosecutors revealed that Cunha’s wife, Claudia Cruz, has a personal account at a Swiss bank, but those accounts related to Eduardo Cunha are “trusts” and not “personal” accounts. Also, Cunha will prove that the funds administered by these trusts came from “foreign trade” operations and not from Petrolão deposits.

Investigators affirm that this is a very “fragile” justification and indicates the traditional strategy used to “hide” assets overseas.

2 – FOREIGN RELATIONS & TRADE

2.1 – October Trade Surplus

In October, Brazil posted a trade surplus of US$ 1.996 billion and an accumulated surplus of US$ 12.244 billion in 2015. This was the best October result in four years. Exports were US$16.05 (-4.1% YoY) billion and imports of US$ 14.05 billion (-21.1% YoY)

In the first ten months in 2015, the petroleum account posted a deficit of -US$ 4.53 billion – but is declining. For the first time in two years, Brazil’s exports to Argentina increased, mainly due to increased auto exports.

2.2 – FIFA corruption – on trial in NYC

In May, a federal court in New York City requested that Swiss authorities arrest seven members of FIFA’s executive committee to be extradited to NY to stand trial on charges of corruption that laundered money through US banks. They were arrested in Zurich and held in a Swiss jail.

Former President of the CBF (Brazilian Soccer Confederation), José Marin Marin (83), was one of those arrested but his lawyers appealed his extradition until 28th October when he agreed to be “transferred to New York. Apparently, he thought that he would receive “equal treatment” to that received by -- bail of US$ 10 million and house arrest with an electronic ankle bracelet.
Marin arrived in NYC on 3rd October (escorted by two FBI agents) and was arraigned at the federal court in Brooklyn where Judge Raymond Dearie set his bail at US$ 15 million and ordered his house arrest (at his apartment in the Fifth Avenue Trump Tower. He pleaded “innocent”.

2.3 – Brazil – “past due” in IOs

Brazil has accumulated over due payments with several international organizations, such as the UN. The UN assesses the annual membership contribution based on the respective economic indicators of each member. Currently, Brazil’s contribution is 2.9% of the UN’s annual budget $79.6 million. However, in 2016, this payment (based on Brazil’s 2008-2013 economic indicators) will increase to 3.8%, or US$ 103 million. As of October 2015, Brazil owes US$ 124 million in contributions to the UN, only surpassed by the US $ 713 million.

3 - REFORMS

3.1 – Social Security

On 5th November, Pres. Dilma signed into law with modifications of the retirement rules for the private sector (INSS). Different from many other nations, especially in the EU, where the minimum age for retirement was increased to age 70 (in some cases) to reduce fiscal deficits, Brazil adopted a more “gradual” strategy.

For a private sector employee receive the full retirement benefit in 2015, a man would have to accumulate 95 points (sum of age and time of contribution) age 60 and 35 years contribution) and a woman 85 points (age 55 and 30 years of contribution). This “full benefit” would require the minimum ages of 60 or 55, of in other combinations to reach the 85/95 quota man, age 65 + 30 years contribution.

As of 2018, this 85/95 formula would be increased by “one” (86/96) every two years until 2016 (90/100) to account for the increased life expectancy of the Brazilian population. When this MP was sent to Congress, the progression was more acute and the 90/100 quota would have been achieved in 2022, but Congress increased the progression time line to 2026.

Congress also approved was is called reaposentadoria – back to work after retirement. This proposal would allow those who had already retired to continue working and contributing to INSS. After they decided to stop working, they could apply for a recalculation of their retirement benefit taking into consideration the additional years of contribution. BUT Pres. Dilma vetoed this proposal arguing that this mechanism would cost some R$ 70 billion over the next 20 years. Most congressional leaders were upset by this veto and perhaps it might suffer an override.

The tables below contrast the two systems – 1) with the “retirement factor”; and 2) without the “retirement factor” based on an average salary of R$ 2,500,00.

<table>
<thead>
<tr>
<th>For</th>
<th>Women</th>
<th>For</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
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<table>
<thead>
<tr>
<th>For</th>
<th>Women</th>
<th>For</th>
<th>Men</th>
</tr>
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<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td></td>
</tr>
</tbody>
</table>
Age | 50 | 55 | 65 | 55 | 60 | 65  
Contribution | 30 | 35 | 40 | 35 | 35 | 45  
“Factor” | 0.58 | 0.80 | 1.38 | 0.70 | 0.85 | 1.38  
Benefit* | 1.450 | 2.019 | 3.450 | 1.750 | 2.125 | 3.448  
Points | 80 | 90 | 105 | 90 | 95 | 110  
Benefit* | None | 2.500 | 2.500 | None | 2.500 | 2.500  

* - In R$  

4 – PRIVATIZATION & REGULATION  

Nothing this week.  

5 - ECONOMICS  

5.1 – Petrol workers strike  

Petrobras workers are on strike for a 18% wage increase (Petrobras offered +8.11%) and other non-salary demands (against the de-investment plan, in favor of hiring new workers approved in recent recruitment public exams, etc.). In the oil fields off the northern coast of Rio, 43 drilling platforms are idle and some 400,000 barrels of oil were not extracted (as of 2nd November).  

ANP denies that this strike will produce “de-supply) – a shortage of petrol products in Brazil. However, on 4th November, gasoline shortages were reported in Rio.  

Want more? Petros, the Petrobras pension fund is reported to have surpassed R$ 10 billion.  

5.2 – Industrial Production  

In September, industrial production was down by -1.3% MoM and -10.9% YoY. This result was “better” than the estimates by 38 economists consulted by Bloomberg News ➔ -1.5% MoM and -11.3% YoY.  

5.2.1 – Auto production  

The worst sector in September was auto production, down by -39.3% in the 12-month period. In September, 192,000 units were sold and Brazil declined from sixth to eighth rank. In October, 192,165 units were sold according to Fenabrave.  

5.3 – 2015 Primary Deficit ➔ R$ 119.9 billion  

On 5th November, the Dilma government announced that it would payoff R$ 57 billion in 2015
Regarding the “creative accounting” practiced in 2014. As a result, the primary deficit in 2015 will be R$ 119.9 billion (2.1% of GDP).

On 4th November, Casa Civil Chief Jaques Wagner and the AGU Luís Inácio Adams delivered the defense of Pres. Dilma (against the TCU report that recommended the rejection of her 2014 public accounts).

5.4 – October inflation

On 6th November, IBGE released its IPCA data for October ➔ +0.82% vs. +0.54% in September. Thus, the 12-month accumulation is now very close to double-digit ➔ +9.93%, the highest 12-month accumulation since that posted in November 2003 (+11.02%). The ten-month accumulation in 2015 is now +8.52% the highest such accumulation since October 1996 (+8.70%).

However, the INPC (that measures inflation for lower income families) reached a 12-month accumulation of +10.33% in October.

The price increases for petrol products and food pressured the IPCA in October. Economists expect the IPCA in 2015 to surpass +10.0%. In the latest assessment by the Central Bank weekly bulletin Focus (3rd November), the economists surveyed estimated the 2015 IPCA at +9.91%.

This advance of IPCA inflation will increase pressures for yet another increase in fuel prices (gasoline and diesel).

Central Bank officials predicted that the IPCA “target” of +4.5% would be unattainable in 2016, but would be reached in 2017.