Brazil Focus –
David Fleischer
Phone/FAX: 55-61-3327-8085
Cell: 9218-2771 e-mail: Fleischer@uol.com.br

Weekly Report
Mar. 5-11 2016

Looking Ahead ➔ What to watch for?

- 12th Mar. – National PMDB Convention
- 13th Mar. – Mass anti-Dilma & anti-Lula street demonstrations planned
  - Pro-Lula demonstrations canceled in São Paulo
- 13th Mar. -- US to go on daylight-savings time
  ➔ return to 1-hour time difference NYC/Brasilia
- 14th Mar. -- UNDP to release 2015 HDI-Human Development Index
- 14th Mar. -- IBGE – January retail sales ➔ ___% MoM
- 14th Mar. -- IGP-10 ➔ +___% vs. +___% in February
- 17th Mar. -- Central Bank to announce IBC-Br for January ➔ ___% MoM & ___% YoY
- 18th Mar. -- Caged data for February, ______ jobs lost (net)
- 18th Mar. – Mass street demonstrations pro-Dilma & pro-Lula planned
- 21-22 Mar. – Pres. Obama to make historic visit to Cuba
- 21st Mar. -- World Bank to release LPI-Logistics Performance Index
- 21st Mar. -- IBGE to release January industrial employment data
- 21st Mar. -- IBGE to release the IPCA-15 ➔ +___%, versus +___% in February
• 23-24 Mar. – Pres. Obama to visit Argentina
• 24th Mar. -- SRF ➔ February tax revenues R$ ___ billion, ___% YoY
• 25th Mar. -- Good Friday – National Holiday in Brazil
• 27th Mar. -- Easter Sunday
• 28th Mar. -- Easter Monday – Holiday in Canada
• 28th Mar. -- WEF ➔ World Competitiveness Report, Brazil ranked ___
• 28th Mar. -- IBGE: February unemployment data ➔ ___%, versus ___% in January

ATTENTION: Next week my wife and I will travel to MG for the 90th birthday celebration of her oldest sister. Thus, I will not be able to send Brazil Focus on 18th March and the next issue will be sent on 25th March (Good Friday).

1 - POLITICS

1.1 – More plea bargaining

Some VERY explosive plea bargaining testimonies are looming on the horizon and would be VERY BAD NEWS for both Pres. Dilma and Lula. Last week, Marcelo Odebrecht was sentenced to 19 years in prison. If he really “tells all”, this testimony would reinforce [first hand] other plea bargaining testimony. Leo Pinheiro (the CEO of OAS) is also negotiating a plea bargain. OAS was involved in organizing many “perks” for Lula and his family. The executives of the Andrade Gutierrez construction firm are also negotiating their plea bargaining testimony. Probably, next week the STF will incorporate the plea bargaining testimony of Sen. Delcidio do Amaral (PT-MS) that implicated both Dilma and Lula in the Petrobras corruption/bribery scandal and other corrupt schemes. Finally, like a “Ghost from Christmas Past”, Marcos Valério, the key operator of the Mensalão scheme (2003-2005) was sentenced to a long prison term being served in MG. Reportedly, then President Lula “arranged” a payment of R$ 220 million to keep Marcos Valério silent. However, he is very upset about abuses he has been suffering in prison and is threatening to “tell all”. In this case, the accusations would impact Lula and also his then Chief of Staff José Dirceu.

➔ Stay tuned!!!!

1.2 – STF denied Wellington Silva as Justice Minister

On 9th March, the STF voted 10-to-1 to prohibit the nomination of Wellington César Lima e Silva to be Justice Minister unless he completely resigns his career job as public prosecutor in Bahia – based on Article 128 of the 1988 Constitution. This decision will be published next week and then Silva has 20 days to decide – give up his career as public prosecutor in return for just a few months as Justice Minister. The reporter on this case, STF Judge Gilmar Mendes affirmed that some 22 public prosecutors occupy positions in units in the executive branches of the federal, state and municipal government – and they will also have to resign.
Reportedly, the Dilma government has decided to appoint a PT federal deputy to be Justice Minister, so Wellington might resign well before his 20-day decision period has lapsed. Two PT deputies are the most frequently cited -- Paulo Teixeira (PT-SP) and Wadih Damous (PT-RJ). Lula would like to see former deputy, ex-president of the STF and former Justice Minister and Defense Minister Nelson Jobim to replace José Eduardo Cardozo.

This was the first case argued by the new AGU, José Eduardo Cardozo, before the STF.

1.3 – Pezão appointed Mariana Fux to TJ-RJ

On 8th March (International Women’s Day), Gov. Luiz Fernando Pezão (PMDB-RJ) appointed the daughter of STF judge Luiz Fux – Mariana Fux (age 35) to be a judge on the Rio de Janeiro State Supreme Court (TJ-RJ). The OAB prepared a six-name list and Mariana received 125 votes from the 143 desembargadores present and voting. Each desembargador could vote for up to three names on the list.

Problems: Mariana’s inclusion on the OAB list was contested by the OAB-RJ because candidates must prove that they practiced law for at least ten years, but she could not prove this for the years 2007, 2008, 2009, 2010 and 2011. The OAB refused the “complaint” by the OAB-RJ. The “runner up” was Genilton Castilho who received 94 votes. Detail: He is the son-in-law of desembargadora Regina Lúcia do Passo.

1.4 – Lula in Brasília

Lula flew to Brasília on 8th March for a strategy meeting with Pres. Dilma. On 9th March, he had a breakfast meeting at the residence of Senate President Renan Calheiros (PMDB-AL) in an attempt to convince Renan to block any impeachment attempt in Congress. The Senate PMDB delegation had been negative on impeachment but with the new revelations by Sen. Delcídio do Amaral (PT-MS) and other recent plea bargaining testimony, the PMDB Senate delegation has adopted a cautious “wait and see” posture.

Most observers thought that Lula seemed depressed and pessimistic -- and not his normal “talkative” self.
This was not a one-on-one breakfast meeting because Renan invited other political leaders (some 30 senators), including former Senator José Sarney (PMDB-MA), Sen. Romero Jucá (PMDB-RR), Sen. Eunício Oliveira (PMDB-CE), Sen. Jorge Viana (PT-AC), Sen. Fátima Bezerra (PT-RN), Sen. Hélio José (PMB-DF), Sen. Roberto Requião (PMDB-PR), and Sen. Edison Lobão (PMDB-MA). One of the reasons Lula came to Brasília this week was to lobby [pressure] the PMDB not to break with the Dilma government at its national convention this Saturday, 12th March.

With the exception of José Sarney, all the other Senators are under investigation by the STF.

1.5 – Lula in Dilma’s cabinet??

The PT is so desperate because the expected plea bargaining testimony of Marcelo Odebrecht, Leo Pinheiro (OAS), ex-President and ex-deputado Pedro Correa (PP-PE), Andrade Gutierrez Executives, and Marcos Valério (operator of the Mensalão scheme in 2003-2005) should cast many new corruption accusations on Lula – to the point that he might have an arrest warrant issued by Lava Jato Judge Sérgio Moro – that to avoid this there is strong pressure on Pres. Dilma to name Lula to a cabinet position. This would provide Lula with “judicial cover” – could only be tried at the STF and no longer at Judge Moro’s first level federal court in Curitiba.

Which ministry? Several cabinet positions are cited Casa Civil, Secretary of Government, Foreign Relations and Communications.

Last week, the PT received “insider information” leaked out from the Lava Jato investigation that Lula would be interrogated and that the Instituto Lula would be subject to a “search-and-seize” warrant. Before the Federal Police arrive on 4th March, many documents and evidence had been destroyed. If Lula was not guilty of anything, why were these documents destroyed? Clearly an admission of “guilt”. The same conclusion would apply to Pres. Dilma naming Lula to her cabinet an admission of guilt and that Lula would probably be arrested before the end of March.

On 9th March, a PT lawyer filed a brief at the TRF-4 requesting a habeas corpus for Lula so that he would not have to testify as a witness in favor of his “dear friend” José Carlos Bumlai. Bumlai is under arrest in Curitiba since 24th November 2015 accused of receiving a fraudulent loan of R$ 12 million from the Banco Schahin that was “passed on” to the PT. And they say that Lula has “never refused to testify”. Stay Tuned!!!!!

1.5.1 – SP Public Prosecutors denounce Lula

On 10th March, state public prosecutors in SP denounced Lula, his wife Marisa Leticia, his son Fábio and 13 other persons for “hiding” patrimony and money laundering regarding the triplex apartment in Guarujá, SP. It is now up to the SP 4th criminal circuit judge Maria Priscilla Ernandes Veiga Oliveira to decide – to indict Lula or not. The prosecutors asked for Lula’s preventative arrest.

At the same time, the press reported that Pres. Dilma has invited Lula to join her cabinet at Chief of her Casa Civil. In this case, Jacques Wagner would become Minister of Justice. This would
give Lula “judicial cover” [foro privilegado] to only be tried/convicted/sentenced at/by the Supreme Court. Some feel that given the case before the SP court that Pres. Dilma would be obstructing justice – a “crime of responsibility”.

Market Reactions ➔ The stock market shot up 1.86% to the highest level in 7 months and the FX rate of the dollar was down to R$3,61.

1.6 – Senate to cassar Delcídio do Amaral?

In the Senate Ethics Council, the reporter on the case of Sen. Delcídio do Amaral (PT-MS), Sen. Telmário Mota (PDT-RR), presented his report on 9th March calling for Delcídio’s cassação for lack of (breaking) parliamentary decorum. The Senate Ethics Council will decide next week whether to approve Sen. Mota’s report. Once approved, the Council will then prepare its final report to the full Senate that will then by an “open vote” decide Delcídio’s fate.

1.7 – PSB, defections

While the party switching window remains open until Saturday 19th March, several parties have suffered defections while others receive new militants.

The PSB suffered two important defections this week – 1) Roberto Amaral, former PSB National President and Lula’s first Minister of Science & Technology in 2003; and Dep. Luiza Erundina (SP). Amaral told socialist militants that he would not join another party, but rather be an independent militant on the Left. Dep. Luiza Erundina had some ideological differences with the PSB, but when PSB national President Carlos Siqueira announced that the PSB was abandoning the Dilma Government and joining the Opposition – that was enough. She affirmed that she would organize a new political party ➔ Raiz Cidadanista.

1.8 – STF pardons João Paulo Cunha & Delúbio Soares

On 10th March, STF judge Barroso issued an injunction that pardoned two Mensalão participants ➔ former Chamber President João Paulo Cunha (PT-SP) and the former PT national treasurer Delúbio Soares. They were on the “Christmas Pardon” list elaborated by Pres. Dilma. A pardon for José Dirceu was denied by the STF.

2 – FOREIGN RELATIONS & TRADE

2.1 – International Women’s Day

March 8th was International Women’s Day and traditionally the Brazilian President makes a national address via a national TV hookup. But in 2016, Brazil’s first woman president, Dilma Vana Rousseff decided against a national address and instead posted her remarks on social media networks. Apparently, she was afraid of provoking a national panaleaco [pot banging] in the largest cities all over Brazil.
3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – February Inflation

5.1.1 – IGP-DI

On 8th March, the FGV released its IGP-DI for February ➔ +0.79%, much lower that the +1.53% posted in January.

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<td>IPPa (Producer Prices)</td>
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<td><strong>IGP-DI</strong></td>
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5.1.2 - IPCA

On 9th March, IBGE released its data for the IPCA ➔ +0.90% and the 12-month accumulation is now+10.36%. February posted a decline in the IPCA from +1.27% posted in January. In February 2015, the IPCA was +1.22%. This decline was more than expected. The 43 economists surveyed by Bloomberg News predicted +0.98%.

Because of declining consumer demand, some economists predict that inflation will continue to decline and that Copom will reduce the Selic rate at its next meeting.

5.2 – Industrial Production

On 3rd March, IBGE released data for Brazil’s industrial production in 2015 was down by -8.3% -- the worst result since 2003. On 9th March, IBGE announced that in January IP was down by -16% YoY in SP. This was worse that the national IP decline in the same period ➔ -13.8% YoY. In 2015, Brazil’s IP was down by -9.0%, but São Paulo’s IP was down by -11.7%.

5.3 – CEF increased (50%➔70%) finance of used homes/apt.
On 8\textsuperscript{th} March, the Caixa Econômica Federal increased the limit for financing used real estate from 50\% to 70\%. Supposedly, this new policy will unblock the housing markets in Brazil’s larger cities and stimulate the civil construction sector. Those people who want to “trade up” and buy a new home/apt. can’t sell their current home/apt. on the used market.

5.4 – Negative FX flow in February

After registering a net inflow of FX in January (+1.475 billion), this flow turned quite negative in February -US$ 9.294 billion according to the Central Bank on 9\textsuperscript{th} March. The most recent large net outflow was in December 2014 ➔ -US$ 14.050 billion. This was the worst FX outflow since 1982.

The Norwegian Sovereign Wealth Fund (the largest in the world ➔ US$ 830 billion) withdrew US$ 14 billion in its investments in Brazil.

5.5 – Retail Sales decline

On 10\textsuperscript{th} March, IBGE released its data for retail sales in January ➔ down -1.5\% MoM and -10.3\% YoY. The 12-month accumulation is now -5.2\%. This decline in January was more than expected by 39 economists surveyed by Bloomberg News ➔ -0.7\% MoM.

For example ➔ On 11\textsuperscript{th} March, Lojas Americanas published its balance sheet for 4\textsuperscript{th} Q/2015 – where profits were down by -31\%

5.6 - Unemployment

One direct indicator of unemployment is the level of FGTS collections. In January, these collections declined -4.7\% YoY. In 2015, FGTS collections declined by -2.1\% versus 2014 – the first such decline since 2002.

5.7 – New bond issue in NYC

For the first time since 2014, Brazil’s STN launched a bond issue in New York on 11\textsuperscript{th} March ➔ US$ 1.5 billion in Global 2026 bonds. JPMorgan and BofA-Merrill Lynch coordinated this bond issue. This was Brazil’s first bond issue after it was downgraded to “junk” status by S&P, Fitch and Moody’s. These 10-year bonds will have a yield of 6.125\% per year. This yield has declined from an average of 7.8\% in December. This was the highest yield for 10-year bonds since 5.47\% in July 2010. In September 2014 the yield was 3.888\%.