Brazil Focus –
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Weekly Report –
Mar. 28-April 3
2015

Looking Ahead ➔ What to watch for?

- 5th April -- Easter Sunday
- 6th April -- Easter Monday [holiday in Canada]
- 7th April -- FGV to post IGP-DI for March ➔ +% 
- 8th April -- IBGE to post IPCA for March ➔ +0.%, 12-month accumulation ➔ +%
- 6th April -- IBGE – Industrial employment in February ➔
- 10th April -- CNI: February industrial employment ➔ points vs. points in January
- 10th April -- Central Bank to announce February IBC-Br ➔ +0.%
- 10-11 April -- Summit of the Americas to meet in Panama
- 12th April -- More massive protest demonstrations are planned for large cities 
  ➔ Déjà vu repeat performance of 15th March
- 13th April -- FGV to post IGP-10 ➔ +% -- vs. +% in March
- 15th April -- IBGE: February retail sales ➔ +0.% MoM, vs. +0.% MoM in January
• 16th April -- Labor Ministry: Caged data -- new jobs created in March (% YoY)
• 16th April -- IBGE to announce March unemployment ➔ %, vs. % in February
• 17th April -- IBGE to release the IPCA-15 ➔ +0.%, versus +0.% in March
• 17-19 April -- Spring Meetings of IMF and World Bank Group, Washington, DC
• 21st April -- Tiradentes National Holiday [Martyr of Independence]
• 22nd April -- Earth Day
• 23rd April -- Municipal holiday in Rio de Janeiro ➔ São Jorge

1 - POLITICS

1.1 – New CNI/Ibope poll

On 1st April, CNI released the results of a poll conducted by Ibope on 21-25 March among 2,002 voters in 142 cities with a two-point margin of error.

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<thead>
<tr>
<th>Evaluation</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>Dilma Gov't.</td>
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<tr>
<td>Excellent/Good</td>
<td>63%</td>
<td>37%</td>
<td>43%</td>
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<tr>
<td>Regular</td>
<td>29%</td>
<td>39%</td>
<td>35%</td>
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<tr>
<td>Bad/Terrible</td>
<td>7%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
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<table>
<thead>
<tr>
<th>Performance</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>Pres. Dilma</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Approve</td>
<td>79%</td>
<td>45%</td>
<td>56%</td>
</tr>
<tr>
<td>Disapprove</td>
<td>17%</td>
<td>49%</td>
<td>36%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>4%</td>
<td>6%</td>
<td>8%</td>
</tr>
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In December 2014, the Ibope poll found that the approval rating for the Dilma government was 40% BUT in the March poll, the situation is reversed – only 12% approval. On the personal side, in December 52% approved the performance of Dilma as President, but in March only 19% approved.

This poll was not quite as bad as the recent Datafolha and MDA polls but clearly shows the President’s sharp decline in her popular approval rating. Ibope also measured the “level of confidence” in Pres. Dilma. In March 2011, 74% had confidence in Dilma. Four years later only 24% said they still had confidence in Pres. Dilma. In late 1999, Pres. Cardoso had a 27% confidence level.

Some 90% of those interviewed disapproved of the Dilma government’s austerity drive.
1.2 – Petrobras Lava Jato

On 31st March, OAS had its request for a court-supervised bankruptcy recovery accepted by a SP court. Another construction firm impacted by this scandal, Queiroz Galvão, has sacked 70 employees and has another 500 on a 30-day notice.

Aurelius Capital Management LP, an affiliate of Huxley Capital Corp., said that this bankruptcy “ploy” by OAS is an effort to defraud bondholders. On 5th March, Huxley filed a complaint in a Manhattan federal court claiming that OAS had transferred assets from two units that guarantee bonds to shield them from creditors (bond holders). OAS has been locked out of credit markets after its executives were arrested and imprisoned in November 2014 as part of the Lava Jato investigations.

On 1st April, Aurelius issued a statement saying “Bankruptcy is supposed to provide companies a second chance, not a license to steal . . . If OAS’s construction business in operationally viable, it can be re-capitalized and resuscitated without retort to such low tactics”. After the November arrests, “OAS was exposed as a deeply insolvent enterprise in utter financial collapse . . . The next month, OAS engaged in one of the worst sprees of misappropriation and deception we have ever encountered”.

OAS has US$ 1.8 billion of outstanding dollar bonds. Its US$ 400 million of notes sold in June 2014 have plunged to 14 cents on the dollar as of 1st April from a high of 101.6 cents in September

OAS is in the process of selling off many of its assets, including two soccer stadiums – Dunas (Natal) and Fonte Nova (Salvador) built for the World Cup last year and the potential buyers demanded that OAS seek bankruptcy protection before they would close and deals.

Want more? Bloomberg News reported that Petros – the Petrobras employee pension fund – might suffer US$ 1.9 billion losses (in 2014). This deficit expanded from R$ 2.4 billion in 2013 partly due to share value decline. For lack of an auditor-approved financial balance result for 2014, Petros can take no action with regulators until 31st July. Founded in 1970, in 2013, Petros had 158,000 participants, the second largest pension fund in Brazil after the Banco do Brasil. The negative result in 2013 was the first since 2008. Over the past ten years, Petros posted 308% profitability, higher than its internal target of 241%.

Even more? On 1st April (April Fool’s Day), in a rare display of discontent, a member of Petrobras’ Administrative Council resigned (loudly) with a scathing letter explaining the reasons for his resignation. Mauro Rodrigues da Cunha, a former fund manager at Franklin Templeton, was elected to this Council two years ago with the support of international institutional fund managers.

Cunha stated – “In view of my personal frustration with the incapacity of the controlling shareholder [the Brazilian government] to show the necessary degree of urgency to reverse the innumerable problems that have left Petrobras in its current situation, I state that I do not intend to put my name forward for another term”.


See ➜ http://www.ft.com/intl/cms/s/0/4791990e-d7e4-11e4-80de-00144feab7de.html#axzz3WCpBRY61
Still more? Petrobras investors have expanded their lawsuit in a Manhattan district federal court by adding claims that international auditor PriceWaterhouseCoopers LLP [PwC] turned a “blind eye” to the fraud and “ignored obvious red flags”. This class action suit alleges that Petrobras and its senior executives violated provisions of US and Brazilian corporate law, as well as Brazil’s securities laws, civil code, and Securities Commission (Bovespa) regulations. This case registered as – Petrobras Securities Litigation, 14-cv-9662, Us District Court, Southern District of New York (Manhattan).


International services and equipment suppliers (mostly in the US and Europe) are deeply concerned about their continuing relationships with Petrobras in 2015.


1.2.1 – Bovespa – New rules for corporate governance at state firms

On 2nd April, the SP stock exchange, Bovespa, presented a plan to strengthen corporate governance of state enterprises in Brazil – as a response to the massive corporate mismanagement observed in the Petrobras corruption bribery scandal. Bovespa will hold public hearings as of 22nd April to help elaborate the new framework that should be ready by 30th June. These hearings will focus on increased transparency, fine-tuning controls on boards and auditing committees and to adopt more transparent methods for selecting managers. Adherence too these rules would be voluntary by state-owned firms. Bovespa CEO, Edemir Pinto said – “Corporate governance rules that are voluntary in nature help bring about a premium not only for the company and minority shareholders but also for the controlling shareholder, which will be seen as a more trusted entity”.

See [http://www.reuters.com/article/2015/04/02/brazil-corporate-governance-bmf-bovespa-idUSL2N0WZ0JH20150402](http://www.reuters.com/article/2015/04/02/brazil-corporate-governance-bmf-bovespa-idUSL2N0WZ0JH20150402)

1.3 – The PP reacts (?)

Politicians from the PP are reacting strongly against their party colleagues who are involved (accused) in the Lava Jato investigation of the Petrobras corruption/bribery scandal. They want the 26 members of the PP national executive committee to be removed so as not to “taint” the image of their party. Eight other PP politicians are also accused.

Several state-level PP Executive committees have rebelled and want the accused members of the national committee ousted. The National committee decided to prolong (extend) their mandates (terms) for an additional six months (beyond 15th April) that is totally contrary to the party statutes.

A similar situation is festering in the PT, where many members and state party committees are calling for the resignation or ouster of João Vaccari Neto, the national PT treasurer accused of receiving bribes in the Petrobras case and is currently in prison in Curitiba.

1.4 - SwissLeaks
On 1st April, the Chief of the SRF, Jorge Rachid, told the SwissLeaks CPI that his unit is investigating the 100 largest bank accounts with the HSBC branch in Geneva to ascertain possible [Brazilian] tax evasion – out of a total of 8,667 accounts held by Brazilians – with a total of US$ 7 billion in deposits in the Geneva branch of HSBC in 2006 and 2007. The preliminary investigation of 342 names revealed that 69 had emptied their accounts in 2007, 62 were foreign citizens (not Brazilians), 29 had since died, 27 resided overseas (not in Brazil), and 3 had declared their HSBC account on their Brazilian tax returns.

This SwissLeaks list includes the names of some of the accused in recent corruption scandals in Brasil – such as Petrobras Lava Jato and the cartel of firms involved in the procurement scandal of urban trains and metro in SP. ➔ Stay tuned!

1.5 – Gov. Alckmin’s son died in helicopter crash in SP

On 2nd April, Thomaz Rodrigues Alckmin (age 31), the youngest child of Gov. Geraldo Alckmin (PSDB-SP) died in a helicopter crash in Carapicuíba in the greater SP metro area. Thomaz was the co-pilot bent on flying enough hours to qualify for his pilot’s license. The pilot and three mechanics also died when the copter crashed into a house under construction. According to ANAC, this copter model EC 155 B1 was manufactured by Eurocopter in France and had a capacity for nine passengers and had been acquired by Seripati Participações in February 2015. This copter was four years old and had logged 600 flight-hours. Thomaz is survived by his wife, architect Taís Fantato, and two daughters.

This was a test flight immediately after the copter had gone through a preventative maintenance routine – that’s why three mechanics were also aboard.

Photo: Alessandro Shinoda/Folhapress

Thomaz & his Mother Lu Alckmin arriving at his wedding in 2011

On Good Friday, 3rd April, Pres. Dilma Rousseff Vice-President Michel Temer and several cabinet ministers flew to SP to participate in the mourning ceremonies for Gov. Alckmin’s son.

1.6 – Dilma appoints Reynaldo Fonseca

On 2nd April, Pres. Dilma appointed Reynaldo Fonseca to the STJ in the vacant slot occupied by Arnaldo Esteves Lima who retired in June 2014. Fonseca is from Maranhão and had been a judge on
the TRF, 1st Region (Brasília). He holds a BA in Law from the Federal University of Maranhão and graduate studies at PUC-SP. His appointed was strongly supported by former PMDB Senator José Sarney. He was selected from a three-name list presented to Pres. Dilma by the STJ on 11th March, although this vacancy occurred in June 2014. Thus, Pres. Dilma can not be accused of procrastination regarding this appointment – different from her “never-ending” decision to appoint a new STF judge to replace Joaquim Barbosa who resigned/retired in June 2014. Fonseca must be confirmed by the Senate.

2 – FOREIGN RELATIONS & TRADE

2.1 – March Trade Surplus

MDIC released Brazil’s trade balance data for March on 1st April ➔ a small surplus of +US$ 458 million, with US$ 16.9 billion (-16.8% YoY) and imports of US$ 16.5 billion (-18.5% YoY).

Thus, the result for 1st Q/2015 was a deficit of -US$ 5.5 billion. In 1st Q/2014, the trade deficit was -US$ 6.1 billion. In part, the decline in commodity prices was the main cause of this result. Declines were also noted for imports in some sectors ➔ fuel and lubricants (-26.5%), consumer goods (-11.5%), capital goods (-11.0%), and raw materials (-10%).

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Industrial Production down in February

On 1st April, IGBE released its IP data for February. After a slight recovery in January (+0.3% MoM), February posed yet another decline (-0.9% MoM). In December the decline was -1.6%. The predictions for February were even worse that the IBGE result ➔ a decline of -2.7%. Compared to February 2014, the decline was -9.1% YoY. From January ➔ February, the sectors posting the largest declines were automobiles, tobacco, IT, and pharmaceuticals – all affected by tight credit and high interest rates. The accumulated losses in 2014 were -3.2%, the worst decline since 2009. Most analysts predict that 2015 will be “more of the same”.

5.2 – Petrobras closes deal with CDB
On 1st April, Petrobras announced that it had closed a financial deal with the Chinese Development Bank for US$ 3.5 billion. This loan comes at a time with Petrobras is trying to recover its financial situation and has cut investments in 2015 by US$14 billion. Apparently, the CDB is not concerned with the lack of a 2014 financial statement signed by international auditors (PwC).

Back in 2009, Petrobras signed a US$ 10 billion deal with CDB where China would be guaranteed a certain amount of petroleum exported from Brazil. Two Chinese state-owned oil companies – Cnooc Ltd. and PetroChina Co. – already have a 10% stake in one of Petrobras’ most productive oil fields.

Earlier this week, Pres. Dilma Rousseff announced that Brazil would become part of the Asian Infrastructure Investment Bank, a new China-based institution to rival the US-dominated World Bank. In addition to Brazil, China has granted similar assistance to Ecuador, Venezuela and Argentina helping these nations cope with declined oil prices and their respective debt problems. Since 2005, China has extended some US$ 100 billion in credit to Latin America and plans to disburse another US$ 20 billion by the end of the decade.

The news of this CDB deal boosted Petrobras shares on the NYSE by 5.66% -- since October 2014 these shares are down by 52%.

5.3 – Public Accounts

Primary Deficit – In February, Brazil posted a primary deficit of -R$ 2.3 billion according to Central Bank data. January turned a +R$ 21.1 billion surplus. This February deficit is considered a “setback” in the “target” set by Finance Minister Joaquim Levy for a 2015 primary surplus of 1.2% of GDP. In 2014, Brazil produced its first primary deficit since 1997 (0.63% of GDP)

5.4 – March inflation

On 30th March, the FGV released its IGP-M data +0.98% in March vs. +0.27% in February. This is the inflation index used adjust rents in Brazil. So far in 2015, the IGP-M accumulates +