Looking Ahead ➔ What to watch for?

- 4th May  -- Trade balance for April ➔ +US$ billion
- 4th May  -- Fenabrave, new auto units sold in April ➔ % in Jan-April (% vs, 2014)
- 5th May   -- IBGE: March Industrial Production ➔ -0.% MoM, & -0.% YoY
- 5th May   -- Central Bank to announce FX flows of US$ billion in April
- 6th May  -- FGV: April IGP-DI ➔ +0.%
- 6th May  -- EIU & Pearson International to release The Learning Curve survey
- 7th May  -- IBGE to post IPCA for April ➔ +
- 13th May -- Brazilian Abolition Day (slaves freed 1888), not honored by Afro-Brazilians
- 15th May -- Central Bank to announce March IBC-Br ➔ +0.% MoM
- 15th May -- IBGE to announce retail sales for March ➔ % MoM & % YoY
- 15th May -- IGP-10 ➔ 0.%
- 19th May -- IBGE: IPCA-15 ➔ +0.% versus +0.% in April
1 - POLITICS

1.1 – “The Ghost in the Planalto”

So read the headline in the latest Brazil dateline published in *The Economist.*


Recently, *Brazil Focus* referred to Pres. Dilma Rousseff as a “premature lame duck”, but 25th April edition of *The Economist* went even further by referring to her as a “Ghost” in her own presidential office building – the *Palácio do Planalto.*

This article affirms that Dilma was forced to oust 4 cabinet ministers under duress from the Chamber President, delegated total economic policy initiative to Finance Minister Joaquim Levy, and allocated the function of congressional relations to Vice-President Michel Temer. Also, her legislative initiatives depend on decisions by the Senate and Chamber Presidents.

1.2 - Petrolão

On 22nd April, Petrobras released its 2014 financial report that listed a R$ 6.2 billion corruption-bribe write-off and a total of R$ 44.6 billion in asset “impairment” and corruption losses – much less than the estimated R$ 8.48 billion loss due to corruption-bribery that was forecast by former CEO Graça Foster (before her sacking). At the last minute, the fiscal council asked for more time to examine the report before making its final decision – but 3 out of 5 members finally approved the document. Approval by the Administrative Council also was not unanimous – two members voted negative and
one abstained. This financial balance was signed by the international auditing firm – Price-Waterhouse Coopers. Apparently, the American SEC also accepted this report. Fitch affirmed that the “risk” of investing in Petrobras had been “mitigated”.

The Petrobras administrative council met on 29th April – presided by Murilo Fereira for the first time. The audited financial report for 1st Q/2015 is promised for 15th May. CEO Bendine announced that in 2015 “no dividends would be paid”. This was the first time since 1992 that no dividends would be paid. In 2014, Petrobras distributed R$ 8.7 billion in dividends.

Three “independent” members of the Council voted against the approval of the financial report – because: 1) the Administrative Council members were given only two hours to examine the 319-page document to determine whether the R$ 50.8 billion write-downs/impairments were sufficient to account for the effect of a massive corruption/bribery scandal that plagued Petrobras; 2) the documents supplied to the SEC (in New York) were not made available to the Council members (due to alleged “confidentiality”); 3) the “methodology” used to calculate the write-downs and impairments; and 4) the greatly over-priced acquisition of the Pasadena refinery in Texas was not included in the “impairment” calculations..

Petrobras’ debt was up 27% to US$ 300 billion. In 2014, the cash flow (Ebitda) was down by -6%, R$ 62.967 billion ⇒ R$59.140 billion.

Pres. Dilma was quoted as saying that with this financial report “Petrobras can ‘turn a page’ on the scandal and be ready to move on”.

Detail: The “financial accounting” of Petrobras’ losses did not include the R$ 872 million loss incurred in 2007 when then Pres. Lula negotiated the price of natural gas with Bolivia and the “loss” of the Petrobras operations in Bolivia (expropriation). In August 2014, Petrobras paid Bolivia’s YPFB US$ 434 million.

However, in addition to the construction-engineering firms directly involved in this scandal, other segments of the construction sector (with no direct involvement) have suffered “contagion” – such as Cimento Tupi SA whose bonds declined by 70%.

Leo Pinheiro, the CEO of OAS affirmed in his plea bargaining affirmed that, at Lula’s request, his firm had performed several renovation-reforms at the Santa Barbara dacha in Atibaia, SP owned by Jonas Suassuna and Fernando Bittar – who are business partners of Fábio Luís da Silva (Lulinha). Pinheiro also affirmed that he had gotten a job for João Batista de Oliveira, the husband of Rosemary Noronha, former staff advisor to Pres. Lula, who was chief of the Presidency Office in SP and was accused of several financial crimes. The job for her husband was part of efforts to “silence” Ms. Noronha.

Lava Jato prosecutors formally accused former PT Treasurer João Vaccari Neto and former Petrobras Director Renato Duque laundering R$ 2.4 million between April 2010 and December 2013 and calling for R$ 4.8 million restitution to Petrobras.
Accused of receiving campaign contributions from the Petrobras corruption-bribery scheme to her election campaign in 2010, Sen. Gleisi Hoffmann (PT-PR) affirmed that she had received legal campaign contributions from “some” of the construction-engineering firms.

Former Petrobras Director Paulo Roberto Costa accused of being the key articulator of the corruption-bribery scandal who provided considerable information and evidence in his plea bargaining to Lava Jato prosecutors was sentenced to seven years in prison by Judge Sérgio Moro. Because Costa was imprisoned for several months in Curitiba and has been under house arrest in Rio ever since, probably he would be released in early 2016 after serving one-sixth of his prison term.

Petrobras registered its first loss since 1991. Because of gross mismanagement during the PT years (2003-2014), Petrobras’ debt soared to R$ 351 billion – the equivalent of one year of revenues. The remedy-medicine is well known and “bitter” – sell off assets and reduce investments – while trying to find investors willing to sustain the firm during its convalesce. The plan has been laid out, but not in detail (yet) ➔ What assets will be sold? What investments will be cut? Where will the firm encounter funds to sustain it? Will the government stop using Petrobras as a political instrument? Will the firm be allowed to make decisions based on market conditions? When the international price of oil increases (again) will Petrobras be able to increase the pump price of gasoline and diesel accordingly? Will Petrobras stop subsidizing Brazilian shipyards to produce ships and drilling platforms at prices well above international prices? Will Brazil’s political parties stop “dividing up” the appointment of Petrobras executives? When/if the network of corrupt employees installed by Paulo Roberto Costa be expunged? The ball is in the court of CEO Bendine.

Want more?? In a letter to investors on 26th April, Morgan Stanley advised them to sell off their Petrobras shares – because the firm’s debt is very large vis-à-vis its cash flow. See ➔ http://economia.estadao.com.br/noticias/geral,banco-morgan-stanley-recomenda-vender-acoes-da-petrobras,1676638

The Petrobras Administrative Council was “renewed” on 29th April, prior to its next meeting on 29th May when the 22nd April financial statement for 2014 will be “reviewed”. The bylaws of the Council state that the financial should be presented 30 days before the meeting that will finally review and approve same.

The “new” Petrobras administration had promised to “depoliticize” its Administrative Council (that had several cabinet ministers as members) – and to a certain extent complied with its “promise”. The ministers who were council members were – Guido Mantega (Finance), Miriam Belchior (Planning) and Marcio Zimmermann (number two at MM&E). Three new names were presented – Prof. Segen Estefen (Coppe/UFRJ), Luiz Nelson Guedes and Roberto Castello Branco – who replace Sérgio Quintella (Vice-President of the FGV), Ivan Souza Monteiro (Petrobras Director for Finance), and General Francisco Roberto de Albuquerque (retired). Four other names were maintained – Murilo Ferreira (President of Vale), Luciano Coutinho (President of BNDES) and Luiz Navarro (lawyer with Veirano Advogados and former head of CGU). Ferreira was elected President of the Council replacing Guido Mantega.

Three “independent” members were elected – Walter Mendes de Oliveira Filho representing minority ordinary share holders, and Guilherme Affonso Ferreira representing the preferential share
holders – both were elected with support of foreign and Brazilian investment funds that hold Petrobras shares. Deyvid Bacelar, Director of the Prtrol Workers Union in Bahia was elected representing the Petrobras employees.

The candidates supported by Bram (Bradesco Asset Management) – Eduardo Bunker Gentil and Otávio Yazbek were not elected. In 2014, before he became Finance Minister in Dilma 2.0, Joaquin Levy was the President of Bram.

1.2.1 – STF freed nine CEOs

On 28th April, the second STF group (five judges) decided to free (release) nine CEOs of the construction companies implicated in the Petrobras corruption/bribery scandal. They had been held under “preventative arrest” by Judge Sérgio Moro in Curitiba since November 2014. However, these nine persons will remain under house arrest and will be required to wear ankle radio-transmitter bracelets – so the police can monitor their whereabouts.

The “key” CEO is Ricardo Pessoa of UTC – who the prosecutors identified as the “ring leader”, coordinator of “the Club” of construction firms. The other eight released were:

José Aldemário Pinheiro Filho OAS President
Agenor Franklin Medeiros OAS Director-President
José Ricardo Nogueira Breghirolli OAS Linked to Alberto Yousseff (doleiro)
Mateus Coutinho Sá Oliveira OAS Employee
Ertom Medeiros Fonseca Galvão Engenharia Director
Sérgio Cunha Medeiros Mendes Junior Vice-President
Gerson Almada Engevix Vice-President

This STF decision was “split” 3-to-2 ➔ release the nine (Teori Zavascki, Dias Toffoli and Gilmar Mendes) and against release (Carmen Lúcia and Celso de Mello).


1.3 – Lupi “complains”

On 23rd April, the national president of the PDT, (former Labor Minister, sacked by Pres. Dilma) Carlos Lupi, affirmed that “the PT is finished, they stole too much” – not that the PT had invented corruption, but that the party exaggerated in the Petrobras corruption-bribery scandal.

1.4 – Dep. Sibá Machado

The PT floor leader in the Chamber, Dep. Sibá Machado (AC) is under fire from his colleagues who are pressuring for his replacement. His peers consider him to be “primary, naïve, badly informed, and with limited intelligence”. In addition, he has made statements that left his colleagues “ashamed”
and was not able to avoid a series of PT defeats in the Chamber. For example, Sibá’s defense of the former PT treasurer João Vaccari Neto further contributed to the party’s disgrace. Sibá was Sen. Marina Silva’s alternate and served as Senator while she was Lula’s Environment Minister (2003-2008).

1.5 – Luiz Edson Fachin

UFPR Law Professor Fachin who was recently nominated to the STF by Pres. Dilma was immediately accused of campaign activities in favor of Dilma Rousseff’s first election in 2010 is now accused of representing law clients before the TJ-PR (Parana’s state supreme court) while his wife was a judge on the same court. Fachin’s wife explained that she did not vote on any cases that her husband acted as a lawyer. Detail: Since it was created in 2005, the CNJ has condemned this practice – of lawyers arguing cases before courts where their relatives are judges. These aspects of Professor Fachin background should weigh heavily against his confirmation by the Senate.

1.6 – Pizzolato extradited

The Italian Supreme Court has authorized the extradition of Henrique Pizzolato to Brazil to serve his prison term for his Mensalão corruption activities at the Banco do Brasil. Pizzolato was the only person accused, convicted and sentenced for their involvement in the Mensalão who was able to flee the country (to Italy). It was expected that Italy would deny his extradition because of his Italian citizenship – but the Italian Supreme Court decided that in this case corruption out weighted the question of citizenship. Detail: Pizzolato had “pre-meditated” his fleeing Brazil by acquiring a forged passport in his brother’s name ➔ this brother had been dead for some 20 years.

1.7 – Sen. Marta Suplicy abandoned PT

On 28th April, Senator Marta Suplicy (SP) announced that she was leaving the PT because “the party had abandoned its ethical principles” and that she could not abide a party mired in corruption. This rationale was outlined in her resignation letter sent to the PT-SP. Fighting to regain the confidence of the Brazilian population (electorate) after the petrolão scandal involved many PT “notables”, Sen. Suplicy’s letter enraged the PT-SP that has resolved to request the TSE to revoke her mandate (she was elected in 2010). IF she loses her mandate within the party loyalty rules laid down by the TSE and STF in 2007, her replacement would be Paulo Frasteschi (PT-SP).

In December 2014, Marta Suplicy was Pres. Dilma’s Minister of Culture. Before Dilma could organize a “collective resignation” of her cabinet in order to be able to restructure same from a “clean slate”, Suplicy resigned via a very strongly worded letter to the President complaining about how “Culture” had been mistreated during Dilma 1.0.

Detail (1): Marta Suplicy had perceived that her ambition to become the PT candidate for Mayor of SP in 2016 would not be accepted by the party that plans the reelection of current Mayor Fernando Haddad (who has very low ratings in the polls). Apparently, she negotiated her transfer to the PSB that would launch her candidacy in 2016 with the tacit support of Gov. Geraldo Alckmin (PSDB-SP). Reportedly, Marta will announce her entrance in the PSB-SP in June. Even if another candidate were to win the election, Marta Suplicy would have deprived the PT of Haddad’s reelection.

Detail (2): Like in 2012, when Lula imposed the Haddad candidacy on the PT-SP (and “passed over”
Marta’s ambition to run for Mayor of SP, in 2014 Lula again “snubbed” Marta in favor of Health Minister Alexandre Padilha who was roundly defeated in the election for SP governor. The other strong candidate for 2016 is Celso Russomanno (PRB) who had a strong presence in the 2012 election.

Stay tuned!!

1.8 – Dilma ➔ No May Day speech

Faced with the possibility of massive protest demonstrations, Pres. Dilma Rousseff decided not to make a national May Day address to the nation on a TV network hookup. Instead, she will make her speech via the internet – with much less impact than a national TV address.

She did an internet communication via Facebook where she criticized the repression against street demonstrations and called for “dialogue” with society. She did not mention the recent police violence against demonstrators against the Beto Richa (PSDB) government in Curitiba.


However, Lula made a speech to a 1st May Labor Day event organized by CUT in SP. Ever since radio arrived in Brazil in the 1920s, after 1930 Pres. Getúlio Vargas adroitly used radio to communicate with the Brazilian people.

1.9 – Transportation Minister – “Public works to be halted”

On 29th April, Transportation Minster Antonio Carlos Rodrigues (PP-SP) warned that many important public works projects will be halted (interrupted) because of a lack of funds within the fiscal austerity program of Dilma 2.0.

Testifying before the Senate Infrastructure Committee, Rodrigues said “I never expected that in early May we would not know what level of funds would be available”. He explained that the firm contracted to execute a project will call him to say “If we don’t get the money, we will have to interrupt the project tomorrow”. The Minister explained that R$ 13.6 billion “should be” available for investments in his sector. In 2014, the Transportation Ministry invested R$ 18.8 billion.

2 – FOREIGN RELATIONS & TRADE

2.1 – Second Brazilian drug trafficker executed in Indonesia

On 26th April, Itamaraty sent a “diplomatic letter” to the Indonesian government requesting that the death sentence of Brazilian drug trafficker Rodrigo Muxfeldt Gularte (28) be commuted to life in prison and that he be committed to a mental hospital. Gularte was sentenced to death in 2005
because he smuggled six kilos of cocaine hidden within his surf boards. A medical examination concluded that he suffers from schizophrenia and his defense argued that under Indonesian law he should not be executed. On 17th January, another Brazilian drug trafficker, Marco Acher Cardoso Moreira (53) was executed in spite of a personal letter requesting clemency sent by Pres. Dilma Rousseff to the Indonesian President Joko Widodo. The latter refused to commute Acher’s execution, and in retaliation Pres. Dilma refused to receive the credentials of the new Indonesian ambassador who was immediately recalled by Indonesia “tit-for-tat” – Indonesia canceled a US$ 500 million contract with Embraer.

Gularte was executed by a firing squad on 28th April along with seven other convicted drug traffickers – two from Australia, 4 Nigerians and one from Indonesia. Gularte requested that he be buried in Curitiba in his home state of Paraná.

2.2 – Joint Brazil-Bolivia Hydro Project

Brazil and Bolivia continue negotiating the development of a three-gigawatt binational hydroelectric project on the Bolivian side of the Madeira River.

3 - REFORMS

3.1 – Party Fund increased

Congress approved legislation that increased the Party Fund for all registered parties and was signed into law by Pres. Dilma.

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4 – PRIVATIZATION & REGULATION

4.1 – Airport concessions

On 29th April, Minister for Civilian Aviation (DAC) Dep. Eliseu Padilha (PMDB-RS) announced that in 2015 three airports would be “privatized” via concession auctions – Porto Alegre, Florianópolis and Salvador. Padilha explained that on 25th April, Pres. Dilma wanted to privatize more airports in 2015 – in the Northeast (Recife or Fortaleza), in the Southeast (Vitória) and the Central West (Goiânia) – but this would have worsened the already deficit situation of Infraero that would lose
further revenues with additional privatizations. He added that the additional airports would be privatized in 2016. The minister also commented that three construction firms that are partners is the concessions for the airports in Guarulhos, Brasília and Campinas – respectively OAS, Engevix and UTC – are trying to sell their stakes in lieu of their financial difficulties as a result of the Petrolão investigations.

5 - ECONOMICS

5.1 – Foreign debt increased +4.8% in March

On 27th April, the STN announced that Brazil’s federal debt had increased by +4.8% to R$ 2.44 trillion in March – the largest monthly increment since +6.02% in April 2010. **Remember:** In 2010, federal government spending boosted Brazil’s GDP growth to +7.5%. The STN incurs debts to finance federal government budget deficits. In March 2015, the STN issued R$ 70.2 billion in debt bonds, the largest such issuance since this data series began in 1999.

The STN affirmed that the “attractiveness” of these debt bonds to investors was due to the high return rates. Of the current debt, 27.4% is held by financial institutions, 20.4% by foreign investors, and 19.8% by investment funds.

5.2 – Federal revenues up in March

On 27th April, federal revenues were up by +0.48% YoY = R$ 94.1 billion. **However,** revenues in 1st Q/2015 were down by -2.03% QoQ. February would have been negative but for “extraordinary” revenues from transfers of assets among firms. The primary surplus target in 2015 was set at R$ 66.3 billion. In 1st Q/2015, the primary surplus was R$ 3 billion.

5.3 – Unemployment increases

On 28th April IBGE announced the unemployment in March = 6.2% versus 5.1% in March 2014 and 5.9% in February 2015. The number of unemployed was up by 23.1% from March 2014. The average salary in March was R$ 2.134,60 down from by 2.8% from R$ 2.196,00 in February.

5.4 – Primary Surplus

On 29th April, the STN announced that in March Brazil posted a primary surplus of +R$ 1.5 billion versus +R$ 3.5 billion in March 2014. Thus, the primary surplus for 1st Q/2015 was +R$ 4.49 billion = the lowest first quarter primary surplus in 17 years (1998). In 1st Q/2014 the primary surplus was +R$ 13.12 billion.

The STN Chief Marcelo Saintive affirmed that this March result was less than expected but he highlighted the “reversal” of the trend in February = a primary deficit of –R$ 7.5 billion. **Detail:** The primary surplus “target” for 2015 was set at +R$ 66.3 billion.
5.4.1 – March “budget gap” increased

On 30th April, the March “budget gap” was announced \(\Rightarrow\) R$ 69.2 billion, up from R$ 58.6 billion in February – in large part due to increased interest rates on the public debt.

5.5 – April inflation

On 29th April, the FGV released data on its IGP-M for April \(\Rightarrow\) +1.17%. This result was higher than the median forecast of +1.11% by 28 economists surveyed by Bloomberg News. This inflation index – that is weighted 60% by wholesale prices – has accumulated 3.55% in the past 12 months.

5.6 – Copom hiked Selic rate by 50 bps

On 29th April, Copom increased the Selic basic interest rate by 50 bps, 12.75% \(\Rightarrow\) 13.25%. This was the fifth increase in the Selic rate since Pres. Dilma was reelected in October 2014. Bloomberg News surveyed 61 economists and 53 predicted the 50 bps increase, while the other 8 forecast a 25 bps increase. This was the only rate increase among the G-20 nations.

Selic is now at its highest rate since January 2009 when the Central Bank began easing off high interest rates to stimulate the Brazilian economy after the Wall Street “blowout” in late 2008. Economists are divided over whether Copom will continue increasing the Selic rate in 2015. Some feel that this was the last hike in 2015 so as not to compromise the Brazilian economy even more in conjunction with the fiscal adjustment. Others agree with this rationale but feel that Copom will make one more increase in the Selic rate in its June meeting in a last attempt to bring the plus 8% inflation rate down “near” the upward target limit (+6.5%).

\(\Rightarrow\) Stay tuned!!!

5.7 – Carlyle Group to invest in Brazilian hospital

On 27th April, the Washington-based private equity firm Carlyle Group announced that it would invest US$ 600 million to acquire an 8.3% stake in Brazil’s largest independent hospital operator -- Rede D’Or São Luiz. The Moll family will continue with the majority stake (reduced 74% \(\Rightarrow\) 68%) and BTG Pactual will continue with a minority stake (reduced 25.6% \(\Rightarrow\) 23.6%).

5.8 – Vale negotiates 50 bulk carriers with Chinese shipbuilders

On 29th April, it was reported that Brazil’s mining giant Vale was negotiating the building/lease of 50 super-large bulk carriers that would move iron ore from Brazil to China. According to “informed sources”, Vale is discussing a 30-year lease arrangement with China Cosco Holdings Co. to build 20 ships, and another ten each with ICBC International Leasing Ltd., Shandong Shipping Corp, and China Merchants Energy Shipping Co.
These 400,000 deadweight-ton ships, known as Valemaxes, will be the largest bulk carriers ever built. Brokers in Singapore state that “the time is right” because – 1) markets are “soft” for both iron ore and bulk carriers; 2) the Baltic Dry Index says that freight for bulk ships are at a 30-year low because of reduced demand for iron ore and coal by China; and 3) Vale will be able to fix rates at US$ 13.00 per ton of iron ore shipped \textit{versus} the current US$ 10.00.

5.9 – HSBC to sell off part of Brazil operations

HSBC has decided to sell off part of its operations in Brazil and has hired Goldman Sachs to broker this operation. It is unclear just how much of HSBC’s Brazil operations would be sold off. HSBC has 21,000 employees in Brazil. Reportedly, Bradesco and Santander are interested in this operation.

HSBC is the seventh largest bank in Brazil with a 2.7% market share and incurred losses of US$ 306.8 million in 2014. This is part of HSBC’s “slimming down” and will reportedly trim its Turkey operations as well.

5.10 – Fiat-Chrysler open Jeep plant in PE

On 28th April, Fiat-Chrysler opened its new Jeep plant in Goiana, PE that will produce SUVs for the Latin American market. Full production would reach 25,000 vehicles per year – \textit{Wrangler} and \textit{Renegade} models and should achieve full production in 2016 and employ 9,000 workers.