Brazil Focus –
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Weekly Report –
May 30-June 05
2015

Looking Ahead ➔ What to watch for?

- 11th June -- IBGE ➔ Industrial Employment in April, % MoM & % YoY
- 12th June -- IBGE Retail sales in April ➔ -0.0% MoM & +0.0% YoY
- 13th June -- Central Bank to release IBC-Br for April ➔ +0.0% MoM & +0.0% YoY
- 15-16 June -- OAS General Assembly to meet in Washington, DC
- 16th June -- IGP-10 ➔ %
- 18th June -- Former President FH Cardoso celebrates 84th birthday
- 18th June -- IBGE to release IPCA-15 ➔ +0.0%, vs. +0.0% in May
- 18th June -- Serasa-Experian ➔ economy 0.0% in April
- 23rd June -- IBGE – Unemployment in May ➔
- 23rd June -- IBGE to release IPCA-15 inflation data ➔ %
- 24th June -- SRF - May federal revenues R$ billion
- 24th June -- Caged data - new jobs created in May
• 27th June -- June IGP-M ➔ % ➔ +% for 12-month period  
• 27th June -- IBGE: April retail sales ➔ +0.%  
• 30th June -- Public Account data for May  
• 30th June -- Pres. Dilma Rousseff to visit Washington  
• 1st July -- Trade balance for June ➔ US$ billion; 1st semester ➔  
• 1-5 July -- FLIP – International Literary Festival in Paraty, RJ  
• 2nd July -- New car sales June, units (% YoY), in 1st semester (% YoY)  
• 2nd July -- IBGE industrial production for May ➔ 0.% MoM; -% YoY  
• 4th July -- US Independence Day [national holiday]

1 - POLITICS

1.1 – FIFA Shakeup

Surprisingly, after being reelected to a fifth term as FIFA-Federation Internationale Football Association President on Friday, 29 May on Tuesday, 2nd June, Joseph Sepp Blatter announced that he would step down and requested that the FIFA Executive Committee organize another election and set the date for same. Apparently, Blatter discovered that the FBI and federal prosecutors in NY are investigating him and his FIFA Vice-President Jérôme Valcke, and that their indictment and Interpol “posting” [arrest warrants] are “imminent”. Valcke has also resigned together with Blatter. A new election favors two possible pre-candidates ➔ Jordanian Prince Ali bin Al-Hussein (who received enough votes on 29th June to force a runoff elections), and the Chief of European Soccer, former French soccer star Michel Platini.

Cartoon by Benett, FSP, 3rd June 2015

The repercussions in Brazil are still “evolving”. The FBI investigation and the “versions” circulating in Brazil have affected the sequence of Presidents of the CBF-Brazilian Soccer Federation ➔ João Havelange (1958-1975), Havelange’s son-in-law, Ricardo Teixeira (1989-2012), José Maria Marin (2012-2015), and Marco Polo Del Nero (2015??). João Havelange was FIFA President (1974-1998). A former watch executive and General-Secretary of the Swiss Ice Hockey Federation, Blatter
joined FIFA in 1975 as its technical director and became a protégé of Havelange and later became FIFA President in 1998.

Blatter’s unceremonious quick exit left many FIFA analysts “perplexed” – what or who brought him down? The answer is found in the efforts of a 71-year-old UK investigative reporter – Andrew Jennings. After taking on and dismantling the IOC-International Olympic Committee corruption/bribe scheme run by a Franco-Fascist Spaniard, Antonio Samaranch, he turned his sights on FIFA and published a 2006 book – Foul! The Secret World of FIFA: Bribes, Vote Rigging and Ticket Scandals. The BBC aired an exposé based on this book on its Panorama program the next year. Then, in 2014, Jennings hit Blatter directly with another book – Omerta: Sepp Blatter’s FIFA Organised Crime Family.

At 6:00 am, on 27th May, Jennings’ phone starting ringing at his London home for his comments on the arrest of seven FIFA bigwigs at Zurich’s most luxurious hotel. See ➔ http://www.washingtonpost.com/news/morning-mix/wp/2015/06/03/how-a-curmudgeonly-old-reporter-exposed-the-fifa-scandal-that-toppled-sepp-blatter/

The Brazilian Federal Police have requested the indictment of Ricardo Teixeira on four counts – money laundering, illegal $$ transfers overseas, falsification (2). He currently resides in Boca Raton, FL – so, unless he “disappears”, he may soon be on an FBI direct arrest list. Apparently, his abrupt departure the CBF presidency in 2012 was just one step ahead of an indictment and he “passed the torch” to Marin.

Marin was among those arrested in Zurich on 27th May, two days before the FIFA “election”. Marco Polo Del Nero was present in Zurich to represent Brazil in that election. However, he decided to fly back to Brazil that same day (27th May). Apparently, he was afraid of also being arrested by Swiss police at the request of NY prosecutors and the FBI – and that he would be “safer” back in Brazil to avoid extradition to the US.

One of the accused by the FBI, Jack Warner, a former FIFA Vice-President and ex-President of Concaaf (until 2011), did an interview on Trinidad-Tobago TV where he said he “feared for his life” and announced that he had given copies of ALL the incriminating documents regarding FIFA corruption, bribes, etc. to several friends. In case of his “untimely” death/murder, they would make same public. Apparently, he will attempt “plea bargaining” with the FBI. See ➔ http://www.theguardian.com/football/2015/jun/04/fifa-crisis-jack-warner-says-he-fears-for-life-and-will-reveal-avalanche-of-secrets

Apparently, two other accused turned states evidence (with the FBI) in 2013 and supplied large amounts of information and documents that assisted in the FBI investigations of FIFA and its corruption links in the Americas and subsequent money laundering through US banks ➔ José Hawilla and Chuck Blazer. See ➔ http://www.theguardian.com/football/2015/jun/04/fifa-informant-chuck-blazer-full-testimony

1.1.1 – Succession at CBF
The movement to force the resignation of Del Nero at CBF president has gained strength – including a formal request by former Brazilian soccer star Ronaldo Fenômeno and similar statements by Tostão (former Brazilian soccer star and member of the 1970 world cup squad) in his newspaper column and reporter Juca Kfouri. In an attempt to “control” the succession process, Del Nero has convoked an extraordinary CBF assembly (of the presidents of the 27 state soccer federations) to meet on 11th June.


The “control” factor will be an attempt by Del Nero to modify the CBF statutes – especially concerning succession rules. Currently, the rule is that the oldest federation president would succeed Del Nero ➔ Delfim Peixoto (age 74), President of the Santa Catarina federation – but he is an enemy of Del Nero. Apparently, Del Nero wants to promote Marcus Vicente, the president of the Espírito Santo federation – who is also a federal deputy (PP-ES). If elected, Vicente would help “derail” the two CPIs in the Chamber and Senate that have been constituted to investigate the CBF.

Other federation presidents preferred by Del Nero are: Gustavo Feijó (AL) and Fernando Sarney (MA).


Want more? Del Nero is being attacked on another flank ➔ the 20 soccer clubs in the “A Division” of the national championship playoffs are organizing a new “Soccer League” that will be disconnected for the CBF. That means that this new “League” will negotiate its own TV/Radio coverage contracts as well as all other commercial sponsorship contracts, thus leaving the corrupt CBF “high and dry”. In an effort to avoid this “exit”, Del Nero has convoked a meeting with the representatives of these soccer clubs for Monday, 8th June.

➔ Stay tuned!!!!

1.2 – Reelection??

After the Chamber of Deputies approved a PEC to revoke Amendment 16 (1997) that permits one immediate reelection for Presidents, Governors and Mayors of larger cities (that now awaits a second round vote in the Chamber and then tow rounds of voting in the Senate), there is a move to resuscitate PEC 101/2003 that, if approved, would permit the reelection of Senate and Chamber presidents during the same legislative period. If approved, this measure would allow the reelection of Dep. Eduardo Cunha (PMDB-RJ) and Sen. Renan Calheiros (PMDB-al) for the 2017-2019 period.

The PMDB Senate floor leader, Sen. Eunício Oliveira (PMDB-CE) said “This proposal is an ‘excruciation’ and would produce a feud”. Detail: Senator Oliveira aspires to be elected Senate President in 2017.

1.3 – Gen. Leônidas Pires Gonçalves dead at 94


In the final report of the National Truth Commission (CNV) in December 2014, Gen. Gonçalves name appeared as “responsible for human rights violations. On several occasions, he spoke out strongly against Pres. Dilma and the CNV.

2 – FOREIGN RELATIONS & TRADE

2.1 – May trade surplus

On Monday, 1st June, MDIC announced that in May Brazil had posted a trade surplus of +US$ 2.761 billion. This surplus was achieved because in May imports (US$ 14.008 billion) were down -26.6% MoM and exports (US$ 16.769 billion) were down by -15.2% MoM. Exports declined less than imports and the difference generated a surplus in May. The decline in imports is in large part due to the retraction of Brazil’s economy.

In the first five months of 2015, exports were US$ 74.7 billion and imports were US$ 77 billion with a deficit of -US$2.305 billion. This was a smaller deficit than that for the same period in 2014 - US$ 4.9 billion. In the January-May 2015 period, Brazil’s main export targets were: China (US$ 13.7 billion), US (US$ 9.7 billion), Argentina (US$ 5.2 billion), The Netherlands (US$ 3.8 billion), and Germany (US$ 2.4 billion). Detail: For the first time in 20 years, Brazil posted a trade deficit in 2014 -US$ 3.93 billion.

2.2 – Brazil ➔ OECD

After refusing many invitations to join the OECD, Brazil is moving closer to full membership in this international organization. On 3rd June, Foreign Minister Mauro Vieira and Finance Minister Joaquim Levy signed a cooperation agreement with the OECD together with its Secretary-General Angel Gurria. In past years, Brazil maintained a certain distance from the OECD because it was considered the “group of rich nations” and that the OECD was always seeking to improve the business climate in Brazil [“doing business”]. Apparently, Dilma 2.0 has decided to reverse this line of thinking.

Counterpoint: In November 2014, the OECD predicted that Brazil’s GDP would expand by +1.5% in 2015 and by another +2.0% in 2016. However, on 3rd June, the OECD revised its predictions to +0.8% in 2015 and +1.1% in 2016. These “new” predictions are more “optimistic” than those of most domestic market analysts as well as other international analysts.
2.3 – Pizzolato extradition

After the Corte de Cassação (Italian Supreme Court) confirmed the decision by the Italian government to extradite Henrique Pizzolato to Brazil, in May his lawyers appealed to the Regional Administrative Court in Lácio. However, on 3rd June, this court denied this appeal and thus a new extradition date should be established. Then, Brazil would have 20 days to transfer Pizzolato to Brazil.

Pizzolato’s Italian lawyers have vowed that they will now appeal to the Italian Council of State. If this appeal is made, two scenarios are possible: 1) The Council of State might suspend the extradition while it deliberates this case, and Pizzolato would remain in Italy; and 2) The Council would accept deliberation of this case, but would not suspend the extradition and set a new audience “in a few months”. This would allow the extradition to take place.

⇒ Stay tuned!!

2.4 – Mercosur “noise”

On 21st May, the new Uruguayan President, Tabaré Vázquez, met with Pres. Dilma Rousseff in Brasília and Mercosur-EU negotiations were on their agenda. Vázquez suggested that Brazil and Uruguay accelerate free trade pact negotiations with the EU and leave Argentina out of these negotiations that would be resolved later. This because this free trade pact has been “in negotiations” since 1995 and has been delayed (some say “derailed”) by Argentina, Brazil and Uruguay are contemplating the finalization of this trade agreement “alone”. On 1st June, Pres. Váquez ordered the immediate removal of Uruguay’s ambassador to the EU, Walter Canela, after he declared that Argentina would automatically be included in these negotiations. Uruguayan Foreign Minister, Rodolfo Nin Novoa declared that “Foreign policy is the exclusive responsibility of the President”.

3 - REFORMS

3.1 – Congress seeks more power over state enterprises?

Yet another example of loss of political power and initiative by Dilma 2.0 to Congress appeared on 1st June. The “PEC da Bengal” already deprived Pres. Dilma of the possibility of appointing any more judges to the STF and higher courts during her second term.

On 1st June, the Presidents of the Senate Renan Calheiros (PMDB-AL) and the Chamber Eduardo Cunha (PMDB-RJ) presented a bill that would severely limit the President’s powers vis-à-vis Brazil state enterprises and mixed economy autarkies. Currently, the President appoints all the presidents and directors plus members of their respective administrative and fiscal councils without Senate confirmation.

If this new legislation is approved by Congress, the Presidents of these organizations would be subject to Senate confirmation and could be removed by a Senate vote ⇒ Petrobras, Eletrobras, Banco
do Brasil, CEF, BNDES, Post Office, etc. Also, “political intervention” by deputies and senators who currently “name” directors of these enterprises would be eliminated because these appointees would be required to demonstrate at least one year of “market experience”. Also, this proposal would oblige these entities to have fiscal councils and auditors to make public their respective expenditures that currently are maintained “secret”. In addition, the proposal would prohibit ministers and third echelon public servants from being members of the administrative councils of these enterprises.

Senate President Renan Calheiros (PMDB-AL) said “This proposal is not against anyone, but the state enterprises need to be submitted to public governance control”. In other words, “impose some order in the chicken house”.

After the losses and massive corruption discovered at Petrobras and Eletrobras due to malefic manipulations by political parties and their appointees, this measure is long overdue.

Pres. Dilma reacted “gaily” vis-à-vis this proposal on Tuesday, 2nd June, saying the all appointments to cabinet ministries, and federal autarkies are the exclusive prerogative of the Executive Branch and that it is necessary to “respect the autonomy and independence of the three powers in Brazil.

The Brazilian “Imperial Presidency” [different from its US counterpart] has tremendous powers that are gradually being eroded in the current situation of a weak President and a newly empowered” Congress. Until now, the President appoints (and sacks) ALL posts in the Executive branch freely with no confirmation by the Senate (except for ambassadors). Her American counterpart has only about 3,000 political appointments to make and more than half must have Senate confirmation.

4 – PRIVATIZATION & REGULATION

4.1 – STA suspends sale of TAP

On Wednesday, 3rd June, the Portuguese STA-Supreme Administrative Court suspended the reprivatization of TAP in accordance with Law 181-a/2015 that authorized this privatization. Two groups are bidding to acquire TAP – DGN Holding (David Neeleman of Azul) and Germán Efromovich (Avianca). However on 4th June, the Portuguese Council of Ministers ignored the STA opinion and announced that the privatization would occur on 11th June.

4.2 – New highway concession model

Brazil is studying modifications in the concession model for federal highways that should stimulate more competition and profit margins. Through 2018, it is estimated that these concessions should yield R$ 11.4 billion. See http://www.gestaosindical.com.br/concessao-rodovia-poderia-render-r-11-bi.aspx

5 - ECONOMICS
5.1 – Petrobras issued 100-year bonds

On 1st June, Petrobras completed an issue of US$ 2.5 billion in 100-year “Century Bonds” in NY with a demand of US$ 13 billion. Deutsche Bank and JP Morgan coordinated this bond issue. The last Petrobras bond issue in NY was in March 2014 – before the Lava Jato investigation imploded Brazil’s petrol giant that currently holds a net debt of R$ 332.457 billion. These bonds have a very high yield – 8.5% -- in part due to the fact that Moody’s down graded Petrobras to “junk bond” status in February 2015 and S&P and Fitch have maintained Petrobras at the lowest possible “investment grade” rank. Reportedly, the new Petrobras financial director, Ivan Monteiro, convinced his colleagues who authorized him to seek US$ 19.1 billion in bond issued in 2015. Most analysts feel that the market in order to improve cash flow.

See ➤ http://www.ft.com/intl/cms/s/0/9d794036-09cd-11e5-a6a8-00144feabdc0.html#axzz3c7y3sBcQ

Want more? On 1st June, the IBGC-Brazilian Institute for Corporate Governance suspended Petrobras’ membership for 12 months. IBGC questions the effectiveness of the measures adopted by Brazil’s petrol giant up to now and that “it is not clear how the firm will handle eventual conflicts of interest with its largest share holder (the Brazilian government).

5.2 – Copom ➔ Selic rate increase

On Wednesday, 3rd June, on a unanimous vote, Copom decided to increase the basic Selic rate by 50 bps, 13.25% ➔ 13.75%, in spite of pleas to ease off on the trend of higher interest rates that has constricted consumer buying in 2015. This was the sixth successive Selic increase since the reelection of Pres. Dilma in October 2014. Thus, the Selic rate is now at the same level (peak) established in January 2009 following the Wall Street blowout in late 2008. This Copom decision was announced in the moment the FX rate and the readjustment of public tariffs are putting heavy pressure on the IPCA inflation index.

The next Copom meeting is scheduled for 28-29 July and there are divergent predictions regarding yet another hike in the Selic rate. Former Central Bank Director and the current Chief Economist at Banco Itaú, Ilan Goldfajn, feels that the Selic rate increases have ended because of the 1st Q/2015 GDP retraction and the negative impact on Brazil’s economy of the high Selic rate. “The GDP contraction in 2nd Q/2015 should be greater than in 1st Q/2015”, affirmed Goldfajn.

On the other hand, André Perfeito, Chief Economist at Gradual Investments, says that the Selic rate should reach 14.5% by the end of 2015 and then Copom should cut the rate down to 11.0% by the end of 2016.

The impact of the Selic rate at 13.75% favors investments in CDBs and investment funds over savings accounts. The interest rates for two-year deposits are now ➔ savings accounts (7.44%), CDBs (9.15%), and DI investment funds (10.63%). Treasury bonds will now yield 11.43%.

Also on 3rd June, the European Central Bank maintained the basic interest rate at 0.05%.

5.3 - Unemployment
On 3rd June, IBGE announced that Brazil's unemployment rate had reached 8.0% in the February-April period. This was the highest rate since 7.98% posted in 1st Q/2013. In the same period in 2014, the rate was 7.1%. This result was lower than the 8.2% forecast by nine economists surveyed by Bloomberg News.

Average wages were down to R$ 1.855,00 for the quarter ending in April 2015, from R$ 1.862,00 in the same period in 2014.

5.4 – IP down by -1.2% MoM in April

On 2nd June, IBGE reported that Industrial Production (IP) had declined by -1.2% MoM and -7.6% YoY in April. This was the worst retraction for that month since -2.7% posted in April 2011. This was the third consecutive month after -1.4% in February and -0.7% in March.

Economists and analysts surveyed by Bloomberg News had worst predictions ➔ -1.4% MoM and -8.1% YoY.

5.5 – Moody’s alert

On 3rd June, Moody’s Investors Service affirmed that the Brazilian government’s debt level is a very key negative factor for the nation’s credit rating. Brazil’s debt/GDP ratio is currently at 62% and Moody’s forecasted that this ratio should increase to 66% in 2016 – in spite of the current austerity effort to reduce expenditures and increase government savings. A sharp economic contraction is reducing tax revenues and making efforts to reduce debt very difficult.

“Brazil’s policy makers are paying for past sins,” said Moody’s Vice-President Mauro Leos – referring to past stimulus policies in Dilma 1.0 that were criticized for tipping the government’s finances out of balance. In addition, Leos said that “There is a lack of policy credibility and the only way to repair it is to state the goal and move towards it”.

Brazil’s debt/GDP ratio is higher than other nations with Moody’s Baa2 credit rating (two notches above “junk bond” status. Moody’s plans a formal visit to Brazil in 3rd Q/2015 to evaluate a possible down grade.


5.6 – Sale of HSBC in Brazil

Reportedly, Banco Itau-Unibanco, Bradesco and Banco Santander Brasil SA have already placed their bids to acquire the Brazilian unit of HSBC Holdings PLC. This process is still in an early stage and thus more bids might be made before the final sale in “early August”. HSBC is Brazil’s seventh largest bank (2.7% market share) and is worth between R$ 10 billion and R$ 14 billion.
5.7 – Government to sell stake in IRB?

Reportedly, the Dilma 2.0 government is contemplating all or part of its 27% stake in IRB-Brazil Reinsurer – Latin America’s largest reinsurance firm via an IPO – according to Bloomberg News. The Banco do Brasil and Itau-Unibanco also hold shares in IRB but it is not clear whether they would participate in this IPO. Apparently, this sale is aimed at reinforcing Brazil’s primary surplus target in 2015.

5.8 – GM cuts production in Brazil

In an interview with Bloomberg News on 3rd June, GM’s regional president Jaime Ardila said that because of 20% decline in auto sales expected in 2015, GM will reduce local production by about 100,000 units (-17%) and furlough some 3,500 workers. “The worst is yet to come . . . I see that we’ll hit bottom in the third quarter . . . In the fourth quarter, things should start to improve”.