
Looking Ahead ➔ What to watch for?

- 22nd Nov. – Second round runoff election (*balotaje*) in Argentina
- 24-25 Nov. -- 195th Meeting (last in 2015) of Copom ➔ Selic rate
- 25th Nov. – Possible auction of 29 hydro electric installations (R$ 11 billion?)
- 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
- 7th Dec. -- IBGE to post IPCA data for November ➔
- 14th Dec. -- Pres. Dilma Rousseff ➔ 68th birthday
- 15-16 Dec. -- Last meeting of the Fed in 2015; should increase basic interest rates
- 21st Dec. -- Mercosur Summit to meet in Asunción, Paraguay
Uruguay to assume next six-month rotating presidency

- **22nd Dec.** -- Deadline for Congress to adjourn
- **25th Dec.** -- Christmas Day [national holiday]
- **30th Dec.** -- Public Account data for November
- **30th Dec.** -- FGV to post December IGP-M
- **31st Dec.** -- Deadline for Congress to approve 2016 detailed budget [LOA]

**1 - POLITICS**

**1.1 – Fiscal Austerity efforts**

In 2015, Congress (Chamber & Senate) approved several items of the so-called *pauta bomba* [measures of an “agenda of fiscal bombs”] that – contrary to the Dilma government’s fiscal austerity efforts – increased rather than reduced expenditures. Pres. Dilma vetoed these measures and now Congress is called on to deliberate her vetoes – maintain or over ride. These votes begin in the Chamber where 257 votes are necessary to over ride. If the Chamber over rides a veto, then the Senate deliberates the measure. If the Chamber is unable to over ride, then the veto is maintained. It takes over ride votes in both houses of Congress to over ride a veto. If the Chamber votes to over ride and the Senate votes to maintain a presidential veto, the veto is maintained.

**1.1.1 – Salary increase for Judiciary**

One of the worst “fiscal bombs” that Pres. Dilma vetoed was the average salary increase of +59.5% for all judicial branch employees. The cost was estimated at R$ 36 billion through 2019. Congress deliberates presidential vetoes separately, first the Chamber and then the Senate (if the Chamber over rides). The vote in the Chamber on 17th November was very close to over ride, 251 to over ride, 132 to maintain the veto and 11 abstaining (129 not voting). The over ride needed 257 (almost). The PT and the Dilma government celebrated this “victory” that actually was a “near defeat” - and showed that Pres. Dilma still suffers for a nearly total lack of “governability”. The Opposition accused Senate President Renan Calheiros (PMDB-AL) who was at the time presiding over the session of calling the vote before a larger quorum was reached – because with six more votes the over ride would have been achieved. The situation of the Dilma government was “complicated” 9 PT deputies and 29 PMDB deputies voted to over ride this veto.

**1.1.2 – Minimum wage indexation for INSS benefits**

On 18th November, Congress continued to deliberate Pres. Dilma’s vetoes. The President’s veto of the bill hat would have applied the increase in the minimum to readjust all brackets of INSS benefits (instead of just the lowest minimum wage benefit) was maintained because the votes of those
deputies trying to over ride her veto mustered only 211 votes (257 needed) and those in favor of maintaining the veto were 160 deputies (142 not voting). Again, the veto was maintained “by default” and not by a majority of pro-government votes. This added expenditure would have totaled R$ 9.2 billion by 2019. In the end, 6 PT deputies and 16 PMDB deputies voted to over ride this veto.

1.1.3 – Campaign contributions by firms

On 18th November, the Chamber deliberated Pres. Dilma’s veto of campaign contributions by businesses (firms). The STF had already declared that these contributions are unconstitutional. In the end, 220 deputies voted to over ride this veto and 190 in favor of maintaining her veto (102 not voting). Most observers wonder how the TSE will inhibit these Caixa Dois [off the books] contributions.

1.1.4 – Printed record for electronic voting

The veto of campaign contributions by firms was not considered a paúta bomba measure nor was the printed record for electronic voting.

Also on 18th November, Congress deliberated this measure. Brazil has been using electronic voting machines exclusively since 2000 (municipal elections) and 2002 (general elections). It was amazing that Congress approved this because electronic voting does not allow any recounts of votes if there is any dispute regarding the results. Historically in Brazil (when paper ballots were used) some election results (especially at the municipal level) were very close – a 20 or 30 vote difference. In these cases usually the “loser” asked for a recount of the paper ballots.

Since the electronic voting machines were introduced in Brazil, many politicians were suspicious that “hackers” could penetrate the system and alter the results. In 2001, Epson developed a printer that could be attached to Brazil’s electronic voting machines so that after casting his/her electronic vote, the voter could visually verify if his/her vote had been correctly registered by the electronic process. This scheme was tested in 150 cities in the 2002 elections – and no discrepancies were revealed.

Recently, the TSE convoked “teams of hackers” from Brazil’s larger universities to attempt to penetrate the electronic voting system to alter the results. Only the “hackers” from the University of Brasilia were able to partially penetrate the system – but unable to alter the results.

In 2015, Congress approved a measure that would oblige the TSE to attach a printer to ALL of Brazil’s electronic voting machines to facilitate the visual verification of each of the 220 million voters. Because this would be expensive, in the name of “fiscal austerity” Pres. Dilma vetoed this measure.

However, on 18th November, Congress succeeded in over riding this veto – 368 deputies and 56 senators. Thus, this mechanism will be used in the October 2016 municipal elections. This mechanism will only guarantee that each voter’s choice of candidates will be consistent with the paper reproduction of his/her vote. BUT this will not solve the problem of possible alterations of the election results after the election has been completed – the penetration/alteration of the results that are totalized by each TRE and the TSE.
On 19th November, TSE President (and STF Judge) Dias Toffoli said that decision was “retro” and that this scheme would not be viable for the 2016 elections and for the 2018 elections would cost an estimated R$ 1.7 billion.

Many wonder how the tendering process will be organized to determine which firm will receive the TSE contract to supply the printers and software necessary for this mechanism.

 ➤ Stay tuned!

1.2 – Tsunami of mud in MG & ES

On 5th November, the Fundão dike that stored the iron ore refining waste from the Samarco mining operation in the município of Mariana, MG was breached (broke open) and destroyed the small locality of Bento Rodrigues and several neighboring localities (Barra Longa & Paracatu de Baixo). This tremendous Tsunami of mud then reached the Rio Doce (the most important river in eastern MG and flowed slowly down river to several important cities – Governador Valadares (MG), Colatina and Linhares (ES). Finally, it was expected to reach the mouth of the Rio Doce and contaminate the coast of the Atlantic Ocean – to the North and to the South.

The Environment Minister, Izabella Teixeira, called this the “worst environmental disaster in Brazil history”. Some critics in the press called the “second worst disaster” – after 1500 (when the Portuguese arrived to colonize Brazil.

On 18th November, the Director-General of DNPM (National Dept. for Mineral Production), Celso Luiz Garcia (linked to the PMDB-MG) resigned – citing “medical reasons”, complete with a doctor’s statement that he had “heart problems”. The DNPM is the federal government agency that is supposed to oversee and monitor all mining activities in Brazil – including the dikes (dams) that secure the reservoirs of residues left over from the refining of iron ore – like the Fundão that burst on 5th November. It was obvious to everyone that these “inspections” had not detected “problems” at the Fundão dike/dam. Samarco has admitted that two or three other dams securing mining residues are “problematic” and are at risk of bursting ➤ Santarém and Germano, for example.

Minister of Mines & Energy Eduardo Braga (PMDB-AM) quickly replaced Garcia with geologist Telton Elber Correa.

DNPM as a federal unit has been “trashed” in recent years. Currently, it has only 800 employees with 200 doing verification and monitoring (only 4 in MG). The ideal numbers should be 3,600 employees and 1,200 in the area of verification/monitoring of mining activities.

The large cities along the Rio Doce – Gov. Valadares, Colatina and Linhares – interrupted their municipal water supply (from the river) and Samarco undertook the drilling of artesian wells to provide an alternate water supply. Still, residents became dependent on bottled water and water tank trucks.

Many volunteers began retrieving species of fish still alive in the river before the mud Tsunami arrived in order to preserve these local species. Other teams began working along the Atlantic coastline to save several species of turtles, crabs and other sea animals from the marshes. Tamar teams dug up
nests of turtle eggs to transport same to safe beach areas. The impact on the economy of Espírito Santo state will be considerable – likewise the areas adjacent to the Rio Doce in MG.

1.2.1 – Sebastião Salgado

The world famous photographer, Sebastião Salgado, was in China when he got word of the Samarco dam-burst disaster. He flew 44 hours back to Brazil to his hometown – Aimorés, MG – along the Rio Doce. Several years ago, Salgado created a foundation to replant (reforest) trees in the region and recover fresh water springs to replenish water in the river’s watershed. He was shocked by what he saw and said – “It will take over R$ 100 billion to repaid all this damage – if the politicians don’t siphon off the resources from such a recovery fund”.

See ➜ http://oglobo.globo.com/brasil/o-rio-agora-uma-calha-esteril-cheia-de-lama-diz-sebastiao-salgado-18098922

1.3 – Lava Jato

One of the main plea bargain witnesses in the Lava Jato investigation - Fernando Baiano Soares was released after one year in prison in Curitiba on 18th November after his prison term was reduced in return for the evidence he provided. He will live in Rio but with an electronic ankle bracelet that monitors his movements.

Regarding José Carlos Bumlai, a cattle farmer turned lobbyist and a very close friend of Lula, Salim Schahin – one of the members of the Grupo Schalin – also participated as a plea bargain witness. Salim affirmed that the group had loaned R$ 12 million to Bumlai kin 2004 but his loan was never repaid. Bumlai countered that had indeed repaid this loan in semen from prize-winning bulls. In 2011, the Banco Schalin was sold to the BMG. Bumlai will testify at the BNDES CPI on 24th November.

However – other plea bargaining witnesses described a much different version of this relationship. This “loan” was first cited by Eduardo Musa, former Petrobras manager, who affirmed that the Grupo Schalin had contributed funds to help retire Lula’s campaign debts in 2006 and in compensation this group received a US$ 1.6 billion contract with Petrobras to operate an offshore drilling platform – negotiated between Fernando Schalin and Nestor Ceveró (Petrobras Director for International Affairs). Fernando Schalin was cited as the intermediary for bribe payments to Bumlai. Fernando Baiano affirmed that he had negotiated a payment for Bumlai of US$ 5 million to guarantee the contract for the Grupo Schalin

1.4 - Zelotes

Federal prosecutors conducting the Operação Zelotes have requested Federal Judge Vallisney Oliveira to break open the bank and fiscal secrecy of Lula’s (and Dilma’s) Secretary-General of the Presidency – Gilberto Carvalho and that of the two firms owned by Lula’s son Luís Claudio Lula da Silva – LFT Marketing Esportivo & Touchdown. These prosecutors are investigating the “purchase” of a 2009 MP that benefitted Brazil’s auto makers via a R$ 32 million payment mobilized by Caoa, Hyundai and Mitsubishi via Mauro Marcondes – the then vice-president of Anfavea.
1.5 – Chamber Ethics Council ➔ Eduardo Cunha

On 16th November, the reporter on the Dep. Eduardo Cunha case, Dep. Fausto Pinato (PRB-SP) anticipated his report to the full Council that was presented on 19th November. Possibly, the Council might vote on Tuesday, 24th November, but some deputies allied with Cunha might ask for vistas (more time to study this case) and thus postpone the Council vote. This week, the “vote counters” predicted that the Council should be evenly divided – 10 deputies pro-Cunha and 10 deputies anti-Cunha. In that case the tie would be broken by the vote of the Council president Dep. José Carlos Araújo.

The Council tried to meet on 19th November so that the report prepared by Dep. Pinato could be presented. Cunha blocked this initiative by convoking a plenary session of the Chamber at 9:00 a.m. and by the internal rules of the Chamber no committees are allowed to meet in conflict with this session. This provoked an open rebellion against Cunha on the floor of the Chamber – led by two women deputies – Luiza Erundina (PSB-SP) and Mara Gabrilli (PSDB-SP).

Cunha’s allies are now trying to remove Pinato as Council reporter because he himself has a case against him at the STF.

1.6 – TSE authorizes new political party ➔ PMB

On 18th November, the TSE officially authorized the creation of Brazil’s 35th political party - the PMB-Partido da Mulher Brasileira. This new party already counts seven federal deputies (ALL men) and the new floor leader is Dep. Domingos Neto (CE) – who was the floor leader of PROS. The founder, creator and President of the PMB is Ms. Suêd Haidar Nogueira

The other six deputies are ➔ Valtenir Pereira (ex-PROS), Weliton Prado & Toninho Wandecheher (ex-PT), Vítor Mendes (ex-PV), Ezequiel Teixeira (ex-SD), and Pastor Franklin (ex-PTdoB).


1.7 – PMDB “national congress”

On Tuesday, 17th November, the PMDB held its “national congress in Brasília – an event organized by its Ulysses Guimarães Foundation to discuss the party’s “economic platform” ➔ “A Bridge to the Future”. PMDB leaders entered the platform together – Senate President Renan Calheiros, Chamber President Eduardo Cunha and Vice-President Michel Temer. The party leadership in the state of =Rio de Janeiro did not appear due to “agenda conflicts”. Several aggressive claqués were present – one group in favor of Dilma’s impeachment, another against Eduardo Cunha and another in favor of “Temer as President”. Only three of the six PMDB cabinet ministers were present.

On major party decision was taken and everyone awaits the PMDB national party convention to be held in March 2016.
2 – FOREIGN RELATIONS & TRADE

2.1 - Terrorist Attack in Paris – three Brazilians injured

A group of ISIS terrorists mounted a well organized series of attacks in Paris on the evening of Friday the 13th of November. Reportedly, 130 persons were killed and 351 injured. This was the worst terrorist attack in France since World War II.

Three men with bombs attached to their bodies exploded [themselves] outside the Stad de France soccer stadium at 21.20 where French President François Hollande was attending a friendly France-Germany soccer match. At 21.25, a restaurant – Le Petit Cambodjé - and a bar - Le Carrillion – were attacked ➔ 15 were killed and 10 injured. Three Brazilians were dining at the Cambodjé near the Saint-Martin canal – an architect, Gabriel Sepe, was shot in the back three times and was in serious condition in a Paris hospital, but survived. A woman, Camila Issa, 29, was grazed by a bullet. Diego Mauro, age 28, received some “scratches”.


At 21:32, another bar – A La Bonne Bière – was attacked ➔ 5 dead and 8 injured. At 21:36, yet another restaurant – La Belle Equipe – was attacked leaving 19 dead and 9 injured. At 21:40, a man exploded his body-bomb in another restaurant – Le Comptoir Voltaire – with one person severely injured.

The worst attack began at 21:40 at the Bataclan – a very popular performance show house where an American rock group was playing that Friday night. Four heavily armed (AK-47s) young ISIS militants appeared and started shooting randomly into the crown of spectators - 89 were killed. Finally, at 0:20 a.m., a French police SWAT team entered the Bataclan and killed the ISIS militants.

2.1.1 – “Brian is in paradise”

This was the message that his sister, Bruna, received via her cell phone that Brian de Mulder (age 22) had died in Syria. Born in Rio, the family moved to Antwerp where Brian got depressed after being “cut” from a training group of a local soccer club, joined a Mosque, converted to Islam and became “radicalized”. He moved to Syria in 2012, married Sara and they had a daughter. His Brazilian mother, Ozana Rodrigues, is very concerned about the fate of her granddaughter in war torn Syria.

Brian’s nickname was *Abu Quasem Brazili* and was featured in the 22nd May 2013 issue of *Time* magazine.


### 3 - REFORMS

Nothing this week.

### 4 – PRIVATIZATION & REGULATION

#### 4.1 – Auction for transmission lines

On 18th November, Aneel conducted an auction for 12 lots of transmission lines but only four received bids. This was considered yet another failure for the electric sector. The four bids were from two consortia (TCL & Firminópolis), Copel (Paraná state owned electric company, and a “new comer” – Planova.

Specialists surveyed by Reuters on 17th November affirmed that there would be “very little” interest in the transmission lines to be offered at this auction because of 1) a scenario of economic recession; 2) very “tight” credit available; and 3) the difficult situation of most firms in this sector (many projects underway and lack of capital).

TCL will construct transmission lines in MG with an annual income of R$ 448.8 million. Copel will build lines in PR and SC with an annual income of R$ 97.9 million. Planova will receive an annual income of R$ 60.5 million. Firminópolis will receive R$ 6.5 million per year for lines in GO.

Because of this “failure”, the Dilma government is contemplating modifications in the rules for the next series of concession auctions that should be more interesting (attractive) for investors.

### 5 - ECONOMICS

#### 5.1 – 3rd Q/2015 GDP “preview”
On 18\textsuperscript{th} November, the Central Bank released its Economic Activity Index (IBC-Br) for September and the third quarter 2015. In general, the IBC-Br is taken as a “preview” of Brazil’s GDP. The IBC-Br for September was -0.50\% MoM and -6.18\% YoY.

Regarding the IBC-Br for the 3\textsuperscript{rd} Q/2015, the retraction was -1.41\% versus 2\textsuperscript{nd} Q/2015 and -5.1\% versus 3\textsuperscript{rd} Q/2014. The Central Bank revised its IBC-Br for 2\textsuperscript{nd} Q/2015 (-2.09\%), for 1\textsuperscript{st} Q/2014 (-1.05\%) and for 4\textsuperscript{th} Q/2014 (-0.50\%). Thus, the 12-month accumulation is now -2.76\% and -3.38\% for the first nine months in 2015. For the full year 2015, most assuredly the IBC-Br will surpass -4.00\% and might approach -5.00\%. This retraction in 2014 and 2015 “wiped out” the modest gains observed in 2011, 2012 and 2013.

The official GDP data for the 3\textsuperscript{rd} Q/2015 should be released by IBGE on 30\textsuperscript{th} November.

5.2 – Federal revenues decline in October

On 18\textsuperscript{th} November, the SRF released data on federal tax collections in November ➔ R$ 103.5 billion (-11.3\% YoY) – the worst October result since 2009. This was the seventh straight month of decline (since April) and October was the worst month after August (-9.32\% YoY). For the first ten months in 2015, tax collections totaled R$1.04 trillion (-4.54\% vs. the same period in 2014).

5.3 – November (two-digit) inflation

On 19\textsuperscript{th} November, IBGE released data for its IPCA-15 that tracked inflation between 14\textsuperscript{th} October and 15\textsuperscript{th} November ➔ +0.85\%. Thus, the 12-month accumulation reached +10.28\%. This was the first time that the IPCA-15 topped 10\% since November 2003 (+12.69\%). In 2015, the IPCA accumulated +9.42\%. The markets are more or less unanimous that by the end of December the full IPCA for 2015 will surely surpass 10.0\%.

Detail: The Central Bank predicts that increased unemployment will drive inflation down.

5.4 – Unemployment in October

Even more bad news. On 19\textsuperscript{th} November, IBGE presented its employment data for October. The unemployment rate was 7.9\% for the six metropolitan regions surveyed versus 7.0\% in October 2014 – this was the highest rate for October since 2007 (8.7\%). In October 2003, unemployment was at 13\%.

The average worker’s salary in October was R$ 2.182, down by -0.6\% MoM.

5.5 – A limit [“cap”] on Brazil’s federal debt?

Senator José Serra (PSDB-SP) has presented a bill that would impose a limit [“cap”] on Brazil’s federal debt at 4.4 times the net federal revenues after a “time-line” of 15 years. On 18\textsuperscript{th} November, Finance Minister Joaquim Levy “spontaneously” appeared at a session of the Senate CAE (Economic Affairs Committee) to lend his support to Serra’s proposal.
5.6 – Requests for “judicial protection” increase

Between January and October 2015, 917 firms sought judicial protection from bankruptcy in order to attempt their economic “recovery”. These requests were up by +41.3% over the 691 requests reported in the same period in 2014. Three factors are cited: 1) decline in sales; 2) increased interest rates; and 3) changes in the FX rate.