Weekly Report
Jan. 26-April 1 2016

Looking Ahead ➔ What to watch for?

- 4th April -- Social Security (INSS) deficit -R$ ___ billion in February
- 4th April -- IBGE to announce February Industrial Production
- 4th April -- New car production in March ➔ _____ units, ___% YoY
- 7th April -- FGV to post IGP-DI for March ➔ +___%
- 8th April -- IBGE to post March IPCA ➔ +___
- 8th April -- IBGE – Industrial employment in February ➔ ___% MoM & ___% YoY
- 8th April -- IBGE-PNAD, December-January-February unemployment ➔ ___%
- 10th April – General elections in Peru
- 13th April -- FGV to post IGP-10 ➔ +___% versus +___% in March
- 15th April -- Central Bank to release its IBC-Br for February ➔ +___%
- 15th April -- IBGE: February retail sales ➔ ___% MoM & ___% YoY
- 15-17 April -- Spring Meetings of IMF and World Bank Group, Washington, DC
- 17th April – Probable date for full Chamber to vote impeachment
• **18**\(^\text{th} \) April -- Labor Ministry: *Caged* data -- ____ jobs lost in March
• **18**\(^\text{th} \) April -- Brazilian-Am. C of C in NYC, 2016 Brazil Summit, Harvard Club
• **18**\(^\text{th} \) April -- IBGE to announce March unemployment ➔
• **18**\(^\text{th} \) April -- Serasa Experian ➔ consumer defaults in 1\(^{\text{st}}\) Q/2016
• **18**\(^\text{th} \) April -- IBGE to release the IPCA-15 ➔ +___%, *versus* +___% in March
• **19**\(^\text{th} \) April -- CNI: February industrial employment ➔ ___ points
• **21**\(^\text{st} \) April -- *Tiradentes* National Holiday [Martyr of Independence]

1 - POLITICS

1.1 – PMDB - “Super Tuesday”

On 24\(^{\text{th}}\) March the PMDB celebrated its 50\(^{\text{th}}\) birthday – founded as the MDB on 24\(^{\text{th}}\) March 1966. No formal celebration ceremony was organized (Holy Thursday). The PMDB is the only political party that can trace its origins back to 1966. With the party “reform” in 1979/1980, this party just added a “P” to the “MDB”. Arena that was also organized in 1966 was transformed into the PDS and several other parties and is not the PP.

Late Monday, 28\(^{\text{th}}\) March, the first PMDB cabinet minister, Henrique Eduardo Alves (PMDB-RN) announced that he would resign his post as Minister of Tourism on 29\(^{\text{th}}\) March and delivered his resignation letter to Pres. Dilma. Apparently, the only PMDB minister who will not resign is Agriculture Minister Kátia Abreu (PMDB-TO) – who is a very close, dear friend of Pres. Dilma. Probably Ms. Abreu will switch parties and continue Agriculture Minister for another 3 or 4 weeks.

On Brazil’s “Super Tuesday,” 29\(^{\text{th}}\) March the PMDB national executive committee met in Brasilia, presided over by the party’s Vice-president Sen. Romero Jucá (PMDB-RR). Jucá proposed that the executive committee decide a complete break with the Dilma government by an “acclamation vote”. Those in favor stood up and raised their hands. There were no dissenting votes and so the motion was passed.

**Domino Effect** – Analysts had been prediction that as soon as the PMDB broke with the Dilma government, a “domino effect” would follow – that other parties would follow the PMDB’s lead and also break off from the government. The day after, 30\(^{\text{th}}\) March, the PP (*Partido Popular*) convened its national executive committee to decide whether to break with the Dilma government. However, the decision was postponed because Pres. Dilma offered the Health Ministry to the PP.

One PMDB leader joked that “If Dilma wants to block her impeachment in the Chamber; she should sign an MP creating 172 cabinet ministries”.

1.2 – Senators attack Judge Sérgio Moro

On 22\(^{\text{nd}}\) March, a group of 14 senators (11 PT and 3 “fellow travelers) filed a request at the CNJ (National Council of Justice) that this external control body open a disciplinary process against Federal Judge Sérgio Moro – because he authorized a wire tap on former President Lula. To PT senators (who
are cited as ready to switch parties) – Walter Pinheiro (BA) and Paulo Paim (RS) did not sign this request. The three “fellow travelers” were: Roberto Requião (PMDB-PR), Telmário Mota (PDT-RR) and Vanessa Grazzziotin (PCdoB-AM). These senators accuse Judge Moro of inciting “subversion of political and social order”. If this action shows the “strength” of the pro-Dilma forces in the Senate, this shows that after the Chamber approves her impeachment on 17th April, the Senate should quickly accept the case for final deliberation.

**Detail:** Judge Sérgio authorized the wire tap on Lula (who is under investigation) but it was the PGR (Rodrigo Janot) who authorized the release of the transcriptions.

**Want more?** The day after (23rd March), Senate President Renan Calheiros (PMDB-AL) endorsed this action by his Senate colleagues. He expressed “concern” regarding the “separation of powers”.

### 1.3 – OAB impeachment request

The OAB [Brazilian Bar Association] submitted its impeachment request at the Chamber of Deputies the afternoon of 28th March. Probably, this document will not be utilized by the Impeachment Committee, but might be considered by the full Chamber prior to its 17th April vote – and most certainly would be taken into consideration by the Senate.

The OAB impeachment request includes other “crimes of responsibility” – such as 1) the attempt to appoint Lula as Chief of the Casa Civil in order to given him foro privilegiado and “save him from prosecution and possible arrest by Federal Judge Sérgio Moro; 2) the accusations in the plea bargaining testimony by Sen. Delcídio do Amaral (ex-PT/MS); and 3) the “fiscal exemption” awarded to FIFA during the 2014 World Soccer Cup.

Chamber President Dep. Eduardo Cunha (PMDB-RJ) affirmed that the OAB was “tardy” if preparing it’s brief in favor or impeachment and that he would not attached the OAB brief to the impeachment process already being deliberated by the Chamber impeachment Committee. **Detail:** In June 1992, the OAB was “up front” on Pres. Collor’s impeachment and delivered one of the first briefs to the Chamber.

### 1.4 – Dep. Eduardo Cunha to resign Chamber presidency?

Reportedly, an “agreement” is being negotiated whereby Dep. Eduardo Cunha (PMDB-RJ) would resign the Presidency of the Chamber of Deputies soon after Vice-President Michel Temer (PMDB-SP) assumes the Presidency of the Republic after Pres. Dilma is impeached (late April) – “mission accomplished”. This “deal” would permit Cunha to avoid being expelled from the Chamber [cassação] and allow him to maintain his mandate as federal deputy. The “excuse” would be that as President, Michel Temer would need to reorganize his majority coalition in Congress. **Detail:** This “deal” would mean that the Chamber Ethics Council would “forget” Cunha’s cassação case AND the STF would “forget” the request by the PGR that Cunha be removed from the Presidency of the Chamber.

Precendent: In 2007, Sen. Renan Calheiros (PMDB-AL) was President of the Senate and was about to be cassado. He worked out a “deal” whereby he resigned the Senate Presidency in order to “save” his mandate as Senator.

1.5 – Impeachment Committee

On 30th March, the Committee heard testimony from two authors of the impeachment request – Miguel Reale Junior and Janaina Paschoal – who reiterated the “crimes of responsibility” committed by Pres. Dilma. The following day, the Committee heard testimony from Finance Minister Nelson Barbosa and tax lawyer UERJ professor Ricardo Lodi Ribeiro explained that no “crime of responsibility” was committed because the supplementary credits decreed by Pres. Dilma were within the 2015 budget law and the “loans” from public banks to “cover” the resulting deficit were “perfectly legal”.

Monday, 4th April, is the deadline for Pres. Dilma’s defense that will be presented to the Committee by the AGU – José Eduardo Cardozo. Then, the reporter has five days to prepare his, Dep. Jovair Dantas (PTB-GO) to prepare his report, and another two days for the 65-deputy Impeachment Committee to vote on this report. If impeachment is recommended by the Committee, the report goes to the full Chamber for a roll call vote, probably on Sunday, 17th April.

This vote will be scheduled for a Sunday, because all Brazil will be watching this roll call vote on a nationwide TV hookup – rather than that day’s soccer matches. The Chamber First Secretary will call out each deputy’s name and he/she will come to the microphone in the front of the Chamber and orally declare his/her vote. In September 1992, when the Chamber voted the impeachment of Pres. Collor, each deputy took some 3 to 4 minutes to declare their vote, invoking family and “my constituents” a rare chance to get 3 to 4 minutes of national TV time. Most deputies feel that this could be very important for their “survival” [reelection in 2018] and are very conscious of what their regional adversaries might say.

If the Chamber approves the Committee’s impeachment report (by a two-thirds majority), it then goes to the Senate to finalize Pres. Dilma’s impeachment (by another 2/3 majority). However, by an absolute majority, the Senate must accept the Chamber’s report to continue the process. Once the Senate accepts the Chamber report (probably on April 25 or 26), Pres. Dilma would be suspended for 180 days and Vice-President Michel Temer (PMDB-SP) would be come interim president. In 1992, the Senate took exactly 90 days to finalize Collor’s impeachment. The week of 18th April will be “short” because Thursday, 21st April is a national holiday [Tiradentes]. If the Senate follows the 1992 “schedule”, its final vote would occur in late August or early September (remembering that congress goes on recess in July).

Estimates ➔ On 31st March, the pro-Impeachment coordination in the Chamber estimated that it already has 346 votes (four above the 342 votes necessary for a 2/3 majority. On the other hand, Pres. Dilma’s office estimates that it has between 130 and 150 votes – less than the necessary 172 necessary to block her impeachment.

1.6 – Pres. Dilma Reacts
The President is fighting “tooth & nail” to avoid impeachment and will go down “shooting”. She is sacking many PMDB appointees in the 2nd & 3rd echelons of her government and is waiting (not too patiently) for the five remaining PMDB cabinet ministers to resign so she can appoint politicians from the mid-sized parties (PR, PP, PSD, etc.) to these posts in a last-minute effort to stop the “domino effect”.

On Thursday, 31st March, O Globo columnist, Ricardo Noblat, reported the current “price” of impeachment ➔ R$ 1 million for a deputy voting against impeachment and R$ 400,000,00 for a “no show” deputy (who is absent or not voting).

Noblat did not detail his sources for this information – so veracity of this report is not able to be confirmed. So far, there are no reports of any “side payments” being offered for pro-impeachment votes.


Pres. Dilma is pressuring center-Right parties (total of 147 deputies) supposedly in her support coalition to vote against her impeachment:

PP – 49 deputies, currently occupies Ministry of National Integration and would receive the Ministry of Health (currently occupied by the PMDB).

PR – 40 deputies, currently occupies Transportation Ministry and would receive the Ministry of Mines & Energy (currently occupied by the PMDB).

PSD – 31 deputies, currently occupies the Ministry for the Cities.

PTN – 13 deputies, currently occupies the presidency of Funasa.

PROS, PHS, PEN, PTdoB & PSL – 14 deputies, currently do not occupy any 1st or 2nd echelon positions.

1.7 – Pro-Dilma & pro-Lula street mobilizations

On 31st March – by coincidence the 52nd anniversary of the military coup that ousted Pres. João Goulart in 1964, the PT, PCdoB, CUT, MST, MTST and other social movements mobilized street demonstrations in some 75 cities in all 27 states in favor of Pres. Dilma and Lula – against the impeachment process – “Não vai ter golpe” [There will be no golpe]. However, although the 31st March mobilization included more cities than in the 18th March pro-Dilma mobilization, the state police in the 27 states estimated that there were less participants – 275,000 on 18th March versus 295,000 on 31st March.

1.8 – Lava Jato
On 31st March, the Federal Police (part of the Lava Jato task force requested the indictment of Sen. Gleisi Hoffmann (PT-PR) and her husband Paulo Bernardo. This indictment alleges that she received R$ 1 million from Petrobras kickback/bribe/corruption scheme to help finance her (successful) campaign for the Senate in 2010. This is based on plea bargaining testimony by money changer Alberto Yousseff and former Petrobras Director Paulo Roberto Costa. Reportedly, this scheme was intermediated by Paulo Bernardo and Antonio Palocci.

**Operation Carbono 14** – On 1st April (not an April Fools’ Day joke) the Federal Police launcher the 27th phase of the Lava Jato investigations and carried out 12 warrants – 8 “search-and-seize”, 2 arrest warrants and 2 “coercive testimony”. Prison warrants for journalist Ronan Maria Pinto (owned of the Diário do Grande ABC and Silvio Pereira (former PT national treasurer). The “coercive testimony” warrants were issued for another former PT national treasurer Delúbio Soares and the editorial director of the internet site Opera Mundi.

Delúbio Soares was sentenced to 6 years and 8 months in prison by the STF in connection with his participation in the Mensalão scheme, but in September 2015 this prison term was converted to “house arrest”.

In January 2016, lobbyist Fernando Antonio Guimarães Hourneaux de Moura testified to the Lava Jato task force that Silvio Pereira had received R$ 500,000,00 in cash to guarantee his silence regarding the irregularities of two construction firms under investigation – OAS and UTC.

In October 2014, money changer Alberto Yousseff testified that Breno Altman was involved in an operation to buy off a “blackmailer” who could provide new information regarding the murder of then Santo André Mayor Celso Daniel (PT) in January 2002.

In his Lava Jato testimony, José Carlos Bumai affirmed that half of the false R$ 12 million loan he received from the Banco Schahin was used to “pay off” Ronan Maria Pinto so that he would not reveal new information regarding the murder of Celso Daniel. In addition to his ownership of the above cited newspaper, Ronan Pinto owned the Expresso Nova Santo André (a large urban bus company that was obliged to pay bribes to the PT in order to maintain its contract. Also, in 2012, the operator of the Mensalão, Marco Valério Fernandes de Souza testified that there was a political operation in 2002 to buy the silence of Ronan Pinto regarding the “irregularities” in Santo André.

**Detail:** At the time of his murder, Celso Daniel was the national coordinator of Lula’s 2002 presidential election campaign, and revelations about the “irregularities” in Santo André might have had a negative impact on Lula’s campaign.

⇒ Stay tuned!! This case could become very “rough”.

José Dirceu is imprisoned at the Medical Complex prison in Pinhais, PR and his lawyers have petitioned Judge Sérgio Moro to allow him to undergo exams at a private hospital in Curitiba – because he is “old” (age 70), suffers from high blood pressure and suffers constant headaches.
André Vargas – Former federal deputy from Paraná, Vargas was involved in the Lava Jato investigation in April 2014. Until then, he was the PT National Secretary for Communications and Vice-President of the Chamber of Deputies. He resigned the Communications post, and the Chamber Vice-Presidency – but that was not enough to prevent his cassação in December 2014. He was indicted, prosecuted, convicted and sentenced by Lava Jato Judge Sérgio Moro to a prison term on 14 years and 4 months. Reportedly, in early March, he instructed his lawyers to begin negotiations to permit his plea bargaining testimony in order to reduce his prison term. ➔ Stay tuned!!!

1.9 - Zelotes

On 30th March, federal prosecutors denounced Joseph Safra (owner of the Banco Safra) and José Ignácio Puga (ex-Safra Director) of offering R$ 15.3 million to CARF employees to avoid a judgment of R$ 1.8 billion against the Banco Safra regarding “tax evasion”.

2 – FOREIGN RELATIONS & TRADE

2.1 – March Trade Surplus

On Friday afternoon, 1st April, MDIC released data on Brazil’s trade results for March 2016 ➔ a large surplus of US$ 4.435 billion – the largest surplus for March since this data series began in 1989. The main explanation for this positive result was a strong decline (-30% YoY) in imports US$ 11.559 billion. Exports were also down (-5.8% YoY) to US$ 15.994 billion.

In 1st Q/2016, Brazil posted a trade surplus of +US$ 8.398 billion versus US$ 5.549 billion in 1st Q/2015. This was the best first quarter result since US 8.7 billion was posted in 2007.

2.2 – Israel desists re ambassador appointment

After several months of dispute, where Brazil refused to accept a notorious defender of Israeli “colonies” on the West Bank – Danny Dayan – Israeli PM Benjamin Netanyahu decided to appoint Dayan as consul-general in New York. Dyan was born in Argentina but immigrated to Israel when he was 15. Following his new appointment, Dayan said “Those who did not want us in Brasília got us in New York, the capital of the world”.


2.3 – Nuclear Security Summit

On 31st March and 1st April, the Nuclear Security Summit convened in Washington, DC. Brazil’s President Dilma Rousseff was scheduled to participate but at the last moment she canceled this trip so as not to allow her Vice-President Michel Temer (PMDB-SP) assume the presidency for three days – after the PMDB decided to leave her government coalition on 29th March. Instead, Brazil will be represented by Foreign Minister Mauro Vieira – 53 nations participated in this event
3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – February Public Accounts

Primary Deficit – In February, Brazil posted the worst monthly primary deficit since February 2002 \( \Rightarrow \) -R$ 23 billion versus a primary surplus of +R$ 27.9 billion in January.

Nominal Deficit – Including interest payments, the nominal deficit in February was -R$ 52.82 billion.

Current Account – On 23rd March, the Central Bank data showed that the Current Account “gap” [deficit] had been reduced from US$4.817 billion in January to US$ 1.919 billion in February. This February result was higher than the US$ 200 million “gap” predicted by 19 analysts surveyed by Reuters. The 12-month accumulated current account deficit is now at 2.67% of GDP, down from 2.94% of GDP in January. The Central Bank now predicts that the Current Account deficit in 2016 will be “very small” \( \Rightarrow \) US$ 25 billion versus US$ 58.9 billion in 2015 and US$ 104.2 billion in 2014.

FDI in February posted US$ 5.9 billion – more than enough to cover the current account deficit.

Foreign Debt – The Central Bank estimated Brazil’s foreign debt at US$ 330.687 billion in February.

Tourist Spending down \( \Rightarrow \) In January-February, Brazilian tourists spent US$ 1.7 billion overseas (55% YoY) – the lowest result for this period since 2009. In January-February 2015, the FX dollar rate was R$2,70 versus R$ 3,94 in January-February 2016.

Public Debt \( \Rightarrow \) Up by 2.53% MoM in February to R$ r.819 trillion. The STN estimates that the public debt will reach R$ 3.3 trillion in 2016.

Interest Payments on the public debt nearly doubled in one year to R$ 540 billion in the 12-month period ending in January 2016 – the equivalent of 9.1% of GDP. Compared with other emerging markets this % of GDP is very high \( \Rightarrow \) India (4.4%), Colombia (2.7%), Mexico (2.3%), South Africa (3.1%), and Chile (0.6%).
5.2 – 2016 GDP

The 28th March edition of the Central Bank’s bulletin – Focus – revealed the results of its survey of financial institutions ➔ the projection of the retraction of Brazil’s GDP in 2016 increased -3.60% to -3.66% - in one week. Remember: In 2015, Brazil’s GDP retracted -3.78%. Finance Minister Nelson Barbosa no predicts a retraction of -3.1% in 2016.

5.3 – Factories closed in SP

According to the SP Chamber of Commerce, in 2015 4,451 industries [factories] closed in the State of SP ➔ +24% YoY versus 3,584 factories closed in 2014. Last week, in Guarulhos, SP, three large factories closed production ➔ Eaton, Maxion and Randon.

5.4 – March Inflation

On 31st March, the FGV released data for its IGP-M for the month of March. This inflation index used for rental contracts declined +1.29%➔0.51%. The 12-month accumulation is still double digit at +11.56%

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<tr>
<th>IGP-M Components</th>
<th>Feb.</th>
<th>March</th>
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<tbody>
<tr>
<td>IPA – Producer Prices</td>
<td>+1.45%</td>
<td>+0.44%</td>
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<tr>
<td>IPC – Consumer Prices</td>
<td>+1.19%</td>
<td>+0.58%</td>
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<tr>
<td>INCC – Construction Costs</td>
<td>+0.52%</td>
<td>+0.79%</td>
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<tr>
<td><strong>IGP-M</strong></td>
<td><strong>+1.29%</strong></td>
<td><strong>+0.51%</strong></td>
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5.5 – Political Crisis ➔ Economic indicators

With the possibility of Pres. Dilma’s impeachment increasing, in March the markets reacted ➔ Bovespa (stock market index) was up 17% (the largest monthly increase since October 2002), and the FX rate for the US dollar was down by 10.25% (the largest decline since April 2003).

5.6 – February Unemployment

On 28th March, IBGE released its PME (monthly unemployment survey for Brazil’s six metropolitan regions ➔ 8.2% up +0.6 p.p. vs. January 2016 and +2.4 p.p. YoY. The SP metro region posted an increase of 8.1%➔9.3% MoM but the results were considered “stable” in the other five metro regions.

5.7 – February Industrial Production
On 1st April, IBGE released the industrial production data for February ➔ yet another decline of -2.5% MoM and -9.8% YoY. This was the 24th consecutive decline in IP. The only sectors with positive results in February were – tobacco, paper and cellulose, pharmaceuticals, food, and petroleum.

5.8 – Petrobras – China counterpart

In April 2015, Petrobras obtained a Chinese loan of US$ 3.5 billion. **BUT** – disbursements of these funds have been conditioned by the purchase of Chinese equipment and services by Petrobras – up to 60% of the loan, to the detriment of local suppliers.