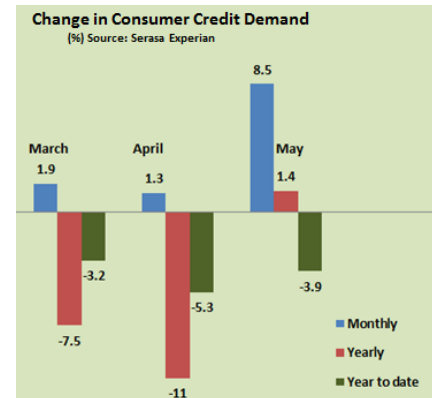


The Week in Review

On The Economic Front

Credit Demand

According to consumer credit-rating firm Serasa Experian, the number of consumers seeking credit jumped 8.5% in May compared to April (see graph). On a yearly basis, following a deep decline in April, the consumer credit indicator also rose 1.4% in May. However, due to increased inflation, higher interest rates, and lower consumer confidence, on a year to date basis, credit demand dropped 3.9% in May.



Focus Growth Projections

Leading financial institutions surveyed weekly by the Central Bank cut growth projections for 2014 and 2015. According to the [Focus Bulletin](#), GDP is expected to grow 1.44% this year and 1.80% in 2015, compared to the previous survey of 1.50% and 1.85%, respectively. The current projections are the lowest since the bank started publishing Focus. Estimates for interest rates remained unchanged at 11.0% for December 2014.

Deflation Preview

According to well respected Brazilian think tank *Fundação Getúlio Vargas* (FGV), a preview of the General Price Index (IGP-M) indicator for early June fell to minus 0.64 percent, amid a sharp drop in wholesale prices and consumer inflation slowdown. IGP-M amounted to 0.06 percent in May. If confirmed, the trend could signal a further decline in economic activity. IGP-M is used as a reference to adjust rental contract prices.

On The Political Front

World Cup

Following a problematic preparatory process marked by construction delays, ballooning public spending in the 12 arenas and a series of mass protests and civil servant strikes, the FIFA World Cup kicked off on Thursday, June 12th. Brazil defeated Croatia by 3 to 1 in the opening match held at the Corinthians Arena in São Paulo. The opening ceremony counted with heavy security and ended without incidents. In major cities such São Paulo and Rio de Janeiro, police and military troops took to the streets and clashed with demonstrators who protested against the Cup. Several protesters and journalists were slightly injured.

On Tuesday evening, in a televised address, President Dilma Rousseff addressed the nation to defend the organization around the World Cup and US\$ 11 billion cost and also to encourage Brazilians to welcome foreign soccer fans during the tournament. Quote: "The naysayers said that it (the Cup) would not happen because we would not have Cup stadiums. The stadiums are there, ready", she said, adding that while the Cup lasts one month, infrastructure benefits, such as new airports and urban mobility improvements, will remain.



The USG at the Cup

Vice President Joseph R. Biden will attend the U.S. team's first match against Ghana on June 16th in Natal. On June 17th, he will meet President Rousseff in Brasília. The U.S. Presidential Delegation to the opening of the Cup was led by **Daniel H. Pfeiffer**, Senior Advisor to President Barack Obama. The members of the delegation include **Liliana Ayalde**, the U.S. Ambassador to Brazil, **Michelle Akers**, retired member of the U.S women's soccer team, and **Gabrielle Reece**, former beach volleyball world champion.

According to the World Cup table, the odds for a Brazil-U.S. match are low. A game between the two teams would happen in the following scenarios in the second phase of the tournament onward:

1. For the final match in the Rio de Janeiro Arena (Maracanã stadium) on July 13th, if Brazil finishes in first place in Group A and the US finishes in second place in Group G. Both teams could also play the final match if the U.S. finishes in first place in Group G and Brazil in second place in Group A;
2. A semi-final match on July 8th if Brazil finishes in first place in Group A and the U.S. finishes in first place in Group G;
3. A semi-final match on July 9th if both Brazil and the U.S. teams finish in second place in their respective groups.

Pew Research Center Survey

According to a new survey by the Pew Research Center, conducted in 37 countries in total, a median of 54% of Brazilian citizens polled have a favorable view of Brazil. Meanwhile, 76% of Brazilians say their country should be more respected around the world than it currently is. Brazil gets especially high ratings among young people in many nations around the world. However, Brazil receives low marks in some major Middle Eastern nations. In the U.S., about half (51%) hold a positive view of Brazil, with around a quarter (26%) seeing the country negatively, and the remainder offering no opinion.

Campaign Trail / Party Conventions

Two major parties – PMDB and PSDB – hold conventions this week. On Tuesday, PMDB renewed its alliance with the Labor Party (PT) in Brasília, as 398 (59%) of PMDB's delegates voted for the ticket with **President Dilma Rousseff** as the presidential candidate and PMDB's president, **Vice President Michel Temer**, as the vice presidential candidate. In the 2010 convention, the same ticket was approved by 85% of the party delegates. Quote: "This convention does not have winners and losers. It has a big winner, which is the PMDB," said Temer following the vote counting. "Over time, we have always had the most varied differences democratically within the party and have always achieved unity." Earlier, during the PDT convention, a party that also integrates the alliance, President Rousseff accused her opponents of "squishy opportunism" for criticizing federal programs such as *Bolsa Família* (monthly cash transfers to poor households).

The main opposition party PSDB will hold its convention on Saturday, June 14th in São Paulo, when it will confirm **Senator Aécio Neves (MG)** as its presidential candidate. Neves has indicated that he will not announce his running mate in the convention. PSDB has signaled that Neves' running mate could be Senator Aloysio Nunes Ferreira (PSDB/SP) or the former party's President Tasso Jereissati (CE). On Tuesday, during the Minas Gerais State Party convention, Neves wished President Rousseff a "good retirement for the next four years". Quote: "What we have on our hands is a real opportunity to end this vicious cycle of government that brings unhappiness to the Brazilian nation," he said.

Meanwhile, former Pernambuco State governor **Eduardo Campos** (PSB), whose party will hold its convention on June 28th and 29th, attended a meeting with executives at the American Chamber of Commerce in Brazil (Amcham-Brazil) in São Paulo on Tuesday, where he criticized the Rousseff Administration's trade policy. Quote: "We cannot be tied up to the old institutional framework of the 20th Century, such as Mercosur," he said, adding that "Brazil needs to advance urgently on two points: economic productivity and the quality of life."

BRASÍLIA
SAF Sul Quadra 02, Lote 04.
Edifício Via Esplanada
Salas 103 a 106

CEP 70070-600
Fone: (61) 3327-2606
Fax: (61) 3327-1619

SÃO PAULO
Rua Olimpíadas, 134, 5º andar, Cj 52.
Condomínio Alpha Tower
Vila Olímpia

CEP 04551-000
Fone: (11) 3079-4533
Fax: (11) 3079-2202

WASHINGTON, DC
1101 17th St.
NW Suite 1010

Phone: (202) 822-6420
Fax: (202) 822-6423
www.patn.com.br
relgov@patn.com.br



Car Wash Operation

On Wednesday, former director of Petrobras Paulo Roberto Costa was once again taken into custody due to a decision issued by Federal Judge Sergio Moro at the 13th Federal Criminal Court of Curitiba, based on new evidence brought by the Federal Police, that the former head of the state-owned oil company has millions of dollars in offshore accounts. On Tuesday, the Federal Supreme Court (STF) decided to remit to the Paraná State Justice all criminal cases related to the Car Wash Operation (*Operação Lava Jato*), which led the Federal Police to charge 46 people, including money changer Alberto Youssef and Paulo Roberto Costa, of financial crimes including money laundering and illegal money exchange. Costa and Yousseff are charged with operating the alleged US\$ 4.5 billion scheme, along with construction companies contracted by Petrobras and politicians. The STF ruling signals that the Federal Police investigations will resume expeditiously.

BRICS Summit

According to the Ministry of Foreign Affairs, leaders of the BRICS (Brazil, Russia, India, China, and South Africa) will sign off on the creation of a new Development Bank for infrastructure and other sustainable development projects at their next meeting to be held in Fortaleza on July 7th. The bank will operate as a corporation with an initial capital investment of US\$ 50 billion, 20% of which will be paid-in capital contributed by the five members. It is expected eventually to grow to an authorized capital base of US \$ 100 billion. The bank will be headquartered in one of four cities: Shanghai, Johannesburg, Moscow and New Delhi. New members from both developed and developing countries may be allowed to join in the future.

Congress

As anticipated, the pace of work in Congress has already slowed for the week of the Soccer World Cup kickoff. The Senate decided not to hold votes during the tournament, which runs from June 12 to July 13, and the House will have no deliberative sessions, which are intended for voting on projects with a minimum number of representatives required. Right after the conclusion of the Soccer World Cup, a parliamentary break begins from July 18th to July 31st. However, as the Senate reconvenes, deliberations will happen during only one week per month under a concentrated effort to vote on what most Senators consider priority bills.

Task Forces

Tax and Investment

Fiscal War: The National Council on Fiscal Policy (CONFAZ), which convenes the finance secretaries from the 26 states and the federal finance district, decided on Tuesday that a group will be established to develop a final proposal for draft bill (PLS) 130/14, which addresses the BRL\$ 55 billion in tax incentives granted yearly by the states, by their next meeting scheduled for June 25th.

Brazil and Argentina's Auto Deal: On Wednesday, Brazil and Argentina signed a one-year deal with Brazil to regulate vehicle trade between both countries. The deal was closed during a meeting held between Argentinian Industry Minister Débora Giorgi and her Brazilian counterpart, Mauro Borges. The pact will allow Brazil to export \$150 worth of cars for each \$100 in autos it imports from Argentina, without paying tariffs.

BRASÍLIA
SAF Sul Quadra 02, Lote 04,
Edifício Via Esplanada
Salas 103 a 106

CEP 70070-600
Fone: (61) 3327-2606
Fax: (61) 3327-1619

SÃO PAULO
Rua Olimpíadas, 134, 5º andar, Cj 52.
Condomínio Alpha Tower
Vila Olímpia

CEP 04551-000
Fone: (11) 3079-4533
Fax: (11) 3079-2202

WASHINGTON, DC
1101 17th St.
NW Suite 1010

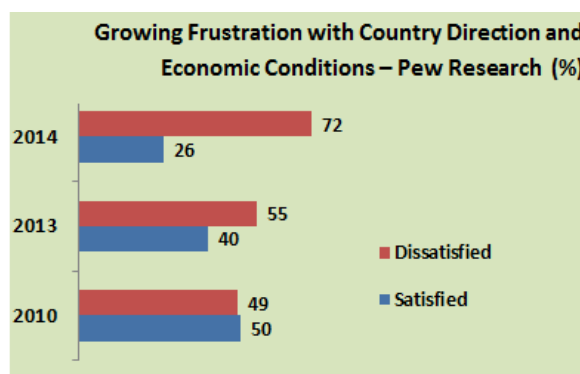
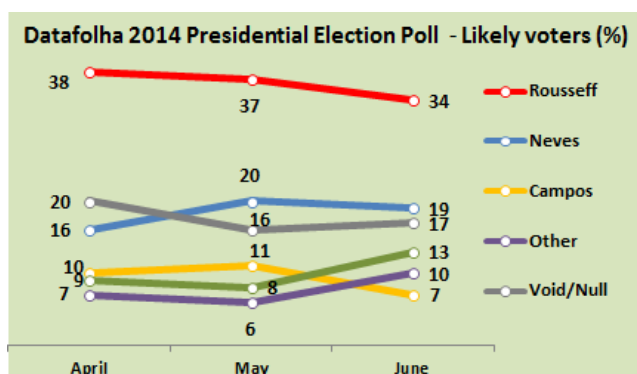
Phone: (202) 822-6420
Fax: (202) 822-6423
www.patni.com.br
relgov@patni.com.br



The Pulse

Besides President Rousseff's loss of support in the presidential race, the latest Datafolha poll indicates that 30% of voters do not support any candidate. A growing sense of frustration is also seen in a recent Pew survey, as most Brazilians are unhappy with the combination of high inflation, poor public services, and corruption

The latest Datafolha released on June 6th confirms the trend already shown by previous polls of likely voters: President Dilma Rousseff is losing support. According to Datafolha, the percentage intending to vote for President Rousseff declined from 37% to 34% since May. However, her two main contenders, Senator Aécio Neves (PSDB/MG) and former Pernambuco state governor Eduardo Campos (PSB), have not seen a sustained increase in voter preferences (see graph). The percentage rate supporting Aécio (PSDB/MG) oscillated between 20% to 19%, while the percentage rate for former Pernambuco state governor Eduardo Campos (PSB/PE) decreased from 11% to 7%. Importantly, 17% of voters indicated that they would cast blank ballots, and 13% have yet to decide, so that fully 30% of the electorate currently does not support any candidate. The number of voters who are either undecided or intend to void their ballots is at a historically high record. This creates an odd situation: if there is a huge number of voters who do not go to the polls or vote blank or null, President Rousseff may secure more than half of the valid votes and win reelection in the first round. But if there is a runoff, more likely now, the second round will be very tight. The Datafolha poll margin of error is plus or minus 2%.



Brazilian frustration is fueled by an increasing perception that the country is moving in the wrong direction, as indicated in a Pew Research survey also released last week. Dissatisfaction with the national outlook is on the rise, with 72% expressing a negative opinion on the way things are going in the country and just 26% saying they are satisfied. According to Pew, opinions were somewhat less lopsided a year ago, when a narrow majority of Brazilians (55%) were dissatisfied and 44% were satisfied with national conditions. The dissatisfaction reaches all types of government, at the federal, state and local levels.

The public approval ratings of President Rousseff's Administration have also been dropping since the June 2013 street demonstrations. According to Datafolha, the Administration is considered good or very good by 33%, down from 35% in May and 41% in February. Despite unemployment near a record low and increasing welfare program spending, Brazilians are concerned about high inflation and substandard public services, notably health care, public security, and public schools. "The weak economic performance, especially in industry, feeds the fear and raises questions about the future of employment, inflation, and the country's real economic conditions," says Datafolha pollster Mauro Paulino, adding that "pessimism now is at a record high among important sectors of public opinion, especially in major cities."

BRASÍLIA
SAF Sul Quadra 02, Lote 04,
Edifício Via Esplanada
Salas 103 a 106

CEP 70070-600
Fone: (61) 3327-2606
Fax: (61) 3327-1619

SÃO PAULO
Rua Olimpiadas, 134, 5º andar, Cj 52.
Condomínio Alpha Tower
Vila Olímpia

CEP 04551-000
Fone: (11) 3079-4533
Fax: (11) 3079-2202

WASHINGTON, DC
1101 17th St.
NW Suite 1010

Phone: (202) 822-6420
Fax: (202) 822-6423
www.patni.com.br
relgov@patni.com.br

