

# NEWSLETTER

February & March 2019

## February 22, 2019

### Gerdau doubles 2019 investment to R\$2.2bn

Gerdau announced a R\$7.1 billion investment for the 2019-2021 period. The steelmaker's chief executive, Gustavo Werneck, said disbursements for this year are estimated at R\$2.21 billion, almost doubling the R\$1.2 billion invested in 2018. The investments will be spent on general maintenance and technology, mainly in Brazil and in the US. The company will also invest R\$300 million to completely decommission its Alemães dam, in Ouro Preto, Minas Gerais, and implement a dry-stacking solution for the tailings from iron-ore extraction.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

## February 25, 2019

### “New world” benefits emerging markets

A new international outlook is taking shape now, and it seems to favor emerging markets structurally, say José Júlio Senna and Armando Castelar, researchers with think tank Ibre/FGV. The economists argue that reforming the pension system is the best possible way of unlocking growth, but it's not enough. During a debate sponsored last week by Valor, they pointed out that a “new world” where developed economies grow less and have lower equilibrium interest rates without inflationary pressures is consolidating, and such trends end up benefiting emerging markets by keeping overall rates low.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

## February 26, 2019

### Vamos files for IPO; IRB offering to be priced

Truck and machine leasing company Vamos plans to launch an initial public offering (IPO), Valor has learned. It wants to conduct both primary and secondary offerings totaling R\$1.5 billion in shares by April. Banco Votorantim also continued preparing for its

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IPO, organizing a bank pool for what is initially expected to be a secondary offering. Meanwhile, reinsurer IRB is poised to set the price of its secondary offering this Tuesday. Demand is already double the offering volume, says an executive involved in the transaction.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**February 27, 2019**

### **Brazilian economy may need stimulus, Bradesco chief economist says**

If the Brazilian economy does not show a reaction in the coming months, the situation may require more stimulus, as an additional interest-rate cut, says Bradesco's chief economist Fernando Honorato, pointing out expanding public spending is difficult now because of the ceiling. Although the primary deficit is large, public spending is no longer growing in relation to GDP. "This does not generate inflationary pressure, the external deficit is low and there is, therefore, a combination of more austere fiscal policy and loose monetary policy." Mr. Honorato draws a parallel between Brazil and what happened with the US and Europe after the 2008 recession.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**February 28, 2019**

### **Brazil requests one year to fit industrial policies into WTO rules**

Brazil wants one year to adjust five industrial policy programs, including the Information Technology Law, which have been condemned by the World Trade Organization. The European Union and Japan, which filed the complaint against Brazil with the WTO, insist that the Brazilian government implement the judges' decision as soon as possible. The countries involved in the dispute told WTO they continue to negotiate a deadline after failing to reach an agreement within the 45-day period determined by the WTO rules. Automotive industry program Inovar-Auto, PATVD (tax breaks for digital TV), and the digital inclusion program were among the policies condemned by the WTO, but are no longer in force.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**February 28, 2019**

### **Government already under pressure to change pension reform bill**

The government already admits making changes to the constitutional amendment reforming the pension system it proposed last week to Congress, amid widespread dissatisfaction among party leaders with the government's unwillingness to dialogue, which would also include appointing people to state offices. Two points in particular are likely to be changed in the original text: the one that reduces the amount of the Continuous Cash Benefit (BPC), aimed at low-income elderly and disabled people; and the one that alters rules for rural retirement. Elmar Nascimento, leader of the DEM, party of Chief of Staff Onyx Lorenzoni, advocated "the total removal" of these two points. "We are not stuck with the government text, even because we have not been heard."

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**Source:** Valor Econômico S. A.  
<http://www.valor.com.br/international>

**March 01, 2019**  
**Potential coalition members cautiously support pension bill**

EDP Brasil plans to invest R\$2.9 billion in Brazil this year, more than twice the disbursements of 2018, company president Miguel Setas said. About R\$2 billion will go toward building four transmission lines. The first transmission asset it won in October 2016 was already completed 20 months early and at 92% of the expected cost. The next project on the pipeline is a 485km line in Santa Catarina whose financing came through tax-exempt infrastructure bonds.

**Source:** Valor Econômico S. A.  
<http://www.valor.com.br/international>

**March 06, 2019**  
**Officials again at odds over changing pension reform**

The Bolsonaro administration is seeing a lot of conflicting statements when it comes to congressional relations. Chief of Staff Onyx Lorenzoni admitted Tuesday that Congress would change the pension reform after Vice President Hamilton Mourão had said on Friday the proposal lacked any points the president would be willing to concede. But during a breakfast with reporters earlier last week, President Jair Bolsonaro himself also admitted there would be some “fat” to burn in the bill and cited the minimum retirement age of women, which could change from the proposed 62 years to 60 years.

**Source:** Valor Econômico S. A.  
<http://www.valor.com.br/international>

**March 07, 2019**  
**Carf chief says tax-appeal body is working more quickly**

Following a recent proposal from federal tax auditors to end the Administrative Council of Tax Appeals (Carf), the body has started divulging several numbers and indices proving its efficiency. While admitting cases should move faster, Carf President Adriana Gomes Rêgo claims the body still helps lower the legal caseload between the federal government and delinquent taxpayers. “Of course we are open to debate, but the [Economy] ministry has the final word” on keeping Carf or not, she says. The council ended last year with a backlog of R\$584 billion in tax liens. The average case processing time is three and a half years, and Ms. Rêgo admits it could fall to an average of six months to one year.

**Source:** Valor Econômico S. A.  
<http://www.valor.com.br/international>

**March 07, 2019**  
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The average profit margin of Brazilian exports rose 12.3% last year from 2017 after two years of decline. The stronger dollar provided the biggest contribution to this margin. Nevertheless, analysts don't expect the growth of 2018 to repeat this year. José Augusto de Castro, president of the Brazilian Foreign Trade Association (AEB), says it's an important recovery but still linked to broader factors and the weakening Brazilian currency, instead of being planned gains from some export policy. While pointing out likely currency volatility from the US-China trade war as one risk, and passing the pension reform as potential upside for the Brazilian currency, Mr. Castro says that from now on the dollar's exchange rate is expected to stay stable, deflating any hopes to repeat the performance of export margins this year.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

### **March 08, 2019** **Government working on “deep reforms” to avoid another Brumadinho**

The Brazilian government is preparing a “deep reform” of current legislation to avoid social and environmental tragedies similar to those of Mariana and Brumadinho, said Mines and Energy Minister Bento Albuquerque. The changes include revamping the mining code and enhancing the regulatory powers of ANM. He was speaking to US officials, scholars and investors at Washington's Woodrow Wilson International Center for Scholars on Thursday. Mr. Albuquerque also said that capitalizing state-owned giant Eletrobras is among the administration's priorities and probably will involve some form of "golden share" structure.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

### **March 11, 2019** **Economic team preparing measures to help state finances**

Federal officials are drawing measures to support states while pension reform makes its way through Congress, said the Special Secretary of Social Security and Labor, Rogério Marinho. He wouldn't say whether the aid would come as a bailout package but warned that the federal government could not offer anything that implies a bigger fiscal burden. Economy Minister Paulo Guedes, in his turn, told newspaper O Estado de S. Paulo the administration might advance money to states that agree to a financial restructuring deal with the federal government. The money would keep them going while many critical reforms go through Congress.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

### **March 12, 2019** **Farm loan demand stays buoyant**

Banks have lent R\$119.5 billion to farmers in the first eight months of the 2018/19 crop cycle (from July to February), up 12% from the previous cycle, the Agriculture Ministry reported Monday based on Central Bank data. Agribusinesses alone borrowed R\$101.6 billion, more than half of all subsidized loans made available by the Harvest Plan and up 11% from the prior cycle. Nevertheless, small farmers are also borrowing as well, with

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disbursements of dedicated program Pronaf rising 21% to R\$17.8 billion. Moderfrota, which finances machine purchases, saw borrowing grew 42% to R\$6.3 billion in the period as about 73% of funds made available were taken. **Source:** *Valor Econômico S. A.*

<http://www.valor.com.br/international>

### **March 13, 2019** **Centauro, Vamos IPOs still moving slowly**

The first two initial public offerings of this year are still evolving lethargically, say people familiar with the situation. Vamos, a JSL subsidiary focused on truck and equipment rentals, has not started scheduling meetings with domestic investors. “The company is trying to prioritize foreign investors,” an executive says. Meanwhile, the holding company that controls sports apparel chain Centauro and filed first for the IPO, SBF, is bucking expectations by not generating much excitement among investors so far. The company argues it is coming back to the market stronger and with some better results to show, but skepticism about its shift to a digital model and concerns about waning tax breaks are working against its plans.

**Source:** *Valor Econômico S. A.*

<http://www.valor.com.br/international>

### **March 14, 2019** **Industrial production data confirm sluggish recovery**

The first official economic activity data of 2019 disappointed, with industrial production posting a seasonally adjusted 0.8% decline in January from December. The data confirmed that the economy lost strength late last year, and corroborated the downward revisions of GDP growth in 2019 seen in the last two weeks. Industrial production in January showed a sharp drop in capital goods for the third consecutive month (-3%), indicating a continued weakness in segments focused on investments, according to data released Wednesday by the Brazilian Institute of Geography and Statistics (IBGE).

**Source:** *Valor Econômico S. A.*

<http://www.valor.com.br/international>

### **March 15, 2019** **Officials study subsidies for commodity hedging**

Government experts are studying a new mechanism to subsidize hedging on the commodity futures market. The undersecretary of Agricultural and Environmental Policy of the Economy Ministry, Rogério Boueri, says the proposal is still in the early stages, but planners are already preoccupied with blocking speculators. “If the tool is designed well, farmers will be able to get insurance against price drops,” Mr. Boueri says, admitting very few crops are traded on B3 and that doing it abroad is possible but very challenging.

**Source:** *Valor Econômico S. A.*

<http://www.valor.com.br/international>

### **March 18, 2019** **Market starts projecting Selic cuts in 2019**

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Analysts are starting to add interest-rate cuts to their baseline scenario amid expectations that pension reform will pass in Congress while the economy stays sluggish. While most of the 54 economists surveyed believe policy rate Selic will remain at the current level of 6.5% in 2019, 14 are betting the base rate will end the year at a lower level than it started. In late 2018, most economists expected a rate increase by the end of 2019. One of the few points of consensus in the survey is that the Monetary Policy Committee (Copom) this Wednesday — the first under the command of Roberto Campos Neto — will keep the Selic at 6.5%.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**March 18, 2019**

### **Government prepares big spending cut as revenues disappoint**

The economic team is working on a large spending cut based on the first bimonthly report on revenue and expenses, which will be completed this week. The reason is below-than-expected administered revenues despite their increase in the first two months from a year earlier. Another factor is the uncertainty surrounding the privatization of power holding company Eletrobras, which is leading officials to withdraw the R\$12.2 billion before included in this year's figures. Sources avoid saying the size of the spending cut, but the amount is likely to surpass R\$5 billion.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**March 18, 2019**

### **Lawmakers want tough pension reform bill for military**

Congress' dissatisfaction with the number of public offices being held by retired and active military may lead to a tougher pension reform bill for the Armed Forces, say high-ranking lawmakers, who even see even risk of retaliation on the proposed amendment to the Constitution (PEC) on Social Security. The government wants to send to Congress the military pension bill on Wednesday. Among the provisions of the draft prepared by the Ministry of Defense, which Valor had access, is doubling the bonus of retiring officers. On the other hand, there would be an increase in the length of years worked to 30 from 25 and also a rise in contribution rates, including for retirees, who are now exempt.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**March 19, 2019**

### **Consumer, retail stocks seen as next rally of Ibovespa**

Brazilian market bellwether Ibovespa breached the symbolically significant 100,000-point level after a month of fluctuations. Domestic investors, especially institutional ones, are still optimistic about the proposed reforms and have pushed shares in commodities and raw-material producers to lead the gains. While warning that sustaining the rally from now on will become increasingly tricky only based on foreign appetite for risk, analysts say there are great chances of Ibovespa reaching as high as 120,000 even amid today's

growing wave of downgrades of GDP growth forecasts, as long as most reforms go through. Stocks linked to consumer spending, like retailers, would benefit the most from another rally, they say.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**March 19, 2019**  
**Court freezes R\$1bn of Vale**

The 2nd Civil Court of Nova Lima, Minas Gerais, has issued a temporary freeze on R\$1 billion of Vale assets to ensure compensation for potential losses incurred when the nearby community of São Sebastião das Águas Claras-Macacos had to be evacuated following the catastrophic collapse of a mining dam in Brumadinho last February. Another Minas civil court, of Ouro Preto, has also ordered the company to stop dumping mine tailings at the Timbopeba facility, further compromising its iron-ore output.

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**March 20, 2019**  
**China takes tougher stance on Brazilian meat exporters**

China's health service has rejected a proposal from the Brazilian Ministry of Agriculture to authorize more meatpackers to export to the Asian giant, three sources told Valor. Chinese health officials visited ten poultry and cattle slaughterhouses in Brazil last November. Sources familiar with the Chinese report on the visit say Beijing will require a new action plan for Brazilian slaughterhouses. Only then they will authorize new meatpackers to export. China is the top importer of Brazilian meat, with \$2.5 billion in purchases in 2018, and accounting for 17% of the \$14.7 billion in meat exports last year, according to data from the Foreign Trade Secretariat (Secex).

**Source:** *Valor Econômico S. A.*  
<http://www.valor.com.br/international>

**March 20, 2019**  
**Market focuses on Copom statement as Selic likely to remain at 6.5%**

The first monetary policy meeting under the command of new Central Bank President Roberto Campos Neto comes at a time of weak economic activity in Brazil and efforts by global central banks to counter the economic slowdown. According to analysts, this context already decreases high-inflation risks in the short term, something likely to be acknowledged by the Monetary Policy Committee (Copom) in its statement this Wednesday, when it expected to keep base interest rate Selic at 6.5%, according to market consensus. Therefore, what will draw attention are possible changes in the statement following the decision.

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**March 20, 2019**

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**March 21, 2019**

**Copom keeps rate stable, citing weaker-than-expected economy**

The Monetary Policy Committee (Copom) maintained policy rate Selic at 6.5% in the first meeting chaired by Central Bank President Roberto Campos Neto. The committee voted unanimously and followed market expectations, keeping Selic at its lowest level in history for a record 14 months. The meeting's accompanying statement cited the underwhelming pace of the economy as justification but also spoke about balancing risks to inflation targeting. Mr. Campos Neto had already indicated he would keep up the strategy of "caution, serenity and perseverance" of his predecessor, Ilan Goldfajn.

**Source:** *Valor Econômico S. A.*

<http://www.valor.com.br/international>

**March 21, 2019**

**Government plans to boost share offerings of micro and small companies**

The Ministry of Economy is planning a series of measures to boost Brazil's capital market and business environment. The special secretary of Finance, Waldery Rodrigues, told Valor the initiatives include reducing the requirements for micro and small companies to issue shares. "It is also possible to relax bureaucratic requests for IPOs and bond issues," he said. Other measures include raising the appeal of out-of-court recovery under the bankruptcy law, changing the guarantee system, easing the entry of foreign insurers into the country, and expanding tax exemption for infrastructure bonds, among others.

**Source:** *Valor Econômico S. A.*

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