From: Daniel Sabba [redacted]
To: "'jeffrey E.'" <jeevacation@gmail.com>
Subject: FW: Faria:Brazil: New anti-Levy wave is forming
Date: Tue, 10 Nov 2015 14:16:04 +0000

-----Original Message-----
From: Isin Sumengen-Ziel (DEUTSCHE BANK AG, LO) [mailto[redacted]
Sent: Tuesday, November 10, 2015 5:20 AM
Subject: Faria:Brazil: New anti-Levy wave is forming

--- Original Sender: JOSE CARLOS FARIA, DEUTSCHE BANK S.A. B ---

It seems that a new anti-Levy wave is forming. Yesterday, the government announced that it was backtracking on some changes recently announced in the PSI investment-stimulus program managed by the BNDES. The changes are not very large: instead of reducing the program's total amount limit of BRL50bn by BRL30.5bn as announced earlier, the cut will amount to BRL27.5bn (thus a BRL3bn difference). Also, the deadline for companies to apply to participate in the program, which had been moved from December 31 to October 7, has been rolled back to October 30. The vehicle industry apparently argued that the new deadline had paralyzed the sector, hence the modifications. While the changes are not the end of the world, it seems that the Finance Ministry was not consulted about it and Minister Levy cancelled all his meeting yesterday to meet President Dilma Rousseff and discuss the BNDES measures, according to Estado de S.Paulo. Thus, it looks like Levy has suffered another defeat.

Valor Economico is reporting that the PT (i.e. former president Lula) is increasing the pressure on Rousseff to replace Levy with former BCB president Henrique Meirelles – the same story that has been circulating for weeks. This time, Rousseff would reportedly be more inclined to do it, as she is realizing the hole she is in is getting deeper and deeper.

Now, Valor claims that Lula wants to remove Levy so that Meirelles could take measures to stimulate economic growth, especially by increasing the supply of credit in the economy. But this does not make any sense (as it would derail the adjustment effort), and therefore we must conclude that part of the story may be false. Either Lula wants someone else to replace Levy (say, Planning Minister Nelson Barbosa – the bearish scenario), or he is saying that Meirelles will ease credit in order to bamboozle the PT and facilitate his appointment (remember that Meirelles was the PT's bogeyman when he kept a tight monetary policy to curb inflation) – the bullish scenario.

Valor also repeats that Meirelles would appoint his own planning minister and BCB president, which would make this scenario even more bullish – at least in the short-run, before the political and economic difficulties start to impair the adjustment again. We remain skeptical about the possibility of Meirelles replacing Levy under these conditions, but we must admit that the odds tend to improve as the economy sinks further into recession and there is no end in sight for the political stalemate.