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**Subject:** FW: (BN) Brazil Risks Slipping Through Levy Fingers as Junk Status Loom  
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CDS has widened over the last days. Currently around 285. Maybe you build a large position in credit default swaps or BRL options?

-----Original Message-----

**From:** Daniel Sabba (DEUTSCHE BANK SECURI) [REDACTED]  
**Sent:** Wednesday, July 29, 2015 07:50 AM Eastern Standard Time  
**To:**  
**Subject:** (BN) Brazil Risks Slipping Through Levy Fingers as Junk Status Loom

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Brazil Risks Slipping Through Levy Fingers as Junk Status Loom  
2015-07-29 01:20:20.900 GMT

By Raymond Colitt and Arnaldo Galvao  
(Bloomberg) -- A bad week got a lot worse Tuesday for Finance Minister Joaquim Levy when Standard & Poor's capped a string of setbacks by putting a negative outlook on Brazil's rating.  
Just six days earlier Levy was forced to abandon his budget-cutting target, saying his measures would generate 58

billion reais (\$17 billion) less in savings than planned. Further slippage is possible amid a bleak growth outlook and rising uncertainty in Congress, S&P said following its move. Levy, known as “Scissorhands” for his cost-cutting ways has been surprised by a larger revenue shortfall and stiff opposition to austerity measures, increasing the odds he will fail in his mission to prevent a junk rating for Latin America’s largest economy, said John Welch, a strategist at Canadian Imperial Bank of Commerce.

“His credibility and ability to deliver is diminished,” Welch said in a phone interview. “He thought he’d be in charge of the economics but not the politics of the adjustment.” The Finance Ministry reiterated its commitment to fiscal austerity measures and said it would seek to review mandatory public spending in order to reduce overall debt levels, according to an e-mailed statement in response to S&P’s move.

### Risk Assessment

Budget and Planning Minister Nelson Barbosa said the government is confident its inflation control, fiscal adjustment and growth measures would maintain a favorable risk assessment for Brazil.

With President Dilma Rousseff’s popularity ratings at an all-time low, Levy had personally negotiated with legislators to win approval of three government bills to raise taxes and curtail spending. Lawmakers began to balk at more austerity last month as unemployment rose and a corruption scandal involving more than 50 politicians spread.

Levy, has insisted the government hasn’t given up on fiscal discipline. The new, reduced primary budget surplus target, which excludes interest payments, is a floor, he said. While the University of Chicago-trained economist was forced to abandon his more ambitious targets at the last-minute, he has no intention of stepping down, said two people aware of his intentions who requested that they not be named because the matter is private.

### “Abandon Ship”

“Levy’s job has become more difficult but not impossible,” said Carlos Thadeu de Freitas Gomes, former central bank director and chief economist at the National Commerce Federation. “He’s not one to abandon ship.”

Two days after Levy revised the budget target, Luiz Awazu Pereira, the central bank’s economic policy director, said the bank sees new risks to the 2016 inflation outlook. The bank’s monetary policy committee meets today to announce its benchmark Selic rate.

One of Levy’s biggest hopes is that the same corruption scandal that rattled Brazil’s political bee hive and fueled opposition may bring down some of his detractors in Congress, said Welch.

“The corruption scandal cuts both ways,” he said.

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