



Brazil

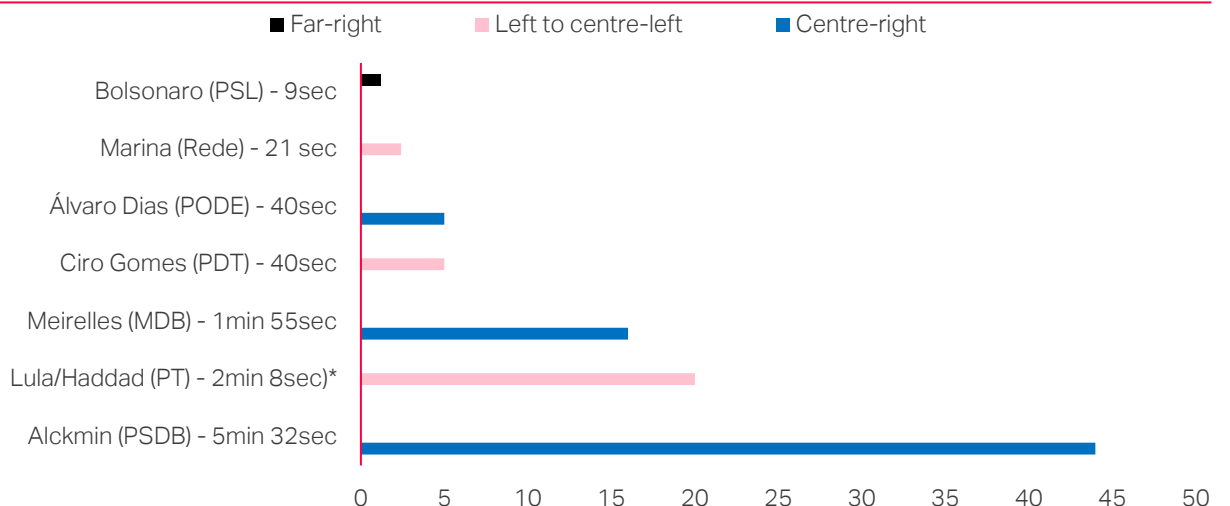
THE ELECTORAL CHESSBOARD, UNVEILED

Elizabeth Johnson / Grace Fan

- With the end of the party conventions, the full list of candidates – and VP running mates – for the wide-open October presidential race has finally firmed up
- Notwithstanding ardent voter hopes of change, the biggest winners of the convention talks were Brazil's two dominant parties of yore: the PSDB and the PT
- Former President Lula's PT has inched closer to the runoff round after enacting Phase 1 of its Plan B and isolating leftist rival Ciro Gomes as a result
- Market-friendly Geraldo Alckmin (PSDB) has selected a female, conservative senator as his VP pick, in a tactical move to win back the south and rural voters
- After forming last-minute alliances, both former Environment Minister Marina Silva and Paraná Senator Álvaro Dias have managed to keep their bids alive
- Unable to branch out, far-right Jair Bolsonaro picked a right-wing general as his VP choice, limiting his ability to woo undecided voters but firing up his core base
- Industrial production recovered in June but unemployment remains a concern

Estimated TV/radio ad time for key presidential candidates

% of total



Sources: Local press reports.

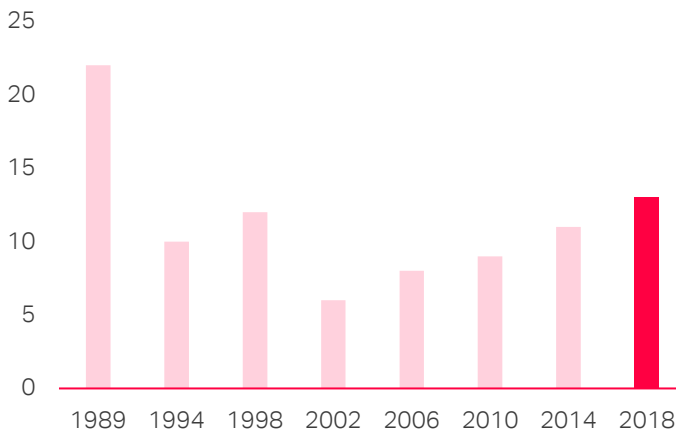
Politics

Top issues	Comment	Expected market impact
Political parties nominate 13 presidential candidates, the most since 1989	The end of the party conventions has brought partial consolidation of the once 20-strong presidential field. This favours six core presidential hopefuls, but the lack of a consensus candidate is evident in the dispersion of the presidential field (Chart 1).	Neutral, but the high number of candidates increases the risk of a surprise electoral result (see Table 1 on p. 4)
Workers' Party (PT) picks Fernando Haddad as former President Lula's VP running mate	The move confirms the PT's plan to run the former São Paulo mayor as its alternate candidate should the electoral court find Lula ineligible to run; the PT also convinced the PCdoB party to join its alliance.	Neutral; although the market does not like Haddad, he is less dogmatic than Dilma
Leftist Ciro Gomes fails to seal alliances save with one party, Avante	His hopes of reaching an agreement with the mid-sized Brazilian Socialist Party (PSB) were dashed by the PT, which convinced the party to remain neutral.	Positive, because it significantly limits Ciro's chances in the race
Alckmin seeks to attract female voters with VP pick and to shore up southern vote	His choice, Rio Grande do Sul Senator Ana Amélia, is known for her conservative views and could help the former São Paulo governor win regional votes from Bolsonaro and Álvaro Dias. Following the party conventions, Alckmin should have more than twice the TV/radio ad time of the PT candidate (Chart 2).	Positive, as both the female and southern votes are crucial for his odds; but his pick also pushes him to the right, polarizing his message
After futile bid to form centrist party alliances, Bolsonaro taps a right-wing general as his running mate	After female attorney Janaina Paschoal declined his invite, the far-right congressman went back to his roots when he selected General Hamilton Mourão as his VP choice – likely hindering his ability to reach undecided voters but firing up his core base as well.	Neutral; while his odds are capped by his VP pick and his 1% share of TV ad time, voter apathy helps him
Marina Silva and Álvaro Dias pull off 11th hour alliances	Former Environment Minister Marina reached an alliance with the Green Party, while Paraná Senator Dias has allied with 3 small parties. While outgunned in TV time, both have still kept their hopes alive.	Neutral, as both are market-friendly but face visible hurdles ahead of the first round
Lula requests delay in his habeas corpus case at top court (STF)	The imprisoned former President is hoping to avoid any possibility the STF may rule him ineligible to run even before the top electoral court (TSE) does so.	Neutral, but if Lula were to be freed from prison it would be negative

Economics

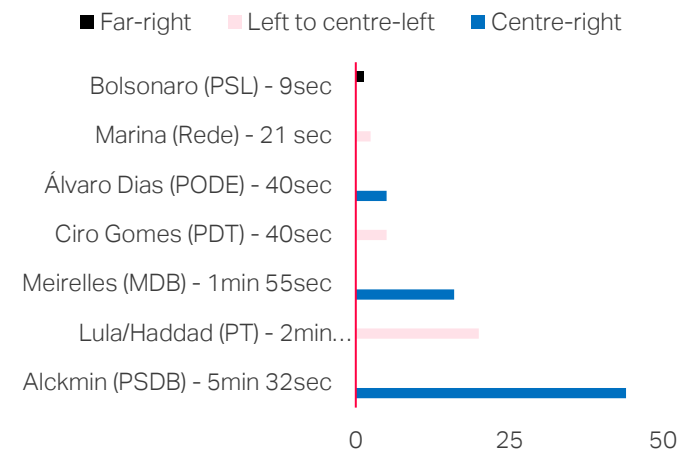
Top issues	Comment	Expected market impact
Industrial output rebounds in June after plummeting in May	After plunging in May because of the 11-day truckers' strike , industrial output jumped 13.1% mom in June, but fell 2.5% yoy in Q2.	Negative (Chart 3), as the results were slightly worse than expected
Domestic auto sales and output rise in July but exports plunge	Despite a 17.7% yoy rise in domestic sales and 9.3% yoy increase in output, auto exports fell 21% yoy in July, hurt by the Argentine crisis (Charts 4-5).	Neutral, as overall July exports still rose, but the Argentina crisis will weigh on auto output in H2
Unemployment dips to 12.4% in Jun, -0.3pp mom and -0.6pp yoy as workers stop job search	Workers who have dropped out of the job market increased 1.9% yoy to a record 65.6mn, while the number of people working in the formal sector reached a new 6-yr low.	Negative (Chart 6), as this will erode consumer spending and push up voter anger

Chart 1: Number of presidential candidates in recent Brazilian elections



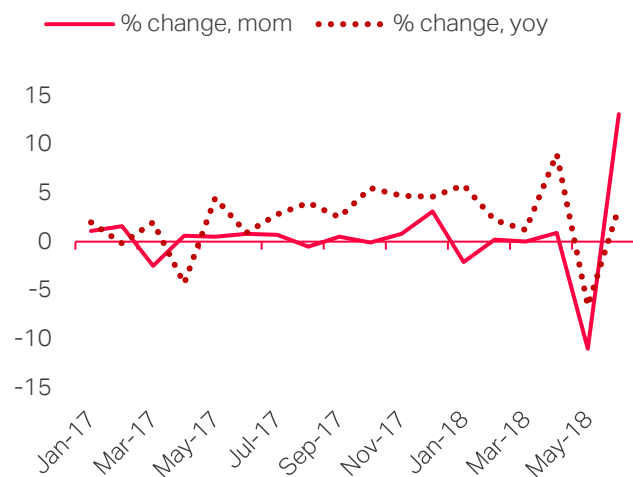
Source: Poder360.

Chart 2: Estimated TV/radio ad time for key presidential candidates
% of total



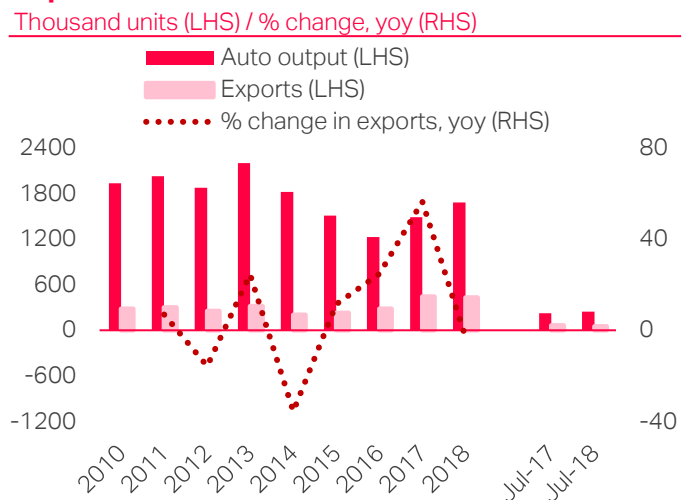
Sources: Local press reports.

Chart 3: Industrial output



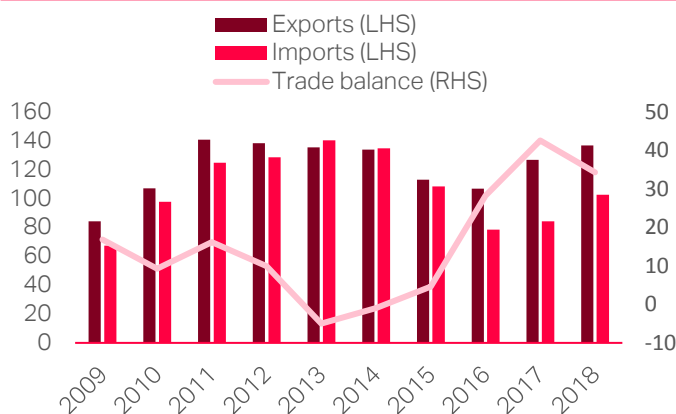
Source: IBGE.

Chart 4: Jan-July car production and exports



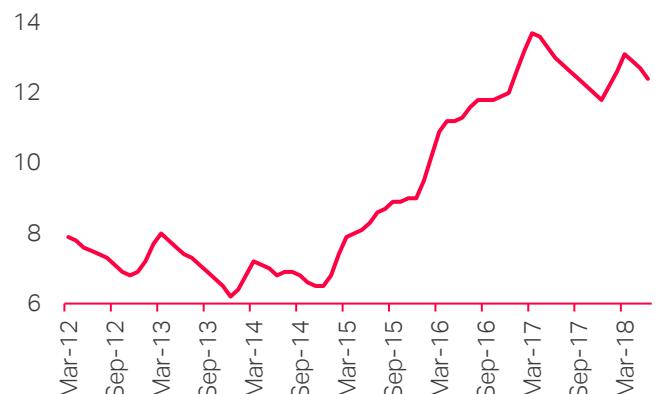
Source: ANFAVEA.

Chart 5: Trade balance Jan-July)
USD bn



Source: Trade Ministry.

Chart 6: Unemployment rate
% (3 ma)



Source: IBGE.

Table 1: Presidential candidates nominated in the party conventions, their running mates and key political alliances forged

Key candidates	Allied parties	Vice-presidential nominee	Estimated TV/radio ad time (% of total)	Political ideology
Geraldo Alckmin (PSDB)	DEM, PP, PR, PSD, PRB, Solidariedade, PTB, PPS	Rio Grande do Sul Senator Ana Amélia (PP)	44	Centre-right
Lula (PT)*	PCdoB, PCO, PROS	Fernando Haddad (PT)*	20	Centre-left
Henrique Meirelles (MDB)	PHS	Germano Rigotto (MDB)	16	Centre-right
Ciro Gomes (PDT)	Avante	Tocantins Senator (and former Agriculture Minister) Kátia Abreu (PDT)	5	Swings between hard and centre-left
Álvaro Dias (PODE)	PSC, PTC, PRP	Paulo Rabello de Castro (PSC)	5	Centre to centre-right
Marina Silva (Rede)	PV	Former PV presidential candidate Eduardo Jorge (PV)	2.4	Centre-left
Guilherme Boulos (PSOL)	PCB	Sônia Guajajara (PSOL)	2	Far left
Bolsonaro (PSL)	PRTB	General Hamilton Mourão (PRTB)	1.2	Far right
Other candidates				
Vera Lúcia (PSTU)	None	Hertz Dias (PSTU)	Roughly 1% apiece	Far left
Eymael (DC)	None	Pastor Helvio Costa (DC)		Centrist
João Goulart Filho (PPL)	None	Léo Alves (PPL)		Left
Cabo Daciolo (Patriota)	None	Suelene Balduino Nascimento (Patriota)		Formerly left, now right
João Amêdo (NOVO)	None	Christian Lohbauer (NOVO)		Right

*If Lula, as expected, is found ineligible to run for public office, former São Paulo Mayor Haddad would replace him as the PT presidential nominee and Manuela D'Ávila of the Brazilian Communist Party (PCdoB) would become Haddad's running mate.

Sources: Local press reports.

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