



Brazil

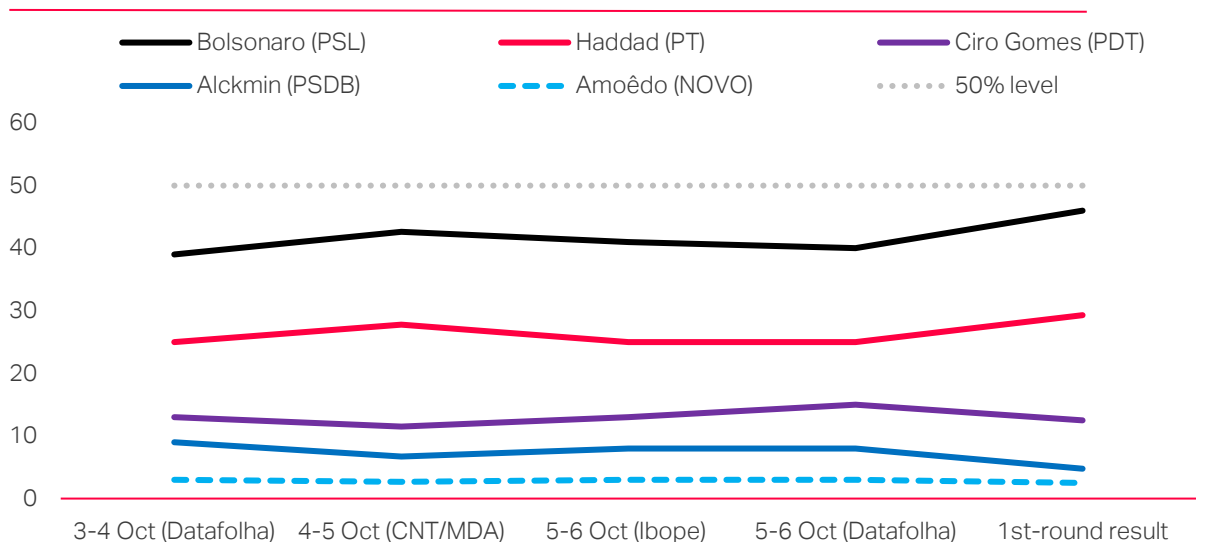
BOLSONARO WAVE RESHAPES ELECTORAL MAP

Grace Fan / Elizabeth Johnson

- Following Sunday’s ballot, far-right presidential frontrunner Jair Bolsonaro will face leftist Fernando Haddad (PT) in a runoff round, with a clear upper hand
- Buoyed by anti-PT sentiment, a Bolsonaro tidal wave swept the centre-south, boosting little-known candidates in key states, notably Minas Gerais and Rio
- Haddad won only the northeast region, the core base of former President Lula
- Bolsonaro’s once-tiny PSL party also saw big advances in the Congress, but a highly fragmented legislature will make passing structural reforms challenging
- A dirty campaign is expected ahead of the presidential runoff round, as both Bolsonaro and Haddad seek to discredit each other
- But Bolsonaro’s clear lead (+16.8pp) and the loss of key Senate seats for the PT will likely force Haddad to move towards the centre, aiding market sentiment

Chart 1: Final presidential polls and 1st-round result

% of valid votes



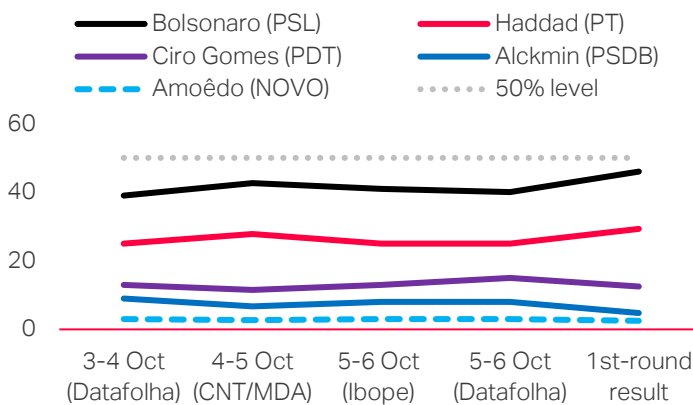
Sources: Ibope, Datafolha, CNT/MDA, TSE.

Politics

Top issues	Comment	Expected market impact
Far-right presidential frontrunner Jair Bolsonaro wins big victory in Sunday's ballot, but must still enter runoff	The Rio congressman – who saw a late-stage surge in his voter intention rate – fell 4pp short of the 50% of valid votes needed to win the race outright, which he blamed on faulty voting machines. Yet he still scored a resounding 1 st -round victory for an outsider candidate with often controversial social views, even as he kept the market-friendly PSDB party from the runoff for the first time in 20 years.	Highly positive, as his final showing was 3.5-6pp higher than the final pre-ballot polls (Charts 1-2) and his allies made unexpected gains in legislative and gubernatorial races too
Bolsonaro sweeps four out of five electoral regions, aided by strong wave of anti-PT sentiment	Second-ranked Fernando Haddad of former President Lula's leftist Workers' Party (PT), as expected, still won the northeast region but he was hurt in the home stretch of the campaign by myriad allegations against the PT unearthed by Operation <i>Lava Jato</i> ("Car Wash"), notably new and unsavoury details from the plea bargain of former Finance Minister Palocci – plus his own chequered record .	Positive, as this will likely give Bolsonaro a solid edge in the runoff round (Charts 3-4); it also points to robust support for <i>Lava Jato</i> four years after the corruption probe began
Despite hefty gains by Bolsonaro's tiny Social Liberal Party (PSL), the legislature will remain highly fragmented	The PSL is projected to be the 2 nd -biggest party in the Lower House after the PT, with about 10% of total seats apiece. The PSL also picked up 4 Senate seats to give it a 4.9% slice there. But the Congress will stay fragmented, with roughly 30 parties in the Lower House and 21 in the Senate (Charts 5-6).	Positive for improved governability if Bolsonaro wins the runoff, but passing structural reforms will still be difficult
75% of senators up for re-election lost their races, as voters show ardent desire for change	No less than 24 out of the 32 senators lost their re-election bids; this includes 7 ranking senators of Temer's MDB party, 7 of the PT and 5 of the market-friendly PSDB, although the PSDB did pick up other seats. To add to the PT rout, former President Dilma also lost her Senate bid in Minas Gerais.	Positive, as several senators were deeply implicated in <i>Lava Jato</i> , even if their parties will remain dominant in the legislature
Dark horse candidates linked to Bolsonaro emerge to capture first-place in two out of three of Brazil's largest states	Defying all polls, gubernatorial candidates Romeu Zema of the right-wing NOVO party in Minas Gerais and Wilson Witzel of Bolsonaro's PSL party in Rio de Janeiro gained roughly 30pp each in less than two weeks to rocket to 1 st -place in their respective races, after both attended final state debates and explicitly announced that they supported Bolsonaro.	Neutral to positive, as both still face runoffs, but their meteoric rise from behind offers a clear illustration of the Bolsonaro effect in the past two weeks
Haddad faces an uphill battle ahead, likely forcing the PT to move toward the centre	The PT candidate is the underdog going into the runoff and will need to appeal to more centrist voters as well as the market to have a shot at winning. Signs to watch are how many political parties he will be able to woo to his coalition and whether he announces a market-friendly Finance Ministry nominee ahead of the runoff.	Positive if he does moderate his tone, as this is likely to aid market sentiment should the candidate remain competitive in the polls
13 gubernatorial candidates win race outright	This could reduce voter turnout rate in these states in the runoff round, particularly in the nine north/northeast states where this happened.	Neutral, but it may hurt Haddad in the runoff as a result

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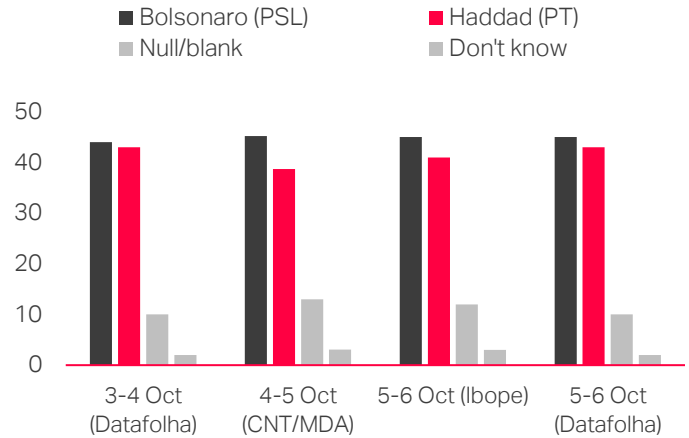
% of valid votes



Sources: Ibope, Datafolha, CNT/MDA, TSE.

Chart 2: 2nd-round voter intentions (Bolsonaro vs Haddad)

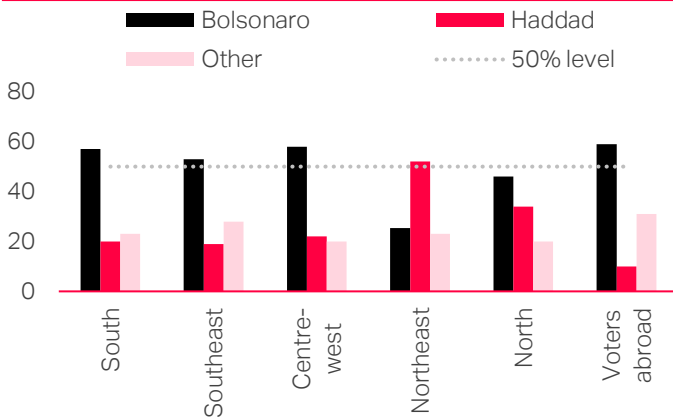
% of total votes



Sources: Ibope, Datafolha, CNT/MDA.

Chart 3: 1st-round voter intentions by region

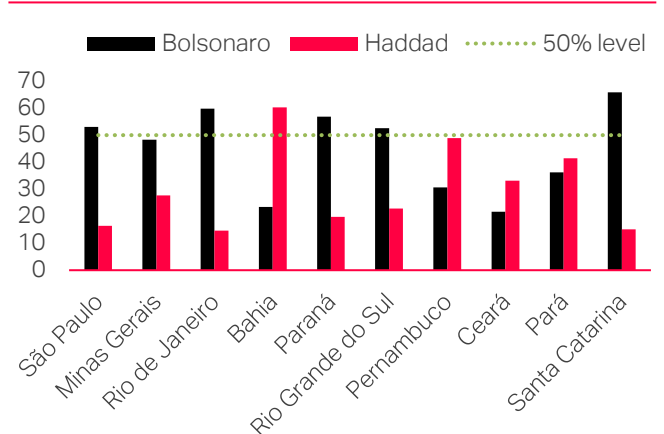
% of valid votes



Source: TSE.

Chart 4: 1st-round results in Brazil's 10 most populous states

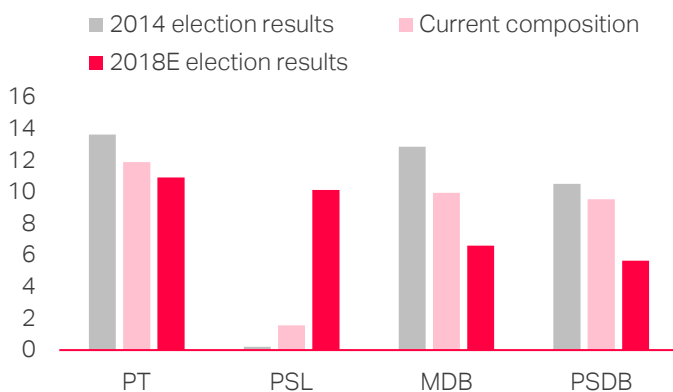
% of valid votes



Source: TSE.

Chart 5: Top four political parties in the Lower House

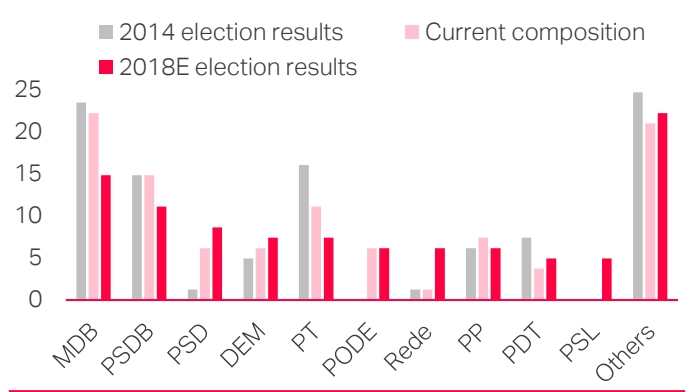
% of total



Sources: Lower House, local press reports.

Chart 6: Fragmentation of the Senate will be the highest in history

% of total



Sources: Brazilian Senate, local press reports

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