

BRAZIL SCENARIO

October 17, 2022

Politics



Congress and end of the year

The month of September had its voting sessions compromised in Congress, given the absences of deputies and some senators for the electoral campaign. However, with the end of the first round of elections, the scenario of who was reelected and who will leave the legislative houses is already set.

At the end of the legislative year, party leaders expect to move forward with at least two priority proposals: the nursing salary floor and the 2023 Budget. The floor had already been approved, but was suspended by the Supreme Federal Court (STF).

It is worth noting that to guarantee the quorum of parliamentarians for deliberations, the speaker of the House, Arthur Lira, extended the attendance register (on Mondays and Fridays) and remote voting (any day) until January 2023. This way, many parliamentarians will not be on the House floor until the end of the legislature.



Unity European and Mercosur

The European Union will have a new presidency. In the second half of 2023 Spain will take the lead and has already informed that one of its priorities for the bloc is the alliance with Mercosur.



OECD entry

The federal government announced that it submitted the initial memorandum of entry to the OECD in early October. The Minister of Foreign Affairs, Carlos França, had already stated that it was a priority and that he was negotiating the acceleration of accession with the secretary general of the OECD, Mathias Cornmann.



Ministers of the STF

Bolsonaro commented on a podcast that if reelected, he intends to increase the number of ministers in the Supreme Federal Court (STF), by adding five ministers, with the aim of pulverizing their power. The vice president and now Senator elected by Rio Grande do Sul, Hamilton Mourão, supports the initiative.



Elections 2022*

The October 12th holiday was full of electoral agendas. President Bolsonaro was at the Sanctuary of Aparecida, accompanied by the candidate for São Paulo Government, Tarcísio de Freitas, where they were received with applauses and boos. Former President Lula campaigned in Rio de Janeiro, in the Complexo do Alemão community, and in Salvador. Both will be in the Northeast in the next few days.

After the results of the first round showed greater support for Bolsonaro than the polls indicated, the president of the House of Representatives, Arthur Lira, is leading the attempt to pass a bill that criminalizes the dissemination of polls and punishes the institutes if the result obtained in the elections is different from what was previously polled. CADE (Administrative Council for Economic Defense) and the Ministry of Justice (after notification by the Federal Police) determined the opening of an inquiry Against polling companies, but were stopped to conduct investigations by the Superior Electoral Court (TSE).



*Edelman Global Advisory prepares a series of reports on elections. If you want to receive them, ask for e-mail publicaffairsbr@edelman.com"

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Economy

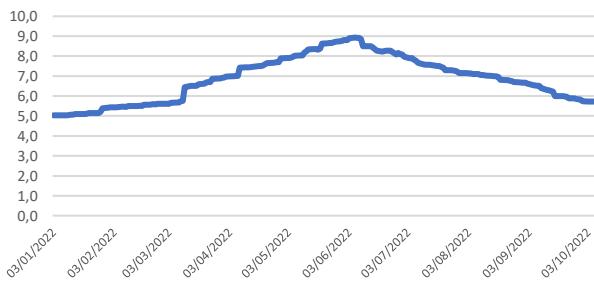


Inflation

Brazil registered deflation in the period between July and September. According to IPCA data, the average drop in prices was 1.32% - the highest recorded for a three-month interval since the beginning of monitoring, in 1980. The main reductions occurred in the prices of food and fuel. In the year, the inflation index registered an increase of 4.09% and 7.17% in the accumulated in 12 months.

The market also reduced, for the 15th consecutive time, the expectation for inflation this year. The Focus Report shows that the estimate went from 5.74% to 5.71%. Despite successive declines, the index should remain above the target set by the Government of 3.5%.

Inflation Expectation (IPCA)



Default record

The non-payment of Brazilian families has been at the highest level since the beginning of the 2010 historical series. The latest survey, published in September, shows that 79.3% of families declare themselves indebted, in September 2021 it was 74%. Those who reported overdue debts stood at 30%, which in 2021 was 25.5%. The analysis is from the National Confederation of Trade in Goods, Services and Tourism (CNC), with data from the Consumer Indebtedness and Default Survey.



GDP

The updated forecast of the Focus bulletin is that the Brazilian GDP will grow 2.70% in 2022. The number is close to those released by the IMF, which expects a growth of 2.80%.

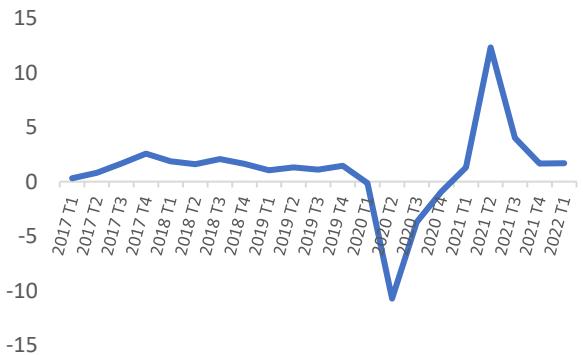
For 2023, the updated market forecast is for growth of 0.53%, against 1% predicted by the international body. Both projections are well below that stipulated by the government, which forecasts growth of 2.5% for next year. The Minister of Economy, Paulo Guedes, harshly criticized the figures released by the IMF, stating that "[...] they are predicting low growth because they think the other candidate will win".



Interest rate

The Central Bank decided to keep the interest rate at 13.75%, ending the longest high cycle since 1999. Since March 2021, the index has been raised 12 times in a row, causing interest rates to jump 11.75 percentage points. The maintenance of interest rates was already expected by a large part of the market, which also believes that it will remain at this level until mid-2023.

Real GDP



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Special Crypto assets

Crypto Market Scenario

A recent study published by the Global Crypto Adoption Index indicated that the adoption of cryptocurrencies as means of payment and for value transfers has grown so significantly in Brazil that the country has climbed 7 positions in its global ranking, taking the position of the largest crypto market in Latin America. Its diffusion trajectory and the wide adoption of cryptocurrencies seems to be very resilient, despite the thorny moment, defined by some experts as the "2022 crypto crash" or "crypto winter", with the large-scale fall in the value of these assets, which in September 2022 kept their market capitalization at a level just above \$900 billion, after peaking at \$3 trillion in 2021, according to data from CoinGecko.

Market Roadblocks

It is important to keep in mind that cryptocurrencies are the most popular category of crypto assets, an umbrella that also includes fungible tokens, stablecoins, non-fungible tokens (NFTs), decentralized finance protocols (DeFi), among other categories. However, even with the certainty that crypto assets will gain even more space in the future, some obstacles remain, creating difficulties for an even greater growth. These include market volatility, the difficulty of futures market growth and the well-known debate about the legal uncertainty generated by the lack of regulation in many jurisdictions.

Crypto Assets Regulation in Brazil

In Brazil, where there is no specific regulation for crypto assets, discussions to implement a legal framework have advanced recently. The main object of discussion is Bill 4401/2021, that have already passed in the House of Representatives and is ready for vote in the Senate.

The text approved has as main objective to define parameters for the service providers related to virtual assets and creates a registration for such market agents, which should be under the responsibility of the Brazilian Central Bank (BACEN), in addition to addressing other topics, such as fraud and money laundering. The text offers a broad definition of crypto asset, which would allow regulators to implement measures towards cryptocurrencies but also other asset categories that already exist or to be created.

The Securities and Exchange Commission (CVM) published on October 11th the Guidance Opinion 40/22, which consolidates rules applicable to crypto assets considered securities, also introducing the regulator's limits of action, indicating ways of regulating, inspecting, supervising and disciplining market agents.

Both CVM and BACEN are awaiting the approval of a law to advance on this issue and add other measures to the rules already published by the bodies in order to offer more legal certainty to the market.

Highlights in social media



Throughout September, the release of election polls caused spikes in mentions on social networks, with Bolsonaro's allies and influencers questioning the data and Lula's supporters celebrating the possibility of victory in the first round.



Google searches for election fraud peaked on October 3rd, shortly after the first round, declined rapidly and rose again from October 9th.



Publicity of support for the second round caused spikes in mentions on social networks, with users celebrating choices, as well as attacking other candidates.



Search volume for terms linked to Freemasonry and the occult showed a sharp peak on October 4th, after the release of a video in which Jair Bolsonaro participates in an event in a Masonic lodge.