

Brazil Macro Compass**Voting Intentions Shift Ahead of TV Advertising**

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Political Agenda: The Race Is On

The release of two important new polls (from Ibope and Datafolha, Brazil's two largest pollsters) dominated the political discussion this week. **On aggregate, they show three main trends since June**, in our view (all other changes were within the reported margins of error):

1. **Lula's voting intentions have been rising markedly (and, at the same time, his rejection rate has been falling).** Despite the fact that the Electoral Court may not allow Lula to run, this has led some political analysts to increase the likelihood of a PT candidate (if not Lula, probably Fernando Haddad) making it to the run-off¹. For that to happen, at least half of Lula's voting intentions (39% in Datafolha, 37% in Ibope) would need to be transferred to Haddad, which may be feasible, in our view. Datafolha found that 31% of total voters said they would definitely pick a candidate based on Lula's support (an additional 18% would consider voting for Lula's pick). In the Ibope poll, when voters were asked specifically about Lula picking Haddad, 14% of total voters said they would definitely vote for Haddad in that case, while an additional 13% said they might vote for Haddad. In a crowded field, 20% of total votes might suffice to take a candidate to the second round. (In 2002, José Serra finished second in the first round with 21%, running against Lula, Ciro Gomes, and Anthony Garotinho.)
2. **Jair Bolsonaro's voting intentions have also been rising, albeit more modestly.** Over the past couple of months Bolsonaro gained 3 pp in both polls, widening his lead in the scenarios without Lula. Most notably, in the most recent polls he had a 3-pp (Datafolha)/7-pp (Ibope) lead over Geraldo Alckmin in São Paulo state, Alckmin's traditional stronghold (they were virtually tied there a couple of months ago).
3. **Jair Bolsonaro's rejection rate has been rising since June** – to 39% (from 32%), according to Datafolha; to 37% (from 32%) according to Ibope. Other rejection rates, according to Datafolha: Lula 34%, Alckmin 26%, Marina 25%, Ciro 23%, Haddad 21%.

More information on voting intentions is available in the “Chart of the Week” on page 2. The next important milestone in the campaign, in our view, is the beginning of the period for TV and radio advertising on August 31.

Chart of the Week: Voting Intentions before TV Advertising Period

Our “Chart of the Week” shows how voting intentions in the first round of the presidential elections have evolved since June, according to Datafolha and Ibope. Both pollsters used face-to-face interviews and reported a 2 pp margin of error. Although methodologies and some estimates differ (notably, Ibope finds a substantially higher share of voters undecided or not willing to vote for any candidate), the main trends are similar, with Lula and Bolsonaro rising (see “Political Agenda” above). In an article published before the release of the Ibope poll, Márcia Cavallari Nunes, the firm's CEO, mentioned that the share of voters not picking any candidate, in the scenario without Lula, is almost double that registered in a similar period before the 2014 elections (she was referring to June numbers). In this group, women, who represent 52% of total voters, are 58% among total undecided voters². The numbers, in her view, point toward a “totally open race”².

¹ See, for example, “Bolsonaro e candidato do PT têm mais chances de avançar, diz Eurasia,” *Valor Econômico* (August 21, 2018).

² “Uma análise dos votos brancos e nulos,” *Ibope Inteligência* (August 16, 2018).

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

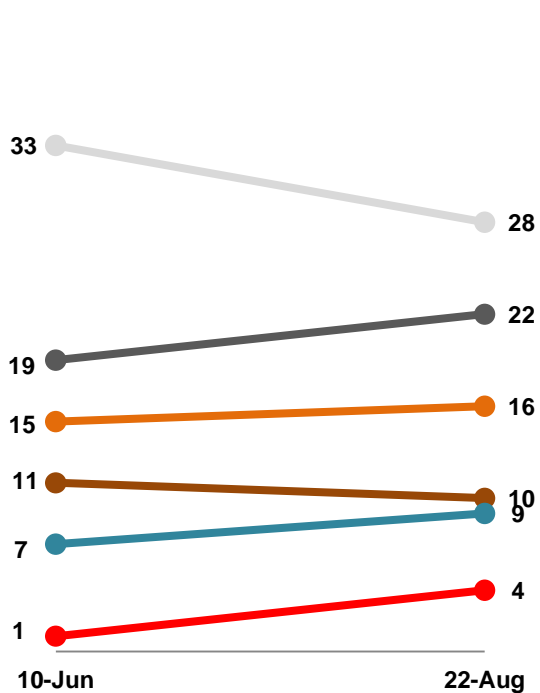
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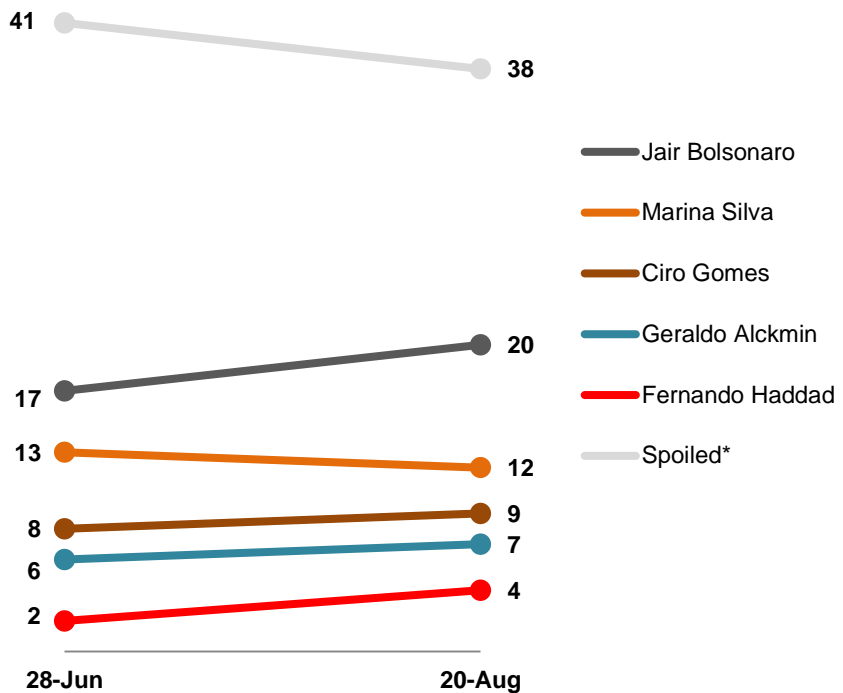


Brazil 2018 Presidential Polls (% of Total Votes)

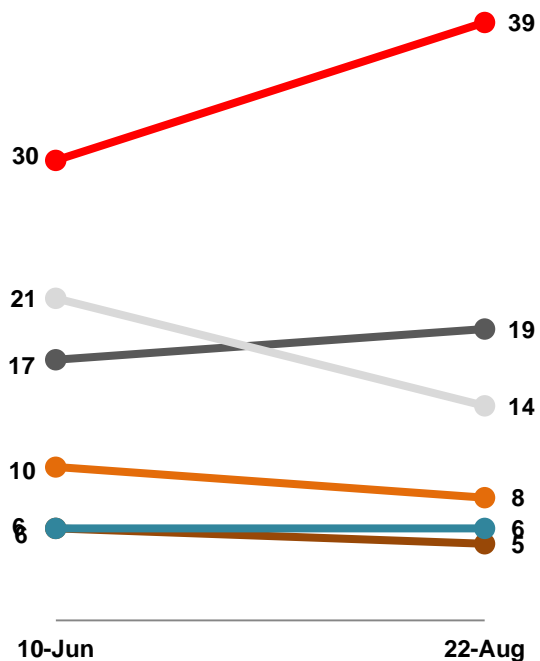
Datafolha (Haddad as PT candidate)



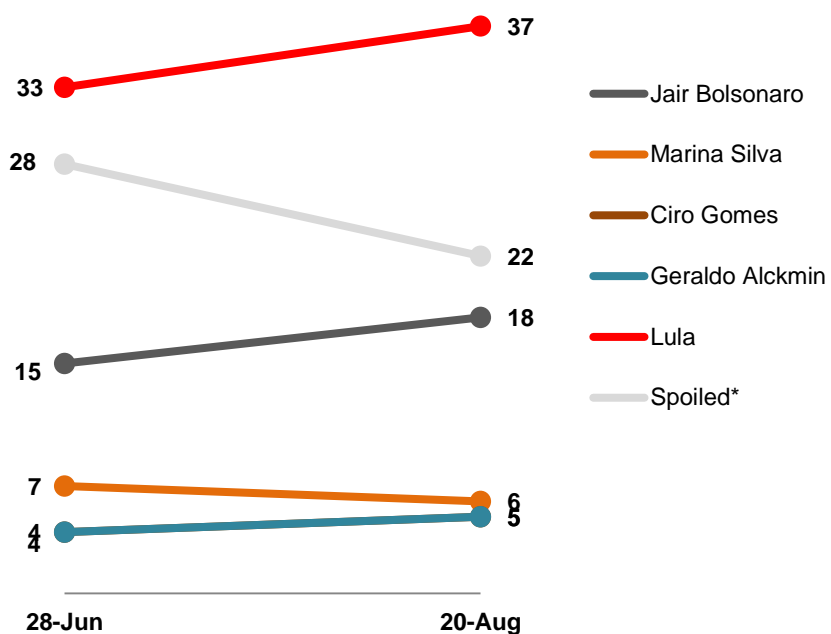
Ibope (Haddad as PT candidate)



Datafolha (Lula as PT candidate)



Ibope (Lula as PT candidate)



*Spoiled votes: sum of null, blank, none, undecided. Sources: Datafolha, Ibope, Santander.



What's New: August Inflation Preview, BRL Underperformance

August IPCA-15 came in at 0.13% m/m (4.30% y/y), slightly above our forecast (0.07% m/m), but confirming the disinflation following the spike in some prices as a result of the truckers' strike in May. Foodstuff and fuel prices dropped 0.43% m/m and 1.32% m/m, respectively. Restaurant prices rose more than expected (+0.84% m/m), probably from the lagged effect of rising input prices (conversely, we expect them to retrace in the next few months). Core inflation decelerated to 2.63% y/y (from 2.86% y/y in July). We maintain our year-end forecast at 3.9% y/y.

BRL had a notably poor run over the past 10 days, underperforming most other emerging market currencies in a period when many recovered from the generalized sell-off linked to the global USD strengthening trend that began at the end of July. This negative decoupling has usually been attributed to concerns regarding the probability of a reformist candidate winning the October elections (see "Political Agenda" on page 1). Nevertheless, we still believe there is room for the Brazilian currency to strengthen (our year-end forecast remains at 3.50/USD) after a choppy electoral period, given the good set of external fundamentals and expected signs that the next government will continue the ongoing process of fiscal consolidation. For more information, see Santander's most recent *FX Compass* (August 23, 2018).

Upcoming Data: 2Q18 GDP

2Q18 GDP is scheduled to be released on August 31. We forecast 0.2% quarterly growth (+1.2% y/y), a deceleration from 1Q18 (+0.4% q/q). Looking at the demand side, we expect household consumption to keep leading the growth recovery (+0.3% q/q), with another disappointing quarter for investments (we expect gross fixed capital formation to fall 1.7% q/q). On the supply side, we think industry is likely to have had a negative quarter (-0.4%), partly because of the truckers' strike. We expect 0.3% q/q growth in services and expect agriculture to continue in a solid uptrend, growing 0.6% q/q.

Number of the Week

434

Geraldo Alckmin will have 434 30-second TV spots during the period of advertising for the first round of the presidential elections (August 31 – October 4), as decided by the Supreme Electoral Court this week. Lula, Jair Bolsonaro, Marina Silva, and Ciro Gomes will have, respectively, 188, 11, 28, and 50 spots.

Quote of the Week

My heart is big.

- **Senator Ciro Nogueira**, president of the Progressive Party (PP), explaining to *Folha de S. Paulo* how his party is supporting Geraldo Alckmin while he is declaring his support for PT's Lula (August 21, 2018).

What We've Been Reading

- "Has the Emerging-Economy Crisis Cycle Ended?" by José Antonio Ocampo (*Project Syndicate*, August 22, 2018). Emerging economies may now be more resilient to contagion than a decade ago, partly because investors are evaluating country risk more carefully, argues Ocampo.
- "Brazil continues to fly under the radar among troubled economies," by Desmond Lachman (*The Hill*, August 23, 2018). A bearish view on the Brazilian currency.
- "Answering the Hardest Question in Economics," by Noah Smith (*Bloomberg Opinion*, August 20, 2018). Trying to learn the right lessons from successful industrial policy programs.
- "Lula: There Is a Right-Wing Coup Underway in Brazil," by Luiz Inácio Lula da Silva (*The New York Times*, August 14, 2018) and "Lula da Silva's vision of Brazil is a damaging fiction," by Fernando Henrique Cardoso (*Financial Times*, August 21, 2018). Lula's letter from jail and the strong reaction of Cardoso.



Recent Publications (Available on Our Website)

- *The Power of Trade-Off* (August 2, 2018)
- *It's Not for a Lack of Credit – Part III: Delinquency, Way Better than it Seems* (July 20, 2018)
- *It's Not for a Lack of Credit – Part II: Companies* (July 20, 2018)
- *It's Not for a Lack of Credit – Part I: Individuals* (July 18, 2018)
- *“Lethal Weapon”: How Far Can the BCB Go with Swaps?* (June 15, 2018)



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Bloomberg	SIEQ <GO>
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