



R&R Weekly Column
By Brunello Rosa



Bolsonaro and the Increased Risk of a Return to Dictatorship in Brazil

In [our column in October of 2018](#), following Jair Bolsonaro's victory in the first round of Brazil's presidential election, we asked: "Will The World's Next Strongman Come From Brazil?". Bolsonaro, who had been an underdog in the election until he was stabbed at a campaign event only one month before the vote took place, had already been displaying all of the characteristics of the strongmen who were already populating the globe at that time (Trump, Putin, Xi Jinping, Orbán, Kaczynski, Erdoğan, Duterte, Modi, etc.), including a passion for (or in his case, a past within) the military, an admiration for non-democratic regimes, and a preference for the use of force to solve international and domestic disputes.

Fast forward almost two years later to today, and, taking into account the natural tendency of Covid-induced economic restrictions to [strengthen autocratic behaviours](#), here we are: Bolsonaro is not only proving to be the world leader who is most reluctant to adopt containment measures against the spreading of Covid-19, a reluctance which has [made Brazil the new epicentre of the pandemic, together with the US](#), but a judge from the country's Supreme Court has also [accused Bolsonaro of wanting to abolish democracy](#) in Brazil in order to establish an "abject dictatorship". Justice Celso de Mello, in a WhatsApp message leaked to the media, [reportedly said](#): "We must resist the destruction of the democratic order to avoid what happened in the Weimar Republic when Hitler, after he was elected by popular vote, did not hesitate to annul the constitution and impose a totalitarian system in 1933."

These allegations came after Bolsonaro [attended a rally](#) at which demonstrators, wearing paramilitary uniforms, called for Brazil's parliament and supreme court to be shut down and be replaced with military rule, and after Bolsonaro's Minister of Culture was forced to resign [after quoting Joseph Goebbels](#), the Nazi minister of propaganda. This should not be surprising, given that Bolsonaro packed his government with more than 100 current and retired military officers, including his vice-president and at least 6 cabinet ministers.

In a recent [in-depth analysis by John Hulsman](#), we discussed Bolsonaro's record in government, showing how the president of Brazil has been out of his depth over myriad issues hamstringing his erratic presidency. In particular, we noted how three C's have been plaguing the populist leader: (lack of) Competence, (lack of) Competition within the right-wing camp, and Corruption; and how these have dramatically morphed together into an existential threat to Bolsonaro's continued rule.


At the same time, we also noted the three B's that could lead to his political salvation: Beef (Agribusiness), Bullets (the Military), and the Bible (the growing number of Brazilian Evangelical Christians). In fact, much of the President's enduring and loyal political base is clustered around these three groups. These constituencies could help Bolsonaro politically survive, or even thrive, for a continued period of time. Indeed, we concluded our analysis of Bolsonaro's political record by noting that although Bolsonaro is embattled, he is probably in no immediate danger of impeachment.


But while the three B's are protecting Bolsonaro from impeachment, and while his power base is holding for the present, none of the three C's have been even remotely dealt with. As time passes, and these structural problems turn increasingly septic, what seems now to be a slow unspooling of the Brazilian president may suddenly become a torrent that washes away "The Trump of the Tropics" for good. Before this happens, though, the risk remains that Bolsonaro will officially or unofficially suspend democracy in Brazil, bringing a return of the dictatorship that the country abandoned in 1985.


Our Recent Publications


 [Flash Review: ECB Considerably Expands and Extends PEPP](#), by Brunello Rosa, 4 June 2020

 [Flash Preview: ECB Set To Increase PEPP In June](#), by Nouriel Roubini, Brunello Rosa and Farah Aladsani, 1 June 2020

 [Flash Review: BOC Remains On Hold And Scales Back Some Market Operations](#), by Brunello Rosa and Luca Bandello, 3 June 2020

 **GEOPOLITICAL CORNER:** [Beyond the Frenzy: A First Take on Donald Trump for the History Books, Part 2—The Failures](#), by John C. Hulsman, 2 June 2020

 [Flash Reviews: RBA Remains On Hold As Downturn Might Prove Shallower Than Expected](#), by Brunello Rosa and Karmen Meneses, 2 June 2020

 [Central Bank Previews: Reserve Bank of Australia and Bank of Canada Likely To Take A Breather in June](#), by Brunello Rosa, Fawaz Al Mughrabi and Karmen Meneses, 29 May 2020

Looking Ahead

The Week Ahead: US And Chinese Inflation Expected To Decline Slightly, Japan's GDP Is Expected To Contract Further

In the US, May core-CPI inflation is expected to slightly decline to 1.3% y-o-y (p: 1.4%), despite a drop in consumer spending. The Fed is expected to keep interest rates at an all-time low of 0.25%, but May's labor market gains might dent the Fed's view that 'rates could stay at zero for years'.

In the EZ, Q1-2020 GDP is likely to confirm earlier estimates of -3.2% y-o-y, (c: -3.2%; p: 1%).

In Japan, Q1-2020 GDP is expected to contract by -0.5% q-o-q (p: -0.9%).

In China, CPI inflation is projected to soften to 2.6% y-o-y in May (p: 3.3%).

The Quarter Ahead: Tensions Between The US And Its NATO Allies To Increase

US President Donald Trump approved a plan to withdraw by September 9,500 troops from bases in Germany, following up on previous complaints that European NATO members of spend more on defense. US Government to get tough on Chinese firms listed in US. US Secretary of State Mike Pompeo warned investors against fraudulent accounting practices of China-based companies, and said "the Nasdaq's recent decision to tighten listing-rules should be a model" for all other exchanges around the world.

In the US, after May's promising jobs report, President Trump signed a bill to ease the conditions SME owners have to meet in order to get loans forgiven during the coronavirus pandemic. However, social unrest continues to disrupt businesses and individuals. While many economists expect the Fed to turn to yield-curve control later in 2020, the Fed is likely to remain on hold at its next meeting.

In the EZ, EU nations will begin opening reciprocal borders in June and to non-members in July. The President of EU's General Court stated: "last month's ruling by the German Constitutional Court is a direct interference in the functioning of the European legal order", warning it could encourage some countries to ignore EU's legal order and thereby perform a "disguised exit" from the EU.

Last Week's Review

Real Economy: Economic Activity Recovers, Political Risks Rise; Central Banks Remain Accommodative

In the US, May's labor market data showed nonfarm payrolls rising by 2.5m (c: 8.0m), after declining in April by a record-high of 20.7m. The largest employment increases occurred in: i) leisure and hospitality; ii) construction; iii) education and health services; and iv) retail trade. In May, average hourly earnings declined by 6.7% y-o-y (c: -5.8%; p: -8.0%), as job gains among lower-paid workers put downwards pressure on overall earnings. The improvement in the labor market showed May's unemployment rate dropping away from an historical high (a: 13.3%; c: 19.8; p: 14.7%). May's Markit PMI Composite rose to 37.0 (c: 36.4; p: 27.0), from its historical low – as manufacturing rose to 39.8 (c: 39.8; p: 36.1) and services to 37.5 (c: 36.9; p: 26.7). Despite the improvement, the readings highlight the second biggest contraction ever in private sector activity.

In the EZ, the Markit PMI Composite showed in May an improvement in activity, rising from an all-time low to 31.9 (c: 30.5; p: 13.6), as: i) manufacturing rose to 39.4 (c: 39.5; p: 33.4); and ii) services recovered to 30.5 (c: 28.7; p: 12.0). Despite the improvement, May's data show a sharp fall in activity, with the 'new business' sub-component falling the most. The u/e rate rose (a: 7.3% m-o-m; c: 8.2%; p: 7.1%) and retail sales tumbled to a record low in April (a: -19.6% y-o-y; c: 22.3%; p: -8.8%), as containment measures hit demand.

In the EZ, Australia, and Canada, all central banks kept their key policy rates unchanged, to help mitigate the economic impact of the COVID-19 recession (ECB: 0.00%; RBA: 0.25%; BoC: 0.25%).

Financial Markets: Stocks Surge On Global Recovery And US Labor Market; Oil Rises, Gold Falls

Market drivers: stocks recorded their best weekly gain in two months, as investors bet on the beginning of an economic recovery.

Stocks: w-o-w, global indices rose (MSCI ACWI, +5.8%, to 539), driven by the EZ (Eurostoxx 50, +11.0% to 3,384), as it reopens international travel, and the US (S&P 500, +4.9% to 3,194) despite the worst civil unrest in decades. EMs also rose (MSCI EMs, +7.8% to 1,003).

Bonds: w-o-w, returns fell (BAML Global, -0.6% to 292.1); the yield on a 10y UST rose by 26bps to 0.91%. Volatility fell to 24.5 (p: 27.5), but remains above historical averages (52w: 22.4; 10y: 17.2).

FX: w-o-w, the USD weakened (DXY, -1.4% to 96.937), while both EUR and GBP strengthened (EUR/USD, +1.7% to 1.128; GBP/USD, +2.6% to 1.266).

Commodities: Oil rose (Brent, +19.7% to 42.3 USD/b; WTI, +11.4% to 39.6 USD/b), as OPEC+ extended record production cuts. As the global economy started to show signs of a recovery, gold showed signs of losing its safe haven appeal, (-2.4% to 1,785 USD/Oz.).

Farah Aladsani contributed to this Viewsletter.

The picture in the front page comes from [this website](#)



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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