

Brazil Stocks, Currency Surge as Bolsonaro Takes Commanding Lead

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October 7, 2018, 9:36 PM EDT

Updated on October 8, 2018, 10:43 AM EDT

- ▶ Ibovespa equity gauge is climbing the most in two years
- ▶ Bolsonaro allies also did surprisingly well in congress vote



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Brazilian assets jumped after investor favorite Jair Bolsonaro took a commanding lead in the first round of the presidential election, garnering support that surpassed all polls.

The Ibovespa equity gauge surged 4.1 percent -- the most in two years -- in Sao Paulo, while the real strengthened to a two-month high. Petroleo Brasileiro SA shares gained more than 8 percent, and bonds joined the rally along with exchange-traded funds. The stark outperformance was evident on a day most emerging-market assets fell.

Traders are cheering on Bolsonaro to avoid a return to the left-wing Workers' Party and the economic policies of the past few years, which led to the worst recession in at least a century, blew out the budget deficit and cost the country its investment-grade credit rating. While the former army captain has professed a disinterest in economics, investors are betting that advisers would steer his administration toward privatizations and other market-friendly policies.

"It's a done deal that he's going to be the next president of Brazil unless something very unforeseen happens," said Bernd Berg, a strategist at Woodman Asset Management AG in Zug, Switzerland, who sees the main stock gauge rising above 100,000 and the real stronger than 3.6 per U.S. dollar in the next few weeks. "The larger-than-expected gain of conservative mandates in Congress is highly positive for Brazilian assets in the short-run as it will improve the outlook for much needed reforms in a potential center-right government."



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Brazil assets had rallied last week as polls showed Bolsonaro gaining momentum over the Workers' Party candidate, former Sao Paulo Mayor Fernando Haddad. Those two candidates -- the top vote getters in the first round -- will meet in a decisive runoff election Oct. 28. Bolsonaro wound up with 46.2 percent support, short of the majority needed to win outright, compared with 29.1 percent for Haddad, electoral officials said.

In Congress, Bolsonaro's PSL party, once tiny, will become the second-largest in the lower house, potentially giving his administration more backing than expected. Two of his sons also won election. The support among lawmakers should make painful reforms easier.



Jair Bolsonaro Photographer: Dado Galdieri/Bloomberg

While Bolsonaro has been fairly quiet about his ideas for reviving South America's largest economy, he has enlisted an adviser, Paulo Guedes, who is in favor of privatizations and overhauling the pension and tax systems. Though Guedes is a market darling, there have been questions about how solid his partnership with his candidate is, given that many of his proposals go against what Bolsonaro has voted for in his 30 years in Congress.

The congressman, who spent weeks in the hospital after being stabbed at a rally on Sept. 6, has also created controversy and isolated some Brazilians with rhetoric that has denigrated women, homosexuals and black people. His comments were used as evidence by some supporters that he was willing to tell it like it is, as opposed to other candidates more concerned with being politically correct. Bolsonaro also pledged a crackdown on corruption and violence in the murder-plagued country.



But investors expressed little skepticism Monday morning, sending the real up 2.2 percent to 3.7555 per dollar as of 10:41 a.m. in New York. Itau Unibanco Holding SA, Petrobras and Banco Bradesco SA were among the biggest contributors to the Ibovespa's surge. The iShares MSCI Brazil ETF traded in New York climbed 6.5 percent. The yield on Brazil's 1 billion euros of notes due in 2021 fell 23 basis points to 1.5 percent. U.S. bond markets are closed for the Columbus Day holiday.

State-run companies are expected to be among the biggest beneficiaries of a Bolsonaro presidency because of his adviser's goals to privatize "everything." Along with Petrobras, the companies include electric utility Centrais Eletricas Brasileiras SA and lender Banco do Brasil. If Bolsonaro is elected, Petrobras shares could double, according to Eduardo Cysneiros de Moraes, a fund manager at Claritas Investimentos, a Principal Financial Group unit, in [Sao Paulo](#).

"Bolsonaro's momentum is really strong and it seems that he will have it relatively easy to win the second round," said Tania Escobedo, a strategist at RBC Capital Markets in New York and the most accurate forecaster for the Brazilian real in the first and second quarters of this year, according to Bloomberg rankings. "That being said, the market was pretty optimistic on his prospects already and market participants positioned for this scenario."



Jair Bolsonaro Photographer: Dado Galdieri/Bloomberg

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Fernando Haddad on Oct. 7. *Photographer: Patricia Monteiro/Bloomberg*

Here's what other analysts and investors are saying:

Alejo Czerwonko, a strategist at UBS Wealth Management in New York:

- ▶ “Bolsonaro’s showing was stronger than expected, and although the market has been moving in recent days to price in momentum in his favor, today’s results should provide additional support to Brazilian assets”
- ▶ “I don’t think the strength of his showing today was fully priced in”

Alberto Ramos, an economist at Goldman Sachs Group Inc. in New York:

- ▶ “Bolsonaro is going to the runoff with very strong momentum. Needs to convert only a small fraction of the vote for other center-right candidates to win the election. The main challenge for him now is not to commit any major campaign mistake”
- ▶ Growing support for centrist/right-wing candidates in senators/law-makers’ elections “could strengthen governability and the capacity to move forward with key reforms in case Bolsonaro wins the runoff”

Edwin Gutierrez, a money manager at Aberdeen Asset Management in London, who had been avoiding Brazil’s dollar bonds:

- ▶ “Looking pretty good for Bolsonaro in the second round and assuming no major slip-ups from him over the next few weeks, the markets will price his victory in the second round even before he actually wins”

Will Landers, a managing director at BlackRock Inc. in New York:

- ▶ The firm has a constructive view on Brazilian consumers
- ▶ It holds overweight positions in companies that benefit from domestic consumption and the economic recovery

Gustavo Rangel, chief Latin America economist at ING in New York:

- ▶ “The result was clearly better than expected for the right-leaning candidate, which should result in a stronger performance by Brazilian assets”
- ▶ “Loss of important traditional names of the Workers’ Party for the Senate in the Southeast is also a particular blow for the left, and presages a larger-than-expected center-right base in Congress. This bodes well for the eventual construction of a right-leaning base in Congress, should Bolsonaro get elected, increasing the chances of passage of the fiscal-austerity measures the candidate has proposed”

James Gulbrandsen, a Rio de Janeiro-based money manager who helps oversee \$3.5 billion at NCH Capital:

- ▶ “Perhaps more surprising than Bolsonaro’s performance is the anti-PT (Workers’ Party) wave that could really create a very different senate and congress. One that would facilitate passage of much-needed reforms. That’s enormously positive”
- ▶ “The odds of a Congress that will pass reforms just skyrocketed. This is the principal concern of the market”

Alejandro Cuadrado, the global head of foreign exchange at BBVA in New York:

- ▶ “Beyond initial reactions and some potential honeymoon, there are significant concerns on a Bolsonaro presidency down the road, including the stability of his platform, overall polarization or his capacity to build consensus supporting the needed reforms”

Jimena Blanco, head of Latin America research at Verisk Maplecroft, a U.K.-based forecasting company:

- ▶ “The key question for the second round is whether we will get some detail on what the economic policies will look like because at the moment, that’s been missing from every campaign”
- ▶ Bolsonaro’s proposals have included greater privatization, reducing the size of government in Brazil. “But without structural pension reform, that’s just going to be a drop in the ocean. The key question is whether he will have the legislative support base to pass the structural reform the country needs”

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