

Merger effect

Gig workers need regulators to protect them — SARAH O'CONNOR, PAGE 11

Fear and loathing

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Smart Money

Europe's banks still pose a threat to the eurozone — JOHN AUTHERS, PAGE 13

Zuckerberg apology tour hits Europe

Mark Zuckerberg, founder and chief executive of Facebook, arrives yesterday at the European Parliament, where he made his latest attempt to draw a line under a data leak scandal that has shaken the social media network.

Mr Zuckerberg echoed his apology last month to the US Congress, saying it had “become clear over the last couple of years that we haven’t done enough to prevent the tools we’ve built from being used for harm as well”.

Manfred Weber, leader of the centre-right in the parliament and an ally of Angela Merkel, Germany’s chancellor, asked why Facebook should not be broken up. Mr Zuckerberg replied: “We exist in a very competitive space.”

Reuters



Yves Herman/Reuters

Republicans launch revolt against Trump rescue of China’s ZTE Corp

White House brinkmanship criticised Beijing urges reprieve for ailing telecoms group

SHAWN DONNAN — WASHINGTON

Congressional Republicans are mounting a rebellion over Donald Trump’s move to patch up trade relations with Beijing, drawing up legislation that would block the White House’s attempt to rescue a Chinese telecoms group pushed to the brink by US sanctions.

The revolt, led by Florida Senator Marco Rubio, is a sign of mounting scepticism inside the Republican party over the president’s handling of his trade brinkmanship with China.

Mr Trump’s aides are negotiating a deal that would lift US sanctions against ZTE Corp, the Shenzhen-based telecoms group accused of selling sensitive technologies to Iran and North Korea, in exchange for wholesale senior manage-

ment changes and another large fine. Mr Trump said yesterday that one option was fining ZTE \$1.3bn.

The group was fined \$1.2bn by the US last year.

Xi Jinping, the Chinese president, has made a reprieve for ZTE, which was forced to halt operations after the US commerce department announced a seven-year ban on sourcing chips and other parts from the US, a condition for a broader trade deal.

Beijing yesterday announced that it would cut tariffs on car imports from 25 per cent to 15 per cent on July 1, a move seen by some analysts as a concession to Mr Trump following his U-turn on ZTE.

Mr Rubio, who has been leading Republican opposition to a ZTE deal since Mr Trump first ordered a reversal

in policy last week, said changes in management, fines and other ideas floated as part of a deal were not enough.

“Sadly China is out-negotiating the administration [and] winning the trade talks right now,” Mr Rubio wrote on Twitter.

“They have avoided tariffs [and] got a ZTE deal without giving up anything meaningful in return.”

Mr Rubio is not alone in his concern. Congressional committees last week passed bipartisan measures tying the ZTE punishment to funding bills, and the Senate’s powerful banking committee yesterday passed a measure that would prevent Mr Trump from modifying ZTE’s punishment for at least a year.

Mr Trump said he had not yet reached a deal over ZTE and acknowledged he



Marco Rubio, the senator for Florida, said China has ‘avoided tariffs [and] got a ZTE deal without giving up anything meaningful in return’

was re-examining the punishment only because Mr Xi had asked him to. US officials liken Mr Xi’s ZTE request to interventions Mr Trump makes on behalf of US groups with other foreign leaders.

“The objective [of the original punishment] was not to put ZTE out of business; the objective was to make sure that they abide by our sanctions programmes,” Steven Mnuchin, US Treasury secretary, told Congress yesterday.

The dispute comes as Republicans in Congress are hardening their line against Beijing’s efforts to acquire US technology, advancing legislation that would give the Committee on Foreign Investment in the US greater power to review inbound Chinese investment for its national security implications.

China faces tighter curbs page 4



Polls narrow ahead of Irish vote to end abortion ban

Debate has sharpened in Ireland as Friday’s referendum on repealing a constitutional ban on abortion nears. ‘One of our canvassers had a man get right in her face and poke her and shout “baby killer”,’ said one pro-abortion campaigner. Surveys suggest the repeal campaign has a large but diminishing lead in a vote seen as a modernising step for a country once dominated by the Catholic Church.

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Carney expects economic rebound and ‘gentle’ interest rate increases

CHRIS GILES — ECONOMICS EDITOR

Britain’s economy is likely to be on the rebound in the current quarter after three months of near stagnation to start the year, Bank of England leaders told MPs yesterday, signalling that they are still planning on raising interest rates gradually this year.

Mark Carney, the BoE governor, told the Treasury select committee that households were right to think “interest rates are more likely to go up than not, but at a gentle rate”, comments that helped lift the pound nearly 0.5 per cent to \$1.35 before it pared gains in late trading.

Sterling has fallen sharply since mid-April, when it approached highs not seen since before the Brexit referendum, amid a softening inflation picture that had analysts questioning whether the central bank would stay on its rate-

raising course. Earlier this month, the BoE left rates on hold and gave little guidance on how it would proceed.

Mr Carney said despite the Monetary Policy Committee’s view that the underlying economy had not weakened, the poor first-quarter statistics gave rate-setters some pause for thought. “I felt it was right to get more data,” he said.

Part of Mr Carney’s optimism is a dispute with the Office for National Statistics over whether heavy snow early in the year hurt economic performance.

The ONS has ruled out the weather as a factor in the poor start, while Mr Carney said the BoE’s regional agents contacts had suggested that the snow had cut between 0.1 to 0.2 percentage points from the first-quarter growth rate.

Even after the BoE took account of snow, “there was a bit of residual softness”, the governor acknowledged,

“which is why it made sense to see momentum was reestablished [before raising rates], which I expect”.

Other MPC members shared the governor’s view that first-quarter weakness was likely to be temporary, and growth was expected to rebound to 0.4 per cent in the second quarter without any snow.

Dave Ramsden, deputy governor for markets, who voted against the November rise, said there was a risk that households were spending less than the BoE had expected, which might be showing up in recent poor consumer credit data.

The committee members were asked whether they agreed with Gertjan Vlieghe, an external MPC member, that the BoE could communicate its intentions more effectively if the rate setters published an expected path of interest rates in future.

Borrowing hits decade low page 2



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World Markets

STOCK MARKETS

	May 22	prev	%chg
S&P 500	2737.48	2733.01	0.16
Nasdaq Composite	7402.57	7394.04	0.12
Dow Jones Ind	24992.25	25013.29	-0.08
FTSEurofirst 300	1557.00	1552.54	0.29
Euro Stoxx 50	3594.95	3572.57	0.63
FTSE 100	7877.45	7859.17	0.23
FTSE All-Share	4324.41	4314.70	0.23
CAC 40	5640.10	5637.50	0.05
Xetra Dax	13169.92	13077.72	0.71
Nikkei	22960.34	23002.37	-0.18
Hang Seng	31234.35	31047.91	0.60
MSCI World \$	2130.72	2120.80	0.47
MSCI EM \$	1136.49	1137.75	-0.11
MSCI ACWI \$	517.72	515.66	0.40

CURRENCIES

	May 22	prev		May 22	prev
\$ per €	1.177	1.175	€ per \$	0.849	0.851
\$ per £	1.342	1.341	£ per \$	0.745	0.746
€ per £	0.877	0.877	£ per €	1.140	1.141
¥ per \$	111.020	111.220	¥ per €	130.709	130.689
¥ per £	148.988	149.107	£ index	78.845	79.134
€ index	94.468	94.458	\$ index	100.120	99.948
Sfr per €	1.169	1.173	Sfr per £	1.333	1.338

COMMODITIES

	May 22	prev	%chg
Oil WTI \$	72.48	72.35	0.18
Oil Brent \$	79.72	79.22	0.63
Gold \$	1288.35	1288.30	0.00

INTEREST RATES

	price	yield	chg
US Gov 10 yr	93.21	3.08	0.01
UK Gov 10 yr	97.76	1.52	0.05
Ger Gov 10 yr	100.29	0.56	0.04
Jpn Gov 10 yr	100.54	0.04	-0.01
US Gov 30 yr	91.30	3.22	0.01
Ger Gov 2 yr	101.89	-0.61	0.02

	price	prev	chg
Fed Funds Eff	1.70	1.69	0.01
US 3m Bills	1.93	1.91	0.02
Euro Libor 3m	-0.35	-0.35	0.00
UK 3m	0.62	0.62	0.00

Prices are latest for edition Data provided by Morningstar

A Nikkei Company

FT BIG READ. BRAZIL

October’s poll is set to be the most unpredictable in 30 years. The result could hinge on the votes of those in the lower middle class whose standard of living has risen and fallen with the boom and bust cycle.

By Joe Leahy and Andres Schipani

A ruined wattle-and-daub hut sits outside of Caetés, Brazil’s northeastern state of Pernambuco, surrounded by small farms. The bucolic scene belies the area’s history of harsh droughts.

It was here that former president Luiz Inácio Lula da Silva grew up until the age of seven, when he left for São Paulo thousands of kilometres away with his family on the back of a truck. Decades later, he rose through Brazil’s union movement to become the first labour president of Latin America’s largest country, presiding over a period of rapid economic growth between 2003 and 2010 fuelled by a China-led commodities boom.

“The situation before Lula became president was difficult, no one had a car, no one had any land, no one had anything,” says Gilberto Ferreira, a farmer who is a cousin of the former president and lives nearby. He points to his granddaughter, Jacqueline Ferreira, who took part in a government-funded exchange study programme in Canada and now teaches English, something that would have been highly unusual before.

Eight years on Lula da Silva is in prison on graft charges, his leftist Workers’ party (PT) in tatters amid corruption scandals, and the economy, despite a recent bounce, is still struggling. That is the backdrop against which elections in October will be fought, with analysts predicting that the vote will be

‘In the first year of the crisis in 2015, 6m fell into poverty. The crisis was big but the previous gains were even greater’

decided by the Ferreiras and millions like them in Brazil’s huge new lower middle class.

During Lula da Silva’s eight years in power and under his successor, former president Dilma Rousseff, who was impeached in 2016, Brazil’s lower middle class grew dramatically. Higher minimum wages, monthly stipends and cheap public housing helped, by its peak in 2014, pull 67m people into the middle and upper classes — roughly the equivalent of the population of France, according to figures from Marcelo Neri, economist with the Getúlio Vargas Foundation, and a former minister of strategic affairs under Ms Rousseff.

But today this legacy is in danger of crumbling. Battered by the country’s worst recession in history over the past few years, which many believe was largely self-inflicted by the PT-led government, many in the lower middle class, known as the “C-class”, are fighting to hold on to what they have gained.

“These voters have become more critical of politics including the PT and the Dilma government especially because they started to lose their recent gains following the end of the Lula government,” says Mauro Paulino, director-general of pollster Datafolha.

Confluence of crises

It is this traumatic change in fortunes that lies behind the turbulent political environment. While some remain sympathetic to the former president, support for the PT is fragmenting.

At the same time, all the mainstream parties, including the PT, the Brazilian Democratic Movement, or MDB, of current President Michel Temer and the Brazilian Social Democracy party, or PSDB, led by presidential contender Geraldo Alckmin, have been devastated by Lava Jato (Car Wash), a vast investigation originally centred on bribery at state-owned oil company Petrobras. Lula da Silva — who was expected to stand — was sentenced to 12 years last month under Car Wash, leaving the path open to more unconventional figures.

Far-right, populist politician Jair Bolsonaro is leading in the polls followed by centre-left environmentalist Marina Silva, and leftist Ciro Gomes. In a poll released on May 14, Mr Bolsonaro had 18.3 per cent of voters’ intentions, Ms Silva 11.2 per cent, Mr Gomes 9 per cent and Mr Alckmin 5.3 per cent.

This year promised to be an election of fear and loathing, says Mr Paulino. “Fear” because of a crime wave sweeping the country, and “loathing” because of the disgust voters felt for a political class they believe stole at the expense of public services, particularly health and education.

At stake is the future of Latin Amer-



A youngster flies a kite at the Vidigal favela in Rio de Janeiro — Carl de Souza/AFP/Getty Images

Fear and political loathing

ica’s largest economy. Brazil has pulled out of the freefall of 2015-16, but it is still fragile. Many economists believe that if the next president is unwilling or unable to take steps to rein in public spending, the country could slip into another period of low growth and internecine political conflict.

“This election will be especially interesting, occurring in an environment in which there are various crises all coming together — the economic crisis and the crisis affecting public security and services — which is very dramatic,” Mr Paulino says.

In a new low-income housing project in Pindamonhangaba, in the interior of Brazil’s richest state, São Paulo, Júlio César Pedrozo, an unemployed security guard, prints off more résumés. This industrial town on the highway between Rio de Janeiro and São Paulo is the birthplace of two of the 2018 election candi-

dates — the PSDB’s Mr Alckmin and Mr Gomes of the Democratic Labour party or PDT. Mr Pedrozo has been seeking work for five months, he says, a victim of Brazil’s severe recession in which gross domestic product shrank by more than 7 per cent in 2015-16. While a weak recovery is under way now, Mr Pedrozo says jobs remain scarce.

“If you go back eight years, it was easier to leave a job because you’d get another straight away, today you have to think hard about it,” he says.

Formerly earning R\$1,800 (\$486) a month as a security guard, while his wife made another R\$800 as a baker, Mr Pedrozo’s household used to fall into what many Brazilian economists define as the lower middle class. FGV’s Mr Neri says that at its peak in 2014 the C-class earned between R\$2,005 and R\$8,640 per family and grew from 66.5m people in 2003 to 116.7m people

in 2015 — the most recent figure available — in a country of more than 200m.

Since then, median real income has fallen a net 14.3 per cent. Despite that there are indications the population of the lower middle class remained relatively stable, partly because of people from the higher income bracket losing their jobs and slipping down the social ladder.

“Just in the first year of the crisis in 2015, 6m fell into poverty, there was a strong downward adjustment,” he says. Adding that the recession has not entirely wiped out the gains from the preceding decade of prosperity, with many of those who lost jobs starting their own businesses.

“The crisis was big but the previous gains were even greater,” says Mr Neri.

Threats to the big ‘C’

The question now is whether the next government will be able to undertake the reforms necessary to create lasting growth, including an overhaul of Brazil’s costly pension system, and reduce unsustainable budget deficits, say analysts. “Brazil has a very delicate fiscal situation,” says Alejandro Werner, director, western hemisphere department, of the IMF.

Despite his poor performance in early polls, markets regard Mr Alckmin as the most likely candidate to be able to push through reform. With his record as former governor of São Paulo state, Brazil’s economic powerhouse, they see him as having the negotiating skills to deal with the pork-loving Congress, which is populated by nearly 30 parties.

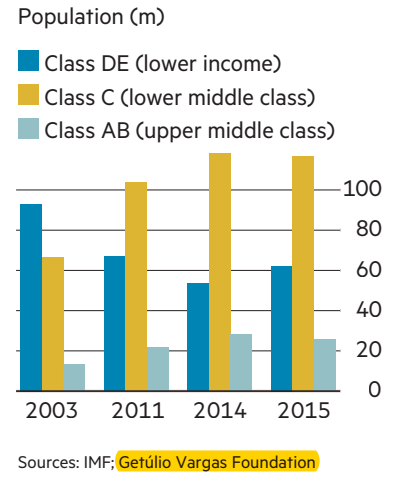
Espedita de Lima, a single mother in her fifties living in the Pindamonhangaba housing project, says she would vote for Mr Alckmin. Having only recently moved in, she is surviving with two plastic chairs and a television that blares out daytime celebrity programmes. Pindamonhangaba, she says, is suffering from violence and drugs.

But like many Brazilians, Ms de Lima is disgusted with Brazil’s political class and would dump Mr Alckmin if he was convicted of corruption. He is under investigation in an illegal campaign

Brazil is lagging behind its neighbours



Brazil's lower middle class holds on, for now



Sources: IMF; Getúlio Vargas Foundation

Speed read

Legacy of ‘Lulismo’ About 67m people had been helped into the middle and upper classes by 2014 by PT policies

Brasília shake-up? In a poll last week far-right, populist Jair Bolsonaro led with 18.3 per cent of voters’ intentions

Overhaul likely Markets see the PSDB’s Geraldo Alckmin as the politician most likely to be able to push reform

finance case. “This thing in which someone [a politician] says he ‘steals but gets things done’. Hang on, they earn a very good salary not to steal, right?” she says.

Bandit country

Thousands of kilometres away in Campo Verde, a farming town in Brazil’s central grain-growing state of Mato Grosso, voters are turning towards the far-right’s Mr Bolsonaro. Infamous for once telling a PT congresswoman that she was too ugly to “deserve” being raped, Mr Bolsonaro speaks fondly of the former military dictatorship and wants to arm the citizenry against crime. He is also courting the powerful farmers’ lobby in Congress and the giant evangelical movement, having recently rebaptised himself in the Jordan River.

His message on crime appeals to rural populations, which have begun to suffer the kind of armed assaults once reserved for the big cities.

“The *bandido* [criminal] enters your house, robs you, beats up your wife and child, and nothing happens,” complains Edson Campos, a farmer with 1,700 hectares of crops and 5,000 cattle. He believes many people would support a military intervention, saying: “The police do not have the conditions to provide security. We need the army.” Mr Bolsonaro is tapping into the “fear

‘When someone says “[a politician] steals but gets things done’. Hang on, they earn a very good salary not to steal, right?’

factor”, says Datafolha’s Mr Paulino. Of his supporters, 60 per cent were relatively affluent middle-class voters aged under 34 — the group hardest hit by the recession, analysts say.

There are signs that Mr Bolsonaro is also attracting some of the lower middle class male youth vote too. “He’s an extremist, he’s for the death penalty, but at the moment he’s the best option,” says Lucas de Lima Pereira Santos, 22, the son of Ms de Lima. He too is unemployed after being dismissed as a labourer. If a robber “kills, he should pay in the same currency”, he says.

Analysts caution that the electoral map in Brazil is very fluid. Official campaigning will only start in late August. In Brazil, parties traditionally form grand coalitions to campaign together in order to gain the right to more time on television under electoral rules. This would benefit mainstream candidates, such as Mr Alckmin, or Mr Gomes, looking to take votes from the left.

Mr Bolsonaro’s small Social Liberal party, or PSL, might struggle to build coalitions. While social media — one of its key campaigning tools — is becoming more important, many Brazilians still do not have smartphones or easy access to the internet. And more than 60 per cent of the electorate remain undecided, according to Datafolha.

“This is a moment of transition, in which the old electoral parameters have yet to be completely dismantled and the new [ones] yet to fully emerge. That’s why it is so difficult to read,” says Ricardo Sennes a director of Prospec-tiva, a consultancy.

More than anything else, this election will be a battle for the hearts and minds of the lower middle classes, analysts say.

Even the left cannot be completely written off. Although some still believe Lula da Silva, who is appealing against his conviction, could make a comeback, the prospect seems increasingly unlikely. Whoever he gives his backing to could draw about 20 per cent of the vote. After all, some Brazilians still see him as a hero, particularly in the poverty-stricken north-east.

“I really want him to go free. If he returned to the presidential race, I would vote for him, we would all vote for Lula here,” says Rosângela da Silva dos Santos, a small farmer and shop-owner and mother of four in Belo Jardim in Pernambuco. “If he does not come back, we will vote for someone else he supports, that is the truth.”

FT Online video Why Brazil’s hard pressed lower middle class holds the key to the October election ft.com/video