ecoanalítica

Exchange Rate
Outlook Report

Year 18 – September 2022

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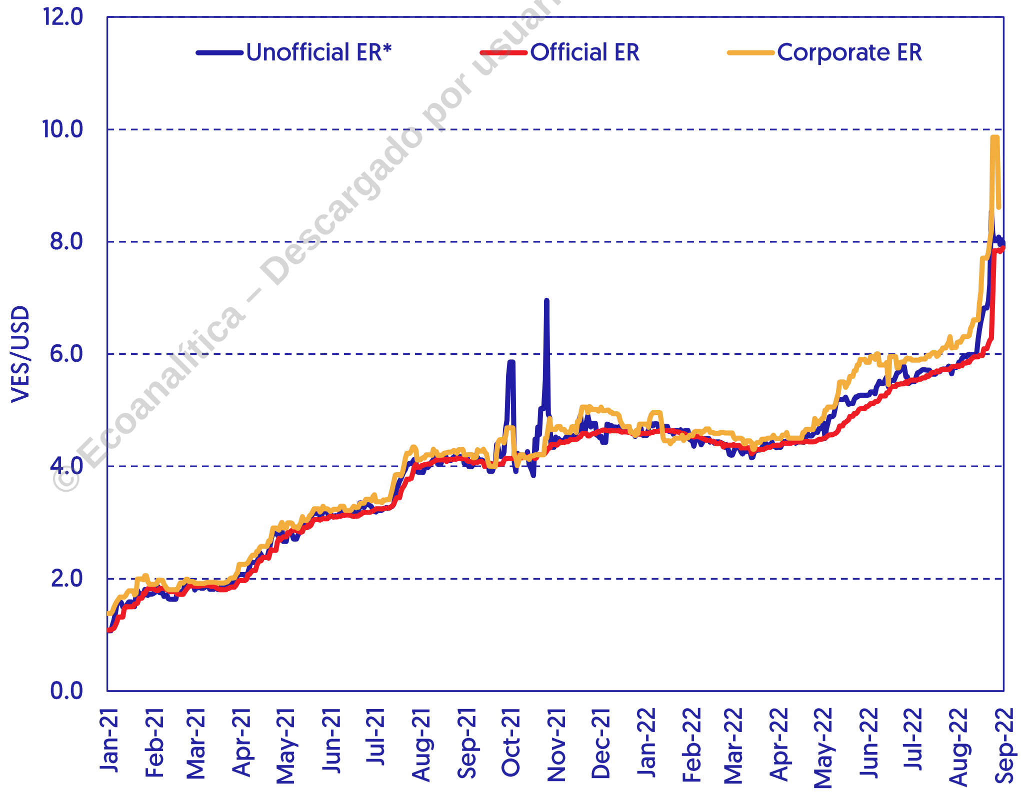
Content

Analysis of the Venezuelan foreign ***exchange market.***

Evolution of the parallel market

At the close of August 2022, the parallel exchange rate closed at VES 8.03/USD, averaging VES 6.73/USD during the month, an increase of 39.5% over the close of the previous month and of 98.3% compared to the same period of 2021. For its part, the corporate[1] exchange rate closed on the same date at VES 8.61/USD, with a monthly average of VES 7.33/USD, and an average premium of 10.2% over the FX retail rate.

Daily exchange rate



** Calculated by the implicit Bitcoin [BTC] exchange rate.*
Sources: BCV and Ecoanalitica.

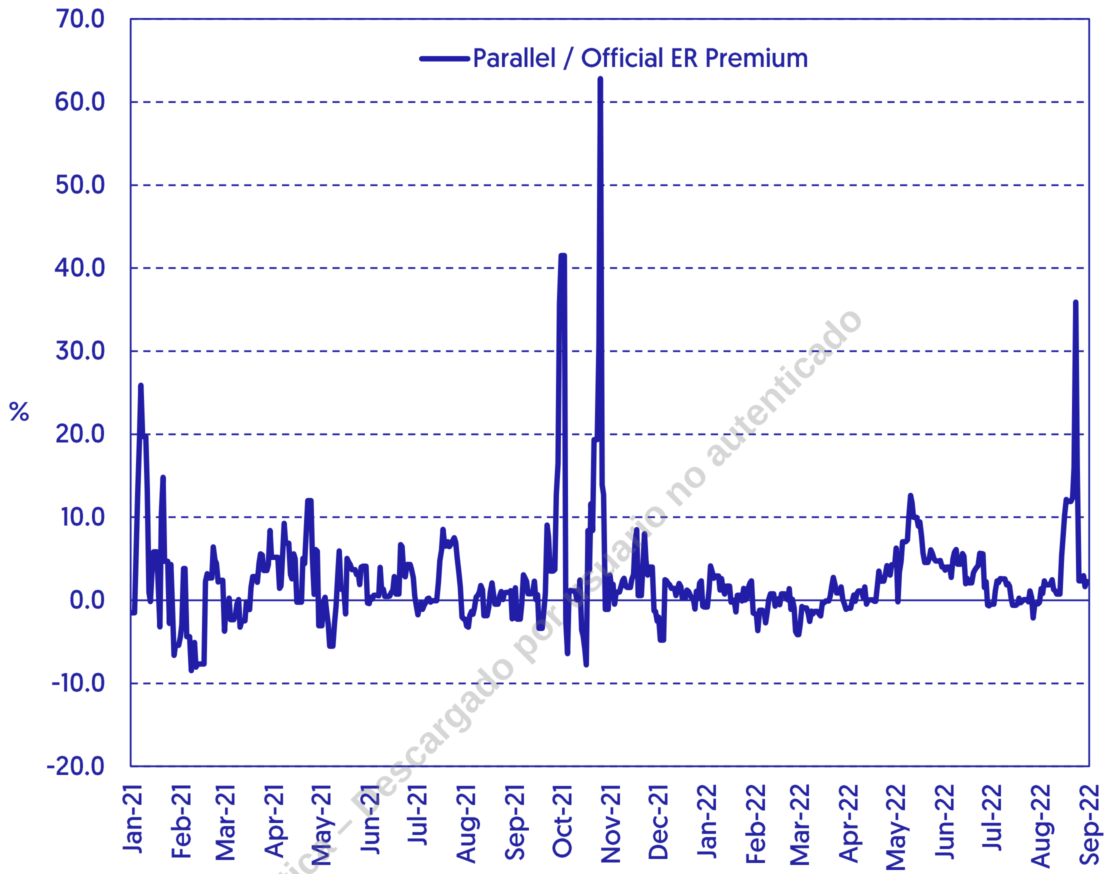
1 Exchange rate at which Venezuelan firms trade, normally at a higher price than that observed at retail.

In August, the exchange rate indicators presented the most important increases so far in 2022. The payment of vacation bonuses for workers in the public education sector (financed with a weekly increase in the monetary base of 36.2%) and the decision of the Central Bank of Venezuela (BCV) to reduce the sale of foreign currency to the financial sector formed a combination of factors that drove the increase in the exchange rate as of the middle of the month. Even so, the BCV tried to contain the increase in the exchange rate through the issuance of *Títulos de cobertura* (TCC), indexed to the exchange rate and with a favorable interest rate, to absorb part of the injected bolivars. However, the little demand on these securities derived in important injections of foreign currency, making this month have shown the highest sales of foreign currency of the series that we compiled since February 2019. The uncertainty generated by the acceleration of the exchange rate increase was especially reflected in the corporate market, which peaked at VES 9.86/USD during the last week of August. This month's performance reaffirms the fragility of the Venezuelan economy, whose price indicators remain highly sensitive to monetary indicators and generates a warning regarding the sustainability of the price containment strategy by anchoring the exchange rate for the moment when the capacity to generate foreign currency is reduced.

The Official exchange rate and BCV interventions

The official exchange rate closed the previous month at VES 7.86/USD, with an average during August of VES 6.35/USD. Thus, the price agreed in the unofficial market remained, on average, 5.9% above the official marker in August 2022, 3.3 percentage points (pp.) lower than the margin observed in 2021 - marking in that year a premium of 2.6% of the parallel exchange rate over the official one.

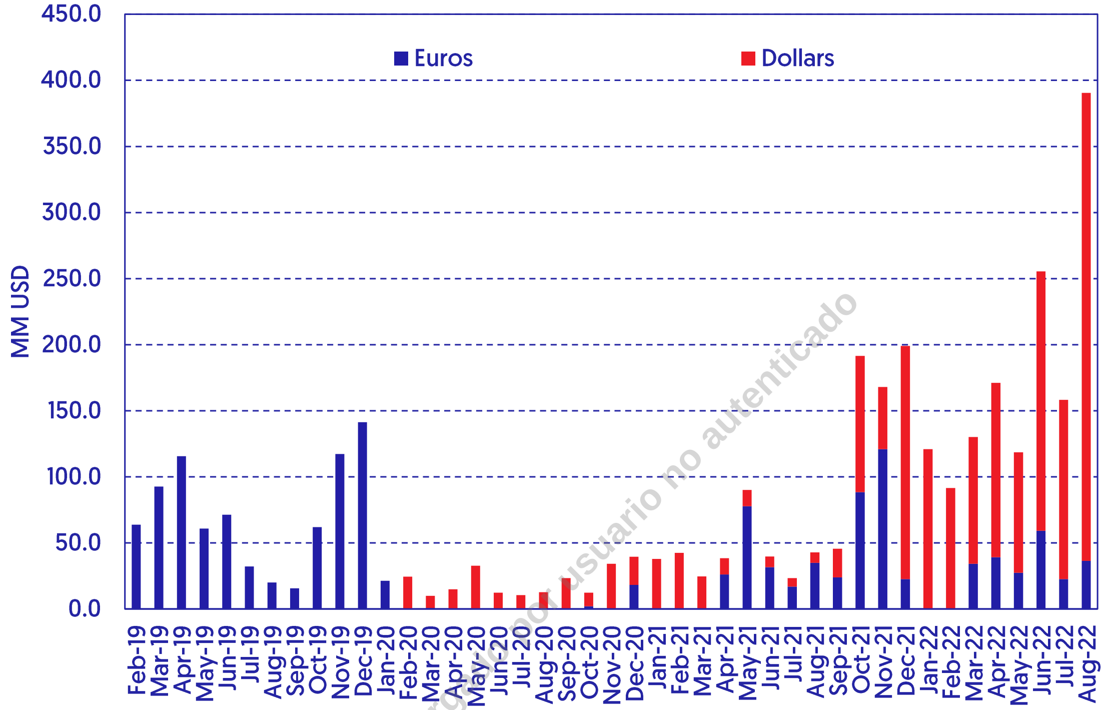
Parallel and official exchange rate premium



Sources: BCV and Ecoanalitica.

The close relationship between the unofficial and official marker is mainly due to the BCV's foreign currency sales to the financial system. In August, the BCV intervened in the foreign exchange market with USD 390.5 million, 811.0% higher than the sales of the same month of 2021 and 146.7% higher than the amounts of July.

Sale of foreign currency in cash to the financial system

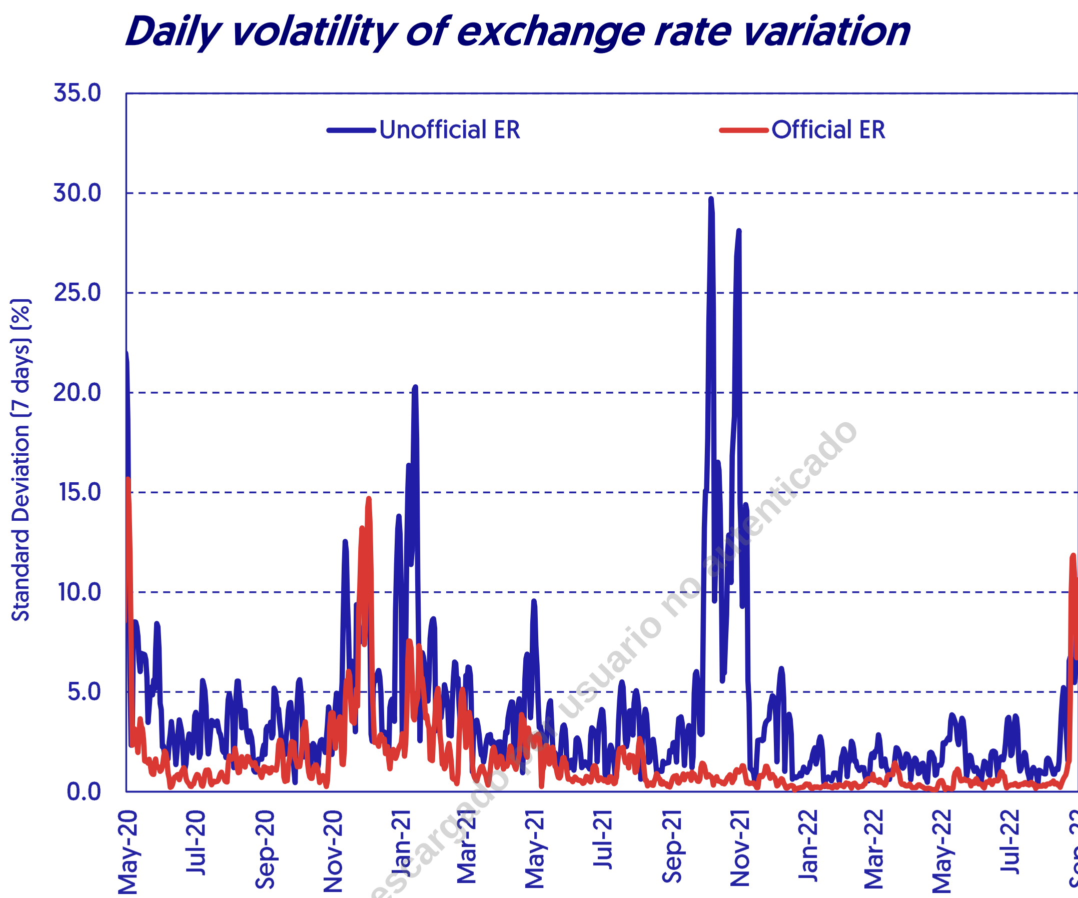


**** Euros converted to dollars using the average USD/EUR exchange rate for the month.***
Source: Ecoanalitica.

Exchange market volatility.

The volatility[2] of the parallel exchange rate raised in August, increasing 1.6 pp. with respect to the previous month. On the other hand, the volatility of the official rate in August remained lower than that of the parallel rate, being 0.7 pp. below the latter.

[2] Standard deviation of the weekly variation of exchange markers.



Sources: BCV, LocalBitcoins and Ecoanalitica.

Parallel exchange rate **projections.**

Fundamentals of projections:

Given the technical difficulties in making nominal exchange rate projections in an environment of high inflation, as mentioned in previous reports, Ecoanalítica is currently making adjustments to our predictive model. The results shown in this edition are the result of this adjustment process. Therefore, they present relatively significant changes with respect to the previous edition.

Non official exchange rate forecast

Date	Actual value *	Forecast range					
		Low		Medium		High	
2021M01	1.72	0.36	0.80	1.16	1.52	2.00	2.59
2021M02	1.92	0.94	1.36	1.78	2.43	3.01	3.74
2021M03	2.07	1.00	1.45	1.83	2.22	3.33	4.44
2021M04	2.66	1.67	2.42	2.63	2.83	3.68	4.52
2021M05	3.09	1.78	2.58	3.05	3.53	4.17	4.82
2021M06	3.22	1.93	2.19	3.32	3.85	3.91	3.96
2021M07	3.90	2.12	3.07	3.57	4.08	4.74	5.40
2021M08	4.05	2.27	3.28	3.79	4.29	4.92	5.04
2021M09	5.62	2.58	3.23	3.88	4.54	5.12	5.70
2021M10	4.34	4.36	5.46	5.83	6.21	7.87	9.52
2021M11	4.55	3.23	4.68	5.10	5.52	6.08	7.28
2021M12	4.55	1.80	2.61	4.70	5.75	5.92	6.10
2022M01	4.48	2.67	3.87	4.99	5.07	5.56	6.05
2022M02	4.20	3.02	4.38	5.09	4.77	5.02	5.26
2022M03	4.33	2.76	4.00	4.29	4.58	5.36	6.13
2022M04	4.68	2.48	3.60	4.54	5.08	6.08	7.08
2022M05	5.27	2.75	3.98	4.67	4.97	5.18	5.39
2022M06	5.50	2.57	3.73	4.73	5.34	5.68	6.02
2022M07	5.76	3.20	4.29	5.47	5.91	5.99	6.08
2022M08	8.03	2.90	4.21	5.70	6.20	6.47	6.74
2022M09		**5.88**	**8.39**	**9.21**	**9.43**	**9.92**	**10.42**
2022M10		**6.12**	**8.74**	**9.36**	**9.97**	**11.07**	**12.16**
2022M11		**8.13**	**9.04**	**11.51**	**13.94**	**14.61**	**15.29**
2022M12		**9.48**	**10.83**	**13.60**	**14.87**	**17.16**	**19.44**

**** Reconverted figures. End-of-month; otherwise, if indicated.***
Sources: BCV, Ecoanalitica and own calculations.

Foreign exchange market **indicators.**

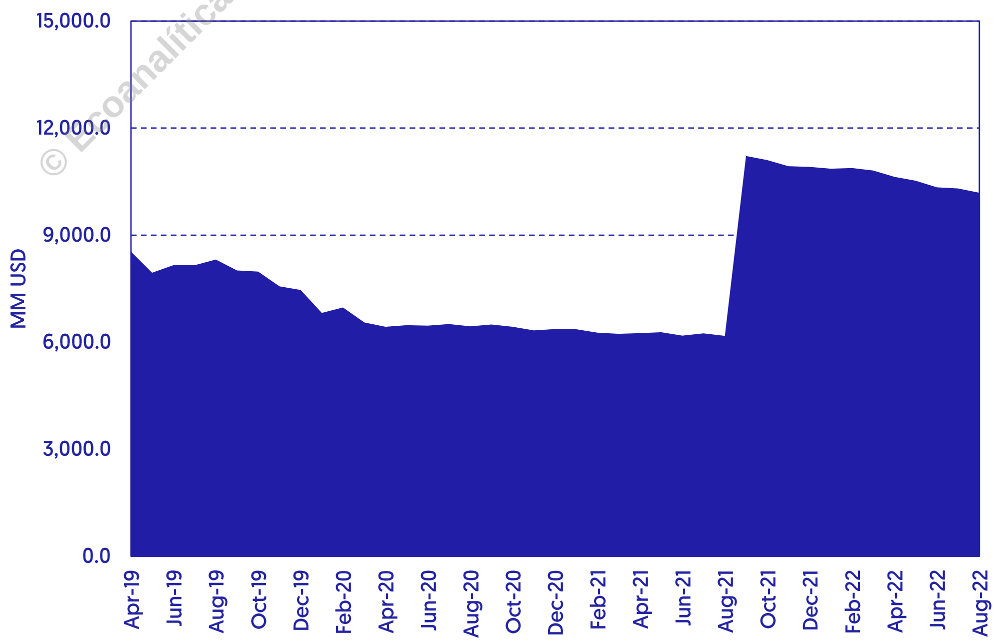
Exchange rate indicators

	Aug-22	m/m (%)	y/y (%)
M2/IR*	1.0	12.4	154.1
RER**	28.2	14.6	220.8
Money desks ***	7.9	35.8	89.5
WER (Consumers)	6.9	19.0	67.5

** End of month. ** Monthly average (Ecoanalítica). *** Last auction.*
Fuentes: BCV, other Central Banks and Ecoanalítica.

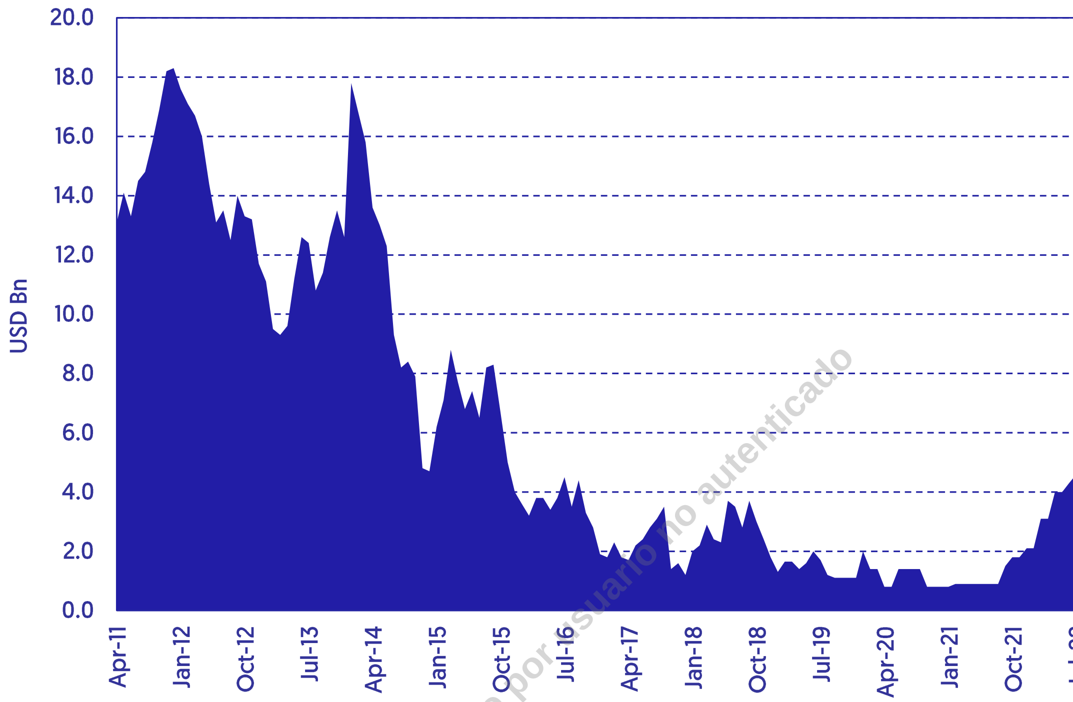
Foreign currency availability **indicators.**

International reserves



Sources: BCV and Ecoanalítica.

Extrabudgetary funds (only the portion in dollars)



Source: Ecoanalítica.

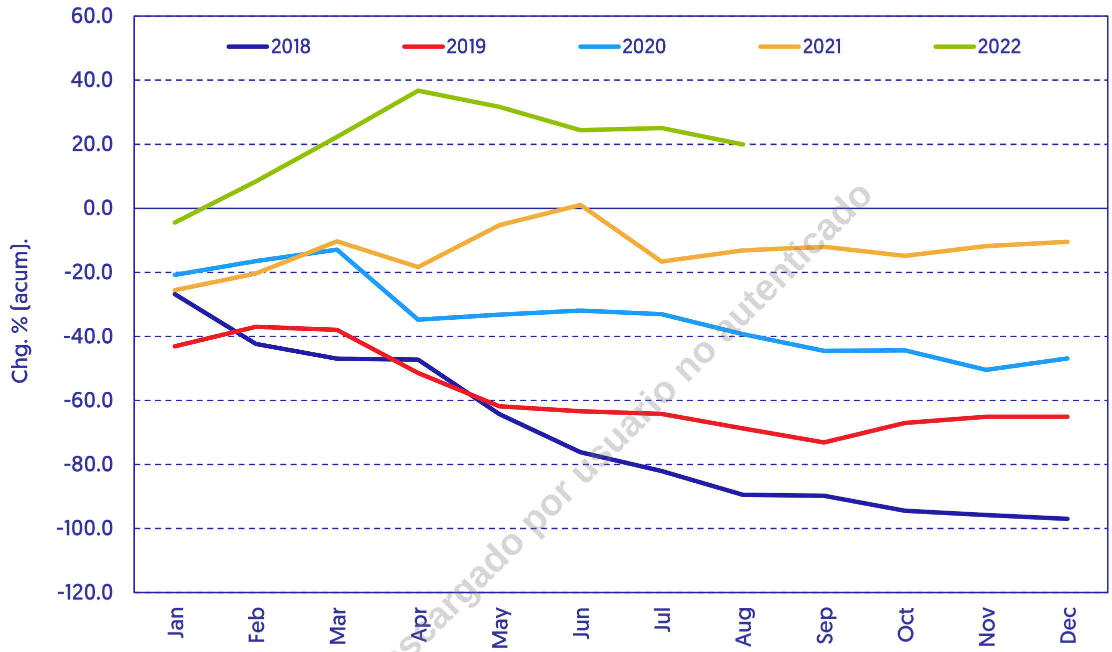
Non-financial Debt with the Private Sector (USD MM).

	2020	2021	1Q2021	2Q2022	y/y (%)	q/q (%)
CADIVI -Non-settled imports	5.1	5.0	5.0	5.0	-0.2%	-0.1%
CADIVI -Dividends approved and unpaid	0.2	0.2	0.2	0.2	-4.2%	-3.2%
CADIVI -Rent and Services*	1.0	1.0	1.0	1.0	-1.2%	0.0%
Mixed Companies - PDVSA partners	9.0	11.0	13.2	16.1	63.7%	22.1%
Total	**15.3**	**17.2**	**19.4**	**22.3**	**38.9%**	**15.0%**

Source: Ecoanalítica.

**Includes debt with airlines.*

Real liquidity (M2) expansion



Sources: BCV and Ecoanalítica.

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