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***FIVE YEARS OF MISTAKES
AND EXTREME OFFICIAL
ABUSE OF POWER ARE
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THREE MONTHS OF
CAMPAIGNING. HOWEVER,
THE OPPOSITION IS NOW
ON THE RIGHT TRACK.***

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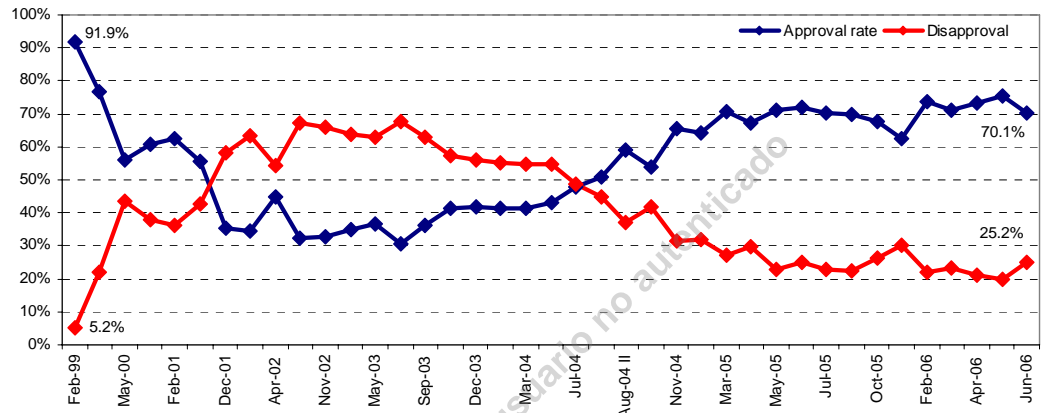
The Venezuelan opposition, understood as the politicians and people who oppose President Chávez and his political project, have systematically committed a series of mistakes over the last five years which has cost them a great deal to correct in last three months of campaigning. All the polls taken during the campaign reflect a voting intention (over half) in favor of the candidate running for reelection, which seems difficult to overcome. However, political scenarios in Latin America can be very changeable. There is always the possibility of an "Atocha-type event" which turns the election on its head. But regardless of the results of December 3, the opposition is now on the right track.

**The opposition was
majority**

According to Datanálisis, from late 2001 to July 2004, the degree of rejection of President Chávez averaged two thirds of the population. So, at that time, a very large majority of Venezuelans rejected government policies. This situation was reversed with the implementation of the social programs known as "missions," extreme abuse of power by the executive, the Carmona decree, the oil strike,

and opposition reluctance to pick a leader to guide the country before the recall referendum (RR)

How would you evaluate President Chavez work as far as improving the welfare of the country?



The difference with respect to the 100% is due to "Does not know / Does not answer"
Sources: Datanálisis and Ecoanalítica

Opposition mistakes: abstention and withdrawal from the elections

This situation was aggravated by the opposition's accusation of fraud after the recall referendum and the low turnout (or high abstention) that this caused in the elections for state governors and mayors. In the opinion of *Ecoanalítica*, the loss of over 90% of state and over 80% of local governments was the result of the perverse logic of demobilizing the population by saying that a huge fraud was being committed, and then claiming fraud when the state and local governments were lost. If the opposition does not vote, how can it win. This situation was repeated in the elections for municipal councilors and parish boards, and for the National Assembly, when radical sectors within the opposition forced candidates to withdraw.

Rosales has to work fast, with no campaign organization in large parts of the country

In the large cities, and particularly among the middle class sectors, the specific weight that a councilor or parish board can exert on election issues is very limited. However in the popular sectors and rural areas it can be crucial. For example, In Los Valles del Tuy in Miranda state, the governor, six out of six mayors, and 43 out of 44 councilors back the Chavista line. The low turnout of the opposition dismantled its political machine in an area with over 400,000 voters. Obviously, the opposition candidate's job is now much more difficult.

Weekly Report

All the polls published so far show that Venezuelan voters are almost equally divided, although the results give Chávez a lead of close to 20 points over Rosales

All the polls show a voting intention in favor of the incumbent candidate of 50% or slightly more. This voting intention stems from voter confidence that the president can solve their problems. For example, the latest figures published by Consultores 21 for the end of September show that 51% of the population has some or great confidence in the candidate up for reelection. On the other side, 28% have little or no confidence in the president and 21% mistrust both candidates. As a result, the polls published give Chávez a lead of around 20 points.

	Unconditionally trusts in Chavez	Trusts somewhat in Chávez	Trusts neither in Chávez nor in the opposition	Trusts somewhat in the Opposition	Firmly trusts in the Opposition
	Strong Chavistas	light Chavistas	Ni-Ni/ in between	Light Opposition	Strong opposition
% of population	21,0	30,0	21,0	22,0	6,0
participation	82,0	72,0	36,0	67,0	69,0
Vote intention	17,2	21,6	7,6	14,7	4,1
Votes as % of population	38,8			26,4	
Proportions	59,5			40,5	

Sources: Consultores 21 and Ecoanalítica

The difference comes from the swing voters

This group (know as “ni-ni” in Venezuela), which Consultores 21 believes represents 21% of voters, is basically a sector which mistrusts Chávez but which the opposition has not managed to win over. If there were a leader who inspired them, they would clearly vote against Chávez. But if not, these voters will most probably not turn out. Perhaps one of the problems of the Rosales campaign is that all the gains have been achieved by capturing swing voters, and not by taking votes away from Chávez.

The problem is turnout

These results mean that the turnout percentages vary between the president’s followers and those of the opposition. As we saw in the preceding table, the turnout percentages of those known as hard and light Chavistas are 82% and 72%, respectively. While for the light and hard opposition turnout is 67% and 69%, respectively. Among the swing voters, voting intention is very much lower not even 40%.

With these numbers, if elections were this Sunday, President Chávez would win with results near his historical average

With these numbers if the elections were held this Sunday, 38.7% of voters would favor Chávez and 26.3% Rosales. This is more or less the proportion that the president received in previous elections, including the recall referendum, where the votes were 60% to 40% in favor of Chávez. The sad thing about these figures is that Rosales could win with a large margin if he could get the people who will stay at home to go to the polls and vote for him.

An Atocha-type event is the only thing that can change the results

In this situation, in the days that are left of the election campaign, the Rosales team has to trigger an event which, while not increasing the percentage of support for President Chávez, at least discourages turnout on his side. If this happened, the opposition candidate could win the elections at the cost of a low turnout on the side of Chávez supporters.

However, an event of this nature, which would produce a 180-degree swing in voter perceptions, is extremely unlikely. Following the logic of the Atocha attacks in Madrid, such an event could be the trigger needed to increase the weight of the great differences that the population has always maintained with this government. Chavez knows this very well, and is making a every effort to control even the minutest detail of the campaign to avoid losing control of the election.

Economic Tips

Expenditure up and up. After the approval of an additional credit for VEB3.2 trillion, authorized expenditure for 2006 totals VEB122 trillion (US\$56.56 billion), which is 40% more than the original estimate in the 2006 Budget Law (VEB87 trillion).

The debt buyback will continue via FONDEN. According to the Finance Ministry, during 2007, the National Development Fund (FONDEN) will finance VEB14.5 trillion (US\$6.75 billion) for investment in "productive projects" and programs to reduce the public debt. A total of US\$3.46 billion will be allocated for restructuring the public debt, and US\$1.80 billion will be invested in the electricity system. FONDEN will contribute US\$576.9 million to the social missions. The investment in the Metros of Valencia,

Maracaibo and Los Teques will be US\$577 million. The ministry did not specify where the remaining US\$366 million has been allocated.

Central Bank pessimistic about inflation. According to Central Bank director Domingo Maza, the official 12% inflation target is unsustainable. He forecasts that inflation will end this year between 14% and 15%. Unlike the government, Maza does recognize that the increase in public expenditure generates inflationary expectations. The ideal way to combat inflation is macroeconomic coordination so that "fiscal, monetary and financial policies coincide in their objectives and give better results," the director added.

Unemployment falls in September. According to the National Statistics Institute (INE), unemployment was 9.5% in September, down 2.0 points percentage points from the same month last year. The economically active population increased 224,150 workers in the period.

Number of jobs in private sector grows. The number of employed between September 2005 and September 2006 was 444,582, of which 314,414 work in the private sector and the rest (130,168) in the public sector. The formal sector of the economy provides 54.8% of jobs and the informal sector 45.2%.

Oil Tips

Oil basket recovers slightly. After nine weeks of falls in a row, the Venezuelan basket of crudes and products rose 15 US cents to end the period at an average of US\$49.95 per barrel. In the third quarter, the Venezuelan basket averaged US\$60.27 per barrel with an average for the year of US\$57.70 per barrel.

PDVSA numbers. PDVSA reported some figures for oil production. Its own production is 2.43 million b/d, and total production in the country is forecast at 3.4 million b/d in December this year, 74,000 b/d below the 3.45 million b/d target set for 2006. These numbers may cover all items of PDVSA production including the domestic market.

Western region production in trouble. Ricardo Coronado, Western Area manager, said that production to August in his area averaged 950,000 b/d, which is 20,000 b/d below the target for the year. Additionally, the joint ventures in the West in this period produced 245,000 to 250,000 b/d of crude giving a total of 1.19 million b/d from 11,000 active wells and 37 rigs on land and lake. The main factor for the production standstill in this part of the country is the deteriorating infrastructure in Maracaibo Lake and adjacent areas. In 1998, Western production was 1.44 million b/d.

Higher production in the Eastern region. PDVSA reports that crude production in the Eastern division averaged almost 1.27 million b/d between January and August, a substantial increase compared with the 911,000 b/d in 2002. The joint ventures in the Eastern region extracted 149,000 b/d in addition to the 566,000 b/d from the Orinoco belt strategic associations where 2,677 active wells and 66 rigs are in operation. Production from the Central South region is stable at 87,900 b/d to August. This division has 316 active wells and 10 rigs.

Joint ventures grounded. According to sources in the private oil companies, the joint ventures have not been able to start operations mainly due to legal snags. Moreover, the debt migration agreements seem to be deadlocked which has caused a drop in crude production under the old operating agreements.

Sectoral Tips

CANTV presents Q306 results. CANTV revenue grew 35.5% in Q306 interannually to VEB1.7 trillion (US\$810 million). EBITDA was VEB0.6 trillion (US\$256 million). So far this year, CAPEX has increased to VEB0.7 trillion (US\$333 million), up 27.9% from the same period last year.

Mobile telephony continues strong growth In Q306, year on year, mobile telephony subscribers (MOVILNET) increased 68.9%, internet 61.6%, while fixed telephony had only modest 11.3% increase. Mobile telephony represents 47% of total CANTV income, an increase of nine percentage points. The share of fixed telephony was down eight percentage points from 48% to 40% due to the freezing of residential tariffs for fixed telephony.

SMS income soars. Income from text messaging (SMS) increased 105% in Q306, year on year, representing 23.2% of mobile telephony revenue for this period, while equipment sales accounted for 14.7%.

Operating expenses fall. Operating expenses fell 22.3% in 3Q06 compared with the same quarter last year. CANTV long-term debt is only US\$14 million, down 51.7% from the end of 2005. Provision for litigation and pensions and retirement benefits totaled US\$653 million at the end of the third quarter. This is a very acceptable figure in the opinion of **Ecoanalítica** since it is very much in line with what we consider CANTV should pay as retroactive to pensioners and retirees.

Weekly Report

Dividend on standby. Although CANTV has already deposited the amount of dividends in bolivars in the Bank of New York, now it is waiting for authorization from Cadivi to purchase the equivalent in dollars. One factor that could be holding this up is that CANTV has still not received its labor clearance certificate, which depends on settlement of the conflict with pensioners and retirees, which could happen in the first half of November.

Trade with the Andean Community flourishes. The countries of the Andean Community and Venezuela arrived at a consensus last week. The two sides agreed to complete in 30 days the definition of the rules to regulate trade relations between both parties for the next five years, after the Venezuela's withdrawal from the Community last April. The exports from the community to Venezuela topped US\$2.05 billion between January and August 2006, 21% higher than the US\$1.09 billion in the same period last year.

Government may scrap mining concessions. According to Mines Vice Minister Iván Hernández of the Ministry of Basic Industries and Mining (MIBAM), the government could eliminate the concessions in the mining sector in a move to regain full national sovereignty over the area. This is thought to be the central purpose of the new Mining Organic Law which is being discussed in the National Assembly. In a similar strategy to that used in the oil industry, the government seems likely to convert to joint ventures in which it has a majority holding. The mining sector represents 0.6% of GDP.

New state company The government formed C. A. Empresa Nacional de Generación. The purpose of the new company will be "generation of electricity and its commercialization" including the necessary investments. Specifically, the company will promote plans to repower thermal capacity to improve the quality of the service - especially in the eastern, western and central regions of the country - in an effort to meet the heavy demand for energy. The Ministry of Energy and Oil holds a 40% equity interest in the company, PDVSA 40%, and ENELVEN and ENELBAR 10% each. The question is what will CADAFE's role be? We believe that a new public company in this field was quite unnecessary.

And a new bank too. The government authorized the setting up of a new bank to address the problems of agriculture. The Venezuelan Agriculture Bank (BAV) will start operations with an initial capital of VEB700 billion (US\$326 million) and five offices around the country, offering loans at rates of 1% to 5% annually to all producers. Attached to the Ministry of Agriculture and Land, the bank will operate as a universal bank with authorization to grant loans directly to customers.

Political Tips

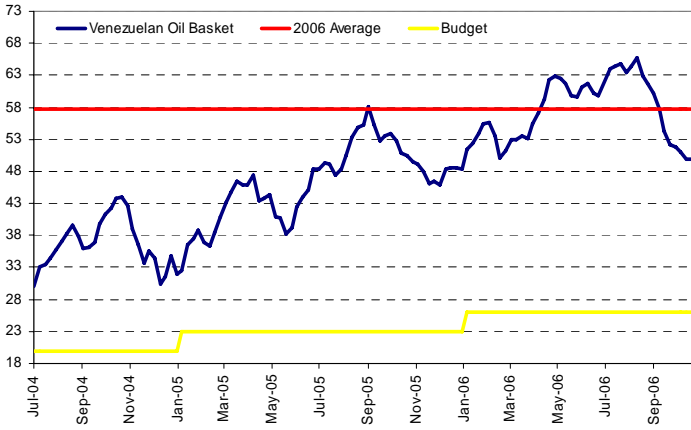
OAS to observe presidential election The Secretary General of the Organization of American States (OAS) José Miguel Insulza signed an agreement of understanding that guarantees the presence of the OAS as international observer during the presidential election. The OAS accepted the CNE regulations on the presence of international observers in the country. It seems likely that a similar agreement will be signed with the European Union in a few days.

Fall in Democratic Index. For the fifth year running, Venezuela is among the worst rankings in the measurement of the Latin American Democratic Development Index, according to the study by the Konrad Adenauer Foundation (Germany) and the political analysis webpage Polilat.com. Out of the 18 Latin American countries studied, the last three places go to Bolivia (2,726), Venezuela (2,720), and Ecuador (2,237). In contrast, Chile is the nation with the best democratic performance in the region (10,796), followed by Costa Rica (9,704), and Uruguay (8,397).

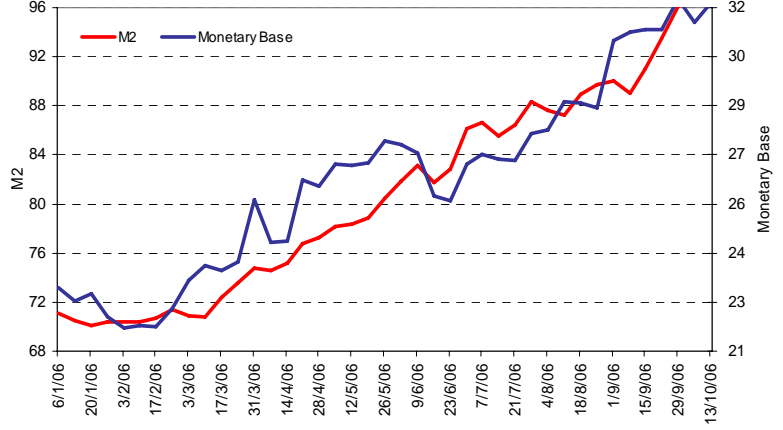
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ECONOMIC OVERVIEW

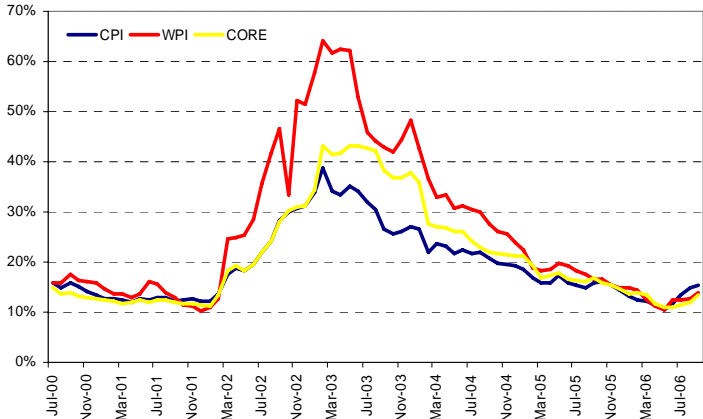
Oil Price
(Venezuelan Basket US\$/pb)



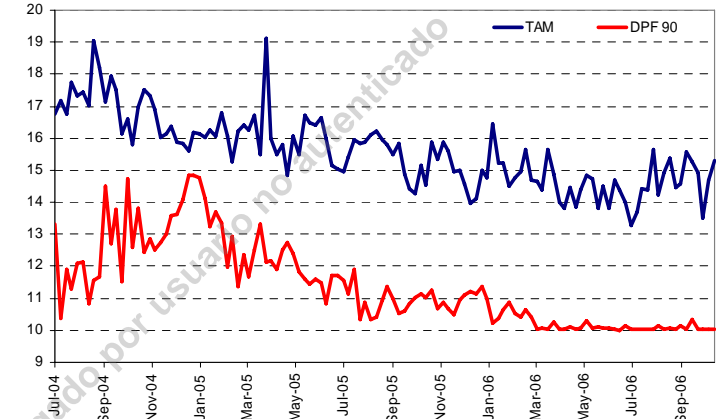
Monetary Base & M2
(VEB Billions)



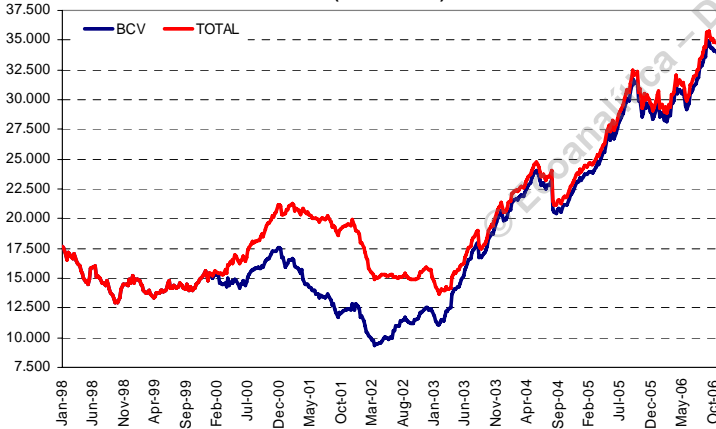
Inflation
(Last 12 Months)



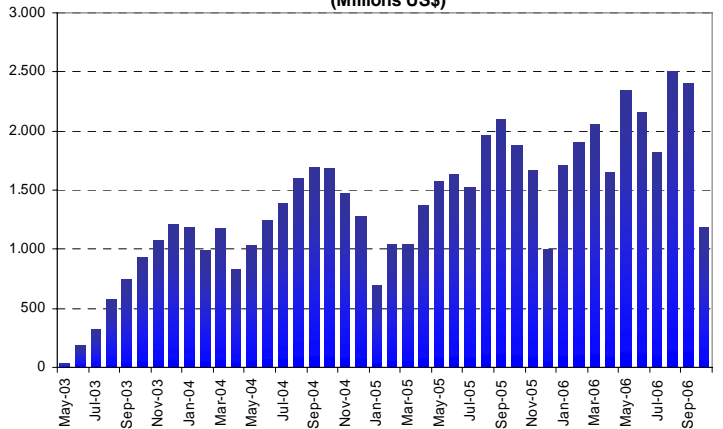
Interest Rate
(Six Principal Banks)



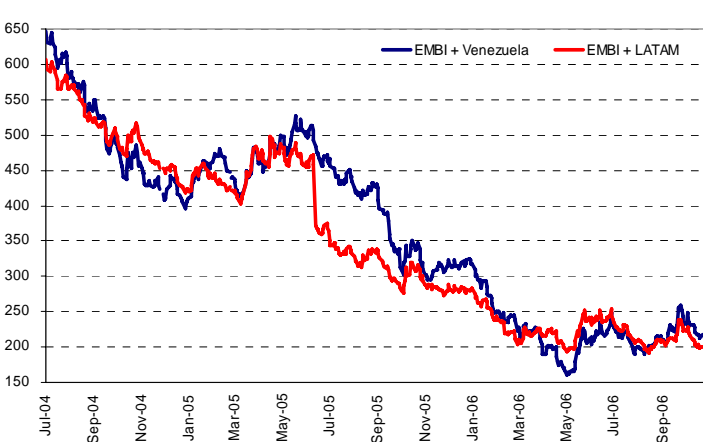
Fx Reserves
(Millions US\$)



Disbursement
(Millions US\$)



EMBI



Central Government
(VEB Billions)

