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**By:**

Asdrúbal Oliveros  
Michael Penfold

## ***IS THE OIL MARKET BEGINNING TO LEVEL OUT?***

**Edited by:**

John Holden

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According to most oil analysts, during the last few weeks, the spread of the crude oil markets has been making significant strides towards "normalizing." Before this recent change, the 2008 and 2015 WTI spread (the so-called future's market) dropped to -US\$ 8.5 per barrel. It's important to point out that this cut in price is too great to be justified by a structural change. During the last few days, the spread has once again dipped below US\$1.00, which in our opinion is much more reasonable. So, after this strong surge of US\$ 7.5, the value of WTI could be approaching what most analysts consider to be a "fair" level.

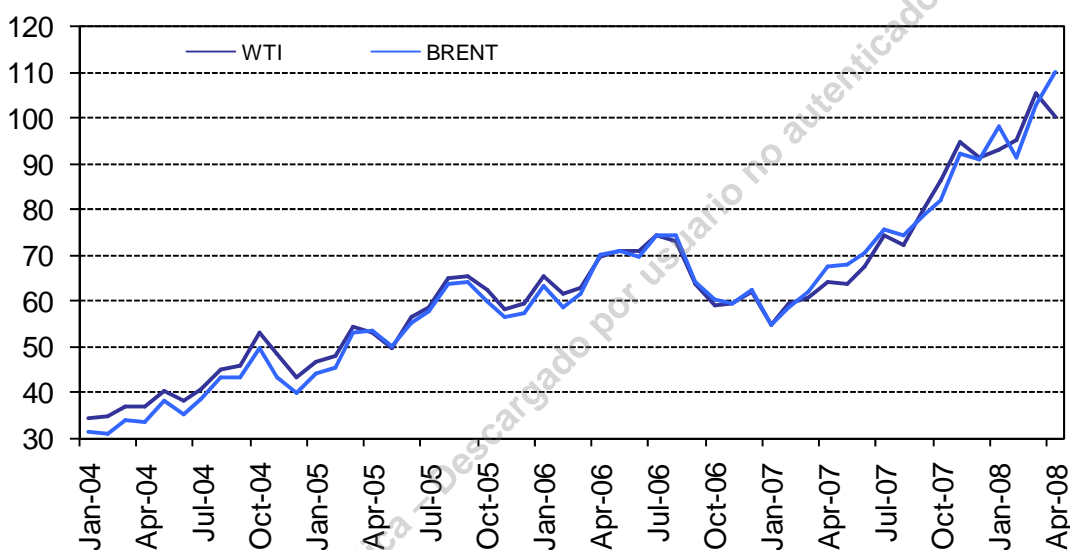
### **US\$ 150, not yet...**

Last week, most oil analysts expected to see 2015 WTI prices reaching US\$ 135 per barrel. But since then, contracts have been sliding down to around the US\$ 130 per barrel level. Analysts have begun to point out that the market has begun to correct some important distortions. In other words, one could say that the market is beginning to do what it has always done during the last 10 years when it faces a period of significant price increases or drops, which is nothing more than to closely analyze how world supply and demand information, as well as the policies of Government's around the world, and producers and consumers respond

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to these movements. At **Ecoanalítica**, we agree with the experts that say that there are no reasons to support a sustained increase in oil prices that will reach US\$ 150 per barrel. Furthermore, market indicators point to prices not being able to maintain their current ceiling price of US\$ 125 per barrel.

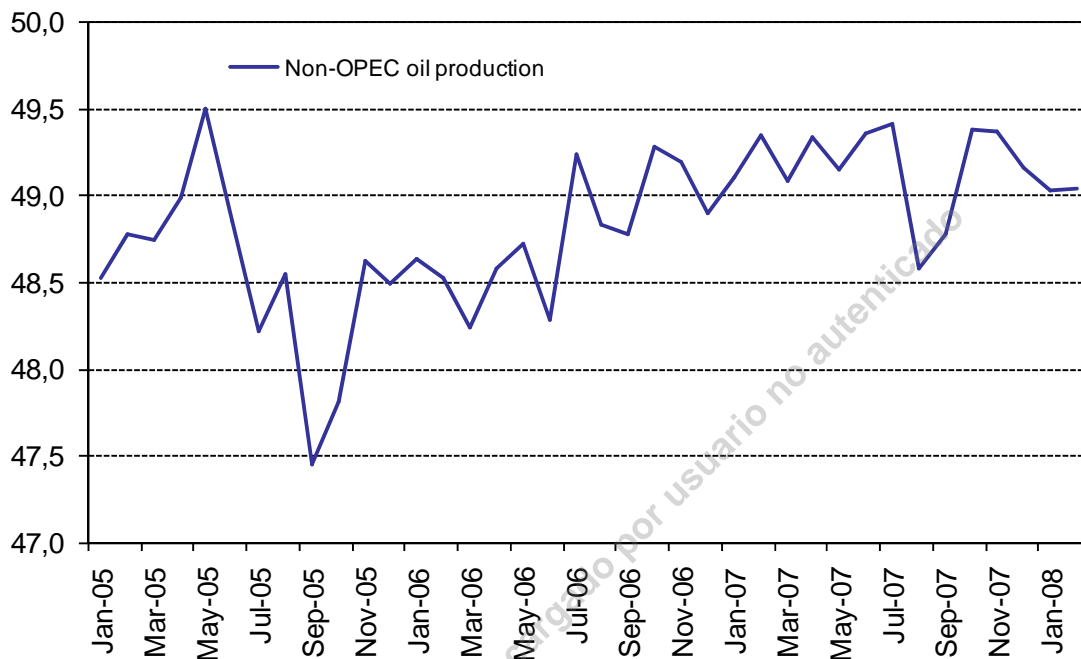
**Oil Price WTI vs. BRENT (US\$)**



Sources: Energy Information Administration, Economagic and

Based on what can be deduced from the situation as it is today, we will summarize how the situation is evolving. Supply and demand seem to have weakened significantly towards the end of the first quarter and the beginning of the second. Regarding supply, the latest information available reflects that there is a slight drop in production in Mexico, so analysts are moving to consider that there will probably be a slight drop in Non-OPEC.

## Oil Production outside the OPEC (MM of barrels a day)

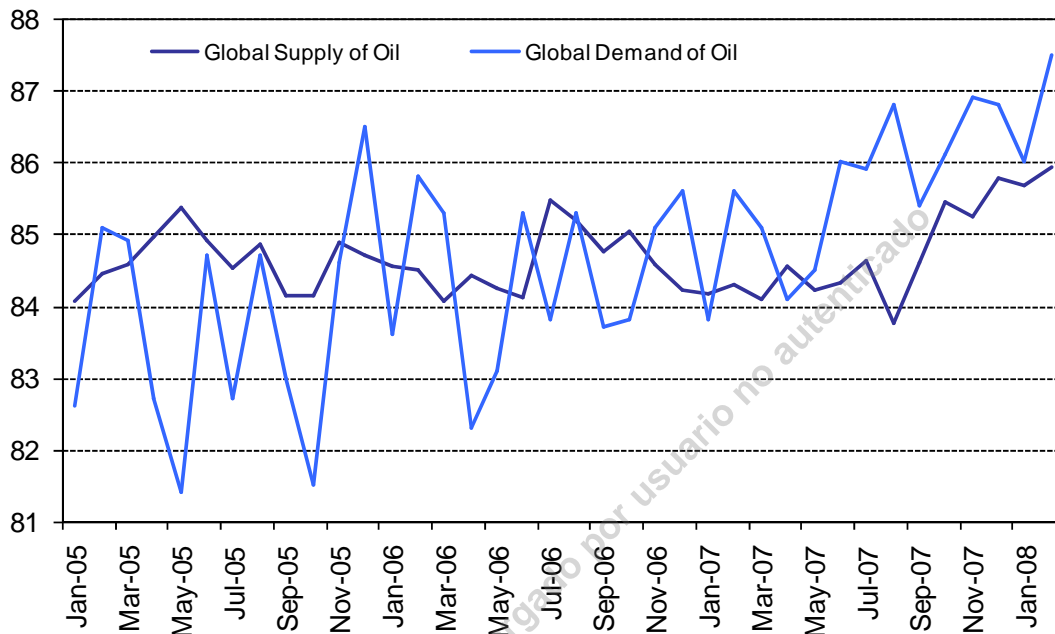


Sources: Energy Information Administration and Ecoanalitica

### March demand drops

Another indicator to take into consideration, but it must be used with caution, are the figures provided by the Joint Oil Data Initiative (JODI). If we subdivide these figures by the number of member countries that have their information up-to-dated (current data up until the close of the first quarter) and that have been releasing said data month by month since the beginning of the year, then we are left with 48 countries, which all together, have a total demand of 56 million b/d. China and Italia are not be included in this group, but Saudi Arabia and India. In January of this year, 28 of the 48 countries showed on a year-to-year basis an increase in demand. However, in March, the number of countries with increasing demands dropped to 18. During March, the main sources for the increase in demand were Indonesia, Taiwan, Saudi Arabia, and Canada, and the main countries that dropped their demand were the U.S., Japan, the United Kingdom, and Turkey.

**Global Supply and Demand of Oil  
(MM of Barrels a day)**



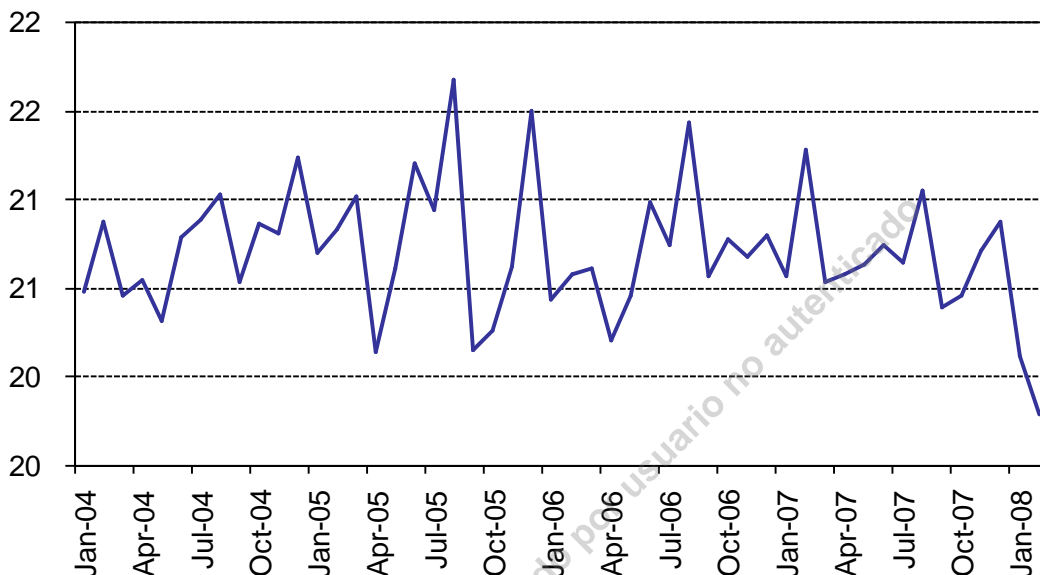
Sources: Energy Information Administration and Ecoanalitica

### The U.S. is the key

It's clear that the greatest change is due to the U.S. Outside of the U.S., our sub-group of JODI shows a year-to-year increase in demand of around 1 million b/d in January and February, and a drop of 200,000 b/d in March mainly caused by a drop in Japan's demand. Including the U.S., the global increase in demand was at 700,000 b/d in January, then a drop of 500,000 b/d in February, and another drop in demand of 400,000 b/d in March. Since the JODI data was released, the U.S. figures for the month of March were reviewed showing a drop of 600,000 b/d which implies a global drop in demand for the month of March (in our sample) equal to around one million b/d.

Globally, the drop in March consisted mainly of a drop in gasoline (more than half), while the demand for diesel showed a slight tendency towards dropping but remained on the increase, if you look at first quarter figures as a whole. With respect to China, other estimates that are not JODI show a much more positive March month, and that the demand for diesel seems to be increasing month by month so far this year.

**Oil Consumption of the US  
(MM of Barrels a day)**



Sources: Energy Information Administration and Ecoanalitica.

**Crude oil price drop not in sight**

In total, there was less demand in March, but not enough of a drop, in our opinion, to offset the drop in oil production in some of the key Non-OPEC oil producing areas. Everything points to that for the month of March oil prices will remain the same and may drop slightly, but this in no way should be interpreted as the beginning of a significant or sustained drop.

**And, what's happening with Venezuela?**

According to the International Energy Agency (IEA), Venezuelan crude oil production once again suffered a drop during the month of April due to operations stopping at the Petrocedeño (SINCOR) Upgrader. Production averaged 2.32 million b/d, down 30,000 b/d compared to the previous month, and compared to the month of January when Venezuelan oil production was at 2.44 million b/d, the drop is of 120,000 b/d. And, if we compare April 2008 figures with the figures for the same month last year, the drop in production is of 50.000 b/d. Of the 2.32 million b/d extracted in April 2008, 440,000 b/d came for the Orinoco Oil Belt, a figure which reflects a slight drop in production of 5,000 b/d compared to the previous month.

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The IEA highlights that as a group, OPEC reduced its supply by 255,000 b/d in April. Aside from the Arab Emirates and Angola, all other OPEC members reflected drops in their extraction averages.

The Central Bank of Venezuela (BCV) reflected an increase in the oil GDP in the first quarter. This seems to reflect a rebound effect. With respect to Venezuelan production we must say that between 2007 and 2006, the drop in Venezuelan crude oil production was at around 192,000 b/d. At **Ecoanalítica**, we estimate that Venezuelan oil production will increase by approximately 200,000 b/d between 2008 and 2012. However, in 2008, production will increase at most by around only 50,000 b/d. So, by 2012, Venezuelan oil production will be at the same level it was in 2006, which was by no means a marquee year in terms of oil production for the Venezuelan oil industry.

### Economic Tips

**Global deficit of balance of payments drops.** BCV figures show that for the first quarter of 2008, a deficit of US\$ 12.91 billion was registered in the financing account of the balance of payment, surpassing the deficit of US\$ 8.24 billion registered in the first quarter of 2007. However, this was because of a significant surplus in the current account which surpassed US\$ 3.26 billion in the first quarter of 2007 to US\$ 10.00 billion in the first quarter of 2008, which is why the global deficit of the balance of payment at US\$ 3.85 billion (the global deficit in the first quarter of 2007 was at US\$ 5.61 billion).

**Thanks to the prices.** The BCV announces that oil exports (which from this quarter include the mixed companies working on the Orinoco Oil Belt as a component of the public sector) are at US\$ 20.46 billion (up 68.4% compared to the first quarter of 2007). This figure is up only due to the 70.2% increase in oil prices during the period given that the volume of exports is down by 2.1%.

**The public sector leading the way.** Non-oil exports were at US\$ 1.73 billion remaining stable compared to the first quarter of 2007. What stands-out is a 3.9% increase in public exports and a 4.5% drop in private exports.

**Imports increase.** Imports were at US\$ 11.09 billion, up by 20% despite greater restriction introduced by CADIVI. According to the BCV, oil imports had a lot to do

with this (especially gas-oil, gasoline, and other chemical additives), as well as food items.

**Food basket gets more expensive in May.** According to figures from CENDA, the value of the worker's food basket for the month of May increased by 2.1% closing at VEF 1,275.65. The items that caused this increase were precooked corn flour, chicken, and eggs, since their previously regulated prices were adjusted.

**No increase in formal economy workers.** For a year now the percentage of formal economy workers has not increased nor has it dropped, it's remained fairly static despite the recent economic growth registered. According to the National Statistics Institute workers working in the formal economy represent 55.4% of the working population, exactly the same as was registered last year at the same time.

**They say unemployment is down.** According to calculations made by the Integrated System of Venezuelan Social Indicators (SISOV), an entity working under the Ministry of Planning and Development, the level of unemployment among the most poor dropped almost three percentage points on a year-to-year comparison settling at 17.8% at the close of the second semester last year.

**No more excuses for not paying.** The Government is announcing a project to open commercial offices around the country where people may pay their CANTV, electric power, sanitation, and gas bill all in the same place.

**More revenues for the SENIAT.** The SENIAT, through its customs office located at Maiquetía, so far this year has collected VEF 2.1 million through the application of the Baggage Regimen measure which charges passengers an established amount for exceeding the weight limit established for bringing merchandise considered personal effects into the country.

**New Minister of Finance.** The current Minister of Finance, Rafael Isea, is about to step down from his office as Minister in order to run as a candidate for the Governor's office for the state of Aragua representing the PSUV. The authorities are still defining who will take his place at the Finance Ministry. People being considered are the general manager of BANDES, Margarita Gracia, who is also Isea's go-to person. The current Treasurer, Alejandro Andrade, is another person who is probably able to take charge of the Ministry. .

**New economic measures in stand by.** Its expected that President Chávez will announce a series of new economic measures tomorrow, all following the guidelines of his Socialist Plan, which according to the Minister of Planning and Development,

Heiman El Troudi will focus on stimulating production and savings and slow down consumption. This announcement, that was scheduled for this week was postponed without a new date.

**FONDEN delays affect works being initiated.** During the first quarter of 2008, FONDEN distributed US\$ 1.30 billion, but they didn't begin to do so until the end of February. This delay caused a number of infrastructure works to be delayed, especially some electric power works and works planned for the subway and train lines. Between 2005 and 2008, FONDEN has received deposits for US\$ 35.30 billion of which US\$18.50 billion has been transferred by the BCV and 16.60 billion by PDVSA.

**Less growth due to season.** The Minister of Planning and Development, Haiman El Troudi, has assured that slowdown in the economy observed in the GDP of the first quarter 2008 is due to seasonal circumstances. In fact, just like we pointed out in our last report, first quarter production usually is down during the first months of the year, but during the first quarter of 2007, the GDP grew at a rate of 8.8%, much higher than the rate observed during the same period this year.

**Under control.** El Troudi pointed out that the economic slowdown observed during the first quarter of 2008 was due to, among other things, the slowdown of the U.S. economy. However, he said that measures have already been taken and "independently of how adverse the economic situation may be in the world this year," the Venezuelan economy will close this year with the 6% growth rate that the Government has established.

**Domestic debt.** At the close of the first quarter of 2008, the direct public domestic debt was at VEF 33.19 billion (US\$ 15.44 billion), down 3% compared to debt registered during the same period in 2007 and 8% looking towards the figures that will be posted during the fourth quarter of 2008.

**Foreign debt.** First quarter figures for the foreign debt put it at US\$ 26.11 billion, down slightly (-2%) compared to the same period in 2007 and compared to the fourth quarter 2007 (-4%).

**Interest rate.** For the third week of the month of May, lending interest rates for the six main banks in the country were down 1.78% to settle at 24.27%. Term deposits were up 1.36% and settled at 17.94%.

**International reserves.** For the last week in May, international reserves increase by one half of a percentage point to settle at US\$ 31.44 billion, continuing to increase for the fourth week.

**Monetary liquidity.** Monetary liquidity was at VEF 153.96 billion for the third week in the month of May reflecting a 1.29 percentage point variation compared to the previous week.

## OIL TIPS

**Taxes will be calculated based on Brent prices.** *Gaceta Oficial* dated May 27<sup>th</sup> published the resolution which regulates how international market hydrocarbons windfall revenue will be collected. According to the resolution, the tax will be calculated according to the base price of Brent crude oil according to the monthly average price calculated by Plantts.

**New tax surpasses royalties.** In the current scenario, in which the price of a barrel of Brent oil is around US\$ 120 (monthly average price), the amount that has to be paid for the new tax is around US\$ 27 per barrel. This figure comes from applying a 50% tax rate to windfall revenue for Brent oil prices that fall between US\$ 70 and US\$ 100 per barrel (US\$ 12 per barrel tax) and the tax rate jumps to 60% when Brent prices top US\$ 100 (US\$ 15 per barrel tax). So, in this scenario, the amount that has to be paid for this new tax surpasses the amount collected through royalties.

**Indonesia leaves OPEC.** The drop in its oil reserves and in investments has forced Indonesia to leave OPEC. Despite the fact that it is the leading producer in the region, they have been importing fuel for years due to the state (out-of-date) of their wells, not very encouraging exploration results, and a weak legal system along with bureaucratic obstacles which scare foreign investors away, even though domestic consumption is constantly increasing.

**Reject new board.** Workers and contractors who work for the national oil industry protested last Thursday, not satisfied with PDVSA's current Western division board of directors.

**Domestic consumption puts a dent in export revenues.** When you multiply the 162,000 b/d that stay in the domestic market instead of being exported at an average price of US\$ 89.5 per barrel which was the price the Venezuelan basket registered

between January and March this year, the country missed out on earning around US\$ 1.31 billion in export revenue for crude oil and oil by-products.

**Record number.** In its report about the state of the economy during the first trimester of the year, the BCV registered that the gas-oil, gasoline, and chemical additives imports that the oil sector made equaled US\$ 1.60 billion, a figure that tops the most BCV has ever registered in a quarter by US\$ 230 million.

**Speculation problems.** According to the president of the OPEC, current high oil prices have more to do with speculation than supply shortage. He also pointed out that current prices are related to the current US-dollar price which has dropped to record low levels.

**TSJ rejects annulment recourse.** The Constitutional Chamber of the TSJ decided that the measure can not be granted because there are not enough elements to justify the recourse's annulment which had been introduced to annul certain articles of the Organic Law for Hydrocarbons as well as the act through which the National Assembly approved the contract model which constituted the mixed companies agreements between Corporación Venezolana del Petróleo (CVP), its subsidiary PDVSA, and private companies in 2006.

**Planning to nationalize gasoline stations.** The National Assembly representative, Ángel Marcano, member of the Energy and Mines Commission will introduce before the Administration a plan to nationalize the gasoline service stations around the country.

**Oil workers hope for better benefits.** Marcos Savariego, member of the United Federation of Venezuelan Energy Workers (FUTEV), announced that oil workers would like to receive benefits like those that were recently granted to SIDOR workers.

## BUSINESS SECTOR TIPS

**Asian imports flood Venezuela.** CADIVI has authorized more than US\$ 2.40 billion for imports coming from Asian countries. CADIVI reports that up until May 15<sup>th</sup> of this year, China, Japan, and South Korea are among the five countries which provide most of the goods and services to Venezuela. The table of ordinary imports according to country of origin shows China in the second position with US\$ 1.45 billion surpassed only by the U.S. with Japan in third place and South Korea in fifth place.

**Cattle ranchers explain their problems.** After a number of weeks with beef supplies failing, the Government decided to consult the cattle ranchers and the meat processing industry in order to jointly evaluate the beef production cost structure.

**Guarantee meat supply in La Vega.** An agreement signed yesterday in *La Veguita* by 18 butcher shop representatives of the La Vega parish, the president of Pdval, Luis Pulido, and members of various communal councils guarantee consumers that they will be able to purchase beef at regulated prices.

**Now we process Nickel jointly with Cuba.** According to the Minister of Basic Industry, Yadira García, Cuba and Venezuela will begin to build a nickel processing plant by the end of this year with an initial investment of more than US\$ 700 million which will take 36 months to build.

**Done nothing to stop price gouging.** After having been in effect for 15 months, the Special Law to defend People against Hording, Price Gouging, and Boycott has failed to do away with acts. The president of the INDECU, Eduardo Samán, recognizes that the results obtained to date concerning these matters are not what were expected.

**Used cars as expensive as new cars.** For quite a few months now, used cars have been selling for almost the same price as new cars in Venezuela. High demand coupled with a production shortage and recent import restrictions have generated this situation in the used car market.

**Food GDP drops.** According to the data released this week by the BCV, the GDP in the food, beverage and tobacco sector, of which the food sector plays an important role, grew 6.2% between January and March this year, results which contrast to the 12.5% rate it reflected for the same period in 2007.

**Crude oil prices causing the same worries as high food prices.** The whole world is facing a food crisis due to the increase in prices which were overtaken by the increase in oil prices upon increasing by 115% the standard price in New York compared to the same period last year. On Friday, the Latin American and Caribbean Economic System classified the increase in food prices as being “a global challenge that is becoming dramatic in its dimensions for the most poor around the world.”

**Fighting against hunger.** The Food and Agriculture Organization of the UN called for a summit to be held in Rome this week where leaders from 193 countries,

among them the leaders of Brazil, Argentina, France and Spain, along with many of the nations affected by problems of hunger in their countries caused by the recent increase in world food and oil prices.

**Food crisis leading to a chain reaction of crises.** On the eve of the Food Security Summit to be held in Rome organized by the UN, the secretary of the organization, Ban Ki-moon, warned that the increase in food prices, if not handled quickly, could have a cascade effect causing other crises and negatively affecting economic growth, the social process, and even political security around the world.

**Food prices to continue to increase.** According to estimates by the OCDE and the FAO, between 2008 and 2017 agriculture product prices will have increased by between 10% and 50% compared to the previous decade, with vegetable oils increasing by more than 80%.

**Ecuador favors Venezuela.** The President of Ecuador, Rafael Correa, announced on his usual Saturday radio program that he was putting a stop to rice exports next week, except to Venezuela, which will be sent 20,000 tons, until domestic prices drop which have risen during the last few months.

**Shopping Centers reflect less growth.** The Chamber of Shopping Centers (CACECO) reported that the sector grew by 12% during the first quarter of 2008, a bit less dynamic than during the same period in 2007 when it grew by between 20% and 25%. According to CACECO, the measures taken by the monetary and fiscal authorities with respect to increasing interest rates and restricting liquidity are the main cause for the slowdown.

**Loans cooling off.** Preliminary figures indicate that the loan portfolio for April 2008 was at VEF 111.99 billion, which would equal an increase of 4.6% for the period between December of 2007 and April 2008. This increase equaled 20% during the first four month period of 2007. There is no doubt interest rate increases have played an important role in the loan request system.

**INDECU fines 17 banks.** Eduardo Samán, president of the INDECU, reported that 17 banks which did not answered back clients who had reported fraud charges or had money stolen out of their accounts by use of their credit cards and/or debit cards, were fined. Samán pointed out that it's necessary to put pressure on banks to handle these situations since there is "a campaign by the banks against the middle class in order to create discontent."

**Movilnet leader in the market.** According to Jacqueline Faría, president of Movilnet, the company expects to increase subscriptions by 1.5 million with the GSM modality, reaffirming its position as the leader of the sector. Currently, Movilnet has 44.1% of the domestic market which is equivalent to 10.25 million subscribers.

**Housing deficit increasing.** According to the calculations of the Venezuelan Housing Chamber, the housing deficit (measured as the gap between the supply and demand of housing units) was at 1.8 million units between 2006 and 2007. It's expected that this figure will increase to 2 million in 2008 as a result of the increase in prices in construction materials as well as the constant invasions in the areas where housing development is taking place.

**Pressure on prices.** The limited supply of houses is having its effect on prices. According to the Housing Chamber, the price per m<sup>2</sup> for apartments in Caracas increased by 30% during the first quarter of 2008. Currently prices are averaging between VEF 2,800 and 3,000.

**US\$90 million for Belarus.** The vice-prime Minister of Belarus, Víctor Buria, announced that the Venezuelan Government has paid in advance the amount of US\$ 90 million as part of a payment for the construction of a residential complex of 5,000 houses

**Exports to Colombia dropping.** Delays in issuing certificates of origin by the MILCO has caused significant delays in Venezuelan exports to Colombia, a problem that is putting the jobs of custom workers in Venezuelan in danger. José Rozo, president of the Táchira chamber of commerce, said that at least 3,600 direct jobs could be affected by the situation

## Political Tips

**Police set free by TSJ.** The Constitutional Chamber of the Supreme Tribunal of Justice freed eight members of the Guárico police accused of killing Ángel Balzán, and ordered the Tribunal Inspections office to investigate the judges that ordered them put in prison.

**More power for the Executive Office.** Lawyers, representatives of the Venezuelan Victims Association, reject the new National Intelligence and Counter-Intelligence System decree-law because they consider it to be a violation of human rights. In the

words of the lawyer, Himiob, *“the decree especially turns officers working for the Judicial Power into officers working for the intelligence and counter-intelligence departs which answer back to the Executive Office and it also forces them to follow duties imposed on them by the Government, which is in violation of the autonomy of Judicial Power.”*

**Chávez believes that the Intelligence law is** “an anti-imperialistic law to spearhead the integral security of the nation. It’s an anti-coup law...”

**PSUV elections.** This past June 1<sup>st</sup>, in a number of states, PSUV held its primary elections in order to present a candidate for the upcoming regional elections in November for mayors and governors.

**Some PSUV election results.** 5 of the 9 elected party board members ran in the primaries for the upcoming regional elections to be held on November 23<sup>rd</sup>: Adán Chávez in Barinas, Aristóbulo Istúriz for the Greater Caracas Mayor’s Office race, Diosdado Cabello in Miranda state, Jorge Rodríguez for the Mayor’s Office of the Libertador municipality in Caracas, Mario Silva in Carabobo state. The first three are regional vice-presidents in the President’s organization in the areas that they were favored.

**District Attorney’s Office in Argentina request capture of those involved in the “suitcase case.”** The prosecuting attorney in Argentina, Luz Rivas Diez, yesterday requested before a judge that is hearing the suitcase case, Daniel Petrone, for a domestic and international arrest warrant for the former vice-president of PDVSA Daniel Uzcátegui and his son Diego for having failed to show up at the hearing they were due to give statements for the fourth time.

**The ineligible insist.** The CNE delay in officially defining if the people declared ineligible by the Comptroller’s Office are in fact eligible or not to register as candidates for the upcoming regional elections in November. Leopoldo López and Gerardo Blyde, representing the UNT party went to CNE headquarters to remind the rectors that the Law, the Constitution, reason, and the people are behind the people being blacklisted.

**Venezuela and Colombia.** The Minister of Foreign Affairs, Nicolás Maduro, held a bilateral with his Colombian counter-part, Fernando Araújo, where he ratified that both countries must maintain permanent and frank communications.

**New head of the ONIDEX.** Colonel Baudelio Vladimir Medrano Rengifo was appointed director of the Onidex replacing José Javier Morales. Medrano was the chief of Food Services for the Army.

## Other Tips

**Venezuela arming itself.** Between 2005 and 2007 Venezuela spent US\$ 4.40 billion in military arms purchases. The increase in military spending during the last two years not only placed the country at the top of the list of countries spending the most on weapons in Latin America, but it also put Venezuela ahead of countries like Iran and Pakistan, reported the newspaper *El Tiempo*.

**Other one in the red.** The International Air transportation Association said in Istanbul that airlines could post losses for up to US\$ 6.10 billion this year due to fuel price increases which increased 42% in six months, and the slowing down of the economy. A dozen companies have gone bankrupt in the last six months.

**Margarita runs a risk of flooding.** The regional director for Civil Protection and Administration for the state of Nueva Esparta, Frank Tendero, warned that there was a risk of flooding on the island due to the fact that most of the mayors had not taken seriously the call to clean out the river beds and drainage ducts before the rainy season begins.

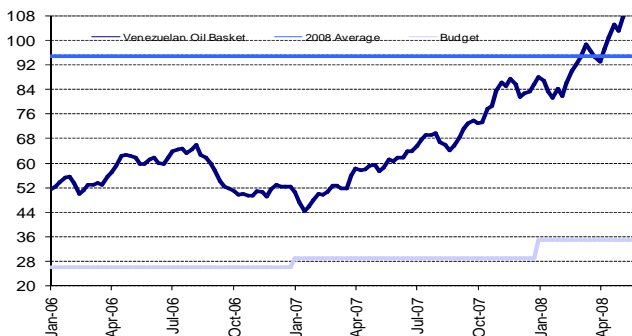
**New record gasoline price in the US.** Despite a drop in demand for fuel, U.S. prices soared to US\$ 3.3907 per gallon.

**Venezuela drops in vaccine index.** A report from the Pan-American Health Organization says that Venezuela dropped in its number of municipalities with the optimum level of vaccinations. In the specific case of the DTP vaccine, a drop from 42% in 1999 to 18% in 2006 was registered when the average in Latin America was 58%. But, during the last few years, Ministry of Health accounts have registered a significant increase in sending earmarked for vaccines.

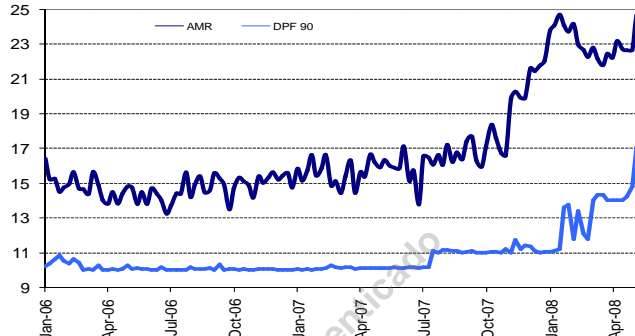
# Weekly Report

## ECONOMIC OVERVIEW

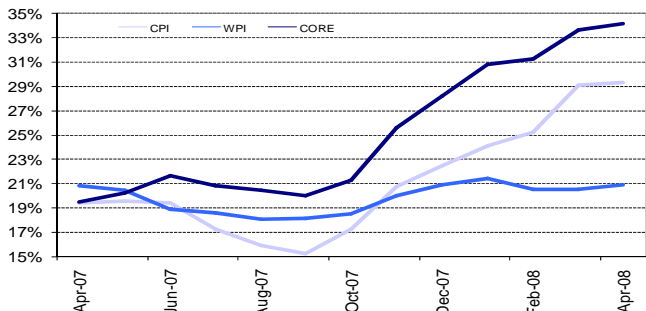
**Oil Price**  
(Venezuelan Basket US\$/pb)



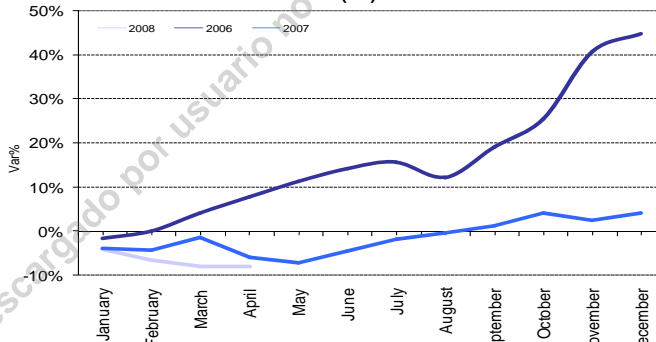
**Interest Rate**  
(Six Principal Banks)



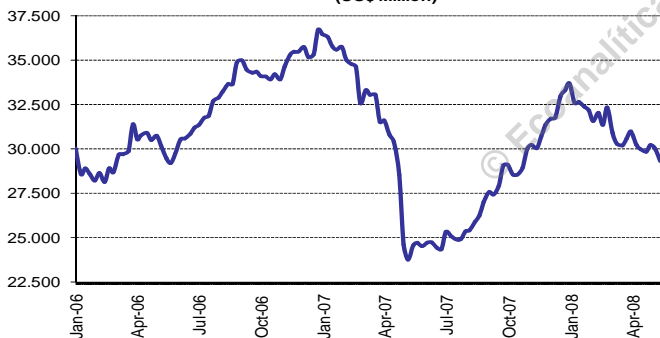
**Inflation**  
(Last 12 Months)



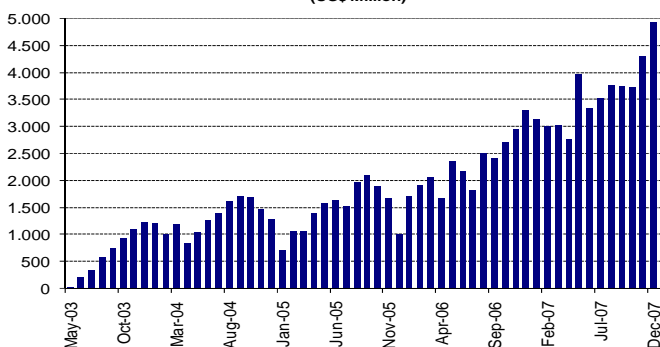
**Real Expansion**  
(M2)



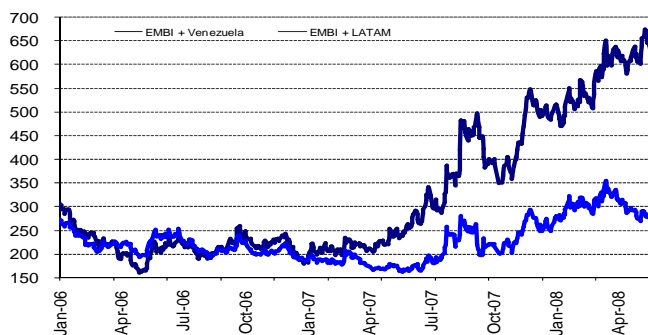
**Fx Reserves - BCV**  
(US\$ Million)



**Disbursement**  
(US\$ Million)



**EMBI**



**Central Government**  
(VEB Billion)

