ECOANALÍTICA

# Weekly Report

Year 5, Number 42
Week I, November 2009

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## *A DEVALUATION IN 2010: COULD IT BE POSSIBLE?*

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In Venezuela, during the past few years, it's been pretty common that during the last quarter of the year, rumors about a devaluation about to be implemented begin to fly. This year is no different, and now that the Administration has already turned in its yearly budget for the coming year in October, with no mention of a devaluation by the way, and after almost five years with an exchange control that still pegs the official exchange rate at VEF 2.15 per US-dollar, the rumors are flying. Could the Government actually be considering a devaluation?

**A "political" issue**

The exchange control issue has become quite complicated because it has ceased to be an issue regarding the economy and become a totally political issue. Much can be said about this distinction, but the fact of the matter is that the exchange distortions have become much much worse due to the Administration's inefficient handling of the situation.

**Change of strategy**

The Administration has announced its economic measures and specially those having to do with the exchange control. Not much was aid. The Venezuelan exchange market has suffered some rather radical changes

during the last year or so. For example, a bit under a year ago the Administration's stance was that the swap-market was virtually non-existent. Now, President Chávez takes great pleasure in announcing that he has reduced the gap between the swap-market exchange rate and the official exchange rate. The Administration is trying out its new strategy. What we at ***Ecoanalítica*** have chosen to call the division of labor. On the one hand, the president of the Central Bank of Venezuela (BCV) looks to contain the pressures assaulting the swap-market; on the other hand, Jesse Chacón, is implementing his famous foreign currency budget plan with which he will manage the official exchange rate (CADIVI).

**Merentes' role**

Beyond the monetary implications and the effect that all this will have on inflation, we will focus on the changes that the recently approved BCV Law reform brings to the exchange issue. The president of the BCV, Nelson Merentes, in an interview in the newspaper *El Nacional* has already stated that "the possibility of taking action in the primary as well as the secondary market is growing." At ***Ecoanalítica,*** we believe that the BCV Law reform was implemented so that the BCV could take control of the swap-market. The change made to Article 58 allows the BCV, through the purchase and sale of bonds from PDVSA to be able to influence the price of the exchange rate in the swap-market. But, in order to do so, the BCV will use international reserves funds.

With the liquid international reserves possibly at around US$ 23.0 billion during the coming year, the BCV could use between 10% and 15% to carry out debt operations, in round numbers, the BCV could intervene with between US$ 2.5 and US$ 3.5 billion.

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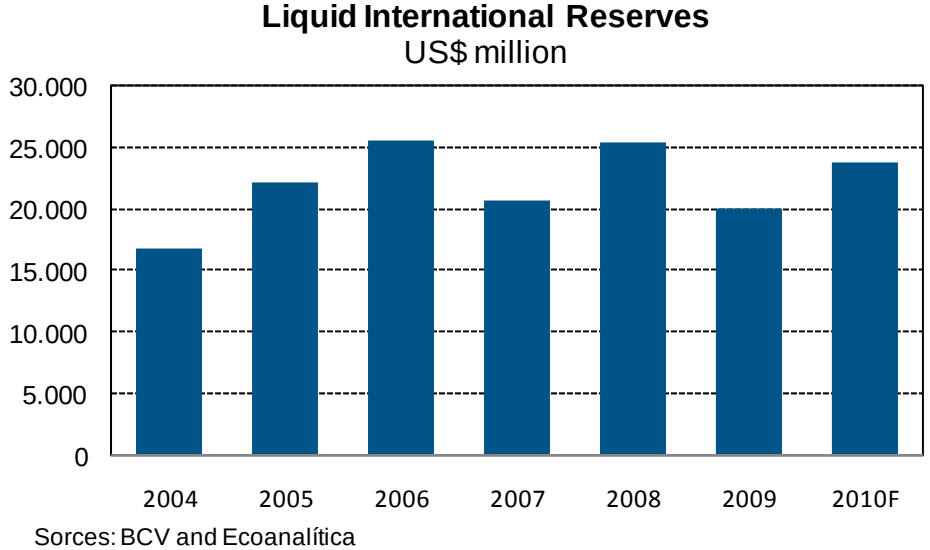


Sorces: BCV and Ecoanalítica

**El BCV, el JP Morgan venezolano**

All this is being considered, despite the risk implied in trading emergent market public debt papers, and more so when they are from Venezuela. The BCV is hoping that through this mechanism it can stop the swap-market exchange rate from rising. This strategy will be coordinated with the sale of US-dollar indexed papers issued by other entities from the Public Administration such as BANDES, Public Commercial Banks and the National Treasury through the financial system. The key to this strategy having any chance of success is that Merentes and his team centralize the offer and monitor the resources. The BCV does not want to make the same mistakes made in the past, they need to make sure the "dollars" make it to the companies and not trapped within the financial system. The Administration has around US$ 4.0 billion available for this exercise, not counting the acquisitions public entities may have made during the latest bond issues.

**CADIVI**

With respect to CADIVI, the situation is very complex. The debt CADIVI has with the private sector is quite substantial, and contrary to what Minister Chacón says, it can't be settled from one day to another, given the current flow of foreign currency. During the last few weeks, CADIVI has been improving its performance and lowering its debt. According to our calculations, CADIVI's debt with the private sector, which at the close of the first semester was at US$ 12.0 billion, at the close of October has been cut by around US$ 5.0 billion.

As long as CADIVI continues to owe significant amounts, all Merentes can do is to try to keep the swap-market stable. Jesse Chacón has pointed out that he will be introducing a foreign currency budget for the coming year, a budget for every productive sector; in other words, CADIVI will only be servicing priority needs (i.e. as we have been saying for a while, food, medicines, but also manufacturing sector, which has been the most affected by CADIVI cuts this year). Giordani has echoed this idea.

In essence, in 2010 we will have a more dynamic swap-market, with greater participation by the Administration and the BCV (the BCV Law reform points to this), while the official exchange market will remain restricted, servicing only the priorities established by the Administration and within the budget. The Executive Office has mentioned that this budget could be for around US$30.0 billion. From this amount, imports of goods and services, according to our estimates, are at around US$23.34 billion. This means that the swap-market will be financing around US$19.16 billion, which is 45% of total imports (US$42.5 billion).

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**Is a devaluation needed?**

With respect to the official market, we continue to insist that the Administration should adjust (increase) the official exchange rate. The most logical mechanism to do this is to correct the exchange rate and introduce institutional reforms that recognize and formally accept the swap-market. The devaluation would generate two positive effects for the Administration. It would improve PDVSA's numbers, which is being severely affected by the appreciation of the currency, and facing serious problems in terms of its fiscal contribution in VEF for the coming year; and a devaluation would generate significant sums of extraordinary resources for the Administration, bringing much relief to strained fiscal accounts, on an election year.

**PDVSA**

As we have already mentioned, the significant appreciation of the bolivar negatively affects PDVSA. It affects the company in terms of its revenues as well as in its cost structure. The problem lies with the imbalance created by its revenues (in US-dollars) and most of its operational costs (in bolivars). This is why the PDVSA's average cost of producing a barrel of oil went from US$ 3.6 per barrel in 2005 to US$ 7.8 per barrel, an increase of 116.7%, much higher than the average increase in the oil industry around the world during the same period (even taking into account that heavy and extra-heavy crude oil command higher production costs). This increase is explained by the high inflation characterized by our economy during the last few years, which increases operation costs of all companies, no matter what sector (including PDVSA).

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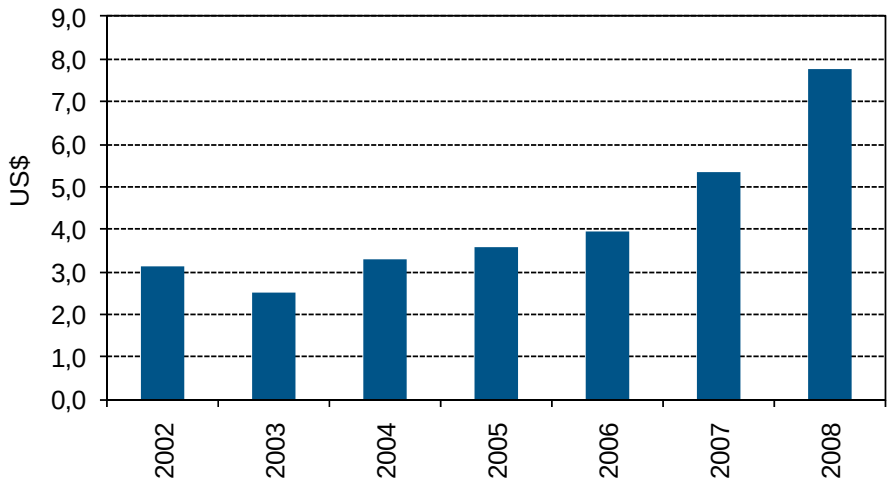
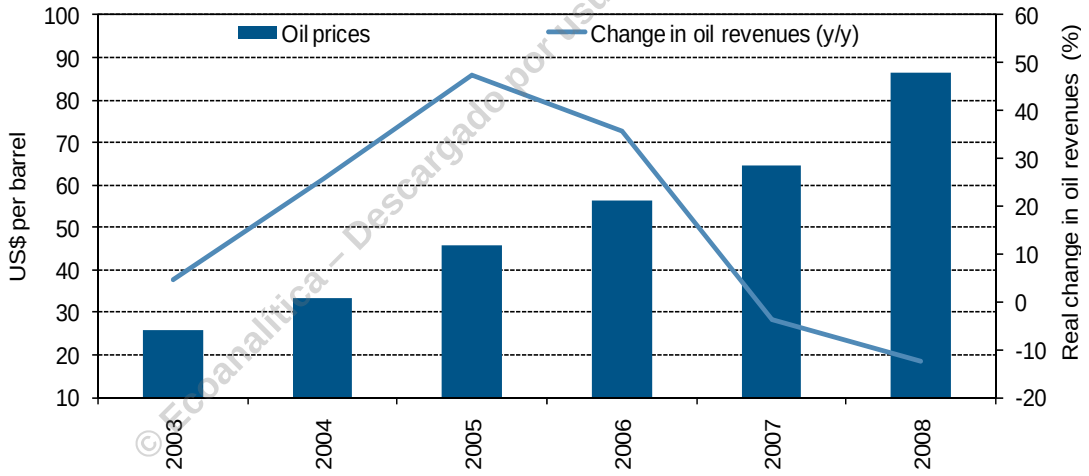
**Operating cost per barrel**




Sources: PDVSA and Ecoanalítica

In terms of revenues, it's important to point out how PDVSA's fiscal contributions to the Government have been diminishing in real terms (this means that with every day that passes a petro-dollar buys less and less in Venezuela). For example, fiscal oil revenues measured in bolivars shrank by 12.4% in 2008 compared to the previous year. This is very worrying if you take into consideration that the average price of the Venezuelan oil basket increased by 32.7% (in US-dollars) during the very same period. It's also important to point out that this deterioration of PDVSA's revenues has also been adversely affected by its direct transfers that it has made into FONDEN, and those resources do not appear in Government accounts in order to give the Executive Office even more of a free hand in their use.

**Real change in oil revenues in VEF vs. oil prices**




Sources: MEF, MENPET, BCV and Ecoanalítica

In 2009, the deterioration of these figures will be even worse; initial estimates, using official ONAPRE figures, show a drop of 58.2%, when the average price of the Venezuelan oil basket drops by 36%. If the Government doesn't decide to devaluate next year, oil revenue estimates, taking inflation into account, and the figures used in the National Budget, will drop by 31% in 2009. It's clear that the National Budget estimate is artificially low, setting the average price of oil for the year at US$ 40/bl. But what is worrying is how the currency appreciation has affected the purchasing power in bolivars for each petro-dollar. This is why PDVSA is the company which is being hurt the most by the currency's appreciation and why it would be the company most to benefit from a devaluation.

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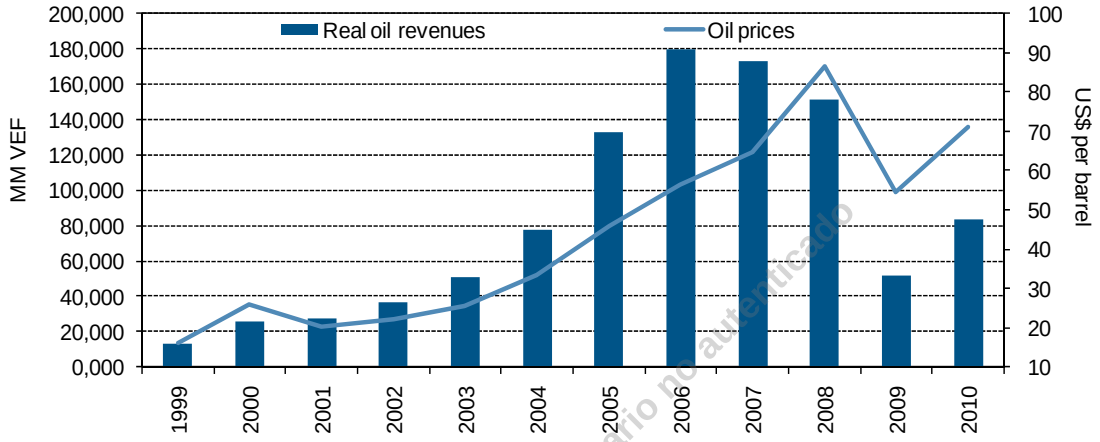
**Oil revenues vs. oil prices**




Sources: MEF, MENPET, BCV and Ecoanalítica

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**Extraordinary resources**

Though the situation with the fiscal accounts isn't serious, even for a scenario that has oil prices dropping, it is also true that the Administration will not have the free hand that has been used on public spending these past few years.

The scenario the Administration is currently in has been characterized by increased spending, increased levels of borrowing, and the accumulation of resources in out-of-budget funds. So, the Administration will be seriously tempted to implement a devaluation and adjust its fiscal accounts.

At ***Ecoanalítica*** we have carried out an exercise regarding the net effect on the fiscal accounts if a devaluation were implemented. As the following Table shows, for each VEF 0.1 (VEB 100) devalued, the monthly effect on Government revenues is VEF 568 million, and in terms of spending, it is VEF 212 million. So, the net monthly effect would be VEF 356 million. So, if the Administration were to implement a devaluation of 34.9%, in other words, an increase of VEF 0.75 (VEB 750), would generate VEF 32.04 billion (VEB 32 trillion) in one year "out of thin air." This, adjusted to the new exchange rate, would represent US$ 11.05 billion, which is quite a nice figure.

| Additional monthly income for VEF 0.1 of devaluation (VEF million) | | | |
|---|---|---|---|
| **Effects on income** | | **Effects on costs** | |
| Oil royalties | 221 | Interests | 76 |
| Oil income tax | 102 | Amortization | 104 |
| Customs | 4 | Others | 32 |
| New external borrowing | 231 | | |
| Others | 10 | | |
| **Total** | **568** | **Total** | **212** |
| **Monthy Net Effect** | | **356** | |

Source: Ecoanalítica

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**Some other things to consider**

Having said all this, there are four comments which are important to make. First, if there is going to be a devaluation, it will be at the Government's discretion, which is to say, the Government already has enough resources to spend on its upcoming election next year, without having to implement a devaluation to make ends meet to win the elections.

So, with this projection we are being more like a psychologist, giving advice with regard to a political-economical decision, than being economists. Second, for the volatility that Venezuela is used to suffering, mainly reflected in its exchange rate, it doesn't seem to us to be a relevant debate whether the devaluation will be for 20% for the whole of 2010, or if the exchange rate is frozen at its nominal rate until 2011. The only difference between these two scenarios is that in the second one the distortions in the exchange controls would increase and the need for a future devaluation would be greater.

Third, the Administration could postpone the devaluation due to the modifications it has been implementing since the beginning of the year and will enhance during the following year. This would make the imbalances more severe and the fiscal budget more ridged. And lastly, given PDVSA's autonomy with regard to exchange matters, a new mechanism will probably be designed so that it may participate more actively in the swap-market, thereby alleviating its financial situation. This si counter-productive, not only for its lack of transparency of the operations, but also because it will make the swap-market imbalances worse, and also serve to increase inflation.

**To build confidence is necessary**

The no-devaluation of the official exchange rate is not necessarily a synonymous of low volatility in the secondary market or the swap-market; we still have to see if Merentes-Chacón will continue with their strategy and if it produces the results the Administration is expecting, which more than just lower the gap in the exchange rates, looks to see the BCV having control over the exchange market and generating confidence in the private sector in its control of the swap-market. Furthermore, we still have to see how CADIVI and the new foreign currency budget will work next year. At ***Ecoanalítica,*** we believe that if the Administration is able to establish a serious strategy (credible) with respect to exchange policies, this would be very positive for the private sector and the economy in general. The key to achieving this is confidence.

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# Economic Tips

**BCV is now a development bank.** President Chávez recently announced that he will have over VEF 900 million available to finance projects and joint ventures in the different regions of the country. He also stressed that by yearend, the BCV will have VEF 500 million for these purposes.

**PDVSA announces that its bond issue will be launched before yearend.** Rafael Ramírez, President of PDVSA, recently announced that the state-owned oil company will issue bonds before yearend, and that this operation will be coordinated by the Ministry of Finance. According to a report by Barclays Capital, the next issue will be about US$3.0 billion worth. Up until Thursday November 12th, Petrobonos 2014, 2015 and 2016 are selling at xx% of their value.

**Moody's is pessimistic about Venezuela.** Juan Licari, director of Moody's, recently stated that the firm's perception of the country is relatively pessimistic, although the increase in oil prices has strengthened the country's recovery. Licari also said that a slow recovery over US$70 per barrel is expected for the upcoming months.

**Supplementary appropriations increase budget…** The National Assembly has authorized off-budget expenses for VEF 30.1 billion, thereby increasing the budget up to VEF 190.0 billion; even though it was established in March that the budget would be at VEF 159.9 billion. Furthermore, the president of the AN Finance Commission, Ricardo Sanguino, pointed out that the report on the 2010 Budget Law will be ready for December 3rd, and that no adjustments are planned for the budget presented by the National Executive. Allocation for 2010 is established at VEF 159.4 billion.

**Still going up.** According to BCV's figures, the INPC showed an upward variation of 1.9%, meaning that inflation over the last 12 months was 26.7%. IPC for the Metropolitan Area of Caracas moved 2.1%, whereas year-to-year inflation rate was at 28.9%. This confirms our forecast: inflation accelerated in the last quarter of the year.

**Real wages continue to worsen.** According to BCV's figures, the real wage index for the third quarter of the year, without including inflation, dropped 5.0% from the same period the previous year. Wages in the private sector deteriorated 4.7%, whereas those corresponding to the public sector fell 5.4% from the same period one year before.

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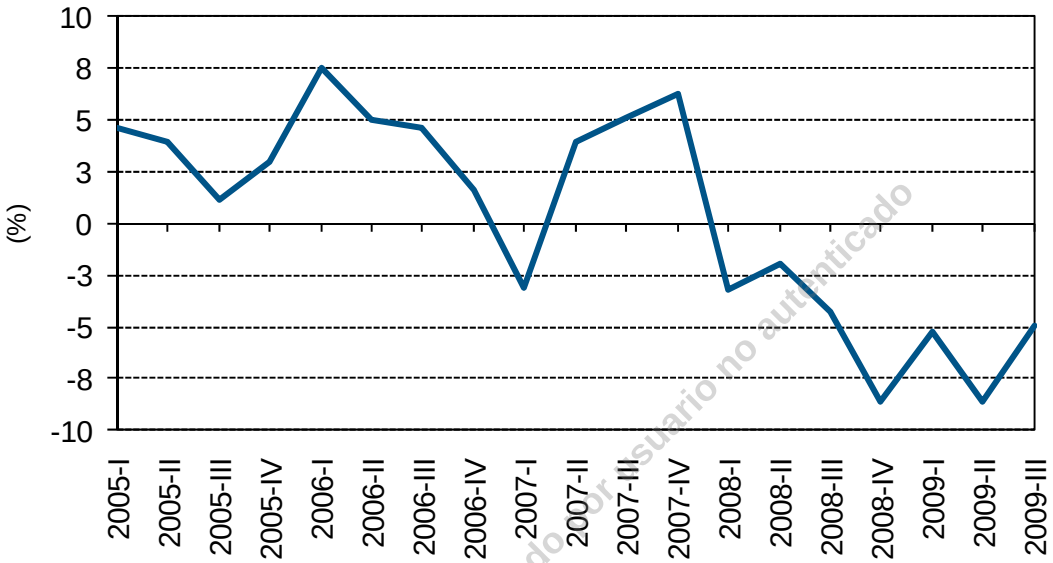
**Real Wages Index (IQ-1997=1,00)**




Sources: BCV and Ecoanalítica

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**Binational trade in free fall.** In reference to the Venezuela-Colombia conflict, Magdalenta Pardo, president of the Venezuelan-Colombian Chamber, announced that bi-national trade exchange performed well in the first quarter of 2009, but that it dropped 14.5% between January and September. Furthermore, she assured that it will drop 20% in the second quarter. According to Pardo, Venezuela owes US$700 million to Colombia.

**Venezuela among the countries with less economic freedom.** According to a study by the Heritage Foundation, on the Economic Freedom Index, Venezuela is a country with a repressed economy, where trade is restricted by inefficient and rigid regulations. Venezuela was placed on the 174$^{th}$ place among 184 countries and lost 4.8 point in comparison to its 2009 score. The report states that Venezuela is below the world average in terms of topics like trade, monetary, investment, financial and labor freedoms, size of the State, corruption levels and property rights), and that the country runs the risk to scarify economic freedom in exchange for short-term economic benefits or political convenience.

**Interest rates.** Lending rates for the week ending on October 30$^{th}$ was 20.2%, for an increase of 77 base points from the prior week of the same month. Time deposit and savings rates were at 14.7% and 12.6%, respectively, for a drop of 29 base points for the time deposit rate, while savings rate remained unchanged.

**Liquidity.** Liquidity for the week that ended on October 30th shrunk 1.7% from a week earlier, to VEF 220.635 billion. Liquidity for the year to date has increased 13.6%, and has grown 25.4% with respect to the same period of the prior year.

**Internationals Reserves.** According to the last figures available, the international reserves increase in a 0.5%, getting from US$33.2 billion at the fourth week of October, to US$33.4 millions at the first week of November. If we compare it to the results from the same period in 2008 the reserves have decrease 17.4%.

# Oil Tips

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**Consortiums get ready to bid on the Carabobo Oil Block.** 5 large international oil companies are expected to enter the bidding process. Both BP and Shell are considering bidding individually instead of conjointly. It has been said that Portugal's Galp Energia will enter negotiations along with Norway's State Company Statoil. Russia seems to be away from the process due to the large investment required by the project they undertook in Junin Block 6. China National Petroleum Corporation (CNPC), already in Junin 4, will be entering the bidding process along with the French Company Total. CNPC is also planning to place a second bid with the also Chinese company Sinopec. Chevron is preparing a consortium with three Japanese firms and the Venezuelan company Suelopetrol. Repsol is hoping to enter the process with the State companies, Petronas (Malaysia) and ONGC (India).

**But they are running out of time.** Bids must be placed between January 12 and 18, after a process that has taken over a year and that has faced great obstacles, mainly due to the drop of oil prices, the lack of financing and the political risk that Venezuela represents. However, the Venezuelan Government has softened the conditions so the deadline (January 2010) is met in order to start developing all the projects planned for the block which would need an investment of approximately US$40 billion, with initial disbursements of US$10 billion, and would increase national production by 400,000 b/d by 2014.

**Will they give up the arbitration for other incentives?** After the inclusion of international arbitration in the bidding process was mentioned in August, during the last few weeks, Rafael Ramirez has only said: *"there will be no arbitration since this country's main oil policy and legislation wing does not accept this figure in issues that*

*make the Venezuelan sovereignty vulnerable."* They claim that tax incentives, the possibility of early production and shared governability could meet the companies' expectations and cover up the absence of arbitration.

**Also for the offshore natural gas project, Mariscal Sucre.** The president of PDVSA, Rafael Ramirez, said Venezuela would be receiving offers to exploit the offshore natural gas project, Mariscal Sucre, by the end of this year. He also said in the III World Heavy Oil Congress that the offshore natural gas exploitation being carried out by PDVSA with the Russian company Gazprom in the Rafael Urdaneta project would have reserves similar to those of the large natural gas deposit discovery announced months ago by Repsol YPF in the same area on Venezuela's west side.

**PDVSA to transform INEVAL into INSUVAL.** PDVSA acquired Ineval based on the fact that companies should be administered by the State and workers took over INEVAL, which will be transformed into INSUVAL by 2010. Among the changes to take place is the fact that the State will have a 60% share and PDVSA 40%, and the company's objective will be to supply oil industry provisions. This company is currently importing valves because the industry's needs are not being fulfilled.

**17 drills are inoperative due to lack of payment.** Workers of the contractors Ivermarca, Tubos Servicios, Transmarca and Transporte Rodhgers, in charge of drills' transportation and logistics, shut 17 units down in Zulia because their employees had not received their salaries for the last seven weeks as well as due to a lack of safety equipment. PDVSA has 90 operative drills, and the shut-down of 17 of them would represent a production loss of nearly 18%.

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**Puerto La Cruz refinery to be upgraded by the end of this year.** In order to comply with the plan that demands improvements to the Puerto la Cruz refinery complex, the Venezuelan oil industry, through PDVSA's "developing" deep conversion project, is creating a consortium with the Brazilian company Odebrecht to execute the upgrade of Puerto La Cruz' facilities. With the improvement of this refinery plus the El Palito and Paraguana refineries, the amount of refined product will increase by 25%, said Rafael Ramirez.

**Iran and Venezuela: We don't want any increases.** OPEC members' next meeting is set up for December 22 in Angola, basically to decide on new production policies, and both Venezuela and Iran have maintained their positions about the inconvenience of increasing the current quotas. Minister Rafael Ramirez said they must remain cautious when OPEC makes a decision, while his Iranian homologue said that inventories *"are high in terms of crude oil and refined products, so the market is over-supplied".*

**OPEC: US$80/bl for 2010 sounds good.** The president of OPEC, Jose Botelho de Vasconcelos said an US$80 oil barrel would be reasonable for the next year, that the current crude oil price satisfies both the supply and the demand. He also said that OPEC deems it necessary to *"control the market-speculators' actions."* The Minister of Non-Renewable Resources of Ecuador (the country that will be assuming presidency of OPEC in 2010) assured the market is in ways to a *"reasonable stability,"* so it is not necessary to take any measures regarding production yet.

**International oil baskets.** The WTI closed at US$77,1/bl last Thursday, November 12, showing a 3,2% decrease compared to the US$79.6/bl the previous Thursday. The Brent decreased as well, but in a higher proportion, going up by 2,4% to close at US$77,9/bl, compared to US$76.1/bl of Thursday, November 04.

**Local oil basket price.** The Venezuelan oil basket price went down by US$0.02 last week, to close on Friday, November 06 at US$72.82/bl, compared to US$72.84/bl the previous week. Meanwhile, the oil basket's annual average reached US$54.5/bl, 36.3% over the budgeted value. By the end of this year, the Administration could receive an additional income of about US$6 billion, due to the price differential.

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## Business Sector Tips

**A new travelers' currency allocation system for 2010.** CADIVI'S new travelers' currency allocation system will be effective by January of 2010. Through this system, Venezuelans traveling abroad will have a currency allocation to buy depending on their destination and the duration of their trip. According to unofficial sources, the maximum allocation will be US$3,000. It is also known that users will have to notify CADIVI every time they want to travel abroad in order for their credit cards to be activated for foreign purchases.

**People traveling in December will have to notify CADIVI of their trip.** Venezuelans traveling abroad between December 1 and January 10 shall notify CADIVI of their trip via their website, where they will be required to fill a form will all of the trip's information "trip notification" since November 9, because credit cards will be deactivated for foreign purchases since November 30. Those traveling until after January 10 will have an extra US$500 to use, which will be discounted from their 2010 allocation.

**More expropriations and nationalizations.** The Minister of Nutrition, Felix Osorio, confirmed the expropriation of the coffee and sugar factories that were intervened, as well as the inclusion of Café Madrid to the mixed-company scheme and the nationalization of Fama de America. He also said they will be devoting VEF 13 billion to promote nutritional policies, plus VEF 2.8 billion from an additional loan which has not been disbursed yet.

**Electric-power-sector goals have not been met.** According to figures released by Sistema Electrico Nacional (National Electric System, SEN, acronym in Spanish), the electric power generation installed capacity grew by 614 Mw, and the capacity growth goal to cover the demand's annual growth is established at 1000Mw since 2006. In 2009, only 438 Mw of extra capacity have been implemented. According to CONINDUSTRIA'S last survey, 51% of union workers have had losses due to electric failures that have caused an 11% reduction in production.

**The Venezuelan Government approved an emergency electric-power investment plan.** In order to counteract on the last years' lack of investment, the Administration approved VEF 413 million to finish 34 priority electric power generation projects that will increase production capacity by 1,440 Mw during the last 8 weeks of 2009. The goal seems unrealistic considering that in over ten months, all investments have only achieved a generation capacity increase by 614 Mw.

**Band aid to fix the electric problem.** The Government is demanding the private sector to collaborate with electric power generation. Any company that owns power plants with a generation capacity of over 2Mw will be required to produce 100% of their energy and feed the National Interconnected System with the exceeding capacity. Should these companies choose not to collaborate, the Government would be entitled to expropriate the power generator. As an incentive, the VAT to electric investment will be exempted. The Administration also limited the import of air conditioning, refrigeration and heating equipment. Only the import of energy-efficient air conditioners will be allowed, see Official Gazette Nº 39,298 for further details regarding consumption limits. For all equipment not meeting the new regulations but already imported, retailers will be required to sell them by June 30, 2010. Also, the Government will purchase 74 million light-saving bulbs to continue with Mission Revolucion Energetica (Mission: Energy Revolution).

**The Government will cancel the gold concession to the Canadian Gold Reserve.** After expropriating the Canadian company Gold Reserve's facilities in the gold extraction project Brisas, last October 26, the Venezuelan government announced they would be cancelling their concession with the Canadian company, since they are planning to exploit these mines with Russian companies.

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**Housing investment will be lower in 2010.** Although one of the 54 economic measures consists of increasing housing investment in 2010's Budget Law, it is established at VEF 638 million, representing a 68.47% drop against that established in 2008's Budget Law (VEF 1.7 billion).

## World Crisis Tips

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**US unemployment rate exceeds 10%.** According to figures released last Friday by the Bureau of Labor Statistics (BLS), United States' national unemployment rate reached 10.2% in October, the highest since the first quarter of 1983 and the fourth quarter of 1982, following the crisis of 1981-1982. Even worse is the fact that 35.6% of unemployed citizens had been out of a job for 27 or more weeks in October, and only 20% had been unemployed for five weeks or less, resulting in an average unemployment period of 18.7 weeks.

**Employment trends are rising slowly.** Several reports indicate the fast-increasing unemployment trend observed since the beginning of the crisis is reverting, since the number of unemployed citizens has decreased in the past few months. This indicates that, although unemployment will continue to rise during the current quarter, an inflexion point is expected by early 2010, finally reverting the decreasing trend.

**US Vehicle sales recover.** After a fall in September, the automobile market recovered in October, with light vehicle sales increasing by 13.5% in a month to month basis. Sales of domestically made vehicles rose by 17.2%, and imported vehicle sales went up 4.1%.

**Service sector keeps improving.** The last composite index for the nonmanufacturing sector from the Institute for Supply Management (ISM) shows this sector maintains its trend to recover, in spite of a slight fall last month, staying near the highest levels since May 2008. ISM surveys over 370 purchasing managers in different companies such as hospitals, law firms and retailers.

**Stimulus to be withdrawn.** Central banks of the world's largest economies decided to gradually withdraw the stimulus measures to overcome the crisis, hoping to achieve price stability step by step. Representatives from the central banks of United States, Japan and the European Union acknowledged the risks for world growth and inflation were currently balanced and are hoping to emerge from recession by the third quarter

of next year. Finally, an agreement to present more politically-coordinated measures by early 2010 was presented, looking to bring the economy back to a balance.

**London house prices keep increasing.** More properties coming on to the market has not stopped house prices from rising in London. The Royal Institution of Chartered Surveyors figures showed an increase from 21% to 34% in the number of surveyors reporting price rises, this being the third consecutive month with this trend.

**Business sentiment improved in France; as well as industrial production in Germany.** From the low point of 66.96 reached in December 2008, France's business sentiment indicator reached 94.80 points in October, only 5.2 points below its long-term average (100 points). An important factor in the improvement in sentiment has been the increase of both domestic and international new orders. As for industrial production in Germany, it is up for the second consecutive month. Less developed economies such as Turkey, Slovakia and Rumania have also grown more than expected, although the trends are much more volatile in these last three countries.

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# Political Tips

**Chavez is getting ready for war.** In his radio show "Alo Presidente", the Head of State ordered the National Armed Force to create security bodies to defend Venezuela from the threat Colombia represents by having allowed the United States to install military bases in Colombian territory. He warned President Obama "*don't you make a mistake and order an open attack to Venezuela through Colombia, for the Venezuelan people are ready for anything."*

**Colombia went to the UN.** Colombia contacted the UN Security Council regarding their concern over President Chavez's statements about getting ready for war. They also said they would be taking President Chavez's war threats to the OAS Security Council as well.

**Chavez's war speech was also rejected in the Venezuelan border.** Entrepreneurial leaders and other residents of the Colombian-Venezuelan border expressed their rejection for President Hugo Chavez's statements about the need to be prepared for a war with Colombia. The president of FEDECAMARAS in the Tachira State, Jose Rozo, addressed traders of both nations to collaborate in avoiding a war conflict between these two countries.

**Colombia is open to dialogue.** The Colombian Minister of Foreign Affairs, Jaime Bermudez, said he was open to dialogue with Venezuela, in spite of President Hugo Chavez's threats, and restated Colombia's intention to present the case to international forums. According to Bermudez, Alvaro Uribe has called Chavez several times. He also said the Venezuelan President's threats should not be underestimated.

**In light of this conflict, Insulza urges a dialogue.** Due to the political conflict between Colombia and Venezuela, the Secretary of the Organization of American States, Jose Miguel Insulza, asked both governments to reestablish the dialogue mechanisms to resolve the tensions between these two countries. He also said the Amazonian countries' meeting set for November 26 in Manaos, Brazil, was a valuable initiative that could help ease the tensions.

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**Venezuela and FARC allegedly linked.** The former chief of information technology of the Colombian Security Administration Department (DAS) provided information to American authorities regarding alleged links between the Venezuelan Government and the Colombian Revolutionary Armed Forces (FARC) and drug traffic. According to him, FARC leaders have visited the military complex in Caracas for training sessions and to exchange classified information.

**MERCOSUR summit to be held in December.** The MERCOSUR Presidents' Summit will be celebrated in Montevideo next December. There, Uruguay will present Argentina with this customs union's semester presidency. Presidents of member countries such as Bolivia, Chile and Ecuador are expected to attend this summit, as well as the President of Venezuela, which is currently undergoing the last stages of the full integration process. The Brazilian Senate's foreign affairs commission supported Venezuela's inclusion to the MERCOSUR, and now it will need a Senate plenary vote, where most senators are allies to President Lula da Silva, who also supports Venezuela's inclusion. The debate in the Brazilian Senate revolved around to Venezuela's democratic and human rights' principles.

**Once again, the worst.** According to the Latin American Index of Budget Transparency, Venezuela is the worst rated country, getting 23 out 100 points, which indicates it is the less transparent country when it comes to issuing information regarding the preparation of the tax administration budget. Venezuela received 33 points in the previous index, representing a 10-point loss. Before Venezuela were Bolivia and Ecuador with 42 and 43 points, respectively.

**Mission expenses to fall in real terms.** 2010's Budget Law establishes a social expense through missions for VEF 5.89 billion, representing a nominal increase of 5.8%, but in real terms results in a negative variation by 20.8% according to our national inflation estimates of 27.5% in 2009 and 34.5% in 2010. According to 2010's

Budget Law Draft, only 14 out of 27 social programs that have been created have a budget allocation. Starting next year, those programs without a budget allocation shall depend on PDVSA'S excess resources.

**PSUV Elections.** 4,881 electoral tables will be installed to carry out the PSUV II National Congress delegate elections on Sunday November 15. The Director of Anzoátegui's Regional Electoral Office (ORE), Edgar Mata, said each entity's winners will be announced once all votes have been counted.

**Chavez commits to solving others' problems.** According to Santiago's Governor, Alejandro Toribio, Venezuelan authorities will be building 2,000 homes in Dominican Republic's Montecristi province, to benefit pour families in that area. Meanwhile, Venezuelan homes being built are still delayed, and the construction of only 12,000 new homes is projected.

**Nicaragua too.** The President of Nicaragua, Daniel Ortega, said his Administration will destine US$4.4 million to help 13,500 hurricane victims in Nicaragua, financed by Venezuela through the ALBA (Bolivarian Alliance for the Americas) and by international organizations such as the United Nations Development Program (UNDP).

**IAPS accuses countries where freedom of speech is not respected.** The Inter-American Press Society's Assembly recently approved the reports from continent editors condemning governments and criminal organizations for attacking the media and media workers. Reporters said the Argentinean, Bolivian, Ecuadorian, Honduran, Nicaraguan and Venezuelan governments were responsible for freedom-of-speech restrictions and attempts to control information.

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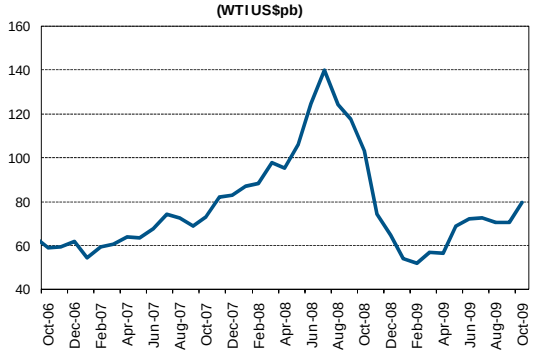
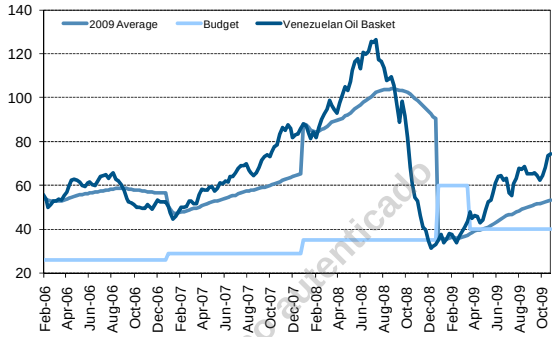
# ECONOMIC OVERVIEW

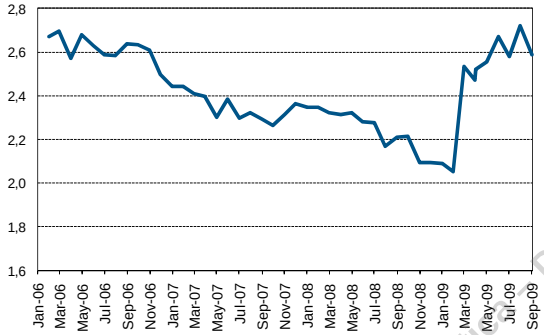
**Oil Prices (WTI US$pb)**



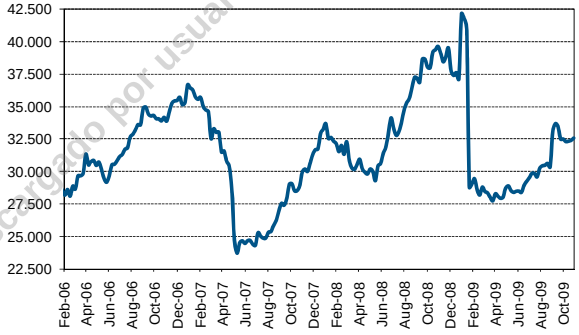

**Oil Price (Venezuelan Basket US$/pb)**



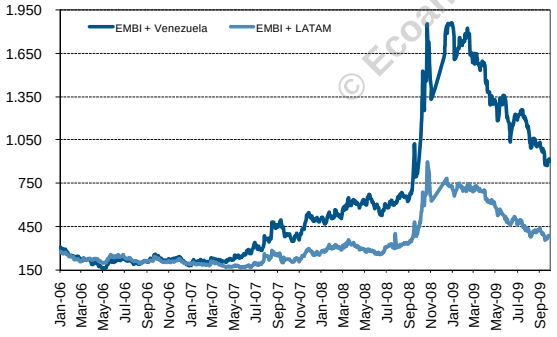

**Oil Exports MMBD**



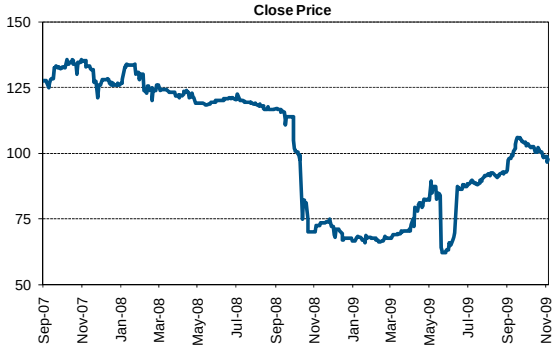

**Fx Reserves - BCV (US$ Million)**




**EMBI+**

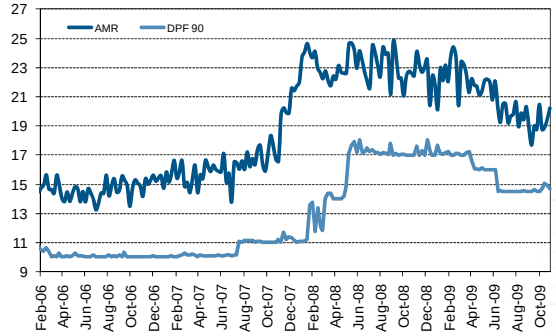



**Venezuelan Global 18 Close Price**




**Venezuelan Global 27 Close Price**

**Interest Rate (Six Principal Banks)**

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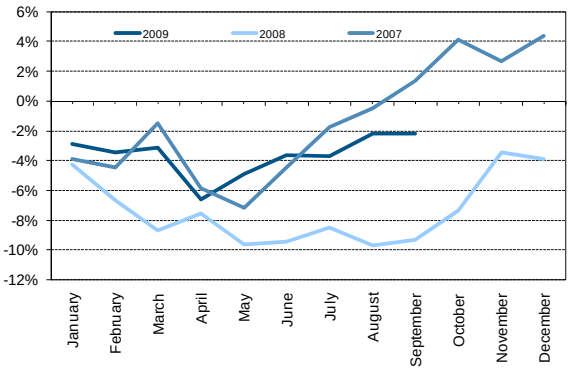
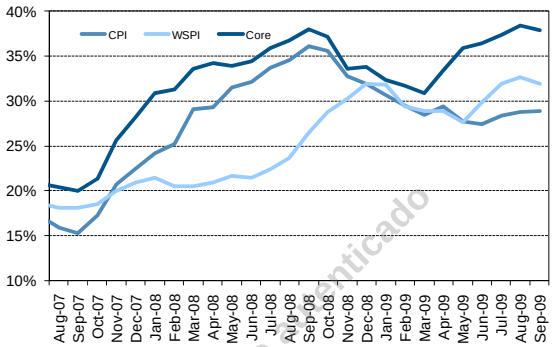
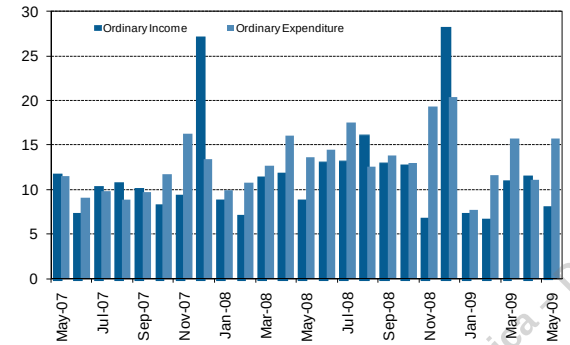
**Real Expansion (M2)**



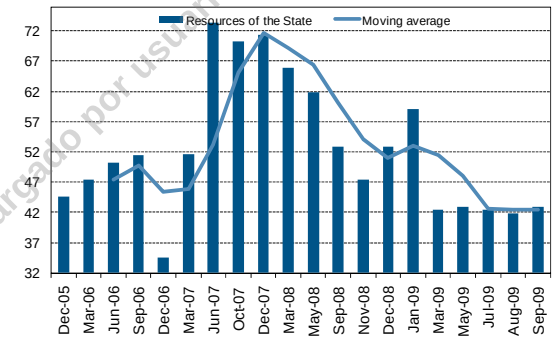

**Inflation (Last 12 Months)**



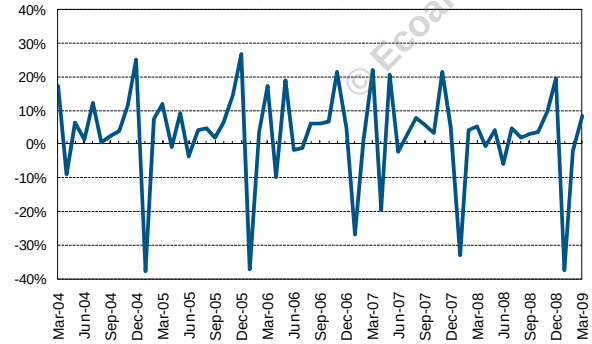

**Central Government (VEB Billion)**



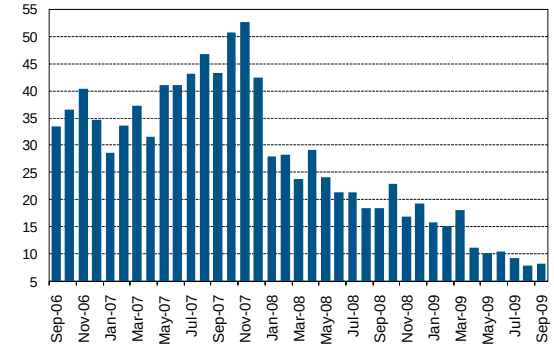

**Resources of the State (US $ MM)**



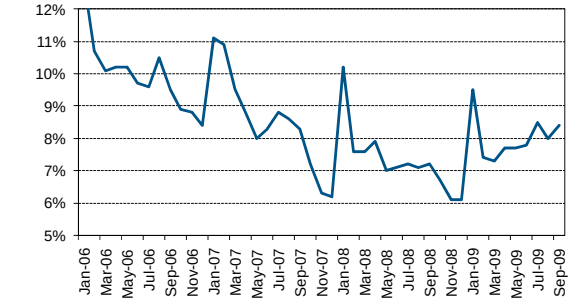

**Volume of Sales (% Variation)**



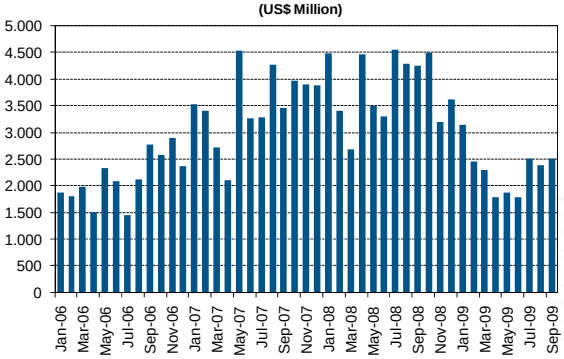

**Sale of Vehicles (Thousands of Sold Units)**




**Rate of unemployment (%Variation)**




**Disbursement (US$ Million)**

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