

## Price mechanism: Out of Service

In economics, prices are an elegant mechanism for transmitting a great deal of information, and that information, in turn, is necessary for decision-making in any market. In theory, prices show the equilibriums between the forces of supply and demand, and when they are expressed in a standardized scale, such as that of the units of account of national currencies, a price not only speaks to us of the isolated value of a good or service but it can also be immediately compared to the monetary value of all the remaining goods and services in an economy. Prices and how they evolve over time tell us a great deal about considerations regarding value that economic agents take or have taken into account at any given time.

### The action of prices

Basically, prices are the manifestation of the preferences of different economic agents that interact with one another. Those preferences, expressed in the demands for certain goods in favor of others, are conditioned by agents' needs, desires and value judgments as regards their purchase options. Weighting and aggregating all those preferences via universally accepted means of account and exchange (money) gives rise to numerical expressions of value that can be recognized by all participants in an exchange.

These prices send signals that facilitate the subsequent coordination of agents. Producers see prices as evidence of the desires of consumers and take decisions regarding the profitability of entering a new or already existing market. Likewise, individual consumers can adjust their purchasing patterns as prices change and this, in turn, sends new signals. It is a system that, in a decentralized fashion, uses the feedback of new information as agents interact.

As long as both the conditions and the underlying dynamics of the environments in which prices are generated are clear, prices can perform their function of transmitting information without any major difficulties. On the other end of the spectrum, systems of exchange with a high degree of distortions (whether on the production, regulatory or institutional levels) generate frictions in those processes, which reduces the usefulness of prices as a source of information and, consequently, the range of action for performing economic calculations.

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## Prices in Venezuela

The Venezuelan economy is one where the presence of many distortions has crippled the price mechanism to the point of putting it out of service as a reliable instrument for decision-making.

The pressure of hyperinflations makes the stability of visible prices only short-lived at best and nonexistent in most cases. Implementing strict controls in response to that inflation discourages production and creates conditions for excesses on the demand side, giving rise to shortages and the emergence of parallel markets. And the only consistent quality of the foreign exchange system is its arbitrariness. In short, both the prices of goods in bolivars and the price of the bolivar itself are compromised, and that has repercussions on the information it transmits.

## The hyperinflationary typhoon

Venezuela has been experiencing hyperinflation for 15 months<sup>1</sup>, with prices posting a cumulative increase of 22,296,214.0%<sup>2</sup> since this process started in November 2017. This exponential acceleration of prices is not symmetrical for all groups, with services lagging strangely behind tradable goods. By way of illustration, group food and non-alcoholic beverages experienced a cumulated increase of 293,921,569.0%, whereas group transportation went up by 24,427,822.0%. This uncoordinated increase in prices results in the relationship of relative prices, or the value of one good in terms of another, being broken. Continuing with our example, group food and non-alcoholic beverages became 882.2% more expensive than group transportation. These differences continue to be apparent when we calculate the equivalent rates for shorter periods of time<sup>3</sup>, such as weeks and months.

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<sup>1</sup>At **Ecoanalítica** we go by Phillip Cagan's definition (1956) for determining a hyperinflationary process, according to which this occurs when monthly inflation is more than 50%.

<sup>2</sup> Calculations performed up until the end of January 2018

<sup>3</sup> To calculate the equivalent amounts, the rate is found that, if repeated monthly or weekly throughout the period under study (15 months and 4.5 weeks), would result in the cumulative figure.

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### Accumulated Inflation by item

Item	Accumulated Inflation	Monthly Equivalent*	Weekly Equivalent**
Food and non-alcoholic beverages	239,921,569	166.3	24.3
Alcoholic beverages and tobacco	19,069,277	124.9	19.7
Clothing and footwear	447,648	75.1	13.3
Housing rent	43,785	50.0	9.4
Home services except telephone	34,905,696	134.2	20.8
Home equipment	9,101,248	114.1	18.4
Health	8,417,800	113.0	18.3
Transport	24,427,822	128.7	20.2
Communications	19,193	42.0	8.1
Entertainment and culture	14,711,924	121.1	19.3
Education services	13,788	38.9	7.6
Restaurants and hotels	361,452,684	173.7	25.1
Other goods and services	9,179,001	114.2	18.4
<b>BCV Methodology Inflation</b>	<b>22,296,214</b>	<b>127.3</b>	<b>20.0</b>

Sources: BCV and Ecoanalítica

\*Calculated based on a 15 month in hiperinflation since November de 2017

\*\*Calculated based on 4,5 week months

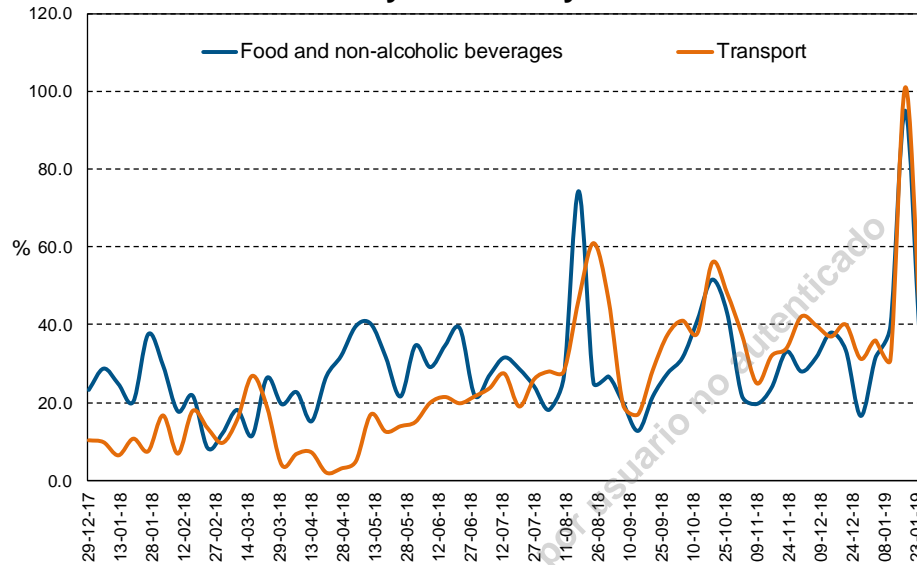
These may be the aggregate amounts, but the evolution of these prices is neither linear nor stable. In other words, prices grow and the speed at which they grow is variable over time. This notion is fairly evident when we observe the behavior of inflation from one week to the next for those same groups. Over the period January 2018-January 2019, group food and non-alcoholic beverages posted average weekly inflation of 29.1%; however, it went from 11.9% in the week of March 9 until it reached levels of 74.2% and 94.9% in the weeks of August 24, 2018, and January 25, 2019, respectively. For purposes of comparison, group transportation posted inflation from one week to the next of 25.6% and inflations of 9.7%, 46.5% and 101.0% in the same weeks mentioned in the case of group food and non-alcoholic drinks. It is worth noting that the sharpest increases coincided with periods immediately following announcements of economic measures<sup>4</sup>.

<sup>4</sup> The announcements of August 17 included a 5,900% increase in the minimum wage, raising the price of gasoline, and indexation to the Petro. The announcements of January 14 included a 300% increase in the minimum wage and the entry into force of a marginal legal reserve of 60%. In both cases, the inflations posted from one week to the next immediately following the announcements were the highest since **Ecoanalítica** started to keep a weekly record of inflation: 54.4% and 67.7%, respectively.

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Weekly inflation by item



Source: Ecoanalítica

Since inflation from one week to the next in the various groups tends to be both different and volatile, relative prices and the changes in relative prices are also volatile. This difference makes the process of adjusting these relative prices difficult to predict<sup>5</sup>. As a side note, one group can become drastically more or less expensive in terms of another group and this relationship can be reversed just as suddenly.

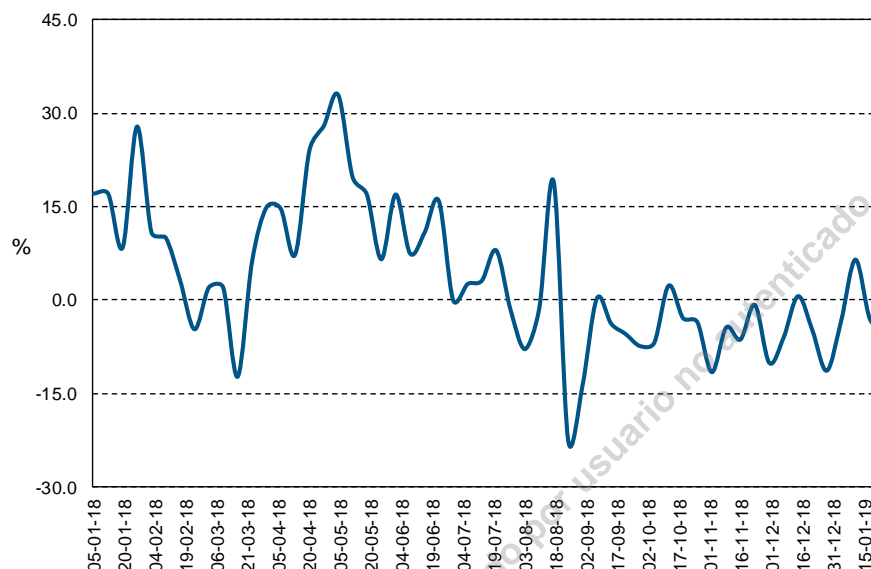
To illustrate this dynamic, we developed a relative price index for group food and non-alcoholic beverages compared to group transportation and we calculated how it varied over time. When that variation is positive, it means that the first group has become more expensive compared to the second, and if it is negative it means the opposite. For these specific two groups of goods and services, we see how in the second week of May, relative prices grew by 32.9%, whereas in the fifth week of August they had fallen by 22.4%. Once again, even though cumulatively speaking this relative price increase respect to transportation was 882.2%, the path to that result was a fairly unstable one.

<sup>5</sup> This idea was explored in greater depth in the 2019's N°01 Weekly Report "No place for the weak: The first year of weekly inflation Ecoanalítica©"

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**Transport & Food and non-alcoholic beverages weekly variation**



Source: Ecoanalítica

Such sharp changes in relative prices are in response to both shifts in Venezuelan society's consumption patterns, which in an environment of recession and uncertainty adapts its priorities to stay afloat, and to disruptions in the availability of many of those groups of products as a result of the decline in economic activity. However, there is another reason for this behavior of relative prices: the frictions many groups of products and services face when it comes to adjusting their prices, at least legally.

### Controls against the tide

Since 2003, the Venezuelan Government has introduced a variety of price control schemes for a wide range of goods and services. They include lists of specific goods<sup>6</sup>, laws that affect cost structures<sup>7</sup>, and administrative authorities<sup>8</sup> to supervise and

<sup>6</sup> The Hugo Chávez administration's first list of controlled prices was published in *Gaceta Oficial* No. 37,626 dated February 6, 2003.

<sup>7</sup> The first Fair Costs and Prices Act was published in *Gaceta Oficial* No. 39,715 dated July 18, 2011.

<sup>8</sup> In 2011 the Fair Costs and Prices Superintendency (Sundecop) was created. It was later replaced in 2014 by the National Superintendency for the Defense of Socioeconomic Rights (Sundde).

intervene in the setting of prices. The latest price-setting mechanisms is an “agreed”<sup>9</sup> prices law, the intention of which is allegedly to include the views and opinions of the sector involved in the supply of the goods in question when calculating those prices.

Controls create barriers to prices adjusting themselves naturally; as they lag behind, they cease to reflect the business strategies and cost structures of the agents offering the goods or services. In an environment such as Venezuela’s, where the upward pressure on prices is overwhelming, adjustments should be continuous in order to try to maintain value in real terms.

Taking the last list of agreed prices for food items published in December 2018, we can estimate what these items should cost if it had been possible for prices to have been set freely by using cumulative underlying inflation<sup>10</sup> between December 2018 and January 2019, in this case 1,043.0%. It should be noted that underlying inflation is for prices in general and that food prices tend to go up more than the prices for other groups of goods and services.

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<sup>9</sup> Specifically, the Constitutional Agreed Prices Act (*Gaceta Oficial* Special Issue No. 6,342 dated November 22, 2017) passed by the Constituent National Assembly (ANC)

<sup>10</sup> Inflation estimated to isolate controls and reduce their impact on the calculation of the general level of prices.

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### Regulated products adjusted for inflation

Product	Units	Price	Price adjusted for inflation*
Edible vegetable oil	1 liter	239.0	2731.8
Canned tuna	140 grams	430.0	4915.0
White rice (type 1)	1 kilogram	212.0	2423.2
Peas	1 kilogram	170.0	1943.1
Refined sugar	1 kilogram	200.0	2286.1
Ground coffee	500 grams	360.0	4114.9
Black peas	1 kilogram	170.0	1943.1
Consumption eggs	30 units	492.0	5623.7
Beef	1 kilogram	420.0	4800.7
Pasteurized liquid milk	1 liter	185.0	2114.6
Lentils	1 kilogram	220.0	2514.7
Margarine	500 grams	320.0	3657.7
Mortadella	500 grams	343.0	3920.6
Pasta	1 kilogram	376.0	4297.8
Canned sardine	170 grams	200.0	2286.1
Fresh sardine	1 kilogram	40.0	457.2
Benefited chicken	1 kilogram	450.0	5143.6
Beans	1 kilogram	220.0	2514.7
Precooked corn flour	1 kilogram	151.0	1726.0
Family use precooked wheat flour	1 kilogram	186.0	2126.0
Baker use precooked wheat flour	1 kilogram	100.0	1143.0

Source: November 30th 2018 Official Gazette 41,536 and Ecoanalítica

\*Accumulated underlying inflation between December 2018 y January 2019

A controlled price that lags behind transmits a certain type of information, for both consumers and producers. For consumers, this means that goods that are made artificially cheaper than all other goods gives rise to excesses in demand that eventually make it impossible to find those goods at those prices. For producers, this means goods whose continued production could be less profitable or generate losses, thus discouraging investment and, in some cases, remaining in that market. Both pressures will result in the supply of those goods moving over to parallel markets where there are opportunities for arbitrage between controlled prices and prices that would empty the market, or simply make the goods disappear in the long term.

Groups of goods and services subjected to strict price controls and that are not able to "leak" into parallel markets tend to be those whose prices lag further behind than the rest. This is most evident in services where few providers face fixed charges (telecommunications) or where the payroll overhead depends on collective employment contracts that are updated very slowly (education). Compared to the food group, these

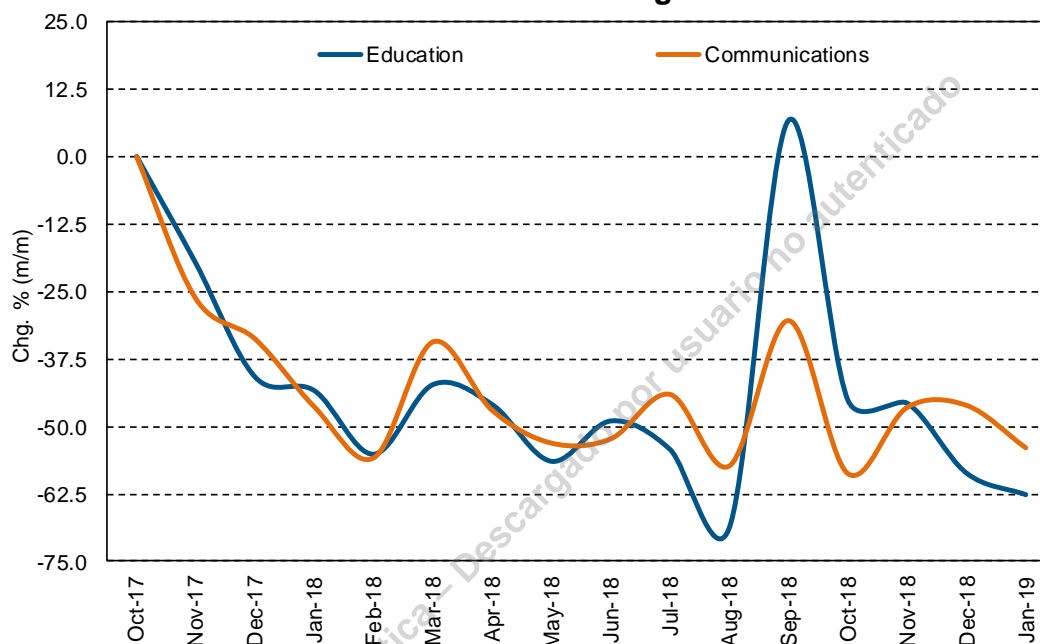
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two sectors averaged monthly drops in their relative prices of 45.8% and 45.5% since the start of hyperinflation.

### Monthly variation of relative prices to food and non-alcoholic beverages



Source: Ecoanalítica

These results are due to the distortions that suddenly appear in the natural adjustment of prices given the trends in the Venezuelan economy. These obstacles in the bolivar-denominated markets spread to the market of the bolivar itself and its value in terms of other currencies.

### The exchange rate adrift

In recent years, a characteristic of the Venezuelan foreign currency market has been the inconsistency between the Central Bank's explicit foreign exchange objectives and the monetary policy employed by that same Central Bank to achieve those objectives. The Central Bank establishes a fixed exchange rate to which it seeks to anchor price expectations, particularly for public sector imports, but it does not have or employ the instruments that are needed to defend that exchange rate.

In theory, the Central Bank should avoid excessive monetary expansion so as to avoid depreciation pressures on the exchange rate or, failing that, it should use the international

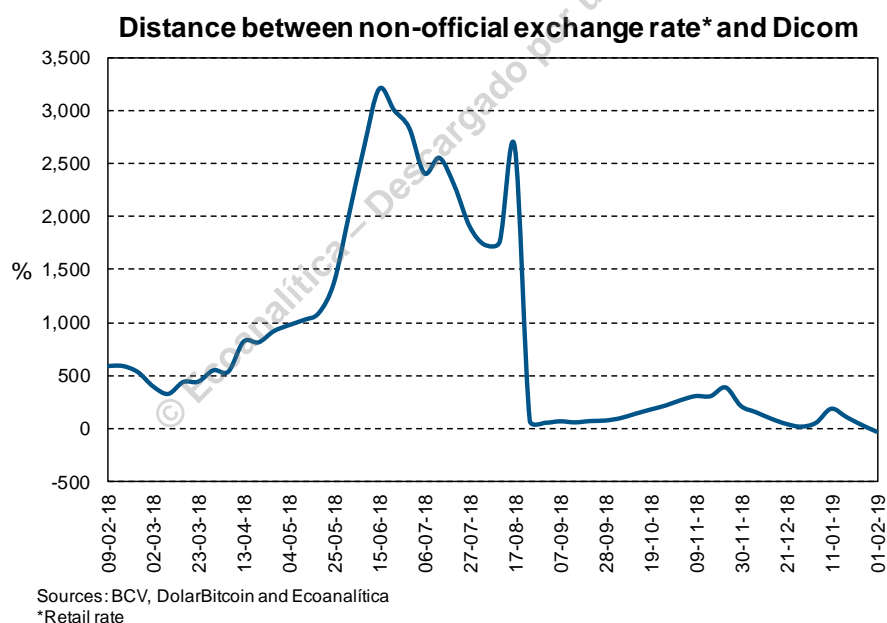
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reserves to supply sufficient dollars to meet the demand generated by the entry into circulation of more bolivars. If it does not act appropriately, the official exchange rate becomes overvalued (relatively cheap) and, if the people who demand dollars are unable to have access to those dollars, they will turn to the parallel market.

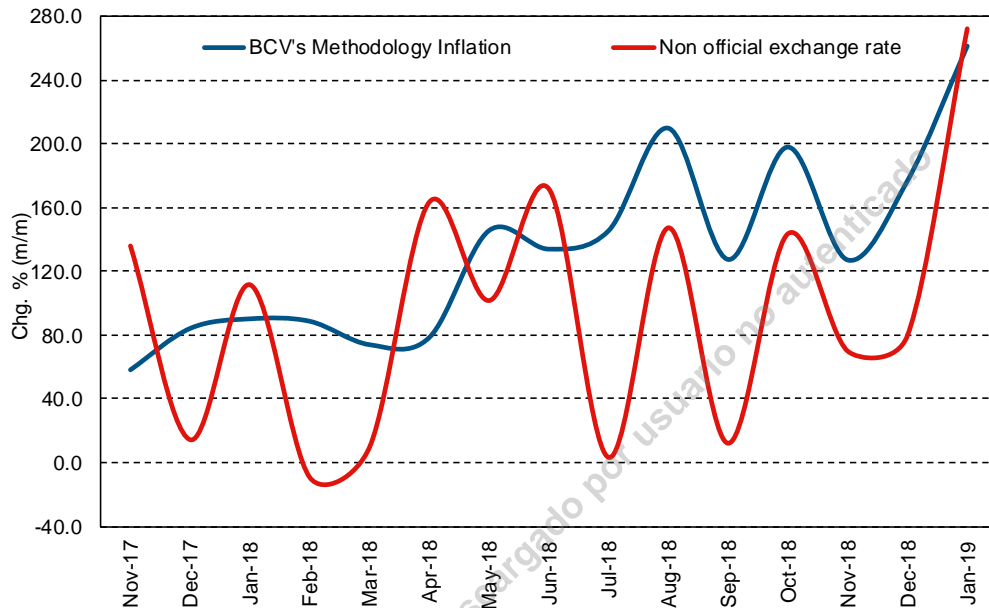
That has been the main foreign exchange dynamic in Venezuela. The market is segmented based on rates associated with different degrees of access and with huge differentials between the rates. The exchange rate differential is the main practical signal of this market, with the parallel rate premium being the main incentive for people offering dollars to operate in that market. As a general rule, the parallel market has a positive premium that reached an all-time high of 3,207% in June 2018. This ratio was inverted in the first week of February 2019, when the combination of a 60.3% devaluation in the DICOM rate and an aggressive restriction on the loans<sup>11</sup> banks were able to grant raised the official rate above the parallel rate.



These movements in the exchange rates also reflect a situation that takes us back to our first point: relative prices, even in dollars, are not stable or predictable either. This extends to the relationship of dollars with the rest of the economy: to the extent to which the exchange rate is out of line with inflation, so dollars will become more expensive or cheaper compared to the other groups, like any other good. That issue was confirmed once weekly inflation and exchange rate variations were compared.

<sup>11</sup> By raising the banks' legal reserve

**Monthly variation of the NCPI and non official exchange rate**



Source: Ecoanalítica

### Seeking whatever guiding lights there are

Prices in Venezuela correspond to a dynamic of distortions in which the signals they send can be confusing. However, this does not mean that they can be ignored, simply because doing so implies cutting oneself off completely from economic activity. The constant volatility of the relative prices of goods forces agents to take decisions with shorter time horizons. If it is known in which direction the wind is going to blow, it is necessary to change course and continue until the storm passes.

**Giorgio Cunto**

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## WEEKLY INDICATORS

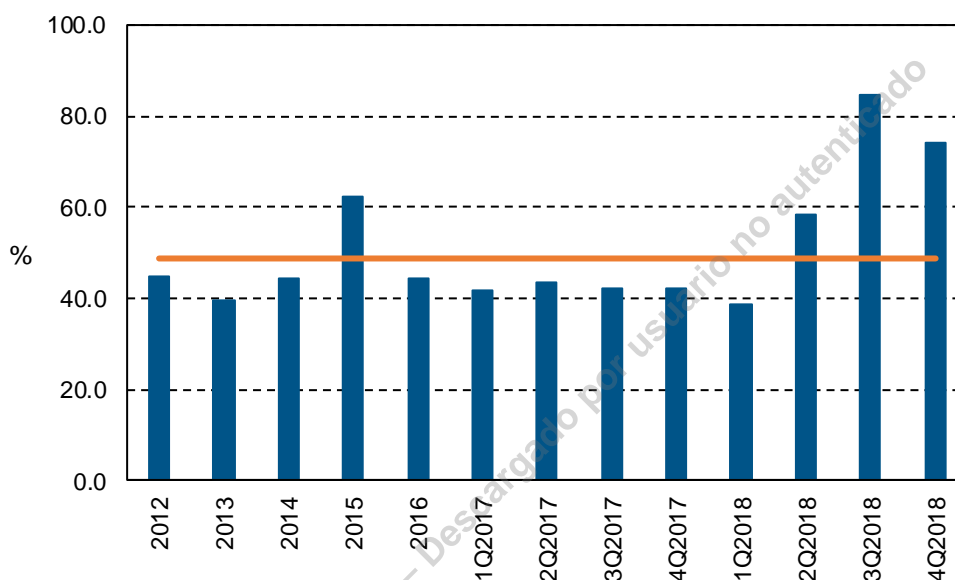
Weekly Economic Indicators			
	1st Week February	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
<b>FX Dicom (VES/USD)</b>	3,297.62	0.0	0.0
	4th Week January	Weekly chg. (pp)	Annual chg. (pp)
<b>Lending Interest Rate (%)</b>	22.8	-0.1	1.6
	4th Week January	Weekly chg. (pp)	Annual chg. (pp)
<b>Overnight Interest Rate (%)</b>	2.0	-11.7	1.8
	4th Week January	Weekly chg. (%)	Annual chg. (%)
<b>International Reserves (USD Bn)</b>	8.4	-0.2	-7.5
	4th Week January	Weekly chg. (%)	Annual chg. (%)
<b>Monetary Liquidity (VES)</b>	1,517,663,067	31.2	95,279.5
Price of International Oil Baskets (USD/b)			
	1st Week February	Weekly chg. (%)	Annual chg. (%)
<b>WTI</b>	53.4	0.5	-16.0
<b>Brent</b>	61.3	-0.9	-11.8
Price of the Venezuelan oil basket (USD/b)			
	1st Week February	Weekly chg. (%)	Annual chg. (%)
<b>Weekly Average</b>	55.8	-0.4	-9.2
<b>Annual Average</b>	53.4	1.1	-12.0

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

<sup>1</sup> Depreciation (+)/Appreciation (-)

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**GRAPH OF THE WEEK: “K.O Venezuela”**
**Cash generating barrels exported to the United States**


Sources: Pdvsa, Mefbp and Ecoanalítica

Note: The horizontal line represents the average of the annual data

From the moment the United States' sanctions against PDVSA were announced, it has been said that 80.0% of our cash-generating barrels goes to the United States. This would mean that a large portion of our revenues from oil exports would be affected insofar as these sanctions prohibit the sale of PDVSA's crude to the US market.

According to our estimates, crude exports to the United States went from accounting for close 39.6% of total crude exports in 2013 to 42.3% in 2017 and 74.1% in 4Q2018. In other words, USD 7.4 out of every USD 10 that entered PDVSA during that period from the sale of Venezuelan crude abroad came from US companies. Political differences and threats from the United States (now put into practice) aside, it is likely that operational frictions prevented PDVSA from redirecting its cash-generating barrels to a “surer” destination.

If it was difficult to redirect those barrels before, now with the sanctions it will be even more so. If we take India and China as being among the possible destinations, the flow of exports to Asia will have to overcome a series of major logistical hurdles, from adapting certain ports and some infrastructure to renegotiating contracts. Difficulties such as these

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make the worsening of the economic and humanitarian crisis imminent unless there is a political change.

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## ECONOMIC TIPS

**DICOM every day.** The Central Bank of Venezuela (CBV) announced that, from February 4<sup>th</sup>, the official foreign currency market under the DICOM system will operate five days of the week. The CBV expressed that *“this way, people and national entrepreneurs would exchange foreign currency on a daily basis through this mechanism based on the currency’s free convertibility.”*

**Desperate measures, Part I.** The news agency Reuters reported that the Central Bank of Venezuela hopes to sell 15 tons of its gold reserves to the United Arab Emirates in exchange for euros in cash in order to finance its exports.

**Desperate measures, Part II.** However, this will not be the first gold shipment to be sent abroad this year. On January 26, three tons of gold were sent to the United Arab Emirates, according to the same source, which also stated that the gold ingots were of maximum purity.

**Fewer reserves.** Once this sale goes ahead, if it goes ahead, 29 tons of gold will have been sold in just two months, reducing the country’s international reserves to an 80-year low.

**That’s what the numbers show.** The international reserves as at the week of February 1 came to USD 8.5 billion, down 1.0% from the previous week and down 7.1% from February 1 last year.

**Between a rock and a hard place.** In view of the sanctions that have cut off the country’s oil revenues and the shutting off of nearly all international financing options, the sale of gold is almost the only means available to the Nicolás Maduro regime for getting cash.

**Being responsible despite.** Vicepresident of the Russian oil company Rosneft, Pável Fiódorov, assured that Pdvsa is responsible with the debt payment calendar despite the ongoing crisis in the country. According to Rosneft, Pdvsa cancelled half (without interest) of its debt in 2018. This number represents USD 2,300 million.

**Pending Payments.** The complete debt is supposed to be payed at the end of 2020. Another Rosneft Vicepresident of the company, Eric Liron, said that *“the instability (...) in the region is a temporary phenomenon that does not have a considerable impact in the actual projects.”*

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**When the plan does not turn out well.** Novo Bank stopped a USD 1,200 million transfer to Uruguay ordered by Nicolás Maduro, informs Reuters. Carlos Paparoni, National Assembly congressman, established that this funds exchange could be stopped.

**“Trickery”.** According to Paparoni, Lucas Rincón, Venezuelan Ambassador in Lisboa, and Iván Orellana, Pdvsa worker, tried to “move financial assets of the Venezuelan State that are in the Novo Bank from Portugal (...) This transaction was prevented from happening”. Nevertheless, Rincón denied said accusations and established that they were just “trickery”.

**Bonus calendar, Part I.** The payment schedule for Bonuses of the Fatherland has been published on the webpage Patria.org. According to the information posted, Household of the Fatherland bonuses will continue to be paid in the first seven days of the month and the other bonuses will also continue to be paid as before.

**Bonus calendar, Part II.** It is possible that the complementary payment of the private sector payroll for the first half of the month will start to be made on February 1 and for the second half on February 25. The payments of the Youth Job, Food Kitchen and other bonuses will start to be made on February 8.

**It has caught up with the parallel rate.** The exchange rate resulting from DICOM Auction No. 89 was VES 3,299.12/USD (VES 3,770.23/USD), unchanged from the previous auction. The exchange rate from this system has been higher than the unofficial market rate since the last week of January.

**Who got the DICOM rate?** The average devaluation per auction in January was 13.29%; the total amount disbursed was USD 95,028.13; and private individuals received a total of USD 36,718.13 and companies a total of USD 58,310.

**Tax collection for January.** According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VES 195.2 billion were collected in taxes for the month of January. In nominal terms, this represents a 283,095% increase compared to the same month last year. Of this amount, VES 25,1 billion came from Income Tax, and VEF 94.6 billion from the VAT.

**In real terms.** Total revenue in January of 2019 compared with the same period last year decreased by 92.9%. The VAT decreased 91.6% in real terms and customs revenues also decreased 93.1%. Meanwhile, income tax revenues decreased 95.6% in real terms over the same period of 2018.

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**OIL TIPS**

**A battle ground.** Venezuela's most valuable asset abroad and the eighth biggest refinery in the United States, Citgo Petroleum Corp., is at the center of a dispute as a result of the present political situation and following the sanctions imposed on PDVSA and all its assets by Donald Trump.

**Twixt debts and disputes.** It will be recalled that Citgo itself is in a delicate legal situation. In April this year, PDVSA is supposed to pay USD 72 million in interest in order to retain possession of this asset. On the other hand, Juan Guaidó has asked the United States to protect this asset in the event of a default, while he arranges for new management for the refinery.

**Protected by the White House.** The White House's security advisor, John Bolton, commented that he had met with a team of executives from Citgo. In his Twitter account he said: *"The United States is continuing to work to make sure that the economic benefits of Venezuela's resources are not pilfered by Maduro and his cronies."*

**Unable to get it out, Part I.** As at Wednesday last week, Venezuela had 25 tankers with around 18 million barrels of crude on board in the port at Jose, given the impossibility of exporting crude as usual, according to Reuters. Those 18 million barrels are equivalent to two weeks' production.

**Unable to get it out, Part II.** PDVSA exported 1.25 million barrels a day (mb/d) in 2018, 500,000 b/d (500 kb/d) of which went directly to the United States. Given the recent sanctions, these shipments –originally intended for Citgo, Chevron, Valero and PBF Energy- are stuck in port because they are unable to leave.

**F->E.** PDVSA's diluent stock has gone down in the past few days as a result of low levels of production and the sanctions that are making importing gasoline difficult. Given this situation, Venezuela has been putting pressure on fuel suppliers for them to deliver their shipments, while European customers have put a hold on their purchases.

**Gasoline holdup.** Last Thursday, members of Venezuela's National Guard and National Intelligence Police Force threatened to board a tanker moored off Cardón. The tanker is carrying US diesel that was sold to Venezuela but has not yet been paid for, according to the news agency Reuters.

**Desperation's in the air.** The tension caused by the incident was relieved once PDVSA said it would seek a warrant to obtain the shipment. This sense of urgency and

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nervousness indicate how badly the country needs the fuel for its domestic market. Reuter estimates that Venezuela has only two weeks' inventory of gasoline and diesel.

**When hunger walks in the door, love flies out the window.** Tensions with Russia are also growing. PDVSA owes Rosneft USD 3.0 billion and gave Rosneft Citgo as collateral in the event of nonpayment of that debt. A Russian diplomat commented to ArgusMedia that Moscow will not accept US sanctions as an excuse for Venezuela not meeting its obligations.

**Losing buddies.** PetroChina Co. booted PDVSA from a crude refinery and petrochemical plant project in the southern part of China, according to Reuters. The expulsion of Venezuela from this USD 10 billion project is due to PDVSA's continuously deteriorating financial situation in recent years, according to executives of PetroChina.

**It was only a matter of time.** *"There will be no role of PDVSA as an equity partner. At least we don't see that possibility in the near future given the situation the country has been through in recent years,"* said a PetroChina executive. This decision is a sign of the deterioration of the relations between Venezuela and China since 2015.

**Mexico taking up the slack?** According to S&P Global Platts, Mexican crude will not be sufficient to replace Venezuelan heavy crude for US refineries. Pemex, the Mexican state-owned oil company, sends 54.0% of its exports to Asia and Europe under existing contracts, which means that the United States will not be able to buy more crude from Mexico.

**They switched over some time ago.** In fact, several US oil companies already started to switch their heavy crude purchases from Venezuela to Mexico back in 2017. Phillips 66, which used to import around 176 kb/d from Venezuela for its refinery in Texas, stopped buying from Venezuela. In October last year it bought 93 kb/d of Mexican crude.

**OPEC production.** Production from the Organization of Petroleum Exporting Countries (OPEC) posted the biggest drop in the past two years, according to Bloomberg. This was due to the establishment of production cuts, which reduced the amount of petroleum from the United Arab Emirates and Kuwait. In addition, there were involuntary drops in production by Iran and Libya.

**OPEC – Qatar.** Bloomberg reported that production last month was 32.6 mb/d which represents a decrease of 530 kb/d in comparison with the previous month. Account should also be taken of the fact that OPEC lost a member in 2019, Qatar, which decided to withdraw from the cartel, affecting oil output.

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## BUSINESS SECTOR TIPS

**A rapid recovery.** According to the president of the Confederation of Agricultural and Livestock Producers Associations (Fedeaagro), Aquiles Hopkins, if it is given the necessary funds, the agricultural and livestock sector could double production in the space of just one year.

**Do we import or do we produce?** Hopkins explained that the sector could undertake this task if it were given USD 1.5 billion, which would be used to purchase inputs, machinery, and transport, among other things. He ended saying that, if the money was used to produce and not to import, production would be four or five times what is imported.

**It's no longer possible to produce.** According to Fedeaagro, only 5% of Venezuelan farmers have the capacity to sow cereals for the new crop cycle, a serious situation that affects all the producers equally. The first vice president of Fedeaagro, Celso Fantiel, explained that with the present prices it is impossible for farmers to cope with the costs of producing corn and rice.

**It's impossible to cover costs with those prices.** Fantiel explained that, in order to be able to cover production costs, corn and rice prices should be VES 1,270 and VES 1,405, respectively, whereas they are only getting VES 15 and VES 20 at present.

**Impossible to achieve that level of productivity.** The members of Fedeaagro claim that the market conditions the sector faces are totally impossible. According to them, in order to be able to buy the fertilizers they need to sow the crop, they need to achieve productivity of 80,000 kg/hectare, whereas actual productivity is 3,000 kg/hectare for corn and 3,500 kg/hectare in the case of rice.

**No sugar, not even for coffee.** The Federation of Sugar Cane Growers (Fesoca) reported that, only 15 days after the new agreed prices were published, those prices no longer cover even 50% of production costs.

**Problems taking to the road.** The director general for the vegetable sector at Fedeaagro, Gerson Pabón, explained that transporting vegetables has been problematic for producers in Táchira because difficulties in getting gasoline frequently prevent them taking to the road and when they do, they are hijacked.

**Customs agents get a new lease of life.** The Economic Activity Licenses were renewed for 201 customs agents in Vargas state. The licenses were handed over by the mayor,

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José Alejandro Terán, who also announced a proposal for creating a Special Economic Zone for developing production activities in the areas of goods and services.

**Illegal mining, but not for gold.** The National Superintendency of Crypto Assets and Related Activities (Sunacrip) will be able to fine and seize the equipment of anyone who engages in activities with crypto assets and infringes the Constituent Decree on the Integral Crypto Assets System.

**We'll miss lobster.** The Ministry of Fisheries and Aquiculture has declared a closed season on lobster from February 1 to September 30 this year. Fishing for lobster is forbidden during this period for their protection and conservation in Venezuelan waters. The decree specifies three species of lobster: the spiny lobster, the Chilean jagged lobster (*langosta enana*) and the green lobster.

## WORLD ECONOMY TIPS

**An increase in wages, but not like in Venezuela.** The chairman of the White House's Council of Economic Advisers, Kevin Hassett, predicted that wages would go up 4.0% this year thanks to "a strong labor market, more capital investment and rising productivity."

**Will wages go up more than inflation?** According to the White House representative, wages have grown because productivity has, in fact, increased. He also explained that, adjusted for last year's inflation, wages had gone up by 1.3% to date.

**Uncertainty.** The 2020 presidential elections, the shutdown of the US Government, and fiscal policies have resulted in uncertainty growing worldwide, but specifically in the United States. According to the global uncertainty index, the levels of concern in the United States have exceeded 9/11 levels.

**Preferring the stick to the carrot.** According to different former US government officials, it is possible that it will be necessary to maintain tariffs on specific Chinese products, even after an agreement has been reached. This is due to the fact that it is considered that China has failed to honor its commitments before.

**Mamma Mia!** Italy's private sector debt poses a major risk for the European economy, in particular for France, Germany, Belgium and Spain. Between them, these countries hold nearly EUR 390 billion in Italian debt, according to Bloomberg, which leaves them exposed to any recession in Italy.

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**Socialism has done it again.** According to Bloomberg, Italy is in a delicate fiscal situation, in which it needs to issue debt of nearly EUR 400 billion a year to keep the ship afloat.

**A toxic relationship.** In its article, Bloomberg explains that Italy's banks and the State are in a relationship in which, if one falls, it will take the other one with it. This is due to the fact that a fair portion of the public sector debt is in the hands of Italian banks (EUR 204 billion), which means that if the State falls into default, the banks will be in difficulties, and if the banks fall, the State will lose a good lender.

**Post-World Cup growth.** Russia's statistics service announced the new economic growth figures for 2018, which closed at 2.3%. This growth is supposedly due in part to the construction companies, which achieved favorable results thanks to contracts as a result of the World Cup and a natural gas project in Siberia.

**Not credible growth.** In the opinion of Vladimir Tikhomirov, the chief economist at the brokerage firm BCS Financial Group, there is nothing on the companies or economic activity that might suggest that growth could be higher than 2%.

**A stronger yen.** Given the latest tensions between the United States and China, the slowdown in Chinese growth, and the instability caused by Brexit, a large number of investors have taken refuge in the yen, which has resulted in this currency appreciating more than the Bank of Japan finds desirable.

**Inflation lower than expected.** The Central Bank of Brazil announced a 0.5 percentage point reduction in its interest rate, taking the reduction in the rate over the past three months to 1.5 percentage points. The Central Bank explained that, in the present situation, it expects annual inflation to be 3.94% compared to its target of 4.25%.

## POLITICAL TIPS

**All options are on the table.** US President Donald Trump said that sending troops to Venezuela was "an option." He added that he had rejected the request to meet with Nicolás Maduro, explaining that he decided to say no because of the many really horrible things that have been happening in Venezuela.

**More and more are jumping ship.** In a video, Jonathan Velasco Ramírez, Venezuela's ambassador in Iraq, announced his support for Juan Guaidó, Venezuela's interim

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President. Velasco is the highest ranking diplomat in office to denounce the Nicolás Maduro regime.

**19 more side with Guaidó.** Nineteen countries of the European Union have recognized Juan Guaidó as the President of Venezuela until new presidential elections are called. After the ultimatum to call free and democratic elections within eight days was not met, the countries, which included Spain, France and Germany, decided to reject Maduro.

**Moving up the legislatives out of fear.** Nicolás Maduro asked the Constituent National Assembly to evaluate “*the situation*” of the National Assembly and the proposal to move the elections to the legislature forward. “*I’m in agreement with re-legitimizing the country’s Legislative Branch,*” he said.

**Some, yes...** According to João Gomes Cravinho, Portugal’s defense minister, the governments of France, Spain, Italy and Portugal have considered the possibility of sending troops to protect their nationals and their descendents who are resident in Venezuela. “*It’s a matter that has been discussed hypothetically; but for now there are no circumstances that justify taking action,*” said Gomes.

**...others, no.** Great Britain’s Foreign Office Minister for the Americas Alan Duncan said that the Group of Lima did not address the possibility of a military intervention in Venezuela during its emergency meeting in Ottawa, commenting that the group was focusing on an appropriate constitutional solution.

**Tomando acción.** Después de los anuncios del ministro de Portugal, el gobierno portugués envió a Venezuela una tropa de élite denominada GOE (Grupo de Operaciones Especiales) para proteger su embajada. Según el Gobierno, les fue impedido su ingreso al país por funcionarios de la Guardia Nacional Bolivariana debido a que encontraron armas en su equipaje.

**Excusas falsas.** A pesar de la excusa dada por el ejecutivo, opinamos que la verdadera razón de haber negado la entrada de las tropas se debe a que el Banco portugués Novo Banco frenó una transferencia de EUR 1.054 millones ordenada por Nicolás Maduro hacia Uruguay.

**Canada to the rescue.** During the opening of the Group of Lima meeting, Canada’s Prime Minister Justin Trudeau announced the granting of USD 39 million in humanitarian aid for Venezuelans.

**The first to arrive...** The first donations of humanitarian aid for Venezuelans arrived in Cucuta. The first shipment was sent thanks to support of Colombia’s President Iván

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Duque, the Government of the United States, and private Venezuelan companies in Colombia.

**...and this is the plan.** The aid will not be handed over in Colombia. The food and medicines will enter via Cucuta and civil organizations and the International Red Cross will be the key entities for organizing and distributing the aid.

**Now and after the humanitarian aid.** Juan Guaidó announced that it will be possible to attend to four first-level hospitals for one month with this first batch of humanitarian aid to enter the country. He also mentioned that, in this first stage, attention would be for the most vulnerable sectors of the population and that collection points would be set up in Cucuta and Brazil and on islands in the Caribbean.

**With blood on their hands.** According to figures published by Runrun.es, between January 21 and 24, at least 33 people died in Venezuela in the midst of the repression of street demonstrations against the Nicolás Maduro regime.

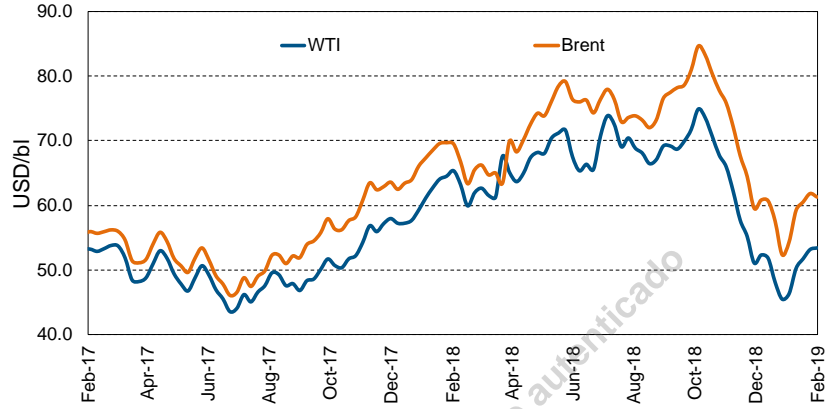
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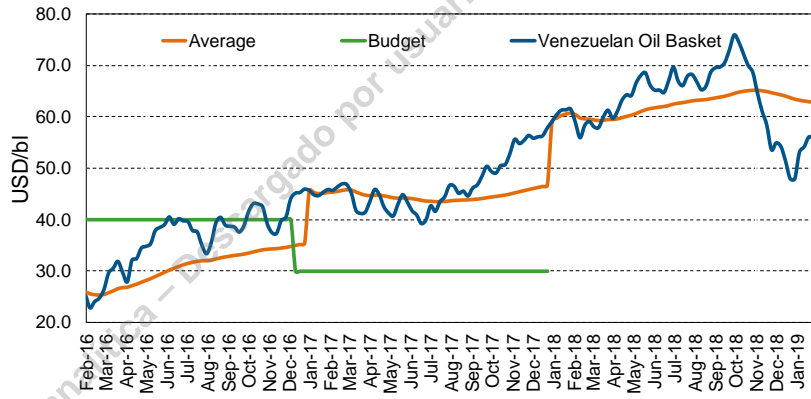
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



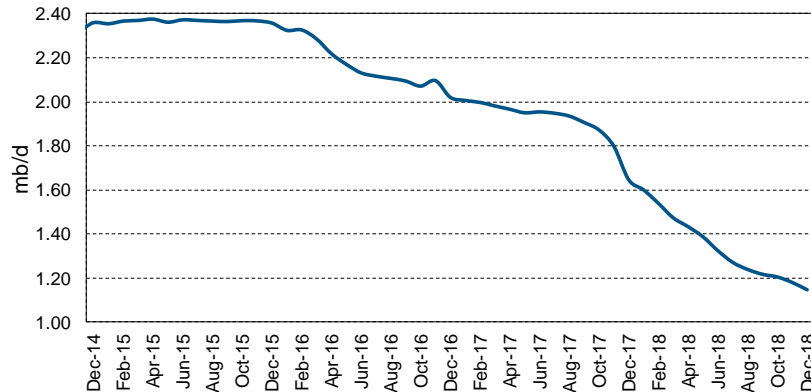
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**

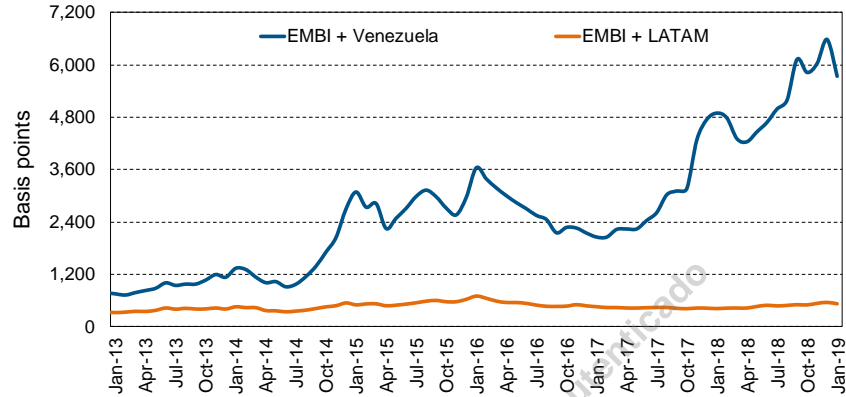


Sources: OPEC and Ecoanalítica

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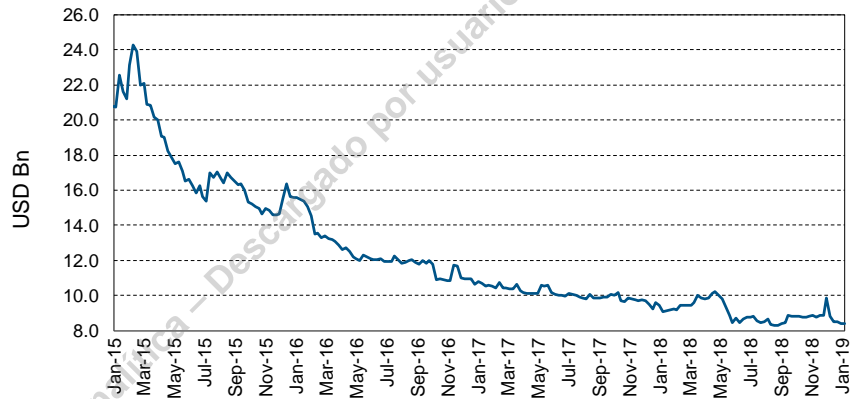
**ECONOMIC INDICATORS**

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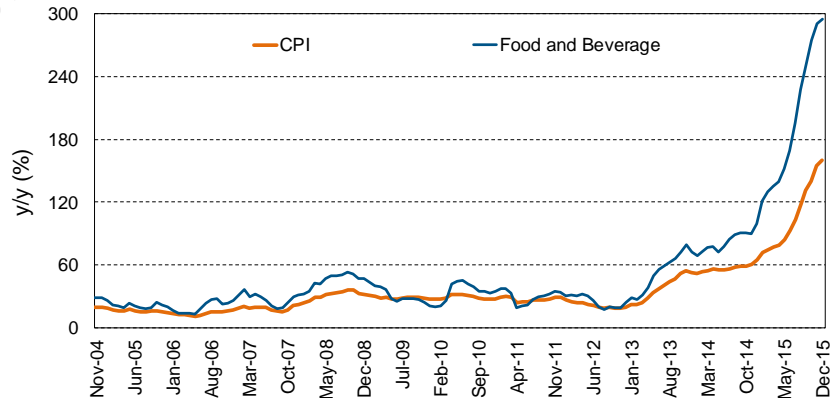
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

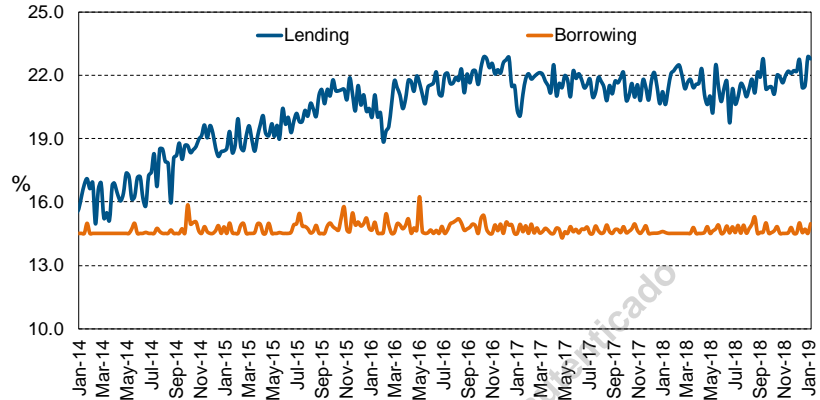
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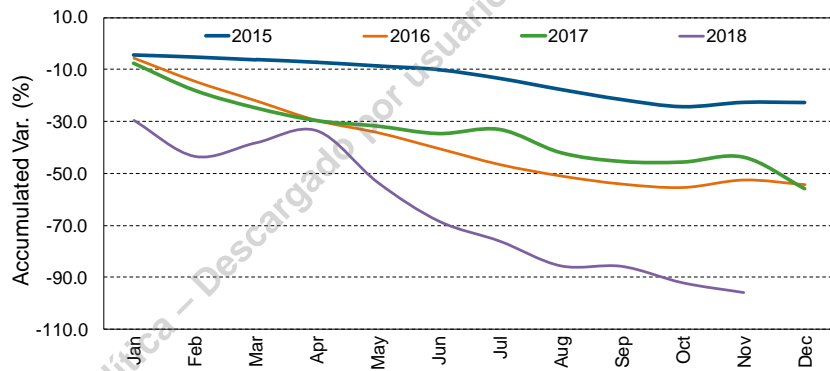
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



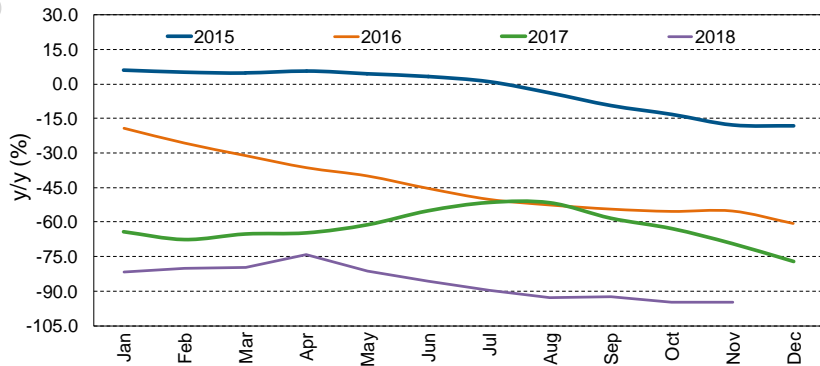
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

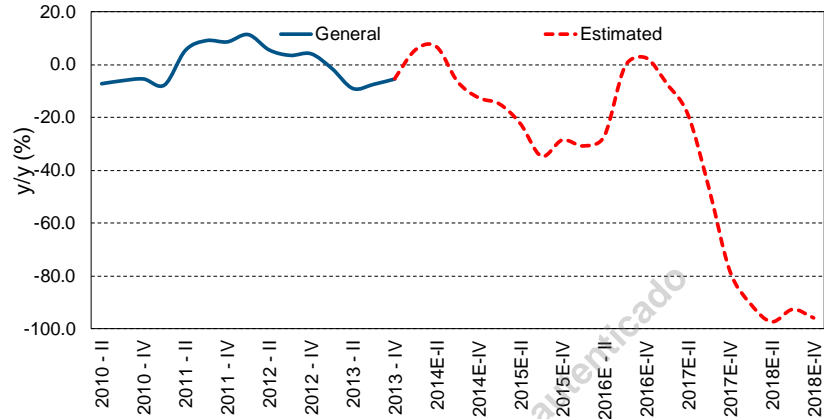
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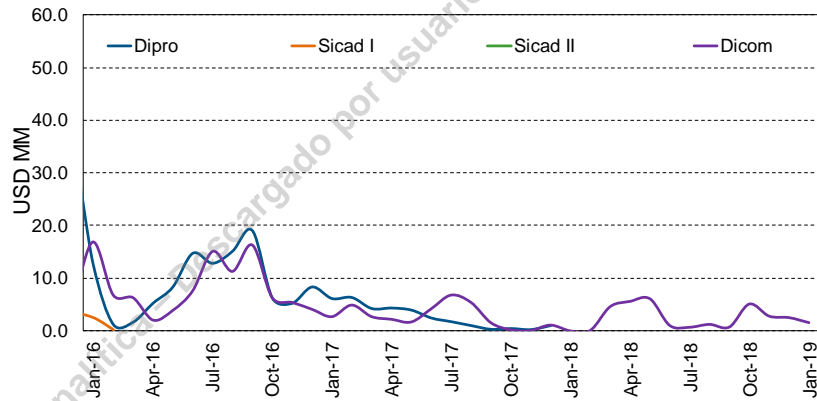
**ECONOMIC INDICATORS**

**Real Wage Index**



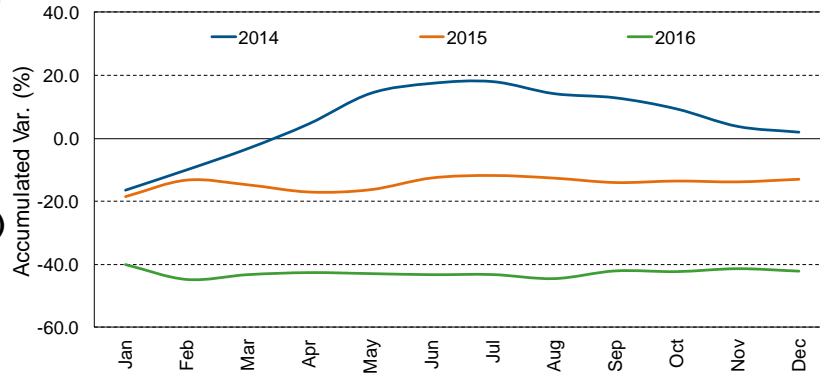
Sources: BCV and Ecoanalítica

**Disbursements to the Private Sector (Daily Average)**



Source: Ecoanalítica

**Primary Spending NTO (Real - Central Government)**



Sources: ONT and Ecoanalítica

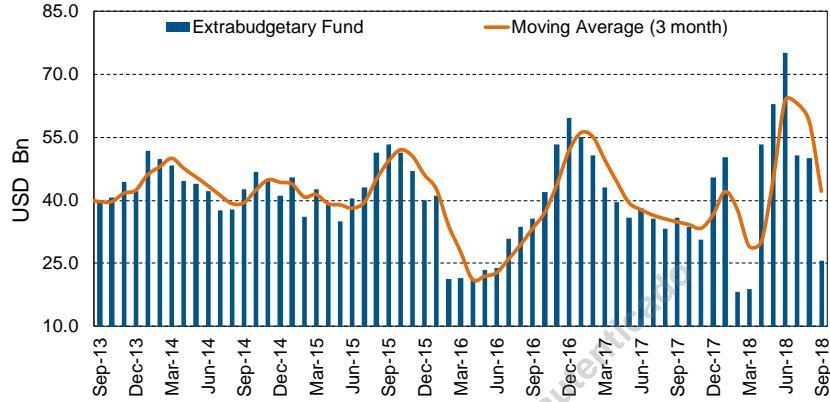
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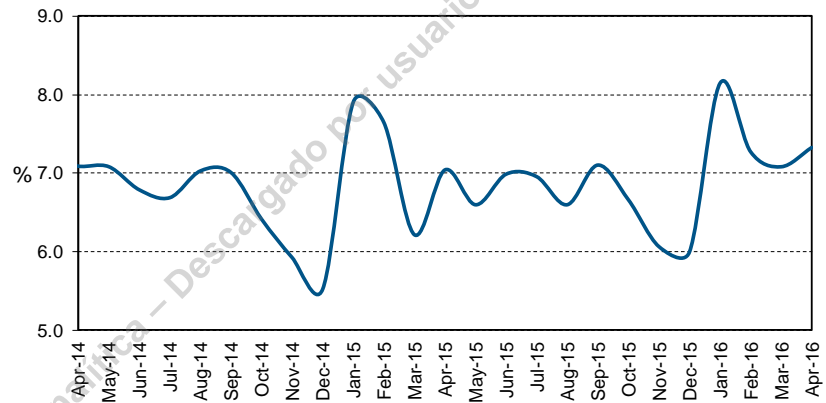
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



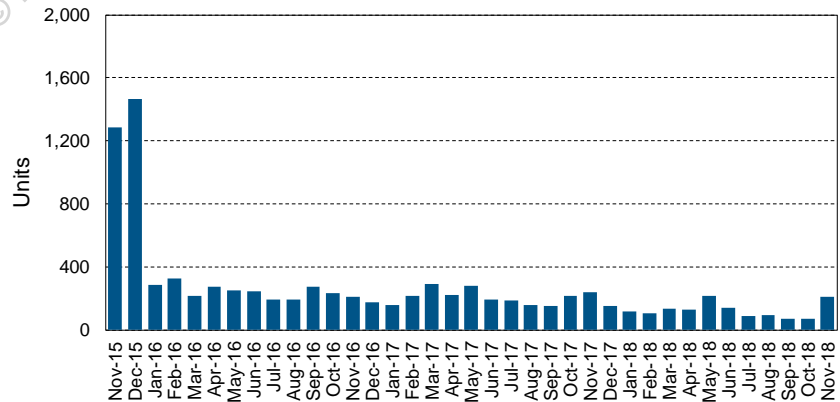
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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