

Optimization in hyperinflation

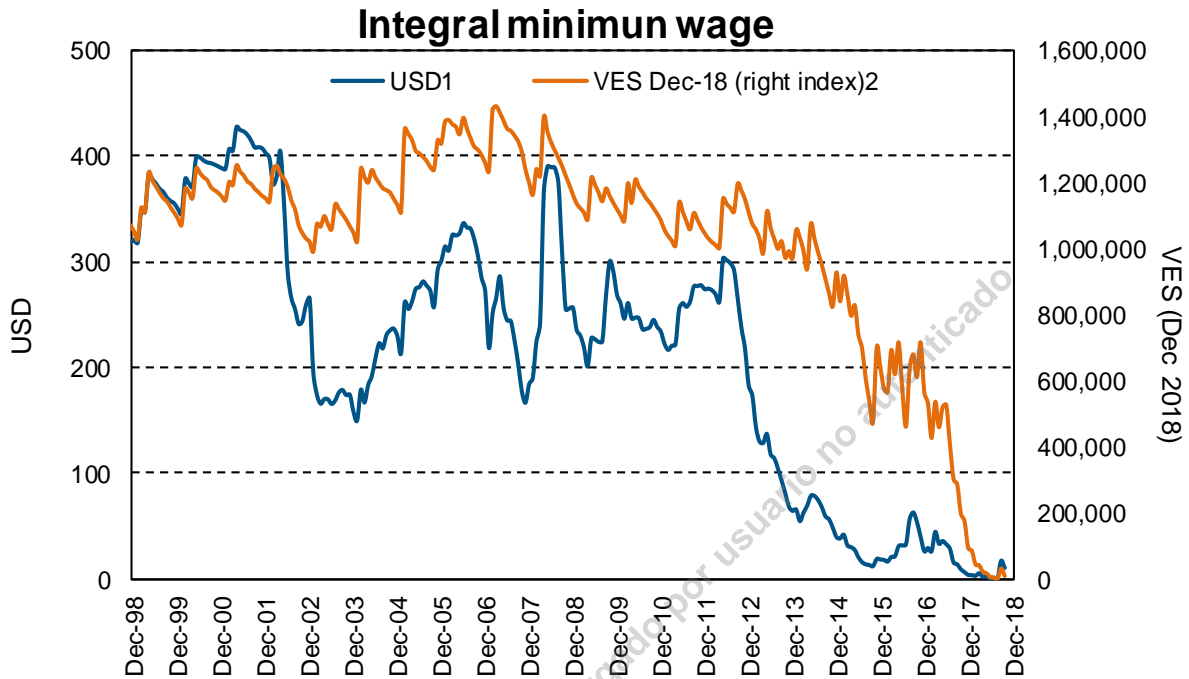
In last week's report¹ we elaborated a summary about current Venezuela's prices formation mechanisms, and its distortions since the advent of hyperinflation. Given this high volatility and uncertainty scenario, local agents' reaction to an even more aggressive inflation should be concentrated on creating mechanism designed to protect their assets' values over time. In that sense, by observing local prices dynamic will allow them to take the necessary steps to survive hyperinflation. This week's report will deal with the alternatives to make this survival possible.

With the advent of hyperinflation in Venezuela, the country's economic and social outlook took a significant turn for the worse. According to estimates in the National Living Conditions Survey (ENCOVI)², in 2017 87.0% of the Venezuelan population was in a state of poverty. After 2018, with average monthly inflation of more than 100% from May and a collapse in wages of 95.3% during the year, the situation is now even more critical.

According to **Ecoanalítica's** estimates, cumulative inflation in 2018 was 2,106,600.6%, which implied a deeper population's loss of purchasing power. In hyperinflation, the system of relative prices collapses and, as the prices of goods and services go up in an uncoordinated fashion, the relationship between the different prices changes. Whereas the prices of food and nonalcoholic beverages went up by 15,091,831.9% in 2018, the price of education increased by only 4,841.5% and telecommunications services went up in price by 5,320.3%.

¹ Weekly Report N° 4 "Price mechanism: Out of Service"

² ENCOVI: National Living Conditions Survey conducted by *Universidad Católica Andrés Bello* (UCAB), *Universidad Simón Bolívar* (USB), and *Universidad Central de Venezuela* (UCV)



Sources: Dólar Web, BCV and Ecoanalítica

¹ Wage in USD is calculated with the non official exchange rate.

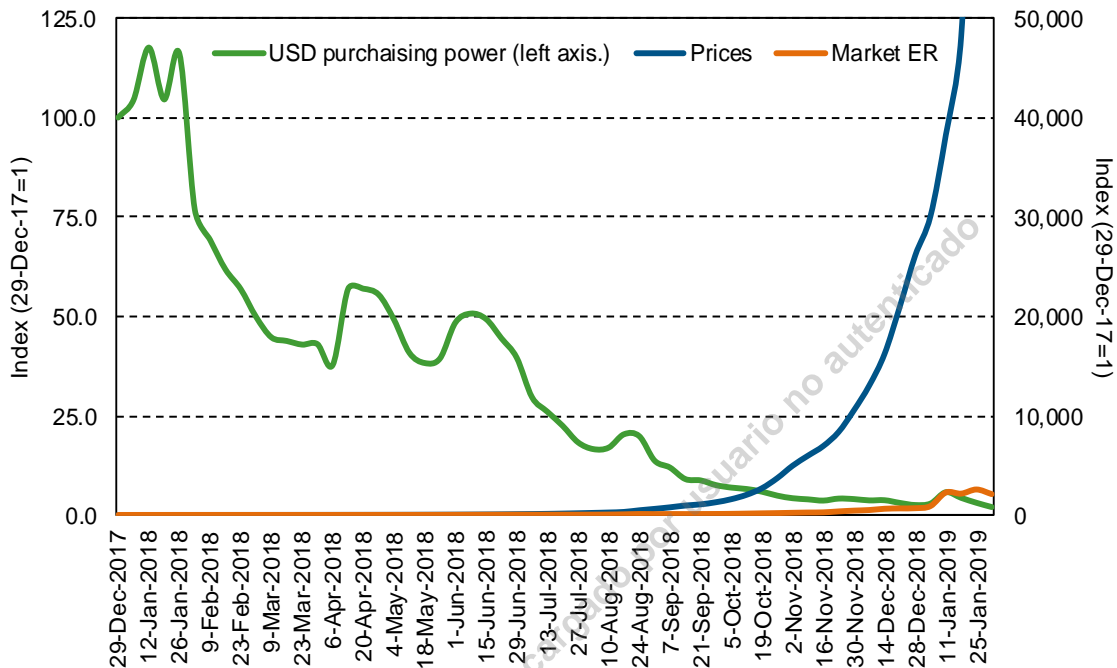
² Implies the value the minimum wage should have at the end of December.

Budgetary restrictions have forced Venezuelans to adjust their patterns of consumption, giving priority to food over all other items, and overheating food prices more than the prices of other goods. Consequently, those who allocate a larger proportion of their spending on food encounter higher levels of inflation. Typically, this is the situation of the low and medium strata.

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Inflation vs. Depreciation



Sources: API Bitcoin, BCV and Ecoanalítica

In response to the country’s hyperinflation, and as part of its macroeconomic stabilization plan, the government has distorted the parallel foreign currency market to try to force a relatively overvalued exchange rate in an attempt to calm expectations. However, as long as the exchange rate does not vary at the same pace as the other prices in the economy, the real exchange rate will appreciate. In short, consumption in Venezuela is becoming costlier in international terms. The cost of living in dollars has become more expensive.

Some considerations regarding the foreign exchange market

Before addressing the issue of possible alternatives for coping with the price chaos in the Venezuelan market, account needs to be taken of the situation in the foreign exchange market. First, Venezuela’s foreign exchange scheme is atypical, which is due to the imbalance between the Central Bank of Venezuela’s monetary policy and the officially stated foreign exchange objectives.

For years, the Venezuelan State has tried to maintain an artificially overvalued exchange rate to use it as an anchor for prices. The result has been an infinite demand for dollars via the official scheme in order to take advantage of the exchange rate differential and an inability on the part of the Central Bank to supply enough foreign currency to meet the

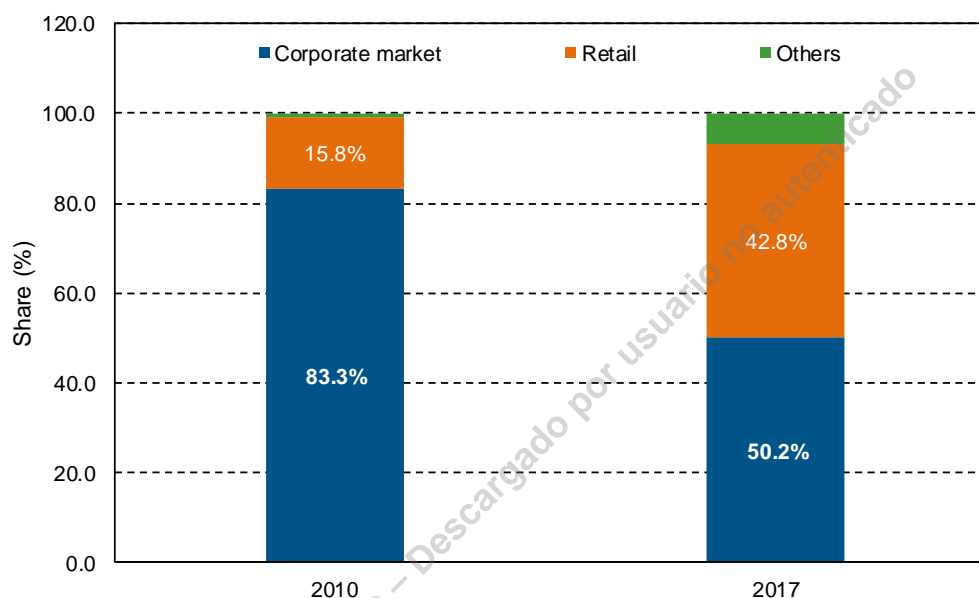
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needs of those demanding foreign currency. The Central Bank has abandoned its objective of defending the exchange rate by dipping into its international reserves, and the parallel market has grown progressively bigger.

Distribution of the non-official exchange market



Source: Ecoanalítica

The official market

As for the official foreign exchange market in Venezuela, on September 8 last year a new Foreign Exchange Agreement was published that regulates and controls transactions in this market. According to the new agreement, private transactions must be performed via a mechanism of auctions in the Complementary Foreign Currency (DICOM) System, which are controlled by the Central Bank.

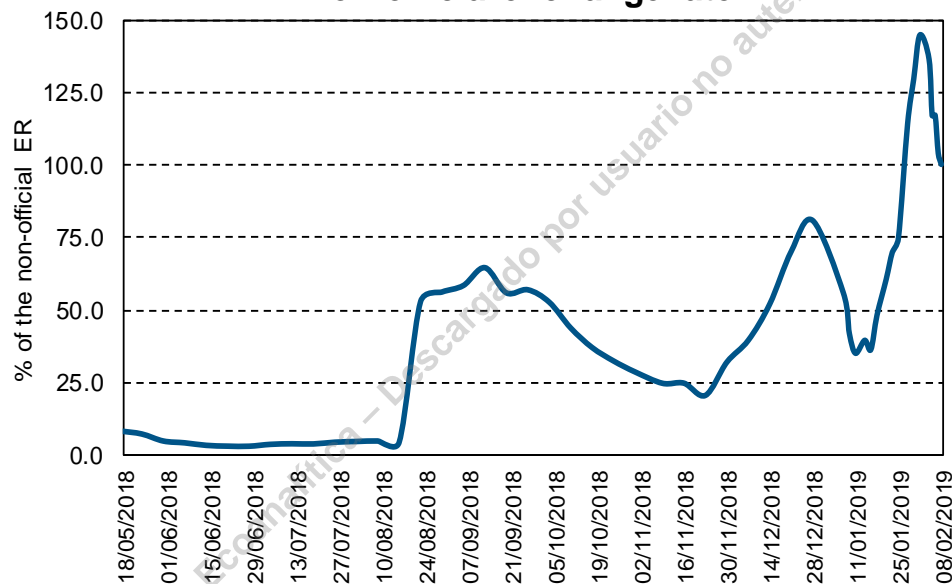
According to the agreement, there were to be three auctions a week³, and at the end of each the Central Bank was to publish a figure that, in theory, was the average of the agreed rates, weighted by the volume of each transaction. That rate published by DICOM became the official exchange rate for the public sector. In practice, the Central Bank rejected any offer above a ceiling that was not made public.

³ The Central Bank of Venezuela established that on February 4, the DICOM auctions would start to be held on all five of the week's working days.

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However, on January 28, the exchange rate resulting from this system was higher than the parallel rate, and it has remained so since then. The official exchange rate from the first auction in 2019 was 56.0% of the retail operations parallel exchange rate and 46.2% of the corporate parallel market rate. At the moment, according to the latest auction (February 13), the official exchange rate is equivalent to 117.0% of the small-transactions rate and 98.5% of the corporate rate.

Proportion of DICOM's exchange rate over the non-official exchange rate



Sources: BCV and Ecoanalítica

Despite this switch in positions of the official unofficial and official rates, the majority of private entities have decided to operate in the parallel market. In fact, 81.8% of private sector imports in the third quarter were brought in with foreign currency at the parallel rate and only 18.2% used the DICOM system.

However, for those who are unable to operate in the parallel market, there is the possibility of taking part in the DICOM auctions at an exchange rate that is slightly more competitive than the published rate, bearing in mind that the published rate is only the average. Depending on the differential between the invisible ceiling imposed by the Central Bank on the DICOM transactions and the published rate, it is possible to operate in the DICOM system at lower costs. However, there is never any guarantee that the Central Bank will perform any given transaction at the exchange rate that the offeror wants.

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Indexation as a solution

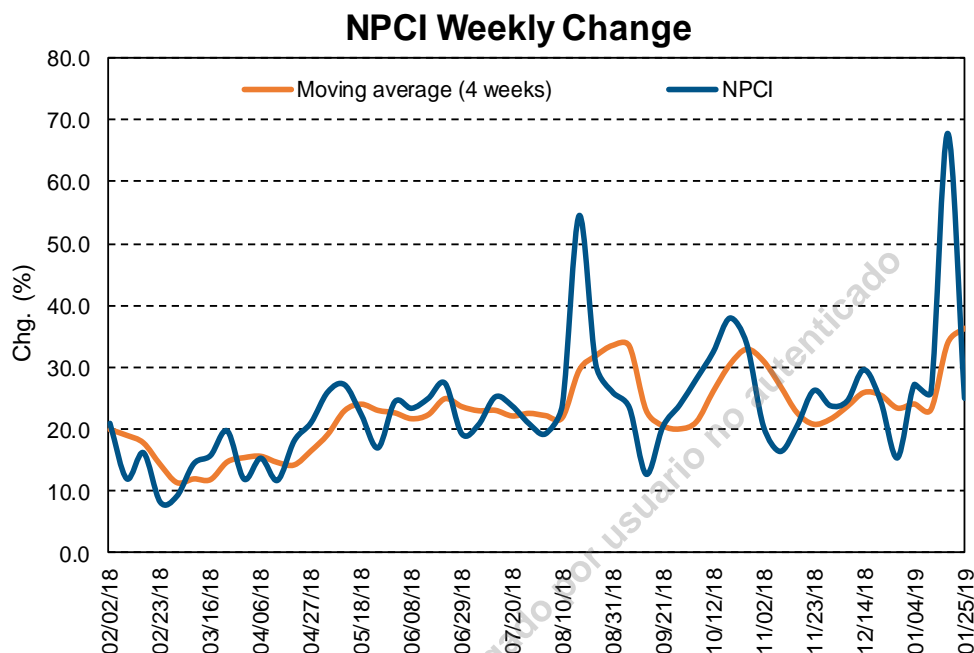
After 14 months in hyperinflation, the companies in Venezuela that operate rapidly, flexibly and resorting to unorthodox mechanisms are those that have been able to keep their doors open. Today it is important for companies to adopt a more dynamic approach, which involves taking difficult decisions. Those decisions may imply providing a narrower range of services and focusing on providing the type of goods that are more affordable. So, after understanding this hyperinflationary context and its repercussions in the foreign exchange market, indexing prices and contracts emerge as a solution.

Indexation is imperative in Venezuela; but it is also imprecise and costly. Indexing prices at a rate that lags behind general inflation is equivalent to a reduction in real prices and generates incentives to increase sales at the expense of profit margins on the transaction in the medium term. Indexing prices at a rate that is higher than general inflation, on the other hand, is equivalent to raising real prices, which results in a drop in sales. Analogically, imprecise indexation of wages has the same consequences.

At **Ecoanalítica** we offer some tools that can be used as the basis for achieving an optimal indexation:

- *Indexation of prices:* In a context where daily inflation is 3.6% on average, it is necessary to analyze how the company's market behaves and compare it to the rest of the economy in order to take decisions. With this in mind, the Weekly Inflation Monitor provides the variations in prices of the 13 groups of goods and services making up the Nationwide Consumer Prices Index (NCPI) from the point of view of the behavior of prices in the Venezuelan economy. Likewise, the Monthly Underlying Inflation Report provides similar information, although on a less frequent basis.

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Source: Ecoanalítica

- **Indexation of wages:** Companies usually consider similar approaches, such as indexation to a general inflation metric, a basic consumption basket or the unofficial exchange rate. At **Ecoanalítica** we believe that the first is the most viable option in the long term. We also consider that the consumption basket used should be one that permits a greater degree of representativeness and whose primary source of data is sufficiently sound.

We consider that our NCPI meets the requirements for a precise and reliable indicator. The fact that it is issued weekly makes it possible to make two-weekly wage adjustments and weekly price adjustments; deliveries are reliable and the data sound and comprehensive. We believe, furthermore, that if the employer plans to change the makeup of the consumption basket in response to changes in consumption patterns, the best option is to alter the weightings assigned to each of the 13 categories making up the index. **Ecoanalítica** offers both products.

To better illustrate the indexation problem, we offer the following example. Let us suppose that you, as a company, sell a given product at a price of, say, VES 20,000, at the start of January. Maintaining that price generates a loss of 40.4% by the end of the month, as can be seen in the third column. In order to be able to maintain the profit generated by the sale of that good in real terms, it will be necessary to index its price. If, for example, it

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was indexed to 25.0% of weekly observed inflation, the real loss would be 30.3% by the end of the month, as shown in column 4. In other words, higher indexation guarantees maintaining the value of sales in real terms.

Indexation schemes losses (%)				
Week	Real inflation	No indexation	25% Indexation*	50% Indexation*
4-Jan-19	15.3%	30.3%	26.0%	21.8%
11-Jan-19	27.1%	45.2%	41.8%	38.5%
18-Jan-19	25.9%	56.4%	53.8%	51.1%
25-Jan-19	67.7%	74.0%	72.4%	70.8%
1-Feb-19	24.9%	79.2%	77.9%	76.7%
8-Feb-19	13.1%	81.6%	80.5%	79.4%

Source: Ecoanalítica

*25% and 50% indexation of the weekly inflation.

Note: loss calculated considering the same base value.

This example can also be used in the case of wage indexation. The following table compares a payment scheme that is not indexed, one that is indexed to 25.0% of inflation, and another indexed to 50.0% of inflation, with the first fortnight of January (VES 9,000) as base. Obviously, the higher the level of indexation, the more employees are able to maintain the purchasing power of their wages when they go to buy a basket of goods.

Wage indexation schemes				
Week	Real inflation	No indexation	25% indexation*	50% indexation*
28-Dec-18	24.4%	7,233	7,675	8,117
4-Jan-19	15.3%	6,273	6,911	7,578
11-Jan-19	27.1%	4,935	5,806	6,770
18-Jan-19	25.9%	3,921	4,911	6,075
25-Jan-19	67.7%	2,338	3,424	4,848
1-Feb-19	24.9%	1,872	2,912	4,365
8-Feb-19	13.1%	1,655	2,659	4,112

Source: Ecoanalítica

*25%, 50% and indexation of the weekly real inflation.

Note: numbers are expressed in real VES.

In this context, depending on its revenue situation, each company will decide how it will be able to adjust to the most appropriate payment scheme. In order to make wage

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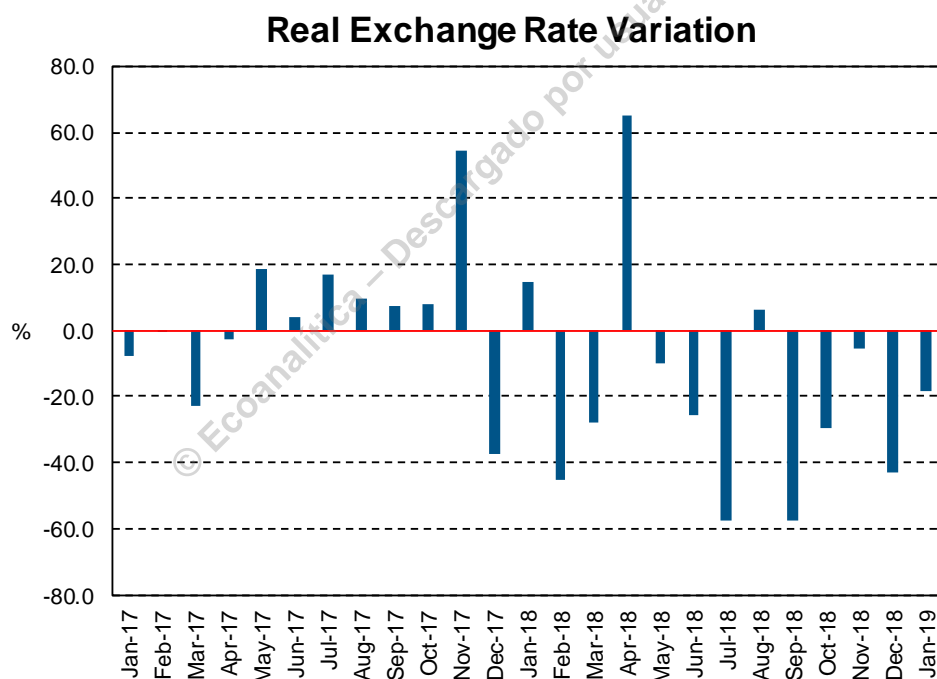
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indexation mechanisms possible, companies are forced to also index their prices with a view to remaining in the market and thus be able to retain their human capital, both aspects of the utmost importance in this hyperinflationary situation.

The volatility of the real exchange rate

Indexation to the parallel exchange rate was an attractive option throughout last year. However, as mentioned earlier, the unequal variations between the exchange rate and inflation have resulted in consumption in Venezuela becoming more expensive in international terms. Therefore, it is important to take the context of the volatility of the real exchange rate into consideration. In addition, if there is a hint of a trend in any given direction for the medium term within that volatile context, the method would be destined to suffer some type of bias.



Source: Ecoanalítica

Given a dynamic of this type and depending on their revenue scheme, each company may opt for a payment mechanism that gives priority to payment in foreign currency, payment in bolivars or a combination of the two. That way, payment in both bolivars and dollars would be indexed to inflation so as to maintain the purchasing power of the company's employees.

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Foreign currency payment system

Week	ER variation*	Inflation	USD 10 purchasing power
04-ene-19	13.6%	15.3%	9.9
11-Jan-19	139.2%	27.1%	18.8
18-Jan-19	53.8%	25.9%	12.2
25-Jan-19	-9.1%	67.7%	5.4
1-Feb-19	7.8%	24.9%	8.6
8-Feb-19	-6.2%	13.1%	8.3

Sources: Dólar Bitcoin and Ecoanalítica

*Variation of the weekly average ER.

The above table gives an example of what a payment system in foreign currency would be like. Taking the payment of a USD 10 bonus in the first half of January as an example, those dollars started to have greater purchasing power given that the variation in the exchange rate was greater than the variation in inflation. However, over the subsequent weeks, the purchasing power of those dollars fell. In the next two weeks those USD 10 were able to buy less than half what they were able to buy initially. Here we can see how consumption became more expensive in international terms as a result of the appreciation in the real exchange rate. This means that employees who receive payments in foreign currency would need to exchange a larger portion of those payments in order to purchase the same basket of goods.

Surviving hyperinflation

At **Ecoanalítica** we see indexation as a key strategy for surviving hyperinflation. A good wage indexation scheme will allow companies to retain their human capital, which today is so valuable. As for indexation of prices, this will allow companies to remain afloat and continue to exist. Once again, acting dynamically and taking decisions on a daily basis is of key importance. The best strategy this month may be different from the best strategy four months from now. In order to beat hyperinflation in a context of extreme uncertainty, we offer the services that are needed to think outside the box and act rapidly.

Guillermo Arcay Finlay
Corina Fung

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WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week February	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	3,298.23	0.0	0.0
	1st Week February	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	24.0	1.2	2.6
	1st Week February	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	10.2	8.2	10.0
	1st Week February	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.4	-1.4	-8.6
	5th Week January	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	1,703,260,238	12.2	94,383.1
Price of International Oil Baskets (USD/bi)			
	2nd Week February	Weekly chg. (%)	Annual chg. (%)
WTI	53.5	0.1	-15.4
Brent	62.9	2.7	-5.7
Price of the Venezuelan oil basket (USD/bi)			
	2nd Week February	Weekly chg. (%)	Annual chg. (%)
Weekly Average	56.5	1.1	-4.1
Annual Average	53.9	0.9	-10.7

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

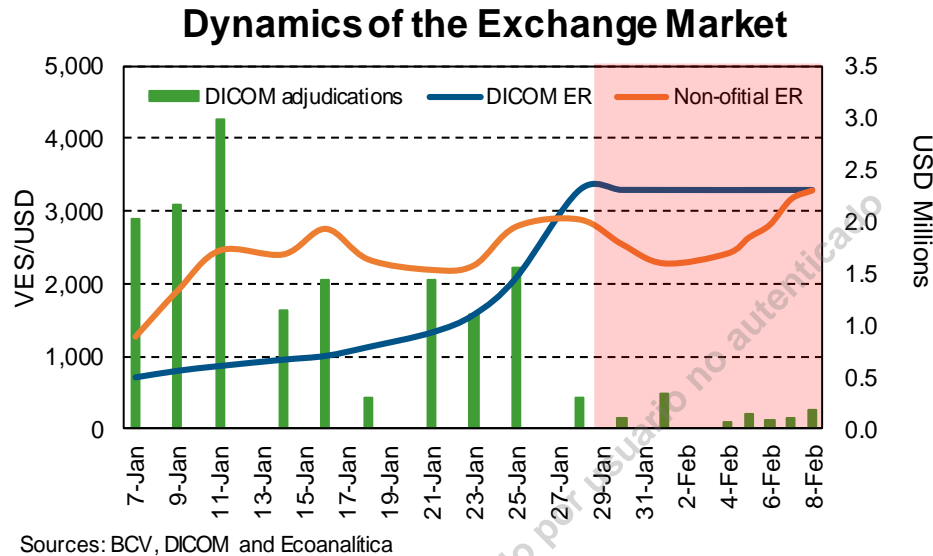
¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: "PAPER ANCHOR"



On January 28 this year, the DICOM exchange rate overtook the unofficial exchange rate, an extremely unusual development in the foreign exchange market. This was due to a 36.8% devaluation combined with sharp increases in the banks' legal reserves to restrict money supply and, as a consequence, credit. Following this devaluation, there was a *de facto* response with regard to the disbursements in this market: the loss of one of the incentives for resorting to this system, mainly to obtain access to relatively cheap foreign currency. This is apparent from the 89.8% drop in allocations at the last seven DICOM auctions compared to the allocations at the seven DICOM auctions prior to the devaluation.

The devaluation and the increase in the legal reserve are part of a plan by the Central Bank of Venezuela to stabilize the exchange rate at VES 3,300/USD. However, it will be extremely difficult to maintain this kind of anchor in an environment of hyperinflation, political instability, and a cut in the foreign currency flows received by the Central Government. At **Ecoanalítica** we consider that this situation is temporary and that, sooner rather than later, the unofficial market exchange rate will outstrip the official rate once again.

The measures taken by the Central Bank in an attempt to restrict credit and, thereby, curb the increase in the exchange rate, represent a major cost for the banks in exchange for results that will be predictably short-lived.

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ECONOMIC TIPS

They're changing sides one by one. Chinese diplomats met with representatives of Venezuela's Interim President, Juan Guaidó, to talk about debt and oil. The Chinese Government is concerned over the future of its oil projects in Venezuela and the nearly USD 20 billion Caracas owes Peking.

Dollars for everyone? The Ministry of the Economy and Finance and the Central Bank of Venezuela have established the terms on which small transactions can be performed via authorized foreign exchange operators. Universal banks can sell a maximum of EUR 1,000 per customer per day, EUR 4,000 per calendar month or EUR 8,500 per calendar year, or the equivalent in any other currency.

No more than 500. In the case that the transaction has the objective of acquiring foreign cash money, the transaction would not be able to exceed EUR 500 or its equivalent in another foreign currency.

Companies are asked for more. The established minimum for the sale of foreign cash money was EUR 50 or its equivalent in another foreign currency, for private individuals, and EUR 500 for companies.

Not so liquid. However, in order to access these currencies, entities will have to register in a technological platform administered by the Central Bank of Venezuela, which will add uncertainty to the acquisition of the foreign currency.

The Crypto Remittances. The National Superintendency of Crypto Assets and Related Activities (Sunacrip) announced that it will regulate the sending and reception of remittances in cryptocurrencies and that a platform for these transactions will be created.

Bonuses and more bonuses. The government has started to hand out the Angostura Bicentenary Bonus (VES 18,000) via the Carnet of the Fatherland. Nicolás Maduro also announced that the Venezuelan people are to be granted another bonus via the Fatherland System: the "Rebellious February Bonus."

Sell before they take everything! According to National Assembly Deputy Carlos Paparoni, the Nicolás Maduro administration sold 73 tons of gold in 2018 to three foreign companies: Noor Capital, 24.7 tons; Goetz Gold, 21.8 tons; and Sardes Kiymetli Madenler, 23.9 tons.

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Recovering what's been lost. After Andorra recognized him as the legitimate Interim President of Venezuela, Guaidó announced that he hoped to protect Venezuelan assets in private accounts in that country amounting to USD 4.3 billion. *"We will be in direct contact in order to be able to use that money,"* said Guaidó.

The figures for this DICOM auction. The last DICOM auction held on February 13 resulted in an exchange rate of VES 3,298.23/USD, equivalent to a VES 3,273.04/EUR. This rate is unchanged from the previous auction.

Companies vs. private individuals. A total of USD 566,326.78 was disbursed at this auction, broken down as follows: 89.9% for companies (USD 509,190.0) and 10.1% for private individuals (USD 57,136.78). On the other hand, a total of EUR 1,422.2 were disbursed at this auction but only for private individuals.

Shrinking. As for the international reserves, as at the week ending February 8, they came to USD 8.38 billion, down 1.4% from the previous week. They have dropped by 8.6% compared to a year ago.

OIL TIPS

A new board of directors. The National Assembly made the announcement of the appointment of the new board of directors of PDVSA, the board will be formed by Simón Antunes, Gustavo J. Velázquez, Carlos José Balza, Ricardo Prada and David Smolansky. In other hand, The National Assembly also made the appointment of the directive boards for PDV Holding, Citgo Holding and Citgo Petroleum Corporation.

Production continues to decline. The report from the Organization of Petroleum Exporting Countries (OPEC) indicates that Venezuela's crude production in January came to 1.11 million barrels a day (mb/d), according to secondary sources. That gives a drop of 59,000 b/d (59 kb/d) since December last year.

But primary sources say drop is less. However, according to primary sources, production in January was 1.49 mb/d, giving a drop of only 23 kb/d compared to last month. Once again, the figures from the two sources differ, with the official figures showing higher production. This time there was a difference of 38.2 kb/d.

Chasing the money. Bulgaria announced the blocking of several transfers coming from PDVSA to accounts in a local bank, these transfers were set to be sent to offshore

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accounts after their receipt. Considering these events, the prosecutors are now raising evidence to raise charges for money laundry against the holder of these accounts.

Begging favors. Minister of Petroleum Manuel Quevedo appeared at an energy event in India seeking to sell more crude to that country, since the sanctions imposed by the United States have meant a loss in sales of USD 20 billion, according to Bloomberg. Quevedo said that they would meet again and claimed that relations with India, which are good, would continue.

The Switzerland of the East. Reuters reports that Venezuela's state-owned oil company, PDVSA, is asking its customers to deposit the money from its oil sales (the few it still has) in a recently opened account with Russia's Gazprombank AO, according to an internal document of the bank's.

Changing course. Reuters reports that Venezuela's representative at OPEC said that PDVSA is to redirect the oil exports it was going to be sent to the United States to Europe and Asia. He also said that everything possible will be done so that Venezuela's current situation will not have an impact on the world's oil markets.

From Venezuela to the world. However, it seems to be a bit late to avoid that. S&P Global Platts reported that the oil sanctions against Venezuela have altered the international trading of naphtha. The US Reliance Refinery in India, which provides PDVSA with diluents on a regular basis, stopped shipments to Venezuela last week.

Who will get those shipments? Given this situation, the question is, where will those shipments go? According to S&P Global Platts, there will be an increase in naphtha shipments from the United States to Europe and West Africa that were previously intended for Venezuela.

Plan A. PDVSA is running out of options for obtaining diluents. ArgusMedia reports that Repsol's refinery (Spain) is still supplying a limited amount of gasoline in exchange for crude. As for Pdv Holdings, it has been looking for other alternatives such as Algeria's state-owned oil company, Sonatrach, but agreement has not yet been reached on volumes, prices or means of payment. Sonatrach has made no comment.

Technical difficulties with Plan A. The contract's terms of payment are a stumbling block, according to ArgusMedia. One of the workers at Pdv Holding commented that, like all the suppliers with whom Pdv does business, the Algerians are looking for guarantees of prompt payment. Pdv Holding has been strapped for cash and been offering crude as a means of payment since 2017, something that makes contracts of this type difficult.

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Plan B. Pdv Holding has also been trying to reach new agreements with Iran and Russia, whose governments are both sympathetic to the Nicolás Maduro regime. However, there is no news of any outcome from these negotiations.

Confident about Plan B. Despite all the difficulties, Pdv Holding is confident that it will be able to open new supply channels for diluents. *“Pdv is working with its most important allies to guarantee the supply of the imported products that are needed for production and refinery operations, besides having the will to resist US sanctions,”* said a Pdv officer.

But Plan C, just in case. According to Reuters, PDVSA used to import around 100,000 barrels a day (b/d) from the United States. With the sanctions and very limited options, PDVSA has started to blend its heavy crude with light Santa Barbara crude given the shortage of diluents.

The King on the chessboard. PDVSA is looking to remove two US executives from Citgo’s board of directors, according to the news agency Reuters. Given the sanctions, the board of directors is facing unprecedented challenges in managing the company.

Seeking a replacement. The news agency Reuters reported that Petroleum Corp.’s Marathon Refinery is to replace Venezuelan crude with imports from the Middle East and Latin America following the sanctions imposed by the White House. The company’s executive officer, Rick Hessling, announced this last week during a conference.

Saudi Arabia, the hero of the hour. President Donald Trump is confident that Saudi Arabia will make up the shortfall in the supply of crude caused by the oil sanctions imposed on Venezuela, according to S&P Global Platts. The White House is convinced that Saudi Arabia will export petroleum to the United States.

Or will it? However, Saudi officials have given no signs that confirm this. One of S&P Global Platts’ sources commented that *“the Saudis have no intention of increasing their exports.”* But no information regarding this issue has been forthcoming so far.

BUSINESS SECTOR TIPS

Abuse by the State. Luis Prado, the vice president of the National Cattlemen’s Federation of Venezuela (Fedenaga), denounced the abuses committed against this sector by state agencies. He explained that Apure State Government is forcing cattle ranchers to sell all their production at the price it sets. This is also happening in Zulia with 30% of the cattle.

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Meat for the people. The vice president of Fedenaga explained that the Central Government is practicing this kind of abuse so that the authorities can take the cattle to the slaughterhouses themselves and then distribute the meat to the municipal markets.

No movement of livestock. Besides this regulation of sales, Prado denounced that Apure State Government is preventing ranchers from moving their cattle. He claims that this is unconstitutional since it directly violates the decision issued by the Higher Sovereign Supply Command published in *Gaceta Oficial* Number 41,256, which forbids regional and municipal governments to implement any measure that prevents the circulation of processed and unprocessed food.

No beef and no milk. Armando Chacín, the president of Fedenaga, presented the latest national production figures to the National Assembly, according to which the sector is producing only 35% of the milk it could produce.

No vaccines either. During his presentation, Chacín made it publicly known that it was only possible to make use of 2 million of the 20 million vaccines that were donated, simply because “*the people who are governing this country said no.*”

There’s no feed. On top of all that, Prado said that, because the level of soybean imports is so low (soybeans being the base for cattle feed), the number of calves has fallen by 80%, from 200,000 to only 40,000. He further explained that, in the past, the industry supplied 97% of domestic demand and exported 24 kilos per capita, and that now it only supplies 40% of that demand.

Unaffordable. Aquiles Hopkins, the president of the Confederation of Agricultural and Livestock Producers Associations (Fedeagro), denounced that Petroquímica de Venezuela S.A. (Pequiven) is selling fertilizers on the domestic market at twice the price it is offering them on the international market: at around USD 800 a ton versus between USD 350 and USD 380 depending on the quality.

Way below capacity. The president of the Pharmaceutical Industry Chamber (CIFAR), Tito López, explained that the pharmaceutical industry has shrunk dramatically and is producing at only 31% or 32% of its capacity. In just three years it has gone from producing 714 million units of drugs to only 200 million today.

Liar, liar pants on fire. López refuted what Nicolás Maduro said regarding the expropriation of the Spanish pharmaceutical plant SM Pharma. According to Maduro, the plant currently has the capacity to produce at 50%, whereas López claims that “*They’re not producing anything there.*”

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Starting up operations again. Petroquímica de Venezuela S.A. (Pequiven) started up operations again at its nitrogenous fertilizer plant in “Hugo Chávez” Petrochemical Complex. According to the president of Pequiven, María Eugenia Noroño, this will result in production of 50 tons of fertilizer an hour. She further explained that maintenance work had been carried out on the fertilizer production lines to optimize the process and obtain quality products.

WORLD ECONOMY TIPS

Risky moves. US President Donald Trump has nominated David Malpass, a US Treasury official, to be president of the World Bank. This nomination is controversial given that Malpass is a known critic of the World Bank and international development, which could cost Trump leadership in the agency.

They bark and bark, but don't bite. The United States and China announced the next round of trade meetings. Anticipating the increase in tariffs on Chinese products scheduled for early March, Trump said that the new agreement “*must include real, structural change to end unfair trade practices, reduce our chronic trade deficit, and protect American jobs.*”

One step forward, two steps back. The US Senate's Committee on Small Business and Entrepreneurship, chaired by Senator Marco Rubio, published a report alleging “*coercion and industrial espionage*” by Beijing, which were obstructing the aforementioned future meetings.

Assuming the worst... The Bank of England plans to keep its interest rates at 0.75% and revise the region's growth projections downward. This is due mainly to the uncertainty generated by Brexit and low growth of the world economy.

...because the worst will probably happen. The United Kingdom's GDP grew less than expected (0.2%) in the fourth quarter of 2018, with December posting a drop of 0.4% compared to November. According to a survey conducted by Bloomberg, economists forecast that there is a 30% probability that the United Kingdom will fall into a recession in the next 12 months.

The downward trend continues. The European Commission revised its forecast for GDP growth in the euro zone economy downward from 1.9% to 1.3%, due to poor performance by Germany, Italy and the Netherlands.

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Keeping the subsidies at all costs. Mexico's President Andrés Manuel López Obrador announced that he would revise the contracts of private companies with the state-run Federal Electricity Commission (CFE) in order to keep charges low. This caused the value of these companies' shares to plummet.

A model neighbor. Colombia's National Taxes and Customs Office (DIAN) reported that tax receipts in Colombia were up 5.8% in January compared to last year to USD 5.49 billion, driven by sales taxes and taxes associated with foreign trade.

Sluggish sales. Retailers in Colombia reported a moderate increase in sales in January, influenced by the vacation season and the return to classes. According to a report by the National Federation of Merchants (Fenalco), 36% of the retailers consulted reported an upturn in sales in the first month of the year.

Under attack on all flanks. Argentina's President Mauricio Macri is facing new economic problems. Consumer confidence is at its lowest ebb since the devastating 2001 financial crisis, industrial production fell by 15% in December, and his popularity as president has taken a nosedive.

But not everything is going badly. Macri is enjoying calm on some fronts. The Argentinean peso has stabilized again after having lost half its value against the dollar in 2018 and inflation has fallen to levels of a year ago.

Being closely monitored. A team from the International Monetary Fund (IMF) has started meetings with Argentinean government officials to review Macri's progress in meeting the goals agreed to with the IMF as a condition for a USD 56.3 billion loan. The Argentinean Government's undertaking to restructure its finances includes cutting state subsidies for public services.

External Financing. Reunions between the International Monetary Fund and other multilateral institutions are taking place in Quito, these meetings have the objective of developing a financial arrangement which would aim to protect the poor, boost competitiveness and job creation and strengthen the fight against corruption as well as fortify the institutional foundations for dollarization.

POLITICAL TIPS

Demonstrations. On Tuesday, February 12, there was a demonstration to commemorate Youth Day led by Acting President Juan Guaidó that made its way to Avenida Francisco de Miranda in Caracas. It was followed by a 12-hour vigil for the young people killed in past demonstrations.

More is on its way. During the demonstration, Guaidó announced that the second collection point for humanitarian aid was to be set up in Roraima State in Brazil. The first point had already been set up in Cucuta (Colombia), and he said that there were still a third and fourth point to be announced.

Organization on a large scale. “The humanitarian aid is going to come in come what may,” said Guaidó. The Interim President called on Venezuelans who had not already signed up as volunteers to do so and to get organized in each of the country’s states during the ten days left before the aid arrives. “*On Saturday, everyone who is registered is going to receive information (...) to start the process of organizing the aid,*” he said.

Future dates. He added that on Sunday, February 17, itinerant humanitarian camps would be set up in Vargas state “*to take what we have managed to bring in to every corner*”; and that the coordinated entry of the humanitarian aid will happen on February 23.

Running out of ideas. Comptroller General Elvis Amoroso ordered an audit on Interim President Juan Guaidó’s personal assets. This investigation is due to the fact that he allegedly hid information in his sworn statement of net worth and received “*money from international and national entities without any justification.*”

Italy reacts. Italy’s Minister of Foreign Affairs Enzo Moavero Milanesi announced that the Italian Government’s position regarding Venezuela’s crisis consisted of supporting the organization of free transparent elections. He stated that “*the presidential elections of last May in Venezuela do not confer democratic legitimacy on Nicolás Maduro.*”

Venezuela achieves a united front. The speaker of the House of Representatives, Democrat Nancy Pelosi, made a pronouncement recognizing Guaidó as “*Interim President until complete, fair and free elections can be held.*” Pelosi’s statement compensated for the lack of a pronouncement by Democratic Party spokespersons. This issue is one of the few points on which Republicans and Democrats agree.

A rhetorical affirmation. According to Spain's Minister of Foreign Affairs Josep Borrell, the solution to the crisis in Venezuela is not a military intervention by the United States. *"I have spoken to the United States National Security Advisor and I have made him see that the solution is not, of course, a military intervention by the United States. Although they say it is on the table, I hope it is a rhetorical affirmation,"* he said.

Those who don't know... march. Government supporters also marched to the west of Caracas against a military intervention and *"US imperialism."* Maduro's followers walked six kilometers, from Plaza Morelos to Plaza Bolívar.

They're the only ones who haven't joined. US Senator Marco Rubio urged Venezuela's high military command to restore democracy. He said that he had sent a message directly to six of its members.

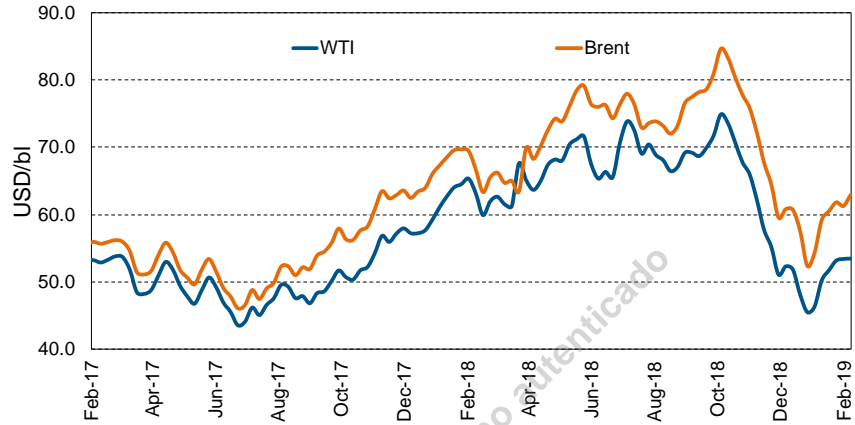
Empty threats. Zulia Governor Omar Prieto threatened opposition leaders if they bring in humanitarian aid. According to the governor, allowing medical supplies and food into the country is the same as allowing an intervention by the *"gringos."*

United States versus Russia. The United States and Russia are promoting opposing actions regarding Venezuela at the United Nations. Diplomats of the 15 members of the Security Council met in private to discuss the draft resolution submitted by the United States that would give *"full support to the National Assembly as the only democratically elected institution."*

Russia, the government coalition's great defender. The draft resolution submitted by the Russians would express *"concern over the attempts to intervene in affairs that are essentially of internal jurisdiction."* It would also express *"concern over the threat of the use of force against the territorial integrity and political independence"* of Venezuela.

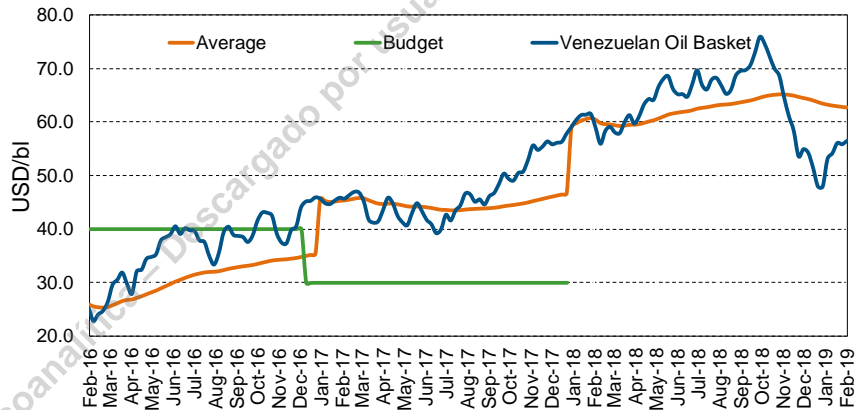
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



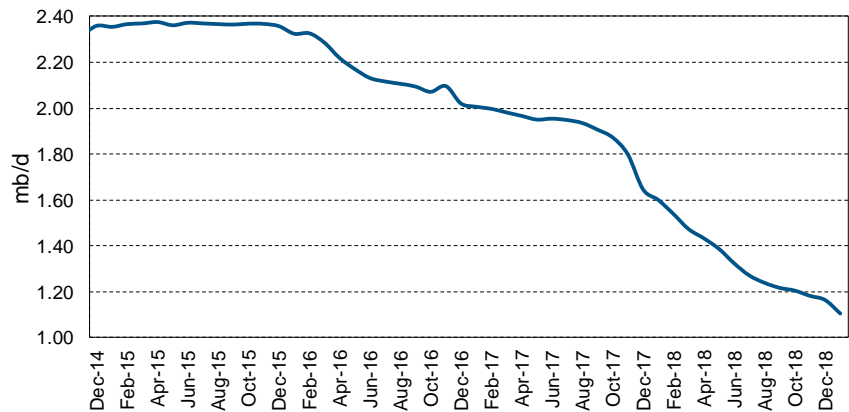
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production (Secondary sources)

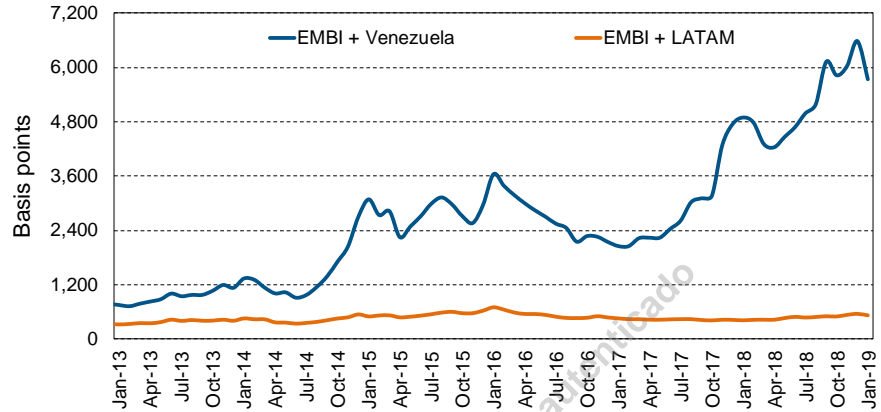


Sources: OPEC and Ecoanalítica

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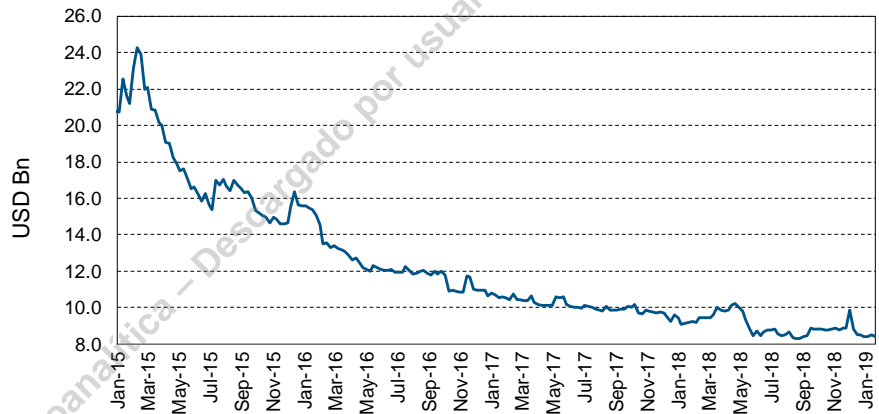
ECONOMIC INDICATORS

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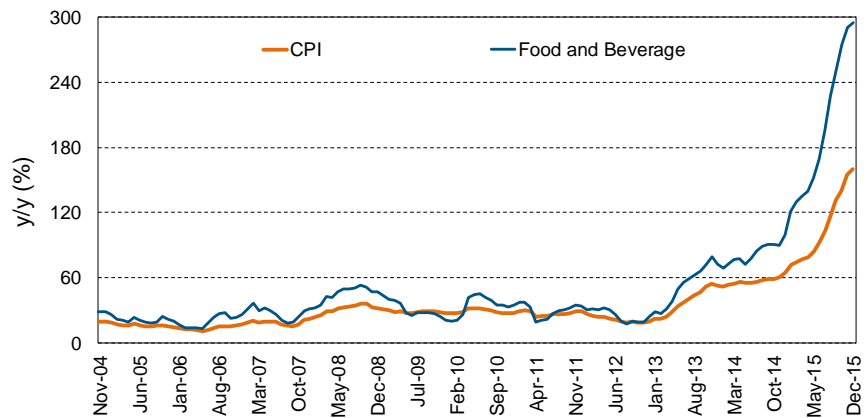
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

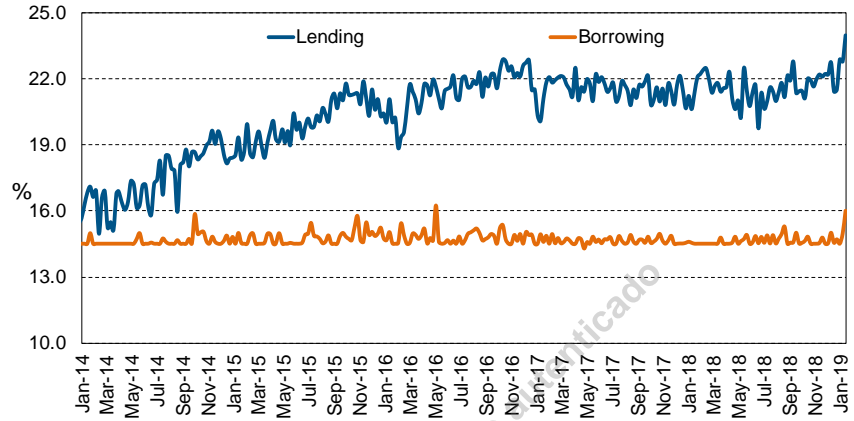
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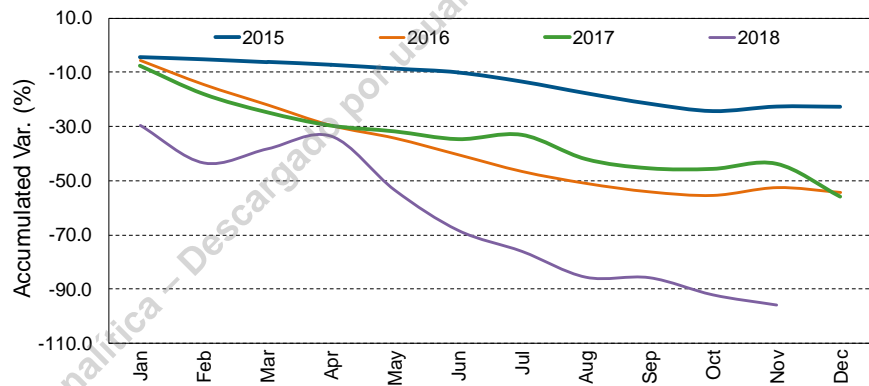
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



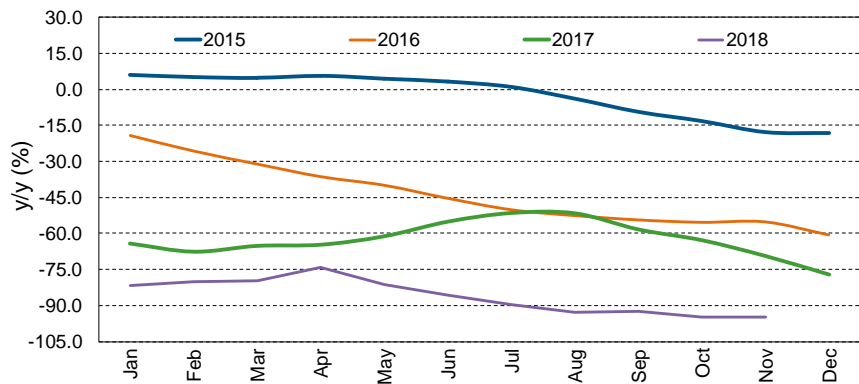
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

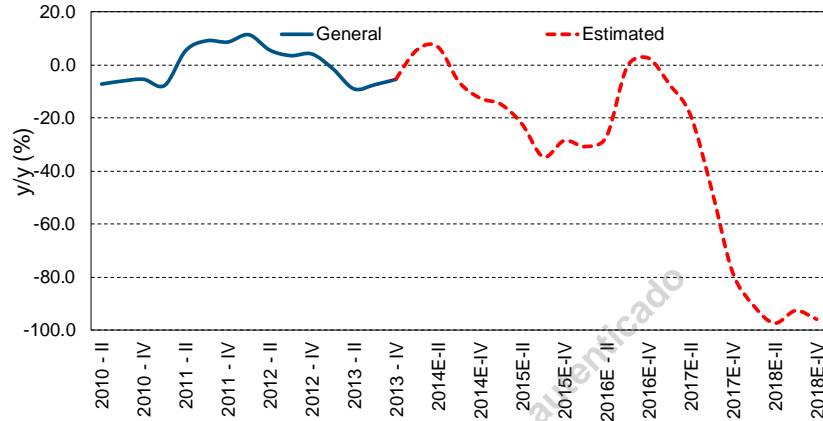
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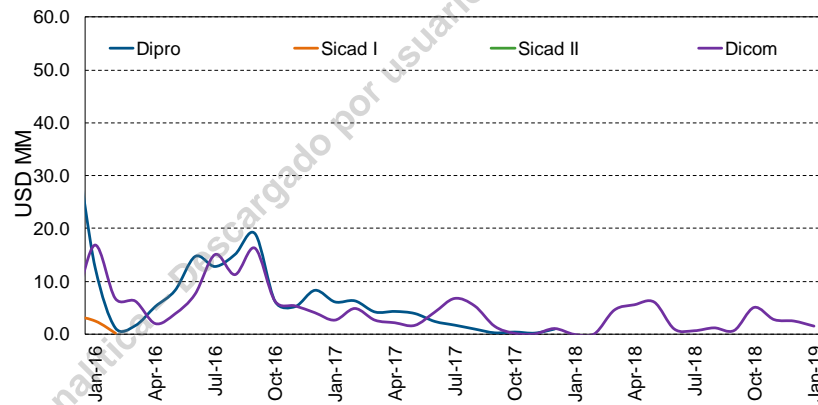
ECONOMIC INDICATORS

Real Wage Index



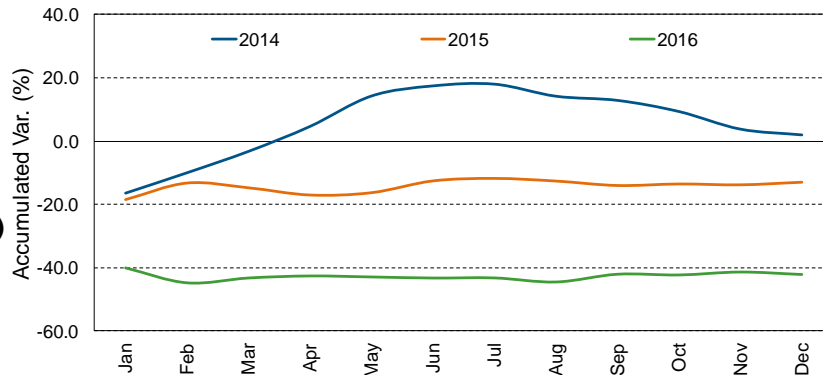
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

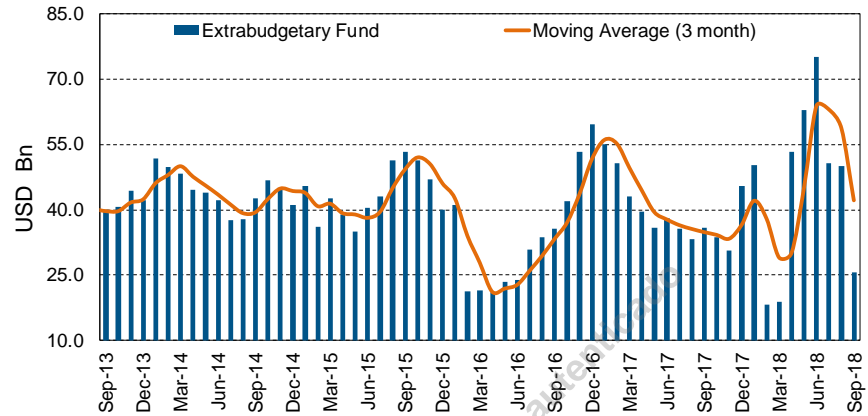
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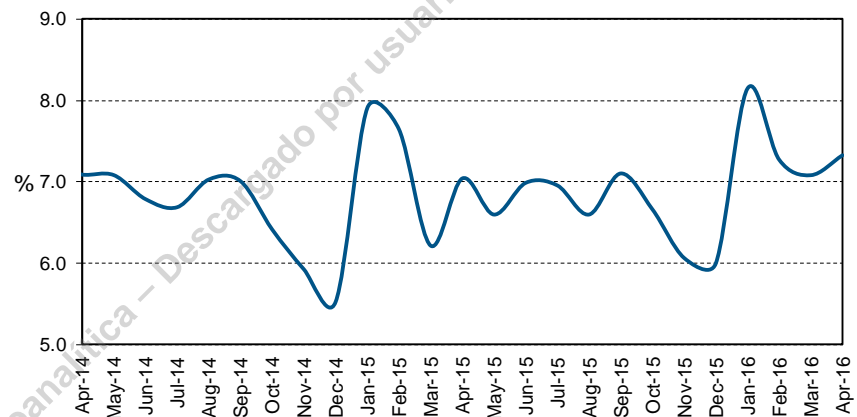
ECONOMIC INDICATORS

State Extrabudgetary Resources



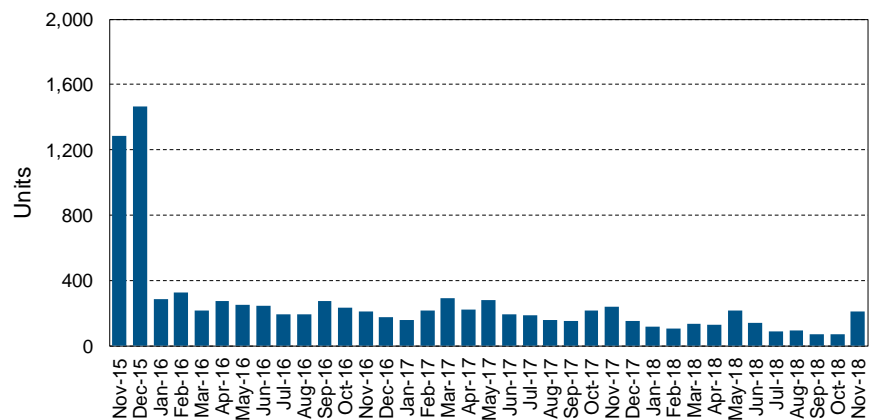
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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